

BUY

TP: Rs 7,980 | ▲ 35%

L&T INFOTECH

| Technology & Internet

| 19 October 2021

Outperformance on all counts

- **Best revenue growth ever at 8.3% QoQ USD in Q2, aided by secular uptick across verticals, clients, service lines and geographies**
- **Management confident on demand for next three years and reiterated revenue and profit outlook for FY22**
- **We tweak estimates and upgrade target P/E from 39x to 46x on strong demand visibility; TP rises to Rs 7,980 (vs. Rs 6,780) – maintain BUY**

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Another positive surprise: LTI posted robust 8.3% QoQ USD revenue growth (5% est.) in Q2FY22, with a secular uptick across verticals and geographies. The company saw strong momentum in manufacturing/BFS/others (+12.6%/+9.6%/13.8% QoQ USD). Manufacturing recovered after contracting 6.7% in Q1, in line with the strong demand commentary on the vertical.

Auto and industrials saw high traction in core digitisation. The hi-tech vertical continued to benefit from the US\$ 204mn Injazat deal. Insurance recorded strong growth of 6% QoQ and ENU also recovered well at 5.9% supported by utilities. North America/Europe grew 9%/5% QoQ USD. India revived after a sharp seasonal decline in Q1.

Resilient operating margin: EBIT margin stood at 17.2%, beating our estimate of 15.5% and rising 80bps QoQ as SG&A cost fell 80bps as a percentage of revenue. Attrition climbed to a record 19.6% (+440bps QoQ). LTI added 4,084 employees in Q2, its highest quarterly addition ever, and plans to hire total 5,500 freshers in FY22.

Large deals make a comeback: After a gap in Q1, large deals made a comeback for LTI. The company announced a five-year deal worth US\$ 30mn TCV with a new European client. We highlight LTI's impressive growth despite slightly fewer large-deal announcement in recent quarters.

Migration of clients up the revenue ladder impressive: LTI added 25 new logos QoQ. A total of 11 new clients were added in the US\$ 1mn+ revenue bucket and 5 each in the US\$ 5mn+ and US\$ 10mn+ categories respectively. In the higher buckets of US\$ 50mn+ and US\$ 20mn+, 1 and 3 clients were added respectively.

Maintain BUY: Management is confident of capitalising on the strong demand climate and expects to deliver leading quadrant growth in FY22 with a stable PAT margin of 14-15%. The deal pipeline remains robust and H2 is guided to be better than H1 (seasonal effect), which bodes well on a high CQGR of 6.7% in the first half. Given the positive demand outlook, we upgrade our one-year forward P/E from 39x to 46x (five-year avg. + 4SD) and maintain BUY with a new Sep'22 TP of Rs 7,980.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	LTI IN/Rs 5,906
Market cap	US\$ 13.8bn
Free float	25%
3M ADV	US\$ 25.0mn
52wk high/low	Rs 6,499/Rs 2,827
Promoter/FPI/DII	75%/8%/10%

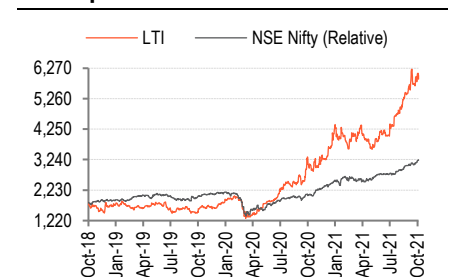
Source: NSE | Price as of 18 Oct 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	123,698	153,371	183,679
EBITDA (Rs mn)	27,253	31,459	38,988
Adj. net profit (Rs mn)	19,383	23,597	28,400
Adj. EPS (Rs)	110.5	134.5	161.8
Consensus EPS (Rs)	110.5	125.4	145.8
Adj. ROAE (%)	30.5	29.5	29.9
Adj. P/E (x)	53.5	43.9	36.5
EV/EBITDA (x)	38.0	33.0	26.5
Adj. EPS growth (%)	27.8	21.7	20.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

- Per management, IT industry currently going through a 'great restructuring', characterised by: (1) increased discretionary spending by clients coupled with the need to implement new post pandemic business models, (2) new emerging areas such as ESG (becoming a strategic pillar for many clients) and cloud security, (3) opportunities in automation led by the talent crunch across sectors.
- The supply crunch persists, especially in the 3- to 6-year experience bracket. The problem arose because of higher demand and inadequate hiring by the industry during the pandemic. LTI recruited 1,000 employees in the 2-3-year experience bracket during Q2FY22.
- Utilisation (including trainees) normalised to 81.6% (down 210bps QoQ).
- DSO increased from 60 days to 61 in Q2.
- The board announced an interim dividend of Rs 15/sh for Q2.

