

Raised USD revenue guidance for FY22; Deal wins continue to drive growth

CMP: INR 5,132

Rating: Hold

Target Price: INR 5,461

Stock Info

| | |
|--------------------------|--------------------|
| BSE | 532541 |
| NSE | LTTTS |
| Bloomberg | LTTTS IN |
| Reuters | LTECH.BO |
| Sector | Computers-Software |
| Face Value (INR) | 2 |
| Equity Capital (INR mn) | 210 |
| Mkt Cap (INR mn) | 5,39,720 |
| 52w H/L (INR) | 5,549 / 1,605 |
| Avg Yearly Vol (in 000') | 348.75 |

Shareholding Pattern %

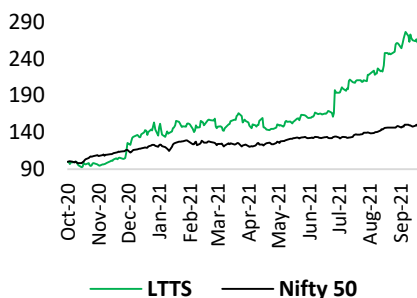
(As on Sep, 2021)

| | |
|-----------------|-------|
| Promoters | 74.15 |
| FII | 9.50 |
| DII | 6.14 |
| Public & Others | 10.21 |

Stock Performance (%)

| | 1m | 3m | 12m |
|-------|-------|-------|-------|
| LTTTS | 18.15 | 58.48 | 207.0 |
| Nifty | 5.68 | 17.98 | 56.5 |

LTTTS Vs Nifty



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- L&T Technology Services (LTTTS) has reported strong Q2FY22 numbers, above our estimate on all fronts.
- Raised revenue growth guidance for FY22 from 15-17% to 19-20%.
- The company clocked a revenue of US\$217.4 mn, +5.7% QoQ/+22.1%YoY against our estimate of US\$ 214 mn. The growth was driven by strong performance in Medical Devices(up 9.6% QoQ) and industrial products(up 8.6% QoQ). Digital revenue grew from 54% of revenue in Q1FY22 to 55% in Q2FY22.
- The consolidated revenue stood at INR 16,077 Mn, +5.9%QoQ /+22.4% YoY against our estimate of INR 15,897 Mn.
- EBIT of INR 2,964 Mn +13%QoQ/+64.6%YoY was higher than our estimate of INR 2,686 Mn.
- EBIT margin of 18.4%, 116bps QoQ/+473bps YoY against our estimate of 16.9%. 5th consecutive quarter of improvement in EBIT margin.
- PAT of INR 2,300 Mn +6.4%QoQ/+39%YoY against our estimate of INR 2,230Mn. EPS stood at INR 21.9, +6.4% QoQ/+39.5%YoY. (Q1 FY21 INR 20.6).
- Special dividend of INR 10 per share to mark the 5-year anniversary of LTTTS.
- Employee utilization including trainees decreased by 110 bps QoQ to 78.1% on higher hiring. Added 1011 employees during the quarter to 17983 employees.

Valuations

Outlook remains strong led by robust deal wins. We believe LTTTS has a resilient business structure from a long-term perspective with long-term contracts with the world's leading brands and is well positioned to capture the better growth opportunity considering 1) Client focus for long-term sustainable growth; 2) Margin tailwinds driven by cost efficiencies, 3) Raised revenue growth guidance for FY22 from 15-17% to 19-20%. We value LTTTS at a PE of 43x to its FY24E EPS of INR 127, which yields a target price of INR 5,461 per share. **We maintain our Hold rating on the stock.**

| YE March | Net Sales | EBIT | Adjusted PAT | EPS (INR) | EBITDA Margin % | RoE (%) | P/E (x) |
|----------|-----------|--------|--------------|-----------|-----------------|---------|---------|
| (INR Mn) | | | | | | | |
| FY19 | 50,783 | 8,116 | 7,667 | 73.7 | 16.0% | 31.0% | 69.6 |
| FY20 | 56,191 | 9,276 | 8,186 | 77.5 | 16.5% | 29.6% | 66.2 |
| FY21 | 54,497 | 7,891 | 6,633 | 62.9 | 14.5% | 19.1% | 81.6 |
| FY22E | 64,974 | 11,298 | 9,971 | 91.7 | 17.4% | 23.5% | 55.9 |
| FY23E | 75,311 | 13,352 | 12,316 | 111.7 | 17.7% | 23.4% | 45.9 |
| FY24E | 87,249 | 15,550 | 14,167 | 127.0 | 17.8% | 22.1% | 40.4 |

