

**CMP: INR 3,447**

**Rating: Neutral**

**Target Price: INR 3,464**

**Stock Info**

BSE	533179
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)	387,824
52w H/L (INR)	4316/2923
Avg Yearly Vol (in 000')	366

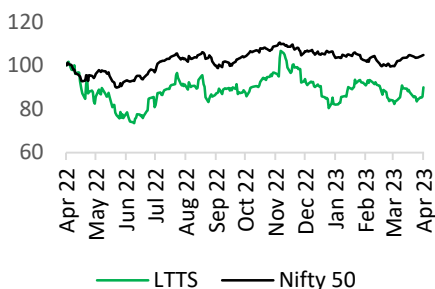
**Shareholding Pattern %**

(As on Mar, 2023)

Promoters	73.84
FII	6.69
DII	8.64
Public & Others	10.83

	1m	6m	12m
LTTS	8.37	4.07	-9.1
Nifty 50	4.97	0.53	4.65

**LTTS Vs Nifty 50**



**FY24, guidance is for a USD constant currency revenue growth of 20% plus (10% plus organic growth). Closed the acquisition of SWC on 1st April 2023.** Reported revenue of \$ 255Mn ( up 2.9% QoQ/10%YoY in USD terms) against our estimate of \$251 Mn. The cc growth was 2.2% QoQ/+12% YoY. Reported revenue of INR 20,962 up 2.3% QoQ/ 19.4% YoY against our estimate of INR 20,768 mn. SWC won 3 deals since the Jan-23 acquisition announcement, and LTTS is working towards better-integrated offerings such as NextGen 5G offerings and cybersecurity solutions. However, we believe it is early days, and key factors such as deal size, win-rate momentum, and margin profiles are yet to be seen.

**Decent segmental performance:** The revenue growth CC led by Plant Engineering grew by 23.6% YoY/5.0% QoQ and Industrial Products grew by 22.4% YoY/3.7 QoQ followed by Medical device 15.8% YoY/7% Qo and Transportation 23.9%/-1.5%. Among major markets, North America (down 1.4% QoQ/+ 6.2% YoY), Europe (+5.2% QoQ/up 11.9% YoY), India (up 15% QoQ/14.9% YoY) and ROW (up 10.6% QoQ/28.6% YoY).

**Strong deal booking:** The deal booking remained healthy as LTTS has won a contract worth \$40 mn plus deal and three USD 10 mn TCv deals. Till date, the company has won 3 deals internationally across Next Gen Communications, Transportation, and Industrial Products.

**Margin in-line with our estimates:** EBIT margin was flat at 18.7% against our estimates of 18.9%. Driven by a strong focus on building a robust and sustainable operating mode. The company shared that it was able to absorb higher employee costs via operational efficiency and lower G&A.

**Valuations:** Despite macroeconomic uncertainties, the company has reported satisfactory financial results. LTTS has provided guidance for the FY24, expecting over 20% growth, with >10% of that being organic growth. This implies a decline YoY from SWC at \$75mn. While organic growth is a positive indicator, the company may experience slow improvement in margins and profitability. Nonetheless, we are optimistic about LTTS due to its strong fundamentals, diverse clientele, and capabilities across various sectors that can potentially lead to better earnings growth in the future. We anticipate that the company will deliver a revenue growth of ~16% CAGR between FY23-25E. **We value, LTTS at a PE of 25x to its FY25E EPS of INR 139, which yields a target price of INR 3,464 per share (Earlier target; INR 3,359 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%	38.0
FY23	80,136	14,792	11,698	110.5	18.5%	23.6%	31.2
FY24E	98,272	16,594	13,682	122.8	16.9%	22.8%	28.1
FY25E	113,175	19,143	15,662	138.5	16.9%	21.6%	24.9

Source: Arihant Research, Company Filings

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## Exhibit 2: Q3FY23 - Quarterly Performance (Consolidated)

