

April 20, 2022

RESULT REPORT Q4 FY22 | Sector: Information Technology

L&T Infotech

Modest performance on flattish onsite volume

Our view and valuation

Overall, the performance in the quarter was slightly below expectation due to flattish onsite volume sequentially resulting in modest performance for the quarter. Demand environment continues to remain robust for the company as reflected in its deal pipeline. Offshore employee attrition has started to moderate, and it will take around another 2 quarters for onsite attrition to come in control. We expect it to be among the growth leaders in the Tier 2 IT companies led by its capabilities across verticals and service lines and should be able to maintain net margin of 14-15% for FY23. Employee addition continues to be robust and that offers strong revenue growth visibility. It continues to remain one of our top picks in Tier-2 IT space, well positioned to capitalize on demand environment. We expect revenue CAGR of 19.5% over FY22-FY24E, with average EBIT margin of 17.6%.

We maintain BUY on the stock with revised target price of Rs 6,451/share at revised multiple of 34x on FY24E EPS. The stock trades at PER of 27.2x on FY24E EPS.

Result Highlights

- Reported revenue of Rs 43,016 mn(up 3.1% in USD terms, up 4% in INR terms). The sequential growth was led by strong performance in CPG, Retail and Pharma(up 7% QoQ); while the growth in Manufacturing(up 1.9% QoQ) , Hitech, Media and Entertainment(up 2% QoQ) was muted. For FY22, the revenue growth was strong at 26.7% YoY in INR terms.
- EBIT margin was down 64 bps QoQ to 17.3% for the quarter, on higher direct cost(up 100 bps QoQ as % of revenue).
- Deal pipeline continues to be strong as it won 4 large deals with net new TCV of over \$80 mn.
- Added 25 new clients in the quarter compared to 27 new client addition in Q3FY22. Offshore revenue mix grew 30 bps QoQ to 60.2%.
- Utilization (excluding trainees) increased by 10 bps QoQ to 81.5%. Added 2,448 employees in the quarter to reach 46,648 employees(Addition is 5.5% of Q3 employee base). LTM attrition increased by 150 bps QoQ to 24% in line with industry trend.
- Billed DSO improved by 1 day QoQ to 65 days.
- Recommended final dividend of Rs 30 per share (Total FY22 Dividend is Rs 55 per share).

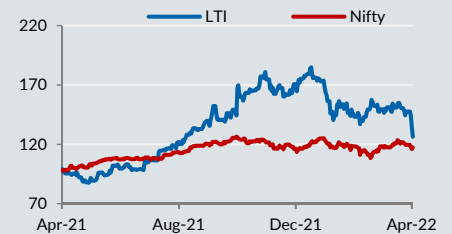
Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	43,016	43,603	43,403	-1.3%	-0.9%
EBITDA	8,464	8,633	8,642	-2.0%	-2.1%
EBITDA Margin (%)	19.68%	19.80%	19.91%	-12 bps	-23 bps
Adjusted PAT	6,375	6,319	6,311	0.9%	1.0%

Reco	: BUY
CMP	: Rs 5,170
Target Price	: Rs 6,451
Potential Return	: +24.8%

Stock data (as on April 20, 2022)

Nifty	17,137
52 Week h/l (Rs)	7589 / 3517
Market cap (Rs/USD mn)	906199 / 11891
Outstanding Shares (mn)	175
6m Avg t/o (Rs mn):	2,513
Div yield (%):	0.9
Bloomberg code:	LTI IN
NSE code:	LTI

Stock performance



	1M	3M	1Y
Absolute return	-15.4%	-21.7%	31.7%

Shareholding pattern (As of Mar'22 end)

Promoter	74.1%
FII+DII	17.6%
Others	8.4%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	6,451	7,952

Δ in earnings estimates

	FY22	FY23E	FY24E
EPS (New)	130.9	159.0	189.7
EPS (Old)	132.7	164.4	193.9
% change	-1.4%	-3.3%	-2.1%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Net Revenue	156,687	187,173	223,646
YoY Growth	26.7%	19.5%	19.5%
EBIDTA	30,585	37,435	45,314
YoY Growth	12.2%	22.4%	21.0%
PAT	22,986	27,926	33,328
YoY Growth	18.6%	21.5%	19.3%
ROE	28.4%	28.2%	27.5%
EPS	131	159	190
P/E	39.5	32.5	27.2
BV	507	620	760
P/BV	10.2	8.3	6.8

