

Accumulate

LTI Analyst Meet 2020 'GReat-IT': Company unveiled its' strategy - The **Grit Alliance** within which LTI has created two separate biz segments: Cloud and Products IPs. The Grit strategy continues to focus on the core method of LTI: understand client business and identify areas for improvement and solve problems. LTI sees Cloud biz. as a \$1Bn opportunity in next 3 years and has setup dedicated SBU for top 3 Hyperscalers (Reached Tier 1 status in all major cloud scalers) and now plans to target beyond F2000 clients as well (as evident from its recent deal in UAE). LTI sees the "Mosaic" (Products) and "Leni" (Cognitive AI tool - launched this year), data and analytics platforms, as a multi-Bn\$ opportunity where LTI is targeting clients directly, via hyper scalers markets and via SaaS product offerings. This unit will have different go-to-market so that the Data-services team have their independent choice of using the relevant product for client (internal or external). LTI also shared that despite very challenging time it has reported 62% YoY growth in large deal pipeline at \$1.9Bn, with 7 large deal won on LTM basis with TCV of \$456Mn (implied conversion rate of 38% from large deal pipeline of FY19). LTI's retained its outlook for Leader quadrant revenue growth and stable margins (14-15% PAT margins).

Cloud and Product Business: This business will have five products (Decisions, ML Logistics, Agnitio, Marketplace, Leni) across Data-to-decision value chain. LTI expects cloud and data biz to scale well (current size \$180mn) based on cascading effect of potential built-in growth in cloud and data product companies on SI and as half of its clients (150+) doing digital transformation with LTI. The Products biz is already going with strong with 20 customer signed up for Mosaic and "Leni" (Potential New category as clients are white labeling product) building scale by targeting on all sizes companies and making the core products available at Hyperscalers, marketplace, as SaaS options.

Injazat Deal: LTI's recent deal win has a potential contracted revenue of AED760Mn (\$207mn) over 6 years where it would service client's client (50 clients) on services capabilities while Injazat will act as a Cloud Provider (No. 1 cloud service provider for UAE).

View: We believe LTI has delivered strong operational and financial performance, improved cash-flow (reduced DSO to 62 days v/s 70 days) along with a strong deal pipeline of \$1.9Bn (up 62% YoY) that further comforts on growth sustainability with stable profitability (helped by 1) Higher shoring 2) Cost Management 3) Productivity enhancer) and thus maintain its outperformance over peers and maintain our Accumulate rating on the stock with TP of Rs 3,500 valued at 26x FY23E earnings.

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	94,458	108,786	123,043	141,225	162,379
Growth(%)	29.3	15.2	13.1	14.8	15.0
EBITDA	18,835	20,292	26,216	29,198	33,463
OPM(%)	19.9	18.7	21.3	20.7	20.6
PAT	15,157	15,199	18,144	20,558	23,723
Growth(%)	36.3	0.3	19.4	13.3	15.4
EPS(Rs.)	86.5	86.4	103.1	116.8	134.8
Growth(%)	36.1	0.0	19.3	13.3	15.4
PER(x)	37.6	37.6	31.5	27.8	24.1
ROANW(%)	34.6	29.5	30.2	28.2	27.1
ROACE(%)	36.0	30.5	31.2	29.0	27.7

CMP	Rs 3,251
Target / Upside	Rs 3,500 / 8%
NIFTY	13,478
Script Details	
Equity / FV	Rs 174mn / Rs 1
Market Cap	Rs 572bn
	USD 8bn
52-week High/Low	Rs 3,513 / 1,210
Avg. Volume (no)	524,986
Bloom Code	LTI IN
Price Performance	
	1M 3M 12M
Absolute (%)	9 30 99
Rel to NIFTY (%)	9 32 104

	Mar'20	Jun'20	Sep'20
Promoters	74.5	74.5	74.4
MF/Banks/FIs	7.2	7.3	6.4
FII	9.5	9.8	11.2
Public / Others	8.8	8.5	8.0

Company Relative to SENSEX



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Unlocking Grit, Sanjay Jalona (CEO)

