

CMP: INR 3,093

Rating: Neutral

Target Price: INR 3,222

Stock Info

BSE	532541
NSE	LTTS
Bloomberg	LTTS IN
Reuters	LTECH.BO
Sector	Computers-Software
Face Value (INR)	2
Equity Capital (INR Mn)	211
Mkt Cap (INR Mn)	3,25,242
52w H/L (INR)	5,958/2,923
Avg Yearly Vol (in 000')	1710

Shareholding Pattern %

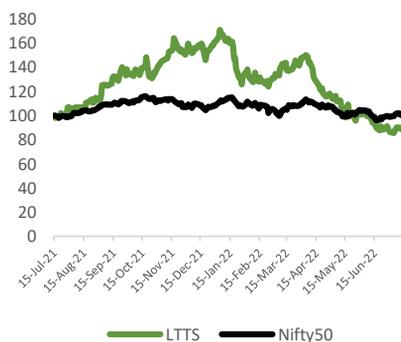
(As on June, 2022)

Promoters	73.88
FII	6.34
DII	4.08
Public & Others	15.70

Stock Performance (%)

	1m	3m	12m
LTTS	-6.1	-31.4	-10.7
Nifty	1.6	-8.7	0.2

LTTS Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

LTTS has reported a decent set of numbers in Q1FY23, in line with our estimates.

Digital transformation to keep growth higher: Reported revenue of \$ 239.5Mn (up 3.2% QoQ/16.5%YoY in USD terms) against our estimate of \$235 Mn. The cc growth was 4.7% QoQ/19.9%YoY. Reported revenue of INR 18,737 up 6.7% QoQ/ 23.4% YoY at INR 18,737 Mn against our estimate INR 18078 Mn. The growth was led by Plant Engineering (11.7%QOQ/27% YoY) and Industrial Products (7.60%QoQ/ 20.2% YoY) benefitting from spends towards digital manufacturing, energy transition, and smart & connected products. Hence, Transportation vertical grew by (+6.4% QoQ/31% YoY), Medical devices (5.75% QoQ/20.4%YoY), and Regional Telecom & Hitech (3.71% QoQ/14% YoY). FY23 USD revenue growth guidance remain of 13.5-15.5%.

Margin in-line with estimate and PAT slightly above estimate: EBIT margin was down 32bps QoQ/+105bpsYoY at 18.3% against our estimates of 18.1% due to operational efficiency even as the company invest for growth and capability building. Consolidated PAT stood at INR 2,750Mn, up by 26.7% YoY/4.5% QoQ against our estimate of INR 2,705Mn.

Strong deal wins: LTTS, In Q1 won a total of 7 deals with TCV of USD +10Mn which includes a USD 50 Mn deal and 4 USD 15 Mn deals. The company aerospace and Rail segment is seeing a revival of large deal bookings with a USD 50 Mn deal in Q1 on the back of a strong long-term deal that the company won in the prior quarter to cater to new age digital requirements of Aerospace.

Geography revenue: Among major markets, North America led with +4.2% QoQ/17.6% YoY growth; Continental Europe grew +5.1%QoQ/14% YoY and ROW grew +9%QoQ/7.8% YoY. While, India de-grew by 5.9% but grew by 19.6% YoY.

Hiring: The company aims to hire 3000 freshers in FY23 similar to Q4FY22. Already, 4500 offers released but it will be a mix of fresher and laterals. The focus of Q1 Hiring was on laterals.

