

**BUY**

TP: Rs 2,230 | ▲ 15%

**L&T INFOTECH**

| IT Services

| 15 January 2020

## Stellar show

**L&T Infotech (LTI) reported 8.3% QoQ CC revenue growth in Q3FY20, well ahead of estimates. Operating margins also bettered our expectations at 16.2%. Revenue growth was broad-based across verticals and marked a resurgence among top clients. LTI won two large deals with aggregate TCV of US\$ 75mn+. Impressive revenues and a track record of big deal wins position LTI well to reclaim its industry-wide growth leadership. We thus raise our P/E multiple to 20x from 19.3x; on rollover we have a new Mar'21 TP of Rs 2,230 (vs. Rs 2,010).**

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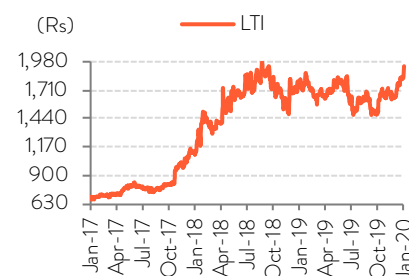
**Stellar growth:** LTI reported 8.3% QoQ CC revenue growth, well ahead of our (3.4%) and street estimates. Even excluding the ~2% contribution from pass-through and inorganic revenues, the Q3 revenue growth was impressive. EBITDA at Rs 5.3bn (+13.2% QoQ, +3.6% YoY) was ~7% ahead of our forecast. But below-expected other income and forex gains led to largely in-line net profits at Rs 3.8bn (+4.6% QoQ, +0.3% YoY).

Ticker/Price	LTI IN/Rs 1,934
Market cap	US\$ 4.8bn
Shares o/s	175mn
3M ADV	US\$ 3.8mn
52wk high/low	Rs 2,003/Rs 1,436
Promoter/FPI/DII	75%/8%/10%

Source: NSE

**Revenues broad-based across verticals and clients:** Revenue growth was broad-based across verticals and marked a resurgence among top clients. Dollar revenue from the top 5/top 10/top 20 clients increased by 12.2%/11.5%/9.5% QoQ. Similarly, dollar revenue growth rebounded in the BFS (+11.3% QoQ) and Technology & Media (+8.4%) verticals which were under stress in recent quarters. Both segments saw ramp-up of recently won deals while BFS also benefited from strong recovery in a top account.

## STOCK PERFORMANCE



Source: NSE

**Optimistic BFS outlook:** In contrast to peers, LTI shared optimistic BFS commentary, including growth visibility at its large BFS client. The company is well on track to meeting its guidance of double-digit FY20 revenue growth (our forecast stands at 13.6% YoY CC). Management reiterated its net margin guidance range of 14-15% which appears slightly demanding in our view.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	73,064	94,458	1,07,103	1,22,099	1,36,908
EBITDA (Rs mn)	11,875	18,835	19,941	23,574	26,597
Adj. net profit (Rs mn)	11,124	15,157	14,971	17,837	19,538
Adj. EPS (Rs)	63.5	86.5	85.4	101.8	111.5
Adj. EPS growth (%)	(8.2)	36.1	(1.2)	19.1	9.5
Adj. ROAE (%)	31.8	34.6	28.1	28.4	26.6
Adj. P/E (x)	30.4	22.4	22.6	19.0	17.3
EV/EBITDA (x)	28.3	17.8	16.8	14.1	12.2

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.

