

CMP: ₹ 4670

Target: ₹ 5525 (18%)

Target Period: 12 months

BUY

October 16, 2022

Strong H2 growth expected...

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%)

Q2FY23 Results: LTI reported robust Q2 revenue numbers

- Constant currency revenues increased by 4.6% QoQ
- EBIT margin increased by 10 bps QoQ to 16.1%
- The company won four large deals of US\$ 80 mn TCW

What should investors do? LTI's share price has grown by ~5x over the past five years (from ~₹ 814 in October 2017 to ~₹ 4,670 levels in October 2022).

- We changed the rating from HOLD to BUY

Target Price and Valuation: We value LTI at ₹ 5,525 i.e. 26x FY25E 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 4 large new deals worth US\$ 80 Million (mn) and added one Fortune 500 clients in Q2
- Vendor consolidation opportunity and digital acceleration. We expect LTI to register 15.1% CAGR revenue growth in FY22-25E

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

- Key beneficiary of improved digital demand, industry leading revenue growth and healthy capital allocation prompt us to be positives
- We have a BUY rating with a target price of ₹ 1,670



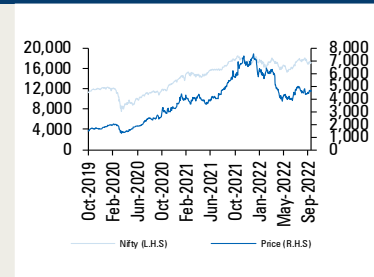
Particulars

Particular	Amount
Market Cap (₹ crore)	81,985
Total Debt (₹ crore)	52
Cash and Investment (₹ crore)	3,914
EV (₹ crore)	78,123
52 week H/L	7588/ 3734
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 with LTI is in final leg of regulatory approval
- Key Risk:** (i) Continued elevated attrition level (ii) Lower than expected revenue growth

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Key Financial Summary

(₹ Crore)	FY21	FY22	5 Year CAGR (FY17-22) %	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E) %
Net Sales	12,370	15,669	19.2	19,301	21,677	23,896	15.1
EBITDA	2,725	3,058	20.0	3,773	4,447	5,239	19.7
EBITDA Margins (%)	22.0	19.5		19.6	20.5	21.9	
Net Profit	1,938	2,299	18.8	2,645	3,162	3,734	17.6
EPS (₹)	110.3	130.8		150.5	180.0	212.5	
P/E (x)	42.4	35.7		31.0	26.0	22.0	
RoE (%)	26.5	26.1		25.6	26.0	26.0	
RoCE (%)	31.9	32.3		30.8	31.0	31.1	

