

BSE SENSEX
 58,807

S&P CNX
 17,517

CMP: INR6,598
TP: INR6,640 (+1%)
Neutral


Let's Solve

Bloomberg	LTI IN
Equity Shares (m)	172
M.Cap.(INRb)/(USD b)	1155.9 / 15.3
52-Week Range (INR)	7562 / 3197
1, 6, 12 Rel. Per (%)	-1/55/74
12M Avg Val (INR M)	1765

Financials & Valuations (INR b)

Y/E Mar	2022E	2023E	2024E
Sales	156.9	191.2	226.7
EBIT Margin (%)	17.3	17.4	17.3
PAT	23.3	28.3	33.3
EPS (INR)	132.4	160.9	189.7
EPS Gr. (%)	23.7	21.6	17.9
BV/Sh. (INR)	496.8	593.5	707.7

Ratios

RoE (%)	29.1	29.6	29.2
RoCE (%)	23.1	24.2	24.1
Payout (%)	40.0	40.0	40.0

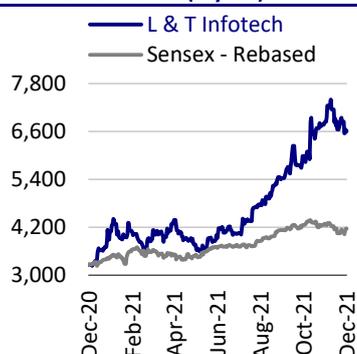
Valuations

P/E (x)	51.0	42.0	35.6
P/BV (x)	13.6	11.4	9.5
EV/EBITDA (x)	36.6	29.6	24.8
Div Yield (%)	0.8	1.0	1.1

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	74.1	74.3	74.4
DII	4.7	4.8	6.4
FII	13.3	13.1	11.2
Others	7.9	7.9	8.0

FII Includes depository receipts

Stock Performance (1-year)

Growth outlook turbocharged by cloud spend
Talent supply over near term remains key hurdle

- We attended LTI's Analyst Day, where the management a) reiterated its guidance for strong broad-based growth for the coming 3–5 years and b) highlighted 'The Great Restructuring' as a key driver of the demand tailwind.
- The management remains confident about this growth trajectory and mentioned six factors that would drive growth – demand, capability, talent, sales and marketing, team, and operational resilience.
- The company continues to expect faster growth than the industry average growth of 9%+ as digital transformation led demand fuels client spending. It sees talent as the only limiting factor in its aspiration to double revenues to USD4b over the next few years.
- LTI's large-deal pipeline (new only) of USD2.07b v/s USD1.9b in FY21 (USD1.2b excluding mega deals) was relatively modest, but primarily consisted of smaller deals – unlike the three mega deals (one converted) that inflated FY21 figures. 44% of this large deal pipeline is contributed by new logos. It also mentioned the pipeline including renewals is meaningfully larger.
- The company reiterated its stance to maintain net margins at 14–15% as it continues to focus on reinvesting to capture incremental market share rather than the margin uptick. We see this as an indication of the company's willingness to absorb pricing pressure, unlike peer commentary on price hikes.
- Although LTI has hired a record number of employees recently, it continues to see the supply side as a concern over the near term. LTI expects the situation to ease over the next 4–6 quarters.

Updated product and strategy should add to growth

- LTI recently launched 'Fosfor,' a suite of five products focused on data monetization. 'aLTIus,' LTI's cloud offering, is also seeing good growth on the back of its cloud capabilities.
- With strong capabilities in cloud – it has top-tier partnerships with 80% of the strategic hyperscaler partners – LTI believes it now has industry-leading capabilities in both the Cloud and Data spaces, which now account for 40% of its revenues.
- Under its new CHIP (Consolidate, Harvest, Incubate, and Programs) strategy, the management has incorporated various sales-focused programs to drive its future growth plans. Additionally, LTI GoMx is focused on rewarding, awarding, and training employees. This is expected to drive the next leg of growth for the company.

