

21st January 2022

CMP – ₹4,969.6/-

 View – **ACCUMULATE**
Q3FY22 Result Highlights

- **Healthy growth with attractiveness of demand environment – L&T Technology Services Ltd (LTTS)** reported sequential revenue growth of 3.5% QoQ & 18.4% YoY (+4.2% QoQ & +19.5% YoY in CC terms) to US\$ 225.1mn. Sequential growth was skewed and led by transportation, telecom/Hi-tech and plant engineering. Industrial products and medical devices reported muted growth. Top clients grew at a healthy rate. Telecom and Hi-Tech, Transportation, and Plant Engineering grew 5%, 4.9%, and 4.2% QoQ, respectively. Growth in Medical Devices and Industrial products were softer at 1% each. EBIT margin improved by 20bps QoQ to 18.6% on account of tailwinds from pyramid, operational efficiencies and Rupee depreciation partly offset by lower utilization, higher onsite mix and higher travel. Net profit increased 8.2% QoQ and 33.7% to ₹2.5bn. Revenue from Digital and leading-edge technologies stood at 56% in Q3FY22 compared to 55% in Q2FY22. LTTS bagged three deals with a TCv of over US\$ 10mn in Q3FY22. This includes one deal of over US\$ 45mn. Total employee strength stood at 20,118, a record net addition of 2,135 employees. Attrition was up 100bps sequentially to 17.5%. Top 5/10 clients grew 5.4%/4.6% QoQ. The top 20 clients registered softer growth of 2.8% QoQ. The board also declared an interim dividend of ₹10/- per share (F.V.-₹2/-).
- **Retains 19-20% growth guidance for FY22** – The management maintained its FY22 USD revenue growth guidance at 19-20%. Guidance implies 1.5-4.7% QoQ growth in Q4FY22. Enterprises are spending strongly on digital engineering programs together with imperatives of cost efficiencies and faster speed-to-market. LTTS is well positioned to benefit from this spending given multi-vertical expertise, strong digital engineering capabilities and marquee client base. The company's big bets are well aligned to clients' spending priorities. LTTS is prepping for strong growth in FY23 through strong headcount addition.
- **Margins at 18% likely to be sustainable** – LTTS management views +18% margin sustainable. Headwinds from return of travel and discretionary costs and wage inflation can be offset by better margin profile in low margin verticals, productivity gains and cost efficiencies.
- **US\$10mn deal wins down to 3; wins a large deal in auto** – LTTS closed fewer large deals compared to recent quarters. Number of +US\$ 10mn deals fell to 3 from 5-7 in the past few quarters. Closing of some of the deals got deferred to Jan'22. Higher deal wins are expected in Q4FY22. In addition the deal pipeline is strong and is continuing to improve on a sequential basis. LTTS announced a US\$ 45mn; 5 year deal with a US-based automotive Tier-1 company. The company won large deals with the same client in the past couple of quarters as well leading to combined TCv of over +US\$90mn signed over 3 deals in three quarters. Added 1 client to US\$30 mn bucket on both QoQ and YoY basis. Number of US\$ 10mn clients increased by 1 QoQ and by 4 on YoY basis. Number of US\$ 20mn clients was flat QoQ and increased by 2 YoY. Client metrics likely to continue to improve in the coming quarters.
- **Planned stronger fresher addition for Q2FY23** – LTTS has on boarded 3K freshers in 9MFY22 and will onboard a few more in Q4FY22. Fresher intake in FY23 will be similar to that in FY22. Part of the strong fresher hiring is to compensate for the lack of hiring in Covid impacted FY21. Strong fresh hiring will help in pyramid optimization and provide talent to staff future demand. Net hiring in Q4FY22 will be low. LTTS has planned for strong fresher addition in Q2FY23. Billable headcount has increased 26.7% YoY whereas sales & support headcount only increased 4.5% YoY. In fact, the headcount trails peak in Mar'20 by 73 or 6%. As per the management employees took more leaves in Q3FY22 compared to YoY basis leading to some impact on growth. LTTS is fairly bullish on growth in Q4FY22 and beyond.

