

**Deal wins in H2FY25 are projected to surpass H1FY25**

**CMP: INR 4,870**

**Rating: Hold**

**Target Price: INR 5,211**

**Stock Info**

|                          |                     |
|--------------------------|---------------------|
| BSE                      | 540115              |
| NSE                      | LTTS                |
| Bloomberg                | LTTS.IN             |
| Reuters                  | LTTS.BO             |
| Sector                   | IT Enabled Services |
| Face Value (INR)         | 2                   |
| Equity Capital (INR mn)  | 212                 |
| Mkt Cap (INR mn)         | 5,13,776            |
| 52w H/L (INR)            | 5,990/4,228         |
| Avg Yearly Vol (in 000') | 171                 |

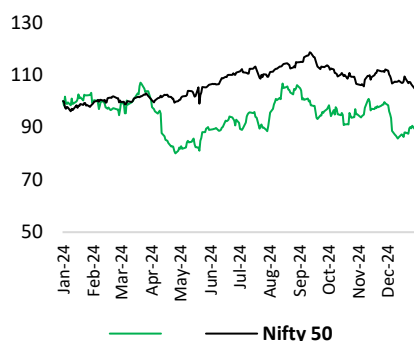
**Shareholding Pattern %**

(As on Sept, 2024)

|                 |       |
|-----------------|-------|
| Promoters       | 73.69 |
| Public & Others | 26.31 |

| Stock Performance (%) | 1m    | 3m    | 12m  |
|-----------------------|-------|-------|------|
| LTTS                  | -9.2% | -8.4% | -10% |
| Nifty 50              | -5.9% | -7.4% | 5.1% |

**LTTS Vs Nifty 50**



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L&T Technology Services Ltd (LTTS) reported revenue & PAT in line; Margin expanded sequentially. For FY25, guidance indicates nearly 10% revenue growth in constant currency (vs 8-10% cc growth stated earlier), including the contribution from Intelliswift. The medium-term outlook of USD 2 bn revenue with an EBIT margin of 17-18% is maintained. LTTS reported Q3FY25 revenues of USD 312 mn up 7.3%YoY/1.6% QoQ in line our estimate of USD 313 Mn. Growth of 3.1% QoQ and 8.7% YoY in constant currency. Reported revenue of INR 26,530 up 3.1% QoQ/+9.5% YoY in line with our estimate of INR 26,571Mn. The revenue growth led by Tech grew by 11.6% QoQ/12.3% YoY .EBIT margin was expanded 83bps QoQ/down 128bps YoY at 15.90% above our estimates of 15.5% and 16.2% (excluding one-time non-operational M&A expense), after absorbing wage hikes. EBIT margins to be better in H2 compared to H1, on the organic book of business. PAT stood at INR 3,224 Mn against our estimate of INR 3,255 Mn. Geography revenue: Among major markets, North America (-0.2% QoQ/1.2% YoY), Europe (+0.6% QoQ/+17.6% YoY), India (+5.6% QoQ/ +13.5% YoY) and ROW ( +6.5% QoQ/+10.9% YoY). Offshore revenue was up by 30bps on QoQ to 58.60%Number of employees was reduced by 233 QoQ to 23,465; LTM attrition was up by QoQ to 14.4%Deal wins: 8 large deals: one USD 50 mn, two USD 35 mn, two USD 25 mn, and three USD 10 mn deals

**Large Deal Bookings in Q3FY25; Sees Strong Growth Prospects for FY26:** The company reported strong large deal bookings in Q3FY25, securing eight deals, including one worth \$50 mn, three above \$35 mn, and two above \$25 mn, with an average deal tenure of 3 years. Three of the deals involved AI/GenAI solutions developed in the past six months. The deal pipeline is stronger than last year and last quarter, with Q4 expected to match Q3 levels. The pipeline includes opportunities in mobility transformation and consolidation. Expects FY26 to outperform FY25 in deal wins and growth, with increased traction for proprietary solutions like the LTTS iDrive stack for SDV.

**Automotive Segment to Remain a Concern in the Near Term:** The mobility segment declined by 5.2% in Q3, with mixed performance across its portfolio. While automotive remains under stress, trucks/fleets and aero/rail segments continue to grow. The company secured two large deals, including a vendor consolidation deal and one with a new-age EV OEM. Mobility growth is expected to remain muted in Q4 but is projected to pick up from Q1FY26, driven by new deals and the LTTS iDrive framework for software-defined vehicles. A strong deal pipeline supports an anticipated rebound in mobility by Q2FY26.

