



India

ADD (previously **REDUCE**)

Consensus ratings*: Buy 16 Hold 10 Sell 15

Current price:	Rs5,377
Target price: ▲	Rs5,998
Previous target:	Rs4,956
Up/downside:	11.5%
InCred Research / Consensus:	17.4%
Reuters:	
Bloomberg:	LTIM IN
Market cap:	US\$21,931m
	Rs1,592,515m
Average daily turnover:	US\$37.0m
	Rs2685.0m
Current shares o/s:	296.0m
Free float:	31.3%

*Source: Bloomberg

Key changes in this note

- Expect 10% revenue CAGR over FY25F-27F.
- Expect 15.9% EBIT CAGR over FY25F-27F.
- Expect 15.6% PAT CAGR over FY25F-27F.

Price performance	1M	3M	12M
Absolute (%)	8.0	9.9	5.1
Relative (%)	2.8	2.6	(14.5)

Major shareholders	% held
FPI	7.9
LIC	5.1
UTI Flexi Cap Fund	1.5

LTIMindtree Ltd**Turning constructive**

- Recovery in E&U & FSI verticals & large customers could aid revenue growth.
- This could reverse margin underperformance (down 200bp since 1QFY24).
- Upgrade to an ADD rating with a higher target price of Rs5,998.

Recovery in E&U and insurance verticals could aid overall growth

Our recent industry interactions suggest that large/mega deals are being constructed, especially in the energy & utility (E&U) vertical, while the insurance vertical is witnessing better traction. As a reminder, the erstwhile LTI earned ~9% of its revenue from the energy & process vertical but is now a part of the manufacturing & resources vertical (M&R; 18.6% of 4QFY24 revenue) which grew by an average 13.6% yoy over the past eight quarters vs. company average of 11.5%. Ramp-up of a large five-year deal from a Middle East-based energy player, a consolidation deal won earlier, and potential new deal wins could help sustain the momentum. Similarly, traction in the insurance vertical (~14% of the erstwhile LTI's revenue) bodes well and could aid recovery.

FSI, hi-tech recovery could aid double-digit yoy growth in 4QFY25F

The FSI vertical's revenue declined 6.6% yoy in 4QFY24, a steep fall from the 26.9% yoy growth eight quarters ago (refer Fig. 3), driven by project cancellations, higher furloughs, client caution, hiring freeze, and a potential large client-related challenges. Analyzing earnings commentary of a large customer suggests that its reorganization is complete and that restructuring charges could fade through the year. As for the technology vertical, 4QFY24 revenue growth recovered to 6.8% vs. an average 8.7% in the past seven quarters and 0.5%/-1% yoy in 3Q/2QFY24, respectively. Analyzing, Microsoft's 3QFY24 earnings suggest an AI-led yoy growth recovery for Azure & cloud services while its commentary suggests larger strategic Azure deals with an increase in US\$bn+ commitments & 80%/2x yoy increase in US\$100m+/10m+ deals. Together, they could ease decision-making delay.

Margin underperformance likely bottoming out

LTIMindtree or LTIM's EBIT margin at 14.7% as of 4QFY24-end (vs. recent peak of 17.5% in 2QFY23) was impacted from weak operating leverage, investments in SG&A and headwinds from project cancellations. The recovery in the FSI vertical (segmental margin down 220bp since 4QFY23) and the M&R vertical (down 200bp), pyramid rationalization, and growth leverage could help achieve the medium-term EBIT margin aspiration of 17-18%. We expect an average 16.8% EBIT margin over FY25F-27F.

Upgrade to ADD from REDUCE with a higher target price of Rs5,998

We introduce FY27F and model in a 10% US\$ revenue CAGR over FY25F-27F and a 15.6% PAT (Rs) CAGR. We lower PE/G discount to TCS' multiple to 15% (vs. 20% earlier), accounting for improving outlook, to arrive at our target PE/G of 1.79x (1.6x earlier) and now value on an average FY26F-27F EPS (FY26F earlier). Weaker recovery in the FSI & hi-tech verticals led by client-specific issues, and higher attrition are downside risks.

