

L&T Technology

BSE SENSEX 57,853 **S&P CNX** 17,234



Bloomberg	LTTS IN
Equity Shares (m)	106
M.Cap.(INRb)/(USDb)	425.6 / 5.8
52-Week Range (INR)	4069 / 1465
1, 6, 12 Rel. Per (%)	2/33/117
12M Avg Val (INR M)	927

Financials & Valuations (INR b)

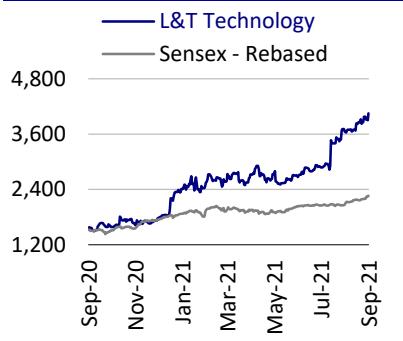
Y/E Mar	2021	2022E	2023E
Sales	54.5	64.9	80.1
EBIT Margin (%)	14.5	17.4	18.5
PAT	6.6	9.3	12.3
EPS (INR)	62.8	88.3	116.1
EPS Gr. (%)	(19.0)	40.5	31.5
BV/Sh. (INR)	330.8	387.7	462.5
Ratios			
RoE (%)	21.2	24.7	27.4
RoCE (%)	16.2	19.3	21.4
Payout (%)	35.0	30.0	30.0
Valuations			
P/E (x)	64.4	45.9	34.9
P/BV (x)	12.2	10.4	8.8
EV/EBITDA (x)	40.3	29.5	22.2
Div Yield (%)	0.5	0.7	0.9

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	74.2	74.2	74.6
DII	6.7	6.4	4.5
FII	8.9	9.1	9.0
Others	10.2	10.3	12.0

FII Includes depository receipts

Stock performance (one-year)



CMP: INR4,047 **TP:INR4,530 (+12%)** **Buy**

Upbeat FY25 aspiration led by strong demand outlook

Growing tech adoption expanding its addressable market

We attended LTTS' Analyst Day, where the management spelt out its aspiration of achieving FY25 revenue of USD1.5b, along with 18% EBIT margin. The management indicated that digitization is driving accelerated spends in ER&D and should benefit it due to: 1) strong capabilities, 2) multi-vertical presence, and 3) solid wallet share. We expect LTTS to deliver strong revenue growth over the coming years and retain it as our top pick in the midcap IT Services space.

Strong growth in ER&D spending, coupled with higher outsourcing

- There is an acceleration of digitization within ER&D. Overall ER&D spending is expected to touch USD1.7-1.9t by CY23E from USD1.4t in CY20 (~11% CAGR over CY20-23E). Additional levers of growth for ER&D players like LTTS include: 1) higher outsourcing, and 2) market share gains by Indian and European ER&D players.
- ER&D spending has witnessed lower levels of outsourcing earlier as it is a strategic investment for enterprises. However, LTTS is witnessing increased traction for outsourcing from its enterprise clients as: 1) clients have revisited core and non-core spending and are more open to outsource entire non-core areas of ER&D spending, leading to expanding deal sizes, and 2) clients' priorities for ER&D services has been changed to quality, speed, and scale (v/s a cost focus earlier).
- Outsourced ER&D penetration in most of LTTS' verticals is still in the low to mid-teens, implying significant scope for an increase in outsourcing.

LTTS well placed to capture the demand momentum

- LTTS is well placed to capture the overall demand momentum as it is one of the top pure play ER&D services companies globally. It works with 57 of top 100 global ER&D spenders.
- It also enjoys solid wallet share as it is among the top two vendors with most of its top 30 accounts, including being the top vendor for four out of the top five clients.
- LTTS' multi-vertical presence (v/s a single or few verticals presence for its peers) allows it to leverage its cross vertical capabilities to build its solutions offerings.
- Given the strong demand and improved visibility, the management has guided at an USD1b/USD1.5b revenue run-rate by 2Q-3QFY23/FY25, with ~18% EBIT margin
- Its FY25 guidance implies a FY21-25 USD revenue CAGR of ~20%, and indicates high management confidence in both the demand environment as well as its ability to gain share in all key verticals.
- The management has increased its focus on scaling up large accounts along with large deals, which will drive growth. It sees scope for margin improvement, led by a further offshore shift.

