AXIS SECURITIES

Results Update
18th January 2024

LTIMINDTREE Ltd.
IT Services Sector

HOLD
Target Price
6,400

Near-term Challenges Persist; Tepid results

Est. Vs. Actual for Q3FY24: Revenue – **MISS**; EBITDA Margin – **MISS**; PAT – **MISS**; Deal Wins – **BEAT**

Change in Estimates post Q3FY24

FY24E/FY25E: Revenue 1%/1%; **EBITDA Margins** 1%/1%; **PAT** 1%/1%

Recommendation Rationale

- **Long-term outlook positive:** The management is very optimistic about long-term and broad-based growth across verticals, backed by resilient client engagement. However, near-term macroeconomic challenges may tamper growth momentum in the short term.
- **Strong TCV in Q3FY24:** The company's TCV nonetheless stood strong in Q3FY24 at $1.5 Bn across verticals and geographies.
- **Q4FY24 likely to be weaker:** The management is confident of gaining medium-term to long-term demand momentum on the backdrop of the deals it has won in the previous quarters. It, however, expects weaker revenue growth in Q4FY24 (similar to Q3FY24), indicating headwinds in the near term. Margin improvement will be difficult to achieve despite having negative hiring owing to higher operating expenses.

Sector Outlook: Neutral

Company Outlook & Guidance: **The management has guided for high single-digit to low double-digit growth in FY24 along with margin expansion.**

Current Valuation: **30x FY26E P/E,** **Earlier Valuation**: **27x FY25E**

Current TP: **6,400/share,** **Earlier TP**: **5,230/share**

Recommendation: Given the company's strong growth potential backed by robust deal wins and superior execution capabilities, we recommend a **HOLD** rating on the stock.

Alternative Investment Ideas: **HCL Tech; Persistent Systems**

Financial Performance

In Q3FY24, LTIMindtree Ltd. (LTIMINDTREE) reported revenue of Rs 9,017 Cr, up 1.2% QoQ (0.7% QoQ in CC terms). This was slightly below our expectations. The company's operating profit stood at Rs 1,386 Cr, reporting a decline of 2.6% on a QoQ basis. This was largely on account of lower overall demand in the majority of its operating regions. Its net profit for Q3FY24 stood at Rs 1,169 Cr, registering a growth of 0.6% QoQ.

Outlook

From a long-term perspective, we believe LTIMindtree is well-placed to deliver encouraging growth, given its multiple long-term contracts with the world's leading brands. Richer revenue visibility gives us confidence in its business growth moving forward. However, rising concerns over the prospects of large economies along with prevailing supply-side constraints pose uncertainties over the company's short-term growth rates.

Valuation & Recommendation

We recommend a **HOLD** rating on the stock and assign a 30x P/E multiple to its FY26E earnings of Rs 215.8/share to arrive at a TP of Rs 6,400/share, implying an upside of 2% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q3FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	9,017	1%	5%	9155	-2%
EBIT	1,386	-3%	16%	1475	-6%
EBIT Margin	15%	149	(53) bps	16%	(74.1)
Net Profit	1,169	1%	4%	1245	-6%
EPS (Rs)	40	1%	4%	40.6	-3%

Source: Company, Axis Research

(CMP as of 17 January 2024)	
CMP (Rs)	6,277
Upside /Downside (%)	2%
High/Low (Rs)	6,442/4,120
Market cap (Cr)	1,85,921
Avg. daily vol. (6m)Shrs.	39,43,740
No. of shares (Cr)	29.6

Shareholding (%)

	Jun-23	Sept-23	Dec-23
Promoter	68.7	68.7	68.7
FIIs	8.4	8.2	8.1
MFs / UTI	6.8	7.0	7.2
Banks / FIs	0.0	0.1	0.1
Others	16.1	16.1	15.9

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	35,955	40,469	46,432
EBITDA	6,650	7,770	9,240
Net Profit	4,084	5,334	6,376
EPS (Rs)	138	181	216
PER (x)	11.6	8.9	7.4
P/BV (x)	2.4	2.0	1.7
EV/EBITDA (x)	6.2	5.3	4.5
ROE (%)	22%	24%	24%

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	1%	1%
EBITDA	1%	1%
PAT	1%	1%

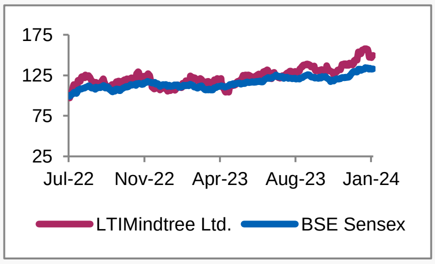
ESG disclosure Score**

Environmental Disclosure	37.6
Social Disclosure Score	53.2
Governance Disclosure	92.5
Total ESG Disclosure Score	61.1
Sector Average	**42.5**

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Recommendation Rationale & Key Highlights

- **Continuing strength in demand environment in the long term:** The US is relatively better placed and is seeing higher cost optimization deals (with faster decision-making). On the other hand, the UK market is expected to remain impacted (at least in the short term). As the macro environment stabilizes, the company expects a pick-up in its decision-making by its clients. However, deeper furloughs drag the revenue growth momentum in the near term and management sees challenges in the near term.

- **Broad-based vertical growth:** On the vertical front, Manufacturing verticals delivered 20.1% QoQ growth. Retail CPG Travel and hospitality grew by 0.6% QoQ. While Hi-Tech Media & Entertainment grew by 0.3% QoQ, the BFSI de-grew by 1.6% QoQ. The majority of the verticals witnessed strong growth and are likely to report further growth backed by a strong deal pipeline over the mid to long term.

