FIRST LIGHT

06 May 2021

RESEARCH

BOB Economics Research | RBI Policy Measures

RBI measures for Covid 2.0

L&T Infotech | Target: Rs 4,710 | +20% | BUY

Market-leading growth in FY21

Banking

RBI extends relief measures to tackle second Covid wave

SUMMARY

India Economics: RBI Policy Measures

RBI announced a slew of measures to boost health care spending (Rs 500bn on-tap facility), last mile credit delivery to small borrowers (Rs 100bn), restructuring for MSMEs, individual borrowers and liquidity for state governments. For Centre, RBI announced G-SAP of Rs 350bn on 20 May 2021. These are first set of measures to mitigate the economic impact of second wave and local containment measures. We believe more measures will follow, in particular by state government who have announced local lockdowns.

Click here **for the full report.**

L&T Infotech

L&T Infotech's (LTI) Q4FY21 revenue growth was strong at 4.4% QoQ CC due to an uptick in the hi-tech, manufacturing and BFS verticals. Operating margin stood at 19.4%, backed by increased offshoring and tight SG&A cost control. In light of pending wage hikes, we trim FY22/FY23 EPS by 3%/4%. Post rollover, we arrive at a new Mar'23 TP of Rs 4,710 (vs. Rs 4,740), set at an unchanged 30x P/E. Maintain BUY given LTI's strong revenue mix, traction in hi-tech, favourable offshore presence, client mining skills and robust leadership.

Click here **for the full report.**

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
TCS	Buy	3,780
Tech Mahindra	Buy	1,190

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	540
Transport Corp	Buy	320

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.59	(1bps)	(13bps)	93bps
India 10Y yield (%)	6.02	1bps	(15bps)	(6bps)
USD/INR	73.86	0.1	(1.0)	2.4
Brent Crude (US$/bbl)	68.88	2.0	6.2	122.4
Dow	34,133	0.1	3.0	42.9
Shanghai	3,447	(0.8)	(1.1)	20.5
Sensex	48,254	(1.0)	(3.6)	53.4
India FII (US$ mn)	**3 May**	**MTD**	**CYTD**	**FYTD**
FII-D	5.2	5.2	(2,387.1)	(359.9)
FII-E	(225.1)	(225.1)	5,612.0	(1,714.3)

Source: Bank of Baroda Economics Research

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Banking

The RBI has announced several relief measures to tackle the second Covid wave – (1) PSL status to emergency health services, (2) SFBs get access to SLTRO window and PSL status for on-lending to MFIs, (3) resolution 2.0 for Covid-related stressed assets, (4) tenor extension for loans restructured under resolution framework 1.0, and (5) banks can access 100% of floating and countercyclical provisioning buffers.

Click here for the full report.

RBI POLICY MEASURES

05 May 2021

RBI measures for Covid 2.0

RBI announced a slew of measures to boost health care spending (Rs 500bn on-tap facility), last mile credit delivery to small borrowers (Rs 100bn), restructuring for MSMEs, individual borrowers and liquidity for state governments. For Centre, RBI announced G-SAP of Rs 350bn on 20 May 2021. These are first set of measures to mitigate the economic impact of second wave and local containment measures. We believe more measures will follow, in particular by state government who have announced local lockdowns.

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Prioritising Health infra: To give a boost to India's health infrastructure, RBI announced a three-year Rs 500bn special on-tap facility for onward lending to hospitals, vaccine suppliers, laboratories, manufacturers and individuals. These loans will be eligible for PSL. An amount equal to loans under this facility (Covid loans) will be eligible to be parked with RBI at a 0.4% premium to existing rate.

Incentivising SFBs to lend: Small Finance Banks (SFBs) are integral part of last mile delivery of small business and individual loans. SFBs can now borrow Rs 100bn (10% of SFBs loan book) for three-years from RBI at repo rate for loans up to Rs 1mn per borrower. SFBs lending to MFIs (asset size up to Rs 5bn) will be eligible for PSL as well.

MSME and small borrowers: For MSMEs and small borrowers (up to Rs 250mn), RBI has announced Resolution Framework 2.0 under which they can avail of restructuring with the condition that they should have been standard as of Mar'21 and not availed of any restructuring earlier (Resolution Framework 1.0). For those customers who have availed of restructuring earlier and where moratorium plan was less than 2 years, the moratorium/ restructuring period can be extended for a residual tenor of 2 years. MSME lending up to Rs 2.5mn will be eligible for CRR exemption till Dec'21.

Enhancing government spending: While GST collections did hit an all-time high in Mar'21, tax collections are likely to move down as local restrictions bite. For instance, diesel sales have already seen a dip in April over March. However, Centre and states will have to continue to spend on purchasing health equipment and vaccines, paying salaries and continuing welfare measures. Thus RBI has relaxed terms for availment of overdraft facility for states as well as ways and means advance. For Centre, RBI has announced additional purchase of Rs 350bn under G-SAP 1.0 on 20 May 2021.

KEY HIGHLIGHTS

- On-tap liquidity scheme for ramping up health infrastructure worth Rs 500bn announced.
- SFBs incentivised to lend. MSMEs and small borrowers can avail restructuring.
- State governments eligible for higher bridge financing from RBI.

