

Q2FY22 – Result Highlights

- **Good revenue growth of ~6%/22% QoQ/ YoY with EBIT Margins at 18.4%** – LTTS reported sequential revenue growth of 5.7% QoQ & 22.1% YoY (+6% QoQ & +22.3% YoY in CC terms) to US\$ 217.4mn. Revenue growth was broad based across most verticals with the exception of hi-tech and telecom. Medical devices (+9.6% QoQ) led growth followed by industrial products (+8.6% QoQ) and transportation (+6.2% QoQ). Growth was broad based across US and Europe. EBIT margin increased 116 bps QoQ to 18.4%. Cost optimization and productivity improvements offset impact of wage hikes to middle and senior employee bands. D&A as a % of revenue declined ~40 bps providing a tailwind to margins. EBIT grew 13% QoQ and 64.6% YoY to ₹2.97bn and beat our estimate by 5.6%. Other income was muted due to ₹290mn reversal of export incentives accrued in the earlier year following recent announcement by the Indian government capping incentive to ₹50mn per exporter. Any further income from SEIS incentive scheme will not be material for the company. Net profit of ₹2.3bn grew 6.4% QoQ and 39% YoY. The company declared a special dividend of ₹10/- per share.
- **The company won 9 large deals, with 5 deals with TCV above US\$10 mn and 2 deals with TCV above US\$25 mn, one each in the media and auto sub-segments.** Deal wins are healthy but have been in a similar range for the past few quarters. As per the management demand is strong across the board aided by recovery in ERD spending, adoption of digital engineering technologies and increase in outsourcing.
- **As per the management the focus areas are auto new tech, med tech and ISV** with plans to acquire companies in the US\$50-70mn revenue range and not just small tuck-in acquisitions. Acquisitions will be used to build capabilities in white spaces. Number of clients in US\$30 mn bucket increased by 1 sequentially to 1. LTTS added 1 each to US\$10 mn and US\$20 mn buckets to reach 21 and 6 respectively.
- **The management increased FY22 US\$ revenue growth guidance to 19-20% from 15-17% earlier.** Implied CQGR of 2.9-4% for the next 3 quarters. The company plans to add 2,000 freshers in Q3FY22 and Q4FY22 together compared to 1,200 freshers added in 1HFY22.
- **Margins have hit the peak and like to moderate** as it faces margin headwinds from increase in travel and facility expenses as more employees return to office, higher attrition and wage costs and organic and inorganic investments. Aspiration is to get to a sustainable 18% margin by 2025. Levers include operating leverage from growth, productivity improvements, pyramid, offshoring and increase in margins in the telecom and hi-tech vertical. LTTS has widened fresher college hiring net and has revved up lateral hiring engine to meet demand. Global engineering academy initiative has helped in creating a fresh pool of talent and reskilling existing employees.
- **The management remains confident of \$1.5bn revenue target by FY25** – The management is watchful on concerns regarding labor shortage and cost inflation. Q3FY22 will be impacted by furloughs and shutdowns as usual. Any abnormal furloughs will be restricted to select customer segments. Client cancellations have not occurred due to high attrition of 16.5%. 26% of LTTS's employees are working from office. LTTS is nudging

Important Statistics

M.CAP (₹ bn)	₹528.52
52 Week H/L (₹)	5,469/1,602
NSE Code	LTTS
BSE Code	540115

Shareholding Pattern	Sep'21 (%)
Promoters	74.2
DIIs	5.5
FIIIs	9.5
Public & Others	10.2

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)	68.7	64.5	79.6
P/BV (x)	21.3	19.1	15.2
EV/EBITDA (x)	37.1	46.7	50.5

Particulars	FY22E	FY23E
Revenue	66,286	78,728
EBIT	11,786	13,684
EBIT Margin (%)	17.8	17.4
Net Profit	9,654	11,567
EPS (₹)	91.9	110.1
DPS (₹)	24	26
RoE (%)	25.2	26.1
RoCE (%)	29.4	32.2
P/E (x)	54.7	45.7
P/BV (x)	12.7	10.6
EV/EBITDA (x)	38.3	29.9

Source: Company Filing, Way2wealth Research

people to come back to office. In the longer term 80-90% of employees will call people to return to office once they are completely vaccinated. Current offshoring mix (59:41) is sustainable as per the management.

