

L&T Technology Services

Volatility to persist

L&T Technology Services (LTTS) has strong credentials as a leading pure-play engineering services provider with low churn. Still, it faces challenges of scale, longer deal conversion cycle and business cyclicalities. The upside seems capped as current growth numbers for LTTS already factor in the incremental revenue addition of 2x its historical organic average. We recently visited the company's Mysore facility (~3k employees) and several customer offshore development centres (ODCs) in medical devices, industrial products and transportation. The company has a sticky (lower vendor churn) revenue pool from marquee customer base and demand for digital engineering and offshore services is driving growth across industry verticals. We have also analysed the annual report and some key highlights include (1) strong partnership in the chip ecosystem supporting growth across verticals (Transportation, Medical), (2) change in business mix with SWC acquisition and higher increase in median remuneration that impacted margins, and (3) parent (related party) contributing to ~20% of organic growth and steady OCF conversion despite high DSO. Maintain **REDUCE** on LTTS with TP of INR 4,270, based on 27x FY26E EPS.

- Marquee client base; L&T contributes ~20% to organic growth:** LTTS' service lines are end-to-end ranging from mechanical design, software & embedded engineering to testing and validation. It has 57 of the top-100 R&D spenders as clients which include eight of top-10 in transportation, eight of top-10 in telecom & hi-tech, seven of top-10 in industrial products, three of top-5 in plant engineering and seven of top-10 in medical devices. In FY24, LTTS won a USD 100mn deal, a USD 50mn and USD 40mn deal and over twenty USD 10mn+ TCV deals. The USD 100mn TCV 5-year deal was secured from the Government of Maharashtra for designing a cybersecurity system, and setup of a security operation centre supported by SWC's capabilities of setup of command centers. LTTS' revenue from L&T (parent/related party) increased from INR 257mn in FY23 to INR 1.73bn in FY24, increasing from 0.3% of revenue in FY23 to 1.8% of revenue in FY24, contributing ~20% to the organic growth in FY24.
- Strong domain capabilities and partnerships reflected across customer exhibits:** A large customer with 550+ employees ODC is supported for several solutions such as patient monitoring system (continuous BP monitor, integration of Android to ultrasound), precision diagnostics, image-guided therapy (collaboration with NVIDIA compute platform to develop software architecture for medical devices), performance and functional testing (e.g.: battery performance testing for temperature and humidity conditions). Another customer study included 250+ man hours of testing being automated and building solutions for the connectivity of patient beds to the nursing system. Importantly, there are regulatory exit barriers in the business that support revenue streams beyond product development – for instance, the US FDA requirement of 7 years of product maintenance in medical devices.

Financial Summary

YE March (INR bn)	FY22	FY23	FY24	FY25E	FY26E
Revenue (USD mn)	880	990	1,164	1,257	1,418
Net Sales	65.70	80.14	96.47	104.94	120.54
EBIT	12.01	14.79	16.47	17.10	20.89
APAT	9.57	11.70	13.04	13.96	16.69
Diluted EPS (INR)	90.7	110.8	123.5	132.3	158.2
P/E (x)	54.1	44.3	39.7	37.1	31.0
EV / EBITDA (x)	35.2	28.7	25.6	23.8	19.3
RoE (%)	25.1	25.7	25.4	24.3	25.1

Source: Company, HSIE Research

REDUCE

CMP (as on 13 Jun 2024)	INR 4,905
Target Price	INR 4,270
NIFTY	23,399

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 4,320	INR 4,270
EPS %	FY25E (0.3)	FY26E (1.1)

KEY STOCK DATA

Bloomberg code	LTTS IN
No. of Shares (mn)	106
MCap (INR bn) / (\$ mn)	519/6,209
6m avg traded value (INR mn)	1,087
52 Week high / low	INR 5,885/3,755

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.8)	(0.4)	24.1
Relative (%)	(10.4)	(10.8)	2.4

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	73.75	73.74
FIs & Local MFs	11.56	12.32
FPIs	5.63	5.52
Public & Others	9.06	8.42
Pledged Shares	0.00	0.00

Source : BSE

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Diversified offerings in the largest vertical: In the transportation vertical (32% of LTTS' revenue), it is focusing on emerging technologies in AI and cybersecurity and software-defined vehicle domain. LTTS currently has software-defined vehicle (SDV) engagements with four OEMs, one tier-1 and two CV OEMs globally. Within the powertrain, ADAS and infotainment, the infotainment cluster presents a large opportunity as more change requests are driving the scope for continuous development. For a large European OEM customer, LTTS has grown from 15 employees in 2012 working on powertrain systems to currently 600 employees including 150 people center in Munich. Services range from e-powertrain (software bug fixing, software integration), automation platform and system testing for L2 and L3 AD-ADAS, infotainment and telematics (infotainment cluster testing). The aerospace portfolio has a services suite across aero engines, aerostructures and systems, avionics, and air traffic management systems – it has partnerships with leading OEMs (such as Airbus and presence across locations including nearshore centres).

