



### LTTS reported a robust Q2FY22 performance which beat our estimates across the board coupled with raised USD revenue growth guidance of 19-20% for FY22e (from 15-17% earlier)

- \$ Revenue came in at \$217.4 Mn, +5.7% qoq / +22.1% yoy and 2.5% above our estimate of \$212 Mn
- INR revenue came in at INR 16,077 Mn, +5.9% qoq / +22.4% yoy and 2.4% above our estimate
- EBITDA was reported at INR 3,493 Mn, +9.9% qoq / +50% yoy and +8% above our estimates
- EBITDA margins stood at 21.7%, vs 20.9% / 17.7% in Q1FY22 / Q2FY21 respectively and 112 bps above our estimates
- EBIT was reported at INR 2,964 Mn, +13% qoq / 64.6% yoy and +11.3% above our estimates
- EBIT margins stood at 18.4%, vs 17.3% / 13.7% in Q1FY22 / Q2FY21 respectively and 148 bps above our estimates
- PAT came in at INR 2,300 Mn, +6.4% qoq / +39% yoy and 3.6% above our estimates
- EPS at INR 21.89 in Q2FY22 vs 20.6 / 15.8 in Q1FY22 / Q2FY21 respectively
- FY22e USD revenue growth guidance is increased from 15-17% to 19-20%
- Company signed 5 large deals with TCV of \$10 Mn+ which includes 2 deals worth \$25 Mn+

### Industry-wise Performance

- **Industrial Products (20% of revenue)** continued to drive growth for the 2<sup>nd</sup> consecutive quarter at 8.6% qoq / 25.4% yoy. **Medical Devices (12.2% of revenue)** followed with a growth of 9.6% qoq / 12.2% yoy
- The 2 largest verticals: **Transportation (31.4% of revenue)** grew at 6.2% qoq / 21.6% yoy growth and **Telecom & Hi-Tech (20.6% of revenue)** grew at 1.4% qoq / 20.6% yoy.

### Geographical Highlights

- **North America (62.9% of Revenue)** led the sequential growth at 6.8% qoq followed by India (13% of revenue) at +6.2% qoq growth and Europe (16.7% of revenue) at 5.2% qoq. ROW (7.4% of revenue) de-grew by 2.2% qoq

### Financial Summary

Y/E Mar (Rs mn)	FY 19	FY 20	FY 21E	FY 22E	FY 23E
Net sales	50,783	56,191	54,497	65,410	75,900
EBITDA	9,147	11,105	10,074	13,980	16,295
Adjusted net profit	7,678	8,218	6,659	9,304	11,426
Free cash flow	2,827	4,870	12,517	6,892	8,652
EPS (Rs)	75.8	81.1	65.7	91.8	112.7
growth (%)	50	7	(19)	40	23
P/E (x)	67.7	63.3	78.1	55.9	45.5
P/B (x)	21.0	18.8	15.0	12.6	10.6
EV/EBITDA (x)	56.7	46.3	51.0	36.6	31.0
D/E	-	-	-	-	-
ROCE (%)	33.5	28.6	18.8	22.0	23.3
RoE (%)	34.8	31.4	21.4	24.5	25.3
Dividend yield (%)	0.5	0.5	0.4	0.5	0.7

Source: Company

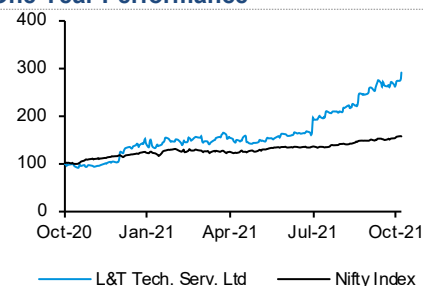
Rating	TP (Rs)	Up/Dn (%)
<b>HOLD</b>	<b>5071</b>	<b>(1)</b>

### Market data

<b>Current price</b>	<b>Rs</b>	<b>540</b>
Market Cap (Rs.Bn)	(Rs Bn)	540
Market Cap (US\$ Mn)	(US\$ Mn)	7,196
Face Value	Rs	2
52 Weeks High/Low	Rs	5,549 / 1,602
Average Daily Volume	('000)	336
BSE Code		540115
Bloomberg		LTTS:IN

Source: Bloomberg

### One Year Performance



Source: Bloomberg

% Shareholding	Sep-22	Mar-22
Promoters	74.15	74.23
Public	25.85	25.77
Others		
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

**Mayank Babla**  
(022) 67141412  
mayank.babla@dalal-broacha.com

## Conference Call Key Takeaways

### Q2FY22 Performance Highlights

- Growth during the quarter mainly driven by Digital across all segments. Highest quarterly growth in the last 3 years with highest ever EBIT margins Won 9 large deals during the quarter.
- 6 big bets, name Electric, Autonomous & Connected Vehicle (EACV), 5G, Medical Tech, Digital Products and AI, Digital Manufacturing and Sustainability: progressing well in terms of deal traction, pipeline and solutions.
- DE: filed 25 patents in Q2 in collaborative and intuitive spaces.
- Demand in US and Europe continues to be strong while ROW and India are seeing signs of recovery.