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Demand environment remains strong

- The management highlighted three factors driving the current strong demand environment, namely 1) 'The Great Restructuring', 2) new spend areas, and 3) 'The Great Resignation'.
- According to the management, after the Great Depression and Great Recession, we are now witnessing 'The Great Restructuring'. LTI is well-positioned to capture the growth from this event.
- There are new spend areas such as ESG; Cybersecurity; and Cloud, Digital, and Data Services.
- 'The Great Resignation' stems from various factors. There are 10.5m job openings in the US v/s only 7.4m unemployed professionals. According to Gallup, 48% of employees are actively searching for new opportunities. Annualized wages are also rising at 4.5–5%, the highest in the last 20 years. These would drive demand for IT services outsourcing in the scope of innovation, capability, and efficiency requirements.

Promising growth trajectory

- The management reiterated the company would continue to make investments in new-age technologies, partnerships, talent, and ESG to capture future market share and growth.
- Gartner has strong forecasts for IT spends across verticals and service lines (Exhibits 1 and 2). The CAGRs for IT spend projections for FY19–25E are as follows: Software – 12%, IT Services – 9.1%, and Overall IT – 6.1%.
- The large-deal pipeline continues to be strong at USD2.07b v/s USD1.9b last year. 44% of this pipeline is contributed by new logos; net new TCV from new logos stands at around 56%.
- The addition of new logos remains strong. Large deal invites (CY2021) stood at 23 and must-have logos on digital channels stood at 150. Fortune-500 logos stood at 71 v/s 68 last year.

Digital, Data, and Cloud

- The new wave of deep digital transformation among enterprises would drive demand. Experience transformation is another area that would gain importance in the near future.
- IT spends on the cloud are forecast to see a CAGR of 32.3% over FY19–25E, according to Gartner.
- More than 40% of the company portfolio is in the new-age areas of Cloud, Data, and Digital. More than 50% of the revenue is driven by these three business verticals. Over the last five years, the company has seen 8x the growth in Cloud.
- For aLTlus, LTI has built strong Tier-1 partnerships with AWS, Azure, Google Cloud, IBM, Snowflake, and ServiceNow. The company has built dedicated teams for each of these partnerships. It believes it now has industry-leading capabilities and relationships with hyperscalers.
- LTI launched 'Fosfor,' a database management tool. This is a suite of five product offerings built around the megatrends depicted by Gartner. LTI is the only company to have all five of these products in its bouquet of offerings. The company is getting strong endorsements, indicating strong customer retention.

- Typically, 60–70% of companies' total spending is towards organizing unstructured data. 'Aspect,' one of the five products under Fosfor, is built to address this.

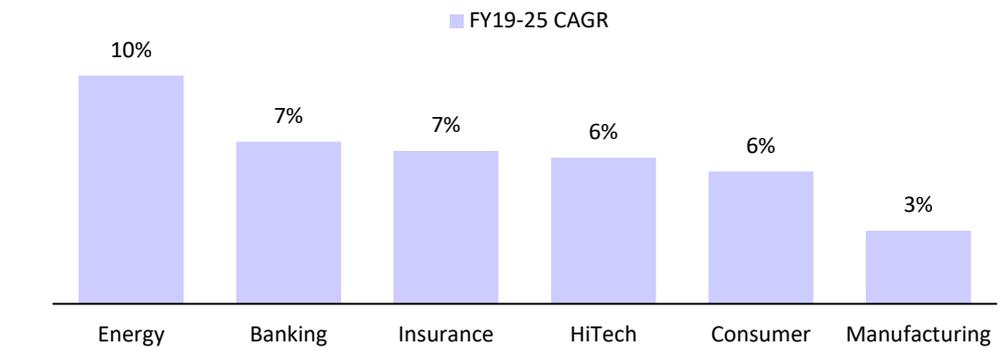
Expanding talent and capabilities

- The company has added around 6.3k employees in 1HFY22 and plans to add 5.5k employees.
- The company has made disproportionate investments in capabilities and made seven acquisitions to date (each one to boost its capabilities). The company's initiatives to expand the sales team, introduce new leadership, and make global delivery units are working well.
- LTI has gained USD23m worth of commitments from partners to build its capabilities on the back of strong tier-1 partnerships.
- LTI GoMx, the company's new sales program, focuses on rewarding, awarding, and training employees. Under CHIP, the management has various sales-focused programs to drive future growth.