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q2 FY22 - Quarterly Performance (Consolidated)

| Consolidated (in INR Mn) | Q2FY22 | Q1FY22 | Q2FY21 | Y-o-Y | Q-o-Q |
|--|---------------|---------------|---------------|--------------|--------------|
| Revenue (USD) | 217.4 | 206 | 178 | 22.1% | 5.7% |
| Net Revenue | 16,077 | 15,184 | 13,138 | 22.4% | 5.9% |
| Employee cost | 9,038 | 8,758 | 8,161 | 10.7% | 3.2% |
| Other Expenses | 3,546 | 3,249 | 2,649 | 33.9% | 9.1% |
| EBITDA | 3,493 | 3,177 | 2,328 | 0.0% | 9.9% |
| EBITDA margin % | 21.7% | 20.9% | 17.7% | 401bps | 80bps |
| Depreciation | 529 | 554 | 527 | 0.4% | -4.5% |
| EBIT | 2,964 | 2,623 | 1,801 | 64.6% | 13.0% |
| EBIT margin % | 18.4% | 17.3% | 13.7% | 473bps | 116bps |
| Other Income | 293 | 442 | 566 | -48.2% | -33.7% |
| Finance costs | 113 | 108 | 109 | 3.7% | 4.6% |
| PBT | 3,144 | 2,957 | 2,258 | 39.2% | 6.3% |
| Tax Expense | 836 | 787 | 595 | 40.5% | 6.2% |
| Effective tax rate % | 26.6% | 26.6% | 26.4% | 24bps | -2bps |
| PAT | 2,308 | 2,170 | 1,663 | 38.8% | 6.4% |
| Extraordinary Items (Net of tax expense) | - | - | - | | |
| Reported PAT | 2,308 | 2,170 | 1,663 | 38.8% | 6.4% |
| PAT margin % | 14.4% | 14.3% | 13.3% | 101bps | 6bps |
| Minority Interest | -8 | -8 | -8 | | |
| PAT (After MI) | 2,300 | 2,162 | 1,655 | 39.0% | 6.4% |
| EPS (INR) | 21.9 | 20.6 | 15.7 | 39.5% | 6.4% |

Source: Arianth Research, Company Filings

Q2 FY22 Concall Highlights

- **Deal:** The company seeing good traction in the deal pipeline. LTTS in Q2FY22 won 9 deals across all segments are which 5 deals in USD10 mn+, which includes 2 USD25 mn+ deals. The rising digital adoption across the customer base has led to revenue from digital & leading-edge technologies increasing to 55% in Q2.
- **Segment-wise:** Transportation: 6.2% growth on QoQ led by good demand across all 3 sub-segment Auto (going through rapid electrification and the company partnering with them into electrification. The company is ramping up with the traditional OEMs and also Deeping the engagement with the new-age name in the EV side), truck & highway (Customer modernize high-speed. The company is wining deals in electrification programs across the product categories like trucks and RV etc. EV lab based in Bangalore backed by end-to-end domain expertise and generating a lot of interest to customers and it helping the company to win larger deals. In Q2 FY22 won 25 deals to expand in India and create auto hub auto customers EV & power electronics.
- **Plant engineering:** 4.1% growth on QoQ led by Oil and gas and FMCG followed by chemicals. Overall the Plant engineering company is seeing good opportunities which will drive growth in the coming quarters. Industrial Products (IP): 2nd consecutive quarter 8.6% growth led by good demand across all 3 sub electric, machinery, and building automation. The company expects IP is one of the fastest-growing segments in this fiscal. Telecom & Hi-tech: 1.4% slightly muted growth on QoQ. Telecom infra growing well but there was some softness in media due to delays in the project renewals.
- DSO was 85 days flat QoQ.
- Utilisation was lower in the quarter on higher hiring in the quarter. Added 1200 fresher's over last 2 quarters and plans to add 2000 employees over next two quarters.
- Attrition: 16.5% against 14.5%, 1) Ltts is working on a plan to improve employees' experience to reduce attrition.2) The company has balanced the work between high attrition and high deal.
- **Revenue& EBIT:** It is on track to achieve \$1.5bn of annualized revenue and 18%+ EBIT margin by FY25. Faces potential margin headwinds such as higher travel expenses and increased attrition.
- **Working from Office:** Currently 26% of the employee back in the office but not this is not compulsory for all the employees and further the company has planned 90% occupancy for the smaller city like Vadodara and 80% occupancy for the bigger city like Bangalore, Mumbai.

