

L&T Technology Services (LTTS IN)

Engineering is in the DNA

INDIA | IT SERVICES | Initiating Coverage

L&T Technology Services (LTTS) is a mid-cap IT company, focused on the engineering services segment. In FY17, its revenue was US\$ 484mn, with EBITDA margins of 18%. It provides research and design outsourcing services to engineering companies across the world. Its clientele includes marquee names like BMW, Caterpillar, John Deere, and Intel.

ERD – Huge growth potential: ERD has emerged as the next-gen domain for the Indian IT industry, within which Indian IT companies have seen robust growth over the last five years (15% CAGR). More importantly, the quality of the work being outsourced to the Indian companies has evolved significantly – to innovation and development- driven by high-end projects from cost-arbitrage driven low-end tasks. With only 5% of the global ERD spend currently outsourced, we see a huge opportunity over the next decade.

LTTS has a significant presence in the ERD space, and works with 44 of the top-100 global ERD spenders. It derives 33% and 26% of its revenues from transportation and industrials, with marquee clients like BMW, Caterpillar, John Deere, and Intel. It has a focussed strategy of ‘farming’ 30 existing customers, which can be scaled up to the US\$ 50mn category from current US\$ 10mn) and ‘hunting’ 90 other customers (including potential customers). It employs 10,400+ engineers, with revenue productivity of US\$ 50k – comparable with the IT services industry. Attrition remains moderate at 14% and utilisation at 76%.

Strong capabilities in niche domain – industrial products: LTTS is the leader in the industrial products segment (26% of revenue) mainly due to its rich heritage (parent L&T). In this segment, it is associated with some big clients such as Caterpillar, John Deere, Rockwell Automation, Danaher, and Eaton. It has technological alliances with Microsoft, Microchip, Texas Instruments, Renesas, National Instruments, OPC Foundation, Siemens PLM, and Dassault Systems. With its roots in engineering, LTTS possesses the required capabilities to service larger players in the industrials segment.

Competitive advantage in the process design space: Process design is a segment with very little presence of Indian/Global ESO companies. This domain involves complete/part design of plants for various chemical, FMCG and Petroleum companies. LTTS has a competitive advantage in this domain, and has been able to make inroads into many clients (Shell, Unilever, P&G) because of its parent company L&T. Process design business tends to be more sticky, as clients prefer to outsource incremental work to incumbent vendor, who has designed its existing plants, even if it is in a different geographic location. Currently, this segment is reeling under the pressure of lower incremental capex by the clients. But as capex in this segment picks up, LTTS should benefit immensely from the same.

Valuations attractive: We expect revenue CAGR of 12.5% over FY17-19E – highest in our coverage universe. The management is confident of growing in double digits in FY18E, and we believe it will be able to achieve this because of acceleration in top clients, strong growth across its target verticals – industrial products, automotive and hi-tech. We like LTTS’ portfolio as it is the only pure-play ERD player in the listed Indian IT space.

We expect the growth of Indian IT services companies to be under pressure over the next few years (*read our recent detailed reports [here](#) and [here](#)*). However, the ERD segment should buck this trend, and companies such as LTTS – which are not impacted by the current digital transformation cycle – will benefit. They deserve a higher multiple than traditional IT services companies – whose business is being rapidly cannibalised.

We value LTTS at 15x FY19E earnings – in line with Infosys and at a premium to large-cap peers. Our target multiple for LTTS is also at premium to Cyient (*which we value at 13x*) because 100% of LTTS’ revenues is being derived from ERD, as against 62% for Cyient. Our target of Rs 850 represents 16% upside. We initiate coverage with a BUY rating.

2 June 2017

BUY

CMP RS 735

TARGET RS 850 (+16%)

COMPANY DATA

O/S SHARES (MN) :	102
MARKET CAP (RSBN) :	75
MARKET CAP (USDBN) :	1.2
52 - WK HI/LO (RS) :	931 / 731
LIQUIDITY 3M (USDMN) :	0.7
PAR VALUE (RS) :	10

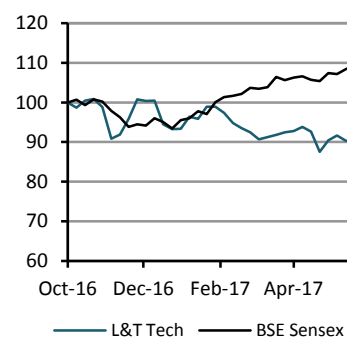
SHARE HOLDING PATTERN, %

	Mar 17	Dec 16	Sep 16
PROMOTERS :	89.8	89.8	89.8
FII / NRI :	3.5	3.6	3.5
FI / MF :	1.1	1.5	1.6
NON PRO :	0.3	0.1	0.4
PUBLIC & OTHERS :	5.4	4.9	4.8

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-0.2	-5.4	Na
REL TO BSE	-2.9	-11.8	na

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

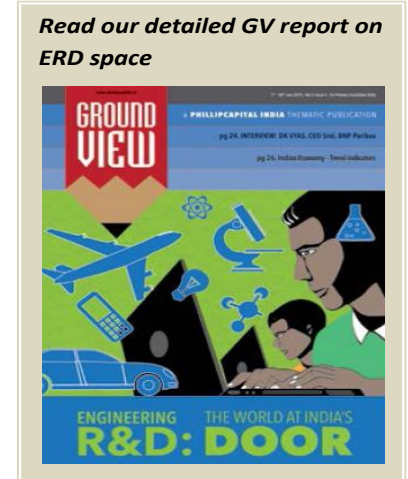
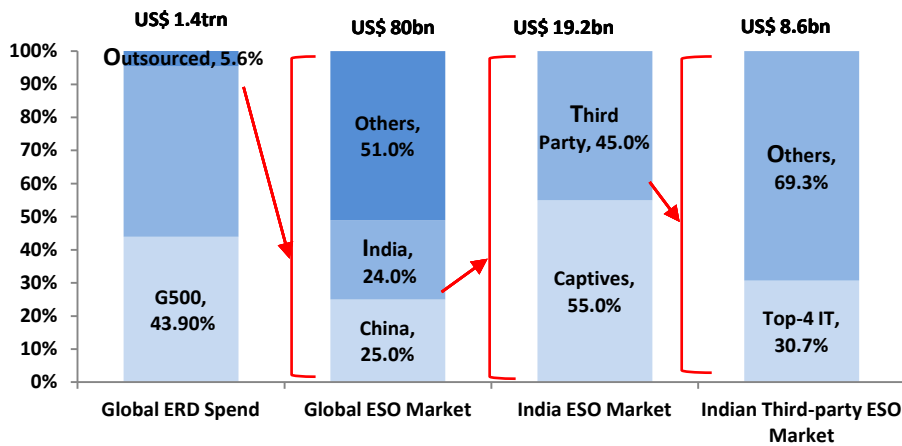
Rs mn	FY17	FY18E	FY19E
Net Sales	32,483	35,236	39,803
EBIDTA	5,847	6,520	7,576
Net Profit	4,250	4,858	5,729
EPS, Rs	41.8	47.8	56.3
PER, x	17.6	15.4	13.0
EV/EBIDTA, x	13.2	11.6	9.6
P/BV, x	5.0	4.0	3.2
ROE, %	28.6	25.9	24.3

Source: PhillipCapital India Research Est.

