

28th April 2023

CMP – ₹3,729.4/-

View – **ACCUMULATE**

Q4FY23 Result Highlights

- **Strong Q4FY23 with growth across all verticals except transportation** – L&T Technology Services Ltd (LTTS) reported revenue growth of 2.9% QoQ & 10% YoY (2.2% QoQ in C/C terms) to US\$ 255.1mn as all verticals except transportation grew above 4% QoQ. Plant engineering and medical devices verticals led the growth at 5.8% and 7.2% QoQ, recovering after a sharp decline in Q3FY23 due to high furloughs. Growth was driven by India (+15% QoQ) and RoW (+10.6% QoQ), while North America declined for the second consecutive quarter. EBIT margin was flat sequentially at 18.7% with higher personnel costs being offset by operational efficiencies and G&A improvements. Transportation segmental margin was impacted during the quarter due to initial ramp-ups of certain deals and planned investments. The management views FY24 EBIT margin at 17% (including Smart World & Communication - SWC) and reverting to 18% range by 1HFY26. Net profit at ₹30.96bn grew 2.0% QoQ and 18.2% YoY. The company announced dividend per share of ₹30 with total dividend payout for FY23 at ₹45 per share.
- **Organic revenue growth guidance of at least 10%, at least 20% including SWC** – The management guided for USD revenue growth of at least 10% (9.5% in c/c) for FY24. SWC will contribute ~10% to FY24 revenues. Revenues from the contracts part of SWC carve out stood at ₹8bn in FY23. Revenues of SWC in FY22 disclosed at the time of announcement of acquisition stood at ₹10.98bn. Including SWC acquisition, growth guidance is at least 20%. Noting the margin-dilutive and working-capital intensive nature of SWC's business, FY24E EBIT margin is likely to decline to ~17% (18.5% in FY23) and receivables days will increase to 115-125 days (95 days in FY23) since the ERD business is discretionary in nature, not the best attribute in a deteriorating environment.
- SWC synergy program would be run for the next 180 days as per management. Focus will be on three aspects. (1) **Revenue** — internationalisation of customer base, expansion of services portfolio and creating large deal opportunities, (2) **Margin expansion** through internationalization of revenue, shift in business mix and G&A optimization and (3) **Lowering DSO and working capital intensity** of the business through improved collections and winning more asset-light deals by transforming into a solutions and services player. The company indicated that it had signed three deals by leveraging SWC's capabilities in the areas of connectivity, telecom infra and sustainability, with a few more deals expected to be signed in the upcoming quarters. Typical contract size of these deals would be in US\$5-15 mn TCV or even larger in telecom infra and operator segment, while in cybersecurity, deal sizes would be smaller (US\$2-6 mn). With SWC, LTTS is looking to first transform the business model from products to services and cross-sell capabilities in international markets, which is likely to be a challenging task.
- LTTS won 18 large deals (US\$10 mn+ deals) in FY23. This is lower than 20 large deal wins in FY22. Further, the management indicated that overall deal TCV (including sub-US\$10 mn deals) is marginally higher than FY22 levels.
- Excluding unbilled, DSO was down 2 days QoQ to 75 days. DSO (including unbilled) was at 90 days, down 4 days QoQ and within management's target of less than 95 days. Post-integration of SWC, the management expects DSO to be in 115-125 days range for FY24. The management indicated that targeted interventions would aid in DSO moderating to a more comfortable range over the medium term.

Important Statistics

M.CAP (₹ bn)	₹393.8
52 Week H/L (₹)	4,317/2,923
NSE Code	LTTS
BSE Code	540115

Shareholding Pattern	Mar'23 (%)
Promoters	73.9
DIIs	8.6
FIIIs	6.7
Public & Others	10.8

FINANCIALS

	(₹ mn)		
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)	138.2	59.1	41.0
P/BV (x)	14.1	11.3	9.5
EV/EBITDA (x)	34.2	37.0	26.3

Particulars	FY23P	FY24E	FY25E
Revenue	80,136	96,243	109,216
EBIT	14,792	16,231	18,798
EBIT Margin (%)	18.5	16.9	17.2
Net Profit	11,698	12,987	14,985
EPS (₹)	110.9	123.1	142.0
DPS (₹)	45.0	55.0	65.0
RoE (%)	25.6	24.2	24.1
RoCE (%)	28.9	27.4	27.8
P/E (x)	33.6	30.3	26.3
P/BV (x)	7.9	6.9	6.0
EV/EBITDA (x)	21.1	19.6	16.8

Source: Company, Way2Wealth

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View – **ACCUMULATE**

- **Suboptimal client account size** – LTTS client metrics has not been upto expectation, especially for a company that has prioritized S&M spend RoI and undertaken tail account rationalization in the past. Revenues from top 5 clients are the same as these was in FY18, even as the organization size is 70% larger. Revenues from top 10 clients are up just 14% during this FY18-23 period. The number of US\$30 mn client is just 1 compared to 3 in FY18. Revenue growth from top-5 and top-10 clients stood at disappointing 4% and 6%, respectively, in FY23 over FY22. Such metrics indicate lack of scalability of clients (definitely not the case), lack of wallet share gains (a concern) or churn in top 10 clients.
- **2HFY23 showed sharp deceleration** – LTTS reported a growth of 12.4% (15.8% in c/c) to ~US\$990 mn in FY23. Revenue growth was driven by transportation, plant engineering and industrial products verticals growing in double digits, while medical devices and telecom & hi-tech verticals underperformed on growth. Among geos, the growth was broad based with all regions growing in double digits. EBIT margin increased by 20 bps to 18.5%. EPS grew 22.3%. FCF was up 33.1% YoY to ₹11.3bn and was at 96.8% of net profit. Headcount addition moderated (1.4K employees added, 6.6% YoY). This follows 26.8% YoY growth in headcount in FY22. Voluntary attrition was up 180 bps at 22.2% which is likely to moderate over FY24.
- **Management expects deal conversion through FY24 to drive growth** – Overall demand for ER&D services is fairly robust, per management commentary, driven by three key themes — (1) energy transition & electrification, (2) digital transformation (cybersecurity, AI, automation, connectivity & computation) and (3) offshoring. The management indicated that transportation has good pipeline of opportunities for connected vehicles and V2X solution development. **Plant engineering** demand is being driven by O&G and chemicals with client requirement for digital twins and asset reliability technologies. **Industrial products** demand is driven by the manufacturing segment with new product and application development being client priorities. **Telecom & hi-tech** growth would be aided by leveraging SWC capabilities in telecom network with 66 L&T Technology Services IT Services India Research infra operators. Semi-conductor outlook remains soft. **Medical devices** have a strong deal pipeline but decision-making has been delayed.

