

LARSEN & TOUBRO INFOTECH LIMITED

NEUTRAL

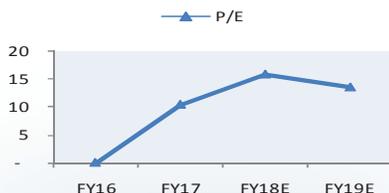
11-Dec-17

INDUSTRY - IT SOFTWARE
 BLOOMBERG LTI
 BSE Code - 540005
 NSE Code - LTI
 NIFTY - 10266

Company Data

CMP	978
Target Price	1069
Previous Target Price	N/A
Upside	9%
52wk Range H/L	1024/639
Mkt Capital (Rs Cr)	16,805
Av. Volume (,000)	10

Stock is currently trading at 13x of FY19 Earnings.

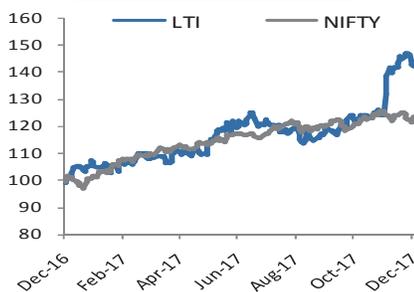


Shareholding patterns %

	2QFY18	1QFY18	4QFY17
Promoters	84.0	84.3	84.3
Public	16.0	15.7	15.7
Others			
Total	100	100	100

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	1.4	26.0	51.3
Rel. to Nifty	1.0	22.7	25.3



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Key Highlights of the Report:

- ✓ **Successful** mining track record will be continued: L&T Infotech intends to **continue** its client mining success beyond top-20 accounts.
- ✓ **Larsen & Toubro Infotech** to acquire Syncordis SA: Global Banking IT **spend** is expected to grow in the coming years and several banks are **investing** in core banking modernisation programmes. Thus acquisition of Syncordis SA is a very synergistic move by Larsen & Toubro Infotech.
- ✓ Larsen&Toubro Infotech may face some problem with the new US Government's protectionist policies.
- ✓ Management remains confident about business across segments given the strong deal traction and robust demand for its Digital offerings. It expects revenue traction to be stronger in H2FY18 vs. H1FY18.
- ✓ **We are NEUTRAL on the stock with the target price of Rs 1069 at 15x FY19e EPS.**

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	4,978	5,846	6,501	7,090	8,100
EBITDA	1,004	1,025	1,230	1,239	1,468
EBIT	847	851	1,052	1,057	1,277
PAT	768	836	971	1,085	1,229
EPS (Rs)	48	48	68	61	72
EPS growth (%)		0%	43%	-10%	17%
ROE (%)	78	40	44	30	28
ROCE (%)	39	39	40	30	29
BVPS	122	125	184	229	281
P/B (X)	-	-	4	4	3
P/E (x)	-	-	10	16	13

Recent Development : Key Highlights of Result Update

Larsen & Toubro Infotech to acquire Syncordis SA

- ✓ **Larsen & Toubro Infotech** acquires Luxembourg-based Syncordis SA along with its subsidiaries in France, UK, Luxembourg and India for 15mn euros (about Rs 115.28 crore). The transaction is expected to close within 6-8 weeks, will help LT Infotech expand its core banking implementation capability.
- ✓ The enterprise value payable for the acquisition of 100 per cent share capital of Syncordis SA and Syncordis India is 14.65 million euros and 0.35 million euros, respectively on a cash-free, debt-free basis and is subject to customary working capital adjustments an amount of 13.50 million euros may be payable over a period of 4-5 years, contingent on the performance of the target entity.
- ✓ Global Banking IT spend is expected to grow in the coming years and several banks are investing in core banking modernisation programmes. Thus acquisition of Syncordis SA is a very synergistic move by Larsen & Toubro Infotech

Quarterly Performance

Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales / Income from	1,602	1,667	1,677	1,671	1,751	9.3%	5%	5,846	6,501	11%
Other Income	-	-	-	-	-			-	-	
Employee Benefit	942	965	938	984	1,073	14%	9%	3,527	3,776	7%
Other Expenses	355	400	420	407	384	8%	-6%	190	187	-2%
EBITDA	1,297	1,365	1,358	1,391	1,457	12%	5%	1,025	1,230	20%
Dep and Amortisation	47	47	42	39	41	-13%	3%	174	178	2%
EBIT	258	255	277	241	254	-2%	5%	851	1,052	24%
Interest	0	1	-	-	4			6	3	-45%
PROFIT BEFORE TAX	294	315	328	349	355			1,035	1,236	
Tax	62	67	73	82	82	33%	1%	198	265	34%
Exceptional Items	-	-	-	-	-			-	-	
PROFIT AFTER TAX	233	248	255	267	273	17%	2%	836	971	16%

Well on track to beat the benchmark in FY 2018.

