

L&T Technology

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR4,613 **TP: INR5,210 (+13%)** **Buy**

Deal wins to drive growth; keeps near-term caution

In-line performance; SWC drives gradual recovery to Telecom

Bloomberg	LTT5 IN
Equity Shares (m)	106
M.Cap.(INRb)/(USDb)	487.7 / 5.9
52-Week Range (INR)	4860 / 3216
1, 6, 12 Rel. Per (%)	0/23/14
12M Avg Val (INR M)	1071

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	80.1	96.5	110.3
EBIT Margin (%)	18.5	17.0	17.7
PAT	11.7	13.0	15.8
EPS (INR)	110.5	123.1	148.9
EPS Gr. (%)	22.1	11.4	21.0
BV/Sh. (INR)	469.3	495.6	573.4

Ratios

RoE (%)	25.6	25.5	27.9
RoCE (%)	20.9	20.8	21.7
Payout (%)	40.7	40.0	40.0

Valuations

P/E (x)	41.8	37.5	31.0
P/BV (x)	9.8	9.3	8.0
EV/EBITDA (x)	26.8	24.3	20.3
Div Yield (%)	1.0	1.1	1.3

Note: FY23 numbers have been restated by the company; however, the restatement is not covered in the table above.

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	73.8	73.8	73.9
DII	11.0	10.6	8.0
FII	5.9	5.3	6.0
Others	9.3	10.3	12.1

FII Includes depository receipts

- L&T Technology (LTT5) posted in-line revenue of USD288m in 2QFY24, up 3.2% QoQ CC (incl. SWC). Growth was driven by Transportation and Plant Engineering verticals, with 4.4% and 3.8% QoQ growth, respectively. Despite in-line revenue, LTT5 management has cut its FY24 revenue growth guidance to 17.5-18.5% vs. 20% YoY earlier. The guidance revision was due to an elongated United Auto Workers strike (UAW) in the US, which is leading to a pause in multiple projects and causing deferrals in ramping up new projects.
- EBIT margin was flat (down 10bp QoQ), beating our estimate of a 90bp drop as it completely absorbed the Q2 wage hike impact. The margin improvement was attributed to a better business mix. Transpiration/Plant Engineering reported margin improvement of 120bp/110bp QoQ. The management has maintained its FY24 margin guidance (17%+) despite a cut in its revenue growth guidance.
- Although the management has maintained caution in the near term, the overall deal funnel is higher than last year and it continues to chase multiple large deals (7 large deals signed in 2Q). However, the slower deal velocity and increasing deal tenure (3.5 vs. 2.5 year earlier) create a near-term revenue leakage. The integration of SWC is driving an incremental opportunity to chase large deals (USD10m+) with comprehensive offerings in the Telecom Infra and Semicon areas while keeping proximity to Telecom OEMs and tier-1 suppliers. Clients are maintaining caution with small investments in new projects and expect gradual ramp-ups as the macro trend recovers.
- Considering in-line revenue growth and a margin beat in 2Q, our EPS estimates broadly remain unchanged. We expect USD revenue CAGR of 16% (FY23-FY25E) with EBIT margins of 17%/17.7% in FY24E/FY25E.
- We continue to see LTT5 as attractive due to a better outlook for the ER&D services industry compared to the broader IT services universe and the growing penetration of outsourced ER&D services. **We lower our FY24 EPS estimate by 1.3% to factor in revised revenue guidance, but we keep our FY25 EPS estimate intact. We retain our BUY rating on the stock with a TP of INR5,210 (premised on 35x FY25E EPS).**

in-line revenue, margin beat on lower SG&A

- CC revenue growth stood at 3.2% QoQ, in line with our estimate. Revenue at USD288m was up 2.9% QoQ.
- Growth was led by Transportation (+4.4%) and Plant Engineering (+3.8%), while Industrial/Telecom reported muted growth of 1.1%/0.9% QoQ.
- EBIT margin at 17.1% (down 10bp QoQ) was 80bp ahead of our estimate, aided by lower SG&A expenses (down 230bp QoQ).
- PAT was up 1.4% QoQ at INR3.2bn (in line), led by lower other income.
- It added ~500 employees QoQ. Attrition further declined to 16.7%.
- YTD Cash conversion was strong at 69% FCF/PAT.
- The board has declared a dividend of INR17 per share.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Key highlights from the management commentary

