

19th October 2023

CMP – ₹4,315.3/-

View – **ACCUMULATE**

Q2FY24 Result Highlights

- **Broad based growth across segments led by Transportation and Plant Engg** – L&T Technology Services Ltd (LTTS) reported Q2FY24 revenue grew 2.9% QoQ and 1.8% YoY (+3.2% QoQ and +1.9% YoY in C/C terms) to US\$ 288.1mn led by the transportation (+4.4% QoQ in USD terms) and Plant engineering segment (+3.8%). Hi-tech and telecom was up 2.3% and Medical devices was up 1.4% while industrial products was up 1.0%. EBIT margin came in at 17.1%, +49 bps YoY but flat on a sequential basis. Margin movement was driven by the negative impact of wage hikes offset by better SG&A leverage, cost optimisation measures, and operational efficiencies. Among geographies, India was up 7.5% QoQ while North America and Europe were up 0.7% and 5.2% QoQ in USD terms respectively. LTTS won seven deals of more than USD 10 mn+ TCV, out of which six were USD 15 mn each. Large deal wins stood strong at ~USD 100 mn+ in Q1FY24 v/s USD 73 mn+ average of the last four quarters. The company won deals across verticals including two significant empanelments, with the highlight being a USD 10 mn+ deal win leveraging SWC capabilities in North America. Headcount was up 2.1% on a sequential basis at 23,880. LTM attrition moderated by 220 bps QoQ to 16.7%. LTTS is investing in software-defined vehicles (SDV), AI & cybersecurity, and will have ~2,000 employees trained over the next few quarters. The management is accelerating training and capability building and also partnering with US headquartered chip majors to build next-generation chips and software for Software Defined Vehicles (SDV) management to take advantage of the next wave of spending. The board declared interim dividend of ₹17/- per share. DSO of 117 days declined by 1 QoQ and in line with target range of 115-125 in the year.
- **A large deal pipeline and new technology conversations in aerospace shall drive growth in Transportation segment.** Under Plant Engineering, customers are focused on investing across the spectrum in shale, low-carbon energy, carbon capture and renewables to fit themselves for greener fuels and continued capacity expansion in FMCG shall drive growth in Q3FY24 and beyond. Industrial Products faced softness on account of delayed decision making whereas growth will be driven by digital products and digital manufacturing. In Telecom and Hi- tech segment, company has engaged more on the new-age chipsets that are designed for AI and cloud computing workloads, which has help to grow despite the challenges. Also, the large deal wins in Next-Gen space and opportunities in Media and Medical space are likely to keep growing.
- **Guidance cut to 17.5-18.5%; expect organic growth of 5-6%** – As per the management Medical devices segment will be muted in 2HFY24 despite a couple of ~USD20 mn TCV deals in Q2FY24. Hi-tech/telecom vertical will be impacted in Q3FY24 but has possibility of recovery in Q4FY24 led by semiconductor clients given the focus on new-age chips. Outlook continues to healthy for transportation and plant engineering verticals. The ERD business is largely discretionary with growth that is extremely sensitive to the macro. Hence, guidance is a tricky process. The company cut revenue growth guidance for FY24 to a growth of 17.5-18.5% from 20%+ earlier. Additionally, the strikes of UAW (United Auto Works) strikes from mid-September, in the US have put a pause on a couple of projects and impacted revenue by US\$700-800K in Sep'23 quarter. Impact will continue in Dec'23 quarter as well depending on the extent of the strike. Clients have also become more cautious on the macro leading to delays. LTTS indicated comfort with the upper end of the guidance. While the company has stopped guiding for SWC separately, implied organic growth guidance is likely to be at 5-6%, down from 10%+ at the start of the year.

Important Statistics

M.CAP (₹ bn)	456.2
52 Week H/L (₹)	4,860/3,218
NSE Code	LTTS
BSE Code	540115

Shareholding Pattern	Sep'23 (%)
Promoters	73.8
DIIs	11.0
FIIIs	5.9
Public & Others	9.3

FINANCIALS

Particulars	FY20	FY21	FY22
Revenue	56,192	54,497	65,697
EBIT	9,276	7,891	12,005
EBIT Margin (%)	19.8	14.5	18.3
Net Profit	8,186	6,634	9,606
EPS (₹)	77.9	63.1	91.1
DPS (₹)	21.0	22.0	35.0
RoE (%)	32.2	21.2	25.0
RoCE (%)	42.2	16.2	20.3
P/E (x)	159.9	68.4	47.4
P/BV (x)	16.4	13.0	10.9
EV/EBITDA (x)	41.7	45.8	32.4

Particulars	FY23	FY24E	FY25E
Revenue	80,136	96,591	107,788
EBIT	14,792	16,291	18,422
EBIT Margin (%)	18.5	16.9	17.1
Net Profit	11,698	12,998	14,894
EPS (₹)	110.9	123.2	141.2
DPS (₹)	45.0	54.0	64.0
RoE (%)	25.6	24.1	24.2
RoCE (%)	28.9	27.2	27.4
P/E (x)	38.9	35.0	30.6
P/BV (x)	9.2	8.4	7.3
EV/EBITDA (x)	26.8	26.0	22.9

