



## LTTS – Engineering for Scale

Maintain BUY / TGT ₹ 5250



**L&T Technology Services Limited (LTTS)** is a global leader in Engineering and R&D (ER&D) services. With 868 patents filed for 57 of the Global Top 100 ER&D spenders, LTTS lives and breathes engineering. **LTTS's innovations speak for itself – World's 1st Autonomous Welding Robot, Solar 'Connectivity' Drone, and the Smartest Campus in the World, to name a few.**

LTTS' expertise in engineering design, product development, smart manufacturing, and digitalization touches every area of human lives - from the moment one wakes up till the time one goes to bed. With 89 Innovation and R&D design centers globally, LTTS specializes in disruptive technology spaces such as 5G, Artificial Intelligence, Collaborative Robots, Digital Factory, and Autonomous Transport.

LTTS is a publicly listed subsidiary of Larsen & Toubro Limited, the \$28 billion Indian conglomerate operating in over 30 countries.

**LTTS is present in five main segments: Transportation, Telecom and Hi-Tech, Industrial Products, Plant Engineering and Medical Devices.** In each of these business segments, it offers world-class Engineering Research and Development (ER&D) services and digitalization solutions.

Entrenched in the belief that curiosity shapes the contours of a better future, LTTS have crafted an innovation-led strategy to steer its growth trajectory, which has been relentlessly driving the company forward on its journey to become a global leader in Engineering R&D services.



**Sector Overview:** When companies went global, outsourcing became a common practice as it helped them reduce their costs. In outsourcing a company hires another party to get their work done instead of doing it in-house. For example, a small company might outsource their manufacturing to other party.

India's IT industry is possibly one of the best examples in the world of outsourcing. India has been the largest exporter of information technology services in the world. For very long, Indian IT companies have been entrusted with handling low end business processes of many foreign companies. **To tap India's engineering prowess, many MNCs have asked Indian companies to solve their engineering problems, carry out research for them, design and develop innovative products and solutions.** Solving such complex problems is certainly not the forte of Indian IT companies such as TCS or Infosys. Such projects are undertaken by pure play engineering companies such as Tata Elxsi and L&T Technology Services (LTTS). These companies fall in the category of engineering, research and development (ER&D) services.

**Overview of ER&D sector:** Companies across the globe spent US\$1.5 tn on ER&D in 2020. **Global ER&D spend is expected to shoot up to US\$ 2.6 tn by 2026.** This is due to increase in digital engineering spend which is expected to increase at a CAGR of 19%. Clearly, growth prospects of leading ER&D companies looks bright.



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› TRANSPORTATION

› INDUSTRIAL PRODUCTS

› PLANT ENGINEERING

› SEMICONDUCTORS

› MEDIA & ENTERTAINMENT

› CONSUMER ELECTRONICS

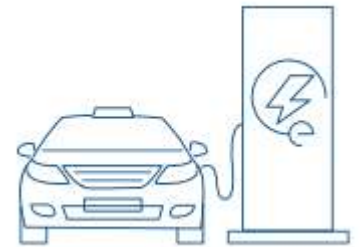
› HEALTHCARE

› TELECOMMUNICATIONS

› OIL & GAS

› SOFTWARE PRODUCTS

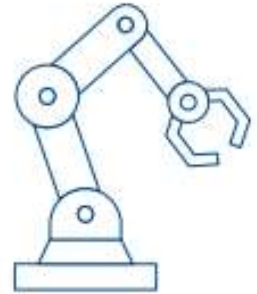
**Transportation:** The global customers of LTTS in this business vertical include top OEMs (original equipment manufacturers) and Tier 1 suppliers across the Automotive, Trucks & Off-Highway Vehicles and Aerospace sector. LTTS is actively involved in the future of mobility through its solutions for electrical vehicles (EV), advanced driver assistance system (ADAS), and autonomous drive (AD). The Company's wide range of transportation engineering services enables clients to achieve their go-to-market objectives. LTTS' global expertise encompasses telematics, in-vehicle infotainment, ePowertrain and end-to-end design and development of automotive components.



**Telecom & Hi-Tech:** In the Telecom and Hi-Tech vertical, LTTS offers engineering services and solutions for five key segments: Telecom, Consumer Electronics, Semiconductor, ISV and Media & Entertainment. Being a leader in this space, LTTS helps its customers engineer value across the product lifecycle: from design conceptualization to the deployment of products and services. LTTS' team of experts work across the value chain to provide digital services and solutions for Communications Service Providers, Networking and Technology System Operators, OEMs and Chipset Makers.



