

Industry  
Bloomberg  
BSE CODE

TECHNOLOGY  
LTTS IN  
540115

## Telecom dragging the growth in FY20

RATING	NEUTRAL
CMP	1606
Price Target	1703
Potential Upside	6%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	1852/1254
Mkt Capital (Rs Cr)	16707
Free float (%)	11%
Avg. Vol 1M (,000)	92
No. of Shares (Cr)	10
Promoters Pledged %	0%

### 1QFY20 Result Update

- LTTs reported mixed set of numbers in 1QFY20 result. Revenue came in USD194million (misses our estimates of USD197 million) growing 1.6%QoQ While PAT stood at Rs 204 crore , a growth of 6.1%QoQ and 3%YoY in line with the estimates.
- Better operational performance was seen during the quarter. EBIT stood at Rs 230 crore, a growth of 4.1%QoQ and 35.2%YoY.
- Margin came in at 17.1% Vs 16.4% last quarter, expansion of 60bps QoQ and 230bps YoY. The increase in margin came from 70bps impact from visa cost, 30bps impacted by Rupee appreciation which was completely offset by operational efficiency, better SG&A and better revenue mix amongst segments.
- Strong quarter was seen for most of the segments. Medical segment led the growth by growing 15.6%QoQ, followed by Transportation and Process Industry which grew 7.6%/6.0%QoQ on the back of multiple deal wins and good deal conversions. Industrial Products grew 2.9% sequentially while telecom & Hi tech drag the overall growth by declining 13.9%QoQ mainly due to impact from one of telecom client.
- For FY20, The company has revised its revenue guidance from 14%-16% to 12% to 14% in USD terms for FY20 mainly due to telecom client specific issue and slow down in semiconductor segment.

### View and Valuation

LTTs started the year with moderate revenue growth of 1.6%QoQ due to client specific issue in telecom segment whereas EBIT margin expanded 60bps QoQ and 230bps YoY showcasing healthy operational performance despite challenges. Going ahead, Robust deal pipeline (7 large wins in 1QFY20) and continued growth in 4 verticals (process industry, industrial, Transportation and medical) out of 5, gives us confidence of better revenue visibility for FY20. However telecom vertical (contributes ~26% of the revenue) will see softness in FY20 owing to one of the major client issue impacting the revenue by 4% in FY20. Also as Semiconductor sub segment of telecom has started to see slow down due to China US trade war, will further impact the revenue in near term.

On margin, we have largely kept our margin unchanged due to management continued plan to stay invested in new technologies. Factoring in client specific issue and downward revision in revenue guidance, we largely maintain our Neutral rating on the stock with the target price of Rs 1703.

### Key Risks to our rating and target

- Adverse regulatory developments around current visa regime.
- Slow down in large deal wins.

### RESEARCH ANALYST

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KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3248	3747	5078	5692	6665
EBITDA	586	576	915	1090	1281
EBIT	523	487	811	923	1052
PAT	425	507	768	794	900
EPS (Rs)	57	49	74	76	87
EPS growth (%)		-13%	49%	3%	13%
ROE (%)	33%	30%	35%	29%	26%
ROCE (%)	-37%	-27%	-35%	-32%	-30%
BV	198	189	238	295	363
P/B (X)	4.0	6.6	6.6	5.4	4.4
P/E (x)	13.8	25.1	21.3	21.0	18.6

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## Mixed Performance

### 1QFY20 Results

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,152	1,266	1,317	1,343	1,348	17.0%	0.3%	3,747	5,078	35.5%
Other Income	98	55	36	34	57	-42.5%	67.7%	193	223	15.2%
Employee Exp	738	792	830	819	835	13.2%	2.1%	2,460	3,179	29.2%
Other Expenses	218	245	245	275	239	9.8%	-13.1%	712	985	38.4%
EBITDA	196	229	242	248	273	39.1%	9.9%	576	915	58.9%
Deprication	26	27	24	27	43	64.6%	56.8%	89	104	17.3%
EBIT	170	202	218	221	230	35.2%	4.1%	487	811	66.5%
Interest	0	0	1	1	9	2175%	1720%	2	2	-20.8%
PBT	268	256	253	254	277	3.5%	9.2%	678	1,031	52.2%
Tax	70	65	67	62	73	4.9%	18.8%	171	263	53.6%
Exceptional	-	-	-	-	-			-	-	
PAT	198	192	186	192	204	3.0%	6.1%	507	768	51.7%

