

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR2,910 TP: INR3,380 (+16%) Buy

Remain positive on improving demand outlook

Upward revisions to its guidance to continue

- LTTS reported a 4.3% QoQ CC growth in 1QFY22, above our estimate of 2.8%. Industrial Products/Transportation (+7.8%/+4.3% QoQ) spearheaded this growth. EBIT margin improved by 70bp QoQ, despite a wage hike during 1QFY22, aided by efficiency improvement, better utilization, and ongoing rightsizing of the workforce.
- The company continues to do well on the deal front, adding six large deals (over USD10m), with two having a TCV of over USD25m. The management remains extremely positive on the deal pipeline, which has seen a rise over the last two quarters, as client spends recover across both US and Europe.
- LTTS increased its FY22 USD revenue growth guidance to 15-17% (a 200bp increase) as it sees a significant reduction in COVID-related supply uncertainty. While we were expecting the guidance to increase, its strong 1QFY22 performance and commentary indicates that growth can significantly exceed the upper end of its revised guidance.
- With a strong demand commentary across industries and key regions, and capability to deliver services during the lockdown, LTTS should not see a meaningful disruption in the business. We bake in 18.6% revenue growth for FY22E, partially on account of a favorable base.
- We expect margin to remain rangebound from current levels in FY22 as the partial wage hike (senior employees) and investments should offset a gradual boost in operating metrics and an improvement in Telecom and Hi-Tech margin. Given the low base of FY21, we factor in a 280bp EBIT margin improvement over FY21-23E.
- We see LTTS as a key beneficiary of growing tech adoption in ER&D, which should grow by ~2x that of IT Services over FY18-23E. Moreover, with Digital at 53% of revenue, it should also benefit from 18% growth in Digital ER&D spends over this period. We have built in 18%/33% revenue/EBIT CAGR over FY21-23E. We value the stock at 31x FY23E EPS and maintain our **BUY** rating.

Strong 1Q performance, FY22 guidance up by 200bp

- Revenue (USD)/operating profit/PAT grew by 20%/67.4%/84% YoY (est. 19%/52%/71%) in 1QFY22.
- Revenue rose 4.2% QoQ (est. 2.8%) to USD205.7m in 1QFY22. In constant currency, revenue grew 4.3% QoQ, but was flat YoY
- LTTS won six deals with a TCV of over USD10m. This includes two over USD25m deals in 1QFY22.
- Revenue from Digital and leading-edge technologies stood at 54% in 1QFY22.
- Growth was driven by the top 10 clients, which grew 4.7% QoQ.
- Industrial Products/Transportation spearheaded the sequential growth, up 7.8%/4.3%. The same in Medical Devices declined by 1%.
- The management has revised its USD revenue growth guidance to 15-17% (from 13-15%) in FY22.

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Bloomberg	LTTS IN
Equity Shares (m)	106
M.Cap.(INRb)/(USD\$b)	305.7 / 4.1
52-Week Range (INR)	3062 / 1325
1, 6, 12 Rel. Per (%)	1/2/55
12M Avg Val (INR M)	656

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	54.5	64.6	77.9
EBIT Margin (%)	14.5	17.3	18.0
PAT	6.6	9.2	11.5
EPS (INR)	62.8	87.3	109.1
EPS Gr. (%)	(19.0)	38.9	25.0
BV/Sh. (INR)	330.8	387.1	457.4

Ratios

RoE (%)	21.2	24.4	26.0
RoCE (%)	16.2	19.2	20.3
Payout (%)	35.0	30.0	30.0

Valuations

P/E (x)	46.2	33.2	26.6
P/BV (x)	8.8	7.5	6.3
EV/EBITDA (x)	28.4	20.8	16.3
Div Yield (%)	0.8	0.9	1.1

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	74.2	74.3	74.6
DII	6.4	6.4	4.9
FII	9.1	8.9	8.4
Others	10.3	10.5	12.1

FII Includes depository receipts

- EBIT margin improved by 70bp QoQ to 17.3% (140bp above our estimate) in 1QFY22.
- Margin improvement, despite a wage hike in 1QFY22, was due to a marginal increase in both utilization (+30bp QoQ) and offshore (+20bp QoQ).
- PAT rose 11% QoQ to INR2.2b, 8% ahead of our estimate, on strong operational performance.
- Total employee strength stood at 16,972, a net addition of 520 employees. Attrition spiked by 230bp sequentially to 14.5%.
- FCF stood at INR 687m in 1QFY22, implying an FCF/PAT ratio of 32%.

