

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	NEUTRAL
CMP	1612
Price Target	1619
Potential Upside	0%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	1897/1437
Mkt Capital (Rs Cr)	28038
Free float (%)	25%
Avg. Vol 1M (000)	212
No. of Shares (Cr)	17
Promoters Pledged (Cr)	0

Fig in Rs cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	9,446	10,438	11,974
EBITDA	1,883	2,028	2,382
EBIT	1,736	1,771	2,084
PAT	1,736	1,771	2,084
EPS (Rs)	87	90	104
EPS	35%	3%	15%
ROE (%)	35	29	28
ROCE (%)	40	33	32
BV	282	338	407
P/B (X)	6	5	4
P/E (x)	19	18	15

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2QFY20 Result update

Revenue and PAT in line

- ❑ LTI reported in line performance in 2QFY20 result. Revenue grew 11.9%YoY in cc terms to USD363.8 million primarily driven by on track ramp up of large deal .PAT for the quarter stood at Rs 360 crore(in line) , a growth of 10% YoY led by higher other income .
- ❑ EBIT during the quarter came at Rs 399crore, a de-growth of 9.7%YoY.Margin dipped 50bps to 15.5% vs 16% last quarter owing to wage hike (170bps impact) and lower utilization in 2Q.These were partially offset by lower visa cost , currency movement in the quarter and SG&A optimization.
- ❑ The digital business grew 20.5%YoY and now contributes more than 40%.
- ❑ LTI has signed a definitive agreement to acquire 100% stake in PowerupCloud Technologies Private Limited. Powerup is Botzer and Cloud Ensure Company with capabilities in Cloud Consulting in all three platform AWS, Microsoft and Google cloud. With this acquisition LTI will be activated to Premier AWS Consulting partners.

Softness in BFS came as expected, strong Energy & Utilities cushioned the revenue

Vertical wise, Growth during the quarter was driven by double digit growth in E&U vertical/Manufacturing vertical (grew14.4%/10%QoQ) mainly due to ramp of large deal won earlier in this segments. Insurance vertical grew 5.5%QoQ while CPG, Retail & Pharma posted a growth of 5.5%sequentially .BFS remained muted by declining 0.3% which was in line with the expectation and reflect the transcend weakness that was called out earlier due to weakness across two of BFS accounts. Even Hi-tech and media declined 12%QoQ due to closure of account however management expects it to bounce back in 3Q.

Solid momentum in large deal wins

The Company won 3 large deal wins with net new TCv of USD 100million during the quarter .All 3 logos won was broad based(1 each in North America, Europe and Asia geography).Vertical wise ,2 wins were in energy and utilities and 1 was in BFS. Thus with New wins announced during the quarter the management expects to post double digit growth in FY20.

View and Valuation

LTI ended H1 with relatively softer result than its last year(11.2% vs 22.3% last year). Account specific headwinds had impacted the performance in H1 however going forward we expect H2 to be better than H1 mainly driven by ramping up of the large deal wins(Won 3 net new TCv of 100mn) , recovery in large accounts and robust growth in verticals like E&U and insurance .Even HI tech vertical is expected to bounce back in 3Q as the deal ramps up. Thus, we expect LTI to post 10%YoY growth for FY20 however net profit margin to remain in 15% band as company continued to reinvest excess margin back into the business.

Post result , our estimates remained largely same as factors are already baked in .Thus we maintain our target price of Rs 1619 and recommend Neutral.

