

Strong Margin performance despite headwinds from wage hikes

CMP: INR 3,511

Rating: Neutral

Target Price: INR 3,420

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)	369,545
52w H/L (INR)	5,958/2,923
Avg Yearly Vol (in 000')	355

**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	6.6	15.2	-24.5
Nifty	-0.3	7.3	-5.4

LTTS Vs Nifty



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Revenue in-line with the estimates: Reported revenue of \$ 247.1Mn (up 3.1% QoQ/13.6%YoY in USD terms) against our estimate of \$249 Mn. The cc growth was 4.5% QoQ/18.1% YoY. Reported revenue of INR 19,951 up 6.5% QoQ/ 24.1% YoY against our estimate INR 19,775 mn. The growth was led by Transportation (10.9%QOQ/36.8% YoY), followed by Plant Engineering (8.2%QoQ/ 32.2% YoY) benefitting from a differentiated set of offerings in EACV, Digital Manufacturing and Sustainability.

Guidance: For FY23, LTTS cut guidance to 15.5-16.5% in cc terms vs earlier 14.5-16.5% (13-14% in USD terms) versus 13.5-15.5% in USD terms earlier. The company has achieved a revenue run rate of \$1bn in cc terms this quarter. The aim is to achieve \$1.5bn revenue run rate by FY25.

Outperformance in EBIT Margin and PAT in-line with estimates: EBIT margin was down 14bps QoQ/25bpsYoY at 18.2% against our estimates of 17.4%. Operational execution has kept pace with Q2 being the 5th consecutive quarter. The company consolidated PAT stood at INR 2,832 Mn, up by 22.7% YoY/3% QoQ against our estimate of INR 2,847 Mn.

Deal wins tad lower: LTTS won a USD 60 million plus deal in transportation and one more deal with TCV of USD 10 million. While, LTTS is collaborating with Qualcomm Technologies, Inc. to deploy end-to-end solutions for the global 5G Private Network Industry utilizing their combined core expertise in the Hi-Tech & Telecommunication domain. LTTS and Qualcomm Technologies will bring together core competencies in telecommunication solutions and services for the benefit of end-customers in the manufacturing and warehousing/ logistics sector.

Geography revenue: Among major markets, ROW grew +9.5%QoQ/20.9% YoY; North America led with +4.0% QoQ/14.5% YoY growth; Continental Europe flat -0.1%QoQ/+8.3% YoY and, India flat to -0.3% but grew 12.3% YoY.

Demand to remain strong: As countries/states are looking to localize the supply chain (due to global macro volatility), cost optimization measures are coming into prominence, and energy transition to alternate sources is taking place gradually (which is a five-to-seven year opportunity).

Valuations: The company is seeing deal pipeline remains strong. However, there are signs of demand softness in sectors such as Hitech and Medical Devices where clients are watchful of evolving macroeconomic situations. LTTS maintained its EBIT margin at >18% despite headwinds from wage hikes in Q2FY23. EBIT margin came in at 18.2% (-26bps QoQ) above our estimate of 17.4% as headwinds from wage hikes were offset by tailwinds from revenue growth. Going forward, attrition is likely to normalize and thus reduce wage inflation pressures. Digitization is driving the accelerated spends in ER&D and LTTS should benefit due to its strong capabilities, multi-vertical presence, and solid wallet share. We expect the company to deliver revenue growth of CAGR ~15% over FY22-25E. **We value, LTTS at a PE of 25x to its FY25E EPS of INR 136.8, which yields a target price of INR 3,420 per share (Earlier target; INR 3,222 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%	38.7
FY23E	76,575	13,981	11,692	106.1	18.3%	23.5%	33.1
FY24E	87,432	16,172	13,571	121.7	18.5%	22.8%	28.8
FY25E	99,128	18,468	15,472	136.8	18.6%	19.3%	25.7

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

Exhibit 2: Q2FY23 - Quarterly Performance (Consolidated)

