

CMP: INR 4,244

Rating: Reduce

Target Price: INR 3,802

Stock Info

BSE	532541
NSE	LTTS
Bloomberg	LTTS IN
Reuters	LTECH.BO
Sector	Computers-Software
Face Value (INR)	2
Equity Capital (INR mn)	210
Mkt Cap (INR mn)	446,450
52w H/L (INR)	5,956 / 2,476
Avg Yearly Vol (in 000')	376

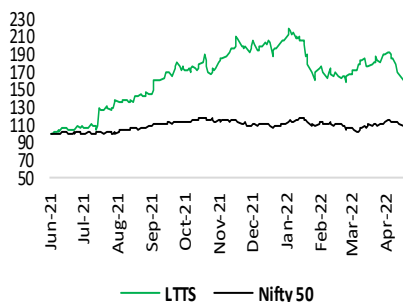
Shareholding Pattern %

(As on December, 2021)

Promoters	73.93
FII	9.23
DII	4.80
Public & Others	12.04

Stock Performance (%)	1m	3m	12m
LTTS	-11.6	-12.0	62.1
Nifty	0.78	-2.0	20.6

LTTS Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

L&T Technology Services (LTTS) has reported below our estimates on all the front

The company clocked a revenue constant currency of \$232 mn, +3.1%/+17.5% QoQ/YoY against our estimate of \$235 mn led by growth in Transportation, Industrial Products and Plant Engineering. The consolidated revenue stood at INR 17,561 Mn, +4.1%/+21.9% QoQ/YoY against our estimate of INR 17,574 Mn. EBIT of INR 3,274 Mn +4.1%/+36.9% QoQ/YoY against our estimate of INR 3,339 Mn. EBIT margin of 18.6%, 1bps QoQ/+342bps YoY against our estimate of 19.0% supported by investments in talent and innovation. PAT of INR 2,632 Mn +5.4%/+27.8% QoQ/YoY was against our estimate of INR 2,759 Mn. EPS stood at INR 24.83, +5.2%/+34.8% QoQ/YoY. The company maintains FY23 USD revenue growth guidance of 13.5-15.5% Deal bookings strong: Total of 6 deals more than \$10 mn won in Q4, that includes a \$100 mn plus deal in EACV and another \$25 mn plus deal. Revenues from digital and leading-edge technologies stood at 57% during the quarter. Headcount stood at 20,861 in Q4FY22. Offshore revenue mix was down 410 bps QoQ to 54.6% as travel resumes globally. The company's utilization (including trainees) was down 80 bps QoQ 75.1% on higher fresher addition. L&T Technology Services declares a final dividend of INR 15/share.

Strong progress across a 6-dimensional strategy to drive industry-leading growth \$100+mn TCV, EACV is playing well. The company has opened an engineering support center in Canada for aerospace. The good pipeline of deals in EACV within the transportation continues to be bullish in the transportation segment.

Double digit growth across verticals, Transportation and plant engineering led the growth The Transportation vertical grew by 7.8% QoQ/25.5% YoY, Plant engineering reported growth of 3.0% QoQ/16.5% YoY and Telecom & Hi-tech grew by 1.1% QoQ/ 11.4%. Industrial product muted growth of -0.5% QoQ/+17.2% YoY. Medical devices muted growth of -0.2% QoQ/10.1% YoY in CC terms. The company won a few projects to streamline component re-engineering and expects better performance in FY23.

Valuations: The company is seeing large deals continue to scale up well in FY23, Pipeline is higher than the previous year. Going forward, two areas of concern are how global growth will be impacted by inflation and attrition. The company is confident it to deliver 13.5%-15% for the FY23. The company will invest in organic and inorganic opportunities. Guidance of 18%+ Maintain margin level going forward in FY23 as well. The demand environment in FY23 would continue to be very strong led by its focus on 6 key bets. Considering expensive valuations and near-term margin pressure, **we value LTTS at a PE of 31x to its FY24E EPS of INR 122.7, which yields a target price of INR 3,802 per share. We downgrade our rating to Reduce from Neutral.**

YE March	Net Sales	EBIT	Adjusted PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
(INR Mn)							
FY21	54,497	7,891	6,633	62.9	14.5%	19.1%	67.5
FY22	65,697	12,005	9,570	90.7	18.3%	23.0%	46.8
FY23E	75,098	13,582	11,396	103.4	18.1%	23.1%	41.1
FY24E	85,947	16,083	13,677	122.7	18.7%	23.1%	34.6

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q4 FY22 - Quarterly Performance (Consolidated)

