

Industry	TECHNOLOGY
Bloomberg	LTTS IN
BSE CODE	540115

Macro challenges impacting the growth in near term

RATING **NEUTRAL**

CMP	1644
Price Target	1764
Potential Upside	7%

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L	1818/1400
Mkt Capital (Rs Cr)	17105
Free float (%)	25%
Avg. Vol 1M (000)	12
No. of Shares (Crs)	10
Promoters Pledged (Crs)	0

Fig in Rs cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	5,078	5,611	6,479
EBITDA	915	1,094	1,253
EBIT	811	926	1,041
PAT	768	799	887
EPS (Rs)	74	77	85
EPS	49%	4%	11%
ROE (%)	35%	29%	26%
ROCE (%)	35%	32%	30%
BV	238	296	362
P/B (X)	7	6	5
P/E (x)	21	21	19

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2QFY20 Result Update

Revenue and PAT in line

- LTTS reported in line performance in its 2QFY20 result. Revenue grew 1.9%QoQ to USD198million (in line with our estimates of 198.5 million) While PAT grew 1%QoQ to Rs206 crore primarily led by better margin execution and lower tax .
- EBIT for the quarter stood at Rs 239crore, a growth of 3.9%QoQ. Margin in 2Q remained marginally lower to 17%,(a dip of 10bps.)owing to absence of visa cost which benefitted margin by 140bps, favorable dollar rupee movement gave further 50bps improvement however it was completed offset by wage hike(160bps).
- Digital and leading age technology for the company now contributes 39% of overall revenue and grew 32%YoY during the quarter. The company continued to remain focused in the new age trends.
- The Company saw continued momentum in deal win (TCV wins were higher in 2Q) . The company closed 8 deals wins across sectors.

Slow decision making now impacting verticals

LTTS in past has managed to deliver double digit growth in its major segments. In 2QFY20, Though the company posted double digit in three out of five(Transportation grew 22.2%YoY, Plant Engineering grew by 27%YoY and Medical Devices was up by 51.2%)segments but the company has started to experience slowdown in decision-makings in Transportation and Industrial product segment amid continuing uncertainty over global trade negotiations. Telecom remained soft and declined 13.9% YoY on account of weakness in semiconductor as anticipated earlier.

Muted 3Q guidance

Increased macro concerns and customers holding on spend in Telecom & Hi-tech, transportation and Industrial product has led company further lowering its FY20 growth guidance to 10%(12 to 14% earlier). Telecom & Hi-Tech vertical to remain soft in 3QFY20 also ,followed by transportation and industrial product which are seeing delays in deal ramps ups and slow on new projects spending, thus considering the challenges management has mention of 3Q to be muted ad some acceleration will come in 4Q.

View and Valuation

LTTS has always been one of the strongest player in ER&D with its Broad based deal wins and outperformance in largest vertical (Transportation) vs. peers .However FY20 seems to be challenging year for the company .Beginning with telecom and Hi tech (~21% of revenue), the company saw impact of USD40mn due to client specific issue which dragged the FY20 growth. Now further delay in decision making and delay in ramps up in transportation (largest vertical) and Industrial product will further impact the revenue growth in near terms. Thus We expect LTTS to post 10% growth in FY20(lower than 24% growth in FY19)considering the macro challenges, however we expect order backlog to support 4Q growth.

Despite 2Q performance came in line, management outlook has resulted in our revenue /PAT estimates reduced by 1.6%/1.6 5 and 2.9%/3.2% for FY20/FY21E respectively .Thus we are Neutral on the stock with target price of RS 1764.

Key Risks to our rating and target

- Prolonged weakness in transportation verticals
- Slow down in order booking.