RESULT REVIEW

BUY
TP: Rs 4,710 | ⮝ 20%

L&T INFOTECH | IT Services | 05 May 2021

Market-leading growth in FY21

L&T Infotech's (LTI) Q4FY21 revenue growth was strong at 4.4% QoQ CC due to an uptick in the hi-tech, manufacturing and BFS verticals. Operating margin stood at 19.4%, backed by increased offshoring and tight SG&A cost control. In light of pending wage hikes, we trim FY22/FY23 EPS by 3%/4%. Post rollover, we arrive at a new Mar'23 TP of Rs 4,710 (vs. Rs 4,740), set at an unchanged 30x P/E. Maintain BUY given LTI's strong revenue mix, traction in hi-tech, favourable offshore presence, client mining skills and robust leadership.

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Hi-tech and BFS lead growth: LTI posted strong 4.4% QoQ CC revenue growth in Q4 (4.7% est.). Growth was supported by momentum in hi-tech/ manufacturing/BFS which were up 16.4%/5.2%4.9% QoQ USD. The hi-tech vertical benefited from the US$ 204mn Injazat deal. Insurance remained weak with low-single-digit growth and energy & utilities saw 4.8% QoQ contraction. Retail-CPG continued to recover, rising 3.6%. EBIT margin contracted 130bps QoQ to 19.4% because of hiring and wage hikes, albeit bettering our estimate of 18.7% due to low SG&A spend.

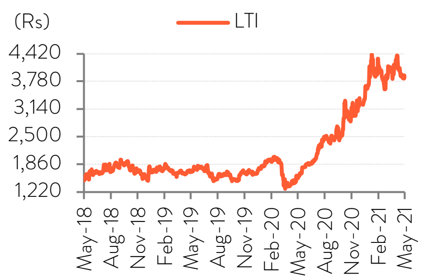
Consistent, healthy growth outside top-20 clients: LTI's non-top-20 client growth stood at 8.2% QoQ and 20.6% YoY USD in Q4. Non-top 20 growth has been consistent through FY21 despite the impact of Covid, aiding a decline in top-10 and top-20 client concentration by 1% QoQ each (4-5% YoY) in Q4 and improving revenue diversification. The company added three new clients each in its US$ 10mn+ and US$ 5mn+ buckets and two in the US$ 1mn+ bucket.

Maintain BUY: LTI has consistently maintained a superior performance versus mid-cap peers, posting high growth and best-in-class EBIT margins. FY21 dollar revenue growth of 9.5% has been market-leading despite pandemic headwinds in Q1FY21, as against negative to flattish YoY growth for peers. Reiterate BUY.

Ticker/Price	LTI IN/Rs 3,915
Market cap	US$ 9.3bn
Shares o/s	176mn
3M ADV	US$ 12.8mn
52wk high/low	Rs 4,483/Rs 1,510
Promoter/FPI/DII	75%/8%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	94,458	108,786	123,698	150,879	180,466
EBITDA (Rs mn)	18,835	20,291	27,253	31,170	37,835
Adj. net profit (Rs mn)	15,157	15,198	19,383	23,191	27,177
Adj. EPS (Rs)	86.5	86.4	110.5	132.2	154.9
Adj. EPS growth (%)	36.1	0.0	27.8	19.6	17.2
Adj. ROAE (%)	34.6	29.5	30.5	29.1	28.8
Adj. P/E (x)	45.3	45.3	35.4	29.6	25.3
EV/EBITDA (x)	36.4	33.7	25.2	22.1	18.1

Source: Company, BOBCAPS Research | P – Provisional

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TRUST | INNOVATION | EXCELLENCE

BANKING

05 May 2021

RBI extends relief measures to tackle second Covid wave

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PSL status to emergency health services: The RBI has opened a Rs 500bn on-tap liquidity window for banks at the repo rate till Mar'22, with a tenor of up to three years. Under the scheme, banks would need to create a Covid loan book and provide fresh lending support to emergency health services which will be treated as priority sector loans (PSL) till repayment or maturity. In addition, banks can park their surplus up to the size of the Covid loan book with the RBI at a rate 40bps higher than the existing reverse repo rate of 3.35%.

SFBs get access to SLTRO window and PSL status for on-lending to MFIs: A special three-year long-term repo operation (SLTRO) window of Rs 100bn at repo rate has been opened for small finance banks (SFB) till Oct'21, to be deployed for fresh lending of up to Rs 1mn per borrower. Also, fresh lending by SFBs to small MFIs (size up to Rs 5bn) for on-lending to individual borrowers will be tagged as PSL up to Mar'22.

Resolution 2.0 for Covid-related stressed assets: Individuals, small businesses and MSME borrowers with aggregate exposure of <Rs 250mn that have not availed of restructuring earlier and are classified as standard accounts as of Mar'21 will be eligible for restructuring till Sep'21. Banks must invoke restructuring by September and implement the plan within 90 days thereafter.

Tenor extension for loans restructured under resolution framework 1.0: Borrowers that restructured loans under the earlier resolution framework can have their moratorium and/or residual tenor extended for up to two years.

Banks can access 100% of floating and countercyclical provisioning buffers: In order to mitigate pandemic-related stress and as a measure to enable capital conservation, banks are being allowed to utilise 100% of floating provisions/ countercyclical provisioning buffers held as on Dec'20 for making specific provisions toward NPAs up to Mar'22.

Our view: The RBI has been proactive in announcing supportive measure for the sector. Nevertheless, the recent resurgence in Covid cases remains a risk that can heighten asset quality stress. In our view, the central bank's choice of restructuring versus another round of moratorium as a tool to cope with the pressure is a positive step. We believe banks will continue to exercise prudence while restructuring loans, as observed under resolution framework 1.0 and evidenced by manageable restructured books reported thus far in Q4FY21.

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BUY – Expected return >+15%

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

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

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