Consolidated (in INR Mn)	Q4FY22	Q3FY22	Q4FY21	Y-o-Y	Q-o-Q
Revenue (USD)	232	225.1	198	17.5%	3.1%
Net Revenue	17,561	16,875	14,405	21.9%	4.1%
Employee cost	9,485	9,224	8,496	11.6%	11.6%
Other Expenses	4,271	3,977	2,978	43.4%	43.4%
EBITDA	3,805	3,674	2,931	29.8%	3.6%
EBITDA margin %	0	21.8%	20.3%	132bps	-10bps
Depreciation	531	530	540	-1.7%	0.2%
EBIT	3,274	3,144	2,391	36.9%	4.1%
EBIT margin %	18.6%	18.6%	15.2%	342bps	1bps
Other Income	419	370	346	21.1%	13.2%
Finance costs	105	111	125	-16.0%	-5.4%
PBT	3,588	3,403	2,612	37.4%	5.4%
Tax Expense	956	907	659	45.1%	5.4%
Effective tax rate %	0	26.7%	25.2%	141bps	-1bps
PAT	2,632	2,496	1,953	27.8%	5.4%
Extraordinary Items (Net of tax expense)	-	-	-		
Reported PAT	2,632	2,496	1,953	27.8%	5.4%
PAT margin %	0	14.8%	13.6%	143bps	20bps
Minority Interest	-12	-8	-8		
PAT (After MI)	2,620	2,488	1,945	34.7%	5.3%
EPS (INR)	24.83	23.6	18.4	34.8%	5.2%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q4FY22 Concall Highlights

- Growth: LTTS is making very good progress across their six bets; The company is confident to deliver 13.5%-15% for the FY23. They do see deal velocity, deal closer, and pipeline all-time high.
- EBIT Margin: The company guidance 18%+ margin. On the headwind side likely increase in administrative and travel expenses.
- Traction with traditional OEMs empanelment auto major and expect to ramp up quickly.
- Operational 3000 freshers in Q4FY22 and many freshers' will be billable entering FY23. The Headwinds-Travel expenses will be going to increase but will be going to stabilize in FY23.
- Vertical: Transportation displayed strong performance with auto, and aero segments firing well. EACV is playing well. Has opened an engineering support center in Canada for aerospace. The good pipeline of deals in EACV within the transportation continues to be bullish in the transportation segment. Plant engineering- Sequential growth was witnessed with the investment made in plant modernization such as alternative sourcing. The company remains positive about plant engineering. The market has changed with smaller plants preferred, JIT to JIC. Plant engineering will deliver healthy growth despite the war. Industrial products: Facing commodity inflation and supply issues which are temporary as global spending will increase in this vertical. Medical- Gradual improvement in digital platforms. The company won a few projects to streamline component re-engineering. Expect better performance in FY23
- Telecom and Hi-tech: The company has launched a new business unit for metaverse, this helped the company's profitability in the medium term. In Q4FY22 despite the challenges, it grew by 1% sequentially. The company will shortly be launching a 5G lab in a couple of global R&D centers.
- Wage: The company did some positive corrections in January for the critical talent in the company. The regular hike in July.
- Deals: \$100+mn, this is the second consecutive year. The company has worked on EV space in-house. The engineering segment is seeing more mature deals.
- DSO come down 15 days against 20 days.
- Growth in Onsite is more than 45.4% during the quarter because of Q4FY22 deals.
- LTTS believes Attrition will stay on the higher side for the near term.
- Client 5 (17.2% against 17.3% in Q3FY22) ,10 (28.3% against 28.5% in Q3FY22) ,20(43.5% against 43.8% in FY22) continue broadly in the same range as Q3FY22.

Operational Performance					
Revenue by Vertical	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Transportation	31.20%	31.20%	31.40%	31.80%	33.30%
Industrial Products	18.9%	19.50%	20.00%	19.50%	19%
Telecom & Hi-tech	22.10%	22.00%	21.10%	21.4%	21%
Plant Engineering	15.50%	15.50%	15.30%	15.4%	15%
Medical Devices	12.30%	11.70%	12.20%	11.9%	12%
Segment revenue					
Transportation	4492	4738	5040	5369	5844
Plant Engineering	2239	2367	2461	2605	2708
Industrial Products	2717	2955	3221	3288	3302
Medical Devices	1773	1773	1954	2011	2019
Telecom& Hitech	3184	3351	3401	3602	3688
Total	14405	15184	16077	16875	17561
Revenue by Geography					
North America	61.50%	62.30%	62.90%	62.50%	62.30%
Europe	16.70%	16.80%	16.70%	16.50%	16.10%
India	13.10%	12.90%	12.90%	13.70%	14.50%
Rest of the World	8.80%	8.00%	8.00%	7.40%	7%
Revenue Mix					
Onsite	42.10%	41.90%	40.80%	41.30%	45.40%
Offshore	57.90%	58.10%	59.20%	58.70%	54.60%
Revenue by Project Type					
Fixed Price	36.10%	33.80%	30.00%	29.00%	28.60%
Time and Material	63.90%	66.20%	70%	71.00%	71.40%
Client Profile *					
Client Detail	0	0	0	0	0
Number of Active Clients	306	305	314	318	324
30 Million dollar +	0	0	0	2	2
20 Million dollar +	3	5	6	6	6
10 Million dollar +	20	20	21	22	22
5 Million dollar +	39	43	45	44	48
1 Million dollar +	122	122	125	126	136
Client Contribution to Revenue					
Top 5 Clients	16.10%	16.40%	17.00%	17.30%	17.20%
Top 10 Clients	26.90%	27.40%	28.20%	28.50%	28.30%
Top 20 Clients	43.80%	43.90%	44.10%	43.80%	43.50%
Utilisation					
Including Trainees	78.90%	79.20%	78.10%	75.90%	75.10%
Employee Statistics					
Total Headcount	16452	16972	17983	20118	20861
Bilable (as per number of employee)	15335	15896	16875	18975	19534
Sales & Support	1117	1076	1108	1143	1327
Voluntary Attrition % (LTM)	12.2%	14.5%	16.5%	17.5%	20.4%
Exchange Rate (USD/INR)					
Period Realised \$	72.96	73.83	73.96	74.95	75.69