Growth vision driven by six big bets and six dimensional glide path

- LTTS highlighted the six large areas of corporate investment, where it sees significant opportunities, terming them big bets. These include EACV (electric, autonomous, and connected vehicles), medtech, 5G, AI and Digital products, Digital manufacturing, and sustainability.
- It also shared the six dimensions of its business focus (glide path), which include achieving industry-leading growth, customer centricity, people engagement, technology quotient, sustainable operating model, and ESG.

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

- The management has provided a strong outlook, which implies a growth momentum of ~20% over FY21-25E. Moreover, it reiterated its focus of keeping its guidance achievable, despite client and attrition related risks. We see this as an indication that there can also be potential upside risk to its aspiration of USD1.5b revenue by FY25.
- The management is confident of maintaining segmental margin, despite the near-term headwind from a tight supply environment. Moreover, its medium term margin outlook of ~18% EBIT implies a margin expansion.
- Our TP of INR4,530 per share implies 39x FY23E EPS (v/s 31x earlier), given its strong medium term guidance and increased earnings visibility. We maintain our BUY rating.

Key highlights from the analyst meet

Aspires for USD1.5b revenue in the medium term

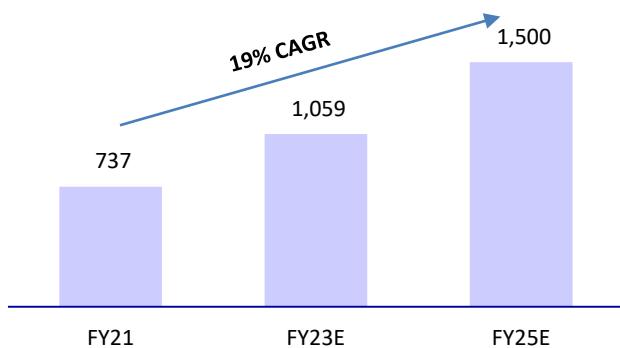
- Overall ER&D spending is expected to touch USD1.7-1.9b by CY23E (~11% CAGR over CY20-23E). Additional levers of growth for ER&D players like LTTS include: 1) higher outsourcing, and 2) market share gains by Indian and European ER&D players.
- LTTS enjoys solid wallet share as it is the top vendor with most of its top 30 accounts, including being the top vendor for four out of its top five clients.
- Given the strong demand and improved visibility, the management has guided at an USD1b/USD1.5b revenue run-rate by 2Q-3QFY23/FY25, with ~18% EBIT margin.

Exhibit 1: Analysis of LTTS' guidance of reaching USD 1b revenue run-rate by 2Q-3QFY23E

Guidance analysis	1QFY21	2QFY23E	3QFY23E
Revenue (USD m)	206	250	250
Implied CAGR	4.0%	3.3%	

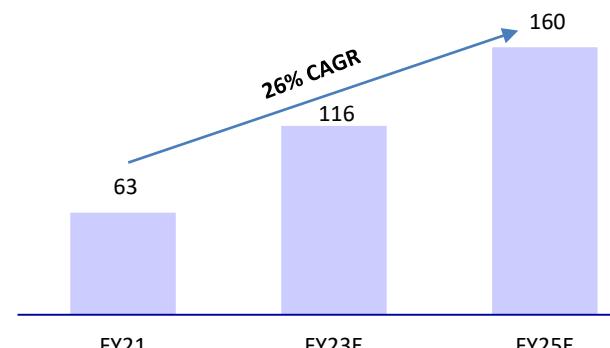
Source: Company, MOFSL

Exhibit 2: Revenue guidance of USD1.5b in FY25E implies 19% USD revenue CAGR - USD m



