

Impressive EBIT margin expansion QoQ...

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

Q2FY22 Results: Strong revenue coupled with EBIT margin expansion QoQ

- Constant currency revenues increased 8.9% QoQ. It was best among peers (TCS 4%, Infosys 6.3%, Wipro 8.1%, HCL Tech 5.2%)
- EBIT margin expanded QoQ 79 bps due to rationalisation of SG&A expenses, higher offshore mix and higher working days in the quarter
- The company declared an interim dividend of ₹ 15 per share

What should investors do? LTI's share price has grown by ~10x over the past five years (from ~₹ 570 in October 2016 to ~₹ 5905 levels in October 2021).

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value LTI at ₹ 7650 i.e. 45x 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 24.7% CAGR revenue growth in FY21-23E

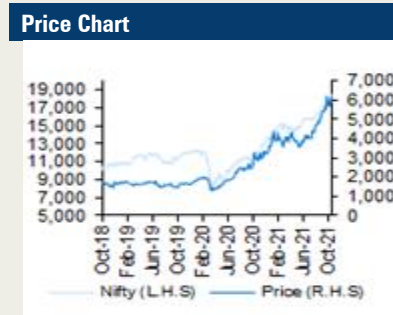
Alternate Stock Idea: Apart from LTI, in our coverage we like Infosys.

- Upward revenue guidance prompts us to be positive on the stock
- We have a BUY rating with a target price of ₹ 2060



Particulars	
Particular	Amount
Market Cap	116,745
Total Debt	41
Cash and Investment	₹ 4388 crore
EV	₹ 112399 crore
52 week H/L	6777/ 2828
Equity Capital	₹ 18 crore
Face Value	₹ 1

Shareholding pattern				
	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	74.3	74.3	74.3	74.1
FII	13.3	13.6	13.1	13.3
DII	4.6	4.3	4.8	4.3
Public	7.8	7.9	7.9	8.3



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)	FY17	FY18	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	6,501	7,306	9,446	10,879	12,370	16.2%	16,169	19,246	24.7%
EBITDA	1,230	1,188	1,883	2,029	2,725	21.6%	3,401	4,101	22.7%
EBITDA Margins (%)	18.9	16.3	19.9	18.7	22.0		21.0	21.3	
Net Profit	971	1,113	1,516	1,521	1,938	18.3%	2,397	2,968	23.7%
EPS (₹)	56.9	64.7	87.3	86.6	110.3		136.4	168.8	
P/E (x)	116.8	102.8	76.2	76.8	60.3		48.8	39.4	
RoE (%)	30.9	28.8	31.0	28.1	26.5		27.6	28.5	
RoCE (%)	38.7	36.0	40.4	30.7	31.9		33.0	34.0	

Key takeaways of conference call

Q2FY22 Earnings Conference Call highlights

- The company reiterated that the demand environment continued to be strong at least for the near foreseeable future in terms of continued tech spending on automation, cloud, cybersecurity, artificial intelligence (AI), etc. The company also mentioned that clients are also facing attrition due to a buoyant job market, which is also boosting demand, especially for automation
- LTI expects H2 to be strong compared to H1. Though the company does not provide specific revenue guidance, they are hopeful of reaching US\$2 billion+ revenue for FY22
- EBIT margins for the quarter improved 79 bps due to i) 70bps positive impact due to SG&A rationalisation and an unquantified positive impact of efforts mix (towards offshore) as well as higher working days. The headwinds for the margin were i) 70 bps negative impact due to lower utilisation and unquantified negative impact due higher employee costs during the quarter
- The management reiterated their earlier guidance of PAT margins in the range of 14-15%
- They mentioned that the industry did not anticipate such strong demand while talent crunch is also on account of insufficient supply coming from academics. The company did not see much change in the effort mix in terms of offshore-onsite
- LTI also mentioned that they have started discussions on price increase with clients with some incremental niche deals coming at better pricing

Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Tech M (TECMAH)	1,478	1,611	BUY	142,848	50.2	64.7	74.6	29.5	22.8	19.8	19.8	22.8	23.7	17.8	20.4	20.8
LTI (LTINFC)	6,650	7,650	BUY	116,745	111.0	137.3	169.9	59.9	48.5	39.1	31.9	33.0	34.0	26.5	27.6	28.5
Mindtree (MINCON)	4,707	4,915	HOLD	77,524	67.4	89.8	109.2	69.8	52.4	43.1	32.5	36.0	36.3	25.7	28.2	28.2
Coforge (NIITEC)	5,606	6,139	BUY	34,850	73.3	106.3	139.1	76.5	52.7	40.3	23.3	26.8	29.8	18.5	23.4	26.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	3,767.0	3,649.0	2,998.4	25.6	3,462.5	8.8	The growth in constant currency revenues was mainly driven by banking financial services (up 10.6% QoQ), insurance (6.1% QoQ), manufacturing (up 12.9% QoQ), and energy & utility (up 6.9% QoQ)
Employee expenses	2,601.1	2,517.5	1,953.7	33.1	2,389.8	8.8	
Gross Margin	1,165.9	1,131.5	1,044.7	11.6	1,072.7	8.7	
Gross margin (%)	31.0	31.0	34.8	-389 bps	31.0	-3 bps	
Other expenses	432.7	448.8	359.1	20.5	424.9	1.8	
EBITDA	733.2	682.8	685.6	6.9	647.8	13.2	
EBITDA Margin (%)	19.5	18.7	22.9	-340 bps	18.7	75 bps	
Depreciation & amort	85.0	83.0	89.9	-5.5	79.5	6.9	
EBIT	648.2	599.8	595.7	8.8	568.3	14.1	
EBIT Margin (%)	17.2	16.4	19.9	-266 bps	16.4	79 bps	EBIT margin improved due to rationalisation of SG&A, higher offshore mix and higher working days
Other income	93.8	50.0	17.4	439.1	103.9	-9.7	
PBT	742.0	659.3	613.1	21.0	672.2	10.4	
Tax paid	190.3	175.0	156.3	21.8	175.3	8.6	
PAT	551.7	484.3	456.8	20.8	496.9	11.0	PAT was higher than our expectation mainly led by strong operating performance

