



TM

Latent View Analytics

08 May 2024

Muted FY24; rebound expected in the medium term

Latent View Analytics' (LATENTVI, NOT RATED) 4QFY24 performance was steady but fell short of management's expectations, due to delays in the closure of couple of large opportunities (deals in USD 2mn range). The company anticipated 25% revenue growth at the start of FY24 but ended the year with 19% growth due to the challenging macro environment. For FY25, management expects similar revenue growth as in FY24, alluding to a conservative revenue guidance for FY25, as growth has been strong in the previous years (30%+ in FY22 and FY23 each). The company hopes to complete the integration of Decision Point Analytics in 1QFY25, which would add about a month's revenue to the quarter, with the full quarter revenue likely add from 2QFY25 onwards. Improved utilization and rationalization of onsite costs propelled 4QFY24 EBITDA margin, with the company ending FY24 with 21.2% EBITDA margin. The company indicated 21-23% EBITDA margin for 1H, as 1QFY25 would include the full impact of wage hikes (8-10% in India, 4-5% onsite) and annual visa costs, with margin likely touching 25% in 2H. Even though its recent acquisition, Decision Point Analytics, operates at 30%+ margins, management believes it is unlikely to have a substantial impact on LATENTVI's margins, as it is only 1/7th the size of the latter in terms of revenues. The company estimates the Global Data and Analytics market to expand at 18-20% annually to USD 332bn by CY24. We do not have a rating on the stock, which currently trades at 53x 1-year forward multiple as per consensus estimates for FY25 and FY26 EPS.

Acquires Decision Point Analytics

LATENTVI is in the process of acquiring Decision Point Analytics, a leader in AI Business Transformation and Revenue Growth Management Solutions for CPG (Retail) clients. Decision Point expanded rapidly until CY22 (>50% CAGR) by focusing on opportunities in the Latin American market. Decision Point clocked close to ~USD 12.8mn revenue and ~30% EBITDA margin in CY23. The deal involves LATENTVI paying a consideration of USD 39.1mn for 70% of the transaction and the remaining 30% in tranches before June 2026. The acquisition will be funded through Rs 1,479mn the company had earmarked for inorganic expansion out of its IPO funds, and the additional outflow of Rs 1,800mn through internal cash accruals.

Revenue and EBITDA margins

For 4Q, LATENTVI reported revenue of Rs.1,716mn in rupee terms, up 21.7% YoY and 3.6% QoQ, and 3.8% QoQ in CC terms as this was a seasonally soft quarter. FY24 revenues grew 18.9% YoY in rupee terms. The company completed all renewals by the end of FY24 and is looking to start FY25 on a solid footing. EBITDA margin grew 130 bps QoQ to 23.5% during the quarter, supported by revenue growth and certain operating efficiencies. The company's strong fiscal discipline along with some rationalization in its go-to-market spend in Europe explains the operating efficiency.

Valuation & Outlook

At 53x 1-year forward multiple, LATENTVI trades around its last 3-year historical average multiple (as per consensus estimates for FY25 and FY26 EPS). The stock has already corrected 15% since last month probably factoring lower than expected revenue growth in FY24.

COMPANY UPDATE

Sector: IT & ITES Rating: NOT RATED

CMP: Rs 473 Target Price: NA

Stock Info

Sensex/Nifty	73,512/22,303
Bloomberg	LATENTVI IN
Equity shares (mn)	205
52-wk High/Low	567 / 322
Face value	Rs 1
M-Cap	Rs 97.1bn/USD1170mn
3-m Avg turnover	USD 6.5mn

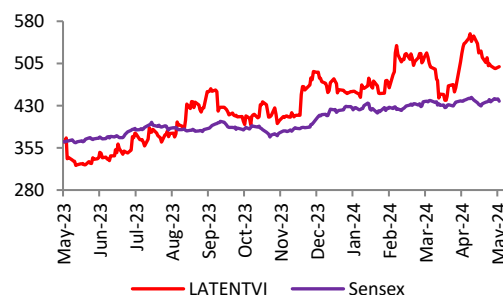
Financial Snapshot (Rs mn)

Y/E Mar	FY22	FY23	FY24
Net sales	4,078	5,388	6,407
EBITDA	1,219	1,451	1,360
EBITDA (%)	29.9%	26.9%	21.2%
PAT	1,295	1,554	1,586
EPS	7.1	7.7	7.7
P/E (x)	66.7	61.4	61.2
P/B (x)	8.4	7.9	7.1
EV/EBITDA (x)	64.7	60.3	65.8
RoE (%)	12.6%	12.9%	11.5%
RoCE (%)	15.2%	12.2%	9.7%

Shareholding Pattern (%)

	Mar'24	Dec'23	Sep'23
Promoter	65.4	65.4	65.7
- Pledged			
FII	2.4	2.5	2.6
DII	4.5	2.5	1.6
Others	27.7	29.6	30.1

Stock Performance (1-year)



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What do 4QFY24 numbers say?

