

BID

Key Data	
Floor Price (Rs)	1610
Face Value(Rs)	2/-
Issue Size(Rs)	900cr
Total offered shares	55,92,807
NSE Code	LTTTS
BSE Code	540115
52 Week High (Rs)	1853
52 Week Low (Rs)	1150
Retail	
Issue Opens	31 January, 2019
Issue Closes	31 January, 2019
Retail offered shares	5,59,281
Source: BSE India	

L&T TECHNOLOGY SERVICES LTD

Company Background:

Headquartered in India, L&T Technology Services Ltd (LTTTS) is the only Indian pure play engineering R&D Company of its kind to offer ER&D services & solutions to all major industries viz Transportation, Industrial Products, Telecom & Hi-Tech, Medical Devices and Process Industry.

Company provides services and solutions in the areas of New Product Development, Product Lifecycle Management, Engineering Analytics, Power Electronics, M2M Connectivity and IoT. Company serves more than 200 customers globally, including 48 of the top 100 Global Engineering R&D spenders. Company has around 14700 employees spread across 17 global design centers, 27 global sales offices and 48 innovation labs as of December 31, 2018.

Company's ER&D services help customers to 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.

Issue Objectives:

In order to meet the minimum public shareholding norms as per the SEBI guidelines, the promoter of the company i.e. Larsen & Toubro Ltd, propose to sell up to 30,00,000 equity shares representing 2.89% of the total paid up equity share capital with an option to additionally sell 25,92,807 equity shares (oversubscription options) representing 2.49% of the total paid up equity shares capital of the company of face value of Rs 2/- each. The floor price has been set at Rs 1610/- per share.

Allocation Methodology:

The allocation would be on a price priority method at multiple clearing prices in accordance with the SEBI OFS circular. The issue opens for subscription on January 30, 2019 for institutional bidders. Retail investors for whom 10% shares have been reserved will get to bid on January 31, 2019.

Rationales:

Leading global pure-play ER&D services company

As a pure-play ER&D player, company believes that they have an advantage over general IT services companies that also provide ER&D services, whilst targeting the ER&D business. LTTTS act as a "one stop shop" for their key customers as company covers phases from conceptualization to implementation within the product and manufacturing engineering life cycles, including consulting, design, development, testing, maintenance, go-to-market and after-market services.

Well-diversified player with multi-vertical industry expertise and long-standing customer relationships

Company possesses a multi-vertical industry expertise and target a broad spectrum of services in all the segments of their business. They have achieved a market leadership position in eight industry verticals and have developed capabilities in areas such as plant engineering. Further, company has long-standing relationships with their customers, which include more than 52 leading Fortune 500 companies and technology leaders in their industry including P&G, UTC, Danaher, Eaton, Rockwell Automation and Calsonic Kansei. Also, they have been doing business with some of their customers for more than 10 years with repeat business contributes 90% of revenue.

Strong parentage support

Company has been benefitting from the engineering expertise of L&T, which has recognized as the most valuable brand in India. We believe company's association with the L&T brand provides them with a competitive advantage in attracting talent, benefiting from Promoter's global network, exploring potential business opportunities, corporate governance practices and acquiring direct access to senior decision makers in potential end customers.

Strong Financial Performance & robust cash flow generation

In last few years, i.e. from FY15-FY18, company's revenue & profitability has grown at a CAGR of 13% & 18% respectively. During the same time, company's EBIT margins have remain steady at 13%. During 9MFY19, company registered revenue growth of 38.7% at Rs 3735cr & net profit growth of 70% at Rs 576cr. Further, company's EBIT margin has improved from 13.7% as on 9MFY18 to 15.8% as on 9MFY19. Also during Q3FY19, company reported dollar revenue growth of 4.8% & constant currency growth of 4.6% with a profit growth of 47% on YoY basis. With all round growth across verticals, company raised its full year dollar guidance from 21% earlier to 24%. Moreover during Oct 2018, company also acquired 100% stake in Graphene Semiconductor Services Private Limited in an all cash deal basis. This will enhance company's capabilities in semiconductor & product OEM space. As on Dec 2018, company has generated Rs 430cr of free cash flow as compared to Rs 363cr in FY18.

Recommendations:

At floor price of Rs 1610/-, the stock trades at 22.3 x its FY19E EPS of Rs 72.18/-. With increasing spend on digital engineering along with deep industry expertise and capabilities in emerging technologies like NBIoT, Edge Computing, M2M and 5G position, we believe, this would benefit company in capturing a higher wallet share of digital engineering spend in coming quarters. Hence, **we recommend to BID the OFS on a long term basis.**

Asit C. Mehta

INVESTMENT INTERMEDIATES LTD.

Retail Research Desk:

Akhil Rathi D: 91 22 2858 3210
Hrshikesh Yedve D: 91 22 2858 3207
Vrinda Aditya D: 91 22 2858 3209
Neeraj Sharma D: 91 22 2858 3208
Rohan Gawale D: 91 22 2858 3213
Dhiral Shah D: 91 22 2858 3211

Email: retailresearch@acm.co.in

Research Analyst Registration Number:

INH000002483

CIN: U65990MH1993PLC075388

An ISO 9001:2015 Certified
Company

Follow us on:



Information pertaining to Asit C. Mehta Investment Intermediates Limited (ACMIIL):

ACMIIL is a SEBI registered Stock Broker, Merchant Banker and Depository Participant. It is also a AMFI registered Mutual Fund Distributor. It does not have any disciplinary history. Its associate/group companies are Asit C. Mehta Commodity Services Limited, Asit C. Mehta Realty Services Pvt. Ltd, Asit C. Mehta Forex Pvt. Ltd, Nucleus IT Enabled Services , Asit C. Mehta Financial Services Limited (all providing services other than stock broking and merchant banking).

Disclosures

ACMIIL/its associates and its Research analysts have no financial interest in the companies covered on the report. ACMIIL/its associates and Research analysts did not have actual/beneficial ownership of one per cent or more in the companies being covered at the end of month immediately preceding the date of publication of the research report. ACMIIL/its associates or Research analysts have no material conflict of interest, have not received any compensation/benefits for any reason (including investment banking/ merchant banking or brokerage services) from either the companies concerned/third parties with respect to the companies covered in the past 12 months. ACMIIL/its associates and research analysts have neither managed or co-managed any public offering of securities of the companies covered nor engaged in market making activity for the companies being covered. Further, the companies covered neither are/nor were a client during the 12 months preceding the date of the research report. Further, the Research analyst/s covering the companies covered herein have not served as an officer/director or employee of the companies being covered

Disclaimer:

This report is based on information that we consider reliable, but we do not represent that it is accurate or complete and it should not be relied upon such. ACMIIL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in the report. To enhance transparency we have incorporated a Disclosure of Interest Statement in this document. This should however not be treated as endorsement of the views expressed in the report