

**BUY**

TP: Rs 4,710 | ▲ 20%

**L&T INFOTECH**

| IT Services

| 05 May 2021

## Market-leading growth in FY21

L&T Infotech's (LTI) Q4FY21 revenue growth was strong at 4.4% QoQ CC due to an uptick in the hi-tech, manufacturing and BFS verticals. Operating margin stood at 19.4%, backed by increased offshoring and tight SG&A cost control. In light of pending wage hikes, we trim FY22/FY23 EPS by 3%/4%. Post rollover, we arrive at a new Mar'23 TP of Rs 4,710 (vs. Rs 4,740), set at an unchanged 30x P/E. Maintain BUY given LTI's strong revenue mix, traction in hi-tech, favourable offshore presence, client mining skills and robust leadership.

Ruchi Burde | Seema Nayak

research@bobcaps.in

**Hi-tech and BFS lead growth:** LTI posted strong 4.4% QoQ CC revenue growth in Q4 (4.7% est.). Growth was supported by momentum in hi-tech/manufacturing/BFS which were up 16.4%/5.2%/4.9% QoQ USD. The hi-tech vertical benefited from the US\$ 204mn Injazat deal. Insurance remained weak with low-single-digit growth and energy & utilities saw 4.8% QoQ contraction. Retail-CPG continued to recover, rising 3.6%. EBIT margin contracted 130bps QoQ to 19.4% because of hiring and wage hikes, albeit bettering our estimate of 18.7% due to low SG&A spend.

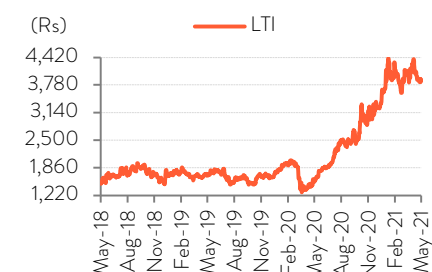
**Consistent, healthy growth outside top-20 clients:** LTI's non-top-20 client growth stood at 8.2% QoQ and 20.6% YoY USD in Q4. Non-top 20 growth has been consistent through FY21 despite the impact of Covid, aiding a decline in top-10 and top-20 client concentration by 1% QoQ each (4-5% YoY) in Q4 and improving revenue diversification. The company added three new clients each in its US\$ 10mn+ and US\$ 5mn+ buckets and two in the US\$ 1mn+ bucket.

**Maintain BUY:** LTI has consistently maintained a superior performance versus mid-cap peers, posting high growth and best-in-class EBIT margins. FY21 dollar revenue growth of 9.5% has been market-leading despite pandemic headwinds in Q1FY21, as against negative to flattish YoY growth for peers. Reiterate BUY.

Ticker/Price	LTI IN/Rs 3,915
Market cap	US\$ 9.3bn
Shares o/s	176mn
3M ADV	US\$ 12.8mn
52wk high/low	Rs 4,483/Rs 1,510
Promoter/FPI/DII	75%/8%/10%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	94,458	108,786	123,698	150,879	180,466
EBITDA (Rs mn)	18,835	20,291	27,253	31,170	37,835
Adj. net profit (Rs mn)	15,157	15,198	19,383	23,191	27,177
Adj. EPS (Rs)	86.5	86.4	110.5	132.2	154.9
Adj. EPS growth (%)	36.1	0.0	27.8	19.6	17.2
Adj. ROAE (%)	34.6	29.5	30.5	29.1	28.8
Adj. P/E (x)	45.3	45.3	35.4	29.6	25.3
EV/EBITDA (x)	36.4	33.7	25.2	22.1	18.1

