

Robust growth in revenues continues...

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 presence in North America & Europe
- LTI has grown at 14% CAGR over FY18-21 with robust margins (~19%)

Q1FY22 Results: LTI reported robust Q1FY22 results.

- Dollar revenues increased 5.1% QoQ to US\$470.2 million
- EBITDA margin declined 318 bps QoQ to 18.7%
- Declared a dividend of ₹ 10/share

What should investors do? LTI share price has grown by ~6x over the past five years (from ~₹ 692 in July 2016 to ~₹ 4288 levels in July 2021).

- We remain further positive and retain our BUY rating on the stock

Target Price and Valuation: We value LTI at ₹ 5065 i.e. 35x P/E on FY23E EPS

Key triggers for future price performance:

- LTI's ability to deliver end-to-end solutions 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 18% CAGR in FY21-23E

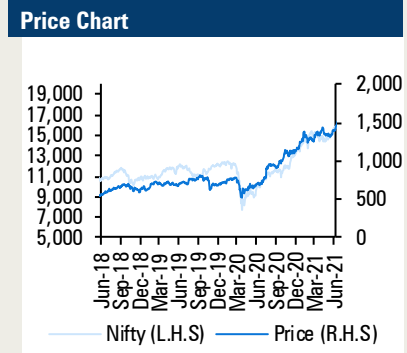
Alternate Stock Idea: Apart from LTI, in our IT coverage we also like Mindtree.

- Industry leading growth and healthy margins prompt us to be positive on the stock
- BUY with a target price of ₹ 3,065



Particulars	
Particular	Amount
Market Cap	₹ 75279 crore
Total Debt	₹ 41 crore
Cash and Investment	₹ 4388 crore
EV	₹ 70933 crore
52 week H/L	4600 / 2199
Equity Capital	₹ 18 crore
Face Value	₹ 1

Shareholding pattern				
	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	74.4	74.3	74.3	74.3
FII	11.2	13.3	13.6	13.1
DII	6.4	4.6	4.3	4.8
Public	8.0	7.8	7.9	7.9



Recent Event & Key risks

- Expect Industry leading growth
- Key Risk:** (i) Muted digital demand prospects, (ii) more than estimates rise in wage and travel costs.

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	9,445.8	10,878.6	12,369.8	16.2%	15,207.0	17,645.9	19.4%
EBITDA	1,883.4	2,029.4	2,725.1	21.6%	3,115.9	3,621.6	15.3%
EBITDA Margins (%)	19.9	18.7	22.0		20.5	20.5	
Net Profit	1,515.5	1,520.5	1,938.2	18.3%	2,203.9	2,557.1	14.9%
EPS (₹)	87.3	86.6	110.3		125.4	145.5	
P/E (x)	49.1	49.5	38.9		34.2	29.5	
RoE (%)	31.0	28.1	26.5		25.7	25.4	
RoCE (%)	40.4	30.7	31.9		30.9	30.6	

Source: Company, ICICI Direct Research

Key takeaways of conference call

Q1FY22 earnings conference call highlights

- The company's current quarter was driven by BFSI, insurance, hi tech and energy & utility. This was mainly led by large deals won by the company in previous quarters, traction in digital technologies and new logos added. The company has added 33 new logos, three clients each in US\$5 million & US\$10 million bucket and one in US\$50 million bucket representing healthy client mining. India revenues were impacted by Covid and absence of pass through revenues. India revenues are expected to witness an improvement in coming quarters
- Going forward, the company sees healthy traction in revenues led by new logo addition, healthy deal pipeline and client mining. The company has also added ~2000 employees in the quarter and aims to add 4500 fresher (1.5x of last year) in the year. This indicated robust revenue visibility in coming quarters. The company sees healthy traction in cloud, data and digital engineering. Digital engineering is expected to gain traction and the acquisition of Cuelogics will help the company in catering to demand
- Hence, the company is confident of achieving industry leading growth in FY22 (which we believe will be 21% YoY)
- In terms of margins, we expect margins to have tailwinds like improvement in revenue growth, automation and higher offshoring. However, supply side constrains, higher attrition, investment in SG&A expenses and rise in travel cost will adversely impact margins. Hence, we expect margins to decline 150 bps YoY to 20.5% in FY22E. The company has guided it will have PAT margins in the range of 14-15%
- The company has seen healthy small and medium size deals in the quarter. There are many smaller deals that are propping up due to change in nature of work (like work from home). We believe this will lead to higher SG&A cost. LTI is seeing large deals but the closure is delayed
- Digital adoption is picking up while offshore is helping in catering to digital technologies with agility. The company is seeing near term supply side challenges and aims to address the same via fresher hiring and reskilling of employees