View

The company posted a strong Q4FY23 performance with growth across all verticals leading to C/C growth of 2.2% and steady margins. Global sourcing growth has outperformed growth in ER&D spends over the past decade. This has been a major shift in clients' perception of ER&D being an insourced activity performed at onsite locations. The pandemic further aided in providing comfort to the clients on efficient delivery of critical work from offshore. 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 offshore delivery at 43%. Over the medium term, the company plans to increase the offshore revenue mix to 60%. Increased offshore mix would aid margins reverting to 18% levels by 1HFY26 post impact from the SWC acquisition. Organic revenue growth guidance for FY24 of at least 10% (9.5% in c/c) is consistent and looks achievable. 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 26.3x FY25E EPS ₹142.**

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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
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	33.2	34.5	35.9	34.5
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	19.0	18.9	19.0	19.3
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	20.3	19.4	18.8	19.0
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	16.0	16.3	15.5	16.0
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	11.5	10.9	10.7	11.2

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
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	62.9	63.4	62.7	60.2
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	16.4	15.9	16.1	16.4
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	13.2	12.8	13.6	15.2
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	7.4	7.9	7.6	8.2

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
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	16.7	16.4	16.0	15.9
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	27.6	26.9	26.6	26.6
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	43.2	42.4	42.1	42.0
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	56.8	57.6	57.9	58.0

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
Number of Active Clients	258	258	265	270	270	283	296	306	305	314	318	324	337	343	343	341
More than 50m USD	1	1		-	-	-	-	-	-	-	-	-	-	-	-	-
More than 30 mn USD	3	3	3	2	1	1	1	-	-	1	2	2	2	3	2	1
More than 20 mn USD	5	5	7	8	4	5	4	3	5	6	6	6	7	8	8	9
More than 10 mn USD	17	17	20	21	22	20	18	20	20	21	22	22	23	24	25	24
More than 5 mn USD	44	44	43	43	43	44	41	39	43	45	44	48	51	49	50	52
More than 1 mn USD	110	110	107	113	113	116	118	122	122	125	126	236	142	150	158	169

Source: Company, Way2Wealth

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Revenue by	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Project Type (%)	FY20	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23
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	26.9	27.0	28.6	29.1
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	73.1	73.0	71.4	70.9
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	45.1	43.0	43.0
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	54.9	57.0	57.0
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

Source: Company, Way2Wealth

Employee	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Statistics	FY20	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23
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	21,433	21,474	21,649	22,233
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	20,082	20,189	20,346	19,534
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	1,351	1,285	1,303	1,327
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
Net Addition	773	876	-2	96	-242	-739	167	383	520	1,011	2,135	743	572	41	175	584

Source: Company, Way2Wealth

Q4FY23 & FY23 Performance

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
(₹ mn)								
Revenue (US\$ mn)	255.1	232.0	10.0	248	2.9	990.0	880.0	12.5
Revenue	20,962	17,561	19.4	20,486	2.3	80,136	65,697	22.0
EBIT	3,927	3,274	19.9	3,829	2.6	14,792	12,005	23.2
EBIT Margin (%)	18.7	18.6	9	18.7	4	18.5	18.3	19
Net profit	3,096	2,620	18.2	3,036	2.0	11,698	9,606	21.8
EPS (₹)	29.3	24.8	18.2	28.8	2.0	110.9	91.1	21.8

Source: Company, Way2Wealth

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 View – **ACCUMULATE**
FINANCIALS & VALUATIONS

	(₹ mn)						
Particulars	FY19	FY20	FY21	FY22	FY23P	FY24E	FY25E
Revenue	50,783	56,192	54,497	65,697	80,136	96,243	109,216
EBIT	8,803	9,276	7,891	12,005	14,792	16,231	18,798
EBIT Margin (%)	15.9	19.8	14.5	18.3	18.5	16.9	17.2
Net Profit	7,684	2,836	6,634	9,606	11,698	12,987	14,985
EPS (₹)	73.1	27.0	63.1	91.1	110.9	123.1	142.0
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	24.2	24.1
RoCE (%)	45.2	42.2	16.2	20.3	28.9	27.4	27.8
P/E (x)	51.0	138.2	59.1	41.0	33.6	30.3	26.3
P/BV (x)	15.8	14.1	11.3	9.5	7.9	6.9	6.0
EV/EBITDA (x)	34.8	32.2	21.2	25.0	25.6	24.2	24.1
Cash Balances	2,051	2,440	2,327	6,742	6,899	7,291	8,497
FCFF	6,492	4,141	11,917	8,610	11,296	12,147	13,164

Source: Company, Way2Wealth

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Disclosure of Interest Statement L&T Technology Services Ltd. (LTTS) as on 28th April 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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