Shyamal Dhruve (+ 9122 6246 4110)
sdhruve@phillipcapital.in

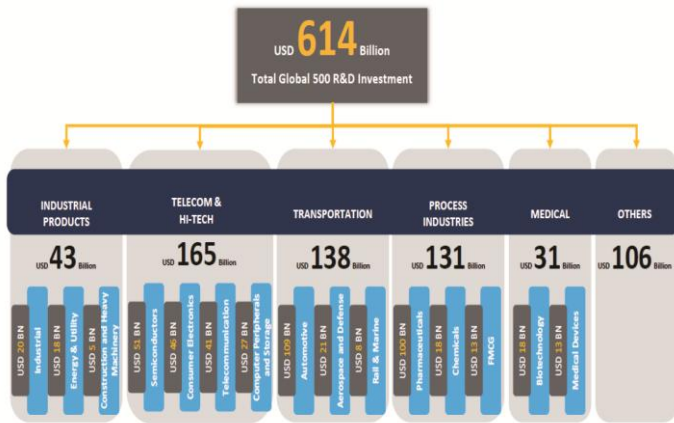
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vsinghal@phillipcapital.in

The global ERD-ESO market

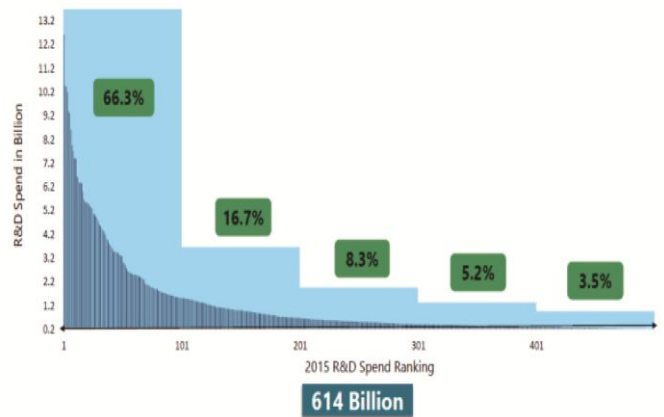


Source: NASSCOM, Zinnov, PhillipCapital India Research

Telecom and Transport are the biggest ERD spenders

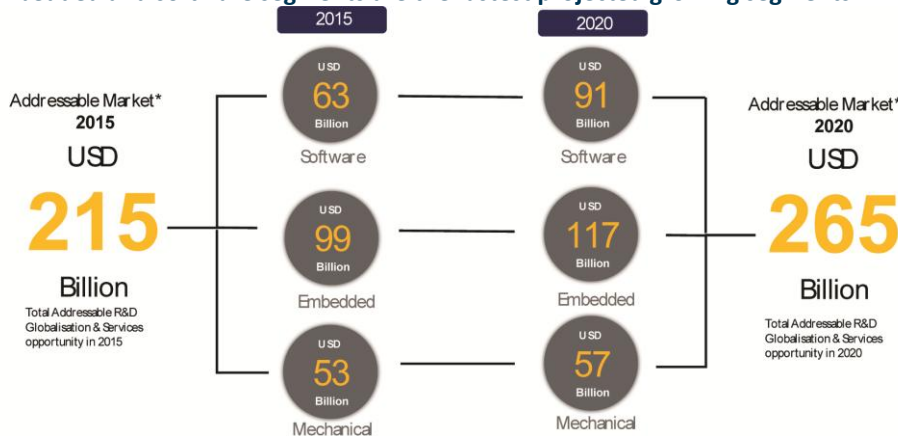


Contribution of G500 R&D spenders



Source: Zinnov research, PhillipCapital India Research

Embedded and software segments are the fastest projected growing segments



* Opportunity includes market for captives, Offshore R&D service providers and onshore R&D service providers

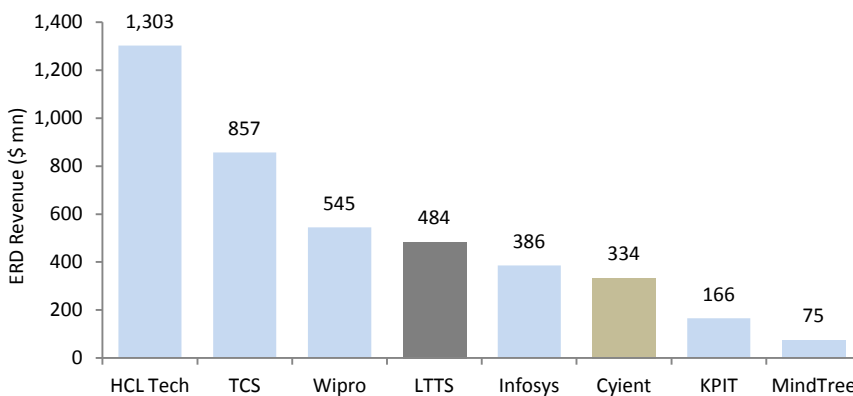
Source: Zinnov research, PhillipCapital India Research

Strong presence in ERD, with marquee clientele

LTTS has a significant presence in the ERD space and works with 44 of the top-100 global ERD spenders. In fact, it is the only pure-play ERD company in the Indian listed IT space. Its FY17 revenues were US\$ 484mn – of which 59% comes from Transportation and Industrial Products. It provides services to companies like BMW, Honda, Boeing, Airbus, Daimler, Thales, UTC etc. In FY17, it reported US\$ revenue growth of 3.4% - below industry growth of 7%. It reported EBIT margin of 16.1% in FY17 (15.0% in FY16).

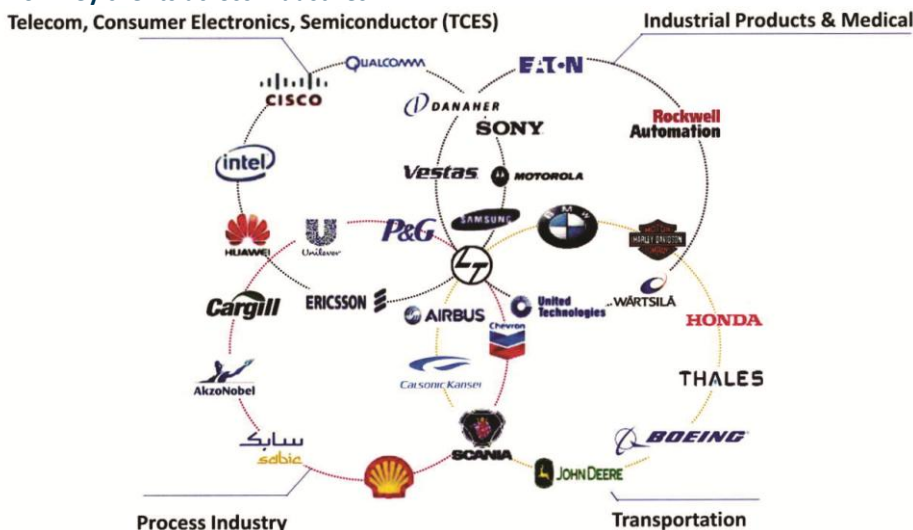
Incorporated in 2012, LTTS was formed by the merger of Product Engineering Services (PES – a wholly owned subsidiary of L&T Infotech), and Integrated Engineering Services (IES – a wholly owned subsidiary of L&T) in 2014, and is now majority owned by the L&T group (90%). It has 10,400+ employees spread across its 12 global delivery centres and 27 sales offices.

Indian IT – ERD revenue comparison (USD mn)



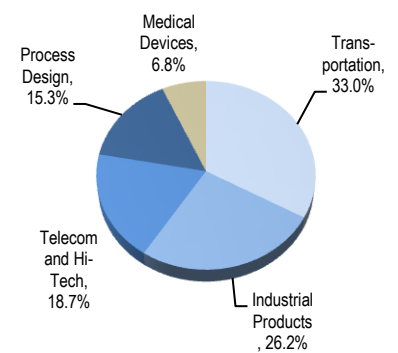
Source: Company, PhillipCapital India Research

LTTS – key clients across industries

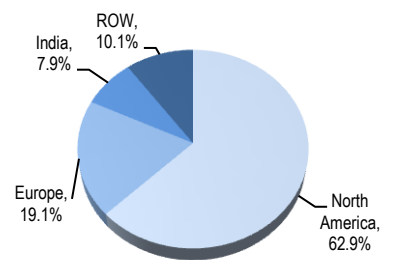


Source: Company, PhillipCapital India Research

LTTS revenue break-up – Industry wise



LTTS revenue break-up – Geography



Source: Company, PhillipCapital India Research

Transportation – the growth driver

Transportation is LTTS’ biggest revenue segment, and generates 34% of its total revenue. Under the transportation vertical, it provides services to the following sectors/segments:

- **Automotive:** ERD mechanical, embedded, and software engineering services – including areas of body control modules, automated driver assistance systems, telematics, and infotainment
- **Off-highway equipment:** New product development, value engineering, and M2M connectivity for excavators, harvesters, combines, and headers, planters, balers, backhoe loaders, and all-terrain vehicles
- **Aerospace:** Structural design, electrical and avionics systems
- **CV manufacturers:** Body design and product localisation. It offers its solutions through alliances with different partners.