Peer comparison

Exhibit 1: Peer Comparison

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹ Cr)	Dollar revenue growth				Margins				P/E				RoCE (%)			
					FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Mindtree (MINCON)	2,742	3,065	Buy	45,193	8.7	(1.1)	20.9	14.4	14	21	21	21	72	41	34	29	23	32	33	33
LTI (LTINF)	4,288	5,065	Buy	75,279	13.0	9.5	21.4	14.5	19	22	21	21	50	39	34	29	31	32	31	31
Coforge (NITEC)	4,544	3,985	Buy	27,538	12.3	5.9	29.6	15.8	17	17	19	19	64	62	42	35	23	24	28	29
Tech M (TECMAH)	1,102	1,120	Buy	1,06,615	4.3	(1.4)	10.7	10.1	16	18	19	19	19	22	18	16	18	20	21	23
Average					10	3	21	14	16	19	20	20	51	41	32	27	24	27	28	29

Source: Company, ICICI Direct Research

Industry leading growth & robust margins has led to higher return ratio leading to premium valuation.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	3,462.5	3,433.0	2,949.2	17.4	3,269.4	5.9	Constant currency (CC) revenues increased 4.8% QoQ mainly led by banking financial services (up 8.0% QoQ), insurance (5.0% QoQ) and high-tech, media & entertainment (up 13.2% QoQ)
Employee expenses	2,389.8	2,385.9	1,991.6	20.0	2,223.3	7.5	
Gross Margin	1,072.7	1,047.1	957.6	12.0	1,046.1	2.5	
Gross margin (%)	31.0	30.5	32.5	-149 bps	32.0	-102 bps	
Other expenses	424.9	401.7	365.6	16.2	330.6	28.5	
EBITDA	647.8	645.4	592.0	9.4	715.5	-9.5	
EBITDA Margin (%)	18.7	18.8	20.1	-136 bps	21.9	-318 bps	EBITDA margin declined 318 bps due to wage hike (340 bps) and higher SG&A expenses (182 bps) offset by productivity
Depreciation & amort	79.5	82.6	78.1	1.8	82.6	-3.8	
EBIT	568.3	562.8	513.9	10.6	632.9	-10.2	
EBIT Margin (%)	16.4	16.4	17.4	-101 bps	19.4	-295 bps	
Other income	103.9	62.8	45.0	130.9	83.9	23.8	
PBT	672.2	625.6	558.9	20.3	716.8	-6.2	
Tax paid	175.3	157.0	142.5	23.0	171.1	2.5	
PAT	496.9	468.6	416.4	19.3	545.7	-8.9	PAT was higher than our expectation mainly led by higher other income

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	14,426	15,207	5.4	17,110.0	17,646	3.1	We expect acceleration in digital technologies to drive revenue growth
EBITDA	3,222	3,116	-3.3	3,786.0	3,622	-4.3	
EBITDA Margin (%)	22.3	20.5	-184 bps	22.1	20.5	-160 bps	We expect margins to stabilise at 21% in FY23E
PAT	2,294	2,204	-3.9	2,665.0	2,557	-4.0	
EPS (₹)	130.5	125.4	-3.9	151.6	145.5	-4.0	

Source: Company, ICICI Direct Research

Key Metrics

Exhibit 4: Geography wise break-up

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Revenue by geography (%)					
North America	70.8	68.7	67.9	66.2	67.0
Europe	14.4	16.1	16.1	16.5	16.6
India	7.9	6.9	8.6	8.9	6.7
ROW	6.9	8.2	7.4	8.4	9.6
Growth QoQ (%)					
North America	-2.2	0.6	4.5	2.0	6.4
Europe	-9.2	15.9	5.8	7.2	5.7
India	-7.1	-9.5	31.8	8.2	-20.9
ROW	-15.8	23.2	-4.6	18.7	20.1

