

Strong growth in CY22...

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 19% CAGR over FY17-22 with robust margins (>19%)

Q1FY23 Results: LTI reported a seasonally weak performance.

- Constant currency revenues increased 2.9% QoQ
- EBIT margin contracted 130 bps QoQ to 16.0%
- The company won four large deals of US\$79 mn TCW

What should investors do? LTI's share price has grown by ~5x over the past five years (from ~₹ 780 in July 2017 to ~₹ 3,975 levels in July 2022).

- We maintain **HOLD** rating on the stock

Target Price and Valuation: We value LTI at ₹ 4480 i.e. 27x FY24E EPS

Key triggers for future price performance:

- Growth is expected to pick up from Q2 onwards
- Margin is likely to expand as wage hike impact is behind
- Deal momentum continues to be strong as the company signed four large new deals worth US\$79 Million (mn) and added four Fortune 500 clients
- Vendor consolidation opportunity and digital acceleration. We expect LTI to register 16.1% CAGR revenue growth in FY22-24E

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

- Strong revenue guidance of 13-15% in CC terms for FY23, prompts us to be positive on the stock. However, there would be pressure in the near term on margins
- We have a BUY rating with a target price of ₹ 1745



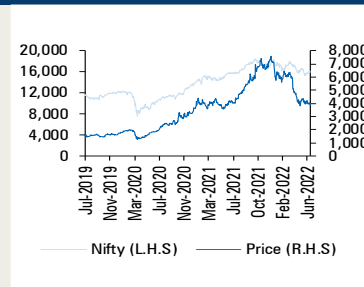
Particulars

Particular	Amount
Market Cap (₹ crore)	69,784
Total Debt (₹ crore)	52
Cash and Investment (₹ crore)	3,914
EV (₹ crore)	65,922
52 week H/L	7595/ 3733
Equity Capital (₹ crore)	18
Face Value	₹ 1

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	74.1	74.1	74.1	74.0
FII	13.3	12.5	10.1	8.4
DII	4.3	5.1	7.1	8.1
Public	8.3	8.3	8.7	9.5

Price Chart



Recent event & key risks

- Merger of Mindtree into LTI
- Key Risk:** (i) Higher than expected attrition (ii) Higher than expected FY24 growth

Research Analyst

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Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 Year CAGR (FY17-22) %	FY23E	FY24E	2 year CAGR (FY22-24E) %
Net Sales	10,879	12,370	15,669	19.2	18,807	21,121	16.1
EBITDA	2,029	2,725	3,058	20.0	3,519	4,158	16.6
EBITDA Margins (%)	18.7	22.0	19.5		18.7	19.7	
Net Profit	1,521	1,938	2,299	18.8	2,466	2,916	12.6
EPS (₹)	86.6	110.3	130.8		140.3	165.9	
P/E (x)	45.9	36.1	30.4		28.3	24.0	
RoE (%)	28.1	26.5	26.1		24.1	24.4	

Key takeaways of quarter and conference call highlights

- The company reported constant currency growth of 2.9% QoQ while dollar revenue growth was 1.7% QoQ to US\$580 mn. In rupee terms, revenue grew 5.1% QoQ to ₹ 4523 crore. Adjusted for pass-through, revenue would have been higher by 2%
- In terms of CC growth, BFS and insurance reported strong growth of 6.3% and 3.9% QoQ, respectively while utilities, hi-tech & CPG reported muted growth at 1.9%, 0.5% & 0.2% QoQ, respectively. Manufacturing reported a steep decline of 12.6% on account of seasonal weakness
- In CC terms, North America & Europe reported strong growth of 5.6% & 4.1% QoQ, respectively, but in dollar terms Europe revenue declined 0.8% QoQ implying currency headwinds. India revenue declined 13.4% on account of seasonal weakness. In terms of client profile, Top 5 customers reported strong growth of 4.4% QoQ
- The company indicated that there is no anxiety at the top layer of LTI on merger related proceedings as they have been reaching out to them regarding their career paths in the merged entity. The top management has also arranged various town hall sessions across India to reach out to their employees to guide them on the merger and career opportunities in the merged entity. The management do not expect any churn at the top level
- The company indicated that the demand environment continues to be strong as they continue to win deals (some more deal announcements in Q2FY23 likely). It closed four large deals with net new TCV US\$79 mn with one deal each in BFS, utilities, hi-tech and others vertical while geography wise two were from the US, one in Europe and another in emerging market
- It has not seen any cancellation or any deferment from the client side so far and indicated it is confident on the growth for CY22. However, it draws a cautious outlook for CY23. The company also continued to explore deals along with Mindtree. For Q1, it has won one large deal along with Mindtree with one of the leading European hospitality players
- The EBIT margin declined 130 bps QoQ. It was impacted by wage hike (-300 bps) and travel & visa expenses (-70 bps), which was mitigated by operational efficiency & currency depreciation (+240 bps). The company indicated that 80-85% of employees are covered in the wage hike for Q1 and margins are expected to pick up from Q2 onwards. The company also indicated there would be a spillover of 10 bps impact of wage hike in Q2FY23
- The company added net employees of 2,118 taking the total headcount to 48,766 employees. LTI has indicated that it will be hiring 6,500 freshers in FY23
- The management indicated that on an LTM basis attrition has declined marginally by 20 bps QoQ to 23.8%. The company indicated that funding issues at the various start-up and subsequent layoffs has helped to ease off attrition, to some extent. However, the company clarified that it is temporary phenomenon and indicated that attrition is expected to remain at the elevated level for few quarters before coming down meaningfully
- The company indicated that the pricing environment remained conducive especially in niche skills where the clients are willing to pay. LTI is getting price hikes in a few pockets.

Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
LTI (LTINF)	3,874	4,480	HOLD	67,875	130.8	140.3	165.9	29.6	27.6	23.3	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	2,786	3,320	BUY	45,907	100.3	109.8	127.9	27.8	25.4	21.8	38.0	35.4	34.5	30.2	27.4	26.6
Coforge (NIITEC)	3,414	4,550	BUY	20,790	106.5	147.8	175.0	32.0	23.1	19.5	25.6	31.5	31.8	24.2	28.4	28.3
TeamLease (TEASER)	3,531	4,025	BUY	6,037	22.5	95.0	125.4	157.1	37.2	28.2	15.4	19.2	20.7	(4.7)	18.9	20.2
Infoedge (INFEDG)	3,838	4,575	BUY	48,237	35.8	41.6	45.5	107.3	92.2	84.4	4.2	5.0	5.3	3.2	3.8	4.0

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue (US\$ mn)	580	582	470	23.4	570	1.7	
Revenue (₹ crore)	4,523	4,492	3,463	30.6	4,302	5.1	Revenue growth led by BFS & insurance vertical while manufacturing vertical sees seasonal decline, which is expected to pick up in next quarters
Employee expenses	3,208	3,211	2,390	34.2	3,011	6.5	80-85% employees covered in Wage hike
Gross Margin	1,315	1,280	1,073	22.6	1,291	1.9	
Gross margin (%)	29.1	28.5	31.0	-190 bps	30.0	-92 bps	
Other expenses	485	463	425	14.0	444	9.1	
EBITDA	831	817	648	28.2	846	-1.8	
EBITDA Margin (%)	18.4	18.2	18.7	-34 bps	19.7	-131 bps	
Depreciation & amort	107	108	80	34.0	102	4.5	
EBIT	724	710	568	27.5	745	-2.7	
EBIT Margin (%)	16.0	15.8	16.4	-40 bps	17.3	-129 bps	Margin impacted by following: Headwinds - a) wage hike -300 bps, b) travel & visa cost -70 bps, tailwinds: Operational efficiency & forex Gains +240 bps
Other income	127	90	104	21.9	115	10.1	
PBT	851	800	672	26.6	860	-1.0	
Tax paid	217	206	175	23.6	222	-2.5	
PAT	634	593	497	27.7	638	-0.5	

Source: Company, ICICI Direct Research

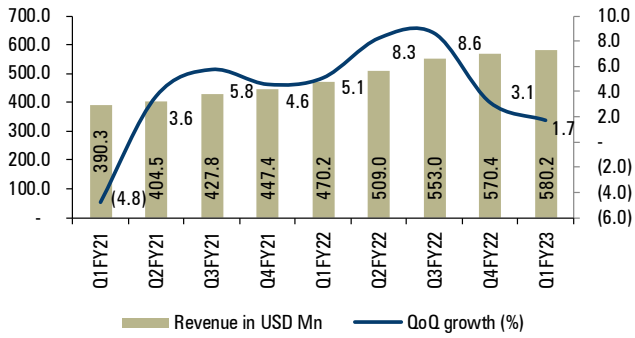
Exhibit 3: Change in estimates

	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
(₹ Crore)							
Revenue	18,807	18,807	0.0	21,121	21,121	0.0	
EBIT	3,049	3,049	0.0	3,630	3,630	0.0	
EBIT Margin (%)	16.2	16.2	0 bps	17.2	17.2	0 bps	
PAT	2,466	2,466	0.0	2,916	2,916	0.0	
EPS (₹)	140	140	0.0	166	166	0.0	