- LATENTVI's 4QFY24 revenue growth is as follows: a) up 3.8% QoQ in CC terms and b) up 3.6% QoQ and up 21.7% YoY at Rs 1,716mn in rupee terms. Other income fell 31% QoQ on forex losses on account loans given to group companies.
- In INR revenue terms, US and RoW markets (over 98% of revenue mix) grew by 21.7% and 57.7% YoY, respectively, while the Europe market declined 34.1% YoY. Technology and financial services verticals (over 80% of revenue mix) reported YoY growth of 27.7% and 39.3%, respectively, while industrial and retail verticals witnessed 0.4% and 3.4% YoY decline, respectively.
- EBITDA margin grew 130 bps QoQ to 23.5%, of which, 80 bps of benefit came from improved utilization and rationalization of onsite business development teams. Benefit of the remaining 50 bps resulted from lower marketing spends in 4Q and higher legal and professional charges incurred in 3Q, pertaining to the acquisition of Decision Point Analytics.
- LATENTVI's FY24 revenue grew 18.9% YoY in rupee terms at Rs 6,407mn. The company reported EBITDA margin of 21.2% in FY24, down 570 bps YoY.
- Cash & Investments (excluding IPO proceeds) at the end of FY24 stood at Rs 11,232mn.
- During the quarter, the company did 133 campus placements. Currently, it has a strength of 1,280 employees.

Earnings call highlights

- Management indicated the company is trying to address the vertical and geographical concentration mix through diversification. Acquisition of Decision Point Analytics was a step in this direction. It expects to increase the contribution of CPG vertical in the revenue mix from 8.1% in 4QFY24 to 20% in the medium term.
- Similarly, it expects to increase the contribution of BFSI vertical in the revenue mix from 8.7% 4QFY24 to 20% in the medium term. The company is constantly scouting for opportunities in this space, for which it is in touch with external partners. The company indicated that data engineering in the BFSI industry is an ongoing opportunity.
- Management indicated that the company has been continuously looking for M&A opportunities for inorganic growth. The company observed that few of the companies they have been targeting may have faced challenges causing a slump in their financial performance. This turn of events has rendered their valuations attractive, likely presenting opportunities to LATENTVI to see them serious contenders.
- The company indicated that Mr. Ravi Shankar, founder and CEO of Decision Point Analytics will take over overall responsibility of the CPG vertical for LATENTVI. The company is also allowing full overlap of sales and revenue lines between the two teams, i.e., LATENTVI and Decision Point Analytics, so that there is absolutely no friction between the two organizations in terms of pursuing opportunities. The teams would be jointly marketing, wherein LATENTVI could pitch the full suite of solutions of the combined entity.

- The company has seen strong traction in its Generative AI (GenAI) solutions and pilots and was able to kick off many of them lately. It has also formed a partnership with Nvidia on the GenAI tech stack. Nvidia is a leader in GPU technology and chipsets, and there is a huge waiting list for its GPUs in general. Given the huge amount of interest the world is witnessing on large language models and GenAI in particular, NVidia has been looking at how it could create stickiness by not just doing the chip on the hardware part, but also creating a tech stack that could enable the usage of GPUs to deliver on use cases that could have an impact on the business. LATENTVI is leveraging its partnership with Nvidia and has been working on multiple use cases with clients as well as some internal pilots, and the early results are encouraging, especially in areas where a huge amount of compute is needed to handle streaming data and create real-time analytics and insights thereon.
- The company has also launched a marketing analytics center of excellence and horizontal where it is interested in full funnel growth marketing and how it could look at B2B companies to generate revenues through marketing mechanisms. These would be areas of focus for the marketing analytics team, who will also leverage GenAI solutions to create similar use cases and value propositions.
- US remains a dominant geography for the company, contributing 95% of overall revenues, with Europe contributing mere ~1.4% to overall revenues. However, management indicated it is seeing good traction in Europe too and expects Europe and APAC to contribute at least 5% to 6% of overall revenues in FY25.

Exhibit 1: Latent View Analytics - Quarter results (Consol.)

