L&T Technology Services (LTTS) BUY

Leading the Technology transition era

TP	Rs5,251
CMP	**Rs4,566**
Potential upside/downside	15%

Key Stock Data	
Bloomberg/Reuters	LTTS IN / LTEH.BO
Sector	IT Services
Shares o/s (mn)	106
Market cap. (Rs mn)	483,464
3-m daily avg Trd value(Rs mn)	42.3
52-week high / low	Rs5,990 / 4,228
Sensex / Nifty	72,990 / 22,083

Price Performance (%)	-1m	-3m	-12m
Absolute	(17.5)	(13.9)	(13.1)
Rel to Sensex	(10.4)	(4.1)	(11.9)

V/s Consensus			
EPS (Rs)	**FY25E**	**FY26E**	**FY27E**
IDBI Capital	121	141	164
Consensus	125	146	171
% difference	*(2.8)*	*(3.3)*	*(3.9)*

Shareholding Pattern (%)	
Promoters	73.7
FII	4.2
DII	13.8
Public	8.3

Summary

LTTS, a prominent ER&D player with a global footprint across key verticals—Mobility, Sustainability, and Technology; and flexes a robust portfolio of niche sub-segments and service lines. Distinguished among its peers, LTTS has cemented its position in the engineering domain through the development of cutting-edge capabilities (1,448 patents), leveraging both organic/inorganic growth through strategic acquisitions (such as Intelli-swift and SWC). The management is confident in its expansive capabilities & aims to achieve a $2bn revenue run rate in the medium term, with a long-term target of $1bn each vertical. This ambition is underpinned by a rich client base (378 active clients) with a consistent track record of securing large deals (7-8 in last 6 quarters). Given the rising demand in the ERD space, LTTS is well-poised with its technological prowess and capacity to capture the growth, likely to lead the pack. However, macro-economic challenges may pose short-term headwinds, potentially dampening growth in the near term. We initiate the coverage with BUY rating at a target price of Rs 5,251 (32x PE FY27E EPS).

Key Highlights and Investment Rationale

- **Key differentiating factor:** LTTS specializes in physical-to-digital and silicon-to-cloud solutions, with 1,448 patents (targeting 2,500) and 108 innovation labs across areas like SAFEX-CI/CD, electrification, power electronics, motor controls, hardware, Alexa voicification, and software-defined labs.
- **Key strategies:** The company's strategic focus is to expand the scalability of its verticals through SDV, electrification (Mobility), robotics, automation (Sustainability), and AR/VR, cybersecurity (Technology).
- **Margin improvement:** The company aims to achieve 22%, 30%, and 16% margins in mobility, sustainability, and tech respectively. This will be driven by increased offshore (SWC) and services revenue, along with enhanced operational efficiency.

Financial snapshot (Rs mn)

Year	FY23	FY24	FY25E	FY26E	FY27E
Revenue	88,155	96,472	105,637	125,015	141,057
Change (yoy, %)	*34*	*9*	*10*	*18*	*13*
EBITDA	17,610	19,189	19,413	22,815	26,096
Change (yoy, %)	*24*	*9*	*1*	*18*	*14*
EBITDA Margin(%)	*20.0*	*19.9*	*18.4*	*18.3*	*18.5*
Adj.PAT	12,121	13,036	12,767	14,957	17,310
EPS* (Rs)	115	123	121	141	164
Change (yoy, %)	*26.3*	*7.4*	*(2.1)*	*17*	*16*
PE(x)	39	37	38	32	28
Dividend Yield (%)	0.7	1.0	1.1	1.3	1.5
EV/EBITDA (x)	25.6	23.6	23.3	19.8	17.2
RoE (%)	28	27	22	23	23
RoCE (%)	32	30	26	27	27

Source: Company, IDBI Capital Research

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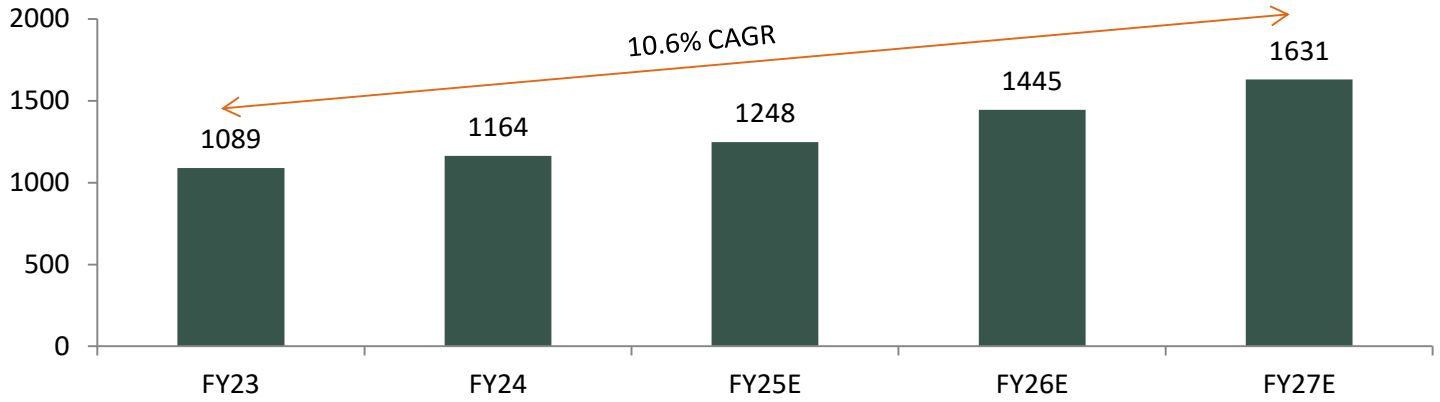
Investment Rationale

Aspiration to be a US$2 bn dollar company

The company has made significant investments in innovation labs since its establishment, and currently operates 108 such labs. These labs are expected to play a crucial role in advancing digital engineering for the company's customers and tapping into various emerging trends. Additionally, the company's emphasis on solution-oriented engineering services across diverse verticals will contribute to its long-term revenue growth. Based on these initiatives, management aims to achieve a revenue run-rate of US$1.5 billion in the medium term. Looking further ahead, the company aspires to reach US$2 billion in annual revenues in the coming years.

Exhibit 1: Revenue growth map at 10.6% CAGR (2023-2027)



Source: Company, IDBI Capital

Exhibit 2: Revenue growth comparison with peers

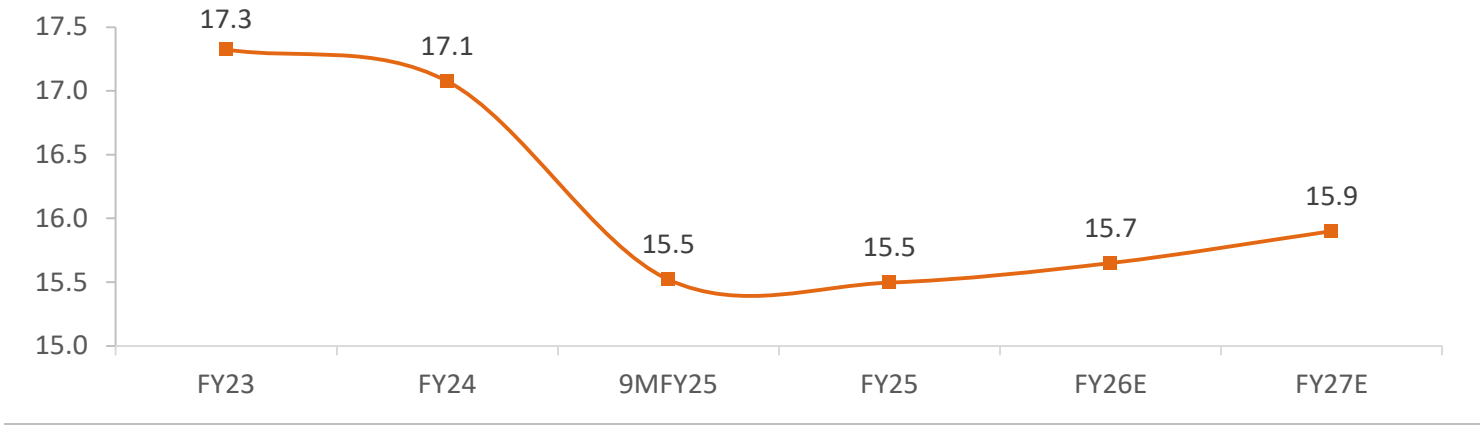
QoQ % growth	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
LTTS	1.5	4.8	-3.0	4.5	3.1
Tata Technologies	0.9	3.9	-2.5	2.2	1.6
Cyient	2.4	2.2	-9.9	10.3	3.3
KPIT	4.8	4.8	3.6	7.8	2.0
Tata Elxsi	3.7	-0.9	2.3%	3.1	-1.7

Source: Company, IDBI Capital

Medium term aspiration of 17-18% margins

The integration of low-margin acquisition SWC led the margins tapered in FY23, blended margins are at 15.5% in 9MFY25. However, strategic initiatives such as internalizing SWC revenues, increasing services in SWC India's mix, raising offshoring from 58.3% to 60% and uptick in operational efficiencies are expected to support margin recovery. Given, recent global headwinds and discretionary spending cuts, company has guided 16.5% margin by Q1FY28 and the timeline to reach the 18% margin target is delayed.

Exhibit 3: EBIT Margin trajectory (2023-2027)



Source: Company, IDBI Capital

Exhibit 4: Margin comparison v/s peers

EBIT margins % (Services)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
LTTS	17.2	16.9	15.6	15.07	15.80
Tata Technologies	16.2	16.2	15.9	15.9	16.1
Cyient	16.0	16.0	13.5	14.2	11.4
KPIT	16.6	16.7	17.3	17.0	17.2
Tata Elxsi	26.0	25.8	24.3	25.0	23.5

Source: Company, IDBI Capital

Key differentiator for the company

LTTS' deep engineering heritage and expertise across multiple verticals play a crucial role in defining, directing, and driving its investments in emerging technologies. This strong foundation enhances the company's ability to strengthen its relationships with customers and partners worldwide. As a pure-play engineering services company, LTTS stands out with its technology-led differentiation, which enables it to achieve industry-leading growth. The company's commitment to innovation is further supported by its 108 innovation labs, 1,448 patents, and a strong focus on digital engineering, all of which serve as key differentiators in the market.

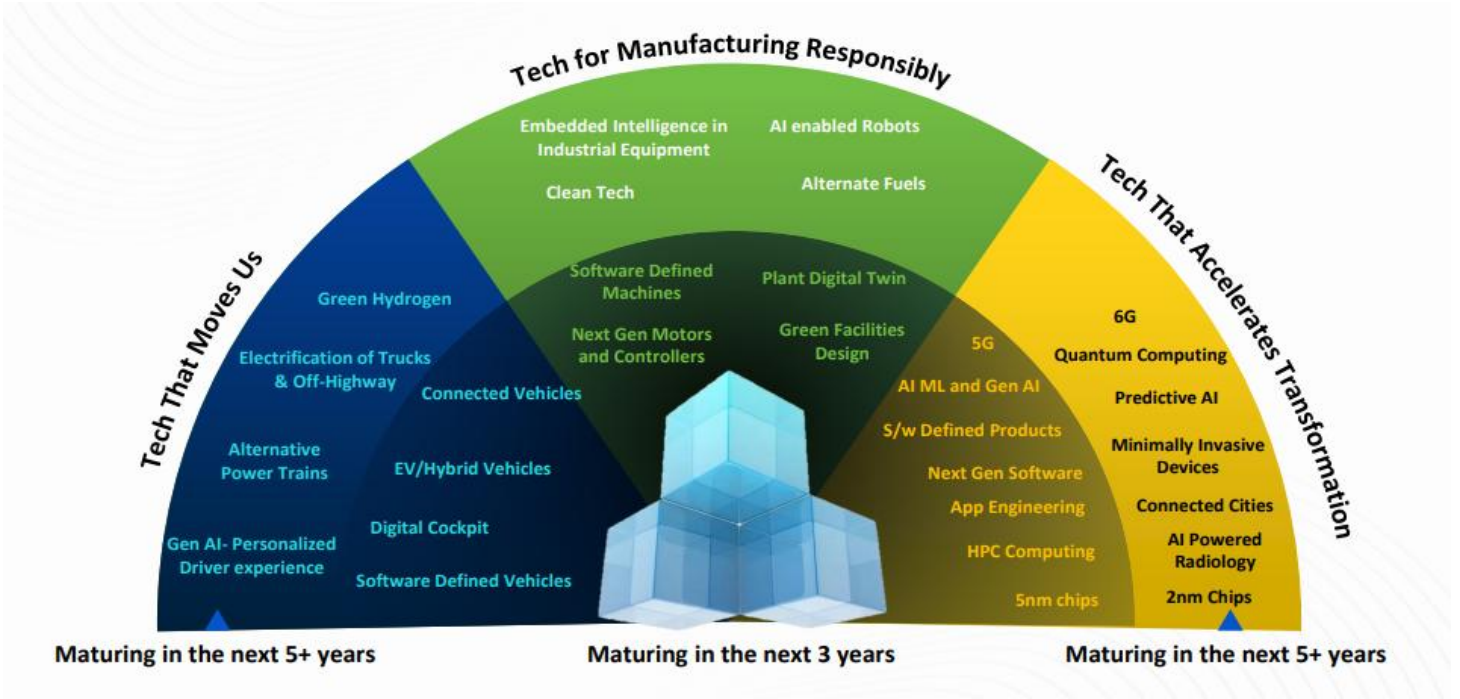
Well-diversified player with multi-vertical industry expertise and long-standing customer relationships

The company's extensive multi-vertical industry expertise enables it to target a wide range of services across all business segments. This success in customer engagements across various sectors has significantly enhanced the company's recognition in the global ER&D market. By leveraging its experience across different segments, the company effectively delivers ER&D services and solutions to customers. Additionally, the company actively pursues cross-selling opportunities across verticals, creating value for both existing and prospective clients. This strategy not only allows the company to address complex customer challenges that require multi-domain expertise but also aids in penetrating different business verticals. Furthermore, this approach helps mitigate risks associated with adverse market conditions in specific sectors, ensuring greater resilience and growth potential.

Expand business and geographical footprint through selective acquisitions

Over the past few years, the company has augmented its organic growth by pursuing selective acquisitions and strategic alliances that provide access to enhanced infrastructure, industry knowledge, technology expertise, geographical reach, vertical offerings, and an expanded customer base. Notably, the acquisition of Intelli-swift and SWC will drive growth in key areas such as Next-Gen Communications, Sustainable Spaces, and Cyber-security. These acquisitions align with LTTS' Big Bets strategy, focusing on growth areas like 5G, Digital Products & AI, and Sustainability. The company is targeting markets like the Middle East, where large-scale city infrastructure projects are underway, alongside the U.S., Europe, and Canada. These acquisitions also position LTTS to pursue larger deals and may consider further acquisition opportunities, including acquiring divisions of existing companies to selectively expand in various verticals. These strategic acquisitions will support the company's long-term goals, enhance its global footprint, and strengthen its competitive position.

Exhibit 5: Growth pathway



Source: Company, IDBI Capital, LTTS

Key growth drivers of ER&D spending

Sustainability: As sustainability becomes a key focus, global enterprises are setting clear targets for carbon neutrality and net zero emissions. This shift has driven an emphasis on energy-efficient product design and clean energy transitions. Many countries are phasing out internal combustion engine vehicles, with electrification expected to replace them. Electrification is seen as a core strategy for sustainable decarburization, effectively reducing carbon emissions in sectors like heating, cooling, transport, and industry.

Improvement in Innovation Cycles: As sustainability takes priority, global enterprises are targeting carbon neutrality and net zero emissions. This shift drives energy-efficient design and clean energy transitions, with electrification replacing internal combustion engines. Electrification is key to decarburization, reducing emissions in transport, heating, cooling, and industry.

Digital Thread: Digital technologies are transforming manufacturing by connecting machines through a 'Digital Thread' that integrates PLM, MES, and ERP systems across the value chain. This integration enhances data organization, decision-making, and real-time insights into product performance. Challenges like soiled infrastructure, limited flexibility, and poor data visibility drive the need for integration. Industry 4.0 technologies are boosting factory automation, while macro factors like supply chain disruptions, demand shifts, and remote work highlight the need for a cohesive digital strategy.