Valuation and view – industry-leading growth to defend rich valuations

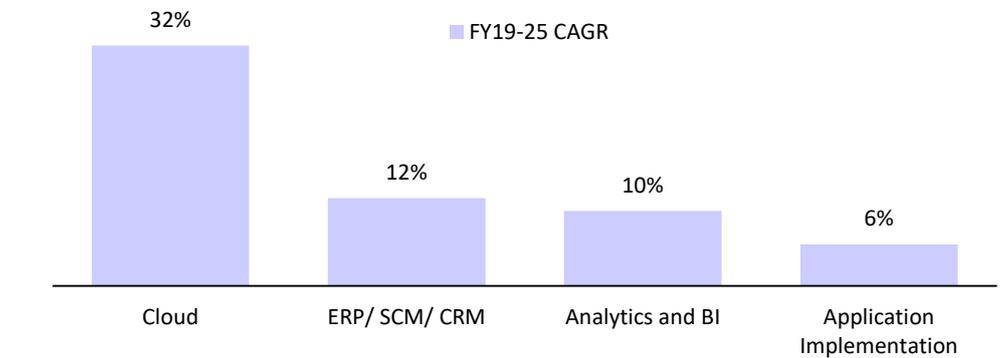
- LTI's deep domain capabilities, strong partnerships with hyperscalers, and robust sales engine would continue to drive industry-leading growth rates for the company. We expect a USD revenue CAGR of 22% and INR PAT CAGR of 21% over FY21–24.
- While we remain confident about the company's execution capabilities, we remain on the sidelines on the stock due to the significant valuation re-rating.
- We are introducing our FY24 estimates in this report. We are also rolling forward our target multiple to FY24E, leading to new Target Price of INR6,640, as we value the stock at 35x FY24E EPS. **Maintain Neutral.**

Exhibit 1: Verticals – growth projection by Gartner



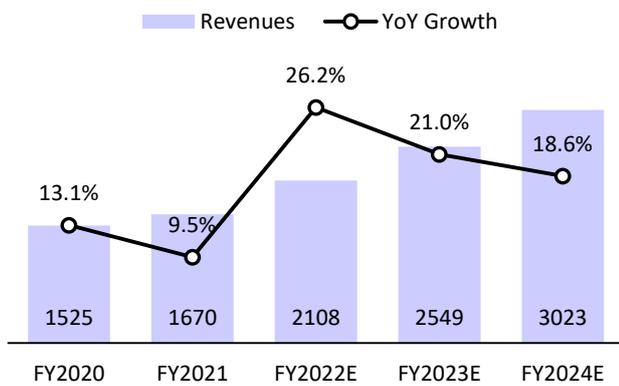
Source: MOFSL, Company

Exhibit 2: Service Lines – growth projection by Gartner



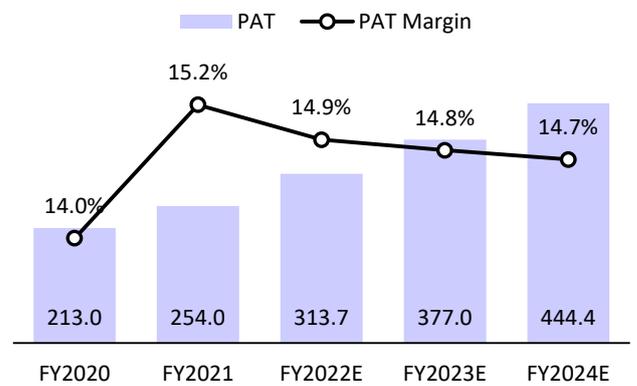
Source: MOFSL, Company

Exhibit 3: Strong double-digit growth to continue...