**Industrial Products:** LTTS supports its global customers across industries such as Building Automation, Power & Utilities, Machinery and Test & Measurement through services in the areas of product, digital and value engineering. The Industrial and Consumer Products practice in LTTS spans the entire value chain from design, development and deployment to monitoring, testing and automation of processes, products and solutions. Its engineers work on product development, customization and product ruggedization, mobility enhancement for cloud services, IoT device integration, enterprise applications and DevOps.



**Plant Engineering:** With its world-class expertise in engineering, procurement and construction management, LTTS is involved in every phase of a manufacturer's plant lifecycle – from conceptualization to commissioning. LTTS takes a consulting-led approach to offer state-of-the-art digital solutions that help customers upgrade/integrate their legacy systems to smart platforms for better synergy. LTTS has created a strong market differentiation with its solutions for efficient, safe and sustainable production facilities, helping clients improve plant productivity. The Plant Engineering business vertical caters to diverse industries, including Consumer Packaged Goods, Chemicals and Energy & Utilities.



**Medical Devices:** In this fast-growing business vertical, LTTS helps medical OEMs speed up product development cycles and shorten the time-to-market. The Company works with global names in medical devices and healthcare to devise solutions around remote medical care, in-vitro diagnostics, patient mobility services, home healthcare and medical Internet of Things (MIoT).





**Strong Parentage:** The IT and technology services business has been becoming more critical to the L&T group in recent years. The group is presently focusing more on the services business, which includes financial, and IT and technology services, which are asset light, have healthy growth potential, and offer high return on capital employed. Over the years, the contribution of the services business to the group, both in terms of revenue and profitability, has been improving.

**Being an L&T group company, LTTS benefits from the strong brand and domain expertise available within the group, resulting in better penetration and acceptability in the market.**

Further, LTTS benefits from L&T's established position as an engineering specialist, given that the target market of the former is engineering design.

**Diversified Customer Base:** LTTS has a presence in engineering and research and development (R&D) services, which are relatively new segments. There has been growing interest in the past few years from clients across sectors (including telecom, automotive, aerospace, industrial products, heavy machinery, construction, and consumer appliances) in sourcing their engineering and R&D requirements from India. **LTTS has 324 global clients currently which include 69 of the global fortune-500 companies and 57 of the top 100 R&D spenders.** This has enabled the company to withstand the slowdown pressures as exposure is not restricted to a particular end-user industry.



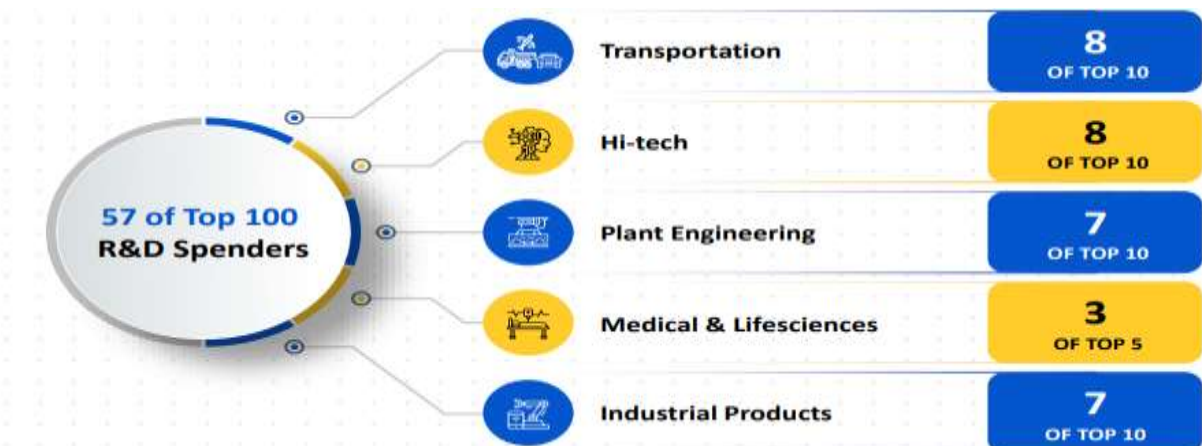
**Strong Order Bookings:** LTTS 's deal bookings continued to be strong. In Q4FY22, it won a total of six deals of more than \$10 million each. The company's management indicated that its large-deal pipeline is currently higher than previous years' and it expects the momentum of deal closures to continue. Some recent major deal wins include:

✓ In March'22, LTTS has bagged a multi-year contract from European aerospace major Airbus, under its (EMES)3 (Engineering, Manufacturing Engineering and Services Strategic Suppliers) program. Last year, LTTS was also selected by Airbus to provide technology and digital engineering solutions for Airbus' Skywise platform as part of the 'Skywise Partner Program'.

LTTS said it has scaled up operations across Airbus' key geographic locations including Toulouse (France), which is poised to become the main R&D Centre of Excellence (CoE), serving LTTS's aerospace customer portfolio. LTTS has been a strategic supplier with Airbus global and its India subsidiary for more than a decade, providing engineering services across verticals like engineering, avionics, and digital.

✓ In Jan'22, LTTS has bagged a deal worth \$45 million from a US-based tier-1 automotive company, to be its strategic engineering partner and provide engineering services for its electric vehicle (EV) product portfolio.

Under the terms of the five-year agreement, LTTS will work with the client to deliver solutions leveraging its e-mobility technology competence, which will be delivered from its engineering and research & development (ER&D) centre in Krakow, Poland.



**Keeping pace with Innovation Curve:** Driven by digital disruptions, market dynamics are changing at an unprecedented pace. Smart transitions, cognitive learning, speed of innovation, and technology of everything have become imperative for success. LTTS is pushing the frontiers of technology and creating new possibilities to engineer the change for a smarter world. **LTTS is at the forefront of the global transition to technology that is not only efficient and resilient but is also intuitive, driven by Artificial Intelligence and Machine Learning.**

In the 'new reality' that is the world in 2022, LTTS have the capability to ensure a very high and accurate level of virtualization-from product design to simulated manufacturing for cost and result optimization, AI-powered machines that can self-diagnose and self correct their functioning to creating an impenetrable cyber security high wall around the entire process of remote enterprise. LTTS make businesses sustainable and business continuity seamless while complying with the norms of the new day and age.

**LTTS's 6 Strategic Growth Areas:** Engineering consultancy Zinnov rated LTTS as a leader, not only in the conventional ER&D services, but in newer areas like digital engineering, IoT, AI and digital thread which forms the backbone of new product development today. To stay relevant in the marketplace for the coming years, **LTTS have identified 6 strategic investment areas including EACV, 5G, Medtech, Digital Manufacturing, AI&ML driven smart offerings and Sustainability** which will help the company to scale and enable its talent pool to stay ahead of the curve.

**6**  
**BIG BETS**



**01 EACV**  
25% of Cars to be EV by 2025E



**02 MedTech**  
\$200 Bn by 2025E



**03 5G**  
\$155 Bn by 2025E



**04 AI & Digital Products**  
\$100 Bn by 2025E



**05 Digital Manufacturing**  
\$475 Bn by 2025E



**06 Sustainability**  
\$400 Bn by 2025E



**Future Outlook:** Engineering and Technology is LTTS' heritage, and the Company will further strengthen this by leveraging new-age and advanced technologies to stay relevant in the marketplace for the coming years. The Company has identified 6 focus areas that will determine the scale of operations across industries over the next five years. These are:

- 1) EACV (Electric Autonomous Connected Vehicles)
- 2) 5G
- 3) Medtech
- 4) Digital Manufacturing
- 5) AI/ML driven Smart Offerings
- 6) Sustainability

With the rise in technology adoption, enterprises need partners with multi-dimensional skills both in the legacy and the digital space. LTTS with its highly differentiated skillsets provides a unique blend of multi-vertical expertise, a traditional engineering DNA and an unmatched digital prowess – which translates into winning and delivering large transformative deals for its clients.

However, in the near-term, due to deteriorating macro-economic situation, FY2023 has macro headwinds of high inflation and increasing geopolitical risks. Therefore, the management of LTTS has given a conservative guidance of dollar revenue growth of 13.5-15.5% for FY23. However, at the operational side, the management is aiming to maintain EBIT margin around and above 18% levels. The headwinds in the coming fiscal will be intermittent wage hikes in a high attrition environment, a likely increase in travel and administrative expenses.