### 1QFY20 performance: Revenue remained soft

- Company's 1QFY20 revenue stood at USD 194.3 million, a growth of 1.6%QoQ mainly led by strong growth in process industry, industrial, Transportation and medical However telecom drag the overall growth.
- In rupee term revenue came in at Rs1348 crore, muted growth of 0.3%QoQ.
- During the quarter, LTTS won 7 multi-million dollar deals across all major industry segments. On a YoY basis, LTTS has increased its USD20mn+ clients by 2 and its USD10mn+ clients by 5.

### Continued growth across segment barring telecom

VERTICALS ( USD MN)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	YoY %
Transportation	47	50	52	56	59	63	68	7.6%	29.6%
Industrial Products	33	34	34	36	38	37	38	2.9%	10.6%
Telecom & Hi-tech	42	48	49	48	50	50	43	-13.9%	-11.4%
Process Industry	19	20	23	25	27	28	30	6.0%	29.8%
Medical Devices	10	11	11	11	13	13	15	15.6%	43.3%

- Vertical Wise, Medical segment led the growth by growing 15.6%QoQ, followed by Transportation and Process Industry which grew 7.6%/6.0%QoQ on the back of multiple deal wins and good deal conversions. Industrial Products grew 2.9% sequential Q4 while telecom & Hi tech drag the overall growth by declining 13.9%QoQ mainly due to impact from one of telecom client.

### Growth momentum continued in US , Softness seen in other regions

GEOGRAPHY( USD MN)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	YoY %
Americas	89	94	95	102	107	113	118	4.9%	24.2%
Europe	26	30	31	31	30	31	30	-1.1%	-3.2%
India	17	19	21	22	27	27	25	-6.6%	18.6%
RoW	19	20	22	22	22	21	21	-3.1%	-4.0%

### Better Margin execution

- EBIT during the quarter stood at Rs 230 crore, a growth of 4.1%QoQ and 35.2%YoY. Margin came in at 17.1% Vs 16.4% last quarter, expansion of 60bps QoQ and 230bps YoY. The increase in margin came from 70bps impact from visa cost, 30bps impacted by Rupee appreciation which completely offset by operational efficiency, better SG&A and better revenue mix amongst segments.
- PAT for the quarter stood at Rs 204 crore, a growth of 6.1%QoQ and 3%YoY mainly led by margin expansion and higher other income.

## Guidance for FY20: Downward revision for revenue guidance to 12% to 14%

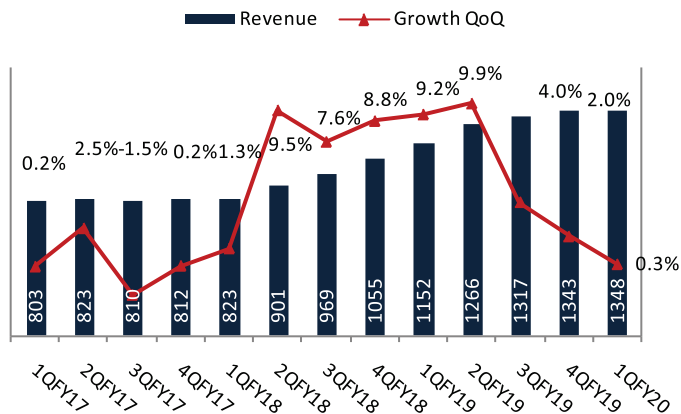
- The company remain optimistic on growth however due to lose of growth momentum in Telecom and Hi Tech vertical which is believed to recover in 3QFY20 and 4QFY20, the company has revised its guidance of revenue growth from 14%-16% to 12%to 14% in USD terms for FY20 .
- The company is not seeing any slow down or cool down in any other segments other than semiconductor.
- On margin front, wage hike is expected to impact 1.6% in current quarter however company sees better operational efficiency, better mix to hopefully mitigate the impact.

