

LTTS' Q3FY21 performance was an all-round beat on our estimates coupled with an improvement on revenue growth guidance from (7-8)% decline to (6.5)% in USD terms for FY21.

- **\$ Revenue came in at \$190.1 Mn, +6.8% qoq / -4.6% yoy and +4.3% vs. estimates**
- **INR revenue came in at INR 14,007 Mn, +6.6% qoq / -1.6% yoy and 3.8% above our estimates**
- **EBITDA was reported at INR 2,756 Mn, +18.4% qoq / -3.7% yoy and +18% vs our estimates**
- **EBITDA margins stood at 19.7% vs 17.7% / 20.1% in Q2FY21 / Q3FY20 respectively and 236 bps above our estimates**
- **EBIT was reported at INR 2,132 Mn, +18.4% qoq / -10.8% yoy and +18.8% vs our estimates**
- **EBIT margins stood at 15.2% vs 13.7% / 16.8% in Q2FY21 / Q3FY20 respectively and 192 bps above our estimates**
- **PAT came in at INR 1,861Mn, +12.4% qoq / -8.8% yoy and 17.7% above our estimates**
- **EPS at INR 17.75 in Q3FY21 vs 15.8 / 19.4 in Q2FY21 / Q3FY20 respectively**

Industrial Performance

- Growth was led by **Telecom & Hi-tech (22.9% of Revenue)** having a robust growth of 14.3% QoQ / 18.5% YoY, **Plant Engineering (14.7% of Revenue)** having a healthy growth of 9.2% QoQ and **Industrial Products (19.3% of Revenue)** growing at 5.5% QoQ.
- This was followed by **Transportation (30.4% of Revenue)** which grew by 3.1% QoQ and **Medical Devices (12.7% of Revenue)** which had a soft quarter growing at 2.4% QoQ.

Geographical Highlights

- **India (13.9% of Revenue)** led the growth among key geographies growing 9.1% QoQ which was followed by **North America (61.2% of Revenue)** having a healthy growth of 8.8% QoQ.
- **Europe (16.1% of Revenue)** also grew 7.5% sequentially whereas **Rest of the World (8.8% of Revenue)** had a decline of -9.2% QoQ.

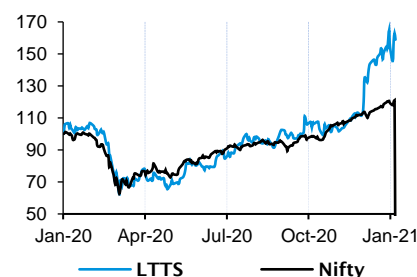
Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	2837	11

Market data

Current price	Rs	2,552
Market Cap (Rs.Bn)	(Rs Bn)	272
Market Cap (US\$ Mn)	(US\$ Mn)	3727
Face Value	Rs	2
52 Weeks High/Low	Rs	2780/995
Average Daily Volume	('000)	44
BSE Code		540115
Bloomberg		LTTS:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	74.27	74.36
Public	25.73	25.64
Others	0.00	0.00
Total	100	100

Source: BSE

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	50,783	56,191	54,385	62,198	71,316
EBITDA	9,147	11,105	9,925	11,951	14,525
Adjusted net profit	7,678	8,218	6,594	8,709	10,653
Free cash flow	2,827	3,763	10,243	10,023	10,458
EPS (Rs)	75.8	81.1	65.1	85.9	105.1
growth (%)	50%	7%	-20%	32%	22%
P/E (x)	33.7	31.5	39.3	29.7	24.3
P/B (x)	10.4	9.4	7.9	6.7	5.6
EV/EBITDA (x)	28.2	22.8	24.7	19.8	15.7
D/E	-	-	-	-	-
ROCE (%)	33.5	28.6	19.5	22.2	22.9
RoE (%)	34.8	31.4	21.9	24.4	25.1
Dividend yield (%)	0.9	1.0	0.6	1.0	1.2

Source: Company

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Conference Call Key Takeaways