- LTTS expects some projects to get paused due to an elongated United Workers Strike (UWS) in the US. It also expects delays in the execution of some projects due to the Israel-Palestine conflict.
- The number of deals in the pipeline is higher than last year. The deal velocity is slightly lower, while the average deal size is slightly bigger. The deal tenure has increased to 3.5 years now from average of 2.5 years earlier.
- Clients want to start with smaller projects and ramp up gradually when they see macro recovery. Vendor consolidation deals and new-age technology projects are gaining traction over legacy projects.
- LTTS expects to sustain the onsite/offshore mix in contracts at the current level, which should support margins. The company aspires to deliver 17% margin in FY24 and expects to improve it to 18% in 1HFY26.

Valuation and view

- Digitization is boosting spending in ER&D, and LTTS should benefit due to its strong capabilities, multi-vertical presence, and solid wallet share. We expect the company to deliver strong revenue growth over the coming years.
- Our TP of INR5,210 implies 35x FY25E EPS. We expect industry spending to improve vs. the preceding five years. **We retain our BUY rating on the stock.**

Quarterly Performance

Y/E March	FY23				FY24E				FY23	FY24E	Est. 2QFY24	Var. (% / bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Revenue (USD m)	240	247	248	255	280	288	295	303	990	1,166	289	-0.3
QoQ (%)	3.2	3.2	0.4	2.9	9.8	2.9	2.4	2.7	12.4	17.8	3.2	-31bp
Revenue (INR m)	18,737	19,951	20,486	20,962	23,014	23,865	24,487	25,143	80,136	96,509	23,884	-0.1
YoY (%)	23.4	24.1	21.4	19.4	22.8	19.6	19.5	19.9	22.0	20.4	19.7	-10bp
GPM (%)	33.0	32.1	33.0	32.5	30.0	28.0	28.8	28.5	32.6	28.8	29.0	-97bp
SGA (%)	11.6	11.0	11.5	11.0	10.4	8.1	9.2	9.3	11.3	9.2	10.2	-210bp
EBITDA	4,010	4,218	4,412	4,492	4,528	4,756	4,800	4,820	17,132	18,904	4,490	5.9
EBITDA Margin (%)	21.4	21.1	21.5	21.4	19.7	19.9	19.6	19.2	21.4	19.6	18.8	113bp
EBIT	3,434	3,628	3,829	3,927	3,954	4,075	4,187	4,192	14,818	16,408	3,893	4.7
EBIT Margin (%)	18.3	18.2	18.7	18.7	17.2	17.1	17.1	16.7	18.5	17.0	16.3	78bp
Other income	340	261	627	392	357	286	416	427	1,620	1,487	406	-29.6
ETR (%)	27.1	27.2	31.6	28.0	27.6	27.6	26.5	26.5	28.6	27.0	26.5	106bp
PAT	2,742	2,824	3,036	3,096	3,111	3,154	3,382	3,393	11,698	13,040	3,158	-0.1
QoQ (%)	4.7	3.0	7.5	2.0	0.5	1.4	7.2	0.3			1.5	
YoY (%)	26.8	22.8	22.0	18.2	13.5	11.7	11.4	9.6	22.2	11.5	11.8	
EPS (INR)	26.0	26.7	28.7	29.2	29.4	29.8	31.9	32.0	110.5	123.1	29.8	-0.2

E: MOFSL Estimates; Note: 1QFY23, 2QFY23 and FY23 numbers have been restated by the company, however, the restatement is not covered in the table above. Hence, YoY comparison is irrelevant

