

**Summary**

**L&T Technology Services Ltd (LTTS)** at its investor and analyst meet gave insights into its growth strategies, six potential strategic bets, industry landscape, and growth aspirations. As per industry experts, ER&D spend is expected to reach USD1.7-1.9tn by 2023E from the current level of USD1.3tn in 2020. LTTS is expected to reach USD1bn run rate by Q2-Q3FY23E and USD1.5bn by FY25 with EBIT margin of 18%.

**Important Statistics**

<b>M.CAP (₹ bn)</b>	₹455.89
<b>52 Week H/L (₹)</b>	4436/1465
<b>NSE Code</b>	LTTS
<b>BSE Code</b>	540115

**Key Highlights**

- **Focus on six strategic areas to drive growth** – LTTS is looking to invest in six strategic growth areas and as per Zinnov all these strategic bets are expected to reach combine market size of ~USD 1.5tn by 2025E- 1) EACV (Electric Autonomous Connected vehicles)- 25% of cars will be EV by 2025E, market size is expected to reach USD 129bn for Electrification, USD 32bn for Connected and USD 7bn for Autonomous market by 2025E, 2) Medtech to USD 200bn by 2025E, 3) 5G to USD155bn, 4) AI & Digital Products to USD 100bn, 5) Digital Manufacturing to USD475bn and 6) Sustainability to USD 400bn by 2025E. Within these strategic areas, LTTS has also defined the service offerings and it is likely that these bets will support the growth aspiration of the management. In our view, company is well poised to achieve industry leading growth in mid to long term with sustainable operating margins
- **Re-emphasise on industry leading growth with sustainable margins** – Company re-emphasise on the revenue growth guidance of 15-17% for FY22E and expect to reach USD1bn revenue run rate by Q2-Q3FY23E. Management is cautiously optimistic to achieve USD1.5bn revenue by FY25e; including inorganic contribution with EBIT margin of 18%. Acquisition will be towards building capability around white spaces and not for revenue growth. Company is now more optimistic on growth expectation given the 1) higher predictability with some consolidation in client budgeting, 2) client are no longer outsourcing for cost but are looking for speed, scale and talent and LTTS expect this trend to continue, 3) pushing team and clients to sign fixed part of project, 4) vendor consolidation- clients are picking key strategic supplier post onset of pandemic and 5) pickup in long term projects providing long term commitment with clients. On margin side, company have seen improvement and expect similar trend to continue. Expect margin in hi-tech and manufacturing vertical to grow going forward with additional levers from talent rescaling, higher offshoring and higher fresher hiring to support margin expansion with headwinds from part of travel cost coming back, acquisition and investment in cyber security, training and labs.
- **EBIT margin outlook of 18% in FY25 with gradual increase** – EBIT margin stood at 14.6% in FY21 and at 17.3% in Q1FY22 driven by a growing share of digital engineering, productivity improvement, cost optimization and rupee depreciation, partly negated by wage hikes, and higher subcontracting and third-party contracting expenses. Rising attrition and wage hikes for mid-to-senior level employees are the margin headwinds in the near term. LTTS hopes to offset these headwinds through revenue acceleration, improvements from some operational levers (i.e. employee pyramid, offshoring) and better margins in telecom and hi-

**Financials**

Particulars	FY19	FY20	FY21
<b>Revenue</b>	<b>50,783</b>	<b>56,192</b>	<b>54,497</b>
<b>EBIT</b>	<b>8,803</b>	<b>9,276</b>	<b>7,891</b>
<b>EBIT Margin (%)</b>	<b>15.9</b>	<b>19.8</b>	<b>14.5</b>
<b>Net Profit</b>	<b>7,684</b>	<b>8,186</b>	<b>6,634</b>
EPS (₹)	73.1	77.9	62.9
DPS (₹)	21	21	22
RoNW (%)	34.8	32.2	21.3
RoCE (%)	45.2	42.2	25.3
P/E (x)	59.3	55.7	68.9
P/BV (x)	18.4	16.4	13.1
EV/EBITDA (x)	32.0	40.3	43.6