- ✓ L&T Infotech reported strong Q2FY18 numbers with a revenue of Rs 1751 crore , a growth of 5%
- ✓ Revenue growth was largely seen across verticals and driven by core market and new service
- ✓ Digital revenue accounted for 32% of total revenue in Q2FY18 and grew by 15% qoq.

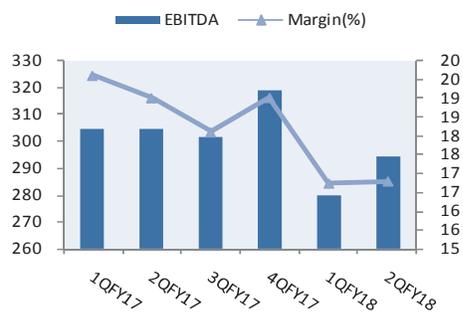
Income from Operation and Growth Trend



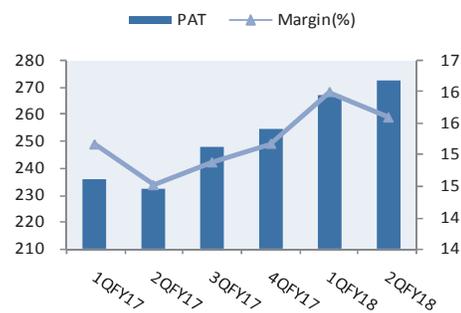
Digital business Revenue



EBITDA and EBITDA Growth trend



PAT and PAT Growth Trend



- ✓ EBITDA margin of 16.8% was flat QoQ as 180bp wage hike impact was offset by 250bp expansion in utilization (excl. trainees) and some tailwind from cross currencies.
- ✓ Net profit of Rs 273 crore , a growth of 2.2 % QOQ which was supported by forex gain of 83.6crore
- ✓ Offshore revenue grew 4.8%while onsite revenue grew 4%, supported by offshore volume growth of 7.3% and onsite volume growth of 4.3% QoQ.
- ✓ Revenue growth, disciplined project execution, and relentless cost management helped to deliver sequential improvement in margins despite absorbing full impact of wage hikes and promotions in QFY18
- ✓ EPS for the quarter was at Rs.15.95 per share while diluted EPS stood at Rs.15.6 per share.

KEY SEGMENTS HIGHLIGHTS

<i>Industry wise(%)</i>	<i>1QFY17</i>	<i>2QFY17</i>	<i>3QFY17</i>	<i>4QFY17</i>	<i>1QFY18</i>	<i>2QFY18</i>
Service cluster	905	932	955	975	969	1,031
BFSI	731	760	780	802	793	838
Hi tech, Media & Entertainment	174	172	175	173	176	193
Industrial cluster	650	670	713	702	702	720
Manufacturing	282	289	297	321	277	281
Energy& Utilities	175	173	188	186	195	210
CPG, Retail, Pharma & others	193	208	228	195	230	230
TOTAL	1,555	1,602	1,668	1,677	1,671	1,751

Positive for all verticals barring Manufacturing

- ✓ BFS delivered 6.3% quarter-on-quarter growth.Overall revenue performance for H1 validates the optimism that is seen for BFS in the last three to four quarters. The anxiety towards FinTech and Blockchain has subsided to a certain extent as banks see these as technology enablers rather than mass disruptors. Robust book of business for BFS.
- ✓ Insurance saw 4.5% quarter-on-quarter growth. During the quarter, a leading global health care research services organization as a new client was added for maintaining and transforming their network
- ✓ Energy & Utilities saw a steady sequential growth of 7.2%. There is some improvement in this sector yet but still LT Infotech is witness a cautious trend in spending by oil and gas clients in North America.
- ✓ CPG space too, it is expecting incremental adoption of automation by clients to deal with business challenges and drive better customer experience.
- ✓ High-Tech and Media saw double-digit 11% sequential growth in Q2 . Some of the new logo wins in High-Tech have started contributing strongly to the revenues.
- ✓ Digital services grew at a robust rate and accounted for 32% of revenues, up from 29% in 1Q.
- ✓ Analytics, AI and Cognitive segment grew at 17.8% qoq, enterprise integration and mobility grew at 12.5% and platform-based solutions grew 6%. ES also contributed with strong 5% qoq growth.
- ✓ Expected IMS service line offering to do well in FY 2018 with H2 performance to benefit from the large infra deal that had been announced earlier this year.

