

October 20, 2021

## Q2FY22 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	5,621		4,880	
Sales (Rs. m)	80,472	96,548	78,418	94,084
% Chng.	2.6	2.6		
EBITDA (Rs. m)	16,685	20,275	16,259	19,757
% Chng.	2.6	2.6		
EPS (Rs.)	110.7	128.5	108.2	125.4
% Chng.	2.4	2.5		

### Key Financials - Consolidated

Y/e Mar (Rs bn)	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	54,497	65,393	80,472	96,548
EBITDA (Rs. m)	10,074	13,667	16,685	20,275
Margin (%)	18.5	20.9	20.7	21.0
PAT (Rs. m)	6,633	8,888	11,625	13,491
EPS (Rs.)	63.8	85.4	110.7	128.5
Gr. (%)	(19.1)	34.0	29.6	16.0
DPS (Rs.)	20.8	27.9	36.5	63.6
Yield (%)	0.4	0.5	0.7	1.2
RoE (%)	21.3	23.8	26.7	26.4
RoCE (%)	25.2	30.7	32.0	33.3
EV/Sales (x)	9.6	8.0	6.4	3.5
EV/EBITDA (x)	51.8	38.1	31.0	16.5
PE (x)	80.5	60.1	46.3	39.9
P/BV (x)	15.5	13.4	11.4	6.5

### Key Data

LTEH.BO | LTTS IN

52-W High / Low	Rs.5,469 / Rs.1,602
Sensex / Nifty	61,716 / 18,419
Market Cap	Rs.540bn/ \$ 7,163m
Shares Outstanding	105m
3M Avg. Daily Value	Rs.3424.59m

### Shareholding Pattern (%)

Promoter's	74.15
Foreign	9.50
Domestic Institution	6.14
Public & Others	10.21
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	12.6	91.0	192.5
Relative	7.6	48.4	91.7

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## Well positioned to benefit from strong growth in digital engineering

### Quick Pointers:

- Margin has consistently improved for last 5 quarters with highest ever EBIT margin of 18.4%, +116bps QoQ despite supply side cost pressures.
- Strong upgrade in FY22 USD revenue growth guidance to 19-20% YoY from 15-17%

**LTTS reported strong revenue growth of +5.7% QoQ USD, above our & cons estimates (Ple: 5%, Cons:3%). Growth was led by Industrial Products (+8.6% QoQ USD), Transportation (+6.2% QoQ USD) and strong recovery in Medical devices segment (+9.6% QoQ) after soft performance in last 2 quarters.**

**Consistent improvement in EBIT margin for five consecutive quarters led to highest ever margin of 18.4% +116bps QoQ (Ple: 17.3%, Cons: 17%) despite high supply side cost pressures, driven by productivity gains and revenue growth leverage. We believe that margins may not sustain at these levels and will come back to ~17.3% in 2HFY22 given headwinds from rising attrition, probable wage hike and come-back of travel and facility costs.**

**Deal traction was healthy with total 9 deals, 5 of these with TCV of USD10 million plus, which includes 2 USD25 million plus deals. Given strong demand momentum management has increased USD revenue growth guidance to 19-20% from earlier 15-17% (previously 13-15%). Revenue guidance implies 3.5-4% sequential growth in Q3 and Q4. Management mentioned that they are seeing positive signals on CY22 budgets as well.**

**LTTS works with 57 of the top 100 ERD spenders globally & they are the largest outsourcing provider for 4 of its top 5 clients and ranks among top 2 for several of its top 30 clients. Global ERD spending is expected to rebound strongly and grow above pre-Covid levels in the next 2-3 years. Digital engineering spending will accelerate and drive growth. LTTS derives 55% of revenues from digital and is well positioned to benefit from strong growth in digital engineering.**

**Our EPS estimates increase by 1.2%/2.4%/2.5% in FY22/23/24 led by increase in revenue estimates. We assume 17.4-17.6% margins in FY22/23/24. We arrive at DCF based TP of INR 5621 (implied target multiple of 44x P/E on FY24 EPS). LTTS is currently trading at 46x/40x on FY23/24 earnings of INR 111/128 respectively with Revenue/EPS CAGR of 19%/23% over FY22-24E.**

- Beat in revenue growth:** LTTS reported strong revenue of 217.4 mn USD, +5.7% QoQ USD above our & cons estimate (Ple: 5%, Cons:3%). Revenue share from digital and leading-edge technologies continued to grow (55% in 2Q22 vs 54% in 1Q22 and 52% in 4Q21). Growth was led by Industrial Products (+8.6% QoQ USD), Transportation (+6.2% QoQ USD) and strong recovery in Medical devices segment (+9.6% QoQ) after soft performance in last 2 quarters. Plant Engineering grew by (+4.1% QoQ USD).

