

L&T Technologies Services

In-line Q3; vertical-specific strain stays

Furloughs led to soft growth, in line with our expectations

L&T Technologies' (LTTTS IN) Q3 results saw revenue largely in line and a mild beat on operating margin. Revenue at USD 290.7mn was as estimated and ~1.4% below consensus estimate of USD 295mn. In CC terms, revenue grew 0.9% QoQ versus our estimate of 1%. EBIT margin at 17.2% was in line with the Street and 30bps ahead of our estimates. Overall softness in Q3 growth was on account of higher furloughs and seasonal weakness. However, expect Q4 to be the quarter to see bounce-back on account of SWC's (subsidiary company) seasonality strength, minimal furloughs and higher working days. Deals were steady with six large deals in Q3 (seven in Q2), but highly concentrated in Transportation (three out of six), led by SDV growth.

Steep ask rate for Q4 as FY24 growth guidance maintained

LTTTS has maintained its FY24 revenue growth guidance at 17.5-18.5% in CC. This has led to a steep ask rate for Q4 at 4.2-8%. The management is optimistic led by demand in Transportation, Plant Engineering and Medical verticals but strain pertains in Hi-Tech and Industrial Products (barring Oil & Gas clients).

Macro headwinds sustain uncertainty; maintain Sell, new TP INR 4,240

Structural challenges continue for LTTTS (refer "[Engineering R&D – Arrived and all agog...](#)" dated 14 October 2023). Industrial Products, Medical and Telecom/Hi-Tech may see strain, offsetting robust growth from Transportation/Process Engineering. Necessary investments in technologies (SDV, AI, next-gen communication and cybersecurity) to harness future growth will keep the margin range-bound (17-18% till FY25E).

Q3 was largely as expected. We up FY25E/26E earnings estimates 1% each to factor in strong rebound in Q4 and better macro demand outlook in FY25. But we continue with 'below-than-consensus' estimates. Expect USD revenue/EBIT/EPS CAGRs of 14.3%/~12.7%/~12% in FY23-26E. We maintain SELL and raise our TP to INR 4,240 (from earlier 4,050), on 28x (five-year average) Dec-25E EPS of INR 151.

Rating: Sell

Target Price: INR 4,240

Downside: 21%

CMP: INR 5,350 (as on 16 January 2024)

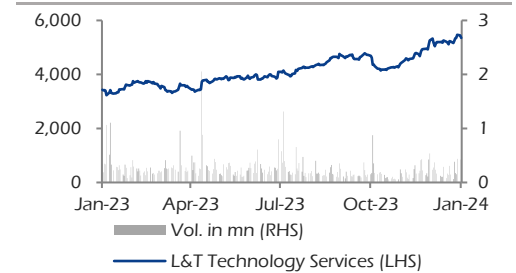
Key data*

Bloomberg/Reuters Code	LTTTS IN/LTEH.BO
Current/Dil. Shares O/S (mn)	106/106
Mkt Cap (INR bn/USD mn)	566/6,806
Daily Volume (3M NSE Avg)	184,668
Face Value (INR)	2

1 USD = INR 83.1

Note: *as on 16 January 2024; Source: Bloomberg

Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	73.9	73.8	73.8	73.8
Institutional Investors	15.3	15.9	16.9	17.2
Other Investors	2.3	2.1	1.9	1.9
General Public	8.5	8.2	7.5	7.1

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	11.7	12.6	23.1
L&T Technologies	14.1	30.6	55.9

Source: Bloomberg

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenues(USD mn)	290.7	255.0	14.0	288.1	0.9
Revenue	24,218	20,962	15.5	23,865	1.5
Operating expenditure	19,341	16,470	17.4	19,109	1.2
EBITDA	4,877	4,492	8.6	4,756	2.5
Depreciation	715	565	26.5	681	5.0
EBIT	4,162	3,927	6.0	4,075	2.1
PBT	4,655	4,319	7.8	4,361	6.7
Total tax	1,287	1,210	6.4	1,202	7.1
Adjusted PAT	3,368	3,109	8.3	3,159	6.6
Reported EPS	31.8	29.3	8.5	29.8	6.6

