

Rating: BUY | CMP: Rs4,339 | TP: Rs4,791

September 3, 2021

Analyst Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current FY23E	Previous FY24E	Current FY23E	Previous FY24E
Rating	BUY	BUY		
Target Price	4,791	4,018		
Sales (Rs. m)	77,671	93,188	76,624	89,632
% Chng.	1.4	4.0		
EBITDA (Rs. m)	16,104	19,569	15,123	17,380
% Chng.	6.5	12.6		
EPS (Rs.)	107.2	124.3	100.5	109.5
% Chng.	6.7	13.5		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	54,497	64,115	77,671	93,188
EBITDA (Rs. m)	10,074	13,208	16,104	19,569
Margin (%)	18.5	20.6	20.7	21.0
PAT (Rs. m)	6,633	8,718	11,260	13,046
EPS (Rs.)	63.8	83.8	107.2	124.3
Gr. (%)	(19.1)	31.4	28.0	15.9
DPS (Rs.)	20.8	27.4	35.4	61.5
Yield (%)	0.5	0.6	0.8	1.4
RoE (%)	21.3	23.3	26.0	25.7
RoCE (%)	25.2	29.7	31.1	32.4
EV/Sales (x)	8.0	6.8	5.6	3.0
EV/EBITDA (x)	43.5	33.1	27.0	14.3
PE (x)	68.0	51.8	40.5	34.9
P/BV (x)	13.1	11.4	9.7	5.6

Key Data	LTEH.BO LTTSIN
52-W High / Low	Rs.4,436 / Rs.1,464
Sensex / Nifty	58,130 / 17,324
Market Cap	Rs.456bn/ \$ 6,243m
Shares Outstanding	105m
3M Avg. Daily Value	Rs.2914.83m

Shareholding Pattern (%)

Promoter's	74.23
Foreign	8.92
Domestic Institution	5.96
Public & Others	4.13
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	19.2	60.0	175.0
Relative	10.3	41.6	84.5

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Building blocks in place for strong growth ahead

Quick Pointers:

- Announcement of revenue aspirations till FY25 indicates sustenance of strong growth tailwinds in ER&D led by digital engineering
- Margin guidance of 18% by FY25 is much above our expectations (~16.5%)

We attended LTTS investor and analyst meet in which management gave insights into company's growth strategies and changing industry landscape. Management aims to reach US\$ 1.5 Bn annualized revenue run-rate by Q4FY25 and US\$ 1 Bn by Q2/Q3FY23 implying ~18% growth over FY21-25E. Strong guidance till FY25 reinforces our belief in sustenance of strong demand tailwinds for next 3-5 years. We believe that the guidance is achievable given 1) strong broad-based ER&D spending and expansion in addressable market size, 2) LTTS's focused bets on 6 strategic high growth areas, 3) increasing share of software and technology as compared to hardware in ER&D spends, and 4) investments in sales, large deals and talent pool.

We were positively surprised by management's confidence of improving margins gradually to 18% by FY25 despite near term supply headwinds and investments in 6 key strategic areas and sales supported by key margin levers of offshoring, utilization, pyramid optimization and revenue growth leverage. We have increased our revenue estimates by 2/4% for FY23/24 & margin estimates are revised upwards to ~17.5% for FY23/24 which led to EPS estimates increase of 6% & 13% for FY23/24. We anticipate 18% revenue CAGR over FY21-25E and margins to improve from 17.3% in FY22E to 18% in FY25E. We value LTTS based on DCF valuation (risk free rate at 6.2%, equity risk premium at 5.7% & terminal growth rate at 7.5%) to arrive at TP of INR 4,791 (earlier: 4018). LTTS is currently trading at 51.8x/40.5x on FY22/23 earnings of INR 83.8/107.2 respectively with Revenue/EPS CAGR of 18%/30% over FY21-23.

