

CMP: INR 4,613

Rating: Reduce

Target Price: INR 4,099

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)	487,897
52w H/L (INR)	4859/3216
Avg Yearly Vol (in 000')	275

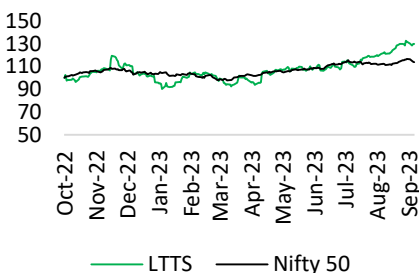
Shareholding Pattern %

(As on Sept, 2023)

Promoters	73.77
Public & Others	26.23

	1m	3m	12m
LTTS	-2.3	12.6	28.6
Nifty 50	-1.8	0.51	14.4

LTTS Vs Nifty 50



LTTS Results were in line with our estimate and a margin above our estimate. For FY24, revised revenue growth guidance on the downside from 20% plus in cc in Q1FY24 to 17.5%-18.5% in cc in Q2FY24. LTTS reported Q2FY24 revenues of USD 288 mn up 16.6%YoY/2.9% QoQ versus our expectations of 2.9% QoQ. Growth of 1.4% YoY/3.2% QoQ in CC. Reported revenue of INR 23,865 up 3.7% QoQ/ 19.6% YoY against our estimate of 4% growth QoQ. The revenue growth led by Transportation grew by 15.0% YoY/5.4% QoQ and Industrial Products grew by 9.8% YoY/1.8% QoQ, Telecom & Hi-tech grew by 55.8% YoY/2.9% QoQ followed by Medical device 11.4% YoY/2.1% QoQ and Plant Engineering 3.1% YoY/4.8% QoQ. Demand trends remain strong in Transportation. EBIT margin was contract 111 bps YoY/-11bps at 17.08% against our estimates of 16.6%. The company has absorbed the wage hike and investment in new technologies. Geography revenue: Among major markets, North America (up 0.7% QoQ/+1.8% YoY), Europe (+5.2% QoQ/up 15.3% YoY), India (down 7.9% QoQ/+7.5% YoY) and ROW (up 2.2% QoQ/8.4% YoY).

Decent deal wins during the Q2FY24: The company has observed a reduction in deal closure speed, leading to extended average contract durations. In addition, the company achieved substantial success in securing seven deals, with six surpassing the \$15 mn threshold, and notably, two significant empanelment contracts. This performance underscores the diversified and broad-based nature of our growth strategy.

Transportation Growth Prospects: The company is poised for growth in the transportation sector, driven by promising deals in the pipeline and ongoing technology discussions with clients. Plant engineering saw impressive quarter-over-quarter growth, spanning FMCG, ONG, and chemicals, with ONG customers diversifying their investments into various areas. A healthy deal pipeline in the US and Europe is expected to propel strong growth in Q3 and beyond.

Outlook: In Q2FY24, the company saw a notable 16.6% YoY revenue increase in USD terms, with a growth of 1.4% YoY or 3.2% QoQ in constant currency terms. This performance is supported by a robust vertical and deal pipeline. The management's goal is to maintain EBIT margins at 17% for FY24, leveraging growth and operational efficiencies to offset the impact of wage hikes, and to target an EBIT level exceeding 18% in H1FY26. With strong fundamentals, a solid client base, and diverse capabilities across segments, the company remains well-positioned, even though longer decision cycles and macroeconomic challenges are currently affecting the ER&D sector.

We value, LTTS at a PE of 25x to its FY26E EPS of INR 164, which yields a target price of INR 4,099 per share (Earlier target; INR 3,915 per share). We downgrade our rating to Reduce from Neutral earlier.