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	15,207	16,169	6.3	17,645.9	19,246	9.1	Strong outlook prompts us to revise revenue upwards
EBITDA	3,116	3,401	9.2	3,621.6	4,101	13.2	
EBITDA Margin (%)	20.5	21.0	55 bps	20.5	21.3	78 bps	We expect margin expansion on rationalisation of costs
PAT	2,204	2,397	8.8	2,557.1	2,968	16.1	
EPS (₹)	125.4	136.4	8.8	145.5	168.8	16.1	

Source: Company, ICICI Direct Research

Key metrics

Exhibit 4: Geography wise break-up

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue by geography (%)					
North America	68.7	67.9	66.2	67.0	67.5
Europe	16.1	16.1	16.5	16.6	16.1
India	6.9	8.6	8.9	6.7	6.6
ROW	8.2	7.4	8.4	9.6	9.8
Growth QoQ (%)					
North America	0.6	4.5	2.0	6.4	9.1
Europe	15.9	5.8	7.2	5.7	5.0
India	-9.5	31.8	8.2	-20.9	6.6
ROW	23.2	-4.6	18.7	20.1	10.5

Source: Company, ICICI Direct Research

Exhibit 5: Vertical wise break up

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue by vertical (%)					
BFS	29.9	30.6	30.7	32.1	32.5
Insurance	16.0	15.0	14.5	14.5	14.2
Manufacturing	16.2	16.8	16.9	15.0	15.6
Energy & Utilities	10.6	10.0	9.1	9.1	8.9
CPG, Retail & Pharma	11.0	10.9	10.8	10.7	10.1
HTME	10.6	10.6	11.8	12.7	12.5
Others	5.7	6.0	6.2	5.9	6.2
Growth QoQ (%)					
BFS	11.9	8.2	4.9	9.9	9.6
Insurance	-3.6	-0.8	1.1	5.1	6.0
Manufacturing	6.3	9.7	5.2	-6.7	12.6
Energy & Utilities	1.7	-0.2	-4.8	5.1	5.9
CPG, Retail & Pharma	-0.9	4.8	3.6	4.1	2.2
HTME	-5.3	5.8	16.4	13.1	6.5
Others	9.4	11.3	8.1	0.0	13.8

Source: Company, ICICI Direct Research

Exhibit 6: Service offering wise break-up

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue by service offering (%)					
ADM*	36.0	33.6	33.3	34.0	34.2
Enterprise Solutions	30.8	31.4	32.3	30.7	30.4
IMS	14.4	14.3	15.1	14.9	14.0
Analytics, AI & Cognitive	10.6	11.9	11.1	11.7	12.1
EIM	8.3	8.8	8.2	8.7	9.3
Growth QoQ (%)					
ADM	4.8	-1.3	3.6	7.3	8.9
Enterprise Solutions	7.5	7.8	7.6	-0.1	7.2
IMS	9.7	5.0	10.4	3.7	1.7
Analytics, AI & Cognitive	-12.1	18.7	-2.4	10.8	12.0
EIM	0.0	12.1	-2.5	11.5	15.7

Source: Company, ICICI Direct Research.

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Revenues	10,879	12,370	16,169	19,246
Growth (%)	15.2	13.7	30.7	19.0
Employee costs	7,359	8,219	10,633	12,662
Total Operating Expenditure	8,849	9,645	12,767	15,145
EBITDA	2,029	2,725	3,401	4,101
Growth (%)	7.8	34.3	24.8	20.6
Depreciation & Amortization	273	333	437	481
Other Income (net)	247	196	253	338
Interest	-	-	-	-
PBT before Exceptional Items	2,003	2,588	3,218	3,957
Growth (%)	(1.2)	29.2	24.3	23.0
Tax	482	650	820	989
PAT before Exceptional Items	1,521	1,938	2,397	2,968
Exceptional items	-	-	-	-
Minority Int & Pft. from associates	-	-	-	-
PAT	1,521	1,938	2,397	2,968
Growth (%)	0.3	27.5	23.7	23.8
Diluted EPS	86.6	110.3	136.4	168.8
EPS (Growth %)	(0.8)	27.3	23.7	23.8

