

**Near-term risks remain; could emerge stronger in long term**

**CMP: Rs 1381**

**Rating: Accumulate**

**Target Price: Rs 1542**

**Stock Info**

BSE	532541
NSE	LTTS
Bloomberg	LTTS IN
Reuters	LTECH.BO
Sector	Computers-Software
Face Value (Rs)	2
Equity Capital (Rs mn)	209
Mkt Cap (Rs mn)	144320
52w H/L (Rs)	1,780 / 995
Avg Yearly Vol (in 000')	116

**Shareholding Pattern %**

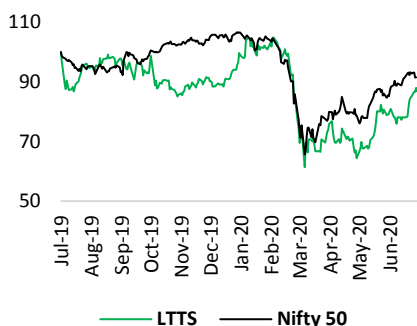
(As on June, 2020)

Promoters	74.60
FII	8.95
DII	4.45
Public & Others	12.00

**Stock Performance (%)**

	3m	6m	12m
LTTS	8.9	-14.7	-16.5
Nifty	16.5	-11.6	-7.5

**LTTS Vs Nifty**



Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114834

**L&T Technology Services' (LTTS) Q1FY21 earnings were below our estimates on all fronts. Consolidated revenue stood at Rs 12,947 Mn, below our estimate of Rs 15,180 Mn, registering a de-growth of 3.9% YoY/10.5% QoQ. Reported EBITDA down by 24.5% YoY/23.3% QoQ to Rs 2,059 Mn, below our estimate of Rs 2,912 Mn, while EBITDA margin contracted by 433bps YoY/264bps QoQ driven by lower revenue, drop in utilization because of the furloughs and temporary reduction in spending by customers. Utilization for the quarter dipped to 70.9% vs QoQ 78.1%. PAT for Q1FY20 declined by 42.2% YoY/42.8 to Rs 1,180 mn, below our estimate of Rs 2,163Mn.**

**Business Highlights (Vertical wise) – Q1FY21**

- Among its business verticals, transportation segment was down by 22.8% QoQ contributing 35.7% of overall revenues. The revenue decline was more in Aerospace than Auto. Auto customers reported furlough. Autonomous tech spends will continue. 2 new deals in \$30mn and 1 in \$50mn. Airlines are cutting down in orders for. With Aerospace Q2 will be bottom, Automobiles – there will be growth in Q2, So overall transport – Q2 will be bottom.
- Telecom-Hitech segment saw good performance with a rise of 5.1% QoQ contributing 18.7% of overall revenues. Growth, led by the ramp up of deals. Pick up in deals will be slow. Tech disruption is a norm in this vertical. Announced acquisition of Orchestra, which will help LTTS in 5G – to better serve Network OEMs and Service provider. Q2 will again be growth quarter for Telecom.
- Plant Engineering declined 24.2% QoQ contributing 16% of overall revenues, revenue decline led by Oil and Gas. However, management sees stability in this vertical. Large proposals are in the pipeline. In CPG, increased traction in digital. In Plant engineering, LTTS will see QoQ growth from Q2 from driven by CPG and Chemical sub verticals.
- Medical segment was up by 9.2% QoQ/ 42% YoY growth, continued momentum with Q4 with the ramp up of deals. Continue to have positive on outlook. Telemedicine, remote monitoring is traction areas with in Medical.

**Valuations**

Going ahead, we see the IT services sector as lucrative for investment due to sudden increase of WFH culture enabling cost effectiveness limiting the Covid impact in FY21. We expect LTTS anticipate growth recovery in Q2FY21, supported by decent deal in pipeline, better than Q4FY20. While Medical and telecom segments are doing well led by ramp up of deals. LTTS announced acquisition of Orchestra which will help LTTS in expanding its footprint in 5G services – to better serve Network OEMs and Service provider. At CMP of Rs 1381, LTTS currently trades at FY20 P/E of 18x. Factoring in weak Q1FY21 results, we lowered our FY21/FY22 estimates. We value LTTS at P/E of 27x to its FY22E EPS 57, which yields target price of Rs 1,542 per share and **maintain our Accumulate rating on the stock.**

(Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	50,783	9,158	7,695	73.9	18.01%	30.96%	19
FY20	56,191	11,105	8,224	77.9	19.76%	29.63%	18
FY21E	54,927	7,294	5,401	50.4	13.28%	17.02%	27
FY22E	61,325	8,827	6,202	57.1	14.39%	17.00%	24

