



India

HOLD (previously ADD)

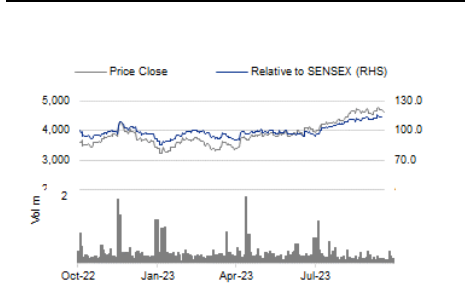
Consensus ratings*: Buy 5 Hold 8 Sell 16

Current price:	Rs4,613
Target price:	Rs4,606
Previous target:	Rs3,728
Up/downside:	-0.2%
InCred Research / Consensus:	17.5%
Reuters:	LTEH.NS
Bloomberg:	LTTS IN
Market cap:	US\$5,857m Rs487,686m
Average daily turnover:	US\$12.5m Rs1039.8m
Current shares o/s:	106.0m
Free float:	26.0%

*Source: Bloomberg

Key changes in this note

- Expect 11.9% revenue CAGR over FY24-26F.
- Expect 16.8% EBIT CAGR over FY24-26F.
- Expect 17.2% PAT CAGR over FY24-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.1)	13.4	25.5
Relative (%)	0.7	14.0	11.4

Major shareholders	% held
LIC	6.0
FPI	5.9
MF	2.3

Analyst(s)



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L&T Technology Services Ltd

Revenue guidance revision limits upgrade

- LTTS has lowered its FY24F revenue guidance to 17.5%-18.5% vs. 20%+ earlier. Retains EBIT margin guidance of 17%.
- DSO, including unbilled, at 118 vs. 117 in 1QFY24 is within the stated band. OCF/EBITDA was at 61.4% in 1HFY24 vs. 60.4% in 1HFY23.
- The EBIT margin-led solid execution is likely priced in. Await better entry point.

Earnings summary

L&T Technology Services' (LTTS) 2QFY24 US\$ revenue qoq growth of 2.9% (3.2% in constant currency or CC terms) marginally missed our estimate by 50bp while the EBIT margin at 17.1% beat our estimate by 43bp, despite absorbing the wage hike impact. Deal wins were healthy, but a challenging macroeconomic environment and decision-making delay led to the revision of FY24F guidance. The EBIT margin-led strong execution was encouraging, but revenue guidance revision limits any material upgrade in EPS. We have adjusted our estimates, introduced FY26F estimates and increased our target price on LTTS to Rs4,606 vs. Rs3,728 earlier, as we shift to FY26F valuation.

Deal wins continue to be healthy despite macroeconomic uncertainty

LTTS signed seven large deals (vs. six in 1QFY24), with one being US\$10m+ and six US\$15m+ each. Deal wins were broad-based, with two significant empanelments. LTTS signed a large (US\$10m+) wireless and 5G communication technology stack deal in North America by leveraging SWC's capabilities. Deal pipeline commentary was optimistic (signed three large deals in 3QFY24F) but a longer decision cycle and macroeconomic headwinds are key risks to conversion and ramp-up. We have adjusted our estimates to account for the guidance and expect ~12% US\$ revenue CAGR over FY24F-26F.

Execution was superlative

2QFY24 EBIT margin was down 11bp qoq but up 49bp yoy at 17.1%. Headwinds from wage hike and investments in new technologies were offset by increase in utilization and cost optimization initiatives. Management commentary of achieving 17% EBIT margin in FY24F and ~18% in 1HFY26F remains consistent. We expect an average 17.6% EBIT margin over FY24-26F.