Strong partnerships in the chip ecosystem: Within the telecom & hi-tech vertical, LTTS works with chip manufacturers in hardware system design, platform software development, chip development, verification and validation and connectivity. LTTS has alliances in the semiconductor ecosystem with NVIDIA, and Intel as a system integrator and services integrator ([Exhibits: 12,13](#)) – we note that LTTS is among the 24 global system integrators for NVIDIA and is among the 46 global service integrators (Titanium and Gold partners) for Intel.

Industry growth drivers: Outsourcing of ER&D remains a large opportunity – currently ~USD 80bn which is 5-6% of global engineering and R&D spend. The obsolescence of legacy products and their development is an opportunity in the industrial products vertical (16% of revenue). Regulatory and compliance requirements remain a large opportunity, especially in medical devices (EU MDR regulations). Key drivers for the LTTS include (1) building low-cost solutions to circumvent supply chain issues – e.g.: LTTS building infotainment platform (Qualcomm has volume threshold for OEMs), (2) increased connectivity requirement in the automotive sector and subsequent spending related to cybersecurity, (3) high usage on Android in Autos, Industrials and Medical, (4) value engineering opportunity in medical devices, and (5) opportunity from enterprise clients' GCC (large part of India business is supporting client GCC). LTTS' engineering strength across domains is supported by its innovation labs.

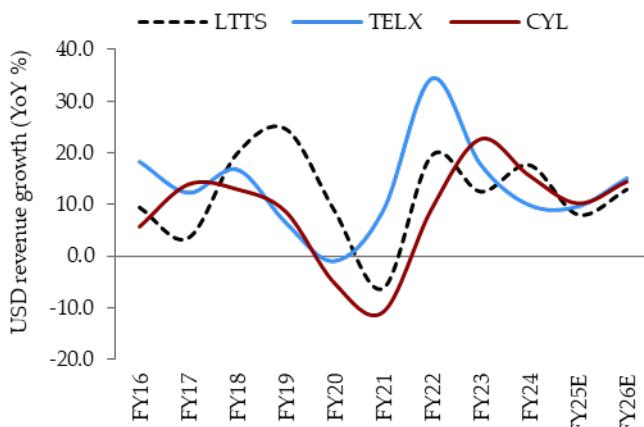
Operating profile impacted by change in business mix: LTTS' margins in FY24 were impacted by the change in the business mix following its integration with SWC on account of higher sub-contracting and component charges. Higher revenue mix from telecom & hi-tech is likely to impact margins in the near term even as supply-side factors have led to wage inflation. Median remuneration increased by 6.8% to INR 0.95mn following static median wage at INR 0.88mn over FY21-23. LTTS' median remuneration of its employees stood at INR 0.95mn which was higher by 6.75% in FY24; the average increase in wages in India was 5.5% (8.8% in FY23) and 2.75% (3.4% in FY23) outside India.

Organisational structure changes: LTTS has recently undertaken simplification of its organisational structure into three segments – Mobility, Sustainability and Hi-Tech. The Mobility segment will encompass automotive, commercial vehicles and aerospace verticals. Sustainability will cover industrial machinery & building technology, electric & power, FMCG and oil & gas. The Hi-Tech segment will include medtech, semiconductors, consumer electronics, hyperscalers and nexgen comm verticals. Cybersecurity services are expected to become a USD 100mn annual revenue business over the next few years. LTTS has upskilled 3,000 employees in GenAI applications across segments. In FY24, the company expanded in delivery centres of Vadodara, Chennai and Bangalore, including a new 4k seater in Bangalore.

L&T Technology Services: Company Update

Steady OCF conversion: OCF/EBITDA in FY24 was 78% as compared to the last 5Y cumulative at 80%. FCF was impacted by the acquisition of Smart World & Communication (SWC) business for INR 7.98bn and DSO that remains high (at 100 days including unbilled). The acquisition of SWC (completed in April'23) from L&T has added to LTTS's capability in nexgen communications, sustainable smart spaces, and cybersecurity and the potential is to cross-sell services to global clients. The USD 100mn+ TCV cybersecurity deal bagged by LTTS is supported by the company's enhanced capabilities from the SWC acquisition.