Key Financials

YE	Revenue (INR bn)	YoY (%)	EBITDA (INR bn)	EBITDA Margin (%)	Adj PAT (INR bn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
March	80.1	22.0	17.11	21.3	11.7	22.2%	110	25.7	19.6	48.5	32.8
FY23	80.1	22.0	17.11	21.3	11.7	22.2%	110	25.7	19.6	48.5	32.8
FY24E	96.2	20.1	19.22	20.0	13.1	11.8%	123	25.5	20.5	43.4	28.9
FY25E	108.6	12.9	22.08	20.3	14.7	12.1%	139	24.8	19.2	38.5	24.8
FY26E	122.8	13.1	24.80	20.2	16.4	11.3%	155	22.4	17.9	34.6	21.7

Note: Pricing as on 16 January 2024; Source: Company, Elara Securities Estimate

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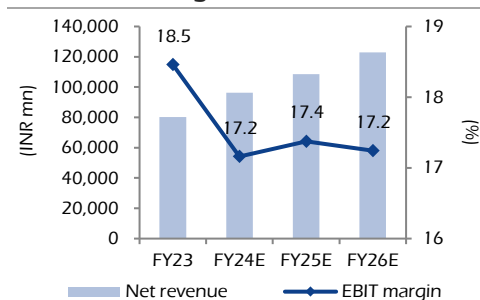
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Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Net Revenues	80,136	96,225	108,598	122,801
EBITDA	17,107	19,225	22,077	24,799
Less :- Depreciation & Amortization	2,314	2,712	3,206	3,626
EBIT	14,793	16,513	18,871	21,174
Add:- Non operating Income	1,645	1,629	1,476	1,476
PBT	16,438	18,142	20,347	22,650
Less :- Taxes	4,697	5,010	5,625	6,262
Add/(Less): Associates/(Minorities)	44	78	0	0
Adjusted PAT	11,741	13,132	14,721	16,388
Reported PAT	11,741	13,132	14,721	16,388
Balance Sheet (INR mn)	FY23	FY24E	FY24E	FY24E
Share Capital	211	211	211	211
Reserves	49,298	52,798	65,719	80,306
Minority Interest	180	201	201	201
Other Liabilities	4,345	5,098	5,098	5,098
Total Liabilities	54,034	58,308	71,229	85,816
Gross Block	15,318	18,254	18,752	19,176
Less:- Accumulated Depreciation	2,314	2,712	3,206	3,626
Net Block	13,004	15,542	15,546	15,550
Investments	22,840	14,125	14,125	14,125
Cash & cash equivalents	10,096	16,343	24,766	34,207
Net Working Capital	5,087	8,625	13,118	18,261
Other Assets	3,007	3,673	3,673	3,673
Total Assets	54,034	58,308	71,229	85,816
Cash Flow Statement (INR mn)	FY23	FY24E	FY24E	FY24E
Cash profit adjusted for non-cash items	17,063	19,147	22,077	24,799
Add/Less : Working Capital Changes	3,715	(3,538)	(4,494)	(5,143)
Operating Cash Flow	16,081	10,599	11,958	13,395
Less:- Capex	(2,392)	(5,250)	(3,210)	(3,630)
Free Cash Flow to Firm	13,689	5,349	8,748	9,765
Financing Cash Flow	(5,219)	(9,288)	(2,325)	(2,325)
Investing Cash Flow	(7,508)	4,936	(1,210)	(1,630)
Net change in Cash	3,354	6,247	8,423	9,441
Ratio Analysis	FY23	FY24E	FY24E	FY24E
Income Statement Ratios (%)				
Revenue Growth	22.0	20.1	12.9	13.1
EBITDA Growth	20.9	12.4	14.8	12.3
PAT Growth	22.2	11.8	12.1	11.3
EBITDA Margin	21.3	20.0	20.3	20.2
Net Margin	14.7	13.6	13.6	13.3
Return & Liquidity Ratios				
Net Debt/Equity (x)	(0.2)	(0.3)	(0.4)	(0.4)
ROE (%)	25.7	25.5	24.8	22.4
ROCE (%)	19.6	20.5	19.2	17.9
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	110.3	123.1	138.9	154.6
EPS Growth (%)	21.3	11.6	12.8	11.3
Book Value	467.1	500.1	622.0	759.6
DPS (INR/Share)	45.0	43.1	48.6	54.1
P/E Ratio (x)	48.5	43.4	38.5	34.6
EV/EBITDA (x)	32.8	28.9	24.8	21.7
Price/Book (x)	11.5	10.7	8.6	7.0
Dividend Yield (%)	0.02	0.02	0.03	0.03