Key performance indicators

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (QoQ CC %)	4.7	4.5	0.0	2.2	-2.9	3.2				
Margins (%)										
Gross Margin	33.0	32.1	33.0	32.5	30.0	28.0	28.8	28.5	32.6	28.8
EBIT Margin	18.3	18.2	18.7	18.7	17.2	17.1	17.1	16.7	18.5	17.0
Net Margin	14.6	14.2	14.8	14.8	13.5	13.2	13.8	13.5	14.6	13.5
Operating metrics										
Headcount	21,433	21,474	21,649	22,233	23,392	23,880			22,233	
Attrition (%)	23.2	24.1	23.3	22.2	18.9	16.7			22.2	
Key Verticals (YoY %)										
Transportation	23.9	24.9	24.4	13.9	15.1	12.2			21.5	
Industrial Products	13.4	7.4	7.3	12.9	8.3	6.7			10.2	
Telecom & Hi-tech	7.4	4.5	-3.2	-0.5	46.9	52.7			1.9	
Key Geographies (YoY %)										
North America	17.6	14.6	10.5	6.3	5.0	1.7			12.0	
Europe	13.7	8.2	7.5	12.0	9.8	15.9			10.3	

Note: 1QFY23, 2QFY23 and FY23 numbers have been restated by the company, however, the restatement is not covered in the table above. Hence, YoY comparison is irrelevant

**Key highlights from the management commentary****Demand and industry outlook**

- The number of deals in the pipeline is higher than last year. The deal velocity is slightly lower, while the average deal size is slightly bigger. The deal tenure has increased to 3.5 years now from average of 2.5 years earlier.
- LTTS expects some projects to get paused due to an elongated United Workers Strike (UWS) in the US. It also expects delays in the execution of some projects due to the Israel-Palestine conflict, as it has a small number of employees in the region whom the company cannot deploy to the running projects. These are the two major factors behind the reduction in the company's revenue growth guidance to 17.5-18.5%.
- It expects soft growth in Medical, ISV and Semicon in 3QFY24. Additionally, delayed decision-making and a cautious approach by clients are the other macro headwinds.
- Clients want to start with smaller projects and ramp up gradually when they see macro recovery. Vendor consolidation deals and new-age technology projects are gaining traction over legacy projects.

Vertical-specific demand commentary

- **Transportation** - Growth was broad-based across all three sub-segments. The acceleration in capability building for software-defined vehicles (SDV) is incentivizing in terms of strengthening engagements and drawing partnerships with US OEMs and tier-1 suppliers. The overall pipeline remains healthy and continues to grow.
- **Plant & Engineering** - Broad-based growth was seen in FMCG, O&G and Chemical sub-segments. Carbon capture, green and alternate fuels under O&G and Chemical are driving growth, while capacity expansion under FMCG is attributed to the growing pipeline in the US and Europe.
- **Industrial products** – Growth was weak due to slower decision-making and an elongated sales cycle. The sales engine is little slower; otherwise, the deal pipeline remains healthy and it is chasing large deals in the segment.

- **Telecom** – The integration of SWC has augmented end-to-end engagements through combined offerings. LTTS and SWC together won their first USD10m+ large deal and won two large orders in India while chasing few others actively. It is seeing a good opportunity in vendor consolidation and cost optimization initiatives. However, some pressure remains in the semicon segment.
- **Medical** – The company won two large deals in 2Q with TCV of USD20m each. Other deals are in the areas of digital device manufacturing and optimization with AI powered solutions and cybersecurity. It expects growth to bounce back for this vertical.

Margin performance and outlook

- The company managed to offset the Q2 wage hike impact to a large extent by leveraging SG&A and driving efficiency through automation and AI.
- The margin performance was good in Transportation, Plant Engineering and Telecom.
- LTTS expects to sustain the onsite/offshore mix in contracts at the current level, which should support margins.
- The company aspires to deliver 17% margin in FY24 and expects to improve it to 18% in 1HFY26.
- It expects to further improve utilization, optimization of subcon, and offshore (as margin levers).

