

L&T Infotech was incorporated in 1996 (part of renowned L&T Group) and is one of India's global IT services and solutions companies. In 2015, NASSCOM ranked it as the sixth largest Indian IT services company in terms of export revenues. It is amongst the top 20 IT service providers globally in 2015 according to the Everest Group's PEAK matrix for IT service providers. Its clients comprise some of the world's largest and well known organizations including 49 of the Fortune Global 500 companies. L&T group foray into services business (L&T Infotech, L&T Realty, L&T Finance Holdings) has helped the group to withstand the setbacks of L&T Hydrocarbon's business in Middle East. The number of employees grew from 17,000 to 20,000 in three years with employee utilization improving from 71.6% to 73.8% in FY16.

The Company offers an extensive range of IT services to its clients in diverse industries such as banking and financial services (26.3%), insurance (20.7%), energy and process (12.7%), consumer packaged foods, retail and pharma (9.3%), media and entertainment (6.2%), hi tech and consumer electronics (5.2%), automotive and aerospace (6.8%). Its range of services includes application development, maintenance and outsourcing (42.4%), enterprise solutions (23.7%), infrastructure management services (9.7%), testing (9.8%), digital solutions (11.1%) and platform based solutions (3.3%). The Company benefits from the expertise and experience of the L&T group in verticals such as hydrocarbons, heavy engineering, oil and gas and automotive and aerospace. This provides it with the benefit of strong domain experience and understanding of businesses that operate in these verticals, which assists us in developing and delivering IT services and solutions that benefit its clients in these verticals and differentiates L&T Infotech from its competitors.

The Company also focuses on emerging technologies lie a) Social, b) Mobile, c) AIM, d) Cloud Computing, e) Big Data, f) IoT, g) Enterprise Integration, h) Business Process Digitisation, i) User Experience, j) Cognitive computing.

The Company's growth has been marked by significant expansion of business verticals and geographies in which it does business. 95% of revenues are accounted by overseas clients. North America, Europe, Asia Pacific and the rest of the world accounted for 69.0%, 17.4%, 2.0% and 5.8% for Financial Year 2016 and 68.6%, 17.9%, 2.4% and 6.9%, for Financial Year 2015, respectively. As of May 31, 2016, it had 22 Delivery Centres and 41 sales offices globally.

The Company's track record of delivering an extensive range of solutions using global delivery model, demonstrable industry and technology expertise, and sensitivity to its clients' feedback, has helped it to forge strong relationships with major clients. For example, in Financial Year 2016, it had 17 clients who generated above USD 10 million in revenue, ten clients who generated above USD 20 million in revenue and three clients who generated above USD 50 million in revenue which is reflective of such strong client relationships. L&T Infotech has a history of high client retention and derive a significant proportion of its revenues from repeat business (defined as repeat business generated in the preceding Financial Year) built on successful execution of prior engagements.

The company has reported US\$ revenue CAGR of 12.1% over the last three years, with OPM in the range of 18 -20%. The Company has followed a high dividend payout policy, with payout of over 75% over the last three years.

Issue date	July 11 - July 13, 2016		
Issue size	Rs. 12.4 bn. at upper end of the price band		
Type of issue	Offer for sale: Rs. 12.4 bn (17.5 mn equity shares) – Bookbuilding		
Face Value	Re. 1		
Price Band	Rs. 705 – Rs. 710 per share		
Lot size	20 equity Shares & multiple of 20 equity shares thereafter		
Equity shares post issue	169.84 mn		
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%		
Post issue market cap	Rs. 120.6 bn at upper price band		
Book Running Lead Managers	Citigroup, Kotak, ICICI Securities		
Registrar to the issue	Link Intime India Pvt. Ltd.		
Major Shareholders	L&T (Holding 94.94%)		
Y/e 31 Mar (Rs. mn)	FY16	FY15	FY14
Total Income	58,471	49,780	49,205
EBITDA	13,316	10,960	10,640
OPM (%)	18	20	23
PAT	9,222	7,692	9,283
PAT (%)	15.8	15.5	18.9
Equity Capital	169.82	161.25	161.25
Post issue EPS (Rs.)	56.13	45.17	40.86
Networth (Rs. mn)	20,227	20,263	16,103
P/E (x)	12.6	15.7	17.4
RoE (%)	45.6	41.8	46.7

