

LTIMindtree

SELL

Headwinds to profitability a dampener

Summary

LTIM reported subdued Q3FY24 numbers. The company expects Q4 growth to be similar to Q3 due to furloughs, delay in decision making and cautionary macro. We expect LTIM to register 11.7% YoY & 15.2% YoY revenue growth for FY25E & FY26E led by improvement in discretionary spend, reinvestment to drive growth and ramp up large deal won. However, we expect margins to be impacted in the near term due to re-investment in business & transition cost of large deals. Hence, we now expect the company to reach aspirational 18% margin in FY26E vs earlier expectation of FY25E. Consequently, we have revised our FY25E EPS estimates downwards by 5%. This coupled with recent run up in price; we downgrade the stock from HOLD to Sell with a revised target price of Rs 5,660 (26x FY26E EPS, introduced FY26 estimates, earlier TP Rs 4,910).

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\$1.5 bn (book to bill of 1.4x) in the quarter. Further, improving growth in SAP digital, data, vendor consolidation, higher discretionary spend and ramp up of deal wins will boost revenue growth in long term. This coupled with cross sell, re-investment in business and participation in bigger deals bodes well for long term growth. Hence, although in near term macro can impact revenue growth, longer term visibility remains robust.
- **Aspirational 18% margins to be achieved in FY26E:** LTIM has multiple headwinds in margins like higher transition cost, calibration of utilization and re-investment in business. Hence, we have revised our FY25E margin estimates downwards by 91 bps to 17.1%. We now expect the company to achieve 18% margins in FY26E vs earlier expectation of FY25E.

TP Rs5,660

CMP Rs6,278

Potential upside/downside -10%

Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	2.4	21.6	46.8
Rel to Sensex	2.4	13.6	27.8

V/s Consensus

EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	155	183	221
Consensus	164	195	229
% difference	(5.3)	(6.3)	(3.4)

Key Stock Data

Bloomberg/Reuters	LTIM IN / LRTI.BO
Sector	IT
Shares o/s (mn)	296
Market cap. (Rs mn)	1,859,210
3-m daily avg Trd value (Rs mn)	78.5
52-week high / low	Rs6,443 / 4,120
Sensex / Nifty	71,501 / 21,572

Shareholding Pattern (%)

Promoters	68.7
FII	8.1
DII	12.2
Public	11.0

Financial snapshot

Year	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,61,087	3,31,830	3,56,908	3,99,564	4,60,406
Change (yoy, %)	28	27	8	12	15
EBITDA	52,486	61,077	64,783	78,207	94,956
Change (yoy, %)	20	16	6	21	21
EBITDA Margin(%)	20.1	18.4	18.2	19.6	20.6
Adj.PAT	39,483	44,083	45,800	54,107	65,422
EPS (Rs)	133	149	155	183	221
Change (yoy, %)	(19.3)	11.7	3.9	18	21
PE(x)	47	42	41	34	28
Dividend Yield (%)	0.9	1.0	1.1	1	2
EV/EBITDA (x)	34	29	27	22	18
RoE (%)	31	29	26	26	25
RoCE (%)	34	32	29	31	31

Source: IDBI Capital Research

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Other Key Highlights

- Revenue stood at \$1.08 bn, growth of 0.7%/3.1% QoQ/YoY in CC terms and 3.5% YoY in dollar terms. Revenue growth was impacted by higher furlough and slow ramp up in discretionary spends.
- EBIT margin came at 15.4%, declined by 61bps QoQ and grew by 150bps YoY. The decline in EBIT margins was due to higher furloughs, lesser working days and seasonal pass throughs (impact of pass through offset by SG&A efficiency (80 bps) and operating efficiency (60 bps)).
- In terms of verticals, Manufacturing grew by 14.2% QoQ & 20% YoY led by seasonal pass throughs and vendor consolidation, Health grew 1.0% QoQ, while Hi-Tech decline by 3.1% QoQ, Retail declined by 3.4% QoQ and BFSI declined by 1.6% QoQ. In terms of geography, RoW grew by 14.6% QoQ, while North America degrew 0.2% QoQ, Europe degrew by 4.8% QoQ.
- Demand trend – The company indicated that overall demand environment is cautious due to delay in decision making, pressure on prioritization spends by clients and gradual recovery in furloughs. In terms of positives insurance has remained resilient on the back of deal wins despite macro challenges, Gen AI is driving digital spends, deal pipeline is healthy and momentum in ERP is robust . Hence the company expects that in medium term when growth will rebound it will be broad based across geographies and verticals.
- Order inflow for the quarter came at \$1.5bn up 20% YoY and TCV is \$4.6bn. Multi-year deal wins, higher deal closure in Q4 and longer tenured deals provides higher revenue visibility.
- For Q2FY24, LTM attrition was down to 14.2% The company will take calibrated approach to headcount addition and expects to reduce utilization from these levels to be prepared for the large deal closure.
- Management indicated on deferring the EBIT margin guidance of 17-18% from Q4 FY24 to next few quarters due to reinvestment of profits in business and higher transition cost of large deal won.
- Management aspires to achieve EBIT margin guidance of 17-18% led by pyramid rationalization, reducing average cost on resources and benefiting advantage from multiyear deals.

Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
Revenues (US\$ mn)	1,083.7	1,075.5	0.8	1,046.7	3.5
Revenues	90,166	89,054	1.2	86,200	4.6
COGS	63,224	61,048	3.6	61,555	2.7
Gross profit	26,942	28,006	(3.8)	24,645	9.3
SG&A	11,093	11,693	(5.1)	10,897	1.8
EBITDA	15,849	16,313	(2.8)	13,748	15.3
Depreciation & amortization	1,990	2,082	(4.4)	1,781	11.7
EBIT	13,859	14,231	(2.6)	11,967	15.8
Other income	1,588	962	65.1	1,139	39.4
PBT	15,447	15,193	1.7	13,106	17.9
Tax	3,754	3,570	5.2	3,099	21.1
Minority interest	4	5	(20.0)	2	100.0
Adjusted net profit	11,689	11,618	0.6	10,005	16.8
Exceptional items	0	0	n.m.	0	n.m.
Reported net profit	11,689	11,618	0.6	10,005	16.8
Recurring EPS (Rs)	39.5	39.3	0.6	33.8	16.8
As % of net revenue					
Gross profit	29.9	31.4		28.6	
SG&A	12.3	13.1		12.6	
EBITDA	17.6	18.3		15.9	
EBIT	15.4	16.0		13.9	
Reported net profit	13.0	13.0		11.6	
Tax rate	24.3	23.5		23.6	

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

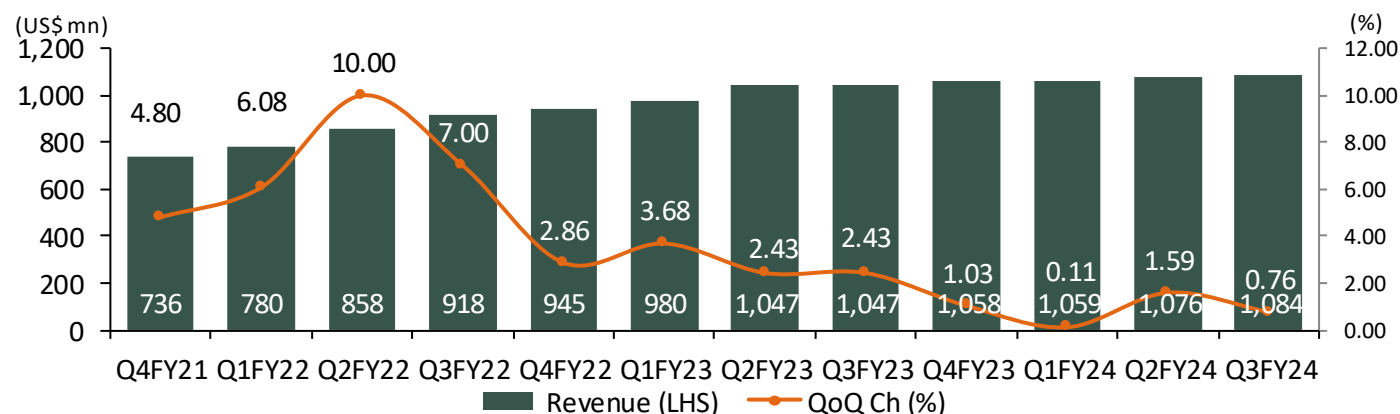
Year to March	Q3FY24	Q3FY24E	Variance (%)
Revenue (US \$mn)	1,083.7	1,085	-0.1%
Revenue (Rs mn)	90,166	90,360	-0.2%
EBIT (Rs mn)	13,859	13,218	4.9%
EBIT margin (%)	15.4%	14.6%	74bps
PAT (Rs mn)	11,689	10,557	10.7%
PAT margin (%)	13.0%	11.7%	128bps
EPS (Rs)	39.5	35.7	10.7%