Important Statistics

M.CAP (₹ bn)	₹523.1
52 Week H/L (₹)	5,958/2,301
NSE Code	LTTS
BSE Code	540115

Shareholding Pattern	Dec'21 (%)
Promoters	73.9
DIIs	5.5
FIIIs	9.2
Public & Others	11.4

Financials

Particulars	(₹ mn)		
	FY19	FY20	FY21
Revenue	50,783	56,192	54,497
EBIT	8,803	9,276	7,891
EBIT Margin (%)	15.9	19.8	14.5
Net Profit	7,684	8,186	6,634
EPS (₹)	73.1	77.9	63.1
DPS (₹)	21	21	22
RoE (%)	34.8	32.2	21.3
RoCE (%)	45.2	42.2	25.3
P/E (x)	68.0	63.8	78.8
P/BV (x)	21.0	18.8	15.0
EV/EBITDA (x)	29.3	36.9	40.0

Particulars	FY22E	FY23E	FY24E
Revenue	66,386	81,612	98,121
EBIT	11,886	14,987	17,578
EBIT Margin (%)	17.9	18.4	17.9
Net Profit	9,734	12,249	14,988
EPS (₹)	92.6	116.5	142.6
DPS (₹)	24	26	28
RoE (%)	25.8	28.2	32.2
RoCE (%)	30.1	33.4	36.3
P/E (x)	53.7	42.6	34.8
P/BV (x)	12.3	10.0	9.7
EV/EBITDA (x)	35.6	28.8	23.5

Source: Company, Way2Wealth

- **Q4FY22 to witness ramp down of legacy programs to impact telecom/hi-tech vertical** – LTTS management plans to ramp down legacy programs in the media sub-vertical as part of strategy to retire from low margin contracts. Revenue decline will be restricted to Q4FY22 and will lead to muted growth for telecom/hi-tech vertical.
- **Management views empanelment potential of US\$50mn** – The company had two empanelments in Q3FY22. One was with a big technology company and the other was with an Aerospace OEM. The management sees a potential of US\$ 50mn in each empanelment.

Within **Transportation**, demand remains strong across all three sub-segments: Auto, Trucks, and Off-Highway Equipment. It saw one large deal of more than US\$ 45mn in the Auto vertical (ESEV) in Q3FY22. This was the third deal in the last three quarters from the same client (combined TCV of over US\$ 90mn). The deal pipeline in Auto is steadily improving. In this space, the management sees continued momentum in growth across sub-segments. It also highlighted that spend areas are picking up in Aerospace.

Within **Plant Engineering**, growth was led by O&G, FMCG, and the Chemicals sub-segment. In FMCG, demand was driven by higher capex. The management sees a good set of opportunities in the verticals, which will drive growth in coming quarters.

Working on sustainability deals in O&G. More such deals will be available post tightening of COP26 regulations. Demand in FMCG is driven by both greenfield and brownfield capex.

Though **Industrial Products** saw a soft quarter, it sees good demand in platform development and data analytics. The deal pipeline continues to remain strong.

Telecom and Hi-Tech is seeing good traction in 5G. It is seeing huge spends around network and 7nm chips. In the Media sub-segment, margin will improve, but will remain muted in Q4FY22 as the company will not accept some legacy orders. This will result in a one-time impact, but there will be no impact in FY23.

Within **Medical Devices**, the management is seeing good traction in robotic surgery and tele-medicine. The company added a couple of marquee logos in the past three quarters. As per the management growth will return in the next few quarters as the company is likely to benefit from strong spending in digital platforms, connectivity and robotics as demand continues to be robust while pipeline is improving.

