

Near term concern persist

CMP: INR 5,183

Rating: Reduce

Target Price: INR 4,160

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)	554,700
52w H/L (INR)	5873/3393
Avg Yearly Vol (in 000')	215

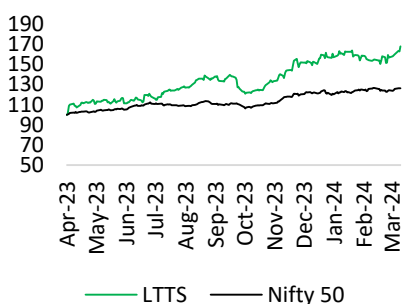
Shareholding Pattern %

(As on March, 2024)

Promoters	73.74
Public & Others	26.26

	1m	3m	12m
LTTS	-3.8	-4.1	50.7
Nifty 50	1.4	4.9	26.1

LTTS Vs Nifty 50



LTTS Results, Mixed performance with revenue & PAT above estimate, while EBIT margin slightly below expectation. LTTS company reported Q4FY24 revenues of USD 305.1 mn up 5.0%YoY/5.8% QoQ above our estimate of USD 294 Mn. in constant currency, a growth of 5.1% QoQ and 6.3% YoY. Reported revenue of INR 25,375 up 4.8% QoQ/7% YoY above our estimate of INR 24,525 Mn. The revenue growth led by Telecom & Hi-tech grew by 20.9% YoY/9% QoQ followed by Transportation grew by 10.8% YoY/1.2% QoQ and Plant Engineering 6.2% YoY/6.3% QoQ. While Industrial Products de-grew by 2% YoY/-3.2% QoQ, followed by Medical device decline by % 6.1YoY/-10.2% QoQ. EBIT margin was contract 96bpsYoY/-29bps at 16.9% against our estimates of 17.2%. PAT stood at INR 3,409 Mn against our estimate of INR 3,415 Mn. Geography revenue: Among major markets, North America (grew by 3.1% QoQ/+6.8% YoY), Europe (flat QoQ/up 24.9% YoY), India (up 15.7% QoQ/ flat YoY) and ROW (- 1.4% QoQ/-0.4% YoY). Secured deals including 1 worth USD 100 Mn, one USD 30 Mn, 2 at USD 20 Mn, and 2 at USD 10 Mn, alongside a significant empanelment agreement. Recommended final dividend of INR 33 per share. Offshore revenue mix was flat on QoQ to 41.3%. Number of employees was up 738 QoQ to 23,298; LTM attrition was down by 100 bps QoQ to 14.8%.

Decent deal wins during the Q4FY24: The company secured notable large deals, including a USD 100 Mn contract, alongside multiple deals ranging from USD 10-50 Mn. Additionally, it obtained significant empanelment agreements within the Oil & Gas sector. Company witnessed a soft performance during the quarter due to delay in some of the deal decision

Geopolitical and Sectoral Factors Impacting Near-Term Growth: Near-term growth could face hurdles from decision-making delays and escalating geopolitical risks. Industrial machinery and building automation sectors may see softness due to commercial real estate challenges, while the Telecom sector may experience weakness from cautious spending by service providers, amidst uncertainty around 5G expenditures and operator behavior.

Outlook: Decent Q4FY24 included major deal wins and a notable SDV triumph, wins in Transportation, Sustained Growth. FY25 aims for 8-10% revenue growth and USD 1.5 bn run rate, reorganizing into Mobility, Sustainability, and Hi-Tech segments with AI & SDx focus. Integrating sales and delivery for agility, EBIT margins may soften to 16% amid geopolitical uncertainties, seeking acquisitions in ISV, MedTech, Automotive, and Europe. 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 FY27E EPS of INR 166.4, which yields a target price of INR 4,160 per share. We downgrade our rating to Reduce from Accumulate 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	114.8	17.3%	45.1
FY24	96,473	16,474	13,037	123.3	17.1%	42.0
FY25E	1,06,442	16,889	14,193	127.4	15.9%	40.7
FY26E	1,18,476	18,968	16,138	146.1	16.0%	31.1
FY27E	1,32,655	3,530	18,387	166.4	16.1%	30.4

