

IT Services

India

Sector View: **Neutral**

NIFTY-50: **24,836**

July 29, 2024

ERD services—increasing caution on automotive demand

Indian ESPs' revenue growth moderated in 1QFY25 and is lower than our estimate. More signs of weakening demand emerged in the automotive segment. EBIT margins improved marginally at KPIT and TELX, but declined across others sequentially. Cyient (DET) lowered its FY2025E revenue growth outlook, whereas LTTS and KPIT retained their guidance. We maintain SELL on LTTS, KPIT, TELX and TTL on rich valuations, baking in unrealistic long-term growth expectations.

Moderated revenue growth and lower-than-expected revenue growth in 1QFY25

Indian ERD service providers reported decelerating growth trends in the June 2024 quarter. Revenues were lower than our estimates across most companies, while TELX was marginally better. KPIT continued to grow at a robust rate (4.7% qoq), followed by TELX (2.4% qoq). TTL (services), LTTS, HCLT (ERD) and Cyient (DET) reported revenue declines of 1.3-5.0% qoq. EBIT margins improved 60 bps qoq at KPIT and TELX, but declined 30-260 bps qoq at TTL, LTTS and Cyient (DET).

FY2025E outlook cut at Cyient (DET), retained at LTTS and KPIT

Cyient (DET) lowered its FY2025E revenue growth outlook to flat yoy (high single digits earlier). While the near-term growth is likely to be strong, we believe the ask rate of 3.2% CQGR, without a material improvement in demand, remains aggressive. A similar case is LTTS, which retained its revenue growth guidance of 8-10%, implying ~4-5% CQGR over 2QFY25-4QFY25—a tough ask. KPIT also retained its FY2025E outlook of 18-22% growth, achievable assuming limited impact from deterioration in the automotive segment. More on this below.

Increasing caution in automotive R&D

The transportation vertical's revenue growth remained strong across LTTS, TELX and KPIT in 1QFY25 (Exhibit 5). Growth was concentrated, driven by the ramp-up of large deals across companies—Forvia at LTTS, JLR and others at TELX and Japanese OEM engagements for KPIT. Automotive R&D spends were expected to remain at elevated levels in CY2024, as OEMs initially planned to continue their aggressive CASE investments. However, this now appears to be slowing down. Few peers highlighted an abrupt and sharp weakening in demand in the industry, especially in Europe, due to (1) slower-than-anticipated adoption of EVs and (2) rising cost pressures from increasing competition. For instance, Mercedes Benz's R&D spends declined 7% yoy in 1HCY24.

Remain cautious on stretched valuations, amid signs of demand deterioration

We lowered our FY2025-27E earnings estimates across most companies after the 1QFY25 disappointment. Currently, we are not baking in much impact in the automotive segment and could present a further downside in the case of a sharper pullback in some R&D spends by auto OEMs. Other segments such as telecom and hi-tech remain sluggish, which could impact overall revenue growth at LTTS, Cyient (DET) and TELX. We remain cautious about stretched valuations at KPIT, TELX, TTL and LTTS (SELLs). Prefer Cyient (BUY) on reasonable valuations.

Quarterly c/c growth and margin trends

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
C/C revenue growth qoq (%)					
Cyient (DET)	0.3	1.0	1.1	(0.5)	(5.0)
HCLT (ERD)	(5.2)	5.0	8.7	(1.6)	(3.5)
KPIT	7.1	9.0	4.3	5.1	4.7
LTTS	9.8	3.2	0.9	5.1	(3.1)
TELX	1.2	3.4	3.0	(0.6)	2.4
TATATECH	NA	NA	(0.5)	(1.0)	(1.3)
C/C revenue growth yoy (%)					
Cyient (DET)	30.6	17.1	5.4	1.8	(3.6)
HCLT (ERD)	(1.8)	(2.0)	3.6	6.4	8.4
KPIT	51.7	51.7	31.5	27.6	24.8
LTTS	17.3	16.0	17.1	20.4	6.1
TELX	11.9	10.1	9.4	7.2	8.4
TATATECH	NA	NA	5.8	(0.5)	(1.9)
EBIT margin (%)					
Cyient (DET)	16.1	16.5	16.0	16.0	13.5
HCLT (ERD)	16.8	19.2	21.1	19.7	16.6
KPIT	15.9	16.0	16.6	16.7	17.3
LTTS	17.2	17.1	17.2	16.9	15.6
TELX	27.1	27.1	26.8	25.8	26.4
TATATECH	18.0	14.8	16.2	16.2	15.9

Note:

Tata Technologies services segment revenue growth

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of July 29, 2024

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US growth remains sluggish; healthy growth momentum in Europe (ex-Cyient)

Revenue growth in the US has been tepid over the past five quarters (Exhibit 6). Revenues declined yoy at TELX and LTTS, whereas Cyient (DET) and KPIT reported modest growth (Exhibit 4). Automotive vertical-focused companies such as TELX and KPIT have limited presence in the market due to constraints on the addressable TAM and unfavorable terms of engagement.

