



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

## Analyst Day 2020 @ Dalal&Broacha

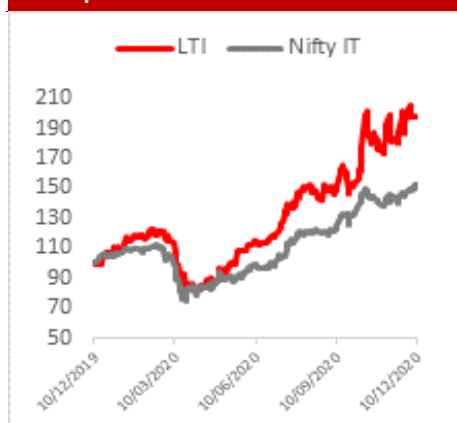
### UNDERWEIGHT

|               |           |
|---------------|-----------|
| Current Price | 3,254     |
| Target Price  | 3,044     |
| Upside        | -6.5%     |
| 52 Week Range | 1208/3515 |

### Key Share Data

|                                   |        |
|-----------------------------------|--------|
| Market Cap (Rs. Bn)               | 568    |
| Market Cap (US\$ Million)         | 7708   |
| No of o/s shares (Million)        | 175    |
| Face Value                        | 1      |
| Monthly Avg. Vol (BSE+NSE) ('000) | 709    |
| BSE Code                          | 540005 |
| NSE Code                          | LTI    |
| Bloomberg                         | LTI:IN |

### Price performance



| % Shareholding | Sep-20     | Jun-20     |
|----------------|------------|------------|
| Promoters      | 74.36      | 74.51      |
| Institutions   | 25.64      | 25.49      |
| Others         | 0.00       | 0.00       |
| <b>Total</b>   | <b>100</b> | <b>100</b> |

### Consolidated Financials (In INR Million)

| INR Mn | Net Sales | Growth (%) | EBITDA | EBITDA Margin (%) | PAT    | PAT Margin (%) | EPS   | Growth (%) | ROE (%) | ROCE (%) | P/E  |
|--------|-----------|------------|--------|-------------------|--------|----------------|-------|------------|---------|----------|------|
| FY19   | 94,458    | 29%        | 18,833 | 19.9%             | 15,147 | 16%            | 86.4  | 36%        | 34.6%   | 34.0%    | 37.7 |
| FY20   | 1,08,786  | 15%        | 20,292 | 18.7%             | 15,200 | 14%            | 86.4  | 0%         | 29.5%   | 29.6%    | 37.7 |
| FY21E  | 1,21,510  | 12%        | 24,327 | 20.0%             | 16,758 | 14%            | 95.2  | 10%        | 28.3%   | 27.7%    | 34.2 |
| FY22E  | 1,37,526  | 13%        | 26,715 | 19.4%             | 19,648 | 14%            | 111.6 | 17%        | 27.8%   | 27.3%    | 29.2 |
| FY23E  | 1,55,197  | 13%        | 29,119 | 18.8%             | 21,432 | 14%            | 121.7 | 9%         | 25.7%   | 25.4%    | 26.7 |

Source: Company, Dalal&Broacha Research

LTI's 5<sup>th</sup> Investor Day focused on **Unlocking Grit in the extra-ordinary times of a pandemic. Management laid down its strategy over the next 3-5 years which was largely focused around Cloud and Data Products & Platforms**

### Key Highlights of MD's speech

- 3\*3 approach is being used to tackle the pandemic

| Track 1                 | Track 2                    | Track 3         |
|-------------------------|----------------------------|-----------------|
| Customer first thinking | Resilient Operations       | Protect P&L     |
| Act & Plan Now          | Defense & Offense Strategy | War & Win Rooms |

- 5 additional highlights of 2020 were

- o Work From Home
  - o xFH – which pertains to Growing from Home, Productive from Home, Engaged from Home, Secured from Home and Operational from Home
  - o Canvas – LTI Canvas, as a software engineering tool, is not only being used internally but also implemented by 20 customers so far
  - o SafeRadius – mobile app to track workforce wellbeing
  - o The Grit Alliance – wherein LTI has a practicing of comparing its own grit with that of the client and matching up to them
- Company added 42 clients in H1 out of which 2 clients were from Fortune 500
- Net New revenue of \$454 Mn between the Analyst Days with addition of 7 large new clients
- Large deal pipeline stands at \$1.9 Bn, +62% yoy
- Expect to see solid growth from Middle East, Central & Eastern Europe
- Sales team is being rigorously trained (5000+ hours) for digital discussions with clients
- Signed deal worth AED 760 Mn with Injazat (which together with G42 is the largest cloud provider in the Middle East) to digitally transform and onboard 50 clients on Cloud. Contract involves Digital and ERP transformation and LTI will offer Infra and Application Services.
- Deal pipeline is robust however management expects conversions to pick up from summer of FY22 onwards
- Intend to maintain industry leading growth coupled with stable margins despite reinvestment into Reskilling, Localization, Capacity Building (Organic & Inorganic), Post COVID workplaces and Bolstering the Sales team

