

**BUY**

TP: Rs 2,010 | ▲ 23%

**L&T INFOTECH**

| IT Services

| 11 December 2019

## Analyst meet takeaways

**L&T Infotech's (LTI) analyst meet reassured us that its strong sales engine and efficient delivery will continue to drive profitable growth. Client centricity, industry-leading capabilities and a strong leadership team are key differentiators versus peers. In our view, the company is headed for a growth rebound on the back of large deal wins and cessation of client-specific challenges. We expect a 11.5%/12.2% revenue/earnings CAGR over FY20-FY22. LTI is our sole BUY-rated stock amongst mid-cap IT services companies.**

**Ruchi Burde**

research@bobcaps.in

**Incubating new growth catalysts:** Management intends to “productise” its services by developing domain-focused, repeatable and standardised offerings that will facilitate scale of business and deliver predictable outcomes.

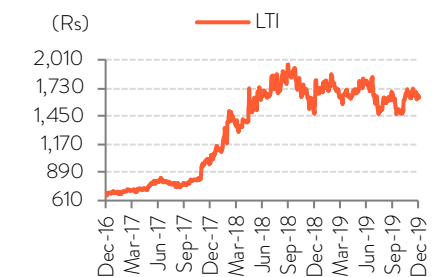
**Investment in digital capabilities bearing fruit:** LTI's digital client accounts have risen from 141 in FY17 to 206 as of Sep'19. As per management, companies with combined revenue of US\$ 1tn+ have entrusted LTI with reimagining core operations and functioning as a strategic data partner, while its transformation services have a reach of 2bn+ consumers and employees (Fig 1).

**Refined sales engine to power growth:** LTI's sales engine has powered (1) a healthy overall deal pipeline (up 42% YoY) which includes 37% new-age deals, and (2) 22% growth in large deal pipeline (which stood at US\$ 1bn+ last year), of which 67% is in the proposal stage. Besides a traditional sales team, management highlighted that its strategic alliances with technology partners and active marketing efforts are contributing significantly to augmenting the deal pipeline.

Ticker/Price	LTI IN/Rs 1,635
Market cap	US\$ 4.0bn
Shares o/s	175mn
3M ADV	US\$ 3.2mn
52wk high/low	Rs 1,897/Rs 1,436
Promoter/FPI/DII	75%/8%/10%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19E	FY20E	FY21E	FY22E
Total revenue (Rs mn)	73,064	94,458	1,03,286	1,14,878	1,28,327
EBITDA (Rs mn)	11,875	18,835	19,232	22,606	25,252
Adj. net profit (Rs mn)	11,124	15,157	15,082	17,613	19,002
Adj. EPS (Rs)	63.5	86.5	85.9	100.3	108.3
Adj. EPS growth (%)	(8.2)	36.1	(0.6)	16.8	7.9
Adj. ROAE (%)	31.8	34.6	28.3	28.1	25.9
Adj. P/E (x)	25.7	18.9	19.0	16.3	15.1
EV/EBITDA (x)	23.9	15.0	14.7	12.3	10.7

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

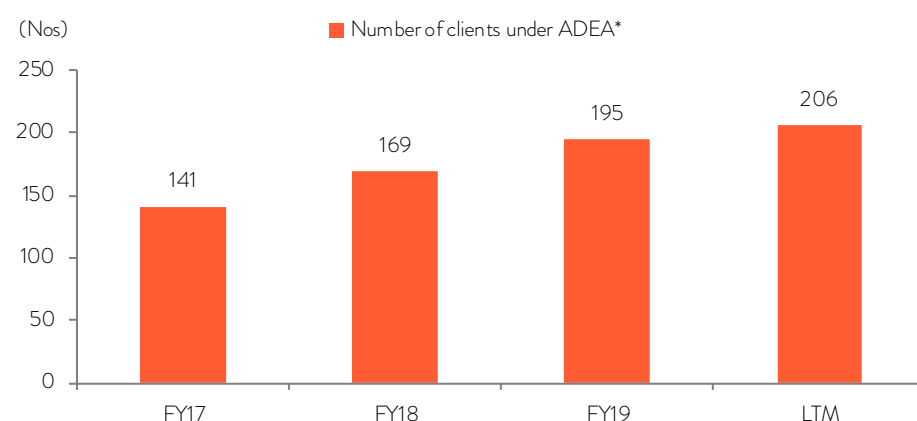
Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – REMARKABLE ENGAGEMENT SCORE FOR DIGITAL SERVICES**