- Sanjay highlighted that he had completed 5 years at LTI during which Indian IT industry witnessed headwinds such as **protectionism, trade war, anti-globalization** which it overcame.
- He also highlighted the challenges LTI faced and overcame which were 1) high (22%) share of Oil & Gas Vertical 2) High dependence on Top Client 3) No large deals 4) lost top growing account last year. With all this behind, he highlighted that **FY20 is about unlocking the traits of grit and fearlessness across LTI** and highlighted the unlocking grit strategy.
- Sanjay unveiled the 3x3 approach being used by LTI during pandemic which were centered around 1) **Customer-first thinking** across the board (led by "Act Now | Plan Now") 2) **Build Resilient operations** (led by a defense and offense strategy) 3) **Protecting P&L** and Leveraging Balance Sheet.
- LTI highlighted the positive client feedback (highlighting that **LTI was the first to be up and running and first in bringing many initiatives**) from global Manufacturer, leading financial institution, F50 Bank, F500 utility company for LTI's performance during pandemic situation where focus on two goals 1) supporting clients and 2) safety of employees.
- He further highlighted **various product launches by LTI** during the year which were xFH (work from anywhere / hybrid model product), LTI Canvas (Product designed for Software engineering and driving growth which 20 customers are already using and product has done 5 large transitions), LTI SafeRadius App (COVID Safety App for LTI employees)
- Sanjay shared other achievements for LTI like 1) **98 new client addition (2 F500 clients)** 2) continued guidance to be growth leader for FY20 3) Strong Traction in Cloud and Digital Analytics 4) Strong Large Deal Pipeline.

Exhibit 1: Total 98 Clients Added (11 of these are 1mn\$ in run rate)

BFS	Insurance	Manufacturing	E&U	CPG	Hitech, M&E	Others
25	10	13	9	7	21	13

Source: Company, DART

- In last 6 months, LTI witnessed various trends: 1) Need for reimagining the business models by clients, 2) Hybrid Workspace Potential, and 3) Need for on board customers remotely (by Banks). At the essence, LTI noticed that businesses are **accelerating the digitalization projects in every aspect of the business** where speed / quick GTM is of utmost importance and Tech is becoming mainstream.
- In Summary, Sanjay highlighted that **LTI will focus on** 1) Superior operational & financial metrics ,2) Focus on capability building, 3) Investing in reskilling & localization and 4) Beginner's mind. **LTI continues to guide top quadrant revenue growth with stable margins.**

Unlocking GRIT –Sales & Marketing, Sudhir Chaturvedi

- LTI highlighted pandemic has been a game changer for sales where now **conversations are around digitization, new ideas, new business models** with C level executives.
- The LTI **large deal pipeline** stood at **\$1.9Bn** which grew by 62%.
- He highlighted on recent large deal win which is a Strategic partnership with Injazat to **accelerate digital transformation in Middle East Region** where LTI will focus implementing cloud for beyond F2000 companies.
- Sudhir highlighted **the progress LTI made during the year** (last 4 quarters) with 1) 7 Large Deal Wins (\$456Mn TCV) and 3 large new logos, 2) Minecraft program - Account mining efforts – client scaled across sizes \$1mn (169 from 137), \$5mn (61 from 48), \$10mn buckets (32 from 27) and 3) 98 new logos in LTM (68 F500 logos).

Exhibit 2: Positive Changes to Sales during Pandemic



Source: DART, Company

- Pandemic made LTI realize that it could do more with large deals and present the best of LTI with remote communication (Allow **clients to meet team of 75-100 LTI resources over remote communication in large deal engagements**). LTI has also created **rewards on quarterly and annual basis apart from incentives for sales**.

