

Industry
Bloomberg
BSE CODE

TECHNOLOGY
LTTS IN
540115

Recovery in telecom expected from 4Q onwards

RATING	ACCUMULATE
CMP	1635
Price Target	1799
Potential Upside	10%

Rating Change	↓
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	1818/1396
Mkt Capital (Rs Cr)	17058
Free float (%)	25%
Avg. Vol 1M (,000)	12
No. of Shares (Crs)	10
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	5,078	5,629	6,407
EBITDA	915	1,134	1,291
EBIT	811	954	1,097
PAT	768	832	936
EPS (Rs)	74	80	90
EPS growth (%)	49%	8%	12%
ROE (%)	35%	30%	27%
ROCE (%)	35%	33%	31%
BV	238	299	370
P/B (X)	7	5	4
P/E (x)	21	20	18

3QFY20 Result Update

- LTTS reported in line performance in its 3QFY20 result. Revenue grew 0.7%QoQ to USD199.3million (in line with our estimates of 200 million) While PAT remained flat to Rs206 crore primarily led by lower tax.
- EBIT for the quarter came at Rs239crore, a flat growth. Margin during the quarter came at 16.8% (in line) which is in line with our estimate of 16.9%.
- Digital and leading age technology for the company now contributes 41% of overall revenue and grew 29%YoY during the quarter. The company continued to remain focused in the new age trends.
- The Company continued its deal wins traction in 3Q. Closed 9 new deals across sector which includes two deal each with TCV of USD30 million+. The company closed 3 deal in auto with are net new deal, 1 large deal in medical , 2 deal were closed in plant engineering and 1 deal in Industrial product.
- For 3Q, the onsite /offshore revenue mix was 44%/46%. Fixed project type contracts were almost 42.7% while T&M stood at 57.3% for the quarter. Utilization for the quarter has improved by 1.4%QoQ to 79.2% vs.77.8% last quarter.

Strong growth in transportation, telecom continued to drag growth

3 out of 5 vertical saw double digit growth in 3QFY20. Medical Devices led the growth and grew 50.6%YoY in cterms , Followed by Plant Engineering which grew 28.2%YoY. Transportation had good quarter of 21.3%YoY growth while Telecom & Hi-tech drags the overall growth by declining 26.7%YoY. Industrial Products remained soft during the quarter (declined 1.9%YoY).Management expect to continue to see strong growth in Medical and Plant Engineering business as the deal wins in 3Q will start to kick in from 4Q.Even telecom sector challenges have bottomed out and the management expects to the growth to pickup from 4Q

View and Valuation

LTTS has always been one of the strongest players in ER&D with its diversified vertical mix and niche position in Industrial products and plant engineering segment. However FY20 had been a challenging year for the company with USD50mn client stepping out(impacting ~4% of revenue) in telecom vertical. Further delay in decision making and challenges in sub verticals of semiconductor dragged the overall growth .Going forward, 4Q to see sequential growth with ramping up of deals and FY20 to clock 10% revenue growth which is way below than previous year. However we expect ramp of new deal in Plant Engineering, strong growth in transportation and recovery in Telecom &Hi-tech will improve the growth in FY21.Also Medical business which almost grew 50.6%YoY in 3Q will remain major driver for the company in coming quarters.

Post result, we have improved the PAT estimates marginally by 2%/2.5% for FY20/21, Resulting in revision in our target price from Rs1753 to Rs1799 but recent rally in stock price has downside our rating from BUY to Accumulate .Thus we value the stock at Rs 1799 and recommend Accumulate .