Source: Company, ICICI Direct Research

Revenue growth across geographies except India

Exhibit 5: Vertical wise break-up

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Revenue by vertical (%)					
BFS	27.7	29.9	30.6	30.7	32.1
Insurance	17.2	16.0	15.0	14.5	14.5
Manufacturing	15.8	16.2	16.8	16.9	15.0
Energy & Utilities	10.8	10.6	10.0	9.1	9.1
CPG, Retail & Pharma	11.5	11.0	10.9	10.8	10.7
HTME	11.6	10.6	10.6	11.8	12.7
Others	5.4	5.7	6.0	6.2	5.9
Growth QoQ (%)					
BFS	-4.4	11.9	8.2	4.9	9.9
Insurance	-2.5	-3.6	-0.8	1.1	5.1
Manufacturing	-16.4	6.3	9.7	5.2	-6.7
Energy & Utilities	-9.8	1.7	-0.2	-4.8	5.1
CPG, Retail & Pharma	-2.2	-0.9	4.8	3.6	4.1
HTME	0.4	-5.3	5.8	16.4	13.1
Others	28.5	9.4	11.3	8.1	0.0

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

Growth in revenues mainly led by BFS, Insurance HTME & Energy & Utilities

Exhibit 6: Service offering wise break-up

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Revenue by service offering (%)					
ADM*	35.6	36.0	33.6	33.3	34.0
Enterprise Solutions	29.7	30.8	31.4	32.3	30.7
IMS	13.6	14.4	14.3	15.1	14.9
Analytics, AI & Cognitive	12.5	10.6	11.9	11.1	11.7
EIM	8.6	8.3	8.8	8.2	8.7
Growth QoQ (%)					
ADM	-2.3	4.8	-1.3	3.6	7.3
Enterprise Solutions	-13.0	7.5	7.8	7.6	-0.1
IMS	2.8	9.7	5.0	10.4	3.7
Analytics, AI & Cognitive	2.6	-12.1	18.7	-2.4	10.8
EIM	-5.9	0.0	12.1	-2.5	11.5

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

ADM, Analytics, AI & Cognitive and EIM drove growth in the quarter

Exhibit 7: Client & human resource matrix

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
5 Million dollar +	59	61	60	63	66
10 Million Dollar +	30	32	32	35	38
20 Million dollar +	16	16	18	18	18
50 Million dollar +	6	6	5	5	6
100 Million dollar +	1	1	1	1	1

Total Headcount	31477	32455	33983	35991	38298
Utilisation	79.6	82.0	84.1	82.2	84.1
Attrition	15.2	13.5	12.4	12.3	15.2

Source: Company, ICICI Direct Research

The company added one client in US\$50 million plus category. Attrition increased 290 bps QoQ and utilisation increased 190 bps QoQ

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Revenues	10,879	12,370	15,207	17,646
Growth (%)	15.2	13.7	22.9	16.0
Employee costs	7,359	8,219	10,023	11,642
Total Operating Expenditure	8,849	9,645	12,091	14,024
EBITDA	2,029	2,725	3,116	3,622
Growth (%)	7.8	34.3	14.3	16.2
Depreciation & Amortization	273	333	411	476
Other Income (net)	247	196	253	287
PBT before Exceptional Items	2,003	2,588	2,958	3,432
Growth (%)	(1.2)	29.2	14.3	16.0
Tax	482	650	754	875
PAT before Exceptional Items	1,521	1,938	2,204	2,557
PAT	1,521	1,938	2,204	2,557
Growth (%)	0.3	27.5	13.7	16.0
Diluted EPS	86.6	110.3	125.4	145.5
EPS (Growth %)	(0.8)	27.3	13.7	16.0

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
PBT	2,003	2,588	2,958	3,432
Add: Depreciation	273	333	411	476
(Inc)/Dec in current assets	(592)	(217)	(478)	(411)
Inc/(Dec) in current liabilities	360	488	176	151
CF from operations	1,644	2,400	2,257	2,671
(Inc)/dec in other investments	(357)	(1,363)	(655)	(623)
(Inc)/dec in Fixed Assets	(243)	(267)	(334)	(388)
Other investing cash flow	6	16	8	10
CF from investing Activities	(652)	(1,656)	(982)	(1,001)
Issue of equity	-	0	-	-
Inc/(dec) in loan funds	(178)	185	0	0
Dividend paid & dividend tax	(568)	(532)	(926)	(1,074)
Others	(4)	(2)	-	-
CF from Financial Activities	(890)	(509)	(1,046)	(1,174)
Net cash flow	102	235	230	496
Effect of exchange rate change	9	(1)	-	-
Opening cash	415	525	759	990
Closing cash	525	759	990	1,486

