

20th July 2023

CMP – ₹4,074.8/-

View – **ACCUMULATE**

Q1FY24 Result Highlights

- **Management confident of +20% C/C revenue growth for FY24** – L&T Technology Services Ltd (LTTS) reported Q1FY24 revenue de-growth of 2.9% QoQ but grew 9.1% YoY (down 2.9% QoQ in C/C terms) to US\$ 280mn as the revenue was impacted by double-digit decline in Telecom & Hi-tech vertical (down 12.8% QoQ in US\$ terms). In organic terms, revenue was up 0.6% QoQ and 12.6% YoY to US\$ 256.7mn. On QoQ/YoY basis, the growth was up 0.6%/7.5% in C/C terms. EBIT margin was at 17.2%, down 68/20 bps QoQ/YoY; the margin was aided by investment in large deals, lower subcontracting costs and legal expenses. Headcount was up 1.4% on a sequential basis at 23,392. Attrition moderated by 330 bps QoQ to 18.9%; expect attrition to moderate in the near term. On client metrics, there was a QoQ addition of two clients in the USD 30 mn+ bucket and one client in the USD 20 mn+ bucket. Off-shoring improved 230 bps QoQ at 59.3% aided by SWC acquisition. Demand trends continue to remain strong in transportation while delays in decision-making impacted deal closure in other verticals. The company won US\$ 50mn+ deal from a global technology company to enable new opportunities for the digital video platform and another US\$ 15 mn+ deal over three years from aerospace & defence OEMs, to whom LTTS will offer engineering services for avionics, including simulation. The company remains confident of strong growth for the rest of the year and maintained its FY24 revenue growth guidance of+ 20% plus in C/C terms, enabled by the acquisition of SWC.

- **The demand in the transportation sector continues to show robust trends as per the management** – On like-to-like basis, revenue was impacted by double-digit decline in telecom & hi-tech vertical (down 12.8% QoQ in USD terms). The transportation vertical was up 3.9% QoQ in US\$ terms followed by medical devices, up 0.8% QoQ and industrial products were up 0.4%. Within transportation, growth was broad-based across auto trucks & off highway and aero. Demand continues to remain strong driven by EV and connected cars in auto, electrification in trucks & off highway and avionics in aerospace. Won 6 large deals. The company has won USD +10 mn deals in this vertical and overall expects the growth momentum to continue given a good deal pipeline across sub-segments. Within plant & engineering, growth during the quarter was impacted by delays in decision-making and a slowdown in ongoing projects. Deal wins during the previous quarters give confidence on good growth visibility for Q2FY24 across all the three sub-segments - O&G, FMCG, and Chemicals. Medical devices vertical to be soft in near term. Weakness in Semiconductor likely to persist in near to medium term, however, mgmt. sees AI chip development spend to materialize in another 1-2 quarters. The weakness in semiconductor will be offset by growth in segments like Plant engg. Among geographies, on like-to-like basis, India was down 19.7% QoQ, while North America and Europe were up 3.2% and 2.8% QoQ in USD terms, respectively.

- **EBIT margin guidance of 17% for FY24 on consolidated basis including SWC.** Increments to happen in Q2FY24, the impact on margin are expected to be absorbed by operational leverage. Combined DSO at 117 days. Combined DSO estimated to be 115-125 days in FY24. DSO to decrease as SWC revenue moves international, away from government work in India. **Synergy** program in place with three focus areas a) internationalization of revenue, b) EBIT improvement, and c) DSO improvement.

Important Statistics

M.CAP (₹ bn)	₹430.6
52 Week H/L (₹)	4,317/3,135
NSE Code	LTTS
BSE Code	540115

Shareholding Pattern	Jun'23 (%)
Promoters	73.8
DIIs	10.6
FIIs	5.3
Public & Others	10.3

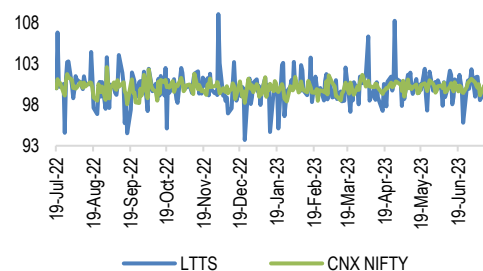
FINANCIALS

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)	150.2	64.2	44.5
P/BV (x)	15.4	12.3	10.3
EV/EBITDA (x)	39.2	43.1	30.4

Particulars	FY23	FY24E	FY25E
Revenue	80,136	97,032	109,235
EBIT	14,792	16,112	19,408
EBIT Margin (%)	18.5	16.6	17.8
Net Profit	11,698	13,132	15,174
EPS (₹)	110.9	124.5	143.8
DPS (₹)	45.0	55.0	65.0
RoE (%)	25.6	24.3	25.3
RoCE (%)	28.9	29.2	30.5
P/E (x)	36.6	32.6	28.2
P/BV (x)	8.6	7.6	6.5
EV/EBITDA (x)	25.2	20.5	17.7