Higher Product Complexity: Technology advancements are driving product complexity across industries. In the automotive sector, digital technologies are reshaping the value chain, with connected experiences becoming a key competitive advantage. Carmakers are digitizing sales and services, while offering add-on services like Battery-as-a-Service (BaaS) and Over-The-Air (OTA) updates.

Generative AI: Generative AI is driving new investments as companies seek to boost engineering efficiency and develop intelligent products. Though in its early stages, it holds transformative potential to reshape industries, with increased funding fueling innovative applications and ushering in a new era of efficiency and innovation.

Large deals driving growth

The company is actively targeting large deals in the range of US$25 million to US$100 million. These deals are expected to be multiyear contracts with an annuity-based model, where the margin profile will improve over time. Over the years, the company has seen robust growth in large deals and has secured at least two major

deals in the past three quarters. We believe that the company's consistent ability to win large deals will be a key driver of long-term growth. The below mentioned track record underscores the company's capability to secure and deliver large, strategic contracts, positioning it for sustained growth.

Exhibit 6: Number of deals

	Deals	Larger deal	Description
Q3FY25	8	3	**Deal 1:** A 4yr deal with a tier 1 European automotive customer to restructure their delivery models and ensure streamlined program ownership. **Deal 2:** Secured a multimillion-dollar deal with an oil and gas major to design an Integrated Operations Centre, leveraging plant engineering expertise, Smart world technologies, and AI solutions. **Deal 3:** Secured a $50 million deal with a global network provider as a strategic partner to deliver product integration services for the North American market.
Q2FY25	6	2	**Deal 1:** Multiyear deal with mobility segment from a leading US construction and engineering equipment for control systems, software development and V&V. **Deal 2:** Signed a multi-year multi-million deal with one of the largest energy companies in sustainability segment. Company will provide a comprehensive range of EPCM services, including Integrated Digital Engineering and Data Governance for Capital Projects.
Q1FY25	7	2	**Deal 1:** A leading global automotive supplier has awarded LTTS an additional $30 million deal in their Ultra-Low Emissions Engineering program, delivering clean mobility solutions to their global customers. **Deal 2:** LTTS has secured a 3-year program with a leading global energy company to provide EPCM services, including Integrated Digital Engineering and Data Governance, driving sustainable energy solutions.
Q4FY24	6	2	**Deal 1:** A deal with a tier-1 where LTTS will use AI & digital transformation to advance their clean mobility engineering capabilities. **Deal 2:** LTTS won a deal with middle east ONG major to provide EPCM services under differentiated engineering value center model.

(Contd.)	Deals	Larger deal	Description
Q3FY24	6	3	**Deal 1:** A deal in avionics (Aerospace & Defense) for setting up a CoE for Field [9Programmable Gate Arrays (FPGA) & DO254 work in USA to support their ongoing and new programs over the next 3 years. **Deal 2:** +$10mn deal in cyber-security to help establish a cyber-security center of excellence, which will provide global support for their Security and Network Services. **Deal 3:** LTTS will provide full-stack engineering services, including DFT and DV, for the customer's System on Chip (SoC) and IP designs.
Q2FY24	7	4	**Deal 1:** A global machinery company to set up a software center of excellence in India, catering to the digital transformation needs. **Deal 2:** Leveraging SWC capabilities in the global market got a deal of $10mn from Global customer for establishing a 5G center of excellence. **Deal 3 & 4:** LTTS has been chosen as the test engineering partner for a global healthcare OEM to accelerate next-gen platform development and integration. It is also selected for part-to-print verification of medical device components, with a TCV of $20M.

Source: Company, IDBI Capital

Business Profile:

LTTS, headquartered in India, is a global leader in Engineering Research and Development (ER&D), offering end-to-end consultancy, design, development, and testing across product and process lifecycles, has over 23,698 employees across 22 design centers, 28 sales offices, and 108 innovation labs worldwide. With expertise in software, digital engineering, embedded systems, engineering analytics, and plant engineering, it serves 69 Fortune 500 companies in 25 countries and 57 top ER&D firms in sectors such as Mobility, Sustainability and Technology.

LTTS remains at the forefront of innovation, partnering with leading technology firms and hyper-scalers to deliver next-gen solutions in AI, SDx, and Cybersecurity. These collaborations enhance product development, remote asset management, sustainability, and virtual design. LTTS acquired L&T's Smart World and Communication Business Unit, strengthening its capabilities in Smart Spaces, Next-Gen Communications, and Cybersecurity. USD 100mn worth of contract winning shows the commitment to innovation and customer excellence.

Exhibit 7: LTTS presence across verticals

Source: Company, IDBI Capital, LTTS

Transforming the journey of 80% of the top 10 global OEMs/Tier 1 suppliers in the transportation sector

LTTS offers specialized transportation engineering services to accelerate market entry, innovation, and business excellence for global OEMs and Tier 1 suppliers. With a focus on Electric Vehicles (EV), Advanced Driver Assistance Systems (ADAS), Autonomous Drive (AD), and Software Defined Vehicles (SDV), LTTS is leveraging AI and cybersecurity to strengthen its position in the growing automotive sector. In the Trucks and Off-highway segment, LTTS provides cutting-edge services across industries like construction, mining, and agriculture.

EVs, connected vehicles & SDVs will be the driving meter for growth in automotive segment which is expected grow at 9% CAGR 2023-2030. Increasing role of digital engineering in this sector plays major role in growth. Share of digital engineering ER&D spend in this sector is 39% which is expected to grow at 16% CAGR to reach 61% by 2030.

In Aerospace, LTTS partners with OEMs and Tier 1 manufacturers to drive ROI and meet compliance standards. The company also excels in industrial products, catering to global clients in areas like energy management and machinery design. With expertise in software, hardware, and mechanical engineering, LTTS is well-positioned to capitalize on the expanding global ER&D market and Industry 4.0 opportunities.

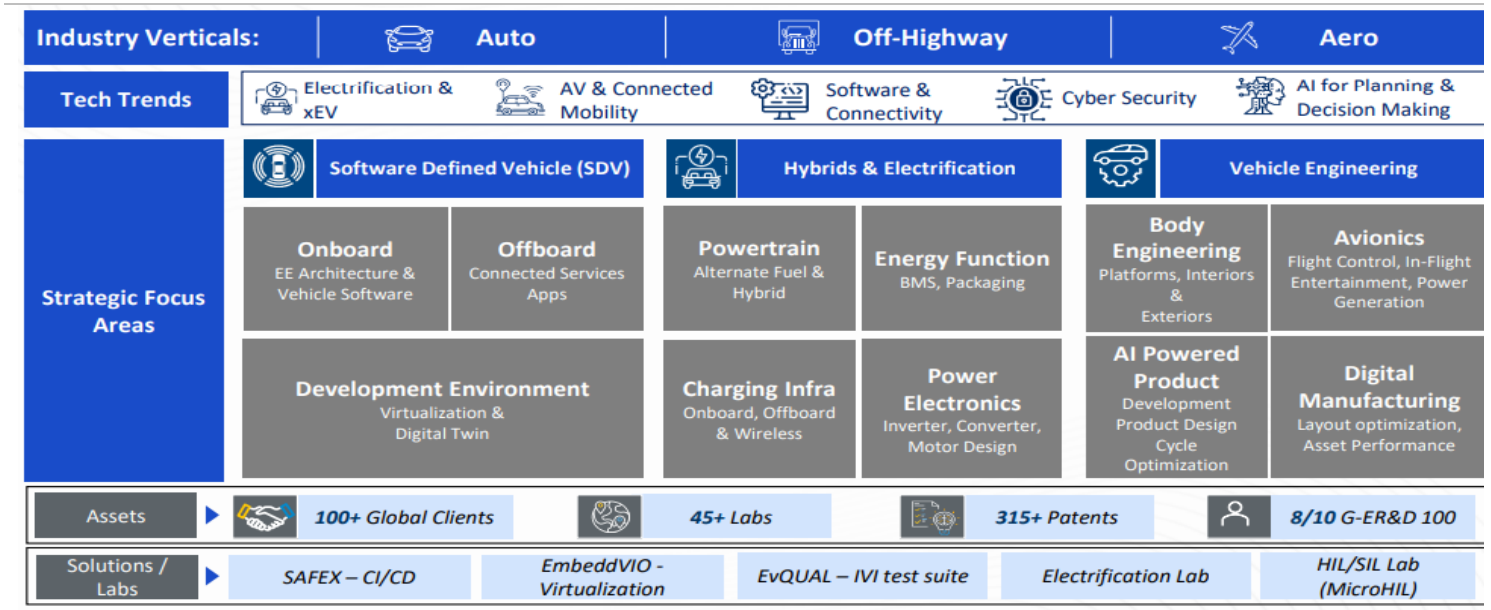
LTTS has been selected by a leading Aerospace & Defence OEM for a 3-year, USD 15 million engagement in avionics engineering and simulation services. The company is also working with a major Agricultural and Construction equipment maker to establish a 100-member Offshore Development Center (ODC) in India. Additionally, LTTS has secured a new engagement with a leading European automaker for engineering design, vehicle platform software, electrification, and propulsion computer-aided engineering.

LTTS has been on-boarded by a major North American automotive OEM to support software-defined vehicle initiatives, including digital cockpits, ADAS, AI, and connected platforms across North America, Europe, and India. It has also been selected as a strategic engineering partner by a global automotive parts supplier for electrical distribution systems, electronics, and components.

LTTS secured a multi-year contract from an American EV OEM for body and interior design engineering for next-gen EVs. Additionally, a leading Aerospace & Defense customer has partnered with LTTS to establish a CoE for FPGA & DO254 work in the USA for the next 3 years.

The company has also won a large engineering deal from a Tier 1 automotive supplier to deliver ultra-low emission solutions and is entrusted by a European automotive components maker to manage all electronics programs across EMEA, Japan, and NAFTA. Furthermore, LTTS has been chosen as the preferred partner by a prominent aerospace and defense company for In-Flight Entertainment (IFE) systems for the next 4 years.

Exhibit 8: Mobility (Auto, Off-highways, Aerospace)



Source: Company, IDBI Capital, LTTS

During FY24, segment performed well by 11.5% growth YoY, however, margin was expanded by only ~20bp YoY due to integration of SWC (acquisition) in the firm. While, for 9M FY25 segment revenue grew by ~11% from 9MFY24 and EBIT margin declined by ~30bps YoY.

Outlook: Company continues to witness traction in deal pipeline in SDV & hybridization with focus on auto & commercial vehicles across US, Europe & Japan. A gradual upswing is seen in Aero & rail with healthy deals pipeline. Management expressed a muted Q4FY25 in mobility due to weak demand in agriculture & construction sector led by uncertainty around potential tariff changes, however, confident of recovery in Q1FY26 onwards on the back of new deals & new-end programs.

Transforming the journey of 70% of the top 10 global companies in the Industrial products sector

LTTS leverages its multi-domain expertise in software, hardware, and mechanical engineering to serve a growing global industrial products customer base. The company's presence spans key areas like building automation, energy management, and machinery design. As global ER&D spending in this sector expands, driven by AI adoption, LTTS is positioned to capitalize on the USD 93 billion market by 2026. With deep industry knowledge, LTTS helps customers navigate sourcing strategies and focuses on digital manufacturing and Industry 4.0 to unlock growth opportunities through digital transformation.

LTTS is providing design, implementation, and support for meter data management, prepaid systems, energy analytics, and integration services to a leading smart metering customer, covering 11 million end users. The company also secured a multi-million-dollar deal with a European renewables OEM to deliver Industry 4.0 and Digital PLM services. Additionally, LTTS has a long-term service contract for supply chain optimization, focusing on value engineering, smart sourcing, and improving manufacturing efficiency for a global leader in climate solutions.

Improving operational excellence of 70% of Top 10 global Organizations through Product engineering

LTTS offers comprehensive chip-to-cloud capabilities, covering design, engineering, project management, and maintenance for global plant engineering clients. With a focus on Engineering, Procurement, and Construction Management (EPCM), the company supports all phases of a plant's lifecycle through consulting-driven solutions and Value Engineering Centers.

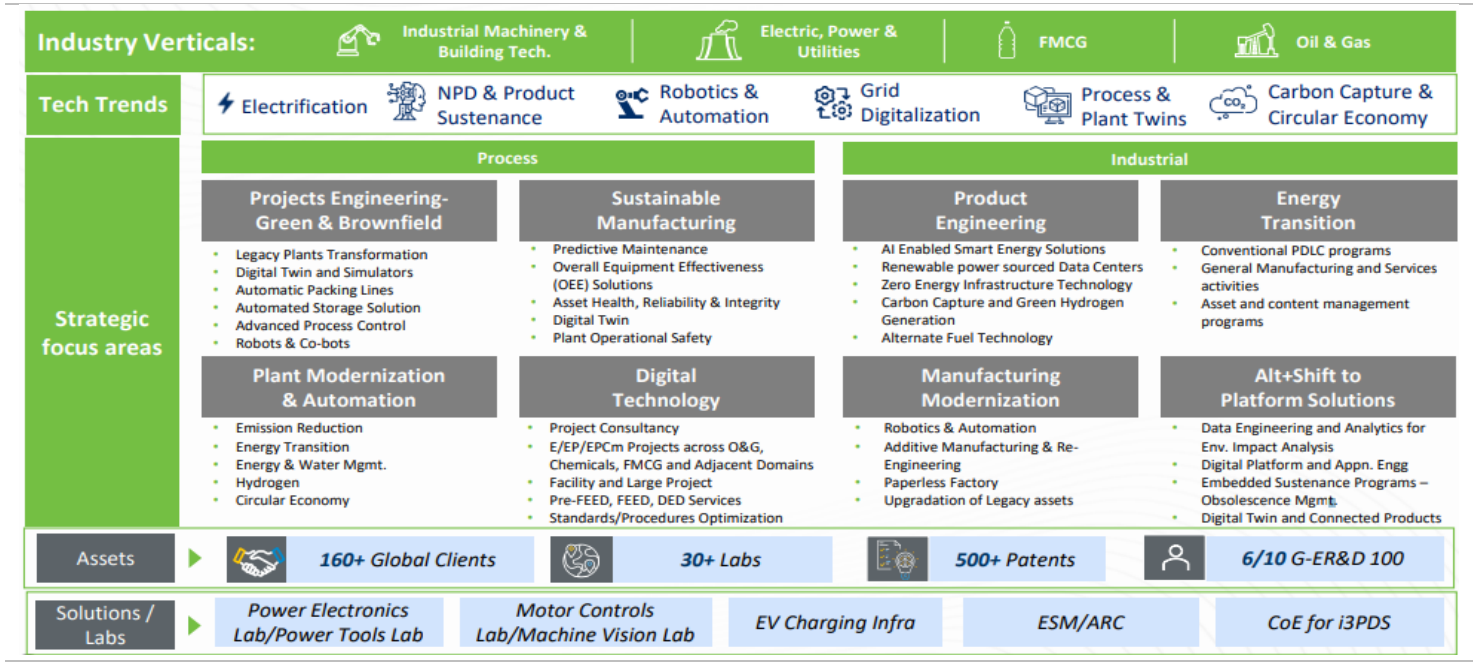
In the evolving Plant Engineering sector, LTTS helps manufacturers modernize operations with smart platforms, connectivity, and integration services. Its offerings in AI/ML, AR/VR, and digital twins drive transformative outcomes across industries like Consumer Packaged Goods, Chemicals, and Energy & Utilities. As global ER&D spends exceed USD 90 billion by 2030, LTTS is well-positioned to lead digital transformation and innovation, leveraging emerging technologies like AI and cybersecurity.

Industrial products ER&D spend is foreseen to reach $280bn by 2030 at 8% CAGR from $160bn in 2023. ER&D focus for this sector is expected to be in data backed ops, improving efficiency and quality of output through digital engineering. Digital engineering share in this sector is growing at 17% CAGR to reach at $150bn by 2030 from $50bn in 2023.

LTTS has finalized a multi-year engineering services partnership with bp plc, leveraging its expertise in engineering, manufacturing, digital data management, and low carbon initiatives. The company also secured a multi-year deal with a global oilfield services provider to establish a software center of excellence in India for digital transformation. Additionally, LTTS was awarded an engineering managed services project from a European fragrance and nutrition maker to support its Capex program in France and Switzerland.

