



Analyst: Mayank Babla (022) 67141412

## Q3 FY20 Result Update@ Dalal&Broacha

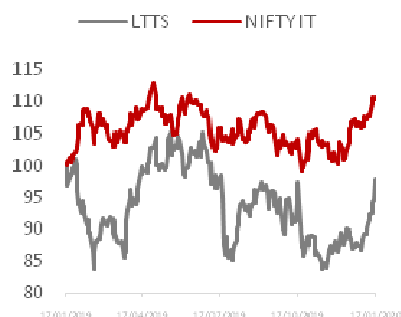
### BUY

Current Price	1642
Target Price	1870
Upside	14%
52 Week Range	1395/1818

### Key Share Data

Market Cap (Rs.Bn)	170.58
Market Cap (US\$ Mn)	2.40
No of o/s shares (Mn)	1043
Face Value	2
Monthly Avg. Vol(BSE+NSE)'000	95
BSE Code	540115
NSE Code	LTTS
Bloomberg	LTTS:IN

### Price performance



% Shareholding	Sept-19	Jun-19
Promoters	74.74	74.97
Public	25.26	25.03
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

### LTTS reported its Q3FY20 performance which was in-line with our estimates across the board

- Revenue in Dollar terms was reported at USD 199.3 Mn, +0.8% qoq/+7.3% yoy and in-line with our estimate of INR 199.5 Mn.
- Revenue in INR terms stood at INR 14,230 Mn, +1.5% qoq/+8.1% yoy and in-line with our est. of INR 14,230 Mn
- EBITDA stood at INR 2,863 Mn, +1.1% qoq/ +18.5% yoy and 1.3% above our estimate of INR 2,828 Mn ; EBITDA translated into a margin of 20.1% in Q3, which is -10 bps / +170 bps yoy and +20 bps vs our est.
- PAT stood at INR 2,041 Mn, -0.8% qoq / +10% yoy and -0.9% vs our est. of INR 2,059 Mn
- EPS for the quarter stood at INR 19.57, vs INR 19.8 / INR 17.8 in Q2FY20 / Q3FY19 respectively
- Revenue growth guidance for FY20e is maintained at 10%

### Vertical-wise Takeaways:

- **Transportation (35.8% of revenue)** grew 3.1% qoq and 20.1% yoy.
- **Industrial Products (19.2% of revenue)** was flat qoq and grew by a mere 3% yoy
- **Telecom & Hi-Tech (18.5% of revenue)** degrew -9.5% qoq and -26.5% yoy owing to customer specific issues. Expect growth in customer to revive from Q4FY20
- **Plant Engineering (17.2% of revenue) and Medical Devices (9.4% of revenue)** grew at 7% qoq and 7.7% qoq. Expect healthy growth in both these segments going ahead

### Concall Key Takeaways:

- Won 9 deals during the quarter with 2 deals over \$30 Mn in size. Deal wins in Q3>Q2>Q1.
- Positive on Transportation segment from Q4FY20 onwards as many large deals are expected to close (in Avionics, Autonomous Driving and EV)
- Comms & Hi-Tech was softer than expected in Q3, however seeing recovery from Q4FY20 onwards as spend in chip design and media has increased and LTTS has closed 4 out of 5 deals in Q3FY20 and will most likely close 5<sup>th</sup> deal in Q4FY20. Expect Semicon (part of Comms) to stabilize after last few quarters of decline.
- Plant engineering: capabilities have enabled company to increase scope of the deal
- Medical continues to be a strong growth prospect on the back of digitization of devices
- Slowdown in large clients impacted Industrial products. Excl. large client, growth is strong
- On track to achieve 10% growth in FY20e
- Positive on FY21 based on competitive position and better macros
- Deal pipeline looks strong with pursuit of 2 deals in Medical, Plant Engineering and Industrial products and 5 deals in Comms
- Seeing vendor consolidation in Aerospace which should work in LTTS' favour.
- Margins in Transportation were lower due to lower revenue whereas Medical and Industrial Products margin was maintained
- Margins may be softer in Q4 if deal closure in Comms is higher as Comms is relatively a lower margin business compared to all other segments