Sharp yoy margin decline across companies (ex-KPIT)

EBIT margins declined 60-260 bps yoy across TELX, TTL, LTTS and Cyient (DET) (Exhibit 11). Moderating revenue growth and the need to invest in capabilities to expand the range of service offerings to clients have partly resulted in lower profitability. KPIT, on the other hand, continued to benefit from demand tailwinds and pricing benefits, resulting in a 130 bps margin improvement to 17.3%, despite the additional impact of ESOP charges (70 bps).

LTTS deferred its wage hikes by a quarter, effective October 2024, while KPIT announced increments in line with its regular appraisal cycle (starting July 2024), with average wage hikes in high single digits. TELX's junior employees' compensation would be revised from 2QFY25 and that of senior employees from 3QFY25; the average increase would be in the 5-6% range.

Headcount declines sequentially across most companies

Employee headcount declined qoq across Cyient (DET), LTTS, TELX and TTL (Exhibit 10). Headcount growth has decelerated cumulatively for Indian pure-play ERD services companies. These companies have focused on better resource utilization and hiring trainees to optimize cost structures over the past year.

Other highlights

- ▶ **Bookings.** Deal win trends were tepid during the quarter. Order intake declined 5% yoy to US\$187 mn at Cyient (DET). At KPIT, deal TCV was up 6% yoy at US\$202 mn and down 21% yoy on ttm basis.
- ▶ **Attrition.** LTM attrition was largely stable at LTTS and TELX sequentially at 14.8% and 12.3%, respectively. KPIT's employee churn remains among the best in the industry at high single digits. Cyient (DET) and TTL reported 110 bps (16%) and 80 bps (13.7%) lower attrition qoq, respectively.

Exhibit 1: June 2024 quarter financial performance of key companies under our coverage

	Jun-24	qoq (%)	yoy (%)	Jun-24E	versus est. (%)
Cyient (DET)					
Revenues (US\$ mn)	169.6	(5.4)	(4.2)	174.5	(2.8)
Revenues (Rs mn)	14,144	(5.0)	(2.8)	14,554	(2.8)
EBIT (Rs mn)	1,903	(20.2)	(18.5)	2,263	(15.9)
Adj. Net income (Rs mn)	1,414	(18.5)	(17.8)	1,741	(18.8)
EBIT margin (%)	13.5	(260)bps	(260)bps	15.6	(210)bps
KPIT					
Revenues (US\$ mn)	164.9	3.7	23.1	166.4	(0.9)
Revenues (Rs mn)	13,646	3.6	24.3	13,880	(1.7)
EBIT (Rs mn)	2,356	7.0	34.7	2,373	(0.7)
Adj. net income (Rs mn)	1,714	3.4	42.2	1,723	(0.5)
EBIT margin (%)	17.3	60 bps	130 bps	17.1	20 bps
LTTS					
Revenues (US\$ mn)	295.2	(3.2)	5.4	300.6	(1.8)
Revenues (Rs mn)	24,619	(3.0)	7.0	25,073	(1.8)
EBIT (Rs mn)	3,836	(10.4)	(3.0)	3,905	(1.8)
Net income (Rs mn)	3,136	(8.0)	0.8	3,196	(1.9)
EBIT margin (%)	15.6	(130)bps	(160)bps	15.6	-
Tata Elxsi					
Revenues (US\$ mn)	111.0	1.8	7.3	110.1	0.8
Revenues (Rs mn)	9,265	2.3	9.0	9,182	0.9
EBIT (Rs mn)	2,450	4.8	6.5	2,375	3.2
Adj. net income (Rs mn)	2,039	3.5	7.9	1,986	2.7
EBIT margin (%)	26.4	60 bps	(60)bps	25.9	60 bps
Tata Technologies					
Revenues (US\$ mn)	152.1	(2.9)	(0.6)	162.0	(6.1)
Revenues (Rs mn)	12,690	(2.5)	0.9	13,511	(6.1)
EBIT (Rs mn)	2,014	(4.6)	(11.2)	2,243	(10.2)
Net income (Rs mn)	1,620	3.0	(14.9)	1,812	(10.6)
EBIT margin (%)	15.9	(30)bps	(220)bps	16.6	(70)bps