**Financials:** For the year FY22, revenue was at Rs. 6,570 Crores, a growth of 21% over FY21. **EBIT margin at an all-time high of 18.3%, an improvement of 380 bps over FY21.** Net income for FY22 at Rs. 957 Crores was up by 44%, primarily from higher Revenues and Operating Margins.

FY17	FY18	FY19	FY20	FY21	Parameters	FY22
484	580	723	786	737	Revenue from Operations (USD mn)	880
32,483	37,471	50,783	56,191	54,497	Revenue from Operations (INR mn)	65,697
16.1%	13.0%	16.0%	16.5%	14.5%	EBIT Margin	18.3%
4,249	5,060	7,656	8,186	6,633	Net Income (INR mn)	9,570
13.1%	13.5%	15.1%	14.6%	12.2%	Net Income Margin	14.6%
42.1	49.6	74.1	78.6	63.3	Earnings Per Share (INR)	90.9
7.0	16.0	21.0	21.0	22.0	Dividend Per Share (INR)	35.0

**In FY22, Free Cash Flow was Rs. 851 Crores, a healthy 89% of Net Income.** Cash and Investments rose to Rs. 2,152 Crores by end of FY22. **Return on Equity stands at 25% for FY22 versus 21% last year,** higher on account of increase in net profit to Rs. 957 Crores in FY22 versus Rs. 663 Crores in FY21.

Amount in ₹ million

Cash Flow Summary	FY21	FY22
Net cash provided by operating activities	13,324	10,062
Capex	-756	-1,555
<b>Free Cash Flow</b>	<b>12,569</b>	<b>8,507</b>
Free Cash Flow to Net Income (%)	189%	89%

**Balance Sheet:** For the year FY22, LTTS reported strong results across parameters - broad-based revenue growth, good improvement on EBIT and PAT margin, healthy cash flows and a high Return on Equity.

Amount in ₹ million		
Balance Sheet	FY21	FY22
<b>Assets</b>		
Property and equipment	6,379	6,496
Intangible Assets and Goodwill	6,564	6,430
Accounts Receivable	12,346	16,959
Unbilled Revenues	2,415	2,610
Investments	15,149	14,779
Cash and Cash equivalents	2,327	6,742
Other current assets	2,789	3,022
Other non-current assets	2,760	3,872
<b>Total Assets</b>	<b>50,729</b>	<b>60,910</b>
<b>Liabilities and Shareholders' Equity</b>		
Shareholders' Funds	34,731	41,625
Other current liabilities	10,982	13,789
Other non-current liabilities	4,915	5,359
Minority Interest	101	137
<b>Total Liabilities</b>	<b>50,729</b>	<b>60,910</b>

Over the years, LTTS has been maintaining a healthy dividend payout. During the Q4 FY22 results announcements, the Board recommended a Final Dividend of Rs. 15 per share, taking the total dividend of FY22 to Rs. 35/share. This translates to a dividend payout ratio of 39% for FY22.

**Projected Earnings & Valuations:** The management of LTTS aims to reach \$1Bn run rate by Q2-Q3 FY23 & \$1.5Bn run rate in FY25 with 18% EBIT. However, for FY23, the management of LTTS has guided its dollar revenue growth to be in the 13.5-15.5% range. The management said that its conservative guidance takes into account the uncertain macro environment.