**Outlook:** Growth is expected across all three verticals in Q4FY25 and beyond, with FY26E anticipated to outperform FY25E. Deal wins in H2FY25 are projected to surpass H1FY25, supported by earlier investments. FY25 revenue guidance forecasts near 10% overall growth, with nearly 8% organic growth. EBIT margin targets are 16% organically for FY25, with consolidated EBIT at 15% in Q4FY25, improving to mid-16% by FY27. The IntelliSwift acquisition will contribute 150bps to margins in Q4FY25, supporting higher revenue guidance. SG&A is expected to remain around 10.5%-11% of revenue. **We have integrated the IntelliSwift acquisition numbers into our financial model and have now included the impact of 150bps on the margin in Q4FY25, improving to mid-16% margins between Q4FY27 and Q1FY28. We value LTTS at a PE ratio of 31x its FY27E EPS of INR 168, which yields a target price of INR 5,211 per share. We maintain our Hold rating on the stock.**

**Exhibit 2: Q3FY25 - Quarterly Performance (Consolidated)**

| Consolidated (in INR Mn)                 | Q3FY25        | Q2FY25        | Q3FY24        | Y-o-Y        | Q-o-Q        |
|--|---------------|---------------|---------------|--------------|--------------|
| Revenue (USD)                            | 312           | 307           | 291           | 7.3%         | 1.6%         |
| Net Revenue                              | 26,530        | 25,729        | 24,218        | 9.5%         | 3.1%         |
| Employee cost                            | 13,951        | 13,852        | 12,539        | 11.3%        | 0.7%         |
| Other Expenses                           | 7,632         | 7,217         | 6,802         | 12.2%        | 5.8%         |
| EBITDA                                   | 4,947         | 4,660         | 4,877         | 1.4%         | 6.2%         |
| EBITDA margin %                          | 18.65%        | 18.11%        | 20.14%        | -149bps      | -149bps      |
| Depreciation                             | 728           | 783           | 715           | 1.8%         | -7.0%        |
| EBIT                                     | 4,219         | 3,877         | 4,162         | 1.4%         | 8.8%         |
| EBIT margin %                            | 15.90%        | 15.07%        | 17.19%        | -128bps      | 83bps        |
| Other Income                             | 335           | 650           | 624           | -46.3%       | -48.5%       |
| Finance costs                            | 155           | 119           | 120           | 29.2%        | 30.3%        |
| PBT                                      | 4,399         | 4,408         | 4,655         | -5.5%        | -0.2%        |
| Tax Expense                              | 1,204         | 1,208         | 1,287         | -6.4%        | -0.3%        |
| Effective tax rate %                     | 27.37%        | 27.40%        | 27.65%        | -28bps       | -28bps       |
| PAT                                      | 3,195         | 3,200         | 3,368         | -5.1%        | -0.2%        |
| Extraordinary Items (Net of tax expense) | -             | -             | -             |              |              |
| Reported PAT                             | 3,195         | 3,200         | 3,368         | -5.1%        | -0.2%        |
| PAT margin %                             | 12.04%        | 12.44%        | 13.91%        | -186bps      | -186bps      |
| Minority Interest                        | 29            | -4            | -6            |              |              |
| PAT (After MI)                           | 3,224         | 3,196         | 3,362         | -4.1%        | 0.9%         |
| EPS (INR)                                | 30.40         | 30.20         | 31.80         | -4.4%        | 0.7%         |
| <b>Revenue Vertical</b>                  | <b>Q3FY25</b> | <b>Q2FY25</b> | <b>Q3FY24</b> | <b>Y-o-Y</b> | <b>Q-o-Q</b> |
| Mobility                                 | 8578          | 9123          | 8,042         | 6.7%         | -6.0%        |
| Sustainability                           | 8260          | 7923          | 7,549         | 9.4%         | 4.3%         |
| Tech                                     | 9692          | 8683          | 8,627         | 12.3%        | 11.6%        |

