

Deal Wins & Pipeline remain robust



LTI reported a decent set of numbers with a marginal beat on our estimates

- **\$ Revenue came in at \$ 447.4 Mn, +4.6% qoq / +9.1% yoy and +0.6% above our estimates**
- **INR revenue came in at INR 32,694 Mn, +3.7% qoq / +8.5% yoy and in-line with our estimates**
- **EBITDA was reported at INR 7,155 Mn, -2.3% qoq / 23.8% yoy and 2.6% above our estimates**
- **EBITDA Margins stood at 21.9% vs 23.2% / 19.2% in Q3FY21 / Q4FY20 respectively and 54 bps above our estimates**
- **EBIT was reported at INR 6,329 Mn, -2.6% qoq / +25.7% yoy and +3.2% above our estimates**
- **EBIT margin stood at 19.4%, vs 20.6% / 16.7% in Q3FY21 / Q4FY20 respectively and 60 bps above our estimates**
- **PAT came in at INR 5,457 Mn, +5.1% qoq / +27.7% yoy and 11.9% above our estimates**
- **EPS at INR 31.2 in Q4FY21 vs 29.7 / 24.5 in Q3FY21 / Q4FY20 respectively**
- **Company declared a Final Dividend of INR 25 per share**

Segmental Performance

- Growth was led by **Hi-Tech, Media & Entertainment (11.8% of Revenue)** which had a robust growth of 16% QoQ & 16.3% YoY followed by **Manufacturing (16.9% of Revenue) & BFS (30.7% of Revenue)** as both grew by 5% sequentially.
- **Others (6.2% of Revenue)** grew by 8.2% QoQ & 69.7% YoY. **CPG, Retail & Pharma (10.8% of Revenue)** had a healthy growth of 3.5% QoQ & 5.4% YoY whereas **Insurance (14.5% of Revenue)** had a sluggish growth of 0.8% QoQ. **Energy & Utilities (9.1% of Revenue)** and the only vertical that declined by -4.8% QoQ & -12.6% YoY.

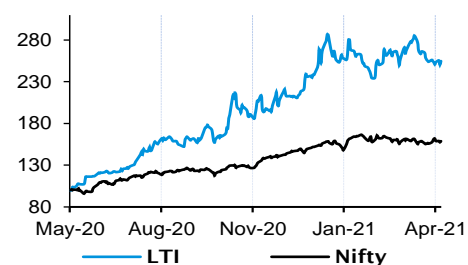
| Rating | TP (Rs) | Up/Dn (%) |
|-------------|-------------|------------|
| HOLD | 3424 | -12 |

Market data

| Current price | Rs | 3913 |
|----------------------|-----------|-----------|
| Market Cap (Rs.Bn) | (Rs Bn) | 684 |
| Market Cap (US\$ Mn) | (US\$ Mn) | 9272 |
| Face Value | Rs | 1 |
| 52 Weeks High/Low | Rs | 4499/1515 |
| Average Daily Volume | ('000) | 257 |
| BSE Code | | 540005 |
| Bloomberg | | LTI:IN |

Source: Bloomberg

One Year Performance



Source: Bloomberg

| % Shareholding | Mar-21 | Dec-20 |
|----------------|------------|------------|
| Promoters | 74.27 | 74.31 |
| Public | 25.73 | 25.69 |
| Others | 0.00 | 0.00 |
| Total | 100 | 100 |

Source: BSE

| Y/E Mar (Rs mn) | FY 19 | FY 20 | FY 21E | FY 22E | FY 23E |
|---------------------|----------|----------|----------|----------|----------|
| Net sales | 94,458 | 1,08,786 | 1,23,698 | 1,43,733 | 1,61,058 |
| EBIT | 17,361 | 17,562 | 23,926 | 27,005 | 28,263 |
| Adjusted net profit | 15,147 | 15,200 | 19,381 | 22,775 | 24,030 |
| Free cash flow | 18,941 | 17,217 | 35,072 | 21,389 | 27,565 |
| EPS (Rs) | 86.4 | 86.4 | 110.2 | 129.5 | 136.7 |
| growth (%) | 36% | 0% | 28% | 18% | 6% |
| P/E (x) | 45.3 | 45.2 | 35.5 | 30.2 | 28.6 |
| P/B (x) | 14.0 | 12.7 | 9.4 | 7.7 | 6.7 |
| EV/EBITDA (x) | 36.2 | 33.7 | 25.0 | 22.4 | 21.0 |
| Market Cap (INR Mn) | 6,85,517 | 6,87,709 | 6,87,461 | 6,87,461 | 6,87,461 |
| ROCE (%) | 34.0 | 29.6 | 30.5 | 28.6 | 25.5 |
| RoE (%) | 34.6 | 29.5 | 30.5 | 28.2 | 25.2 |
| Dividend yield (%) | 0.7 | 0.7 | 0.8 | 0.9 | 1.3 |