Key highlights from the management commentary

- LTTS has returned to double-digit YoY growth and crossed the USD800m run-rate. It won 11 deals, of which six/two were over USD10m/USD25m.
- Going forward, the management has identified six strategic investment areas and expects to make these into a sustainable growth engine.
- On the back of strong performance in the US/Europe and a recovery in India/Japan, the management expects growth to be broad-based and has raised its FY22 revenue guidance to 15-17% YoY.
- It said margin in 2QFY22 would be impacted on account of a residual wage hike impact. However, efforts are being made to absorb the same through employee pyramid rationalization and improved productivity.
- Rising attrition may put pressure on margin though. The management said it is taking various measures to control the same. It is making efforts to sustain margin at current levels.

Valuation and view – industry-leading growth to defend rich multiples

- While LTTS has delivered largely flat growth over FY19-21 (1% revenue CAGR), due to COVID-19 and ramp down at key clients (partly due to external issues), we expect a strong growth rebound (18% CAGR over FY21-23E).
- After a sharp (200bp) dip in margin in FY21, due to the COVID-led impact, it should more than be able to recoup margin over the next two years on a favorable operating leverage, leading to 32% earnings CAGR over FY21-23E.
- Our TP of INR3,380 per share implies a FY23E EPS of 31x, a premium to our target multiple for LTI on better industry and company growth. We anticipate improved industry spends compared to the preceding five years. We maintain our BUY rating.

Quarterly performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22E	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Revenue (USD m)	171	178	190	198	206	215	222	231	737	873	203	1.4
QoQ (%)	-12.5	4.1	6.8	3.9	4.2	4.6	3.1	4.0	-6.3	18.6	2.8	139bp
Revenue (INR m)	12,947	13,138	14,007	14,405	15,184	15,812	16,417	17,183	54,497	64,596	14,955	1.5
YoY (%)	-3.9	-6.3	-1.6	-0.4	17.3	20.4	17.2	19.3	-3.0	18.5	15.5	177bp
GPM (%)	26.8	30.1	30.8	32.3	33.4	32.5	33.2	33.0	30.1	33.0	31.7	166bp
SGA (%)	10.9	12.4	11.1	11.9	12.4	12.0	11.8	11.8	11.6	12.0	11.8	64bp
EBITDA	2,059	2,328	2,756	2,931	3,177	3,242	3,513	3,650	10,074	13,581	2,976	6.7
EBITDA Margin (%)	15.9	17.7	19.7	20.3	20.9	20.5	21.4	21.2	18.5	21.0	19.9	102bp
EBIT	1,567	1,801	2,132	2,391	2,623	2,656	2,906	3,014	7,891	11,199	2,378	10.3
EBIT Margin (%)	12.1	13.7	15.2	16.6	17.3	16.8	17.7	17.5	14.5	17.3	15.9	137bp
Other income	30	457	374	221	334	316	328	344	1,082	1,322	299	11.7
ETR (%)	26.0	26.4	25.4	25.2	26.6	26.0	26.0	26.0	25.7	26.1	25.0	161bp
PAT	1,173	1,655	1,861	1,945	2,162	2,198	2,391	2,482	6,634	9,234	2,006	7.8
QoQ (%)	-42.7	41.1	12.4	4.5	11.2	1.7	8.8	3.8			3.1	
YoY (%)	-42.4	-19.6	-8.8	-5.0	84.3	32.8	28.5	27.6	-19.0	39.2	71.0	
EPS (INR)	11.1	15.7	17.6	18.4	20.4	20.8	22.6	23.5	62.8	87.3	19.0	7.6