Source: RHP, Ajcon Research

Investment Rationale and Recommendation

At the upper end of the price band of Rs. 710, the IPO is valued at 12.6x at FY16 Post issue P/E which is cheap as compared to its immediate peers. With due consideration to factors like a) strong domain focus enabling Business to-IT Connect, b) strong parentage and brand equity of the Promoter, c) established long – term relationships with its clients, d) extensive portfolio of IT services and solutions, focus on emerging technologies, e) track record of established processes and executing large, end to end, mission critical projects, f) conducive work environment to attract and retain talent, g) track record of strong financial performance, h) lean balance sheet with virtually no debt, i) robust ROE of 45%, j) no Brexit impact, we recommend investors to "SUBSCRIBE" the issue.

Objects of the issue

The offer for sale of 17.5 mn equity shares by the promoters (L&T Group). The offer constitutes 10.30% of the post –offer paid –up equity share capital of the Company. The objects of the issue are as follows:

- a) To achieve the benefits of listing the equity shares on the Stock Exchanges
- b) The parent company L&T to use the cash proceeds for WC requirement

Minimum public shareholding requirement

The Company has three year window that is available for minimum public shareholding to reach 25 percent level. Considering, the dilution that it is doing in the IPO market, today together with outstanding options, stock option schemes that it has, maybe the company on a fully diluted basis could already be at about 17-18 percent diluted level. So, the additional 6-7 percent that will be required to meet the statutory requirement could be done over this three year window period. At that time, the Company will take a pause and see how the plans play out that is how successful or robust the platform has become and how much or resource would that company require to grow further and hence the Company will take a call at that time.

Business Strategy

Focus on a targeted client portfolio

L&T Infotech intends to continue building long-term sustainable business relationships with its existing clients to generate greater revenues. This involves *inter alia* increasing the scope of engagements with its existing clients; selling additional services to them; deploying project managers, delivery specialists and other professionals to provide value-added business solutions; and eventually become a thought partner with them in terms of their existing and future business needs by identifying priority solutions in consultation with industry experts. As part of the foregoing strategy, the Company plans to have an optimal client portfolio to better focus and serve its clients across the geographies and industries in which it does business. L&T Infotech has a track record of high client retention and as its client relationships mature and deepen, the Company seeks to expand the scope of services offered to those clients to achieve incremental revenue growth. The Company's ability to establish and strengthen client relationships and expand the scope of services it offers to clients will help us grow its revenues and profits.

Targeting higher total contract values

L&T InfoTech is targeting clients who have the potential to offer opportunities with large total contract values. It intends to originate large engagements by either identifying opportunities with its existing client accounts or by targeting new clients whose existing engagements with IT vendors will be up for renewal. The Company plans to achieve a higher value client portfolio by focusing on annuity applications and infrastructure management service deals, which tend to be long-term in nature. As part of this strategy, the Company will need to provide clients with greater pricing flexibility and optionality; further develop its client-specific, industry-specific, technological and other solutions required for larger engagements; provide end-to-end services, improve its service delivery across its global delivery model; capitalise on its strengths, such as Business-to-IT Connect model and leverage Promoter's parentage; build additional and more holistic relationships with globally well-known software vendors and other partners; and engage in tailored marketing campaigns for specific client accounts. Furthermore, L&T Infotech is in the process of investing in and building sales operations capabilities to establish standardised processes to facilitate targeting of larger and higher-value client engagements. The Company believes that the foregoing will enable it to deliver greater value added IT solutions to its clients' businesses and increase its share of their IT expenditures.

