

Mixed bag performance...

Larsen & Toubro Infotech (LTI) reported revenue growth of 2% QoQ to US\$353.8 million (vs. our estimate of 2.5%). Revenue growth was driven by manufacturing (8.3% QoQ) and high-tech, media & entertainment (11.4% QoQ) partly offset by 2.9% QoQ decline in the banking & finance segment (BFS). Decline in BFS was mainly due to challenges in top client. Digital business now constituting 38% of revenues, witnessed growth of 4.7% QoQ and 31.8% YoY in the quarter. EBITDA margin declined 142 bps QoQ to 19.2% on account of a dip in utilisation and investment in sales. Based on large deal wins, strength in diversified niche segments, we expect a healthy performance for the next two years and estimate growth of 15.4% CAGR to US\$1796 million in FY19-21E with EBITDA margins of 19.3% in FY21E.

Focus on non BFS vertical, deal pipeline to drive growth

Revenue growth was strong at 19.1% YoY (dollar terms) led by broad based growth across verticals and digital segment. In FY20E, the management expects revenue growth to be healthy on the back of healthy demand environment, deal pipeline and 35% YoY jump in order book in FY19. Growth in BFS (largest revenue contributor by vertical) could witness a slowdown in FY20E on the back of client specific challenges in top account. However, LTI has a knack of winning large deals (two large deals in excess of US\$100 million won in current quarter) and keeps on adding Fortune 500 customers, which gives us belief that it will continue to grow in double digits in coming years. Hence, based on healthy deal TCv, digital growth, strength in core transformation and focus on non BFS verticals, we expect the company to post ~15% dollar revenue growth CAGR in FY19-21E.

Superior margin profile to continue

EBITDA margins were at 19.9% in FY19. We believe EBITDA margins in FY19 were at their peak and now expect margins to witness a decline mainly due to lower utilisation, investment in sales and rupee appreciation. Hence, we keep our EBITDA margin estimates at 19.6%, 19.3% in FY20E and FY21E, respectively. Although the management does not provide specific margin guidance, it intends to keep net profit margins in the range of 15% while reinvesting additional growth.

Valuation & Outlook

Although growth in the top client remains a concern, acceleration of its digital story, large deal pipeline, strength in diversified niche segments and better margin profile compared to industry peers would lead to healthy operating performance. Hence, we maintain our **BUY** recommendation with a revised target price of ₹ 1940/share (~18x FY21E EPS).



Particulars	
Particular	Amount
Market Capitalisation	₹ 29148 crore
Total Debt	₹ 0 crore
Cash and Investments	₹ 2155 crore
EV	₹ 26992 crore
52 week H/L	1990 / 1438
Equity Capital	₹ 17 crore
Face Value	₹ 1

- ### Key Highlights
- Healthy vertical commentary and deal pipeline key positives
 - Digital to be one of the key driver for growth
 - Intends to keep net margin in the range of 15%, additional growth to be reinvested
 - Maintain our **BUY** recommendation with a revised target price of ₹ 1940

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	6,500.9	7,306.4	9,445.8	10,870.0	12,573.0	15.4%
EBITDA	1,230.4	1,187.6	1,883.4	2,132.5	2,421.7	13.4%
EBITDA Margins (%)	18.9	16.3	19.9	19.6	19.3	
Net Profit	971.2	1,112.5	1,515.5	1,642.5	1,862.9	10.9%
EPS (₹)	56.9	64.7	87.3	94.6	107.3	
P/E (x)	29.5	26.0	19.2	17.7	15.6	
RoE (%)	30.9	28.8	31.0	27.8	26.2	
RoCE (%)	38.7	36.0	40.4	36.4	34.5	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	2,486.0	2,505.8	2,001.2	24.2	2,472.9	0.5	US\$ revenues declined 2% QoQ to \$353.8 million, below our 2.5% QoQ growth estimate. Growth was driven by manufacturing (8.3% QoQ) and High-Tech, Media & Entertainment (11.4% QoQ) partly offset by 2.9% QoQ decline in banking and finance segment
Employee expenses	1,641.7	1,677.8	1,391.9	17.9	1,612.5	1.8	
Gross Margin	844.3	828.0	609.3	38.6	860.4	-1.9	
Gross margin (%)	34.0	33.0	30.4	352 bps	34.8	-83 bps	
Other expenses	367.8	355.8	317.4	15.9	351.4	4.7	
EBITDA	476.5	472.1	291.9	63.2	509.0	-6.4	
EBITDA Margin (%)	19.2	18.8	14.6	458 bps	20.6	-142 bps	EBITDA margins declined led by decline in BFS margins (down 256 bps QoQ) and CPG, Retail & Pharma & Others (down 317 bps QoQ)
Depreciation & amortisation	37.1	35.1	36.0	3.1	35.5	4.5	
EBIT	439.4	437.1	255.9	71.7	473.5	-7.2	
EBIT Margin (%)	17.7	17.4	12.8	489 bps	19.1	-147 bps	
Other income	64.8	84.8	111.8	-42.0	28.8	125.0	
PBT	504.2	521.9	367.7	37.1	502.3	0.4	
Tax paid	125.5	143.5	78.4	60.1	126.8	-1.0	
PAT	378.7	378.3	289.3	30.9	375.5	0.9	PAT was in line with our expectation

