

October 17, 2023

RESULT REPORT Q2 FY24 | Information Technology

L&T Technology Services

Inline operating performance; Revised FY24 revenue growth guidance to 17.5%-18.5%

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 2.9% QoQ in USD terms. The cc revenue growth was 3.2% QoQ in cc terms. There was sequential decline in EBIT margin (down 11 bps QoQ) to 17.1%. led by impact of wage hike in the quarter. Employee attrition continues to decline as LTM attrition decreased by 220 bps QoQ to 16.7%.

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 17.5% (including impact of SWC acquisition) over FY23-25E with average EBIT margin of 17.9%. We maintain our NEUTRAL rating on the stock with revised target price of Rs 4,689/share at 31x on FY25E EPS. The stock trades at PER of 37.3x/30.6x on FY24E/FY25E EPS.

Result Highlights

- Reported revenue of Rs 23.9bn (up 3.7% QoQ in INR terms, up 2.9% QoQ in USD terms). The sequential revenue growth was led by Transportation vertical (up 4.5% QoQ), Plant Engineering (up 3.6% QoQ) and Telecom & Hitech (up 2.5% QoQ).
- EBIT margin decreased by 11 bps QoQ to 17.1%, due to higher D&A expense (up 18.6% QoQ).
- Deal bookings remained healthy during the quarter, it won 7 USD 10 million plus TCv deal out of which 6 deals were USD 15 million plus TCv deal.
- The offshore revenue mix increased by 30 bps QoQ to 59.6%. Number of Active clients increased to 362 clients in Q2FY24 from 357 clients in Q1FY24.
- Headcount grew by 488 QoQ to 23,880 employees. LTM attrition decreased by 220 bps QoQ to 16.7%.
- Revised 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	23,865	23,564	23,880	1.3%	-0.1%
EBITDA	4,756	4,627	4,600	2.8%	3.4%
EBITDA Margin (%)	19.93%	19.64%	19.26%	29 bps	67 bps
Adjusted PAT	3,159	3,058	3,120	3.3%	1.3%

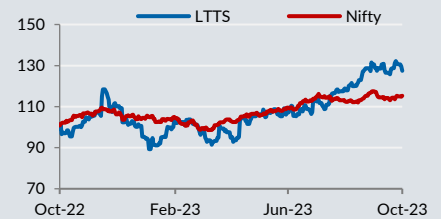
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 4,613
Target Price	: Rs 4,689
Potential Return	: + 1.6%

Stock data (as on October 17, 2023)

Nifty	19,812
52 Week h/l (Rs)	4859 / 3216
Market cap (Rs/USD mn)	495810 / 5959
Outstanding Shares (mn)	106
6m Avg t/o (Rs mn):	984
Div yield (%):	1.0
Bloomberg code:	LTTS IN
NSE code:	LTTS

Stock performance



	1M	3M	1Y
Absolute return	-2.3%	12.6%	28.6%

Shareholding pattern (As of Jun'23 end)

Promoter	73.8%
FII+DII	15.9%
Others	10.3%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	4,689	4,295

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	124.1	151.3
EPS (Old)	125.3	148.1
%Change	-1.0%	2.1%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	80,136	96,715	110,599
YoY Growth	22.0%	20.7%	14.4%
EBIDTA	17,132	19,750	23,779
YoY Growth	21.1%	15.3%	20.4%
PAT	11,695	13,105	15,973
YoY Growth	22.2%	12.1%	21.9%
ROE	25.7%	24.2%	24.6%
EPS	111	124	151
P/E	41.8	37.3	30.6
BV	469	558	671
P/BV	9.9	8.3	6.9

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Exhibit 2: Quarterly snapshot Consol: Operating margin dipped sequentially

