



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q1 FY19 Result Update@ Dalal&Broacha

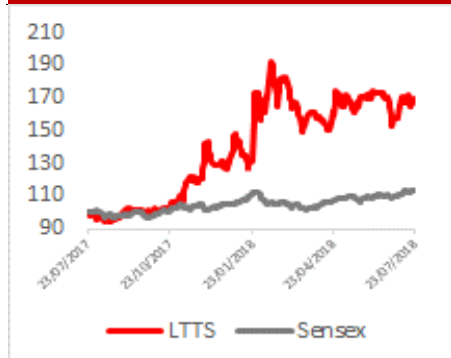
BUY

Current Price	1449
Target Price	1585
Upside	9%
52 Week Range	727/1547

Key Share Data

Market Cap (Rs.bn)	148.92
Market Cap (US\$ mn)	2174
No of o/s shares (mn)	102.46
Face Value	2
Monthly Avg.	
Vol(BSE+NSE) Nos	80.91
BSE Code	540115
NSE Code	LTTS
Bloomberg	LTTS:IN

Price performance



Q1FY19 results beat our estimates convincingly on all fronts

- Revenue in Dollar terms was reported at USD 168.9 Mn, +4% qoq/+32% yoy and 3% above our est.
- Revenue in INR terms stood at INR 11,522 Mn, +9.2% qoq/+40.1% yoy and 3% above our est.
- EBITDA stood at INR 1,961 Mn, +16% qoq/ +56% yoy and 6% above our est. ; EBITDA translated into a margin of 17% in Q1 vis-a-vis 16.1% in Q4FY18 and 15.3% in Q1FY18
- PAT stood at INR 1,975 Mn, +24.3% qoq/+101.1% yoy and 23% above our est.
- EPS for the quarter stood at INR 19.3, vs INR 15.5 / INR 9.6 in Q4/Q1FY18 respectively

Growth in key segments coupled with higher margin Process Industry business and more off-shoring propelled Q1 performance

- Transportation (30.9% of rev) grew 4% qoq / 22% yoy and Process Industry (13.5% of rev) grew 14% qoq / 29% yoy. Transportation grew mainly due to Auto and Truck sub-segments. In Auto, ADAS, Body Electronics, Battery Management performed well. Process industry reported robust numbers due to strong demand in Oil & Gas and Speciality Chemicals space. Additionally, Process Industry which has highest EBIT margins (~24%) amongst LTTS' Industrial presence also aided overall margin profile.
- Telecom & Hi-Tech (28.7% of rev) reported meagre sequential growth of 1% qoq but reported 89% growth yoy. Expect higher growth going ahead due to positive trends in 5G, IoT solutions, MTM communication and Media & Entertainment space.
- Geographically, India (12.4% of rev) and ROW (12.8% of rev) led the growth pack with a 10.2% and 10.1% qoq growth respectively. Followed by Europe (18.5% of rev) which grew 3.7% qoq.

Key Concall Takeaways

- (i) Aerospace (part of Transportation) was soft in Q1 and will be much better in Q2 as management expects better growth in Avionics and Traffic Management (ii) Expect Process Industry (ii) Process Industry will serve as the major growth engine going ahead due to early signs of revival in capex cycle (iii) Media & Entertainment, which is a relatively new sub-segment for LTTS should perform well as company is working to develop OTT platforms for set top boxes using android platforms apart from other mediums. Telecom will continue to grow sequentially going ahead but at a commensurately less aggressive rate than last year (iv) EBITDA margins were better due to higher off-shoring, higher process industry business and currency depreciation which was offset by lower utilization levels and higher visa costs.