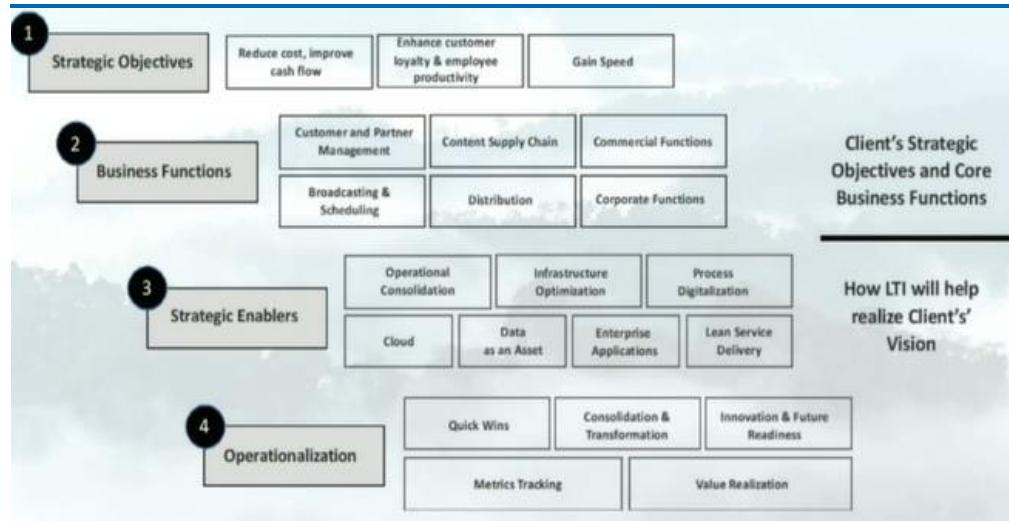
Exhibit 3: Different Initiatives for Sales Team



Source: DART, Company

- LTI plans to **accelerate the account mining effort in 100 clients in The Grit Alliance**. Looking to clients in a holistic way covering business ops and IT and aid client in becoming a stronger player in their vertical.

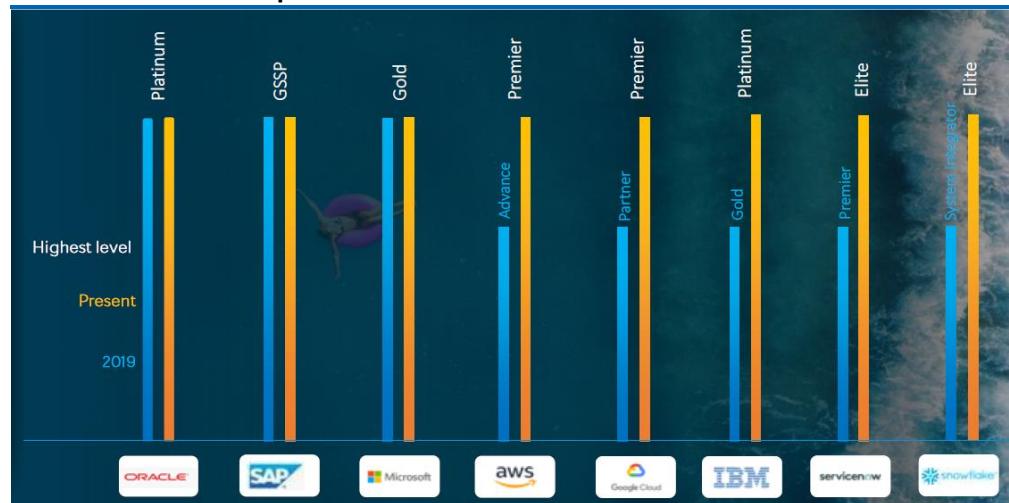
Exhibit 4: 100 Accounts under The Grit Alliance



Source: DART, Company

- For Large Deal Wins, **LTI has strategy around four ideas** 1) Bringing cash conservation and cash generation plans to clients, 2) Focusing on Hyper Scaler and Cloud Deals, 3) using Intelligent Platforms for digitalizing core ops and 4) Partnerships in new growth regions.
- LTI also plans to **aid growth using the new growth engines** 1) Newly launched Cloud Sales unit, 2) Product "Leni" (new Category maker), 3) Temenos SaaS Platform (Second largest SI but largest in SaaS based in select market, have joint sales and GTM strategy), 4) Product "Mosaic" launched by LTI and 5) Snowflake Partnership

Exhibit 5: Achieved top tier alliance with most market leaders



Source: DART, Company

It's TUEsday! (The Unlimited Enterprises) – Siddharth Bohra

- Siddharth highlighted how **businesses which adopted digital earlier witnessed benefits during the pandemic**. Examples: Target (Ecomm – witnessed doubling online sales than last year, 20% growth overall basis – as it wired all of its 1900 stores and powered it digitally), Disney – built OTT platform and diversified revenue from theme parks (achieved its 5-year subscriber target in few months during Pandemic), Carrier- launched digital platform for cold storage based supply chain to reduce waste in food/drugs category.
- Mr. Siddharth is positive about **LTI's cloud biz based on 3 data points** 1) Potential growth of Hyperscalers (Revenues tripled in last 3 years to \$80bn and potential to do double over next 2 years which will have tremendous cascading potential for Sis for deployment), 2) Potential of Data Products (Companies will use more data and analytics) and 3) Continued Enterprise IT investments (Around Cloud).

