

L&T Technology Services

Soft Q1; SWC and vertical-specific recovery in H2

L&T Technology Services (LTTS) delivered lower Q1 revenue performance, impacted by SWC seasonality. Strong demand continued in the transportation vertical (33% of revenue), led by continued traction in off-highway, EV, and software-defined vehicles while other verticals were impacted by delayed decision-making. Telecom & Hi-tech witnessed organic decline impacted by weakness in the semi-conductor sub-segment which is expected to prevail further in Q2. SWC revenue performance is expected to improve in H2FY24; it has historically contributed ~60% of annual revenue. We have built low-teen organic revenue CAGR over FY23-26E, which is in line with its historical growth, supported by a strong and diversified engineering services pedigree. LTTS maintained its medium-term growth outlook of USD 1.5bn revenue rate by FY25E. Wage increase in Q2 will be offset by medium-term levers of lower sub-contracting and better performance of SWC in H2FY24E. The risk-reward is unfavourable at 33x FY24E and we maintain REDUCE, with a TP of INR 3,865, based on 25x Jun-25E EPS and a 16% EPS CAGR over FY23-26E.

- **Q1FY24 highlights:** (1) LTTS reported USD revenue growth of +9.8/16.9% QoQ/YoY (organic +0.6/7.5% QoQ/YoY CC) at USD 280mn (HSIE est. USD 288mn), supported by healthy growth in transportation (+4.0% QoQ). (2) Growth was led by the transportation vertical while Telecom & Hi-Tech growth was supplemented by SWC integration; LTTS expects Plant Engineering to bounce back in Q2, semiconductor impact in Telecom & Hi-Tech vertical to be offset by USD 50mn TCV digital video platform deal, and the overall growth momentum to strengthen ahead. (3) EBITM declined 155bps QoQ at 17.2% in Q1, impacted by higher other expenses (investment for large deals & integration cost) and the lower margin profile of SWC. (4) LTTS added 1,159 net employees in Q1 (including 800 employees of SWC) and plans to add a further 750 net employees in Q2FY24. (5) The management retained its revenue growth outlook of 20%+ (including 10%+ organic growth) in FY24E and its aspiration of USD 1.5bn revenue by FY25E.
- **Outlook:** We have factored in USD revenue growth of +19.2/15.6/12.5% and EBITM of 17.1/17.5/17.8% for FY24/25/26E respectively. LTTS is currently trading at 33x FY24E and 28x FY25E, with FY23-26E EPS CAGR at 16%.

Quarterly financial summary

YE March (INR bn)	Q1 FY24	Q1 FY23	YoY (%)	Q4 FY23	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	280	240	16.9	255	9.8	880	990	1,180	1,364	1,534
Net Sales	23.01	18.74	22.8	20.96	9.8	65.70	80.14	97.58	114.61	130.43
EBIT	3.95	3.43	15.1	3.93	0.7	12.01	14.79	16.65	20.10	23.20
APAT	3.11	2.74	13.5	3.10	0.5	9.57	11.70	13.13	15.62	18.19
Diluted EPS (INR)	29.5	26.0	13.5	29.3	0.5	90.7	110.8	124.4	148.0	172.4
P/E (x)						44.9	36.7	32.7	27.5	23.6
EV / EBITDA (x)						28.9	23.5	20.1	16.5	14.0
RoE (%)						25.1	25.7	24.4	25.0	25.2

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE Mar (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	1,206	1,180	(2.1)	1,363	1,364	0.1	1,515	1,534	1.3
Revenue	99.72	97.58	(2.1)	114.53	114.61	0.1	128.78	130.43	1.3
EBIT	16.51	16.65	0.8	19.68	20.10	2.1	22.50	23.20	3.1
EBIT margin (%)	16.6	17.1	51bps	17.2	17.5	35bps	17.5	17.8	32bps
APAT	12.90	13.13	1.8	15.33	15.62	1.9	17.72	18.19	2.7
EPS (INR)	122.2	124.4	1.8	145.3	148.0	1.9	167.9	172.4	2.7

Source: Company, HSIE Research

REDUCE

CMP (as on 18 Jul 2023) INR 4,068

Target Price INR 3,865

NIFTY 19,749

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 3,840	INR 3,865
	FY24E	FY25E
EPS %	+1.8	+1.9

KEY STOCK DATA

Bloomberg code	LTTS IN
No. of Shares (mn)	106
MCap (INR bn) / (\$ mn)	430/5,256
6m avg traded value (INR mn)	1,067
52 Week high / low	INR 4,319/3,076

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.9	19.0	28.1
Relative (%)	6.1	9.6	5.6

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	73.85	73.80
FIs & Local MFs	8.41	10.32
FPIs	7.63	6.11
Public & Others	10.11	9.77
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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