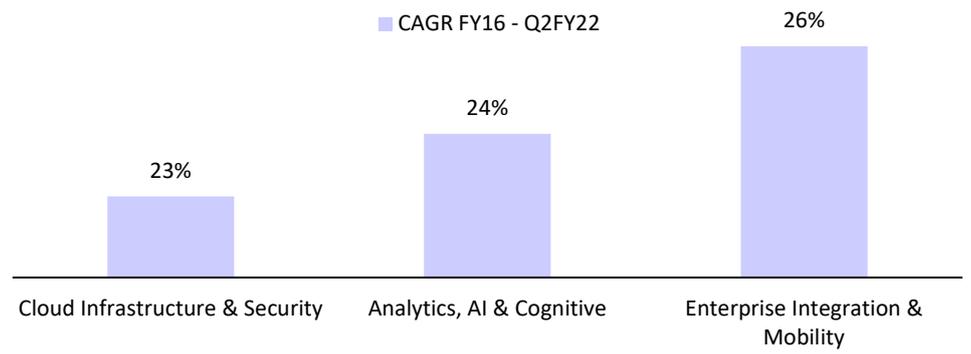
Source: MOFSL, Company

Exhibit 4: ...translating into strong PAT



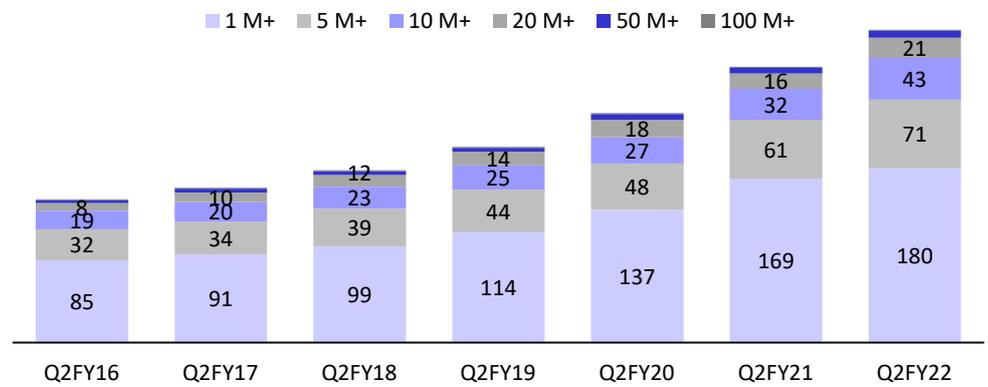
Source: MOFSL, Company

Exhibit 5: LTI delivers excellent growth in Service Lines



Source: MOFSL, Company

Exhibit 6: LTI adds large number of logos in last six years



Source: MOFSL, Company

Financials and valuations

Income Statement						(INR m)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Sales	65,009	73,064	94,458	1,08,786	1,23,698	1,56,921	1,91,211	2,26,708
Change (%)	11.2	12.4	29.3	15.2	13.7	26.9	21.9	18.6
Cost of Services	42,122	48,506	61,643	73,589	82,193	1,07,431	1,30,710	1,55,292
SG&A Expenses	10,581	12,065	13,980	14,905	14,254	18,731	22,900	27,205
EBITDA	12,306	12,493	18,835	20,292	27,251	30,759	37,601	44,211
% of Net Sales	18.9	17.1	19.9	18.7	22.0	19.6	19.7	19.5
Depreciation	1,780	1,563	1,471	2,731	3,325	3,549	4,302	4,988
Other Income	1,836	4,102	2,915	2,463	1,384	3,964	4,398	5,214
PBT	12,362	15,032	20,279	20,024	25,310	31,174	37,697	44,438
Tax	2,649	3,291	5,122	4,823	6,500	7,914	9,424	11,109
Rate (%)	21.4	21.9	25.3	24.1	25.7	25.4	25.0	25.0
Minority Interest	0	0	0	0	0	0	0	0
Extraordinary	0	617	0	0	-571	0	0	0
Adjusted PAT	9,713	11,741	15,157	15,201	18,810	23,259	28,273	33,328
Change (%)	16	21	29	0	24	24	22	18
Reported PAT	9,713	11,124	15,157	15,201	19,381	23,259	28,273	33,328

