

**CMP: INR 2797**

**Rating: Reduce**

**Target Price: INR 2,514**

**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)	2,79,087
52w H/L (INR)	2,749 / 995
Avg Yearly Vol (in 000')	238

**Shareholding Pattern %**

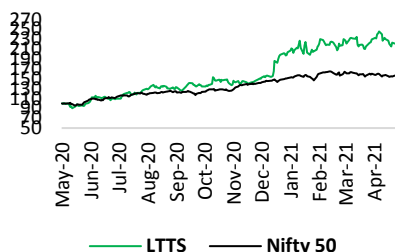
(As on March, 2021)

Promoters	74.24
FII	9.06
DII	6.36
Public & Others	10.34

**Stock Performance (%)**

	3m	6m	12m
LTTS	51.9	88.4	63.2
Nifty	-0.86	24.12	48.71

**LTTS Vs Nifty**



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L&T Technology has reported a weak set of numbers in Q4FY21. consolidated revenue, EBITDA and PAT stood below our estimates. while Revenue (cc) above with our estimates. Consolidated revenue stood at INR 14,405 Mn, below our estimates of INR 15,610 Mn registering growth of +1.1% YoY/3.9% QoQ. USD Revenue (cc) stood at \$197.5 Mn against our estimates of \$ 192 Mn registering growth of 1.1%YoY/3.9% QoQ. EBITDA stood at INR 2,931 Mn, below our estimate of INR 3,591 Mn, registering growth of +9.2%YoY/6.3%QoQ. On the margins front, EBITDA margin was up by 180bps YoY/67bps QoQ to 20.3%, against our estimates 446bps YoY. Consolidated PAT saw a decrease of 5.3%YoY/4.5% QoQ to INR 1,953 Mn vs below our estimate of INR 2,690 Mn. Board has recommended a final dividend of INR 14.50 per share.

**Vertical Commentary**

- **Transportation** There is demand traction in auto and trucks & off highways segments in both new and traditional spend areas as clients look to optimize R&D costs and transition to autonomous, connected and electrification technologies which require high digital engineering work. In aerospace, defense segment is performing well. Demand is slowly picking up on commercial aerospace especially on the digital side
- **Plant Engineering** growth in 4QFY21 was aided by early ramp up of US\$100 mn mega deal. Sustainance engineering is a key area of demand. Capex is slowly opening up in oil & gas segment. Several large deal opportunities exist across regions and sub-segments.
- **Industrial products** there is demand in both digital and traditional areas. LTTS expects growth momentum to strengthen from 1QFY22
- **Medical Devices**, Covid slowed down decision making in diagnostic devices segment leading to lower than expected growth. In addition ramp up of a large deal won in 3QFY21 was delayed. LTTS expects growth acceleration from 2QFY22 onwards as large deal momentum improves.
- **Digital engineering**. Digital engineering revenues increased to 52% of the total mix from 49% in 3QFY21.

**Valuations**

Management mentioned that ER&D spends remain strong across all verticals. Decision making is also faster as compared to last three quarters. We continue to remain bullish on this space and are expected that broad based growth will be strong in FY22. The stock had a nice run in the past three months which may limit near term upsides.

At CMP of INR 2797, LTTS is trading at FY23E P/E of 27.8x. to its EPS of INR 100.6. We value LTTS at P/E of 25x to its FY23E EPS 100.6, which yields a target price of INR 2,514 per share. **We downgraded our rating on the stock from Hold to reduce.**

YE March (INR Mn)	Net Sales	EBITDA	Adjusted PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	50,783	9,158	7,667	73.6	18.0%	31.0%	38.0
FY20	56,191	11,105	8,186	77.5	19.8%	29.6%	36.1
FY21	54,497	10,074	6,633	62.9	18.5%	19.1%	44.5
FY22E	61,023	11,151	8,091	74.4	18.3%	20.0%	37.6
FY23E	67,511	13,135	11,086	100.6	19.5%	22.4%	27.8