*LTTS is well positioned to capture digital engineering growth momentum with their six big bets focussed on Electric Autonomous & Connected Vehicle (EACV), 5G, Med-tech, AI & Digital Products, Digital Manufacturing and Sustainability.*

- **Healthy deal wins:** Deal traction was healthy with total 9 deals, 5 of these with TCV of USD10 million plus, which includes 2 USD25 million plus deals. Demand outlook is strong and LTTS is progressing well in their 6 bets – electric autonomous connected vehicles, 5G Med-tech, digital products in AI, digital manufacturing and sustainability. Given strong demand momentum management has increased USD revenue growth guidance to 19-20% from earlier 15-17% (previously 13-15%). Revenue guidance implies 3.5-4% sequential growth in Q3 and Q4. Management also mentioned that they are seeing positive signals on CY22 budgets as well.
- **Sustained improvement in margins for last five consecutive quarters:** EBIT margin of 18.4%, +116 bps QoQ, above our & cons estimates (Ple: 17.3%, Cons: 17%) is highest ever reported. Improvement in margins was driven by 1) operational efficiency measures including productivity improvement and cost optimization that helped to absorb mid to senior level wage hike impact, 2) scale benefits realized from account mining driven growth and 3) favorable D&A charge as % of revenue
- Utilization trended down to 78.1% (-110bps QoQ) due to increased hiring. Management expects utilization to be around 78-80% in coming quarters. Share of T&M projects increased by ~380bps QoQ to 70% and is expected to stabilize at these levels.
- Segmental margin performance improved across Transportation (+20 bps QoQ), Industrial Products (+140 bps QoQ) and Telecom (+60 bps QoQ). However, for telecom margins are still below company average and are expected to improve as investments done in orchestra acquisition and 5G yield results. Transportation margins (19.5%) have improved consistently and are inching towards company average segmental margins. (22.3%)
- Other income at INR 293 mn was lower (-34% QoQ) due to reversal of SEIS accrued income taken in FY21 after government capped SEIS incentives at Rs.5 Cr. SEIS incentives were accrued in FY21 as per then prevailing incentive rate of 7% which needed to be reversed as per new cap on SEIS incentives. This was partly offset by appreciation of rupee against dollar. Going forward, incentives from SEIS will not be material. ETR is expected to be between 26.5-27%.
- **Target to achieve 18% sustainable margin levels by FY25:** LTTS has margin headwind in next two quarters from 1) rising attrition and probable wage hike or selective intervention to retain talent, 2) inorganic investments to support growth and 3) travel and facility expenses are expected to come back as work from office resumes gradually. These will be partially offset by tailwinds 1) revenue growth leverage, 2) improvement in productivity and 3) I scope to improve margins in low margin telecom & hi-tech segment.
- **Strong headcount addition:** Net headcount addition of 1101 employees, 6% in 2QFY22 was highest in last 12 quarters. LTTS has hired 1200 freshers in last 2 quarters and plans to hire 2000 more over Q3 and Q4. LTM attrition inched up by 200bps QoQ to 16.5%. Company is taking feedback from employees and working on certain areas to improve employee experience.

- **Robust cash flow:** DSO was flat QoQ at 85 days, while unbilled days improved to 15 days' vs 27 days in Q1. Combined DSO is 100 days above target range of 95 days. FCF/NI was also healthy at 95%. Board announced special dividend of INR10 per share to mark the 5-year anniversary of LTTS IPO.

#### Segment wise outlook

- **Transportation (31.4% of revs, +6.2% QoQ, +21.6% YoY)** - Growth was led by electrification and connected vehicles across Auto, Trucks and Off-Highway vehicles. LTTS is winning in areas of electrification across product categories like trucks, RVs and off-roaders. EV lab based in Bangalore backed by end-to-end domain expertise is also gaining traction and helping them win large deals. In Q2, LTTS won 25mn+ deal to expand an auto client's design center in India. Management expects growth momentum to continue in transportation across all three segments
- **Plant engineering (15.3% of revs, +4.1% QoQ, 30% YoY) - 1)** In O&G, LTTS continues to win new engagements with major O&G customers as their global partners for sustenance and digital engineering. 2) In **FMCG**, there is demand in areas of automation and sustainability. 3) In **Chemicals**, there are opportunities in EPCM services as capex outlook improves.
- **Industrial products (20% of revs, +8.6% QoQ, 25.4% YoY)** – Industrial products had second consecutive quarter of more than 8% growth led by all three sub-segments – electrical, machinery and building automation. Broad-based demand for platformization, collaborative and intuitive products, and digital initiatives like digital twins, analytics, AI led decision making.
- **Telecom and high tech (21.1% of revs, 1.4% QoQ, 20.6% YoY):** Growth was muted in this segment due to softness in media because of delays in project ramp-ups while demand is strong in semiconductor and telecom space. In media, LTTS won a contract on \$25 mn+ deal to build software platform for new customer.
- **Medical Devices (12.2% of revs, 9.6% QoQ, +12.2% YoY)** – Medical devices has bounced back strongly and has crossed \$100mn annualized run-rate. There is demand for building software platforms for digital health monitoring, robotic surgery, patient monitoring as well as quality assurance and compliance. LTTS is also helping clients in designing alternative components while tackling supply chain issues.