Source: Company, IDBI Capital Research

Exhibit 3: Earnings Revision

Year-end: March	FY24E			FY25E			FY26E
	New	Old	Chg (%)	New	Old	Chg (%)	(Introduced)
Revenue (US\$ mn)	4,310	4,341	-0.7%	4,814	4,905	-1.9%	5,547
Revenue (Rs mn)	3,56,908	3,57,513	-0.2%	3,99,564	4,03,171	-0.9%	4,60,406
EBIT (Rs mn)	56,772	59,523	-4.6%	68,282	72,523	-5.8%	83,470
EBIT margin (%)	15.9%	16.60%	(69) bps	17.1%	18.00%	(91) bps	18.1%
EPS (Rs)	154.8	161.1	-3.9%	182.9	192.4	-4.9%	221.1

Source: Company; IDBI Capital Research

Exhibit 4: Q3FY24 revenue growth was in line with our expectation


Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth across various segments (%)

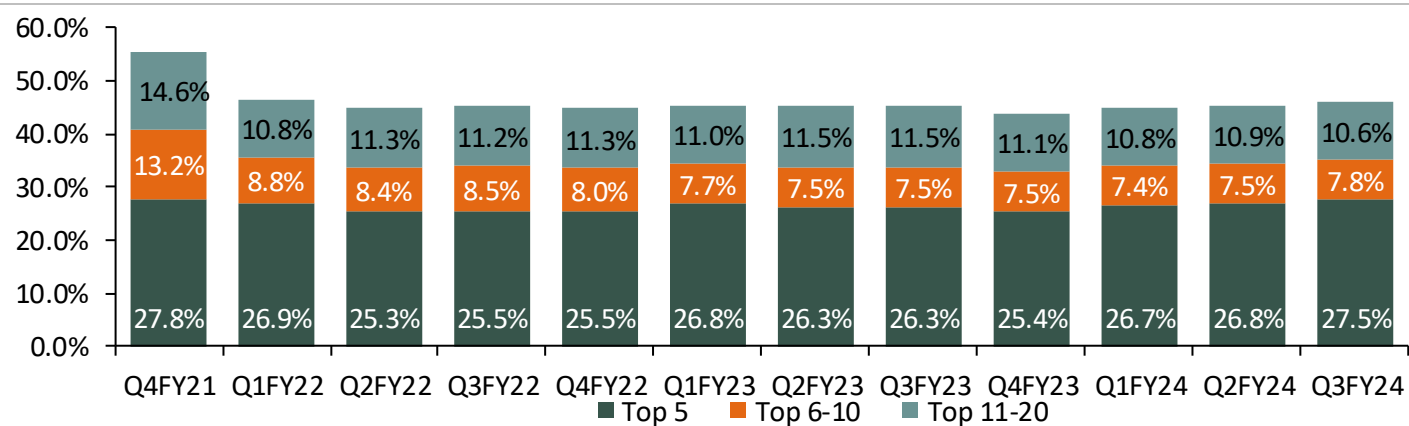
Parameters	% of revenue	QoQ growth	YoY growth
Overall revenue growth		0.7	3.1
Geography			
US	72.7%	(0.2)	4.1
Europe	14.5%	(4.8)	0.9
ROW	12.8%	14.6	3.4
Verticals			
BFSI	35.6%	(1.6)	-1.4
Manufacturing & Resources	20.3%	14.2	20.1
CPG, Retail, Travel & Transportation	14.7%	(3.4)	0.6
High-Tech, Media & Entertainment	22.9%	(3.1)	0.3
Health Lifescience & Public Services	6.5%	1.0	6.0