Source: Companies, Kotak Institutional Equities estimates

Significant cut to earnings estimates across most companies over FY2025-27E

Exhibit 2: Estimate revision for companies under coverage after June 2024, March fiscal year-ends, 2025-27E

	New			Earlier			Change(%)		
	FY2025E	FY2026E	FY2027E	FY2025E	FY2026E	FY2027E	FY2025E	FY2026E	FY2027E
Cyient (DET)									
Revenues (US\$ mn)	705	766	828	751	827	910	(6.1)	(7.4)	(9.1)
PAT (Rs mn)	6,302	7,590	8,288	7,693	8,867	9,571	(18.1)	(14.4)	(13.4)
EBIT margin (%)	14.2	15.6	15.8	16.1	16.4	16.6	(190)bps	(80)bps	(80)bps
KPIT									
Revenues (US\$ mn)	716	849	988	716	847	983	(0.1)	0.3	0.5
PAT (Rs mn)	7,779	10,107	12,333	7,448	10,048	12,129	4.4	0.6	1.7
EBIT margin (%)	17.6	19.1	19.6	17.2	19.1	19.5	40 bps	—	20 bps
LTTS									
Revenues (US\$ mn)	1,241	1,373	1,537	1,257	1,410	1,596	(1.3)	(2.7)	(3.7)
PAT (Rs mn)	13,668	15,521	17,841	13,627	15,688	18,285	0.3	(1.1)	(2.4)
EBIT margin (%)	16.1	16.4	16.7	16.0	16.4	16.8	10 bps	—	(10)bps
Tata Elxsi									
Revenues (US\$ mn)	474	553	631	469	546	623	1.0	1.3	1.2
PAT (Rs mn)	8,347	10,165	11,763	8,576	10,316	11,975	(2.7)	(1.5)	(1.8)
EBIT margin (%)	26.9	27.2	27.3	26.8	27.3	27.5	10 bps	(20)bps	(30)bps
Tata Technologies									
Revenues (US\$ mn)	654	751	844	716	827	930	(8.6)	(9.1)	(9.2)
PAT (Rs mn)	7,104	8,769	10,094	8,332	10,018	11,505	(14.7)	(12.5)	(12.3)
EBIT margin (%)	16.2	17.4	17.8	17.5	18.2	18.5	(140)bps	(80)bps	(70)bps

Source: Companies, Kotak Institutional Equities estimates

Exhibit 3: Revenues by industry verticals, June 2024 (US\$ mn)

	Jun-24 quarter		Growth (US\$,%)		Growth (c/c,%)	
	Revenue	% of revenues	qoq	yoy	qoq	yoy
Cyient DET						
Transportation	49.3	29.1			(7.0)	(8.0)
Connectivity	37.5	22.1			(7.6)	(16.9)
Sustainability	56.2	33.1			(2.8)	8.8
New Growth Areas	26.6	15.7			(1.6)	3.8
KPIT						
Automotive	164.9	100.0	3.7	23.1	4.7	24.8
- Passenger cars	132.0	80.1	5.2	31.3		
- Commercial vehicles	27.9	16.9	0.4	(3.2)		
LTTS						
Mobility	103.9	35.2	6.4	13.5		
Sustainability	88.6	30.0	(3.2)	0.4		
Hi-Tech	102.7	34.8	(11.6)	2.5		
Tata Elxsi						
Transportation	54.5	52.8	4.4	NA	5.3	20.3
Media & Communications	35.6	33.3	0.7	NA	0.5	(3.8)
Healthcare & medical devices	14.9	13.2	(4.9)	NA	(4.3)	(0.5)
Others	1.0	0.7	(21.0)	NA	(17.4)	(5.5)
Tata Technologies						
Transportation	100.4	85.0	(2.9)	(6.6)		
Media & Communications	17.7	15.0	5.3	33.4		

Source: Companies, Kotak Institutional Equities

Tepid growth in US across ERD peers

Exhibit 4: Revenues by geographies, June 2024 (US\$ mn)

	Jun-24 quarter		Growth (US\$,%)	
	Revenue	% of revenues	qoq	yoy
Cyient DET				
North America	79.7	47.0	1.7	4.2
EMEA	55.6	32.8	(14.3)	(8.7)
APAC incl India	34.1	20.1	(5.4)	(14.1)
KPIT				
US	46.5	28.2	(1.6)	3.5
Europe	85.0	51.5	3.3	24.8
Asia	33.4	20.3	13.2	59.4
LTTS				
North America	156.2	52.9	(4.7)	(1.3)
Europe	53.4	18.1	10.8	23.9
India	64.9	22.0	(10.2)	12.0
ROW	20.7	7.0	(0.4)	(0.3)
Tata Elxsi				
USA	37.4	33.7	(4.7)	(10.1)
Europe	46.9	42.2	6.6	21.0
India	19.5	17.6	3.6	11.1
RoW	7.2	6.5	5.1	31.6