Exhibit 1: The key geography remained weak with 0.7% QoQ growth

Geographies	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
North America	55.3	0.7	1.8
Europe	15.8	5.2	15.3
India	21.6	7.5	(7.9)
RoW	7.3	2.2	8.4

Source: Company, MOFSL

Exhibit 2: Transportation and Plant Engineering delivered strong sequential performance

Verticals	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
Transportation	33.2	4.4	12.1
Industrial Products	17.3	1.0	6.7
Telecom and Hi-Tech	25.4	2.3	(12.9)
Plant Engineering	14.0	3.8	0.6
Medical Devices	10.1	1.4	8.3

Source: MOFSL, Company

Valuation and view

- Digitization is boosting spending in ER&D, and LTTS should benefit due to its strong capabilities, multi-vertical presence, and solid wallet share. We expect the company to deliver strong revenue growth over the coming years.
- Our TP of INR5,210 implies 35x FY25E EPS. We expect industry spending to improve vs. the preceding five years. **We retain our BUY rating on the stock.**

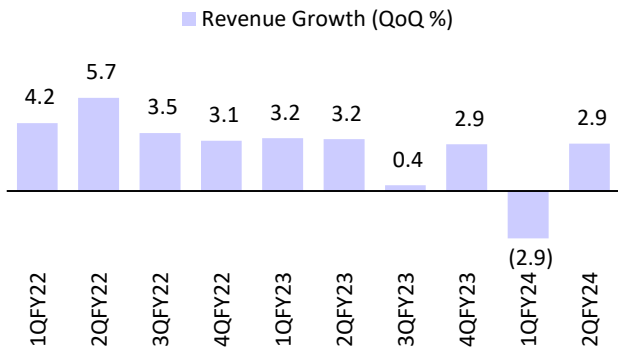
Exhibit 3: Revisions to our estimates

	Revised		Earlier		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
USD:INR	82.8	83.0	82.7	83.0	0.1%	0.0%
Revenue (USD m)	1,166	1,329	1,176	1,353	-0.9%	-1.7%
Growth (%)	17.8	14.0	18.9	15.0	-110bps	-100bps
EBIT margin (%)	17.0	17.7	16.9	17.4	10bps	20bps
PAT (INR m)	13,040	15,778	13,204	15,855	-1.2%	-0.5%
EPS	123.1	148.9	124.7	149.7	-1.3%	-0.6%

