

CMP: INR 3,231

Rating: Neutral

Target Price: INR 3,359

Stock Info

BSE	533179
NSE	LTTS
Bloomberg	LTTS.IN
Reuters	LTTS.BO
Sector	IT Enabled Services
Face Value (INR)	2
Equity Capital (INR mn)	764
Mkt Cap (INR mn)	341,147
52w H/L (INR)	5294/2924
Avg Yearly Vol (in 000')	366

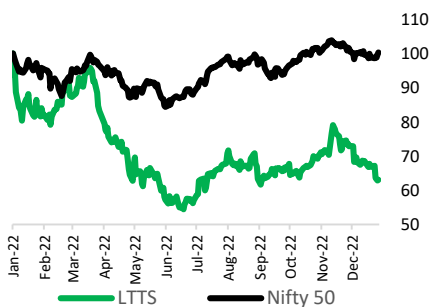
Shareholding Pattern %

(As on Dec, 2022)

Promoters	73.85
FII	7.22
DII	7.69
Public & Others	11.24

	1m	6m	12m
LTTS	-13.7	0.02	-36.8
Nifty 50	-1.5	9.6	1.9

LTTS Vs Nifty 50



LTTS to guidance revised downwards to 15% in cc terms against 15.5-16.5% earlier. Reported revenue of \$ 248Mn (up 0.4% QoQ/10.2%YoY in USD terms) against our estimate of \$250 Mn. The cc growth was flat QoQ/+13.5% YoY. Reported revenue of INR 20,486 up 2.7% QoQ/ 21.4% YoY against our estimate of INR 16,875 mn. On the YoY basis, Transportation (36.9% YoY/6.6% QoQ), followed by Plant Engineering (22.4% YoY/-2% QoQ), Industrial products (18.6% YoY/3.6% QoQ), Medical Devices (8.7% YoY/1.2% QoQ) and Telecom & Hitech (7.3% YoY/-0.4%)

The strong segment led by a healthy pipeline: The company is positive on Transportation seeing healthy pipeline in connectivity and autonomous especially in the software side. Plant engineering is seeing broad-based growth across FMCG, O&G and Chemicals and steady growth is expected ahead. Industrial products growth was impacted on account of client-specific issues. However, this is temporary and with decent pipeline, strong growth is expected ahead. LTTS has set up a new business unit for Metaverse which should help in growth and profitability within Telecom segment. Further, the company is launching 5G lab and global development centers to capture demand across key segments. Medical is seeing a gradual increase in pipeline as clients spend on software and digital platforms.

Beat On Margin: EBIT margin was up 51bps QoQ/6bpsYoY at 18.7% against our estimates of 18.6%. Operational execution has kept pace with Q3 being the 6th consecutive quarter. This has been the 6th consecutive quarter of 18% plus EBIT margin. Headwinds from the return of travel and discretionary costs and wage inflation can be offset by a better margin profile in low-margin verticals, productivity gains and cost efficiencies.

Valuations: The company has Lowered its FY23 revenue growth guidance to 15% in cc terms from 15.5-16.5% earlier guidance. We believe guidance is conservative against the backdrop of robust vertical and deal pipeline commentary. Management aspires to maintain EBIT margins at 18%. We remain optimistic on the LTTS story, as we see its strong fundamentals, decent clientele and capabilities across segments help deliver better earnings growth going forward. We believe, opening up Europe will be the key trigger for the ER&D Space. We expect the company to deliver revenue growth of CAGR ~16% over FY22-25E. **We value, LTTS at a PE of 24x to its FY25E EPS of INR 140, which yields a target price of INR 3,359 per share (Earlier target; INR 3,420 per share).** **We maintain our Neutral rating on the stock.**

Exhibit 1: Financial Performance

YE	March	Net Sales	EBIT	Adjusted PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
		(INR Mn)						
FY22		65,697	12,005	9,570	90.7	18.3%	23.0%	35.6
FY23E		79,072	14,513	11,973	108.6	18.4%	24.0%	29.8
FY24E		90,234	16,816	13,998	125.5	18.6%	23.3%	25.7
FY25E		102,238	18,764	15,827	139.9	18.4%	22.0%	23.1

