

Q4FY22 result review
and earnings revision

Technology

Target price: Rs3,908

Earnings revision

| (%) | FY23E | FY24E |
|-------|-------|-------|
| Sales | ↓ 4.4 | ↓ 7.0 |
| EBIT | ↓ 4.4 | ↓ 7.0 |
| EPS | ↓ 3.2 | ↓ 5.9 |

Target price revision

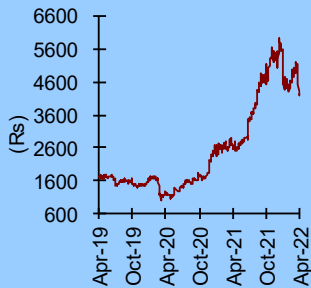
Rs3,908 from Rs4,413

Shareholding pattern

| | Sep '21 | Dec '21 | Mar '22 |
|-------------------------|---------|---------|---------|
| Promoters | 74.2 | 73.9 | 73.9 |
| Institutional investors | 15.6 | 14.7 | 12.3 |
| MFs and others | 5.5 | 4.8 | 4.5 |
| FIs/Bank | 0.2 | 0.2 | 0.2 |
| Insurance Cos. | 0.0 | 0.0 | 0.0 |
| FIIIs | 9.9 | 9.7 | 7.6 |
| Others | 10.2 | 11.4 | 13.8 |

Source: www.nseindia.com

Price chart



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LTTS reported a miss on revenue growth by 130bps at 3.1% QoQ USD (Isec:4.4%). In CC terms, revenues grew 3.6% QoQ. In terms of verticals, Transportation reported strong growth of 7.8% QoQ, followed by Plant Engineering (+3% QoQ). Telecom & Hi-tech grew 1.1% QoQ, while Industrial Products / Medical Devices remained largely flat sequentially. Management guided for organic growth of 13.5-15.5% YoY USD for FY23 which is way below our/consensus revenue growth estimate of ~19%. We believe the guidance is a bit conservative against the backdrop of the robust vertical and deal pipeline commentary. We forecast 14.5%/14% revenue growth for LTTS for FY23/24.

EBIT margin for the quarter stood at 18.6% (vs Isec: 18%), flat QoQ. We expect margins to remain range-bound in the near term (>18%) given supply side pressures and reinvestment back in the business for growth, and forecast margins of 18% for FY23/24. Headwinds from the return of travel and discretionary costs and wage inflation can be offset by a better margin profile in low-margin verticals, productivity gains and cost efficiencies.

In Q4, LTTS won a \$100 million plus deal in the EACV space – being chosen as the strategic engineering partner for a new-age electric VTOL (Vertical Takeoff and Landing) aircraft program. Deal bookings continue to be strong with a total of six deals worth more than \$10 million won in Q4, including a \$100 million plus deal in EACV and another \$25 million plus deal.

Our EPS estimates are reduced by 3.2%/6% for FY23/24 on account lower revenue growth guidance for FY23. Margin estimates remain intact at 18% for FY23/24. LTTS currently trades at 35x FY24E P/E for FY22-FY24E EPS CAGR of 16%, PEG of 2.1x.

While LTTS is well positioned to play the ERD theme and grow at premium rates, we do not find the risk-reward favourable. We value the stock at 32x (earlier 34x) FY24E EPS. Maintain REDUCE rating with a revised target price of Rs3,908 (prior: Rs4,413).

| | |
|-------------------------|-------------------|
| Market Cap | Rs448bn/US\$5.9bn |
| Reuters/Bloomberg | LTTS IN |
| Shares Outstanding (mn) | 105.5 |
| 52-week Range (Rs) | 5916/2506 |
| Free Float (%) | 26.1 |
| FII (%) | 7.6 |
| Daily Volume (US\$'000) | 23,039 |
| Absolute Return 3m (%) | (11.6) |
| Absolute Return 12m (%) | 64.2 |
| Sensex Return 3m (%) | (1.8) |
| Sensex Return 12m (%) | 22.6 |

| Year to March | FY21 | FY22 | FY23E | FY24E |
|--------------------|--------|--------|--------|--------|
| Revenue (Rs mn) | 54,497 | 65,697 | 76,622 | 88,842 |
| Net Income (Rs mn) | 6,633 | 9,570 | 11,159 | 12,849 |
| EPS (Rs) | 63.3 | 91.0 | 106.1 | 122.1 |
| % Chg YoY | (19.2) | 43.6 | 16.6 | 15.2 |
| P/E (x) | 67.0 | 46.7 | 40.0 | 34.7 |
| CEPS (Rs) | 84.2 | 111.3 | 128.1 | 147.7 |
| EV/E (x) | 42.4 | 30.3 | 26.6 | 22.6 |
| Dividend Yield | 0.5 | 0.8 | 0.8 | 0.8 |
| RoCE (%) | 16.2 | 20.3 | 20.1 | 20.1 |
| RoE (%) | 21.3 | 25.1 | 24.6 | 23.9 |