(Rs mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Revenue INR mn	1,411	1,477	1,557	1,657	1,716	21.7	3.6	5,388	6,407	18.9
Employee costs	930	1,003	1,075	1,118	1,143	23.0	2.3	3,361	4,339	29.1
Other expenses	180	193	174	171	169	(5.8)	(1.3)	576	708	22.9
EBITDA	301	281	308	368	404	34.0	9.8	1,451	1,360	(6.2)
Depreciation	22	24	23	25	25	9.5	(1.5)	88	97	9.6
EBIT	279	257	285	343	379	36.0	10.7	1,362	1,264	(7.2)
Finance costs	7	8	8	7	7	8.9	(2.7)	26	30	15.5
Other income	150	179	170	230	158	5.1	(31.3)	558	737	32.2
PBT	423	428	447	566	530	25.5	(6.2)	1,894	1,970	4.0
Tax	81	99	106	100	78	(3.3)	(22.3)	339	384	13.1
PAT	342	329	340	465	452	32.2	(2.8)	1,554	1,586	2.1
EPS (Rs)	1.7	1.6	1.7	2.3	2.2	31.0	(3.1)	7.7	7.7	0.3
As a % of Revenue						YoY (bps)	QoQ (bps)			YoY (bps)
Employee costs	65.9	67.9	69.0	67.5	66.6	70	(84)	62.4	67.7	533
Other expenses	12.7	13.0	11.2	10.3	9.9	(287)	(49)	10.7	11.0	36
EBITDA margin	21.4	19.0	19.8	22.2	23.5	217	134	26.9	21.2	(569)
Depreciation	1.6	1.6	1.5	1.5	1.4	(16)	(7)	1.6	1.5	(13)
EBIT margin	19.8	17.4	18.3	20.7	22.1	233	141	25.3	19.7	(556)
Finance costs	0.5	0.5	0.5	0.4	0.4	(5)	(3)	0.5	0.5	(1)
Other income	10.7	12.1	10.9	13.9	9.2	(145)	(468)	10.4	11.5	115
PBT	30.0	29.0	28.7	34.1	30.9	93	(324)	35.1	30.8	(440)
Effective Tax Rate	19.1	23.2	23.8	17.7	14.7	(438)	(304)	17.9	19.5	156
PAT	24.3	22.3	21.9	28.1	26.4	211	(172)	28.8	24.8	(409)

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24
Revenue	3,059	4,078	5,388	6,407
Employee expenses	1,772	2,422	3,361	4,339
Other expenses	241	437	576	708
EBITDA	1,046	1,219	1,451	1,360
EBITDA margin	34.2%	29.9%	26.9%	21.2%
Depreciation	69	82	88	97
EBIT	977	1,137	1,362	1,264
EBIT margin	31.9%	27.9%	25.3%	19.7%
Interest expense	26	31	26	30
Other income	208	210	558	737
Profit before tax	1,159	1,542	1,894	1,970
Taxes	245	247	339	384
PAT	915	1,295	1,554	1,586
EPS	5.4	7.1	7.7	7.7

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24
Equity Share Capital	8	200	205	206
Reserves & Surplus (Ex OCI)	4,370	10,063	11,870	13,538
Net worth	4,378	10,264	12,074	13,744
Deferred Tax Liability	46	16	17	29
Long term debt	226	4	3	2
Trade payables	34	43	38	100
Other Provisions	60	63	87	128
Other liabilities	449	611	410	556
Total Liabilities	5,192	11,000	12,631	14,559
Net block	304	287	232	275
Other Non-current asset	328	436	519	368
Investments	1,393	1,938	5,007	6,758
Cash and Cash Equivalents	2,215	6,921	5,413	4,158
Debtors	609	837	985	1,131
Other current asset	344	581	474	1,869
Total Assets	5,192	11,000	12,631	14,559

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24
PBT	1,159	1,542	1,894	1,970
Exceptional Item	-	-226	-	-
Depreciation	69	82	88	97
Interest	26	25	20	22
Others	-155	-151	-432	-679
Operating Profit				
before WC Changes	1,099	1,271	1,569	1,410
Change in WC	45	125	328	-46
Others including taxes	155	271	267	302
Operating Cash-Flow	899	874	974	1,154
Capex	18	65	32	43
Free cash-flow	880	809	942	1,111
Fin Investments	436	4,325	2,817	-6
Misc. Items (CFI + CFF)	(173)	(4,488)	41	11
Net Δ in cash	618	972	(1,915)	1,105

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY21	FY22	FY23	FY24
Revenue growth	-1.4%	33.3%	32.1%	18.9%
EBITDA (%)	34.2%	29.9%	26.9%	21.2%
RoCE	24.0%	15.2%	12.2%	9.7%
RoNW	20.9%	12.6%	12.9%	11.5%
EPS (Rs)	5	7	8	8
Debtor days	73	75	67	64
Creditor days	4	4	3	6
P/E (x)	88	67	61	61
P/B (x)	18	8	8	7
EV/EBITDA (x)	75	65	60	66

Source: Company, Systematix Institutional Research

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Disclosure of Interest Statement	Update
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Served as an officer, director or employee	No

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SELL (S): The stock's total return is expected to give negative returns of more than 15% over the next 12 months.

NOT RATED (NR): The analyst has no recommendation on the stock under review.

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