

Reduce

Annual Report Analysis FY20 – ‘Breakaway into the big league’

LTI with its tech solutions and GTM approach is ready to win clients under the current race of digital transformation. LTI is continually focusing on improving capabilities via innovation and integrating existing acquisitions in its’ Mosaic platform Strategy. Vertical commentary largely remains upbeat and potential large deal ramp-up (Added \$315mn in Net new TCV through 8 large deals in FY20) and pipeline will support growth. Thus with differentiated capabilities matching with client’s current requirements, LTI would continue to remain in the Leader’s quadrant with sustained financial outperformance, making its way into the Big League. We believe the LTI offers a strong structural opportunity and thus maintain it as one of our preferred pick but would wait for better entry price into the name.

‘Pandemic to offer immense opportunities’ – Chairman, A M Naik

Chairman highlighted that pandemic had an impact on Q4FY20 performance for LTI but the pandemic represents immense opportunities for the company. LTI will largely focus on leveraging its strength and going to the last mile for clients. 4 acquisitions done during the calendar year (2 during fiscal year) will strength LTI’s expertise. With consolidated partner ecosystem, transformational industry-specific solutions and Mosaic platform & Leni (Proprietary solution acquired through Lymbyc acquisition) better equipped with AI and automation, LTI can deliver better solutions to industry leading enterprise.

Tech differentiation to strengthen relative positioning – addresses CEO

CEO expects FY21 focus to be around building on sophisticated tech capabilities with continued customer focus and innovation. Sanjay Jalana expects the four acquisitions in CY2019 to enhance capability and relationships (Powerupcloud Technologies: cloud consulting capabilities, Nielsen+Partner: Temenos footprint, Ruletronics: Pega consulting & implementation capabilities, Lymbyc: analytical capabilities). CEO expects these capabilities with Mosaic platform with strengthen vendor position in deal wins and remains confident and optimistic as new and age-old companies both are adopting digital and thus giving immense opportunities for LTI.

Vertical Commentary and Digital Strategy in line

LTI’s vertical commentary has been largely positive in key verticals like BFSI (continued digital spends), Retail (investment for e-commerce) and Hi-tech & Telecom (Upbeat Hi-Tech commentary & 5G spends). Based on our reading in IT Commentary note released earlier this month ([click here for detailed report](#)), we largely subscribe to LTI’s vertical views. Digital commentary overall has been based on move to digital for new and old-age companies which is also in-line with global commentary and LTI’s existing GTM is fairly adept to capture opportunities in this transformation wave.

LTI’s Delivery Strategy

Go-To-Market strategy remains the same as shared last year:

- **Operate to transform:** Leveraging automation in everyday operations and solving for the unstated needs.
- **Data driven Organization:** Using the power of analytics.
- **Experience Transformation:** Experience Transformation for their customers and employees
- **Digitize the Core:** Digitizing Core activities for a client by using industry knowledge.

CMP	Rs 1,926
Target / Downside	Rs 1,900 / 1%
BSE Sensex	34,920
NSE Nifty	10,305

Script Details

Equity / FV	Rs 174mn / Rs 1
Market Cap	Rs 339bn
	US\$ 4bn
52-week High/Low	Rs 2,050/Rs
Avg. Volume (no)	136,548
NSE Symbol	LTI
Bloomberg Code	LTI IN

Shareholding Pattern Mar'20(%)

Promoters	74.6
MF/Banks/FIs	6.8
FIIIs	9.1
Public / Others	9.5

LTI Relative to Sensex



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Vertical View

Banking and Financial Services: LTI expects adoption of advanced data analytics and AI based strategies as customer data segmentation and decision support become key priorities. Pandemic has the potential to make a clear shift towards digital and cloud. LTI also believes that majority of routine operations would move to cloud to enhance customer experience while reducing costs at the same time. LTI has created strong implementation on Temenos banking software product through two of its acquisitions – Syncordis and N+P.

***DART Observations:** Global Banks plans to continue on their Digital investments despite current challenged environment. Banks' commentary shows that they continue to remain committed to digital spends as this would be preferred channel to drive incremental business.*

Insurance: In Insurance space, cost optimization and legacy systems modernization continue to be the key drivers of growth. Insurers are shifting from product-centric to customer-centric business model. Thus, partnerships with InsurTechs will help them cut costs and improve business process efficiencies along with providing better customer experience. LTI has created strong capabilities on Guidewire.