Consolidated (in INR Mn)	Q2FY23	Q1FY23	Q2FY22	Y-o-Y	Q-o-Q
Revenue (USD)	247	240	217.4	13.6%	3.1%
Net Revenue	19,951	18,737	16,077	24.1%	6.5%
Employee cost	11,528	10,683	9,038	27.6%	7.9%
Other Expenses	4,205	4,044	3,546	18.6%	4.0%
EBITDA	4,218	4,010	3,493	20.8%	5.2%
EBITDA margin %	21.1%	21.4%	21.7%	-58bps	-26bps
Depreciation	590	576	529	11.5%	2.4%
EBIT	3,628	3,434	2,964	22.4%	5.6%
EBIT margin %	18.2%	18.3%	18.4%	-25bps	-14bps
Other Income	392	448	293	33.8%	-12.5%
Finance costs	131	108	113	15.9%	21.3%
PBT	3,889	3,774	3,144	23.7%	3.0%
Tax Expense	1,057	1,024	836	26.4%	3.2%
Effective tax rate %	27%	27.1%	26.6%	59bps	5bps
PAT	2,832	2,750	2,308	22.7%	3.0%
Extraordinary Items (Net of tax expense)	-	-	-		
Reported PAT	2,832	2,750	2,308	22.7%	3.0%
PAT margin %	14%	15%	14.4%	-16bps	-48bps
Minority Interest	-8	-8	-8		
PAT (After MI)	2,824	2,742	2,300	22.8%	3.0%
EPS (INR)	21.89	25.98	21.9		-15.7%

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

Q2FY23 Concall Highlights

- **Demand:** Deal pipeline remains strong. However, there are signs of demand softness in sectors such as Hi-tech and Medical Devices where clients are watchful of evolving macroeconomic situation
- **EBIT Margin:** The aim is to maintain EBIT margin of 18% plus in medium term.
- **Guidance:** The revenue growth guidance of 15.5%-16.5% in cc terms takes into account seasonally weak Q3.
- **Revenue run rate:** The company has achieved revenue run rate of \$1bn in cc terms in this quarter. The aim is to achieve \$1.5bn revenue run rate by FY25.
- There was dip in offshore revenue mix in the quarter due to certain large deal ramp ups. It will take few quarters more when 5G related deals pick up for LTTS.
- **Attrition:** Employee attrition has peaked up and should come down in coming quarters. Muted employee addition in the quarter was one off and not a trend.
- **Utilization:** It has stopped reporting employee utilization recently. Utilization has improved in the quarter and the long term aim is to be between 78-82% utilization level.
- **Segments:**
 - 1) Transportation:** Differentiated EACV offerings have helped the company win large deals consistently for last 3-4 quarters. EACV continues to drive the demand. The company announced a deal from BMW in engineering services for the latter's infotainment console. Global air travel is picking up, leading to increase in demand for aircraft and rising order backlogs at manufacturers. Electrification initiatives are picking up in aerospace and trucks & off-highway vehicle segments. Pipeline of US\$10mn-20mn deals continues to be strong in this segment.,
 - 2) Plant engineering:** Grew at strong rate of 6% QoQ CC led by demand across FMCG, oil & gas and chemicals. Clients are investing either in greenfield or brownfield expansions as well as in asset management and digital twin programs. In Q2FY23, LTTS won a large deal from a chemical industry client to implement a digital twin for its flagship site in the US. As some of the large deals stabilize, Q3FY23 is likely to be muted for plant engineering. Deal pipeline in the US and Europe for this segment continues to be healthy.
 - 3) Industrial products:** Grew 3.5% QoQ CC in Q2FY23 led by electrical machinery, power and utilities. Strong demand is seen for digital manufacturing programs, connected battery solutions, sustainability (clean energy and carbon footprint reduction solutions).
 - 4) Telecom and hi-tech:** Reported flat growth in CC terms as growth in semiconductor and telecom segments was offset by weakness in consumer electronics, equipment and hi-tech vertical. In media, large deal possibilities are seen in vendor consolidation and optimization. Company expects growth in telecom to gain traction over next the two quarters as 5G demand picks up.
 - 5) In medical devices:** The company had a soft quarter as customers recalibrated spends amidst supply chain issues and inflation. Digital health platform continues to grow well. The company won a large deal from a global healthcare provider in Q2FY23 for QARA (quality assurance and regulatory affairs).

