

L&T TECHNOLOGY SERVICES

IT - SERVICES

10 NOV 2017

Quarterly Update

BUY

Target Price: Rs 914

On course for double digit growth in FY18

LTTTS reported strong Q2 revenue growth (up 9.2% QoQ in USD terms/8.7% in cc terms) led by strong show in Top 30 clients (up ~12% QoQ). EBITDA margin (at 15.3%) was flat QoQ.

Outlook – confident on double-digit revenue growth in FY18: LTTTS has had a strong start to FY18. It has won several multi-million dollar deals across Telecom and Hi-tech, Transportation, Industrial products and Medical segments. Management highlighted new order bookings stood at USD 220 mn executable over Q3 and Q4. Additionally, USD 90 mn worth of deals are in pipeline which lends revenue visibility. Management expects ramp-up in large deals won in recent quarters to drive growth in H2. Demand is healthy across key verticals of Transportation, Telecom, Medical and Industrials.

CMP : Rs 826
Potential Upside : 11%

MARKET DATA

No. of Shares : 102 mn
Free Float : 10%
Market Cap : Rs 84 bn
52-week High / Low : Rs 869 / Rs 671
Avg. Daily vol. (6mth) : 26,470 shares
Bloomberg Code : LTTTS IB Equity
Promoters Holding : 90%
FII / DII : 3% / 1%

Multiple margin levers: Q2FY18 EBITDA margin at 15.3% was flat QoQ despite strong revenue growth. Flat margin QoQ was due to higher onsite component (up 160 bps QoQ; 50.8%) due to ramp-up in recently won deals. Q3 will see the impact of wage increases, however management highlighted that margin levers exist in the form of higher utilization rates, employee pyramid management, higher offshore mix, and better pricing (client specific).

IP monetization: LTTTS has 7-8 key mature solutions such as UBIQWeise™, iBEMS™, WAGES, UBIQ Data etc. in emerging technology areas, which would drive higher IP revenue. In Q2FY18, LTTTS added 33 patents, taking the tally to 287 of which 223 are co-authored with clients and 64 are filed by LTTTS.

Update on Esencia acquisition: Q2 saw USD 4.5 mn revenue, with growth driven by deeper penetration into accounts and cross-sell across clients

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	30,662	32,483	36,120	41,567
Adj PAT (Rs mn)	4,186	4,250	4,219	5,336
Con. EPS* (Rs)	-	-	42	50
EPS (Rs)	-	40	40	51
Change YOY (%)	-	-	1.2	26.5
P/E (x)	-	20.8	20.6	16.3
RoE (%)	39.5	33.3	26.5	29.0
RoCE (%)	42.7	40.7	35.2	39.0
EV/E (x)	16.4	14.5	14.4	11.1
DPS (Rs)	-	7	13	17

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

	FY17	FY18E	FY19E
USD rev (mn)	484	557	627
YoY % growth	3%	15%	12%
EBITDA margin (%)	18.0%	15.9%	17.8%

