

January 16, 2024

RESULT REPORT Q3 FY24 | Information Technology

# L&T Technology Services

Inline operating performance; Reaffirmed FY24 revenue growth guidance to 17.5%-18.5% in cc

## Result Synopsis

**L&T Technology Services (LTTS) reported broadly inline financial performance for the quarter. Both, the sequential revenue growth and EBIT margin were as per expectation. It reported revenue growth of 0.9% QoQ in USD terms. The cc revenue growth was 0.9% QoQ in cc terms. There was sequential increase in EBIT margin (up 11 bps QoQ) to 17.2%, led by positive operating efficiency. Employee attrition continues to decline as LTM attrition decreased by 90 bps QoQ to 15.8%.**

**The near term demand environment remains challenging as the clients across sectors remain cautious regarding the evolving macroeconomic situation leading to slow decision making and thus impacting near term revenue performance. Improving employee pyramid and falling employee attrition will support operating margin going ahead. We estimate revenue CAGR of 17.1% (including impact of SWC acquisition) over FY23-26E with average EBIT margin of 18.6%. We maintain our NEUTRAL rating on the stock with revised target price of Rs 5,447/share at 31x on FY26E EPS. The stock trades at PER of 34.4x/30.5x on FY25E/FY26E EPS.**

## Result Highlights

- Reported revenue of Rs 24.2bn (up 1.5% QoQ in INR terms, up 0.9% QoQ in USD terms). The sequential revenue growth was led by Transportation vertical (up 0.9% QoQ), Plant Engineering (up 0.9% QoQ) and Telecom & Hitech (up 0.9% QoQ).
- EBIT margin increased by 11 bps QoQ to 17.2%, due to lower direct costs (down 0.2% QoQ).
- Large deal wins were broad based, with 6 deals of USD 10 million plus TCW which includes one USD 40 million and one USD 20 million deal.
- The offshore revenue mix decreased by 90 bps QoQ to 58.7%. Number of Active clients increased to 364 clients in Q3FY24 from 362 clients in Q2FY24.
- Headcount decreased by 582 QoQ to 23,298 employees. LTM attrition decreased by 90 bps QoQ to 15.8%.
- Reaffirmed Guidance for FY24, USD revenue growth guidance of 17.5% to 18.5% in constant currency.

## Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	24,218	24,584	24,510	-1.5%	-1.2%
EBITDA	4,877	4,917	4,880	-0.8%	-0.1%
EBITDA Margin (%)	20.14%	20.00%	19.91%	14 bps	23 bps
Adjusted PAT	3,368	3,200	3,310	5.3%	1.8%

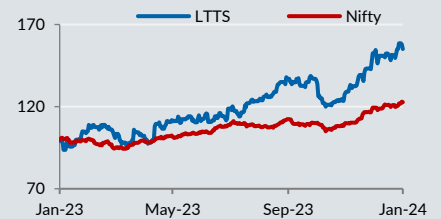
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 5,350
Target Price	: Rs 5,447
Potential Return	: + 1.8%

## Stock data (as on January 16, 2024)

Nifty	22,032
52 Week h/l (Rs)	5566 / 3216
Market cap (Rs/USD mn)	575732 / 6932
Outstanding Shares (mn)	106
6m Avg t/o (Rs mn):	977
Div yield (%):	0.8
Bloomberg code:	LTTS IN
NSE code:	LTTS

## Stock performance



	1M	3M	1Y
Absolute return	1.6%	14.1%	55.9%

## Shareholding pattern (As of Dec'23 end)

Promoter	73.8%
FII+DII	17.2%
Others	9.1%

## Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	5,447	4,689

## Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	126.7	155.7	175.7
EPS (Old)	124.1	151.3	NA
%Change	2.1%	2.9%	NA

## Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	96,147	108,809	123,132
YoY Growth	20.0%	13.2%	13.2%
EBIDTA	19,651	24,391	27,601
YoY Growth	14.7%	24.1%	13.2%
PAT	13,377	16,446	18,548
YoY Growth	14.5%	22.9%	12.8%
ROE	24.6%	25.1%	23.6%
EPS	127	156	176
P/E	42.2	34.4	30.5
BV	561	678	812
P/BV	9.5	7.9	6.6