Transportation is LTTS’ biggest revenue segment, and generates 34% of its total revenue

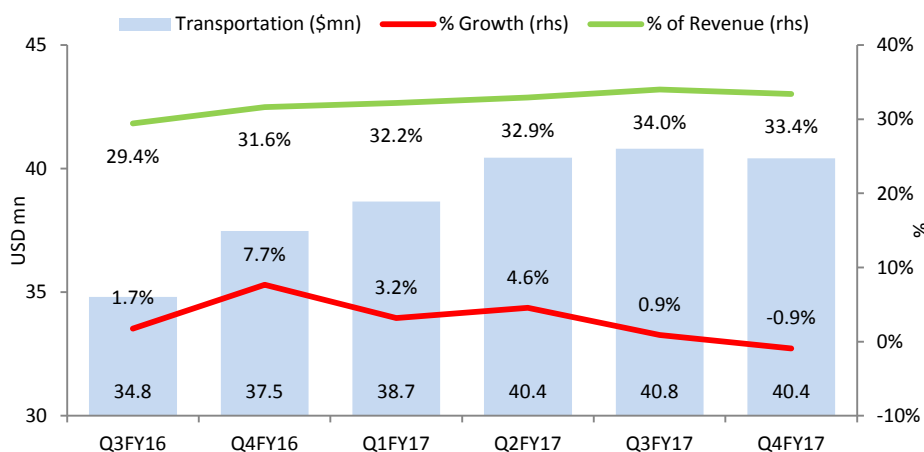
The company is associated with some marquee clients such as BMW, Calsonic Kansei, Scania, Harley Davidson, Honda, Boeing, Airbus, Thales, and Daimler.

LTTS transportation vertical: Alliances with different technology partners



Source: Company, PhillipCapital India Research

Transportation is the largest vertical for LTTS



Source: Company, PhillipCapital India Research

Automotive: In this segment, it works with three of the world’s top-10 auto manufacturers. Key trends shaping the auto industry are –

- **Stricter Regulations:** Emission and fuel economy regulations are getting tougher. As per PwC, in the US and Europe, by 2025, cars will need to have a fuel economy of 60 miles/gallon. Meeting these standards would entail significant improvements in internal combustion engine and powertrain.
- **Safety First:** The advent of autonomous vehicles has raised questions of safety. Countries in the US, Europe, and Japan have now made it mandatory for OEMs to deliver safer vehicles – equipped with advanced driver assistance systems like camera, radar, and Lidar – that help keep the driver alert.

LTTs management sees tremendous traction in this segment. The way Tesla has focused on fuel-efficient energy cars has changed the dynamics of the automotive industry. The core business of auto electronics, which was earlier handled by OEMs’ in-house, has now become non-core for them – resulting in outsourcing.

Aerospace: LTTs offers comprehensive engineering services (mechanical and avionic) to the aerospace industry, and defence OEMs and their suppliers. Its service offerings span the entire product life cycle – from concept design to reverse engineering, modelling and analysis, virtual testing, flight-control testing systems, prototyping, physical testing certification, support, and manufacturing. As per WSJ, commercial aircraft orders are likely to see a CAGR of 5% over the next 20 years. However, aerospace being a cyclical business, revenue growth profile remains lumpy, and is expected to remain the same.

Off-highway: Off-highway vertical provides new product design and development services to leading off-highway machinery manufacturers and their suppliers, and engineering solutions to off-highway equipment and tyre industry. This industry is going through a period of uneven growth. While the US domestic construction market is recovering, industrial segments such as mining and agriculture are seeing stress – driven by a sharp decline in crude oil prices and deceleration in China.

Railways: LTTs partners with global rail industry leaders, providing them with a wide range of end-to-end highly customised engineering solutions to meet requirements for innovations, reduced time-to-market, and cost-effective product development.

Use Cases:

- LTTs developed a turnkey Infotainment Digital Media Receiver including Mechanical, Embedded and Pre-Compliance Testing Support for a leading Tier-1 OEM.
- It developed a Column Friction Device (ASIL B ECU) for a leading North American Tier-1 OEM. The ECU was designed to monitor the steering wheel of a car continuously and take a decision when to lock or unlock the steering column.
- For a leading Japanese Tier-1, LTTs supported a 12” TFT instrument cluster. LTTs was responsible for complete software, HMI, Hardware Design, Validation and Pre-Compliance Test Support.
- LTTs worked as a partner in Hybrid Electric Vehicle Program for a large European OEM. It worked in the areas of software development for critical sub-systems, continuous integration, validation of e-Drive and battery management systems.

Industrial products – core domain expertise

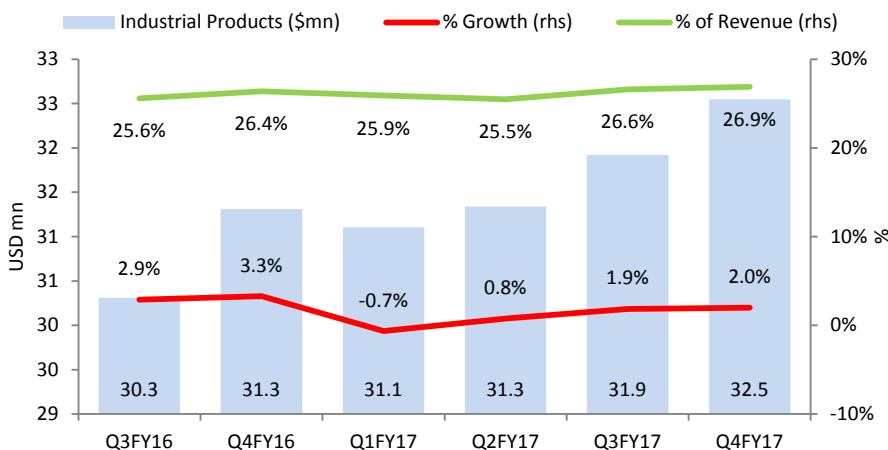
Industrial products is the second biggest revenue segment for LTTS at 26% of its total revenue. LTTS is the leader in this domain, mainly due to the rich heritage it has gained from its parent L&T. It has a presence in:

- **Power, electrical, drive, and utilities:** Focus areas include conventional and non-conventional power generation, transmission, distribution equipment, and utilities equipment.
- **Building automation:** Includes Building Energy Management Systems (iBEMS), lighting and accessories, heating, ventilation, and air conditioning (HVAC), safety, security and access control solutions, and elevators and escalators.
- **Home and office products:** Includes white goods such as kitchen appliances and office equipment.
- **Machinery:** Includes machines and equipment manufacturers in precision, processing, packaging, and power and tool machines.

Industrial products is the second biggest revenue segment for LTTS at 26% of its total revenue

In this segment, LTTS is associated with some big clients such as Caterpillar, John Deere, Rockwell Automation, Danaher, and Eaton. It has technological alliances with Microsoft, Microchip, Texas Instruments, Renesas, National Instruments, OPC Foundation, Siemens PLM and Dassault Systems. With its roots in engineering, it possesses capabilities to service larger players in industrials. This segment has historically performed well and is likely to grow faster than the company average due to its strong relationships with its existing clients.

LTTS is the leader in Industrial products – mainly due to rich heritage from L&T



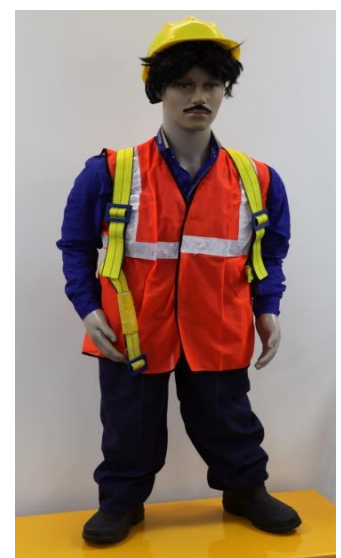
Source: Company, PhillipCapital India Research

Use Case: Connected Worker

For a leading construction client, LTTS designed end-to-end data transmission device on the workers (smart watches, ID cards), central data collection device, and worker productivity and safety analysis software, with long battery life support. It conceptualized the solution and developed sensor node modules, firmware, end-user application, administration and monitoring portal displaying integrated alert systems to supervisors for monitoring PPE. System integration was completed across the transmission devices, sensors, transmission to the cloud and collection devices.