### Cloud

- Expect robust growth in Cloud as Hyperscalers' cloud business continues to outperform at high double digit growth rate (**Stat:** Cloud revenue of top 3 hyperscalers is expected to grow from \$80 Bn to \$200 Bn over the next 3-5 years)
- Aspiration to make Cloud a \$1 Bn business
- Dedicated Business Units for each Hyperscaler which will provide Consulting, Sales, Solutions, Delivery and Partnerships (**Stat:** LTI is Tier 1 partner to top 3 hyperscalers)
- Target customers extend to non-Fortune 2000 companies as well



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### **Playbook for Cloud business:**

- **C4X:** Verticalized and Functionalized Cloud offerings and solutions as Cloud for different industries and functions differ
- **Rainbow:** Integrated Cloud Platform Offering which covers from assessment to running operations on Cloud
- **Rainmakers:** preparing specialists in Cloud
- **CWOW – Cloud Ways of Working:** Internally adopt ways of working on Cloud which involves R&D, Cloud Labs and even LTI Canvas on Cloud

### **Data Products**

- Products revolving around Data & Cloud will also be a key focus area going ahead
- LTI will go to market with 5 products for Cloud and Cognitive work
  - Decisions – effort on data for decision making usually occupies 50-70% of the time. Decisions reduces this to 10%
  - ML Logistics – automates data science flow
  - Agnitio
  - Marketplace
  - Leni – operates like a Voice Assistant for the enterprise
- Company will not only create an Appstore for the enterprise but also offer this products on respective Hyperscalers' marketplace
- Launched SaaS version of products last week

### **Valuation & Outlook**

LTI's focus on Cloud business is in-line with industry's focus on Cloud as this technology becomes practically a necessity given the current pandemic and the inherent transformation. We take note of increased emphasis on Products revolving around Data, an industry which has come into mainstream focus and commands a presence from any tech company. However, monitoring the scaling up products is paramount as it is a herculean task. **At CMP of INR 3254, LTI is trading at 29.2x / 26.7x FY22e / FY23e EPS. We believe that its fair value lies at ~25x FY23e and although we rollover our estimates from FY22e to FY23e and therein raise the target price to INR 3,044 (from INR 2,780 earlier), we maintain our UNDERWEIGHT rating on the stock.**



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| P&L Statement     |        |          |          |          |          |
|-------------------|--------|----------|----------|----------|----------|
| INR mn            | FY19   | FY20     | FY21E    | FY22E    | FY23E    |
| Revenue           | 94,458 | 1,08,786 | 1,21,510 | 1,37,526 | 1,55,197 |
| Growth (%)        | 29%    | 15%      | 12%      | 13%      | 13%      |
| Gross Profit      | 32,814 | 35,197   | 40,259   | 45,281   | 50,847   |
| EBITDA            | 18,833 | 20,292   | 24,327   | 26,715   | 29,119   |
| EBITDA Margin (%) | 19.9%  | 18.7%    | 20.0%    | 19.4%    | 18.8%    |
| Depreciation      | 1,472  | 2,730    | 3,336    | 2,889    | 3,261    |
| EBIT              | 17,361 | 17,562   | 20,992   | 23,826   | 25,858   |
| EBIT Margin (%)   | 18.4%  | 16.1%    | 17.3%    | 17.3%    | 16.7%    |
| Other Income      | 3,023  | 3,289    | 2,245    | 3,260    | 3,587    |
| Exceptional items | 0      | 0        | 0        | 0        | 0        |
| PBT               | 20,278 | 20,025   | 22,493   | 26,379   | 28,765   |
| Reported PAT      | 15,147 | 15,200   | 16,758   | 19,648   | 21,432   |
| Adj PAT           | 15,147 | 15,200   | 16,758   | 19,648   | 21,432   |
| PAT Margin (%)    | 16%    | 14%      | 14%      | 14%      | 14%      |
| EPS (Rs.)         | 86.4   | 86.4     | 95.2     | 111.6    | 121.7    |
| EPS Growth (%)    | 36%    | 0%       | 10%      | 17%      | 9%       |

