

India

**HOLD** (no change)

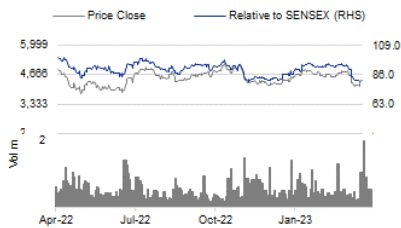
Consensus ratings\*: Buy 24 Hold 8 Sell 10

Current price:	Rs4,419
Target price:	Rs4,680
Previous target:	Rs5,251
Up/downside:	5.9%
InCred Research / Consensus:	-3.5%
Reuters:	LRTI.NS
Bloomberg:	LTIM IN
Market cap:	US\$15,976m Rs1,307,374m
Average daily turnover:	US\$27.2m Rs2225.7m
Current shares o/s:	296.0m
Free float:	31.3%

\*Source: Bloomberg

**Key changes in this note**

- Expect 11.2% US\$ revenue CAGR over FY23-25F.
- Expect 16.5% EBIT CAGR over FY23-25F.
- Expect 15.7% PAT CAGR over FY23-25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.4)	0.5	(8.7)
Relative (%)	(7.7)	(1.8)	(14.7)

Major shareholders	% held
FPI	8.4
LIC	3.1
UTI Flexi Cap Fund	1.9

**Analyst(s)**



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# LTIMindtree Ltd

## Await better entry point

- Management gave guidance of double-digit revenue growth for FY24F.
- 17-18% EBIT margin aspiration in the medium term.
- Retain HOLD rating with a lower target price of Rs4,680 (Rs5,251 earlier).

### 4QFY23 results summary

LTIMindtree's (LTIM IN) 4QFY23 revenue performance was soft on tempered estimates led by delayed decision-making in hi-tech and spending freeze in financial services portfolio (FSI), while the EBIT margin was 45bp above our estimate led by better cost control and lower integration cost. Management commentary suggests 1QFY24F revenue growth could be soft as some of these impacts could continue while strong order bookings (at US\$1.35bn; up 21% qoq) and budget releases could help achieve double-digit growth in FY24F. Although, LTIM remains one of our structural picks, its current valuation multiple is rich. Material EBIT margin beat could be a key upside risk to our estimates and stock rating.

### Deal pipeline commentary is encouraging

4QFY23 order inflow was up 21% qoq at US\$1.35bn while in FY23 it was at US\$4.87bn. Management commentary suggests the large deal pipeline is up ~12.5% at US\$3.6bn from US\$3.2bn reported during the Investor Day held on 14 Mar 2023. LTIM highlighted that though delay and budget freeze are happening, the company has not witnessed significant cancellations or deferment of projects. Finally, client migration was encouraging (added two/one client to US\$50m+/US\$20m+ bucket, respectively).

### Margin performance was marginally better

EBIT margin was up 247bp qoq at 16.4% (but down 173bp yoy), in line with the guided range of ~200-250bp but beat our estimate by ~45bp. EBIT margin was aided by the absence of furlough and higher working days (+80bp), lower integration cost (+80bp) and operational efficiency (+90bp). Although, wage hike could be a key margin headwind in 2QFY24F, the aspiration is to operate in the 17-18% range led by improvement in utilization, alignment of employee pyramid, receding supply challenges and synergy benefits. We model an average 17% EBIT margin over FY24F-25F.

### Retain HOLD rating with a lower target price of Rs4,680

We retain HOLD rating on LTIM with a lower target price of Rs4,680 (Rs5,251 earlier) as we incorporate merged financials of the erstwhile Mindtree and L&T Infotech & roll forward the valuation to FY25F earnings estimates which factor in the cautious macroeconomic environment. We model 11.2% US\$ revenue CAGR over FY23-25F and 15.7% PAT (Rs) CAGR, retaining our target PE/G multiple at 1.5x to arrive at our target P/E multiple of ~23.5x. Material EBIT margin beat could be a key upside risk while prolonged weakness in hi-tech and FSI, moderation in deal velocity and higher attrition are key downside risks to our thesis. revenue and EBIT margin assumptions.

### Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	261,087	331,830	374,715	426,583
Operating EBITDA (Rsm)	52,486	61,077	71,451	81,605
Net Profit (Rsm)	39,500	44,103	51,303	59,005
Core EPS (Rs)	133.5	149.0	173.1	199.0
Core EPS Growth	0.0%	11.6%	16.2%	15.0%
FD Core P/E (x)	33.10	29.66	25.53	22.20
DPS (Rs)	55.0	60.0	76.6	89.5
Dividend Yield	0.74%	1.36%	1.73%	2.03%
EV/EBITDA (x)	23.76	20.38	17.19	14.79
P/FCFE (x)	47.50	60.69	38.34	32.19
Net Gearing	(42.3%)	(38.3%)	(41.9%)	(45.4%)
P/BV (x)	9.15	7.89	6.74	5.77
ROE	55.3%	28.6%	28.5%	28.0%
% Change In Core EPS Estimates				
InCred Research/Consensus EPS (x)				