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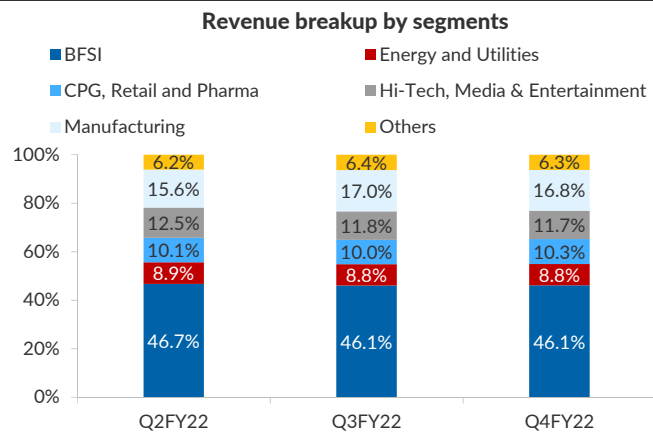
Exhibit 1: Quarterly snapshot (Consolidated):

Particulars (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	yoy%	qoq %	FY22	FY21	yoy%
Sales (\$ mn)	447.4	470.2	509.0	553.0	570.4	27.5	3.1	2,103	1,670	25.9
Sales	32,694	34,625	37,670	41,376	43,016	31.6	4.0	156,687	123,698	26.7
EBITDA	7,155	6,478	7,332	8,311	8,464	18.3	1.8	30,585	27,251	12.2
EBITDA %	21.9	18.7	19.5	20.1	19.7	-221 bps	-41 bps	19.5	22.0	-251 bps
Depreciation	826	795	850	885	1,019	23.4	15.1	3,549	3,325	6.7
EBIT	6,329	5,683	6,482	7,426	7,445	17.6	0.3	27,036	23,926	13.0
EBIT Margin %	19.4	16.4	17.2	17.9	17.3	-205 bps	-64 bps	17.3	19.3	-209 bps
PBT	7,168	6,722	7,420	8,237	8,596	19.9	4.4	30,975	25,881	19.7
Tax	1,711	1,753	1,903	2,112	2,221	29.8	5.2	7,989	6,500	22.9
PAT	5,457	4,969	5,517	6,125	6,375	16.8	4.1	22,986	19,381	18.6
NPM (%)	16.7	14.4	14.6	14.8	14.8	-187 bps	2 bps	14.7	15.7	-100 bps

KEY CON-CALL HIGHLIGHTS

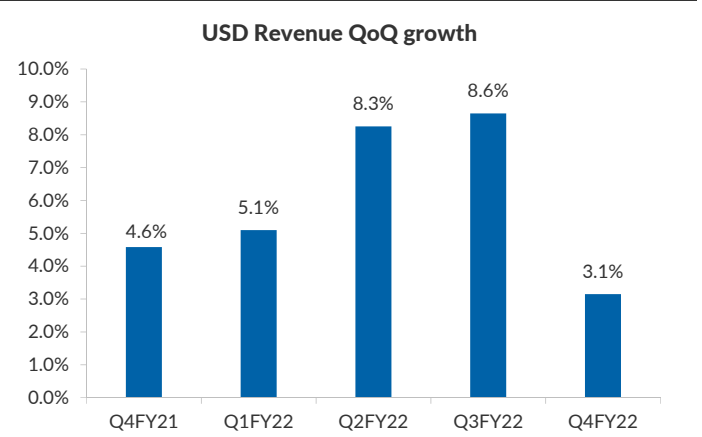
- Higher onsite attrition resulted in flattish onsite volume, otherwise sequential revenue growth could have been higher.
- Offshore annualised quarterly attrition came down by 200 bps QoQ. It will take few quarters before it comes in control.
- Fresher hiring remains key focus area. In FY22, it hired 5,200 freshers. In FY23, it plans to hire atleast 6,500 freshers.
- Demand environment remains strong and that is reflected in \$2bn of deal pipeline which are broadbased across verticals and geographies. 4 large deals are in contracting phase.
- For FY23, It expects to be among the growth leaders with net margin of 14-15%.
- Sales cost will increase from Q1FY23 as it is in the process of augmenting sales in view of demand scenario ; it will continue to maintain strong control on General and Administrative expenses
- Has taken salary hike with effect from April 1st. It will have around 290 bps impact on operating margin.
- It will continue to invest in its facilities and that would help to reduce lease cost.

