



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✓	✗
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✗	↔	✗

Company details

Market cap:	Rs. 51,635 cr
52-week high/low:	Rs. 5,885/3,910
NSE volume: (No of shares)	1.9 lakh
BSE code:	540115
NSE code:	LTTTS
Free float: (No of shares)	2.8 cr

Shareholding (%)

Promoters	73.7
FII	4.5
DII	13.1
Others	8.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.3	-6.8	-9.5	17.7
Relative to Sensex	-4.0	-17.1	-21.9	-2.4

Sharekhan Research, Bloomberg

L&T Technology Services

Weak Quarter, Guidance intact

IT & ITES

Sharekhan code: LTTTS

Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 4,879

Price Target: Rs. 5,500



Downgrade

Summary

- Reported revenue stood at \$295 million, down 3.1% q-o-q/ up 6.1% y-o-y in constant currency (cc), missing our estimates of \$301 million on account of SWC seasonality
- EBIT margins declined~ 130 bps q-o-q to 15.6% in-line with estimates. The company won seven deals during the quarter, two \$30 million deals, two \$15 million deals and three deals with TCV of \$10 million
- The company is confident of achieving 8-10% revenue growth and expects growth in all upcoming quarters and a stronger H2FY25 as compared to H1FY25 while continuing the aspiration for \$1.5 billion run-rate for FY25.
- We maintain Buy on the stock with unchanged PT of Rs 5,500. At CMP, the stock trades at 38.4/29.3x its FY25/ FY26E EPS.

LTTTS reported revenues stood at \$295 million, down 3.1% q-o-q/ up 6.1% y-o-y in constant currency (CC) terms, missing our estimates of \$301 million on account of SWC seasonality. Revenue in rupee terms stood at Rs. 2462 crore, down 3% q-o-q/ up 7% y-o-y. EBIT margin declined~ 130 bps q-o-q to 15.6% on weak revenues and higher employee expense, in line with estimates. The company won seven deals during the quarter, two \$30 million deals, two \$15 million deals and three deals with TCV of \$10 million. Net headcount declined by 235 taking total headcount to 23,577 while LTM attrition remained unchanged at 14.8%. The company is confident of achieving 8-10% revenue growth and aspires for 16% margin for FY25. The company expects EBIT margin trajectory to be better in H2 than H1. Despite a weak start to FY25, we believe the company is likely to see incremental uptick in the quarters to follow from rebound of Hi-tech, recovery in Sustainability segment, ramp up of deals, strong pipeline and seasonal SWC benefit in H2FY25. We maintain a Buy on the stock with unchanged PT of Rs 5,500. At the CMP, the stock trades at 38.4/29.3x its FY25/FY26E EPS.

Key positives

- The company won two \$30 million deals, two \$15 million deals and three deals with TCV of \$10 million.
- Mobility vertical grew 6.4% q-o-q.

Key negatives

- Net headcount fell by 235, taking the total to 23,577
- Hi-tech vertical declined 11.4% q-o-q.

Management Commentary

- Company is confident of achieving 8-10% revenue growth and aspires for 16% margin for FY25. The company expects EBIT margin trajectory in H2 to be better than H1
- Management expects growth in all upcoming quarters and a stronger H2FY25 as compared to H1FY25 while continuing the aspiration for \$1.5 billion run-rate
- The pipeline has doubled from last year, featuring deals across various segments and an increase in 40-50 million deals, with plans to close them in the upcoming two quarters.
- The company believes the worst is over for the digital manufacturing sub-segment and expect Sustainability as a segment to get back to growth path from next quarter onwards.
- Management is seeing multiple large deals in play across telecom, semiconductor, ISV and MedTech, which gives them the confidence of growth for Hi-Tech and expect it to rebound from Q2 onwards.
- Company expects Europe to grow faster this year than the company.

Revision in estimates – We have revised our estimates to factor Q1FY25 performance and FY25 outlook.

