

# Larsen & Toubro Infotech

ACCUMULATE

Focus on resilience and speed

## Summary

At its 2020 analyst day, Larsen & Toubro Infotech (LTI) reiterated its outlook for industry-leading revenue growth and net profit margin of 14-15% for FY21. It targets to be a resilient enterprise and achieve this in every/any market condition. It targets to react and execute with speed to changes at the market place. To address the opportunities in the market place due to the pandemic it has launched 2 new dedicated businesses units - 1) Cloud and 2) Products.

LTI also allayed concerns on slower large deal-wins in H1FY21 and confirmed that it has secured couple of large deals in Q3. Further, its large deal pipeline has grown by 62% YoY to US\$1.9 bn.

We maintain our forecast of industry-leading growth of 6.8% YoY (in CC) in FY21. We remain confident of acceleration of growth and forecast CAGR of 13.9%/14.6% in revenue (US\$)/EPS over FY21-23E. We maintain ACCUMULATE with new TP of Rs3,542 (vs. Rs3,270) now based on PER of 26x FY23E vs. 24x earlier.

## Key Highlights

### Large-deal pipeline +62% YoY to US\$1.9 bn

LTI allayed concern on slower large deal-wins in H1FY21 impacted by the complexity of contracting amid the pandemic. It confirmed that it has secured couple of large deals in Q3FY21. It has secured deal from Injazat, UAE-based leader in digital transformation, to implement its new best-shore service delivery model with deal value of AED760 mn (US\$205 mn at the current FX rate) for 6 years.

### Cloud business unit – target of US\$1 bn revenue over the next 3 years

LTI's current cloud practice is at US\$180 mn. It also believes that cloud is the core to the acceleration in the digital transformation that is taking place in the market place. It plans to have dedicated business unit (sales, solutions, consulting, delivery and partnerships) for each Hyperscaler - AWS, Azure and GCP. It is already their tier-1 partner. It would focus on Fortune 2000 enterprises and beyond.

### Products business unit – focus on 5 products

These 5 products include Decisions, ML Logistics, Agnitio, Marketplace, LENI (Google like search for insights). It targets to focus on clients across all sizes. It plans to do so through a SaaS approach for most of its products. It would leverage the ecosystem and is working with partners who are white-labeling these products and with hyperscalers who can have these products on their platforms.

TP  
CMP

Rs3,542  
Rs3,255  
Potential upside / downside +9%  
Previous Rating ACCUMULATE

## V/s Consensus

EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	103.8	117.6	136.2
Consensus	102.3	118.7	137.4
% difference	1.5	(0.9)	(0.9)

## Shareholding Pattern (%)

Promoters	74.4
FII	11.2
DII	5.9
Public	8.5

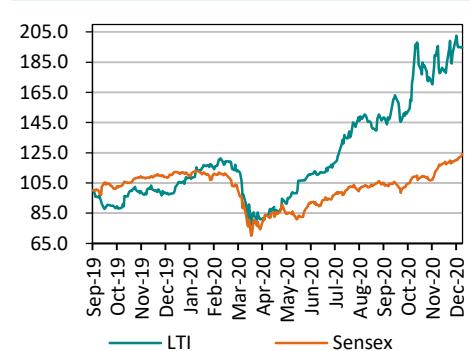
## Price Performance (%)

	-1m	-3m	-12m
Absolute	7.6	31.6	97.4
Rel to Sensex	1.4	13.3	83.2

## Key Stock Data

Bloomberg	LTI IN / LRTI.BO
Sector	IT
Shares o/s (mn)	175
Market cap. (Rs mn)	568,447
Market cap. (US\$ mn)	7,727
3-m daily avg Trd value (Rs mn)	738.0
52-week high / low	Rs3,515 / 1,208
Nifty / Sensex	45,960 / 13,478

