

BUY

TP: Rs 3,860 | ▲19%

L&T INFOTECH

| IT Services

| 11 December 2020

Strong pipeline to carry the momentum

L&T Infotech's (LTI) analyst meet focused on cloud and data products which are expected to be the new growth engines. The order pipeline remains strong despite the slump in H1FY21, with LTI bagging seven large deals of US\$ 456mn TCY in the last 12 months. The ~US\$ 207mn contract with Middle East-based cloud provider Injazat was the highlight. Management is committed to keeping PAT margin in the 14-15% band, indicating strong profitable growth. We raise FY22/FY23 EPS by 6%/7% and our Sep'21 TP to Rs 3,860 (vs. Rs 3,590). **BUY.**

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Traction in large deal pipeline: LTI's deal pipeline grew 62% YoY TTM (vs. ~42% last year), consisting of both existing and new logos. Management expects deal conversion to pick up in H2FY21. Most large contracts are in the areas of cloud, data, digital and vendor consolidation. Middle East and Central Europe are seeing better large-deal growth. The company has signed a six-year AED 760mn cloud partnership contract with Injazat (top cloud provider in the UAE with 50+ clients in the region), which will lend support to revenue growth. LTI will take over Injazat's ERP and infrastructure services to begin with, besides assisting in digital, cloud and ERP transformation projects.

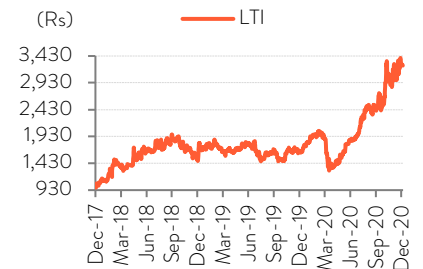
Cloud and data products to be new growth engines: Cloud is LTI's US\$ 1bn bet. AWS, GCP, Azure and core digitisation have been the source of large cloud-based deals. LTI's business with hyperscalers is currently at US\$ 180mn+ and rising. Half of its 150+ clients are already on their cloud migration journey.

The company plans to have dedicated business units for different hyperscalers. It is building a cloud preference model based on verticals, platforms and functions (C4X) and investing heavily in cloud in the form of manpower training. It will also have a dedicated business unit for data products. SaaS versions of products have been launched to democratise these products for clients.

Ticker/Price	LTI IN/Rs 3,251
Market cap	US\$ 7.8bn
Shares o/s	176mn
3M ADV	US\$ 21.7mn
52wk high/low	Rs 3,513/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	126,518	157,762	182,252
EBITDA (Rs mn)	18,835	20,291	26,839	32,670	37,778
Adj. net profit (Rs mn)	15,157	15,198	18,404	22,919	26,657
Adj. EPS (Rs)	86.5	86.4	104.9	130.6	151.9
Adj. EPS growth (%)	36.1	0.0	21.4	24.5	16.3
Adj. ROAE (%)	34.6	29.5	31.0	32.1	31.1
Adj. P/E (x)	37.6	37.6	31.0	24.9	21.4
EV/EBITDA (x)	30.2	28.0	21.3	17.5	14.9

Source: Company, BOBCAPS Research

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Other analyst meet highlights

- **Sales reinforcement:** LTI has launched Project Spark for sales which focuses on training and enabling 450+ salespeople in the areas of cloud knowhow and certifications. The company has also started offering specially designed rewards for sales during the pandemic above the usual incentives.

Strong account mining has been the key focus. With its 'Minecraft' initiative, LTI has been able to address client concentration through aggressive account mining. The share of accounts beyond the top-20 has grown from 32.3% in FY16 to 38.9% in FY20 and this trend is expected to continue. Fourteen of the top-20 clients have been with LTI for more than a decade due to its close relationships. The company currently has 68 Fortune-500 clients.

- **Strong partnership ecosystem with hyperscalers:** The partnership with Snowflake is augmenting the pursuit of large cloud-based deals. LTI is now also the second largest player in the Temenos ecosystem and a leading player in Temenos SaaS implementation.

Valuation methodology

The new AED 760mn cloud deal assures LTI of growth for FY21-FY22. Management is confident of keeping net profit margins within the narrow band of 14-15% despite increased costs from deal transition, using its low sub-contracting costs and industry-high offshoring. We increase FY22/FY23 EPS estimates by 6%/7% and raise our Sep'21 target price from Rs 3,590 to Rs 3,860, based on an unchanged one-year forward P/E multiple of 27x.

