FIRST LIGHT

20 January 2022

RESEARCH

Building Materials

Growing on a Better Foundation

L&T Infotech | Target: Rs 8,490 | +27% | BUY

Growth spree continues; outperformance on all counts

Just Dial | Target: Rs 990 | +21% | BUY

Disappointing Q3; Maintain BUY on RRVL led synergy potential

SUMMARY

Building Materials

- The organized building material expected to report healthy volume growth/earnings in CY22 with likely pick-up in housing sector
- Underlying demand remains strong owing to traction in real estate, fully operational major markets and market share gains from unorganized
- Top Picks: Greenpanel, Greenply, Century Plyboards, Somany Ceramics and Kajaria Ceramics

Click here for the full report.

L&T Infotech

- L&T Infotech (LTI) reported strong growth beat with 8.7% QoQ USD growth. EBIT margin at 17.9% was up 70bps QoQ, was above estimates
- LTI's FY22 outlook is optimistic towards achieving leaders' quadrant growth and PAT margin in the range of 14-15%
- We raise FY23/24 EPS by ~3%, factoring in optimistic outlook and revise TP to Rs 8,490 (vs. 8,270 earlier). Maintain BUY

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.87	9bps	47bps	78bps
India 10Y yield (%)	6.63	(1bps)	22bps	72bps
USD/INR	74.58	(0.5)	2.0	(1.9)
Brent Crude (US$/bbl)	87.51	1.2	19.0	56.5
Dow	35,368	(1.5)	0.0	14.3
Shanghai	3,570	0.8	(1.7)	0.1
Sensex	60,755	(0.9)	6.6	23.0
India FII (US$ mn)	**14-Jan**	**MTD**	**CYTD**	**FYTD**
FII-D	57.5	370.4	370.4	872.7
FII-E	(32.8)	(217.2)	(217.2)	(3,782.4)

Source: Bank of Baroda Economics Research

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Just Dial

- Just Dial (JUST) reported revenue growth of mere 1.9% QoQ-far below estimates, dragged by impact on SMEs from covid waves
- EBITDA margin stood at 3.3%, down 7pps QoQ, below our estimate of 15.2% due to rising employee and SG&A costs
- We cut our FY23/24 EPS by ~27% given the significant estimate miss in Q3. Maintain BUY on potential synergy from RRVL's digital prowess

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BUILDING MATERIALS

19 January 2022

Growing on a Better Foundation

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- **Underlying demand remains strong owing to traction in real estate, fully operational major markets and market share gains from unorganized**
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Shift from unorganised to organised: post-covid, listed companies in the home decor industry have been in focus, especially for market share gains from their regional and smaller counterparts. Rising working capital needs and elevated raw material prices have put companies operating in the unorganised sectors in a tight spot at the peak of the pandemic, which benefitted larger companies.

Among the various segments of the home decor industry, wood panel makers would see higher growth than pipe and tile makers, driven by the consolidation theme.

In a sweet spot: The organised building material sector is in a sweet spot and likely to be on a strong comeback trail with branded companies expected to report healthy volume growth/earnings in CY22 driven by: 1) strong pent-up demand in renovation / refurbishment segment, 2) healthy real estate inventory absorption, 3) impressive pick-up in secondary sales in real estate sector post Covid, 4) Consolidation in real estate with the market share of large organised players increasing from 11.3% in FY17 to 24.9% in FY21, 5) increasing spends in infrastructure, 6) strong government push towards affordable housing projects like Pradhan Mantri Awas Yojana, 7) improved affordability due to low home interest rate, 8) increase in home improvement activity mainly due to rising WFH culture, 9) shift from unbranded to branded products led by improving compliance, 10) increase in occupation of premises, and 11) weakening competitive intensity in some categories.

Branded categories to gain: we expect growth recovery in CY22 to be led by: 1) the plumbing pipe segment (expectations of accelerated consolidation in PVC/CPVC pipes post Covid), 2) tile segment (driven by impressive market share gains from Morbi players who are incrementally focusing on exports post-Covid which has slowed down due to higher freight/container cost) and MDF (on the back of higher demand for modular furniture, and 3) expected increase in modular furniture shipments with India likely becoming a manufacturing hub replacing China.