Source: Company, ICICI Direct Research

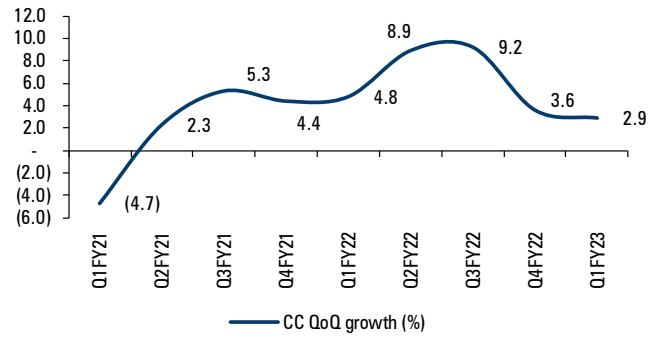
Key metrics

Exhibit 4: Revenue in US\$ millions with QoQ growth



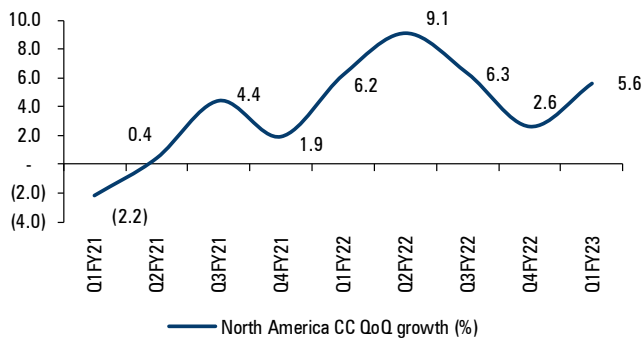
Source: Company, ICICI Direct Research

Exhibit 5: Growth impacted by seasonal weakness



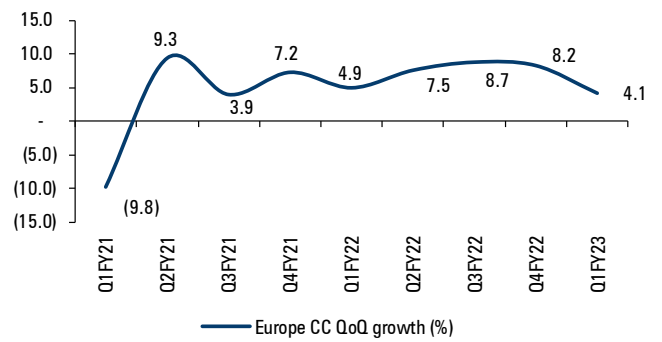
Source: Company, ICICI Direct Research

Exhibit 6: North America region QoQ CC growth



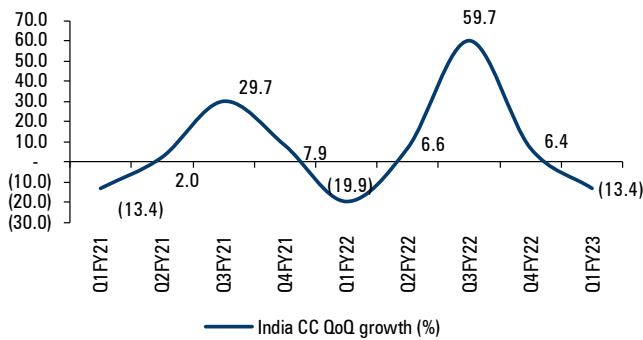
Source: Company, ICICI Direct Research

Exhibit 7: Europe region QoQ CC growth



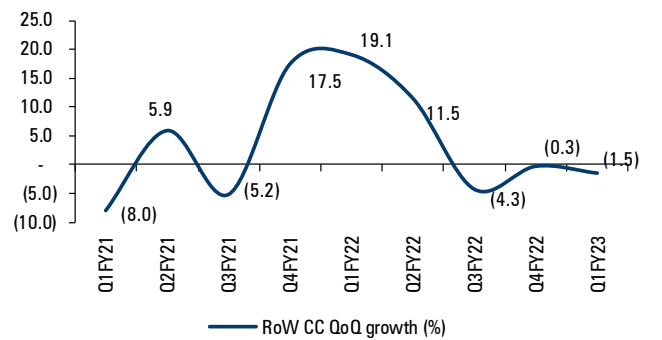
Source: Company, ICICI Direct Research

