

CMP: INR 4,047

Rating: Hold

Target Price: INR 4,257

Stock Info

BSE	532541
NSE	LTTS
Bloomberg	LTTS IN
Reuters	LTECH.BO
Sector	Computers-Software
Face Value (INR)	2
Equity Capital (INR mn)	210
Mkt Cap (INR mn)	4,59,570
52w H/L (INR)	4,437 / 1,464
Avg Yearly Vol (in 000')	344

Shareholding Pattern %

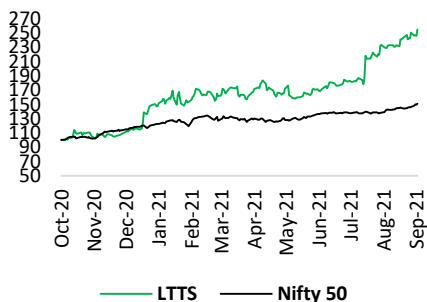
(As on June, 2021)

Promoters	74.23
FII	8.92
DII	6.68
Public & Others	10.17

Stock Performance (%)

	1m	3m	12m
LTTS	20.0	61.7	176.9
Nifty	7.1	10.1	49.8

LTTS Vs Nifty



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LTTS in its investor and analyst, meet majorly spoke about growth strategies, growth expectations, industry landscape and also about six potential strategic bets.

Commentary from analyst meet

- LTTS is investing and scaling in its 6 key industry bets: 1) Electric/Automation connected vehicles 2) MedTech 3) 5G 4) AI & Digital Products 5) Digital Manufacturing and 6) Sustainability.
- Management guided revenue run-rate of USD 1.5 Bn by FY25. They also guided LTM run rate of USD 1Bn by Q2/Q3 FY23.
- Guidance includes organic as well as effect from potential acquisitions. The company mentioned that they are open for potential acquisitions (~USD 20-100m in size) given their healthy cash balance of (~USD 200m cash)
- Strong guidance is driven by large deal wins (23 large deals (>\$5mn) won in last 4 quarters), robust pipeline (51 large deals in pipeline), strong digital engineering demand tailwinds and ability to consistently increase market share (as share of offshore spending improves)
- The company guided operating margins to gradually increase to 18% by FY25 (17.3% in Q1FY22 and 14.5% in FY21) on back of favourable operating metrics such as utilization and offshore mix and scope for margin improvement in Telecom and Hi-tech vertical, which have seen subdued margins for some time.
- Attrition rate has risen to 14.5% in 1QFY22 from the lows of 10.7% in 3QFY21(on-line with the Industry). Management in its recent comments has also mentioned that we can see elevated level of attraction in the near term due to constraints in supply side, but expects to normalize in the medium term.
- Trends which will drive ER&D demand till 2030 like connected Homes, EV, Autonomous Vehicles, 5G / 6G, Healthcare Tech and Factory Automation.

Valuations

ER&D spends remain strong across all verticals, We believe it will further drive the company growth in the longer term. We continue to remain bullish on this space and are expecting strong broad-based growth in FY22. We expect LTTS' USD revenue and earnings to post a CAGR of 17.4% and 17.1% over FY2021-FY2023E. Management guided to achieve a US\$1bn revenue run rate by Q2/Q3FY23 and US\$1.5bn revenue run rate in FY25 with 18% EBITM, sustain by revenue acceleration, higher offshoring, and employee pyramid rationalization. At a CMP of INR 4,047, LTTS is trading at FY23E P/E of 36.6x. to its FY23E EPS of INR 110.6. We value LTTS at a P/E of 38.5x to its FY23E EPS INR 110.6, which yields a target price of INR 4,257 per share. **We assign a Hold rating on the stock.**

YE March (INR Mn)	Net Sales	EBITDA	Adjusted PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	50,783	9,158	7,667	73.6	18.0%	31.0%	55.0
FY20	56,191	11,105	8,186	77.5	19.8%	29.6%	52.2
FY21	54,497	10,074	6,633	62.9	18.5%	19.1%	64.3
FY22E	63,550	13,015	9,485	87.3	20.5%	22.6%	46.4
FY23E	74,668	15,312	12,189	110.6	20.5%	23.5%	36.6

