

Results In line Expectations; Uncertainty to Impact Growth Momentum

Est. Vs. Actual for Q4FY24: Revenue – **INLINE** ; EBITDA Margin – **INLINE**; PAT – **BEAT**; Deal Wins – **BEAT**

Change in Estimates post Q4FY24

FY25E/FY26E: Revenue: -1%/1%; EBITDA Margins: -1%/1%; PAT: -1%/1%

Recommendation Rationale

- The management has **guided revenue growth of 8% to 10% (in CC terms) in FY25** and expects it to be impacted by geopolitical tensions and uncertainty over macroeconomic conditions. On the margins front, it has guided operating margins of 16%.
- TCV stood strong** in Q4FY24 with 6 large deals of over \$10 Mn.
- The management is confident about **gaining medium to long-term demand momentum** on the backdrop of deals it has won in the previous quarters.

Sector Outlook: Cautiously positive

Company Outlook & Guidance: The management has given revenue growth guidance of 8% to 10% in CC terms in FY25. It expects margins of 16%.

Current Valuation: 30x FY26E P/E; Earlier Valuation: 34x FY26E

Current TP: 4,900/share; (Earlier TP: Rs 5,620/share)

Recommendation: Given the company's strong growth potential backed by robust deal wins and superior execution capabilities, we **maintain** our **HOLD** recommendation on the stock.

Financial Performance

In Q4FY24, L&T Technologies Ltd. (LTTS) reported revenue of Rs 2,538 Cr, up 5% QoQ. The company reported operating profits of Rs 428 Cr, posting growth of 2.9% on a QoQ basis. The company's operating margins declined by 30bps to 16.9%, which was largely led by better cost management and reduced onsite expenses during the quarter. Its net profit for Q4FY24 stood at Rs 341 Cr, registering a growth of 1.4% on a QoQ basis.

Outlook

From a long-term perspective, we believe LTTS is well-placed for encouraging growth backed by multiple long-term contracts it has established with the world's leading brands. Furthermore, better revenue visibility gives us confidence in the company's business growth moving forward. However, rising concerns over the prospects of large economies along with prevailing supply-side constraints pose uncertainties over the company's short-term growth rates.

Valuation & Recommendation

We recommend a **HOLD** rating on the stock and assign a 30x P/E multiple to its FY26E earnings of Rs 165.2/share to arrive at a **TP of Rs 4,900/share, implying a downside of 5% from the CMP**.

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	2,538	5%	12%	2,560	-1%
EBIT	503	3%	10%	440	14%
EBIT Margin	20%	23 bps	30 bps	17%	17%
Net Profit	341.4	7%	13%	345	-1%
EPS (Rs)	32.25	7%	13%	32.1	0%

Source: Company, Axis Research

(CMP as of 25 April 2024)

CMP (Rs)	5,181
Upside /Downside (%)	(5%)
High/Low (Rs)	5,885/3,400
Market cap (Cr)	54,791
Avg. daily vol. (6m)Shrs.	1,01,762
No. of shares (Cr)	10

Shareholding (%)

	Sep-23	Dec-23	March-24
Promoter	73.8	73.8	73.7
FII	5.3	5.9	5.5
MFs / UTI	2.2	2.3	2.9
Banks / FII	0.0	0.0	0.0
Others	18.7	18.0	17.9

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	9,647	10,681	12,496
EBITDA	1,919	2,136	2,499
Net Profit	1,306	1,453	1,729
EPS (Rs)	124.8	138.8	165.2
PER (x)	42.9	38.6	32.4
P/BV (x)	9.7	8.2	6.6
EV/EBITDA (x)	27.3	23.8	18.4
ROE (%)	24%	22%	23%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	(1%)	1%
EBITDA	(1%)	1%
PAT	(1%)	1%

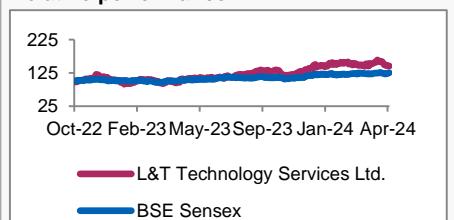
ESG disclosure Score**

Environmental Disclosure	42.1
Social Disclosure Score	27.0
Governance Disclosure Score	79.9
Total ESG Disclosure Score	49.7
Sector Average	46.0

