

BUY

TP: Rs 8,140 | ▲ 49%

L&T INFOTECH

Technology & Internet

20 April 2022

Soft growth; maintain BUY on strong TCV

- Q4 revenue growth of 3.6% QoQ CC below our estimate of 5%; however, net new TCV robust at US\$ 80mn, up 21% YoY
- EBIT margin largely in line at 17.3%, down 60bps QoQ due to rising employee cost
- We prune FY23/FY24 EPS by 4%/2% and roll over to a new TP of Rs 8,140 (vs. Rs 8,490). Retain BUY on strong guidance and robust TCV

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Revenue miss: LTI's Q4FY22 revenue grew 3.6% QoQ CC vs. our estimate of 5%, after two consecutive quarters of 9%+ sequential growth. BFS/manufacturing saw muted growth of 2.8%/1.9% QoQ USD whereas the CPG, retail and pharma vertical performed well (+6.2%), followed by insurance (+3.9%) which recovered from a slump in Q3. Top-10 client growth was muted at 3.1% QoQ. However, on a full-year basis, LTI posted its highest-ever dollar revenue growth of 25.9% in FY22.

Margin in line: Q4 EBIT margin stood at 17.3% (17.9% est.), down 60bps QoQ due to increased employee cost. SG&A cost dipped 1.7% QoQ. Attrition surged to an alarming level of 24%, up 150bps QoQ and doubling YoY. LTI added 2,400 employees QoQ in Q4 and plans to roll out salary hikes from Apr'22. Amid rising employee cost due to the elevated attrition, management used the offshoring lever to the utmost – offshoring in Q4 reached a record high of 60.2% of quarterly revenue.

Deal wins robust: LTI's net new TCV rose 21% YoY to US\$ 80mn and constitutes four large deals, with a robust pipeline. Three deals are with Fortune 500 clients and one with a new account. Two wins were from BFS, with one each in the CPG and government healthcare verticals. Per management, the large-deal pipeline stands at ~US\$ 2bn and LTI is seeing broad-based demand across verticals and service lines.

FY23 outlook strong: LTI does not anticipate any slowdown in the demand environment but acknowledged uncertainty in terms of rising input costs and the volatile geopolitical climate. However, management expects to deliver leader quadrant growth in FY23 and PAT margin in the range of 14-15%.

Other takeaways: The board announced a dividend of Rs 30/sh (FY22 dividend at Rs 55/sh). DSO stood at 99 days in Q4 vs. 100 in Q3.

Maintain BUY: Factoring in the Q4 result, we cut FY23/FY24 EPS by 4%/2%. On rolling valuations over to Jun'24, our TP reduces to Rs 8,140 (from Rs 8,490) based on an unchanged 48.5x P/E. Maintain BUY on a robust demand environment.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	LTI IN/Rs 5,472
Market cap	US\$ 12.6bn
Free float	25%
3M ADV	US\$ 29.3mn
52wk high/low	Rs 7,589/Rs 3,525
Promoter/FPI/DII	75%/8%/10%