- ▶ **Revenue below estimates.** Revenue for the quarter came in at US\$232mn, growth of +3.1% QoQ USD (Isec: 4.4% QoQ). In CC terms, revenues grew 3.6% QoQ. In terms of verticals, Transportation reported strong growth of 7.8% QoQ, followed by Plant Engineering (+3% QoQ). Telecom & Hi-tech grew 1.1% QoQ, while Industrial Products / Medical Devices remained largely flat sequentially.

North America and Europe reported tepid growth of 2.8%/0.8% QoQ respectively. India was robust at 9.5% QoQ, while RoW declined 1.6% QoQ.

- ▶ **Vertical commentary.** Management is bullish on Transportation seeing good pipeline in connectivity and autonomous especially in the software side. Plant engineering is seeing broad-based growth across FMCG, O&G and Chemicals and steady growth is expected ahead. Industrial products growth was impacted on account of client-specific issues. However, this is temporary and with healthy pipeline, strong growth is expected ahead.

LTTS has set up a new business unit for Metaverse which should help in growth and profitability within Telecom segment. Further, the company is launching 5G lab and global development centers to capture demand across key segments. Medical is seeing a gradual increase in pipeline as clients spend on software and digital platforms.

- ▶ **Outlook.** Management guided for organic growth of 13.5-15.5% YoY USD for FY23. This was below our expectations of 19-20% YoY. We believe guidance is conservative against the backdrop of robust vertical and deal pipeline commentary. Management aspires to maintain EBIT margins at 18%+.

- ▶ **Beat on margins.** EBIT margin for the quarter stood at 18.6% (vs Isec: 18%). Margins were flat QoQ, +200bps YoY. During the quarter, offshore mix declined to 54.6% (vs 58.7% in Q3FY22). This was due to initial ramp-up of new deals in the quarter and management guided for offshore mix to move towards 57%.

Utilisation dropped 80bps QoQ to 75.1% on account of full impact of strong hiring in Q3FY22. This should gradually move to 78% levels. Attrition for the quarter increased 290bps QoQ to 20.4% and is likely to stay elevated in the near term.

Going forward, management expects headwinds from revenue mix change and utilisations which should be offset by economies of scale, currency depreciation and operational efficiencies. Regular wage cycle would be followed from Jul'22 after positive corrections made for critical talent in Jan'22.

- ▶ Net additions for the quarter were at 743. Fresher hiring has ramped up and for FY22, LTTS had hired ~3k freshers.

Table 1: Q4FY22 actuals vs estimates (INR mn)

| | Q4FY22 | Q3FY22 | QoQ | Q4FY21 | YoY | Q4FY22E I-Sec | vs our estimates |
|--------------|--------|--------|--------|--------|---------|------------------|---------------------|
| Sales (\$ m) | 232 | 225 | 3.1% | 198 | 17.5% | 235 | -1.3% |
| Rs mn | | | | | | | |
| Sales | 17,561 | 16,875 | 4.1% | 14,405 | 21.9% | 17,702 | -0.8% |
| EBIT Margin | 18.6% | 18.6% | 1 bps | 16.6% | 205 bps | 18.0% | 64 bps |
| PBT | 3,588 | 3,403 | 5.4% | 2,612 | 37.4% | 3,445 | 4.1% |
| Tax | 956 | 907 | 5.4% | 659 | 45.1% | 918 | 4.1% |
| Tax Rate | 26.6% | 26.7% | -1 bps | 25.2% | 141 bps | 26.7% | -1 bps |
| Reported PAT | 2,620 | 2,488 | 5.3% | 1,945 | 34.7% | 2,519 | 4.0% |
| EPS | 24.8 | 23.7 | 4.9% | 18.5 | 33.9% | 24.0 | 3.6% |

