

REDUCE L&T Technology Services

Mixed performance; upbeat management commentary

Information Technology ▶ Result Update ▶ January 16, 2024

TARGET PRICE (Rs): 5,050

LTTS's operating performance in Q3 was a mixed bag. Revenue grew 0.9% QoQ (0.9% cc) but missed our expectations, while the 17.2% EBITM was a tad above our estimate. Company reported 6 large-deal wins (TCV of over USD10mn) and two empanelment agreements (with 'bp' and an auto OEM), with the pipeline seeing improvement from the previous quarter. The management highlighted that interactions with clients suggest CY24 tech spending to be steady/slightly higher, with continued focus on cost takeout, efficiency, and value engineering. The management is seeing some early green shoots, and metaphorically stated: winter is over, and spring is around the corner. LTTS retained FY24 revenue growth guidance of 17.5-18.5%, implying 4-7% QoQ growth in Q4, with a high degree of confidence on the lower end due to SWC seasonality as well as planned deal ramp-ups and working towards the upper-end, assuming new deal-wins. We largely retain our FY24-26 estimates. Given the rich valuations, we retain REDUCE on LTTS, with unchanged TP of Rs5,050 at 30x Dec-25E EPS.

L&T Technology Services: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	65,697	80,136	96,403	1,10,429	1,26,849
EBITDA	14,149	17,107	19,222	22,501	26,287
Adj. PAT	9,570	11,698	13,034	15,584	18,409
Adj. EPS (Rs)	90.7	110.8	123.3	147.4	174.1
EBITDA margin (%)	21.5	21.3	19.9	20.4	20.7
EBITDA growth (%)	40.5	20.9	12.4	17.1	16.8
Adj. EPS growth (%)	43.6	22.2	11.3	19.6	18.1
RoE (%)	25.0	25.6	24.3	25.0	25.4
RoIC (%)	35.5	39.6	41.8	44.6	49.4
P/E (x)	59.0	48.3	43.4	36.3	30.7
EV/EBITDA (x)	38.8	31.7	28.0	23.6	19.9
P/B (x)	13.5	11.4	9.8	8.4	7.3
FCFF yield (%)	1.5	2.0	1.2	2.5	3.0

Source: Company, Emkay Research

Results Summary

LTTS's revenue grew 0.9% QoQ (0.9% cc) to USD290.7mn, below consensus/our estimates. All five verticals reported positive sequential growth in Q3, led by medical devices (2.4%), Telecom and Hi-Tech (1%), Transportation (0.9%), Plant Engineering (0.7%), and Industrial Products (0.1%). In terms of geography, Europe/India/ROW logged growth of 6.4%/0.4%/0.5% QoQ, while America reported a dip of 0.4% QoQ. Top-5 clients' revenue grew 6.3% QoQ and was the key driver of QoQ growth. EBIT margin was 17.2%, marginally higher than our estimate. LTTS reported 6 deal wins above USD10mn; these include one deal worth more than USD40mn and another above USD20mn. Overall headcount declined 2.4% QoQ to 23,298. **What we liked:** Broad-based growth, further moderation in attrition to 15.8%, steady deal wins. **What we did not like:** Weak cash conversion (56% OCF/ EBITDA), weakness, ex Top-5 clients.

Earnings Call KTAs

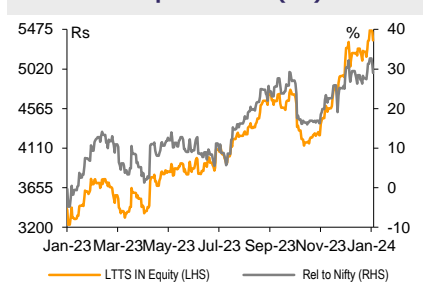
i) The management continues to see build-up of discussions around new technology across all the 3 sub-segments of Transportation. It believes SDV will witness the next big wave of spending in coming years. Company won a large deal in avionics in Aero and deal discussions are under way, with new logos in new age aerospace like electric hybrid aircraft building. Three large-deal wins and an SDV deal win in Q3 grant the management confidence on strong growth momentum ahead in transportation. ii) Plant engineering witnessed broad-based growth across FMCG, O&G, and Chemicals, and Company started a significant relationship with 'bp' in Q3. Customers continue to invest in new capex due to more regionally self-sufficient supply chains, embark on plant modernization, and look at sustainable investments like reducing energy consumption and moving towards greener fuels. iii) LTTS is seeing signs of turnaround in semicon, with spending freeze in the past few quarters being slowly lifted. The management expects growth to continue in Telecom and Hi-tech due to a good pipeline, and expects gradual improvement as deals are closed. iv) Budgets in medical are likely to remain constrained in the near term, but see consolidation and AI-driven opportunities driving growth in the medium term. v) The management commented that USD1.5bn revenue run-rate aspirations in FY25 hinge on M&A, and further update will be provided at end-FY24. vi) The lower-end of FY24 guidance bakes-in deals that are already ramping-up, while the upper-end includes deals that the company will win going forward. LTTS retained EBITM guidance of ~17% for FY24 and medium-term aspiration of 18% by H1FY26.

