

CMP: INR 5,350

Rating: Accumulate

Target Price: INR 6,152

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)	573,162
52w H/L (INR)	5568/3218
Avg Yearly Vol (in 000')	241

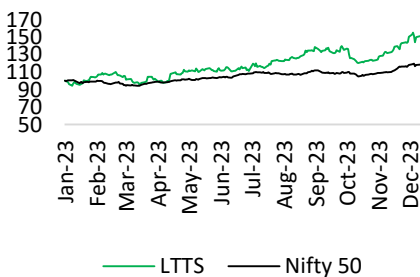
Shareholding Pattern %

(As on Dec, 2023)

Promoters	73.75
Public & Others	26.25

	1m	3m	12m
LTTS	1.99	15.21	58.40
Nifty 50	3.05	11.78	23.34

LTTS Vs Nifty 50



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LTTS Results, mixed set of numbers, top line below estimates but margin in-line were in line with our estimate. LTTS reported Q3FY24 revenues of USD 291 mn up 17.2%YoY/0.9% QoQ versus our expectations of 2.8% QoQ. In constant currency up 0.9% QoQ and up 11.0% YoY. Reported revenue of INR 24,218 up 1.5% QoQ/ 18.2% YoY against our estimate of 3.4% growth QoQ. The revenue growth led by Transportation grew by 9.4% YoY/1.4% QoQ and Industrial Products grew by 6.6% YoY/0.6% QoQ, Telecom & Hi-tech grew by 59.1% YoY/1.7% QoQ followed by Medical device 13.4% YoY/3.1% QoQ and Plant Engineering 6.4% YoY/1.2% QoQ. Demand trends remain strong in Transportation. EBIT margin was contract 151bps YoY/11bps at 17.19% against our estimates of 17.6%. Geography revenue: Among major markets, North America (down 0.4% QoQ/+2.1% YoY), Europe (+6.4% QoQ/up 21.1% YoY), India (up 0.4% QoQ/+33.4% YoY) and ROW (up 0.5% QoQ/11.7% YoY). Offshore revenue mix was down 90 bps QoQ to 58.7% Number of employees was down 582 QoQ to 23,298; LTM attrition was down by 90 bps QoQ to 15.8%.

Decent deal wins during the Q3FY24: Significant multi-year partnership strengthens SDV position, reflecting industry trends in commercial vehicles; successful transition from EV to SDV architecture. Substantial avionics deal secured, ongoing discussions with new age aerospace players. Signed six \$10mn plus TCV deals that included one \$40mn and one \$20mn deal (SWC leveraged global deal wins, they won a \$10M plus deal in cybersecurity)

Strategic Growth Initiatives: In all five segments are currently experiencing growth, supported by a promising pipeline of opportunities spanning across these segments. Given the ongoing technological shifts towards SDV (Self-Driving Vehicles), AI, next-gen communication, and cybersecurity, it is prudent for the company to persist in making strategic investments. These investments are crucial for supporting capability building, ensuring the company is well-positioned to capitalize on emerging trends, and fostering sustained future growth.

Outlook: Decent Q3FY24 included major deal wins and a notable SDV triumph, wins in Transportation, Sustained Growth, and Strategic Partnership Initiatives in Plant Engineering. The company is maintaining FY24 revenue growth forecast in constant currency at 17.5%-18.5%, with a sequential growth guidance of 4%-7% for Q4FY24. Additionally, the company is sustaining a 17% EBIT margin in the near term, with a medium-term target of 18%. Based on recent discussions with clients, company has observed early signs of improvement in the demand environment. 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 35x to its FY26E EPS of INR 175.8, which yields a target price of INR 6,152 per share (Earlier target; INR 4,099 per share). We upgrade our rating to Accumulate from Reduce earlier.**

Exhibit 1: Financial overview

YE March	Net Sales	EBIT	Adjusted PAT	EPS (INR)	EBIT Margin %	P/E (x)
(INR Mn)						
FY23	88,155	15,271	12,121	110.5	17.3%	48.4
FY24E	99,570	17,058	13,746	124.0	17.1%	43.2
FY25E	113,601	20,085	16,519	148.3	17.7%	36.1
FY26E	127,009	23,435	19,405	175.8	18.5%	30.4

