

**BUY**

TP: Rs 2,110 | ▲ 18%

**L&T INFOTECH**

| IT Services

| 21 May 2020

## Impressive show despite challenging times

**L&T Infotech (LTI) reported 4.7% QoQ CC revenue growth in Q4FY20, well ahead of estimates. Operating margins also bettered expectations. Revenue growth was broad-based across verticals and supported by healthy non-Top 20 client contribution. LTI also won two large deals with aggregate TCv of US\$ 100mn+. Given pandemic-led risks, we trim FY21/FY22 EPS by 9%/5% and pare out TP to Rs 2,110 (vs. Rs 2,230). We reiterate BUY given LTI's strong sales engine, 'outcome-focused' digital capabilities, client mining skills and robust leadership.**

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**Impressive Q4:** LTI reported 4.7% QoQ CC revenue growth (3.9% QoQ in USD terms), well ahead of our estimate (2.7% QoQ CC) and the highest March quarter growth among peers. Reported EBIT margins rose 50bps QoQ to 16.7%. Excluding a Rs 180mn donation to PM Cares Fund, adj. EBIT margins at 17.3% (+110bps QoQ) were ahead of our estimate of 17%. LTI continued to win large deals, bagging two contracts with a combined TCv of >US\$ 100mn.

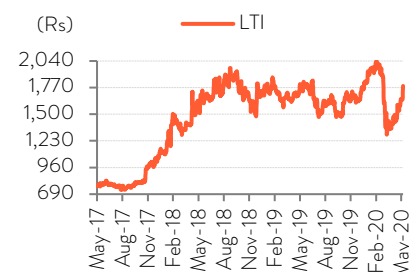
**Healthy growth composition:** Revenue growth was spread across verticals with the exception of insurance (-1.9% QoQ in dollar terms). Among services, IMS led the way (+13.9% QoQ). Revenue from the non-top 20 clients grew the fastest at 9.9% QoQ while the top 10/20 brackets increased by 1.7%/0.2% QoQ (top 5 clients flattish). Management highlighted the absence of client-specific challenge in its top accounts.

**Management outlook:** As with peers, LTI's Jun'20 quarter is guided to be weak due to Covid-19 challenges. Management cautioned that the energy/manufacturing verticals (18%/11% of Q4 revenue) could see near-term Covid-led headwinds, but expects relative strength for CPG & pharma (which along with retail contributed 11% of revenue). Management sees unchanged demand dynamics for BFS but hinted at potential challenges after a two-quarter lag.

Ticker/Price	LTI IN/Rs 1,784
Market cap	US\$ 4.1bn
Shares o/s	176mn
3M ADV	US\$ 3.1mn
52wk high/low	Rs 2,050/Rs 1,210
Promoter/FPI/DII	75%/8%/10%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	73,064	94,458	108,786	122,330	134,092
EBITDA (Rs mn)	11,875	18,835	20,291	22,951	26,050
Adj. net profit (Rs mn)	11,124	15,157	15,198	16,329	18,560
Adj. EPS (Rs)	63.5	86.5	86.4	92.8	105.5
Adj. EPS growth (%)	(8.2)	36.1	0.0	7.4	13.7
Adj. ROAE (%)	31.8	34.6	29.5	27.8	26.9
Adj. P/E (x)	28.1	20.6	20.6	19.2	16.9
EV/EBITDA (x)	26.2	16.5	15.3	13.6	12.0

Source: Company, BOBCAPS Research

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**FIG 1 – CONSISTENT TRACK RECORD OF LARGE DEAL WINS**

Quarter	Large deal wins
	<b>2 large deals with aggregate net new TCV of US\$ 100mn+</b>
<b>Mar-20</b>	<ul style="list-style-type: none"> <li>Deal 1: US\$ 70mn multi-year net new TCV deal with a key government ministry for implementing new microservices-based applications and building a data and analytics platform</li> <li>Deal 2: US\$ 40mn TCV deal award by a large energy retail company for end-to-end managed services for its IT applications and infrastructure operations</li> </ul>
<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>	<ul style="list-style-type: none"> <li>Deal 1: Multi-year multi-million-dollar deal for transforming global application operations of an engineering equipment manufacturer</li> <li>Deal 2: New logo opening with a large IT transformation deal in the insurance vertical</li> </ul>
<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>	<ul style="list-style-type: none"> <li>Multi-year multi-million-dollar deal in ERP, data and analytics with global consumer and pharmaceutical conglomerate</li> </ul>