Financial Highlights

- **Dollar Revenue growth of 6.8% was broad based across all segments.**
- **EBITDA Margin expanded by 200 bps during the quarter whereas EBIT Margins expanded by 150 bps. Additional 50 bps impact was due to amortization on account of Orchestra Technology Acquisition.**
- **EBIT Margin expansion was due to improvement led by higher utilization, improvement in offshore revenue mix and better operational efficiency and partly offset by reinstatement of variable pay and higher sub-contracting costs.**
- **Other Income was lower sequential basis due to lower export scheme but was offset by higher forex gains.**
- **DSO days stood at 73 days and remained in a narrow range which has improved the cash flow generation.** Free Cash Flow stood at INR 962 Crs.
- **All the verticals had a margin expansion of 100 bps except Telecom & Hi-Tech which had impact of Orchestra Acquisition.**
- **Utilization stood at 77.5% in Q3 and improved by 210 bps whereas Offshore Mix witnessed a significant uptick and improved by 200 bps in Q3FY21.**

Vertical Highlights

1. Transportation (30.4% of Revenue)

- **Transportation grew by 3.1% QoQ which was led by robust growth across all the three sub-segments.**
- **Aerospace:** Grew sequentially in-line with the Q2 guidance and growth was led by the defense segment. **Commercial Aero remains as one of the challenging areas but there are opportunities of consolidation.**
- **Automobile:** Soft quarter on account of seasonality. Spending continued to rise in Electric, Autonomous & Connected Vehicles space. **Signed up few new age EV Logos which involves work opportunities around EV & Autonomous Vehicles.**
- **Truck & Off-Highway:** Opportunity continues to remain on localization and electrification.
- **Multiple deals in the pipeline along with consolidation opportunities** available in the New Age Autonomous & EV space.

2. Plant Engineering (14.7% of Revenue)

- **Plant Engineering had a good quarter with a growth of 9.2% QoQ showing some strong momentum.**
- **FMCG & Chemicals:** See traction in the areas of low-cost automation of plants and discussion around sustainability.
- **Oil & Gas:** Companies are looking to increase sustainability on performance and want to leverage visual technologies to achieve the same.
- **Expecting large deals from Oil & Gas and Chemical segments in the near future.**
- **Growth will continue in Plant Engineering with new opportunities in the pipeline as well as ramp up of \$100 Mn deal in the February-March timeframe.**

3. Industrial Products (19.3% of Revenue)

- **Industrial Products grew by 5.5% QoQ. Demand was led by: Digital (in creating smart products), Value Engineering (of existing products) and Productivity Improvement Initiative.**
- **Setting up specialized labs to create solutions for customers based on Security & Automation.**
- **Signed 3 large deals in Q3FY21 and expecting additional deals in pipeline from this space.**

4. Telecom & Hi-Tech (22.9% of Revenue)

- **Telecom & Hi-Tech grew 14.3% QoQ and it includes the Orchestra Acquisition. Out of the 14% sequential growth, 3.7% was organic.**
- **In Telecom space, Orchestra acquisition has enabled participation in Network Visualization space and 5G activities.**
- **Semi-conductor saw an improvement in deal pipeline** led by focus of client spend on leveraging 5G and AI space.
- **In Media space, Fashion and Design of software for application of media devices including technologies like RDK, Android as well as consolidation opportunity in legacy product maintenance area.**

- Working on a few large deals in 5G space under the Telecom segment.

5. Medical Devices (12.7% of Revenue)

- Medical Devices had a soft quarter with growth of 2.4% QoQ due to caution in spending as elective surgeries got postponed led by resurgence of Covid cases in U.S.
- Overall Outlook remains positive on Digital Product Design, Digital Manufacturing & Regulatory Compliance.
- New Growth Areas include Precision Medicine, Health Management and Tele-Health.
- Good deals are in pipeline for medical devices and firm expects growth to bounceback in Q4 and beyond.

Deal Pipeline & Orderbook

- Company signed 7 large deals with TCV of \$10 Mn+ which includes the \$100 Mn + deal and 2 deals worth \$15 Mn.
- Transport won 3 deals with TCV \$10 Mn+ whereas Oil & Gas major had a \$100 Mn deal.
- Won 1 large deal and Net New Client in Telecom & Hi-Tech segment.
- Won 2 large deals in Medical Devices vertical out of which one was \$25 Mn+ vendor consolidation deal with an OEM.
- Deal Momentum will increase pace with conversion of some deals in the pipeline during the upcoming quarters.

