

LARSEN & TOURBO INFOTECH (LTI)

IndustryIT SOFTWARE  
BloombergLTI  
BSE Code540005  
NSE CodeLTI

25 May 2018

RATING	Neutral
CMP	1697
Price Target	1658
Previous Target	1300
Potential Upside	-2%

Stock Info

52wk Range H/L	1755/725
Mkt Capital (Rs Cr)	29,196.82
Free float (%)	16%
Avg. Vol 1M (,000)	24
No. of Shares (Crore)	17
Promoters Pledged %	0%

Key Highlights

- ☑ BFS seeing continuous growth momentum : Larsen & Toubro Infotech has been able to demonstrate continuous growth despite high dependence on BFS and Insurance (combined revenue contribution of over 47%) which has seen continuous growth despite the headwinds in its larger peers in FY18.
- ☑ Digital solution continuous to be growth driver for the company :Digital solution which contributes 33% of the revenue continues to fuel the growth engine with an 42% YOY.LTI continuous to see strong pipeline and order book in FY19.
- ☑ The management is expecting to recover in short time in Insurance (18.3% of rev) and Manufacturing (17.3% of rev) verticals and expects to be industry leading revenue performance in FY19.
- ☑ Management remains confident about business across segments given the strong deal traction and robust demand for its Digital offerings.

4Q FY18 Result:

LTI reported stable Q4FY18 numbers with a revenue of Rs 2001crore , a growth of 6.2% QOQ. Revenue growth was largely seen across verticals and driven by core market and new service. Digital revenue accounted for 33% of total revenue and grew by 17% QOQ.EBITDA margin came at 17.7% (adj for one-time settlement exp of Rs 61.7 crore ) an increase of 61bps QoQ led by higher offshore-mix.PAT stood at Rs 289 crore for 4QFY18.Onsite and offshore revenue grew 4.1% and 6.3% QoQ with onshore and offshore volume growth of 1.9% and 4% QoQ respectively.Onsite and offshore revenue grew 4.1% and 6.3% QoQ with onshore and offshore volume growth of 1.9% and 4% QoQ respectively

View and Valuation

Lti showed a stable performance in 4QFY18 with revenue 6% QoQ and margin at 17.7% an increase of 61bps QoQ led by higher offshore-mix. Thus ending the year with strong performance in all the verticals .We expect LTI to continue to show strong performance in FY19 on the back of continued momentum in deal pipeline , Increase in digital (33% of rev) penetration (digital growth at 42% YoY) and Momentum in top 11 to 20 accounts. Also the management expects revenue for FY19 to be at industry leading . But softness in Insurance (18.3% of rev) and Manufacturing (17.3% of rev) verticals will be concern in FY19 which the management is expecting to recover in short time .

We are Neutral on the stock with the target price of Rs 1658 at 17x FY20e EPS

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	5846	6501	7306	8963	10564
EBITDA	1025	1230	1187	1485	1817
EBIT	851	1052	1031	1323	1653
PAT	836	971	1,112	1,376	1,664
EPS (Rs)	48	68	60	81	98
EPS growth (%)	0%	43%	-12%	34%	21%
ROE (%)	40	44	29	32	31
ROCE (%)	39	40	29	31	30
BV	125	184	226	282	354
P/B (X)	-	4	7	6	5
P/E (x)	-	10	28	21	17

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## 4Q FY 18 Results

## Stable Performance

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	1,677	1,671	1,751	1,884	2,001	19.3%	6.2%	6,501	7,306	12.4%
Other Income	50	108	105	92	117	133.1%	27.6%	187	422	126.2%
COGS	938	984	1,073	1,102	1,169	24.6%	6.1%	3,776	4,329	14.6%
Employee Cost	420	407	384	460	540	28.6%	17.3%	1,495	1,790	19.8%
Other Expenses	319	280	294	322	292	-8.6%	-9.3%	1,230	1,187	-3.5%
EBITDA	42	39	41	40	36	-13.7%	-10.7%	178	156	-12.2%
Depreciation	277	241	254	281	256	-7.8%	-9.1%	1,052	1,031	-2.0%
Interest	-	-	4	4	5		48.6%	3	12	284.4%
PBT	328	349	355	370	368	12.2%	-0.5%	1,236	1,441	16.6%
Tax	73	82	82	87	78	7.4%	-9.6%	265	329	24.2%
Ex Items	-	-	-	-	-			-	-	
PAT	255	267	273	283	289	13.6%	2.2%	1,376	1,664	20.9%

## Stable revenue growth in 4QFY18

LTI reported stable Q4FY18 numbers with a revenue of Rs 2001crore , a growth of 6.2% QOQ. Revenue growth was largely seen across verticals and driven by core market and new service. Digital revenue accounted for 33% of total revenue and grew by 17% QOQ.

