

BSE SENSEX 45,960  
S&P CNX 13,478



Let's Solve

**Stock Info**

Bloomberg	LTI IN
Equity Shares (m)	172
M.Cap.(INRb)/(USDb)	568.4 / 7.7
52-Week Range (INR)	3515 / 1208
1, 6, 12 Rel. Per (%)	1/38/83
12M Avg Val (INR M)	660

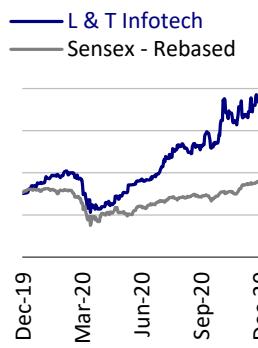
**Financials Snapshot (INR b)**

	Y/E Mar	FY20	FY21E	FY22E
Sales	108.8	122.9	145.6	
EBIT Margin (%)	16.1	18.5	19.5	
PAT	15.2	18.1	22.9	
EPS (INR)	86.7	102.8	130.3	
EPS Gr. (%)	0.4	18.5	26.8	
BV/Sh. (INR)	308.1	369.2	453.2	
<b>Ratios</b>				
RoE (%)	31.1	30.6	31.9	
RoCE (%)	26.9	28.5	29.4	
Payout (%)	32.3	34.1	30.7	
<b>Valuations</b>				
P/E (x)	37.6	31.7	25.0	
P/BV (x)	10.6	8.8	7.2	
EV/EBITDA (x)	27.1	20.7	16.3	
Div Yield (%)	0.9	1.1	1.2	

**Shareholding pattern (%)**

As On	Sep-20	Jun-20	Sep-19
Promoter	74.4	74.5	74.6
DII	6.4	7.3	8.2
FII	11.2	9.8	7.7
Others	8.0	8.5	9.5

FII Includes depository receipts

**Stock Performance (1-year)**

**CMP: INR3,255**
**TP: INR3,550 (+9%)**
**Buy**
**Increased investment in Digital sales should aid growth**

We attended LTI's Analyst Day, where the management announced a large deal win and new business units (BUs) in Digital and Data Products. Here are the key highlights from the meet:

**Dedicated BUs for Cloud and Products to help position it v/s larger peers**

- We see LTI's announcement of independent business units for its Cloud and Data Products as a very interesting development. Given a similar strategy being adopted by large-cap peers like TCS and INFO, we view this as a positional play by the company in addition to the growth opportunity.
- Creating separate teams to focus on the top three hyperscalers, along with Cloud reference models for the sub-industry should help LTI benefit from a multi-year Cloud migration opportunity.
- While we see new BUs as positive from an overall positioning, we are still unsure of the business potential from a standalone basis given the limited success across the industry from products in the past.

**Sustained investment needed for meaningful revenue from new units**

- As part of the increased Cloud and Products focus, LTI is planning to increase investment in its sales and marketing team.
- Increased investment is necessary for it to establish its presence in front of customers and should benefit in the long term.
- However, we are skeptical of its ability to generate outsized revenue growth from these businesses in the medium term due to elevated competition, and expect these investments to continue over the next few years.

**Large ME deal win and strong pipeline to add to FY22 growth**

- LTI announced a large Cloud deal win of AED760m (cUSD207mn) in partnership with Injazat (part of Mussafah group) over the next six years. This deal should strengthen LTI's Cloud credentials and capability in the Middle East.
- We see this as 2% accretive to its FY22E revenue growth and have raised our FY22E/FY23E revenue/EPS numbers accordingly.
- It also highlighted its robust deal pipeline of USD1.9b (up 62% YoY), although it continues to see delays in the conversion to revenue. It expects its deal conversion timeline to improve by 2HFY22.
- LTI also reiterated its FY22 PAT guidance of 14-15% of revenues, but expects this to be volatile during the year on the back of increased investments.