Key Metrics

Closing employees	28,169	28,169	24,139	16.7	27,513	2.4	
Attrition (%)	17.5	17.5	14.8	270 bps	16.5	100 bps	Attrition still high, expected to come down
Utilisation (%) (ex-trainees)	81.1	81.1	81.1	0 bps	83.0	-190 bps	
Average \$/₹	70.3	70.4	64.8	8.5	71.3	-1.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY19		FY20E		FY21E			Comments
	Current	Old	New	% Change	Old	New	% Change	
Revenue	9,446	10,986	10,870	-1.1	12,591	12,573	-0.1	
EBITDA	1,883	2,154	2,132	-1.0	2,424	2,422	-0.1	
EBITDA Margin (%)	19.9	19.6	19.6	1 bps	19.3	19.3	1 bps	Keep our estimates intact
PAT	1,113	1,677	1,643	-2.0	1,878	1,863	-0.8	
EPS (₹)	64.7	96.6	94.6	-2.0	108.2	107.3	-0.8	

Source: Company, ICICI Direct Research

Conference Call Highlights

- **FY20E outlook:** Giving the outlook for the next fiscal, the management expects growth to be healthy on the back of the demand environment and a healthy deal pipeline. Certain challenges pertain to top client but outside that, the commentary remains positive
- **Digital business:** Digital business, now constituting 38% of revenues, witnessed growth of 4.7% QoQ and 31.8% YoY in the quarter
- **Deal wins-** The company won two large deals in Q4 with one in manufacturing and another in insurance with cumulative net-new TCV in excess of US\$100 million
- **Clientele update:** Top client which constitutes ~15% to revenue has possibly declined in revenue due to a cut in client technology spending and challenges in top client that resulted in a decline in banking & financial services and analytics revenue segment. Besides top account, other client buckets are doing well. Revenues from top five clients as a proportion of revenues were at 34.9% in FY19 and grew 12.3% YoY over FY18. Non top 20 also witnessed healthy growth of 23% YoY in FY19 over FY18. As on Q4FY19, LTI caters to 66 Fortune 500 clients
- **Employee details:** Employee strength increased 16.7% to 28,169 at end of FY19. The management indicated it would continue to recruit from premier institutes for enhancing its delivery capabilities. Attrition increased for another consecutive quarter by 100 bps QoQ to 17.5% and was at multi quarter high. The management is constantly looking to lower attrition levels. As predicted, utilisation (ex-trainees) came down and declined 190 bps QoQ to 81.1%
- **Tax rate** - Effective tax rate is likely to be 25.5% for FY20E

Key Metrics

Exhibit 3: Geography wise split up

	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Revenue by geography (%)						
North America	67.3	66.0	66.6	67.4	66.8	66.4
Europe	18.0	18.6	17.9	17.1	16.7	16.4
India	8.4	8.0	6.4	6.4	7.8	8.2
ROW	6.4	7.4	9.1	9.2	8.8	9.1
Growth QoQ (%)						
North America	3.7	3.2	4.5	3.9	4.7	1.4
Europe	11.6	8.8	-0.4	-1.9	3.1	0.2
India	65.7	0.3	-17.2	2.7	28.7	7.2
ROW	3.6	21.7	27.3	3.8	1.0	5.5