Exhibit 1: Financial overview

YE March (INR Mn)	Net Sales	EBIT	Adjusted PAT	EPS (INR)	EBITDA Margin %	P/E (x)
FY23	88,155	15,271	12,121	110.5	17.3%	41.8
FY24E	99,570	17,058	13,783	124.3	17.1%	37.1
FY25E	1,13,601	19,562	16,001	142.9	17.2%	32.3
FY26E	1,26,698	22,603	18,444	164.0	17.8%	28.1

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Exhibit 2: Q2FY24 - Quarterly Performance (Consolidated)

Consolidated (in INR Mn)	Q2FY24	Q1FY24	Q2FY23	Y-o-Y	Q-o-Q
Revenue (USD)	288	280	247	16.6%	2.9%
Net Revenue	23,865	23,014	19,951	19.6%	3.7%
Employee cost	12,417	12,151	11,528	7.7%	2.2%
Other Expenses	6,692	6,335	4,205	59.1%	5.6%
EBITDA	4,756	4,528	4,218	12.8%	5.0%
EBITDA margin %	19.93%	19.67%	21.1%	-121bps	25bps
Depreciation	681	574	590	15.4%	18.6%
EBIT	4,075	3,954	3,628	12.3%	3.1%
EBIT margin %	17.08%	17.18%	18.2%	-111bps	-11bps
Other Income	412	477	392	5.1%	-13.6%
Finance costs	126	120	131	-3.8%	5.0%
PBT	4,361	4,311	3,889	12.1%	1.2%
Tax Expense	1,202	1,190	1,057	13.7%	1.0%
Effective tax rate %	27.56%	27.60%	27%	38bps	-4bps
PAT	3,159	3,121	2,832	11.5%	1.2%
Extraordinary Items (Net of tax expense)	-	-	-		
Reported PAT	3,159	3,121	2,832	11.5%	1.2%
PAT margin %	13.24%	13.56%	14%	-96bps	-32bps
Minority Interest	-5	-10	-8		
PAT (After MI)	3,154	3,111	2,824	11.7%	1.4%
EPS (INR)	29.84	29.45	21.89	36.3%	1.3%

Source: Arihant Research, Company Filings

Q2FY24 Conference call Highlights:

The EBIT Margin guidance for FY24 is around 17%, with expectations of improvement to ~18% by H1FY26.

- Despite strong long-term trends in ER&D, there are currently longer decision cycles and macroeconomic challenges in various regions.
- Deal closure velocity has decreased, and the average contract duration has increased. Deal wins were strong, seven deals of 10 mn+ of which six were 15 mn each. Also had two significant empanelment deals. Like growth, the deal wins were also broad-based in nature.
- **Segment:** The company is optimistic about growth, driven by a strong pipeline and technological discussions, particularly in transportation and plant engineering. While industrial products faced Q2 challenges, the adoption of digital technologies remains a driving force for efficiency and market acceleration.
- IP growth is being driven by digital products and manufacturing, with sequential growth of 2% in telecom and high-tech despite challenges in SEMCON and consumer electronics, and continued success in new-age chipsets for AI and cloud computing. Softness is expected to persist in segments like Semiconductors and Medical in Q3FY23.
- Collaboration with hyperscale and chip companies is enabling LTTS to develop AI solutions for industries such as Automotive, Manufacturing, and Medical.
- LTTS is making significant investments in software-defined vehicles, AI, and cybersecurity, with plans to train nearly 2,000 employees in these areas over the next few quarters.
- A substantial \$10mn contract was won in North America due to superior technology stack for wireless and 5G communications.
- Q3FY24 is anticipated to be seasonally weak, followed by an upturn in Q4FY24.
- The effective tax rate for Q2FY24 stood at 27.6%, and DSO remained constant at 102 days QoQ