***DART Observations:** Insurance commentary has been mixed with some global insurers suggesting non-discretionary spending cuts and deferring some spends. While we are cautious in Insurance spends, we also subscribe to LTI's view given its differentiated capabilities and strong execution.*

Manufacturing: The automotive industry has been facing an unprecedented technology and business model transformation mainly driven by Connected, Autonomous, Shared and Electric mobility. LTI expects these trends to drive the industry evolution. The industrial manufacturing sector is witnessing the need to maintain operations within the manufacturing ecosystem and use of emerging Collaborative Robots, Remote Work and 'Virtual Shift'.

***DART Observations:** Manufacturing vertical is expected to be severely impacted esp. Autos/ Capital Goods Industry. Other non-discretionary manufacturing is expected to normalize as production have resumed in key global markets.*

Energy and Utilities: LTI believes pandemic outbreak has driven Oil & Gas companies to extensively focus on cost reduction measures due to lower consumer demand. LTI expects Digital transformation coupled with cloud based strategy as the key focus area to combat the business pressure. Cloud migration will enhance operational efficiency by reducing human interventions.

***DART Observations:** We expect near-term weakness in Oil and Gas due to supply side issues and prices. Utilities spends should pick up after a small initial impact.*

CPG, Retail and Pharma: As competition from Direct-to-consumer companies is changing business models for CPG players, LTI sees opportunity as companies are investing in customer-centric digital technologies. Opportunities in Pharma space as well due to big data opportunities in Healthcare.

***DART Observations:** Non-Groceries Retail segments are expected to be impacted due to lockdown. Vendors expect immediate and deeper impact in current spends and future pipeline and thus win rate would be crucial. Digital spends to perform well within Retail as Ecommerce business have been performing well and large retailers continue their digital spends to drive online sales.*

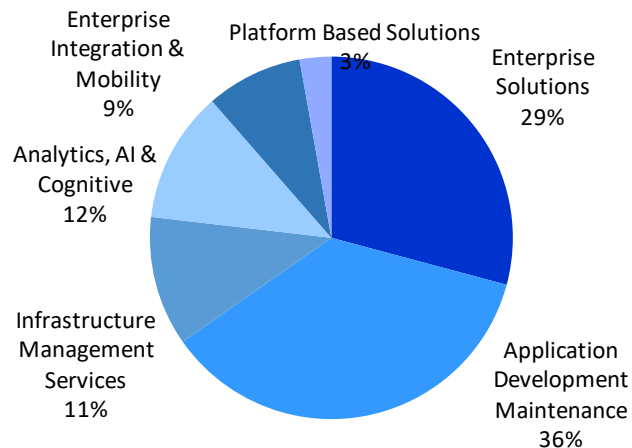
Hi-Tech, Media and Entertainment: LTI expects new wins based on strong position in data and analytics offerings. In Media and Entertainment, content creation and prediction and personalization is the key; where LTI can leverage its capabilities. In Hi-Tech, 5G technology is slated to drive the market for the next several years and also open opportunities in OTT and E-commerce.

***DART Observations:** Hi-Tech players' commentary has been upbeat. Global Telecoms have remained committed to their 5G spends. Vendors have also witnessed continued intent on 5G spends in its' client survey. Although, cost cutting measures taken by Telecoms and delayed network spends will impact IT Spends in near term and most investments will be back-ended. Media & Entertainment vertical is expected to witness pressure due to closure of studios and decline in advertising spends. Hence, we don't subscribe to LTI's positive view on Media and Entertainment segment as it has not demonstrated any sizeable differentiation in this space.*

Digital revenues driving growth and deal traction

Share of Digital in Industry Revenues has jumped from ~20% in CY'19 to 26%-28% in CY'20 whereas LTI share in digital revenue is high at 40.2% in FY20. LTI expects 9 digital technology areas to emerge as fastest-growing and highest-impacting. The nine areas include three foundational technologies – Big Data and Analytics, Cloud Computing, and Cyber security – and six advanced technologies – Artificial Intelligence, Internet of Things, 3D Printing, Robotics, Blockchain, and Immersive Media. LTI is largely present in most of these new areas. Thus, these tech will support growth. LTI's has won 8 large deals and \$315mn in NN TCV in FY20 that should drive growth in FY21.

