

# LTIMindtree

# HOLD

Deal conversion to be lumpy

## Summary

LTIM reported subdued Q1FY24 revenues mainly led by slow decision making, delay in ramp ups, slowdown in discretionary spend and banking. While the company continues to win robust deals (US\$1.4 bn, 1.3x book to bill) there is delay in conversion and ramp up. This uncertainty prompt us to revise FY24E revenue estimates to 8% YoY Vs 9% YoY earlier. However, LTIM is winning large deals, multi-year deals and will be key beneficiary of deal ramp ups & deal conversions in improving macro. Hence we have kept our 15% YoY growth assumption for FY25E. In addition, we expect 143 bps margin improvements over FY23-FY25E. This will lead to revenue and profit CAGR of 12% and 15% over FY23-FY25E. Considering the recent run up in price, we maintain our HOLD rating on the stock & target price of Rs 4,975 (25x FY25E EPS).

## Key Highlights

- **Near term weakness long term intact:** LTIM is seeing healthy traction in large deal wins (multi year deals) and robust order intake of US\$1.4 bn (book to bill of 1.3x) in the quarter. Further, improving growth in SAP digital, data, vendor consolidation and ramp up of deal wins will boost revenue growth in long term. This coupled with cross sell and participation in bigger deals bodes well for long term growth. Hence, although in near term macro can impact deal conversion, longer term visibility remains robust.
- **Margins to remain healthy:** In the near term headwinds like lower revenue growth, onsite cost and transition cost could act as a headwind. However we believe that easing of supply side pressures, operational efficiencies, pyramid rationalization and lower sub con will help the company to improve its margins. Hence, we margins to improve by 74 bps & 69 bps to 17.0% and 17.7% in FY24E & FY25E, respectively.

TP **Rs4,975**

CMP **Rs5,134**

Potential upside/downside -3%

Previous Rating BUY

## Price Performance (%)

	-1m	-3m	-12m
Absolute	2.5	18.5	29.2
Rel to Sensex	(2.6)	7.4	5.3

## V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	166	197
Consensus	171	203
% difference	(3.0)	(2.9)

## Key Stock Data

Bloomberg/Reuters	LTIM IN / LRTI.BO
Sector	IT
Shares o/s (mn)	296
Market cap. (Rs mn)	1,519,117
3-m daily avg Trd value (Rs mn)	89.0
52-week high / low	Rs5,425 / 3,990
Sensex / Nifty	66,590 / 19,711

## Shareholding Pattern (%)

Promoters	68.7
FII	8.4
DII	11.0
Public	11.9

## Financial snapshot

Year	FY21*	FY22	FY23	FY24E	FY25E
Revenue	2,03,376	2,61,087	3,31,830	3,64,538	4,20,097
Change (yoy, %)	9	28	27	10	15
EBITDA	43,679	52,486	61,077	69,077	82,441
Change (yoy, %)	41	20	16	13	19
EBITDA Margin(%)	21.5	20.1	18.4	18.9	19.6
Adj.PAT	30,131	39,483	44,083	49,101	58,186
EPS (Rs)	165	133	149	166	197
Change (yoy, %)	42	(19)	12	11	19
PE(x)	31	38	34	31	26
Dividend Yield (%)	1	1	1	1	2
EV/EBITDA (x)	20	28	24	21	17
RoE (%)	30.4	30.7	28.6	27.3	27.5
RoCE (%)	36	34	32	32	33

