

India

HOLD (previously ADD)

Consensus ratings*: Buy 20 Hold 10 Sell 8

Current price:	Rs5,077
Target price:	Rs5,251
Previous target:	Rs6,302
Up/downside:	3.4%
InCred Research / Consensus:	-13.1%
Reuters:	LRTI.NS
Bloomberg:	LTI IN
Market cap:	US\$11,684m Rs889,838m
Average daily turnover:	US\$32.4m Rs2467.9m
Current shares o/s:	175.0m
Free float:	26.0%

*Source: Bloomberg

Key changes in this note

- Increase PE/G discount to TCS to 25% vs. 10% earlier to price-in uncertainty from potential merger event.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(17.0)	(20.6)	30.0
Relative (%)	(16.9)	(19.1)	7.9

Major shareholders	% held
UTI Flexi Cap Fund	1.9
FPI	10.1
Insurance companies	1.5

Analyst(s)



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L&T InfoTech

Downgrade to Hold

- L&T Infotech (LTI) and Mindtree (MTCL) merger noise is getting louder.
- In our view, this event and subsequent reorganization could be a key distraction to senior leadership in the near term.
- Cut our valuation multiple to account for uncertainty and downgrade the rating on LTI to Hold (from Add earlier). Target price cut to Rs5,251 (Rs6,302 earlier).

The noise is getting louder

Recent media reports suggest that L&T Infotech's (LTI IN) and Mindtree's (MTCL IN) merger is closer than ever before and could conclude in the near term. While the news is nothing new for investors, we believe the timing could be crucial in the current environment of heightened attrition in the industry and macro uncertainty, and has the potential to disturb the existing well-oiled setup of both organizations. Pending further clarity on the process and the scheme of arrangement, we cut our valuation multiple and downgrade the rating on LTI to Hold (from Add earlier).

Merger event and subsequent reorganization could be a distraction

Although the actual mechanics of the potential merger are not known, we believe the event could disrupt execution for both organizations. Leadership realignment could be a major distraction and could accelerate delivery and sales personnel attrition, especially at L-1/L-2 level, while the mid and junior level employees could become poaching targets in the current supply-constrained environment. While we appreciate that both LTI and Mindtree may ring-fence high performing/critical talent, we would prefer to stay on the sidelines until the actual event plays out.

There are positives too, but we would like to see them play out

During the acquisition of Mindtree, L&T Group highlighted that client overlap with LTI is minimal while complementary offerings of the two companies implies a least collision course. Further, acquisition of Mindtree improves productivity in common clients and creates a potential cross-selling opportunity. Although, our positive stance on both LTI and Mindtree was predicated on some of these strategies, we are turning Neutral in the near-term to weigh in the opportunities and threats of the event itself.

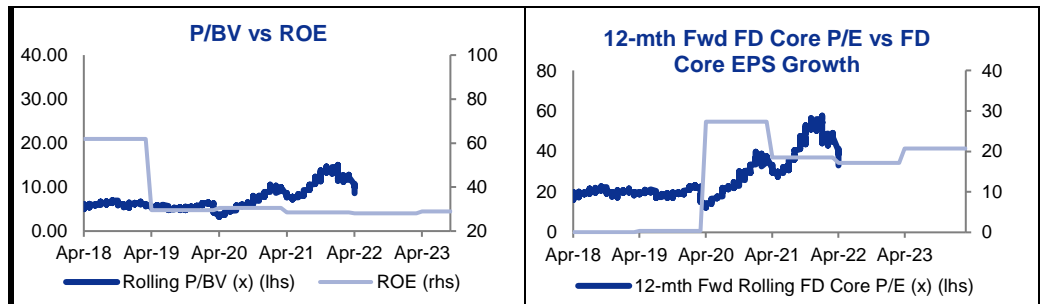
Trim multiple to price-in the uncertainty; downgrade to Hold

We retain our recently-adjusted revenue and PAT CAGR estimates but trim PE/G multiple to 1.5x vs. 1.8x earlier and downgrade LTI to Hold (from Add earlier). Increase in PE/G discount to Tata Consultancy Services (TCS IN) to 25% vs. 10%, to account for the uncertainty, drives the implied P/E lower to 28.4x vs. 34.1x and our target price to Rs5,251 vs Rs6,302 earlier. Moderation in deal velocity and high attrition rate are key revenue/EBIT margin downside risks. Delay/postponement of the merger or the event not taking place are key upside risks to our target price.

