




Larsen&Toubro Infotech Ltd

Industry	TECHNOLOGY
Bloomberg	LTI IN
BSE CODE	540005

2HFY20 to see better revenue growth as large deal wins ramp up

RATING	BUY
CMP	1514
Price Target	2011
Potential Upside	33%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	1990/1438
Mkt Capital (Rs Cr)	26280
Free float (%)	16%
Avg. Vol 1M (,000)	182
No. of Shares (Cr)	17
Promoters Pledged %	0%

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1QFY20 Result update

- ❑ LTI reported soft quarter in 1QFY20 result. Revenue stood at USD356.5 million, muted growth of 0.8%QoQ and 11.7%YoY(misses our estimates by 1.4%)while PAT stood at Rs 358crore, a de growth of 6%QoQ led by lower operational income.
- ❑ EBIT for the quarter stood at Rs397 crore, a decline of 9.7%QoQ. The margin during the quarter came at 16% (170bps contraction) owing to higher visa cost impacting the margins by 100bps, 100 bps impact came in due to sales and marketing investment and 20 bps due to currency impact. In addition to these ,employee cost also inched up in 1QFY20.The pressure from these were partially offset by higher working days and benefit from transition to IND 116 lease.
- ❑ The company continued its large deal wins momentum during the quarter. The company won a large deal by opening a new client logo in Insurance vertical with net-new TCV of US\$44m.
- ❑ The Company signed a definitive agreement to acquire Lymbyc , a specialist AI, machine learning, and advanced analytics company. The acquisition further strengthens LTI's Mosaic platform and our fast-growing digital and analytics.
- ❑ Management sees FY20 to be bit challenging seeing the client specific scenario However stay optimistic of growth from 3QFY20 onwards.

View and Valuation

LTI started the year on soft note. Tightness in top client budget resulted in muted revenue (up by 0.8%QoQ) growth in 1Q while margin dipped 100bps due to continued investment and higher visa filed by the company. Deal wins continued to be strong during the quarter (winning large deal in Insurance vertical with net-new TCV of US\$44m).

Going forward, we expect double digit growth in FY20, owing to ramping up of the large deal won in last 6 quarters and continued growth in digital services .However, near term challenges are expected to seen in its major verticals like BFS and Manufacturing due to client specific issues in BFS (issues in 2 top clients) and slow down in auto industry .The growth is expected to improve in 2HFY20 as deal will start to ramp up for most of the verticals.

On margin front, post the result, we have marginally reduced the margin due to continued investment plan and wage impact that will be seen in 2QFY20.

Despite near terms challenges, recent correction in stock price have made the stock look attractive .Thus we value the stock at Rs2011 (22x FY20EPS) and recommend BUY.

Key Risks to our rating and target

- ❑ Slow down in large deal wins.

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	6501	7307	9446	10352	11881
EBITDA	1230	1188	1883	2046	2364
EBIT	1052	1032	1736	1818	2072
PAT	971	1113	1516	1586	1795
EPS (Rs)	57	65	87	91	103
EPS growth (%)	16%	14%	35%	5%	13%
ROE (%)	37	32	35	29	28
ROCE (%)	40	29	40	34	32
BV	184	224	282	339	408
P/B (X)	3.9	6.0	6.0	4.5	3.7
P/E (x)	12.5	20.7	19.3	16.6	14.6

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1QFY20 Results

Muted Revenue Performance

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	2,156	2,331	2,473	2,486	2,485	15.3%	0.0%	7,307	9,446	29.3%
Other Income	107	97	31	67	101	-5.6%	50.0%	426	302	-29.1%
Employee Exp	1,268	1,348	1,417	1,434	1,470	15.9%	2.5%	4,329	5,467	26.3%
Other Expenses	469	504	547	576	557	18.8%	-3.3%	1,790	2,096	17.1%
EBITDA	419	479	509	477	458	9.3%	-3.9%	1188	1883	58.5%
Depreciation	38	37	36	37	61	61.6%	64.7%	156	147	-5.8%
EBIT	381	442	473	440	397	4.1%	-9.7%	1,032	1,736	68.3%
Interest	3	3	2	3	20	479%	604%	16	11	-32.5%
PBT	485	537	502	504	478	-1.4%	-5.1%	1,442	2,028	40.6%
Tax	124	136	127	126	123	-0.9%	-2.5%	329	512	55.7%
Exceptional	-	-	-	-	-			-	-	
PAT	361	400	376	379	356	-1.5%	-6.0%	1,113	1,516	36.2%