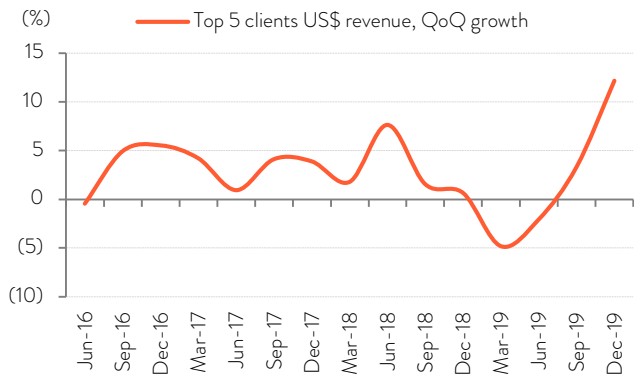


**FIG 1 – LARGE DEAL WINS A RECURRING FEATURE**

Quarter	Large deal wins
<b>Dec-19</b>	2 large deals with aggregate net new TCV of US\$ 75mn+
<b>Sep-19</b>	3 new logos opened with aggregate net new TCV of US\$ 100mn
<b>Jun-19</b>	New logo in the insurance vertical with TCV of US\$ 44mn
<b>2 large deals with net new TCV of US\$ 100mn+</b>	
<b>Mar-19</b>	Deal 1: Multi-year multi-million-dollar deal for transforming global application operations of an engineering equipment manufacturer
	Deal 2: New logo opening with a large IT transformation deal in the insurance vertical
<b>Dec-18</b>	Secured large deal for a payments company in the Nordic region as primary IT partner post vendor consolidation
<b>Sep-18</b>	Secured a large deal for a global pharma company with net new TCV of US\$ 55mn
<b>1 large deal with net new TCV of US\$ 50mn</b>	
<b>Jun-18</b>	Multi-year multi-million-dollar deal in ERP, data and analytics with global consumer and pharmaceutical conglomerate

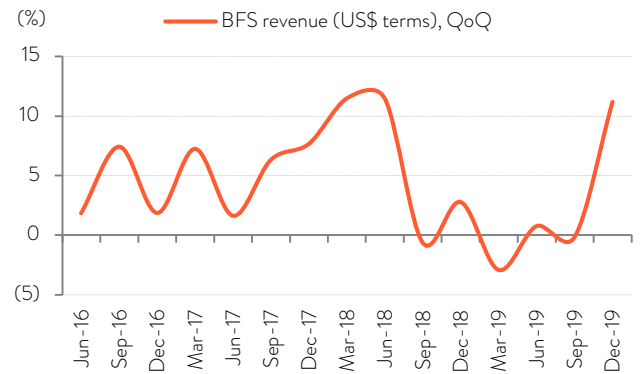
Source: Company, BOBCAPS Research.

