

BUY

TP: Rs 4,990 | ▲ 16%

L&T INFOTECH

| IT Services

| 16 July 2021

Strong start to FY22

- LTI's Q1FY22 revenue grew 5.1% QoQ USD, its best first-quarter growth ever, due to an uptick in hi-tech and BFS
- EBIT margin was in line with estimates at 16.4%, declining 290bps QoQ due to back-to-back wage hikes
- Maintain BUY given LTI's strong revenue mix, traction in hi-tech and favourable offshore presence; TP raised to Rs 4,990 on rollover

Ruchi Burde | Seema Nayak
researchreport@bobcaps.in

Strong, broad-based growth in seasonally weak quarter: LTI posted robust 5.1% QoQ USD revenue growth (3.3% est.) in a seasonally weak quarter, with a secular uptick across verticals and geographies. The company saw strong momentum in hi-tech/BFS (+13.1%/+9.9% QoQ USD), with the hi-tech vertical benefiting from the US\$ 204mn Injazat deal. Insurance also recorded strong growth of 5.1% QoQ, recovering after five quarters of weakness as LTI added new logos. Manufacturing contracted 6.7% QoQ because of pass-through revenues in Q4FY21, though the demand environment remains robust. ENU is also recovering well at 5.1%. North America and Europe both grew 5-7% QoQ.

Margin affected by successive wage hikes: EBIT margin stood at 16.4% (16.2% est.), contracting 290bps QoQ due to wage hikes (-340bps), provisioning (-120bps) and investment in sales & marketing (-60bps) – the decline was partially offset by increased utilisation (140bps) and forex gains (80bps). Offshoring reached an all-time high of 57.3%, up 140bps QoQ. Utilisation too was at a record high of 83.7%, up 290bps QoQ.

Positive outlook: Despite finishing off FY21 with 9.5% YoY growth, LTI had a strong start to FY22. Digital demand is accelerating with an increase in discretionary spending. The field of digital engineering is gaining traction and LTI's Cuelogic acquisition is a step towards capturing this demand. Per management, the pipeline is strong despite the absence of large deal announcements in Q1 and has a mix of smaller and mid-sized deals. LTI plans to hire a record 4,500 freshers (1.5x FY21 hiring) in FY22. Net profit margin guidance for FY22 remains intact at 14-15%.

Maintain BUY: We are confident of LTI achieving top quartile growth in the industry in FY22 despite coming off a very high revenue upswing in FY21. The robust 5.1% QoQ USD growth in a seasonally weak first quarter supports our view. The pipeline remains strong and margin execution deft, with upbeat net margin guidance for FY22. We tweak estimates and roll forward to a new Jun'22 TP of Rs 4,990 (vs. Rs 4,710), based on an unchanged one-year forward P/E multiple of 30x. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	LTI IN/Rs 4,289
Market cap	US\$ 10.1bn
Free float	25%
3M ADV	US\$ 19.4mn
52wk high/low	Rs 4,600/Rs 2,195
Promoter/FPI/DII	75%/8%/10%

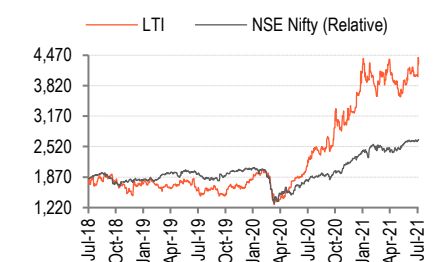
Source: NSE | Price as of 16 Jul 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	123,698	152,839	184,139
EBITDA (Rs mn)	27,253	31,346	38,390
Adj. net profit (Rs mn)	19,383	23,527	27,792
Adj. EPS (Rs)	110.5	134.1	158.4
Consensus EPS (Rs)	110.5	125.4	145.8
Adj. ROAE (%)	30.5	29.5	29.3
Adj. P/E (x)	38.8	32.0	27.1
EV/EBITDA (x)	27.6	24.0	19.5
Adj. EPS growth (%)	27.8	21.4	18.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Earnings call highlights

- LTI acquired Cuelogic in Jun'21 which has capabilities in digital engineering and 300 employees. This is its seventh acquisition since listing. The purpose of the Cuelogic deal is to bring product development services to enterprises.
- Attrition at 15.2% grew 290bps QoQ.
- A total of nine clients were added in Q1FY22.
- The board has declared a special dividend of Rs 10/sh on completion of five years of LTI's listing.
- DSOs stood at 60 days, improving 1 day QoQ and 10 days YoY.