LTTS won a multi-million-dollar plant engineering contract from a global agri-food company for a new plant in the Netherlands and is providing plant engineering services to a Netherlands-based energy major across refineries and new energy projects. The company also secured a greenfield specialty chemical plant contract in the Middle East and was selected as a strategic partner for global PLM transformation and infrastructure support for a leading HVAC solutions provider.

Exhibit 9: Sustainability (Industrial machinery & Building tech, Electric, Power & Utilities, FMCG, Oil & Gas)



Source: Company, IDBI Capital; LTTS

Segment revenue for FY24 & 9MFY25 grew by 4% & 4.2% YoY respectively, while margins for both durations have declined by ~30bps & ~230bps respectively. As mentioned earlier, margins for the firm has dipped due to SWC & integration.

Outlook: Within industrial, the energy sub-segment is seeing an upswing in spends especially in electric controls and micro grids. In process segment, strong demand is seen across O&G and FMCG in projects, engineering and plant modernization. Key clients continue to ramp up and company expects to win more deals cross leveraging segmental capabilities. In FMCG, strong demand for plant modernization, digitization as customers want to improve operational predictability. Overall for the Sustainability segment can be seen at increased large deal pipeline both at process and industrial and expect the growth momentum to sustain.

Paradigm shift for 8 of the top 10 tech leaders in Telecom & Hi-Tech with next-gen technology

LTTS' Telecom & Hi-Tech segment covers five key areas: Telecom, Consumer Electronics, Semiconductors, ISVs, and Media & Entertainment (M&E). LTTS leverages AI, SDX, and cybersecurity to unlock new value for customers. The company supports telecom OEMs and CSPs in private networks and 5G rollouts, enhanced by its acquisition of L&T's Smart World and Communication unit.

ER&D spending across Technology segment is set to grow significantly by 2030. Telecom's spend will reach $160bn at 13% CAGR, with digital engineering at 73%. Consumer electronics will grow to $400bn, with $220bn in digital engineering. Software's ER&D will rise to $500bn, driven by AI, cloud, and cybersecurity. The semiconductor sector will grow to $290bn, with $200bn in digital engineering. Med-tech will remain the highest spender at $620bn, with digital engineering reaching $400bn.

In semiconductors, LTTS collaborates with global tech giants for hardware design, chip development, and cloud engineering. In M&E, it partners with media technology leaders to drive product engineering, development, testing, and certification. LTTS also expands its partnership ecosystem to capitalize on the shift in global media consumption.

LTTS secured a USD 50 million engagement with a global technology major to enhance its digital video platforms, cloud-native portfolio, and drive automation. The company was also selected by a leading US tech firm to provide post-silicon validation services for upcoming server chips powering hyper-scalers. LTTS is working with a 5G solutions provider to establish a 5G Center of Excellence, focusing on RF design, hardware, signal processing, and systems engineering.

Additionally, LTTS will provide full-stack engineering services, including DFT and DV, for a leading semiconductor company's SoC and IP designs. LTTS also won a USD 100 million program from the Maharashtra State Cyber Department to develop secure, digitally interconnected smart cities using advanced cybersecurity and Digital Forensic solutions.

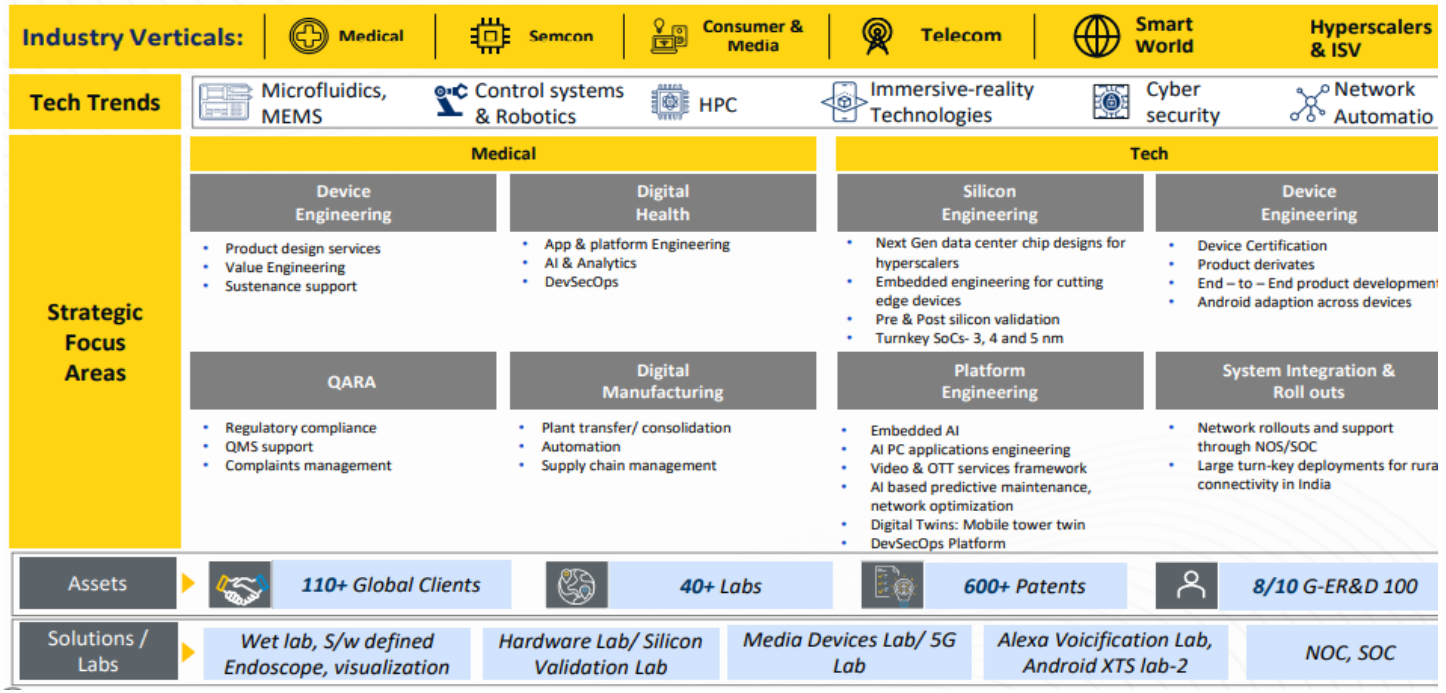
Cutting edge solution in Medical Devices helps 60% of the Top 5 global Healthcare leaders

With over three decades of experience, LTTS collaborates with the top global healthcare providers and device manufacturers to enable remote care, ensure regulatory compliance, transform diagnostics, and drive AI-powered solutions. The company supports the growing adoption of the Medical Internet of Things (MIoT) and enhances surgical services, wellness journeys, and chronic disease management.

LTTS accelerates product development, optimizes market entry, and drives value engineering in areas like remote monitoring, decision support, and clinical workflow optimization. As global ER&D spending on medical devices exceeds USD 96 billion, LTTS redefines medical product design with cutting-edge digital technologies, ensuring regulatory compliance, quality, and operational excellence.

LTTS has been chosen as a partner by a leading healthcare technology provider for large-scale part-to-print verification of medical device components using diverse measurement systems. The company was selected by a global healthcare leader as its test engineering partner for next-gen platform development and faster time-to-market. LTTS is also designing and developing a next-gen Digital Surgery Platform for a major healthcare company, including R&D support for integrating robotics, surgical, and operative devices to enhance patient experiences and outcomes.

Exhibit 10: Technology (Medical, Semi-con, Consumer & media, Telecom, Smart World, Hyper-scalers & ISV)



Source: Company, IDBI Capital; LTTS

Revenue for FY24 & 9MFY25 grew by 6% & 2% last year and margin dipped by ~100bps & ~240bps respectively which stood at 15.5% & 13% which was mainly due to SWC acquisition.

Outlook: In Comms, demand is strong in the areas of network performance management, network monetization and AI-driven automation. In the Media sub-segment, product development and sustenance large deal opportunities are seen. In the MedTech sub-segment, demand is being driven by QARA and Digital Manufacturing and lastly, In SWC, company is building a pipeline in the Middle East where opportunities in smart city, safety and security and smart operations are seen. Company is quiet optimistic on the ISV segment which is getting rolled up under the new sub-segment called Software & Platforms as customers are spending heavily on new platforms and technologies.

Industry overview

The ER&D services can be understood as services offered to the enterprises which includes the complete package – process to design to develop the complete application/platform/assembling the devices which can be fabricated as a product for sale through software development.

The ER&D services market is comprised of product engineering services and process engineering services. Product engineering services most commonly address the product development lifecycle for companies, while process engineering services involve services to assist in the production of facilities and processes that produce value-added outputs and components through plant design engineering, manufacturing engineering, industrial engineering, and process control systems The ER&D services are specified into software, embedded, and mechanical engineering services as shown below:

Exhibit 11: Classification of ER&D services

Software	**Software Engineering services**
Applications	Required gathering
Big Data & Analytics, UI & UX	Software design
Internet & Web, cloud	Software Development
Mobile Applications	Testing
Software Product & platforms	Integration
Embedded	**Embedded Engineering services**
Middleware & APIs	System Analysis, Integration
Connectivity & Networking	Req. gathering
Frameworks, Platform software	Algorithm Development
System/ Board Design	Chip/ Board design
Application specific Integrated circuit	Prototyping V&V testing
Mechanical	**Mechanical Engineering services**
Detailed design assemblies & components	Design services, Prototype build & testing
Product design, FEA modelling & Reverse engineering	Computational aided engineering analyses
Testing environmental, thermal, etc	Full product development & Manufacturing support
System Integration	Documentation
Programme management, Prototype development	Value analysis/ Value engineering

Source: company IDBI Capital; Zinnov: market overview

Comparison between IT Services and ER&D Services Outsourcing

ER&D services differ from IT services in focus, decision-makers, and outsourcing maturity. With higher growth potential, ER&D services outpace traditional IT services, driven by specialized domain knowledge. Unlike IT generalists, ER&D specialists focus on niche expertise to translate into business growth. ER&D services also require a higher onshore mix and a strong track record due to the complexity of the business. While IT outsourcing is mature, ER&D outsourcing is still emerging, offering greater growth opportunities in the long term.

Exhibit 12: Difference between IT services and ER&D services

Parameters	IT Services	ER&D Services
Key Service Line	Application services, Infrastructure services	Product development, Manufacturing Engineering, MRO and network Engineering
Strategic partnership	Activities involving cost reduction and integration	High Trust, Mission critical, Revenue generating partnership
Deal structure & Size	Long duration with time & material or fixed price engagement models	Mid to long term strategic partnership: Discrete work packages involving integration with client teams
Growth headroom	15% of global IT spend is outsourced	17% of global ER&D spend is outsourced
C-suite relationship	Chief information officer, often low involvement, brought in later in the process	Chief technology officer, Product owner/ Head of engineering often day 0 involvement
Win factors	Global delivery model, competitive rates	Knowledge assets(IP/solutions), R&D infrastructure, Data protection, Specialised talent
Barriers to entry	More replaceable, rate card focused	Deeply embedded projects with specific skillsets, high switching cost

Source: company IDBI Capital; Zinnov: market overview

Competitive landscape:

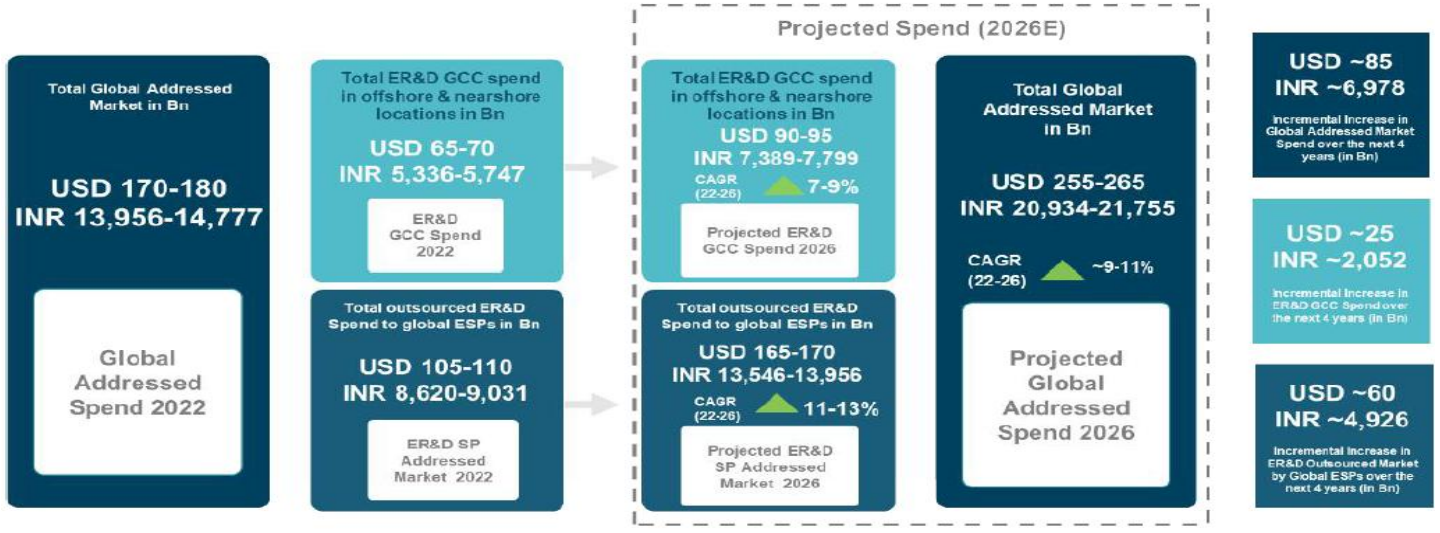
The ER&D industry is highly competitive, with players including large global consulting firms, multinational IT divisions, in-house ER&D teams, and smaller local competitors. The third-party ESP outsourced market is valued at USD 105-110Bn and is fragmented globally, categorized into four types of ESPs.

Exhibit 13: Indian IT companies on Global ER&D map

Large IT Service Providers	Indian heritage ER&D Specialists	Western European Specialists	High Growth Service Providers
Capgemini, Accenture, TCS, Wipro, Tech Mahindra etc	KPIT, LTTS, Tata Elxsi, Tata Technologies, etc	Alten, Akkodis, Bertrand, EDAG, Magna Steyr, etc	EPAM, Globant, Endava, etc
• Historically IT and BPM focused players • Increased enterprise spending on R&D even during the pandemic which is making the large SPs bet big on ER&D	• Focused sales teams with pure play branding allows them a differentiated positioning • Pointed focus on translating their niche ER&D prowess into large deals	• Historically focused on asset heavy verticals • Low potential to address Digital Engineering with limited software engineering component in their revenues	• Engineering culture, Digital talent, Agile pods and India alternate presence (EE, LATAM) • Majority of players are digital natives and largely focused on digital engineering services across industries

Source: company IDBI Capital; Zinnov: market overview

Exhibit 14: Global ER&D Services Addressed Market



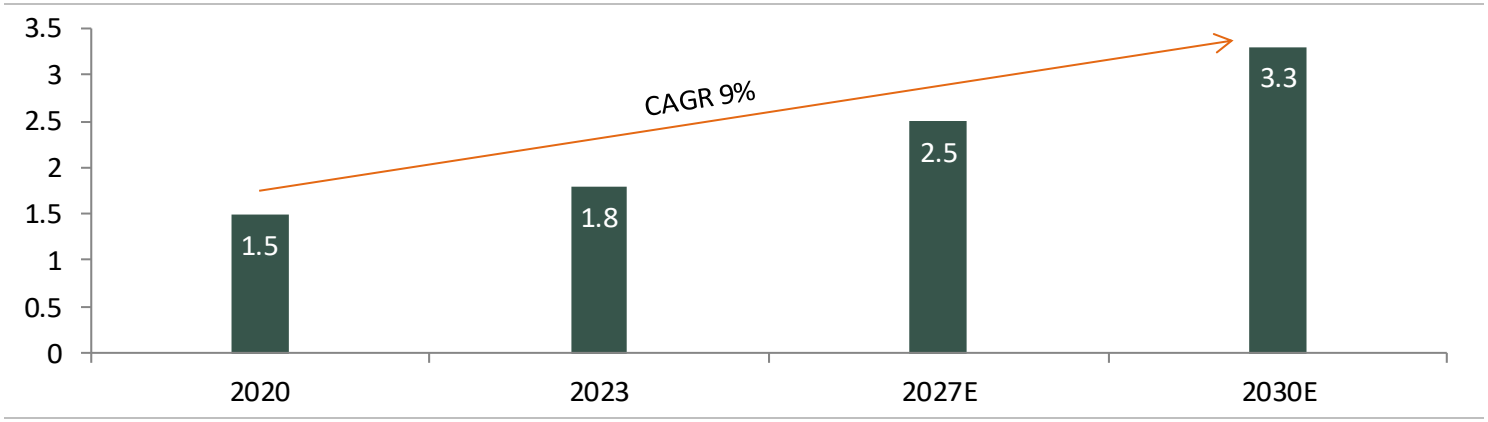
Source: company IDBI Capital; Zinnov: market overview

Seizing the ER&D advantage; Global ER&D to grow at a pace of 8-9% CAGR till FY30

Global ER&D spending has grown at 7-8% CAGR from 2020 to 2023 and is expected to accelerate by 8-9% CAGR from 2023 to 2030. Growth will be driven by digital innovation, demand for digital products, and new technologies. The automotive, software, healthcare, and medical devices sectors will be the primary contributors, with the semiconductor industry also playing a key role. Digital engineering will be the main driver, accounting for 65% of ER&D spending by 2030, up from 45% in 2023.

