

22nd October 2024

CMP – ₹5,255/-

View – **BOOK PROFITS**

Q2FY25 Result Highlights

- **Revenue grew by 3.4% QoQ in CC terms with broad based growth across verticals; near term challenges persist.** Revenue grew by 4.5% QoQ in INR terms to ₹25.7bn, up 3.9% QoQ in USD terms to USD 306.7mn. Segment-wise, Mobility grew by 4.8% QoQ, Sustainability grew by 6.5% QoQ; while Tech vertical grew by 0.8% QoQ. The near term demand environment remains challenging especially in mobility/automotive segment as discretionary tech spending remains weak but there are certain green shoots in the demand environment. LTTS maintained revenue growth guidance of 8-10% in cc terms for FY25 and outlined its aim to reach \$2bn overall revenue in the medium term. The company also announced dividends of ₹17 during the quarter.
- **Sequential dip in operating margin –** EBIT margin declined by 51 bps QoQ to 15.1%, led by higher other expenses (up 8.4% QoQ). It has maintained its EBIT margin guidance to around 16% for FY25. Wage hike with effect from Nov'2024 would affect Q3FY25 operating margin. It continues to work on margin levers that include improving employee pyramid, improving revenue mix, higher offshoring and other efficiency measures to support operating margin. Q3FY25 Furlough should be similar to last year.
- **Large deal momentum moderated sequentially to ~USD 80 mn+ vs. USD 120 mn+ in Q1FY25 and an average of USD 130 mn+ for the last four quarters.** Large deals include two USD 20 mn and four USD 10 mn deals. The company also secured two significant empanelment agreements within the Sustainability vertical. Management mentioned that working on large deal wins remain a key priority and are confident of winning a few USD 50 mn deals in coming quarters.
- **Mobility Vertical (35% of Rev) –** Known earlier as Transportation, this vertical has been renamed to Mobility, and has reported growth of 4.8% QoQ led by strong growth in SDV and Hybridization. Margin stood at 19.5% up 70bps QoQ. The company expects some furloughs related to weakness in Q3 but sees no challenges on growth opportunities in the medium term across regions.
- **Sustainability (30% of Rev) –** This vertical combines the erstwhile Industrial Products and Plant Engineering verticals and reported Revenue growth of 6.7% QoQ driven by ramp-ups of deal wins and 2 empanelment. Margins remained muted and declined 170bps QoQ to 25.4%. Within Sustainability, the Plant and Machinery & Industrials sub-segment is witnessing a good demand trend from new capex, plant modernization spends and digital twins. Management is confident of sustenance of growth in this segment with 25-26% margin levels.
- **Hi-Tech (35% of Rev) –** This vertical combines the erstwhile Telecom & Hi-Tech and Medical Devices verticals and reported a Revenue growth of 0.6% QoQ. Margin stood at 11.5% down 110bps QoQ. Within Hi-Tech, Semiconductor & ISV is witnessing a good demand, while Med-tech saw a project completion, which was not backfilled and hence led to the decline. Telecom sub-vertical remained soft, despite a seasonally strong quarter for SWC.
- **Onsite-Offshore Mix –** Offshore Rev. mix stood at 58.3% for Q2FY25 (58.9% in Q2 & 59.6% in Q2FY24). Mgmt reiterated that it will aim to improve the Offshore mix to 60% in the near term.
- Headcount stood at 23,698, sequentially up 0.5%. LTM attrition was 14.3%, up 50 bps QoQ. The company plans to add 2,000 freshers during the year and expects attrition to remain stable. The patent portfolio stood at 1,394, out of which 877 are co-authored with customers and the rest are filed by LTTS. The company is also making steady progress in Gen AI with a total of 165 patents filed so far, compared to 61 last quarter.