Source: Companies, Kotak Institutional Equities

Exhibit 5: Transportation vertical revenues, June 2021-June 2024 (US\$ mn)

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Transportation													
KPIT	77.2	80.4	83.7	87.1	89.9	94.2	110.5	123.8	133.9	145.2	149.1	159.0	164.9
LTTS	64.2	68.3	71.6	77.3	79.5	85.2	89.0	88.0	91.6	95.6	96.5	97.6	103.9
Tata Elxsi	25.6	28.7	31.2	33.4	34.5	34.6	37.8	39.0	39.8	42.4	43.3	54.5	56.9
Tata Technologies							98.7	105.6	107.4	105.1	103.4	103.4	100.4
Total	167	177	186	198	204	214	336	356	373	388	392	414	426
QoQ revenue growth (%)	3.3	6.2	5.1	6.1	3.1	5.0	nm	6.1	4.6	4.2	1.0	nm	2.8

Source: Companies, Kotak Institutional Equities

Americas revenue growth has remained sluggish over past five quarters; some signs of weakness in Europe in areas such as auto

Exhibit 6: Americas and Europe's revenues trend, June 2021-June 2024 (US\$ mn)

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Americas													
Cyient (DET)	57	66	70	70	70	77	81	81	77	77	79	78	80
KPIT	32	33	30	33	35	35	35	45	45	44	45	47	46
LTTS	128	137	141	145	151	157	155	154	158	159	159	164	156
Tata Elxsi	33	33	36	37	40	41	43	42	42	42	41	39	37
Total	250	269	277	285	296	309	314	321	321	322	323	329	320
YoY revenue growth (%)					18.3	15.1	13.5	12.9	8.5	4.3	2.8	2.2	(0.5)
QoQ revenue growth (%)		7.3	3.1	2.8	3.9	4.5	1.6	2.3	(0.1)	0.4	0.2	1.8	(2.7)
Europe													
Cyient (DET)	34	34	36	32	31	42	55	61	61	60	63	65	56
KPIT	30	32	35	34	36	41	57	61	68	76	79	82	85
LTTS	35	36	37	37	39	39	40	42	43	46	48	48	53
Tata Elxsi	25	27	28	31	31	32	35	36	39	43	44	44	47
Total	124	130	136	134	137	155	186	200	211	224	234	239	241
YoY revenue growth (%)					10.5	19.8	36.8	48.7	53.8	44.5	25.6	19.6	14.3
QoQ revenue growth (%)		4.4	5.2	(1.4)	1.9	13.2	20.2	7.3	5.4	6.3	4.5	2.2	0.7

Source: Companies, Kotak Institutional Equities

Exhibit 7: Sequential organic revenue growth comparison in constant currency and US\$ terms across companies (%), June 2021-June 2024

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
c/c revenue growth qoq (%)													
Cyient (DET)	(0.4)	5.5	4.4	1.6	6.5	12.3	11.9	3.2	0.3	1.0	1.1	(0.5)	(5.0)
KPIT	4.3	4.8	5.6	5.2	6.0	8.3	19.3	8.5	7.1	9.0	4.3	5.1	4.7
LTTS	4.3	6.0	4.2	3.6	4.7	4.5	—	2.2	9.8	3.2	0.9	5.1	(3.1)
Tata Elxsi	6.4	7.4	6.5	7.4	6.5	4.7	3.5	1.6	1.2	3.4	3.0	(0.6)	2.4
Tata Technologies (services)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	(0.5)	(1.0)	(1.3)
Organic c/c revenue growth qoq (%)													
Cyient (DET)	(0.4)	5.2	4.1	1.6	(0.4)	3.0	3.7	2.6	(0.2)	1.0	1.1	(0.5)	(5.0)
KPIT	4.3	1.1	5.6	5.2	5.3	8.0	5.9	8.5	5.7	9.0	4.3	5.1	4.7
LTTS	4.3	6.0	4.2	3.6	4.7	4.5	—	2.2	0.7	1.5	0.3	1.1	(3.1)
Tata Elxsi	6.4	7.4	6.5	7.4	6.5	4.7	3.5	1.6	1.2	3.4	3.0	(0.6)	2.4
Tata Technologies (services)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	(0.5)	(1.0)	(1.3)
US\$ revenue growth qoq (%)													
Cyient (DET)	(0.3)	4.4	3.6	1.2	5.0	10.2	11.1	4.9	0.5	0.7	0.4	0.1	(5.4)
KPIT	3.7	4.1	4.1	4.1	3.2	4.8	17.3	12.0	8.2	8.4	2.7	6.6	3.7
LTTS	4.2	5.7	3.5	3.1	3.2	3.2	0.4	2.9	9.8	2.9	0.9	5.0	(3.2)
Tata Elxsi	6.3	6.2	5.4	6.7	3.5	1.7	4.5	2.5	1.5	3.1	2.9	(0.7)	1.8
Tata Technologies (services)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	(1.7)	—	(1.7)
Organic US\$ revenue growth qoq (%)													
Cyient (DET)	(0.3)	4.1	3.3	1.2	(2.0)	0.9	2.9	4.3	0.0	0.7	0.4	0.1	(5.4)
KPIT	3.7	0.4	4.1	4.1	2.5	4.5	3.9	12.0	6.8	8.4	2.7	6.6	3.7
LTTS	4.2	5.7	3.5	3.1	3.2	3.2	0.4	2.9	0.7	1.2	0.3	1.0	(3.2)
Tata Elxsi	6.3	6.2	5.4	6.7	3.5	1.7	4.5	2.5	1.5	3.1	2.9	(0.7)	1.8
Tata Technologies (services)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	(1.7)	—	(1.7)

