

India

HOLD (no change)

Consensus ratings*: Buy 19 Hold 9 Sell 11

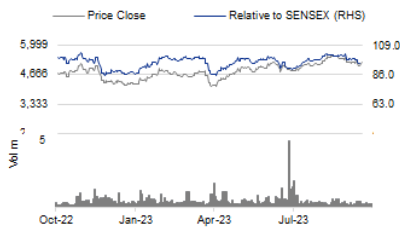
Current price:	Rs5,155
Target price:	Rs5,264 ▲
Previous target:	Rs4,680
Up/downside:	2.1%
InCred Research / Consensus:	-5.1%

Reuters:	LRTI.NS
Bloomberg:	LTIM IN
Market cap:	US\$18,321m
	Rs1,525,495m
Average daily turnover:	US\$28.4m
	Rs2361.9m
Current shares o/s:	296.0m
Free float:	31.3%

*Source: Bloomberg

Key changes in this note

- Expect 11.2% revenue CAGR over FY24F-26F.
- Expect 16.2% EBIT CAGR over FY24F-26F.
- Expect 15.8% PAT CAGR over FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(6.5)	3.3	9.8
Relative (%)	(4.1)	5.2	(1.5)

Major shareholders	% held
FPI	8.2
LIC	3.4
UTI Flexi Cap Fund	1.8

Analyst(s)



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LTIMindtree Ltd

Better entry points may be closer

- Reiterates commentary of 2HFY24F revenue growth to be better than 1HFY24.
- Expects a 17-18% EBIT margin by the end of FY24F.
- Retain HOLD rating with a revised target price of Rs5,264 (vs. Rs4,680 earlier).

2QFY24 earnings summary

Though being a structural pick, we had downgraded LTIMindtree or LTIM to a HOLD rating in Apr 2023 (link), as we awaited a better entry point. The premise of our rating change was that optimistic revenue and EBIT margin assumptions are likely priced in. We believe that 2QFY24 earnings and commentary could temper heightened expectations and provide that entry point over the next two quarters. We adjust our estimates, introduce FY26F and retain our HOLD rating on LTIM, but with a higher target price as we shift to FY26F valuation.

Deal wins remain in a narrow range over the last three quarters

Deal wins at US\$1.3bn were up 20% yoy but down qoq from US\$1.4bn in 1QFY24. 1HFY24 order inflow at US\$2.7bn was up 19% yoy. The cautious demand environment commentary was consistent with peers while 3QFY24F furloughs could be similar or higher than prior periods. Finally, like its peers, LTIM is witnessing significant deal momentum for large and longer tenure deals, with cost optimization as the primary focus area.

Margin performance in line with expectations

The EBIT margin at 16% declined by 69bp qoq and 152bp yoy, but was 10bp above estimate. Key headwinds (-200bp) include 1) wage hike, promotions, & select wage corrections, and 2) provisioning for unbilled receivables partly offset by tailwinds from increase in utilization (+60bp), and +70bp from operational efficiency & absence of visa costs. The outcome of the margin improvement program is encouraging and continues to aid management's confidence of attaining a 17-18% EBIT margin by FY24F end. We model an average 17.4% EBIT margin over FY24F-26F.

Retain HOLD rating with a higher target price of Rs5,264

We retain HOLD rating on LTIM with a higher target price of Rs5,264 (Rs4,680 earlier) as we roll forward to FY26F estimates. We model a 11.2% US\$ revenue CAGR over FY24F-26F and a 15.8% PAT (Rs) CAGR, retaining our 1.5x target PE/G multiple to arrive at a target P/E multiple of 23.7x. Material EBIT margin beat could be a key upside risk while prolonged weakness in the FSI vertical, slower deal conversion to revenue, moderation in deal velocity and higher attrition are key downside risks to our thesis.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	261,087	331,830	361,773	405,673	465,215
Operating EBITDA (Rsm)	52,486	61,077	69,532	79,512	92,113
Net Profit (Rsm)	39,483	44,083	49,091	56,345	65,837
Core EPS (Rs)	133.5	148.9	165.6	190.0	222.0
Core EPS Growth	0.0%	11.6%	11.2%	14.7%	16.8%
FD Core P/E (x)	38.62	34.61	31.12	27.13	23.22
DPS (Rs)	55.0	60.0	62.0	76.0	88.8
Dividend Yield	0.63%	1.16%	1.20%	1.47%	1.72%
EV/EBITDA (x)	27.90	23.94	20.72	17.80	15.04
P/FCFE (x)	55.41	70.80	42.01	35.75	30.99
Net Gearing	(42.3%)	(38.3%)	(44.4%)	(49.3%)	(53.1%)
P/BV (x)	10.67	9.20	7.77	6.63	5.66
ROE	55.3%	28.6%	27.1%	26.4%	26.3%
% Change In Core EPS Estimates			(4.33%)	(4.55%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

