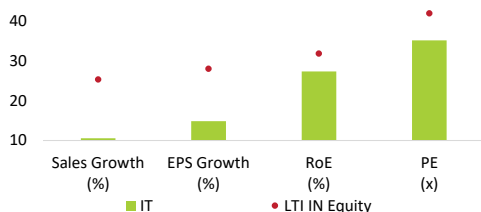


COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	6,606
12 month price target (INR)	7,505
Market cap (INR bn/USD bn)	1,157/15.3
Free float/Foreign ownership (%)	25.3/13.3
What's Changed	
Target Price	—
Rating/Risk Rating	—

INVESTMENT METRICS

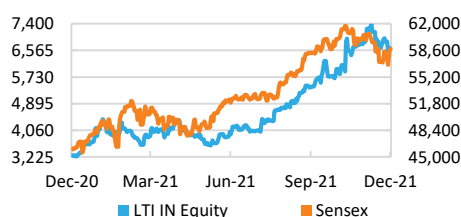


FINANCIALS

(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	1,23,698	1,54,934	1,85,225	2,11,187
EBITDA	27,251	33,257	44,853	48,927
Adjusted profit	19,381	24,828	32,827	35,379
Diluted EPS (INR)	110.2	141.1	185.8	200.0
EPS growth (%)	27.6	28.0	31.7	7.7
RoAE (%)	30.5	31.8	36.4	33.9
P/E (x)	53.6	41.9	31.8	29.5
EV/EBITDA (x)	35.6	29.1	21.3	19.4
Dividend yield (%)	0.7	1.2	1.6	1.7

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Once-in-a-generation opportunity

L&T Infotech (LTI) hosted Analyst Day 2021. Highlights: i) LTI noted that acceleration in digital adoption and secular demand has led to The Great Restructuring, new spend areas such as ESG & Cloud and The Great Resignation. ii) It is building next-gen capabilities & partnerships with key partners. iii) Focussing on ESG road map 2030

Management highlighted that demand trend continues to be robust and best-ever seen by the company. LTI is one of the key beneficiaries of the tech upcycle with its domain-level expertise and strong partnerships with hyperscalers. We reiterate the company would post top-quartile revenue growth, which reaffirms our conviction. Maintain 'BUY' with a TP of INR7,505 (40x Q4FY23E).

Key takeaways

- Six reasons that make LTI confident of emerging stronger are: Secular Demand, Investing in capabilities, Best Talent, Robust Sales & Marketing blueprint for continued growth, an enviable team and high-quality operational resilience.
- LTI is building a world-class ecosystem as it got upgraded to top-tier partnerships with 80% of strategic partners, and on-boarding 9,000 start-ups on NILE platform.
- It is accelerating its leadership position through highest level of partnerships with hyperscalers such as Azure, AWS and Google Cloud.
- Management highlighted that the company is well-prepared to win the war on talent through expanded ecosystem, next-gen talent platform and globalization.
- LTI's Sales CHIP strategy's focus is on consolidating (and grow) existing areas of strength (C), Harvesting existing high-growth engines (H), Incubating new growth engines such as renewables (I) and Strategic programs (P).
- LTI is committed to sustainable development through ESG road map 2030—carbon neutral, increase renewable energy share by 50% and increase diversity & plantation programs.

Outlook and valuation: Momentum to sustain; maintain 'BUY'

Management highlighted that acceleration in digital adoption precipitated by the pandemic has permanently reshaped the arc of enterprise evolution and marks the dawn of a new economic era. LTI is committed to seize this opportunity and create a new trajectory. It is confident of comfortably crossing the revenue milestone of USD2bn in FY22.

LTI is focussed on spending in newer areas like ESG, Cybersecurity, Digital, Data and Cloud. And we believe that LTI is on track to create immense shareholder value over the next 15 years. The stock is trading at 31.8x FY23E. We maintain 'BUY' with a TP of INR7,505 (40x Q4FY23E) based on strong growth prospects.