- **Better geographical performance:** On the geographical front, North America (73% of revenue) improved by 4.1% QoQ, Europe (15% of revenue) grew by 0.9% QoQ, while RoW (12% of revenue) business grew by 3.4% QoQ (in the CC terms). For Q3FY24, the company's free cash conversion stood at Rs 1,680 Cr.

Key Risks to our Estimates and TP

- The demand environment is uncertain because of the potential threat of the recession from the world's largest economies.

- The rising subcontracting cost and cross-currency headwinds may impact the company's operating margins negatively.

Results Review **(Rs Cr)**

In Cr	Q3FY24	Q2FY24	Q3FY23	% change (YoY)	% change (QoQ)
Total Revenue	**9,017**	**8,905**	**8,620**	5%	1%
Total Cost of Sales	6322	6105	6156		
Gross Profit	**2,694**	**2,800**	**2,465**	9%	-4%
Margin (%)	30%	31%	29%	129	-156
SG&A	1,109	1,169	1,375		
EBITDA	**1,550**	**1,631**	**1,375**	13%	-5%
Depreciation & Amortizations	199.00	208.00	178.10		
Operating Income	**1,386**	**1,423**	**1,197**	16%	-3%
Margin (%)	15.37%	15.98%	13.88%	149	-61
Total Other Income/(Expense)	176.9	145	102.8		
Income Before Income Taxes	**1,209**	**1,278**	**1,094**	11%	-5%
Total Taxes	375.4	357	309.9		
ETR (%)	31%	28%	28%	272	312
Net Profit After Taxes	**1,169**	**1,162**	**1,001**	17%	1%
Non-Controlling Interest					
Net Income After Extraordinary Items	**1,169**	**1,162**	**1,001**	17%	1%
Margin (%)	13%	13%	12%	135	-8
EPS	**39.5**	**39.27**	**33.83**	17%	1%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23A	FY24E	FY25E	FY26E
Net sales	**33,183**	**35,955**	**40,469**	**46,432**
Employee benefit expenses	20,880	22,795	25,495	29,252
Subcontracting cost	2,829	2,659	3,035	3,482
Other Expenses	3,367	3,850	4,168	4,457
Total Expenditure	27,075	29,305	32,699	37,192
Total Cost	**27,075**	**29,305**	**32,699**	**37,192**
EBITDA	**6,108**	**6,650**	**7,770**	**9,240**
EBITDA Margin	*18%*	*18%*	*19%*	*20%*
Other income	557	339	607	696
EBIT	**6,665**	**6,989**	**8,377**	**9,936**
EBIT Margins	*20%*	*19%*	*21%*	*21%*
Depreciation	723	802	907	1,027
Interest & Fin Chg.	150	723	405	464
Pre-tax profit	**5,792**	**5,465**	**7,065**	**8,445**
Tax provision	1,381	1,381	1,731	2,069
Profit after Tax	**4,410**	**4,084**	**5,334**	**6,376**

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23A	FY24E	FY25E	FY26E
Total assets	**19,266**	**25,781**	**28,755**	**6,517**
Net Block	1,236	1,234	1,127	900
CWIP	**1,344**	**1,348**	**1,353**	**1,358**
Investments	4,985	4,008	4,046	4,085
Wkg. cap. (excl cash)	6,080	13,281	15,578	19,377
Cash / Bank balance	**5,623**	**5,910**	**6,652**	**6,106**
Misc. Assets	-1	-1	-1	-1
Capital employed	**19,266**	**25,781**	**28,755**	**6,517**
Equity capital	30	30	30	30
Reserves	16,563	19,452	23,226	27,737
Minority Interests	7	7	7	7
Borrowings	212	223	234	246
Def Tax Liabilities	15	15	15	15

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E March	FY23A	FY24E	FY25E	FY26E
Sources	**3,903**	**6,591**	**8,466**	**10,061**
Cash profit	5,283	5,608	6,646	7,867
(-) Dividends	1,385	1,194	1,560	1,865
Retained earnings	3,899	4,414	5,086	6,002
Issue of equity	0	0	0	0
Change in Oth. Reserves	3,188	2,889	3,774	4,511
Borrowings	159	11	11	12
Others	-3,343	-723	-405	-464
Applications	**3,903**	**6,591**	**8,466**	**10,061**
Capital expenditure	837	840	6,418	6,418
Investments	354	0	0	0
Net current assets	1,646	879	918	-174
Change in cash	1,066	4,872	6,706	9,390
Closing cash	5,623	5,910	6,652	6,106

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY23A	FY24E	FY25E	FY26E
Sales growth (In %)	**27**	**8**	**13**	**15**
	0	0	0	0
OPM (In %)	**18**	**18**	**19**	**20**
Oper. profit growth (In %)	16	9	17	19
COGS / Net sales	0	0	0	0
Net wkg.cap / Net sales (In %)	17%	21%	23%	21%
Net sales / Gr block (x)	7.5	6.9	6.7	6.8
RoCE (In %)	**35%**	**33%**	**35%**	**35%**
Debt / equity (x)	0.01	0.01	0.01	0.01
Effective tax rate (In %)	24	25	25	25
RoE (In %)	**27%**	**22%**	**24%**	**24%**
Payout ratio (Div/NP)	27	25	25	25
EPS (Rs.)	**149**	**138**	**181**	**216**
EPS Growth (In %)	12	-7	31	20
CEPS (Rs.)	174	165	211	251
DPS (Rs.)	40	35	45	54

Source: Company, Axis Securities

LTI Mindtree Price Chart and Recommendation History

Date	Reco	TP	Research
23-Jan-23	BUY	4,950	Result Update
18-Jul-23	HOLD	5,230	Result Update
19-Oct-23	HOLD	5,230	Result Update
18-Jan-24	HOLD	6,400	Result Update

Source: Axis Securities

About the analyst

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