Source: Company, BOBCAPS Research | P – Provisional

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



## Other highlights

- LTI won two large contracts in Q4FY21: (1) a vendor consolidation deal with a Fortune 500 insurance company in North America carrying net new TCV of US\$ 21mn; and (2) a US\$ 45mn new logo from an Islamic bank where the company will be the prime system integrator using its Temenos platform. Net new TCV stood at US\$ 66mn in Q4, down from US\$ 278mn in Q3 (when it bagged the Injazat deal). The deal pipeline remains healthy.
- LTI carried out wage hikes effective Jan'21. The company also hired over 2,000 freshers in Q4FY21 (its highest ever), which led to a 130bps QoQ impact on EBIT margin. SG&A cost declined 10.7% QoQ due to provision reversals, thus leading to a better- than-expected EBIT margin performance despite hiring and wage hikes. PAT margin is guided to hold in the 14-15% range in FY22.
- The company has advanced its wage revision cycle for FY22 to April, instead of a July cycle.
- Management highlighted that there has been no reduction in activity momentum at its top client despite the latter's business restructuring.
- Offshore revenue share at 55.9% in Q4 was the highest ever, up 20bps QoQ and 680bps YoY.
- Digital revenue share stood at 45.6%, up 120bps QoQ and 490bps YoY. The company will discontinue this disclosure beginning Q1FY22 given its reducing relevance.
- LTM attrition was at 12.3% for the quarter vs. 12.4% in Q3FY21.
- The board has recommended final dividend of Rs 25/sh.

**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Revenues (in US\$ mn)</b>	<b>447.4</b>	<b>409.9</b>	<b>9.1</b>	<b>427.8</b>	<b>4.6</b>	<b>1,670</b>	<b>1,525</b>	<b>9.5</b>
Revenue	32,694.0	30,119.0	8.5	31,528.0	3.7	123,698	108,786	13.7
Operating Expenditure	25,539	24,338	4.9	24,208	5.5	96,445	88,495	9.0
Cost of revenues	22,233.0	20,251.0	9.8	20,507.0	8.4	82,193	73,589	11.7
as % of sales	68.0	67.2	-	65.0	-	66.4	67.6	-
SG&A expenses	3,306.0	4,087.0	(19.1)	3,701.0	(10.7)	14,252	14,906	(4.4)
as % of sales	10.1	13.6	-	11.7	-	11.5	13.7	-
<b>EBITDA</b>	<b>7,155</b>	<b>5,781</b>	<b>23.8</b>	<b>7,320</b>	<b>(2.3)</b>	<b>27,253</b>	<b>20,291</b>	<b>34.3</b>
Depreciation	826.0	747.0	10.6	819.0	0.9	3,325	2,731	21.8
<b>EBIT</b>	<b>6,329</b>	<b>5,034</b>	<b>25.7</b>	<b>6,501</b>	<b>(2.6)</b>	<b>23,928</b>	<b>17,560</b>	<b>36.3</b>
Other Income	839.0	479.0	-	492.0	-	1,955	2,463	-
PBT	7,168	5,513	30.0	6,993	2.5	25,883	20,023	29.3
Total Tax	1,711.0	1,239.0	38.1	1,801.0	(5.0)	6,500	4,825	34.7
<b>Reported PAT</b>	<b>5,457</b>	<b>4,274</b>	<b>27.7</b>	<b>5,192</b>	<b>5.1</b>	<b>19,383</b>	<b>15,198</b>	<b>27.5</b>
Reported EPS	31.1	24.3	28.0	29.6	5.1	110	87	27.5
<b>Margins (%)</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
EBITDA	21.9	19.2	270	23.2	(130)	22.0	18.7	340
EBIT	19.4	16.7	260	20.6	(130)	19.3	16.1	320
EBT	21.9	18.3	360	22.2	(30)	20.9	18.4	250
PAT	16.7	14.2	250	16.5	20	15.7	14.0	170
Effective Tax rate	23.9	22.5	140	25.8	(190)	25.1	24.1	100