Source: Companies, Kotak Institutional Equities estimates

Exhibit 8: Organic revenue growth comparison in constant currency and US\$ terms across companies (% yoy), June 2021-June 2024

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
c/c revenue growth yoy (%)													
Cyient (DET)	1.6	7.7	12.1	11.3	18.7	25.8	34.4	38.4	30.6	17.1	5.4	1.8	(3.6)
KPIT	NA	NA	21.2	21.0	23.0	27.0	44.7	50.0	51.7	51.7	31.5	27.6	24.8
LTTS	18.6	22.3	19.5	19.4	19.9	18.1	13.5	12.1	17.3	16.0	17.1	20.4	6.1
Tata Elxsi	37.4	37.2	32.7	30.9	30.9	27.8	24.4	17.9	11.9	10.1	9.4	7.2	8.4
Tata Technologies (services)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	5.8	(0.5)	(1.9)
Organic c/c revenue growth yoy (%)													
Cyient (DET)	(0.7)	5.1	10.7	10.7	14.7	11.5	10.6	12.0	9.4	7.2	4.6	1.4	(3.6)
KPIT	NA	NA	17.1	17.2	18.5	25.9	28.6	34.5	35.5	36.5	30.0	27.6	24.8
LTTS	16.4	20.1	19.5	19.4	19.9	18.1	13.5	12.1	7.6	4.5	4.8	3.6	6.1
Tata Elxsi	37.4	37.2	32.7	30.9	30.9	27.8	24.4	17.9	11.9	10.1	9.4	7.2	8.4
Tata Technologies (services)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	5.8	(0.5)	(1.9)
US\$ revenue growth yoy (%)													
Cyient (DET)	6.3	9.2	12.0	9.2	14.9	21.3	30.1	34.9	29.2	18.1	6.7	1.8	(4.2)
KPIT	18.3	23.0	20.0	16.9	16.4	17.2	32.0	42.1	48.9	54.1	35.0	28.4	23.1
LTTS	20.3	22.1	18.4	17.5	16.4	13.7	10.2	10.0	16.9	16.6	17.2	19.6	5.4
Tata Elxsi	43.3	38.7	31.0	27.0	23.6	18.3	17.3	12.7	10.6	12.1	10.4	7.0	7.3
Tata Technologies (services)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	8.3	1.2	(2.2)
Organic US\$ revenue growth yoy (%)													
Cyient (DET)	4.0	6.6	10.6	8.6	10.9	7.0	6.3	8.5	7.9	8.2	5.9	1.4	(4.2)
KPIT	18.3	18.7	15.9	13.1	11.9	16.1	15.9	26.6	32.7	38.9	33.5	28.4	23.1
LTTS	18.1	19.9	18.4	17.5	16.4	13.7	10.2	10.0	7.2	5.1	4.9	2.8	5.4
Tata Elxsi	43.3	38.7	31.0	27.0	23.6	18.3	17.3	12.7	10.6	12.1	10.4	7.0	7.3
Tata Technologies (services)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	8.3	1.2	(2.2)

Source: Companies, Kotak Institutional Equities estimates

Exhibit 9: Top-5 and top-10 clients revenue growth trend (%), June 2021-June 2024