Source: Company; IDBI Capital Research

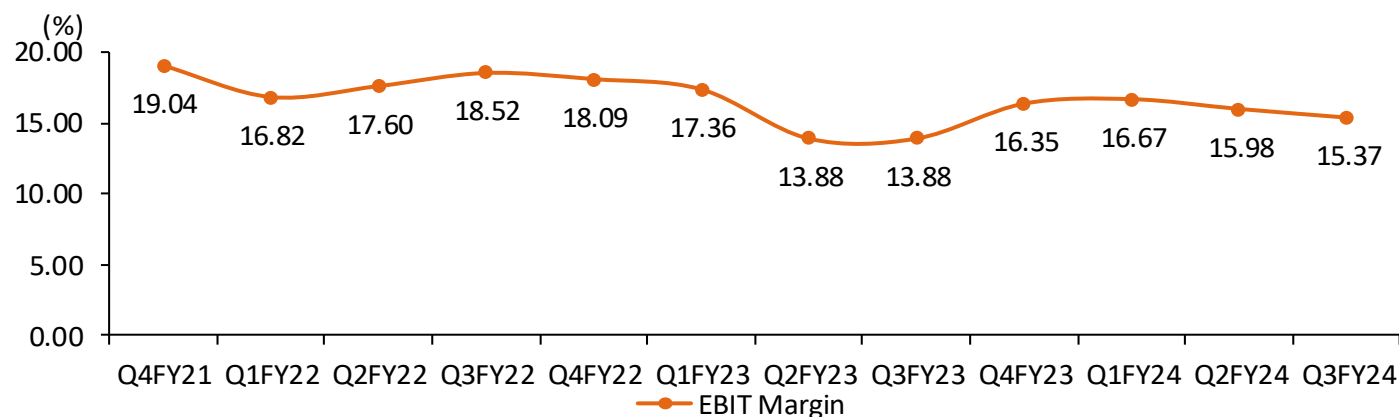
Exhibit 6: Large client's trend

Year-end: March	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
US\$100m+ clients	2	2	2	2	2	2	2	2
US\$50m+ clients	10	10	11	11	13	13	14	12
US\$20m+ clients	37	40	37	37	38	40	41	40
US\$10m+ clients	76	79	81	81	81	88	90	89
US\$5m+ clients	125	130	144	144	146	148	146	149
US\$1m+ clients	327	337	374	374	383	388	391	388

