



LTI delivered a robust performance Q2FY22 and reported revenue growth and margins which were a big beat versus our estimates

- \$ Revenue came in at \$ 509 Mn, +8.3% qoq / +25.8% yoy and +3.3% above our estimates
- INR revenue came in at INR 37,670 Mn, +8.8% qoq / +25.6% yoy and 3.2% above our estimates
- EBITDA at INR 7,332 Mn, +13.2% qoq / +6.9% yoy and +7.5% above our estimates
- EBITDA Margins stood at 19.5% vs 18.7% / 22.9% in Q1FY22 / Q2FY21 respectively and 80 bps above our estimates
- EBIT at INR 6,482 Mn, +14.1% qoq / +8.8% yoy and +7.5% above our estimates
- EBIT margins of 17.2%, vs 16.4% / 19.9% in Q1FY22 / Q2FY21 respectively and 70 bps above our estimates
- PAT came in at INR 5,517 Mn, +11% qoq / +20.8% yoy and 6.9% above our estimates
- EPS at INR 31.5 vs 28.4 / 26.1 in Q1FY22 / Q2FY21 respectively
- Company declared an interim dividend of INR 15 per share

Segmental Performance

- Growth was primarily driven by Manufacturing (10.1% of revenue) at +12.4% qoq / +20.8% yoy, BFS (32.5% of revenue) at +9.6% qoq / +36.8% yoy, Hi-Tech, Media & Entertainment vertical (12.5% of revenue) at +6.9% qoq / +48.5% yoy and Others (6.2% of revenue) at +14.2% qoq / +38.4% yoy

Service-wise Performance

- *Services-wise:* Enterprise Integration & Mobility (9.3% of revenue) grew at +16.2% qoq / +41.3% yoy, Analytics, AI & Cognitive (12.1% of revenue) at +11.9% qoq / 43.7% yoy and ADM & Testing (34.2% of revenue) at +8.7% qoq / +19.5% yoy. Enterprise Solutions (30.4% of revenue) grew at +7.2% qoq / +24.3% yoy

Financial Summary

Y/E Mar (Rs mn)	FY 19	FY 20	FY 21	FY 22E	FY 23E
Net sales	94,458	108,786	123,698	157,474	188,207
EBIT	17,361	17,562	23,926	26,914	31,989
Adjusted net profit	15,147	15,200	19,381	22,870	26,604
Free cash flow	18,941	17,217	35,072	26,105	34,353
EPS (Rs)	86.4	86.4	110.2	130.1	151.3
growth (%)	36%	0%	28%	18%	16%
P/E (x)	68.4	68.4	53.6	45.4	39.0
P/B (x)	21.2	19.2	14.2	11.7	9.9
EV/EBITDA (x)	54.8	50.9	37.8	33.9	28.9
Market Cap (INR Mn)	1,035,639	1,038,951	1,038,576	1,038,576	1,038,576
ROCE (%)	34.0	29.6	30.5	28.6	27.8
RoE (%)	34.6	29.5	30.5	28.3	27.5
Dividend yield (%)	0.4	0.5	0.5	0.6	0.8

Source: Company

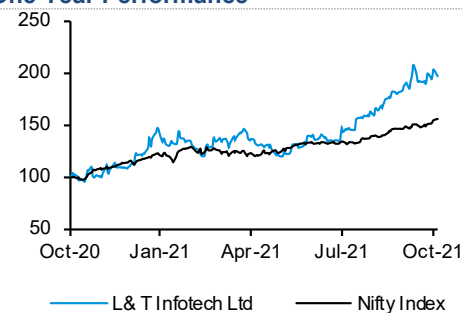
Rating	TP (Rs)	Up/Dn (%)
BUY	7,566	28

Market data

Current price	Rs	5,906
Market Cap (Rs.Bn)	(Rs Bn)	1,035
Market Cap (US\$ Mn)	(US\$ Mn)	13,794
Face Value	Rs	1
52 Weeks High/Low	Rs	6,499 / 2,821
Average Daily Volume	('000)	509
BSE Code		535755
Bloomberg		LTI:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-22	Mar-22
Promoters	74.09	74.25
Public	25.91	25.75
Others	0.50	0.48
Total	100	100