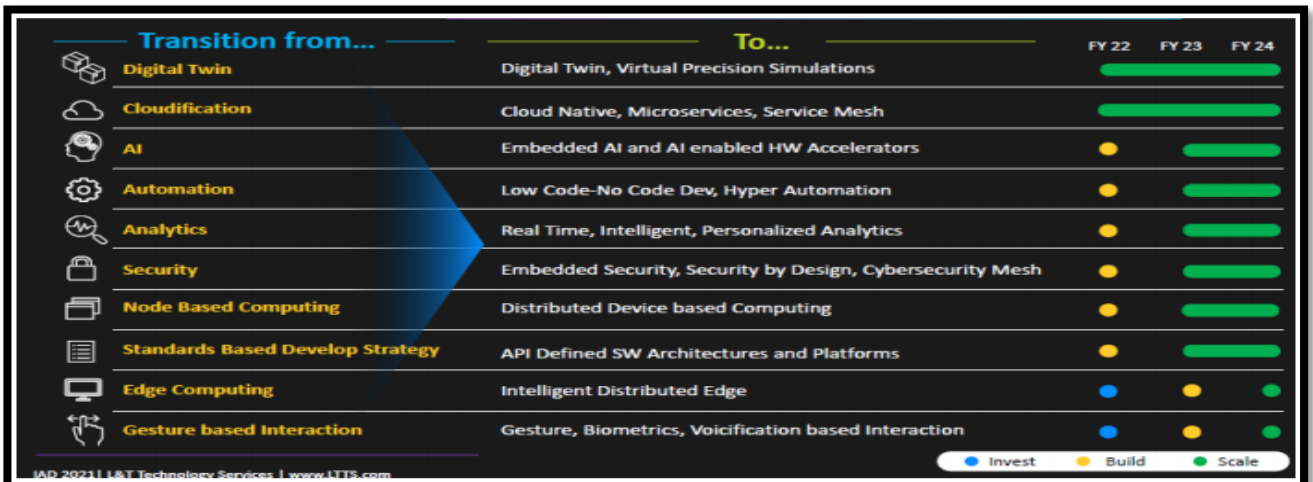
Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Investing on six strategic growth areas



Source: Arihant Research, Company Filings

Softwarization in product engineering



Plans to focus on its strategic clients to move them up the ladder



Good deal activity seen in the six focus areas

Focus areas	Wins	Deals Pipeline
EACV	4	16
MedTech	1	12
5G	3	5
AI & Digital products	7	6
Digital Manufacturing	8	7
Sustainability	0	5

Source: Arihant Research, Company Filings

Exhibit 8 : Financial Performance

Exhibit 1: Revenue (\$ mn) and growth (%)

