

RESEARCH

BOB Economics Research | Currency Outlook

Surge in oil prices remains key risk to INR

BOB Economics Research | Monsoon Impact

Is normal monsoon a good indicator for agriculture?

L&T Infotech | Target: Rs 8,140 | +49% | BUY

Soft growth; maintain BUY on strong TCV

SUMMARY

India Economics: Currency Outlook

Global currencies closed lower against the dollar. Fed's aggressive policy tightening, rising treasury yields as well as improved US macro data supported gains in DXY. On the other hand, JPY and EUR fell amidst widening policy divergence with the Fed. INR has depreciated by 0.7% in Apr'22, led by a surge in oil prices in the last few days. FPIs outflows have moderated but are likely to remain muted as Fed starts its policy tightening. The rupee is likely to remain in the range of Rs 76-77/\$ till the end of the month. A further spike in oil prices may put pressure on INR.

[Click here for the full report.](#)

India Economics: Monsoon Impact

Every year, before the beginning of the monsoon season, different agencies predict if the rainfall will be normal or not. How have these conditions fared in the past? Does normal monsoon translate in to good crop production? Is this the sole criteria or are there other factors at play. While there is no denying that monsoon is critical condition for higher crop production, as 60% of the cultivable land in India relies on South West Monsoon, uniform distribution of rainfall along with other climatic conditions drive the production higher/lower. This note attempts to shed light on the same and see how other host of factors are responsible for agriculture growth.

[Click here for the full report.](#)

Daily macro indicators

| Indicator | 14-Apr | 18-Apr | Chg (%) |
|------------------------|---------|---------|-------------|
| US 10Y yield (%) | 2.83 | 2.85 | 3bps |
| India 10Y yield (%) | 7.22 | 7.15 | (6bps) |
| USD/INR | 76.18 | 76.26 | (0.1) |
| Brent Crude (US\$/bbl) | 111.7 | 113.2 | 1.3 |
| Dow | 34,451 | 34,412 | (0.1) |
| Hang Seng | 21,374 | 21,518 | 0.7 |
| Sensex | 58,339 | 57,167 | (2.0) |
| India FII (US\$ mn) | 12-Apr | 13-Apr | Chg (\$ mn) |
| FII-D | (7.2) | (69.3) | (62.2) |
| FII-E | (349.4) | (126.0) | 223.4 |

Source: Bank of Baroda Economics Research

BOBCAPS Research

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L&T Infotech

- Q4 revenue growth of 3.6% QoQ CC below our estimate of 5%; however, net new TCV robust at US\$ 80mn, up 21% YoY
- EBIT margin largely in line at 17.3%, down 60bps QoQ due to rising employee cost
- We prune FY23/FY24 EPS by 4%/2% and roll over to a new TP of Rs 8,140 (vs. Rs 8,490). Retain BUY on strong guidance and robust TCV

[Click here](#) for the full report.

CURRENCY OUTLOOK

18 April 2022

Surge in oil prices remains key risk to INR

Global currencies closed lower against the dollar. Fed's aggressive policy tightening, rising treasury yields as well as improved US macro data supported gains in DXY. On the other hand, JPY and EUR fell amidst widening policy divergence with the Fed. INR has depreciated by 0.7% in Apr'22, led by a surge in oil prices in the last few days. FPIs outflows have moderated but are likely to remain muted as Fed starts its policy tightening. The rupee is likely to remain in the range of Rs 76-77/\$ till the end of the month. A further spike in oil prices may put pressure on INR.

Aditi Gupta
Economist

How have currencies fared?

Most global currencies have depreciated against the dollar in Apr'22 (as of 18 Apr 2022). DXY has strengthened, supported by better macro prints, hike in US treasury yields and hawkish commentary by Fed. In Apr'22 so far, DXY has risen by 2.4% to a more than 2-year high. On the other hand, Japanese yen (JPY) depreciated further by 3.9% to a 20-year low, amidst rising yield differentials from the US as well as concerns over rising oil prices and external stability. EUR has also depreciated by 2.4% in the period. This is because of rising policy divergence between ECB and US Fed. Furthermore, risks of stagflation as well as uncertainty over French Presidential elections continue to weigh on the EUR. New Zealand dollar depreciated by 3.1% even as Reserve Bank of New Zealand raised policy rates by 50bps (highest rate hike in 22-years) amidst surging inflation.