VERTICAL OUTLOOK

- **Transportation – +6.2% QoQ to US\$68.3mn:** All 3 sub verticals – auto, truck & offs highway and aero seeing growth in EV and connected. Growth seen in OEM and also new age names in EV side. The company won \$25mn – EV and Power electronics deal. Deal pipeline is steadily improving. Expect growth momentum to continue in all three sub segment.
- **Plant Engineering – +4.1% QoQ to US\$33.3mn:** (FMCG, O&G and Chemicals). In O&G, new engagements in site sustenance and digital engineering. In FMCG – sustainability, automation are demand areas. Within Chemical – Opportunities opening up on good capex outlook,
- **Industrial Products – +8.6% QoQ to US\$43.5mn:** All 3 sub-segments showing growth - Electrical, machinery and building automation. Broad based demand – digital twin, AI led decision making. The management expects Industrial Products to be one of the fastest growing sector.
- **Medical Devices – +9.6% QoQ to US\$26.5mn:** Outlook improving in diagnostic devices post vaccine in US and Europe. The management views outlook improving in Telehealth, Connected Devices, Cyber Security, Patient Experience, Digital Manufacturing, Regulatory compliance certification. Key areas of spending are robotic surgery, patient monitoring, regulatory compliance, and software platforms for health. Pipeline and opportunities are strong in the vertical.
- **Telecomm & Hi-Tech – +1.4% QoQ to US\$45.9mn:** Growth was impacted due to weak demand in media which was impacted by delay in project ramp ups. Demand is healthy in semiconductor, telecom and consumer electronics. Softness in Media due to project delays and ramp ups. Won a \$25mn deal in media space. Expect growth to improve in this vertical.

View

LTTS has been the best performer relatively in the growing ERD courtesy its multi-vertical expertise, full spectrum of offerings and high quality client base. The company is now on track to achieve its \$1bn revenue rate by mid-FY23 and on its way to achieve the long-term goal of \$1.5bn by FY25. The management has increased the growth guidance for FY22E to 19-20% (vs. 15-17% earlier), citing a strong demand environment. We believe future growth of the company will be driven by robust deal wins; impressive client base and mining capability - 57 of the top-100 ER&D spenders are LTTS clients, the deal pipeline outlook looking strong, especially in EACV (electric), med-tech, and digital ER&D (manufacturing); and leadership in industrial products and plant engineering, supported by recovery in telecom and hi-tech verticals **We continue to maintain our ACCUMULATE stance as fundamentally it has strong business supported by offshoring, operating leverage and improving segmental mix; however, the ongoing hiring of freshers (to counter attrition) and the expected increase in travel and operational expenses could impact margins in the future.**

21st October 2021

CMP – ₹5,025/-

View – **Accumulate on Dips**

Financial Performance
Vertical mix Revenues (%)

(₹ mn)

Verticals	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Transportation	32.9	34.9	35.0	35.8	35.7	31.5	31.5	30.4	31.2	31.2	31.4
Industrial Products	19.3	19.6	19.4	19.2	19.4	19.4	19.5	19.3	18.9	19.5	20.0
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
Process Industry	14.7	15.3	16.2	17.2	16	13.8	14.4	14.7	15.5	15.5	15.3
Medical Devices	6.7	8.0	8.8	9.4	10.3	12.8	13.2	12.7	12.3	11.7	12.2

Source: Company, Way2Wealth Research

Geography wise Break up (%)

(₹ mn)

Region	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
North America	58.9	60.9	61.7	61.2	61.2	61.2	60	61.2	61.5	62.3	62.9
Europe	16	15.6	14.4	14.1	16.7	16	16	16.1	16.7	16.8	16.7
India	13.9	12.8	13.1	13.2	12.8	13	13.6	13.9	13.1	12.9	13.0
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

Source: Company, Way2Wealth Research

Client composition (%)