Exhibit 3: Business Matrix

Operational Performance						
Revenue by Vertical	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Transportation	33.20%	34.50%	35.90%	34.50%	32.70%	33.20%
Industrial Products	17.80%	18.90%	19.00%	17.00%	17.60%	17.30%
Telecom & Hi-tech	25.60%	19.40%	18.80%	28.40%	25.50%	25.40%
Plant Engineering	15.00%	16.30%	15.50%	14.10%	13.90%	14.00%
Medical Devices	10.70%	10.90%	10.70%	9.90%	10.30%	10.10%
Segment revenue						
Transportation	6218	6896	7349	7242	7527	7931
Plant Engineering	3006	3253	3189	3347	3199	3353
Industrial Products	3553	3763	3898	4043	4058	4131
Medical Devices	2135	2160	2186	2339	2356	2406
Telecom& Hitech	5150	3879	3864	6735	5874	6044
Total	20062	19951	20486	23706	23014	23865
Revenue by Geography						
North America	62.90%	63.40%	62.70%	60.20%	56.50%	55.30%
Europe	16.40%	15.90%	16.10%	16.40%	15.40%	15.80%
India	13.20%	12.80%	15.20%	15.20%	20.70%	21.60%
Rest of the World	7.40%	7.90%	8.20%	8.20%	7.40%	7.30%
Revenue Mix						
Onsite	43.80%	45.10%	43.00%	43.00%	40.70%	40.40%
Offshore	56.20%	54.90%	57.00%	57.00%	59.30%	59.60%
Revenue by Project Type						
Fixed Price	26.90%	27.00%	28.60%	29.10%	35.60%	35.80%
Time and Material	73.10%	73%	71.40%	70.90%	64.40%	64.20%
Client Profile						
Number of Active Clients	350	343	343	341	357	362
30 Million dollar +	3	3	2	1	3	4
20 Million dollar +	8	8	8	11	12	12
10 Million dollar +	27	24	25	28	32	31
5 Million dollar +	56	49	50	57	56	55
1 Million dollar +	153	150	158	178	181	177
Client Contribution to Revenue						
Top 5 Clients	16.70%	16.40%	16.00%	15.90%	14.70%	14.90%
Top 10 Clients	27.60%	26.90%	26.60%	26.60%	25.90%	26.10%
Top 20 Clients	43.20%	42.40%	42.10%	42.00%	41.40%	41.70%
Employee Statistics						
Total Headcount	22131	21474	21649	23074	23392	23880
Bilable (as per number of employee)	20642	20189	20346	21573	21933	22366
Sales & Support	1489	1285	1303	1501	1459	1514
Voluntary Attrition % (LTM)	23.2%	24.1%	23.3%	22.2%	18.9%	16.7%
Exchange Rate (USD/INR)						
Period Realised \$	78.23	80.76	82.59	82.19	82.20	82.84

Source: Arianth Research, Company Filings

Exhibit 4: For FY24, revised revenue growth guidance on the downside from 20% plus in cc in Q1FY24 to 17.5%-18.5% in cc in Q2FY24

