



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

COVID-19 Impact Update@ Dalal&Broacha

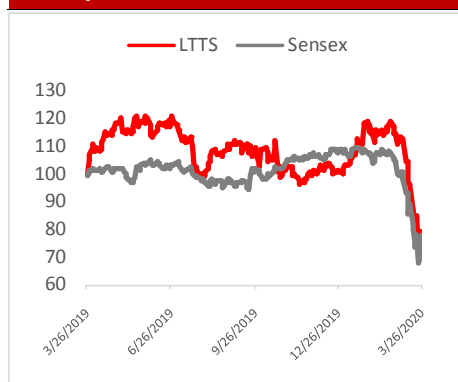
BUY

Current Price	1184
Target Price	1739
Upside	47%
52 Week Range	1817/995

Key Share Data

Market Cap (Rs.Bn)	123.6
Market Cap (US\$ Mn)	1,670
No of o/s shares (Mn)	104
Face Value	2
Monthly Avg.	
Vol(BSE+NSE)'000	121
BSE Code	540115
NSE Code	LTTS
Bloomberg	LTTS:IN

Price performance



% Shareholding	Sept-19	Jun-19
Promoters	74.97	74.97
Public	25.03	25.03
Others	-	-
Total	100	100

Key Takeaways:

- Have secured permission from clients to execute 98% of onsite business and 95% of offshore business.
- 80% of off-shore billable employees are on work from home (WFH) which should go up to 90% by next week
- 98% of onsite employees are either on WFH or through offices and are managing well
- 90% of the work can be handled on WFH and only 10% which is hardware related work or highly confidential data work and needs to be completed onsite in client labs is suspended temporarily. However, the management is currently requesting and negotiating with clients to give permission to use labs.

Segment-wise impact:

Transportation (35.8% of topline):

- Automotive (40-45% of Transportation segment):
 - Not facing much of an issue in software related work in Automation, EV, infotainment, etc.
 - LTTS started work with a Tier I automotive company in March and discussion with other Tier I's is underway
 - Hardware related work which requires lab presence is a bit challenging in current times due to COVID situation.
 - However, the segment is facing delays in certain clients but no cancellations. So far only 2 projects have been delayed (for the next 2 weeks) by clients, which is less than 1% of revenue impact. Other clients may / may not suit. Company is still assessing the impact
- Aerospace (~25% of Transportation): is relatively stable with no impact yet

Telecom, Media and Hi-Tech (18.5% of revenue):

- Strong quarter in Media & Entertainment as demand for media and internet has skyrocketed. LTTS won one large deal in Media & Entertainment in the 1st week of March
- No major disruptions have occurred in Telecom & Hi-Tech and company has been able to execute work remotely.
- New deal conversations are underway

Industrial Products (19.2% of revenue):

- Vertical is holding up well with slight headwinds in Machinery and Power subsegments
- Building Automation business going strong
- Decision on new projects being delayed and may cause some impact in the near term

Plant engineering (17.2% of revenue):

- This segment will face some impact in near to medium term as oil is below \$30, which is severely testing the survivability of upstream Oil companies.
- Downstream companies are doing relatively better
- Chemical companies benefit as RM cost is going down.

Medical Devices (9.4% of topline): Expect to be strong point in the near to medium term as demand environment for LTTS' customers is strong in the current situation as hospitals order more equipment (like hospital beds, ventilators, etc.)

Consolidated Financials (In INR Mn)

INR Mn	Net Sales	% Growth	EBITDA	Margin (%)	PAT	PAT Margin (%)	EPS	Growth (%)	P/E (x)	ROE (%)	ROCE (%)
FY18	37,471	15.4%	5,811	15.5%	5,111	13.6%	50.4	20%	23.5x	29.9%	27.3%
FY19	50,783	35.5%	9,147	18.0%	7,690	15.1%	75.8	50%	15.7x	34.8%	35.2%
FY20E	55,625	9.5%	10,824	19.5%	7,880	14.1%	77.6	2%	15.3x	28.6%	31.6%
FY21E	60,387	8.6%	11,689	19.4%	9,067	15.0%	89.4	15%	13.3x	27.1%	31.0%
FY22E	68,157	12.9%	13,534	19.9%	10,382	15.2%	102.3	14%	11.6x	25.8%	30.1%

Source: Company, Dalal & Broacha Research



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In summary, LTTS expects some impact in Industrial Products, Plant Engineering and Automotive segments which is difficult to quantify and the company is currently assessing the impact

Other Key Highlights:

- ER&D industry is core to a company's long term strategy and challenges. Short term contractions in demand (such as COVID) don't have much impact on long term goals and do not result in reduced R&D spend
- Few customers have paused but none have cancelled contract.
- Current WFH practices may impact long term onsite offshore strategy as it is a great opportunity to demonstrate ability to deliver from offshore
- Management is confident that Billing for WFH will not be a problem
- LTTS has no exposure to high affected areas such as China and minimal exposure to South Korea. Japan is a big market for LTTS with a big team present there and may face some impact
- Margins may be impacted in the short term as certain client's spending decisions are delayed while company continues to bear employee salaries, however a weaker rupee will serve to offset this phenomenon to a great extent
- Pricing is not a concern for management because in ER&D, clients are more concerned with quality and stability of service provider rather than price (which is the case in IT services)
- Currently none of the client's balance sheets in Industrial Products, Telecom/Media/Hi-Tech or Medical segments are stressed and therefore is not a cause for concern for LTTS. However, certain Plant Engineering clients especially in the O&G space may or may not require government support.
- Management was concerned more about employees' wellbeing and morale than margins as ER&D services is an innovative/creative field and it is necessary to keep morale high
- High computing needs in WFH is being managed by using servers on cloud. Speed of data in WFH is a bigger concern and is causing bottlenecks as high amount of data download or a big software patch download becomes difficult.

Valuation & Outlook

Due to the graveness of COVID-19 situation and despite effective delivery and execution through WFH and efficient management, LTTS is bound to face delay in demand and push-off in client spend in the near to medium term. While COVID-19 may have some negative short term spillover effects (delayed demand) on Automotive, Aerospace and Industrial Products, revival of a healthy demand in these sectors and O&G may be prolonged. We expect demand to show strong revival from H2FY20 onwards. We therefore revise our revenue growth estimates for FY20e, FY21e and FY22e from 10.9%, 12.2% and 12% to 9.5%, 8.6% and 12.9% respectively and EPS estimates for FY20e, FY21e and FY22e from INR 80.9, INR 96.7 and INR 106.7 to INR 77.6, INR 89.4 and INR 102.3 respectively. LTTS is currently trading at 15.3x, 13.3x and 11.6x FY20e, FY21e and FY22e EPS. We strongly believe that LTTS is a portfolio stock and the steep correction (~38% from recent highs) is unwarranted and serves as a strong buying opportunity for the long term. Therefore, we maintain our BUY rating on the stock with a target price of INR 1,739 (earlier INR 1,870).



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Profit & Loss A/c					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Total Revenue	37,471	50,783	55,625	60,387	68,157
Growth %	15%	36%	10%	9%	13%
Less:					
Employee Cost	24,600	31,788	34,451	37,225	41,930
SG&A Expenses & Other	7,060	9,848	10,350	11,474	12,693
Total Operating Expenditure	31,660	41,636	44,801	48,698	54,623
EBITDA	5,811	9,147	10,824	11,689	13,534
Growth %	-1%	57%	18%	8%	16%
Less: Depreciation	889	1,042	1,805	1,087	1,227
EBIT	4,922	8,105	9,019	10,602	12,307
Growth %	-5.7%	64.7%	11.3%	17.5%	16.1%
Interest Paid	27	19	360	356	356
Non-operating Income	1,934	2,228	1,910	1,932	1,977
Profit Before tax	6,829	10,314	10,569	12,178	13,928
Tax	1,712	2,630	2,695	3,105	3,552
Net Profit	5,123	7,690	7,880	9,079	10,382
Adjusted Profit	5,111	7,690	7,880	9,079	10,382
Growth %	20%	50%	2%	15%	14%
Reported Diluted EPS Rs	50.4	75.6	77.5	89.3	102.2
Growth %	20.3%	50.2%	2.5%	15.2%	14.4%
Adjusted Diluted EPS Rs	50.4	75.8	77.6	89.4	102.3

Cash Flows (Consolidated)					
YE December (Rs. Mn)	FY18	FY19	FY20E	FY21E	FY22E
PAT	5,111.0	7,678.0	7,868.0	9,066.8	10,370.3
Less: Non Operating Income	(1,934.0)	(2,228.0)	(1,909.8)	(1,932.4)	(1,976.6)
Add: Depreciation	889.0	1,042.0	1,805.1	1,087.0	1,226.8
Operating Profit before WC Changes	4,099.0	6,511.0	8,123.3	8,577.4	9,976.6
(Inc)/Dec in Current Assets	(3,339.0)	(4,602.0)	(3,005.0)	(2,534.6)	(3,500.7)
Inc/(Dec) in Current Liabilities	489.0	985.0	669.7	(40.6)	1,108.8
Net Cash From Operations	1,249.0	2,894.0	5,788.1	6,002.1	7,584.7
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(949.0)	(1,235.0)	(2,000.0)	(1,000.0)	(1,000.0)
Add: Non Operating Income	1,934.0	2,228.0	1,909.8	1,932.4	1,976.6
Cash From Investing Activities	525.0	(291.0)	(563.9)	775.3	720.1
Cash Flow from Financing Activities					
Dividend Paid	(1,215.0)	(2,449.0)	(2,360.4)	(2,720.0)	(3,111.1)
Net Cash from Financing Activities	(870.0)	(1,948.0)	(3,042.7)	(3,223.6)	(3,617.6)
Net Inc/Dec in cash equivalents	904.0	655.0	2,181.5	3,553.8	4,687.3
Opening Balance	685.0	1,589.0	2,242.0	3,822.5	7,376.3
Closing Cash and Cash Equivalents	1,589.0	2,244.0	4,423.5	7,376.3	12,063.5