On the other hand, currencies such as Brazilian real, Turkish lira and Indonesian rupiah have appreciated against the dollar.

INR performance:

INR has depreciated by 0.7% in Apr'22 so far. The movement in INR can be traced back to the movement in oil prices. INR depreciated by only 0.2% between 1-11 Apr 2022, when oil prices averaged US\$ 103/bbl. In the same period, FII outflows were US\$ 5.5bn. Subsequently, oil prices have averaged US\$ 109.3/bbl, leading to a 0.4% depreciation in INR. With oil prices on an uptrend again, INR is likely to come under renewed pressure.

Currency volatility:

Apart from daily changes in currencies, volatility is also a major factor for the markets. Here, we have looked at the volatility in two periods; 16-31 Mar 2022 and 1-18 Apr 2022. For almost all currencies, volatility has declined in the latter period.



MONSOON IMPACT

19 April 2022

Is normal monsoon a good indicator for agriculture?

Every year, before the beginning of the monsoon season, different agencies predict if the rainfall will be normal or not. How have these conditions fared in the past?

Does normal monsoon translate in to good crop production? Is this the sole criteria or are there other factors at play. While there is no denying that monsoon is critical condition for higher crop production, as 60% of the cultivable land in India relies on South West Monsoon, uniform distribution of rainfall along with other climatic conditions drive the production higher/lower. This note attempts to shed light on the same and see how other host of factors are responsible for agriculture growth.

Jahnavi
Economist

1. How do we measure normal monsoon: A normal Monsoon is defined as rainfall between 96%-104% of LPA (Long period average). LPA of June-Sep'22 period is basically average rainfall received in the past 50-years for the period of 1971-2020 (revised this year from 1961-2010) and is estimated at 88cm for the current year. While normal rainfall is 96-104% of the LPA, less than 90% of LPA is termed as deficit rainfall and more than 110% in excess rainfall. For the LPA range between 90-96% of the LPA, is referred to as below normal and between 104-110% of LPA is categorized as above normal rainfall. South-West monsoon lasts for the period of June to September in every year.

Private organizations such as Skymet and government organization namely IMD predicts monsoon each year. Both Skymet and IMD forecast carry the model error of (+ -) 5% and have estimated normal monsoon for the current year. It is interesting to notice, that in the past there has been much higher deviation in actual rainfall compared with the first IMD forecast. Specially, a much higher deviation level was seen for the year 2019 and 2020.

As per IMD, La-Nina conditions are prevailing over the equatorial region and is expected to continue during the monsoon season for this year. La-Nina is the cool phase of the recurring climate pattern across the pacific. EL-Nino is the warm phase. The southern oscillation index (SOI) signals the development, along with intensity of both these phases. Continuous negative values of SOI lower than (-) 7 implies EL-Nino, while continuous positive value of SOI greater than 7 signal the likelihood of La-Nina. El Nino- impacts the monsoon negatively and La-Nina has a positive impact on the monsoon.

2. Is good monsoon a necessary or sufficient condition for good crop: It is believed that monsoon has a direct bearing on India's agriculture growth. To understand the same, agriculture and allied sectors had moderated marginally by 20bps in FY18 as against FY17 when the monsoon was below normal. Following this, agriculture growth dwindled to as low as 2.2% in FY19 from 6.6% in FY18 which was the period of below normal monsoon. Foodgrains production was also lower.