Downgrade rating to HOLD with a revised target price of Rs4,606

We downgrade our rating on LTTS to HOLD (from ADD) with a higher target price of Rs4,606 (Rs3,728 earlier) as we roll forward to FY26F estimates. We model a 11.9% US\$ revenue CAGR over FY24-26F & a 17.2% PAT (Rs) CAGR and increase our target PE/G multiple to 1.60x vs. 1.46x earlier to arrive at a target P/E multiple of 27.6x. The increase in the multiple is to account for better execution. Growth runway, cash generation, net cash (Rs215/share), improving dividend payout and healthy return ratios provide cushion, in our view. SWC integration, portfolio challenges, and EBIT margin compression in key verticals are downside risks while strong order book conversion is a key upside risk.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	65,697	88,155	96,253	109,275	125,270
Operating EBITDA (Rsm)	14,149	17,609	19,118	22,183	25,680
Net Profit (Rsm)	9,570	12,122	12,871	15,153	17,692
Core EPS (Rs)	90.6	113.7	120.6	143.0	167.0
Core EPS Growth	44.2%	25.5%	6.0%	18.6%	16.8%
FD Core P/E (x)	50.92	40.57	38.26	32.26	27.63
DPS (Rs)	35.0	45.0	52.0	61.5	71.8
Dividend Yield	0.76%	0.98%	1.12%	1.33%	1.56%
EV/EBITDA (x)	33.29	26.56	24.70	20.83	17.68
P/FCFE (x)	65.20	49.40	1,869.91	42.55	36.25
Net Gearing	(39.2%)	(48.8%)	(35.7%)	(41.1%)	(46.0%)
P/BV (x)	11.71	10.02	8.59	7.46	6.47
ROE	25.1%	26.6%	24.2%	24.8%	25.1%
% Change In Core EPS Estimates			(0.73%)	(5.61%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

YE Mar (Rs m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	2QFY24F	Var. (%)
Revenue (US\$ m)	288.1	283	1.8	280	2.9	289.5	(0.5)
Net sales (Rs m)	23,865	22,817	4.6	23,014	3.7	23,939	(0.3)
USD-INR realization	82.8	80.6	2.7	82.2	0.8	82.7	0.2
EBITDA	4,756	4,374	8.7	4,528	5.0	4,572	4.0
EBITDA margin (%)	19.9	19.2	76 bp	19.7	25 bp	19.1	83 bp
EBIT	4,075	3,784	7.7	3,954	3.1	3,986	2.2
EBIT margin (%)	17.1	16.6	49 bp	17.2	(11 bp)	16.7	43 bp
Depreciation	681	590	15.4	574	18.6	587	16.1
Net other income	286	279	2.5	357	(19.9)	323	(11.4)
PBT	4,361	4,063	7.3	4,311	1.2	4,309	1.2
Provision for tax	1,202	1,057	13.7	1,190	1.0	1,185	1.4
% tax rate	27.6	26.0	155 bp	27.6	(4 bp)	27.5	6 bp
Net profit	3,154	2,999	5.2	3,111	1.4	3,114	1.3
EPS (Rs)	29.8	26.7	11.5	29.4	1.3	29.4	1.2

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference call takeaways

- Transportation vertical – Auto, truck and off-highway vehicle segments are witnessing growth. LTTS is accelerating training and capability building in the software-defined vehicle space to capitalize on the next wave of spending. Electric vehicle or EV play continues to be strong, with truck and off-highway vehicle customers also moving up the investment curve towards high-power EVs. Aerospace is witnessing multiple new build conversations as a refresh cycle is beginning with large deals in the pipeline.
- Plant engineering vertical's growth was broad-based across FMCG, oil & gas and chemicals. Oil & gas customers are investing in low carbon energy, renewables and making changes in the refinery for greener fuels. Continued capacity expansion is happening among FMCG companies, with automation and digital twin being the major focus areas. Overall deal pipeline continues to be healthy in the US and Europe.
- Industrial products had a soft quarter due to challenges in electrical machinery, electrical & utilities and building automation. The pace of growth has slowed due to decision-making delay and the stress experienced by select customers.
- Telecom & Hitech vertical witnessed growth, despite challenges in semiconductor and consumer electronics sub-segments. Near-term volatility could continue in semiconductors, but LTTS is engaging more on the new-age chipsets that are designed for AI and cloud computing. Media business is witnessing large deal opportunities from vendor consolidation and cost optimization initiatives.
- Medical devices vertical had two deals (US\$20m+ each). 3QFY24F could be seasonally weak, with growth recovery likely in 4QFY24F.