Continue to focus on emerging technologies

L&T infotech regularly tracks new technologies, industry segments and market trends in the IT solutions market and believe that digitalisation will increasingly become systematically critical in the future. The Company plans to further enhance its digital platforms, build industry and technology frameworks, the 'internet of things', business process digitalisation and end-to-end digital transformational delivery capabilities. With respect to business process digitalisation, it plans to further develop automation tools providing greater value-added propositions to its clients to bring about business processing efficiency for them. The Company has established business relationships with a number of players in the digital space and, in addition to its existing capabilities; such relationships will further enable it to develop complex ecosystems along with its partners as a value-added proposition to its clients. Further, the Company plans to invest seed capital in startups, which will allow it to benefit from their innovation capabilities and digital offerings. The Company believes this will help it enhance digital offerings and in turn, give a platform and opportunity to scale up to startups. In addition, as part of its strategic focus the Company *inter alia* positioning itself to cater to "Smart Cities" opportunities that it has identified therein.

Expand focus on infrastructure management service offerings

L&T Infotech's IMS service practice offers a wide spectrum of end-to-end services covering IT infrastructure consulting, design, managed services, migration services, operational support, desktop support, and Cloud enablement, hosting and migration. The Company aims to



leverage its “Business 1st™” approach with respect to IMS, which provides extensive services to clients inter alia using application development, maintenance, support and testing services, which collectively assist its clients automate their business processes through customised service delivery plans that are aligned with their business needs and objectives.

Similar to its approach in relation to emerging technologies, the Company has agreements with a number of players in delivering IMS service offerings in a technologically-agnostic way. This approach is beneficial to our clients and helps establish our credibility with them with a view to eventually becoming their thought partners and long-term service providers. In addition, it is currently looking for strategic acquisition opportunities in relation to our IMS business. The Company is specifically looking to acquire a complementary business, technology, service or product that can provide it with access to new markets, capabilities or assets in relation thereto.

Expand geographical presence

L&T Infotech markets and distributes solutions directly through its global delivery model. The Company has historically been dependent on North America and Europe for most of its revenues. In Financial Years 2016 and 2015, revenues originating from North America represented 69.0% and 68.6%, respectively. In Financial Years 2016 and 2015, revenues originating from Europe represented 17.4% and 17.9%, respectively of its revenue from continuing operations. While it intends to continue expanding presence in the United States and Europe, the Company also plans to expand its geographical reach in other markets that have identified as having potential, including Australia, Singapore, Japan, South Africa, India and the Middle East. The Company is in the process of augmenting its teams in these markets to further explore the opportunities therein.

With respect to the operations in South Africa, the Nordic region and the Middle East, the Company views these regions as gateways to the rest of Africa, Eastern Europe/the Baltic region and the Middle East/North Africa region, respectively. As such, it intends to allocate resources to these markets not only for pure-play market opportunities therein, but also as stepping-stones to other client opportunities that it can identify through greater regional experience, expertise and client referrals. For example, in South Africa, L&T Infotech recruit local nationals to assist in market penetration efforts, in addition to complying with local regulatory requirements. In the Middle East, it intends to leverage the strong presence of the L&T group, which is engaged in the oil and gas, construction and transportation sectors. The Company has identified Germany, France and the Nordic region as important markets for going forward and it would like to enhance its capabilities and address gaps in language capability, industry expertise, technical expertise and geographic coverage in these countries. As such, the Company is also currently contemplating pursuing strategic acquisitions in these markets.

Risk & Concerns

High client concentration risk: The Company currently derives a significant portion of its revenue from a limited number of corporate clients. The loss of a major client or a significant reduction in the services performed for a major client could result in a significant reduction of revenue. Significant pricing or margin pressure exerted by its large clients would also adversely affect its business, financial condition and results of operations. The Company’s largest client accounted for 14.9%, 14.1% and 13.1% of its revenue from continuing operations in Financial Years 2016, 2015 and 2014, respectively. L&T Infotech’s ten largest IT services clients accounted for approximately 52.7%, 49.5% and 46.8% of its revenue from continuing operations in Financial Years 2016, 2015 and 2014, respectively.

