

# Larsen&Toubro Infotech Ltd

Industry IT  
Bloomberg LTI IN  
BSE CODE 540005

**Softness in top client spend to hamper revenue growth in near term**

**RATING** **NEUTRAL**

**CMP** **1801**

**Price Target** **1948**

**Potential Upside** **8%**

**Rating Change**

**Estimate Change**

**Target Change**

## Stock Info

52wk Range H/L 1990/1078  
Mkt Capital (Rs Cr) 31240  
Free float (%) 16%  
Avg. Vol 1M (,000) 1908  
No. of Shares (Cr) 17  
Promoters Pledged (Cr) 0

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## Q3 FY19 result update-

- ❑ Company reported in line revenue performance where revenue grew Rs2473 crore (vs. our expectation of Rs2720), a growth of 6.1% led by strong growth across segment like BFS, retail, energy & utilities. In USD term revenue grew 5.6%QoQ and stood at USD346.9 million. However PAT for the quarter stood at Rs376 crore, declined 6.2%QoQ due to lower other income.
- ❑ EBIT for the quarter stood at Rs473 crore, a growth 7%QoQ. Despite the headwinds due to lower working days in 3QFY19, the operating margin stood at 19.1% up 10 bps led by operational efficiencies like higher utilization and lower SG&A cost.
- ❑ LTI posted a double digit YoY growth across most of its segment. BFS grew 3.1% QoQ and 27.4%YoY, CPG, Retail & Pharma grew 9.8%QoQ and 36.2%YoY, High-Tech, Media & Entertainment grew 6.2%QoQ and 26%YoY resulting in strong growth for FY19.
- ❑ Management believes FY19 to post top quartile growth of the company however due to tightness in spend, delay in project renewal and continued investment in workforce is expected to impact the growth in FY20.

## View and Valuation

Going forward, we expect LTI to post top quartile growth for FY19 and strong growth for FY20 led by Healthy deal pipeline (billion dollar deal are there), Continuity in large deal wins(Nets, Nordic) and robust growth across segments(BFS, retail and hi-tech all grew double digit YoY in 3QFY19).The company in past 9 months have acquired more than 63 new logos spread across verticals and have TCV of USD1billion which is giving a clear visibility of robust revenue growth in FY20.However tightness in spend among the top 5 & top 10client and delay in project renewal will hamper growth in near term But management believes that as the relationship continues to be strong with client, it expects the spend to come back going ahead.

On the margin front we have reduced our net margin by 30 bps post result for FY19 as Utilization is at all time high, the company is not unlikely to see any further headroom's to improve and thus working to bring it down going ahead. Also the company will continue to invest in workforce addition in India and US, thus resulting in net profit margin within its narrow band of 15% for FY20.

We expect LTI to post revenue growth of 23%CAGR over FY18 to FY20E.Factoring in near term tightness faced by the company on client spend, we value the stock at a target price of Rs1948 (20x FY20EPS) and recommend Neutral.

## Key Risks to our rating and target

- ❑ Softness in large deals wins.
- ❑ Slower than expected growth across segments.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	5846	6501	7307	9522	11131
EBITDA	1025	1230	1188	1894	2115
EBIT	851	1052	1032	1747	1956
PAT	836	971	1113	1519	1685
EPS (Rs)	49	57	65	88	97
EPS growth (%)	3%	16%	14%	36%	11%
ROE (%)	41	37	32	34	30
ROCE (%)	39	40	29	40	35
BV	125	184	224	286	358
P/B (X)	0	4	6	6	5
P/E (x)	0	12	21	21	18

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## 3QFY19 Results

## Mixed performance

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales /	1,884	2,001	2,156	2,331	2,473	31.3%	6.1%	6,501	7,307	12.4%
Other Income	92	117	107	97	31	-66%	-68%	187	426	128.2%
Employee	1,102	1,169	1,268	1,348	1,417	28.6%	5.1%	3,776	4,329	14.6%
Other Expenses	460	540	469	504	547	18.8%	8.5%	1,495	1,790	19.8%
EBITDA	322	292	419	479	509	58.2%	6.2%	1,230	1,188	-3.4%
Depreciation	40	36	38	37	36	-11.9%	-3.5%	178	156	-12.1%
EBIT	281	256	381	442	473	68.3%	7.0%	1,052	1,032	-2.0%
Interest	4	5	3	3	2	-45.7%	-24.0%	3	16	390.6%
PBT	370	368	485	537	502	35.9%	-6.4%	1,236	1,442	16.7%
Tax	87	78	124	136	127	46.3%	-7.0%	265	329	24.2%
Exceptional	-	-	-	-	-			-	-	
PAT	283	289	361	400	376	32.8%	-6.2%	971	1,113	14.6%

