



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✗	✓	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↔	✗

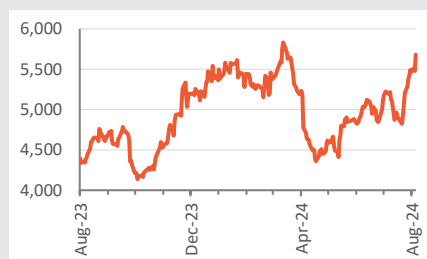
Company details

Market cap:	Rs. 60,117 cr
52-week high/low:	Rs. 5,885 / 4,107
NSE volume: (No of shares)	2.0 lakh
BSE code:	540115
NSE code:	LTTS
Free float: (No of shares)	2.8 cr

Shareholding (%)

Promoters	73.7
FII	4.5
DII	13.1
Others	8.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.7	22.4	6.9	30.4
Relative to Sensex	8.2	13.6	-6.2	4.6

Sharekhan Research, Bloomberg

L&T Technology Services Ltd

LTTS 3.0: A well-directed strategy

IT & ITES

Sharekhan code: LTTS

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 5,681

Price Target: Rs. 6,500



Summary

- We maintain Buy on LTTS with revised PT of Rs 6,500 (valuing at 38x Sep2026E EPS). At CMP, the stock trades at 44/35.7x its FY25/FY26E EPS.
- LTTS has laid down its aspiration to be among the Top 5 Global ER&D service companies and to reach \$2 billion in revenue with EBIT margin of 17-18% in the medium term.
- Mobility, Sustainability and Tech are expected to achieve \$1 billion each in revenues with EBITDA margin in the segments improving to 20-22%, 28-30%, and 16-18% respectively over the medium term.
- The company sees headroom for margin improvement and has identified several levers to strengthen its operational playbook by increased customer mining, higher quality of revenue, increase fresher mix and higher offshoring.

We attended the LTTS's investor analyst day to understand the business strategy and growth prospects of the company. The management during the meet has laid out its aspiration of achieving \$2 billion in revenues and EBIT margins of 17-18% in the medium term. Supportive macro-economic factors are expected to create a runway for ER&D growth with India Outsourcing expected to grow at 17-22%. The company's aspiration under LTTS 3.0 is expected to be met by focussing on three segments - viz. Mobility, Sustainability and Technology with each expected to achieve \$1 billion in revenues with segment EBITDA margins improving to 20-22%, 28-30%, and 16-18% respectively over the medium term. The company has identified several levers to strengthen its operational playbook by higher customer mining, higher quality of revenue, increase in fresher mix, higher offshoring and optimizing G&A as a percentage of revenue. The company will be looking to acquire companies in Mobility, ISV and Medtech areas with revenues of \$50-150 million to achieve its aspirational plans. We believe the company's approach is well-directed and LTTS with its deep domain expertise and cutting-edge technological solutions is well placed to capitalise on the growing ER&D opportunities. We maintain Buy on LTTS with revised PT of Rs 6,500 (valuing at 38x Sep 2026E EPS). At CMP, the stock trades at 44/35.7x its FY25/FY26E EPS.

- Aspiration to achieve \$2-billion in revenues in the medium term:** LTTS has laid out its aspiration of achieving \$2 billion in the medium term. The aspiration is expected to be met by focussing on three segments viz. Mobility, Sustainability and Technology with each expected to achieve \$1 billion in revenues. The company has identified 18 strategic areas to drive growth and improve profitability. For mobility the strategic areas are Software defined Mobility, Electrification & Hybrid Tech and Vehicle Engineering while for Sustainability the strategic areas are Project Engineering, Plant Modernization, Digital technology Sustainable manufacturing, product engineering, energy transition, Manufacturing modernization and Alt+Shift to Platform Solutions. The strategic areas identified by the company for Tech are Silicon Engineering, Device engineering, Platform engineering, system integration, digital manufacturing and digital health. The revenue aspiration and 19% CAGR for Mobility is expected to be largely driven by Software driven vehicle while for Sustainability the revenue aspiration and 13% CAGR is expected to be driven largely by Product Engineering and Projects Engineering. The revenue aspiration and 18% CAGR for Tech is expected to be largely driven by Digital Health and QARA.
- Levers to strengthen operational playbook:** The company's aspiration under the LTTS 3.0 is to be among the Top 5 Global ER&D service companies and to reach \$2 billion in revenue with EBIT margin at 17-18% in the medium term. It aspires to expand Mobility, Sustainability, and Tech segment margins to 20-22%, 28-30%, and 16-18% over the medium term from 19.6%, 28.2%, and 15.5%, respectively, in FY24. LTTS has identified several levers to strengthen its operational playbook by increased customer mining, higher quality of revenue led by AI and new age technology, increase fresher mix (hiring 2000-3000 per year), higher offshoring (potential to improve offshore mix by 300-500 bps) and optimise G&A as a percentage of revenue through economies of scale.
- Inorganic growth strategy:** The company has identified Mobility, ISV and Medtech as future M&A areas. Investments would be targeted in acquiring strategic capabilities in 1)SDV, ADAS, connected services under mobility in Europe 2) platform engineering, AI, ML, Data engineering under sustainability in US and 3) Connected Healthcare, Patient management, Health Analytics under Medtech in the US. The company is looking to acquire companies with above capabilities with revenues of \$50-150 million.