Important Statistics

Nifty	24,781
Sensex	81,151
MCAP (₹ bn)	556
52 Week H/L (₹)	6,000/4,111
NSE Code	LTTS
BSE Code	540115
Bloomberg	LTTS:IN

Shareholding Pattern	Sep'24 (%)
Promoters	73.69
DIIIs	04.35
FIIIs	13.95
Public & Others	08.01

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)	84.0	58.0	46.0
P/BV (x)	16.0	13.4	12.5
EV/EBITDA (x)	55.8	39.5	31.8

Particulars	FY24P	FY25E	FY26E
Revenue	96,473	104,487	117,702
EBIT	16,474	16,308	18,529
EBIT Margin (%)	17.1	15.6	15.7
Net Profit	13,037	13,208	14,849
EPS (₹)	123.0	124.6	140.1
DPS (₹)	50.0	52.0	58.0
RoE (%)	24.4	21.9	22.8
RoCE (%)	27.7	25.8	26.2
P/E (x)	42.7	42.2	37.5
P/BV (x)	10.4	9.8	8.8
EV/EBITDA (x)	28.6	27.5	24.0

Source: Company, Way2Wealth

Relative Performance

Return (%)	1 Yr	3 yr	5 Yr
LTTS	22.0	5.7	239.2
Nifty 50	26.3	34.9	113.0
Sensex	22.3	31.6	106.7

Source: Company, Way2Wealth

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View

LTTS reported lower margin in Q2 compared to historical, mainly due to increased investments in building capabilities and expanding leadership across various segments. However, management remains confident of achieving FY25 revenue growth target of 8–10% and anticipates margin improvement in the second half of the year, aiming for 16% EBIT margin in FY25. Management has emphasized on improving its brand positioning under the 'Go Deeper' strategy, investing in sales, solutions (Gen.AI, Software Defined Vehicle) and Labs in H1 which now should help it build better quality/pricing deal wins potentially providing margin tailwinds. However, the forthcoming wage-hike (effect. Nov'24 – headwind of 120bps) and higher Govt project ramp-up would require sharper recovery in H2 to achieve 16% OPM. Growth in the Mobility segment would be muted, while the Sustainability and Hitech segment would see robust momentum in Q3FY25. Since our first report on **24Jul20** the stock has given a return of +275% with **52-week of ₹6000 on 29Aug24**. Further, we believe that at the CMP, the near term growth is already priced in and the stock has limited upside from hereon. **We thus advise investors to BOOK Profits, while those intending to remain invested for the longer duration can do so.**

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FINANCIAL PERFORMANCE

Vertical-Mix Revenues (%)

Verticals	Q1FY24	Q2FY24	Q4FY24	Q1FY25	Q2FY25	QoQ Growth (%)	YoY Growth (%)
Mobility	32.7	33.2	32	35.2	35.5	4.8	13.7
Sustainability	31.5	31.3	30.0	30.0	30.8	6.5	4.7
Hi-Tech	35.8	35.5	38.0	34.8	33.7	-	-

Source: Company, Way2Wealth

Geography-wise Break up (%)

Region	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23	FY24	FY24	FY24	FY24	FY25	FY25
North America	61.2	60	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	52.5
Europe	16	16	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	18.4
India	13	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	21.9
Rest of the World	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	7.2

Source: Company, Way2Wealth

Client Composition (%)

Clients	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23	FY24	FY24	FY24	FY24	FY25	FY25
Top 5	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	15.0
Top 10	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	26.5
Top 20	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	41.5
Beyond top 20	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	58.5

Source: Company, Way2Wealth

Client data	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23	FY24	FY24	FY24	FY24	FY25	FY25
Number of Active Clients	270	283	296	306	305	314	318	324	350	358	356	356	357	362	364	381	378	373
More than 50m USD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 30 mn USD	1	1	1	-	-	1	2	2	3	4	3	1	3	4	4	5	6	7
More than 20 mn USD	4	5	4	3	5	6	6	6	8	9	9	11	12	12	14	12	12	13
More than 10 mn USD	22	20	18	20	20	21	22	22	27	29	28	28	32	31	31	35	31	33
More than 5 mn USD	43	44	41	39	43	45	44	48	56	55	56	57	56	55	56	58	60	60
More than 1 mn USD	113	116	118	122	122	125	126	136	153	162	168	178	181	177	175	180	177	176

