

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

**CMP: Rs 1068**

**Rating: Accumulate**

**Target Price: Rs 1227**

**Stock Info**

BSE	532541
NSE	LTTS
Bloomberg	LTTS IN
Reuters	LTECH.BO

Sector	Computers-Software
Face Value (Rs)	2
Equity Capital (Rs mn)	20.80
Mkt Cap (Rs mn)	111660
52w H/L (Rs)	1,820 / 995
Avg Yearly Vol (in 000')	624

**Shareholding Pattern %**

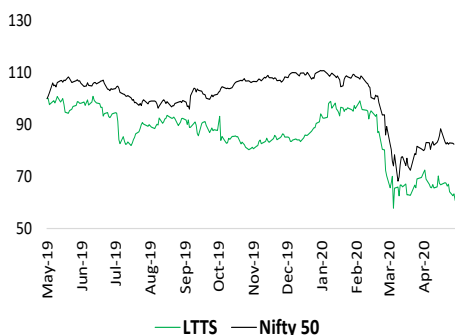
(As on Dec, 2019)

Promoters	74.62
FII	8.37
DII	4.11
Public & Others	12.9

**Stock Performance (%)**

	3m	6m	12m
LTTS	-36.1	-24.3	-36.5
Nifty	-24.5	-23.0	-18.5

**LTTS Vs Nifty**



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*L&T Technology Services' (LTTS) Q4FY20 earnings were mixed beating our revenue estimates but EBITDA and PAT came below our estimates. Consolidated revenue for Q4FY20 stood at Rs 14,466mn registering +7.7% YoY/+1.7% QoQ, EBITDA increased 7.7% YoY/declined 6.3% QoQ to Rs 2,683mn and PAT increased 7.2% YoY/0.2% QoQ to Rs 2,063mn. Constant currency Revenue (USD) stood at \$194 million, up by 1.6% YoY/down 2.5% QoQ, due to COVID-19 outbreak as the company faced supply side constraints and demand side challenges resulting in loss of productivity and work from home for employees. EBIT stood at Rs 2,812mn growing 10.0% annually and declining 0.8% sequentially. The company's board has recommended a final dividend of Rs 13.50 per share.*

**Business Highlights (Vertical wise) – Q4FY20**

- Among its business verticals, transportation segment was down by 2.3% QoQ contributing 35.7% of overall revenues. Despite productivity loss in Transportation segment the company continues to be positioned strongly in this area like electric car, safety Anda in auto and avionics software in aerospace.
- Telecom-Hitech segment saw muted performance with fall of 0.8% QoQ contributing 18.7% of overall revenues due to slow down in onboarding at the customer end. Some renewal also got hit due to uncertainty in the environment.
- Plant Engineering declined 8.6% QoQ contributing 16% of overall revenues, lost some strong momentum due to few abrupt project closer in oil & gas in Upstream segment which was growth area in FY20. This is due to collapse in oil prices but management is expecting demand will become better from Q2FY21.
- The other two segments CPG and chemical did well and were not impacted. Management believes that this is positive for the company and for the plant engineering. Medical Devices grew 6.9% QoQ
- In the plant engineering segment, customers are looking for the lower operation cost run and maintain part of the plant and some interesting proposal in the pipeline. Industrial Products segment declined by 0.9% QoQ impacted by low demand of oil & gas machineries, part of the Industrial Product.

**Valuations**

At CMP of Rs 1068, LTTS is trading at FY21/22E P/E of 13x/12x respectively. After factoring in Q4FY20 results, we lowered our FY21E/FY22E estimates as significant exposure to transportation and industrial product, LTTS might face difficulties on the revenue front because of the unprecedented crisis. The management also stated that business related to oil sector will find this a difficult year while medical technologies and telecom segments should do well. We value the stock at an exit P/E of 13.5x, to arrive at a target price of Rs 1,227 per share. **We downgrade our rating to Accumulate from Buy earlier.**

YE March (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%	14
FY20	56,191	11,105	8,224	77.9	19.76%	29.63%	14
FY21E	60,719	11,647	8,653	80.8	19.18%	24.72%	13
FY22E	68,415	13,752	9,874	90.9	20.10%	22.84%	12