### Segment-wise Commentary

- Transportation: good demand across all 3 sub-segments – Auto, Trucks/Off-highway and Aero. Witnessing high demand in electrification across Automotive and Trucks / Highway. Expecting growth momentum to continue.
- Industrial Products: all 3 subsegments (Electric, Machinery and Building Automation) drove growth. Seeing broad-based demand for collaborative and intuitive products leading to high demand in Digital twin, analytics and AI led decision making. Industrial Products will be one of the fastest growing segments in FY22e.
- Telecom & Hi-tech: growth was a bit muted with Semicon (lab-as-a-service) and telecom infra (5G) growing well while Media saw some delays in deal ramp-ups. Won 1 large deal worth \$25 Mn in Media to develop new platform for client. Expect growth traction to improve qoq. Investments in this segment tapering off and margins will most likely improve going ahead.
- Plant Engineering: Oil & Natural Gas saw demand in new engagements for site sustenance and Digital Engineering and FMCG saw demand in automation, line expansion and sustainability. In chemicals, seeing growth driven by capex. Good set of opportunities that will drive growth.
- Medical Devices: strong bounce back. Crossed \$100 Mn annualized revenue milestone and see traction continuing.

### FY22e Outlook

- Seeing positive signals in CY22 budgets from client CTOs, COOs and heads of engineering. Headwinds in supply chain issues, labor shortage and cost inflation
- Q3 has some seasonality due to furloughs
- Margin walk: 110 bps + overall with benefits from operational efficiency including productivity improvements and cost optimization that led to absorbing mid to senior level wage hikes, scale benefits due to account mining and favorable depreciation and amortization as a % of revenue.
- Margin Headwinds: travel expenses will return + Current demand environment will lead to higher retention costs and wage hikes + Organic and Inorganic investments to support growth will impact margins. Therefore, margins will not be a straight line but plan to stabilize it by FY25 at around 18.5%. Tailwinds: Quality of revenue and growth, productivity improvements, better segment mix – better margins in transportation and headroom for improvement in telecom & hi-tech

### Other Highlights

- Income from SEIS will not be material for LTTS going ahead
- 26.6-27% ETR going ahead
- FCF at INR 423 cr for YTD which is 95% of Net income and strong due to low DSO
- IRN 1958 cr cash and investments
- Utilization: 78.1% during Q2 and reduced due to hiring. Target at 78-80% going ahead
- Hired 1200 freshers in last 2 quarters and plan to hire 2400 freshers over the next 2 quarters therefore H2 might see a bump in headcount
- Indicators of long-term growth: Consumer demand for products, demand patterns shifts which create opportunity.
- Segment-wise opportunities: transportation has demand in electrification in auto and trucks and seeing same in aerospace. Medical: self-diagnostics, tele-medicines. Industrial Products: Digital Engineering and digital manufacturing. Plant Engineering: new capex, Oil companies upgrading infrastructure, etc. Telecom: although a lot of hype around 5G but money needs to start flowing more aggressively
- Some amount of pent-up demand in the year but large part is strong demand environment which is sustainable.
- Digital engineering industry is expected to grow at 19% whereas traditional engineering is expected to grow at 2% over the next 3 years
- Open to make bigger acquisitions now and not only tuck-in acquisitions

