

L&T Technology

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	LTTS IN
Equity Shares (m)	106
M.Cap.(INRb)/(USDb)	293.8 / 4
52-Week Range (INR)	3062 / 1066
1, 6, 12 Rel. Per (%)	5/50/82
12M Avg Val (INR M)	532

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	54.5	63.5	75.2
EBIT Margin (%)	14.5	16.7	17.6
PAT	6.6	8.9	11.0
EPS (INR)	62.8	84.4	104.3
EPS Gr. (%)	(19.0)	34.4	23.5
BV/Sh. (INR)	330.8	385.1	452.2

Ratios

RoE (%)	21.2	23.7	25.0
RoCE (%)	16.2	18.5	19.7
Payout (%)	35.0	30.0	30.0

Valuations

P/E (x)	44.5	33.1	26.8
P/BV (x)	8.4	7.3	6.2
EV/EBITDA (x)	27.3	20.5	16.2
Div Yield (%)	0.8	0.9	1.1

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	74.2	74.3	74.6
DII	6.4	6.4	4.9
FII	9.1	8.9	8.4
Others	10.3	10.5	12.1

FII Includes depository receipts

CMP: INR2,797 **TP: INR 3,130 (+12%)** **Buy**

Upward revisions likely on the guidance front

Improving demand outlook and long growth trajectory are key drivers

- LTTS reported 3.8% QoQ CC growth in 4QFY21, missing our estimate by 150bp. While segments like Plant Engineering (+9.9% QoQ, large deal ramp up) and Transportation (+6.6% QoQ) did well, Telecom and Hi-Tech and Medical Devices were flat QoQ. EBIT margin improved 140bp QoQ, benefiting from better utilization and offshore mix.
- The company continues to do well on the deal front, adding six large deals (over USD10m), with two deals with a TCV of over USD25m. The management expressed its confidence on the deal pipeline, which has a good mix of smaller and larger deals, helped by a return to normal decision making cycle in the US and Europe.
- LTTS provided an initial FY22 USD revenue growth guidance of 13-15%. The management attributing the modest guidance to their increased caution due to the recent COVID-19 cases in India. While we are disappointed by the guidance (our initial estimate was of mid-to-high teens), we see meaningful scope for an upward revision as we progress through the fiscal.
- With strong demand commentary across industries and key regions, and capability to deliver services during the lockdown, LTTS should not see meaningful disruption in the business. We bake in 17.5% revenue growth for FY22E, partially on account of a favorable base.
- We expect margin to remain rangebound from current levels in FY22 as the wage hike and investments should offset a gradual improvement in operating metrics. Given the low base of FY21, we factor in a 310bp EBIT margin improvement over FY21-23E.
- We see LTTS as a key beneficiary of growing tech adoption in ER&D, which should grow by ~2x that of IT Services over FY18-23E. Moreover, with Digital at 50% of revenue, it should also benefit from 18% growth in Digital ER&D spends over this period. We have built in 17%/29% revenue/EBIT CAGR over FY21-23E. We value the stock at 30x FY23E EPS. **Maintain BUY.**

Revenue miss but margin in line; FY22 initial guidance below our estimate

- In USD terms, revenue grew 1% YoY (v/s our estimate of 2.7%), operating profit grew 9.3% (v/s our expectation of 10.6%), and PAT fell 5% (v/s our expectation of being flat) in 4QFY21. The same declined 6.2%/15%/19% YoY in FY21.
- Revenue rose 3.9% QoQ (v/s our estimate of 5.6%) to USD197.5m in 4QFY21. In constant currency, the same was up 3.8% QoQ, but flat YoY.
- During 4QFY21, LTTS won six deals with a TCV of over USD10m, which includes two deals of over USD25m.
- Revenue from Digital and leading-edge technologies stood at 52% in 4QFY21.
- The management guided at USD revenue growth of 13-15% in FY22.
- EBIT margin improved 140bp QoQ to 16.6% (in line) in 4QFY21 despite an 80bp increase in SGA expenses.