1QFY20 performance: Muted revenue growth

- Company reported a muted revenue growth of 1%QoQ and 12.9%YoY in cc terms and 0.8%QoQ and 11.8%YoY in USD terms. In rupee term, revenue remained flat QoQ at Rs 2485 crore as compared to Rs2484crore last quarter.
- Cross currency headwind during the quarter was 20 bps.

Manufacturing and Energy dragged the growth while BFS remained muted

Verticals (USD Mn)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	QoQ% in
BFS	80	89	99	98	101	98	99	0.8%	1.4%
Insurance	57	57	58	59	62	63	65	3.0%	2.7%
Mfg	50	53	50	51	54	59	54	-7.7%	-7.4%
Energy &	35	36	32	35	37	39	38	-2.0%	-1.6%
CPG, Retail	27	28	29	34	37	38	40	5.5%	6.5%
High-Tech,	31	33	36	37	39	44	45	1.6%	1.7%
Others	14	14	14	15	16	14	16	18.8%	17.7%

Barring US, all the other geographies saw a decline

Geography(USD Mn)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	QoQ% in
Americas	197	204	213	221	232	235	245	4.2%	4.4%
Europe	53	57	57	56	58	58	57	-1.7%	-0.6%
RoW	19	23	29	30	31	32	30	-5.9%	-4.8%
India	25	25	20	21	27	29	25	-15.2%	-16.3%

Analytics, AI & Cognitive led the growth

Service Offering(USD)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	QoQ% in
ADM and Testing	123	127	134	131	134	134	136	1.0%	1.6%
Enterprise Solutions	77	83	84	83	96	103	101	-2.0%	-1.6%
IMS	32	36	37	38	40	39	39	-0.2%	-0.4%
Analytics, AI &	32	33	33	40	39	38	40	5.5%	6.4%
Enterprise	20	20	21	26	26	28	29	3.3%	4.0%
Platform Based	10	10	10	10	11	11	11	-2.4%	-1.0%

- Vertical wise growth was led by CPG, Retail & Pharma, Insurance and High-Tech which grew 6.2%, 2.5% and 1.6%QoQ while BFS remained muted (0.9%QoQ growth) mainly owing to top client issue. De growth was seen in Manufacturing and Energy & Utilities which declined by 7.8%/ 1.5%QoQ respectively.
- Barring US, all the other geographies saw a decline in 1QFY20. US grew 4.3%QoQ while Row / India and Europe declined 5.9%/15.7%/1.7%QoQ respectively
- Services wise growth was led by Analytics, AI & Cognitive and Enterprise Integration & Mobility which grew 6.4% and 3.5%QoQ. ADM and Testing grew 1.3%QoQ while Enterprise Solutions and Platform Based Solutions declined 2%/1.9%QoQ.

Higher visa cost resulted in margin dip

- ❑ EBIT for the quarter stood at Rs397 crore, a decline of 9.7%QoQ. Gross margin stood at 33.1%(90bpsdecline) while SGA remained flat at 14.7% d in 1QFY20.
- ❑ The margin came at 16% (170bps contraction) owing to higher visa cost impacting the margins by 100bps, 100 bps impact came in due to sale and marketing investment and 20 bps due to currency impact. In addition to these two factors also employee cost inched up in 1QFY20.The pressure from these were partially offset by higher working days and benefit from transition to IND 116 lease.
- ❑ PAT stood at Rs 358crore, a de growth of 6%QoQ led by lower operational income.