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Quarterly performance**

YE Mar (Rs m)	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ (%)	4QFY23F	Var. (%)
Revenue (US\$ m)	1,057.5	945	11.9	1,047	1.0	1,060.3	(0.3)
Revenue (Rs m)	86,910.0	71,280	21.9	86,200	0.8	87,261.4	(0.4)
USD-INR realization	82.2	75.5	8.9	82.4	(0.2)	82.3	(0.1)
EBITDA	16,037.0	14,504	10.6	13,748	16.6	15,707.0	2.1
EBITDA Margin (%)	18.5	20.3	(190 bp)	15.9	250 bp	18.0	45 bp
EBIT	14,214.0	12,888	10.3	11,967	18.8	13,874.6	2.4
EBIT Margin (%)	16.4	18.1	(173 bp)	13.9	247 bp	15.9	45 bp
Depreciation	1,823.0	1,616	12.8	1,781	2.4	1,832.5	(0.5)
Net other income	228.0	1,925	(88.2)	1,139	(80.0)	1,104.4	(79.4)
PBT	14,442.0	14,813	(2.5)	13,106	10.2	14,979.0	(3.6)
Provision for tax	3,301.0	3,755	(12.1)	3,099	6.5	3,894.5	(15.2)
% tax rate	22.9	25.3	(249 bp)	23.6	(79 bp)	26.0	(314 bp)
Net Profit	11,137.0	11,053	0.8	10,005	11.3	11,082.5	0.5
EPS (Rs)	37.6	37.4	0.8	33.8	11.3	37.4	0.5

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Key earnings take-aways

- **BFSI vertical:** The banking industry is currently focusing on cost take-out programs with an emphasis on cash conservation. A few clients have temporary hiring freeze in place. Core modernization and consolidation programs in the insurance vertical provide medium-term growth visibility. The deal pipeline is promising with several large deals in final stages.
- **Hi-tech, media & entertainment vertical:** Industry is focusing on customer support, subscription management, and product engineering. Though the decision-making timeline remained extended, vendor consolidation is driving up deals and deal sizes.
- **Manufacturing & resources:** In the automotive space, LTIM expects to gain from vendor consolidation with its unique industry solutions. Stable commodity prices are incentivizing energy clients to continue digital transformation investments. LTIM is seeing this trend across the energy value chain of upstream, midstream, and downstream with the focus on improving operational efficiency, health and safety, and lowering carbon footprint.
- **Retail, CPG, travel & hospitality:** IT spending in retail and CPG is impacted by reduced consumer confidence and spending due to higher interest rates and sticky inflation. Travel, transportation and hospitality business, airlines, hotel and car rental companies continue to see strong business activity.
- **Healthcare & life sciences:** In healthcare, LTIM will focus on value-based care and expand its coverage across product engineering and testing, while in life sciences the focus remains on aggressively cross-selling and up-selling of ERP, CRM and digital engineering services.
- Witnessed considerable activity in SAP, digital and data services, especially the shift to the Cloud, which presents opportunities for LTIM.
- Expanded and diversified capabilities, combined with enhanced scale, are creating significant cross-sell and up-sell opportunities. LTIM is now a formidable contender for strategic partnerships with new clients through multi-year and multi-tower deals.
- LTIM launched its generative AI (artificial intelligence) platform which could allow enterprises to accelerate their concept-to-value journey with a focus on ethical use of generative AI, sustainability, and data privacy. Several customers, including a top global bank, a multinational CPG leader, and a leading insurance brokerage, are leveraging the same.
- Europe grew by 14.1% yoy in constant currency or CC terms in FY23 but reported US\$ growth was 3.9% due to foreign exchange-impact.
- Quarterly annualized attrition rate stood at 13.7%, an improvement of 440bp qoq.

**BY THE NUMBERS**

<b>Profit &amp; Loss</b>				
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
<b>Total Net Revenues</b>	<b>261,087</b>	<b>331,830</b>	<b>374,715</b>	<b>426,583</b>
<b>Gross Profit</b>	<b>101,195</b>	<b>123,031</b>	<b>138,780</b>	<b>157,409</b>
<b>Operating EBITDA</b>	<b>52,486</b>	<b>61,077</b>	<b>71,451</b>	<b>81,605</b>
Depreciation And Amortisation	(5,971)	(7,227)	(7,824)	(8,532)
<b>Operating EBIT</b>	<b>46,515</b>	<b>53,850</b>	<b>63,628</b>	<b>73,074</b>
Financial Income/(Expense)	6,424	4,065	4,776	5,599
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)				
<b>Profit Before Tax (pre-EI)</b>	<b>52,939</b>	<b>57,915</b>	<b>68,404</b>	<b>78,673</b>
Exceptional Items				
<b>Pre-tax Profit</b>	<b>52,939</b>	<b>57,915</b>	<b>68,404</b>	<b>78,673</b>
Taxation	(13,439)	(13,812)	(17,101)	(19,668)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>39,500</b>	<b>44,103</b>	<b>51,303</b>	<b>59,005</b>
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>39,500</b>	<b>44,103</b>	<b>51,303</b>	<b>59,005</b>
Recurring Net Profit	39,500	44,103	51,303	59,005
<b>Fully Diluted Recurring Net Profit</b>	<b>39,500</b>	<b>44,103</b>	<b>51,303</b>	<b>59,005</b>