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2QFY20 Results
In line performance

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	Fig in Rs cr
										YoY %
Net Sales	1,266	1,317	1,343	1,348	1,402	10.7%	4.1%	3747.1	5078.3	35.5%
Other Income	55	36	34	57	47	-14.7%	-17.0%	193	223	15.2%
Employee Exp	792	830	819	835	863	8.9%	3.3%	2,460	3,179	29.2%
Other Expenses	245	245	275	239	256	4.6%	7.0%	712	985	38.4%
EBITDA	229	242	248	273	283	23.8%	3.9%	576	915	58.9%
Deprication	27	24	27	43	44	64.4%	3.7%	89	104	17.3%
EBIT	202	218	221	230	239	18.3%	3.9%	487	811	66.5%
Interest	0	1	1	9	9	2175.0%	0.0%	2	2	-20.8%
PBT	256	253	254	277	277	7.9%	-0.3%	678	1,031	52.2%
Tax	65	67	62	73	70	9.0%	-3.8%	171	263	53.6%
PAT	192	186	192	204	206	7.5%	1.0%	507	768	51.7%

Concall Highlights

- **Update on new technology:** Digital and leading age technology now contributes 39% of overall revenue and grew 32%YoY during the quarter. The company continued to remain focused in the new age trends
- **Margin performance:** Margin during the quarter remained marginally lower to 17 % (down by 10bps).Wage hike has impacted the margins by 160bps partly offset by favorable dollar rupee movement which benefitted 50bps.Also absence of visa cost further benefitted the margin by 140bps.
- **Traction in deal wins:** The Company saw continued momentum in deal win (TCV wins were higher in 2Q) . The company closed 8 deals wins across sectors. In telecom out of 6 deals, 4 deals were signed and 2 are seeing impact due to delay in decision making. For transportation though 2 deals was signs but still the customers are holding on spend which is constraining the company's growth. Going forward, net net company is seeing delay decision and conservative spending in few customers but sees demand remains robust for services and solutions.
- **Tax structure:** Post the recent change in tax regime, the company still continues to be under the earlier tax regime in view of high MAT credit which gets accumulated over these years, Company believes that it will consider going into new tax regime after 2 years from now.
- **Update on industry verticals:**
 - **Transportation:** the company grew 2.3%sequentially in 2Q on the back of 7.6%growth last quarter. The management expect better growth but as the company is seeing decision making delay and ramp up delays at the few customer end which impacted the growth in 2Q.The pipeline(deal is stage of signing) is growing and the company is seeing few large opportunities in them Although there is uncertainty in the timing of the same. Company expects muted growth in 3Q on account of delays in deal closure and ramp up, better growth expects from 4QFY20as some of deal closes.
 - **Telecom and Hi-tech:** Declined 6% sequentially on account of weakness in semiconductor. In semiconductor the company is working in several programs, Although the ramps are happening in slower pace and not enough to offset ramp down in some program. Company is seeing opportunities in chip designing however company expect flat trend in 3Q and acceleration in 4Q onwards.
 - **Medical:** Solid quarter with 13%sequential growth driven by ramp of large deal wins. The management expects the growth to continue on the back of deal wins and good pipeline.
 - **Plant engineering:** Another quarter of strong growth with 7.5%QoQ.The growth outlook continues to be robust in all three sub segments.
 - **Industrial product :**Growth was bit soft during the quarter(grew1%QoQ).The management is seeing slow down in spending at few of large accounts and deal closure delay .The management expects newer logos to continue to drive growth going forward and some bit of acceleration from 4Q onwards as some of deals pipeline closes.
- **Balance sheet item:** From some part of short term investments, the company has given an inter corporate deposits to other corporate house. This is short terms investment plan to park the company's temporary surplus and should not be considered as loan given to parent company.

- **Bullish in ER&D:** The company as of today only sees delay in decision making due to trade war, the company feels it is not long term issue , engineering opportunity has always being there and company remain bullish on the opportunities in that.
- **FY20 Guidance lowered:** In 2Q, As the performance is below company expectation due to news related trade war which has resulted in slow decision making and delay in deal closure .Top customer revenue has declined largely slowdown in few customers in telecom space. As The customers are going given the weakening economic outlook in developed countries the company now expect double digit of 10%for FY20 (guidance articulates to muted 3Q followed by growth improvement in 4Q)as compared to earlier guidance of 12% to 14%.
- **Margin outlook :**4Q would see increase in onsite mix due to ramp of large deals which will result in some amount of margin dilution because the share of revenue coming from onsite will have higher clip But the management expects to have offshore levers to support some margins.

