

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR1784 TP: INR2060 (+15%) Buy

Healthy deal wins; Stable commentary

Continue to expect industry leading 'growth'; Reiterate Buy

- Strong exit growth in FY20 coupled with healthy deal wins reiterates our confidence that L&T Infotech (LTI) could be one of the few outliers reporting revenue/earnings growth in FY21. The company's twisted seasonality (better 2H) should also help it dodge the peak COVID-19 impact (expected over 1H) to an extent. Notwithstanding some price concessions, we expect net margins to remain close to the lower end of the normal year guidance band (14-15%). Top clients/BFSI performance is a key monitorable.
- We keep our estimates largely unchanged and expect LTI to be a key beneficiary of the accelerated digital adoption in the post COVID-19 world. Reiterate **Buy**.

Better-than-expected and broad-based performance

- In 4QFY20, revenue (USD)/EBIT (INR)/PAT increased 16%/15%/13% YoY (v/s est. 14%/10%/2% YoY). For FY20, Revenue (USD) / EBIT (INR)/PAT increased by 13%/1%/0% YoY.
- Reported growth (4.7% QoQ, CC) was stronger than our expectations (3%). Further, growth was broad-based across geographies and verticals.
- While RoW (18.1% QoQ, CC) growth was lumpy partly due to the low base, core geographies reported healthy growth despite the COVID-19 impact.
- Growth in the top-5 (-1% QoQ, CC)/Top-10 (2% QoQ, CC) accounts was weak due to the high base in Dec'19. Overall growth during Mar'20 was driven by (1) addition of new clients, and (2) mining/scaling up of small accounts.
- Adjusted for one-time donation to PM-CARES fund, EBIT margin improved 110bp QoQ. Major drivers were INR depreciation (50bp impact) and favorable calendar (50bp impact).

Key highlights from management commentary

- Even as management anticipates demand pressures, they remain optimistic on performance given the strong order book and deal pipeline. The company expects a revenue dip in Jun'20, in line with industry.
- Management hinted toward potential announcements of deal closures in Jun'20, despite some delays and deferrals being witnessed currently.
- Across verticals, Manufacturing, Automotive and Oil & Gas would be the most impacted, while CPG and Pharma are expected to outperform the company's growth in the coming quarters.
- Within BFS – even as no impact is expected in the near future – rising defaults in banks could affect performance over 2HFY21.
- While pricing is expected to be largely stable, management has hinted at near-term challenges on account of client specific concessions.

Valuation view – industry leading growth to defend rich multiples

- LTI's recent client addition across buckets was the strongest and broad-based v/s comparable prior periods. It has recently added several marquee logos (e.g. *Standard Chartered*). Given its proven account mining capabilities, this should provide good headroom for incremental growth.
- Industry leading 'growth' plus prudent capital allocation should defend its rich multiples. Our fair valuation is 19x 1-year forward P/E, at 15% discount to TCS. Reiterate **Buy**.

Bloomberg	LTI IN
Equity Shares (m)	172
M.Cap.(INRb)/(USDb)	310.6 / 3.8
52-Week Range (INR)	2049 / 1208
1, 6, 12 Rel. Per (%)	22/27/23
12M Avg Val (INR M)	266

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	108.8	118.9	137.8
EBIT Margin (%)	16.1	16.0	16.3
PAT	15.2	16.3	19.2
EPS (INR)	86.7	92.5	109.0
EPS Gr. (%)	0.4	6.7	17.8
BV/Sh. (INR)	308.1	377.2	459.1

Ratios

RoE (%)	31.1	27.3	26.3
RoCE (%)	26.9	23.9	23.2
Payout (%)	32.3	21.6	22.0

Valuations

P/E (x)	20.2	19.0	16.1
P/BV (x)	5.7	4.7	3.8
EV/EBITDA (x)	14.3	12.7	10.4
Div Yield (%)	1.6	1.1	1.4

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	74.5	74.6	74.8
DII	7.2	7.2	7.1
FII	9.5	9.1	7.7
Others	8.8	9.2	10.4

FII Includes depository receipts

Quarterly Performance

(INR m)

