

22nd July 2024

CMP – ₹4,857.8/-

View – **ACCUMULATE**

Q1FY25 Result Highlights

- **Revenue de-grew 3.1% QoQ C/C terms due to seasonality in SWC business and investment across verticals** – L&T Technology Services Ltd (LTTS) Q1FY25 revenue de-grew 3.2% QoQ but grew 5.4% YoY (-3.1% QoQ and +6.1% YoY in C/C terms) to USD 295.2mn impacted by seasonality in the SWC business, project closure of a US telecom client and investments across verticals. However, the management is confident of strong growth and margins in coming quarters. EBIT margin came in at 15.6%, declining 130 bps QoQ. Large deal momentum moderated sequentially to +~USD 120 mn v/s +USD 190 mn in Q4FY24 but was in line with the average of the last four quarters of +USD 120 mn. Large deals include two deals each of USD 30 mn and USD 15 mn, and three deals of USD 10 mn. The company also secured two significant empaneled deals, one with a Middle-Eastern oil-based customer and a second one with an auto major in Europe. Headcount stood at 23,577, down 1% on a sequential basis. LTM attrition was 14.8%, flat QoQ. At the end of Q1FY25, the patents portfolio stood at 1,343, out of which 853 are co-authored with customers and the rest are filed by LTTS. The company is making steady progress in Gen-AI with total 61 patents filed so far.
- **Weakness in other verticals/geographies was offset by Mobility and Europe** – Among verticals, weakness was led by the Hi-Tech vertical (34.8% of total revenue) declining 11.6% QoQ and Sustainability vertical (30% of total revenue) which was down 3% partly offset by the Mobility vertical (35.2% of total revenue) which grew 6.4%. The company secured engagements with multiple auto OEMs, Tier-1 suppliers and commercial vehicle OEMs globally. Despite a soft 1Q, the outlook for mobility remains strong. Of the total large deals, three large deals were won in Mobility-one worth USD 30mn and two worth USD 15mn. Further, management expects the Sustainability vertical to do well in Q2 due to ramping up of deals won. Among geographies, North America was down 4.6% QoQ, India was down 10.2%, and RoW was down 0.6%, partly offset by Europe, up 10.6%.
- As per the management, the clients are interested in cost optimisation and vendor consolidation and do not expect significant change in demand environment in the near term. Deal Pipeline has doubled YoY. And decision making on multiple large USD 25-50 mn deals would happen in the next 8-12 weeks
- LTTS indicated that it would adopt the inorganic route to bolster capabilities and is actively scouting for targets available at reasonable valuations. Areas of interest include Automotive in Europe in new tech areas such as SDV, ISV and hyperscalers in North America and MedTech in North America to enhance solutions in healthcare. However, management indicated that market access would not be a rationale for acquisition. The inorganic strategy also ties in with aspiration of USD 1.5 bn annualised revenues by Q4FY25. The ideal scale of targets would be USD 50-150mn in revenues.
- Within **Mobility**, the demand in Automotive vertical is evolving as per the management due to multiple factors like OEMs are building larger teams and insourcing of software activity, Tier-1 suppliers are restructuring the business, reacting to changing business models and focus on vendor consolidation and cost optimization, and within EV, there is shift from product development to value engineering and replacement of some part of spends toward extension of programs for ICE, hybrids, SDV and alternate fuel technologies. While EV opportunities continue, activity is shifting toward SDV. The company is enhancing SDV competencies and has won multiple large deals in OEMs and Tier-1 suppliers. Within Aero, large deal opportunities exist in avionics equipment development. Growth momentum is likely to continue in the vertical.

Important Statistics

Nifty	24,531
Sensex	80,605
MCAP (₹ bn)	514.1
52 Week H/L (₹)	5,885/3,910
NSE Code	LTTS
BSE Code	540115
Bloomberg	LTTS:IN

Shareholding Pattern	Jun'24 (%)
Promoters	73.7
DIIIs	13.3
FIIIs	4.5
Public & Others	8.5

FINANCIALS

(₹ mn)

Particulars	FY21	FY22	FY23
Revenue	54,497	65,697	88,155
EBIT	7,891	12,005	15,272
EBIT Margin (%)	14.5	18.3	17.3
Net Profit	6,634	9,606	12,121
EPS (₹)	62.6	90.6	114.3
DPS (₹)	22.0	35.0	45.0
RoE (%)	21.2	25.0	27.2
RoCE (%)	16.2	20.3	30.7
P/E (x)	77.6	53.6	42.5
P/BV (x)	14.8	12.4	11.6
EV/EBITDA (x)	51.6	36.5	29.4

