

Larsen & Toubro Infotech (LTI IN)

Rating: BUY | CMP: Rs3,259 | TP: Rs3,465

December 11, 2020

Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	3,465		3,465	
Sales (Rs. m)	1,42,440	1,65,204	1,42,440	1,65,204
% Chng.	-	-	-	-
EBITDA (Rs. m)	28,215	31,840	28,215	31,840
% Chng.	-	-	-	-
EPS (Rs.)	114.8	138.6	114.8	138.6
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	109	123	142	165
EBITDA (Rs. bn)	20	25	28	32
Margin (%)	18.6	20.7	19.8	19.3
PAT (Rs. bn)	15	18	20	25
EPS (Rs.)	85.1	99.2	114.8	138.6
Gr. (%)	(2.0)	16.6	15.7	20.7
DPS (Rs.)	24.3	32.3	37.4	45.2
Yield (%)	0.7	1.0	1.1	1.4
RoE (%)	29.3	29.6	28.6	28.9
RoCE (%)	33.9	38.4	36.7	34.6
EV/Sales (x)	5.0	4.3	3.7	3.1
EV/EBITDA (x)	26.7	20.7	18.5	16.1
PE (x)	38.3	32.9	28.4	23.5
P/BV (x)	10.5	8.7	7.3	6.1

Key Data

LRTI.BO | LTI IN

52-W High / Low	Rs.3,515 / Rs.1,208
Sensex / Nifty	45,960 / 13,478
Market Cap	Rs.569bn/ \$ 7,726m
Shares Outstanding	175m
3M Avg. Daily Value	Rs.3232.11m

Shareholding Pattern (%)

Promoter's	74.36
Foreign	11.21
Domestic Institution	6.41
Public & Others	8.02
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.8	72.7	97.6
Relative	1.5	28.7	73.0

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Betting on cloud & data products

Quick Pointers:

- LTI is on track to deliver industry leading growth with strong broad based deal pipeline at 1.9 Bn up 62% YoY, they announced a net new deal worth US\$205 mn.
- LTI has identified Cloud (addressable market of \$1Bn over 3 years) and Products (market size \$15Bn) as the growth engines for the future.
- LTI will continue to invest in digital capabilities and strengthen their sales & marketing team and at the same time maintain stable PAT Margin of 14-15%

LTI's large deal pipeline is strong at 1.9Bn up 62% YoY. (vs 7 large deals of TCV 450\$Mn won last year). If we consider same conversion ratio as last year, the deal win TCV may be as high as 760 Mn\$ in next 4 quarters. LTI's deal pipeline is broad-based across all verticals and service lines with good mix of existing clients and new logos which gives us confidence of strong deal conversion. LTI has formed consulting labs to collaborate with clients to address their issues across various functions (finance, marketing, operations etc) which will help in generating large deals. They have strengthened their presence in Middle East and Nordic region by partnership with Injazat and Temenos respectively.

LTI has identified Cloud and Products as the growth engines for the future. LTI has a strong portfolio of 5 products with total addressable market of \$15 Bn. LTI's bet is that cloud business will be US\$1 bn in the next three years from the current run rate of US\$180 mn serving 150+ clients. Management reiterated that they will maintain PAT margin at 14-15% levels and at the same time invest in sales and marketing teams in the short term and not shy away from investing in growth areas for the long term.

We have always liked LTI, as we believe it has strong ingredients of being a sustainable growth engine considering the basis :1) Strong in high growth digital solutions, 2) Growth Momentum in high large client deals & deal pipeline, 3) Strong capabilities in Cloud & Products, 4) Higher M&A & partnerships 5) Strong focused team in place & 6) Higher offshore revenues to protect margins structurally. LTI remains fastest growing company in our coverage universe led by its focus on increasing F500 accounts, large deal wins & strong leadership team. We value LTI at 25X to arrive at unchanged target price of Rs.3465. LTI is currently trading at 28.4x/23.5x earnings multiple. We believe valuation premium will continue on account of strong & stable growth, Maintain BUY!

