

## Strong Outlook; Expensive Valuations

L&T Technologies Ltd (LTTS), on its investors day, stated that the company has accelerated demand and will reach the \$1 Bn revenue mark in the near term and \$1.5 Bn by FY25. The management also foresees robust demand due to the Covid-19 and consequent global lockdowns. Automation spendings are likely to accelerate going ahead on account of newer technologies such as software-driven cars, digital revolutions, and cloudification. The management has maintained its revenue guidance to 15%-17% for FY22. The company's deal pipeline continues to be strong as compared to previous quarters and it signed six large deals with \$10 Mn+ which includes two \$25 Mn+ deals in Q1FY22. Revenues from digital and leading-edge technologies stood at 54% during the quarter. The management is confident of gaining momentum from the next quarter on account of a healthy deal pipeline and ram up in new deal wins.

**We recommend a HOLD and assign a 35x P/E multiple to its FY23E earnings of Rs 124/share, which gives a TP of Rs 4,290/share indicating potential upside of 6%.**

## Strategic clients focus on long-term sustainable growth

LTTS has specialized services in cloud computing, digitizations, business analytics etc. The new management has a strong focus on increasing wallet share from existing clients while the momentum from the top client continues with good traction in the adoption of collaboration tools, cloud and digitization. The management would like to focus on reducing client concentration risk. Strong stable delivery capabilities in addition to strong deal wins are expected to provide further support to the growth momentum.

## Strong initiatives to drive margin improvement

The management stated a 6-dimensional growth strategy to drive industry-leading growth viz. 1) Industry-leading growth 2) Customer centricity 3) People engagement 4) Technology quotient 5) Sustainable operating model 6) Strong ESG.

LTTS is keen on investing in 6 areas 1) EACV (Electric cars) 2) Med Tech 3) 5G 4) AI & Digital Products 5) Digital Manufacturing 6) Sustainability. We believe these areas will have major investments in the forthcoming quarters and will have robust demand.

## Rich Valuations – Recommend HOLD

We believe LTTS has a resilient business structure from a long-term perspective with multiple long-term contracts with the world's leading brands and is well-positioned to capture the immense growth opportunity considering 1) Client focus for long-term sustainable growth; 2) Margin tailwinds driven by cost efficiencies, INR depreciation, lower travel cost and 3) healthy cash flow generation. **However, in light of expensive valuations, we recommend a HOLD and assign a 35x P/E multiple to its FY23E earnings of Rs 124 per share, which gives a TP of Rs 4,290/share indicating potential upside of 6%.**

## Key Financials (Consolidated)

(Rs Cr)	FY19	FY20	FY21E	FY22E
Net Sales	7,022	7,764	8,127	9,038
EBIDTA	1,065	1,082	1,404	1,573
Net Profit	754	631	951	1,072
EPS (Rs)	45.8	38.3	57.8	65.1
PER (x)	17.2	25.5	16.9	15.0
EV/EBIDTA (x)	12	15	11	9
P/BV (x)	4	5	4	4
ROE (%)	24%	18%	26%	25%

Source: Company, Axis Research

(CMP as of Sept 02, 2021)

CMP (Rs)	4,050
Upside / Downside (%)	6%
High/Low (Rs)	4,069/1,465
Market cap (Cr)	42,558
Avg. daily vol. (6m) Shrs.	230,267
No. of shares (Cr)	10.58

## Shareholding (%)

	Dec-19	Mar-20	Jun-20
Promoter	73.6	74.1	73.5
FII	10.5	11.9	10.4
MFs / UTI	4.3	3.7	4.7
Banks / FI	0.8	1.2	1.4
Others	10.8	9.1	10.0

## Financial & Valuations

Y/E Mar (Rs. Cr)	2020	2021E	2022E
Net Sales	7,764	8,127	9,038
EBITDA	1,082	1,404	1,573
Net Profit	631	951	1,072
EPS (Rs)	38.3	57.8	65.1
PER (x)	25.5	16.9	15.0
EV/EBITDA (x)	15	11	9
P/BV (x)	5	4	4
RoE (%)	18%	26%	25%

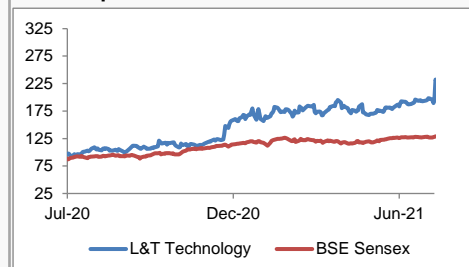
## ESG disclosure Score\*\*

Environmental Disclosure Score	N/A
Social Disclosure Score	N/A
Governance Disclosure Score	N/A
Total ESG Disclosure Score	N/A