Y/E March	FY19				FY20				FY19	FY20	Est. 4QFY20	Var. (% / bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue (USD m)	320	329	347	354	357	364	394	410	1,349	1,525	404	1.4
QoQ (%)	3.5	2.7	5.6	2.0	0.8	2.0	8.4	3.9	19.1	13.0	2.5	143
Revenue (INR m)	21,557	23,312	24,729	24,860	24,849	25,707	28,111	30,119	94,458	1,08,786	29,107	3.5
YoY (%)	29.0	33.2	31.3	24.2	15.3	10.3	13.7	21.2	29.3	15.2	17.1	407
GPM (%)	35.2	35.1	34.8	34.0	33.1	31.8	31.7	32.8	34.7	32.4	33.1	(34)
SGA (%)	15.7	14.6	14.2	14.8	14.7	13.7	13.0	13.6	14.8	13.7	13.7	(13)
EBITDA	4,190	4,790	5,090	4,765	4,580	4,658	5,274	5,781	18,835	20,293	5,647	2.4
EBITDA Margin (%)	19.4	20.5	20.6	19.2	18.4	18.1	18.8	19.2	19.9	18.7	19.4	(21)
EBIT Margin (%)	17.7	19.0	19.1	17.7	16.0	15.5	16.2	16.7	18.4	16.1	16.6	11
Other income	1,036	943	288	648	812	739	433	479	2,915	2,463	282	69.9
ETR (%)	25.5	25.4	25.2	24.9	25.6	23.9	24.6	22.5	25.3	24.1	24.5	
Adj PAT	3,612	4,003	3,755	3,787	3,557	3,603	3,767	4,274	15,157	15,201	3,861	10.7
QoQ (%)	24.9	10.8	-6.2	0.9	-6.1	1.3	4.6	13.5			2.5	
YoY (%)	35.1	46.7	32.7	30.9	-1.5	-10.0	0.3	12.9	36.3	0.3	2.0	
EPS (INR)	20.6	22.6	21.6	21.6	20.3	20.5	21.6	24.3	86.4	86.7	22.2	9.6

Key Perfor. Indicators

Y/E March	FY19				FY20				FY19	FY20
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue (QoQ CC %)	5.1	3.5	6.1	1.9	1.0	2.4	8.3	4.7	21.0	14.2
Margins (%)										
Gross Margin	35.2	35.1	34.8	34.0	33.1	31.8	31.7	32.8	34.7	32.4
EBIT Margin	17.7	19.0	19.1	17.7	16.0	15.5	16.2	16.7	18.4	16.1
Net Margin	16.8	17.2	15.2	15.2	14.3	14.0	13.4	14.2	16.0	14.0
Operating metrics										
Headcount	25,150	26,414	27,513	28,169	29,347	30,979	31,419	31,437	28,169	31,437
Attrition (%)	15.1	15.3	16.5	17.5	18.3	18.4	17.7	16.5	17.5	16.5
Offshore rev (%)	53.2	52.4	52.2	52.2	50.5	51.4	51.0	49.1	52.5	50.5
Utilization (incl. trainees)	79.7	80.4	82.1	80.1	80.5	78.9	79.2	79.3	80.6	79.5
Key Verticals (YoY %)										
BFS	42.3	33.0	26.9	10.5	-0.1	0.4	8.6	15.4	27.1	6.1
Insurance	9.0	5.5	8.4	11.4	10.8	15.7	13.1	9.3	8.6	12.2
CPG, Retail and Pharma	32.1	37.6	36.2	34.9	35.9	24.9	20.1	22.4	35.3	25.3
Key Geographies (YoY %)										
North America	19.6	16.2	17.3	15.2	15.0	12.9	18.3	20.2	17.0	16.7
Europe	24.1	18.6	9.7	1.0	-0.4	6.2	6.2	6.7	12.6	4.7



Key highlights from management commentary

- Even as management anticipates demand pressures, it remains optimistic on performance given the strong order book and deal pipeline. The company expects a revenue dip in Jun'20, in line with industry.
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- Across verticals, Manufacturing, Automotive and Oil & Gas would be the most impacted, while CPG and Pharma are expected to outperform the company's growth in the coming quarters.
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Better-than-expected broad-based performance

- In 4QFY20, revenue (USD)/EBIT (INR)/PAT increased 16%/15%/13% YoY (v/s est. 14%/10%/2% YoY). For FY20, Revenue (USD) / EBIT (INR)/PAT increased by 13%/1%/0% YoY.
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- Adjusted for one-time donation to PM-CARES fund, EBIT margin improved 110bp QoQ. Major drivers were INR depreciation (50bp impact) and favorable calendar (50bp impact).

