

Near term concern persist

CMP: INR 4,850

Rating: Reduce

Target Price: INR 4,191

Stock Info

BSE	540115
NSE	LTTS
Bloomberg	LTTS.IN
Reuters	LTTS.BO
Sector	IT Enabled Services
Face Value (INR)	2
Equity Capital (INR mn)	212
Mkt Cap (INR mn)	513,040
52w H/L (INR)	5,885/3,910
Avg Yearly Vol (in 000')	199

Shareholding Pattern %

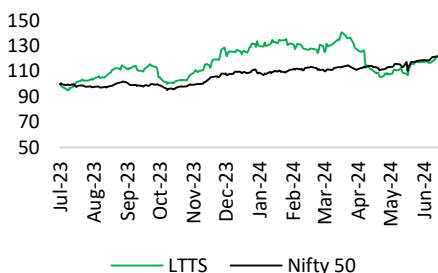
(As on March, 2024)

Promoters	73.69
Public & Others	26.31

Stock Performance (%)

	1m	3m	12m
LTTS	0.04	-7.82	19.6
Nifty 50	5.28	12.75	25.58

LTTS Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

LTTS Results, Overall below with our estimates but For FY25, company maintains revenue growth guidance of 8-10% in cc terms. LTTS reported Q1FY25 revenues of USD 295 mn up 5.4%YoY/2.4% QoQ below our estimate of USD 302 Mn. in constant currency, down by 3.3% QoQ and +5.4% YoY. Reported revenue of INR 24,619 down 3% QoQ/+7% YoY below our estimate of INR 25,234 Mn. The revenue growth led by Mobility grew by 13.4% YoY/6.4% QoQ .EBIT margin was contract 160bpsYoY/-129bps at 15.58% against our estimates of 17.0%. PAT stood at INR 3,136 Mn against our estimate of INR 3,466 Mn. Geography revenue, Among major markets, North America (de-grew by 4.6% QoQ/-1.4% YoY), Europe (+10.6% QoQ/+23.7% YoY), India (-10.2% QoQ/ 12.2% YoY) and ROW (-0.6% QoQ/0.5% YoY). LTTS won two USD 30 mn deals, two USD 15 mn deals and three deals with TCV of USD 10 mn Offshore revenue was up 20bps on QoQ to 58.9%Number of employees was down 235 QoQ to 23,577; LTM attrition was flat QoQ to 14.8%

Good growth in Europe: Europe's growth has been driven by significant deals and strategic investments. A major tier one deal and expansions across automotive OEMs, industrial sectors, plant engineering, and aerospace have all played key roles. Europe's performance is surpassing expectations, while seasonal factors and the conclusion of a specific program in March have impacted the US segment in a similar category.

Growing plant engineering led by investment: Pipeline and recent deal wins indicate continued growth momentum. Strong performance in plant engineering, driven by capital projects and digital twin investments, offset declines in the industrial sector. Challenges include high supply chain inventories and deal delays affecting quarterly results. Investments in asset management and AI-driven manufacturing solutions are poised to propel future growth.

Expanding SDV and AI Solutions Globally: SDV is gaining traction across all customer segments, with recent deals signed with North American OEMs and tier-one companies in Europe, showcased at CES(Continental Engineering Services) in FY24. The company is advancing AI-based solutions in the SDV space, with more details on these investments to come. Additionally, traction is growing among truck and off-highway customers, especially in early lifecycle implementations.

Outlook: Weak Q4FY24 numbers included major deal wins and notable successes in SDV and Transportation, but sustained growth remains a focus. FY25 aims for 8-10% revenue growth and a USD 1.5 billion run rate, with a reorganization into Mobility, Sustainability, and Hi-Tech segments, emphasizing AI and SDx. The projection is for an upward trajectory in both revenue and EBIT margin from Q2, targeting a 16% EBIT margin for FY25. Margins are expected to improve through strategic operational levers, with a stronger EBIT margin trajectory anticipated in H2. Near-term concerns include high supply chain inventory and decision-making delays impacting industrial customer spending, while seasonality affects smart world business and EV spending. **We value, LTTS at a PE of 25x to its FY27E EPS of INR 167.6, which yields a target price of INR 4,191 per share. We maintain our Reduce rating on the stock**

Exhibit 1: Financial overview

YE March	Net Sales	EBIT	Adjusted PAT	EPS (INR)	EBIT Margin %	P/E (x)
(INR Mn)						
FY24	96,473	16,474	13,037	123.3	17.1%	39.3
FY25E	1,06,442	17,075	14,331	128.6	16.0%	37.7
FY26E	1,18,476	19,022	16,178	146.5	16.1%	28.9
FY27E	1,32,655	3,345	18,523	167.6	16.2%	28.5