- Increase in margin was aided by a 140bp improvement in utilization, which stood at 78.9%, and an 80bp improvement in offshore mix.
- PAT stood at INR1.9b, up 4.5% QoQ, but down 5% YoY.
- Transportation/Plant Engineering spearheaded the sequential growth, growing 6.5%/9.9% (due to scaling up of large O&M deals in 4QFY21). Growth in Telecom and Hi-tech and Medical Devices remained flat during 4QFY21.
- Total employee strength stood at 16,452, a net addition of 383 employees. Attrition rose 150bp sequentially.
- FCF rose 157% YoY to INR12.5b in FY21. The FCF/PAT ratio stood at 189%.
- Dividend payout in FY21 stood at 35%.

Key highlights from the management commentary

- LTTS won six deals in 4QFY21, of which two are over USD25m and the balance range between USD10m and USD15m. Going forward, the pipeline remains strong. However, closures are uncertain.
- Within Transportation, there is an increased traction in Auto, Trucks, and Off-Highway. Electric Technologies and Autonomous Driving are key growth areas. Spends are also coming from traditional segments, and the company is pursuing multiple large deals.
- Quoting Zinnov, the management said the ER&D industry is set to touch USD1.8-2t in the next three years, which is a key positive for the industry. It guided at revenue growth of 13-15% in FY22 and said the impact on the delivery side is a key monitorable.
- Impact of wage hikes is expected in 1QFY22. However, the management will try to offset it by improving operational metrics. It is confident of sustaining margin and stated that one can expect improvement in certain segmental margins.

Valuation and view – industry-leading growth to defend rich multiples

- While LTTS has delivered largely flat growth over FY19-21 (1% revenue CAGR) due to COVID-19 and ramp down at key clients (partly due to external issues), we expect a strong growth rebound (17% CAGR over FY21-23E).
- After a sharp 200bp dip in margin in FY21, due to the COVID-led impact, LTTS should be more than able to recover margin over the next two years on favorable operating leverage, leading to 29% earnings CAGR over FY21-23E.
- Our TP of INR3,130 per share implies 30x FY23E EPS, a premium to our target multiple for LTI on better industry and company growth. We anticipate improved industry spends compared to the previous five years. **Maintain BUY.**

Quarterly performance

Y/E March	FY20				FY21				FY20	FY21	(INR m)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QFY21E	Variance (%/bp)
Revenue (USD m)	194	198	199	195	171	178	190	198	786	737	201	-1.6
QoQ (%)	1.4	2.0	0.8	-2.0	-12.5	4.1	6.8	3.9	8.7	-6.3	5.6	-167bp
Revenue (INR m)	13,475	14,021	14,230	14,466	12,947	13,138	14,007	14,405	56,192	54,497	14,630	-1.5
YoY (%)	17.0	10.7	8.1	7.7	-3.9	-6.3	-1.6	-0.4	10.7	-3.0	1.1	-155bp
GPM (%)	32.9	32.3	32.8	33.5	26.8	30.1	30.8	32.3	32.9	30.1	31.8	46bp
SGA (%)	12.7	12.1	12.7	15.0	10.9	12.4	11.1	11.9	13.1	11.6	11.2	73bp
EBITDA	2,727	2,832	2,863	2,683	2,059	2,328	2,756	2,931	11,105	10,074	3,016	-2.8
EBITDA margin (%)	20.2	20.2	20.1	18.5	15.9	17.7	19.7	20.3	19.8	18.5	20.6	-27bp
EBIT	2,299	2,388	2,391	2,198	1,567	1,801	2,132	2,391	9,276	7,891	2,431	-1.6
EBIT margin (%)	17.1	17.0	16.8	15.2	12.1	13.7	15.2	16.6	16.5	14.5	16.6	-2bp
Other income	474	378	354	521	30	457	374	221	1,727	1,082	293	-24.5
ETR (%)	26.4	25.5	25.0	24.1	26.0	26.4	25.4	25.2	25.3	25.7	25.0	23bp
PAT	2,038	2,059	2,041	2,048	1,173	1,655	1,861	1,945	8,186	6,634	2,041	-4.7
QoQ (%)	6.4	1.0	-0.9	0.3	-42.7	41.1	12.4	4.5			9.7	
YoY (%)	3.2	7.7	10.0	6.9	-42.4	-19.6	-8.8	-5.0	6.9	-19.0	-0.4	
EPS (INR)	19.3	19.5	19.3	19.4	11.1	15.7	17.6	18.4	63.8	62.8	19.3	-4.7

