

LARSEN & TUBRO INFOTECH

IT SERVICES

BUY

Target Price: Rs 2,138

Q4FY19: Largely in-line, growth intact despite macro headwinds

In Q4FY19, LTI reported constant currency revenue growth of 1.9%/17.5% on QoQ/YoY basis. USD revenue came at \$353.8 mn (up 2% QoQ & 14.4% YoY), currency pressure led rupee revenue growth at just 0.5% QoQ at Rs 2,486. EBIDTA margin at 19.2% contracted by 140 bps (40 bps lower than our expectation) due to higher attrition, investments and fall in utilization. However, higher than expected forex gain of Rs 33.4 cr helped profits to grow by 0.8% QoQ.

CPG, Retail & Pharma (34.5% YoY) and Hi-Tech, Media & Entertainment (33% YoY) were growth drivers for the quarter while Sequential slowdown in revenue growth was on account of weakness in top clients (flattish growth in top 5). LTI's largest vertical BFS witness slowdown after 10 quarters & fell by 1.9% QoQ. Recent acquisitions supported otherwise soft quarter by 1% contribution to revenue. For FY19 LTI reported robust growth in rupee revenue/profit of 30%/36% led by strong traction in BFS (27% YoY), CPG, Retail & Pharma (35.3% YoY) and Hi-Tech, Media & Entertainment (28.7% YoY). Digital continues to drive growth with the share of digital at 38%, up 500 bps compared to FY18.

CMP : Rs 1,708
Potential Upside : 25%

MARKET DATA

No. of Shares : 17.34cr
Market Cap : Rs 29,635 cr
52-week High / Low : Rs 1,990 / Rs 1,270
Avg. Daily vol. (6mth) : 1,16,520 shares
Bloomberg Code : LTI IN
Reuters Code : LTI.BO
BSE Code : 540005
NSE Code : LTI

Valuation

- We estimate LTI to post revenue/PAT growth at a CAGR of 17%/12% respectively over FY19-21E. LTI's FY19 revenue has grown in double digit (constant currency) for third consecutive year and would continue to be among top quartile (among top 2 player) in terms of growth. With revenue growth in the top quadrant of the industry and operating margins in high teens, LTI is likely to sustain its industry leading performance. We value LTI at 19x FY21E given the growth prospects on the back of strong client mining, opening of new logos (Clients), L&T's parentage benefit and focus on acquiring capabilities to arrive at a target price of Rs 2,138 (25% upside).

Key Highlights

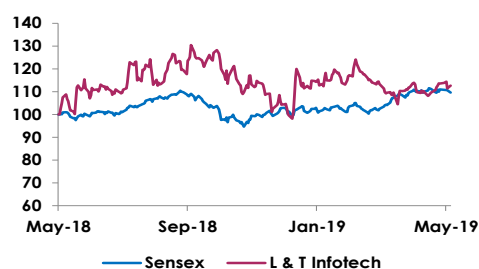
- Strong deal wins and pipeline to drive growth:** LTI continues to sustain large deal win momentum (Q4: 2 large deals) which drives revenue visibility. LTI has maintained its large deal win momentum over FY19 with net new TCW of ~USD 275 mn (FY18: USD 220 mn) including two large deals (one each in Manufacturing/Insurance) of net new TCW of USD 100 mn+. LTI has 66 Fortune-500 clients (3 added in Q4FY19). Healthy deal pipeline, ramp-up of large deals and mining of new logos won in FY19 would help sustain the growth momentum over FY20/FY21.

FINANCIAL SUMMARY

Y/E March (St)	Tot. Sales (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	DPS (Rs)
2019	9446	1554	87.7	35.6	-	32.8	45.7	35.7
2020E	11150	1699	98.0	11.7	17.4	30.3	42.3	39.7
2021E	12831	1952	112.5	14.9	15.1	28.9	40.7	47.6

Source: Company and Axis Securities; CMP as on 7th May' 2019

PRICE PERFORMANCE



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Key Highlights (Cont.)