Source: Company data, I-Sec research

Table 2: Change in estimates

| | Revised | | Old | | Change (%) | |
|--------------------------|---------|--------|--------|--------|------------|---------|
| | FY23E | FY24E | FY23E | FY24E | FY23E | FY24E |
| Rs mn | | | | | | |
| Revenues | 76,622 | 88,842 | 80,138 | 95,554 | (4.4) | (7.0) |
| EBIT | 13,722 | 15,992 | 14,354 | 17,200 | (4.4) | (7.0) |
| EBIT margin | 17.9 | 18.0 | 17.9 | 18.0 | 0bps | 0bps |
| EPS (Rs/share) | 106.1 | 122.1 | 109.5 | 129.8 | (3.2) | (5.9) |
| Revenues (US\$ mn) | 1,008 | 1,154 | 1,054 | 1,241 | (4.4) | (7.0) |
| Revenue growth (US\$, %) | 14.5 | 14.4 | 19.4 | 17.7 | -480bps | -320bps |

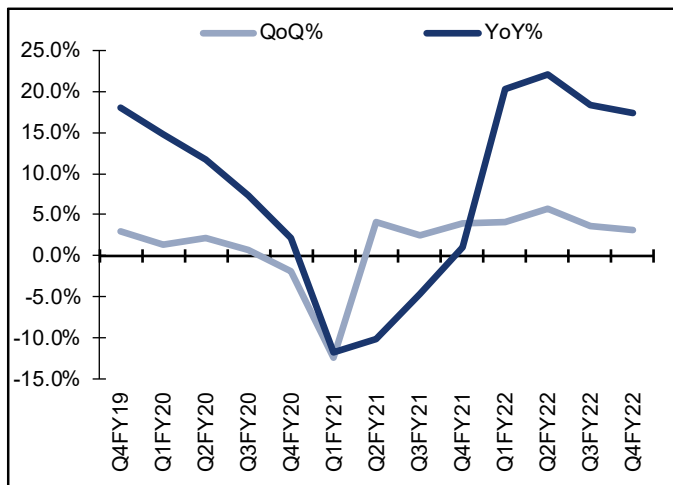
Source: Company data, I-Sec research

Table 3: Segmental growth (Q4FY22)

| | Revenues (US\$ mn) | QoQ (%) | YoY (%) | % of total |
|-----------------------------|--------------------|---------|---------|------------|
| Total Revenues | 232 | 3.1 | 17.5 | 100.0 |
| Revenue by geography | | | | |
| North America | 145 | 2.8 | 19.1 | 62.3 |
| Europe | 37 | 0.8 | 13.6 | 16.1 |
| India | 34 | 9.5 | 30.7 | 14.5 |
| RoW | 16 | (1.6) | (5.7) | 7.0 |
| Revenue by verticals | | | | |
| Transportation | 77 | 7.8 | 25.5 | 33.3 |
| Industrial products | 44 | (0.5) | 17.2 | 18.8 |
| Telecom & Hi-tech | 49 | 1.1 | 11.4 | 21.0 |
| Process Industry | 36 | 3.0 | 16.5 | 15.4 |
| Medical Devices | 27 | (0.2) | 10.1 | 11.5 |
| Client metrics | | | | |
| Top 5 clients | 40 | 2.5 | 25.5 | 17.2 |
| Top 10 clients | 66 | 2.3 | 23.6 | 28.3 |
| Top 20 clients | 101 | 2.4 | 16.7 | 43.5 |