Source: Company, Way2Wealth

Relative Performance



Source: Company, Way2Wealth

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View

L&T Technology Services (LTTS) reported muted Q1FY24 growth as most verticals, except transportation, were impacted by delays in decision-making, while margins were better than expected at 17.2%. In constant currency (C/C) terms organic revenue was up 0.6%QoQ and 12.6% YoY. Deal wins were strong with USD 50 mn+ in telecom and hi-tech, and additionally five deals with TCV of more than US\$ 10 mn each. The demand in the transportation sector continues to show robust trends, resulting in a ~4% increase QoQ. However, growth in other industries was slower due to delays in decision-making, which affected deal completion. Despite the muted Q1FY24 results, the company remains confident of strong growth for the rest of the year and maintained its FY24 revenue growth guidance of +20% in C/C terms. Management also reiterated +10% organic growth for FY24 which looks achievable. In addition, the company continues to focus on its aspiration to reach US\$ 1.5bn in revenue by FY25. Global sourcing growth has outperformed growth in ER&D spends over the past decade. We are likely to witness continued increase in offshoring by clients despite return to normalcy. Service providers have benefitted from increased sourcing activity in offshore by enhancing capabilities in digital engineering skills and effective delivery despite pandemic-led disruptions. Among pure-play Indian ER&D services players, LTTS has the lowest share of revenue from onsite delivery at 41%. Increased offshore mix would aid margins reverting to 18% levels by 1HFY26 post impact from the SWC acquisition. Risks to business exist from the discretionary nature of the ER&D business and slowdown in developed markets. **Hence, we continue to maintain our ACCUMULATE stance based on LTTS diversified vertical presence, profitable growth focus and steady execution. The stock is trading at P/E 28.3x FY25E EPS ₹143.8.**

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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
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	34.5	35.9	20.6	32.7
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	18.9	19.0	17.0	17.6
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	19.4	18.8	28.4	25.5
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	16.3	15.5	14.1	13.9
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	10.9	10.7	9.9	10.3

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
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	63.4	62.7	53.2	56.5
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	15.9	16.1	14.5	15.4
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	12.8	13.6	25.0	20.7
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	7.9	7.6	7.3	7.4

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
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	16.4	16.0	14.6	14.7
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	26.9	26.6	25.6	25.9
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	42.4	42.1	40.8	41.4
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	57.6	57.9	59.2	58.6

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
Number of Active Clients	258	258	265	270	270	283	296	306	305	314	318	324	350	343	343	356	357
More than 50m USD	1	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 30 mn USD	3	3	3	2	1	1	1	-	-	1	2	2	3	3	2	1	3
More than 20 mn USD	5	5	7	8	4	5	4	3	5	6	6	6	8	8	8	11	12
More than 10 mn USD	17	17	20	21	22	20	18	20	20	21	22	22	27	24	25	28	32
More than 5 mn USD	44	44	43	43	43	44	41	39	43	45	44	48	56	49	50	57	56
More than 1 mn USD	110	110	107	113	113	116	118	122	122	125	126	236	153	150	158	178	181

Source: Company, Way2Wealth

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Revenue by Project Type (%)	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
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	27.0	28.6	37.3	35.6
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	73.0	71.4	62.7	64.4
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	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	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

Source: Company, Way2Wealth

Employee Statistics	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
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	21,474	21,649	23,074	23,392
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	20,189	20,346	21,573	21,933
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	1,285	1,303	1,501	1,459
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
Net Addition	773	876	-2	96	-242	-739	167	383	520	1,011	2,135	743	1,270	-657	175	1,425	318

Source: Company, Way2Wealth

Q1FY24Performance

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue (US\$ mn)	280.0	256.7	9.1	288.4	(2.9)	990.0	880.0	12.5
Revenue	23,014	20,062	14.7	23,706	(2.9)	80,136	65,697	22.0
EBIT	3,954	3,486	13.4	4,234	(6.6)	14,792	12,005	23.2
EBIT Margin (%)	17.2	17.4	(20)	17.9	(68)	18.5	18.3	19
Net profit	3,111	2,754	13.0	3,401	(8.5)	11,698	9,606	21.8
EPS (₹)	29.5	26.1	13.0	32.2	(8.5)	110.9	91.1	21.8

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	97,032	109,235
EBIT	8,803	9,276	7,891	12,005	14,792	16,112	19,408
EBIT Margin (%)	15.9	19.8	14.5	18.3	18.5	16.6	17.8
Net Profit	7,684	2,836	6,634	9,606	11,698	13,132	15,174
EPS (₹)	73.1	27.0	63.1	91.1	110.9	124.5	143.8
DPS (₹)	21.0	21.0	22.0	35.0	45.0	55.0	65.0
RoE (%)	34.8	32.2	21.2	25.0	25.6	24.3	25.3
RoCE (%)	45.2	42.2	16.2	20.3	28.9	29.2	30.5
P/E (x)	55.7	151.0	64.6	44.8	36.7	32.7	28.3
P/BV (x)	17.3	15.5	12.3	10.3	8.7	7.7	6.6
EV/EBITDA (x)	43.9	39.4	43.3	30.6	25.3	20.7	17.7
Cash Balances	2,051	2,440	2,327	6,742	6,899	9,639	11,133
FCFF	6,492	4,141	11,917	8,610	11,296	10,813	13,572

Source: Company, Way2Wealth

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Disclosure of Interest Statement L&T Technology Services Ltd. (LTTS) as on 20th July 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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