Key performance indicators

Y/E March	FY21				FY22E				FY21	FY22E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue (QoQ CC %)	-12.7	2.9	6.6	3.8	4.3					
Margins (%)										
Gross Margin	26.8	30.1	30.8	32.3	33.4	32.5	33.2	33.0	30.1	33.0
EBIT Margin	12.1	13.7	15.2	16.6	17.3	16.8	17.7	17.5	14.5	17.3
Net Margin	9.1	12.6	13.3	13.5	14.2	13.9	14.6	14.4	12.2	14.3
Operating metrics										
Headcount	16,641	15,902	16,069	16,452	16,972				16,452	
Attrition (%)	11.4	10.8	10.7	12.2	14.5				12.2	
Utilization (incl. trainees)	70.9	75.4	77.5	78.9	79.2				75.7	
Key Verticals (YoY %)										
Transportation	-20.4	-19.0	-19.0	-11.7	19.1				-17.5	
Industrial Products	-12.7	-9.5	-4.1	-1.5	20.9				-7.0	
Telecom and Hi-tech	-11.4	-6.5	18.1	19.5	18.1				3.9	
Key Geographies (YoY %)										
North America	-11.4	-12.4	-4.6	1.6	22.5				-6.7	
Europe	-9.5	0.0	8.9	1.1	26.3				0.0	

Key highlights from the management commentary

Demand and industry outlook

- LTTS has returned to double-digit YoY growth and crossed the USD800m run-rate. It won 11 deals, of which six/two were over USD10m/USD25m.
- In terms of verticals, Transportation was led by strong demand in electrification-led programs. Within Aerospace, as commercial travel slowly returns and spending on Digital transformation increases, the management is optimistic about growth continuing ahead.
- The management is seeing a good set of opportunities and strong momentum in deal wins in Plant Engineering and Telecom. Within Medical Devices, demand for Digital product platforms is the key growth driver. It expects a surge in growth from 2QFY22.
- All three sub-segments in the Industrial Products space showed robust growth. Going forward, a pickup in spending in the US and Europe should help. The management expects this space to grow faster than the company going forward.
- It has identified six strategic investment areas and expects to make these into a sustainable future growth engine.

- On the back of strong performance in the US/Europe and a recovery in India/Japan, the management expects growth to be broad-based and has raised its FY22 revenue guidance to 15-17% YoY.

Margin performance

- EBIT margin crossed 17% in 1QFY22. It was the fourth consecutive quarter of improvement, despite the wage hike impact.
- A shift in the portfolio mix to Digital engineering, operational efficiency, cost optimization, and USD:INR depreciation helped absorb the headwinds coming from increase in third party/subcontracting expenses and wage hikes.
- The management said margin in 2QFY22 would be impacted on account of a residual wage hike impact. However, efforts are being made to absorb the same through employee pyramid rationalization and improved productivity.
- Rising attrition may put pressure on margin though. The management said it is taking various measures to control the same. It is making efforts to sustain margin at current levels.
- ETR should be in the 26.5-27% range in FY22 as LTTS moves to the new tax regime.

Other highlights

- DSO in 1QFY22 increased to 85 days compared to 75 days in 4QFY21.
- The increase in DSO led to a drop in FCF. However, this is temporary and normalcy should return in coming quarters.
- Headcount has increased by 700 and is a mix of laterals and freshers. The management aims to hire 400-450 employees every quarter.

Exhibit 1: While RoW declined, other geographies posted robust growth

Geographies	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
North America	62.3	5.5	22.5
Europe	16.8	4.8	26.3
India	12.9	2.6	19.4
RoW	8.0	(4.2)	(1.8)

Source: Company, MOFSL

Exhibit 2: LTTS reports broad based growth across verticals, barring Medical Devices

Verticals	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
Transportation	31.2	4.2	19.1
Industrial Products	19.5	7.5	20.9
Telecom and Hi-Tech	22.0	3.7	18.1
Plant Engineering	15.5	4.2	35.1
Medical Devices	11.7	(0.9)	10.0

Source: MOFSL, Company

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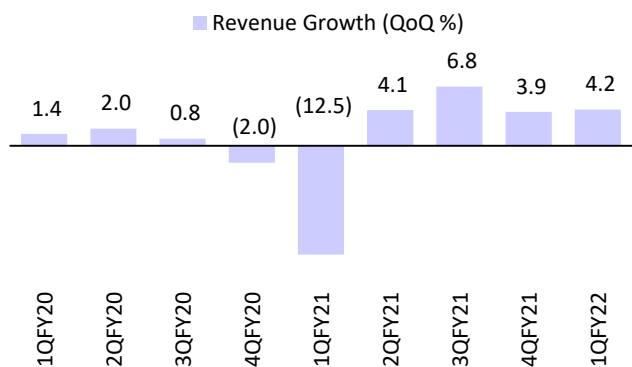
Exhibit 3: Revisions to our estimates