## Concall Highlights

- **Continued growth in Digital:** Digital a leading edge technology which is growth driver for ER&D contributed 37% in 1QFY20 revenue and grew 44%YoY. Customers are leveraging LTTS capabilities in smart building and energy management for Industrial product, IoT and telemetric in Transportation, Asset digitization in Plant engineering and connected healthcare in Medical Overall the company is seeing good traction in digital businesses.
- **Margin performance in 1Q:** Healthy operational performance was seen during the quarter. EBIT margin improved 230bpsYoY to 17.1%. The increase in margin came in 70bps impact from visa cost, 30bps impacted by Rupee appreciation which completely offset by operational efficiency , better SG&A and better revenue mix amongst segments.
- **Deal win traction continued:** The Company in 1Q won 7 deals across the sector .the company continues to build up large proposal to engage with the clients. The company in Hi Tech is doubling its effects to grow and close large deals in current quarter.
- **Onsite /offshore revenue:** The company expects onsite mix to be ranging in 45% to 48%(currently45%) depending on any large deal comes through which require essentially higher onsite so the company expects to have 45%-48% to 52% onsite offshore mix in coming quarter(currently having 45% /55% mix).
- **Vertical performance:**
  - **Transportation:** Strong quarter with 7.6%QoQ growth on top of 7%growth delivered in last quarter. Growth was strong in all the three sub segments auto, highway and aerospace. The large deal won in 4QFY19 in areas of active safety and autonomous driving are ramping up quite well. In 1QFY20 company continued to wins deals in security system design .Overall the company expects the strength in transportation to continue in coming quarters as well.
  - **Telecom and HI tech:** Company saw tough quarter with revenue dipping by ~7 million QoQ. Overall the company segments this segment to grow and company sees multiple opportunities for visual design and advance equipment and software design and development The company expects slight dip in revenue growth in 2QFY20 also owing to slow down in semiconductor segment(due to segmental issue) and client issue that was announced earlier. Growth trajectory to come back in 3QFY20 and 4QFY20 depending upon how quickly the large deal in pipeline converts.
  - **Medical:** Strong growth of 15.6%posted by the segment mainly driven by the large deal wins that the company owned in this segment .Company in 1Q won large deal in this segment and sees strong pipeline ahead with opportunities in connecting solutions, special monitoring devices and process validation.
  - **Plant engineering:** The growth outlook for this segment continues to be robust in all three sub segments like CPG, oil &gas and specialty chemicals.
- **Platform and solution :** the company is seeing increase in customer traction for its platform and solutions .ENP has opened new customers areas of management .The company as announced earlier has engaged with external consultant to advice on the roadmap, Current company is studying the recommendation and evaluation right strategy to take this forward.
- **Geography Outlook:** Continued traction is seen in US and across all segments .In Europe comp-any is seeing traction in three segemnts 1) Automotive;2)aerospace;3) and ONG petrochemical. In Japan the traction is seen across IP, auto and Hi Tech Segments.

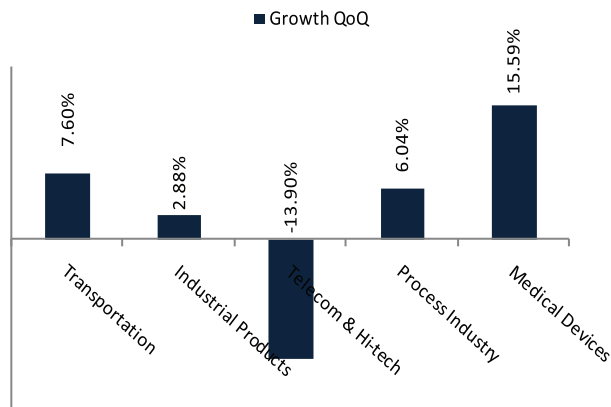
## Exhibit: Revenue trend

Client specific issue in telecom moderated the overall revenue growth in 1QFY20.



