

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%

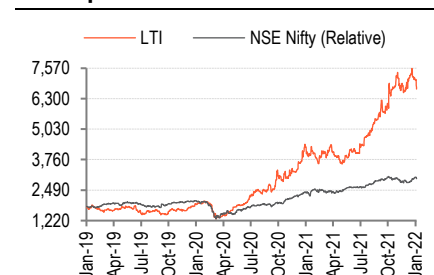
Source: NSE | Price as of 19 Jan 2022

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



Other highlights

- Out of 8.7% QOQ USD growth, 2.2% came from pass through revenues. Q3 and Q4 are the quarters which see seasonal passthroughs.
- As per management, the nature and importance of large deals has changed for the sector.
- The emerging areas of growth are: (1) global restructuring (2) new frontiers such as ESG.
- Company is hiring more employees from tier-II and III cities.
- DSO at 66 days in Q3, was up 5 days QoQ.
- Attrition is higher in the 3-6 years' experience bracket.

Fig 1 – Quarterly performance

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenues (in US\$ mn)	553	428	29.3	509	8.7	1,532	1,223	25.3
Revenue	41,376	31,528	31.2	37,670	9.8	113,671	91,004	24.9
Operating Expenditure	33,065	24,208	36.6	30,338	9.0	91,550	70,906	29.1
Cost of revenues	28,547	20,507	39.2	26,011	9.7	78,456	59,960	30.8
as % of sales	69	65	-	69	-	69.0	65.9	-
SG&A expenses	4,518	3,701	22.1	4,327	4.4	13,094	10,946	19.6
as % of sales	10.9	11.7	-	11.5	-	11.5	12.0	-
EBITDA	8,311	7,320	13.5	7,332	13.4	22,121	20,098	10.1
Depreciation	885	819	8.1	850	4.1	2,530	2,499	1.2
EBIT	7,426	6,501	14.2	6,482	14.6	19,591	17,599	11.3
Other Income	811	492	-	938	-	2,788	1,116	-
PBT	8,237	6,993	17.8	7,420	11.0	22,379	18,715	19.6
Total Tax	2,112	1,801	17.3	1,903	11.0	5,768	4,789	20.4
Reported PAT	6,125	5,192	18.0	5,517	11.0	16,611	13,926	19.3
Reported EPS	34.9	29.6	18.0	31.4	11.0	95	79	19.3
Margins (%)			(bps)		(bps)			(bps)
EBIDTA	20.1	23.2	(310)	19.5	60	19.5	22.1	(260)
EBIT	17.9	20.6	(270)	17.2	70	17.2	19.3	(210)
EBT	19.9	22.2	(230)	19.7	20	19.7	20.6	(90)
PAT	14.8	16.5	(170)	14.6	20	14.6	15.3	(70)
Effective Tax rate	25.6	25.8	(10)	25.6	-	25.8	25.6	20

Source: BOBCAPS Research, Company

Fig 2 – Operating metrics

(in US\$ terms)	Q3FY22 (%Contri to Revenue)	Growth	
		QoQ (%)	YoY (%)
Revenue by Verticals			
BFS	32.8	9.6	38.6
Insurance	13.3	1.8	14.6
Manufacturing	17.0	18.4	30.8
Energy & Process	8.8	7.4	13.8
CPG, Retail & Pharma	10.0	7.6	18.6
High-Tech, Media & Entertainment	11.8	2.6	43.9
Others	6.4	12.1	37.9
Revenue by Geographies			
North America	66.0	6.2	25.6
Europe	15.8	6.6	26.9
India	9.6	58.0	44.3
RoW	8.6	-4.7	50.2
Client Contribution to Revenue			
Top 5 clients	28.3	9.0	24.9
Top 10 clients	40.4	7.8	24.3
Top 20 clients	55.5	9.6	25.6
Non top 20 client revenues	44.5	7.4	34.1
Revenue by services			
ADM and Testing	33.5	6.4	21.6
Enterprise Solutions	31.4	12.2	29.3
Infrastructure Management Services	13.2	2.4	19.3
Analytics, AI & Cognitive	12.7	14.0	38.0
Enterprise Integration & Mobility	9.3	8.6	36.6
		(bps)	(bps)
Attrition	22.50	290	1010
	Q3FY22	Q2FY22	Q3FY21
Employees added QoQ	1818	4084	1528