	Revised		Earlier		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
USD:INR	74.0	75.6	73.9	75.6	0.0%	0.0%
Revenue (USD m)	873	1,030	863	1,006	1.2%	2.4%
Growth (%)	18.6	17.9	17.1	16.6	140bp	130bp
EBIT margin (%)	17.3	18.0	16.8	17.8	50bp	20bp
PAT (INR m)	9,234	11,542	9,005	11,273	2.5%	2.4%
EPS	87.3	109.1	85.3	106.8	2.4%	2.2%

Source: MOFSL

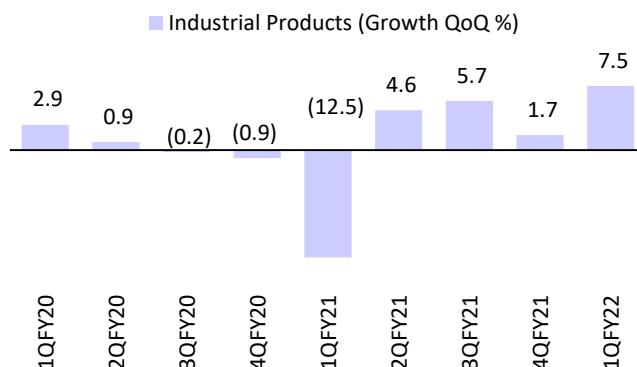
Story in charts

Exhibit 4: LTTS reports strong sequential growth due to...



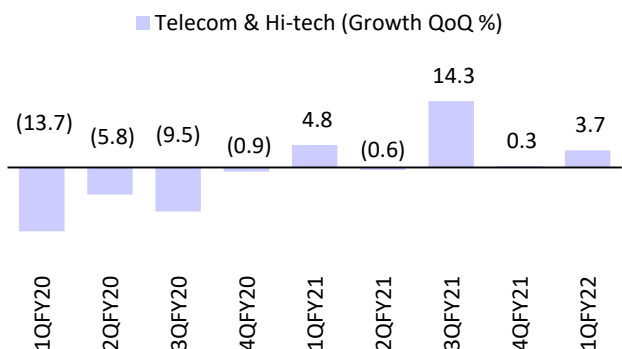
Source: Company, MOFSL

Exhibit 5: ...robust growth in Industrial Products and...