Source: Company, ICICI Direct Research

Among geography, revenue growth was led by North America followed by India and RoW. The growth in RoW was led by ramp up in large deal won in South Africa

Exhibit 4: Vertical wise split up

	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Revenue by vertical (%)						
BFS	27.1	28.7	30.9	29.9	29.1	27.7
Insurance	19.4	18.3	18.2	17.9	17.8	17.8
Manufacturing	17.2	17.3	15.7	15.4	15.6	16.6
Energy & Utilities	11.8	11.5	10.1	10.7	10.8	11.0
CPG, Retail & Pharma	9.2	9.0	9.1	10.2	10.6	10.6
HTME	10.6	10.6	11.3	11.2	11.3	12.4
Others	4.6	4.6	4.5	4.7	4.6	3.9
Growth QoQ (%)						
BFS	7.7	11.5	11.5	-0.6	2.8	-2.9
Insurance	2.1	-0.7	3.0	1.0	5.0	2.0
Manufacturing	16.6	5.9	-6.0	0.7	7.0	8.5
Energy & Utilities	6.7	2.6	-9.1	8.8	6.6	3.9
CPG, Retail & Pharma	10.9	3.0	4.7	15.1	9.7	2.0
High-Tech, Media	3.6	5.3	10.4	1.8	6.5	11.9
Others	24.7	5.3	1.3	7.3	3.4	-13.5

Source: Company, ICICI Direct Research; HTME: High-Tech, Media & Entertainment

Decline in BFS mainly on the back of cut in technology spends by top client

Exhibit 5: Service offering wise split up

	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Revenue by service offering (%)						
ADM	33.5	32.8	34.0	32.0	30.8	29.7
Enterprise Solutions	26.4	27.0	26.3	25.2	27.8	29.2
IMS	10.8	11.7	11.5	11.7	11.4	11.0
Testing	8.3	8.4	8.1	7.9	7.8	8.3
Analytics, AI & Cloud	10.8	10.7	10.3	12.2	11.3	10.7
EIM	6.7	6.5	6.5	8.0	7.6	8.0
Platform Based	3.5	3.1	3.1	3.0	3.2	3.2
Growth QoQ (%)						
ADM	5.0	3.1	7.3	-3.4	1.6	-1.7
Enterprise Solutions	18.8	7.7	0.8	-1.6	16.5	7.1
IMS	7.5	14.1	1.8	4.5	2.9	-1.6
Testing	1.2	6.5	-0.2	0.2	4.3	8.5
Analytics, AI & Cloud	7.5	4.3	-0.3	21.6	-2.2	-3.4
EIM	6.9	2.1	3.5	26.4	0.3	7.4
Platform Based	-0.1	-6.8	3.5	-0.6	12.6	2.0

Source: Company, ICICI Direct Research; *ADM: Application Development Maintenance, IMS: Infrastructure Management Services, EIM: Enterprise Integration & Mobility

Decline in analytics mainly on the back of challenges in top account

Exhibit 6: Client & human resource matrix

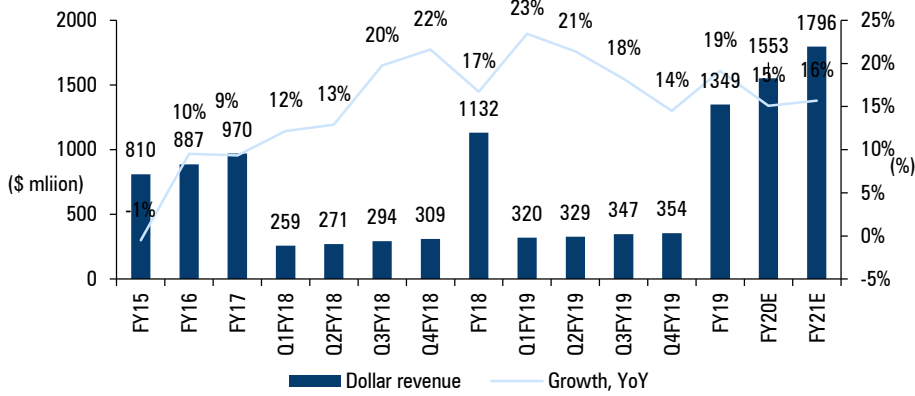
	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
<i>Client metrics</i>						
5 Million dollar +	43	44	42	44	47	49
20 Million dollar +	13	13	13	14	15	17
50 Million dollar +	4	4	4	4	5	5
100 Million dollar +	1	1	1	1	1	1
<i>Headcount, Utilization & Attrition</i>						
Employee count	23394	24139	25150	26414	27513	28169
Utilization (ex-trainees)	81.5	81.1	81.2	82.3	83.0	81.1
Attrition LTM	14.6	14.8	15.1	15.3	16.5	17.5