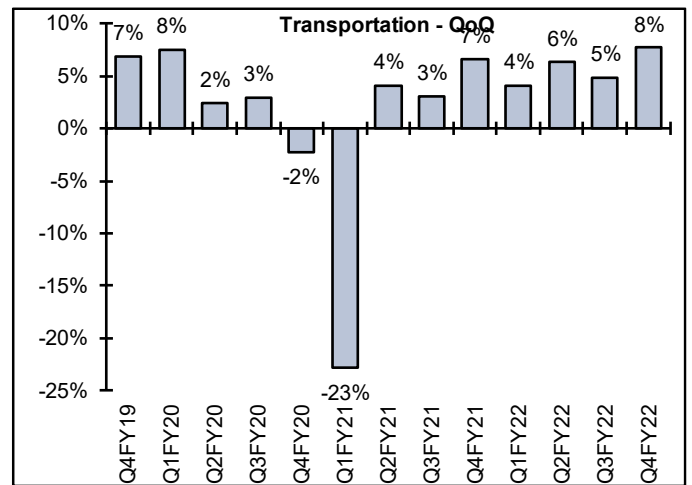
Source: Company data, I-Sec research

Chart 1: LTTS reported 3.6% QoQ CC growth



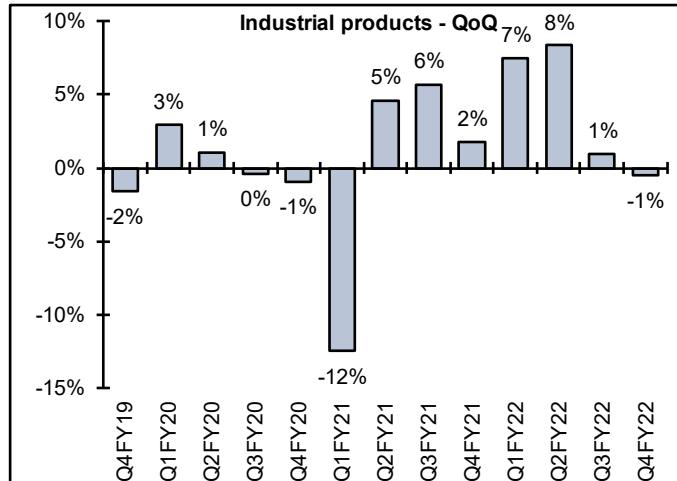
Source: Company, I-Sec research

Chart 2: Robust growth in Transportation



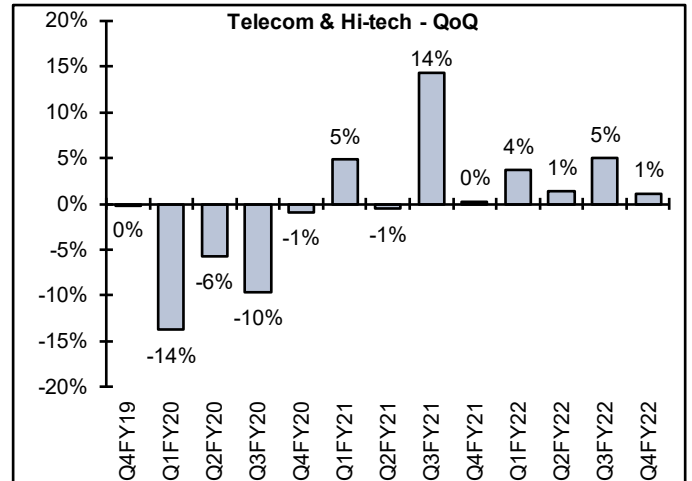
Source: Company, I-Sec research

Chart 3: Industrial Products slightly declined



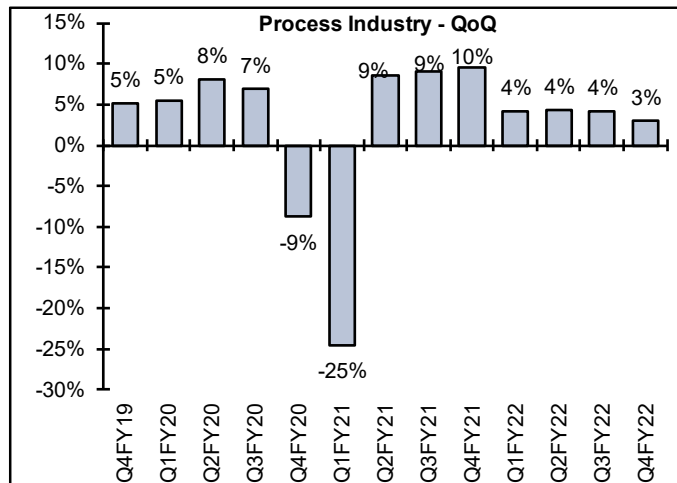
Source: Company, I-Sec research

Chart 4: Telecom & Hi-tech posted tepid growth



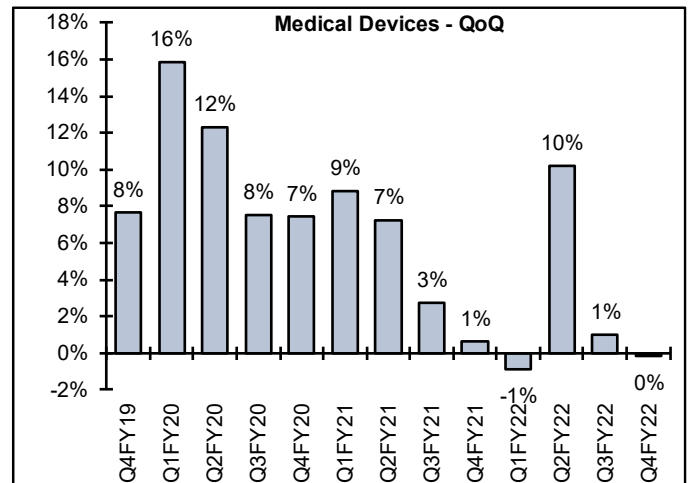
Source: Company, I-Sec research

Chart 5: Steady growth in process industry



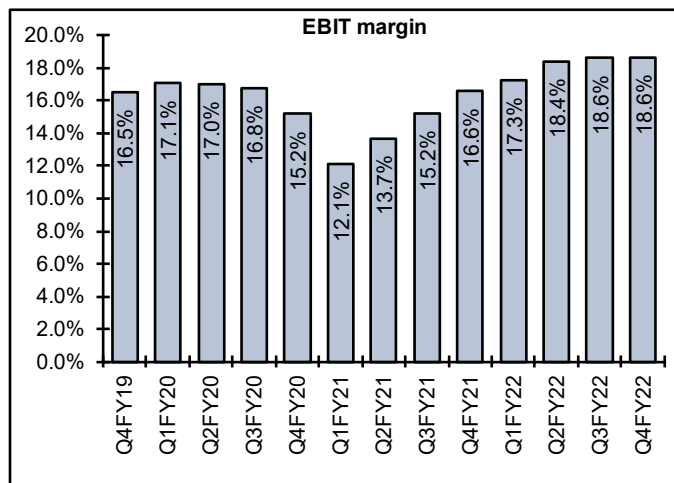
Source: Company, I-Sec research

Chart 6: Medical devices was largely flat



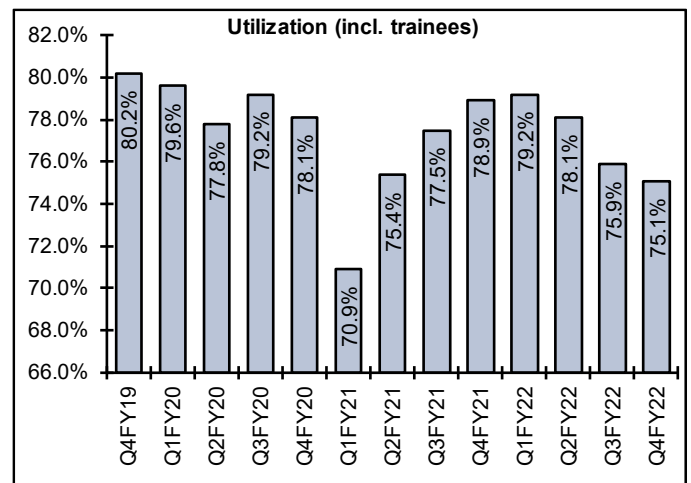
Source: Company, I-Sec research

Chart 7: Stable margins sequentially



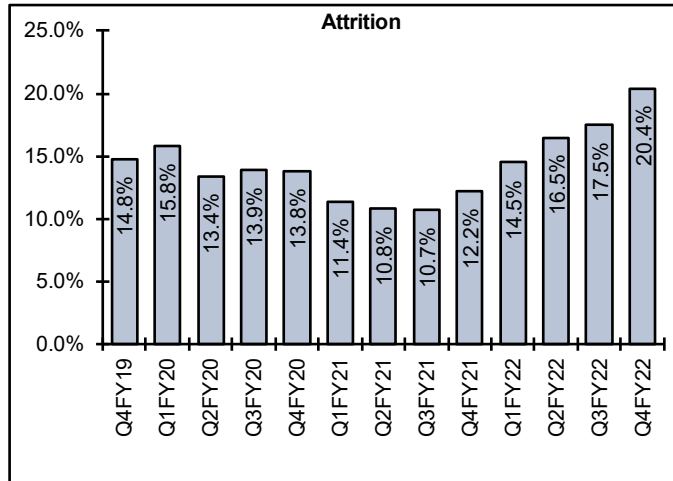