Concall Highlights

- **Margin performance for 1Q:**The key moving part for the margin decline (contracted 100bps)is higher visa cost impacted 100bps, 100 bps impact due to sale and marketing investment and 20 bps due to currency impact. In addition to these two factors also employee cost inched up in 1QFY20.The pressure from these were partially offset by higher working days and benefit from transition to IND 116 lease. Wage hike to effective from 1 July which will impact 170bps
- **Recent Business Highlights**
 - Acquisition: The Company has signed a definitive agreement to acquire Lymbyc, a specialist AI, machine learning, and advanced analytics company. The acquisition further strengthens LTI's Mosaic platform and our fast-growing digital and analytics.
 - Guide wire Software announced LTI as new consulting alliance partner.
 - Deutsche Telekom has selected LTI as their trusted partner for the joint Microsoft Cloud initiative in Central Eastern Europe.
- **Momentum continues in deal wins:** The company momentum in large deal wins continues during the quarter. The company won a large deal by opening a new client logo in Insurance vertical with net-new TCV of US\$44m.
- **Digital business:** Digital Services that now make up 39% of the overall revenues grew 27%YoY during the quarter.
- **Challenges some known and some new challenges:** In the beginning of the year, company stated of tightness in spends and systematic budget cut in top account while after 1QFY20, the company feels the tightness in spend has bottomed out while yet to see growth to pick up in this account. Additionally in one of top ten account (which is large banking customer is African region) the separation program is complete so 2QFY20 to see revenue drop from this account.There is some client specific issue that has kicked in but despite these challenges the company is positive on sequential growth in 2QFY20. Based on the visibility of ramp up in deal announced earlier and current large deals as well as the pipeline that the company has for now, the company expects the revenue momentum to pick up in 3QFY20.
- **Vertical Performance:**
 - BFS: Grew 0.9%QoQ despite the challenge in largest account. The company feels the vertical is close to bottoming out and large deal ramp up are on track. It is expected to start generating growth from 3QFY20 onwards.
 - Insurance: Grew 2.5%QoQ for the quarter. It is second consecutive quarter of large deal wins in this segment. the company continues remain positive.
 - Manufacturing: De growth of 7.8%QoQ due to absence of pass through revenue in 1Q .Sequential decline enterprise solutions and India revenue cut is also due to the same reason .The company expects the growth momentum in this vertical to get seen from 1HFY20 as the contribution from large deal win announced in 4QFY19 will kick in.
 - Hi tech &Media: Reposted 1.6%QoQ growth after a strong growth of 11% in last quarter. These industries are embracing a technology disruption head on while leveraging digital technologies.1% impact for FY20 due to client specific issue .
- **Outlook for FY20:** Seeing the client specific scenario, FY20 looks bit challenging. The company has consistently won large deals in each of the past 6 quarters and deal pipeline remains healthy .the company is been optimistic of growth from 3QFY20.On margin front, the company should be seen as growing company and thus will have stable margin of 14% to 15% for FY20.

Exhibit: Revenue trend

Softness in Manufacturing impacted the overall revenue.

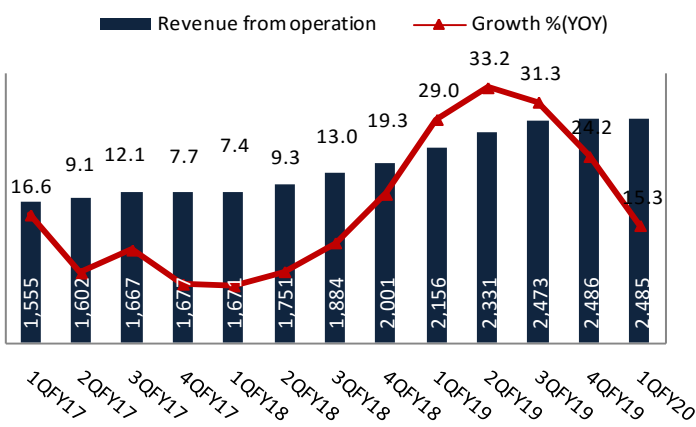


Exhibit: Vertical growth

Insurance, Retail & Hi-Tech verticals exhibiting healthy growth

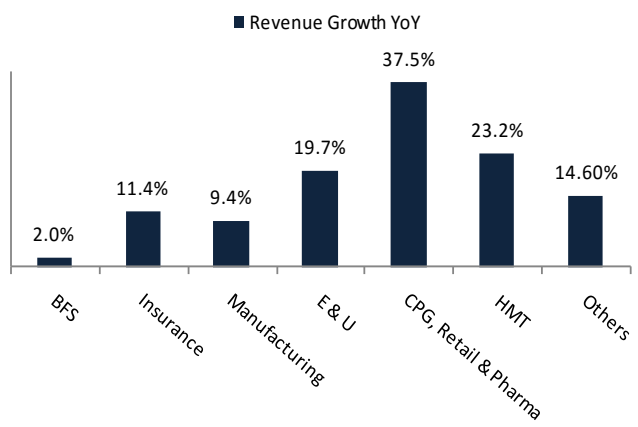


Exhibit: Margin Trend:

Higher visa cost resulted in margin dip

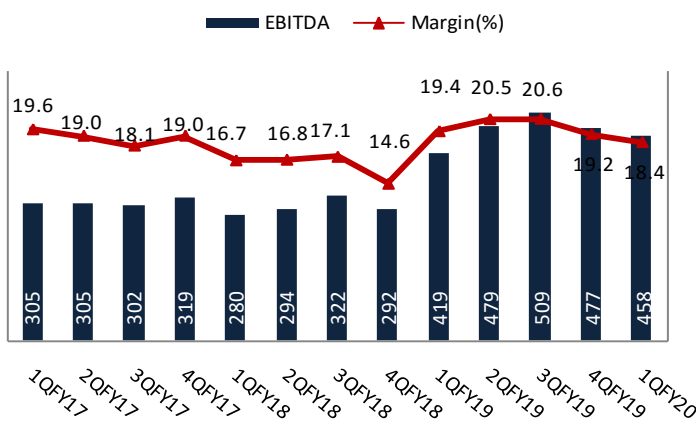


Exhibit: Utilization trend

After being at all time high in 3QFY19, management strategically planned to bring it down .

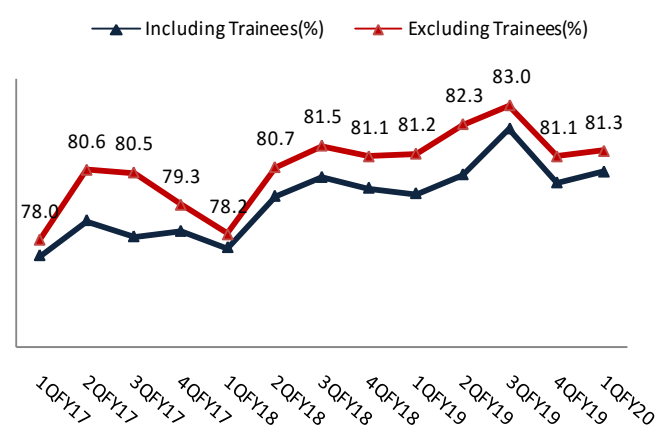
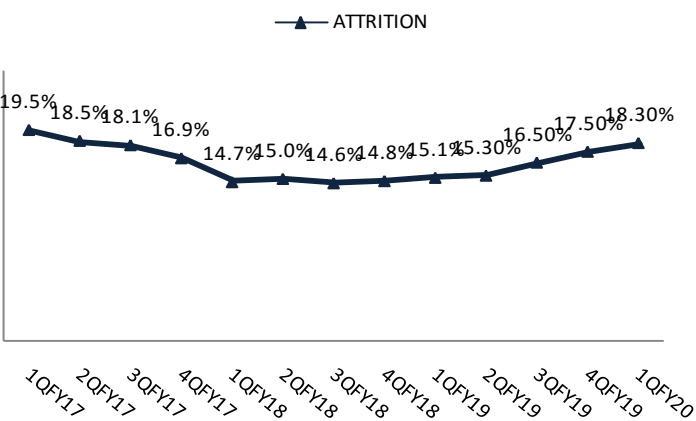


Exhibit: Attrition rate:

Inching up attrition may become cause of concern for management in FY20.