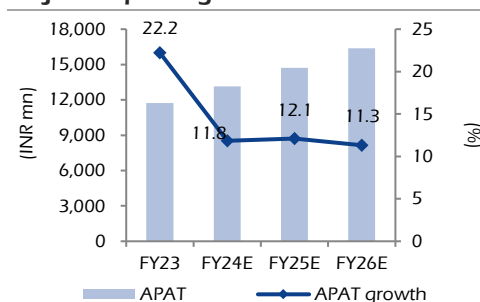
Note: Pricing as on 16 January 2024; Source: Company, Elara Securities Estimate

Revenue & margin trend



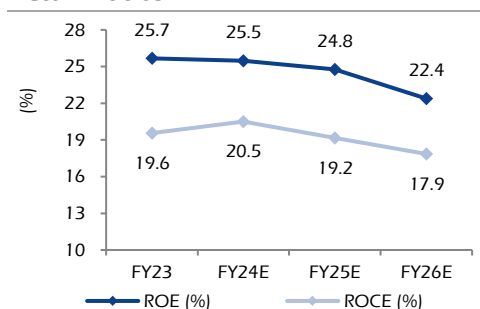
Source: Company, Elara Securities Estimate

Adjusted profit growth trend



Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Conference Call – Takeaways

- **Q3 performance:** LTTS achieved a QoQ EBIT margin of 17.2%, a 10bps rise, with FY24 target margin set at 17%. Attrition at 15.8% dropped 90bps QoQ, and headcount dropped by 582 employees.
- LTTS aims for an 18% EBIT margin by H2FY26, focusing on levers such as productivity improvement, cost optimization, revenue growth and operational rigor, as utilization rate grew 100bps QoQ.
- Top-five accounts improved significantly by 6.3% QoQ. The slowdown was in top 11-20 accounts, which declined 2.3% QoQ.
- In Q3FY24, LTTS filed 51 patents, bringing the cumulative filings to 1,250, up from 1,000 a year ago. LTTS, already in partnerships with NVIDIA, Google, and AWS, has specifically filed 53 patents related to AI. Patent portfolio is at 1,249.
- **Demand outlook:** Consistent demand themes from the previous year are expected to endure in CY24. The broad-based 4-7% QoQ CC ask rate for Q4FY24 is anticipated, with management expressing confidence in meeting at least the lower end of the guidance.
- Clients are emphasizing on distinction between core and contextual spend. Contextual deals benefit LTTS. The rise in cost takeout and value engineering deals are noted, and strong wins anticipated in Q4, with deals in the pipeline up for ramp-up in various sectors.
- LTTS aims for USD 1.5bn revenue run-rate by FY25, foreseeing a faster pick-up in Plant Engineering versus Hi-Tech, and acknowledges the seasonality of SWC in Q4.
- **Segmental outlook:** In transportation, with 0.9% QoQ growth in USD, traction was seen in interiors, connected cars, SDV and additive manufacturing. Automotive and rail are showing progress, with opportunities in avionics. Auto, CV, and aero within Transportation saw client discussions. LTTS is partnering with tier-I OEMs in the US and collaborating with AWS to accelerate SDV initiatives.
- Plant Engineering, up 0.9% QoQ in USD, saw broad-based growth in Oil & Gas and FMCG, with focus on new localized supply chains. Machinery and Power showed strength, while Building Material saw challenges. LTTS is actively working on AI-driven automation, emphasizing on cybersecurity.
- Demand in telecom was reflected in a USD 12mn agreement with a network OEM, emphasizing on promising opportunities in network automation.

Media sector underlined cost reduction and vendor consolidation deals. Hi-Tech saw pressure.