Key takeaways of quarter and conference call highlights

- The company reported constant currency growth of 4.6% QoQ while dollar revenue growth was 3.6% QoQ implying cross currency impact of 100 bps. The company in dollar terms reported revenue of US\$ 601 mn. In rupee terms, revenue grew strongly at 6.9% QoQ to ₹ 4,836.7 crore
- In terms of CC all verticals except hi-tech reported strong growth on QoQ basis with BFS, Insurance, Manufacturing, Utilities, CPG & Others reporting a growth of 5%, 4.5%, 3.9%, 14%, 3.4% & 9.8% respectively while Hi-Tech declined by 4.7%
- In CC terms, North America & Europe reported strong growth of 5.2% & 6.3% QoQ, respectively, but in dollar terms Europe reported growth 1.6% QoQ implying currency headwinds. India revenue declined successively for second quarter reporting a decline of 4.3% QoQ. In terms of client profile, Top 5 customers reported growth of 5% QoQ & Top 10 customers grew by 4.1% QoQ
- EBIT margin improved by ~10 bps QoQ on account of the following tailwinds: a) currency benefits +120 bps, b) higher working days +20 bps mitigated by the following headwinds: a) increase in employee cost -90 bps, b) utilization down impact -40 bps. The company maintained its guidance of PAT margin in the band of 14-15% for FY23
- The company indicated Mindtree merger with LTI is in last leg of regulatory approvals and it is likely to complete at the end of CY22. The company also indicated that plan is being work on functioning of the merged entity and integration of the two companies is likely to complete in Q4FY23. It also indicated that integration related costs are likely to hit P&L in Q3 and Q4 as they are looking at an accelerated integration. The company also indicated that there are 80+ deals which are being pursued as a joint effort.
- The company indicated after the first year after pandemic as well as during the pandemic, demand accelerated as clients realised tech spending is crucial for their business survival in the long run. This pace further accelerated as clients continue to spend on revenue maximisation programs and cost optimisation programs also came along. In third year, it saw accelerated business decision shifting into regular business decisions hence some moderation is expected in CY23. But the company is not witnessing any cancellation of any of the programs as business transformation journey for the clients continues. ***The company in fact is expecting its H2 to be stronger than H1.*** The company is confident of Europe region growth going forward on the back of deal tractions and new logo wins.
- The company won 4 large deals in Q2 with TCV of US\$80mn, out of which 3 with existing clients and 1 new logo (fortune 500 client). It added 22 new logos in BFSI for the quarter. The deal pipeline continues to be at US\$2bn
- The company witnessed decline in revenues for Hi-tech vertical for the quarter. The company indicated that it is due to a client specific impact as one of its clients has changed delivery model from onsite to offshore. The company indicated that Hi-Tech has been strong growth vertical for them (20% growth last year) and growth is likely to recover in the next quarter and outlook for the medium term also remained strong as they are not seeing in tech spending slowdown here. The company also indicated that delivery model change (onsite to offshore), they are likely to see better margins in this vertical going forward.
- The company indicated that they are not seeing any impact in BFS vertical and it is expected to keep the growth momentum ahead. This could be on account of nature of offering by them. They mentioned that they work with

clients in this vertical on compliance, commercial banking & wealth management, payments etc where growth continued to be strong. The company also mentioned that they do not have much exposure to mortgage and retail banking where the impact of slowdown is visible

- On Insurance vertical, the company mentioned that growth has improved in this vertical due to continued deal momentum, addition of new logos and also a leadership change in US market and it is expected to keep growth momentum continue ahead. On manufacturing, the company mentioned that it will continue to grow double digit on YoY basis going ahead well as one of large deals it won in this quarter is from this vertical
- The company indicated that Others vertical is growing strong on account of ramp up from a marquee client & the client would become a US\$ 50 mn+ client very soon
- The company added net employees of 4,510 taking the total headcount to 53,276 employees. It indicated that attrition is expected to moderate in H2, however attrition for certain niche skills continue to be high and it will come down in the coming quarters which will eventually help in moderation of overall attrition meaningfully. LTI has maintained guidance of 6500 fresher additions in FY23, it added 1600 freshers in Q2 vs 1000 in Q1. The company also indicated that all its offices in India as open now and employees are working in staggered manner 2 to 3 days a week. The company's new campus at Mahape in Navi Mumbai will likely to start operations in Q4FY23, it has a capacity of 8000 people.

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)	4,670	5,525	BUY	81,829	130.8	150.5	180.0	35.7	31.0	26.0	32.3	30.8	31.0	26.1	25.6	26.0
Mindtree (MINCON)	3,375	4,000	BUY	55,622	100.3	119.2	142.0	33.7	28.3	23.8	38.0	37.9	37.1	30.2	29.3	28.6
Coforge (NIITEC)	3,745	4,375	BUY	22,809	106.5	147.8	175.0	35.2	25.3	21.4	25.6	31.5	31.8	24.2	28.4	28.3
TeamLease (TEASER)	2,986	4,240	BUY	5,105	22.5	85.6	124.6	132.8	34.9	24.0	15.4	17.6	20.8	(4.7)	17.4	20.4
Infoedge (INFEDG)	3,763	5,230	BUY	47,291	35.8	47.8	54.2	105.2	78.8	69.4	4.2	5.7	6.3	3.2	4.3	4.7