Our Call

Valuation – Maintain Buy with revised price target of Rs. 6,500: LTTS has laid out a well-directed approach to achieve its aspiration \$2 billion in revenue along with improvements in profitability in the medium term. The management is cautiously optimistic and is seeing marked improvements in pipeline compared to last year. Further, improving macro-economic conditions from the start of potential interest rate cuts in US is expected to accelerate pent-up demand recovery. We believe LTTS with its deep domain expertise and cutting-edge technological solutions is well placed to capitalise on the growing ER&D opportunities. We expect a sales/PAT CAGR of 12.4%/13.7% over FY24-27E. We maintain Buy on LTTS with revised PT of Rs 6,500 (valuing at 38x Sep 2026E EPS). At CMP, the stock trades at 44/35.7x its FY25/FY26E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements. The contagion effect of the banking crisis, macro headwinds and recession in the US can moderate the pace of technology spending.

Valuation (Consolidated)

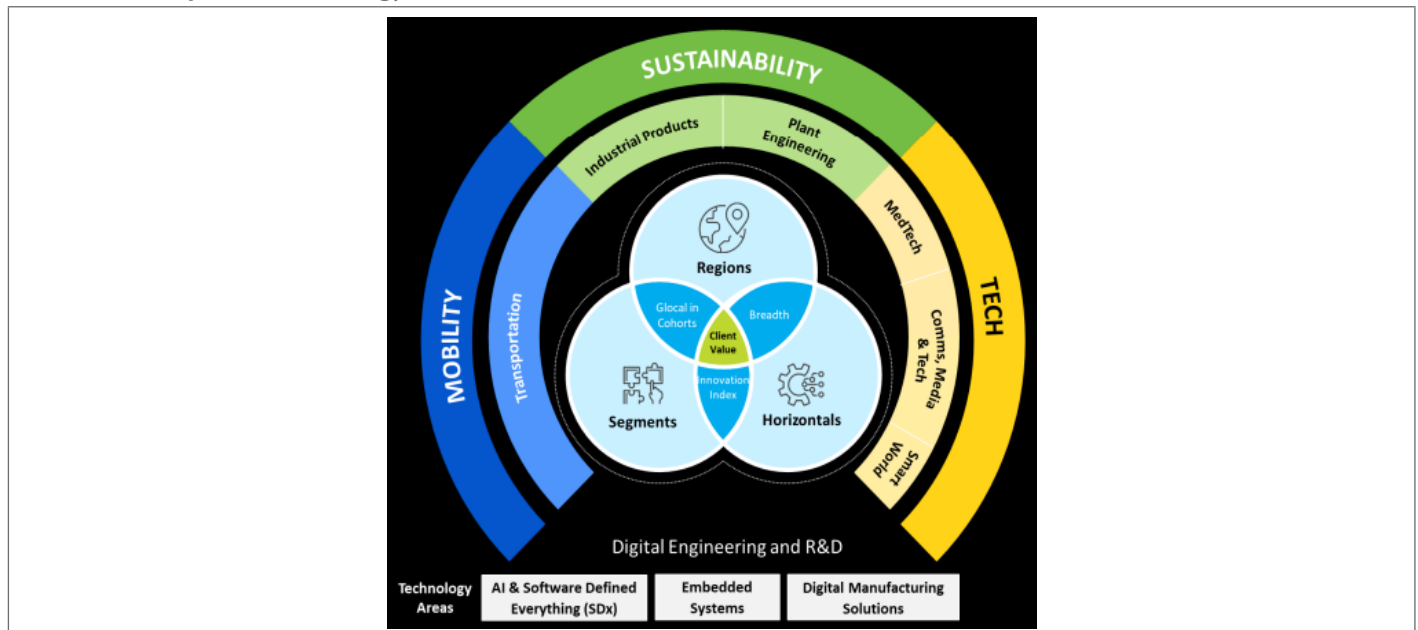
Particulars	FY24	FY25E	FY26E	FY27E
Revenue	9,647.2	10,602.3	12,443.4	13,681.6
OPM (%)	19.9	19.3	19.7	20.1
Adjusted PAT	1,303.6	1,367.3	1,684.2	1,917.8
% y-o-y growth	7.5	4.9	23.2	13.9
Adjusted EPS (Rs.)	123.0	129.2	159.1	181.1
P/E (x)	46.2	44.0	35.7	31.4
P/B (x)	11.3	9.7	8.3	7.1
EV/EBITDA (x)	29.9	27.9	23.1	20.4
RoNW (%)	26.7	23.8	25.1	24.5
RoCE (%)	29.8	26.3	28.2	27.9