Source: Arihant Research, Company Filings

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Exhibit 2: Q4FY24 - Quarterly Performance (Consolidated)

Consolidated (in INR Mn)	Q4FY24	Q3FY24	Q4FY23	Y-o-Y	Q-o-Q
Revenue (USD)	305	291	288	5.8%	5.0%
Net Revenue	25,375	24,218	23,706	7.0%	4.8%
Employee cost	12,191	12,539	11,848	2.9%	-2.8%
Other Expenses	8,156	6,802	7,055	15.6%	19.9%
EBITDA	5,028	4,877	4,803	4.7%	3.1%
EBITDA margin %	19.81%	20.14%	20.26%	-45bps	-32bps
Depreciation	746	715	569	31.1%	4.3%
EBIT	4,282	4,162	4,234	1.1%	2.9%
EBIT margin %	16.87%	17.19%	17.86%	-99bps	-31bps
Other Income	560	624	504	11.1%	-10.3%
Finance costs	114	120	114	0.0%	-5.0%
PBT	4,710	4,655	4,624	1.9%	1.2%
Tax Expense	1,296	1,287	1,210	7.1%	0.7%
Effective tax rate %	27.52%	27.65%	26.17%	135bps	-13bps
PAT	3,414	3,368	3,414	0.0%	1.4%
Extraordinary Items (Net of tax expense)	-	-	-		
Reported PAT	3,414	3,368	3,414	0.0%	1.4%
PAT margin %	13.45%	13.91%	14.40%	-95bps	-45bps
Minority Interest	-5	-6	-13		
PAT (After MI)	3,409	3,362	3,401	0.2%	1.4%
EPS (INR)	32.25	31.80	32.21	0.1%	1.4%

Source: Arianth Research, Company Filings

Q4FY24 Conference call Highlights

FY25 guidance: Expects 8-10% revenue growth in constant currency; aims for USD 1.5 bn run rate. Reorganizing into Mobility, Sustainability, and Hi-Tech segments with focus on AI & SDx, Embedded Systems, and Digital Manufacturing Solutions. Integrating sales and delivery functions for agility and customer value. Planned investments in people and technology. EBIT margins expected to soften to around 16% due to investments and geopolitical uncertainties. Actively seeking acquisitions in ISV, MedTech, Automotive, and Europe.

Near-term growth may be affected by decision-making delays and increasing geopolitical risks. In segments, Industrial machinery and building automation sectors may experience softness due to challenges in commercial real estate. Telecom sector may face potential weakness due to cautious spending by service providers, with uncertainty surrounding 5G expenditures and operator behavior in the medium term.

Segments:

- Transportation** segment saw double-digit growth driven by SDV, Hybridization, EV, and vehicle engineering.
 - Plant Engineering** noted broad-based growth across FMCG, Oil & Gas, and Chemicals, with new opportunities in green hydrogen and energy management systems.
 - Telecom & Hi-Tech** had a strong quarter due to seasonality in SWC business and growth in semiconductors and hyperscalers.
 - Medical segment** witnessed traction in digital platform development and AI-driven solutions manufacturing.
- The **Cyber Security** business aims to achieve an annual revenue run rate of \$100 Mn in the foreseeable future.
 - Wage:** Standard wage increases are expected in the July quarter.
 - Sequential growth was fueled by seasonal patterns in the SWC business.
 - Client decision-making** is impacted by geopolitical tensions, leading to cautiousness.
 - Planned investments** in the coming quarters aim to deepen expertise within segments.
 - The revenue contribution from fixed price contract is envisaged to be 35%-40% in the coming period.