Source: Company Filing, Way2wealth Research

Particulars	FY22E	FY23E
<b>Revenue</b>	<b>64,301</b>	<b>75,558</b>
<b>EBIT</b>	10,765	12,987
<b>EBIT Margin (%)</b>	16.7	17.2
<b>Net Profit</b>	8,917	10,993
EPS (₹)	84.8	104.6
DPS (₹)	24	26
RoNW (%)	23.9	25.4
RoCE (%)	28.9	31.2
P/E (x)	51.2	41.5
P/BV (x)	11.4	9.7
EV/EBITDA (x)	33.0	25.8

Source: Company Filing, Way2wealth Research

9<sup>th</sup> September 2021

CMP – ₹4,334.5/-

 View – **Accumulate on Dips**

tech verticals. The company aims to sustain margins at current levels in the near term and to increase EBITM to 18% in FY25.

- **Developing end-to-end capabilities in key bets; focus on software engineering** – Global ERD spending is expected to rebound strongly and grow above pre-Covid levels in the next 2-3 years. Digital engineering spending will accelerate and drive growth. LTTS derives 54% of revenues from digital and is well positioned to benefit from strong growth in digital engineering. Opportunities will be available in legacy engineering as well. Nature of ERD spending is set to change with higher softwarisation, higher leverage of technologies such as cloud, data, AI, IoT, 5G, 3D printing and simulations and new imperatives such as sustainability. This has the potential to create several high growth opportunities. LTTS has chosen to focus on six bets within the ERD space.
  - **EACV (Electric autonomous and connected vehicles)** – It has designed and developed industrial grade electric and autonomous platforms. Component engineering, systems engineering, thermal and energy management, testing, infotainment and ADAS/AD are some of the key opportunities.
  - **MedTech** – Focus areas include device engineering, digital platforms, clinical apps development, cloud and IoT platforms, analytics and regulatory compliance. LTTS has developed medical devices such as low-cost ventilator and endotrainer in partnerships with academic institutions.
  - **5G** – Chip design, private network deployment and managed services, network assurance, testing and provision of labs are the key focus areas.
  - **AI and digital products** – Focus is making devices connected and intelligent. Areas of specialization include chip design, embedded engineering, network engineering, software engineering and SI & validation.
  - **Digital manufacturing** – LTTS has services across the entire value chain- design, testing, simulation and prototyping, manufacturing, supply chain and aftermarket. Focus technologies include cloud, digital twin and IIoT. The company has Industry 4.0 accelerators for several applications such as paperless operations, asset condition monitoring and condition based maintenance.
  - **Sustainability** – LTTS has chosen to focus on the UN's sustainable development goals that require application of engineering. Offerings include renewables and energy management, green product compliance, light weighting, green sourcing and water management.

LTTS is developing end-to-end capabilities in each of these bets. The company has already won large deals and has a strong pipeline in these areas. In addition to the six bets it is also increasing capability in software engineering. Capabilities that are already developed and scaled include digital twin and cloud. Capabilities and technologies are augmented further include AI, automation, analytics, security and edge computing.

- **Building blocks in place for sustainable growth** – LTTS works with 57 of the top 100 ERD spenders globally. The company is the largest outsourcing provider for 4 of its top 5 clients and ranks among top 2 for several of its top 30 clients. It has systems and processes in place to best capture spending of ER&D leaders.
- **Strong mining programs to create large accounts** – The company has a structured program for account mining that brings together various elements such as aligning delivery practice with client needs, extending presence to more geographies and divisions within the client, capturing opportunities such as carve outs, extending offerings to new buying centers such as marketing, operations and supply chain and creating joint solutions with partner ecosystem to tap full growth potential and generate 15-20% annual growth. LTTS expects to have one US\$50 mn account, six US\$30-50 mn and twelve US\$20-30 mn accounts by FY24
- **Robust engine that has consistently generated large deal** – LTTS has been consistently winning large deals in the past few years and has bagged 39 such deals in the past four quarters across verticals. It has set up an experienced large deals team for proactive deals. In addition, it also uses relationships with advisories, industry analysts and partner ecosystem to create large deal opportunities.
- **Focused hunting** – LTTS targets new logo wins from disruptors such as Netflix. Disruptors are lucrative clients due to strong growth characteristics. The company has developed approaches to get logos from a larger set of conventional clients as well.
- **Localization in key geographies** – LTTS has developed local presence in key geographies of US and Europe to aid in delivery.
- **Strong lab infrastructure** – LTTS has 69 innovation labs up from 38 in Q1FY18 providing strong technology capabilities. The company has dedicated labs for new technologies such as EV and 5G.
- **Talent pool to include more freshers, PGs and Ph.Ds. and contractual workers** – Structure of talent pool will change by having more freshers at the bottom of the pyramid and hiring more qualified personnel such as PGs and Ph.Ds/ research associates. There is likely to be increase in usage of temporary and gig workers. Measures to augment the talent pool include : **(1) Skilling** – Creation of LTTS global engineering academy in FY21. The academy has 200+ certification programs and trains both freshers and laterals in a variety of skill sets, **(2) Strengthening leadership team** through various internal programs and **(3) Partnerships with academic institutions.** It collaborates with leading universities to cocreate solutions and IP.

