

Maintained USD revenue guidance for FY22; Robust deal wins

CMP: INR 5,421

Rating: Neutral

Target Price: INR 5,190

Stock Info

BSE	532541
NSE	LTTS
Bloomberg	LTTS IN
Reuters	LTECH.BO
Sector	Computers-Software
Face Value (INR)	2
Equity Capital (INR mn)	210
Mkt Cap (INR mn)	5,88,113
52w H/L (INR)	5,956 / 2,301
Avg Yearly Vol (in 000')	365

Shareholding Pattern %

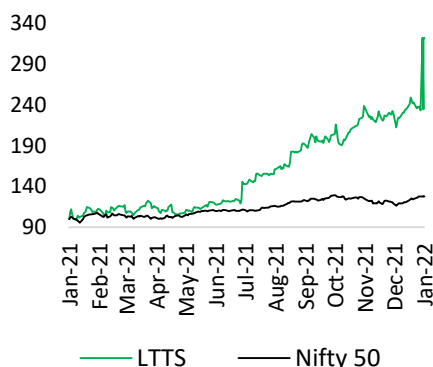
(As on December, 2021)

Promoters	73.93
FII	9.23
DII	4.80
Public & Others	12.04

Stock Performance (%)

	1m	3m	12m
LTTS	1.8	14.5	238.6
Nifty	7.5	-1.2	27.8

LTTS Vs Nifty



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L&T Technology Services (LTTS) has reported in-line with our estimate while slightly beat on the PAT front.

- The company clocked a revenue constant currency of \$225.1 mn, +3.5%/+18.4% QoQ/YoY against our estimate of \$226 mn due to strong demand across segments.
- The consolidated revenue stood at INR 16,875 Mn, +5%/+20.5% QoQ/YoY against our estimate of INR 16,808 Mn.
- EBIT of INR 3,144 Mn +6.1%/+47.5% QoQ/YoY against our estimate of INR 3149 Mn.
- EBIT margin of 18.6%, 116bps QoQ/+341bps YoY vs was in-line with our estimate of 18.7% backed by gains from investments in talent and innovation.
- PAT of INR 2496 Mn +8.1%/+33.5% QoQ/YoY was higher than our estimate of INR 2436 Mn. EPS stood at INR 23.6, +6.4%/+33.9% QoQ/YoY.
- The company maintains FY22 USD revenue growth guidance of 19-20%.
- The company won a USD45 million deal and a total of 3 deals with TCV of USD10 million plus.
- L&T Technology Services declares an interim dividend of INR 10/share.

Vertical Commentary

- **Transportation:** (5.1%QoQ/23.9%YoY) led by Auto followed by trucks and highways. In Auto, the company is seeing strong traction in ACV \$45mn deal won from the Auto in Tier1 company and combined TCV of \$90mn+. Electrification and Hybridization for new-age innovative companies. **Plant engineering:** (4.4%QoQ/24.3%) It was led by FMCG which saw Capex coming back on strong demand, Oil & Gas and Chemicals sector.
- **Industrial Products:** (0.7% QoQ/19.6%YoY) was led by Electricals, Machinery, and Manufacturing. **Telecom and hi-tech:** got projects in integrating various systems in 5G network being deployed, combining IoT and AI. The company working on various other projects like Energy storage, etc. **Medical Devices:** saw demand for Robotics surgery, and related demand pipeline robust.

Valuations: The outlook remains strong led by robust deal wins. We believe LTTS 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) LTTS has won a mega \$45M EV deal from a US-based Tier-1 Automotive major., 2) Maintain EBIT margin above 18%+, 3) we expect to manage travel expense related headwinds through positive operating leverage and productivity-related measures., 4) FY22 USD revenue growth guidance of 19-20%., 5) Demand environment in CY22 would continue to be very strong led by its focus on 6 key bets. **We value LTTS at a PE of 40x to its FY24E EPS of INR 129.8, which yields a target price of INR 5,710 per share. We**