In 2024, most industry leaders are set to maintain or increase ER&D spending. The healthcare sector, which played a crucial role during the pandemic, is expected to fully sustain its ER&D investments. Software and telecommunications, driven by AI, Gen AI, 5G, and fiber will maintain high ER&D levels at 90%. Healthcare, automotive, software, and semiconductors will contribute 60% to India's global ER&D share. The automotive sector is projected to grow at a 9% CAGR from FY2023-2030, with healthcare and software sectors growing at 7% and 8%, respectively.

Exhibit 15: Global business ER&D spend ($Trillion)

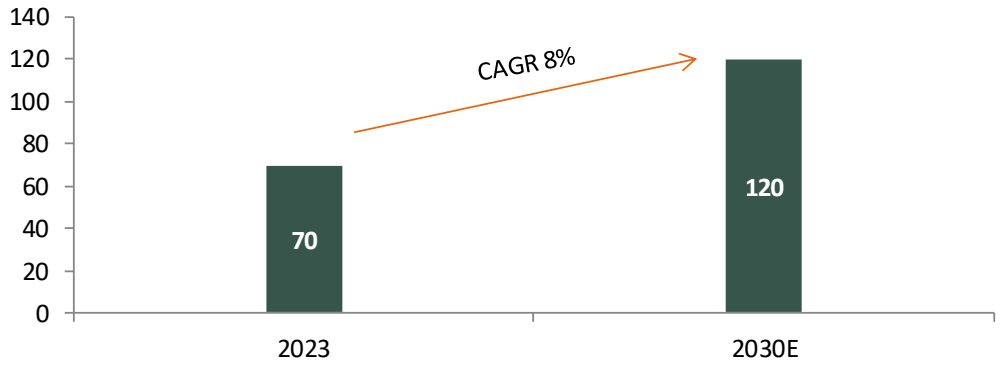


Source: company IDBI Capital; Nasscom_BCG report

Global ER&D spending is projected to surpass $3 trillion by 2030, driven by sectors like Automotive, Software, and Healthcare, with Telecom, Semiconductors, and Software seeing double-digit growth. India’s ER&D sector will benefit from investments in digital engineering, with digital ER&D spending set to double by 2026, driven by Generative AI. LTTS has upskilled 3,000+ engineers and, with its focus on multi-vertical expertise, customer-centric innovations, and AI and SDX alliances, is well-positioned to lead in the evolving ER&D market.

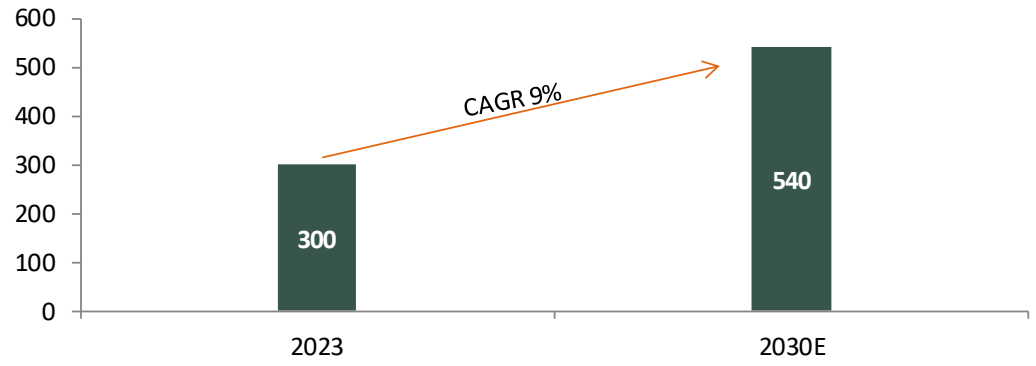
Expected growth story in charts

Exhibit 16: Aero-space & Defense



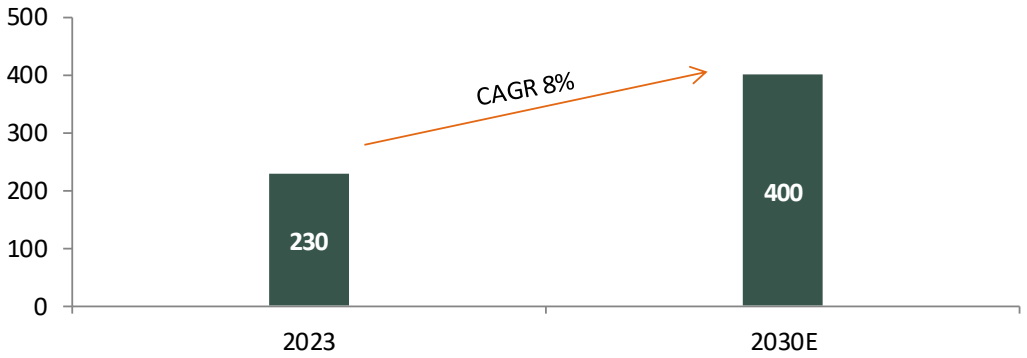
Source: company IDBI Capital; Nasscom_BCG report

Exhibit 17: Automotive



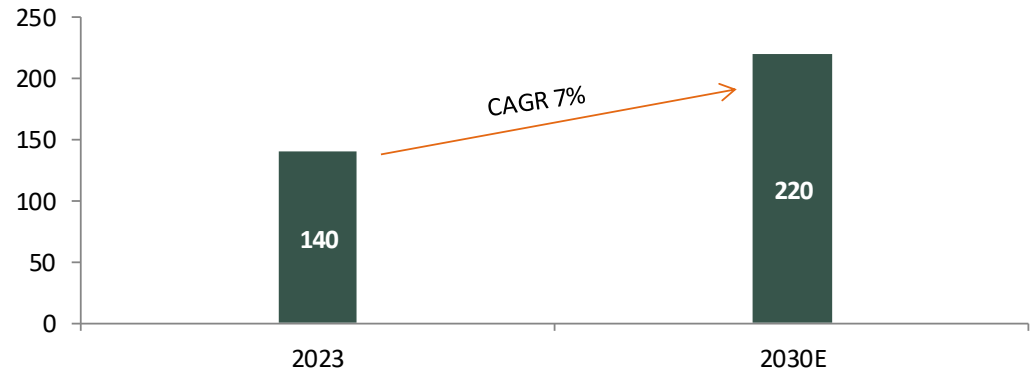
Source: company IDBI Capital; Nasscom_BCG report

Exhibit 18: Consumer electronics



Source: company IDBI Capital; Nasscom_BCG report

Exhibit 19: Energy, Utilities, Oil & Gas



Source: company IDBI Capital; Nasscom_BCG report

Catalysts for sectoral growth

Exhibit 20: Aero-space & Defense

i. Aircraft companies are adopting sustainable aviation fuel and hydrogen technologies to boost efficiency, profitability, and comply with fuel and emission regulations. Enhanced systems like larger fans and optimized airframe architectures are also improving fuel efficiency.

ii. Innovation in systems, products, and services, along with the rise of plug-and-play software, has heightened the risk of cybercrimes like hacking and manipulation. Developing innovative solutions to address these risks will drive growth in ER&D.

iii. OEMs face increasing pressure to innovate and reduce product development lead times. New technologies, such as 3D printing and additive manufacturing, are driving a need for 40% savings in tooling costs, compared to the current average of 20%.

Source: company IDBI Capital; Nasscom_BCG report

Exhibit 21: Automotive

i. Electrification: Increase in consumer sentiment in moving from traditional fuel vehicles to electric power engines and reduction in adoption barriers via the govt. policies.

ii. Connected mobility: Increase in consumer demand in connected mobility (connected cars), in-car technologies and autonomous driving would give strong push to the demand in this sector.

iii. Vehicle software priorities: Increasing role of software transformation is expected in automotive value chains.

Source: company IDBI Capital; Nasscom_BCG report

Exhibit 22: Consumer electronics

i. Demand of AI led faster design and products in the market and need for quick turnaround of product designs.

ii. The demand for aesthetics and extended wearables connected to smartphones has driven the rise of foldable and flexible display technology, made on substrates such as plastic, paper, metal, or flexible glass.

iii. Increased internet usage and regulatory trends are driving the adoption of interoperability, allowing users to control multiple devices through a single app instead of relying on different ones.

iv. Government initiatives targeting Net Zero emissions by 2030 are driving a focus on sustainable product offerings, including advanced sensors for energy conservation and eco-friendly electronics.

Source: company IDBI Capital; Nasscom_BCG report

Exhibit 23: Energy, Utilities, Oil & Gas

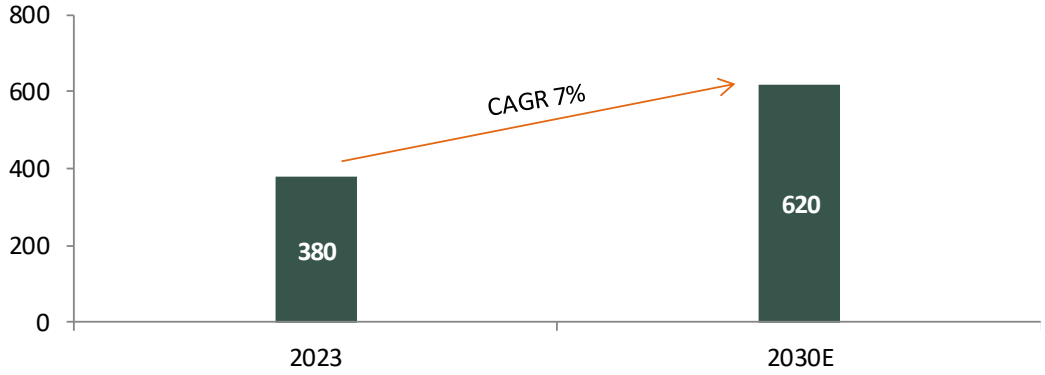
i. The global solar PV market is set for significant growth from 2023 to 2030, driven by the shift from PERC to TOPCon and HJT solar technologies for more efficient energy conversion. Nuclear fission R&D and biofuel usage are also increasing, supporting sustainability and electricity generation.

ii. Digitization: AI/ML is being used for production optimization, drilling automation, and predictive maintenance. The use of digital twins simulates development and operations, leading to improved operational efficiency.

Source: company IDBI Capital; Nasscom_BCG report

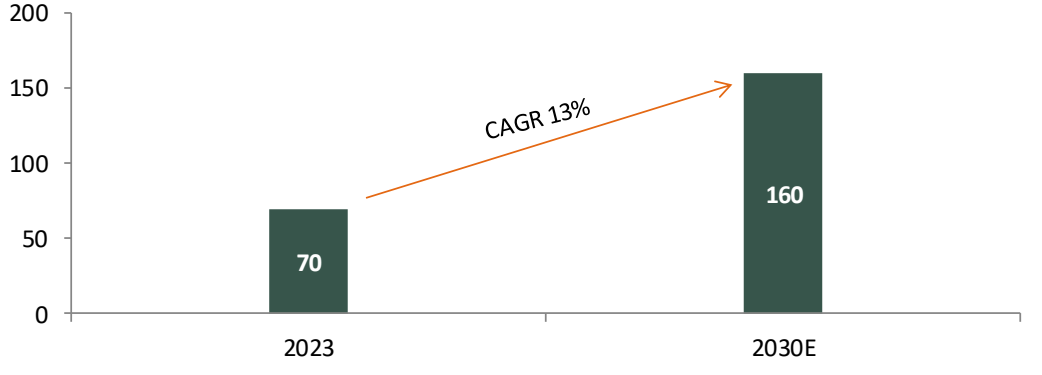
Expected growth story in charts (continued...)

Exhibit 24: Healthcare & Medical devices



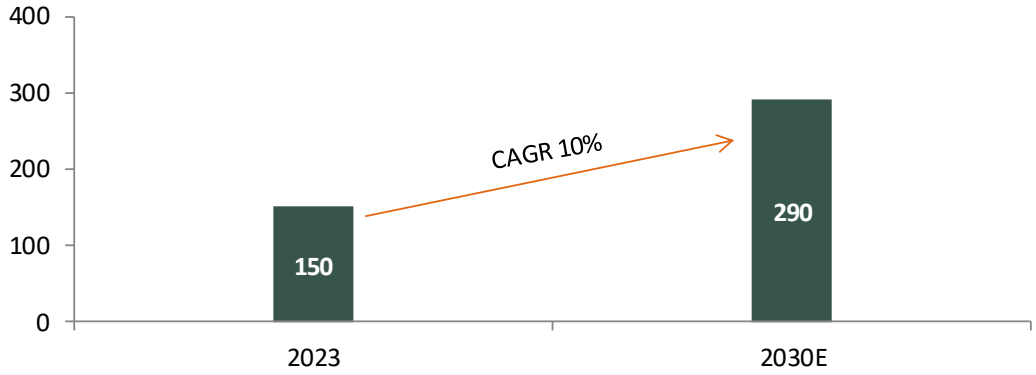
Source: company *IDBI Capital*; Nasscom_BCG report

Exhibit 25: Tele-communication



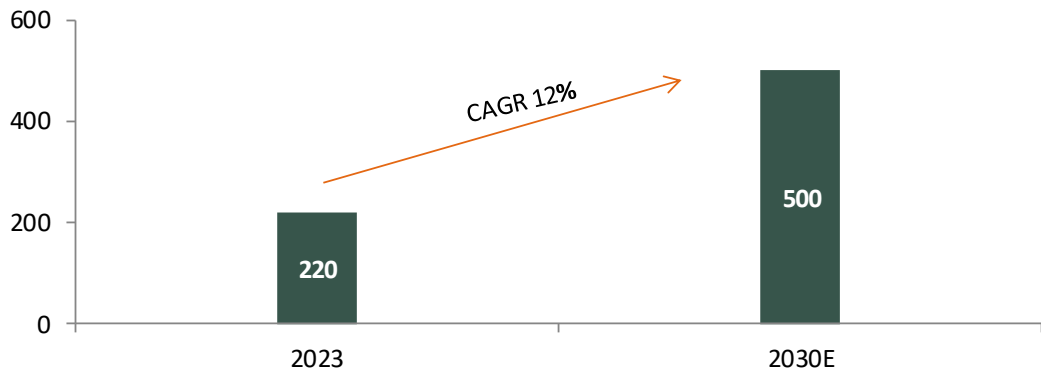
Source: company *IDBI Capital*; Nasscom_BCG report

Exhibit 26: Semi-conductor



Source: company *IDBI Capital*; Nasscom_BCG report

Exhibit 27: Software



Source: company *IDBI Capital*; Nasscom_BCG report

Catalysts for sectoral growth (continued…)

Exhibit 28: Healthcare & Medical devices

i. The growing penetration of mobile devices and digital technologies is driving demand for remote services and innovative solutions, empowering consumers to take a more active role in their healthcare and fueling the rise of consumer-driven healthcare devices and appliances.

ii. Advances in data processing power and the exponential growth of medical data are enabling AI to enhance care outcomes, including more targeted therapies, early intervention, and improved productivity in care delivery.

iii. Rise in precision medicine and multiplexed genetic profiling would require ER&D spends to increase in this segment.

iv. Robots aid healthcare workers in clinical settings, expanding their roles beyond the operating room to improve patient care and efficiency.