Figure 2: Operating metrics trend

Operating trends	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue (\$ m)	256.7	283.0	248.0	288.4	280.0	288.1
growth yoy (%)	24.8	30.2	10.2	24.3	9.1	1.8
growth qoq (%)	10.6	10.2	-12.4	16.3	-2.9	2.9
CC growth yoy (%)	19.9	18.1	13.5	12.1	10.0	1.4
CC growth qoq (%)	4.7	4.5	0.0	2.2	-2.9	3.2
Revenue (INR m)	20,062	22,817	20,486	23,706	23,014	23,865
growth yoy (%)	32.1	41.9	21.4	35.0	14.7	4.6
growth qoq (%)	14.2	13.7	-10.2	15.7	-2.9	3.7
EBIT Margin (%)	17.4	16.6	18.7	17.9	17.2	17.1
US\$-INR Realized Rate	78.2	80.6	82.6	82.2	82.2	82.8
Headcount	22,131	22,265	21,649	23,074	23,392	23,880
LTM Attrition (%)	23.2	24.1	23.3	22.2	18.9	16.7
Vertical (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Transportation	30.9	30.2	NA	30.6	32.7	33.2
Process Industry	15	14.2	NA	14.1	13.9	14
Industrial Products	17.8	16.5	NA	17	17.6	17.3
Medical Industry	10.7	9.5	NA	9.9	10.3	10.1
Telecom and Hitech	25.6	29.7	NA	28.4	25.5	25.4
Vertical (US\$ m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Transportation	79.3	85.5	NA	88.3	91.6	95.6
Process Industry	38.5	40.2	NA	40.7	38.9	40.3
Industrial Products	45.7	46.7	NA	49.0	49.3	49.8
Medical Industry	27.5	26.9	NA	28.6	28.8	29.1
Telecom and Hitech	65.7	84.1	NA	81.9	71.4	73.2
Vertical yoy (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Transportation	NA	NA	NA	NA	15.4	11.9
Process Industry	NA	NA	NA	NA	1.1	0.4
Industrial Products	NA	NA	NA	NA	7.9	6.7
Medical Industry	NA	NA	NA	NA	5.0	8.2
Telecom and Hitech	NA	NA	NA	NA	8.7	-12.9
Vertical qoq (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Transportation	NA	NA	NA	NA	3.8	4.5
Process Industry	NA	NA	NA	NA	-4.3	3.6
Industrial Products	NA	NA	NA	NA	0.5	1.1
Medical Industry	NA	NA	NA	NA	1.0	0.9
Telecom and Hitech	NA	NA	NA	NA	-12.8	2.5
Incremental revenue (US\$ m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Transportation	NA	NA	NA	NA	3.3	4.1
Process Industry	NA	NA	NA	NA	-1.7	1.4
Industrial Products	NA	NA	NA	NA	0.3	0.6
Medical Industry	NA	NA	NA	NA	0.3	0.3
Telecom and Hitech	NA	NA	NA	NA	-10.5	1.8
Geography (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	58.7	55.3	NA	53.2	56.5	55.3
Europe	15.4	13.9	NA	14.5	15.4	15.8
India	19	23.9	NA	25	20.7	21.6
ROW	6.9	6.9	NA	7.3	7.4	7.3
Geography (US\$ m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	150.7	156.5	NA	153.4	158.2	159.3
Europe	39.5	39.3	NA	41.8	43.1	45.5
India	48.8	67.6	NA	72.1	58.0	62.2
ROW	17.7	19.5	NA	21.1	20.7	21.0
Geography yoy (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	NA	NA	NA	NA	5.0	1.8
Europe	NA	NA	NA	NA	9.1	15.7
India	NA	NA	NA	NA	18.8	-8.0
ROW	NA	NA	NA	NA	17.0	7.7
Geography qoq (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	NA	NA	NA	NA	3.1	0.7
Europe	NA	NA	NA	NA	3.1	5.6
India	NA	NA	NA	NA	-19.6	7.4
ROW	NA	NA	NA	NA	-1.6	1.5
Incremental revenue (US\$ m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	NA	NA	NA	NA	5	1
Europe	NA	NA	NA	NA	1	2
India	NA	NA	NA	NA	-14	4
ROW	NA	NA	NA	NA	0	0
Client (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	18.5	17.7	NA	14.6	14.7	14.9
Top 6-10	10.3	10.1	NA	11	11.2	11.2
Top 11-20	14.6	14.3	NA	15.2	15.5	15.6
Non-top 20	56.6	57.9	NA	59.2	58.6	58.3
Client (US\$ m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	47.5	50.1	NA	42.1	41.2	42.9
Top 6-10	26.4	28.6	NA	31.7	31.4	32.3
Top 11-20	37.5	40.5	NA	43.8	43.4	44.9
Non-top 20	145.3	163.9	NA	170.7	164.1	168.0
Client yoy (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	NA	NA	NA	NA	-13.3	-14.3
Top 6-10	NA	NA	NA	NA	18.6	12.9
Top 11-20	NA	NA	NA	NA	15.8	11.1
Non-top 20	NA	NA	NA	NA	12.9	2.5

