

Results Slightly Below Estimates; Outlook Continues to be Strong

L&T Technologies (LTTS) reported a healthy set of results in Q3FY22. Its revenue stood at Rs 1,688 Cr, registering a growth of 5% QoQ, slightly below our expectations. Operating profit exhibited robust growth of 6.1% QoQ to Rs 213 Cr. However, the company's operating margins contracted by 320bps QoQ to 15.2%, primarily because of the extended wage hike along with higher operating and employee expenses. The management is confident of achieving sustainable operating margins moving forward as it factors in the strong cost optimization effort undertaken by the company as well as its strong execution capabilities. Net income for Q3FY22 stood at Rs 186 Cr, improving by 8.2% QoQ. The management has also retained its revenue guidance to 19%-20%. The company's deal pipeline continues to remain strong vis-à-vis the previous quarter as it signed three large deals including two \$10 Mn+ deals. Digital and leading-edge technologies contributed 56% of the revenues during the quarter. The management is confident of gaining further momentum from the next quarter onwards on account of a healthy deal pipeline and ramp up in the new deal wins.

We recommend a BUY rating on the stock and assign a 40x P/E multiple to its FY24E earnings of Rs 148/share to arrive at a TP of Rs 5,960/share, implying an upside potential of 10% from CMP.

Strong broad-based performance

On the vertical front, the Transportation vertical grew by 5.1% QoQ, the Industrial products vertical by 0.7% QoQ, Plant Engineering by 4.4% QoQ and Medical Devices by 1.5% QoQ. Telecom and Hi-Tech reported growth of 4.7% QoQ and the majority of the verticals are expected to witness a strong recovery moving forward. They are likely to report healthy growth from the next quarter onwards owing to the strong deal pipeline.

On the geographical front, North America (62% of revenue) improved by 2.8 % QoQ, Europe (14%) by 2.3% QoQ, India business grew by 9.3% QoQ while the ROW improved by 3% QoQ.

Outlook & Valuation

LTTS has built a robust business model and its several long-term contracts spread across verticals will help the company generate sustainable growth in the upcoming quarters. With depreciation in INR, lower travel cost, and strong execution capabilities, EBITDA margins, too, are likely to expand in the near term.

We recommend a BUY and assign 40x P/E multiple to its FY24E earnings of Rs 148 per share, which gives a TP of Rs 5,960/share, implying an upside potential of 10% from CMP.

Key Financials (Consolidated)

(Rs Cr)	FY21	FY22	FY23	FY24E
Net Sales	5,450	6,354	7,433	8,786
EBIDTA	1,007	1,197	1,496	1,779
Net Profit	667	1,047	1,294	1,551
EPS (Rs)	63.7	100.0	123.6	148.1
PER (x)	43.9	51.2	41.4	34.6
EV/EBIDTA (x)	28	43	34	28
P/BV (x)	9	13	11	9
ROE (%)	21%	27%	27%	27%

Source: Company, Axis Research

(CMP as of Jan 18, 2022)

CMP (Rs)	5,421
Upside /(Downside (%))	10%
High/Low (Rs)	5,963/4,879
Market cap (Cr)	Rs 57,188
Avg. daily vol. (6m) Shrs.	1,12,803
No. of shares (Cr)	17.34

Shareholding (%)

	Jun-21	Sept-21	Dec-21
Promoter	74.2	74.2	73.9
FII	8.9	9.5	9.2
MFs / UTI	6.0	5.5	4.8
Banks / FI	0.2	0.2	0.2
Others	10.7	10.6	11.9

Financial & Valuations

Y/E Mar (Rs Cr)	FY22E	FY23E	FY24E
Net Sales	6,354	7,433	8,786
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EV/EBITDA (x)	43	34	28
P/BV (x)	13	11	9
RoE (%)	27%	27%	27%

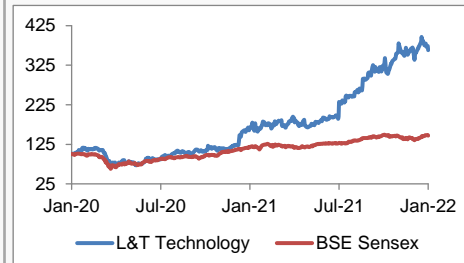
ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Key Concall takeaways

- 1) **Three large deal wins:** The company reported three large deal wins with TCV of \$10 Mn in the quarter. The deal pipeline continues to be strong – a trend similar to that of peers.
- 2) **Maintains PAT margin at 14-15%:** The company plans to invest in sales, localization, re-skilling, and post-Covid workspaces. Moreover, it has extended wage hikes in H2FY22 and its impact is expected to be 150-200bps. The management has maintained its PAT margin band of 14-15%.
- 3) **Good traction in digital engineering:** The management sees good traction in digital engineering and six of its big bets viz Electric Autonomous & Connected Vehicle (EACV), 5G, Med-tech, AI & Digital Products, Digital Manufacturing and Sustainability.

