October 16, 2022

RESULT REPORT Q2 FY23 | Information Technology

L&T Infotech Ltd

Maintains strong operating performance; merger with Mindtree to conclude by Dec'22

Reco	:	BUY
CMP	:	Rs 4,669
Target Price	:	Rs 5,618
Potential Return	:	+20%

Result Synopsis

L&T Infotech (INFO) reported strong financial performance for the quarter. While, the revenue growth was above estimates, EBIT margin came inline. It reported constant currency growth of 4.6% QoQ, led by BFS(up 29.1% YoY in cc terms) and Energy and Utilities(up 29.9% YoY in cc terms). The INR reported growth of 6.9% QoQ was supported by depreciation of INR by 3.4% QoQ vs USD. There was sequential improvement in EBIT margin(up 13 bps QoQ) led by improving pyramid and other efficiency measures. There was slight increase in reported employee attrition as LTM attrition increased by 50 bps QoQ to 24.3%.

The multiyear technology adoption cycle broadly remains intact led by adoption of cloud and data analytics. However, the clients have become cautious regarding the evolving macroeconomic situation and there are signs that clients want to spread out investments especially in sectors such as manufacturing etc. and it poses near term risks. Employee attrition is expected to come down in H2FY23 and should support operating margin going ahead We estimate revenue CAGR of 18.4% over FY22-24E with average EBIT margin of 17.4%. We maintain our BUY rating on the stock with revised target price of Rs 5,618/share at 29.0x on FY24E EPS. The stock trades at PER of 29.9x/24.1x on FY23E/FY24E EPS.

Result Highlights

- Reported revenue of Rs 48.4bn(up 6.9% QoQ in INR terms, up 3.6% QoQ in USD terms). The revenue growth was led by strong performance in BFS(up 29.1% YoY in cc terms), Energy and Utilities(up 29.9% YoY in cc terms) . In terms of services lines, the growth was led by Analytics, AI and Cognitive(up 44.2% YoY). Total Revenue grew by 4.6% QoQ in cc terms.
- EBIT margin increased by 13 bps QoQ to 16.1% for the quarter
- Signed 4 large deals with net TCV of $80mn in the quarter
- Added 22 clients in the quarter compared to 29 in Q1FY23. Offshore revenue mix grew by 40 bps QoQ to 61.7%
- Added 2,215 employees in the quarter to close at 50,981 employees. LTM attrition increased by 50 bps QoQ to 24.3%. Utilization(excluding trainees) increased by 30 bps QoQ to 82.1%
- DSO increased by 1day QoQ to 62 days

Exhibit 1: Actual vs estimates

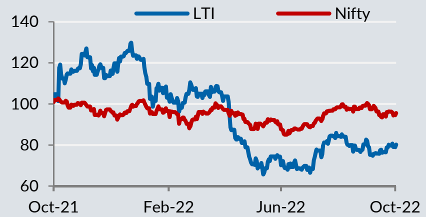
Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	48,367	48,067	47,372	0.6%	2.1%
EBITDA	9,117	9,085	8,850	0.4%	3.0%
EBITDA Margin (%)	*18.85%*	*18.90%*	*18.68%*	*-05 bps*	*17 bps*
Adjusted PAT	6,798	6,835	6,468	-0.5%	5.1%

Source: Company, YES Sec

Stock data (as on Oct 14, 2022)

Nifty	17,271
52 Week h/l (Rs)	7589 / 3733
Market cap (Rs/USD mn)	818752 / 9944
Outstanding Shares (mn)	175
6m Avg t/o (Rs mn):	2,139
Div yield (%):	1.0
Bloomberg code:	LTI IN
NSE code:	LTI

Stock performance



	1M	3M	1Y
Absolute return	1.1%	20.5%	-22.7%

Shareholding pattern (As of Jun'22 end)

Promoter	74.0%
FII+DII	16.5%
Others	9.4%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	5,618	5,570

