

L&T Technology

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR4,845 TP: INR5,950 (+23%) Buy

Seasonal headwinds play spoilsport; guidance retained

Revenues and margins miss estimates on seasonal decline in SWC

Bloomberg	LTTT IN
Equity Shares (m)	106
M.Cap.(INRb)/(USDb)	512.8 / 6.1
52-Week Range (INR)	5885 / 3910
1, 6, 12 Rel. Per (%)	-6/-26/-6
12M Avg Val (INR M)	990

Financials & Valuations (INR b)

Y/E Mar	2024	2025E	2026E
Sales	96.5	105.2	117.9
EBIT Margin (%)	17.1	15.9	17.3
PAT	13.0	13.7	16.6
EPS (INR)	123.0	129.2	156.1
EPS Gr. (%)	11.3	5.1	20.8
BV/Sh. (INR)	500.7	568.3	649.8

Ratios

RoE (%)	25.4	24.2	25.7
RoCE (%)	20.6	18.7	20.1
Payout (%)	36.6	40.0	40.0

Valuations

P/E (x)	39.4	37.5	31.1
P/BV (x)	9.7	8.5	7.5
EV/EBITDA (x)	25.1	24.1	20.1
Div Yield (%)	0.9	1.1	1.3

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	73.7	73.7	73.8
DII	13.3	12.3	10.6
FII	4.5	5.5	5.3
Others	8.5	8.4	10.3

FII Includes depository receipts

■ L&T Technology's (LTTT) 1QFY25 revenue was down 3.1% QoQ /up 6.1% YoY in CC vs. our estimate of a 0.5% QoQ drop. In USD terms, revenue came in at USD295m (down 3.3% QoQ/up 5.4% YoY). The revenue decline was due to its restated Hi-tech vertical (down 11.6% QoQ). EBITDA was down 9.3% QoQ but flat YoY at INR4.5b (est. INR4.8b). PAT came in at INR3.1b (est. INR3.3b), down 8.0% QoQ/up 0.8% YoY.

■ While 1Q is a seasonally weak quarter for LTTT, the magnitude of decline in its hi-tech vertical (which now also includes its SWC business) was surprising. Mobility had a strong quarter, up 6.4% QoQ in USD terms. That said, the company has retained its guidance, which implies a strong CQGR range of 4.5%-5.5% for the next three quarters. While clients are reconsidering certain EV programs, LTTT's diversified offerings in the transportation vertical could continue to drive growth for the company over the medium term.

■ During the quarter, LTTT won two USD30m deals, two USD15m deals and three deals with TCV of USD10m.

■ We expect USD revenue CAGR of 10.2% over FY24-FY26E with EBIT margins of 15.9%/17.3% in FY25E/FY26E.

■ We continue to see LTTT as attractive due to a faster growth outlook for the ER&D services industry compared to the broader IT services universe and the growing penetration of outsourced ER&D services.

■ We lower our FY25 EPS estimate by 4% on account of lower margins, but keep our FY26 EPS estimate intact. Digitization is boosting spending in ER&D, and LTTT should benefit due to its strong capabilities, multi-vertical presence, and solid wallet share. We expect the company to deliver strong revenue growth over the coming years. We retain our BUY rating on the stock with a TP of INR5,950 (premised on 38x FY26E EPS).

Miss on both revenue growth and margins

- CC revenue declined 3.1% QoQ vs. our estimated decline of 0.5 QoQ. Revenue stood at USD295.2m, down 3.3% QoQ.
- Growth was led by Mobility (up 6.4% QoQ), while Sustainability and Hi-Tech reported a decline of 3.0% and 11.6% QoQ, respectively.
- EBIT margin at 15.6% (down 130bp QoQ) was 80bp below our estimate on account of higher SG&A expenses (up 170bp QoQ).
- PAT declined 8% QoQ to INR3.1b, below our estimate of INR3.3b.
- The employee count declined 1.0% QoQ, attrition remained stable at 14.8%.
- Deal signing remained robust, with two USD30m deals, two USD15m deals and three deals of USD10m each.
- YTD cash conversion was strong at 96% FCF/PAT.