Exhibit 2: Growth was broadbased across verticals



Source: Company, YES Sec

Exhibit 3: Sequential revenue growth was modest in the quarter on flatish onsite volume



Source: Company, YES Sec

FINANCIALS

Exhibit 4: Balance Sheet

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share capital	172	174	174	175	175	175	175
Reserves & surplus	38,426	48,764	53,866	72,859	88,799	108,800	133,325
Shareholders' funds	38,598	48,938	54,040	73,034	88,974	108,975	133,500
Minority Interests and others	13	8	11	37	37	37	37
Non-current liabilities	1,453	1,283	10,886	7,697	8,601	8,612	8,626
Other non-current liabilities	1,453	1,283	10,886	7,697	8,601	8,612	8,626
Current liabilities	13,434	16,463	23,312	26,323	29,548	32,750	36,459
ST borrowings, Curr maturity	0	0	320	414	414	414	414
Other current liabilities	13,434	16,463	22,992	25,909	29,134	32,336	36,045
Total (Equity and Liabilities)	53,498	66,692	88,249	107,091	127,159	150,374	178,622
Non-current assets	11,853	14,991	24,959	25,778	26,327	26,913	27,536
Fixed assets (Net block)	4,111	4,467	13,421	13,148	13,461	13,790	14,136
Non-current Investments	1	1	2	1,013	1,013	1,013	1,013
Long-term loans and advances	387	473	560	457	457	457	457
Other non-current assets	7,354	10,050	10,976	11,160	11,396	11,653	11,931
Current assets	41,645	51,701	63,290	81,313	100,832	123,461	151,085
Cash & current investment	16,276	21,552	27,438	43,876	53,960	67,526	84,317
Other current assets	25,369	30,149	35,852	37,437	46,872	55,935	66,769
Total (Assets)	53,498	66,692	88,249	107,091	127,159	150,374	178,622
Total debt	0	0	320	414	414	414	414
Capital employed	40,064	50,229	65,257	81,182	98,026	118,038	142,577

Exhibit 5: Income Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	73,065	94,458	108,786	123,698	156,687	187,173	223,646
Operating expenses	(61,189)	(75,623)	(88,494)	(96,447)	(126,102)	(149,738)	(178,332)
EBITDA	11,876	18,835	20,292	27,251	30,585	37,435	45,314
Depreciation	(1,563)	(1,471)	(2,731)	(3,325)	(3,549)	(4,679)	(5,591)
EBIT	10,313	17,364	17,561	23,926	27,036	32,755	39,723
Other income	4,102	2,917	2,466	1,955	3,939	4,779	5,073
Profit before tax	14,415	20,281	20,027	25,881	30,975	37,535	44,795
Tax (current + deferred)	(3,290)	(5,123)	(4,825)	(6,500)	(7,989)	(9,609)	(11,468)
Reported Profit / (Loss)	11,125	15,158	15,202	19,381	22,986	27,926	33,328
Adjusted net profit	11,125	15,158	15,202	19,381	22,986	27,926	33,328