- Medical sector (up 1.9% QoQ in USD) displayed robust growth in digital platforms, complaint handling, and supply chain optimization, with abundant AI-led opportunities,
- **Regional print:** Geographically, Europe led momentum with substantial 6.4% QoQ growth, Growth areas in Europe included Digital Manufacturing for Transportation, Industrial Products and Plant Engineering.
- Talent shortage in Europe is another lever driving growth in the region.
- Telecom, Hi-tech, Semiconductors, and ISV sectors saw challenges in the US, while Medical, Transportation, and Plant Engineering saw traction.
- **Deal wins:** LTTS secured six contracts, each valued at >USD 10 mn. Notable among them were a USD 40mn deal, a USD 20mn deal, and a cybersecurity deal exceeding USD 10mn.
- Empanelment with BP was a key highlight. LTTS seeks to make BP its top-10 client in the next 2-3 years.
- Software defined vehicle (SDV) deals saw robust momentum. In Q3, three out six large deals were from SDV.
- **Miscellaneous:** DSO including unbilled stood at 120 days, flat QoQ, under the target range of 115-125 days for the year.
- Offshore now stands at 58.7%. LTTS aims to take this to 60%.
- LTTS has already trained 2,000 in AI, which places it in the leader's quadrant in data and AI.

Exhibit 1: Valuations

(INR)	
Target P/E (x)	28.0
EPS (Sep-25E ending, INR)	151.3
Target price (Sep-24E, INR)	4,240
Potential return (%)	(21)

Note: Pricing as on 16 January 2024; Source: Elara Securities Estimate

Exhibit 2: Change in estimates

(INR mn)	New			Old			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenues(USD mn)	1,162	1,308	1,480	1,158	1,292	1,461	0.3	1.3	1.3
YoY growth, %	17.4	12.6	13.1	17.0	11.6	13.1			
Revenues	96,225	1,08,598	1,22,801	95,859	1,07,211	1,21,242	0.4	1.3	1.3
EBITDA	19,225	22,077	24,799	19,034	21,689	24,365	1.0	1.8	1.8
EBITDA margin, %	20.0	20.3	20.2	19.9	20.2	20.1			
Net profits	13,054	14,721	16,388	12,741	14,579	16,227	2.5	1.0	1.0
EPS	123	139	155	121	138	154	2.1	0.6	0.6
Revenues(USD mn)	1,162	1,308	1,480	1,158	1,292	1,461	0.3	1.3	1.3
TP (INR)			4,240			4,050			4.7