Exhibit 3: Business Matrix

Operational Performance						
Revenue by Vertical	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Transportation	35.90%	34.50%	32.70%	33.20%	33.20%	32.00%
Industrial Products	19.00%	17.00%	17.60%	17.30%	17.20%	15.80%
Telecom & Hi-tech	18.80%	28.40%	25.50%	25.40%	25.40%	29.30%
Plant Engineering	15.50%	14.10%	13.90%	14.00%	14.00%	14.20%
Medical Devices	10.70%	9.90%	10.30%	10.10%	10.20%	8.80%
Segment revenue						
Transportation	7349	7242	7527	7931	8042	8113
Plant Engineering	3189	3347	3199	3353	3394	3599
Industrial Products	3898	4043	4058	4131	4155	4006
Medical Devices	2186	2339	2356	2406	2480	2220
Telecom& Hitech	3864	6735	5874	6044	6147	7437
Total	20486	23706	23014	23865	24218	25375
Revenue by Geography						
North America	62.70%	60.20%	56.50%	55.30%	54.60%	53.70%
Europe	16.10%	16.40%	15.40%	15.80%	16.60%	15.80%
India	15.20%	15.20%	20.70%	21.60%	21.50%	23.70%
Rest of the World	8.20%	8.20%	7.40%	7.30%	7.30%	6.80%
Revenue Mix						
Onsite	43.00%	43.00%	40.70%	40.40%	41.30%	41.30%
Offshore	57.00%	57.00%	59.30%	59.60%	58.70%	58.70%
Revenue by Project Type						
Fixed Price	28.60%	29.10%	35.60%	35.80%	38.50%	39.50%
Time and Material	71.40%	70.90%	64.40%	64.20%	61.50%	60.50%
Client Profile						
Number of Active Clients	343	341	357	362	364	365
30 Million dollar +	2	1	3	4	4	5
20 Million dollar +	8	11	12	12	14	12
10 Million dollar +	25	28	32	31	31	35
5 Million dollar +	50	57	56	55	56	58
1 Million dollar +	158	178	181	177	175	180
Client Contribution to Revenue						
Top 5 Clients	16.00%	15.90%	14.70%	14.90%	15.70%	15.40%
Top 10 Clients	26.60%	26.60%	25.90%	26.10%	26.60%	26.40%
Top 20 Clients	42.10%	42.00%	41.40%	41.70%	41.70%	40.60%
Employee Statistics						
Total Headcount	21649	23074	23392	23880	23298	23812
Bilable (as per number of employee)	20346	21573	21933	22366	21887	22392
Sales & Support	1303	1501	1459	1514	1411	1420
Voluntary Attrition % (LTM)	23.3%	22.2%	18.9%	16.7%	15.8%	14.8%