Source: Company, Way2Wealth

Relative Performance

Return (%)	1 Yr	3Yr	5 Yr
LTTS	23.5	153.6	176.5
Nifty 50	11.8	64.9	90.0
Sensex	10.9	62.1	91.0

Source: Company, Way2Wealth

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 View – **ACCUMULATE**
View

L&T Technology Services (LTTS) reported revenue of USD 288.1mn, a growth of 3.2% QoQ in C/C terms, with all five segments growing sequentially. EBIT margin was flat on a sequential basis at 17.1% as wage hikes and investments in new technologies were offset by better operating leverage and improved utilisation. Deal wins were decent, with seven deals of more than USD 10mn+ TCV, out of which six were USD 15 mn+ each and despite strong booking, the deal pipeline in both the US and Europe, continued to be healthy. Management is witnessing longer decision cycles coupled with incremental macro headwinds and has turned cautious by cutting the FY24 C/C revenue growth guidance to 17.5%-18.5% (+20% earlier). Management is comfortable with the upper end of the revenue guidance and continues to have internal targets to reach +20% growth. The management expects softness in the medical and semiconductor space going into Q3FY24. The company expects Q3FY24 to be soft in line with seasonality but for growth to bounce back in Q4FY24. It aspires to get back to the 18% level by 1HFY26. **Hence, we continue to maintain our ACCUMULATE stance as the management views good pipeline of opportunities across all sub-segments after fully integrating SWC and expects the growth momentum to sustain with the stock is trading at P/E 30.6x FY25E EPS ₹141.2.**

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View – **ACCUMULATE**
FINANCIAL PERFORMANCE
Vertical-Mix Revenues (%)

Verticals	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Transportation	34.9	35.0	35.8	35.7	31.5	31.5	30.4	31.2	31.2	31.4	31.8	33.3	30.9	30.2	35.9	20.6	32.7	33.2
Industrial Products	19.6	19.4	19.2	19.4	19.4	19.5	19.3	18.9	19.5	20.0	19.5	18.8	17.8	16.5	19.0	17.0	17.6	17.3
Telecom & Hi-tech	22.2	20.6	18.4	18.7	22.4	21.4	22.9	22.1	22.0	21.1	21.4	21.0	25.6	29.7	18.8	28.4	25.5	25.4
Plant &Process Industry	15.3	16.2	17.2	16	13.8	14.4	14.7	15.5	15.5	15.3	15.4	15.4	15.0	14.2	15.5	14.1	13.9	14.0
Medical Devices	8.0	8.8	9.4	10.3	12.8	13.2	12.7	12.3	11.7	12.2	11.9	11.5	10.7	9.5	10.7	9.9	10.3	10.1

Source: Company, Way2Wealth

Geography-wise Break up (%)

Region	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
North America	60.9	61.7	61.2	61.2	61.2	60.0	61.2	61.5	62.3	62.9	62.5	62.3	58.7	55.3	62.7	53.2	56.5	55.3
Europe	15.6	14.4	14.1	16.7	16.0	16.0	16.1	16.7	16.8	16.7	16.5	16.1	15.4	13.9	16.1	14.5	15.4	15.8
India	12.8	13.1	13.2	12.8	13.0	13.6	13.9	13.1	12.9	13.0	13.7	14.5	19.0	23.9	13.6	25.0	20.7	21.6
Rest of the World	10.7	10.7	11.4	9.2	9.8	10.4	8.8	8.8	8.0	7.4	7.4	7.0	6.9	6.9	7.6	7.3	7.4	7.3

Source: Company, Way2Wealth

Client Composition (%)

Clients	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Top 5	24.7	22.9	21.1	19.2	17.8	17.0	16.3	16.1	16.4	17.0	17.3	17.2	18.5	17.7	16.0	14.6	14.7	14.9
Top 10	36.7	35.7	33.9	31.8	29.7	28.3	27.3	26.9	27.4	28.2	28.5	28.3	28.8	27.8	26.6	25.6	25.9	26.1
Top 20	52.5	51.3	49.8	48.5	46.8	44.9	44.0	43.8	43.9	44.1	43.8	43.5	43.4	42.1	42.1	40.8	41.4	41.7
Beyond top 20	47.5	48.7	50.2	51.5	53.2	55.1	56.0	56.2	56.1	55.9	56.2	56.5	56.6	57.9	57.9	59.2	58.6	58.3

