

**CMP: INR 5,319**

**Rating: Hold**

**Target Price: INR 5,850**

**Stock Info**

BSE	540115
NSE	LTTS
Bloomberg	LTTS.IN
Reuters	LTTS.BO
Sector	IT Enabled Services
Face Value (INR)	2
Equity Capital (INR mn)	212
Mkt Cap (INR mn)	562,863
52w H/L (INR)	6,000/4,111
Avg Yearly Vol (in 000')	199

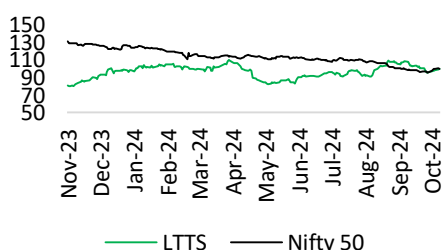
**Shareholding Pattern %**

(As on June, 2024)

Promoters	73.69
Public & Others	26.31

Stock Performance (%)	1m	3m	12m
LTTS	-7.1	8.8	12.9
Nifty 50	-1.2	1.8	27.0

**LTTS Vs Nifty 50**



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**LTTS Results, Revenue above estimate; Margin & PAT below our estimates.** For FY25, the company maintains revenue growth guidance of 8-10% in cc terms and medium-term outlook of USD 2 bn revenue with EBIT margin of 17-18%.LTTS reported Q2FY25 revenues of USD 307 mn up 6.6%YoY/0.3% QoQ above our estimate of USD 302 Mn. in constant currency up 3.4% QoQ/+6.3% YoY. Reported revenue of INR 25,729 up 4.5% QoQ/+7.8% YoY above our estimate of INR 25,390 Mn. The revenue growth led by Mobility & Sustainability grew by 5.3% QoQ/7.1% QoQ .EBIT margin was contract 287bpsYoY/down 51bps QoQ at 15.07% below our estimates of 16.3% led by higher employee & other expenses. PAT stood at INR 3,196 Mn against our estimate of INR 3,356 Mn. Geography revenue: Among major markets, North America (grew by 3.1% QoQ/1% YoY), Europe (+5.8% QoQ/+24.4% YoY), India (+3.4% QoQ/ +7.9% YoY) and ROW ( +6.3% QoQ/+4.6% YoY). LTTS won two USD 20 mn and four USD 10 mn TCV deals. Additionally, the company won two significant empanelment agreements in Sustainability Offshore revenue was down by 60bps on QoQ to 58.30%Number of employees was increased by 121 QoQ to 23,698; LTM attrition was down by 50QoQ to 14.3%

**Focusing on AI:** The company focus on developing AI enabled medical devices and robotic assisted surgery systems. Partnerships with major med tech firms and growth in digital health technologies. Also, the company's Investments in semcon, media, consumer technology, and telecom sectors with 18% CAGR growth. Targeting growth in areas like hyperscalers and Gen AI. Revenue growth targets of \$1 bn, with an EBITDA margin of 16-18% margin in med tech and hi-tech sectors. Q3 will be a good for Hi-tech and Sustainability and company does not foresee significant impacts from furloughs in aerospace and high-tech sectors.

**Outlook:** FY25 aims for 8-10% revenue growth and a USD 1.5 bn run rate, with a reorganization into Mobility, Sustainability, and Hi-Tech segments, emphasizing AI and SDV. The projection is for an upward trajectory in both revenue and EBIT margin from Q3, targeting a 16% EBIT margin for FY25. The medium-term aspiration includes revenue of USD 2 bn, an EBIT margin of 17-18%, Focus on scaling client accounts to \$50m+ & \$100m+ and winning large deals. The company aims to be carbon and water neutral by 2030. It is focused on scaling through organic growth and strategic acquisitions, with an emphasis on expanding technological capabilities and market presence. Continued investment in emerging technologies and digital transformation is planned. **We expect revenue growth of 11%/13.8%/14.7% in FY25/FY26/FY27. We value LTTS at a PE ratio of 30x its FY27E EPS of INR 195, which yields a target price of INR 5,850 per share. We maintain our Hold rating on the stock.**