Revenue by Service offering: Segment Revenue

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Transportation	413	426	449	474	504	537
Plant Engineering	189	206	224	237	246	261
Industrial Products	257	271	272	296	322	329
Medical Devices	175	178	177	177	195	201
Telecom & Hi-tech	280	321	318	335	340	360
Total	1,314	1,401	1,441	1,518	1,608	1,688

Source: Company, Axis Research

Segment Results

No of Active clients	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Transportation	64	70	75	92	99	98
Plant Engineering	36	49	52	60	55	66
Industrial Products	65	77	78	86	99	96
Medical Devices	52	56	56	58	64	65
Telecom & Hi-tech	32	37	37	41	43	48
Total	249	289	298	336	359	373

Source: Company, Axis Research

Revenue by vertical

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Transportation	31%	30%	31%	31%	31%	32%
Plant Engineering	14%	19%	19%	20%	20%	15%
Industrial Products	20%	23%	22%	22%	21%	20%
Medical Devices	13%	15%	16%	16%	15%	12%
Telecom & Hi-tech	21%	13%	12%	12%	12%	21%

Source: Company, Axis Research

Revenue by Geography

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
North America	60%	61%	62%	62%	63%	63%
Europe	16%	16%	17%	17%	17%	17%
India	14%	14%	13%	13%	13%	14%
Rest of World	10%	9%	9%	8%	7%	7%
Total	100%	100%	100%	100%	100%	100%

Source: Company, Axis Research

Revenue Mix

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Onsite	45%	43%	42%	42%	42%	41%
Offshore	55%	57%	58%	58%	58%	59%
Total	100%	100%	100%	100%	100%	100%

Source: Company, Axis Research

Client Profile

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Number of Active clients	283	296	306	305	314	318
50 Mn +	0	0	0	0	0	0
30 Mn+	1	1	0	0	1	2
20 Mn +	5	4	3	5	6	6
10 Mn+	20	18	20	20	21	22
5 Mn +	44	41	39	43	45	44
1mn +	116	118	122	122	125	126

Source: Company, Axis Research

Client Contribution to revenue

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Top 5	17%	16%	16%	16%	17%	17%
Top 10	28%	27%	27%	27%	27%	29%
Top 20	45%	44%	44%	44%	44%	44%
Utilization (%)	75%	78%	79%	79%	78%	76%

Source: Company, Axis Research

Employee Data

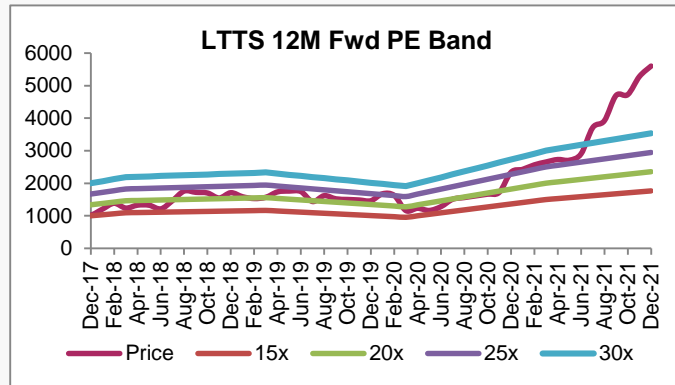
	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Bilable hadcount	14,778	14,975	15,335	15,896	16,875	18,975
Sales & Support	1,124	1,094	1,117	1,076	1,108	1,143
Total	15,902	16,069	16,452	16,972	17,983	20,118
Attrition (%)	11%	11%	11%	15%	17%	18%