View

LTTS reported a health growth of 4.2% QoQ as digitisation is driving accelerated spends in ER&D and LTTS should benefit from it due to its strong capabilities, multi-vertical presence, and solid wallet share. After a sharp dip in margin in FY21, LTTS has managed to clock a record high margin. We expect it to be sustainable. The management expects strong growth in the medium term, which implies a growth momentum of ~20% over next 3-4 years. We view this as an indication that there can be potential upside risk to its US\$1.5bn revenue aspiration by FY25. As per the management the demand in CY22 will be robust across all verticals with early signs are encouraging. **Hence we continue to maintain our ACCUMULATE stance as LTTS is likely to deliver strong revenue growth over the coming years being the top pick in the Tier-II IT Services space.**

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View – **ACCUMULATE**

Financial Performance
Vertical mix Revenues (%)

(₹ mn)

Verticals	Q4FY 19	Q1FY 20	Q2FY 20	Q3FY 20	Q4FY 20	Q1FY 21	Q2FY 21	Q3FY 21	Q4FY 21	Q1FY 22	Q2FY 22	Q3FY 22
Transportation	32.9	34.9	35.0	35.8	35.7	31.5	31.5	30.4	31.2	31.2	31.4	31.8
Industrial Products	19.3	19.6	19.4	19.2	19.4	19.4	19.5	19.3	18.9	19.5	20.0	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	21.1	21.4
Process Industry	14.7	15.3	16.2	17.2	16	13.8	14.4	14.7	15.5	15.5	15.3	15.4
Medical Devices	6.7	8.0	8.8	9.4	10.3	12.8	13.2	12.7	12.3	11.7	12.2	11.9

Source: Company, Way2Wealth

Geography wise Break up (%)

(₹ mn)

Region	Q4FY 19	Q1FY 20	Q2FY 20	Q3FY 20	Q4FY 20	Q1FY 21	Q2FY 21	Q3FY 21	Q4FY 21	Q1FY 22	Q2FY 22	Q3FY 22
North America	58.9	60.9	61.7	61.2	61.2	61.2	60	61.2	61.5	62.3	62.9	62.5
Europe	16	15.6	14.4	14.1	16.7	16	16	16.1	16.7	16.8	16.7	16.5
India	13.9	12.8	13.1	13.2	12.8	13	13.6	13.9	13.1	12.9	13.0	13.7
Rest of the World	11.2	10.7	10.7	11.4	9.2	9.8	10.4	8.8	8.8	8.0	7.4	7.4

Source: Company, Way2Wealth

Client composition (%)

(₹ mn)

Clients	Q4FY 19	Q1FY 20	Q2FY 20	Q3FY 20	Q4FY 20	Q1FY 21	Q2FY 21	Q3FY 21	Q4FY 21	Q1FY 22	Q2FY 22	Q3FY 22
Top 5	26.4	24.7	22.9	21.1	19.2	17.8	17.0	16.3	16.1	16.4	17.0	17.3
Top 10	37.7	36.7	35.7	33.9	31.8	29.7	28.3	27.3	26.9	27.4	28.2	28.5
Top 20	53.5	52.5	51.3	49.8	48.5	46.8	44.9	44.0	43.8	43.9	44.1	43.8
Beyond top 20	46.5	47.5	48.7	50.2	51.5	53.2	55.1	56.0	56.2	56.1	55.9	56.2

Source: Company, Way2Wealth

Client data	Q4FY 19	Q1FY 20	Q2FY 20	Q3FY 20	Q4FY 20	Q1FY 21	Q2FY 21	Q3FY 21	Q4FY 21	Q1FY 22	Q2FY 22	Q3FY 22
Number of Active Clients	251	258	258	265	270	270	283	296	306	305	314	318
More than 50m USD	2	1	1	-	-	-	-	-	-	-	-	-
More than 30 mn USD	3	3	3	3	2	1	1	1	-	-	1	2
More than 20 mn USD	5	5	5	7	8	4	5	4	3	5	6	6
More than 10 mn USD	16	17	17	20	21	22	20	18	20	20	21	22
More than 5 mn USD	41	44	44	43	43	43	44	41	39	43	45	44
More than 1 mn USD	106	110	110	107	113	113	116	118	122	122	125	126