Particulars(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	yoy%	qoq %	H1FY24	H1FY23	yoy%
Sales (\$ mn)	247	248	255	280	288	16.6	2.9	568	487	16.7
Sales	19,951	20,486	20,962	23,014	23,865	19.6	3.7	46,879	38,688	21.2
EBITDA	4,218	4,412	4,492	4,528	4,756	12.8	5.0	9,284	8,228	12.8
EBITDA %	21.1	21.5	21.4	19.7	19.9	-121 bps	25 bps	19.8	21.3	-146 bps
Depreciation	590	583	565	574	681	15.4	18.6	1,255	1,166	7.6
EBIT	3,628	3,829	3,927	3,954	4,075	12.3	3.1	8,029	7,062	13.7
EBIT Margin %	18.2	18.7	18.7	17.2	17.1	-111 bps	-11 bps	17.1	18.3	-113 bps
Other income	261	613	392	357	286	9.6	-19.9	643	601	7.0
PBT	3,889	4,442	4,319	4,311	4,361	12.1	1.2	8,672	7,663	13.2
Tax	1,057	1,406	1,210	1,190	1,202	13.7	1.0	2,392	2,081	14.9
PAT	2,832	3,036	3,109	3,121	3,159	11.5	1.2	6,280	5,582	12.5
NPM (%)	14.2	14.8	14.8	13.6	13.2	-96 bps	-32 bps	13.4	14.4	-103 bps

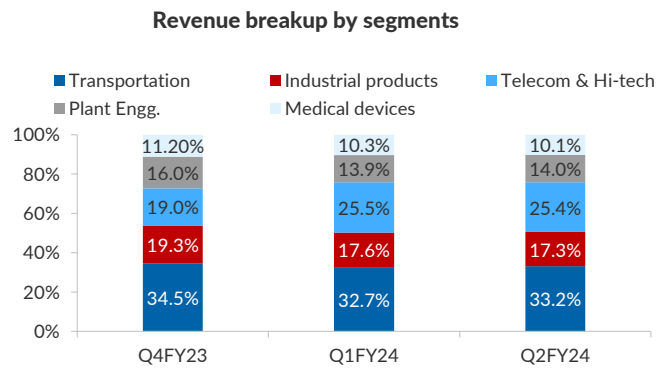
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- While longer term trends for ER&D remain strong, in the short term, it is seeing longer decision cycles and incremental headwinds from the macro-economic stress in various geographies.
- Deal velocity has slowed down; while there has been increase in average tenure of deals.
- Expects softness in segments such as Semiconductor and Medical to continue in Q3FY23.
- Collaboration with hyperscalers and chip companies is helping LTTS develop AI solutions and services that address needs of industries like Auto, Manufacturing and Medical.
- LTTS is investing in software defined vehicles, AI & cybersecurity, and will have close to 2,000 employees trained over the next few quarters.
- A \$10 million deal in North America won as result of having a superior end-to-end technology stack for wireless and 5G communications.
- Q3FY24 is expected to be seasonally weak followed by an uptick in Q4FY24.
- Guidance for EBIT Margin for FY24 to be around 17% and to improve to ~ 18% by H1FY26.
- Effective Tax Rate for Q2FY24 stood at 27.6%. DSO remained flat QoQ to 102 Days.
- Interim Dividend of ₹17 per share; Record date October 27, 2023.