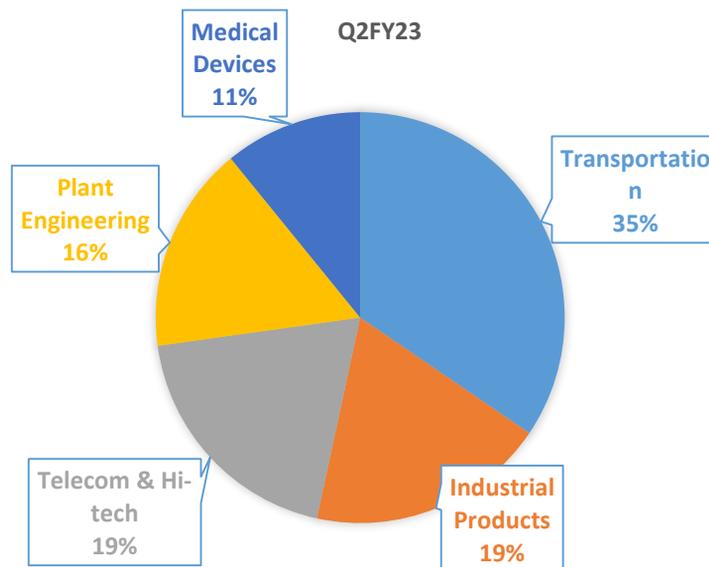
Exhibit 3: Operational execution has kept pace with Q2 being the 5th consecutive quarter



Exhibit 4: Onsite revenue mix improved in Q2FY23.

Revenue Mix			
	Q2FY23	Q1FY23	Q2FY22
Onsite	45.1%	43.8%	40.8%
Offshore	54.9%	56.2%	59.2%

Exhibit 5: Good momentum across the vertical and traction on the large deal wins side.



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

Operational Performance					
Revenue by Vertical	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Transportation	31.40%	31.80%	33.30%	33.20%	34.50%
Industrial Products	20.00%	19.50%	19%	19.00%	18.90%
Telecom & Hi-tech	21.10%	21.4%	21%	20.30%	19.40%
Plant Engineering	15.30%	15.4%	15%	16.00%	16.30%
Medical Devices	12.20%	11.9%	12%	11.50%	10.90%
Segment revenue					
Transportation	5040	5369	5844	6218	6896
Plant Engineering	2461	2605	2708	3006	3253
Industrial Products	3221	3288	3302	3553	3763
Medical Devices	1954	2011	2019	2135	2160
Telecom& Hitech	3401	3602	3688	3825	3879
Total	16077	16875	17561	18737	19951
Revenue by Geography					
North America	62.90%	62.50%	62.30%	62.90%	63.40%
Europe	16.70%	16.50%	16.10%	16.40%	15.90%
India	12.90%	13.70%	14.50%	13.20%	12.80%
Rest of the World	8.00%	7.40%	7%	7.40%	7.90%
Revenue Mix					
Onsite	40.80%	41.30%	45.40%	43.80%	45.10%
Offshore	59.20%	58.70%	54.60%	56.20%	54.90%
Revenue by Project Type					
Fixed Price	30.00%	29.00%	28.60%	26.90%	27.00%
Time and Material	70%	71.00%	71.40%	73.10%	73.00%
Client Profile *					
Client Detail	-	-	-	-	-
Number of Active Clients	314	318	324	337	343
30 Million dollar +	-	2	2	2	3
20 Million dollar +	6	6	6	7	8
10 Million dollar +	21	22	22	23	24
5 Million dollar +	45	44	48	51	49
1 Million dollar +	125	126	136	142	150
Client Contribution to Revenue					
Top 5 Clients	17.00%	17.30%	17.20%	16.70%	16.40%
Top 10 Clients	28.20%	28.50%	28.30%	27.60%	26.90%
Top 20 Clients	44.10%	43.80%	43.50%	43.20%	42.40%
Employee Statistics					
Total Headcount	17983	20118	20861	21433	21474
Bilable (as per number of employee)	16875	18975	19534	20082	20189
Sales & Support	1108	1143	1327	1351	1285
Voluntary Attrition % (LTM)	16.5%	17.5%	20.4%	23.2%	24.1%
Exchange Rate (USD/INR)					
Period Realised \$	73.96	74.95	75.69	78.23	80.76