Our Call

Valuation – Maintain Buy with unchanged price target of Rs. 5,500: LTTTS reported weak revenue growth and margin performance owing to SWC seasonality. The company is confident of achieving an 8-10% revenue growth and aspires for 16% margin for FY25. The company expects EBIT margin trajectory in H2 to be better than H1. Despite the weak start to FY25, we believe the company is likely to see incremental uptick in the quarters to follow from rebound in the hi-tech vertical, recovery in Sustainability segment, ramp up of deals, strong pipeline and seasonal SWC benefit in H2FY25. We expect a sales/PAT CAGR of 14.7%/16.3% over FY24-26E. We maintain Buy on the stock with unchanged PT of Rs 5,500. At CMP, the stock trades at 38.4/29.3x its FY25/FY26E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements. The contagion effect of banking crisis, macro headwinds and recession in the US can moderate the pace of technology spending.

Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E
Revenue	8,815.5	9,647.2	10,602.4	12,698.4
OPM (%)	20.0	19.9	19.3	19.9
Adjusted PAT	1,212.2	1,303.6	1,343.1	1,761.7
% y-o-y growth	26.7	7.5	3.0	31.2
Adjusted EPS (Rs.)	114.5	123.0	127.0	166.4
P/E (x)	42.6	39.7	38.4	29.3
P/B (x)	11.6	9.7	8.4	7.1
EV/EBITDA (x)	27.7	25.5	23.8	19.1
RoNW (%)	28.2	26.7	23.4	26.4
RoCE (%)	31.4	29.8	26.0	28.4

Source: Company; Sharekhan estimates

Key result highlights

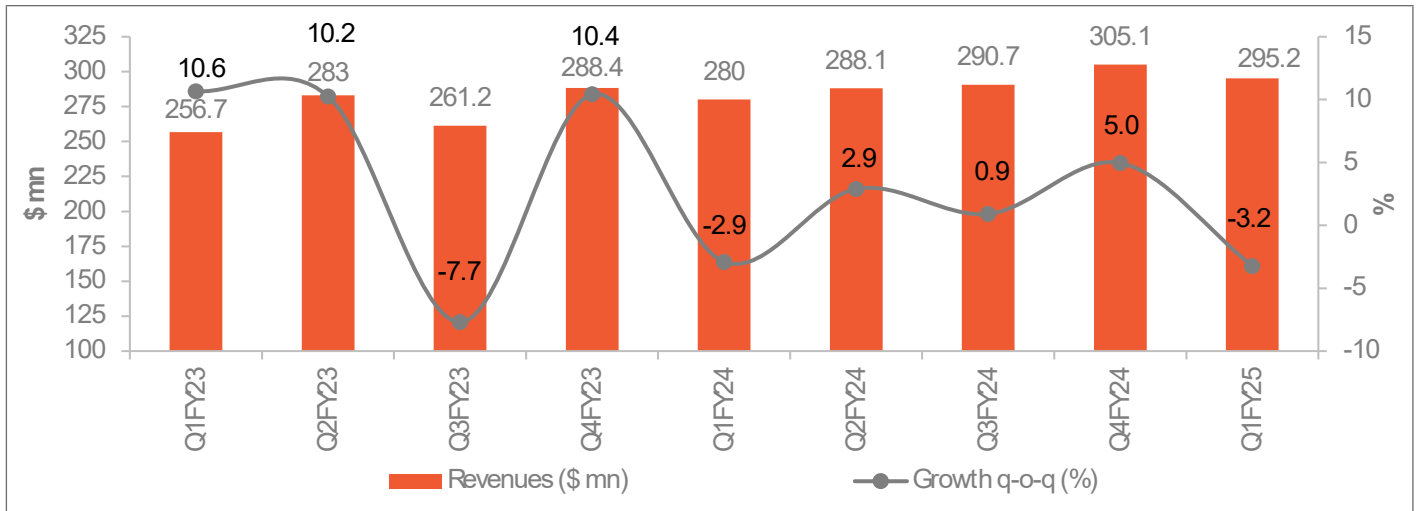
- ♦ **Weak revenue growth:** LTTS reported revenue of \$295 million, down 3.1% q-o-q/ up 6.1% y-o-y in constant currency (cc), missing our estimates of \$301 million on account of SWC seasonality. Revenue in USD terms was down 3.3%/ up 5.4% while revenue in rupee terms stood at Rs 2462 crore, down 3% q-o-q/up 7% y-o-y.
- ♦ **EBIT margin:** EBIT margins declined~ 130 bps q-o-q to 15.6% on weak revenues and higher employee expense, which was in line with estimates. The company expects EBIT margin trajectory in H2 to be better than H1. The company aspires for a 16% EBIT margin for FY25.
- ♦ **Vertical-wise performance:** Sustainability and Hi-tech verticals declined 3.2%/11.4% q-o-q respectively while Mobility vertical grew 6.4% q-o-q.
- ♦ **Deal wins and pipeline:** During the quarter, LTTS won two \$30 million deals, two \$15 million deals and three deals with TCV of \$10 million. The company has won two significant empanelled deals, one with a Middle Eastern oil customer and with an auto major in Europe.
- ♦ **Demand:** Although EV opportunities continue, spends are shifting to SDVs. In commercial vehicles, EVs continue to be a strong growth area while in aerospace, the company is seeing large deal opportunities in avionic equipment development. The company expects the growth momentum in Mobility segment to continue in the coming quarters. Customers are looking to do more offshoring, and the company's model of establishing high value engineering centers is helping them capitalize on this opportunity and win deals. In the industrial sub-segment, the supply chain inventory is at an all-time high for many of the company's customers, leading to a different spending and budgets. The company is seeing strong demand from customers for AI chip design. In the medical sub-segment, the company is seeing customers spend on sustenance engineering, value analysis and value engineering, digital manufacturing solutions for operation excellence
- ♦ **Client Profile:** This has improved sequentially in the \$30 million+ and \$5 million improved by 1 and 2 respectively while the \$10 million+ and \$1million declined by 4 and 3, respectively. Number of active clients declined by 3 q-o-q.
- ♦ **Attrition & headcount:** Net headcount declined by 235 taking total headcount to 23,577 while LTM attrition remained unchanged at 14.8%.