Fig 1 – Quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenues (US\$ mn)	470.2	390.3	20.5	447.4	5.1	1,712	1,505	13.8
Revenue	34,625	29,492	17.4	32,694	5.9	126,795	108,159	17.2
Operating Expenditure	28,147	23,570	19.4	25,539	10.2	100,384	87,727	14.4
Cost of revenues	23,898	19,916	20.0	22,233	7.5	85,584	73,254	16.8
as % of sales	69.0	67.5	-	68.0	-	67.5	67.7	-
SG&A expenses	4,249	3,654	16.3	3,306	28.5	14,800	14,473	2.3
as % of sales	12.3	12.4	-	10.1	-	11.7	13.4	-
EBITDA	6,478	5,922	9.4	7,155	(9.5)	26,411	20,432	29.3
Depreciation	795	781	1.8	826	(3.8)	3,301	2,765	19.4
EBIT	5,683	5,141	10.5	6,329	(10.2)	23,110	17,667	30.8
Other Income	1,039	450	-	839	-	2,502	2,434	-
PBT	6,722	5,591	20.2	7,168	(6.2)	25,612	20,101	27.4
Total Tax	1,753	1,425	23.0	1,711	2.5	6,452	5,011	28.8
Reported PAT	4,969	4,166	19.3	5,457	(8.9)	19,160	15,090	27.0
Reported EPS	28.3	23.7	19.3	31.1	(8.9)	109	86	26.9
Margins (%)			(bps)		(bps)			(bps)
EBITDA	18.7	20.1	(140)	21.9	(320)	20.8	18.9	190
EBIT	16.4	17.4	(100)	19.4	(290)	18.2	16.3	190
EBT	19.4	19.0	50	21.9	(250)	20.2	18.6	160
PAT	14.4	14.1	20	16.7	(230)	15.1	14.0	120
Effective Tax Rate	26.1	25.5	60	23.9	220	25.2	24.9	30

Source: Company, BOBCAPS Research

Fig 2 – Operating metrics

(in US\$ terms)	Q1FY22 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
Revenue by Vertical			
BFS	32.1	9.9	39.6
Insurance	14.5	5.1	1.6
Manufacturing	15.0	(6.7)	14.4
Energy & Process	9.1	5.1	1.5
CPG, Retail & Pharma	10.7	4.1	12.1
High-Tech, Media & Entertainment	12.7	13.1	31.9
Others	5.9	0.0	31.6
Revenue by Geography			
North America	67.0	6.4	14.0
Europe	16.6	5.7	38.9
India	6.7	(20.9)	17.0
RoW	9.6	20.1	46.4
Client Concentration			
Top 5 clients	28.2	6.6	11.4
Top 10 clients	41.3	5.9	14.6
Top 20 clients	55.2	4.3	14.3
Non top 20 client revenues	44.8	6.0	29.1

Source: Company, BOBCAPS Research

Valuation methodology

We raise FY22/FY23 EPS estimates marginally by 1-2% to build in the Q1FY22 results. On rolling valuations forward, we have a revised Jun'22 TP of Rs 4,990 (vs. Rs 4,710), based on an unchanged one-year forward P/E multiple of 30x. Our estimates already bake in industry-leading growth and the guided 14-15% net margin for FY22.

We believe our target multiple is justified given LTI's best-in-class fundamentals among IT mid-caps, its ability to capitalise on growing demand as seen from accelerated large deal wins and its robust margins. The company continues to exhibit strong growth leadership during recent challenging times, backed by a strong sales engine, marquee clientele and evolving service offerings. We believe timely investments in sales, cloud and data products will help it remain ahead of mid-cap peers in terms of growth and margins. Maintain BUY.