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Top 5 clients													
Revenue (US\$ mn)													
Cyient (DET)	44.0	41.1	40.7	40.0	44.0	43.7	43.5	47.2	52.4	52.6	53.4	55.6	53.8
LTTS	31.6	34.5	36.6	37.8	38.2	38.7	38.7	39.3	37.9	39.9	43.7	44.8	44.2
Tata Elxsi	30.1	29.4	32.2	34.6	37.4	38.0	38.2	40.6	43.5	47.5	48.1	50.4	52.4
Revenue mix (%)													
Cyient (DET)	36.9	33.0	31.5	30.6	32.1	28.9	25.9	26.8	29.6	29.5	29.8	31.0	31.7
LTTS	15.4	15.8	16.2	16.3	15.9	15.7	15.6	15.4	13.5	13.8	15.0	14.7	15.0
Tata Elxsi	39.8	36.6	38.0	38.3	40.0	39.9	38.4	39.8	42.0	44.5	43.8	46.2	47.2
Revenue growth yoy (%)													
Cyient (DET)	11.5	3.6	(0.1)	(5.3)	(0.0)	6.2	6.9	18.2	19.1	20.5	22.8	17.7	2.6
LTTS	(6.9)	9.0	22.2	27.7	20.7	12.3	5.7	3.9	(0.8)	3.1	13.1	13.9	16.8
Tata Elxsi	38.2	27.0	24.2	24.6	24.3	29.0	18.6	17.2	16.1	25.1	26.0	24.2	20.6
Revenue growth qoq (%)													
Cyient (DET)	4.3	(6.6)	(1.1)	(1.7)	10.1	(0.8)	(0.4)	8.6	11.0	0.4	1.5	4.1	(3.3)
LTTS	6.7	9.0	6.2	3.5	0.8	1.4	(0.1)	1.7	(3.8)	5.4	9.6	2.5	(1.3)
Tata Elxsi	8.4	(2.3)	9.4	7.5	8.1	1.4	0.6	6.2	7.2	9.2	1.3	4.7	4.0
Top 10 clients													
Revenue (US\$ mn)													
Cyient (DET)	58.7	56.8	57.2	55.6	59.8	60.3	60.1	63.6	69.4	69.9	71.3	74.6	72.8
LTTS	52.8	57.2	60.3	62.3	63.1	63.5	64.3	65.8	66.7	69.9	74.1	76.8	77.5
Tata Elxsi	38.5	38.6	39.6	41.8	45.2	45.8	47.7	50.3	53.7	56.8	57.7	60.9	64.4
Revenue mix (%)													
Cyient (DET)	49.2	45.6	44.3	42.6	43.6	39.9	35.8	36.1	39.2	39.2	39.8	41.6	42.9
LTTS	25.7	26.3	26.8	26.8	26.3	25.7	25.9	25.8	23.8	24.3	25.5	25.2	26.3
Tata Elxsi	50.9	48.0	46.7	46.2	48.3	48.1	48.0	49.4	51.9	53.2	52.5	55.9	58.0
Revenue growth yoy (%)													
Cyient (DET)	12.3	9.7	5.5	(1.2)	1.8	6.1	5.1	14.3	16.1	16.0	18.7	17.3	4.8
LTTS	(6.8)	8.6	20.2	25.7	19.4	11.0	6.7	5.7	5.8	10.1	15.2	16.7	16.2
Tata Elxsi	50.1	31.3	29.6	21.5	17.3	18.6	20.6	20.5	18.8	24.0	20.8	21.1	19.9
Revenue growth qoq (%)													
Cyient (DET)	4.2	(3.2)	0.7	(2.7)	7.4	0.9	(0.3)	5.8	9.1	0.7	2.0	4.6	(2.5)
LTTS	6.7	8.2	5.4	3.3	1.3	0.6	1.3	2.4	1.4	4.8	6.0	3.7	0.9
Tata Elxsi	12.1	0.2	2.5	5.5	8.2	1.2	4.3	5.5	6.7	5.7	1.6	5.7	5.7