Source: Company, Axis Research

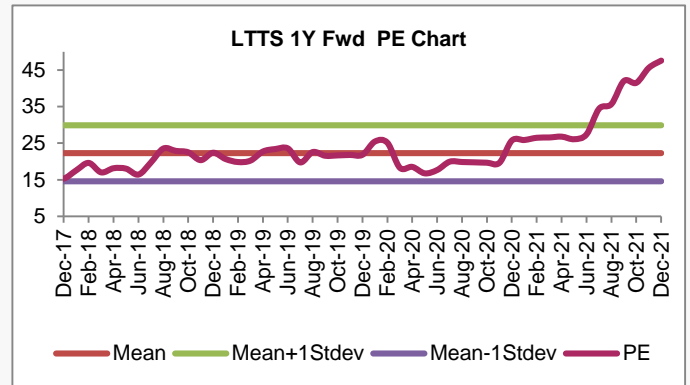
Valuation and Outlook

We believe LTTS will deliver long-term sustainable growth aided by a healthy deal pipeline and strong execution. **We recommend a BUY and assign 40x P/E multiple to its FY24E earnings of Rs 148 per share, which gives a TP of Rs 5,960/share, implying an upside potential of 10% from CMP.**

LTTS 12M Fwd PE Band



LTTS 1Y Fwd PE Chart



Source: Company, Axis Securities

Result Update
(Rs Cr)

Y/E March	Q3FY22	Q2FY21	Q3FY21	% change (YoY)	% change (QoQ)
Total Revenue	1,688	1,608	1,401	20%	5%
Direct cost	1,688	1,401	1,401		
Gross Profit	922	856	856	8%	8%
SG & Other expenses	398	355	270	48%	12%
EBITDA	1,081	1,258	1,258	-14%	-14%
EBITDA margin	233	349	349		0%
Depreciation	18%	22%	22%	(401)	(401)
Operating Income	37	29	49		
Margin(%)	11	11	11		
Total Other Income/(Expense)	53	53	62		
Income Before Income Taxes	340	314	251	36%	8%
Total Taxes	17%	20%	20%	(237)	(237)
ETR (%)	0	0	0		
Net Profit After Taxes	340	314	251	36%	8%
	91	84	64		
Net Income After Extraordinary Items	16%	18%	18%	(200)	(200)
Margin(%)	250	231	187	34%	8%
	-	-	-		
EPS	23.61	21.89	17.75	33%	8%

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss
(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Net sales	5,450	6,354	7,433	8,786
Other operating income	0	0	0	0
Total income	5,450	6,354	7,433	8,786
Change in contingent consideration on acquisitions	-	-	-	-
Employee benefit Expenses	3,355.0	3,752.6	4,561.3	5,381.6
Other Expenses	1,087.3	1,405.0	1,375.1	1,625.5
EBITDA	1,007	1,197	1,496	1,779
Other income	154	144	149	176
PBITD	1,161	1,341	1,645	1,955
Depreciation	218	182	82	82
Interest & Fin Chg.	46	34	2	2
E/o income / (Expense)	0	0	0	0
Pre-tax profit	897	1,126	1,562	1,872
Tax provision	231	79	268	321
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Profit after Tax	667	1,047	1,294	1,551
Other Comprehensive Income	0.0	0.0	0.0	0.0
PAT after Comprehensive Income	667	1,047	1,294	1,551

Source: Company, Axis Securities

Balance Sheet
(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Total assets	3,832	4,630	5,539	6,349
Net Block	135.3	103.6	171.9	240.1
CWIP	15.0	15.0	15.0	15.0
Investments	915.4	915.4	915.4	915.4
Wkg. cap. (excl cash)	1,372	1,286	1,228	1,464
Cash / Bank balance	1,395.5	2,311.3	3,210.1	3,715.6
Misc. Assets	(1.0)	(1.0)	(1.0)	(1.0)
Capital employed	3,832	4,630	5,539	6,349
Equity capital	20.9	20.9	20.9	20.9
Reserves	3,311	4,052	4,967	6,064
Minority Interests	6.9	6.9	6.9	6.9
Borrowings	491	493	495	497
Def tax Liabilities	0.0	0.0	0.0	0.0

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Sources	783	925	999	1,181
Cash profit	930	1,262	1,377	1,634
(-) Dividends	195	306	379	454
Retained earnings	735	956	999	1,180
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	91.0	0.0	0.0	0.0
Borrowings	2	2	2	2
Others	-46	-34	-2	-2
Applications	783	925	999	1,181
Capital expenditure	(113.5)	95.0	158.6	439.0
Investments	0.0	0.0	0.0	0.0
Net current assets	(281.3)	(86.3)	(58.1)	236.2
Change in cash	1,177.6	915.8	898.8	505.5
Closing cash	1,395	1,395	1,395	1,395

