

RESEARCH
L&T Infotech | Target: Rs 7,980 | +35% | BUY

Outperformance on all counts

SUMMARY
L&T Infotech

- 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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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.57	6bps	29bps	82bps
India 10Y yield (%)	6.33	1bps	13bps	39bps
USD/INR	75.26	0.2	(2.1)	(2.6)
Brent Crude (US\$/bbl)	84.86	1.0	15.3	97.7
Dow	35,295	1.1	2.1	23.4
Shanghai	3,572	0.4	(2.5)	7.1
Sensex	61,306	0.9	5.3	53.3
India FII (US\$ mn)	13-Oct	MTD	CYTD	FYTD
FII-D	8.5	(264.6)	(189.6)	1,837.7
FII-E	166.4	300.9	8,830.8	1,504.5

Source: Bloomberg

BOBCAPS Research

researchreport@bobcaps.in



BUY

TP: Rs 7,980 | ▲ 35%

L&T INFOTECH

Technology & Internet

19 October 2021

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Ruchi Burde | Seema Nayak
researchreport@bobcaps.in

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%

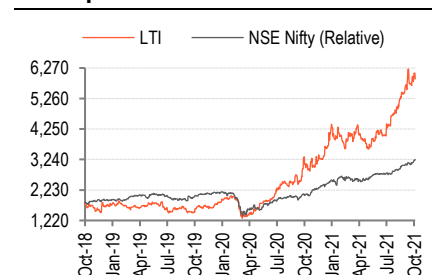
Source: NSE | Price as of 18 Oct 2021

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



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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.

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