**Exhibit 1: Q2FY22: Quick view on results**

Y/e March (Rs mn)	2QFY22	1QFY22	QoQ gr.	2QFY21	YoY gr. PL Estimates	Variance
Revenues(USD mn)	217	206	5.7%	178	22.1%	0.7%
Revenues	16,077	15,184	5.9%	13,138	22.4%	0.6%
EBIDTA	3,493	3,177	9.9%	2,328	50.0%	6.6%
<i>EBIDTA margin (%)</i>	<i>21.7%</i>	<i>20.9%</i>	<i>80bp</i>	<i>17.7%</i>	<i>401bp</i>	<i>123bp</i>
EBIT	2,964	2,623	13.0%	1,801	64.6%	7.2%
<i>EBIT Margin (%)</i>	<i>18.4%</i>	<i>17.3%</i>	<i>116bp</i>	<i>13.7%</i>	<i>473bp</i>	<i>114bp</i>
PAT	2,308	2,170	6.4%	1,663	38.8%	-0.9%
<i>PAT margin (%)</i>	<i>14%</i>	<i>14%</i>	<i>6bp</i>	<i>13%</i>	<i>170bp</i>	<i>-21bp</i>
EPS (Rs)	21.7	20.4	6%	15.7	39%	-1.0%

Source: Company, PL

**Exhibit 2: Segmental EBITDA margins of telecom improved drastically +600bps QoQ**

Particulars (Rs mn)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
Transportation	16.3%	17.5%	19.4%	20.6%	18.1%	17.7%	14.7%	10.0%	15.4%	16.4%	16.8%	19.3%	19.5%
Plant Engineering	24.9%	22.5%	21.0%	24.4%	26.7%	27.8%	22.6%	16.4%	19.2%	23.9%	23.2%	25.1%	22.5%
Industrial Products	25.6%	25.6%	24.8%	25.4%	26.1%	26.7%	26.3%	25.2%	25.5%	28.4%	28.6%	29.2%	30.6%
Medical Devices	24.8%	24.6%	27.6%	26.6%	26.9%	27.5%	28.0%	29.6%	30.3%	31.5%	31.8%	32.7%	32.5%
Telecom	13.0%	14.6%	19.4%	18.5%	18.5%	14.7%	13.9%	13.9%	11.3%	11.5%	11.5%	12.1%	12.7%
<b>Total</b>	<b>19.1%</b>	<b>19.6%</b>	<b>21.3%</b>	<b>22.1%</b>	<b>21.9%</b>	<b>21.5%</b>	<b>19.4%</b>	<b>17.2%</b>	<b>19.0%</b>	<b>20.6%</b>	<b>20.7%</b>	<b>22.1%</b>	<b>22.3%</b>

