



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla 022 67141412

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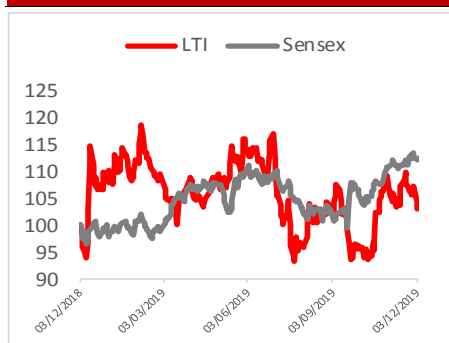
BUY

Current Price	1,672
Target Price	1,897
Upside/Downside	13.4%
52 Week Range	1437/1897

Key Share Data

Market Cap (Rs.bn)	288.88
Market Cap (US\$ mn)	4040.28
No of o/s shares (mn)	173.93
Face Value	1
Monthly Avg. vol(BSE+NSE) Nos'000	100.54
BSE Code	540005
NSE Code	LTI
Bloomberg	LTI:IN

Price Performance



% Shareholding	Sept-19	Jun-19
Promoters	74.62	74.79
Institutions	13.96	14.09
Others	11.42	11.12
Total	100	100

Robust strategy, strong execution and industry leading performance makes LTI a winner!

LTI has delivered a 3 year INR revenue CAGR 17.3% up to FY19 vs industry average of 12.8% for the same period. Going ahead, we expect LTI to report a revenue CAGR of 12.1% between FY19-22e vs an industry average of 9.5%, on the back of healthy deal wins, revival of top client and resolution of another top 20 client and strong traction in 5 out of its 6 verticals. **We value the company at 18x FY22e EPS of INR 105.4 to arrive at a TP of INR 1,897. We initiate coverage on LTI with a BUY rating on the stock**

Investment Rationale:

Resilient performance and guidance in the midst of weak macroeconomic cues

LTI is expected to deliver industry leading double digit growth in FY20-22E on back of several key triggers playing out:

(a) Recovery in 2 of the Top 5 clients

LTI's top client had reported a flat performance in H1FY20, however performance of said client has relatively stabilized since the beginning of Q3FY20 and one can expect marginal growth going forward. Additionally, overhang of one large South African client, which was undergoing a major transformation program, is also completed and is expected to recover from Q3FY20 onwards.

(b) BFS business (27.1% of topline) to recover from Q3FY20e onwards

BFS growth has slowed down over from 8Q CQGR of 3.7% to 4Q CQGR of 0.1%. Going forward, *on-track ramp up of a large deal, receding overhang in one of the top 20 clients, uptick in the top account, and one large BFS deal win* (in Q2FY20) underpin confidence of healthy sequential growth in BFS in Q3FY20 (despite being typically marred by furloughs) and Q4FY20. More importantly, **while peers have called out a caution in BFS space globally, LTI is one of the few IT services companies that has guided for a positive outlook due to the above mentioned reasons.**

(c) Management's client interaction indicates healthy trends despite slight nervousness amidst macro slowdown

Notably, LTI is one of the few IT services companies that has guided for a strong double digit growth in H2FY20. Management indicated that client interactions have been healthy with no sign of delayed decision making in deal closures.

(d) 69.5% of business to report healthy growth going ahead

Insurance, Manufacturing, Energy & Utilities, CPG Retail & Pharma and Hi-Tech Media and Entertainment (~69.5% of revenues) are expected to deliver healthy double digit YoY growth on the back healthy deal pipeline and ramp ups. Based on above factors, expect LTI to deliver industry leading growth in H2FY20.

Robust partner ecosystem coupled, sound strategy coupled with broad-based capabilities to drive industry leading performance

There are four principles that shape the destiny of a services company, which are 1) growth in momentum in large accounts, 2) movement of clients to higher client buckets, 3) opening new logos and 4) winning large deals to accelerate growth trajectory.

LTI's SMART strategy coupled with broad-based capabilities across verticals and service offerings and strong partner system has translated into robust deal wins, ramp-ups and new logo additions. LTI announced three large deals in Q2FY20 with net-new TCV of US\$100 million.

Valuation & Outlook

LTI is currently trading at 17.7x / 15.9x FY21e / FY22e EPS of INR 94.3 and 105.4 respectively. We expect LTI to deliver a strong H2FY20e USD revenue growth (11.2% vis-à-vis 11.1% yoy in H1FY20) on the back of strong recovery certain top accounts, SMART strategy and robust execution. FY20e and FY21e should also deliver industry leading growth on the back of management's healthy client interaction and feedback across verticals. **We value the company at 18x FY22e EPS of INR 105.4 to arrive at a TP of INR 1,897. We initiate coverage on LTI with a BUY rating on the stock**

Consolidated Financials

INR Mn	Net Sales	Growth (%)	EBITDA	EBITDA Margin (%)	PAT	PAT Margin (%)	EPS	Growth (%)	ROE (%)	ROCE (%)	P/E
FY18	73,065	12%	11,874	16.3%	11,111	15%	63.4	14%	31.7%	31.6%	26.4
FY19	94,458	29%	18,833	19.9%	15,147	16%	86.4	36%	34.6%	34.0%	19.4
FY20E	1,05,617	12%	19,106	18.1%	14,708	14%	83.7	-3%	27.8%	27.8%	20.0
FY21E	1,19,991	14%	21,461	17.9%	16,561	14%	94.3	13%	26.8%	26.4%	17.7
FY22E	1,33,210	11%	24,194	18.2%	18,506	14%	105.4	12%	25.9%	25.5%	15.9



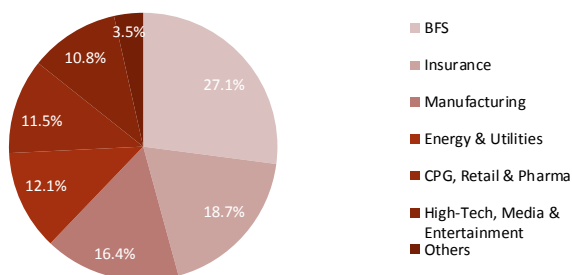
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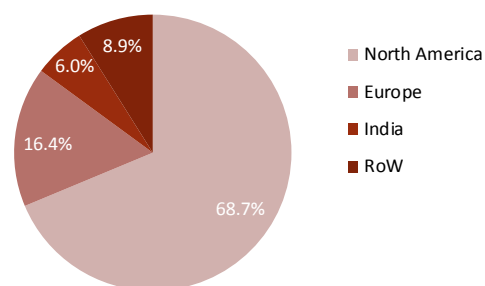
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Background