## PARTH GHIYA

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## Exhibit 2: Quarterly snapshot Consol: Operating margin remained flat sequentially

Particulars(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	yoy%	qoq %	9MFY24	9MFY23	yoy%
Sales (\$ mn)	248	255	280	288	291	17.2	0.9	859	735	16.9
Sales	20,486	20,962	23,014	23,865	24,218	18.2	1.5	71,097	59,174	20.1
EBITDA	4,412	4,492	4,528	4,756	4,877	10.5	2.5	14,161	12,640	12.0
EBITDA %	21.5	21.4	19.7	19.9	20.1	-140 bps	21 bps	19.9	21.4	-144 bps
Depreciation	583	565	574	681	715	22.6	5.0	1,970	1,749	12.6
EBIT	3,829	3,927	3,954	4,075	4,162	8.7	2.1	12,191	10,891	11.9
EBIT Margin %	18.7	18.7	17.2	17.1	17.2	-151 bps	11 bps	17.1	18.4	-126 bps
Other income	613	392	357	286	493	-19.6	72.4	1,136	1,214	-6.4
PBT	4,442	4,319	4,311	4,361	4,655	4.8	6.7	13,327	12,105	10.1
Tax	1,406	1,210	1,190	1,202	1,287	-8.5	7.1	3,679	3,487	5.5
PAT	3,036	3,109	3,121	3,159	3,368	10.9	6.6	9,648	8,618	12.0
NPM (%)	14.8	14.8	13.6	13.2	13.9	-91 bps	67 bps	13.6	14.6	-99 bps

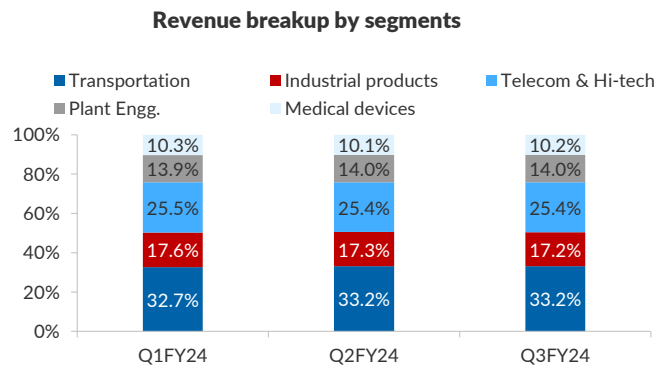
Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- Won a USD 10 million plus deal in cybersecurity segment, by leveraging their SWC acquisition.
- The deal pipeline continues to be robust with multiple large deal opportunities as customers seek productivity and efficiency improvement.
- Secured a new deal with a manufacturer of Recreational Vehicles, where LTTS will redesign the vehicles and their various components, for its line of EV RVs.
- The company maintains its medium-term guidance of 18% EBIT levels by H1FY26.
- Software defined segments is witnessing demand traction as clients consider their budget for investment.
- Deal pipeline remains strong for plant engineering segment and expecting a growth momentum in next few quarters.
- Have collaborated with NVIDIA to develop GenAI and advanced software-defined architectures for medical devices.
- LTTS is in discussion with a few new logos in new age aerospace like building electric hybrid aircraft.
- LTTS has been actively hiring in plant engineering and digital manufacturing due to increased demand for localized supply chains.
- Revenue growth for Q4FY24 expected to be in the range of 4% to 7% QoQ in cc terms.