### Consolidated Financials (In INR Mn)

INR Mn	Net Sales	% Growth	EBITDA	Margin (%)	PAT	PAT (%)	EPS	Growth (%)	P/E (x)	ROE (%)	ROCE (%)
FY18	37,471	15.4%	5,811	15.5%	5,111	13.6%	50.4	20%	32.6x	29.9%	27.3%
FY19	50,783	35.5%	9,147	18.0%	7,690	15.1%	75.8	50%	21.7x	34.8%	35.2%
FY20E	56,300	10.9%	11,261	20.0%	8,207	14.6%	80.9	7%	20.3x	29.7%	33.0%
FY21E	63,196	12.2%	12,640	20.0%	9,805	15.5%	96.7	20%	17.0x	28.9%	33.2%
FY22E	70,639	11.8%	14,102	20.0%	10,826	15.3%	106.7	10%	15.4x	26.3%	30.7%

Source: Company, Dalal&Broacha Research



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### Q3FY20 Performance Highlights:

YE March (INR Mn)	Q3 FY20	Q2 FY20	Q-o-Q change %	Q3 FY19	Y-o-Y change %	Q3 FY20 Est.	Deviation %
<b>Total Revenue (USD Mn)</b>	199.3	198	0.8%	186	7.3%	200	-0.1%
<b>Total Revenue (INR Mn)</b>	14,229	14,021	1.5%	13,169	8.0%	14,212	0.1%
<b>Less:</b>							
Cost of Revenues	8,612	8,628	(0.2%)	8,298	3.8%	8,826	-2.4%
SG&A Expenses	2,754	2,561	7.5%	2,454	12.2%	2,558	7.7%
<b>Total Expenditure</b>	<b>11,366</b>	<b>11,189</b>	<b>1.6%</b>	<b>10,752</b>	<b>5.7%</b>	<b>11,384</b>	<b>-0.2%</b>
<b>EBIDTA</b>	<b>2,863</b>	<b>2,832</b>	<b>1.1%</b>	<b>2,417</b>	<b>18.5%</b>	<b>2,828</b>	<b>1.3%</b>
Less: Depreciation	472	444	6.3%	239	97.5%	450	4.9%
<b>Operating Income</b>	<b>2,391</b>	<b>2,388</b>	<b>0.1%</b>	<b>2,178</b>	<b>9.8%</b>	<b>2,378</b>	<b>0.6%</b>
Interest Paid	89	91	(2.2%)	6	1383.3%	91	
Other income (expense), net	443	469	(5.5%)	359	23.4%	475	-6.8%
<b>Profit Before Tax</b>	<b>2,745</b>	<b>2,766</b>	<b>(0.8%)</b>	<b>2,531</b>	<b>8.5%</b>	<b>2,762</b>	<b>-0.6%</b>
Tax	687	704	(2.4%)	670	2.5%	703	-2.3%
Deferred Tax	0	0		0		0	
<b>PAT before Minority Interest</b>	<b>2,058</b>	<b>2,062</b>	<b>(0.2%)</b>	<b>1,861</b>	<b>10.6%</b>	<b>2,059</b>	<b>0.0%</b>
Minority Interest	17	4	N.A.	5	N.A.	0	
Share of Profit of Associates	0	0		0		0	
<b>Profit After Tax</b>	<b>2,041</b>	<b>2,058</b>	<b>(0.8%)</b>	<b>1,856</b>	<b>10.0%</b>	<b>2,059</b>	<b>-0.9%</b>
<b>Basic &amp; Diluted EPS (Rs.)</b>	<b>19.5</b>	<b>19.8</b>	<b>(1.3%)</b>	<b>17.8</b>	<b>9.4%</b>	<b>19.8</b>	<b>-1.3%</b>
Basic & Diluted Outstanding (mn)	105	104		104		104	
<b>Margin Analysis %</b>							
			<b>Change In bps</b>		<b>Change In bps</b>		
<b>EBIDTA Margin</b>	<b>20.1%</b>	<b>20.2%</b>	<b>-8</b>	<b>18.4%</b>	<b>177</b>	<b>19.9%</b>	<b>22</b>
Operating Margin	16.8%	17.0%	-23	16.5%	26	16.7%	7
<b>PBT Margin</b>	<b>19.3%</b>	<b>19.7%</b>	<b>-44</b>	<b>19.2%</b>	<b>7</b>	<b>19.4%</b>	<b>-14</b>
NPM	14.3%	14.7%	-33	14.1%	25	14.5%	-14
<b>Effective Tax Rate (%)</b>	<b>25.0%</b>	<b>25.5%</b>	<b>-42</b>	<b>26.5%</b>	<b>-144</b>	<b>25.5%</b>	<b>-42</b>
<b>Cost Analysis %</b>							
			<b>Change In bps</b>		<b>Change In bps</b>		
<b>Cost of Revenues/ Sales</b>	<b>60.5%</b>	<b>61.5%</b>	<b>-101</b>	<b>63.0%</b>	<b>-249</b>	<b>62.1%</b>	<b>-158</b>
<b>Other income/ PBT</b>	<b>16.1%</b>	<b>17.0%</b>	<b>-82</b>	<b>14.2%</b>	<b>195</b>	<b>17.2%</b>	<b>-107</b>