Source: Arihant Research, Company Filings

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Exhibit 2: Q3FY23 - Quarterly Performance (Consolidated)

Consolidated (in INR Mn)	Q3FY23	Q2FY23	Q3FY22	Y-o-Y	Q-o-Q
Revenue (USD)	248	247	225.1	10.2%	0.4%
Net Revenue	20,486	19,951	16,875	21.4%	2.7%
Employee cost	11,763	11,528	9,224	27.5%	2.0%
Other Expenses	4,311	4,205	3,977	8.4%	2.5%
EBITDA	4,412	4,218	3,674	20.1%	4.6%
EBITDA margin %	21.5%	21.1%	21.8%	-24bps	39bps
Depreciation	583	590	530	10.0%	10.0%
EBIT	3,829	3,628	3,144	21.8%	5.6%
EBIT margin %	18.7%	18.2%	18.6%	6bps	51bps
Other Income	742	392	370	100.5%	89.3%
Finance costs	115	131	111	3.6%	-12.2%
PBT	4,456	3,889	3,403	30.9%	3.0%
Tax Expense	1,406	1,057	907	55.0%	33.0%
Effective tax rate %	32%	27%	26.7%	490bps	437bps
PAT	3,050	2,832	2,496	22.2%	7.7%
Extraordinary Items (Net of tax expense)	-	-	-		
Reported PAT	3,050	2,832	2,496	22.2%	3.0%
PAT margin %	15%	14%	14.8%	-16bps	-48bps
Minority Interest	-14	-8	-8		
PAT (After MI)	3,036	2,824	2,488	22.8%	3.0%
EPS (INR)	28.75	21.89	23.6	-	-15.7%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q3FY23 Conference call Highlights:

- **Guidance:** Lowered its FY23 revenue growth guidance to 15% in cc terms from 15.5-16.5% earlier guidance. We believe guidance is conservative against the backdrop of robust vertical and deal pipeline commentary. Management aspires to maintain EBIT margins at 18%.
- **Sixth consecutive quarter of 18%+ EBIT Margin.** The company crossed INR. 300 crore milestone of net profit.
- **Net headcount addition for Q4FY23 would be at least 500 employees** due to big deal win from Airbus.
- **Transportation vertical** expected to sustain growth momentum due to demand for next generation cockpit and aero related platforms. Management quite optimistic with this vertical for FY24.
- **Digital Manufacturing** led new products and process development may prove to be a demand driver going ahead.
- **Growth in 5G and cybersecurity** space expected to drive pickup in Telecom vertical.
- The company, demand pipelines remain strong across geographies. No signs of softness despite economic concerns in US, Europe and Middle East regions.
- Muted Q3FY23 growth was due to seasonality and higher furloughs in Plant Engineering Vertical, however quite optimistic regarding the bounce back of growth in Plant Engineering vertical.
- **SWC acquisition** is helping company win deals in communication, cybersecurity and 5G segments. (Transaction consideration of INR 8 Bn). Aligns with 3 of the 6 Big Bets of LTTs – 5G, Sustainability & Digital Products & AI. Acquisition will enhance LTTs' end-to-end offerings playbook across Next-Gen Communications, Sustainable Spaces & Cybersecurity. Closing is expected to be achieved within 3 months.
- **Utilisation** dropped 80bps QoQ to 75.1% on account of full impact of strong hiring in Q3FY22. This should gradually move to 78% levels. Attrition for the quarter increased 290bps QoQ to 20.4% and is likely to stay elevated in the near term.
- **Going forward**, management expects headwinds from revenue mix change and utilisations which should be offset by economies of scale, currency depreciation and operational efficiencies. Regular wage cycle would be followed from Jul FY22 after positive corrections made for critical talent in JanFY22.
- **Offshore near term** revenue going up to 60% driven by vertical. The company expect growth across the vertical. Digital product and services, embedded, services and part of digital services. Driver for offshoring – very high focus on the fresher utilizations and taking 500-600 employee on every quarter. The company is pushing work offshoring and leveraging the hybrid working model.

