

October 18, 2022

**RESULT REPORT Q2 FY23** | Information Technology

# L&T Technology Services

**Strong operating performance for the quarter; seeing signs of softness in few segments**

## Result Synopsis

L&T Technology Services (INFO) reported strong financial performance for the quarter. While, the revenue growth was inline with estimates, EBIT margin came above expectation. It reported constant currency growth of 4.5% QoQ, led by Transportation vertical( up 7.4% QoQ) and Plant Engineering( up 4.6% QoQ). The INR reported growth of 6.5% QoQ was supported by depreciation of INR by 3.4% QoQ vs USD. There was sequential decline in EBIT margin(down 14 bps QoQ) led by impact of wage hike in the quarter(slightly offset by control on other expenses). There was slight increase in reported employee attrition as LTM attrition increased by 90 bps QoQ to 24.1%.

The long term demand environment remains intact led by growing outsourcing of ER&D services. However, the clients especially in sectors such as Hitech and Medical devices have become cautious regarding the evolving macroeconomic situation leading to signs of demand softness in these segments and it poses near term risks. Employee attrition is expected to come down in H2FY23 and should support operating margin going ahead. We estimate revenue CAGR of 17.9% over FY22-24E with average EBIT margin of 18.9%. We maintain our NEUTRAL rating on the stock with revised target price of Rs 3,696/share at 28.5x on FY24E EPS. We have slightly increased its target valuation multiple from 27.5x to 28.5x. The stock trades at PER of 33.9x/28.3x on FY23E/FY24E EPS.

## Result Highlights

- Reported revenue of Rs 19.9bn( up 6.5% QoQ in INR terms, up 3.2% QoQ in USD terms). The constant currency growth was 4.5% QoQ. The sequential revenue growth was led by Transportation vertical( up 7.4% QoQ), Plant Engineering( up 4.6% QoQ).Whereas, Telecom( down 1.3% QoQ), Medical Devices( down 2.3% QoQ) had muted performance.
- EBIT margin was down 14 bps QoQ to 18.2%, led by impact of wage hike in the quarter, slightly mitigated by control on other expenses.
- Deal bookings remained healthy during the quarter, as it won a \$60 mn plus deal and a deal with TCV of \$10 mn.
- Offshore revenue mix declined by 130 bps QoQ to 54.9%. Number of Active clients increased by 6 QoQ to 343.
- Headcount addition was muted as total employees grew by 44 QoQ to 21,474 employees. LTM attrition increased by 90 bps QoQ to 24.1%.
- Increased its revenue growth guidance for FY23 from 13.5%-15.5% to 15.5%-16.5%. in cc terms. Declared interim dividend of Rs 15/ share with Oct 28 as the record date.

## Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	19,951	19,757	19,667	1.0%	1.4%
EBITDA	4,218	4,195	4,049	0.5%	4.2%
EBITDA Margin (%)	21.14%	21.23%	20.59%	(09) bps	55 bps
Adjusted PAT	2,832	2,841	2,736	-0.3%	3.5%

Source: Company, YES Sec

Reco	: <b>NEUTRAL</b>
CMP	: Rs 3,675
Target Price	: Rs 3,696
Potential Return	: 1%

## Stock data (as on Oct 18, 2022)

Nifty	17,487
52 Week h/l (Rs)	5956 / 2924
Market cap (Rs/USD mn)	388009 / 4711
Outstanding Shares (mn)	106
6m Avg t/o (Rs mn):	1,243
Div yield (%):	0.7
Bloomberg code:	LTTS IN
NSE code:	LTTS

## Stock performance



## Shareholding pattern (As of Jun'22 end)

Promoter	73.9%
FII+DII	10.4%
Others	15.7%

## Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	3,696	3,388

## Δ in earnings estimates

	FY22	FY23E	FY24E
EPS (New)	90.7	108.4	129.7
EPS (Old)	90.7	105.8	123.2
%Change	NA	2.5%	5.3%

## Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Net Revenue	65,697	79,243	91,249
YoY Growth	20.6%	20.6%	15.2%
EBIDTA	14,149	17,084	20,614
YoY Growth	40.5%	20.7%	20.7%
PAT	9,574	11,450	13,693
YoY Growth	44.3%	19.6%	19.6%
ROE	25.1%	25.2%	25.6%
EPS	91	108	130
P/E	40.5	33.9	28.3
BV	394	465	549
P/BV	9.3	7.9	6.7

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**PARTH GHIYA**, Associate

## Exhibit 2: Quarterly snapshot Console: Operating performance remained strong for the quarter

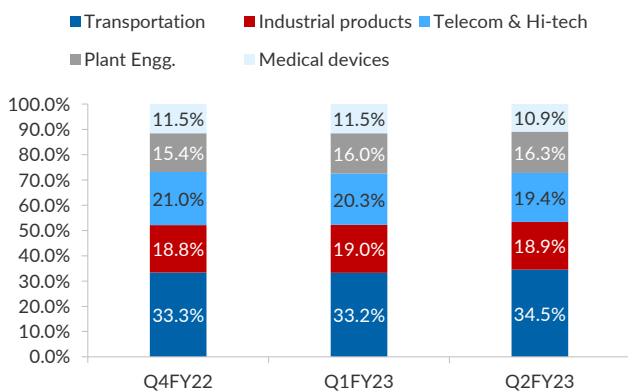
Particulars(Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	yoy%	qoq %	H1FY23	H1FY22	yoy%
Sales (\$ mn)	217.4	225.1	232.0	239.5	247.1	13.7	3.2	486.6	423.1	15.0
Sales	16,077.0	16,875.0	17,561.0	18,737.0	19,951.0	24.1	6.5	38,688.0	31,261.0	23.8
EBITDA	3,493	3,675	3,804	4,010	4,218	20.8	5.2	8,228.0	6,670.0	23.4
EBITDA %	21.7	21.8	21.7	21.4	21.1	-58 bps	-26 bps	21.3	21.3	-7 bps
Depreciation	529	531	530	576	590	11.5	2.4	1,166.0	1,083.0	7.7
EBIT	2,964	3,144	3,274	3,434	3,628	22.4	5.6	7,062.0	5,587.0	26.4
EBIT Margin %	18.4	18.6	18.6	18.3	18.2	-25 bps	-14 bps	18.3	17.9	38 bps
Other income	180	259	314	340	261	45.0	-23.2	601.0	514.0	16.9
PBT	3,144	3,403	3,588	3,774	3,889	23.7	3.0	7,663.0	6,101.0	25.6
Tax	836	907	956	1,024	1,057	26.4	3.2	2,081.0	1,623.0	28.2
PAT	2,308	2,496	2,632	2,750	2,832	22.7	3.0	5,582.0	4,478.0	24.7
NPM (%)	14.4	14.8	15.0	14.7	14.2	-16 bps	-48 bps	14.4	14.3	10 bps

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

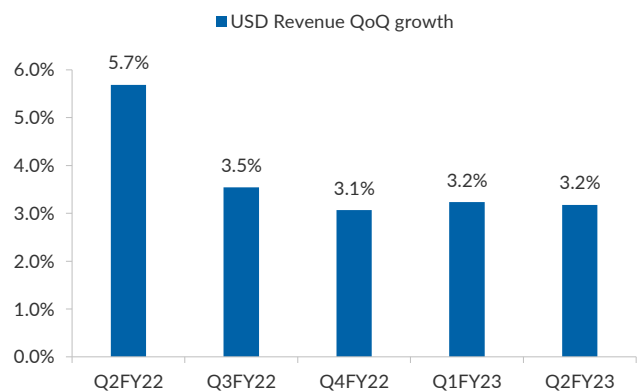
- Deal pipeline remains strong. However, there are signs of demand softness in sectors such as Hitech and Medical Devices where clients are watchful of evolving macroeconomic situation.
- The aim is to maintain EBIT margin of 18% plus in medium term.
- The revenue growth guidance of 15.5%-16.5% in cc terms takes into account seasonally weak Q3.
- Achieved revenue run rate of \$1bn in cc terms in this quarter.
- There was dip in offshore revenue mix in the quarter due to certain large deal ramp ups.
- It will take few quarters more when 5G related deals pick up for LTTS.
- The aim is to achieve \$1.5bn revenue run rate by FY25.
- Employee attrition has peaked up and should come down in coming quarters.
- Muted employee addition in the quarter was one off and not a trend.
- It has stopped reporting employee utilization recently. Utilization has improved in the quarter and the long-term aim is to be between 78-82% utilization level.