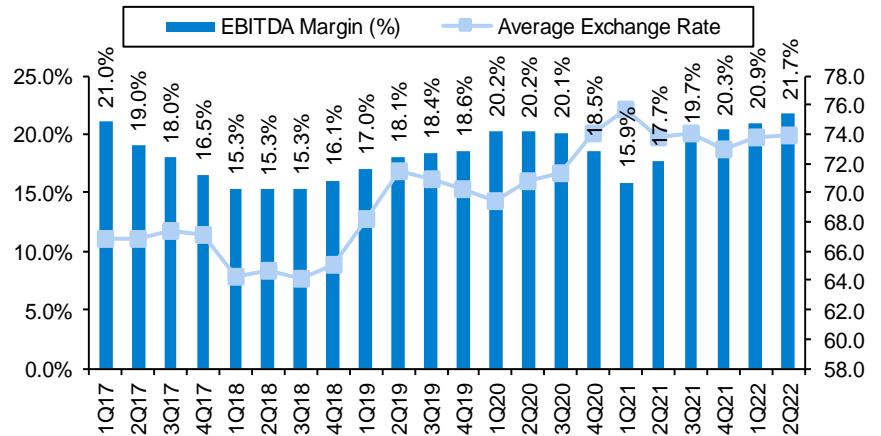
Source: Company, PL

**Exhibit 3: Industrial products and Transportation led growth in 2Q22**

Revenue by vertical (USD mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
Transportation	67.7	69.3	71.3	69.8	53.9	56.1	57.8	61.6	64.2	68.3
<i>Growth (%)</i>	<i>7.5%</i>	<i>2.4%</i>	<i>3.0%</i>	<i>-2.2%</i>	<i>-22.8%</i>	<i>4.1%</i>	<i>3.1%</i>	<i>6.6%</i>	<i>4.2%</i>	<i>6.4%</i>
Industrial products	38.0	38.4	38.3	37.9	33.2	34.7	36.7	37.3	40.1	43.5
<i>Growth (%)</i>	<i>2.9%</i>	<i>1.1%</i>	<i>-0.4%</i>	<i>-0.9%</i>	<i>-12.5%</i>	<i>4.6%</i>	<i>5.7%</i>	<i>1.7%</i>	<i>7.5%</i>	<i>8.4%</i>
Telecom & Hi-tech	43.2	40.8	36.9	36.5	38.3	38.1	43.5	43.6	45.3	45.9
<i>Growth (%)</i>	<i>-13.7%</i>	<i>-5.7%</i>	<i>-9.6%</i>	<i>-0.9%</i>	<i>4.8%</i>	<i>-0.6%</i>	<i>14.3%</i>	<i>0.3%</i>	<i>3.7%</i>	<i>1.4%</i>
Plant Engineering	29.7	32.1	34.3	31.3	23.6	25.6	27.9	30.6	31.9	33.3
<i>Growth (%)</i>	<i>5.5%</i>	<i>8.1%</i>	<i>6.9%</i>	<i>-8.8%</i>	<i>-24.5%</i>	<i>8.6%</i>	<i>9.0%</i>	<i>9.5%</i>	<i>4.2%</i>	<i>4.3%</i>
Medical Devices	15.5	17.4	18.7	20.1	21.9	23.5	24.1	24.3	24.1	26.5
<i>Growth (%)</i>	<i>15.8%</i>	<i>12.3%</i>	<i>7.5%</i>	<i>7.4%</i>	<i>8.8%</i>	<i>7.3%</i>	<i>2.8%</i>	<i>0.6%</i>	<i>-0.9%</i>	<i>10.2%</i>
<b>Total</b>	<b>194.1</b>	<b>198.0</b>	<b>199.5</b>	<b>195.6</b>	<b>170.8</b>	<b>178.0</b>	<b>190.1</b>	<b>197.5</b>	<b>205.5</b>	<b>217.4</b>
<i>Growth (%)</i>	<i>1.4%</i>	<i>2.0%</i>	<i>0.8%</i>	<i>-2.0%</i>	<i>-12.7%</i>	<i>4.2%</i>	<i>6.8%</i>	<i>3.9%</i>	<i>4.0%</i>	<i>5.8%</i>