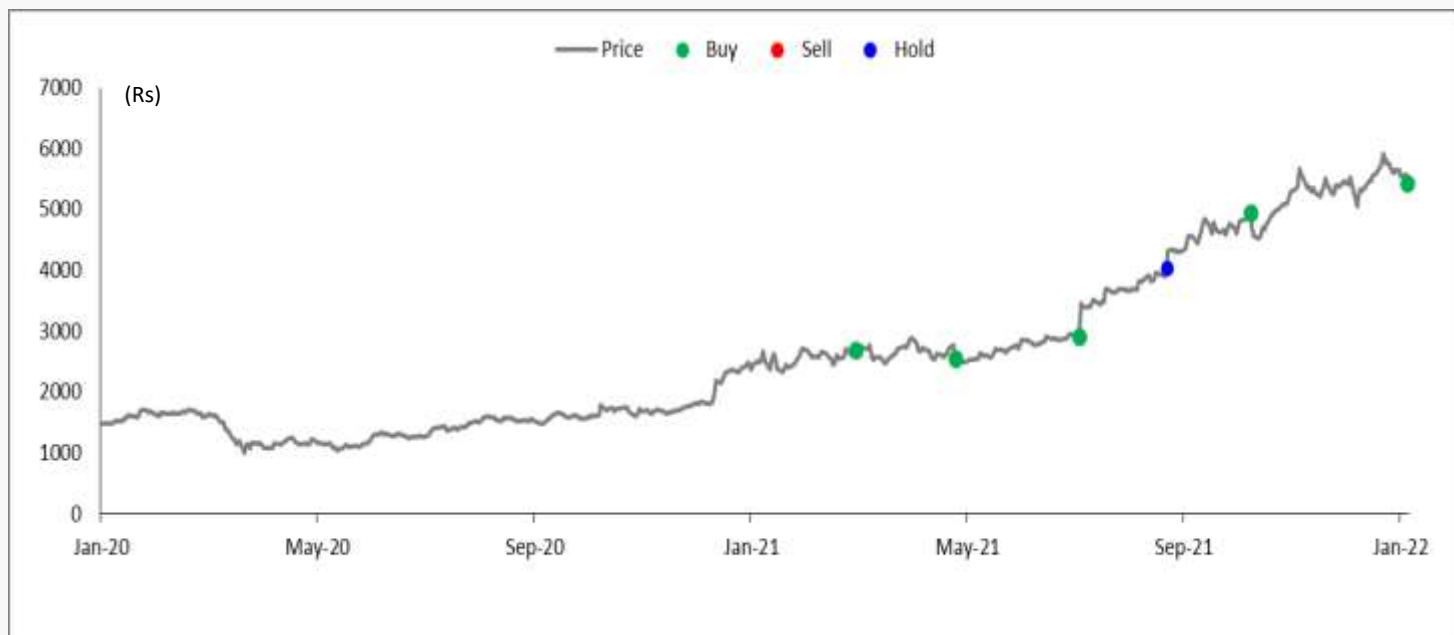
Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY21	FY22E	FY23E	FY24E
Sales growth	(3.0)	16.6	17.0	18.2
OPM	18.5	18.8	20.1	20.2
Oper. profit growth	(9.3)	18.8	25.0	18.9
COGS / Net sales	0.0	0.0	0.0	0.0
Overheads/Net sales	20.0	22.1	18.5	18.5
Depreciation / G. block	(292.6)	(572.7)	119.7	119.7
Effective interest rate (%)	9.2	6.8	0.3	0.3
Net wkg.cap / Net sales	0.31	0.24	0.19	0.17
Net sales / Gr block (x)	10.3	9.3	8.9	9.0
RoCE	27%	28%	31%	31%
Debt / equity (x)	0.10	0.08	0.07	0.06
Effective tax rate	25.7	7.0	17.1	17.2
RoE	21%	27%	27%	27%
Payout ratio (Div/NP)	25.0	25.0	25.0	25.0
EPS (Rs.)	63.7	100.0	123.6	148.1
EPS Growth	(18.1)	57.1	23.6	19.8
CEPS (Rs.)	84.5	117.4	131.4	155.9
DPS (Rs.)	15.9	25.0	30.9	37.0

Source: Company, Axis Securities

L&T Technology Services Price Chart and Recommendation History



Date	Reco	TP	Research
08-Mar-21	BUY	3,200	Initiating Coverage
04-May-21	BUY	3,190	Result Update
14-Jul-21	BUY	3,215	Result Update
03-Sep-21	HOLD	4,290	Event Update
20-Oct-21	BUY	5,790	Result Update
19-Jan-22	BUY	5,960	Result Update

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