Source: Company; Sharekhan estimates

Key Investor Analyst Day Takeaways

- ♦ Global GDP is expected to grow to \$139 trillion in the next five years from ~\$110 trillion currently. During the same period global consumer spend is expected to grow to \$77.2 trillion from \$57.7 trillion while global population is expected to reach 8.5 billion from 8.2 billion. These factors are creating a runaway for ER&D growth with India outsourcing expected to grow at 17-22%.
- ♦ Global ER&D spend by 2030 is expected between \$2.5-3.3 trillion with India's sourcing share expected to be at \$130-180 billion.
- ♦ The management is cautiously optimistic and expressed improvement in number of deals/large deals compared to last year. However, decision making cycle continues to remain stretched, same as the past year.
- ♦ LTTS 3.0 approach pivots on Go Deeper to scale strategy .The company intends to create three-billion-dollar segments.
 - ♦ Mobility – 19% CAGR , Strategic areas – Software-defined Mobility, Electrification & Hybrid Tech and Vehicle Engineering
 - ♦ Sustainability – 13% CAGR , Strategic areas – Project Engineering , Plant modernization, Digital technology sustainable manufacturing, product engineering, energy transition. manufacturing modernization and Alt+Shift to Platform Solutions.
 - ♦ Technology – 18% CAGR, Strategic areas – Silicon Engineering, Device engineering, Platform Engineering, System Integration, Digital manufacturing and Digital Health.
- ♦ Under LTTS 3.0, the company aspires to be among the Top 5 Global ER&D service companies and to reach \$2 billion in revenue with EBIT margin at 17-18% in the coming years.
- ♦ LTTS aims to improve the large deal win momentum in \$100 million +, \$50-100 million +and \$25-50 million+ from 1, 1 and 2 to 2,4 and 8 respectively in the coming years.
- ♦ LTTS aspires mobility segment to achieve revenues of \$1 billion with EBIDTA of 20-22% with growth largely led by Software defined vehicles.
- ♦ LTTS aspires Sustainability segment to achieve revenue of \$1 billion from \$361 in FY24 with EBITDA of 28-30% with growth largely from Product Engineering and Projects Engineering.
- ♦ Company aspires the technology segment to reach achieve of \$1 billion with EBITDA of 16%-18% with growth largely from Digital Health and Qara for Med-Tech.

