Larsen & Toubro Infotech (LTINFO)

ICICI direct Research

CMP: ₹ 6597 | Target: ₹ 7650 (16%) | Target Period: 12 months | BUY

December 10, 2021

Aspire to be US$4bn company in the medium term

About the stock: Larsen & Toubro Infotech (LTI) offers application development, IMS, digital solution services to BFSI, retail, health, media & hi-tech verticals.

- LTI has 71 Fortune-500 clients with a presence in North America & Europe
- LTI has grown at 14% CAGR over FY18-21 with robust margins (~19%)

Analyst day highlights:

- The company has hit quarterly annualised revenue run rate of US$2bn in Q2FY22. It is aspiring to reach US$4bn annual revenue rate at faster pace than its precedent time period.
- The company has reported industry leading growth in last 5 years and expect the same to continue going forward
- LTI's large deal size is US$2.07bn, out of which new logos contribute 44% of the deal size
- The company is looking to re-invest the growth back to build up capabilities and talent and hence maintained PAT margin guidance band of 14-15%.

What should investors do? LTI's share price has grown by ~10x over the past five years (from ~₹ 654 in Dec 2016 to ~₹ 6,597 levels in Dec 2021).

- We remain positive on the stock and maintain BUY rating.

Target Price and Valuation: We value LTI at ₹ 7,650 i.e. 45x P/E on FY23E EPS

Key triggers for future price performance:

- LTI's ability to deliver end-to-end solutions to help in registering industry leading growth
- Ability to win large deals, presence in niche verticals, effectively mine clients, adding Fortune 500 clients and digital prowess other key drivers
- Vendor consolidation opportunity and digital acceleration. We expect LTI to register 24.7% CAGR revenue growth in FY21-23E

Alternate Stock Idea: Apart from LTI, in our IT coverage we also like Infosys

- Key beneficiary of improved digital demand, industry leading revenue growth and healthy capital allocation prompt us to be positive
- BUY with a target price of ₹ 2,060

LTI Let's Solve

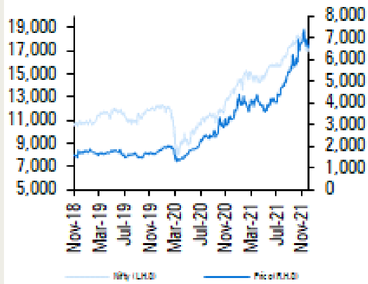
Particulars

Particular	Amount
Market Cap (₹ crore)	115,815
Total Debt	41
Cash and Investment	₹ 4388 crore
EV	₹ 111469 crore
52 week H/L	7506/ 3206
Equity Capital	₹ 18 crore
Face Value	₹ 1

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	74.3	74.3	74.3	74.1
FII	13.3	13.6	13.1	13.3
DII	4.6	4.3	4.8	4.3
Public	7.8	7.9	7.9	8.3

Price Chart



Recent event & key risks

- The company aspire to be US$4bn company in medium term
- **Key Risk:** (i) Deceleration in deal pipeline ii) Inability to sustain cost savings

Research Analyst

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Company Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	6,501	7,306	9,446	10,879	12,370	16.2%	16,169	19,246	24.7%
EBITDA	1,230	1,188	1,883	2,029	2,725	21.6%	3,401	4,101	22.7%
EBITDA Margins (%)	18.9	16.3	19.9	18.7	22.0		21.0	21.3	
Net Profit	971	1,113	1,516	1,521	1,938	18.3%	2,397	2,968	23.7%
EPS (₹)	56.9	64.7	87.3	86.6	110.3		136.4	168.8	
P/E (x)	115.9	102.0	75.6	76.2	59.8		48.4	39.1	
RoE (%)	30.9	28.8	31.0	28.1	26.5		27.6	28.5	
RoCE (%)	38.7	36.0	40.4	30.7	31.9		33.0	34.0	