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
PBT	2,003	2,588	3,218	3,957
Add: Depreciation	273	333	437	481
(Inc)/Dec in current assets	(592)	(217)	(640)	(518)
Inc/(Dec) in current liabilities	360	488	235	191
CF from operations	1,644	2,400	2,407	3,040
(Inc)/dec in other investments	(357)	(1,363)	(655)	(623)
(Inc)/dec in Fixed Assets	(243)	(267)	(355)	(423)
Other investing cash flow	6	16	8	10
CF from investing Activities	(652)	(1,656)	(1,003)	(1,036)
Issue of equity	-	0	-	-
Inc/(dec) in loan funds	(178)	185	0	(0)
Dividend paid & dividend tax	(568)	(532)	(1,007)	(1,247)
Others	(4)	(2)	-	-
CF from Financial Activities	(890)	(509)	(1,127)	(1,347)
Net cash flow	102	235	278	658
Effect of exchange rate changes	9	(1)	-	-
Opening cash	415	525	759	1,037
Closing cash	525	759	1,037	1,695

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity	17	18	18	18
Reserves & Surplus	5,387	7,286	8,676	10,398
Networth	5,404	7,303	8,694	10,415
Minority Interest	1	4	4	4
Long term Liabilities & provisions	1,089	770	1,005	1,196
Total Debt	32	41	41	41
Source of funds	6,526	8,118	9,744	11,656
Assets				
Net fixed assets	1,211	1,048	1,132	1,205
Net intangible assets	132	267	222	190
Goodwill	637	657	657	657
Other non current assets	517	606	760	886
Unbilled revenue	442	607	794	945
Debtors	2,312	2,084	2,723	3,242
Current Investments	2,219	3,628	4,428	5,228
Cash & Cash equivalents	525	759	1,037	1,695
Other current assets	831	1,053	1,377	1,638
Trade payables	695	828	1,082	1,288
Current liabilities	1,604	1,763	2,305	2,743
Application of funds	6,526	8,118	9,744	11,656

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	86.6	110.3	136.4	168.8
Cash Per Share	30.2	43.5	59.4	97.1
BV	307.8	415.5	494.6	592.5
DPS	28.0	40.3	57.6	71.4
Operating Ratios (%)				
EBITDA Margin	18.7	22.0	21.0	21.3
PBT Margin	18.4	20.9	19.9	20.6
PAT Margin	14.0	15.7	14.8	15.4
Turnover Ratios				
Debtor days	78	61	61	61
Creditor days	23	24	24	24
Return Ratios (%)				
RoE	28.1	26.5	27.6	28.5
RoCE	30.7	31.9	33.0	34.0
RoIC	46.4	64.1	69.3	76.5
Valuation Ratios (x)				
P/E	76.8	60.3	48.8	39.4
EV / EBITDA	56.2	41.2	32.7	26.8
Market Cap / Sales	10.7	9.4	7.2	6.1
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 11: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HCL Tech (HCLTEC)	1,221	1,475	BUY	331,433	45.8	50.6	60.9	26.7	24.1	20.0	23.5	24.1	27.6	20.8	20.5	23.2
Infosys (INFTEC)	1,792	2,060	BUY	761,797	45.5	54.8	64.3	39.4	32.7	27.9	31.7	34.0	37.0	25.2	27.8	30.3
TCS (TCS)	3,647	4,530	BUY	1,349,538	87.6	110.9	133.0	41.6	32.9	27.4	45.9	51.9	55.8	37.5	43.8	46.8
Tech M (TECMAH)	1,478	1,611	BUY	142,848	50.2	64.7	74.6	29.5	22.8	19.8	19.8	22.8	23.7	17.8	20.4	20.8
Wipro (WIPRO)	709	815	BUY	388,565	19.1	21.8	27.7	37.2	32.5	25.6	21.3	22.5	28.2	19.5	21.6	27.5
LTI (LTINFC)	6,650	7,650	BUY	116,745	111.0	137.3	169.9	59.9	48.5	39.1	31.9	33.0	34.0	26.5	27.6	28.5
Mindtree (MINCON)	4,707	4,915	HOLD	77,524	67.4	89.8	109.2	69.8	52.4	43.1	32.5	36.0	36.3	25.7	28.2	28.2
Coforge (NIITEC)	5,606	6,139	BUY	34,850	73.3	106.3	139.1	76.5	52.7	40.3	23.3	26.8	29.8	18.5	23.4	26.2
TeamLease (TEASER)	4,926	4,550	BUY	8,452	46.5	67.5	100.3	106.0	73.0	49.1	14.2	16.4	19.8	11.6	15.8	18.6
Infoedge (INFEDG)	7,017	6,270	BUY	90,914	20.9	37.1	51.0	335.6	189.2	137.7	7.7	13.1	16.7	6.0	9.9	12.6

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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