Exhibit 1: Growth trajectory in-line with ER&D peers



Source: Company, HSIE Research

Exhibit 2: Telecom & Hi-Tech vertical led increase

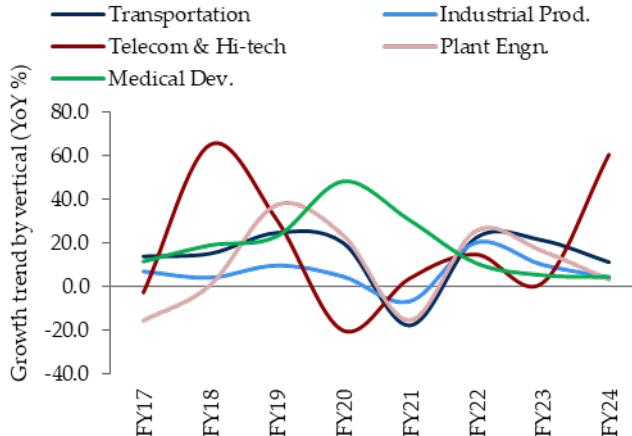
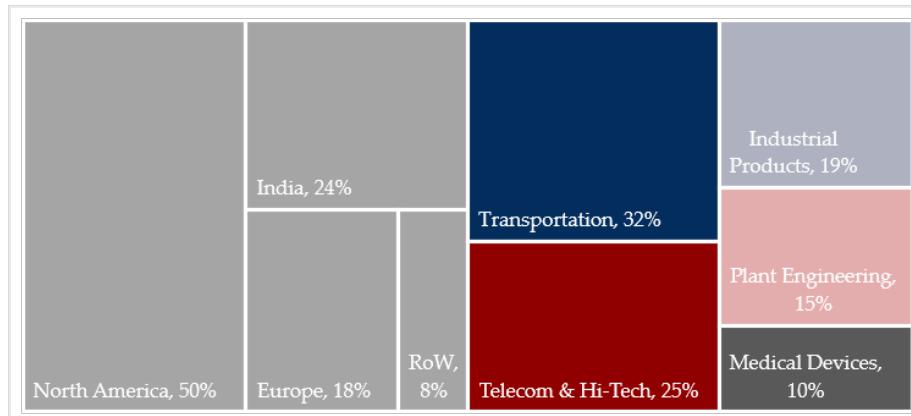
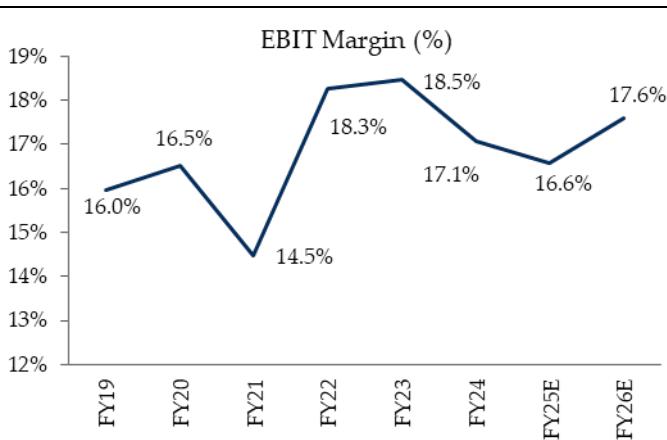


Exhibit 3: Revenue mix by geography and verticals



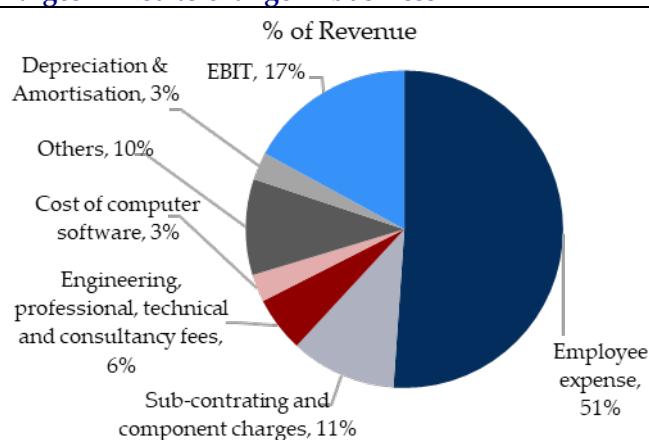
Source: Company, HSIE Research

Exhibit 4: Margin weakness in the near term



Source: Company, HSIE Research

Exhibit 5: Higher sub-contracting and component charges linked to change in business mix



L&T Technology Services: Company Update

Exhibit 6: LTTS' services

Verticals	Description	% of revenue
Transportation	The global customers of LTTS in this business vertical include top OEMs (original equipment manufacturers) and Tier 1 suppliers across the Automotive, Trucks & Off-Highway Vehicles and Aerospace segments. LTTS provides services across SDV, ADAS & Safety Systems, EACV, Infotainment & Driver Information Systems, Body Electronics & Comfort Systems, Aerospace Aftermarket Services, Inflight Entertainment & Communication Services	33%
Telecom & Hitech	LTTS offers engineering services and solutions across five key segments: Telecom, Consumer Electronics, Semiconductor, ISV, and Media & Entertainment. LTTS leveraging emerging technology services including AI, SDX, and cybersecurity	26%
Industrial Products	LTTS industrial products offerings span across Industrial machinery and building automation, Electrical drives and power utilities, machinery and handling equipment. This is across building automation, home and office product design, energy management, process control, and machinery design	17%
Plant Engineering	LTTS' has chip-to-cloud capabilities – from design and engineering to project management – help drive delivery, maintenance, and sustenance of bespoke solutions for global Plant Engineering clientele. With its focus on Engineering, Procurement, and Construction Management (EPCM), LTTS supports every phase of a plant's lifecycle management through its industry-leading consulting-driven services and multi-geography Value Engineering Centers	14%
Medical Devices	LTTS helps enable remote medical care, ensure regulatory compliances and approvals (QARA), transform in-vitro diagnostics, drive new age AI-enabled solutions and surgical services, facilitate software-defined wellness journeys, and streamline the growing adoption of the Medical Internet of Things (MIoT)	10%

Source: Company, HSIE Research

Exhibit 7: LTTS' key deals in FY24

Transportation vertical (33% of revenue)