YE March	Net Sales	EBIT	Adjusted PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
(INR Mn)							
FY20	56,191	9,276	8,186	77.5	16.5%	29.6%	69.9
FY21	54,497	7,891	6,633	62.9	14.5%	19.1%	86.2
FY22E	65,948	12,253	9,726	89.5	18.6%	23.0%	60.6
FY23E	76,936	14,575	12,226	110.9	18.9%	23.4%	48.9
FY24E	89,488	17,014	14,475	129.8	19.0%	22.5%	41.8

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

Q3 FY22 - Quarterly Performance (Consolidated)

Consolidated (in INR Mn)	Q3FY22	Q2FY22	Q3FY21	Y-o-Y	Q-o-Q
Revenue (USD)	225.1	217.4	190	18.4%	3.5%
Net Revenue	16,875	16,077	14,007	20.5%	5.0%
Employee cost	9,224	9,038	8,556	7.8%	2.1%
Other Expenses	3,977	3,546	2,695	47.6%	12.2%
EBITDA	3,674	3,493	2,756	33.3%	5.2%
EBITDA margin %	21.8%	21.7%	19.7%	210bps	5bps
Depreciation	530	529	624	-15.1%	0.2%
EBIT	3,144	2,964	2,132	47.5%	6.1%
EBIT margin %	18.6%	18.4%	15.2%	341bps	116bps
Other Income	370	293	488	-24.2%	26.3%
Finance costs	111	113	114	-2.6%	-1.8%
PBT	3,403	3,144	2,506	35.8%	8.2%
Tax Expense	907	836	637	42.4%	8.5%
Effective tax rate %	26.7%	26.6%	25.4%	123bps	6bps
PAT	2,496	2,308	1,869	33.5%	8.1%
Extraordinary Items (Net of tax expense)	-	-	-		
Reported PAT	2,496	2,308	1,869	33.5%	8.1%
PAT margin %	14.8%	14.4%	13.3%	145bps	44bps
Minority Interest	-8	-8	-8		
PAT (After MI)	2,488	2,300	1,861	33.7%	8.2%
EPS (INR)	23.6	21.9	17.6	33.9%	6.4%

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

Q3FY22 Concall Highlights

- **Deal Wins:** The company won a USD45 million deal along with 2 additional deals and a total of 3 deals with TCv of USD10 million-plus. The company is seeing continued good growth in the deal wins Q4FY22 and seeing the deals coming back.
- **Geography:** The company has done very well in North America and Europe but is slightly tepid in ROW and for others geography expects will do good.
- **Client:** 2 empanelment- 1) Largest Technology- hardware & software., 2) Global aircraft manufacturer - Aerospace OEM and customer primary vendors, expects \$50mn each in revenue next few years, going forward.
- **Attrition rate** at 17.5% increased by 100 bps. Hired 1,900 in Q3 to balance attrition rate. Management expects Attrition to flatten after Q4FY22.
- **Margin:** The company would continue to strive to maintain EBIT margin above 18%+. Expects to manage travel expense related headwind through positive operating leverage and productivity related measures.
- LTTS will get a million-dollar rate by Q1&Q2FY23.
- **Demand** environment in CY22 would continue to be very strong led by its focus on 6 key bets.
- **Tax Rate:** The company expects to maintain in the range of 26.5% to 27%(In Q3FY22 its 26.7%)
- **DSO** was in 84 days at the end of Q3FY22 as improvement against Q2FY22 while unbilled increased 105 days as a target is less than 95 days. The company expects to improve in the coming quarters.
- **Revenue mix** increased to 71% and is likely to stabilize at this level.
- The Client profile has seen sequentially improvement in the top 30mn and Top 10 mn client and will see continued improvement. Client improvement in the revenue front in Top 5mn and Top 10 mn client.
- **Guidance:** The deal pipeline continues to be strong. Demand is strong in the US and Europe. The company is going to invest in six big bets focused on Electric Autonomous & Connected Vehicle (EACV), 5G, Med-tech, AI & Digital Products, Digital Manufacturing, and Sustainability, which are helping the company to align closely with customers' long-term transformative journey and win large deals. Attrition to keeping a close watch on it. Management expects Attrition to flatten after Q4FY22. The company maintains FY22 USD revenue growth guidance of 19-20%. The company expects to sustain the current EBIT margin of 18%+; and also the company expects to generate a higher margin in the telecom and Hi-tech segment in the coming times.