Key highlights from the management commentary

- Operational performance was affected by revenue seasonality and investments the company is making in each of the three segments to accelerate growth.
- LTTTS expects that the revenue and margin trends will go upward from hereon. SWC seasonality led to lower growth in 1Q.
- Guidance of 8-10% organic CC growth for FY25 was maintained. It remains committed to achieving the USD1.5b revenue run rate. LTTTS expects 2H to be better than 1H and anticipates growth in the remaining three quarters of FY25.
- The company is seeking inorganic growth opportunities in the automotive sector in Europe (like SDVs), as well as in the ISP (Hyperscalers in North America) and medical sectors in North America. The focus is on acquiring new capabilities and ensuring reasonable valuations in potential acquisitions; it is targeting companies with revenues in the range of USD50-150m.
- The onsite-offshore mix is shifting further toward offshore, with a target to increase the offshore proportion to 60% from its current level. LTTTS maintained its EBIT margin target of 16% for FY25.

Valuation and view

- Digitization is boosting spending in ER&D, and LTTTS should benefit due to its strong capabilities, multi-vertical presence, and solid wallet share. We expect the company to deliver strong revenue growth over the coming years.
- Our TP of INR5,950 implies 38x FY25E EPS. We expect industry spending to improve vs. the preceding five years. **We retain our BUY rating on the stock.**

Quarterly performance (INR m)

Y/E March	FY24				FY25E				FY24	FY25E	Est. 1QFY25	Var. (% / bp)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Revenue (USD m)	280	288	291	305	295	306	321	339	1,164	1,261	303	-2.7
QoQ (%)	9.8	2.9	0.9	5.0	-3.2	3.7	4.7	5.7	17.6	8.3	-0.6	-269bp
Revenue (INR m)	23,014	23,865	24,218	25,375	24,619	25,545	26,751	28,280	96,472	1,05,195	25,308	-2.7
YoY (%)	22.8	19.6	18.2	21.1	7.0	7.0	10.5	11.5	20.4	9.0	10.0	-300bp
GPM (%)	30.0	28.0	29.2	28.9	29.3	26.5	30.0	30.0	29.0	29.0	29.0	31bp
SGA (%)	10.4	8.1	9.1	9.1	10.8	9.7	10.2	10.2	9.1	10.2	9.8	98bp
EBITDA	4,528	4,756	4,877	5,028	4,562	4,292	5,297	5,600	19,189	19,750	4,859	-6.1
EBITDA Margin (%)	19.7	19.9	20.1	19.8	18.5	16.8	19.8	19.8	19.9	18.8	19.2	-67bp
EBIT	3,954	4,075	4,162	4,282	3,836	3,576	4,548	4,808	16,473	16,768	4,151	-7.6
EBIT Margin (%)	17.2	17.1	17.2	16.9	15.6	14.0	17.0	17.0	17.1	15.9	16.4	-82bp
Other income	357	286	493	428	491	460	482	509	1,564	1,941	456	7.8
ETR (%)	27.6	27.6	27.6	27.5	27.5	26.5	26.5	26.5	27.6	26.7	26.5	96bp
PAT	3,111	3,154	3,362	3,409	3,136	2,967	3,696	3,908	13,036	13,707	3,385	-7.4
QoQ (%)	0.5	1.4	6.6	1.4	-8.0	-5.4	24.6	5.7			-0.7	
YoY (%)	13.5	11.7	10.7	10.1	0.8	-5.9	9.9	14.6	11.4	5.1	8.8	
EPS (INR)	29.4	29.8	31.7	32.2	29.6	28.0	34.9	36.8	123.0	129.2	31.9	-7.4

