

Stellar performance despite challenges, high base...

Larsen & Toubro Infotech (LTI) reported a stellar quarter on all fronts despite challenging times due to the Covid 19 pandemic. Dollar revenues grew 3.9% QoQ (vs. our expectation of 3.0%). In addition, EBIT margins improved 48 bps QoQ to 16.7% (vs. our expectation of 16.4%). Digital revenues continue to be strong growing 3.3% QoQ, 24.6% YoY. LTI won two large deals in the quarter with net new TCV of more than US\$100 million taking the total number of large deals to eight for full year FY20.

Near term pressure but expect FY21E to be better than peers

The company is witnessing near term challenges due to the Covid-19 pandemic. LTI's exposure to the manufacturing and energy vertical, which accounts for ~28.2% of total revenues is expected to be under pressure due to lower oil prices and client specific challenges. The company believes BFSI (that is ~45% of revenues) would face challenges in Q2FY21E and Q3FY21E. In addition, pricing pressure, delay in deal ramp ups and pressure on utilisation in the near term is expected to keep revenues under pressure. As a result, LTI expects Q1FY21E revenues to decline 5.0% QoQ. However, exposure to Hi tech, CPG, pharma and large deals won in Q4FY20 and anticipated deal wins in Q1FY21E are expected to offset some of the pressure on revenues. We expect a revival in H2FY21E leading to a growth of ~5.0% YoY in dollar revenues in FY21E and ~13% YoY in FY22E driven by recovery across segments.

Margin to improve in FY22E

EBITDA margins expanded 43 bps QoQ to 19.2% mainly on the back of higher working days, operating efficiency and currency, partially offset by higher onsite mix and higher pass through revenue. Among verticals, margin expansion was mainly aided by increase in margins in Hi-tech, media & entertainment segmental performance that had a one-time insurance settlement. We expect margins to be slightly lower in FY21E led by pricing pressure, lower discretionary spend and lower utilisation partially offset by cost efficiency. We expect margins to register healthy growth in FY22E.

Valuation & Outlook

It was a stellar quarter on the revenue execution front and healthy margin expansion. In the near term, we expect the company to face headwinds in terms of pricing pressure, lower discretionary spend and delay in deal ramp ups. However, we expect LTI to see a revival in H2FY21E based on ramp up in deals won and recovery in troubled verticals. Further, the company has delivered strong double-digit revenue growth consistently, delivering industry leading growth, higher return ratios and is expected to do so post crisis. Hence, we remain positive on the stock from a long-term perspective. As a result, we maintain **BUY** rating on the stock with a target price of ₹ 2050/share (19x PE on FY22E EPS).

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	7,306.4	9,445.8	10,878.6	11,836.8	13,353.7	10.8%
EBITDA	1,187.6	1,883.4	2,029.4	2,195.6	2,558.3	12.3%
EBITDA Margins (%)	16.3	19.9	18.7	18.5	19.2	
Net Profit	1,112.5	1,515.5	1,520.5	1,586.9	1,877.3	11.1%
EPS (₹)	64.7	87.3	86.6	90.4	106.9	
P/E (x)	27.4	20.3	20.5	19.6	16.6	
RoE (%)	28.8	31.0	28.1	24.8	24.8	
RoCE (%)	36.0	40.4	30.7	27.8	28.0	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalisation	₹30814 crore
Total Debt	₹32 crore
Cash and Investments	₹2744 crore
EV	₹28102 crore
52 week H/L	2049 / 1207
Equity Capital	₹17 crore
Face Value	₹1

Key Highlights

- Strong beat on revenue growth & margins, healthy deal wins, were key highlights for the quarter
- We expect near term challenges in revenues and margins led by Covid 19 pandemic
- Maintain BUY with revised target price of ₹ 2050