Benefits for Customers

- Ensures compliance to global safety standards and eliminate undesirable workplace hazards
- Delivers total visibility into employee activities with robust safety monitoring system
- Cost-effective PPE monitoring solution, applicable across chemical, construction, mining and oil & gas industries

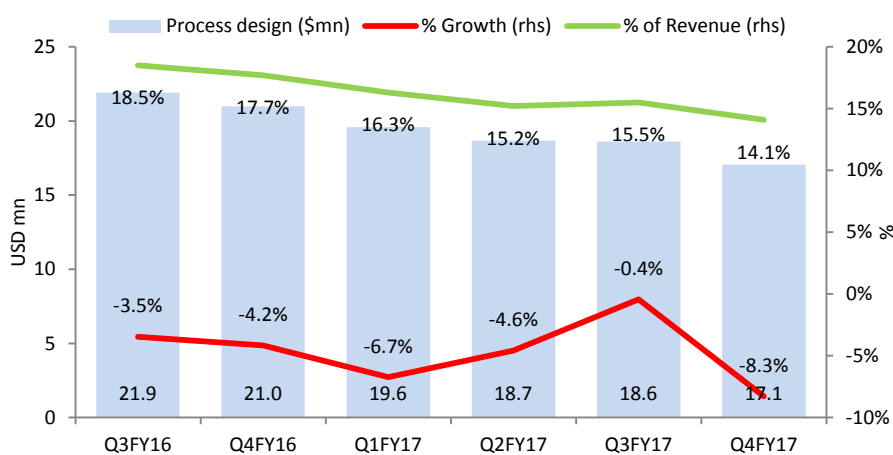


Process design – Competitive advantage

Process design generates 15% of its total revenue. In this segment, LTTS has a presence in:

- **FMCG:** It works with the world’s biggest FMCG/CPG companies in process design, basic and detailed design, development, refurbishment and support services, smart factory solutions, capex cost engineering, mechanical, civil, electrical engineering services for brownfield and greenfield manufacturing plants. This segment has reported muted growth in the last year due to stagnant capex. With an increase in capex, this segment should start growing again.
- **Speciality chemicals:** It provides services such as process design and development services, and basic and detailed design services – mainly for brownfield projects.
- **Oil and gas:** Works in asset optimisation, performance management, and sustenance services. Due to continued weakness in crude oil price, this segment saw a fall in FY17 revenues.

Process design recent performance was impacted by softness in crude oil prices



Industry vertical focus and Engineering capabilities



Source: Company, PhillipCapital India Research

WAGES (Water, Air, Gas, Electricity, Steam) Platform

With constant fluctuations in prices of commodities like coal, gas, and crude, companies are finding it difficult to maintain operational expenditure of their plants. To insulate themselves from changes in commodity prices, they explore different ways to minimise plant operating costs. With legacy systems as part of most companies' core infrastructure, a natural starting point for them is to transition to smarter digital outfits, with advanced capabilities. WAGES solution (Water, Air, Gas, Electricity, Steam) developed by LTTS helps companies identify, audit, monitor, engineer, deploy, and meter wages. It includes measuring data on-site, conducting analysis, site auditing, producing assessment and reports, and consulting on potential energy-saving schema.

WAGES solution (Water, Air, Gas, Electricity, Steam) developed by LTTS helps companies identify, audit, monitor, engineer, deploy, and meter wages

Wages' value proposition



Source: Company, PhillipCapital India Research

Use Cases of WAGES

LTTS completed the audit for 28 sites of a global manufacturing consumer packaged goods in four months. It identified potential opportunities for energy conversation worth US\$ 18mn for this client and aligned and cloud-hosted audit data at the enterprise level.

- For one of its industrial clients, LTTS evaluated and consulted on the energy consumption of a waste-heat recovery system, which resulted in reduced natural gas usage by 200 lb/hour and hot-water boiler requirements by half.
- For a beverage company, it designed and installed a zero liquid discharge facility across countries, reduced cost by 10%, and savings from design optimisation by 20%.

Process design is a segment with very little presence of Indian/Global ESO companies. This domain involves complete/part design of plants for various chemical, FMCG and Petroleum companies. LTTS has a competitive advantage in this domain, and has been able to make inroads into many clients (Shell, Unilever, P&G) because of its parent company L&T. Process design business tends to be more sticky, as clients prefer to outsource incremental work to incumbent vendor, who has designed its existing plants, even if it is in a different geographic location. Currently, this segment is reeling under the pressure of lower incremental capex by the clients. But as capex in this segment picks up, LTTS should benefit immensely from the same.

Telecom (lacklustre) and Hi-tech (bright spot)

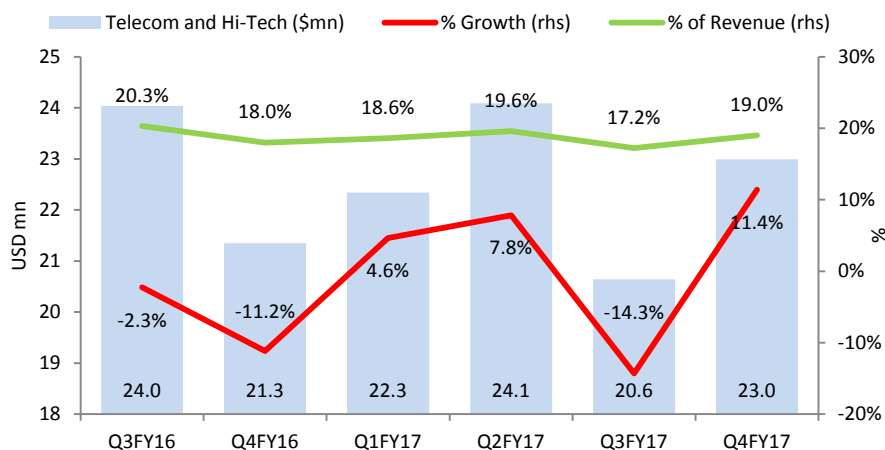
Telecom generates 18% of the total revenue. LTTS has a presence in:

- **Telecom:** Works with network equipment manufacturers across the product-development lifecycle, including development of protocol stacks and network management systems along with maintenance and support.
- **Consumer Electronics:** Works with mobile device and tablet manufacturers, set-top box, and gateway manufacturers, and smart home and wearable-device manufacturers.
- **Semiconductors:** Works areas of application-specific integrated circuit (ASIC) design and verification, embedded software for chip and related validation services, reference board design, and radio-frequency (RF) design.

With the presence of almost all Indian IT companies apart from the global competitors, telecom remains highly competitive. With consolidation in the industry, LTTS does not see major growth in its telecom domain. It expects growth to come from only the hi-tech segment. LTTS' performance in telecom was affected in FY16, as it lost one of its biggest clients (annual run-rate from this client dropped to US\$ 4-5mn from US\$ 15mn a year earlier).

With consolidation in the industry, LTTS does not see major growth in its telecom domain

Telecom has remained lumpy – due to the high competitive intensity



Source: Company, PhillipCapital India Research

Use Cases:

- **Created world's first dual-screen Smartphone:** Recognized as the hottest mobile devices in CES 2014. One-of-a-kind android phone with e-ink reader - L&T Technology Services was involved in complete software development, platform software design, development, and testing for the android phone.
- **Developed a Next-Gen STB with Multi-Tuner Support:** The next-gen cable STB with 8 Tuners and UI applications like EPG, DVR, RDVR, MR-DVR, PPV, SDN, VoD along with integration with 3rd party apps. Used Agile/Scrum based approach with predominant offshore implementation (>85%).
- **Provided support activities for a leading OEMs TD-LTE eNodeB:** Significant reduction in the turnaround time and 85% CQs resolved during transition across multiple modules.

Muted FY17; FY18 to report double-digit growth....

LTTS' FY17 revenue growth was impacted by a 15% decline in the process design. The decline was largely driven by delays in capex by its top clients in the US due to political uncertainties from elections and delay in decision making in telecom and hi-tech. Also, its strategy of "T30:A30" – where the company is focusing on prioritising its top-30 clients (which contribute 65% of the total revenue) that are in the range of US\$ 5-30mn and are scalable to US\$50mn over the next few years – resulted in muted performance from non-top-30 customers in FY17.