Key Risks to our rating and target

- ❑ Prolonged weakness in BFS verticals
- ❑ Slow down in order booking and large deal wins

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2QFY20 Results

Mixed quarter

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	Fig in Rs cr
										YoY %
Net Sales	2,331	2,473	2,486	2,485	2,571	10.3%	3.5%	7307	9445.8	29.3%
Other Income	97	31	67	101	94	-3.3%	-7.3%	426	302	-29.1%
Employee Exp	1,348	1,417	1,434	1,470	1,593	18.2%	8.4%	4,329	5,467	26.3%
Other Expenses	504	547	576	557	512	1.6%	-8.0%	1,790	2,096	17.1%
EBITDA	479	509	477	458	466	-2.8%	1.7%	1188	1883	58.5%
Deprication	37	36	37	61	66	80.2%	8.5%	156	147	-5.8%
EBIT	442	473	440	397	399	-9.7%	0.6%	1,032	1,736	68.3%
Interest	3	2	3	20	20	684.0%	-0.5%	16	11	-32.5%
PBT	537	502	504	478	473	-11.8%	-1.0%	1,442	2,028	40.6%
Tax	136	127	126	123	113	-17.1%	-7.8%	329	512	55.7%
PAT	400	376	379	356	360	-10.0%	1.3%	1,113	1,516	36.2%

Concall Highlights

- **Recent acquisition:** LTI has signed a definitive agreement to acquire 100% stake in PowerupCloud Technologies Private Limited. Powerup is Botzer and Cloud Ensure Company with capabilities in Cloud Consulting in all three platform AWS, Microsoft and Google cloud. With this acquisition LTI will be activated to Premier AWS Consulting partners.
- **Digital business:** The digital revenue now contributes more than 40% of the revenue and grew 20.5%YoY during the quarter.
- **Deal wins:** The Company won 3 large deal wins with net new TCv of USD 100million.All 3 logos won during the quarter was broad based(1 each in North America, Europe and Asia geography). Vertical wise ,2 wins were in energy and utilities and 1 was in BFS.Tenure of new TCv was 4 to 5yrs
- **Margin performance:** EBIT margin during the quarter came in at 15.5% as compared to 16% last quarter.50 bps decline was attributable to wage hike (170bps impact) and lower utilization in 2Q.These were partially offset by lower visa cost , currency movement in the quarter and SG&A optimization. Going ahead, Utilization will be taken back to 82% to 83% (78% now).
- **Large accounts:** On the large account performance, the company was flat in last two quarters but the management expects to start performing better from 3Q onwards.
- **Client specific:** Large client remains flat during the quarter however sees ramp up of growth coming in 3Q.South African bank will continue to be little soft this fiscal.
- **Higher cash balance:** Rs2000 to Rs2500 crore of cash in balance sheet does not bother the management .The management is working on its acquisition pipeline .
- **Vertical update:** BFS- In BFS Company saw a decline of 0.3%QoQ which was in line with the expectation and reflect the transient weakness called out earlier due to weakness across two of BFS accounts. On track ramp up of earlier announced larges deal and uptick in top accounts gives the management the confidence of sequential growth in BFS in 3Q.Insurance: the vertical grew5.5%QoQ driven by ramp up of earlier announced large deal. The management expects the vertical to continue to grow steadily. Manufacturing business: Posted a solid quarter with growth of 10% sequentially. The large wins announced in FY19 annual result have started contributing in and has key driving growth in this segment .E&U vertical: this is second segment which posted double digit growth of 14.4% for the company .The growth momentum in this vertical likely to remain strong going ahead. Even 2out of 3 wins also belong to this vertical. Hi-tech and media declined due to closure of account, the management expects it to bounce back in 3Q.
- **Outlook for FY20:** Account specific headwinds had impacted the performance H1 but with issue now behind, the management expects on track ramp of earlier deal announced and New wins announced during the quarter to power H2.Thus management expects to post double digit revenue growth in FY20.For margins, the company maintained its net profit margin to 14% to 15% as it continued to reinvestment additional margin back to the company .Also SG&A is considered to lowest and management sees no further decline in this as it comfortable with current level .