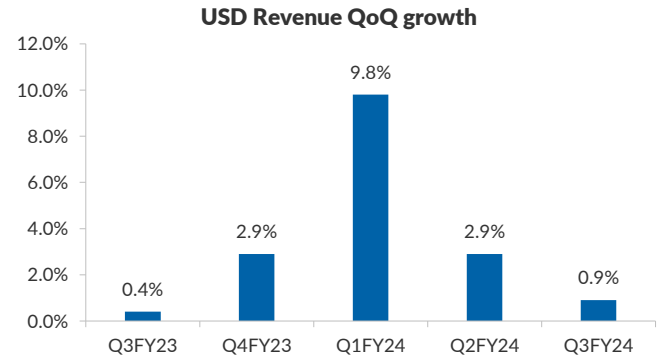
## STORY IN CHARTS

**Exhibit 3: Performance in the quarter was led by Plant Engineering Vertical**



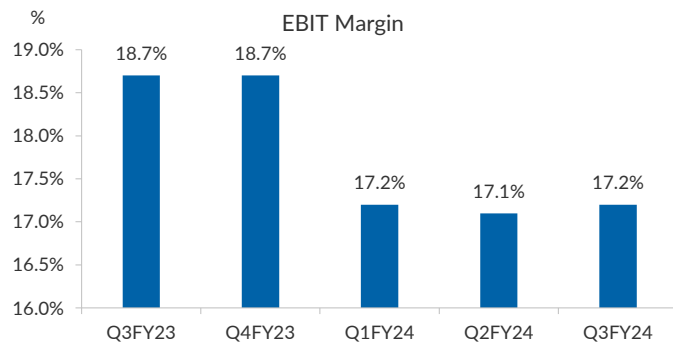
Source: Company, YES Sec

**Exhibit 4: Sequential revenue growth was inline with expectation**



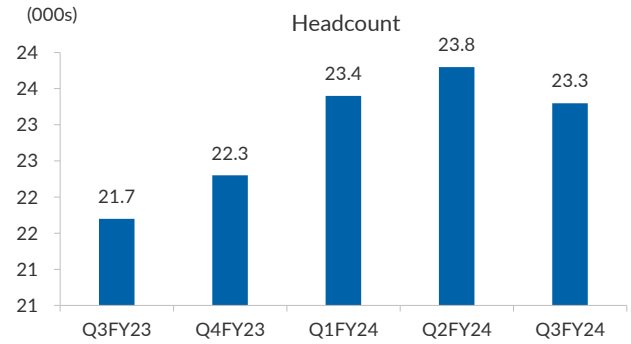
Source: Company, YES Sec

**Exhibit 5: EBIT margin remained flat during the quarter**



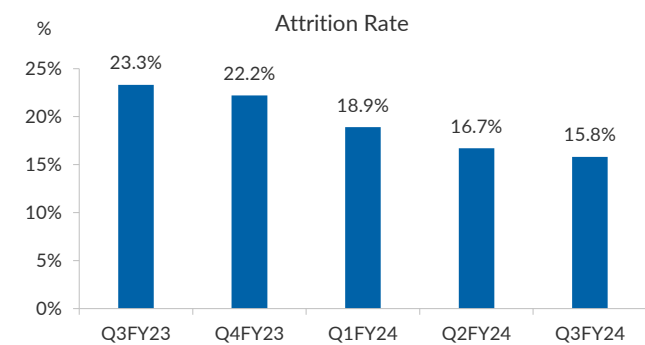
Source: Company, YES Sec

**Exhibit 6: Headcount decreases during the quarter**



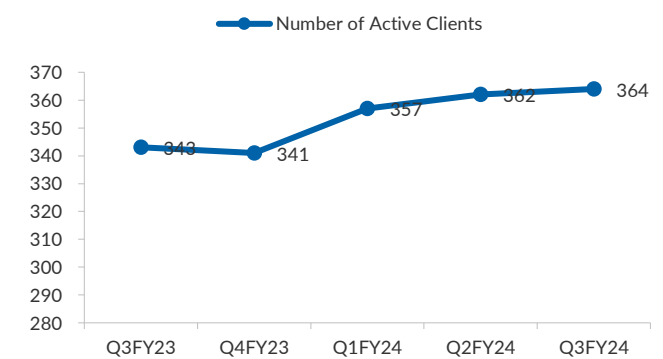
Source: Company, YES Sec

**Exhibit 7: Attrition rate continues to decline**



Source: Company, YES Sec

**Exhibit 8: 350+ number of active clients**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	210	211	211	211	211	211
Reserves & surplus	34,521	41,414	49,298	59,003	71,358	85,499
Shareholders' funds	34,731	41,625	49,509	59,214	71,569	85,710
Non-current liabilities	4,915	5,359	4,345	4,405	4,466	4,529
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	4,915	5,359	4,345	4,405	4,466	4,529
Current liabilities	10,982	13,789	15,139	15,459	16,940	18,585
ST borrowings, Curr maturity	0	0	0	0	0	0
Other current liabilities	10,982	13,789	15,139	15,459	16,940	18,585
Total (Equity and Liabilities)	50,729	60,910	69,173	79,258	93,155	109,004
Non-current assets	15,703	17,659	17,763	18,610	19,650	21,528
Fixed assets (Net block)	7,116	7,045	6,995	6,806	6,576	6,896
Non-current Investments	0	0	0	0	0	0
Other non-current assets	8,587	10,614	10,768	11,804	13,074	14,631
Current assets	35,026	43,251	51,410	60,649	73,505	87,476
Cash & current investment	17,476	20,660	27,987	31,686	41,110	51,227
Other current assets	17,550	22,591	23,423	28,963	32,395	36,249