Research Analyst

Devang Bhatt
devang.bhatt@icicisecurities.com

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	3,011.9	2,944.0	2,486.0	21.2	2,811.1	7.1	Constant currency (CC) revenues grew 4.7% QoQ mainly driven by Hi Tech, Media & Entertainment (up 6.4% QoQ), manufacturing (up 7.9% QoQ) and BFS (up 4.0% QoQ)
Employee expenses	2,025.1	2,004.8	1,641.7	23.4	1,918.8	5.5	
Gross Margin	986.9	939.1	844.3	16.9	892.3	10.6	
Gross margin (%)	32.8	31.9	34.0	-120 bps	31.7	102 bps	
Other expenses	408.7	382.7	367.8	11.1	364.9	12.0	
EBITDA	578.2	556.4	476.5	21.3	527.4	9.6	
EBITDA Margin (%)	19.2	18.9	19.2	3 bps	18.8	43 bps	EBITDA margins expanded 43 bps QoQ on the back of expansion in gross margin and currency benefit
Depreciation & amortisation	74.7	73.6	37.1	101.3	70.9	5.4	
EBIT	503.5	482.8	439.4	14.6	456.5	10.3	In the quarter, the company contributed ₹ 18 crore to the PM Cares Fund. However, LTI also had a one-time insurance settlement in the Hi Tech vertical. Adjusting for the two, EBIT margins would have been broadly similar to what was reported
EBIT Margin (%)	16.7	16.4	17.7	-96 bps	16.2	48 bps	
Other income	47.9	45.5	64.8	-26.1	43.3	10.6	
PBT	551.4	528.3	504.2	9.4	499.8	10.3	
Tax paid	123.9	130.0	125.5	-1.3	123.1	0.6	
PAT	427.5	398.3	378.7	12.9	376.7	13.5	PAT was higher than our expectation mainly led by lower-than-expected tax expenses

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	12,297	11,837	-3.7	14,084	13,354	-5.2	We revise our estimates downwards to factor in Covid-19 challenges
EBITDA	2,346	2,196	-6.4	2,773	2,558	-7.7	
EBITDA Margin (%)	19.1	18.5	-53 bps	19.7	19.2	-53 bps	EBITDA margins to remain under pressure in FY21E
PAT	1,778	1,587	-10.7	2,078	1,877	-9.7	
EPS (₹)	101.3	90.4	-10.7	118.4	106.9	-9.7	

Source: Company, ICICI Direct Research

Conference Call Highlights

- FY21E outlook:** The company expects near term challenges in manufacturing and energy, which account for ~28.2% of total revenues and expects challenges in BFSI (45.4% of revenues) in Q2FY21E and Q3FY21E. LTI expects CPG, retail, pharma and Hi Tech, media & entertainment to be relatively less impacted in the near term. The company expects pricing pressure, delay in deal ramp ups and pressure on utilisation in the near term. LTI anticipates a mid-single digit decline in Q1. However, the company won two large deals in Q4FY20 and is expecting large deal wins in Q1FY21E. Based on the order book and expectation of a ramp up in H2FY21E, the company expects FY21E revenues to exhibit industry leading growth
- Digital business:** Digital business, now constituting 40.7% of revenues in Q4FY20, witnessed growth of 3.3% QoQ and 24.6% YoY in the quarter. In terms of FY20, digital revenues account for 40.3% of revenues and increased 24.5% YoY
- Vertical commentary:** This quarter saw a healthy performance across all verticals except insurance. BFS vertical growth was driven by large deal wins and receding of client specific challenges. Manufacturing and other vertical also witnessed an uptick in revenues mainly on the back of large deal wins
- Deal wins:** The company won two large deals in the quarter with net-new TCV of more than US\$100 million leading to \$319 million TCV in FY20
- Employee details:** The company added 18 employees in Q4FY20 (3268 in FY20) taking total employee count to 31,437. The management indicated at a continuous up-tick of its fresher hiring from top colleges. LTI's attrition dipped 120 bps to 16.5% while utilisation (ex- trainees) dipped 70 bps QoQ to 80.6%
- DSO days:** DSO days (including unbilled) declined by four days QoQ to 106. The normalisation in Q4FY20E and high base in the last quarter led to lower DSO days in the quarter

Key Metrics

Exhibit 3: Geography wise break-up

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Revenue by geography (%)						
North America	66.8	66.4	68.7	68.7	69.5	68.9
Europe	16.7	16.4	16.0	16.4	15.6	15.1
India	7.8	8.2	6.9	6.0	7.6	8.1
ROW	8.8	9.1	8.5	8.9	7.4	7.8
Growth QoQ (%)						
North America	4.7	1.4	4.3	2.0	9.7	3.0
Europe	3.1	0.2	-1.7	4.6	3.1	0.6
India	28.7	7.2	-15.2	-11.3	37.3	10.8
ROW	1.0	5.5	-5.9	6.8	-9.9	9.5