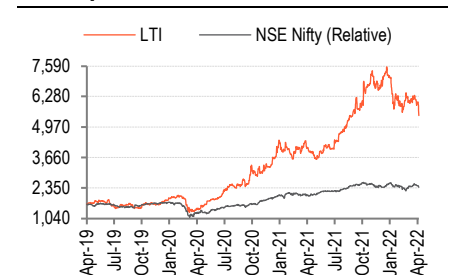
Source: NSE | Price as of 19 Apr 2022

Key financials

Y/E 31 Mar	FY21A	FY22A	FY23E
Total revenue (Rs mn)	123,698	156,687	185,784
EBITDA (Rs mn)	27,253	30,585	38,783
Adj. net profit (Rs mn)	19,383	22,986	27,454
Adj. EPS (Rs)	110.5	131.0	156.4
Consensus EPS (Rs)	110.5	125.4	145.8
Adj. ROAE (%)	30.5	28.5	28.6
Adj. P/E (x)	49.5	41.8	35.0
EV/EBITDA (x)	35.2	31.4	24.8
Adj. EPS growth (%)	27.8	18.6	19.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenues (US\$ mn)	570.4	447.4	27.5	553.0	3.1	2,103	1,670	25.9
Revenue	43,016	32,694	31.6	41,376	4.0	156,687	123,698	26.7
Operating Expenditure	34,552	25,539	35.3	33,065	4.5	126,102	96,445	30.8
Cost of revenues	30,111	22,233	35.4	28,547	5.5	108,567	82,193	32.1
as % of sales	70.0	68.0	-	69.0	-	277	266	-
SG&A expenses	4,441	3,306	34.3	4,518	(1.7)	17,535	14,252	23.0
as % of sales	10.3	10.1	-	10.9	-	45	46	-
EBITDA	8,464	7,155	18.3	8,311	1.8	30,585	27,253	12.2
Depreciation	1,019	826	23.4	885	15.1	3,549	3,325	6.7
EBIT	7,445	6,329	17.6	7,426	0.3	27,036	23,928	13.0
Other Income	1,151	839	-	811	-	3,939	1,955	-
PBT	8,596	7,168	19.9	8,237	4.4	30,975	25,883	19.7
Total Tax	2,221	1,711	29.8	2,112	5.2	7,989	6,500	22.9
Reported PAT	6,375	5,457	16.8	6,125	4.1	22,986	19,383	18.6
Reported EPS	36.3	31.1	16.8	34.9	4.1	131.0	110.5	18.6
Margins (%)			(bps)		(bps)			(bps)
EBITDA	19.7	21.9	(220)	20.1	(40)	19.5	22.0	(250)
EBIT	17.3	19.4	(210)	17.9	(60)	17.3	19.3	(210)
EBT	20.0	21.9	(190)	19.9	10	19.8	20.9	(120)
PAT	14.8	16.7	(190)	14.8	-	14.7	15.7	(100)
Effective Tax rate	25.8	23.9	200	25.6	20	25.8	25.1	70

Source: Company, BOBCAPS Research

Fig 2 – Operating metrics

(in US\$ terms)	Q4FY22 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
Revenue by Vertical			
BFS	32.7	2.8	35.8
Insurance	13.4	3.9	17.8
Manufacturing	16.8	1.9	26.7
Energy & Process	8.8	3.1	23.3
CPG, Retail & Pharma	10.3	6.2	21.6
High-Tech, Media & Entertainment	11.7	2.3	26.4
Others	6.3	1.5	29.5
Revenue by Geography			
North America	65.6	2.5	26.3
Europe	16.2	5.8	25.2
India	9.9	6.4	41.8
RoW	8.3	-0.5	26.0
Client Contribution to Revenue			
Top 5 clients	28.2	2.8	29.3
Top 10 clients	40.4	3.1	25.6
Top 20 clients	55.8	3.7	28.0
Non top 20 client revenues	44.2	2.5	26.9

(in US\$ terms)	Q4FY22 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
Revenue by Service			
ADM and Testing	33.0	1.6	26.3
Enterprise Solutions	30.8	1.2	21.6
Infrastructure Management Services	13.7	7.1	15.7
Analytics, AI & Cognitive	12.8	4.0	47.0
Enterprise Integration & Mobility	9.7	7.6	50.8

Source: Company, BOBCAPS Research

Valuation methodology

Factoring in the Q4FY22 result, we trim our FY23/FY24 EPS estimates by 4%/2%. On rolling valuations over to Jun'24, our TP reduces to Rs 8,140 (from Rs 8,490) based on an unchanged 48.5x P/E multiple. Maintain BUY on a robust demand environment and upbeat FY23 outlook.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenues (US\$ mn)	2,103	2,477	2,816	2,081	2,462	2,823	1.1	0.6	(0.3)
YoY Growth (%)	25.9	17.8	13.7	24.6	18.3	14.7	-	-	-
Revenues	156,687	185,784	211,175	154,182	184,664	211,721	1.6	0.6	(0.3)
EBITDA	30,585	38,783	44,808	31,030	39,197	44,931	(1.4)	(1.1)	(0.3)
EBITDA margin (%)	19.5	20.9	21.2	20.1	21.2	21.2	-	-	-
Net profits	22,986	27,454	32,059	23,171	28,524	32,573	(0.8)	(3.8)	(1.6)
EPS (Rs)	131	156	183	132	163	186	(0.8)	(3.8)	(1.6)