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

## Q4 FY20 - Quarterly Performance (Consolidated)

Particulars (in Rs million)	Q4FY20	Q4FY19	Y-o-Y	Q3FY20	Q-o-Q
Revenue (USD)	194	191	1.6%	199	-2.5%
Net Revenue	14,466	13,431	7.7%	14,229	1.7%
Employee cost	8,415	7,837	7.4%	8,303	1.3%
Other Expenses	3,368	3,102	8.6%	3,063	10.0%
EBITDA	2,683	2,492	7.7%	2,863	-6.3%
EBITDA margin %	18.5%	18.6%	-1bps	20.1%	-157bps
Other Income	614	337	82.2%	443	38.6%
Depreciation	485	273	77.7%	472	2.8%
EBIT	2,812	2,556	10.0%	2,834	-0.8%
EBIT margin %	19.4%	19.0%	41bps	19.9%	-48bps
Finance costs	94	5	1780.0%	89	5.6%
Change in contingent consideration-acquisition	-	11	-	-	-
Exceptional Item	-	-	-	-	-
PBT	2,718	2,540	7.0%	2,745	-1.0%
Tax Expense	655	616	6.3%	687	-4.7%
Effective tax rate %	24.1%	24.3%	-15bps	25.0%	-93bps
PAT	2,063	1,924	7.2%	2,058	0.2%
Extraordinary Items (Net of tax expense)	-	-	-	-	-
Reported PAT	2,063	1,924	7.2%	2,058	0.2%
PAT margin %	14.3%	14.3%	-6bps	14.5%	-20bps
EPS (Rs)	19.4	18.1	7.0%	19.3	0.3%

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

## Q4FY20 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 USD 30 mn plus. On a YoY basis, LTTS has increased its USD 20 mn+ clients by 3 and its USD 10 mn+ clients by 5.
- The management stated that there may be a few quarters where it may face difficulties on the revenue front because of the unprecedented crisis, but declined to give any specific guidance for FY21.
- Management said that many clients have sought furloughs because of liquidity issues they have been facing, but underlined that the company looks at the period of turbulence as an opportunity.
- Company has mentioned over 93% of the company's 17,000-strong staff is working from home since the crisis set in March, and the company will look at continuing with the practice for some of them even after the crisis ends.
- For some staffers, lab interaction is the only issue with work from home, and the company is looking at ways of working around that.
- The business related to oil sector will find it a difficult year while medical technologies and telecom should do well.
- The company had over Rs 800 crore in cash as on March 31, will also look at mergers and acquisitions
- **Employee:** The company added 96 employees during the quarter to take its total strength to 16,883 people and will continue to do away with low performers, Mr. Panda said, stressing that any removals will not be linked to COVID-19. Company plans to go ahead with hiring young engineers from campuses.
- Project ramp-up delay, follow and pause request, specially in Transportation and Industrial Product segment have already been indicated in March Concall.
- Secondly in Plant Engineering, company faced abrupt product closure from the second week of March till last week in the oil and gas segment due to collapse in oil prices.

## Key Financials

### Income Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
<b>Revenue (CC Terms) (Mn USD)</b>	723	786	835	902
<b>Growth (%)</b>	24.6%	8.7%	6.2%	8.0%
<b>Revenues</b>	50,783	56,191	60,719	68,415
<i>Change (%)</i>	35.5%	10.6%	8.1%	12.7%
Employee Costs	30,318	32,916	35,714	38,928
Other Expenses	11,307	12,170	13,358	15,736
<b>Total Expenses</b>	41,625	45,086	49,072	54,664
<b>EBITDA</b>	9,158	11,105	11,647	13,752
Other Income	2,228	2,091	2,133	2,175
Depreciation	1,042	1,829	2,060	2,557
Interest	19	365	158	174
<b>PBT</b>	<b>10,325</b>	<b>11,002</b>	<b>11,563</b>	<b>13,196</b>
Tax	2,630	2,778	2,910	3,321
<i>Rate (%)</i>	25.5%	25.3%	25.2%	25.2%
<b>PAT</b>	<b>7,695</b>	<b>8,224</b>	<b>8,653</b>	<b>9,874</b>
<b>Consolidated PAT</b>	<b>7,695</b>	<b>8,224</b>	<b>8,653</b>	<b>9,874</b>
<i>Change (%)</i>	50.3%	6.9%	5.2%	14.1%

