

L&T Technology Services Ltd.

BUY

Choice

Strategic Reorganization and AI-led investments to drive growth

LTTs has reported Q1FY25 revenues at \$295.2mn, down 3.1% QoQ and up 6.1% YoY in CC terms as guided last quarter and due to SWC seasonality. In USD terms, it was down 3.3% QoQ and up 5.4% YoY whereas in INR terms, revenue came at INR24,619mn, down 3.0% QoQ and up 7.0% YoY. During the quarter, LTTs won two USD30mn deals, two USD15mn deals and three deals with TCV of USD10mn. PAT for the quarter came at INR3,136mn, up 0.8% YoY with EPS at INR29.6.

- Mobility grew 6% sequentially and is now a USD400mn+ annual business on a run-rate basis. The strong growth was driven by differentiated presence across EV, SDV and connected car technology. While EV opportunities continue, the spends are shifting to SDVs. Company is accelerating its SDX competencies and building a proprietary framework. In Commercial Vehicles, EV continues to be a strong growth area, while in Aerospace, it is seeing large deal opportunities in avionic equipment development. Management expects the growth momentum in Mobility to continue in the coming quarters. In Hi-tech and Sustainability, new strategy is driving a significant increase in pipeline and large deal discussions gives confidence of a pickup in growth momentum going ahead. Under Sustainability, there is strong growth in the sub-segment plant engineering, led by new Capex projects, spend on plant modernization and digital twins. Company is investing in asset management solutions, in variable speed motors, in drives and controls which is believed to be the next engine of growth for Industrials. Sustainability has bottomed out and shall start picking up growth Q2 onwards. Company sees multiple large deals in play across Telecom, Semicon, ISV, and Medtech which gives confidence of growth for hi-tech rebounding from Q2 onwards.
- LTTs is accelerating investments and innovation focus leading to total of 61 patents being filed across segments in transportation, medical and industrial products. It has collaborated with NVIDIA in medical, AWS for transportation, and Google for multiple segments. Company has started to win AI led deals on the back of solutions in GenAI across Asset Health, software development and digital assistants. In order to prioritize growth, it has made investments in sales and technology under its 'Go Deeper to Scale' strategy.
- Operating (EBIT) margins for the quarter came at 15.6%, down 129bps QoQ and 160bps YoY impacted by revenue seasonality and investments in each segment to accelerate growth. Management identifies margin expansion levers like quality of revenue, off-shoring and pyramid optimization. Margin trajectory in H2 is to be better than H1 and the company has guided for 16% margins for FY25E.

Valuation: With phase one of reorganization and related investments in technology and leadership complete, company reaffirms its aspirations to reach \$1.5bn in annualized revenues by FY25E. Company guides for a 8-10% cc growth (organic) for FY25E under the new strategic reorganization. We upgrade our rating to **BUY** with a revised target price of INR5,380 implying a PE of 33x on FY26E EPS of INR163.

Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (USD Mn.)	880	1,003	1,164	1,266	1,471
Revenue (INR Mn.)	65,697	81,220	96,472	1,05,722	1,23,142
Gross Profit (INR Mn.)	29,192	41,847	47,174	50,159	59,770
EBIT (INR Mn.)	12,005	15,271	16,473	17,145	21,138
EBIT Margin (%)	18.3	17.3	17.1	16.2	17.2
EPS (INR)	91.1	114.8	123.3	131.8	163.0

Source: Company, CEBPL

July 19, 2024

CMP (Rs.)	4,845
Target Price (Rs.)	5,380
Potential Upside (%)	11.0

Company Info

BB Code	LTTs IN EQUITY
ISIN	INE010V01017
Face Value (Rs.)	2.0
52 Week High (Rs.)	5,884.9
52 Week Low (Rs.)	3,910.0
Mkt Cap (Rs bn.)	512.8
Mkt Cap (\$ bn.)	6.1
Shares o/s (Mn.)/Float (%)	105.8/26
FY24 EPS (Rs.)	123.3
FY26E EPS (Rs.)	163.0

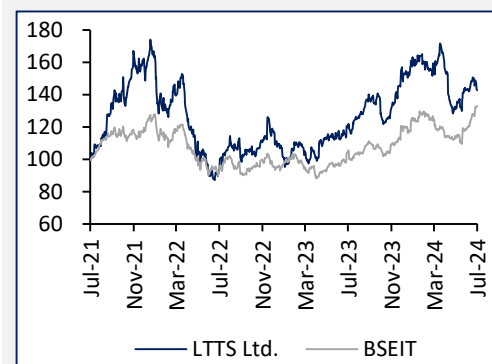
Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	73.69	73.74	73.75
FII's	4.46	5.52	5.63
DII's	13.07	12.09	11.33
Public	8.78	8.65	9.29

