

# L&T Technology Services

**Mixed operating performance for the quarter; seeing signs of softness in certain segments**

## Result Synopsis

L&T Technology Services (INFO) reported mixed financial performance for the quarter. While, the revenue growth was below with estimates, EBIT margin came slightly above expectation. It reported revenue growth of 0.4% QoQ in USD terms, led by Transportation vertical( up 4.4% QoQ) and Industrial products( up 0.9% QoQ). The INR reported growth of 2.7% QoQ was supported by depreciation of INR by 2.9% QoQ vs USD. There was sequential improvement in EBIT margin(up 51 bps QoQ) led by control on other expenses. There was slight decrease in reported employee attrition as LTM attrition decreased by 80 bps QoQ to 23.3%.

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 17.5% over FY22-24E with average EBIT margin of 18.3%. We maintain our NEUTRAL rating on the stock with revised target price of Rs 3,502/share at 28.5x on FY24E EPS. The stock trades at PER of 31.3x/27.7x on FY23E/FY24E EPS.

## Result Highlights

- Reported revenue of Rs 20.5bn (up 2.7% QoQ in INR terms, up 0.4% QoQ in USD terms). The constant currency growth was 13.5% YoY. The sequential revenue growth was led by Transportation vertical (up 4.4% QoQ), Industrial Products (up 0.9% QoQ). Whereas Telecom (down 2.7% QoQ), Medical Devices (down 1.5% QoQ) and Plant Engineering (down 2.7% QoQ) had muted performance.
- EBIT margin improved by 51 bps QoQ to 18.7%, led by control on other expenses.
- Deal bookings remained healthy during the quarter, as it won five USD 10 million plus TCV deals and a significant empanelment with Airbus in digital manufacturing.
- Offshore revenue mix improved by 210 bps QoQ to 57.0%. Number of Active clients remained flat at 343.
- Headcount addition was muted as total employees grew by 175 QoQ to 21,649 employees. LTM attrition decreased by 80 bps QoQ to 23.3%.
- Lowered its FY23 revenue growth guidance to 15% in cc terms from 15.5-16.5% earlier guidance.

## Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	20,486	20,751	20,600	-1.3%	-0.6%
EBITDA	4,412	4,532	4,370	-2.6%	1.0%
EBITDA Margin (%)	21.54%	21.84%	21.21%	-30 bps	32 bps
Adjusted PAT	3,036	3,004	2,950	1.1%	2.9%

Source: Company, YES Sec

Reco	: <b>NEUTRAL</b>
CMP	: Rs 3,397
Target Price	: Rs 3,502
Potential Return	: 3%

## Stock data (as on Jan 19, 2023)

Nifty	18,108
52 Week h/l (Rs)	5614 / 2924
Market cap (Rs/USD mn)	361042 / 4442
Outstanding Shares (mn)	106
6m Avg t/o (Rs mn):	1,187
Div yield (%):	1.0
Bloomberg code:	LTTS IN
NSE code:	LTTS

## Stock performance



	1M	3M	1Y
Absolute return	-14.9%	-2.8%	-33.1%

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

Promoter	73.9%
FII+DII	15.1%
Others	11.0%

## Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	3,502	3,696

## Δ in earnings estimates

	FY23E	FY24E	FY25E
EPS (New)	108.8	122.9	143.4
EPS (Old)	108.4	129.7	NA
%Change	0.4%	-5.3%	NA

## Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Net Revenue	79,511	90,573	1,05,446
YoY Growth	21.0%	13.9%	16.4%
EBIDTA	16,970	19,464	22,809
YoY Growth	19.9%	14.7%	17.2%
PAT	11,489	12,973	15,141
YoY Growth	20.0%	12.9%	16.7%
ROE	25.3%	24.3%	24.2%
EPS	109	123	143
P/E	31.3	27.7	23.8
BV	465	545	638
P/BV	7.3	6.3	5.3