LTTS 3.0 - Go deeper to scale Strategy



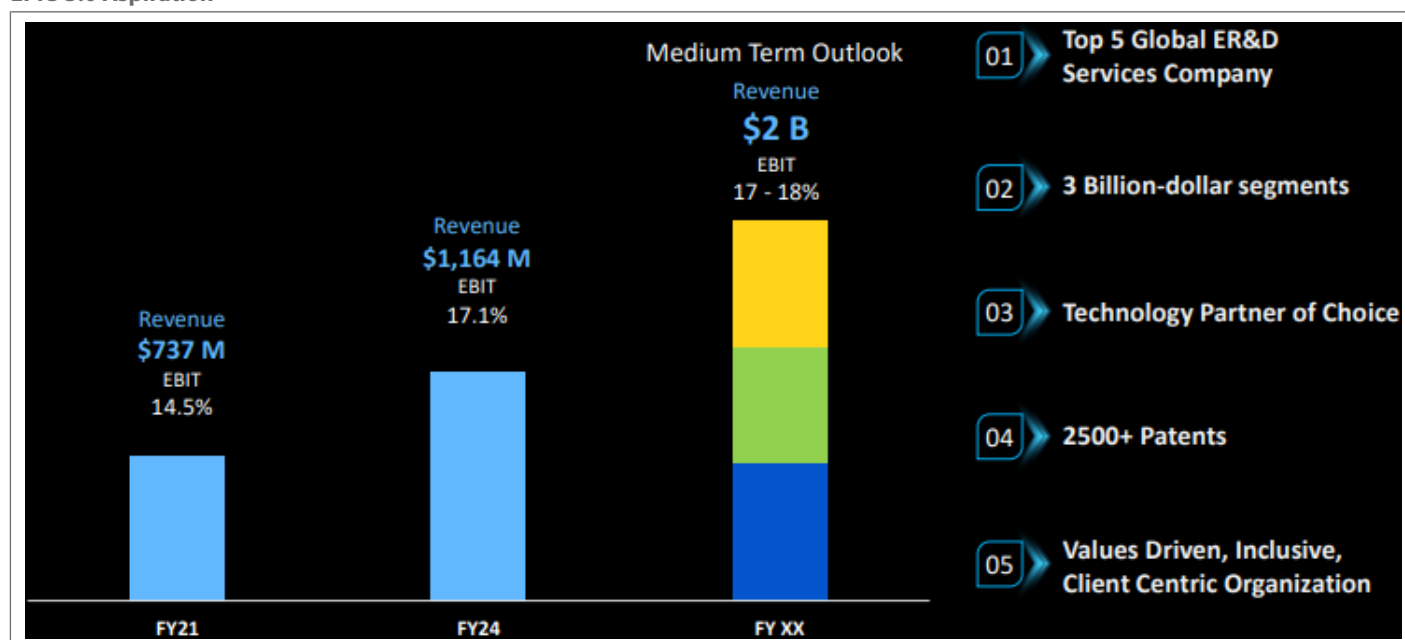
Source: Company; Sharekhan Research

LTTS – Strategic areas across Mobility, Sustainability and Tech



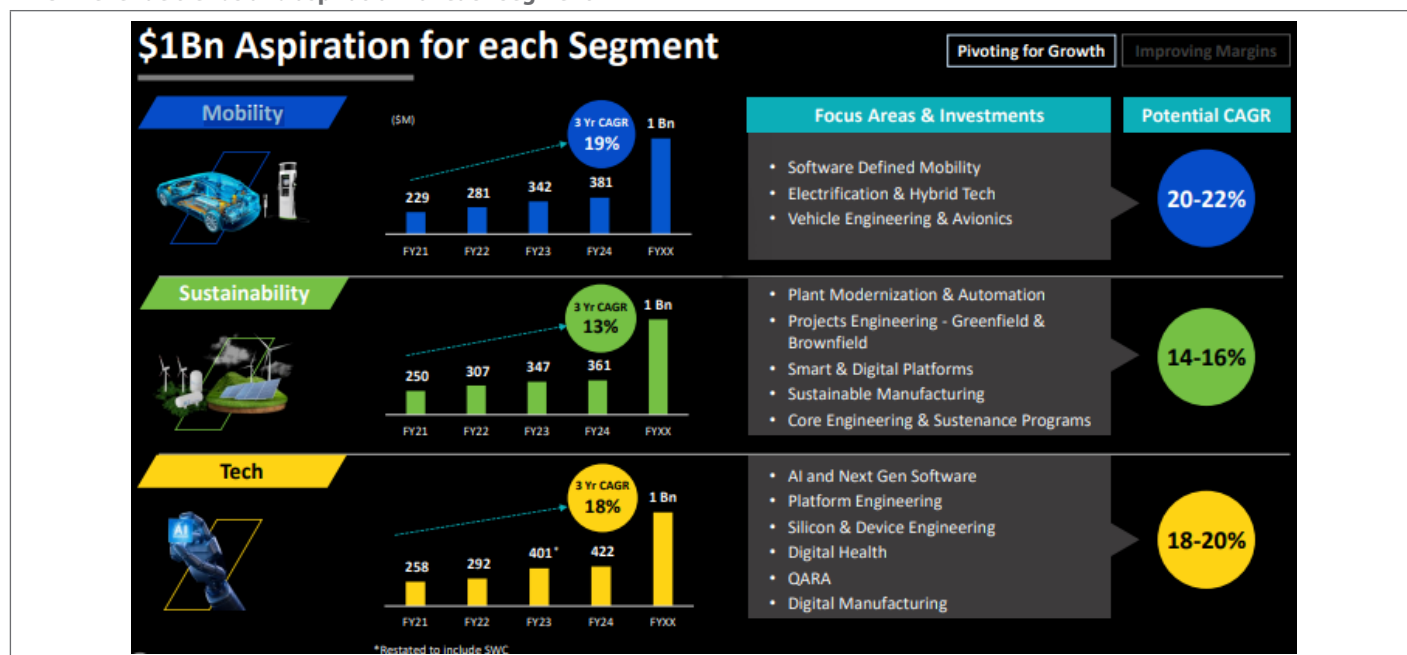
Source: Company; Sharekhan Research

LTTS 3.0 Aspiration



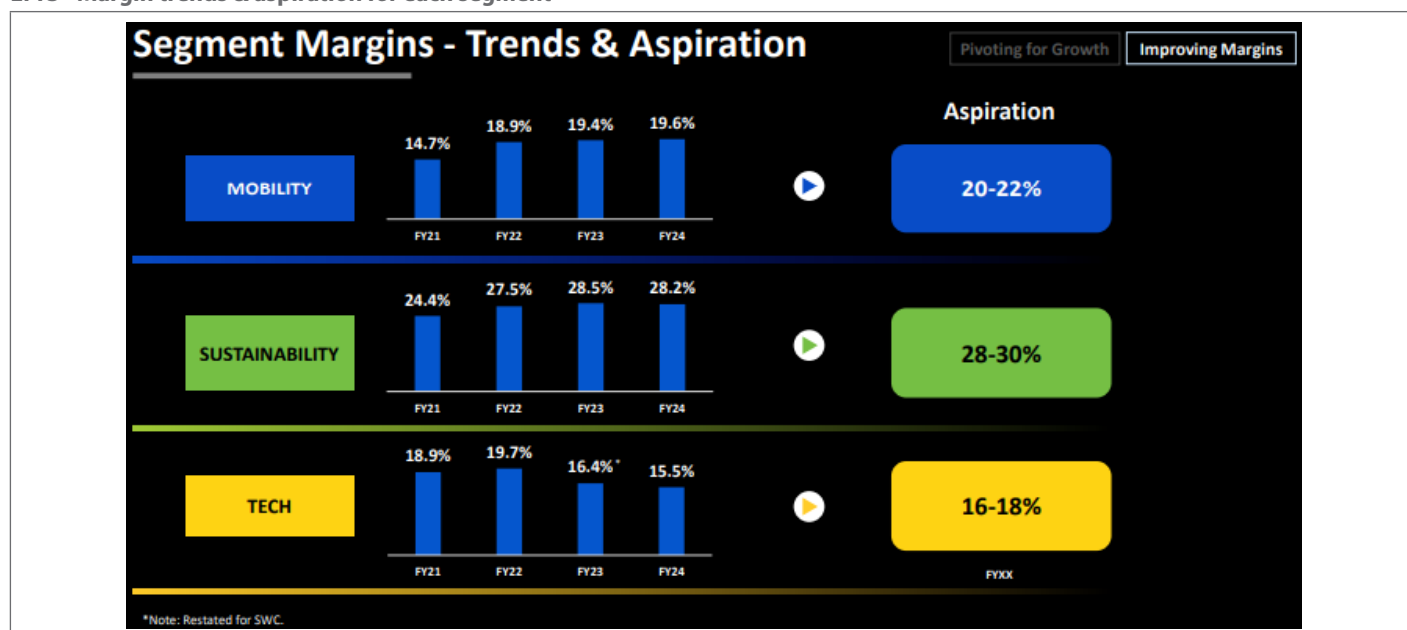
Source: Company; Sharekhan Research