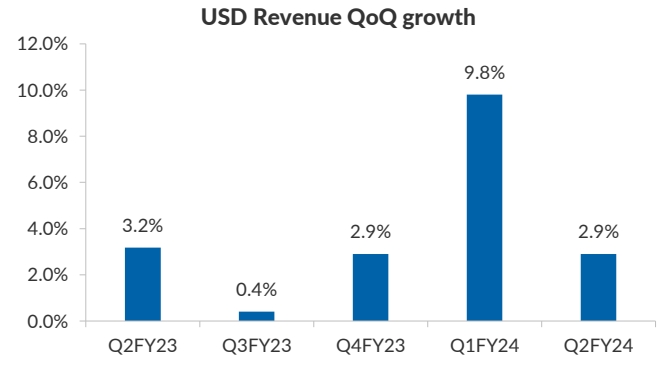
STORY IN CHARTS

Exhibit 3: Performance in the quarter was led by Transportation Vertical



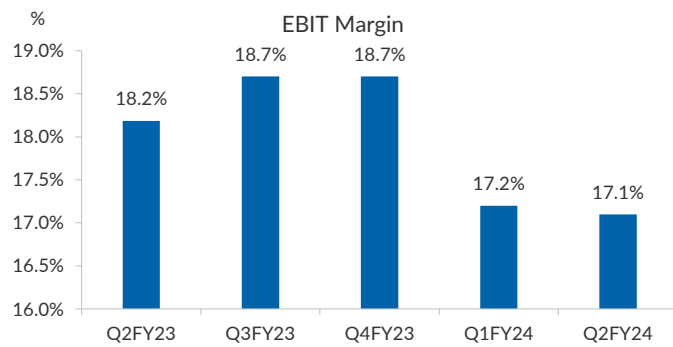
Source: Company, YES Sec

Exhibit 4: Sequential revenue growth was inline with expectation



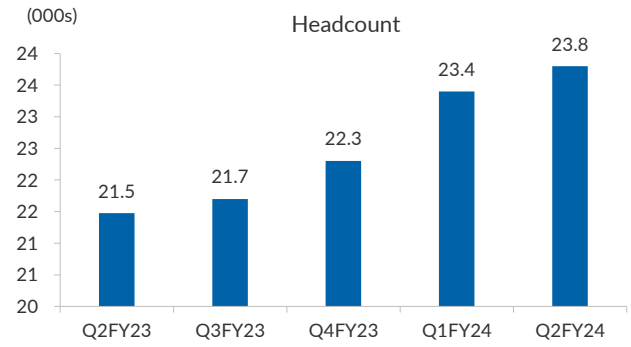
Source: Company, YES Sec

Exhibit 5: EBIT margin dipped on account of wage hike in the quarter



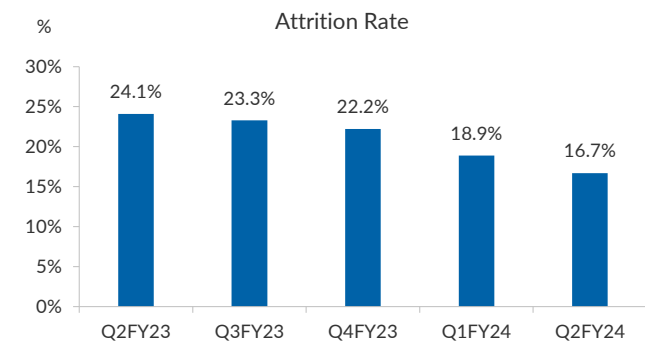
Source: Company, YES Sec

Exhibit 6: Headcount continues to grow



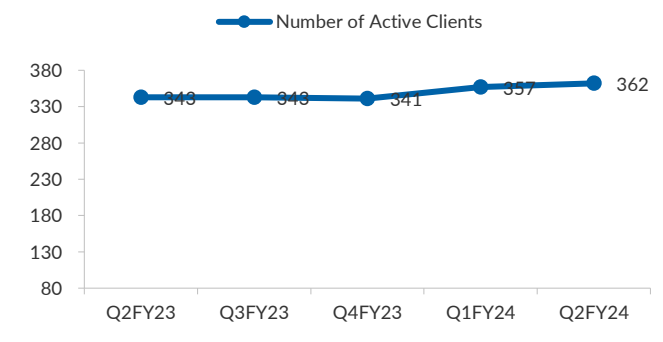
Source: Company, YES Sec

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)	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	209	210	211	211	211	211
Reserves & surplus	27,477	34,521	41,414	49,298	58,731	70,612
Shareholders' funds	27,686	34,731	41,625	49,509	58,942	70,823
Non-current liabilities	4,890	4,915	5,359	4,345	4,405	4,466
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	4,890	4,915	5,359	4,345	4,405	4,466
Current liabilities	10,388	10,982	13,789	15,139	15,482	17,014
ST borrowings, Curr maturity	303	0	0	0	0	0
Other current liabilities	10,085	10,982	13,789	15,139	15,482	17,014
Total (Equity and Liabilities)	43,033	50,729	60,910	69,173	79,010	92,483
Non-current assets	13,931	15,703	17,659	17,763	18,531	19,515
Fixed assets (Net block)	6,362	7,116	7,045	6,995	6,727	6,441
Non-current Investments	0	0	0	0	0	0
Other non-current assets	7,569	8,587	10,614	10,768	11,804	13,074
Current assets	29,102	35,026	43,251	51,410	60,478	72,968
Cash & current investment	8,549	17,476	20,660	27,987	31,383	40,157
Other current assets	20,553	17,550	22,591	23,423	29,095	32,812
Total (Assets)	43,033	50,729	60,910	69,173	79,010	92,483

