

July 14, 2022

RESULT REPORT Q1 FY23 | Sector: Information Technology

L&T Infotech

Maintains robust operating performance

Our view and valuation

Overall, the performance was robust across operating parameters. While revenue came inline, EBIT margin was above estimates. Demand environment continues to remain robust for the company; though few clients have become cautious about evolving macroeconomic situation. Offshore and onsite employee attrition has started to moderate and that should ease pressure on margin. 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. Its hiring target for FY23 remains well on track 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 robust demand environment. We expect revenue CAGR of 18.8% over FY22-FY24E, with average EBIT margin of 17.0%.

We maintain BUY on the stock with revised target price of Rs 4,960/share at revised multiple of 27x on FY24E EPS. We have cut down target multiple from 34x to 27x to account for higher cost of capital(WACC) in this environment of high macroeconomic Uncertainty. The stock trades at PER of 21.1x on FY24E EPS.

Result Highlights

- Reported revenue of Rs 45.2bn(up 5.1% QoQ in INR terms, up 1.7% QoQ in USD terms). The cc growth was 2.9% QoQ. The growth was led by BFS(up 6.3% QoQ in USD terms; while Manufacturing(down 12.6% QoQ) had soft quarter. In terms of service offerings, Analytics, AI and Cognitive(up 8.5% QoQ): Enterprise Integration(up 8.8% QoQ) were growth drivers. North America(up 5.5% QoQ in USD terms) led the growth in terms of geographic breakup.
- EBIT margin was down 129 bps QoQ to 17%, on account of wage hike in the quarter and other supply side constraints.
- Deal booking remained strong as it booked 4 large deal wins with net new TCV of \$79mn.
- Offshore revenue mix grew by 110 bps QoQ to 61.3%
- Added 2,118 employees in the quarter to end the quarter 48,766 employees. Employee utilization increased by 20 bps QoQ to 81.3%. LTM attrition was down 20 bps QoQ to 23.8%
- Added 29 new clients during the quarter compared to addition of 25 in Q4FY22.
- Billed DSO decreased by 4 days QoQ to 61 days

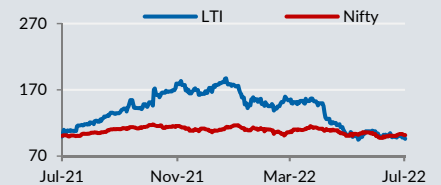
Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	45,228	45,339	44,840	-0.2%	0.9%
EBITDA	8,308	8,252	7,866	0.7%	5.6%
EBITDA Margin (%)	18.37%	18.20%	17.54%	12 bps	83 bps
Adjusted PAT	6,344	6,165	5,756	2.9%	10.2%

Reco	: BUY
CMP	: Rs 3,874
Target Price	: Rs 4,960
Potential Return	: +28.0%

Stock data (as on July 14, 2022)

Nifty	15,939
52 Week h/l (Rs)	7589 / 3733
Market cap (Rs/USD mn)	679124 / 8502
Outstanding Shares (mn)	175
6m Avg t/o (Rs mn):	2,253
Div yield (%):	1.2
Bloomberg code:	LTI IN
NSE code:	LTI

Stock performance



	1M	3M	1Y
Absolute return	-6.9%	-35.4%	-7.0%

Shareholding pattern (As of Jun'22 end)

Promoter	74.1%
FII+DII	17.6%
Others	8.4%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	4,960	6,451

Δ in earnings estimates

	FY22	FY23E	FY24E
EPS (New)	130.9	155.4	183.7
EPS (Old)	130.9	159.0	189.7
% change	NA	-2.3%	-3.2%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Net Revenue	156,687	187,510	220,977
YoY Growth	26.7%	19.7%	17.8%
EBIDTA	30,585	36,053	43,311
YoY Growth	12.2%	17.9%	20.1%
PAT	22,986	27,295	32,270
YoY Growth	18.6%	18.7%	18.2%
ROE	28.5%	27.9%	27.1%
EPS	131	155	184
P/E	29.6	24.9	21.1
BV	502	612	746
P/BV	7.7	6.3	5.2