Source: IDBI Capital Research, \*LTI standalone

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### Other Key Highlights

- Revenue stood at \$ 1.06 bn, growth of 0.1%/8.2% QoQ/YoY in CC terms and 8.1% in dollar terms YoY.
- EBIT margin came at 16.7%, up 30bps sequentially compared to 16.4% in previous quarter. Gross margin expanded by 170 bps (120 bps increase due to reclassification of 1,000 employees from delivery to sales, 70 bps rise due to improved utilisation which was negated by visa cost to the tune of 20 bps). Offset to the tune of 140 bps due to increase in SGA cost and marketing spends.
- In terms of verticals, BFSI de grew by 1.3% QoQ in \$ terms, manufacturing contracted by 1.1% QoQ, hitech & media grew 3.2% QoQ, retail & CPG de grew 1.3% QoQ, health and lifesciences vertical grew 4.1% QoQ. In terms of geography, America grew 1.7% QoQ, Europe and RoW declined by 0.9% and 7.8% QoQ respectively. European customers are assessing business deals, budget and IT spends.
- Demand trend – BFSI observed delay in decision making, reduced discretionary spend, slower ramp up and hiring freeze. Tough macro conditions have led to rise in vendor consolidation deals in this vertical. Manufacturing industry is seeing investments being made in supply chain modernization and IoT. E&U sector in the manufacturing industry is investing in modernization of operations. Retail industry is observing rise in commitment on long term projects like rolling out ERP and shift towards predictive analysis. Leisure travel under the TTH industry is seeing robust demand while the business travel is yet to pick up. In the healthcare vertical, value based care and as-a-service business model are seeing traction.
- Order inflow for quarter came at \$1.4bn, a growth of 16.9% YoY & 4.9% sequentially. Company stated that there is a rise in cost efficiency deals which are longer in tenure. Management also informed that 60%-70% of deals won in H1 tend to get converted to revenue in the next 4 quarters. Added 90 new clients and also increased count of \$10mn+ customers by 9 to a total to 88.
- For Q1FY24, LTM attrition was 17.8% down from 20.2% from last quarter. Company believes attrition will show downward trend on LTM basis. Utilisation rate saw an improvement reaching 84.8%.
- Despite a weak Q1 performance, as of now, LTIM is confident of achieving double digit growth for FY24E. However, if delayed decision making continues for Q2FY24E, company will reassess its future growth target. On the margins front, LTIM is confident of achieving EBIT margin of 17%-18% for FY24E despite wage hike planned to be undertaken in July.

**Exhibit 1: Financial snapshot**

(Rs mn)

Year-end: March	Q1FY24	Q4FY23	QoQ (%)	Q1FY23	YoY (%)
<b>Revenues (US\$ mn)</b>	<b>1058.7</b>	<b>1057.5</b>	<b>0.1</b>	<b>979.5</b>	<b>8.1</b>
<b>Revenues</b>	<b>87,021</b>	<b>86,910</b>	<b>0.1</b>	<b>76,442</b>	<b>13.8</b>
COGS	59,519	60,923	(2.3)	52,656	13.0
Gross profit	27,502	25,987	5.8	23,786	15.6
SG&A	11,147	9,950	12.0	8,850	26.0
<b>EBITDA</b>	<b>16,355</b>	<b>16,037</b>	<b>2.0</b>	<b>14,936</b>	<b>9.5</b>
Depreciation & amortization	1,847	1,823	1.3	1,664	11.0
<b>EBIT</b>	<b>14,508</b>	<b>14,214</b>	<b>2.1</b>	<b>13,272</b>	<b>9.3</b>
Other income	856	228	275.4	1,465	(41.6)
PBT	15,364	14,442	6.4	14,737	4.3
Tax	3,841	3,301	16.4	3,672	4.6
Minority interest	8	4	100.0	9	(11.1)
Adjusted net profit	11,515	11,137	3.4	11,056	4.2
Exceptional items	0	0	n.m.	0	n.m.
<b>Reported net profit</b>	<b>11,515</b>	<b>11,137</b>	<b>3.4</b>	<b>11,056</b>	<b>4.2</b>
<b>Recurring EPS (Rs)</b>	<b>38.9</b>	<b>37.6</b>	<b>3.4</b>	<b>37.4</b>	<b>4.2</b>
<b>As % of net revenue</b>					
Gross profit	31.6	29.9		31.1	
SG&A	12.8	11.4		11.6	
EBITDA	18.8	18.5		19.5	
EBIT	16.7	16.4		17.4	
Reported net profit	13.2	12.8		14.5	
Tax rate	25.0	22.9		24.9	

Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. estimates**

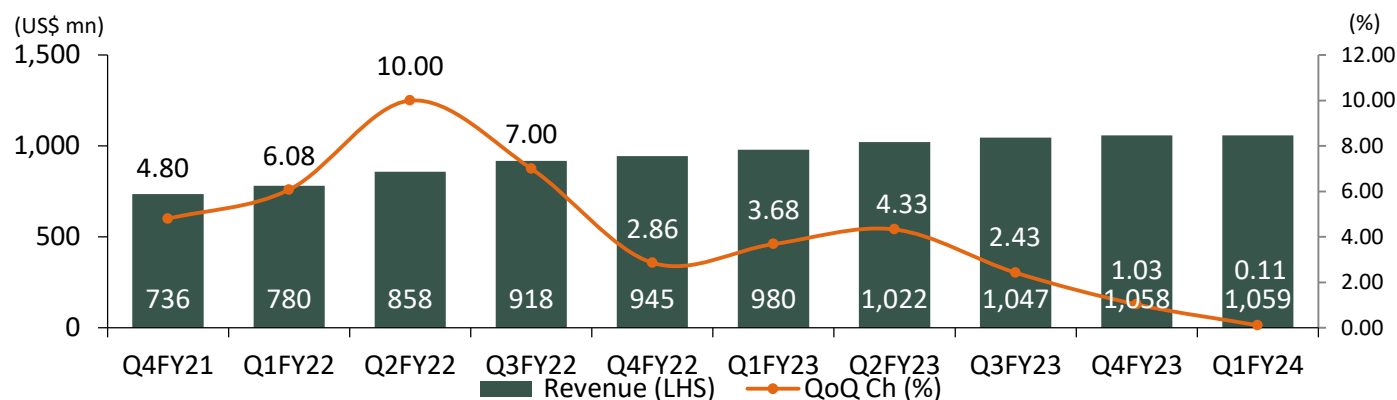
Year to March	Q1FY24	Q1FY24E	Variance (%)
Revenue (US \$mn)	1,058.7	1,070	-1.1%
Revenue (Rs mn)	87,021	87,998	-1.1%
EBIT (Rs mn)	14,508	15,248	-4.9%
EBIT margin (%)	16.7%	17.3%	(66)bps
PAT (Rs mn)	11,515	12,083	-4.7%
PAT margin (%)	13.2%	13.7%	(50)bps
EPS (Rs)	38.9	40.8	-4.6%

Source: Company, IDBI Capital Research

**Exhibit 3: Earnings Revision**

Year-end: March	FY24E			FY25E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	4,435	4,484	-1.1%	5,111	5,154	-0.8%
Revenue (Rs mn)	3,64,538	3,68,598	-1.1%	4,20,097	4,23,635	-0.8%
EBIT (Rs mn)	61,845	62,371	-0.8%	74,169	74,613	-0.6%
EBIT margin (%)	17.0%	16.90%	7 bps	17.7%	17.60%	6 bps
EPS (Rs)	166.0	166.7	-0.4%	196.7	197.5	-0.4%