- **On track to deliver industry leading growth:** Management exuded confidence in their goal to deliver industry leading growth. **Large deal pipeline is strong at 1.9Bn up 62% YoY. (vs 7 large deals of TCV 450\$Mn won last year). If we consider same conversion ratio as last year, the deal win TCV may be as high as 760 Mn\$ in next 4 quarters. LTI's deal pipeline is broad-based across all verticals and service lines with good mix of existing clients**

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LTI won a large deal with Mubadala's portfolio companies (50 clients)

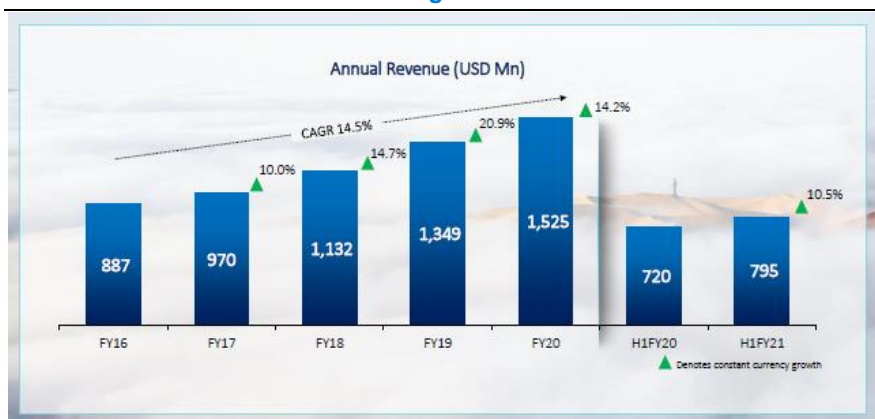
LTI has added 98 new logos in last 4 quarters and added clients across all revenue buckets.

and new logos which gives us confidence of strong deal conversion. They closed couple of large deals this quarter and have added 2 global fortune 500 logos in 2Q21.

- **A US\$205mn six-year deal announced:** LTI won a large deal with Mubadala's portfolio companies (50 clients). The deal is in partnership with Injazat the leading multi-cloud provider in the UAE. It is a 6-year deal with total contracted value of 760 mn AED (~US\$205 mn).
- **Decrease in client concentration providing revenue resilience:** Non top 20 clients have grown at a higher pace of 19% CAGR in last 4 years' vs 14.5% growth of the overall company. LTI has added 98 new logos in last 4 quarters and added clients across all revenue buckets.
- **Consulting labs to aid large deals:** LTI has formed a consulting lab to collaborate with clients ("Grit Alliance") across all their functions (operations, marketing, finance etc.) to address trending areas of demand – i) empathetic customer experience ii) improve employee productivity ii) saving cost to create resilient enterprises iv) speed-up time to market.
- **Strengthening its presence in Europe & Middle East:** LTI is focusing on European and Middle East Markets. It has partnered with Temenos to Launch Digital Banking Platform in the Nordic market. LTI has entered into strategic partnership with Injazat, a UAE based leader in digital transformation to consolidate latter's position as multi-service cloud provider in the UAE market. Injazat's partnership with G42, a leading cloud computing player in this market will further create new cloud service opportunities for LTI. LTI will be the service engine taking over Infra, Apps and ERP services of Injazat's 50 clients in this region. The contracted deal value is of 760 Mn AED (206 Mn \$) over 6-year period.
- **Cloud and Products will be growth engines for the future:** LTI is partnering with clients to re-invent their business models through cloud and unique product capabilities.
 - **Cloud:** LTI is one of the few Tier 1 partner with all 3 leading cloud providers – AWS, Azure & GCP. These hyper scalers are expected to double or triple their revenues in next three years. This implies similar trend in growth of demand for cloud led services. **LTI projects \$1Bn cloud opportunity over next three years. They are currently working on cloud transformation journeys of over 150+ clients with business base of \$180 Mn+.** They have formed dedicated business units to develop deep domain expertise in each of the 3 CSPs.
 - **Cloud strategy will ride on 4 pillars:** 1) C4X – Cloud needs to be consumed in context and LTI is creating contextual reference models across each vertical, function and platform leveraging LTI's deep domain knowledge. 2) Rainbow – They have built integrated cloud platform to interact with clients and partners as a single entity. 3) Rainmakers – Investing heavily in building future ready cloud talent. 4)CWOW – They are investing in R&D cloud labs to stay current and ahead of their peers.

