

L&T Technology Services (LTTSL) Ltd. "SUBSCRIBE for Long term"

9th Sep, 2016

Incorporated on June 14, 2012, L&T Technology Services Ltd ("LTTSL") is the leading global pure-play Engineering, Research and Development ("ER&D") services company. The company provide ER&D services, which defined as the set of services provided 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.

According to Zinnov Report, global corporate ER&D spend was US\$1,007 bn in 2015, of which the ER&D spend of the top 500 global ER&D spending companies spend was US\$614 bn in 2015. The estimated addressable ER&D outsourcing opportunity for ER&D service providers was US\$365 bn of the G500 ER&D spend in 2015. US\$67 bn of the corporate ER&D spend of US\$1,007 bn is currently addressed, which represents a penetration of 6.7% and offers potential growth opportunities.

LTTSL has 12 Global Delivery Centres in India and Overseas, 26 Sales Offices in India, North America, Europe, the Middle East and Asia and 31 Labs in India. As on date, the Company has filed 35 proprietary patents and 134 patents has been filed by company's customers along with their employees.

LTTSL operate in 5 Industry Segments (Transportation, Industrial Products, Telecom and Hi-tech, Process Industry and Medical Devices, each of which represent a significant component of G500 ER&D spend. 50.3% of the revenue in FY 2016 was derived from the 3 segments of Industrial Products, Process Industry and Medical Devices. These 3 segments represent US\$205 billion of G500 ER&D spend and have low penetration by India based third-party ER&D service providers, which gives the company a competitive advantage. LTTSL offers design and development solutions throughout the product development chain and provide solutions in the areas of Mechanical and Manufacturing Engineering, Embedded Systems, Software Engineering and Process Engineering. For "new" technologies, LTTSL provide services and solutions in the areas of Product Lifecycle Management, Engineering Analytics, Power Electronics, M2M connectivity and IoT. LTTSL focus on innovation driven technology leadership and have set up Research and Test Laboratories that are specific to particular industry verticals and that seek to replicate their customer's work environment, enabling them to work very closely with the customers' research and development teams on product innovation through leveraging their technology.

By region, LTTSL derive 80.2% of their revenues from customers in North America and Europe, which are the 2 largest regions of corporate ER&D spend and represented over 73% of the US\$1,007 billion corporate ER&D services spend in 2015. The top 100 spenders in the G500 ER&D spend contribute 66.3% of the G500 ER&D spend and their key global customers include 43 of the top 100 global ER&D spenders, which offers significant growth opportunities for existing customer accounts. LTTSL has invested in IoT, Digital Technologies (smart products, smart services, smart manufacturing and smart operations) and Lab Infrastructure to strengthen their position in these areas. Their ER&D services help customers reduce time-to-market for their end products and services innovate to create new products and solutions, reduce cost of development and meet increasing regulatory requirements more effectively.

LTTSL has been recognized by Zinnov in the "leadership zone" in eight industry verticals (industrial automation, construction & heavy machinery, medical devices, aerospace, automotive, rail & marine telecom, energy and utilities in Zinnov's GSPR Ratings 2015.

Issue date	12 -15 September, 2016
Finalisation of basis of allotment	20th September, 2016
Initiation of refunds	21 st September, 2016
Credit of equity shares in demat a/c	22 nd September, 2016
Listing	23 rd September, 2016
Type of issue	Offer for sale: Rs. 8,944 mn Equity Shares - 10,400,000 (entirely Offer for sale by L&T)
Pre Issue Promoter Holding	100% by Larsen & Toubro Ltd.
Face Value	Rs. 2
Price Band	Rs. 850 – Rs. 860 per share
Lot size	16 equity Shares & multiple of 16 equity shares thereafter
Post issue Market Cap.	Rs.86.4-87.4 bn
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%
Book Running Lead Managers	Kotak Mahindra, DSP Merrill Lynch, JM Financial, SBI Capital
Registrar to the issue	Karvy Computershare Pvt. Ltd.