Source: Company; IDBI Capital Research

**Exhibit 4: Q1FY24 revenue growth was below our expectation**


Source: Company; IDBI Capital Research

**Exhibit 5: Revenue growth across various segments (%)**

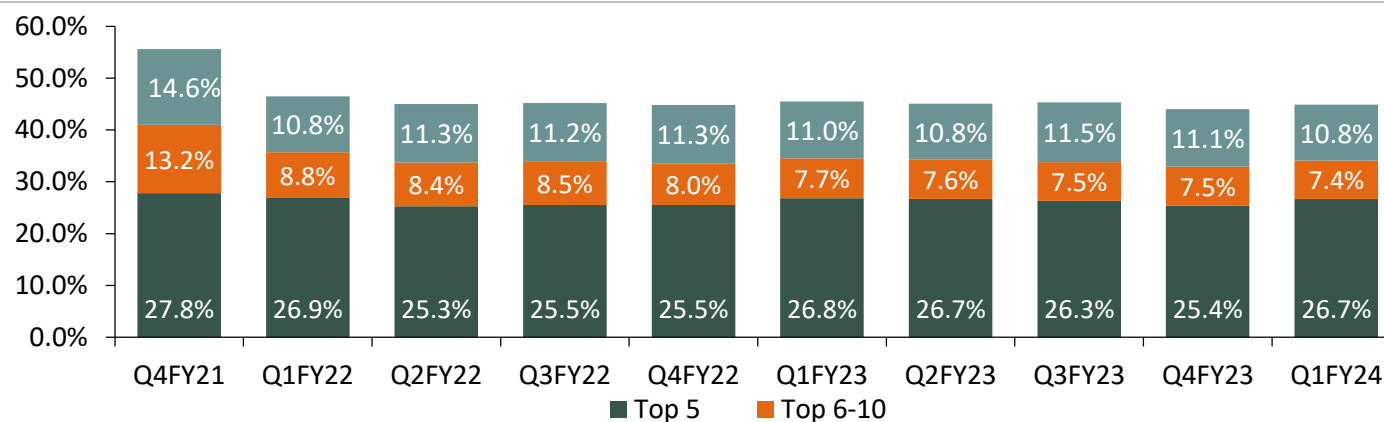
Parameters	% of revenue	QoQ growth	YoY growth
Overall revenue growth		0.1	8.2
<b>Geography</b>			
US	73.1%	2%	10.20%
Europe	15.2%	-1%	7%
ROW	11.7%	-8%	3%
<b>Verticals</b>			
BFSI	37.5%	-1.3%	12.1%
Manufacturing & Resources	17.3%	-1.1%	14.9%
CPG, Retail, Travel & Transportation	15.1%	-1.3%	4.6%
High-Tech, Media & Entertainment	23.7%	3.2%	1.0%
Health Lifescience & Public Services	6.4%	4.1%	4.7%

Source: Company; IDBI Capital Research

**Exhibit 6: Large client's trend**

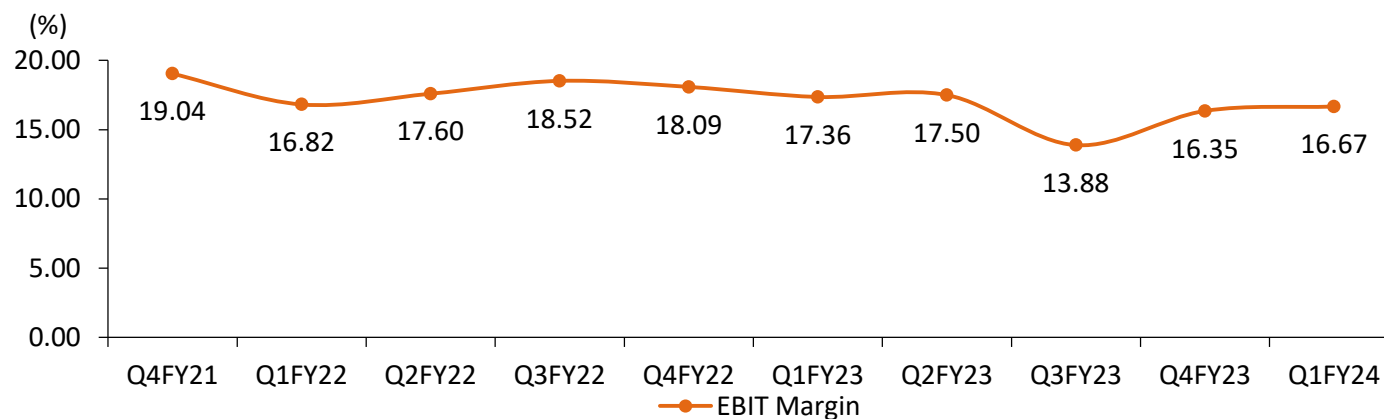
Year-end: March	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
US\$100m+ clients	2	2	2	2	2	2	2	2
US\$50m+ clients	9	9	10	10	11	11	13	13
US\$20m+ clients	30	31	37	40	38	37	38	40
US\$10m+ clients	74	76	76	79	77	81	81	88
US\$5m+ clients	117	120	125	130	137	144	146	148
US\$1m+ clients	301	316	327	337	361	374	383	388