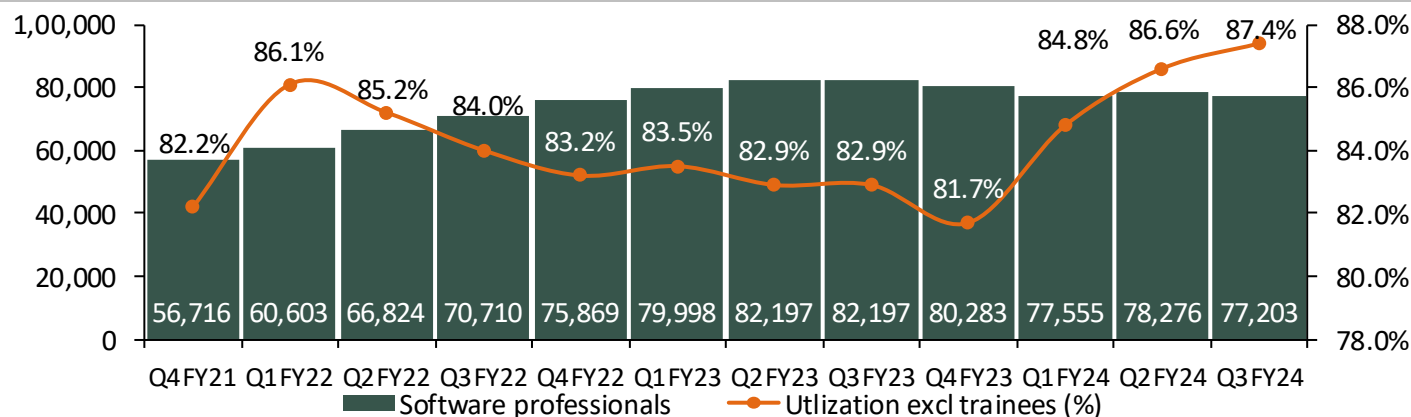
Source: Company; IDBI Capital Research

Exhibit 7: Top client's revenue share trend


Source: Company; IDBI Capital Research

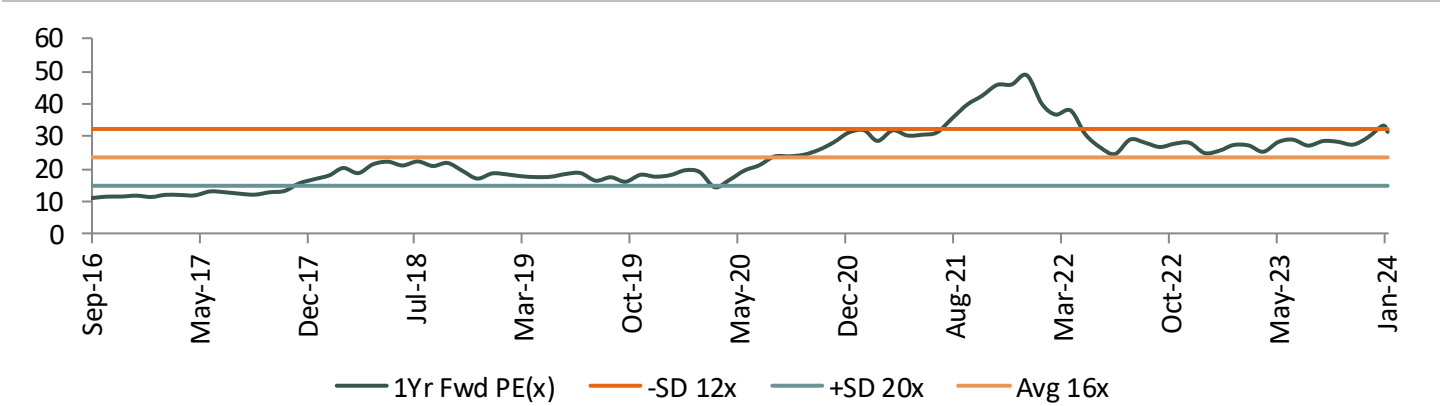
Exhibit 8: EBIT margin declined sequentially by 60 bps QoQ


Source: Company; IDBI Capital Research

Exhibit 9: Utilization improved sequentially to 87.4%


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	FY21*	FY22	FY23	FY24E	FY25E	FY26E
Net sales	2,03,376	2,61,087	3,31,830	3,56,908	3,99,564	4,60,406
<i>Change (yoy, %)</i>	9.1	28	27	8	12	15
Operating expenses	(1,59,697)	(2,08,601)	(2,70,753)	(2,92,125)	(3,21,357)	(3,65,450)
EBITDA	43,679	52,486	61,077	64,783	78,207	94,956
<i>Change (yoy, %)</i>	41	20	16	6	21	21
<i>Margin (%)</i>	21.5	20.1	18.4	18.2	19.6	20.6
Depreciation	(5,921)	(5,971)	(7,227)	(8,010)	(9,926)	(11,486)
EBIT	37,758	46,515	53,850	56,772	68,282	83,470
Interest paid	(1,292)	3,145	(479)	(2,144)	(2,428)	(2,428)
Other income	4,400	3,279	4,544	6,361	6,800	6,800
Pre-tax profit	40,866	52,939	57,915	60,989	72,654	87,842
Tax	(10,714)	(13,439)	(13,812)	(15,167)	(18,527)	(22,400)
<i>Effective tax rate (%)</i>	26.2	25.4	23.8	24.9	25.5	25.5
Minority Interest	(21.0)	(17.0)	(20.0)	(22.0)	(20.0)	(20.0)
Net Profit	30,131	39,483	44,083	45,800	54,107	65,422
Exceptional items	-	-	-	-	-	-
Adjusted net profit	30,131	39,483	44,083	45,800	54,107	65,422
<i>Change (yoy, %)</i>	42.4	31	12	4	18	21
EPS	165.4	133.4	148.9	154.7	182.8	221.0
Dividend per share	40.0	55.0	60.0	70.0	80.0	100.0
<i>Dividend Payout (%)</i>	24.2	41.2	40.3	45	44	45

* LTI standalone

Balance Sheet

(Rs mn)

