

# Larsen & Toubro Infotech

BSE Code	: 540005
Time Duration	: 18 months
CMP	: ₹1769.20 (as on 26 December 2019)
Target Price	: ₹2127



Our Large Rhino pick for the month of December 2019 is Larsen & Toubro Infotech, which is the sixth largest Indian IT service company. The company extends IT services to enterprises in diverse industries such as banking & financial services, insurance, energy & process, consumer packaged goods, retail & pharmaceuticals, media & entertainment, hi-tech & consumer electronics and automotive & aerospace. The company's range of services includes application development, maintenance & outsourcing, enterprise solutions, infrastructure management services, testing, digital solutions, and platform-based solutions.

## Digital transformation drive revenue

The company has been shifting its focus on digital transformation which now accounts for nearly 40 per cent of the overall revenue. Further, it has been investing in boosting its digital capabilities which would help the company to remain at the forefront of innovative digital service offerings. Also, the company is well-poised to capitalise rising opportunities in digital space along with Mindtree, which is a strong competitor in digital space. The company has invested in the training of almost 50 per cent of employees over the last year in AI cloud computing, safe agile, and data visualisation. Nearly 37 per cent of the new deal wins belongs to the digital space, which indicates the company's sharp focus on the rising opportunity in new age space and also gives a strong outlook going ahead.

## Robust deal pipeline gives healthy revenue visibility

The company's sales & marketing initiatives are driving strong growth for the company and it focusses mainly on large deal wins, growing top accounts, client mining and focussing on strategic alliances. Since its IPO, the company has won a deal with the total contract value of around US\$ 900 million. The company deal pipeline is strong at US\$ 1.4 billion, which is nearly 42 per cent higher as compared to the last year. More than 50 per cent of these deals are in advanced stages of negotiation and 33 per cent of the deals are with new logos. The company's recent client addition was strongest as compared to previous periods, which shows that the investment in sales & marketing is yielding good result for the company. The company is eyeing growth beyond the Top 20 clients which bodes well in the long-term and the strategy of unlocking Fortune 500 logo and effectively mining them for sustained annuity revenues is yielding good results and the resultant of its dependence on top accounts has been reducing (Top 20 clients 61.4 per cent in Q2FY20 vs 66 per cent in Q2FY18). Thus, we believe that the company's capability to win large deal wins would result in a strong performance in the coming years.

## Acquisitions bridging the offering gap

In the last one year, the company has acquired 4 companies namely Lymbyc & Mosaic (Analytics), Ruletronics (Pega), N+P (Temenos) and PowerUp (AWS, Azure, Google Cloud). Further, Nielsen & Partners and Synchordis acquisitions have helped the company to build Temenos practice from the initial stage. LTI is now Temenos' second-largest partner. Acquisition of Ruletronics has helped in strengthening the LTI's nascent Pega practice. Further, the company is also strengthening its partnerships with key ecosystem vendors which presently stand at more than 40 strategic partnerships. Notably, despite comparatively small in scale, the company has managed to achieve the highest level of partnership with SAP, Oracle and Microsoft. All these acquisitions are expected to help the company in building a service portfolio in their respective areas, which may further help the company in improving its expertise.

## Financial performance

In the last five years, the company's consolidated gross sales have recorded 17 per cent CAGR to reach Rs 9,445.80 crore in FY19. The company has witnessed a marginal improvement to 23.14 per cent in FY19. Notably, EBITDA and PAT have grown at a CAGR of 19 per cent and 18 per cent over FY15 to FY19.

In the recent (Q2FY20) quarter, the company's net sales grew ~4 per cent QoQ and ~9 per cent YoY to Rs 2,406.1 crore. Revenue mix in terms of service offering, ADM and Testing (36.1 per cent), ERP (29.5 per cent), Analytics, AI & Cognitive (11.3 per cent), IMS (11.1 per cent), Enterprise Integration (9 per cent) and Platform based solutions (3 per cent).

The EBITDA during the quarter increased marginally by 1.3 per cent QoQ but fell 3.7 per cent YoY to Rs 422.3 crore. EBITDA margin

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(excluding other income) for the quarter was at 17.6 per cent. Profit after tax too remained largely flat at Rs 388.2 crore. PAT margin for the quarter was at 16.13 per cent.

### Valuation & outlook

At present, most of the technology spending is on digital, thus giving headroom for a company like LTI to grow in the coming years. After winning a healthy deal, the company's management believes that it can deliver a strong performance in the second half of FY20E. Also, considering the company's account mining capabilities, the LTI is expected to clock a strong growth going forward. The company stands out strong in terms of return ratios (RoE 35.2 per cent, RoCE 46.6 per cent) as compared to its close peers. In terms of valuation, LTI is available at P/E of 20.92x, which is close to its 3-year median P/E of 19.94x. Considering all these, we recommend a **BUY** on the stock with a target of Rs 2127, representing nearly 20 per cent potential upside.

Inc/Exp Statement(Consolidated) (Rs in Crore)					
Description	201903	201803	201703	201603	201503
Net Sales	9445.80	7306.50	6500.90	5846.40	4978.04
Total Income	9750.40	7734.30	6687.60	6036.60	5073.45
Total Expenditure	7564.80	6120.80	5270.70	4822.10	3966.28
PBIDT	2185.60	1613.50	1416.90	1214.50	1107.17
PAT	1515.50	1112.40	970.90	836.50	768.72
Dividend %	2800.00	2150.00	1655.00	3479.00	2980.00
Adj. EPS(Rs)	87.12	64.65	56.77	49.19	47.66

Quarter On Quarter (Consolidated) (Rs in Crore)					
Particulars	201909	201906	Q on Q Var%	201809	Y on Y Var%
Net Sales	2570.70	2484.90	3.45	2331.20	10.27
Total Expenditure	2105.10	2027.00	3.85	1852.20	13.65
PBIDT (Excl OI)	465.60	457.90	1.68	479.00	-2.80
PAT	360.40	355.70	1.32	400.30	-9.97
PBIDTM% (Excl OI)	18.11	18.43	-1.74	20.55	-11.87
PBIDTM%	21.76	22.50	-3.29	24.70	-11.90
PATM%	14.02	14.31	-2.03	17.17	-18.35
Adj. EPS(Rs)	20.70	20.45	1.22	23.13	-10.51



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