

**CMP: INR 4,068**

**Rating: Neutral**

**Target Price: INR 3,915**

**Stock Info**

BSE	540115
NSE	LTTS
Bloomberg	LTTS.IN
Reuters	LTTS.BO
Sector	It Enabled Services
Face Value (INR)	2
Equity Capital (INR mn)	211
Mkt Cap (INR mn)	429,386
52w H/L (INR)	4319/3076
Avg Yearly Vol (in 000')	307

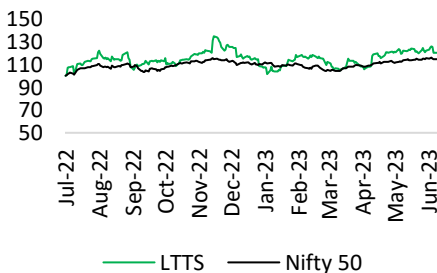
**Shareholding Pattern %**

(As on June, 2023)

Promoters	73.8
Public & Others	26.2

	1m	6m	12m
LTTS	4.2	19.0	28.1
Nifty 50	5.4	8.9	21.5

**LTTS Vs Nifty 50**



**LTTS to maintain revenue growth guidance of 20% plus in constant currency.**

LTTS reported 1QFY24 revenues of USD280mn up 9.1%YoY/-2.9% QoQ versus our expectations of 1.6% QoQ. Growth of 10% YoY in constant currency. Reported revenue of INR 23,014 up -2.9% QoQ/ 14.7% YoY against our estimate of 1.9% growth QoQ. Geography revenue: Among major markets, North America (up 3.2% QoQ/+5.1% YoY), Europe (+2.8% QoQ/up 9.4% YoY), India (down 19.7% QoQ/18.4% YoY) and ROW (down 1.5% QoQ/16.2% YoY).

**The strong segment led by a healthy pipeline:** Demand trends remain strong in Transportation that was broad based across Auto Trucks & Off Highway and Aero. Demand continues to be strong led by EV and connected cars in Auto electrification in Trucks & Off Highway and avionics in Aerospace. The revenue growth CC led by Transportation grew by 15.3% YoY/3.9% QoQ and Industrial Products grew by 8.3% YoY/0.4% QoQ, Telecom & Hi-tech grew by 8.6% YoY/-12.8% YoY followed by Medical device 4.4% YoY/0.8% QoQ and Plant Engineering 1.3%/-4.5%. Growth in other verticals was softer on account of decision-making delays that impacted deal closures. Signed 6 Large Deals of \$10 Mn+ TCV and all these deals are into the execution phase.

**Margin declined albeit beating our estimate led by impact from the acquisition of SWC:** EBIT margin was contract 20bps at 17.18% against our estimates of 16.9%. Management aims to maintain EBIT margins at 17% in FY24, mitigating wage hike headwinds through growth and operational efficiencies, while planning to implement committed wage hikes and aspire for an 18%+ EBIT level in H1FY26

**Valuations:** In Q1FY24, the company's revenue increased by 10% YoY in constant currency terms, with organic growth of 7.5% YoY in constant currency terms (up 0.6% QoQ organically). Considering the robust vertical and deal pipeline commentary. The management's objective is to maintain EBIT margins at 17% in FY24, leveraging growth and operational efficiencies to counteract the impact of wage hikes, while also aiming for an 18%+ EBIT level in H1FY26. With strong fundamentals, a solid client base, and diverse capabilities across segments, we remain optimistic about the LTTS story and anticipate a revenue growth CAGR of ~20% over FY23-26E. LTTS has successfully integrated its SWC business and the growth guidance of the combined entity offers clear visibility, despite the challenging task of achieving a CQGR of 4%. **We value, LTTS at a PE of 25x to its FY26E EPS of INR ~157, which yields a target price of INR 3,915 per share (Earlier target; INR 3,464 per share). We maintain our rating Neutral on the stock.**