Source: BSE

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Conference Call Key Takeaways

- **Management indicated that demand was broad-based across verticals and services and sees this strong demand sustain for the next 3 years.**

Demand is strong due to 3 broad trends: clients shifting to new business model and want to partner with tech firms which is translating into high discretionary spend, 2. New spend areas where the surface is barely scratched, for example ESG, cloud security, etc. and 3. Clients witnessing a shortage of talent in tech and therefore aggressively moving towards automation. Early acquisition of talent and development of partnership ecosystem has aided LTI to ride the demand wave

- **Margin walk:** 70 bps SGA leverage marginally offset by lower utilization and operational improvements offset by wage inflation
- **Pricing:** No pricing pressure witnessed as was the case earlier

FY22e Outlook:

- Pipeline is extremely healthy and this is the best demand environment that management has seen in history. **Will be in leaders' quadrant for growth and deliver 14-15% PAT Margin in FY22e.**
- Increase realization rates happening in pockets but LTI is still focusing on growth rather than realizations
- Europe: Seeing good traction across all verticals, won 1 large deal also
- Don't expect the onsite-offshore effort mix to change much from current levels
- Fresher intake in India increased to 5500 freshers in FY22e

Industry-wise commentary:

- **BFS:** continued its growth trajectory in Q2FY22. See client spend shift from operations to modernization.
- **Insurance:** was a laggard earlier but now seeing traction from Q1FY22. Seeing positive momentum from new leadership but still work needs to be done.
- **Manufacturing:** See good demand in this segment across Industrial Manufacturing, Automotive. 3 key trends in Manufacturing: core digitization going on (in ERP economy), 2. Strong demand in data side of systems and 3. Business model changes for eg. Many industries are moving to direct-to-customer model
- **Energy & Utilities:** Energy continues to be choppy but good demand seen in Utilities
- **CPG:** Data related projects in CPG and direct to consumer outreach drove CPG vertical. Will see pick up in H2FY22e.

Operating Cash Flow stood INR 5,041 Mn during the quarter
Cash & Bank stood at INR 38,403 Mn

Historically, H2 has been stronger than H1, same phenomenon can play out in FY22e as well

Quarterly Performance Analysis

Exhibit 1

Consolidated financial results							
INR mn	Q2FY22	Q2FY21	YoY Growth	Q1FY22	QoQ Growth	Q2FY22E	Deviation
Revenue (US\$)	509	405	25.8%	470	8.3%	493	3%
Revenue (INR)	37,670	29,984	25.6%	34,625	8.8%	36,498	3%
Direct costs	26,011	19,537	33.1%	23,898	8.8%	25,200	3%
Gross profit	11,659	10,447	11.6%	10,727	8.7%	11,299	3%
S,G&A	4,327	3,591	20.5%	4,249	1.8%	4,479	-3%
Total expenses	30,338	23,128	31.2%	28,147	7.8%	29,679	2%
EBITDA	7,332	6,856	6.9%	6,478	13.2%	6,820	8%
D&A	850	899	-5.5%	795	6.9%	792	7%
EBIT	6,482	5,957	8.8%	5,683	14.1%	6,028	8%
Other income	1,112	366	203.8%	1,216	-8.6%	1,123	-1%
Net profit before tax and exceptional items	7,420	6,131	21.0%	6,722	10.4%	6,981	6%
Provision for tax on above	1,903	1,563	21.8%	1,753	8.6%	1,821	5%
Net profit pre-exceptionals	5,517	4,568	20.8%	4,969	11.0%	5,160	7%
Reported net profit	5,517	4,568	20.8%	4,969	11.0%	5,160	7%
Margins (%)							
Gross margins	31.0%	34.8%	-389	31.0%	-3	28.5%	241
EBITDA margin	19.5%	22.9%	-340	18.7%	75	18.4%	102
PAT margin	14.6%	15.2%	-59	14.4%	29	14.1%	53