Source: Company, ICICI Direct Research

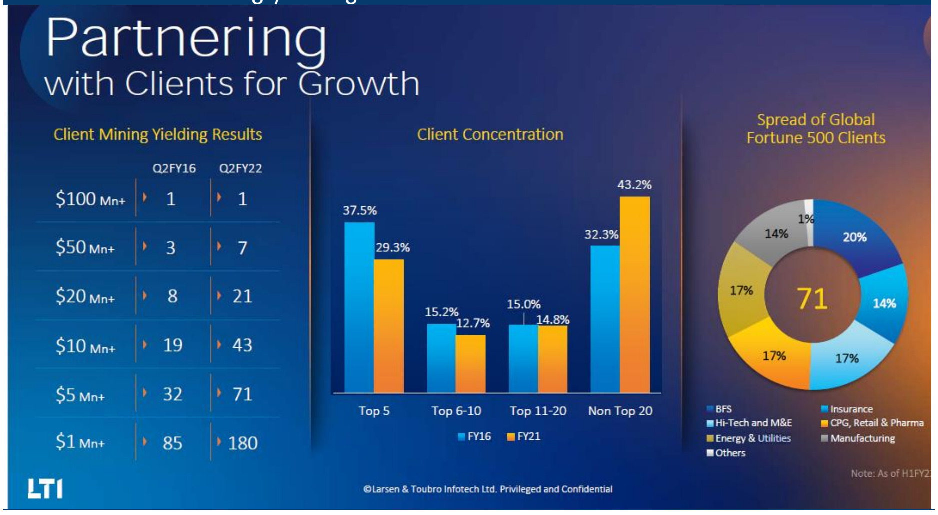
Other highlights

- The company mentioned that demand environment is strong at least for the foreseeable future (of 3 to 5 years) based on company's continuous interaction with its clients. The company called out 3 key reasons for strong demand environment i) The Great restructuring (due to pandemic) ii) New spend areas (Cloud, Data, Cybersecurity etc) iii) The Great Resignation (Annual wages are rising at 4.5-5%, highest in last 20 years)
- The company mentioned that it is well prepared to win war at talent which reflects in its step up in hiring. The company net hiring for Q2FY22 stands at 4K vs 2.3K in Q1 and 4.5K in FY21. Management maintained that high attrition will continue for 3-4 quarters before it starts normalising. The company is increasing the fresher intake and guided for 5.5K fresher's hiring in FY22. The company has been also continuously upscaling talent to be ready for the next phase of growth in digital.
- The company did 7 acquisitions in the last 5 years i.e augument data sciences, syncordis, RULETRONICS, N+P, lymbyc, Powerup, CUELOGIC, which had built up their capabilities in Big data,,AI,ML, core banking,BPM, cloud consulting, digital engineering and resulted into 40% of their current portfolio is in digital space (Cloud, Data & Digital).
- In the last 5 years, the company invested in key leadership positions across geographies which resulted into strong client additions across deal sizes. The company has identified 50 key accounts which would be in focus for the next area of growth. The company also indicated that it has reported industry leading growth (14.3% for LTI vs 7.4% growth for top 5 players) in the last 5 years. The company has identified BioTech, Streaming, Payments, InsureTech as high potential sub-verticals and UK, Australia, Switzerland, Middle East as new growth regions.
- Garnter's global IT spending suggests that IT services are expected to grow by 9.1% CAGR over FY19-25 to be driven by 10%,7.1% and 6.7% by Energy& Utilities, Banking, Insurance. In terms of service line, the growth will be driven by Cloud (32.3%), ERP (11.8%) and Analytics & Business intelligence (10.1%). This augurs well for LTI as good proportion of its revenue comes from these verticals and service lines.