Exhibit 1: Split of Digital Revenue



Source: DART, Company

Other Key Takeaways

- **Partnership Update:** LTI received the AWS SAP Competency partner certification, positioning LTI in an exclusive list of AWS global partners. LTI Elevated to “Gold” partnership with Pega and “Premier” partnership with MuleSoft.
- **WFH is the new global norm:** LTI expects WFH is to be the new normal and has built a five point xFH Model: covering five layers: Operational from home (devices, internet), Secured from Home (Security), Engaged from Home (Engagement activities, MS teams), Productive from Home (Productivity) and Growing from Home (Professional Development). This XFH Model is currently applied at LTI.
- **Productivity at WFH:** LTI has fulfilled majority of our contractual commitments and is on track for go-live dates. Deal execution is also going well entirely remotely. In the past month, LTI has witnessed higher productivity working from home.
- **Seat Capacity:** In FY2020, LTI has increased office space by 16%. During these upgradations, LTI has added 616 Seats without compromising on comfort or compliances. The total seating capacity for Indian Centres stands at 28,324.
- **COVID Operational Strategy:** LTI’s on the ground teams made remote working possible in 3-4 days (including buying thousands of laptops, desktops).

Exhibit 2: Annual Report Marco View

Particulars	Details																											
Board of Directors	<p>Exits: Mrs. Vedika Bhandarkar, Independent Director of the company, retired from the Board on March 15, 2020 due to completion of her term.</p> <p>Induction: Mrs. Aruna Sundarajan (IAS) has been appointed as Independent Director for a period of five years effective from May 19, 2020 till May 18, 2025.</p>																											
Auditors	No Change. B. K. Khare & Co. continue to be the Auditors of the company.																											
Credit Ratings	Long Term Issuer Rating upgraded to ‘CRISIL AAA/Stable’ with a positive outlook by CRISIL Rating. Short Term facilities re-affirmed with A1+ rating by CRISIL Rating.																											
Pledged Shares	No Change.																											
Macro-economic factors	Global Economy is expected to contract by 3% in CY20. The impact is contingent on the virology of the pandemic, duration of the lockdowns, and disruptions to the supply chain. Expects that the strong digital foundation that Indian Technology Service Providers have built over the last decade will help in responding to the COVID-19 crisis; ensuring business continuity for all global clients while prioritizing safety of its professionals.																											
Key Holders	<table border="1"> <thead> <tr> <th>Particulars (%)</th> <th>FY19</th> <th>FY20</th> </tr> </thead> <tbody> <tr> <td colspan="3">Promoters</td> </tr> <tr> <td>i) Promoter Shareholding</td> <td>74.8</td> <td>74.5</td> </tr> <tr> <td colspan="3">Bank, FIs, Insurance Companies & Mutual Funds</td> </tr> <tr> <td>i) Mutual Funds</td> <td>6.8</td> <td>5.7</td> </tr> <tr> <td>ii) FIs & Banks</td> <td>0.0</td> <td>0.1</td> </tr> <tr> <td>iii) Insurance Companies</td> <td>0.4</td> <td>1.4</td> </tr> <tr> <td>iv) FIs</td> <td>7.7</td> <td>9.5</td> </tr> <tr> <td>Non-Institutions</td> <td>10.4</td> <td>8.8</td> </tr> </tbody> </table>	Particulars (%)	FY19	FY20	Promoters			i) Promoter Shareholding	74.8	74.5	Bank, FIs, Insurance Companies & Mutual Funds			i) Mutual Funds	6.8	5.7	ii) FIs & Banks	0.0	0.1	iii) Insurance Companies	0.4	1.4	iv) FIs	7.7	9.5	Non-Institutions	10.4	8.8
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Source: DART, Company

Financial Performance – FY20

Profit & Loss Analysis

- L&T Infotech reported 12.6% YoY growth in US\$ terms as against FY19 growth of 20.8% due to weakness in top client performance during H1FY20 (but recovered sharply in second half as it won new project). Cross Currency impact and INR depreciation lead to 15.2% growth in revenues on reported basis.
- Geographic growth was largely led by North America at 16.7% at \$1051Mn in FY20 (69% of Rev). Europe grew by 4.7% at \$240Mn in FY20 (16% of Rev). India revenues grew by 11.1% at \$108Mn in FY20 (7% of Rev). Rest of the World grew by 2.5% at \$125Mn in FY20 (8% of Rev).
- EBIT margin (ex-hedging gains) declined by 220 bps to 17.7% for the full year as the company experienced slower growth, higher sub-cost cost and deal transition cost. We expect near term pricing pressure and gradual recovery.
- Net profit grew by 0.3% to INR 15.1Bn. PAT margin declined by 200bps YoY.
- Attrition rate has marginally improved to 16.5% on LTM basis from 17.5% and total headcount has increased to 31,437 (up 11.6% YoY). Attrition is largely going to improve given current environment.