Source: Bloomberg, Scale: 0.1-100

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

## Relative performance



Source: Capitaline, Axis Securities

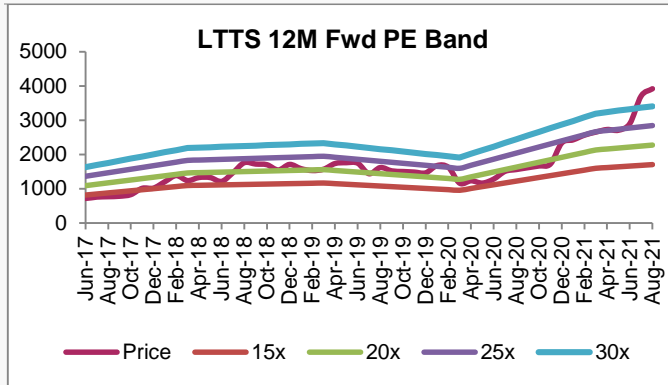
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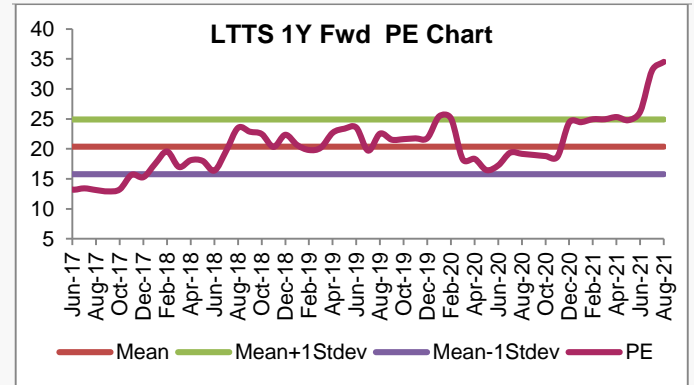
## Valuation and Outlook

Although there are near term challenges to growth owing to COVID-19, we believe in LTTS's strategy of delivering profitable growth in a tough environment thereby reaffirming our confidence in management's ability to deliver in the longer term. **We recommend a HOLD rating and target price of Rs 4,290/share indicating potential upside of 6%.**

LTTS 12M Fwd PE Band



LTTS 1Y Fwd PE Chart



Source: Company, Axis Securities

**Financials (Consolidated)**
**Profit & Loss**

(Rs Cr)

Y/E March	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>5,619</b>	<b>5,450</b>	<b>6,354</b>	<b>7,433</b>
Other operating income	0	0	0	0
<b>Total income</b>	<b>5,619</b>	<b>5,450</b>	<b>6,354</b>	<b>7,433</b>
Employee benefit Expenses	3,291.6	3,355.0	3,906.1	4,561.3
Other Expenses	1,217.0	1,087.3	1,267.9	1,375.1
<b>EBITDA</b>	<b>1,111</b>	<b>1,007</b>	<b>1,180</b>	<b>1,496</b>
Other income	209	154	141	149
<b>PBIDT</b>	<b>1,320</b>	<b>1,161</b>	<b>1,321</b>	<b>1,645</b>
Depreciation	183	218	117	82
Interest & Fin Chg.	37	46	12	2
E/o income / (Expense)	0	0	0	0
<b>Pre-tax profit</b>	<b>1,100</b>	<b>897</b>	<b>1,193</b>	<b>1,562</b>
Tax provision	278	231	79	268
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
<b>Profit after Tax</b>	<b>822</b>	<b>667</b>	<b>1,114</b>	<b>1,294</b>
Other Comprehensive Income	0.0	0.0	0.0	0.0
<b>PAT after Comprehensive Income</b>	<b>822</b>	<b>667</b>	<b>1,114</b>	<b>1,294</b>

Source: Company, Axis Securities

**Balance Sheet**

(Rs Cr)

Y/E March	FY20	FY21	FY22E	FY23E
<b>Total assets</b>	<b>3,272</b>	<b>3,832</b>	<b>4,676</b>	<b>5,587</b>
Net Block	209.9	135.3	168.6	236.9
CWIP	8.7	15.0	15.0	15.0
Investments	1,183.2	915.4	915.4	915.4
Wkg. cap. (excl cash)	1,654	1,372	1,286	1,228
Cash / Bank balance	217.9	1,395.5	2,291.8	3,192.5
Misc. Assets	(1.0)	(1.0)	(1.0)	(1.0)
<b>Capital employed</b>	<b>3,272</b>	<b>3,874</b>	<b>4,698</b>	<b>5,589</b>
Equity capital	20.9	20.9	20.9	20.9
Reserves	2,728	3,311	4,099	5,014
Minority Interests	6.9	6.9	6.9	6.9
Borrowings	489	491	493	495
Def tax Liabilities	0.0	0.0	0.0	0.0

Source: Company, Axis Securities

**Cash Flow**
**(Rs Cr)**

<b>Y/E March</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
<b>Sources</b>	<b>1,059</b>	<b>783</b>	<b>907</b>	<b>999</b>
Cash profit	1,042	930	1,243	1,377
(-) Dividends	102	195	326	379
Retained earnings	939	735	917	999
Issue of equity	0.1	0.0	0.0	0.0
Change in Oth. Reserves	(188.0)	91.0	0.0	0.0
Borrowings	483	2	2	2
Others	-176	-46	-12	-2
<b>Applications</b>	<b>1,070</b>	<b>783</b>	<b>907</b>	<b>999</b>
Capital expenditure	554.3	(113.5)	96.3	157.3
Investments	154.1	0.0	0.0	0.0
Net current assets	349.0	(281.3)	(85.8)	(58.7)
Change in cash	13.1	1,177.6	896.3	900.7
Closing cash	218	1,395	1,395	1,395