Valuations: The company is seeing large deals continue to scale up well in FY23, Pipeline is higher than the previous year. Going forward, two areas of concern are how global growth will be impacted by inflation and attrition. The company is confident to deliver 13.5%-15% for the FY23 in USD terms and 14.5-16.5% in CC and reiterated its aim to achieve \$1bn revenue run rate by Q2-Q3 of FY23. Guidance of 18%+ Maintain margin level in FY23. The demand environment would continue to be good led by its focus on 6 key bets. This coupled with recent correction in prices prompt us to upgrade the stock from Reduce to Neutral with revised **target price of INR 3,222 per share (PE of 26x on FY24E EPS).**

YE March	Net Sales	EBIT	Adjusted PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
(INR Mn)							
FY21	54,497	7,891	6,633	62.9	14.5%	19.1%	49.2
FY22	65,697	12,005	9,570	90.7	18.3%	23.0%	34.1
FY23E	75,481	13,875	11,613	105.3	18.4%	23.4%	29.4
FY24E	86,206	16,272	13,817	123.9	18.9%	23.2%	25.0

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

Q1FY23 - Quarterly Performance (Consolidated)

Consolidated (in INR Mn)	Q1FY23	Q4FY22	Q1FY22	Y-o-Y	Q-o-Q
Revenue (USD)	240	232	206	16.4%	3.2%
Net Revenue	18,737	17,561	15,184	23.4%	6.7%
Employee cost	10,683	9,485	8,758	22.0%	12.6%
Other Expenses	4,044	4,271	3,249	24.5%	-5.3%
EBITDA	4,010	3,805	3,177	26.2%	5.4%
EBITDA margin %	21.4%	21.7%	20.9%	48bps	-27bps
Depreciation	576	531	554	4.0%	8.5%
EBIT	3,434	3,274	2,623	30.9%	4.9%
EBIT margin %	18.3%	18.6%	17.3%	105bps	-32bps
Other Income	448	419	442	1.4%	6.9%
Finance costs	108	105	108	0.0%	2.9%
PBT	3,774	3,588	2,957	27.6%	5.2%
Tax Expense	1,024	956	787	30.1%	7.1%
Effective tax rate %	27.1%	26.6%	26.6%	52bps	49bps
PAT	2,750	2,632	2,170	26.7%	4.5%
Extraordinary Items (Net of tax expense)	-	-	-		
Reported PAT	2,750	2,632	2,170	26.7%	4.5%
PAT margin %	15%	15%	14.3%	39bps	-31bps
Minority Interest	-8	-12	-8		
PAT (After MI)	2,742	2,620	2,162	26.8%	4.7%
EPS (INR)	25.98	24.83	20.6	26.3%	4.6%

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

Q1FY23 Concall Highlights

- **Growth:** LTTS is making very good progress across their six bets; The company is confident to deliver 13.5%-15% for the FY23. Reiterated its aim to achieve \$1bn revenue run rate by Q2-Q3 of FY23.
- **EBIT Margin:** Wage hike in Q2FY23; would try to make up for its impact on EBIT margin through positive operating leverage and other efficiency measures. It aims to maintain 18% EBIT Margin in medium term. Also one-time ESOP for the senior management.
- Offshoring revenue mix can increase by another ~200 bps to 57-58%.
- **Revenue by vertical:** Transportation displayed a good quarter +2.9% QoQ. This was across Auto, TONH, and Aero. In auto, trucks and high-way demand continue in the ANCV space with the program in design and high-power, inverter, test lab development digital corporate, and analytics. The company is invested incrementally in connected solutions due to rising spend in connected parts of the EACV space. The company currently pursuing a large deal in Europe at this stage into a connected solution. The management is seeing healthy demand for transportation in the medium-term EACV and expects the growth trajectory to sustain.
- **Plant engineering:** 7.5% QoQ growth and broad-based O&G, FMCG, and chemicals. The company is benefitting from secular trends across the sub-segment capacity expansion, and plant modernization using smart technology. The client spending capabilities and capacity across a product line mean new plant and ramp-up retro facility. Also, investments were made on the digital side, especially in automation analytics. In O&G, the company is seeing engineering value center opportunity with plant globally which means start work in the US, Europe side than go vis a vis leveraging India as a low-cost location for delivering. The management outlook is positive on the engineering and expects growth momentum to continue going forward.
- **Industrial Product:** Strong growth of 4.4% QoQ led by electrical followed by building automation. As more new factories opened up, the company explored demand machinery and the electric value chain. The company sees demand led by digital engineering with higher adoption of IIOT and robotics as customer build factory in the future.
- **Telecom & Hi-tech:** Good quarter in terms of deal wins. 2 deal wins in semi space and in 1 set up R&D lab and other chip for the auto industry leveraging both VLSI design and auto function safety expertise. The company's investment in 5G is paying well with repeat deals from the customer. Seeing improving demand environment for telecom sector with rising traction for 5G related solutions. The large deal wins are promising in the telecom & hi-tech.
- Segmental margin improved sequentially in 3 out of 5 segments.
- DSO come down 80 days against 87 days in Q4FY22. The company aims to maintain 95 days. Unbilled revenue was at 22 days in Q1FY23 compared to 15days in 4QFY22.
- Growth in Onsite is more than 45.4% during the quarter because of Q4FY22 deals.
- LTTS believes Attrition is expected to soften in coming quarters.