**Valuation and view**

- LTI has deep domain capabilities. Low exposure to segments that faced headwinds (legacy IMS, BPO) should be favorable in the current context.
- The reinstatement of PAT margin guidance, the ability to sustain operational efficiencies (offshore), and strong deal pipeline indicate an optimistic outlook.
- Industry-leading growth, RoCE, and prudent capital allocation should defend its rich multiples. We value the stock at 25x Sep'22E EPS (10% discount to our TCS valuation). Maintain **Buy**.

### LTI's strategy

- FY21 challenged everything that was learnt about work and LTI's focus was on two goals: fulfilling client deliveries and keeping employees safe.
- Businesses across the globe have accelerated digitization. Technology has now become the core of the business and is essential to survive.
- LTI followed the 3X3 approach to respond to crisis in a holistic manner and to ensure: 1) customer first thinking, 2) resilient operations and 3) protect P&L.
- The company is bringing the following together to help clients navigate the new normal and co-create outcomes that matter to them:
  - Enhancing customer empathy
  - Improving employee productivity
  - Building enterprise resilience
  - Increasing speed and agility
- This resulted in LTI remaining resilient during the COVID-19 pandemic with the addition of 42 new customers. The management is confident of delivering industry leading growth with stable margin going forward.

#### Exhibit 1: LTI's 3X3 approach



Source: Company, MOFSL

### COVID-19 pandemic a positive game changer for sales

- The management listed reasons why the pandemic has been a positive game changer for sales:
  - Video became the new travel, ensuring better connectivity between the company and its clients and partners.
  - With the fundamental change in the world of business, a battle of new ideas emerged, leading to innovation of new operating models.
  - Slow adopters have experienced the benefits of global delivery.
  - Industry verticals that were slow in adopting Digital earlier have accelerated efforts to transform. Digital adoption is no longer a nice to have experience, but a necessity.
  - The benefit of holding relationships with clients during the hard times is now paying off as they come back for new projects and discussions.

**Exhibit 2: Sales initiative of the company**

Source: Company, MOFSL

**Productization of services**

LTI has identified two segments as its next growth engines. It intends to double down on – Cloud and Products business – to create a unique organization.

**Cloud**

- The management feels that the \$80b business from the top three hyperscalers would more than double in the next three years or become almost four times.
- This is beneficial for LTI as it is the Tier I partner with all cloud companies and no other company of similar or thrice its size has been able to achieve this.
- LTI looks at Cloud as a business transformational opportunity rather than Digital because it involves building new, resilient and agile businesses.
- Cloud is expected to be a \$1b bet for LTI over the next 3-5 years. To achieve this, the management has already carved out a separate business unit for each Cloud service provider and aims at taking Cloud to new clients i.e. smaller companies.
- LTI will move towards Cloud in the following manner:
  - Context – LTI's domain knowledge will help in building a Cloud reference model for each of the industries: building functional reference models for different functions.
  - Speed – Rainbow will be LTI's Cloud transformational platform, wherein the entire Cloud journey is brought under one platform. This will significantly accelerate Cloud adoption and monetization.
  - Rainmakers – The company is building a team of elite Cloud specialists to bring in the best expertise in its work.
  - Cloud ways of working – LTI is also creating labs for the purpose of research on new adoption features of the Cloud.