Exhibit 8: India impacted by seasonal weakness



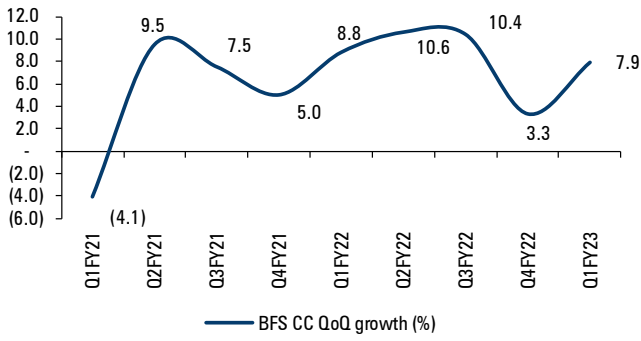
Source: Company, ICICI Direct Research

Exhibit 9: RoW region QoQ CC growth



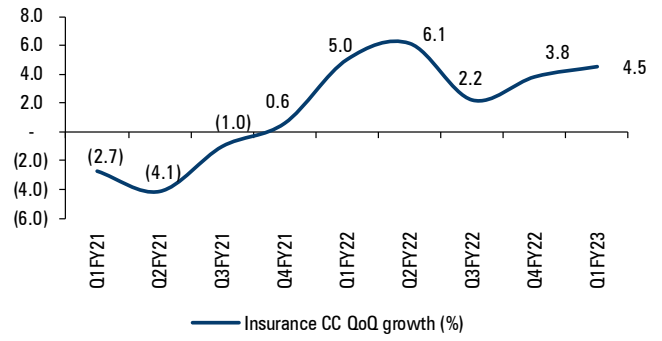
Source: Company, ICICI Direct Research

Exhibit 10: BFS vertical QoQ CC Growth



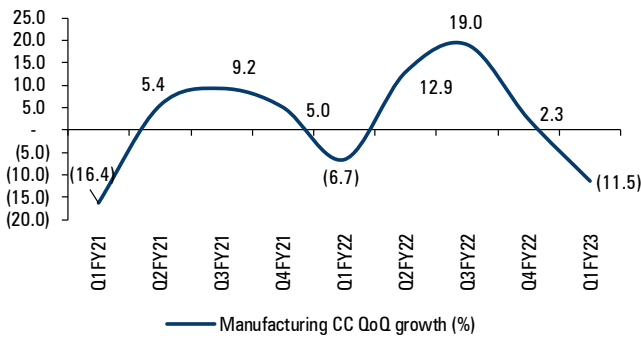
Source: Company, ICICI Direct Research

Exhibit 11: Insurance vertical QoQ growth



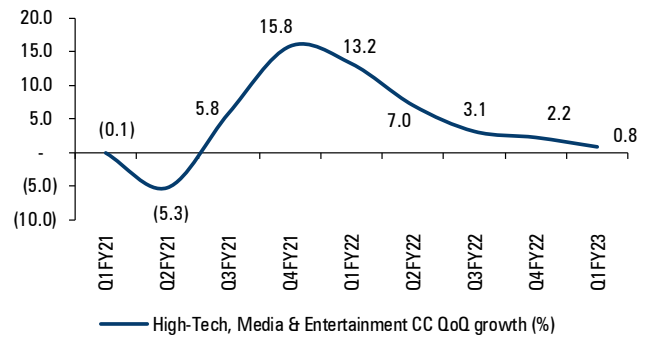
Source: Company, ICICI Direct Research

Exhibit 12: Manufacturing impacted by seasonal weakness



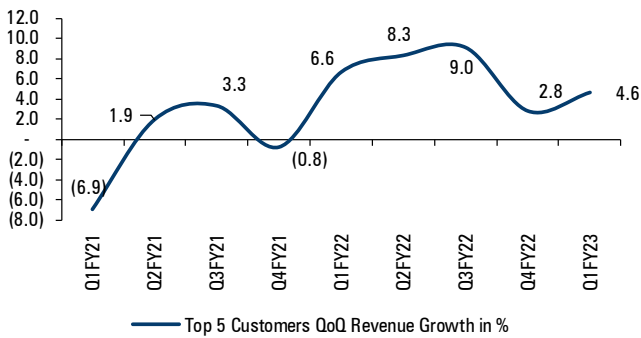