However, with (1) focus on T30 customers, (2) marquee client base, and (3) strong deal wins in FY17, it expects to report double-digit organic revenue growth for FY18 driven by:

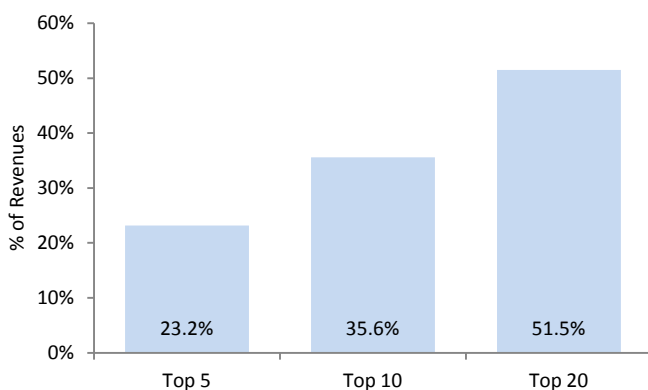
- **Transportation:** LTTS sees tremendous traction in this segment. OEMs are now treating auto electronics as non-core and outsourcing this activity.
- **Industrial products:** This segment has historically performed well and is likely to grow faster than company average due to its strong relationships with clients.

We believe its telecom segment is likely to remain weak due to higher competition as almost all Indian peers are present, while weakness in medical will be because it has not yet opened for outsourcing as estimated.

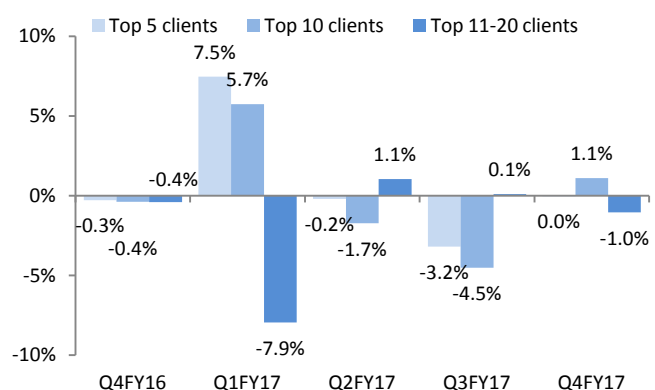
.... driven by marquee clients

Since its inception, LTTS has worked with G500 companies for R&D. Its clients include BMW, Intel, Caterpillar, P&G, Shell, John Deere, Rockwell Automation, UTC, Eaton, Danaher, Scania, and Calsonic Kansei. It works with 44 of top 100 global ERD spenders.

LTTS – Client concentration



LTTS – Top clients growth



Source: Company, PhillipCapital India Research

Focused acquisition strategy

LTTS has followed focused acquisition strategy for growth. Rather than just buying out revenues, it has made few but meaningful acquisitions in the last few years. In May 2017, it acquired US-based Esencia Technologies Inc, a provider of design services in Digital Signal Processing for Communications, Video Security, and Networking. This acquisition will help it enhance its delivery capabilities in Perceptual Computing, IoT, Advanced Silicon Products, and Wireless Networking Technologies.

LTTS – Acquisition history

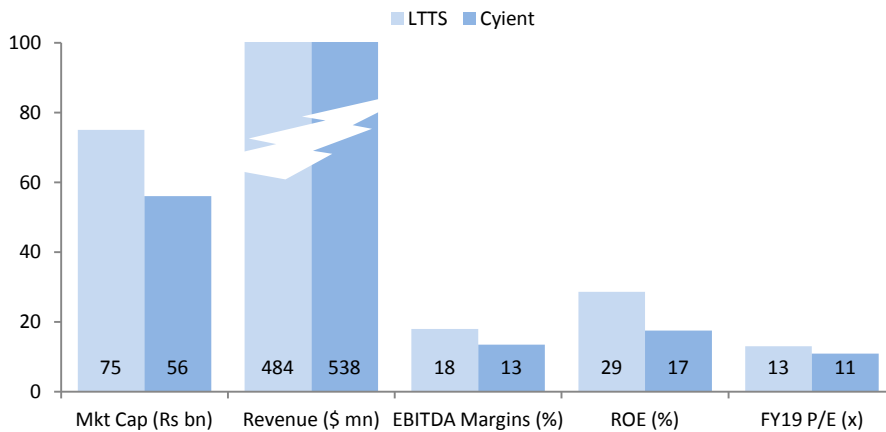
Time	Company	Remarks	Consideration
Jun '14	Thales Software India Pvt Ltd	74% of stake	Rs 60.4mn
July '14	Dell India	Engineering Services Division	Rs 13.6mn
Nov '14	Dell USA	Engineering Services Division	\$12.2mn
May '17	Esencia Technologies (US)	Embedded Systems and Perceptual Computing	NA

Source: Company, PhillipCapital India Research

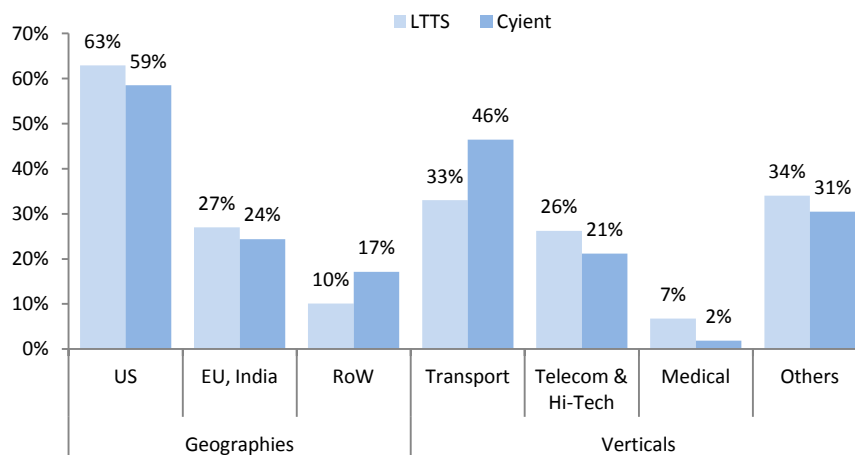
ERD outsourcing – comparison with Cyient

Amongst the listed IT mid-cap companies, Cyient and LTTS are the leaders in the ERD space and have very similar profile. Cyient derives 62% of its revenues from ERD vs. LTTS' 100%. Cyient is strong in aerospace and railways, while LTTS has expertise in automotive and industrial products. Cyient has slightly inferior margins (13% vs. 18% for LTTS) and ROEs (17% vs. 29% for LTTS) – but superior clientele (Boeing, P&W, Airbus, IBM).

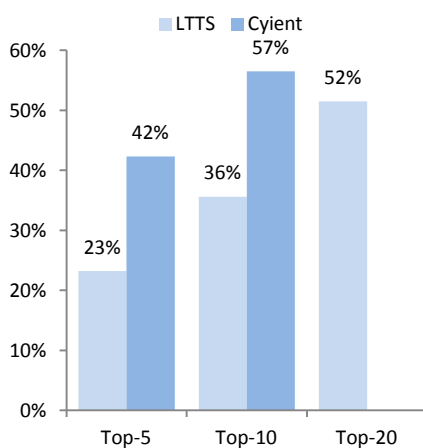
Financials and valuation comparison



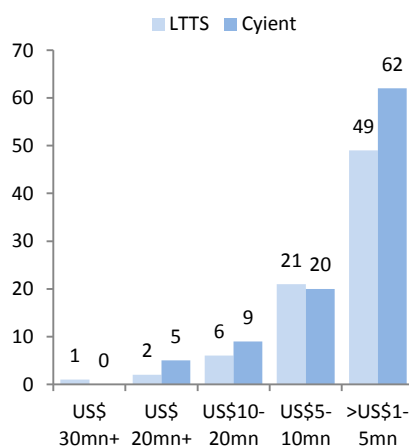
Comparison of revenue break-up – geographies and verticals



