



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

## Investor Day 2018 Update@ Dalal&Broacha

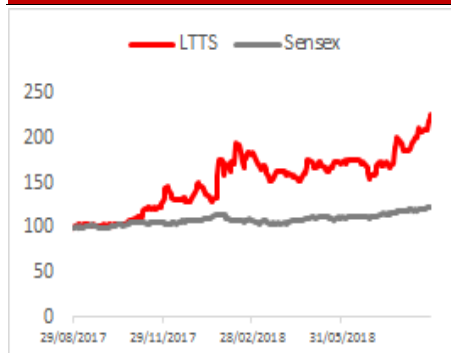
### BUY

Current Price	1762
Target Price	2,119
Upside	20%
52 Week Range	760/1,775

### Key Share Data

Market Cap (Rs.bn)	182.63
Market Cap (US\$ mn)	2576
No of o/s shares (mn)	102.46
Face Value	2
Monthly Avg.	
Vol(BSE+NSE) Nos	192.77
BSE Code	540115
NSE Code	LTTS
Bloomberg	LTTS:IN

### Price performance



% Shareholding	Jun-18	Mar-18
Promoters	87.10	88.81
Public	12.90	11.19
Others	0	0
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

### “Vision 20-20-20” to drive LTTS towards a Billion Dollar enterprise

Larsen & Toubro Tech Services held its annual Investor Day conference in Mumbai where the company announced its “Vision 20-20-20” target for FY21E. Vision 20-20-20 stands for:

- **20% CAGR topline growth between FY18-FY21E** – an upward revision from its earlier >16% growth guidance in Q1FY19
- **Margin expansion to 20%** by FY21E from 17% in Q1FY19
- **20 patent approvals per year**

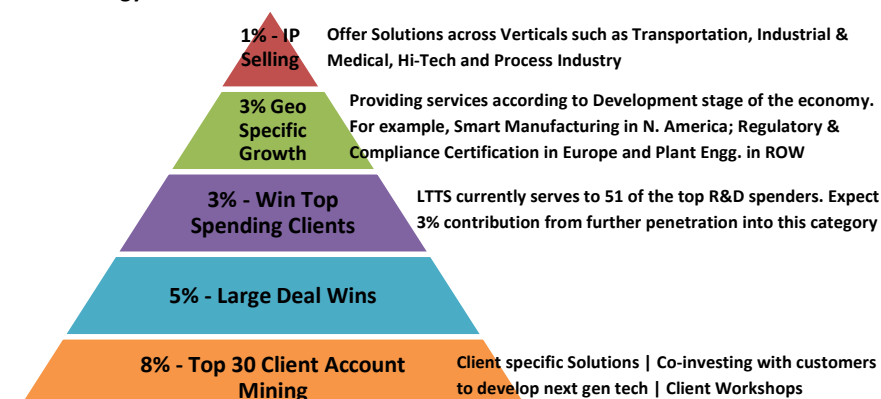
The company reiterated its objective of a ‘**Billion Dollar**’ enterprise by FY21 which will be through a combination of organic growth (\$800-9000 Mn) and inorganic (\$100-200 Mn)

We believe that Vision 20-20-20 and a Billion dollar enterprise is a SMART objective, i.e. **Specific, Measurable, Achievable, Relevant and Time-bound**, which will be achieved through the combination of a strong ER&D macro-environment, LTTS’ robust strategy & execution capabilities and healthy deal pipeline.

### ER&D Universe

While the Total Addressable ER&D market is estimated to grow at 8.3% CAGR between FY17-FY21 (\$270 to \$371 Bn), the ER&D outsourcing to India is estimated to grow at 12.5% CAGR till FY21 (\$12.5 Bn to \$20Bn), which we believe can be a huge trigger for domestic ER&D players like LTTS, Tata Elxsi, Cyient, Persistent and HCL Tech.

### LTTS Strategy



Source: Company, Dalal&Broacha Research

LTTS has formed a detailed strategy as per the break-up given above to achieve its targeted 20% CAGR top-line growth and also reported a **Deal Pipeline of \$1.05 Bn as of August 2018**. Major contributors to the deal pipeline are Industrial & Medical (31%), Transportation (33%), Hi-Tech (23%) and Process Industry (13%). Expect growth across verticals to be broadbased and led by Medical Devices (6.5% of revenues), Transportation (31% of revenues) and Telecom segment.

