

India

REDUCE (no change)

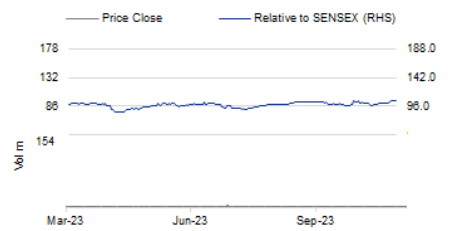
Consensus ratings*: Buy 13 Hold 12 Sell 17

Current price:	Rs5,194
Target price:	Rs4,956
Previous target:	Rs5,657
Up/downside:	-4.6%
InCred Research / Consensus:	-17.3%
Reuters:	LRTI.NS
Bloomberg:	LTIM IN
Market cap:	US\$18,559m
	Rs1,538,376m
Average daily turnover:	US\$29.9m
	Rs2482.0m
Current shares o/s:	296.0m
Free float:	31.3%

*Source: Bloomberg

Key changes in this note

- Expect 8.3% revenue CAGR over FY24F-26F.
- Expect 15.0% EBIT CAGR over FY24F-26F.
- Expect 14.2% PAT CAGR over FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(6.9)	(15.3)	14.1
Relative (%)	(7.2)	(16.8)	(8.9)

Major shareholders	% held
FPI	8.7
LIC	3.7
UTI Flexi Cap Fund	1.7

Research Analyst(s)



Abhishek SHINDADKAR
 T (91) 22 4161 1543
 E abhishek.shindadkr@incredresearch.com

Tushar WAVHAL
 T (91) 22 4161 1544
 E tushar.wavhal@incredresearch.com

Smit GOSRANI
 T (91) 22 4161 1544
 E smit.gosrani@incredresearch.com

LTIMindtree Ltd

Going lower than consensus yet again

- Trimming our estimates once again to factor in recent industry interactions.
- Higher cost of deals and peaking utilization may limit EBIT margin expansion.
- A 10% correction in the stock price could be an opportunity to accumulate.

Going lower than consensus estimates once again

LTIMindtree or LTIM shares have underperformed the Nifty IT index by ~20% ever since its 3QFY24 earnings missed expectations due to weak revenue growth and margin commentary. As a reminder, LTIM's management stated that 4QFY24F revenue growth could be like that in 3QFY24 (0.7% in constant currency or terms) while investments could delay its aspiration to exit FY24F with a 17-18% EBIT margin and achieve a similar range in FY25F. Although we had trimmed our estimates post 3QFY24 results, we believe the recent underperformance of its share price could be a good opportunity to reassess our earnings estimates and stock rating.

Recent industry interactions suggest we didn't trim FY25F enough

LTIMindtree's 3QFY24 deal wins at US\$1.5bn, up 15.4% qoq and 21% yoy, were healthy and takes 9MFY24 deal wins to ~US\$4.2bn, up 19% yoy, while the pipeline commentary at US\$4.6bn, up 30% yoy, was encouraging. However, our recent industry interactions suggest that though deal wins could continue in 4QFY24F, the transition time is longer, and clients are reinvesting the savings from optimization of traditional business towards discretionary projects, which could cannibalize existing revenue. Also, continued frequent leadership attrition could delay execution. Consequently, we trim our FY25F/26F yoy US\$ revenue growth assumptions to 7%/9.5% vs. 9.5%/11%, respectively, earlier.

Higher cost of deals and peaking utilization may limit EBIT margin

Analyzing the margin levers suggest that though pyramid rationalization and productivity are key margin tailwinds, utilization (excluding trainees) at 87.4% is higher than peers (Fig. 2) and requires investment in fresher addition. This, coupled with the higher cost of deal wins and minimal growth leverage, could limit any material improvement in margins. Consequently, we trim our FY25F EBIT margin estimate by ~20bp to 16.8%.