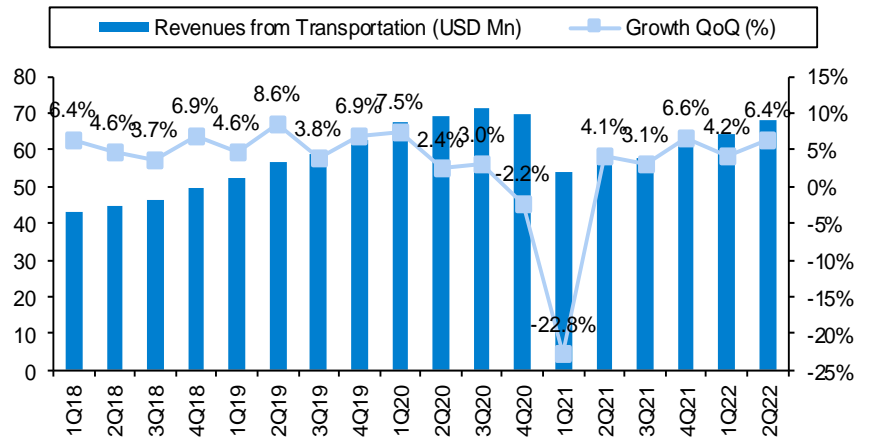
Source: Company, PL

**Exhibit 4: EBITDA margin posted a strong performance**



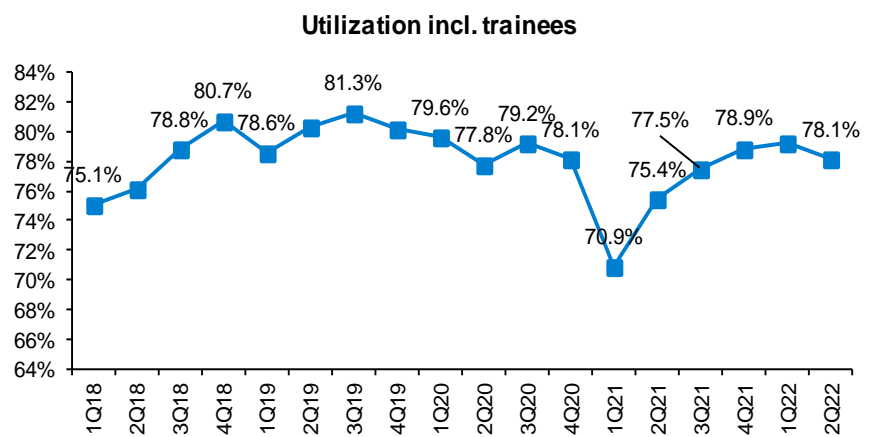
Source: Company, PL

**Exhibit 5: Healthy growth in Transportation**

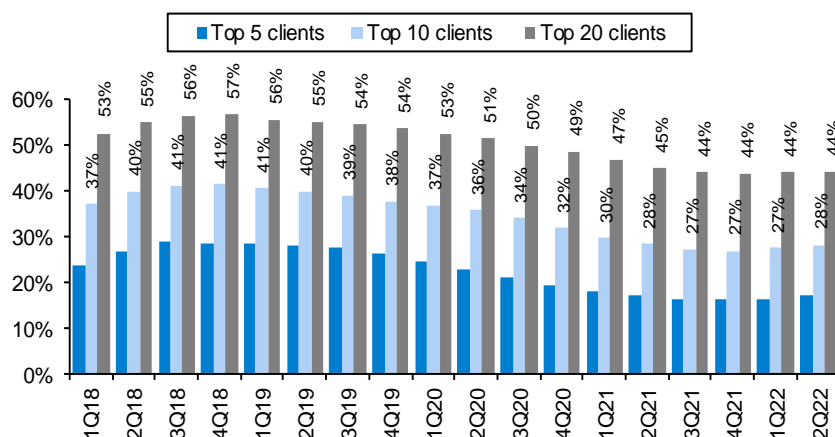


Source: Company, PL

**Exhibit 6: Utilization trending downwards**



Source: Company, PL

**Exhibit 7: Client concentration stable since last three quarters**


Source: Company, PL

**Exhibit 8: Vertical wise revenues**

Fig in USD mn	2QFY22	1QFY22	QoQ gr.	2QFY21	YoY gr.
Transportation	68.3	64.2	6.4%	56.1	21.7%
Industrial products	43.5	40.1	8.4%	34.7	25.3%
Telecom & Hi-tech	45.9	45.3	1.4%	38.1	20.4%
Plant Engineering	33.3	31.9	4.3%	25.6	29.8%
Medical Devices	26.5	24.1	10.2%	23.5	12.9%
<b>Total Revenues</b>	<b>217.4</b>	<b>205.5</b>	<b>5.8%</b>	<b>178.0</b>	<b>22.1%</b>
<b>-as a % of total sales</b>					
Transportation	31.4%	31.2%	20bp	31.5%	-10bp
Industrial products	20.0%	19.5%	50bp	19.5%	50bp
Telecom & Hi-tech	21.1%	22.0%	-90bp	21.4%	-30bp
Plant Engineering	15.3%	15.5%	-20bp	14.4%	90bp
Medical Devices	12.2%	11.7%	50bp	13.2%	-100bp

Source: Company, PL

**Exhibit 9: Geography-wise revenues**

Fig in USD mn	2QFY22	1QFY22	QoQ gr.	2QFY21	YoY gr.
North America	136.7	128.2	6.7%	106.8	28.0%
Europe	36.3	34.6	5.1%	28.5	27.5%
India	28.3	26.5	6.5%	24.2	16.7%
RoW	16.1	16.5	-2.2%	18.5	-13.1%
<b>Total Revenues</b>	<b>217.4</b>	<b>205.7</b>	<b>5.7%</b>	<b>178.0</b>	<b>22.1%</b>
<b>-as a % of total sales</b>					
North America	62.9%	62.3%	60bp	60.0%	290bp
Europe	16.7%	16.8%	-10bp	16.0%	70bp
India	13.0%	12.9%	10bp	13.6%	-60bp
RoW	7.4%	8.0%	-60bp	10.4%	-300bp

Source: Company, PL

**Exhibit 10: Client Concentration (%)**

Client contribution	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
Top 5 clients	28.2	27.4	26.4	24.7	22.9	21.1	19.2	17.8	17.0	16.3	16.1	16.4	17.0
Top 10 clients	39.9	38.9	37.7	36.7	35.7	33.9	31.8	29.7	28.3	27.3	26.9	27.4	28.2
Top 20 clients	55.1	54.4	53.5	52.5	51.3	49.8	48.5	46.8	44.9	44.0	43.8	43.9	44.1

Source: Company, PL

**Exhibit 11: Revenues by Vertical (%)**

Contribution by Verticals	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
Transportation	32.0	31.7	32.9	34.9	35.0	35.8	35.7	31.5	31.5	30.4	31.2	31.2	31.4
Industrial products	20.6	20.2	19.3	19.6	19.4	19.2	19.4	19.4	19.5	19.3	18.9	19.5	20.0
Telecom & Hi-tech	26.7	27.0	26.2	22.3	20.6	18.5	18.7	22.4	21.4	22.9	22.1	22.0	21.1
Plant Engineering*	14.2	14.4	14.7	15.3	16.2	17.2	16.0	13.8	14.4	14.7	15.5	15.5	15.3
Medical Devices	6.5	6.7	7.0	8.0	8.8	9.4	10.3	12.8	13.2	12.7	12.3	11.7	12.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.1</b>	<b>100.1</b>	<b>100.0</b>	<b>100.1</b>	<b>100.1</b>	<b>99.9</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100</b>	<b>100</b>