Source: Company, ICICI Direct Research

Exhibit 13: Hi-tech, media & entertainment vertical QoQ CC



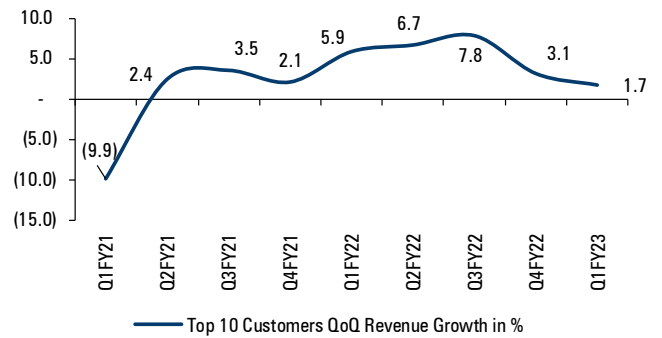
Source: Company, ICICI Direct Research

Exhibit 14: Top five customers QoQ revenue growth



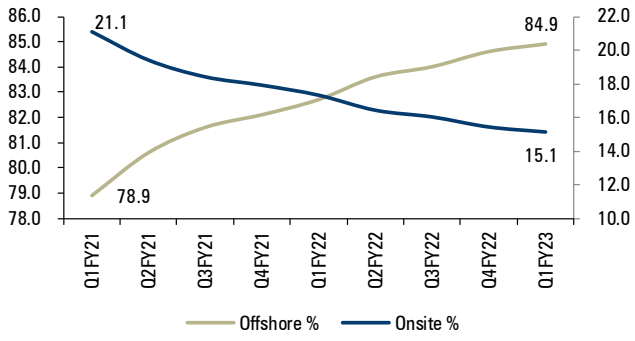
Source: Company, ICICI Direct Research

Exhibit 15: Top 10 customers QoQ revenue growth



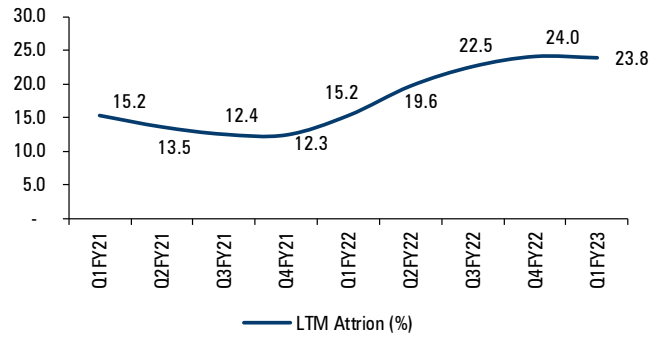
Source: Company, ICICI Direct Research

Exhibit 16: Onsite/Offshore Mix (%)



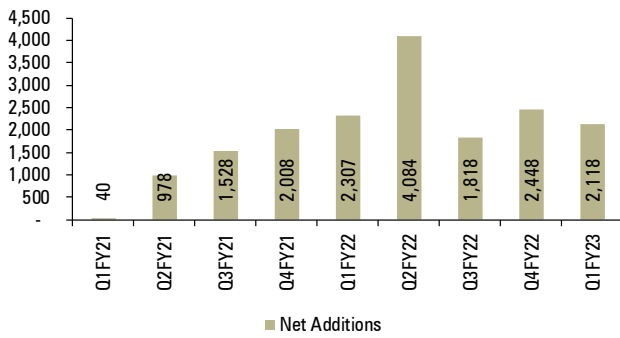
Source: Company, ICICI Direct Research

Exhibit 17: LTM attrition (%)