Key Risks to our rating and target

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

RESEARCH ANALYST

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3QFY20 Results

In line revenue performance

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,317	1,343	1,348	1,402	1,423	8.0%	1.5%	3747	5078	35.5%
Other Income	36	34	57	47	44	23.4%	-5.5%	193	223	15.2%
Employee Exp	830	819	835	863	861	3.8%	-0.2%	2460	3179	29.2%
Other Expenses	245	275	239	256	275	12.2%	7.5%	712	985	38.4%
EBITDA	242	248	273	283	286	18.4%	1.1%	576	915	58.9%
Depreciation	24	27	43	44	47	97.5%	6.3%	89	104	17.3%
EBIT	218	221	230	239	239	9.7%	0.1%	487	811	66.5%
Interest	1	1	9	9	9	1383.3%	-2.2%	2	2	-20.8%
PBT	253	254	277	277	275	8.4%	-0.8%	678	1031	52.2%
Tax	67	62	73	70	69	2.5%	-2.4%	171	263	53.6%
PAT	186	192	204	206	206	10.5%	-0.2%	507	768	51.7%

Concall Highlights

- **3QFY20 performance:** The Company posted a consistent growth in 3Q. Growth was in excess of 20%YoY in three of the verticals. Digital business which is growth driver for E&RD contributed 41% of revenue, and grew 29%YoY. Operational execution continued helping margins to almost remain flat for the quarter.
- **Continued deal win traction:** The Company continued its deal wins traction in 3Q.
 - Closed 9 new deals across sector which includes two deal each with TCV of USD30 million+.
 - The company closed 3 deal in auto with are net new deal, 1 large deal in medical , 2 deal were closed in plant engineering and 1 deal in Industrial product. The company was target of closing 3 deals in industrial product in 3Q; however 2 deals are now pushed to 4Q which management expects to close. In telecom out of 5 deals, the company managed to close 1 deal in Media and rest has moved to current quarter due to decisions getting delayed. Expects to close rest telecom deal in 4Q.
- **Vertical performance:**
 - **Transportation:** The Company had good quarter and pipeline remains strong. The company continues to see multiple large deals in electric cars; Autonomous driving and mobility solutions supported the growth trajectory.
 - **Telecom &Hi-tech:** In this segment, performance was softer than the company's expectation .The management sees worst is behind and growth is expected to come from 4Q.The company is seeing deal win in Chip design, new age media and Hi tech. The company expects the pace of growth to gradually increase as they win them.
 - **Plant Engineering:** The Company has strong advantage in this segment. Solid growth performance is on track. Company is continuously expanding scope of deal and winning large engineering deals. The company has closed 2 deals in 3Q which is expect to kick start from 4Q and run for 3 years.
 - **Industrial product:** In industrial product industry, there was bit of the slowdown in spending of some of the large accounts due to budget constraint. Small account is ramping up as per expectation. The company is seeing opportunities in areas like IoT, smart building consultancy and so on.
 - **Medical business:** The segment continued to remain strong for the company seeing growth in regulatory compliance and digitalization of devices. The management expects to see growth in coming quarters.
- **Semiconductor vertical:** Though the company faced some challenges to due client shutting down the business unit which impacted this segment in last two quarters, However continues to see opportunity in this segment in ISV space as well as in media space. There was some delay in decision making but the management does not see this weakness going forward.
- **Operational metrics:** For 3Q, the onsite /offshore revenue mix was 44%/46%. Fixed project type contracts were almost 42.7% while T&M stood at 57.3% for the quarter. Utilization for the quarter has improved by 1.4%QoQ to 79.2% vs.77.8% last quarter.
- **Outlook:** The company sees being on track to meet the revenue guidance of 10% growth in USD terms for FY20. The Company is optimistic on growth as market opportunities in deal size are significant and position has got stronger.

Revenue Mix

DOUBLE DIGIT YOY GROWTH CONTINUED IN 3 SEGMENTS , TELECOM REMAINED SOFT

VERTICAL (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ%	YoY%
Transportation	52	56	59	63	68	69	71	3.2%	21.0%
Process Engineering	23	25	27	28	30	32	34	6.7%	28.3%
Industrial Products	34	36	38	37	38	38	38	-0.3%	1.4%
Medical Devices	11	11	13	13	15	17	19	8.1%	49.5%
Telecom	49	48	50	50	43	41	37	-10.0%	-26.3%

Revenues by Geography

BARRING AMERICA, MODERATE GROWTH ACROSS GEOGRAPHIES

GEOGRAPHY (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ%	YoY%
Americas	95	102	107	113	118	122	122	-0.2%	13.5%
Europe	31	31	30	31	30	29	28	-1.4%	-6.7%
India	21	22	27	27	25	26	26	1.4%	-1.7%
RoW	22	22	22	21	21	21	23	7.2%	5.3%

