

Raised USD revenue guidance for FY22; ER&D continue to drive growth

**CMP: INR 2,911**

**Rating: Accumulate**

**Target Price: INR 3,465**

**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)	3,35,29
52w H/L (INR)	2,749 / 995
Avg Yearly Vol (in 000')	270

**Shareholding Pattern %**

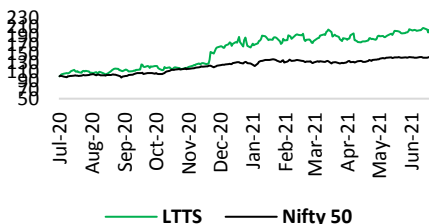
(As on June, 2021)

Promoters	74.23
FII	8.92
DII	6.68
Public & Others	10.17

**Stock Performance (%)**

	3m	6m	12m
LTTS	21.4	32.9	129
Nifty	9.2	10.4	50.0

**LTTS Vs Nifty**



*L&T Technology Services (LTTS) has reported a strong set of numbers in Q1FY22. CC Revenue, INR Revenue were in line with our estimate, and PAT, EBIT were above our estimate. The company clocked a revenue of US\$203 mn, +3.0%/+19% QoQ/YoY against our estimate of US\$ 209 mn due to better traction in industrial products with some softness in Medical Devices segment. The consolidated revenue stood at INR 15,184 Mn, +5.4%/+17.3% QoQ/YoY against our estimate of INR 15,260 Mn. EBITDA of INR 3,177 Mn +8.4%/+54.3% QoQ/YoY was higher than our estimate of INR 2,790 Mn. EBITDA margin of 20.9%, 58bps QoQ/+502bps YoY vs our estimate of 18.3%. The improvement was witnessed as a result of a gradual portfolio shift towards more digital engineering as well as operational efficiency initiatives around hiring, cross-skilling, productivity improvement, and cost optimization. PAT of INR 2,170 Mn +11.1%/+83.9% QoQ/YoY was also higher than our estimate of INR 2,020Mn. EPS stood at INR 20.6, +11.7%/+85.3% QoQ/YoY.*

**Vertical Commentary**

- **Transportation:** In transportation, growth momentum can continue across the three segments. In automotive, the corporate won 2 US\$25 mn TCW deals within the electrical vehicle 1 with a replacement age OEM and also the alternative with a Tier one. During these early wins in new technologies like work units, it can facilitate growing deep strategic partnerships with purchasers.
- Outlook for commercial aerospace is strengthening. Digital transformation and connected platform are key investment areas for each aerospace and trucks, off-highway vehicles
- **Plant engineering:** The company is deepening expertise in sustainability and has won a large deal within the quarter in the space with a beverage client. Outlook for oil & gas vertical is getting better with increase in oil prices.
- **Telecom and hi-tech:** Demand for chip design is robust in semiconductor sub-segment. Telecom clients are investing heavily in 5G leveraging ORAN technologies. LTTS won 2 US\$10 mn deals within the vertical.
- **Medical Devices:** Outlook is good for diagnostic devices. Medtech is an area of focus for LTTS. Growth can increase from 2QFY22 as deal wins improve.

**Valuations**

ER&D spends remain strong across all verticals, We believe it will further drive the company growth in the longer term. We continue to remain bullish on this space and are expect a strong broad-based growth in FY22. The company has raised USD revenue growth guidance for FY22 to 15-17%. In Q4FY21 it was 13-15%. Margins in Q2FY22 will face the headwind of residual wage hikes for mid to senior management.