Valuations. We upgrade Greenpanel, Greenply, Cera Sanitaryware to BUY, downgrade Supreme Ind. to HOLD, upgrade Astral to HOLD.

Recommendation snapshot

Ticker	Price	Target	Rating
ASTRA IN	2,391	2,465	HOLD
CPBI IN	650	735	HOLD
CRS IN	4,848	5,590	BUY
FNXP IN	194	220	HOLD
GREENP IN	476	595	BUY
KJC IN	1,364	1,460	HOLD
MTLM IN	215	260	BUY
PIDI IN	2,673	2,445	SELL
SI IN	2,266	2,535	HOLD
SOMC IN	920	1,140	BUY

Price & Target in Rupees | Price as of 19 Jan 2022

RESULT REVIEW

BUY

TP: Rs 8,490 | 27%

L&T INFOTECH | Technology & Internet | 19 January 2022

Growth spree continues; outperformance on all counts

- **L&T Infotech (LTI) reported strong growth beat with 8.7% QoQ USD growth. EBIT margin at 17.9% was up 70bps QoQ, was above estimates**
- **LTI's FY22 outlook is optimistic towards achieving leaders' quadrant growth and PAT margin in the range of 14-15%**
- **We raise FY23/24 EPS by ~3%, factoring in optimistic outlook and revise TP to Rs 8,490 (vs. 8,270 earlier). Maintain BUY**

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Superior growth and margin performance: LTI reported extremely strong growth of 8.7% QoQ USD, beating our optimistic estimates of 5.6%. This is the best reported growth among all announced results in Q3 yet and is LTI's highest ever QoQ growth. The growth was driven by manufacturing, BFS and others verticals (public services and govt. of India accounts) which grew 18.4%/ 9.6%/12.1%, respectively. Retail, CPG and pharma grew 7.6% QoQ USD. Insurance continued to be the laggard. Among service lines, Analytics, AI, Cognitive and Enterprise solutions lead growth.

EBIT margin stood at 17.9%, up 70bps QoQ; lying above our estimate of 17.2%. 70 bps advantage came from: (1) higher growth and operational efficiency: 40bps (2) cross currency tailwind: 30bps. This was despite rising attrition and LTI hiring 1818 employees QoQ. SG&A and employee costs were up 4.4% and 9.7%. Offshoring at 84%, was up 40bps QoQ. PAT margin at 14.8% was within LTI's guided range.

Growth outside top-5 clients impressive: Within the top -tier client buckets, growth was broad based. Top-5/10/20 clients' revenues were up 9%/7.8%/9.6%, respectively and ~25%YoY. Non-top 20 client revenues were up 7.4%. 27 new logos were added in 9mFY22 (its highest since listing).

Attrition persists: LTI reported 22.5% LTM attrition, up 290bps QoQ, its highest ever. However, the quarterly attrition number has gone down, which is a positive. It continued to hire aggressively by adding 1818 employees QoQ. Fresher intake target stands at 5,500 for FY22. LTI will continue to hire ahead of the curve anticipating demand. Utilization at 80.3%, was down 130 bps QoQ.

Maintain BUY on optimistic outlook: The management is positive on achieving leaders' quadrant growth in FY22. PAT margin is expected to lie within 14-15%. Cloud – which is growing faster than company average, is supposed to be the key driver in FY22 and beyond. We raise 23/24 EPS by ~3% factoring in Q3 performance and optimistic outlook. Maintain BUY with an updated TP of Rs 8,490 on an unchanged one year forward PE of 46x.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	LTI IN/Rs 6,697
Market cap	US$ 15.8bn
Free float	25%
3M ADV	US$ 32.3mn
52wk high/low	Rs 7,589/Rs 3,525
Promoter/FPI/DII	75%/8%/10%