Δ in earnings estimates

	FY22	FY23E	FY24E
EPS (New)	130.9	156.2	193.7
EPS (Old)	130.9	155.4	192.1
% change	NA	0.5%	0.8%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Net Revenue	1,56,687	1,89,421	2,19,584
YoY Growth	26.7%	20.9%	15.9%
EBIDTA	30,585	36,303	45,454
YoY Growth	12.2%	18.7%	25.2%
PAT	22,986	27,431	34,027
YoY Growth	18.6%	19.3%	24.0%
ROE	28.5%	28.0%	28.3%
EPS	131	156	194
P/E	35.7	29.9	24.1
BV	502	613	756
P/BV	9.3	7.6	6.2

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Exhibit 2: Quarterly snapshot Console: Operating performance remained strong for the quarter

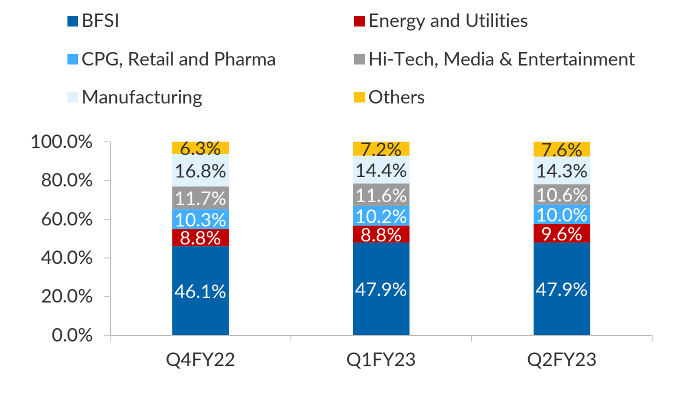
Particulars (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	yoy%	qoq %	H1FY23	H1FY22	yoy%
Sales ($ mn)	509.0	553.0	570.4	580.2	601.0	18.1	3.6	1,181	979	20.6
Sales	37,670	41,376	43,016	45,228	48,367	28.4	6.9	93,595	72,295	29.5
EBITDA	7,332	8,311	8,464	8,308	9,117	24.3	9.7	17,425	13,810	26.2
EBITDA %	19.5	20.1	19.7	18.4	18.8	-61 bps	48 bps	18.6	19.1	-48 bps
Depreciation	850	885	1,019	1,065	1,308	53.9	22.8	2,373	1,645	44.3
EBIT	6,482	7,426	7,445	7,243	7,809	20.5	7.8	15,052	12,165	23.7
EBIT Margin %	17.2	17.9	17.3	16.0	16.1	-106 bps	13 bps	16.1	16.8	-74 bps
PBT	7,420	8,237	8,596	8,510	9,013	21.5	5.9	17,523	14,142	23.9
Tax	1,903	2,112	2,221	2,166	2,215	16.4	2.3	4,381	3,656	19.8
PAT	5,517	6,125	6,375	6,344	6,798	23.2	7.2	13,142	10,486	25.3
NPM (%)	14.6	14.8	14.8	14.0	14.1	-59 bps	3 bps	14.0	14.5	-46 bps