SN	Digital transformation vector	LTI's engagement
1	Digitising the core	Companies with combined revenue of US\$ 1tn+ have entrusted LTI to reimagine the core
2	Data driven organisation	Combined revenue of companies worth US\$ 1tn+ have chosen LTI to be their strategic data partner
3	Experience transformation	2bn+ consumers and employees at enterprises where LTI is delivering experience transformation services
4	Operate to transform	Companies with combined revenue of US\$ 575bn+ trust LTI as their strategic partner for running core processes and systems

Source: Company, BOBCAPS Research

**FIG 2 – INCREASING DIGITAL FOOTPRINT**

Source: Company, BOBCAPS Research | \*ADEA refers to Analytics and Digital in every account

**FIG 3 – ROBUST EXECUTION IN SALES PROGRAMMES FUELLING DEAL WINS**

Sales program	Objective
Aspire	Win large deals
Minecraft	Grow top accounts
Must Have Accounts	Open new logos (Target account list)
ADEA	Analytics & Digital in every account
Million Dollar Club	US\$ 1mn+ clients
Strategic Alliances	Key sales channel
Marketing	Brand development and pipeline building

Source: Company, BOBCAPS Research

**FIG 4 – 9 OF 19 LARGE DEAL WINS OVER LAST 14 QUARTERS CARRY NEW LOGOS & DEMONSTRATE LTI'S FORMIDABLE COMPETITIVE POSITION**

Q1FY17 to Q2FY20	Large deals	New logos
<b>By Geography</b>		
North America	10	5
Europe	4	1
RoW	3	1
India	2	2
<b>Total</b>	<b>19</b>	<b>9</b>
<b>By Vertical</b>		
BFS	5	1
Energy & Utilities	5	3
CRP	4	1
Insurance	2	2
Manufacturing	1	
Others	2	2
<b>Total</b>	<b>19</b>	<b>9</b>

Source: Company, BOBCAPS Research

## Valuation methodology

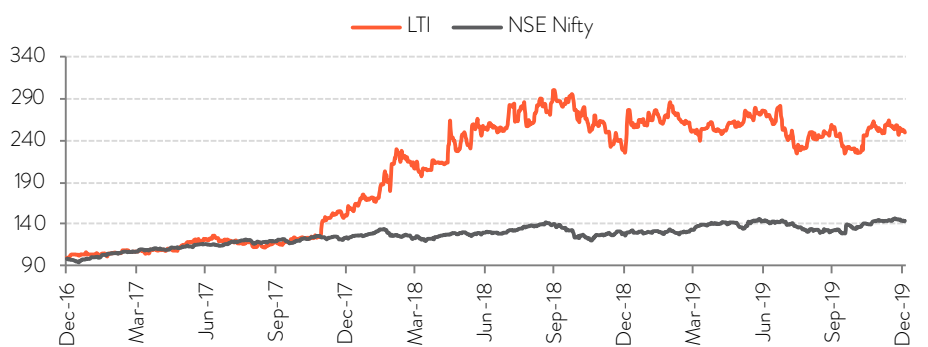
LTI's medium-to-long term prospects look robust given its strong sales engine, 'outcome-focused' digital capabilities, client mining skills and strong leadership. Retain BUY with a Sep'20 target price of Rs 2,010, set at 19.3x one-year forward EPS. LTI is our sole BUY-rated stock amongst mid-cap IT service companies.

**FIG 5 – BOBCAPS IT SERVICES UNIVERSE: VALUATION SUMMARY**

Company	CMP (Rs)	Mkt Cap (US\$ bn)	Rating	Target Price (Rs)	US\$ revenue CAGR (%)		EBIT CAGR (%) FY19-FY21E	EPS (Rs)		P/E (x)		ROE (%)	
					FY17-FY19	FY19-FY21E		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
TCS	2,042	108.1	ADD	2,230	9.1	7.3	5.7	85.7	94.3	23.8	21.7	32.7	30.5
INFO	721	43.9	ADD	860	7.5	8.8	8.5	37.7	42.0	19.1	17.2	25.5	25.6
WPRO	240	20.2	REDUCE	240	3.4	4.7	4.8	15.4	16.7	15.5	14.4	16.4	16.8
HCLT	544	10.4	BUY	1,260	11.2	11.7	8.6	75.0	83.6	7.3	6.5	22.9	22.7
TECHM	758	9.4	REDUCE	740	7.0	7.1	3.6	48.9	54.8	15.5	13.8	19.6	19.6
LTI	1,635	4.0	BUY	2,010	17.9	10.3	6.6	85.9	100.3	19.0	16.3	28.3	28.1
MPHL	856	2.2	ADD	1,020	10.7	12.0	13.7	58.4	66.4	14.7	12.9	19.8	20.5
MTCL	755	1.8	SELL	690	13.3	10.0	5.8	33.1	46.6	22.8	16.2	15.7	20.0
HEXW*	338	1.4	ADD	410	13.6	16.2	11.2	22.3	23.6	15.1	14.4	25.7	22.9
PSYS	677	0.8	REDUCE	650	5.7	9.2	6.0	45.6	50.3	14.8	13.4	15.0	15.3
NITEC	1,487	1.3	ADD	1,600	13.0	12.0	13.3	72.3	87.3	20.6	17.0	20.2	21.3
ECLX	506	0.3	REDUCE	450	8.9	6.2	2.1	46.4	59.5	10.9	8.5	16.1	19.2