Valuation & Outlook:

We welcome management's revision of top-line growth guidance to upwards of 16% in FY19e from 16% given in Q4FY18. Higher growth should be driven by strong order pipeline across all segments and higher growth in IP business. We revise our FY 19e/20e EPS by 8% / 7% to INR 67 / 79. **We apply a PE multiple of 20x to FY20e EPS and maintain our BUY rating on the stock as we upgrade our TP to INR 1,585 from INR 1,489 earlier.**

% Shareholding	Jun-18	Mar-18
Promoters	87.10	88.81
Public	12.90	11.19
Others	0	0
Total	100	100

Consolidated Financials (In INR Mn)

	Net Sales	% Growth	EBITDA	Margin (%)	PAT	PAT (%)	EPS	% Growth	P/E (x)	ROE (%)	ROCE (%)
FY16	30,662	17.1%	5,194	16.9%	4,186	13.7%	41.2	35%	35.1x	40.0%	33.6%
FY17	32,483	5.9%	5,847	18.0%	4,250	13.1%	41.9	2%	34.6x	33.3%	29.9%
FY18E	37,471	15.4%	5,811	15.5%	5,111	13.6%	50.4	20%	28.8x	29.9%	28.5%
FY19E	47,611	27.1%	7,684	16.1%	6,809	14.3%	67.1	33%	21.6x	31.1%	30.2%
FY20E	54,996	15.5%	9,549	17.4%	8,043	14.6%	79.2	18%	18.3x	29.3%	29.2%

Source: Company, Dalal&Broacha Research



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YE March (Rs. mn)	Q1 FY19	Q4 FY18	Q-o-Q change %	Q1 FY18	Y-o-Y change %	Q1 FY19 Est.	Deviation %
Total Revenue (USD Mn)	169	162	4.0%	128	32.4%	164	2.9%
Total Revenue (INR Mn)	11,522	10,548	9.2%	8,226	40.1%	11,157	3.3%
Less:							
Cost of Revenues	7,381	6,818	8.3%	5,337	38.3%	7,194	2.6%
SG&A Expenses	2,180	2,035	7.1%	1,632	33.6%	2,120	2.8%
Total Expenditure	9,561	8,853	8.0%	6,969	37.2%	9,314	2.7%
EBIDTA	1,961	1,695	15.7%	1,257	56.0%	1,844	6.4%
Less: Depreciation	260	452	(42.5%)	146	78.1%	201	29.5%
Operating Income	1,701	1,243	36.8%	1,111	53.1%	1,643	3.5%
Interest Paid	4	8	(50.0%)	5	(20.0%)	8	
Other income (expense), net	982	755	30.1%	262	274.8%	502	95.6%
Profit Before Tax	2,679	1,990	34.6%	1,368	95.8%	2,137	25.4%
Tax	698	344	102.9%	392	78.1%	536	30.3%
Deferred Tax	0	0		0			
PAT before Minority Interest	1,981	1,646	20.4%	976	103.0%	1,601	23.7%
Minority Interest	6	3	N.A.	-2	N.A.	0	
Share of Profit of Associates	0	0		0			
Profit After Tax	1,975	1,643	20.2%	978	101.9%	1,601	23.3%
Basic & Diluted EPS (Rs.)	19.3	16.0	20.2%	9.5	101.9%	15.6	23.3%
Basic & Diluted Outstanding (mn)	103	103		103		103	
Margin Analysis %			Change In bps		Change In bps		
EBIDTA Margin	17.0%	16.1%	95	15.3%	174	16.5%	50
Operating Margin	14.8%	11.8%	298	13.5%	126	14.7%	4
PBT Margin	23.3%	18.9%	439	16.6%	662	19.2%	410
NPM	17.1%	15.6%	156	11.9%	525	14.4%	279
Effective Tax Rate (%)	26.1%	17.3%	877	28.7%	-260	25.1%	98
Cost Analysis %			Change In bps		Change In bps		
Cost of Revenues/ Sales	64.1%	64.6%	-58	64.9%	-82	64.5%	-42
Other income/ PBT	36.7%	37.9%	-128	19.2%	1,750	23.5%	1,316

