

January 18, 2024

RESULT REPORT Q3 FY24 | Information Technology

# LTIMindtree Ltd

**Inline operating performance; Expects growth to bounce back**

## Result Synopsis

**LTIMindtree (LTIM) reported inline financial performance for the quarter. Both, the revenue growth and EBIT margin were as per expectation. It reported constant currency growth of 0.7% QoQ, led by Manufacturing vertical (up 20.1% YoY); BFSI vertical (down 1.4% YoY). On reported basis, revenue grew by 1.2% QoQ in INR terms (up 0.8% QoQ in USD terms). There was sequential decline in EBIT margin (down 61 bps QoQ) led by impact of increase in SG&A expenses. Employee attrition continues to moderate as LTM attrition decreased by 100 bps QoQ to 14.2%.**

**The near term demand environment remains challenging as the clients remain cautious regarding the evolving macroeconomic situation and are taking more time for decision making, thus resulting in slowdown in discretionary IT investments. This continues to impact near term revenue performance. We expect revenue growth to pick up from Q4FY24 led by robust deal booking and strong deal pipeline. Employee attrition is expected to come down going ahead and should support operating margin. We estimate revenue CAGR of 16.4% over FY23-26E with average EBIT margin of 17.4%. We maintain our BUY rating on the stock with revised target price of Rs 7,585/share at 31.0x on FY26E EPS. The stock trades at PER of 29.6x/25.7x on FY25E/FY256 EPS.**

## Result Highlights

- Reported revenue of Rs 90.2bn (up 1.2% QoQ in INR terms; up 0.8% QoQ in USD terms). The growth was led by Manufacturing vertical (up 20.1% YoY); BFSI (down 1.4% YoY). Retail, CPG, Travel and Hospitality stood strong for the quarter (up 1.0% QoQ). The cc growth was 0.7% QoQ.
- EBIT margin decreased by 61 bps QoQ to 15.4%, led by increase in SG&A Expenses (up 24.5% QoQ).
- Reported healthy order inflow of \$1.5bn for the quarter (\$1.3bn in Q2FY24).
- Added 23 new clients compared to 30 new clients added in Q2FY24.
- Number of employees was down 1,061 QoQ to 82,471; LTM attrition was down 100 bps QoQ to 14.2%.
- Utilization (excluding trainees) was up 80 bps QoQ to 87.4%. Offshore effort mix decreased QoQ at 85.0%.
- DSO decreased by 6 days QoQ to 62 days.

## Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	90,166	91,998	90,770	-2.0%	-0.7%
EBITDA	15,849	17,204	16,850	-7.9%	-5.9%
EBITDA Margin (%)	17.58%	18.70%	18.56%	-112 bps	-99 bps
Adjusted PAT	11,693	12,328	11,910	-5.2%	-1.8%

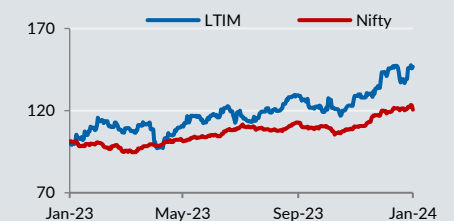
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 6,276
Target Price	: Rs 7,585
Potential Return	: + 20.9%

## Stock data (as on January 17, 2024)

Nifty	21,572
52 Week h/l (Rs)	6442 / 4121
Market cap (Rs/USD mn)	1846796 / 22208
Outstanding Shares (mn)	296
6m Avg t/o (Rs mn):	2,315
Div yield (%):	1.0
Bloomberg code:	LTIM IN
NSE code:	LTIM

## Stock performance



	1M	3M	1Y
Absolute return	2.4%	20.4%	46.8%

## Shareholding pattern (As of Sep'23 end)

Promoter	68.7%
FII+DII	21.1%
Others	10.3%

## Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	7,585	6,360

## Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	163.1	211.9	244.7
EPS (Old)	167.2	212.0	NA
% change	-2.5%	0.0%	NA

## Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	359,222	410,636	476,774
YoY Growth	8.3%	14.3%	16.1%
EBIDTA	66,834	85,412	99,169
YoY Growth	9.4%	27.8%	16.1%
PAT	48,347	62,816	72,528
YoY Growth	9.8%	29.9%	15.5%
ROE	26.5%	28.2%	26.5%
EPS	163	212	245
P/E	38.5	29.6	25.7
BV	673	830	1,016
P/BV	9.3	7.6	6.2