Source: Company, PL \*Earlier called as Process Industry

**Exhibit 12: Revenues by geography (%)**

Contribution by geographies	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
North America	57.7	57.8	58.9	60.9	61.7	61.2	61.2	61.2	60.0	61.2	61.5	62.3	62.9
Europe	17.2	16.2	16.0	15.6	14.4	14.1	16.7	16.0	16.0	16.1	16.7	16.8	16.7
India	12.5	14.4	13.9	12.8	13.1	13.2	12.8	13.0	13.6	13.9	13.1	12.9	13.0
RoW	12.6	11.6	11.2	10.7	10.7	11.4	9.2	9.8	10.4	8.8	8.8	8.0	7.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>99.9</b>	<b>99.9</b>	<b>99.9</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.1</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, PL

**Exhibit 13: Headcount Metrics**

Employee stats	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
Total headcount	15140	15913	16789	16787	16,883	16,641	15,902	16,069	16,452	16,972	17,983
Billable	14034	14755	15614	15604	15,667	15,481	14,778	14,975	15,335	15,896	16,875
Sales & Support	1106	1158	1175	1183	1,216	1,160	1,124	1,094	1,117	1,076	1,108
Voluntary attrition	14.8%	15.8%	13.4%	13.9%	13.8%	11.4%	10.8%	10.7%	12.2%	14.5%	16.5%
Net Headcount Add	363	773	876	-2	96	-242	-739	167	383	520	1011

Source: Company, PL

## Valuation

LTTS works with 57 of the top 100 ERD spenders globally & they are the largest outsourcing provider for 4 of its top 5 clients and ranks among top 2 for several of its top 30 clients. Global ERD spending is expected to rebound strongly and grow above pre-Covid levels in the next 2-3 years. Digital engineering spending will accelerate and drive growth. LTTS derives 55% of revenues from digital and is well positioned to benefit from strong growth in digital engineering.

Our EPS estimates increase by 1.2%/2.4%/2.5% in FY22/23/24 led by increase in revenue estimates. We assume 17.4-17.6% margins in FY22/23/24. We arrive at DCF based TP of INR 5621 (implied target multiple of 44x P/E on FY24 EPS). LTTS is currently trading at 46x/40x on FY23/24 earnings of INR 111/128 respectively with Revenue/EPS CAGR of 19%/23% over FY22-24.

### Exhibit 14: Change in Estimate

Change in Estimates	FY22E	FY23E	FY24E
<b>USD revenues (US\$ m)</b>			
- New	884	1,059	1,254
- Old	873	1,032	1,222
<i>Change (%)</i>	<i>1.3%</i>	<i>2.6%</i>	<i>2.6%</i>
<b>EBIT Margin</b>			
- New	17.6%	17.4%	17.6%
- Old	17.3%	17.4%	17.6%
<i>Change (%)</i>	<i>28 bps</i>	<i>0 bps</i>	<i>0 bps</i>
<b>Recurring EPS - Fully diluted (Rs)</b>			
- New	85.4	110.7	128.5
- Old	84.4	108.2	125.4
<i>Change (%)</i>	<i>1.2%</i>	<i>2.4%</i>	<i>2.5%</i>