### Consolidated Financials (In INR Mn)

	Net Sales	% Growth	EBITDA	Margin (%)	PAT	PAT (%)	EPS	EPS	P/E (x)	ROE (%)	ROCE (%)
FY16	30,662	17.1%	5,194	16.9%	4,186	13.7%	41.2	35%	41.9x	40.0%	33.6%
FY17	32,483	5.9%	5,847	18.0%	4,250	13.1%	41.9	2%	41.3x	33.3%	29.9%
FY18	37,471	15.4%	5,811	15.5%	5,111	13.6%	50.4	20%	34.4x	29.9%	28.5%
FY19E	46,923	25.2%	7,790	16.6%	6,876	14.6%	67.7	35%	25.6x	31.3%	30.5%
FY20E	54,724	16.6%	10,032	18.3%	8,395	15.3%	82.7	22%	20.9x	30.4%	29.8%
FY21E	65,068	18.9%	12,976	19.9%	10,744	16.5%	106.0	28%	16.3x	30.9%	30.5%

Source: Company, Dalal&Broacha Research



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### Vertical wise Roadmap

**(i) Industrial Products (20.4% of revenue)** – Industrial products can deliver double digit growth going ahead as management expects Traditional biz. (70% of Industrial products) to grow at 8% pa and New Age Opportunities (30% of Industrial Products) to grow at 15% pa, translating into a minimum growth of 10% per annum. The company laid out 3 broad strategies to drive growth, namely a. Infusing Digital in Physical, b. Building New Age Physical and c. Monetizing Solutions such as iBEMS, Integrated MCare, etc.

**(ii) Plant Engineering (13.5% of revenue)** – Sustainable growth to be delivered through Legacy growth (65%), New Customers (15%) and Technology Intervention (20%)

**(iii) Transportation (30% of revenue)** – Expect this segment to deliver 20% yoy CAGR growth due to immense traction in Electrification, Autonomous and Digitalization industry. Transportation vertical currently consists of 74% legacy and 26% next gen tech which is expected to change to 60% Legacy and 40% Next Gen Tech. LTTS plans to expand next gen technology through more partnerships, acquisitions and IP + Solutions.

**(iv) Medical (6.5% of revenue)** – Expect this vertical to lead the growth pack and contribute 10% of revenues by FY21 due to trends such as Digital and Regulatory requirements in the medical industry. On a micro level, LTTS plans to focus on Expanding Regulatory Practice, Differentiating with Digital and Leveraging Domain Strength. The company operates in 5 segments, namely Diagnostic Imaging, In Vitro Diagnostics, Digital Health, Surgical and Orthopedic.

**(v) Telecom & Hi-Tech (28.7% of revenue)** – Within Hi-Tech, LTTS caters to Semiconductors segment, Devices and Software & Internet. Expect this segment to be a high growth area due to trends such as 5G, IoT, “Software Defined Everything” and expansion of Chip market from OEMs to all tech giants.

### Margin Expansion

Expect margins to expand from 15.5% in FY18 to 19.9% by FY21E mainly due to Larger Deal sizes and higher component of IP Solution sales. The company recently launched AiKno, which is its AI Framework and performs tasks such as Natural Language Processing and Image Processing. We expect higher IP solution sales to be the main driver of higher margins going ahead as 80% of IP revenue directly flows into EBITDA. With a target of 20 patents per year, we believe that an EBITDA margin guidance of 20% is achievable by FY21E.

### Valuation & Outlook

We believe that Management’s Vision 20-20-20 and objective of a Billion dollar enterprise is aggressive but achievable due to the following reasons (i) Robust Sales strategy (ii) Diversified Services and Solutions offering (iii) Engineering DNA through L&T parentage (iv) Growth through focus on IP based solutions (v) Healthy Deal pipeline of \$1.05 Bn and (vi) Presence in high growth verticals. Steady billing rates in the ER&D space and double digit growth in ER&D outsourcing to India should buttress the company’s performance going ahead. We account for a 20% revenue CAGR in INR terms between FY18 and FY21E and expect margins to expand from 15.5% in FY18 to 19.9% in FY21E. **We assign a PE multiple of 20x to its FY21E EPS of INR 106 to arrive at target price of INR 2,119.** However, since the stock has run up by 41% from our initial recommended price of INR 1,222, we recommend to adopt a ‘Buy on Dips’ Strategy.