Exhibit 6: Cash Flow Statement

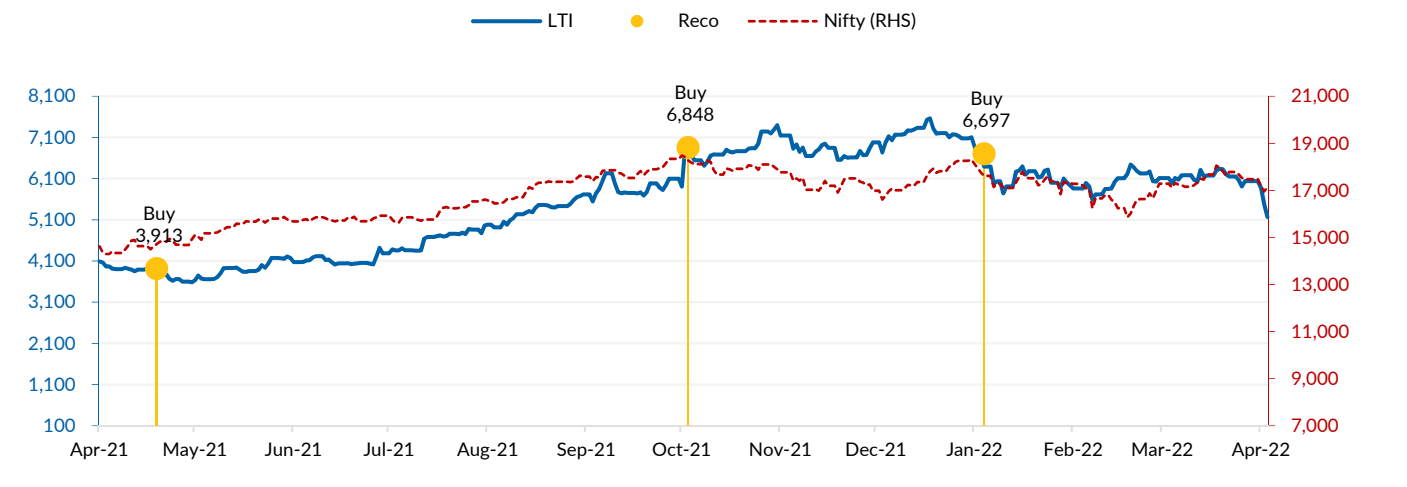
Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	14,415	20,281	20,027	25,881	30,975	37,535	44,795
Depreciation	1,563	1,471	2,731	3,325	3,549	4,679	5,591
Change in working capital	(4,295)	(1,809)	1,158	1,302	(6,192)	(5,842)	(7,105)
Total tax paid	(3,813)	(4,753)	(5,750)	(4,827)	(8,025)	(9,647)	(11,509)
Others	(4,102)	(2,917)	(2,466)	(1,955)	(3,939)	(4,779)	(5,073)
Cash flow from oper. (a)	3,768	12,273	15,700	23,726	16,368	21,945	26,701
Capital expenditure	(1,622)	(1,913)	(11,772)	(2,949)	(3,862)	(5,008)	(5,937)
Change in investments	(3,238)	(4,759)	(4,785)	(15,107)	(3,628)	(3,991)	(4,390)
Others	5,623	2,029	3,638	301	3,741	4,564	4,838
Cash flow from inv. (b)	763	(4,643)	(12,919)	(17,755)	(3,749)	(4,435)	(5,489)
Free cash flow (a+b)	4,531	7,630	2,781	5,971	12,619	17,510	21,212
Equity raised/(repaid)	1	2	0	1	0	0	0
Debt raised/(repaid)	0	0	320	94	0	0	0
Dividend (incl. tax)	(3,534)	(5,341)	(5,679)	(5,319)	(7,026)	(7,904)	(8,783)
Others	(1,160)	(1,774)	3,680	1,595	863	(30)	(29)
Cash flow from fin. (c)	(4,693)	(7,113)	(1,679)	(3,629)	(6,163)	(7,935)	(8,812)
Net chg in cash (a+b+c)	(162)	517	1,102	2,342	6,456	9,575	12,400

Exhibit 7: Ratio Analysis

Y/e March 31	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Growth (%)							
Revenue Growth	12.4	29.3	15.2	13.7	26.7	19.5	19.5
EBITDA Growth	(3.5)	58.6	7.7	34.3	12.2	22.4	21.0
EBIT Growth	(2.0)	68.4	1.1	36.2	13.0	21.2	21.3
Net Profit Growth	14.5	36.3	0.3	27.5	18.6	21.5	19.3
Profitability Ratios (%)							
EBITDA Margin	16.3	19.9	18.7	22.0	19.5	20.0	20.3
EBIT margin	14.1	18.4	16.1	19.3	17.3	17.5	17.8
Net Profit margin	15.2	16.0	14.0	15.7	14.7	14.9	14.9
RoA	21.1	28.9	22.7	24.5	23.1	23.6	24.1
RoE	31.8	34.6	29.5	30.5	28.4	28.2	27.5
RoCE	28.7	38.5	30.4	32.7	30.2	30.3	30.5
Liquidity Ratios							
Net debt/Equity (x)	(0.4)	(0.4)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Current ratio (x)	3.1	3.1	2.7	3.1	3.4	3.8	4.1
Quick ratio (x)	3.1	3.1	2.7	3.1	3.4	3.8	4.1
Valuation Ratios							
PER(x)	NA	NA	NA	NA	39.5	32.5	27.2
PCE(x)	NA	NA	NA	NA	34.2	27.9	23.3
Price/Book(x)	NA	NA	NA	NA	10.2	8.3	6.8
EV/EBITDA(x)	NA	NA	NA	NA	27.9	22.5	18.2

Dupont Analysis	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net margin (%)	15.2	16.0	14.0	15.7	14.7	14.9	14.9
Asset turnover (x)	1.5	1.6	1.4	1.3	1.3	1.3	1.4
Leverage factor (x)	1.4	1.4	1.5	1.5	1.4	1.4	1.4
Return on Equity (%)	31.8	34.6	29.5	30.5	28.4	28.2	27.5

Exhibit 8: Recommendation Tracker



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