Particulars	FY24P	FY25E	FY26E
Revenue	96,473	105,500	118,296
EBIT	16,474	16,674	19,345
EBIT Margin (%)	17.1	15.8	16.4
Net Profit	13,037	13,472	15,211
EPS (₹)	123.0	127.1	143.5
DPS (₹)	50.0	55.0	60.0
RoE (%)	24.4	22.8	23.7
RoCE (%)	27.7	26.6	26.5
P/E (x)	39.5	38.2	33.9
P/BV (x)	9.6	9.0	8.2
EV/EBITDA (x)	26.4	24.5	21.5

Source: Company, Way2Wealth

Relative Performance

Return (%)	1 Yr	3Yr	5 Yr
LTTS	23.0	43.5	253.4
Nifty 50	31.4	54.7	116.5
Sensex	21.4	52.2	111.9

Source: Company, Way2Wealth

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View – **ACCUMULATE**

- Within **Sustainability**, Plant engineering is growing at a strong rate led by new capex projects; spend on plant modernisation and digital twins while Industrial products segment was weak as supply chain inventory is at an all-time high for many customers, leading to a difference in spending and budgets. Decision making delays led to large deals being pushed and weak performance during the quarter. Management expect this vertical to notch growth in Q2FY25.
- Within **Hi-Tech**, Healthy growth was witnessed in semiconductor sub-segment. Communication and media business was impacted due to SWC and clients prioritizing cost optimisation. Multiple large deals across telecom, semiconductor, ISV and MedTech segments.
- Aims to increase offshore revenue mix to 60% range from 58.9% currently.
- Receivable days increased to 102 days (up 2 days QoQ) while unbilled receivable days increased to 23 (up 9 days QoQ). DSO (including unbilled) was at 125 days
- FCF consumption was at ₹890mn due to increased receivable days.

View

L&T Technology Services (LTTS) reported revenue of US\$ 305.1mn down by 3.1% QoQ in CC terms impacted by SWC seasonality, however, despite a weak Q1FY25 the company maintains its FY25 guidance of 8-10% revenue growth in constant currency and remains committed to reaching a USD 1.5 bn revenue run rate. The management has guided that the margin would revert back to higher levels in the medium term. The management views good pipeline of opportunities to sustain the growth momentum in SWC, SDV, AI and Next-Gen communication. With its strong fundamentals, impressive clientele and capabilities across segments, we continue to maintain our **ACCUMULATE** stance with the stock trading at **P/E 33.9x FY26E EPS ₹143.5**.

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FINANCIAL PERFORMANCE

Vertical-Mix Revenues (%)

Verticals	Q1FY24	Q4FY24	Q1FY25	QoQ Growth (%)	YoY Growth (%)
Mobility	32.7	32.0	35.2	6.4	13.4
Sustainability	31.5	30.0	30.0	(3.0)	0.5
Hi-Tech	35.8	38.0	34.8	(11.6)	2.5

Source: Company, Way2Wealth

Geography-wise Break up (%)

Region	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
North America	61.2	61.2	60.0	61.2	61.5	62.3	62.9	62.5	62.3	58.7	55.3	59.5	53.2	56.5	55.3	54.6	53.7	52.9
Europe	16.7	16.0	16.0	16.1	16.7	16.8	16.7	16.5	16.1	15.4	13.9	15.3	14.5	15.4	15.8	16.6	15.8	18.1
India	12.8	13.0	13.6	13.9	13.1	12.9	13.0	13.7	14.5	19.0	23.9	17.9	25.0	20.7	21.6	21.5	23.7	22.0
Rest of the World	9.2	9.8	10.4	8.8	8.8	8.0	7.4	7.4	7.0	6.9	6.9	7.3	7.3	7.4	7.3	7.3	6.8	7.0

Source: Company, Way2Wealth

Client Composition (%)

Clients	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Top 5	19.2	17.8	17.0	16.3	16.1	16.4	17.0	17.3	17.2	18.5	17.7	16.6	14.6	14.7	14.9	15.7	15.4	15.0
Top 10	31.8	29.7	28.3	27.3	26.9	27.4	28.2	28.5	28.3	28.8	27.8	26.9	25.6	25.9	26.1	26.6	26.4	26.3
Top 20	48.5	46.8	44.9	44.0	43.8	43.9	44.1	43.8	43.5	43.4	42.1	41.5	40.8	41.4	41.7	41.7	40.6	41.3
Beyond top 20	51.5	53.2	55.1	56.0	56.2	56.1	55.9	56.2	56.5	56.6	57.9	58.5	59.2	58.6	58.3	58.3	59.4	58.7

Source: Company, Way2Wealth

Client data	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Number of Active Clients	270	270	283	296	306	305	314	318	324	350	358	356	356	357	362	364	381	378
More than 50m USD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 30 mn USD	2	1	1	1	-	-	1	2	2	3	4	3	1	3	4	4	5	6
More than 20 mn USD	8	4	5	4	3	5	6	6	6	8	9	9	11	12	12	14	12	12
More than 10 mn USD	21	22	20	18	20	20	21	22	22	27	29	28	28	32	31	31	35	31
More than 5 mn USD	43	43	44	41	39	43	45	44	48	56	55	56	57	56	55	56	58	60
More than 1 mn USD	113	113	116	118	122	122	125	126	236	153	162	168	178	181	177	175	180	177