Source: Company, MOFSL

Exhibit 3: EBIT margin of 18% results in ~26% EPS CAGR over FY21-25E - INR



Source: Company, MOFSL

Six strategic growth areas with a huge addressable opportunity

- The management outlined six strategic growth areas and is building capabilities within each of these areas.
- Each of the outlined areas has a huge addressable opportunity: **1) electric, autonomous, connected vehicles (25% of cars will be EsV by CY25E), 2) medtech (USD200b market by CY25E), 3) 5G (USD155b by CY25E), 4) AI and Digital products (USD100b by CY25E), 5) Digital manufacturing (USD475b by CY25E), and 6) sustainability (USD400b by CY25E).**

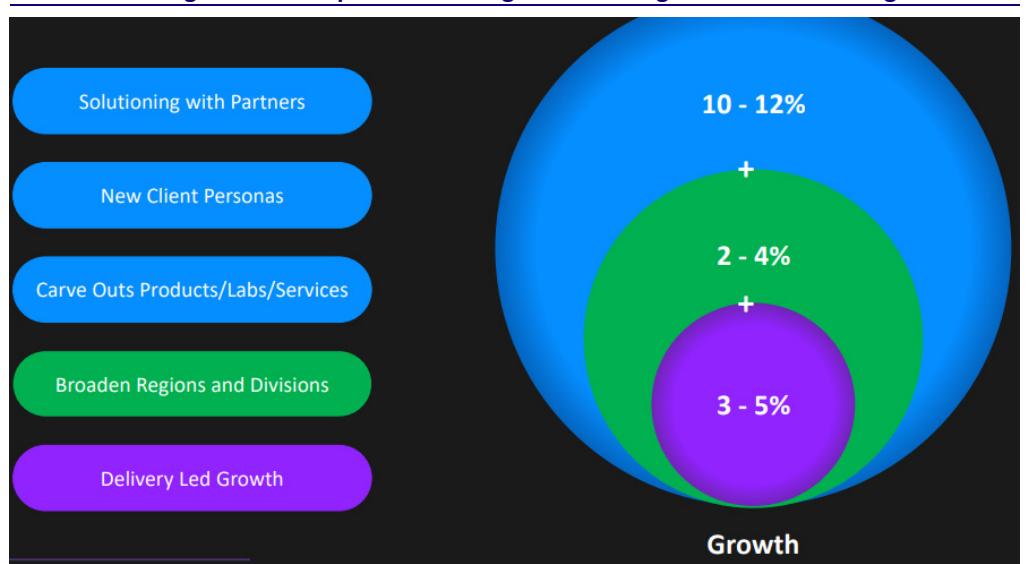
Customer centricity driving growth

The management is focused on customer centricity for driving industry leading growth. Its customer strategy includes four pillars:

- Supersizing accounts** to aim at a higher share of ER&D spends of the customer through capabilities and partnerships. LTTS has enhanced its customer focus, which includes initiatives like customer-level certification for each engineer;