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement (INR Mn)				
Year End-March	FY21	FY22	FY23E	FY24E
Revenue (CC Terms) (Mn USD)	737	880	1,000	1,142
Growth (%)	-6.3%	19.5%	13.6%	14.2%
Revenues	54,497	65,697	75,098	85,947
Change (%)	-3.0%	20.6%	14.3%	14.4%
Employee Costs	33,550	36,505	41,543	44,783
Other Expenses	10,873	15,043	17,723	23,206
Total Expenses	44,423	51,548	59,266	67,989
EBITDA	10,074	14,149	15,832	17,959
Depreciation	2,183	2,144	2,250	1,875
EBIT	7,891	12,005	13,582	16,083
Other Income	1,537	1,524	2,310	2,888
Interest	455	437	485	490
PBT	8,973	13,092	15,407	18,481
Tax	2,308	3,486	3,975	4,768
Rate (%)	25.7%	26.6%	25.8%	25.8%
PAT	6,665	9,606	11,432	13,713
Minority Interest	32	36	36	36
Adjusted PAT	6,633	9,570	11,396	13,677
Change (%)	-19.0%	44.3%	19.1%	20.0%

Balance Sheet (INR Mn)				
Year End-March	FY21	FY22	FY23E	FY24E
Sources of Funds				
Share Capital	210	211	211	211
Reserves & Surplus	34,521	41,414	49,213	59,013
Non-controlling interest	101	137	137	137
Net Worth	34,832	41,762	49,561	59,361
Non-Current liabilities				
Total Current liabilities	10,126	13,263	12,503	14,678
Total liabilities	15,831	19,117	17,459	19,669
Total Equity and liabilities	50,729	60,910	67,052	79,061
Total Non-current Assets	15,703	20,888	15,830	15,770
Current Assets				
Investments	15,149	13,918	15,910	18,208
Trade receivables	12,346	16,959	16,666	19,073
Cash and cash equivalents	1,751	2,347	9,377	15,376
Other bank balances	576	4,395	576	576
Other financial assets	1,685	2,564	2,322	2,657
Other current assets	3,519	3,068	4,849	5,550
Total current assets	35,026	43,251	49,699	61,441
TOTAL ASSETS	50,729	60,910	67,052	79,061

Cash Flow Statement (INR Mn)				
Year End-March	FY21	FY22E	FY22E	FY22E
Net Profit before Tax	8,973	13,092	15,407	18,481
Adjustments:				
Depreciation	2,183	2,144	2,250	1,875
Interest and Dividend received	12	-759	-210	-240
Operating Profit before WC Changes	11,623	14,914	17,447	20,116
Operating Profit after WC Changes	15,848	13,625	17,741	17,708
Direct Taxes Paid & Exceptional Items	-2,523	-3,563	-3,975	-4,768
Cash Flow from Operating Activities	13,325	10,062	13,766	12,940
Cash Flow from Investing Activities	-10,054	-4,483	-2,825	-2,997
Cash Flow from Financing Activities	-3,627	-4,982	-3,938	-3,943
Net Change in Cash & Cash Equivalents	-356	597	7,003	6,000
Opening Cash & Cash Equivalents	2,133	1,777	2,374	9,377
Closing Cash & Cash Equivalents	1777	2374	9377	15376

Key Ratios				
Year End-March	FY21	FY22	FY23E	FY24E
Per Share (INR)				
EPS	62.9	90.7	103.4	122.7
CEPS	82.6	108.1	124.1	139.4
BVPS	1659	1979	2349	2813
DPS	21.5	25.0	21.0	21.0
Valuation (x)				
P/E	67.5	46.8	41.1	34.6
P/CEPS	51	39	34	30
P/BV	13	11	9	8
EV/EBITDA	29	21	18	16
Return Ratio (%)				
EBITDA Margin	18.5%	21.5%	21.1%	20.9%
EBIT Margin	14.5%	18.3%	18.1%	18.7%
PAT Margin	12.2%	14.6%	15.2%	16.0%
ROE	19.1%	23.0%	23.1%	23.1%
ROCE	16.8%	21.1%	20.3%	20.1%
Dividend Yield	0.5%	0.6%	0.5%	0.5%
Leverage Ratio (%)				
Net Debt/Equity (x)	-0.1	-0.1	-0.2	-0.3
Net Debt/EBITDA (x)	-0.2	-0.2	-0.6	-0.9
Turnover Ratios				
Asset Turnover (x)	26.2	32.1	41.0	52.5
Receivable Days	88	81	81	81
Payable days	14	11	11	11

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880