**Exhibit 1: Financial overview**

YE March	Net Sales	EBIT	Adjusted PAT	EPS (INR)	EBIT Margin %	P/E (x)
(INR Mn)						
FY24	96,473	16,474	13,037	123.3	17.1%	43.1
FY25E	107,164	17,580	14,705	131.9	16.4%	40.3
FY26E	120,802	20,639	17,374	157.3	17.1%	33.8
FY27E	138,553	25,615	21,548	195.0	18.5%	27.3

Source: Arihant Research, Company Filings

**Exhibit 2: Q2FY25 - Quarterly Performance (Consolidated)**

Consolidated (in INR Mn)	Q2FY25	Q1FY25	Q2FY24	Y-o-Y	Q-o-Q
Revenue (USD)	307	306	288	6.6%	0.3%
Net Revenue	25,729	24,619	23,865	7.8%	4.5%
Employee cost	13,852	13,317	12,417	11.6%	4.0%
Other Expenses	7,217	6,740	6,692	7.8%	7.1%
EBITDA	4,660	4,562	6,266	-25.6%	2.1%
EBITDA margin %	18.11%	18.53%	21.07%	-296bps	-42bps
Depreciation	783	726	681	15.0%	7.9%
EBIT	3,877	3,836	4,347	-10.8%	1.1%
EBIT margin %	15.07%	15.58%	17.94%	-287bps	-51bps
Other Income	650	622	412	57.8%	4.5%
Finance costs	119	115	126	-5.6%	3.5%
PBT	4,408	4,327	4,568	-3.5%	1.9%
Tax Expense	1,208	1,188	1,202	0.5%	1.7%
Effective tax rate %	27.40%	27.46%	28.37%	-97bps	-5bps
PAT	3,200	3,139	3,508	-8.8%	1.9%
Extraordinary Items (Net of tax expense)	-	-	-		
Reported PAT	3,200	3,139	3,414	-6.3%	1.9%
PAT margin %	12.44%	12.75%	14.31%	-187bps	-31bps
Minority Interest	-4	-3	-5		
PAT (After MI)	3,196	3,136	3,409	-6.2%	1.9%
EPS (INR)	30.20	29.57	29.84	1.2%	2.1%
<b>Revenue Vertical</b>	<b>Q2FY25</b>	<b>Q1FY25</b>	<b>Q2FY24</b>	<b>Y-o-Y</b>	<b>Q-o-Q</b>
Mobility	9123	8660	7931	15.0%	5.3%
Sustainability	7923	7401	7484	5.9%	7.1%
Hi-Tech	8683	8558	8450	2.8%	1.5%

Source: Arihant Research, Company Filings

**Q2FY25 Conference call Highlights**

- For FY25, the company maintains a revenue growth guidance of 8-10% in constant currency terms, with a medium-term outlook of USD 2 bn in revenue and an EBIT margin of 17-18%. Aspire to reach a 16% margin by FY25. The EBIT margin is expected to improve, driven by technology solutions.
- Mobility, Seeing robust deals pipeline for this; to be soft in Q3 amid seasonality and rebound in Q4
- Sustainability, Seeing a good pipeline expect growth momentum to sustain in Q3 and beyond
- Hi-tech continue to see rebound in medtech segment; Hi-tech grow in Q3 led by work done within semcon segment. Q3 will be a good for Hi-tech and Sustainability and company does not foresee significant impacts from furloughs in aerospace and high-tech sectors.
- Deal pipeline continues to grow at a good pace with a healthy number of large deals
- In smart world, which is lower margin few projects got delay due to elections, which were, suppose and got right shifted to October and expected to improve in H2FY25.
- Broad-based growth in expected Q3FY25 onwards.
- The company is prioritizing investments in growth, leadership, AI, Factory of future, and SDV in H1FY25 which will lead to step-up in revenue and its quality.
- Wage hikes to be effective 1st November, 2024. Thus, Q3 to see 2 months impact of wage hikes which will be 80bps.
- Deal pipeline is higher on YoY and QoQ basis. Deal value in absolute terms is higher in Q2 than Q1. H2FY25 margins are expected to improve, driven by optimism in our operational pyramid and better-quality deals with higher gross margins.
- Currently, top 50 accounts have more OEMs as clients than Tier-I.
- Margin accretion-better revenue quality, better quality of deals leading to better gross margins, deal pipeline, pyramid optimization, fresher intake will be deployment on new deals, improvement in bill rates.
- SGA as % of sales to normalize at 10% level and company is working towards it. In absolute terms as well SGA will decline. While headcount has ramped up, Company does not expect significant drops in margin.
- The company is seeing furloughs in automotive as usual.
- Number of \$50mn and \$25mn deals have improved against 2 Quarters ago
- For FY25E, company aims to hire 2,000 fresher against 1,500 in FY24.
- Within OEMs company continues to improve, however, Tier-1s are seeing pressure and company has diversified with smaller player within the industries.
- Anticipate a rebound in Q4, with a turnaround in the industrial sector and a more promising outlook.
- There is strong demand for setting up centers, and continue to see demand for plant modernization, including one of the largest deals in oil and gas.
- Enhancing project-engineering capabilities for new plants.
- MAH Cyber is a milestone based deal. Accordingly, billing will happen over the next 3-6 months. Post which maintenance work will be done for the next 5 years.