Source: Company; IDBI Capital Research

**Exhibit 7: Top client's revenue share trend**


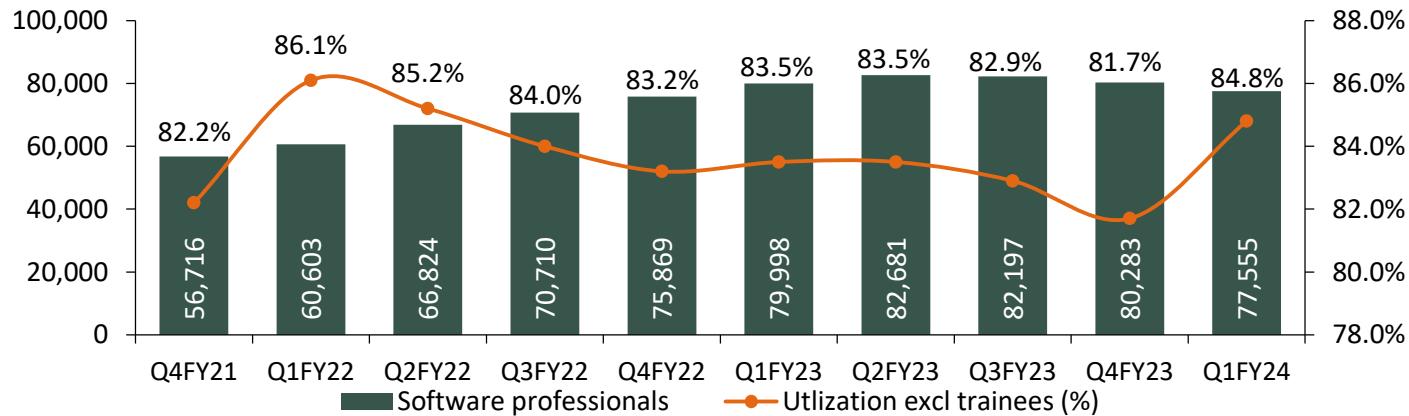
Source: Company; IDBI Capital Research

**Exhibit 8: EBIT margin improved sequentially to ~30bps QoQ**



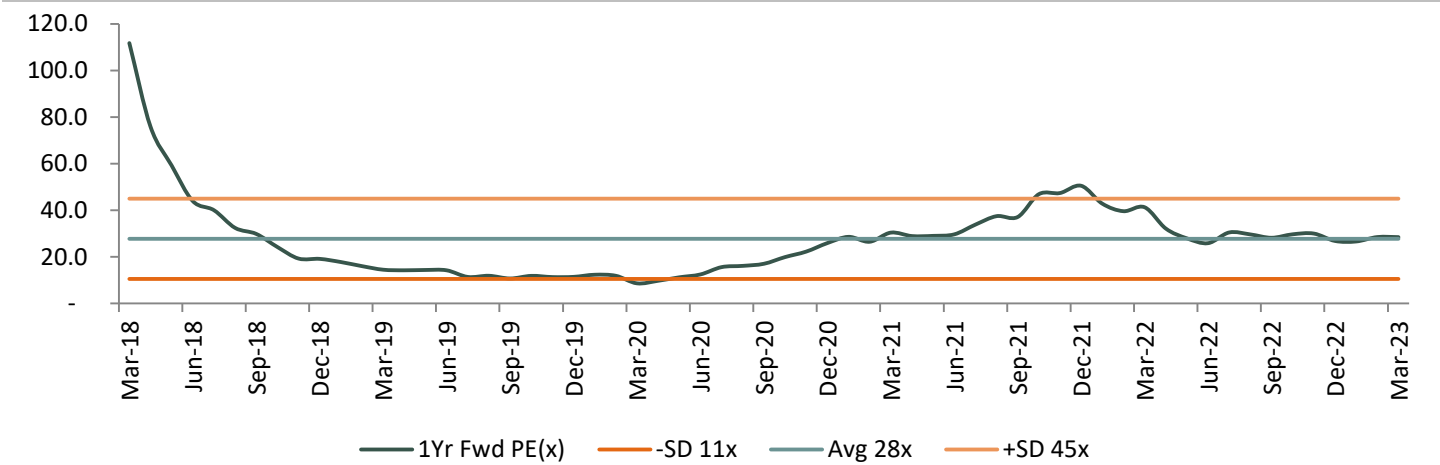
Source: Company; IDBI Capital Research

**Exhibit 9: Utilization improved sequentially to 84.8%**



Source: Company; IDBI Capital Research

Exhibit 10: One-year forward PER trend



Source: Company; IDBI Capital Research



## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20*	FY21*	FY22	FY23	FY24E	FY25E
<b>Net sales</b>	<b>1,86,429</b>	<b>2,03,376</b>	<b>2,61,087</b>	<b>3,31,830</b>	<b>3,64,538</b>	<b>4,20,097</b>
<i>Change (yoy, %)</i>	13	9	28	27	10	15
Operating expenses	(1,55,514)	(1,59,697)	(2,08,601)	(2,70,753)	(2,95,461)	(3,37,656)
<b>EBITDA</b>	<b>30,915</b>	<b>43,679</b>	<b>52,486</b>	<b>61,077</b>	<b>69,077</b>	<b>82,441</b>
<i>Change (yoy, %)</i>	5	41	20	16	13	19
<i>Margin (%)</i>	16.6	21.5	20.1	18.4	18.9	19.6
Depreciation	(5,484)	(5,921)	(5,971)	(7,227)	(7,232)	(8,271)
<b>EBIT</b>	<b>25,431</b>	<b>37,758</b>	<b>46,515</b>	<b>53,850</b>	<b>61,845</b>	<b>74,169</b>
Interest paid	(1,355)	(1,292)	3,145	(479)	(1,840)	(1,840)
Other income	4,240	4,400	3,279	4,544	5,789	5,800
<b>Pre-tax profit</b>	<b>28,316</b>	<b>40,866</b>	<b>52,939</b>	<b>57,915</b>	<b>65,794</b>	<b>78,129</b>
Tax	(7,158)	(10,714)	(13,439)	(13,812)	(16,669)	(19,923)
<i>Effective tax rate (%)</i>	25	26	25	24	25	26
Minority Interest	(4)	(21)	(17)	(20)	(23)	(20)
Exceptional Items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>21,154</b>	<b>30,131</b>	<b>39,483</b>	<b>44,083</b>	<b>49,101</b>	<b>58,186</b>