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

## Q1 FY21 - Quarterly Performance (Consolidated)

Particulars (in Rs million)	Q1FY21	Q4FY20	Q1FY20	Y-o-Y	Q-o-Q
<b>Revenue (USD)</b>	<b>171</b>	<b>195</b>	<b>194</b>	<b>-11.8%</b>	<b>-12.5%</b>
<b>Net Revenue</b>	<b>12,947</b>	<b>14,466</b>	<b>13,475</b>	<b>-3.9%</b>	<b>-10.5%</b>
Employee cost	8,402	8,401	8,354	0.6%	0.0%
Other Expenses	2,486	3,382	2,394	3.8%	-26.5%
<b>EBITDA</b>	<b>2,059</b>	<b>2,683</b>	<b>2,727</b>	<b>-24.5%</b>	<b>-23.3%</b>
<i>EBITDA margin %</i>	<i>15.9%</i>	<i>18.5%</i>	<i>20.2%</i>	<i>-433bps</i>	<i>-264bps</i>
Other Income	137	614	565	-75.8%	-77.7%
Depreciation	492	485	428	15.0%	1.4%
<b>EBIT</b>	<b>1,704</b>	<b>2,812</b>	<b>2,864</b>	<b>-40.5%</b>	<b>-39.4%</b>
<i>EBIT margin %</i>	<i>13.2%</i>	<i>19.4%</i>	<i>21.3%</i>	<i>-809bps</i>	<i>-628bps</i>
Finance costs	107	94	91	17.6%	13.8%
<b>PBT</b>	<b>1,597</b>	<b>2,718</b>	<b>2,773</b>	<b>-42.4%</b>	<b>-41.2%</b>
Tax Expense	417	655	732	-43.0%	-36.3%
<i>Effective tax rate %</i>	<i>26.1%</i>	<i>24.1%</i>	<i>26.4%</i>	<i>-29bps</i>	<i>201bps</i>
<b>PAT</b>	<b>1,180</b>	<b>2,063</b>	<b>2,041</b>	<b>-42.2%</b>	<b>-42.8%</b>
Extraordinary Items (Net of tax expense)	-	-	-		
<b>Reported PAT</b>	<b>1,180</b>	<b>2,063</b>	<b>2,041</b>	<b>-42.2%</b>	<b>-42.8%</b>
<i>PAT margin %</i>	<i>9.1%</i>	<i>14.3%</i>	<i>15.1%</i>	<i>-603bps</i>	<i>-515bps</i>
<i>Minority Interest</i>	<i>-8</i>	<i>-16</i>	<i>-2</i>		
<b>PAT (After MI)</b>	<b>1,172</b>	<b>2,047</b>	<b>2,039</b>	<b>-42.5%</b>	<b>-42.7%</b>
<b>EPS (Rs)</b>	<b>11.1</b>	<b>19.4</b>	<b>19.3</b>		

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

**Q1FY21 Concall Highlights**

- **Deal:** During the quarter, LTTS won 9 multi-million-dollar deals across all major industry segments which includes one deal with TCV of USD30mn plus and two deals with TCV of USD15mn plus. On a YoY basis, LTTS has increased its USD10mn+ clients by 5 and its USD1mn+ clients by 3.
- At the end of Q1FY21, LTTS' employee strength stood at 16,641.
- As customers redraw their business plans, the company is working with them to improve operating efficiency, finetune sourcing and production plans, and prepare for faster go-to-market. Company newer set of offerings like Frugal Manufacturing, Telehealth solution and i-BEMS Shield are seeing good traction in the market. The large deal discussions management is having with customers are a notch higher in terms of criticality and adoption of new age technologies, which company believes will pave the way for greater mind share and competitive differentiation.
- At the end of the Q1FY21, the patents portfolio of L&T Technology Services stood at 525, out of which 385 are co-authored with its customers and the rest are filed by LTTS.
- **Acquiring** 100% stake in Orchestra Technology for \$25 mn . \$ 11 Million upfront payment & \$14 Million payment in the form of earn-outs and retention pay spread over 3 years. This acquisition will enable LTTS to strengthen its footprint in the Telecom OEM and Service Provider space. CY19 revenue is \$ 15.1 mn. Tax rate would be in the range of 25-26%.
- **Outlook** Q1FY21 was tougher quarter due to Covid-19, management expects sequential recovery in revenue as well as in margin from Q2FY21 onwards and guidance for FY21 revenue to decline 9 -10% in USD term.
- Orders and Pipeline is better than Q4FY20

## Key Financials

### Income Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
<b>Revenue (CC Terms) (Mn USD)</b>	723	786	716	773
<b>Growth (%)</b>	24.6%	8.7%	-8.9%	7.9%
<b>Revenues</b>	50,783	56,191	54,927	61,325
<i>Change (%)</i>	35.5%	10.6%	-2.2%	11.6%
<b>Employee Costs</b>	30,318	32,916	35,549	38,393
<b>Other Expenses</b>	11,307	12,170	12,084	14,105
<b>Total Expenses</b>	41,625	45,086	47,633	52,498
<b>EBITDA</b>	9,158	11,105	7,294	8,827
<b>Other Income</b>	2,228	2,091	2,133	2,175
<b>Depreciation</b>	1,042	1,829	2,060	2,557
<b>Interest</b>	19	365	150	157
<b>PBT</b>	10,325	11,002	7,218	8,288
<b>Tax</b>	2,630	2,778	1,817	2,086
<i>Rate (%)</i>	25.5%	25.3%	25.2%	25.2%
<b>PAT</b>	7,695	8,224	5,401	6,202
<b>Consolidated PAT</b>	7,695	8,224	5,401	6,202
<i>Change (%)</i>	50.3%	6.9%	-34.3%	14.8%