Revenue by Delivery

MODERATE GROWTH SEEN IN OFFSHORE DELIVERY

DELIVERY (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ%	YoY%
Onsite	84	84	88	86	86	87	88	1.1%	-0.5%
Offshore	86	94	98	106	108	111	112	0.3%	14.1%

Revenue by Client

SOFTNESS CONTINUED IN TOP CLIENT PERFORMANCE

CLIENT (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ%	YoY%
Top 5 clients	48	50	51	51	48	45	42	-7.3%	-17.5%
Top 10 clients	69	71	72	72	71	71	68	-4.4%	-6.6%
Top 20 clients	94	98	101	102	102	102	99	-2.3%	-1.9%

Exhibit: Revenue trend

Client specific issue dragged some growth while medical remained strong.

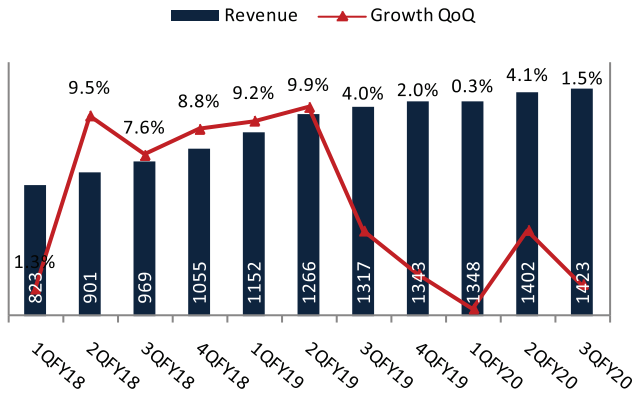


Exhibit: Vertical growth

Slow decision making impacted telecom and industrial verticals.

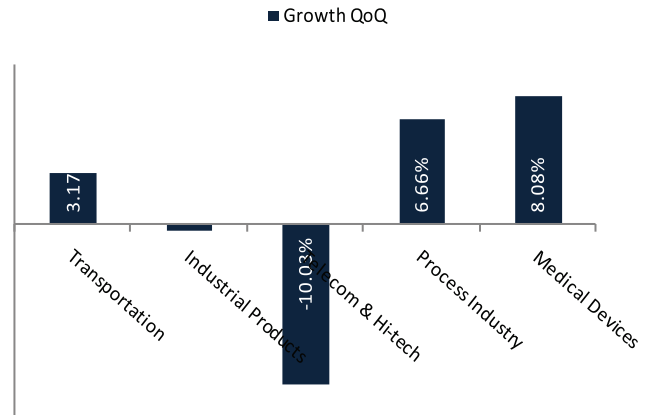


Exhibit: Margin Trend

Margin remain flat with moderate 3Q growth.

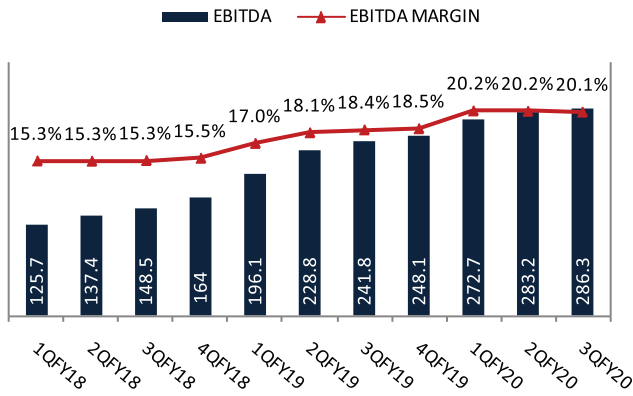


Exhibit: Utilization trend

After stabilizing in 2Q, Utilization jumped substantially in 3Q.