## Relative to Sensex (%)



## Financial snapshot

Year	FY19	FY20	FY21E	FY22E	FY23E
Revenue	94,458	108,786	121,417	136,723	156,724
EBITDA	18,833	20,292	26,446	29,432	33,671
EBITDA (%)	19.9	18.7	21.8	21.5	21.5
Adj. PAT	15,157	15,199	18,096	20,512	23,756
EPS (Rs)	87.1	87.4	103.8	117.6	136.2
EPS Growth (%)	34.7	0.3	18.8	13.3	15.8
PE (x)	37.5	37.4	31.5	27.8	24.0
Dividend Yield (%)	0.9	0.9	1.0	1.5	1.7
EV/EBITDA (x)	29.0	26.7	20.0	17.6	15.0
RoE (%)	34.6	29.5	30.1	28.4	27.8
RoCE (%)	41.2	35.3	39.9	37.1	35.9

Source: Company; IDBI Capital Research

## Exhibit 1: LTI's 3X3 approach amid the pandemic



Source: Company; IDBI Capital Research

## Exhibit 2: LTI's xFH approach



Source: Company; IDBI Capital Research

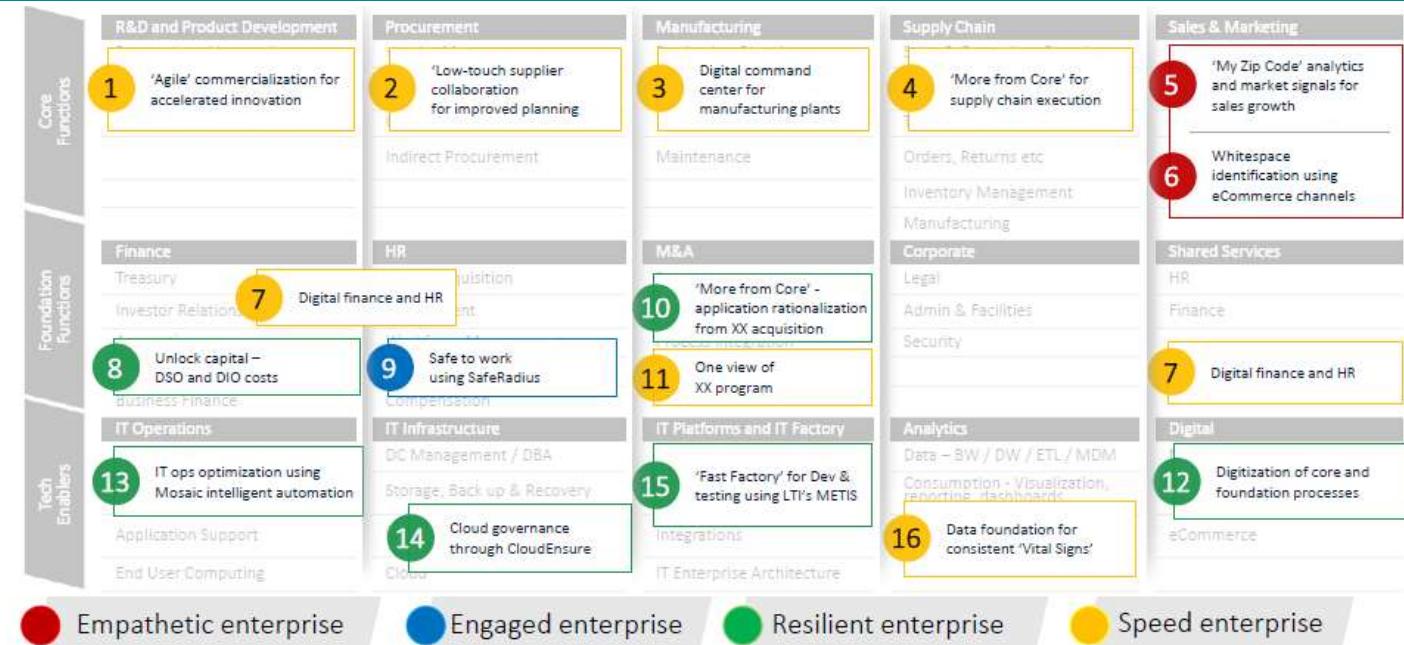
## Exhibit 3: LTI baselines client's value chain...