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE IT	32.7	43.0	25.9
LTTs	42.7	52.7	19.3

Rebased Price Performance



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Sequential Operating Performance

	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Income Statement						
Revenues (USD Mn.)	255	280	288	291	305	295
Revenues (INR Mn.)	20,962	23,014	23,865	24,218	25,375	24,619
Gross Profit (INR mn.)	9,297	10,863	11,448	11,679	13,184	11,302
Gross Margin (%)	44.4	47.2	48.0	48.2	52.0	45.9
EBIT (INR mn.)	3,927	3,954	4,075	4,162	4,282	3,836
EBIT Margin (%)	18.7	17.2	17.1	17.2	16.9	15.6
PAT (INR mn.)	3,109	3,121	3,159	3,368	3,414	3,139
Basic EPS (INR)	29.3	29.4	29.8	31.8	32.2	29.6
Operating Metrics						
Revenue - Geography (%)						
North America	60.2	56.5	55.3	54.6	53.7	52.9
Europe	16.4	15.4	15.8	16.6	15.8	18.1
India	15.2	20.7	21.6	21.5	23.7	22.0
ROW	8.2	7.4	7.3	7.3	6.8	7.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue - Segments (%)						
Mobility	-	32.7	-	-	32.0	35.2
Sustainability	-	31.5	-	-	30.0	30.1
Hi-Tech	-	35.8	-	-	38.0	34.7
Total	-	100.0	-	-	100.0	100.0
EBIT Margins – Segments (%)						
Mobility	-	18.4	-	-	20.0	18.8
Sustainability	-	27.8	-	-	28.8	27.1
Hi-Tech	-	15.8	-	-	15.6	12.6
Client Concentration (%)						
Top 5 Clients	15.9	14.7	14.9	15.7	15.4	15.0
Top 10 Clients	26.6	25.9	26.1	26.6	26.4	26.3
Top 20 Clients	42.0	41.4	41.7	41.7	40.6	41.3
Employee Metrics						
Total Headcount	22,233	23,392	23,880	23,298	23,812	23,577
Onsite (%)	43.0	40.7	40.4	41.3	41.3	41.1
Offsite (%)	57.0	59.3	59.6	58.7	58.7	58.9
Attrition Rate LTM (%)	22.2	18.9	16.7	15.8	14.8	14.8

Source: Company, CEBPL

CEBPL Estimates vs Actual for Q1FY25

LTTS (INR Mn.)	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ (%)	CEBPL Est.	Dev. (%)
Revenues (USD mn.)	295	280	5.4	305	(3.2)	310	(4.8)
Revenues (INR mn.)	24,619	23,014	7.0	25,375	(3.0)	25,601	(3.8)
Employee Cost	13,317	12,151	9.6	12,191	9.2		
Gross Profit (INR mn.)	11,302	10,863	4.0	13,184	(14.3)	12,343	(8.4)
Gross Margin (%)	45.9	47.2	(129) bps	52.0	(605) bps	48.2	(231) bps
Other costs	6,740	6,335	6.4	8,156	(17.4)		
Depreciation	726	574	26.5	746	(2.7)		
EBIT (INR mn.)	3,836	3,954	(3.0)	4,282	(10.4)	4,177	(8.2)
EBIT Margin (%)	15.6	17.2	(160) bps	16.9	(129) bps	16.3	(73) bps
Other Income	622	477	30.4	560	11.1		
Interest	131	120	9.2	132	(0.8)		
PBT (INR mn.)	4,327	4,311	0.4	4,710	(8.1)		
Tax	1,188	1,190	(0.2)	1,296	(8.3)		
Adj. PAT (INR mn.)	3,136	3,111	0.8	3,409	(8.0)	3,418	(8.3)
Basic EPS (INR)	29.6	29.4	0.7	32.2	(8.1)	32.3	(8.5)