Client qoq (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	NA	NA	NA	NA	-2.2	4.3
Top 6-10	NA	NA	NA	NA	-1.1	2.9
Top 11-20	NA	NA	NA	NA	-1.0	3.6
Non-top 20	NA	NA	NA	NA	-3.9	2.4
Incremental revenue (US\$ m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Top 5	NA	NA	NA	NA	-0.9	1.8
Top 6-10	NA	NA	NA	NA	-0.4	0.9
Top 11-20	NA	NA	NA	NA	-0.4	1.5
Non-top 20	NA	NA	NA	NA	-6.7	3.9
Client metrics	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
No. of active clients	350	358	343	356	357	362
Revenue per active client	2.7	2.8	3.0	3.0	3.1	3.1
US\$30 m+	3	4	2	1	3	4
US\$20 m+	8	9	8	11	12	12
US\$10 m+	27	29	25	28	32	31
US\$5 m+	56	55	50	57	56	55
US\$1 m+	153	162	158	178	181	177
Per employee analysis	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue (US\$ m) - TTM	931	997	1020	1076	1099	1105
Employees (Average TTM)	19,007	19,995	20,338	20,848	21,170	21,555
Revenue per employee (TTM)	48,994	49,852	50,138	51,618	51,931	51,242

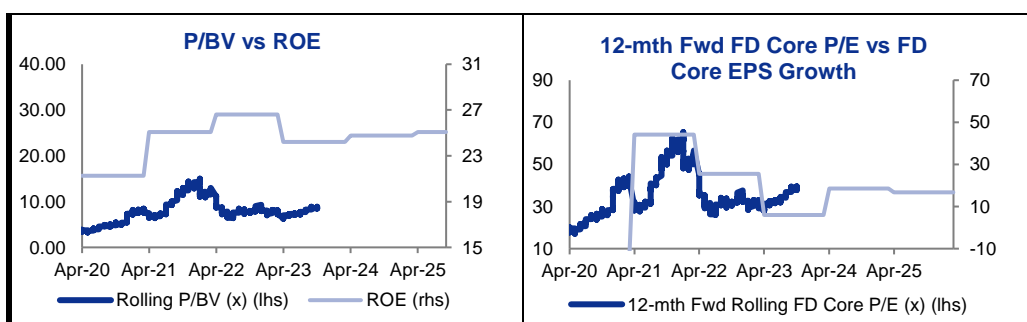
SOURCE: COMPANY REPORTS, INCRED RESEARCH, COMPANY HAS RESTATED FINANCIALS TO INCORPORATE SWC ACQUISITION HENCE DATA IS NOT COMPARABLE

Figure 3: Change in our earnings estimates

Y/E, Mar (Rs m)	FY24F			FY25F			FY26F
	New	Old	% change	New	Old	% change	New
US\$ revenue	1,164	1,209	-3.7	1,301	1,365	-4.7	1,457
Revenue	96,253	99,865	-3.6	109,275	114,678	-4.7	125,270
EBIT	16,468	15,838	4.0	19,265	20,046	-3.9	22,448
EBIT Margin (%)	17.1	15.9	125 bp	17.6	17.5	15 bp	17.9
Net PAT	12,871	12,859	0.1	15,153	16,038	-5.5	17,692
EPS (Rs)	121.5	121.5	0.1	143.0	151.5	-5.5	167.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	65,697	88,155	96,253	109,275	125,270
Gross Profit	29,192	41,847	45,771	52,452	60,130
Operating EBITDA	14,149	17,609	19,118	22,183	25,680
Depreciation And Amortisation	(2,144)	(2,338)	(2,650)	(2,918)	(3,232)
Operating EBIT	12,005	15,271	16,468	19,265	22,448
Financial Income/(Expense)	1,087	1,589	1,329	1,671	1,989
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	13,092	16,860	17,797	20,936	24,437
Exceptional Items					
Pre-tax Profit	13,092	16,860	17,797	20,936	24,437
Taxation	(3,486)	(4,696)	(4,901)	(5,757)	(6,720)
Exceptional Income - post-tax					
Profit After Tax	9,606	12,164	12,896	15,178	17,717
Minority Interests	(36)	(42)	(25)	(25)	(25)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	9,570	12,122	12,871	15,153	17,692
Recurring Net Profit	9,570	12,122	12,871	15,153	17,692
Fully Diluted Recurring Net Profit	9,570	12,122	12,871	15,153	17,692