Consolidated (in INR Mn)	Q4FY23	Q3FY23	Q4FY22	Y-o-Y	Q-o-Q
<b>Revenue (USD)</b>	<b>255</b>	<b>248</b>	<b>232</b>	<b>10.0%</b>	<b>2.9%</b>
<b>Net Revenue</b>	<b>20,962</b>	<b>20,486</b>	<b>17,561</b>	<b>19.4%</b>	<b>2.3%</b>
Employee cost	11,665	11,763	9,485	23.0%	-0.8%
Other Expenses	4,805	4,311	4,271	12.5%	11.5%
<b>EBITDA</b>	<b>4,492</b>	<b>4,412</b>	<b>3,805</b>	<b>18.1%</b>	<b>1.8%</b>
<i>EBITDA margin %</i>	<i>21.43%</i>	<i>21.5%</i>	<i>21.7%</i>	<i>-24bps</i>	<i>-11bps</i>
Depreciation	565	583	531	6.4%	-3.1%
<b>EBIT</b>	<b>3,927</b>	<b>3,829</b>	<b>3,274</b>	<b>19.9%</b>	<b>2.6%</b>
<i>EBIT margin %</i>	<i>18.73%</i>	<i>18.7%</i>	<i>18.6%</i>	<i>9bps</i>	<i>4bps</i>
Other Income	498	742	419	18.9%	-32.9%
Finance costs	106	115	105	1.0%	-7.8%
<b>PBT</b>	<b>4,319</b>	<b>4,456</b>	<b>3,588</b>	<b>20.4%</b>	<b>-3.1%</b>
Tax Expense	1,210	1,406	956	26.6%	-13.9%
<i>Effective tax rate %</i>	<i>28.02%</i>	<i>32%</i>	<i>26.6%</i>	<i>137bps</i>	<i>-354bps</i>
<b>PAT</b>	<b>3,109</b>	<b>3,050</b>	<b>2,632</b>	<b>18.1%</b>	<b>1.9%</b>
Extraordinary Items (Net of tax expense)	-	-	-		
<b>Reported PAT</b>	<b>3,109</b>	<b>3,050</b>	<b>2,632</b>	<b>18.1%</b>	<b>1.9%</b>
<i>PAT margin %</i>	<i>14.83%</i>	<i>15%</i>	<i>15%</i>	<i>-16bps</i>	<i>-6bps</i>
<i>Minority Interest</i>	<i>-12</i>	<i>-14</i>	<i>-12</i>		
<b>PAT (After MI)</b>	<b>3,097</b>	<b>3,036</b>	<b>2,620</b>	<b>18.2%</b>	<b>2.0%</b>
EPS (INR)	29.32	28.75	24.83	-	-15.7%