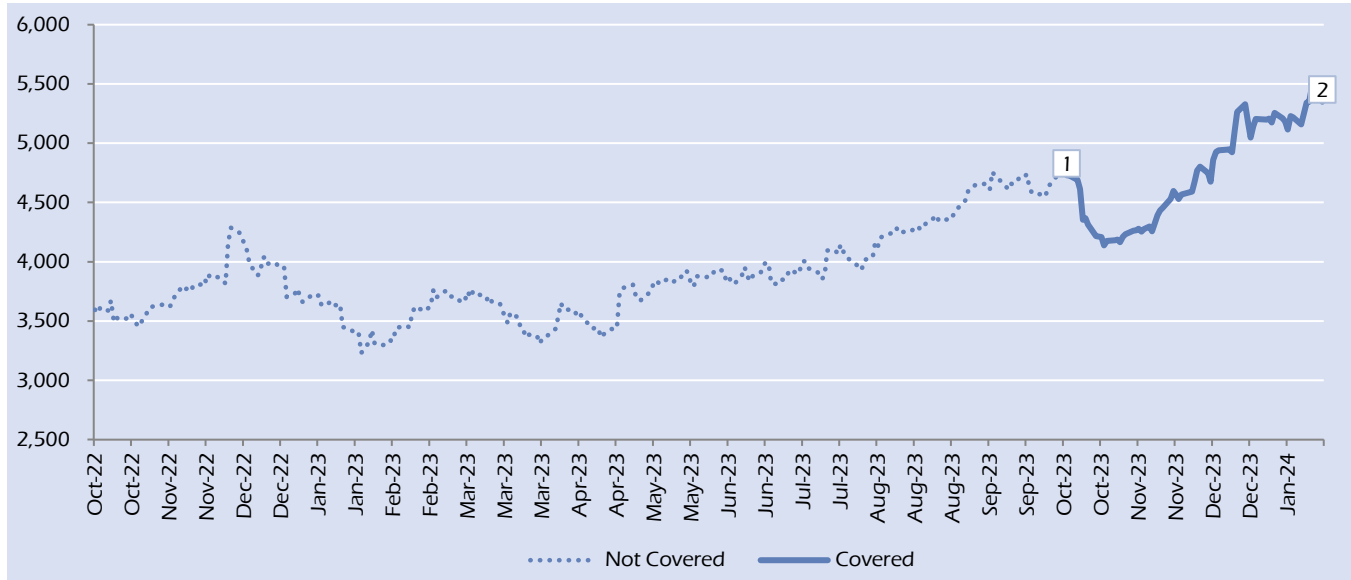
Source: Elara Securities Estimate

Exhibit 3: Valuation summary

	Ticker	Currency	Mcap	Rating	Price	TP	Upside	Turnover ²³	FY23-26E		EV/sales		P/E		Div. yield (%)		ROE (%)	
									Sales CAGR %	EPS CAGR %	FY24E (x)	FY25E (x)	FY24E (x)	FY25E (x)	FY24E	FY25E	FY24E	FY25E
			USD bn		INR	INR	(%)	USD mn										
Large Indian IT services cos.																		
TCS	TCS IN	INR	170	Buy	3,861	4,290	11	27,927	5.8	9.4	5.7	5.3	30.5	28.1	1.3	1.4	47.9	42.9
Infosys	INFO IN	INR	82	Sell	1,632	1,260	(23)	18,212	4.7	6.3	4.1	3.9	27.5	26.2	1.8	1.9	29.4	29.1
Wipro	WPRO IN	INR	31	Reduce	485	450	(7)	11,232	1.9	6.8	2.5	2.3	22.6	20.8	0.4	0.5	12.7	12.3
HCL Technologies	HCLT IN	INR	51	Sell	1,555	1,430	(8)	12,586	8.1	9.2	3.7	3.3	26.8	23.7	2.8	3.2	23.6	25.9
Tech Mahindra	TECHM IN	INR	16	Buy	1,320	1,360	3	6,607	2.8	11.4	2.4	2.2	42.1	20.8	0.9	1.8	9.4	17.3
Tier-1 IT AVG								15,313	4.6	8.6	3.7	3.4	29.9	23.9	1.5	1.8	24.6	25.5
Tier-1 IT Median								12,586	4.7	9.2	3.7	3.3	27.5	23.7	1.3	1.8	23.6	25.9
Mid-sized Indian IT services cos.																		
LTI Mindtree	LTIM IN	INR	22	Buy	6,236	6,220	(0)	4,106	10.9	15.5	4.9	4.3	36.4	29.2	1.1	1.4	28.4	30.4
Mphasis	MPHL IN	INR	6	Accumulate	2,604	2,380	(9)	1,712	4.6	6.3	3.4	3.1	30.0	27.7	1.8	2.0	19.5	19.4
Persistent	PSYS IN	INR	7	Accumulate	7,619	6,180	(19)	1,036	14.0	20.9	5.8	5.0	51.0	41.9	0.6	0.7	23.3	23.4
Coforge	COFORGE IN	INR	5	Buy	6,597	6,230	(6)	1,002	14.0	29.6	4.3	3.7	43.6	31.3	2.3	3.2	25.9	30.5
eclerx	ECLX IN	INR	2	Accumulate	2,750	2,500	(9)	333	11.3	18.9	4.3	3.7	24.9	19.2	0.7	0.9	28.3	32.1
Sonata Software	SSOF IN	INR	3	NR	765	NA	-	897	20.3	20.6	2.4	2.0	40.5	32.3	1.3	1.6	36.7	38.4
Happiest Minds	HAPPSTMN IN	INR	2	NR	935	NA	-	172	17.4	12.8	8.2	6.9	57.0	45.6	0.0	0.0	23.6	23.4
Firstsource solutions	FSOL IN	INR	2	NR	202	NA	-	721	8.1	10.6	2.4	2.2	26.6	21.7	2.1	2.4	15.7	17.9
Birlasoft	BSOFT IN	INR	3	NR	781	NA	-	578	11.1	43.5	3.8	3.4	37.5	31.6	0.7	0.9	21.7	22.5
Zensar Tech	ZENT IN	INR	2	NR	573	NA	-	584	5.9	38.0	2.4	2.2	21.2	20.8	1.4	1.5	19.0	16.9
Intellect design arena	INDA IN	INR	1	NR	854	NA	-	269	14.2	27.8	4.5	4.0	34.2	26.3	0.3	0.4	16.1	17.9