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Profit & Loss A/c					
YE March (Rs. mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Total Revenue</b>	<b>32,483</b>	<b>37,471</b>	<b>46,923</b>	<b>54,724</b>	<b>65,068</b>
Growth %	6%	15%	25%	17%	19%
<b>Less:</b>					
Employee Cost	20,958	24,600	30,935	35,257	40,873
SG&A Expenses & Other	5,678	7,060	8,198	9,434	11,218
<b>Total Operating Expenditure</b>	<b>26,636</b>	<b>31,660</b>	<b>39,133</b>	<b>44,692</b>	<b>52,092</b>
<b>EBIDTA</b>	<b>5,847</b>	<b>5,811</b>	<b>7,790</b>	<b>10,032</b>	<b>12,976</b>
Growth %	13%	-1%	34%	29%	29%
Less: Depreciation	625	889	1,059	876	1,041
<b>EBIT</b>	<b>5,222</b>	<b>4,922</b>	<b>6,731</b>	<b>9,156</b>	<b>11,935</b>
Growth %	13.4%	-5.7%	36.8%	36.0%	30.3%
Interest Paid	21	27	16	0	0
Non-operating Income	591	1,934	2,575	2,189	2,603
<b>Profit Before tax</b>	<b>5,792</b>	<b>6,829</b>	<b>9,290</b>	<b>11,345</b>	<b>14,538</b>
Tax	1,542	1,712	2,420	2,956	3,788
<b>Net Profit</b>	<b>4,250</b>	<b>5,123</b>	<b>6,876</b>	<b>8,395</b>	<b>10,756</b>
<b>Adjusted Profit</b>	<b>4,250</b>	<b>5,111</b>	<b>6,876</b>	<b>8,395</b>	<b>10,756</b>
Growth %	2%	20%	35%	22%	28%
<b>Reported Diluted EPS Rs</b>	<b>41.9</b>	<b>50.4</b>	<b>67.6</b>	<b>82.6</b>	<b>105.9</b>
<b>Adjusted Diluted EPS Rs</b>	<b>41.9</b>	<b>50.4</b>	<b>67.7</b>	<b>82.7</b>	<b>106.0</b>

Cash Flows (Consolidated)					
YE December (Rs. Mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>PAT</b>	<b>4,250.0</b>	<b>5,111.0</b>	<b>6,863.6</b>	<b>8,383.3</b>	<b>10,744.1</b>
Less: Non Operating Income	(591.0)	(1,934.0)	(2,575.0)	(2,188.9)	(2,602.7)
Add: Depreciation	625.0	889.0	1,058.8	875.6	1,041.1
Add: Interest Paid	21.0	27.0	16.0	0.0	0.0
<b>Operating Profit before WC Changes</b>	<b>4,305.0</b>	<b>4,099.0</b>	<b>5,363.4</b>	<b>7,069.9</b>	<b>9,182.5</b>
(Inc)/Dec in Current Assets	(2,909.0)	(3,339.0)	(3,248.0)	(3,377.1)	(3,162.6)
Inc/(Dec) in Current Liabilities	(366.0)	489.0	735.0	814.3	1,878.6
Changes in Inventory	0.0	0.0	0.0	0.0	0.0
<b>Net Cash From Operations</b>	<b>1,030.0</b>	<b>1,249.0</b>	<b>2,850.4</b>	<b>4,507.0</b>	<b>7,898.5</b>
<b>Cash Flow from Investing Activities</b>					
(Inc)/Dec in Fixed Assets	(744.0)	(949.0)	(800.0)	(1,000.0)	(1,000.0)
(Inc)/Dec in Capital Work In Progress	120.0	22.0	(139.8)	(23.4)	(31.0)
(Inc)/Dec in Investment (Strategic)	0.0	0.0	(738.8)	(122.8)	(162.9)
Add: Non Operating Income	591.0	1,934.0	2,575.0	2,188.9	2,602.7
<b>Cash From Investing Activities</b>	<b>(190.0)</b>	<b>525.0</b>	<b>896.4</b>	<b>1,042.7</b>	<b>1,408.8</b>
<b>Cash Flow from Financing Activities</b>					
Inc/(Dec) in Total Loans	(924.0)	(282.0)	(282.0)	(50.0)	(50.0)
Dividend Paid	(1,215.0)	(1,215.0)	(1,715.9)	(2,095.8)	(2,686.0)
Less: Interest Paid	(21.0)	(27.0)	(16.0)	0.0	0.0
<b>Net Cash from Financing Activities</b>	<b>(987.0)</b>	<b>(870.0)</b>	<b>(2,041.4)</b>	<b>(2,126.4)</b>	<b>(2,711.5)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>(147.0)</b>	<b>904.0</b>	<b>1,705.5</b>	<b>3,423.3</b>	<b>6,595.8</b>
<b>Opening Balance</b>	<b>832.0</b>	<b>685.0</b>	<b>1,589.0</b>	<b>4,053.5</b>	<b>7,476.8</b>
<b>Closing Balance Cash and Cash Equival</b>	<b>685.0</b>	<b>1,589.0</b>	<b>3,294.5</b>	<b>7,476.8</b>	<b>14,072.6</b>

Free Cash Flow Statement					
YE March (Rs. mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>EBITDA</b>	<b>5,847</b>	<b>5,811</b>	<b>7,790</b>	<b>10,032</b>	<b>12,976</b>
FC Investment	-447	263	800	1,000	1,000
WC Changes	-3,275	-1,701	-2,513	-2,563	-1,284
Depreciation Tax Shield	166	223	276	228	271
Tax Expenses	1,421	1,457	2,030	2,614	3,381
FCF	1,764	2,613	2,723	4,083	7,583