## PARTH GHIYA

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## Exhibit 2: Quarterly snapshot Console: Decrease in margin during the quarter due to more than average furloughs

Particulars	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	yoy%	qoq %	9MFY24	9MFY23	yoy%
Sales (\$ mn)	1,046.7	1,057.5	1,058.7	1,075.5	1,083.7	3.5	0.8	3,218	3,048	5.6
Sales (Rs mn)	86,200	86,910	87,021	89,054	90,166	4.6	1.2	266,241	244,920	8.7
EBITDA	13,748	16,037	16,355	16,313	15,849	15.3	-2.8	48,517	45,040	7.7
EBITDA %	15.9	18.5	18.8	18.3	17.6	163 bps	-74 bps	18.2	18.4	-17 bps
Depreciation	1,781	1,823	1,847	2,082	1,990	11.7	-4.4	5,919	5,457	8.5
EBIT	11,967	14,214	14,508	14,231	13,859	15.8	-2.6	42,598	39,583	7.6
EBIT Margin %	13.9	16.4	16.7	16.0	15.4	149 bps	-61 bps	16.0	16.2	-16 bps
PBT	13,106	14,442	15,364	15,193	15,447	17.9	1.7	46,004	43,420	6.0
Tax	3,099	3,301	3,841	3,570	3,754	21.1	5.2	11,165	10,511	6.2
PAT	10,007	11,141	11,523	11,623	11,693	16.8	0.6	34,839	32,909	5.9
NPM (%)	11.6	12.8	13.2	13.1	13.0	136 bps	-8 bps	13.1	13.4	-35 bps

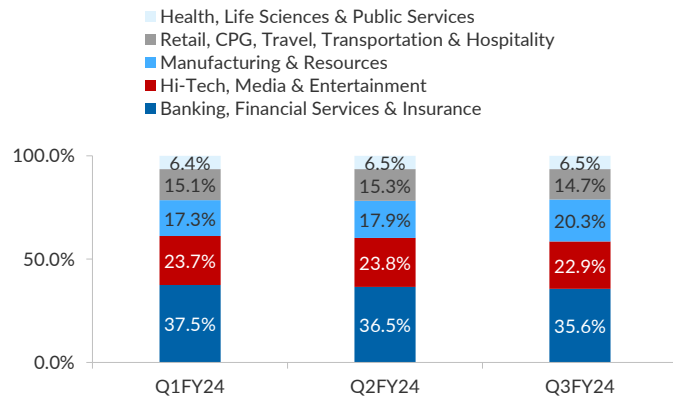
Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- BFSI, Hitech, Retail, Travel and Transport vertical witness softness due to macro-economic slowdown.
- North America as well as Europe geographies witnessed slowdown due to higher-than-expected furloughs.
- Deal pipeline remains healthy and Order Inflow for the quarter stood highest ever at \$1.5bn. 9MFY24 order inflow stood at \$4.2bn (up 19.0% YoY).
- Under Energy and Utilities vertical, won a vendor consolidation deal. A leading US-based energy producer has expanded its infrastructure managed services scope with LTIM.
- Travel, Transportation and Hospitality vertical is expected to bounce back in Q4FY24 due to demand traction from clients.
- EBIT Margins were impacted due to seasonal furloughs by -200 bps offset by 60 bps operating efficiency.
- Effective tax rate for the quarter increased to 24.3% during Q3FY24 from 23.5% in Q2FY24.
- Cash and Investments stood at Rs 101.2Bn and Free Cash Flow stood at Rs 16.8Bn.
- LTIMindtree was named in the Global Future 50 Company by Fortune Magazine in its latest edition, being the only IT Services company to feature on the list.
- Trained over 10,000+ employees under Gen AI initiatives to keep them future ready for client problem solution.

