

CMP: ₹ 5486

Target: ₹ 6000 (9%)

Target Period: 12 months

HOLD

April 20, 2022

Disappointing numbers; cautious near term outlook...

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%)

Q4FY22 Results: LTI reported weak numbers.

- Constant currency revenues increased 3.6% QoQ
- EBIT margin contracted 60 bps QoQ to 17.3%
- Guided for 290 bps QoQ EBIT margin contraction in Q1FY23 on salary hikes

What should investors do? LTI's share price has grown by ~8.2x over the past five years (from ~₹ 665 in April 2017 to ~₹ 5,486 levels in April 2022).

- We change our recommendation on the stock from BUY to HOLD

Target Price and Valuation: We value LTI at ₹ 6000 i.e. 36x FY24E 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 16% 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 HOLD rating with a target price of ₹ 2000



Particulars

Particular	Amount
Market Cap (₹ crore)	96,311
Total Debt	52
Cash and Investment	₹ 3914 crore
EV	₹ 92449 crore
52 week H/L	7595/ 3525
Equity Capital	₹ 18 crore
Face Value	₹ 1

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	74.3	74.1	74.1	74.1
FII	13.1	13.3	12.5	10.1
DII	4.8	4.3	5.1	7.1
Public	7.9	8.3	8.3	8.7

Price Chart



Recent event & key risks

Slower growth in BFSI segment

- Key Risk:** (i) Better than expected revenue growth (ii) Higher than estimated employee costs

Research Analyst

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Key Financial Summary

(₹ Crore)	FY21	FY22	5 Year CAGR (FY17-22) %	FY23E	FY24E	3 year CAGR (FY22-24E) %
Net Sales	12,370	15,669	19.2	18,807	21,121	16.1
EBITDA	2,725	3,058	20.0	3,519	4,158	16.6
EBITDA Margins (%)	22.0	19.5		18.7	19.7	
Net Profit	1,938	2,299	18.8	2,466	2,916	12.6
EPS (₹)	110.3	130.8		140.3	165.9	
P/E (x)	49.8	41.9		39.1	33.1	
RoE (%)	26.5	26.1		24.1	24.4	
RoCE (%)	31.9	32.3		29.0	29.6	

Key takeaways of quarter and conference call highlights

- The company reported constant currency growth of 3.6% QoQ while dollar revenue growth was 3.1% QoQ to US\$570 million (mn). In rupee terms, revenue grew 4.0% QoQ to ₹ 4301 crore
- In terms of CC growth, retail, energy & utilities and insurance reported strong growth of 7.7%, 4.1% and 3.8% QoQ, respectively. Growth in banking, manufacturing & hi-tech was relatively muted at 3.3%, 2.3%, 2.2% QoQ, respectively
- In terms of geographies, growth in North America was relatively muted at 2.6% while Europe reported strong growth of 8.2% QoQ. In terms of client profile Top 5 customers reported muted growth of 2.8% QoQ vs. more than 6% QoQ growth in the last three quarters
- LTI said revenue growth for the quarter was impacted on account of continued high attrition being faced by the company on onsite, especially in US geographies. The company mentioned that on account of this, volume growth for the quarter was flat vs. 2-4% QoQ volume growth on a quarterly basis. LTI expects this situation to normalise in two to three quarters
- The EBIT margin declined 64 bps QoQ. It was impacted by wage hike impact (-40 bps) and lower working days (-60 bps), which was mitigated by lower SG&A and business mix (+40 bps). The company has given salary hikes to its employees effective April 1, 2022, and guided for 290 bps impact of the same on Q1 margins
- The company closed four large deals with net new TCV of over US\$80 mn in Q4FY22. Three deals were with existing clients and one with a new logo. Vertical wise, two deals were in the BFS space, one in retail & CPG and another with a key government body in public healthcare. The deal pipeline remained at US\$2 billion (bn) (net new deals)
- The company added 5,200 freshers in FY22 against its guidance of 4,500 given at the start of the financial year. LTI is now looking to add 6,500 freshers in FY23. The company's net adds for FY22 were ~10,600 employees, higher than its FY21 and FY20 net hiring put together
- The company reiterated that the demand environment continued to be strong but sounded cautious on near term client spending on account of higher energy prices, higher inflation and continued geopolitical headwinds. LTI, however, said that it has not seen any cut in client spending
- The company mentioned that they are getting price hikes in certain pockets as clients are receptive on price hikes especially on new technologies such as AI, ML and cloud. LTI expects the benefit of price hike to continue in FY23 as well
- The management indicated that on an LTM basis attrition has increased for the quarter but on a quarterly annualised basis it has come down. However, they are of the view that attrition will not cool off immediately and will take three to four quarters to stabilise

Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
LTI (LTINF)	5,486	6,000	HOLD	96,127	130.8	140.3	165.9	41.9	39.1	33.1	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	3,636	4,090	HOLD	59,923	100.3	109.8	127.9	36.3	33.1	28.4	38.0	35.4	34.5	30.2	27.4	26.6
Coforge (NIITEC)	4,027	5,300	HOLD	24,526	115.2	146.7	163.1	34.9	27.4	24.7	28.6	30.9	29.7	25.0	27.1	25.9
TeamLease (TEASER)	3,907	4,500	BUY	6,680	68.2	101.0	125.1	57.3	38.7	31.2	16.3	19.9	20.3	15.7	18.7	19.0
Infoedge (INFEDG)	4,612	5,800	BUY	57,960	37.1	51.0	55.1	124.4	90.5	83.7	13.1	16.7	16.7	9.9	12.6	12.6

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue (US\$ mn)	570	578	447	27.5	553	3.1	
Revenue (₹ crore)	4,302	4,347	3,269	31.6	4,138	4.0	The growth in CC terms was lower on account of slower growth in BFSI vertical wise and US geographywise
Employee expenses	3,011	3,030	2,223	35.4	2,855	5.5	
Gross Margin	1,291	1,317	1,046	23.4	1,283	0.6	
Gross margin (%)	30.0	30.3	32.0	-200 bps	31.0	-101 bps	
Other expenses	444	470	331	34.3	452	-1.7	
EBITDA	846	848	716	18.3	831	1.8	EBIT margin impacted by wage hike impact (-40 bps) and lower working days (-60 bps), which was mitigated by lower SG&A and business mix (+40 bps)
EBITDA Margin (%)	19.7	19.5	21.9	-221 bps	20.1	-41 bps	
Depreciation & amort	102	91	83	23.4	89	15.1	
EBIT	745	756	633	17.6	743	0.3	
EBIT Margin (%)	17.3	17.4	19.4	-205 bps	17.9	-64 bps	EBIT margin improved due to strong operating performance
Other income	115	85	84	37.2	81	41.9	
PBT	860	841	717	19.9	824	4.4	
Tax paid	222	217	171	29.8	211	5.2	
PAT	638	624	546	16.8	613	4.1	PAT aided by 32% QoQ increase in forex gain

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	19,246	18,807	-2.3	21,384	21,121	-1.2	Revenue growth revised downward on onsite attrition pressure
EBIT	3,619	3,049	-15.8	4,072	3,630	-10.9	
EBIT Margin (%)	18.8	16.2	-260 bps	19.0	17.2	-186 bps	Margin revised downward on employee and other cost pressure
PAT	2,968	2,466	-16.9	3,261	2,916	-10.6	
EPS (₹)	169	140	-16.9	186	166	-10.6	

Source: Company, ICICI Direct Research

Key metrics

Exhibit 4: Geography wise break-up

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue by geography (%)					
North America	66.2	67.0	67.5	66.0	65.6
Europe	16.5	16.6	16.1	15.8	16.2
India	8.9	6.7	6.6	9.6	9.9
ROW	8.4	9.6	9.8	8.6	8.3
Growth QoQ (%)					
North America	2.0	6.4	9.1	6.2	2.5
Europe	7.2	5.7	5.0	6.6	5.8
India	8.2	-20.9	6.6	58.0	6.4
ROW	18.7	20.1	10.5	-4.7	-0.5