Revenue Mix

Strong growth in E&U, BFSI remained muted

<i>VERTICAL (USD mn)</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>4QFY19</i>	<i>1QFY20</i>	<i>2QFY20</i>	<i>QoQ%</i>	<i>YoY%</i>
BFS	89	99	98	101	98	99	99	-0.2%	0.4%
Insurance	57	58	59	62	63	65	68	4.8%	15.7%
Mfg	53	50	51	54	59	54	60	10.0%	17.8%
Energy &	36	32	35	37	39	38	44	14.6%	24.4%
Utilities	28	29	34	37	38	40	42	5.7%	24.9%
High-Tech,	33	36	37	39	44	45	39	-11.8%	6.8%
Others	14	14	15	16	14	16	13	-22.4%	-17.5%

Revenue by Geography

Strong growth seen in US and EUROPE

<i>Geography (USD mn)</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>4QFY19</i>	<i>1QFY20</i>	<i>2QFY20</i>	<i>QoQ%</i>	<i>YoY%</i>
Americas	204	213	221	232	235	245	250	2.0%	12.9%
Europe	57	57	56	58	58	57	60	4.6%	6.2%
RoW	23	29	30	31	32	30	32	6.8%	7.1%
India	25	20	21	27	29	25	22	-11.3%	3.8%

Revenue by Service offering

Growth was driven by Analytics and Enterprise integration

<i>Service Offering(USD mn)</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>4QFY19</i>	<i>1QFY20</i>	<i>2QFY20</i>	<i>QoQ%</i>	<i>YoY%</i>
ADM and Testing	127	134	131	134	134	136	131	-3.3%	0.2%
Enterprise Solutions	83	84	83	96	103	101	107	6.0%	29.7%
IMS	36	37	38	40	39	39	40	3.9%	5.1%
Analytics, AI & Cognitive	33	33	40	39	38	40	41	3.0%	2.6%
Enterprise Solutions	20	21	26	26	28	29	33	12.0%	24.6%
Analytics, AI & Cognitive	10	10	10	11	11	11	11	-1.2%	10.8%

Revenue by Client contribution

Top client showed strong recovery

<i>Client contribution(USD)</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>4QFY19</i>	<i>1QFY20</i>	<i>2QFY20</i>	<i>QoQ%</i>	<i>YoY%</i>
Top 5 clients	109	117	119	120	114	112	115	3.3%	-3.0%
Top 10 clients	153	161	164	168	166	160	166	3.2%	1.0%
Top 20 clients	201	211	215	223	224	223	223	0.2%	3.8%

Revenue by Revenue Mix

Onsite revenue remained soft

<i>Revenue Mix(USD mn)</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>4QFY19</i>	<i>1QFY20</i>	<i>2QFY20</i>	<i>QoQ%</i>	<i>YoY%</i>
Onsite	118	121	123	124	124	128	126	-1.8%	2.1%
Offshore	141	138	136	135	135	131	133	1.8%	-1.9%

Exhibit: Revenue trend

Insurance and E&U led strong growth in overall revenue .