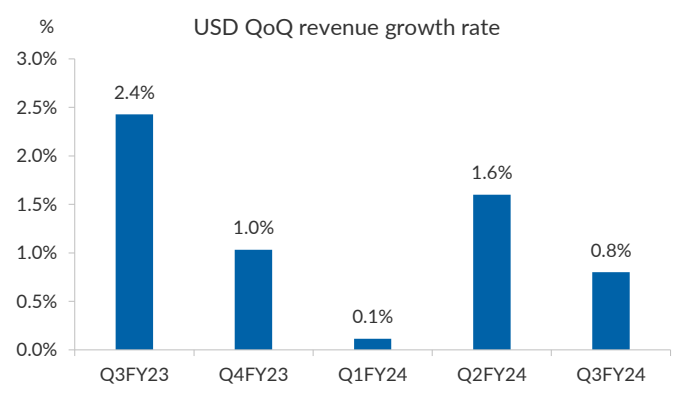
**STORY IN CHARTS**

**Exhibit 3: Growth was led by Manufacturing vertical**



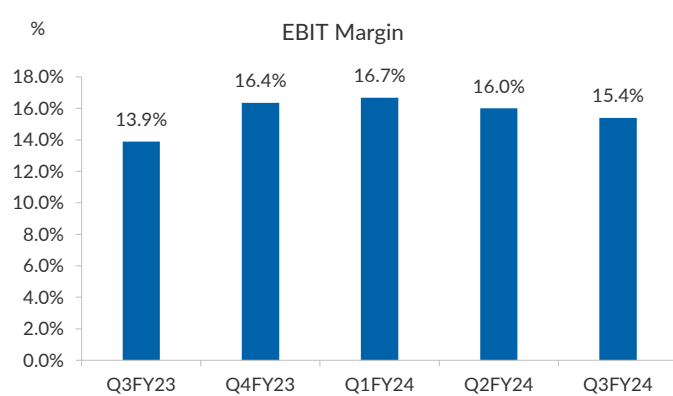
Source: Company, YES Sec

**Exhibit 4: Sequential revenue growth was impacted due to near term weakness in demand environment**



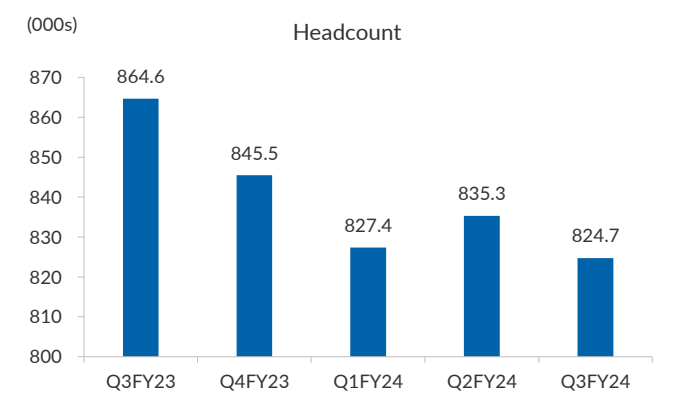
Source: Company, YES Sec

**Exhibit 5: Margin impacted due to seasonal furloughs**



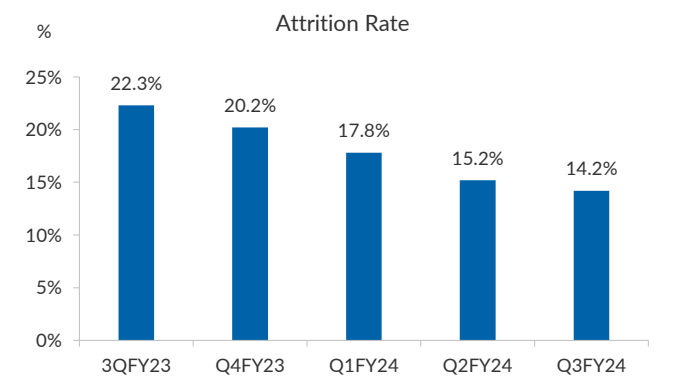
Source: Company, YES Sec

**Exhibit 6: Headcount Addition declined during the quarter**



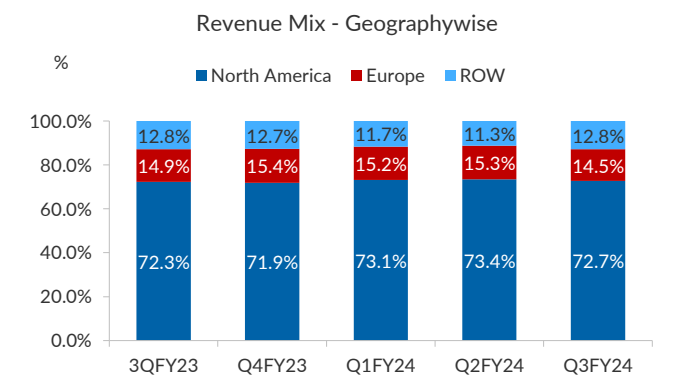
Source: Company, YES Sec

**Exhibit 7: Employee attrition continues to moderate**



Source: Company, YES Sec

**Exhibit 8: Americas contribute bulk of revenue**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	296	296	296	296	296
Reserves & surplus	142,576	165,625	199,131	245,621	300,934
Shareholders' funds	142,872	165,921	199,427	245,917	301,230
Minority Interests and others	57	71	71	71	71
Non-current liabilities	11,972	14,143	9,483	9,429	9,381
Other non-current liabilities	11,972	14,143	9,483	9,429	9,381
Current liabilities	50,923	54,826	67,478	73,072	80,504
ST borrowings, Curr maturity	519	1,253	1,253	1,253	1,253
Other current liabilities	50,404	53,573	66,225	71,819	79,251
<b>Total (Equity and Liabilities)</b>	<b>205,824</b>	<b>234,961</b>	<b>276,459</b>	<b>328,489</b>	<b>391,186</b>
Non-current assets	56,438	63,103	64,306	65,585	66,944
Fixed assets (Net block)	28,125	33,922	34,540	35,189	35,870
Non-current Investments	6,513	7,165	7,165	7,165	7,165
Long-term loans and advances	0	0	0	0	0
Other non-current assets	21,800	22,016	22,601	23,231	23,909
Current assets	149,386	171,858	212,153	262,904	324,241
Cash & current investment	72,344	76,738	89,289	122,572	162,116