**FIG 2 – SURGE IN REVENUE FROM TOP 5 CLIENTS**



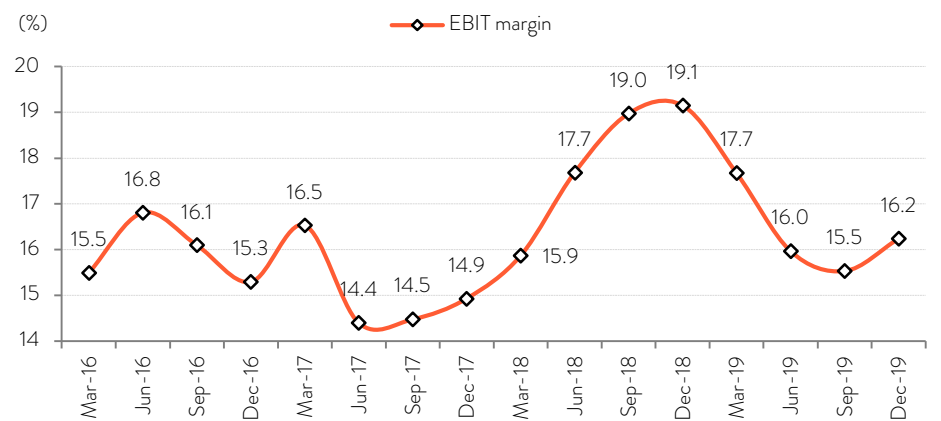
Source: Company, BOBCAPS Research

**FIG 3 – BFS SAW STRONG GROWTH REBOUND**



Source: Company, BOBCAPS Research

**FIG 4 – MANAGEMENT ACKNOWLEDGED SCOPE TO IMPROVE MARGINS**



Source: Company, BOBCAPS Research

**FIG 5 – DEC'19 QUARTER PERFORMANCE**

(Rs mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	YoY (%)	QoQ (%)	9MFY20	9MFY19	YoY (%)
<b>Revenues (US\$ mn)</b>	<b>319.9</b>	<b>328.5</b>	<b>346.9</b>	<b>353.8</b>	<b>356.5</b>	<b>363.8</b>	<b>394.4</b>	<b>13.7</b>	<b>8.4</b>	<b>1,114.7</b>	<b>995.3</b>	<b>12.0</b>
<b>Revenue</b>	<b>21,557</b>	<b>23,312</b>	<b>24,729</b>	<b>24,860</b>	<b>24,849</b>	<b>25,707</b>	<b>28,111.0</b>	<b>13.7</b>	<b>9.4</b>	<b>78,667</b>	<b>69,598</b>	<b>13.0</b>
Operating Expenditure	17,367	18,522	19,639	20,095	20,270	21,050	22,837	16.3	8.5	64,157	55,528	15.5
Cost of revenues	13,977.0	15,124.0	16,125.0	16,417.0	16,625.0	17,525.0	19,188.0	19.0	9.5	53,338	45,226	17.9
as % of sales	64.8	64.9	65.2	66.0	66.9	68.2	68.3	-	-	67.8	65.0	-
SG&A expenses	3,390.0	3,398.0	3,514.0	3,678.0	3,645.0	3,525.0	3,649.0	3.8	3.5	10,819	10,302	5.0
as % of sales	15.7	14.6	14.2	14.8	14.7	13.7	13.0	-	-	13.8	14.8	-
<b>EBITDA</b>	<b>4,190</b>	<b>4,790</b>	<b>5,090</b>	<b>4,765</b>	<b>4,579</b>	<b>4,657</b>	<b>5,274</b>	<b>3.6</b>	<b>13.2</b>	<b>14,510</b>	<b>14,070</b>	<b>3.1</b>
Depreciation	378.0	367.0	355.0	371.0	611.0	664.0	709.0	99.7	6.8	1,984	1,100	80.4
<b>EBIT</b>	<b>3,812</b>	<b>4,423</b>	<b>4,735</b>	<b>4,394</b>	<b>3,968</b>	<b>3,993</b>	<b>4,565</b>	<b>(3.6)</b>	<b>14.3</b>	<b>12,526</b>	<b>12,970</b>	<b>(3.4)</b>
Other Income	1,036.0	943.0	288.0	648.0	812.0	739.0	433.0	-	-	1,984	2,267	-
PBT	4,848	5,366	5,023	5,042	4,780	4,732	4,998	(0.5)	5.6	14,510	15,237	(4.8)
Total Tax	1,236.0	1,363.0	1,268.0	1,255.0	1,225.0	1,130.0	1,231.0	(2.9)	8.9	3,586	3,867	(7.3)
<b>Reported PAT</b>	<b>3,612</b>	<b>4,003</b>	<b>3,755</b>	<b>3,787</b>	<b>3,555</b>	<b>3,602</b>	<b>3,767</b>	<b>0.3</b>	<b>4.6</b>	<b>10,924</b>	<b>11,370</b>	<b>(3.9)</b>
Reported EPS	20.6	22.6	21.6	21.6	20.3	20.5	21.5	(0.6)	4.8	62.3	64.8	(3.9)
<b>Margins (%)</b>								<b>(bps)</b>	<b>(bps)</b>			<b>(bps)</b>
EBITDA	19.4	20.5	20.6	19.2	18.4	18.1	18.8	(180)	60	18.4	20.2	(180)
EBIT	17.7	19.0	19.1	17.7	16.0	15.5	16.2	(290)	70	15.9	18.6	(270)
EBT	22.5	23.0	20.3	20.3	19.2	18.4	17.8	(250)	(60)	18.4	21.9	(340)
PAT	16.8	17.2	15.2	15.2	14.3	14.0	13.4	(180)	(60)	13.9	16.3	(250)
Effective Tax rate	25.5	25.4	25.2	24.9	25.6	23.9	24.6	(60)	70	24.7	25.4	(70)

Source: Company, BOBCAPS Research

**FIG 6 – DEC'19 QUARTER OPERATING METRICS**

Particulars	Q3FY20 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
<b>Revenue by Vertical</b>			
BFS	27.8	11.2	8.6
Insurance	17.8	3.2	13.7
Manufacturing	17.5	15.7	27.5
Energy & Process	11.3	1.2	19.0
CPG, Retail & Pharma	11.2	5.6	20.1
High-Tech, Media & Entertainment	10.8	8.4	8.7
Others	3.7	14.6	(8.6)
<b>Revenue by Geography</b>			
North America	69.5	9.7	18.3
Europe	15.6	3.1	6.2
India	7.6	37.3	10.8
RoW	7.4	(9.9)	(4.4)
<b>Client Contribution to Revenue</b>			
Top 5 clients	32.8	12.2	8.1
Top 10 clients	46.8	11.5	9.9
Top 20 clients	62.0	9.5	9.6
Non top 20 client revenues	38.0	6.7	21.0
Digital Revenues	41.0	10.3	26.0