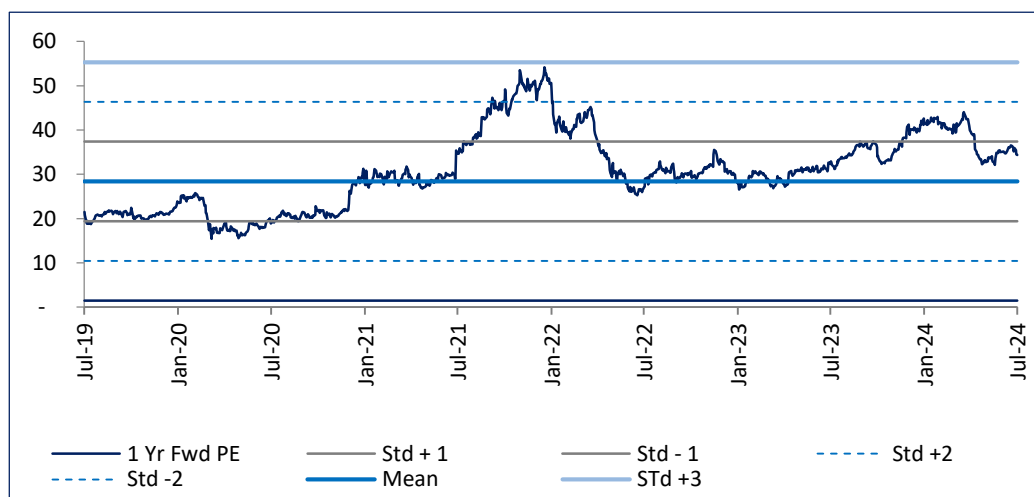
Source: Company, CEBPL

Change in estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues (USD Mn.)	1,279	1,266	(1.0)	1,451	1,471	1.4
Revenues	1,06,397	1,05,722	(0.6)	1,20,650	1,23,142	2.1
Gross Profit Margin (%)	48.0	47.4	(52) bps	48.5	48.5	0 bps
EBIT	17,065	17,145	0.5	20,597	21,138	2.6
EBIT Margin (%)	16.1	16.2	15 bps	17.1	17.2	9 bps
EPS	132.3	131.8	(0.4)	160.2	163.0	1.8