Core functions	R&D and product development	Procurement	Manufacturing	Supply chain	Sales & marketing
	Research and innovation	Vendor management	Production planning	Sales & operations planning	Category management
	Product development	Direct procurement	Plant ops / site management	Warehousing	Customer management
	New product introduction	Order / contracts	Workforce management	Transportation	promotions
		Indirect procurement	Maintenance	Orders, returns etc	Sales fulfilment, operations
				Inventory management	Consumer engagement, marketing
				Manufacturing	Channels, eCommerce
Foundation functions	Finance	HR	M&A	Corporate	Shared services
	Treasury	Talent acquisition	Strategy	Legal	HR
	Investor relations	Engagement	Planning & investment	Admin & facilities	Finance
	Accounting	Workforce management	Process integration	Security	
	Payables / receivables	Learning & development	M&A IT		
	Business finance	Compensation			
Tech enablers	IT operations	IT infrastructure	IT platforms and IT factory	Analytics	Digital
	Service desk	DC management / DBA	Common, platforms, SAP	Data – BW / DW / ETL / MDM	Mobile computing
	ITSM / service management	Storage, back up & recovery	App development	Consumption - visualization, reporting, dashboards	Automation / RPA
	Application support	Compliance & risk management	Integrations	Data science & ML / AI	eCommerce
	End user computing	Cloud	IT enterprise architecture		

● Empathetic enterprise     
 ● Engaged enterprise     
 ● Resilient enterprise     
 ● Speed enterprise