LTTS - Revenue trends and aspiration for each segment



Source: Company; Sharekhan Research

LTTS - Margin trends & aspiration for each segment



Source: Company; Sharekhan Research

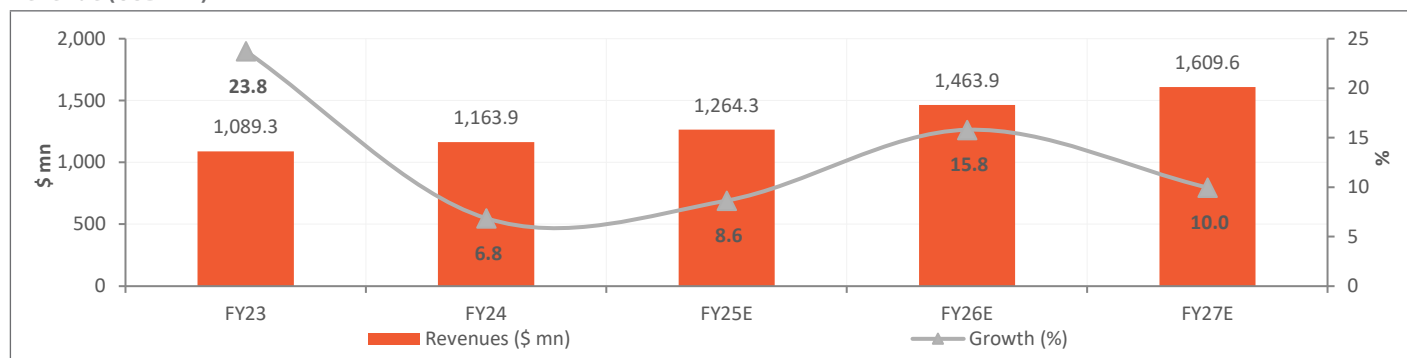
LTTS - M&A areas

Future M&A Areas	Strategic Capabilities	End-Markets	Levers for Value creation
