

COMPANY BACKGROUND:

L&T Infotech is a part of engineering conglomerate L&T which is also the biggest shareholder in it. L&T owns 94.96% of L&T Infotech while the remaining shares are held by long term employees including AM Naik and YM Deosthalee.

Headquartered in Mumbai, L&T Infotech has a track record of high client retention and this is highlighted by the fact that it generated 96.9% of its revenue from continuing operations from existing clients in FY2016. The company seeks to expand the scope of services offered to existing clients to achieve incremental revenue growth. Nevertheless, the company has been historically dependent on North America and Europe for most of its revenues. In FY2016, revenues originating from North America represented 69% of its revenue from continuing operations while Europe accounted for 17.4%. As of May 31, 2016, L&T Infotech had 22 delivery centres and 41 sales offices globally.

L&T Infotech's consolidated financial performance (in INR crore)

	FY2012	FY2013	FY2014	FY2015	FY2016
Total revenue	3,191.5	3,873.5	4,837.1	5,069.5	6,143.0
Total expenses	2,492.2	2,980.9	3,773.2	3,973.5	4,811.4
Profit from continuing operations after tax	419.3	510.0	659.8	760.0	922.3
Net profit after tax	433.1	573.7	928.3	769.1	922.1
Net profit margin (%)	13.6	14.8	19.2	15.2	15.0

ISSUE HIGHLIGHTS:

L&T Infotech IPO is going to open on 11 July and will close on 13 July 2016. The upcoming IPO has been priced in the range of INR705 – 710 per share, although retail investors will be offered a discount of INR10 per share, making it only the second public issue this year to offer a discount after Parag Milk Foods. The forthcoming IPO will involve sale of 17.5 million shares by its promoter Larsen & Toubro (L&T) which owns 94.96% equity in the infotech subsidiary, the company said in its red herring prospectus (RHP).

IPO dates	11 July – 13 July 2016
Price Band	INR705 – 710 per share
Issue Size	17,500,000 shares (INR12.36 billion)
Fresh Issue	NIL
Offer for share (OFS)	17,500,000 shares (INR12.36 billion)
Minimum Bid	18 shares
Retail allocation	35%

IN FAVOUR OF THE IPO:

- Extensive portfolio of IT services and solutions
- Strong domain focus enabling business-to-IT connect
- Established long-term relationships with clients
- Strong parentage and brand equity of promoter
- Track record of established processes and executing large, end-to-end, mission critical projects
- Strong management culture, focus on emerging technologies

CONCERNS:

- Concentration risk: Largest client alone contributed 14.9 per cent of firm's revenue in FY16.
- A total 15 contracts that the company signed had clauses with benchmarking provisions as of March 31, 2016. These contracts accounted for 22 per cent of the company's revenue.
- Restrictive immigration reforms in the US may have a substantial impact on business model and practices.
- Wage increases in India may diminish competitive advantage against companies located in the United States and Europe.
- The company lost chief executives in quick succession.

OUR VIEW:

L&T Infotech has reported a strong CAGR of 20.1% and 23.1% on the revenue and net profit fronts respectively over FY2011-2015. At Rs 710, which is the upper end of the offer price band, the company is available at ~13x its FY2016E earnings, which is at a slight discount to its mid-cap peers trading at an average PE of ~15x FY2016E earnings. Plus, assuming that the company maintains its historical average rate of dividend payout, it would translate into a yield of 4-5% for the investor. **Apart from the favourable prospects of the company, there is also a possibility of decent gains on listing. So you can subscribe to the issue.**

The company's valuation at the offer price looks attractive, given its strong parentage, healthy return ratios and high dividend payout. Continued traction in the key verticals like BFSI and improvement in the energy vertical, coupled with stronger growth in the digital and IMS space will be key earnings drivers for the company going forward.