Source: Company, BOBCAPS Research

## Valuation methodology

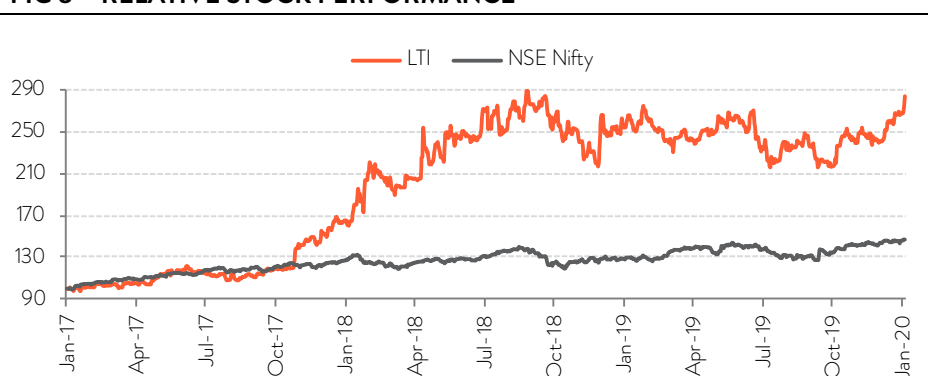
Impressive Dec'19 quarter revenues and consistent big deal wins position LTI well to reclaim its industry-wide growth leadership. We raise FY21/FY22 EPS estimates by 2%/3% to bake in higher revenue growth and increase our target P/E multiple to 20x from 19.3x to factor in the swifter-than-expected growth rebound; on rolling valuations forward, we have a new Mar'21 target price of Rs 2,230 (vs. Rs 2,010). Reiterate BUY as we like LTI's growth prospects backed by its strong sales engine, 'outcome-focused' digital capabilities, client mining skills and robust leadership.

**FIG 7 – REVISED ESTIMATES**

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues (US\$ mn)	1,474	1,521	3.2	1,641	1,744	6.3	1,833	1,956	6.7
YoY growth (%)	9.2	12.7	-	11.4	14.7	-	11.7	12.1	-
Revenues	1,03,286	1,07,103	3.7	1,14,878	1,22,099	6.3	1,28,327	1,36,908	6.7
EBITDA	19,232	19,941	3.7	22,606	23,574	4.3	25,252	26,597	5.3
EBITDA margins (%)	18.6	18.6	-	19.7	19.3	-	19.7	19.4	-
Net profits	15,082	14,971	(0.7)	17,613	17,837	1.3	19,002	19,538	2.8
EPS	85.9	85.4	(0.6)	100.3	101.8	1.5	108.3	111.5	3.0

Source: BOBCAPS Research

**FIG 8 – 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 a leadership flux 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 large deal wins are 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	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>73,064</b>	<b>94,458</b>	<b>1,07,103</b>	<b>1,22,099</b>	<b>1,36,908</b>
EBITDA	11,875	18,835	19,941	23,574	26,597
Depreciation	1,563	1,471	2,695	3,052	3,423
EBIT	10,312	17,364	17,246	20,522	23,174
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	4,102	2,915	2,659	3,261	2,876
Exceptional items	0	0	0	0	0
EBT	14,414	20,279	19,905	23,783	26,050
Income taxes	3,290	5,122	4,935	5,946	6,513
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>14,971</b>	<b>17,837</b>	<b>19,538</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>11,124</b>	<b>15,157</b>	<b>14,971</b>	<b>17,837</b>	<b>19,538</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	0	0	0	0	0
Other current liabilities	12,960	15,291	17,338	19,766	22,163
Provisions	2,123	2,402	2,724	3,105	3,481
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	57,434	67,755	79,059
Shareholders' fund	38,610	48,943	57,605	67,926	79,230
<b>Total liabilities and equities</b>	<b>53,825</b>	<b>66,692</b>	<b>77,723</b>	<b>90,852</b>	<b>1,04,930</b>
Cash and cash eq.	3,633	4,150	10,601	18,225	26,867
Accounts receivables	22,327	23,845	19,073	21,744	24,381
Inventories	0	0	0	0	0
Other current assets	7,121	10,878	13,498	15,388	17,254
Investments	12,643	17,402	17,402	17,402	17,402
Net fixed assets	5,281	8,031	8,014	8,014	8,014
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	6,749	7,694	8,627
<b>Total assets</b>	<b>53,826</b>	<b>66,692</b>	<b>77,723</b>	<b>90,852</b>	<b>1,04,931</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	9,106	16,628	17,666	20,890	22,960
Interest expenses	134	(1,089)	(477)	(1,680)	(2,138)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(3,760)	(2,665)	(2,229)	(2,696)	(2,663)
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>14,960</b>	<b>16,513</b>	<b>18,160</b>
Capital expenditures	(982)	(4,221)	(2,678)	(3,052)	(3,423)
Change in investments	(2,501)	(4,324)	0	0	0
Other investing cash flows	(1,041)	1,089	477	1,680	2,138
<b>Cash flow from investing</b>	<b>(4,524)</b>	<b>(7,456)</b>	<b>(2,201)</b>	<b>(1,372)</b>	<b>(1,285)</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)	(6,309)	(7,517)	(8,233)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(4,076)</b>	<b>(5,911)</b>	<b>(6,309)</b>	<b>(7,517)</b>	<b>(8,233)</b>
<b>Changes in cash and cash eq.</b>	<b>(162)</b>	<b>517</b>	<b>6,451</b>	<b>7,624</b>	<b>8,642</b>
<b>Closing cash and cash eq.</b>	<b>3,633</b>	<b>4,150</b>	<b>10,601</b>	<b>18,225</b>	<b>26,867</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	63.5	86.5	85.4	101.8	111.5
Adjusted EPS	63.5	86.5	85.4	101.8	111.5
Dividend per share	21.5	28.0	29.9	35.6	39.0
Book value per share	220.5	279.2	328.8	387.7	452.2