Exhibit 1: Increase in margin led by operational efficiency and forex benefits.

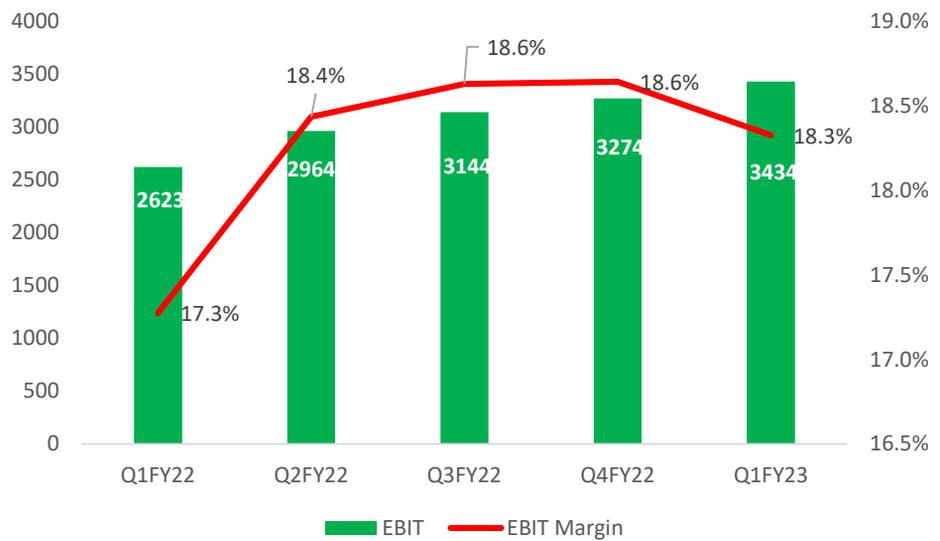
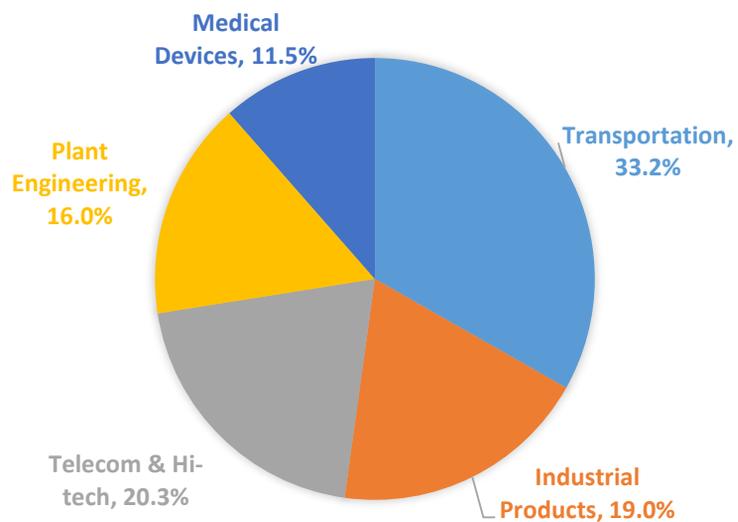


Exhibit 2: Offshoring revenue mix can increase by another ~200 bps to 57-58%.