<i>Change (yoy, %)</i>	(6)	42	31	12	11	19
EPS	116.2	165.4	133.4	148.9	165.9	196.6
Dividend per share	28	40	55	60	70	80
<i>Dividend Payout (%)</i>	29	24	41	40	42	41

\* LTI standalone

**Balance Sheet**

(Rs mn)

Year-end: March	FY20*	FY21*	FY22	FY23	FY24E	FY25E
<b>Shareholders' funds</b>	<b>83,970</b>	<b>1,14,584</b>	<b>1,42,872</b>	<b>1,65,921</b>	<b>1,94,302</b>	<b>2,28,809</b>
Share capital	182	182	296	296	296	296
Reserves & surplus	83,788	1,14,402	1,42,576	1,65,625	1,94,006	2,28,513
<b>Total Debt</b>	<b>330</b>	<b>414</b>	<b>519</b>	<b>1,253</b>	<b>1,253</b>	<b>1,253</b>
Other liabilities	4,641	3,987	11,972	14,143	14,143	14,143
<b>Curr Liab &amp; prov</b>	<b>47,003</b>	<b>49,497</b>	<b>50,404</b>	<b>53,573</b>	<b>54,617</b>	<b>56,748</b>
Current liabilities	42,691	43,221	44,112	45,439	46,483	48,614
Provisions	4,312	6,276	6,292	8,134	8,134	8,134
<b>Total liabilities</b>	<b>51,974</b>	<b>53,898</b>	<b>62,895</b>	<b>68,969</b>	<b>70,013</b>	<b>72,144</b>
<b>Total equity &amp; liabilities</b>	<b>1,35,955</b>	<b>1,68,519</b>	<b>2,05,824</b>	<b>2,34,961</b>	<b>2,64,387</b>	<b>3,01,024</b>
Net fixed assets	33,258	32,490	39,757	45,814	43,374	48,102
Investments	806	2,174	6,513	7,165	7,165	7,165
Other non-curr assets	7,130	7,971	10,168	10,085	10,085	10,085
<b>Current assets</b>	<b>94,761</b>	<b>1,25,884</b>	<b>1,49,386</b>	<b>1,71,897</b>	<b>2,03,763</b>	<b>2,35,672</b>
Inventories	-	-	41	33	-	-
Sundry Debtors	41,930	39,648	45,574	56,273	61,820	71,242
Cash and Bank	38,614	69,140	72,344	76,738	99,261	1,15,242
Loans and advances	788	798	-	-	-	-
<b>Total assets</b>	<b>1,35,955</b>	<b>1,68,519</b>	<b>2,05,824</b>	<b>2,34,961</b>	<b>2,64,387</b>	<b>3,01,024</b>