Balance Sheet Analysis

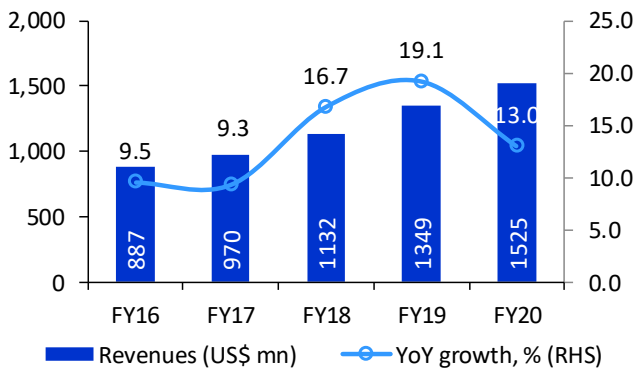
- Current Investments increased by 27% to INR 22.2Bn in FY20. Cash and cash equivalents stood at Rs 4.8bn up from Rs3.5bn YoY.
- Billed DSO (Billed + Unbilled) has increased to 91 days' v/s 90 days in FY19. Unbilled Revenue stood at INR 4.4Bn at 15 days down from 21 days in previous fiscal.
- LTI has lease liability of INR 1.228Mn against Right-of-use assets of Rs7.6bn.

Cash Flow Analysis

- Net cash flow from Operating Activities grew by 18% to INR 16.43Bn in FY20. Operating cash flows were 92% (v/s 108% in FY19) and Free cash flow at 81% (v/s 72% in FY19) as a % of net Income
- Capex stood at INR 3.02Bn (v/s INR 1.5Bn in FY19).

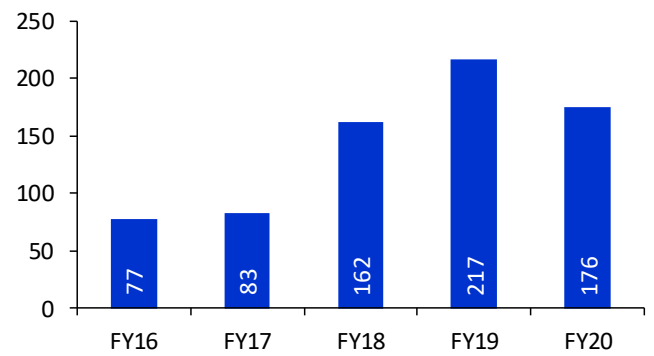
Financial Performance still industry leading in FY20

Exhibit 3: Revenue Growth rate moderated to 13.0%



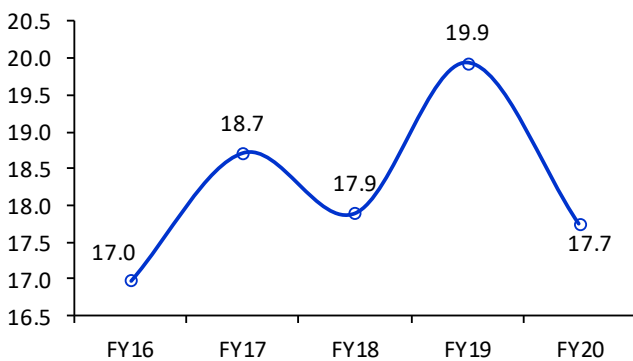
Source: Company, DART

Exhibit 4: Incremental Revenue Trend (\$mn)