Exhibit 6: Driving Factor

1	The Hyperscalers	Top 3 Hyperscaler IaaS/PaaS revenue to grow to \$200B+ BY 2023, up from \$80B+ now
2	Enterprise IT investments	From 2015 - 2019, cloud drove ~75%+ of all worldwide IT market growth
3	The data product companies	\$200B+ , the market cap of 6 listed data product & platform companies

Source: Company

- LTI highlighted that **it is launching 2 separate business verticals** for Cloud and Products for the purpose of targeting the products better, allowing sales to select right in-house /outside product for clients.
- The plan for **LTI's Cloud business segment** is 1) Creating dedicated business unit for each Hyperscaler (AZURE, GCP, AWS currently and potential biz. unit for other cloud scalers in the future), 2) LTI expects the cloud biz (applications, IOT, Data, Infra, SaaS, etc) to reach \$1Bn and 3) Plans to target F2000 and beyond companies.
- LTI shared **some achievements within the cloud business**: 1) LTI is a Tier 1 Partner across all large cloud companies (only company with sub 5bn\$ revenues to achieve this), 2) Has \$180Mn business with cloud companies (already) and 3) 150 clients are (nearly half of client base) working with LTI for cloud transformation journey.
- LTI highlighted that **Cloud implementation will be done with help of RAINBOW (single window cloud solution for client from LTI – although capabilities would vary for verticals, functions and platforms)**, LTI's cloud transformation platform which improves time to implement cloud and reduces risk in implementation.

Exhibit 7: Plan for Cloud Business (differentiated across industry, functions and platform)

C=BT ²	C4X	Rainbow	Rainmakers	CWOW
Foundation	Cloud 4 Industry	LTI's Cloud Transformation platform	Elite team of cloud specialists	R&D
Speed	Cloud 4 function			CloudLabs
Ecosystem	Cloud for Platform			
Autonomous	More			Canvas for Cloud

Source: DART, Company

Exhibit 8: Cloud Case Studies

Building new businesses	Building resilient businesses	Building agile businesses	Building customer centric businesses
Platform to scale an online truck booking startup, now largest in India covering 15K Clients 600k Trucks in 2000+ Locations	Realtime analytics of 3Mn messages from 600K connected vehicles to reduce vehicle downtime by 80%	Platform for cross-functional collaboration now used to accelerate R&D by 40 of top 50 biopharma, 4 of top 5 pharma companies and 9 health agencies	Core platform for an insurance startup with a disruptive cashless, paperless model now servicing 20,000 transactions per day

Source: DART, Company

- The plan for **LTI's Product business segment** is 1) Creating dedicated biz unit for each product (Mosaic, Leni), 2) Focus on 5 cloud and cognitive products, and 3) Focus on companies of all sizes as target market (going beyond F2000).
- The **Product Portfolio within the "Mosaic" Platform** is Decisions, ML Logistics, Agnito, Marketplace and Leni. The products available on market places will be AIOPS, Working Capital Analytics, R&D Planning Analysis, etc.
- LTI shared **some information within the Product business**: 1) Mosaic and Leni has \$15Bn+ addressable market which in most cases is complementary to Snowflake's products. Example: CPG Company – Analyzing Comments and reached \$500mn of whitespace, Pharma – Analyze trials.

Exhibit 9: Product Case Studies

Organizing Enterprise Information	Amplifying Platforms for tomorrow	Personalizing Outcomes	Monetizing from Actionable Insights
Connected data ecosystem for 200K people-moving products to enhance service experience	Modernize global Analytics platform to accelerate company's divestiture by 60%	De-risking 300+ Clinical trials to improve Time to Market for drug launch	Identify product whitespaces in the e-commerce portfolio to create half-a-billion \$ pipeline

Source: DART, Company

Delivering Profitable Growth, Ashok Sonthalia

- Mr. Ashok Sonthalia highlighted that LTI has **emerged stronger** out of the crisis by highlighting several metrics.