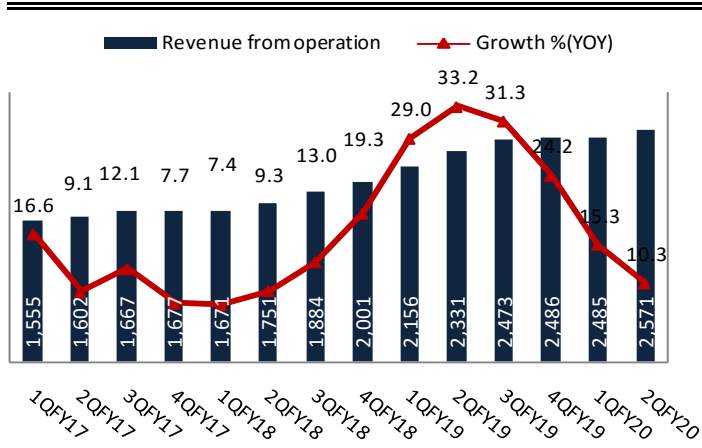


Exhibit: Digital revenue

Above 40% of revenue

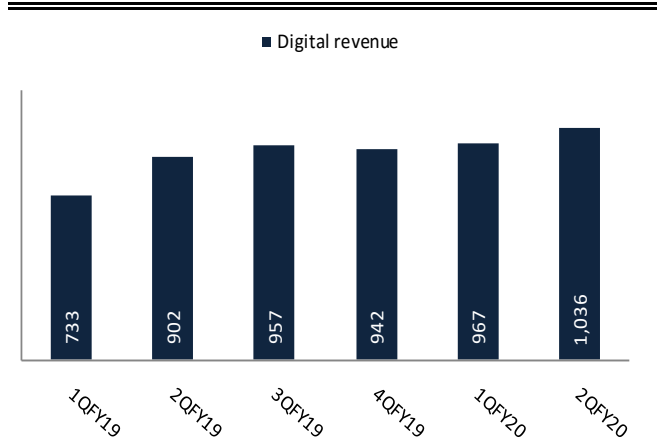


Exhibit: Margin Trend

Wage hike impacted the margins

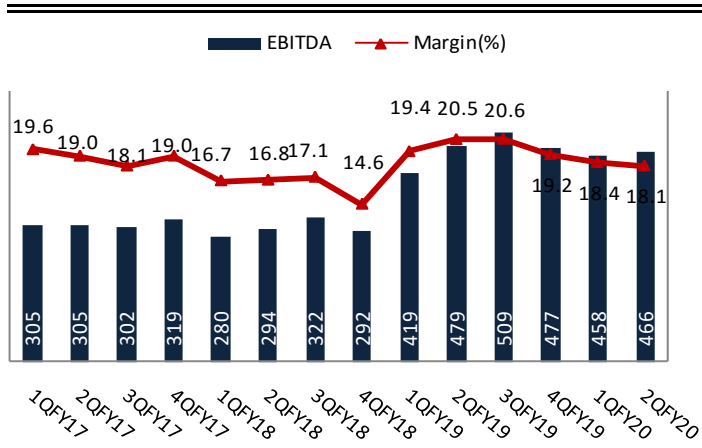


Exhibit: Utilization trend

After being at all time high in 2QFY20, management strategically planned to bring it down .

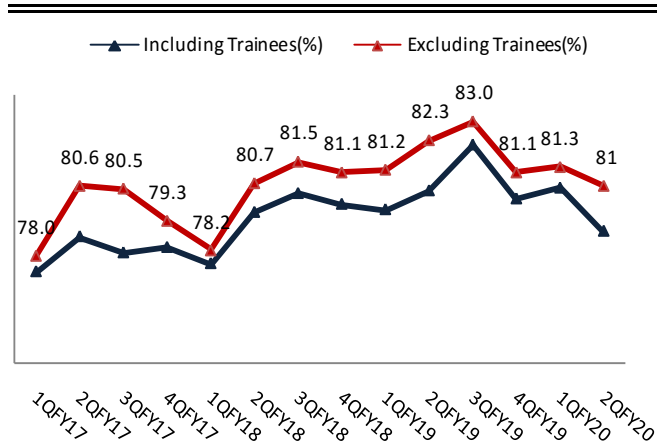
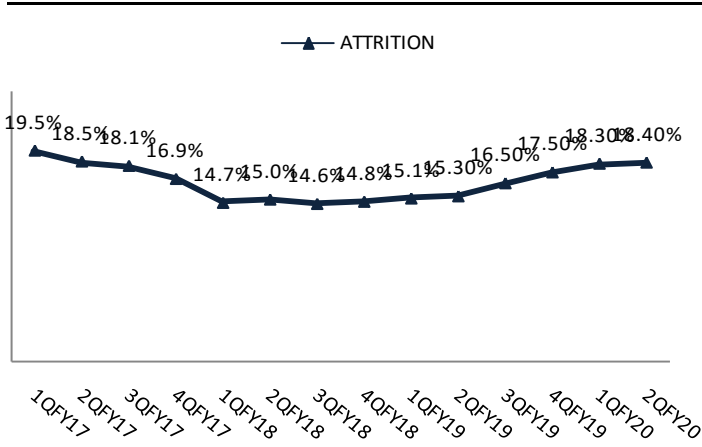