Exhibit 3: Business Matrix

Telecom and HiTech continued to grow despite note renewing legacy low margin media deals.

Transportation – all three segments are growing well and management is bullish on this segment given demand for EACV across cars, aerospace, rail etc.

Revenues from the top 2-5 clients decelerated by 16.6% QoQ. Revenue from the top-20 clients was constant QoQ, while revenue from the non-top-20 clients grew by 11.9% QoQ.

LTTS is focusing on expanding delivery talent in Chennai, Mysore and Baroda where attrition is very low. It is also looking at secondary centres as Mumbai Hyderabad Bangalore and Chennai as needed

Operational Performance						
Revenue by Vertical	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Transportation	31.40%	31.80%	33.30%	33.20%	34.50%	35.90%
Industrial Products	20.00%	19.50%	19%	19.00%	18.90%	19.00%
Telecom & Hi-tech	21.10%	21.4%	21%	20.30%	19.40%	18.80%
Plant Engineering	15.30%	15.4%	15%	16.00%	16.30%	15.50%
Medical Devices	12.20%	11.9%	12%	11.50%	10.90%	10.70%
Segment revenue						
Transportation	5040	5369	5844	6218	6896	7349
Plant Engineering	2461	2605	2708	3006	3253	3189
Industrial Products	3221	3288	3302	3553	3763	3898
Medical Devices	1954	2011	2019	2135	2160	2186
Telecom& Hitech	3401	3602	3688	3825	3879	3864
Total	16077	16875	17561	18737	19951	20486
Revenue by Geography						
North America	62.90%	62.50%	62.30%	62.90%	63.40%	62.70%
Europe	16.70%	16.50%	16.10%	16.40%	15.90%	16.10%
India	12.90%	13.70%	14.50%	13.20%	12.80%	13.60%
Rest of the World	8.00%	7.40%	7%	7.40%	7.90%	7.60%
Revenue Mix						
Onsite	40.80%	41.30%	45.40%	43.80%	45.10%	43.00%
Offshore	59.20%	58.70%	54.60%	56.20%	54.90%	57.00%
Revenue by Project Type						
Fixed Price	30.00%	29.00%	28.60%	26.90%	27.00%	28.60%
Time and Material	70%	71.00%	71.40%	73.10%	73%	71%
Client Profile *						
Client Detail						
Number of Active Clients	314	318	324	337	343	343
30 Million dollar +	0	2	2	2	3	2
20 Million dollar +	6	6	6	7	8	8
10 Million dollar +	21	22	22	23	24	25
5 Million dollar +	45	44	48	51	49	50
1 Million dollar +	125	126	136	142	150	158
Client Contribution to Revenue						
Top 5 Clients	17.00%	17.30%	17.20%	16.70%	16.40%	16.00%
Top 10 Clients	28.20%	28.50%	28.30%	27.60%	26.90%	26.60%
Top 20 Clients	44.10%	43.80%	43.50%	43.20%	42.40%	42.10%
Employee Statistics						
Total Headcount	17983	20118	20861	21433	21474	21649
Bilable (as per number of employee)	16875	18975	19534	20082	20189	20346
Sales & Support	1108	1143	1327	1351	1285	1303
Voluntary Attrition % (LTM)	16.5%	17.5%	20.4%	23.2%	24.1%	23.3%
Exchange Rate (USD/INR)						
Period Realised \$	73.96	74.95	75.69	78.23	80.76	82.59

Source: Arianth Research, Company Filings

Exhibit 4: Management guided for organic growth of 13.5-15.5% YoY USD for FY23.