Operational Performance

Revenue by Vertical	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Transportation	30.40%	31.20%	31.20%	31.40%	31.80%
Industrial Products	19.30%	18.9%	19.50%	20.00%	19.50%
Telecom & Hi-tech	22.90%	22.10%	22.00%	21.10%	21.4%
Plant Engineering	14.70%	15.50%	15.50%	15.30%	15.4%
Medical Devices	12.70%	12.30%	11.70%	12.20%	11.9%
Segment revenue					
Transportation	4261	4492	4738	5040	5369
Plant Engineering	2055	2239	2367	2461	2605
Industrial Products	2706	2717	2955	3221	3288
Medical Devices	1780	1773	1773	1954	2011
Telecom& Hitech	3205	3184	3351	3401	3602
Total	14007	14405	15184	16077	16875
Revenue by Geography					
North America	61.20%	61.50%	62.30%	62.90%	62.50%
Europe	16.10%	16.70%	16.80%	16.70%	16.50%
India	13.90%	13.10%	12.90%	12.90%	13.70%
Rest of the World	8.80%	8.80%	8.00%	8.00%	7.40%
Revenue Mix					
Onsite	42.90%	42.10%	41.90%	40.80%	41.30%
Offshore	57.10%	57.90%	58.10%	59.20%	58.70%
Revenue by Project Type					
Fixed Price	38.50%	36.10%	33.80%	30.00%	29.00%
Time and Material	61.50%	63.90%	66.20%	70%	71.00%
Client Profile *					
Client Detail	-	-	-	-	-
Number of Active Clients	296	306	305	314	318
50 Million dollar +	-	-	-	-	-
30 Million dollar +	1	-	-	-	2
20 Million dollar +	4	3	5	6	6
10 Million dollar +	18	20	20	21	22
5 Million dollar +	41	39	43	45	44
1 Million dollar +	118	122	122	125	126
Client Contribution to Revenue					
Top 5 Clients	16.30%	16.10%	16.40%	17.00%	17.30%
Top 10 Clients	27.30%	26.90%	27.40%	28.20%	28.50%
Top 20 Clients	44.00%	43.80%	43.90%	44.10%	43.80%
Utilisation					
Including Trainees	77.50%	78.90%	79.20%	78.10%	75.90%
Employee Statistics					
Total Headcount	16069	16452	16972	17983	20118
Bilable (as per number of employee)	14975	15335	15896	16875	18975
Sales & Support	1094	1117	1076	1108	1143
Voluntary Attrition % (LTM)	10.7%	12.2%	14.5%	16.5%	17.5%
Exchange Rate (USD/INR)					
Period Realised \$	73.69	72.96	73.83	73.96	74.95

Source: Arihant 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	880	1,037	1,209
Growth (%)	8.7%	-6.3%	19.4%	17.9%	16.6%
Revenues	56,191	54,497	65,948	76,936	89,488
Change (%)	10.6%	-3.0%	21.0%	16.7%	16.3%
Employee Costs	32,916	33,550	37,241	42,156	45,950
Other Expenses	12,170	10,873	14,443	18,080	24,072
Total Expenses	45,086	44,423	51,683	60,236	70,023
EBITDA	11,105	10,074	14,265	16,700	19,465
Depreciation	1,829	2,183	2,012	2,125	2,451
EBIT	9,276	7,891	12,253	14,575	17,014
Other Income	2,091	1,537	1,540	2,310	2,888
Interest	365	455	480	365	350
PBT	11,002	8,973	13,313	16,520	19,552
Tax	2,778	2,308	3,555	4,262	5,044
Rate (%)	25.2%	25.7%	26.7%	25.8%	25.8%
PAT	8,224	6,665	9,758	12,258	14,507
Minority Interest	38	32	32	32	32
Adjusted PAT	8,186	6,633	9,726	12,226	14,475
Change (%)	6.8%	-19.0%	46.6%	25.7%	18.4%

