

BUY

TP: Rs 4,740 | ▲ 16%

L&T INFOTECH

| IT Services

| 20 January 2021

Large deals accelerate; margins shine

L&T Infotech's (LTI) Q3FY21 dollar revenue growth was strong at 5.8% QoQ due to an uptick in the manufacturing and BFS verticals. Operating margins stood at a record high of 20.6% backed by increased offshoring and tight SG&A cost control. We raise FY21-FY23 EPS estimates by 4-6% and roll over to a new Dec'21 TP of Rs 4,740 (vs. Rs 3,860), set at a higher target P/E of 30x (vs. 27x) given LTI's strong revenue mix, favourable offshore presence, client mining skills and robust leadership. Retain BUY.

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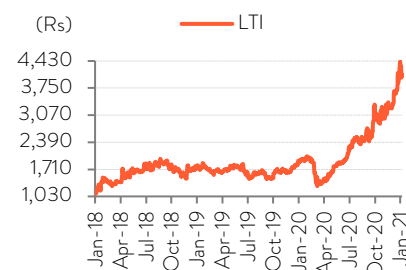
BFS and manufacturing lead growth: LTI's QoQ growth of 5.8% USD/5.3% CC was strong, albeit below our estimate of 7.5% USD/7.2% CC. Growth was driven by momentum in BFS/manufacturing which were up 8.2%/9.7% QoQ, USD. The insurance and energy-utilities verticals remained weak with low-single-digit contraction. Retail-CPG managed to recover with 4.8% growth. EBIT margin was up 80bps QoQ to 20.6%, bettering our estimate of 19%, owing to lower employee cost, increased offshoring and higher utilisation (81%, +60bps).

Ticker/Price	LTI IN/Rs 4,091
Market cap	US\$ 9.9bn
Shares o/s	176mn
3M ADV	US\$ 22.5mn
52wk high/low	Rs 4,483/Rs 1,210
Promoter/FPI/DII	75%/8%/10%

Source: NSE

Two large deal wins: LTI won two large deals: (1) a six-year US\$ 204mn deal wherein it will take over Injazat's ERP and infrastructure services, besides assisting in digital, cloud and ERP transformation projects. Injazat deal revenue will flow through from next quarter; and (2) a five-year energy deal with a Fortune-500 company for net new TCV of US\$ 74mn. Total TCV in Q3 was the highest ever at US\$ 278mn, up from a mere US\$ 40mn in Q2.

STOCK PERFORMANCE



Source: NSE

High-single-digit growth in FY21: With a healthy pipeline, we expect strong growth in the fourth quarter. LTI has already bagged a few large deals in Q4 so far. Management expects to deliver high-single-digit growth in FY21 and leader-quadrant worthy growth in FY22. LTI's in-house cloud capabilities and high-level partnerships with hyperscalers will help maintain the momentum.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	94,458	108,786	124,790	155,299	188,200
EBITDA (Rs mn)	18,835	20,291	27,429	33,152	40,115
Adj. net profit (Rs mn)	15,157	15,198	19,052	23,883	28,339
Adj. EPS (Rs)	86.5	86.4	108.6	136.1	161.5
Adj. EPS growth (%)	36.1	0.0	25.6	25.4	18.7
Adj. ROAE (%)	34.6	29.5	32.0	33.2	32.5
Adj. P/E (x)	47.3	47.3	37.7	30.1	25.3
EV/EBITDA (x)	38.0	35.3	26.2	21.7	17.7

Source: Company, BOBCAPS Research

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Other highlights

- Cloud is LTI's US\$ 1bn bet. AWS, GCP, Azure and core digitisation have been the source of large cloud-based deals. The company's business with hyperscalers is currently at US\$ 180mn+ and rising. Half of its 150+ clients are already on their cloud migration journey.
- LTI has become the elite partner for Snowflake – a cloud hyperscaler.
- Net profit margin is guided to lie within the range of 14-15% for FY21 and FY22.
- Digital formed 44.4% of revenue, up 9.5% QoQ in Q3.
- Attrition stood at 12.4% – LTI's lowest ever.

FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenues (US\$ mn)	427.8	394.4	8.5	404.5	5.8	1,222.6	1,114.7	9.7
Revenue	31,528.0	28,111.0	12.2	29,984.0	5.1	91,004.0	78,667.0	15.7
Operating Expenditure	24,208	22,837	6.0	23,128	4.7	70,906	64,157	10.5
Cost of revenues	20,507.0	19,188.0	6.9	19,537.0	5.0	59,960.0	53,338.0	12.4
as % of sales	65.0	68.3	-	65.2	-	65.9	67.8	-
SG&A expenses	3,701.0	3,649.0	1.4	3,591.0	3.1	10,946.0	10,819.0	1.2
as % of sales	11.7	13.0	-	12.0	-	12.0	13.8	-
EBITDA	7,320	5,274	38.8	6,856	6.8	20,098	14,510	38.5
Depreciation	819.0	709.0	15.5	899.0	(8.9)	2,499.0	1,984.0	26.0
EBIT	6,501	4,565	42.4	5,957	9.1	17,599	12,526	40.5
Other Income	492.0	433.0	-	174.0	-	1,116.0	1,984.0	-
PBT	6,993	4,998	39.9	6,131	14.1	18,715	14,510	29.0
Total Tax	1,801.0	1,231.0	46.3	1,563.0	15.2	4,789.0	3,586.0	33.5
Reported PAT	5,192	3,767	37.8	4,568	13.7	13,926	10,924	27.5
Reported EPS	29.6	21.5	37.6	26.0	13.7	79.4	62.3	27.4
Margins (%)			(bps)		(bps)			(bps)
EBITDA	23.2	18.8	450	22.9	40	22.1	18.4	360
EBIT	20.6	16.2	440	19.9	80	19.3	15.9	340
EBT	22.2	17.8	440	20.4	170	20.6	18.4	210
PAT	16.5	13.4	310	15.2	120	15.3	13.9	140
Effective Tax rate	25.8	24.6	110	25.5	30	25.6	24.7	90

Source: BOBCAPS Research

FIG 2 – OPERATING METRICS

(in US\$ terms)	Q3FY21 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
Revenue by Vertical			
BFS	30.6	8.2	19.4
Insurance	15.0	(0.8)	(8.6)
Manufacturing	16.8	9.7	4.1
Energy & Process	10.0	(0.2)	(4.0)
CPG, Retail & Pharma	10.9	4.8	5.6
High-Tech, Media & Entertainment	10.6	5.8	6.5
Others	6.0	11.3	75.9
Revenue by Geography			
North America	67.9	4.5	6.0
Europe	16.1	5.8	11.9
India	8.6	31.8	22.7
RoW	7.4	(4.6)	8.5
Client Contribution to Revenue			
Top 5 clients	29.3	3.3	(3.1)
Top 10 clients	42.0	3.5	(2.7)
Top 20 clients	57.1	4.5	(0.1)
Non top 20 client revenues	42.9	7.5	22.5
Digital Revenues	44.4	9.5	17.5

Source: BOBCAPS Research

Valuation methodology

The new AED 760mn cloud deal assures LTI of growth for FY21-FY22. Management is confident of keeping net profit margins within the narrow band of 14-15% despite increased costs from deal transition, using its low subcontracting costs and industry-high offshoring. We increase FY22/FY23 EPS estimates by 4-6% and roll over to a Dec'21 target price of Rs 4,740 from Rs 3,860, based on an elevated one-year forward P/E multiple of 30x (27x earlier)-given its ability to capitalise well on the better demand environment, accelerated large deal wins and robust margins.