E: MOFSL estimates

Key performance indicators

Y/E March	FY24			FY25		FY24
	2Q	3Q	4Q	1Q		
Revenue (QoQ CC %)	3.2	0.9	5.1	-3.1		
Margins (%)						
Gross Margin	28.0	29.2	28.9	29.3		29.0
EBIT Margin	17.1	17.2	16.9	15.6		17.1
Net Margin	13.2	13.9	13.4	12.7		13.5
Operating metrics						
Headcount	23,880	23,298	23,812	23,577		23,812
Attrition (%)	16.7	15.8	14.8	14.8		14.8
Key Geographies (YoY %)						
North America	1.7	2.1	6.7	-1.3		3.8
Europe	15.9	20.9	15.2	23.9		15.4



Key highlights from the management commentary

Demand and industry outlook

- Operational performance was affected by revenue seasonality and investments the company is making in each of the three segments to accelerate growth.
- LTTS expects that the revenue and margin trends will go upward from hereon. SWC seasonality led to lower growth in 1Q.
- Customer spending broadly remains focused on cost optimization & efficiency deals. LTTS had healthy large deal wins in the quarter, with two USD30m deals, two USD15m deals and three deals of USD10m each. LTTS also got one significant empanelment in this quarter.
- Guidance of 8-10% organic CC growth for FY25 was maintained and it remains committed to achieving the USD1.5b revenue run rate. LTTS expects 2H to be better than 1H and anticipates growth in the remaining three quarters of FY25.
- Growth in Europe was led by the deals won earlier. LTTS anticipates Europe to grow faster than the company's overall growth.
- LTTS continues to actively hire both freshers and lateral employees. The company is observing that automation is changing the relationship between headcount and revenue growth. It is leveraging the current team and re-aligning the management team due to the re-segmentation, which has resulted in lower headcounts.
- An increase in headcount is expected in the next quarter, with 1,800 offers already made to freshers.
- The appraisal process will be completed next week, and wage hikes will be effective from Oct'24.
- It launched six GenAI solutions in the last quarter alone. AI has finally become a revenue generator for the company, attracting clients such as an oil company in the Arab region and a European automotive player. These clients are showing increased interest in scaling up their engagement.
- The company is seeking inorganic growth opportunities in the automotive sector in Europe (like SDVs), as well as in the ISP (Hyperscalers in North America) and medical sectors in North America. Focus is on acquiring new capabilities and ensuring reasonable valuations in potential acquisitions; targeting companies with revenues in the range of USD50-150m.

Vertical-specific demand commentary

- **Mobility:** Mobility has become a USD400m+ annual business on a run rate basis, with growth driven by the automotive sector, followed by the commercial sub-segment. The company secured three large deals in mobility across OEM and Tier 1 clients. Spending trends are shifting toward Software-Defined Vehicles (SDVs), and deals won in this area are helping the company open new opportunities. Given the order backlog, LTTS expects growth to continue in the coming quarter.
- EBITDA margin of 18.8% was attributed to large deal ramp-ups in 1Q. The company is winning market share in vendor consolidation deals in this vertical.
- **Sustainability:** Growth in the plant engineering sub-segment helped offset the decline in industrial products. Although large deals are being delayed due to slow decision-making, LTTS secured a USD30m deal with American OEMs, which will ramp up in 2Q.
- The company believes the worst is behind for this segment and anticipates a return to growth from 2Q onward. This segment achieved 20.7% EBITDA margin in 1Q.

- **Hi-Tech:** The performance of the Communications and Media segment was affected by seasonality in 1Q. However, LTTs is confident about reporting growth in 2Q due to multiple deals in communications and semiconductors. The segment posted 12.6% EBITDA margin in 1Q, down from 15% in 1QFY24, largely due to the seasonality of SWC business.
- SWC is a project-based business. The second half of the year is typically better than the first half for the SWC business.

Margin performance and outlook

- Margin was in line with the guidance of 16% for FY25.
- Margin Levers: Quality of revenue, offshoring and pyramid are likely to serve as margin levers for the company. The EBIT trajectory will be better in 2H than in 1H. It reiterates EBIT margin level of 16% for FY25.
- The onsite-offshore mix moves more toward offshore and LTTs aims to move the mix to 60% offshore from the current level.