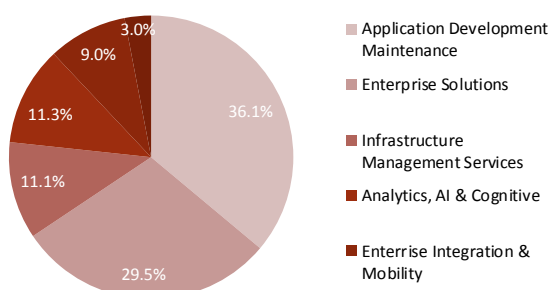
Vertical-wise Presence (%)



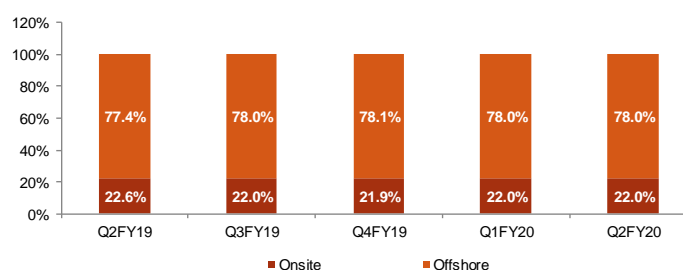
Geographic Contribution (%)



Service-wise Offering (%)



Onsite-Offshore Mix (%)



Source: Companies and Dalal & Broacha Research

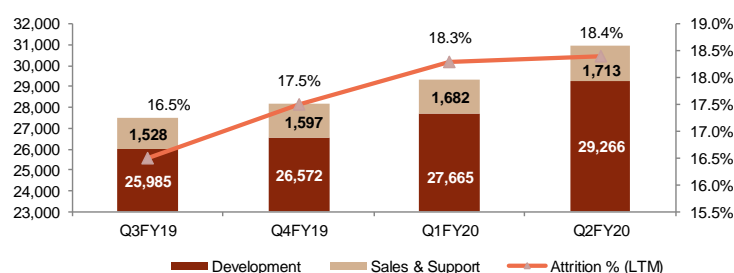
Industry wise, LTI derives 27.1% of its revenue from Banking & Financial services, 18.7% from Insurance sector, 16.4% from Manufacturing, 12.1% from Energy & Utilities, 11.5% from CPG, Retail and Pharma and 10.8% from High Tech, Media and Entertainment.

Geography wise, majority of LTI revenue is from North America at 68.7%, followed by 16.4% from Europe, 6% from India and 8.9% from Rest of the World.

In terms of **Services**, Application development and maintenance contributes 36.1%, Enterprise Solutions contribute 29.5%, Infrastructure Management Services contribute 11.1%, Analytics, AI and Cognitive contribute 11.3% while Enterprise Integration & Mobility contribute 9%.

Onsite / Offshore mix stands at 22% / 78% respectively.

Headcount Profile



LTI's **total headcount** stands at **30,979** as of Q2FY20 with 29,266 employees in the Development Team and 1,713 in the Sales & Support team.

Attrition stands at 18.4%

Utilization (excluding trainees) stands at 80.6%



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Investment Rationale

Expect Insurance, Manufacturing, Energy & Utilities, CPG Retail & Pharma and Hi-Tech Media and Entertainment (totalling 69.5% as of Q2FY20) to report healthy double digit YoY growth going ahead

Insurance (18.7% of revenue)

Insurance segment has grown at a healthy YoY growth rate of 11.4%, 10.8% and 15.7% in Q4FY19, Q1FY20 and Q2FY20 respectively (see "A" in the image below). This segment has also reported a 4 quarter and 8 quarter CQGR of 1.8% and 2.5% respectively.

Insurance vertical reported healthy growth in Q2FY20 on the back of ramp up of a large deal which was announced at the end of FY19 and is expected to maintain a steady growth going ahead.

Manufacturing (16.4% of revenue)

Manufacturing segment has reported a growth of 9.9%, 7.9% and 17.9% YoY in Q4FY19, Q1FY20 and Q2FY20 respectively (see "B" in the image below). It reported a 4Q and 8Q CQGR of 2.1% and 4.1% respectively.

Manufacturing outperformed in Q2FY20 as a large deal signed at the end of FY19 started contributing in the quarter. We expect this vertical to maintain double digit growth based on contribution from healthy deal wins, strong domain expertise and robust ecosystem partners.

Industry-wise Revenue Contribution	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
BFS	28.7%	30.9%	29.9%	29.1%	27.7%	27.7%	27.1%
Insurance	18.3%	18.2%	17.9%	17.8%	17.8%	18.1%	18.7%
Manufacturing	17.3%	15.7%	15.4%	15.6%	16.6%	15.2%	16.4%
Energy & Utilities	11.5%	10.1%	10.7%	10.8%	11.0%	10.7%	12.1%
CPG, Retail & Pharma	9.0%	9.1%	10.2%	10.6%	10.6%	11.1%	11.5%
High-Tech, Media & Entertainment	10.6%	11.3%	11.2%	11.3%	12.4%	12.5%	10.8%
Others	4.6%	4.5%	4.7%	4.6%	3.9%	4.6%	3.5%

