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Technology

Company update and reco change

Target price: Rs3,745

Earnings revision

(%)	FY21E	FY22E	FY23E
Sales	↑ 0.5	↑ 3.0	↑ 7.2
EBIT	↑ 0.5	↑ 3.0	↑ 7.2
EPS	↑ 0.5	↑ 2.8	↑ 6.8

Target price revision

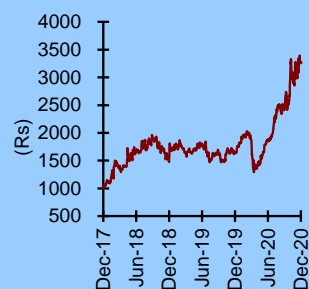
Rs3,745 from Rs3,450

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	74.6	74.5	74.4
Institutional investors	16.7	17.0	17.6
MFs and others	5.3	5.2	5.1
FIs/Bank	0.1	0.0	0.0
Insurance Cos.	1.4	1.4	0.7
FII	9.9	10.4	11.8
Others	8.7	8.5	8.0

Source: www.nseindia.com

Price chart



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INDIA

ICICI Securities

Larsen & Toubro Infotech

BUY

Upgrade from ADD

Data products present a good optionality

Rs3,255

LTI's aspirations for US\$1bn in cloud revenue in three years implies ~78% segmental CAGR (on base of ~US\$185mn). Too ambitious, we do not construe this as formal guidance. Leveraging its reference ability in the data-led services, LTI plans to take five products built around data to market. Offered also on SaaS mode on app stores / marketplaces (e.g. Appsource), these products will complement (than compete) the established likes of Snowflake. A resounding success for a services provider in product segment has been largely elusive. However, (1) commerciality of these products, (2) recent encouraging evidence (e.g. HCLT) and (3) LTI's prior execution record makes us positively biased on this optionality. Large deal win in the Middle East (~US\$204mn TCv) surprised us. Nevertheless, the differences in project rhythm here is the key risk to watch out for. While the large deal pipeline increased ~62% YoY, commentary around conversion sounded defensive. Stock under-performed broader markets (by 8% vs Sensex) post our earlier downgrade ([link](#)). As we turn positive on the products-related optionality and factor-in the large deal win, we upgrade the stock to BUY.

► **US\$1bn cloud practice in three years is too ambitious.** LTI announced addition of two new business lines around: 1) cloud, and 2) products (structured around data capabilities). Company expects these two businesses to be the key growth drivers over next 3-5 years. Currently, LTI is a Tier I partner for many hyper scalars and nearly half of its existing client base works with the company on cloud-related engagements. It envisages independent and dedicated business units for each of the hyper scalars (separate sales, solutions, consulting & delivery teams).

To avoid going to market with silo-ed solutions, there are overarching streamlining processes in place (e.g. Rainbow, senior cloud specialists leading the practice). LTI aspires its cloud revenue practice to become US\$1bn in size (from current ~US\$184mn) in three years implying a staggering segmental CAGR of ~78%. This is too ambitious and not be construed as formal guidance, in our view.

► **However, products business presents a good optionality.** Leveraging its strong credentials and reference ability in data-led services, LTI plans to take five products built around data to market. These are Decisions, ML Logistics, Agnitio, Marketplace and Leni. Management hinted at investments in engineering, R&D, sales and marketing of these products. The product portfolio is also envisaged to be offered on SaaS mode with presence on app stores / marketplaces. We noticed these products (e.g. Agnitio, Leni) are already present on marketplaces like Microsoft Appsource.

Management indicated these products will complement rather than compete with the established likes of Snowflake. A resounding success for a services provider in the product segment has been largely elusive. However, we are positively biased on the back of: 1) commerciality of these products (e.g. AI powered advanced analytics), 2) recent encouraging evidence (e.g. HCLT), and 3) LTI's prior execution record.

Market Cap	Rs568bn/US\$7.7bn
Reuters/Bloomberg	LRTI.BO / LTI IN
Shares Outstanding (mn)	174.6
52-week Range (Rs)	3394/1293
Free Float (%)	25.6
FII (%)	11.8
Daily Volume (US\$'000)	13,943
Absolute Return 3m (%)	32.3
Absolute Return 12m (%)	99.8
Sensex Return 3m (%)	18.6
Sensex Return 12m (%)	15.6

Year to March	2020	2021E	2022E	2023E
Revenue (Rs mn)	1,08,786	1,23,107	1,47,794	1,82,835
Net Income (Rs mn)	15,201	18,472	22,073	28,239
EPS (Rs)	86.7	105.0	125.4	160.4
% Chg YoY	0.4	21.1	19.4	27.9
P/E (x)	37.5	31.0	26.0	20.3
CEPS (Rs)	102.3	124.5	146.4	186.4
EV/E (x)	27.1	20.3	17.1	13.2
Dividend Yield	0.9	0.9	1.2	1.4
RoCE (%)	26.9	28.6	27.9	29.2
RoE (%)	31.1	30.9	30.2	31.5

Please refer to important disclosures at the end of this report

- ▶ **Strong increase in large deal pipeline.** Nevertheless, conversion is the key. LTI's deal win momentum has been tepid for some time now and was one of the key reasons for our earlier downgrade of the stock. In that context, announcement of a large deal win in the Middle East (US\$~204mn TCV over six years) came as a surprise. We expect peak revenue run rate on this project to be achieved over FY22E-FY23E. Nevertheless, the differences in the project rhythm and execution challenges in the Middle East geography are key risks to watch out for.