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: AceEquity, Axis Securities

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Key Highlights

- **Continuing strength in the demand environment in the medium term:** The US's growth momentum improved during the quarter, showcasing some signs of recovery. Europe demonstrated continued moderated de-growth of 0.1% on a QoQ basis. India business recovered by 15.7% QoQ. The management faces uncertainties from the world's largest economies as well as due to prevailing geopolitical tensions.
- **Broad-based vertical growth:** On the vertical front, the Hi-tech & Telecom vertical grew by 20.9% sequentially. Transportation verticals grew by 1.2%. Plant Engineering grew by 6.3% QoQ. Medical Devices reported a de-growth of 10.2%. The Industrial products delivered a QoQ de-growth of 3.4%. The majority of the verticals witnessed strong recovery but are likely to report sustainable growth in the near term, backed by a strong deal pipeline. The management is upbeat about automation spend going ahead in the Transportation and other verticals.
- **Dividend is declared:** The company declared an interim dividend of Rs 17/share.
- **Long-term outlook:** The management is confident of gaining demand momentum backed by robust deal wins across sectors. However, near-term uncertainties could affect the revenue growth momentum. **The management has given the revenue growth guidance of 8% to 10% (CC) for FY25 and margins at 16%.**

Key risks to our estimates and TP

- The demand environment is uncertain driven by a potential threat of the recession in the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact the company's operating margins negatively.

Revenue by Service Offering: Segment Revenue

	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Transportation	622	690	735	724	753	793	804.2	811.3
Plant Engineering	301	325	319	335	320	335	339.4	359.9
Industrial Products	355	376	390	404	406	413	415.5	400.6
Medical Devices	214	216	219	234	236	241	248	222
Telecom & Hi-tech	383	388	386	399	587	604	614.7	743.7
Total	1,874	1,995	2,049	2,096	2,301	2,386	2,422	2,538

Source: Company, Axis Research

Segment Results

No of Active clients	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Transportation	123	140	149	125	139	155	163.9	162.2
Plant Engineering	81	81	88	95	78	85	91.9	90.8
Industrial Products	104	114	119	119	123	123	123.4	128
Medical Devices	65	67	73	82	78	77	67.4	70.7
Telecom & Hi-tech	54	46	46	48	52	55	61.3	80.1
Total	428	447	475	468	470	496	507.9	531.8

Source: Company, Axis Research

Revenue by Vertical

	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Transportation	33%	35%	36%	35%	33%	33%	33%	32%
Plant Engineering	19%	19%	19%	19%	18%	17%	17%	16%
Industrial Products	20%	19%	19%	19%	26%	25%	25%	29%
Medical Devices	16%	16%	16%	16%	10%	14%	14%	14%
Telecom & Hi-tech	12%	11%	11%	11%	26%	10%	10%	9%

Source: Company, Axis Research

Revenue by Geography

	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
North America	63%	63%	63%	60%	57%	55%	55%	54%
Europe	17%	16%	16%	16%	15%	16%	17%	16%
India	13%	13%	14%	15%	21%	22%	22%	24%
Rest of World	7%	8%	8%	8%	7%	7%	7%	7%
Total	100%							

Source: Company, Axis Research

Revenue Mix

	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Onsite	44%	45%	43%	43%	41%	40%	40%	41%
Offshore	56%	55%	57%	57%	59%	60%	60%	59%
Total	100%							

Source: Company, Axis Research

Client Profile

	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Number of Active clients	337	343	343	341	357	362	364	381
50 Mn +	0	0	0	0	0	0	0	0
30 Mn+	2	3	2	1	3	4	4	5
20 Mn +	7	8	8	9	12	12	14	12
10 Mn+	23	24	25	24	32	31	31	32
5 Mn +	51	49	50	52	56	55	56	58
1mn +	142	150	158	169	181	177	175	180

Source: Company, Axis Research

Client Contribution to Revenue

	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Top 5	17%	16%	16%	16%	15%	15%	16%	15%
Top 10	28%	27%	27%	27%	26%	26%	27%	26%
Top 20	43%	42%	42%	42%	41%	42%	42%	41%