## Quarterly Performance Analysis

### Exhibit 1

YE March (INR Mn)	Q2 FY22	Q1 FY22	Q-o-Q change %	Q2 FY21	Y-o-Y change %	Q2 FY22 Est.	Deviation %
Total Revenue (USD Mn)	217.4	206	5.7%	178	22.1%	212	2.5%
Total Revenue (INR Mn)	16,077	15,184	5.9%	13,138	22.4%	15,705	2.4%
Less:							
Cost of Revenues	9,038	8,758	3.2%	8,161	10.7%	9,171	-1.5%
SG&A Expenses	3,546	3,249	9.1%	2,649	33.9%	3,298	7.5%
Total Expenditure	12,584	12,007	4.8%	10,810	16.4%	12,469	0.9%
EBIDTA	3,493	3,177	9.9%	2,328	50.0%	3,235	8.0%
Less: Depreciation	529	554	(4.5%)	527	0.4%	573	-7.7%
EBIT	2,964	2,623	13.0%	1,801	64.6%	2,662	11.3%
Interest Paid	113	108	4.6%	109		108	
Other income (expense), net	293	442	(33.7%)	566	(48.2%)	471	-37.8%
Profit Before Tax	3,144	2,957	6.3%	2,258	39.2%	3,026	3.9%
Tax	836	787	6.2%	595	40.5%	805	3.8%
PAT before Minority Interest	2,308	2,170	6.4%	1,663	38.8%	2,220	3.9%
Minority Interest	8	8		8		0	
Profit After Tax	2,300	2,162	6.4%	1,655	39.0%	2,220	3.6%
Basic & Diluted EPS (Rs.)	21.9	20.6	6.4%	15.8	39.0%	21.1	3.6%
Outstanding Shares (mn)	105	105		105		105	
<b>Margin Analysis %</b>			<b>Change In bps</b>		<b>Change In bps</b>		
EBIDTA Margin	21.7%	20.9%	80	17.7%	401	20.6%	112
EBIT	18.4%	17.3%	116	13.7%	473	17.0%	148
PBT Margin	19.6%	19.5%	8	17.2%	237	19.3%	29
NPM	14.3%	14.2%	7	12.6%	171	14.1%	17
Effective Tax Rate (%)	26.6%	26.6%	-2	26.4%	24	26.6%	-2
<b>Cost Analysis %</b>			<b>Change In bps</b>		<b>Change In bps</b>		
Cost of Revenues/ Sales	56.2%	57.7%	-146	62.1%	-590	58.4%	-218
Other income/ PBT	9.3%	14.9%	-563	25.1%	-1,575	15.6%	-625

Source: Dalal & Broacha Research, Company

LTTS posted a beat on our revenue and margin estimates

Company revised its FY22e growth outlook from 15-17% earlier to 19-20%.

Margins would face headwinds from wage inflation, retention costs and return of travel expenses and management will try to offset that with operational efficiencies and cost optimizations. Long term EBIT margin guidance remains at 18.5% by FY25e.

## Valuation & Outlook

The company reported a robust Q2FY22 coupled with a strong commentary and improved outlook for FY22e. Overall spend and macro view in the ER&D industry also looks optimistic in all the segments that LTTS is present in.

Additionally, company's 6 focus areas (namely – Electric Autonomous and Connected Vehicles (EAVC), 5G, MedTech, Digital Manufacturing, AI & ML and Sustainability) coupled with change in the type and quality of work and capabilities should bode well for the future.

LTTS is currently trading at 55.9x / 45.5x FY22e / FY23e EPS. We upgrade our EPS estimates from INR 83.2 / 101.9 to INR 91.8 / 112.7 and our applied multiple to 45x (continue to maintain 25% discount to Tata Elxsi's forward multiple of 61x FY23e EPS).

Although we raise our target price from INR 4,243 to INR 5,071, since the stock has rallied by more than 75% in the last 3 months downgrade our rating from a BUY to a HOLD at current levels.