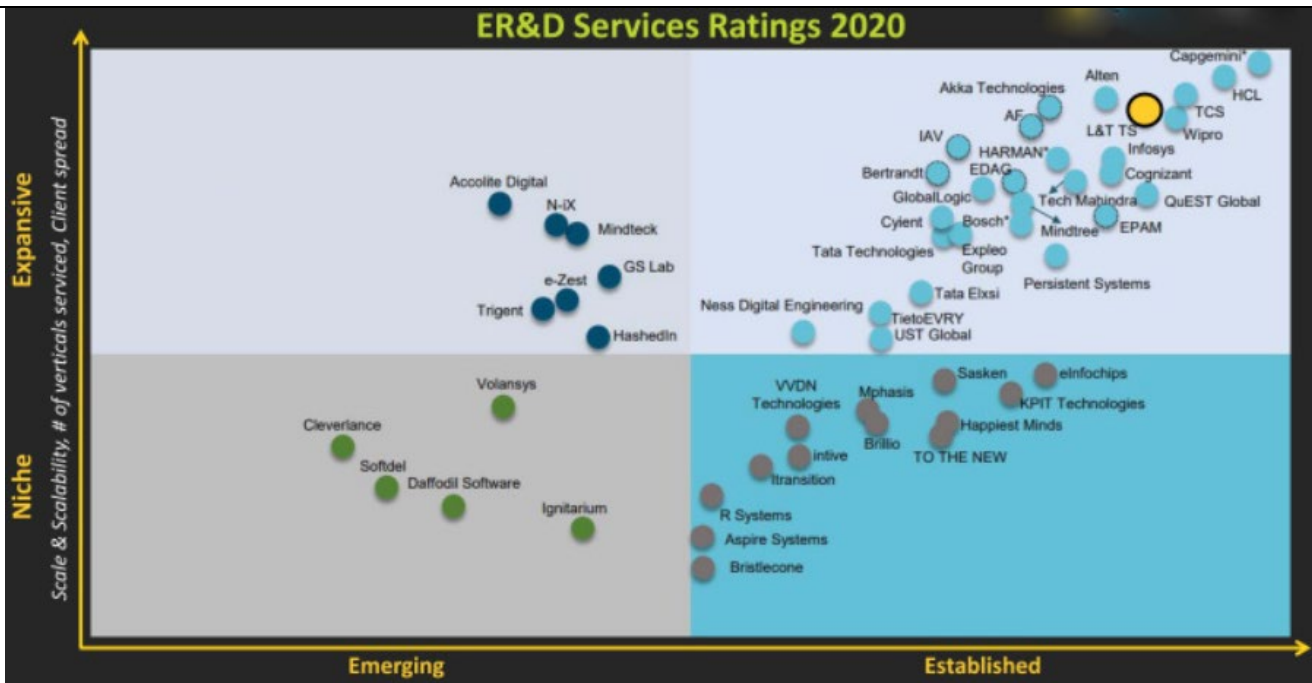
### Others Highlights

- **Focus on increasing technology quotient** – Focus is on increasing technical certifications for employees, generating more patents, technical papers and reusable assets
- **Plays in legacy engineering** – Legacy engineering will continue to grow for the industry and LTTS. Key focus areas are plant engineering, frugal engineering, value engineering and new product development and manufacturing support.
- **Digital engineering** – Clients are targeting more revenue from sale of services rather than the sale of products. This requires equipping products with intelligence. Clients will take a more collaborative approach to digital. Digital engineering consists of both building digital products and leveraging digital in engineering processes.
- **Geographic expansion** – LTTS will expand medical and hi-tech verticals in Japan.
- **Measures to increase offshoring** – LTTS has placed the best delivery leaders in strategic accounts to provide comfort to clients on quality of delivery with higher offshoring. The company has developed tools such as AURA platform to help clients remotely monitor and assess delivery capabilities. It has also invested in security and home labs to enable remote working.
- **Attrition** – Current high attrition at 14.5% is a just a temporary phase and will stabilize going forward Lead indicators are healthy. The quality and number of client conversations indicate a strong demand environment.
