

ICICI Securities Limited
is the author and
distributor of this report

Q4FY21 result review
and earnings revision

Technology

Target price: Rs2,000

Earnings revision

(%)	FY22E	FY23E
Sales	(3.3)	(4.0)
EBIT	2.3	(4.5)
EPS	(1.9)	(7.5)

Target price revision

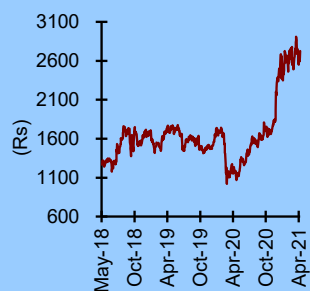
Rs2,000 from Rs2,150

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	74.4	74.3	74.2
Institutional investors	13.8	15.3	15.5
MFs and others	5.2	5.8	5.8
FIs/Bank	0.1	0.2	0.2
Insurance Cos.	0.0	0.0	0.0
FII	8.5	9.3	9.5
Others	11.8	10.4	10.3

Source: www.nseindia.com

Price chart



Research Analysts:

Sudheer Guntupalli

sudheer.guntupalli@icicisecurities.com
+91 22 6637 7573

Hardik Sangani

hardik.sangani@icicisecurities.com
+91 22 6637 7504

INDIA

ICICI Securities

L&T Technology Services

SELL

Maintained

Rs2,797

Questionable multiples!

LTTT continued to lag behind most of its IT / ER&D peers – earlier on resilience, now on recovery. Reported revenue growth (3.8% QoQ, vs 4.7% of Cyient, CC) was behind our estimates. Adjusted 1for lower amortisation, EBIT margin expanded just 70 bps QoQ (vs ~150bps of Cyient) missing our estimates. Revenue growth guidance (13-15%, US\$), despite very weak base (-6.8% YoY in FY21, CC), was a disappointment, implying a meagre 3% CAGR (CC) over FY20-22. (1) Potential delivery impact due to covid second wave in India (~64% of revenue from T&M) and (2) history of downward revisions in guidance makes us sceptical of the potential future upgrades. Disruption in chip ecosystem can pose additional risk, in our view. EBIT margin outlook sounded more defensive (vs previous quarters). LTTT is currently trading at 37x FY22E EPS, at a significant premium to TCS (29x), Infosys (26x) and even ER&D peers like Cyient (16x) despite its growth / margin trajectory being either inferior or similar. We currently build in 14.3%/16.5%/13.4% revenue growth (US\$) in FY22 for TCS / Infosys / Cyient, respectively vs 11% for LTTT. Notably, consensus visibility on growth / profitability / return ratios over the medium term is more constrained in case of ER&D (vs IT). In that context, the lofty multiples of LTTT should correct. Maintain **SELL** rating valuing the stock at 23x FY23E EPS.

► **Miss on both revenue and margins.** Revenue growth (+3.8% QoQ, CC) was behind our estimates. Quality of growth was weak with just two verticals firing – Transportation (+6.5% QoQ, US\$) and Plant Engineering (+9.9% QoQ, US\$). Sequentially, revenue in other verticals (Telecom & Hi-Tech, Industrial Products) remained more or less stable.

Adjusted for lower amortisation, EBIT margin expanded just 70bps QoQ. This was led by better utilisation (+140bps QoQ to 78.9%), higher offshore effort (+80bps QoQ to 57.9%) and stronger operational efficiencies. On LTM revenue basis, the company lost its only US\$ 30mn+ client account.

► **Disappointing outlook; Questionable multiples.** Revenue growth guidance (13%-15%, US\$), despite very weak base (-6.8% YoY in FY21, CC), was a disappointment, implying a meagre 3% CAGR (CC) over FY20-22. We see further downside risks to this guidance due to – (1) potential delivery impact due to covid second wave in India (~64% of revenue from T&M) and (2) disruption in chip ecosystem.

LTTT is currently trading at 37x FY22E EPS, at a significant premium to TCS (29x), Infosys (26x) and Cyient (16x) despite its growth / margin trajectory being either inferior or similar. We currently build in 14.3%/16.5%/13.4% revenue growth (US\$) in FY22 for TCS / Infosys / Cyient, respectively vs 11% for LTTT. Notably, consensus visibility on growth / profitability / return ratios over the medium term is more constrained in case of ER&D companies like LTTT (vs IT firms like TCS). In that context, the lofty multiples of LTTT should correct. Maintain **SELL** rating valuing the stock at 23x FY23E EPS.