Source: Company, Way2Wealth

Client data	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Number of Active Clients	258	258	265	270	270	283	296	306	305	314	318	324	350	358	343	356	357	362
More than 50m USD	1	1		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 30 mn USD	3	3	3	2	1	1	1	-	-	1	2	2	3	4	2	1	3	4
More than 20 mn USD	5	5	7	8	4	5	4	3	5	6	6	6	8	9	8	11	12	12
More than 10 mn USD	17	17	20	21	22	20	18	20	20	21	22	22	27	29	25	28	32	31
More than 5 mn USD	44	44	43	43	43	44	41	39	43	45	44	48	56	55	50	57	56	55
More than 1 mn USD	110	110	107	113	113	116	118	122	122	125	126	236	153	162	158	178	181	177

Source: Company, Way2Wealth

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 View – **ACCUMULATE**

Revenue by	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Project Type (%)	FY20	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23	FY24	FY24
Fixed Price	42.4	41.8	42.7	38.6	38.5	39.7	38.5	36.5	33.8	30.0	29.0	28.6	31.8	36.2	28.6	37.3	35.6	35.8
Time and Material Contract	57.6	58.2	57.3	61.4	61.5	60.3	61.5	63.9	66.2	70.0	71.0	71.4	68.2	63.8	71.4	62.7	64.4	64.2
Revenue Mix (%)																		
Onsite	44.3	43.8	44	47.1	48.3	45.1	42.9	42.1	41.9	40.8	41.3	45.4	43.8	40.9	39.4	43	38.0	40.7
Offshore	55.7	56.2	56	52.9	51.7	54.9	57.1	57.9	58.1	59.2	58.7	54.6	56.2	59.1	60.6	57	62.0	59.3
Utilization (%)																		
including Trainees	79.6	77.8	79.2	78.1	70.9	75.4	77.5	78.9	79.2	78.1	75.9	75.1	NA	NA	NA	NA	NA	NA

Q2FY24Source: Company, Way2Wealth

Employee	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Statistics	FY20	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23	FY24	FY24
Total Headcount	15,913	16,789	16,787	16,883	16,641	15,902	16,069	16,452	16,972	17,983	20,118	20,861	22,131	22,265	21,649	23,074	23,392	23,880
Billable	14,755	15,614	15,604	15,667	15,481	14,778	14,975	15,335	15,896	16,875	18,975	19,534	20,642	20,829	20,346	21,573	21,933	22,366
Sales & Support	1,158	1,175	1,183	1,216	1,160	1,124	1,094	1,117	1,076	1,108	1,143	1,327	1,489	1,436	1,303	1,501	1,459	1,514
Voluntary Attrition%(L TM)	15.8	13.4	13.9	13.8	11.4	10.8	10.7	12.2	14.5	16.5	17.5	20.4	23.2	24.1	23.3	22.2	18.9	16.7
Net Addition	773	876	-2	96	-242	-739	167	383	520	1,011	2,135	743	1,270	134	-616	1,425	318	488

Source: Company, Way2Wealth

Q2FY24Performance

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue (US\$ mn)	288.1	283	1.8	280.0	2.9	568.1	539.7	5.3
Revenue	23,865	22,817	4.6	23,014	3.7	46,879	42,879	9.3
EBIT	4,075	3,784	7.7	3,954	3.1	8,029	7,270	10.4
EBIT Margin (%)	17.1	16.6	49	17.2	(11)	17.1	17.0	17
Net profit	3,154	2,999	5.2	3,111	1.4	6,265	5,753	8.9
EPS (₹)	29.9	28.4	5.2	29.5	1.4	59.4	54.5	8.9

Source: Company, Way2Wealth

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View – **ACCUMULATE**
FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	50,783	56,192	54,497	65,697	80,136	96,591	107,788
EBIT	8,803	9,276	7,891	12,005	14,792	16,291	18,422
EBIT Margin (%)	15.9	19.8	14.5	18.3	18.5	16.9	17.1
Net Profit	7,684	2,836	6,634	9,606	11,698	12,998	14,894
EPS (₹)	73.1	27.0	63.1	91.1	110.9	123.2	141.2
DPS (₹)	21.0	21.0	22.0	35.0	45.0	54.0	64.0
RoE (%)	34.8	32.2	21.2	25.0	25.6	24.1	24.2
RoCE (%)	45.2	42.2	16.2	20.3	28.9	27.2	27.4
P/E (x)	59.0	159.9	68.4	47.4	38.9	35.0	30.6
P/BV (x)	18.3	16.4	13.0	10.9	9.2	8.4	7.3
EV/EBITDA (x)	46.5	41.7	45.8	32.4	26.8	26.0	22.9
Cash Balances	2,051	2,440	2,327	6,742	6,899	5,152	6,313
FCFF	6,492	4,141	11,917	8,610	11,296	(1,182)	9,879

Source: Company, Way2Wealth

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Disclosure of Interest Statement L&T Technology Services Ltd. (LTTS) as on 19 October 2023

Name of the Security	L&T Technology Services Ltd. (LTTS)
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes (5 shares)
Date of Buying	18 th June 2020
Analyst's Associate/Firm : Yes/No	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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