



# Buddha in the SOURCE CODE

Leading the mid-cap IT league table, L&T Infotech is trying to leverage the conglomerate's strengths and Zen Buddhism to leapfrog to the big league

Sanjay Jalona, CEO & MD, Larsen & Toubro Infotech

By Suman Layak

**T**he timing is critical when you are trying to extend a tractor loan to a farmer – the approval should be in by the time the test drive is done. This was one of the challenges his teams tackled after he took over as CEO of Larsen & Toubro Infotech (LTI) Ltd in 2015, recalls Sanjay Jalona, managing director.

New Jersey-based Jalona has been a software services man his entire career, having previously worked at Wipro and Infosys. But at L&T, the diverse portfolio of group companies provided an additional layer of opportunity.



**“The moment a company crosses the \$200-million revenue threshold and is present as a player in more than one geography, it can aim at scaling up”**

Ganesh Natarajan, chairman, Nasscom Foundation

Like the tractor loan solution the company developed for L&T Finance, there were problems to be solved across business units in engineering, construction, defence and other high-tech core sectors. In Jalona's telling, this helped L&T Infotech position itself as a company that solved business and technology problems for clients across the world, not just an exporter of cheaper code.

The company is engaged with questions such as how to engage a customer while she's riding an elevator or how to make chat bots more effective. Or how to manage a customer base for a digital, mobile-only bank (Monzo Bank) that is adding a lakh customers every month. “Few firms in the IT sector have a parent company with such rich expertise and experience in engineering. This unmatched track record enabled LTI to build the

## HEAVY HITTERS Top 12 India-listed IT companies by market cap as on Jan 1, 2019 (₹cr)

Tata Consultancy Services	7,10,535.70	
Infosys	2,88,262.07	distinctive 'Business-to-IT connect' proposition which has been its platform for growth,” L&T chairman AM Naik told ET Magazine in an emailed response to questions.
Wipro	1,49,408.40	LTI is now the largest mid-cap IT company in India with a revenue exceeding \$1 billion (₹7,306 crore for 2017-18). It has a market capitalisation of ₹29,900 crore, and is now the seventh largest on the market cap league table of all listed IT companies in India. It's already ahead of peers of similar size, such as Mphasis, Mindtree and Hexaware. However, when compared to TechMahindra, another IT company incubated within a conglomerate, LTI is at less than half in terms of market cap and only a fourth in terms of revenues. The key challenge before LTI is to scale up.
HCL Technologies	1,34,044.71	
Tech Mahindra	70,757.22	
Oracle Financial Services Software	31,805.81	
Larsen & Toubro Infotech	29,900.32	
Mphasis	19,611.82	
L&T Technology Services	17,788.96	
Info Edge (I)	17,581.62	
MindTree	14,177.07	
Hexaware Technologies	9,886.89	

Source: ETIC

### TL;DR

- Many companies got into IT, software and services in the 1990s
- L&T Group chairman AM Naik has often said he started the IT business to retain engineering talent within the company
- Due to strong growth, the company is probably one acquisition away from entering the big league

### Elusive Big League

There is a bit of history between TechMahindra and L&T. Back in 2009, both these companies were in a race to buy out the beleaguered software services company Satyam.

TechMahindra won the day in 2009 and later merged itself into Mahindra Satyam, achieving scale similar to the biggies of Indian IT. It is fifth among listed Indian IT companies behind TCS, Infosys, Wipro and HCL. While LTI missed the Satyam chance then,

there is no dearth of ambition about the company right now at parent L&T. Chairman Naik adds that the road map for LTI is to join a “differentiated league” of IT players who help global new-age businesses (See Interview).

LTI also leads another pack – that of the IT companies set up by larger conglomerates that are yet to attain scale. Think about Zensar from the RPG Group, Birlasoft of the CK-Birla Group and ITC Ltd subsidiary ITC Infotech. There is also sister concern L&T Technology Services.