Source: Arihant Research, Company Filings

Exhibit 2: Q1FY25 - Quarterly Performance (Consolidated)

Consolidated (in INR Mn)	Q1FY25	Q4FY24	Q1FY24	Y-o-Y	Q-o-Q
Revenue (USD)	295	305	280	5.4%	-3.3%
Net Revenue	24,619	25,375	23,014	7.0%	-3.0%
Employee cost	13,317	12,191	12,151	9.6%	9.2%
Other Expenses	6,740	8,156	6,335	6.4%	-17.4%
EBITDA	4,562	5,028	4,528	0.8%	-9.3%
EBITDA margin %	18.53%	19.81%	19.67%	-114bps	-128bps
Depreciation	726	746	574	26.5%	-2.7%
EBIT	3,836	4,282	3,954	-3.0%	-10.4%
EBIT margin %	15.58%	16.87%	17.18%	-160bps	-129bps
Other Income	622	560	477	30.4%	11.1%
Finance costs	115	114	120	-4.2%	0.9%
PBT	4,327	4,710	4,311	0.4%	-8.1%
Tax Expense	1,188	1,296	1,190	-0.2%	-8.3%
Effective tax rate %	27.46%	27.52%	27.60%	-15bps	-6bps
PAT	3,139	3,414	3,121	0.6%	-8.1%
Extraordinary Items (Net of tax expense)	-	-	-		
Reported PAT	3,139	3,414	3,121	0.6%	-8.1%
PAT margin %	12.75%	13.45%	13.56%	-81bps	-70bps
Minority Interest	-3	-5	-10		
PAT (After MI)	3,136	3,409	3,111	0.8%	-8.0%
EPS (INR)	29.57	31.16	29.40	0.6%	-5.1%

Source: Arianth Research, Company Filings

Q1FY25 Conference call Highlights

- For FY25, LTTS has set a revenue growth guidance of 8-10% in constant currency, Target to achieve \$1.5bn revenue run rate includes inorganic component. The company anticipates growth across all segments and aims for an improved EBIT margin trajectory in the H2FY25.
- Projects an upward trajectory for both revenue and EBIT margin from Q2, targeting a 16% EBIT margin for FY25. Enhancing margins through strategic operational levers, with anticipated stronger EBIT margin trajectory in H2, pivoting towards revenue growth.
- Anticipates Hi-tech sector recovery starting Q2FY25. Conclusion of a one-time US program in March impacted US revenue.
- Company's plans to implement a wage hike in Q3FY25.
- LTTS aims to narrow margin differences across its business segments.
- Targets an offshore mix of ~60%
- High supply chain inventory levels are currently impacting industrial customer spending, leading to decision-making delays for large deals in the sector.
- Additionally, seasonality is influencing spending patterns in the smart world business and electric vehicle sectors.
- The reorganization into three segments has been successfully completed.
- There is a heightened focus on cost optimization. The company remains actively engaged in its M&A activities, with planned acquisitions on the horizon.
- Seasonal fluctuations in SWC affected revenue growth sequentially.
- Gen AI manufacturing solutions are set to drive industrial growth, highlighted by a \$30 mn deal with a North American OEM starting ramp-up in Q2, marking a turnaround for this segment with sustained growth anticipated.

Exhibit 3: Business Matrix

Operational Performance			
Revenue by Vertical	Q1FY24	Q4FY24	Q1FY25
Mobility	32.70%	32.00%	35.20%
Sustainability	31.50%	30.00%	30.00%
Hi-Tech	35.80%	38.00%	34.80%
Revenue by Geography			
North America	56.50%	53.70%	52.90%
Europe	15.40%	15.80%	18.10%
India	20.70%	23.70%	22.00%
Rest of the World	7.40%	6.80%	7.00%
Revenue Mix			
Onsite	40.70%	41.30%	41.10%
Offshore	59.30%	58.70%	58.90%
Revenue by Project Type			
Fixed Price	35.60%	39.50%	36.90%
Time and Material	64.40%	60.50%	63.10%
Client Profile			
Number of Active Clients	357	365	378
30 Million dollar +	3	5	6
20 Million dollar +	12	12	12
10 Million dollar +	32	35	31
5 Million dollar +	56	58	60
1 Million dollar +	181	180	177
Client Contribution to Revenue			
Top 5 Clients	14.70%	15.40%	15.00%
Top 10 Clients	25.90%	26.40%	26.30%
Top 20 Clients	41.40%	40.60%	41.30%
Employee Statistics			
Total Headcount	23392	23812	23577
Bilable (as per number of employee)	21933	22392	22120
Sales & Support	1459	1420	1457
Voluntary Attrition % (LTM)	18.9%	14.8%	14.8%
Exchange Rate (USD/INR)			
Period Realised \$	82.20	83.16	8340.00

