

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 concerned 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 teir-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.

Analyst Meet Note

TP Rs3,542
CMP 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 (%)

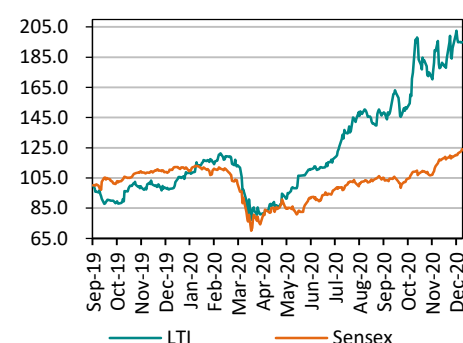
Promoters	74.4
FII	11.2
DII	5.9
Public	8.5

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

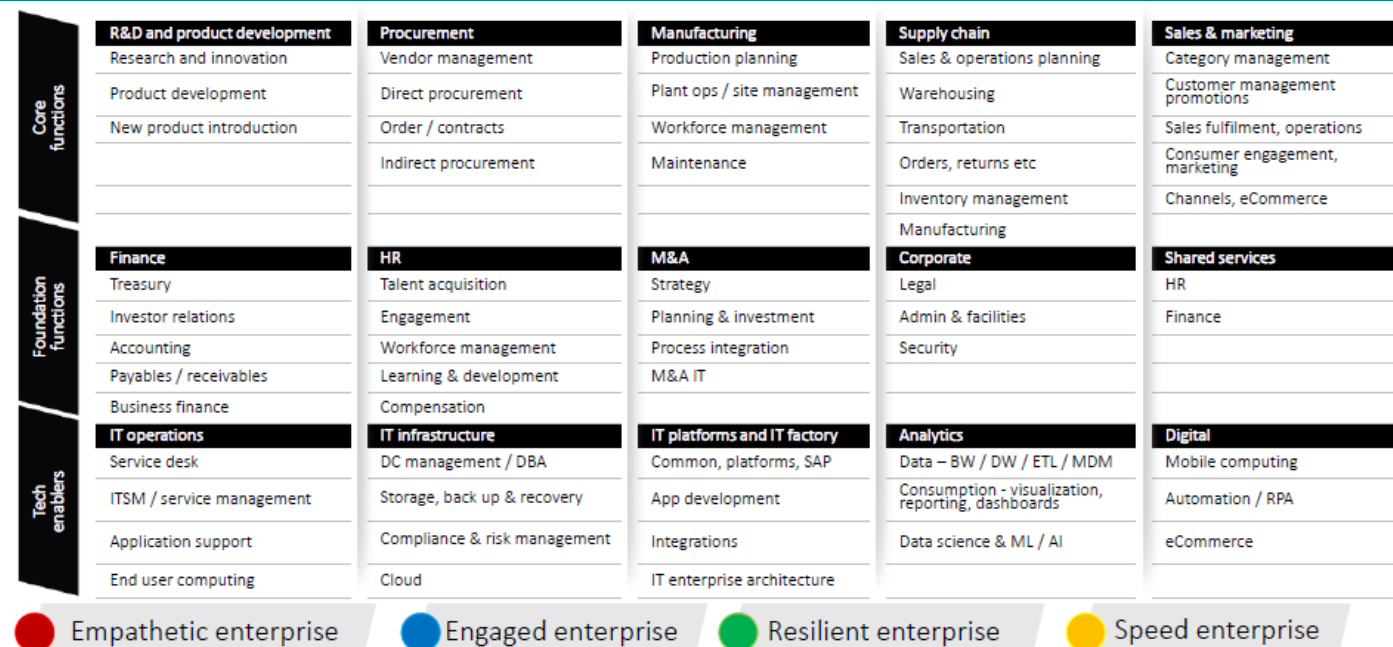
Exhibit 1: LTI's 3X3 approach amid the pandemic