Target Price – 12M	Dec-24
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(5.6)
CMP (16-Jan-24) (Rs)	5,349.8

Stock Data	Ticker
52-week High (Rs)	5,568
52-week Low (Rs)	3,216
Shares outstanding (mn)	105.7
Market-cap (Rs bn)	566
Market-cap (USD mn)	6,810
Net-debt, FY24E (Rs mn)	-27,044
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	966.1
ADTV-3M (USD mn)	11.6
Free float (%)	26.0
Nifty-50	22,032
INR/USD	83.1
Shareholding, Dec-23	
Promoters (%)	73.8
FPIs/MFs (%)	5.6/11.6

Price Performance

(%)	1M	3M	12M
Absolute	1.6	14.1	55.9
Rel. to Nifty	(1.0)	2.2	26.6

1-Year share price trend (Rs)**Dipesh Mehta**

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Exhibit 1: Quarterly snapshot

(Rs mn)	Q3FY24	Q2FY24	QoQ chg	Q3FY23	YoY chg
Net sales (USD mn)	291	288	0.9%	261	11.3%
Net sales	24,218	23,865	1.5%	21,570	12.3%
Operating expenses	19,341	19,109		17,214	
EBITDA	4,877	4,756	2.5%	4,356	12.0%
Margins (%)	20.1	19.9	20	20.2	(10)
Depreciation	715	681		589	
EBIT	4,162	4,075	2.1%	3,767	10.5%
Margins (%)	17.2	17.1	10	17.5	(30)
Finance cost	131	126		115	
Other income (net)	624	412		735	
Pre-tax profit	4,655	4,361	6.7%	4,387	6.1%
Tax provided	1,287	1,202		1,405	
Profit after tax	3,368	3,159		2,982	
Emkay Net profit	3,362	3,154	6.6%	2,968	13.3%
EPS (Rs)	31.8	29.8	6.6%	28.1	13.1%

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates (Q3FY24)

(Rs mn)	Actual	Estimates		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	290.7	295.6	294.2	-1.7%	-1.2%	Revenue growth came in lower than consensus/our expectations.
Sales	24,218	24,623	24,510	-1.6%	-1.2%	
EBIT	4,162	4,193	4,212	-0.7%	-1.2%	
EBIT margin	17.2%	17.0%	17.2%	20 bps	0 bps	EBITM was a tad better than our expectations, albeit in line with consensus estimates.
PAT	3,362	3,314	3,333	1.5%	0.9%	Profit beat on the back of higher than expected other income.

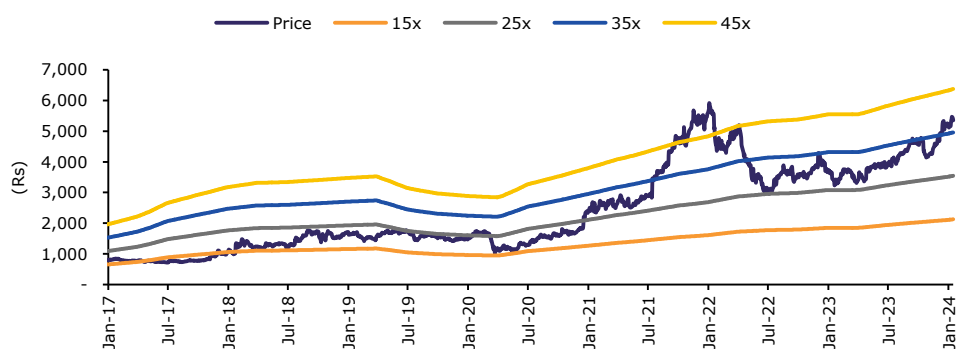
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (USD mn)	1,167	1,164	-0.3%	1,320	1,315	-0.4%	1,497	1,492	-0.3%
YoY growth	17.9%	17.6%		13.0%	13.0%		13.5%	13.5%	
Revenue	96,702	96,403	-0.3%	1,10,839	1,10,429	-0.4%	1,27,285	1,26,849	-0.3%
EBIT	16,580	16,518	-0.4%	19,446	19,357	-0.5%	22,865	22,786	-0.3%
EBIT margin	17.1	17.1		17.5	17.5		18.0	18.0	
Net profits	13,012	13,034	0.2%	15,652	15,584	-0.4%	18,436	18,409	-0.1%
EPS (Rs)	123.1	123.3	0.2%	148.1	147.4	-0.4%	174.4	174.1	-0.1%