Source: Company, ICICI Direct Research

Revenue growth was across geographies and driven by North America and RoW

Exhibit 4: Vertical wise break-up

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Revenue by vertical (%)						
BFS	29.1	27.7	27.7	27.1	27.8	27.6
Insurance	17.8	17.8	18.1	18.7	17.7	16.8
Manufacturing	15.6	16.6	15.2	16.4	17.5	18.0
Energy & Utilities	10.8	11.0	10.7	12.1	11.3	11.4
CPG, Retail & Pharma	10.6	10.6	11.1	11.5	11.2	11.2
HTME	11.3	12.4	12.5	10.8	10.8	11.0
Others	4.6	3.9	4.6	3.5	3.7	4.0
Growth QoQ (%)						
BFS	2.8	-2.9	0.8	-0.2	11.2	3.2
Insurance	5.0	2.0	2.5	5.4	2.6	-1.4
Manufacturing	7.0	8.5	-7.7	10.1	15.7	6.9
Energy & Utilities	6.6	3.9	-2.0	15.4	1.2	4.8
CPG, Retail & Pharma	9.7	2.0	5.5	5.7	5.6	3.9
HTME	6.5	11.9	1.6	-11.8	8.4	5.9
Others	3.4	-13.5	18.8	-22.4	14.6	12.4

Source: Company, ICICI Direct Research; HTME: High-Tech, Media & Entertainment

Robust growth in BFS due to receding of client specific issues. The growth was across verticals except insurance

Exhibit 5: Service offering wise break-up

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Revenue by service offering (%)						
ADM*	30.8	37.9	38.1	36.1	35.8	34.7
Enterprise Solutions	27.8	29.2	28.4	29.5	28.7	30.0
IMS	11.4	11.0	10.9	11.1	11.5	12.6
Analytics, AI & Cognitive	11.3	10.7	11.2	11.3	12.8	11.6
EIM	7.6	8.0	8.2	9.0	8.5	8.7
Platform Solutions	3.2	3.2	3.1	3.0	2.7	2.5
Growth QoQ (%)						
ADM	1.6	25.5	1.3	-3.3	7.5	0.7
Enterprise Solutions	16.5	7.1	-2.0	6.0	5.5	8.6
IMS	2.9	-1.6	-0.2	3.9	12.3	13.9
Analytics, AI & Cognitive	-2.2	-3.4	5.5	3.0	22.8	-5.8
EIM	0.3	7.4	3.3	12.0	2.4	6.4
Platform Solutions	12.6	2.0	-2.4	-1.2	-2.4	-3.8

Source: Company, ICICI Direct Research; *ADM: Application Development Maintenance is now combined with testing hence certain quarters are not comparable, IMS: Infrastructure Management Services, EIM: Enterprise Integration & Mobility

Infrastructure management services (IMS) drove revenues in services

Exhibit 6: Client & human resource matrix

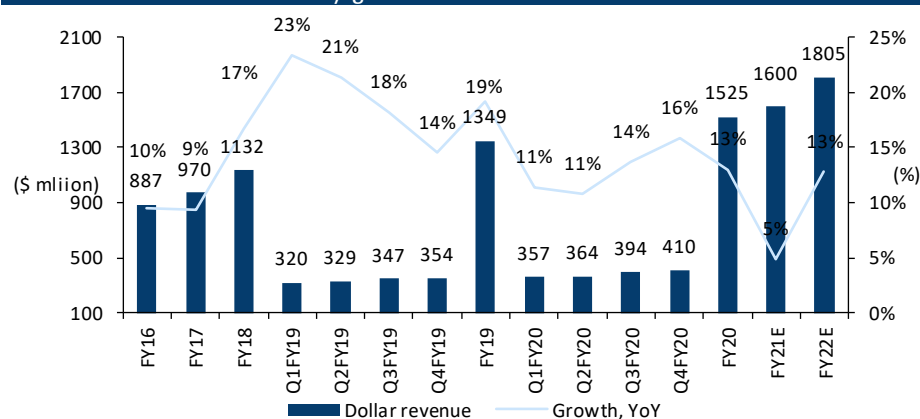
	Q 4FY19	Q 1FY20	Q 2FY20	Q 3FY20	Q 4FY20
5 Million dollar +	49	49	48	48	53
20 Million dollar +	17	19	18	18	16
50 Million dollar +	5	5	6	6	6
100 Million dollar +	1	1	1	1	1
Total Headcount	28169	29347	30979	31419	31437
Utilisation	81.1	81.3	80.6	81.3	80.6
Attrition	17.5	18.3	18.4	17.7	16.5