Source: Company, BOBCAPS Research

**FIG 2 – OPERATING METRICS**

(in US\$ terms)	Q4FY21 (% Contr. to Revenue)	Growth	
		QoQ (%)	YoY (%)
<b>Revenue by Vertical</b>			
BFS	30.7	4.9	21.4
Insurance	14.5	1.1	(5.8)
Manufacturing	16.9	5.2	2.5
Energy & Process	9.1	(4.8)	(12.9)
CPG, Retail & Pharma	10.8	3.6	5.3
High-Tech, Media & Entertainment	11.8	16.4	17.1
Others	6.2	8.1	69.2
<b>Revenue by Geography</b>			
North America	66.2	2.0	4.9
Europe	16.5	7.2	19.3
India	8.9	8.2	24.5
RoW	8.4	18.7	13.2
<b>Client Contribution to Revenue</b>			
Top 5 clients	27.8	(0.8)	(2.7)
Top 10 clients	41.0	2.1	(2.3)
Top 20 clients	55.6	1.8	1.5
Non-top 20 client revenues	44.4	8.2	20.6
Digital Revenues	45.6	7.4	22.3

Source: Company, BOBCAPS Research

## Valuation methodology

We trim FY22/FY23 EPS estimates by 3%/4% as we bake in subdued margins due to upcoming wage hikes and possible execution challenges amid the second Covid wave. On rolling valuations forward, we have a revised Mar'23 target price of Rs 4,710 (from Rs 4,740 earlier), based on an unchanged one-year forward P/E multiple of 30x – a 10% premium to TCS.

We believe our multiple is justified given the company's best-in-class fundamentals among IT mid-caps, its ability to capitalise on growing demand as seen from accelerated large deal wins and its robust margins. LTI has continued to exhibit strong growth leadership through recent challenging times, backed by a strong sales engine, marquee clientele and evolving service offerings. We believe timely investments in sales, cloud and data products will help the company remain ahead in terms of growth and margin performance among mid-caps. Maintain BUY.

**FIG 3 – REVISED ESTIMATES**

(Rs mn)	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues (US\$ mn)	2,029	1,972	(2.8)	2,413	2,306	(4.4)
YoY growth (%)	21.3	18.1	-	18.9	17.0	-
Revenues	155,299	150,879	(2.8)	188,200	180,466	(4.1)
EBITDA	33,152	31,170	(6.0)	40,115	37,835	(5.7)
EBITDA margin (%)	21.3	20.7	-	21.3	21.0	-
Net profits	23,883	23,191	(2.9)	28,339	27,177	(4.1)
EPS (Rs)	136.1	132.2	(2.9)	161.5	154.9	(4.1)

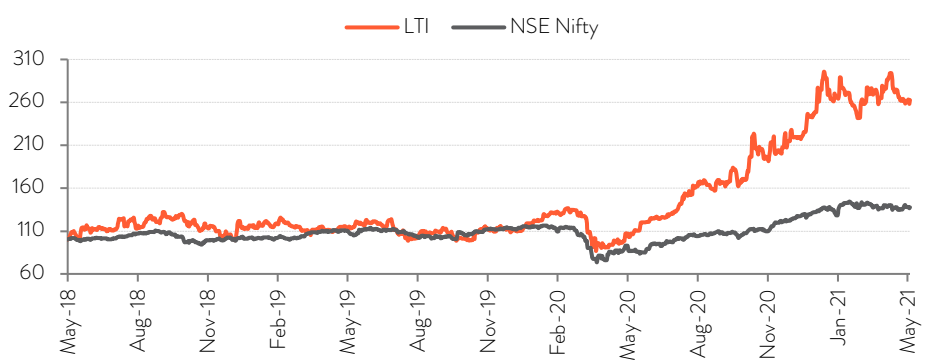
Source: BOBCAPS Research

**FIG 4 – PEER COMPARISON**

Company	Rating	Target Price (Rs)	US\$ revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target PE (x)
				FY22E	FY23E	FY22E	FY23E	
TCS	BUY	3,780	17.2	118	135	44	41	28.0
INFO	ADD	1,540	13.1	56	59	30	30	26.0
HCLT	BUY	1,190	11.9	55	63	23	23	18.8
TECHM	BUY	1,190	15.0	64	76	21	22	15.7
LTI	BUY	4,710	17.5	132	155	29	29	30.4
MPHL	REDUCE	1,550	14.4	81	96	22	24	16.9
MTCL	ADD	2,180	14.4	89	93	31	28	23.4
PSYS	SELL	1,340	15.0	63	70	17	17	19.2
COFORGE	BUY	3,350	24.2	121	154	24	25	22.0
ECLX	SELL	950	18.9	107	116	24	24	8.20

