

**Revenue growth recovers; BFSI commentary turns positive**

Information Technology ▶ Result Update ▶ July 17, 2024

**TARGET PRICE (Rs): 5,250**

**LTIMindtree reported a mixed performance in Q1FY25; revenue growth of 2.5% QoQ (2.6% cc) was higher than our estimate. After a weak couple of quarters, ramp up of the recently won deals and investments in high-priority transformation programs aided in revenue growth pickup in Q1. EBITM expanded by 30bps QoQ to 15%, but fell slightly short of our estimate. Order inflow was stable at US\$1.4bn (book-to-bill: ~1.3x) in Q1, whereas TTM deal-wins of US\$5.6bn was up 10% YoY. The management highlighted that while the overall demand environment remains largely unchanged, there are some green shoots of recovery, particularly in the BFSI and CMT verticals. Even as cost takeover and vendor consolidation deals remain dominant, they are seeing some recovery in high-priority transformation project spending which gives confidence on growth momentum continuing in Q2 as well. We largely retain FY25-27E EPS (less than 0.5% change). We maintain REDUCE on LTIM with a TP of Rs5,250/share at 25x Jun-26E EPS.**

**LTIMindtree: Financial Snapshot (Consolidated)**

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	3,31,830	3,55,170	3,81,228	4,28,940	4,85,948
EBITDA	61,077	63,874	68,823	81,789	94,360
Adj. PAT	44,083	45,821	49,008	59,103	69,392
Adj. EPS (Rs)	149.0	154.8	165.5	199.6	234.3
EBITDA margin (%)	18.4	18.0	18.1	19.1	19.4
EBITDA growth (%)	16.4	4.6	7.7	18.8	15.4
Adj. EPS growth (%)	11.6	3.9	6.9	20.6	17.4
RoE (%)	26.6	25.0	22.9	24.1	24.5
RoIC (%)	53.8	51.5	48.8	56.1	61.6
P/E (x)	37.3	35.9	33.6	27.9	23.7
EV/EBITDA (x)	26.6	25.5	23.5	19.7	16.9
P/B (x)	9.9	8.2	7.2	6.3	5.4
FCFF yield (%)	1.3	2.9	2.6	3.3	3.8

Source: Company, Emkay Research

**Results Summary**

Revenue grew 2.5% QoQ (2.6% in CC terms) to US\$1,096mn, slightly above our estimate of US\$1,091mn. EBIT margin expanded by 30bps QoQ to 15%, but fell short of our estimate of 15.2%. Margin expansion was aided by absence of the project-cancellation impact and operating efficiencies (100bps) and partially offset by higher visa costs (-50bps) and higher SG&A expenses. Top-5 clients grew 4.3% QoQ, adding almost half of the sequential revenue addition in Q1. Among verticals, growth was driven by CMT (7.9% QoQ), BFSI (2.9%, returned to growth after four quarters of decline), and Manufacturing and Resources (1.8%). Healthcare, Lifesciences and Public Services saw a sharp decline of 7.9% QoQ, whereas Consumer Business declined 1.4%. North America saw strong growth of 4.4% QoQ, followed by 1% growth in Europe. ROW declined 7.4%. TTM attrition was flat QoQ at 14.4%. Total headcount saw marginal growth of 0.3% QoQ to 81,934. Utilization (excluding trainees) jumped up by 140bps QoQ/350bps YoY to 88.3%. **What we liked:** Steady operating performance, growth in top-5 clients, BFSI's return to growth in Q1; growth momentum likely to sustain through FY25. **What we did not like:** Slow progress on EBITM trajectory, weakness in top 6-10 clients (-1.8% QoQ).