Source: Dalal & Broacha Research

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Service-wise Performance

- Growth was led by **Cloud Infrastructure & Security (15.1% of Revenue)** which has a strong growth of 10.2% QoQ & 31% YoY followed by **Enterprise Solutions (32.3% of Revenue) & ADM and Testing (33.3% of Revenue)** growing at a healthy 7.5% QoQ & 3.7% QoQ respectively.
- **Analytics, AI & Cognitive (11.1% of Revenue)** which had a strong growth in the previous quarter declined by -1.8% QoQ and **Enterprise Integration & Mobility (8.2% of Revenue)** also declined by -3% QoQ.

Digital Revenue (45.6% of Topline) had a healthy growth of 7.5% QoQ & 22.3% YoY

Conference Call Key Highlights

Operational Highlights

- **Other Income Write-back: Other Income in FY21 includes write back of certain earn outs payable** towards an earlier acquisition amounting to Rs. 571 Mn.
- **Collections & Working Capital: In FY21, DSO (including un billed) stood at 94 days vs 106 days in FY20. An improvement in 12 days indicates collection efficiency.** Net Working capital stood at 15.1% of Revenue in FY21 vs 16.4% of Revenue in FY20.
- **Cash Position: Cash was reported at Rs. 43,877 Mn as of March 31, 2021 as against Rs. 38,560 Mn as of December 31, 2020.**
- **Azure Milestone: LTI is now a certified Azure expert managed service provider** and one of the few selected Microsoft providers to be awarded with MSP badge.
- **Wage Hike & Employees: Rolled out salary hikes effective April 1, 2021 (excluding senior management).** Total Headcount stood at 35,991 vs 33,983 in Q3 with one of the strongest hiring taking place in H2FY21.

Margin Contraction: Operating Margin stood at 19.4% in Q4 vs 20.6% in Q3. Margin declined by 120 bps and was mainly impacted by the wage hike taken in January, 2021 which was offset partly by operational efficiency.

Cloud Infrastructure: Cloud Infrastructure remains robust and LTI has entered into new global strategic partnership with AWS to enable accelerated cloud adoption requirements of enterprises.

Deal Wins & Pipeline

- **One of the large deals was a vendor consolidation deal (existing logo) for management of core insurance platforms** for a large Fortune 500 Insurance company in North America. **Deal tenure is for 5 years and the Net New TCV is \$21 Mn.**
- **Other large deal is in the BFS vertical (New Logo) with one of the largest Islamic Banks** is in the process of digital transformation to enhance financing products capability. **Deal tenure is for 2 years and the Net New TCV is \$45 Mn.**
- **Ramp up on Indijat deal has happened earlier than expected** with completion of re-batching 350 resources and its in full operational mode currently.

LTI won two large deals with a net new TCV of \$66 Mn in Q4FY21 and this culminates into a record large deal TCV for FY21.

Pipeline continues to be healthy with addition of 2 Fortune 500 Logos in Q4FY21. LTI added 5 new logos in FY21 and now has a total of 71 Fortune 500 Logos.

Vertical Highlights

1. BFS (30.7% of Revenue)

- **Growth of 5% QoQ was led by broad based performance of all the clients in this vertical.**

- In Q3, LTI announced partnership with Temenos in Nordics region to enable digital banking platform. LTI has won its 1st customer in this area, a European Financial Services company to provide banking as a service for its Loan segment.
- 2. Insurance (14.5% of Revenue)**
 - Had a flat growth of 0.8% QoQ and **one of the large deal wins is in this vertical as a result of vendor consolidation.**
 - 3. Manufacturing (16.9% of Revenue)**
 - Grew 5.5% sequentially which was led by **ramp up of existing logos and some pass-through revenues with one of the Indian engagements which closed in H2FY21.**
 - 4. Energy & Utilities (9.1% of Revenue)**
 - **One of the non-performing verticals of FY21 (declined by -2.8% YoY in FY21) due to declining oil prices and the impact of covid.**
 - One of the large Fortune 500 clients added this quarter belongs to this vertical.
 - 5. CPG, Retail & Pharma (10.8% of Revenue)**
 - Grew 3.5% QoQ driven by some of the large deals announced in the previous year as well as the existing logos.
 - 6. Hi-Tech, Media & Entertainment (11.8% of Revenue)**
 - **Robust growth of 16% QoQ led by the large deal win announced with Indijat in Q3.**
 - Good client additions in this vertical during the quarter. Second Fortune 500 client added in Q4 belongs to this vertical.
 - 7. Others (6.2% of Revenue)**
 - Others (Govt. & Defense Business, Professional Services & Psuedo-Govt bodies) **registered 8.2% QoQ growth led by ramp of earlier announced large deal wins and some of the existing logos.**