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	42,030	52,038	64,046
Non-controlling interest	69	101	101	101	101
Net Worth	27,755	34,832	42,341	52,349	64,357
Non-Current liabilities					
Total Current liabilities	9,696	10,126	12,986	14,216	15,647
Total liabilities	15,279	15,831	13,948	15,187	16,656
Total Equity and liabilities					
	43,034	50,729	56,355	67,602	81,079
Total Non-current Assets					
	13,932	15,703	14,479	14,899	15,189
Current Assets					
Investments	6,110	15,149	18,332	21,387	24,876
Trade receivables	13,807	12,346	14,816	17,284	20,104
Cash and cash equivalents	2,179	1,751	5,385	9,969	16,258
Other bank balances	260	576	576	576	576
Loans	0	0	0	0	0
Other financial assets	1,731	1,685	2,020	2,308	2,685
Other current assets	5,015	3,519	4,258	4,968	5,778
Total current assets	29,102	35,026	45,387	56,491	70,277
TOTAL ASSETS	43,034	50,729	56,355	67,602	81,079

Key Ratios					
Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Per Share (INR)					
EPS	77.5	62.9	89.5	110.9	129.8
CEPS	95.2	82.6	108.3	130.5	151.7
BVPS	1328	1659	2016	2493	3065
DPS	13.5	21.5	20.0	21.0	21.0
Valuation (x)					
P/E	69.9	86.2	60.6	48.9	41.8
P/CEPS	57	66	50	42	36
P/BV	20	16	14	11	9
EV/EBITDA	26	29	20	17	14
Return Ratio (%)					
EBITDA Margin	19.8%	18.5%	21.6%	21.7%	21.8%
EBIT Margin	16.5%	14.5%	18.6%	18.9%	19.0%
PAT Margin	14.6%	12.2%	14.8%	15.9%	16.2%
ROE	29.6%	19.1%	23.0%	23.4%	22.5%
ROCE	25.0%	16.8%	21.2%	20.7%	19.6%
Dividend Yield	0.2%	0.4%	0.4%	0.4%	0.4%
Leverage Ratio (x)					
Net Debt/Equity (x)	-0.1	-0.1	-0.1	-0.2	-0.3
Net Debt/EBITDA (x)	-0.2	-0.2	-0.4	-0.6	-0.8
Turnover Ratios					
Asset Turnover (x)	31.7	26.2	33.8	45.2	70.0
Receivable Days	79	88	82	82	82
Payable days	12	14	14	14	12

Cash Flow Statement (INR Mn)					
Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Net Profit before Tax	11,002	8,973	13,313	16,520	19,552
Adjustments:					
Depreciation	1,829	2,183	2,012	2,125	2,451
Finance Costs	365	455	0	0	0
Interest and Dividend received	-934	-40	-242	-282	-328
Operating Profit before WC Changes	12,262	11,571	15,083	18,363	21,675
Operating Profit after WC Changes	8,500	15,796	13,211	16,356	19,259
Direct Taxes Paid & Exceptional Items	-2,119	-2,523	-3,555	-4,262	-5,044
Cash Flow from Operating Activities					
	6,381	13,273	9,657	12,094	14,215
Cash Flow from Investing Activities					
	-2,222	-10,054	-4,412	-4,514	-4,910
Cash Flow from Financing Activities					
	-4,060	-3,627	-1,650	-2,997	-3,016
Net Change in Cash & Cash Equivalents	99	-408	3,594	4,583	6,289
Opening Cash & Cash Equivalents	2,100	2,199	1,791	5,385	9,969
Closing Cash & Cash Equivalents	2199	1791	5385	9969	16258

Source: Arihant 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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