Source: Arihant Research, Company Filings

Exhibit 2: Q3FY24 - Quarterly Performance (Consolidated)

Consolidated (in INR Mn)	Q3FY24	Q2FY24	Q3FY23	Y-o-Y	Q-o-Q
Revenue (USD)	291	288	248	17.2%	0.9%
Net Revenue	24,218	23,865	20,486	18.2%	1.5%
Employee cost	12,539	12,417	11,763	6.6%	1.0%
Other Expenses	6,802	6,692	4,311	57.8%	1.6%
EBITDA	4,877	4,756	4,412	10.5%	2.5%
EBITDA margin %	20.14%	19.93%	21.5%	-140bps	21bps
Depreciation	715	681	583	22.6%	5.0%
EBIT	4,162	4,075	3,829	8.7%	2.1%
EBIT margin %	17.19%	17.08%	18.7%	-151bps	11bps
Other Income	624	412	742	-15.9%	51.5%
Finance costs	120	126	115	4.3%	-4.8%
PBT	4,655	4,361	4,456	4.5%	6.7%
Tax Expense	1,287	1,202	1,406	-8.5%	7.1%
Effective tax rate %	27.65%	27.56%	32%	-391bps	9bps
PAT	3,368	3,159	3,050	10.4%	6.6%
Extraordinary Items (Net of tax expense)	-	-	-		
Reported PAT	3,368	3,159	3,050	10.4%	6.6%
PAT margin %	13.91%	13.24%	15%	-98bps	67bps
Minority Interest	-6	-5	-14		
PAT (After MI)	3,362	3,154	3,036	11%	6.6%
EPS (INR)	31.80	29.84	28.75	10.6%	6.6%

Source: Arianth Research, Company Filings

Q3FY24 Conference call Highlights

The company is maintaining FY24 revenue growth forecast in constant currency at 17.5%-18.5%, with a sequential growth guidance of 4%-7% for Q4FY24. Additionally, the company is sustaining a 17% EBIT margin in the near term, with a medium-term target of 18%. Based on recent discussions with clients, company has observed early signs of improvement in the demand environment.

- The company has signed a 12 mn deal in cybersecurity with a telecom network OEM.
- Company anticipate that the ER&D tech spending for CY24 will exceed that of CY23.
- **Deal pipeline remains robust**, offering multiple significant opportunities for large deals as clients prioritize improvements in productivity and efficiency.
- **Medical:** The company expect strong growth across various segments, project near-term muted growth in the Medical segment.
- Deal velocity remains slow, with an extended duration for deal signings.
- **Headcount:** To optimize operational efficiency, the company implemented measures to reduce sequential headcount.
- **Offshore:** The company strategic aim is to achieve a 60% offshore revenue mix as part of the ongoing initiatives.
- **Cybersecurity:** After integrating SWC talent, the company experiences robust growth in cybersecurity practice, with the second significant global deal. Recognizing opportunities, the focus shifts to network automation and digital infrastructure management amid telcos' pursuit of cost efficiency and performance enhancement.
- **Deals:** Strong Q3 performance includes three major deal wins and a notable SDV triumph, sustained growth within the transportation sector. In plant engineering, company achieved widespread growth across FMCG, O&G, and chemicals, with a standout highlight being the initiation of a significant partnership with BP, focusing on operational excellence and low-carbon initiatives.
- **Other Income:** The sequential increase in other income by 49 cr was attributed to a one-time gain resulting from the release and consolidation of facilities.
- **Tax rate:** Effective tax rate for the Q3 stood at 27.6%, aligning closely with the anticipated range of 27.5%