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue (US\$ mn)	601	592	509	18.1	580	3.6	Revenue grew 4.6% in CC terms, cross currency impact of 100 bps
Revenue (₹ crore)	4,837	4,723	3,767	28.4	4,523	6.9	Revenue growth led by BFS, insurance vertical and Manufacturing while Hi-Tech seen decline due to client specific issue
Employee expenses	3,427	3,334	2,601	31.7	3,208	6.8	
Gross Margin	1,410	1,388	1,166	20.9	1,315	7.2	
Gross margin (%)	29.2	29.4	31.0	-180 bps	29.1	7 bps	
Other expenses	498	510	433	15.1	485	2.8	
EBITDA	912	878	733	24.3	831	9.7	
EBITDA Margin (%)	18.8	18.6	19.5	-61 bps	18.4	48 bps	
Depreciation & amort	131	113	85	53.9	107	22.8	
EBIT	781	765	648	20.5	724	7.8	
EBIT Margin (%)	16.1	16.2	17.2	-106 bps	16.0	13 bps	Margin walk as follows : Headwinds - a) increase in employee costs -90 bps, b) utilization down impact -40 bps, tailwinds: Currency benefit +120bps & Higher working day +20 bps
Other income	120	110	94	28.4	127	-5.0	
PBT	901	875	742	21.5	851	5.9	
Tax paid	222	223	190	16.4	217	2.3	
PAT	680	652	552	23.2	634	7.2	

Source: Company, ICICI Direct Research

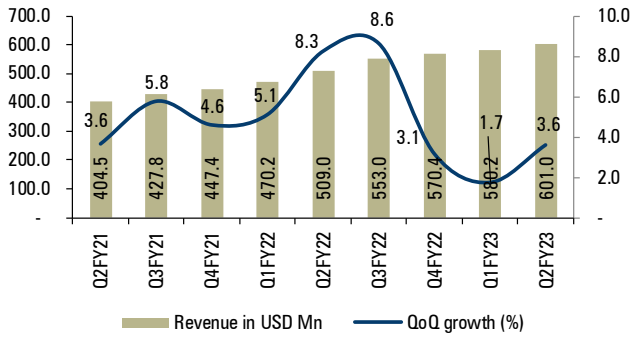
Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	18,807	19,301	2.6	21,121	21,677	2.6	23,896	Revenue growth revised upward on continued strong demand
EBIT	3,049	3,291	7.9	3,630	3,905	7.6	4,642	
EBIT Margin (%)	16.2	17.1	84 bps	17.2	18.0	83 bps	19.4	Margin factored in impact of better utilisation, pricing ahead
PAT	2,466	2,645	7.3	2,916	3,162	8.4	3,734	
EPS (₹)	140	151	7.3	166	180	8.4	212	