Source: Arihant Research, Company Filings

Exhibit 4: Below our estimate in USD revenue in Q1FY25

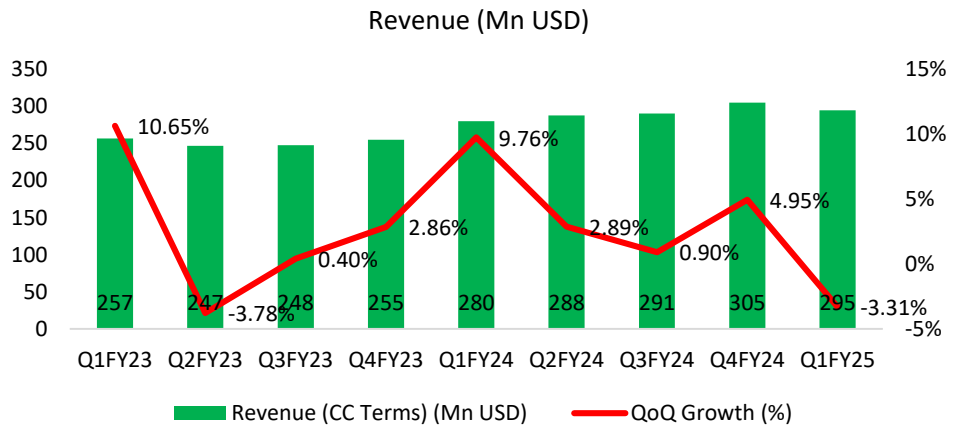


Exhibit 5: EBIT Margin within guided range

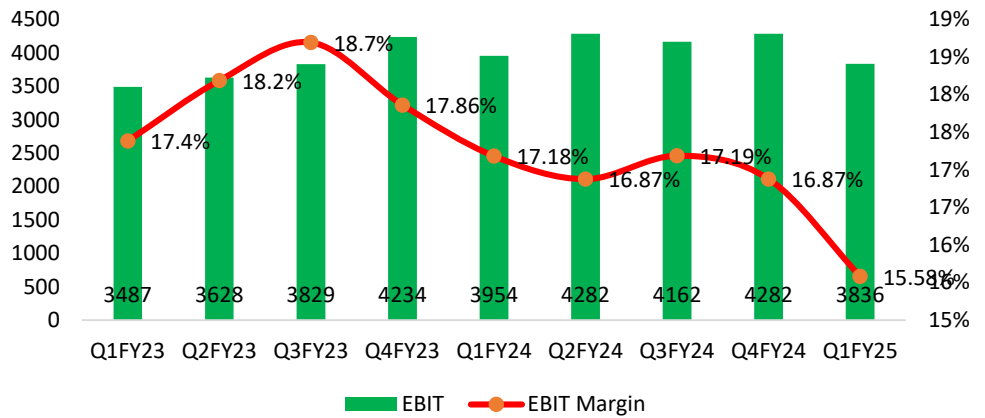
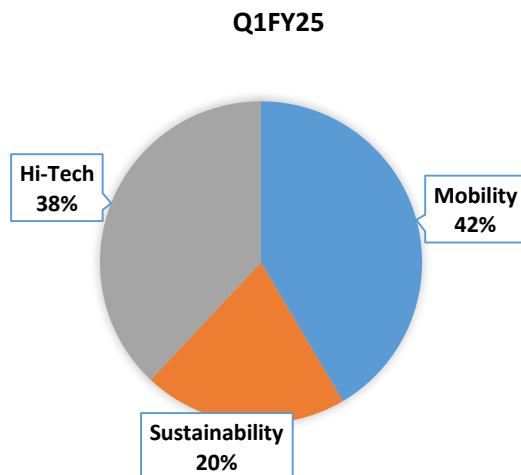


Exhibit 6: Revenue by Verticals



Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Mn)