\* LTI standalone

## Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	28,316	40,866	52,939	57,915	65,794	78,129
Depreciation	-	-	-	-	-	-
Tax paid	(7,790)	(9,104)	(12,823)	(13,770)	(16,669)	(19,923)
Chg in working capital	15,913	4,766	(4,262)	(7,522)	(4,469)	(7,291)
Other operating activities	(6,677)	1,797	(4,986)	(1,11,963)	(1,11,556)	(1,08,645)
<b>Cash flow from operations (a)</b>	<b>29,762</b>	<b>38,325</b>	<b>30,868</b>	<b>(75,340)</b>	<b>(66,901)</b>	<b>(57,730)</b>
Capital expenditure	(15,058)	768	(7,267)	(6,057)	2,440	(4,729)
Chg in investments	395	(1,368)	(4,339)	(652)	-	-
Other investing activities	-	-	-	1,03,475	1,07,726	1,02,140
<b>Cash flow from investing (b)</b>	<b>(14,663)</b>	<b>(600)</b>	<b>(11,606)</b>	<b>96,766</b>	<b>1,10,166</b>	<b>97,411</b>
Equity raised/(repaid)	(1,634)	0	114	-	-	-
Debt raised/(repaid)	325	84	105	734	-	-
Chg in minorities	(1)	5	3	(6)	(23)	(20)
Dividend	(6,125)	(7,288)	(16,280)	(17,760)	(20,720)	(23,680)
<b>Cash flow from financing (c)</b>	<b>(7,435)</b>	<b>(7,199)</b>	<b>(16,058)</b>	<b>(17,032)</b>	<b>(20,743)</b>	<b>(23,700)</b>
<b>Net chg in cash (a+b+c)</b>	<b>7,664</b>	<b>30,526</b>	<b>3,204</b>	<b>4,394</b>	<b>22,522</b>	<b>15,982</b>

### Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	461	629	483	561	656	773
Adj EPS (Rs)	116	165	133	149	166	197
Adj EPS growth (%)	835	42	-19	12	11	19
EBITDA margin (%)	16.6	21.5	20.1	18.4	18.9	19.6
Pre-tax margin (%)	15	20	20	17	18	19
Net Debt/Equity (x)	0	-1	-1	0	-1	0
ROCE (%)	30	36	34	32	32	33
ROE (%)	25.5	30.4	30.7	28.6	27.3	27.5

### DuPont Analysis

Asset turnover (x)	1.5	1.3	1.4	1.5	1.5	1.5
Leverage factor (x)	1.5	1.5	1.5	1.4	1.4	1.3
Net margin (%)	11.3	14.8	15.1	13.3	13.5	13.9

### Working Capital & Liquidity ratio

Inventory days	0	0	0	0	0	0
Receivable days	82	71	64	62	62	62
Payable days	22	25	23	17	17	17

### Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	44.2	31.0	38.5	34.5	30.9	26.1
Price/Book value (x)	11.1	8.2	10.6	9.2	7.8	6.6
EV/Net sales (x)	4.8	4.3	5.5	4.4	3.9	3.3
EV/EBITDA (x)	29	20	28	24	21	17
Dividend Yield (%)	0.5	0.8	1.1	1.2	1.4	1.6

Source: Company; IDBI Capital Research

# Notes

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## Key to Ratings Stocks:

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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