

LTTS reported a weak operating performance in Q1. Revenue fell 3.2% QoQ to US\$295.2mn (-3.1% CC), impacted by SWC seasonality, and missing our estimate. EBITM declined by 130bps QoQ to 15.6%, also coming in lower than our estimate. The company won 2 US\$30mn and US\$15mn deals each, 3 US\$10mn deals, and one empanelment. The mgmt expects both, the revenue and margin trajectories, to gradually improve over coming 3 quarters, with H2 being better than H1. Despite the weaker performance, the management retained its FY25 EBITM guidance of 16% and revenue growth guidance of 8-10% CC, implying ~4-5% CQGR over Q2-Q4FY25 which is a tough ask in our view. This should be aided by a strong deal backlog, SWC seasonality, and healthy pipeline, which is up 2x YoY. LTTS continues to aspire for US\$1.5bn revenue run-rate by FY25 which, though, hinges on M&A. We trim FY25-27E EPS to under 1%, factoring in the Q1 performance and guidance. We retain REDUCE on LTTS (rich valuations) and TP of Rs4,750/sh at 30x Jun-26E EPS.

L&T Technology Services: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	88,155	96,473	1,05,698	1,19,954	1,35,924
EBITDA	17,609	19,190	19,975	23,690	27,693
Adj. PAT	12,120	13,038	13,564	16,247	19,218
Adj. EPS (Rs)	114.8	123.3	128.2	153.5	181.6
EBITDA margin (%)	20.0	19.9	18.9	19.7	20.4
EBITDA growth (%)	24.5	9.0	4.1	18.6	16.9
Adj. EPS growth (%)	26.6	7.4	4.0	19.8	18.3
RoE (%)	28.1	26.6	23.7	24.7	25.3
RoIC (%)	45.8	43.2	36.0	41.9	47.5
P/E (x)	42.2	39.3	37.8	31.6	26.7
EV/EBITDA (x)	27.8	25.7	24.3	20.2	16.9
P/B (x)	11.5	9.6	8.4	7.3	6.3
FCFF yield (%)	2.2	0.9	2.6	3.0	3.6

Source: Company, Emkay Research

Results summary

LTTS's revenue declined 3.2% QoQ (down 3.1% cc) to US\$295.2mn, coming below our estimate of US\$302mn. Sequential revenue growth was hit by decline in Sustainability (-3% QoQ), and Hi-tech (-11.6%) which was partially offset by growth in Mobility (+6.4%). Among geographies, revenue from North America, India, and RoW fell 4.6%, 10.2%, and 0.6% QoQ, respectively, while growing for Europe by 10.6%. Revenue for the top-5 clients declined 5.8% QoQ, while that for the top 6-10 fell 0.6% QoQ. EBITM fell by 130bps QoQ to 15.6%, lower than our estimate of 15.9%. Headcount declined 1.0% QoQ to 23,577. Attrition was stable at 14.8%. **What we liked:** Strong growth in Mobility (6.4% QoQ) and Europe (10.6% QoQ), healthy deal intake, and strong pipeline. **What we did not like:** Miss on operating performance, weak cash conversion (OCF/EBITDA at -14%), weakness in top-5 clients (-5.8% QoQ).

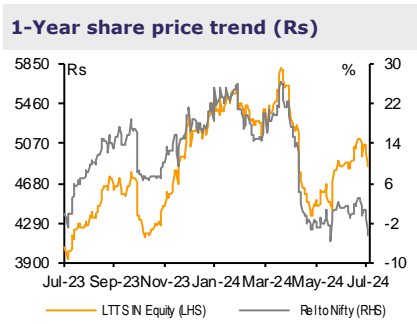
Earnings call KTAs

i) The company remains focused on enhancing its solutions for AI in the software-defined and product development lifecycle, test and process automation. It is starting to win AI-led deals on the back of Gen AI solutions across asset health, software development, and digital assistants. ii) Mobility grew 6.4% QoQ, driven by Auto, followed by Commercial Vehicles in Europe. LTTS won three large deals in Mobility – one US\$30mn, two US\$15mn across OEMs and Tier 1 players. Though EV opportunities endure, spends are shifting to SDVs. iii) In CVs, EVs continue to be a strong growth area, while witnessing large deal opportunities in Aero, in avionic equipment development. Given the pipeline, the deals won, and the order backlog, LTTS expects the growth momentum to continue. iv) Within Sustainability, plant engineering is growing well, led by new CapEx projects, spend on plant modernization, offsetting the decline in the industrial sub-segment. v) In the Industrial sub-segment, supply-chain inventory is at an all-time high, leading to a difference in spending and budgets. Further, delays in deal decision-making is leading to large deals getting pushed back. It won a US\$30mn deal in digital manufacturing with a North American OEM; this will ramp up in Q2. It believes that the worst is over for the sub-segment, and expects Sustainability to retrace the growth path from Q2. vi) Within Hi-tech, LTTS witnessed good growth in the semi-conductor segment and is seeing strong demand for AI chip design. In the Medical sub-segment, the company has seen customers spend on sustenance engineering, value analysis and value engineering, and digital manufacturing solutions for operation excellence.

Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(2.1)
CMP (18-Jul-24) (Rs)	4,850.0

Stock Data	Ticker
52-week High (Rs)	5,885
52-week Low (Rs)	3,910
Shares outstanding (mn)	105.8
Market-cap (Rs bn)	513
Market-cap (US\$ mn)	6,135
Net-debt, FY25E (Rs mn)	-27,172
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	1,107.8
ADTV-3M (US\$ mn)	13.2
Free float (%)	26.0
Nifty-50	24,801
INR/US\$	83.7
Shareholding, Jun-24	
Promoters (%)	73.7
FPIs/MFs (%)	4.5/13.3

Price Performance			
(%)	1M	3M	12M
Absolute	(0.3)	(8.1)	19.2
Rel. to Nifty	(5.6)	(17.9)	(5.2)



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Exhibit 1: Quarterly snapshot

(Rs mn)	1QFY25	4QFY24	QoQ chg	1QFY24	YoY chg
Net sales (US\$ mn)	295	305	-3.2%	280	5.4%
Net sales	24,619	25,375	-3.0%	23,014	7.0%
Operating expenses	20,057	20,347		18,486	
EBITDA	4,562	5,028	-9.3%	4,528	0.8%
Margins (%)	18.5	19.8	(130)	19.7	(110)
Depreciation	726	746		574	
EBIT	3,836	4,282	-10.4%	3,954	-3.0%
Margins (%)	15.6	16.9	(130)	17.2	(160)
Finance cost	131	132		120	
Other income (net)	622	560		477	
Pre-tax profit	4,327	4,710	-8.1%	4,311	0.4%
Tax provided	1,188	1,296		1,190	
Profit after tax	3,139	3,414		3,121	
Emkay Net profit	3,136	3,409	-8.0%	3,111	0.8%
EPS (Rs)	29.6	32.2	-8.1%	29.5	0.6%

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (US\$ mn)	295.2	302.0	303.8	-2.2%	-2.8%	Revenue growth missed our expectations.
Sales	24,619	25,186	25,340	-2.3%	-2.8%	
EBIT	3,836	4,015	4,018	-4.5%	-4.5%	
EBIT margin	15.6%	15.9%	15.9%	-40 bps	-30 bps	EBITM were a tad lower than our expectations.
PAT	3,136	3,222	3,225	-2.7%	-2.8%	Profit was below expectations due to operating performance miss.

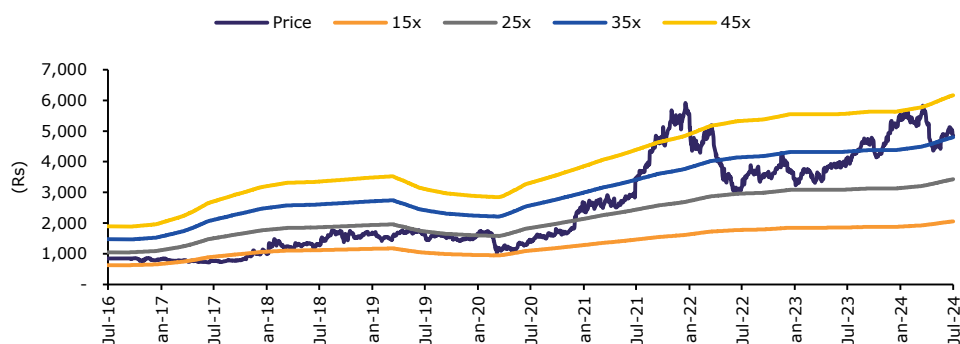
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (US\$ mn)	1,269	1,260	-0.7%	1,421	1,411	-0.7%	1,591	1,581	-0.7%
YoY growth	9.0%	8.3%		12.0%	12.0%		12.0%	12.0%	
Revenue	106,427	105,698	-0.7%	120,801	119,954	-0.7%	136,866	135,924	-0.7%
EBIT	17,141	16,933	-1.2%	20,485	20,312	-0.8%	24,092	23,963	-0.5%
EBIT margin	16.1	16.0		17.0	16.9		17.6	17.6	
Net profit	13,670	13,564	-0.8%	16,375	16,247	-0.8%	19,318	19,218	-0.5%
EPS (Rs)	129.3	128.2	-0.8%	154.8	153.5	-0.9%	182.7	181.6	-0.6%