Fig 3 – Revised estimates

(Rs mn)	FY22E			FY23E			FY24E
	Old	New	Change (%)	Old	New	Change (%)	New
Revenues (US\$ mn)	1,977	2,012	1.7	2,313	2,353	1.7	2,698
YoY growth (%)	18.4	20.5	-	17.0	17.0	-	14.7
Revenues	150,579	152,839	1.5	180,992	184,139	1.7	211,763
EBITDA	30,946	31,346	1.3	37,945	38,390	1.2	44,191
EBITDA margin (%)	20.6	20.5	-	21.0	20.8	-	20.9
Net profits	23,210	23,527	1.4	27,252	27,792	2.0	31,907
EPS (Rs)	132.3	134.1	1.4	155.3	158.4	2.0	181.8

Source: BOBCAPS Research, Company

Key risks

Key downside risks to our estimates are:

- a sell-off in mid-caps,
- inability to sustain steady large-deal wins, leading to loss of growth momentum, and
- unsustainable margins.

Sector recommendation snapshot

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
HCL Technologies	HCLT IN	37	1,005	1,190	BUY
Info Edge	INFOE IN	9	5,103	2,880	SELL
Infosys	INFO IN	89	1,555	1,860	BUY
L&T Infotech	LTI IN	10	4,289	4,990	BUY
Mindtree	MTCL IN	6	2,736	2,270	SELL
Mphasis	MPHL IN	6	2,390	1,580	SELL
Persistent Systems	PSYS IN	3	2,842	1,340	SELL
Tata Consultancy Services	TCS IN	161	3,195	3,890	BUY
Tech Mahindra	TECHM IN	13	1,103	1,190	BUY
Wipro	WPRO IN	43	578	590	HOLD

Source: BOBCAPS Research, NSE | Price as of 16 Jul 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Total revenue	108,786	123,698	152,839	184,139	211,763
EBITDA	20,291	27,253	31,346	38,390	44,191
Depreciation	2,731	3,325	3,514	4,235	4,871
EBIT	17,560	23,928	27,833	34,155	39,320
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	2,463	1,955	3,800	3,149	3,508
Exceptional items	0	0	0	0	0
EBT	20,023	25,883	31,632	37,304	42,829
Income taxes	4,825	6,500	8,105	9,513	10,921
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	15,198	19,383	23,527	27,792	31,907
Adjustments	0	0	0	0	0
Adjusted net profit	15,198	19,383	23,527	27,792	31,907

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Accounts payables	0	0	0	0	0
Other current liabilities	23,618	23,175	28,635	34,499	39,674
Provisions	2,908	3,956	4,888	5,889	6,772
Debt funds	7,571	6,854	6,854	6,854	6,854
Other liabilities	101	35	35	35	35
Equity capital	174	175	175	175	175
Reserves & surplus	53,877	72,896	86,509	102,589	121,051
Shareholders' fund	54,051	73,071	86,684	102,764	121,226
Total liab. and equities	88,249	107,091	127,095	150,041	174,561
Cash and cash eq.	5,252	7,594	16,202	27,139	40,717
Accounts receivables	27,541	26,906	37,686	45,404	52,215
Inventories	0	0	0	0	0
Other current assets	10,442	15,111	14,656	17,657	20,306
Investments	22,186	36,282	36,282	36,282	36,282
Net fixed assets	19,788	19,722	20,793	22,082	23,565
CWIP	0	0	0	0	0
Intangible assets	1,316	2,667	2,667	2,667	2,667
Deferred tax assets, net	3,039	1,476	1,476	1,476	1,476
Other assets	0	0	0	0	0
Total assets	88,248	107,091	127,095	150,041	174,561

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21P	FY22E	FY23E	FY24E
Cash flow from operations	16,273	17,700	21,093	25,435	29,982
Capital expenditures	(5,480)	(3,379)	(4,585)	(5,524)	(6,353)
Change in investments	0	(5,390)	0	0	0
Other investing cash flows	(3,287)	1,862	2,015	2,738	3,394
Cash flow from investing	(8,767)	(6,907)	(2,570)	(2,786)	(2,959)
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	(6,404)	(8,451)	(9,914)	(11,711)	(13,446)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(6,404)	(8,451)	(9,914)	(11,711)	(13,446)
Chg in cash & cash eq.	1,102	2,342	8,608	10,937	13,578
Closing cash & cash eq.	5,252	7,594	16,202	27,139	40,717

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21P	FY22E	FY23E	FY24E
Reported EPS	86.4	110.5	134.1	158.4	181.8
Adjusted EPS	86.4	110.5	134.1	158.4	181.8
Dividend per share	30.2	40.0	46.9	55.4	63.6
Book value per share	307.3	416.4	494.0	585.6	690.8