Source: Arihant Research, Company Filings

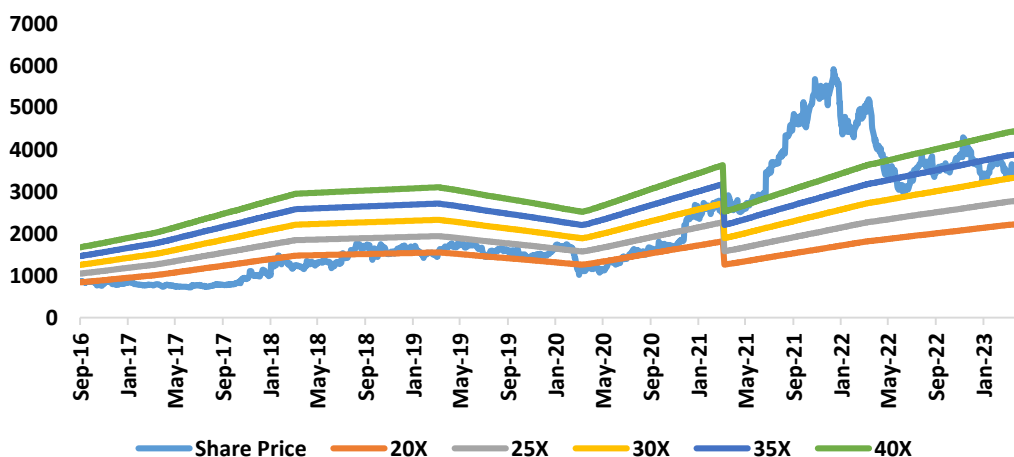
**Q4FY23 Conference call Highlights:**

- In FY23, there was significant growth in the Transportation, Plant Engineering, and Industrial Products verticals.
- The company's profit after tax (PAT) has grown at a compound annual growth rate (CAGR) of 18% over the past five years.
- In Q4, the earnings before interest and taxes (EBIT) margin of 18.7% was the highest ever in the company's history.
- The use of System Wide Collaboration (SWC) has helped the company gain momentum in many verticals, including Telecom, where a 5G deployment and a Telecom Infra OEM deal were signed.
- The company is optimistic about the Transportation vertical and is focused on investing in EV labs and technology upgrades.
- The company signed a \$40 million deal and a couple of \$10 million deals with US Transportation companies. There has been strong traction in Plant Engineering and Industrial Products, with a healthy deal pipeline across geographies.
- The Medical vertical is expected to grow at a faster rate in FY24 due to a rebound witnessed in Q4FY23 and demand buildup in the pipeline.
- The company aspires to achieve an annualized revenue run rate of \$1.5 billion by FY25, with a targeted employee attrition rate below 20%.
- The company aims to achieve an EBIT margin of around 17% in FY24 due to the impact of the acquisition of SWC, which closed on April 1st, 2023.
- The company declared a total dividend of INR 45 per share during FY23, with a payout ratio of 40%.

**Exhibit 3: Business Matrix**

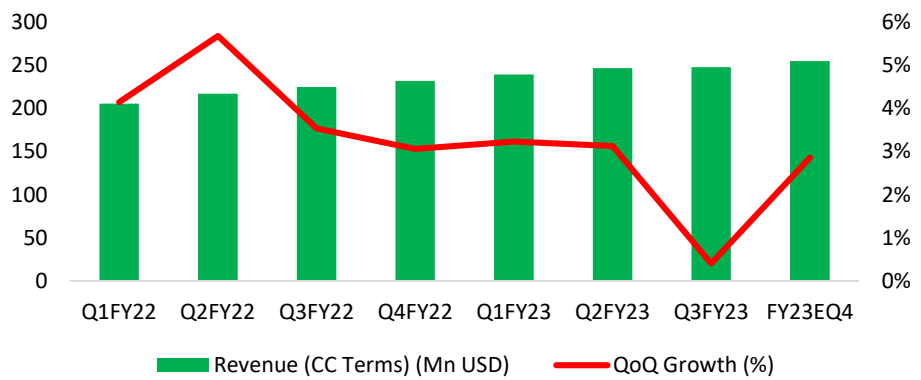
Revenue by Vertical	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Transportation	31.80%	33.30%	33.20%	34.50%	35.90%	34.50%
Industrial Products	19.50%	19%	19.00%	18.90%	19.00%	19.30%
Telecom & Hi-tech	21.4%	21%	20.30%	19.40%	18.80%	19.00%
Plant Engineering	15.4%	15%	16.00%	16.30%	15.50%	16.00%
Medical Devices	11.9%	12%	11.50%	10.90%	10.70%	11.20%
<b>Segment revenue</b>						
Transportation	5369	5844	6218	6896	7349	7242
Plant Engineering	2605	2708	3006	3253	3189	3347
Industrial Products	3288	3302	3553	3763	3898	4043
Medical Devices	2011	2019	2135	2160	2186	2339
Telecom& Hitech	3602	3688	3825	3879	3864	3391
<b>Total</b>	<b>16875</b>	<b>17561</b>	<b>18737</b>	<b>19951</b>	<b>20486</b>	<b>20362</b>
<b>Revenue by Geography</b>						
North America	62.50%	62.30%	62.90%	63.40%	62.70%	60.20%
Europe	16.50%	16.10%	16.40%	15.90%	16.10%	16.40%
India	13.70%	14.50%	13.20%	12.80%	15.20%	15.20%
Rest of the World	7.40%	7%	7.40%	7.90%	8.20%	8.20%
<b>Revenue Mix</b>						
Onsite	41.30%	45.40%	43.80%	45.10%	43.00%	43.00%
Offshore	58.70%	54.60%	56.20%	54.90%	57.00%	57.00%
<b>Revenue by Project Type</b>						
Fixed Price	29.00%	28.60%	26.90%	27.00%	28.60%	29.10%
Time and Material	71.00%	71.40%	73.10%	73%	71.40%	70.90%
<b>Client Profile</b>						
Number of Active Clients	318	324	337	343	343	341
30 Million dollar +	2	2	2	3	2	1
20 Million dollar +	6	6	7	8	8	9
10 Million dollar +	22	22	23	24	25	24
5 Million dollar +	44	48	51	49	50	52
1 Million dollar +	126	136	142	150	158	169
<b>Client Contribution to Revenue</b>						
Top 5 Clients	17.30%	17.20%	16.70%	16.40%	16.00%	15.90%
Top 10 Clients	28.50%	28.30%	27.60%	26.90%	26.60%	26.60%
Top 20 Clients	43.80%	43.50%	43.20%	42.40%	42.10%	42.00%
<b>Employee Statistics</b>						
Total Headcount	20118	20861	21433	21474	21649	22233
Bilable (as per number of employee)	18975	19534	20082	20189	20346	20878
Sales & Support	1143	1327	1351	1285	1303	1355
Voluntary Attrition % (LTM)	17.5%	20.4%	23.2%	24.1%	23.3%	22.2%
<b>Exchange Rate (USD/INR)</b>						
Period Realised \$	74.95	75.69	78.23	80.76	82.59	82.19