Valuation: What could be a good price point to turn BUYers

Our DCF analysis implies a fair value of Rs4,707 assuming LTIMindtree's revenue grows at a 11% CAGR over FY27F-33F on top of our modeled growth till FY26F, translating to ~10% revenue CAGR over FY23-33F (vs. 24.5% over FY16-23 for LTI ex-Mindtree) coupled with an average 18% EBIT margin vs. an average 16.6% in FY16-23 (management guidance of ~200bp EBIT expansion by FY27F). This implies a potential ~9% correction in the share price, which could be a good accumulation opportunity (~23x FY26F earnings). We retain our REDUCE rating on LTIM with a lower target price of Rs4,956, driven by a cut in earnings and despite retaining our target PE/G multiple of 1.7x. Better revenue growth, margin execution and leadership stability are the key upside risks.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	261,087	331,830	356,821	387,487	434,476
Operating EBITDA (Rsm)	52,486	61,077	64,731	73,157	83,854
Net Profit (Rsm)	39,483	44,083	46,601	52,502	60,799
Core EPS (Rs)	133.5	148.9	157.2	177.0	205.0
Core EPS Growth	0.0%	11.6%	5.6%	12.6%	15.8%
FD Core P/E (x)	38.92	34.88	33.04	29.34	25.34
DPS (Rs)	55.0	60.0	62.0	70.8	82.0
Dividend Yield	0.63%	1.16%	1.19%	1.36%	1.58%
EV/EBITDA (x)	28.12	24.13	22.43	19.50	16.66
P/FCFE (x)	55.83	71.34	43.50	37.93	33.32
Net Gearing	(42.3%)	(38.3%)	(45.1%)	(50.6%)	(54.9%)
P/BV (x)	10.75	9.27	7.93	6.83	5.88
ROE	55.3%	28.6%	25.9%	25.0%	24.9%
% Change In Core EPS Estimates			(0.12%)	(3.64%)	(2.78%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Key recent senior exits at LTIM

Name	Designation	Exit	Current status
Vinit Teredesai	CFO	Mar-24	NA
Mukund Rao	Senior Vice President – Global Sales	Jan-24	President, Global Markets - Xoriant
Paresh Vankar	Chief Marketing Officer	Oct-23	NA
Dinesh Bajaj	SVP & Chief Business Officer	Sep-23	Executive VP - Qualitest
Siddharth Bohra	Chief Business Officer - Digital Business	Jun-23	Founder - Stealth startup
Suresh Bethavandu	Chief People Officer	Mar-23	Founder Director - Kedge Foster Widen
Suresh HP	Global Delivery Head - Industry Group	Mar-23	Chief Delivery Officer - Sonata Software
Radhakrishnan Rajagopalan	SVP & Global Head of Digital, Data and Insights	Mar-23	Data Engineering & Technology - Tiger Analytics
Venugopal Lambu	President and Executive Director	Jan-23	CEO - Randstad Digital

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Utilization likely peaking

Utilization (%)	3QFY23	2QFY24	3QFY24
Infosys (ex-trainees)	81.7	81.8	82.7
Infosys (including trainees)	77.7	80.4	81.7
Wipro (ex-trainees)	79.7	84.5	84.0
Tech Mahindra (including trainees) - organic business	86.4	86.1	87.6
Tech Mahindra (ex-trainees)	86.4	86.2	87.6
LTIMindtree - ex-trainees	82.9	86.6	87.4
Mphasis (including trainees) - onshore	87.0	87.0	84.0
Mphasis (including trainees) - offshore	70.0	72.0	69.0
Mphasis (ex-trainees) - offshore	74.0	77.0	74.0
Coforge (including trainees)	80.3	80.0	79.4
Persistent Systems (including trainees)	77.6	80.6	81.5
Birlasoft	84.0	86.5	87.1
Sonata Software	84.2	86.4	82.7

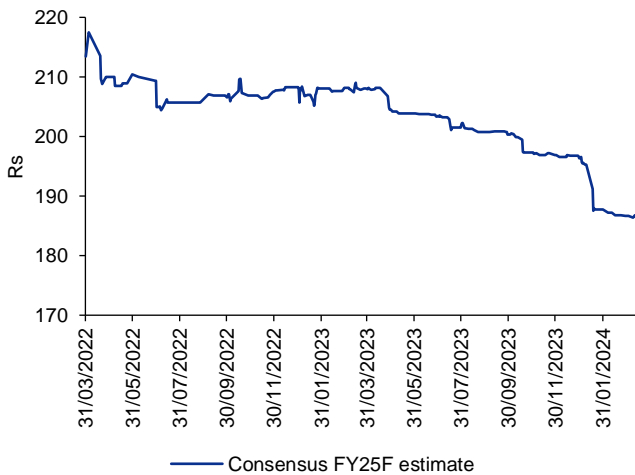
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 3: Change in our earnings estimates

Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	New	Old	% change	New	Old	% change	New	Old	% change
US\$ revenue	4,309	4,314	-0.1	4,613	4,725	-2.4	5,052	5,247	-3.7
Revenue	3,56,821	3,57,219	-0.1	3,87,487	3,96,940	-2.4	4,34,476	4,51,278	-3.7
EBIT	56,819	56,882	-0.1	65,020	67,480	-3.6	75,164	77,620	-3.2
EBIT margin (%)	15.9	15.9	0 bp	16.8	17.0	(22)bp	17.3	17.2	10bp
Net PAT	46,601	46,655	-0.1	52,502	54,487	-3.6	60,799	62,541	-2.8
EPS (Rs)	157.1	157.3	-0.1	177.0	183.7	-3.6	205.0	210.9	-2.8

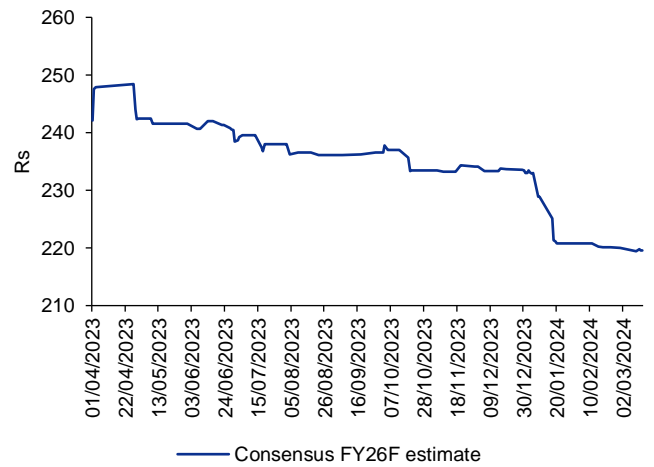
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: FY25F estimates are ~5% below consensus ...



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 5: ...and FY26F by ~4%



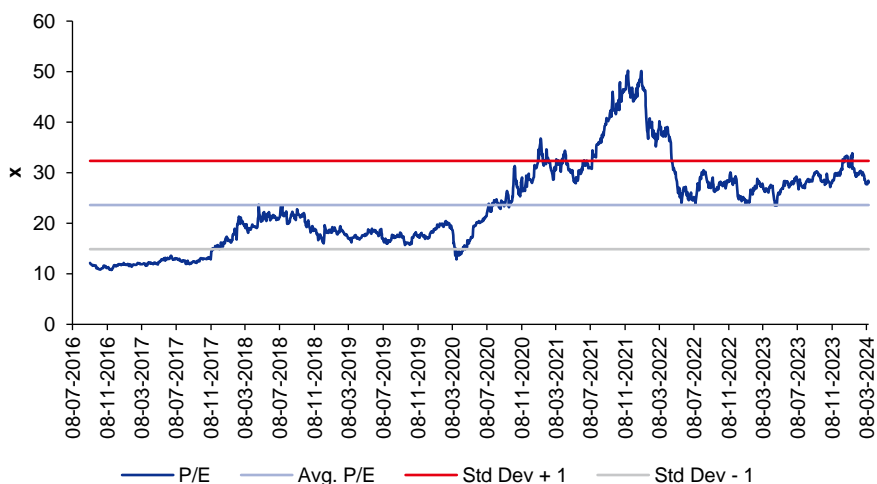
SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 6: Discounted cash flow or DCF analysis suggests ~9% downside to CMP

LTIM	Historical growth	Forecasted growth
	FY16-23	FY23-33F
USD revenue growth CAGR	24.5%	9.8%
Average EBIT margin	16.6%	18.1%
FCF/revenue	10.0%	11.9%
FCF/EBITDA	52.6%	59.9%
FCF/EBIT	60.4%	65.6%
Terminal growth rate		5.0%
WACC		11.2%
Fair value (Rs)		4,707
CMP (Rs)		5,194
Upside/(downside)		-9.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: LTIM trades at one-year forward P/E of ~28x