Source: Company, Emkay Research

Exhibit 4: LTTS – One-year forward PER



Source: Company, Emkay Research

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L&T Technology Services: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	88,155	96,473	1,05,698	1,19,954	1,35,924
Revenue growth (%)	34.2	9.4	9.6	13.5	13.3
EBITDA	17,609	19,190	19,975	23,690	27,693
EBITDA growth (%)	24.5	9.0	4.1	18.6	16.9
Depreciation & Amortization	2,339	2,714	3,041	3,378	3,731
EBIT	15,270	16,476	16,933	20,312	23,963
EBIT growth (%)	27.2	7.9	2.8	20.0	18.0
Other operating income	0	0	0	0	0
Other income	2,033	2,073	2,331	2,702	3,189
Financial expense	444	509	521	560	600
PBT	16,859	18,040	18,744	22,454	26,552
Extraordinary items	0	0	0	0	0
Taxes	4,696	4,975	5,153	6,175	7,302
Minority interest	(43)	(27)	(27)	(32)	(32)
Income from JV/Associates	0	0	0	0	0
Reported PAT	12,120	13,038	13,564	16,247	19,218
PAT growth (%)	26.6	7.6	4.0	19.8	18.3
Adjusted PAT	12,120	13,038	13,564	16,247	19,218
Diluted EPS (Rs)	114.8	123.3	128.2	153.5	181.6
Diluted EPS growth (%)	26.6	7.4	4.0	19.8	18.3
DPS (Rs)	45.0	50.0	53.0	64.0	80.0
Dividend payout (%)	39.2	40.6	41.4	41.7	44.1
EBITDA margin (%)	20.0	19.9	18.9	19.7	20.4
EBIT margin (%)	17.3	17.1	16.0	16.9	17.6
Effective tax rate (%)	27.9	27.6	27.5	27.5	27.5
NOPLAT (pre-IndAS)	11,017	11,932	12,278	14,726	17,373
Shares outstanding (mn)	105.6	105.8	105.8	105.8	105.8

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	16,859	18,040	18,744	22,454	26,552
Others (non-cash items)	2,488	2,703	3,562	3,938	4,331
Taxes paid	(4,667)	(5,256)	(5,153)	(6,175)	(7,302)
Change in NWC	(1,551)	(557)	(963)	(1,832)	(2,066)
Operating cash flow	13,130	14,928	16,191	18,385	21,515
Capital expenditure	(1,787)	(10,397)	(2,640)	(2,750)	(2,860)
Acquisition of business	0	0	0	0	0
Interest & dividend income	1,026	1,153	0	0	0
Investing cash flow	(5,779)	(2,333)	(4,671)	(2,750)	(2,860)
Equity raised/(repaid)	0	0	(410)	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	(842)	(1,103)	0	0	0
Interest paid	(444)	(509)	(521)	(560)	(600)
Dividend paid (incl tax)	(3,167)	(4,967)	(5,609)	(6,773)	(8,466)
Others	0	0	0	0	0
Financing cash flow	(4,453)	(6,579)	(6,540)	(7,333)	(9,066)
Net chg in Cash	2,898	6,016	4,980	8,301	9,588
OCF	13,130	14,928	16,191	18,385	21,515
Adj. OCF (w/o NWC chg.)	14,681	15,485	17,153	20,217	23,581
FCFF	11,343	4,531	13,551	15,635	18,655
FCFE	11,925	5,175	13,030	15,075	18,055
OCF/EBITDA (%)	74.6	77.8	81.1	77.6	77.7
FCFE/PAT (%)	98.4	39.7	96.1	92.8	93.9
FCFF/NOPLAT (%)	103.0	38.0	110.4	106.2	107.4