Source: Company, ICICI Direct Research

US\$20 million dollar declined by two in Q4FY20

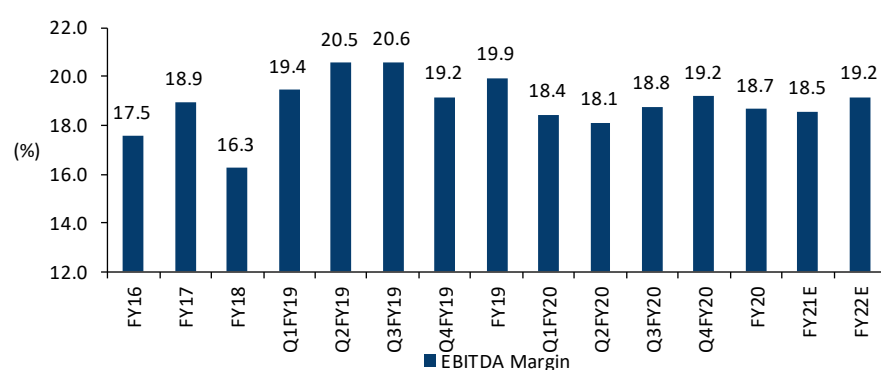
Financial story in charts

Exhibit 7: Dollar revenues may grow at 8.8% CAGR in FY20-22E



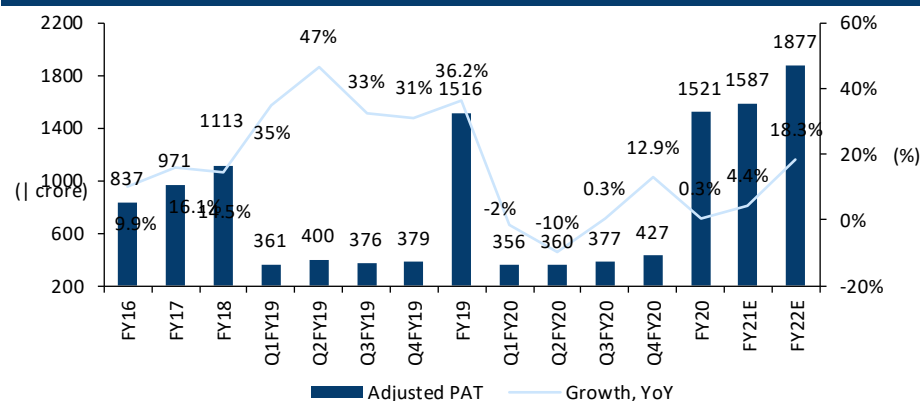
Source: Company, ICICI Direct Research

Exhibit 8: Revise our margin estimates



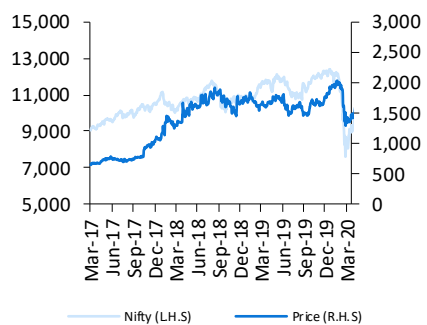
Source: Company, ICICI Direct Research

Exhibit 9: PAT trend



Source: Company, ICICI Direct Research

Exhibit 10: Three-year chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Revenues	9,446	10,879	11,837	13,354
Growth (%)	29.3	15.2	8.8	12.8
Employee costs	6,164	7,359	7,984	8,953
Total Operating Expenditure	7,562	8,849	9,641	10,795
EBITDA	1,883	2,029	2,196	2,558
Growth (%)	58.6	7.8	8.2	16.5
Depreciation & Amortization	147	273	296	334
Other Income	292	247	216	279
Interest	-	-	-	-
PBT before Exceptional Item	2,028	2,003	2,116	2,503
Growth (%)	40.7	(1.2)	5.6	18.3
Tax	512	482	529	626
PAT before Exceptional Item	1,516	1,521	1,587	1,877
PAT	1,516	1,521	1,587	1,877
Growth (%)	36.2	0.3	4.4	18.3
Diluted EPS	87.3	86.6	90.4	106.9
EPS (Growth %)	35.0	(0.8)	4.4	18.3

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
PBT	2,028	2,003	2,116	2,503
Add: Depreciation	147	273	296	334
(Inc)/Dec in current assets	(543)	(592)	(351)	(275)
Inc/(Dec) in current liabilities	237	360	95	150
CF from operations	1,395	1,644	1,515	1,980
(Inc)/dec in other investment:	(377)	(357)	(649)	(628)
(Inc)/dec in Fixed Assets	(153)	(243)	(296)	(334)
Other investing cash flow	2	6	5	7
CF from investing Activities	(744)	(652)	(940)	(955)
Issue of equity	0	-	-	-
Inc/(dec) in loan funds	(59)	(178)	(0)	(0)
Dividend paid & dividend tax	(534)	(568)	(598)	(708)
Others	(2)	(4)	-	-
CF from Financial Activities	(594)	(890)	(598)	(708)
Net cash flow	57	102	(23)	316
Effect of exchange rate chan	(5)	9	-	-
Opening cash	363	415	525	503
Closing cash	415	525	503	819