Source: Company, ICICI Direct Research

Exhibit 5: Vertical wise break up

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue by vertical (%)					
BFS	30.7	32.1	32.5	32.8	32.7
Insurance	14.5	14.5	14.2	13.3	13.4
Manufacturing	16.9	15.0	15.6	17.0	16.8
Energy & Utilities	9.1	9.1	8.9	8.8	8.8
CPG, Retail & Pharma	10.8	10.7	10.1	10.0	10.3
HTME	11.8	12.7	12.5	11.8	11.7
Others	6.2	5.9	6.2	6.4	6.3
Growth QoQ (%)					
BFS	4.9	9.9	9.6	9.6	2.8
Insurance	1.1	5.1	6.0	1.8	3.9
Manufacturing	5.2	-6.7	12.6	18.4	1.9
Energy & Utilities	-4.8	5.1	5.9	7.4	3.1
CPG, Retail & Pharma	3.6	4.1	2.2	7.6	6.2
HTME	16.4	13.1	6.5	2.6	2.3
Others	8.1	0.0	13.8	12.1	1.5

Source: Company, ICICI Direct Research

Exhibit 6: Service offering wise break-up

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue by service offering (%)					
ADM*	33.3	34.0	34.2	33.5	33.0
Enterprise Solutions	32.3	30.7	30.4	31.4	30.8
IMS	15.1	14.9	14.0	13.2	13.7
Analytics, AI & Cognitive	11.1	11.7	12.1	12.7	12.8
EIM	8.2	8.7	9.3	9.3	9.7
Growth QoQ (%)					
ADM	3.6	7.3	8.9	6.4	1.6
Enterprise Solutions	7.6	-0.1	7.2	12.2	1.2
IMS	10.4	3.7	1.7	2.4	7.1
Analytics, AI & Cognitive	-2.4	10.8	12.0	14.0	4.0
EIM	-2.5	11.5	15.7	8.6	7.6

Source: Company, ICICI Direct Research.

Financial Summary

Exhibit 7: 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 9: 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 8: 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 10: 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 11: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
HCL Tech (HCLTEC)	1,070	1,430	HOLD	290,362	48.0	54.9	59.6	22.3	19.5	18.0	23.0	25.1	26.2	19.5	21.1	21.9
Infosys (INFTEC)	1,562	2,000	HOLD	657,093	52.0	60.9	70.9	30.0	25.7	22.0	36.0	36.8	39.6	29.2	30.5	32.8
TCS (TCS)	3,472	4,120	HOLD	1,270,423	104.7	119.3	133.0	33.1	29.1	26.1	51.4	50.8	49.5	43.0	43.2	41.5
Tech M (TECMAH)	1,301	1,850	BUY	126,436	64.7	76.8	86.2	20.1	16.9	15.1	22.8	24.4	24.4	20.4	21.4	21.2
Wipro (WIPRO)	530	750	BUY	290,508	21.8	25.6	28.8	24.3	20.7	18.4	22.5	26.2	29.0	21.6	25.4	28.5
LTI (LTINFNC)	5,486	6,000	HOLD	96,127	130.8	140.3	165.9	41.9	39.1	33.1	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	3,636	4,090	HOLD	59,923	100.3	109.8	127.9	36.3	33.1	28.4	38.0	35.4	34.5	30.2	27.4	26.6
Coforge (NIITEC)	4,027	5,300	HOLD	24,526	115.2	146.7	163.1	34.9	27.4	24.7	28.6	30.9	29.7	25.0	27.1	25.9
TeamLease (TEASER)	3,907	4,500	BUY	6,680	68.2	101.0	125.1	57.3	38.7	31.2	16.3	19.9	20.3	15.7	18.7	19.0
Infoedge (INFEDG)	4,612	5,800	BUY	57,960	37.1	51.0	55.1	124.4	90.5	83.7	13.1	16.7	16.7	9.9	12.6	12.6

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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