Price performance

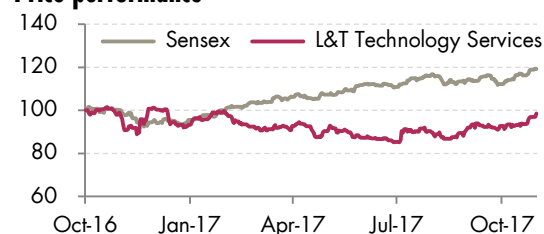


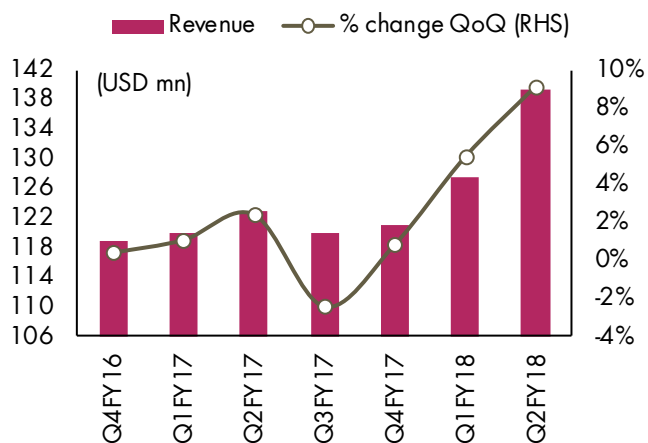
Exhibit 1: Results update

(Rs. mn)	Quarter ended					12 months ended		
	Sep-17	Sep-16	% Chg	Jun-17	% Chg	FY18E	FY17	% Chg
Net sales	9,006	8,227	9.5	8,226	9.5	36,120	32,483	11.2
EBIDTA	1,374	1,562	(12.0)	1,257	9.3	5,737	5,847	(1.9)
Other income	477	144	-	260	-	754	570	-
PBIDT	1,851	1,706	-	1,517	-	6,490	6,417	-
Depreciation	146	151	-	145	-	622	625	-
Interest	-	-	-	-	-	-	-	-
PBT	1,705	1,555	9.6	1,372	24.3	5,869	5,792	1.3
Tax	475	436	-	392	-	1,643	1,542	-
Other provisions	-	-	-	-	-	-	-	-
Minority Interest	3	-	-	(2)	-	7	-	-
Adjusted PAT	1,227	1,119	9.7	982	24.9	4,219	4,250	(0.7)
No. of shares (mn)	105	104	-	105	-	105	107	-
EBIDTA margin (%)	15.3	19.0	-	15.3	-	15.9	18.0	-
PBIDT margin (%)	20.6	20.7	-	18.4	-	18.0	19.8	-
EPS - annualized (Rs.)	46.7	42.9	8.8	37.4	24.7	40.1	39.6	1.2

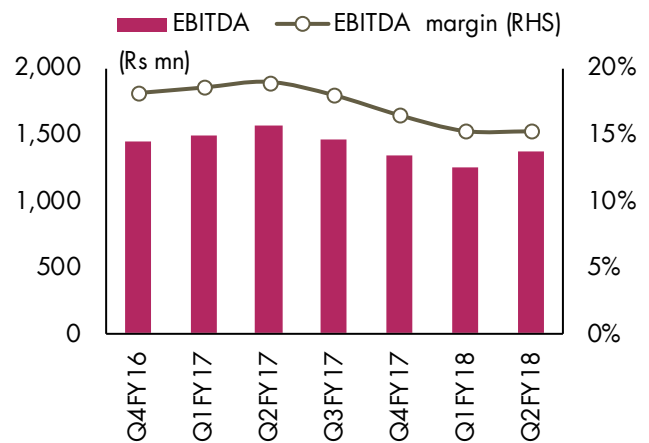
Source: Company, Axis Capital

T-30 strategy: LTTs has created a dedicated team to mine its Top 30 accounts, where the sales and delivery teams focus is on moving the clients up the pyramid. This strategy has been yielding results and management expects momentum to continue.

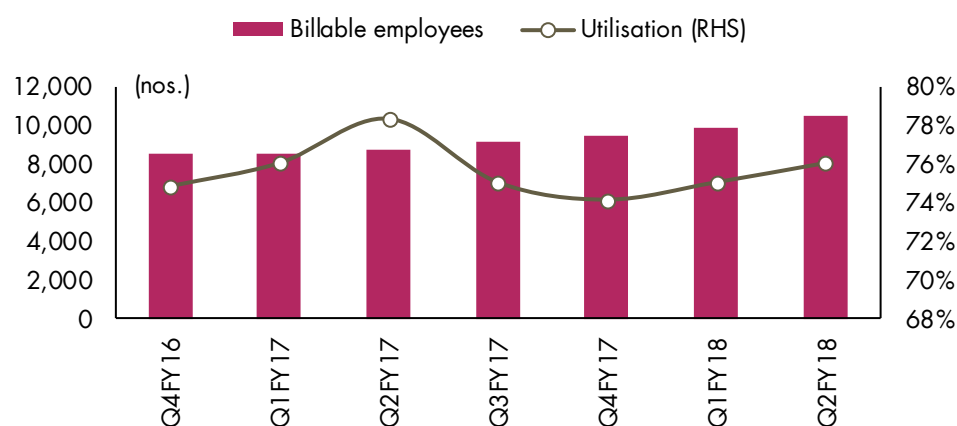
Estimates and valuation: We forecast ~14% USD revenue CAGR over FY17-19 with EBITDA margin at ~16%/18% in FY18E/19E, leading to EPS of Rs 40/ Rs 51. **Maintain BUY** with TP of Rs 914 (18x FY19E), implying an upside of 11% from CMP of Rs 826. The stock trades at 21x/ 16x FY18E/ FY19E.