Financial Summary

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	108,786	123,698	156,687	193,317	227,235
Operating EBITDA (Rsm)	20,292	27,251	30,585	37,175	45,015
Net Profit (Rsm)	15,203	19,382	22,986	26,914	32,487
Core EPS (Rs)	86.7	110.5	130.9	153.3	185.1
Core EPS Growth	0.3%	27.4%	18.5%	17.1%	20.7%
FD Core P/E (x)	58.54	45.96	38.79	33.12	27.43
DPS (Rs)	28.0	40.0	55.0	65.9	83.3
Dividend Yield	0.66%	0.78%	1.08%	1.30%	1.64%
EV/EBITDA (x)	43.04	31.37	28.11	23.06	18.79
P/FCFE (x)	78.10	42.76	205.43	65.68	40.94
Net Gearing	(30.8%)	(49.5%)	(36.1%)	(32.8%)	(37.4%)
P/BV (x)	16.47	12.21	10.11	8.61	7.34
ROE	29.5%	30.5%	28.5%	28.1%	28.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)				0.97	1.00

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	108,786	123,698	156,687	193,317	227,235
Gross Profit	35,197	41,505	48,120	59,213	70,693
Operating EBITDA	20,292	27,251	30,585	37,175	45,015
Depreciation And Amortisation	(2,730)	(3,325)	(3,549)	(4,833)	(5,681)
Operating EBIT	17,562	23,926	27,036	32,342	39,334
Financial Income/(Expense)	2,466	1,956	3,939	4,077	4,243
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	20,028	25,882	30,975	36,419	43,577
Exceptional Items					
Pre-tax Profit	20,028	25,882	30,975	36,419	43,577
Taxation	(4,825)	(6,500)	(7,989)	(9,505)	(11,090)
Exceptional Income - post-tax					
Profit After Tax	15,203	19,382	22,986	26,914	32,487
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	15,203	19,382	22,986	26,914	32,487
Recurring Net Profit	15,203	19,382	22,986	26,914	32,487
Fully Diluted Recurring Net Profit	15,203	19,382	22,986	26,914	32,487

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	20,292	27,251	30,585	37,175	45,015
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,313)	2,704	(9,542)	(7,100)	(7,155)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(4,118)	(6,400)	(8,113)	(9,505)	(11,090)
Cashflow From Operations	13,861	23,555	12,930	20,570	26,770
Capex	(2,465)	(2,719)	(8,590)	(7,000)	(5,000)
Disposals Of FAs/subsidiaries	39	54	34		
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(4,094)	(13,895)	(1,038)	4,833	4,999
Cash Flow From Investing	(6,520)	(16,560)	(9,594)	(2,167)	(1)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(5,679)	(5,319)	(8,749)	(11,573)	(14,619)
Preferred Dividends					
Other Financing Cashflow	(3,221)	231	(1,709)	(861)	(756)
Cash Flow From Financing	(8,900)	(5,088)	(10,458)	(12,434)	(15,375)
Total Cash Generated	(1,559)	1,907	(7,122)	5,969	11,394
Free Cashflow To Equity	11,396	20,836	4,340	13,570	21,770
Free Cashflow To Firm	7,341	6,995	3,336	18,403	26,769

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	27,438	43,876	39,139	41,283	52,676
Total Debtors	31,883	31,248	41,710	50,845	59,766
Inventories					
Total Other Current Assets	3,969	6,189	7,807	7,807	7,807
Total Current Assets	63,290	81,313	88,656	99,935	120,249
Fixed Assets	12,105	10,481	15,723	21,830	21,149
Total Investments	680	3,065	6,474	6,474	6,474
Intangible Assets	7,684	9,241	10,057	10,057	10,057
Total Other Non-Current Assets	4,490	2,991	3,773	3,773	3,773
Total Non-current Assets	24,959	25,778	36,027	42,134	41,453
Short-term Debt	320	414	519	519	519
Current Portion of Long-Term Debt					
Total Creditors	6,950	8,277	8,028	10,063	11,829
Other Current Liabilities	16,042	17,632	20,636	20,636	20,636
Total Current Liabilities	23,312	26,323	29,183	31,218	32,984
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	10,886	7,697	7,307	7,307	7,307
Total Non-current Liabilities	10,886	7,697	7,307	7,307	7,307
Total Provisions					
Total Liabilities	34,198	34,020	36,490	38,525	40,291
Shareholders Equity	54,040	73,034	88,146	103,487	121,355
Minority Interests	11	37	57	57	57
Total Equity	54,051	73,071	88,203	103,544	121,412

Key Ratios					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	15.2%	13.7%	26.7%	23.4%	17.5%
Operating EBITDA Growth	7.7%	34.3%	12.2%	21.5%	21.1%
Operating EBITDA Margin	18.7%	22.0%	19.5%	19.2%	19.8%
Net Cash Per Share (Rs)	95.07	205.84	181.21	193.42	258.32
BVPS (Rs)	308.32	415.72	502.12	589.51	691.29
Gross Interest Cover					
Effective Tax Rate	24.1%	25.1%	25.8%	26.1%	25.5%
Net Dividend Payout Ratio	38.6%	36.0%	41.9%	43.0%	45.0%
Accounts Receivables Days	98.68	93.14	84.98	87.38	88.84
Inventory Days					
Accounts Payables Days	28.82	33.81	27.41	24.62	25.52
ROIC (%)	50.1%	48.2%	58.6%	47.4%	46.1%
ROCE (%)	23.2%	24.6%	22.8%	23.2%	24.5%
Return On Average Assets	17.2%	18.3%	17.3%	17.9%	19.3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.