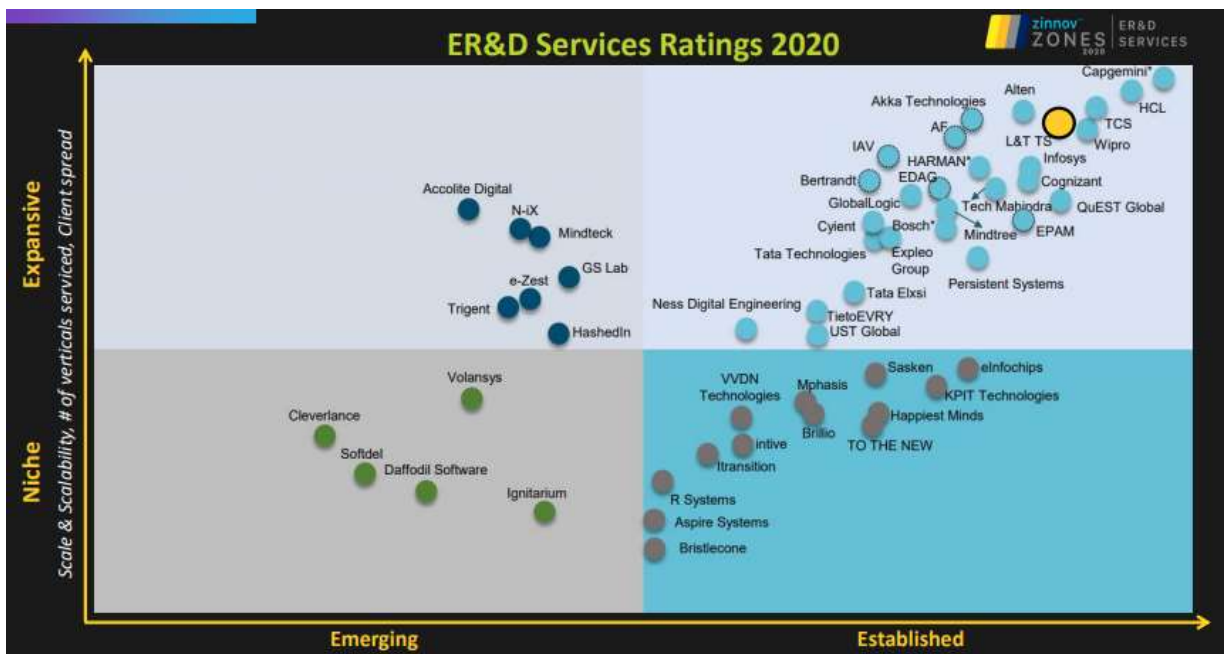
Year to March	FY21	FY22	FY23E	FY24E	FY25E
Revenue from operations	5449.7	6569.7	7540.0	9045.0	11250.0
Operating Expenses	4442.3	5154.8	5956.6	7146.6	9000.0
Operating Profit	1007.4	1414.9	1583.4	1898.4	2250.0
Depreciation	218.3	214.4	220.2	230.4	250.0
Finance Cost	45.5	43.7	45.5	50.0	50.0
Other Income	153.7	152.4	160.5	170.0	175.0
PBT	897.3	1309.2	1478.2	1788.0	2125.0
Taxes	230.8	348.6	384.2	447.0	531.5
PAT	666.5	960.6	1094.0	1341.0	1593.5
EPS	63.3	90.9	103.9	126.9	150.7

Lately, LTTS has under-performed the Nifty IT index. We expect this trend to reverse gradually as market starts discounting the strong deal bookings of LTTS backed by its Technological prowess. LTTS has traded at a price to earnings multiple above 25x (Median PE) over the last 5 years. **We arrived at a target price for the stock ₹ 5,250 over a period of two years. {discounting the stock to trade at 35x (around current multiples) of FY25E EPS of ₹ 150}**



## Peer Group Analysis:

LTTS' strength in Engineering and Technology has been recognized by industry experts such as Zinnov, Everest, ISG, ARC, IDC and NelsonHall who have rated LTTS as a Leader across various categories. Zinnov Zones rated LTTS as a Leader across Digital Engineering, IoT, AI and Digital Thread, and also named LTTS in the Leadership Zone across six major verticals for the fourth consecutive year.



IT Companies	ROE (%)	ROCE (%)	PE (x)	Mcap / Sales (x)	FY22 Revenue Growth (%)	FY22 PAT Growth (%)
Cyient	17%	20.4%	17.2x	2.0x	9.7%	43%
KPIT	22%	24.5%	52.3x	5.9x	19.5%	88%
Tata Elxsi	37%	47.7%	97.7x	21.7x	35.3%	49%
LTTS	25%	33.3%	37.7x	5.5x	20.5%	44%