Source: MOFSL

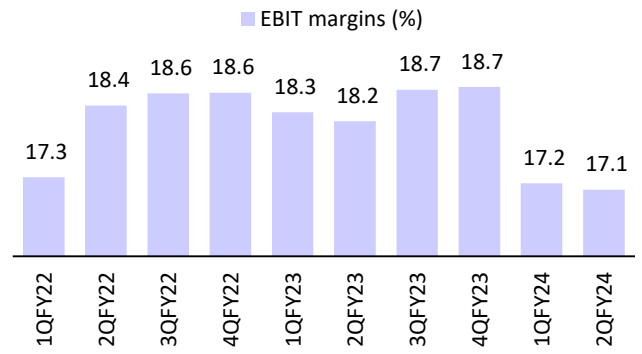
Story in charts

Exhibit 4: LTTS clocked in-line revenue growth in 2Q



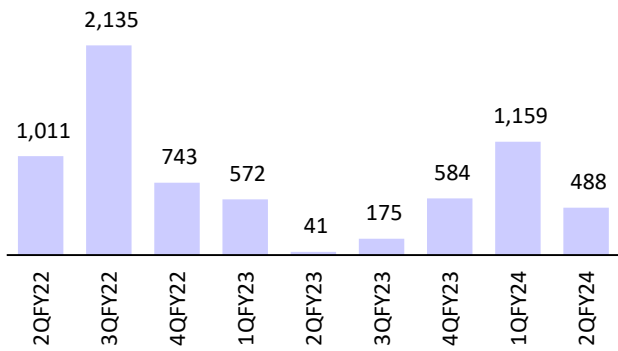
Source: Company, MOFSL

Exhibit 5: EBIT margin remained stable despite wage hike



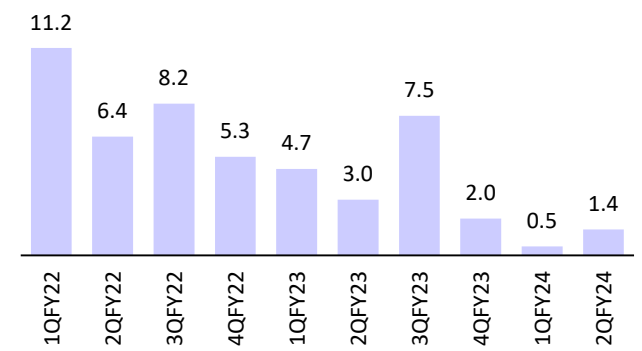
Prior 1QFY24 numbers are not restated Source: Company, MOFSL

Exhibit 6: Net employee adds ~500 in 2Q



Source: Company, MOFSL

Exhibit 7: PAT growth was weak (%)



Prior 1QFY24 numbers are not restated Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement							(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	50,783	56,192	54,497	65,697	80,136	96,509	1,10,320
Change (%)	35.5	10.7	-3.0	20.6	22.0	20.4	14.3
Employees Cost	31,440	32,747	33,550	36,505	45,639	51,352	57,921
Other Expenses	10,185	12,340	10,873	15,043	17,365	26,253	30,149
Total Expenditure	41,625	45,087	44,423	51,548	63,004	77,605	88,071
As a percentage of Sales	82.0	80.2	81.5	78.5	78.6	80.4	79.8
EBITDA	9,158	11,105	10,074	14,149	17,132	18,904	22,250
Margin (%)	18.0	19.8	18.5	21.5	21.4	19.6	20.2
Depreciation	1,053	1,829	2,183	2,144	2,314	2,496	2,758
EBIT	8,105	9,276	7,891	12,005	14,818	16,408	19,492
Other Income	2,210	1,727	1,082	1,087	1,620	1,487	1,986
PBT	10,315	11,003	8,973	13,092	16,438	17,895	21,478
Total Tax	2,630	2,779	2,307	3,486	4,697	4,836	5,692
Tax Rate (%)	25.5	25.3	25.7	26.6	28.6	27.0	26.5
Reported PAT	7,685	8,224	6,666	9,606	11,741	13,059	15,786
Change (%)	50.1	7.0	-18.9	44.1	22.2	11.2	20.9
Margin (%)	15.1	14.6	12.2	14.6	14.7	13.5	14.3
Minority Interest	-28	-38	-32	-36	-43	-19	-8
PAT to shareholders	7,657	8,186	6,634	9,570	11,698	13,040	15,778

Consolidated Balance Sheet							(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	208	209	210	211	211	211	211
Total Reserves	24,583	27,477	34,521	41,414	49,298	52,079	60,283
Net Worth	24,791	27,686	34,731	41,625	49,509	52,290	60,494
Minority Interest	31	69	101	137	180	199	207
Borrowings	702	303	0	0	0	0	0
Other Long term liabilities	194	4,890	4,915	5,359	4,293	8,704	9,950
Capital Employed	25,718	32,948	39,747	47,121	53,982	61,193	70,651
Net Fixed Assets	2,435	6,275	6,997	6,946	6,930	5,773	4,545
Goodwill	5,365	5,460	5,827	5,881	6,010	6,010	6,010
Capital WIP	0	87	119	99	65	65	65
Other Assets	2,123	2,109	2,760	4,733	4,758	5,236	5,584
Curr. Assets, Loans, and Adv.	23,715	29,102	35,026	43,251	51,410	58,694	69,485
Account Receivables	10,643	13,807	12,346	16,959	17,301	21,153	24,180
Cash and Bank Balance	2,048	2,179	1,751	2,347	5,346	3,999	8,370
Current Investments	5,752	6,370	15,725	18,313	22,641	25,141	27,641
Other Current Assets	5,272	6,746	5,204	5,632	6,122	8,402	9,294
Curr. Liability and Prov.	7,920	10,085	10,982	13,789	15,191	14,585	15,039
Account Payables	1,879	1,975	2,352	3,934	4,505	3,899	4,353
Other Current Liabilities	4,700	6,456	7,046	7,903	9,321	9,321	9,321
Provisions	1,341	1,654	1,584	1,952	1,365	1,365	1,365
Net Current Assets	15,795	19,017	24,044	29,462	36,219	44,109	54,446
Appl. of Funds	25,718	32,948	39,747	47,121	53,982	61,193	70,651