Source: Company, ICICI Direct Research

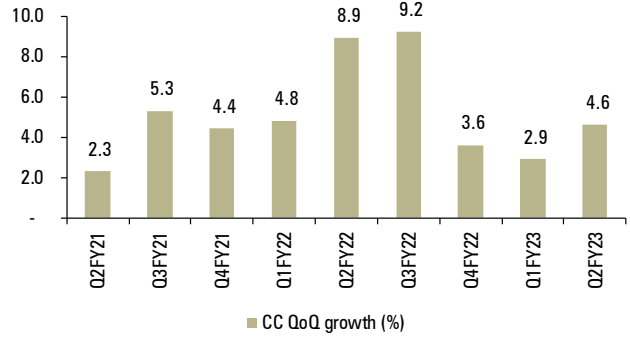
Key metrics

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



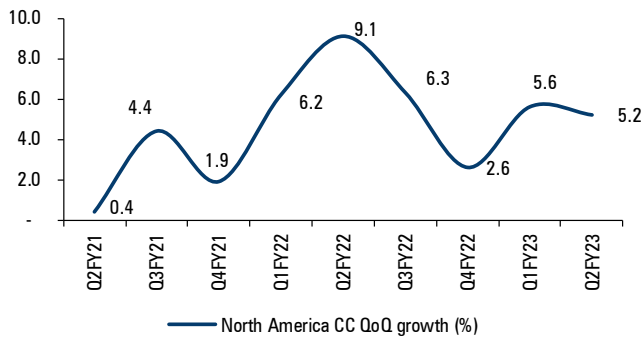
Source: Company, ICICI Direct Research

Exhibit 5: Growth has picked up on QoQ



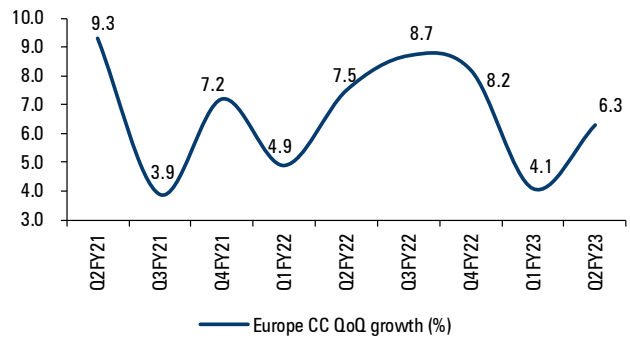
Source: Company, ICICI Direct Research

Exhibit 6: North America growth remains strong



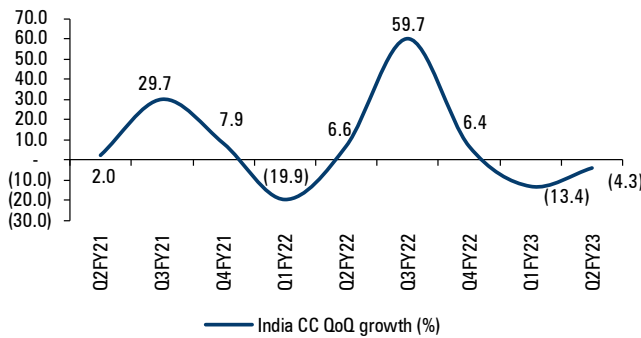
Source: Company, ICICI Direct Research

Exhibit 7: So is Europe region



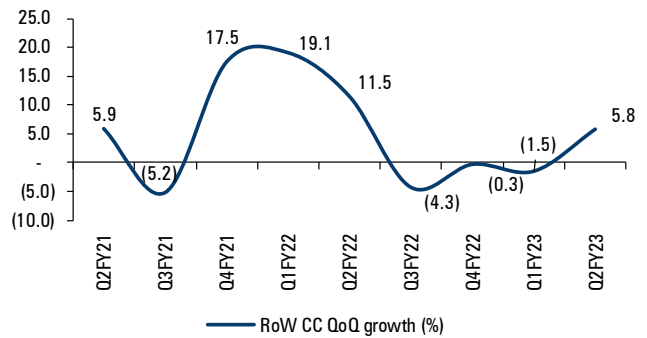