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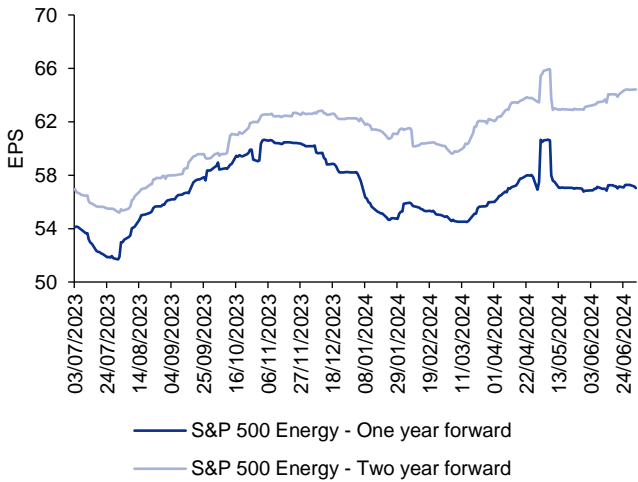
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Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	331,830	355,170	378,652	425,028	477,721
Operating EBITDA (Rsm)	61,077	63,874	69,499	80,755	90,767
Net Profit (Rsm)	44,083	45,821	50,973	60,015	68,074
Core EPS (Rs)	148.9	154.6	171.8	202.3	229.5
Core EPS Growth	11.6%	3.8%	11.2%	17.7%	13.4%
FD Core P/E (x)	36.11	34.78	31.29	26.58	23.43
DPS (Rs)	60.0	65.0	74.0	99.1	114.8
Dividend Yield	1.12%	1.21%	1.37%	1.84%	2.13%
EV/EBITDA (x)	25.02	23.73	21.47	18.18	15.88
P/FCFE (x)	73.85	36.65	42.16	36.74	32.15
Net Gearing	(38.3%)	(39.0%)	(45.0%)	(48.9%)	(52.3%)
P/BV (x)	9.60	7.97	6.96	6.14	5.43
ROE	28.6%	25.0%	23.7%	24.5%	24.6%
% Change In Core EPS Estimates			(2.09%)	0.14%	
InCred Research/Consensus EPS (x)					

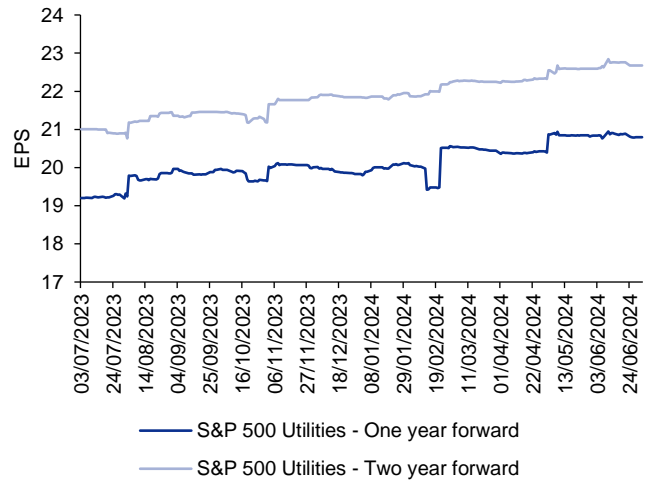
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: S&P 500 Energy and...