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

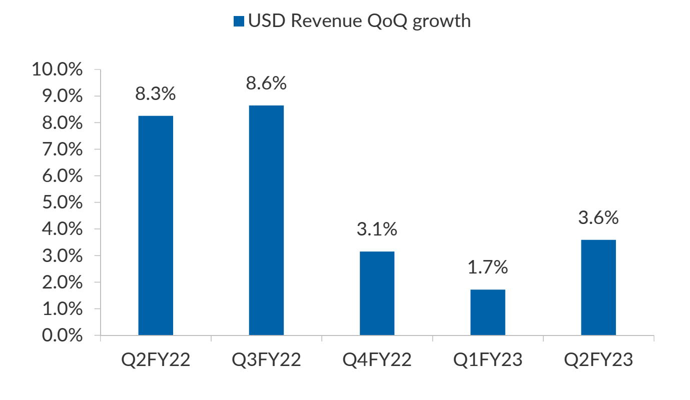
- It has not experienced cancellation of deals so far, but there are signs that clients want to spread out their investments especially in sectors like manufacturing.
- Well placed to capitalize on IT transformation and efficiency play projects
- Onboarded 1600 freshers in Q2. Hiring plans for FY23 on track. Overall, employee addition continues to remain strong. Expects to see moderation in attrition in H2FY23
- It is in the last leg of regulatory approvals regarding merger with Mindtree and the process should conclude by Dec 2022.
- Q3FY23 performance should be as strong as Q2. Expects to be among the growth leaders.
- Have maintained net profit guidance of 14-15% going ahead.
- Number of deals in partnership with Mindtree has gone up.
- All its offices in India are open and employees are coming to office 2/3 days per week.
- Would look to target large deal sizes post-merger with Mindtree

Exhibit 3: Growth was led by BFS and Energy & Utilities



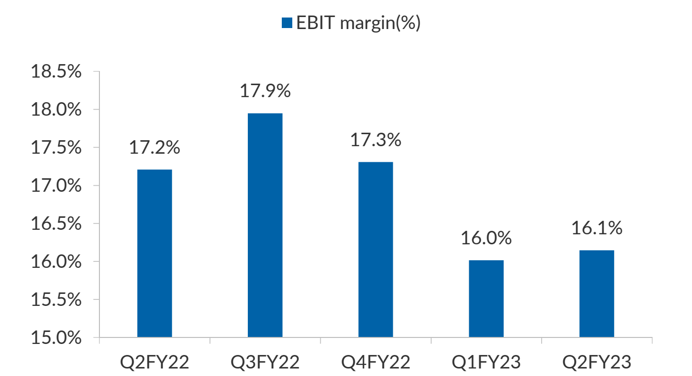
Source: Company, YES Sec

Exhibit 4: Sequential revenue growth was impacted due to cross currency headwinds