Fig 1 – Quarterly performance

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21	YoY (%)
Revenues (US\$ mn)	509.0	404.5	25.8	470.2	8.3	979	795	23.2
Revenue	37,670	29,984	25.6	34,625	8.8	72,295	59,476	21.6
Operating Expenditure	30,338	23,128	31.2	28,147	7.8	58,485	46,698	25.2
Cost of revenues	26,011	19,537	33.1	23,898	8.8	49,909	39,453	26.5
as % of sales	69.0	65.2	-	69.0	-	69.0	66.3	-
SG&A expenses	4,327	3,591	20.5	4,249	1.8	8,576	7,245	18.4
as % of sales	11.5	12.0	-	12.3	-	11.9	12.2	-
EBITDA	7,332	6,856	6.9	6,478	13.2	13,810	12,778	8.1
Depreciation	850	899	(5.5)	795	6.9	1,645	1,680	(2.1)
EBIT	6,482	5,957	8.8	5,683	14.1	12,165	11,098	9.6
Other Income	938	174	-	1,039	-	1,977	624	-
PBT	7,420	6,131	21.0	6,722	10.4	14,142	11,722	20.6
Total Tax	1,903	1,563	21.8	1,753	8.6	3,656	2,988	22.4
Reported PAT	5,517	4,568	20.8	4,969	11.0	10,486	8,734	20.1
Reported EPS	31.4	26.0	20.8	28.3	11.0	60	50	20.1
Margins (%)			(bps)		(bps)			(bps)
EBITDA	19.5	22.9	(340)	18.7	80	19.1	21.5	(240)
EBIT	17.2	19.9	(270)	16.4	80	16.8	18.7	(180)
EBT	19.7	20.4	(80)	19.4	30	19.6	19.7	(10)
PAT	14.6	15.2	(60)	14.4	30	14.5	14.7	(20)
Effective Tax rate	25.6	25.5	20	26.1	(40)	25.9	25.5	40

Source: Company, BOBCAPS Research

Fig 2 – Operating metrics

(in US\$ terms)	Q2FY22 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
Revenue by Vertical			
BFS	32.5	9.6	36.8
Insurance	14.2	6.0	11.7
Manufacturing	15.6	12.6	21.2
Energy & Process	8.9	5.9	5.7
CPG, Retail & Pharma	10.1	2.2	15.5
High-Tech, Media & Entertainment	12.5	6.5	48.4
Others	6.2	13.8	36.9
Revenue by Geography			
North America	67.5	9.1	23.6
Europe	16.1	5.0	25.8
India	6.6	6.6	20.4
RoW	9.8	10.5	50.4
Client Contribution to Revenue			
Top 5 clients	28.2	8.3	18.3
Top 10 clients	40.7	6.7	19.4
Top 20 clients	55.0	7.9	19.7
Non top 20 client revenues	45.0	8.7	34.2

Source: Company, BOBCAPS Research

Valuation methodology

Factoring in the Q2FY22 results, we raise FY22/FY23/FY24 revenue estimates by 2%/3%/3%. However, due to changes in currency assumptions, earnings rise by only 1-2%. We upgrade our target one-year forward P/E multiple from 39x to 46x, which is four standard deviations above the stock's five-year mean. Our Sep'22 TP rises to Rs 7,980 (vs. Rs 6,780). We believe LTI merits a higher multiple given: (1) strong three-year demand visibility as per management commentary, (2) a better H2FY22 outlook vs. an already strong H1, and (3) stable 14-15% PAT margin guidance despite record attrition.