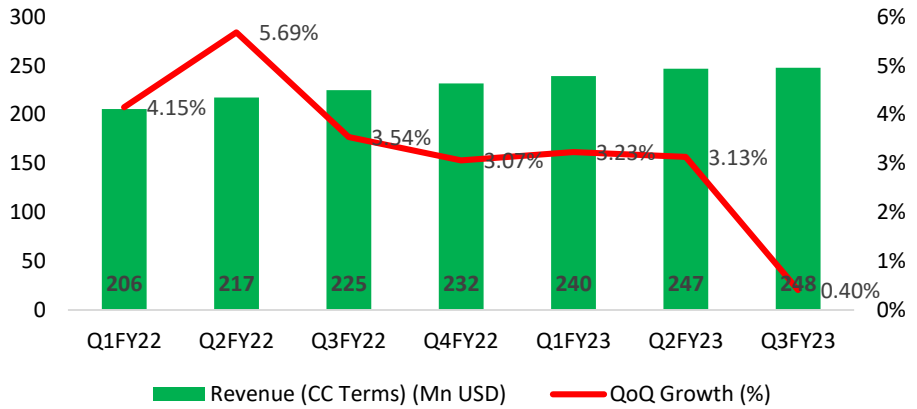


Exhibit 5: Margin improvement led by currency benefits

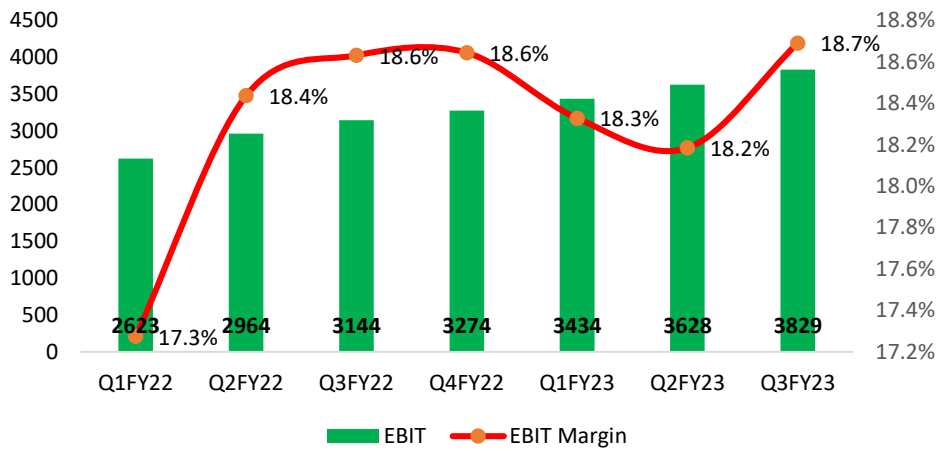
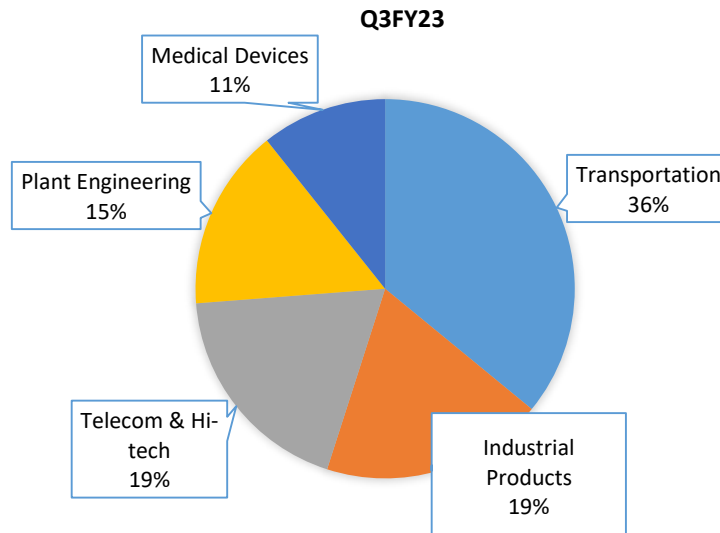