| Ratio Analysis                    |          |          |          |          |          |
|-----------------------------------|----------|----------|----------|----------|----------|
|                                   | FY19     | FY20     | FY21E    | FY22E    | FY23E    |
| <b>Margin ratios</b>              |          |          |          |          |          |
| Gross                             | 34.7%    | 32.4%    | 33.1%    | 32.9%    | 32.8%    |
| EBITDA                            | 19.9%    | 18.7%    | 20.0%    | 19.4%    | 18.8%    |
| Adj PAT                           | 16.0%    | 14.0%    | 13.8%    | 14.3%    | 13.8%    |
| <b>Performance ratios</b>         |          |          |          |          |          |
| Pre-tax OCF/EBITDA                | 99.3%    | 101.3%   | 94.2%    | 96.9%    | 97.3%    |
| OCF/IC (%)                        | 29.7%    | 31.8%    | 29.6%    | 29.0%    | 28.4%    |
| RoE (%)                           | 34.6%    | 29.5%    | 28.3%    | 27.8%    | 25.7%    |
| ROCE (%)                          | 34.0%    | 29.6%    | 27.7%    | 27.3%    | 25.4%    |
| RoCE (Pre-tax)                    | 45.5%    | 38.9%    | 37.2%    | 36.6%    | 34.1%    |
| RoIC (Pre-tax)                    | 38.0%    | 34.0%    | 36.2%    | 36.0%    | 35.0%    |
| Return on Total Assets            | 26.0%    | 19.9%    | 21.6%    | 21.7%    | 21.0%    |
| Fixed asset turnover (x)          | 34.0     | 30.7     | 28.6     | 30.3     | 32.2     |
| Total asset turnover (x)          | 1.6      | 1.4      | 1.3      | 1.3      | 1.3      |
| <b>Financial stability ratios</b> |          |          |          |          |          |
| Net Debt to Equity (x)            | -0.1     | -0.0     | -0.1     | -0.1     | -0.2     |
| Net Debt to EBITDA (x)            | -0.2     | -0.1     | -0.3     | -0.4     | -0.5     |
| DSO days                          | 71       | 78       | 70       | 70       | 70       |
| <b>Valuation metrics</b>          |          |          |          |          |          |
| Fully Diluted Shares (mn)         | 175      | 176      | 176      | 176      | 176      |
| Market cap (Rs.mn)                | 5,70,505 | 5,72,329 | 5,72,804 | 5,72,804 | 5,72,804 |
| P/E (x)                           | 37.7     | 37.7     | 34.2     | 29.2     | 26.7     |
| EV (Rs.mn)                        | 5,67,291 | 5,68,457 | 5,64,357 | 5,60,119 | 5,55,254 |
| EV/ EBITDA (x)                    | 30.1     | 28.0     | 23.2     | 21.0     | 19.1     |
| FCF Yield                         | 2.1%     | 2.4%     | 2.8%     | 3.1%     | 3.6%     |
| P/BV (x)                          | 11.7     | 10.6     | 8.8      | 7.4      | 6.4      |
| Dividend pay-out (%)              | 35.3%    | 37.4%    | 37.4%    | 37.1%    | 40.8%    |
| Dividend yield (%)                | 0.8%     | 0.9%     | 1.0%     | 1.1%     | 1.3%     |