- Results were largely in line with our estimates across the front

- EBITDA margins were down 10 bps qoq and up 177 bps yoy. Margins were largely impacted due to fall in Telecom and Hi-Tech business (EBIT margin fell to 15% in Q3FY20 from 19% in Q2FY20) but off-set by higher utilization levels of 79.2% in Q3FY20 vs 77.8% in Q2FY20

- Expect margins to soften in Q4FY20 due to higher deal closures in Telecom and Hi-Tech business, which is a lower margin business compared to other segments

Industry Contribution (%)	Q1 FY 19	Q2 FY 19	Q3 FY 19	Q4 FY 19	Q1 FY 20	Q2 FY 20	Q3 FY 20
Transportation	30.9%	32.0%	32.0%	32.9%	34.9%	35.0%	35.8%
Industrial Products	20.4%	20.6%	20.0%	19.3%	19.6%	19.4%	19.2%
Telecom & Hi-tech	28.7%	26.7%	27.0%	26.2%	22.3%	20.6%	18.5%
Process Industry	13.5%	14.2%	14.0%	14.7%	15.3%	16.2%	17.2%
Medical Devices	6.5%	6.5%	7.0%	7.0%	8.0%	8.8%	9.4%
<b>Industry wise trends</b>							
<b>Transportation</b>	<b>52.2</b>	<b>56.7</b>	<b>59.4</b>	<b>62.9</b>	<b>67.7</b>	<b>69.2</b>	<b>71.3</b>
Q-o-Q (%)	4.3%	8.6%	4.8%	5.9%	7.5%	2.3%	3.1%
Y-o-Y (%)	21.7%	26.0%	27.4%	25.8%	29.7%	22.0%	20.1%
<b>Industrial Products</b>	<b>34.5</b>	<b>36.5</b>	<b>37.1</b>	<b>36.9</b>	<b>38.0</b>	<b>38.4</b>	<b>38.3</b>
Q-o-Q (%)	1.5%	5.9%	1.7%	-0.6%	2.9%	0.9%	-0.2%
Y-o-Y (%)	5.9%	11.0%	12.8%	8.8%	10.3%	5.1%	3.0%
<b>Telecom &amp; Hi-tech</b>	<b>48.5</b>	<b>47.3</b>	<b>50.1</b>	<b>50.1</b>	<b>43.2</b>	<b>40.7</b>	<b>36.9</b>
Q-o-Q (%)	1.2%	-2.4%	6.0%	0.0%	-13.7%	-5.8%	-9.5%
Y-o-Y (%)	89.0%	39.8%	19.0%	4.6%	-10.8%	-13.9%	-26.5%
<b>Process Industry</b>	<b>22.8</b>	<b>25.2</b>	<b>26.0</b>	<b>28.1</b>	<b>29.7</b>	<b>32.0</b>	<b>34.3</b>
Q-o-Q (%)	14.1%	10.4%	3.3%	8.2%	5.5%	8.0%	7.0%
Y-o-Y (%)	28.6%	41.1%	35.6%	40.8%	30.1%	27.3%	31.9%
<b>Medical Devices</b>	<b>11.0</b>	<b>11.5</b>	<b>13.0</b>	<b>13.4</b>	<b>15.5</b>	<b>17.4</b>	<b>18.7</b>
Q-o-Q (%)	4.0%	4.9%	12.9%	3.0%	15.8%	12.2%	7.7%
Y-o-Y (%)	24.7%	18.1%	28.5%	26.9%	41.3%	51.0%	44.1%

- Telecom & Hi-Tech fell 9.5% qoq as a large client shut down a piece of business. However, based on deal wins, pipeline and closures in Q3FY20, one can expect a revival in Q4FY20

- Industrial products was flat qoq as large clients had cut back on spending (as per guidance in previous quarter). However, LTTS closed 3 deals in Q2FY20, 1 in Q3FY20 and 2 are expected to close in Q4FY20 and expects a revival from Q4FY20 onwards

