

Margin disappoints; guidance retained on hopes of a better H2

Information Technology ▸ Result Update ▸ October 16, 2024

TARGET PRICE (Rs): 5,000

LTTS reported steady revenue performance, while margin missed expectations. Revenue grew 3.9% QoQ to USD306.7mn, led by broad-based growth. EBITM declined by 50bps QoQ to 15.1%, missing our estimate. LTTS won two USD20mn and four USD10mn TCV deals, and signed 2 significant empanelment agreements in Sustainability. Despite a moderate H1, management retained FY25 revenue growth guidance of 8-10% CC, implying 4.5-7% CQGR over Q3-Q4 which is a tough ask, in our view. Broad-based growth in Q2, strong deal pipeline, SWC seasonality, and expected milestone booking in the Maharashtra cybersecurity project give management confidence on H2 being better than H1 and delivering on guidance. With growth improving and more deals in strategic areas, mgmt expects the EBITM trajectory to improve in H2 and has retained ~16% EBITM guidance for FY25. LTTS reaffirms its medium-term aspiration of USD2bn revenue with EBITM of 17-18%. We trim FY25-27E EPS ~1%, building in the Q2 performance; retain REDUCE and TP of Rs5,000 at 30x Sep-26E EPS.

L&T Technology Services: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	88,155	96,473	105,357	119,601	135,485
EBITDA	17,609	19,190	19,710	23,473	27,437
Adj. PAT	12,120	13,038	13,402	16,062	18,991
Adj. EPS (Rs)	114.8	123.3	126.6	151.8	179.4
EBITDA margin (%)	20.0	19.9	18.7	19.6	20.3
EBITDA growth (%)	24.5	9.0	2.7	19.1	16.9
Adj. EPS growth (%)	26.6	7.4	2.7	19.8	18.2
RoE (%)	28.1	26.6	23.3	24.3	25.0
RoIC (%)	45.8	43.2	35.0	40.7	46.3
P/E (x)	46.7	43.5	42.3	35.3	29.9
EV/EBITDA (x)	30.8	28.5	27.4	22.7	19.1
P/B (x)	12.7	10.6	9.2	8.0	7.0
FCFF yield (%)	2.0	0.8	2.2	2.8	3.2

Source: Company, Emkay Research

Results summary

LTTS's revenue grew 3.9% QoQ (3.4% CC) to USD306.7mn, a tad below our estimate of USD308mn. Revenue growth was broad-based across segments, led by Sustainability (6.7% QoQ), Mobility (4.8% QoQ), and Hi-tech (0.6%). Among geographies, revenue from North America, India, Europe, and RoW registered growth of 3.1%, 3.4%, 5.6%, and 6.9% QoQ, respectively. Revenue for the top-5 and top 6-10 clients grew 3.9% and 5.7% QoQ, respectively. EBITM fell by 50bps QoQ to 15.1% due to higher SG&A investments (+40bps QoQ), missing our estimate of 16%. Headcount was up 0.5% QoQ to 23,698. Attrition declined to 14.3% from 14.8% in Q1. **What we liked:** Broad-based revenue growth, steady progress on client mining, and healthy deal intake and pipeline. **What we did not like:** Margin miss, weak cash conversion (~41% OCF/EBITDA in H1).

Earnings call KTAs

i) Deal-win TCV was higher in Q2 vs Q1. Management highlighted that it observed some delay in deal closures in Q2 due to US election uncertainty and macroeconomic factors, but remains hopeful of strong closure in H2 on the back of a strong pipeline. ii) Mobility sustained its momentum with 4.8% growth, led by SDV and hybridization. LTTS expects seasonal softness in Q3 due to furlough, but growth to rebound in Q4. iii) Sustainability rebounded strongly in Q2 with 6.7% growth on the back of deal ramp-up. Company is seeing strong demand in both, the industrial and process sub-segments. It expects the growth momentum to sustain. iv) Within Tech, LTTS witnessed good growth in the semiconductor, hyperscaler, and ISV sub-segments. It expects improvement in growth in Q3, led by the semiconductor, hyperscaler and medtech sub-segments. v) LTTS will be implementing a wage hike effective November which is expected to impact margin by 100-125bps on full quarter basis. vi) Company has stepped up its investments in Sales, solutions and lab capabilities, AI, SDV, and Leadership which weighed on margin in H1. It expects these investment to pay off with improved growth ahead. Despite the planned wage hike in Q3, mgmt expects margin improvement in H2 on the back of growth uptick, better revenue quality, pyramid rationalization, offshoring (aspires to take this to ~60%; 58.3% in Q2), and SG&A optimization (expects SG&A to normalize at ~10% vs 11.2% in Q2). vii) Management indicated that the first phase of the Maharashtra cybersecurity project went live and the second phase is likely to go live in the next 3-6 months. After this, O&M will continue for 5 years. viii) It intends to keep the DSO within its target range of 115-125 days. ix) It targets hiring ~2,000 freshers in FY25 vs ~1,500 in FY24.