Free Cash Flow Statement					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
EBITDA	5,811	9,147	10,824	11,689	13,534
FC Investment	263	636	2,000	1,000	1,000
WC Changes	-1,701	-3,617	-2,335	-2,575	-2,392
Depreciation Tax Shield	223	266	460	277	313
Tax Expenses	1,457	2,332	2,760	2,981	3,451
FCF	2,613	2,827	4,189	5,410	7,004

Valuation Ratios					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
P/E (x)	23.5x	15.7x	15.3x	13.3x	11.6x
P/BV (x)	6.2x	4.8x	4.0x	3.3x	2.7x
EV/EBITDA (x)	20.5x	13.0x	10.8x	9.7x	8.0x
EV/Sales	3.2x	2.3x	2.1x	1.9x	1.6x
Market Cap./ Sales (x)	3.2x	2.4x	2.2x	2.0x	1.8x
Dividend Yield (%)	1.0%	2.0%	2.0%	2.3%	2.6%

Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Liabilities					
Equity Capital	205	208	203	203	203
Reserves & Surplus	19,159	24,583	30,091	36,437	43,697
Equity	19,364	24,791	30,294	36,640	43,900
Net Worth	19,364	24,791	30,294	36,640	43,900
Total Loans	749	896	696	496	296
Capital Employed	20,163	25,912	31,097	37,297	44,405
Assets					
Gross Block	2,020	2,656	4,656	5,656	6,656
Less: Depreciation	770	1,213	3,018	4,105	5,332
Net Block	1,250	1,443	1,638	1,551	1,324
Investments	590	1,362	3,031	3,174	3,407
Intangible Assets	5,844	6,357	6,357	6,357	6,357
Current Assets					
Sundry Debtors	9,623	10,643	11,430	12,408	14,005
Current Investments	2,207	5,749	5,563	6,039	6,816
Cash and Bank Balance	1,589	2,242	3,823	7,376	12,064
Loans and Advances	1,429	1,536	2,114	2,415	2,726
Other Current Assets	3,806	3,739	5,566	6,344	7,161
Total Current Assets	18,654	23,909	28,495	34,583	42,771
Less: Current Liabilities					
Sundry Creditors	1,807	1,879	2,209	2,135	2,394
Provisions	1,206	1,341	1,374	1,583	1,811
Other Current Liabilities	3,922	4,700	5,006	4,831	5,453
Total Current Liabilities	6,935	7,920	8,590	8,549	9,658
Capital Applied	20,163	25,912	31,097	37,297	44,405

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Key Operating Ratios					
EBITDA Margin (%)	15.5%	18.0%	19.5%	19.4%	19.9%
Tax / PBT (%)	25.1%	25.5%	25.5%	25.5%	25.5%
Net Profit Margin (%)	13.6%	15.1%	14.1%	15.0%	15.2%
RoE (%)	29.9%	34.8%	28.6%	27.1%	25.8%
RoCE (%)	28.5%	33.4%	28.6%	27.3%	26.1%
Current Ratio (x)	2.7x	3.0x	3.3x	4.0x	4.4x
Dividend Payout (%)	23.8%	31.9%	30.0%	30.0%	30.0%
Book Value Per Share (Rs.)	190.8	244.2	298.5	361.0	432.5
Financial Leverage Ratios					
Debt/ Equity (x)	0.0x	0.0x	0.0x	0.0x	0.0x
Interest Coverage (x)	215.2x	481.4x	481.4x	481.4x	481.4x
Growth Indicators %					
Sales Growth (%)	15.4%	35.5%	9.5%	8.6%	12.9%
EBITDA Growth (%)	(0.6%)	57.4%	18.3%	8.0%	15.8%
Net Profit Growth (%)	20.3%	50.2%	2.5%	15.2%	14.4%
Diluted EPS Growth (%)	20.3%	50.2%	2.5%	15.2%	14.4%
Turnover Ratios					
Debtors (Days of net sales)	81	73	72	72	71
Creditors	29	24	26	24	23



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