Exhibit 3: Business Matrix

Operational Performance							
Revenue by Vertical	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Transportation	33.20%	34.50%	35.90%	34.50%	32.70%	33.20%	33.20%
Industrial Products	17.80%	18.90%	19.00%	17.00%	17.60%	17.30%	17.20%
Telecom & Hi-tech	25.60%	19.40%	18.80%	28.40%	25.50%	25.40%	25.40%
Plant Engineering	15.00%	16.30%	15.50%	14.10%	13.90%	14.00%	14.00%
Medical Devices	10.70%	10.90%	10.70%	9.90%	10.30%	10.10%	10.20%
Segment revenue							
Transportation	6218	6896	7349	7242	7527	7931	8042
Plant Engineering	3006	3253	3189	3347	3199	3353	3394
Industrial Products	3553	3763	3898	4043	4058	4131	4155
Medical Devices	2135	2160	2186	2339	2356	2406	2480
Telecom& Hitech	5150	3879	3864	6735	5874	6044	6147
Total	20062	19951	20486	23706	23014	23865	24218
Revenue by Geography							
North America	62.90%	63.40%	62.70%	60.20%	56.50%	55.30%	54.60%
Europe	16.40%	15.90%	16.10%	16.40%	15.40%	15.80%	16.60%
India	13.20%	12.80%	15.20%	15.20%	20.70%	21.60%	21.50%
Rest of the World	7.40%	7.90%	8.20%	8.20%	7.40%	7.30%	7.30%
Revenue Mix							
Onsite	43.80%	45.10%	43.00%	43.00%	40.70%	40.40%	41.30%
Offshore	56.20%	54.90%	57.00%	57.00%	59.30%	59.60%	58.70%
Revenue by Project Type							
Fixed Price	26.90%	27.00%	28.60%	29.10%	35.60%	35.80%	38.50%
Time and Material	73.10%	73%	71.40%	70.90%	64.40%	64.20%	61.50%
Client Profile							
Number of Active Clients	350	343	343	341	357	362	364
30 Million dollar +	3	3	2	1	3	4	4
20 Million dollar +	8	8	8	11	12	12	14
10 Million dollar +	27	24	25	28	32	31	31
5 Million dollar +	56	49	50	57	56	55	56
1 Million dollar +	153	150	158	178	181	177	175
Client Contribution to Revenue							
Top 5 Clients	16.70%	16.40%	16.00%	15.90%	14.70%	14.90%	15.70%
Top 10 Clients	27.60%	26.90%	26.60%	26.60%	25.90%	26.10%	26.60%
Top 20 Clients	43.20%	42.40%	42.10%	42.00%	41.40%	41.70%	41.70%
Employee Statistics							
Total Headcount	22131	21474	21649	23074	23392	23880	23298
Bilable (as per number of employee)	20642	20189	20346	21573	21933	22366	21887
Sales & Support	1489	1285	1303	1501	1459	1514	1411
Voluntary Attrition % (LTM)	23.2%	24.1%	23.3%	22.2%	18.9%	16.7%	15.8%
Exchange Rate (USD/INR)							
Period Realised \$	78.23	80.76	82.59	82.19	82.20	82.84	83.30