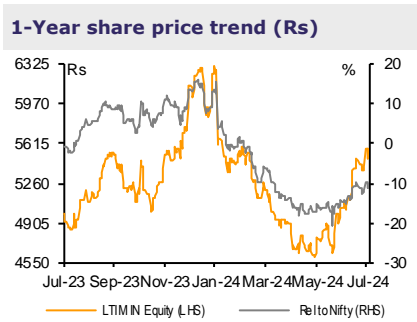
**Earnings Call KTAs**

i) The top-3 verticals (BFSI, Manufacturing, and CMT combined: ~80% of revenue) and the largest geography (US) have performed well sequentially. This is attributed to a measured uptick in IT spending for critical initiatives, with clients balancing innovation and fiscal prudence. ii) Deal intake continues to be driven by cost takeover and vendor consolidation programs. Further, it is witnessing AI-play and AI-driven re-imagination across deals. iii) BFS customers are starting to scale up high-priority programs, some of which were paused during last year. Regulatory compliance continues to be a key spend area, followed by data plus AI, consumer experience, and vendor consolidation. iv) Growth is driven by business model transformation and platform operations in CMT. Tech and Services is seeing broad-based growth. v) Manufacturing clients continue to focus on areas of ERP transformation, data modernization, and Industry 4.0. vi) A number of customers are progressing from the PoC stage and looking to deploy AI use-cases across the enterprise. vii) Wage hike is expected in Q3. Revenue growth, pyramid optimization, and tightening discretionary spending remain the key margin levers. viii) The company on-boarded 1,400 freshers in Q1, clearing the backlog. Hiring momentum is likely to pick up in Q2, considering anticipated growth and elevated utilization level.

Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(5.6)
CMP (16-Jul-24) (Rs)	5,562.4

Stock Data	Ticker
52-week High (Rs)	6,443
52-week Low (Rs)	4,514
Shares outstanding (mn)	296.2
Market-cap (Rs bn)	1,647
Market-cap (US\$ mn)	19,708
Net-debt, FY25E (Rs mn)	-28,586
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	2,514.0
ADTV-3M (US\$ mn)	30.1
Free float (%)	31.0
Nifty-50	24,613
INR/US\$	83.6
<b>Shareholding, Mar-24</b>	
Promoters (%)	68.6
FPIs/MFs (%)	7.9/13.6

Price Performance			
(%)	1M	3M	12M
Absolute	10.5	19.3	9.2
Rel. to Nifty	5.4	7.3	(13.2)



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**Exhibit 1: Quarterly snapshot**

(Rs mn)	Q1FY25	Q4FY24	QoQ (%)	Q1FY24	YoY (%)
Revenues (US\$)	1096	1069	2.5	1059	3.5
Net sales	91,426	88,929	2.8	87,021	5.1
Operating expenses	75,365	73,572		70,666	
EBITDA	16,061	15,357	4.6	16,355	-1.8
Margins (%)	17.6	17.3	30.0	18.8	(120.0)
Depreciation	2352	2270		1847	
EBIT	13,709	13,087	4.8	14,508	-5.5
Margins (%)	15.0	14.7	30	16.7	(170.0)
Forex Gains/(Losses)	134	-164		-123	
Other income	1413	1560		979	
Pre-tax profit	15,256	14,483	5.3	15,364	-0.7
Tax provided	3,905	3,476		3,841	
Profit after tax	11,351	11,007		11,523	
Emkay Net profit	11,351	11,007	3.1	11,523	-1.5
EPS (Rs)	38.3	37.2	3.0	38.9	-1.6

Source: Company, Emkay Research

**Exhibit 2: Actuals vs estimates**

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales (US\$ mn)	1096	1091	1088	0.5%	0.7%	Revenue was above our expectations.
Sales (Rs mn)	91,426	90,972	90,746	0.5%	0.7%	
EBIT	13,709	13,805	13,889	-0.7%	-1.3%	Margins came 20bps below our expectations.
EBIT margin	15.0%	15.2%	15.3%	-20 bps	-30 bps	
PAT	11,351	11,443	11,612	-0.8%	-2.2%	PAT was slightly lower than expectations due to operating margin miss.

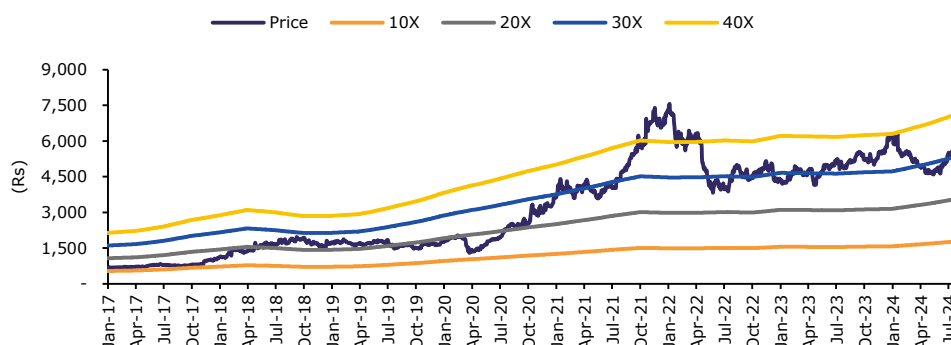
Source: Company, Bloomberg, Emkay Research