Source: BOBCAPS Research, Company

Valuation methodology

LTI's Q3FY22 result was outstanding on all counts. We keep the FY22 estimates largely unchanged as we trim the margins slightly for Q4FY22. We raise FY23/24 EPS by 2.6% each and adjust TP to Rs8,490 (vs. Rs8,270 earlier). We keep the one year forward PE multiple unchanged at 46x. LTI has best-in-class fundamentals among IT mid-sized players 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)	2,113	2,534	2,905	2,081	2,462	2,823	1.5	2.9	2.9
YoY Growth (%)	26.5	19.9	14.7	24.6	18.3	14.7	-	-	-
Revenues	156,639	190,054	217,902	154,182	184,664	211,721	1.6	2.9	2.9
EBITDA	30,801	40,341	46,243	31,030	39,197	44,931	-0.7	2.9	2.9
EBITDA margin (%)	19.7	21.2	21.2	20.1	21.2	21.2	-	-	-
Net profits	23,014	29,265	33,426	23,171	28,524	32,573	-0.7	2.6	2.6
EPS (Rs)	131	167	190	132	163	186	-0.7	2.6	2.6

Source: BOBCAPS Research

Fig 4 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	1,670	2,113	2,534	2,905
YoY growth (%)	9.5	26.5	19.9	14.7
EBIT margin (%)	19.3	17.4	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		P/E	
				FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
TCS IN	BUY	4,770	14.1	104.0	120.3	39.6	37.5	37.6	32.5
INFO IN	BUY	2,250	17.1	54.4	62.3	29.8	32.0	34.3	30.0
WPRO IN	BUY	850	18.2	22.6	26.9	20.5	21.6	27.5	23.1
HCLT IN	BUY	1,610	12.6	49.0	56.2	20.3	20.9	24.5	21.3
TECHM IN	BUY	1,970	16.1	65.5	81.1	21.5	23.6	25.5	20.6
LTI IN	BUY	8,490	23.2	131.1	166.8	28.9	30.9	51.0	40.1
MPHL IN	HOLD	3,650	17.0	76.6	95.0	21.1	24.2	40.3	32.5
MTCL IN	BUY	5,610	23.9	97.9	105.3	34.2	31.0	43.2	40.1
PSYS IN	HOLD	4,240	24.8	78.5	93.1	21.0	21.7	54.4	45.9
COFORGE IN	BUY	7,040	27.5	123.4	173.2	27.9	33.1	43.8	31.2
ECLX IN	BUY	3,690	22.9	125.8	143.6	27.0	28.4	22.0	19.3

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- High attrition impacting margin
- Growth slowdown from covid third wave impact and lack of large deals.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Coforge	COFORGE IN	4.5	5,408	7,040	BUY
eClerx Services	ECLX IN	1.4	2,777	3,690	BUY
HCL Technologies	HCLT IN	43.7	1,199	1,610	BUY
Infosys	INFO IN	106.9	1,867	2,250	BUY
L&T Infotech	LTI IN	15.8	6,697	8,490	BUY
Mindtree	MTCL IN	9.4	4,226	5,610	BUY
Mphasis	MPHL IN	7.7	3,088	3,650	HOLD
Persistent Systems	PSYS IN	4.6	4,267	4,240	HOLD
Tata Consultancy Services	TCS IN	197.5	3,915	4,770	BUY
Tech Mahindra	TECHM IN	19.6	1,670	1,970	BUY
Wipro	WPRO IN	46.1	621	850	BUY

Source: BOBCAPS Research, NSE | Price as of 19 Jan 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	108,786	123,698	156,639	190,054	217,902
EBITDA	20,291	27,253	30,801	40,341	46,243
Depreciation	2,731	3,325	3,518	4,371	5,012
EBIT	17,560	23,928	27,282	35,970	41,231
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	2,463	1,955	3,692	3,313	3,636
Exceptional items	0	0	0	0	0
EBT	20,023	25,883	30,974	39,282	44,867
Income taxes	4,825	6,500	7,960	10,017	11,441
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	15,198	19,383	23,014	29,265	33,426
Adjustments	0	0	0	0	0
Adjusted net profit	15,198	19,383	23,014	29,265	33,426

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	29,347	35,607	40,824
Provisions	2,908	3,956	5,009	6,078	6,969
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	86,212	103,145	122,485
Shareholders' fund	54,051	73,071	86,387	103,320	122,660
Total liab. and equities	88,249	107,091	127,632	151,894	177,342
Cash and cash eq.	5,252	7,594	15,328	26,816	41,202
Accounts receivables	27,541	26,906	38,623	46,863	53,729
Inventories	0	0	0	0	0
Other current assets	10,442	15,111	15,020	18,224	20,895
Investments	22,186	36,282	36,282	36,282	36,282
Net fixed assets	19,788	19,722	20,903	22,233	23,759
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	127,632	151,894	177,342