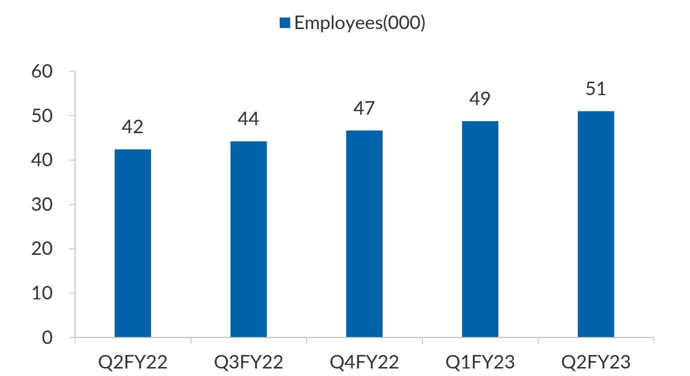
Source: Company, YES Sec

Exhibit 5: Margin remained steady in Q2FY23



Source: Company, YES Sec

Exhibit 6: Employee addition remains strong



Source: Company, YES Sec

FINANCIALS

Exhibit 7: 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	87,971	1,07,477	1,32,702
Shareholders' funds	38,598	48,938	54,040	73,034	88,146	1,07,652	1,32,877
Minority Intersts and others	13	8	11	37	57	57	57
Non-current liablities	1,453	1,283	10,886	7,697	7,307	7,924	7,947
Other non-current liabilities	1,453	1,283	10,886	7,697	7,307	7,924	7,947
Current liabilities	13,434	16,463	23,312	26,323	29,183	35,103	38,297
ST borrowings, Curr maturity	0	0	320	414	519	519	519
Other current liabilities	13,434	16,463	22,992	25,909	28,664	34,584	37,778
Total (Equity and Liabilities)	53,498	66,692	88,249	1,07,091	1,24,693	1,50,737	1,79,178
Non-current assets	11,853	14,991	24,959	25,778	36,037	36,725	37,459
Fixed assets (Net block)	4,111	4,467	13,421	13,148	18,890	19,274	19,678
Non-current Investments	1	1	2	1,013	3,454	3,454	3,454
Long-term loans and advances	387	473	560	457	0	0	0
Other non-current assets	7,354	10,050	10,976	11,160	13,693	13,997	14,328
Current assets	41,645	51,701	63,290	81,313	88,656	1,14,012	1,41,719
Cash & current investment	16,276	21,552	27,438	43,876	39,139	48,573	66,470
Other current assets	25,369	30,149	35,852	37,437	49,517	65,439	75,249
Total (Assets)	53,498	66,692	88,249	1,07,091	1,24,693	1,50,737	1,79,178
Total debt	0	0	320	414	519	519	519
Capital employed	40,064	50,229	65,257	81,182	96,029	1,16,153	1,41,401

Source: Company, YES Sec

Exhibit 8: Income Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	73,065	94,458	1,08,786	1,23,698	1,56,687	1,89,421	2,19,584
Operating expenses	(61,189)	(75,623)	(88,494)	(96,447)	(1,26,102)	(1,53,118)	(1,74,130)
EBITDA	11,876	18,835	20,292	27,251	30,585	36,303	45,454
Depreciation	(1,563)	(1,471)	(2,731)	(3,325)	(3,549)	(4,769)	(5,490)
EBIT	10,313	17,364	17,561	23,926	27,036	31,534	39,964
Other income	4,102	2,917	2,466	1,955	3,939	4,933	5,150
Profit before tax	14,415	20,281	20,027	25,881	30,975	36,468	45,115
Tax (current + deferred)	(3,290)	(5,123)	(4,825)	(6,500)	(7,989)	(9,037)	(11,087)
Reported Profit / (Loss)	11,125	15,158	15,202	19,381	22,986	27,431	34,027
Adjusted net profit	11,125	15,158	15,202	19,381	22,986	27,431	34,027

Source: Company, YES Sec

Exhibit 9: 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	36,468	45,115
Depreciation	1,563	1,471	2,731	3,325	3,549	4,769	5,490
Change in working capital	(4,295)	(1,809)	1,158	1,302	(9,580)	(9,982)	(6,596)
Total tax paid	(3,813)	(4,753)	(5,750)	(4,827)	(7,637)	(9,068)	(11,120)
Others	(4,102)	(2,917)	(2,466)	(1,955)	(3,939)	(4,933)	(5,150)
Cash flow from oper. (a)	3,768	12,273	15,700	23,726	13,368	17,253	27,737
Capital expenditure	(1,622)	(1,913)	(11,772)	(2,949)	(8,834)	(5,153)	(5,893)
Change in investments	(3,238)	(4,759)	(4,785)	(15,107)	2,475	(3,137)	(3,450)
Others	5,623	2,029	3,638	301	1,735	4,668	4,861
Cash flow from inv. (b)	763	(4,643)	(12,919)	(17,755)	(4,624)	(3,622)	(4,482)
Free cash flow (a+b)	4,531	7,630	2,781	5,971	8,744	13,631	23,255
Equity raised/(repaid)	1	2	-	1	-	-	-
Debt raised/(repaid)	-	-	320	94	105	-	-
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	(1,644)	570	(25)
Cash flow from fin. (c)	(4,693)	(7,113)	(1,679)	(3,629)	(8,565)	(7,334)	(8,808)
Net chg in cash (a+b+c)	(162)	517	1,102	2,342	179	6,297	14,447