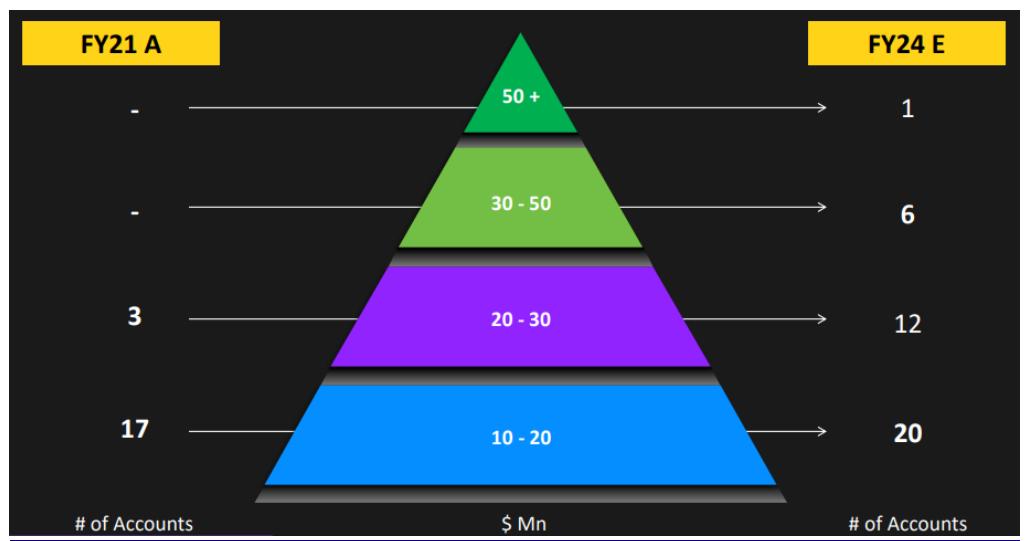
- **Driving mega deals**, led by proactive POCs and a large deal team for driving go-to-market for ideas;
- **Expanding with adjacent customers** within the disruptive set of customers, who work on new technologies. This helps the company to enhance its capabilities on new technologies, which it can go-to-market for its conventional set of customers; and
- **Geographical strategy**: Expanding its geographical presence in key markets by adding a leadership team. Europe is expected to see higher growth than North America.

Exhibit 4: Management's template for driving 15-21% YoY growth within strategic clients



Source: Company, MOFSL

Exhibit 5: Expect a higher number of large accounts



Source: Company, MOFSL

Developing end-to-end capabilities along with faster time to the market

- The management is focused on building end-to-end capabilities within design, development, operations, and after-sales as it will enable the company to aptly capture the overall addressable market and also improve its strategic status within the client's ecosystem.
- Since the time to market is very critical for enterprise clients, LTTS has crafted around 238 frameworks across industry verticals. These include re-usable components, technologies, and IPs (~719 patents), which enables the company to deliver a faster service to clients.

Exhibit 6: LTTS' 238 technology frameworks across industry verticals

		NOW		UPCOMING		
	Transportation 38+	Connected Transport	Autonomous Driving	Smart Electric Vehicle	Mobility As A Service	
	Medical & Lifesciences 22+	3D Printing	Remote Patient Monitoring	AI in Medical Imaging	Digital Telemedicine	
	Industrial Products 23+	Energy Storage	Digital Twin	Prescriptive Maintenance	Microgrids	
	Plant Engineering 32+	Energy Management	Asset Performance	Worker Safety	Plant Lifecycle Management	
	Consumer Electronics, Media & Entertainment 28+	OTT Apps	Advertising	Digital Signage	OTT CMS	Connected Meeting Rooms
	Hi-Tech, Technology, Telecom & Others 80+	Proprietary Analytics	Application Lifecycle Management	AR Based Service Transformation	Multi-Edge access	5G Based Employee Safety

Source: Company, MOFSL

Profitable growth

- The management is focused on delivering broad based and profitable growth, led by growth in digital engineering, and market share gains within legacy engineering.
- It expects stability in the segmental margin after the near term improvement in the Telecom and Hi-Tech vertical.
- While there is a shortage of talent for digital skill sets, the management expects the supply environment to normalize over the next couple of quarters. It is investing to broaden the pyramid by hiring more freshers, reskilling its workforce, and increasing sub-contractor and gig workers.
- LTTS is witnessing an environment of extreme offshoring. The strong growth will provide operating leverage, led by SG&A costs. The management expects ~18% EBIT margin in the medium term.