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	16,273	17,700	20,868	26,837	31,634
Capital expenditures	(5,480)	(3,379)	(4,699)	(5,702)	(6,537)
Change in investments	0	(5,390)	0	0	0
Other investing cash flows	(3,287)	1,862	1,263	2,685	3,375
Cash flow from investing	(8,767)	(6,907)	(3,436)	(3,016)	(3,162)
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)	(9,698)	(12,332)	(14,086)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(6,404)	(8,451)	(9,698)	(12,332)	(14,086)
Chg in cash & cash eq.	1,102	2,342	7,734	11,488	14,386
Closing cash & cash eq.	5,252	7,594	15,328	26,816	41,202

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	86.4	110.5	131.1	166.8	190.5
Adjusted EPS	86.4	110.5	131.1	166.8	190.5
Dividend per share	30.2	40.0	45.9	58.4	66.7
Book value per share	307.3	416.4	492.3	588.8	699.0

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	10.8	9.5	7.5	6.2	5.3
EV/EBITDA	57.7	43.1	38.2	29.0	25.1
Adjusted P/E	77.5	60.6	51.1	40.2	35.2
P/BV	21.8	16.1	13.6	11.4	9.6

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	113.5	109.2	108.8
EBIT margin (EBIT/Revenue)	16.1	19.3	17.4	18.9	18.9
Asset turnover (Rev./Avg TA)	140.4	126.6	133.5	136.0	132.4
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.5	1.5
Adjusted ROAE	29.5	30.5	28.9	30.9	29.6

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	15.2	13.7	26.6	21.3	14.7
EBITDA	7.7	34.3	13.0	31.0	14.6
Adjusted EPS	0.0	27.8	18.7	27.2	14.2
Profitability & Return ratios (%)					
EBITDA margin	18.7	22.0	19.7	21.2	21.2
EBIT margin	16.1	19.3	17.4	18.9	18.9
Adjusted profit margin	14.0	15.7	14.7	15.4	15.3
Adjusted ROAE	29.5	30.5	28.9	30.9	29.6
ROCE	34.7	37.1	36.3	44.6	48.0
Working capital days (days)					
Receivables	86	80	76	82	84
Inventory	0	0	0	0	0
Payables	11	13	13	14	14
Ratios (x)					
Gross asset turnover	7.8	6.3	7.7	8.8	9.5
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%

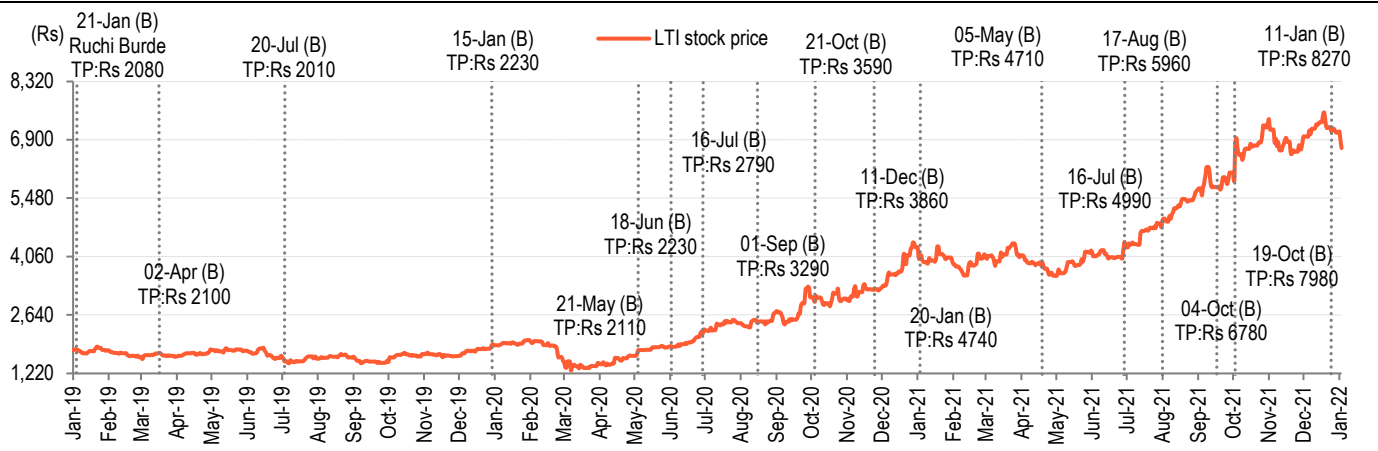
HOLD – Expected return from -6% to +15%

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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