Outlook

- **Net Margin will remain in the narrow band of 14-15% in FY22 (earlier guidance sustained) mainly due to key investments** in area of capacity building & sales, post-covid workspaces, re-scaling, diversity & localizations and uncertainty from second wave of covid in India (employees impacted).
- **Margins will be aided by the levers of operational efficiency such as cost optimization & transformation along with Revenue growth** which will be the biggest lever for margin improvement.
- **SG&A cost has been in the band of 12% of Revenue and will be in-line or lower in the upcoming quarters** (provision of Rs. 180 Mn for covid benefits was one-time expense).
- With ramping up of deals, hiring will be done. **Hiring is in-line with expectations and freshers will be hired in Q2 & Q3 of FY22 (traditionally Q3 & Q4).**

One of the large deals wins is with a new logo from this vertical which involves digital banking transformation platform to integrate systems using the Temenos platform.

Reported soft numbers for Insurance in the past year however the firm is taking measures to strengthen their performance in this vertical.

Last quarter LTI won a large deal (TCV \$74 Mn) with a global Fortune 500 Energy company which is in transition phase and is going as per schedule. Further ramp up in the deal will be in FY22.

Pipeline remains healthy with strong execution and deal win momentum. Strong Q4 exit rate, strength of the pipeline and healthy conversations with the customers will enable LTI to be in the Leader's quadrant of growth in FY22.

Injizat deal will fully ramp up by Q1FY22. Other deals announced last quarter are already in transition and will start ramping up in Q1FY22 whereas the full deal ramp up will be in Q2FY22.

Quarterly Performance Analysis

Exhibit 1

| Consolidated financial results | | | | | | | |
|---|--------|--------|------------|--------|------------|---------|-----------|
| INR mn | Q4FY21 | Q4FY20 | YoY Growth | Q3FY21 | QoQ Growth | Q4FY21E | Deviation |
| Revenue (US\$) | 447 | 410 | 9.1% | 428 | 4.6% | 445 | 1% |
| Revenue (INR) | 32,694 | 30,119 | 8.5% | 31,528 | 3.7% | 32,679 | 0% |
| Direct costs | 22,233 | 20,251 | 9.8% | 20,507 | 8.4% | 21,847 | 2% |
| Gross profit | 10,461 | 9,868 | 6.0% | 11,021 | -5.1% | 10,831 | -3% |
| S,G&A | 3,306 | 4,087 | -19.1% | 3,701 | -10.7% | 3,856 | -14% |
| Total expenses | 25,539 | 24,338 | 4.9% | 24,208 | 5.5% | 25,703 | -1% |
| EBITDA | 7,155 | 5,781 | 23.8% | 7,320 | -2.3% | 6,975 | 3% |
| D&A | 826 | 747 | 10.6% | 819 | 0.9% | 844 | -2% |
| EBIT | 6,329 | 5,034 | 25.7% | 6,501 | -2.6% | 6,131 | 3% |
| Other income | 1,030 | 700 | 47.1% | 689 | 49.5% | 609 | 69% |
| Net profit before tax and exceptional items | 7,168 | 5,513 | 30.0% | 6,993 | 2.5% | 6,569 | 9% |
| Provision for tax on above | 1,711 | 1,239 | 38.1% | 1,801 | -5.0% | 1,692 | 1% |
| Net profit pre-exceptionals | 5,457 | 4,274 | 27.7% | 5,192 | 5.1% | 4,877 | 12% |
| Reported net profit | 5,457 | 4,274 | 27.7% | 5,192 | 5.1% | 4,877 | 12% |
| Margins (%) | | | | | | | |
| Gross margins | 32.0% | 32.8% | -77 | 35.0% | -296 | 33.1% | -115 |
| EBITDA margin | 21.9% | 19.2% | 269 | 23.2% | -133 | 21.3% | 54 |
| PAT margin | 16.7% | 14.2% | 250 | 16.5% | 22 | 14.9% | 177 |

LTI posted decent set of numbers with marginal beat on our estimates

Margins contracted 120 bps sequentially led by the wage hike impact

Expect net margins to be in a narrow band of 14-15% in FY22 as the firm will undertake certain investments on infrastructure & employee front