Market Cap	Rs294bn/US\$4.0bn
Reuters/Bloomberg	LTEH.BO / LTTT IN
Shares Outstanding (mn)	105.1
52-week Range (Rs)	3062/1055
Free Float (%)	25.8
FII (%)	9.5
Daily Volume (US\$'000)	10,957
Absolute Return 3m (%)	9.0
Absolute Return 12m (%)	126.5
Sensex Return 3m (%)	(3.1)
Sensex Return 12m (%)	44.9

Year to March	2021	2022E	2023E	2024E
Revenue (Rs mn)	54,497	61,335	69,588	77,929
Net Income (Rs mn)	6,633	7,928	9,253	10,383
EPS (Rs)	62.9	75.1	87.6	98.3
% Chg YoY	(18.9)	19.4	16.7	12.2
P/E (x)	44.4	37.2	31.9	28.4
CEPS (Rs)	83.6	96.6	112.0	125.6
EV/E (x)	28.0	22.8	19.6	17.5
Dividend Yield	0.8	1.1	1.1	1.1
RoCE (%)	21.7	24.0	25.1	25.0
RoE (%)	21.3	21.6	22.4	22.0

Please refer to important disclosures at the end of this report

Table 1: Q4FY21 result review

(Rs mn, year ending March)

	Q4FY21	Q3FY21	Q4FY20	QoQ (%)	YoY (%)
Revenues (US\$ mn)	197.5	190.1	195.4	3.9	1.1
INR/USD	72.9	73.7	74.0	(1.0)	(1.5)
Net Sales	14,405	14,007	14,466	2.8	(0.4)
Cost of revenues	8,496	8,556	8,415	(0.7)	1.0
SGA expenses	2,978	2,695	3,368	10.5	(11.6)
Total Expenses	11,474	11,251	11,783	2.0	(2.6)
EBITDA	2,931	2,756	2,683	6.3	9.2
Depreciation	540	624	485	(13.5)	11.3
EBIT	2,391	2,132	2,198	12.1	8.8
Finance cost	125	114	94	9.6	33.0
Other Income (net)	346	488	614	(29.1)	(43.6)
Recurring pre-tax income	2,612	2,506	2,718	4.2	(3.9)
Taxation	659	637	655	3.5	0.6
Minority Interest	(8)	(8)	(15)	-	(46.7)
Recurring Net Income	1,945	1,861	2,048	4.5	(5.0)
Extraordinary	-	-	-	na	na
Reported Net Income	1,945	1,861	2,048	4.5	(5.0)
Recurring EPS (Rs)	18.4	17.6	19.4	4.5	(5.1)
Ratios (%)					
EBITDA margin	20.3	19.7	18.5		
EBIT margin	16.6	15.2	15.2		
Effective tax rate	25.2	25.4	24.1		
Recurring Net profit margin	13.5	13.3	14.2		

Source: Company data, I-Sec research

Table 2: Change in estimates

	Revised		Earlier		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
INR/USD	75.0	76.0	73.0	74.5	2.7%	2.0%
USD revenue - mn	818	916	869	973	-5.9%	-5.9%
Growth (%)	11.0	12.0	17.8	12.0	-680bps	0bps
EBIT margin - Overall (%)	16.5	17.0	15.6	17.0	90bps	-10bps
PAT (INR M)	7,928	9,253	8,081	10,000	-1.9%	-7.5%
EPS	75.1	87.6	76.6	94.7	-1.9%	-7.5%

Source: Company data, I-Sec research

Financial summary

Table 3: Profit and loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Revenue (US\$ mn)	737	818	916	1,025
Total Income (Sales)	54,497	61,335	69,588	77,929
Operating Expenses	44,423	48,972	55,212	61,792
EBITDA	10,074	12,363	14,377	16,137
% margin	18.5	20.2	20.7	20.7
Depreciation & Amortisation	2,183	2,269	2,575	2,883
EBIT	7,891	10,094	11,802	13,254
% margin	14.5	16.5	17.0	17.0
Other Income	1,537	1,125	1,250	1,375
Interest expense	455	550	605	666
Recurring PBT	8,973	10,669	12,447	13,963
Tax expense	2,308	2,721	3,174	3,561
Recurr. profit before minority	6,665	7,948	9,273	10,403
Minority interest	(32)	(20)	(20)	(20)
Extraordinary items	-	-	-	-
Net Profit as restated	6,633	7,928	9,253	10,383