| Revenue by Vertical | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Transportation | 32% | 30.40% | 31.20% | 31.20% | 31.40% |
| Industrial Products | 20% | 19.30% | 18.9% | 19.50% | 20.00% |
| Telecom & Hi-tech | 21% | 22.90% | 22.10% | 22.00% | 21.10% |
| Plant Engineering | 14% | 14.70% | 15.50% | 15.50% | 15.30% |
| Medical Devices | 13% | 12.70% | 12.30% | 11.70% | 12.20% |
| Segment revenue | | | | | |
| Transportation | 4134 | 4261 | 4492 | 4738 | 5040 |
| Plant Engineering | 1887 | 2055 | 2239 | 2367 | 2461 |
| Industrial Products | 2569 | 2706 | 2717 | 2955 | 3221 |
| Medical Devices | 1745 | 1780 | 1773 | 1773 | 1954 |
| Telecom& Hitech | 2803 | 3205 | 3184 | 3351 | 3401 |
| Total | 13138 | 14007 | 14405 | 15184 | 16077 |
| Revenue by Geography | | | | | |
| North America | 60% | 61.20% | 61.50% | 62.30% | 62.90% |
| Europe | 16% | 16.10% | 16.70% | 16.80% | 16.70% |
| India | 14% | 13.90% | 13.10% | 12.90% | 12.90% |
| Rest of the World | 10% | 8.80% | 8.80% | 8.00% | 8.00% |
| Revenue Mix | | | | | |
| Onsite | 45% | 42.90% | 42.10% | 41.90% | 40.80% |
| Offshore | 55% | 57.10% | 57.90% | 58.10% | 59.20% |
| Revenue by Project Type | | | | | |
| Fixed Price | 40% | 38.50% | 36.10% | 33.80% | 30.00% |
| Time and Material | 60% | 61.50% | 63.90% | 66.20% | 70% |
| Client Profile * | | | | | |
| Client Detail | 0 | 0 | 0 | 0 | 0 |
| Number of Active Clients | 283 | 296 | 306 | 305 | 314 |
| 50 Million dollar + | 0 | 0 | 0 | 0 | 0 |
| 30 Million dollar + | 1 | 1 | 0 | 0 | 0 |
| 20 Million dollar + | 5 | 4 | 3 | 5 | 6 |
| 10 Million dollar + | 20 | 18 | 20 | 20 | 21 |
| 5 Million dollar + | 44 | 41 | 39 | 43 | 45 |
| 1 Million dollar + | 116 | 118 | 122 | 122 | 125 |
| Client Contribution to Revenue | | | | | |
| Top 5 Clients | 17.00% | 16.30% | 16.10% | 16.40% | 17% |
| Top 10 Clients | 28.30% | 27.30% | 26.90% | 27.40% | 28.20% |
| Top 20 Clients | 44.90% | 44.00% | 43.80% | 43.90% | 44.10% |
| Utilisation | | | | | |
| Including Trainees | 75.40% | 77.50% | 78.90% | 79.20% | 78.10% |
| Employee Statistics | | | | | |
| Total Headcount | 15902 | 16069 | 16452 | 16972 | 17983 |
| Bilable (as per number of employee) | 14778 | 14975 | 15335 | 15896 | 16875 |
| Sales & Support | 1124 | 1094 | 1117 | 1076 | 1108 |
| Voluntary Attrition % (LTM) | 10.8% | 10.7% | 12.2% | 14.5% | 16.5% |
| Exchange Rate (USD/INR) | | | | | |
| Period Realised \$ | 73.79 | 73.69 | 72.96 | 73.83 | 73.96 |