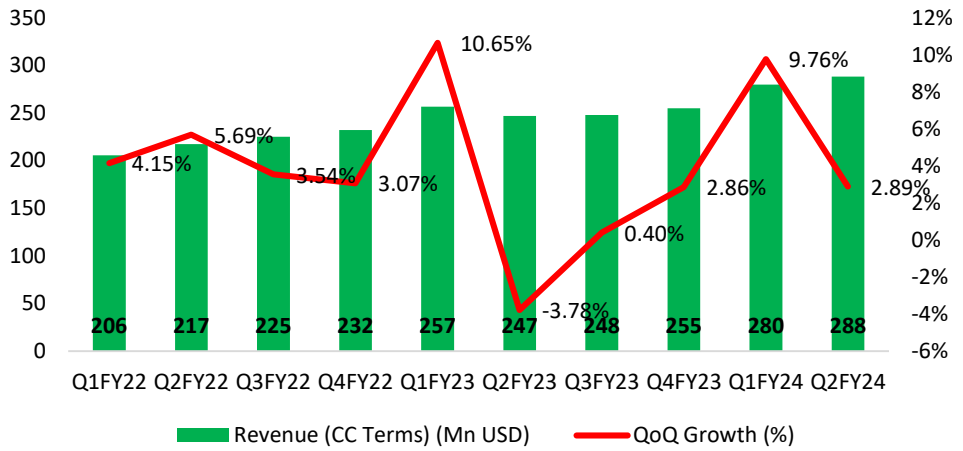


Exhibit 5: EBIT Margin contraction on YoY/QoQ led by wage hike

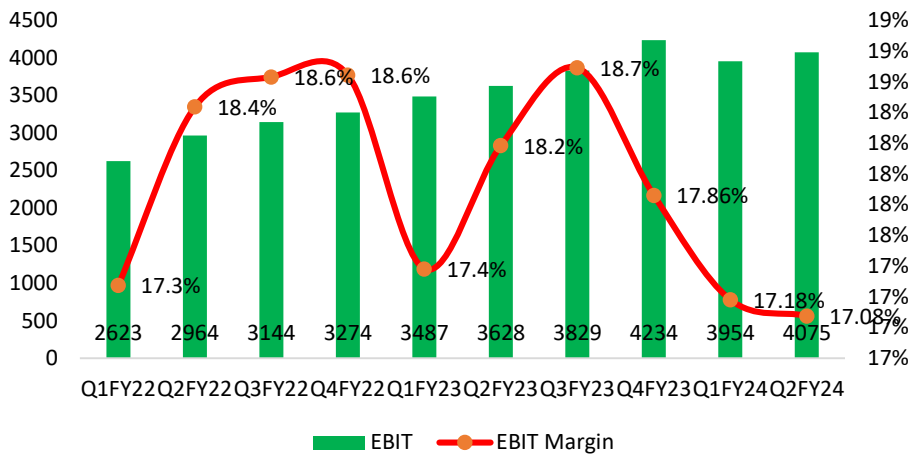
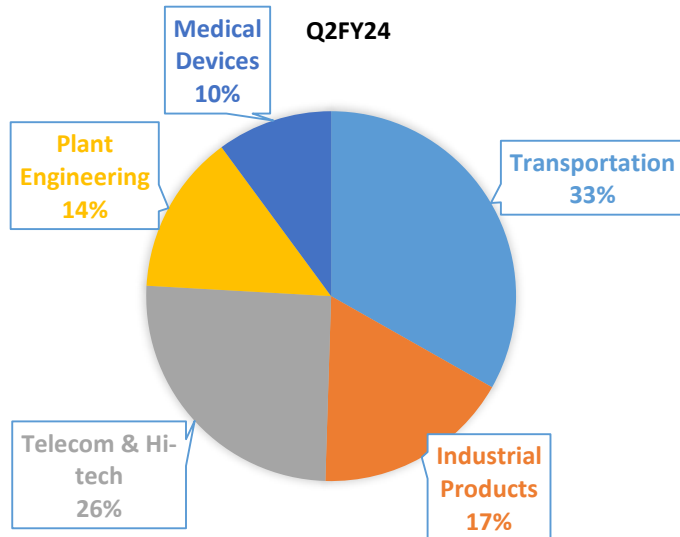


Exhibit 6: Revenue by Verticals



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	1,173	1,294	1,417
Growth (%)	19.5%	14.4%	16.6%	10.3%	9.6%
Revenues	65,697	88,155	99,570	1,13,601	1,26,698
Change (%)	20.6%	34.2%	12.9%	14.1%	11.5%
Employee Costs	36,505	46,308	52,328	58,817	64,698
Other Expenses	15,043	24,238	27,282	32,376	36,109
Total Expenses	51,548	70,546	79,610	91,193	1,00,807
EBITDA	14,149	17,609	19,960	22,408	25,891
EBITDA Margin (%)	21.5%	20.0%	20.0%	19.7%	20.4%
Depreciation	2,144	2,338	2,902	2,846	3,288
EBIT	12,005	15,271	17,058	19,562	22,603
EBIT Margin (%)	18.3%	17.3%	17.1%	17.2%	17.8%
Other Income	1,524	2,033	2,372	2,609	2,870
Interest	437	444	490	490	490
PBT	13,092	16,860	18,939	21,681	24,982
Tax	3,486	4,696	5,114	5,637	6,495
Rate (%)	26.6%	27.9%	27.0%	26.0%	26.0%
PAT	9,606	12,164	13,826	16,044	18,487
Minority Interest	36	43	43	43	43
Adjusted PAT	9,570	12,121	13,783	16,001	18,444
Change (%)	44.3%	26.7%	13.7%	16.1%	15.3%

