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Technology

Q2FY22 result review and earnings revision

Target price: Rs7,050

Earnings revision

(%)	FY22E	FY23E	FY24E
Sales	↑ 6.1	↑ 13.3	↑ 11.2
EBIT	↑ 5.2	↑ 4.7	↓ 2.2
EPS	↑ 11.0	↑ 10.0	↑ 2.8

Target price revision

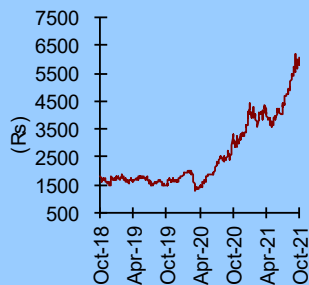
Rs7,050 from Rs 6,000

Shareholding pattern

	Mar '21	Jun '21	Sep '21
Promoters	74.3	74.3	74.1
Institutional investors	17.8	17.8	18.0
MFs and others	3.6	4.0	4.0
FIs/Bank	0.0	0.1	0.1
Insurance Cos.	0.2	0.2	0.3
FII	14.0	13.5	13.6
Others	7.9	7.9	7.9

Source: www.nseindia.com

Price chart



Larsen & Toubro Infotech

BUY

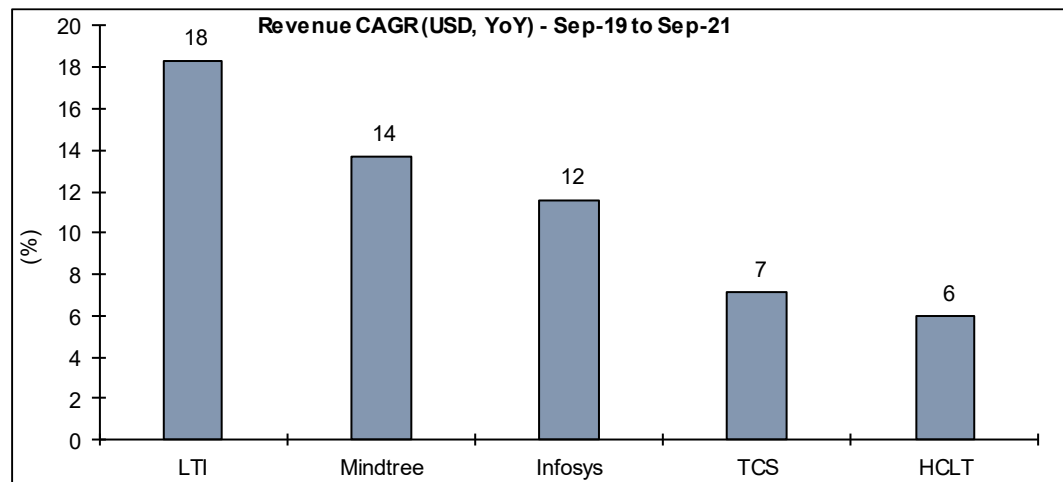
Maintained

Rs5,907

Consistently consistent!

In a seasonally not so strong quarter, Larsen & Toubro Infotech (LTI) impressed with robust (~8.9% QoQ, CC) and broad-based growth – across verticals, geographies and service lines. What differentiates LTI from most other IT companies is the strong growth despite a tall base in FY21 [Sep-19 to Sep-21 revenue (USD) CAGR (YoY) = 18% vs 14% of Mindtree, 12% of Infosys, 7% of TCS and 6% of HCLT]. Share of offshore effort increased 90bps QoQ to 83.6% driving margin resilience in a post wage hike quarter. Management expects the offshore effort share to stay elevated on the back of the 'Great Resignation' theme playing out globally – across economies and industries. This is also guided to be a key driver of demand over the medium term. Good client additions across key buckets is commendable. Typical seasonality of H2 being better than H1 is expected to continue in FY22. If LTI is able to achieve such exit-rate in H2, revenue growth in FY23E too will remain robust (24% YoY, USD) even if demand moderates during FY23. Confident commentary and stable margin outlook despite the impending cost pressures are encouraging. We upgrade our FY22E-FY24E EPS by up to 11% on back of the strong beat and solid outlook. LTI remains our *top* midcap BUY and we value it at ~40x Sep'23E EPS.

Chart 1: Strong growth despite a relatively tall base in FY21



Source: Company, I-Sec research

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Market Cap	Rs1035bn/US\$13.7bn
Reuters/Bloomberg	LRTI.BO / LTI IN
Shares Outstanding (mn)	175.2
52-week Range (Rs)	6231/2853
Free Float (%)	25.9
FII (%)	13.6
Daily Volume (US\$'000)	23,092
Absolute Return 3m (%)	38.0
Absolute Return 12m (%)	94.7
Sensex Return 3m (%)	16.4
Sensex Return 12m (%)	56.1

Year to March	FY21	FY22E	FY23E	FY24E
Revenue (Rs mn)	1,23,698	1,58,863	2,01,126	2,30,003
Net Income (Rs mn)	19,382	23,394	28,305	31,811
EPS (Rs)	110.3	133.2	161.1	181.1
% Chg YoY	27.1	20.8	21.0	12.4
P/E (x)	53.6	44.4	36.7	32.6
CEPS (Rs)	129.2	154.8	189.8	213.8
EV/E (x)	37.4	32.0	25.8	22.6
Dividend Yield	0.6	0.7	0.8	0.8
RoCE (%)	29.8	28.3	28.2	25.9
RoE (%)	32.6	32.1	31.6	29.0