Operational Details

By Industry(%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
ADM and Testing	44%	42%	41%	42%	40%	39%	38%	38%
Enterprise Solutions	24%	26%	27%	26%	25%	28%	29%	28%
Infrastructure Management Ser	11%	11%	12%	12%	12%	11%	11%	11%
Analytics, AI & Cognitive	11%	11%	11%	10%	12%	11%	11%	11%
Enterprise Integration & Mobili	7%	7%	7%	7%	8%	8%	8%	8%
Platform Based Solutions	4%	4%	3%	3%	3%	3%	3%	3%
Revenue by Geography	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
North America	70%	67%	66%	67%	67%	67%	66%	69%
Europe	18%	18%	19%	18%	17%	17%	16%	16%
RoW	7%	6%	7%	9%	9%	9%	9%	9%
RoW	6%	8%	8%	6%	6%	8%	8%	7%
Client Contribution	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Top 5 clients	38%	36%	35%	37%	36%	35%	32%	31%
Top 10 clients	51%	51%	50%	50%	50%	48%	47%	45%
Top 20 clients	66%	66%	65%	66%	66%	64%	63%	63%
Client Profile	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Number of Active Clients	256	289	300	301	312	314	343	354
New Clients Added (gross)	13	17	15	19	22	17	14	20
100 Million dollar +	1	1	1	1	1	1	1	1
50 Million dollar +	4	4	4	4	4	5	5	5
20 Million dollar +	12	13	13	13	14	15	17	19
10 Million dollar +	23	22	23	25	25	25	26	26
5 Million dollar +	39	43	44	42	44	47	49	49
1 Million dollar +	99	102	109	114	114	121	123	124
Effort Mix	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Onsite	23%	24%	23%	23%	23%	22%	22%	22%
Offshore	77%	77%	77%	77%	77%	78%	78%	78%
Revenue Mix	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Onsite	47%	46%	46%	47%	48%	48%	48%	50%
Offshore	53%	54%	54%	53%	52%	52%	52%	51%
Utilization	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Including Trainees	80%	80%	80%	80%	80%	82%	80%	81%
Excluding Trainees	81%	82%	81%	81%	82%	83%	81%	81%
Headcount Details	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Total Headcount	22554	23394	24139	25150	26414	27513	28169	29347
Development	21147	21979	22655	23656	24923	25985	26572	27665
Sales & Support	1407	1415	1484	1494	1491	1528	1597	1682
Revenue by Vertical	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
BFS	27.3%	27.1%	28.7%	30.9%	29.9%	29.2%	27.7%	27.7%
Insurance	20.6%	19.4%	18.3%	18.2%	17.9%	17.8%	17.8%	18.1%
Manufacturing	16.0%	17.2%	17.3%	15.7%	15.4%	15.7%	16.6%	15.2%
Energy & Utilities	12.0%	11.8%	11.5%	10.1%	10.7%	10.8%	11.0%	10.7%
CPG, Retail & Pharma	9.0%	9.2%	9.0%	9.1%	10.2%	10.6%	10.6%	11.1%
High-Tech, Media & Entertainm	11.1%	10.6%	10.6%	11.3%	11.2%	11.3%	12.4%	12.5%
Others	4.0%	4.6%	4.6%	4.5%	4.7%	4.6%	3.9%	4.6%

Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	-	16	17	17	17	17	17	17
Reserves	-	1,958	2,108	3,128	3,843	4,876	5,864	7,060
Networth	-	1,974	2,125	3,145	3,860	4,894	5,881	7,077
Debt	-	204	40	-	-	-	-	-
Other Non Current Liab	-	38	48	46	145	128	128	128
Total Capital Employed	-	2,178	2,165	3,145	3,860	4,894	5,881	7,077
Net Fixed Assets (incl CWIP)	-	612	559	444	411	447	529	585
Non Current Investments	-	-	-	-	0	0	0	0
Other Non Cur Asst	-	109	132	129	108	111	111	111
Non Current Assets	-	365	450	533	669	941	941	941
Current investments	-	104	43	941	1,264	1,740	2,321	2,782
Trade receivables	-	1,083	1,166	1,170	1,396	1,826	2,002	2,297
Unbilled revenue	-	155	379	472	837	558	612	702
Other bank balances	-	13	3	3	31	65	65	65
Cash & Bank	-	189	201	376	332	350	492	862
Other Curr Assets	-	124	88	99	113	449	492	565
Other financial assets	-	196	141	268	198	170	170	170
Current Assets	-	1,863	2,020	3,329	4,194	5,170	6,165	7,457
Creditors	-	269	341	337	389	467	512	587
Provisions	-	125	146	177	184	211	231	265
Other Curr Liab	-	111	127	116	162	258	283	325
Other financial liabilities	-	228	335	584	611	673	673	673
Current income tax liabilities	-	0	1	30	31	37	37	37
Curr Liabilities		733	949	1,244	1,376	1,646	1,736	1,888
Net Current Assets		1,130	1,071	2,085	2,818	3,524	4,429	5,569
Total Assets	-	2,949	3,162	4,434	5,383	6,669	7,747	9,094