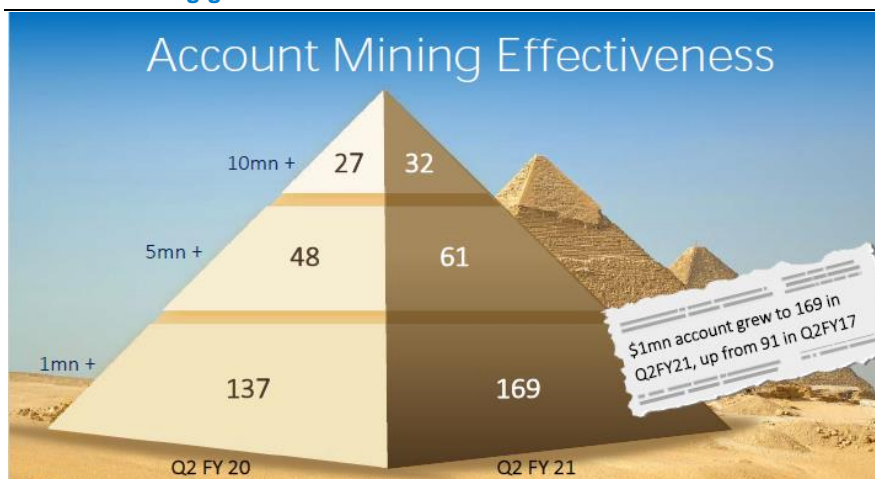
- Product:** Cloud has made lot of data available to enterprise. Product offers cognitive solutions to make sense of data. LTI has a strong portfolio of 5 products – i) Decisions ii) ML Logistics iii) AGNITO iv) Marketplace v) LENI catering to end to end process of client's data analytics and cognitive needs. They are also bringing all their products on SaaS platform. **LTI expects addressable market in this space to be over \$15 Bn.** Through LENI they have created new category of solution making them one of the leading player in the industry.
- LTI Mosaic, a platform which integrates all the products and cloud service offerings, has created strong referenceable base of clients which can be leveraged to further generate sales.
- LTI will deliver profitable growth:** Management stated that they will maintain stable PAT margins (14-15%) and at the same time continue to invest in growth engines. **In the short term, they will be increasing their sales and marketing investments.** They have implemented reward and recognition program for large deals in addition to normal sales incentives. They will operate a hybrid delivery model with 40 distributed delivery centers spread across 20 cities (vs 16 delivery centers at present) thereby bringing workplace near to the talent. They will focus on improving employee productivity, build capabilities both organically and inorganically and bolster sales teams.