**Exhibit 1: Financial Performance**

YE March (INR Mn)	Net Sales	EBIT	Adjusted PAT	EPS (INR)	EBITDA Margin %	P/E (x)
FY22	65,697	12,005	9,570	90.7	18.3%	44.8
FY23	88,155	15,271	12,121	110.5	17.3%	36.8
FY24E	1,00,366	16,882	13,896	124.7	16.8%	32.6
FY25E	1,14,478	19,845	16,183	143.1	17.3%	28.4
FY26E	1,26,529	22,102	17,951	156.6	17.5%	26.0

Source: Arihant Research, Company Filings

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## Exhibit 2: Q1FY24 - Quarterly Performance (Consolidated)

Consolidated (in INR Mn)	Q1FY24	Q4FY23	Q1FY23	Y-o-Y	Q-o-Q
<b>Revenue (USD)</b>	<b>280</b>	<b>288</b>	<b>257</b>	<b>9.1%</b>	<b>-2.9%</b>
<b>Net Revenue</b>	<b>23,014</b>	<b>23,706</b>	<b>20,062</b>	<b>14.7%</b>	<b>-2.9%</b>
Employee cost	12,151	11,848	10,842	12.1%	2.6%
Other Expenses	6,335	7,055	5,143	23.2%	-10.2%
<b>EBITDA</b>	<b>4,528</b>	<b>4,803</b>	<b>4,077</b>	<b>11.1%</b>	<b>-5.7%</b>
<i>EBITDA margin %</i>	<i>19.67%</i>	<i>20.26%</i>	<i>20.3%</i>	<i>-65bps</i>	<i>-59bps</i>
Depreciation	574	569	590	-2.7%	0.9%
<b>EBIT</b>	<b>3,954</b>	<b>4,234</b>	<b>3,487</b>	<b>13.4%</b>	<b>-6.6%</b>
<i>EBIT margin %</i>	<i>17.18%</i>	<i>17.86%</i>	<i>17.4%</i>	<i>-20bps</i>	<i>-68bps</i>
Other Income	477	504	408	16.9%	-5.4%
Finance costs	120	114	109	10.1%	5.3%
<b>PBT</b>	<b>4,311</b>	<b>4,624</b>	<b>3,786</b>	<b>13.9%</b>	<b>-6.8%</b>
Tax Expense	1,190	1,210	1,024	16.2%	-1.7%
Effective tax rate %	27.60%	26.17%	27.0%	56bps	144bps
<b>PAT</b>	<b>3,121</b>	<b>3,414</b>	<b>2,762</b>	<b>13.0%</b>	<b>-8.6%</b>
Extraordinary Items (Net of tax expense)	-	-	-		
<b>Reported PAT</b>	<b>3,121</b>	<b>3,414</b>	<b>2,762</b>	<b>13.0%</b>	<b>-8.6%</b>
<i>PAT margin %</i>	<i>13.56%</i>	<i>14.40%</i>	<i>14%</i>	<i>-21bps</i>	<i>-84bps</i>
<i>Minority Interest</i>	<i>-10</i>	<i>-13</i>	<i>-8</i>		
<b>PAT (After MI)</b>	<b>3,111</b>	<b>3,401</b>	<b>2,754</b>	<b>13.0%</b>	<b>-8.5%</b>
EPS (INR)	29.45	32.21	26.09	12.9%	-8.6%