Exhibit 1: America and Europe reported healthy growth despite COVID-19 impact

Geographies	Contri. To Rev. (%)	QoQ Growth (% CC)	YoY Growth (% CC)
North America	68.9	3.3	20.5
Europe	15.1	2.4	10.6
RoW	8.1	18.1	9.2
India	7.8	9.7	14.8

Source: Company, MOFSL

Exhibit 2: Growth was largely led by IMS; Analytics, AI and Cognitive declined sharply

Service Offerings	Contri. To Rev. (%)	QoQ Growth (% CC)	YoY Growth (% CC)
ADM and Testing	34.7	1.3	7.1
Enterprise Solutions	30.0	9.8	20.9
Infrastructure Management Services	12.6	14.2	34.4
Analytics, AI & Cognitive	11.6	-5.8	26.9
Enterprise Integration & Mobility	8.7	7.1	27.5
Platform Based Solutions	2.5	-0.1	-7.9

Source: Company, MOFSL

Exhibit 3: Barring Insurance, other verticals reported robust growth

Verticals	Contri. To Rev. (%)	QoQ Growth (% CC)	YoY Growth (% CC)
BFS	27.6	4.0	17.2
Insurance	16.8	-0.7	10.5
Manufacturing	18.0	7.9	27.4
Energy & Utilities	11.4	5.8	21.3
CPG, Retail & Pharma	11.2	4.2	24.2
High-Tech, Media & Entertainment	11.0	6.4	3.6
Others	4.0	14.8	21.9

Source: MOFSL, Company

Exhibit 4: Decline in top-5 clients was due to high base in previous quarter

Clients	Contri. To Rev. (%)	QoQ Growth (%)	YoY Growth (%)
Top 5 clients	31.2	-1.0	12.5
Top 10 clients	45.8	1.8	13.0
Top 20 clients	59.8	0.3	9.3

Source: MOFSL, Company

Exhibit 5: Utilization witnessed a marginal increase...

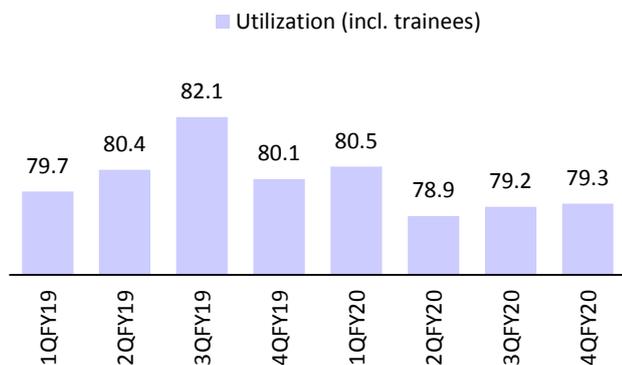


Exhibit 6: ...while attrition moderated

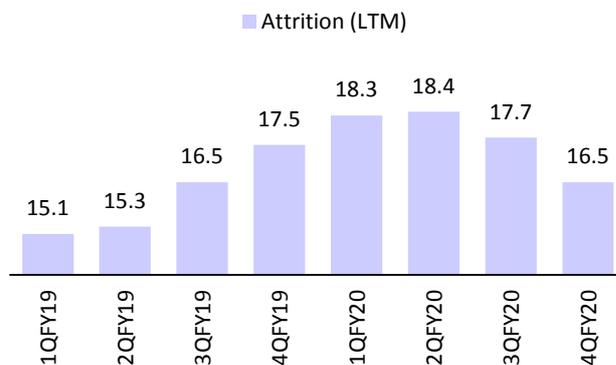


Exhibit 7: Share of onsite revenue increased, while share of...