<b>Cash Flow</b>				
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
<b>EBITDA</b>	<b>52,486</b>	<b>61,077</b>	<b>71,451</b>	<b>81,605</b>
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(9,542)	(17,645)	(8,450)	(9,379)
(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)	(1,744)	(1,866)
Tax Paid	(13,478)	(15,217)	(17,101)	(19,668)
<b>Cashflow From Operations</b>	<b>32,507</b>	<b>30,946</b>	<b>44,157</b>	<b>50,692</b>
Capex	(10,573)	(9,393)	(10,000)	(10,000)
Disposals Of FAs/subsidiaries	34			
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	(1,038)	4,138	4,135	
<b>Cash Flow From Investing</b>	<b>(11,577)</b>	<b>(5,255)</b>	<b>(5,865)</b>	<b>(10,000)</b>
Debt Raised/(repaid)				
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(8,749)	(7,012)	(14,517)	
Preferred Dividends				
Other Financing Cashflow	(1,709)	(741)	(741)	
<b>Cash Flow From Financing</b>	<b>(10,458)</b>	<b>(7,753)</b>	<b>(15,258)</b>	
Total Cash Generated	10,472	17,937	23,034	40,692
<b>Free Cashflow To Equity</b>	<b>21,934</b>	<b>21,553</b>	<b>34,157</b>	<b>40,692</b>
<b>Free Cashflow To Firm</b>	<b>22,164</b>	<b>27,195</b>	<b>40,036</b>	<b>42,558</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>				
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	72,344	76,738	94,689	116,286
Total Debtors	56,271	72,245	83,156	94,666
Inventories				
Total Other Current Assets	20,771	22,875	22,875	22,875
<b>Total Current Assets</b>	<b>149,386</b>	<b>171,858</b>	<b>200,720</b>	<b>233,827</b>
Fixed Assets	24,896	30,362	32,538	34,007
Total Investments	6,513	7,165	7,165	7,165
Intangible Assets	14,861	15,452	15,452	15,452
Total Other Non-Current Assets	10,168	10,124	10,124	10,124
<b>Total Non-current Assets</b>	<b>56,438</b>	<b>63,103</b>	<b>65,279</b>	<b>66,748</b>
Short-term Debt	519	1,253	1,253	1,253
Current Portion of Long-Term Debt				
Total Creditors	13,250	12,938	15,399	17,531
Other Current Liabilities	37,154	40,635	40,635	40,635
<b>Total Current Liabilities</b>	<b>50,923</b>	<b>54,826</b>	<b>57,287</b>	<b>59,419</b>
Total Long-term Debt				
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	11,972	14,143	14,143	14,143
<b>Total Non-current Liabilities</b>	<b>11,972</b>	<b>14,143</b>	<b>14,143</b>	<b>14,143</b>
Total Provisions				
<b>Total Liabilities</b>	<b>62,895</b>	<b>68,969</b>	<b>71,430</b>	<b>73,562</b>
Shareholders Equity	142,872	165,921	194,498	226,942
Minority Interests	57	71	71	71
<b>Total Equity</b>	<b>142,929</b>	<b>165,992</b>	<b>194,569</b>	<b>227,013</b>

<b>Key Ratios</b>				
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth		27.1%	12.9%	13.8%
Operating EBITDA Growth		16.4%	17.0%	14.2%
Operating EBITDA Margin	20.1%	18.4%	19.1%	19.1%
Net Cash Per Share (Rs)	204.49	214.77	275.15	348.01
BVPS (Rs)	483.00	560.18	656.13	765.58
Gross Interest Cover	37.69	35.80	36.48	39.16
Effective Tax Rate	25.4%	23.8%	25.0%	25.0%
Net Dividend Payout Ratio	24.4%	40.3%	44.3%	45.0%
Accounts Receivables Days	39.33	70.68	75.69	76.08
Inventory Days				
Accounts Payables Days	15.12	22.89	21.92	22.33
ROIC (%)		53.6%	49.0%	50.7%
ROCE (%)	44.8%	24.6%	24.7%	24.5%
Return On Average Assets	33.7%	18.6%	19.1%	19.3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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