Source: PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>54,497</b>	<b>65,393</b>	<b>80,472</b>	<b>96,548</b>
YoY gr. (%)	(3.0)	20.0	23.1	20.0
Employee Cost	33,615	38,616	49,303	58,895
Gross Profit	20,882	26,776	31,170	37,653
Margin (%)	38.3	40.9	38.7	39.0
SG&A Expenses	10,808	13,109	14,485	17,379
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>10,074</b>	<b>13,667</b>	<b>16,685</b>	<b>20,275</b>
YoY gr. (%)	(9.3)	35.7	22.1	21.5
Margin (%)	18.5	20.9	20.7	21.0
Depreciation and Amortization	2,183	2,175	2,718	3,261
<b>EBIT</b>	<b>7,891</b>	<b>11,492</b>	<b>13,966</b>	<b>17,014</b>
Margin (%)	14.5	17.6	17.4	17.6
Net Interest	455	456	40	200
Other Income	1,537	1,135	1,600	1,200
<b>Profit Before Tax</b>	<b>8,973</b>	<b>12,171</b>	<b>15,526</b>	<b>18,014</b>
Margin (%)	16.5	18.6	19.3	18.7
Total Tax	2,308	3,257	3,882	4,503
Effective tax rate (%)	25.7	26.8	25.0	25.0
<b>Profit after tax</b>	<b>6,665</b>	<b>8,914</b>	<b>11,645</b>	<b>13,511</b>
Minority interest	32	26	20	20
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>6,633</b>	<b>8,888</b>	<b>11,625</b>	<b>13,491</b>
YoY gr. (%)	(19.0)	34.0	30.8	16.0
Margin (%)	12.2	13.6	14.4	14.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>6,633</b>	<b>8,888</b>	<b>11,625</b>	<b>13,491</b>
YoY gr. (%)	(19.0)	34.0	30.8	16.0
Margin (%)	12.2	13.6	14.4	14.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,633	8,888	11,625	13,491
<b>Equity Shares O/s (m)</b>	<b>105</b>	<b>105</b>	<b>105</b>	<b>70</b>
<b>EPS (Rs)</b>	<b>63.8</b>	<b>85.4</b>	<b>110.7</b>	<b>128.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>6,997</b>	<b>8,697</b>	<b>10,297</b>	<b>11,997</b>
Tangibles	6,260	7,280	8,240	9,260
Intangibles	737	1,417	2,057	2,737
<b>Acc: Dep / Amortization</b>	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>6,997</b>	<b>8,697</b>	<b>10,297</b>	<b>11,997</b>
Tangibles	6,260	7,280	8,240	9,260
Intangibles	737	1,417	2,057	2,737
Capital Work In Progress	119	119	119	119
Goodwill	5,827	5,827	5,827	5,827
Non-Current Investments	1,644	1,644	1,644	1,644
Net Deferred tax assets	(511)	(511)	(511)	(511)
Other Non-Current Assets	1,049	1,049	1,049	1,049
<b>Current Assets</b>				
Investments	15,149	15,249	15,349	15,449
Inventories	-	-	-	-
Trade receivables	12,346	15,228	18,740	22,484
Cash & Bank Balance	2,327	3,271	5,517	8,597
Other Current Assets	3,519	3,719	3,919	4,119
<b>Total Assets</b>	<b>50,729</b>	<b>56,756</b>	<b>64,613</b>	<b>73,637</b>
<b>Equity</b>				
Equity Share Capital	210	210	210	210
Other Equity	34,521	39,878	46,884	55,014
<b>Total Networkth</b>	<b>34,731</b>	<b>40,088</b>	<b>47,094</b>	<b>55,224</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,352	2,822	3,473	4,167
Other current liabilities	8,630	8,830	9,030	9,230
<b>Total Equity &amp; Liabilities</b>	<b>50,729</b>	<b>56,756</b>	<b>64,613</b>	<b>73,637</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	8,973	12,171	15,526	18,014
Add. Depreciation	2,183	2,175	2,718	3,261
Add. Interest	(126)	(225)	(920)	200
Less Financial Other Income	1,537	1,135	1,600	1,200
Add. Other	521	-	-	-
Op. profit before WC changes	11,551	14,121	17,325	21,475
Net Changes-WC	4,245	(2,612)	(3,061)	(3,250)
Direct tax	(2,523)	(3,257)	(3,882)	(4,503)
<b>Net cash from Op. activities</b>	<b>13,273</b>	<b>8,252</b>	<b>10,382</b>	<b>13,722</b>
Capital expenditures	(1,551)	(1,700)	(1,600)	(1,700)
Interest / Dividend Income	355	681	960	-
Others	(8,858)	(100)	(100)	(100)
<b>Net Cash from Invt. activities</b>	<b>(10,054)</b>	<b>(1,119)</b>	<b>(740)</b>	<b>(1,800)</b>
Issue of share cap. / premium	1	-	-	-
Debt changes	(287)	-	-	-
Dividend paid	(2,198)	(3,531)	(4,619)	(5,360)
Interest paid	(455)	(456)	(40)	(200)
Others	(688)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(3,627)</b>	<b>(3,987)</b>	<b>(4,659)</b>	<b>(5,560)</b>
<b>Net change in cash</b>	<b>(408)</b>	<b>3,146</b>	<b>4,983</b>	<b>6,361</b>
Free Cash Flow	11,707	6,552	8,782	12,022