### Balance Sheet (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
<b>Sources of Funds</b>				
Share Capital	208	209	209	209
Reserves & Surplus	24,583	27,477	31,453	36,209
Non-controlling interest	31	69	69	69
<b>Net Worth</b>	24,822	27,755	31,731	36,487
<b>Non-Current liabilities</b>				
<b>Lease liability</b>		3,961	3,961	3,961
Other financial liabilities	60	1,622	44	49
Deferred tax liabilities (net)	134	0	86	112
Short-term borrowings	702	303	296	331
Trade payables	1,879	1,975	1,792	2,414
Other financial liabilities	2,750	3,059	2,739	2,712
Other current liabilities	1,899	2,376	2,323	2,593
Provisions	1,341	1,654	1,617	1,805
Current tax liabilities (net)	56	328	0	0
Total Current liabilities	8,627	9,695	8,767	9,855
<b>Total liabilities</b>	8,821	15,278	12,857	13,976
<b>Total Equity and liabilities</b>	33,643	43,033	44,588	50,463
<b>Assets</b>				
<b>Non-Current assets</b>				
Fixed Assets	7,800	11,822	11,923	12,684
Goodwill on consolidation	0	0	0	0
Investments		310		
Financial assets	1,362	827	808	903
Deferred tax assets (net)	126	311	304	339
Other non-current assets	635	661	674	688
<b>Total Non-current Assets</b>	9,923	13,931	13,710	14,614
<b>Current Assets</b>				
Investments	5,749	6,110	5,973	6,668
Trade receivables	10,643	13,807	10,300	16,615
Cash and cash equivalents	2,048	2,179	8,447	5,715
Other bank balances	3	260	66	66
Loans	0	1	1	1
Other financial assets	1,541	1,730	1,698	1,878
Other current assets	3,736	5,015	4,394	4,906
Total current assets	23,720	29,102	30,878	35,849
<b>TOTAL ASSETS</b>	33,643	43,033	44,588	50,463

### Key Ratios

Year End-March	FY19	FY20	FY21E	FY22E
<b>Per Share (Rs)</b>				
EPS	73.9	77.9	50.4	57.1
CEPS	83.9	95.2	69.6	80.6
BVPS	1193	1328	1518	1746
DPS	21.0	13.5	13.5	13.5
<b>Valuation (x)</b>				
P/E	19	18	27	24
P/CEPS	16	15	20	17
P/BV	6	5	5	4
EV/EBITDA	16	13	19	16
<b>Return Ratio (%)</b>				
EBIDTA Margin	18.0%	19.8%	13.3%	14.4%
PAT Margin	15.1%	14.6%	9.8%	10.1%
ROE	31.0%	29.6%	17.0%	17.0%
ROCE	24.3%	25.0%	12.3%	12.9%
Dividend Yield	1.5%	1.0%	1.0%	1.0%
<b>Leverage Ratio (x)</b>				
Net Debt/Equity (x)	-0.1	-0.1	-0.3	-0.1
Net Debt/EBITDA (x)	-0.1	-0.2	-1.1	-0.6
<b>Turnover Ratios</b>				
Asset Turnover (x)	37.7	31.7	24.2	23.0
Receivable Days	73	79	79	79
Payable days	13	12	12	12

### Cash Flow Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
<b>Net Profit before Tax</b>	10,314	11,002	7,218	8,288
<b>Adjustments:</b>				
Depreciation	1,042	1,829	2,060	2,557
Finance Costs	19	365	150	157
Interest and Dividend received	49	-934	-180	-201
<b>Operating Profit before WC Changes</b>	11,424	12,262	9,247	10,802
<b>Adjustments to WC</b>				
Operating Profit after WC Changes	10,870	8,500	12,572	5,108
Direct Taxes Paid & Exceptional Items	-2,808	-2,119	-1,817	-2,086
<b>Cash Flow from Operating Activities</b>	8,062	6,381	10,755	3,022
<b>Cash Flow from Investing Activities</b>	-5,093	-2,222	-2,859	-4,186
<b>Cash Flow from Financing Activities</b>	-2,454	-4,060	-1,582	-1,568
<b>Net Change in Cash &amp; Cash Equivalents</b>	515	99	6,314	-2,732
Opening Cash & Cash Equivalents	1,519	2,034	2,133	8,447
<b>Closing Cash &amp; Cash Equivalents</b>	2034	2133	8447	5715

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

## Arihant Research Desk

Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880