**Exhibit 3: Performance in the quarter was led by Transportation vertical**



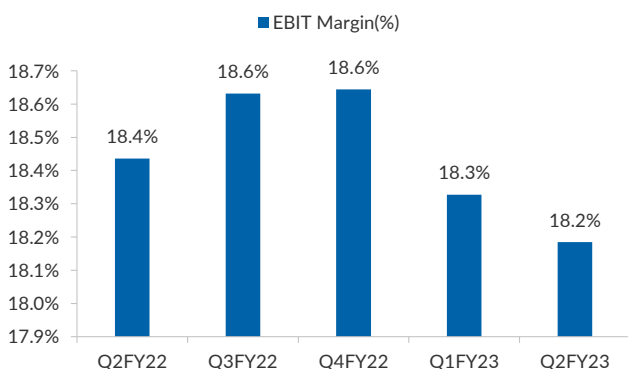
Source: Company, YES Sec

**Exhibit 4: Revenue Growth momentum remained intact**



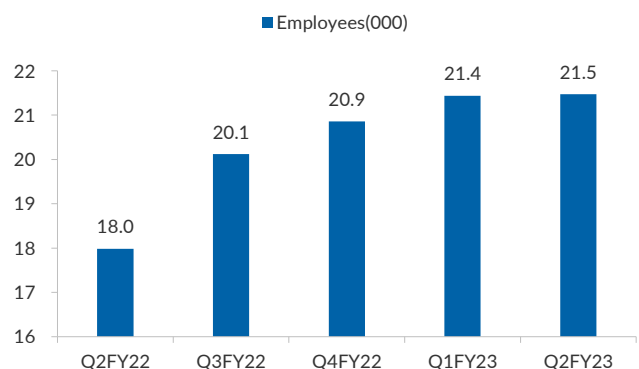
Source: Company, YES Sec

**Exhibit 5: Able to maintain EBIT margin above 18% plus**



Source: Company, YES Sec

**Exhibit 6: Employees addition was muted for Q2FY23**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 7: Balance Sheet

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share capital	205	208	209	210	211	211	211
Reserves & surplus	19,159	24,583	27,477	34,521	41,414	48,856	57,757
Shareholders' funds	19,364	24,791	27,686	34,731	41,625	49,067	57,968
Non-current liabilities	47	194	4,890	4,915	5,359	5,440	5,522
Long-term borrowings	0	0	0	0	0	0	0
Other non-current liabilities	47	194	4,890	4,915	5,359	5,440	5,522
Current liabilities	7,637	8,622	10,388	10,982	13,789	16,404	18,083
ST borrowings, Curr maturity	702	702	303	0	0	0	0
Other current liabilities	6,935	7,920	10,085	10,982	13,789	16,404	18,083
<b>Total (Equity and Liabilities)</b>	<b>27,051</b>	<b>33,638</b>	<b>43,033</b>	<b>50,729</b>	<b>60,910</b>	<b>71,048</b>	<b>81,710</b>
Non-current assets	8,444	9,923	13,931	15,703	17,659	18,510	19,553
Fixed assets (Net block)	2,174	2,435	6,362	7,116	7,045	6,848	6,602
Non-current Investments	0	0	0	0	0	0	0
Other non-current assets	6,270	7,488	7,569	8,587	10,614	11,662	12,951
Current assets	18,607	23,715	29,102	35,026	43,251	52,538	62,157
Cash & current investment	3,749	7,800	8,549	17,476	20,660	28,032	34,404
Other current assets	14,858	15,915	20,553	17,550	22,591	24,506	27,753
<b>Total (Assets)</b>	<b>27,051</b>	<b>33,638</b>	<b>43,033</b>	<b>50,729</b>	<b>60,910</b>	<b>71,048</b>	<b>81,710</b>