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

## Q4 FY21 - Quarterly Performance (Consolidated)

Consolidated (in INR million)	Q4FY21	Q3FY21	Q4FY20	Y-o-Y	Q-o-Q
Revenue (USD)	198	190	195	1.1%	3.9%
Net Revenue	14,405	14,007	14,466	-0.4%	2.8%
Employee cost	8,496	8,556	8,401	1.1%	-0.7%
Other Expenses	2,978	2,695	3,382	-11.9%	10.5%
EBITDA	2,931	2,756	2,683	9.2%	6.3%
EBITDA margin %	20.3%	19.7%	18.5%	180bps	67bps
Other Income	346	488	614	-43.6%	-29.1%
Depreciation	540	624	485	11.3%	-13.5%
EBIT	2,737	2,620	2,812	-2.7%	4.5%
EBIT margin %	18.7%	18.7%	19.4%	-73bps	0bps
Finance costs	125	114	94	33.0%	9.6%
PBT	2,612	2,506	2,718	-3.9%	4.2%
Tax Expense	659	637	655	0.6%	3.5%
Effective tax rate %	25.2%	25.4%	24.1%	113bps	-19bps
PAT	1,953	1,869	2,063	-5.3%	4.5%
Extraordinary Items (Net of tax expense)	-	-	-		
Reported PAT	1,953	1,869	2,063	-5.3%	4.5%
PAT margin %	13.6%	13.3%	14.3%	-70bps	21bps
Minority Interest	-8	-8	-16		
PAT (After MI)	1,945	1,861	2,047	-5.0%	4.5%
EPS (Rs)	18.4	17.6	19.4		

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

#### Q4 FY21 Concall Highlights

**Opening remarks:** Revenue is back on positive YoY growth path and achieved sequential growth revenue 3.9%QoQ equally important all 5 segments grew sequentially. Operationally good performance EBIT margin 16.6% which like company revenue better than pre-covid Q4FY20 level. Continue to generate good free cashflow driven to record high INR 1252 cr in FY21 led by good improvement operational collection movement. Large Deal conversion pipeline remain robust in Q4FY21 7 deals across all segment 2 deals more than TCV USD25 million deals and 4 deals 10-15mn range.

**Annual Performance:** Top Q1 and filled back to Q2 and deliver 3 consecutive quarter both revenue and margin improvement. FY21 dollar revenue down 6.3% which, is better than what company has guided in Q1FY21 was decline of 9-10%. Company is focusing closing large deals and strategic partnership.

**On geographical front,** US spend is coming back to pre-covid level so growth is expected to be strong next year, Europe there is strength in few pockets, Japan and India in terms of spend decision is slow.

**Client Matric:** Companies report client metrics on ttm basis. Impact of Covid showed up fully in March 2021 quarter. Deterioration has been sharp, highlighting the project oriented nature of business. No client billed above US\$30 mn, down from two in FY2020. The number of clients that were billed more than US\$20 mn declined to three from eight in the previous year. LTTs has been hit hard due to high exposure to asset heavy industries.

**Total headcount** for the quarter stands at 16452 vs YoY 16883. Management indicates of adding 1000 freshers next year.

**Export incentive** scheme. LTTs did not report export incentive income in 4QFY21 since the claims were yet to be processed by the government. At present there is no clarity on whether the export incentive scheme will continue going forward.

**Top accounts.** Top 5, top 10 and top 20 accounts grew on sequential basis in line with company growth of 3.8% qoq. The decline in percentage contribution to revenues is due to reporting on trailing twelve month basis.

**EBIT Margin trajectory:** Margin levers. Margin levers are (1) utilization, (2) offshore mix, (3) pyramid which was impacted due to weak fresher hiring in 1HFY21 and (4) productivity improvements. There are other levers. LTTs is focused on improving segmental margins in telecom and hi-tech and transportation verticals and pushing for higher growth in higher margin verticals such as medical devices, industrial products and plant engineering. Rupee depreciation will also help.