Exhibit: Attrition rate

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



Operational Details

Service Offering %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
ADM and Testing	41.8%	41.2%	42.1%	39.9%	38.6%	38.0%	38.1%	36.1%
Enterprise Solutions	26.4%	27.0%	26.3%	25.2%	27.8%	29.2%	28.4%	29.5%
Infrastructure Management Ser	10.8%	11.7%	11.5%	11.7%	11.4%	11.0%	10.9%	11.1%
Analytics, AI & Cognitive	10.8%	10.7%	10.3%	12.2%	11.3%	10.7%	11.2%	11.3%
Enterprise Integration & Mobili	6.7%	6.5%	6.5%	8.0%	7.6%	8.0%	8.2%	9.0%
Platform Based Solutions	3.5%	3.1%	3.1%	3.0%	3.2%	3.2%	3.1%	3.0%

Revenue by Geography	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
North America	67.3%	66.0%	66.6%	67.4%	66.8%	66.4%	68.7%	68.7%
Europe	18.0%	18.6%	17.9%	17.1%	16.7%	16.4%	16.0%	16.4%
RoW	6.4%	7.4%	9.1%	9.2%	8.8%	9.1%	8.5%	8.9%
India	8.4%	8.0%	6.4%	6.4%	7.8%	8.2%	6.9%	6.0%

Client Contribution to Revenue	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Top 5 clients	36.4%	35.2%	36.6%	36.2%	34.5%	32.2%	31.3%	31.7%
Top 10 clients	50.8%	49.6%	50.3%	49.9%	48.4%	47.0%	45.0%	45.5%
Top 20 clients	66.1%	65.1%	66.0%	65.5%	64.3%	63.4%	62.5%	61.4%

Client Profile	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Number of Active Clients	289	300	301	312	314	343	354	366
New Clients Added (gross)	17	15	19	22	17	14	20	20
100 Million dollar +	1	1	1	1	1	1	1	1
50 Million dollar +	4	4	4	4	5	5	5	6
20 Million dollar +	13	13	13	14	15	17	19	18
10 Million dollar +	22	23	25	25	25	26	26	27
5 Million dollar +	43	44	42	44	47	49	49	48
1 Million dollar +	102	109	114	114	121	123	124	137

Effort Mix	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	23.5%	23.1%	23.0%	22.6%	22.0%	21.9%	22.0%	22.0%
Offshore	76.5%	76.9%	77.0%	77.4%	78.0%	78.1%	78.0%	78.0%

Revenue Mix	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	23.5%	23.1%	23.0%	22.6%	22.0%	21.9%	22.0%	22.0%
Offshore	76.5%	76.9%	77.0%	77.4%	78.0%	78.1%	78.0%	78.0%

Headcount Details	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Total Headcount	23394	24139	25150	26414	27513	28169	29347	30979
Development	21979	22655	23656	24923	25985	26572	27665	29266
Sales & Support	1415	1484	1494	1491	1528	1597	1682	1713

Revenue by Vertical	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
BFS	27.1%	28.7%	30.9%	29.9%	29.2%	27.7%	27.7%	27.1%
Insurance	19.4%	18.3%	18.2%	17.9%	17.8%	17.8%	18.1%	18.7%
Manufacturing	17.2%	17.3%	15.7%	15.4%	15.7%	16.6%	15.2%	16.4%
Energy & Utilities	11.8%	11.5%	10.1%	10.7%	10.8%	11.0%	10.7%	12.1%
CPG, Retail & Pharma	9.2%	9.0%	9.1%	10.2%	10.6%	10.6%	11.1%	11.5%
High-Tech, Media & Entertainm	10.6%	10.6%	11.3%	11.2%	11.3%	12.4%	12.5%	10.8%
Others	4.6%	4.6%	4.5%	4.7%	4.6%	3.9%	4.6%	3.5%