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement (INR Mn)

| Year End-March | FY20 | FY21 | FY22E | FY23E | FY24E |
|------------------------------------|---------------|--------------|---------------|---------------|---------------|
| Revenue (CC Terms) (Mn USD) | 786 | 737 | 877 | 1,016 | 1,167 |
| Growth (%) | 8.7% | -6.3% | 19.1% | 15.7% | 15.0% |
| Revenues | 56,191 | 54,497 | 64,974 | 75,311 | 87,249 |
| <i>Change (%)</i> | 10.6% | -3.0% | 19.2% | 15.9% | 15.9% |
| Employee Costs | 32,916 | 33,550 | 37,610 | 42,442 | 46,220 |
| Other Expenses | 12,170 | 10,873 | 14,229 | 17,698 | 23,557 |
| Total Expenses | 45,086 | 44,423 | 51,839 | 60,140 | 69,777 |
| EBITDA | 11,105 | 10,074 | 13,135 | 15,170 | 17,472 |
| Depreciation | 1,829 | 2,183 | 1,837 | 1,818 | 1,922 |
| EBIT | 9,276 | 7,891 | 11,298 | 13,352 | 15,550 |
| Other Income | 2,091 | 1,537 | 2,306 | 3,458 | 3,735 |
| Interest | 365 | 455 | 302 | 302 | 302 |
| PBT | 11,002 | 8,973 | 13,301 | 16,508 | 18,983 |
| Tax | 2,778 | 2,308 | 3,299 | 4,160 | 4,784 |
| <i>Rate (%)</i> | 25.2% | 25.7% | 24.8% | 25.2% | 25.2% |
| PAT | 8,224 | 6,665 | 10,003 | 12,348 | 14,199 |
| Minority Interest | 38 | 32 | 32 | 32 | 32 |
| Adjusted PAT | 8,186 | 6,633 | 9,971 | 12,316 | 14,167 |
| <i>Change (%)</i> | 6.8% | -19.0% | 50.3% | 23.5% | 15.0% |

Cash Flow Statement (INR Mn)

| Year End-March | FY20 | FY21 | FY22E | FY23E | FY24E |
|--|---------------|----------------|---------------|---------------|---------------|
| Net Profit before Tax | 11,002 | 8,973 | 13,301 | 16,508 | 18,983 |
| Adjustments: | | | | | |
| Depreciation | 1,829 | 2,183 | 1,837 | 1,818 | 1,922 |
| Finance Costs | 365 | 455 | 0 | 0 | 0 |
| Interest and Dividend received | -934 | -40 | -238 | -276 | -320 |
| Operating Profit before WC Changes | 12,262 | 11,571 | 14,900 | 18,050 | 20,585 |
| Operating Profit after WC Changes | 8,500 | 15,796 | 13,170 | 16,267 | 18,307 |
| Direct Taxes Paid & Exceptional Items | -2,119 | -2,523 | -3,299 | -4,160 | -4,784 |
| Cash Flow from Operating Activities | 6,381 | 13,273 | 9,872 | 12,107 | 13,524 |
| Cash Flow from Investing Activities | -2,222 | -10,054 | -4,145 | -4,339 | -4,747 |
| Cash Flow from Financing Activities | -4,060 | -3,627 | -2,266 | -3,218 | -2,867 |
| Net Change in Cash & Cash Equivalents | 99 | -408 | 3,460 | 4,550 | 5,909 |
| Opening Cash & Cash Equivalents | 2,100 | 2,199 | 1,791 | 5,251 | 9,801 |
| Closing Cash & Cash Equivalents | 2199 | 1791 | 5251 | 9801 | 15710 |