Selected by a leading Aerospace & Defense OEM for a 3-year, **USD 15 million engagement** covering engineering services for avionics, including simulation

Engaged by a leading Agricultural and Construction equipment maker to help set up a **100-member Offshore Development Center (ODC)** in India

New engagement from a leading European automaker to provide engineering design, vehicle platform software, electrification, and propulsion computer-aided engineering

Onboarded by a **major North American automotive OEM** to assist in their software-defined vehicle initiatives, encompassing digital cockpits, ADAS, AI, and connected platforms across multiple regions in North America, Europe, and India

Chosen as a strategic engineering partner by a **global automotive parts supplier** for 3 of its major business units, encompassing, electrical distribution systems, electronics and instrumentation, and components

Multi-year contract from an **American electric vehicle OEM** to provide support in body engineering and interior design engineering for their upcoming generation of EVs

Leading Aerospace & Defense customer selected LTTS as a partner for setting up a CoE for Field Programmable Gate Arrays (FPGA) & DO254 work in USA to support their ongoing and new programs over the next 3 years

Leading Tier 1 automotive supplier has awarded LTTS a large engineering deal to set the stage for delivering ultra-low emission solutions to global customers

European automotive components maker has entrusted LTTS with ownership of all its electronics programs related to telematics, in-vehicle infotainment/cockpit, clusters & traditional body executed across EMEA, Japan, and the NA regions

Chosen as the preferred partner by a **aerospace and defence company** for its In-Flight Entertainment (IFE) systems for the next 4 years

Industrial Products vertical (17% of revenue)

Design, implementation and support of application software of meter data management, prepaid system, energy analytics and integration services for a leading **smart metering and digital solutions customer** covering 11 million end users

Multi-million dollar deal with a leading **European renewables OEM** to deliver Industry 4.0 and Digital PLM services

Long-term service contract for supply chain optimization, leveraging value engineering, should costing, smart sourcing and improving manufacturing efficiency for a global leader in residential and commercial climate solutions

Telecom & Hi-Tech vertical (26% of revenue)

USD 50 million engagement with a global technology major to enable new opportunities for digital video platforms, enhancing the customer's flagship suite of products, including its cloud native portfolio, and driving new levels of automation and optimization

Selected by a leading **US technology major** to provide post silicon validation services for their upcoming Server Derivative Chips which will be used to power hyperscalers for data centers

Working with a leading **5G wireless connectivity solutions provider** for establishing a 5G Center of Excellence, to provide support in RF design, hardware, signal processing algorithms, and systems engineering

For a leading **semiconductor company**, LTTS will be providing full stack engineering services, including Design For Testability (DFT) and Design Verification (DV), for a range of the customer's System on Chip (SOC) and Intellectual Property (IP) designs

Marquee program in India, worth about **USD 100 million**, from the **Maharashtra State Cyber Department**, under the Government of Maharashtra, for developing secure, digitally interconnected smart and safe cities through premier cybersecurity and Digital Forensic solutions consolidated under one umbrella

L&T Technology Services: Company Update

Plant Engineering vertical (14% of revenue)

Multi-year engineering services partnership with **BP plc.** to leverage LTTS' over two decades of experience in engineering, manufacturing services, digital and enterprise data management, and low carbon initiatives

Multi-year deal with a **global oilfield services provider** to set up a software center of excellence in India for driving their digital transformation journey.

Engineering managed services project from a leading European fragrance, flavor ingredients, and nutrition maker, to support the execution of its Capex program in France and Switzerland for driving greater flexibility, better agility, and a faster time to market.

Multi-year, multi-million dollar plant engineering contract from a **global Agri food company** to provide engineering design services for a new plant in Netherlands

Netherlands-based energy major has empanelled LTTS to provide plant engineering services for their global assets across all refineries and new energy projects

Multi-year contract for a greenfield specialty chemical plant in the Middle East from a leading regional petrochemical manufacturer, covering Re-FEED, Engineering, Procurement, and Construction Management

Selected as strategic partner to oversee the global PLM landscape across transformation, development, and 24x5 infrastructure support for a **leading HVAC and refrigeration solutions provider**

Medical Devices vertical (10% of revenue)

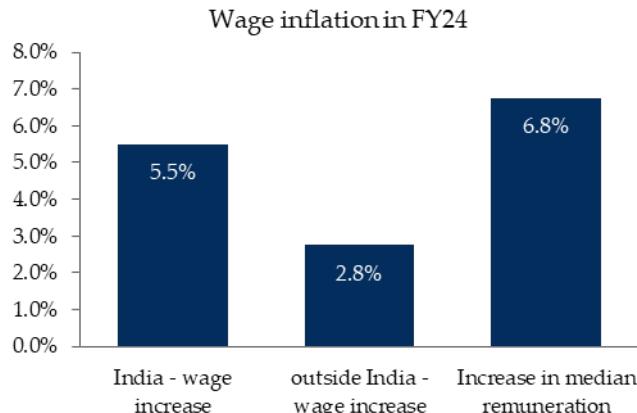
Leading healthcare technology provider for large scale part to print verification activities for medical device parts by leveraging diverse measurement systems

Selected by a **leading global healthcare** as its test engineering partner, for next gen platform development, integration, and a faster time to market.