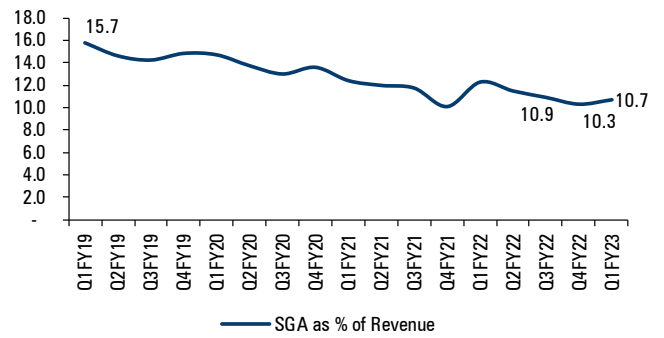
Source: Company, ICICI Direct Research

Exhibit 18: Net employee addition



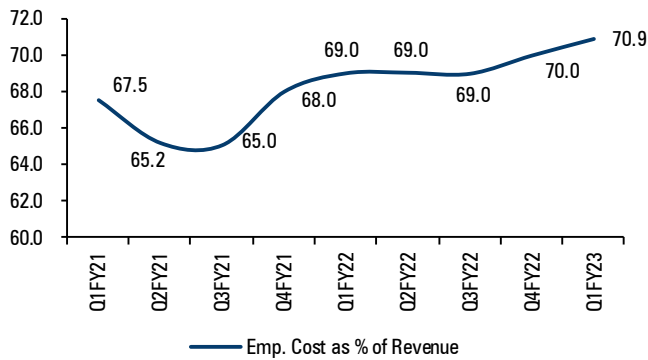
Source: Company, ICICI Direct Research

Exhibit 19: SGA expenses start to inch up



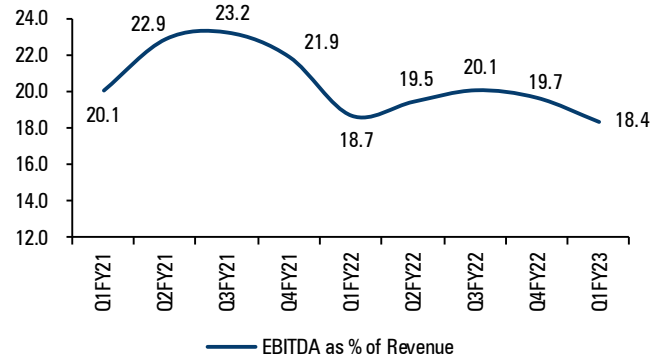
Source: Company, ICICI Direct Research

Exhibit 20: Employee cost trend



Source: Company, ICICI Direct Research

Exhibit 21: EBITDA margin trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 22: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total Revenues	12,370	15,669	18,807	21,121	
Growth (%)	13.7	26.7	20.0	12.3	
Employee costs	8,219	10,857	12,862	14,239	
Total Operating Expenditure	9,645	12,610	15,288	16,963	
EBITDA	2,725	3,058	3,519	4,158	
Growth (%)	34.3	12.2	15.1	18.2	
Depreciation & Amortization	333	355	470	528	
Other Income (net)	196	394	283	310	
Interest	-	-	-	-	
PBT before Exceptional Items	2,588	3,097	3,332	3,940	
Growth (%)	29.2	19.7	7.6	18.2	
Tax	650	799	866	1,024	
PAT before Exceptional Items	1,938	2,299	2,466	2,916	
Exceptional items	-	-	-	-	
Minority Int & Pft. from associates	-	-	-	-	
PAT	1,938	2,299	2,466	2,916	
Growth (%)	27.5	18.6	7.3	18.2	
Diluted EPS	110.3	130.8	140.3	165.9	
EPS (Growth %)	27.3	18.6	7.3	18.2	

Source: Company, ICICI Direct Research

Exhibit 24: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Liabilities					
Equity	18	18	18	18	
Reserves & Surplus	7,286	8,797	10,227	11,918	
Networth	7,303	8,815	10,245	11,936	
Minority Interest	4	6	6	6	
Long term Liabilities & provisions	770	731	1,175	1,319	
Total Debt	41	52	52	52	
Source of funds	8,118	9,603	11,478	13,312	
Assets					
Net fixed assets	1,048	1,573	1,517	1,588	
Net intangible assets	267	316	531	496	
Goodwill	657	690	690	690	
Other non current assets	606	1,025	1,112	1,206	
Unbilled revenue	607	903	923	1,037	
Debtors	2,084	2,834	3,168	3,557	
Current Investments	3,628	3,137	3,137	3,137	
Cash & Cash equivalents	759	777	2,854	4,342	
Other current assets	1,053	1,215	1,601	1,798	
Trade payables	828	803	1,258	1,413	
Current liabilities	1,763	2,064	2,681	3,011	
Application of funds	8,118	9,603	11,477	13,312	