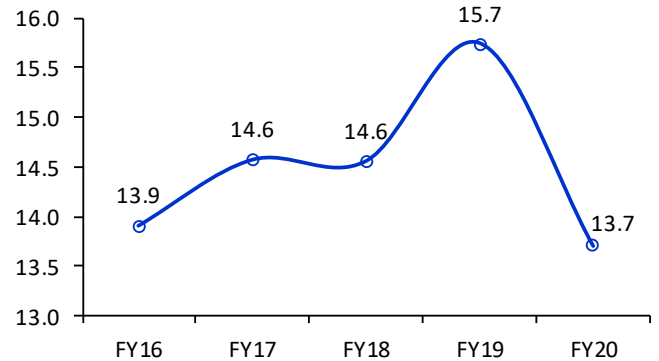
Source: Company, DART

Exhibit 5: EBIT Margin impacted by lower growth



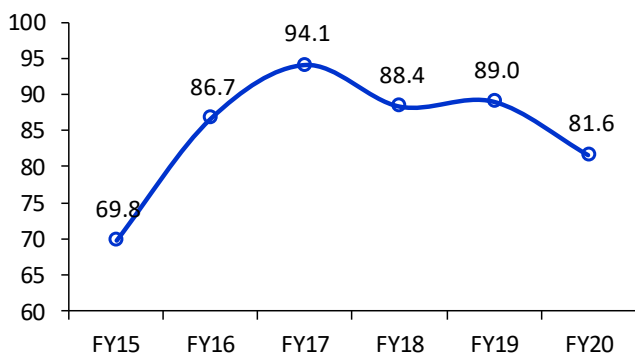
Source: Company, DART

Exhibit 6: PAT Margin declined to 13.7% in FY20 on weak OPM and Other Income



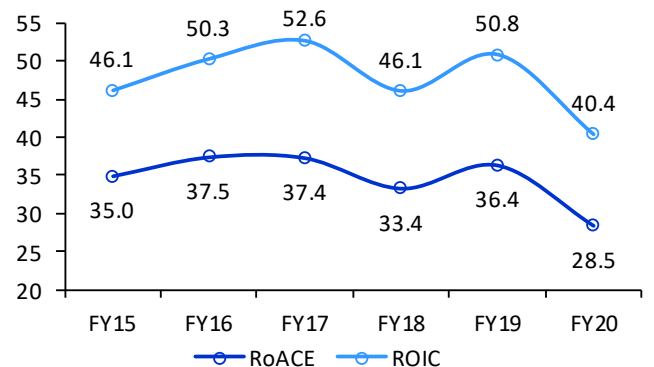
Source: Company, DART

Exhibit 7: FCF/OCF conversion (%) improved



Source: Company, DART

Exhibit 8: RoACE and RoIC (%) declined due to decline in PAT Margin

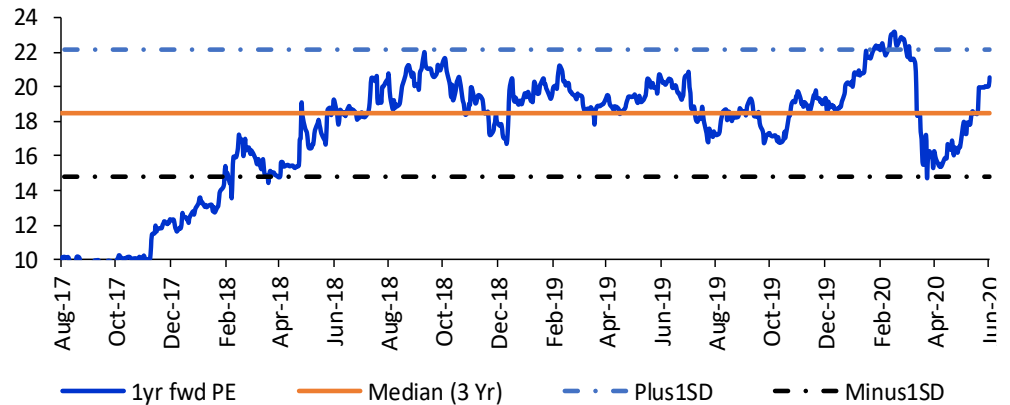


Source: Company, DART

Valuations

View: Stock has recovered sharply from the lows in March'20 and with its strong Q4, order book position, valuation have reached above its 3Yr Median (18.5x). We believe the current valuations are fair and thus would suggest to add-on-declines. The stock continues to remain our preferred pick with TP of Rs 1900 valued at 19x on FY22E EPS in line with to its 3-year median PER.