### Key Ratios

Year End-March	FY19	FY20E	FY21E	FY22E
<b>Per Share (Rs)</b>				
EPS	73.9	77.9	80.8	90.9
CEPS	83.9	95.2	100.0	114.4
BVPS	1193	1328	1675	2069
DPS	21.0	13.5	13.5	13.5
<b>Valuation (x)</b>				
P/E	14	14	13	12
P/CEPS	13	11	11	9
P/BV	4	4	3	3
EV/EBITDA	12	10	9	7
<b>Return Ratio (%)</b>				
EBIDTA Margin	18.0%	19.8%	19.2%	20.1%
PAT Margin	15.1%	14.6%	14.3%	14.4%
ROE	31.0%	29.6%	24.7%	22.8%
ROCE	24.3%	25.0%	20.5%	19.4%
Dividend Yield	2.0%	1.3%	1.3%	1.3%
<b>Leverage Ratio (%)</b>				
Net Debt/Equity (x)	-0.1	-0.1	-0.2	-0.3
Net Debt/EBITDA (x)	-0.1	-0.2	-0.7	-0.8
<b>Turnover Ratios</b>				
Asset Turnover (x)	37.7	31.7	26.8	25.6
Receivable Days	73	79	79	79
Payable days	13	12	12	12

### 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	34,725	42,963
Non-controlling interest	31	69	69	69
<b>Net Worth</b>	<b>24,822</b>	<b>27,755</b>	<b>35,003</b>	<b>43,241</b>
<b>Non-Current liabilities</b>				
<b>Lease liability</b>		3,961	3,961	3,961
Other financial liabilities	60	1,622	50	57
Deferred tax liabilities (net)	134	0	95	124
Short-term borrowings	702	303	327	369
Trade payables	1,879	1,975	2,190	2,554
Other financial liabilities	2,750	3,059	3,013	3,068
Other current liabilities	1,899	2,376	2,567	2,893
Provisions	1,341	1,654	1,787	2,014
Current tax liabilities (net)	56	328	0	0
Total Current liabilities	8,627	9,695	9,885	10,899
<b>Total liabilities</b>	<b>8,821</b>	<b>15,278</b>	<b>13,991</b>	<b>15,041</b>
<b>Total Equity and liabilities</b>	<b>33,643</b>	<b>43,033</b>	<b>48,994</b>	<b>58,282</b>
<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	894	1,007
Deferred tax assets (net)	126	311	336	379
Other non-current assets	635	661	674	688
<b>Total Non-current Assets</b>	<b>9,923</b>	<b>13,931</b>	<b>13,827</b>	<b>14,757</b>
<b>Current Assets</b>				
Investments	5,749	6,110	6,602	7,439
Trade receivables	10,643	13,807	12,842	17,185
Cash and cash equivalents	2,048	2,179	8,976	11,308
Other bank balances	3	260	66	66
Loans	0	1	1	1
Other financial assets	1,541	1,730	1,822	2,052
Other current assets	3,736	5,015	4,858	5,473
Total current assets	23,720	29,102	35,167	43,525
<b>TOTAL ASSETS</b>	<b>33,643</b>	<b>43,033</b>	<b>48,994</b>	<b>58,282</b>

### Cash Flow Statement (Rs Mn)

Year End-March	FY19	FY20E	FY21E	FY22E
Net Profit before Tax	10,314	11,002	11,563	13,196
<b>Adjustments:</b>				
Depreciation	1,042	1,829	2,060	2,557
Finance Costs	19	365	158	174
Interest and Dividend received	49	-934	-199	-224
<b>Operating Profit before WC Changes</b>	<b>11,424</b>	<b>12,262</b>	<b>13,581</b>	<b>15,703</b>
<b>Adjustments to WC</b>				
Operating Profit after WC Changes	10,870	8,500	14,761	11,726
Direct Taxes Paid & Exceptional Items	-2,808	-2,119	-2,910	-3,321
<b>Cash Flow from Operating Activities</b>	<b>8,062</b>	<b>6,381</b>	<b>11,851</b>	<b>8,404</b>
<b>Cash Flow from Investing Activities</b>	<b>-5,093</b>	<b>-2,222</b>	<b>-3,238</b>	<b>-4,065</b>
<b>Cash Flow from Financing Activities</b>	<b>-2,454</b>	<b>-4,060</b>	<b>-1,770</b>	<b>-2,007</b>
Net Change in Cash & Cash Equivalents	515	99	6,843	2,332
Opening Cash & Cash Equivalents	1,519	2,034	2,133	8,976
Closing Cash & Cash Equivalents	2034	2133	8976	11308

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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