## Exhibit 3: Business Matrix

Operational Performance						
Revenue by Vertical	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Mobility	32.70%	35.80%	35.80%	32.00%	35.20%	35.50%
Sustainability	31.50%	35.80%	35.80%	30.00%	30.00%	30.80%
Hi-Tech	35.80%	35.80%	35.80%	38.00%	34.80%	33.70%
Revenue by Geography						
North America	56.50%	55.30%	54.60%	53.70%	52.90%	52.50%
Europe	15.40%	15.80%	16.60%	15.80%	18.10%	18.40%
India	20.70%	21.60%	21.50%	23.70%	22.00%	21.90%
Rest of the World	7.40%	7.30%	7.30%	6.80%	7.00%	7.20%
Revenue Mix						
Onsite	40.70%	40.40%	41.30%	41.30%	41.10%	41.70%
Offshore	59.30%	59.60%	58.70%	58.70%	58.90%	58.30%
Revenue by Project Type						
Fixed Price	35.60%	35.80%	38.50%	39.50%	36.90%	37.50%
Time and Material	64.40%	64.20%	61.50%	60.50%	63.10%	62.50%
Client Profile						
Number of Active Clients	357	362	364	365	378	373
30 Million dollar +	3	4	4	5	6	7
20 Million dollar +	12	12	14	12	12	13
10 Million dollar +	32	31	31	35	31	33
5 Million dollar +	56	55	56	58	60	60
1 Million dollar +	181	177	175	180	177	176
Client Contribution to Revenue						
Top 5 Clients	14.70%	14.90%	15.70%	15.40%	15.00%	15.00%
Top 10 Clients	25.90%	26.10%	26.60%	26.40%	26.30%	26.50%
Top 20 Clients	41.40%	41.70%	41.70%	40.60%	41.30%	41.50%
Employee Statistics						
Total Headcount	23392	23880	23298	23812	23577	23698
Bilable (as per number of employee)	21933	22366	21887	22392	22120	22185
Sales & Support	1459	1514	1411	1420	1457	1513
Voluntary Attrition % (LTM)	18.9%	16.7%	15.8%	14.8%	14.8%	14.3%
Exchange Rate (USD/INR)						
Period Realised \$	82.20	82.84	83.30	83.16	83.40	83.90