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- attrition impacting margins, and
- slowdown in European demand.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Coforge	COFORGE IN	3.3	4,027	7,080	BUY
eClerx Services	ECLX IN	1.2	2,426	3,790	BUY
HCL Technologies	HCLT IN	38.0	1,070	1,610	BUY
Infosys	INFO IN	86.9	1,562	2,130	BUY
L&T Infotech	LTI IN	12.6	5,472	8,140	BUY
Mindtree	MTCL IN	7.8	3,636	5,610	BUY
Mphasis	MPHL IN	7.0	2,857	3,470	HOLD
Persistent Systems	PSYS IN	4.4	4,174	4,580	HOLD
Tata Consultancy Services	TCS IN	170.3	3,472	4,660	BUY
Tech Mahindra	TECHM IN	14.8	1,301	1,940	BUY
Wipro	WPRO IN	38.3	530	850	BUY

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	108,786	123,698	156,687	185,784	211,175
EBITDA	20,291	27,253	30,585	38,783	44,808
Depreciation	2,731	3,325	3,549	4,273	4,857
EBIT	17,560	23,928	27,036	34,510	39,951
Net interest inc./(exp.)	0	0	0	0	0
Other inc./(exp.)	2,463	1,955	3,939	2,341	3,081
Exceptional items	0	0	0	0	0
EBT	20,023	25,883	30,975	36,851	43,032
Income taxes	4,825	6,500	7,989	9,397	10,973
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	15,198	19,383	22,986	27,454	32,059
Adjustments	0	0	0	0	0
Adjusted net profit	15,198	19,383	22,986	27,454	32,059

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	0	0	0	0	0
Other current liabilities	23,618	23,175	25,317	30,018	34,121
Provisions	2,908	3,956	4,393	5,209	5,921
Debt funds	7,571	6,854	6,675	6,675	6,675
Other liabilities	101	35	105	105	105
Equity capital	174	175	175	175	175
Reserves & surplus	53,877	72,896	88,028	103,913	122,462
Shareholders' fund	54,051	73,071	88,203	104,088	122,637
Total liab. and equities	88,249	107,091	124,693	146,095	169,459
Cash and cash eq.	5,252	7,594	3,949	22,330	35,520
Accounts receivables	27,541	26,906	37,368	45,810	52,070
Inventories	0	0	0	0	0
Other current assets	10,442	15,111	24,536	17,815	20,250
Investments	22,186	36,282	31,366	31,366	31,366
Net fixed assets	19,788	19,722	25,790	27,090	28,569
CWIP	0	0	0	0	0
Intangible assets	1,316	2,667	3,157	3,157	3,157
Deferred tax assets, net	3,039	1,476	1,684	1,684	1,684
Other assets	0	0	0	0	0
Total assets	88,248	107,091	124,693	146,095	169,459

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	16,273	17,700	16,480	33,805	30,214
Capital expenditures	(5,480)	(3,379)	(8,556)	(5,574)	(6,335)
Change in investments	0	(5,390)	(559)	0	0
Other investing cash flows	(3,287)	1,862	(552)	1,718	2,821
Cash flow from investing	(8,767)	(6,907)	(9,667)	(3,855)	(3,514)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	(1,661)	0	0
Interest expenses	0	0	(48)	0	0
Dividends paid	(6,404)	(8,451)	(8,749)	(11,569)	(13,510)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(6,404)	(8,451)	(10,458)	(11,569)	(13,510)
Chg in cash & cash eq.	1,102	2,342	(3,645)	18,381	13,190
Closing cash & cash eq.	5,252	7,594	3,949	22,330	35,520