BUY

TP: Rs 8,140 | ▲ 49%

L&T INFOTECH

Technology & Internet

20 April 2022

Soft growth; maintain BUY on strong TCV

- Q4 revenue growth of 3.6% QoQ CC below our estimate of 5%; however, net new TCV robust at US\$ 80mn, up 21% YoY
- EBIT margin largely in line at 17.3%, down 60bps QoQ due to rising employee cost
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Seema Nayak

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Revenue miss: LTI's Q4FY22 revenue grew 3.6% QoQ CC vs. our estimate of 5%, after two consecutive quarters of 9%+ sequential growth. BFS/manufacturing saw muted growth of 2.8%/1.9% QoQ USD whereas the CPG, retail and pharma vertical performed well (+6.2%), followed by insurance (+3.9%) which recovered from a slump in Q3. Top-10 client growth was muted at 3.1% QoQ. However, on a full-year basis, LTI posted its highest-ever dollar revenue growth of 25.9% in FY22.

Margin in line: Q4 EBIT margin stood at 17.3% (17.9% est.), down 60bps QoQ due to increased employee cost. SG&A cost dipped 1.7% QoQ. Attrition surged to an alarming level of 24%, up 150bps QoQ and doubling YoY. LTI added 2,400 employees QoQ in Q4 and plans to roll out salary hikes from Apr'22. Amid rising employee cost due to the elevated attrition, management used the offshoring lever to the utmost – offshoring in Q4 reached a record high of 60.2% of quarterly revenue.

Deal wins robust: LTI's net new TCV rose 21% YoY to US\$ 80mn and constitutes four large deals, with a robust pipeline. Three deals are with Fortune 500 clients and one with a new account. Two wins were from BFS, with one each in the CPG and government healthcare verticals. Per management, the large-deal pipeline stands at ~US\$ 2bn and LTI is seeing broad-based demand across verticals and service lines.

FY23 outlook strong: LTI does not anticipate any slowdown in the demand environment but acknowledged uncertainty in terms of rising input costs and the volatile geopolitical climate. However, management expects to deliver leader quadrant growth in FY23 and PAT margin in the range of 14-15%.

Other takeaways: The board announced a dividend of Rs 30/sh (FY22 dividend at Rs 55/sh). DSO stood at 99 days in Q4 vs. 100 in Q3.

Maintain BUY: Factoring in the Q4 result, we cut FY23/FY24 EPS by 4%/2%. On rolling valuations over to Jun'24, our TP reduces to Rs 8,140 (from Rs 8,490) based on an unchanged 48.5x P/E. Maintain BUY on a robust demand environment.

Key changes

| Target | Rating |
|--------|--------|
| ▼ | ◀ ▶ |

| | |
|------------------|-------------------|
| Ticker/Price | LTI IN/Rs 5,472 |
| Market cap | US\$ 12.6bn |
| Free float | 25% |
| 3M ADV | US\$ 29.3mn |
| 52wk high/low | Rs 7,589/Rs 3,525 |
| Promoter/FPI/DII | 75%/8%/10% |

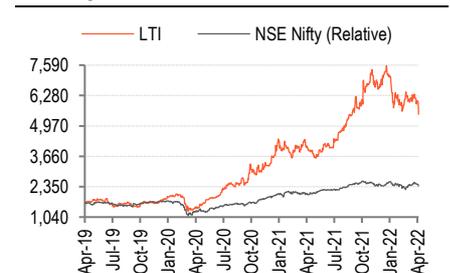
Source: NSE | Price as of 19 Apr 2022

Key financials

| Y/E 31 Mar | FY21A | FY22A | FY23E |
|-------------------------|---------|---------|---------|
| Total revenue (Rs mn) | 123,698 | 156,687 | 185,784 |
| EBITDA (Rs mn) | 27,253 | 30,585 | 38,783 |
| Adj. net profit (Rs mn) | 19,383 | 22,986 | 27,454 |
| Adj. EPS (Rs) | 110.5 | 131.0 | 156.4 |
| Consensus EPS (Rs) | 110.5 | 125.4 | 145.8 |
| Adj. ROAE (%) | 30.5 | 28.5 | 28.6 |
| Adj. P/E (x) | 49.5 | 41.8 | 35.0 |
| EV/EBITDA (x) | 35.2 | 31.4 | 24.8 |
| Adj. EPS growth (%) | 27.8 | 18.6 | 19.4 |

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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