YE Mar (Rs m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	2QFY24F	Var. (%)
Revenue (US\$ m)	1,075.5	1,022	5.2	1,059	1.6	1,073.2	0.2
Revenue (Rs m)	89,054	82,278	8.2	87,021	2.3	88,754	0.3
USD-INR realization	83	80.5	2.8	82.2	0.7	83	0.1
EBITDA	16,313	16,356	(0.3)	16,355	(0.3)	15,976	2.1
EBITDA margin (%)	18.3	19.9	(156 bp)	18.8	(48 bp)	18.0	32 bp
EBIT	14,231	14,397	(1.2)	14,508	(1.9)	14,094	1.0
EBIT margin (%)	16.0	17.5	(152 bp)	16.7	(69 bp)	15.9	10 bp
Depreciation	2,082	1,959	6.3	1,847	12.7	1,882	10.7
Net other income	962	1,233	(22.0)	856	12.4	960	0.2
PBT	15,193	15,630	(2.8)	15,364	(1.1)	15,054	0.9
Provision for tax	3,570	3,740	(4.5)	3,841	(7.1)	3,764	(5.1)
% tax rate	23.5	23.9	(43 bp)	25.0	(150 bp)	25.0	(150 bp)
Net profit	11,618	11,885	(2.2)	11,515	0.9	11,283	3.0
EPS (Rs)	39.2	40.1	(2.3)	38.9	0.8	38.1	2.9

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference-call takeaways

- European geography momentum (+2.4% qoq and +10.2% yoy) is aided by expansion in key accounts.
- Vertical commentary -
- Financial services (FSI, 36.5% of revenue) - Insurance remained resilient (double-digit yoy growth) while the headwind continues in banking. Macroeconomic uncertainty continues to drive decision making delays and overall caution on spending in the sector. Large institutions optimizing spending with a focus on modernization. The deal pipeline is strong. Furlough in 3QFY24F in the FSI vertical could be in line with the earlier period.
- Hitech, media & entertainment vertical (23.8% of revenue) – High base impacting yoy growth (down 1.3% yoy) while qoq growth continues (up 1.9% qoq vs. 3.2% qoq in 1QFY24). Management expects the growth momentum in to continue in 3QFY24F. Management highlighted cross-selling initiatives aiding growth while opportunities in software product development, and technology stack modernization exist.
- Manufacturing and resources vertical (17.9% of revenue) – Management expects the growth trajectory to sustain on the back of expansion in new accounts.
- Retail and CPG vertical witnessing an uptick in the large deal pipeline, with several deals expected to close in 3QFY24F. An uptick in discretionary travel could continue to aid growth in the travel & hospitality segment. Significant traction in data-led transformation deals in the healthcare segment. Energy and utilities vertical's outlook encouraging led by deals in application management and Infrastructure services.
- Cross-selling and upselling initiatives post-merger are yielding good results.
- LTIM continues to invest in integrating GenAI across services and processes. The company is currently working on 100+ conversations and 20+ active engagements with clients. The initial focus of GenAI would be on driving productivity. The company would train 10,000+ employees by the end of 3QFY24F in GenAI.
- Management retained its US\$10bn revenue aspiration over the next four-to-five years. Synergy revenue from the merger is likely to be front-ended while the improvement in margin (+200bp) could be back-ended.
- OCF at Rs21,049m was up 45.1% yoy in 1HFY24 over 1HFY23; OCF/EBITDA stood at 64.4% vs. 46.3% in 1HFY23. Capex was down by 22.5% in 1HFY24 over 1HFY23, at Rs3,993m. Net cash and investments stood at Rs88,385m (Rs298 per share). The company's board declared an interim dividend of Rs 20 per share.