- Process industry and Medical Devices are expected to continue solid growth

- Within client profiles, clients in the \$50 Mn+ bucket fell from 2 in Q4FY19 to 1 in Q1FY20 and 0 in Q2FY20. These were the 2 Telecom and Hi-Tech clients which had specific issues. 1 client started insourcing the ER&D work in Q1FY20 and 2<sup>nd</sup> shut down the business segment and therefore fell to the \$30 Mn+ bucket



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### Valuation & Outlook

We believe that the worst for LTTS is largely over with Telecom & Hi-Tech bottoming out in Q3FY20. Additionally, things are looking up from here-on as deal wins have been robust in Telecom & Hitech and Industrial Products and steady growth in Plant Engineering and Medical Devices to continue. We expect EBIT margins to be slightly softer in Q4FY20 due to higher deal closure in Telecom but to stabilize over FY21e and FY22e. **We had earlier given a BUY rating on the stock with a TP of INR 1695 (based on FY21e EPS estimates) through our report dated 17th December 2019 (at then CMP of INR 1500) and the stock has rallied almost 10% since our recommendation. We now rollover to FY22e estimates and maintain a BUY on the stock with a revised target price of INR 1870.**



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

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Profit & Loss A/c					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Total Revenue</b>	<b>37,471</b>	<b>50,783</b>	<b>56,300</b>	<b>63,196</b>	<b>70,639</b>
Growth %	15%	36%	11%	12%	12%
Less:					
Employee Cost	24,600	31,788	34,451	38,511	43,382
SG&A Expenses & Other	7,060	9,848	10,588	12,045	13,155
<b>Total Operating Expenditure</b>	<b>31,660</b>	<b>41,636</b>	<b>45,039</b>	<b>50,556</b>	<b>56,537</b>
<b>EBIDTA</b>	<b>5,811</b>	<b>9,147</b>	<b>11,261</b>	<b>12,640</b>	<b>14,102</b>
Growth %	-1%	57%	23%	12%	12%
Less: Depreciation	889	1,042	1,827	1,138	1,271
<b>EBIT</b>	<b>4,922</b>	<b>8,105</b>	<b>9,434</b>	<b>11,502</b>	<b>12,830</b>
Growth %	-5.7%	64.7%	16.4%	21.9%	11.5%
Interest Paid	27	19	360	356	356
Non-operating Income	1,934	2,228	1,931	2,022	2,049
<b>Profit Before tax</b>	<b>6,829</b>	<b>10,314</b>	<b>11,004</b>	<b>13,169</b>	<b>14,523</b>
Tax	1,712	2,630	2,804	3,358	3,703
<b>Net Profit</b>	<b>5,123</b>	<b>7,690</b>	<b>8,207</b>	<b>9,817</b>	<b>10,826</b>
<b>Adjusted Profit</b>	<b>5,111</b>	<b>7,690</b>	<b>8,207</b>	<b>9,817</b>	<b>10,826</b>
Growth %	20%	50%	7%	20%	10%
<b>Reported Diluted EPS Rs</b>	<b>50.4</b>	<b>75.6</b>	<b>80.7</b>	<b>96.6</b>	<b>106.5</b>
Growth %	20.3%	50.2%	6.7%	19.6%	10.3%
<b>Adjusted Diluted EPS Rs</b>	<b>50.4</b>	<b>75.8</b>	<b>80.9</b>	<b>96.7</b>	<b>106.7</b>

Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Liabilities</b>					
Equity Capital	205	208	203	203	203
Reserves & Surplus	19,159	24,583	30,319	37,182	44,752
<b>Equity</b>	<b>19,364</b>	<b>24,791</b>	<b>30,522</b>	<b>37,385</b>	<b>44,955</b>
<b>Net Worth</b>	<b>19,364</b>	<b>24,791</b>	<b>30,522</b>	<b>37,385</b>	<b>44,955</b>
<b>Total Loans</b>	<b>749</b>	<b>896</b>	<b>696</b>	<b>496</b>	<b>296</b>
<b>Capital Employed</b>	<b>20,163</b>	<b>25,912</b>	<b>31,330</b>	<b>38,055</b>	<b>45,470</b>
<b>Assets</b>					
Gross Block	2,020	2,656	4,656	5,656	6,656
Less: Depreciation	770	1,213	3,040	4,178	5,449
<b>Net Block</b>	<b>1,250</b>	<b>1,443</b>	<b>1,616</b>	<b>1,478</b>	<b>1,207</b>
<b>Investments</b>	<b>590</b>	<b>1,362</b>	<b>3,051</b>	<b>3,258</b>	<b>3,481</b>
Intangible Assets	5,844	6,357	6,357	6,357	6,357
<b>Current Assets</b>					
Sundry Debtors	9,623	10,643	11,568	12,985	14,515
Current Investments	2,207	5,749	5,630	6,320	7,064
Cash and Bank Balance	1,589	2,242	3,884	7,284	12,405
Loans and Advances	1,429	1,536	2,139	2,528	2,826
Other Current Assets	3,806	3,739	5,633	6,639	7,421
<b>Total Current Assets</b>	<b>18,654</b>	<b>23,909</b>	<b>28,856</b>	<b>35,756</b>	<b>44,231</b>
<b>Less: Current Liabilities</b>					
Sundry Creditors	1,807	1,879	2,221	2,216	2,478
Provisions	1,206	1,341	1,430	1,712	1,888
Other Current Liabilities	3,922	4,700	5,067	5,056	5,651
<b>Total Current Liabilities</b>	<b>6,935</b>	<b>7,920</b>	<b>8,718</b>	<b>8,984</b>	<b>10,018</b>
<b>Capital Applied</b>	<b>20,163</b>	<b>25,912</b>	<b>31,330</b>	<b>38,055</b>	<b>45,470</b>