At a CMP of INR 2,911, LTTS is trading at FY23E P/E of 28.5x. to its FY23E EPS of INR 101.9. We value LTTS at a P/E of 34x to its FY23E EPS INR 101.9, which yields a target price of INR 3,465 per share. **We upgraded our rating on the stock from reduce to Accumulate.**

YE March	Net Sales	EBITDA	Adjusted PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
(INR Mn)							
FY19	50,783	9,158	7,667	73.6	18.0%	31.0%	39.4
FY20	56,191	11,105	8,186	77.5	19.8%	29.6%	37.4
FY21	54,497	10,074	6,633	62.9	18.5%	19.1%	46.1
FY22E	63,059	12,945	9,318	85.7	20.5%	22.3%	33.9
FY23E	73,308	14,267	11,236	101.9	19.5%	22.1%	28.5

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

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## Q1 FY22 - Quarterly Performance (Consolidated)

Consolidated (in INR million)	Q1FY22	Q4FY21	Q1FY21	Y-o-Y	Q-o-Q
Revenue (USD)	203	198	171	19.0%	3.0%
Net Revenue	15,184	14,405	12,947	17.3%	5.4%
Employee cost	8,758	8,496	8,402	4.2%	3.1%
Other Expenses	3,249	2,978	2,486	30.7%	9.1%
EBITDA	3,177	2,931	2,059	54.3%	8.4%
EBITDA margin %	20.9%	20.3%	15.9%	502bps	58bps
Other Income	442	346	137	222.6%	27.7%
Depreciation	554	540	492	12.6%	2.6%
EBIT	3,065	2,737	1,704	79.9%	12.0%
EBIT margin %	20.2%	18.7%	13.2%	702bps	148bps
Finance costs	108	125	107	0.9%	-13.6%
PBT	2,957	2,612	1,597	85.2%	13.2%
Tax Expense	787	659	417	88.7%	19.4%
Effective tax rate %	26.6%	25.2%	26.1%	50bps	139bps
PAT	2,170	1,953	1,180	83.9%	11.1%
Extraordinary Items (Net of tax expense)	-	-	-		
Reported PAT	2,170	1,953	1,180	83.9%	11.1%
PAT margin %	14.3%	13.6%	9.1%	518bps	73bps
Minority Interest	-8	-8	-8		
PAT (After MI)	2,162	1,945	1,172	84.5%	11.2%
EPS (Rs)	20.6	18.4	11.1	85.3%	11.7%

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

### Q1 FY22 Concall Highlights

- Utilisation has increased by 30 bps QoQ to 79.2%. LTM attrition increased by 230 bps QoQ to 14.5% due to higher demand for talent. Net addition of 500 employees during the quarter.
- Offshore revenue mix grew 20 bps, as per the industry trend.
- Increase in DSO during the quarter was due to the delay in invoicing in the quarter which is a temporary phenomena due to transitioning system changes.
- Top accounts.** Deal wins remains strong as it won 6 deals of \$10 mn+, including two \$25mn deals.
- Guidance:** The company has raised FY22 USD revenue growth guidance to 15-17%. In Q4FY21 it was 13-15%. Deal pipeline is strong across all segments. Expects to sustain current EBIT margin of 17%;. The company expect to generate higher margin in the telecom and Hitech segment in the coming times. The management expect the growth in E R&D services by 10-11% globally till 2023 to fuel demand growth in near term. Moving to new tax regime and expecting ETR of 26.5-27.0% for FY22.
- The company is witness clear traction in the case of 5G, electric vehicles, Green energy, automation. Not affected by chip shortage being faced by the world as it is in the design of chips and not manufacturing.