Exhibit 2: Revenue performance


Source: Company, Axis Capital

Exhibit 3: EBITDA performance


Source: Company, Axis Capital

Exhibit 4: Billable employees and utilization


Source: Company, Axis Capital

Exhibit 5: Geography performance

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Revenue (USD mn)	119	120	123	120	121	128	139
Geography Break-Up (%)							
North America	61%	64%	62%	63%	63%	65%	61%
Europe	20%	20%	20%	19%	17%	17%	17%
India	9%	7%	7%	8%	9%	9%	11%
RoW	10%	9%	11%	10%	10%	10%	12%
Revenue by Geographies							
North America	72	76	77	75	77	82	85
Europe	24	24	24	23	21	21	23
India	11	8	9	10	11	12	15
RoW	11	11	13	12	12	12	17
QoQ change							
North America	0%	5%	0%	-2%	2%	7%	3%
Europe	3%	2%	-1%	-4%	-9%	1%	9%
India	18%	-26%	11%	7%	15%	7%	23%
RoW	-16%	-1%	17%	-7%	1%	-1%	39%

Source: Company, Axis Capital

Exhibit 6: Vertical performance

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Revenue (USD mn)	119	120	123	120	121	128	139
Vertical Break-Up (%)							
Transportation	32%	32%	33%	34%	33%	34%	32%
Industrial Products	26%	26%	26%	27%	27%	26%	24%
Telecom & Hi-tech	18%	19%	20%	17%	19%	20%	24%
Process Industry	18%	16%	15%	16%	14%	14%	13%
Medical Devices	6%	7%	7%	7%	7%	7%	7%
Revenue by verticals							
Transportation	38	39	40	41	40	43	45
Industrial Products	31	31	31	32	33	33	33
Telecom & Hi-tech	21	22	24	21	23	26	34
Process Industry	21	20	19	19	17	18	18
Medical Devices	7	8	8	8	8	9	10
QoQ change							
Transportation	8%	3%	5%	1%	-1%	6%	5%
Industrial Products	4%	-1%	1%	2%	2%	0%	1%
Telecom & Hi-tech	-11%	4%	8%	-14%	11%	12%	32%
Process Industry	-4%	-7%	-5%	-1%	-8%	4%	1%
Medical Devices	4%	12%	-2%	-2%	-1%	10%	11%

Source: Company, Axis Capital

Exhibit 7: Clientele metrics

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Revenue (USD mn)	119	120	123	120	121	128	139
Clientele dependence							
Top 5 Clients	22.8%	24.2%	23.6%	23.4%	23.2%	23.8%	26.8%
Top 10 Clients	36.2%	37.8%	36.3%	35.5%	35.6%	37.0%	39.8%
Top 20 Clients	53.8%	53.8%	52.1%	51.7%	51.5%	52.6%	54.9%
Remaining Clients	46.2%	46.2%	47.9%	48.3%	48.5%	47.4%	45.1%
Revenue by clients							
Top 5 Clients	27	29	29	28	28	30	37
Top 6-10 clients	16	16	16	15	15	17	18
Top 11-20 clients	21	19	19	19	19	20	21
Remaining clients	55	55	59	58	59	60	63
Total	119	120	123	120	121	128	139
Client Profile							
Active Clients	215	203	216	217	223	224	233
30 Million dollar +		1			1	2	2
20 Million dollar +	3	2	3	3	2	1	4
10 Million dollar +	8	7	7	7	6	8	12
5 Million dollar +	17	18	18	18	21	16	28
1 Million dollar +	44	50	53	53	49	53	79

Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	30,662	32,483	36,120	41,567
Other operating income	-	-	-	-
Total operating income	30,662	32,483	36,120	41,567
Total operating expenses	(5,787)	(5,678)	(6,539)	(7,375)
EBITDA	5,194	5,847	5,737	7,391
<i>EBITDA margin (%)</i>	<i>17</i>	<i>18</i>	<i>16</i>	<i>18</i>
Depreciation	(589)	(625)	(622)	(748)
EBIT	4,605	5,222	5,115	6,642
Net interest	-	-	-	-
Other income	820	570	754	634
Profit before tax	5,425	5,792	5,869	7,277
Total taxation	(1,239)	(1,542)	(1,643)	(1,928)
<i>Tax rate (%)</i>	<i>23</i>	<i>27</i>	<i>28</i>	<i>27</i>
Profit after tax	4,186	4,250	4,226	5,348
Minorities	-	-	(7)	(12)
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	4,186	4,250	4,219	5,336
<i>Adj. PAT margin (%)</i>	<i>14</i>	<i>13</i>	<i>12</i>	<i>13</i>
Net non-recurring items	-	-	-	-
Reported net profit	4,186	4,250	4,219	5,336

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	3,000	203	203	203
Reserves & surplus	7,656	14,649	16,756	19,666
Net worth	10,656	14,852	16,959	19,869
Borrowing	1,955	1,019	519	-
Other non-current liabilities	-	-	-	-
Total liabilities	12,611	15,871	17,478	19,869
Gross fixed assets	6,208	6,138	7,509	8,646
Less: Depreciation	-	-	-	-
Net fixed assets	6,208	6,138	7,509	8,646
Add: Capital WIP	143	23	30	35
Total fixed assets	6,351	6,161	7,539	8,681
Total Investment	-	-	-	-
Debtors	7,261	7,108	7,917	9,111
Cash & bank	832	672	1,953	1,922
Loans & advances	2,483	3,555	3,958	4,555
Current liabilities	6,812	5,654	5,984	6,504
Net current assets	4,837	9,064	9,292	10,542
Other non-current assets	1,423	646	646	646
Total assets	12,611	15,871	17,478	19,869
-	-	-	-	-

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	5,425	5,792	5,869	7,277
Depreciation & Amortisation	589	625	622	748
<i>Chg in working capital</i>	<i>836</i>	<i>(4,387)</i>	<i>1,053</i>	<i>(1,281)</i>
Cash flow from operations	4,791	(82)	5,147	4,181
<i>Capital expenditure</i>	<i>(1,244)</i>	<i>(435)</i>	<i>(2,000)</i>	<i>(1,890)</i>
Cash flow from investing	(955)	(396)	(2,000)	(1,890)
<i>Equity raised/ (repaid)</i>	<i>(4,051)</i>	<i>697</i>	<i>(720)</i>	<i>(665)</i>
<i>Debt raised/ (repaid)</i>	<i>(233)</i>	<i>(936)</i>	<i>(500)</i>	<i>(519)</i>
<i>Dividend paid</i>	<i>-</i>	<i>(751)</i>	<i>(1,392)</i>	<i>(1,761)</i>
Cash flow from financing	(4,158)	318	(1,865)	(2,323)
Net chg in cash	(321)	(160)	1,281	(32)

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	-	40	40	51
CEPS (Rs)	-	45	46	58
DPS (Rs)	-	7	13	17
Dividend payout ratio (%)	-	18	33	33
GROWTH				
Net sales (%)	-	6	11	15
EBITDA (%)	-	13	(2)	29
Adj net profit (%)	-	2	(1)	26
FDEPS (%)	-	-	1.2	26.5
PERFORMANCE				
RoE (%)	39.5	33.3	26.5	29.0
RoCE (%)	42.7	40.7	35.2	39.0
EFFICIENCY				
Asset turnover (x)	2.6	2.4	2.4	2.5
Sales/ total assets (x)	1.6	1.6	1.6	1.7
Receivable days	86.4	79.9	80.0	80.0
Inventory days	-	-	-	-
Payable days	30.6	25.3	25.0	25.0
FINANCIAL STABILITY				
Total debt/ equity (x)	0.2	0.1	-	-
Current ratio (x)	1.7	2.6	2.6	2.6
Interest cover (x)	-	-	-	-
VALUATION				
PE (x)	-	20.8	20.6	16.3
EV/ EBITDA (x)	16.4	14.5	14.4	11.1
EV/ Net sales (x)	2.8	2.6	2.3	2.0
PB (x)	-	6.0	5.1	4.4
Dividend yield (%)	-	0.8	1.6	2.0

Source: Company, Axis Capital

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