LTI has best-in-class fundamentals among IT mid-caps and the ability to capitalise on growing demand, as seen from consistent deal wins and robust margins. The company continues to exhibit strong growth leadership amid recent challenging times (grew 9.5% in FY21), 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 tier-II peers in terms of growth and margins. Maintain BUY.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenues (US\$ mn)	2,075	2,449	2,808	2,027	2,375	2,724	2.4	3.1	3.1
YoY growth (%)	24.2	18.0	14.7	21.4	17.2	14.7	-	-	-
Revenues	153,371	183,679	210,593	153,028	185,909	213,799	0.2	(1.2)	(1.5)
EBITDA	31,459	38,988	44,691	30,591	38,759	44,616	2.8	0.6	0.2
EBITDA margin (%)	20.5	21.2	21.2	20.0	20.8	20.9	-	-	-
Net profits	23,597	28,400	32,428	23,184	28,027	32,176	1.8	1.3	0.8
EPS (Rs)	134	162	185	132	160	183	1.8	1.3	0.8

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	1,670	2,075	2,449	2,808
YoY growth (%)	9.5	24.2	18.0	14.7
EBIT margin (%)	19.3	18.2	18.9	18.9

Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Ticker	Rating	Target Price (Rs)	US\$ Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
				FY22E	FY23E	FY22E	FY23E	
TCS IN	BUY	4,630	13.8	103.4	119.7	39.4	37.4	36.5
INFO IN	BUY	2,000	14.4	53.9	59.5	29.6	30.7	32.0
WPRO IN	BUY	840	18.4	23.4	26.9	21.2	21.6	28.8
HCLT IN	BUY	1,440	10.7	49.1	55.2	20.3	20.5	24.6
TECHM IN	BUY	1,660	14.1	66.8	78.1	21.9	22.7	27.8
LTI IN	BUY	7,980	21.1	134.5	161.8	29.5	29.9	46.0
MPHL IN	HOLD	3,530	16.0	79.7	93.2	21.9	23.7	35.0
MTCL IN	SELL	3,390	21.0	94.1	100.2	33.0	29.8	36.0
PSYS IN	HOLD	3,560	21.0	74.0	91.5	19.9	21.5	35.0
COFORGE IN	BUY	6,930	26.8	130.9	176.8	29.5	33.4	35.0

Source: BOBCAPS Research

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

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Affle (India)	AFFLE IN	0.4	1,154	1,240	BUY
Coforge	COFORGE IN	4.6	5,605	6,930	BUY
eClerx Services	ECLX IN	1.1	2,275	2,880	BUY
HCL Technologies	HCLT IN	44.0	1,221	1,440	BUY
IndiaMart InterMesh	INMART IN	3.7	9,216	8,430	HOLD
Infosys	INFO IN	101.3	1,792	2,000	BUY
Just Dial	JUST IN	0.7	912	1,330	BUY
L&T Infotech	LTI IN	13.8	5,906	7,980	BUY
Mindtree	MTCL IN	10.3	4,706	3,390	SELL
Mphasis	MPHL IN	8.3	3,357	3,530	HOLD
Persistent Systems	PSYS IN	4.4	4,129	3,560	HOLD
Tata Consultancy Services	TCS IN	181.7	3,647	4,630	BUY
Tech Mahindra	TECHM IN	17.1	1,480	1,660	BUY
Wipro	WPRO IN	52.0	710	840	BUY

Source: BOBCAPS Research, NSE | Price as of 18 Oct 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	108,786	123,698	153,371	183,679	210,593
EBITDA	20,291	27,253	31,459	38,988	44,691
Depreciation	2,731	3,325	3,510	4,225	4,844
EBIT	17,560	23,928	27,949	34,763	39,848
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	2,463	1,955	3,791	3,358	3,679
Exceptional items	0	0	0	0	0
EBT	20,023	25,883	31,740	38,121	43,527
Income taxes	4,825	6,500	8,144	9,721	11,099
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	15,198	19,383	23,597	28,400	32,428
Adjustments	0	0	0	0	0
Adjusted net profit	15,198	19,383	23,597	28,400	32,428

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	0	0	0	0	0
Other current liabilities	23,618	23,175	28,734	34,413	39,455
Provisions	2,908	3,956	4,905	5,874	6,735
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	86,549	102,981	121,744
Shareholders' fund	54,051	73,071	86,724	103,156	121,919
Total liab. and equities	88,249	107,091	127,252	150,332	174,998
Cash and cash eq.	5,252	7,594	16,157	27,571	41,546
Accounts receivables	27,541	26,906	37,818	45,291	51,927
Inventories	0	0	0	0	0
Other current assets	10,442	15,111	14,707	17,613	20,194
Investments	22,186	36,282	36,282	36,282	36,282
Net fixed assets	19,788	19,722	20,813	22,099	23,573
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	127,252	150,332	174,998

