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FIRST LIGHT

17 July 2020

RESEARCH

L&T Infotech | Target: Rs 2,790 | +22% | BUY

Resilient show in a challenging quarter

Diversified Financials | Q1FY21 Preview

Expect only gold finance NBFCs to shine

SUMMARY

L&T Infotech

L&T Infotech's (LTI) Q1FY21 revenue was in line with estimates, with a 4.7% QoQ CC decline due to a drop in the manufacturing and energy/utilities verticals. Operating margins bettered expectations backed by tight SG&A cost control. We keep FY21 EPS unchanged and increase FY22 EPS by ~3%, while raising our target P/E multiple by 20% to 24x given LTI's strong revenue mix, favourable offshore presence, client mining skills and robust leadership. Rolling valuations over, we have a new Jun'21 TP of Rs 2,790 (vs. Rs 2,230). BUY.

Click here for the full report.

Diversified Financials: Q1FY21 Preview

We expect MUTH and MGFL to register strong AUM growth of 19% and 30% YoY respectively in Q1FY21 as a secular credit crunch and run-up in gold prices act as tailwinds. With BAF, CIFC and MMFS focusing more on collections than disbursements, their AUM growth is likely to slow. HDFCAMC is expected to gain market share in liquid funds and maintain profitability. NAM could see some bounce back in equity and hybrid funds. Management comments on incremental provisions for Covid-19 will be a key monitorable.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
GAIL	Buy	150
Petronet LNG	Buy	305
Tech Mahindra	Buy	690

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,950
Chola Investment	Buy	200
Laurus Labs	Buy	630
Transport Corp	Buy	240
Mahanagar Gas	Sell	710

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.63	1bps	(9bps)	(142bps)
India 10Y yield (%)	5.81	(1bps)	2bps	(53bps)
USD/INR	75.15	0.4	1.2	(9.2)
Brent Crude (US$/bbl)	43.79	2.1	10.2	(31.2)
Dow	26,870	0.9	4.3	(1.3)
Shanghai	3,361	(1.6)	16.3	14.7
Sensex	36,052	0.1	8.5	(8.1)
India FII (US$ mn)	**14 Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	112.8	187.3	(14,094.7)	(4,335.2)
FII-E	(211.1)	(379.9)	(2,821.4)	3,781.6

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

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TP: Rs 2,790 | ⮝ 22%

L&T INFOTECH | IT Services | 16 July 2020

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Ruchi Burde | Seema Nayak
research@bobcaps.in

Resilient operating performance: LTI's revenue declined 4.7% QoQ CC (-4.8% QoQ in USD terms), in line with our estimate (–4.8% QoQ CC). Utilisation excluding trainees dropped 100bps owing to the pandemic impact. Revenues were affected by significant weakness in the manufacturing and energy/utilities verticals which declined 16.4% and 10% QoQ respectively. Reported EBIT margins rose 70bps QoQ to 17.4%, outperforming our estimate of 17.2%, driven by tight control over SG&A (–120bps QoQ as % of sales).

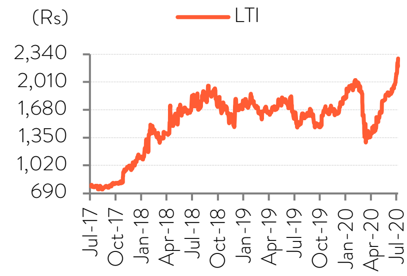
Large deals slow but chase continues: Despite a challenging Q1, LTI bagged a large BFSI deal in the UK and added 16 new logos, including one Fortune-500 logo from the manufacturing vertical, to its client roster. While large deal wins slowed slightly in Q1 compared to the previous three quarters, management expects some sizeable contract signings in Q2FY21. As per LTI, the FY21 pipeline has risen 19% YoY and is steady across segments, barring the manufacturing and energy/utilities verticals.

Comforting outlook: Management expects Q1FY21 to be the trough and recovery to follow. LTI guided Q2 revenues to be flat with a positive bias, and management aims to keep EBIT margins rangebound around Q1 levels (of 17.4%).