## PIYUSH PANDEY

Lead Analyst

1piyush.pandey@ysil.in

+91 22 68850521



PARTH GHIYA, Associate

## Exhibit 2: Quarterly snapshot Console: Operating performance was mixed for the quarter

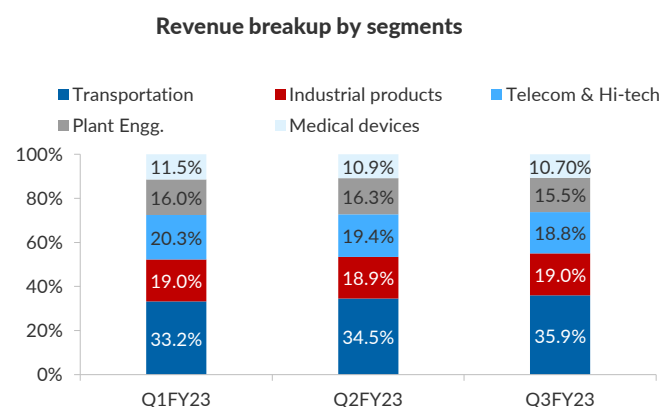
Particulars (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	yoy%	qoq %	9MFY23	9MFY22	yoy%
Sales (\$ mn)	225.1	232.0	239.5	247.1	248.0	10.2	0.4	734.6	648.2	13.3
Sales	16,875.0	17,561.0	18,737.0	19,951.0	20,486.0	21.4	2.7	59,174.0	48,136.0	22.9
EBITDA	3,675	3,804	4,010	4,218	4,412	20.1	4.6	12,640.0	10,345.0	22.2
EBITDA %	21.8	21.7	21.4	21.1	21.5	-24 bps	39 bps	21.4	21.5	-13 bps
Depreciation	531	530	576	590	583	9.8	-1.2	1,749.0	1,614.0	8.4
EBIT	3,144	3,274	3,434	3,628	3,829	21.8	5.5	10,891.0	8,731.0	24.7
EBIT Margin %	18.6	18.6	18.3	18.2	18.7	6 bps	51 bps	18.4	18.1	27 bps
Other income	259	314	340	261	613	136.7	134.9	1,214.0	773.0	57.1
PBT	3,403	3,588	3,774	3,889	4,442	30.5	14.2	12,105.0	9,504.0	27.4
Tax	907	956	1,024	1,057	1,406	55.0	33.0	3,487.0	2,530.0	37.8
PAT	2,496	2,632	2,750	2,832	3,036	21.6	7.2	8,618.0	6,974.0	23.6
NPM (%)	14.8	15.0	14.7	14.2	14.8	3 bps	63 bps	14.6	14.5	8 bps

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

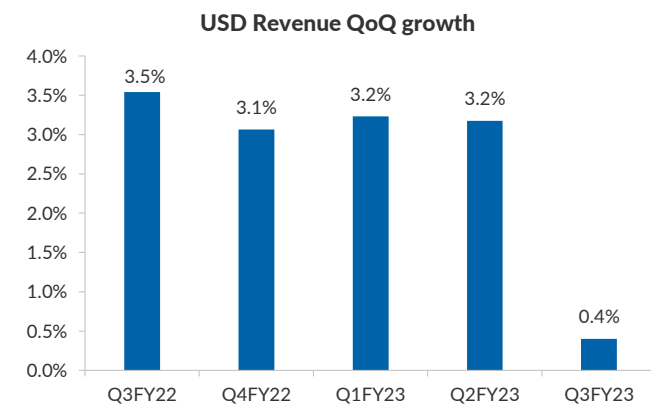
- Muted growth was due to seasonality and higher furloughs in Plant Engineering Vertical, however quite optimistic regarding the bounce back of growth in Plant Engineering vertical.
- Demand pipelines remain strong across geographies. No signs of softness despite economic concerns in US, Europe and Middle East regions.
- Growth in 5G and cybersecurity space expected to drive pickup in Telecom vertical.
- Digital Manufacturing led new products and process development may prove to be a demand driver going ahead
- Transportation vertical expected to sustain growth momentum due to demand for next generation cockpit and aero related platforms. Management quite optimistic with this vertical for FY24.
- Net headcount addition for Q4FY23 would be at least 500 employees due to big deal win from Airbus.
- Sixth consecutive quarter of 18%+ EBIT Margin. Company crossed Rs. 300 crore milestone of net profit.
- Lowered its FY23 revenue growth guidance to 15% in cc terms from 15.5-16.5% earlier guidance. Well on track to meeting its aspiration of \$1.5bn revenue run rate by FY25.
- Increase in other income was due to higher foreign exchange gains.
- SWC acquisition is helping company win deals in communication, cybersecurity and 5G segments.

