

L&T Infotech Q4FY21

Financial Results & Highlights

Brief Introduction:

Larsen & Toubro Infotech Limited, a technology consulting and digital solutions company, provides information technology services and solutions in India, North America, Europe, the Asia Pacific, and internationally. The company operates through Banking, Financial Services & Insurance; Manufacturing; Energy & Utilities; High-Tech, Media & Entertainment; and CPG, Retail, Pharma & Others segments. It offers application development, maintenance and outsourcing, enterprise solution, infrastructure management, testing, digital solution, and platform-based solution services. It is a subsidiary of Larsen & Toubro Limited.

Standalone Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	3079	2898	6.25%	3039	1.32%	11787	10606	11.14%
PBT	623	530	17.55%	662	-5.89%	2391	2007	19.1%
PAT	466	416	12.02%	494	-5.67%	1787	1552	15.14%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	3372	3082	9.41%	3222	4.66%	12644	11208	12.81%
PBT	717	551	30%	699	2.58%	2588	2003	29%
PAT	546	428	28%	519	5.20%	1938	1520	27.50%

Detailed Results:

- The company had a decent quarter with 9% YoY growth in consolidated revenues and 28% YoY growth in consolidated profits.
- The constant Currency Revenue increase was at 4.4% QoQ and 7.1% YoY in Q4.
- USD revenues were at \$447.4 million which is a growth of 9.1% YoY. FY21 revenues were at \$1.67 billion which was up 9.5% YoY.
- ROE for FY21 was at 30.5% and the company announced a final dividend of Rs 25 per share for FY21.
- Digital revenues were at 45.6% of revenues in Q4.
- EBITDA margin expanded 270 bps YoY to 21.9% in Q4.
- Revenue breakup in Q4 by vertical is:
 - BFS: 30.7% (Up 21.8% YoY)
 - Insurance: 14.5% (Down 5.9% YoY)
 - Manufacturing: 16.9% (Up 2.2% YoY)
 - Energy & Utilities: 9.1% (Down 12.6% YoY)
 - CPG, Retail & Pharma: 10.8% (Up 5.4% YoY)
 - Hi-tech, Media & Entertainment: 11.8% (Up 16.3% YoY)
 - Others: 6.2% (Up 69.7% YoY)

8. Revenue breakup by Service Offerings is:
 1. ADM and Testing: 33.3% (Up 4.9% YoY)
 2. Enterprise Solutions: 32.3% (Up 8.5% YoY)
 3. Cloud Infrastructure & Security: 15.1% (Up 31% YoY)
 4. Analytics, AI & Cognitive: 11.1% (Up 4.9% YoY)
 5. Enterprise Integration & Mobility: 8.2% (Up 2.6% YoY)
9. Geographical breakup is North America @ 66.2%, EU @ 16.5%, RoW @ 8.4% & India @ 8.9%.
10. Top 5 clients account for 27.8% revenue, Top 10 account for 41% revenue & Top 20 account for 55.6% revenue.
11. The company has added 14 new clients in Q4.
12. Effort Offshoring is at 82.1% while offshore revenues are at 55.9%.
13. Utilization including trainees is at 80.8% and excluding is at 82.2%.
14. Cash and Cash equivalents as of end of Q4 was at Rs 759.4 Cr.
15. The company won two large deals with cumulative net new TCV of \$278 million.
16. Recent deal wins of L&T Infotech are:
 1. LTI has been chosen as a long-term strategic partner in a vendor consolidation deal for management of core insurance platforms for a large Fortune 500 Insurance company.
 2. A leading regional bank, a new logo, selected LTI for a core banking transformation program involving implementation of Temenos.
 3. LTI has been selected by a US based heavy equipment manufacturing conglomerate for an application managed services deal for its parts business.
 4. A North American property and casualty mutual insurance company has partnered with LTI to replace its existing on-premises legacy core systems with a SaaS based Duck Creek solution.
 5. A Global Fortune 500 multinational pharma corporation has chosen LTI as its advisory partner to transform its finance function.
 6. A Germany based multinational engineering conglomerate has selected LTI for an SAP HANA Data Lake migration project to Snowflake for its energy business company.
 7. A Global Fortune 500 energy distribution company has selected LTI to support its SAP Customer Information System implementation for one of its acquired entities.
 8. A leading property and casualty insurance software and data analytics provider based in North America has selected LTI to migrate from their legacy enterprise data warehouse platform to Snowflake's data cloud.
 9. LTI has been selected to provide infrastructure support and network operations services to a leading distributor of specialty concrete and construction products in North America.
 10. A Global Fortune 500 entertainment and media enterprise has selected LTI to build a global reporting platform for its digital media supply chain applications using Snowflake.
 11. The international branch of a leading financial services providers in the UK has appointed LTI as the lead systems integrator for their core banking modernization and transformation program.
17. LTI and AWS have entered into a Strategic Partnership to Accelerate Enterprise Cloud Adoption to expand joint offerings for Migration, Modernization, SAP, IoT, and Data-on-Cloud.
18. LTI is recognized as a Microsoft Azure Expert Managed Services Provider.

