

L&T Infotech Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	3039	2700	12.56%	2840	7.01%	8709	7708	12.99%
PBT	662	485	36.49%	575	15.13%	1768	1477	19.70%
PAT	494	367	34.60%	430	14.88%	1321	1137	16.18%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	3222	2875	12.07%	3035	6.16%	9272	8126	14.10%
PBT	699	500	40%	613	14.03%	1871	1451	28.95%
PAT	519	377	38%	457	13.57%	1393	1093	27.45%

Detailed Results:

- The company had an excellent quarter with 12% YoY growth in consolidated revenues and 38% YoY growth in consolidated profits.
- The constant Currency Revenue increase was at 5.3% QoQ and 7.4% YoY.
- USD revenues were at \$427.8 million which is a growth of 8.5% YoY.
- Digital revenues were at 44.4% of revenues in Q3.
- EBITDA margin expanded 440 bps YoY to 23.2% in Q3.
- Revenue breakup in Q3 by vertical is:
 - BFS: 30.6% (Up 19.4% YoY)
 - Insurance: 15% (Down 7.9% YoY)
 - Manufacturing: 16.8% (Up 4.4% YoY)
 - Energy & Utilities: 10% (Down 3.6% YoY)
 - CPG, Retail & Pharma: 10.9% (Up 5.2% YoY)
 - Hi-tech, Media & Entertainment: 10.6% (Up 6.5% YoY)
 - Others: 6% (Up 76.4% YoY)
- Revenue breakup by Service Offerings is:
 - ADM and Testing: 33.6% (Up 1.8% YoY)
 - Enterprise Solutions: 31.4% (Up 8.6% YoY)

3. Infrastructure Management Services: 14.3% (Up 34.7% YoY)
4. Analytics, AI & Cognitive: 11.9% (Up 0.3% YoY)
5. Enterprise Integration & Mobility: 8.8% (Up 12.3% YoY)
8. Geographical breakup is North America @ 67.9%, EU @ 16.1%, RoW @ 7.4% & India @ 8.6%.
9. Top 5 clients account for 29.3% revenue, Top 10 account for 42% revenue & Top 20 account for 57.1% revenue.
10. The company has added 22 new clients in Q3.
11. Effort Offshoring is at 81.6% while offshore revenues are at 55.7%.
12. Utilization including trainees is at 81.1% and excluding is at 84.1%.
13. Cash and Cash equivalents as of end of Q3 was at Rs 524.8 Cr.
14. The company won two large deals with cumulative net new TCV of \$278 million.
15. Recent deal wins of L&T Infotech are:
 1. A UAE-based leader in digital transformation has selected LTI as its partner of choice to provide infrastructure and application operations support and maintenance for its existing and new customers.
 2. A Global Fortune 500 energy company has chosen LTI as its primary partner for an application managed services agreement to create and consolidate a business-aligned IT services delivery platform across the organization and reduce total cost of ownership.
 3. A company located in the U.S providing leading data-driven marketing, loyalty & payment solutions has selected LTI for customer-centric digital transformation initiatives.
 4. An engineering, construction and mining company located in South East Asia has partnered with LTI to transform its procurement, sales, bidding, contracting and analytics functions using SAP.
 5. LTI executed a license sale agreement for AI, Decisions and Catalog products on its Mosaic platform with a multinational banking and financial services company to bring about efficiency in their reporting with the regulators.
 6. A leading European financial services firm has chosen LTI to manage its infrastructure operations through a leaner operating model and by leveraging the Mosaic platform to drive automation.
 7. A leading commercial property and casualty insurance group based in Canada has selected LTI to consolidate and transform its policy administration systems and processes onto the Duck Creek platform to ensure streamlining of its operations.
 8. A U.S. based real estate investment company has chosen LTI for providing application support, maintenance and development services.
16. LTI is now an 'Elite' level partner of Snowflake, a 'Premier' level partner of Google Cloud, & a 'Platinum' tier partner of IBM.
17. LTI has partnered with Temenos to launch a Digital Banking Platform in the Nordic region.

Investor Conference Call Highlights:

1. The client from UAE is Injazat which is part of the Mubadala Group and is currently partnered with G42. LTI will start with infrastructure, applications, and ERP services for 50-plus clients with Injazat. The deal tenure is 6 years, and the deal value is estimated at \$204 million.
2. The second large deal was with a Global Fortune 500 energy company. It's a 5-year deal with net new TCV of \$74 million.
3. The company now has 69 Fortune 500 clients.

4. According to the management, the 3 main growth drivers in BFS vertical are:
 - a. investment in core infrastructure like accounting, reporting, and governance, which is predominantly data-driven;
 - b. investment in building for utilities like Google Pay and other payment service apps;
 - c. investments in platforms to support retail wealth because of the global stimulus and liquidity.
5. The manufacturing vertical is expected to grow in the coming quarters due to the presence of higher pass-through in one of LTI's domestic engagements.
6. The management states that the reasons for margin appreciation are enhancing productivity, improvement in the offshore mix, and efficiencies in SG&A.
7. The management is confident of LTI maintaining its position in the leading quadrant in the industry at the least.
8. The company has a separate unit focusing on cloud and this unit has 4 other sub units which focus on AWS, Microsoft, Google Cloud, and IBM.
9. The management maintains that LTI is a growth company with stable PAT margins of 14-15% and the rest shall be invested back into the businesses.
10. The management has stated that business modernization at all levels will be the primary growth driver for the IT industry in the next 4-5 years.
11. The management has implied that it is not worried due to falling revenue share of top clients because it is not because of falling revenues from these clients rather it is driven by rising share from smaller clients.
12. The deal with the European financial services firm does have a license component where the company is growing a platform to consolidate all of their risk models and reporting -- regulatory reporting on this platform. The deal also includes services to integrate this platform into the bank's ecosystem. This should provide future opportunities for applying this platform to other sections of the bank.
13. The margin profile is indeed expected to come down to the prescribed range as the company will be doing a wage hike in January and it will be making investments into sales and marketing, cloud and data units & in buying the license to set up the framework for Nordic financial companies in the SaaS platform.
14. The management states that LTI has always been a proponent of high offshore mix and it will maintain the offshore mix at current levels.
15. The management has stated that every year LTI can expect to bring in \$100 million of sales from new customers.
16. The revenue streams from Injazat will be seen from Q1FY22 onwards.
17. The utilization rate is indeed higher than what the management wants and so LTI is expected to raise its fresh grad uptake and increase cross skilling of existing employees.
18. The management has stated that the things clients are looking for now are whether the total cost of ownership can be brought down or whether product launch can be done faster than in the past.
19. The management has stated that the improvement in utilization is due to a higher than expected rise in demand and billing of resources in Q3. Thus to bring back utilization to desirable levels, it will be doing aggressive hiring.
20. The wage hike offshore will be 6-8% while on site it will be 2%. The impact on P&L should be 160-170 bps.

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 in the near future. It has had a good Q3 with major deal wins including from Injazat which has a TCV of > \$200 million. The management has also been perceptive in identifying offshoring and creating new operating and sales models as a good source for improving performance and bring in cost savings. It is also focused on the digital transformation theme and is confident that this will be the primary growth driver for the Indian IT industry in the next 4-5 years. LTI is also doing well to maintain its partnerships with industry leading platforms like AWS, Snowflake, and Google Cloud. 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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