Design and development of a next-gen Digital Surgery Platform for a major global healthcare company, including R&D support to onboard the customer's robotics, surgical and operative devices onto the platform to deliver enhanced experiences and outcomes for patients

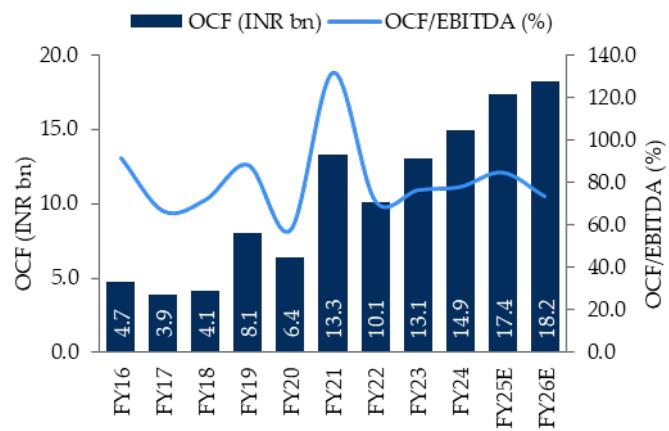
Source: Company, HSIE Research

Exhibit 8: Wage inflation and age-mix of workforce



Source: Company, HSIE Research

Exhibit 9: Steady OCF/EBITDA near LT average



Source: Company, HSIE Research

Age-mix of employees

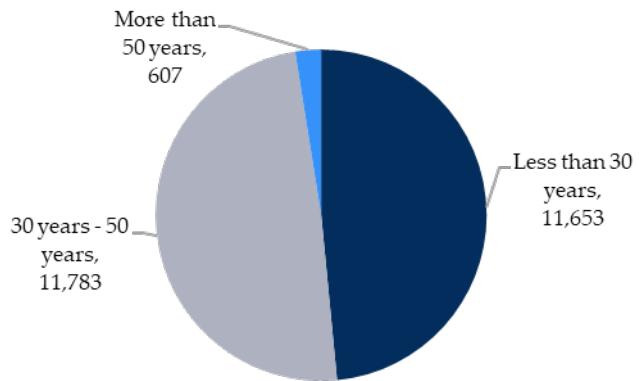
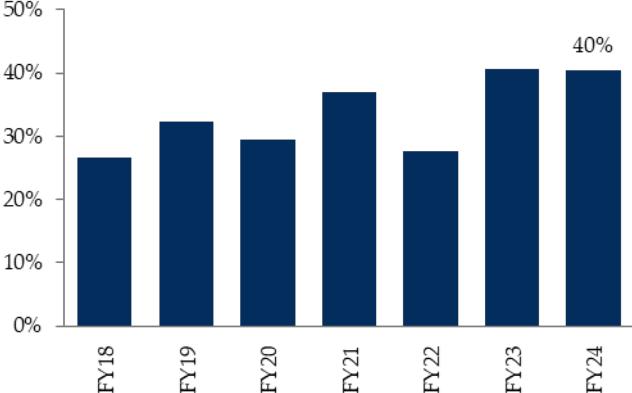


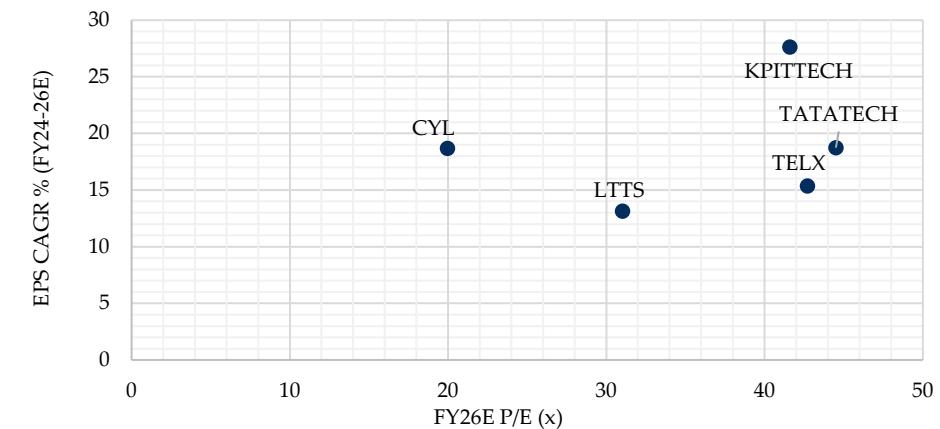
Exhibit 10: Payout continues at 40%

Dividend payout (%)



Source: Company, HSIE Research

Exhibit 11: Earnings growth and P/E grid



Source: Bloomberg, HSIE Research. Bloomberg estimates for KPIT & Tata Tech

Exhibit 12: Nvidia Global System Integrator Partners (24)