Source: Company, YES Sec

### Exhibit 8: Income Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	37,471	50,783	56,192	54,497	65,697	79,243	91,249
Operating expenses	(31,660)	(41,625)	(45,087)	(44,423)	(51,548)	(62,159)	(70,634)
EBITDA	5,811	9,158	11,105	10,074	14,149	17,084	20,614
Depreciation	(943)	(1,053)	(1,829)	(2,183)	(2,144)	(2,464)	(2,920)
EBIT	4,868	8,105	9,276	7,891	12,005	14,621	17,694
Other income	1,934	2,224	2,091	1,537	1,087	1,139	1,142
Finance cost	(24)	(19)	(365)	(455)	-	-	-
Profit before tax	6,778	10,310	11,002	8,973	13,092	15,759	18,836
Tax (current + deferred)	(1,712)	(2,630)	(2,778)	(2,307)	(3,486)	(4,278)	(5,111)
Reported Profit / (Loss)	5,066	7,680	8,186	6,634	9,574	11,450	13,693
Adjusted net profit	5,066	7,680	8,186	6,634	9,574	11,450	13,693

Source: Company, YES Sec

## Exhibit 9: Cash Flow Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	6,778	10,310	11,002	8,973	13,092	15,759	18,836
Depreciation	943	1,053	1,829	2,183	2,144	2,464	2,920
Change in working capital	(2,743)	87	2,085	3,204	(2,391)	757	(1,511)
Total tax paid	(1,459)	(2,496)	(2,825)	(1,342)	(2,956)	(4,254)	(5,086)
Others	(1,910)	(2,205)	(1,726)	(1,082)	(1,087)	(1,139)	(1,142)
Cash flow from oper. (a)	1,609	6,749	10,365	11,936	8,802	13,587	14,018
Capital expenditure	(1,171)	(1,314)	(5,756)	(2,937)	(2,073)	(2,267)	(2,674)
Change in investments	(261)	(3,542)	(361)	(9,039)	1,231	(2,088)	(2,401)
Others	2,291	1,304	2,290	642	(815)	91	(147)
Cash flow from inv. (b)	859	(3,552)	(3,827)	(11,334)	(1,657)	(4,264)	(5,222)
Free cash flow (a+b)	2,468	3,197	6,538	602	7,145	9,324	8,796
Equity raised/(repaid)	2	3	1	1	1	-	-
Debt raised/(repaid)	(317)	-	(399)	(303)	-	-	-
Dividend (incl. tax)	(1,149)	(2,856)	(3,086)	(2,198)	(3,633)	(4,007)	(4,793)
Others	(134)	165	(2,666)	1,786	902	(32)	(32)
Cash flow from fin. (c)	(1,598)	(2,688)	(6,150)	(714)	(2,730)	(4,039)	(4,825)
Net chg in cash (a+b+c)	870	509	388	(112)	4,415	5,284	3,972