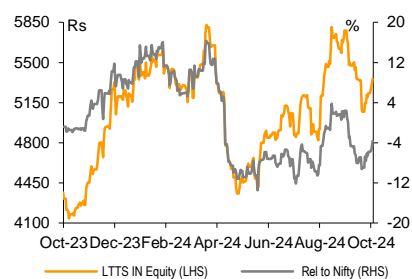
Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(6.7)
CMP (16-Oct-24) (Rs)	5,356.9

Stock Data	Ticker
52-week High (Rs)	6,000
52-week Low (Rs)	4,107
Shares outstanding (mn)	105.8
Market-cap (Rs bn)	567
Market-cap (USD mn)	6,750
Net-debt, FY25E (Rs mn)	-26,917
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	927.0
ADTV-3M (USD mn)	11.0
Free float (%)	26.0
Nifty-50	24,971
INR/USD	84.0
Shareholding, Jun-24	
Promoters (%)	73.7
FPIs/MFs (%)	4.5/13.3

Price Performance

(%)	1M	3M	12M
Absolute	(6.1)	10.1	14.2
Rel. to Nifty	(4.6)	8.5	(9.8)

1-Year share price trend (Rs)



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Exhibit 1: Quarterly snapshot

(Rs mn)	2QFY25	1QFY25	QoQ chg	2QFY24	YoY chg
Net sales (USD mn)	307	295	3.9%	288	6.5%
Net sales	25,729	24,619	4.5%	23,865	7.8%
Operating expenses	21,069	20,057		19,109	
EBITDA	4,660	4,562	2.1%	4,756	-2.0%
Margin (%)	18.1	18.5	(40)	19.9	(180)
Depreciation	783	726		681	
EBIT	3,877	3,836	1.1%	4,075	-4.9%
Margin (%)	15.1	15.6	(50)	17.1	(200)
Finance cost	119	131		126	
Other income (net)	650	622		412	
Pre-tax profit	4,408	4,327	1.9%	4,361	1.1%
Tax provided	1,208	1,188		1,202	
Profit after tax	3,200	3,139		3,159	
Emkay - Net profit	3,196	3,136	1.9%	3,154	1.3%
EPS (Rs)	30.2	29.6	1.9%	29.8	1.2%

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimates		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	306.7	307.7	306.4	-0.3%	0.1%	Revenue growth was a tad below our expectations.
Sales	25,729	25,785	25,670	-0.2%	0.2%	
EBIT	3,877	4,135	4,170	-6.2%	-7.0%	
EBIT margin	15.1%	16.0%	16.2%	-100 bps	-120 bps	EBITM came lower than our expectations.
PAT	3,196	3,310	3,312	-3.5%	-3.5%	Profit came below expectations due to operating performance miss.

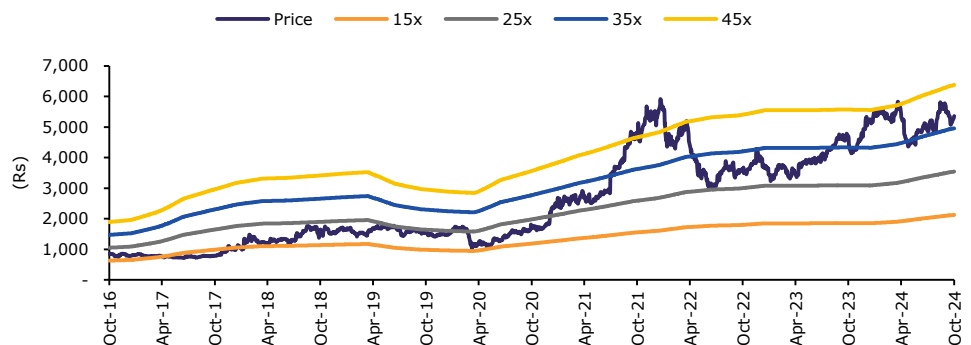
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (USD mn)	1,257	1,257	0.0%	1,407	1,407	0.0%	1,575	1,575	0.0%
YoY growth	8.0%	8.0%		11.9%	12.0%		12.0%	12.0%	
Revenue	105,361	105,357	0.0%	119,558	119,601	0.0%	135,484	135,485	0.0%
EBIT	16,869	16,603	-1.6%	20,234	20,057	-0.9%	23,873	23,667	-0.9%
EBIT margin	16.0	15.8		16.9	16.8		17.6	17.5	
Net profit	13,523	13,402	-0.9%	16,206	16,062	-0.9%	19,169	18,991	-0.9%
EPS (Rs)	127.8	126.6	-0.9%	153.1	151.8	-0.9%	181.1	179.4	-0.9%