## 3QFY19 posted strong growth despite seasonality

Company reported in line revenue performance where revenue grew Rs2473 crore , a growth of 6.1% led by strong growth across segment like BFS, retail , energy & utilities .In USD term revenue grew 5.6%QoQ and stood at USD346.9 million.

## Broad based growth across segments

Segments(usd mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ	YoY
BFS	69	74	80	89	99	98	101	3.1%	27.4%
Insurance	53	56	57	57	58	59	62	5.0%	8.5%
Mfg	43	43	50	53	50	51	54	7.7%	7.9%
Energy &	30	32	35	36	32	35	37	6.6%	8.2%
CPG, Retail &	22	24	27	28	29	34	37	9.8%	36.2%
High-Tech,	27	30	31	33	36	37	39	6.6%	26.0%
Others	14	11	14	14	14	15	16	3.4%	18.2%

LTI posted a double digit YoY growth across most of its segment .BFS grew 3.1% QoQ and 27.4%YoY, CPG, Retail & Pharma grew 9.8%QoQ and 36.2%YoY, High-Tech, Media & Entertainment grew 6.2%QoQ and 26%YoY, Insurance grew 5%QoQ and 8.5%YoY and Manufacturing grew 7.7%QoQ and 7.2%YoY.

## Strong YoY growth seen across geographies; India likely to be volatile

Geography(usd mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ	YoY
North America	178	191	197	204	213	221	232	4.7%	17.4%
Europe	46	47	53	57	57	56	58	3.1%	9.8%
RoW	16	18	19	23	29	30	31	1.0%	62.7%
India	18	15	25	25	20	21	27	28.7%	9.9%

## Analytics dipped on large project completion and on base effect

Service Offering(usd mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ	YoY
ADM	94	94	98	101	109	105	107	1.7%	8.8%
Enterprise Solutions	59	65	77	83	84	83	96	16.5%	24.6%
Ims	32	29	32	36	37	38	40	2.9%	24.9%
Testing	23	24	24	26	26	26	27	4.3%	11.2%
Analytics, AI & Cog	25	29	32	33	33	40	39	-2.2%	23.8%
Enterprise Integration &	17	18	20	20	21	26	26	0.3%	34.2%
Platform Solutions	9	10	10	10	10	10	11	12.7%	8.2%

### Softness in top client as tightness seen in client spend

top client (usd mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ	YoY
Top 5 clients	99	103	107	109	117	119	120	0.7%	12.1%
Top 10 clients	132	138	149	153	161	164	168	2.4%	12.7%
Top 20 clients	172	179	194	201	211	215	223	3.7%	15.1%

### Operational efficiency led to higher margins

EBIT for the quarter stood at Rs473 crore, a growth 7%QoQ. Despite the headwinds due to lower working days in 3QFY19, the operating margin stood at 19.1% up 10 bps led by operational efficiencies like higher utilization and lower SG&A cost.

### Margin guidance: 15% narrow band for FY20

As Utilization is all time high, the company is working to bring it down going ahead. Also expect to continue to invest in workforce addition in India and US. Despite these investments, the company maintains its net profit margin to be in narrow band of 15% for FY20.