**Q1FY24 Conference call Highlights:**

- **Guidance:** The company is bolstering its AI team to drive goals, and despite delays, growth in Q1, improved deal closures from June, and a robust pipeline instill confidence in strengthening growth momentum for the coming quarters, maintaining FY24 guidance of 20%+ in CC and aspiration of a \$1.5 bn run rate in FY25. Management aims to maintain EBIT margins at 17% in FY24, mitigating wage hike headwinds through growth and operational efficiencies, while planning to implement committed wage hikes and aspire for an 18%+ EBIT level in H1FY26.
- **LTM attrition was down by 330 bps QoQ to 18.9%. The company expect this trend to continue.**
- **Segment:** The company's investments in transportation capabilities, including software-defined vehicles, are aimed at creating a centralized platform with high computing power, cybersecurity, and fast connectivity, while FMCG customers' capacity expansions and a \$115 Mn deal for engineering design services in Europe strengthen their presence and provide growth visibility. Additionally, opportunities in sustainability, such as advanced technologies for water and waste recycling, align with companies' sustainability goals across the O&G, FMCG, and Chemicals sub-segments.
- **Strong Pipeline:** The company's focus is on accelerating innovation and delivering reusable solutions to optimize customer ROI, evident in the filing of 20 patents this quarter. With a strong pipeline of digital opportunities, steady growth momentum is anticipated in Industrial Products, while a significant \$50 mn deal in the Hitech sector enables new avenues for digital video platforms. Signed 6 Large Deals of \$10 Mn+ TCW and all these deals are into execution phase.
- **Partnership:** Another one is the partnership with BSNL to drive and enables global enterprises in the private 5G network deployments with Qualcomm. In North America, LTTS is working together to offer 5G driven Next-Gen connectivity solutions. This leverages LTTS's shift to cloud expertise.
- **Acquisition:** In Q1 FY24, the combined business achieved a margin of 17.2%, successfully integrated SWC, and experienced a 13% YoY increase in net income to INR 311 crores (13.5% of revenue), with improved DSO of 117 days, while shareholder funds decreased slightly to INR 4,817 crores from INR 4,951 crores.
- **Outlook on segment:** The company does see growth in the combined Telecom Hitech portfolio driven by Media and Telecom. However, the Semcon challenges may persist for another quarter. Lastly in Medical, LTTS sees strong demand for digital as customers prioritize areas like medical devices service-connected devices, and cyber security. LTTS is building reusable solutions for various areas like compliance management and quarter the pipeline of deals, gives company confidence that their growth momentum, should improve as some of the large deals close.

**Exhibit 3: Business Matrix**

<b>Operational Performance</b>					
<b>Revenue by Vertical</b>	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Transportation	33.20%	34.50%	35.90%	34.50%	32.70%
Industrial Products	17.80%	18.90%	19.00%	17.00%	17.60%
Telecom & Hi-tech	25.60%	19.40%	18.80%	28.40%	25.50%
Plant Engineering	15.00%	16.30%	15.50%	14.10%	13.90%
Medical Devices	10.70%	10.90%	10.70%	9.90%	10.30%
<b>Segment revenue</b>					
Transportation	6218	6896	7349	7242	7527
Plant Engineering	3006	3253	3189	3347	3199
Industrial Products	3553	3763	3898	4043	4058
Medical Devices	2135	2160	2186	2339	2356
Telecom& Hitech	5150	3879	3864	6735	5874
<b>Total</b>	<b>20062</b>	<b>19951</b>	<b>20486</b>	<b>23706</b>	<b>23014</b>
<b>Revenue by Geography</b>					
North America	62.90%	63.40%	62.70%	60.20%	56.50%
Europe	16.40%	15.90%	16.10%	16.40%	15.40%
India	13.20%	12.80%	15.20%	15.20%	20.70%
Rest of the World	7.40%	7.90%	8.20%	8.20%	7.40%
<b>Revenue Mix</b>					
Onsite	43.80%	45.10%	43.00%	43.00%	40.70%
Offshore	56.20%	54.90%	57.00%	57.00%	59.30%
<b>Revenue by Project Type</b>					
Fixed Price	26.90%	27.00%	28.60%	29.10%	35.60%
Time and Material	73.10%	73%	71.40%	70.90%	64.40%
<b>Client Profile</b>					
Number of Active Clients	350	343	343	341	357
30 Million dollar +	3	3	2	1	3
20 Million dollar +	8	8	8	11	12
10 Million dollar +	27	24	25	28	32
5 Million dollar +	56	49	50	57	56
1 Million dollar +	153	150	158	178	181
<b>Client Contribution to Revenue</b>					
Top 5 Clients	16.70%	16.40%	16.00%	15.90%	14.70%
Top 10 Clients	27.60%	26.90%	26.60%	26.60%	25.90%
Top 20 Clients	43.20%	42.40%	42.10%	42.00%	41.40%
<b>Employee Statistics</b>					
Total Headcount	22131	21474	21649	23074	23392
Bilable (as per number of employee)	20642	20189	20346	21573	21933
Sales & Support	1489	1285	1303	1501	1459
Voluntary Attrition % (LTM)	23.2%	24.1%	23.3%	22.2%	18.9%
<b>Exchange Rate (USD/INR)</b>					
Period Realised \$	78.23	80.76	82.59	82.19	82.20