Source: Company, Emkay Research

Exhibit 4: LTTS – One year forward P/E



Source: Bloomberg, Emkay Research

L&T Technology Services: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	65,697	80,136	96,403	1,10,429	1,26,849
Revenue growth (%)	20.6	22.0	20.3	14.5	14.9
EBITDA	14,149	17,107	19,222	22,501	26,287
EBITDA growth (%)	40.5	20.9	12.4	17.1	16.8
Depreciation & Amortization	2,144	2,315	2,704	3,144	3,500
EBIT	12,005	14,792	16,518	19,357	22,786
EBIT growth (%)	52.1	23.2	11.7	17.2	17.7
Other operating income	0	0	0	0	0
Other income	1,524	2,080	2,016	2,536	2,995
Financial expense	437	435	497	500	520
PBT	13,092	16,437	18,038	21,392	25,261
Extraordinary items	0	0	0	0	0
Taxes	3,486	4,696	4,974	5,776	6,820
Minority interest	(36)	(43)	(29)	(32)	(32)
Income from JV/Associates	0	0	0	0	0
Reported PAT	9,570	11,698	13,034	15,584	18,409
PAT growth (%)	44.3	22.2	11.4	19.6	18.1
Adjusted PAT	9,570	11,698	13,034	15,584	18,409
Diluted EPS (Rs)	90.7	110.8	123.3	147.4	174.1
Diluted EPS growth (%)	43.6	22.2	11.3	19.6	18.1
DPS (Rs)	35.0	45.0	49.0	59.0	70.0
Dividend payout (%)	38.6	40.6	39.7	40.0	40.2
EBITDA margin (%)	21.5	21.3	19.9	20.4	20.7
EBIT margin (%)	18.3	18.5	17.1	17.5	18.0
Effective tax rate (%)	26.6	28.6	27.6	27.0	27.0
NOPLAT (pre-IndAS)	8,808	10,566	11,963	14,130	16,634
Shares outstanding (mn)	105.5	105.6	105.7	105.7	105.7

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	13,092	16,437	18,038	21,392	25,261
Others (non-cash items)	1,985	2,472	3,201	3,644	4,020
Taxes paid	(3,563)	(4,670)	(4,974)	(5,776)	(6,820)
Change in NWC	(1,452)	(1,188)	(5,441)	(2,312)	(2,497)
Operating cash flow	10,062	13,051	10,824	16,948	19,964
Capital expenditure	(1,555)	(1,726)	(4,225)	(2,690)	(2,800)
Acquisition of business	0	0	0	0	0
Interest & dividend income	330	710	0	0	0
Investing cash flow	(4,510)	(5,617)	3,863	(12,690)	(9,800)
Equity raised/(repaid)	1	0	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	(913)	(833)	0	0	0
Interest paid	(437)	(435)	(497)	(500)	(520)
Dividend paid (incl tax)	(3,633)	(3,167)	(5,180)	(6,237)	(7,400)
Others	0	0	0	0	0
Financing cash flow	(4,982)	(4,435)	(5,677)	(6,737)	(7,920)
Net chg in Cash	570	2,999	9,010	(2,479)	2,245
OCF	10,062	13,051	10,824	16,948	19,964
Adj. OCF (w/o NWC chg.)	11,514	14,239	16,264	19,260	22,461
FCFF	8,507	11,325	6,599	14,258	17,164
FCFE	8,400	11,600	6,102	13,758	16,644
OCF/EBITDA (%)	71.1	76.3	56.3	75.3	75.9
FCFE/PAT (%)	87.8	99.2	46.8	88.3	90.4
FCFF/NOPLAT (%)	96.6	107.2	55.2	100.9	103.2