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



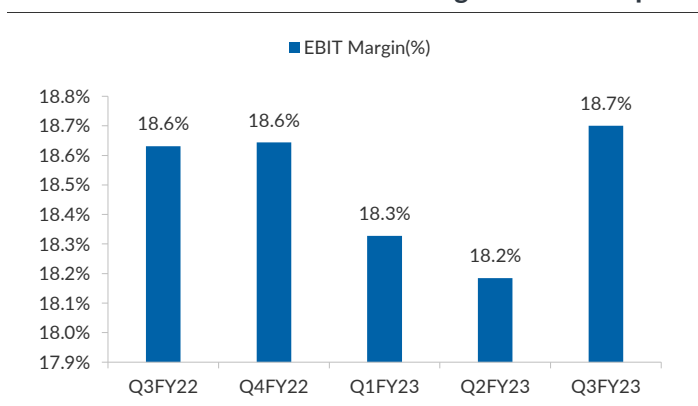
Source: Company, YES Sec

**Exhibit 4: Revenue Growth momentum was impacted due to furloughs**



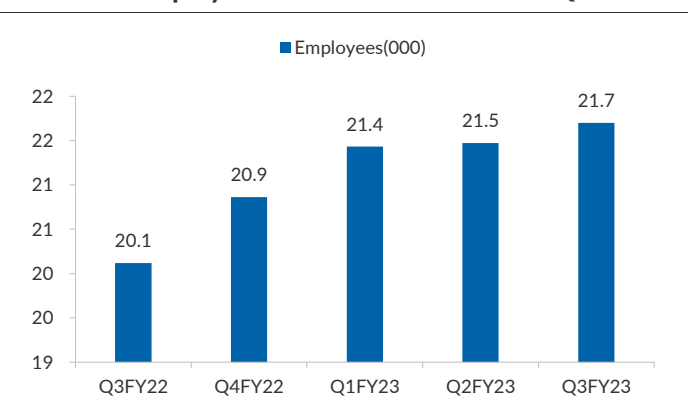
Source: Company, YES Sec

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



Source: Company, YES Sec

**Exhibit 6: Employees addition was muted for Q3FY23**



Source: Company, YES Sec

## FINANCIALS

**Exhibit 7: Balance Sheet**

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share capital	208	209	210	211	211	211	211
Reserves & surplus	24,583	27,477	34,521	41,414	48,882	57,314	67,156
Shareholders' funds	24,791	27,686	34,731	41,625	49,093	57,525	67,367
Non-current liabilities	194	4,890	4,915	5,359	5,440	5,522	5,607
Long-term borrowings	-	-	-	-	-	-	-
Other non-current liabilities	194	4,890	4,915	5,359	5,440	5,522	5,607
Current liabilities	8,622	10,388	10,982	13,789	16,415	18,055	19,970
ST borrowings, Curr maturity	702	303	-	-	-	-	-
Other current liabilities	7,920	10,085	10,982	13,789	16,415	18,055	19,970
Total (Equity and Liabilities)	33,638	43,033	50,729	60,910	71,084	81,240	93,081
Non-current assets	9,923	13,931	15,703	17,659	18,574	19,638	21,131
Fixed assets (Net block)	2,435	6,362	7,116	7,045	6,912	6,688	6,596
Non-current Investments	-	-	-	-	-	-	-
Other non-current assets	7,488	7,569	8,587	10,614	11,662	12,951	14,535
Current assets	23,715	29,102	35,026	43,251	52,510	61,602	71,950
Cash & current investment	7,800	8,549	17,476	20,660	27,942	34,006	40,405
Other current assets	15,915	20,553	17,550	22,591	24,568	27,595	31,544
Total (Assets)	33,638	43,033	50,729	60,910	71,084	81,240	93,081