**Exhibit 3: Changes in estimates**

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenues (US\$ mn)	4,524	4,546	0.5%	5,021	5,046	0.5%	5,623	5,651	0.5%
YoY growth (%)	5.5	6.0		11.0	11.0		12.0	12.0	
Revenues	3,79,362	3,81,228	0.5%	4,26,812	4,28,940	0.5%	4,83,538	4,85,948	0.5%
EBIT	59,329	59,074	-0.4%	71,204	71,527	0.5%	83,061	83,452	0.5%
EBIT margins (%)	15.6	15.5		16.7	16.7		17.2	17.2	
Net profits	48,836	49,008		58,784	59,103		69,041	69,392	
EPS (Rs)	165.0	165.5	0.3%	198.7	199.6	0.5%	233.3	234.3	0.4%

Source: Company, Emkay Research

**Exhibit 4: LTIM – One-year forward PER**



Source: Company, Emkay Research

## LTIMindtree: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>3,31,830</b>	<b>3,55,170</b>	<b>3,81,228</b>	<b>4,28,940</b>	<b>4,85,948</b>
Revenue growth (%)	27.1	7.0	7.3	12.5	13.3
<b>EBITDA</b>	<b>61,077</b>	<b>63,874</b>	<b>68,823</b>	<b>81,789</b>	<b>94,360</b>
EBITDA growth (%)	16.4	4.6	7.7	18.8	15.4
Depreciation & Amortization	7,227	8,189	9,749	10,262	10,909
<b>EBIT</b>	<b>53,850</b>	<b>55,685</b>	<b>59,074</b>	<b>71,527</b>	<b>83,452</b>
EBIT growth (%)	15.8	3.4	6.1	21.1	16.7
Other operating income	1,504	2,217	2,633	2,677	2,749
Other income	5,569	7,019	9,065	10,002	11,880
Financial expense	1,504	2,217	2,633	2,677	2,749
<b>PBT</b>	<b>57,915</b>	<b>60,487</b>	<b>65,507</b>	<b>78,852</b>	<b>92,582</b>
Extraordinary items	0	0	0	0	0
Taxes	13,812	14,641	16,468	19,713	23,146
Minority interest	20	25	31	36	45
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>44,083</b>	<b>45,821</b>	<b>49,008</b>	<b>59,103</b>	<b>69,392</b>
PAT growth (%)	11.7	3.9	7.0	20.6	17.4
<b>Adjusted PAT</b>	<b>44,083</b>	<b>45,821</b>	<b>49,008</b>	<b>59,103</b>	<b>69,392</b>
<b>Diluted EPS (Rs)</b>	<b>149.0</b>	<b>154.8</b>	<b>165.5</b>	<b>199.6</b>	<b>234.3</b>
Diluted EPS growth (%)	11.6	3.9	6.9	20.6	17.4
<b>DPS (Rs)</b>	<b>60.0</b>	<b>65.0</b>	<b>70.0</b>	<b>84.0</b>	<b>98.0</b>
<b>Dividend payout (%)</b>	<b>40.3</b>	<b>42.0</b>	<b>42.3</b>	<b>42.1</b>	<b>41.8</b>
EBITDA margin (%)	18.4	18.0	18.1	19.1	19.4
EBIT margin (%)	16.2	15.7	15.5	16.7	17.2
Effective tax rate (%)	23.8	24.2	25.1	25.0	25.0
<b>NOPLAT (pre-IndAS)</b>	<b>41,007</b>	<b>42,206</b>	<b>44,224</b>	<b>53,645</b>	<b>62,589</b>
Shares outstanding (mn)	295.8	295.9	296.2	296.2	296.2