Partners	Competencies
AT Kearney	NVIDIA Technologies
Accenture	NVIDIA Technologies
Booz Allen Hamilton	DGX AI Compute Systems, NVIDIA Virtual Desktops, Compute, NVIDIA Technologies, NVIDIA Omniverse, Visualization, NVIDIA AI, Networking, Embedded Compute, DGX Cloud
Boston Consulting Group	NVIDIA Technologies
Capgemini	Embedded Compute, NVIDIA AI, Compute, NVIDIA Technologies, NVIDIA Omniverse
Cognizant	NVIDIA Technologies
Deloitte	Visualization, DGX AI Compute Systems, DGX Cloud, Networking, Embedded Compute, NVIDIA AI, Compute, NVIDIA Omniverse, NVIDIA Virtual Desktops, NVIDIA Technologies
DXC Technology	NVIDIA Technologies
EPAM	NVIDIA Technologies
EY	NVIDIA Omniverse, DGX Cloud, Compute, DGX AI Compute Systems, Visualization, NVIDIA AI
Globant	NVIDIA Technologies
HCL Tech	NVIDIA Technologies
IBM	NVIDIA Technologies
Infosys	NVIDIA Technologies, Networking, DGX AI Compute Systems, Compute, DGX Cloud, NVIDIA Virtual Desktops, Embedded Compute, Visualization, NVIDIA Omniverse, NVIDIA AI
KPMG	NVIDIA Technologies
Kyndryl	NVIDIA Technologies
LTTS	NVIDIA Technologies
LTIM	NVIDIA Technologies
Mastek	Compute, NVIDIA AI, NVIDIA Technologies
McKinsey	NVIDIA Technologies
TCS	NVIDIA AI, NVIDIA Technologies, DGX Cloud, NVIDIA Virtual Desktops, NVIDIA Omniverse, Visualization, Embedded Compute, Compute, DGX AI Compute Systems, Networking
Tata Elxsi	Compute, NVIDIA Omniverse, Networking, Visualization, NVIDIA Virtual Desktops, DGX Cloud, NVIDIA AI, NVIDIA Technologies, DGX AI Compute Systems, Embedded Compute
Tech Mahindra	NVIDIA Technologies, DGX Cloud, NVIDIA AI, NVIDIA Virtual Desktops, Visualization, Compute, DGX AI Compute Systems, Embedded Compute, Networking, NVIDIA Omniverse
Wipro	NVIDIA Technologies, NVIDIA AI, Compute, Visualization, NVIDIA Virtual Desktops, Networking, DGX Cloud, NVIDIA Omniverse, DGX AI Compute Systems, Embedded Compute

Source: Company, HSIE Research

Exhibit 13: Intel service integrator partners

Partners	Partnership type
TCS	Titanium
HCL Tech	Titanium
Wipro	Titanium
Capgemini	Titanium
Tech Mahindra	Titanium
LTTS	Gold
Tata Elxsi	Gold
Cognizant	Gold
Tata Technologies	Gold
DXC Technology	Gold
Kyndryl	Gold

Source: Company, HSIE Research

Exhibit 14: LTTS' acquisition history

Year	Acquisition	Services	Purchase consideration
2023	Smart World & Communication (SWC)	Communication - network design, planning, implementation and management including Network Operations Center (NOC), OSS, Datacenter, Cloud/Private 5G (700 employees)	INR 8bn
2020	Orchestra Technology	Telecom Network Engineering	USD 25mn
2018	Graphene Semiconductor Services	Semiconductor Services	INR 0.9bn
2017	Esencia Technologies	Design Services	USD 27mn

Source: Company, HSIE Research

Exhibit 15: LTTS key senior management personnel

Senior management	Designation	Remarks
Amit Chadha	CEO & MD	CEO since 2021, in LTTS since 2009
Abhishek Sinha	COO & Whole-time Director	Since 2019, earlier KPIT/Infosys
Alind Saxena	President Sales & Whole-time Director	since 2010, earlier Satyam
Rajeev Gupta	CFO	since 2020, earlier Birlasoft
Lakshmanan M	CHRO	since 2019, earlier L&T Defence/Capgemini
Bhanu Gopalam	Chief Delivery Officer & Head Corporate Strategy	since 2011, earlier Satyam
Subrat Tripathy	Chief Business Officer	since 2017, earlier L&T/Satyam
Rajkumar Ravidranathan	Chief Business Officer - EMEA & APAC	since 2021, earlier Cognizant
Srinath Nagarur	Chief Business Officer	since 2020, earlier eInfochips/Capgemini
Shailendra Shrivastava	Chief Delivery Officer	since 2010, earlier Satyam
Seema Ghanekar	Chief Delivery Officer (Nex Gen communications)	since 2019, earlier LTI
Kirupa Shankar	Chief Business Officer	since 2023, earlier L&T (SWC & Smart city)
Prasad Shanbhag	Company Secretary	

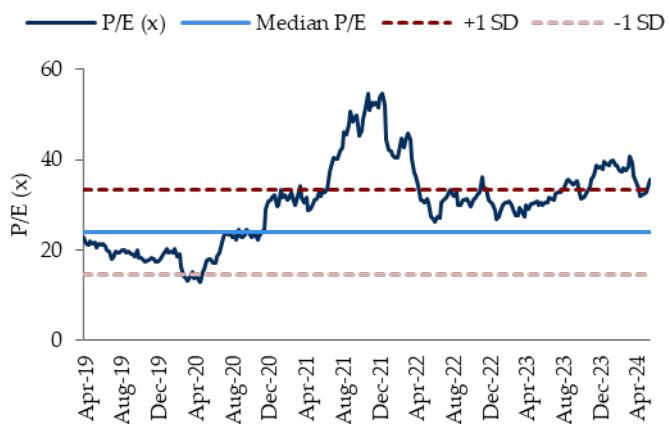
Source: Company, LinkedIn, HSIE Research