Source: Company, BOBCAPS Research

**FIG 2 – MAR'20 QUARTER PERFORMANCE**

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
<b>Revenues (US\$ mn)</b>	<b>409.9</b>	<b>353.8</b>	<b>15.9</b>	<b>394.4</b>	<b>3.9</b>	<b>1,524.6</b>	<b>1,349.1</b>	<b>13.0</b>
<b>Revenue</b>	<b>30,119.0</b>	<b>24,860.0</b>	<b>21.2</b>	<b>28,111.0</b>	<b>7.1</b>	<b>1,08,786</b>	<b>94,458</b>	<b>15.2</b>
Operating Expenditure	24,338	20,095	21.1	22,837	6.6	88,495	75,623	17.0
Cost of revenues	20,251.0	16,417.0	23.4	19,188.0	5.5	73,589	61,643	19.4
as % of sales	67.2	66.0	-	68.3	-	67.6	65.3	-
SG&A expenses	4,087.0	3,678.0	11.1	3,649.0	12.0	14,906	13,980	6.6
as % of sales	13.6	14.8	-	13.0	-	13.7	14.8	-
<b>EBITDA</b>	<b>5,781</b>	<b>4,765</b>	<b>21.3</b>	<b>5,274</b>	<b>9.6</b>	<b>20,291</b>	<b>18,835</b>	<b>7.7</b>
Depreciation	747.0	371.0	101.3	709.0	5.4	2,731	1,471	85.7
<b>EBIT</b>	<b>5,034</b>	<b>4,394</b>	<b>14.6</b>	<b>4,565</b>	<b>10.3</b>	<b>17,560</b>	<b>17,364</b>	<b>1.1</b>
Other Income	479.0	648.0	-	433.0	-	2,463	2,915	-
<b>PBT</b>	<b>5,513</b>	<b>5,042</b>	<b>9.3</b>	<b>4,998</b>	<b>10.3</b>	<b>20,023</b>	<b>20,279</b>	<b>(1.3)</b>
Total Tax	1,239.0	1,255.0	(1.3)	1,231.0	0.6	4,825	5,122	(5.8)
<b>Reported PAT</b>	<b>4,274</b>	<b>3,787</b>	<b>12.9</b>	<b>3,767</b>	<b>13.5</b>	<b>15,198</b>	<b>15,157</b>	<b>0.3</b>
Reported EPS	24.3	21.6	12.5	21.5	13.0	86.6	86.4	0.2
<b>Margins (%)</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
EBITDA	19.2	19.2	-	18.8	40	18.7	19.9	(130)
EBIT	16.7	17.7	(100)	16.2	50	16.1	18.4	(220)
EBT	18.3	20.3	(200)	17.8	50	18.4	21.5	(310)
PAT	14.2	15.2	(100)	13.4	80	14.0	16.0	(210)
Effective Tax rate	22.5	24.9	(240)	24.6	(220)	24.1	25.3	(120)

Source: Company, BOBCAPS Research

**FIG 3 – MAR'20 QUARTER OPERATING PERFORMANCE**

(in US\$ terms)	Q4FY20 (% Contr. to Revenue)	Growth (%)	
		QoQ	YoY
<b>Revenue by Vertical</b>			
BFS	27.6	3.2	15.4
Insurance	16.8	(1.9)	9.3
Manufacturing	18.0	6.9	25.6
Energy & Process	11.4	4.8	20.1
CPG, Retail & Pharma	11.2	3.9	22.4
High-Tech, Media & Entertainment	11.0	5.9	2.8
Others	4.0	12.4	18.8
<b>Revenue by Geography</b>			
North America	68.9	3.0	20.2
Europe	15.1	0.6	6.7
India	7.8	6.7	10.2
RoW	8.1	13.8	3.1
<b>Client Contribution to Revenue</b>			
Top 5 clients	31.2	(1.1)	12.3
Top 10 clients	45.8	1.7	12.9
Top 20 clients	59.8	0.2	9.3
Non top 20 client revenues	40.2	9.9	27.3
Digital Revenues	40.7	3.2	24.4