Source: BOBCAPS Research

**FIG 5 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Key downside risks to our estimates are:

- a sell-off in mid-caps,
- an inability to sustain steady large-deal wins, leading to loss of growth momentum, and
- unsustainable margins.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Total revenue</b>	<b>94,458</b>	<b>108,786</b>	<b>123,698</b>	<b>150,879</b>	<b>180,466</b>
EBITDA	18,835	20,291	27,253	31,170	37,835
Depreciation	1,471	2,731	3,325	3,772	4,512
EBIT	17,364	17,560	23,928	27,398	33,323
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	2,915	2,463	1,955	3,731	3,157
Exceptional items	0	0	0	0	0
EBT	20,279	20,023	25,883	31,128	36,480
Income taxes	5,122	4,825	6,500	7,938	9,302
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>15,157</b>	<b>15,198</b>	<b>19,383</b>	<b>23,191</b>	<b>27,177</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>15,157</b>	<b>15,198</b>	<b>19,383</b>	<b>23,191</b>	<b>27,177</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	15,291	23,618	23,175	28,267	33,811
Provisions	2,402	2,908	3,956	4,825	5,772
Debt funds	0	7,571	6,854	6,854	6,854
Other liabilities	56	101	35	35	35
Equity capital	171	174	175	175	175
Reserves & surplus	48,772	53,877	72,896	86,314	102,039
Shareholders' fund	48,943	54,051	73,071	86,489	102,214
<b>Total liabilities and equities</b>	<b>66,692</b>	<b>88,249</b>	<b>107,091</b>	<b>126,471</b>	<b>148,685</b>
Cash and cash eq.	4,150	5,252	7,594	16,566	27,745
Accounts receivables	23,845	27,541	26,906	37,203	44,499
Inventories	0	0	0	0	0
Other current assets	10,878	10,442	15,111	14,468	17,305
Investments	17,402	22,186	36,282	36,282	36,282
Net fixed assets	8,031	19,788	19,722	20,476	21,379
CWIP	0	0	0	0	0
Intangible assets	0	1,316	2,667	2,667	2,667
Deferred tax assets, net	2,386	3,039	1,476	1,476	1,476
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>66,692</b>	<b>88,248</b>	<b>107,091</b>	<b>126,471</b>	<b>148,685</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	16,628	17,929	22,708	26,963	31,689
Interest expenses	(1,089)	(342)	(1,862)	(2,221)	(2,760)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(2,665)	5,573	(3,429)	(3,692)	(3,643)
Other operating cash flows	1,010	(6,887)	283	0	0
<b>Cash flow from operations</b>	<b>13,884</b>	<b>16,273</b>	<b>17,700</b>	<b>21,049</b>	<b>25,286</b>
Capital expenditures	(4,221)	(5,480)	(3,379)	(4,526)	(5,414)
Change in investments	(4,324)	0	(5,390)	0	0
Other investing cash flows	1,089	(3,287)	1,862	2,221	2,760
<b>Cash flow from investing</b>	<b>(7,456)</b>	<b>(8,767)</b>	<b>(6,907)</b>	<b>(2,305)</b>	<b>(2,654)</b>
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)	(8,451)	(9,773)	(11,453)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(5,911)</b>	<b>(6,404)</b>	<b>(8,451)</b>	<b>(9,773)</b>	<b>(11,453)</b>
<b>Changes in cash and cash eq.</b>	<b>517</b>	<b>1,102</b>	<b>2,342</b>	<b>8,972</b>	<b>11,179</b>
<b>Closing cash and cash eq.</b>	<b>4,150</b>	<b>5,252</b>	<b>7,594</b>	<b>16,566</b>	<b>27,745</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	86.5	86.4	110.5	132.2	154.9
Adjusted EPS	86.5	86.4	110.5	132.2	154.9
Dividend per share	28.0	30.2	40.0	46.3	54.2
Book value per share	279.2	307.3	416.4	492.9	582.5