Exhibit 10: Financial Metrics

Particulars	H2FY20	H1FY21	LTM
EBIT Margin	16.5%	18.7%	17.6%
Net Profit Margin	13.8%	14.7%	14.2%
% Digital Revenue	40.9%	42.4%	41.6%
YoY FCF Growth	27.9%	112.6%	60.5%
YoY Revenue Growth	14.8%	10.3%	12.5%

Source: DART, Company

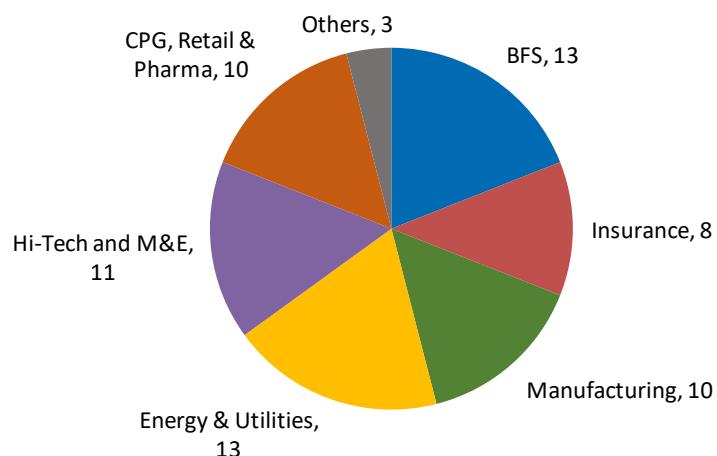
Exhibit 11: Operational Metrics

Particulars	H2FY20	H1FY21	LTM
Onsite Effort Mix	21.7%	20.2%	21.0%
Attrition	15.7%	11.1%	13.5%
DSO	77	62	62
YoY OCF Growth	32.7%	106.1%	60.8%
Utilization	80.9%	80.8%	80.9%

Source: DART, Company

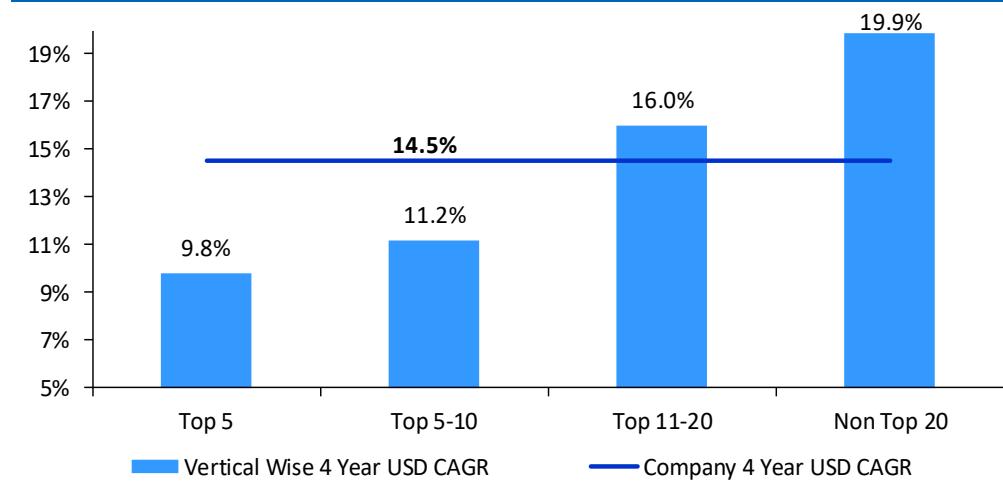
- LTI continues to **guide for stable margins** and plans to utilize levers of 1) Effort Mix / Utilization, 2) Productivity Enhancements, 3) Comprehensive Cost Management and 4) Hedging Strategy.
- LTI plans to **invest back in** 1) Reskilling, Diversity & Localization, 2) Capability Building – Organic as well as Inorganic, 3) Post-COVID Workplaces and 4) Bolstering the Sales Team.
- Mr. Ashok **highlighted that LTI's Top 20 clients have aged well with LTI.** (14 accounts with LTI for more than 10 years, 2 accounts with LTI for 5-10 years, 4 accounts with LTI for less than 5 years) and that LTI has a fairly diversified F500 Client Mix.