Balance Sheet						(INR m)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	171	172	174	174	175	175	175	175
Reserves	31,273	38,426	48,764	53,866	72,859	86,814	1,03,778	1,23,775
Net Worth	31,444	38,598	48,938	54,040	73,034	86,989	1,03,953	1,23,950
Minority Interest	8	13	8	11	37	37	37	37
Other liabilities	456	1,453	1,283	10,886	7,697	7,706	7,795	7,888
Capital Employed	31,908	40,064	50,229	64,937	80,768	94,733	1,11,785	1,31,874
Net Block	2,587	2,508	3,084	12,104	10,481	9,932	9,131	7,643
Intangibles	2,845	4,298	6,330	7,684	9,241	9,241	9,241	9,241
Other LT Assets	5,626	5,047	5,614	5,170	6,056	7,341	8,657	9,696
Curr. Assets	33,287	41,645	51,664	63,290	81,313	99,837	1,21,331	1,47,975
Current Investments	9,406	12,643	17,402	22,186	36,282	42,282	48,282	54,282
Debtors	16,421	22,327	23,845	27,541	26,906	30,094	37,194	44,099
Cash & Bank Balance	3,795	3,323	4,150	5,252	7,594	14,789	21,076	32,473
Other Current Assets	3,665	3,352	6,267	8,311	10,531	12,672	14,778	17,121
Current Liab. & Prov	12,437	13,434	16,463	23,311	26,323	31,618	36,574	42,680
Trade payables	3,366	3,792	4,669	7,269	8,277	10,357	12,429	14,736
Other liabilities	7,457	7,798	9,686	13,454	14,504	17,719	20,604	24,402
Provisions	1,614	1,844	2,108	2,588	3,542	3,542	3,542	3,542
Net Current Assets	20,850	28,211	35,201	39,979	54,990	68,219	84,756	1,05,295
Application of Funds	31,908	40,064	50,229	64,937	80,768	94,733	1,11,785	1,31,874

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS	56.1	63.6	86.4	86.6	107.0	132.4	160.9	189.7
Cash EPS	65.9	72.4	94.8	102.0	129.2	152.5	185.4	218.0
Book Value	184.2	224.7	282.5	310.0	418.3	496.8	593.5	707.7
DPS	16.5	21.5	28.1	28.0	40.0	52.9	64.4	75.9
Payout %	29.5	33.8	32.5	32.3	37.4	40.0	40.0	40.0
Valuation (x)								
P/E	120.5	106.2	78.1	78.0	63.1	51.0	42.0	35.6
Cash P/E	102.5	93.2	71.2	66.2	52.3	44.3	36.4	31.0
EV/EBITDA	92.6	91.6	61.0	56.7	41.7	36.6	29.6	24.8
EV/Sales	17.5	15.7	12.2	10.6	9.2	7.2	5.8	4.8
Price/Book Value	36.7	30.1	23.9	21.8	16.1	13.6	11.4	9.5
Dividend Yield (%)	0.2	0.3	0.4	0.4	0.6	0.8	1.0	1.1
Profitability Ratios (%)								
RoE	36.9	31.8	34.6	29.5	30.5	29.1	29.6	29.2
RoCE	30.8	23.7	28.7	23.2	24.4	23.1	24.2	24.1
Turnover Ratios								
Debtors (Days)	92.20	111.54	92.14	92.41	79.39	70	71	71
Fixed Asset Turnover (x)	25.1	29.1	30.6	9.0	11.8	15.8	20.9	29.7

Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
CF from Operations	12,111	12,198	17,011	18,748	21,292	26,808	32,574	38,316
Cash for Working Capital	1,606	-3,760	-3,061	-2,313	2,704	-1,309	-5,478	-4,088
Net Operating CF	13,717	8,438	13,950	16,435	23,996	25,498	27,097	34,228
Net Purchase of FA	-754	-982	-1,531	-2,426	-2,665	-3,000	-3,500	-3,500
Free Cash Flow	12,963	7,456	12,419	14,009	21,331	22,498	23,597	30,728
Net Purchase of Invest.	-8,756	-3,933	-5,596	-4,007	-13,895	-6,000	-6,000	-6,000
Net Cash from Invest.	-9,510	-4,915	-7,127	-6,433	-16,560	-9,000	-9,500	-9,500
Proc. from equity issues	4	3	3	0	1	0	0	0
Proceeds from LTB/STB	-469	-545	-605	-3,221	230	0	0	0
Dividend Payments	-1,888	-3,534	-5,341	-5,679	-5,319	-9,304	-11,309	-13,331
Cash Flow from Fin.	-2,353	-4,076	-5,943	-8,900	-5,088	-9,304	-11,309	-13,331
Exchange difference	-94	81	-53	0	-6	0	0	0
Net Cash Flow	1,760	-472	827	1,102	2,342	7,195	6,288	11,396
Opening Cash Bal.	2,035	3,795	3,323	4,150	5,252	7,594	14,789	21,076
Add: Net Cash	1,760	-472	827	1,102	2,342	7,195	6,288	11,396
Closing Cash Bal.	3,795	3,323	4,150	5,252	7,594	14,789	21,076	32,472

E: MOFSL Estimates

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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