Exhibit 1: Europe witnessed a strong growth of 10.8% QoQ

Geographies	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
North America	5.5	6.7	2.9	2.7	4.2	4.0	-0.7	-1.2	3.0	0.7	-0.4	3.2	-4.7
Europe	4.8	5.1	2.3	0.6	5.2	0.0	1.6	4.8	3.1	5.6	6.0	-0.1	10.8
India	2.6	6.5	9.1	9.1	-6.0	0.0	6.6	15.0	49.5	7.4	0.4	15.7	-10.2
RoW	-4.2	-2.2	2.1	0.2	9.0	8.7	-3.4	11.0	-0.9	1.5	0.9	-2.2	-0.4

Source: Company, MOFSL

Exhibit 2: Transportation and Plant Engineering delivered strong sequential performance

Verticals	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
Mobility	35.2	6.4	13.4
Sustainability	30.0	-3.0	0.5
Hi-Tech	34.8	-11.6	2.5

Source: MOFSL, Company; Effective Q1FY25, the business segments have been reorganized into three segments i.e. Mobility, Sustainability and Hi-tech.

Valuation and view

- Digitization is boosting spending in ER&D, and LTTs should benefit due to its strong capabilities, multi-vertical presence, and solid wallet share. We expect the company to deliver strong revenue growth over the coming years.
- Our TP of INR5,060 implies 34x FY25E EPS. We expect industry spending to improve vs. the preceding five years. **We retain our BUY rating on the stock.**

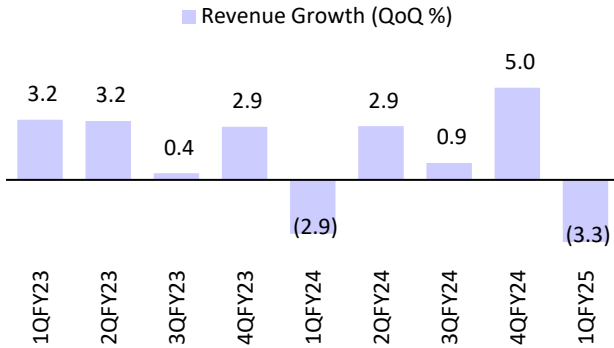
Exhibit 3: Summary of our revised estimates

	Revised		Earlier		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
USD:INR	83.4	83.4	83.4	83.4	0.0%	0.0%
Revenue (USD m)	1,261	1,413	1,269	1,427	-0.6%	-1.0%
Growth (%)	8.3	12.1	9.0	12.5	-70bps	-40bps
EBIT margin (%)	15.9	17.3	16.6	17.2	-70bps	10bps
PAT (INR m)	13,707	16,552	14,340	16,628	-4.4%	-0.5%
EPS	129.2	156.1	135.3	156.9	-4.5%	-0.5%