SOURCE: INCRED RESEARCH, BLOOMBERG

BY THE NUMBERS

Profit & Loss					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	261,087	331,830	356,821	387,487	434,476
Gross Profit	101,195	123,031	131,358	143,680	161,625
Operating EBITDA	52,486	61,077	64,731	73,157	83,854
Depreciation And Amortisation	(5,971)	(7,227)	(7,912)	(8,137)	(8,690)
Operating EBIT	46,515	53,850	56,819	65,020	75,164
Financial Income/(Expense)	6,424	4,065	4,792	4,547	5,393
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	52,939	57,915	61,611	69,567	80,557
Exceptional Items					
Pre-tax Profit	52,939	57,915	61,611	69,567	80,557
Taxation	(13,439)	(13,812)	(14,989)	(17,044)	(19,736)
Exceptional Income - post-tax					
Profit After Tax	39,500	44,103	46,622	52,523	60,820
Minority Interests	(17)	(20)	(21)	(21)	(21)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	39,483	44,083	46,601	52,502	60,799
Recurring Net Profit	39,483	44,083	46,601	52,502	60,799
Fully Diluted Recurring Net Profit	39,483	44,083	46,601	52,502	60,799

Cash Flow					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	52,486	61,077	64,731	73,157	83,854
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(9,542)	(17,645)	(4,207)	(5,071)	(7,448)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	4,275	4,235			
Net Interest (Paid)/Received	(1,234)	(1,504)	(2,144)	(2,428)	(2,428)
Tax Paid	(13,478)	(15,217)	(14,989)	(17,044)	(19,736)
Cashflow From Operations	32,507	30,946	43,391	48,615	54,241
Capex	(10,573)	(9,393)	(8,000)	(8,000)	(8,000)
Disposals Of FAs/subsidiaries	34				
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(5,880)	6,084	6,936	6,975	7,821
Cash Flow From Investing	(16,419)	(3,309)	(1,064)	(1,025)	(179)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(13,277)	(15,627)	(18,361)	(21,001)	(24,320)
Preferred Dividends					
Other Financing Cashflow	(3,527)	(3,690)	(2,144)	(2,428)	(2,428)
Cash Flow From Financing	(16,804)	(19,317)	(20,505)	(23,429)	(26,748)
Total Cash Generated	(716)	8,320	21,822	24,161	27,314
Free Cashflow To Equity	21,934	21,553	35,391	40,615	46,241
Free Cashflow To Firm	17,322	29,141	44,471	50,017	56,490

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	72,344	76,738	100,683	127,250	156,971
Total Debtors	56,271	72,245	77,787	84,085	93,412
Inventories					
Total Other Current Assets	20,771	22,875	22,875	22,875	22,875
Total Current Assets	149,386	171,858	201,345	234,210	273,259
Fixed Assets	24,896	30,362	30,450	30,313	29,624
Total Investments	6,513	7,165	7,165	7,165	7,165
Intangible Assets	14,861	15,452	15,452	15,452	15,452
Total Other Non-Current Assets	10,168	10,124	10,124	10,124	10,124
Total Non-current Assets	56,438	63,103	63,191	63,054	62,365
Short-term Debt	519	1,253	1,253	1,253	1,253
Current Portion of Long-Term Debt					
Total Creditors	13,250	12,938	14,273	15,499	17,379
Other Current Liabilities	37,154	40,635	40,635	40,635	40,635
Total Current Liabilities	50,923	54,826	56,161	57,387	59,267
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	11,972	14,143	14,143	14,143	14,143
Total Non-current Liabilities	11,972	14,143	14,143	14,143	14,143
Total Provisions					
Total Liabilities	62,895	68,969	70,304	71,530	73,410
Shareholders Equity	142,872	165,921	194,161	225,663	262,142
Minority Interests	57	71	71	71	71
Total Equity	142,929	165,992	194,232	225,734	262,213

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth		27.1%	7.5%	8.6%	12.1%
Operating EBITDA Growth		16.4%	6.0%	13.0%	14.6%
Operating EBITDA Margin	20.1%	18.4%	18.1%	18.9%	19.3%
Net Cash Per Share (Rs)	204.49	214.77	295.22	384.79	485.00
BVPS (Rs)	483.00	560.18	654.65	760.86	883.86
Gross Interest Cover	37.69	35.80	26.50	26.78	30.96
Effective Tax Rate	25.4%	23.8%	24.3%	24.5%	24.5%
Net Dividend Payout Ratio	24.4%	40.3%	39.4%	40.0%	40.0%
Accounts Receivables Days	39.33	70.68	76.74	76.24	74.56
Inventory Days					
Accounts Payables Days	15.12	22.89	22.03	22.29	21.99
ROIC (%)		53.6%	44.1%	48.2%	53.2%
ROCE (%)	44.8%	24.6%	22.3%	22.0%	22.1%
Return On Average Assets	33.7%	18.6%	17.2%	17.5%	17.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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