Mobility	SDV, ADAS, Connected	Europe	• Reasonable valuation/ multiples
ISV	Platform Engineering, AI, ML, Data engineering	N. America	• Potential for higher offshoring
MedTech	Connected Healthcare, Patient management, Health Analytics	N. America	• Margin expansion opportunity

Source: Company; Sharekhan Research

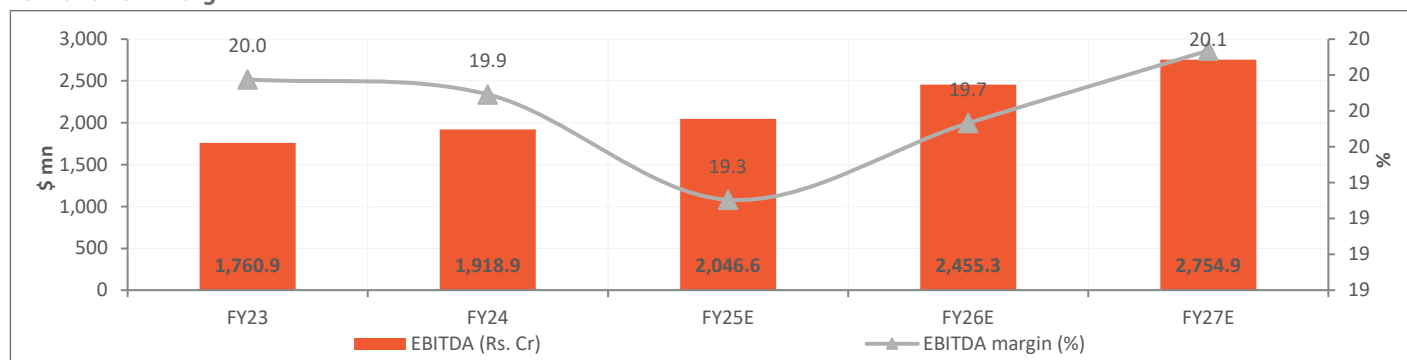
Financials in charts

Revenue (USD mn)