Source: Arianth Research, Company Filings

Exhibit 4: Maintained revenue growth guidance of 20% plus in constant currency.

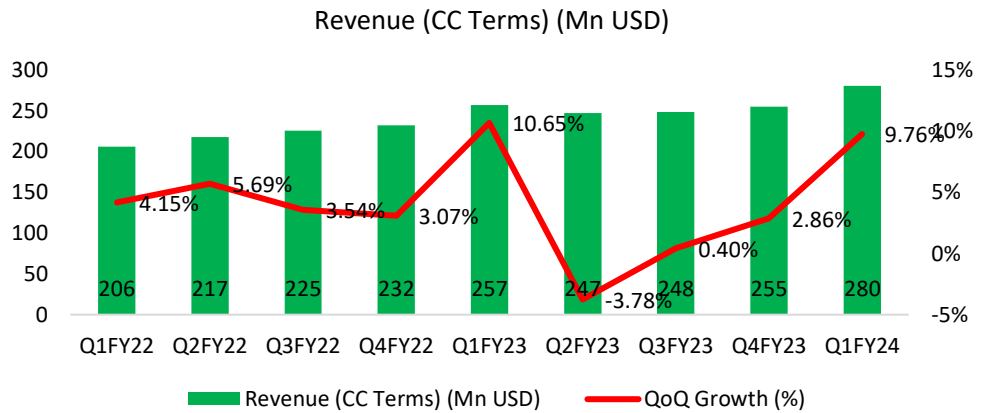


Exhibit 5: EBIT Margin guidance by H1FY26 stands at 18% plus

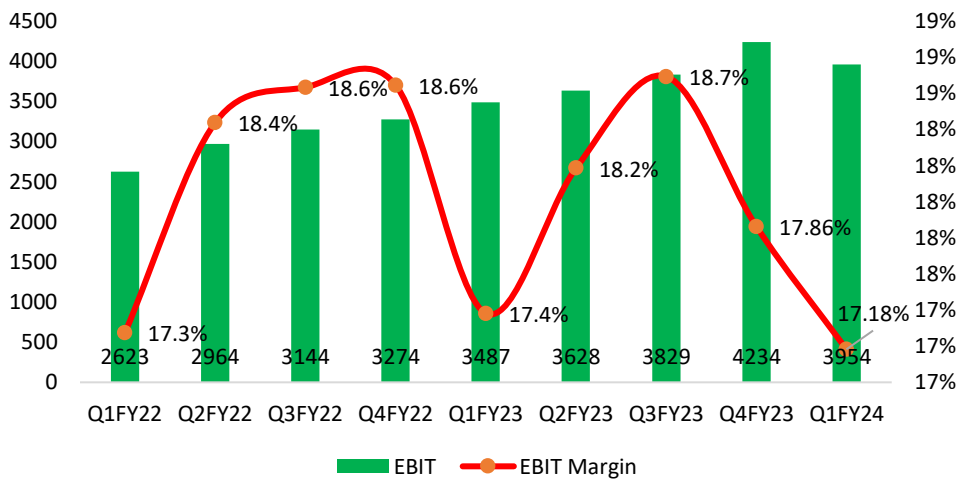
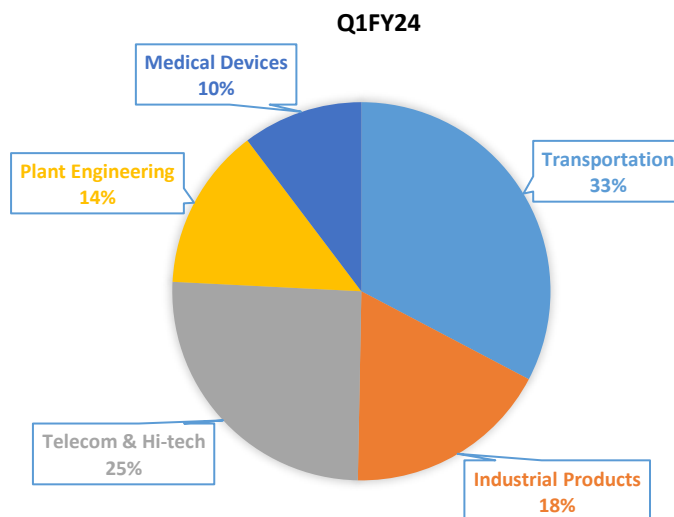