Source: Company, Way2Wealth

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View – **BOOK PROFITS**

Revenue by Project Type (%)	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	Q2 FY25
Fixed Price	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	37.5
Time and Material Contract	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	62.5
Revenue Mix (%)																		
Onsite	48.3	45.1	42.9	42.1	41.9	40.8	41.3	45.4	43.8	39.4	40.8	38.0	40.7	40.4	41.3	41.3	41.1	41.7
Offshore	51.7	54.9	57.1	57.9	58.1	59.2	58.7	54.6	56.2	60.6	59.2	62.0	59.3	59.6	58.7	58.7	58.9	58.3
Utilisation (%) including Trainees	70.9	75.4	77.5	78.9	79.2	78.1	75.9	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: Company, Way2Wealth

Employee Statistics	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	Q2 FY25
Total Headcount	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	23,698
Billable	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	22,185
Sales & Support	1,160	1,124	1,094	1,117	1,076	1,108	1,143	1,327	1,489	1,455	1,303	1,501	1,459	1,514	1,411	1,420	1,457	1,513
Voluntary Attrition%(LTM)	11.4	10.8	10.7	12.2	14.5	16.5	17.5	20.4	23.2	23.3	23.3	22.2	18.9	16.7	15.8	14.8	14.8	14.3
Net Addition	-242	-739	167	383	520	1,011	2,135	743	1,270	134	236	573	318	488	(582)	514	(235)	121

Source: Company, Way2Wealth

Q4FY24 Performance

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	1HFY25	1HFY24	YoY (%)
Revenue (US\$ mn)	306.7	288.1	6.5	295.2	3.9	601.9	568.1	5.9
Revenue	25,729	23,865	7.8	24,619	4.5	50,348	46,879	7.4
EBIT	3,877	4,075	(4.9)	3,836	1.1	7,713	8,029	(3.9)
EBIT Margin (%)	15.1	17.1	(201)	15.6	(51)	15.3	17.1	(181)
Net profit	3,196	3,154	1.3	3,136	1.9	6,332	6,265	1.1
EPS (₹)	30.3	29.9	1.3	29.6	2.4	60.0	59.4	1.1

Source: Company, Way2Wealth

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FINANCIALS & VALUATIONS

(₹ mn)								
Particulars	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue	50,783	56,192	54,497	65,697	88,155	96,473	1,04,487	1,17,702
EBIT	8,803	9,276	7,891	12,005	15,272	16,474	16,308	18,529
EBIT Margin (%)	15.9	19.8	14.5	18.3	17.3	17.1	15.6	15.7
Net Profit	7,684	2,836	6,634	9,606	12,121	13,037	13,208	14,849
EPS (₹)	72.5	26.8	62.6	90.6	114.3	123.0	124.6	140.1
DPS (₹)	21.0	21.0	22.0	35.0	45.0	50.0	52.0	58.0
RoE (%)	34.8	32.2	21.2	25.0	27.2	24.4	21.9	22.8
RoCE (%)	45.2	42.2	16.2	20.3	30.7	27.7	25.8	26.2
P/E (x)	72.5	196.4	84.0	58.0	46.0	42.7	42.2	37.5
P/BV (x)	22.5	20.1	16.0	13.4	12.5	10.4	9.8	8.8
EV/EBITDA(x)	56.6	50.7	55.8	39.5	31.8	28.6	27.5	24.0
Cash Balances	2,051	2,440	2,327	6,742	6,899	13,905	14,116	22,583

Source: Company, Way2Wealth

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

Name of the Security	L&T Technology Services Ltd. (LTTS)
Name of the analyst	Rupali Singh
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Date of Buying	
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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