Outlook

- Company revised revenue guidance for FY21E from a decline of 7-8% earlier to decline of 6.5%.
- There will be **improvement in Utilization levels which will be witnessed via improvement in employee pyramid, productivity and low levels of attrition.** Telecom & Hi-Tech will witness some margin improvement whereas Medical Devices will witness some growth in the upcoming quarter.
- **Headwinds** such as strong rupee appreciation, wage hikes, onsite localization and other expenses linked to growth (sub-contracting) **will be key areas to watch out whereas Management has indicated that they aspire to take the margins back to 17% (in cc terms).**
- **Deal pipeline remains healthy and will see sequential uptick in the upcoming quarters** which will help in sustaining the growth momentum.
- However, **Management has remained cautious of the lockdowns in Europe & Japan** which will not necessarily impact the growth but lead to slowdown in decision making process for deal conversions in the current quarter.
- **Management expects to cross Q4FY20 Revenue mark by Q4FY21.**

Quarterly Performance Analysis

Exhibit 1

YE March (INR Mn)	Q3 FY21	Q2 FY21	Q-o-Q change %	Q3 FY20	Y-o-Y change %	Q2 FY21 Est.	Deviation %
Total Revenue (USD Mn)	190.1	178	6.8%	199	(4.6%)	182	4.3%
Total Revenue (INR Mn)	14,007	13,138	6.6%	14,229	(1.6%)	13,490	3.8%
Less:							
Cost of Revenues	8,556	8,161	4.8%	8,303	3.0%	8,187	4.5%
SG&A Expenses	2,695	2,649	1.7%	3,063	(12.0%)	2,968	-9.2%
Total Expenditure	11,251	10,810	4.1%	11,366	(1.0%)	11,155	0.9%
EBIDTA	2,756	2,328	18.4%	2,863	(3.7%)	2,336	18.0%
Less: Depreciation	624	527	18.4%	472	32.2%	541	15.3%
Operating Income	2,132	1,801	18.4%	2,391	(10.8%)	1,795	18.8%
Interest Paid	114	109	4.6%	89		109	
Other income (expense), net	488	566	(13.8%)	443	10.2%	472	3.4%
Profit Before Tax	2,506	2,258	11.0%	2,745	(8.7%)	2,158	16.1%
Tax	637	595	7.1%	687	(7.3%)	569	12.0%
Deferred Tax	0	0		0		0	
PAT before Minority Interest	1,869	1,663	12.4%	2,058	(9.2%)	1,589	17.6%
Minority Interest	8	8		17		0	
Share of Profit of Associates	0	0		0		0	
Profit After Tax	1,861	1,655	12.4%	2,041	(8.8%)	1,589	17.1%
Basic & Diluted EPS (Rs.)	17.7	15.8	12.4%	19.4	(8.8%)	15.1	17.1%
Outstanding Shares (mn)	105	105		105		105	
Margin Analysis %							
			Change In bps		Change In bps		
EBIDTA Margin	19.7%	17.7%	196	20.1%	-45	17.3%	236
Operating Margin	15.2%	13.7%	151	16.8%	-158	13.3%	192
PBT Margin	17.9%	17.2%	70	19.3%	-140	16.0%	190
NPM	13.3%	12.6%	69	14.3%	-106	11.8%	151
Effective Tax Rate (%)	25.4%	26.4%	-93	25.0%	39	26.4%	-93
Cost Analysis %							
			Change In bps		Change In bps		
Cost of Revenues/ Sales	61.1%	62.1%	-103	58.4%	273	60.7%	40
Other income/ PBT	19.5%	25.1%	-559	16.1%	333	21.9%	-241

LTTS posted a big beat on our revenue and margin estimates

Expect Q4FY21 margins to be impacted by wage hikes rupee appreciation. However, management aspires to bring back EBIT margins to pre-COVID levels of 17% over the next few quarters