Exhibit 9: PE Chart



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	96,284	110,907	118,630	129,293
Total Expense	75,623	88,494	95,806	103,465
COGS	61,643	73,589	79,999	86,499
Employees Cost	0	0	0	0
Other expenses	13,980	14,905	15,807	16,966
EBIDTA	20,661	22,413	22,825	25,828
Depreciation	1,471	2,731	3,010	3,207
EBIT	19,190	19,682	19,815	22,622
Interest	0	0	0	0
Other Income	1,089	342	794	883
Exc. / E.O. items	0	0	0	0
EBT	20,279	20,024	20,609	23,504
Tax	5,122	4,825	5,152	5,923
RPAT	15,157	15,199	15,457	17,581
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	15,157	15,199	15,457	17,581

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	174	174	174	174
Minority Interest	8	11	11	11
Reserves & Surplus	48,764	53,866	61,911	71,021
Net Worth	48,938	54,040	62,085	71,195
Total Debt	0	9,119	9,119	9,119
Net Deferred Tax Liability	(2,367)	(2,938)	(2,938)	(2,938)
Total Capital Employed	46,579	60,232	68,277	77,387

Applications of Funds

Net Block	9,299	19,788	20,468	21,091
CWIP	115	0	0	0
Investments	0	0	0	0
Current Assets, Loans & Advances	54,855	65,422	74,682	85,511
Inventories	0	0	0	0
Receivables	23,845	27,541	30,551	33,297
Cash and Bank Balances	4,150	5,252	7,542	11,513
Loans and Advances	9,458	10,443	10,652	10,865
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	17,690	24,978	26,873	29,215
Payables	4,669	4,134	4,200	4,535
Other Current Liabilities	13,021	20,844	22,673	24,680
<i>sub total</i>				
Net Current Assets	37,165	40,444	47,809	56,296
Total Assets	46,579	60,232	68,277	77,387

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	36.0	33.6	32.6	33.1
EBIDTA Margin	21.5	20.2	19.2	20.0
EBIT Margin	19.9	17.7	16.7	17.5
Tax rate	25.3	24.1	25.0	25.2
Net Profit Margin	15.7	13.7	13.0	13.6
(B) As Percentage of Net Sales (%)				
COGS	64.0	66.4	67.4	66.9
Employee	0.0	0.0	0.0	0.0
Other	14.5	13.4	13.3	13.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.2	0.1	0.1
Interest Coverage				
Inventory days	0	0	0	0
Debtors days	90	91	94	94
Average Cost of Debt		0.0	0.0	0.0
Payable days	18	14	13	13
Working Capital days	141	133	147	159
FA T/O	10.4	5.6	5.8	6.1
(D) Measures of Investment				
AEPS (Rs)	86.5	86.4	87.9	100.0
CEPS (Rs)	94.8	101.9	105.0	118.2
DPS (Rs)	28.0	28.0	35.0	40.0
Dividend Payout (%)	32.4	32.4	39.8	40.0
BVPS (Rs)	279.1	307.2	353.0	404.8
RoANW (%)	34.6	29.5	26.6	26.4
RoACE (%)	36.4	28.5	24.1	24.1
RoAIC (%)	50.8	40.4	34.2	35.7
(E) Valuation Ratios				
CMP (Rs)	1926	1926	1926	1926
P/E	22.3	22.3	21.9	19.3
Mcap (Rs Mn)	338,824	338,824	338,824	338,824
MCap/ Sales	3.5	3.1	2.9	2.6
EV	317,272	320,505	314,465	306,595
EV/Sales	3.3	2.9	2.7	2.4
EV/EBITDA	15.4	14.3	13.8	11.9
P/BV	6.9	6.3	5.5	4.8
Dividend Yield (%)	1.5	1.5	1.8	2.1
(F) Growth Rate (%)				
Revenue	26.0	15.2	7.0	9.0
EBITDA	35.6	8.5	1.8	13.2
EBIT	40.4	2.6	0.7	14.2
PBT	40.7	(1.3)	2.9	14.1
APAT	36.3	0.3	1.7	13.7
EPS	36.1	0.0	1.7	13.7
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	13,951	16,435	17,142	20,171
CFI	(7,491)	(6,520)	(7,440)	(7,730)
CFF	(5,943)	(8,813)	(7,412)	(8,471)
FCFF	12,420	13,418	13,452	16,341
Opening Cash	3,633	4,150	5,252	7,542
Closing Cash	4,150	5,252	7,542	11,513

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-20	Buy	2,110	1,813
Jan-20	Buy	2,120	1,934
May-20	Reduce	1,800	1,784
Jun-20	Reduce	1,900	1,848

*Price as on recommendation date

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