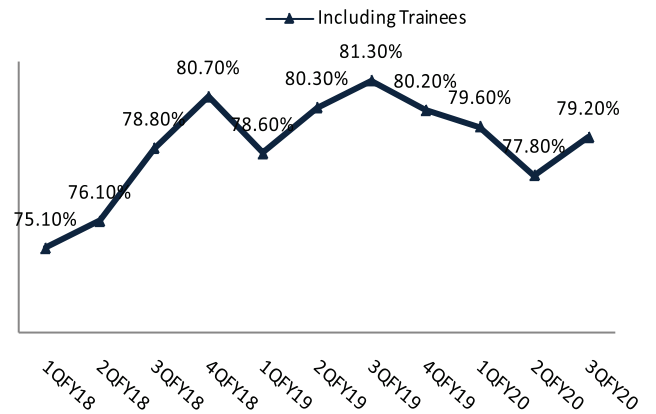
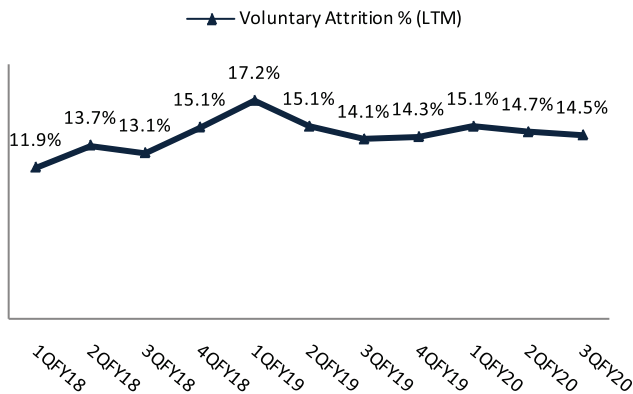


Exhibit: Attrition rate

Attrition rate within the control.



Operational Details

GEOGRAPHY %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
North America	57.6%	56.3%	57.7%	57.8%	58.9%	60.9%	61.7%	61.2%
Europe	18.6%	18.5%	17.2%	16.2%	16.0%	15.6%	14.4%	14.1%
India	11.7%	12.4%	12.5%	14.4%	13.9%	12.8%	13.1%	13.2%
Rest of the World	12.1%	12.8%	12.6%	11.6%	11.2%	10.7%	10.7%	11.4%

REVENUE MIX (%)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Onsite	50.0%	49.4%	47.1%	47.4%	44.8%	44.3%	43.8%	44.0%
Offshore	50.0%	50.6%	52.9%	52.6%	55.2%	55.7%	56.2%	56.0%

PROJECT TYPE (%)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Fixed Price	37.0%	40.9%	42.2%	42.2%	43.6%	42.4%	41.8%	42.7%
Time and Material Contract	63.0%	59.1%	57.8%	57.9%	56.4%	57.6%	58.2%	57.3%

CLIENT PROFILE(%)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Number of Active Clients	235	235	239	244	251	258	259	265
50 Million dollar +	0	2	2	2	2	1	1	-
30 Million dollar +	3	2	3	3	3	3	3	3
20 Million dollar +	4	3	3	5	5	5	7	7
10 Million dollar +	12	12	14	16	16	17	17	20
5 Million dollar +	31	33	34	39	41	44	42	43
1 Million dollar +	84	89	94	98	106	110	106	107

CLIENT contribution	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Top 5 Clients	27.1%	28.3%	28.2%	27.4%	26.4%	24.7%	22.9%	21.1%
Top 10 Clients	39.7%	40.5%	39.9%	38.9%	37.7%	36.7%	35.7%	33.9%
Top 20 Clients	54.8%	55.6%	55.1%	54.4%	53.5%	52.5%	51.3%	49.8%

VERTICALS%	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Transportation	30.8%	30.9%	32.0%	31.7%	32.9%	34.9%	35.0%	35.8%
Industrial Products	20.9%	20.4%	20.6%	20.2%	19.3%	19.6%	19.4%	19.2%
Telecom & Hi-tech	29.5%	28.7%	26.7%	27.0%	26.2%	22.3%	20.6%	18.5%
Process Industry	12.3%	13.5%	14.2%	14.4%	14.7%	15.3%	16.2%	17.2%
Medical Devices	6.5%	6.5%	6.5%	6.7%	7.0%	8.0%	8.8%	9.4%