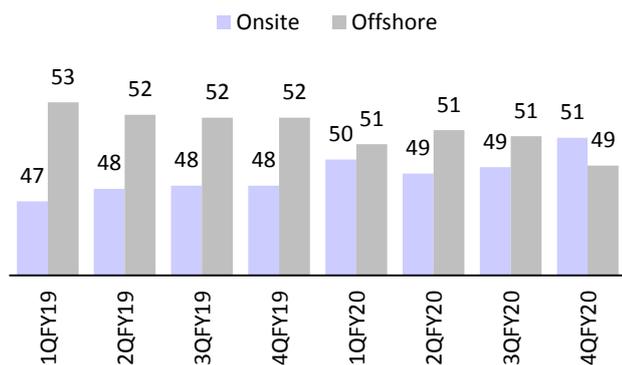
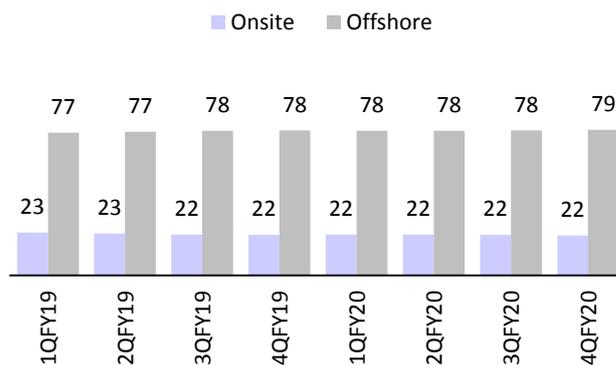


Exhibit 8: ...onsite effort remained more or less stable



Valuation and view

- LTI's recent client addition across buckets was the strongest and broad-based v/s comparable prior periods. It has recently added several marquee logos (e.g. *Standard Chartered*). Given its proven account mining capabilities, this should provide good headroom for incremental growth.
- Industry leading 'growth' plus prudent capital allocation should defend its rich multiples. Our fair valuation is 19x 1-year forward P/E, at 15% discount to TCS.

Exhibit 9: Revision to our estimates

	Revised		Earlier		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
INR/USD	76.0	77.0	73.5	73.5	3.4%	4.8%
USD Revenue - m	1,565	1,790	1,595	1,787	-1.9%	0.1%
Growth (%)	2.6	14.4	5.0	12.0	-240bps	230bps
EBIT margin(%)	16.0	16.3	14.9	16.5	100bps	-10bps
PAT (INR m)	16,275	19,170	16,190	19,502	0.5%	-1.7%
EPS	92.5	109.0	92.5	111.4	0.0%	-2.2%