Exhibit 1: Consistent track record of growth



Source: Company, PL

Exhibit 2: Strong growth in accounts across all revenue buckets



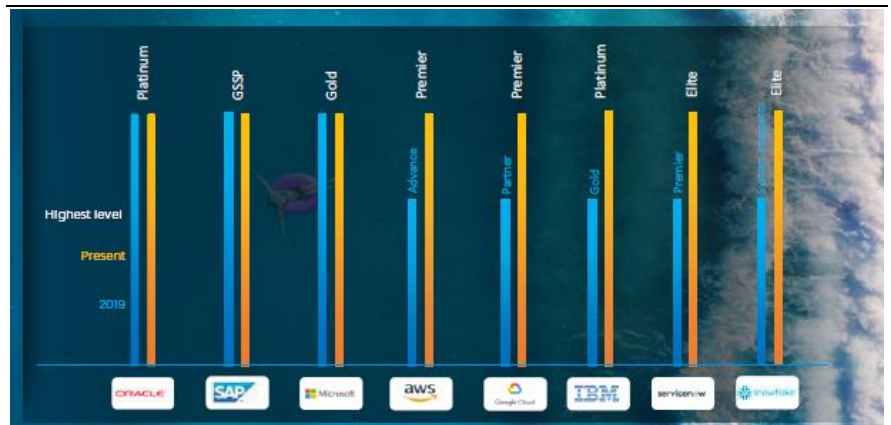
Source: Company, PL

Exhibit 3: New logo momentum continues to grow



Source: Company, PL

Exhibit 4: Top Tier alliances with market leaders



Source: Company, PL