Figure 2: Operating metrics trends

Operating trends	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue (US\$ m)	979.5	1,021.9	1,046.7	1,057.5	1,058.7	1,075.5
Growth yoy (%)	25.5	19.1	14.0	11.9	8.1	5.2
Growth qoq (%)	3.7	4.3	2.4	1.0	0.1	1.6
CC Growth yoy (%)	NA	NA	16.3	13.5	8.2	4.4
CC Growth qoq (%)	5.0	5.5	1.9	0.7	0.1	1.7
Revenue (Rs. m)	76,442	82,278	86,200	86,910	87,021	89,054
Growth yoy (%)	32.9	29.6	25.3	21.9	13.8	8.2
Growth qoq (%)	7.2	7.6	4.8	0.8	0.1	2.3
EBIT Margin (%)	17.4	17.5	13.9	16.4	16.7	16.5
US\$-INR realized rate	78.0	80.5	82.4	82.2	82.2	82.8
Headcount	84,030	86,936	86,462	84,546	82,738	83,532
Utilization - ex-trainees (%)	83.5	83.5	82.9	81.7	84.8	86.6
LTM attrition (%)	24	24.1	22.3	20.2	17.8	15.2
Vertical (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFSI	36.0	36.2	37.4	38.0	37.5	36.5
Hitech, Media & Entertainment	25.4	25.3	23.6	23.0	23.7	23.8
Manufacturing & Resources	16.3	16.2	17.5	17.5	17.3	17.9
Retail, CPG and TTH	15.7	15.4	15.2	15.4	15.1	15.3
Health, Lifesciences & Public Services	6.6	6.8	6.3	6.1	6.4	6.5
Vertical (US\$ m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFSI	353	370	391	402	397	393
Hitech, Media & Entertainment	249	259	247	243	251	256
Manufacturing & Resources	160	166	183	185	183	193
Retail, CPG and TTH	154	157	159	163	160	165
Health, Lifesciences & Public Services	65	69	66	65	68	70
Vertical yoy (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFSI	26.9	23.1	21.8	20.2	12.6	6.1
Hitech, Media & Entertainment	27.5	21.0	8.9	3.0	0.9	-1.0
Manufacturing & Resources	17.6	10.8	9.0	12.6	14.7	16.3
Retail, CPG and TTH	29.7	11.8	11.0	9.8	4.0	4.6
Health, Lifesciences & Public Services	21.8	26.5	10.5	6.7	4.8	0.6
Vertical qoq (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFSI	5.4	4.9	5.8	2.7	-1.2	-1.1
Hitech, Media & Entertainment	5.3	3.9	-4.5	-1.5	3.2	2.0
Manufacturing & Resources	-2.9	3.7	10.6	1.0	-1.0	5.1
Retail, CPG and TTH	3.7	2.3	1.1	2.4	-1.8	2.9
Health, Lifesciences & Public Services	6.9	7.5	-5.1	-2.2	5.0	3.2
Incremental revenue (US\$ m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
BFSI	18.2	17.3	21.5	10.4	-4.8	-4.5
Hitech, Media & Entertainment	12.6	9.7	-11.5	-3.8	7.7	5.1
Manufacturing & Resources	-4.7	5.9	17.6	1.9	-1.9	9.4
Retail, CPG and TTH	5.5	3.6	1.7	3.8	-3.0	4.7
Health, Lifesciences & Public Services	4.2	4.8	-3.5	-1.4	3.2	2.2
Geography (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	71.7	72.9	72.3	71.9	73.1	73.4
Europe	15.3	14.6	14.9	15.4	15.2	15.3
RoW	13.0	12.5	12.8	12.7	11.7	11.3
Geography (US\$ m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	702	745	757	760	774	789
Europe	150	149	156	163	161	165
RoW	127	128	134	134	124	122
Geography yoy (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	26.9	24.5	19.6	15.8	10.2	6.0
Europe	16.4	-0.7	0.5	1.4	7.4	10.3
RoW	28.5	16.3	2.7	5.3	-2.7	-4.9
Geography qoq (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	7.0	6.1	1.6	0.5	1.8	2.0
Europe	-6.7	-0.4	4.5	4.4	-1.2	2.3
RoW	-0.2	0.3	4.9	0.2	-7.8	-1.9
Incremental revenue (US\$ m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	45.7	42.7	11.8	3.6	13.6	15.5
Europe	-10.7	-0.7	6.8	6.9	-1.9	3.6
RoW	-0.2	0.4	6.2	0.3	-10.4	-2.3
Client metrics	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
No of active clients	708	719	723	728	723	737
Revenue per active client	5.2	5.4	5.5	5.6	5.8	5.8
US\$1 m+	337	361	374	383	388	391
US\$5 m+	130	137	144	146	148	146
US\$10 m+	79	77	81	81	88	90
US\$20 m+	40	38	37	38	40	41
US\$50 m+	10	11	11	13	13	14
US\$100 m+	2	2	2	2	2	2
Per employee analysis	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue (US\$ m) - TTM	3,701	3,865	3,993	4,106	4,185	4,238
Employees (Average TTM)	76,983	81,183	84,256	85,494	85,171	84,320
Revenue per employee (TTM)	48,075	47,602	47,389	48,022	49,134	50,266