Financial Details

Balance Sheet

Fig in Rs cr

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	5,842	7,050
Networth	-	1,974	2,125	3,145	3,860	4,894	5,859	7,067
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	5,859	7,067
Net Fixed Assets (incl CWIP)	-	612	559	444	411	447	503	554
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
Debtors	-	1,083	1,166	1,170	1,396	1,826	2,018	2,315
Unbilled revenue	-	155	379	472	837	558	617	708
Other bank balances	-	13	3	3	31	65	65	65
Cash & Bank	-	189	201	376	332	350	493	847
Other Curr Assets	-	124	88	99	113	449	496	570
Other financial assets	-	196	141	268	198	170	170	170
Current Assets	-	1,863	2,020	3,329	4,194	5,170	6,192	7,470
Creditors	-	269	341	337	389	467	516	592
Provisions	-	125	146	177	184	211	233	267
Other Curr Liab	-	111	127	116	162	258	285	327
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	1,745	1,897
Net Curr Assets	-	1,130	1,071	2,085	2,818	3,524	4,447	5,573
Total Assets	-	2,949	3,162	4,434	5,383	6,669	7,747	9,077

Income Statement

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation		4978.036	5846.4	6500.9	7307	9445.8	10437.72	11974.13
Change (%)			17%	11%	12%	29%	11%	15%
EBITDA		1,004	1,025	1,230	1,188	1,883	2,028	2,382
Change (%)			2%	20%	-3%	59%	8%	17%
Margin (%)		20%	18%	19%	16%	20%	19%	20%
Depr & Amor.		158	174	178	156	147	257	298
EBIT		847	851	1,052	1,032	1,736	1,771	2,084
Int. & other fin. Cost		10	6	3	16	11	79	78
Other Income		92	190	187	426	302	375	403
EBT		928	1,035	1,236	1,442	2,028	2,067	2,409
Exp Item		(9)	-	-	-	-	-	-
Tax		169	198	265	329	512	503	602
Reported PAT		768	836	971	1,113	1,516	1,564	1,806
Adjusted PAT		768	836	971	1,113	1,516	1,564	1,806
Change (%)			9%	16%	15%	36%	3%	15%
Margin(%)		15%	14%	15%	15%	16%	15%	15%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE		78	41	37	32	35	29	28
ROCE		39	39	40	29	40	33	32
Asset Turnover		2	2	1	1	1	1	1
Current Ratio		3	2.1	2.7	3.0	3.1	3.5	3.9
Debtor Days		91	96	92	112	92	92	92
Book Value Per Share		122	125	184	224	282	338	407
Payable Days		20	21	19	19	18	18	18
Earnings Per Share		48	49	57	65	87	90	104
P/E		-	-	12	21	19	18	15
Price / Book Value		-	-	4	6	6	5	4
EV/EBITDA		0	0	10	19	15	14	11
EV/Sales		0	(0)	2	3	3	3	2

Cash Flow Statement

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	-	928	837	971	1,112	1,516	2,067	2,409
(inc)/Dec in Working Capital	-	(92)	(111)	161	(376)	(306)	(200)	(310)
Non Cash Op Exp	-	84	393	486	488	660	257	298
Int Paid (+)	-	-	-	-	-	-	-	-
Tax Paid	-	(277)	(261)	(246)	(358)	(475)	(503)	(602)
others	-	-	-	-	-	-	-	-
CF from Op. Activities	-	642	859	1,372	844	1,395	1,621	1,795
(inc)/Dec in FA & CWIP	-	(196)	(129)	(80)	(102)	(157)	(313)	(350)
Free Cashflow	-	446	729	1,292	742	1,238	1,308	1,445
(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)	(893)	(812)
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	129	385
Add: Opening Balance	-	159	206	194	388	358	415	558
Closing Balance	-	201	204	380	364	415	544	943

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Disclosure of Interest Statement-

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