<b>Operational Performance</b>					
<b>Revenue by Vertical</b>	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY21
Transportation	31.5%	32%	30.40%	31.20%	31.20%
Industrial Products	19.4%	20%	19.30%	18.9%	19.50%
Telecom & Hi-tech	22.4%	21%	22.90%	22.10%	22.00%
Plant Engineering	13.8%	14%	14.70%	15.50%	15.50%
Medical Devices	12.8%	13%	12.70%	12.30%	11.70%
<b>Segment revenue</b>					
Transportation	4080	4134	4261	4492	4738
Plant Engineering	1792	1887	2055	2239	2367
Industrial Products	2512	2569	2706	2717	2955
Medical Devices	1659	1745	1780	1773	1773
Telecom& Hitech	2904	2803	3205	3184	3351
<b>Total</b>	<b>12947</b>	<b>13138</b>	<b>14007</b>	<b>14405</b>	<b>15184</b>
<b>Revenue by Geography</b>					
North America	61.2%	60%	61.20%	61.50%	62.30%
Europe	16.0%	16%	16.10%	16.70%	16.80%
India	13.0%	14%	13.90%	13.10%	12.90%
Rest of the World	9.8%	10%	8.80%	8.80%	8.00%
<b>Revenue Mix</b>					
Onsite	48.3%	45%	42.90%	42.10%	41.90%
Offshore	51.7%	55%	57.10%	57.90%	58.10%
<b>Revenue by Project Type</b>					
Fixed Price	38.5%	40%	38.50%	36.10%	33.80%
Time and Material	61.5%	60%	61.50%	63.90%	66.20%
<b>Client Profile *</b>					
Client Detail	0	0	0	0	0
Number of Active Clients	270	283	296	306	305
50 Million dollar +	0	0	0	0	0
30 Million dollar +	1	1	1	0	0
20 Million dollar +	4	5	4	3	5
10 Million dollar +	22	20	18	20	20
5 Million dollar +	43	44	41	39	43
1 Million dollar +	113	116	118	122	122
<b>Client Contribution to Revenue</b>					
Top 5 Clients	17.8%	17.00%	16.30%	16.10%	16.40%
Top 10 Clients	29.7%	28.30%	27.30%	26.90%	27.40%
Top 20 Clients	46.8%	44.90%	44.00%	43.80%	43.90%
<b>Utilisation</b>					
Including Trainees	70.9%	75.40%	77.50%	78.90%	79.20%
<b>Employee Statistics</b>					
Total Headcount	16641	15902	16069	16452	16972
Bilable (as per number of employee)	15481	14778	14975	15335	15896
Sales & Support	1160	1124	1094	1117	1076
Voluntary Attrition % (LTM)	11.4%	10.8%	10.7%	12.2%	14.5%
<b>Exchange Rate (USD/INR)</b>					
Period Realised \$	75.71	73.79	73.69	72.96	73.83