Source: Company, Way2Wealth

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Revenue by Project Type (%)	Q4FY 19	Q1FY 20	Q2FY 20	Q3FY 20	Q4FY 20	Q1FY 21	Q2FY 21	Q3FY 21	Q4FY 21	Q1FY 22	Q2FY 22	Q3FY 22
Fixed Price	43.6	42.4	41.8	42.7	38.6	38.5	39.7	38.5	36.5	33.8	30.0	29.0
Time and Material Contract	57.9	57.6	58.2	57.3	61.4	61.5	60.3	61.5	63.9	66.2	70.0	71.0
Revenue Mix (%)												
Onsite	44.8	44.3	43.8	44	47.1	48.3	45.1	42.9	42.1	41.9	40.8	41.3
Offshore	52.9	55.7	56.2	56	52.9	51.7	54.9	57.1	57.9	58.1	59.2	58.7
Utilization (%) including Trainees	80.2	79.6	77.8	79.2	78.1	70.9	75.4	77.5	78.9	79.2	78.1	75.9

Source: Company, Way2Wealth

Employee Statistics	Q4FY 19	Q1FY 20	Q2FY 20	Q3FY 20	Q4FY 20	Q1FY 21	Q2FY 21	Q3FY 21	Q4FY 21	Q1FY 22	Q2FY 22	Q3FY 22
Total Headcount	15,140	15,913	16,789	16,787	16,883	16,641	15,902	16,069	16,452	16,972	17,983	20,118
Billable	14,034	14,755	15,614	15,604	15,667	15,481	14,778	14,975	15,335	15,896	16,875	18,975
Sales & Support	1,106	1,158	1,175	1,183	1,216	1,160	1,124	1,094	1,117	1,076	1,108	1,143
Voluntary Attrition % (LTM)	14.8	15.8	13.4	13.9	13.8	11.4	10.8	10.7	12.2	14.5	16.5	17.5
Net Addition	363	773	876	-2	96	-242	-739	167	383	520	1,011	2,135

Source: Company, Way2Wealth

9MFY22 Performance

(₹ mn)

Particulars	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenue (US\$ mn)	225	190	18.4	217.4	3.5	648	539	20.2
Revenue	16,875	14,007	20.5	16,077	5.0	48,136	40,092	20.1
EBIT	3,144	2,132	47.5	2,964	6.1	8,731	5,500	58.7
EBIT Margin (%)	18.6	15.2	341	18.4	19	18.1	13.7	442
Net profit	2,488	1,861	33.7	2,300	8.2	6,950	4,697	48.0
EPS (₹)	23.7	17.7	33.7	21.9	8.2	66.1	44.7	48.0

Source: Company, Way2Wealth

Past Performance & Forecasting

(₹ mn)

Particulars	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	50,783	56,192	54,497	66,386	81,612	98,121
EBIT	8,803	9,276	7,891	11,886	14,987	17,578
EBIT Margin (%)	15.9	19.8	14.5	17.9	18.4	17.9
Net Profit	7,684	8,186	6,634	9,734	12,249	14,988
EPS (₹)	73.1	77.9	63.1	92.6	116.5	142.6
DPS (₹)	21	21	22	24	26	28
RoE (%)	34.8	32.2	21.3	25.8	28.2	32.2
RoCE (%)	45.2	42.2	25.3	30.1	33.4	36.3
P/E (x)	68.0	63.8	78.8	53.7	42.6	34.8
P/BV (x)	21.0	18.8	15.0	12.3	10.0	9.7
EV/EBITDA(x)	29.3	36.9	40.0	35.6	28.8	23.5
Cash Balances	2,051	2,440	2,327	6,695	9,981	14,769
FCFF	6,492	4,141	11,622	5,885	8,297	9,734

Source: Company, Way2Wealth

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Disclosure of Interest Statement L&T Technology Services Ltd. (LTTS) as on 21st January 2022

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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