Source: Company, ICICI Direct Research

Exhibit 23: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
PBT	2,588	3,097	3,332	3,940	
Add: Depreciation	333	355	470	528	
(Inc)/Dec in current assets	(217)	(1,211)	(334)	(390)	
Inc/(Dec) in current liabilities	488	257	445	143	
CF from operations	2,400	1,652	3,493	3,117	
(Inc)/dec in other investments	(1,363)	(56)	125	132	
(Inc)/dec in Fixed Assets	(267)	(856)	(413)	(464)	
Other investing cash flow	16	30	8	29	
CF from investing Activities	(1,656)	(959)	(280)	(304)	
Issue of equity	0	-	-	-	
Inc/(dec) in loan funds	185	2	0	(0)	
Dividend paid & dividend tax	(532)	(875)	(1,036)	(1,225)	
Others	(2)	(5)	-	-	
CF from Financial Activities	(509)	(1,046)	(1,136)	(1,325)	
Net cash flow	235	(353)	2,077	1,488	
Effect of exchange rate changes	(1)	(11)	-	-	
Opening cash	525	1,142	777	2,854	
Closing cash	759	777	2,854	4,342	

Source: Company, ICICI Direct Research

Exhibit 25: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	110.3	130.8	140.3	165.9
Cash Per Share	43.5	44.4	162.9	247.8
BV	415.5	501.6	583.0	679.3
DPS	40.3	55.1	59.1	69.9
Operating Ratios (%)				
EBITDA Margin	22.0	19.5	18.7	19.7
PBT Margin	20.9	19.8	17.7	18.7
PAT Margin	15.7	14.7	13.1	13.8
Turnover Ratios				
Debtor days	61	66	61	61
Creditor days	24	19	24	24
Return Ratios (%)				
RoE	26.5	26.1	24.1	24.4
RoCE	31.9	32.3	29.0	29.6
RoIC	64.1	47.5	54.4	61.0
Valuation Ratios (x)				
P/E	49.8	41.9	39.1	33.1
EV / EBITDA	33.7	30.2	25.7	21.4
Market Cap / Sales	7.8	6.1	5.1	4.6
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.4	1.7	1.4	1.4
Quick Ratio	1.2	1.4	1.2	1.2

Source: Company, ICICI Direct Research

Exhibit 26: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
HCL Tech (HCLTEC)	904	1,050	HOLD	2,45,234	49.8	50.5	55.2	18.1	17.9	16.4	24.2	24.8	26.0	21.8	21.0	21.9
Infosys (INFTEC)	1,429	1,745	BUY	6,01,311	52.1	58.2	67.1	27.4	24.6	21.3	36.0	35.2	37.7	29.2	29.2	31.2
TCS (TCS)	2,999	3,785	BUY	10,97,240	104.7	115.1	130.4	28.6	26.1	23.0	51.4	49.2	48.7	43.0	41.9	41.0
Tech M (TECMAH)	976	1,190	BUY	94,884	63.1	68.5	79.5	15.5	14.2	12.3	22.5	22.5	23.0	20.7	20.0	20.6
Wipro (WIPRO)	402	465	HOLD	2,20,128	22.3	24.5	27.4	18.0	16.4	14.6	18.1	19.8	21.2	18.6	19.6	21.1
LTI (LTINFNC)	3,874	4,480	HOLD	67,875	130.8	140.3	165.9	29.6	27.6	23.3	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	2,786	3,320	BUY	45,907	100.3	109.8	127.9	27.8	25.4	21.8	38.0	35.4	34.5	30.2	27.4	26.6
Coforge (NIITEC)	3,414	4,550	BUY	20,790	106.5	147.8	175.0	32.0	23.1	19.5	25.6	31.5	31.8	24.2	28.4	28.3
TeamLease (TEASER)	3,531	4,025	BUY	6,037	22.5	95.0	125.4	157.1	37.2	28.2	15.4	19.2	20.7	(4.7)	18.9	20.2
Infoedge (INFEDG)	3,838	4,575	BUY	48,237	35.8	41.6	45.5	107.3	92.2	84.4	4.2	5.0	5.3	3.2	3.8	4.0

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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