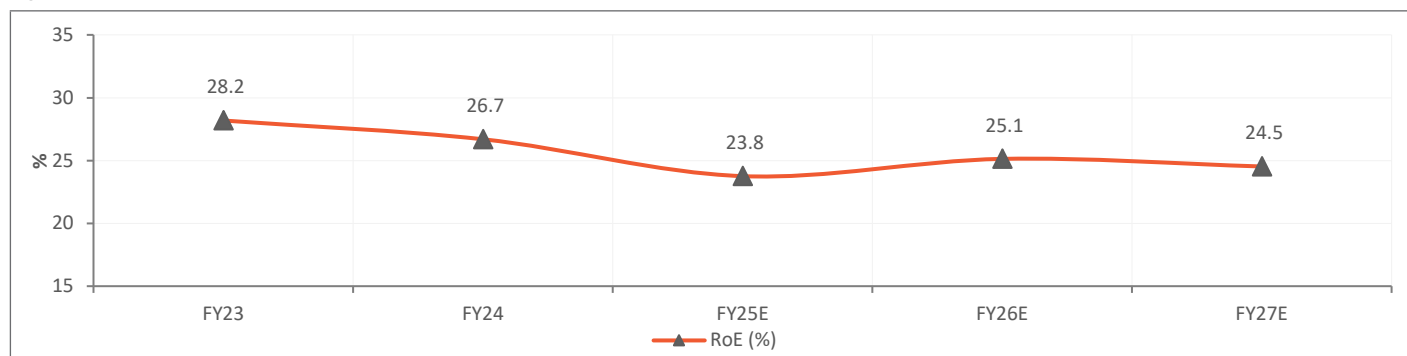
Source: Sharekhan Research

EBIT and EBIT Margin



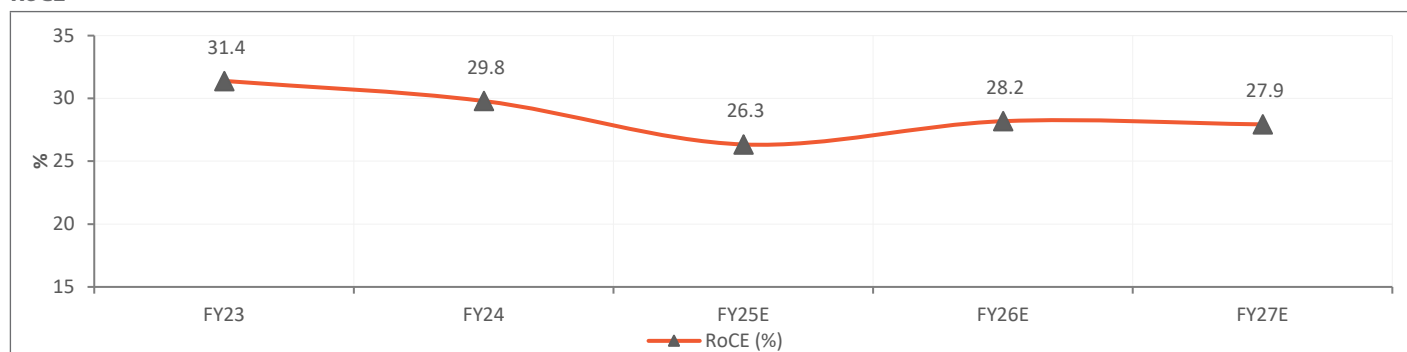
Source: Sharekhan Research

RoE



Source: Sharekhan Research

RoCE



Source: Sharekhan Research

Outlook and Valuation

■ Sector View – Macro headwinds bottoming out coupled with better earnings visibility.

We anticipate growth momentum to return in FY25 aided by lower base coupled with easing sector headwinds. Though, IT sector has already outperformed Nifty last year, we expect overall outperformance in CY24 as well driven by receding headwinds and better earnings visibility.

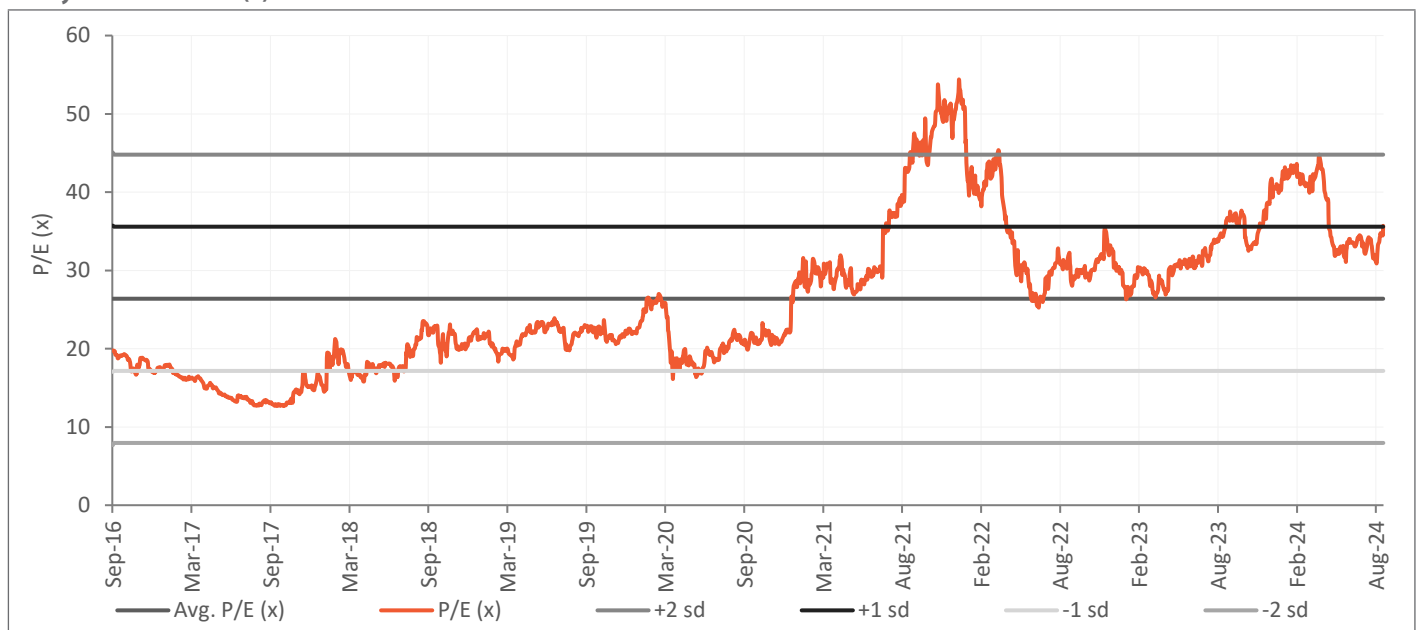
■ Company Outlook – Broad portfolio to support long growth runway.