Balance Sheet (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds					
Share Capital	211	211	211	211	211
Reserves & Surplus	41,414	49,298	59,957	71,040	83,964
Net Worth	41,762	49,689	60,348	71,431	84,355
Non-Current liabilities					
Total Current liabilities	13,263	14,285	18,076	23,086	24,125
Total liabilities	19,117	19,389	22,877	27,927	28,994
Total Equity and liabilities	60,910	69,173	83,319	99,453	1,13,444
Total Non-current Assets					
Total Non-current Assets	20,888	15,477	15,418	15,142	14,898
Current Assets					
Investments	13,918	21,088	23,819	27,175	30,308
Trade receivables	16,959	17,301	24,279	27,389	30,199
Cash and cash equivalents	2,347	5,346	8,183	17,211	24,829
Other bank balances	4,395	1,553	576	576	576
Other financial assets	2,564	2,170	3,079	3,512	3,917
Other current assets	3,068	3,952	6,429	7,335	8,181
Total current assets	43,251	51,410	66,364	83,199	98,011
TOTAL ASSETS	60,910	69,173	83,319	99,453	1,13,444

Source: Arianth Research, Company Filings

Key Financials

Cash Flow Statement (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Net Profit before Tax	13,092	16,860	18,939	21,681	24,982
Adjustments:					
Depreciation	2,144	2,338	2,902	2,846	3,288
Finance Costs	437	435	-	-	-
Interest and Dividend received	-759	-1,304	-1,114	-1,148	-1,179
Operating Profit before WC Changes	14,914	18,329	20,727	23,379	27,091
Operating Profit after WC Changes	13,625	18,167	14,325	22,289	24,347
Direct Taxes Paid & Exceptional Items	-3,563	-4,670	-5,114	-5,637	-6,495
Cash Flow from Operating Activities	10,062	13,497	9,212	16,652	17,852
Cash Flow from Investing Activities	-4,483	-5,718	-2,792	-3,475	-3,390
Cash Flow from Financing Activities	-4,982	-4,435	-3,955	-4,149	-6,844
Net Change in Cash & Cash Equivalents	597	3,345	2,464	9,028	7,618
Opening Cash & Cash Equivalents	1,777	2,374	5,718	8,183	17,211
Closing Cash & Cash Equivalents	2374	5718	8183	17211	24829

Key Ratios					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Per Share (INR)					
EPS	90.7	110.5	124.3	142.9	164.0
CEPS	108.1	131.5	150.4	168.3	193.1
BVPS	1979	2355	2860	3385	3998
DPS	35.0	30.0	35.0	35.0	37.0
Valuation (x)					
P/E	50.8	41.8	37.1	32.3	28.1
P/CEPS	43	35	31	27	24
P/BV	11.8	10.1	8.4	7.2	6.1
EV/EBITDA	20.6	16.4	14.3	12.3	10.4
Return Ratio (%)					
EBIDTA Margin	21.5%	20.0%	20.0%	19.7%	20.4%
EBIT Margin	18.3%	17.3%	17.1%	17.2%	17.8%
PAT Margin	14.6%	13.8%	13.9%	14.1%	14.6%
ROE	23.0%	24.5%	22.9%	22.5%	21.9%
ROCE	21.1%	22.2%	20.6%	20.3%	19.8%
Dividend Yield	0.8%	0.7%	0.8%	0.8%	0.8%
Leverage Ratio (%)					
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
Turnover Ratios					
Asset Turnover (x)	30.0	34.7	38.3	48.2	58.2
Receivable Days	81	71	89	88	87
Payable days	11	11	11	11	11

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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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