Source: Arihant Research, Company Filings

**Q3FY25 Conference call Highlights**

- Strong Growth Prospects for Q4FY25 and FY26, Driven by Strategic Investments and Robust Demand Across Verticals. The company expects growth across all three verticals in Q4FY25 and beyond, with FY26E anticipated to outperform FY25E. Deal wins in H2FY25 are expected to surpass H1FY25, supported by investments made in H1FY25.
- The company reaffirmed its FY25 revenue guidance, projecting near 10% overall growth, including the IntelliSwift acquisition, with nearly 8% organic growth.
- They aim for an EBIT margin of about 16% in FY25 on an organic basis and anticipate reaching 15% EBIT for the consolidated entity in Q4FY25E, improving to mid-16% margins between Q4FY27 and Q1FY28. The IntelliSwift acquisition will contribute a 150bps margin impact in Q4FY25, with its integration from January 3 helping achieve the higher end of the revenue guidance.
- The normalized level of SG&A is around 10.5%-11% of revenue.
- Mobility: While the automotive sector faces some stress, demand in trucks, aerospace, and rail remains strong, with expected growth in Q4 and beyond. Despite challenges in some OEMs and Tier-1s, the pipeline within SDV and hybridization remains robust, and consolidation deals are increasing within automotive and commercial vehicles globally. Growth in automotive ER&D is expected to pick up from Q1FY26.
- Sustainability: Strong demand continues across O&G, FMCG, and plant modernization/digitization. The company expects growth momentum to sustain in these sectors, with continued spending in O&G, chemicals, and data centers.
- Tech: The company remains optimistic about growth in the ISV segment and sees new verticals, including retail, fintech, and healthcare, as key growth drivers for FY26E and beyond. The tech segment is expected to continue growing, except major semiconductor challenges. Additionally, ongoing revenues from the MAH cybersecurity deal will continue into the next quarter.
- Margins: EBIT margin expanded 83bps QoQ but was down 128bps YoY to 15.90%. The company attributes this to quality of revenues, pyramid optimization, offshoring, and operational efficiencies, while partially absorbing the impact of a 100bps wage hike in Q3.
- Hiring: The company reaffirmed its goal to add 2,000 freshers in FY26E.
- Strong demand in AI/GenAI, software-defined technologies, industrial automation, and plant engineering is expected to drive outperformance in FY26.
- R&D: The company is exploring potential collaborations with academic institutions for R&D, expanding into new geographic markets, and exploring emerging technologies like blockchain and quantum computing. The company aims to build \$3 bn segments and achieve \$2 bn in revenue through ER&D services in the medium term.

## Exhibit 3: Business Matrix

| Revenue by Vertical                   | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 | Q2FY25 | Q3FY25 |
|---------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Mobility                              | 32.70% | 35.80% | 35.80% | 32.00% | 35.20% | 35.50% | 32.40% |
| Sustainability                        | 31.50% | 35.80% | 35.80% | 30.00% | 30.00% | 30.80% | 31.20% |
| Hi-Tech                               | 35.80% | 35.80% | 35.80% | 38.00% | 34.80% | 33.70% | 36.40% |
| <b>Revenue by Geography</b>           |        |        |        |        |        |        |        |
| North America                         | 56.50% | 55.30% | 54.60% | 53.70% | 52.90% | 52.50% | 51.50% |
| Europe                                | 15.40% | 15.80% | 16.60% | 15.80% | 18.10% | 18.40% | 18.20% |
| India                                 | 20.70% | 21.60% | 21.50% | 23.70% | 22.00% | 21.90% | 22.70% |
| Rest of the World                     | 7.40%  | 7.30%  | 7.30%  | 6.80%  | 7.00%  | 7.20%  | 7.60%  |
| <b>Revenue Mix</b>                    |        |        |        |        |        |        |        |
| Onsite                                | 40.70% | 40.40% | 41.30% | 41.30% | 41.10% | 41.70% | 41.40% |
| Offshore                              | 59.30% | 59.60% | 58.70% | 58.70% | 58.90% | 58.30% | 58.60% |
| <b>Revenue by Project Type</b>        |        |        |        |        |        |        |        |
| Fixed Price                           | 35.60% | 35.80% | 38.50% | 39.50% | 36.90% | 37.50% | 41.20% |
| Time and Material                     | 64.40% | 64.20% | 61.50% | 60.50% | 63.10% | 62.50% | 58.80% |
| <b>Client Profile</b>                 |        |        |        |        |        |        |        |
| Number of Active Clients              | 357    | 362    | 364    | 365    | 378    | 373    | 378    |
| 30 Million dollar +                   | 3      | 4      | 4      | 5      | 6      | 7      | 7      |
| 20 Million dollar +                   | 12     | 12     | 14     | 12     | 12     | 13     | 10     |
| 10 Million dollar +                   | 32     | 31     | 31     | 35     | 31     | 33     | 34     |
| 5 Million dollar +                    | 56     | 55     | 56     | 58     | 60     | 60     | 64     |
| 1 Million dollar +                    | 181    | 177    | 175    | 180    | 177    | 176    | 183    |
| <b>Client Contribution to Revenue</b> |        |        |        |        |        |        |        |
| Top 5 Clients                         | 14.70% | 14.90% | 15.70% | 15.40% | 15.00% | 15.00% | 15.20% |
| Top 10 Clients                        | 25.90% | 26.10% | 26.60% | 26.40% | 26.30% | 26.50% | 26.80% |
| Top 20 Clients                        | 41.40% | 41.70% | 41.70% | 40.60% | 41.30% | 41.50% | 39.90% |
| <b>Employee Statistics</b>            |        |        |        |        |        |        |        |
| Total Headcount                       | 23392  | 23880  | 23298  | 23812  | 23577  | 23698  | 23465  |
| Bilable (as per number of employee)   | 21933  | 22366  | 21887  | 22392  | 22120  | 22185  | 21947  |
| Sales & Support                       | 1459   | 1514   | 1411   | 1420   | 1457   | 1513   | 1518   |
| Voluntary Attrition % (LTM)           | 18.9%  | 16.7%  | 15.8%  | 14.8%  | 14.8%  | 14.3%  | 14.4%  |
| <b>Exchange Rate (USD/INR)</b>        |        |        |        |        |        |        |        |
| Period Realised \$                    | 82.20  | 82.84  | 83.30  | 83.16  | 83.40  | 83.90  | 85.06  |