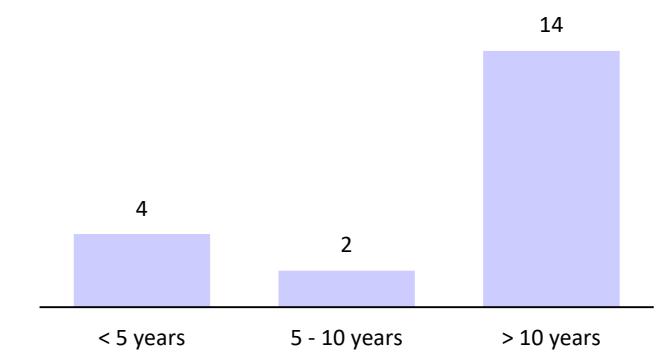
**Products business**

- LTI's products are for the Cloud and cognitive world. Cloud has provided a lot of data to businesses and its products will help make sense of this vast data.
- The key strategies of the company in this space are:
  - SaaS – LTI intends to launch a SaaS version of its products, which will open its ability to use with a lot more clients.
  - Ecosystem – The company is working with clients who are white-labelling these products and providing them further. This creates a scalable channel for LTI.
- The world has to come to a stage where technology is reinventing everything and is becoming the core. LTI is investing a lot of time to make sure these products are used by a much larger audience.

**Resilient financial performance**

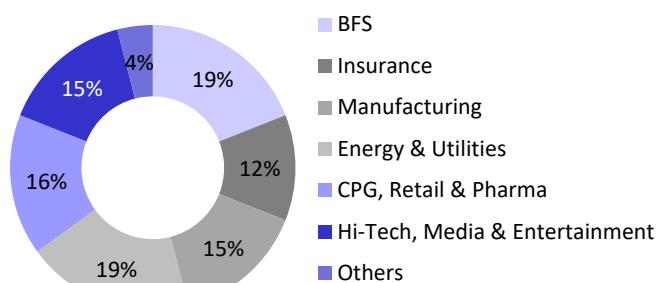
- LTI has won a large deal with Injazat to accelerate Digital transformation in the Middle East. Within the same deal, it will be a cloud migrator for Injazat. The total deal size is ~USD200m, with a duration of six years.
- The management has continuously invested in its IT infrastructure while looking at its facility capex to generate robust cash flows.
- The company's performance was resilient during the pandemic and recovered from the dip quickly despite restricted mobility, large scale ramp-downs, and deferrals of projects.
- Offshoring has been much better accepted by clients and the company is making rapid progress on this.
- It had earlier launched Minecraft with the aim of making beyond top 20 a growth engine. This has resulted in a diverse split of clients and reduced top client concentration over the years. It has further strengthened its relationships with clients at all levels.
- Going forward, the company is focused on investing back into:
  - Reskilling, diversity and localization
  - Capability building – Organic as well as inorganic
  - Post-COVID workplaces
  - Bolstering the sales team
- LTI has delivered a 14.5% CAGR over FY16-20. Going forward, it is focusing on delivering industry leading growth with stable PAT margin (14-15%).

Exhibit 3: Ageing of the top 20 clients



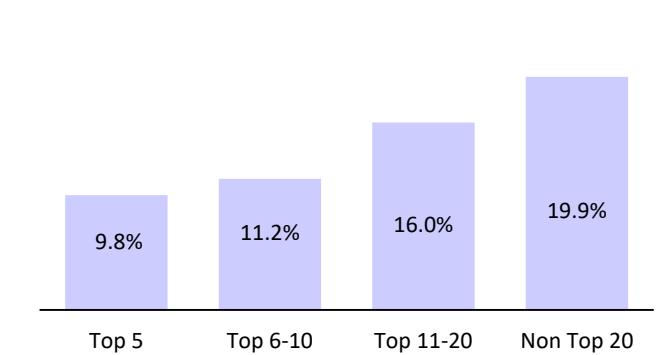
Source: Company, MOFSL

Exhibit 4: Vertical-wise split of Global Fortune 500 clients



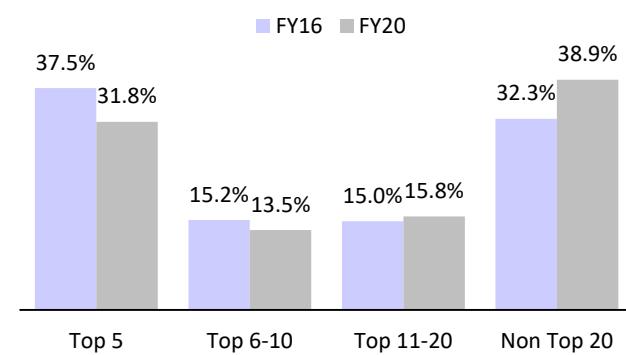
Source: Company, MOFSL

Exhibit 5: FY16-20 USD revenue CAGR of top accounts



Source: Company, MOFSL

Exhibit 6: Decrease in client concentration



Source: Company, MOFSL

### Valuation and view

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## Financials and valuations

