

L&T Technology Services

Guidance lowered, reflects H2 uncertainty

L&T Technology Services (LTTS) posted decent growth and margin performance in Q2 but lowered its FY24E growth guidance from >20% CC earlier to 17.5-18.5% CC. While LTTS' deal wins have improved, complemented by better margin defence, risks of business cyclicality and weaker working capital cycle (post-SWC) persist. Strong demand continued in the transportation vertical (33% of revenue), although recent macro developments can impact the near-term profile. LTTS' differentiation as a pure-play ER&D services company lies in its domain capabilities across a diversified vertical base, supplemented by strong industry drivers (medium term), but the growth print may be impacted by a longer deal conversion cycle. LTTS maintained its EBITM outlook of 17% for FY24E and improved it to 18% by H1FY26E, supported by cost optimisation and better operational efficiencies. We believe that risk-reward is unfavourable at 31x FY25E and we maintain REDUCE, with a TP of INR 4,100, based on 25x Sep-25E EPS and a 17% EPS CAGR over FY23-26E.

- Q2FY24 highlights:** (1) LTTS reported USD revenue growth of +3.2% QoQ CC at USD 288mn (HSIE est. USD 287mn), supported by healthy growth in transportation (+4.4% QoQ) and plant engineering (+3.8% QoQ). (2) LTTS' growth was broad-based across verticals; however, softness in industrial products (+1% QoQ) was due to delay in decision-making and stress in some clients. Medical devices reported +1.4% QoQ growth with two deals of USD 20mn+ each in Q2; however, the company expects softer growth in Q3 and bounce-back from Q4. (3) EBITM declined 11bps QoQ at 17.1% in Q2, impacted by wage hike and investment in tech, which was offset by operational efficiencies, better SG&A leverage and cost optimisation measures. (4) LTTS bagged seven deals of TCv USD 10mn+, of which six deals were USD 15mn each. Deal bookings remain healthy, with three deals of USD 20mn+, USD 15mn+ & USD 10mn+ signed in Q3 to date. (5) The management revised its revenue growth outlook to 17.5-18.5% (vs. earlier 20%+) for FY24E, owing to increased macro uncertainty. However, EBITM aspiration of 17% was maintained for FY24E and 18% for H1FY26E.
- Outlook:** We have factored in USD revenue growth of +18.3/14.8/15.1% and EBITM of 17.2/17.9/18.3% for FY24/25/26E respectively. LTTS is currently trading at 31x FY25E and 26x FY26E, with FY23-26E EPS CAGR at 17%.

Quarterly financial summary

YE March (INR bn)	Q2 FY24	Q2 FY23	YoY (%)	Q1 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenue (USD mn)	288	247	16.6	280	2.9	880	990	1,171	1,344	1,547
Net Sales	23.87	19.95	19.6	23.01	3.7	65.70	80.14	96.93	112.92	131.52
EBIT	4.08	3.60	13.1	3.95	3.1	12.01	14.79	16.67	20.17	24.09
APAT	3.15	2.82	11.7	3.11	1.4	9.57	11.70	13.19	15.77	18.98
Diluted EPS (INR)	29.8	26.7	11.7	29.4	1.4	90.7	110.8	124.9	149.4	179.9
P/E (x)						50.9	41.6	36.9	30.9	25.6
EV / EBITDA (x)						33.0	26.9	23.6	19.3	15.9
RoE (%)						25.1	25.7	24.6	25.3	26.2

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Revenue (USD mn)	1,183	1,171	(1.0)	1,373	1,344	(2.1)	1,566	1,547	(1.2)
Revenue	97.82	96.93	(0.9)	115.36	112.92	(2.1)	133.09	131.52	(1.2)
EBIT	16.71	16.67	(0.3)	20.23	20.17	(0.3)	23.67	24.09	1.7
EBIT margin (%)	17.1	17.2	11bps	17.5	17.9	33bps	17.8	18.3	52bps
APAT	13.17	13.19	0.1	15.72	15.77	0.3	18.55	18.98	2.4
EPS (INR)	124.8	124.9	0.1	148.9	149.4	0.3	175.8	179.9	2.4

Source: Company, HSIE Research

REDUCE

CMP (as on 17 Oct 2023) INR 4,613

Target Price INR 4,100

NIFTY 19,812

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 4,045	INR 4,100
	FY24E	FY25E
EPS %	+0.1	+0.3

KEY STOCK DATA

Bloomberg code	LTTS IN
No. of Shares (mn)	106
MCap (INR bn) / (\$ mn)	488/5,963
6m avg traded value (INR mn)	1,042
52 Week high / low	INR 4,860/3,216

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	12.6	34.4	28.6
Relative (%)	12.8	23.5	14.9

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	73.80	73.77
FIs & Local MFs	10.32	10.72
FPIs	6.11	6.64
Public & Others	9.77	8.87
Pledged Shares	0.00	0.00

Source: BSE

Pledged shares as % of total shares

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Disclosure:

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