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	86.4	110.5	131.0	156.4	182.7
Adjusted EPS	86.4	110.5	131.0	156.4	182.7
Dividend per share	30.2	40.0	45.8	54.8	63.9
Book value per share	307.3	416.4	502.6	593.1	698.8

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	8.8	7.8	6.1	5.2	4.5
EV/EBITDA	47.1	35.2	31.4	24.8	21.3
Adjusted P/E	63.3	49.5	41.8	35.0	30.0
P/BV	17.8	13.1	10.9	9.2	7.8

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	75.9	74.9	74.2	74.5	74.5
Interest burden (PBT/EBIT)	114.0	108.2	114.6	106.8	107.7
EBIT margin (EBIT/Revenue)	16.1	19.3	17.3	18.6	18.9
Asset turnover (Rev./Avg TA)	140.4	126.6	135.2	137.2	133.8
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.4	1.4	1.4
Adjusted ROAE	29.5	30.5	28.5	28.6	28.3

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	15.2	13.7	26.7	18.6	13.7
EBITDA	7.7	34.3	12.2	26.8	15.5
Adjusted EPS	0.0	27.8	18.6	19.4	16.8
Profitability & Return ratios (%)					
EBITDA margin	18.7	22.0	19.5	20.9	21.2
EBIT margin	16.1	19.3	17.3	18.6	18.9
Adjusted profit margin	14.0	15.7	14.7	14.8	15.2
Adjusted ROAE	29.5	30.5	28.5	28.6	28.3
ROCE	34.7	37.1	33.1	38.4	43.8
Working capital days (days)					
Receivables	86	80	75	82	85
Inventory	0	0	0	0	0
Payables	11	13	12	12	12
Ratios (x)					
Gross asset turnover	7.8	6.3	6.9	7.0	7.6
Current ratio	1.6	1.8	2.2	2.4	2.7
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	0.0	0.0	0.0	(0.2)	(0.2)

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

Disclaimer

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

BUY – Expected return >+15%

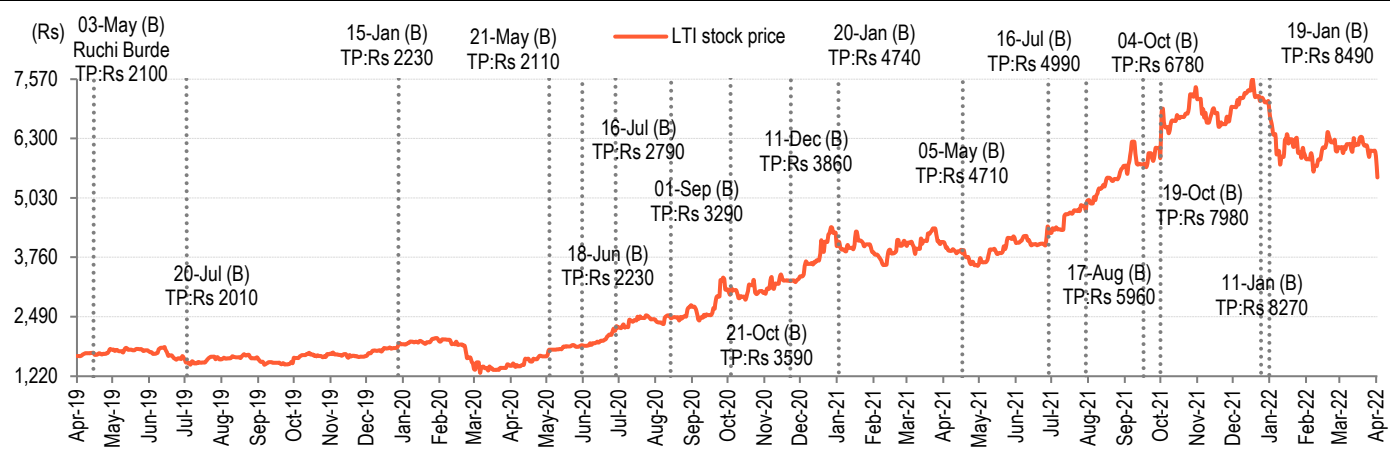
HOLD – Expected return from -6% to +15%

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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