### Concall Highlights

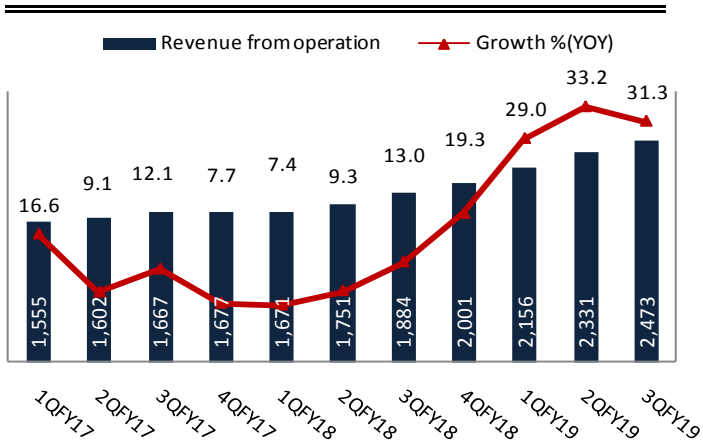
- ❑ **Acquisition of Ruletronics:** The Company acquired ruletronic which will help the company in cross selling and up selling the niche and much in demand of pega consulting to its client base .This acquisition will boost BFS and insurance vertical.
- ❑ **Margin for 3QFY19:** Despite the headwinds due to lower working days in 3qfy19, the operating margin has been resilient standing at 19.1% up 10 bps led by operational efficiencies like higher utilization and lower SG&A cost.
- ❑ **Commentary on verticals:**
  - **BFS:** Traction continued in 3QFY19.Going forward ,the company is facing challenges in few cases due to tightness in spend and delay in project renewal. However the management believes that as the relationship continues to strong with client, the management expects the spend to came back.
  - **Insurance:** Growth in 3QFY19 was seen due to ramp up of deal won in insurance major that was announced last quarter. The growth to continue as even one of client win in 3QFY19 was from fortune 500.
  - **Manufacturing:** Cloud adoption and ERP modernization have been driving growth. The second customer, whom the company won in 3QFY19 within fortune 500 client, came under this segment.
  - **Energy and utility:** The energy companies are taking step to prioritize digital transformation; Lti is seeing continued growth and demand in the segments.
  - **CPG vertical:** CPG Retail and Pharma is seeing robust growth driven by ramping of the two large deals that the company announced in 1QFY19 and 2QFY19. The growth will continue as the deal continues to power the growth of this vertical.
- ❑ **Outlook for FY20:** Healthy deal pipeline (billion dollar deal are there), momentum in large deal wins and sustain client mining make the company optimistic about the future. Also considering the macroeconomic factors, the company does not see a negative impact of these yet. While seeing tightness in some pockets, the company still expects to deliver top growth revenue despite these challenges in FY20.
- ❑ **M&A:** The Company is not interested in buying revenue. Focus continues to be in acquiring capabilities to bring additional values to the customers.
- ❑ **Other income:** the company does not think revaluation loss will coming going forward.
- ❑ **Market outlook for FY20:** The Company sees tremendous opportunity in the market. The journey of digital for Customers is big as most of them are below 50% in the journey so the company sees lot of opportunity to enhance the digital capacities of the customers. However expects budget to be flat for FY20.