Source: Company, I-Sec research

Chart 8: Utilisations declined 80bps QoQ



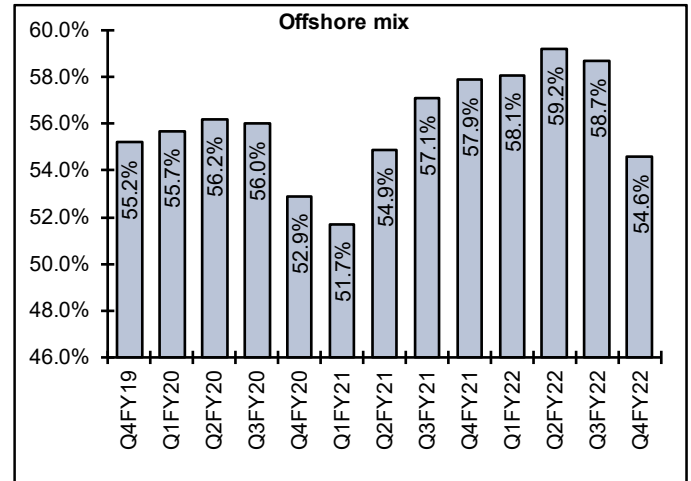
Source: Company, I-Sec research

Chart 9: Attrition increased in line with industry



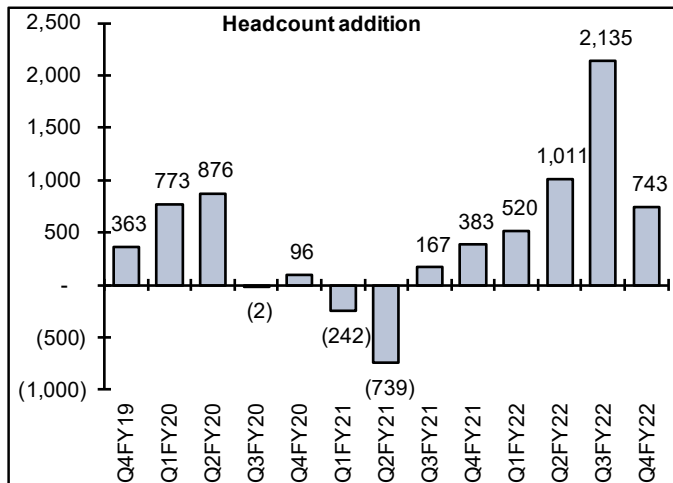
Source: Company, I-Sec research

Chart 10: Offshore dropped sharply



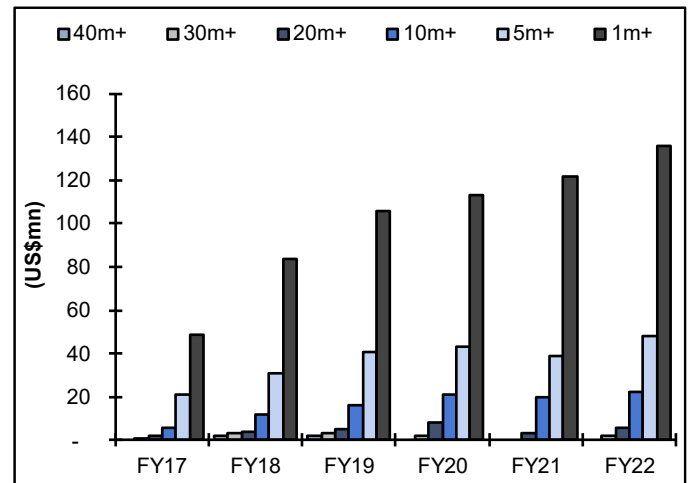
Source: Company, I-Sec research

Chart 11: Continued hiring momentum



Source: Company, I-Sec research

Chart 12: Healthy client additions



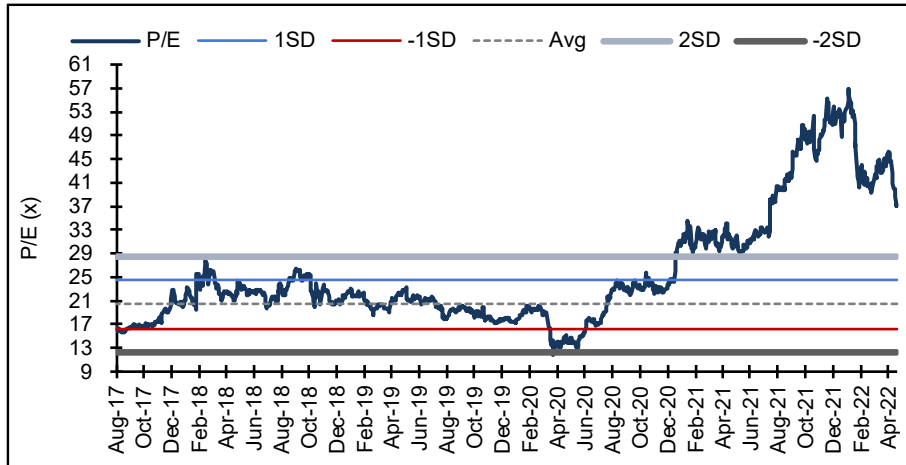
Source: Company, I-Sec research

Table 4: LTTS summary

| Rs mn | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
|--------------|--------|--------|--------|--------|--------|--------|--------|
| USD Rev (mn) | 580 | 723 | 787 | 737 | 880 | 1,008 | 1,154 |
| YoY | 20% | 25% | 9% | -6% | 19% | 15% | 14% |