Source: company *IDBI Capital*; Nasscom_BCG report

Exhibit 29: Tele-communication

i. Hyper-connectivity: ER& D is focused on emerging technologies for 6G like block-chain, quantum communication, and energy harvesting & frequency bands. Development of 6G, 7G networks for low latency networks.

ii. Openness & Virtualization: Openness & virtualization will increase speed to market of new software, increasing vendor options & flexibility

iii. Move from 'Teleco' to 'Techco': With increasing no. of telecommunication companies moving towards providing cloud/ ICT solutions and growth of Network-as-a-service.

Source: company *IDBI Capital*; Nasscom_BCG report

Exhibit 30: Semi-conductor

i. Requirement of enhancing microchip speed and efficiency to boost overall device performance

ii. Demand for lower consumption & longer battery life

iii. Demand for compact device design in various industries

iv. Acceleration of product development, meeting performance demands and gaining a competitive advantage due to AI-driven innovation

Source: company *IDBI Capital*; Nasscom_BCG report

Exhibit 31: Software

i. Adoption of Human-Machine interaction at scale due to abundant internet bandwidth capabilities & enhanced hardware (compute & sensor advances) would drive growth in ER& D spends for this sector.

ii. Increased requirement and need of software across sectors faces the risk of security and would require enhanced & stronger cyber security which gives rise to ER& D spend in this segment.

Source: company *IDBI Capital*; Nasscom_BCG report

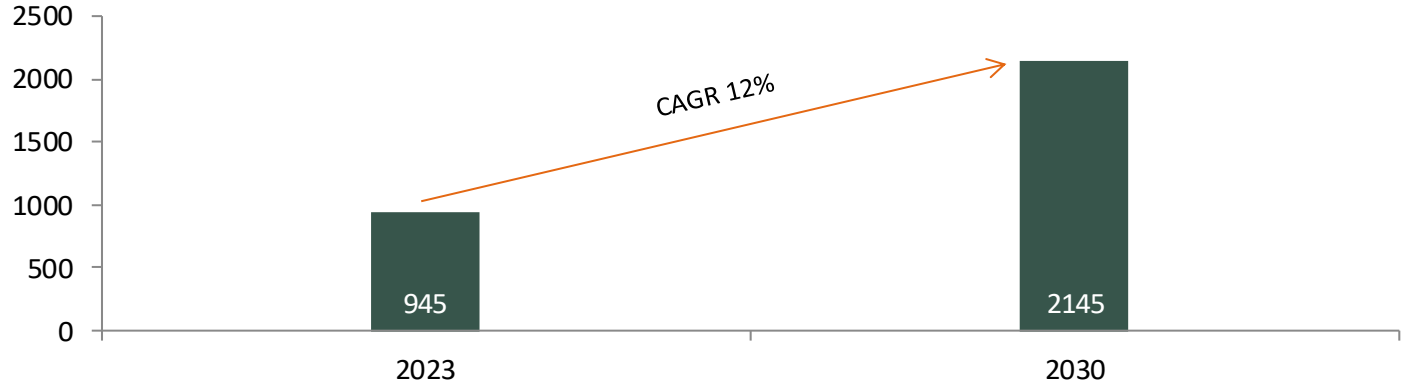
Plant Engineering: Demand in plant engineering is driven by rising demand for automation in manufacturing plants and energy efficiency in industrial plants. As clients plan to invest in new cap-ex due to more regionally self-sufficient supply chains, embark on plant modernization to increase efficiency and sustainable investments like reducing energy consumption and moving towards greener fuels. LTTS' Plant Engineering vertical caters to diverse industries, including Consumer Packaged Goods, Chemicals, and Energy & Utilities.

Digital Engineering

"Digital engineering is the practice in which new applications are conceived and delivered. Encompassing the methodologies, utility, and process of creating new digital products end to end, digital engineering leverages data and technology to produce improvements to applications—or even entirely new solutions."

ER&D firms are now focusing on digital engineering (Software, data analytics & embedded) rather than traditional pillars of mechanical, electrical, etc.

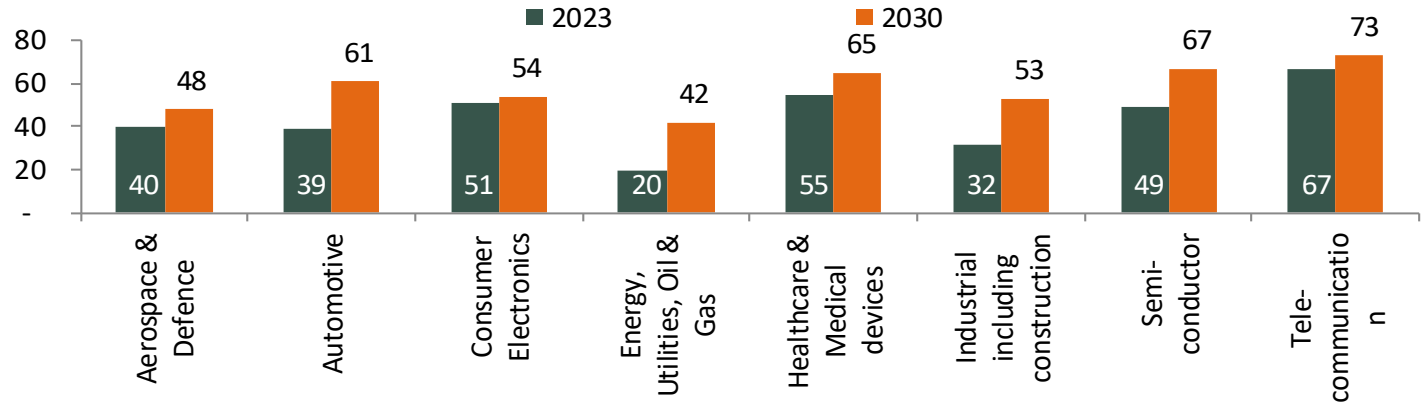
Exhibit 32: Digital engineering to grow at 12% CAGR (2023-2030)



Source: company IDBI Capital; Nasscom_BCG report

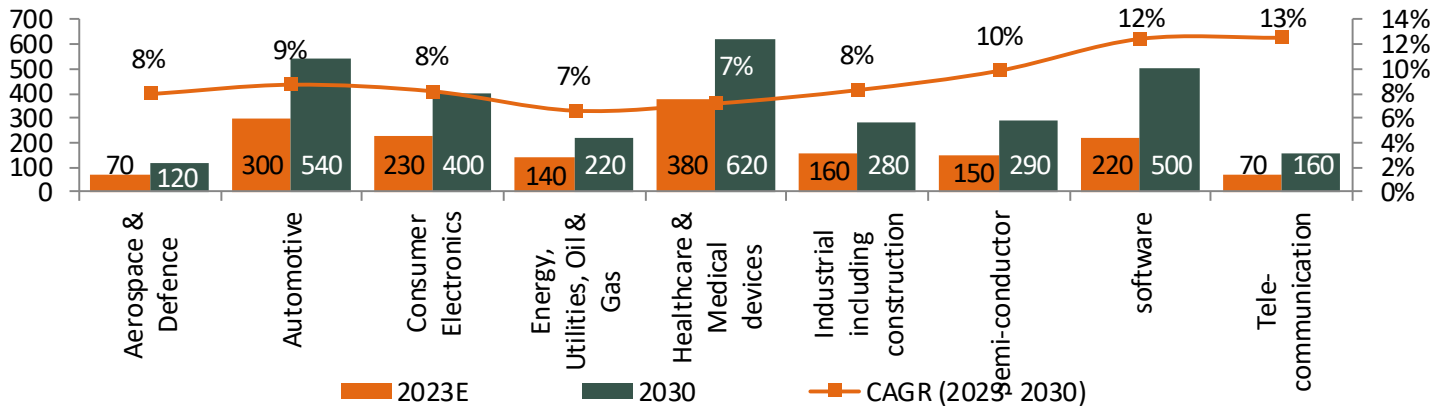
It constitutes around 45% of total global business ER&D spend in 2023 and is expected to be 65% by 2030. It is expected to be the driving force behind the estimated growth in ER&D spends across the sectors. Constant innovation is leading to more demanding customer expectations which further leads to development of more user friendly processes to drive more efficiency at low cost. There has been an increasing reliance on software and coding i.e. large quantum of data creation, capture, reporting and dissemination for improved productivity and efficiency.

Exhibit 33: Digital Engineering spend across sectors ($bn) 2023-2030



Source: company IDBI Capital; Nasscom_BCG report

Exhibit 34: Spend on Digital Engineering and ER&D across sectors ($bn) 2023-2030



Source: company IDBI Capital; Nasscom_BCG report

Exhibit 35: Some use cases of Digital Engineering

Sector	Use cases
Aerospace & Defence	▪ Co-pilot aerial systems ▪ Development supported by AR/VR simulation
Automotive	▪ Autonomous Vehicles ▪ Vehicle connectivity/ infotainment features ▪ Digital twin for testing purposes
Consumer Electronics	▪ AR/VR related entertainment ▪ Connected Devices
Energy	▪ Smart grid in power & utilities segment ▪ Digital in O&G value chain
Industrial including construction	▪ Additive manufacturing (3D printing) ▪ Industrial IoT
Semi-conductor	▪ Automated customer experience (with AI enablement) ▪ Virtualisation

Source: company IDBI Capital; Nasscom_BCG report

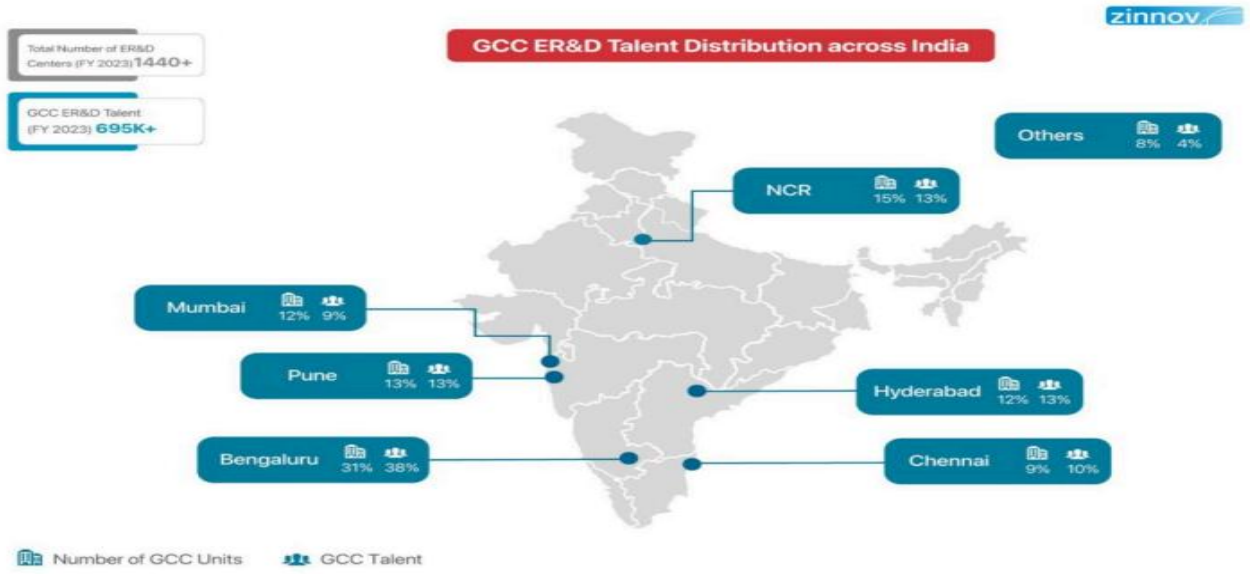
Impact of Macro Factors on ER&D Spending:

In the face of global economic challenges like inflation, geopolitical tensions, and recessionary risks, companies are prioritizing innovation to maintain strategic resilience. As a result, ER&D spending remains strong, with industries such as automotive and aerospace showing particular resilience. While sectors like BFSI and retail are affected by economic factors, manufacturing-driven industries, including automotive and aerospace, are better positioned to weather these challenges. This commitment to innovation ensures sustained ER&D investment and steady growth despite macroeconomic volatility.

ER&D Spend addressed through GCCs:

As companies increasingly rely on global talent to build scalable engineering teams, many are setting up GCCs (Global Capability Centers) in countries with a strong tech ecosystem, business-friendly environments, and affordable costs. India and China account for over 60% of the total USD 65-70 billion GCC spend, with India hosting over 85% of the top 50 ER&D spenders due to its software engineering maturity and digital talent availability.

Exhibit 36: GCC ER&D spread across India



Source : company, IDBI Capital; Zinnov

ER&D Spend outsourced to Third-party Engineering Service Providers (ESPs):

Industry trends and technological advancements are reshaping product development and user experiences, driving changes in business models and operations. As innovation accelerates, companies are turning to third-party Engineering Service Providers (ESPs) for support in upgrading existing products, developing new ones, and gaining competitive differentiation. The rise of Cloud, 5G, AI, and Machine Learning has fueled this shift, enabling breakthroughs like autonomous vehicles. Both traditional and new-energy enterprises are increasingly relying on ESPs to meet capacity needs, balance R&D investments, and drive product innovation. Key outsourcing opportunities are found in verification, validation, product sustenance, and end-of-life management. Since COVID-19, global OEMs have embraced remote and hybrid work models, boosting outsourcing due to access to global talent across time zones.

Exhibit 37: Key ESP's in India

Pure play ESPs	Multi-portfolio service providers
Indian Origin	
Cyient	Tata Consultancy Services
LTTS	HCL Technologies
Tata Technologies	Tech Mahindra
Tata Elxsi	Wipro
Quest	Infosys
KPIT	Persistent Systems
Axis Cades	
Foreign Origin	
Harman	Capgemini
Global Logic	Accenture
	Cognizant
	IBM

Source : IDBI Capital Research, Tata tech DRHP

Key growth drivers of ESPs:

Need for Skilled Talent: Rapid innovation and emerging technologies are transforming product design, manufacturing, and servicing. The growing focus on sustainability, Embedded and Digital Engineering, Digital Thread, and factory automation is making product development more dynamic and challenging. As skilled talent in these areas becomes scarce, large manufacturing firms are increasingly outsourcing to third-party Engineering Service Providers (ESPs).

Shortening Product Development Timelines: Rapid technological advancements and faster innovation have shortened product development timelines, increasing the need for partnerships with experienced third-party ESPs offering end-to-end capabilities for both traditional and new-age products.

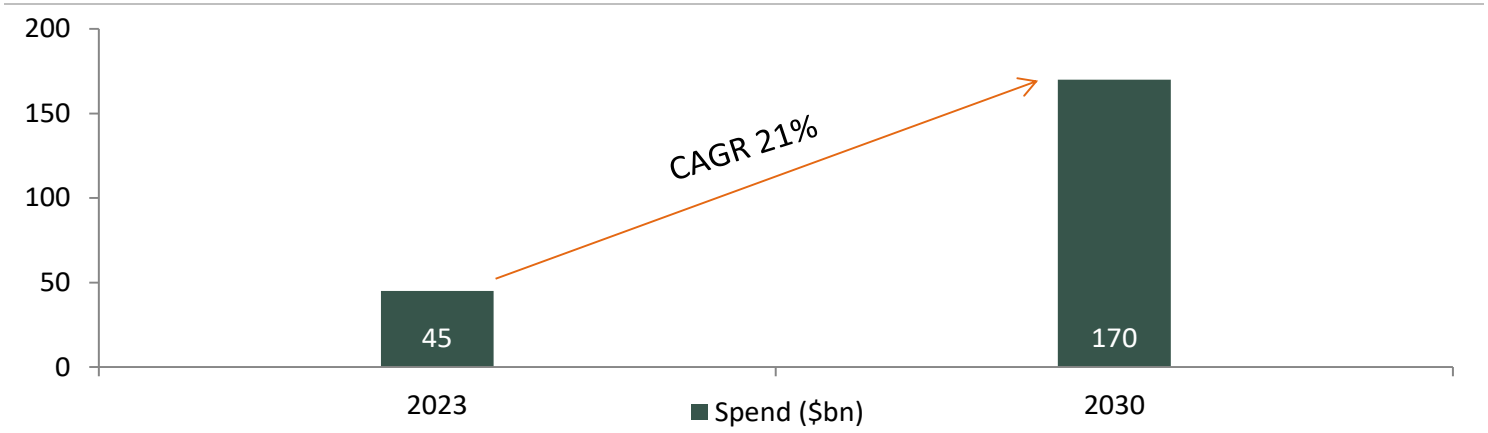
Faster Time to Market: To achieve faster time-to-market, enterprises are increasingly relying on a skilled, geographically diversified workforce for continuous product innovation and development

Cost Savings: OEMs are focusing on outsourcing strategies to enhance global engineering and ER&D operations, driven by cost reduction and product lifecycle pressures. They also leverage cost benefits from ESPs in low-cost countries like India and Romania.