Source: Company, BOBCAPS Research

## Valuation methodology

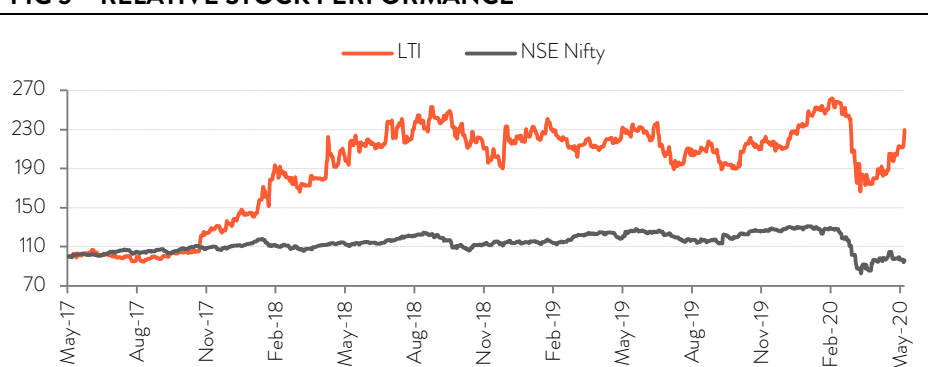
We trim our FY21/FY22 EPS estimates by 9%/5% as we moderate revenue and profitability assumptions to factor in the Covid-19 crisis. Our Mar'21 target price thus reduces from Rs 2,230 to Rs 2,110, based on an unchanged FY22E P/E multiple of 20x. We reiterate BUY as we like LTI's growth prospects backed by its strong sales engine, 'outcome-focused' digital capabilities, client mining skills and robust leadership.

**FIG 4 – REVISED ESTIMATES**

(Rs mn)	FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues (US\$ mn)	1,744	1,631	(6.5)	1,956	1,788	(8.6)
YoY growth (%)	1470.0	7.0	-	1210.0	9.6	-
Revenues	1,22,099	1,22,330	0.2	1,36,908	1,34,092	(2.1)
EBITDA	23,574	22,951	(2.6)	26,597	26,050	(2.1)
EBITDA margins (%)	19.3	18.8	-	19.4	19.4	-
Net profits	17,837	16,329	(8.5)	19,538	18,560	(5.0)
EPS (Rs)	101.8	92.8	(8.8)	111.5	105.5	(5.4)

Source: BOBCAPS Research

**FIG 5 – 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	FY20P	FY21E	FY22E
<b>Total revenue</b>	<b>73,064</b>	<b>94,458</b>	<b>108,786</b>	<b>122,330</b>	<b>134,092</b>
EBITDA	11,875	18,835	20,291	22,951	26,050
Depreciation	1,563	1,471	2,731	3,058	3,352
EBIT	10,312	17,364	17,560	19,893	22,697
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	4,102	2,915	2,463	1,879	2,049
Exceptional items	0	0	0	0	0
EBT	14,414	20,279	20,023	21,772	24,746
Income taxes	3,290	5,122	4,825	5,443	6,187
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>15,198</b>	<b>16,329</b>	<b>18,560</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>11,124</b>	<b>15,157</b>	<b>15,198</b>	<b>16,329</b>	<b>18,560</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	0	0	0	0	0
Other current liabilities	12,960	15,291	23,618	26,559	29,112
Provisions	2,123	2,402	2,908	3,270	3,584
Debt funds	0	0	7,571	7,571	7,571
Other liabilities	132	56	101	101	101
Equity capital	171	171	174	174	174
Reserves & surplus	38,439	48,772	53,877	63,325	74,063
Shareholders' fund	38,610	48,943	54,051	63,499	74,237
<b>Total liabilities and equities</b>	<b>53,825</b>	<b>66,692</b>	<b>88,249</b>	<b>100,999</b>	<b>114,606</b>
Cash and cash eq.	3,633	4,150	5,252	10,128	22,388
Accounts receivables	22,327	23,845	27,541	33,515	33,064
Inventories	0	0	0	0	0
Other current assets	7,121	10,878	10,442	11,730	12,858
Investments	12,643	17,402	22,186	22,186	22,186
Net fixed assets	5,281	8,031	19,788	20,400	21,070
CWIP	0	0	0	0	0
Intangible assets	0	0	1,316	1,316	1,316
Deferred tax assets, net	2,821	2,386	3,039	3,039	3,039
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>53,826</b>	<b>66,692</b>	<b>88,248</b>	<b>100,998</b>	<b>114,605</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	9,106	16,628	17,929	19,387	21,912
Interest expenses	134	(1,089)	(342)	(1,192)	(1,485)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(3,760)	(2,665)	5,573	(3,960)	2,191
Other operating cash flows	2,958	1,010	(6,887)	0	0
<b>Cash flow from operations</b>	<b>8,438</b>	<b>13,884</b>	<b>16,273</b>	<b>14,235</b>	<b>22,619</b>
Capital expenditures	(982)	(4,221)	(5,480)	(3,670)	(4,023)
Change in investments	(2,501)	(4,324)	0	0	0
Other investing cash flows	(1,041)	1,089	(3,287)	1,192	1,485
<b>Cash flow from investing</b>	<b>(4,524)</b>	<b>(7,456)</b>	<b>(8,767)</b>	<b>(2,478)</b>	<b>(2,538)</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)	(6,404)	(6,881)	(7,821)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(4,076)</b>	<b>(5,911)</b>	<b>(6,404)</b>	<b>(6,881)</b>	<b>(7,821)</b>
<b>Changes in cash and cash eq.</b>	<b>(162)</b>	<b>517</b>	<b>1,102</b>	<b>4,876</b>	<b>12,260</b>
<b>Closing cash and cash eq.</b>	<b>3,633</b>	<b>4,150</b>	<b>5,252</b>	<b>10,128</b>	<b>22,388</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	63.5	86.5	86.4	92.8	105.5
Adjusted EPS	63.5	86.5	86.4	92.8	105.5
Dividend per share	21.5	28.0	30.2	32.5	36.9
Book value per share	220.5	279.2	307.3	361.0	422.1