Source: Dalal & Broacha Research, Company

Exhibit 2

Industry wise trends	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY20	Q2 FY21	Q3 FY21
Revenue (US\$ Mn)	194	198	199	195	171	178	190
Q-o-Q (%)	1.4%	2.0%	0.8%	-2.0%	-12.5%	4.1%	6.8%
Y-o-Y (%)	14.8%	11.6%	7.3%	2.1%	-11.8%	-10.0%	-4.6%
Industry Wise Break up	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY20	Q2 FY21	Q3 FY21
Transportation	67.7	69.2	71.3	69.8	53.9	56.1	57.8
Q-o-Q (%)	7.5%	2.3%	3.1%	-2.2%	-22.8%	4.1%	3.1%
Y-o-Y (%)	29.7%	22.0%	20.1%	10.8%	-20.4%	-19.0%	-19.0%
Industrial Products	38.0	38.4	38.3	37.9	33.2	34.7	36.7
Q-o-Q (%)	2.9%	0.9%	-0.2%	-0.9%	-12.5%	4.6%	5.7%
Y-o-Y (%)	10.3%	5.1%	3.0%	2.7%	-12.7%	-9.5%	-4.1%
Telecom & Hi-tech	43.2	40.7	36.9	36.5	38.3	38.1	43.5
Q-o-Q (%)	-13.7%	-5.8%	-9.5%	-0.9%	4.8%	-0.6%	14.3%
Y-o-Y (%)	-10.8%	-13.9%	-26.5%	-27.1%	-11.4%	-6.5%	18.1%
Process Industry	29.7	32.0	34.3	31.3	23.6	25.6	27.9
Q-o-Q (%)	5.5%	8.0%	7.0%	-8.8%	-24.5%	8.6%	9.0%
Y-o-Y (%)	30.1%	27.3%	31.9%	11.2%	-20.5%	-20.0%	-18.5%
Medical Devices	15.5	17.4	18.7	20.1	21.9	23.5	24.1
Q-o-Q (%)	15.8%	12.2%	7.7%	7.4%	8.8%	7.3%	2.8%
Y-o-Y (%)	41.3%	51.0%	44.1%	50.3%	41.1%	35.1%	28.9%

Source: Dalal & Broacha Research, Company

Valuation & Outlook

LTTS is currently trading at 29.7x / 24.3x FY22e / FY23e EPS. Despite the fact that the improved guidance for FY21e translates into a relatively softer Q4FY21 (~3% USD revenue growth), we are upbeat about LTTS in the long run based on several triggers in the ER&D space:

- Revival of commercial airlines should boost Transportation segment going ahead
- Mass movement towards EV on a global level (in terms of countries and companies) should translate into higher ER&D spend for captives as well as outsourcers
- Commercial launch of 5G for enterprises and individuals through 2021-22 should boost Telecom segment
- Manufacturing segment is as it is in high focus on the back of demand for automation, IoT and Digital Engineering - which should serve as trigger for Industrial Products and Plant Engineering segments
- Medical devices outlook is extremely positive on the back of new focus areas such as Tele-health, Health Management and Precision Medicine.

The stock might be under some pressure in the near to medium term on the back of a soft Q4FY21. **We believe this to be an opportunity to accumulate the stock and therefore recommend a BUY on dips rating as we raise our target price to INR 2,837 (from INR 1,684 earlier), based on 27x FY23e EPS.**