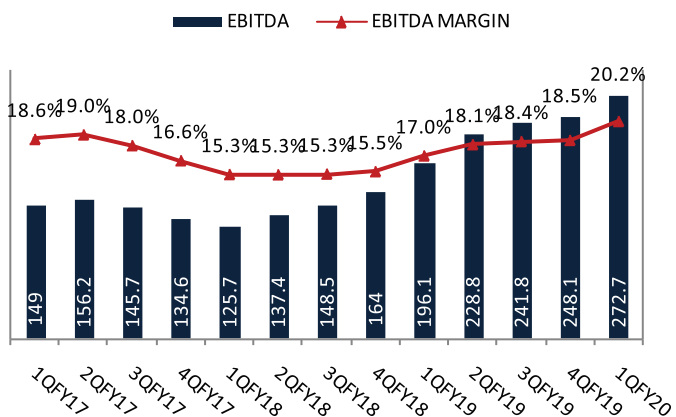
## Exhibit: Vertical growth

Barring telecom in 1QFY20, broad based growth was seen across segments.



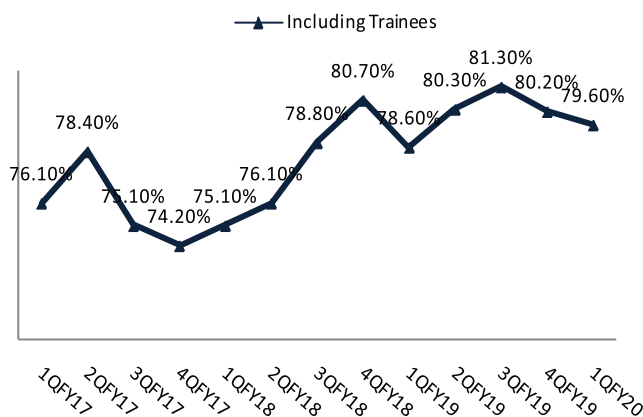
## Exhibit: Margin Trend

Better Operational efficiency led to margin expansion in FY19.



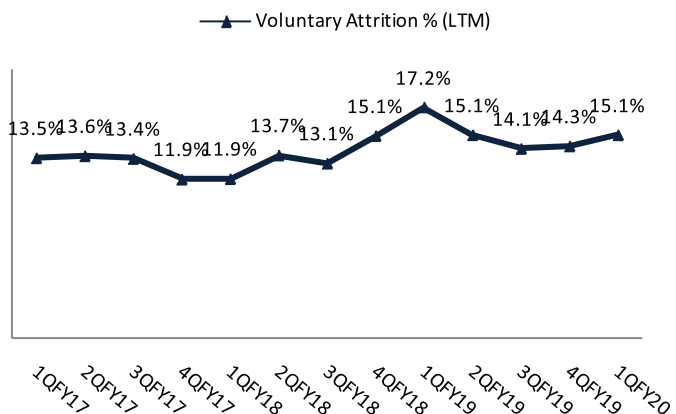
## Exhibit: Utilization trend

Utilization remained stable after achieving its all time high range.



## Exhibit: Attrition rate

Consolidated PAT increased by 10.2%YoY backed by strong revenue growth and improved EBITDA margins.



## Operational Details

BY GEOGRAPHY (%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
North America	61%	59%	58%	56%	58%	58%	59%	61%
Europe	17%	17%	19%	19%	17%	16%	16%	16%
India	11%	12%	12%	12%	13%	14%	14%	13%
Rest of the World	12%	13%	12%	13%	13%	12%	11%	11%

REVENUE MIX (%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Onsite	51%	51%	50%	49%	47%	47%	45%	44%
Offshore	49%	49%	50%	51%	53%	53%	55%	56%

PROJECT TYPE(%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Fixed Price	33%	38%	37%	41%	42%	42%	44%	42%
Time and Material Contract	67%	62%	63%	59%	58%	58%	56%	58%