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	4.3	3.3	2.8	2.6	2.3
EV/EBITDA	26.2	16.5	15.3	13.6	12.0
Adjusted P/E	28.1	20.6	20.6	19.2	16.9
P/BV	8.1	6.4	5.8	4.9	4.2

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	77.2	74.7	75.9	75.0	75.0
Interest burden (PBT/EBIT)	139.8	116.8	114.0	109.4	109.0
EBIT margin (EBIT/Revenue)	14.1	18.4	16.1	16.3	16.9
Asset turnover (Revenue/Avg TA)	148.9	156.8	140.4	129.3	124.4
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.5	1.6	1.6
Adjusted ROAE	31.8	34.6	29.5	27.8	26.9

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

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	12.4	29.3	15.2	12.5	9.6
EBITDA	(3.4)	58.6	7.7	13.1	13.5
Adjusted EPS	(8.2)	36.1	0.0	7.4	13.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	16.3	19.9	18.7	18.8	19.4
EBIT margin	14.1	18.4	16.1	16.3	16.9
Adjusted profit margin	15.2	16.0	14.0	13.3	13.8
Adjusted ROAE	31.8	34.6	29.5	27.8	26.9
ROCE	32.8	43.4	34.7	33.9	37.7
<b>Working capital days (days)</b>					
Receivables	85	89	86	91	91
Inventory	0	0	0	0	0
Payables	12	11	11	11	12
<b>Ratios (x)</b>					
Gross asset turnover	13.6	14.2	7.8	6.1	6.5
Current ratio	2.2	2.2	1.6	1.9	2.1
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.1)	(0.1)	0.0	0.0	(0.2)

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

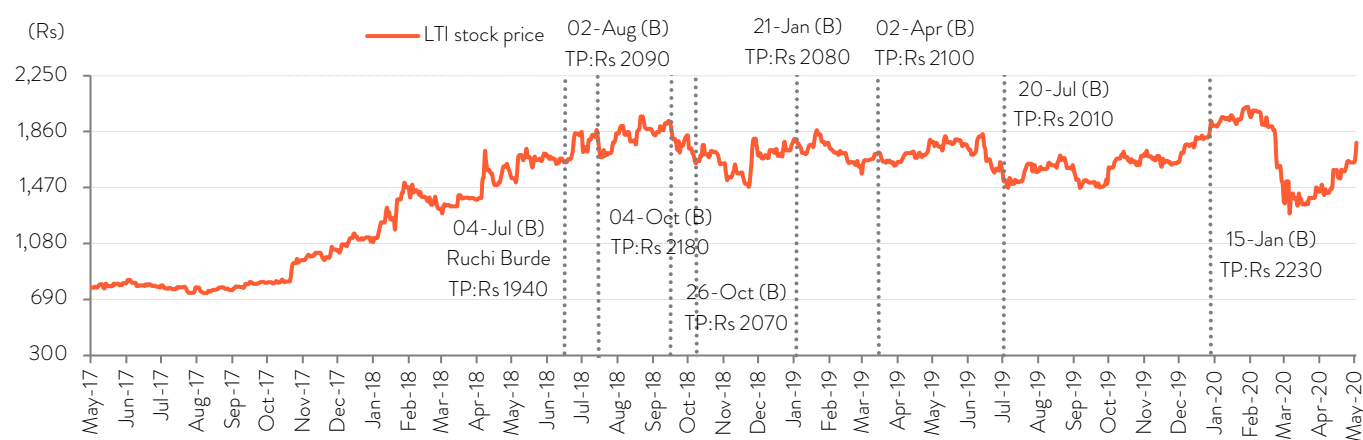
**ADD** – Expected return from >+5% to +15%

**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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