Source: Company, ICICI Direct Research

With healthy employee addition, the management expects to bring down the attrition levels. High attrition a key concern

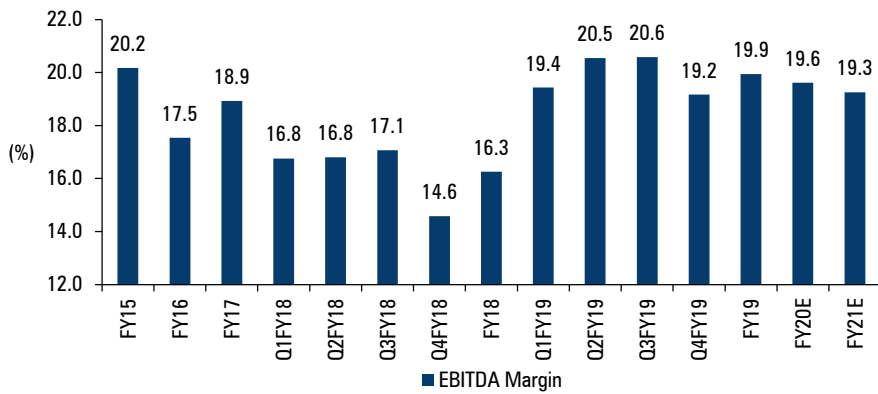
Financial story in charts

Exhibit 7: Dollar revenues may grow at 15.4% CAGR in FY19-21E



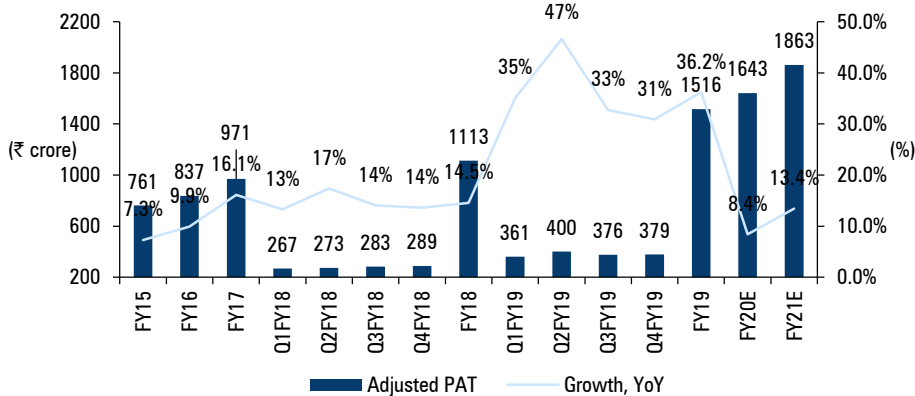
Source: Company, ICICI Direct Research

Exhibit 8: Keep our margin estimates intact



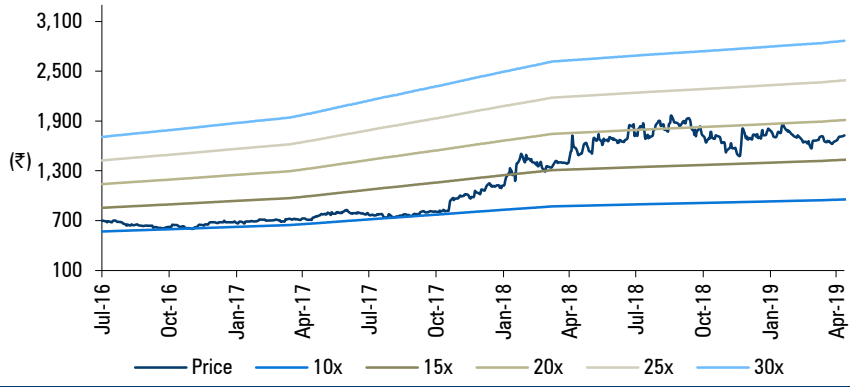
Source: Company, ICICI Direct Research

Exhibit 9: PAT trend



Source: Company, ICICI Direct Research

Exhibit 10: One year forward rolling PE



Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History* vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research,* listed in July 2016