Note: FY23 numbers have been restated by the company; however, the restatement is not covered in the table above. Hence, YoY comparison is irrelevant

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic EPS (INR)	72.6	77.5	62.8	90.5	110.5	123.1	148.9
Cash EPS	82.6	94.9	83.5	110.8	132.4	146.6	174.9
BV/Share	238.4	264.9	330.8	394.5	469.3	495.6	573.4
DPS	21.0	21.0	22.0	35.0	45.0	49.2	59.6
Payout (%)	28.9	27.1	35.0	38.7	40.7	40.0	40.0
Valuation (x)							
P/E	63.5	59.5	73.4	51.0	41.8	37.5	31.0
Cash P/E	55.9	48.7	55.3	41.6	34.9	31.5	26.4
P/BV	19.4	17.4	14.0	11.7	9.8	9.3	8.0
EV/Sales	9.3	8.4	8.5	7.1	5.7	4.8	4.1
EV/EBITDA	51.3	42.6	46.2	32.9	26.8	24.3	20.3
Dividend Yield (%)	0.5	0.5	0.5	0.8	1.0	1.1	1.3
Return Ratios (%)							
RoE	34.7	31.1	21.2	25.0	25.6	25.5	27.9
RoCE	27.2	24.0	16.2	20.3	20.9	20.8	21.7

Consolidated Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	10,314	11,002	8,973	13,092	16,437	17,895	21,478
Depreciation	1,042	1,829	2,183	2,144	2,315	2,496	2,758
Interest and Finance Charges	19	365	455	437	435	0	0
Direct Taxes Paid	-2,808	-2,119	-2,523	-3,563	-4,670	-4,836	-5,692
(Inc.)/Dec. in WC	-739	-4,287	4,245	-1,452	-1,188	-2,804	-2,569
Others	234	-409	-60	-597	-177	0	0
CF from Operations	8,062	6,381	13,273	10,061	13,152	12,751	15,975
(Inc.)/Dec. in FA	-885	-1,511	-756	-1,555	-1,726	-5,339	-1,530
Free Cash Flow	7,177	4,870	12,517	8,506	11,426	7,412	14,445
(Pur.)/Sale of Investments	-4,389	-1,039	-9,653	-3,393	-5,018	-2,500	-2,500
Others	181	328	355	465	1,026	0	0
CF from Investments	-5,093	-2,222	-10,054	-4,483	-5,718	-7,839	-4,030
Issue of Shares	3	1	1	1	0	0	0
Inc./(Dec.) in Debt	2	-1,028	-995	-913	-833	0	0
Interest Paid	-19	-365	-455	-437	-435	0	0
Dividend Paid	-2,440	-2,636	-2,198	-3,633	-3,167	-6,259	-7,573
CF from Fin. Activity	-2,454	-4,028	-3,647	-4,982	-4,435	-6,259	-7,573
Inc./Dec. in Cash	515	131	-428	596	2,999	-1,347	4,371
Forex Adjustment	-8	0	0	0	0	0	0
Opening Balance	1,541	2,048	2,179	1,751	2,347	5,346	3,999
Closing Balance	2,048	2,179	1,751	2,347	5,346	3,999	8,370

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Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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