Source: Company Data, PL Research

**Key Financial Metrics**

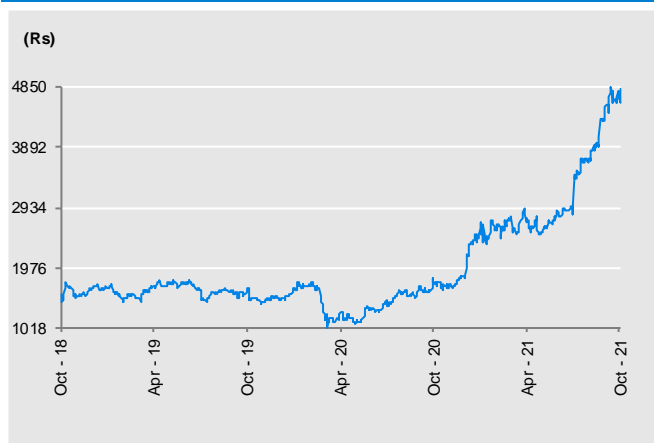
Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	63.8	85.4	110.7	128.5
CEPS	84.0	105.4	136.6	239.3
BVPS	330.8	381.8	448.5	788.9
FCF	111.5	62.4	83.6	171.7
DPS	20.8	27.9	36.5	63.6
<b>Return Ratio(%)</b>				
RoCE	25.2	30.7	32.0	33.3
ROIC	34.0	39.0	39.9	40.9
RoE	21.3	23.8	26.7	26.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.5)	(0.4)	(0.4)
Debtor (Days)	83	85	85	85
<b>Valuation(x)</b>				
PER	80.5	60.1	46.3	39.9
P/B	15.5	13.4	11.4	6.5
P/CEPS	84.0	105.4	136.6	239.3
EV/EBITDA	51.8	38.1	31.0	16.5
EV/Sales	9.6	8.0	6.4	3.5
Dividend Yield (%)	0.4	0.5	0.7	1.2

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b>Net Revenue</b>	<b>14,007</b>	<b>14,405</b>	<b>15,184</b>	<b>16,077</b>
YoY gr. (%)	(1.6)	(0.4)	17.3	22.4
Raw Material Expenses	8,556	8,496	8,758	9,038
Gross Profit	5,451	5,909	6,426	7,039
Margin (%)	38.9	41.0	42.3	43.8
<b>EBITDA</b>	<b>2,756</b>	<b>2,931</b>	<b>3,177</b>	<b>3,493</b>
YoY gr. (%)	(3.8)	9.2	54.3	50.0
Margin (%)	19.7	20.3	20.9	21.7
Depreciation / Depletion	624	540	554	529
<b>EBIT</b>	<b>2,132</b>	<b>2,391</b>	<b>2,623</b>	<b>2,964</b>
Margin (%)	15.2	16.6	17.3	18.4
Net Interest	114	125	108	113
Other Income	488	346	442	293
<b>Profit before Tax</b>	<b>2,506</b>	<b>2,612</b>	<b>2,957</b>	<b>3,144</b>
Margin (%)	17.9	18.1	19.5	19.6
Total Tax	637	659	787	836
Effective tax rate (%)	25.4	25.2	26.6	26.6
<b>Profit after Tax</b>	<b>1,869</b>	<b>1,953</b>	<b>2,170</b>	<b>2,308</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,869</b>	<b>1,953</b>	<b>2,170</b>	<b>2,308</b>
YoY gr. (%)	(9.2)	(5.3)	83.9	38.8
Margin (%)	13.3	13.6	14.3	14.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,869</b>	<b>1,953</b>	<b>2,170</b>	<b>2,308</b>
YoY gr. (%)	(9.2)	(5.3)	296.0	38.8
Margin (%)	13.3	13.6	14.3	14.4
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,869</b>	<b>1,953</b>	<b>2,170</b>	<b>2,308</b>
Avg. Shares O/s (m)	105	106	106	106
<b>EPS (Rs)</b>	<b>17.7</b>	<b>18.5</b>	<b>20.5</b>	<b>21.8</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-21	BUY	4,880	4,624
2	03-Sep-21	BUY	4,791	4,339
3	06-Aug-21	BUY	4,018	3,697
4	15-Jul-21	BUY	3,149	2,911
5	02-Jul-21	BUY	3,117	2,914
6	04-May-21	BUY	3,006	2,797
7	05-Apr-21	BUY	3,006	2,721
8	21-Jan-21	BUY	3,057	2,658
9	04-Jan-21	BUY	2,509	2,410
10	22-Dec-20	BUY	2,509	2,157

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,411	1,123
2	Coforge	BUY	5,496	5,338
3	Cyient	BUY	1,315	1,160
4	HCL Technologies	BUY	1,386	1,251
5	Infosys	BUY	2,004	1,709
6	L&T Technology Services	BUY	4,880	4,624
7	Larsen & Toubro Infotech	BUY	6,710	5,906
8	Mindtree	BUY	4,804	4,364
9	Mphasis	BUY	3,690	3,089
10	Persistent Systems	BUY	3,994	3,714
11	Redington (India)	BUY	202	146
12	Sonata Software	BUY	936	883
13	Tata Consultancy Services	BUY	4,113	3,936
14	TeamLease Services	BUY	4,892	4,645
15	Tech Mahindra	BUY	1,551	1,399
16	Wipro	BUY	728	673
17	Zensar Technologies	BUY	496	479

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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