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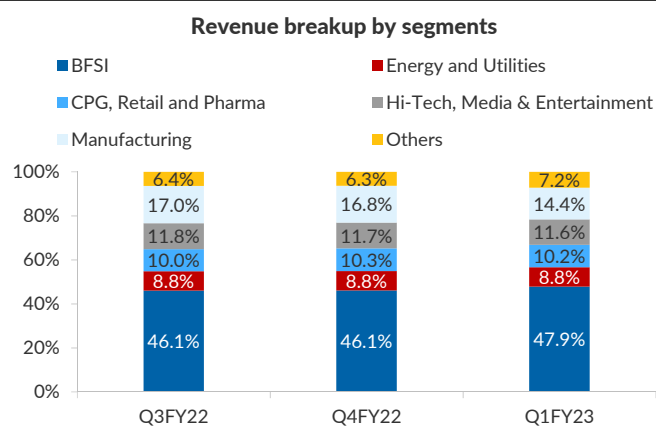
Exhibit 1: Quarterly snapshot

(Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	yoy%	qoq %	FY22	FY21	yoy%
Sales (\$ mn)	447.4	470.2	509.0	553.0	570.4	580.2	23.4	1.7	2,103	1,670	25.9
Sales	32,694	34,625	37,670	41,376	43,016	45,228	30.6	5.1	156,687	123,698	26.7
EBITDA	7,155	6,478	7,332	8,311	8,464	8,308	28.2	(1.8)	30,585	27,251	12.2
EBITDA %	21.9	18.7	19.5	20.1	19.7	18.4	-34 bps	-131 bps	19.5	22.0	-251 bps
Depreciation	826	795	850	885	1,019	1,065	34.0	4.5	3,549	3,325	6.7
EBIT	6,329	5,683	6,482	7,426	7,445	7,243	27.5	(2.7)	27,036	23,926	13.0
EBIT Margin %	19.4	16.4	17.2	17.9	17.3	16.0	-40 bps	-129 bps	17.3	19.3	-209 bps
PBT	7,168	6,722	7,420	8,237	8,596	8,510	26.6	(1.0)	30,975	25,881	19.7
Tax	1,711	1,753	1,903	2,112	2,221	2,166	23.6	(2.5)	7,989	6,500	22.9
PAT	5,457	4,969	5,517	6,125	6,375	6,344	27.7	(0.5)	22,986	19,381	18.6
NPM (%)	16.7	14.4	14.6	14.8	14.8	14.0	-32 bps	-79 bps	14.7	15.7	-100 bps

KEY CON-CALL HIGHLIGHTS

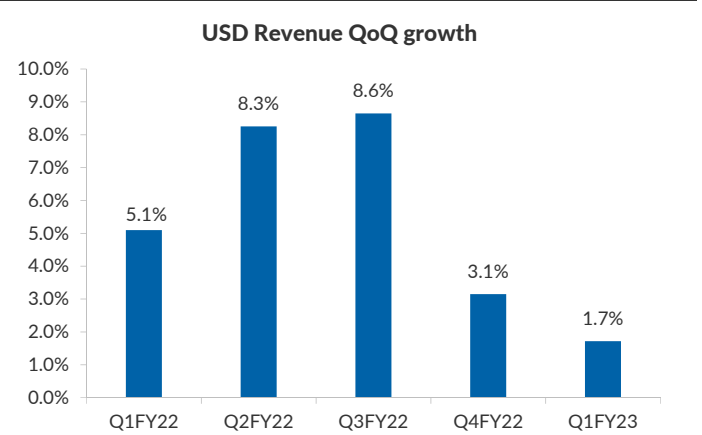
- Deal pipeline remains healthy and it is confident of maintaining growth momentum. It is in the final stages of signing few more large deals
- Not seeing any cancellation or deferment of deals as of now. But, there is slight level of caution among clients and that is leading to short term acceleration in deal pipeline
- Sequential decline in revenue of manufacturing vertical was seasonal in nature
- Recruitment plans are on track as it aims to hire 6500 freshers for FY23
- Onsite attrition has started to cool off, thus supporting margin
- Has reached out to all stakeholders regarding Mindtree merger announcement and has received positive feedback. A steering committee has been set up, which has been meeting regularly to oversee merger process. Between the two companies, there are some 700 clients with very little overlap.
- There has been no increase in attrition at senior level after the announcement of merger.
- Almost all impact of wage hike is there in Q1 and wage hike for select senior people will be done in Q2
- Guided for net margin of 14-15% for FY23.