Exhibit 1: 7 acquisitions in last 5 years

Source: Company, ICICI Direct Research

Exhibit 2: Client mining yielding results



Source: Company, ICICI Direct Research

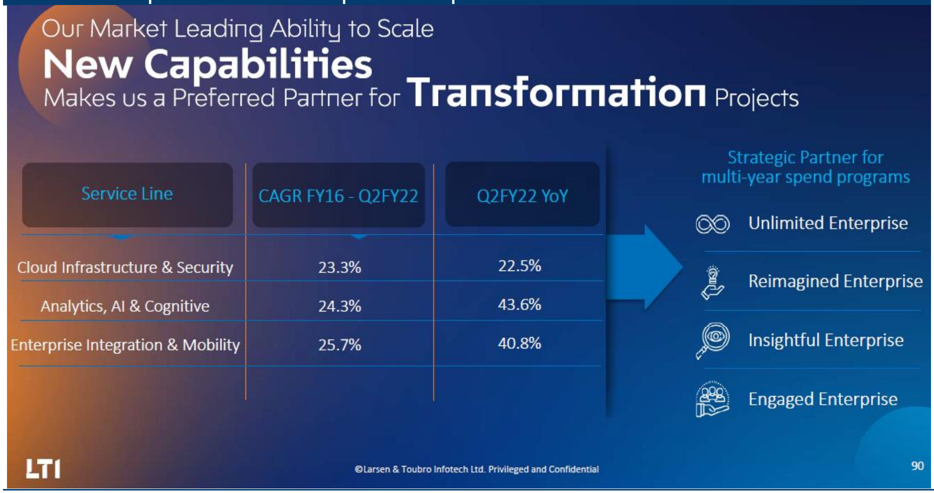
Exhibit 3: Industry leading growth

Source: Company, ICICI Direct Research

Exhibit 4: 4 out of 6 verticals have grown faster

Source: Company, ICICI Direct Research

Exhibit 5: Capabilities made it preferred partner



Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Total Revenues	**10,879**	**12,370**	**16,169**	**19,246**
Growth (%)	15.2	13.7	30.7	19.0
Employee costs	7,359	8,219	10,633	12,662
Total Operating Expenditure	8,849	9,645	12,767	15,145
EBITDA	**2,029**	**2,725**	**3,401**	**4,101**
Growth (%)	7.8	34.3	24.8	20.6
Depreciation & Amortization	273	333	437	481
Other Income (net)	247	196	253	338
Interest	-	-	-	-
PBT before Exceptional Items	2,003	2,588	3,218	3,957
Growth (%)	(1.2)	29.2	24.3	23.0
Tax	482	650	820	989
PAT before Exceptional Items	1,521	1,938	2,397	2,968
Exceptional items	-	-	-	-
Minority Int & Pft. from associates	-	-	-	-
PAT	**1,521**	**1,938**	**2,397**	**2,968**
Growth (%)	0.3	27.5	23.7	23.8
Diluted EPS	86.6	110.3	136.4	168.8
EPS (Growth %)	(0.8)	27.3	23.7	23.8

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
PBT	2,003	2,588	3,218	3,957
Add: Depreciation	273	333	437	481
(Inc)/Dec in current assets	(592)	(217)	(640)	(518)
Inc/(Dec) in current liabilities	360	488	235	191
CF from operations	**1,644**	**2,400**	**2,407**	**3,040**
(Inc)/dec in other investments	(357)	(1,363)	(655)	(623)
(Inc)/dec in Fixed Assets	(243)	(267)	(355)	(423)
Other investing cash flow	6	16	8	10
CF from investing Activities	**(652)**	**(1,656)**	**(1,003)**	**(1,036)**
Issue of equity	-	0	-	-
Inc/(dec) in loan funds	(178)	185	0	(0)
Dividend paid & dividend tax	(568)	(532)	(1,007)	(1,247)
Others	(4)	(2)	-	-
CF from Financial Activities	**(890)**	**(509)**	**(1,127)**	**(1,347)**
Net cash flow	102	235	278	658
Effect of exchange rate changes	9	(1)	-	-
Opening cash	415	525	759	1,037
Closing cash	**525**	**759**	**1,037**	**1,695**

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity	17	18	18	18
Reserves & Surplus	5,387	7,286	8,676	10,398
Networth	5,404	7,303	8,694	10,415
Minority Interest	1	4	4	4
Long term Liabilties & provisions	1,089	770	1,005	1,196
Total Debt	32	41	41	41
Source of funds	**6,526**	**8,118**	**9,744**	**11,656**
Assets				
Net fixed assets	1,211	1,048	1,132	1,205
Net intangible assets	132	267	222	190
Goodwill	637	657	657	657
Other non current assets	517	606	760	886
Unbilled revenue	442	607	794	945
Debtors	2,312	2,084	2,723	3,242
Current Investments	2,219	3,628	4,428	5,228
Cash & Cash equivalents	525	759	1,037	1,695
Other current assets	831	1,053	1,377	1,638
Trade payables	695	828	1,082	1,288
Current liabilities	1,604	1,763	2,305	2,743
Application of funds	**6,526**	**8,118**	**9,744**	**11,656**

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	86.6	110.3	136.4	168.8
Cash Per Share	30.2	43.5	59.4	97.1
BV	307.8	415.5	494.6	592.5
DPS	28.0	40.3	57.6	71.4
Operating Ratios (%)				
EBITDA Margin	18.7	22.0	21.0	21.3
PBT Margin	18.4	20.9	19.9	20.6
PAT Margin	14.0	15.7	14.8	15.4
Turnover Ratios				
Debtor days	78	61	61	61
Creditor days	23	24	24	24
Return Ratios (%)				
RoE	28.1	26.5	27.6	28.5
RoCE	30.7	31.9	33.0	34.0
RoIC	46.4	64.1	69.3	76.5
Valuation Ratios (x)				
P/E	76.2	59.8	48.4	39.1
EV / EBITDA	55.7	40.9	32.5	26.6
Market Cap / Sales	10.6	9.4	7.2	6.0
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.6	1.4	1.4	1.4
Quick Ratio	1.4	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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