Source: Company, Kotak Institutional Equities

Headcount declined sequentially across most companies; healthy growth at KPIT

Exhibit 10: Headcount trend, June 2021-June 2024

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Cyient (DET)	11,826	12,035	12,173	12,834	13,581	15,004	14,693	15,172	15,306	15,441	15,678	15,461	15,083
KPIT	6,564	6,732	7,826	8,245	9,183	9,916	10,490	11,013	11,571	11,971	12,727	12,856	13,253
LTTS	16,972	17,983	20,118	20,861	21,433	21,474	21,649	22,233	23,392	23,880	23,298	23,812	23,577
Tata Elxsi	7,914	8,619	9,033	9,376	10,147	11,679	11,607	11,864	12,286	12,871	13,221	13,399	13,142
Tata Technologies							11,081	11,616	11,833	12,451	12,623	12,688	12,505
Total	43,276	45,369	49,150	51,316	54,344	58,073	69,520	71,898	74,388	76,614	77,547	78,216	77,560
QoQ growth (%)													
Cyient (DET)	4.0	1.8	1.1	5.4	5.8	10.5	(2.1)	3.3	0.9	0.9	1.5	(1.4)	(2.4)
KPIT	3.1	2.6	16.3	5.4	11.4	8.0	5.8	5.0	5.1	3.5	6.3	1.0	3.1
LTTS	3.2	6.0	11.9	3.7	2.7	0.2	0.8	2.7	5.2	2.1	(2.4)	2.2	(1.0)
Tata Elxsi	7.5	8.9	4.8	3.8	8.2	15.1	(0.6)	2.2	3.6	4.8	2.7	1.3	(1.9)
Tata Technologies								4.8	1.9	5.2	1.4	0.5	(1.4)
Total	4.2	4.8	8.3	4.4	5.9	6.9	nm	3.4	3.5	3.0	1.2	0.9	(0.8)
YoY growth (%)													
Cyient (DET)		3.4	5.3	12.9	14.8	24.7	20.7	18.2	12.7	2.9	6.7	1.9	(1.5)
KPIT		1.5	27.2	29.5	39.9	47.3	34.0	33.6	26.0	20.7	21.3	16.7	14.5
LTTS		13.1	25.2	26.8	26.3	19.4	7.6	6.6	9.1	11.2	7.6	7.1	0.8
Tata Elxsi		44.9	32.5	27.4	28.2	35.5	28.5	26.5	21.1	10.2	13.9	12.9	7.0
Tata Technologies											13.9	9.2	5.7
Total		13.1	21.1	23.5	25.6	28.0	nm	nm	nm	nm	11.5	8.8	4.3

Source: Companies, Kotak Institutional Equities

Margin declines across most companies yoy

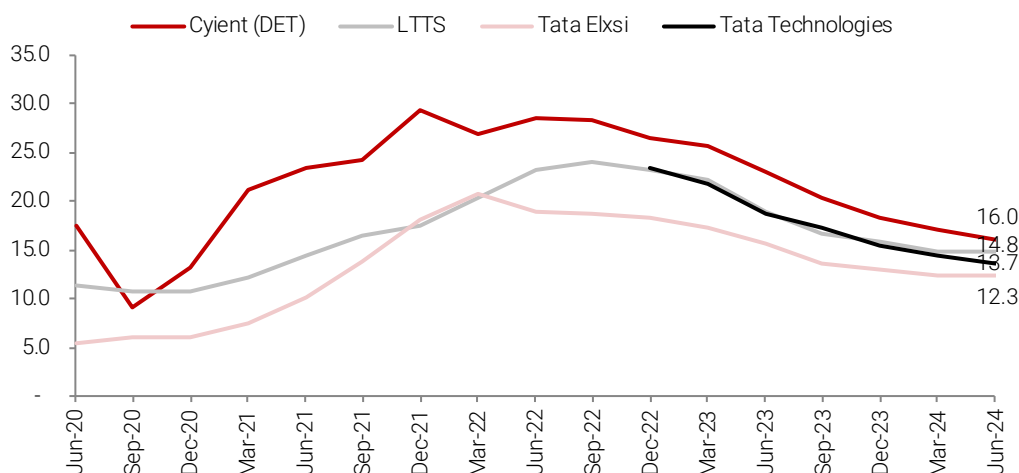
Exhibit 11: EBIT margin trend, June 2021-June 2024 (%)

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	qoq (bps)	yoy (bps)
Cyient (DET)	14.6	15.5	15.6	15.4	12.8	12.5	13.9	15.1	16.1	16.5	16.0	16.0	13.5	(260)	(260)
KPIT	12.2	12.7	13.5	13.9	14.9	14.2	14.1	14.9	15.9	16.0	16.6	16.7	17.3	60	130
LTTS	17.3	18.4	18.6	18.6	18.3	18.2	18.7	18.7	17.2	17.1	17.2	16.9	15.6	(130)	(160)
Tata Elxsi	24.7	28.6	31.0	30.1	30.6	26.8	27.6	27.3	27.1	27.1	26.8	25.8	26.4	60	(60)
Tata Technologies	NA	NA	NA	NA	NA	NA	16.2	15.5	18.0	14.8	16.2	16.2	15.9	(30)	(220)