## Margin (Excluding one time settlement ) improved due to offshore mix

EBITDA margin came at 17.7% (adj for one-time settlement exp of Rs 61.7 crore ) an increase of 61bps QoQ led by higher offshore-mix.PAT stood at Rs 289 crore for 4QFY18.

Onsite and offshore revenue grew 4.1% and 6.3% QoQ with onshore and offshore volume growth of 1.9% and 4% QoQ respectively.

## Segment performance :Softness in Insurance , Other vertical grew in double digit

Revenue by Vertical	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	QOQ%
BFS	392	417	434	451	448	478	510	574	12%
Insurance	341	343	347	347	344	361	365	366	0%
Manufacturing	281	288	297	320	277	280	324	346	7%
Energy & Utilities	176	173	188	186	195	210	222	230	4%
CPG, Retail & Pharma	126	125	133	138	142	158	173	180	4%
High-Tech, Media &	174	171	175	171	175	194	200	212	6%
Others	67	85	95	65	89	70	87	92	6%

## large deal wins led to strong growth in Row

Geography(QOQ%)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
North America	2%	2%	3%	1%	0%	7%	3%	4%
Europe	1%	5%	3%	0%	-2%	3%	11%	10%
RoW	11%	2%	-19%	8%	10%	11%	3%	23%
India	-27%	7%	41%	-6%	-6%	-19%	64%	1%

## Concall Highlights :

- ✓ Outlook:Based on the large deal momentum, new wins and current momentum, LTI is posed to deliver top quartile growth in FY19 as well.
- ✓ Digital solution continous to be growth driver for the company:Digital solution which contributes 33% of the revenue continued to fuel the growth engine in FY18.LTI continous to see strong pipeline and order book in FY19.
- ✓ Vertical-wise outlook: LTI is seeing good traction across all verticals. In BFS, spend on technology has been expanding with Digital taking a majority of the investments. Insurance growth was strong in FY17 but it slowed down to single-digits. The sector has been hurt by high catastrophe costs but management expects to return soon in FY18. The outlook for Energy has been improving because of higher oil prices and the increased spend on digital initiatives.