Table 1: Change in estimates

	Revised			Earlier			Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
INR/USD	74.5	76.0	76.0	74.7	76.0	76.0	-0.3%	0.0%	0.0%
USD Revenue – m	2,133	2,646	3,026	2,005	2,335	2,721	6.4%	13.3%	11.2%
Growth (%)	27.8	24.0	14.4	20.0	16.5	16.5	770bps	750bps	-210bps
EBIT margin - (%)	17.6	16.9	16.6	17.8	18.3	18.9	-10bps	-140bps	-230bps
PAT (INR M)	23,394	28,305	31,811	21,093	25,741	30,961	10.9%	10.0%	2.7%
EPS	133.2	161.1	181.1	120.0	146.5	176.1	11.0%	10.0%	2.8%

Source: Company data, I-Sec research

Financial summary

Table 2: Profit and Loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Revenue (US\$ mn)	1,670	2,133	2,646	3,026
Total Income (Sales)	1,23,698	1,58,863	2,01,126	2,30,003
Operating Expenses	96,446	1,27,080	1,62,085	1,86,024
EBITDA	27,252	31,782	39,041	43,978
% margin	22.0	20.0	19.4	19.1
Depreciation & Amortisation	3,325	3,809	5,028	5,750
EBIT	23,927	27,973	34,013	38,228
% margin	19.3	17.6	16.9	16.6
Other Income (net)	1,955	3,380	3,727	4,187
Recurring PBT	25,882	31,353	37,740	42,415
Tax expense	6,500	7,959	9,435	10,604
Recur. profit	19,382	23,394	28,305	31,811

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Liabilities				
Net Worth	65,269	80,466	98,730	1,20,910
Non-current Liabilities	759	759	759	759
Total Liabilities	66,028	81,225	99,489	1,21,669
Assets				
Fixed Assets	19,722	21,041	21,041	21,041
Other Non-current assets	4,640	4,640	4,640	4,640
Current assets	50,905	67,746	88,922	1,13,228
less: current liabilities	9,239	12,202	15,114	17,240
Net current assets	41,666	55,544	73,808	95,988
Total Assets	66,028	81,225	99,489	1,21,669

Source: Company data, I-Sec Research

Table 4: Quarterly trend

(Rs mn, year ending March 31)

	Dec-20	Mar-21	Jun-21	Sep-21
Net sales	31,528	32,694	34,625	37,670
Recurring EBIT	6,502	6,329	5,683	6,482
Margin (%)	20.6	19.4	16.4	17.2
Extraordinary Items	-	571	-	-
Reported Net Income	5,193	5,457	4,969	5,517

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Op. CF before W Cap changes	27,345	34,012	41,213	46,153
Working Capital change	(2,093)	(8,652)	(9,664)	(6,707)
Taxes	(6,500)	(7,959)	(9,435)	(10,604)
Capex (including acquisitions)	(3,092)	(3,972)	(5,028)	(5,750)
Free Cash flow	15,659	13,430	17,085	23,092
CF from other Invst Act (Ex Capex)	1,862	1,150	1,555	2,012
Dividend paid	(7,669)	(8,197)	(10,041)	(9,631)
Others	-	-	-	-
Increase/(Decrease) in Cash	9,852	6,383	8,599	15,473

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)				
Diluted EPS	110.3	133.2	161.1	181.1
Book Value per share (BV)	371.3	458.0	562.1	688.4
Cash EPS	129.2	154.8	189.8	213.8
Dividend per share	37.5	40.0	49.0	47.0
Growth Ratios (%)				
Total Income (Sales) - US\$	9.5	27.8	24.0	14.4
Total Income (Sales)	13.7	28.4	26.6	14.4
EBITDA	7.3	17.9	21.8	25.5
Net Income	7.7	34.3	16.6	22.8
Diluted EPS	27.1	20.8	21.0	12.4
Valuation Ratios (x)				
P/E	53.6	44.4	36.7	32.6
P/BV	15.8	12.9	10.5	8.6
EV / EBITDA	37.4	32.0	25.8	22.6
EV / Sales	8.2	6.4	5.0	4.3
Operating Ratios				
Gross margins (%)	33.6	31.8	31.5	30.8
Other Income / PBT (%)	7.6	10.8	9.9	9.9
Effective Tax Rate (%)	25.1	25.4	25.0	25.0
Fixed Asset Turnover (x)	6.3	7.6	9.6	10.9
Receivables (days)	95.1	97.0	96.4	96.4
Return/Profitability Ratios (%)				
Net Income Margins	15.7	14.7	14.1	13.8
EBITDA Margins	22.0	20.0	19.4	19.1
RoCE (Based on Avg)	29.8	28.3	28.2	25.9
RoNW (Based on Avg)	32.6	32.1	31.6	29.0
Dividend Yield	0.6	0.7	0.8	0.8

Source: Company data, I-Sec research

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