Vertical wise	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
BFS	69	74	80	89	99	98	101	98	99	99
Q-o-Q (%)	1.6%	6.3%	7.7%	11.5%	11.5%	-0.6%	2.8%	-2.9%	0.7%	-0.2%
Y-o-Y (%)				29.7%	42.3%	33.0%	26.9%	10.5%	-0.1%	0.4%
Insurance	53	56	57	57	58	59	62	63	65	68
Q-o-Q (%)	1.5%	4.4%	2.1%	-0.7%	3.0%	1.0%	5.0%	2.0%	2.4%	5.4%
Y-o-Y (%)				7.5%	9.0%	5.5%	8.4%	11.4%	10.8%	15.7%
Manufacturing	43	43	50	53	50	51	54	59	54	60
Q-o-Q (%)	-11.3%	0.6%	16.6%	5.9%	-6.0%	0.7%	7.0%	8.6%	-7.8%	10.1%
Y-o-Y (%)				10.1%	16.7%	16.8%	7.2%	9.9%	7.9%	17.9%
Energy & Utilities	30	32	35	36	32	35	37	39	38	44
Q-o-Q (%)	7.5%	7.1%	6.7%	2.6%	-9.1%	8.8%	6.6%	3.9%	-2.0%	15.4%
Y-o-Y (%)				26.0%	6.5%	8.2%	8.2%	9.6%	18.1%	25.2%
CPG, Retail & Pharma	22	24	27	28	29	34	37	38	40	42
Q-o-Q (%)	5.7%	10.5%	10.9%	3.0%	4.7%	15.1%	9.7%	2.0%	5.5%	5.7%
Y-o-Y (%)				33.5%	32.1%	37.6%	36.2%	34.9%	35.9%	24.9%
High-Tech, Media & Entertainment	27	30	31	33	36	37	39	44	45	39
Q-o-Q (%)	5.0%	10.4%	3.6%	5.3%	10.4%	1.8%	6.5%	11.9%	1.5%	-11.8%
Y-o-Y (%)				26.4%	32.8%	22.5%	26.0%	34.0%	23.3%	6.8%
Others	14	11	14	14	14	15	16	14	16	13
Q-o-Q (%)	38.6%	-21.2%	24.7%	5.3%	1.3%	7.3%	3.4%	-13.5%	18.8%	-22.4%
Y-o-Y (%)				43.4%	4.8%	42.6%	18.2%	-2.9%	13.9%	-17.5%
Total	259	271	293	309	319	329	346	354	356	364

(Source: Dalal & Broacha Research, Company)

Energy & Utilities (12.1% of revenue)

E&U segment reported a growth of 9.6%, 18.1% and 25.2% YoY in Q4FY19, Q1FY20 and Q2FY20 respectively (see "C" in the image above). Furthermore, it reported a 4Q and 8Q CQGR of 2.9% and 3.9% respectively.



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Expect the growth momentum in E&U to remain strong on the back of execution of past deal wins and healthy pipeline as 2 out of 3 large deals (TCV worth US\$100 Mn) won in Q2FY20 were in this space.

CPG, Retail & Pharma (11.5% of revenue)

CR&P vertical grew at 34.9%, 35.9% and 24.9% YoY in Q4FY19, Q1FY20 and Q2FY20 respectively (See "D" in the image above). The vertical has grown at a 4Q and 8Q CQGR of 2.8% and 7% respectively.

Q4FY20 was a stellar quarter as the recently incubated Lifesciences business outperformed. Expected Lifesciences to be a major growth driver for this vertical going ahead.

Hi-Tech Media and Entertainment (10.8% of revenue)

HME segment grew 34%, 23.3% and 6.8% YoY in Q4FY19, Q1FY20 and Q2FY20 respectively (See "E" in the image above). The 4Q and 8Q CQGR stood at 0.8% and 3.4% as of Q2FY20.

HME slowed down over the past 4 quarters due to an account closure. However, excluding this one-off account closure, underlying growth was strong and is expected to bounce back strongly from Q3FY20 onwards.

Robust and inclusive partner ecosystem

LTI has a very strong bouquet of alliance partners with which it jointly offers solutions to clients. LTI's partner ecosystem consists of **Oracle, Salesforce, SAP, Microsoft Dynamics 365, Maximo and JD Edwards**. Additionally, with the acquisition of Powerup in Q2FY20, LTI has been elevated to Premier AWS Consulting partner status. In Q1FY20, **Guidewire** – the largest Property and Casualty insurance industry platform in the US recognized LTI as a consulting partner. LTI is also one of the 6 partners of **Temenos** in Core Banking Solution implementation. We believe that LTI has an extremely solid partner ecosystem which can give strong impetus to its Enterprise Solutions (29.5% of revenue) horizontal and Insurance vertical (18.7% of revenue) going ahead.

Strong and broadbased deal win momentum

LTI's deal win momentum has been healthy and consistent over the last 8 quarters. In Q3FY19, LTI announced 28 large deals worth \$1 Bn in the pipeline and Total Contract Value (TCV) of deals already booked over the last 10 quarters at \$575 Mn. To put things in perspective, FY18 dollar revenue stood at \$1.1 Bn.

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
TCV (\$ Mn)	50	50	50		100	44	100
Logos added	2	1	1		2	1	3
Industry	1 O&G and 1 BFS	CPG, Retail & Pharma	CPG, Retail & Pharma		1 Insurance & 1 Manufacturing	Insurance	2 E&U & 1 BFS

Source: Dalal Broacha Research, Company

As of Q2FY20, LTI signed TCV worth US\$ 100 Mn and addition of 3 new logos – 1 in Energy & Utilities and 1 in BFS.

Steady performance over the last 4 quarters indicates success of "4 pillars of growth strategy" laid out in Q3FY19

In Q3FY19, LTI broadly laid out its strategy of "4 pillars of growth" to drive growth going ahead 1) Evolve services from Operate-focused to Transform-focused, 2) Build Data Driven enterprises, 3) Experience Transformation services for clients and 4) Digitizing the core through AI, Machine Learning, Cloud, Automation and IoT.

Moreover, to deliver industry leading growth, LTI focused on **a)** growth of top-20 accounts, **b)** Invest in accounts with high growth potential, **c)** maintain large deal win momentum and **d)** add marquee clients in focus verticals



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LTI has successfully been able to juggle performance by balancing the growth in various client buckets. For example, while growth in Top 11-20 clients was soft in **Q2FY20**, it was offset by solid revival in performance of Top 5 clients and Top 5-10 clients. Another instance is **Q1FY20**, wherein performance of Top 5 and Top 5-10 clients was lacklustre; this was offset by solid performance of Top 11-20 clients (see table below).