Source: Bloomberg, BOBCAPS Research | \*FY20 refers to CY19 for Hexaware and so on

**FIG 6 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- **Currency risk:** Sharp fluctuation in exchange rates may materially impact the company's operating profits.
- **Leadership flux:** LTI has suffered from leadership changes in the past (prior to FY14) – a repeat of this situation would pose a risk to our thesis.
- **Inability to sustain large deal momentum:** Steady momentum in large deal wins is critical for the company to sustain its strong growth traction. An inability to do so may derail growth.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19E	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>73,064</b>	<b>94,458</b>	<b>1,03,286</b>	<b>1,14,878</b>	<b>1,28,327</b>
EBITDA	11,875	18,835	19,232	22,606	25,252
Depreciation	1,563	1,471	2,593	2,872	3,208
EBIT	10,312	17,364	16,639	19,734	22,044
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	4,102	2,915	3,440	3,908	3,462
Exceptional items	0	0	0	0	0
EBT	14,414	20,279	20,079	23,642	25,506
Income taxes	3,290	5,122	4,997	6,029	6,504
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>11,124</b>	<b>15,157</b>	<b>15,082</b>	<b>17,613</b>	<b>19,002</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>11,124</b>	<b>15,157</b>	<b>15,082</b>	<b>17,613</b>	<b>19,002</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Accounts payables	0	0	0	0	0
Other current liabilities	12,960	15,291	16,720	18,597	20,774
Provisions	2,123	2,402	2,626	2,921	3,263
Debt funds	0	0	0	0	0
Other liabilities	132	56	56	56	56
Equity capital	171	171	171	171	171
Reserves & surplus	38,439	48,772	57,498	67,690	78,684
Shareholders' fund	38,610	48,943	57,669	67,861	78,855
<b>Total liabilities and equities</b>	<b>53,825</b>	<b>66,692</b>	<b>77,072</b>	<b>89,434</b>	<b>1,02,948</b>
Cash and cash eq.	3,633	4,150	11,346	19,453	28,029
Accounts receivables	22,327	23,845	18,393	20,458	22,853
Inventories	0	0	0	0	0
Other current assets	7,121	10,878	13,017	14,478	16,173
Investments	12,643	17,402	17,402	17,402	17,402
Net fixed assets	5,281	8,031	8,020	8,020	8,020
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	2,821	2,386	2,386	2,386	2,386
Other assets	0	0	6,508	7,239	8,086
<b>Total assets</b>	<b>53,826</b>	<b>66,692</b>	<b>77,072</b>	<b>89,435</b>	<b>1,02,949</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Net income + Depreciation	9,106	16,628	17,675	20,485	22,210
Interest expenses	134	(1,089)	(933)	(2,012)	(2,580)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(3,760)	(2,665)	(1,542)	(2,084)	(2,418)
Other operating cash flows	2,958	1,010	0	0	0
<b>Cash flow from operations</b>	<b>8,438</b>	<b>13,884</b>	<b>15,200</b>	<b>16,389</b>	<b>17,212</b>
Capital expenditures	(982)	(4,221)	(2,582)	(2,872)	(3,208)
Change in investments	(2,501)	(4,324)	0	0	0
Other investing cash flows	(1,041)	1,089	933	2,012	2,580
<b>Cash flow from investing</b>	<b>(4,524)</b>	<b>(7,456)</b>	<b>(1,649)</b>	<b>(860)</b>	<b>(628)</b>
Equities issued/Others	3	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(1,045)	0	0	0	0
Dividends paid	(3,034)	(5,911)	(6,356)	(7,422)	(8,007)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(4,076)</b>	<b>(5,911)</b>	<b>(6,356)</b>	<b>(7,422)</b>	<b>(8,007)</b>
<b>Changes in cash and cash eq.</b>	<b>(162)</b>	<b>517</b>	<b>7,195</b>	<b>8,107</b>	<b>8,576</b>
<b>Closing cash and cash eq.</b>	<b>3,633</b>	<b>4,150</b>	<b>11,346</b>	<b>19,453</b>	<b>28,029</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19E	FY20E	FY21E	FY22E
Reported EPS	63.5	86.5	85.9	100.3	108.3
Adjusted EPS	63.5	86.5	85.9	100.3	108.3
Dividend per share	21.5	28.0	30.1	35.1	37.9
Book value per share	220.5	279.2	328.5	386.6	449.2