Ganesh Natarajan, chairman of the Nasscom Foundation, who had headed Zensar for more than 15 years, feels that all these companies are in safe grounds. “The moment a company crosses the \$200 million revenues threshold and is present as



## “We’re now Engaged in Next Gen IT, with Our Sights Firmly on Future Gen IT”

L&T chairman AM Naik was key in setting up Larsen & Toubro Infotech back in 1997. In an emailed response to questions, Naik spoke about goals for LTI

### Tell us about how LTI was set up and its goals today?

One of the main objectives for setting up LTI was to retain top talent within the group, and reduce attrition to the IT sector which appeared to be more attractive. Since then, the company has moved rapidly up the value chain, acquiring new skill sets and upgrading processes and platforms. We are now engaged in Next Gen IT, with our sights firmly on Future Gen IT.

Early in our journey we recognized that our Infotech initiative was uniquely positioned. Brand L&T has undoubtedly proved to be a key asset all along the journey. It has opened doors, providing access to new markets, secured credibility among first-time customers and functioned as a clear differentiator in markets where services were vulnerable to commoditisation.

### You also have another subsidiary – L&T Technology Services. Will the two merge at any stage?

LTI and L&T Technology Services cater to differentiated market segments, possess distinct capabilities, and we have charted different growth paths for each. L&T Technology Services was listed as an independent company to leverage inherent engineering prowess. Since then, L&T has consolidated its position as India’s leading pure play Engineering Research & Design

services provider, with an expanding client roster.

### Will L&T stay invested in LTI for the long term?

We have been able to map emerging trends and enable LTI to join a differentiated league of industry players who are leading global new-age businesses towards more positive business outcomes. As global companies look for specialised, cutting-edge solutions to achieve their business goals, the opportunity horizon looks promising. Therefore, L&T would like to continue its focus on accelerating the growth of all its service businesses, such as LTI, L&T Financial Services.



1 player in more than one geography, it can aim at scaling up.”

Natarajan also adds that in terms of strategy, the IT arms of larger conglomerates should not be asking the parent for funding, and must instead try to fuel their own growth. “Grow, buy, sell”, says Natarajan, should be the strategy – organic growth, followed by acquisitions and sale of equity stake to outside investors. While Naik said L&T has no intention of exiting its IT business, ITC Infotech is still a wholly owned subsidiary of the company, and a bit of a CEO factory. ITC CEO Sanjiv Puri had headed ITC Infotech in the past.

WNS CEO Keshav Muruges, currently vice chairman at Nasscom, also had a long stint in the leadership team of ITC Infotech.

But the quest for scale in this cohort can be seen with a transaction that Birlasoft announced last year. It announced a merger with Pune-headquartered KPIT, to be followed by a merger, bringing together the software services businesses of the two

companies in one new entity to be called Birlasoft, while the engineering business goes to another new company to be called KPIT. This transaction, announced in January 2018 and approved by the courts in December 2018, is yet to be completed, but envisaged growing Birlasoft’s annual revenue from \$375 million to \$500 million.

### Road Ahead

Jalona says that with a margin of around 15%, LTI is in a good position to fund its own growth for the near future. LTI got a thumbs-up from the markets, too. Firstly, a stake sale by parent L&T to meet the Sebi listing guidelines, sailed through in September 2018, with the initial offer for 59 lakh shares seeing a 5.61 times over-subscription in the non-retail segment and a 3.56 times over-subscription in the retail segment.

The LTI scrip, too, moved up in December. It has moved up by 10% between December 4, 2018 and January 3, 2019, closing at ₹1,735 last week. In the second week of

## OTHERS IN THE LEAGUE

### ITC Infotech

Started in 2000, it is a wholly-owned unlisted subsidiary of ITC Ltd

Known as a training ground for CEOs – ITC CEO Sanjiv Puri has led the subsidiary in the past; WNS CEO and Nasscom vice-chairman Keshav Muruges also had a long tenure at ITC Infotech

In 2017-18, company had consolidated revenues of ₹1,652.10 crore and net profit of ₹40.42 crore

### Zensar Technologies

Came into being in 2001 but the company has a history going back to 1922

The listed company is now a part of the Harsh Goenka-led RPG Group

Zensar was led by the current Nasscom Foundation Chairman Ganesh Natarajan for almost 15 years

In 2017-18, it had revenue of ₹3,107 crore and net profit of ₹241 crore

### Birlasoft

Incorporated in 1995, it is a part of the CK-Birla Group

In January 2018, it entered into an agreement with KPIT to merge and then become two publicly traded companies; deal has received Bombay High Court nod

Software business of KPIT will move to Birlasoft, while KPIT will be an engineering-focused company after the deal