Source: Arihant Research, Company Filings

Exhibit 4: Above our estimate in USD revenue in Q2FY25

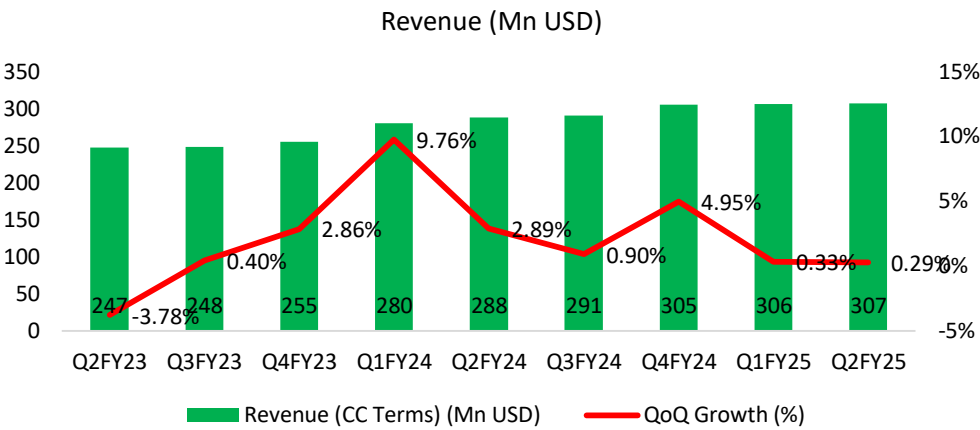


Exhibit 5: EBIT Margin within guided range

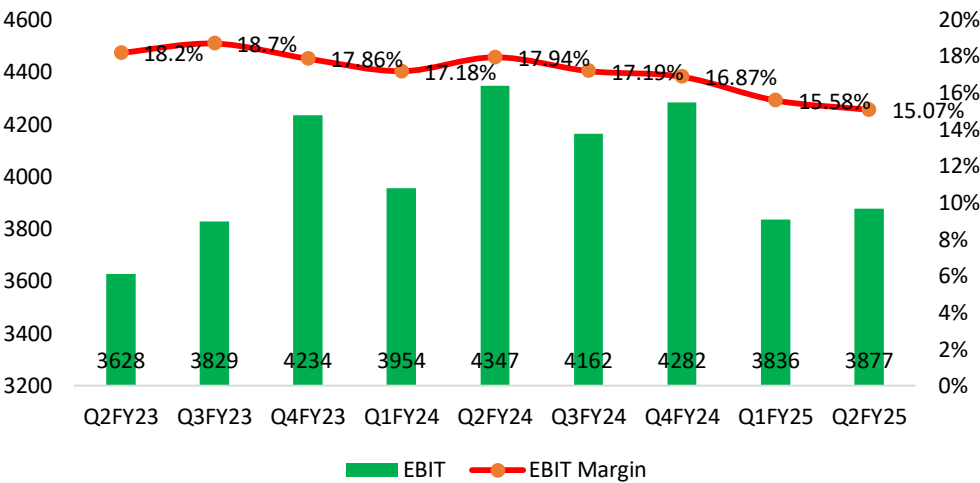
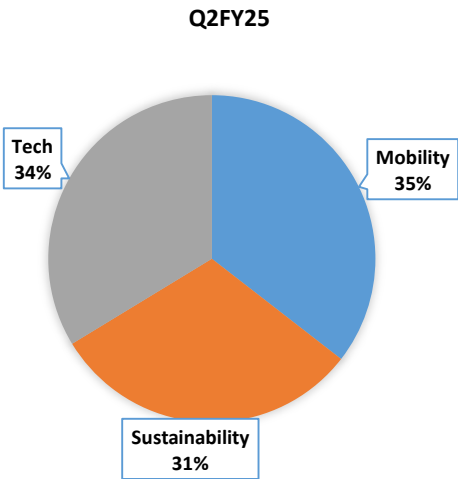


Exhibit 6: Revenue by Verticals



Source: Arihant Research, Company Filings

## Key Financials

Income Statement (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
Revenue (Mn USD)	1,164	1,271	1,401	1,520
Growth (%)	15.6%	9.2%	10.2%	8.5%
Revenues	96,473	107,164	120,802	138,553
Change (%)	9.4%	11.1%	12.7%	14.7%
Employee Costs	49,298	54,918	60,684	67,056
Other Expenses	27,985	32,149	36,845	42,536
Total Expenses	77,283	87,067	97,529	109,592
EBITDA	19,190	20,097	23,273	28,961
EBITDA Margin (%)	19.9%	18.8%	19.3%	20.9%
Depreciation	2,716	2,516	2,635	3,345
EBIT	16,474	17,580	20,639	25,615
EBIT Margin (%)	17.1%	16.4%	17.1%	18.5%
Other Income	2,073	2,846	3,415	4,098
Interest	509	520	540	560
PBT	18,038	19,906	23,514	29,154
Tax	4,975	5,176	6,114	7,580
Rate (%)	27.6%	26.0%	26.0%	26.0%
PAT	13,063	14,731	17,400	21,574
Minority Interest	26	26	26	26
Adjusted PAT	13,037	14,705	17,374	21,548
Change (%)	7.6%	12.8%	18.2%	24.0%