Other current assets	77,042	95,120	122,864	140,332	162,125
<b>Total (Assets)</b>	<b>205,824</b>	<b>234,961</b>	<b>276,459</b>	<b>328,489</b>	<b>391,186</b>

Source: Company, YES Sec

### Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net sales	261,087	331,830	359,222	410,636	476,774
Operating expenses	(208,601)	(270,753)	(292,388)	(325,224)	(377,605)
EBITDA	52,486	61,077	66,834	85,412	99,169
Depreciation	(5,971)	(7,280)	(8,011)	(9,239)	(10,727)
EBIT	46,515	53,797	58,823	76,173	88,442
Other income	6,424	4,065	5,026	6,810	7,371
Profit before tax	52,939	57,862	63,849	82,983	95,812
Tax (current + deferred)	(13,439)	(13,812)	(15,502)	(20,167)	(23,285)
Reported Profit / (Loss)	39,500	44,050	48,347	62,816	72,528
Adjusted net profit	39,500	44,050	48,347	62,816	72,528

Source: Company, YES Sec

## Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	52,939	57,862	63,849	82,983	95,812
Depreciation	5,971	7,280	8,011	9,239	10,727
Change in working capital	(17,410)	(14,185)	(15,074)	(11,856)	(14,342)
Total tax paid	(10,991)	(17,848)	(15,758)	(20,441)	(23,578)
Others	(6,424)	(4,065)	(5,026)	(6,810)	(7,371)
Cash flow from oper. (a)	24,085	29,044	36,002	53,115	61,249
Capital expenditure	(20,491)	(13,077)	(8,629)	(9,888)	(11,409)
Change in investments	(23,189)	5,901	(4,742)	(5,216)	(5,738)
Others	683	7,531	4,707	6,465	6,998
Cash flow from inv. (b)	(42,997)	355	(8,664)	(8,639)	(10,148)
Free cash flow (a+b)	(18,912)	29,399	27,338	44,476	51,101
Equity raised/(repaid)	121	0	0	0	0
Debt raised/(repaid)	105	734	0	0	0
Dividend (incl. tax)	(13,277)	(15,627)	(14,822)	(16,304)	(17,193)
Others	42,742	(3,559)	(4,708)	(104)	(101)
Cash flow from fin. (c)	29,691	(18,452)	(19,529)	(16,408)	(17,294)
Net chg in cash (a+b+c)	10,779	10,947	7,809	28,068	33,806