Source: Company, YES Sec

## Exhibit 10: Ratio Analysis

Y/e March 31	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Growth(%)							
Revenue Growth	15.4	35.5	10.7	(3.0)	20.6	20.6	15.2
EBITDA Growth	(0.6)	57.6	21.3	(9.3)	40.5	20.7	20.7
EBIT Growth	(6.8)	66.5	14.4	(14.9)	52.1	21.8	21.0
Net Profit Growth	19.2	51.6	6.6	(19.0)	44.3	19.6	19.6
Profitability Ratios(%)							
EBITDA Margin	15.5	18.0	19.8	18.5	21.5	21.6	22.6
EBIT margin	13.0	16.0	16.5	14.5	18.3	18.5	19.4
Net Profit margin	13.5	15.1	14.6	12.2	14.6	14.4	15.0
RoA	19.7	26.7	24.2	16.8	21.5	22.2	23.2
RoE	29.6	34.8	31.2	21.3	25.1	25.2	25.6
RoCE	27.1	35.4	31.6	21.7	27.6	28.7	29.9
Liquidity Ratios							
Net debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.5)	(0.5)	(0.6)	(0.6)
Current ratio (x)	2.4	2.8	2.8	3.2	3.1	3.2	3.4
Quick ratio (x)	2.4	2.8	2.8	3.2	3.1	3.2	3.4
Valuation Ratios							
PER(x)	NA	NA	NA	NA	40.5	33.9	28.3
PCE(x)	NA	NA	NA	NA	33.1	27.9	23.4
Price/Book(x)	NA	NA	NA	NA	9.3	7.9	6.7
EV/EBITDA(x)	NA	NA	NA	NA	26.0	21.1	17.2

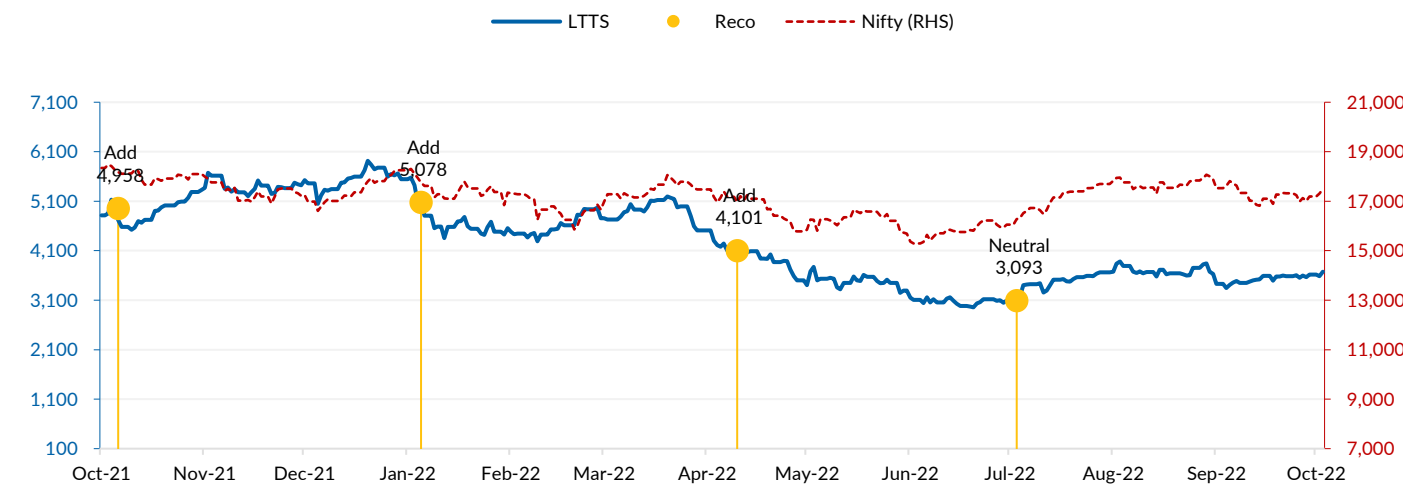
Source: Company, YES Sec

## Exhibit 11: Dupont Analysis

Dupont Analysis	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net margin(%)	13.5	15.1	14.6	12.2	14.6	14.4	15.0
Asset turnover (x)	1.5	1.7	1.5	1.2	1.2	1.2	1.2
Leverage factor (x)	1.4	1.4	1.5	1.5	1.5	1.5	1.4
Return on Equity(%)	29.6	34.8	31.2	21.3	25.1	25.2	25.6

Source: Company, YES Sec

## Recommendation Tracker



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Name of the Research Analyst : Piyush Pandey, Parth Ghiya

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**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

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