Year End-March	FY24	FY25E	FY26E	FY27E
Revenue (Mn USD)	1,164	1,234	1,326	1,435
Growth (%)	15.6%	6.0%	7.4%	8.2%
Revenues	96,473	1,06,442	1,18,476	1,32,655
<i>Change (%)</i>	9.4%	10.3%	11.3%	12.0%
Employee Costs	49,298	54,918	60,684	67,056
Other Expenses	27,985	31,932	36,135	40,725
Total Expenses	77,283	86,850	96,819	1,07,781
EBITDA	19,190	19,591	21,656	24,874
EBITDA Margin (%)	19.9%	18.4%	18.3%	18.8%
Depreciation	2,716	2,516	2,635	3,345
EBIT	16,474	17,075	19,022	21,528
EBIT Margin (%)	17.1%	16.0%	16.1%	16.2%
Other Income	2,073	2,846	3,415	4,098
Interest	509	520	540	560
PBT	18,038	19,401	21,897	25,066
Tax	4,975	5,044	5,693	6,517
<i>Rate (%)</i>	27.6%	26.0%	26.0%	26.0%
PAT	13,063	14,357	16,204	18,549
Minority Interest	26	26	26	26
Adjusted PAT	13,037	14,331	16,178	18,523
<i>Change (%)</i>	7.6%	9.9%	12.9%	14.5%

Balance Sheet (INR Mn)

Year End-March	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	211	211	211	211
Reserves & Surplus	53,059	62,449	71,978	85,168
Net Worth	53,477	62,867	72,396	85,586
Non-Current liabilities				
Total Current liabilities	23,792	27,693	29,766	34,373
Total liabilities	31,138	34,559	36,657	41,303
Total Equity and liabilities	84,885	97,696	1,09,323	1,27,159
Total Non-current Assets	20,421	20,831	22,397	24,122
Current Assets				
Investments	12,936	14,273	15,886	17,788
Trade receivables	21,803	23,913	26,616	29,802
Cash and cash equivalents	11,221	20,804	26,388	37,411
Other bank balances	2,684	2,684	2,684	2,684
Other financial assets	1,570	1,732	1,928	2,159
Other current assets	12,056	12,773	14,217	15,919
Total current assets	62,303	76,179	87,719	1,05,762
TOTAL ASSETS	84,885	97,696	1,09,323	1,27,159

Source: Arian Research, Company Filings

Key Financials

Cash Flow Statement (INR Mn)

Year End-March	FY24	FY25E	FY26E	FY27E
Net Profit before Tax	18,038	19,401	21,897	25,066
Adjustments:				
Depreciation	2,716	2,516	2,635	3,345
Finance Costs	509.00	-	-	-
Interest and Dividend received	-1,174	-959	-975	-994
Operating Profit before WC Changes	20,089	20,958	23,557	27,418
Operating Profit after WC Changes	20,184	20,406	23,550	26,192
Direct Taxes Paid & Exceptional Items	-5,256	-5,044	-5,693	-6,517
Cash Flow from Operating Activities	14,928	15,362	17,857	19,675
Cash Flow from Investing Activities	-2,333	-1,596	-2,038	-2,516
Cash Flow from Financing Activities	-6,579	-4,250	-10,236	-6,136
Net Change in Cash & Cash Equivalents	6,016	9,517	5,583	11,024
Opening Cash & Cash Equivalents	5,272	11,288	20,804	26,388
Closing Cash & Cash Equivalents	11288	20804	26388	37411

Key Ratios

Year End-March	FY24	FY25E	FY26E	FY27E
Per Share (INR)				
EPS	123.3	128.6	146.5	167.6
CEPS	141.8	151.1	170.3	197.9
BVPS	2534	2979	3431	4056
DPS	50.0	35.0	37.0	39.0
Valuation (x)				
P/E	39.3	37.7	33.1	28.9
P/CEPS	34	32	28	25
P/BV	10.0	8.6	7.5	6.3
EV/EBITDA	14.7	13.9	12.4	10.3
Return Ratio (%)				
EBIDTA Margin	19.9%	18.4%	18.3%	18.8%
EBIT Margin	17.1%	16.0%	16.1%	16.2%
PAT Margin	13.5%	13.5%	13.7%	14.0%
ROE	24.4%	22.8%	22.4%	21.7%
ROCE	22.3%	20.1%	19.4%	18.6%
Dividend Yield	1.0%	0.7%	0.8%	0.8%
Leverage Ratio (%)				
Net Debt/Equity (x)	-0.2	-0.3	-0.4	-0.4
Net Debt/EBITDA (x)	-0.6	-1.1	-1.2	-1.5
Turnover Ratios				
Asset Turnover (x)	28.9	29.2	37.1	50.3
Receivable Days	82	82	82	82
Payable days	49	49	49	49

Source: Annual Report, Company Filings

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880