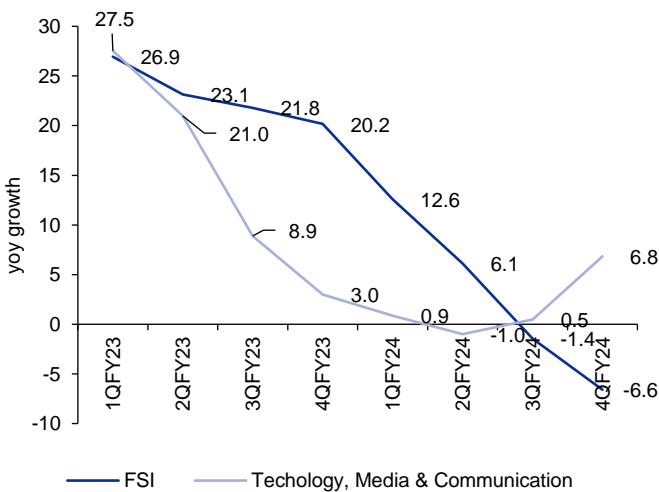
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 2: Utilities witnessing earnings upgrade



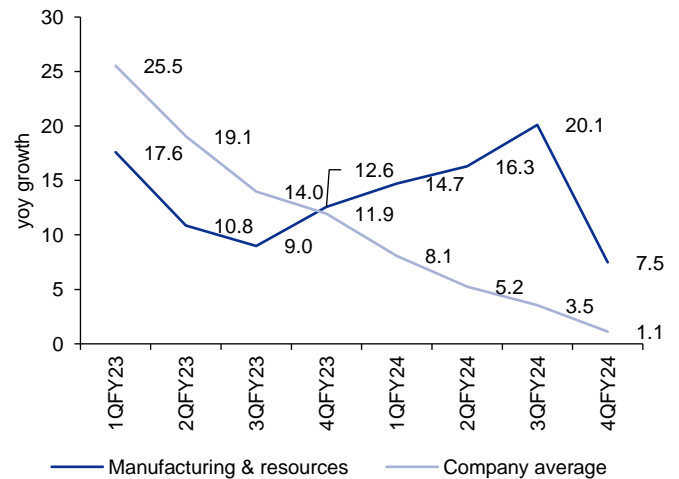
SOURCE: BLOOMBERG, INCRED RESEARCH, EPS DATA ON ROLLING BASIS

Figure 3: Recovery in FSI...



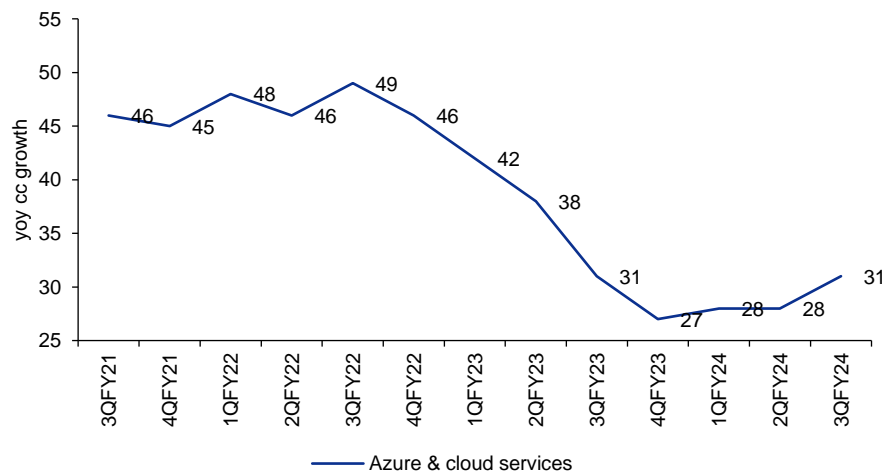
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: ...and E&U verticals could aid company average growth



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Microsoft Azure & Cloud services growth trend



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 6: Management retains its medium-term EBIT margin aspiration of 17-18%