- Guidance indicates strong growth to persist for next 3-5 years: LTTS management aims to reach \$1 Bn annual revenue run-rate by Q2-Q3 FY23 implying strong growth of ~18% over FY21-23. Management is confident of sustenance of strong growth rate beyond FY23 as well and aims to reach \$1.5 Bn annual run-rate by Q4FY25 implying ~18% revenue CAGR over FY21-25. Guidance includes organic as well as impact from potential acquisitions. Management stated that they are open for potential acquisitions (~USD 20-100m in size) given their healthy cash balance of (~USD 200m cash).
- EBIT margin guidance much above our and cons estimates: Management aspires EBIT margin to increase gradually to 18% by FY25 (vs 14.5% in FY21, 17.3% in Q1FY22 and our estimates of 16.5% for FY25) on back of favourable operating metrics such as utilization and offshore mix (significantly improved to 58.1% in 1QFY22) and scope for margin improvement in Telecom and Hi-tech vertical, which have seen subdued margins for some time. Management expects offshoring to further improve led by remote technologies. Though there

LTTS works with 57 out of top 100 global ER&D spenders and aspires to be amongst top 5 global pure play engineering services providers of choice.

LTTS targets super-sizing of client accounts through broadening regions and divisions, carving out new products, labs and services and solutioning with partners.

will be near term pressure from attrition, it is expected to be below industry average for LTTS.

- **Strong growth in global ER&D spending led by digital engineering:** Global ER&D spending is expected to grow to \$1.7-1.9 trillion by FY23 led by digital engineering. LTTS is well positioned to benefit from this trend with consistent increase in share of digital revenue (54% of revenue share in 1QFY22). **Total addressable market size of ER&D is increasing** with increased softwarization, (use of technologies such as cloud, data, AI, IoT, 5G etc.), move towards connected and automated ecosystem across industries and new focus areas such as sustainability
- **LTTS has identified 6 strategic high growth areas for investment:** LTTS is investing and scaling in six strategic high growth areas – 1) EACV (Electric, Connected, Autonomous Vehicles), 2) MedTech, 3) 5G, 4) AI & Digital products, 5) Digital Manufacturing, 6) Sustainability (Exhibit 2) The company has already won 23 large deals (>\$5mn in size) and has around 51 deals in pipeline spread across the 6 key areas. LTTS won 6 deals, which includes 2 USD25 mn+ deals and 4 deals with TCV of USD10-15mn. LTTS has already developed and scaled digital twin and cloud where it is seeing strong traction.
- **Strong client mining programs and focus on large deals:** LTTS gets largest share of ER&D spends for 4 out of its top 5 clients and ranks among top 2 for several of its top 30 clients. The company has set-up large deal team to proactively identify problems and offer solutions which can be scaled across clients in order to get access to larger share of client spends. They are expanding local presence in Europe and also targeting various functions – marketing, supplychain, operations across the organization. LTTS expects to have one US\$50 mn account, six US\$30-50 mn and twelve US\$20-30 mn accounts by FY2024. (Exhibit 3)
- LTTS has built 69 innovation labs up from 38 in 1QFY18 with dedicated labs for EV and 5G providing strong technology capabilities. LTTS targets new wins from disruptors (Netflix, Intuitive, DJI) and scale solutions developed for them to early adopters and conventional players.
- **Pyramid optimization and focus on strengthening tech capabilities of talent pool:** Company plans to increase fresher hiring with focus on hiring more qualified tech talents such as PGs and Ph.Ds/research associates. LTTS has created global engineering academy in FY21. It is collaborating with academic institutions to create unique solutions and IPs and also strengthening leadership team through various internal programs.