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	57,915	60,487	65,507	78,852	92,582
Others (non-cash items)	5,893	5,940	9,749	10,262	10,909
Taxes paid	(15,217)	(15,707)	(16,468)	(19,713)	(23,146)
Change in NWC	(17,645)	5,975	(6,750)	(4,965)	(7,347)
<b>Operating cash flow</b>	<b>30,946</b>	<b>56,695</b>	<b>52,038</b>	<b>64,436</b>	<b>72,998</b>
Capital expenditure	(9,346)	(8,330)	(8,520)	(9,720)	(11,220)
Acquisition of business	(1,486)	(59)	0	0	0
Interest & dividend income	1,266	2,573	0	0	0
<b>Investing cash flow</b>	<b>(3,309)</b>	<b>(39,121)</b>	<b>(20,920)</b>	<b>(29,720)</b>	<b>(31,220)</b>
Equity raised/(repaid)	2	12	0	0	0
Debt raised/(repaid)	71	(280)	0	0	0
Payment of lease liabilities	(3,388)	(3,761)	0	0	0
Interest paid	(375)	(906)	0	0	0
Dividend paid (incl tax)	(15,627)	(17,753)	(20,731)	(24,878)	(29,024)
Others	0	0	0	0	0
<b>Financing cash flow</b>	<b>(19,317)</b>	<b>(22,688)</b>	<b>(20,731)</b>	<b>(24,878)</b>	<b>(29,024)</b>
Net chg in Cash	8,320	(5,114)	10,386	9,838	12,754
OCF	30,946	56,695	52,038	64,436	72,998
Adj. OCF (w/o NWC chg.)	48,591	50,720	58,788	69,401	80,345
FCFF	21,600	48,365	43,518	54,716	61,778
FCFE	21,362	48,721	40,885	52,039	59,029
OCF/EBITDA (%)	50.7	88.8	75.6	78.8	77.4
FCFE/PAT (%)	48.5	106.3	83.4	88.0	85.1
<b>FCFF/NOPLAT (%)</b>	<b>52.7</b>	<b>114.6</b>	<b>98.4</b>	<b>102.0</b>	<b>98.7</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	296	296	296	296	296
Reserves & Surplus	1,65,625	1,99,876	2,28,152	2,62,378	3,02,746
<b>Net worth</b>	<b>1,65,921</b>	<b>2,00,172</b>	<b>2,28,448</b>	<b>2,62,674</b>	<b>3,03,042</b>
Minority interests	71	92	123	159	204
Deferred tax liability (net)	(3,662)	(2,063)	(2,063)	(2,063)	(2,063)
<b>Total debt</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total liabilities &amp; equity</b>	<b>1,62,330</b>	<b>1,98,201</b>	<b>2,26,508</b>	<b>2,60,770</b>	<b>3,01,183</b>
Net tangible fixed assets	9,697	16,555	15,744	15,678	15,721
Net intangible assets	3,560	3,151	2,896	2,533	2,179
Net ROU assets	12,539	19,013	18,850	18,737	19,360
Capital WIP	8,126	4,669	4,669	4,669	4,669
Goodwill	11,892	11,927	11,927	11,927	11,927
Investments [JV/Associates]	54,622	87,502	99,902	1,19,902	1,39,902
<b>Cash &amp; equivalents</b>	<b>23,389</b>	<b>18,200</b>	<b>28,586</b>	<b>38,424</b>	<b>51,178</b>
Current assets (ex-cash)	1,07,327	1,12,363	1,24,492	1,37,781	1,53,641
Current Liab. & Prov.	68,822	75,179	80,558	88,882	97,394
<b>NWC (ex-cash)</b>	<b>38,505</b>	<b>37,184</b>	<b>43,934</b>	<b>48,899</b>	<b>56,246</b>
<b>Total assets</b>	<b>1,62,330</b>	<b>1,98,201</b>	<b>2,26,508</b>	<b>2,60,770</b>	<b>3,01,183</b>
Net debt	(23,389)	(18,200)	(28,586)	(38,424)	(51,178)
Capital employed	1,62,330	1,98,201	2,26,508	2,60,770	3,01,183
<b>Invested capital</b>	<b>76,193</b>	<b>87,830</b>	<b>93,351</b>	<b>97,775</b>	<b>1,05,433</b>
BVPS (Rs)	560.9	676.5	771.4	886.9	1,023.2
Net Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Net Debt/EBITDA (x)	(0.4)	(0.3)	(0.4)	(0.5)	(0.5)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
<b>RoCE (%)</b>	<b>36.6</b>	<b>34.8</b>	<b>32.1</b>	<b>33.5</b>	<b>33.9</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	37.3	35.9	33.6	27.9	23.7
P/CE(x)	32.1	30.5	28.0	23.7	20.5
P/B (x)	9.9	8.2	7.2	6.3	5.4
EV/Sales (x)	4.9	4.6	4.2	3.8	3.3
EV/EBITDA (x)	26.6	25.5	23.5	19.7	16.9
EV/EBIT(x)	30.1	29.2	27.4	22.5	19.1
EV/IC (x)	21.3	18.5	17.3	16.5	15.1
FCFF yield (%)	1.3	2.9	2.6	3.3	3.8
FCFE yield (%)	1.3	3.0	2.5	3.2	3.6
Dividend yield (%)	1.1	1.2	1.3	1.5	1.8
<b>DuPont-RoE split</b>					
Net profit margin (%)	13.3	12.9	12.9	13.8	14.3
Total asset turnover (x)	2.0	2.0	1.8	1.8	1.7
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
<b>RoE (%)</b>	<b>26.6</b>	<b>25.0</b>	<b>22.9</b>	<b>24.1</b>	<b>24.5</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	12.4	11.9	11.6	12.5	12.9
IC turnover (x)	4.4	4.3	4.2	4.5	4.8
<b>RoIC (%)</b>	<b>53.8</b>	<b>51.5</b>	<b>48.8</b>	<b>56.1</b>	<b>61.6</b>
<b>Operating metrics</b>					
Core NWC days	42.4	38.2	42.1	41.6	42.2
<b>Total NWC days</b>	<b>42.4</b>	<b>38.2</b>	<b>42.1</b>	<b>41.6</b>	<b>42.2</b>
Fixed asset turnover	8.8	8.0	7.6	8.7	9.9
Opex-to-revenue (%)	81.6	82.0	81.9	80.9	80.6

