



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Company Meeting Update@ Dalal&Broacha

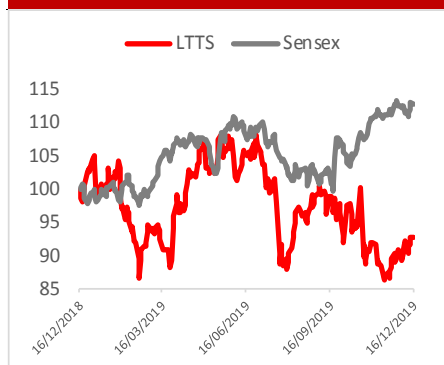
BUY

Current Price	1500
Target Price	1695
Upside	13%
52 Week Range	1396/1818

Key Share Data

Market Cap (Rs.Bn)	156.59
Market Cap (US\$ Mn)	2205.5
No of o/s shares (Mn)	104.02
Face Value	2
Monthly Avg. Vol(BSE+NSE) '000	129.47
BSE Code	540115
NSE Code	LTTS
Bloomberg	LTTS:IN

Price performance



% Shareholding	Sept-19	June-19
Promoters	74.62	74.79
Public	13.96	14.09
Others	11.42	11.12
Total	100	100

Consolidated Financials

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%	29.8x	29.9%	28.5%
FY19	50,783	35.5%	9,147	18.0%	7,690	15.1%	75.8	50%	19.8x	34.8%	33.4%
FY20E	56,103	10.5%	11,146	19.9%	8,177	14.6%	80.6	6%	18.6x	29.6%	29.5%
FY21E	62,908	12.1%	12,306	19.6%	9,547	15.2%	94.2	17%	15.9x	28.2%	28.4%

We recently met with LTTS and following are the KTAs:

- **Transportation segment (35% of revenue)** witnessed slower growth rate in Q2FY20 mainly due to Agri & Farm equipment (which is a sub-component of Trucks & Off-Highway which in turn contributes ~30-35% of Transportation revenue), which was impacted due to US-China Trade Conflict. LTTS largely works on Tractors and Excavators in this segment.
 - However, expect trade conflicts to ease out and deal flow to be good in H2FY20
- **Telecom & Hi-Tech (20.6% of revenue)** continued its degrowth in Q2FY20 due to US based customer specific issues (with exposure to China).
 - **Road Ahead:** Trends in 5G space and Graphics are positive whereas Data Center Chipsets and Memory Chips space still have a negative outlook.
 - Expect Q3FY20 to be worst quarter for Telecom & Hi-Tech and a steady revival post Q4FY20. LTTS largely works with Semiconductor, Media and Consumer Electronics companies and not with any TSP and has therefore dodges the risk of low spends.
 - Company offsetting slowdown by addressing part of business which does not have exposure to China
- **Industrial Products (19.4% of revenue):** company has noted issues such as the distance between the customer and end user of LTTS' designs and developments is vast and therefore tech adoption has been slow.
 - **Going ahead,** revival with double digit yoy growth is on the cards.
- Company faces no supply side issues as far as quality of talent is concerned.

Quarterly Industry Trends (in US\$ terms)...

Industry wise trends	Q1 FY 19	Q2 FY 19	Q3 FY 19	Q4 FY 19	Q1FY20	Q2 FY20
Transportation	52.2	56.7	59.4	62.9	67.7	69.2
Q-o-Q (%)	4.3%	8.6%	4.8%	5.9%	7.5%	2.3%
Y-o-Y (%)	21.7%	26.0%	27.4%	25.8%	29.7%	22.0%
Industrial Products	34.5	36.5	37.1	36.9	38.0	38.4
Q-o-Q (%)	1.5%	5.9%	1.7%	-0.6%	2.9%	0.9%
Y-o-Y (%)	5.9%	11.0%	12.8%	8.8%	10.3%	5.1%
Telecom & Hi-tech	48.5	47.3	50.1	50.1	43.2	40.7
Q-o-Q (%)	1.2%	-2.4%	6.0%	0.0%	-13.7%	-5.8%
Y-o-Y (%)	89.0%	39.8%	19.0%	4.6%	-10.8%	-13.9%
Process Industry	22.8	25.2	26.0	28.1	29.7	32.0
Q-o-Q (%)	14.1%	10.4%	3.3%	8.2%	5.5%	8.0%
Y-o-Y (%)	28.6%	41.1%	35.6%	40.8%	30.1%	27.3%
Medical Devices	11.0	11.5	13.0	13.4	15.5	17.4
Q-o-Q (%)	4.0%	4.9%	12.9%	3.0%	15.8%	12.2%
Y-o-Y (%)	24.7%	18.1%	28.5%	26.9%	41.3%	51.0%