Source: Company, YES Sec

Exhibit 10: 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	20.9	15.9
EBITDA Growth	(3.5)	58.6	7.7	34.3	12.2	18.7	25.2
EBIT Growth	(2.0)	68.4	1.1	36.2	13.0	16.6	26.7
Net Profit Growth	14.5	36.3	0.3	27.5	18.6	19.3	24.0
Profitability Ratios(%)							
EBITDA Margin	16.3	19.9	18.7	22.0	19.5	19.2	20.7
EBIT margin	14.1	18.4	16.1	19.3	17.3	16.6	18.2
Net Profit margin	15.2	16.0	14.0	15.7	14.7	14.5	15.5
RoA	21.1	28.9	22.7	24.5	23.3	22.9	24.2
RoE	31.8	34.6	29.5	30.5	28.5	28.0	28.3
RoCE	28.7	38.5	30.4	32.7	30.5	29.7	31.0
Liquidity Ratios							
Net debt/Equity (x)	(0.4)	(0.4)	(0.5)	(0.6)	(0.4)	(0.4)	(0.5)
Current ratio (x)	3.1	3.1	2.7	3.1	3.0	3.2	3.7
Quick ratio (x)	3.1	3.1	2.7	3.1	3.0	3.2	3.7
Valuation Ratios							
PER(x)	NA	NA	NA	NA	35.7	29.9	24.1
PCE(x)	NA	NA	NA	NA	30.9	25.5	20.8
Price/Book(x)	NA	NA	NA	NA	9.3	7.6	6.2
EV/EBITDA(x)	NA	NA	NA	NA	25.6	21.3	16.6

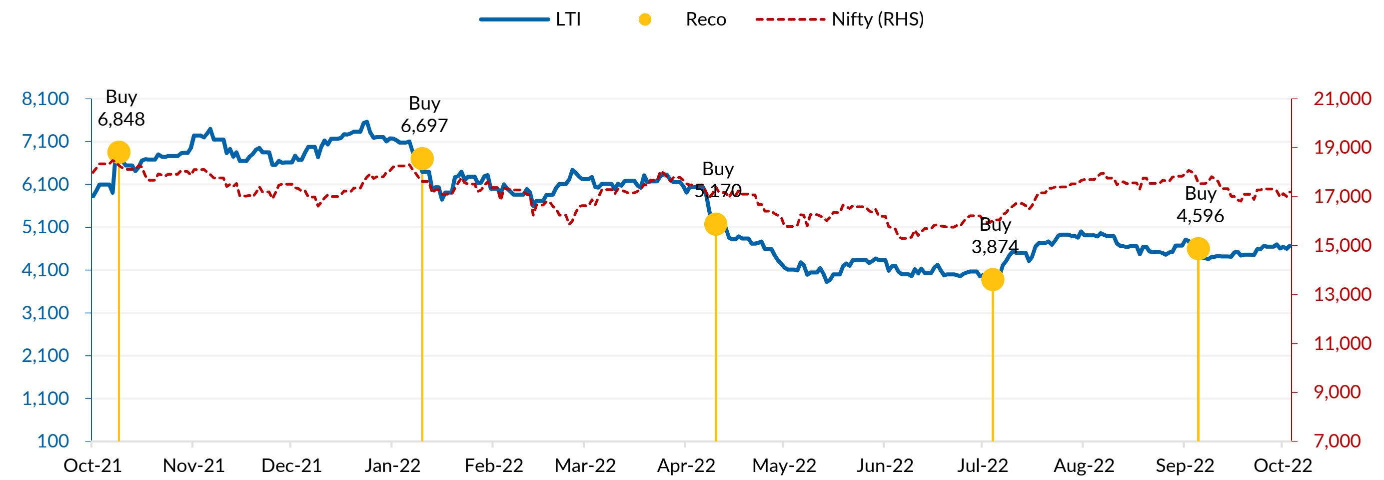
Source: Company, YES Sec

Exhibit 11: Dupont Analysis

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net margin(%)	15.2	16.0	14.0	15.7	14.7	14.5	15.5
Asset turnover (x)	1.5	1.6	1.4	1.3	1.4	1.4	1.3
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	28.5	28.0	28.3

Source: Company, YES Sec

Recommendation Tracker



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