Pick of the Week

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- In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our "Pick of the Week" report.
  - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
  - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP (Rs)	Target Price *	Potential Upside (%)	Reco
Larsen and Toubro Infotech (LTI)	32,973	1,895	2,140	13%	BUY

** Note: Investment horizon Approx. 6-9 months., CMP as on 17th Jan, 2020.*

Larsen and Toubro Infotech (LTI)

CMP (Rs.)	Target (Rs.)
1,895	2,140

MARKET DATA

No. of Shares	: 17.4 cr
Market Cap	: Rs 32,973 Cr
52-week High / Low	: Rs 2,003/1,437
BSE Code	: 540005
NSE Code	: LTI

Larsen & Toubro Infotech Limited (LTI) is a global technology consulting and digital solutions company. LTI has global presence which includes 25 software development centers and 49 sales offices. LTI offers an extensive range of IT services to its clients in diverse industries such as Banking & Financial Services, Insurance, Manufacturing, Energy & Utilities, Consumer Packaged Goods, Retail and Pharma, High-Tech, Media & Entertainment.

Investment Rationale

- **Strong broad based growth across verticals :** LTI posted strong broad based growth across verticals driven mainly by healthy deal pipeline and ramp up in large deals. The growth was mainly led by verticals like Manufacturing vertical (15% QoQ growth), BFS (11.1%QoQ growth), Hi-tech and Media (8.9% QoQ growth), CPG, Retail & Pharma vertical (5.5% QoQ growth), Energy & Utilities (1.3% QoQ growth), Insurance (2.4%QoQ growth) and Energy and Utility vertical (1.3% QoQ growth). Management is confident in gaining growth momentum post Q3 FY20 aided by ramp up in large deals announced earlier and uptick in top account.
- **Robust deal wins gaining the traction:** LTI has signed 3 large deals with TCV $75mn in 3QFY20 taking the total new-net deal wins for the 9 months to $350mn+. Management indicated that Client IT spends in North American region continues to grow and will not be adversely impacted by US elections. The management also indicated that deal wins during last quarter started gaining traction will help to gain the growth momentum.
- **Stabilizing the margins with investments for the future:** Management indicated that the margins have been directionally positive and they would continue to make investment in new technologies and sales for future growth (SG &A expenses). LTI witnessed improvement in the quality of hiring in India and localization efforts as being potential margin headwinds. The management is also indicated the net margins will likely to remain at lower end of the given guidance of 14%-15%.
- We recommend a **BUY** with TP of Rs. 2,140.

Financial Summary

Y/E March	Sales (Rs. Cr)	PAT (Rs. Cr)	EPS (Rs.)	Growth (%)	P/E (x)	ROE (%)	ROCE (%)
FY19	9,446	1,554	87.7	-	19.2	33.6	45.7
FY20E	10,911	1,500	86.5	(1%)	22.0	27.2	38.5
FY21E	13,495	1,837	105.9	22%	18.0	28.3	38.3
FY22E	15,923	2,174	125.4	18%	15.2	28.4	38.0

Source: Company, Axis Securities.

Performance

No of Stocks Matrix

No of Stocks	9m	15m
Met Target	20	38
Not Met Target	20	28

Performance Matrix

% Return	9m	15m
Met Target	13.02	12.44
Not Met Target	(6.77)	(12.06)

Benchmark Performance Matrix

% Return	9m	15m
Met Target	1.51	2.90
Not Met Target	3.92	6.67

Note : Performance of the pick of the week is calculated for stocks recommended from Apr-19 to Dec-19 for 9 Months and from Oct-18 to Dec-19 for 15 Months.

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