Source: MOFSL

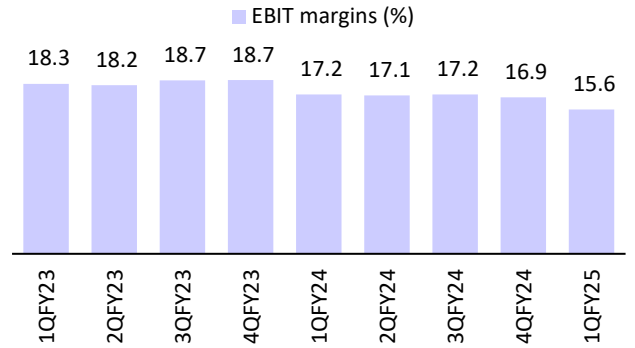
Story in charts

Exhibit 4: LTTs' revenue declined 3.3% QoQ due to SWC seasonality



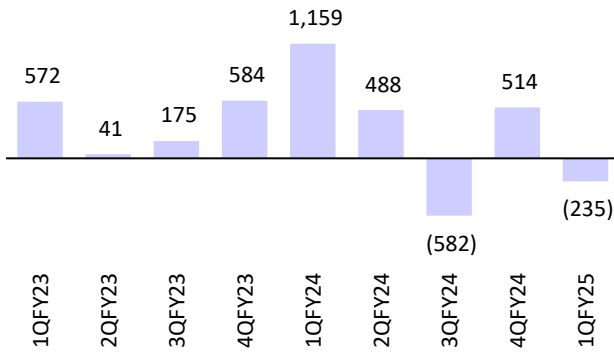
Source: Company, MOFSL

Exhibit 5: EBIT margin declined by 130bp QoQ



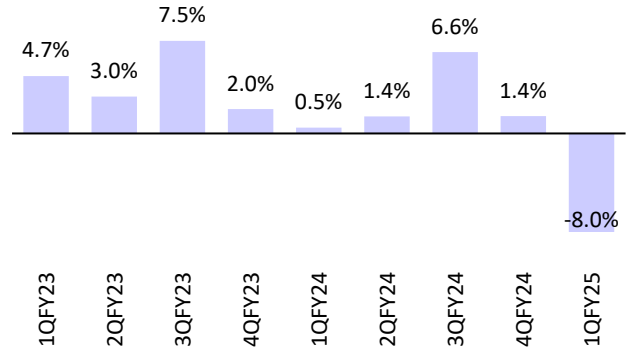
Source: Company, MOFSL

Exhibit 6: Net employee count down ~235 in 1QFY25



Source: Company, MOFSL

Exhibit 7: PAT growth was weak



Prior 1QFY24 numbers are not restated Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement							(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	56,192	54,497	65,697	80,136	96,472	1,05,195	1,17,904
Change (%)	10.7	-3.0	20.6	22.0	20.4	9.0	12.1
Employees Cost	32,747	33,550	36,505	45,639	49,298	55,305	60,131
Other Expenses	12,340	10,873	15,043	17,365	27,985	30,141	34,428
Total Expenditure	45,087	44,423	51,548	63,004	77,283	85,446	94,559
As a percentage of Sales	80.2	81.5	78.5	78.6	80.1	81.2	80.2
EBITDA	11,105	10,074	14,149	17,132	19,189	19,750	23,345
Margin (%)	19.8	18.5	21.5	21.4	19.9	18.8	19.8
Depreciation	1,829	2,183	2,144	2,314	2,716	2,982	2,948
EBIT	9,276	7,891	12,005	14,818	16,473	16,768	20,397
Other Income	1,727	1,082	1,087	1,620	1,564	1,941	2,122
PBT	11,003	8,973	13,092	16,438	18,037	18,709	22,520
Total Tax	2,779	2,307	3,486	4,697	4,975	4,999	5,968
Tax Rate (%)	25.3	25.7	26.6	28.6	27.6	26.7	26.5
Reported PAT	8,224	6,666	9,606	11,741	13,062	13,710	16,552
Change (%)	7.0	-18.9	44.1	22.2	11.3	5.0	20.7
Margin (%)	14.6	12.2	14.6	14.7	13.5	13.0	14.0
Minority Interest	-38	-32	-36	-43	-26	-3	0
PAT to shareholders	8,186	6,634	9,570	11,698	13,036	13,707	16,552