- Growth outlook intact despite pressure in top clients:** LTI's top clients are largely from BFS industry which has witness budget cut this quarter though LTI sees no wallet share loss which makes them positive on its growth trajectory. LTI growth was largely in-line despite 4.9% de-growth in top-5 clientele which indicate reduced dependency on top clients for growth. Management is optimistic about the demand environment and focus on client mining in non-top 20 clients would be key to its growth prospects.
- Employee Matrix:** LTI was operating at all-time high employee utilisation level which was not sustainable and as per expectation Q4 witness fall in utilisation from its peak of 83% (including trainees) in Q3FY19 to 81.1% in Q4. Further normalisation can come in next quarter. Attrition at 17.5% increased by 100 bps during this quarter. LTI indicated it would continue to focus on talent hiring during FY20.

FY19 Highlights

LTI reported stellar growth for FY19. BFS vertical performance was remarkable at 27% YoY growth driven by large deal wins and client mining. Company declared Rs 15.5 as final dividend, this was in addition to interim dividend of Rs 12.5. Tightness in top clients may hinder growth in H1FY20 similar to that of FY19, however it is expected to pick up in H2FY20.

Strategic acquisitions aiding capabilities

- LTI's focus is on revenue growth, with steady investments in building next-gen services, acquisitions, platforms and talent. In 2019, LTI announced two acquisitions:

Ruletronics: A boutique Pega consulting company providing innovative BPM and CRM solutions that enables businesses to transform and evolve digitally

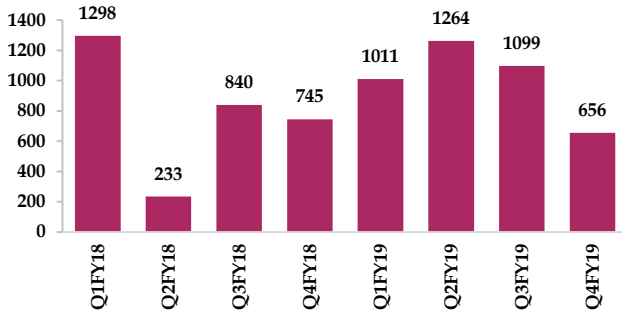
Nielsen + Partner: Implementation specialist for the Temenos WealthSuite providing services around digital banking platforms

This is the fourth acquisition since listing focused on augmenting LTI's digital capabilities and addressing the white spaces in portfolio. LTI would continue to invest and be proactive in hiring talent across US and India.

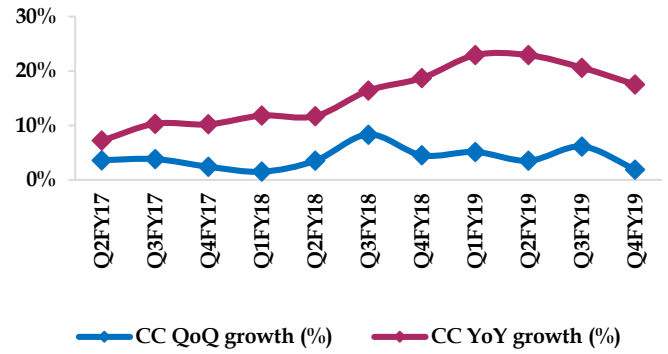
FY19 Highlights

Client profile	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19
Active clients	256	256	289	300	301	312	314	343
New clients	12	13	17	15	19	22	17	14
1 mn +	97	99	102	109	114	114	121	123
5 mn +	35	39	43	44	42	44	47	49
10 mn +	24	23	22	23	25	25	25	26
20 mn +	12	12	13	13	13	14	15	17
50 mn +	4	4	4	4	4	4	5	5
100 mn +	1	1	1	1	1	1	1	1