Cash Flows (Consolidated)					
YE December (Rs. Mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>PAT</b>	<b>5,111.0</b>	<b>7,678.0</b>	<b>8,194.6</b>	<b>9,804.7</b>	<b>10,813.6</b>
Less: Non Operating Income	(1,934.0)	(2,228.0)	(1,930.8)	(2,022.3)	(2,048.5)
Add: Depreciation	889.0	1,042.0	1,827.5	1,137.5	1,271.5
<b>Operating Profit before WC Changes</b>	<b>4,099.0</b>	<b>6,511.0</b>	<b>8,451.3</b>	<b>9,275.9</b>	<b>10,392.6</b>
(Incl)/Dec in Current Assets	(3,339.0)	(4,602.0)	(3,304.1)	(3,501.0)	(3,353.3)
Incl/(Dec) in Current Liabilities	489.0	985.0	797.7	266.3	1,033.7
<b>Net Cash From Operations</b>	<b>1,249.0</b>	<b>2,894.0</b>	<b>5,944.9</b>	<b>6,041.2</b>	<b>8,073.0</b>
<b>Cash Flow from Investing Activities</b>					
(Incl)/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	1,930.8	2,022.3	2,048.5
<b>Cash From Investing Activities</b>	<b>525.0</b>	<b>(291.0)</b>	<b>(565.1)</b>	<b>794.7</b>	<b>802.9</b>
<b>Cash Flow from Financing Activities</b>					
Dividend Paid	(1,215.0)	(2,449.0)	(2,458.4)	(2,941.4)	(3,244.1)
<b>Net Cash from Financing Activities</b>	<b>(870.0)</b>	<b>(1,948.0)</b>	<b>(3,136.3)</b>	<b>(3,436.3)</b>	<b>(3,754.7)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>904.0</b>	<b>655.0</b>	<b>2,243.5</b>	<b>3,399.6</b>	<b>5,121.2</b>
Opening Balance	685.0	1,589.0	2,242.0	3,884.5	7,284.1
<b>Closing Cash and Cash Equivalents</b>	<b>1,589.0</b>	<b>2,244.0</b>	<b>4,485.5</b>	<b>7,284.1</b>	<b>12,405.3</b>

Free Cash Flow Statement					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
EBITDA	5,811	9,147	11,261	12,640	14,102
FC Investment	263	636	2,000	1,000	1,000
WC Changes	-1,701	-3,617	-2,506	-3,235	-2,320
Depreciation Tax Shield	223	266	466	290	324
Tax Expenses	1,457	2,332	2,869	3,223	3,596
FCF	2,613	2,827	4,351	5,472	7,511

Key Ratios					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>EBIDTA (%)</b>	<b>15.5%</b>	<b>18.0%</b>	<b>20.0%</b>	<b>20.0%</b>	<b>20.0%</b>
NPM (%)	13.6%	15.1%	14.6%	15.5%	15.3%
<b>RoE (%)</b>	<b>29.9%</b>	<b>34.8%</b>	<b>29.7%</b>	<b>28.9%</b>	<b>26.3%</b>
RoCE (%)	27.3%	35.2%	33.0%	33.2%	30.7%
<b>Tax Rate %</b>	<b>25.1%</b>	<b>25.5%</b>	<b>25.5%</b>	<b>25.5%</b>	<b>25.5%</b>
Book Value Per share (Rs.)	190.8	244.2	300.7	368.3	442.9



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