Consolidated Balance Sheet							(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	209	210	211	211	211	211	211
Total Reserves	27,477	34,521	41,414	49,298	52,612	59,739	68,346
Net Worth	27,686	34,731	41,625	49,509	52,823	59,950	68,557
Minority Interest	69	101	137	180	206	209	209
Borrowings	303	0	0	0	0	0	0
Other Long term liabilities	4,890	4,915	5,359	4,293	8,701	9,487	10,634
Capital Employed	32,948	39,747	47,121	53,982	61,730	69,647	79,400
Net Fixed Assets	6,275	6,997	6,946	6,930	5,552	4,029	2,717
Goodwill	5,460	5,827	5,881	6,010	6,010	6,010	6,010
Capital WIP	87	119	99	65	65	65	65
Other Assets	2,109	2,760	4,733	4,758	5,235	5,455	5,776
Curr. Assets, Loans, and Adv.	29,102	35,026	43,251	51,410	59,440	69,013	80,202
Account Receivables	13,807	12,346	16,959	17,301	21,145	23,057	25,842
Cash and Bank Balance	2,179	1,751	2,347	5,346	4,755	9,353	14,436
Current Investments	6,370	15,725	18,313	22,641	25,141	27,641	30,141
Other Current Assets	6,746	5,204	5,632	6,122	8,399	8,963	9,783
Curr. Liability and Prov.	10,085	10,982	13,789	15,191	14,572	14,926	15,371
Account Payables	1,975	2,352	3,934	4,505	3,886	4,240	4,685
Other Current Liabilities	6,456	7,046	7,903	9,321	9,321	9,321	9,321
Provisions	1,654	1,584	1,952	1,365	1,365	1,365	1,365
Net Current Assets	19,017	24,044	29,462	36,219	44,867	54,087	64,832
Appl. of Funds	32,948	39,747	47,121	53,982	61,730	69,647	79,400

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic EPS (INR)	77.5	62.8	90.5	110.5	123.0	129.2	156.1
Cash EPS	94.9	83.5	110.8	132.4	148.7	157.4	183.9
BV/Share	264.9	330.8	394.5	469.3	500.7	568.3	649.8
DPS	21.0	22.0	35.0	45.0	45.0	51.7	62.4
Payout (%)	27.1	35.0	38.7	40.7	36.6	40.0	40.0
Valuation (x)							
P/E	62.6	77.2	53.6	43.9	39.4	37.5	31.1
Cash P/E	51.1	58.1	43.8	36.6	32.6	30.8	26.4
P/BV	18.3	14.7	12.3	10.3	9.7	8.5	7.5
EV/Sales	8.8	9.0	7.5	6.0	5.0	4.5	4.0
EV/EBITDA	44.8	48.7	34.6	28.3	25.1	24.1	20.1
Dividend Yield (%)	0.4	0.5	0.7	0.9	0.9	1.1	1.3
Return Ratios (%)							
RoE	31.1	21.2	25.0	25.6	25.4	24.2	25.7
RoCE	24.0	16.2	20.3	20.9	20.6	18.7	20.1

Consolidated Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	11,002	8,973	13,092	16,437	18,037	18,709	22,520
Depreciation	1,829	2,183	2,144	2,315	2,716	2,982	2,948
Interest and Finance Charges	365	455	437	435	0	0	0
Direct Taxes Paid	-2,119	-2,523	-3,563	-4,670	-4,975	-4,999	-5,968
(Inc.)/Dec. in WC	-4,287	4,245	-1,452	-1,188	-2,809	-1,555	-2,336
Others	-409	-60	-597	-177	0	0	0
CF from Operations	6,381	13,273	10,061	13,152	12,969	15,137	17,163
(Inc.)/Dec. in FA	-1,511	-756	-1,555	-1,726	-5,338	-1,459	-1,636
Free Cash Flow	4,870	12,517	8,506	11,426	7,631	13,678	15,528
(Pur.)/Sale of Investments	-1,039	-9,653	-3,393	-5,018	-2,500	-2,500	-2,500
Others	328	355	465	1,026	0	0	0
CF from Investments	-2,222	-10,054	-4,483	-5,718	-7,838	-3,959	-4,136
Issue of Shares	1	1	1	0	0	0	0
Inc./Dec. in Debt	-1,028	-995	-913	-833	0	0	0
Interest Paid	-365	-455	-437	-435	0	0	0
Dividend Paid	-2,636	-2,198	-3,633	-3,167	-5,722	-6,579	-7,945
CF from Fin. Activity	-4,028	-3,647	-4,982	-4,435	-5,722	-6,579	-7,945
Inc./Dec. in Cash	131	-428	596	2,999	-591	4,598	5,083
Forex Adjustment	0	0	0	0	0	0	0
Opening Balance	2,048	2,179	1,751	2,347	5,346	4,755	9,353
Closing Balance	2,179	1,751	2,347	5,346	4,755	9,353	14,436

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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