Source: Dalal & Broacha Research, Company

Valuation & Outlook

LTI is currently trading at 30.5x / 28.6% FY22e / FY23e EPS. Vertical-wise performance in Q4FY21 was skewed towards BFS, Hi-tech, Media & Entertainment and Manufacturing whereas other verticals are expected to bounce-back through the course of FY22e. While LTI put up a good show in Q4FY21 and FY21 in terms of industry leading revenue growth and margin performance, margins in FY22 are going to be capped on the back of investments in capabilities and SG&A. Historically, LTI has outperformed (16% revenue CAGR between FY16-FY21) its peers in terms of USD revenue growth.

However, we believe that over FY22 and FY23, LTI will grow in line with the industry average of “double digit revenue growth”. Therefore, we retain our previously applied P/E multiple of 25x FY23e to arrive at a target price of INR 3,424. We believe that current level - wherein there is no room for a solid re-rating - offers a good opportunity for investors to switch from LTI to peers such as Persistent Systems as we expect it to outperform the industry average growth.

Financials

| 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 | 1,43,733 | 1,61,058 | Share capital | 174 | 174 | 174 | 174 | 174 |
| <i>Growth (%)</i> | 29% | 15% | 14% | 16% | 12% | Reserves and surplus | 48,764 | 53,866 | 72,859 | 88,356 | 1,01,987 |
| Gross Profit | 32,814 | 35,197 | 41,505 | 46,370 | 51,747 | Net Worth | 48,938 | 54,040 | 73,033 | 88,530 | 1,02,161 |
| EBITDA | 18,833 | 20,292 | 27,251 | 29,893 | 31,615 | Non Current Liabilities | | | | | |
| <i>EBITDA Margin (%)</i> | 19.9% | 18.7% | 22.0% | 20.8% | 19.6% | Deferred Tax liabilities | 56 | 101 | 35 | 35 | 35 |
| Depreciation | 1,472 | 2,730 | 3,325 | 2,888 | 3,352 | Total debt | 936 | 3,204 | 859 | 859 | 859 |
| EBIT | 17,361 | 17,562 | 23,926 | 27,005 | 28,263 | Current Liabilities | | | | | |
| <i>EBIT Margin (%)</i> | 18.4% | 16.1% | 19.3% | 18.8% | 17.5% | Trade payables | 4,669 | 6,950 | 8,277 | 5,926 | 6,738 |
| Other Income | 3,023 | 3,289 | 2,743 | 3,684 | 3,982 | Total Net worth and Liabili | 66692 | 88249 | 103902 | 118278 | 132722 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 | Assets | | | | | |
| PBT | 20,278 | 20,025 | 25,881 | 29,938 | 31,564 | Non Current Assets | | | | | |
| Reported PAT | 15,147 | 15,200 | 19,381 | 22,775 | 24,030 | Net fixed assets | 3052 | 4031 | 2700 | 1963 | 1717 |
| Adj PAT | 15,147 | 15,200 | 19,381 | 22,775 | 24,030 | Intangible Assets | 6247 | 7474 | 8961 | 11121 | 12847 |
| <i>PAT Margin (%)</i> | 16% | 14% | 16% | 16% | 15% | Investments | 20120 | 23757 | 40405 | 33777 | 37849 |
| EPS (Rs.) | 86.4 | 86.4 | 110.2 | 129.5 | 136.7 | Deferred tax assets | 2386 | 3039 | 1476 | 1476 | 1476 |
| <i>EPS Growth (%)</i> | 36% | 0% | 28% | 18% | 6% | Current Assets | | | | | |
| | | | | | | Cash and bank balances | 4150 | 5252 | 5583 | 16327 | 21433 |
| | | | | | | Loans & advances | 11886 | 12731 | 16602 | 16602 | 16602 |
| | | | | | | Trade Receivables | 18263 | 23121 | 20835 | 27565 | 30888 |
| | | | | | | Total assets | 66692 | 88249 | 103902 | 118278 | 132722 |
| Ratio Analysis | | | | | | Cash Flow Statement | | | | | |