Source: Arianth Research, Company Filings

Exhibit 4: Revenue trend

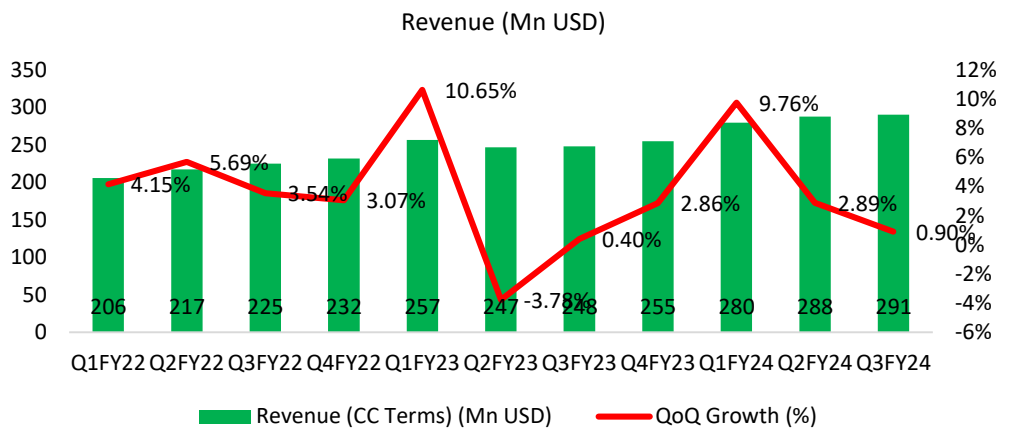


Exhibit 5: EBIT Margin within guided range

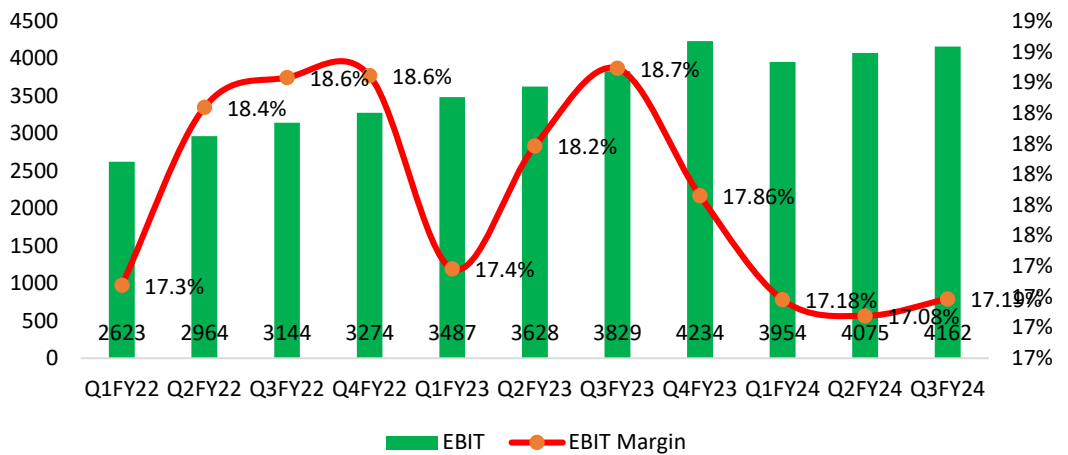
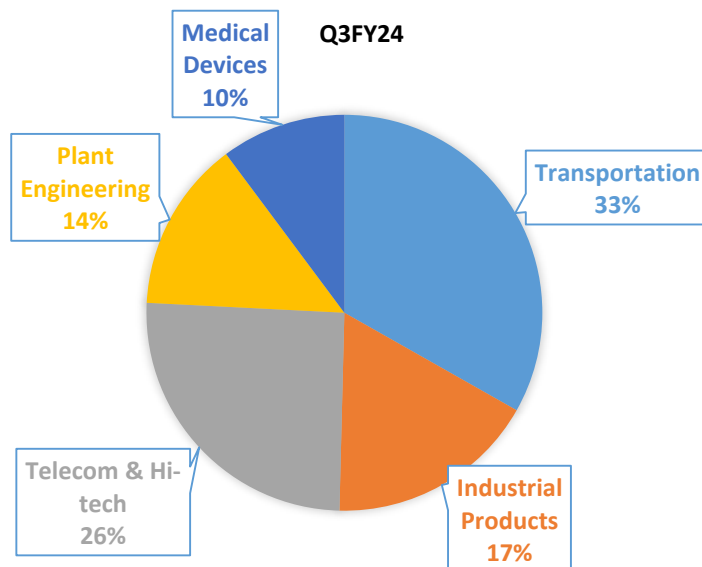