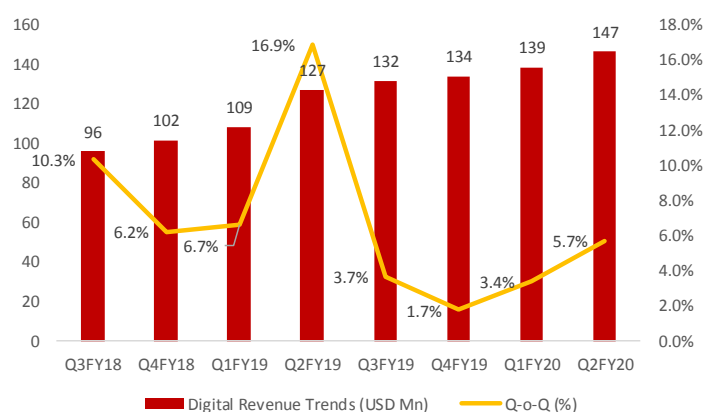
Client Contribution to Revenue	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Top 5 clients	38.1%	38.0%	36.4%	35.2%	36.6%	36.2%	34.5%	32.2%	31.3%	31.7%
Top 10 clients	50.9%	50.9%	50.8%	49.6%	50.3%	49.9%	48.4%	47.0%	45.0%	45.5%
Top 20 clients	66.3%	66.0%	66.1%	65.1%	66.0%	65.5%	64.3%	63.4%	62.5%	61.4%
Client concentration growth (%)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Top 5 clients	0.9%	4.1%	3.9%	1.8%	7.6%	1.6%	0.6%	-4.8%	-2.1%	3.4%
Top 6-10 Clients	-10.6%	5.2%	21.1%	5.3%	-1.5%	2.7%	7.1%	8.6%	-6.8%	2.8%
Top 11-20 Clients	5.4%	2.4%	9.9%	6.7%	4.9%	2.0%	7.6%	5.2%	7.5%	-7.3%
LTI \$ Revenue	259	271	294	309	320	329	347	354	357	364
Q-o-Q (%)	2.0%	4.4%	8.5%	5.3%	3.5%	2.7%	5.6%	2.0%	0.7%	2.0%

Source: Company, Dalal & Broacha Research

Notably, performance of Top 5 clients was soft in Q4FY19 and Q1FY20, which was balanced off by performance of either of Top 6-10 or Top 11-20 client buckets.

We believe that LTI has been able to deliver on the strategies set forth through balanced growth from Top 20 accounts and by maintaining large deal momentum.

Digital Business (40.3% of revenue) – consistently reporting double digit Y-o-Y growth



LTI's Digital business stands at 40% of sales as of Q2FY20 and has reported robust growth with a 4Q and 8Q CQGR of 3.6% and 7.7% respectively. Digital revenue has reported strong growth (albeit at a reducing growth rate) at 31.5%, 27.5% and 15.3% Y-o-Y in Q4FY19, Q1FY20 and Q2FY20 respectively. **One out of the 3 large deals signed in Q2FY20 was to enable a BFS client in their digital transformation and therefore we expect Digital revenue to outperform the Q2 growth rate going ahead.**



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Growth in service offerings indicate either a reversal or healthier trend

Service Offering (%)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Application Development Maintenance	32.8%	34.0%	32.0%	30.8%	29.7%	38.1%	36.1%
Enterprise Solutions	27.0%	26.3%	25.2%	27.8%	29.2%	28.4%	29.5%
Infrastructure Management Services	11.7%	11.5%	11.7%	11.4%	11.0%	10.9%	11.1%
Analytics, AI & Cognitive	10.7%	10.3%	12.2%	11.3%	10.7%	11.2%	11.3%
Enterprise Integration & Mobility	6.5%	6.5%	8.0%	7.6%	8.0%	8.2%	9.0%
Platform based solutions	3.1%	3.1%	3.0%	3.2%	3.2%	3.1%	3.0%
Total	100.2%	99.8%	100.0%	99.9%	100.1%	99.9%	100.0%
Digital	33.0%	34.0%	38.7%	38.0%	37.9%	38.9%	40.3%

Service Offering Trends	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
ADAM	101	109	105	107	105	136	131
Q-o-Q (%)	3.1%	7.3%	-3.4%	1.6%	-1.6%	29.2%	-3.3%
Y-o-Y (%)	9.6%	15.9%	12.3%	8.7%	3.7%	24.9%	24.9%
Enterprise Solutions	83	84	83	96	103	101	107
Q-o-Q (%)	7.7%	0.8%	-1.6%	16.5%	7.2%	-2.0%	6.0%
Y-o-Y (%)	39.1%	41.7%	26.9%	24.5%	23.9%	20.3%	29.6%
IMS	36	37	38	40	39	39	40
Q-o-Q (%)	14.1%	1.8%	4.5%	2.9%	-1.6%	-0.2%	3.9%
Y-o-Y (%)	24.8%	15.4%	30.3%	24.8%	7.7%	5.6%	5.1%
Analytics, AI & Cognitive	33	33	40	39	38	40	41
Q-o-Q (%)	4.3%	-0.3%	21.6%	-2.2%	-3.4%	5.4%	3.0%
Y-o-Y (%)	37.0%	31.1%	35.9%	23.7%	14.5%	21.2%	2.6%
Enterprise Integration & Mobility	20	21	26	26	28	29	33
Q-o-Q (%)	2.1%	3.5%	26.4%	0.3%	7.4%	3.3%	12.0%
Y-o-Y (%)	31.7%	25.3%	42.8%	34.1%	41.0%	40.6%	24.6%
Platform based solutions	10	10	10	11	11	11	11
Q-o-Q (%)	-6.8%	3.5%	-0.6%	12.6%	2.0%	-2.4%	-1.2%
Y-o-Y (%)	-3.3%	6.3%	-4.2%	8.1%	18.2%	11.4%	10.7%
Total	309	320	329	347	354	357	364
Q-o-Q (%)	5.3%	3.5%	2.7%	5.6%	2.0%	0.7%	2.0%
Y-o-Y (%)	21.6%	23.4%	21.4%	18.2%	14.5%	11.4%	10.7%
Digital	102	109	127	132	134	139	147
Q-o-Q (%)	6.2%	6.7%	16.9%	3.7%	1.7%	3.4%	5.7%
Y-o-Y (%)		43.1%	46.1%	37.3%	31.5%	27.5%	15.3%

Infrastructure Management services bounced back in Q2FY20 after 2 quarters of Q-o-Q de-growth

Enterprise solutions performance dipped 2% in Q1FY20 followed by a 6% growth in Q2FY20

Enterprise Solutions (29.5% of revenue) and **Infrastructure Management Services** (11.1% of revenue) indicate a reversal in growth trends in Q2FY20. ES business reversed from -2% qoq in Q1FY20 to 6% qoq in Q2FY20 and IMS reversed from a flat -0.2% qoq degrowth in Q1FY20 to +3.9% qoq in Q2FY20. Moreover, Analytics, AI and Cognitive services displayed an even more solid performance with a 12% qoq growth in Q2FY20 on the back of a healthy 3.3% qoq growth in Q1FY20.