Financial

Profit & Loss A/c						Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E	YE March(Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue	50,783	56,191	54,385	62,198	71,316	Liabilities					
Growth %	36%	11%	-3%	14%	15%	Equity Capital	208	209	203	203	203
Less:						Reserves & Surplus	24,583	27,477	32,423	38,519	45,976
Employee Cost	31,440	33,700	33,914	37,717	41,633	Equity	24,791	27,686	32,626	38,722	46,179
SG&A Expenses & Other	10,196	11,386	10,546	12,529	15,158	Net Worth	24,791	27,686	32,626	38,722	46,179
Total Operating Expendit	41,636	45,086	44,460	50,246	56,791	Total Loans	836	303	303	303	303
EBIDTA	9,147	11,105	9,925	11,951	14,525	Lease Liabilities		3,961	3,268	3,268	3,268
Growth %	57%	21%	-11%	20%	22%	Capital Employed	25,852	33,641	37,592	44,061	51,913
Less: Depreciation	1,042	1,829	2,280	2,053	2,353	Assets					
EBIT	8,105	9,276	7,645	9,899	12,172	Gross Block	2,656	3,873	4,873	6,373	7,873
Growth %	64.7%	14.4%	-17.6%	29.5%	23.0%	Less: Depreciation	1,213	1,774	4,054	6,106	8,460
Interest Paid	19	365	444	456	456	Net Block	1,443	2,099	819	267	-587
Non-operating Income	2,228	2,091	1,691	2,177	2,496	Right of Use Assets		3,490	3,248	2,678	2,313
Profit Before tax	10,314	11,002	8,893	11,620	14,212	Investments	1,362	1,137	1,153	1,200	1,255
Tax	2,630	2,778	2,293	2,905	3,553	Intangible Assets	6,357	6,146	6,146	6,146	6,146
Net Profit	7,690	8,230	6,606	8,721	10,665	Current Assets					
Adjusted Profit	7,690	8,230	6,606	8,721	10,665	Sundry Debtors	10,643	13,807	13,410	13,632	14,849
Growth %	50%	7%	-20%	32%	22%	Current Investments	5,749	6,110	4,351	4,354	3,566
Reported Diluted EPS	75.6	81.0	65.0	85.8	105.0	Cash and Bank Balance	2,182	5,670	14,128	22,991	31,932
Growth %	50.2%	7.0%	-19.8%	32.1%	22.3%	Loans and Advances	1,536	1,730	1,686	1,990	2,139
Adjusted Diluted EPS Rs	75.8	81.1	65.1	85.9	105.1	Other Current Assets	3,739	5,275	5,146	4,642	5,322
						Total Current Assets	23,849	32,592	38,721	47,609	57,809
						Less: Current Liabilities					
						Sundry Creditors	1,879	1,975	1,949	2,616	3,112
						Provisions	1,341	1,654	1,605	2,033	2,132
						Other Current Liabilities	4,700	5,763	6,798	7,775	8,914
						Total Current Liabilities	7,920	9,392	10,352	12,424	14,158
						Capital Applied	25,852	33,641	37,592	44,061	51,913
Key Ratios						Cash Flows (Consolidated)					
YE March (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E	YE December (Rs. Mn)	FY19	FY20	FY21E	FY22E	FY23E
EBIDTA (%)	18.0%	19.8%	18.2%	19.2%	20.4%	PAT	7,678.0	8,218.0	6,594.2	8,708.9	10,652.9
NPM (%)	15.1%	14.6%	12.1%	14.0%	14.9%	Less: Non Operating Income	(2,228.0)	(2,091.0)	(1,691.3)	(2,176.9)	(2,496.1)
RoE (%)	34.8%	31.4%	21.9%	24.4%	25.1%	Add: Depreciation	1,042.0	1,829.0	2,279.7	2,052.5	2,353.4
RoCE (%)	35.2%	31.2%	21.5%	24.2%	25.4%	Operating Profit before WC Changes	6,511.0	8,321.0	7,626.7	9,040.5	10,966.2
Tax Rate %	25.5%	25.2%	25.8%	25.0%	25.0%	(Inc)/Dec in Current Assets	(4,602.0)	(5,255.0)	2,329.0	(25.2)	(1,258.5)
Book Value Per share (Rs.)	244.2	272.8	321.4	381.5	455.0	Inc/(Dec) in Current Liabilities	985.0	1,472.0	959.8	2,071.9	1,734.3
						Net Cash From Operations	2,894.0	4,538.0	10,915.5	11,087.3	11,442.0
						CF from Investing Activities					
						(Inc)/Dec in Fixed Assets	(1,235.0)	(2,485.0)	(1,000.0)	(1,500.0)	(1,500.0)
						Add: Non Operating Income	2,228.0	2,091.0	1,691.3	2,176.9	2,496.1
						Cash From Investing Activities	(291.0)	1,317.0	598.8	606.6	914.0
						CF from Financing Activities					
						Dividend Paid	(2,449.0)	(2,465.4)	(1,648.5)	(2,612.7)	(3,195.9)
						Cash from Financing Activities	(1,990.0)	(4,755.0)	(2,394.1)	(2,695.9)	(3,257.4)
						Net Inc/Dec in cash equivalents	613.0	1,100.0	9,120.2	8,998.0	9,098.6
						Opening Balance	1,571.0	2,182.0	5,670.0	14,128.5	22,991.3
						Closing Cash and Cash Equivalents	2,184.0	3,282.0	14,790.2	23,126.5	32,089.9
Valuation Ratios						Free Cash Flow Statement					
YE March (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E	YE March (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
P/E (x)	33.7x	31.5x	39.3x	29.7x	24.3x	EBITDA	9,147	11,105	9,925	11,951	14,525
P/BV (x)	10.4x	9.4x	7.9x	6.7x	5.6x	FC Investment	636	1,217	1,000	1,500	1,500
EV/EBIDTA (x)	28.2x	22.8x	24.7x	19.8x	16.0x	WC Changes	-3,617	-3,783	3,289	2,047	476
EV/Sales (x)	5.1x	4.5x	4.5x	3.8x	3.3x	Depreciation Tax Shield	266	462	588	513	588
Market Cap./ Sales (x)	5.1x	4.6x	4.8x	4.2x	3.6x	Tax Expenses	2,332	2,804	2,559	2,988	3,631
Dividend Yield (%)	0.9%	1.0%	0.6%	1.0%	1.2%	FCF	2,827	3,763	10,243	10,023	10,458

Source: Dalal & Broacha Research, Company

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