Source: Company; IDBI Capital Research

### Exhibit 4: ...and identifies its focus areas



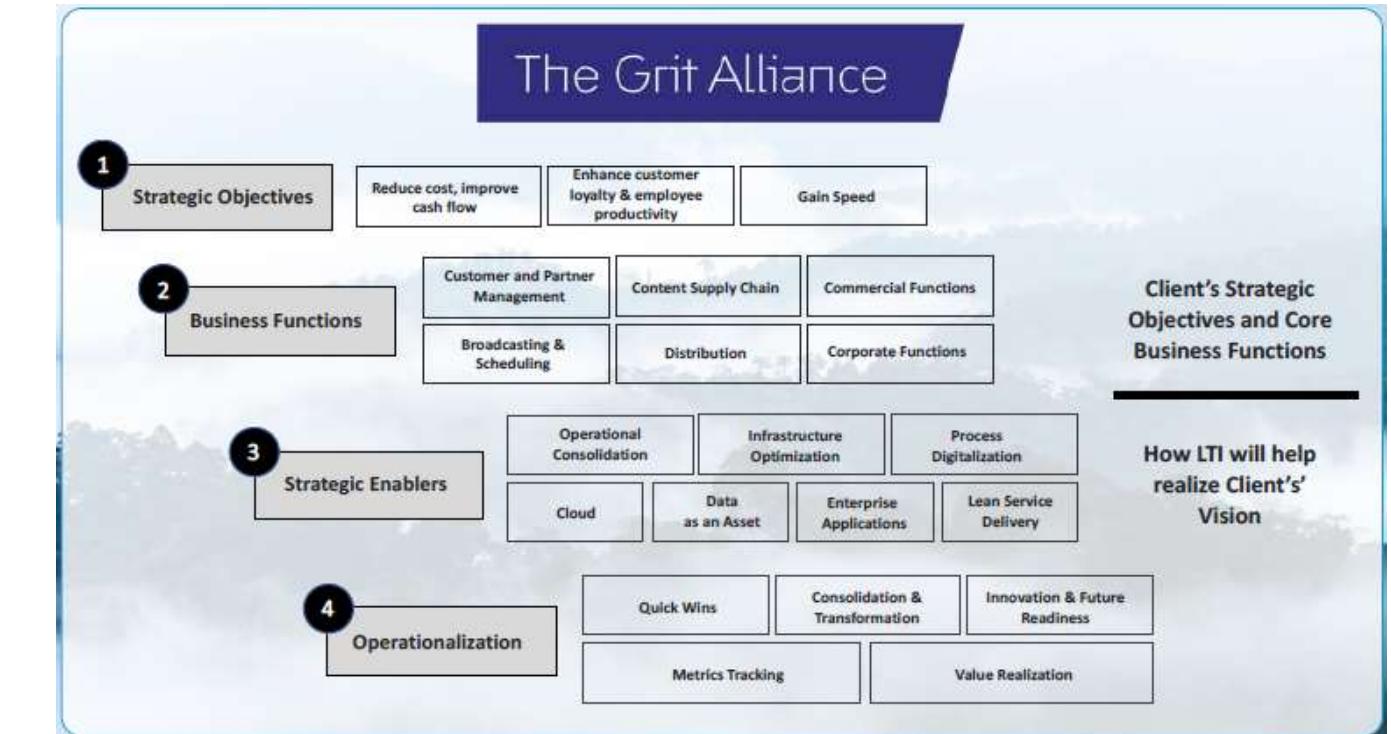
Source: Company; IDBI Capital Research

### Exhibit 5:LTI's learnings for its sales from the pandemic



Source: Company; IDBI Capital Research

## Exhibit 6: LTI's account mining strategies for the future



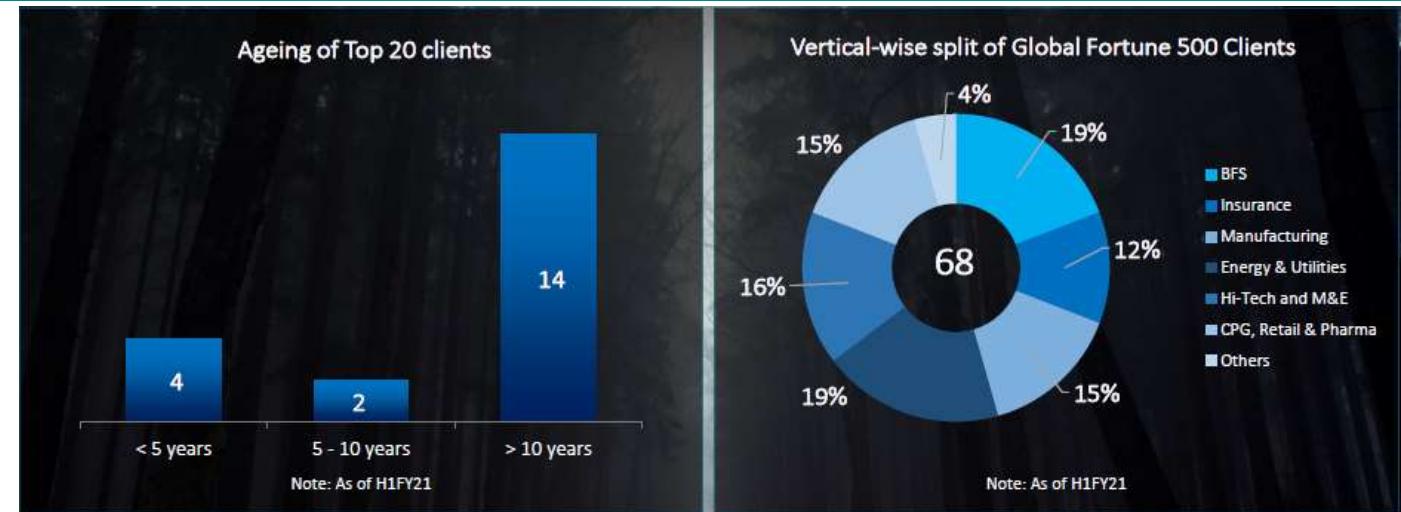
Source: Company; IDBI Capital Research

## Exhibit 7: Cloud @ LTI



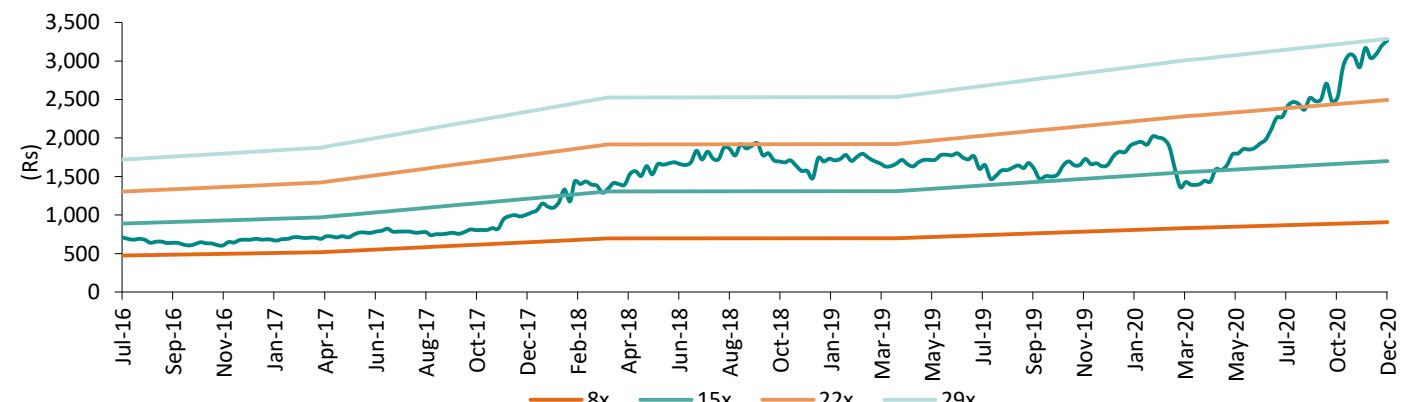
Source: Company; IDBI Capital Research

## Exhibit 8: LTI's ability to partner with large clients



Source: Company; IDBI Capital Research

## Exhibit 9: One-year forward PER trend



Source: Company; IDBI Capital Research

## Financial Summary

Profit & Loss Account					(Rs mn)	Cash Flow Statement				(Rs mn)
Year-end: March	FY20	FY21E	FY22E	FY23E		Year-end: March	FY20	FY21E	FY22E	FY23E
<b>Net sales</b>	<b>108,786</b>	<b>121,417</b>	<b>136,723</b>	<b>156,724</b>		Pre-tax profit	20,028	24,285	27,487	31,824
<i>growth (%)</i>	15.2	11.6	12.6	14.6		Depreciation	2,730	3,278	3,385	3,689
Operating expenses	(88,494)	(94,971)	(107,292)	(123,053)		Tax paid	(5,457)	(6,154)	(6,927)	(8,020)
<b>EBITDA</b>	<b>20,292</b>	<b>26,446</b>	<b>29,432</b>	<b>33,671</b>		Chg in working capital	12,566	437	(2,187)	(685)
<i>growth (%)</i>	7.7	30.3	11.3	14.4		Other operating activities	(5,018)	(1,407)	(1,510)	(1,973)