Exhibit 12: F500 Clients Mix (Total 68 Clients)



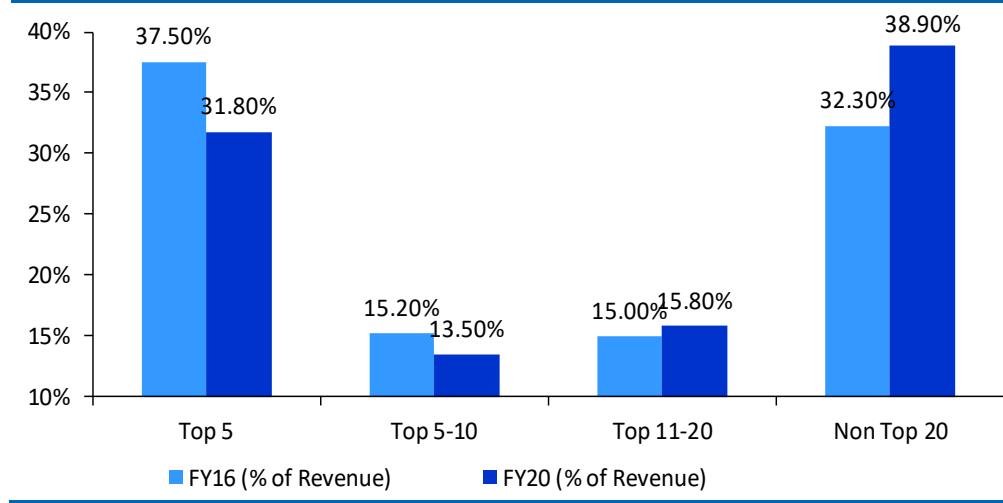
Source: DART, Company

Exhibit 13: LTI has diversified growth across buckets...