Exhibit 2: Growth was broadbased across BFS



Source: Company, YES Sec

Exhibit 3: Sequential revenue growth was impacted due to cross currency headwinds



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	87,971	107,342	130,809
Shareholders' funds	38,598	48,938	54,040	73,034	88,146	107,517	130,984
Minority Interests and others	13	8	11	37	57	57	57
Non-current liabilities	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	34,967	38,587
ST borrowings, Curr maturity	0	0	320	414	519	519	519
Other current liabilities	13,434	16,463	22,992	25,909	28,664	34,448	38,068
Total (Equity and Liabilities)	53,498	66,692	88,249	107,091	124,693	150,465	177,576
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	113,739	140,117
Cash & current investment	16,276	21,552	27,438	43,876	39,139	48,719	64,562
Other current assets	25,369	30,149	35,852	37,437	49,517	65,020	75,554
Total (Assets)	53,498	66,692	88,249	107,091	124,693	150,465	177,576
Total debt	0	0	320	414	519	519	519
Capital employed	40,064	50,229	65,257	81,182	96,029	116,017	139,508

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	187,510	220,977
Operating expenses	(61,189)	(75,623)	(88,494)	(96,447)	(126,102)	(151,457)	(177,665)
EBITDA	11,876	18,835	20,292	27,251	30,585	36,053	43,311
Depreciation	(1,563)	(1,471)	(2,731)	(3,325)	(3,549)	(4,622)	(5,524)
EBIT	10,313	17,364	17,561	23,926	27,036	31,431	37,787
Other income	4,102	2,917	2,466	1,955	3,939	5,183	5,501
Profit before tax	14,415	20,281	20,027	25,881	30,975	36,614	43,288
Tax (current + deferred)	(3,290)	(5,123)	(4,825)	(6,500)	(7,989)	(9,319)	(11,018)
Reported Profit / (Loss)	11,125	15,158	15,202	19,381	22,986	27,295	32,270
Adjusted net profit	11,125	15,158	15,202	19,381	22,986	27,295	32,270