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

## Key Financials

Income Statement (INR Mn)						Balance Sheet (INR Mn)					
Year End-March	FY19	FY20	FY21	FY22E	FY23E	Year End-March	FY19	FY20	FY21	FY22E	FY23E
<b>Revenue (CC Terms) (Mn USD)</b>						<b>Sources of Funds</b>					
	723	786	737	859	1,002	Share Capital	208	209	210	210	210
<b>Growth (%)</b>	24.6%	8.7%	-6.3%	16.7%	16.6%	Reserves & Surplus	24,583	27,477	34,521	41,621	50,639
<b>Revenues</b>	50,783	56,191	54,497	63,059	73,308	Non-controlling interest	31	69	101	101	101
<b>Change (%)</b>	35.5%	10.6%	-3.0%	15.7%	16.3%	<b>Net Worth</b>	<b>24,822</b>	<b>27,755</b>	<b>34,832</b>	<b>41,932</b>	<b>50,950</b>
Employee Costs	30,318	32,916	33,550	36,871	42,033	<b>Non-Current liabilities</b>					
Other Expenses	11,307	12,170	10,873	13,242	17,007	<b>Lease liability</b>		3,961	4,805	4,805	4,805
<b>Total Expenses</b>	41,625	45,086	44,423	50,114	59,041	Other financial liabilities	60	1,622	322	50	59
<b>EBITDA</b>	9,158	11,105	10,074	12,945	14,267	Deferred tax liabilities (net)	134	0	578	115	113
Other Income	2,228	2,091	1,537	2,152	3,228	Short-term borrowings	702	303	0	0	0
Depreciation	1,042	1,829	2,183	2,232	2,066	Trade payables	1,879	1,975	2,286	2,655	3,346
Interest	19	365	455	365	365	Other financial liabilities	2,750	3,059	2,827	3,829	3,909
<b>PBT</b>	<b>10,325</b>	<b>11,002</b>	<b>8,973</b>	<b>12,500</b>	<b>15,064</b>	Other current liabilities	1,899	2,376	2,958	3,423	3,979
Tax	2,630	2,778	2,308	3,150	3,796	Provisions	1,341	1,654	1,584	1,833	2,131
<b>Rate (%)</b>	25.5%	25.3%	25.7%	25.2%	25.2%	Current tax liabilities (net)	56	328	471	471	471
<b>PAT</b>	<b>7,695</b>	<b>8,224</b>	<b>6,665</b>	<b>9,350</b>	<b>11,268</b>	Total Current liabilities	8,627	9,695	10,126	12,211	13,836
Minority Interest	28	38	32	32	32	<b>Total liabilities</b>	<b>8,821</b>	<b>15,278</b>	<b>15,831</b>	<b>17,181</b>	<b>18,813</b>
<b>Adjusted PAT</b>	<b>7,667</b>	<b>8,186</b>	<b>6,633</b>	<b>9,318</b>	<b>11,236</b>	<b>Total Equity and liabilities</b>	<b>33,643</b>	<b>43,033</b>	<b>50,729</b>	<b>59,179</b>	<b>65,814</b>
<b>Change (%)</b>	49.7%	6.8%	-19.0%	40.5%	20.6%	<b>Assets</b>					
<b>Cash Flow Statement (INR Mn)</b>						<b>Key Ratios</b>					
Year End-March	FY19	FY20	FY21	FY22E	FY23E	Year End-March	FY19	FY20	FY21	FY22E	FY23E
Net Profit before Tax	10,314	11,002	8,973	12,500	15,064	<b>Per Share (Rs)</b>					
Adjustments:						EPS	73.6	77.5	62.9	85.7	101.9
Depreciation	1,042	1,829	2,183	2,232	2,066	CEPS	83.9	95.2	82.6	106.6	120.9
Finance Costs	19	365	455	365	365	BVPS	1193	1328	1659	1997	2426
Interest and Dividend received	49	-934	-40	-231	-269	DPS	21.0	13.5	21.5	21.0	21.0
<b>Operating Profit before WC Changes</b>	<b>11,424</b>	<b>12,262</b>	<b>11,571</b>	<b>14,865</b>	<b>17,226</b>	<b>Valuation (x)</b>					
Operating Profit after WC Changes	10,870	8,500	15,796	11,133	17,217	P/E	39.4	37.4	46.1	33.9	28.5
Direct Taxes Paid & Exceptional Items	-2,808	-2,119	-2,523	-3,150	-3,796	P/CEPS	33	29	34	26	23
<b>Cash Flow from Operating Activities</b>	<b>8,062</b>	<b>6,381</b>	<b>13,273</b>	<b>7,984</b>	<b>13,421</b>	P/BV	12	10	8	7	6
<b>Cash Flow from Investing Activities</b>	<b>-5,093</b>	<b>-2,222</b>	<b>-10,054</b>	<b>-4,088</b>	<b>-5,443</b>	EV/EBITDA	32	26	29	22	20
<b>Cash Flow from Financing Activities</b>	<b>-2,454</b>	<b>-4,060</b>	<b>-3,627</b>	<b>-2,095</b>	<b>-6,826</b>	<b>Return Ratio (%)</b>					
Net Change in Cash & Cash Equivalents	515	99	-408	1,800	1,152	EBIDTA Margin	18.0%	19.8%	18.5%	20.5%	19.5%
Opening Cash & Cash Equivalents	1,519	2,034	2,133	1,725	3,525	PAT Margin	15.1%	14.6%	12.2%	14.8%	15.4%
Closing Cash & Cash Equivalents	2034	2133	1725	3525	4677	ROE	31.0%	29.6%	19.1%	22.3%	22.1%
						ROCE	24.3%	25.0%	16.8%	19.1%	17.9%
						Dividend Yield	0.8%	0.5%	0.8%	0.8%	0.8%
						<b>Leverage Ratio (%)</b>					
						Net Debt/Equity (x)	-0.1	-0.1	-0.1	-0.1	-0.1
						Net Debt/EBITDA (x)	-0.1	-0.2	-0.2	-0.3	-0.3
						<b>Turnover Ratios</b>					
						Asset Turnover (x)	37.7	31.7	26.2	35.4	45.4
						Receivable Days	73	79	88	82	82
						Payable days	13	12	14	14	14

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

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### Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

### Absolute Return

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