Source: Company, YES Sec

**Exhibit 8: Income Statement**

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net sales	50,783	56,192	54,497	65,697	79,511	90,573	1,05,446
Operating expenses	(41,625)	(45,087)	(44,423)	(51,548)	(62,541)	(71,109)	(82,637)
EBITDA	9,158	11,105	10,074	14,149	16,970	19,464	22,809
Depreciation	(1,053)	(1,829)	(2,183)	(2,144)	(2,400)	(2,898)	(3,374)
EBIT	8,105	9,276	7,891	12,005	14,570	16,565	19,435
Other income	2,224	2,091	1,537	1,087	1,519	1,282	1,388
Finance cost	(19)	(365)	(455)	-	-	-	-
Profit before tax	10,310	11,002	8,973	13,092	16,089	17,848	20,823
Tax (current + deferred)	(2,630)	(2,778)	(2,307)	(3,486)	(4,568)	(4,843)	(5,650)
Reported Profit / (Loss)	7,680	8,186	6,634	9,574	11,489	12,973	15,141
Adjusted net profit	7,680	8,186	6,634	9,574	11,489	12,973	15,141

Source: Company, YES Sec

## Exhibit 9: Cash Flow Statement

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	10,310	11,002	8,973	13,092	16,089	17,848	20,823
Depreciation	1,053	1,829	2,183	2,144	2,400	2,898	3,374
Change in working capital	87	2,085	3,204	(2,391)	705	(1,330)	(1,975)
Total tax paid	(2,496)	(2,825)	(1,342)	(2,956)	(4,544)	(4,818)	(5,624)
Others	(2,205)	(1,726)	(1,082)	(1,087)	(1,519)	(1,282)	(1,388)
Cash flow from oper. (a)	6,749	10,365	11,936	8,802	13,131	13,316	15,210
Capital expenditure	(1,314)	(5,756)	(2,937)	(2,073)	(2,267)	(2,674)	(3,283)
Change in investments	(3,542)	(361)	(9,039)	1,231	(2,088)	(2,401)	(2,761)
Others	1,304	2,290	642	(815)	471	(6)	(196)
Cash flow from inv. (b)	(3,552)	(3,827)	(11,334)	(1,657)	(3,884)	(5,081)	(6,240)
Free cash flow (a+b)	3,197	6,538	602	7,145	9,248	8,236	8,970
Equity raised/(repaid)	3	1	1	1	-	-	-
Debt raised/(repaid)	-	(399)	(303)	-	-	-	-
Dividend (incl. tax)	(2,856)	(3,086)	(2,198)	(3,633)	(4,021)	(4,541)	(5,299)
Others	165	(2,666)	1,786	902	(32)	(32)	(32)
Cash flow from fin. (c)	(2,688)	(6,150)	(714)	(2,730)	(4,053)	(4,573)	(5,331)
Net chg in cash (a+b+c)	509	388	(112)	4,415	5,194	3,663	3,638

Source: Company, YES Sec

## Exhibit 10: Ratio Analysis

Y/e March 31	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth(%)							
Revenue Growth	35.5	10.7	(3.0)	20.6	21.0	13.9	16.4
EBITDA Growth	57.6	21.3	(9.3)	40.5	19.9	14.7	17.2
EBIT Growth	66.5	14.4	(14.9)	52.1	21.4	13.7	17.3
Net Profit Growth	51.6	6.6	(19.0)	44.3	20.0	12.9	16.7
Profitability Ratios(%)							
EBITDA Margin	18.0	19.8	18.5	21.5	21.3	21.5	21.6
EBIT margin	16.0	16.5	14.5	18.3	18.3	18.3	18.4
Net Profit margin	15.1	14.6	12.2	14.6	14.4	14.3	14.4
RoA	26.7	24.2	16.8	21.5	22.1	21.8	22.3
RoE	34.8	31.2	21.3	25.1	25.3	24.3	24.2
RoCE	35.4	31.6	21.7	27.6	28.6	28.1	28.5
Liquidity Ratios							
Net debt/Equity (x)	(0.3)	(0.3)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
Current ratio (x)	2.8	2.8	3.2	3.1	3.2	3.4	3.6
Quick ratio (x)	2.8	2.8	3.2	3.1	3.2	3.4	3.6
Valuation Ratios							
PER(x)	NA	NA	NA	37.6	31.3	27.7	23.8
PCE(x)	NA	NA	NA	30.7	25.9	22.7	19.4
Price/Book(x)	NA	NA	NA	8.6	7.3	6.3	5.3
EV/EBITDA(x)	NA	NA	NA	24.0	19.6	16.7	14.0