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	16,273	17,700	21,385	26,158	30,538
Capital expenditures	(5,480)	(3,379)	(4,601)	(5,510)	(6,318)
Change in investments	0	(5,390)	0	0	0
Other investing cash flows	(3,287)	1,862	1,723	2,735	3,420
Cash flow from investing	(8,767)	(6,907)	(2,878)	(2,775)	(2,898)
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)	(9,944)	(11,968)	(13,665)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(6,404)	(8,451)	(9,944)	(11,968)	(13,665)
Chg in cash & cash eq.	1,102	2,342	8,563	11,415	13,975
Closing cash & cash eq.	5,252	7,594	16,157	27,571	41,546

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	86.4	110.5	134.5	161.8	184.8
Adjusted EPS	86.4	110.5	134.5	161.8	184.8
Dividend per share	30.2	40.0	47.1	56.6	64.7
Book value per share	307.3	416.4	494.2	587.8	694.8

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	9.5	8.4	6.8	5.6	4.9
EV/EBITDA	50.9	38.0	33.0	26.5	22.9
Adjusted P/E	68.3	53.5	43.9	36.5	32.0
P/BV	19.2	14.2	12.0	10.0	8.5

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	75.9	74.9	74.3	74.5	74.5
Interest burden (PBT/EBIT)	114.0	108.2	113.6	109.7	109.2
EBIT margin (EBIT/Revenue)	16.1	19.3	18.2	18.9	18.9
Asset turnover (Rev./Avg TA)	140.4	126.6	130.9	132.3	129.5
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.5	1.4
Adjusted ROAE	29.5	30.5	29.5	29.9	28.8

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	15.2	13.7	24.0	19.8	14.7
EBITDA	7.7	34.3	15.4	23.9	14.6
Adjusted EPS	0.0	27.8	21.7	20.4	14.2
Profitability & Return ratios (%)					
EBITDA margin	18.7	22.0	20.5	21.2	21.2
EBIT margin	16.1	19.3	18.2	18.9	18.9
Adjusted profit margin	14.0	15.7	15.4	15.5	15.4
Adjusted ROAE	29.5	30.5	29.5	29.9	28.8
ROCE	34.7	37.1	37.3	43.5	47.0
Working capital days (days)					
Receivables	86	80	77	83	84
Inventory	0	0	0	0	0
Payables	11	13	13	14	14
Ratios (x)					
Gross asset turnover	7.8	6.3	7.6	8.6	9.2
Current ratio	1.6	1.8	2.0	2.2	2.5
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%

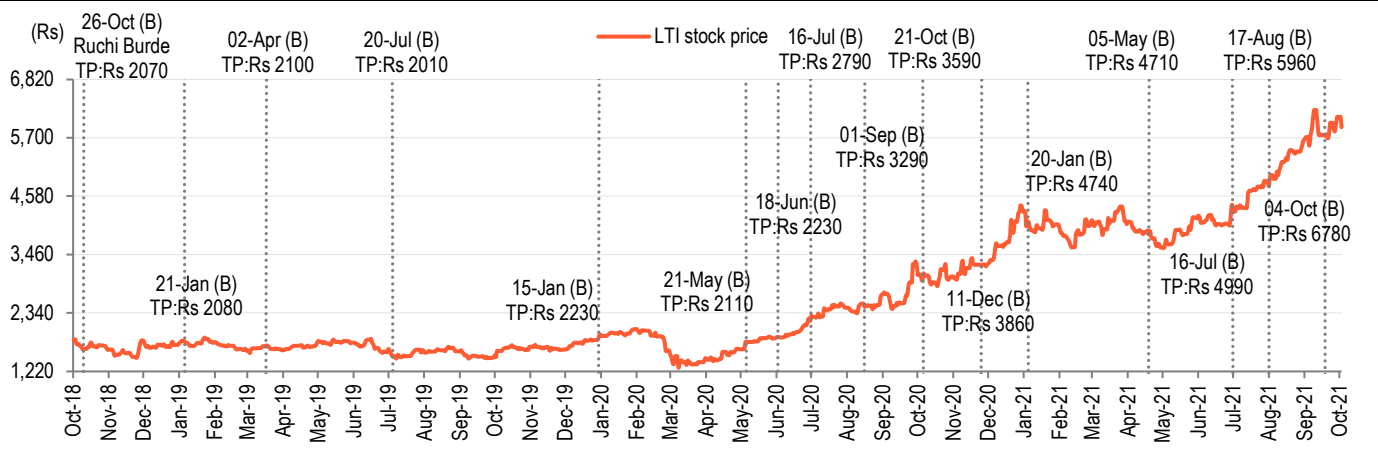
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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