Exhibit 16: Change in estimates

YE March (INR bn)	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	1,257	1,257	0.0	1,418	1,418	0.0
Revenue	104.94	104.94	0.0	120.54	120.54	0.0
EBIT	17.38	17.10	(1.6)	21.21	20.89	(1.5)
EBIT margin (%)	16.6	16.3	-26bps	17.6	17.3	-27bps
APAT	14.00	13.96	(0.3)	16.88	16.69	(1.1)
EPS (INR)	132.7	132.3	(0.3)	160.0	158.2	(1.1)

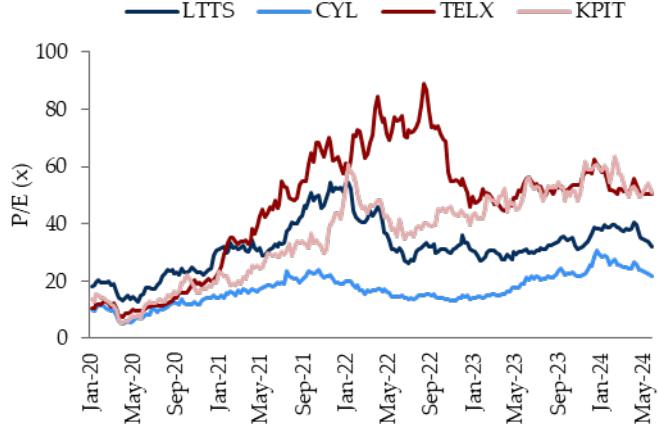
Source: Company, HSIE Research

Exhibit 17: LTTS P/E (1-yr fwd) Trend



Source: Bloomberg, HSIE Research

Exhibit 18: LTTS valuations vs other ER&D peers



Source: Bloomberg, HSIE Research

Financials

Consolidated Income Statement

Year ending March (INR bn)	FY22	FY23	FY24	FY25E	FY26E
Net Revenues (USD mn)	880	990	1,164	1,257	1,418
<i>Growth (%)</i>	19.5	12.4	17.6	8.0	12.9
Net Revenues	65.70	80.14	96.47	104.94	120.54
<i>Growth (%)</i>	20.6	22.0	20.4	8.8	14.9
Employee Expenses	36.51	45.64	49.30	51.63	60.76
SG&A expenses	15.04	17.39	27.99	33.06	35.28
EBITDA	14.15	17.11	19.19	20.25	24.51
Depreciation	2.14	2.31	2.72	3.15	3.62
EBIT	12.01	14.79	16.47	17.10	20.89
<i>EBIT Margin (%)</i>	18.3	18.5	17.1	16.3	17.3
<i>EBIT Growth (%)</i>	52.1	23.2	11.4	3.8	22.2
Other Income (Including EO Items)	1.52	2.08	2.07	2.71	2.69
Interest	0.44	0.44	0.51	0.53	0.53
PBT	13.09	16.44	18.04	19.28	23.05
Tax	3.49	4.70	4.98	5.30	6.34
RPAT	9.57	11.70	13.04	13.96	16.69
APAT	9.57	11.70	13.04	13.96	16.69
<i>APAT Growth (%)</i>	52.7	22.2	11.4	7.1	19.6
Adjusted EPS (INR)	90.7	110.8	123.5	132.3	158.2
<i>EPS Growth (%)</i>	52.7	22.2	11.4	7.1	19.6

Source: Company, HSIE Research

Consolidated Balance Sheet

Year ending March (INR bn)	FY22	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS					
Share Capital – Equity	0.21	0.21	0.21	0.21	0.21
Reserves	41.41	49.30	53.06	61.32	71.25
Total Shareholders Funds	41.63	49.51	53.27	61.53	71.46
Minority Interest	0.14	0.18	0.21	0.23	0.25
Net Deferred Taxes	0.67	0.26	0.69	0.69	0.69
Long Term Provisions & Others	4.55	3.90	5.21	5.21	5.21
TOTAL SOURCES OF FUNDS	46.98	53.84	59.38	67.66	77.61
APPLICATION OF FUNDS					
Net Block	6.40	6.54	9.88	9.75	10.47
CWIP	0.10	0.07	0.13	0.13	0.13
Goodwill & intangibles	6.43	6.40	6.25	6.30	6.36
LT Loans & Advances	4.60	4.62	6.27	6.27	6.27
Total Non-current Assets	17.52	17.63	22.53	22.46	23.24
Cash & Equivalents	20.66	27.99	26.84	36.67	44.92
Other Current Assets	5.63	6.12	13.66	13.66	13.66
Debtors	16.96	17.30	21.80	21.56	24.77
Total Current Assets	43.25	51.41	62.30	71.89	83.35
Creditors	1.72	4.51	14.12	15.36	17.64
Other Current Liabilities & Prov.	12.07	10.69	11.34	11.34	11.34
Total Current Liabilities	13.79	15.19	25.45	26.69	28.98
Net Current Assets	29.46	36.22	36.85	45.20	54.37
TOTAL APPLICATION OF FUNDS	46.98	53.84	59.38	67.66	77.61