Digital has reported an 8Q CQGR of 7.7%. Although the yoy growth has slowed down from its peak of 46% in Q2FY19 to 15.3% yoy in Q2FY20, we believe that performance should bounce back due to execution of a large deal signed in the digital space in Q2FY20 going ahead.

Valuation & Outlook

At CMP of INR 1,672, LTI is trading at 17.7x and 15.9x FY21e and FY22e EPS of INR 94.1 and INR 105.2 respectively. LTI is our top pick in the midcap IT space given that BFS segment has bottomed out (TechM and LTI are the only companies which have given positive outlook on BFS in the Indian IT Services landscape), healthy deal pipeline with regular inflow and strong guidance for H2FY20. We expect LTI to deliver industry leading \$ revenue growth of 11.1% in FY20e given that majority of the verticals are going to deliver healthy double digit growth. **We value the company at 18x FY22e EPS of INR 105.4 to arrive at a TP of INR 1,897. We initiate coverage on LTI with a BUY rating on the stock**



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Peer Comparison

	MCap (INR Mn)	Revenue (US\$ Mn)				Revenue (INR Mn)				EBITDA (INR Mn)				EBIT (INR Mn)				PAT (INR Mn)			
		FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
TCS	75,83,757	20,913	22,347	24,528	26,802	14,64,630	15,70,054	17,26,525	18,86,586	3,95,050	4,11,997	4,54,322	4,93,582	3,74,500	3,77,877	4,22,495	4,61,755	3,17,155	3,26,340	3,61,917	3,95,540
Y-o-Y (%)		9.6%	6.9%	9.8%	9.3%	19.0%	7.2%	10.0%	9.3%	21.5%	4.3%	10.3%	8.6%	22.8%	0.9%	11.8%	9.3%	22.7%	2.9%	10.9%	9.3%
Infosys	29,49,833	11,799	12,886	14,064	15,254	8,26,760	9,05,682	9,91,457	10,75,317	2,08,890	2,23,475	2,35,806	2,53,993	1,88,790	1,94,573	2,13,003	2,29,260	1,61,310	1,65,840	1,83,547	1,98,559
Y-o-Y (%)		7.9%	9.2%	9.1%	8.5%	17.2%	9.5%	9.5%	8.5%	9.9%	7.0%	5.5%	7.7%	10.1%	3.1%	9.5%	7.6%	0.2%	2.8%	10.7%	8.2%
HCL Tech	15,26,844	8,628	9,949	11,461	13,126	6,04,280	6,99,194	8,08,254	9,25,660	1,39,690	1,61,598	2,00,191	2,25,979	1,18,210	1,35,142	1,65,765	2,01,327	1,01,530	1,07,746	1,29,778	1,60,044
Y-o-Y (%)		10.5%	15.3%	15.2%	14.5%	19.5%	15.7%	15.6%	14.5%	22.1%	15.7%	23.9%	12.9%	18.4%	14.3%	22.7%	21.5%	15.6%	6.1%	20.4%	23.3%
Wipro	13,63,106	8,397	8,629	9,111	9,562	5,87,777	6,07,037	6,40,977	6,72,654	1,17,397	1,23,657	1,30,292	1,36,750	98,064	1,03,673	1,09,604	1,15,633	90,856	97,548	1,01,657	1,08,124
Y-o-Y (%)		-0.6%	2.8%	5.6%	4.9%	7.9%	3.3%	5.6%	4.9%	13.0%	5.3%	5.4%	5.0%	18.4%	5.7%	5.7%	5.5%	13.5%	7.4%	4.2%	6.4%
TechM	7,22,368	4,971	5,222	5,617	6,068	3,47,421	3,66,154	3,95,140	4,26,912	63,368	61,879	69,619	75,915	52,076	48,421	55,515	61,812	43,630	44,721	49,316	54,768
Y-o-Y (%)		4.2%	5.1%	7.6%	8.0%	12.9%	5.4%	7.9%	8.0%	34.3%	-2.3%	12.5%	9.0%	43.4%	-7.0%	14.7%	11.3%	14.8%	2.5%	10.3%	11.1%
Persistent	52,061	481	508	569	635	33,659	35,666	40,098	44,754	5,506	5,148	6,034	6,652	3,934	3,504	4,250	4,861	3,517	3,511	4,090	4,653
Y-o-Y (%)		2.2%	5.5%	12.1%	11.6%	11.0%	6.0%	12.4%	11.6%	18.2%	-6.5%	17.2%	10.2%	27.9%	-10.9%	21.3%	14.4%	8.9%	-0.2%	16.5%	13.8%
Mphasis	1,62,362	1,109	1,190	1,323	1,422	77,663	83,699	93,083	1,00,033	13,382	16,134	18,026	18,514	12,641	13,917	15,676	15,862	10,818	11,140	12,534	12,964
Y-o-Y (%)		9.3%	7.2%	11.2%	7.5%	18.6%	7.8%	11.2%	7.5%	26.0%	20.6%	11.7%	2.7%	27.5%	10.1%	12.6%	1.2%	29.2%	3.0%	12.5%	3.4%
Mindtree	1,16,064	1,002	1,099	1,224	1,352	70,157	77,321	86,143	95,124	10,742	10,343	12,849	14,516	9,088	7,658	9,896	11,448	7,553	5,740	7,823	9,025
Y-o-Y (%)		18.3%	9.7%	11.4%	10.4%	28.4%	10.2%	11.4%	10.4%	45.1%	-3.7%	24.2%	13.0%	59.4%	-15.7%	29.2%	15.7%	32.5%	-24.0%	36.3%	15.4%
Hexaware	1,00,252	790	912	1,022	1,042	55,277	64,145	71,874	73,284	8,709	10,117	11,358	11,823	7,740	8,921	10,095	10,471	6,504	7,377	8,248	9,071
Y-o-Y (%)		10.2%	15.5%	12.0%	2.0%	19.6%	16.0%	12.0%	2.0%	17.6%	16.2%	12.3%	4.1%	14.5%	15.3%	13.2%	3.7%	8.3%	13.4%	11.8%	10.0%
NIIT Tech	91,249	528	595	676	754	36,932	41,855	47,549	53,019	6,599	7,391	8,594	9,548	5,301	5,727	6,873	7,719	4,127	4,592	5,473	6,274
Y-o-Y (%)		13.8%	12.8%	13.6%	11.5%	23.5%	13.3%	13.6%	11.5%	31.6%	12.0%	16.3%	11.1%	41.8%	8.0%	20.0%	12.3%	47.3%	11.3%	19.2%	14.6%
Zensar Tech	41,812	567	627	705	791	39,658	44,108	49,590	55,658	4,924	6,199	7,070	8,074	3,981	4,696	5,431	6,360	3,116	3,426	4,119	4,762
Y-o-Y (%)		17.6%	10.7%	12.4%	12.2%	27.6%	11.2%	12.4%	12.2%	28.0%	25.9%	14.1%	14.2%	24.5%	18.0%	15.6%	17.1%	29.0%	10.0%	20.2%	15.6%
Mastek	8,725	149	147	164	180	10,412	10,308	11,560	12,645	1,381	1,301	1,455	1,640	1,134	1,073	1,224	1,446	1,006	1,018	1,155	1,243
Y-o-Y (%)		17.6%	-1.5%	12.1%	9.4%	27.6%	-1.0%	12.1%	9.4%	38.5%	-5.8%	11.9%	12.7%	40.1%	-5.3%	14.1%	18.1%	43.8%	1.2%	13.4%	7.6%
LTI	1,349	1,500	1,698	1,885	94,458	1,05,617	1,19,991	1,33,210	18,833	19,106	21,461	24,194	17,361	16,426	18,380	20,677	15,147	14,708	16,561	18,506	
Y-o-Y (%)		19.2%	11.2%	13.2%	11.0%	29.3%	11.8%	13.6%	11.0%	58.6%	1.5%	12.3%	12.7%	68.4%	-5.4%	11.9%	12.5%	36.3%	-2.9%	12.6%	11.7%