Investment in hiring

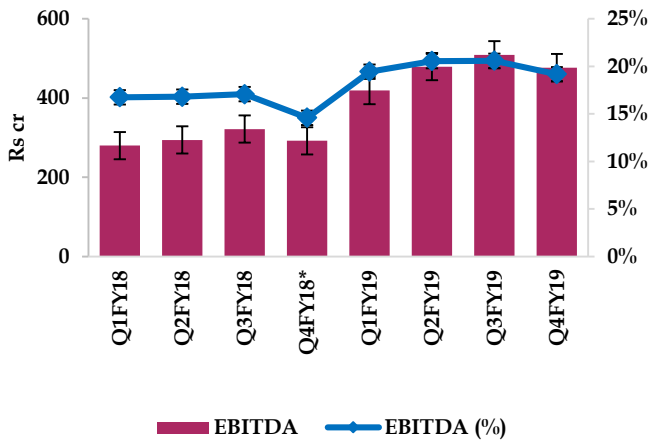


Double digit YoY revenue growth (Constant currency)

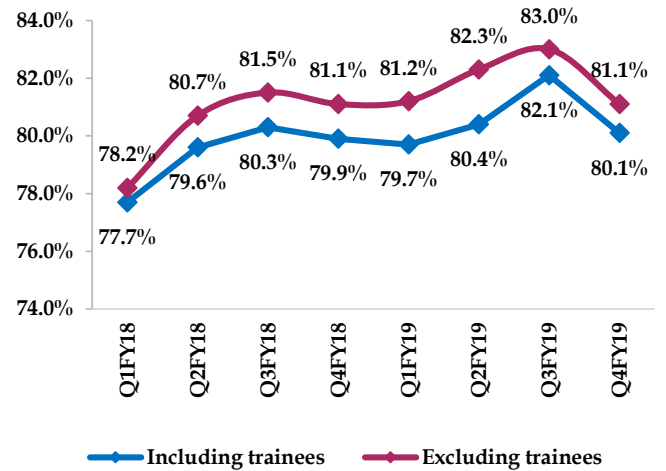


Source: Company, Axis Securities

Tepid EBITDA during Q4



Utilization normalizing from peak



Source: Company, Axis Securities

Other Metrics

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Revenue by Vertical												
<i>BFS</i>	25.2%	26.0%	26.0%	26.9%	26.8%	27.3%	27.1%	28.7%	30.9%	29.9%	29.1%	27.7%
<i>Insurance</i>	21.9%	21.4%	20.8%	20.7%	20.6%	20.6%	19.4%	18.3%	18.2%	17.9%	17.8%	17.8%
<i>Manufacturing</i>	18.1%	18.0%	17.8%	19.1%	16.6%	16.0%	17.2%	17.3%	15.7%	15.4%	15.6%	16.6%
<i>Energy & utilities</i>	11.3%	10.8%	11.3%	11.1%	11.7%	12.0%	11.8%	11.5%	10.1%	10.7%	10.8%	11.0%
<i>CPG, Retail & Pharma</i>	8.1%	7.8%	8.0%	8.2%	8.5%	9.0%	9.2%	9.0%	9.1%	10.2%	10.6%	10.6%
<i>High-tech, Media & Ent.</i>	11.2%	10.7%	10.5%	10.2%	10.5%	11.1%	10.6%	10.6%	11.3%	11.2%	11.3%	12.4%
<i>Others</i>	4.3%	5.3%	5.7%	3.9%	5.3%	4.0%	4.6%	4.6%	4.5%	4.7%	4.6%	3.9%
Revenue by Services												
Application Development	38.5%	38.2%	36.3%	36.4%	36.2%	34.6%	33.5%	32.8%	34.0%	32.0%	30.8%	29.7%
Maintenance												
Enterprise Solutions	24.1%	23.0%	23.2%	23.6%	22.9%	24.1%	26.4%	27.0%	26.3%	25.2%	27.8%	29.2%
Infrastructure Management Services	10.6%	10.4%	11.4%	11.4%	12.3%	10.9%	10.8%	11.7%	11.5%	11.7%	11.4%	11.0%
Testing	9.9%	9.5%	9.0%	9.1%	9.0%	8.9%	8.3%	8.4%	8.1%	7.9%	7.8%	8.3%
Analytics, AI & Cognitive	7.3%	8.7%	9.6%	9.5%	9.7%	10.9%	10.8%	10.7%	10.3%	12.2%	11.3%	10.7%
Enterprise Integration & Mobility	5.6%	6.2%	6.6%	6.0%	6.4%	6.8%	6.7%	6.5%	6.5%	8.0%	7.6%	8.0%
Platform Based solutions	4.0%	4.0%	4.0%	3.9%	3.6%	3.8%	3.5%	3.1%	3.1%	3.0%	3.2%	3.2%
Revenue by Geography												