LTI's Q2FY22 performance was a big beat on our estimates across the board

Margins improved as headwinds such as wage inflation and lower utilization were more than offset by Operational improvements and SGA leverage

Company has increased its fresher intake target to 5,500 for FY22

Management indicated that 14-15% PAT margins are sustainable for FY22e

Source: Dalal & Broacha Research, Company

Valuation & Outlook

LTI is currently trading at 45.4x / 39x FY22e / FY23e EPS. Management has indicated that company has a healthy order pipeline and is confident of delivering industry leading double-digit growth in FY22e. Additionally, as per the commentary, one can expect the current robust demand environment to sustain for another 3 years. Historically, H2 has been stronger than H1 and a similar story can play out on an already robust H1FY22 performance - making LTI deliver industry leading growth coupled with sustainable margins. Pricing also seems to be stable with increases in pockets and company is well equipped in terms of talent and partner ecosystem to take advantage of the strong demand wave in the technology space.

Taking the consistently strong performance into consideration coupled with robust outlook and management confidence into consideration, we upgrade our rating from a HOLD to a BUY as we upgrade our EPS estimates from INR 121 / 133.2 earlier to INR 130.1 / 151.3 as well as upgrade our applied forward multiple from 30x to industry leading 50x and arrive at revised target price of INR 7,566 (from INR 3,996 earlier).

We believe that LTI has the capability and capacity to ride this multiyear technology transformation demand and therefore is upgraded as our "Top pick" in the IT services space.