Client mining strong driven by its Minecraft program across buckets

Industry wise(%)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
100 Million dollar +	1	1	1	1	1	1
50 Million dollar +	3	4	4	4	4	4
20 Million dollar +	10	10	10	11	12	12
10 Million dollar +	19	20	22	23	24	23
5 Million dollar +	35	34	35	35	35	39
1 Million dollar +	89	91	95	96	97	99

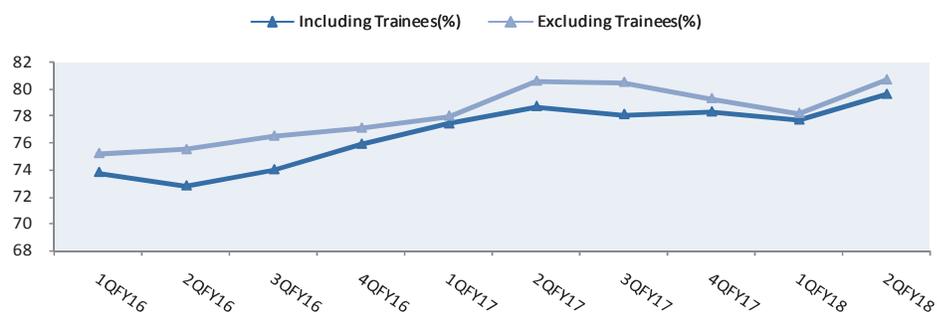
- ✓ LT Infotech intends to continue its client mining success beyond top-20 accounts. Large number of customers in LT Infotech's portfolio lends opportunity for the same.
- ✓ Overall, client mining in top 20 accounts (top 5, top 10 and top 20 clients grew 4.1%, 4.4% and 3.9% in 2Q) coupled with new wins is driving above-industry growth.
- ✓ LT Infotech is confident of strong growth in top 20-30 accounts led by initiatives such as Minecraft and ADEA.

Deal wins ramped-ups in 2QFY18

- ✓ The company announced two large deals—(1) a new logo in Europe CPG vertical for SAP application management services. This deal is US\$50 mn in size and of five-year duration, and (2) ADM deal with African bank. The company did not quantify the deal size.

Utilization expanded both excluding and including trainees

- ✓ Utilization this quarter stood at 79.6% including trainees and 80.7% without trainees which is up by 190 basis points and 240 basis points respectively on a quarter-on-quarter basis.



Concall highlights for 2QFY18

- ✓ **Large deals** :The company announced two large deals—(1) a new logo in Europe CPG vertical for SAP application management services. This deal is US\$50 mn in size and of five-year duration, and (2) ADM deal with African bank. The company did not quantify the deal size.
- ✓ **Margin performance** : EBIT margin was stable in 2QFY18 . Impact of wage revision was 180 bps on sequential basis which was offset by increase in utilization rate (70 bps contribution), lower visa and realized rate increase . Utilization rate including trainees increased by 190 bps to 79.6%. Net profit margin was 14.9%. The company has maintained 14-15% net profit guidance.
- ✓ **Growth Outlook for 2HFY18**: The company expects to continue operating in this band of 14% TO 15% in the foreseeable future. Larsen & Toubro Infotech to have better deal ramp in H2 vs H1. FY 2018 net profit margin in the 14% to 15% band.

Investment Rationale

- ✓ Revenue growth has been a function of LT Infotech's ability to scale up key accounts including Citi, Chevron and Barclays over the years. Top-20 accounts contributed 66% to incremental revenue over the last three years.
- ✓ **Successful mining track record will be continued:** LT Infotech intends to continue its client mining success beyond top-20 accounts. Large number of customers in LT Infotech's portfolio lends opportunity for the same. Investments towards the same have ramped up in past few quarters, with hiring of new sales personnel, account managers, consultants, and digital evangelists. LT Infotech is confident of strong growth in top 20-30 accounts led by initiatives such as Minecraft and ADEA.
- ✓ **Turnout in bfs and insurance:** Banking & Financial Services, Insurance, and Energy & Process are the three largest verticals for LT Infotech, constituting 26%, 21% and 13% of revenue from continuing operations. Together, these verticals form ~60% of LT Infotech's revenue and comes off as a major risk factor, Turnaround in both Banking & Financial Services and Energy & Process after the volatility has led to growth of 19%YoY in BFS over the last two quarters, and 16% in Energy & Utilities in 2QFY18.
- ✓ **Growth driver for fy18:** LTI is expected to continue to deliver above-industry growth driven by 1) strong deal wins and 2) continuing benefits from improvement in sales and 3) client mining prowess