**Guidance:** Revenue dollar guidance 13-15% growth for FY22. Deal pipeline is strong across all segments.

Operational Performance								
Revenue by Vertical	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Transportation	34.9%	35.0%	35.8%	35.7%	31.5%	32%	30.40%	31.20%
Industrial Products	19.6%	19.4%	19.2%	19.4%	19.4%	20%	19.30%	18.9%
Telecom & Hi-tech	22.3%	20.6%	18.5%	18.7%	22.4%	21%	22.90%	22.10%
Plant Engineering	15.3%	16.2%	17.2%	16.0%	13.8%	14%	14.70%	15.50%
Medical Devices	8.0%	8.8%	9.4%	10.3%	12.8%	13%	12.70%	12.30%
<b>Segment revenue</b>								
Transportation	4699	4902	5094	5168	4080	4134	4261	4492
Plant Engineering	2062	2275	2444	2318	1792	1887	2055	2239
Industrial Products	2640	2714	2724	2785	2512	2569	2706	2717
Medical Devices	1073	1231	1340	1469	1659	1745	1780	1773
Telecom& Hitech	3001	2899	2627	2726	2904	2803	3205	3184
<b>Total</b>	<b>13475</b>	<b>14021</b>	<b>14229</b>	<b>14466</b>	<b>12947</b>	<b>13138</b>	<b>14007</b>	<b>14405</b>
<b>Revenue by Geography</b>								
North America	60.9%	61.7%	61.2%	61.20%	61.2%	60%	61.20%	61.50%
Europe	15.6%	14.4%	14.4%	16.70%	16.0%	16%	16.10%	16.70%
India	12.8%	13.1%	13.1%	12.80%	13.0%	14%	13.90%	13.10%
Rest of the World	10.7%	10.7%	10.7%	9.20%	9.8%	10%	8.80%	8.80%
<b>Revenue Mix</b>								
Onsite	44.3%	43.8%	44.0%	47.10%	48.3%	45%	42.90%	42.10%
Offshore	55.7%	56.2%	56.0%	52.90%	51.7%	55%	57.10%	57.90%
<b>Revenue by Project Type</b>								
Fixed Price	42.4%	41.8%	42.7%	38.60%	38.5%	40%	38.50%	36.10%
Time and Material	57.6%	58.2%	57.3%	61.40%	61.5%	60%	61.50%	63.90%
<b>Client Profile *</b>								
Client Detail	7	1	6	5	0	0	0	0
Number of Active Clients	258	259	265	270	270	283	296	306
50 Million dollar +	1	1	0	0	0	0	0	0
30 Million dollar +	3	3	3	2	1	1	1	0
20 Million dollar +	5	7	7	8	4	5	4	3
10 Million dollar +	17	17	20	21	22	20	18	20
5 Million dollar +	44	42	43	43	43	44	41	39
1 Million dollar +	110	106	107	113	113	116	118	122
<b>Client Contribution to Revenue</b>								
Top 5 Clients	24.7%	22.9%	21.1%	19.2%	17.8%	17.00%	16.30%	16.10%
Top 10 Clients	36.7%	35.7%	33.9%	31.8%	29.7%	28.30%	27.30%	26.90%
Top 20 Clients	52.5%	51.3%	49.8%	48.5%	46.8%	44.90%	44.00%	43.80%
<b>Utilisation</b>								
Including Trainees	79.6%	77.8%	79.2%	78.1%	70.9%	75.40%	77.50%	78.90%
<b>Employee Statistics</b>								
Total Headcount	15913	16789	16787	16883	16641	15902	16069	16452
Bilable (as per number of employee)	14755	15614	15604	15667	15481	14778	14975	15335
Sales & Support	1158	1175	1183	1216	1160	1124	1094	1117
Voluntary Attrition % (LTM)	15.8%	13.4%	13.9%	13.8%	11.4%	10.8%	10.7%	12.2%
<b>Exchange Rate (USD/INR)</b>								
Period Realised \$	69.48	70.92	71.41	74.05	75.71	73.79	73.69	72.96