- **Offshoring will increase** – Offshoring of ERD work will increase post Covid.
- **M&A** – Focus will be on acquisitions in US\$20-30 size in areas of (1) auto, (2) ISV, (3) digital healthcare.
- **Sales cycles have decreased** – Sales cycles have reduced by ~30% in the past six months.

### View

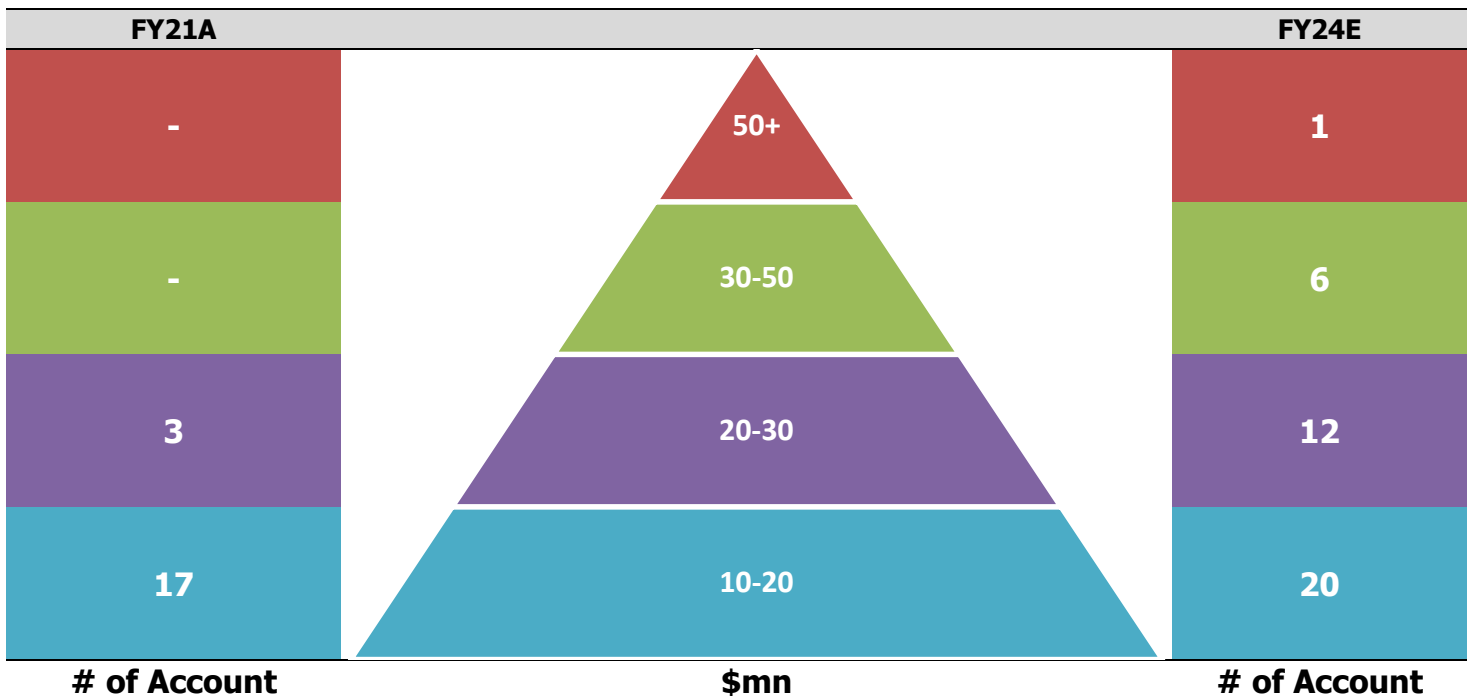
With strong parentage, deep domain capabilities and well-balanced portfolio across five verticals, LTTS is well positioned to take advantage of the anticipated V-shape recovery in the ER&D industry. The growing share of revenue from digital engineering (54% of revenue in Q1FY22) and strengthening relationships with top clients (LTTS is the top outsourcing partner in 4 out of top 5 clients; among the top 2 outsourcing partners in majority of Top 30 clients) augurs well for revenue growth visibility and sustainability. Management aspires to achieve a US\$1bn revenue run rate by Q2/Q3FY23 (implying ~4% CQGR) and US\$1.5bn revenue run rate in FY25 (implying 19.5% CAGR) with 18% EBITM, aided by revenue acceleration, higher offshoring and employee pyramid rationalization. We remain positive on the growth prospects of the ER&D segment and LTTS is likely to be a big beneficiary of the anticipated acceleration in ER&D spending. **We maintain ACCUMULATE on DIPS on LTTS considering it is trading at P/E 41x FY23E to its FY23E EPS of ₹104.6 with its ability to win large deals and deep engineering expertise.**