Exhibit:Better Revenue than industry average

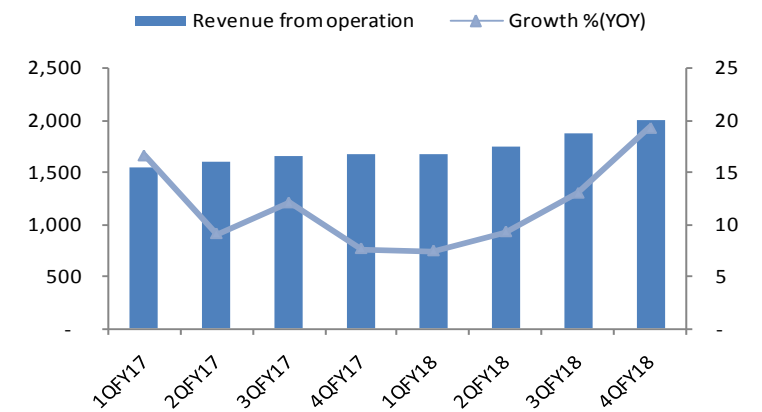


Exhibit: Apart from Insurance , all other verticals grew by more than 20%

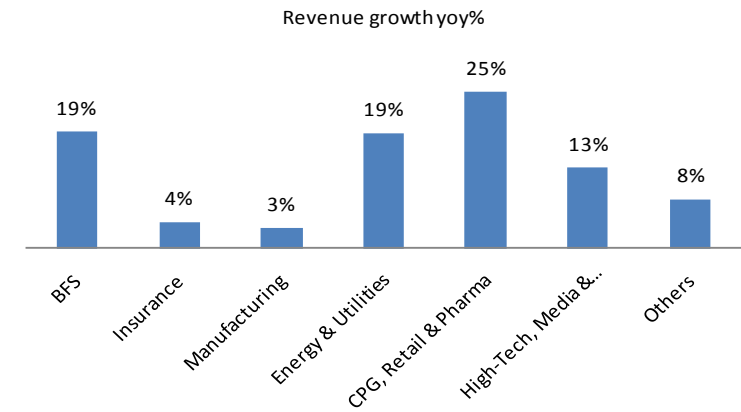


Exhibit:onsite / offshore mix

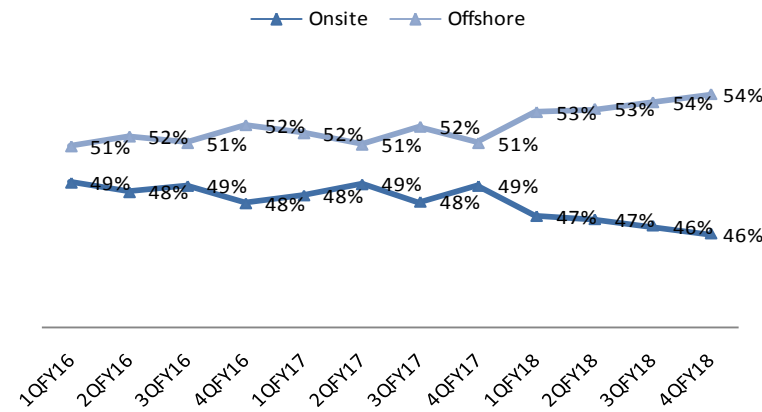


Exhibit: Continue increased in Utilisation

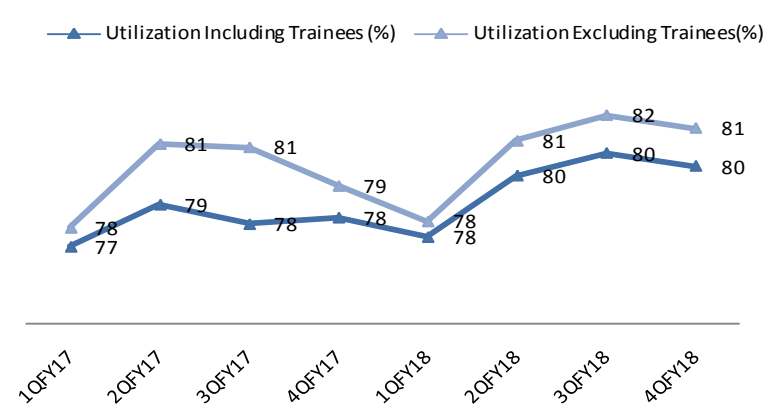


Exhibit:Margins hit primarily due to unfavorable currency movement

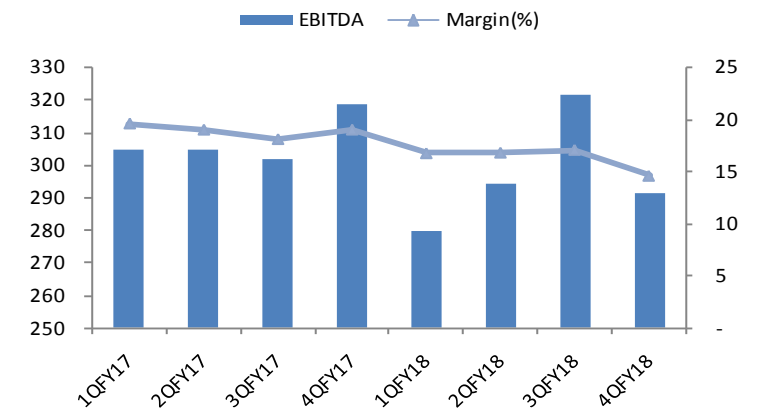
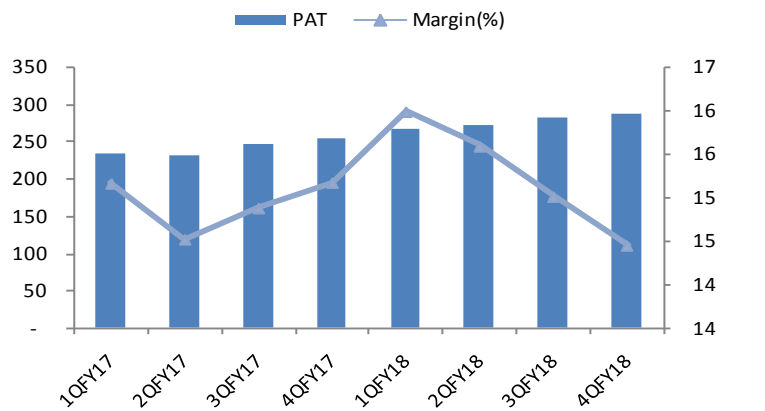


