

## L&T Technology Services

L&T Technology Services (LTTS) is a mid-cap IT Services company, focussed on the Engineering Services segment. It reported revenue of US\$ 468mn in FY16, with EBITDA margins of 17%. The company provides outsourcing services to engineering companies across the world, for their research and design activities. Its clientele includes marquee names like BMW, Caterpillar, John Deere and Intel. Transportation (30%) and Industrial (25%) constitute its main verticals – while US/EU form 60%/20% of its revenues.

### Issue Highlights

<b>Issue Open</b>	12 September – 15 September 2016
<b>Price Band</b>	Rs. 850-860
<b>Issue Size</b>	89,22,388
<b>Equity Shares</b>	Offer for Sale of 10,400,000 Equity Shares of Rs 2
<b>Offer Size</b>	Rs. 884-894 crore
<b>Face Value</b>	Rs 2
<b>Book value</b>	Rs 110.81 (March 31, 2016)
<b>Bid size</b>	16 equity shares, in the multiples of 16 thereafter
<b>Book built Issue Capital Structure</b>	Pre Issue Equity: Rs. 20.33cr Post issue Equity: Rs.20.33 cr
<b>Listing</b>	BSE & NSE
<b>Book Running Lead Manager</b>	Kotak Mahindra Capital Company Ltd, DSP Merrill Lynch Limited, SBI Capital Markets Ltd.. JM Financial Institutional Securities Limited

<b>Shareholding Pattern</b>	<b>Pre issue %</b>	<b>Post issue %</b>
Promoters & Promoter Group	100	89.80
Public (incl institutions & employees)	0	10.20
<b>Total</b>	<b>100</b>	<b>100</b>

### Background

Incorporated in 2012, L&T Technology Services Ltd is India based third-party ER&D (Engineering, Research and Development) service provider. L&T Tech provide services to manufacturing, technology and process engineering companies to help them develop and build products, processes and infrastructure required to deliver products and services to their end customers. It derives 80.2% of its revenues from customers in North America and Europe. It has 12 global delivery centers in India and overseas, 27 sales offices in India, North America, Europe, the Middle East and Asia and 31 labs in India.

### Financials

<b>Particulars</b>	<b>For the year/period ended (in Rs. Million)</b>			
	<b>31-Mar-16</b>	<b>31-Mar-15</b>	<b>31-Mar-14</b>	<b>31-Mar-13</b>
Total Assets	18,227.27	17,144.82	6368.91	.50
<b>Total Revenue</b>	29,694.04	25,856.22	1,222	0
Profit After Tax	4342.36	3,151.77	62.14	-.03

## Objective

- The listing of the Equity Shares will enhance the brand name and provide liquidity to the existing shareholders.
- The listing will also provide a public market for the Equity Shares in India.
- LTTSL will not receive any proceeds from the Offer.

## Strength

- Leading global pure-play ER&D Services Company
- Well-diversified player with multi-vertical industry expertise and long-standing customer relationships.
- Focused on driving innovation through in-house R&D, IP and strategic alliances
- Strong L&T parentage and long history of engineering expertise
- Qualified and experienced personnel in an entrepreneurial culture

## Weakness

- Success depends on the ability to innovate
- Any inability to manage growth could disrupt the business and reduce profitability
- Success depends in large part upon the strength of the management team
- A reduction in the R&D budgets of existing and prospective customers could affect the pricing and volume of work
- Customers may stop or reduce the scope of outsourced ER&D work which may result in a reduction in the volumes of work
- Revenues are highly dependent on customers primarily located in North America and Europe as well as on customers concentrated in certain segments
- Revenue depends to a large extent on a limited number of customers, and its revenue could decline if it loses a major customer
- Revenues, expenses and profitability may be subject to significant fluctuation and hence may be difficult to predict
- Exchange rate fluctuations in various currencies in which the business is done could materially and adversely impact business, financial condition and results of operations
- Disruptions in telecommunications could harm service model, which could result in a reduction of revenue

## OUR VIEW

“At upper price band of Rs.860 , EPS and P/E of FY2017 are Rs. 48.65 and 17.68 multiple respectively and at a lower price band of Rs. 850, P/E multiple is 17.47; at upper price band of Rs.860 , book value and P/B of FY2017 are Rs.110.81 and 7.76 multiple respectively and at a lower price band of Rs. 850, P/B multiple is 7.67. The company delivers services through a network of delivery centres located across the U.S. and India and from its customers' locations. The majority of work is executed by employees based out of delivery centres in India using an offshore delivery model, giving LTTSL a competitive advantage in terms of talent pool availability and lower costs compared to its US and European competitors. However its revenues of the company are highly dependent on customers primarily located in North America and Europe as well as on customers concentrated in certain segments, notably industrial products, transportation, telecom and hi-tech, process industry and medical devices. We would recommend you to give the IPO a **miss**.