Mastek	MAST IN	INR	1	NR	2,894	NA	-	309	17.6	13.5	3.0	2.6	30.8	23.1	1.0	0.9	16.2	18.9
Mid-size IT AVG								977	12.4	21.5	4.1	3.6	36.1	29.2	1.1	1.3	22.9	24.3
Mid-size IT Median								653	12.6	19.7	4.0	3.5	35.3	28.4	1.1	1.2	22.5	22.9
Indian IT ER&D cos.																		
L&T Tech	LTTS IN	INR	7	Sell	5,350	4,240	(21)	990	14.3	11.9	5.5	5.0	43.4	38.5	0.8	0.9	25.5	24.8
Cyient	CYL IN	INR	3	Buy	2,279	2,500	10	746	14.1	27.0	3.5	3.0	28.1	24.3	1.8	2.1	24.1	24.7
Tata Elxsi	TELX IN	INR	6	Accumulate	8,605	8,490	(1)	390	15.4	14.4	14.4	12.0	65.6	55.8	0.6	0.7	40.3	33.3
KPIT Tech	KPIT IN	INR	5	Buy	1,546	1,480	(4)	418	24.6	37.1	8.6	7.2	73.0	57.3	0.5	0.6	31.4	32.5
Tata technologies	NA	INR	6	NR	1,163	NA	-	532	10.7	13.7	11.0	9.8	83.2	72.6	1.0	1.1	21.0	23.0
Mid-tier IT AVG								615.1	15.8	20.8	8.6	7.4	58.7	49.7	0.9	1.1	28.5	27.7
Mid-tier IT Median								532	14.3	14.4	8.6	7.2	65.6	55.8	0.8	0.9	25.5	24.8
Global peers																		
IBM	IBM US	USD	151	NA	166	NA		60,530	2.5	122.5	3.2	3.1	17.5	16.7	4.0	4.1	36.2	32.3
Accenture	ACN US	USD	238	NA	356	NA		61,594	7.3	10.4	3.5	3.3	29.0	26.6	1.4	1.5	28.2	28.1
Cognizant	CTSH US	USD	39	NA	78	NA		19,428	0.9	7.2	2.0	1.9	17.7	17.0	1.5	1.6	17.0	16.6
Capgemini	CAP FP	EUR	36	NA	194	NA		23,167	4.9	15.3	1.7	1.6	15.2	14.5	1.9	2.0	18.4	18.0
Endava	DAVA US	USD	5	NA	77	NA		871	16.4	20.4	4.3	3.7	36.9	26.7	-	-	14.5	18.4
EPAM	EPAM US	USD	18	NA	308	NA		4,825	0.6	23.1	3.4	3.3	29.9	29.0	-	-	19.0	16.4
Globant	GLOB US	USD	10	NA	236	NA		1,780	17.7	28.5	4.8	4.1	41.4	35.8	-	-	14.1	14.5
NAGARRO SE	NA9 GY	USD	1	NA	91	NA		902	10.4	-5.1	1.6	1.5	20.6	16.8	-	-	32.0	30.5
Global IT AVG								24,599	7.2	32.5	3.3	3.0	26.8	23.8	2.2	2.3	21.1	20.6
Global IT Median								19,428	4.9	20.4	3.4	3.3	29.0	26.6	1.7	1.8	18.4	18.0

Note: Pricing as on 16 January 2024; Bloomberg Consensus for Not Rated companies; Source: Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
1	12-Oct-2023	Sell	INR 4,050	INR 4,728
2	16-Jan-2024	Sell	INR 4,240	INR 5,350

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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