Results (Consolidated)

	Rs cr				
Particulars	Q1FY25	Q1FY24	Q4FY24	y-o-y (%)	q-o-q (%)
Revenues in \$(mn)	295	280	305	5.4	-3.2
Revenues In INR	2,462	2,301	2,538	7.0	-3.0
Employee benefit expenses	1,332	1,215	1,219	9.6	9.2
Operating expenses	674	634	816	6.4	-17.4
EBITDA	456	453	503	0.8	-9.3
Depreciation	73	57	75	26.5	-2.7
EBIT	384	395	428	-3.0	-10.4
Other income	62	48	56	30.4	11.1
Finance cost	13	12	13	9.2	-0.8
PBT	433	431	471	0.4	-8.1
Provision for taxation	119	119	130	-0.2	-8.3
Minority interest	0	-1	-1		
Net profit	314	311	341	0.8	-8.0
EPS (Rs)	29.6	29.4	32.2	0.6	-8.1
Margin (%)					
EBITDA	18.5	19.7	19.8	-114	-128
EBIT	15.6	17.2	16.9	-160	-129
NPM	12.7	13.5	13.4	-78	-70

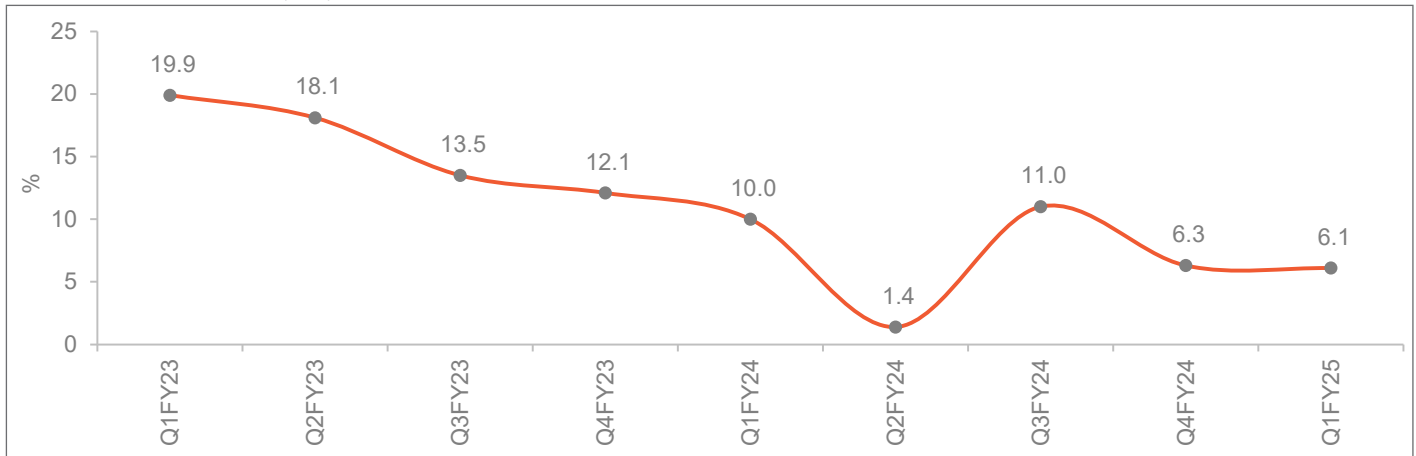
Source: Company, Sharekhan Research

Revenue (\$ mn) and growth (% q-o-q)