Total (Assets)	50,729	60,910	69,173	79,258	93,155	109,004

Source: Company, YES Sec

### Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	54,497	65,697	80,136	96,147	108,809	123,132
Operating expenses	(44,423)	(51,548)	(63,004)	(76,496)	(84,419)	(95,531)
EBITDA	10,074	14,149	17,132	19,651	24,391	27,601
Depreciation	(2,183)	(2,144)	(2,314)	(2,772)	(3,482)	(3,940)
EBIT	7,891	12,005	14,818	16,879	20,909	23,661
Other income	1,537	1,087	1,606	1,639	1,855	2,008
Finance cost	(455)	0	0	0	0	0
Profit before tax	8,973	13,092	16,424	18,518	22,763	25,668
Tax (current + deferred)	(2,307)	(3,486)	(4,697)	(5,114)	(6,294)	(7,097)
Reported Profit / (Loss)	6,634	9,570	11,684	13,377	16,446	18,548
Adjusted net profit	6,634	9,570	11,684	13,377	16,446	18,548

Source: Company, YES Sec

## Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	8,973	13,092	16,424	18,518	22,763	25,668
Depreciation	2,183	2,144	2,314	2,772	3,482	3,940
Change in working capital	3,204	(2,391)	(408)	(5,171)	(1,902)	(2,160)
Total tax paid	(1,342)	(2,956)	(4,785)	(5,102)	(6,281)	(7,084)
Others	(1,082)	(1,087)	(1,606)	(1,639)	(1,855)	(2,008)
Cash flow from oper. (a)	11,936	8,802	11,939	9,377	16,207	18,357
Capital expenditure	(2,937)	(2,073)	(2,264)	(2,582)	(3,253)	(4,260)
Change in investments	(9,039)	1,231	(7,170)	(3,163)	(3,638)	(4,183)
Others	642	(815)	1,581	603	585	450
Cash flow from inv. (b)	(11,334)	(1,657)	(7,853)	(5,142)	(6,306)	(7,993)
Free cash flow (a+b)	602	7,145	4,086	4,235	9,901	10,364
Equity raised/(repaid)	1	1	0	0	0	0
Debt raised/(repaid)	(303)	0	0	0	0	0
Dividend (incl. tax)	(2,198)	(3,633)	(3,167)	(3,672)	(4,091)	(4,406)
Others	1,786	902	(762)	(27)	(24)	(24)
Cash flow from fin. (c)	(714)	(2,730)	(3,929)	(3,699)	(4,115)	(4,430)
Net chg in cash (a+b+c)	(112)	4,415	157	536	5,786	5,934