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity	17	18	18	18
Reserves & Surplus	5,387	7,286	8,564	10,047
Networth	5,404	7,303	8,582	10,065
Long term Liabilities & provision	1,089	770	945	1,097
Total Debt	32	41	41	41
Source of funds	6,526	8,118	9,572	11,206
Assets				
Net fixed assets	1,211	1,048	1,134	1,194
Net intangible assets	132	267	225	176
Goodwill	637	657	657	657
Other non current assets	517	606	721	821
Unbilled revenue	442	607	746	866
Debtors	2,312	2,084	2,561	2,972
Current Investments	2,219	3,628	4,428	5,228
Cash & Cash equivalents	525	759	990	1,486
Other current assets	831	1,053	1,295	1,502
Trade payables	695	828	1,018	1,181
Current liabilities	1,604	1,763	2,168	2,515
Application of funds	6,526	8,118	9,572	11,206

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	86.6	110.3	125.4	145.5
Cash Per Share	30.2	43.5	56.7	85.1
BV	307.8	415.5	488.2	572.6
DPS	28.0	40.3	53.0	61.5
Operating Ratios (%)				
EBITDA Margin	18.7	22.0	20.5	20.5
PBT Margin	18.4	20.9	19.5	19.5
PAT Margin	14.0	15.7	14.5	14.5
Turnover Ratios				
Debtor days	78	61	61	61
Creditor days	23	24	24	24
Return Ratios (%)				
RoE	28.1	26.5	25.7	25.4
RoCE	30.7	31.9	30.9	30.6
RoIC	46.4	64.1	65.1	70.0
Valuation Ratios (x)				
P/E	49.5	38.9	34.2	29.5
EV / EBITDA	35.8	26.0	22.4	18.9
Market Cap / Sales	6.9	6.1	5.0	4.3
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.6	1.4	1.4	1.4
Quick Ratio	1.4	1.2	1.2	1.2

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (IT)

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹ Cr)	EPS (₹)				P/E (x)				RoCE (%)				RoE (%)			
					FY20	FY21	FY22E	FY23E	FY20	FY21	FY22 E	FY23 E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
					HCL Tech (HCLTEC)	1,005	1,110	Buy	2,72,629	40.8	45.8	52.3	60.9	25	22	19	16	23.0	23.5	24.7
Infosys (INFTEC)	1,555	1,825	Buy	6,62,365	38.9	45.5	54.8	64.3	40	34	28	24	30.8	31.7	34.0	37.0	25.2	25.2	27.8	30.3
TCS (TCS)	3,195	3,800	Buy	11,82,150	86.2	86.7	108.3	127.2	37	37	29	25	44.4	45.9	50.9	54.0	38.4	37.5	43.0	45.3
Tech M (TECMAH)	1,102	1,120	Buy	1,06,615	59.5	50.2	60.1	70.2	19	22	18	16	18.3	19.8	21.2	22.5	17.5	17.8	19.1	19.9
Wipro (WIPRO)	578	670	Hold	3,16,862	16.6	19.1	21.1	25.7	35	30	27	23	19.3	21.3	22.8	27.5	17.4	19.5	21.6	26.3
Mindtree (MINCON)	2,742	3,065	Buy	45,193	38.3	67.4	81.1	95.8	72	41	34	29	23.0	32.5	33.1	33.1	20.0	25.7	25.9	25.7
LTI (LTINFC)	4,288	5,065	Buy	75,279	86.6	110.3	125.4	145.5	50	39	34	29	30.7	31.9	30.9	30.6	28.1	26.5	25.7	25.4
Coforge (NIITEC)	4,544	3,985	Buy	27,538	71.4	73.3	109.0	131.0	64	62	42	35	23.0	23.6	27.6	28.6	18.5	19.2	24.7	25.5
Infoedge (INFEDG)	5,104	5,740	Buy	65,629	26.8	21.2	33.3	47.1	191	241	153	108	18.0	7.7	12.4	16.2	13.5	6.0	9.3	12.2
Teamlease (TEASER)	3,861	4,205	Buy	6,601	20.5	45.3	58.8	92.6	189	85	66	42	15.0	14.2	14.3	18.5	6.5	11.6	13.8	18.0

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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