(₹ mn)

Clients	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Top 5	26.4	24.7	22.9	21.1	19.2	17.8	17.0	16.3	16.1	16.4	17.0
Top 10	37.7	36.7	35.7	33.9	31.8	29.7	28.3	27.3	26.9	27.4	28.2
Top 20	53.5	52.5	51.3	49.8	48.5	46.8	44.9	44.0	43.8	43.9	44.1
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

Source: Company, Way2Wealth Research

Client data	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Number of Active Clients	251	258	258	265	270	270	283	296	306	305	314
More than 50m USD	2	1	1	-	-	-	-	-	-	-	-
More than 30 mn USD	3	3	3	3	2	1	1	1	-	-	1
More than 20 mn USD	5	5	5	7	8	4	5	4	3	5	6
More than 10 mn USD	16	17	17	20	21	22	20	18	20	20	21
More than 5 mn USD	41	44	44	43	43	43	44	41	39	43	45
More than 1 mn USD	106	110	110	107	113	113	116	118	122	122	125

Source: Company, Way2Wealth Research

Revenue by Project Type (%)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Fixed Price	43.6	42.4	41.8	42.7	38.6	38.5	39.7	38.5	36.5	33.8	30.0
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
Revenue Mix (%)											
Onsite	44.8	44.3	43.8	44	47.1	48.3	45.1	42.9	42.1	41.9	40.8
Offshore	52.9	55.7	56.2	56	52.9	51.7	54.9	57.1	57.9	58.1	59.2
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

Source: Company, Way2Wealth Research

21st October 2021

CMP – ₹5,025/-

 View – **Accumulate on Dips**

Employee Statistics	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Total Headcount	15,140	15,913	16,789	16,787	16,883	16,641	15,902	16,069	16,452	16,972	17,983
Billable	14,034	14,755	15,614	15,604	15,667	15,481	14,778	14,975	15,335	15,896	16,875
Sales & Support	1,106	1,158	1,175	1,183	1,216	1,160	1,124	1,094	1,117	1,076	1,108
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
Net Addition	363	773	876	-2	96	-242	-739	167	383	520	1,011

Source: Company, Way2Wealth Research

H1FY22 Performance

(₹ mn)

Particulars	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	1HFY22	1HFY21	YoY (%)
Revenue (US\$ mn)	217.4	178	22.1	205.7	5.7	423	349	21.2
Revenue	16,077	13,138	22.4	15,184	5.9	31,261	26,085	19.8
EBIT	2,964	1,801	64.6	2,623	13.0	5,587	3,368	65.9
EBIT Margin (%)	18.4	13.7	473	17.3	116	17.9	12.9	496
Net profit	2,300	1,655	39.0	2,162	6.4	4,462	2,836	57.3
EPS (₹)	21.9	15.7	39.0	20.6	6.4	42.5	27.0	57.3

Source: Company, Way2Wealth Research

Past Performance

(₹ mn)

Particulars	FY19	FY20	FY21	FY22E	FY23E
Revenue	50,783	56,192	54,497	66,286	78,728
EBIT	8,803	9,276	7,891	11,786	13,684
EBIT Margin (%)	15.9	19.8	14.5	17.8	17.4
Net Profit	7,684	8,186	6,634	9,654	11,567
EPS (₹)	73.1	77.9	63.1	91.9	110.1
DPS (₹)	21	21	22	24	26
RoE (%)	34.8	32.2	21.3	25.2	26.1
RoCE (%)	45.2	42.2	25.3	29.4	32.2
P/E (x)	68.7	64.5	79.6	54.7	45.7
P/BV (x)	21.3	19.1	15.2	12.7	10.6
EV/EBITDA(x)	37.1	46.7	50.5	38.3	29.9
Cash Balances	2,051	2,440	2,327	6,695	9,676
FCFF	6,492	4,141	11,622	5,687	8,349

Source: Company, Way2Wealth Research

Disclaimer

Analyst Certification: I, Jayakanth Kasthuri, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Jayakanth Kasthuri, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement L&T Technology Services Ltd. as on 21st October, 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 th 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

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.