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Liabilities				
Share capital	210	210	210	210
Reserves and Surpluses	34,521	38,505	43,813	50,252
Net Worth	34,731	38,715	44,023	50,462
Minority Interest	101	101	101	101
Non-current Liabilities	4,915	4,915	4,915	4,915
Total Liabilities	39,747	43,731	49,039	55,478
Assets				
Fixed Assets	12,943	11,900	10,717	9,393
Other Non-current assets	2,760	3,065	3,527	3,825
Current assets	35,026	39,100	46,351	55,051
less: current liabilities	10,982	10,335	11,556	12,790
Net current assets	24,044	28,765	34,795	42,261
Total Assets	39,747	43,731	49,039	55,478

Source: Company data, I-Sec Research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	12,947	13,138	14,007	14,405
% growth (QoQ)	(10.5)	1.5	6.6	2.8
Recurring EBITDA	2,059	2,328	2,756	2,931
Margin (%)	15.9	17.7	19.7	20.3
Other income	137	566	488	346
Recurring Net Income	1,172	1,655	1,861	1,945

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Op. CF before W Cap changes	11,550	12,926	15,002	16,825
Working Capital Inflow / (Outflow)	4,245	(4,575)	(3,043)	(2,697)
Taxes	(2,523)	(2,721)	(3,174)	(3,561)
Capex (including acquisitions)	(756)	(1,227)	(1,392)	(1,559)
Free Cashflow	12,516	4,403	7,393	9,008
CF from other Invst Act (Ex Capex)	(9,298)	(195)	(170)	(148)
Change in share capital	1	-	-	-
Inc/(Dec) in Borrowings	(287)	672	90	91
Dividend paid	(2,198)	(3,944)	(3,944)	(3,944)
Others	(1,143)	(570)	(625)	(686)
Increase/(Decrease) in Cash	(409)	366	2,743	4,322

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)*				
Reported Basic EPS	63.3	75.6	88.2	99.0
Recurring Diluted EPS	62.9	75.1	87.6	98.3
Recurring Cash EPS	83.6	96.6	112.0	125.6
Book Value per share (BV)	329.4	366.6	416.9	477.9
Growth Ratios (%)				
Total Income (Sales) – US\$ terms	(6.3)	11.0	12.0	12.0
Total Income (Sales)	(3.0)	12.5	13.5	12.0
EBITDA	(9.3)	22.7	16.3	12.2
Net Income	(19.0)	19.5	16.7	12.2
Diluted EPS	(18.9)	19.4	16.7	12.2
Diluted Recurring CEPS	(11.9)	15.5	16.0	12.2
Valuation Ratios (x)				
P/E	44.4	37.2	31.9	28.4
P/CEPS	33.4	28.9	25.0	22.2
P/BV	8.5	7.6	6.7	5.8
EV / EBITDA	28.0	22.8	19.6	17.5
EV / Sales	5.2	4.6	4.1	3.6
EV / FCF	22.6	64.1	38.2	31.3
Operating Ratios				
Other Income / PBT (%)	17.1	10.5	10.0	9.8
Effective Tax Rate (%)	25.7	25.5	25.5	25.5
NWC / Total Assets (%)	12.9	20.0	22.1	23.2
Receivables (days)	82.7	80.0	85.0	85.0
Payables (days)	13.0	13.0	13.0	13.0
D/E Ratio (x)	-	0.0	0.0	0.0
Return/Profitability Ratios (%)				
Net Income Margins	12.2	12.9	13.3	13.3
EBITDA Margins	18.5	20.2	20.7	20.7
RoNW (Based on Avg)	21.3	21.6	22.4	22.0
Dividend Yield	0.8	1.1	1.1	1.1

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

ANALYST CERTIFICATION

I/We, *Sudheer Guntupalli, PGDM; Hardik Sangani, CA*; and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.