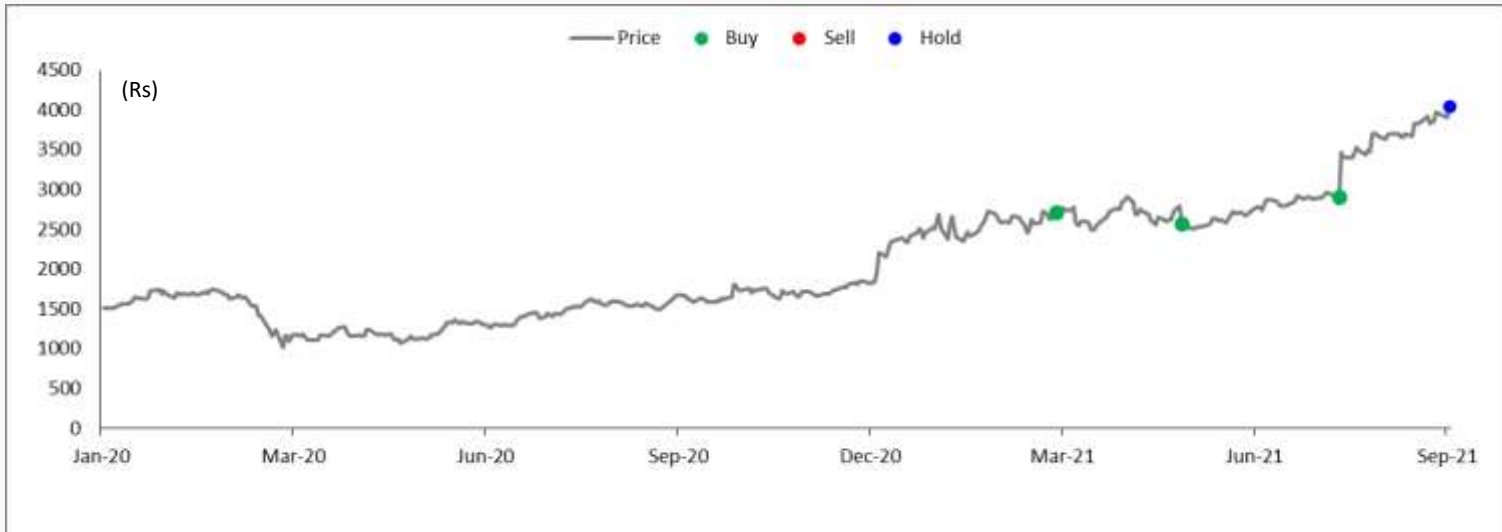
Source: Company, Axis Securities

**Ratio Analysis**
**(%)**

<b>Y/E March</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
<b>Sales growth</b>	<b>10.6</b>	<b>(3.0)</b>	<b>16.6</b>	<b>17.0</b>
<b>OPM</b>	<b>19.8</b>	<b>18.5</b>	<b>18.6</b>	<b>20.1</b>
Oper. profit growth	21.4	(9.3)	17.2	26.8
COGS / Net sales	0.0	0.0	0.0	0.0
Overheads/Net sales	21.7	20.0	20.0	18.5
Depreciation / G. block	278.8	(292.6)	350.3	119.7
Effective interest rate (%)	11.7	9.2	2.4	0.3
Net wkg.cap / Net sales	0.29	0.31	0.24	0.19
Net sales / Gr block (x)	14.5	10.3	9.3	8.9
<b>RoCE</b>	<b>39%</b>	<b>27%</b>	<b>29%</b>	<b>31%</b>
Debt / equity (x)	0.12	0.10	0.08	0.07
Effective tax rate	25.2	25.7	6.6	17.1
<b>RoE</b>	<b>31%</b>	<b>21%</b>	<b>29%</b>	<b>27%</b>
Payout ratio (Div/NP)	12.4	25.0	25.0	25.0
<b>EPS (Rs.)</b>	<b>77.7</b>	<b>63.7</b>	<b>106.4</b>	<b>123.6</b>
EPS Growth	6.6	(18.1)	67.1	16.2
CEPS (Rs.)	95.0	84.5	117.6	131.4
DPS (Rs.)	9.7	15.9	26.6	30.9

Source: Company, Axis Securities

### L&T Technology Services Price Chart and Recommendation History



Date	Reco	TP	Research
08-Mar-21	BUY	3,200	Initiating Coverage
04-May-21	BUY	3,190	Result Update
14-Jul-21	BUY	3,215	Result Update
03-Sep-21	HOLD	4,290	Event Update

**About the analyst****Analyst:** Omkar Tanksale**Contact Details:** omkar.tanksale@axissecurities.in**Sector:** IT Services**Analyst Bio:** Omkar Tanksale is BE (Computer) and MBA (Finance) with over 8 years of research experience in the IT sector**Disclosures:**

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