Source: MOFSL

Operating Metrics

Exhibit 10: Operating metrics

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Revenue by verticals (%)								
BFS	30.9	29.9	29.1	27.7	27.7	27.1	27.8	27.6
Insurance	18.2	17.9	17.8	17.8	18.1	18.7	17.7	16.8
Manufacturing	15.7	15.4	15.6	16.6	15.2	16.4	17.5	18.0
Energy & utilities	10.1	10.7	10.8	11.0	10.7	12.1	11.3	11.4
CPG, retail & pharma	9.1	10.2	10.6	10.6	11.1	11.5	11.2	11.2
High tech, media & entertainment	11.3	11.2	11.3	12.4	12.5	10.8	10.8	11.0
Others	4.5	4.7	4.6	3.9	4.6	3.5	3.7	4.0
Revenue by service offerings (%)								
ADM and Testing	42.1	39.9	38.6	38.0	38.1	36.1	35.8	34.7
Enterprise solutions	26.3	25.2	27.8	29.2	28.4	29.5	28.7	30.0
IMS	11.5	11.7	11.4	11.0	10.9	11.1	11.5	12.6
Analytics, AI & Cognitive	10.3	12.2	11.3	10.7	11.2	11.3	12.8	11.6
Enterprise Integration & mobility	6.5	8.0	7.6	8.0	8.2	9.0	8.5	8.7
Platform based solutions	3.1	3.0	3.2	3.2	3.1	3.0	2.7	2.5
Revenue by geography (%)								
North America	66.6	67.4	66.8	66.4	68.7	68.7	69.5	68.9
Europe	17.9	17.1	16.7	16.4	16.0	16.4	15.6	15.1
ROW	9.1	9.2	8.8	9.1	8.5	8.9	7.4	8.1
India	6.4	6.4	7.8	8.2	6.9	6.0	7.6	7.8
Client metrics (% of revenues)								
Top 5 client	36.6	36.2	34.5	32.2	31.3	31.7	32.8	31.2
Top 10 client	50.3	49.9	48.4	47.0	45.0	45.5	46.8	45.8
Top 20 client	66.0	65.5	64.3	63.4	62.5	61.4	62.0	59.8
Non Top 20 clients	34.0	34.5	35.7	36.6	37.5	38.6	38.0	40.2
Number of active clients	301	312	314	343	354	366	429	424
New clients added in the period	19	22	17	14	20	20	29	27
Million \$ clients								
5 Million \$ clients	42	44	47	49	49	48	48	53
10 Million \$ clients	25	25	25	26	26	27	28	27
20 Million \$ clients	13	14	15	17	19	18	18	16
50 Million \$ clients	4	4	5	5	5	6	6	6
100 Million \$ clients	1	1	1	1	1	1	1	1
Employee metrics								
Development	23,656	24,923	25,985	26,572	27,665	29,266	29,669	29,683
Sales and support	1,494	1,491	1,528	1,597	1,682	1,713	1,750	1,754
Total employees	25,150	26,414	27,513	28,169	29,347	30,979	31,419	31,437
Efforts mix								
Onsite	23.0	22.6	22.0	21.9	22.0	22.0	21.9	21.5
Offshore	77.0	77.4	78.0	78.1	78.0	78.0	78.1	78.5
Utilization measures								
Including trainees	79.7	80.4	82.1	80.1	80.5	78.9	79.2	79.3
Excluding trainees	81.2	82.3	83.0	81.1	81.3	80.6	81.3	80.6
Attrition LTM (%)	15.1	15.3	16.5	17.5	18.3	18.4	17.7	16.5

Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Sales	49,780	58,464	65,009	73,064	94,458	1,08,786	1,18,916	1,37,804
Change (%)	1.2	17.4	11.2	12.4	29.3	15.2	9.3	15.9
Cost of Services	34,128	42,082	42,123	49,124	61,643	73,588	80,380	93,598
SG&A Expenses	5,607	6,179	10,584	12,065	13,980	14,905	16,589	18,256
EBITDA	10,045	10,203	12,302	11,875	18,835	20,293	21,948	25,949
% of Net Sales	20.2	17.5	18.9	16.3	19.9	18.7	18.5	18.8
Depreciation	1,579	1,740	1,780	1,563	1,471	2,730	2,973	3,445
Other Income	143	50	193	745	1,089	342	320	400
Forex	668	1,834	1,645	3,357	1,826	2,121	2,120	2,320
PBT	9,276	10,347	12,360	14,414	20,279	20,026	21,415	25,224
Tax	1,666	1,982	2,648	3,290	5,122	4,825	5,140	6,054
Rate (%)	18.0	19.2	21.4	22.8	25.3	24.1	24.0	24.0
Minority Interest	2	2	0	0	0	0	0	0
Extraordinary	87	0	0	0	0	0	0	0
Adjusted PAT	7,699	8,367	9,712	11,124	15,157	15,201	16,275	19,170
Change (%)	-26	9	16	15	36	0	7	18
Reported PAT	7,612	8,367	9,712	11,124	15,157	15,201	16,275	19,170