Exhibit 6: Revenue by Verticals



Source: Arianth Research, Company Filings

## Key Financials

Income Statement (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Revenue (Mn USD)	880	1,007	1,198	1,298	1,391
Growth (%)	19.5%	14.4%	19.0%	8.3%	7.2%
Revenues	65,697	88,155	1,00,366	1,14,478	1,26,529
Change (%)	20.6%	34.2%	13.9%	14.1%	10.5%
Employee Costs	36,505	46,308	52,328	58,817	64,698
Other Expenses	15,043	24,238	28,102	32,970	36,440
Total Expenses	51,548	70,546	80,430	91,786	1,01,139
EBITDA	14,149	17,609	19,935	22,691	25,390
EBITDA Margin (%)	21.5%	20.0%	19.9%	19.8%	20.1%
Depreciation	2,144	2,338	3,053	2,846	3,288
EBIT	12,005	15,271	16,882	19,845	22,102
EBITDA Margin (%)	18.3%	17.3%	16.8%	17.3%	17.5%
Other Income	1,524	2,033	2,393	2,513	2,639
Interest	437	444	490	490	490
PBT	13,092	16,860	18,786	21,868	24,250
Tax	3,486	4,696	4,847	5,642	6,257
Rate (%)	26.6%	27.9%	25.8%	25.8%	25.8%
PAT	9,606	12,164	13,939	16,226	17,994
Minority Interest	36	43	43	43	43
Adjusted PAT	9,570	12,121	13,896	16,183	17,951
Change (%)	44.3%	26.7%	14.6%	16.5%	10.9%

Balance Sheet (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
<b>Sources of Funds</b>					
Share Capital	211	211	211	211	211
Reserves & Surplus	41,414	49,298	60,070	71,335	83,739
<b>Net Worth</b>	<b>41,762</b>	<b>49,689</b>	<b>60,461</b>	<b>71,726</b>	<b>84,130</b>
<b>Non-Current liabilities</b>					
Total Current liabilities	13,263	14,285	18,290	23,173	24,049
<b>Total liabilities</b>	<b>19,117</b>	<b>19,389</b>	<b>23,093</b>	<b>28,016</b>	<b>28,918</b>
<b>Total Equity and liabilities</b>	<b>60,910</b>	<b>69,173</b>	<b>83,649</b>	<b>99,838</b>	<b>1,13,143</b>
<b>Total Non-current Assets</b>					
<b>Total Non-current Assets</b>	<b>20,888</b>	<b>15,477</b>	<b>15,432</b>	<b>15,076</b>	<b>14,740</b>
<b>Current Assets</b>					
Investments	13,918	21,088	24,009	27,385	30,268
Trade receivables	16,959	17,301	24,473	27,600	30,159
Cash and cash equivalents	2,347	5,346	8,188	17,307	24,934
Other bank balances	4,395	1,553	576	576	576
Other financial assets	2,564	2,170	3,103	3,540	3,912
Other current assets	3,068	3,952	6,481	7,392	8,170
Total current assets	43,251	51,410	66,830	83,799	98,018
<b>TOTAL ASSETS</b>	<b>60,910</b>	<b>69,173</b>	<b>83,649</b>	<b>99,838</b>	<b>1,13,143</b>