Source: Company, YES Sec

Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	56,192	54,497	65,697	80,136	96,715	110,599
Operating expenses	(45,087)	(44,423)	(51,548)	(63,004)	(76,965)	(86,820)
EBITDA	11,105	10,074	14,149	17,132	19,750	23,779
Depreciation	(1,829)	(2,183)	(2,144)	(2,314)	(2,850)	(3,539)
EBIT	9,276	7,891	12,005	14,818	16,900	20,240
Other income	2,091	1,537	1,087	1,606	1,238	1,855
Finance cost	(365)	(455)	0	0	0	0
Profit before tax	11,002	8,973	13,092	16,424	18,138	22,094
Tax (current + deferred)	(2,778)	(2,307)	(3,486)	(4,697)	(5,001)	(6,090)
Reported Profit / (Loss)	8,186	6,634	9,574	11,695	13,105	15,973
Adjusted net profit	8,186	6,634	9,574	11,695	13,105	15,973

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	11,002	8,973	13,092	16,424	18,138	22,094
Depreciation	1,829	2,183	2,144	2,314	2,850	3,539
Change in working capital	2,085	3,204	(2,391)	(408)	(5,280)	(2,137)
Total tax paid	(2,825)	(1,342)	(2,956)	(4,785)	(4,989)	(6,077)
Others	(1,726)	(1,082)	(1,087)	(1,606)	(1,238)	(1,855)
Cash flow from oper. (a)	10,365	11,936	8,802	11,939	9,480	15,565
Capital expenditure	(5,756)	(2,937)	(2,073)	(2,264)	(2,582)	(3,253)
Change in investments	(361)	(9,039)	1,231	(7,170)	(3,163)	(3,638)
Others	2,290	642	(815)	1,581	202	585
Cash flow from inv. (b)	(3,827)	(11,334)	(1,657)	(7,853)	(5,543)	(6,306)
Free cash flow (a+b)	6,538	602	7,145	4,086	3,937	9,259
Equity raised/(repaid)	1	1	1	0	0	0
Debt raised/(repaid)	(399)	(303)	0	0	0	0
Dividend (incl. tax)	(3,086)	(2,198)	(3,633)	(3,167)	(3,672)	(4,091)
Others	(2,666)	1,786	902	(762)	(32)	(32)
Cash flow from fin. (c)	(6,150)	(714)	(2,730)	(3,929)	(3,704)	(4,123)
Net chg in cash (a+b+c)	388	(112)	4,415	157	233	5,136