Source: Company, YES Sec

## Exhibit 12: Ratio Analysis

Y/e March 31	FY22	FY23	FY24E	FY25E	FY26E
Growth(%)					
Revenue Growth	NA	27.1	8.3	14.3	16.1
EBITDA Growth	NA	16.4	9.4	27.8	16.1
EBIT Growth	NA	15.7	9.3	29.5	16.1
Net Profit Growth	NA	11.5	9.8	29.9	15.5
Profitability Ratios(%)					
EBITDA Margin	20.1	18.4	18.6	20.8	20.8
EBIT margin	17.8	16.2	16.4	18.6	18.6
Net Profit margin	15.1	13.3	13.5	15.3	15.2
RoA	NA	24.4	23.0	25.2	24.6
RoE	NA	28.5	26.5	28.2	26.5
RoCE	NA	31.9	30.0	32.6	31.1
Liquidity Ratios					
Net debt/Equity (x)	(0.5)	(0.5)	(0.4)	(0.5)	(0.5)
Current ratio (x)	2.9	3.1	3.1	3.6	4.0
Quick ratio (x)	2.9	3.1	3.1	3.6	4.0
Valuation Ratios					
PER(x)	NA	42.2	38.5	29.6	25.7
PCE(x)	NA	36.2	33.0	25.8	22.3
Price/Book(x)	NA	11.2	9.3	7.6	6.2
EV/EBITDA(x)	NA	29.2	26.5	20.4	17.1

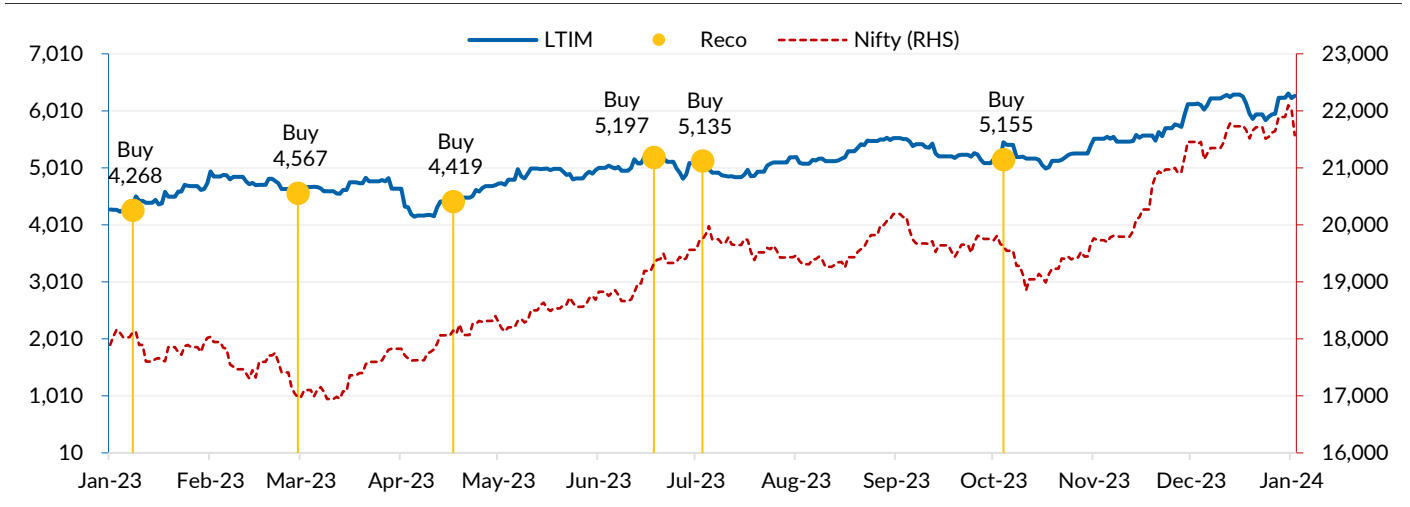
Source: Company, YES Sec

## Exhibit 13: Dupont Analysis

Dupont Analysis	FY22	FY23	FY24E	FY25E	FY26E
Net margin(%)	NA	13.3	13.5	15.3	15.2
Asset turnover (x)	NA	1.5	1.4	1.4	1.3
Leverage factor (x)	NA	1.4	1.4	1.4	1.3
Return on Equity(%)	NA	28.5	26.5	28.2	26.5

Source: Company, YES Sec

## Recommendation Tracker



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**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

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