The India ER&D Advantage

India is poised to capture a significant share of the global ER&D sourcing market, with its share projected to grow from $45 billion in 2023 to $170 billion by FY30. By FY30, India is expected to contribute 22% of the global ER&D market, with the Software, Automotive, and Semiconductor sectors driving over 60% of this share. The semiconductor sector will see the largest growth, increasing from 9% in FY23 to 12%, driven by the push for semiconductor manufacturing in India. Software will continue to lead, followed by Automotive. Additional growth opportunities are expected in sectors like aerospace, defense, telecommunications, and energy & utilities, further strengthening India's position in global ER&D sourcing.

Exhibit 38: India's share in Global business ER&D sourcing $bn (2023-2030)



Source: company IDBI Capital; Nasscom_BCG report

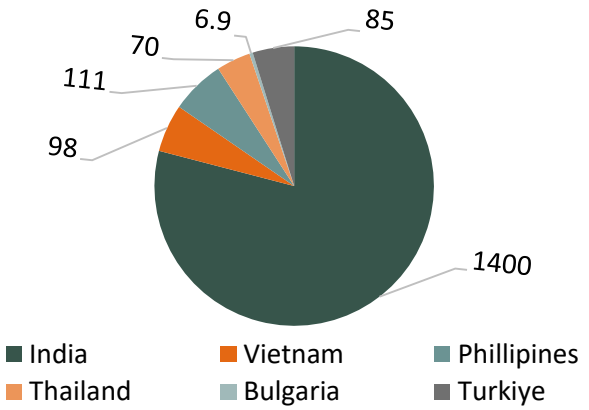
Essentials for India's ER&D growth journey

To maintain its leadership in global ER&D sourcing, India must address two key challenges: Skills Synchronicity and Emerging Geo Contenders. This involves aligning industry skill needs with large-scale training efforts while enhancing global competitiveness. The report identifies three growth imperatives: improving ER&D policies and infrastructure to attract collaborations and innovation, boosting ER&D branding and marketing globally, and fostering collaboration between industry, academia, and government to improve talent employability and research quality.

Amit Kumar, Managing Director & Partner, BCG said (Dated 12th Oct, 2023), "India will play an increasingly important role on the global ER&D arena by helping drive next-gen ER&D agenda across sectors – key ER&D accelerators for India include Automotive (xEV, Connected Vehicles, and Infotainment); Energy, Utilities, Oil & Gas (Climate and Sustainability, and Digital Operations) and MedTech (Remote Patient Monitoring Devices and Advanced Imaging). These will take India's ER&D contribution from estimated $45B in 2023, to nearly $150B by 2030. Therefore, India is expected to increase its share of Global ER&D Sourcing market to 22% (2030) v/s 17% in 2023. Prominence of Digital in Engineering will also continue to increase, and will likely contribute 48% of all ER&D spend by 2030, and will increasing drive convergence of Software and Traditional Engineering stack."

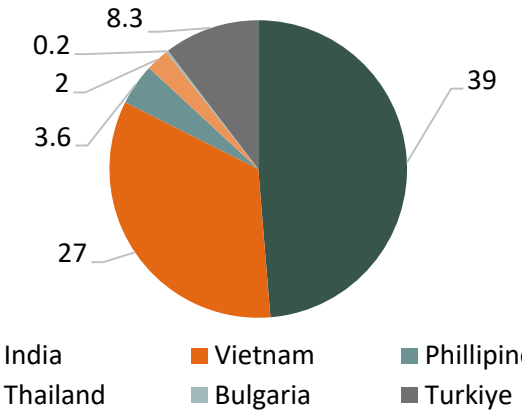
Key differentiators of India from competitors in terms of talent pool (millions)

Exhibit 39: Population



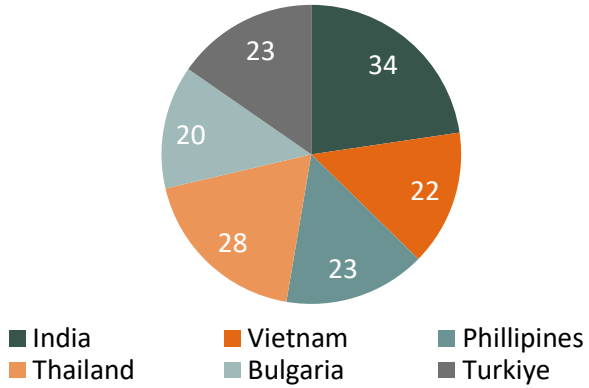
Source: company IDBI Capital; Nasscom_BCG report

Exhibit 40: Tertiary education population



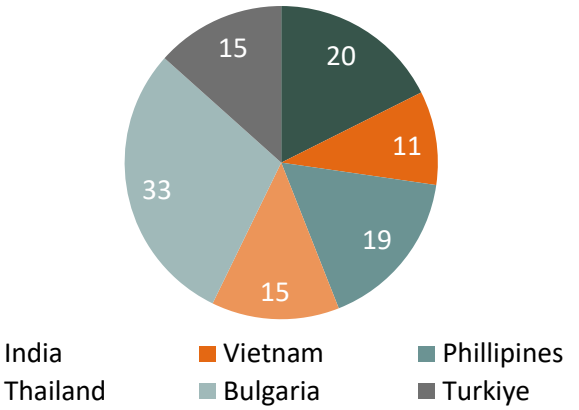
Source: company IDBI Capital; Nasscom_BCG report

Exhibit 41: Graduates in Science & Engineering population



Source: company IDBI Capital; Nasscom_BCG report

Exhibit 42: Employment in knowledge intensive sectors



Source: company IDBI Capital; Nasscom_BCG report

Key risks:

- **Acquisitions may impact financials:** We believe LTTS will grow organically and inorganically as seen in the past. In the journey to achieve US$3 bn, the company might use inorganic growth which if not integrated effectively could hamper financials of the company.
- **Large deals not ramping up as expected:** The Company winning large deal on consistent basis and improving annuity revenues are key drivers of growth. If the company is unable to scale its existing logos or win fresh large deals, it could hamper the company's long term growth trajectory.
- **Technology Disruption:** Rapid technological advancements can disrupt existing business models. LTTS must continually invest in staying at the forefront of emerging technologies to remain competitive.
- **Talent Acquisition and Retention:** The ER&D sector is highly reliant on skilled talent. Intense competition for skilled engineers and scientists may result in increased labor costs and potential talent shortages.

About the company

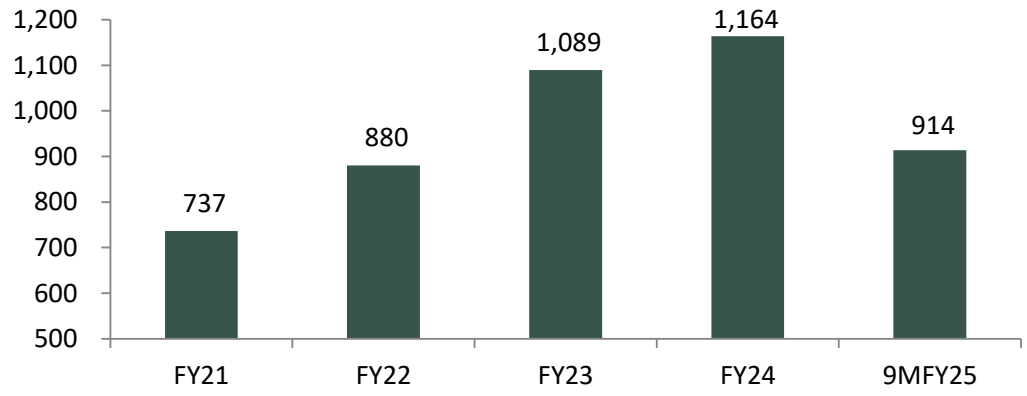
L&T Technology Services Limited (LTTS) is a leading global pure-play Engineering Research and Development (ER&D) services provider based in Vadodara, Gujarat. The Company delivers consultancy design development and testing services across the product and process development life cycle. With 1,448 patents filed & 108 innovation and R&D design centers for 57 of the Global Top 100 ER&D spenders. LTTS's services and solutions include software and digital engineering embedded systems, engineering analytics and plant engineering. LTTS's expertise in engineering design, product development, smart manufacturing, and digitalization. The company's business includes automotive engineering, embedded, system and semiconductor engineering, industrial internet of things, manufacturing plant engineering, and medical engineering, prototyping. It specializes in technology spaces such as 5G, Artificial Intelligence, Collaborative Robots, Digital Factory, and Autonomous Transport.

LTTS is a subsidiary of the conglomerate Larsen & Tourbo (L&T). It was incorporated as L&T Technology and Engineering Services Company Limited on June 14 2012 at Mumbai. Subsequently, name of the Company was changed to L&T Technology Services Limited.

The company now has presence in North America, Europe, India & Rest of world. LTTS's revenue mix is as follows: 32% from Mobility, 31% from Sustainability, 34% from Technology. LTTS has partnership with hyper-scalers like AWS, Google, Bentley, Microsoft, Siemens, PTC, Qualcomm, etc.