Balance Sheet (INR Mn)

| Year End-March | FY20 | FY21 | FY22E | FY23E | FY24E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Sources of Funds | | | | | |
| Share Capital | 209 | 210 | 210 | 210 | 210 |
| Reserves & Surplus | 27,477 | 34,521 | 42,274 | 52,372 | 64,072 |
| Non-controlling interest | 69 | 101 | 101 | 101 | 101 |
| Net Worth | 27,755 | 34,832 | 42,585 | 52,683 | 64,383 |
| Non-Current liabilities | | | | | |
| Total Current liabilities | 9,696 | 10,126 | 12,724 | 14,012 | 15,331 |
| Total liabilities | 15,279 | 15,831 | 13,685 | 14,978 | 16,334 |
| Total Equity and liabilities | 43,034 | 50,729 | 56,336 | 67,728 | 80,782 |
| Total Non-current Assets | 13,932 | 15,703 | 15,001 | 15,683 | 15,768 |
| Current Assets | | | | | |
| Investments | 6,110 | 15,149 | 18,061 | 20,935 | 24,253 |
| Trade receivables | 13,807 | 12,346 | 14,597 | 16,919 | 19,601 |
| Cash and cash equivalents | 2,179 | 1,751 | 5,251 | 9,801 | 15,710 |
| Other bank balances | 260 | 576 | 576 | 576 | 576 |
| Loans | 0 | 0 | 0 | 0 | 0 |
| Other financial assets | 1,731 | 1,685 | 1,990 | 2,259 | 2,617 |
| Other current assets | 5,015 | 3,519 | 4,196 | 4,863 | 5,634 |
| Total current assets | 29,102 | 35,026 | 44,671 | 55,353 | 68,392 |
| TOTAL ASSETS | 43,034 | 50,729 | 56,336 | 67,728 | 80,782 |

Key Ratios

| Year End-March | FY20 | FY21 | FY22E | FY23E | FY24E |
|---------------------------|-------|-------|-------|-------|-------|
| Per Share (Rs) | | | | | |
| EPS | 77.5 | 62.9 | 91.7 | 111.7 | 127.0 |
| CEPS | 95.2 | 82.6 | 108.9 | 128.5 | 144.2 |
| BVPS | 1328 | 1659 | 2028 | 2509 | 3066 |
| DPS | 13.5 | 21.5 | 21.0 | 21.0 | 21.0 |
| Valuation (x) | | | | | |
| P/E | 66.2 | 81.6 | 55.9 | 45.9 | 40.4 |
| P/CEPS | 54 | 62 | 47 | 40 | 36 |
| P/BV | 19 | 16 | 13 | 11 | 9 |
| EV/EBITDA | 26 | 29 | 22 | 19 | 16 |
| Return Ratio (%) | | | | | |
| EBIDTA Margin | 19.8% | 18.5% | 20.2% | 20.1% | 20.0% |
| EBIT Margin | 16.5% | 14.5% | 17.4% | 17.7% | 17.8% |
| PAT Margin | 14.6% | 12.2% | 15.4% | 16.4% | 16.3% |
| ROE | 29.6% | 19.1% | 23.5% | 23.4% | 22.1% |
| ROCE | 25.0% | 16.8% | 20.0% | 19.0% | 18.1% |
| Dividend Yield | 0.3% | 0.4% | 0.4% | 0.4% | 0.4% |
| Leverage Ratio (%) | | | | | |
| Net Debt/Equity (x) | -0.1 | -0.1 | -0.1 | -0.2 | -0.2 |
| Net Debt/EBITDA (x) | -0.2 | -0.2 | -0.4 | -0.6 | -0.9 |
| Turnover Ratios | | | | | |
| Asset Turnover (x) | 31.7 | 26.2 | 33.3 | 41.2 | 51.6 |
| Receivable Days | 79 | 88 | 82 | 82 | 82 |
| Payable days | 12 | 14 | 14 | 14 | 12 |

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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| Stock Rating Scale | Absolute Return |
|--------------------|-----------------|
| BUY | >20% |
| ACCUMULATE | 12% to 20% |
| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | -5% to -12% |
| SELL | <-12% |

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