Exhibit: Margin expected to picks up in FY19



## Operating Metrics

Revenue by Industry (%)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
ADM	39%	38%	36%	36%	36%	35%	34%	33%
Enterprise Solutions	24%	23%	23%	24%	23%	24%	26%	27%
IMS	11%	10%	11%	11%	12%	11%	11%	12%
Testing	10%	10%	9%	9%	9%	9%	8%	8%
Analytics, AI & Cognitive	7%	9%	10%	10%	10%	11%	11%	11%
EIM	6%	6%	7%	6%	6%	7%	7%	7%
Platform Based Solutions	4%	4%	4%	4%	4%	4%	4%	3%

Geography (%)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
North America	69%	69%	68%	69%	69%	70%	67%	66%
Europe	18%	18%	18%	18%	18%	18%	18%	19%
RoW	7%	7%	5%	6%	6%	7%	6%	7%
India	6%	6%	8%	8%	7%	6%	8%	8%

Revenue by Vertical	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
BFS	25%	26%	26%	27%	27%	27%	27%	29%
Insurance	22%	21%	21%	21%	21%	21%	19%	18%
Manufacturing	18%	18%	18%	19%	17%	16%	17%	17%
Energy & Utilities	11%	11%	11%	11%	12%	12%	12%	12%
CPG, Retail & Pharma	8%	8%	8%	8%	9%	9%	9%	9%
High-Tech	11%	11%	11%	10%	11%	11%	11%	11%
Others	4%	5%	6%	4%	5%	4%	5%	5%

Client Contribution to Revenue	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Top 5 clients	37%	37%	38%	39%	38%	38%	36%	35%
Top 10 clients	51%	52%	52%	53%	51%	51%	51%	50%
Top 20 clients	68%	68%	68%	68%	66%	66%	66%	65%

Client Profile	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Active Clients	259	259	264	261	256	256	289	300
Clients Added (gross)	12	16	14	15	12	13	17	15
100 Mn\$ +	1	1	1	1	1	1	1	1
50Mn\$+	3	4	4	4	4	4	4	4
20Mn\$+	10	10	10	11	12	12	13	13
10Mn\$+	19	20	22	23	24	23	22	23
5Mn\$+	35	34	35	35	35	39	43	44
1Mn\$+	89	91	95	96	97	99	102	109

Effort Mix	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Onsite	25%	24%	2435%	24%	24%	23%	24%	23%
Offshore	75%	76%	76%	76%	76%	77%	77%	77%

Revenue Mix	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Onsite	48%	49%	48%	49%	47%	47%	46%	46%
Offshore	52%	51%	52%	51%	53%	53%	54%	54%

Utilization	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Including Trainees(%)	77	79	78	78	78	80	80	80
Excluding Trainees(%)	78	81	81	79	78	81	82	81

## Financial Details

## Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	-	-	16	17	17	17	17	17
Reserves	-	-	1,958	2,108	3,128	3,843	4,794	6,024
<b>Networth</b>	-	-	<b>1,974</b>	<b>2,125</b>	<b>3,145</b>	<b>3,860</b>	<b>4,811</b>	<b>6,042</b>
Debt	-	-	204	40	-	-	-	-
Other Non Cur Liab	-	-	38	48	46	145	145	<b>145</b>
Total Capital Employed	-	-	2,178	2,165	3,145	3,860	4,811	6,042
Net Fixed Assets (incl CWIP)	-	-	612	559	444	411	334	292.9
Non Cur Investments	-	-	-	-	-	0	-	-
Other Non Cur Asst	-	-	109	132	129	108	129	107.9
<b>Non Curr Assets</b>	-	-	<b>365</b>	<b>450</b>	<b>533</b>	<b>669</b>	<b>669</b>	<b>669</b>
Current investment	-	-	104	43	941	1,264	1,835	2,408
Debtors	-	-	1,083	1,166	1,170	1,396	<b>1,706</b>	<b>2,019</b>
Unbilled revenue	-	-	155	379	472	837	837	837
other bank balances	-	-	<b>13</b>	<b>3</b>	<b>3</b>	<b>31</b>	31	31
Cash & Bank	-	-	189	201	376	332	571	1,144
Other Curr Assets	-	-	124	88	99	113	137	163
Other finicial liabilities	-	-	196	141	268	198	198	198
<b>Curr Assets</b>	-	-	<b>1,863</b>	<b>2,020</b>	<b>3,329</b>	<b>4,194</b>	<b>5,338</b>	<b>6,822</b>
Creditors	-	-	269	341	337	389	475	562
Provisons	-	-	125	146	177	184	225	267
Other Curr Liab	-	-	111	127	116	162	197	234
Other finicial liabilities	-	-	228	335	584	611	584	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>1513</b>	<b>1,704</b>
<b>Net Curr Assets</b>	-	-	<b>1130</b>	<b>1071</b>	<b>2085</b>	<b>2818</b>	<b>3825</b>	<b>5,118</b>
Total Assets	-	-	<b>2949</b>	<b>3162</b>	<b>4434</b>	<b>5383</b>	<b>6470</b>	<b>7,892</b>

## Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue from Operation</b>			4978	5846	6501	7306	8928	10564
Change (%)				17%	11%	12%	22%	18%
EBITDA			1004	1025	1230	1187	1479	1817
Change (%)				2%	20%	-3%	25%	22%
Margin (%)			20%	18%	19%	16%	17%	17%
Depr & Amor.			158	174	178	156	124	164
EBIT			847	851	1052	1031	1355	1653
Int. & other fin. Cost			10	6	3	12	21	21
Other Income			92	190	187	422	446	528
EBT			928	1035	1236	1441	1781	2161
Exp Item			-9	0	0	0	0	0
Tax			169	198	265	329	401	497
Reported PAT			<b>768</b>	<b>836</b>	<b>971</b>	<b>1112</b>	<b>1380</b>	<b>1664</b>
<b>Adjusted PAT</b>			<b>769</b>	<b>810</b>	<b>1165</b>	<b>1029</b>	<b>1380</b>	<b>1664</b>
Change (%)				5%	44%	-12%	34%	21%
Margin(%)			15%	14%	18%	14%	15%	16%

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE			78	40	44	29	32	31
ROCE			39	39	40	29	31	30
Asset Turnover			2	2	1	1	1	1
Current Ratio			3	2	3	3	4	4
Debt/Equity			13	2	0	0	0	0
Inv Days			0	0	0	0	0	0
DPS			30	7	17	22	22	22
Payable Days			20	21	19	19	19	19
Current Ratio			79	73	66	70	70	70
Earnings Per Share			48	48	68	60	81	98
Book Value Per Share			122	125	184	226	282	354
P/E			0	0	10	28	21	17
Price / Book Value			0	0	4	7	6	5
EV/EBITDA			0	0	10	24	19	15
EV/Sales			0	0	2	4	3	3
Div Payout%			63%	14%	24%	36%	27%	22%

### Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT	-	-	928	837	971	1,441	1,781	2,161
(inc)/Dec in Working Capital	-	-	(92)	(111)	161	(468)	(220)	(122)
Non Cash Op Exp	-	-	84	393	486	156	124	164
Int Paid (+)	-	-	-	-	-	-	-	-
Tax Paid	-	-	(277)	(261)	(246)	(329)	(401)	(497)
others	-	-	-	-	-	-	-	-
<b>CF from Op. Activities</b>	-	-	<b>642</b>	<b>859</b>	<b>1,372</b>	<b>832</b>	<b>1,284</b>	<b>1,706</b>
(inc)/Dec in FA & CWIP	-	-	(196)	(129)	(80)	(124)	(47)	(107)
Free Cashflow	-	-	446	729	1,292	709	1,238	1,598
(Pur)/Sale of Inv	-	-	79	61	(898)	(324)	(571)	(573)
others	-	-	14	24	26	-	-	-
<b>CF from Inv. Activities</b>	-	-	<b>(103)</b>	<b>(44)</b>	<b>(951)</b>	<b>(447)</b>	<b>(617)</b>	<b>(681)</b>
inc/(dec) in NW	-	-	-	7	0	-	-	-
inc/(dec) in Debt	-	-	101	(166)	(44)	-	-	-
Int. Paid	-	-	(6)	(6)	(3)	-	-	-
Div Paid (inc tax)	-	-	(593)	(652)	(189)	(429)	(429)	(429)
others	-	-	-	-	-	-	-	-
<b>CF from Fin. Activities</b>	-	-	<b>(497)</b>	<b>(817)</b>	<b>(235)</b>	<b>(429)</b>	<b>(429)</b>	<b>(429)</b>
Inc(Dec) in Cash	-	-	42	(3)	185	(44)	238	596
Add: Opening Balance	-	-	159	206	194	376	332	548
Closing Balance	-	-	201	204	380	332	570	1,144

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