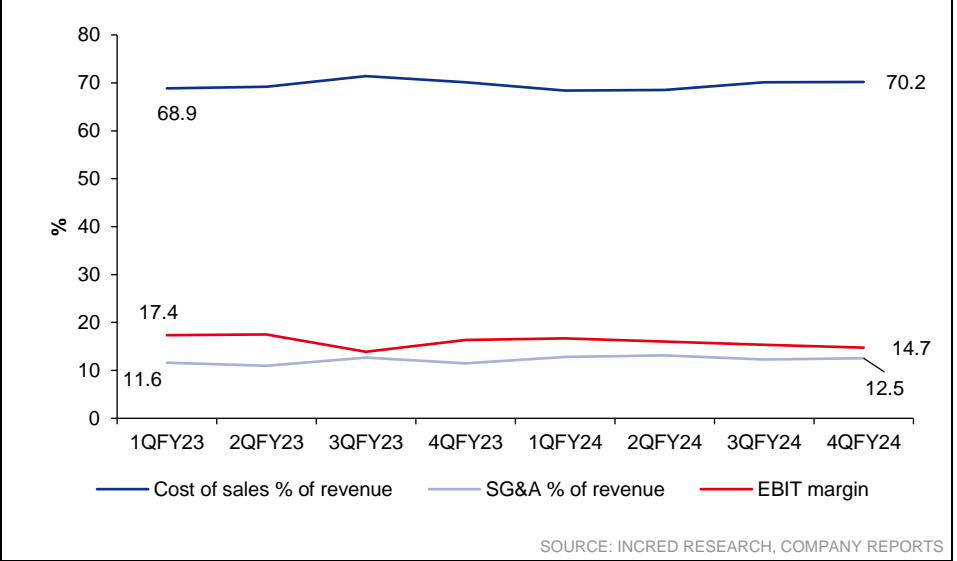
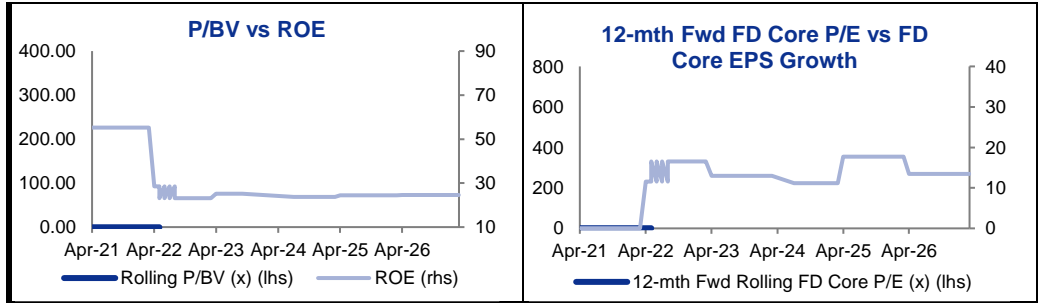


Figure 7: Change in earnings estimate

Y/E, March (Rsm)	FY25F			FY26F			FY27F
	New	Old	% change	New	Old	% change	New
US\$ revenue	4,540	4,589	-1.1	4,971	5,026	-1.1	5,491
Revenue	3,78,652	3,85,511	-1.8	4,25,028	4,32,271	-1.7	4,77,721
EBIT	60,979	63,609	-4.1	72,255	73,846	-2.2	81,929
EBIT margin (%)	16.1	16.5	(40) bp	17.0	17.1	(8) bp	17.2
Net PAT	50,973	52,059	-2.1	60,015	59,931	0.1	68,074
EPS (Rs)	171.8	175.5	-2.1	202.3	202.0	0.1	229.5

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	331,830	355,170	378,652	425,028	477,721
Gross Profit	123,031	127,847	141,337	157,685	176,279
Operating EBITDA	61,077	63,874	69,499	80,755	90,767
Depreciation And Amortisation	(7,227)	(8,189)	(8,520)	(8,501)	(8,838)
Operating EBIT	53,850	55,685	60,979	72,255	81,929
Financial Income/(Expense)	4,065	4,802	6,569	7,268	8,268
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	57,915	60,487	67,547	79,523	90,197
Exceptional Items					
Pre-tax Profit	57,915	60,487	67,547	79,523	90,197
Taxation	(13,812)	(14,641)	(16,549)	(19,483)	(22,098)
Exceptional Income - post-tax					
Profit After Tax	44,103	45,846	50,998	60,040	68,099
Minority Interests	(20)	(25)	(25)	(25)	(25)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	44,083	45,821	50,973	60,015	68,074
Recurring Net Profit	44,083	45,821	50,973	60,015	68,074
Fully Diluted Recurring Net Profit	44,083	45,821	50,973	60,015	68,074