Challenges in relation to immigration may affect L&T Infotech’s ability to compete for, and provide services to, clients in the United States and/or other countries, partly because it may be required to hire locals instead of using its existing work force, which could result in lower profit margins, delays in, or losses of, client engagements and otherwise adversely affect its ability to meet its growth, revenue and profit projections.

L&T Infotech’s employees who work onsite at client facilities or at facilities in the United States on temporary or extended assignments typically must obtain visas. If United States immigration laws change and make it more difficult for the Company to obtain non-immigrant visas (i.e., H-1B and L-1 visas) for its employees, its ability to compete for and provide services to its clients in the United States could be impaired. For instance, in December 2015, the United States Congress substantially increased the visa fees on the H-1B and L-1 visas, which has increased and will increase its costs going forward.

Further, in response to past terrorist attacks in the United States, the USCIS and the U.S. Department of State have increased their level of scrutiny in reviewing visa applications and work petitions and have decreased the number of such visas granted. Immigration laws in the United States and in other countries are subject to legislative changes, as well as to variations in the standards of application and enforcement due to political forces and economic conditions. It is difficult to predict the political and economic events that could affect immigration laws, or the restrictive impact they could have on obtaining or reviewing work visas



for its technology professionals, despite the fact that there may be ongoing shortages of such professionals in some of the countries in which it does business.

The United States is currently considering further restrictive immigration reforms, which may have a substantial impact on its business model and practices, costs, hiring practices or capacity to complete client projects and which may result in an increase in the cost of us doing business in the United States as a result of having to recruit more local United States employees or paying higher wages to deputed personnel. The Company cannot be certain that it will continue to be able to obtain any or a sufficient number of H-1B and L-1 visas for its employees on the same timeframe as it currently maintains. Besides the United States, immigration laws in other countries in which it seeks to obtain visas or work permits may require the Company to meet certain other legal requirements as conditions to obtaining or maintaining entry visas, such as maintaining a defined ratio of local to foreign employees. The inability of project personnel to obtain necessary visas or work permits could delay or prevent its fulfillment of client projects, which could hamper its growth and cause its revenue and/or profits to decline.

Benchmarking and favoured provisions may have an impact: As on March 31, 2016, the Company had signed 15 contracts (accounting for 22% of revenues) which had clauses with benchmarking provisions. 21 contracts entered into by the Company or its Subsidiaries have clauses with most favored provisions as of March 31, 2016. These contracts contributed Rs. 17,059.4 million and Rs. 15,738.9 million in the Financial Years 2016 and 2015, respectively, representing 29.2% and 31.7% of its revenue from continuing operations for such periods respectively. The benchmarking provisions allow a customer in certain circumstances to request a study prepared by an agreed upon third party, typically an industry expert, comparing the Company's pricing, performance and efficiency gains for delivered contract services against the comparable services of an agreed-upon list of other service providers. Based on the results of the benchmark study and depending on the reasons for any unfavorable variance, the Company may be required to reduce its pricing for future services or to improve the quality of services to be performed for the remainder of the contract term or impose higher service levels, which could have an adverse impact on its revenues and results. Most favored customer provisions require L&T Infotech to give existing customers updated terms in the event that it enters into more competitive agreements with certain other customers for similar services, which limits its ability to freely enter into agreements and could have an adverse impact on its revenues and results.

May not be able to bid for large projects – As compared to Companies like Infosys, TCS, Tech Mahindra, the Company's operations are too small. It earned US\$ 887 mn as against US\$16,544 mn which may limit its ability to bid for large projects.

Wage increases in India may diminish L&T Infotech's competitive advantage against companies located in the United States and Europe and may reduce its profit margins.



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