| Revenues | 37,471 | 50,783 | 56,192 | 54,497 | 65,697 | 76,622 | 88,842 |
| YoY | 15.4% | 35.5% | 10.7% | -3.0% | 20.6% | 16.6% | 15.9% |
| EBIT | 4,923 | 8,116 | 9,277 | 7,891 | 12,005 | 13,722 | 15,992 |
| Margin | 13.1% | 16.0% | 16.5% | 14.5% | 18.3% | 17.9% | 18.0% |
| PAT | 5,115 | 7,667 | 8,187 | 6,633 | 9,570 | 11,159 | 12,849 |
| EPS (Rs) | 50 | 74 | 78 | 63 | 91 | 106 | 122 |
| Payout | 38% | 34% | 32% | 35% | 39% | 33% | 29% |
| OCF | 4,136 | 8,062 | 6,381 | 13,325 | 10,062 | 8,292 | 9,474 |
| FCF | 3,270 | 7,161 | 4,854 | 12,554 | 8,438 | 5,971 | 6,784 |
| RoE | 30% | 35% | 31% | 21% | 25% | 25% | 24% |
| P/E | 85.0 | 57.6 | 54.2 | 67.0 | 46.7 | 40.0 | 34.7 |

Source: Company data, I-Sec research

Chart 13: 1-year forward P/E



Source: Bloomberg, I-Sec research.

Financial summary

Table 5: Profit and loss statement

(Rs mn, year ending March 31)

| | FY21 | FY22 | FY23E | FY24E |