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in our earnings estimates

Y/E, Mar (Rs m)	FY24F			FY25F			FY26F
	New	Old	% change	New	Old	% change	New
US\$ revenue	4,372	4,515	-3.2	4,829	5,078	-4.9	5,409
Revenue	361,773	374,715	-3.5	405,673	426,583	-4.9	465,215
EBIT	61,351	63,628	-3.6	70,993	73,074	-2.8	82,808
EBIT Margin (%)	17.0	17.0	(2) bp	17.5	17.1	37 bp	17.8
Net PAT	49,091	51,287	-4.3	56,345	58,989	-4.5	65,837
EPS (Rs)	165.5	173.0	-4.3	190.0	199.0	-4.5	222.0

SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS

Profit & Loss					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	261,087	331,830	361,773	405,673	465,215
Gross Profit	101,195	123,031	131,060	146,853	168,408
Operating EBITDA	52,486	61,077	69,532	79,512	92,113
Depreciation And Amortisation	(5,971)	(7,227)	(8,181)	(8,519)	(9,304)
Operating EBIT	46,515	53,850	61,351	70,993	82,808
Financial Income/(Expense)	6,424	4,065	3,831	4,165	5,005
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	52,939	57,915	65,182	75,157	87,814
Exceptional Items					
Pre-tax Profit	52,939	57,915	65,182	75,157	87,814
Taxation	(13,439)	(13,812)	(16,067)	(18,789)	(21,953)
Exceptional Income - post-tax					
Profit After Tax	39,500	44,103	49,114	56,368	65,860
Minority Interests	(17)	(20)	(23)	(23)	(23)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	39,483	44,083	49,091	56,345	65,837
Recurring Net Profit	39,483	44,083	49,091	56,345	65,837
Fully Diluted Recurring Net Profit	39,483	44,083	49,091	56,345	65,837

Cash Flow					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	52,486	61,077	69,532	79,512	92,113
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(9,542)	(17,645)	(7,225)	(8,073)	(10,950)
(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)	(1,870)	(1,880)	(1,880)
Tax Paid	(13,478)	(15,217)	(16,067)	(18,789)	(21,953)
Cashflow From Operations	32,507	30,946	44,371	50,769	57,329
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	5,701	6,045	6,885
Cash Flow From Investing	(16,419)	(3,309)	(2,299)	(1,955)	(1,115)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(13,277)	(15,627)	(18,358)	(22,538)	(26,335)
Preferred Dividends					
Other Financing Cashflow	(3,527)	(3,690)	(1,870)	(1,880)	(1,880)
Cash Flow From Financing	(16,804)	(19,317)	(20,228)	(24,418)	(28,215)
Total Cash Generated	(716)	8,320	21,843	24,396	27,999
Free Cashflow To Equity	21,934	21,553	36,371	42,769	49,329
Free Cashflow To Firm	17,322	29,141	43,941	50,694	58,094

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	100,428	126,681	156,538
Total Debtors	56,271	72,245	81,399	91,276	104,673
Inventories					
Total Other Current Assets	20,771	22,875	22,875	22,875	22,875
Total Current Assets	149,386	171,858	204,702	240,833	284,086
Fixed Assets	24,896	30,362	30,181	29,662	28,357
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	62,922	62,403	61,098
Short-term Debt	519	1,253	1,253	1,253	1,253
Current Portion of Long-Term Debt					
Total Creditors	13,250	12,938	14,867	16,671	19,118
Other Current Liabilities	37,154	40,635	40,635	40,635	40,635
Total Current Liabilities	50,923	54,826	56,755	58,559	61,006
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	70,898	72,702	75,149
Shareholders Equity	142,872	165,921	196,655	230,462	269,964
Minority Interests	57	71	71	71	71
Total Equity	142,929	165,992	196,726	230,533	270,035

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth		27.1%	9.0%	12.1%	14.7%
Operating EBITDA Growth		16.4%	13.8%	14.4%	15.8%
Operating EBITDA Margin	20.1%	18.4%	19.2%	19.6%	19.8%
Net Cash Per Share (Rs)	204.49	214.77	294.39	382.92	483.60
BVPS (Rs)	483.00	560.18	663.14	777.14	910.34
Gross Interest Cover	37.69	35.80	32.81	37.76	44.05
Effective Tax Rate	25.4%	23.8%	24.6%	25.0%	25.0%
Net Dividend Payout Ratio	24.4%	40.3%	37.4%	40.0%	40.0%
Accounts Receivables Days	39.33	70.68	77.51	77.68	76.87
Inventory Days					
Accounts Payables Days	15.12	22.89	21.99	22.24	22.01
ROIC (%)		53.6%	47.4%	50.9%	55.4%
ROCE (%)	44.8%	24.6%	23.8%	23.5%	23.6%
Return On Average Assets	33.7%	18.6%	18.4%	18.7%	19.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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