Source: Company, Emkay Research

Exhibit 4: LTTS – One-year forward PER



Source: Company, Emkay Research

L&T Technology Services: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	88,155	96,473	105,357	119,601	135,485
Revenue growth (%)	34.2	9.4	9.2	13.5	13.3
EBITDA	17,609	19,190	19,710	23,473	27,437
EBITDA growth (%)	24.5	9.0	2.7	19.1	16.9
Depreciation & Amortization	2,339	2,714	3,107	3,416	3,771
EBIT	15,270	16,476	16,603	20,057	23,667
EBIT growth (%)	27.2	7.9	0.8	20.8	18.0
Other operating income	0	0	0	0	0
Other income	2,033	2,073	2,408	2,690	3,172
Financial expense	444	509	510	560	600
PBT	16,859	18,040	18,501	22,187	26,239
Extraordinary items	0	0	0	0	0
Taxes	4,696	4,975	5,082	6,101	7,216
Minority interest	(43)	(27)	(17)	(24)	(32)
Income from JV/Associates	0	0	0	0	0
Reported PAT	12,120	13,038	13,402	16,062	18,991
PAT growth (%)	26.6	7.6	2.8	19.8	18.2
Adjusted PAT	12,120	13,038	13,402	16,062	18,991
Diluted EPS (Rs)	114.8	123.3	126.6	151.8	179.4
Diluted EPS growth (%)	26.6	7.4	2.7	19.8	18.2
DPS (Rs)	45.0	50.0	51.0	64.0	80.0
Dividend payout (%)	39.2	40.6	40.3	42.2	44.6
EBITDA margin (%)	20.0	19.9	18.7	19.6	20.3
EBIT margin (%)	17.3	17.1	15.8	16.8	17.5
Effective tax rate (%)	27.9	27.6	27.5	27.5	27.5
NOPLAT (pre-IndAS)	11,017	11,932	12,042	14,541	17,158
Shares outstanding (mn)	105.6	105.8	105.8	105.8	105.8