Source: Arianth Research, Company Filings

Exhibit 4: In line with our estimate in USD revenue in Q3FY25

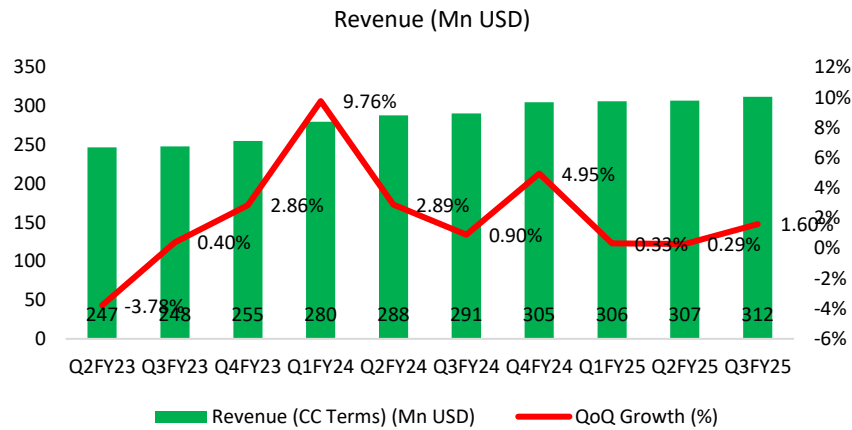


Exhibit 5: EBIT Margin within guided range

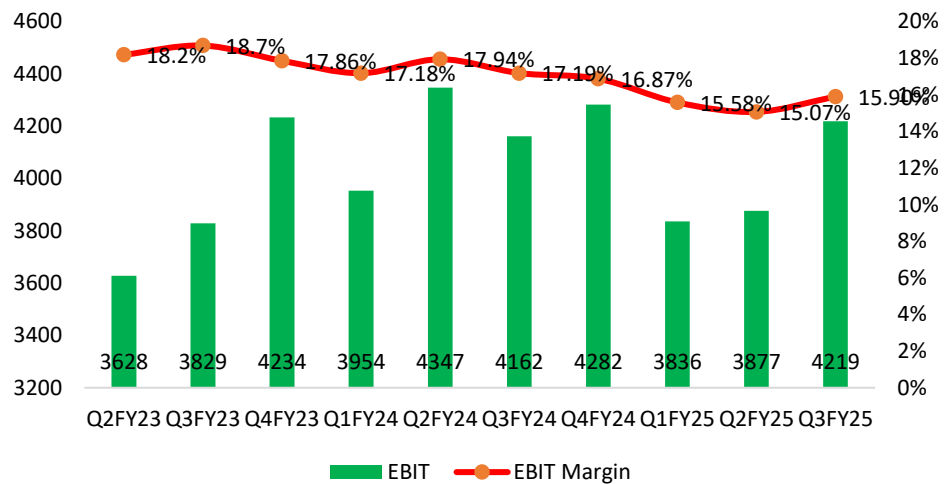
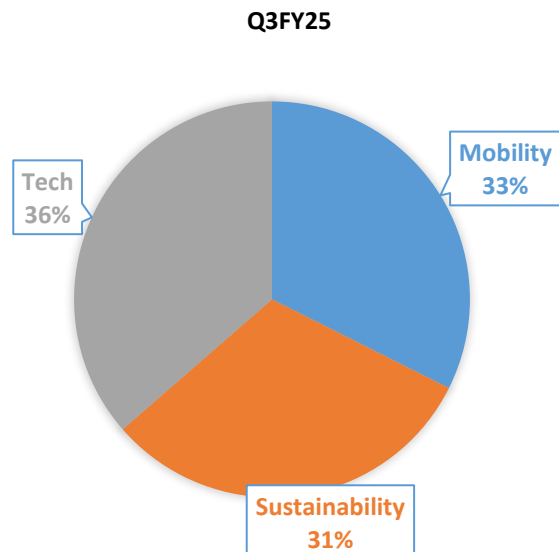