Key performance indicators

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue (QoQ CC %)	4.6	2.5	0.6	-1.1	-12.7	2.9	6.6	3.8		
Margins (%)										
Gross Margin	32.9	32.3	32.8	33.5	26.8	30.1	30.8	32.3	32.9	30.1
EBIT Margin	17.1	17.0	16.8	15.2	12.1	13.7	15.2	16.6	16.5	14.5
Net Margin	15.1	14.7	14.3	14.2	9.1	12.6	13.3	13.5	14.6	12.2
Operating metrics										
Headcount	15,913	16,789	16,787	16,883	16,641	15,902	16,069	16,452	16,883	16,452
Attrition (%)	15.8	13.4	13.9	13.8	11.4	10.8	10.7	12.2	13.8	12.2
Utilization (incl. trainees)	79.6	77.8	79.2	78.1	70.9	75.4	77.5	78.9	78.7	75.7
Key Verticals (YoY %)										
Transportation	29.7	22.0	21.2	10.8	-20.4	-19.0	-19.0	-11.7	20.5	-17.5
Industrial Products	10.3	5.1	2.0	2.7	-12.7	-9.5	-4.1	-1.5	4.9	-7.0
Telecom and Hi-Tech	-10.8	-13.9	-26.5	-27.1	-11.4	-6.5	18.1	19.5	-19.7	3.9
Key Geographies (YoY %)										
North America	24.2	19.3	13.6	6.1	-11.4	-12.4	-4.6	1.6	15.4	-6.7
Europe	-3.2	-6.6	-6.6	6.6	-9.5	0.0	8.9	1.1	-2.4	0.0



Key highlights from the management commentary

Demand and industry outlook

- LTTS won 6 deals in the quarter of which 2 are USD25m+ and the balance range between USD10-15m. Going forward, the pipeline remain strong; however, closures are uncertain.
- Within Transportation, there is an increased traction in auto, trucks and off-highway. Electric technologies and Autonomous driving are the key growth areas. Spend is also coming from traditional segments and the company is pursuing multiple large deals.
- Aerospace is doing well and commercial is slowly picking up. Further, Medical and Communications are witnessing slower decision making on the deal front. However, management stated that it expects growth traction to jump in Medical from 2QFY22. This is largely on the back of expected deal closures in the coming quarters.
- In case of Plant Engineering, early ramp up of large Oil & Gas deal was seen in 4Q. Capex in the oil segment is slowly opening up and management expects a muted 1QFY22.
- Within geographies, management gave a strong demand outlook in North America and strengthening of a few pockets in Europe. However, spends in India have not picked up yet.
- Quoting Zinnov, the management said the ER&D industry is set to touch USD1.8-2t in the next three years, which is a key positive for the industry.
- Deal pipeline is strong and they are seeing more \$25-50mn deals than what they saw earlier.
- Management guided for revenue growth of 13-15% in FY22. The current guidance is factoring in some risk of COVID impact in India and possible increase in US and Europe.

Margin performance

- Company reported margin improvement for the 3rd consecutive quarter with levels back to pre-COVID times.
- A 70bps benefit was on account of lower amortization during the quarter. Further, other income was lower due to absence of export incentive.
- Utilizations improved 140bps QoQ which further aided margins in the quarter.
- Impact of wage hikes is expected in 1QFY22 however company will try to offset it by improving operational metrics. Management is confident of sustaining margins and also stated that one can expect improvement in certain segmental margins.