LTTS key metrics

Exhibit 43: Revenue in US$

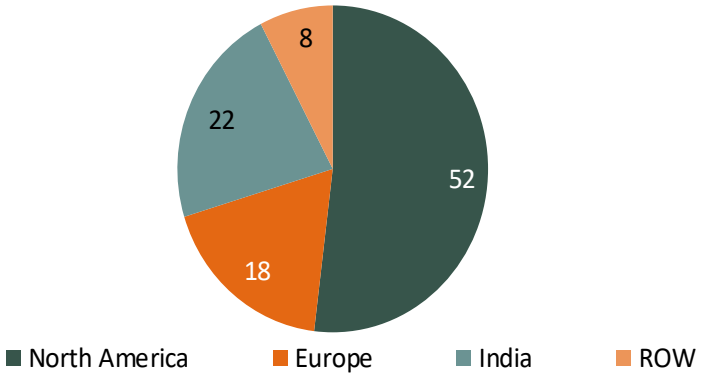


Source: Company, IDBI Capital

Exhibit 44: Vertical-wise revenue QoQ growth

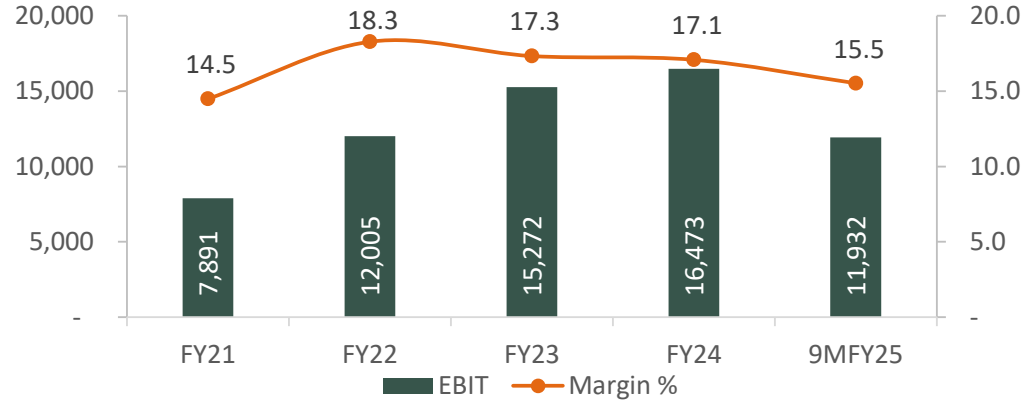
Source: Company, IDBI Capital

Exhibit 45: Geography-wise revenue split



Source: Company, IDBI Capital

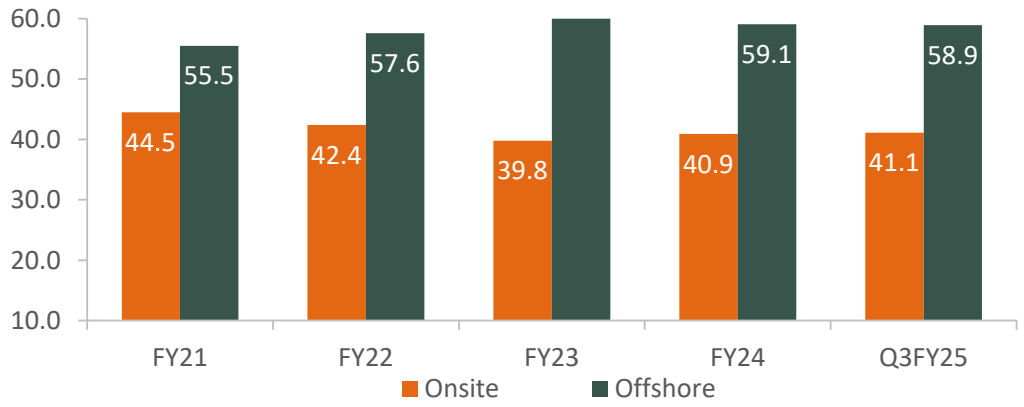
Exhibit 46: EBIT/Margin



Source: Company, IDBI Capital

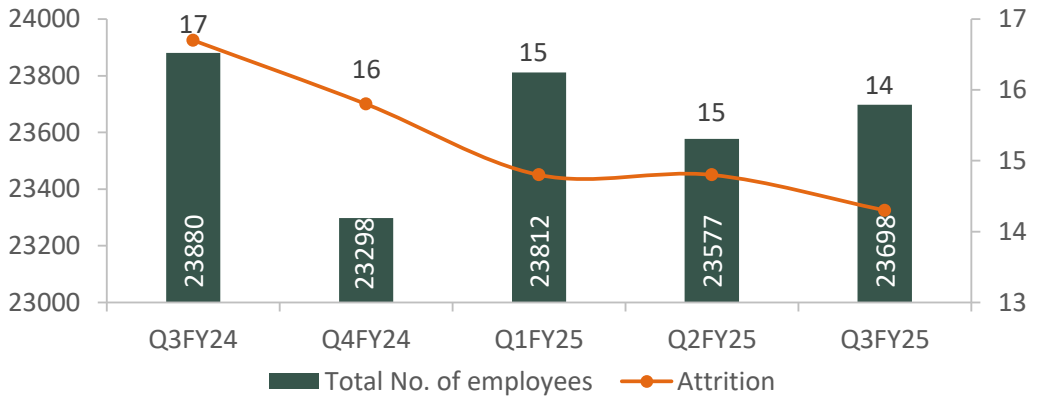
LTTS key metrics

Exhibit 47: Onshore/Offshore revenue mix



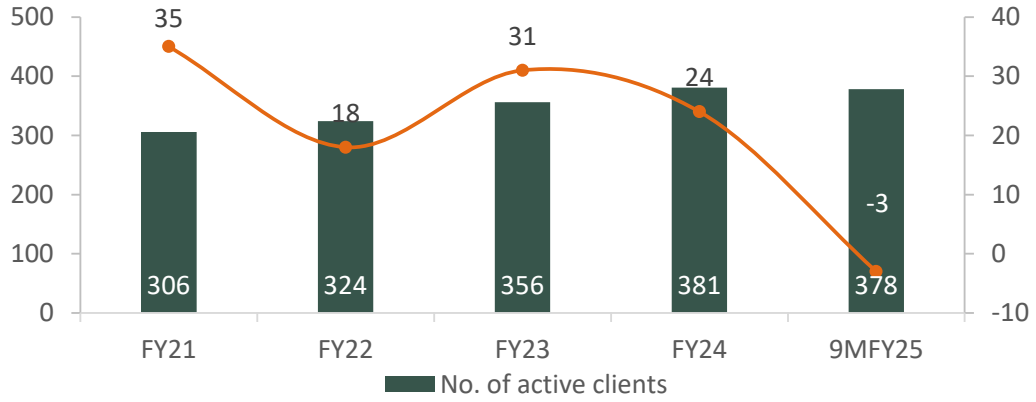
Source: Company, IDBI Capital

Exhibit 48: Employee base/Attrition



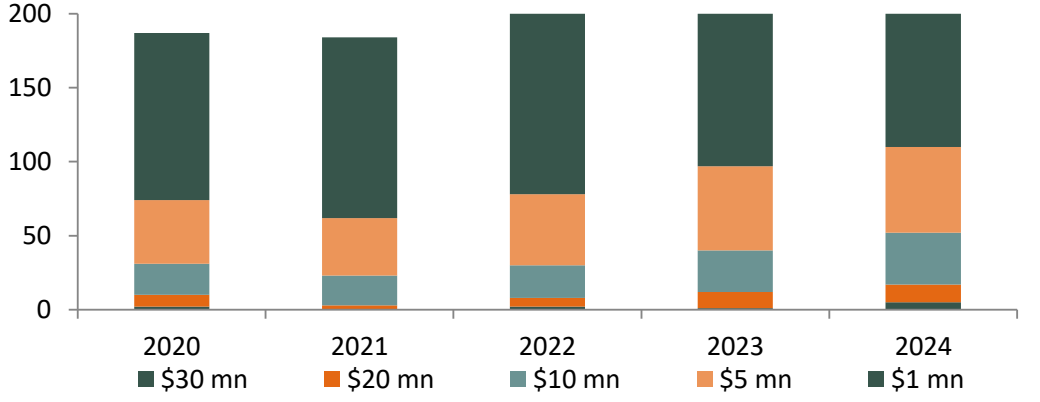
Source: Company, IDBI Capital

Exhibit 49: Expanding active clients YoY



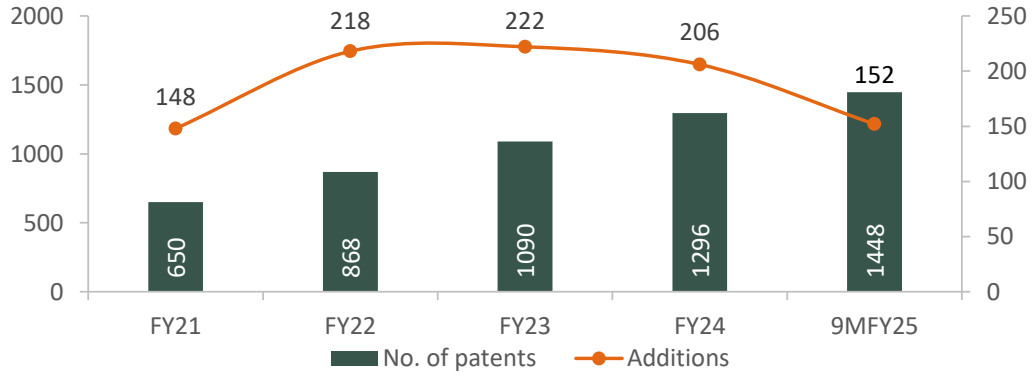
Source: Company, IDBI Capital

Exhibit 50: Increasing Client base over the years



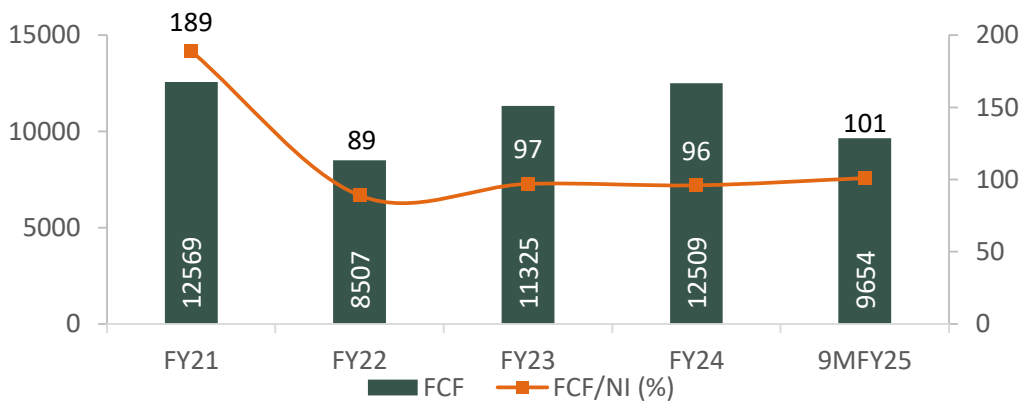
Source: Company, IDBI Capital

Exhibit 51: Patents



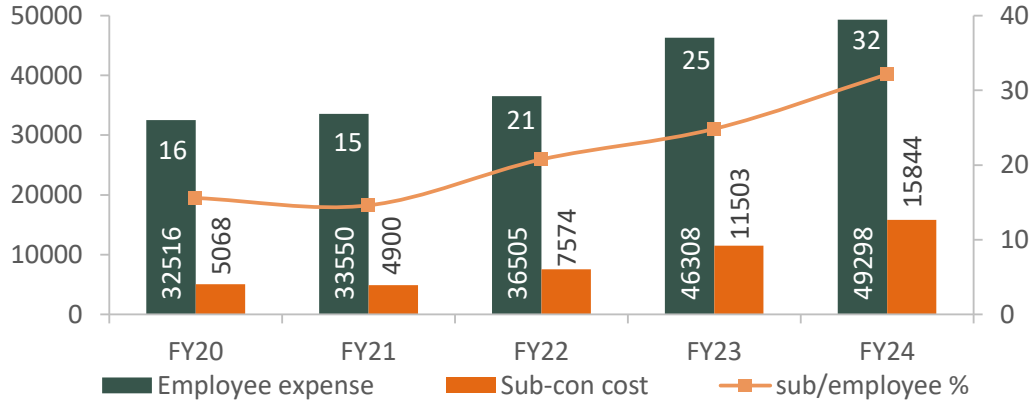
Source: Company, IDBI Capital

Exhibit 52: FCF/NI



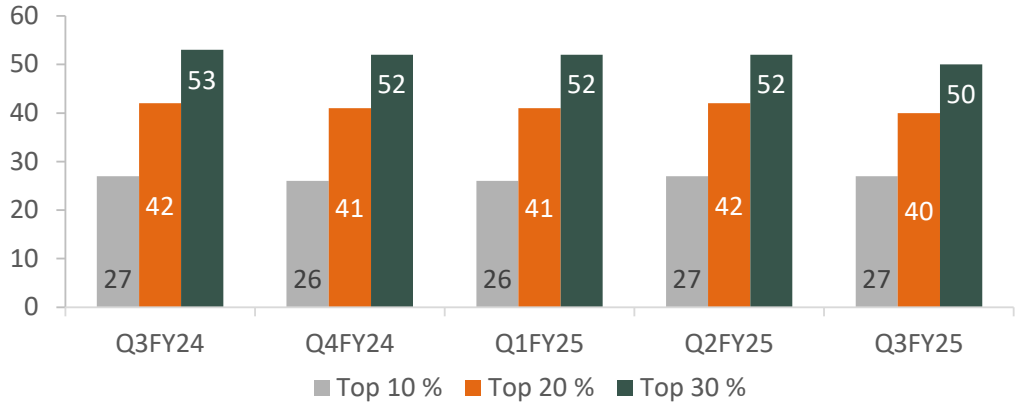
Source: Company, IDBI Capital

Exhibit 53: Employee/Sub-con expense



Source: Company, IDBI Capital

Exhibit 54: Top client revenue contribution



Source: Company, IDBI Capital

Exhibit 55: Workforce Bi-furcation

Workforce matrix	Male	Female	Total
By employee			
Permanent	16750	4521	21271
Temporary	2109	663	2772
By region			
India	16386	4838	21224
Overseas	2473	346	2819
By Age			
Less than 30	8383	3270	11653
30-50	9924	1859	11783
More than 50	552	55	607
Total Employees	**18859**	**5184**	**24043**

Source: Company, IDBI Capital, Status as per FY24

Exhibit 56: Workforce training

Training & upskilling	Male	Female	Total	Total training hrs per category	Average hours of training
Soft Skills					
Permanent	16750	4521	21271	187262	8.8
Temporary	2109	663	2772	13200	4.8
Technical Skills					
Permanent	16750	4521	21271	335726	15.8
Temporary	2109	663	2772	16796	6.1

Source: IDBICAPITAL research, Company

Exhibit 57: List of acquisitions

Acquired	Consideration (USD mn)	Rationale
Intelli-swift	110mn	A Silicon Valley-based acquisition will expand LTTS' capabilities in software product development, platform engineering, digital integration, and data/AI, strengthening its digital and software engineering expertise. It will enhance strategic partnerships with major tech spenders, increase its presence in Silicon Valley, and drive progress towards the $2 billion medium-term goal. Fifty percent of LTTS' revenue comes from high tech, including 4-5 hyper-scalers, with the remaining 50% from fintech, retail, software product development, and other sectors.
Smart world & communication business of L&T	96mn	Through this acquisition, LTTS strengthens its global reach in Next-Gen Communications, Sustainable Spaces, and Cybersecurity. SWC's expertise spans network design, planning, implementation, and management, including NOC, OSS, Datacenter, and Cloud/Private 5G. It enhances capabilities in public safety, smart cities, critical infrastructure, and smart metering, alongside L&T Fusion Platform and IC3. SWC also brings Full Lifecycle Threat Management with risk assessment, threat monitoring, security architecture, and DevSecOps. LTTS has been offering cybersecurity services to its OT and product customers worldwide.
Orchestra Technology. Inc	25mn	Orchestra Technology is a specialist partner for the wireless and mobile ecosystems, providing high-value engineering services in Network Engineering & Operations (5G, 10T, RAN, CORE) and Enterprise Mobility. This acquisition strengthens LTTS' presence in the telecom OEM and service provider space. Orchestra has enhanced LTTS' investments in open network forums like ONF and TIP, particularly in key 5G elements such as ORAN, private networks, and narrowband IoT.
Esencia Technologies Inc.	27mn	Esencia Technologies provides design services in Digital Signal Processing for Communications, Video, Security, and Networking. This acquisition deepens LTTS' offerings in Wireless Connectivity, Perceptual Computing, IoT, and Advanced Silicon Products, strengthening its presence in the telecom OEM and service provider space. Esencia also supports LTTS' investments in open network forums like ONF and TIP, particularly in key 5G elements such as ORAN, private networks, and narrowband IoT.
Graphene Semiconductors	930mn (Inr)	Graphene offers end-to-end solutions, from chip design and embedded software to mass manufacturing support, making it a one-stop service provider. This acquisition enhances LTTS' offerings in perceptual computing, advanced silicon, and wireless networking, enabling VLSI and ASIC services for global customers in the hi-tech and semiconductor industries.

Source: Company, IDBI Capital

Exhibit 58: Management Profile

Name	Designation	Details
S. N. Subrahmanyan	Chairman	S N Subrahmanyan is the Chairman & Managing Director of Larsen & Toubro and serves on the board of directors of this multi-billion-dollar conglomerate. Hailing from Chennai, India, SNS commenced his professional journey with L&T in 1984 as a project planning engineer armed with a degree in civil engineering and a post-graduation in business management.
Amit Chaddha	Chief Executive officer & Managing director	He is the Chief Executive Officer & Managing Director at L&T Technology Services (LTTS), responsible for providing business & technology leadership, market direction and strategic vision to drive the company's performance. He joined LTTS in 2009, as its Business Head of Americas. Academically, he has done an Advanced Management Program in Business Leadership from INSEAD, France. He has also done a Global Business Leadership Executive Program with Harvard Business School Publishing.
Abhishek Sinha	Executive director & President – Medical, Smart World & Functions	Mr. Abhishek is the Chief Operating Officer (COO) & Whole Time Director at LTTS, focusing on quality, cost-efficient delivery, and client and employee satisfaction. Key Vertical and Horizontal Heads roll up to him. He has 2 decades of both engineering & Enterprise software. Academically, he has graduated from IIT-BHU (then Banaras Hindu University)
Alind Saxena	Executive director & President – Mobility Tech	He is responsible for driving topline growth, strategic business development and creating new revenue streams for the company, while managing strong customer connects and large deal pipeline. He has 3 decades of industry experience with several leadership roles. He is a graduate from the Indian Institute of Technology, Kanpur, and certified in leadership from INSEAD and Harvard Business School.
Dr. Keshab Panda	Non-Executive director	He was previously the Chief Executive Officer and Managing Director of LTTS. Experience of 31 years of global industry experience in research, conceptualizing, creating, operationalizing and turning around complex technology and engineering services businesses. He transformed L&T Technology Services into a company focused on innovation and new technology, leading the CII to recognize L&T Technology Services as one of the most innovative Indian companies in the Services category.
Chandrasekaran Ramakrishnan	Independent director	He has more than 34 years of experience in the field of information technology. He retired as the Executive Vice-Chairman of Cognizant, India in March 2019. He serves as an Independent Director on the Board of PNB Housing Finance Limited, LTI Mindtree Limited, NSEIT Limited and Aujas Networks (subsidiary of NSEIT). He is also part of the Chairman's Council, NASSCOM.

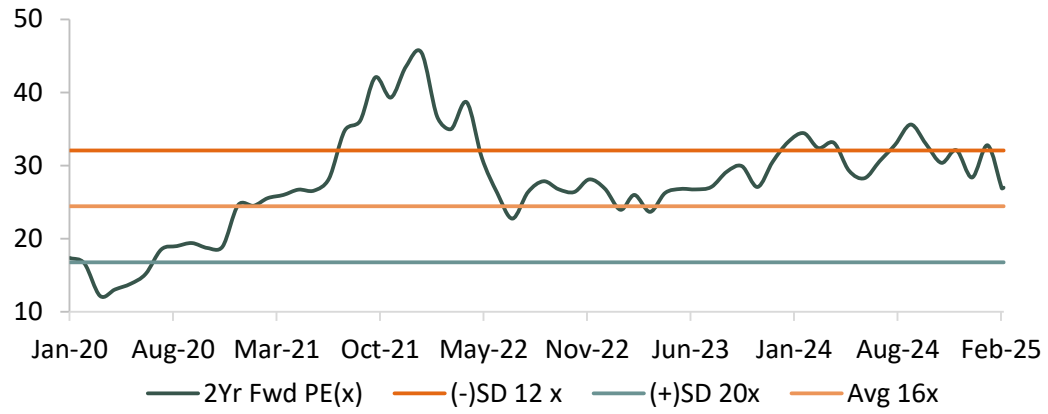
Source: Company, IDBI Capital Research

Valuation summary

Driven by strong ER&D growth across mobility (8-9% CAGR), sustainability (7-8% CAGR), and tech (7-15% CAGR) from FY2023-2030, LTTS is well-positioned to capitalize on emerging opportunities in generative AI, plant engineering, and digital engineering. With a global presence across sectors like automotive, aerospace, industrial products, and med-tech, and a portfolio of 1,448 patents, LTTS is primed to lead the ER&D space. Its strategic focus on lesser-explored segments such as plant engineering and manufacturing has resulted in a strong deal pipeline, with 7-8 large deals ranging from $10 million to $50 million. LTTS' emphasis on client mining, strategic partnerships with hyper-scalers, and skilled workforce, coupled with an 80% utilization rate, positions it for continued growth and leadership in the ER&D market.