Valuation & Outlook

Majority of negatives in LTTS have been due to systematic risks and factors which are beyond the company's control. We believe that most of the negatives have been factored in. At CMP of INR 1500, the stock is trading at 18.6x and 15.9x FY20e and FY21e EPS. **We maintain our target price of INR 1,695 and assign a BUY rating on the stock based on 18x FY21e EPS of INR 94.2.**



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Profit & Loss A/c					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Total Revenue	32,483	37,471	50,783	56,103	62,908
Growth %	6%	15%	36%	10%	12%
Less:					
Employee Cost	20,958	24,600	31,788	34,853	38,649
SG&A Expenses & Other	5,678	7,060	9,848	10,104	11,952
Total Operating Expenditure	26,636	31,660	41,636	44,957	50,602
EBIDTA	5,847	5,811	9,147	11,146	12,306
Growth %	13%	-1%	57%	22%	10%
Less: Depreciation	625	889	1,042	1,778	1,132
EBIT	5,222	4,922	8,105	9,368	11,173
Growth %	13.4%	-5.7%	64.7%	15.6%	19.3%
Interest Paid	21	27	19	364	364
Non-operating Income	591	1,934	2,228	1,991	2,013
Profit Before tax	5,792	6,829	10,314	10,995	12,822
Tax	1,542	1,712	2,630	2,825	3,270
Net Profit	4,250	5,123	7,690	8,177	9,559
Adjusted Profit	4,250	5,111	7,690	8,177	9,559
Growth %	2%	20%	50%	6%	17%
Reported Diluted EPS Rs	41.9	50.4	75.6	80.4	94.1
Growth %	1.5%	20.3%	50.2%	6.3%	16.9%
Adjusted Diluted EPS Rs	41.9	50.4	75.8	80.6	94.2

Cash Flows (Consolidated)					
YE December (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
PAT	4,250.0	5,111.0	7,678.0	8,164.6	9,546.8
Less: Non Operating Income	(591.0)	(1,934.0)	(2,228.0)	(1,990.9)	(2,013.0)
Add: Depreciation	625.0	889.0	1,042.0	1,777.9	1,132.3
Operating Profit before WC Changes	4,305.0	4,099.0	6,511.0	8,315.6	9,030.0
(Inc)/Dec in Current Assets	(2,909.0)	(3,339.0)	(4,602.0)	(3,217.1)	(3,458.3)
Inc/(Dec) in Current Liabilities	(366.0)	489.0	985.0	786.7	211.3
Net Cash From Operations	1,030.0	1,249.0	2,894.0	5,885.2	5,783.1
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(744.0)	(949.0)	(1,235.0)	(2,000.0)	(1,000.0)
Add: Non Operating Income Income	591.0	1,934.0	2,228.0	1,990.9	2,013.0
Cash From Investing Activities	(190.0)	525.0	(291.0)	(498.5)	788.5
Cash Flow from Financing Activities					
Dividend Paid	(1,215.0)	(1,215.0)	(2,449.0)	(2,449.4)	(2,864.0)
Net Cash from Financing Activities	(987.0)	(870.0)	(1,948.0)	(3,130.4)	(3,372.3)
Net Inc/Dec in cash equivalents	(147.0)	904.0	655.0	2,256.2	3,199.3
Opening Balance	832.0	685.0	1,589.0	2,242.0	3,897.2
Closing Cash and Cash Equivalents	685.0	1,589.0	2,244.0	4,498.2	7,096.5