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

- The management has provided a strong outlook, which implies a growth momentum of ~20% over FY21-25E. It is reasonably confident of achieving this target. There can also be potential upside risk to its aspiration of USD1.5b revenue by FY25.
- The management is confident of maintaining segmental margin, despite the near-term headwind from a tight supply environment. Moreover, its medium term margin outlook of ~18% EBIT implies a margin expansion.
- The competitive positioning of the company is strong, which is also visible in its strong clientele (57 out of the top 100 ER&D spenders) and wallet share (top vendor for most of the top 30 accounts). The management is building capabilities in future technologies, which have a large addressable market. This improves visibility.
- We expect ~20% USD revenue CAGR over FY21-23E. Our TP of INR4,530 per share implies 39x FY23E EPS (v/s 31x earlier), given its strong medium term guidance and increased earnings visibility. We maintain our **BUY** rating.

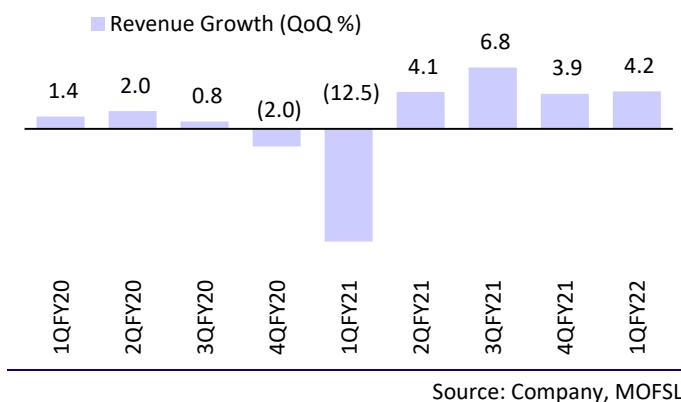
Exhibit 7: Revisions to our estimates

	Revised		Earlier		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
USD:INR	74.0	75.6	74.0	75.6	0.0%	0.0%
Revenue (USD m)	877	1,059	873	1,030	0.4%	2.8%
Growth (%)	19.0	20.8	18.6	17.9	50bp	290bp
EBIT margin (%)	17.4	18.5	17.3	18.0	10bp	60bp
PAT (INR m)	9,336	12,275	9,234	11,542	1.1%	6.4%
EPS	88.3	116.1	87.3	109.1	1.1%	6.4%

Source: MOFSL

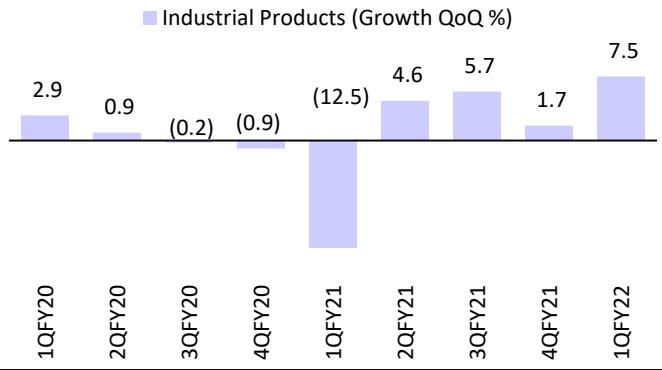
Story in charts

Exhibit 8: LTTS' strong sequential growth momentum...



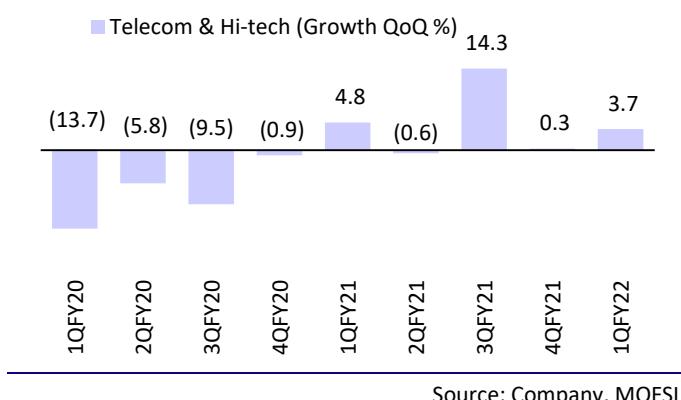
Source: Company, MOFSL

Exhibit 9: ...led by robust growth in Industrial Products...