Revenue Mix

Double digit growth continued in segments , Telecom remained soft

VERTICAL (USD mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Transportation	50	52	56	59	63	68	69	2.2%	22.5%
Industrial Products	34	34	36	38	37	38	38	0.7%	5.5%
Telecom & Hi-tech	48	49	48	50	50	43	41	-5.3%	-14.5%
Process Industry	20	23	25	27	28	30	32	8.1%	27.1%
Medical Devices	11	11	11	13	13	15	17	12.4%	52.3%

Revenue by Geography

Barring Europe, moderate growth across geographies

GEOGRAPHY (USD mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Americas	94	95	102	107	113	118	122	3.3%	19.3%
Europe	30	31	31	30	31	30	29	-5.9%	-6.6%
India	19	21	22	27	27	25	26	4.3%	16.9%
RoW	20	22	22	22	21	21	21	1.9%	-5.2%

Revenue by Delivery

Strong growth seen in offshore delivery

Delivery (USD mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Onsite	81	84	84	88	86	86	87	0.8%	3.8%
Offshore	81	86	94	98	106	108	111	2.8%	18.5%

Revenue by Client

Softness continued in top client performance

Client (USD mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Top 5 clients	44	48	50	51	51	48	45	-5.5%	-9.4%
Top 10 clients	65	69	71	72	72	71	71	-0.9%	-0.2%
Top 20 clients	89	94	98	101	102	102	102	-0.4%	3.9%

Exhibit: Revenue trend

Client specific issue in segments moderated the overall revenue growth in 2QFY20.

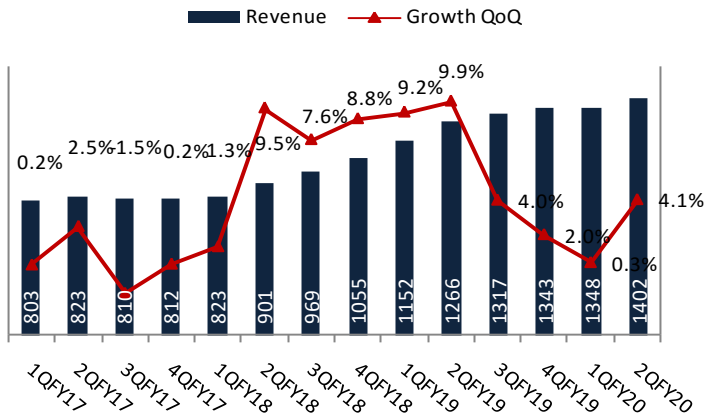


Exhibit: Vertical growth

Slow decision making now impacting verticals

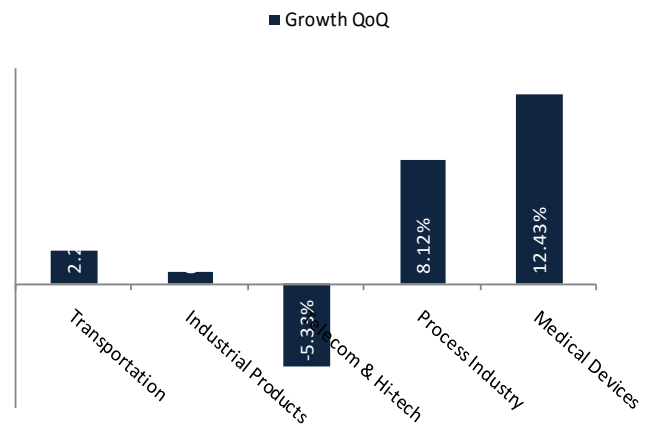


Exhibit: Margin Trend

Wage hike impacted the margins however operational efficiency completely offset the impact