View and Valuations

Banking & Financial Services, Insurance, and Energy & Process are the three largest verticals for Larsen & Toubro Infotech constituting 26%, 21% and 13% of revenue from continuing operations. Larsen & Toubro Infotech's BFS vertical has been the main growth driver for the company. Top-4 accounts within BFS constitute over 80% of the revenue with 57% of BFS revenue came from Larsen & Toubro Infotech's top account (Citi). Larsen & Toubro Infotech is well positioned (high BFSI share) to drive growth from a revival in BFSI spends, as large delta in growth can be driven by the financial services industry. Also, LTI's BFSI growth, at 10.1% growth in FY17 has led peers, with peers' growth within 2.5-8% in the same period.

Similarly, the oil and gas segment within the energy and process vertical had historically dragged Larsen & Toubro Infotech's performance down. However, recovery on Energy & Utilities will add strong performing for further quarters and also recent deal wins such as OKQ8 scandnavia and stability in large account are expected to improve better in going ahead also.

Larsen & Toubro Infotech top account has gained traction, led by digital services. Revenue from its top-5 accounts have grown 9.6% in FY17 (10.5% CAGR over FY14-17) higher than most peers. Thus Larsen & Toubro Infotech intends to continue its client mining success beyond top-20 account. Even the management is confident of strong growth in top 20-30 accounts led by initiatives such as Minecraft and ADEA.

Due to recent rally in the stock, valuation has got little stretched. So we are NUETRAL on the stock with limited upside at target price of Rs 1069 at 15x FY19e EPS.

Operating Metrics

Revenue by Industry (%)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
ADM	42%	40%	39%	38%	39%	38%	36%	36%	36%	35%
Enterprise Solutions	24%	25%	24%	24%	24%	23%	23%	24%	23%	24%
IMS	8%	8%	10%	12%	11%	10%	11%	11%	12%	11%
Testing	10%	10%	10%	9%	10%	10%	9%	9%	9%	9%
Analytics & AI	8%	8%	8%	7%	7%	9%	10%	10%	10%	11%
EIM	5%	5%	5%	6%	6%	6%	7%	6%	6%	7%
Platform Based Solutions	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Geography (%)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
North America	71%	70%	68%	68%	69%	69%	68%	69%	69%	70%
Europe	17%	17%	17%	18%	18%	18%	18%	18%	18%	0
RoW	9%	8%	8%	6%	7%	7%	5%	6%	6%	7%
India	3%	5%	7%	8%	6%	6%	8%	8%	7%	6%
Industry wise(%)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
BFS	27%	27%	27%	25%	25%	26%	26%	27%	27%	27%
Insurance	21%	20%	20%	21%	22%	21%	21%	21%	21%	21%
Manufacturing	17%	18%	19%	20%	18%	18%	18%	19%	17%	16%
Energy & Utilities	14%	13%	12%	12%	11%	11%	11%	11%	12%	12%
CPG, Retail & Pharma	9%	9%	8%	8%	8%	8%	8%	8%	9%	9%
High-Tech, M & E	12%	11%	10%	11%	11%	11%	11%	10%	11%	11%
Others	2%	3%	3%	4%	4%	5%	6%	4%	5%	4%
CLIENT	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Top 5 clients	38%	38%	38%	37%	37%	37%	38%	39%	38%	38%
Top 10 clients	52%	53%	55%	52%	51%	52%	52%	53%	51%	51%
Top 20 clients	68%	68%	68%	69%	68%	68%	68%	68%	66%	66%
Client Profile	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Number of Active Clients	235	251	249	258	259	259	264	261	256	256
New Clients Added (gross)	19	20	12	22	12	16	14	15	12	13
100 Million dollar +	1	1	1	1	1	1	1	1	1	1
50 Million dollar +	3	3	3	3	3	4	4	4	4	4
20 Million dollar +	9	8	9	10	10	10	10	11	12	12
10 Million dollar +	20	19	17	17	19	20	22	23	24	23
5 Million dollar +	33	32	32	35	35	34	35	35	35	39
1 Million dollar +	84	85	86	85	89	91	95	96	97	99
Revenue Mix	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Onsite	49%	48%	49%	48%	48%	49%	48%	49%	47%	47%
Offshore	51%	52%	51%	52%	52%	51%	52%	51%	53%	53%
Effort Mix	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Onsite	25%	24%	24%	24%	25%	24%	24.35%	24%	24%	23%
Offshore	75%	76%	76%	76%	75%	76%	76%	76%	76%	77%

