

Margin expansion stands out!

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%)

Q3FY22 Results: Strong revenue coupled with EBIT margin expansion QoQ

- Constant currency revenues increased 9.2% QoQ
- EBIT margin expanded 70 bps QoQ due to strong revenues
- LTI added 27 logos in Q3, highest quarterly addition in many quarters

What should investors do? LTI's share price has grown by ~10.7x over the past five years (from ~₹ 630 in January 2017 to ~₹ 6,714 levels in January 2022).

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

Target Price and Valuation: We value LTI at ₹ 8050 i.e. 42x FY23E EPS

Key triggers for future price performance:

- LTI's ability to deliver end-to-end solutions is expected 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 20.0% CAGR revenue growth in FY21-24E

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

- Upward revenue guidance prompts us to be positive on the stock
- We have a BUY rating with a target price of ₹ 2300



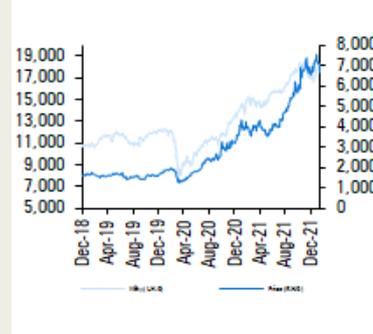
Particulars

Particular	Amount
Market Cap (₹ crore)	117,869
Total Debt	41
Cash and Investment	₹ 4388 crore
EV	₹ 113523 crore
52 week H/L	7595/ 3525
Equity Capital	₹ 18 crore
Face Value	₹ 1

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	74.3	74.3	74.1	74.1
FII	13.6	13.1	13.3	12.5
DII	4.3	4.8	4.3	5.1
Public	7.9	7.9	8.3	8.3

Price Chart



Recent event & key risks

Expect Industry leading growth

- Key Risk:** (i) Muted digital demand prospects, (ii) More than estimated rise in wage and travel costs

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	6,501	7,306	9,446	10,879	12,370	16.2%	16,169	19,246	21,384	20.0%
EBITDA	1,230	1,188	1,883	2,029	2,725	21.6%	3,401	4,101	4,607	19.1%
EBITDA Margins (%)	18.9	16.3	19.9	18.7	22.0		21.0	21.3	21.5	
Net Profit	971	1,113	1,516	1,521	1,938	18.3%	2,397	2,968	3,362	20.2%
EPS (₹)	56.9	64.7	87.3	86.6	110.3		136.4	168.8	191.3	
P/E (x)	117.9	103.8	76.9	77.5	60.9		49.2	39.8	35.1	
RoE (%)	30.9	28.8	31.0	28.1	26.5		27.6	28.5	27.2	
RoCE (%)	38.7	36.0	40.4	30.7	31.9		33.0	34.0	32.5	

Key takeaways of quarter and conference call highlights

- The company reported constant currency growth of 9.2% QoQ while dollar revenue growth was 8.6% QoQ to US\$553 million (mn) (revenues were partially aided by pass through revenues, benefit of ~ 200 bps for the quarter). In rupee terms, revenue grew 9.8% QoQ to ₹ 4137.6 crore
- The growth in constant currency revenues was mainly driven by banking financial services (up 10.4% QoQ) and manufacturing (up 19% QoQ) while insurance growth was muted at 2.2% QoQ. In terms of geographies, growth was aided by North America (6.3%), Europe (8.7%) and India (59% on low base) while RoW was down 4.3%
- EBITDA margin improved 60 bps while EBIT margins improved 70 bps QoQ to 20.1% and 17.9%, respectively, aided by a strong operating performance. Other income for the quarter was lower QoQ due to i) lower cash ii) lower MTM income on investments
- DSO for the quarter increased by five days QoQ to 66 days. The management indicated that they have procured license for one of their clients in India, which happened on the the last day of the quarter, which led to this increase. The management indicated that there was no alternation of credit terms due to the new Covid wave
- LTI signed a large deal of US\$31 mn with one of the major pharma companies in the US to upgrade their legacy IT infrastructure. The management also indicated that this account has further room of expansion
- The company reiterated that the demand environment continued to be strong at least for the near foreseeable future in terms of continued tech spending on automation, cloud, cybersecurity, artificial intelligence (AI), etc. LTI also mentioned that clients are also facing attrition due to a buoyant job market, which is also boosting demand, especially for automation
- The company has opened new delivery centres in Coimbatore, Hyderabad and Kolkata. The company indicated that the objective to open offices in these locations is to facilitate employee's flexibility in the hybrid working environment. The company would also continue to reach out to multiple locations in India to find and groom talent
- The management indicated that on an LTM basis attrition has increased for the quarter but on a quarterly annualised basis it has come down. The company is targeting 5,500 fresher additions for FY22. LTI had hired 1,000 employees in Q1 and Q2, which were being trained on new technology, are ready for work now and will be deployed in projects
- The company indicated that they did seven acquisitions in the past four years and are open to any further opportunity available provided at the right price. The management also indicated that when it comes to assessing companies for acquisition, technical capabilities and fitment to the current LTI's capabilities are one of the major deciding factor. They do not look for acquisitions to bulk up revenues
- The management indicated that price increase amid cost pressure, is a continuous discussion with the clients and some new tech deals are coming at better pricing. However, the current focus of the company is on capturing the growth

Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Tech M (TECMAH)	1,719	2,150	BUY	166,107	50.2	64.7	76.8	34.2	26.6	22.4	19.8	22.8	24.4	17.8	20.4	21.4
LTI (LTINF)	6,714	8,050	BUY	117,869	111.0	137.3	169.9	60.5	48.9	39.5	31.9	33.0	34.0	26.5	27.6	28.5
Mindtree (MINCON)	4,545	5,055	HOLD	74,855	67.4	89.8	109.2	67.4	50.6	41.6	32.5	36.0	36.3	25.7	28.2	28.2
Coforge (NIITEC)	5,726	5,870	BUY	35,595	73.3	115.2	146.7	78.1	49.7	39.0	23.3	28.6	30.9	18.5	25.0	27.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue (US\$ mn)	553	535	428	29.3	509	8.6	
Revenue (₹ crore)	4,138	4,003	3,153	31.2	3,767	9.8	The growth in constant currency revenues was mainly driven by banking financial services (up 10.4% QoQ), manufacturing (up 19.0% QoQ) while insurance was muted at 2.2% QoQ growth. There was a pass through benefit of 200 bps in growth
Employee expenses	2,855	2,782	2,051	39.2	2,601	9.7	
Gross Margin	1,283	1,221	1,102	16.4	1,166	10.0	
Gross margin (%)	31.0	30.5	35.0	-395 bps	31.0	6 bps	
Other expenses	452	460	370	22.1	433	4.4	
EBITDA	831	785	732	13.5	733	13.4	
EBITDA Margin (%)	20.1	19.6	23.2	-313 bps	19.5	62 bps	
Depreciation & amort	89	90	82	8.1	85	4.1	
EBIT	743	671	650	14.2	648	14.6	
EBIT Margin (%)	17.9	16.8	20.6	-267 bps	17.2	74 bps	EBIT margin improved due to strong operating performance
Other income	81	91	49	64.8	94	-13.5	
PBT	824	762	699	17.8	742	11.0	
Tax paid	211	200	180	17.3	190	11.0	
PAT	613	585	519	18.0	552	11.0	PAT was higher than our expectation mainly led by strong operating performance

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY22E			FY23E			FY24E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue	16,169	16,169	0.0	19,246	19,246	0.0	21,384
EBITDA	3,401	3,401	0.0	4,101	4,101	0.0	4,607
EBITDA Margin (%)	21.0	21.0	0 bps	21.3	21.3	0 bps	21.5
PAT	2,397	2,397	0.0	2,968	2,968	0.0	3,362
EPS (₹)	136.4	136.4	0.0	169	169	0.0	191

Source: Company, ICICI Direct Research

Key metrics

Exhibit 4: Geography wise break-up

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Revenue by geography (%)					
North America	67.9	66.2	67.0	67.5	66.0
Europe	16.1	16.5	16.6	16.1	15.8
India	8.6	8.9	6.7	6.6	9.6
ROW	7.4	8.4	9.6	9.8	8.6
Growth QoQ (%)					
North America	4.5	2.0	6.4	9.1	6.2
Europe	5.8	7.2	5.7	5.0	6.6
India	31.8	8.2	-20.9	6.6	58.0
ROW	-4.6	18.7	20.1	10.5	-4.7