Source: Company, Dalal & Broacha Research

- EBITDA margin stood at 17%, up 90 bps qoq mainly due to tailwinds such as (i) better offshore mix of 50.6% in Q1FY19 vs 49.4% in Q4FY18, (ii) Higher Margin - 'Process Industry (13.5% of revenue) business' and (iii) Currency Depreciation which was offset by Headwinds such as (i) Lower Utilization levels (by 200 bps qoq) due to higher fresher intake and (ii) Impact of Visa CostCompany generated FCF of INR 418 Mn in Services business and INR 27 Mn in the DLM business for the quarter
- Company reported a Cash and Cash Equivalent balance of INR 5,753 Mn as of Q1FY19
- Other Income was reported at INR 978 Mn in Q1FY19 vs 747 Mn in Q4FY18 and INR 260 Mn in Q1FY18. However, majority of it composed of non-recurring income of INR 786 Mn received by Esencia Tech (100% subsidiary of LTTS)



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Profit & Loss A/c					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Total Revenue	30,662	32,483	37,471	47,611	54,996
Growth %	17%	6%	15%	27%	16%
Less:					
Employee Cost	19,681	20,958	24,600	31,251	35,966
SG&A Expenses & Other	5,787	5,678	7,060	8,676	9,481
Total Operating Expenditure	25,468	26,636	31,660	39,927	45,447
EBIDTA	5,194	5,847	5,811	7,684	9,549
Growth %	30%	13%	-1%	32%	24%
Less: Depreciation	589	625	889	1,074	880
EBIT	4,605	5,222	4,922	6,610	8,669
Interest Paid	25	21	27	16	0
Non-operating Income	845	591	1,934	2,606	2,200
Profit Before tax	5,425	5,792	6,829	9,200	10,869
Tax	1,239	1,542	1,712	2,397	2,832
Net Profit before Minority	4,186	4,250	5,117	6,803	8,037
Minority Interest	0	0	6	6	6
Net Profit	4,186	4,250	5,123	6,809	8,043
Adjusted Profit	4,186	4,250	5,111	6,809	8,043
Growth %	35%	2%	20%	33%	18%
Reported Diluted EPS Rs	41.2	41.9	50.4	67.0	79.1
Adjusted Diluted EPS Rs	41.2	41.9	50.4	67.1	79.2

Cash Flows (Consolidated)					
YE December (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
PAT	4,186.0	4,250.0	5,111.0	6,796.9	8,031.0
Less: Non Operating Income	(845.0)	(591.0)	(1,934.0)	(2,606.0)	(2,199.8)
Add: Depreciation	589.0	625.0	889.0	1,074.4	879.9
Add: Interest Paid	25.0	21.0	27.0	16.0	0.0
Operating Profit before WC Changes	3,955.0	4,305.0	4,099.0	5,281.2	6,711.1
(Inc)/Dec in Current Assets	(327.0)	(2,909.0)	(3,339.0)	(3,546.1)	(3,196.8)
Inc/(Dec) in Current Liabilities	1,066.0	(366.0)	489.0	821.0	703.2
Changes in Inventory	0.0	0.0	0.0	0.0	0.0
Net Cash From Operations	4,694.0	1,030.0	1,249.0	2,556.2	4,217.5
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(828.0)	(744.0)	(949.0)	(800.0)	(1,000.0)
(Inc)/Dec in Capital Work In Progre	(139.0)	120.0	22.0	(141.8)	(22.2)
(Inc)/Dec in Investment (Strategic)	0.0	0.0	0.0	(749.7)	(116.3)
Add: Non Operating Income Incom	845.0	591.0	1,934.0	2,606.0	2,199.8
Cash From Investing Activities	(516.0)	(190.0)	525.0	914.5	1,061.4
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	(233.0)	(924.0)	(282.0)	(282.0)	(919.0)
Dividend Paid	(2,270.0)	(1,215.0)	(1,215.0)	(1,699.2)	(2,007.7)
Less: Interest Paid	(25.0)	(21.0)	(27.0)	(16.0)	0.0
Net Cash from Financing Activities	(4,049.0)	(987.0)	(870.0)	(2,025.0)	(2,909.0)
Net Inc/Dec in cash equivalents	129.0	(147.0)	904.0	1,445.8	2,370.0
Opening Balance	703.0	832.0	685.0	1,589.0	3,793.8
Closing Balance Cash and Cash Equiva	832.0	685.0	1,589.0	3,034.8	6,163.7