## Operational Details

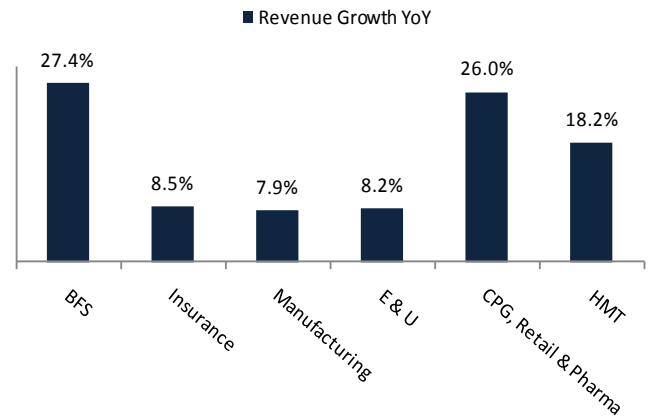
Service Offering	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
ADM	36%	36%	36%	35%	34%	33%	34%	32%	31%
Enterprise Solutions	23%	24%	23%	24%	26%	27%	26%	25%	28%
IMS	11%	11%	12%	11%	11%	12%	12%	12%	11%
Testing	9%	9%	9%	9%	8%	8%	8%	8%	8%
Analytics, AI & Cognitive	10%	10%	10%	11%	11%	11%	10%	12%	11%
Enterprise Integration	7%	6%	6%	7%	7%	7%	7%	8%	8%
Platform Based Solutions	4%	4%	4%	4%	4%	3%	3%	3%	3%
Geography	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
North America	68%	69%	69%	70%	67%	66%	67%	67%	67%
Europe	18%	18%	18%	18%	18%	19%	18%	17%	17%
RoW	5%	6%	6%	7%	6%	7%	9%	9%	9%
India	8%	8%	7%	6%	8%	8%	6%	6%	8%
Vertical	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
BFS	26%	27%	27%	27%	27%	29%	31%	30%	29%
Insurance	21%	21%	21%	21%	19%	18%	18%	18%	18%
Manufacturing	18%	19%	17%	16%	17%	17%	16%	15%	16%
Energy & Utilities	11%	11%	12%	12%	12%	12%	10%	11%	11%
CPG, Retail & Pharma	8%	8%	9%	9%	9%	9%	9%	10%	11%
High-Tech, Media	11%	10%	11%	11%	11%	11%	11%	11%	11%
Others	6%	4%	5%	4%	5%	5%	5%	5%	5%
Client Contribution to Re	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Top 5 clients	38%	39%	38%	38%	36%	35%	37%	36%	35%
Top 10 clients	52%	53%	51%	51%	51%	50%	50%	50%	48%
Top 20 clients	68%	68%	66%	66%	66%	65%	66%	66%	64%
Client Profile	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Number of Active Clients	264	261	256	256	289	300	301	312	314
New Clients Added (gross)	14	15	12	13	17	15	19	22	17
100 Million dollar +	1	1	1	1	1	1	1	1	1
50 Million dollar +	4	4	4	4	4	4	4	4	5
20 Million dollar +	10	11	12	12	13	13	13	14	15
10 Million dollar +	22	23	24	23	22	23	25	25	25
5 Million dollar +	35	35	35	39	43	44	42	44	47
1 Million dollar +	95	96	97	99	102	109	114	114	121
Effort Mix	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Onsite	24%	24%	24%	23%	24%	23%	23%	23%	22%
Offshore	76%	76%	76%	77%	77%	77%	77%	77%	78%
Revenue Mix	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Onsite	48%	49%	47%	47%	46%	46%	47%	48%	48%
Offshore	52%	51%	53%	53%	54%	54%	53%	52%	52%
Utilization	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Including Trainees(%)	78.1	78.3	77.7	79.6	80.3	79.9	79.7	80.4	0.821
Excluding Trainees(%)	80.5	79.3	78.2	80.7	81.5	81.1	81.2	82.3	0.83
ATTRITION	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Attrition % (LTM)	18.1%	16.9%	14.7%	15.0%	14.6%	14.8%	15.1%	15.3%	16.5%

**Exhibit: Revenue trend**

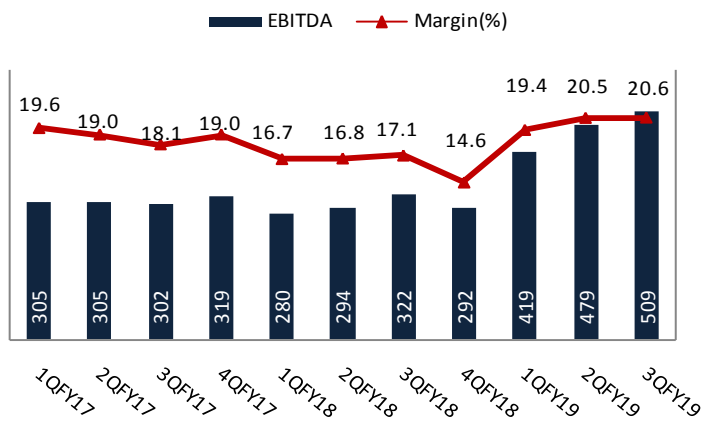
BFS, retail , energy & utilities led the growth in 3QFY19.

**Exhibit: Industry growth**

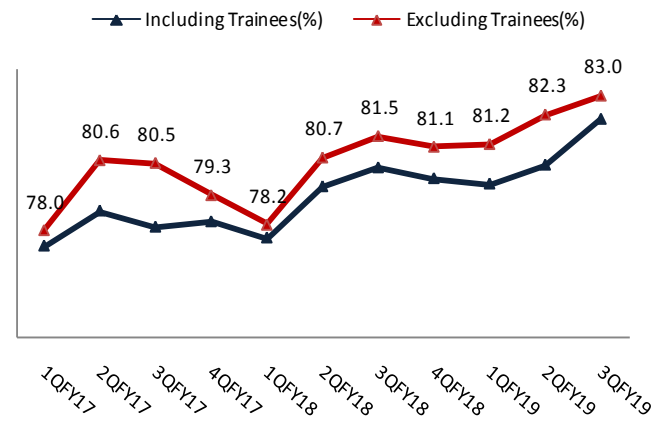
Broad based growth across segments.