## Financial

Profit & Loss A/c						Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E	YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Total Revenue</b>	50,783	56,191	54,497	65,410	75,900	<b>Liabilities</b>					
<i>Growth %</i>	36%	11%	-3%	20%	16%	Equity Capital	208	209	210	203	203
<b>Less:</b>						Reserves & Surplus	24,583	27,477	34,521	41,034	49,032
Employee Cost	31,440	33,700	33,615	37,035	42,612	<b>Equity</b>	24,791	27,686	34,731	41,237	49,235
SG&A Expenses & Other	10,196	11,386	10,808	14,395	16,993	<b>Net Worth</b>	24,791	27,686	34,731	41,237	49,235
<b>Total Operating Expenditure</b>	41,636	45,086	44,423	51,431	59,605	<b>Total Loans</b>	836	303	578	578	578
<b>EBIDTA</b>	9,147	11,105	10,074	13,980	16,295	<b>Lease Liabilities</b>		3,961	4,805	3,268	3,268
<i>Growth %</i>	57%	21%	-9%	39%	17%	<b>Capital Employed</b>	25,852	33,641	41,115	46,546	54,734
Less: Depreciation	1,042	1,829	2,183	2,207	2,497	<b>Assets</b>					
<b>EBIT</b>	8,105	9,276	7,891	11,773	13,798	Gross Block	2,656	3,873	4,349	7,223	9,223
<i>Growth %</i>	64.7%	14.4%	-14.9%	49.2%	17.2%	Less: Depreciation	1,213	1,774	2,286	4,493	6,990
Interest Paid	19	365	455	447	452	<b>Net Block</b>	1,443	2,099	2,063	2,730	2,233
Non-operating Income	2,228	2,091	1,537	1,357	1,897	<b>Investments</b>	1,362	1,137	1,644	2,036	2,099
<b>Profit Before tax</b>	10,314	11,002	8,973	12,684	15,243	Intangible Assets	6,357	6,146	6,564	6,564	6,564
Tax	2,630	2,778	2,308	3,373	3,811	Others Assets	761	972	1,116	1,339	1,554
<b>Net Profit</b>	7,690	8,230	6,671	9,316	11,438	<b>Current Assets</b>					
<b>Adjusted Profit</b>	7,690	8,230	6,671	9,316	11,438	Sundry Debtors	10,643	13,807	12,346	14,695	16,636
<i>Growth %</i>	50%	7%	-19%	40%	23%	Cash and Bank Balance	2,182	5,669	6,526	9,514	15,697
<b>Reported Diluted EPS Rs</b>	75.6	81.0	65.6	91.7	112.6	<b>Total Current Assets</b>	23,849	32,592	39,801	47,271	57,422
<i>Growth %</i>	50.2%	7.0%	-19.0%	39.7%	22.8%	<b>Less: Current Liabilities</b>					
<b>Adjusted Diluted EPS Rs</b>	75.8	81.1	65.7	91.8	112.7	Sundry Creditors	1,879	1,975	2,352	3,100	3,593
						Other Current Liabilities	4,700	5,763	6,256	8,176	9,487
						<b>Total Current Liabilities</b>	7,920	9,392	10,192	13,591	15,367
						<b>Capital Applied</b>	25,852	33,641	41,115	46,546	54,734
Key Ratios						Cash Flows (Consolidated)					
YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E	YE December (Rs. Mn)	FY19	FY20	FY21	FY22E	FY23E
<b>EBIDTA (%)</b>	18.0%	19.8%	18.5%	21.4%	21.5%	<b>PAT</b>	7,678.0	8,218.0	6,659.0	9,304.3	11,426.3
<b>NPM (%)</b>	15.1%	14.6%	12.2%	14.2%	15.1%	Less: Non Operating Income	(2,228.0)	(2,091.0)	(1,537.0)	(1,357.4)	(1,897.5)
<b>RoE (%)</b>	34.8%	31.4%	21.4%	24.5%	25.3%	Add: Depreciation	1,042.0	1,829.0	2,183.0	2,206.7	2,497.4
<b>RoCE (%)</b>	35.2%	31.2%	21.1%	26.9%	27.2%	<b>Operating Profit before WC Changes</b>	6,511.0	8,321.0	7,760.0	10,600.5	12,478.2
<b>Tax Rate %</b>	25.5%	25.2%	25.7%	26.6%	25.0%	(Inc)/Dec in Current Assets	(4,602.0)	(5,256.0)	(6,352.0)	(4,481.6)	(3,969.1)
<b>Book Value Per share (Rs.)</b>	244.2	272.8	342.2	406.3	485.1	Inc/(Dec) in Current Liabilities	985.0	1,472.0	800.0	3,399.4	1,775.2
						<b>Net Cash From Operations</b>	2,894.0	4,537.0	2,208.0	9,518.3	10,284.2
						<b>CF from Investing Activities</b>					
						(Inc)/Dec in Fixed Assets	(1,235.0)	(2,485.0)	(2,147.0)	(2,874.0)	(2,000.0)
						Add: Non Operating Income	2,228.0	2,091.0	1,537.0	1,357.4	1,897.5
						<b>Cash From Investing Activities</b>	(291.0)	1,317.0	(1,567.0)	(1,986.3)	(196.9)
						<b>CF from Financing Activities</b>					
						Dividend Paid	(2,449.0)	(2,465.4)	(2,330.7)	(2,791.3)	(3,427.9)
						<b>Cash from Financing Activities</b>	(1,990.0)	(4,755.0)	(484.0)	(2,783.2)	(3,690.2)
						<b>Net Inc/Dec in cash equivalents</b>	613.0	1,099.0	157.0	4,748.7	6,397.2
						<b>Opening Balance</b>	1,571.0	2,182.0	5,669.0	6,526.0	9,514.2
						<b>Closing Cash and Cash Equivalent s</b>	2,184.0	3,281.0	5,826.0	11,274.7	15,911.4

Source: Dalal &amp; Broacha Research, Company

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Name	Designation	Email	Phone	Sector
Mr.Kunal Bhatia	Head of Research	kunal.bhatia@dalal-broacha.com	022 67141442	Retail   FMCG   Logistics
Mrs.Charulata Gaidhani	Sr.Analyst	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma   Healthcare
Mr.Mayank Babla	Sr.Analyst	mayank.babla@dalal-broacha.com	022 67141412	IT   Telecom   Media
Mr.Avinash Tanawade	Sr.Analyst	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr.Akshay Ashok	Sr.Analyst	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr.Bhavya Gandhi	Associate	bhavya.gandhi@dalal-broacha.com	022 67141444	Midcaps
Mr.Miraj Shah	Associate	miraj.shah@dalal-broacha.com	022 67141489	FMCG   Retail

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

Tel: 91-22- 2282 2992 | E-mail: [equity.research@dalal-broacha.com](mailto:equity.research@dalal-broacha.com)