<i>North America</i>	69.4%	68.9%	68.4%	68.6%	64.7%	70.4%	67.3%	66.0%	66.6%	67.4%	66.8%	66.4%
<i>Europe</i>	18.0%	18.4%	18.3%	18.1%	17.8%	17.5%	18.0%	18.6%	17.9%	17.1%	16.7%	16.4%
<i>RoW</i>	6.9%	6.8%	5.3%	5.7%	6.3%	6.7%	6.4%	7.4%	9.1%	9.2%	8.8%	9.1%
<i>India</i>	5.7%	5.9%	8.0%	7.5%	7.1%	5.5%	8.4%	8.0%	6.4%	6.4%	7.8%	8.2%
Client Contribution to revenue												
<i>Top 5</i>	36.7%	37.1%	38.3%	38.5%	38.1%	38.0%	36.4%	35.2%	36.6%	36.2%	34.5%	32.2%
<i>Top 10</i>	51.3%	51.8%	52.1%	53.1%	50.9%	50.9%	50.8%	49.6%	50.3%	49.9%	48.4%	47.0%
<i>Top 20</i>	67.7%	67.6%	68.3%	68.0%	66.3%	66.0%	66.1%	65.1%	66.0%	65.5%	64.3%	63.4%
Revenue Mix												
<i>Onsite</i>	48.3%	48.1%	47.7%	48.7%	46.8%	46.6%	46.2%	45.7%	46.8%	47.6%	47.8%	47.8%
<i>Offshore</i>	51.7%	51.9%	52.3%	51.3%	53.2%	53.4%	53.8%	54.3%	53.2%	52.4%	52.2%	52.2%

Source: Company, Axis Securities

Results Update

(Rs. Cr)	Quarter ended					12 months ending		
	Q4FY19	Q4FY18	% Change (YoY)	Q3FY18	% Change (QoQ)	FY19A	FY20E	FY21E
Sales	2,486	2,001	24	2,473	1	9446	11150	12831
Other Op. Inc	0	0.0		0.0		0	0	0
Total Revenue	2,486	2,001	24	2,473	1	9,446	11,150	12,831
Expenditure								
Operating Expense	534	515	4	512	4	1957	2308	2656
Employee Expense	1434	1169	23	1417	1	5467	6406	7378
Other Expense	42	25	66	35	19	138	158	182
Total Expenditure	2009	1709	18	1964	2	7563	8872	10215
EBIDTA	477	292	63	509	(6)	1,883	2,278	2,615
Oth. Inc.	67	117	(42)	31	NA	302	139	160
Interest	2.8	5.2	(46)	1.9	47	10.6	6.5	5.7
Depreciation	37	36	3	36	5	147	139	160
PBT	0.0	0.0	NA	0	NA	0	0	0
Exceptional Items	504	368	37	502	0	2,028	2,273	2,611
Tax	126	78	60	127	(1)	512	574	659
PAT	379	289	31	376	1	1,516	1,699	1,952
EPS (Rs.)	21.9	16.8	30	21.7	1	88	98	113

Source: Company and Axis Securities

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