Source: Company, ICICI Direct Research

Exhibit 5: Vertical wise break up

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Revenue by vertical (%)					
BFS	30.6	30.7	32.1	32.5	32.8
Insurance	15.0	14.5	14.5	14.2	13.3
Manufacturing	16.8	16.9	15.0	15.6	17.0
Energy & Utilities	10.0	9.1	9.1	8.9	8.8
CPG, Retail & Pharma	10.9	10.8	10.7	10.1	10.0
HTME	10.6	11.8	12.7	12.5	11.8
Others	6.0	6.2	5.9	6.2	6.4
Growth QoQ (%)					
BFS	8.2	4.9	9.9	9.6	9.6
Insurance	-0.8	1.1	5.1	6.0	1.8
Manufacturing	9.7	5.2	-6.7	12.6	18.4
Energy & Utilities	-0.2	-4.8	5.1	5.9	7.4
CPG, Retail & Pharma	4.8	3.6	4.1	2.2	7.6
HTME	5.8	16.4	13.1	6.5	2.6
Others	11.3	8.1	0.0	13.8	12.1

Source: Company, ICICI Direct Research

Exhibit 6: Service offering wise break-up

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Revenue by service offering (%)					
ADM*	33.6	33.3	34.0	34.2	33.5
Enterprise Solutions	31.4	32.3	30.7	30.4	31.4
IMS	14.3	15.1	14.9	14.0	13.2
Analytics, AI & Cognitive	11.9	11.1	11.7	12.1	12.7
EIM	8.8	8.2	8.7	9.3	9.3
Growth QoQ (%)					
ADM	-1.3	3.6	7.3	8.9	6.4
Enterprise Solutions	7.8	7.6	-0.1	7.2	12.2
IMS	5.0	10.4	3.7	1.7	2.4
Analytics, AI & Cognitive	18.7	-2.4	10.8	12.0	14.0
EIM	12.1	-2.5	11.5	15.7	8.6

Source: Company, ICICI Direct Research.