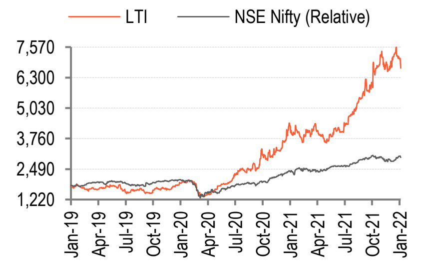
Source: NSE | Price as of 19 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	123,698	156,639	190,054
EBITDA (Rs mn)	27,253	30,801	40,341
Adj. net profit (Rs mn)	19,383	23,014	29,265
Adj. EPS (Rs)	110.5	131.1	166.8
Consensus EPS (Rs)	110.5	125.4	145.8
Adj. ROAE (%)	30.5	28.9	30.9
Adj. P/E (x)	60.6	51.1	40.2
EV/EBITDA (x)	43.1	38.2	29.0
Adj. EPS growth (%)	27.8	18.7	27.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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BUY
TP: Rs 990 | ⮝ 21%

JUST DIAL | Technology & Internet | 20 January 2022

Disappointing Q3; Maintain BUY on RRVL led synergy potential

- **Just Dial (JUST) reported revenue growth of mere 1.9% QoQ-far below estimates, dragged by impact on SMEs from covid waves**
- **EBITDA margin stood at 3.3%, down 7pps QoQ, below our estimate of 15.2% due to rising employee and SG&A costs**
- **We cut our FY23/24 EPS by ~27% given the significant estimate miss in Q3. Maintain BUY on potential synergy from RRVL's digital prowess**

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Underperformance on all counts: JUST reported growth of 1.9% QoQ and -6.3% YoY, significantly underperforming our estimate of 9.3% QoQ. The growth was affected by YoY de-growth of 3.6% in paid campaigns and total business listings growing by only 4% YoY in Q3, which is due to impact on SMEs from successive covid waves.

EBITDA margin stood at a mere 3.3%, down 7pps QoQ, significantly below our estimate of 15.2%. This came on the back of lower growth, rising employee cost (up 9.1% QoQ; 16.1% YoY). SG&A expenses were also up 13.2% QoQ. JUST hired 1250 employees in sales in Q3FY22. Advertisement expenses stood at Rs35mn in Q3. Other income also declined 19.8% QoQ. PAT margin was at 12.2%, down 8.9pps QoQ.

Few positives: Among the few positives in Q3FY22 results were: the steady growth of unique visitors (~8% YoY in Q3; same as in Q2) and the deferred revenue growth at a decent 6.8% YoY, although lower than 19.6% in Q2FY22.

Strategic outlook post RRVL acquisition: Management is focused on bringing back the growth in its core business which has been affected due to 1st and 2nd covid waves and drive strong growth from new initiatives as well. On the new initiatives (JD Mart, JD Apps, JD experts), JD experts (an Urban Company like platform) have added new product categories (e.g. pest control) which are in beta phase of testing. In JD Mart, content work is ongoing and transaction layer is being added. JD Mart also offers solutions like: real time dashboard, lead management and logistics integration. The management also indicated a foray into real estate business (with features possibly similar to 99acres) in near future.

Lowering estimates; maintain BUY: Although there has been no change yet post RRVL's acquisition, we maintain BUY on the potential from new initiatives and RRVL synergy. We cut FY23/24 EPS by 26.6%/27.5%, factoring in core business deterioration, lower margin and disappointing Q3FY22 results.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	JUST IN/Rs 815
Market cap	US$ 677.5mn
Free float	66%
3M ADV	US$ 10.8mn
52wk high/low	Rs 1,138/Rs 563
Promoter/FPI/DII	34%/40%/26%

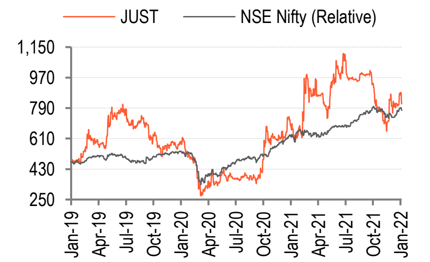
Source: NSE | Price as of 19 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	6,752	6,548	7,278
EBITDA (Rs mn)	1,549	168	523
Adj. net profit (Rs mn)	2,142	666	1,659
Adj. EPS (Rs)	33.8	8.0	20.0
Consensus EPS (Rs)	33.8	23.7	40.7
Adj. ROAE (%)	16.8	2.8	4.6
Adj. P/E (x)	24.2	101.4	40.7
EV/EBITDA (x)	33.4	310.3	75.4
Adj. EPS growth (%)	(19.2)	(76.2)	149.1

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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