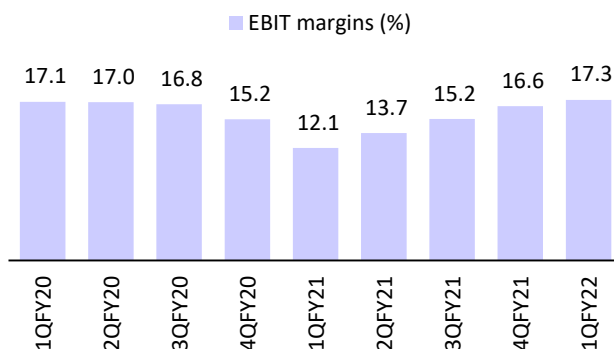
Source: Company, MOFSL

Exhibit 6: ... Telecom and Hi-Tech



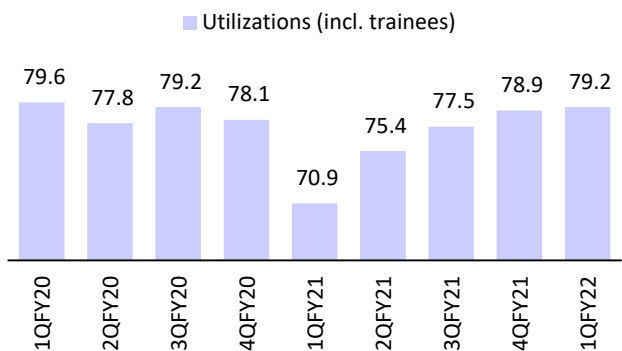
Source: Company, MOFSL

Exhibit 7: Margin expands 90bp QoQ and 520bp YoY



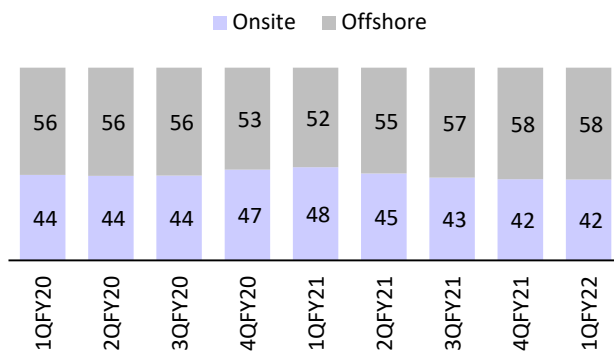
Source: Company, MOFSL

Exhibit 8: Utilization increases marginally



Source: Company, MOFSL

Exhibit 9: Offshoring remains stable in 1QFY22



Source: Company, MOFSL

Operating metrics

Exhibit 10: Operating metrics

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Revenue by Verticals (%)									
Transportation	34.9	35.0	35.8	35.7	31.5	31.5	30.4	31.2	31.2
Industrial Products	19.6	19.4	19.2	19.4	19.4	19.5	19.3	18.9	19.5
Telecom and Hi-tech	22.3	20.6	18.5	18.7	22.4	21.4	22.9	22.1	22.0
Plant Engineering	15.3	16.2	17.2	16.0	13.8	14.4	14.7	15.5	15.5
Medical Devices	8.0	8.8	9.4	10.3	12.8	13.2	12.7	12.3	11.7
Revenue by Geographies (%)									
North America	60.9	61.7	61.2	61.2	61.2	60.0	61.2	61.5	62.3
Europe	15.6	14.4	14.1	16.7	16.0	16.0	16.1	16.7	16.8
India	12.8	13.1	13.2	12.8	13.0	13.6	13.9	13.1	12.9
RoW	10.7	10.8	11.5	9.3	9.8	10.4	8.8	8.7	8.0
Client Metrics									
Top five Clients	24.7	22.9	21.1	19.2	17.8	17.0	16.3	16.1	16.4
Top 10 Clients	36.7	35.7	33.9	31.8	29.7	28.3	27.3	26.9	27.4
Top 20 Clients	52.5	51.3	49.8	48.5	46.8	44.9	44.0	43.8	43.9
Clients									
Over USD30m	3	3	3	2	1	1	1	-	-
Over USD20m	5	7	7	8	4	5	4	3	5
Over USD10m	17	17	20	21	22	20	18	20	20
Over USD5m	44	42	43	43	43	44	41	39	43
Over USD1m	110	106	107	113	113	116	118	122	122
Employee metrics									
Billable	14,755	15,614	15,604	15,667	15,481	14,778	14,975	15,335	15,896
Sales and Support	1,158	1,175	1,183	1,216	1,160	1,124	1,094	1,117	1,076
Total Employees	15,913	16,789	16,787	16,883	16,641	15,902	16,069	16,452	16,972
Attrition (%)	15.8	13.4	13.9	13.8	11.4	10.8	10.7	12.2	14.5
Utilization (incl. trainees)	79.6	77.8	79.2	78.1	70.9	75.4	77.5	78.9	79.2

Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement

	(INR m)					
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	37,471	50,783	56,192	54,497	64,596	77,862
Change (%)	15.4	35.5	10.7	-3.0	18.5	20.5
Employees Cost	24,600	31,440	32,747	33,550	37,588	44,263
Other Expenses	7,060	10,185	12,340	10,873	13,427	16,740
Total Expenditure	31,660	41,625	45,087	44,423	51,015	61,003
% of Sales	84.5	82.0	80.2	81.5	79.0	78.3
EBITDA	5,811	9,158	11,105	10,074	13,581	16,859
Margin (%)	15.5	18.0	19.8	18.5	21.0	21.7
Depreciation	888	1,053	1,829	2,183	2,382	2,881
EBIT	4,923	8,105	9,276	7,891	11,199	13,978
Other Income	1,910	2,210	1,727	1,082	1,322	1,635
PBT	6,833	10,315	11,003	8,973	12,521	15,613
Total Tax	1,712	2,630	2,779	2,307	3,274	4,059
Tax Rate (%)	25.1	25.5	25.3	25.7	26.1	26.0
Reported PAT	5,121	7,685	8,224	6,666	9,248	11,554
Change (%)	20.5	50.1	7.0	-18.9	38.7	24.9
Margin (%)	13.7	15.1	14.6	12.2	14.3	14.8
Minority Interest	-6	-28	-38	-32	-14	-12
PAT to shareholders	5,115	7,657	8,186	6,634	9,234	11,542