Revenue Mix			
	Q1FY22	Q4FY22	Q1FY23
Onsite	41.9%	45.4%	43.8%
Offshore	58.1%	54.6%	56.2%

Exhibit 3: Good momentum across the vertical and traction on the large deal wins side. Healthy demand for transportation in the medium-term EACV and expects the growth trajectory to sustain.

REVENUE BY VERTICAL FOR Q1FY23



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

Operational Performance					
Revenue by Vertical	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Transportation	31.20%	31.40%	31.80%	33.30%	33.20%
Industrial Products	19.50%	20.00%	19.50%	19.00%	19.00%
Telecom & Hi-tech	22.00%	21.10%	21.40%	21.00%	20.30%
Plant Engineering	15.50%	15.30%	15.40%	15.00%	16.00%
Medical Devices	11.70%	12.20%	11.90%	12.00%	11.50%
Segment revenue					
Transportation	4738	5040	5369	5844	6218
Plant Engineering	2367	2461	2605	2708	3006
Industrial Products	2955	3221	3288	3302	3553
Medical Devices	1773	1954	2011	2019	2135
Telecom& Hitech	3351	3401	3602	3688	3825
Total	15184	16077	16875	17561	18737
Revenue by Geography					
North America	62.30%	62.90%	62.50%	62.30%	62.90%
Europe	16.80%	16.70%	16.50%	16.10%	16.40%
India	12.90%	12.90%	13.70%	14.50%	13.20%
Rest of the World	8.00%	8.00%	7.40%	7.00%	7.40%
Revenue Mix					
Onsite	41.90%	40.80%	41.30%	45.40%	43.80%
Offshore	58.10%	59.20%	58.70%	54.60%	56.20%
Revenue by Project Type					
Fixed Price	33.80%	30.00%	29.00%	28.60%	26.90%
Time and Material	66.20%	70%	71.00%	71.40%	73.10%
Client Profile *					
Number of Active Clients	305	314	318	324	337
30 Million dollar +	0	0	2	2	2
20 Million dollar +	5	6	6	6	7
10 Million dollar +	20	21	22	22	23
5 Million dollar +	43	45	44	48	51
1 Million dollar +	122	125	126	136	142
Client Contribution to Revenue					
Top 5 Clients	16.40%	17.00%	17.30%	17.20%	16.70%
Top 10 Clients	27.40%	28.20%	28.50%	28.30%	27.60%
Top 20 Clients	43.90%	44.10%	43.80%	43.50%	43.20%
Employee Statistics					
Total Headcount	16972	17983	20118	20861	21433
Bilable (as per number of employee)	15896	16875	18975	19534	20082
Sales & Support	1076	1108	1143	1327	1351
Voluntary Attrition % (LTM)	14.5%	16.5%	17.5%	20.4%	23.2%
Exchange Rate (USD/INR)					
Period Realised \$	73.83	73.96	74.95	75.69	78.23