Valuation Ratios					
YE March (Rs. mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>P/E (x)</b>	<b>41.3x</b>	<b>34.4x</b>	<b>25.6x</b>	<b>20.9x</b>	<b>16.3x</b>
P/BV (x)	11.8x	9.1x	7.2x	5.7x	4.5x
<b>EV/EBITDA (x)</b>	<b>30.1x</b>	<b>30.1x</b>	<b>22.1x</b>	<b>16.8x</b>	<b>12.5x</b>
EV/Sales	5.4x	4.7x	3.7x	3.1x	2.5x
<b>Market Cap./ Sales (x)</b>	<b>5.4x</b>	<b>4.7x</b>	<b>3.7x</b>	<b>3.2x</b>	<b>2.7x</b>
Dividend Yield (%)	0.7%	0.7%	1.0%	1.2%	1.5%

Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Liabilities</b>					
Equity Capital	203	205	203	203	203
Reserves & Surplus	14,653	19,159	24,307	30,594	38,652
<b>Equity</b>	<b>14,856</b>	<b>19,364</b>	<b>24,510</b>	<b>30,797</b>	<b>38,855</b>
<b>Net Worth</b>	<b>14,856</b>	<b>19,364</b>	<b>24,510</b>	<b>30,797</b>	<b>38,855</b>
<b>Total Loans</b>	<b>1,031</b>	<b>749</b>	<b>467</b>	<b>417</b>	<b>367</b>
<b>Capital Employed</b>	<b>15,895</b>	<b>20,163</b>	<b>25,001</b>	<b>31,258</b>	<b>39,291</b>
<b>Assets</b>					
Gross Block	1,757	2,020	2,820	3,820	4,820
Less: Depreciation	567	770	1,829	2,704	3,746
<b>Net Block</b>	<b>1,190</b>	<b>1,250</b>	<b>991</b>	<b>1,116</b>	<b>1,074</b>
Capital WIP	23	1	141	164	195
<b>Investments</b>	<b>1,054</b>	<b>590</b>	<b>1,329</b>	<b>1,452</b>	<b>1,615</b>
Intangible Assets	4,948	5,844	5,844	5,844	5,844
<b>Current Assets</b>					
Sundry Debtors	7,106	9,623	10,927	12,744	14,618
Current Investments	1,946	2,207	2,815	3,283	3,253
Cash and Bank Balance	685	1,589	4,053	7,477	14,073
Loans and Advances	1,275	1,429	1,877	2,189	2,473
Other Current Assets	3,399	3,806	4,694	5,474	6,509
<b>Total Current Assets</b>	<b>14,411</b>	<b>18,654</b>	<b>24,366</b>	<b>31,167</b>	<b>40,925</b>
<b>Less: Current Liabilities &amp; Provisions</b>					
Sundry Creditors	1,489	1,807	2,680	2,571	3,140
Provisions	1,271	1,206	1,705	2,082	2,668
Other Current Liabilities	3,686	3,922	3,285	3,831	4,555
<b>Total Current Liabilities &amp; Prov</b>	<b>6,446</b>	<b>6,935</b>	<b>7,670</b>	<b>8,484</b>	<b>10,363</b>
<b>Capital Applied</b>	<b>15,895</b>	<b>20,163</b>	<b>25,001</b>	<b>31,258</b>	<b>39,291</b>

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Key Operating Ratios</b>					
EBITDA Margin (%)	18.0%	15.5%	16.6%	18.3%	19.9%
Tax / PBT (%)	26.6%	25.1%	26.1%	26.1%	26.1%
Net Profit Margin (%)	13.1%	13.6%	14.6%	15.3%	16.5%
RoE (%)	33.3%	29.9%	31.3%	30.4%	30.9%
RoCE (%)	29.9%	28.5%	30.5%	29.8%	30.5%
Current Ratio (x)	2.2x	2.7x	3.2x	3.7x	3.9x
Dividend Payout (%)	28.6%	23.8%	25.0%	25.0%	25.0%
Book Value Per Share (Rs.)	146.4	190.8	241.5	303.4	382.8
<b>Financial Leverage Ratios</b>					
Debt/ Equity (x)	0.1x	0.0x	0.0x	0.0x	0.0x
Interest Coverage (x)	278.4x	215.2x	486.9x	486.9x	486.9x
<b>Growth Indicators %</b>					
Sales Growth (%)	5.9%	15.4%	25.2%	16.6%	18.9%
EBITDA Growth (%)	12.6%	(0.6%)	34.1%	28.8%	29.4%
Net Profit Growth (%)	1.5%	20.3%	34.3%	22.1%	28.2%
Diluted EPS Growth (%)	1.5%	20.3%	34.3%	22.1%	28.2%
<b>Turnover Ratios</b>					
Debtors (Days of net sales)	81	81	80	79	77



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