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

## Key Financials

### Income Statement (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
<b>Revenue (CC Terms) (Mn USD)</b>	723	786	737	837	925
<b>Growth (%)</b>	24.6%	8.7%	-6.3%	13.7%	10.5%
<b>Revenues</b>	50,783	56,191	54,497	61,023	67,511
<i>Change (%)</i>	35.5%	10.6%	-3.0%	12.0%	10.6%
<b>Employee Costs</b>	30,318	32,916	33,550	36,570	39,861
<b>Other Expenses</b>	11,307	12,170	10,873	13,303	14,515
<b>Total Expenses</b>	41,625	45,086	44,423	49,873	54,376
<b>EBITDA</b>	9,158	11,105	10,074	11,151	13,135
<b>Other Income</b>	2,228	2,091	1,537	2,306	4,150
<b>Depreciation</b>	1,042	1,829	2,183	2,232	2,066
<b>Interest</b>	19	365	455	365	355
<b>PBT</b>	<b>10,325</b>	<b>11,002</b>	<b>8,973</b>	<b>10,859</b>	<b>14,864</b>
<b>Tax</b>	2,630	2,778	2,308	2,736	3,746
<i>Rate (%)</i>	25.5%	25.3%	25.7%	25.2%	25.2%
<b>PAT</b>	<b>7,695</b>	<b>8,224</b>	<b>6,665</b>	<b>8,123</b>	<b>11,118</b>
<b>Minority Interest</b>	<b>28</b>	<b>38</b>	<b>32</b>	<b>32</b>	<b>32</b>
<b>Adjusted PAT</b>	<b>7,667</b>	<b>8,186</b>	<b>6,633</b>	<b>8,091</b>	<b>11,086</b>
<i>Change (%)</i>	49.7%	6.8%	-19.0%	22.0%	37.0%

### Cash Flow Statement (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
<b>Net Profit before Tax</b>	10,314	11,002	8,973	10,859	14,864
<b>Adjustments:</b>					
Depreciation	1,042	1,829	2,183	2,232	2,066
Finance Costs	19	365	455	365	355
Interest and Dividend received	49	-934	-40	-224	-248
<b>Operating Profit before WC Changes</b>	<b>11,424</b>	<b>12,262</b>	<b>11,571</b>	<b>13,232</b>	<b>17,038</b>
<b>Operating Profit after WC Changes</b>	<b>10,870</b>	<b>8,500</b>	<b>15,796</b>	<b>10,266</b>	<b>17,976</b>
Direct Taxes Paid & Exceptional Items	-2,808	-2,119	-2,523	-2,736	-3,746
<b>Cash Flow from Operating Activities</b>	<b>8,062</b>	<b>6,381</b>	<b>13,273</b>	<b>7,530</b>	<b>14,231</b>
<b>Cash Flow from Investing Activities</b>	<b>-5,093</b>	<b>-2,222</b>	<b>-10,054</b>	<b>-3,530</b>	<b>-4,418</b>
<b>Cash Flow from Financing Activities</b>	<b>-2,454</b>	<b>-4,060</b>	<b>-3,627</b>	<b>-2,333</b>	<b>-7,372</b>
<b>Net Change in Cash &amp; Cash Equivalents</b>	<b>515</b>	<b>99</b>	<b>-408</b>	<b>1,667</b>	<b>2,441</b>
Opening Cash & Cash Equivalents	1,519	2,034	2,133	1,725	3,392
Closing Cash & Cash Equivalents	2034	2133	1725	3392	5833