Source: Company, ICICI Direct Research

Exhibit 8: India recovered after seasonal weakness, still low



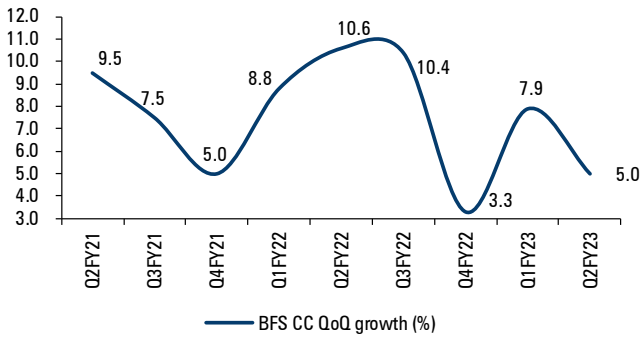
Source: Company, ICICI Direct Research

Exhibit 9: RoW region QoQ CC growth



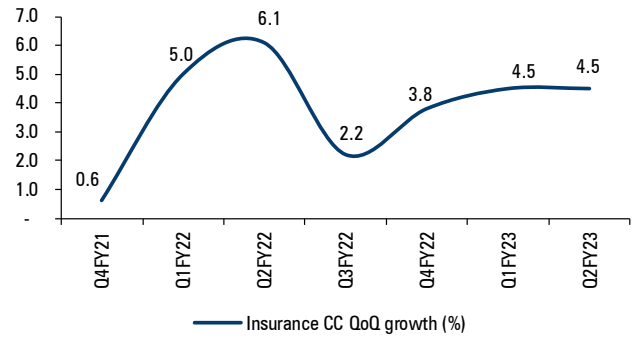
Source: Company, ICICI Direct Research

Exhibit 10: BFS vertical QoQ CC Growth



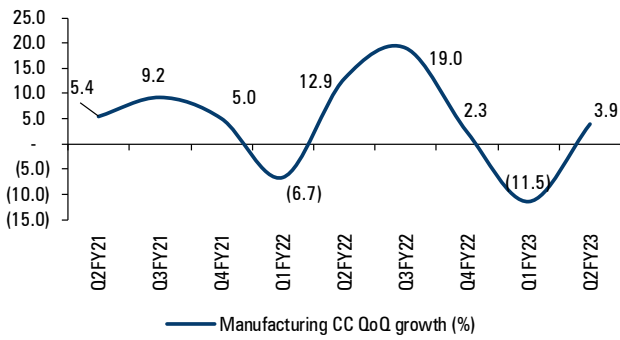
Source: Company, ICICI Direct Research

Exhibit 11: Insurance vertical QoQ CC growth



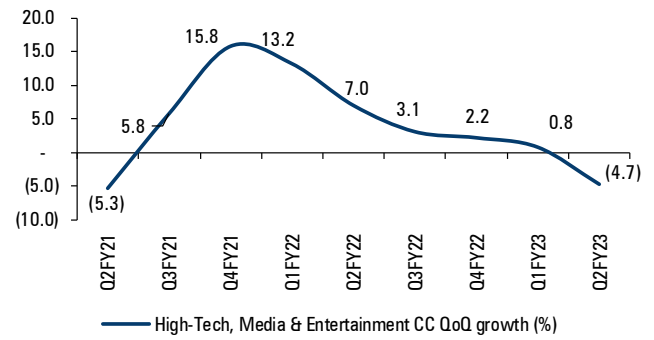
Source: Company, ICICI Direct Research