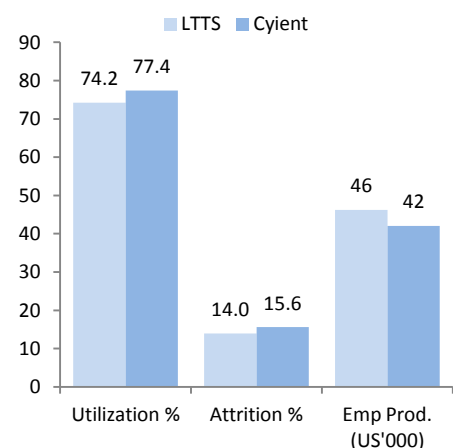
Top clients concentration



Number of clients



Employee metrics

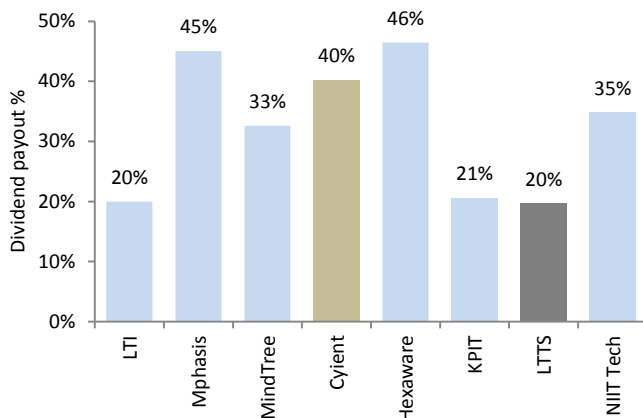


Source: Company, PhillipCapital India Research

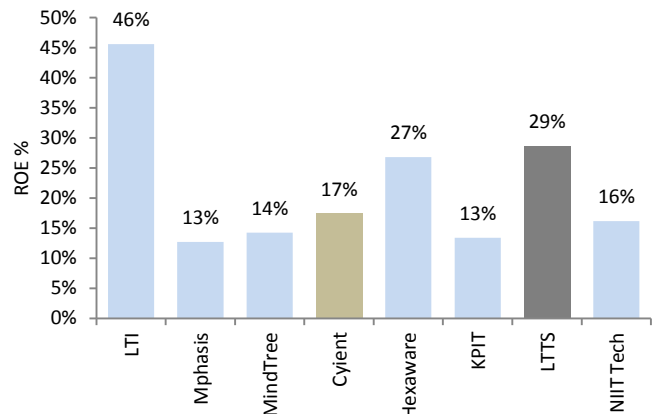
Metrics as good as any mid-cap IT company

LTTS had followed a high dividend payout policy of 80%+ over the last two years. This had resulted in ROEs of 38% – much superior to midcap and even large cap IT services companies. We note that only Hexaware and LTI (same group company) come close to LTTS’ high RoE driven by their parent company. However, after the listing, the company has changed its dividend policy to pay 20% of its net profit as dividend – resulting in lower RoE. On employee metrics such as utilisation (74.2%), attrition (14.0%), and employee productivity (US\$ 46k per head) – LTTS is broadly in line with the industry and the midcap average.

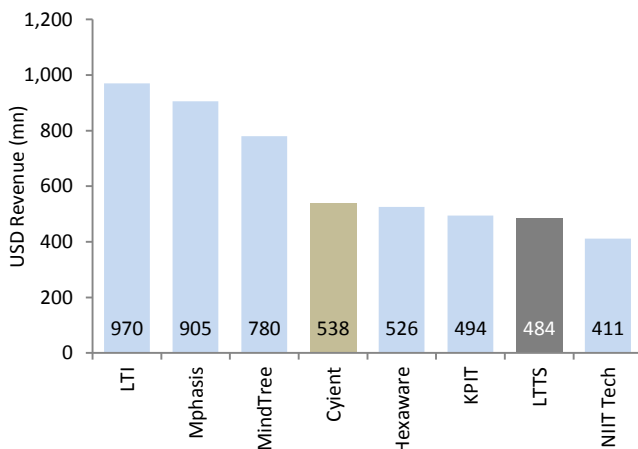
Dividend pay-out lowered after the IPO



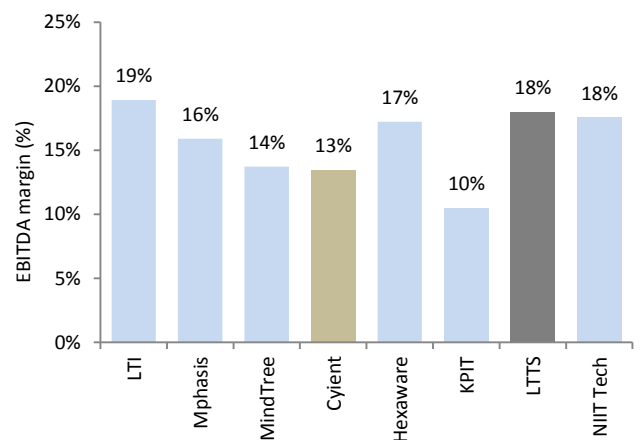
RoE among the best in the industry



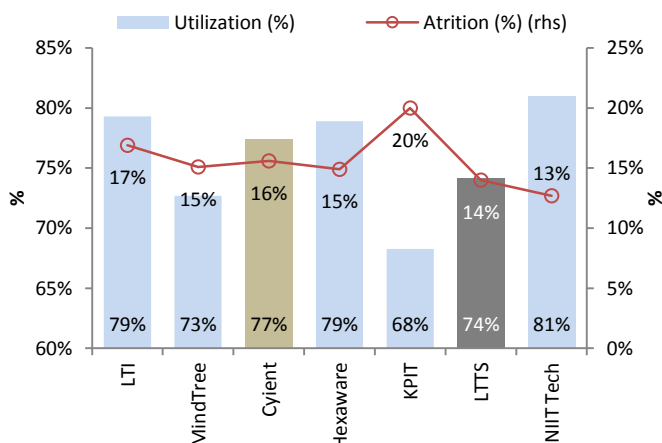
Midcap USD revenue comparison (US\$ mn)



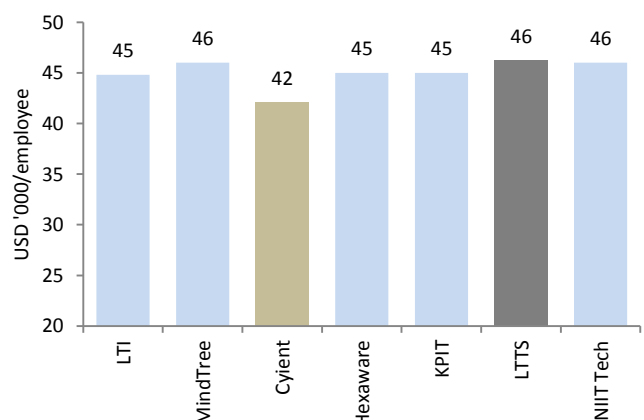
Midcap EBITDA margin comparison



Utilisation/attrition in line with the industry



Revenue productivity (USD '000/employee)



Source: Company, PhillipCapital India Research

Valuations attractive; initiate with BUY

We expect LTTS to report 12.5% USD revenue CAGR over FY17-19E. The management is confident of growing in double digits in FY18E, and we believe it will be able to achieve this because of acceleration in top clients, strong growth across its target verticals – industrial products, automotive and hi-tech. We like LTTS’ portfolio as it is the only pure-play ERD player in the listed Indian IT space. We expect earnings CAGR of 16% over FY17-19E despite investments in sales and marketing.

Currently, the stock trades at 13x FY19E EPS. These valuations, though at premium to its large-cap peers Wipro and TechM, are justifiable given tremendous growth opportunities in the ERD space and LTTS’ unique positioning. We believe it will continue to command premium valuations due to its strong revenue visibility and better business mix vs. its mid-cap peers. While large-cap peers such as HCLT are available at the same valuations, LTTS’ business mix is superior (with no exposure to the commoditised IT-services business).

We expect the growth of Indian IT services companies to be under pressure over the next few years because of their inefficient capital allocation policy of the last decade (detailed report [here](#)) and increasing uncertainty in the business environment across the world (detailed report [here](#)). However, we expect the ERD segment to buck this trend and companies such as HCLT, LTTS, and Cyient to benefit.

While we expect single-digit USD revenue growth for most IT services companies over the next three years, pure/part ERD companies should fare better on expectations of incremental outsourcing of ERD work. We incorporate 12%/13% US\$ revenue growth over next two years and 100bps margins improvement for LTTS – leading us to an EPS of Rs 56.5 for FY19E.

Our target of Rs 850 is based on 15x our FY19E EPS. We have assigned premium valuation to LTTS over its mid-sized peers due to superior growth rates, exposure to ERD, and better execution track record. We initiate coverage with a BUY rating.