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	61,077	63,874	69,499	80,755	90,767
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(17,645)	5,975	(4,066)	(6,856)	(7,742)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	4,235				
Net Interest (Paid)/Received	(1,504)	(2,217)	(2,720)	(2,720)	(2,720)
Tax Paid	(15,217)	(15,707)	(16,549)	(19,483)	(22,098)
Cashflow From Operations	30,946	51,925	46,163	51,696	58,206
Capex	(9,393)	(8,432)	(8,330)	(8,288)	(8,599)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	6,084	(30,689)	9,289	9,988	10,988
Cash Flow From Investing	(3,309)	(39,121)	958	1,700	2,389
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(15,627)	(17,753)	(21,903)	(29,407)	(34,037)
Preferred Dividends					
Other Financing Cashflow	(3,690)	(4,935)	(2,720)	(2,720)	(2,720)
Cash Flow From Financing	(19,317)	(22,688)	(24,623)	(32,127)	(36,757)
Total Cash Generated	8,320	(9,884)	22,498	21,269	23,838
Free Cashflow To Equity	21,553	43,493	37,833	43,408	49,607
Free Cashflow To Firm	29,141	15,021	49,841	56,116	63,315

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	76,738	95,694	120,887	144,848	171,380
Total Debtors	72,245	70,321	75,352	84,155	93,633
Inventories					
Total Other Current Assets	22,875	22,449	22,449	22,452	22,453
Total Current Assets	171,858	188,464	218,688	251,456	287,467
Fixed Assets	30,362	40,237	40,048	39,835	39,596
Total Investments	7,165	19,902	19,902	19,902	19,902
Intangible Assets	15,452	15,078	15,078	15,078	15,078
Total Other Non-Current Assets	10,124	11,949	11,949	11,949	11,949
Total Non-current Assets	63,103	87,166	86,977	86,764	86,525
Short-term Debt	1,253	407	407	407	407
Current Portion of Long-Term Debt					
Total Creditors	12,938	14,939	15,903	17,851	19,587
Other Current Liabilities	40,635	42,086	42,086	42,086	42,086
Total Current Liabilities	54,826	57,432	58,396	60,344	62,080
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	14,143	17,934	17,934	17,934	17,934
Total Non-current Liabilities	14,143	17,934	17,934	17,934	17,934
Total Provisions					
Total Liabilities	68,969	75,366	76,330	78,278	80,014
Shareholders Equity	165,921	200,172	229,242	259,850	293,886
Minority Interests	71	92	92	92	92
Total Equity	165,992	200,264	229,334	259,942	293,978

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	27.1%	7.0%	6.6%	12.2%	12.4%
Operating EBITDA Growth	16.4%	4.6%	8.8%	16.2%	12.4%
Operating EBITDA Margin	18.4%	18.0%	18.4%	19.0%	19.0%
Net Cash Per Share (Rs)	214.77	263.02	347.95	428.73	518.18
BVPS (Rs)	560.18	674.85	772.86	876.05	990.80
Gross Interest Cover	35.80	25.12	22.42	26.56	30.12
Effective Tax Rate	23.8%	24.2%	24.5%	24.5%	24.5%
Net Dividend Payout Ratio	40.3%	42.0%	43.0%	49.0%	50.0%
Accounts Receivables Days	70.68	73.26	70.21	68.49	67.92
Inventory Days					
Accounts Payables Days	22.89	22.38	23.72	23.04	22.67
ROIC (%)	53.6%	43.3%	44.7%	51.0%	54.5%
ROCE (%)	24.6%	21.3%	19.8%	20.8%	21.0%
Return On Average Assets	18.6%	16.5%	15.8%	16.9%	17.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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