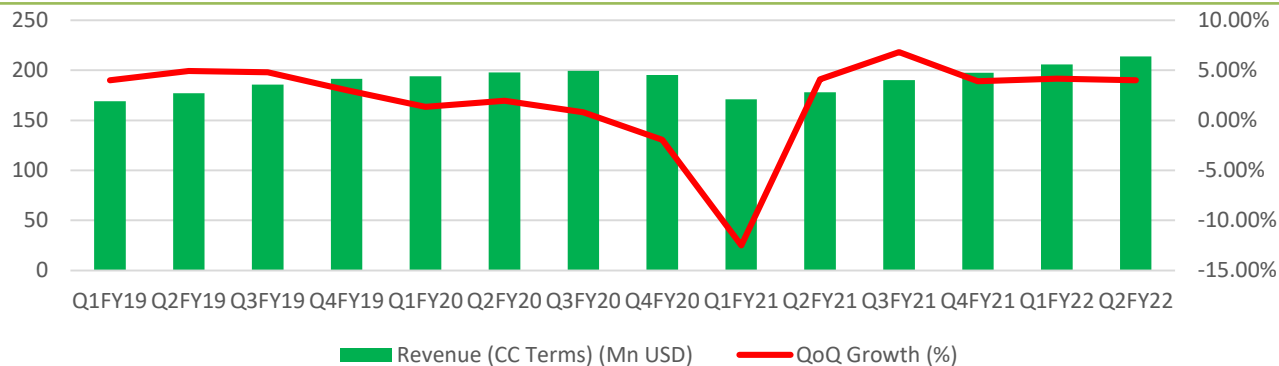


Exhibit 2: EBITDA Trend

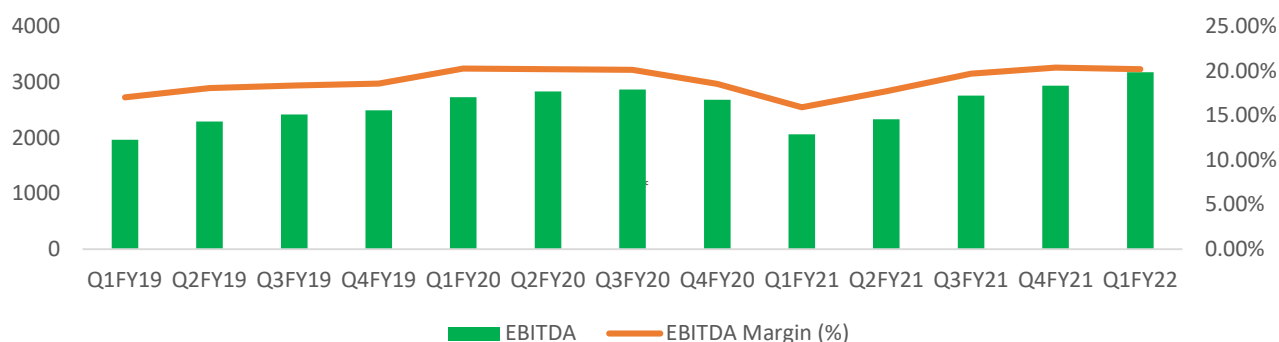


Exhibit 3: Revenue by Geography

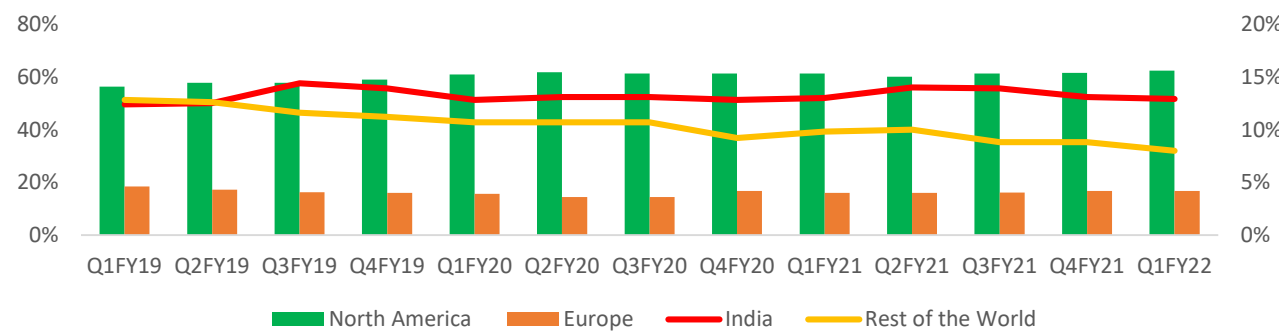
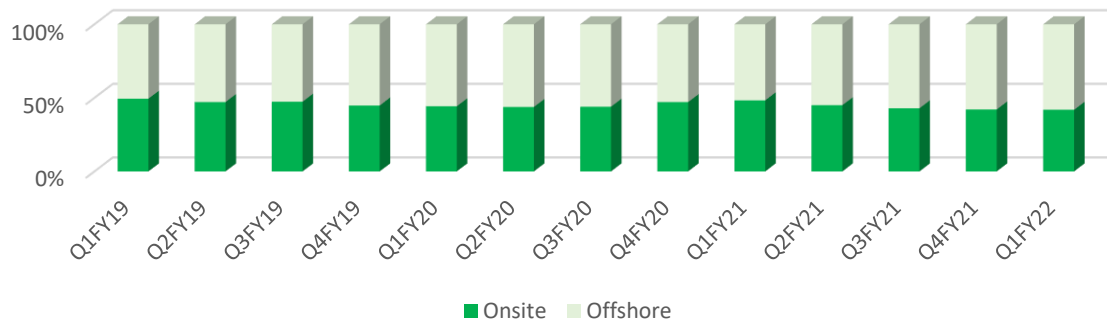


Exhibit 4: Revenue Mix



Source: Company, Arihant Research

Key Financials

Income Statement (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Revenue (CC Terms) (Mn USD)	723	786	737	861	1,010
Growth (%)	24.6%	8.7%	-6.3%	16.8%	17.4%
Revenues	50,783	56,191	54,497	63,550	74,668
Change (%)	35.5%	10.6%	-3.0%	16.6%	17.5%
Employee Costs	30,318	32,916	33,550	36,871	42,033
Other Expenses	11,307	12,170	10,873	13,663	17,323
Total Expenses	41,625	45,086	44,423	50,535	59,356
EBITDA	9,158	11,105	10,074	13,015	15,312
Other Income	2,228	2,091	1,537	2,306	3,458
Depreciation	1,042	1,829	2,183	2,232	2,066
EBIT	8,105	9,276	7,891	10,783	13,246
Interest	19	365	455	365	365
PBT	10,325	11,002	8,973	12,724	16,339
Tax	2,630	2,778	2,308	3,206	4,117
Rate (%)	25.5%	25.3%	25.7%	25.2%	25.2%
PAT	7,695	8,224	6,665	9,517	12,221
Minority Interest	28	38	32	32	32
Consolidated PAT	7,667	8,186	6,633	9,485	12,189
Change (%)	49.7%	6.8%	-19.0%	43.0%	28.5%