Source: Dalal & Broacha Research, Bloomberg estimates

	EBITDA Margin (%)				EBIT Margin (%)				PAT Margin (%)				ROE (%)					P/E (x)
	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY18	FY19	FY20E	FY21E	FY22E	
TCS	27.0%	26.2%	26.3%	26.2%	25.6%	24.1%	24.5%	24.5%	21.7%	20.8%	21.0%	21.0%	28.4%	31.4%	26.8%	25.8%	24.6%	19.9x
Infosys	25.3%	24.7%	23.8%	23.6%	22.8%	21.5%	21.5%	21.3%	19.5%	18.3%	18.5%	18.5%	22.8%	22.5%	22.6%	22.2%	21.3%	15.3x
HCL Tech	23.1%	23.1%	24.8%	24.4%	19.6%	19.3%	20.5%	21.7%	16.8%	15.4%	16.1%	17.3%	24.6%	25.7%	23.0%	22.6%	22.7%	9.8x
Wipro	20.0%	20.4%	20.3%	20.3%	16.7%	17.1%	17.1%	17.2%	15.5%	16.1%	15.9%	16.1%	16.0%	17.1%	17.4%	17.6%	17.3%	12.6x
TechM	18.2%	16.9%	17.6%	17.8%	15.0%	13.2%	14.0%	14.5%	12.6%	12.2%	12.5%	12.8%	20.7%	20.5%	18.3%	17.8%	17.4%	12.0x
Persistent	16.4%	14.4%	15.0%	14.9%	11.7%	9.8%	10.6%	10.9%	10.4%	9.8%	10.2%	10.4%	16.4%	15.7%	14.3%	15.0%	15.4%	11.1x
Mphasis	17.2%	19.3%	19.4%	18.5%	16.3%	16.6%	16.8%	15.9%	13.9%	13.3%	13.5%	13.0%	14.4%	20.0%	20.4%	21.2%	21.7%	12.5x
Mindtree	15.3%	13.4%	14.9%	15.3%	13.0%	9.9%	11.5%	12.0%	10.8%	7.4%	9.1%	9.5%	21.4%	24.9%	17.9%	21.9%	22.7%	12.9x
Hexaware	15.8%	15.8%	15.8%	16.1%	14.0%	13.9%	14.0%	14.3%	11.8%	11.5%	11.5%	12.4%	26.5%	--	25.0%	24.0%	24.7%	11.1x
NIIT Tech	17.9%	17.7%	18.1%	18.0%	14.4%	13.7%	14.5%	14.6%	11.2%	11.0%	11.5%	11.8%	16.2%	21.0%	20.4%	21.0%	21.8%	14.5x
Zensar Tech	12.4%	14.1%	14.3%	14.5%	10.0%	10.6%	11.0%	11.4%	7.9%	7.8%	8.3%	8.6%	15.4%	17.4%	16.3%	17.1%	17.7%	8.8x
Mastek	13.3%	12.6%	12.6%	13.0%	10.9%	10.4%	10.6%	11.4%	9.7%	9.9%	10.0%	9.8%	13.7%	16.0%	13.1%	13.9%	13.5%	7.0x
LTI	19.9%	18.1%	17.9%	18.2%	18.4%	15.6%	15.3%	15.5%	16.0%	13.9%	13.8%	13.9%	31.7%	34.6%	27.8%	26.8%	25.9%	15.4x

Average EBITDA margin in the midcap space stood at 16% in FY19 and is estimated at 15.7% in FY20e

LTI's FY20e, FY21e and FY22e ROE is estimated at 27.8%, 26.8% and 25.9% vs industry average of 20.2%, 20.5% and 20.5%

LTI is expected to deliver industry leading \$ revenue growth and steady margin performance amongst its IT services peers in the midcap and large cap space. While the average \$ revenue growth in the IT services space is 8.5% in FY20e, we bake in a growth of 11.2% for LTI on a conservative basis. Similarly, the average FY21e \$ revenue growth (as per Bloomberg and our estimates) is 11.2% whereas, we expect LTI to deliver a 13.2% growth in the same fiscal. Amongst its midcap peers, LTI reports above industry average EBITDA margin as seen above. In FY19, the midcap average EBITDA margin was 16%, whereas LTI reported 19.9% margins. Going ahead, the average EBITDA margin in the midcap space is estimated at 15.7%, whereas LTI is expected to report margins of 18.1%.

We estimate LTI's PAT to grow at a CAGR of 7% between FY19-FY22e (vs industry average of 9% CAGR). While HCL Tech, Persistent, Hexaware, NIIT Tech and Zensar Tech are estimated (as per BB estimates) to report a PAT CAGR of 16%, 10%, 12%, 15% and 15% respectively; we believe that only **NIIT Tech** and **HCL Tech** will be able to deliver on said estimates. **HCL Tech** might deliver comparatively higher PAT CAGR due to its inorganic led approach (consistent acquisition of Services companies as well as IBM products purchased in FY19-20). **Zensar Tech** is expected to deliver higher PAT growth due to its low base while **Persistent Systems** is expected to deliver higher growth going ahead due to its failure to perform over the past few years (Persistent's FY16-19 PAT CAGR stood at 5.8% vs industry average of 10.9%).