Source: Company, Way2Wealth

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View – **ACCUMULATE**

Revenue by Project Type (%)	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Fixed Price	38.6	38.5	39.7	38.5	36.5	33.8	30.0	29.0	28.6	31.8	36.2	32.2	37.3	35.6	35.8	38.5	39.5	36.9
Time and Material Contract	61.4	61.5	60.3	61.5	63.9	66.2	70.0	71.0	71.4	68.2	63.8	67.8	62.7	64.4	64.2	61.5	60.5	63.1
Revenue Mix (%)																		
Onsite	47.1	48.3	45.1	42.9	42.1	41.9	40.8	41.3	45.4	43.8	40.9	40.8	43	38.0	40.7	41.3	41.3	41.1
Offshore	52.9	51.7	54.9	57.1	57.9	58.1	59.2	58.7	54.6	56.2	59.1	59.2	57	62.0	59.3	58.7	58.7	58.9
Utilisation (%) including Trainees	78.1	70.9	75.4	77.5	78.9	79.2	78.1	75.9	75.1	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: Company, Way2Wealth

Employee Statistics	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1FY25
Total Headcount	16,883	16,641	15,902	16,069	16,452	16,972	17,983	20,118	20,861	22,131	22,265	22,501	23,074	23,392	23,880	23,298	23,812	23,577
Billable	15,667	15,481	14,778	14,975	15,335	15,896	16,875	18,975	19,534	20,642	20,829	21,046	21,573	21,933	22,366	21,887	22,392	22,120
Sales & Support	1,216	1,160	1,124	1,094	1,117	1,076	1,108	1,143	1,327	1,489	1,436	1,303	1,501	1,459	1,514	1,411	1,420	1,457
Voluntary Attrition%(L TM)	13.8	11.4	10.8	10.7	12.2	14.5	16.5	17.5	20.4	23.2	24.1	23.3	22.2	18.9	16.7	15.8	14.8	14.8
Net Addition	96	-242	-739	167	383	520	1,011	2,135	743	1,270	134	(616)	1,425	318	488	(582)	514	(235)

Source: Company, Way2Wealth

Q4FY24 Performance

Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue (US\$ mn)	295.2	280.0	5.4	305.1	(3.2)	1,163.9	1,089.3	6.8
Revenue	24,619	23,014	7.0	25,375	(3.0)	96,473	88,155	9.4
EBIT	3,836	3,954	(3.0)	4,282	(10.4)	16,474	15,272	7.9
EBIT Margin (%)	15.6	17.2	(160)	16.9	(129)	17.1	17.3	(25)
Net profit	3,136	3,111	0.8	3,409	(8.0)	13,037	12,121	7.6
EPS (₹)	29.6	29.5	0.3	32.2	(8.0)	123.0	114.3	7.6

Source: Company, Way2Wealth

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 View – **ACCUMULATE**
FINANCIALS & VALUATIONS

(₹ mn)								
Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue (US\$)	723.1	786	736.6	880.0	1,089.3	1,163.9	1,250.0	1,395.0
Revenue	50,783	56,192	54,497	65,697	88,155	96,473	105,500	118,296
EBIT	8,803	9,276	7,891	12,005	15,272	16,474	16,674	19,345
EBIT Margin (%)	15.9	19.8	14.5	18.3	17.3	17.1	15.8	16.4
Net Profit	7,684	2,836	6,634	9,606	12,121	13,037	13,472	15,211
EPS (₹)	72.5	26.8	62.6	90.6	114.3	123.0	127.1	143.5
DPS (₹)	21.0	21.0	22.0	35.0	45.0	50.0	55.0	60.0
RoE (%)	34.8	32.2	21.2	25.0	27.2	24.4	22.8	23.7
RoCE (%)	45.2	42.2	16.2	20.3	30.7	27.7	26.6	26.5
P/E (x)	67.0	181.6	77.6	53.6	42.5	39.5	38.2	33.9
P/BV (x)	20.8	18.6	14.8	12.4	11.6	9.6	9.0	8.2
EV/EBITDA (x)	52.4	46.9	51.6	36.5	29.4	26.4	24.5	21.5
Cash Balances	2,051	2,440	2,327	6,742	6,899	13,905	14,886	22,991
FCFF	6,492	4,141	11,917	8,610	11,315	12,400	10,663	11,331
PEG	1.3	(2.8)	0.6	1.2	1.6	5.1	11.3	2.6

Source: Company, Way2Wealth

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Disclosure of Interest Statement L&T Technology Services Ltd. (LTTS) as on 22 July 2024

Name of the Security	L&T Technology Services Ltd. (LTTS)
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes (5 shares)
Date of Buying	18 th June 2020
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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