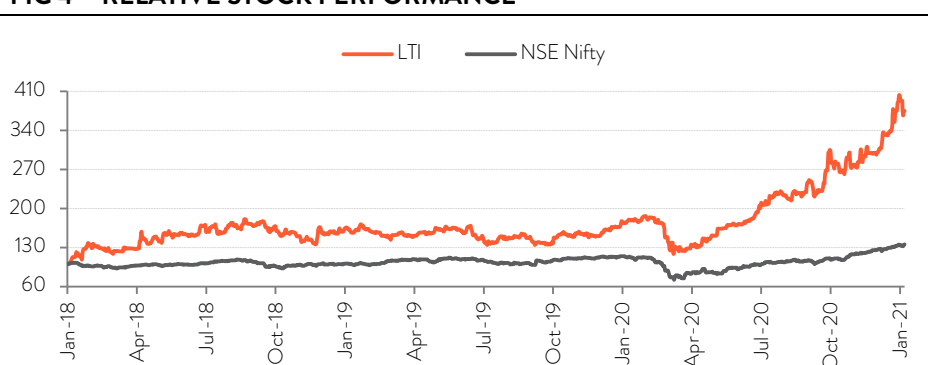
Our BUY rating is justified by LTI's best-in-class fundamentals among IT mid-caps. The company continued to exhibit strong growth leadership through recent challenging times backed by a robust sales engine, marquee clientele and evolving service offerings, paving the way for a swift growth rebound post crisis. We believe timely investments in sales, cloud and data products will help it remain ahead in terms of growth and margin performance among mid-caps. LTI's share price has risen 62% since the Q2FY21. Though the near-term upside may seem limited, we are confident of the stock's long-term potential. Maintain BUY.

FIG 3 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues (US\$ mn)	1,680	1,673	(0.4)	2,023	2,029	0.3	2,337	2,413	3.3
YoY growth (%)	10.2	9.7	-	20.4	21.3	-	15.5	18.9	-
Revenues	126,518	124,790	(1.4)	157,762	155,299	(1.6)	182,252	188,200	3.3
EBITDA	26,839	27,429	2.2	32,670	33,152	1.5	37,778	40,115	6.2
EBITDA margins (%)	21.2	22.0	-	20.7	21.3	-	20.7	21.3	-
Net profits	18,404	19,052	3.5	22,919	23,883	4.2	26,657	28,339	6.3
EPS (Rs)	104.9	108.6	3.5	130.6	136.1	4.2	151.9	161.5	6.3

Source: BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Steady large deal wins are critical for the company to sustain its strong growth traction. An inability to do so may derail growth.
- Unsustainable margins.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	94,458	108,786	124,790	155,299	188,200
EBITDA	18,835	20,291	27,429	33,152	40,115
Depreciation	1,471	2,731	3,513	3,882	4,705
EBIT	17,364	17,560	23,917	29,270	35,410
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	2,915	2,463	1,679	2,789	2,629
Exceptional items	0	0	0	0	0
EBT	20,279	20,023	25,596	32,058	38,039
Income taxes	5,122	4,825	6,544	8,175	9,700
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	15,157	15,198	19,052	23,883	28,339
Adjustments	0	0	0	0	0
Adjusted net profit	15,157	15,198	19,052	23,883	28,339

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	15,291	23,618	27,092	33,716	40,859
Provisions	2,402	2,908	3,336	4,151	5,031
Debt funds	0	7,571	7,571	7,571	7,571
Other liabilities	56	101	101	101	101
Equity capital	171	174	174	174	174
Reserves & surplus	48,772	53,877	64,901	78,720	95,117
Shareholders' fund	48,943	54,051	65,075	78,894	95,291
Total liabilities and equities	66,692	88,249	103,175	124,433	148,853
Cash and cash eq.	4,150	5,252	11,775	25,227	37,438
Accounts receivables	23,845	27,541	34,189	38,293	46,406
Inventories	0	0	0	0	0
Other current assets	10,878	10,442	11,966	14,892	18,047
Investments	17,402	22,186	22,186	22,186	22,186
Net fixed assets	8,031	19,788	20,019	20,796	21,737
CWIP	0	0	0	0	0
Intangible assets	0	1,316	1,316	1,316	1,316
Deferred tax assets, net	2,386	3,039	3,039	3,039	3,039
Other assets	0	0	0	0	0
Total assets	66,692	88,248	103,174	124,432	148,852

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	16,628	17,929	22,565	27,766	33,044
Interest expenses	(1,089)	(342)	(1,449)	(1,583)	(2,391)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(2,665)	5,573	(4,270)	410	(3,245)
Other operating cash flows	1,010	(6,887)	0	0	0
Cash flow from operations	13,884	16,273	16,846	26,592	27,409
Capital expenditures	(4,221)	(5,480)	(3,744)	(4,659)	(5,646)
Change in investments	(4,324)	0	0	0	0
Other investing cash flows	1,089	(3,287)	1,449	1,583	2,391
Cash flow from investing	(7,456)	(8,767)	(2,295)	(3,076)	(3,255)
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	(5,911)	(6,404)	(8,029)	(10,064)	(11,942)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(5,911)	(6,404)	(8,029)	(10,064)	(11,942)
Changes in cash and cash eq.	517	1,102	6,523	13,452	12,211
Closing cash and cash eq.	4,150	5,252	11,775	25,227	37,438