Exhibit 6: Cash Flow Statement

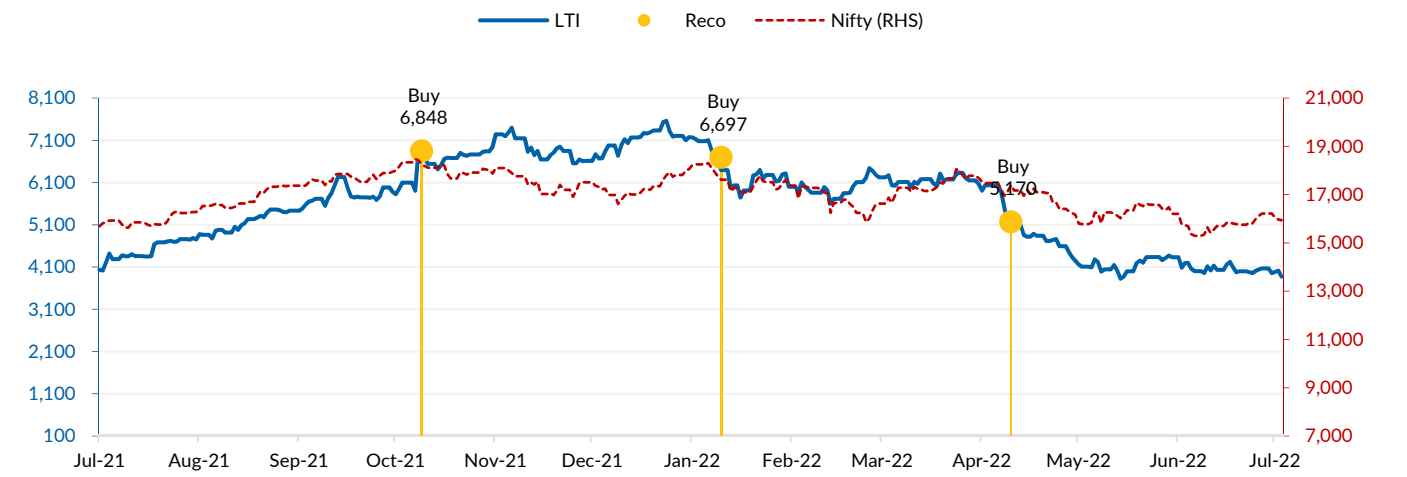
Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	14,415	20,281	20,027	25,881	30,975	36,614	43,288
Depreciation	1,563	1,471	2,731	3,325	3,549	4,622	5,524
Change in working capital	(4,295)	(1,809)	1,158	1,302	(9,580)	(9,700)	(6,893)
Total tax paid	(3,813)	(4,753)	(5,750)	(4,827)	(7,637)	(9,350)	(11,051)
Others	(4,102)	(2,917)	(2,466)	(1,955)	(3,939)	(5,183)	(5,501)
Cash flow from oper. (a)	3,768	12,273	15,700	23,726	13,368	17,003	25,367
Capital expenditure	(1,622)	(1,913)	(11,772)	(2,949)	(8,834)	(5,006)	(5,928)
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	4,918	5,212
Cash flow from inv. (b)	763	(4,643)	(12,919)	(17,755)	(4,624)	(3,225)	(4,166)
Free cash flow (a+b)	4,531	7,630	2,781	5,971	8,744	13,778	21,201
Equity raised/(repaid)	1	2	0	1	0	0	0
Debt raised/(repaid)	0	0	320	94	105	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	(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	6,444	12,393

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	19.7	17.8
EBITDA Growth	(3.5)	58.6	7.7	34.3	12.2	17.9	20.1
EBIT Growth	(2.0)	68.4	1.1	36.2	13.0	16.3	20.2
Net Profit Growth	14.5	36.3	0.3	27.5	18.6	18.7	18.2
Profitability Ratios (%)							
EBITDA Margin	16.3	19.9	18.7	22.0	19.5	19.2	19.6
EBIT margin	14.1	18.4	16.1	19.3	17.3	16.8	17.1
Net Profit margin	15.2	16.0	14.0	15.7	14.7	14.6	14.6
RoA	21.1	28.9	22.7	24.5	23.3	22.8	23.0
RoE	31.8	34.6	29.5	30.5	28.5	27.9	27.1
RoCE	28.7	38.5	30.4	32.7	30.5	29.6	29.6
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	3.3	3.6
Quick ratio (x)	3.1	3.1	2.7	3.1	3.0	3.3	3.6
Valuation Ratios							
PER(x)	NA	NA	NA	NA	29.6	24.9	21.1
PCE(x)	NA	NA	NA	NA	25.6	21.3	18.0
Price/Book(x)	NA	NA	NA	NA	7.7	6.3	5.2
EV/EBITDA(x)	NA	NA	NA	NA	21.0	17.5	14.2

Dupont Analysis	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net margin (%)	15.2	16.0	14.0	15.7	14.7	14.6	14.6
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	27.9	27.1

Recommendation Tracker



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