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19E	FY20E	FY21E	FY22E
EV/Sales	3.9	3.0	2.7	2.4	2.1
EV/EBITDA	23.9	15.0	14.7	12.3	10.7
Adjusted P/E	25.7	18.9	19.0	16.3	15.1
P/BV	7.4	5.9	5.0	4.2	3.6

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19E	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	77.2	74.7	75.1	74.5	74.5
Interest burden (PBT/EBIT)	139.8	116.8	120.7	119.8	115.7
EBIT margin (EBIT/Revenue)	14.1	18.4	16.1	17.2	17.2
Asset turnover (Revenue/Avg TA)	148.9	156.8	143.7	138.0	133.4
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.3	1.3	1.3
Adjusted ROAE	31.8	34.6	28.3	28.1	25.9

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

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19E	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	12.4	29.3	9.3	11.2	11.7
EBITDA	(3.4)	58.6	2.1	17.5	11.7
Adjusted EPS	(8.2)	36.1	(0.6)	16.8	7.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	16.3	19.9	18.6	19.7	19.7
EBIT margin	14.1	18.4	16.1	17.2	17.2
Adjusted profit margin	15.2	16.0	14.6	15.3	14.8
Adjusted ROAE	31.8	34.6	28.3	28.1	25.9
ROCE	32.8	43.4	36.5	41.6	44.4
<b>Working capital days (days)</b>					
Receivables	85	89	75	62	62
Inventory	0	0	0	0	0
Payables	12	11	11	11	11
<b>Ratios (x)</b>					
Gross asset turnover	13.6	14.2	12.9	14.3	16.0
Current ratio	2.2	2.2	2.5	2.9	3.1
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.1)	(0.1)	(0.2)	(0.3)	(0.4)

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

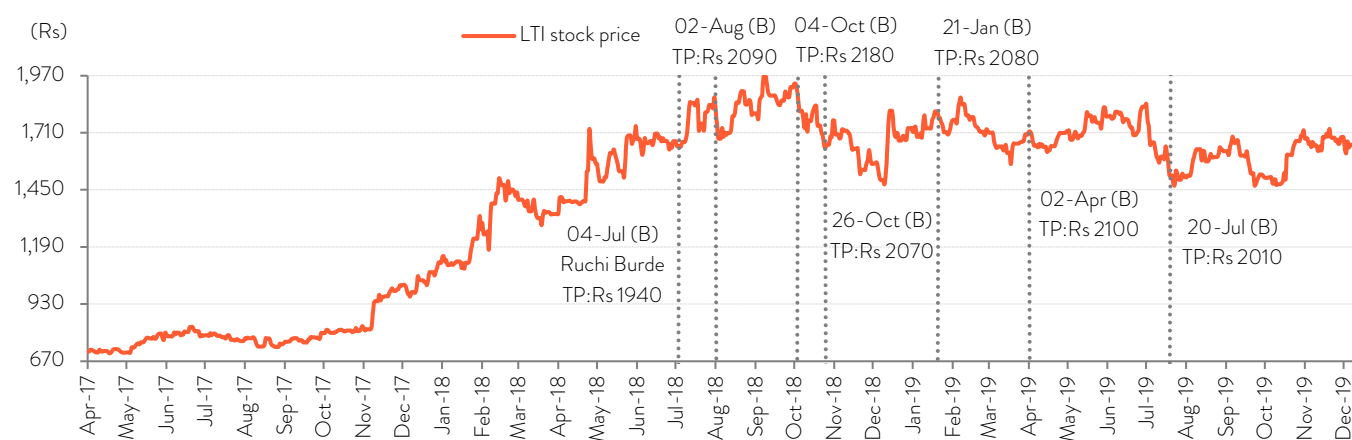
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### HISTORICAL RATINGS AND TARGET PRICE: L&T INFOTECH (LTI IN)



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

### Rating distribution

As of 30 November 2019, out of 81 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 48 have BUY ratings, 18 are rated ADD, 9 are rated REDUCE and 6 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

### Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations



expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

### **Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014**

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.