Source: Company, YES Sec

## Exhibit 12: Ratio Analysis

Y/e March 31	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth(%)						
Revenue Growth	(3.0)	20.6	22.0	20.0	13.2	13.2
EBITDA Growth	(9.3)	40.5	21.1	14.7	24.1	13.2
EBIT Growth	(14.9)	52.1	23.4	13.9	23.9	13.2
Net Profit Growth	(19.0)	44.3	22.1	14.5	22.9	12.8
Profitability Ratios(%)						
EBITDA Margin	18.5	21.5	21.4	20.4	22.4	22.4
EBIT margin	14.5	18.3	18.5	17.6	19.2	19.2
Net Profit margin	12.2	14.6	14.6	13.9	15.1	15.1
RoA	16.8	21.5	22.8	22.7	24.3	23.4
RoE	21.3	25.1	25.6	24.6	25.1	23.6
RoCE	21.7	27.6	29.3	28.6	29.9	28.4
Liquidity Ratios						
Net debt/Equity (x)	(0.5)	(0.5)	(0.6)	(0.5)	(0.6)	(0.6)
Current ratio (x)	3.2	3.1	3.4	3.9	4.3	4.7
Quick ratio (x)	3.2	3.1	3.4	3.9	4.3	4.7
Valuation Ratios						
PER(x)	NA	NA	48.3	42.2	34.4	30.5
PCE(x)	NA	NA	40.4	35.0	28.3	25.1
Price/Book(x)	NA	NA	11.4	9.5	7.9	6.6
EV/EBITDA(x)	NA	NA	31.3	27.1	21.5	18.6

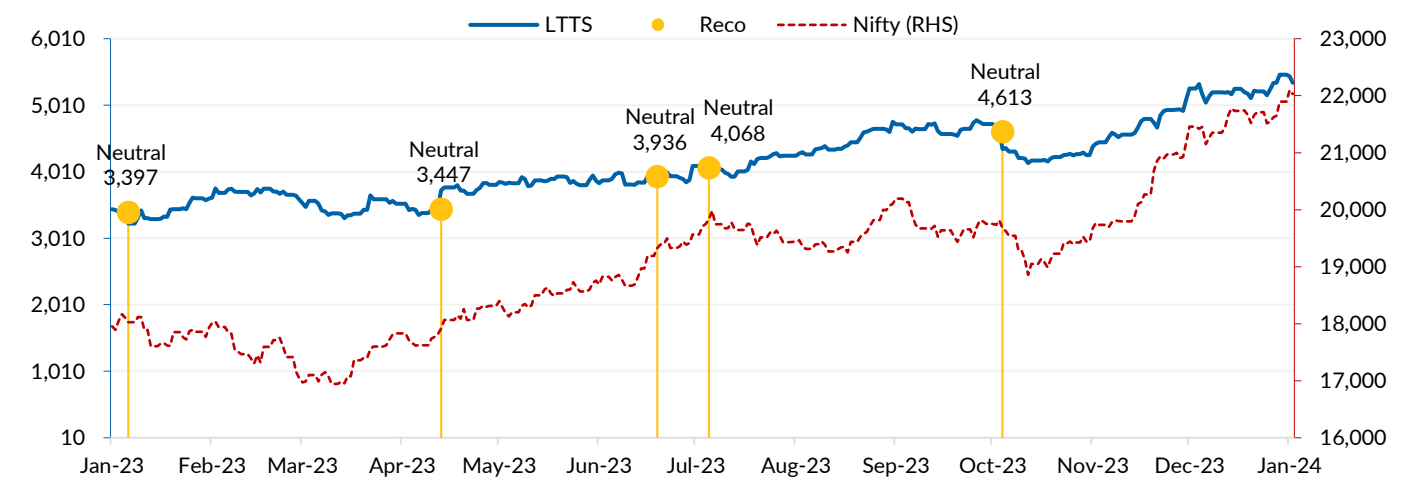
Source: Company, YES Sec

### Exhibit 13: Dupont Analysis

Dupont Analysis	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net margin(%)	12.2	14.6	14.6	13.9	15.1	15.1
Asset turnover (x)	1.2	1.2	1.2	1.3	1.3	1.2
Leverage factor (x)	1.5	1.5	1.4	1.4	1.3	1.3
Return on Equity(%)	21.3	25.1	25.6	24.6	25.1	23.6

Source: Company, YES Sec

### Recommendation Tracker



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**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

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