Other highlights

- LTTS will continue recruiting and will add 1k+ freshers in FY22. Management is satisfied with the pace of hiring and alluded that attrition would remain below industry levels despite its seasonality.
- Hiring and Upskilling will be critical going forward and hence LTTS has set up a global academy to upskill its lateral talent.

Exhibit 1: While India declined, other geographies posted robust growth

Geographies	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
North America	61.5	4.4	1.6
Europe	16.7	7.8	1.1
India	13.1	(2.1)	3.4
RoW	8.7	2.7	(5.4)

Source: Company, MOFSL

Exhibit 2: LTTS reports broad based growth across verticals

Verticals	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
Transportation	31.2	6.6	(11.7)
Industrial Products	18.9	1.7	(1.5)
Telecom and Hi-Tech	22.1	0.3	19.5
Plant Engineering	15.5	9.5	(2.1)
Medical Devices	12.3	0.6	20.7

Source: MOFSL, Company

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- While the company has delivered largely flat growth over FY19-21 (1% revenue CAGR) due to COVID-19 and ramp down at key clients (partly due to external issues), we expect a strong growth rebound (17% CAGR over FY21-23E).
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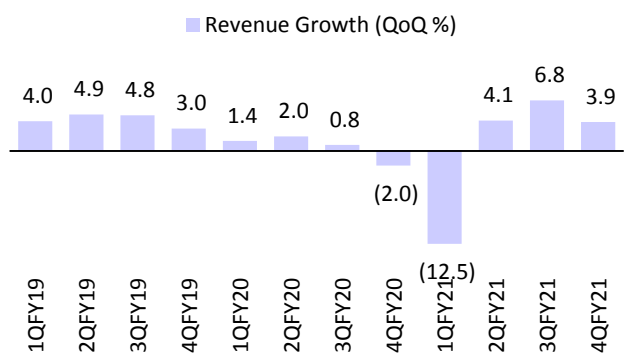
Exhibit 3: Revisions to our estimates

	Revised			Earlier			Change		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
USD:INR	74.0	73.5	74.5	74.0	73.5	74.5	0.0%	0.0%	0.0%
Revenue (USD m)	737	865	1,009	740	902	1,052	-0.4%	-4.2%	-4.1%
Growth (%)	(6.3)	17.4	16.7	(5.9)	22.0	16.6	-40bps	-460bps	10bps
EBIT margin (%)	14.5	16.7	17.6	14.5	16.9	17.5	0bps	-10bps	0bps
PAT (INR m)	6,634	8,917	11,012	6,730	9,377	11,466	-1.4%	-4.9%	-4.0%
EPS	62.8	84.4	104.3	63.7	88.8	108.6	-1.4%	-4.9%	-4.0%

Source: MOFSL

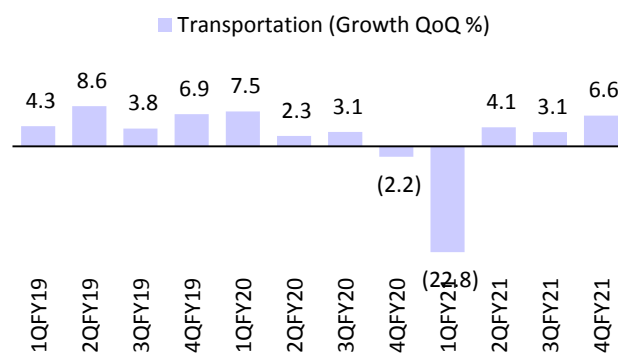
Story in charts

Exhibit 4: LTTS reports strong sequential growth due to...