Source: Companies, Kotak Institutional Equities

Attrition moderated at TTL and Cyient (DET) sequentially and remained stable at LTTS and TELX

Exhibit 12: LTM attrition, June 2020-June 2024 (%)



Source: Companies, Kotak Institutional Equities

Exhibit 13: Valuation summary of ERD companies under coverage

Company	29-Jul-24		Mkt cap.		EPS (Rs)			P/E (X)			EV/EBITDA (X)			RoE (%)		
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	2024	2025E	2026E	2024	2025E	2026E	2024	2025E	2026E	2024	2025E	2026E
Cyient	1,746	BUY	193,698	2,313	66.3	65.7	79.3	26.3	26.6	22.0	14.4	14.9	12.4	18.3	15.4	17.1
KPIT Technologies	1,800	SELL	493,322	5,891	21.3	28.5	37.0	84.5	63.2	48.6	48.9	38.4	30.0	30.4	31.4	31.9
L&T Technology Services	5,201	SELL	550,365	6,573	123.5	129.5	147.0	42.1	40.2	35.4	27.2	26.4	23.4	25.4	24.0	23.9
Tata Elxsi	6,930	SELL	431,588	5,154	127.2	137.2	163.2	54.5	50.5	42.5	39.8	35.3	29.7	34.5	32.1	33.8
Tata Technologies	1,001	SELL	405,871	4,847	17.0	17.5	21.6	58.7	57.1	46.3	42.0	39.1	31.6	22.3	20.9	23.1

Company	Target	O/S shares	EPS CAGR (%)	EPS growth (%)			Net Profit (Rs mn)			EBITDA (Rs mn)			Sales (Rs mn)		
	Price (Rs)	(mn)	2024-26E	2024	2025E	2026E	2024	2025E	2026E	2024	2025E	2026E	2024	2025E	2026E
Cyient	2,050	111	9.4	28.6	(0.9)	20.7	7,349	7,282	8,791	13,029	12,446	14,768	71,473	74,878	85,437
KPIT Technologies	1,150	273	31.9	51.9	33.8	29.9	5,811	7,779	10,107	9,913	12,579	15,877	48,715	59,553	71,533
L&T Technology Services	4,400	106	9.1	11.4	4.8	13.6	13,036	13,668	15,521	19,189	19,505	21,816	96,472	103,443	115,665
Tata Elxsi	5,500	62	13.3	4.9	7.8	19.0	7,924	8,544	10,165	10,466	11,726	13,851	35,521	39,496	46,574
Tata Technologies	650	406	12.6	10.8	2.7	23.4	6,914	7,104	8,769	9,412	10,033	12,314	51,171	54,505	63,306

Source: Bloomberg, Kotak Institutional Equities estimates

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ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5+5% returns over the next 12 months.

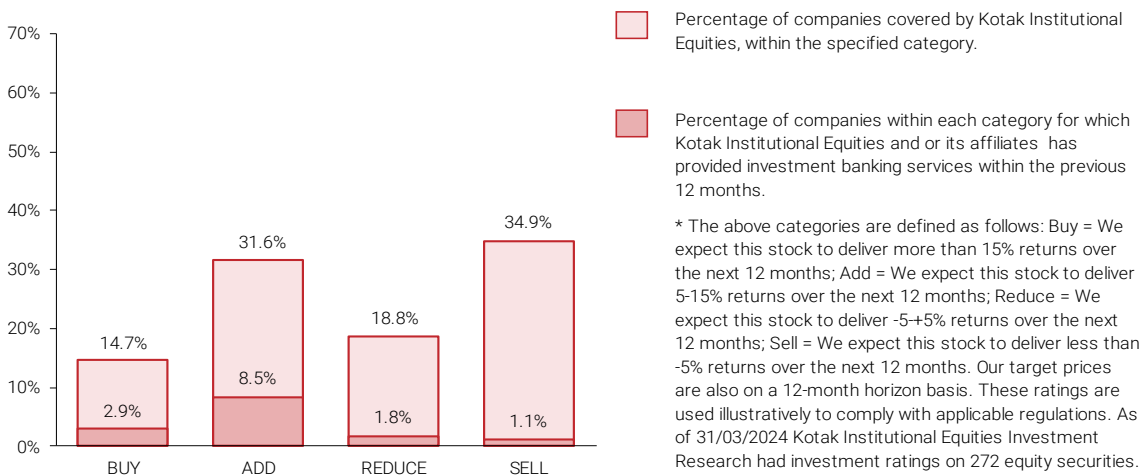
SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our Fair Value estimates are also on a 12-month horizon basis.

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