Exhibit 12: Manufacturing vertical QoQ CC growth



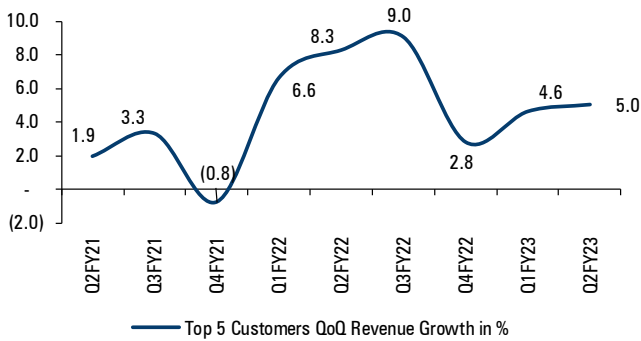
Source: Company, ICICI Direct Research

Exhibit 13: Hi-tech impacted by client specific issue



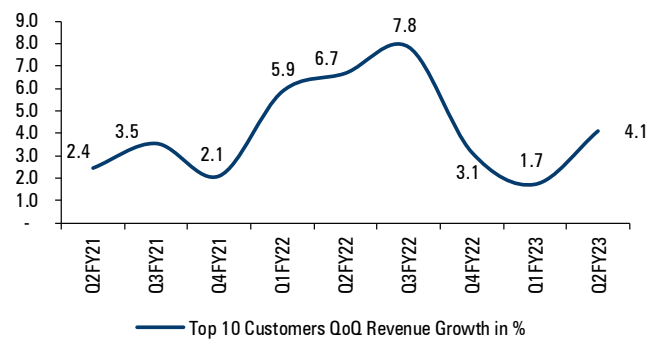
Source: Company, ICICI Direct Research

Exhibit 14: Top five customers QoQ revenue growth



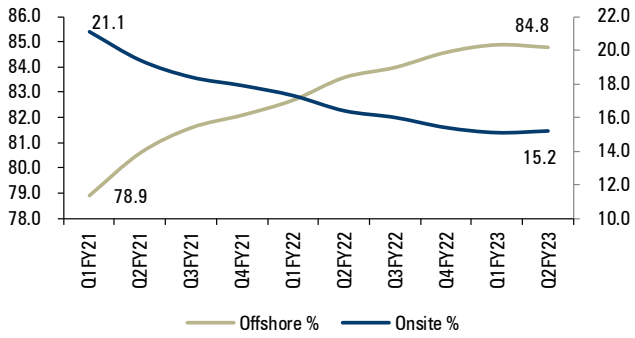
Source: Company, ICICI Direct Research

Exhibit 15: Top 10 customers QoQ revenue growth



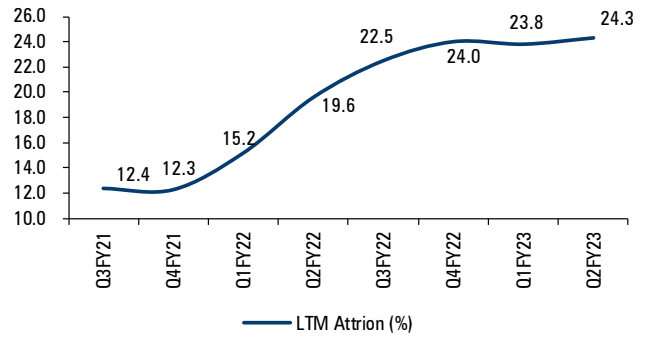
Source: Company, ICICI Direct Research

Exhibit 16: Onsite/Offshore Mix (%)