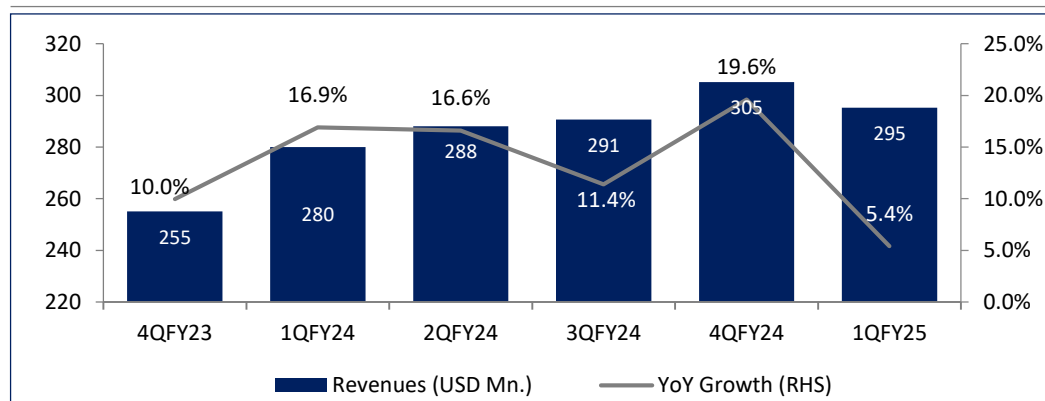
Source: Company, CEBPL

Historical 1 Yr Fwd PE Band



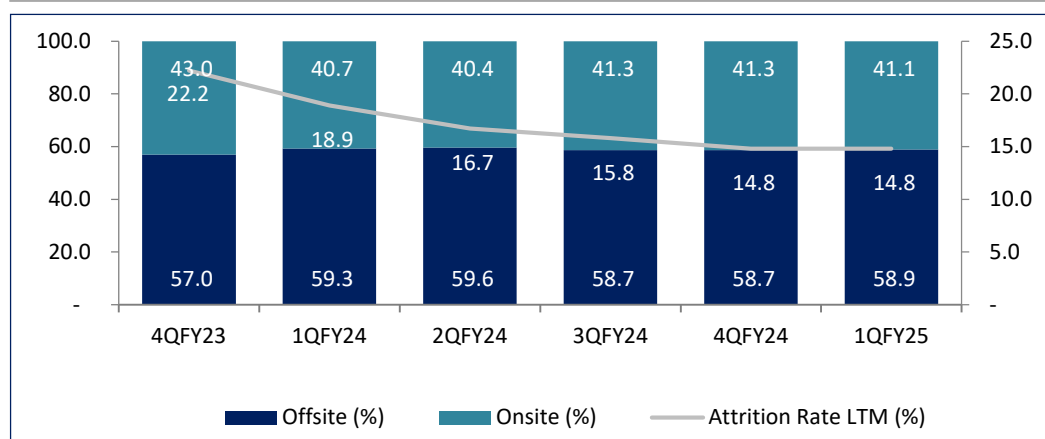
Source: Company, CEBPL

Revenue declined due to SWC seasonality



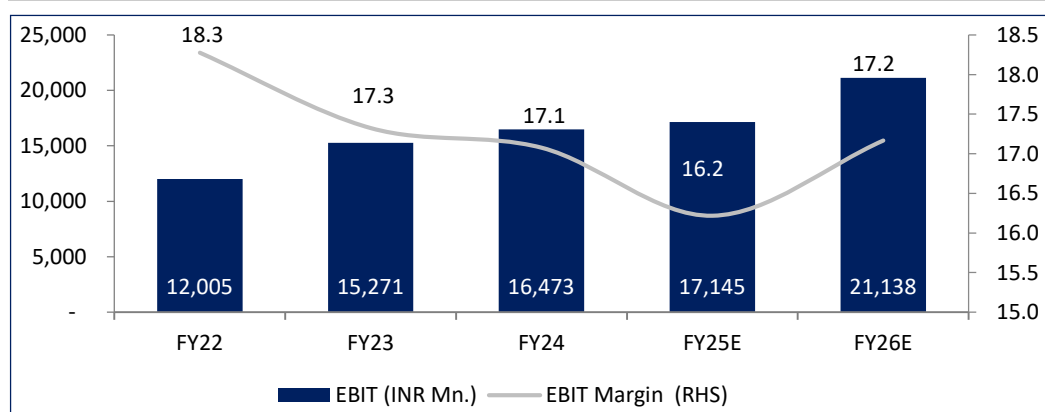
Source: Company, CEBPL

Attrition rate remains flat



Source: Company, CEBPL

Margin guidance of 16% in FY25E



Source: Company, CEBPL

Management Call - Highlights

- LTTS experienced robust growth in the Mobility segment, primarily fueled by Auto and Commercial Vehicles in Europe. The Sustainability segment saw growth in plant engineering, offsetting a decline in the industrial sub-segment. The Hi-Tech segment witnessed significant growth in SEMCON and investments in AI chip design.
- Company secured 2 notable empaneled deals: 1 with a Middle Eastern oil-based customer and another with a leading automotive company in Europe. There is growing interest and traction observed in the Middle East and European regions, with the pipeline significantly larger than 2 quarters ago.
- The company filed 61 patents in Artificial Intelligence spanning transportation, medical, and industrial product segments. Additionally, LTTS is collaborating with industry leaders such as NVIDIA, AWS, and Google in the AI domain.
- LTTS also launched 6 new solutions in the last quarter alone in Gen AI for driver experience, Anote AI for autonomous driving, AICE and AICH for medical queries, and Secure AI, which caters across segments.
- The company is actively pursuing M&A opportunities in sectors such as Auto in Europe, ISVs, hyperscalers in North America, and MedTech, with a willingness to invest between \$50mn to \$150mn per transaction. Maintaining margins at optimal levels and ensuring investments are value-accretive for stakeholders remain key priorities.
- In Q1FY25, DSO stood at 102 days, compared to 100 days in Q4. Additionally, unbilled days in Q1 totaled 23 days, up from 14 days in Q4. Combined, Q1 DSO including unbilled days reached 125 days, within the targeted range of 115 to 125 days for the year.
- Despite a sequential decrease in headcount by 235 employees, the attrition rate remained unchanged at 14.8% in Q1FY25 compared to the previous quarter.
- The Company is optimistic about its pipeline, which has doubled compared to last year, featuring deals across various segments, including a notable increase in \$40mn to \$50mn deals. Customer expenditure is primarily directed towards consolidation, cost optimization, and harnessing AI and advanced technologies to achieve operational efficiencies and expedite time-to-market.

Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Revenue (USD Mn.)	880	1,003	1,164	1,266	1,471
Revenue	65,697	81,220	96,472	1,05,722	1,23,142
Gross profit	29,192	41,847	47,174	50,159	59,770
EBITDA	14,149	17,609	19,189	20,223	24,646
Depreciation	2,144	2,338	2,716	3,078	3,508
EBIT	12,005	15,271	16,473	17,145	21,138
Other income	1,524	2,033	2,073	2,650	3,295
Interest expense	437	444	509	533	611
RPAT	9,606	12,164	13,062	13,966	17,271
EPS (RS)	91.1	114.8	123.3	131.8	163.0