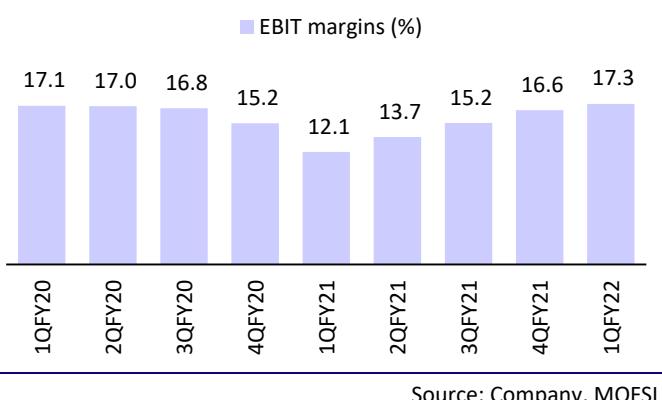
Source: Company, MOFSL

Exhibit 10: ...Telecom and Hi-Tech



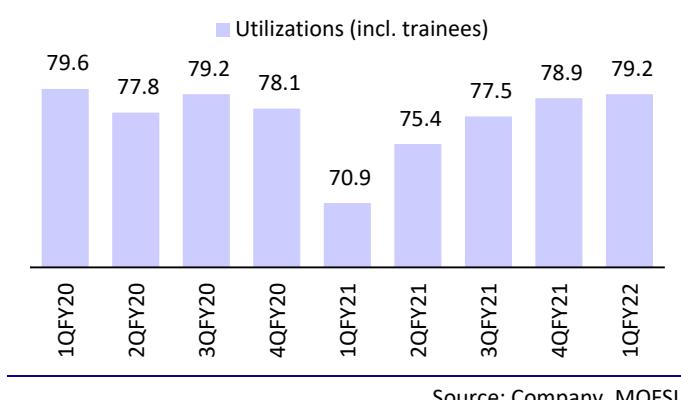
Source: Company, MOFSL

Exhibit 11: Margin expansion led by...



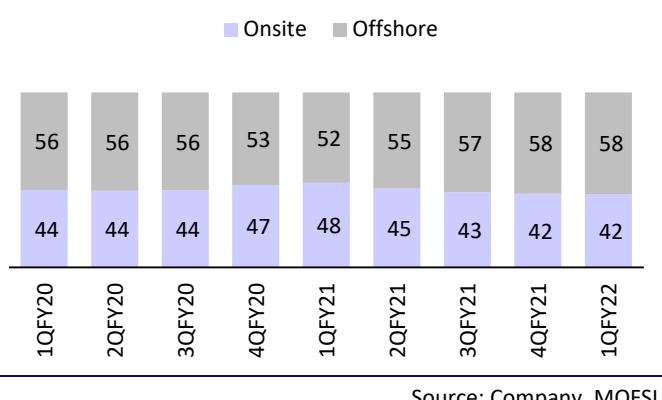
Source: Company, MOFSL

Exhibit 12: ...higher utilization...



Source: Company, MOFSL

Exhibit 13: ...and greater offshoring



Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement		(INR m)					
Y/E March		FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations		37,471	50,783	56,192	54,497	64,852	80,078
Change (%)		15.4	35.5	10.7	-3.0	19.0	23.5
Employees Cost		24,600	31,440	32,747	33,550	37,752	45,376
Other Expenses		7,060	10,185	12,340	10,873	13,475	16,896
Total Expenditure		31,660	41,625	45,087	44,423	51,227	62,272
As a percentage of Sales		84.5	82.0	80.2	81.5	79.0	77.8
EBITDA		5,811	9,158	11,105	10,074	13,624	17,806
Margin (%)		15.5	18.0	19.8	18.5	21.0	22.2
Depreciation		888	1,053	1,829	2,183	2,342	2,963
EBIT		4,923	8,105	9,276	7,891	11,282	14,843
Other Income		1,910	2,210	1,727	1,082	1,377	1,762
PBT		6,833	10,315	11,003	8,973	12,659	16,604
Total Tax		1,712	2,630	2,779	2,307	3,310	4,317
Tax Rate (%)		25.1	25.5	25.3	25.7	26.1	26.0
Reported PAT		5,121	7,685	8,224	6,666	9,350	12,287
Change (%)		20.5	50.1	7.0	-18.9	40.3	31.4
Margin (%)		13.7	15.1	14.6	12.2	14.4	15.3
Minority Interest		-6	-28	-38	-32	-14	-12
PAT to shareholders		5,115	7,657	8,186	6,634	9,336	12,275