**Exhibit 4: 1- year forward PE**

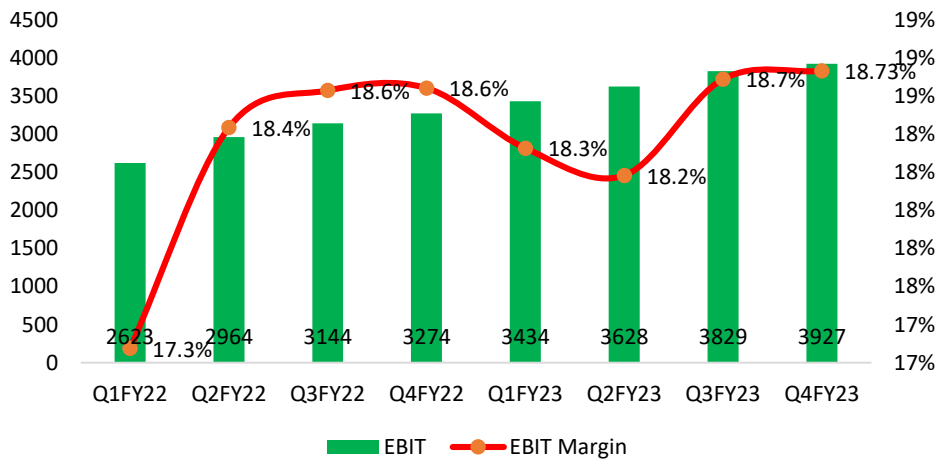


Source: Arihant Research, Company Filings

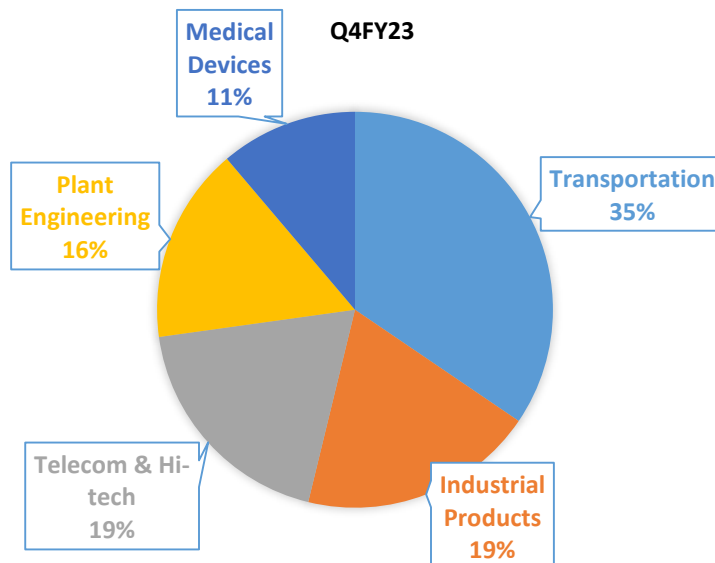
**Exhibit 4: FY24, guidance is for a USD constant currency revenue growth of 20% plus (10% plus organic growth).**