Exhibit 1: Key Assumptions

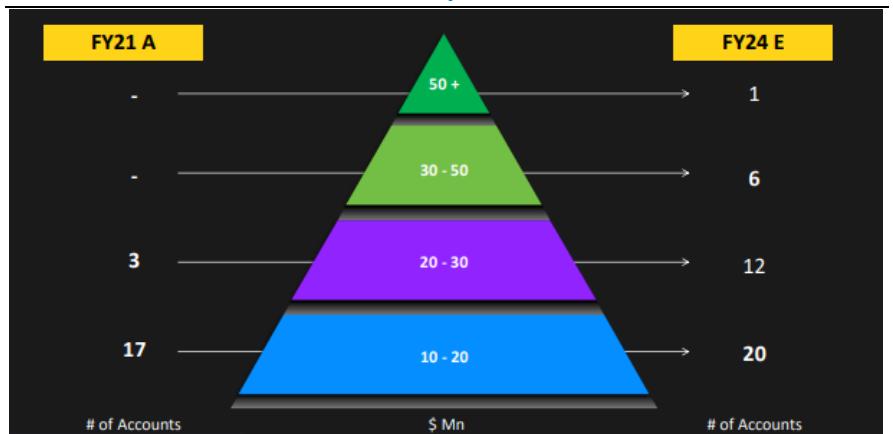
Industry	FY21	FY22E	FY23E	FY24E	FY25E
Revenue (USD mn)	737	867	1022	1210	1416
<i>Growth %</i>	<i>-6.4%</i>	<i>17.7%</i>	<i>17.9%</i>	<i>18.4%</i>	<i>17%</i>
EBIT margin	14.5%	17.3%	17.4%	17.6%	18.0%
EPS (Basic)	63.8	83.8	107.2	124.3	149.0

Source: Company, PL

Exhibit 2: Market size of six key bets

Industry	Estimated size of Industry by 2025E(USD Bn)
EVAC	
Electrification market	129
Connected	32
Autonomous	7
MedTech	200
5G	155
AI & Digital products	100
Digital manufacturing	475
Sustainability	400

Source: Company, PL

Exhibit 3: LTTS aims to move clients up the revenue buckets

Source: Company, PL

Exhibit 4: Strong large deal pipeline across 6 key bets

Industry	Number of large deal wins LTM	Number of large deals in pipeline
EVAC	4	16
MedTech	1	12
5G	3	5
AI & Digital products	7	6
Digital manufacturing	8	7
Sustainability	0	5

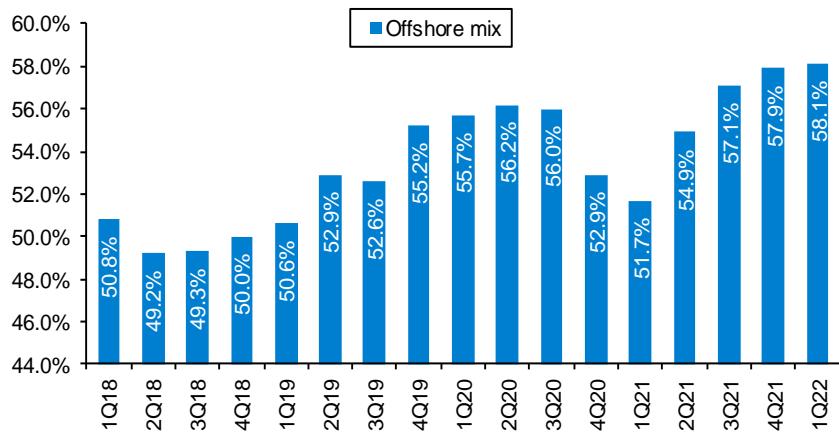
Source: Company, PL

Exhibit 5: Strong large deal pipeline across 6 key bets

Industry	Number of large deal wins LTM	Number of large deals in pipeline
EVAC	4	16
MedTech	1	12
5G	3	5
AI & Digital products	7	6
Digital manufacturing	8	7
Sustainability	0	5