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	7.3	6.3	5.6	4.6	3.8
EV/EBITDA	36.4	33.7	25.2	22.1	18.1
Adjusted P/E	45.3	45.3	35.4	29.6	25.3
P/BV	14.0	12.7	9.4	7.9	6.7

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	74.7	75.9	74.9	74.5	74.5
Interest burden (PBT/EBIT)	116.8	114.0	108.2	113.6	109.5
EBIT margin (EBIT/Revenue)	18.4	16.1	19.3	18.2	18.5
Asset turnover (Revenue/Avg TA)	156.8	140.4	126.6	129.2	131.2
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.5	1.5	1.5
Adjusted ROAE	34.6	29.5	30.5	29.1	28.8

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	29.3	15.2	13.7	22.0	19.6
EBITDA	58.6	7.7	34.3	14.4	21.4
Adjusted EPS	36.1	0.0	27.8	19.6	17.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	19.9	18.7	22.0	20.7	21.0
EBIT margin	18.4	16.1	19.3	18.2	18.5
Adjusted profit margin	16.0	14.0	15.7	15.4	15.1
Adjusted ROAE	34.6	29.5	30.5	29.1	28.8
ROCE	43.4	34.7	37.1	36.7	42.1
<b>Working capital days (days)</b>					
Receivables	89	86	80	78	83
Inventory	0	0	0	0	0
Payables	11	11	13	13	14
<b>Ratios (x)</b>					
Gross asset turnover	14.2	7.8	6.3	7.5	8.6
Current ratio	2.2	1.6	1.8	2.1	2.3
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.1)	0.0	0.0	(0.1)	(0.2)

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

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

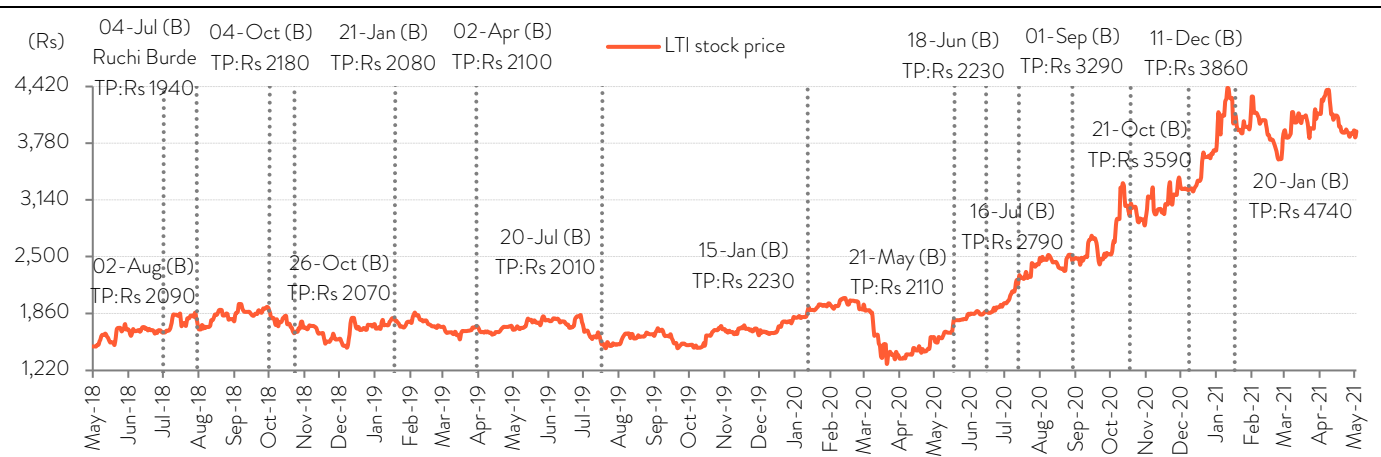
**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

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

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.

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



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

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