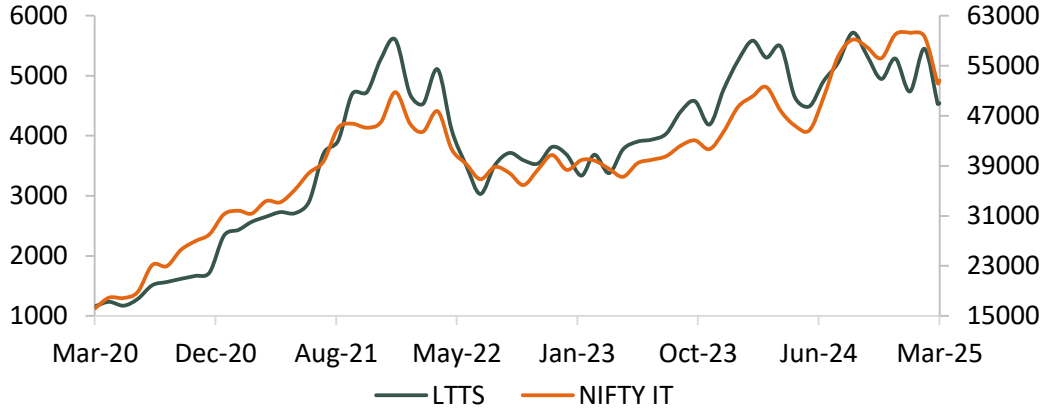
Due to the recent global downturn, the Nifty IT index has corrected by 16% over the past quarter, impacting LTTS with a 19% decline from its recent peak. However, the company's robust fundamentals and diversified portfolio mix provide a competitive edge, positioning it to outperform its peers in the medium term. We value LTTS at a 32x multiple of FY27E earnings (below its 3-year/5-year average of 38x/47x), maintaining a BUY rating with a target price of Rs. 5,251.

Exhibit 59: PE chart



Source: Company, IDBI Capital

Exhibit 60: Nifty IT/LTTS stock performance



Source: Company, IDBI Capital

Recent quarter highlights:

- Quarterly growth met expectations, with an unexpected 80bps margin expansion, driven by offshoring and lower SG&A (-90bps), partially offset by wage hikes and one-time M&A costs (+30bps). The topline growth was primarily led by the Tech and Sustainability segments. In Tech, Medtech, communications, media, and ISVs drove growth, with LTTS anticipating expansion across all sub-segments, except semiconductors where demand remains weak. Medtech saw upticks in QARA and digital manufacturing, with additional revenue expected from the Mahacyber engagement and SWC seasonality in 4QFY25.
- LTTS secured 8 large deals, including a US$50mn TCV multi-year deal and others exceeding US$35mn, US$25mn, and US$10mn, totalling a record-high large deal TCV of over US$200mn. The company expects stronger growth in FY2026, driven by a restructured large deal team under new leadership. A robust deal pipeline ensures sustained growth momentum, with management projecting growth across all segments in 4QFY25, though mobility may underperform. Sustainability growth is fuelled by increased process engineering investments and industrial product recovery, while automation and supply chain optimization drive further demand.
- Fixed-price projects rose by 11.7% QoQ and 14.8% YoY, with the revenue mix from fixed-price projects up 370bps QoQ. DSO (including unbilled) decreased by 4 days QoQ to 112 days, while unbilled revenues fell by 1 day QoQ to 17 days.
- **Outlook:** LTTS has projected 8% organic revenue growth and 10% growth including IntelliSwift for FY2025, with margins expected around 15% in Q4FY25, impacted by acquisitions. Management anticipates margins to reach 16% in Q1FY28, driven by the gradual recovery in IntelliSwift profitability and the effect of intangible amortization.

Exhibit 61: Comparison with Peers

Company Name	Revenue (Rs Mn.)					PAT(Rs Mn.)					PAT margin(%)			
	FY24	FY25E	FY26E	FY27E	CAGR (%) (FY24-27E)	FY24	FY25E	FY26E	FY27E	CAGR (%) (FY24-27E)	FY24	FY25E	FY26E	FY27E
TATA Tech	51,172	52,764	59,374	67,547	*10*	6,794	7,035	8,425	9,824	*13*	13.3	13.3	14.2	14.5
Cyient	71,472	74,386	83,320	93,604	*9*	7,347	6,405	8,432	9,955	*11*	10.3	8.6	10.1	10.6
KPIT	48,715	58,608	68,739	81,476	*19*	5,945	7,936	9,379	11,518	*25*	12.2	13.5	13.6	14.1
Tata Elxsi	35,521	37,771	42,348	48,821	*11*	7,923	8,239	9,013	10,707	*11*	22.3	21.8	21.3	21.9
Average	**51,720**	**55,882**	**63,445**	**72,862**	***12***	**7,002**	**7,404**	**8,812**	**10,501**	***14***	**14.5**	**14.3**	**14.8**	**15.3**
LTTS	**96,472**	**1,05,637**	**1,25,015**	**1,41,057**	***14***	**13,062**	**12,767**	**14,957**	**17,310**	***10***	**14**	**12**	**12**	**12**

Source: Company, IDBI Capital; Bloomberg

Exhibit 62: EV/EBTIDA & PE

Company Name	EBITDA Margin(%)			EV/EBITDA			P/E		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
TATA Tech	18	19	19	30	26	23	44	36	31
Cyient	16	17	17	12	10	9	23	18	15
KPIT	21	22	22	28	23	19	44	37	30
Tata Elxsi	28	29	30	34	29	24	46	41	35
Average	**21**	**22**	**22**	**26**	**22**	**19**	**39**	**33**	**28**
LTTS	**18**	**18**	**19**	**25**	**21**	**18**	**39**	**33**	**29**

Source: Company, IDBI Capital; Bloomberg

Company's Solutions

- **Artificial Intelligence Clinical Evaluation (AiCE):** It is an integrated AI tool which revolutionizes the Clinical Evaluation Report (CER) process by performing systematic review and reporting related to clinical literature, and additional databases that may be included in the CER. The tool minimizes bias, allows for algorithm reuse and customization, auto-translates sources in other languages, and accelerates the process of literature selection and extraction, significantly decreasing the time taken for manually searching and filtering appropriate content. AiCE automatically screens literature and highlights crucial 2-3 sentences in different methods of screening.
- **Asset Health framework:** It is a real-time, cloud-native-based platform which gathers, analyzes, diagnoses, and acts on key asset health parameters leveraging the power of AI. It offers a scalable and customizable data pipeline, empowering organizations to make quick decisions. The framework also includes anomaly-prediction models for early failure predictions.
- **AIKNO:** Cognitive Meta Data extraction module automates the tedious task of digitalizing physical data. The solution is unique as it has ability to extract metadata from complex engineering document such as 2D drawings, legacy documents, and scanned images The OCR is trained on engineering symbols such as GD&T symbols which are heavily used in the industry. The continuous self-learning system can do auto corrections and drive semantics-based rules on human feedback without any need for re-engineering.
- **Avertile:** It is an end-to-end predictive maintenance solution that employs machine learning and artificial intelligence principles to monitor the real-time health of the assets and proactively notify stakeholders about performance, potential failure and remaining useful life of their critical assets.
- **Connected Security framework:** It is cyber-security solution which provides the building blocks to secure your connected products, services & infrastructure. It has Zero trust concept which demands authentication and authorization for each instance of access, verifying anything and everything before granting access. ZT eliminates the risks arising from the traditional security approach of automatically trusting internal resources (e.g. networks, devices, and users).
- **EvQUAL:** It is an in-house developed test automation suite for multiplatform and multi-device automation.

- **EDGYneer:** It is a ready-to-deploy device management solution for effortlessly connecting, onboarding, monitoring & maintaining remote assets until asset retirement. It helps ensure a unified security management ecosystem, enables edge data aggregation and processing distribution, supports edge storage and analytics, and strengthens the overall operational paradigm with enhanced asset uptime and availability.
- **FLYBOARD:** It is a Next-gen framework in which content automated to target, distribute and experience in a different way. It leverages robust analytics and machine learning features to deliver deeper user insights and a comprehensive customer experience.
- **Fusion:** It is pre-integrated city operating system leveraging technologies like IoT integration, robust AI, accurate GIS, Big Data, and mobile and web capabilities on an open, micro-services architecture. It is capable of integrating with all available video management systems and helps enable and empower law enforcement agencies, transforms urban management, and refines our approach to critical infrastructure availability.
- **IP Core solutions:** It has ASIC/FPGA IPs and total system solutions for IPs, including validation and design platforms, software and drivers, and the like. LTTS provides larger silicon, system and end-product design services.
- **Sensor & Gateway solutions:** It is an end-to-end solution, covering from Sensor to Gateway to Data Insight, which helps improve user experiences leveraging smart IoT sensor technology. The solution can be implemented across different conveyances, giving users actionable and real-time insights regarding the health of the asset. It is OEM agnostic and can successfully be implemented to ensure integration for asset monitoring.
- **UBIQWeise 2.0**: It is a proprietary cloud IoT platform, is built to empower the customers to customize and deploy IoT products. With the ability to integrate with big data and analytics tools, the built-in rules engine supports stream processing to generate business insights in real time. It facilitates connectivity with enterprise applications by leveraging a range of APIs.

Exhibit 63: LTTS recognized by its partner

Partner	Awards and Recognitions
Collins Aerospace	Top Supplier of the Year
PTC	ESM solution built on PTC platform
Aveva	Global partner of the year
Honda	Performance excellence

Source: Company, IDBI Capital

Exhibit 64: LTTS recognized by industry analysts

Analyst	Area	Ranking
Zinnov	14 Engineering Domains	Leadership Zone
CII Industrial Innovation Awards	Innovative companies	Top 50 Innovative Companies
Marksmen Daily	Most Preferred Workspace 2023 - 24 in the IT/ ITES	Marksmen Daily
ISG	Manufacturing Industry Services and Solutions 2023	Leaders
Everest Group's ACES	Automotive Engineering Services PEAK Matrix® Assessment 2023	Leaders
Golden Peacock Award 2023	ESG	Winner
RadarView by Avasant.	Manufacturing Smart Industry Services 2023	Leaders
Nasscom	Process innovation	Ideation to Engineering leadership for AI-based complaint handling solution

Source: Company, IDBI Capital

Financial Summary

Profit & Loss Account **(Rs mn)**

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net sales	**65,697**	**88,155**	**96,472**	**105,637**	**125,015**	**141,057**
Change (yoy, %)	*21*	*34*	*9*	*10*	*18*	*13*
Operating expenses	(51,548)	(70,545)	(77,283)	(86,225)	(102,200)	(114,962)
EBITDA	**14,149**	**17,610**	**19,189**	**19,413**	**22,815**	**26,096**
Change (yoy, %)	*40*	*24*	*9*	*1*	*18*	*14*
Margin (%)	*22*	*20.0*	*19.9*	*18.4*	*18.3*	*18.5*
Depreciation	(2,144)	(2,338)	(2,716)	(3,042)	(3,250)	(3,667)
EBIT	**12,005**	**15,272**	**16,473**	**16,370**	**19,565**	**22,428**
Interest paid	(437)	(444)	(509)	(779)	(513)	(549)
Other income	1,524	2,032	2,073	1,923	1,500	1,834
Pre-tax profit	**13,092**	**16,860**	**18,037**	**17,515**	**20,553**	**23,713**
Tax	(3,486)	(4,696)	(4,975)	(4,799)	(5,555)	(6,355)
Effective tax rate (%)	26.6	27.9	27.6	27.4	27.0	26.8
Minority Interest	(36.0)	(43.0)	(26.0)	51.0	(40.0)	(48.0)
Net profit	**9,570**	**12,121**	**13,036**	**12,767**	**14,957**	**17,310**
Exceptional items	-	-	-	-	-	-
Adjusted net profit	**9,570**	**12,121**	**13,036**	**12,767**	**14,957**	**17,310**
Change (yoy, %)	*44.3*	*27*	*8*	*(2)*	*17*	*16*
EPS	90.9	114.8	123.3	120.8	141.5	163.7
Dividend per sh	34.5	30.0	47.0	47.9	56.9	69.1
Dividend Payout %	*38.0*	*26.1*	*38.1*	*40*	*40*	*42*

Balance Sheet (Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' funds	**41,625**	**44,349**	**53,271**	**60,922**	**69,908**	**79,961**
Share capital	211	211	212	212	212	212
Reserves & surplus	41,414	44,138	53,059	60,710	69,696	79,749
Total Debt	**-**	**-**	**-**	**-**	**-**	**-**
Other liabilities	5,415	4,346	6,036	6,145	6,337	6,484
Curr Liab & prov	**13,733**	**33,101**	**25,371**	**26,490**	**28,834**	**31,942**
Current liabilities	11,837	31,614	23,831	25,434	27,583	30,532
Provisions	1,896	1,487	1,540	1,056	1,250	1,411
Total liabilities	**19,148**	**37,447**	**31,407**	**32,635**	**35,171**	**38,426**
Total equity & liabilities	**60,910**	**81,976**	**84,885**	**93,713**	**105,275**	**118,631**
Net fixed assets	16,660	16,317	20,537	24,307	26,816	30,116
Investments	861	1,752	1,991	3,491	4,491	5,491
Other non-curr assets	138	138	54	72	83	95
Current assets	**43,251**	**63,769**	**62,303**	**65,844**	**73,884**	**82,928**
Inventories	-	16	33	33	33	33
Sundry Debtors	16,959	28,066	21,803	22,574	26,716	30,144
Cash and Bank	20,660	27,987	26,841	27,919	29,008	32,298
Loans and advances	5,632	7,700	13,626	15,317	18,127	20,453
Total assets	**60,910**	**81,976**	**84,885**	**93,713**	**105,275**	**118,631**

Cash Flow Statement **(Rs mn)**

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	13,092	16,860	18,037	17,515	20,553	23,713
Depreciation	2,144	2,338	2,716	3,042	3,250	3,667
Tax paid	(3,563)	(4,667)	(5,256)	(4,799)	(5,555)	(6,355)
Chg in working capital	(1,452)	(1,551)	(557)	(3,839)	(5,687)	(3,554)
Other operating activities	(159)	150	(13)	(1,195)	(948)	(1,237)
Cash flow from operations (a)	**10,062**	**13,130**	**14,927**	**10,724**	**11,613**	**16,235**
Capital expenditure	(1,624)	(1,815)	(2,528)	(4,225)	(4,501)	(5,924)
Chg in investments	419	(7,847)	8,124	(1,500)	(1,000)	(1,000)
Other investing activities	(3,278)	3,883	(7,929)	1,923	1,500	1,834
Cash flow from investing (b)	**(4,483)**	**(5,779)**	**(2,333)**	**(3,802)**	**(4,000)**	**(5,091)**
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(3,633)	(3,167)	(4,967)	(5,065)	(6,011)	(7,305)
Chg in monorities	-	-	1	-	-	-
Other financing activities	(1,350)	(1,286)	(1,612)	(779)	(513)	(549)
Cash flow from financing (c)	**(4,983)**	**(4,453)**	**(6,578)**	**(5,844)**	**(6,523)**	**(7,854)**
Net chg in cash (a+b+c)	**596**	**2,898**	**6,016**	**1,078**	**1,089**	**3,290**

Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (Rs)	395.4	420	504	576	661	756
Adj EPS (Rs)	*90.9*	*114.8*	*123.3*	*120.8*	*141.5*	*163.7*
Adj EPS growth (%)	*43.6*	*26*	*7*	*-2*	*17*	*16*
EBITDA margin (%)	*21.5*	*20.0*	*19.9*	*18.4*	*18.3*	*18.5*
Pre-tax margin (%)	*19.9*	*19.1*	*18.7*	*16.6*	*16.4*	*16.8*
Net Debt/Equity (x)	*-0.5*	*-0.6*	*-0.5*	*-0.5*	*-0.4*	*-0.4*
ROCE (%)	*27.6*	*32*	*30*	*26*	*27*	*27*
ROE (%)	*25.1*	*28*	*27*	*22*	*23*	*23*
DuPont Analysis						
Asset turnover (x)	1.2	1.2	1.2	1.2	1.3	1.3
Leverage factor (x)	1.5	1.7	1.7	1.6	1.5	1.5
Net margin (%)	*14.6*	*13.7*	*13.5*	*12.1*	*12.0*	*12.3*
Working Capital & Liquidity ratio						
Inventory days	0	0	0	0	0	0
Receivable days	94	116	82	78	78	78
Payable days	28	64	67	66	61	61

Valuations

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
PER (x)	49.8	39.5	36.7	37.5	32.0	27.7
Price/Book value (x)	11.5	10.8	9.0	7.9	6.9	6.0
EV/Net sales (x)	7.0	5.1	4.7	4.3	3.6	3.2
EV/EBITDA (x)	32.3	25.6	23.6	23.3	19.8	17.2
Dividend Yield (%)	*0.8*	*0.7*	*1.0*	*1.1*	*1.3*	*1.5*

Source: Company; IDBI Capital Research

SAPTARSHI MUKHERJEE

Digitally signed by SAPTARSHI MUKHERJEE
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Key to Ratings Stocks:

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