Exhibit 5: LTI will invest heavily in Sales and Marketing in the short term



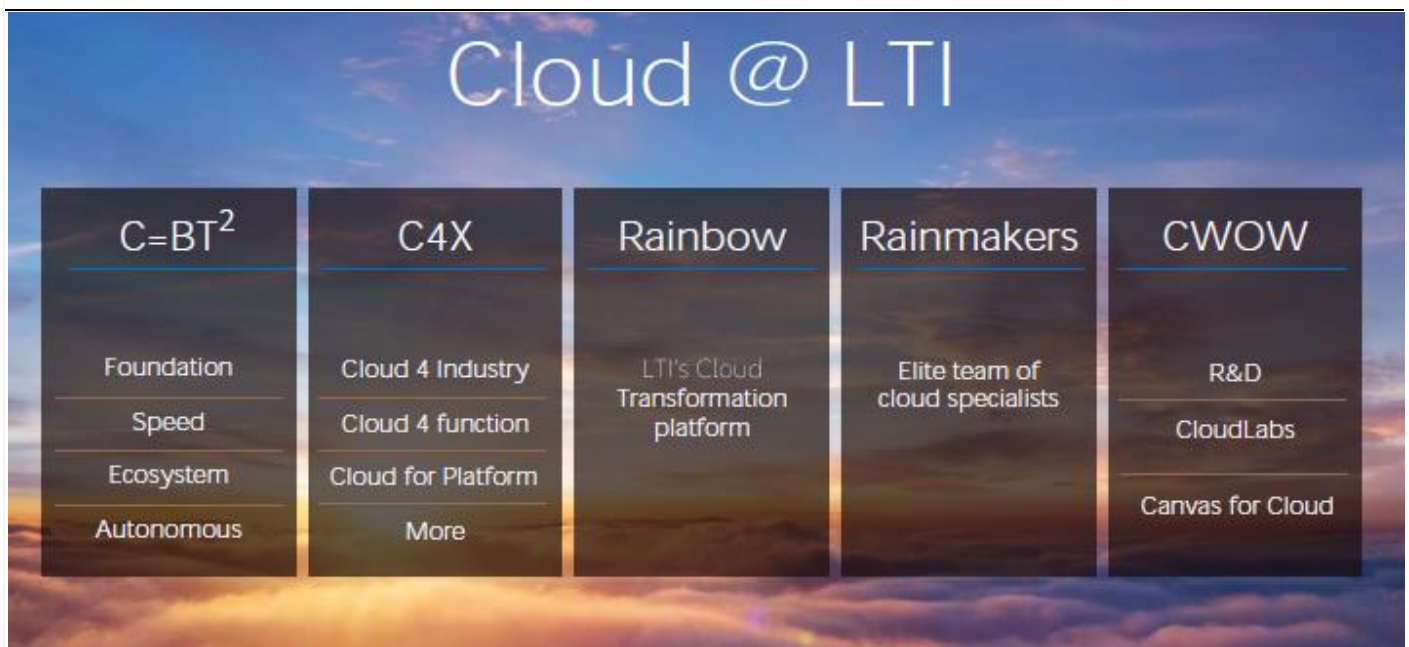
Source: Company, PL

Exhibit 6: Large Deal strategy



Source: Company, PL

Exhibit 7: Dedicated business unit for cloud



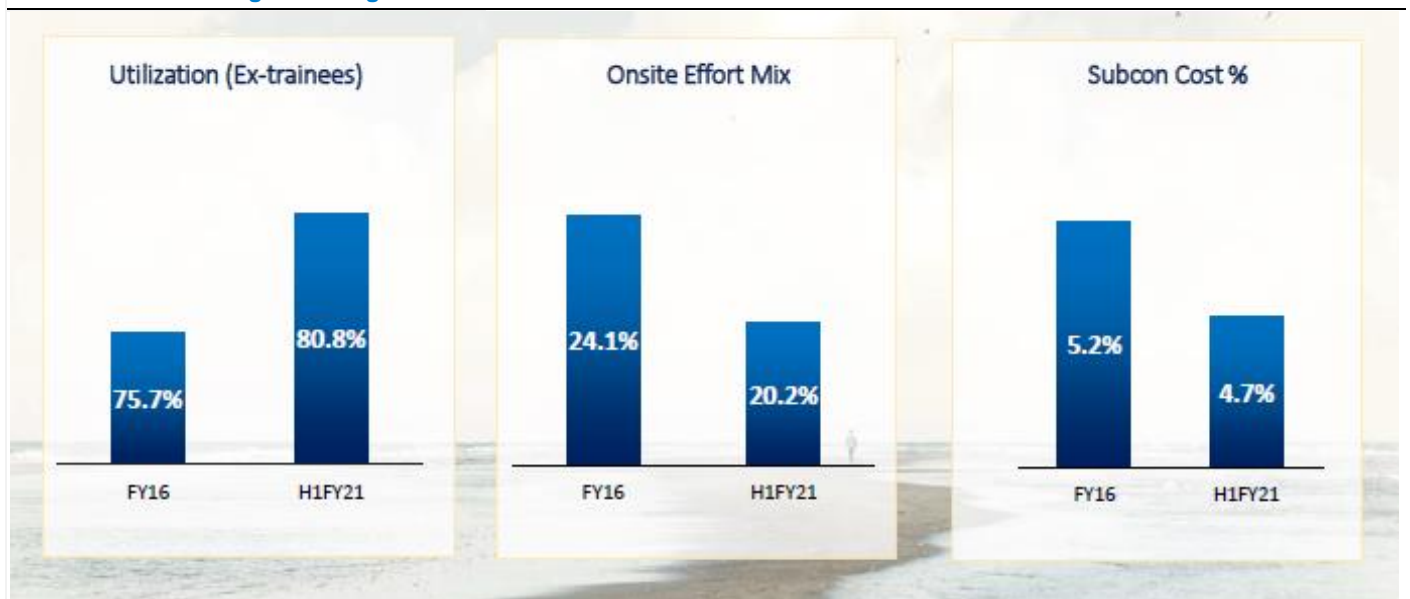
Source: Company, PL

Exhibit 8: LTI's product portfolio addressing data analytics, AI & cognitive needs of clients



