

29th April 2024

CMP – ₹4,698.4/-

 View – **ACCUMULATE**
Q4FY24 Result Highlights

- **Revenue grew 5.1% QoQ C/C terms driven by Transportation, Telecom & Hi-Tech, Plant Engineering and SWC** – L&T Technology Services Ltd (LTTS) reported Q4FY24 revenue grew 5.0% QoQ and 5.8% YoY (+5.1% QoQ and +6.3% YoY in C/C terms) to US\$ 305.1mn driven by Transportation (growth of 1.2% QoQ and 10.8% YoY), Telecom & Hi-Tech and Plant Engineering segments which grew 21% and 6.3% QoQ respectively. Seasonally strong SWC (FY24/Q4FY24:-Revenue at ₹8.01bn/₹2.74bn; EBIT at ₹453mn/₹307mn; EBIT margin at 5.6%/11.2%) also aided the topline during the quarter. Medical Devices and Industrial products declined 10.2%/6.1% and 3.4%/2% QoQ/YoY respectively. Revenue grew 7% YoY and 4.8% QoQ to ₹25.4bn. EBIT grew 1.1% YoY and 2.9% QoQ to ₹4.3bn as the EBIT margin came in at 16.9% largely on account of higher sub-contracting expense. The company secured significant large deals, including one US\$ 100 mn deal, one US\$ 30mn deal, two US\$ 20mn deals, and two US\$ 10mn deals during the quarter. Headcount was up 2.2% on a sequential basis. Attrition moderated by 100 bps QoQ to 14.8%. LTTS added one client in +USD 30mn bucket and the client profile numbers have seen an improvement over the past few quarters and this trend will continue in the coming quarters. The company secured engagement with multiple auto OEMs, Tier-1 suppliers, and commercial vehicle OEMs globally. Despite a soft Q4FY24 due to delayed deal decisions, the outlook for transportation remains strong, with expectations of a rebound in Q1FY25. The aerospace and rail sectors showed promise, with a significant number of large deals in the pipeline focusing on vendor consolidation. Despite challenges in other sectors, strategic initiatives, such as significant deal wins and technology innovation enabled industry outperformance. Among geographies, India and the America were up 15.7% and 3.2% QoQ in USD terms respectively, while Europe was down 0.1% QoQ. PAT at ₹3.41bn grew 1.4% QoQ and was flat YoY. The company declared final dividend of ₹33 per share taking the overall dividend for FY24 to ₹50 per share.
- FY24 Revenues grew 6.8% YoY to US\$1.16bn as significant part of the revenue growth was aided by SWC acquisition, robust growth in India and Telecom & Hi-Tech vertical showing aggressive growth. Transportation vertical led growth on organic basis while other verticals grew in 3-5% range. Top-5 clients' revenues grew 13.9%, while Top-10 and Top-20 clients grew 16.7% and 13.7%, respectively. Closed 25 large deals +10mn deals in TCv. Healthy improvement in client metrics with +US\$30 mn clients increasing by 4 to 5 clients. +US\$20 mn clients increased by 3 to 12 clients and +US\$10 mn accounts increased by 11 to 35 accounts. EBIT margin declined 140 bps to 17.1% primarily due to margin dilutive impact of SWC acquisition partly offset by tight cost controls. Acquired 1300 patents as of FY24, 483 on behalf of customers. Filed 54 patents in AI. Patent addition continues to the rate of 50 per quarter taking the total to 206 in FY24.DSO (including unbilled) was at 114 days, lower than management's target range of 115-125 days. FCF/PAT was healthy at 96%.
- **As per the management, Q1FY25 is likely to be soft with guidance of 8-10% for FY25.** The lower guidance due to challenges in the deal finalisation in Semiconductor and telecom segments. It has guided double digit growth for mobility (automotive) and industrial machinery & building technology. EBIT margin for FY26 guided at 16% with major recovery in 2HFY25 as it views investments in new organisation structure to build capabilities in order to secure future growth and uncertain macro as the major factors.
- **Management simplified the organisation structure into three main segments to drive innovation.** The company will consolidate its five industry segments into three: mobility, sustainability, and HiTech. Mobility segment will

Important Statistics

Nifty	22,539
Sensex	74,282
MCAP (₹ bn)	496.9
52 Week H/L (₹)	5,885/3,670
NSE Code	LTTS
BSE Code	540115
Bloomberg	LTTS:IN

Shareholding Pattern Mar'24 (%)