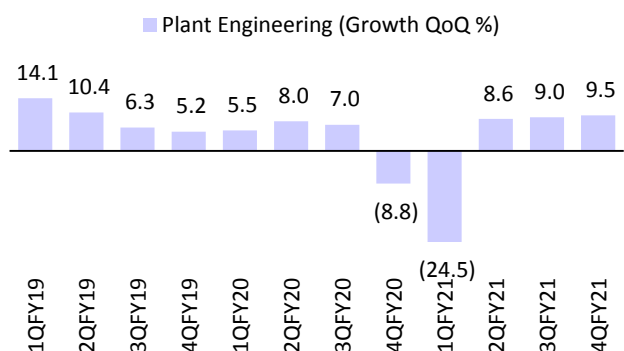
Source: Company, MOFSL

Exhibit 5: ...robust growth in Transportations and...



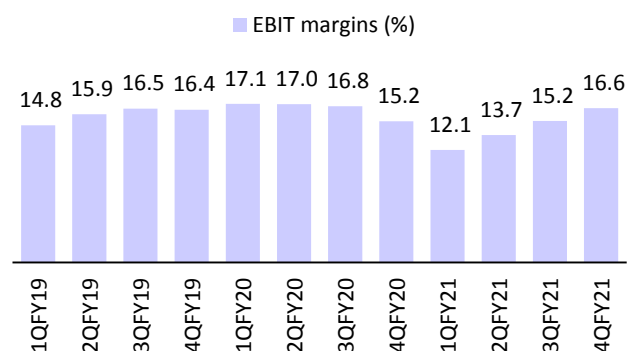
Source: Company, MOFSL

Exhibit 6: ...in Plant Engineering



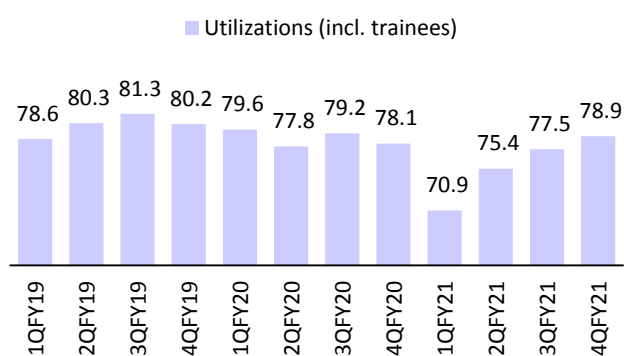
Source: Company, MOFSL

Exhibit 7: Margin expansion was a function of...



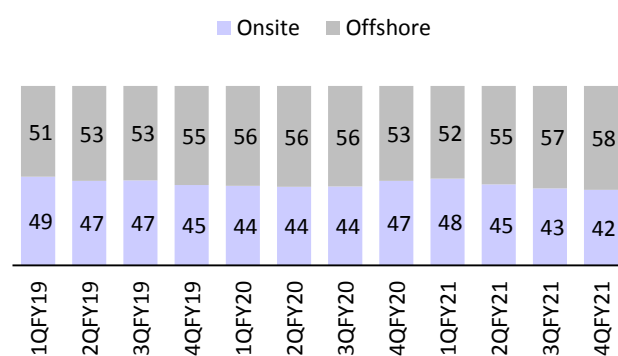
Source: Company, MOFSL

Exhibit 8: ...a sequential increase in utilization and...