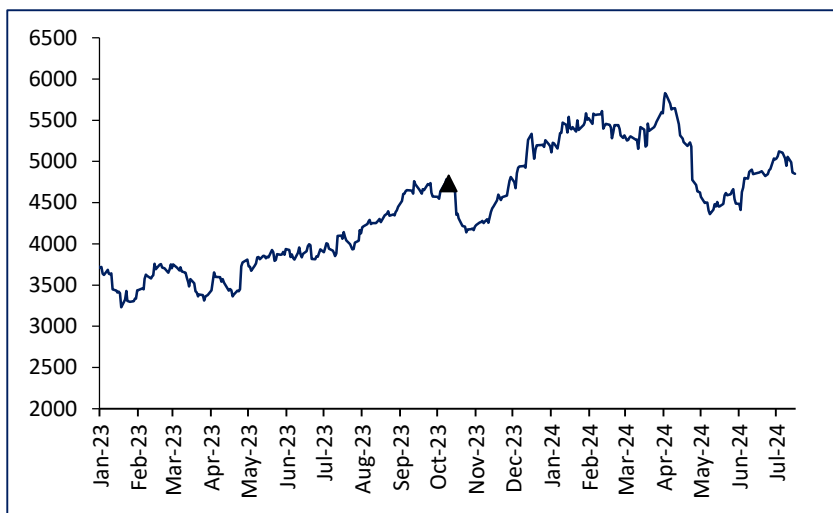
Balance Sheet (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Tangible fixed assets	7,357	6,692	10,009	10,710	11,673
Goodwill & intangible assets	7,906	7,085	10,222	11,225	12,207
Investments	14,779	21,088	12,936	15,523	18,628
Cash & Cash equivalents	6,742	6,899	13,905	13,141	13,172
Other non-current assets	3,872	3,360	4,334	4,679	4,910
Other current assets	22,591	35,782	35,462	37,944	40,600
Total assets	60,910	81,976	84,885	90,536	97,582
Shareholder's funds	41,625	44,349	53,271	58,159	64,204
Minority interest	137	180	207	207	207
Borrowings	-	-	-	-	-
Lease liabilities	4,771	4,542	6,588	6,786	6,989
Other non-current liabilities	1,083	562	758	770	798
Other current liabilities	13,294	32,290	23,978	24,614	25,384
Total equity & liabilities	60,910	81,976	84,885	90,536	97,582

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations	10,062	13,130	14,927	15,867	19,585
Cash flows from Investing	(4,483)	(5,779)	(2,333)	(4,480)	(5,135)
Cash flows from financing	(4,982)	(4,453)	(6,579)	(578)	(790)

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
Growth Ratios (%)					
Revenues	20.6	34.2	9.4	9.6	16.5
Gross Profit	43.9	43.4	12.7	6.3	19.2
EBITDA	41.2	24.5	9.0	5.4	21.9
EBIT	53.2	27.2	7.9	4.1	23.3
Margin Ratios (%)					
Gross Profit Margin	44.4	47.5	48.9	47.4	48.5
EBITDA Margin	21.5	20.0	19.9	19.1	20.0
EBIT Margin	18.3	17.3	17.1	16.2	17.2
Profitability (%)					
Return on equity	25.1	28.2	26.7	25.0	28.1
Return on invested capital	29.6	30.5	26.0	24.0	26.7
Return on capital employed	22.5	37.1	35.4	32.6	36.5
Valuation					
OCF / Net profit (%)	104.7	107.9	114.3	106.9	91.9
EV / EBITDA (x)	30.8	28.8	29.8	29.3	29.6
Book Value per share (x)	395.9	421.7	305.3	333.2	367.7
Free Cash flow yield (%)	0.6	3.1	2.6	4.0	3.9

Source: Company, CEBPL

Historical recommendations and target price: LTTS Ltd.



L&T Technology Services Ltd.

1.	24-03-2022	ADD,	Target Price 5,527
2.	22-04-2022	ADD,	Target Price 4,802
3.	18-07-2022	OUTPERFORM,	Target Price 4,750
4.	20-10-2022	OUTPERFORM,	Target Price 4,651
5.	20-01-2023	OUTPERFORM,	Target Price 4,400
6.	27-04-2023	ADD,	Target Price 3,738
7.	19-07-2023	ADD,	Target Price 4,360
8.	25-09-2023	NEUTRAL,	Target Price 4,525
9.	18-10-2023	ADD,	Target Price 5,090
10.	17-01-2024	ADD,	Target Price 6,090
11.	18-03-2024	BUY,	Target Price 5,940
12.	26-04-2024	REDUCE,	Target Price 5,285
13.	19-07-2024	BUY,	Target Price 5,380

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SELL	The security expected to show Below 0% next 12 months

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