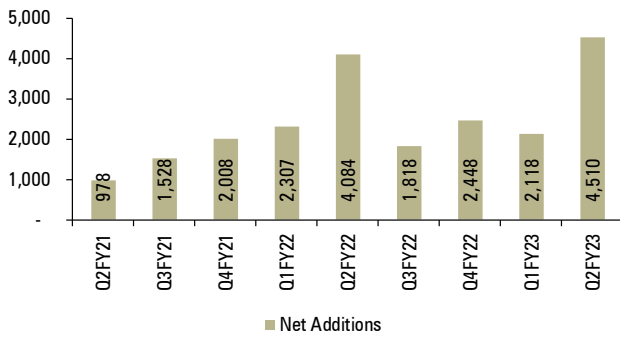
Source: Company, ICICI Direct Research

Exhibit 17: LTM attrition (%) remains elevated



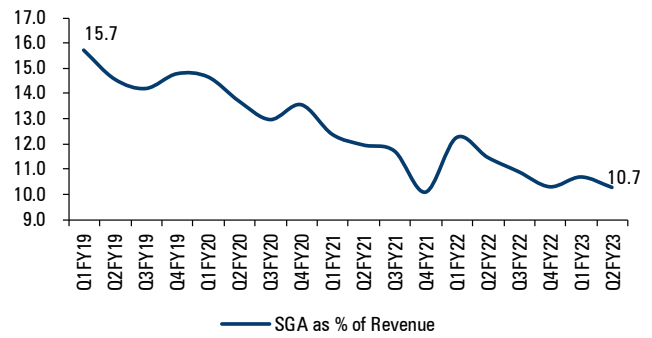
Source: Company, ICICI Direct Research

Exhibit 18: Net employee addition picked up



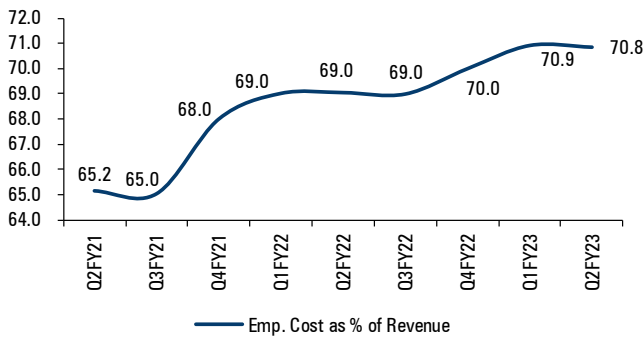
Source: Company, ICICI Direct Research

Exhibit 19: SG&A expenses trend



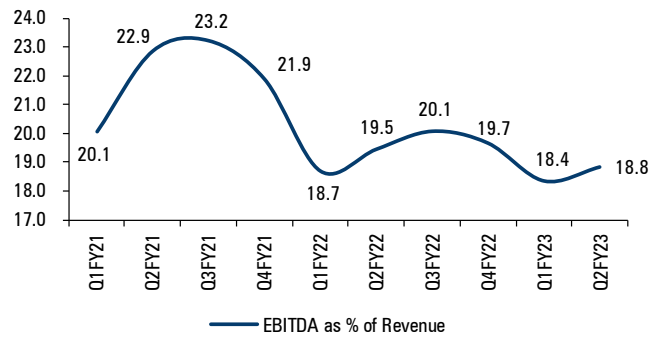
Source: Company, ICICI Direct Research

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)	FY22	FY23E	FY24E	FY25E
Total Revenues	15,669	19,301	21,677	23,896
Growth (%)	26.7	23.2	12.3	10.2
Employee costs	10,857	13,038	14,434	15,574
Total Operating Expenditure	12,610	15,528	17,230	18,656
EBITDA	3,058	3,773	4,447	5,239
Growth (%)	12.2	23.4	17.8	17.8
Depreciation & Amortization	355	483	542	597
Other Income (net)	394	283	311	303
Interest	-	-	-	-
PBT before Exceptional Items	3,097	3,574	4,216	4,945
Growth (%)	19.7	15.4	18.0	17.3
Tax	799	929	1,054	1,212
PAT before Exceptional Items	2,299	2,645	3,162	3,734
Exceptional items	-	-	-	-
Minority Int & Pft. from associat	-	-	-	-
PAT	2,299	2,645	3,162	3,734
Growth (%)	18.6	15.1	19.5	18.1
Diluted EPS	130.8	150.5	180.0	212.5
EPS (Growth %)	18.6	15.1	19.5	18.1

Source: Company, ICICI Direct Research

Exhibit 24: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity	18	18	18	18
Reserves & Surplus	8,797	10,331	12,165	14,331
Networth	8,815	10,349	12,183	14,348
Minority Interest	6	6	6	6
Long term Liabilities & provisions	731	1,206	1,353	1,491
Total Debt	52	52	52	52
Source of funds	9,603	11,612	13,593	15,896
Assets				
Net fixed assets	1,573	1,516	1,587	1,655
Net intangible assets	316	530	494	454
Goodwill	690	690	690	690
Other non current assets	1,025	1,132	1,229	1,320
Unbilled revenue	903	947	1,064	1,173
Debtors	2,834	3,251	3,651	4,025
Current Investments	3,137	3,137	3,137	3,137
Cash & Cash equivalents	777	2,924	4,552	6,530
Other current assets	1,215	1,643	1,845	2,034
Trade payables	803	1,292	1,450	1,599
Current liabilities	2,064	2,751	3,090	3,406
Application of funds	9,603	11,612	13,593	15,896

