

Cloud, data, large deals key theme...

We attended the virtual analyst meet of Larsen & Toubro Infotech (LTI). The company highlighted that it aspires to achieve US\$1 billion in cloud revenues in the next three years from current US\$180 million implying 77% CAGR over the next three years from this unit. In addition, LTI has won a large deal in the UAE amounting to ~AED760 million (~US\$205 million) over the next six years. This, coupled with a healthy large deal pipeline (up 62% YoY to US\$1.98 billion) and increased investment to drive sales growth makes the company confident of being in an industry leading revenue growth quartile (that we believe could be at least 15% YoY in coming years). Further, LTI plans to invest in sales & marketing, M&A, localisation and drive revenue growth via investments. However, despite investment, the company aims to maintain 14-15% net profit margin.

Focus on cloud, data to tap digital disruption

The company highlighted that the revenues of three hyperscalers like Amazon, Azure and Google Cloud is expected to double to US\$200 billion by 2023 from current US\$80 billion. To tap this opportunity, LTI plans to add a dedicated cloud unit for Amazon, Azure and Google. The company plans to have dedicated sales, solutions, consulting, delivery and partnership to tap the emerging cloud opportunity. LTI will target clients beyond Fortune 2000 to offer its cloud solutions. The company has also developed a cloud transformation platform Rainbow along with cloud specialist, R&D, labs, etc, to drive cloud growth. Based on this, the company aspires to grow at 77% CAGR to US\$1 billion from current US\$180 million over the next three years (continued below).

Maintaining stable margins despite investment headwind

LTI highlighted that it aims to maintain 14-15% net margins despite headwind of investment in sales, reskilling localisation and capability building.

Valuation & Outlook

LTI in its analyst meet has also highlighted focus on digital technology and a structural shift towards cloud & ancillary technologies like data & Artificial Intelligence (AI). We believe the IT industry is on the cusp of a multi-year technology transformation phase. Considering LTI's prowess in digital technology coupled with ability win large deal, scale existing clients, ability to execute end to end projects and adding new logos will enable it to deliver industry leading revenue growth in coming years. This, coupled with the company's ability to maintain 14-15% net margins despite increased investments, is another key positive. Hence, we maintain our **BUY** rating on the stock with a revised target price of ₹ 3850 (26x FY23E EPS).



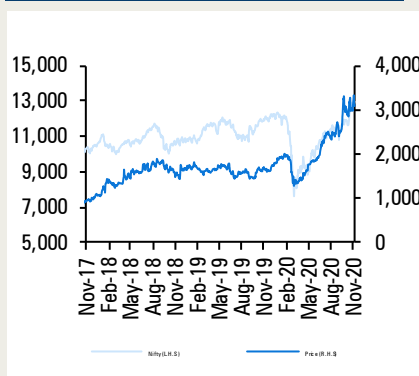
Particulars

Particular	Amount
Market Cap	₹ 56594 crore
Total Debt	₹ 32 crore
Cash and Investment	₹ 2744 crore
EV	₹ 53882 crore
52 week H/L	3515 / 1208
Equity Capital	₹ 17 crore
Face Value	₹ 1

Key Highlights

- Focus on cloud, data for growth. The company's end-to-end capability makes it a key beneficiary of robust digital growth
- Aims to sustain net margins at 14-15% despite headwinds
- Maintain BUY

Price Performance



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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	9,445.8	10,878.6	12,122.7	14,138.4	16,642.8	15.2%
EBITDA	1,883.4	2,029.4	2,618.0	3,063.4	3,650.5	21.6%
EBITDA Margins (%)	19.9	18.7	21.6	21.7	21.9	
Net Profit	1,515.5	1,520.5	1,859.4	2,219.9	2,619.2	19.9%
EPS (₹)	87.3	86.6	105.9	126.5	149.2	
P/E (x)	37.3	37.6	30.8	25.8	21.9	
RoE (%)	31.0	28.1	28.3	28.3	28.0	
RoCE (%)	40.4	30.7	31.8	31.6	31.3	

Source: Company, ICICI Direct Research

Focus on cloud, data to tap digital disruption (continued)

The company also plans to monetise its product portfolios that has five products Decision, ML, Logistics, Marketplace and LENI. LTI believes the addressable market for same is US\$15 billion. The company aims to tap this opportunity by having a dedicated unit, investment in R&D, sales, engineering and marketing of these products. LTI will target clients of all sizes and work partners & hyperscalers to drive growth in products business.

Account mining, large deals key strategies to drive growth

The company plans to focus on 1) enhancing customer experience, 2) improving productivity, 3) improving enterprise alliance, 4) speed & time to market. These themes will help the company improve its mining of top 100 accounts in a holistic way. LTI plans to achieve the same by focusing on their 1) core functions like supply chain, marketing, etc, 2) foundation function like finance, HR, corporate, etc, 3) Tech enablers like IT operations, IT infrastructure analytics, etc. Further, adding new logos, growth via alliance, capability growth via M&A and large deals continues to be the company's focus to drive growth. LTI sees vendor consolidation, captive carve outs as potential for large deal opportunities. In addition, the company's strong healthy large deal pipeline (up 62% YoY to US\$1.98 billion), seven large deals worth US\$456 million, three new logos in the past one year is evidence of continued focus on the above-mentioned objectives. This, coupled with recent deal wins in the UAE, gives us confidence that the company will be able to grow at a healthy pace in coming years.