Source: Company, HSIE Research

Consolidated Cash Flow

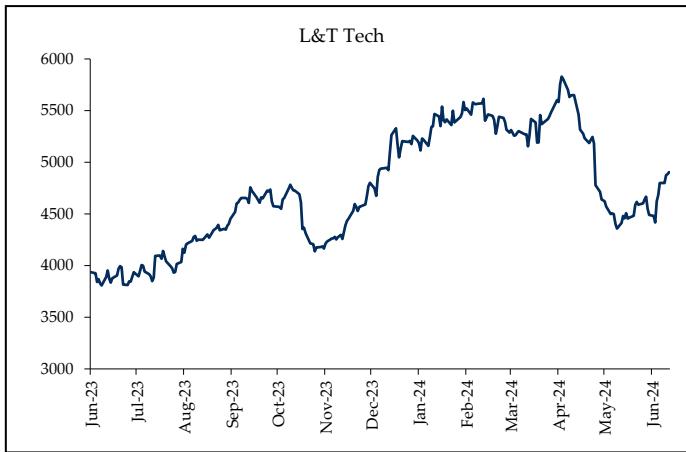
Year ending March (INR bn)	FY22	FY23	FY24	FY25E	FY26E
Reported PBT	13.09	16.44	18.04	19.28	23.05
Non-operating & EO items	(0.60)	(0.28)	(0.52)	(1.96)	(1.95)
Interest expenses	0.44	0.44	0.51	0.53	0.53
Depreciation	2.14	2.31	2.72	3.15	3.62
Working Capital Change	(1.45)	(1.19)	(0.56)	1.48	(0.92)
Tax Paid	(3.56)	(4.67)	(5.26)	(5.30)	(6.34)
OPERATING CASH FLOW (a)	10.06	13.05	14.93	17.17	17.98
Capex	(1.62)	(1.76)	(10.51)	(3.08)	(4.40)
<i>Free cash flow (FCF)</i>	8.44	11.30	4.42	14.10	13.59
Non-operating Income	0.60	0.28	0.52	1.96	1.95
INVESTING CASH FLOW (b)	(1.03)	(1.48)	(9.98)	(1.11)	(2.45)
Debt Issuance/(Repaid)	(0.91)	(0.83)	(1.10)	-	-
Interest Expenses	(0.44)	(0.44)	(0.51)	(0.53)	(0.53)
<i>FCFE</i>	7.09	10.03	2.81	13.57	13.06
Dividend	(3.63)	(3.17)	(4.97)	(5.70)	(6.76)
FINANCING CASH FLOW (c)	(4.98)	(4.44)	(6.58)	(6.23)	(7.29)
NET CASH FLOW (a+b+c)	4.05	7.14	(1.64)	9.83	8.25
Closing Cash & Equivalents	20.66	27.99	26.84	36.67	44.92

Source: Company, HSIE Research

Key Ratios

	FY22	FY23	FY24	FY25E	FY26E
PROFITABILITY (%)					
GPM	44.4	43.0	48.9	50.8	49.6
EBIT Margin	18.3	18.5	17.1	16.3	17.3
APAT Margin	14.6	14.6	13.5	13.3	13.8
RoE	25.1	25.7	25.4	24.3	25.1
RoIC (or Core RoCE)	36.3	40.5	40.9	39.0	47.6
RoCE	22.8	23.8	23.7	22.6	23.5
EFFICIENCY					
Tax Rate (%)	26.6	28.6	27.6	27.5	27.5
Fixed Asset Turnover (x)	5.1	6.2	5.9	6.5	7.1
<i>Debtors (days)</i>	94	79	82	75	75
<i>Other Current Assets (days)</i>	31	28	52	48	41
<i>Payables (days)</i>	10	21	53	53	53
<i>Other Current Liab & Provs (days)</i>	67	49	43	39	34
Cash Conversion Cycle (days)	49	37	38	30	29
Net D/E (x)	(0.5)	(0.6)	(0.5)	(0.6)	(0.6)
Interest Coverage (x)	27	34	32	32	40
PER SHARE DATA (INR)					
EPS	90.7	110.8	123.5	132.3	158.2
CEPS	110.9	132.6	149.1	161.9	192.2
Dividend	25	45	50	55	65
Book Value	394	469	504	582	676
VALUATION					
P/E (x)	54.1	44.3	39.7	37.1	31.0
P/BV (x)	12.5	10.5	9.7	8.4	7.3
EV/EBITDA (x)	35.2	28.7	25.6	23.8	19.3
OCF/EV (%)	2.0	2.7	3.0	3.6	3.8
FCF/EV (%)	1.7	2.3	0.9	2.9	2.9
FCFE/Mkt Cap (%)	1.4	1.9	0.5	2.6	2.5
Dividend Yield (%)	0.5	0.9	1.0	1.1	1.3

Source: Company, HSIE Research

1 Yr Price Movement**Rating Criteria**

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

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