Exhibit 6: Revenue by Verticals



Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Mn)				
Year End-March	FY22	FY23E	FY24E	FY25E
Revenue (Mn USD)	880	992	1,115	1,204
Growth (%)	19.5%	12.7%	12.3%	8.0%
Revenues	65,697	79,072	90,234	102,238
Change (%)	20.6%	20.4%	14.1%	13.3%
Employee Costs	36,505	43,076	46,522	51,174
Other Expenses	15,043	18,977	24,093	29,240
Total Expenses	51,548	62,053	70,615	80,414
EBITDA	14,149	17,019	19,620	21,823
EBITDA Margin (%)	21.5%	21.5%	21.7%	21.3%
Depreciation	2,144	2,506	2,804	3,060
EBIT	12,005	14,513	16,816	18,764
EBITDA Margin (%)	18.3%	18.4%	18.6%	18.4%
Other Income	1,524	2,156	2,587	3,105
Interest	437	485	490	490
PBT	13,092	16,184	18,913	21,379
Tax	3,486	4,176	4,880	5,516
Rate (%)	26.6%	25.8%	25.8%	25.8%
PAT	9,606	12,009	14,034	15,863
Minority Interest	36	36	36	36
Adjusted PAT	9,570	11,973	13,998	15,827
Change (%)	44.3%	25.1%	16.9%	13.1%

Cash Flow Statement (INR Mn)				
Year End-March	FY22	FY23E	FY24E	FY25E
Net Profit before Tax	13,092	16,184	18,913	21,379
Adjustments:				
Depreciation	2,144	2,506	2,804	3,060
Finance Costs	437	-	-	-
Interest and Dividend received	(759)	(221)	(252)	(286)
Operating Profit before WC Changes	14,914	18,469	21,465	24,152
Operating Profit after WC Changes	13,625	17,880	18,988	21,489
Direct Taxes Paid & Exceptional Items	(3,563)	(4,176)	(4,880)	(5,516)
Cash Flow from Operating Activities	10,062	13,705	14,108	15,973
Cash Flow from Investing Activities	(4,483)	(4,178)	(3,198)	(3,437)
Cash Flow from Financing Activities	(4,982)	(3,471)	(4,212)	(4,494)
Net Change in Cash & Cash Equivalents	597	6,056	6,698	8,041
Opening Cash & Cash Equivalents	1,777	2,374	8,430	15,128
Closing Cash & Cash Equivalents	2374	8430	15128	23169

Balance Sheet (INR Mn)				
Year End-March	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Share Capital	211	211	211	211
Reserves & Surplus	41,414	49,790	59,911	71,805
Net Worth	41,762	50,138	60,259	72,153
Non-Current liabilities				
Total Current liabilities	13,263	13,234	15,069	16,948
Total liabilities	19,117	18,200	20,071	21,984
Total Equity and liabilities				
	60,910	68,369	80,361	94,168
Total Non-current Assets				
	20,888	15,725	15,565	15,480
Current Assets				
Investments	13,918	16,751	19,116	21,659
Trade receivables	16,959	17,547	20,025	22,688
Cash and cash equivalents	2,347	8,430	15,128	23,169
Other bank balances	4,395	576	576	576
Other financial assets	2,564	2,445	2,790	3,161
Other current assets	3,068	5,106	5,827	6,602
Total current assets	43,251	50,855	63,461	77,856
TOTAL ASSETS	60,910	68,369	80,361	94,168

Key Ratios				
Year End-March	FY22	FY23E	FY24E	FY25E
Per Share (INR)				
EPS	90.7	108.6	125.5	139.9
CEPS	108.1	131.7	150.6	166.9
BVPS	1979	2376	2856	3420
DPS	35.0	35.0	35.0	35.0
Valuation (x)				
P/E	35.6	29.8	25.7	23.1
P/CEPS	30	25	21	19
P/BV	8	7	6	5
EV/EBITDA	21	17	14	12
Return Ratio (%)				
EBITDA Margin	21.5%	21.5%	21.7%	21.3%
EBIT Margin	18.3%	18.4%	18.6%	18.4%
PAT Margin	14.6%	15.2%	15.6%	15.5%
ROE	23.0%	24.0%	23.3%	22.0%
ROCE	21.1%	21.5%	20.7%	19.3%
Dividend Yield	1.1%	1.1%	1.1%	1.1%
Leverage Ratio (%)				
Net Debt/Equity (x)	-0.1	-0.2	-0.3	-0.3
Net Debt/EBITDA (x)	-0.2	-0.5	-0.8	-1.1
Turnover Ratios				
Asset Turnover (x)	32.1	40.2	47.7	56.9
Receivable Days	81	81	81	81
Payable days	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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