



**LTTS' Q4FY21 performance was in-line with our estimates on the revenue front and a beat on our estimates on the margins front whereas FY22 guidance of 13-15% USD revenue growth was a tad lower than our expectations**

- **\$ Revenue came in at \$197.5 Mn, +3.9% qoq / +1.1% yoy** and in-line with our estimate of \$197.4 Mn
- **INR revenue came in at INR 14,405 Mn, +2.8% qoq / -0.4% yoy** and in-line with our estimates
- **EBITDA was reported at INR 2,931 Mn, +6.3% qoq / +9.2% yoy** and +4.3% vs our estimates
- **EBITDA margins stood at 20.3%, vs 19.7% / 18.5% in Q3FY21 / Q4FY20** respectively and 80 bps above our estimates
- **EBIT was reported at INR 2,391 Mn, +12.1% qoq / 8.8% yoy** and +10.3% vs our estimates
- **EBIT margins stood at 16.6%, vs 15.2% / 15.2% in Q3FY21 / Q4FY20** respectively and 155 bps above our estimates
- **PAT came in at INR 1,945Mn, +4.5% qoq / -5% yoy** and 2% above our estimates
- **EPS at INR 18.54 in Q4FY21 vs 17.7 / 19.5 in Q3FY21 / Q4FY20** respectively

### Industrial Performance

- Growth was led by **Plant Engineering (15.5% of Revenue)** having a strong growth of 9.9% QoQ followed by **Transportation (31.2% of Revenue)** which grew by 6.5% QoQ.
- **Industrial Products (18.9% of Revenue)** grew marginally by 1.5% QoQ followed by **Medical Devices (12.3% of Revenue) & Telecom & Hi-tech (22.1% of Revenue)** which had a flattish growth of 0.8% QoQ and 0.2% QoQ respectively.

Rating	TP (Rs)	Up/Dn (%)
<b>HOLD</b>	<b>2722</b>	<b>-3</b>

### Market data

<b>Current price</b>	<b>Rs</b>	<b>2,797</b>
Market Cap (Rs.Bn)	(Rs Bn)	294
Market Cap (US\$ Mn)	(US\$ Mn)	3979
Face Value	Rs	2
52 Weeks High/Low	Rs	3062/2517
Average Daily Volume	('000)	577
BSE Code		540115
Bloomberg		LTTS:IN

Source: Bloomberg

### One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	74.24	74.27
Public	25.76	25.73
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

### Financial Summary

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	50,783	56,191	54,497	62,345	70,295
EBITDA	9,147	11,105	10,074	12,186	13,825
Adjusted net profit	7,678	8,218	6,659	8,409	9,857
Free cash flow	2,827	4,870	12,517	18,589	10,175
EPS (Rs)	75.8	81.1	65.7	83.0	97.2
growth (%)	50%	7%	-19%	26%	17%
P/E (x)	36.9	34.5	42.6	33.7	28.8
P/B (x)	11.4	10.2	8.2	7.0	6.0
EV/EBITDA (x)	30.9	25.1	27.6	21.5	18.4
D/E	-	-	-	-	-
ROCE (%)	33.5	28.6	18.8	20.3	20.8
RoE (%)	34.8	31.4	21.4	22.4	22.4
Dividend yield (%)	0.9	0.9	0.8	0.9	1.0

Source: Dalal & Broacha Research

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## Geographical Highlights

- Growth was led by **Europe (16.7% of Revenue)** having a robust growth of 7.5% QoQ led by traction in spending by customers followed by **North America (61.5% of Revenue)** growing at 4.4% sequentially as US has gone back to its pre-covid levels with a strong demand outlook in the future.
- **Rest of the World (8.8% of Revenue)** grew by 3.1% QoQ whereas **India (13.1% of Revenue)** was the only geography that declined by -2.3% QoQ due to the rise in the infection rate and continues with its slow decision-making process.

## Conference Call Key Takeaways

### Operational Highlights

- In FY21, LTTS reported Dollar Revenue at \$736.6 Mn which declined by 6.3% YoY and is in-line with the guidance given in the previous quarter. The firm had initially guided for a 9-10% decline in FY21 \$ Revenue however they later improved the guidance to 6-8% decline.
- Revenue growth performance was driven by gradual improvement of macro-economic conditions in developed economies and focus on large deals & strategic partnerships.
- **Cash Position:** Cash & Investments was reported at approximately Rs. 1700+ Crores by the end of Q4FY21 vs 1500 Crores by the end of Q3FY21.
- **Wage Hike:** Wage Hike has already taken place on April 1, 2021. Wage Hike for senior management will take place in July, 2021.