Ticker/Price	LTI IN/Rs 2,291
Market cap	US$ 5.4bn
Shares o/s	176mn
3M ADV	US$ 3.8mn
52wk high/low	Rs 2,336/Rs 1,210
Promoter/FPI/DII	75%/8%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	94,458	108,786	121,780	143,715	164,544
EBITDA (Rs mn)	18,835	20,291	23,412	27,922	32,180
Adj. net profit (Rs mn)	15,157	15,198	16,378	19,723	22,874
Adj. EPS (Rs)	86.5	86.4	93.3	112.4	130.3
Adj. EPS growth (%)	36.1	0.0	8.0	20.4	16.0
Adj. ROAE (%)	34.6	29.5	27.9	28.5	28.0
Adj. P/E (x)	26.5	26.5	24.5	20.4	17.6
EV/EBITDA (x)	21.2	19.7	17.2	14.4	12.3

Source: Company, BOBCAPS Research

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DIVERSIFIED FINANCIALS | Q1FY21 Preview | 16 July 2020

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Shubhranshu Mishra
research@bobcaps.in

Key expectations: We expect Bajaj Finance (BAF) to register a tepid quarter with declared AUM growth of 7% YoY and higher credit cost as management intends to make accelerated provisions for Covid-19. Gold finance NBFCs Muthoot Finance (MUTH)/Manappuram Finance (MGFL) are likely to post robust gold loan AUM growth of 19%/30% YoY as 30-50% of disbursals are digital and thus unaffected by the lockdown. We see benign credit costs for MUTH. As MGFL operates its vehicle finance business on the standalone book, credit cost is likely to inch up.

Among AMCs, our channel checks suggest HDFC AMC will gain market share in liquid funds, aiding profitability. We forecast a 24% YoY PAT increase for Nippon Life India AMC (NAM) assuming an uptick in equity and hybrid fund flows.

RECOMMENDATION SNAPSHOT

Ticker	Rating
BAF IN	BUY
MUTH IN	BUY
MGFL IN	BUY
CIFC IN	BUY
MMFS IN	ADD
HDFCAMC IN	BUY
NAM IN	SELL

FIG 1 – Q1FY21E EXPECTATIONS

NBFCs	Q1FY21E (Rs bn)	YoY (%)	QoQ (%)	Expectations
BAF				We expect stable spreads at ~11% levels and a 10% YoY rise in NII. AUM growth was announced at 7% YoY. Credit cost is projected at ~420bps as the company has indicated accelerated provisioning for anticipated pandemic-related delinquencies. Expect a 33% YoY decline in PAT.
AUM	1,380.0	7.1	(6.2)	
NII	40.6	10.0	(13.2)	
PAT	8.1	(32.6)	(15.0)	
MUTH				AUM is estimated to rise 19% YoY, maintaining its steady growth streak of the last eight quarters. NII should increase 36% YoY backed by stable spreads. With the cost/income ratio at 27%, we expect operating profit to grow 46% YoY to Rs 12bn. Benign credit cost would aid 66% YoY PAT growth.
AUM	426.5	19.1	2.5	
NII	16.5	35.6	1.1	
PAT	8.8	65.6	7.7	
MGFL				Gold loan growth is estimated at 30% YoY – a secular growth trend for the last eight quarters. We forecast stable spreads and 23% YoY NII growth. With high expenses but benign credit cost, we project a 61% YoY increase in PAT to Rs 3.5bn.
AUM	173.1	30.2	2.0	
NII	7.8	23.3	1.0	
PAT	3.5	60.5	4.0	
CIFC				We expect tepid disbursements to mute AUM growth at 5% YoY as the company has been focusing on collections rather than growth. We forecast NII growth of 10% led by stable spreads. Credit costs are likely to be higher due to accelerated provisioning for Covid-19, inducing a 20% YoY decline in PAT to Rs 2.5bn.
AUM	602.5	4.8	(0.5)	
NII	10.4	9.9	2.0	
PAT	2.5	(19.4)	NM	
MMFS				As ~75% of AUM is under moratorium, we expect a slow rundown of AUM, leading to 7% YoY growth. We forecast stable spreads, aiding 6% YoY growth in NII. Credit cost is likely to weigh on profit; we thus project PAT of Rs 0.5bn.
AUM	691.1	6.6	1.5	
NII	13.6	5.7	(2.0)	
PAT	0.5	(33.4)	(79.4)	

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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