Balance Sheet (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	211	211	211	211
Reserves & Surplus	53,059	62,823	73,549	89,763
Net Worth	53,477	63,241	73,967	90,181
Non-Current liabilities				
Total Current liabilities	23,792	27,991	30,477	36,252
Total liabilities	31,138	34,858	37,374	43,198
Total Equity and liabilities	84,885	98,367	111,651	133,737
Total Non-current Assets	20,421	20,831	22,397	24,122
Current Assets				
Investments	12,936	14,370	16,198	18,578
Trade receivables	21,803	24,075	27,139	31,127
Cash and cash equivalents	11,221	21,118	27,564	41,069
Other bank balances	2,684	2,684	2,684	2,684
Other financial assets	1,570	1,744	1,966	2,255
Other current assets	12,056	12,860	14,496	16,626
Total current assets	62,303	76,850	90,048	112,340
TOTAL ASSETS	84,885	98,367	111,651	133,737

Source: Arihant Research, Company Filings

## Key Financials

Cash Flow Statement (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
Net Profit before Tax	18,038	19,906	23,514	29,154
Adjustments:				
Depreciation	2,716	2,516	2,635	3,345
Finance Costs	509.00	-	-	-
Interest and Dividend received	(1,174)	(960)	(978)	(1,002)
<b>Operating Profit before WC Changes</b>	<b>20,089</b>	<b>21,463</b>	<b>25,171</b>	<b>31,497</b>
Operating Profit after WC Changes	20,184	20,947	25,046	30,208
Direct Taxes Paid & Exceptional Items	(5,256)	(5,176)	(6,114)	(7,580)
<b>Cash Flow from Operating Activities</b>	<b>14,928</b>	<b>15,771</b>	<b>18,932</b>	<b>22,628</b>
<b>Cash Flow from Investing Activities</b>	<b>(2,333)</b>	<b>(1,692)</b>	<b>(2,250)</b>	<b>(2,987)</b>
<b>Cash Flow from Financing Activities</b>	<b>(6,579)</b>	<b>(4,250)</b>	<b>(10,236)</b>	<b>(6,136)</b>
Net Change in Cash & Cash Equivalents	6,016	9,830	6,446	13,505
Opening Cash & Cash Equivalents	5,272	11,288	21,118	27,564
Closing Cash & Cash Equivalents	11288	21118	27564	41069

Key Ratios				
Year End-March	FY24	FY25E	FY26E	FY27E
<b>Per Share (INR)</b>				
EPS	123.3	131.9	157.3	195.0
CEPS	141.8	154.5	181.1	225.2
BVPS	2534	2997	3506	4274
DPS	50.0	35.0	37.0	39.0
<b>Valuation (x)</b>				
P/E	43.1	40.3	33.8	27.3
P/CEPS	37	34	29	24
P/BV	11.0	9.4	8.0	6.5
EV/EBITDA	14.7	13.6	11.4	8.7
<b>Return Ratio (%)</b>				
EBIDTA Margin	19.9%	18.8%	19.3%	20.9%
EBIT Margin	17.1%	16.4%	17.1%	18.5%
PAT Margin	13.5%	13.7%	14.4%	15.6%
ROE	24.4%	23.3%	23.5%	23.9%
ROCE	22.3%	20.6%	20.6%	21.0%
Dividend Yield	0.9%	0.7%	0.7%	0.7%
<b>Leverage Ratio (%)</b>				
Net Debt/Equity (x)	-0.2	-0.3	-0.4	-0.5
Net Debt/EBITDA (x)	-0.6	-1.1	-1.2	-1.4
<b>Turnover Ratios</b>				
Asset Turnover (x)	28.9	29.4	37.9	52.5
Receivable Days	82	82	82	82
Payable days	49	49	49	49

Source: Arham 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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