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

Key Financials

Income Statement (INR Mn)					Balance Sheet (INR Mn)				
Year End-March	FY21	FY22	FY23E	FY24E	Year End-March	FY21	FY22	FY23E	FY24E
Revenue (Mn USD)	737	880	1,020	1,165	Sources of Funds				
Growth (%)	-6.3%	19.5%	15.8%	14.2%	Share Capital	210	211	211	211
Revenues	54,497	65,697	75,098	85,947	Reserves & Surplus	34,521	41,414	49,213	59,013
<i>Change (%)</i>	-3.0%	20.6%	14.3%	14.4%	Non-controlling interest	101	137	137	137
Employee Costs	33,550	36,505	41,543	44,783	Net Worth	34,832	41,762	49,561	59,361
Other Expenses	10,873	15,043	17,723	23,206	Non-Current liabilities				
Total Expenses	44,423	51,548	59,266	67,989	Total Current liabilities	10,126	13,263	12,503	14,678
EBITDA	10,074	14,149	15,832	17,959	Total liabilities	15,831	19,117	17,459	19,669
Depreciation	2,183	2,144	2,250	1,875	Total Equity and liabilities	50,729	60,910	67,052	79,061
EBIT	7,891	12,005	13,582	16,083	Total Non-current Assets	15,703	20,888	15,830	15,770
Other Income	1,537	1,524	2,310	2,888	Current Assets				
Interest	455	437	485	490	Investments	15,149	13,918	15,910	18,208
PBT	8,973	13,092	15,407	18,481	Trade receivables	12,346	16,959	16,666	19,073
Tax	2,308	3,486	3,975	4,768	Cash and cash equivalents	1,751	2,347	9,377	15,376
<i>Rate (%)</i>	25.7%	26.6%	25.8%	25.8%	Other bank balances	576	4,395	576	576
PAT	6,665	9,606	11,432	13,713	Other financial assets	1,685	2,564	2,322	2,657
Minority Interest	32	36	36	36	Other current assets	3,519	3,068	4,849	5,550
Adjusted PAT	6,633	9,570	11,396	13,677	Total current assets	35,026	43,251	49,699	61,441
<i>Change (%)</i>	-19.0%	44.3%	19.1%	20.0%	TOTAL ASSETS	50,729	60,910	67,052	79,061

Key Ratios				
Year End-March	FY21	FY22	FY23E	FY24E
Per Share (INR)				
EPS	62.9	90.7	103.4	122.7
CEPS	82.6	108.1	124.1	139.4
BVPS	1659	1979	2349	2813
DPS	21.5	25.0	21.0	21.0
Valuation (x)				
P/E	49.2	34.1	29.9	25.2
P/CEPS	51	39	34	30
P/BV	13	11	9	8
EV/EBITDA	29	21	18	16
Return Ratio (%)				
EBIDTA Margin	18.5%	21.5%	21.1%	20.9%
EBIT Margin	14.5%	18.3%	18.1%	18.7%
PAT Margin	12.2%	14.6%	15.2%	16.0%
ROE	19.1%	23.0%	23.1%	23.1%
ROCE	16.8%	21.1%	20.3%	20.1%
Dividend Yield	0.5%	0.6%	0.5%	0.5%
Leverage Ratio (%)				
Net Debt/Equity (x)	-0.1	-0.1	-0.2	-0.3
Net Debt/EBITDA (x)	-0.2	-0.2	-0.6	-0.9
Turnover Ratios				
Asset Turnover (x)	26.2	32.1	41.0	52.5
Receivable Days	88	81	81	81
Payable days	14	11	11	11

Cash Flow Statement (INR Mn)				
Year End-March	FY21	FY22	FY23E	FY24E
Net Profit before Tax	8,973	13,092	15,407	18,481
Adjustments:				
Depreciation	2,183	2,144	2,250	1,875
Finance Costs	455	437	0	0
Interest and Dividend received	12	-759	-210	-240
Operating Profit before WC Changes	11,623	14,914	17,447	20,116
Operating Profit after WC Changes	15,848	13,625	17,741	17,708
Direct Taxes Paid & Exceptional Items	-2,523	-3,563	-3,975	-4,768
Cash Flow from Operating Activities	13,325	10,062	13,766	12,940
Cash Flow from Investing Activities	-10,054	-4,483	-2,825	-2,997
Cash Flow from Financing Activities	-3,627	-4,982	-3,938	-3,943
Net Change in Cash & Cash Equivalents	-356	597	7,003	6,000
Opening Cash & Cash Equivalents	2,133	1,777	2,374	9,377
Closing Cash & Cash Equivalents	1777	2374	9377	15376

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

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880