Cash Flow Statement (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Net Profit before Tax	10,314	11,002	8,973	12,724	16,339
Adjustments:					
Depreciation	1,042	1,829	2,183	2,232	2,066
Finance Costs	19	365	455	365	365
Interest and Dividend received	49	-934	-40	-233	-274
Operating Profit before WC Changes	11,424	12,262	11,571	15,088	18,496
Adjustments to WC					
Operating Profit after WC Changes	10,870	8,500	15,796	11,171	18,276
Direct Taxes Paid & Exceptional Items	-2,808	-2,119	-2,523	-3,206	-4,117
Cash Flow from Operating Activities	8,062	6,381	13,273	7,965	14,159
Cash Flow from Investing Activities	-5,093	-2,222	-10,054	-4,223	-5,679
Cash Flow from Financing Activities	-2,454	-4,060	-3,627	-2,168	-6,874
Net Change in Cash & Cash Equivalents	515	99	-408	1,573	1,606
Opening Cash & Cash Equivalents	1,519	2,034	2,133	1,725	3,298
Closing Cash & Cash Equivalents	2034	2133	1725	3298	4904

Balance Sheet (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share Capital	208	209	210	210	210
Reserves & Surplus	24,583	27,477	34,521	41,789	51,760
Non-controlling interest	31	69	101	101	101
Net Worth	24,822	27,755	34,832	42,100	52,071
Non-Current liabilities					
Lease liability		3,961	4,805	4,805	4,805
Other financial liabilities	60	1,622	322	51	60
Deferred tax liabilities (net)	134	0	578	116	115
Current Liabilities: Short-term borrowings	702	303	0	0	0
Trade payables	1,879	1,975	2,286	2,694	3,346
Other financial liabilities	2,750	3,059	2,827	3,881	4,001
Other current liabilities	1,899	2,376	2,958	3,449	4,053
Provisions	1,341	1,654	1,584	1,847	2,170
Current tax liabilities (net)	56	328	471	471	471
Total Current liabilities	8,627	9,695	10,126	12,342	14,041
Total liabilities	8,821	15,278	15,831	17,314	19,021
Total Equity and liabilities	33,643	43,033	50,729	59,479	67,143
Assets					
Non-Current assets					
Fixed Assets	7,800	11,822	12,943	11,716	11,611
Goodwill on consolidation	-	-	-	-	-
Investments		310			
Financial assets	1,362	827	1,644	1,917	2,252
Deferred tax assets (net)	126	311	67	78	92
Other non-current assets	635	661	1,049	1,574	2,360
Total Non-current Assets	9,923	13,931	15,703	15,285	16,316
Current Assets					
Investments	5,749	6,110	15,149	17,666	20,756
Trade receivables	10,643	13,807	12,346	16,605	17,411
Cash and cash equivalents	2,048	2,179	1,751	3,298	4,904
Other bank balances	3	260	576	576	576
Loans	0	0	0	0	0
Other financial assets	1,541	1,731	1,685	1,946	2,240
Other current assets	3,736	5,015	3,519	4,104	4,821
Total current assets	23,720	29,102	35,026	44,195	50,708
TOTAL ASSETS	33,643	43,033	50,729	59,479	67,143

Key Ratios

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Per Share (INR)					
EPS	73.6	77.5	62.9	87.3	110.6
CEPS	83.9	95.2	82.6	108.1	129.6
BVPS	1193	1328	1659	2005	2480
DPS	21.0	13.5	21.5	21.0	21.0
Valuation (x)					
P/E	55	52	64	46	37
P/CEPS	48	42	49	37	31
P/BV	17	15	12	10	8
EV/EBITDA	32	26	29	22	19
Return Ratio (%)					
EBIDTA Margin	18.0%	19.8%	18.5%	20.5%	20.5%
EBIT Margin	15.96%	16.51%	14.48%	16.97%	17.74%
PAT Margin	15.1%	14.6%	12.2%	15.0%	16.4%
ROE	31.0%	29.6%	19.1%	22.6%	23.5%
ROCE	24.3%	25.0%	16.8%	19.2%	19.0%
Dividend Yield	0.5%	0.3%	0.5%	0.5%	0.5%
Leverage Ratio (%)					
Net Debt/Equity (x)	-0.1	-0.1	-0.1	-0.1	-0.1
Net Debt/EBITDA (x)	-0.1	-0.2	-0.2	-0.3	-0.3
Turnover Ratios					
Asset Turnover (x)	37.7	31.7	26.2	35.7	46.2
Receivable Days	73	79	88	82	82
Payable days	13	12	14	14	14

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

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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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