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity	17	17	17	17
Reserves & Surplus	4,876	5,387	6,375	7,545
Networth	4,894	5,404	6,393	7,562
Long term Liabilities & provisi	128	1,089	1,184	1,334
Total Debt	-	32	32	32
Source of funds	5,023	6,526	7,609	8,929
Assets				
Net fixed assets	308	1,211	1,211	1,211
Net intangible assets	138	132	132	132
Goodwill	495	637	637	637
Other non current assets	558	517	563	635
Unbilled revenue	558	442	481	543
Debtors	1,826	2,312	2,663	2,938
Current Investments	1,740	2,219	3,019	3,819
Cash & Cash equivalents	415	525	503	819
Other current assets	630	831	904	1,020
Trade payables	467	695	756	853
Current liabilities	1,179	1,604	1,746	1,969
Application of funds	5,023	6,526	7,609	8,929

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	87.3	86.6	90.4	106.9
Cash Per Share	23.9	30.2	28.9	47.1
BV	281.9	307.8	364.1	430.8
DPS	28.1	28.0	34.4	40.7
Operating Ratios (%)				
EBITDA Margin	19.9	18.7	18.5	19.2
PBT Margin	21.5	18.4	17.9	18.7
PAT Margin	16.0	14.0	13.4	14.1
Turnover Ratios				
Debtor days	71	78	82	80
Creditor days	18	23	23	23
Return Ratios (%)				
RoE	31.0	28.1	24.8	24.8
RoCE	40.4	30.7	27.8	28.0
RoIC	60.5	46.4	46.5	51.8
Valuation Ratios (x)				
P/E	20.3	20.5	19.6	16.6
EV / EBITDA	15.2	13.8	12.4	10.2
Market Cap / Sales	3.3	2.8	2.6	2.3
Solvency Ratios				
Current Ratio	1.8	1.6	1.6	1.6
Quick Ratio	1.5	1.4	1.4	1.4

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (IT)

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹Cr)	EPS (₹)				P/E (x)					RoCE (%)			RoE (%)			
					FY19	FY20E	FY21E	FY22E	FY19	FY20	FY21	FY22	FY19	FY20E	FY21E	FY22E	FY19	FY20	FY21	FY22
										E	E	E						E	E	E
HCL Tech (HCLTEC)	525	585	Buy	1,36,393	37.3	40.8	39.4	45.1	13	12	13	11	26.9	23.0	19.9	20.1	24.5	21.6	17.9	17.6
Infosys (INFTEC)	667	750	Buy	2,79,323	35.4	38.9	38.7	44.4	18	16	17	14	32.9	30.8	28.4	29.8	23.7	25.2	23.1	24.1
TCS (TCS)	1,950	2,055	Hold	6,80,250	83.8	86.2	82.8	93.5	22	21	22	19	43.8	43.5	41.5	42.7	34.4	37.5	35.9	36.6
Tech M (TECMAH)	511	630	Buy	45,839	47.7	44.8	38.8	47.8	11	11	13	11	23.6	19.1	14.7	16.7	21.2	18.5	14.6	16.2
Wipro (WIPRO)	187	225	Buy	1,10,208	14.9	16.6	15.8	17.6	12	11	12	10	17.8	19.3	16.4	16.4	15.8	17.4	14.8	14.6
Mindtree (MINCON)	909	945	Hold	12,577	45.9	37.9	45.6	55.6	17	19	16	13	29.8	23.1	23.8	25.8	22.8	16.4	17.3	18.9
LTI (LTINFC)	1,775	2,050	BUY	30,814	87.3	86.6	90.4	106.9	20	20	20	17	40.4	30.7	27.8	28.0	31.0	28.1	24.8	24.8
NIIT Tech (NIITEC)	1,397	1,330	Hold	7,883	65.7	71.4	74.6	88.9	20	18	17	15	25.2	24.2	24.5	25.7	19.5	19.4	19.8	20.8
Infoedge (INFEDG)	2,449	2,450	Hold	28,481	23.1	20.2	32.0	39.5	101	116	73	59	18.6	18.3	19.2	21.0	12.1	9.9	14.0	15.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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