Source: Company, Axis Research

Employee Data

	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Billable headcount	21,433	20,189	20,346	20,878	21,933	22,366	21,887	22,392
Sales & Support	1,351	1,285	1,303	1,355	1,459	1,514	1,411	1,420
Total	22,784	21,474	21,649	22,233	23,392	23,880	23,298	23,298
Attrition (%)	23%	24%	23%	22%	19%	17%	16%	16%

Source: Company, Axis Research

Results Review
(Rs Cr)

In Cr	Q4FY24	Q3FY24	Q4FY23	% change (YoY)	% change (QoQ)
Net Sales	2,538	2,422	2,371	7%	5%
Total Income	2,538	2,422	2,371		
Employee benefit expenses	1,219	1,259	1,185	17%	-3%
Other Expenses	815.6	680	705.6	-5%	4%
TOTAL EXPENDITURE	2,035	1,939	1,890		
EBITDA	503	483	480	5%	3%
EBITDA margin	20%	20%	20%	0	0
Other Income	56	62.4	50.4		
Interest	13.2	13	11.4		
Depreciation	74.6	71.5	56.8		
EBIT	471	460	462	2%	2%
EBIT Margin	19%	19%	20%	-144	-44.9
Exceptional Items	0	0	0		
PBT	471	465.5	462.4	2%	4%
Tax	129.6	128.7	121		
Effective tax rate(%)	28%	28%	27%	52	4
Reported Profit After Tax	341.4	336.8	341.4	0%	46
-	-	-	-		
EPS (Basic)	32.25	31.8	32.21	0%	4%
EPS (Diluted)	32.16	31.72	32.1	0%	4%

Source: Company, Axis Securities

Financials (consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Net sales	6,570	8,014	9,647	10,681	12,496
Other operating income	0	0	0	0	0
Total income	6,570	8,014	9,647	10,681	12,496
Employee benefit Expenses	3,651	4,564	4,930	6,622	7,747
Other Expenses	1,504	1,739	2,799	1,923	2,249
EBITDA	1,415	1,711	1,919	2,136	2,499
Other income	152	208	207	214	250
PBIDT	1,567	1,919	2,126	2,350	2,749
Depreciation	214	232	272	300	320
Interest & Fin Chg.	44	44	51	60	60
E/o income / (Expense)	0	0	0	0	0
Pre-tax profit	1,309	1,644	1,804	1,990	2,369
Tax provision	349	470	498	537	640
Profit after Tax	961	1,174	1,306	1,453	1,729
Other Comprehensive Income	0	0	0	0	0
PAT after Comprehensive Income	961	1,174	1,306	1,453	1,729

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Total assets	4,529	5,277	6,113	7,261	10,268
Net Block	71	-11	-132	-282	-587
CWIP	15	15	15	15	0
Investments	915	915	915	915	842
Wkg. cap. (excl cash)	1,326	1,326	1,346	1,187	-41
Cash / Bank balance	2,203.57	3,031.53	3,970.53	5,427.07	10,055.01
Misc. Assets	-1	-1	-1	-1	-1
Capital employed	4,529	5,277	6,113	7,261	10,268
Equity capital	21	21	21	21	21
Reserves	3,990	4,821	5,745	6,773	8,502
Minority Interests	7	7	7	7	7
Borrowings	493	495	497	499	162