Source: Arianth Research, Company Filings

Exhibit 4: Beat our estimate in USD revenue in Q4FY24

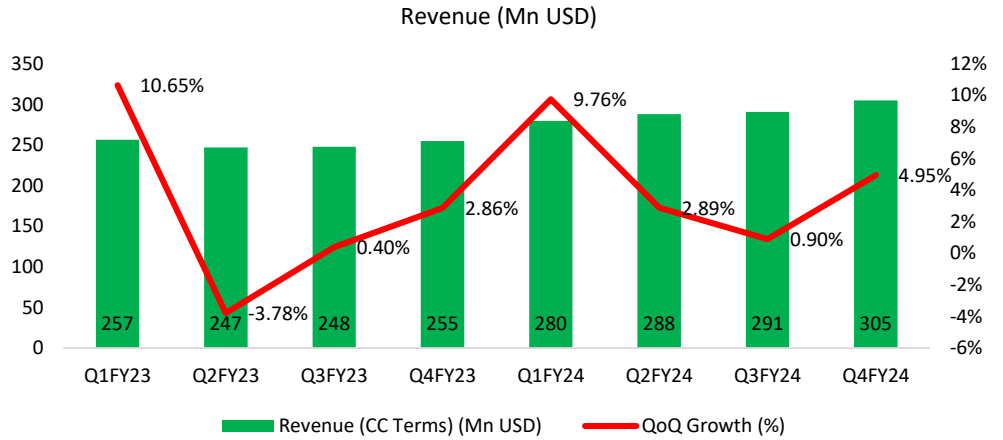


Exhibit 5: EBIT Margin within guided range

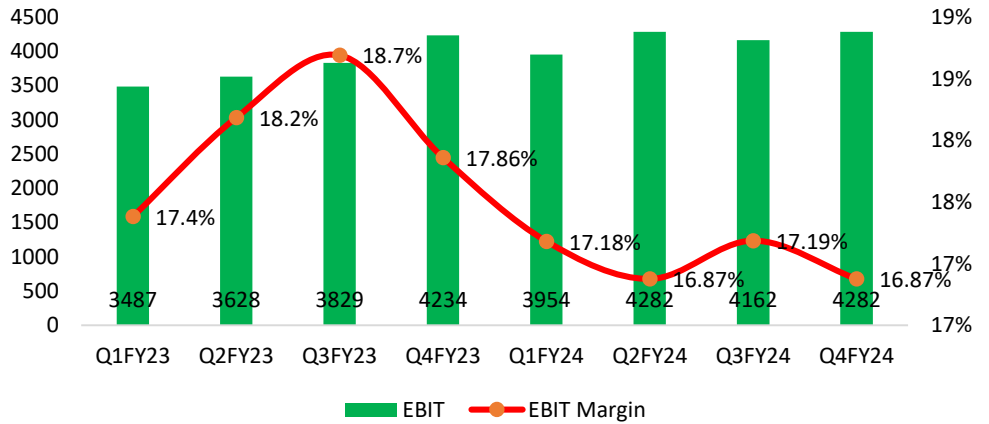
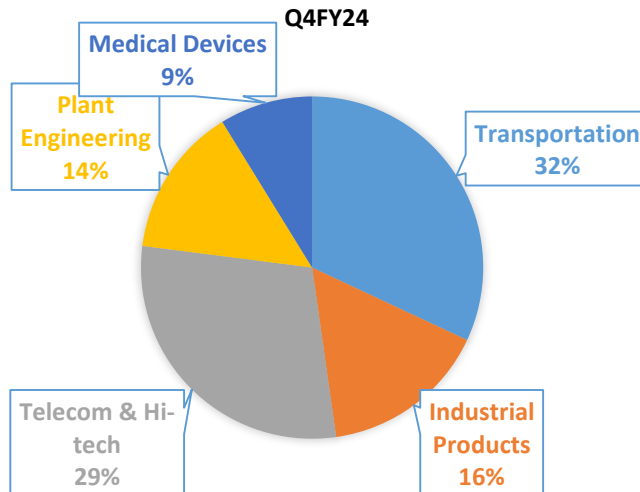


Exhibit 6: Revenue by Verticals



Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Mn)						
Year End-March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue (Mn USD)	880	1,007	1,164	1,253	1,346	1,456
Growth (%)	19.5%	14.4%	15.6%	7.6%	7.4%	8.2%
Revenues	65,697	88,155	96,473	1,06,442	1,18,476	1,32,655
Change (%)	20.6%	34.2%	9.4%	10.3%	11.3%	12.0%
Employee Costs	36,505	46,308	49,298	54,918	60,684	67,056
Other Expenses	15,043	24,238	27,985	31,932	36,135	40,725
Total Expenses	51,548	70,546	77,283	86,850	96,819	1,07,781
EBITDA	14,149	17,609	19,190	19,591	21,656	24,874
EBITDA Margin (%)	21.5%	20.0%	19.9%	18.4%	18.3%	18.8%
Depreciation	2,144	2,338	2,716	2,702	2,688	3,530
EBIT	12,005	15,271	16,474	16,889	18,968	21,344
EBIT Margin (%)	18.3%	17.3%	17.1%	15.9%	16.0%	16.1%
Other Income	1,524	2,033	2,073	2,846	3,415	4,098
Interest	437	444	509	520	540	560
PBT	13,092	16,860	18,038	19,215	21,843	24,882
Tax	3,486	4,696	4,975	4,996	5,679	6,469
Rate (%)	26.6%	27.9%	27.6%	26.0%	26.0%	26.0%
PAT	9,606	12,164	13,063	14,219	16,164	18,413
Minority Interest	36	43	26	26	26	26
Adjusted PAT	9,570	12,121	13,037	14,193	16,138	18,387
Change (%)	44.3%	26.7%	7.6%	8.9%	13.7%	13.9%