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	4.6	3.5	3.1	2.7	2.4
EV/EBITDA	28.3	17.8	16.8	14.1	12.2
Adjusted P/E	30.4	22.4	22.6	19.0	17.3
P/BV	8.8	6.9	5.9	5.0	4.3

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	77.2	74.7	75.2	75.0	75.0
Interest burden (PBT/EBIT)	139.8	116.8	115.4	115.9	112.4
EBIT margin (EBIT/Revenue)	14.1	18.4	16.1	16.8	16.9
Asset turnover (Revenue/Avg TA)	148.9	156.8	148.3	144.9	139.9
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.3
Adjusted ROAE	31.8	34.6	28.1	28.4	26.6

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

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	12.4	29.3	13.4	14.0	12.1
EBITDA	(3.4)	58.6	5.9	18.2	12.8
Adjusted EPS	(8.2)	36.1	(1.2)	19.1	9.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	16.3	19.9	18.6	19.3	19.4
EBIT margin	14.1	18.4	16.1	16.8	16.9
Adjusted profit margin	15.2	16.0	14.0	14.6	14.3
Adjusted ROAE	31.8	34.6	28.1	28.4	26.6
ROCE	32.8	43.4	37.5	42.4	45.4
<b>Working capital days (days)</b>					
Receivables	85	89	73	61	61
Inventory	0	0	0	0	0
Payables	12	11	11	11	11
<b>Ratios (x)</b>					
Gross asset turnover	13.6	14.2	13.4	15.2	17.1
Current ratio	2.2	2.2	2.5	2.8	3.0
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.1)	(0.1)	(0.2)	(0.3)	(0.3)

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

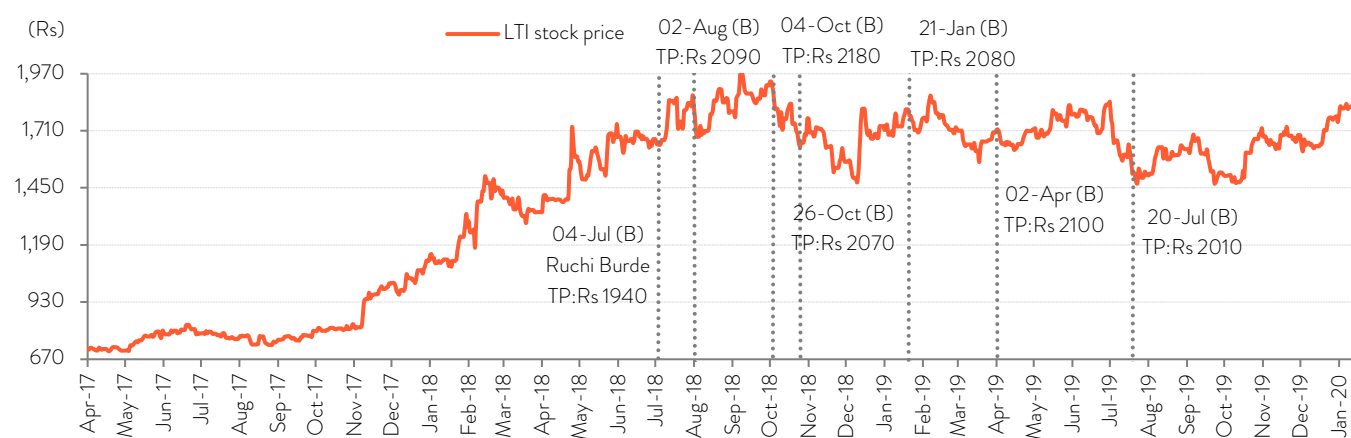
**ADD** – Expected return from >+5% to +15%

**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

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