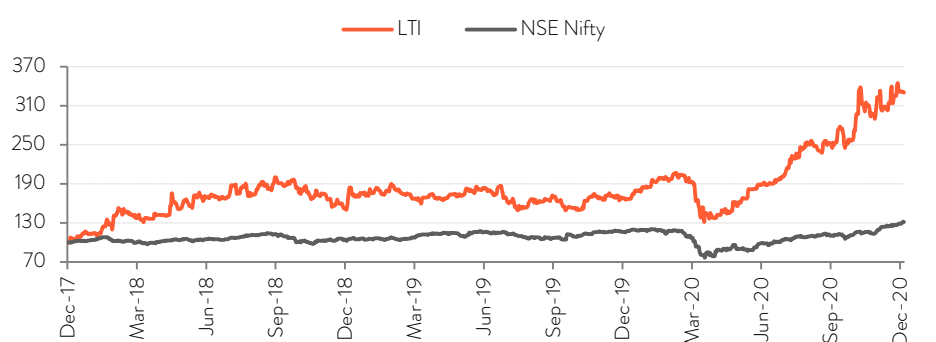
Our BUY rating is justified by LTI's best-in-class fundamentals among IT midcaps. The company continues to exhibit strong growth leadership in the current challenging times backed by a robust sales engine, marquee clientele and evolving service offerings, paving the way for a swift growth rebound post crisis. We believe timely investments in sales, cloud and data products will help it remain ahead in terms of growth and margin performance among IT mid-caps. The share price has risen 29% in Q3FY21 YTD and we see further upside potential.

FIG 1 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues (US\$ mn)	1,673	1,680	0.4	2,003	2,023	1.0	2,314	2,337	1.0
YoY growth (%)	9.8	10.2	-	19.7	20.4	-	15.5	15.5	-
Revenues	126,041	126,518	0.4	156,270	157,762	1.0	180,528	182,252	1.0
EBITDA	26,757	26,839	0.3	30,740	32,670	6.3	35,306	37,778	7.0
EBITDA margins (%)	21.2	21.2	-	19.7	20.7	-	19.6	20.7	-
Net profits	18,419	18,404	(0.1)	21,656	22,919	5.8	24,988	26,657	6.7
EPS (Rs)	105.0	104.9	(0.1)	123.4	130.6	5.8	142.4	151.9	6.7

Source: BOBCAPS Research

FIG 2 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Steady large deal wins are critical for the company to sustain its strong growth traction. An inability to do so may derail growth.
- Unsustainable margins

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	94,458	108,786	126,518	157,762	182,252
EBITDA	18,835	20,291	26,839	32,670	37,778
Depreciation	1,471	2,731	3,691	3,944	4,556
EBIT	17,364	17,560	23,147	28,726	33,222
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	2,915	2,463	1,554	2,039	2,559
Exceptional items	0	0	0	0	0
EBT	20,279	20,023	24,702	30,764	35,782
Income taxes	5,122	4,825	6,298	7,845	9,124
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	15,157	15,198	18,404	22,919	26,657
Adjustments	0	0	0	0	0
Adjusted net profit	15,157	15,198	18,404	22,919	26,657

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	15,291	23,618	27,468	34,251	39,568
Provisions	2,402	2,908	3,382	4,217	4,872
Debt funds	0	7,571	7,571	7,571	7,571
Other liabilities	56	101	101	101	101
Equity capital	171	174	174	174	174
Reserves & surplus	48,772	53,877	64,526	77,787	93,211
Shareholders' fund	48,943	54,051	64,700	77,961	93,385
Total liabilities and equities	66,692	88,249	103,221	124,101	145,496
Cash and cash eq.	4,150	5,252	11,309	24,166	36,263
Accounts receivables	23,845	27,541	34,663	38,900	44,939
Inventories	0	0	0	0	0
Other current assets	10,878	10,442	12,132	15,128	17,476
Investments	17,402	22,186	22,186	22,186	22,186
Net fixed assets	8,031	19,788	19,892	20,681	21,592
CWIP	0	0	0	0	0
Intangible assets	0	1,316	1,316	1,316	1,316
Deferred tax assets, net	2,386	3,039	3,039	3,039	3,039
Other assets	0	0	0	0	0
Total assets	66,692	88,248	103,220	124,100	145,495