**LTTTS ranked highly by Industry analyst in the ER&D space**



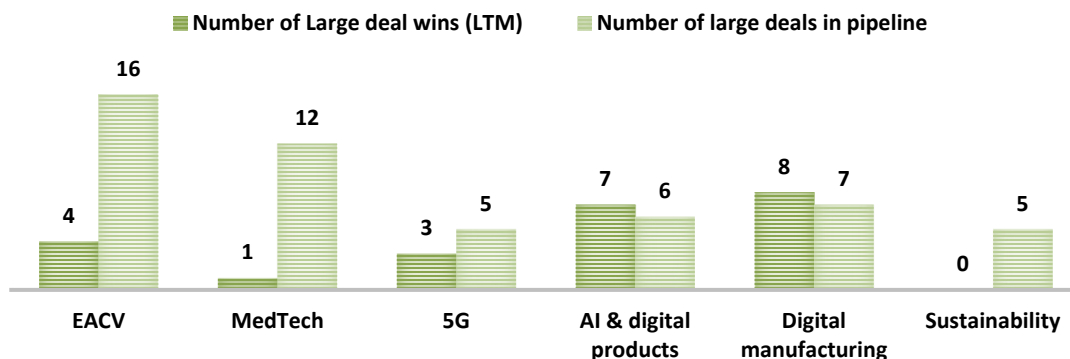
Source – Company

**LTTTS guided to add clients in USD30mn+ and USD50mn+ bucket by FY24E**



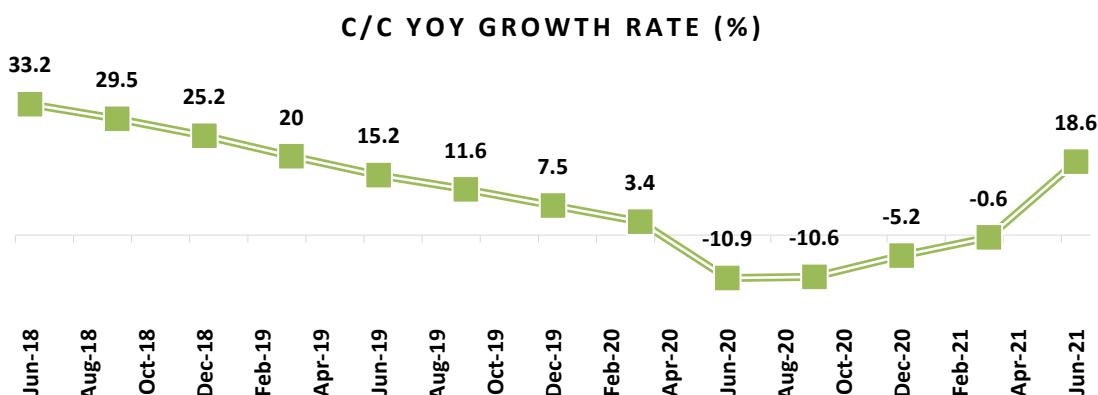
Source – Company

**Number of large deal wins (LTM) and deals in the pipeline in each of the six bets**



Source – Company

**Quarterly YOY revenue growth trend, %, Jun18-Jun21**



Source – Company

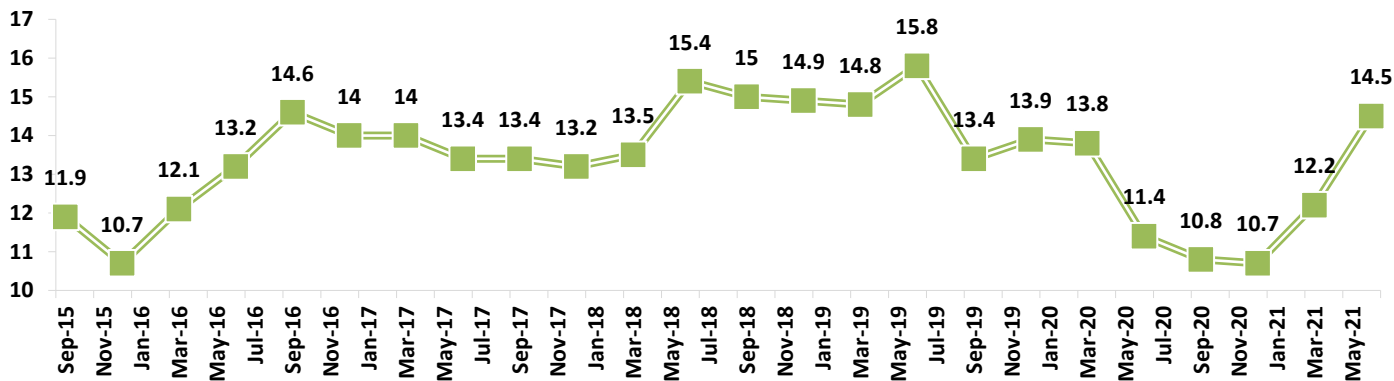
**Increase in offshoring will be a key margin lever**



Source – Company

**LTTTS expects attrition to be lower than industry average**

**ATTRITION RATE (LTM, %)**



Source – Company

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**Financial Performance**  
**Vertical mix Revenues (%)**

(₹ mn)

Verticals	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Transportation	32.9	34.9	35	35.8	35.7	31.5	31.5	30.4	31.2	31.2
Industrial Products	19.3	19.6	19.4	19.2	19.4	19.4	19.5	19.3	18.9	19.5