Source: Company; IDBI Capital Research

Exhibit 2: LTI's xFH approach

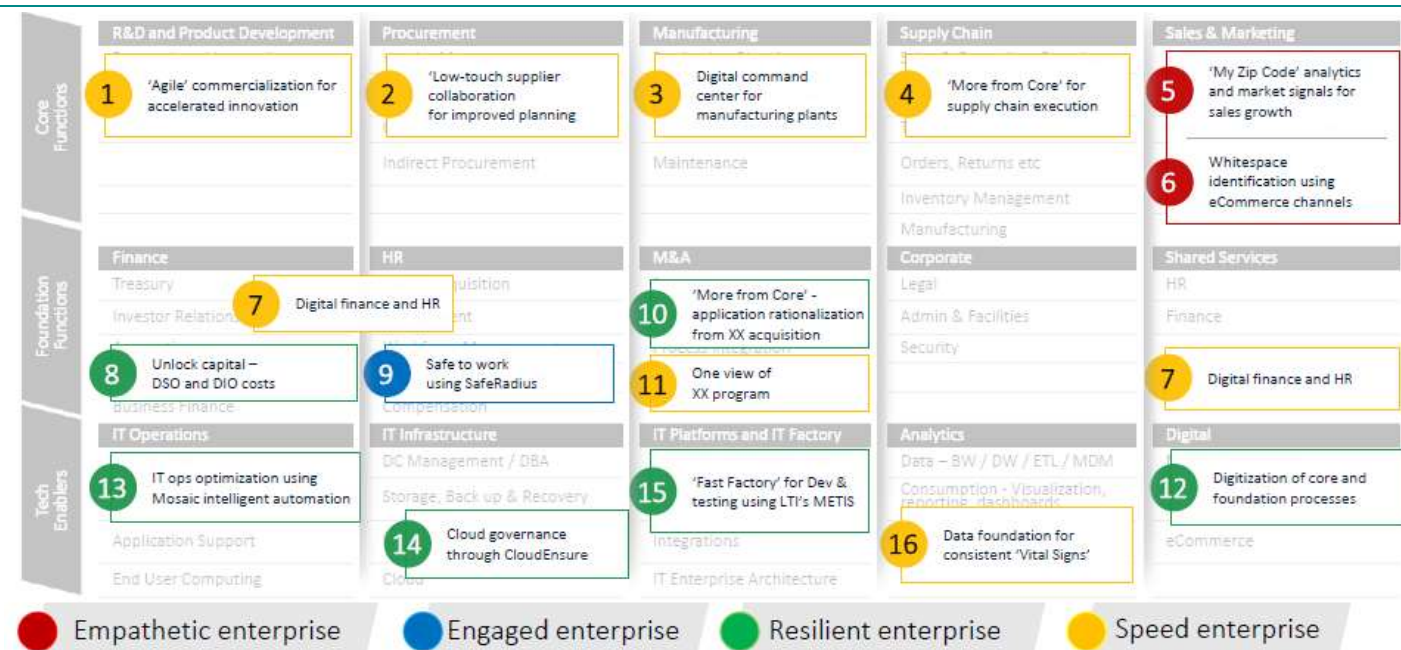

Source: Company; IDBI Capital Research

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



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



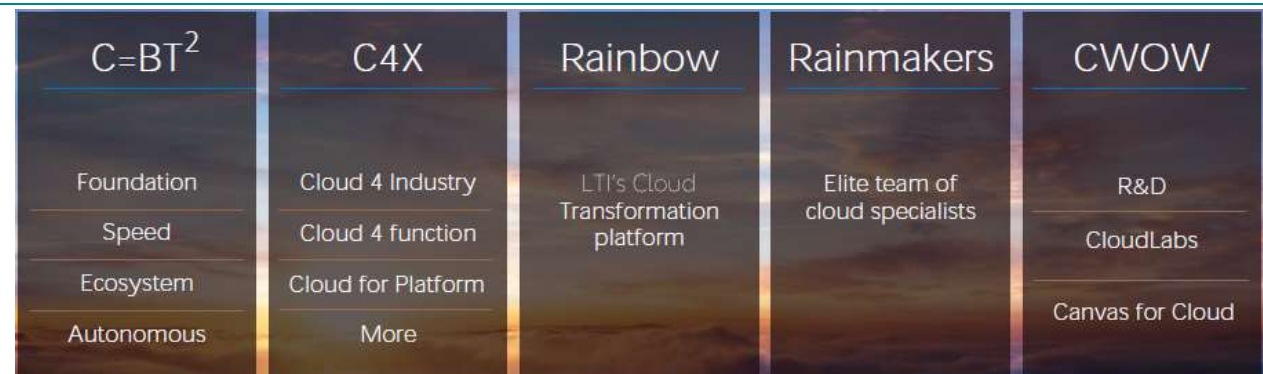
Source: Company; IDBI Capital Research

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

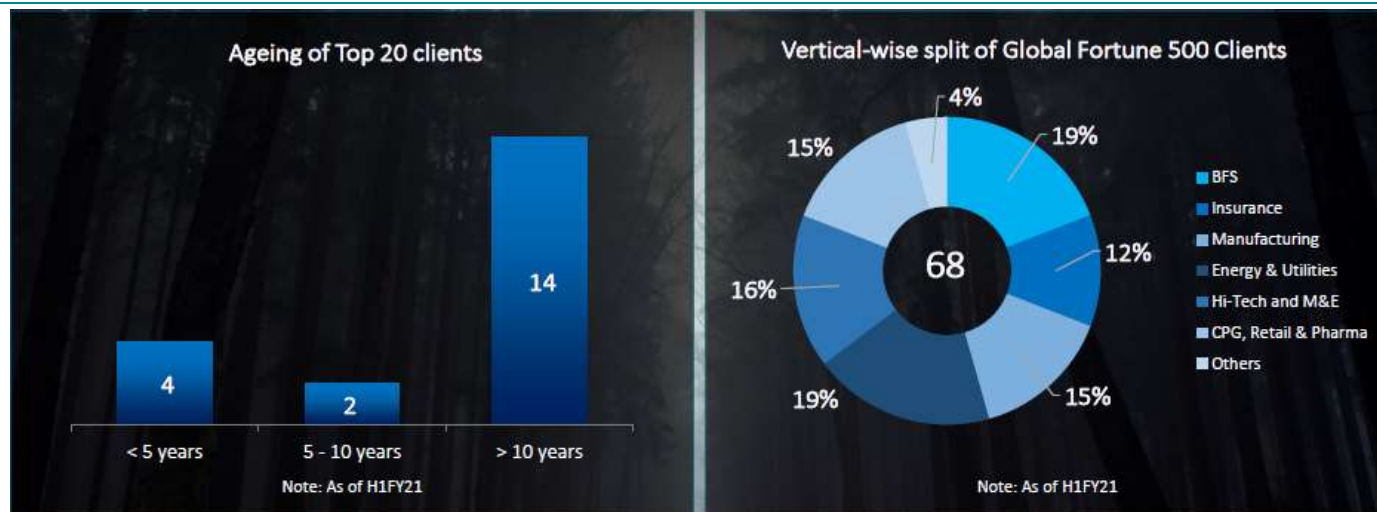


Source: Company; IDBI Capital Research

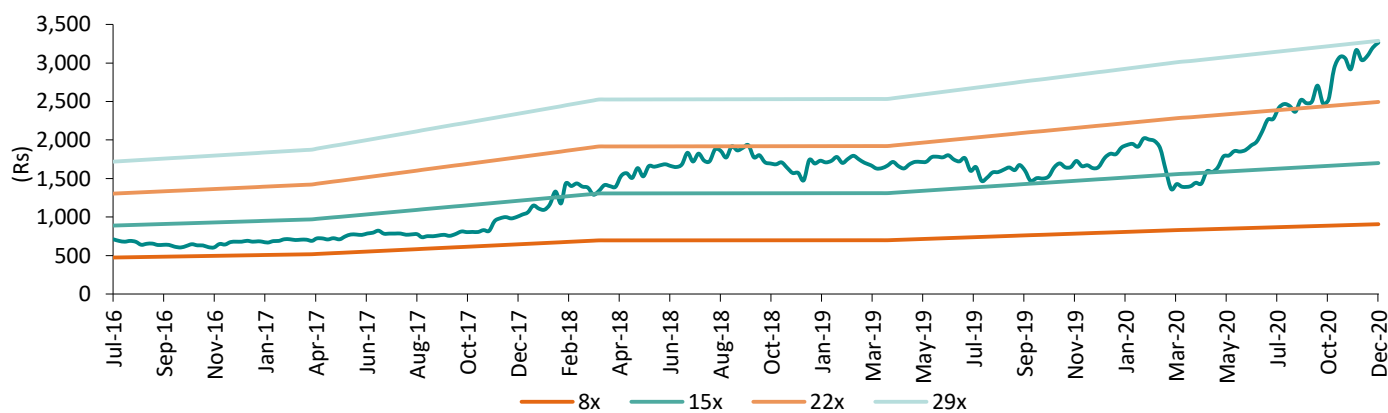
Exhibit 7: Cloud @ LTI



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)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net sales	108,786	121,417	136,723	156,724
<i>growth (%)</i>	<i>15.2</i>	<i>11.6</i>	<i>12.6</i>	<i>14.6</i>
Operating expenses	(88,494)	(94,971)	(107,292)	(123,053)
EBITDA	20,292	26,446	29,432	33,671
<i>growth (%)</i>	<i>7.7</i>	<i>30.3</i>	<i>11.3</i>	<i>14.4</i>
Depreciation	(2,730)	(3,278)	(3,385)	(3,689)
EBIT	17,562	23,168	26,046	29,982
Interest paid	(826)	(936)	(1,174)	(1,334)
Other income	3,292	2,052	2,614	3,176
Pre-tax profit	20,028	24,285	27,487	31,824