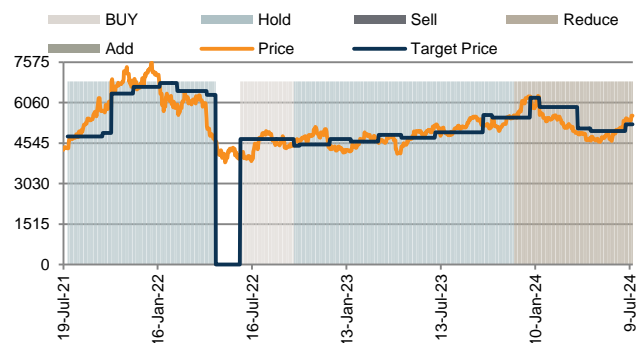
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jul-24	5,448	5,250	Reduce	Dipeshkumar Mehta
03-Jun-24	4,649	5,000	Reduce	Dipeshkumar Mehta
27-May-24	4,892	5,000	Reduce	Dipeshkumar Mehta
25-Apr-24	4,635	5,000	Reduce	Dipeshkumar Mehta
31-Mar-24	4,938	5,100	Reduce	Dipeshkumar Mehta
01-Mar-24	5,274	5,900	Reduce	Dipeshkumar Mehta
18-Jan-24	5,603	5,900	Reduce	Dipeshkumar Mehta
31-Dec-23	6,295	6,250	Reduce	Dipeshkumar Mehta
30-Nov-23	5,537	5,500	Reduce	Dipeshkumar Mehta
19-Oct-23	5,458	5,500	Hold	Dipeshkumar Mehta
02-Oct-23	5,210	5,600	Hold	Dipeshkumar Mehta
17-Jul-23	5,135	4,950	Hold	Dipeshkumar Mehta
02-Jul-23	5,197	4,950	Hold	Dipeshkumar Mehta
28-Apr-23	4,419	4,750	Hold	Dipeshkumar Mehta
01-Apr-23	4,760	4,850	Hold	Dipeshkumar Mehta
15-Mar-23	4,592	4,850	Hold	Dipeshkumar Mehta
21-Jan-23	4,268	4,600	Hold	Dipeshkumar Mehta
02-Jan-23	4,322	4,700	Hold	Dipeshkumar Mehta
12-Dec-22	4,331	4,700	Hold	Dipeshkumar Mehta
15-Oct-22	4,669	4,500	Hold	Dipeshkumar Mehta
04-Oct-22	4,588	4,450	Hold	Dipeshkumar Mehta
15-Jul-22	3,975	4,700	Buy	Dipeshkumar Mehta
23-Jun-22	4,133	4,700	Buy	Dipeshkumar Mehta
07-May-22	4,593	-	UR	Dipeshkumar Mehta
20-Apr-22	5,170	6,350	Hold	Dipeshkumar Mehta
01-Apr-22	6,174	6,500	Hold	Dipeshkumar Mehta
22-Feb-22	5,991	6,500	Hold	Dipeshkumar Mehta
20-Jan-22	6,606	6,800	Hold	Dipeshkumar Mehta
01-Jan-22	7,332	6,650	Hold	Dipeshkumar Mehta
09-Dec-21	6,606	6,650	Hold	Dipeshkumar Mehta
30-Nov-21	6,810	6,650	Hold	Dipeshkumar Mehta
19-Oct-21	6,855	6,400	Hold	Dipeshkumar Mehta
02-Oct-21	5,751	4,930	Hold	Dipeshkumar Mehta
27-Jul-21	4,349	4,800	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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