Free Cash Flow Statement					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
EBITDA	5,194	5,847	5,811	7,684	9,549
FC Investment	527	-447	263	800	1,000
WC Changes	739	-3,275	-1,701	-2,725	-2,494
Depreciation Tax Shield	135	166	223	280	229
Tax Expenses	1,402	1,421	1,457	2,002	2,488
FCF	4,139	1,764	2,613	2,437	3,797

Balance Sheet (Consolidated)					
YE March(Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Liabilities					
Equity Capital	3,000	203	205	203	203
Reserves & Surplus	7,661	14,653	19,159	24,257	30,280
Equity	10,661	14,856	19,364	24,460	30,483
Net Worth	10,661	14,856	19,364	24,460	30,483
Total Loans	1,955	1,031	749	467	-452
Capital Employed	12,611	15,895	20,163	24,951	30,073
Assets					
Gross Block	1,359	1,757	2,020	2,820	3,820
Less: Depreciation	288	567	770	1,844	2,724
Net Block	1,071	1,190	1,250	976	1,096
Capital WIP	143	23	1	143	165
Investments	250	1,054	590	1,340	1,456
Intangible Assets	5,137	4,948	5,844	5,844	5,844
Current Assets					
Sundry Debtors	7,259	7,106	9,623	11,088	12,807
Current Investments	555	1,946	2,207	2,857	3,300
Cash and Bank Balance	832	685	1,589	3,794	6,164
Loans and Advances	518	1,275	1,429	1,904	2,200
Other Current Assets	2,485	3,399	3,806	4,762	5,501
Total Current Assets	11,649	14,411	18,654	24,405	29,972
Less:Current Liabilities & Provisions					
Sundry Creditors	2,138	1,489	1,807	2,735	2,615
Provisions	1,232	1,271	1,206	1,689	1,995
Other Current Liabilities	3,442	3,686	3,922	3,333	3,850
Total Current Liabilities & Prov	6,812	6,446	6,935	7,756	8,459
Capital Applied	12,611	15,895	20,163	24,951	30,073

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Key Operating Ratios					
EBITDA Margin (%)	16.9%	18.0%	15.5%	16.1%	17.4%
Tax / PBT (%)	22.8%	26.6%	25.1%	26.1%	26.1%
Net Profit Margin (%)	13.7%	13.1%	13.6%	14.3%	14.6%
RoE (%)	40.0%	33.3%	29.9%	31.1%	29.3%
RoCE (%)	33.6%	29.9%	28.5%	30.2%	29.2%
Current Ratio (x)	1.7x	2.2x	2.7x	3.1x	3.5x
Dividend Payout (%)	54.2%	28.6%	23.8%	25.0%	25.0%
Book Value Per Share (Rs.)	105.0	146.4	190.8	241.0	300.3
Financial Leverage Ratios					
Debt/ Equity (x)	0.2x	0.1x	0.0x	0.0x	0.0x
Interest Coverage (x)	207.8x	278.4x	215.2x	480.3x	480.3x
Growth Indicators %					
Sales Growth (%)	17.1%	5.9%	15.4%	27.1%	15.5%
EBITDA Growth (%)	30.3%	12.6%	(0.6%)	32.2%	24.3%
Net Profit Growth (%)	34.6%	1.5%	20.3%	33.0%	18.2%
Diluted EPS Growth (%)	1889.8%	1.5%	20.3%	33.0%	18.2%
Turnover Ratios					
Debtors (Days of net sales)	83	81	81	79	79
Creditors	45	35	29	33	32



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms.CharulataGaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Mr. AvinashKumar	avinash.kumar@dalal-broacha.com	022 67141441	Capital Goods
Ms. Abhilasha Satale	abhilasha.satale@dalal-broacha.com	022 67141439	Mid Cap
Mr. Mayank Babla	mayank.babla@dalal-broacha.com	022 67141412	IT/Media/Telecom
Ms. Richa.Singh	richa.singh@dalal-broacha.com	022 67141444	Analyst

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021

Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092
E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com