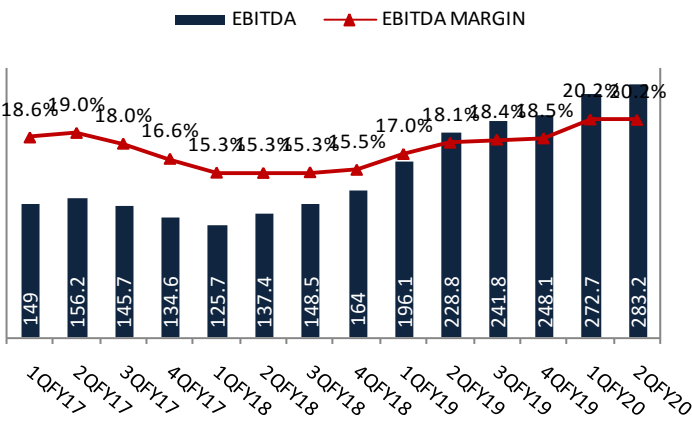
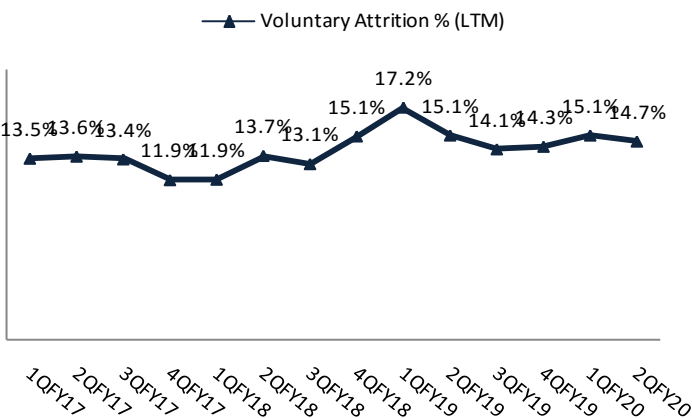


Exhibit: Utilization trend

Utilization remained stable after achieving its all time high range.

Exhibit: Attrition rate

Attrition rate within the control.



Operational Details

BY GEOGRAPHY	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
North America	58.7%	57.6%	56.3%	57.7%	57.8%	58.9%	60.9%	61.7%
Europe	17.2%	18.6%	18.5%	17.2%	16.2%	16.0%	15.6%	14.4%
India	11.5%	11.7%	12.4%	12.5%	14.4%	13.9%	12.8%	13.1%
Rest of the World	12.6%	12.1%	12.8%	12.6%	11.6%	11.2%	10.7%	10.7%

REVENUE MIX (%)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	50.7%	50.0%	49.4%	47.1%	47.4%	44.8%	44.3%	43.8%
Offshore	49.3%	50.0%	50.6%	52.9%	52.6%	55.2%	55.7%	56.2%

PROJECT TYPE(%)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Fixed Price	38.2%	37.0%	40.9%	42.2%	42.2%	43.6%	42.4%	41.8%
Time and Material Contract	61.8%	63.0%	59.1%	57.8%	57.9%	56.4%	57.6%	58.2%

CLIENT PROFILE(%)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Number of Active Clients	233	235	235	239	244	251	258	259
50 Million dollar +	1	0	2	2	2	2	1	1
30 Million dollar +	3	3	2	3	3	3	3	3
20 Million dollar +	4	4	3	3	5	5	5	7
10 Million dollar +	12	12	12	14	16	16	17	17
5 Million dollar +	30	31	33	34	39	41	44	42
1 Million dollar +	79	84	89	94	98	106	110	106

CLIENT	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Top 5 Clients	28.8%	27.1%	28.3%	28.2%	27.4%	26.4%	24.7%	22.9%
Top 10 Clients	41.2%	39.7%	40.5%	39.9%	38.9%	37.7%	36.7%	35.7%
Top 20 Clients	56.4%	54.8%	55.6%	55.1%	54.4%	53.5%	52.5%	51.3%

VERTICALS%	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Transportation	30.9%	30.8%	30.9%	32.0%	31.7%	32.9%	34.9%	35.0%
Industrial Products	21.8%	20.9%	20.4%	20.6%	20.2%	19.3%	19.6%	19.4%
Telecom & Hi-tech	27.9%	29.5%	28.7%	26.7%	27.0%	26.2%	22.3%	20.6%
Process Industry	12.7%	12.3%	13.5%	14.2%	14.4%	14.7%	15.3%	16.2%
Medical Devices	6.7%	6.5%	6.5%	6.5%	6.7%	7.0%	8.0%	8.8%