Exhibit 12: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Larsen & Toubro Ltd	31-Mar-19	74.8%	129.8	0.0
2	Naik (Anilkumar Manibhai)	31-Mar-19	1.2%	2.1	0.0
3	UTI Asset Management Co. Ltd.	31-Mar-19	1.1%	1.9	0.0
4	Motilal Oswal Asset Management Company Ltd	31-Mar-19	1.0%	1.8	0.0
5	ChrysCapital Advisors LLP	31-Mar-19	1.0%	1.8	0.0
6	HDFC Asset Management Co., Ltd.	31-Mar-19	0.9%	1.6	0.0
7	ICICI Prudential Asset Management Co. Ltd.	31-Mar-19	0.8%	1.5	0.0
8	Goldman Sachs Asset Management Internation	31-Mar-19	0.8%	1.3	0.0
9	DSP Investment Managers Pvt. Ltd.	31-Mar-19	0.7%	1.3	0.0
10	The Vanguard Group, Inc.	31-Mar-19	0.5%	0.9	0.0

Source: Reuters, ICICI Direct Research

Exhibit 13: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Mirae Asset Global Investments (Hong Kong) Limited	5.80m	0.26m	BlackRock Institutional Trust Company, N.A.	-7.77m	-0.31m
Mirae Asset Global Investments Co., Ltd.	2.92m	0.11m	Mirae Asset Global Investments (India) Pvt. Ltd.	-2.38m	-0.10m
Canara Robeco Asset Management Company Ltd.	2.70m	0.11m	J.P. Morgan Asset Management (Hong Kong) Ltd.	-1.96m	-0.08m
Tata Asset Management Limited	2.15m	0.09m	Driehaus Capital Management, LLC	-1.71m	-0.07m
Panday (Shilpa Rajesh)	2.10m	0.08m	Lazard Asset Management, L.L.C.	-1.02m	-0.04m

Source: Reuters, ICICI Direct Research

Exhibit 14: Shareholding Pattern

Shareholder	Sep-18	Dec-18	Mar-19
Promoter	75.00	74.84	74.80
Public	25.00	25.16	25.20
Others	0.00	0.00	0.00
Total	100.00	100.00	100.00

Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total Revenues	7,306	9,446	10,870	12,573
Growth (%)	12.4	29.3	15.1	15.7
Employee costs	4,376	6,164	6,445	7,524
Total Operating Expenditure	6,119	7,562	8,738	10,151
EBITDA	1,188	1,883	2,132	2,422
Growth (%)	(3.5)	58.6	13.2	13.6
Depreciation & Amortization	156	147	152	176
Other Income	410	292	224	272
Interest	-	-	-	-
PBT before Exceptional Items	1,442	2,028	2,205	2,517
Growth (%)	16.6	40.7	8.7	14.2
Tax	329	512	562	655
PAT before Exceptional Items	1,113	1,516	1,643	1,863
PAT	1,113	1,516	1,643	1,863
Growth (%)	14.5	36.2	8.4	13.4
Diluted EPS	64.7	87.3	94.6	107.3
EPS (Growth %)	13.6	35.0	8.4	13.4

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
PBT	1,442	2,028	2,205	2,517
Add: Depreciation	156	147	152	176
(Inc)/Dec in current assets	(576)	(430)	(275)	(329)
Inc/(Dec) in current liabilities	200	(17)	19	22
CF from operations	844	1,335	1,399	1,551
(Inc)/dec in other investments	(250)	(402)	(578)	(543)
(Inc)/dec in Fixed Assets	(98)	(183)	(152)	(175)
Other investing cash flow	2	2	2	6
CF from investing Activities	(461)	(801)	(727)	(713)
Issue of equity	0	-	-	-
Inc/(dec) in loan funds	(41)	89	0	(0)
Dividend paid & dividend tax	(353)	(571)	(619)	(657)
Others	(14)	-	-	-
CF from Financial Activities	(408)	(482)	(619)	(657)
Net cash flow	(24)	52	52	182
Effect of exchange rate changes	8	-	-	-
Opening cash	380	363	415	467
Closing cash	363	415	467	649