Tax	(4,825)	(6,154)	(6,927)	(8,020)
<i>Effective tax rate (%)</i>	<i>24.1</i>	<i>25.3</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	(4.0)	(34.0)	(48.0)	(48.0)
Net profit	15,199	18,096	20,512	23,756
Adjusted net profit	15,199	18,096	20,512	23,756
<i>growth (%)</i>	<i>0.3</i>	<i>19.1</i>	<i>13.3</i>	<i>15.8</i>
<i>Shares o/s (mn nos)</i>	<i>174</i>	<i>174</i>	<i>174</i>	<i>174</i>

Cash Flow Statement (Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	20,028	24,285	27,487	31,824
Depreciation	2,730	3,278	3,385	3,689
Tax paid	(5,457)	(6,154)	(6,927)	(8,020)
Chg in working capital	12,566	437	(2,187)	(685)
Other operating activities	(5,018)	(1,407)	(1,510)	(1,973)
Cash flow from operations (a)	24,849	20,438	20,248	24,836
Capital expenditure	(13,105)	(1,108)	(1,200)	(1,200)
Chg in investments	(1)	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(13,106)	(1,108)	(1,200)	(1,200)
Equity raised/(repaid)	-	0	-	-
Debt raised/(repaid)	-	-	-	-
Dividend (incl. tax)	(5,856)	(5,928)	(8,369)	(9,415)
Chg in minorities	(1)	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(5,857)	(5,928)	(8,369)	(9,415)
Net chg in cash (a+b+c)	5,886	13,402	10,679	14,220

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
Current assets	63,850	80,924	96,656	117,480
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
Total assets	86,027	101,207	115,089	133,862
Shareholders' funds	54,040	66,208	78,351	92,692
Share capital	174	174	174	174
Reserves & surplus	53,866	66,034	78,177	92,518
Total Debt	-	-	-	-
Secured loans	-	-	-	-
Unsecured loans	-	-	-	-
Other liabilities	(2,121)	(2,121)	(2,121)	(2,121)
Curr Liab & prov	34,097	37,074	38,766	43,150
Current liabilities	31,179	33,748	35,020	38,856
Provisions	2,918	3,327	3,746	4,294
Total liabilities	31,976	34,953	36,645	41,029
Total equity & liabilities	86,027	101,207	115,089	133,862
Book Value (Rs)	311	380	449	532

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
Turnover & Leverage ratios (x)				
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)
Working Capital & Liquidity ratio				
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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Key to Ratings Stocks:

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

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