Source: Company, MOFSL

Exhibit 9: ...higher offshoring during 4QFY21



Source: Company, MOFSL

Operating metrics

Exhibit 10: Operating metrics

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Revenue by Verticals (%)												
Transportation	30.9	32.0	31.7	32.9	34.9	35.0	35.8	35.7	31.5	31.5	30.4	31.2
Industrial Products	20.4	20.6	20.2	19.3	19.6	19.4	19.2	19.4	19.4	19.5	19.3	18.9
Telecom and Hi-Tech	28.7	26.7	27.0	26.2	22.3	20.6	18.5	18.7	22.4	21.4	22.9	22.1
Plant Engineering	13.5	14.2	14.4	14.7	15.3	16.2	17.2	16.0	13.8	14.4	14.7	15.5
Medical Devices	6.5	6.5	6.7	7.0	8.0	8.8	9.4	10.3	12.8	13.2	12.7	12.3
Revenue by Geographies (%)												
North America	56.3	57.7	57.8	58.9	60.9	61.7	61.2	61.2	61.2	60.0	61.2	61.5
Europe	18.5	17.2	16.2	16.0	15.6	14.4	14.1	16.7	16.0	16.0	16.1	16.7
India	12.4	12.5	14.4	13.9	12.8	13.1	13.2	12.8	13.0	13.6	13.9	13.1
RoW	12.8	12.6	11.6	11.2	10.7	10.8	11.5	9.3	9.8	10.4	8.8	8.7
Client Metrics												
Top five Clients	28.3	28.2	27.4	26.4	24.7	22.9	21.1	19.2	17.8	17.0	16.3	16.1
Top 10 Clients	40.5	39.9	38.9	37.7	36.7	35.7	33.9	31.8	29.7	28.3	27.3	26.9
Top 20 Clients	55.6	55.1	54.4	53.5	52.5	51.3	49.8	48.5	46.8	44.9	44.0	43.8
Clients (USD m)												
Over USD30m	2	3	3	3	3	3	3	2	1	1	1	-
Over USD20m	3	3	5	5	5	7	7	8	4	5	4	3
Over USD10m	12	14	16	16	17	17	20	21	22	20	18	20
Over USD5m	33	34	39	41	44	42	43	43	43	44	41	39
Over USD1m	89	94	98	106	110	106	107	113	113	116	118	122
Employee Metrics												
Billable	12,147	12,604	13,711	14,034	14,755	15,614	15,604	15,667	15,481	14,778	14,975	15,335
Sales and Support	934	981	1,066	1,106	1,158	1,175	1,183	1,216	1,160	1,124	1,094	1,117
Total Employees	13,081	13,585	14,777	15,140	15,913	16,789	16,787	16,883	16,641	15,902	16,069	16,452
Attrition (%)	15.4	15.0	14.9	14.8	15.8	13.4	13.9	13.8	11.4	10.8	10.7	12.2
Utilization (incl. trainees)	78.6	80.3	81.3	80.2	79.6	77.8	79.2	78.1	70.9	75.4	77.5	78.9

Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	37,471	50,783	56,192	54,497	63,547	75,178
Change (%)	15.4	35.5	10.7	-3.0	16.6	18.3
Employees Cost	24,600	31,440	32,747	33,550	37,569	43,865
Other Expenses	7,060	10,185	12,340	10,873	12,806	15,111
Total Expenditure	31,660	41,625	45,087	44,423	50,376	58,976
% of Sales	84.5	82.0	80.2	81.5	79.3	78.4
EBITDA	5,811	9,158	11,105	10,074	13,171	16,202
Margin (%)	15.5	18.0	19.8	18.5	20.7	21.6
Depreciation	888	1,053	1,829	2,183	2,542	3,007
EBIT	4,923	8,105	9,276	7,891	10,629	13,195
Other Income	1,910	2,210	1,727	1,082	1,271	1,504
PBT	6,833	10,315	11,003	8,973	11,900	14,698
Total Tax	1,712	2,630	2,779	2,307	2,975	3,675
Tax Rate (%)	25.1	25.5	25.3	25.7	25.0	25.0
Reported PAT	5,121	7,685	8,224	6,666	8,925	11,024
Change (%)	20.5	50.1	7.0	-18.9	33.9	23.5
Margin (%)	13.7	15.1	14.6	12.2	14.0	14.7
Minority Interest	-6	-28	-38	-32	-8	-12
PAT to shareholders	5,115	7,657	8,186	6,634	8,917	11,012