**EBIT Margin increased by 140 bps QoQ to 16.6% and improvement was led by combination of improved utilization, higher offshoring, operational efficiency partly offset by rupee appreciation. 70 bps benefit from lower amortization in Q4 as against Q3 (higher due to Orchestra Acquisition).**

**FCF Improvement:** In FY21 FCF stood at Rs. 1251 Crores as against Rs. 487 Crores in FY20. The improvement was led by improvement in collections (Collective DSO at 92 days which is less than the firm's target of 95 days) and operations.

### Vertical Highlights

#### 1. Transportation (31.2% of Revenue)

- Growth of 6.5% sequentially was led by Auto and Trucks & Off-Highway whereas Aero & Defense had marginal growth.
- Customers are optimizing their R&D Cost and are investing heavily in the transition to Electric Technologies & Autonomous Driving (requires higher digital engineering).
- In conversation with OEMs beyond the product and into services such as Connected Car Platforms and AR/VR Support.
- Within the Aerospace sub-segment, commercial side of deals are slowly picking up (Skywise Partnership).
- Confident of continuing the growth momentum across all three sub-segments.

**Furthermore, the firm sees traction in Auto and Trucks & Off-Highway in new areas of Electric, Autonomous & Connected Vehicles as well as in traditional areas.**

#### 2. Plant & Engineering (15.5% of Revenue)

- Within Oil & Gas and Chemicals, continue to see deals in the substance & engineering space around plant digitization, engineering value center set up, etc.
- Capex spends in Oil & Gas are slowly back on traction (steady oil prices).

**Strong quarter with 10% QoQ growth across all three segments. Oil & Gas grew strongly due to ramp up of Large \$100 Mn deal.**

- In CPG, Brownfield expansion projects such as waste water management & energy conservations are growth areas the firm is targeting.
- Growth momentum will continue in FY22 however Q1FY22 will remain soft due to early ramp up of the large deal.

### 3. Industrial Products (18.9% of Revenue)

- There was a recent investment done in a 'Sensor Lab' for rapid design and prototyping of domain specific sensor which will help in differentiating firm's offerings.
- Customers in this segment will rise with the pick-up of manufacturing activity in US & Germany.
- Momentum in this segment will strengthen Q1FY22 onwards.

### 4. Telecom & Hi-tech (22.1% of Revenue)

- Flat quarter with 0.2% sequential growth as decision-making of some large deals remained sluggish but continue to win smaller deals.
- In Semiconductor space, there is a good momentum in chip design, testing and media for platform modernization in telecom for network monitory, 5G experience & Lab-as-a-service.
- Customer discussions and deal pipeline remain optimistic and the firm is looking forward to closing the deals at a rapid pace.

### 5. Medical Devices (12.3% of Revenue)

- OEMs are investing in digital platforms, robotic surgical equipment and connected care (won deals in this space recently).
- Within the Medical Devices space, R&D is seen in areas of Telehealth, Connected Devices, Cyber Security, Patient Experience, Digital Manufacturing (Automation) and Regulatory Compliance Certification.
- Growth traction in this segment will be seen from Q2FY22 as and when the large deal traction improves.

### Deal Wins & Pipeline

- Company signed 6 large deals with TCV of \$10 Mn+ and 2 deals worth \$25 Mn+ during then quarter.
- Pursuing multiple large deals in the areas of EV, Autonomous & Mobility within the transportation segment.
- In Plant & Engineering, the firm sees large deal opportunity across regions.

### Outlook

- FY22 USD revenue growth guidance is stated at 13-15%.
- Looking forward to improving margins in Telecom & Hi-tech and Transportation segment and pushing for growth in high margin segments of Medical Devices, Industrial Products & Plant Engineering.
- 1000 Freshers will be added to the 5 centers situated in Baroda, Chennai, Mysore, Mumbai & Bangalore.

Had a steady quarter with 1.5% QoQ growth across all the three segments of Electrical, Machinery & Building Automation. Demand is strong across digital & traditional areas of product development & cost optimization.