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	211	212	212	212	212
Reserves & Surplus	44,318	53,266	60,838	70,344	81,128
Net worth	44,529	53,478	61,050	70,556	81,340
Minority interests	0	0	0	0	0
Deferred tax liability (net)	259	691	691	691	691
Total debt	4,707	6,601	6,713	6,913	7,113
Total liabilities & equity	49,495	60,770	68,454	78,160	89,144
Net tangible fixed assets	2,850	3,927	3,726	3,428	3,078
Net intangible assets	393	213	120	93	71
Net ROU assets	3,777	5,951	5,843	5,541	5,043
Capital WIP	65	131	131	131	131
Goodwill	6,010	6,035	6,035	6,035	6,035
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	28,003	26,874	33,885	42,186	51,775
Current assets (ex-cash)	40,740	41,700	44,724	50,075	56,069
Current Liab. & Prov.	32,343	24,061	26,010	29,329	33,057
NWC (ex-cash)	8,397	17,639	18,714	20,746	23,012
Total assets	49,495	60,770	68,454	78,160	89,144
Net debt	(23,296)	(20,273)	(27,172)	(35,273)	(44,662)
Capital employed	49,495	60,770	68,454	78,160	89,144
Invested capital	21,427	33,765	34,439	35,843	37,238
BVPS (Rs)	421.8	505.7	576.9	666.7	768.6
Net Debt/Equity (x)	(0.5)	(0.4)	(0.4)	(0.5)	(0.5)
Net Debt/EBITDA (x)	(1.3)	(1.1)	(1.4)	(1.5)	(1.6)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	35.7	33.6	29.8	31.4	32.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	42.2	39.3	37.8	31.6	26.7
P/CE(x)	35.4	32.6	30.9	26.2	22.4
P/B (x)	11.5	9.6	8.4	7.3	6.3
EV/Sales (x)	5.5	5.1	4.6	4.0	3.4
EV/EBITDA (x)	27.8	25.7	24.3	20.2	16.9
EV/EBIT(x)	32.0	29.9	28.7	23.5	19.6
EV/IC (x)	22.8	14.6	14.1	13.3	12.6
FCFF yield (%)	2.2	0.9	2.6	3.0	3.6
FCFE yield (%)	2.3	1.0	2.5	2.9	3.5
Dividend yield (%)	0.9	1.0	1.1	1.3	1.6
DuPont-RoE split					
Net profit margin (%)	13.7	13.5	12.8	13.5	14.1
Total asset turnover (x)	1.8	1.7	1.6	1.6	1.6
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
RoE (%)	28.1	26.6	23.7	24.7	25.3
DuPont-RoIC					
NOPLAT margin (%)	12.5	12.4	11.6	12.3	12.8
IC turnover (x)	3.7	3.5	3.1	3.4	3.7
RoIC (%)	45.8	43.2	36.0	41.9	47.5
Operating metrics					
Core NWC days	34.8	66.7	64.6	63.1	61.8
Total NWC days	34.8	66.7	64.6	63.1	61.8
Fixed asset turnover	6.8	6.6	6.6	7.8	9.3
Opex-to-revenue (%)	80.0	80.1	81.1	80.3	79.6

Source: Company, Emkay Research

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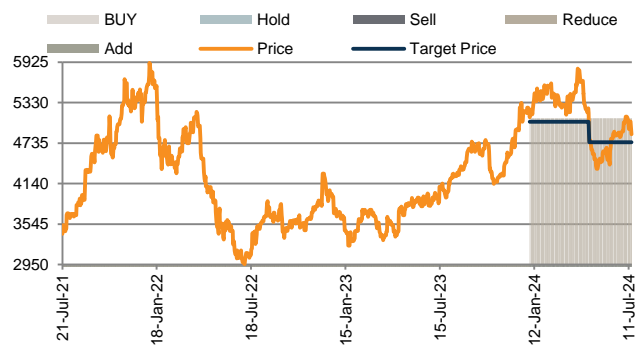
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jul-24	5,042	4,750	Reduce	Dipeshkumar Mehta
09-Jun-24	4,800	4,750	Reduce	Dipeshkumar Mehta
03-Jun-24	4,481	4,750	Reduce	Dipeshkumar Mehta
27-May-24	4,602	4,750	Reduce	Dipeshkumar Mehta
26-Apr-24	4,778	4,750	Reduce	Dipeshkumar Mehta
31-Mar-24	5,483	5,050	Reduce	Dipeshkumar Mehta
01-Mar-24	5,287	5,050	Reduce	Dipeshkumar Mehta
16-Jan-24	5,350	5,050	Reduce	Dipeshkumar Mehta
03-Jan-24	5,115	5,050	Reduce	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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