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Key Operating Ratios					
EBITDA Margin (%)	18.0%	15.5%	18.0%	19.9%	19.6%
Tax / PBT (%)	26.6%	25.1%	25.5%	25.7%	25.5%
Net Profit Margin (%)	13.1%	13.6%	15.1%	14.6%	15.2%
RoE (%)	33.3%	29.9%	34.8%	29.6%	28.2%
RoCE (%)	29.9%	28.5%	33.4%	29.5%	28.4%
Current Ratio (x)	2.2x	2.7x	3.0x	3.3x	4.0x
Dividend Payout (%)	28.6%	23.8%	31.9%	30.0%	30.0%
Book Value Per Share (Rs)	146.4	190.8	244.2	300.5	366.3
Financial Leverage Ratios					
Debt/ Equity (x)	0.1x	0.0x	0.0x	0.0x	0.0x
Interest Coverage (x)	278.4x	215.2x	481.4x	481.4x	481.4x
Growth Indicators %					
Sales Growth (%)	5.9%	15.4%	35.5%	10.5%	12.1%
EBITDA Growth (%)	12.6%	(0.6%)	57.4%	21.9%	10.4%
Net Profit Growth (%)	1.5%	20.3%	50.2%	6.3%	16.9%
Diluted EPS Growth (%)	1.5%	20.3%	50.2%	6.3%	16.9%
Turnover Ratios					
Debtors (Days of net sal)	81	81	73	72	71
Creditors	35	29	24	26	24

Balance Sheet (Consolidated)					
YE March(Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Liabilities					
Equity Capital	203	205	208	203	203
Reserves & Surplus	14,653	19,159	24,583	30,298	36,981
Equity	14,856	19,364	24,791	30,501	37,184
Net Worth	14,856	19,364	24,791	30,501	37,184
Total Loans	1,031	749	896	696	496
Capital Employed	15,895	20,163	25,912	31,310	37,849
Assets					
Gross Block	1,757	2,020	2,656	4,656	5,656
Less: Depreciation	567	770	1,213	2,991	4,123
Net Block	1,190	1,250	1,443	1,665	1,533
Capital WIP	23	1	0	168	189
Investments	1,054	590	1,362	3,045	3,249
Intangible Assets	4,948	5,844	6,357	6,357	6,357
Current Assets					
Sundry Debtors	7,106	9,623	10,643	11,528	12,926
Current Investments	1,946	2,207	5,749	5,610	6,291
Cash and Bank Balance	685	1,589	2,242	3,897	7,374
Loans and Advances	1,275	1,429	1,536	2,132	2,516
Other Current Assets	3,399	3,806	3,739	5,614	6,609
Total Current Assets	14,411	18,654	23,909	28,781	35,716
Less:Current Liabilities & Provisions					
Sundry Creditors	1,489	1,807	1,879	2,217	2,495
Provisions	1,271	1,206	1,341	1,440	1,667
Other Current Liabilities	3,686	3,922	4,700	5,049	5,033
Total Current Liabilities & Provisions	6,446	6,935	7,920	8,707	9,195
Capital Applied	15,895	20,163	25,912	31,310	37,849

Free Cash Flow Statement					
YE March (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
EBITDA	5,847	5,811	9,147	11,146	12,306
FC Investment	-447	263	636	2,000	1,000
WC Changes	-3,275	-1,701	-3,617	-2,430	-3,247
Depreciation Tax Shield	166	223	266	457	289
Tax Expenses	1,421	1,457	2,332	2,864	3,138
FCF	1,764	2,613	2,827	4,309	5,210

Key Ratios					
EBITDA (%)	18.0%	15.5%	18.0%	19.9%	19.6%
NPM (%)	13.1%	13.6%	15.1%	14.6%	15.2%
RoE (%)	33.3%	29.9%	34.8%	29.6%	28.2%
RoCE (%)	36.6%	27.3%	35.2%	32.7%	32.3%
Tax Rate %	26.6%	25.1%	25.5%	25.7%	25.5%
Book Value Per share (Rs.)	146.4	190.8	244.2	300.5	366.3

Valuation Ratios					
P/E (x)	35.8x	29.8x	19.8x	18.6x	15.9x
EV/EBITDA	26.1x	26.1x	16.5x	13.4x	11.8x
P/BV (x)	10.2x	7.9x	6.1x	5.0x	4.1x
Market Cap. / Sales (x)	4.7x	4.1x	3.0x	2.7x	2.4x



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