Source: Company, YES Sec

Exhibit 12: Ratio Analysis

Y/e March 31	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth(%)						
Revenue Growth	10.7	-3.0	20.6	22.0	20.7	14.4
EBITDA Growth	21.3	-9.3	40.5	21.1	15.3	20.4
EBIT Growth	14.4	-14.9	52.1	23.4	14.0	19.8
Net Profit Growth	6.6	-19.0	44.3	22.2	12.1	21.9
Profitability Ratios(%)						
EBITDA Margin	19.8	18.5	21.5	21.4	20.4	21.5
EBIT margin	16.5	14.5	18.3	18.5	17.5	18.3
Net Profit margin	14.6	12.2	14.6	14.6	13.5	14.4
RoA	24.2	16.8	21.5	22.8	22.8	23.6
RoE	31.2	21.3	25.1	25.7	24.2	24.6
RoCE	31.6	21.7	27.6	29.3	28.8	29.1
Liquidity Ratios						
Net debt/Equity (x)	-0.3	-0.5	-0.5	-0.6	-0.5	-0.6
Current ratio (x)	2.8	3.2	3.1	3.4	3.9	4.3
Quick ratio (x)	2.8	3.2	3.1	3.4	3.9	4.3
Valuation Ratios						
PER(x)	NA	NA	NA	41.8	37.3	30.6
PCE(x)	NA	NA	NA	34.9	30.7	25.1
Price/Book(x)	NA	NA	NA	9.9	8.3	6.9
EV/EBITDA(x)	NA	NA	NA	26.9	23.2	18.9

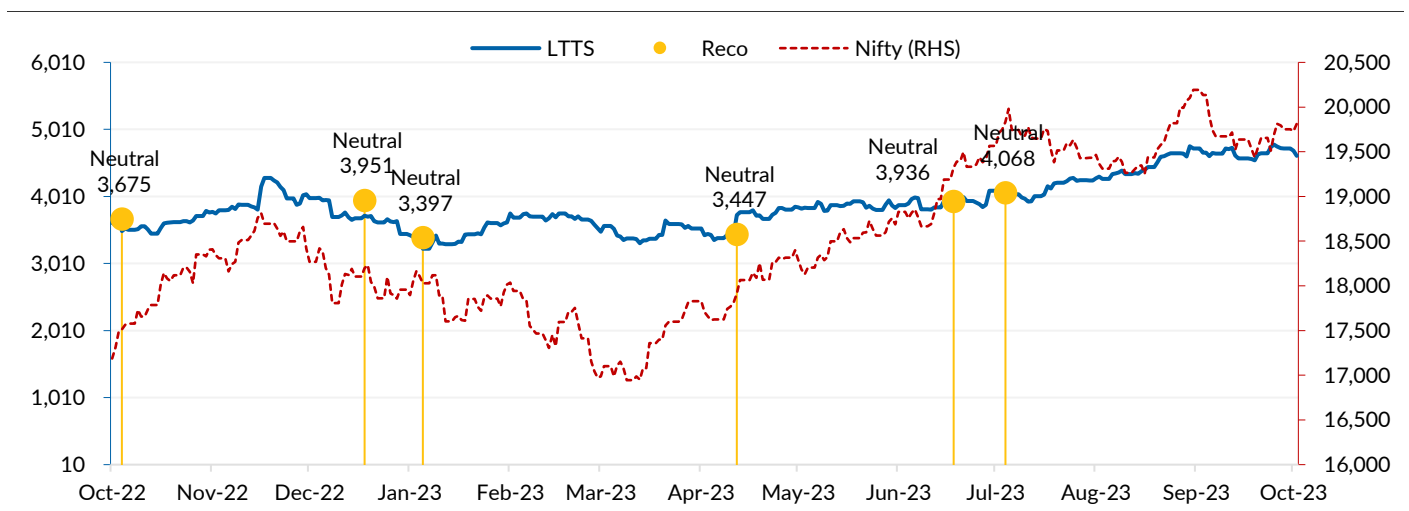
Source: Company, YES Sec

Exhibit 13: Dupont Analysis

Dupont Analysis	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	14.6	12.2	14.6	14.6	13.5	14.4
Asset turnover (x)	1.5	1.2	1.2	1.2	1.3	1.3
Leverage factor (x)	1.5	1.5	1.5	1.4	1.4	1.3
Return on Equity(%)	31.2	21.3	25.1	25.7	24.2	24.6

Source: Company, YES Sec

Recommendation Tracker



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