Exhibit 6: Revenue by Verticals



Source: Arianth Research, Company Filings

## Key Financials

| Income Statement (INR Mn) |        |          |          |          |
|---------------------------|--------|----------|----------|----------|
| Year End-March            | FY24   | FY25E    | FY26E    | FY27E    |
| Revenue (Mn USD)          | 1,164  | 1,256    | 1,373    | 1,486    |
| Growth (%)                | 15.6%  | 7.9%     | 9.3%     | 8.2%     |
| Revenues                  | 96,473 | 1,06,377 | 1,18,839 | 1,33,465 |
| Change (%)                | 9.4%   | 10.3%    | 11.7%    | 12.3%    |
| Employee Costs            | 49,298 | 55,214   | 61,011   | 67,722   |
| Other Expenses            | 27,985 | 32,392   | 36,246   | 40,974   |
| Total Expenses            | 77,283 | 87,605   | 97,257   | 1,08,696 |
| EBITDA                    | 19,190 | 18,771   | 21,582   | 24,769   |
| EBITDA Margin (%)         | 19.9%  | 17.6%    | 18.2%    | 18.6%    |
| Depreciation              | 2,716  | 2,516    | 2,635    | 3,345    |
| EBIT                      | 16,474 | 16,255   | 18,947   | 21,423   |
| EBIT Margin (%)           | 17.1%  | 15.3%    | 15.9%    | 16.1%    |
| Other Income              | 2,073  | 2,846    | 3,700    | 4,440    |
| Interest                  | 509    | 520      | 540      | 560      |
| PBT                       | 18,038 | 18,581   | 22,107   | 25,303   |
| Tax                       | 4,975  | 5,017    | 5,858    | 6,705    |
| Rate (%)                  | 27.6%  | 27.0%    | 26.5%    | 26.5%    |
| PAT                       | 13,063 | 13,564   | 16,249   | 18,598   |
| Minority Interest         | 26     | 26       | 26       | 26       |
| Adjusted PAT              | 13,037 | 13,538   | 16,223   | 18,572   |
| Change (%)                | 7.6%   | 3.8%     | 19.8%    | 14.5%    |

| Balance Sheet (INR Mn)       |        |        |          |          |
|------------------------------|--------|--------|----------|----------|
| Year End-March               | FY24   | FY25E  | FY26E    | FY27E    |
| Sources of Funds             |        |        |          |          |
| Share Capital                | 211    | 211    | 211      | 211      |
| Reserves & Surplus           | 53,059 | 61,656 | 71,230   | 84,469   |
| Net Worth                    | 53,477 | 62,074 | 71,648   | 84,887   |
| Non-Current liabilities      |        |        |          |          |
| Total Current liabilities    | 23,792 | 27,667 | 29,938   | 34,560   |
| Total liabilities            | 31,138 | 34,532 | 36,830   | 41,493   |
| Total Equity and liabilities | 84,885 | 96,876 | 1,08,748 | 1,26,650 |
| Total Non-current Assets     | 20,421 | 20,831 | 22,591   | 24,355   |
| Current Assets               |        |        |          |          |
| Investments                  | 12,936 | 14,264 | 15,935   | 17,896   |
| Trade receivables            | 21,803 | 23,898 | 26,698   | 29,984   |
| Cash and cash equivalents    | 11,221 | 20,063 | 25,688   | 36,754   |
| Other bank balances          | 2,684  | 2,684  | 2,684    | 2,684    |
| Other financial assets       | 1,570  | 1,685  | 1,685    | 1,685    |
| Other current assets         | 12,056 | 12,765 | 14,261   | 16,016   |
| Total current assets         | 62,303 | 75,360 | 86,950   | 1,05,019 |
| TOTAL ASSETS                 | 84,885 | 96,876 | 1,08,748 | 1,26,650 |