Management hinted at a large deal pipeline of US\$1.9bn, implying an increase of ~62% YoY. While the richness of the pipeline and its increase have been robust for four quarters now, conversion was the key challenge. Management outlook on this aspect sounded a bit defensive, implying it may still be some time away.

- ▶ **Stable commentary on most other aspects.** Management reiterated its outlook on industry-leading growth along with stable margins. Keeping aside the incremental focus on cloud and data products, LTI continues to focus on client mining, new logos and large deals. Management intends to invest back in the business in: 1) strengthening the sales team, 2) capability building, 3) reskilling & localisation, and 4) post-Covid workplaces. Despite these investments, the company intends to keep its margins stable (net margins of 14-15%) leveraging on operational efficiencies.
- ▶ **Optionality in product business and large deal win make the stock attractive.** Post our earlier downgrade ([link](#)), the stock underperformed broader markets (by 8%, vs Sensex) over the previous nearly two months. However, as we now factor-in the optionality related to product business and revenue booking from the large deal win in the Middle East, we upgrade our earnings estimates over FY22E-FY23E by 3%-7%. We upgrade the stock to **BUY** (from **Add** earlier) valuing it at 23x FY23E EPS.

Financial summary

Table 1: Profit and Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Revenue (US\$ mn)	1,525	1,649	1,945	2,359
Total Income (Sales)	1,08,786	1,23,107	1,47,794	1,82,835
Operating Expenses	88,493	96,422	1,16,605	1,43,112
EBITDA	20,293	26,685	31,188	39,722
% margin	18.7	21.7	21.1	21.7
Depreciation & Amortisation	2,730	3,425	3,695	4,571
EBIT	17,563	23,259	27,494	35,151
% margin	16.1	18.9	18.6	19.2
Other Income (net)	2,463	1,534	1,937	2,500
Recurring PBT	20,026	24,793	29,431	37,651
Tax expense	4,825	6,322	7,358	9,413
Recur. profit	15,201	18,472	22,073	28,239

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Liabilities				
Net Worth	53,556	65,994	80,294	98,920
Non-current Liabilities	759	759	759	759
Total Liabilities	54,315	66,753	81,053	99,679
Assets				
Fixed Assets	7,023	6,675	6,675	6,675
Other Non-current assets	4,640	4,640	4,640	4,640
Current assets	50,923	64,639	80,859	1,02,093
less: current liabilities	8,271	9,201	11,121	13,730
Net current assets	42,652	55,438	69,738	88,364
Total Assets	54,315	66,753	81,053	99,679

Source: Company data, I-Sec Research

Table 3: Quarterly trend

(Rs mn, year ending March 31)

	Dec-19	Mar-20	Jun-20	Sep-20
Net sales	28,111	30,119	29,492	29,984
Recurring EBIT	4,565	5,034	5,139	5,957
Margin (%)	16.2	16.7	17.4	19.9
Extraordinary Items	-	-	-	-
Recurring Net Income	3,767	4,274	4,164	4,568

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Op. CF before W Cap changes	22,414	27,113	32,425	41,322
Working Capital change	(4,043)	(2,379)	(5,712)	(8,109)
Taxes	(4,825)	(6,322)	(7,358)	(9,413)
Capex (including acquisitions)	(2,720)	(3,078)	(3,695)	(4,571)
Free Cash flow	10,826	15,335	15,661	19,229
CF from other Invst Act (Ex Capex)	342	1,106	700	900
Dividend paid	(5,703)	(6,034)	(7,772)	(9,613)
Others	-	-	0	-
Increase/(Decrease) in Cash	5,465	10,407	8,589	10,516

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
Diluted EPS	86.7	105.0	125.4	160.4
Book Value per share (BV)	305.6	375.2	456.1	561.9
Cash EPS	102.3	124.5	146.4	186.4
Dividend per share	28.0	29.5	38.0	47.0
Growth Ratios (%)				
Total Income (Sales) - US\$	13.0	8.2	17.9	21.3
Total Income (Sales)	15.2	13.2	20.1	23.7
EBITDA	37.1	7.3	19.1	20.2
Net Income	58.6	7.7	31.5	16.9
Diluted EPS	0.4	21.1	19.4	27.9
Valuation Ratios (x)				
P/E	37.5	31.0	26.0	20.3
P/BV	10.6	8.6	7.1	5.8
EV / EBITDA	27.1	20.3	17.1	13.2
EV / Sales	5.1	4.4	3.6	2.9
Operating Ratio				
Gross margins (%)	32.4	34.1	34.1	35.5
Other Income / PBT (%)	12.3	6.2	6.6	6.6
Effective Tax Rate (%)	24.1	25.5	25.0	25.0
Fixed Asset Turnover (x)	15.5	18.4	22.1	27.4
Receivables (days)	99.2	96.1	96.4	96.4
Return/Profitability Ratio (%)				
Net Income Margins	14.0	15.0	14.9	15.4
EBITDA Margins	18.7	21.7	21.1	21.7
RoCE (Based on Avg)	26.9	28.6	27.9	29.2
RoNW (Based on Avg)	31.1	30.9	30.2	31.5
Dividend Yield	0.9	0.9	1.2	1.4

Source: Company data, I-Sec research

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