Depreciation	(2,730)	(3,278)	(3,385)	(3,689)		<b>Cash flow from operations (a)</b>	<b>24,849</b>	<b>20,438</b>	<b>20,248</b>	<b>24,836</b>
<b>EBIT</b>	<b>17,562</b>	<b>23,168</b>	<b>26,046</b>	<b>29,982</b>		Capital expenditure	(13,105)	(1,108)	(1,200)	(1,200)
Interest paid	(826)	(936)	(1,174)	(1,334)		Chg in investments	(1)	-	-	-
Other income	3,292	2,052	2,614	3,176		Other investing activities	-	-	-	-
<b>Pre-tax profit</b>	<b>20,028</b>	<b>24,285</b>	<b>27,487</b>	<b>31,824</b>		<b>Cash flow from investing (b)</b>	<b>(13,106)</b>	<b>(1,108)</b>	<b>(1,200)</b>	<b>(1,200)</b>
Tax	(4,825)	(6,154)	(6,927)	(8,020)		Equity raised/(repaid)	-	0	-	-
<i>Effective tax rate (%)</i>	24.1	25.3	25.2	25.2		Debt raised/(repaid)	-	-	-	-
Minority Interest	(4.0)	(34.0)	(48.0)	(48.0)		Dividend (incl. tax)	(5,856)	(5,928)	(8,369)	(9,415)
<b>Net profit</b>	<b>15,199</b>	<b>18,096</b>	<b>20,512</b>	<b>23,756</b>		Chg in monorities	(1)	-	-	-
<b>Adjusted net profit</b>	<b>15,199</b>	<b>18,096</b>	<b>20,512</b>	<b>23,756</b>		Other financing activities	-	-	-	-
<i>growth (%)</i>	0.3	19.1	13.3	15.8		<b>Cash flow from financing (c)</b>	<b>(5,857)</b>	<b>(5,928)</b>	<b>(8,369)</b>	<b>(9,415)</b>
<i>Shares o/s (mn nos)</i>	174	174	174	174		<b>Net chg in cash (a+b+c)</b>	<b>5,886</b>	<b>13,402</b>	<b>10,679</b>	<b>14,220</b>