Promoters	73.7
DIIIs	12.3
FIIIs	5.5
Public & Others	8.4

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)	75.1	51.8	41.1
P/BV (x)	14.3	12.0	11.2
EV/EBITDA (x)	49.9	35.3	28.4

Particulars	FY24P	FY25E	FY26E
Revenue	96,473	105,825	119,786
EBIT	16,474	16,698	19,511
EBIT Margin (%)	17.1	15.8	16.3
Net Profit	13,037	13,582	15,711
EPS (₹)	123.0	128.1	148.2
DPS (₹)	50.0	55.0	60.0
RoE (%)	24.4	23.6	24.4
RoCE (%)	27.7	27.3	26.9
P/E (x)	38.2	36.7	31.7
P/BV (x)	9.3	8.2	7.1
EV/EBITDA (x)	25.5	23.5	20.4

Source: Company, Way2Wealth

Relative Performance

Return (%)	1 Yr	3Yr	5 Yr
LTTS	24.9	84.3	186.5
Nifty 50	24.2	51.3	91.8
Sensex	21.1	49.3	90.3

Source: Company, Way2Wealth

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encompass automotive, commercial vehicles and aerospace verticals. Sustainability will cover industrial machinery & building technology, electric & power, FMCG and Oil & Gas. The Hi-Tech segment will include MedTech, semiconductors, consumer electronics, Hyperscalers and NexGen Comm verticals. The company will consolidate and strengthen its technology areas into 3 horizontals – AI & software defined everything (SDx), embedded systems, and digital manufacturing solutions. Rationale for change in delivery organization structure is to better leverage its digital assets, labs, and expertise, helping improve its innovation quotient. As part of this strategic realignment, LTTS is also integrating sales and delivery in each of these segments into a cohesive structure to enhance agility and faster decision making, drive domain-specific synergies, scale operations and deals.

- **Maharashtra Cybersecurity deal worth US\$100mn to aid SWC in FY25.** The deal includes Digital Threat Analytics Centre (DTAC) paired with a Centre of Excellence (COE) to equip the forensic team with digital forensic tools including deep-fake detection, mobile malware forensics, IoT investigation, network forensics, object detection supporting crypto & blockchain, hardware & embedded forensics, drone forensics, social media forensics, image enhancement, voice analysis labs, CCTV acquisition tools and computer forensics to streamline crime scene management, reduce timelines and improve the efficiency of cybercrime investigations. Central Emergency Response Team (CERT) to deal with incident response and investigation based on advanced cyber threat intelligence and analytics. Security Operations Centre (SOC) enhanced by AI & ML technologies with a skilled cyber team to protect critical infrastructure.
- Offshore mix was flat at 58.7% v/s Q3FY24. Management stated that it will continue to work on measures to improve this ratio to +60% levels. Fixed price revenue mix came in at 39.5% in Q4FY24 and expects it to be in the range of 35-40%.
- Actively looking at acquisition targets in ISV and MedTech area in North America, and Automotive areas in Europe.
- With onboarding of last tranche of campus hires in Q4FY24 the Net employee addition stood at 514, up 2.2% QoQ.

View

L&T Technology Services (LTTS) reported strong sequential revenue of US\$ 305.1mn and has maintained its aspiration of US\$1.5bn quarterly run rate for FY25 but it has lowered its margin from 18% to 16% due to challenges in deal finalisation, geopolitical risks, tightening financial environment in BFSI-USA and tepid scenario in Telecom and Industrial products verticals. The Maharashtra Cybersecurity deal hold good from the SWC to get further new deal wins. Even in the current uncertainty, the management views good pipeline of opportunities to sustain the growth momentum in 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 31.7x FY26E EPS ₹148.2.**

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FINANCIAL PERFORMANCE

Vertical-Mix Revenues (%)

Verticals	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23	FY24	FY24	FY24	FY24
Transportation	35.8	35.7	31.5	31.5	30.4	31.2	31.2	31.4	31.8	33.3	30.9	30.2	34.1	30.6	32.7	33.2	33.2	32.0
Industrial Products	19.2	19.4	19.4	19.5	19.3	18.9	19.5	20.0	19.5	18.8	17.8	16.5	18.1	17.0	17.6	17.3	17.2	15.8
Telecom & Hi-tech	18.4	18.7	22.4	21.4	22.9	22.1	22.0	21.1	21.4	21.0	25.6	29.7	22.9	28.4	25.5	25.4	25.4	29.3
Plant &Process Industry	17.2	16	13.8	14.4	14.7	15.5	15.5	15.3	15.4	15.4	15.0	14.2	14.7	14.1	13.9	14.0	14.0	14.2
Medical Devices	9.4	10.3	12.8	13.2	12.7	12.3	11.7	12.2	11.9	11.5	10.7	9.5	10.2	9.9	10.3	10.1	10.2	8.8