Financial Summary

Exhibit 7: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Total Revenues	12,370	16,169	19,246	21,384	
Growth (%)	13.7	30.7	19.0	11.1	
Employee costs	8,219	10,633	12,662	14,018	
Total Operating Expenditure	9,645	12,767	15,145	16,777	
EBITDA	2,725	3,401	4,101	4,607	
Growth (%)	34.3	24.8	20.6	12.4	
Depreciation & Amortization	333	437	481	535	
Other Income (net)	196	253	338	387	
Interest	-	-	-	-	
PBT before Exceptional Items	2,588	3,218	3,957	4,459	
Growth (%)	29.2	24.3	23.0	12.7	
Tax	650	820	989	1,097	
PAT before Exceptional Items	1,938	2,397	2,968	3,362	
Exceptional items	-	-	-	-	
Minority Int & Pft. from associates	-	-	-	-	
PAT	1,938	2,397	2,968	3,362	
Growth (%)	27.5	23.7	23.8	13.3	
Diluted EPS	110.3	136.4	168.8	191.3	
EPS (Growth %)	27.3	23.7	23.8	13.3	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Liabilities					
Equity	18	18	18	18	
Reserves & Surplus	7,286	8,676	10,398	12,348	
Networth	7,303	8,694	10,415	12,365	
Minority Interest	4	4	4	4	
Long term Liabilities & provisions	770	1,005	1,196	1,328	
Total Debt	41	41	41	41	
Source of funds	8,118	9,744	11,656	13,738	
Assets					
Net fixed assets	1,048	1,132	1,205	1,276	
Net intangible assets	267	222	190	155	
Goodwill	657	657	657	657	
Other non current assets	606	760	886	973	
Unbilled revenue	607	794	945	1,050	
Debtors	2,084	2,723	3,242	3,602	
Current Investments	3,628	4,428	5,228	6,028	
Cash & Cash equivalents	759	1,037	1,695	2,656	
Other current assets	1,053	1,377	1,638	1,821	
Trade payables	828	1,082	1,288	1,431	
Current liabilities	1,763	2,305	2,743	3,048	
Application of funds	8,118	9,744	11,656	13,738	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
PBT	2,588	3,218	3,957	4,459	
Add: Depreciation	333	437	481	535	
(Inc)/Dec in current assets	(217)	(640)	(518)	(360)	
Inc/(Dec) in current liabilities	488	235	191	132	
CF from operations	2,400	2,407	3,040	3,506	
(Inc)/dec in other investments	(1,363)	(655)	(623)	(580)	
(Inc)/dec in Fixed Assets	(267)	(355)	(423)	(470)	
Other investing cash flow	16	8	10	17	
CF from investing Activities	(1,656)	(1,003)	(1,036)	(1,034)	
Issue of equity	0	-	-	-	
Inc/(dec) in loan funds	185	0	(0)	0	
Dividend paid & dividend tax	(532)	(1,007)	(1,247)	(1,412)	
Others	(2)	-	-	-	
CF from Financial Activities	(509)	(1,127)	(1,347)	(1,512)	
Net cash flow	235	278	658	961	
Effect of exchange rate changes	(1)	-	-	-	
Opening cash	525	759	1,037	1,695	
Closing cash	759	1,037	1,695	2,656	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	110.3	136.4	168.8	191.3
Cash Per Share	43.5	59.4	97.1	152.1
BV	415.5	494.6	592.5	703.4
DPS	40.3	57.6	71.4	80.9
Operating Ratios (%)				
EBITDA Margin	22.0	21.0	21.3	21.5
PBT Margin	20.9	19.9	20.6	20.9
PAT Margin	15.7	14.8	15.4	15.7
Turnover Ratios				
Debtor days	61	61	61	61
Creditor days	24	24	24	24
Return Ratios (%)				
RoE	26.5	27.6	28.5	27.2
RoCE	31.9	33.0	34.0	32.5
RoIC	64.1	69.3	76.5	80.6
Valuation Ratios (x)				
P/E	60.9	49.2	39.8	35.1
EV / EBITDA	41.7	33.1	27.1	23.7
Market Cap / Sales	9.5	7.3	6.1	5.5
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	1.4	1.4	1.4
Quick Ratio	1.2	1.2	1.2	1.2

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HCL Tech (HCLTEC)	1,330	1,430	HOLD	360,917	45.8	48.0	54.9	29.0	27.7	24.2	23.5	23.0	25.1	20.8	19.5	21.1
Infosys (INFTEC)	1,897	2,300	BUY	806,433	45.5	55.9	63.2	41.7	34.0	30.0	31.7	34.5	36.4	25.2	28.2	29.8
TCS (TCS)	3,965	4,600	BUY	1,467,050	87.6	104.0	120.9	45.2	38.1	32.8	45.9	49.0	51.7	37.5	41.4	43.4
Tech M (TECMAH)	1,719	2,150	BUY	166,107	50.2	64.7	76.8	34.2	26.6	22.4	19.8	22.8	24.4	17.8	20.4	21.4
Wipro (WIPRO)	640	750	BUY	350,528	19.1	21.8	25.6	33.6	29.4	25.0	21.3	22.5	26.2	19.5	21.6	25.4
LTI (LTINFNC)	6,714	8,050	BUY	117,869	111.0	137.3	169.9	60.5	48.9	39.5	31.9	33.0	34.0	26.5	27.6	28.5
Mindtree (MINCON)	4,545	5,055	HOLD	74,855	67.4	89.8	109.2	67.4	50.6	41.6	32.5	36.0	36.3	25.7	28.2	28.2
Coforge (NIITEC)	5,726	5,870	BUY	35,595	73.3	115.2	146.7	78.1	49.7	39.0	23.3	28.6	30.9	18.5	25.0	27.1
TeamLease (TEASER)	4,249	4,220	HOLD	7,291	46.5	66.7	101.0	91.4	63.7	42.1	14.2	16.3	19.9	11.6	15.7	18.7
Infoedge (INFEDG)	5,589	6,270	BUY	72,413	20.9	37.1	51.0	267.3	150.7	109.7	7.7	13.1	16.7	6.0	9.9	12.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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