|--------------------------------|--------|--------|--------|--------|
| Revenue (US\$mn) | 737 | 880 | 1,008 | 1,154 |
| Total Income (Sales) | 54,497 | 65,697 | 76,622 | 88,842 |
| Operating Expenses | 44,423 | 51,548 | 60,582 | 70,164 |
| EBITDA | 10,074 | 14,149 | 16,039 | 18,678 |
| % margin | 18.5 | 21.5 | 20.9 | 21.0 |
| Depreciation & Amortisation | 2,183 | 2,144 | 2,317 | 2,686 |
| EBIT | 7,891 | 12,005 | 13,722 | 15,992 |
| % margin | 14.5 | 18.3 | 17.9 | 18.0 |
| Other Income | 1,537 | 1,524 | 1,676 | 1,676 |
| Interest expense | 455 | 437 | 420 | 420 |
| Recurring PBT | 8,973 | 13,092 | 14,978 | 17,248 |
| Tax expense | 2,308 | 3,486 | 3,819 | 4,398 |
| Recurr. profit before minority | 6,665 | 9,606 | 11,159 | 12,849 |
| Minority interest | (32) | (36) | - | - |
| Extraordinary items | - | - | - | - |
| Net Profit as restated | 6,633 | 9,570 | 11,159 | 12,849 |