Source: Company, PL

Exhibit 9: Stable margins through cost efficiencies



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,08,673	1,22,706	1,42,440	1,65,204
YoY gr. (%)	15.1	12.9	16.1	16.0
Employee Cost	73,589	81,477	94,723	1,09,231
Gross Profit	35,084	41,228	47,718	55,973
Margin (%)	32.3	33.6	33.5	33.9
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	20,179	25,445	28,215	31,840
YoY gr. (%)	7.4	26.1	10.9	12.8
Margin (%)	18.6	20.7	19.8	19.3
Depreciation and Amortization	2,731	2,628	2,137	2,478
EBIT	17,448	22,818	26,078	29,362
Margin (%)	16.1	18.6	18.3	17.8
Net Interest	-	-	-	-
Other Income	2,463	700	2,074	3,400
Profit Before Tax	19,911	23,518	28,152	32,762
Margin (%)	18.3	19.2	19.8	19.8
Total Tax	4,825	5,929	7,795	8,191
Effective tax rate (%)	24.2	25.2	27.7	25.0
Profit after tax	15,086	17,589	20,358	24,572
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	15,086	17,589	20,358	24,572
YoY gr. (%)	(0.1)	16.6	15.7	20.7
Margin (%)	13.9	14.3	14.3	14.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	15,086	17,589	20,358	24,572
YoY gr. (%)	(0.1)	16.6	15.7	20.7
Margin (%)	13.9	14.3	14.3	14.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	15,086	17,589	20,358	24,572
Equity Shares O/s (m)	174	174	174	174
EPS (Rs)	85.1	99.2	114.8	138.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	17,377	21,388	25,399	29,410
Tangibles	8,500	11,307	14,115	16,923
Intangibles	8,877	10,081	11,284	12,487
Acc: Dep / Amortization	11,745	14,373	16,510	18,988
Tangibles	3,873	5,059	6,023	7,142
Intangibles	7,872	9,314	10,486	11,846
Net fixed assets	5,632	7,015	8,889	10,422
Tangibles	4,627	6,249	8,092	9,781
Intangibles	1,005	766	797	641
Capital Work In Progress	592	592	592	592
Goodwill	6,368	6,368	6,368	6,368
Non-Current Investments	680	730	780	830
Net Deferred tax assets	2,121	2,121	2,121	2,121
Other Non-Current Assets	2,268	2,268	2,268	2,268
Current Assets				
Investments	22,186	23,186	24,186	25,186
Inventories	-	-	-	-
Trade receivables	23,121	23,738	27,556	31,960
Cash & Bank Balance	5,252	16,444	21,976	29,824
Other Current Assets	6,562	6,562	6,562	6,562
Total Assets	88,249	98,180	1,11,670	1,27,901
Equity				
Equity Share Capital	174	174	174	174
Other Equity	53,866	64,678	77,193	92,297
Total Network	54,040	64,852	77,367	92,471
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	330	330	330	330
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,950	6,069	7,045	8,171
Other current liabilities	16,362	16,362	16,362	16,362
Total Equity & Liabilities	88,249	98,180	1,11,670	1,27,901

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	20,029	23,518	28,152	32,762
Add. Depreciation	2,730	2,628	2,137	2,478
Add. Interest	826	-	-	-
Less Financial Other Income	2,463	700	2,074	3,400
Add. Other	(719)	(700)	(2,074)	(3,400)
Op. profit before WC changes	22,866	25,445	28,215	31,840
Net Changes-WC	(2,313)	(4,384)	(4,059)	(4,674)
Direct tax	(4,118)	(5,929)	(7,795)	(8,191)
Net cash from Op. activities	16,435	15,133	16,362	18,976
Capital expenditures	(2,914)	(4,011)	(4,011)	(4,011)
Interest / Dividend Income	1,101	700	2,074	3,400
Others	(4,707)	(1,050)	(1,050)	(1,050)
Net Cash from Inv. activities	(6,520)	(4,361)	(2,987)	(1,661)
Issue of share cap. / premium	-	-	-	-
Debt changes	320	-	-	-
Dividend paid	(5,679)	(6,777)	(7,843)	(9,467)
Interest paid	(40)	-	-	-
Others	(3,501)	-	-	-
Net cash from Fin. activities	(8,900)	(6,777)	(7,843)	(9,467)
Net change in cash	1,015	3,995	5,531	7,848
Free Cash Flow	13,970	11,122	12,351	14,965

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	85.1	99.2	114.8	138.6
CEPS	102.4	116.2	129.3	155.5
BVPS	310.6	372.7	444.6	531.4
FCF	80.3	63.9	71.0	86.0
DPS	24.3	32.3	37.4	45.2
Return Ratio(%)				
RoCE	33.9	38.4	36.7	34.6
ROIC	55.0	86.1	75.6	73.6
RoE	29.3	29.6	28.6	28.9
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.6)	(0.6)	(0.6)
Debtor (Days)	78	71	71	71
Valuation(x)				
PER	38.3	32.9	28.4	23.5
P/B	10.5	8.7	7.3	6.1
P/CEPS	31.8	28.0	25.2	21.0
EV/EBITDA	26.7	20.7	18.5	16.1
EV/Sales	5.0	4.3	3.7	3.1
Dividend Yield (%)	0.7	1.0	1.1	1.4