Year-end: March	FY21*	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' funds	1,14,584	1,42,872	1,65,921	1,91,001	2,21,428	2,57,251
Share capital	182	296	296	296	296	296
Reserves & surplus	1,14,402	1,42,576	1,65,625	1,90,705	2,21,132	2,56,955
Total Debt	414	519	1,253	1,253	1,253	1,253
Other liabilities	3,987	11,972	14,143	14,143	14,143	14,143
Curr Liab & prov	49,497	50,404	53,573	54,325	55,961	58,294
Current liabilities	43,221	44,112	45,439	46,191	47,827	50,160
Provisions	6,276	6,292	8,134	8,134	8,134	8,134
Total liabilities	53,898	62,895	68,969	69,721	71,357	73,690
Total equity & liabilities	1,68,519	2,05,824	2,34,961	2,60,793	2,92,856	3,31,012
Net fixed assets	32,490	39,757	45,814	42,596	45,670	47,184
Investments	2,174	6,513	7,165	7,165	7,165	7,165
Other non-curr assets	7,971	10,168	10,085	10,085	10,085	10,085
Current assets	1,25,884	1,49,386	1,71,897	2,00,947	2,29,936	2,66,578
Inventories	-	41	33	-	-	-
Sundry Debtors	39,648	45,574	56,273	60,526	67,760	78,077
Cash and Bank	69,140	72,344	76,738	98,632	1,15,393	1,34,593
Loans and advances	798	-	-	-	-	-
Total assets	1,68,519	2,05,824	2,34,961	2,60,793	2,92,856	3,31,012

* LTI standalone

Cash Flow Statement

(Rs mn)

Year-end: March	FY21*	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	40,866	52,939	57,915	60,989	72,654	87,842
Depreciation	-	-	-	-	-	-
Tax paid	(9,104)	(12,823)	(13,770)	(15,167)	(18,527)	(22,400)
Chg in working capital	4,766	(4,262)	(7,522)	(3,468)	(5,598)	(7,984)
Other operating activities	1,797	(4,986)	(8,488)	(2,936)	(4,995)	(7,124)
Cash flow from operations (a)	38,325	30,868	28,135	39,418	43,535	50,334
Capital expenditure	768	(7,267)	(6,057)	3,218	(3,074)	(1,514)
Chg in investments	(1,368)	(4,339)	(652)	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(600)	(11,606)	(6,709)	3,218	(3,074)	(1,514)
Equity raised/(repaid)	0	114	-	-	-	-
Debt raised/(repaid)	84	105	734	-	-	-
Dividend (incl. tax)	(7,288)	(16,280)	(17,760)	(20,720)	(23,680)	(29,600)
Chg in minorities	5	3	(6)	(22)	(20)	(20)
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(7,199)	(16,058)	(17,032)	(20,742)	(23,700)	(29,620)
Net chg in cash (a+b+c)	30,526	3,204	4,394	21,894	16,760	19,200

* LTI standalone

Financial Ratios

Year-end: March	FY21*	FY22	FY23	FY24E	FY25E	FY26E
Book Value (Rs)	628.9	483	561	645	748	869
Adj EPS (Rs)	165.4	133.4	148.9	154.7	182.8	221.0
Adj EPS growth (%)	42.3	-19	12	4	18	21
EBITDA margin (%)	21.5	20.1	18.4	18.2	19.6	20.6
Pre-tax margin (%)	20.1	20.3	17.5	17.1	18.2	19.1
Net Debt/Equity (x)	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5
ROCE (%)	36.3	34	32	29	31	31
ROE (%)	30.4	31	29	26	26	25

DuPont Analysis

Asset turnover (x)	1.3	1.4	1.5	1.4	1.4	1.4
Leverage factor (x)	1.5	1.5	1.4	1.4	1.3	1.3
Net margin (%)	14.8	15.1	13.3	12.8	13.5	14.2

Working Capital & Liquidity ratio

Inventory days	0	0	0	0	0	0
Receivable days	71	64	62	62	62	62
Payable days	25	23	17	17	17	18

Valuations

Year-end: March	FY21*	FY22	FY23	FY24E	FY25E	FY26E
PER (x)	38	47	42	41	34	28
Price/Book value (x)	10.0	13.0	11.2	9.7	8.4	7.2
EV/Net sales (x)	5.3	6.8	5.4	4.9	4.4	3.7
EV/EBITDA (x)	25	34	29	27	22	18
Dividend Yield (%)	0.6	0.9	1.0	1.1	1.3	1.6

Source: Company; IDBI Capital Research, * LTI standalone

Notes

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Key to Ratings Stocks:

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

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