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

### Balance Sheet (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
<b>Sources of Funds</b>					
Share Capital	208	209	210	210	210
Reserves & Surplus	24,583	27,477	34,521	40,394	49,263
Non-controlling interest	31	69	101	101	101
<b>Net Worth</b>	<b>24,822</b>	<b>27,755</b>	<b>34,832</b>	<b>40,705</b>	<b>49,574</b>
<b>Non-Current liabilities</b>					
<b>Lease liability</b>		3,961	4,805	4,805	4,805
Other financial liabilities	60	1,622	322	49	54
Deferred tax liabilities (net)	134	0	578	111	104
Short-term borrowings	702	303	0	0	0
Trade payables	1,879	1,975	2,286	2,493	3,346
Other financial liabilities	2,750	3,059	2,827	3,614	3,512
Other current liabilities	1,899	2,376	2,958	3,312	3,664
Provisions	1,341	1,654	1,584	1,774	1,962
Current tax liabilities (net)	56	328	471	471	471
<b>Total Current liabilities</b>	<b>8,627</b>	<b>9,695</b>	<b>10,126</b>	<b>11,664</b>	<b>12,955</b>
<b>Total liabilities</b>	<b>8,821</b>	<b>15,278</b>	<b>15,831</b>	<b>16,629</b>	<b>17,919</b>
<b>Total Equity and liabilities</b>	<b>33,643</b>	<b>43,033</b>	<b>50,729</b>	<b>57,400</b>	<b>63,543</b>
<b>Assets</b>					
<b>Non-Current assets</b>					
Fixed Assets	7,800	11,822	12,943	11,716	11,611
Goodwill on consolidation	0	0	0	0	0
Investments		310			
Financial assets	1,362	827	1,644	1,841	2,037
Deferred tax assets (net)	126	311	67	75	83
Other non-current assets	635	661	1,049	1,574	2,832
<b>Total Non-current Assets</b>	<b>9,923</b>	<b>13,931</b>	<b>15,703</b>	<b>15,206</b>	<b>16,563</b>
<b>Current Assets</b>					
Investments	5,749	6,110	15,149	16,963	18,767
Trade receivables	10,643	13,807	12,346	15,454	15,301
Cash and cash equivalents	2,048	2,179	1,751	3,392	5,833
Other bank balances	3	260	576	576	576
Loans	0	0	0	0	0
Other financial assets	1,541	1,731	1,685	1,869	2,025
Other current assets	3,736	5,015	3,519	3,940	4,359
<b>Total current assets</b>	<b>23,720</b>	<b>29,102</b>	<b>35,026</b>	<b>42,194</b>	<b>46,862</b>
<b>TOTAL ASSETS</b>	<b>33,643</b>	<b>43,033</b>	<b>50,729</b>	<b>57,400</b>	<b>63,544</b>

### Key Ratios

Year End-March	FY19	FY20	FY21	FY22E	FY23E
<b>Per Share (Rs)</b>					
EPS	73.6	77.5	62.9	74.4	100.6
CEPS	83.9	95.2	82.6	95.3	119.6
BVPS	1193	1328	1659	1938	2361
DPS	21.0	13.5	21.5	21.0	21.0
<b>Valuation (x)</b>					
P/E	38	36	44	38	28
P/CEPS	33	29	34	29	23
P/BV	12	10	8	7	6
EV/EBITDA	32	26	29	26	22
<b>Return Ratio (%)</b>					
EBITDA Margin	18.0%	19.8%	18.5%	18.3%	19.5%
PAT Margin	15.1%	14.6%	12.2%	13.3%	16.5%
ROE	31.0%	29.6%	19.1%	20.0%	22.4%
ROCE	24.3%	25.0%	16.8%	16.4%	16.7%
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	-0.4
<b>Turnover Ratios</b>					
Asset Turnover (x)	37.7	31.7	26.2	34.3	41.8
Receivable Days	73	79	88	82	82
Payable days	13	12	14	14	14

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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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