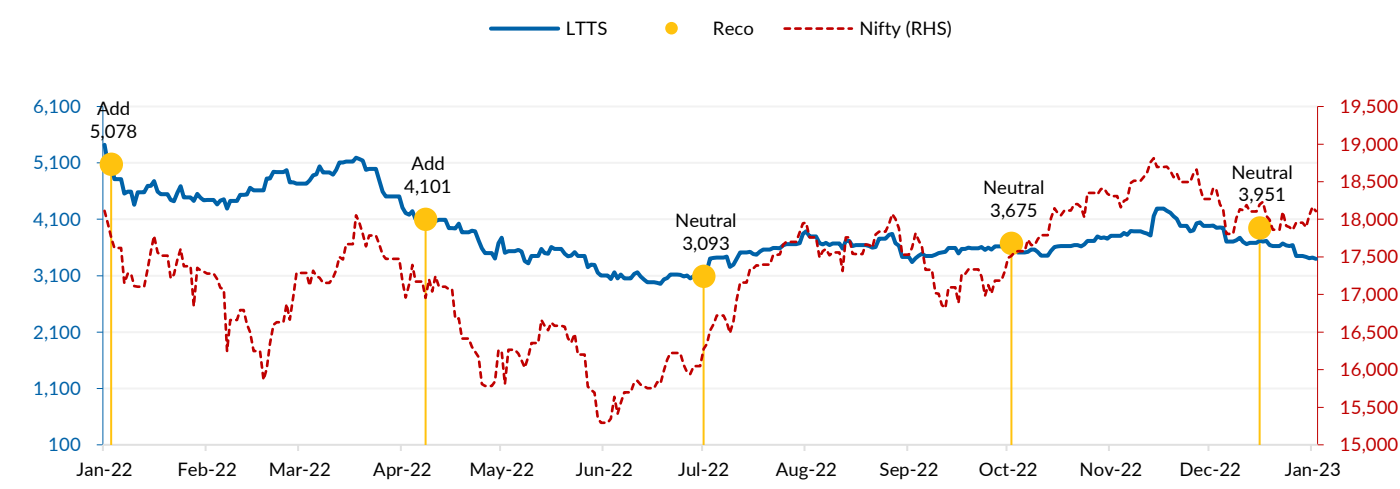
Source: Company, YES Sec

## Exhibit 11: Dupont Analysis

Dupont Analysis	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net margin(%)	15.1	14.6	12.2	14.6	14.4	14.3	14.4
Asset turnover (x)	1.7	1.5	1.2	1.2	1.2	1.2	1.2
Leverage factor (x)	1.4	1.5	1.5	1.5	1.5	1.4	1.4
Return on Equity(%)	34.8	31.2	21.3	25.1	25.3	24.3	24.2

Source: Company, YES Sec

## Recommendation Tracker



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Off Western Express Highway, Santacruz East,  
Mumbai - 400 055, Maharashtra, India.

**Correspondence Address:** 4<sup>th</sup> Floor, AFL House,  
Lok Bharti Complex, Marol Maroshi Road, Andheri East,  
Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ [research@ysil.in](mailto:research@ysil.in)  
Website: [www.yesinvest.in](http://www.yesinvest.in)

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**Details of Compliance Officer:** Name: Aditya Goenka,  
**Email id:** [compliance@ysil.in](mailto:compliance@ysil.in), **Contact No:** 022- 65078127 (Extn: 718127)



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Name of the Research Analyst : Piyush Pandey, Parth Ghiya

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

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