Estimated revenue for Birlasoft would be \$500 million after the deal

### TechMahindra

From the Mahindra stable, the company was set up in 1986

It stepped into the big league after the acquisition of Satyam in 2013

In 2017-18, company saw sales of ₹30,772 crore and net profit of ₹3,800 crore

December, the scrip reacted with a huge spike after the news of LTI onboarding Cognizant veteran Nachiket Deshpande as chief operating officer broke. In a report on mid-cap IT stocks, earlier in January, Elara Capital predicted that revenues for the company should grow at 16.3% compounded annual growth rate between 2018 and 2021. Elara analyst Ravi Menon said that LTI has an advantage of being able to tap into the L&T supply chain. “L&T has many partners in many countries. There are so many contracts. This is not so with the other IT companies started by conglomerates.”

Menon, however, does not see LTI stepping on to the big league in a hurry. He foresees a time horizon of at least five years for that to happen. Of course, revenue growth can come through acquisitions, too, and the company has made some already. In November 2017, it signed a deal to acquire Luxembourg-based Syncordis SA for \$17.28 million. A year before that, LTI had acquired Pune-based big data analytics company AugmentIQ Data Sciences.

### Shoshin Approach

While L&T allowed Jalona to explore diversity, he introduced a Zen Buddhism principle to LTI to change the way it goes about its business. Jalona told *ET Magazine* in an interview that in addition to the problem-solving approach and developing deep insight about customers businesses and business verticals and niches, he has also tried to re-orient the company into a learning organisation with the principle of Shoshin – “a beginner’s mind”.

If “deep knowledge” and “beginner’s mind” seem contradictory ideals, Jalona acknowledges it, and says that expertise alone is no guarantee for success in an environment where technologies become obsolete so fast. In order to bring in talent that are able to learn fast and on their feet, Jalona has ensured a significant part of the company’s hiring happens through hackathons. “We look for people who are thinking on their feet and are solving problems,” Jalona explains.

How has Shoshin been applied to business? Take for instance the work LTI did for an oil-and-gas company that was looking for digitalisation of its decades-old data on oil wells, so it could re-assess its assets. LTI enabled geo-referencing and depth referencing to the project and provided user-friendly data sets for the scientists, providing much more than they had asked for. Or take the work done for an African bank, which wanted to speed up the bank accounting opening process. LTI offered a solution that re-thought the bank account opening process using robotics. Marrying deep expertise with the freshness and agility of a beginner’s mind seems to be Jalona’s prescription for his company.

What could be the risks for the business model that Jalona is creating for LTI? Citi Research said in a report in December, written after an analyst meet by the company, that it sees four possible downsides, including a sudden strengthening of the rupee, US slowdown or a significant tax and immigration reform. Almost 65% of the business of LTI is from USA with another 20% coming from Europe. But Jalona remains confident that USA will be conscious of its own leadership position in technology and will not do anything to affect that. “Costs might go up, but that is ok,” Jalona adds.

But with Zen Buddhist teachings, Jalona should be prepared to meet such changes in business conditions. What remains to be seen now is if Jalona can meet the tough goals that Naik and L&T are setting for LTI. For a company that was originally set up to check attrition of talent from L&T (many executives wanted to leave for the growing IT sector), the goals today are vastly different. The parent wants the company to become a leader in technology and also to deliver valuations. ■

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## CONSISTENT REVENUE GROWTH (Q-ON-Q)

Revenue (\$ mn)	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19
<b>L&amp;T Infotech</b>	<b>226</b>	<b>226</b>	<b>231</b>	<b>232</b>	<b>240</b>	<b>245</b>	<b>254</b>	<b>259</b>	<b>271</b>	<b>294</b>	<b>309</b>	<b>320</b>	<b>329</b>
Mphasis	237	229	225	224	224	224	222	231	242	252	264	269	276
Zensar	116	115	111	113	115	117	111	114	119	123	127	135	138
Persistent	83	90	100	105	105	110	109	113	118	123	117	124	118
NiIT Tech	105	104	102	101	103	103	111	110	115	117	122	124	131
Hexaware	125	124	122	130	135	139	145	153	154	156	162	168	171
Mindtree	180	184	196	199	193	192	196	200	206	214	226	241	246

Source: Companies, Elara Securities Research