Balance Sheet					(Rs mn)
Year-end: March	FY20	FY21E	FY22E	FY23E	
Net fixed assets	19,789	17,619	15,434	12,945	
Investments	2	2	2	2	
Other non-curr assets	2,386	2,661	2,997	3,435	
<b>Current assets</b>	<b>63,850</b>	<b>80,924</b>	<b>96,656</b>	<b>117,480</b>	
Inventories	-	-	-	-	
Sundry Debtors	27,541	29,939	33,713	38,644	
Cash and Bank	27,438	40,840	51,519	65,739	
Loans and advances	689	832	936	1,073	
<b>Total assets</b>	<b>86,027</b>	<b>101,207</b>	<b>115,089</b>	<b>133,862</b>	
<b>Shareholders' funds</b>	<b>54,040</b>	<b>66,208</b>	<b>78,351</b>	<b>92,692</b>	
Share capital	174	174	174	174	
Reserves & surplus	53,866	66,034	78,177	92,518	
<b>Total Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Secured loans	-	-	-	-	
Unsecured loans	-	-	-	-	
Other liabilities	(2,121)	(2,121)	(2,121)	(2,121)	
<b>Curr Liab &amp; prov</b>	<b>34,097</b>	<b>37,074</b>	<b>38,766</b>	<b>43,150</b>	
Current liabilities	31,179	33,748	35,020	38,856	
Provisions	2,918	3,327	3,746	4,294	
<b>Total liabilities</b>	<b>31,976</b>	<b>34,953</b>	<b>36,645</b>	<b>41,029</b>	
<b>Total equity &amp; liabilities</b>	<b>86,027</b>	<b>101,207</b>	<b>115,089</b>	<b>133,862</b>	
<b>Book Value (Rs)</b>	<b>311</b>	<b>380</b>	<b>449</b>	<b>532</b>	

Source: Company; IDBI Capital Research

### Financial Ratios

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	87.4	103.8	117.6	136.2
Adj. EPS growth (%)	0.3	18.8	13.3	15.8
EBITDA margin (%)	18.7	21.8	21.5	21.5
Pre-tax margin (%)	18.4	20.0	20.1	20.3
ROE (%)	29.5	30.1	28.4	27.8
ROCE (%)	35.3	39.9	37.1	35.9
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	1.4	1.3	1.3	1.3
Leverage factor (x)	1.5	1.6	1.5	1.5
Net margin (%)	14.0	14.9	15.0	15.2
Net Debt/Equity (x)	(0.5)	(0.6)	(0.7)	(0.7)
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	0	0	0	0
Receivable days	92	90	90	90
Payable days	29	29	23	23

### Valuation

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	37.4	31.5	27.8	24.0
Price / Book value (x)	10.5	8.6	7.3	6.1
PCE (x)	31.7	26.6	23.8	20.8
EV / Net sales (x)	5.0	4.4	3.8	3.2
EV / EBITDA (x)	26.7	20.0	17.6	15.0
Dividend Yield (%)	0.9	1.0	1.5	1.7



# Notes

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Dealing

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**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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