Consolidated Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	205	208	209	210	210	210
Total Reserves	19,159	24,583	27,477	34,521	40,228	47,275
Net Worth	19,364	24,791	27,686	34,731	40,438	47,485
Minority Interest	3	31	69	101	109	121
Borrowings	702	702	303	0	0	0
Other long-term liabilities	47	194	4,890	4,915	5,731	6,780
Capital Employed	20,116	25,718	32,948	39,747	46,278	54,387
Net Fixed Assets	2,173	2,435	6,275	6,997	5,337	3,372
Goodwill	4,921	5,365	5,460	5,827	5,827	5,827
Capital WIP	1	0	87	119	119	119
Other Assets	1,349	2,123	2,109	2,760	3,248	3,542
Curr. Assets, Loans and Adv.	18,607	23,715	29,102	35,026	42,813	53,000
Account Receivables	9,623	10,643	13,807	12,346	13,928	16,477
Cash and Bank Balance	1,541	2,048	2,179	1,751	4,872	9,258
Current Investments	2,208	5,752	6,370	15,725	18,225	20,725
Other Current Assets	5,235	5,272	6,746	5,204	5,788	6,539
Curr. Liability and Prov.	6,935	7,920	10,085	10,982	11,066	11,474
Account Payables	1,807	1,879	1,975	2,352	2,436	2,844
Other Current Liabilities	3,922	4,700	6,456	7,046	7,046	7,046
Provisions	1,206	1,341	1,654	1,584	1,584	1,584
Net Current Assets	11,672	15,795	19,017	24,044	31,747	41,526
Appl. of Funds	20,116	25,718	32,948	39,747	46,278	54,387

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic EPS (INR)	48.1	72.6	77.5	62.8	84.4	104.3
Cash EPS	56.6	82.6	94.9	83.5	108.5	132.8
BV/Share	188.9	238.4	264.9	330.8	385.1	452.2
DPS	15.6	21.0	21.0	22.0	25.3	31.3
Payout (%)	32.4	28.9	27.1	35.0	30.0	30.0
Valuation (x)						
P/E	58.1	38.5	36.1	44.5	33.1	26.8
Cash P/E	49.4	33.8	29.5	33.5	25.8	21.1
P/BV	14.8	11.7	10.5	8.4	7.3	6.2
EV/Sales	7.6	5.5	5.0	5.1	4.3	3.5
EV/EBITDA	49.0	30.8	25.5	27.3	20.5	16.2
Dividend Yield (%)	0.6	0.8	0.8	0.8	0.9	1.1
Return Ratios (%)						
RoE	29.6	34.7	31.1	21.2	23.7	25.0
RoCE	21.5	27.2	24.0	16.2	18.5	19.7

Consolidated Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	6,778	10,314	11,002	8,973	11,900	14,698
Depreciation	888	1,042	1,829	2,183	2,542	3,007
Interest and Finance Charges	24	19	365	455	0	0
Direct Taxes Paid	-1,721	-2,808	-2,119	-2,523	-2,975	-3,675
(Inc.)/Dec. in WC	-1,701	-739	-4,287	4,245	-1,754	-2,137
Others	-132	234	-409	-60	0	0
CF from Operations	4,136	8,062	6,381	13,273	9,713	11,893
(Inc.)/Dec. in FA	-851	-885	-1,511	-756	-882	-1,043
Free Cash Flow	3,285	7,177	4,870	12,517	8,831	10,850
(Pur.)/Sale of Investments	-1,231	-4,389	-1,039	-9,653	-2,500	-2,500
Others	78	181	328	355	0	0
CF from Investments	-2,004	-5,093	-2,222	-10,054	-3,382	-3,543
Issue of Shares	2	3	1	1	0	0
Inc./(Dec.) in Debt	-317	2	-1,028	-995	0	0
Interest Paid	-25	-19	-365	-455	0	0
Dividend Paid	-983	-2,440	-2,636	-2,198	-3,210	-3,964
CF from Fin. Activity	-1,323	-2,454	-4,028	-3,647	-3,210	-3,964
Inc./Dec. in Cash	809	515	131	-428	3,121	4,386
Forex Adjustment	60	-8	0	0	0	0
Opening Balance	672	1,541	2,048	2,179	1,751	4,872
Closing Balance	1,541	2,048	2,179	1,751	4,872	9,258

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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