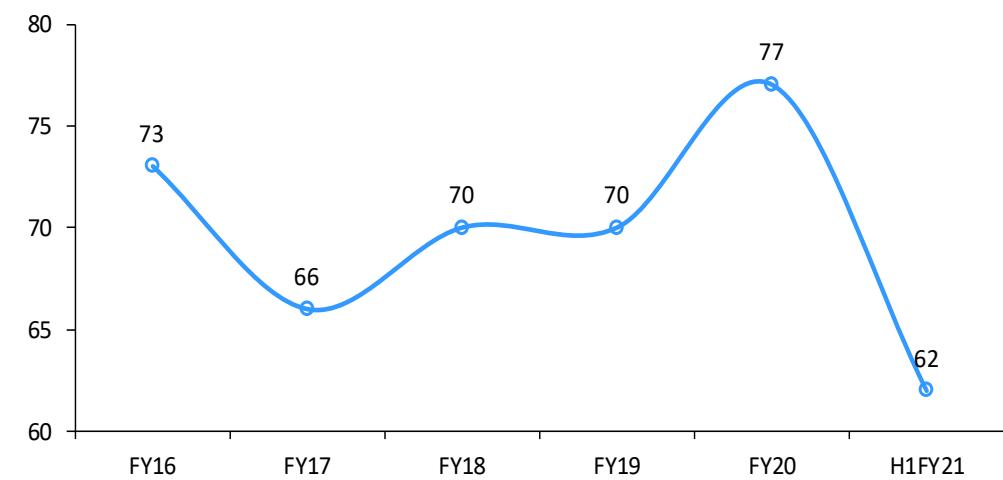
Source: Company, DART

Exhibit 14: ...which has led to reduce client concentration



Source: DART, Company

Exhibit 15: The Pandemic has also led to reduced DSOs and Higher Cashflows

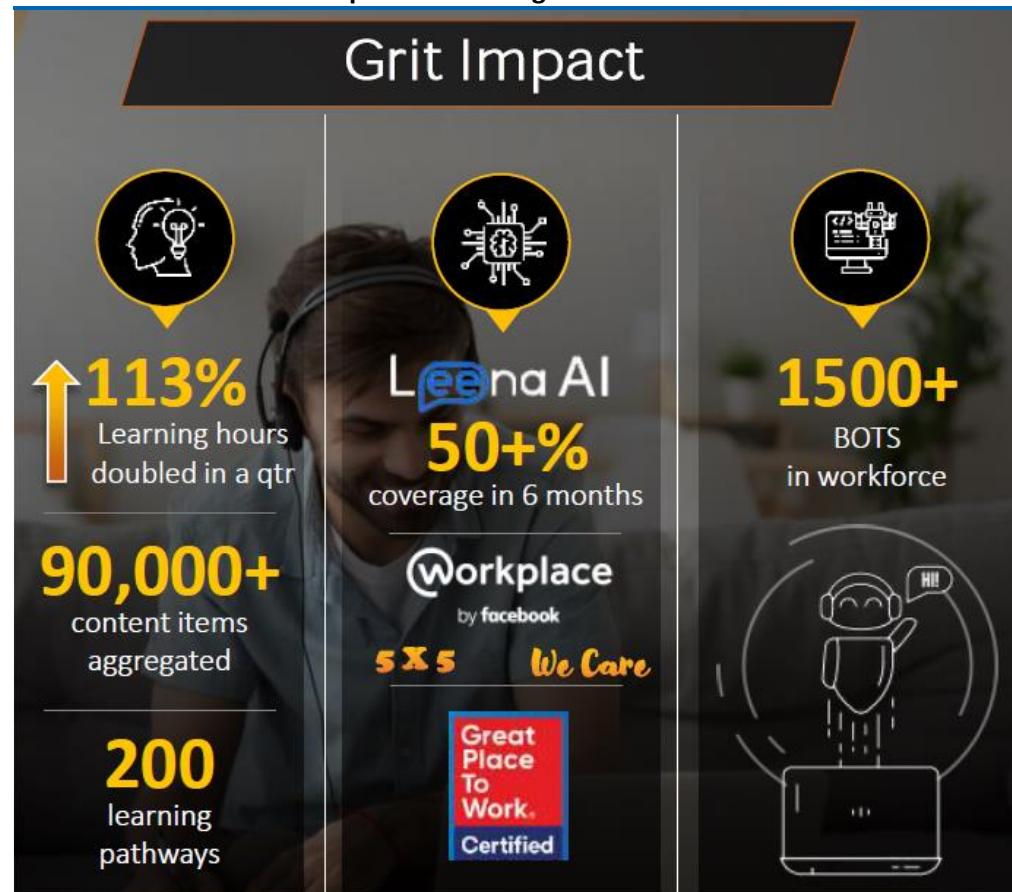


Source: Company, DART

Future of Work, Workforce & Workplace, Nachiket Deshpande

- Mr. Nachiket highlighted that the World has witnessed seismic shifts with 1) Industrialization to **Digital to Cognitive** 2) Driving value from these 'shifts' across decades (Use of Data and Analytics) 3) Hybrid Work Model.
- The work from **anywhere model led to 250bps increase in off-shoring**, 50% increase in agile adoption, 20+ remote transitions and 25+ core system move to cloud.
- The skilling and learn system at LTI now has moved towards **being more pull based, bite sized and personalized**.
- With the hybrid workplace model, **LTI now has 32,000 delivery center as each host now is a client**. LTI has added **hotdesking functionality** for employees (Currently at 40%).

Exhibit 16: GRIT SYSTEM impact on learning at LTI



Source: DART, Company

View and Valuation

The company highlighted that the leaders with their GRIT find way in any situation to stay relevant and emerge stronger out of challenges, which we largely subscribe given strong resilience it has displayed (achieved double digit growth even when saw big slip in top account, given its broad based growth engine that is powering momentum across the entire organization). We remain confident that LTI should continue its industry leading performance over next few years with a very-stable Net profitability (reinvest Fx/realization gains back into business). We have factored in a 14% revenue/earnings CAGR over FY20-23E with an Accumulate rating and TP of Rs. 3,500, valuing it at 26x FY23E.