Income Statement							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	
<b>Sales</b>	<b>65,009</b>	<b>73,064</b>	<b>94,458</b>	<b>1,08,786</b>	<b>1,22,938</b>	<b>1,45,585</b>	
Change (%)	11.2	12.4	29.3	15.2	13.0	18.4	
Cost of Services	42,123	49,124	61,643	73,588	81,485	94,877	
SG&A Expenses	10,584	12,065	13,980	14,905	15,116	17,907	
<b>EBITDA</b>	<b>12,302</b>	<b>11,875</b>	<b>18,835</b>	<b>20,293</b>	<b>26,337</b>	<b>32,801</b>	
% of Net Sales	18.9	16.3	19.9	18.7	21.4	22.5	
Depreciation	1,780	1,563	1,471	2,730	3,584	4,368	
Other Income	193	745	1,089	342	1,598	700	
Forex	1,645	3,357	1,826	2,121	-178	1,449	
<b>PBT</b>	<b>12,360</b>	<b>14,414</b>	<b>20,279</b>	<b>20,026</b>	<b>24,174</b>	<b>30,583</b>	
Tax	2,648	3,290	5,122	4,825	6,101	7,646	
Rate (%)	21.4	22.8	25.3	24.1	25.2	25.0	
<b>Adjusted PAT</b>	<b>9,712</b>	<b>11,124</b>	<b>15,157</b>	<b>15,201</b>	<b>18,072</b>	<b>22,937</b>	
Change (%)	16	15	36	0	19	27	
<b>Reported PAT</b>	<b>9,712</b>	<b>11,124</b>	<b>15,157</b>	<b>15,201</b>	<b>18,072</b>	<b>22,937</b>	

Balance Sheet							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	
Share Capital	171	172	174	174	174	174	174
Reserves	27,597	34,401	43,884	53,382	64,295	79,051	
<b>Net Worth</b>	<b>27,768</b>	<b>34,573</b>	<b>44,058</b>	<b>53,556</b>	<b>64,469</b>	<b>79,225</b>	
Loan	759	759	759	759	759	759	759
<b>Capital Employed</b>	<b>28,527</b>	<b>35,332</b>	<b>44,817</b>	<b>54,315</b>	<b>65,228</b>	<b>79,984</b>	
<b>Applications</b>							
Gross Block	15,944	17,770	20,132	22,852	25,925	29,565	
Less : Depreciation	10,065	11,628	13,099	15,829	19,413	23,780	
<b>Net Block</b>	<b>5,879</b>	<b>6,143</b>	<b>7,033</b>	<b>7,023</b>	<b>6,512</b>	<b>5,784</b>	
Other LT Assets	4,640	4,640	4,640	4,640	4,640	4,640	4,640
<b>Curr. Assets</b>	<b>22,820</b>	<b>30,081</b>	<b>40,188</b>	<b>50,923</b>	<b>63,237</b>	<b>80,656</b>	
Debtors	16,902	19,358	25,024	29,573	32,594	38,432	
Cash & Bank Balance	3,237	7,651	11,193	16,658	25,472	36,126	
Other Current Assets	2,682	3,072	3,971	4,692	5,172	6,098	
<b>Current Liab. &amp; Prov</b>	<b>4,812</b>	<b>5,532</b>	<b>7,044</b>	<b>8,271</b>	<b>9,161</b>	<b>11,096</b>	
Current Liabilities	3,028	3,403	4,399	5,067	5,726	6,781	
Provisions	5,171	5,171	5,171	5,171	5,171	5,171	5,171
<b>Net Current Assets</b>	<b>18,008</b>	<b>24,549</b>	<b>33,144</b>	<b>42,652</b>	<b>54,076</b>	<b>69,560</b>	
<b>Application of Funds</b>	<b>28,527</b>	<b>35,332</b>	<b>44,817</b>	<b>54,315</b>	<b>65,228</b>	<b>79,984</b>	