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	211	211	211	211	211
Reserves & Surplus	41,551	49,478	57,361	66,741	77,782
Net worth	41,762	49,689	57,572	66,952	77,993
Minority interests	0	0	0	0	0
Deferred tax liability (net)	671	259	259	259	259
Total debt	5,045	4,707	4,707	4,865	4,965
Total liabilities & equity	47,478	54,655	62,538	72,076	83,217
Net tangible fixed assets	2,324	2,760	3,081	2,735	2,254
Net intangible assets	549	393	314	244	244
Net ROU assets	4,073	3,777	5,021	4,984	4,764
Capital WIP	99	65	100	100	100
Goodwill	5,881	6,010	6,010	6,010	6,010
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	20,660	27,987	31,751	39,272	48,516
Current assets (ex-cash)	27,186	28,043	39,510	42,877	44,890
Current Liab. & Prov.	13,294	14,380	23,248	24,145	23,562
NWC (ex-cash)	13,892	13,663	16,262	18,732	21,329
Total assets	47,478	54,655	62,538	72,076	83,217
Net debt	(15,615)	(23,280)	(27,044)	(34,407)	(43,551)
Capital employed	47,478	54,655	62,538	72,076	83,217
Invested capital	26,719	26,603	30,688	32,704	34,601
BVPS (Rs)	395.7	470.6	544.6	633.4	737.8
Net Debt/Equity (x)	(0.4)	(0.5)	(0.5)	(0.5)	(0.6)
Net Debt/EBITDA (x)	(1.1)	(1.4)	(1.4)	(1.5)	(1.7)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	30.8	33.0	31.6	32.5	33.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	59.0	48.3	43.4	36.3	30.7
P/CE(x)	48.2	40.3	35.9	30.2	25.8
P/B (x)	13.5	11.4	9.8	8.4	7.3
EV/Sales (x)	8.4	6.8	5.6	4.8	4.1
EV/EBITDA (x)	38.8	31.7	28.0	23.6	19.9
EV/EBIT(x)	45.7	36.6	32.6	27.4	22.9
EV/IC (x)	20.5	20.4	17.5	16.2	15.1
FCFF yield (%)	1.5	2.0	1.2	2.5	3.0
FCFE yield (%)	1.5	2.1	1.1	2.4	2.9
Dividend yield (%)	0.7	0.8	0.9	1.1	1.3
DuPont-RoE split					
Net profit margin (%)	14.6	14.6	13.5	14.1	14.5
Total asset turnover (x)	1.5	1.6	1.6	1.6	1.6
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
RoE (%)	25.0	25.6	24.3	25.0	25.4
DuPont-RoIC					
NOPLAT margin (%)	13.4	13.2	12.4	12.8	13.1
IC turnover (x)	2.6	3.0	3.4	3.5	3.8
RoIC (%)	35.5	39.6	41.8	44.6	49.4
Operating metrics					
Core NWC days	77.2	62.2	61.6	61.9	61.4
Total NWC days	77.2	62.2	61.6	61.9	61.4
Fixed asset turnover	5.1	6.2	7.0	7.8	9.3
Opex-to-revenue (%)	78.5	78.7	80.1	79.6	79.3

Source: Company, Emkay Research

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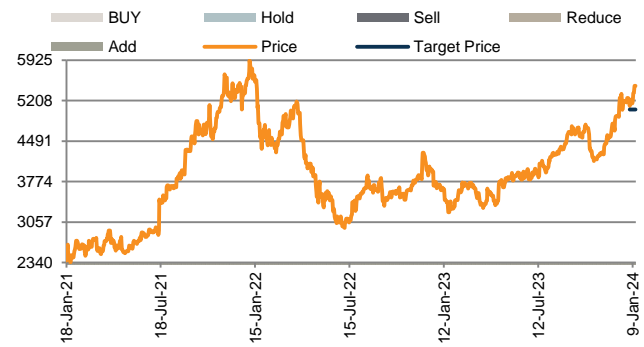
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
03-Jan-24	5,115	5,050	Reduce	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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