Balance Sheet (INR Mn)						
Year End-March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds						
Share Capital	211	211	211	211	211	211
Reserves & Surplus	41,414	44,138	53,059	62,311	71,801	84,855
Net Worth	41,762	44,529	53,477	62,729	72,219	85,273
Non-Current liabilities						
Total Current liabilities	13,263	32,186	23,792	27,693	29,766	34,373
Total liabilities	19,117	37,290	31,138	34,559	36,657	41,303
Total Equity and liabilities	60,910	81,976	84,885	97,558	1,09,146	1,26,846
Total Non-current Assets						
Total Non-current Assets	20,888	18,416	20,421	20,831	22,397	24,122
Current Assets						
Investments	13,918	21,088	12,936	14,273	15,886	17,788
Trade receivables	16,959	21,517	21,803	23,913	26,616	29,802
Cash and cash equivalents	2,347	5,346	11,221	20,853	26,450	37,521
Other bank balances	4,395	1,553	2,684	2,684	2,684	2,684
Other financial assets	2,564	2,182	1,570	1,732	1,928	2,159
Other current assets	3,068	12,067	12,056	12,773	14,217	15,919
Total current assets	43,251	63,769	62,303	76,228	87,782	1,05,872
TOTAL ASSETS	60,910	81,976	84,885	97,558	1,09,146	1,26,846

Source: Arihant Research, Company Filings

Key Financials

Cash Flow Statement (INR Mn)						
Year End-March	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Net Profit before Tax	13,092	16,860	18,038	19,215	21,843	24,882
Adjustments:						
Depreciation	2,144	2,338	2,716	2,702	2,688	3,530
Finance Costs	437	444	509.00	-	-	-
Interest and Dividend received	-759	-1,304	-1,174	-959	-975	-994
Operating Profit before WC Changes	14,914	18,338	20,089	20,958	23,557	27,418
Operating Profit after WC Changes	13,625	17,797	20,184	20,406	23,550	26,192
Direct Taxes Paid & Exceptional Items	-3,563	-4,667	-5,256	-4,996	-5,679	-6,469
Cash Flow from Operating Activities	10,062	13,130	14,928	15,410	17,871	19,723
Cash Flow from Investing Activities	-4,483	-5,779	-2,333	-1,596	-2,038	-2,516
Cash Flow from Financing Activities	-4,982	-4,453	-6,579	-4,250	-10,236	-6,136
Net Change in Cash & Cash Equivalents	597	2,898	6,016	9,565	5,597	11,071
Opening Cash & Cash Equivalents	1,777	2,374	5,272	11,288	20,853	26,450
Closing Cash & Cash Equivalents	2374	5272	11288	20853	26450	37521

Key Ratios						
Year End-March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Per Share (INR)						
EPS	90.7	114.8	123.3	127.4	146.1	166.4
CEPS	108.1	131.5	141.8	151.6	170.4	198.3
BVPS	1979	2110	2534	2973	3423	4041
DPS	35.0	30.0	50.0	35.0	37.0	39.0
Valuation (x)						
P/E	57.1	45.1	42.0	40.7	35.5	31.1
P/CEPS	48	39	37	34	30	26
P/BV	13.3	12.7	10.7	9.2	8.0	6.7
EV/EBITDA	20.6	16.4	14.7	13.9	12.3	10.3
Return Ratio (%)						
EBIDTA Margin	21.5%	20.0%	19.9%	18.4%	18.3%	18.8%
EBIT Margin	18.3%	17.3%	17.1%	15.9%	16.0%	16.1%
PAT Margin	14.6%	13.8%	13.5%	13.4%	13.6%	13.9%
ROE	23.0%	27.3%	24.4%	22.7%	22.4%	21.6%
ROCE	21.1%	24.7%	22.3%	19.9%	19.4%	18.5%
Dividend Yield	0.7%	0.6%	1.0%	0.7%	0.7%	0.8%
Leverage Ratio (x)						
Net Debt/Equity (x)	-0.1	-0.1	-0.2	-0.3	-0.4	-0.4
Net Debt/EBITDA (x)	-0.2	-0.3	-0.6	-1.1	-1.2	-1.5
Turnover Ratios						
Asset Turnover (x)	30.0	34.7	28.9	29.9	39.8	57.5
Receivable Days	81	80	82	82	82	82
Payable days	11	29	49	49	49	49

Source: Arihant 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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