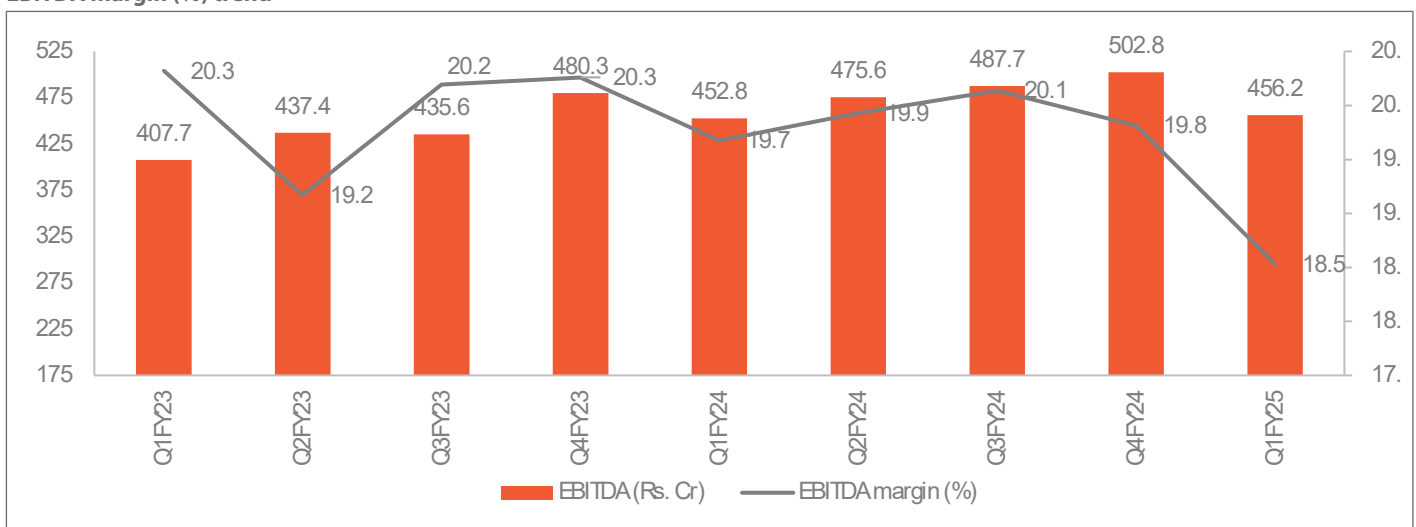
Source: Company, Sharekhan Research

Revenue growth trend (% y-o-y) on CC



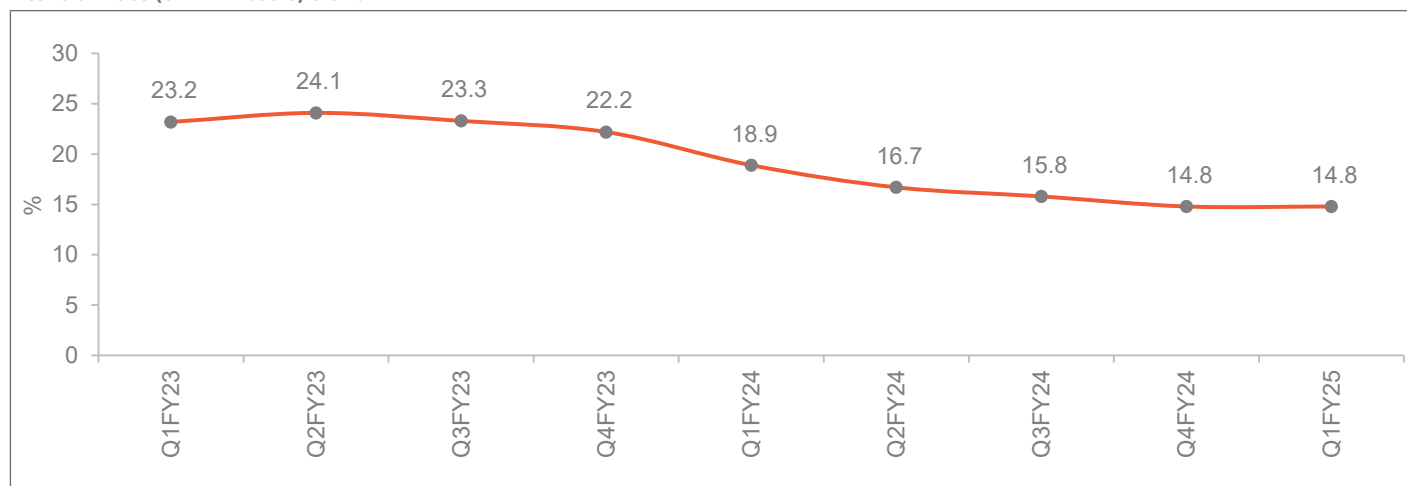
Source: Company, Sharekhan Research

EBITDA margin (%) trend



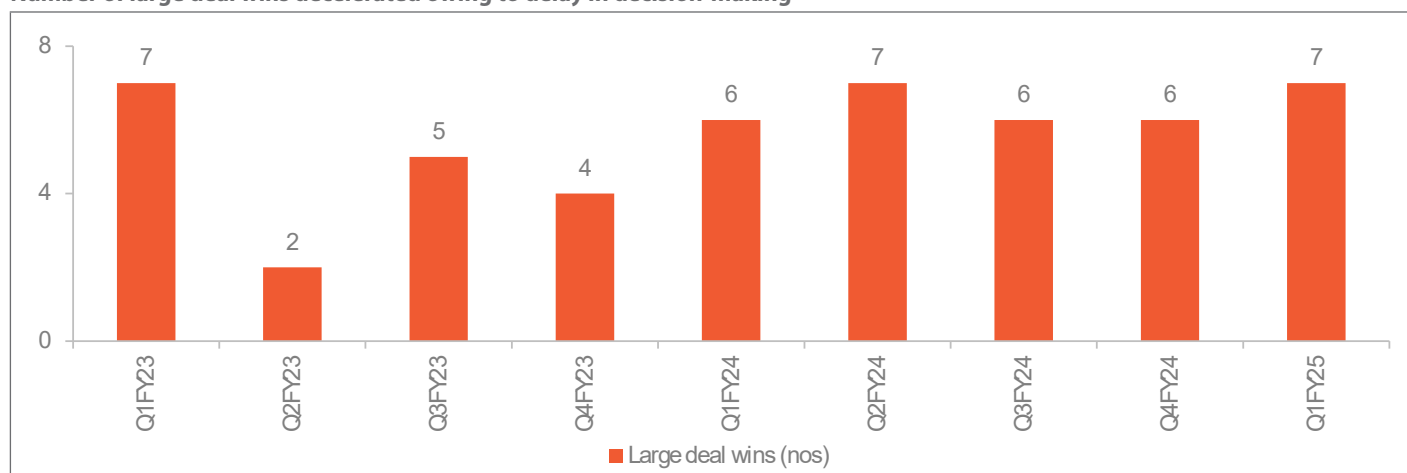
Source: Company, Sharekhan Research

Attrition rate (on LTM basis) trend