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Basic (INR)</b>						
EPS	<b>56.1</b>	<b>63.6</b>	<b>86.4</b>	<b>86.7</b>	<b>102.8</b>	<b>130.3</b>
Cash EPS	66.3	72.5	94.8	102.3	123.1	155.1
Book Value	163.2	201.8	254.9	308.1	369.2	453.2
DPS	27.6	21.5	28.0	28.0	35.0	40.0
Payout %	49.2	33.8	32.4	32.3	34.1	30.7
<b>Valuation (x)</b>						
P/E	58.1	51.3	37.7	37.6	31.7	25.0
Cash P/E	49.1	44.9	34.4	31.8	26.5	21.0
EV/EBITDA	44.9	46.4	29.4	27.1	20.7	16.3
EV/Sales	8.5	7.5	5.9	5.1	4.4	3.7
Price/Book Value	20.0	16.1	12.8	10.6	8.8	7.2
Dividend Yield (%)	0.8	0.7	0.9	0.9	1.1	1.2
<b>Profitability ratios (%)</b>						
RoE	40.5	35.7	38.6	31.1	30.6	31.9
RoCE	31.9	24.9	32.4	26.9	28.5	29.4
RoIC	36.3	30.1	42.4	37.5	44.0	51.1
<b>Turnover ratios</b>						
Debtors (Days)	95	97	97	99	97	96
Fixed Asset Turnover (x)	11.1	11.9	13.4	15.5	18.9	25.2

### Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E
CF from Operations	11,299	11,942	15,539	17,589	20,058	26,605
Cash for Working Capital	-4,698	-2,127	-5,053	-4,043	-2,610	-4,829
<b>Net Operating CF</b>	<b>6,601</b>	<b>9,815</b>	<b>10,486</b>	<b>13,546</b>	<b>17,448</b>	<b>21,775</b>
Net Purchase of FA	-1,625	-1,827	-2,361	-2,720	-3,073	-3,640
<b>Free Cash Flow</b>	<b>4,976</b>	<b>7,989</b>	<b>8,125</b>	<b>10,826</b>	<b>14,374</b>	<b>18,136</b>
Net Purchase of Invest.	-2,092	745	1,089	342	1,598	700
<b>Net Cash from Invest.</b>	<b>-3,717</b>	<b>-1,082</b>	<b>-1,272</b>	<b>-2,378</b>	<b>-1,475</b>	<b>-2,940</b>
Proc. from equity issues	0	0	0	0	0	0
Proceeds from LTB/STB	2,851	0	0	0	0	0
Dividend Payments	-5,498	-4,319	-5,672	-5,703	-7,159	-8,181
<b>Cash Flow from Fin.</b>	<b>-2,647</b>	<b>-4,319</b>	<b>-5,672</b>	<b>-5,703</b>	<b>-7,159</b>	<b>-8,181</b>
<b>Opening Cash Bal.</b>	<b>3,000</b>	<b>3,237</b>	<b>7,651</b>	<b>11,193</b>	<b>16,658</b>	<b>25,472</b>
Add: Net Cash	237	4,414	3,542	5,465	8,813	10,654
<b>Closing Cash Bal.</b>	<b>3,237</b>	<b>7,651</b>	<b>11,193</b>	<b>16,658</b>	<b>25,472</b>	<b>36,126</b>

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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