Source: Arianth Research, Company Filings

## Key Financials

| Cash Flow Statement (INR Mn)               |               |               |                |               |
|--|---------------|---------------|----------------|---------------|
| Year End-March                             | FY24E         | FY25E         | FY26E          | FY27E         |
| Net Profit before Tax                      | 18,038        | 18,581        | 22,107         | 25,303        |
| Adjustments:                               |               |               |                |               |
| Depreciation                               | 2,716         | 2,516         | 2,635          | 3,345         |
| Finance Costs                              | 509.00        | -             | -              | -             |
| Interest and Dividend received             | -1,174        | -959          | -975           | -995          |
| <b>Operating Profit before WC Changes</b>  | <b>20,089</b> | <b>20,139</b> | <b>23,766</b>  | <b>27,654</b> |
| Operating Profit after WC Changes          | 20,184        | 19,583        | 23,799         | 26,315        |
| Direct Taxes Paid & Exceptional Items      | -5,256        | -5,017        | -5,858         | -6,705        |
| <b>Cash Flow from Operating Activities</b> | <b>14,928</b> | <b>14,566</b> | <b>17,941</b>  | <b>19,609</b> |
| <b>Cash Flow from Investing Activities</b> | <b>-2,333</b> | <b>-1,587</b> | <b>-2,095</b>  | <b>-2,574</b> |
| <b>Cash Flow from Financing Activities</b> | <b>-6,579</b> | <b>-4,204</b> | <b>-10,221</b> | <b>-5,968</b> |
| Net Change in Cash & Cash Equivalents      | 6,016         | 8,775         | 5,624          | 11,067        |
| Opening Cash & Cash Equivalents            | 5,272         | 11,288        | 20,063         | 25,688        |
| Closing Cash & Cash Equivalents            | 11288         | 20063         | 25688          | 36754         |

| Key Ratios                |       |       |       |       |
|---------------------------|-------|-------|-------|-------|
| Year End-March            | FY24  | FY25E | FY26E | FY27E |
| <b>Per Share (INR)</b>    |       |       |       |       |
| EPS                       | 123.3 | 121.5 | 146.9 | 168.1 |
| CEPS                      | 141.8 | 144.0 | 170.7 | 198.3 |
| BVPS                      | 2534  | 2942  | 3396  | 4023  |
| DPS                       | 50.0  | 35.0  | 37.0  | 39.0  |
| <b>Valuation (x)</b>      |       |       |       |       |
| P/E                       | 39.5  | 40.1  | 33.2  | 29.0  |
| P/CEPS                    | 34    | 34    | 29    | 25    |
| P/BV                      | 10.0  | 8.7   | 7.6   | 6.3   |
| EV/EBITDA                 | 14.7  | 14.6  | 12.4  | 10.4  |
| <b>Return Ratio (%)</b>   |       |       |       |       |
| EBIDTA Margin             | 19.9% | 17.6% | 18.2% | 18.6% |
| EBIT Margin               | 17.1% | 15.3% | 15.9% | 16.1% |
| PAT Margin                | 13.5% | 12.8% | 13.7% | 13.9% |
| ROE                       | 24.4% | 21.9% | 22.7% | 21.9% |
| ROCE                      | 22.3% | 19.1% | 19.4% | 18.5% |
| Dividend Yield            | 1.0%  | 0.7%  | 0.8%  | 0.8%  |
| <b>Leverage Ratio (%)</b> |       |       |       |       |
| Net Debt/Equity (x)       | -0.2  | -0.3  | -0.4  | -0.4  |
| Net Debt/EBITDA (x)       | -0.6  | -1.1  | -1.2  | -1.5  |
| <b>Turnover Ratios</b>    |       |       |       |       |
| Asset Turnover (x)        | 28.9  | 29.1  | 37.3  | 50.6  |
| Receivable Days           | 82    | 82    | 82    | 82    |
| Payable days              | 49    | 49    | 49    | 49    |

Source: Arian Research, Company Filings

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| Stock Rating Scale | Absolute Return |
|--------------------|-----------------|
| BUY                | >20%            |
| ACCUMULATE         | 12% to 20%      |
| HOLD               | 5% to 12%       |
| NEUTRAL            | -5% to 5%       |
| REDUCE             | -5% to -12%     |
| SELL               | <-12%           |

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