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	1,23,698	1,54,934	1,85,225	2,11,187
Cost of revenues	82,193	1,04,613	1,19,740	1,39,761
Gross Profit	41,505	50,321	65,485	71,427
SG&A	14,254	17,064	20,632	22,500
EBITDA	27,251	33,257	44,853	48,927
Depreciation	3,325	3,541	4,471	5,251
EBIT	23,926	29,715	40,382	43,676
Add: Other income	1,955	3,298	2,811	2,875
Profit before tax	25,881	33,013	43,193	46,551
Prov for tax	6,500	8,185	10,366	11,172
Less: Other adj	0	0	0	0
Reported profit	19,381	24,828	32,827	35,379
Less: Excp.item (net)	0	0	0	0
Adjusted profit	19,381	24,828	32,827	35,379
Diluted shares o/s	176	176	177	177
Adjusted diluted EPS	110.2	141.1	185.8	200.0
DPS (INR)	44.1	70.5	92.9	100.0
Tax rate (%)	25.1	24.8	24.0	24.0

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
Cost of rev. as a % of revenues	66.4	67.5	64.6	66.2
SG&A exp. as a % of revenues	11.5	11.0	11.1	10.7
Dep. as % of gross block	6.8	14.6	12.7	11.4
EBITDA margin (%)	22.0	21.5	24.2	23.2
Net profit margin (%)	15.7	16.0	17.7	16.8
Revenue growth (% YoY)	13.7	25.3	19.6	14.0
EBITDA growth (% YoY)	34.3	22.0	34.9	9.1
Adj. profit growth (%)	27.5	28.1	32.2	7.8

Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(8.0)	9.5	7.0	7.0
Repo rate (%)	4.0	4.0	4.3	4.3
USD/INR (average)	74.2	73.0	72.0	71.0
Tax rate as % of PBT	25.1	24.8	24.0	24.0
Capex (INR mn)	2,719.0	2,900.6	4,360.0	5,536.2
Receivable (days)	64.9	55.1	53.1	55.1
Payable (days)	33.8	27.8	25.8	26.0
Cash conversion cycle (days)	31.0	27.3	27.4	29.2
Net emp addition	2,130.0	1,476.0	4,160.0	3,945.0

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	53.6	41.9	31.8	29.5
Price/BV (x)	14.2	12.5	10.8	9.4
EV/EBITDA (x)	35.6	29.1	21.3	19.4
Dividend yield (%)	0.7	1.2	1.6	1.7

Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	175	175	175	175
Reserves	72,859	83,163	96,786	1,11,468
Shareholders funds	73,034	83,338	96,961	1,11,643
Minority interest	37	37	37	37
Borrowings	414	414	414	414
Trade payables	8,277	7,677	9,220	10,664
Other liabs & prov	17,667	19,716	22,102	24,890
Total liabilities	1,07,091	1,18,844	1,36,396	1,55,310
Net block	3,857	4,149	4,550	5,032
Intangible assets	9,241	8,308	7,796	7,599
Capital WIP	403	403	403	403
Total fixed assets	13,501	12,860	12,749	13,034
Non current inv	1,470	1,470	1,470	1,470
Cash/cash equivalent	43,876	46,103	58,066	65,093
Sundry debtors	20,835	25,955	27,958	35,840
Loans & advances	3,753	4,344	5,037	5,852
Other assets	23,656	28,111	31,116	34,021
Total assets	1,07,091	1,18,844	1,36,396	1,55,310

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	19,381	24,828	32,827	35,379
Add: Depreciation	3,325	3,541	4,471	5,251
Interest (net of tax)	0	0	0	0
Others	141	(783)	(1,024)	(921)
Less: Changes in WC	(1,149)	8,717	1,772	7,369
Operating cash flow	23,996	18,870	34,503	32,340
Less: Capex	(2,719)	(2,901)	(4,360)	(5,536)
Free cash flow	21,277	15,969	30,143	26,803

Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	30.5	31.8	36.4	33.9
RoCE (%)	40.5	42.0	47.7	44.4
Inventory days	0	0	0	0
Receivable days	65	55	53	55
Payable days	34	28	26	26
Working cap (% sales)	17.6	19.7	17.4	18.8
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.6)	(0.5)	(0.6)	(0.6)
Interest coverage (x)	0	0	0	0

Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	27.6	28.0	31.7	7.7
RoE (%)	30.5	31.8	36.4	33.9
EBITDA growth (%)	34.3	22.0	34.9	9.1
Payout ratio (%)	40.0	50.0	50.0	50.0

Company Description

LTI is a technology consulting and digital solutions company servicing over 438 clients globally. It offers a range of IT services to enterprises in diverse industries such as banking & financial services, insurance, energy & process, consumer packaged goods, retail & pharmaceuticals, media & entertainment, hi-tech & consumer electronics and automotive & aerospace. The company's range of services includes application development, maintenance & outsourcing, enterprise solutions, infrastructure management services, testing, digital solutions and platform-based solutions. It commenced operations in 1997 as information technology arm of the Larsen & Toubro (L&T) Group and accordingly leverages the latter's strengths and heritage. Nasscom ranked LTI the sixth-largest Indian IT services company and amongst the top-20 IT service providers globally.

Investment Theme

L&T Infotech (LTI), India's sixth-largest IT services company, has held its ground in an industry racked by transitional and macro headwinds led by dynamic leadership of Mr. Sanjay Jalona and Mr. Sudhir Chaturvedi. Its resilience has been underpinned by superior execution, higher digital penetration and prudent strategy of targeting niche segments within each vertical. We perceive further growth catalysts in: i) potential uptrend in tech spending of BFSI vertical (46% of revenues); and ii) bottoming out of the Energy & Utilities (E&U) vertical. Moreover, digital capability enhancing alliances, deepening client relationships focus and leveraging of parent L&T's technical expertise are key growth catalysts.

Key Risks

Rapid changes in technology, Intense competition in IT services, High dependence on limited clients, Adverse exchange rate fluctuations

Additional Data

Management

CEO	Sanjay Jalona
CFO	Anil Rander
COO	Nachike Deshpande
Other	
Auditor	B. K. Khare & Co.

Holdings – Top 10*

% Holding		% Holding	
L&T	74.09	Invesco	0.86
UTI AMC	1.91	Vanguard	0.80
UTI Flexi Cap F	1.83	Aditya Birla SL	0.50
Blackrock	0.93	ICICI Prudential	0.38
Wasatch Inc	0.89	Government Pens	0.19

*Latest public data

Recent Company Research

Date	Title	Price	Reco
18-Oct-21	Once-in-a-century opportunity ; <i>Result Update</i>	5905.85	Buy
18-Aug-21	Best-in-decade demand; <i>Company Update</i>	4420.25	Buy
16-Jul-21	Upcycle to continue for four-five years; <i>Result Update</i>	4420.25	Buy

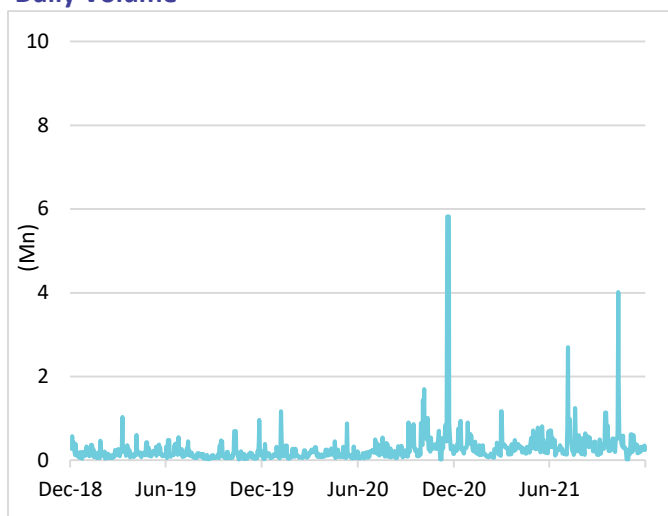
Recent Sector Research

Date	Name of Co./Sector	Title
20-Nov-21	IT	At forefront of tech innovation; <i>Sector Update</i>
20-Nov-21	Wipro	Robust demand environment to sustain; <i>Company Update</i>
11-Nov-21	Tech Mahindra	Takeaways: Investor Day; <i>Company Update</i>

Rating Interpretation

Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	187	52	18	258
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	231	41	3	275

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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