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation		4,978	5,846	6,501	7,307	9,446	10,352	11,881
Change (%)			17%	11%	12%	29%	10%	15%
EBITDA		1,004	1,025	1,230	1,188	1,883	2,046	2,364
Change (%)			2%	20%	-3%	59%	9%	16%
Margin (%)		20%	18%	19%	16%	20%	20%	20%
Depr & Amor.		158	174	178	156	147	228	292
EBIT		847	851	1,052	1,032	1,736	1,818	2,072
Int. & other fin. Cost		10	6	3	16	11	79	79
Other Income		92	190	187	426	302	379	416
EBT		928	1,035	1,236	1,442	2,028	2,119	2,409
Exp Item		(9)	-	-	-	-	-	-
Tax		169	198	265	329	512	533	614
Reported PAT		768	836	971	1,113	1,516	1,586	1,795
Adjusted PAT		768	836	971	1,113	1,516	1,586	1,795
Change (%)			9%	16%	15%	36%	5%	13%
Margin(%)		15%	14%	15%	15%	16%	15%	15%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE		77.8	40.8	36.8	31.8	34.6	29.4	27.7
ROCE		38.9	39.2	39.6	29.5	39.7	33.8	32.0
Asset Turnover		2	1.8	1.5	1.4	1.4	1.3	1.3
Current Ratio		3	2.1	2.7	3.0	3.1	3.6	4.0
Debtor Days		91	96	92	112	92	92	92
Book Value Per Share		122	125	184	224	282	339	408
Payable Days		20	21	19	19	18	18	18
Earnings Per Share		48	49	57	65	87	91	103
P/E		-	-	12	21	19	17	15
Price / Book Value		-	-	4	6	6	4	4
EV/EBITDA		0	(0)	10	19	15	13	11
EV/Sales		0	0	2	3	3	2	2

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	-	928	837	971	1,112	1,516	2,119	2,409
(inc)/Dec in Working Capital	-	(92)	(111)	161	(376)	(306)	(183)	(308)
Non Cash Op Exp	-	84	393	486	488	660	228	292
Int Paid (+)	-	-	-	-	-	-	-	-
Tax Paid	-	(277)	(261)	(246)	(358)	(475)	(533)	(614)
others	-	-	-	-	-	-	-	-
CF from Op. Activities	-	642	859	1,372	844	1,395	1,631	1,778
(inc)/Dec in FA & CWIP	-	(196)	(129)	(80)	(102)	(157)	(310)	(347)
Free Cashflow	-	446	729	1,292	742	1,238	1,321	1,431
(Pur)/Sale of Inv	-	79	61	(898)	(302)	(451)	(581)	(462)
others	-	14	24	26	(57)	(136)	-	-
CF from Inv. Activities	-	(103)	(44)	(951)	(461)	(744)	(891)	(809)
inc/(dec) in NW	-	-	7	0	0	0	-	-
inc/(dec) in Debt	-	101	(166)	(44)	-	-	-	-
Int. Paid	-	(6)	(6)	(3)	(14)	(2)	-	-
Div Paid (inc tax)	-	(593)	(652)	(189)	(353)	(534)	(599)	(599)
others	-	-	-	-	(41)	(59)	-	-
CF from Fin. Activities	-	(497)	(817)	(235)	(407)	(594)	(599)	(599)
Inc(Dec) in Cash	-	42	(3)	185	(24)	57	142	371
Add: Opening Balance	-	159	206	194	388	358	415	557
Closing Balance	-	201	204	380	364	415	557	928

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