Other highlights

- **Large deals:** Conversion of large deal is challenging in the pandemic. Clients are expected to pick up pace in H2FY22E. Healthy pipeline includes existing clients, new logos, transformational and outsourcing deals
- **Partnership with Injazat:** The company has partnered with UAE based Injazat and G42 cloud provider to help 50 plus clients accelerate their digital transformation. LTI will take over infra, app services and provide best source model valuing the deal at AED760 million over the next six years
- **Examples of digital transformation:** Target has transformed 900 stores in hyper local distribution centre leveraging tech leading to 20% plus growth in sales. Disney is focusing on the streaming business, which saw acceleration in subscriber growth while Carrier launched a digital platform for cold chain
- **Geographic expansion:** The company plans to expand in the Middle East and Continental Europe

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Revenues	10,879	12,123	14,138	16,643
Growth (%)	15.2	11.4	16.6	17.7
Employee costs	7,359	7,965	9,251	10,829
Total Operating Expenditure	8,849	9,505	11,075	12,992
EBITDA	2,029	2,618	3,063	3,650
Growth (%)	7.8	29.0	17.0	19.2
Depreciation & Amortization	273	315	368	433
Other Income (net)	247	176	244	244
PBT before Exceptional Items	2,003	2,479	2,940	3,462
Growth (%)	(1.2)	23.8	18.6	17.8
Tax	482	620	720	843
PAT before Exceptional Items	1,521	1,859	2,220	2,619
PAT	1,521	1,859	2,220	2,619
Growth (%)	0.3	22.3	19.4	18.0
Diluted EPS	86.6	105.9	126.5	149.2
EPS (Growth %)	(0.8)	22.3	19.4	18.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
PBT	2,003	2,479	2,940	3,462
Add: Depreciation	273	315	368	433
(Inc)/Dec in current assets	(592)	(264)	(428)	(532)
Inc/(Dec) in current liabilities	360	123	200	248
CF from operations	1,644	1,976	2,309	2,701
(Inc)/dec in other investments	(357)	(689)	(664)	(628)
(Inc)/dec in Fixed Assets	(243)	(275)	(320)	(377)
Other investing cash flow	6	5	8	12
CF from investing Activities	(652)	(959)	(976)	(993)
Issue of equity	-	-	-	-
Inc/(dec) in loan funds	(178)	(0)	(0)	0
Dividend paid & dividend tax	(568)	(701)	(932)	(1,100)
Others	(4)	-	-	-
CF from Financial Activities	(890)	(701)	(932)	(1,100)
Net cash flow	102	316	401	608
Effect of exchange rate change	9	-	-	-
Opening cash	415	525	841	1,242
Closing cash	525	841	1,242	1,850

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity	17	17	17	17
Reserves & Surplus	5,387	6,545	7,833	9,352
Networth	5,404	6,562	7,850	9,369
Long term Liabilities & provision	1,089	1,212	1,412	1,660
Total Debt	32	32	32	32
Source of funds	6,526	7,807	9,295	11,062
Assets				
Net fixed assets	1,211	1,192	1,171	1,146
Net intangible assets	132	109	83	53
Goodwill	637	637	637	637
Other non current assets	517	576	672	791
Unbilled revenue	442	493	574	676
Debtors	2,312	2,577	3,005	3,537
Current Investments	2,219	3,019	3,819	4,619
Cash & Cash equivalents	525	841	1,242	1,850
Other current assets	831	926	1,080	1,271
Trade payables	695	774	903	1,063
Current liabilities	1,604	1,788	2,085	2,454
Application of funds	6,526	7,807	9,295	11,062

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	86.6	105.9	126.5	149.2
Cash Per Share	30.2	48.1	71.0	105.8
BV	307.8	373.8	447.1	533.7
DPS	28.0	40.1	53.3	62.9
Operating Ratios (%)				
EBITDA Margin	18.7	21.6	21.7	21.9
PBT Margin	18.4	20.5	20.8	20.8
PAT Margin	14.0	15.3	15.7	15.7
Turnover Ratios				
Debtor days	78	78	78	78
Creditor days	23	23	23	23
Return Ratios (%)				
RoE	28.1	28.3	28.3	28.0
RoCE	30.7	31.8	31.6	31.3
RoIC	46.4	58.3	63.7	70.0
Valuation Ratios (x)				
P/E	37.6	30.8	25.8	21.9
EV / EBITDA	26.6	20.2	16.8	13.7
Market Cap / Sales	5.2	4.7	4.0	3.4
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.6	1.6	1.6	1.6
Quick Ratio	1.4	1.4	1.4	1.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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