Telecom & Hi-tech	26.2	22.2	20.6	18.4	18.7	22.4	21.4	22.9	22.1	22.0
Process Industry	14.7	15.3	16.2	17.2	16	13.8	14.4	14.7	15.5	15.5
Medical Devices	6.7	8	8.8	9.4	10.3	12.8	13.2	12.7	12.3	11.7

Source: Company, Way2Wealth Research

**Geography wise Break up (%)**

(₹ mn)

Region	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
North America	58.9	60.9	61.7	61.2	61.2	61.2	60	61.2	61.5	62.3
Europe	16	15.6	14.4	14.1	16.7	16	16	16.1	16.7	16.8
India	13.9	12.8	13.1	13.2	12.8	13	13.6	13.9	13.1	12.9
Rest of the World	11.2	10.7	10.7	11.4	9.2	9.8	10.4	8.8	8.8	8.0

Source: Company, Way2Wealth Research

**Client composition (%)**

(₹mn)

Clients	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Top 5	26.4	24.7	22.9	21.1	19.2	17.8	17.0	16.3	16.1	16.4
Top 10	37.7	36.7	35.7	33.9	31.8	29.7	28.3	27.3	26.9	27.4
Top 20	53.5	52.5	51.3	49.8	48.5	46.8	44.9	44.0	43.8	43.9
Beyond top 20	46.5	47.5	48.7	50.2	51.5	53.2	55.1	56.0	56.2	56.1