*calculated; Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity	17	17	17	17
Reserves & Surplus	3,843	4,876	5,900	7,106
Networth	3,860	4,894	5,917	7,124
Long term Liabilities & provisio	145	128	147	169
Total Debt	-	-	-	-
Source of funds	4,006	5,023	6,065	7,293
Assets				
Net fixed assets	252	308	265	265
Net intangible assets	159	138	181	181
Goodwill	276	495	495	495
Other non current assets	501	558	642	742
Unbilled revenue	837	558	642	743
Debtors	1,396	1,826	2,102	2,431
Current Investments	1,264	1,740	2,440	3,140
Cash & Cash equivalents	363	415	467	649
Other current assets	334	630	725	839
Trade payables	389	467	537	621
Current liabilities	987	1,179	1,357	1,570
Application of funds	4,006	5,023	6,065	7,293

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	64.7	87.3	94.6	107.3
Cash Per Share	21.1	23.9	27.0	37.4
BV	224.4	281.9	340.9	410.3
DPS	21.5	28.1	30.4	32.3
Operating Ratios (%)				
EBITDA Margin	16.3	19.9	19.6	19.3
PBT Margin	19.7	21.5	20.3	20.0
PAT Margin	15.2	16.0	15.1	14.8
Turnover Ratios				
Debtor days	70	71	71	71
Creditor days	19	18	18	18
Return Ratios (%)				
RoE	28.8	31.0	27.8	26.2
RoCE	36.0	40.4	36.4	34.5
RoC	43.4	60.5	62.7	64.1
Valuation Ratios (x)				
P/E	26.0	19.2	17.7	15.6
EV / EBITDA	23.2	14.3	12.3	10.5
Market Cap / Sales	4.0	3.1	2.7	2.3
Solvency Ratios				
Current Ratio	1.9	1.8	1.8	1.8
Quick Ratio	1.3	1.5	1.5	1.5

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (IT)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Cyient (INFENT)	585	620	Hold	6,530	36.0	42.4	46.6	16.1	13.7	12.4	10.3	9.1	7.5	21.4	21.4	20.7	17.3	18.7	18.1
Eclerx (ECLSER)	1,144	910	Sell	3,931	72.9	58.9	64.2	14.2	17.5	16.1	9.1	11.1	9.9	28.2	22.8	23.1	24.1	17.3	17.5
Firstsource (FIRSOU)	48	55	Buy	3,296	4.8	5.1	5.6	10.1	9.3	8.6	8.3	7.1	6.2	13.0	14.1	15.6	13.9	13.8	13.6
HCL Tech (HCLTEC)	1,140	1,090	Hold	137,478	62.6	73.0	80.1	11.7	9.5	8.2	2.6	2.2	1.9	29.0	34.4	38.2	27.4	31.9	31.4
Infosys (INFTEC)	724	805	Buy	314,663	32.3	35.4	39.5	22.4	20.4	18.3	15.2	13.8	12.3	30.9	32.9	32.9	22.5	23.7	24.4
L&T Intotech (LTINFO)	1,679	1,940	Buy	29,148	64.7	87.3	94.6	26.0	19.2	17.7	23.2	14.3	12.3	36.0	40.4	36.4	28.8	31.0	27.8
NIIT Tech (NIITEC)	1,265	1,415	Buy	7,705	45.6	67.8	76.3	27.8	18.7	16.6	13.8	10.3	8.6	19.4	24.8	24.6	15.8	20.5	20.2
Persistent (PSYS)	623	650	Hold	5,119	40.5	44.0	48.7	15.8	14.6	13.2	9.1	7.1	6.4	19.8	20.5	20.5	15.2	15.0	14.9
TCS (TCS)	2,125	2,065	Hold	775,500	67.4	83.8	88.6	30.6	24.6	23.3	22.5	18.6	16.8	37.6	43.8	43.1	29.6	34.4	34.0
Tech M (TECMAH)	816	900	Buy	71,253	42.8	48.0	55.3	18.8	16.7	14.5	14.1	9.8	8.3	21.5	22.0	22.4	20.2	19.5	19.5
Wipro (WIPRO)	291	315	Buy	171,636	12.7	14.9	17.3	22.5	19.1	16.4	14.8	12.0	10.2	16.9	17.8	18.1	16.6	15.8	16.7

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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