Y/e 31 Mar (Rs. mn)	Q1FY17	FY16	FY15
Total income	8,334	31,427	26,439
EBITDA	1,855	5,967	4,240
EBITDA (%)	19.3	17.0	15.2
PAT	1,237	4,166	3,109
PAT (%)	14.8	13.2	11.7
Equity Share Capital	203.38	10,500	10,500
Networth	11,268	10925	10,521
Post issue EPS (Rs.)	12.16	40.96	30.5
ROE (%)	-	38.85	29.57

Investment Rationale and Recommendation

At the upper end of the price band of Rs. 860, the IPO is valued at a P/E of 21x at Post issue FY16 EPS of Rs. 40.96 which is cheap as compared to its immediate peers. With due consideration to factors like a) underpenetrated corporate ER&D market, b) leading global pure – play ER& D services Company, c) niche business model with very few players in India, d) well diversified player with multi – vertical industry expertise and long standing customer relationships, e) focused on driving innovation through in – house R&D, IP and strategic alliances, f) strong L&T parentage and long history of engineering expertise, g) marquee global clients, h) no Brexit impact as major operations in North America, i) robust ROE of 38.85%, we recommend to SUBSCRIBE the issue for long term.



Objects of the issue

To achieve the benefits of listing the Equity Shares on the Exchanges and to carry out the sale of up to 10,400,000 Equity Shares by the Selling Shareholders

Company Background

L&T Technology Services Limited ("LTTSL") was incorporated as L&T Technology and Engineering Services Co. Ltd. on June 14, 2012 at Mumbai as a Public Limited Company. As the Engineering Services business of the company is subset of Technology Services, the name of the company was changed to L&T Technology Services Limited to more appropriately describe their business in line with the company's main objects, at the EGM held on July 19, 2012.

The Promoter – Larsen & Toubro ("L&T"), currently holds 101,690,392 Equity Shares (including 6 Equity Shares held jointly with 6 individuals as nominees of the Promoter), equivalent to 100% of the pre-offer issued, subscribed and paid-up Equity Share capital of the company.

Established through a group restructuring exercise, LTTSL leverage the strengths of their parent company, L&T, a leading Indian conglomerate in Technology, Engineering, Construction, Manufacturing and Finance, which has provided LTTSL with a broad engineering and design heritage. Prior to January 1, 2014, their business was conducted as a division (called Integrated Engineering Services ("IES")) of L&T and as a sub-segment (called Product Engineering Services ("PES")) of L&T's subsidiary, LTIL.

As part of a business restructuring exercise, the PES business from LTIL, (except its unit in Germany, which was transferred with effect from September 1, 2014), and the IES business from L&T was transferred to the company (LTTSL) with effect from January 1, 2014 and April 1, 2014, respectively.

As part of the restructuring, LTTSL brought together engineers with domain expertise in product and process industry from IES and PES to create a specialised talent pool in ER&D services to deliver higher value to their customers. During FY 2015, LTTSL also acquired a majority of the equity share capital of TSIPL, a company engaged in the business of, among others, software development, IT consulting, software evaluation, design, implementation, research and training in relation to computer software. Further, during FY 2015, LTTSL also acquired certain of the assets and liabilities of Dell Product and Process Innovation Services, the engineering services division of Dell U.S.A., and also acquired its operations in India from Dell India.

Management

Mr. A. M. Naik is the Non-Executive Chairman of the company. He has been associated with the Promoter Company for over 5 decades. He has secured several global, national and professional honours, including the "Padma Bhushan".

S. N. Subrahmanyam is a Non-Executive Director of the company. He has over 30 years of experience in the Infrastructure and Construction industry.

Dr. Keshab Panda is the Chief Executive Officer and Managing Director of the company. He has over 31 years of global industry experience in Research and Engineering Services business.

Amit Chadha is a Whole-time Director and the Chief Sales Officer of the company. He has more than 20 years of experience.

Kumar Prabhas is a Whole-time Director and the Chief Operating Officer of the company. He has over 19 years of experience in management.

P. Ramakrishnan is the Chief Financial Officer of the company. He has over 23 years of experience.



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