Source: Company, Way2Wealth

Geography-wise Break up (%)

Region	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23	FY24	FY24	FY24	FY24
North America	61.2	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
Europe	14.1	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
India	13.2	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
Rest of the World	11.4	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

Source: Company, Way2Wealth

Client Composition (%)

Clients	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23	FY24	FY24	FY24	FY24
Top 5	21.1	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
Top 10	33.9	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
Top 20	49.8	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
Beyond top 20	50.2	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

Source: Company, Way2Wealth

Client data	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23	FY24	FY24	FY24	FY24
Number of Active Clients	265	270	270	283	296	306	305	314	318	324	350	358	356	356	357	362	364	381
More than 50m USD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
More than 30 mn USD	3	2	1	1	1	-	-	1	2	2	3	4	3	1	3	4	4	5
More than 20 mn USD	7	8	4	5	4	3	5	6	6	6	8	9	9	11	12	12	14	12
More than 10 mn USD	20	21	22	20	18	20	20	21	22	22	27	29	28	28	32	31	31	35
More than 5 mn USD	43	43	43	44	41	39	43	45	44	48	56	55	56	57	56	55	56	58
More than 1 mn USD	107	113	113	116	118	122	122	125	126	236	153	162	168	178	181	177	175	180

Source: Company, Way2Wealth

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Revenue by Project Type (%)	Q3 FY20	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
Fixed Price	42.7	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
Time and Material Contract	57.3	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
Revenue Mix (%)																		
Onsite	44	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
Offshore	56	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
Utilisation (%) including Trainees	79.2	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

Source: Company, Way2Wealth

Employee Statistics	Q3 FY20	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
Total Headcount	16,787	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
Billable	15,604	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
Sales & Support	1,183	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
Voluntary Attrition% (LTM)	13.9	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
Net Addition	-2	96	-242	-739	167	383	520	1,011	2,135	743	1,270	134	-616	1,425	318	488	-582	514

Source: Company, Way2Wealth

Q4FY24 Performance

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue (US\$ mn)	305.1	288.4	5.8	290.7	5.0	1,163.9	1,089.3	6.8
Revenue	25,375	23,706	7.0	24,218	4.8	96,473	88,155	9.4
EBIT	4,282	4,234	1.1	4,162	2.9	16,474	15,272	7.9
EBIT Margin (%)	16.9	17.9	(99)	17.2	(31)	17.1	17.3	(25)
Net profit	3,409	3,401	0.2	3,362	1.4	13,037	12,121	7.6
EPS (₹)	32.2	32.2	(0.2)	31.9	0.9	123.0	114.9	7.0

Source: Company, Way2Wealth

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FINANCIALS & VALUATIONS

	(₹ mn)							
Particulars	FY19	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E
Revenue (US\$)	723.1	786	736.6	880.0	1,089.3	1,163.9	1,245.0	1,401.0
Revenue	50,783	56,192	54,497	65,697	88,155	96,473	105,825	119,786
EBIT	8,803	9,276	7,891	12,005	15,272	16,474	16,698	19,511
EBIT Margin (%)	15.9	19.8	14.5	18.3	17.3	17.1	15.8	16.3
Net Profit	7,684	2,836	6,634	9,606	12,121	13,037	13,582	15,711
EPS (₹)	72.5	26.8	62.6	90.6	114.3	123.0	128.1	148.2
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	23.6	24.4
RoCE (%)	45.2	42.2	16.2	20.3	30.7	27.7	27.3	26.9
P/E (x)	64.8	175.6	75.1	51.8	41.1	38.2	36.7	31.7
P/BV (x)	20.1	18.0	14.3	12.0	11.2	9.3	8.2	7.1
EV/EBITDA (x)	50.6	45.3	49.9	35.3	28.4	25.5	23.5	20.4
Cash Balances	2,051	2,440	2,327	6,742	6,899	13,905	4,137	7,782
FCFF	6,492	4,141	11,917	8,610	11,315	12,400	(3,654)	11,011
PEG	1.3	(2.8)	0.6	1.2	1.6	5.1	8.8	2.0

Source: Company, Way2Wealth

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Disclosure of Interest Statement L&T Technology Services Ltd. (LTTS) as on 29 April 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
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Investment Banking relationship with company covered	NIL

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