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	40,496	48,352
Net Worth		19,364	24,791	27,686	34,731	40,706	48,562
Minority Interest		3	31	69	101	115	127
Borrowings		702	702	303	0	0	0
Other Long term liabilities		47	194	4,890	4,915	5,849	7,222
Capital Employed		20,116	25,718	32,948	39,747	46,670	55,911
Net Fixed Assets		2,173	2,435	6,275	6,997	5,555	3,703
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	3,281	3,666
Curr. Assets, Loans, and Adv.		18,607	23,715	29,102	35,026	42,981	54,211
Account Receivables		9,623	10,643	13,807	12,346	14,214	17,551
Cash and Bank Balance		1,541	2,048	2,179	1,751	4,669	9,079
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	5,873	6,856
Curr. Liability and Prov.		6,935	7,920	10,085	10,982	11,093	11,615
Account Payables		1,807	1,879	1,975	2,352	2,463	2,985
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	31,888	42,597
Appl. of Funds		20,116	25,718	32,948	39,747	46,670	55,911

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic EPS (INR)	48.1	72.6	77.5	62.8	88.3	116.1
Cash EPS	56.6	82.6	94.9	83.5	110.4	144.1
BV/Share	188.9	238.4	264.9	330.8	387.7	462.5
DPS	15.6	21.0	21.0	22.0	26.5	34.8
Payout (%)	32.4	28.9	27.1	35.0	30.0	30.0
Valuation (x)						
P/E	84.1	55.7	52.2	64.4	45.9	34.9
Cash P/E	71.5	49.0	42.7	48.5	36.7	28.1
P/BV	21.4	17.0	15.3	12.2	10.4	8.8
EV/Sales	11.0	8.1	7.4	7.5	6.2	4.9
EV/EBITDA	71.1	44.9	37.2	40.3	29.5	22.2
Dividend Yield (%)	0.4	0.5	0.5	0.5	0.7	0.9
Return Ratios (%)						
RoE	29.6	34.7	31.1	21.2	24.7	27.4
RoCE	21.5	27.2	24.0	16.2	19.3	21.4

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	6,778	10,314	11,002	8,973	12,659	16,604
Depreciation	888	1,042	1,829	2,183	2,342	2,963
Interest and Finance Charges	24	19	365	455	0	0
Direct Taxes Paid	-1,721	-2,808	-2,119	-2,523	-3,310	-4,317
(Inc.)/Dec. in WC	-1,701	-739	-4,287	4,245	-2,013	-2,810
Others	-132	234	-409	-60	0	0
CF from Operations	4,136	8,062	6,381	13,273	9,679	12,440
(Inc.)/Dec. in FA	-851	-885	-1,511	-756	-900	-1,111
Free Cash Flow	3,285	7,177	4,870	12,517	8,779	11,329
(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	-3,400	-3,611
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	-3,361	-4,419
CF from Fin. Activity	-1,323	-2,454	-4,028	-3,647	-3,361	-4,419
Inc./Dec. in Cash	809	515	131	-428	2,918	4,410
Forex Adjustment	60	-8	0	0	0	0
Opening Balance	672	1,541	2,048	2,179	1,751	4,669
Closing Balance	1,541	2,048	2,179	1,751	4,669	9,079

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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