Furthermore, **LTI has reported industry leading ROE of 34.6% in FY19** (against industry average of 22.2%) and is expected to continue to lead the IT pack with an ROE of 27.8%, 26.8% and 25.9% in FY20e, FY21e and FY22e respectively (vs. an average of 20.2%, 20.5% and 20.5% respectively). **Lastly, while peers have specifically called out that BFS and Insurance segment remain a concern going ahead, LTI is one of the few companies which has given positive guidance as overhang of client specific issues (in the top 20 clients) fade away.**

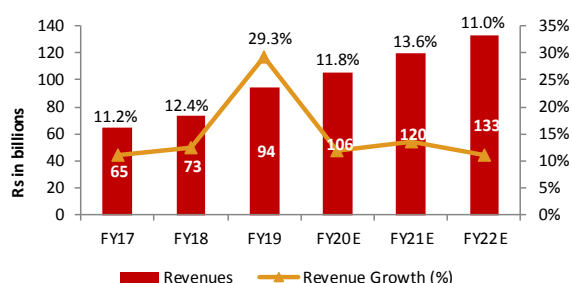
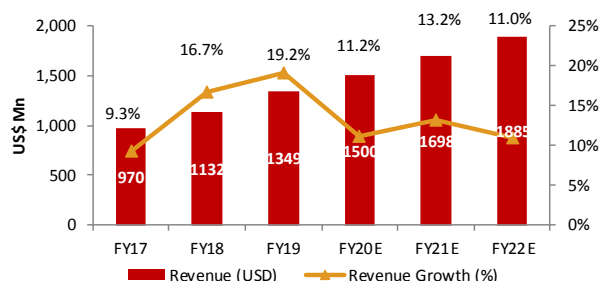


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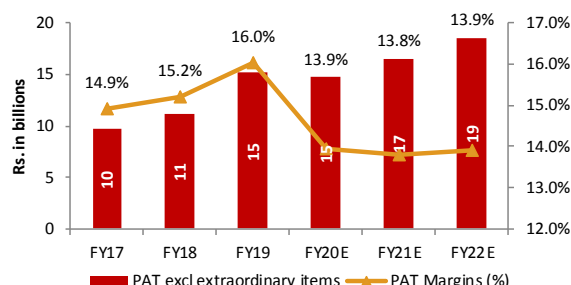
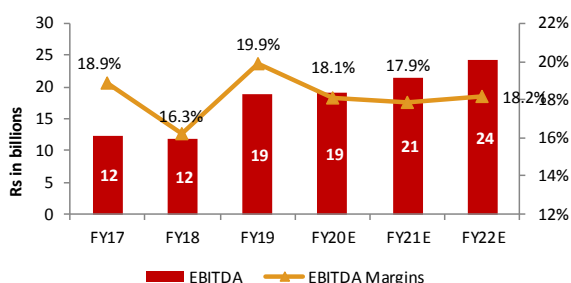
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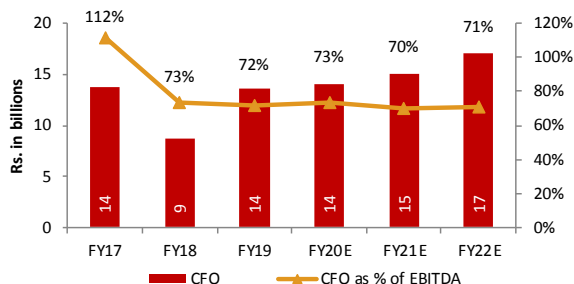
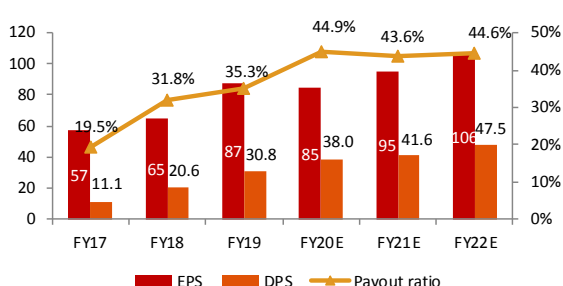
Financials



We expect LTI to deliver a USD revenue growth of 11.2%, 13.2% and 11% yoy to USD 1500 Mn, USD 1698 Mn and USD 1885 Mn in FY20e, FY21e and FY22e respectively. In INR terms, expect LTI to deliver 11.8%, 13.6% and 11% yoy to INR 105,617 Mn, INR 1,19,991 Mn and 1,33,210 Mn in FY20e, FY21e and FY22e respectively. We believe that healthy double digit growth in majority (69.5%) of the verticals will enable LTI to delivery industry leading double digit growth in FY20e and FY21e respectively.



We expect LTI to maintain stable EBITDA margins at ~18% between FY20e and FY22e (. We expect LTI to deliver an EBITDA of INR 19,106 Mn, INR 21,461 Mn and INR 24,194 Mn in FY20e, FY21e and FY22e respectively. We estimate PAT of INR 14,708 Mn, INR 16,561 Mn and INR 18,506 in FY20e, FY21e and FY22e respectively, translating into a steady PAT margin of ~13.9%.



We expect LTI to report an EPS of INR 85, INR 95 and INR 106 in FY20e, FY21e and FY22e respectively. LTI has maintained a CFO as a % of EBITDA at ~72% over the last 2 fiscal years. Going ahead, we expect LTI to maintain a steady % of 71-73%.