**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	FY23	FY24E	FY25E
Revenue (Mn USD)	880	990	1,171	1,329
Growth (%)	19.5%	12.4%	18.4%	13.5%
Revenues	65,697	80,136	98,272	113,175
Change (%)	20.6%	22.0%	22.6%	15.2%
Employee Costs	36,505	45,639	52,394	57,895
Other Expenses	15,043	17,390	26,239	32,594
Total Expenses	51,548	63,029	78,632	90,489
EBITDA	14,149	17,107	19,639	22,686
EBITDA Margin (%)	21.5%	21.3%	20.0%	20.0%
Depreciation	2,144	2,315	3,046	3,543
EBIT	12,005	14,792	16,594	19,143
EBITDA Margin (%)	18.3%	18.5%	16.9%	16.9%
Other Income	1,524	2,080	2,393	2,513
Interest	437	435	490	490
PBT	13,092	16,437	18,497	21,166
Tax	3,486	4,696	4,772	5,461
Rate (%)	26.6%	28.6%	25.8%	25.8%
PAT	9,606	11,741	13,725	15,705
Minority Interest	36	43	43	43
Adjusted PAT	9,570	11,698	13,682	15,662
Change (%)	44.3%	22.2%	17.0%	14.5%

Cash Flow Statement (INR Mn)				
Year End-March	FY22	FY23E	FY24E	FY24E
Net Profit before Tax	13,092	16,437	18,497	21,166
Adjustments:				
Depreciation	2,144	2,315	3,046	3,543
Finance Costs	437	435.00	-	-
Interest and Dividend received	(759)	(1,304)	(259)	(298)
Operating Profit before WC Changes	14,914	17,883	21,284	24,411
Operating Profit after WC Changes	13,625	17,721	18,832	21,857
Direct Taxes Paid & Exceptional Items	(3,563)	(4,670)	(4,772)	(5,461)
Cash Flow from Operating Activities	10,062	13,051	14,060	16,396
Cash Flow from Investing Activities	(4,483)	(5,718)	(5,573)	(4,779)
Cash Flow from Financing Activities	(4,982)	(4,435)	(2,818)	(3,858)
Net Change in Cash & Cash Equivalents	597	2,899	5,669	7,760
Opening Cash & Cash Equivalents	1,777	2,374	5,272	10,941
Closing Cash & Cash Equivalents	2374	5272	10941	18701

Balance Sheet (INR Mn)				
Year End-March	FY22	FY23	FY24E	FY25E
<b>Sources of Funds</b>				
Share Capital	211	211	211	211
Reserves & Surplus	41,414	49,298	59,856	72,364
Net Worth	41,762	49,689	60,247	72,755
<b>Non-Current liabilities</b>				
Total Current liabilities	13,263	14,285	19,476	21,792
Total liabilities	19,117	19,389	24,274	26,631
Total Equity and liabilities	60,910	69,173	84,616	99,481
<b>Total Non-current Assets</b>				
Current Assets				
Investments	13,918	21,088	25,860	29,782
Trade receivables	16,959	17,301	21,001	24,185
Cash and cash equivalents	2,347	5,346	10,941	18,701
Other bank balances	4,395	1,553	576	576
Other financial assets	2,564	2,170	3,038	3,499
Other current assets	3,068	3,952	6,346	7,308
Total current assets	43,251	51,410	67,762	84,052
TOTAL ASSETS	60,910	69,173	84,616	99,481

Key Ratios				
Year End-March	FY22	FY23	FY24E	FY25E
<b>Per Share (INR)</b>				
EPS	90.7	110.5	122.8	138.5
CEPS	108.1	127.5	150.0	169.8
BVPS	1979	2355	2855	3448
DPS	35.0	30.0	35.0	35.0
<b>Valuation (x)</b>				
P/E	38.0	31.2	28.1	24.9
P/CEPS	32	27	23	20
P/BV	9	8	6	5
EV/EBITDA	21	17	14	12
<b>Return Ratio (%)</b>				
EBITDA Margin	21.5%	21.3%	20.0%	20.0%
EBIT Margin	18.3%	18.5%	16.9%	16.9%
PAT Margin	14.6%	14.7%	14.0%	13.9%
ROE	23.0%	23.6%	22.8%	21.6%
ROCE	21.1%	21.3%	20.4%	19.5%
Dividend Yield	1.0%	0.9%	1.0%	1.0%
<b>Leverage Ratio (%)</b>				
Net Debt/Equity (x)	-0.1	-0.1	-0.2	-0.3
Net Debt/EBITDA (x)	-0.2	-0.3	-0.6	-0.8
<b>Turnover Ratios</b>				
Asset Turnover (x)	30.0	31.7	38.8	58.9
Receivable Days	81	78	78	78
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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