Source: Company, PL

Exhibit 6: Considerable improvement in offshore mix



Source: Company, PL

Exhibit 7: Scope for improvement in Telecom segment margins

Particulars (Rs m n)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Transportation	12.8%	16.3%	17.5%	19.4%	20.6%	18.1%	17.7%	14.7%	10.0%	15.4%	16.4%	16.8%	19.3%
Plant Engineering	22.6%	24.9%	22.5%	21.0%	24.4%	26.7%	27.8%	22.6%	16.4%	19.2%	23.9%	23.2%	25.1%
Industrial Products	23.5%	25.6%	25.6%	24.8%	25.4%	26.1%	26.7%	26.3%	25.2%	25.5%	28.4%	28.6%	29.2%
Medical Devices	21.6%	24.8%	24.6%	27.6%	26.6%	26.9%	27.5%	28.0%	29.6%	30.3%	31.5%	31.8%	32.7%
Telecom	15.2%	13.0%	14.6%	19.4%	18.5%	18.5%	14.7%	13.9%	13.9%	11.3%	11.5%	11.5%	12.1%
Total	17.6%	19.1%	19.6%	21.3%	22.1%	21.9%	21.5%	19.4%	17.2%	19.0%	20.6%	20.7%	22.1%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	54,497	64,115	77,671	93,188
YoY gr. (%)	(3.0)	17.6	21.1	20.0
Employee Cost	33,615	38,606	47,587	56,845
Gross Profit	20,882	25,509	30,085	36,343
Margin (%)	38.3	39.8	38.7	39.0
SG&A Expenses	10,808	12,301	13,981	16,774
Other Expenses	-	-	-	-
EBITDA	10,074	13,208	16,104	19,569
YoY gr. (%)	(9.3)	31.1	21.9	21.5
Margin (%)	18.5	20.6	20.7	21.0
Depreciation and Amortization	2,183	2,120	2,624	3,147
EBIT	7,891	11,088	13,480	16,422
Margin (%)	14.5	17.3	17.4	17.6
Net Interest	455	456	40	200
Other Income	1,537	1,192	1,600	1,200
Profit Before Tax	8,973	11,824	15,040	17,422
Margin (%)	16.5	18.4	19.4	18.7
Total Tax	2,308	3,083	3,760	4,355
Effective tax rate (%)	25.7	26.1	25.0	25.0
Profit after tax	6,665	8,741	11,280	13,066
Minority interest	32	23	20	20
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,633	8,718	11,260	13,046
YoY gr. (%)	(19.0)	31.4	29.2	15.9
Margin (%)	12.2	13.6	14.5	14.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,633	8,718	11,260	13,046
YoY gr. (%)	(19.0)	31.4	29.2	15.9
Margin (%)	12.2	13.6	14.5	14.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,633	8,718	11,260	13,046
Equity Shares O/s (m)	105	105	105	70
EPS (Rs)	63.8	83.8	107.2	124.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	6,997	8,697	10,297	11,997
Tangibles	6,260	7,280	8,240	9,260
Intangibles	737	1,417	2,057	2,737
Acc: Dep / Amortization				
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	6,997	8,697	10,297	11,997
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
Current Assets				
Investments	15,149	15,249	15,349	15,449
Inventories	-	-	-	-
Trade receivables	12,346	14,931	18,088	21,701
Cash & Bank Balance	2,327	3,411	5,726	8,645
Other Current Assets	3,519	3,719	3,919	4,119
Total Assets	50,729	56,598	64,170	72,902
Equity				
Equity Share Capital	210	210	210	210
Other Equity	34,521	39,775	46,562	54,424
Total Networth	34,731	39,985	46,772	54,634
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,352	2,767	3,352	4,022
Other current liabilities	8,630	8,830	9,030	9,230
Total Equity & Liabilities	50,729	56,598	64,170	72,902

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	8,973	11,824	15,040	17,422
Add. Depreciation	2,183	2,120	2,624	3,147
Add. Interest	(126)	(259)	(920)	200
Less Financial Other Income	1,537	1,192	1,600	1,200
Add. Other	521	-	-	-
Op. profit before WC changes	11,551	13,685	16,744	20,769
Net Changes-WC	4,245	(2,370)	(2,772)	(3,144)
Direct tax	(2,523)	(3,083)	(3,760)	(4,355)
Net cash from Op. activities	13,273	8,232	10,212	13,270
Capital expenditures	(1,551)	(1,700)	(1,600)	(1,700)
Interest / Dividend Income	355	715	960	-
Others	(8,858)	(100)	(100)	(100)
Net Cash from Invt. activities	(10,054)	(1,085)	(740)	(1,800)
Issue of share cap. / premium	1	-	-	-
Debt changes	(287)	-	-	-
Dividend paid	(2,198)	(3,464)	(4,474)	(5,184)
Interest paid	(455)	(456)	(40)	(200)
Others	(688)	-	-	-
Net cash from Fin. activities	(3,627)	(3,920)	(4,514)	(5,384)
Net change in cash	(408)	3,227	4,958	6,086
Free Cash Flow	11,707	6,532	8,612	11,570