CLIENT PROFILE(%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Number of Active Clients	229	233	235	235	239	244	251	258
50 Million dollar +	-	1	-	2	2	2	2	1
30 Million dollar +	2	3	3	2	3	3	3	3
20 Million dollar +	3	4	4	3	3	5	5	5
10 Million dollar +	11	12	12	12	14	16	16	17
5 Million dollar +	29	30	31	33	34	39	41	44
1 Million dollar +	79	79	84	89	94	98	106	110

CLIENT contribution	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Top 5 Clients	23%	29%	27%	28%	28%	27%	26%	25%
Top 10 Clients	36%	41%	40%	41%	40%	39%	38%	37%
Top 20 Clients	52%	56%	55%	56%	55%	54%	54%	53%

VERTICALS%	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Transportation	32%	31%	31%	31%	32%	32%	33%	35%
Industrial Products	24%	22%	21%	20%	21%	20%	19%	20%
Telecom & Hi-tech	24%	28%	30%	29%	27%	27%	26%	22%
Process Industry	13%	13%	12%	14%	14%	14%	15%	15%
Medical Devices	7%	7%	7%	7%	7%	7%	7%	8%

UTILISATION	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Including Trainees	76%	79%	81%	79%	80%	81%	80%	80%

EMPLOYEE STATISTICS	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Total Headcount	11532	11941	12307	13081	13585	14777	15140	15913
Billable	10573	11009	11360	12147	12604	13711	14034	14755
Sales & Support	959	932	947	934	981	1066	1106	1158
Voluntary Attrition % (LTM)	13%	13%	14%	15%	15.0%	15%	15%	16%

## Financial Details

### Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital		300	300	20	21	21	21	21
Reserves		725	766	1,465	1,916	2,458	3,052	3,752
<b>Networth</b>		<b>1,025</b>	<b>1,066</b>	<b>1,486</b>	<b>1,936</b>	<b>2,479</b>	<b>3,073</b>	<b>3,773</b>
Debt		219	196	102	70	70	70	70
Other Non Current Liab		1	-	1	5	19	19	19
<b>Total Capital Employed</b>		<b>1,245</b>	<b>1,262</b>	<b>1,589</b>	<b>2,011</b>	<b>2,569</b>	<b>3,163</b>	<b>3,863</b>
Net Fixed Assets (incl CWIP)		164	213	195	217	243	327	374
Non Current Investments		-	-	-	-	-	-	-
Other Non Cur Asst		536	564	598	627	749	749	749
<b>Non Current Assets</b>		<b>700</b>	<b>777</b>	<b>793</b>	<b>844</b>	<b>992</b>	<b>1,076</b>	<b>1,123</b>
Current investments		-	56	195	221	575	850	1,176
Trade receivables		676	726	711	962	1,064	1,193	1,397
Cash and bank balances		70	83	67	154	205	276	478
Other bank balances		45	0	-	0	0	0	-
Short-term loans and advances		-	-	0	0	-	0	-
Other financial assets		69	52	128	143	154	143	154
Other current assets		259	248	340	381	374	419	490
<b>Current Assets</b>		<b>1,119</b>	<b>1,165</b>	<b>1,440</b>	<b>1,861</b>	<b>2,372</b>	<b>2,881</b>	<b>3,695</b>
Trade payables		195	214	149	181	188	211	247
Other current liabilities		85	101	112	175	190	213	249
Other current financial liabilities		170	240	256	200	275	200	275
Current tax liabilities (net)		29	3	-	17	6	17	6
Short-term provisions		95	123	127	121	134	150	176
<b>Curr Liabilities</b>		<b>575</b>	<b>681</b>	<b>645</b>	<b>694</b>	<b>792</b>	<b>791</b>	<b>952</b>
<b>Net Current Assets</b>		<b>545</b>	<b>484</b>	<b>795</b>	<b>1,167</b>	<b>1,580</b>	<b>2,090</b>	<b>2,743</b>
<b>Total Assets</b>		<b>1,820</b>	<b>1,942</b>	<b>2,233</b>	<b>2,705</b>	<b>3,364</b>	<b>3,957</b>	<b>4817.9</b>

### Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>			<b>3,066</b>	<b>3,248</b>	<b>3,747</b>	<b>5,078</b>	<b>5,692</b>	<b>6,665</b>
Change (%)				6%	15%	36%	12%	17%
<b>EBITDA</b>			<b>519</b>	<b>586</b>	<b>576</b>	<b>915</b>	<b>1,090</b>	<b>1,281</b>
Change (%)				13%	-2%	59%	19%	18%
Margin (%)			17%	18%	15%	18%	19%	19%
Depr & Amor.			59	63	89	104	167	229
<b>EBIT</b>			<b>461</b>	<b>523</b>	<b>487</b>	<b>811</b>	<b>923</b>	<b>1,052</b>
Int. & other fin. Cost			3	2	2	2	36	36
Other Income			85	58	193	223	188	200
<b>EBT</b>			<b>543</b>	<b>579</b>	<b>678</b>	<b>1,031</b>	<b>1,074</b>	<b>1,216</b>
Exp Item			-	-	-	-	-	-
Tax			124	154	171	263	280	316
Minority Int & P/L share of Ass.			-	-	-	-	-	-
Reported PAT			419	425	507	768	794	900
<b>Adjusted PAT</b>			<b>419</b>	<b>425</b>	<b>507</b>	<b>768</b>	<b>794</b>	<b>900</b>
Change (%)				2%	19%	52%	3%	13%
Margin(%)			14%	13%	14%	15%	14%	13%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE				0.3	0.3	0.3	0.3	0.3
ROCE				-0.4	-0.3	-0.4	-0.3	-0.3
Asset Turnover				0.1	0.1	0.0	0.1	0.1
Current Ratio				0.5	0.5	0.5	0.5	0.5
Debtor Days				80	94	76	76	76
Book Value Per Share				198	189	238	295	363
Payable Days				17	18	14	14	14
Earnings Per Share				57	49	74	76	87
P/E				14	25	21	21	19
Price / Book Value				4	7	7	5	4
EV/EBITDA				10	22	18	15	13
EV/Sales				2	3	3	3	2

### Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	-	-	559	579	678	1,031	1,074	1,216
(inc)/Dec in Working Capital	-	-	99	(134)	(170)	(74)	(164)	(125)
Non Cash Op Exp	-	-	33	99	76	128	167	229
Int Paid (+)	-	-	3	2	2	2	36	36
Tax Paid	-	-	(166)	(158)	(172)	(281)	(280)	(316)
others	-	-	-	-	-	-	-	-
<b>CF from Op. Activities</b>	-	-	<b>528</b>	<b>388</b>	<b>414</b>	<b>806</b>	<b>834</b>	<b>1,040</b>
(inc)/Dec in FA & CWIP	-	-	(127)	(45)	(85)	(89)	(251)	(276)
Free Cashflow	-	-	401	343	329	718	582	764
(Pur)/Sale of Inv	-	-	(56)	(139)	(123)	(448)	(275)	(327)
others	-	-	6	6	8	18	-	-
<b>CF from Inv. Activities</b>	-	-	<b>(176)</b>	<b>(178)</b>	<b>(200)</b>	<b>(509)</b>	<b>(526)</b>	<b>(603)</b>
inc/(dec) in NW	-	-	-	-	0	0	-	-
inc/(dec) in Debt	-	-	(23)	(94)	(32)	0	-	-
Int. Paid	-	-	(3)	(2)	(3)	(2)	(36)	(36)
Div Paid (inc tax)	-	-	(358)	(126)	(98)	(244)	(200)	(200)
others	-	-	-	-	-	-	-	-
<b>CF from Fin. Activities</b>	-	-	<b>(383)</b>	<b>(222)</b>	<b>(132)</b>	<b>(245)</b>	<b>(236)</b>	<b>(236)</b>
Inc(Dec) in Cash	-	-	(32)	(12)	81	52	71	201
<b>Add: Opening Balance</b>	-	-	<b>115</b>	<b>83</b>	<b>71</b>	<b>152</b>	<b>205</b>	<b>276</b>
<b>Closing Balance</b>	-	-	<b>83</b>	<b>71</b>	<b>152</b>	<b>203</b>	<b>276</b>	<b>478</b>

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