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

| | FY21 | FY22 | FY23E | FY24E |
|---------------------------|--------|--------|--------|--------|
| Liabilities | | | | |
| Share capital | 210 | 211 | 211 | 211 |
| Reserves and Surpluses | 34,521 | 41,414 | 48,880 | 58,036 |
| Net Worth | 34,731 | 41,625 | 49,091 | 58,247 |
| Minority Interest | 101 | 137 | 137 | 137 |
| Non-current Liabilities | 4,915 | 5,359 | 5,359 | 5,359 |
| Total Liabilities | 39,747 | 47,121 | 54,587 | 63,743 |
| Borrowings | - | - | - | - |
| Assets | | | | |
| Fixed Assets | 12,943 | 12,926 | 12,930 | 12,934 |
| Other Non-current assets | 2,760 | 3,871 | 3,871 | 3,871 |
| Current assets | 35,026 | 44,113 | 51,575 | 60,727 |
| less: current liabilities | 10,982 | 13,789 | 13,789 | 13,789 |
| Net current assets | 24,044 | 30,324 | 37,786 | 46,938 |
| Total Assets | 39,747 | 47,121 | 54,587 | 63,743 |

Source: Company data, I-Sec Research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

| | FY21 | FY22 | FY23E | FY24E |
|-------------------------------------|---------|---------|---------|---------|
| Op. CF before W Cap changes | 9,619 | 13,712 | 16,039 | 18,678 |
| Working Capital change | 6,229 | (87) | (3,927) | (4,806) |
| Taxes | (2,523) | (3,563) | (3,819) | (4,398) |
| Capex | (771) | (1,624) | (2,321) | (2,690) |
| Free Cashflow | 12,554 | 8,438 | 5,971 | 6,784 |
| CF from other Invest Act (Ex Capex) | (9,283) | (2,859) | 1,676 | 1,676 |
| Dividend paid | 1 | 1 | (0) | (0) |
| Others | (287) | - | - | - |
| Increase/(Decrease) in Cash | (2,198) | (3,633) | (3,693) | (3,693) |

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

| | FY21 | FY22 | FY23E | FY24E |
|--|--------|-------|-------|-------|
| Per Share Data (Rs) | | | | |
| Reported EPS | 63.3 | 91.0 | 106.1 | 122.1 |
| Book Value per share (BV) | 84.2 | 111.3 | 128.1 | 147.7 |
| Cash EPS | 331.6 | 395.6 | 466.6 | 553.6 |
| Dividend per share | 22.0 | 35.0 | 35.0 | 35.0 |
| Growth Ratios (%) | | | | |
| Total Income (Sales) - US\$ | (6.4) | 19.5 | 14.5 | 14.4 |
| Total Income (Sales) | (3.0) | 20.6 | 16.6 | 15.9 |
| EBITDA | (9.3) | 40.5 | 13.4 | 16.5 |
| Net Income | (19.0) | 44.3 | 16.6 | 15.2 |
| Reported EPS | (19.2) | 43.6 | 16.6 | 15.2 |
| | (12.2) | 32.3 | 15.0 | 15.3 |
| Valuation Ratios (x) | | | | |
| P/E | | | | |
| P/BV | 67.0 | 46.7 | 40.0 | 34.7 |
| EV / EBITDA | 50.4 | 38.1 | 33.1 | 28.7 |
| EV / Sales | 12.8 | 10.7 | 9.1 | 7.7 |
| | 42.4 | 30.3 | 26.6 | 22.6 |
| | 7.8 | 6.5 | 5.6 | 4.7 |
| Operating Ratios | | | | |
| Other Income / PBT (%) | 34.1 | 50.9 | 71.3 | 62.1 |
| Effective Tax Rate (%) | | | | |
| Fixed Asset Turnover (x) | | | | |
| Receivables (days) | 12.1 | 8.3 | 8.4 | 7.3 |
| | 25.7 | 26.6 | 25.5 | 25.5 |
| Return/Profitability Ratios (%) | | | | |
| Net Income Margins | 43.9 | 45.9 | 46.7 | 47.3 |
| EBITDA Margins | 83 | 94 | 93 | 92 |
| RoCE (Based on Avg) | - | - | - | - |
| RoNW (Based on Avg) | | | | |
| Dividend Yield | 12.2 | 14.6 | 14.6 | 14.5 |

Source: Company data, I-Sec research

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BUY: >15% return; **ADD:** 5% to 15% return; **HOLD:** Negative 5% to Positive 5% return; **REDUCE:** Negative 5% to Negative 15% return; **SELL:** < negative 15% return

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