Source: Company, Axis Securities

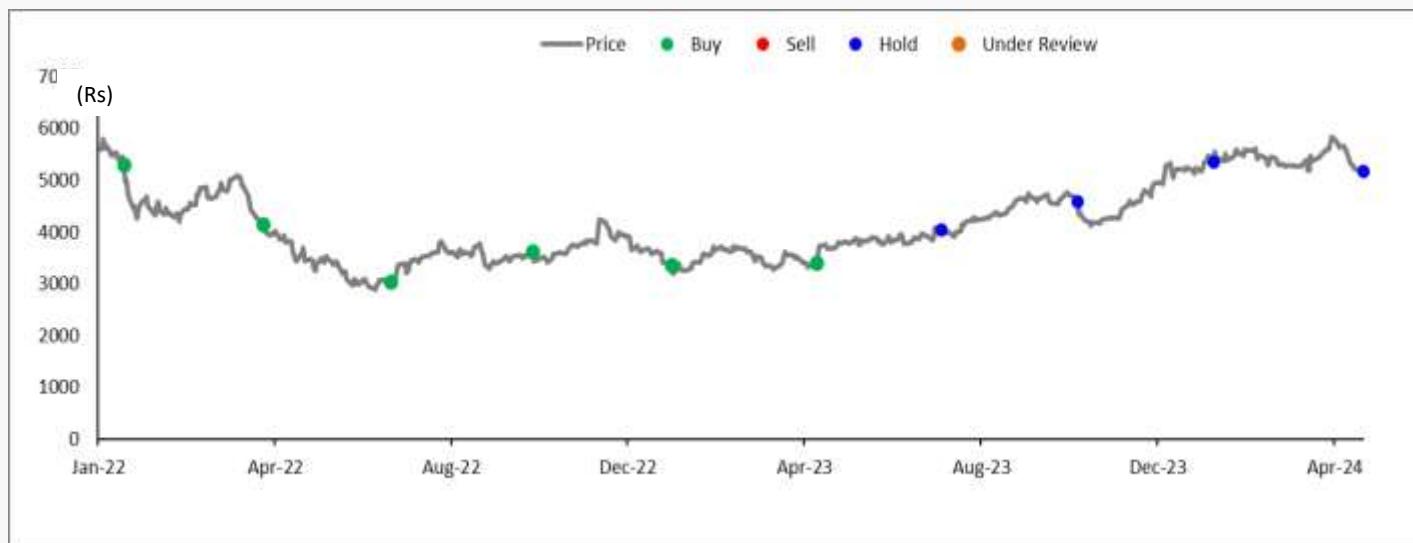
Cash Flow						(Rs Cr)
Y/E March	FY22	FY23	FY24	FY25E	FY26E	
Sources	896	1,064	1,198	1,330	1,647	
Cash profit	1,219	1,449	1,629	1,813	2,109	
(-) Dividends	281	343	382	425	0	
Retained earnings	938	1,106	1,247	1,388	2,109	
Issue of equity	0	0	0	0	0	
Change in Oth. Reserves	0	0	0	0	-66	
Borrowings	2	2	2	2	-337	
Others	-44	-44	-51	-60	-60	
Applications	896	1,064	1,198	1,330	1,647	
Capital expenditure	135	236	240	32	-1,753	
Investments	0	0	0	0	0	
Net current assets	-47	1	19	-159	-1,228	
Change in cash	808.08	828	939	1,456.54	4,627.94	
Closing cash	2,204	3,032	3,971	5,427	10,055	

Source: Company, Axis Securities

Ratio Analysis						(%)
Y/E March	FY22	FY23	FY24	FY25E	FY26E	
Sales growth (In %)	20.6	22.0	20.4	10.7	17.0	
OPM (In%)	21.5	21.3	19.9	20.0	20.0	
Oper. profit growth (In %)	40.5	20.9	12.2	11.3	17.0	
COGS / Net sales (In %)	0.0	0.0	0.0	0.0	0.0	
Overheads/Net sales (In %)	22.9	21.7	29.0	18.0	18.0	
Depreciation / G. block (In %)	(332.9)	(284.0)	(223.4)	(200.0)	(104.9)	
Effective interest rate (%)	8.8	8.7	10.2	12.0	18.0	
	0.0	0.0	0.0	0.0	0.0	
Net wkg.cap / Net sales	0.23	0.19	0.16	0.13	0.06	
Net sales / Gr block (x)	9.6	9.6	9.8	9.4	10.9	
	0.0	0.0	0.0	0.0	0.0	
RoCE	32%	34%	32%	30%	30%	
Debt / equity (x)	0.08	0.07	0.06	0.05	0.00	
Effective tax rate	26.6	28.6	27.6	27.0	27.0	
RoE	25%	26%	24%	22%	23%	
Payout ratio (Div/NP)	25.0	25.0	25.0	25.0	0.0	
	0.0	0.0	0.0	0.0	0.0	
EPS (Rs.)	91.8	112.2	124.8	138.8	165.2	
EPS Growth (In %)	44.1	22.2	11.3	11.2	19.1	
CEPS (Rs.)	112.2	134.3	150.7	167.4	195.8	
DPS (Rs.)	22.9	28.0	31.2	34.7	35.0	

Source: Company, Axis Securities

L&T Technology Services Price Chart and Recommendation History



Source: Axis Securities

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