| | FY19 | FY20 | FY21 | FY22E | FY22E | INR Mn | FY19 | FY20 | FY21 | FY22E | FY22E |
| Margin ratios | | | | | | PAT | 15147 | 15200 | 19381 | 22775 | 24030 |
| Gross | 34.7% | 32.4% | 33.6% | 32.3% | 32.1% | Less: Non Operating Income | -3023 | -3289 | -2743 | -3684 | -3982 |
| EBITDA | 19.9% | 18.7% | 22.0% | 20.8% | 19.6% | Add: Depreciation | 1472 | 2730 | 3325 | 2888 | 3352 |
| Adj PAT | 16.0% | 14.0% | 15.7% | 15.8% | 14.9% | Operating Profit before WC | 13702 | 15467 | 20751 | 22730 | 24082 |
| Performance ratios | | | | | | (Inc)/Dec in Current Assets | -9539 | -10487 | -15681 | 2242 | -6614 |
| Pre-tax OCF/EBITDA | 99.3% | 101.3% | 107.5% | 75.6% | 97.8% | Inc/(Dec) in Current Liabilities | 3029 | 5621 | -143 | -2351 | 812 |
| RoE (%) | 34.6% | 29.5% | 30.5% | 28.2% | 25.2% | Net Cash From Operations | 7192 | 10601 | 4927 | 22621 | 18280 |
| ROCE (%) | 34.0% | 29.6% | 30.5% | 28.6% | 25.5% | Cash Flow from Investing Activities | | | | | |
| RoCE (Pre-tax) | 45.5% | 38.9% | 40.7% | 37.6% | 33.5% | (Inc)/Dec in Fixed Assets | -2016 | -3709 | -1994 | -2152 | -3106 |
| RoIC (Pre-tax) | 38.0% | 34.0% | 35.2% | 37.2% | 34.8% | (Inc)/Dec in Investment (Strate | -955 | 1060 | -2449 | -2345 | -780 |
| Return on Total Assets | 26.0% | 19.9% | 23.0% | 22.8% | 21.3% | Add: Non Operating Income I | 3,023 | 3,289 | 2,743 | 3,684 | 3,982 |
| Fixed asset turnover (x) | 34.0 | 30.7 | 36.8 | 61.6 | 87.5 | Cash From Investing Activi | -1,943 | -1,064 | -3,257 | -2,973 | -1,630 |
| Total asset turnover (x) | 1.6 | 1.4 | 1.3 | 1.3 | 1.3 | Cash Flow from Financing Activities | | | | | |
| Financial stability ratios | | | | | | Dividend Paid | -4499 | -4864 | -5592 | -6116 | -8738 |
| Net Debt to Equity (x) | -0.1 | -0.0 | -0.1 | -0.2 | -0.2 | Tax Paid on Dividend | -842 | -815 | -671 | -1162 | -1660 |
| Net Debt to EBITDA (x) | -0.2 | -0.1 | -0.2 | -0.5 | -0.7 | Net Cash from Financing A | -4726 | -9545 | -1606 | -8029 | -11079 |
| DSO days | 71 | 78 | 61 | 70 | 70 | Opening Balance | 3632 | 4150 | 5252 | 5583 | 16327 |
| Valuation metrics | | | | | | Closing Cash Balance | 4155 | 4142 | 5316 | 17202 | 21898 |
| Fully Diluted Shares (mn) | 175 | 176 | 176 | 176 | 176 | Free Cash Flow Statement | | | | | |
| Market cap (Rs.mn) | 6,85,517 | 6,87,709 | 6,87,461 | 6,87,461 | 6,87,461 | INR Mn | FY19 | FY20 | FY21 | FY22E | FY23E |
| P/E (x) | 45.3 | 45.2 | 35.5 | 30.2 | 28.6 | EBITDA | 18,833 | 20,292 | 27,251 | 29,893 | 31,615 |
| EV (Rs.mn) | 6,82,303 | 6,83,469 | 6,80,793 | 6,70,049 | 6,64,943 | FC Investment | -2016 | -3709 | -1994 | -2152 | -3106 |
| EV/ EBITDA (x) | 36.2 | 33.7 | 25.0 | 22.4 | 21.0 | WC Changes | -6510 | -4866 | -15824 | -109 | -5802 |
| FCF Yield | 1.8% | 2.0% | 2.7% | 1.6% | 3.3% | Depreciation Tax Shield | 372 | 658 | 835 | 691 | 800 |
| P/BV (x) | 14.0 | 12.7 | 9.4 | 7.7 | 6.7 | Tax Expenses | 4758 | 4889 | 6844 | 7152 | 7547 |
| Dividend pay-out (%) | 35.3% | 37.4% | 32.3% | 32.0% | 43.3% | FCF | 18941 | 17217 | 35072 | 21389 | 27565 |
| Dividend yield (%) | 0.7% | 0.7% | 0.8% | 0.9% | 1.3% | | | | | | |

Source: Dalal & Broacha Research, Company

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