**Exhibit: EBITDA and EBITDA margin**

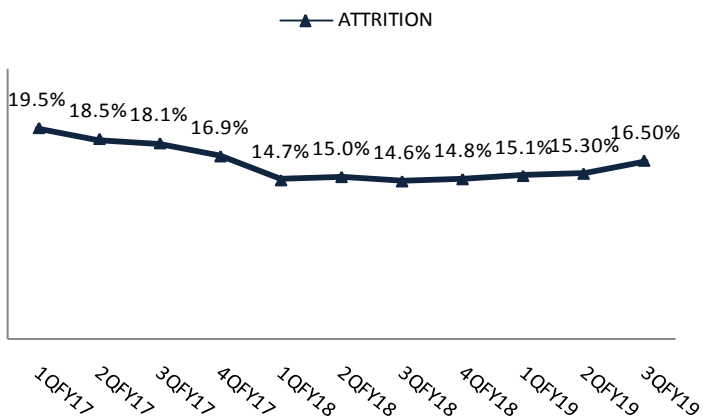
Operational efficiency led to higher margins

**Exhibit: Utilization**

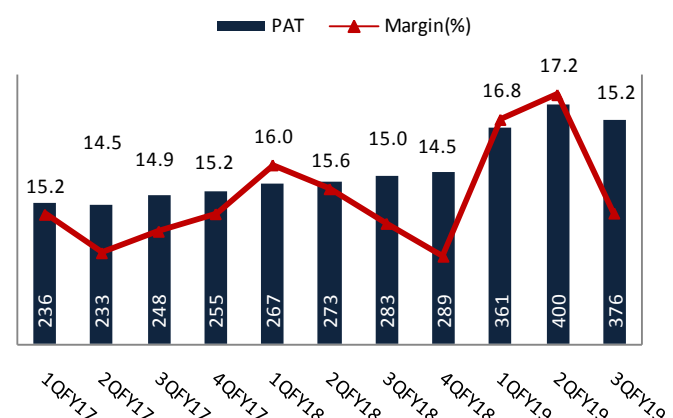
Utilization is at all time high, the company is working to bring it down going ahead.

**Exhibit: Attrition rate**

Attrition itching up every quarter.

**Exhibit: PAT and PAT Margin**

Lower other income washed away the PAT growth.



## Financial Details

## Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital			16	17	17	17	17	17
Reserves			1958	2108	3128	3843	4929	6182
<b>Networth</b>			<b>1974</b>	<b>2125</b>	<b>3145</b>	<b>3860</b>	<b>4946</b>	<b>6199</b>
Debt			204	40	0	0	0	0
Other Non Cur Liab			38	48	46	145	145	145
<b>Total Capital Employed</b>			<b>2178</b>	<b>2165</b>	<b>3145</b>	<b>3860</b>	<b>4946</b>	<b>6199</b>
Net Fixed Assets (incl CWIP)			612	559	444	411	398	333
Non Cur Investments			0	0	0	0	0	0
Other Non Cur Asst			109	132	129	108	108	108
<b>Non Curr Assets</b>			<b>365</b>	<b>450</b>	<b>533</b>	<b>669</b>	<b>669</b>	<b>669</b>
Current investments			104	43	941	1264	1859	2430
Debtors			1083	1166	1170	1396	1819	2127
Unbilled revenue			155	379	472	837	837	837
Other bank balances			13	3	3	31	31	31
Cash & Bank			189	201	376	332	595	1167
Other Curr Assets			124	88	99	113	147	171
Other financial assets			196	141	268	198	198	198
<b>Curr Assets</b>			<b>1863</b>	<b>2020</b>	<b>3329</b>	<b>4194</b>	<b>5516</b>	<b>6996</b>
<b>Creditors</b>			<b>269</b>	<b>341</b>	<b>337</b>	<b>389</b>	<b>507</b>	<b>592</b>
Provisions			125	146	177	184	240	281
Other Curr Liab			111	127	116	162	211	246
Other financial liabilities			228	335	584	611	611	611
Current income tax liabilities			0	1	30	31	31	31
<b>Curr Liabilities</b>			<b>733</b>	<b>949</b>	<b>1244</b>	<b>1376</b>	<b>1599</b>	<b>1761</b>
Net Curr Assets			1130	1071	2085	2818	3917	5236
<b>Total Assets</b>			<b>2949</b>	<b>3162</b>	<b>4434</b>	<b>5383</b>	<b>6692</b>	<b>8106</b>

## Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue from Operation</b>			<b>4,978</b>	<b>5,846</b>	<b>6,501</b>	<b>7,307</b>	<b>9,522</b>	<b>11,131</b>
Change (%)				17%	11%	12%	30%	17%
<b>EBITDA</b>			1004	1025	1230	1188	1894	2115
Change (%)				2%	20%	-3%	59%	12%
Margin (%)			20%	18%	19%	16%	20%	19%
Depr & Amor.			158	174	178	156	147	159
<b>EBIT</b>			<b>847</b>	<b>851</b>	<b>1,052</b>	<b>1,032</b>	<b>1,747</b>	<b>1,956</b>
Int. & other fin. Cost			10	6	3	16	10	8
Other Income			92	190	187	426	299	298
<b>EBT</b>			<b>928</b>	<b>1,035</b>	<b>1,236</b>	<b>1,442</b>	<b>2,036</b>	<b>2,247</b>
Exp Item			(9)	-	-	-	-	-
Tax			169	198	265	329	517	562
<b>Reported PAT</b>			<b>768</b>	<b>836</b>	<b>971</b>	<b>1,113</b>	<b>1,519</b>	<b>1,685</b>
<b>Adjusted PAT</b>			<b>768</b>	<b>836</b>	<b>971</b>	<b>1,113</b>	<b>1,519</b>	<b>1,685</b>
Change (%)				9%	16%	15%	36%	11%
Margin(%)			15%	14%	15%	15%	16%	15%

## Financial Details

## Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE			78	41	37	32	35	30
ROCE			39	39	40	29	40	35
Asset Turnover			2	2	1	1	1	1
Current Ratio			3	2	3	3	3	4
Debtor Days			91	96	92	112	102	97
Payable Days			20	21	19	19	19	19
Book Value Per Share			122	125	184	224	285	357
Earnings Per Share			48	49	57	65	88	97
P/E			-	-	12	21	21	19
Price / Book Value			-	-	4	6	6	5
EV/EBITDA			0	(0)	10	19	16	14
EV/Sales			0	(0)	2	3	3	3
Div Payout%			63%	14%	29%	33%	25%	22%

## Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT			928	837	971	1112	2036	2247
(inc)/Dec in Working Capital			-92	-111	161	-376	-242	-176
Non Cash Op Exp			84	393	486	488	147	159
Int Paid (+)			0	0	0	0	0	0
Tax Paid			-277	-261	-246	-358	-517	-562
others			0	0	0	0	0	0
<b>CF from Op. Activities</b>			<b>642</b>	<b>859</b>	<b>1372</b>	<b>844</b>	<b>1424</b>	<b>1668</b>
(inc)/Dec in FA & CWIP			-196	-129	-80	-102	-134	-93
Free Cashflow			446	729	1292	742	1290	1575
(Pur)/Sale of Inv			79	61	-898	-302	-595	-571
others			14	24	26	-57	0	0
<b>CF from Inv. Activities</b>			<b>-103</b>	<b>-44</b>	<b>-951</b>	<b>-461</b>	<b>-729</b>	<b>-664</b>
inc/(dec) in NW			0	7	0	0	0	0
inc/(dec) in Debt			101	-166	-44	0	0	0
Int. Paid			-6	-6	-3	-14	0	0
Div Paid (inc tax)			-593	-652	-189	-353	-432	-432
others			0	0	0	-41	0	0
<b>CF from Fin. Activities</b>			<b>-497</b>	<b>-817</b>	<b>-235</b>	<b>-407</b>	<b>-432</b>	<b>-432</b>
Inc(Dec) in Cash			42	-3	185	-24	263	572
<b>Add: Opening Balance</b>			<b>159</b>	<b>206</b>	<b>194</b>	<b>388</b>	<b>363</b>	<b>626</b>
Closing Balance			201	204	380	364	626	1198

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**Disclosure of Interest Statement-**

Analyst's ownership of the stocks mentioned in the Report	NIL
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