EMPLOYEE STATISTICS	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Total Headcount	11,941	12,307	13,081	13,585	14,777	15,140	15,913	16,789
Billable	11,009	11,360	12,147	12,604	13,711	14,034	14,755	15,614
Sales & Support	932	947	934	981	1,066	1,106	1,158	1,175
Voluntary Attrition % (LTM)	13.2%	13.5%	15.4%	15.0%	14.9%	14.8%	15.8%	13.4%

Financial Details

Balance Sheet

Fig in Rs cr

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	3,058	3,745
Networth		1,025	1,066	1,486	1,936	2,479	3,078	3,766
Debt		219	196	102	70	70	70	70
Other Non Current Liab		1	-	1	5	19	19	19
Total Capital Employed		1,245	1,262	1,589	2,011	2,569	3,168	3,856
Net Fixed Assets (incl CWIP)		164	213	195	217	243	324	381
Non Current Investments		-	-	-	-	-	-	-
Other Non Cur Asst		536	564	598	627	749	749	749
Non Current Assets		700	777	793	844	992	1,073	1,130
Inventory		-	56	195	221	575	850	1,176
Debtors		676	726	711	962	1,064	1,176	1,358
Cash & Bank		70	83	67	154	205	299	497
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	413	477
Curr Assets		1,119	1,165	1,440	1,861	2,372	2,881	3,662
Trade payables		195	214	149	181	188	208	240
Other current liabilities		85	101	112	175	190	210	242
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	148	171
Curr Assets		575	681	645	694	792	783	933
Net Curr Assets		545	484	795	1,167	1,580	2,098	2,729
Total Assets		1,820	1,942	2,233	2,705	3,364	3,954	4,792

Income Statement

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation			3066	3248	3747	5078	5611	6479
Change (%)				6%	15%	36%	10%	15%
EBITDA			519	586	576	915	1094	1253
Change (%)				13%	-2%	59%	20%	15%
Margin (%)			17%	18%	15%	18%	19%	19%
Depr & Amor.			59	63	89	104	167	211
EBIT			461	523	487	811	926	1041
Int. & other fin. Cost			3	2	2	2	36	36
Other Income			85	58	193	223	182	194
EBT			543	579	678	1031	1072	1199
Exp Item			0	0	0	0	0	0
Tax			124	154	171	263	273	312
Minority Int & P/L share of Ass.			0	0	0	0	0	0
Reported PAT			419	425	507	768	799	887
Adjusted PAT			419	425	507	768	799	887
Change (%)				2%	19%	52%	4%	11%
Margin(%)			14%	13%	14%	15%	14%	14%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE				33%	30%	35%	29%	26%
ROCE				-37%	-27%	-35%	-32%	-30%
Asset Turnover				0	0	0	0	0
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	296	362
Payable Days				17	18	14	14	14
Earnings Per Share				57	49	74	77	85
P/E				14	25	21	21	19
Price / Book Value				4	7	7	6	5
EV/EBITDA				10	22	18	15	13
EV/Sales				2	3	3	3	3

Cash Flow Statement

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	-	-	559	579	678	1,031	1,072	1,199
(inc)/Dec in Working Capital	-	-	99	(134)	(170)	(74)	(149)	(106)
Non Cash Op Exp	-	-	33	99	76	128	167	211
Int Paid (+)	-	-	3	2	2	2	36	36
Tax Paid	-	-	(166)	(158)	(172)	(281)	(273)	(312)
others	-	-	-	-	-	-	-	-
CF from Op. Activities	-	-	528	388	414	806	854	1,029
(inc)/Dec in FA & CWIP	-	-	(127)	(45)	(85)	(89)	(248)	(269)
Free Cashflow	-	-	401	343	329	718	605	760
(Pur)/Sale of Inv	-	-	(56)	(139)	(123)	(448)	(275)	(327)
others	-	-	6	6	8	18	-	-
CF from Inv. Activities	-	-	(176)	(178)	(200)	(509)	(523)	(595)
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	-	-	-	-	-	-	-	-
CF from Fin. Activities	-	-	(383)	(222)	(132)	(245)	(236)	(236)
Inc(Dec) in Cash	-	-	(32)	(12)	81	52	94	198
Add: Opening Balance	-	-	115	83	71	152	205	299
Closing Balance	-	-	83	71	152	203	299	497

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Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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