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	63.8	83.8	107.2	124.3
CEPS	84.0	103.2	132.2	231.3
BVPS	330.8	380.8	445.4	780.5
FCF	111.5	62.2	82.0	165.3
DPS	20.8	27.4	35.4	61.5
Return Ratio(%)				
RoCE	25.2	29.7	31.1	32.4
ROIC	34.0	38.4	39.3	40.3
RoE	21.3	23.3	26.0	25.7
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.5)	(0.5)	(0.4)
Debtor (Days)	83	85	85	85
Valuation(x)				
PER	68.0	51.8	40.5	34.9
P/B	13.1	11.4	9.7	5.6
P/CEPS	84.0	103.2	132.2	231.3
EV/EBITDA	43.5	33.1	27.0	14.3
EV/Sales	8.0	6.8	5.6	3.0
Dividend Yield (%)	0.5	0.6	0.8	1.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	13,138	14,007	14,405	15,184
YoY gr. (%)	(6.3)	(1.6)	(0.4)	17.3
Raw Material Expenses	8,161	8,556	8,496	8,758
Gross Profit	4,977	5,451	5,909	6,426
Margin (%)	37.9	38.9	41.0	42.3
EBITDA	2,328	2,756	2,931	3,177
YoY gr. (%)	(17.8)	(3.8)	9.2	54.3
Margin (%)	17.7	19.7	20.3	20.9
Depreciation / Depletion	527	624	540	554
EBIT	1,801	2,132	2,391	2,623
Margin (%)	13.7	15.2	16.6	17.3
Net Interest	109	114	125	108
Other Income	566	488	346	442
Profit before Tax	2,258	2,506	2,612	2,957
Margin (%)	17.2	17.9	18.1	19.5
Total Tax	595	637	659	787
Effective tax rate (%)	26.4	25.4	25.2	26.6
Profit after Tax	1,663	1,869	1,953	2,170
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,663	1,869	1,953	2,170
YoY gr. (%)	(19.4)	(9.2)	(5.3)	83.9
Margin (%)	12.7	13.3	13.6	14.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,663	1,869	1,953	2,170
YoY gr. (%)	(19.4)	(9.2)	(5.3)	296.0
Margin (%)	12.7	13.3	13.6	14.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,663	1,869	1,953	2,170
Avg. Shares O/s (m)	105	105	106	106
EPS (Rs)	15.8	17.7	18.5	20.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Key Operating Metrics				
Net Revenue	13,138	14,007	14,405	15,184
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Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,663	1,869	1,953	2,170
YoY gr. (%)	(19.4)	(9.2)	(5.3)	83.9
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Avg. Shares O/s (m)	105	105	106	106
EPS (Rs)	15.8	17.7	18.5	20.5

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Aug-21	BUY	4,018	3,697
2	15-Jul-21	BUY	3,149	2,911
3	02-Jul-21	BUY	3,117	2,914
4	04-May-21	BUY	3,006	2,797
5	05-Apr-21	BUY	3,006	2,721
6	21-Jan-21	BUY	3,057	2,658
7	04-Jan-21	BUY	2,509	2,410
8	22-Dec-20	BUY	2,509	2,157
9	20-Oct-20	Accumulate	1,860	1,754
10	05-Oct-20	Hold	1,529	1,587

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	5,393	4,790
2	Cyient	BUY	1,088	967
3	HCL Technologies	BUY	1,239	1,050
4	Infosys	BUY	1,847	1,650
5	L&T Technology Services	BUY	4,018	3,697
6	Larsen & Toubro Infotech	BUY	5,416	4,763
7	Mindtree	BUY	3,450	2,842
8	Mphasis	BUY	3,348	2,695
9	Persistent Systems	BUY	3,603	3,118
10	Redington (India)	BUY	397	330
11	Sonata Software	BUY	927	842
12	Tata Consultancy Services	BUY	3,807	3,310
13	TeamLease Services	BUY	4,716	3,954
14	Tech Mahindra	BUY	1,509	1,265
15	Wipro	BUY	665	598
16	Zensar Technologies	BUY	424	429

PL's Recommendation Nomenclature (Absolute Performance)

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

ANALYST CERTIFICATION

(Indian Clients)

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