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	16,628	17,929	22,095	26,863	31,214
Interest expenses	(1,089)	(342)	(1,422)	(1,555)	(2,327)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(2,665)	5,573	(4,488)	385	(2,415)
Other operating cash flows	1,010	(6,887)	0	0	0
Cash flow from operations	13,884	16,273	16,186	25,693	26,471
Capital expenditures	(4,221)	(5,480)	(3,796)	(4,733)	(5,468)
Change in investments	(4,324)	0	0	0	0
Other investing cash flows	1,089	(3,287)	1,422	1,555	2,327
Cash flow from investing	(7,456)	(8,767)	(2,374)	(3,177)	(3,141)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(5,911)	(6,404)	(7,755)	(9,658)	(11,233)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(5,911)	(6,404)	(7,755)	(9,658)	(11,233)
Changes in cash and cash eq.	517	1,102	6,057	12,857	12,097
Closing cash and cash eq.	4,150	5,252	11,309	24,166	36,263

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	86.5	86.4	104.9	130.6	151.9
Adjusted EPS	86.5	86.4	104.9	130.6	151.9
Dividend per share	28.0	30.2	36.7	45.7	53.2
Book value per share	279.2	307.3	368.7	444.3	532.2

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	6.0	5.2	4.5	3.6	3.1
EV/EBITDA	30.2	28.0	21.3	17.5	14.9
Adjusted P/E	37.6	37.6	31.0	24.9	21.4
P/BV	11.6	10.6	8.8	7.3	6.1

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	74.7	75.9	74.5	74.5	74.5
Interest burden (PBT/EBIT)	116.8	114.0	106.7	107.1	107.7
EBIT margin (EBIT/Revenue)	18.4	16.1	18.3	18.2	18.2
Asset turnover (Revenue/Avg TA)	156.8	140.4	132.2	138.8	135.2
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.6	1.6	1.6
Adjusted ROAE	34.6	29.5	31.0	32.1	31.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	29.3	15.2	16.3	24.7	15.5
EBITDA	58.6	7.7	32.3	21.7	15.6
Adjusted EPS	36.1	0.0	21.4	24.5	16.3
Profitability & Return ratios (%)					
EBITDA margin	19.9	18.7	21.2	20.7	20.7
EBIT margin	18.4	16.1	18.3	18.2	18.2
Adjusted profit margin	16.0	14.0	14.5	14.5	14.6
Adjusted ROAE	34.6	29.5	31.0	32.1	31.1
ROCE	43.4	34.7	39.4	46.9	52.6
Working capital days (days)					
Receivables	89	86	90	85	84
Inventory	0	0	0	0	0
Payables	11	11	12	11	11
Ratios (x)					
Gross asset turnover	14.2	7.8	6.4	7.8	8.6
Current ratio	2.2	1.6	1.9	2.0	2.2
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.1)	0.0	(0.1)	(0.2)	(0.3)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

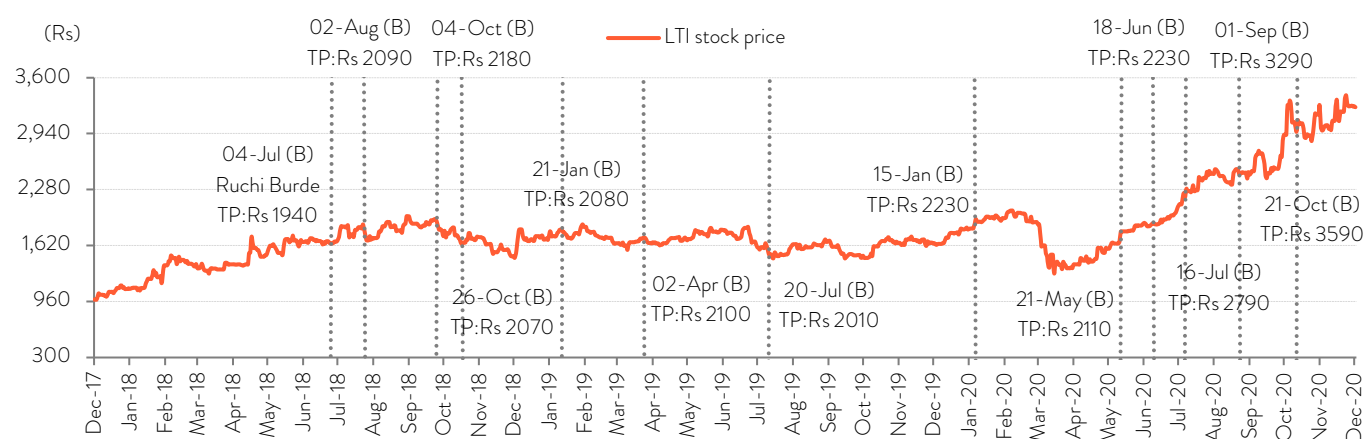
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): L&T INFOTECH (LTI IN)



B – Buy, A – Add, R – Reduce, S – Sell

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