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	108,786	123,043	141,225	162,379
Total Expense	88,494	96,827	112,027	128,916
COGS	73,589	81,761	94,278	108,278
Employees Cost	0	0	0	0
Other expenses	14,905	15,066	17,749	20,638
EBIDTA	20,292	26,216	29,198	33,463
Depreciation	2,731	3,523	3,881	4,222
EBIT	17,561	22,693	25,317	29,241
Interest	0	0	0	0
Other Income	2,463	1,659	2,277	2,602
Exc. / E.O. items	0	0	0	0
EBT	20,024	24,352	27,594	31,844
Tax	4,825	6,208	7,037	8,120
RPAT	15,199	18,144	20,558	23,723
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	15,199	18,144	20,558	23,723

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	174	174	174	174
Minority Interest	11	11	11	11
Reserves & Surplus	53,866	65,848	79,365	95,167
Net Worth	54,040	66,022	79,539	95,341
Total Debt	320	320	320	320
Net Deferred Tax Liability	(2,121)	(2,121)	(2,121)	(2,121)
Total Capital Employed	52,250	64,232	77,749	93,551

Applications of Funds

Net Block	18,301	18,820	19,157	19,307
CWIP	382	382	382	382
Investments	2	2	2	2
Current Assets, Loans & Advances	67,342	80,439	94,640	111,753
Inventories	0	0	0	0
Receivables	23,121	26,631	30,567	34,700
Cash and Bank Balances	4,853	10,467	16,459	25,160
Loans and Advances	689	692	694	697
Other Current Assets	16,094	16,314	16,685	17,061
Less: Current Liabilities & Provisions	33,777	35,410	36,431	37,893
Payables	6,950	7,693	7,980	8,830
Other Current Liabilities	26,827	27,717	28,451	29,063
<i>sub total</i>				
Net Current Assets	33,565	45,029	58,208	73,860
Total Assets	52,250	64,232	77,749	93,551

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	32.4	33.6	33.2	33.3
EBIDTA Margin	18.7	21.3	20.7	20.6
EBIT Margin	16.1	18.4	17.9	18.0
Tax rate	24.1	25.5	25.5	25.5
Net Profit Margin	14.0	14.7	14.6	14.6
(B) As Percentage of Net Sales (%)				
COGS	67.6	66.4	66.8	66.7
Employee	0.0	0.0	0.0	0.0
Other	13.7	12.2	12.6	12.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage				
Inventory days	0	0	0	0
Debtors days	78	79	79	78
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	23	23	21	20
Working Capital days	113	134	150	166
FA T/O	5.9	6.5	7.4	8.4
(D) Measures of Investment				
AEPS (Rs)	86.4	103.1	116.8	134.8
CEPS (Rs)	101.9	123.1	138.8	158.8
DPS (Rs)	28.0	35.0	40.0	45.0
Dividend Payout (%)	32.4	34.0	34.3	33.4
BVPS (Rs)	307.2	375.1	451.8	541.6
RoANW (%)	29.5	30.2	28.2	27.1
RoACE (%)	30.5	31.2	29.0	27.7
RoAIC (%)	38.4	44.9	44.0	45.1
(E) Valuation Ratios				
CMP (Rs)	3251	3251	3251	3251
P/E	37.6	31.5	27.8	24.1
Mcap (Rs Mn)	571,872	571,872	571,872	571,872
MCap/ Sales	5.3	4.6	4.0	3.5
EV	544,754	535,389	525,498	512,897
EV/Sales	5.0	4.4	3.7	3.2
EV/EBITDA	26.8	20.4	18.0	15.3
P/BV	10.6	8.7	7.2	6.0
Dividend Yield (%)	0.9	1.1	1.2	1.4
(F) Growth Rate (%)				
Revenue	15.2	13.1	14.8	15.0
EBITDA	7.7	29.2	11.4	14.6
EBIT	1.1	29.2	11.6	15.5
PBT	(1.3)	21.6	13.3	15.4
APAT	0.3	19.4	13.3	15.4
EPS	0.0	19.3	13.3	15.4

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	16,435	17,404	18,297	21,648
CFI	(6,520)	(7,288)	(7,542)	(7,628)
CFF	(8,813)	(4,502)	(4,764)	(5,319)
FCFF	13,418	13,866	14,655	17,920
Opening Cash	4,150	5,252	10,866	16,858
Closing Cash	5,252	10,866	16,858	25,559

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-20	Buy	2,110	1,813
Jan-20	Buy	2,120	1,934
May-20	Reduce	1,800	1,784
Jun-20	Reduce	1,900	1,848
Jun-20	Reduce	1,900	1,893
Oct-20	Accumulate	3,250	3,100

*Price as on recommendation date

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