Balance Sheet								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	161	170	171	172	174	174	174	174
Reserves	20,106	20,062	27,597	34,401	43,884	53,382	65,579	79,854
Net Worth	20,267	20,232	27,768	34,573	44,058	53,556	65,753	80,028
Loan	3,055	3,126	759	759	759	759	759	759
Capital Employed	23,323	23,358	28,527	35,332	44,817	54,315	66,512	80,787
Applications								
Gross Block	13,631	14,855	15,944	17,770	20,132	22,852	25,824	29,270
Less : Depreciation	6,545	8,285	10,065	11,628	13,099	15,829	18,802	22,247
Net Block	7,086	6,570	5,879	6,143	7,033	7,023	7,023	7,023
Other LT Assets	2,450	4,252	4,640	4,640	4,640	4,640	4,640	4,640
Curr. Assets	21,045	23,748	22,820	30,081	40,188	50,923	63,690	79,465
Debtors	12,446	15,448	16,902	19,358	25,024	29,573	31,392	36,378
Cash & Bank Balance	3,045	2,463	3,237	7,651	11,193	16,658	27,318	37,315
Other Current Assets	5,555	5,837	2,682	3,072	3,971	4,692	4,981	5,772
Current Liab. & Prov	7,258	11,212	4,812	5,532	7,044	8,271	8,841	10,340
Current Liabilities	2,719	3,276	3,028	3,403	4,399	5,067	5,539	6,418
Provisions	2,815	5,171	5,171	5,171	5,171	5,171	5,171	5,171
Net Current Assets	13,787	12,536	18,008	24,549	33,144	42,652	54,849	69,125
Application of Funds	23,323	23,358	28,527	35,332	44,817	54,315	66,512	80,787

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)								
EPS	45.6	50.9	56.1	63.6	86.4	86.7	92.5	109.0
Cash EPS	54.5	61.5	66.3	72.5	94.8	102.3	109.4	128.6
Book Value	125.7	123.4	163.2	201.8	254.9	308.1	377.2	459.1
DPS	28.5	33.3	27.6	21.5	28.0	28.0	20.0	24.0
Payout %	62.5	65.4	49.2	33.8	32.4	32.3	21.6	22.0
Valuation (x)								
P/E	38.5	34.5	31.3	27.6	20.3	20.2	19.0	16.1
Cash P/E	32.2	28.5	26.5	24.2	18.5	17.2	16.0	13.6
EV/EBITDA	28.2	28.3	24.1	24.7	15.6	14.3	12.7	10.4
EV/Sales	5.7	4.9	4.6	4.0	3.1	2.7	2.3	2.0
Price/Book Value	14.0	14.2	10.8	8.7	6.9	5.7	4.7	3.8
Dividend Yield (%)	1.6	1.9	1.6	1.2	1.6	1.6	1.1	1.4
Profitability Ratios (%)								
RoE	41.8	41.3	40.5	35.7	38.6	31.1	27.3	26.3
RoCE	33.2	29.3	31.9	24.9	32.4	26.9	23.9	23.2
RoIC	42.6	35.5	36.3	30.1	42.4	37.5	37.6	41.5
Turnover Ratios								
Debtors (Days)	91	96	95	97	97	99	96	96
Fixed Asset Turnover (x)	7.0	8.9	11.1	11.9	13.4	15.5	16.9	19.6

Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
(INR m)								
CF from Operations	7,345	9,569	11,299	11,942	15,539	17,589	18,928	22,216
Cash for Working Capital	-922	-936	-4,698	-2,127	-5,053	-4,043	-1,537	-4,279
Net Operating CF	6,423	8,633	6,601	9,815	10,486	13,546	17,391	17,937
Net Purchase of FA	-1,964	-1,291	-1,625	-1,827	-2,361	-2,720	-2,973	-3,445
Free Cash Flow	4,459	7,342	4,976	7,989	8,125	10,826	14,418	14,492
Net Purchase of Invest.	935	849	-2,092	745	1,089	342	320	400
Net Cash from Invest.	-1,029	-441	-3,717	-1,082	-1,272	-2,378	-2,653	-3,045
Proc. from equity issues	0	69	0	0	0	0	0	0
Proceeds from LTB/STB	957	-1,721	2,851	0	0	0	0	0
Dividend Payments	-5,931	-6,516	-5,498	-4,319	-5,672	-5,703	-4,079	-4,895
Cash Flow from Fin.	-4,974	-8,167	-2,647	-4,319	-5,672	-5,703	-4,079	-4,895
Opening Cash Bal.	1,589	2,009	2,463	3,237	7,651	11,193	16,658	27,318
Add: Net Cash	420	24	237	4,414	3,542	5,465	10,659	9,997
Closing Cash Bal.	2,009	2,034	3,237	7,651	11,193	16,658	27,318	37,315

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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