Financials Snap Shot

Income Statement		Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E	
Revenue from Operation	5,846	6,501	7,090	8,100	
Change (%)	17%	11%	9%	14%	
EBITDA	1,025	1,230	1,239	1,468	
Change (%)	2%	20%	1%	19%	
Margin (%)	18%	19%	17%	18%	
Depr & Amor.	174	178	181	191	
EBIT	851	1,052	1,057	1,277	
Int. & other fin. Cost	6	3	4	-	
Other Income	190	187	359	322	
EBT	1,035	1,236	1,413	1,599	
Exp Item	-	-	-	-	
Tax	198	265	328	370	
Reported PAT	836	971	1,085	1,229	
Adjusted PAT	810	1,165	1,049	1,229	
Change (%)	5%	44%	-10%	17%	
Margin(%)	14%	18%	15%	15%	

Balance Sheet		Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E	
Share Capital	17	17	17	17	
Reserves	2,108	3,128	3,883	4,781	
Networth	2,125	3,145	3,900	4,798	
Debt	40	-	-	-	
Other Non Cur Liab	48	46	48	48	
Total Capital Employed	2,165	3,145	3,900	4,798	
Net FA (incl CWIP)	559	444	423	302	
Non Cur Investments	-	-	-	-	
Other Non Cur Asst	132	129	129	129	
Non Curr Assets	450	533	572	572	
Current investments	43	941	1,000	1,500	
Debtors	1,166	1,170	1,791	2,046	
Unbilled revenue	379	472	628	628	
Other bank balances	3	3	10	10	
Cash & Bank	201	376	447	809	
Other Curr Assets	88	99	108	123	
Other financial assets	141	268	268	268	
Curr Assets	2,020	3,329	4,251	5,384	
Creditors	341	337	367	419	
Provisions	146	177	284	324	
Other Curr Liab	127	116	142	162	
Other financial liabilities	335	584	584	584	
Current income tax liability	1	30	52	52	
Curr Liabilities	949	1,244	1,428	1,541	
Net Curr Assets	1,071	2,085	2,823	3,843	
Total Assets	3,162	4,434	5,376	6,388	

Key Ratios		Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E	
ROE	40	44	30	28	
ROCE	39	40	30	29	
Asset Turnover	2	1	1	1	
Current Ratio	2	3	3	3	
Debt/Equity	2	-	-	-	
Inv Days	-	-	-	-	
DPS	7	17	17	17	
Payable Days	21	19	19	19	
Debtor Days	96	92	92	92	
Earnings Per Share	48	68	61	72	
Book Value Per Share	125	184	229	281	
P/E	-	10	16	13	
Price / Book Value	-	4	4	3	
EV/EBITDA	(0)	10	13	11	
EV/Sales	(0)	2	2	2	
Div Payout%	14%	24%	27%	23%	

Cash Flow Statement		Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E	
PBT	837	971	1,413	1,599	
(inc)/Dec in Working Capi	(111)	161	(645)	(158)	
Non Cash Op Exp	393	486	181	191	
Int Paid (+)	-	-	-	-	
Tax Paid	(261)	(246)	(328)	(370)	
others	-	-	-	-	
CF from Op. Activities	859	1,372	621	1,262	
(inc)/Dec in FA & CWIP	(129)	(80)	(161)	(69)	
Free Cashflow	729	1,292	460	1,193	
(Pur)/Sale of Inv	61	(898)	(59)	(500)	
others	24	26	-	-	
CF from Inv. Activities	(44)	(951)	(220)	(569)	
inc/(dec) in NW	7	0	-	-	
inc/(dec) in Debt	(166)	(44)	-	-	
Int. Paid	(6)	(3)	-	-	
Div Paid (inc tax)	(652)	(189)	(330)	(330)	
others	-	-	-	-	
CF from Fin. Activities	(817)	(235)	(330)	(330)	
Inc/Dec) in Cash	(3)	185	71	362	
Add: Opening Balance	206	194	376	447	
Closing Balance	204	380	447	809	