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	14,149	17,609	19,118	22,183	25,680
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,452)	(1,188)	(3,450)	(2,412)	(2,948)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(36)	(42)	(25)	(25)	(25)
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(3,563)	(4,670)	(4,901)	(5,757)	(6,720)
Cashflow From Operations	9,098	11,709	10,741	13,989	15,987
Capex	(1,624)	(1,755)	(10,478)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(2,859)	(3,963)	1,827	2,175	2,493
Cash Flow From Investing	(4,483)	(5,718)	(8,651)	(325)	(7)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,633)	(3,167)	(5,496)	(6,516)	(7,608)
Preferred Dividends					
Other Financing Cashflow	(1,349)	(1,268)	(498)	(504)	(504)
Cash Flow From Financing	(4,982)	(4,435)	(5,994)	(7,020)	(8,112)
Total Cash Generated	(367)	1,556	(3,904)	6,643	7,868
Free Cashflow To Equity	7,474	9,954	263	11,489	13,487
Free Cashflow To Firm	4,615	5,991	2,090	13,663	15,980

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	20,660	27,987	24,083	30,726	38,594
Total Debtors	19,569	20,498	24,063	26,991	30,691
Inventories					
Total Other Current Assets	3,022	2,925	2,925	2,925	2,925
Total Current Assets	43,251	51,410	51,071	60,642	72,211
Fixed Assets	6,496	6,602	14,430	14,013	13,281
Total Investments	3,225	2,799	2,799	2,799	2,799
Intangible Assets	6,430	6,403	6,403	6,403	6,403
Total Other Non-Current Assets	1,507	1,959	1,959	1,959	1,959
Total Non-current Assets	17,658	17,763	25,591	25,174	24,442
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	1,720	4,505	4,620	5,136	5,888
Other Current Liabilities	12,069	10,634	10,634	10,634	10,634
Total Current Liabilities	13,789	15,139	15,254	15,770	16,522
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5,359	4,345	4,345	4,345	4,345
Total Non-current Liabilities	5,359	4,345	4,345	4,345	4,345
Total Provisions					
Total Liabilities	19,148	19,484	19,599	20,115	20,867
Shareholders Equity	41,624	49,509	56,884	65,521	75,606
Minority Interests	137	180	180	180	180
Total Equity	41,761	49,689	57,064	65,701	75,786

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	20.6%	34.2%	9.2%	13.5%	14.6%
Operating EBITDA Growth	40.5%	24.5%	8.6%	16.0%	15.8%
Operating EBITDA Margin	21.5%	20.0%	19.9%	20.3%	20.5%
Net Cash Per Share (Rs)	155.02	225.63	192.08	254.77	329.03
BVPS (Rs)	393.83	460.54	536.85	618.37	713.54
Gross Interest Cover	27.47	34.39	33.07	38.22	44.54
Effective Tax Rate	26.6%	27.9%	27.5%	27.5%	27.5%
Net Dividend Payout Ratio	38.5%	40.0%	42.7%	43.0%	43.0%
Accounts Receivables Days	95.37	82.95	84.49	85.27	84.03
Inventory Days					
Accounts Payables Days	20.36	24.53	32.99	31.33	30.88
ROIC (%)	42.7%	47.4%	51.3%	40.5%	44.6%
ROCE (%)	20.8%	22.2%	20.9%	21.5%	21.9%
Return On Average Assets	15.8%	16.9%	16.4%	17.2%	17.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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