### **Key Investment Risks:**

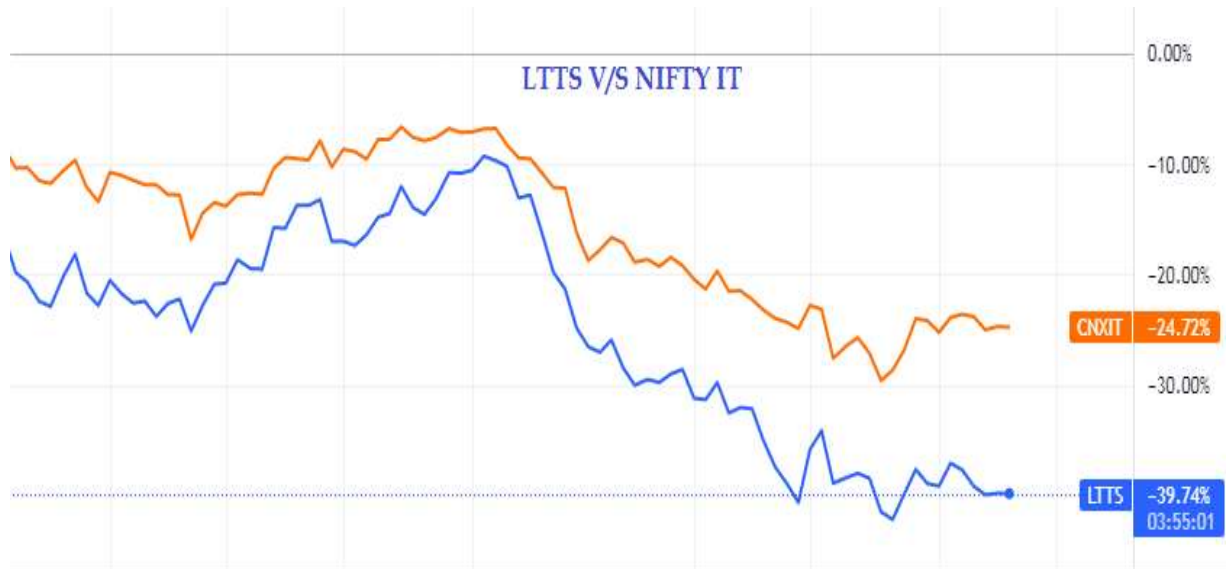
**Increasing competition in the engineering services business:** LTTS is an engineering services provider focused on offering innovative design and development solutions across the product development value chain, for industries such as industrial products, transportation, aerospace, telecom and the process industry. **Given the healthy growth prospects in this segment many IT firms have forayed into the engineering services business in the last few years resulting in increased competitive intensity.**

Given the increasing competition and the resultant pricing pressures, the ability to introduce new innovative products/platforms will remain extremely critical to maintain competitive advantage.

**Slowdown in ER&D spends in challenging global economic situation:** In the backdrop deteriorating macro-economic situation, FY2023 has macro headwinds of high inflation and increasing geopolitical risks, which has already led to cut in global GDP growth forecasts. **There is a possibility of moderation in ER&D spends, which is discretionary in nature, due to macro uncertainties.**

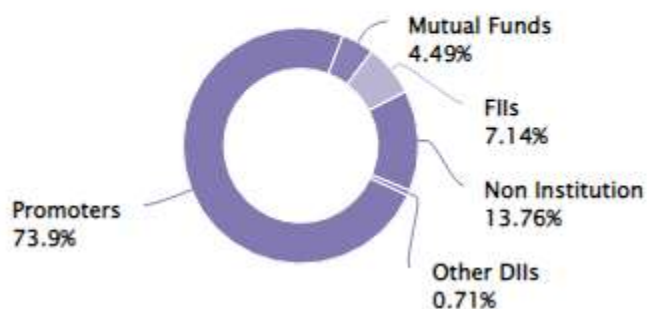
On such lines, for FY23, the management of LTTS has guided its dollar revenue growth to be in the 13.5-15.5% range. The management said that its conservative guidance takes into account the uncertain macro environment.

## Stock Price Performance & Other Details:



So far in this calendar year, the LTTS stock is down by approx 40% on concerns over deteriorating macro-economic situation. One intend to buy the LTTS share, could consider a 50% allocation around current levels and make 100% exposure in dips around 3000 to 3100 levels.

### Shareholding Snapshot



- > **Majority shareholders :** Promoters
- > **Pledged Promoter Holdings :** None

<b>Market Cap</b>	<b>₹ 36,123 Cr</b>
CMP (9 June'22)	3434
52 week Range	5958/2715
NSE Symbol	LTTS
BSE Code	540115
EPS	90.92
PE (x)	37.7x
ROE (%)	25%
ROCE (%)	33%

## **We are SEBI Registered “Research Analyst” INH300008881**

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