Source: Company Data, PL Research

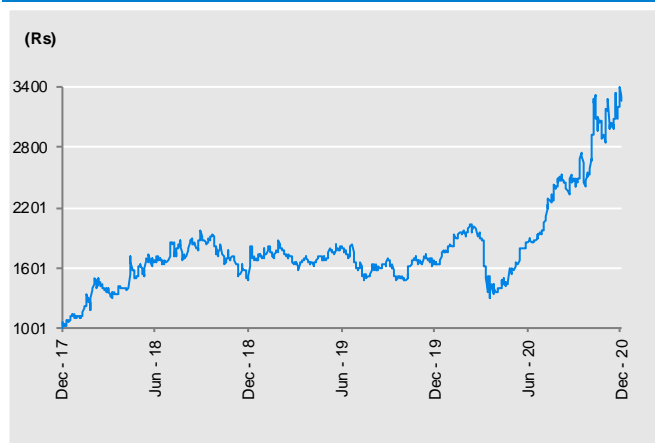
Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	28,111	30,119	29,492	29,984
YoY gr. (%)	13.7	21.2	18.7	16.6
Raw Material Expenses	19,188	20,251	19,916	19,537
Gross Profit	8,923	9,868	9,576	10,447
Margin (%)	31.7	32.8	32.5	34.8
EBITDA	5,274	5,781	5,920	6,856
YoY gr. (%)	3.6	21.3	29.3	47.2
Margin (%)	18.8	19.2	20.1	22.9
Depreciation / Depletion	709	747	781	899
EBIT	4,565	5,034	5,139	5,957
Margin (%)	16.2	16.7	17.4	19.9
Net Interest	-	-	-	-
Other Income	433	479	450	174
Profit before Tax	4,998	5,513	5,589	6,131
Margin (%)	17.8	18.3	19.0	20.4
Total Tax	1,231	1,239	1,425	1,563
Effective tax rate (%)	24.6	22.5	25.5	25.5
Profit after Tax	3,767	4,274	4,164	4,568
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,767	4,274	4,164	4,568
YoY gr. (%)	0.3	12.9	17.1	26.8
Margin (%)	13.4	14.2	14.1	15.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,767	4,274	4,164	4,568
YoY gr. (%)	0.3	12.9	17.1	26.8
Margin (%)	13.4	14.2	14.1	15.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,767	4,274	4,164	4,568
Avg. Shares O/s (m)	174	177	177	176
EPS (Rs)	21.6	24.1	23.5	26.0

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	22-Oct-20	BUY	3,465	3,100
2	05-Oct-20	BUY	2,839	2,527
3	01-Oct-20	BUY	2,839	2,544
4	17-Jul-20	BUY	2,421	2,291
5	04-Jul-20	Hold	1,894	1,978
6	21-May-20	Hold	1,598	1,755
7	12-Apr-20	Hold	1,403	1,399
8	16-Jan-20	BUY	2,119	1,925
9	03-Jan-20	Accumulate	1,825	1,813
10	12-Dec-19	Accumulate	1,825	1,633

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	2,784	2,457
2	Cyient	BUY	492	485
3	HCL Technologies	BUY	1,101	830
4	Infosys	BUY	1,436	1,137
5	L&T Technology Services	Accumulate	1,860	1,754
6	Larsen & Toubro Infotech	BUY	3,465	3,100
7	Mindtree	BUY	1,625	1,441
8	Mphasis	BUY	1,711	1,382
9	Persistent Systems	BUY	1,368	1,189
10	Redington (India)	BUY	138	138
11	Sonata Software	BUY	427	339
12	Tata Consultancy Services	BUY	3,200	2,736
13	TeamLease Services	BUY	2,677	2,724
14	Tech Mahindra	BUY	1,042	848
15	Wipro	BUY	415	345
16	Zensar Technologies	BUY	215	225

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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