Source: Company, ICICI Direct Research

Exhibit 23: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
PBT	3,097	3,574	4,216	4,945
Add: Depreciation	355	483	542	597
(Inc)/Dec in current assets	(1,211)	(418)	(400)	(374)
Inc/(Dec) in current liabilities	257	475	147	137
CF from operations	1,652	3,649	3,372	3,994
(Inc)/dec in other investments	(56)	125	132	132
(Inc)/dec in Fixed Assets	(856)	(424)	(476)	(525)
Other investing cash flow	30	8	29	46
CF from investing Activiti	(959)	(291)	(315)	(348)
Issue of equity	-	-	-	-
Inc/(dec) in loan funds	2	0	0	(0)
Dividend paid & dividend tax	(875)	(1,111)	(1,328)	(1,568)
Others	(5)	-	-	-
CF from Financial Activiti	(1,046)	(1,211)	(1,428)	(1,668)
Net cash flow	(353)	2,147	1,628	1,978
Effect of exchange rate changes	(11)	-	-	-
Opening cash	1,142	777	2,924	4,552
Closing cash	777	2,924	4,552	6,530

Source: Company, ICICI Direct Research

Exhibit 25: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	130.8	150.5	180.0	212.5
Cash Per Share	44.4	166.9	259.8	372.7
BV	501.6	589.0	693.3	816.6
DPS	55.1	63.4	75.8	89.5
Operating Ratios (%)				
EBITDA Margin	19.5	19.6	20.5	21.9
PBT Margin	19.8	18.5	19.4	20.7
PAT Margin	14.7	13.7	14.6	15.6
Turnover Ratios				
Debtor days	66	61	61	61
Creditor days	19	24	24	24
Return Ratios (%)				
RoE	26.1	25.6	26.0	26.0
RoCE	32.3	30.8	31.0	31.1
RoIC	47.5	58.1	64.9	73.2
Valuation Ratios (x)				
P/E	35.7	31.0	26.0	22.0
EV / EBITDA	25.5	20.1	16.7	13.8
Market Cap / Sales	5.2	4.2	3.8	3.4
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.7	1.4	1.4	1.4
Quick Ratio	1.4	1.2	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)	1,002	1,115	BUY	2,71,909	49.8	52.8	58.3	20.1	19.0	17.2	24.2	25.8	27.4	21.8	21.9	23.0
Infosys (INFTEC)	1,474	1,670	BUY	6,20,203	52.1	59.7	68.7	28.3	24.7	21.4	36.0	35.8	38.3	29.2	29.7	31.6
TCS (TCS)	3,098	3,630	BUY	11,33,574	104.7	115.7	130.3	29.6	26.8	23.8	51.4	49.3	48.7	43.0	42.0	41.0
Tech M (TECMAH)	1,020	1,170	BUY	99,227	63.1	66.2	77.9	16.2	15.4	13.1	22.5	21.8	22.7	20.7	19.4	20.3
Wipro (WIPRO)	377	420	HOLD	2,06,644	23.5	23.1	26.1	16.1	16.3	14.4	18.8	18.7	20.3	19.6	18.5	20.1
LTI (LTINFC)	4,670	5,525	BUY	81,829	130.8	150.5	180.0	35.7	31.0	26.0	32.3	30.8	31.0	26.1	25.6	26.0
Mindtree (MINCON)	3,375	4,000	BUY	55,622	100.3	119.2	142.0	33.7	28.3	23.8	38.0	37.9	37.1	30.2	29.3	28.6
Coforge (NIITEC)	3,745	4,375	BUY	22,809	106.5	147.8	175.0	35.2	25.3	21.4	25.6	31.5	31.8	24.2	28.4	28.3
TeamLease (TEASER)	2,986	4,240	BUY	5,105	22.5	85.6	124.6	132.8	34.9	24.0	15.4	17.6	20.8	(4.7)	17.4	20.4
Infoedge (INFEDG)	3,763	5,230	BUY	47,291	35.8	47.8	54.2	105.2	78.8	69.4	4.2	5.7	6.3	3.2	4.3	4.7

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

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