Financial

P&L Statement						Balance Sheet					
INR mn	FY19	FY20	FY21	FY22E	FY23E	INR Mn	FY19	FY20	FY21	FY22E	FY23E
Revenue	94,458	1,08,786	1,23,698	1,57,474	1,88,207	Share capital	174	174	174	174	174
<i>Growth (%)</i>	<i>29%</i>	<i>15%</i>	<i>14%</i>	<i>27%</i>	<i>20%</i>	Reserves and surplus	48,764	53,866	72,859	88,450	1,04,656
Gross Profit	32,814	35,197	41,505	49,034	57,981	Net Worth	48,938	54,040	73,033	88,624	1,04,830
EBITDA	18,833	20,292	27,251	30,237	35,396	Non Current Liabilities					
<i>EBITDA Margin (%)</i>	<i>19.9%</i>	<i>18.7%</i>	<i>22.0%</i>	<i>19.2%</i>	<i>18.8%</i>	Deferred Tax liabilities	56	101	35	35	35
Depreciation	1,472	2,730	3,325	3,323	3,407	Total debt	936	3,204	859	859	859
EBIT	17,361	17,562	23,926	26,914	31,989	Current Liabilities					
<i>EBIT Margin (%)</i>	<i>18.4%</i>	<i>16.1%</i>	<i>19.3%</i>	<i>17.1%</i>	<i>17.0%</i>	Trade payables	4,669	6,950	8,277	6,623	7,955
Other Income	3,023	3,289	2,743	4,575	4,473	Total Net Worth and Liabilities	66692	88249	103902	119069	136607
Exceptional items	0	0	0	0	0	Assets					
PBT	20,278	20,025	25,881	30,797	35,781	Non Current Assets					
Reported PAT	15,147	15,200	19,381	22,870	26,604	Net fixed assets	3052	4031	2700	1238	1071
Adj PAT	15,147	15,200	19,381	22,870	26,604	Intangible Assets	6247	7474	8961	11559	13965
<i>PAT Margin (%)</i>	<i>16%</i>	<i>14%</i>	<i>16%</i>	<i>15%</i>	<i>14%</i>	Investments	20120	23757	40405	37006	44229
EPS (Rs.)	86.4	86.4	110.2	130.1	151.3	Deferred tax assets	2386	3039	1476	1476	1476
<i>EPS Growth (%)</i>	<i>36%</i>	<i>0%</i>	<i>28%</i>	<i>18%</i>	<i>16%</i>	Current Assets					
Ratio Analysis						Cash and bank balances	4150	5252	5583	11542	13261
	FY19	FY20	FY21	FY22E	FY22E	Loans & advances	11886	12731	16602	16602	16602
Margin ratios						Trade Receivables	18263	23121	20835	30201	36094
Gross	34.7%	32.4%	33.6%	31.1%	30.8%	Total assets	66692	88249	103902	119069	136607
EBITDA	19.9%	18.7%	22.0%	19.2%	18.8%	Cash Flow Statement					
Adj PAT	16.0%	14.0%	15.7%	14.5%	14.1%	INR Mn	FY19	FY20	FY21	FY22E	FY22E
Performance ratios						PAT	15147	15200	19381	22870	26604
Pre-tax OCF/EBITDA	99.3%	101.3%	107.5%	72.0%	93.9%	Less: Non Operating Income	-3023	-3289	-2743	-4575	-4473
RoE (%)	34.6%	29.5%	30.5%	28.3%	27.5%	Add: Depreciation	1472	2730	3325	3323	3407
ROCE (%)	34.0%	29.6%	30.5%	28.6%	27.8%	Operating Profit before WC Changes	13702	15467	20751	22309	26220
RoCE (Pre-tax)	45.5%	38.9%	40.7%	38.5%	37.4%	(Inc)/Dec in Current Assets	-9539	-10487	-15681	-3004	-11733
RoIC (Pre-tax)	38.0%	34.0%	35.2%	34.7%	34.8%	Inc/(Dec) in Current Liabilities	3029	5621	-143	-1654	1331
Return on Total Assets	26.0%	19.9%	23.0%	22.6%	23.4%	Net Cash from Operations	7192	10601	4927	17652	15818
Fixed asset turnover (x)	34.0	30.7	36.8	80.0	163.1	Cash Flow from Investing Activities					
Total asset turnover (x)	1.6	1.4	1.3	1.4	1.5	(Inc)/Dec in Fixed Assets	-2016	-3709	-1994	-1861	-3240
Valuation metrics						(Inc)/Dec in Investment (Strategic)	-955	1060	-2449	-2963	-1383
Fully Diluted Shares (mn)	175	176	176	176	176	Add: Non Operating Income Income	3,023	3,289	2,743	4,575	4,473
Market cap (Rs.mn)	10,35,639	10,38,951	10,38,576	10,38,576	10,38,576	Cash from Investing Activities	-1,943	-1,064	-3,257	-2,847	-2,556
P/E (x)	68.4	68.4	53.6	45.4	39.0	Cash Flow from Financing Activities					
EV (Rs.mn)	10,32,425	10,33,591	10,30,915	10,24,956	10,23,238	Dividend Paid	-4499	-4864	-5592	-6116	-8738
EV/ EBITDA (x)	54.8	50.9	37.8	33.9	28.9	Tax Paid on Dividend	-842	-815	-671	-1162	-1660
FCF Yield	1.2%	1.3%	1.8%	0.8%	2.2%	Net Cash from Financing Activities	-4726	-9545	-1606	-7970	-11079
P/BV (x)	21.2	19.2	14.2	11.7	9.9	Opening Balance	3632	4150	5252	5583	11542
Dividend pay-out (%)	35.3%	37.4%	32.3%	31.8%	39.1%	Closing Cash Balance	4155	4142	5316	12418	13725
Dividend yield (%)	0.4%	0.5%	0.5%	0.6%	0.8%	Free Cash Flow Statement					
						INR Mn	FY19	FY20	FY21	FY22E	FY23E
						EBITDA	18,833	20,292	27,251	30,237	35,396
						FC Investment	-2016	-3709	-1994	-1861	-3240
						WC Changes	-6510	-4866	-15824	-4657	-10402
						Depreciation Tax Shield	372	658	835	855	874
						Tax Expenses	4758	4889	6844	7783	9078
						FCF	18941	17217	35072	26105	34353

Source: Dalal & Broacha Research, Company

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