Consolidated Balance Sheet

	(INR m)					
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	205	208	209	210	210	210
Total Reserves	19,159	24,583	27,477	34,521	40,430	47,817
Net Worth	19,364	24,791	27,686	34,731	40,640	48,027
Minority Interest	3	31	69	101	115	127
Borrowings	702	702	303	0	0	0
Other Long term liabilities	47	194	4,890	4,915	5,826	7,022
Capital Employed	20,116	25,718	32,948	39,747	46,581	55,176
Net Fixed Assets	2,173	2,435	6,275	6,997	5,511	3,710
Goodwill	4,921	5,365	5,460	5,827	5,827	5,827
Capital WIP	1	0	87	119	119	119
Other Assets	1,349	2,123	2,109	2,760	3,275	3,610
Curr. Assets, Loans, and Adv.	18,607	23,715	29,102	35,026	42,935	53,451
Account Receivables	9,623	10,643	13,807	12,346	14,158	17,066
Cash and Bank Balance	1,541	2,048	2,179	1,751	4,696	8,947
Current Investments	2,208	5,752	6,370	15,725	18,225	20,725
Other Current Assets	5,235	5,272	6,746	5,204	5,856	6,713
Curr. Liability and Prov.	6,935	7,920	10,085	10,982	11,086	11,540
Account Payables	1,807	1,879	1,975	2,352	2,456	2,910
Other Current Liabilities	3,922	4,700	6,456	7,046	7,046	7,046
Provisions	1,206	1,341	1,654	1,584	1,584	1,584
Net Current Assets	11,672	15,795	19,017	24,044	31,849	41,910
Appl. of Funds	20,116	25,718	32,948	39,747	46,581	55,176

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic EPS (INR)	48.1	72.6	77.5	62.8	87.3	109.1
Cash EPS	56.6	82.6	94.9	83.5	109.8	136.4
BV/Share	188.9	238.4	264.9	330.8	387.1	457.4
DPS	15.6	21.0	21.0	22.0	26.2	32.7
Payout (%)	32.4	28.9	27.1	35.0	30.0	30.0
Valuation (x)						
P/E	60.3	40.0	37.4	46.2	33.2	26.6
Cash P/E	51.3	35.1	30.6	34.7	26.4	21.3
P/BV	15.4	12.2	11.0	8.8	7.5	6.3
EV/Sales	7.9	5.8	5.2	5.3	4.4	3.5
EV/EBITDA	50.9	32.0	26.5	28.4	20.8	16.3
Dividend Yield (%)	0.5	0.7	0.7	0.8	0.9	1.1
Return Ratios (%)						
RoE	29.6	34.7	31.1	21.2	24.4	26.0
RoCE	21.5	27.2	24.0	16.2	19.2	20.3

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	6,778	10,314	11,002	8,973	12,521	15,613
Depreciation	888	1,042	1,829	2,183	2,382	2,881
Interest and Finance Charges	24	19	365	455	0	0
Direct Taxes Paid	-1,721	-2,808	-2,119	-2,523	-3,274	-4,059
(Inc.)/Dec. in WC	-1,701	-739	-4,287	4,245	-1,965	-2,448
Others	-132	234	-409	-60	0	0
CF from Operations	4,136	8,062	6,381	13,273	9,665	11,986
(Inc.)/Dec. in FA	-851	-885	-1,511	-756	-896	-1,080
Free Cash Flow	3,285	7,177	4,870	12,517	8,769	10,906
(Pur.)/Sale of Investments	-1,231	-4,389	-1,039	-9,653	-2,500	-2,500
Others	78	181	328	355	0	0
CF from Investments	-2,004	-5,093	-2,222	-10,054	-3,396	-3,580
Issue of Shares	2	3	1	1	0	0
Inc./(Dec.) in Debt	-317	2	-1,028	-995	0	0
Interest Paid	-25	-19	-365	-455	0	0
Dividend Paid	-983	-2,440	-2,636	-2,198	-3,324	-4,155
CF from Fin. Activity	-1,323	-2,454	-4,028	-3,647	-3,324	-4,155
Inc./Dec. in Cash	809	515	131	-428	2,945	4,251
Forex Adjustment	60	-8	0	0	0	0
Opening Balance	672	1,541	2,048	2,179	1,751	4,696
Closing Balance	1,541	2,048	2,179	1,751	4,696	8,947

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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