Chip shortage does not have any visible impact on the business volume as the shortage is mainly on the manufacturing and delivery side whereas LTTS does chip designing.

Growth of 0.8% QoQ which was a bit softer than expectations as covid slowed some of the decision-making process especially in the Diagnostic Device side.

Deal Pipeline is strong across all the industry segments as the customers are turning more optimistic and investing in new technology and will lead to a broad-based growth.

EBIT Margin will have the headwind of wage hike in Q1FY22 but it will be offset by operational levers such as utilization, offshore ratio and employee productivity.

There will be a slight uptick in Attrition rate going ahead however it will remain below the Industry Norms.

## Quarterly Performance Analysis

### Exhibit 1

YE March (INR Mn)	Q4 FY21	Q3 FY21	Q-o-Q change %	Q4 FY20	Y-o-Y change %	Q4 FY21 Est.	Deviation %
Total Revenue (USD Mn)	197.5	190	3.9%	195	1.1%	197	0.0%
Total Revenue (INR Mn)	14,405	14,007	2.8%	14,466	(0.4%)	14,411	0.0%
<b>Less:</b>							
Cost of Revenues	8,496	8,556	(0.7%)	8,415	1.0%	8,863	-4.1%
SG&A Expenses	2,978	2,695	10.5%	3,368	(11.6%)	2,738	8.8%
Total Expenditure	11,474	11,251	2.0%	11,783	(2.6%)	11,601	-1.1%
EBIDTA	2,931	2,756	6.3%	2,683	9.2%	2,810	4.3%
Less: Depreciation	540	624	(13.5%)	485	11.3%	642	-15.9%
EBIT	2,391	2,132	12.1%	2,198	8.8%	2,168	10.3%
Interest Paid	125	114	9.6%	94		114	
Other income (expense), net	346	488	(29.1%)	614	(43.6%)	504	-31.4%
Profit Before Tax	2,612	2,506	4.2%	2,718	(3.9%)	2,559	2.1%
Tax	659	637	3.5%	655	0.6%	650	1.3%
Deferred Tax	0	0		0		0	
PAT before Minority Interest	1,953	1,869	4.5%	2,063	(5.3%)	1,908	2.3%
Minority Interest	8	8		15		0	
Share of Profit of Associates	0	0		0		0	
Profit After Tax	1,945	1,861	4.5%	2,048	(5.0%)	1,908	1.9%
Basic & Diluted EPS (Rs.)	18.5	17.7	4.5%	19.5	(5.0%)	18.2	1.9%
Outstanding Shares (mn)	105	105		105		105	
<b>Margin Analysis %</b>							
			Change In bps		Change In bps		
EBIDTA Margin	20.3%	19.7%	67	18.5%	180	19.5%	85
EBIT	16.6%	15.2%	138	15.2%	140	15.0%	155
PBT Margin	18.1%	17.9%	24	18.8%	-66	17.8%	38
NPM	13.5%	13.3%	22	14.2%	-66	13.2%	26
Effective Tax Rate (%)	25.2%	25.4%	-19	24.1%	113	25.4%	-19
<b>Cost Analysis %</b>							
			Change In bps		Change In bps		
Cost of Revenues/ Sales	59.0%	61.1%	-210	58.2%	81	61.5%	-252
Other income/ PBT	13.2%	19.5%	-623	22.6%	-934	19.7%	-647

Source: Dalal & Broacha Research, Company

Revenue growth performance improved due to improving conditions globally.

Although EBIT Margin grew sequentially there will be some headwinds (wage hike) in Q1FY22 which might soften the margins.

## Valuation & Outlook

LTTS is currently trading at 33.7x / 28.8x FY22e / FY23e EPS. LTTS' Q4FY21 performance was in-line with our estimates on the revenue front and above our estimates as far as margins are concerned, however, the FY22e guidance of 13-15% USD revenue growth is less than what we earlier expected. Segment-wise performance in FY22 will largely be a mixed bag due to the nature of sub-segments that the company is present in. While Automotive and Process Industry are expected to outperform, Telecom & Hi-tech, Industrial Products and Medical Devices will recover gradually over the course of FY22. While the results were in-line with our estimates, there was nothing extraordinary to call out for whereas the stock has rallied upwards of 10% since the last set of results and we believe that it is at fair value.

**Therefore, we downgrade our rating from Buy on Dips to HOLD and reduce our target price from INR 2,837 to INR 2,722.**



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