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	86.5	86.4	108.6	136.1	161.5
Adjusted EPS	86.5	86.4	108.6	136.1	161.5
Dividend per share	28.0	30.2	38.0	47.6	56.5
Book value per share	279.2	307.3	370.8	449.6	543.0

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	7.6	6.6	5.8	4.6	3.8
EV/EBITDA	38.0	35.3	26.2	21.7	17.7
Adjusted P/E	47.3	47.3	37.7	30.1	25.3
P/BV	14.7	13.3	11.0	9.1	7.5

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	74.7	75.9	74.4	74.5	74.5
Interest burden (PBT/EBIT)	116.8	114.0	107.0	109.5	107.4
EBIT margin (EBIT/Revenue)	18.4	16.1	19.2	18.8	18.8
Asset turnover (Revenue/Avg TA)	156.8	140.4	130.4	136.5	137.7
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.6	1.6	1.6
Adjusted ROAE	34.6	29.5	32.0	33.2	32.5

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	29.3	15.2	14.7	24.4	21.2
EBITDA	58.6	7.7	35.2	20.9	21.0
Adjusted EPS	36.1	0.0	25.6	25.4	18.7
Profitability & Return ratios (%)					
EBITDA margin	19.9	18.7	22.0	21.3	21.3
EBIT margin	18.4	16.1	19.2	18.8	18.8
Adjusted profit margin	16.0	14.0	15.3	15.4	15.1
Adjusted ROAE	34.6	29.5	32.0	33.2	32.5
ROCE	43.4	34.7	40.7	47.9	55.8
Working capital days (days)					
Receivables	89	86	90	85	82
Inventory	0	0	0	0	0
Payables	11	11	12	11	11
Ratios (x)					
Gross asset turnover	14.2	7.8	6.3	7.6	8.8
Current ratio	2.2	1.6	1.9	2.1	2.2
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.1)	0.0	(0.1)	(0.2)	(0.3)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

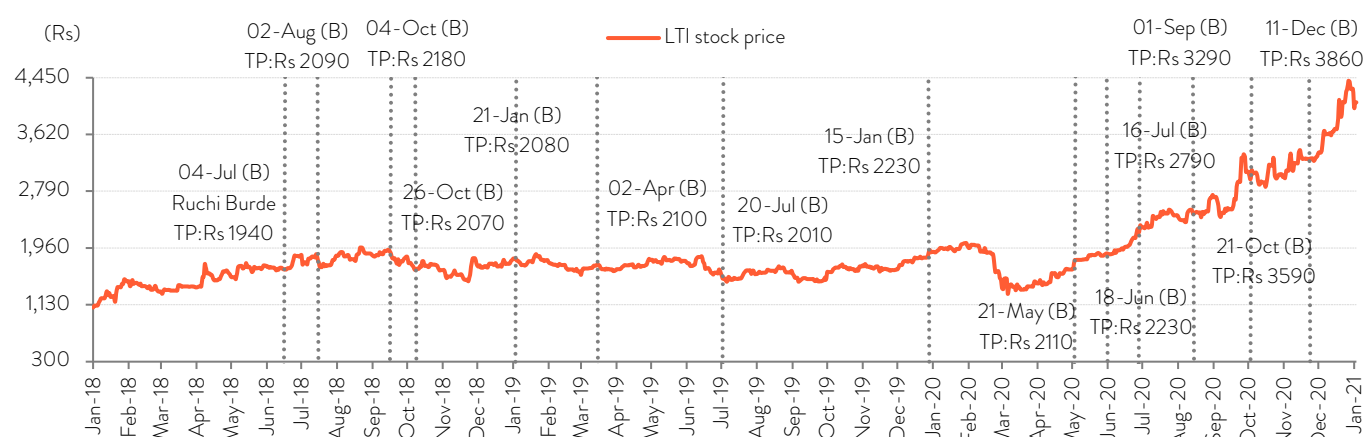
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): L&T INFOTECH (LTI IN)



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

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