LTTS is the third-largest engineering service provider (ESP) in India and is well-diversified across verticals. The large ERD addressable market and a huge scope in deepening relationships with top-30 customers provide multi-year sustainable growth prospects. Technology shifts in verticals are also positive for the company as they create huge growth opportunities for ESPs. For FY25, the company has provided revenue growth guidance of 8-10% in constant currency is much weaker than expectations. Further, the company expects muted EBIT margin for FY25 at 16%.

■ Valuation – Maintain Buy with revised price target of Rs. 6,500.

LTTS has laid out a well-directed approach to achieve its aspiration \$2 billion in revenue along with improvements in profitability in the medium term. The management is cautiously optimistic and is seeing marked improvements in pipeline compared to last year. Further, improving macro-economic conditions from the start of potential interest rate cuts in US is expected to accelerate pent-up demand recovery. We believe LTTS with its deep domain expertise and cutting-edge technological solutions is well placed to capitalise on the growing ER&D opportunities. We expect a sales/PAT CAGR of 12.4%/13.7% over FY24-27E. We maintain Buy on LTTS with revised PT of Rs 6,500 (valuing at 38x Sep 2026E EPS). At CMP, the stock trades at 44/35.7x its FY25/FY26E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

L&T Technology Services (LTTS) is a leading global ER&D services company, backed by the rich engineering expertise and experience of parent company, Larsen & Toubro. LTTS is a pure-play Engineering Design Services firm with a presence across multiple verticals (transportation, industrial products, telecom & hi-tech, medical devices and process industries). The company derives revenue 62.3% from North America, 16.1% from Europe, 14.5% from India and 7.1% from Rest of the World (RoW). The company offers ERD practices to 57 of the top R&D spenders worldwide. LTTS also has IP and Platforms which it independently sells to clients.

Investment theme

LTTS currently generates a mere 0.5% of its Top-30 (T-30) customers' R&D spends (\$75 billion) as revenue (\$376 million), which provides a long runway for growth. We believe the multi-sectoral presence and robust horizontal technology practice would help LTTS to deliver sustainable revenue growth momentum. Additionally, technology shifts in verticals is positive for LTTS as any change in technology creates huge growth opportunities for ESPs. Unlike peers, LTTS has a broader portfolio, which helps the company to mitigate the risk relating to vertical-specific cyclicity. We believe LTTS is well poised to deliver strong multi-year growth going forward, led by leadership depth, broad client portfolio, and multi-domain expertise across verticals and under-penetrated ERD outsourcing market.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements, and 2) Contagion effect of banking crisis, macro headwinds and recession in the US can moderate the pace of technology spending.

Additional Data

Key management personnel

A.M. Naik	Non-Executive Chairman
S.N. Subrahmanyam	Vice Chairman
Amit Chadha	Chief Executive Officer
Rajeev Gupta	Chief Financial Officer
Alind Saxena	President Sales & whole time Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	6.79
2	SBI Funds Management Ltd	1.63
3	SEAFARER OVERSEAS GROWTH & INC F	1.45
4	Seafarer Capital Partners LLC	1.45
5	Vanguard Group Inc/The	0.95
6	Axis Asset Management Co Ltd/India	0.42
7	Motilal Oswal Asset Management Co	0.41
8	NJ ASSET MANAGEMENT PVT INDIA	0.28
9	Norges Bank	0.24
10	PGIM India Asset Management Pvt Lt	0.23

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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