Exhibit 6: Revenue by Verticals



Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Revenue (Mn USD)	880	1,007	1,158	1,291	1,466
Growth (%)	19.5%	14.4%	15.0%	11.4%	13.6%
Revenues	65,697	88,155	99,570	113,601	127,009
Change (%)	20.6%	34.2%	12.9%	14.1%	11.8%
Employee Costs	36,505	46,308	52,328	58,293	64,414
Other Expenses	15,043	24,238	27,282	32,376	36,071
Total Expenses	51,548	70,546	79,610	90,670	100,485
EBITDA	14,149	17,609	19,960	22,931	26,524
EBITDA Margin (%)	21.5%	20.0%	20.0%	20.2%	20.9%
Depreciation	2,144	2,338	2,902	2,846	3,089
EBIT	12,005	15,271	17,058	20,085	23,435
EBIT Margin (%)	18.3%	17.3%	17.1%	17.7%	18.5%
Other Income	1,524	2,033	2,372	2,846	3,415
Interest	437	444	540	550	570
PBT	13,092	16,860	18,889	22,381	26,281
Tax	3,486	4,696	5,100	5,819	6,833
Rate (%)	26.6%	27.9%	27.0%	26.0%	26.0%
PAT	9,606	12,164	13,789	16,562	19,448
Minority Interest	36	43	43	43	43
Adjusted PAT	9,570	12,121	13,746	16,519	19,405
Change (%)	44.3%	26.7%	13.4%	20.2%	17.5%

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	59,920	71,521	85,407
Net Worth	41,762	49,689	60,311	71,912	85,798
Non-Current liabilities					
Total Current liabilities	13,263	14,285	18,076	23,086	24,215
Total liabilities	19,117	19,389	22,877	27,927	29,085
Total Equity and liabilities	60,910	69,173	83,283	99,935	114,978
Total Non-current Assets					
Current Assets					
Investments	13,918	21,088	23,819	27,175	30,383
Trade receivables	16,959	17,301	24,279	27,389	30,273
Cash and cash equivalents	2,347	5,346	8,146	17,531	25,613
Other bank balances	4,395	1,553	576	576	576
Other financial assets	2,564	2,170	3,079	3,512	3,927
Other current assets	3,068	3,952	6,429	7,335	8,201
Total current assets	43,251	51,410	66,328	83,519	98,974
TOTAL ASSETS	60,910	69,173	83,283	99,935	114,978

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	18,889	22,381	26,281
Adjustments:					
Depreciation	2,144	2,338	2,902	2,846	3,089
Finance Costs	437	435	-	-	-
Interest and Dividend received	(759)	(1,304)	(1,114)	(1,148)	(1,180)
Operating Profit before WC Changes	14,914	18,329	20,677	24,079	28,190
Operating Profit after WC Changes	13,625	18,167	14,275	22,990	25,406
Direct Taxes Paid & Exceptional Items	(3,563)	(4,670)	(5,100)	(5,819)	(6,833)
Cash Flow from Operating Activities	10,062	13,497	9,175	17,171	18,573
Cash Flow from Investing Activities	(4,483)	(5,718)	(2,792)	(3,475)	(3,464)
Cash Flow from Financing Activities	(4,982)	(4,435)	(3,955)	(4,311)	(7,027)
Net Change in Cash & Cash Equivalents	597	3,345	2,428	9,385	8,082
Opening Cash & Cash Equivalents	1,777	2,374	5,718	8,146	17,531
Closing Cash & Cash Equivalents	2374	5718	8146	17531	25613

Key Ratios					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Per Share (INR)					
EPS	90.7	110.5	124.0	148.3	175.8
CEPS	108.1	131.5	150.0	173.8	203.7
BVPS	1979	2355	2858	3408	4066
DPS	35.0	30.0	35.0	35.0	37.0
Valuation (x)					
P/E	59.0	48.4	43.2	36.1	30.4
P/CEPS	49	41	36	31	26
P/BV	13.7	11.7	9.8	8.3	7.0
EV/EBITDA	20.6	16.4	14.3	12.1	10.1
Return Ratio (%)					
EBIDTA Margin	21.5%	20.0%	20.0%	20.2%	20.9%
EBIT Margin	18.3%	17.3%	17.1%	17.7%	18.5%
PAT Margin	14.6%	13.8%	13.8%	14.6%	15.3%
ROE	23.0%	24.5%	22.9%	23.0%	22.7%
ROCE	21.1%	22.2%	20.6%	20.7%	20.2%
Dividend Yield	0.7%	0.6%	0.7%	0.7%	0.7%
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	55.8
Receivable Days	81	71	89	88	87
Payable days	11	11	11	11	11

Source: Arian 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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