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	16,859	18,040	18,501	22,187	26,239
Others (non-cash items)	2,488	2,703	3,617	3,976	4,371
Taxes paid	(4,667)	(5,256)	(5,082)	(6,101)	(7,216)
Change in NWC	(1,551)	(557)	(1,473)	(1,623)	(2,140)
Operating cash flow	13,130	14,928	15,564	18,439	21,253
Capital expenditure	(1,787)	(10,397)	(2,900)	(2,760)	(2,870)
Acquisition of business	0	0	0	0	0
Interest & dividend income	1,026	1,153	0	0	0
Investing cash flow	(5,779)	(2,333)	(4,931)	(2,760)	(2,870)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	(842)	(1,103)	0	0	0
Interest paid	(444)	(509)	(510)	(560)	(600)
Dividend paid (incl tax)	(3,167)	(4,967)	(5,397)	(6,773)	(8,466)
Others	0	0	0	0	0
Financing cash flow	(4,453)	(6,579)	(5,907)	(7,333)	(9,066)
Net chg in Cash	2,898	6,016	4,725	8,346	9,317
OCF	13,130	14,928	15,564	18,439	21,253
Adj. OCF (w/o NWC chg.)	14,681	15,485	17,037	20,062	23,393
FCFF	11,343	4,531	12,664	15,679	18,383
FCFE	11,925	5,175	12,154	15,119	17,783
OCF/EBITDA (%)	74.6	77.8	79.0	78.6	77.5
FCFE/PAT (%)	98.4	39.7	90.7	94.1	93.6
FCFF/NOPLAT (%)	103.0	38.0	105.2	107.8	107.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	211	212	212	212	212
Reserves & Surplus	44,318	53,266	61,288	70,601	81,157
Net worth	44,529	53,478	61,500	70,813	81,369
Minority interests	0	0	0	0	0
Deferred tax liability (net)	259	691	691	691	691
Total debt	4,707	6,601	6,713	6,913	7,113
Total liabilities & equity	49,495	60,770	68,904	78,417	89,173
Net tangible fixed assets	2,850	3,927	3,782	3,486	3,136
Net intangible assets	393	213	120	93	71
Net ROU assets	3,777	5,951	5,981	5,648	5,120
Capital WIP	65	131	131	131	131
Goodwill	6,010	6,035	6,035	6,035	6,035
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	28,003	26,874	33,630	41,976	51,293
Current assets (ex-cash)	40,740	41,700	44,773	49,870	55,875
Current Liab. & Prov.	32,343	24,061	25,549	28,823	32,488
NWC (ex-cash)	8,397	17,639	19,224	21,047	23,387
Total assets	49,495	60,770	68,904	78,417	89,173
Net debt	(23,296)	(20,273)	(26,917)	(35,063)	(44,180)
Capital employed	49,495	60,770	68,904	78,417	89,173
Invested capital	21,427	33,765	35,143	36,309	37,749
BVPS (Rs)	421.8	505.7	581.1	669.1	768.9
Net Debt/Equity (x)	(0.5)	(0.4)	(0.4)	(0.5)	(0.5)
Net Debt/EBITDA (x)	(1.3)	(1.1)	(1.4)	(1.5)	(1.6)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	35.7	33.6	29.3	30.9	32.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	46.7	43.5	42.3	35.3	29.9
P/CE(x)	39.1	36.0	34.3	29.1	24.9
P/B (x)	12.7	10.6	9.2	8.0	7.0
EV/Sales (x)	6.2	5.7	5.1	4.4	3.9
EV/EBITDA (x)	30.8	28.5	27.4	22.7	19.1
EV/EBIT(x)	35.5	33.2	32.5	26.5	22.1
EV/IC (x)	25.3	16.2	15.4	14.6	13.8
FCFF yield (%)	2.0	0.8	2.2	2.8	3.2
FCFE yield (%)	2.1	0.9	2.1	2.7	3.1
Dividend yield (%)	0.8	0.9	1.0	1.2	1.5
DuPont-RoE split					
Net profit margin (%)	13.7	13.5	12.7	13.4	14.0
Total asset turnover (x)	1.8	1.7	1.6	1.6	1.6
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
RoE (%)	28.1	26.6	23.3	24.3	25.0
DuPont-RoIC					
NOPLAT margin (%)	12.5	12.4	11.4	12.2	12.7
IC turnover (x)	3.7	3.5	3.1	3.3	3.7
RoIC (%)	45.8	43.2	35.0	40.7	46.3
Operating metrics					
Core NWC days	34.8	66.7	66.6	64.2	63.0
Total NWC days	34.8	66.7	66.6	64.2	63.0
Fixed asset turnover	6.8	6.6	6.6	7.7	9.1
Opex-to-revenue (%)	80.0	80.1	81.3	80.4	79.7

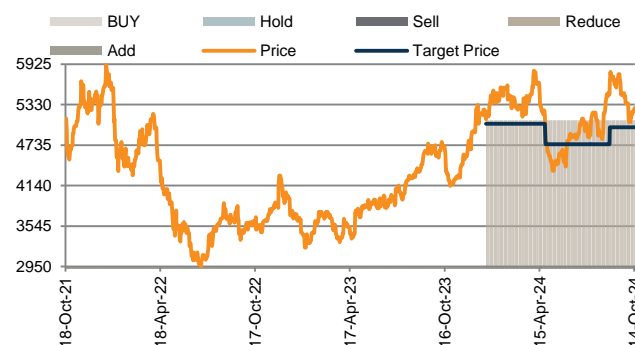
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Oct-24	5,346	5,000	Reduce	Dipeshkumar Mehta
28-Aug-24	5,679	5,000	Reduce	Dipeshkumar Mehta
19-Jul-24	4,880	4,750	Reduce	Dipeshkumar Mehta
01-Jul-24	5,042	4,750	Reduce	Dipeshkumar Mehta
09-Jun-24	4,800	4,750	Reduce	Dipeshkumar Mehta
03-Jun-24	4,481	4,750	Reduce	Dipeshkumar Mehta
27-May-24	4,602	4,750	Reduce	Dipeshkumar Mehta
26-Apr-24	4,778	4,750	Reduce	Dipeshkumar Mehta
31-Mar-24	5,483	5,050	Reduce	Dipeshkumar Mehta
01-Mar-24	5,287	5,050	Reduce	Dipeshkumar Mehta
16-Jan-24	5,350	5,050	Reduce	Dipeshkumar Mehta
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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