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

Key Financials

Income Statement (INR Mn)				
Year End-March	FY22	FY23E	FY24E	FY25E
Revenue (Mn USD)	880	997	1,088	1,175
Growth (%)	19.5%	13.3%	9.1%	8.0%
Revenues	65,697	76,575	87,432	99,128
Change (%)	20.6%	16.6%	14.2%	13.4%
Employee Costs	36,505	42,273	45,190	49,166
Other Expenses	15,043	18,072	23,432	28,549
Total Expenses	51,548	60,345	68,621	77,715
EBITDA	14,149	16,231	18,810	21,413
EBITDA Margin (%)	21.5%	21.2%	21.5%	21.6%
Depreciation	2,144	2,250	2,638	2,944
EBIT	12,005	13,981	16,172	18,468
EBITDA Margin (%)	18.3%	18.3%	18.5%	18.6%
Other Income	1,524	2,310	2,657	2,922
Interest	437	485	490	490
PBT	13,092	15,806	18,339	20,900
Tax	3,486	4,078	4,731	5,392
Rate (%)	26.6%	25.8%	25.8%	25.8%
PAT	9,606	11,728	13,607	15,508
Minority Interest	36	36	36	36
Adjusted PAT	9,570	11,692	13,571	15,472
Change (%)	44.3%	22.2%	16.1%	14.0%

Balance Sheet (INR Mn)				
Year End-March	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Share Capital	211	211	211	211
Reserves & Surplus	41,414	49,509	59,204	70,743
Net Worth	41,762	49,857	59,552	71,091
Non-Current liabilities				
Total Current liabilities	13,263	12,775	14,803	16,390
Total liabilities	19,117	17,735	19,798	21,417
Total Equity and liabilities				
	60,910	67,623	79,381	92,539
Total Non-current Assets				
	20,888	15,830	15,612	15,356
Current Assets				
Investments	13,918	16,223	18,522	21,000
Trade receivables	16,959	16,993	19,403	21,998
Cash and cash equivalents	2,347	9,166	15,831	23,543
Other bank balances	4,395	576	576	576
Other financial assets	2,564	2,368	2,703	3,065
Other current assets	3,068	4,945	5,646	6,401
Total current assets	43,251	50,270	62,681	76,583
TOTAL ASSETS	60,910	67,623	79,381	92,539

Key Ratios				
Year End-March	FY22	FY23E	FY24E	FY25E
Per Share (INR)				
EPS	90.7	106.1	121.7	136.8
CEPS	108.1	126.8	145.3	162.8
BVPS	1979	2363	2822	3369
DPS	35.0	35.0	35.0	35.0
Valuation (x)				
P/E	38.7	33.1	28.8	25.7
P/CEPS	32	28	24	22
P/BV	9	8	7	6
EV/EBITDA	21	18	15	13
Return Ratio (%)				
EBIDTA Margin	21.5%	21.2%	21.5%	21.6%
EBIT Margin	18.3%	18.3%	18.5%	18.6%
PAT Margin	14.6%	15.3%	15.6%	15.6%
ROE	23.0%	23.5%	22.8%	21.8%
ROCE	21.1%	20.8%	20.1%	19.3%
Dividend Yield	1.0%	1.0%	1.0%	1.0%
Leverage Ratio (x)				
Net Debt/Equity (x)	-0.1	-0.2	-0.3	-0.3
Net Debt/EBITDA (x)	-0.2	-0.6	-0.8	-1.1
Turnover Ratios				
Asset Turnover (x)	32.1	41.8	53.4	63.7
Receivable Days	81	81	81	81
Payable days	11	11	11	11

Cash Flow Statement (INR Mn)				
Year End-March	FY22	FY23E	FY24E	FY24E
Net Profit before Tax	13,092	15,806	18,339	20,900
Adjustments:				
Depreciation	2,144	2,250	2,638	2,944
Finance Costs	437	-	-	-
Interest and Dividend received	-759	-214	-244	-277
Operating Profit before WC Changes	14,914	17,842	20,732	23,568
Operating Profit after WC Changes	13,625	17,807	18,323	20,972
Direct Taxes Paid & Exceptional Items	-3,563	-4,078	-4,731	-5,392
Cash Flow from Operating Activities	10,062	13,729	13,592	15,580
Cash Flow from Investing Activities	-4,483	-3,134	-2,995	-3,281
Cash Flow from Financing Activities	-4,982	-3,803	-3,932	-4,587
Net Change in Cash & Cash Equivalents	597	6,792	6,665	7,712
Opening Cash & Cash Equivalents	1,777	2,374	9,166	15,831
Closing Cash & Cash Equivalents	2374	9166	15831	23543

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

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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