EMPLOYEE STATISTICS	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Total Headcount	12,307	13,081	13,585	14,777	15,140	15,913	16,789	16,787
Billable	11,360	12,147	12,604	13,711	14,034	14,755	15,614	15,604
Sales & Support	947	934	981	1,066	1,106	1,158	1,175	1,183
Voluntary Attrition % (LTM)	13.5%	15.4%	15.0%	14.9%	14.8%	15.8%	13.4%	13.9%

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	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	3,091	3,827
Networth	1,025	1,066	1,486	1,936	2,479	3,112	3,848
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	3,201	3,938
Net Fixed Assets (incl CWIP)	164	213	195	217	243	313	384
Non Current Investments	-	-	-	-	-	-	-
Other Non Cur Asst	536	564	598	627	749	749	749
Non Current Assets	700	777	793	844	992	1,062	1,133
Inventory	-	56	195	221	575	850	1,176
Debtors	676	726	711	962	1,064	1,180	1,343
Cash & Bank	70	83	67	154	205	341	589
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	414	471
Curr Assets	1,119	1,165	1,440	1,861	2,372	2,928	3,734
Trade payables	195	214	149	181	188	208	237
Other current liabilities	85	101	112	175	190	211	240
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	149	169
Curr Assets	575	681	645	694	792	785	926
Net Curr Assets	545	484	795	1,167	1,580	2,143	2,808
Total Assets	1,820	1,942	2,233	2,705	3,364	3,989	4,867

Income Statement

Fig in Rs Cr

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	3066	3248	3747	5078	5629	6407
Change (%)		6%	15%	36%	11%	14%
EBITDA	519	586	576	915	1134	1291
Change (%)		13%	-2%	59%	24%	14%
Margin (%)	17%	18%	15%	18%	20%	20%
Depr & Amor.	59	63	89	104	179	194
EBIT	461	523	487	811	954	1097
Int. & other fin. Cost	3	2	2	2	36	36
Other Income	85	58	193	223	199	186
EBT	543	579	678	1031	1117	1248
Exp Item	0	0	0	0	0	0
Tax	124	154	171	263	284	312
Minority Int & P/L share of Ass.	0	0	0	0	0	0
Reported PAT	419	425	507	768	832	936
Adjusted PAT	419	425	507	768	832	936
Change (%)		2%	19%	52%	8%	12%
Margin(%)	14%	13%	14%	15%	15%	15%

Financial Details

Key Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	40%	33%	30%	35%	30%	27%
ROCE	37%	37%	27%	35%	33%	31%
Asset Turnover	0	0	0	0	0	0
Current Ratio	0.4	0.5	0.5	0.5	0.5	0.5
Debtor Days	86	80	94	76	76	76
Book Value Per Share	-	198	189	238	299	370
Payable Days	25	17	18	14	14	14
Earnings Per Share	-	57	49	74	80	90
P/E	-	14	25	21	20	18
Price / Book Value		4	7	7	5	4
EV/EBITDA	0	10	22	18	15	13
EV/Sales	0	2	3	3	3	3

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	559	579	678	1,031	1,117	1,248
(inc)/Dec in Working Capital	99	(134)	(170)	(74)	(152)	(90)
Non Cash Op Exp	33	99	76	128	179	194
Int Paid (+)	3	2	2	2	36	36
Tax Paid	(166)	(158)	(172)	(281)	(284)	(312)
others	-	-	-	-	-	-
CF from Op. Activities	528	388	414	806	895	1,076
(inc)/Dec in FA & CWIP	(127)	(45)	(85)	(89)	(249)	(266)
Free Cashflow	401	343	329	718	646	810
(Pur)/Sale of Inv	(56)	(139)	(123)	(448)	(275)	(327)
others	6	6	8	18	-	-
CF from Inv. Activities	(176)	(178)	(200)	(509)	(524)	(592)
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)	(235)
Inc(Dec) in Cash	(32)	(12)	81	52	136	249
Add: Opening Balance	115	83	71	152	205	341
Closing Balance	83	71	152	203	341	589

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce 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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