Source: Arianth Research, Company Filings

## Key Financials

Cash Flow Statement (INR Mn)					
Year End-March	FY22	FY23E	FY24E	FY25E	FY26E
Net Profit before Tax	13,092	16,860	18,786	21,868	24,250
Adjustments:					
Depreciation	2,144	2,338	3,053	2,846	3,288
Finance Costs	437	435	-	-	-
Interest and Dividend received	-759	-1,304	-1,116	-1,150	-1,179
<b>Operating Profit before WC Changes</b>	<b>14,914</b>	<b>18,329</b>	<b>20,723</b>	<b>23,564</b>	<b>26,360</b>
Operating Profit after WC Changes	13,625	18,167	14,206	22,391	23,823
Direct Taxes Paid & Exceptional Items	-3,563	-4,670	-4,847	-5,642	-6,257
<b>Cash Flow from Operating Activities</b>	<b>10,062</b>	<b>13,497</b>	<b>9,359</b>	<b>16,749</b>	<b>17,566</b>
<b>Cash Flow from Investing Activities</b>	<b>-4,483</b>	<b>-5,718</b>	<b>-3,872</b>	<b>-4,384</b>	<b>-4,031</b>
<b>Cash Flow from Financing Activities</b>	<b>-4,982</b>	<b>-4,435</b>	<b>-3,018</b>	<b>-3,246</b>	<b>-5,908</b>
Net Change in Cash & Cash Equivalents	597	3,345	2,469	9,119	7,627
Opening Cash & Cash Equivalents	1,777	2,374	5,718	8,188	17,307
Closing Cash & Cash Equivalents	2374	5718	8188	17307	24934

Key Ratios					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
<b>Per Share (INR)</b>					
EPS	90.7	110.5	124.7	143.1	156.6
CEPS	108.1	131.5	152.0	168.2	185.2
BVPS	1979	2355	2865	3399	3987
DPS	35.0	30.0	35.0	35.0	37.0
<b>Valuation (x)</b>					
P/E	44.8	36.8	32.6	28.4	26.0
P/CEPS	38	31	27	24	22
P/BV	10.4	8.9	7.4	6.3	5.5
EV/EBITDA	20.6	16.4	14.3	12.2	10.6
<b>Return Ratio (%)</b>					
EBIDTA Margin	21.5%	20.0%	19.9%	19.8%	20.1%
EBIT Margin	18.3%	17.3%	16.8%	17.3%	17.5%
PAT Margin	14.6%	13.8%	13.9%	14.2%	14.2%
ROE	23.0%	24.5%	23.1%	22.6%	21.4%
ROCE	21.1%	22.2%	20.7%	20.5%	19.5%
Dividend Yield	0.9%	0.7%	0.9%	0.9%	0.9%
<b>Leverage Ratio (x)</b>					
Net Debt/Equity (x)	-0.1	-0.1	-0.1	-0.2	-0.3
Net Debt/EBITDA (x)	-0.2	-0.3	-0.4	-0.8	-1.0
<b>Turnover Ratios</b>					
Asset Turnover (x)	30.0	34.7	39.7	51.9	62.5
Receivable Days	81	71	89	88	87
Payable days	11	11	11	11	11

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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