Source: Company, Way2Wealth Research

Client data	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Number of Active Clients	251	258	258	265	270	270	283	296	306	305
More than 50m USD	2	1	1	-	-	-	-	-	-	-
More than 30 mn USD	3	3	3	3	2	1	1	1	-	-
More than 20 mn USD	5	5	5	7	8	4	5	4	3	5
More than 10 mn USD	16	17	17	20	21	22	20	18	20	20
More than 5 mn USD	41	44	44	43	43	43	44	41	39	43
More than 1 mn USD	106	110	110	107	113	113	116	118	122	122

Source: Company, Way2Wealth Research

Revenue by Project Type (%)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Fixed Price	43.6	42.4	41.8	42.7	38.6	38.5	39.7	38.5	36.5	33.8
Time and Material Contract	57.9	57.6	58.2	57.3	61.4	61.5	60.3	61.5	63.9	66.2
<b>Revenue Mix (%)</b>										
Onsite	44.8	44.3	43.8	44	47.1	48.3	45.1	42.9	42.1	41.9
Offshore	52.9	55.7	56.2	56	52.9	51.7	54.9	57.1	57.9	58.1
<b>Utilization (%) including Trainees</b>	80.2	79.6	77.8	79.2	78.1	70.9	75.4	77.5	78.9	79.2

Source: Company, Way2Wealth Research



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Employee Statistics	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Total Headcount	15,140	15,913	16,789	16,787	16,883	16,641	15,902	16,069	16,452	16,972
Billable	14,034	14,755	15,614	15,604	15,667	15,481	14,778	14,975	15,335	15,896
Sales & Support	1,106	1,158	1,175	1,183	1,216	1,160	1,124	1,094	1,117	1,076
Voluntary Attrition % (LTM)	14.8	15.8	13.4	13.9	13.8	11.4	10.8	10.7	12.2	14.5
Net Addition	363	773	876	-2	96	-242	-739	167	383	520

Source: Company, Way2Wealth Research

**Q1FY22 Performance**

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Revenue (US\$ mn)</b>	205.7	171	20.3	197.5	4.2	736.6	786	(6.3)
<b>Revenue</b>	15,184	12,947	17.3	14,405	5.4	54,497	56,192	(3.0)
<b>EBIT</b>	2,623	1,567	67.4	2,391	9.7	7,891	9,276	(14.9)
<b>EBIT Margin (%)</b>	17.3	12.1		16.6	4.1	14.5	16.5	
<b>Net profit</b>	2,162	1,172	84.5	1,945	11.2	6,634	8,186	(19.0)
<b>EPS (₹)</b>	20.6	11.2	84.5	18.5	11.2	63.1	77.9	(19.0)

Source: Company, Way2Wealth Research

**Past Performance**

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Revenue</b>	<b>37,471</b>	<b>50,783</b>	<b>56,192</b>	<b>54,497</b>	<b>64,301</b>	<b>75,558</b>
<b>EBIT</b>	4,923	8,803	9,276	7,891	10,765	12,987
<b>EBIT Margin (%)</b>	13.1	15.9	19.8	14.5	16.7	17.2
<b>Net Profit</b>	5,072	7,684	8,186	6,634	8,917	10,993
EPS (₹)	48.3	73.1	77.9	62.9	84.8	104.6
DPS (₹)		21	21	22	24	26
RoNW (%)	29.6	34.8	32.2	21.3	23.9	25.4
RoCE (%)	27.4	45.2	42.2	25.3	28.9	31.2
P/E (x)	89.8	59.3	55.7	68.9	51.1	41.4
P/BV (x)	23.5	18.4	16.4	13.1	11.4	9.7
Cash Balances (₹mn)	1,542	2,051	2,440	2,327	6,418	12,954
FCFF (₹mn)	2,368	6,492	4,141	11,622	5,494	8,003

Source: Company, Way2Wealth Research

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**Disclosure of Interest Statement L&T Technology Services Ltd. as on September 9<sup>th</sup>, 2021**

Name of the Security	L&T Technology Services Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	
Financial Interest	No
Analyst :	Yes (5 shares)
Analyst's Relative : Yes / No	18 <sup>th</sup> June 2020
Date of buying	No
Analyst's Associate/Firm : Yes/No	
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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