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21P	FY22E	FY23E	FY24E
EV/Sales	6.9	6.1	4.9	4.1	3.5
EV/EBITDA	36.9	27.6	24.0	19.5	16.7
Adjusted P/E	49.6	38.8	32.0	27.1	23.6
P/BV	14.0	10.3	8.7	7.3	6.2

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21P	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	75.9	74.9	74.4	74.5	74.5
Interest burden (PBT/EBIT)	114.0	108.2	113.7	109.2	108.9
EBIT margin (EBIT/Revenue)	16.1	19.3	18.2	18.5	18.6
Asset turnover (Rev./Avg TA)	140.4	126.6	130.5	132.9	130.5
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.5	1.4
Adjusted ROAE	29.5	30.5	29.5	29.3	28.5

Ratio Analysis

Y/E 31 Mar	FY20A	FY21P	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	15.2	13.7	23.6	20.5	15.0
EBITDA	7.7	34.3	15.0	22.5	15.1
Adjusted EPS	0.0	27.8	21.4	18.1	14.8
Profitability & Return ratios (%)					
EBITDA margin	18.7	22.0	20.5	20.8	20.9
EBIT margin	16.1	19.3	18.2	18.5	18.6
Adjusted profit margin	14.0	15.7	15.4	15.1	15.1
Adjusted ROAE	29.5	30.5	29.5	29.3	28.5
ROCE	34.7	37.1	37.2	42.7	46.3
Working capital days (days)					
Receivables	86	80	77	82	84
Inventory	0	0	0	0	0
Payables	11	13	13	13	14
Ratios (x)					
Gross asset turnover	7.8	6.3	7.5	8.6	9.3
Current ratio	1.6	1.8	2.0	2.2	2.4
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	0.0	0.0	(0.1)	(0.2)	(0.3)

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

Disclaimer

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

BUY – Expected return >+15%

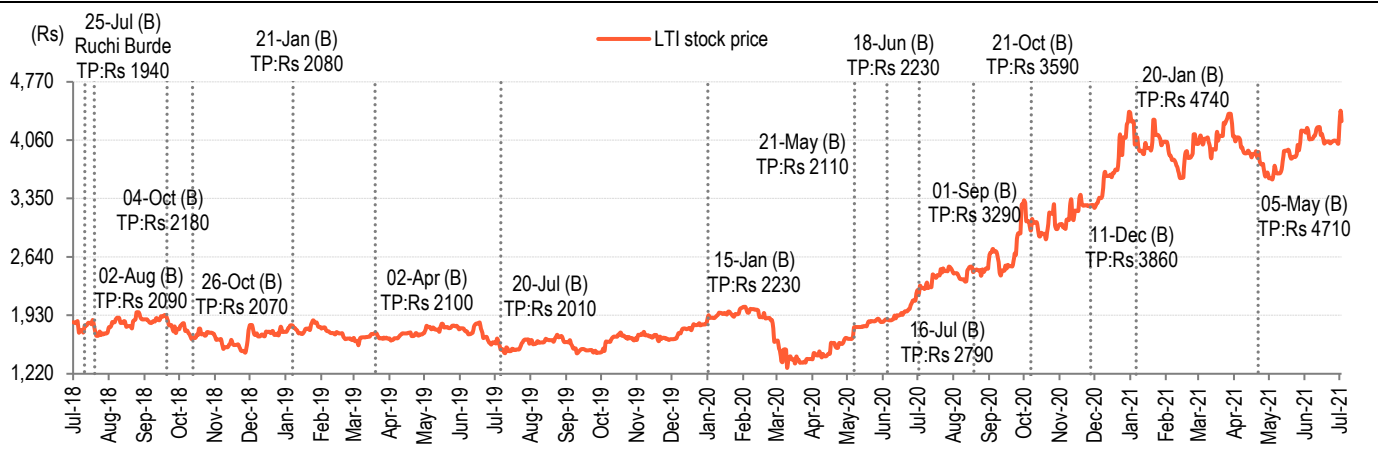
HOLD – Expected return from -6% to +15%

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.

Ratings and Target Price (3-year history): L&T INFOTECH (LTI IN)



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

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