Investor Conference Call Highlights:

1. The 2 large deal wins in Q4 were the vendor consolidation win with an existing logo and in the BFS vertical with a new logo.
2. The deal tenure of the 1st big deal is 5 years with a net-new TCV of \$21 million.
3. The deal tenure of the 2nd big deal is 2 years with a net-new TCV of \$45 million.
4. LTI has also added 2 Fortune 500 logos to its client list in Q4.
5. The total Fortune 500 customer count goes to 71, an addition of 5 during the year.
6. The management expects margins to remain in the range of 14-15% in FY22.
7. FY21 operating margin was at 19.3% vs 16.1% last year.
8. Diluted EPS for FY21 was at Rs 110.3 vs Rs 86.6 last year.
9. The major impact in the top 10 accounts has come for oil & gas clients while insurance clients have done very well for LTI.
10. In terms of deal pipeline, the revenue mix in terms of geography should remain close to current levels according to the management.
11. The management has stated that it needs to keep investing in sales and marketing to be able to compete with the biggest global players and bag mega deals like the Injazat deal.
12. LTI is now the second-largest player in the Temenos ecosystem.
13. The company has also increased dividend pay-out to Rs 40 in FY21 from Rs 28 in FY20. It is also on the lookout for possible acquisition opportunities.
14. The offshore ratios going up has been seen across the industry and thus productivity has also gone up for LTI. The company has also made significant hiring in Q4 and is expected to do the same in Q1FY22.
15. The pricing environment is expected to become stable with the price points becoming better than the outsourcing price point.
16. The management states that the mega-deals with >\$50 million have been paused as major oil & gas clients have faced a difficult year due to COVID but these deals are expected to come in as normalcy comes back.
17. Q1 & Q2 should see a ramp-up of the Injazat deal.
18. The \$5 million bucket is up by 10, the \$10 million bucket is up by 8, and the \$20 million bucket is up by 2 in FY21.
19. The hiring plans in Q4 & Q1 are in line with the rise in demand from the new deal wins.
20. LTI will also be doing its fresh graduate intake earlier in Q2 & Q3 keeping the anticipated demand in mind.
21. In the last 3 quarters, SG&A has been at 12% of revenues and it is expected to remain at current or below levels going forward.

Analyst's View:

L&T Infotech is a major in the digital solutions space in India. The company has done well to maintain its presence in many end industries like BFS, Insurance, Manufacturing, etc, and focus on cloud and data products to drive growth soon. It has had a good Q4 with major deal wins including from including 2 deal wins with Net TCV of \$21 and \$ 45 million each. The management expects more deal wins and is also expecting a demand comeback from oil & gas clients in the future. It is now looking to focus on Fortune 200 companies as they will be the next frontier for LTI to expand into. It remains to be seen how the company will be able to sustain its growth momentum and the increased competition in the



tech space. Nonetheless, given the company's ever-increasing roster of marquee clients and its focus on driving growth from cloud & data products, L&T Infotech is a pivotal technology stock to watch out for.

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