| Balance Sheet                         |               |               |               |               |               |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| INR Mn                                | FY19          | FY20          | FY21E         | FY22E         | FY23E         |
| Share capital                         | 174           | 174           | 174           | 174           | 174           |
| Reserves and surplus                  | 48,764        | 53,866        | 64,359        | 76,725        | 89,420        |
| <b>Net Worth</b>                      | <b>48,938</b> | <b>54,040</b> | <b>64,533</b> | <b>76,899</b> | <b>89,594</b> |
| <b>Non Current Liabilities</b>        |               |               |               |               |               |
| Deferred Tax liabilities              | 56            | 101           | 101           | 101           | 101           |
| Total debt                            | 936           | 3,204         | 3,204         | 3,204         | 3,204         |
| <b>Current Liabilities</b>            |               |               |               |               |               |
| Trade payables                        | 4,669         | 6,950         | 5,325         | 5,768         | 6,563         |
| <b>Total Networth and Liabilities</b> | <b>66692</b>  | <b>88249</b>  | <b>97117</b>  | <b>109927</b> | <b>123416</b> |
| <b>Assets</b>                         |               |               |               |               |               |
| <b>Non Current Assets</b>             |               |               |               |               |               |
| Net fixed assets                      | 3052          | 4031          | 4476          | 4604          | 5038          |
| Intangible Assets                     | 6247          | 7474          | 7371          | 7791          | 7977          |
| Investments                           | 20120         | 23757         | 27947         | 32319         | 36471         |
| Deferred tax assets                   | 2386          | 3039          | 3039          | 3039          | 3039          |
| <b>Current Assets</b>                 |               |               |               |               |               |
| Cash and bank balances                | 4150          | 5252          | 9352          | 13590         | 18454         |
| Loans & advances                      | 11886         | 12731         | 12731         | 12731         | 12731         |
| Trade Receivables                     | 18263         | 23121         | 23303         | 26375         | 29764         |
| <b>Total assets</b>                   | <b>66692</b>  | <b>88249</b>  | <b>97117</b>  | <b>109927</b> | <b>123416</b> |

| Cash Flow Statement                        |               |               |               |               |               |
|--|---------------|---------------|---------------|---------------|---------------|
| INR Mn                                     | FY19          | FY20          | FY21E         | FY22E         | FY23E         |
| <b>PAT</b>                                 | <b>15147</b>  | <b>15200</b>  | <b>16758</b>  | <b>19648</b>  | <b>21432</b>  |
| Less: Non Operating Income                 | -3023         | -3289         | -2245         | -3260         | -3587         |
| Add: Depreciation                          | 1472          | 2730          | 3336          | 2889          | 3261          |
| <b>Operating Profit before WC Changes</b>  | <b>13702</b>  | <b>15467</b>  | <b>18593</b>  | <b>19984</b>  | <b>21787</b>  |
| (Inc)/Dec in Current Assets                | -9539         | -10487        | -1083         | -6115         | -6746         |
| Inc/(Dec) in Current Liabilities           | 3029          | 5621          | -1625         | 443           | 795           |
| <b>Net Cash From Operations</b>            | <b>7192</b>   | <b>10601</b>  | <b>15885</b>  | <b>14313</b>  | <b>15836</b>  |
| <b>Cash Flow from Investing Activities</b> |               |               |               |               |               |
| (Inc)/Dec in Fixed Assets                  | -2016         | -3709         | -3780         | -3018         | -3694         |
| (Inc)/Dec in Investment (Strategic)        | -955          | 1060          | -3289         | -1328         | -795          |
| Add: Non Operating Income                  | 3,023         | 3,289         | 2,245         | 3,260         | 3,587         |
| <b>Cash From Investing Activities</b>      | <b>-1,943</b> | <b>-1,064</b> | <b>-4,721</b> | <b>-1,507</b> | <b>-1,088</b> |
| <b>Cash Flow from Financing Activities</b> |               |               |               |               |               |
| Dividend Paid                              | -4499         | -4864         | -5594         | -6119         | -7342         |
| Tax Paid on Dividend                       | -842          | -815          | -671          | -1163         | -1395         |
| <b>Net Cash from Financing Activities</b>  | <b>-4726</b>  | <b>-9545</b>  | <b>-7010</b>  | <b>-7988</b>  | <b>-9418</b>  |
| <b>Opening Balance</b>                     | <b>3632</b>   | <b>4150</b>   | <b>5252</b>   | <b>9352</b>   | <b>13590</b>  |
| <b>Closing Cash and Cash Equivalents</b>   | <b>4155</b>   | <b>4142</b>   | <b>9406</b>   | <b>14169</b>  | <b>18919</b>  |

| Free Cash Flow Statement |              |              |              |              |              |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| INR Mn                   | FY19         | FY20         | FY21E        | FY22E        | FY23E        |
| EBITDA                   | 18,833       | 20,292       | 24,327       | 26,715       | 29,119       |
| FC Investment            | -2016        | -3709        | -3780        | -3018        | -3694        |
| WC Changes               | -6510        | -4866        | -2708        | -5671        | -5952        |
| Depreciation Tax Shield  | 372          | 658          | 850          | 737          | 831          |
| Tax Expenses             | 4758         | 4889         | 6202         | 6817         | 7424         |
| <b>FCF</b>               | <b>18941</b> | <b>17217</b> | <b>17904</b> | <b>23289</b> | <b>24785</b> |



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