Valuation table: Large-cap IT services

Companies	CMP Rs	M-Cap Rs bn	ROE (%)		P/E (x)		P/BV (x)		EV/EBITDA (x)	
			FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
TCS	2,555	5,033	30.6	27.1	18.5	17.9	5.7	4.8	15.2	14.3
Infosys	970	2,218	21.0	21.0	15.0	13.8	3.2	2.9	9.5	8.5
Wipro	542	1,319	14.7	14.1	15.6	14.7	2.3	2.1	10.4	9.4
HCL Tech	863	1,219	25.6	24.3	14.1	13.3	3.6	3.2	10.1	9.7
Tech Mahindra	399	350	13.8	14.3	14.2	12.5	2.0	1.8	8.9	7.3
LTTS	735	75	25.9	24.3	15.4	13.0	4.0	3.2	11.6	9.6

Valuation table: Mid-cap IT services

Companies	CMP Rs	M-Cap Rs bn	ROE (%)		P/E (x)		P/BV (x)		EV/EBITDA (x)	
			FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
MindTree	538	90	17.2	17.4	18.5	16.3	3.2	2.8	11.0	9.5
Persistent	608	49	15.5	15.1	14.9	13.7	2.3	2.1	9.6	8.7
KPIT	117	22	13.1	13.0	9.6	8.6	1.3	1.1	4.9	4.0
NIIT Tech	538	33	15.2	16.4	11.6	10.4	1.8	1.7	4.8	4.1
Cyient	495	56	17.3	17.9	13.4	11.3	2.3	2.0	8.5	6.8
LTTS	735	75	25.9	24.3	15.4	13.0	4.0	3.2	11.6	9.6

Source: Company, PhillipCapital India Research

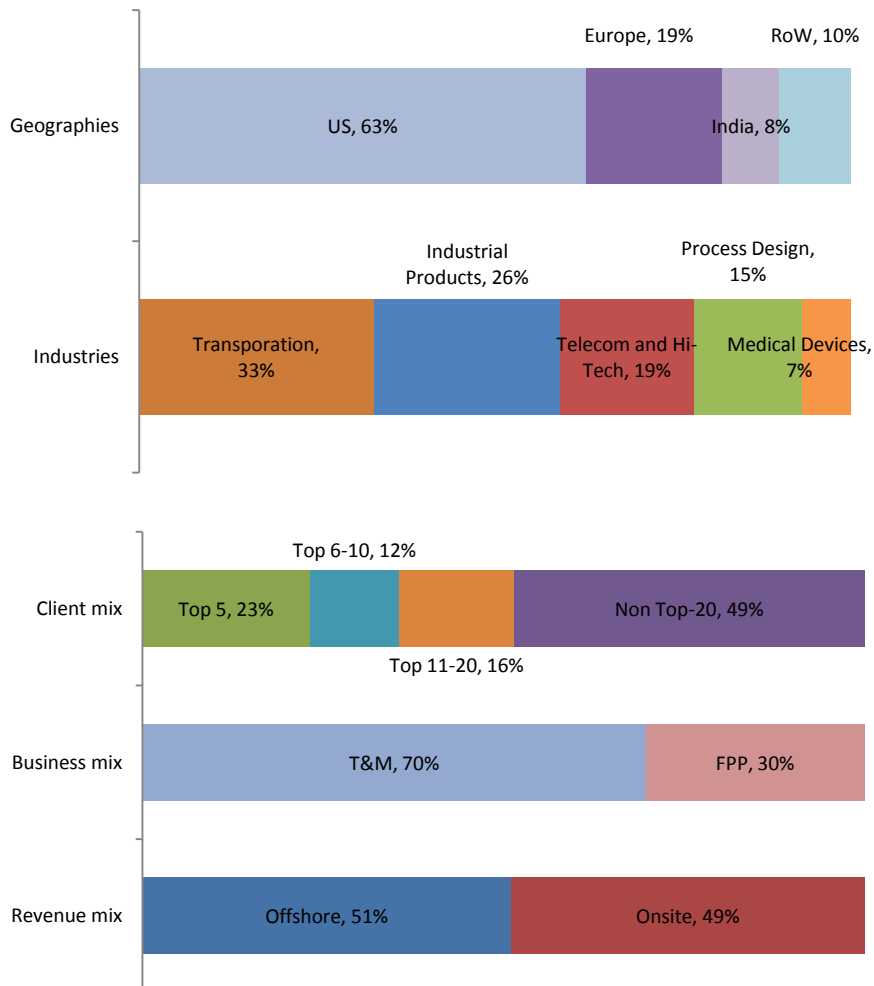
Management history/profile

LTSS does not have a long history. It was incorporated in 2012 with the major contributing subsidiaries of Product Engineering Services division (PES – a wholly owned subsidiary of L&T Infotech), and Integrated Engineering Services (IES – a wholly owned subsidiary of L&T) merging into it in 2014.

Key management personnel

- Dr Keshab Panda – MD and CEO:** Dr Keshab Panda has been serving as the CEO of LTSS since January 2015. He has 31 years of experience in IT and engineering services. Before joining LTSS, he was with Satyam Computer Services in various capacities.
- Mr P Ramakrishnan – CFO:** Mr P Ramakrishna has been CFO of LTSS from January 2016. He had been with the L&T group for last 24 years, having worked in different areas of finance and accounts covering treasury, corporate accounts, and corporate finance. He has graduate degree in Commerce (Honours) from University of Calcutta.

Revenue profile



Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY16	FY17	FY18E	FY19E
Net sales	30,662	32,483	35,236	39,803
Growth, %	17	6	8	13
Total income	30,662	32,483	35,236	39,803
Employee expenses	-19,681	-20,958	-22,431	-25,141
Other Operating expenses	-5,787	-5,678	-6,285	-7,085
EBITDA (Core)	5,194	5,847	6,520	7,576
Growth, %	30.3	12.6	11.5	16.2
Margin, %	16.9	18.0	18.5	19.0
Depreciation	-589	-625	-639	-663
EBIT	4,605	5,222	5,881	6,913
Growth, %	31.5	13.4	12.6	17.5
Margin, %	15.0	16.1	16.7	17.4
Interest paid	-15	-21	-20	-20
Other Income	835	591	616	746
Pre-tax profit	5,425	5,792	6,477	7,638
Tax provided	-1,239	-1,542	-1,619	-1,910
Profit after tax	4,186	4,250	4,858	5,729
Others (Minorities, Associates)	0	0	0	0
Net Profit	4,186	4,250	4,858	5,729
Growth, %	34.6	1.5	14.3	17.9
Net Profit (adjusted)	4,186	4,250	4,858	5,729
Wtd avg shares (m)	102	102	102	102

	FY16	FY17	FY18E	FY19E
US\$ Revenue (\$ mn)	468	484	542	612
Growth, %	9.3	3.4	12.0	13.0
Re / US\$ (rate)	65.5	67.1	65.0	65.0

Balance Sheet

Y/E Mar, Rs mn	FY16	FY17	FY18E	FY19E
Cash & bank	834	674	2,234	5,061
Marketable securities at cost	0	0	0	0
Debtors	7,289	7,106	8,205	9,113
Inventory	0	0	0	0
Loans & advances	768	1,536	1,459	1,139
Other current assets	0	0	0	0
Total current assets	8,891	9,316	11,897	15,314
Investments	555	1,946	2,946	3,946
Net fixed assets	6,178	6,138	6,738	7,338
Less: Depreciation	0	0	0	0
Add: Capital WIP	143	23	23	23
Net fixed assets	6,321	6,161	6,761	7,361
Non-current assets	2,595	3,779	4,215	4,682
Total assets	19,423	21,525	26,143	31,626
Current liabilities	7,504	5,402	5,979	6,528
Provisions	1,232	1,271	1,404	1,559
Total current liabilities	8,736	6,673	7,383	8,087
Non-current liabilities	31	0	0	0
Total liabilities	8,767	6,673	7,383	8,087
Paid-up capital	3,000	203	203	203
Reserves & surplus	7,656	14,649	18,557	23,335
Shareholders' equity	10,656	14,852	18,760	23,538
Total equity & liabilities	19,423	21,525	26,143	31,626