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P&L Statement						
INR mn	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenue	65,009	73,065	94,458	1,05,617	1,19,991	1,33,210
Growth (%)	11%	12%	29%	12%	14%	11%
Gross Profit	22,885	23,939	32,814	33,823	37,552	41,777
EBITDA	12,302	11,874	18,833	19,106	21,461	24,194
EBITDA Margin (%)	18.9%	16.3%	19.9%	18.1%	17.9%	18.2%
Depreciation	1,779	1,563	1,472	2,680	3,082	3,517
EBIT	10,523	10,311	17,361	16,426	18,380	20,677
EBIT Margin (%)	16.2%	14.1%	18.4%	15.6%	15.3%	15.5%
Other Income	1,867	4,261	3,023	3,531	3,670	3,963
Exceptional items	0	0	0	0	0	0
PBT	12,358	14,415	20,278	19,565	22,049	24,639
Reported PAT	9,701	11,111	15,147	14,708	16,561	18,506
Adj PAT	9,701	11,111	15,147	14,708	16,561	18,506
PAT Margin (%)	15%	15%	16%	14%	14%	14%
EPS (Rs.)	55.6	63.4	86.4	83.7	94.3	105.4
EPS Growth (%)	3%	14%	36%	-3%	13%	12%

US\$ rate assumed at INR 70.35 for FY20e, FY21e and FY22e

Cash Flow Statement						
INR Mn	FY17	FY18	FY19	FY20E	FY21E	FY22E
PAT	9701	11111	15147	14708	16561	18506
Less: Non Operating Income	-1867	-4261	-3023	-3531	-3670	-3963
Add: Depreciation	1779	1563	1472	2680	3082	3517
Operating Profit before WC Changes	9645	8570	13702	14250	15973	18061
(Inc)/Dec in Current Assets	-7777	-8521	-9539	-5525	-6264	-5958
Inc/(Dec) in Current Liabilities	680	997	3029	308	422	276
Net Cash From Operations	2548	1046	7192	9032	10131	12379
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	-1565	-1493	-2016	-2789	-3409	-3495
(Inc)/Dec in Investment (Strategic)	780	1233	-955	-1507	-575	-1195
Add: Non Operating Income Income	1,867	4,261	3,023	3,531	3,670	3,963
Cash From Investing Activities	2,007	2,488	-1,943	-1,649	-505	-563
Cash Flow from Financing Activities						
Dividend Paid	-1610	-3034	-4499	-5563	-6085	-6954
Tax Paid on Dividend	-278	-500	-842	-1041	-1139	-1301
Net Cash from Financing Activities	-2796	-3703	-4726	-6998	-7224	-8256
Net Inc/Dec in cash equivalents	1,760	-169	523	386	2,402	3,561
Opening Balance	2034	3796	3632	4150	4536	6938
Closing Cash and Cash Equivalents	3793	3627	4155	4536	6938	10499

Free Cash Flow Statement						
INR Mn	FY17	FY18	FY19	FY20E	FY21E	FY22E
EBITDA	12,302	11,874	18,833	19,106	21,461	24,194
FC Investment	-1565	-1493	-2016	-2789	-3409	-3495
WC Changes	-7097	-7524	-6510	-5217	-5842	-5682
Depreciation Tax Shield	381	357	372	665	767	875
Tax Expenses	2637	2711	4758	4743	5342	6022
FCF	15578	15551	18941	17457	19320	21234

Balance Sheet						
INR Mn	FY17	FY18	FY19	FY20E	FY21E	FY22E
Share capital	171	172	174	174	174	174
Reserves and surplus	31,272	38,426	48,764	56,867	66,205	76,456
Net Worth	31,443	38,598	48,938	57,041	66,379	76,630
Non Current Liabilities						
Deferred Tax liabilities	171	132	56	56	56	56
Total debt	0	1,042	936	936	936	936
Other liabilities and provisions	293	292	299	299	299	299
Current Liabilities						
Trade payables	3,366	3,792	4,669	4,977	5,399	5,675
Other current liabilities	7,300	7,798	9,686	9,686	9,686	9,686
Short-term provisions	1,771	1,844	2,108	2,108	2,108	2,108
Total Net Worth and Liabilities	44344	53498	66692	75104	84863	95389
Assets						
Non Current Assets						
Gross Fixed assets	6800	4483	5692	6624	7832	8820
Accumulated Depreciation	-4222	-1975	-2640	-3463	-4344	-5354
Net fixed assets	2578	2508	3052	3161	3488	3466
Intangible Assets	2841	4299	6247	7132	7323	7159
Capital Work in Progress	9	10	32	32	32	32
Investments	9406	14492	20120	24292	27598	31304
Intangible assets under developm	4	58	83	83	83	83
Deferred tax assets	2156	2743	2386	2386	2386	2386
Long-term loans and advances	3469	387	473	473	473	473
Current Assets						
Cash and bank balances	3796	3632	4150	4536	6938	10499
Loans & advances	8388	11407	11886	11886	11886	11886
Trade Receivables	11697	13962	18263	21123	24656	28102
Total assets	44344	53498	66692	75104	84863	95389

Ratio Analysis						
	FY17	FY18	FY19	FY20E	FY21E	FY22E
Margin ratios						
Gross	35.2%	32.8%	34.7%	32.0%	31.3%	31.4%
EBITDA	18.9%	16.3%	19.9%	18.1%	17.9%	18.2%
Adj PAT	14.9%	15.2%	16.0%	13.9%	13.8%	13.9%
Performance ratios						
Pre-tax OCF/EBITDA	131.5%	101.2%	99.3%	98.7%	95.7%	95.9%
OCF/IC (%)	49.6%	24.2%	29.7%	26.2%	24.9%	25.5%
RoE (%)	37.5%	31.7%	34.6%	27.8%	26.8%	25.9%
ROCE (%)	37.4%	31.6%	34.0%	27.8%	26.4%	25.5%
Fixed asset turnover (x)	14.5	28.7	34.0	34.0	36.1	38.3
Total asset turnover (x)	1.7	1.5	1.6	1.5	1.5	1.5
Financial stability ratios						
Net Debt to Equity (x)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Net Debt to EBITDA (x)	-0.3	-0.2	-0.2	-0.2	-0.3	-0.4
DSO days	66	70	71	73	75	77
Valuation metrics						
Fully Diluted Shares (mn)	174	175	175	176	176	176
P/E (x)	30.1	26.4	19.4	20.0	17.7	15.9
EV (Rs.mn)	2,89,346	2,90,552	2,89,928	2,89,542	2,87,140	2,83,579
EV/ EBITDA (x)	23.5	24.5	15.4	15.2	13.4	11.7
FCF Yield	4.4%	2.6%	4.1%	4.2%	4.7%	5.4%
P/BV (x)	9.3	7.6	6.0	5.1	4.4	3.8
Dividend pay-out (%)	19.5%	31.8%	35.3%	44.9%	43.6%	44.6%
Dividend yield (%)	0.6%	1.1%	1.6%	1.9%	2.1%	2.4%



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