Source: Company, Sharekhan Research

Number of large deal wins decelerated owing to delay in decision-making



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Macro headwinds bottoming out coupled with better earnings visibility:

We anticipate growth momentum to return in FY25 aided by lower base coupled with easing sector headwinds. Though, IT sector has already outperformed Nifty last year, we expect overall outperformance in CY24 as well driven by receding headwinds and better earnings visibility.

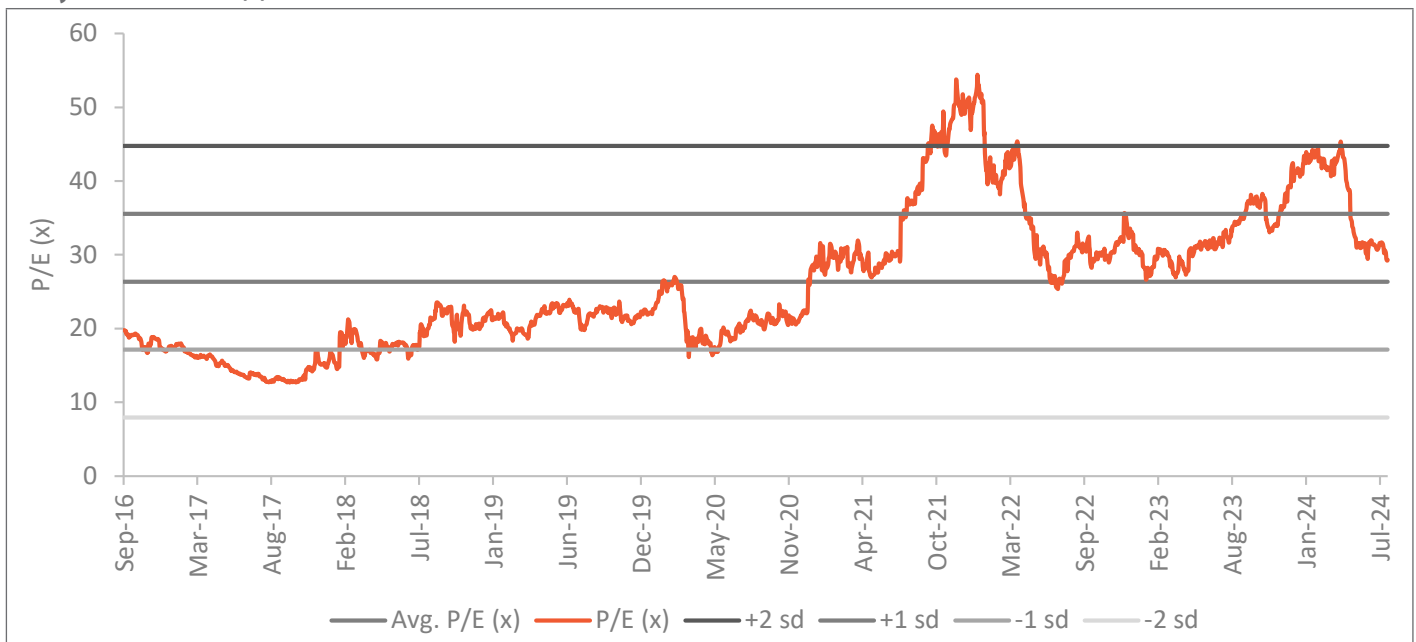
■ Company Outlook – Broad portfolio to support long growth runway:

LTTTS is the third-largest engineering service provider (ESP) in India and is well-diversified across verticals. The large ERD addressable market and a huge scope in deepening relationships with top-30 customers provide multi-year sustainable growth prospects. Technology shifts in verticals are also positive for the company as they create huge growth opportunities for ESPs. For FY25, the company has provided revenue growth guidance of 8-10% in constant currency is much weaker than expectations. Further, the company expects muted EBIT margin for FY25 at 16%.

■ Valuation – Maintain Buy with unchanged price target of Rs. 5,500:

LTTTS reported weak revenue growth and margin performance owing to SWC seasonality. The company is confident of achieving 8-10% revenue growth and aspires for 16% margin for FY25. The company expects EBIT margin trajectory in H2 to be better than H1. Despite the weak start to FY25, we believe the company is likely to see incremental uptick in the quarters to follow from rebound in Hi-tech vertical, recovery in Sustainability segment, ramp up of deals, strong pipeline and seasonal SWC benefit in H2FY25. We expect Sales/PAT CAGR of 14.7%/16.3% over FY24-26E. We maintain Buy on the stock with unchanged PT of Rs 5,500. At the CMP, the stock trades at 38.4/29.3x its FY25/FY26E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About the company

L&T Technology Services (LTTS) is a leading global ER&D services company, backed by the rich engineering expertise and experience of parent company, Larsen & Toubro. LTTS is a pure-play Engineering Design Services firm with a presence across multiple verticals (transportation, industrial products, telecom & hi-tech, medical devices and process industries). The company derives revenue 62.3% from North America, 16.1% from Europe, 14.5% from India and 7.1% from Rest of the World (RoW). The company offers ERD practices to 57 of the top R&D spenders worldwide. LTTS also has IP and Platforms which it independently sells to clients.

Investment theme

LTTS currently generates a mere 0.5% of its Top-30 (T-30) customers' R&D spends (\$75 billion) as revenue (\$376 million), which provides a long runway for growth. We believe the multi-sectoral presence and robust horizontal technology practice would help LTTS to deliver sustainable revenue growth momentum. Additionally, technology shifts in verticals is positive for LTTS as any change in technology creates huge growth opportunities for ESPs. Unlike peers, LTTS has a broader portfolio, which helps the company to mitigate the risk relating to vertical-specific cyclicity. We believe LTTS is well poised to deliver strong multi-year growth going forward, led by leadership depth, broad client portfolio, and multi-domain expertise across verticals and under-penetrated ERD outsourcing market.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements, and 2) Contagion effect of banking crisis, macro headwinds and recession in the US can moderate the pace of technology spending.

Additional Data

Key management personnel

A.M. Naik	Non-Executive Chairman
S.N. Subrahmanyam	Vice Chairman
Amit Chadha	Chief Executive Officer
Rajeev Gupta	Chief Financial Officer
Alind Saxena	President Sales & whole time Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	6.79
2	SEAFARER OVERSEAS GROWTH & INC F	1.45
3	SBI Funds Management Ltd	1.35
4	Seafarer Capital Partners LLC	1.23
5	Vanguard Group Inc/The	0.95
6	Wasatch Advisors Inc	0.51
7	Motilal Oswal Asset Management Co	0.43
8	ICICI Prudential Asset Management	0.27
9	NJ ASSET MANAGEMENT PVT INDIA	0.26
10	Norges Bank	0.24

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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