Cash Flow

Y/E Mar, Rs mn	FY16	FY17	FY18E	FY19E
Pre-tax profit	5,425	5,792	6,477	7,638
Depreciation	589	625	639	663
Chg in working capital	1,388	-3,832	-748	-351
Total tax paid	-1,902	-835	-1,619	-1,910
Cash flow from operating activities	5,501	1,750	4,749	6,041
Capital expenditure	-1,214	-465	-1,239	-1,263
Chg in investments	-555	-1,391	-1,000	-1,000
Chg in marketable securities	0	0	0	0
Other investing activities	0	0	0	0
Cash flow from investing activities	-1,769	-1,856	-2,239	-2,263
Free cash flow	3,732	-106	2,510	3,778
Equity raised/(repaid)	-7,500	-2,797	0	0
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	-3,576	-834	-950	-950
Other financing activities	7,025	3,577	0	0
Cash flow from financing activities	-4,051	-54	-950	-950
Net chg in cash	-319	-160	1,560	2,828

Valuation Ratios

	FY16	FY17	FY18E	FY19E
Per Share data				
EPS (INR)	41.2	41.8	47.8	56.3
Growth, %	34.6	1.5	14.3	17.9
Book NAV/share (INR)	104.8	146.1	184.5	231.5
CEPS (INR)	47.0	47.9	54.1	62.9
CFPS (INR)	50.1	37.9	42.6	54.4
DPS (INR)	29.7	7.0	8.0	8.0
Return ratios				
Return on assets (%)	22.3	20.8	20.4	19.9
Return on equity (%)	39.3	28.6	25.9	24.3
Return on capital employed (%)	33.0	30.4	26.8	25.4
Turnover ratios				
Asset turnover (x)	2.4	2.8	2.7	2.9
Sales/Total assets (x)	1.6	1.6	1.5	1.4
Sales/Net FA (x)	5.1	5.2	5.5	5.6
Working capital/Sales (x)	0.0	0.1	0.1	0.1
Receivable days	86.8	79.8	85.0	83.6
Payable days	30.6	25.3	26.8	26.5
Working capital days	6.6	36.4	38.2	34.2
Liquidity ratios				
Current ratio (x)	1.2	1.7	2.0	2.3
Quick ratio (x)	1.2	1.7	2.0	2.3
Interest cover (x)	307.0	248.7	288.6	339.2
Dividend cover (x)	1.4	6.0	6.0	7.1
Total debt/Equity (%)	40.9	19.1	16.4	14.0
Net debt/Equity (%)	33.1	14.6	4.5	(7.5)
Valuation				
PER (x)	17.9	17.6	15.4	13.0
PEG (x) - y-o-y growth	0.5	11.5	1.1	0.7
Price/Book (x)	7.0	5.0	4.0	3.2
Yield (%)	4.0	1.0	1.1	1.1
EV/Net sales (x)	1.9	2.4	2.1	1.8
EV/EBITDA (x)	11.3	13.2	11.6	9.6
EV/EBIT (x)	12.7	14.7	12.8	10.5

Source: Company, PhillipCapital India Research Estimates

Management

Vineet Bhatnagar (Managing Director)	(91 22) 2483 1919
Kinshuk Bharti Tiwari (Head – Institutional Equity)	(91 22) 6246 4101
Jignesh Shah (Head – Equity Derivatives)	(91 22) 6667 9735

Research
Automobiles

Dhawal Doshi	(9122) 6246 4128
Nitesh Sharma, CFA	(9122) 6246 4126

Banking, NBFCs

Manish Agarwalla	(9122) 6246 4125
Pradeep Agrawal	(9122) 6246 4113
Paresh Jain	(9122) 6246 4114

Consumer & Retail

Naveen Kulkarni, CFA, FRM	(9122) 6246 4122
Jubil Jain	(9122) 6246 4117
Preeyam Tolia	(9122) 6246 4129

Cement

Vaibhav Agarwal	(9122) 6246 4124
-----------------	------------------

Economics

Anjali Verma	(9122) 6246 4115
Shruti Bajpai	(9122) 6246 4135

Engineering, Capital Goods

Jonas Bhutta	(9122) 6246 4119
Vikram Rawat	(9122) 6246 4120

Sales & Distribution

Ashvin Patil	(9122) 6246 4105
Shubhangi Agrawal	(9122) 6246 4103
Kishor Binwal	(9122) 6246 4106
Bhavin Shah	(9122) 6246 4102
Ashka Mehta Gulati	(9122) 6246 4108
Archan Vyas	(9122) 6246 4107

IT Services

Vibhor Singhal	(9122) 6246 4109
Shyamal Dhruve	(9122) 6246 4110

Infrastructure

Vibhor Singhal	(9122) 6246 4109
----------------	------------------

Logistics, Transportation & Midcap

Vikram Suryavanshi	(9122) 6246 4111
--------------------	------------------

Media

Manoj Behera	(9122) 6246 4118
--------------	------------------

Metals

Dhawal Doshi	(9122) 6246 4128
Yash Doshi	(9122) 6246 4127

Mid-Caps & Database Manager

Deepak Agarwal	(9122) 6246 4112
----------------	------------------

Oil & Gas

Sabri Hazarika	(9122) 6667 9756
----------------	------------------

Sales Trader

Dilesh Doshi	(9122) 6667 9747
Suniil Pandit	(9122) 6667 9745

Execution

Mayur Shah	(9122) 6667 9945
------------	------------------

Pharma & Specialty Chem

Surya Patra	(9122) 6246 4121
Mehul Sheth	(9122) 6246 4123

Strategy

Naveen Kulkarni, CFA, FRM	(9122) 6246 4122
---------------------------	------------------

Telecom

Naveen Kulkarni, CFA, FRM	(9122) 6246 4122
Manoj Behera	(9122) 6246 4118

Technicals

Subodh Gupta, CMT	(9122) 6246 4136
-------------------	------------------

Production Manager

Ganesh Deorukhkar	(9122) 6667 9966
-------------------	------------------

Editor

Roshan Sony	98199 72726
-------------	-------------

Sr. Manager – Equities Support

Rosie Ferns	(9122) 6667 9971
-------------	------------------

Corporate Communications

Zarine Damania	(9122) 6667 9976
----------------	------------------

Contact Information (Regional Member Companies)

SINGAPORE: Phillip Securities Pte Ltd
250 North Bridge Road, #06-00 RafflesCityTower,
Singapore 179101
Tel : (65) 6533 6001 Fax: (65) 6535 3834
www.phillip.com.sg

JAPAN: Phillip Securities Japan, Ltd
4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026
Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141
www.phillip.co.jp

THAILAND: Phillip Securities (Thailand) Public Co. Ltd.
15th Floor, VorawatBuilding, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand
Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921
www.phillip.co.th

UNITED STATES: Phillip Futures Inc.
141 W Jackson Blvd Ste 3050
The Chicago Board of TradeBuilding
Chicago, IL 60604 USA
Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA: Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur
Tel (60) 3 2162 8841 Fax (60) 3 2166 5099
www.poems.com.my

INDONESIA: PT Phillip Securities Indonesia
ANZTower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia
Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809
www.phillip.co.id

FRANCE: King & Shaxson Capital Ltd.
3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France
Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017
www.kingandshaxson.com

AUSTRALIA: PhillipCapital Australia
Level 10, 330 Collins Street
Melbourne, VIC 3000, Australia
Tel: (61) 3 8633 9800 Fax: (61) 3 8633 9899
www.phillipcapital.com.au

INDIA

PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013 Tel: (9122) 2300 2999 Fax: (9122) 6667 9955 www.phillipcapital.in

HONG KONG: Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway Hong Kong
Tel (852) 2277 6600 Fax: (852) 2868 5307
www.phillip.com.hk

CHINA: Phillip Financial Advisory (Shanghai) Co. Ltd.
No 550 Yan An East Road, OceanTower Unit 2318
Shanghai 200 001
Tel (86) 21 5169 9200 Fax: (86) 21 6351 2940
www.phillip.com.cn

UNITED KINGDOM: King & Shaxson Ltd.
6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS
Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835
www.kingandshaxson.com

SRI LANKA: Asha Phillip Securities Limited
Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka
Tel: (94) 11 2429 100 Fax: (94) 11 2429 199
www.ashaphillip.net/home.htm

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Registered office: No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013