

India

REDUCE (no change)

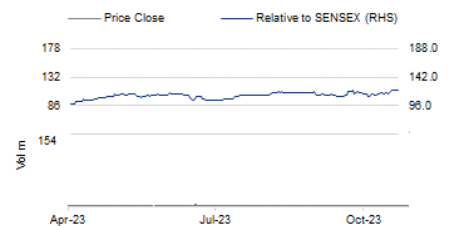
Consensus ratings*: Buy 13 Hold 13 Sell 16

Current price:	Rs4,727
Target price:	Rs4,645
Previous target:	Rs4,956
Up/downside:	-1.7%
InCred Research / Consensus:	-14.1%
Reuters:	LRTI.NS
Bloomberg:	LTIM IN
Market cap:	US\$16,802m
	Rs1,399,905m
Average daily turnover:	US\$31.3m
	Rs2607.6m
Current shares o/s:	296.0m
Free float:	31.3%

*Source: Bloomberg

Key changes in this note

- Expect 8.3% revenue CAGR over FY24-26F.
- Expect 14.9% EBIT CAGR over FY24-26F.
- Expect 14.4% PAT CAGR over FY24-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.6)	(14.0)	12.9
Relative (%)	(6.9)	(17.6)	(8.1)

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

Research Analyst(s)



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LTIMindtree Ltd

May be we didn't trim enough

- The all-round miss in 4QFY24 drives a cut in our estimates yet again.
- Weak execution drives a cut in our target PE/G multiple. Retain REDUCE rating with a lower target price of Rs4,645.
- Cash conversion improved (FY24 OCF up 83.2% at ~Rs57bn while OCF/EBITDA was at 88.8% vs. 50.7% in FY23) and could anchor share price.

4QFY24 earnings summary

LTIMindtree or LTIM's 4QFY24 revenue and EBIT margin missed estimates driven by lower discretionary spending and cancellation of two projects in the FSI vertical. Though management reiterated that pivoting portfolio towards non-discretionary spends could aid medium-term revenue and margins, moderating order book (down 7.3% qoq in 4QFY24) and persistent weakness in discretionary spending could limit near-term acceleration while transition costs, visa expenses and wage hike are margin headwinds. Although we maintain our revenue estimates that were trimmed in Mar 2024, we cut the EBIT margin & target PE/G multiple to 1.6x (vs. 1.7x earlier) to account for weak execution.

Near-term growth acceleration could be a challenge

Although 4QFY24 deal wins at US\$1.35bn, down 7.3% qoq but up 3% yoy, takes LTM deal wins up 15.7% yoy at ~US\$5.6bn, the near-term visibility is challenged, driven by the mix shift towards managed services deals wherein revenue recognition is longer, given transformation milestones. Further, ~80% of the current pipeline comprises similar nature of deals. Put together, near-term growth acceleration could be a challenge. We retain our FY25F revenue growth assumption of 7% and 8.3% CAGR over FY24-26F.

May be we didn't trim EBIT margin enough

The EBIT margin (down 65bp qoq and 164bp yoy to 14.7% vs. our 15.2% estimate) saw headwinds from project cancellations (-80bp) and higher SG&A expenses (-60bp) partly offset by a 70bp tailwind from reversal of furloughs, higher working days and lower pass-through. Although, the medium-term EBIT margin aspiration (17-18%) remains, we believe that higher cost of deals, peaking utilization and potential wage hikes are key headwinds while employee pyramid rationalization, productivity and growth leverage are key tailwinds. That said, we lower FY25F EBIT margin by 30bp & FY25F-26F average by 20bp to 16.8%.

Retain REDUCE rating with a lower target price of Rs4,645

Although, we retain our FY24-26F US\$ revenue CAGR of 8.3%, we trim margin assumption to factor in 4QFY24 commentary which, in turn, leads to a cut in our EPS estimates. We also lower our target PE/G multiple to 1.6x (20% discount to Tata Consultancy Services or TCS' multiple) to account for weak execution which, in turn, drives the target price lower to Rs4,645 (vs. Rs4,956 earlier). Improving cash flow conversion, healthy return ratios and dividend payout trend could anchor the shares while improving bookings, top leadership stability and margin execution are key upside risks.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	261,087	331,830	355,170	385,511	432,271
Operating EBITDA (Rsm)	52,486	61,077	63,874	72,091	82,132
Net Profit (Rsm)	39,483	44,083	45,821	52,059	59,931
Core EPS (Rs)	133.5	148.9	154.6	175.5	202.0
Core EPS Growth	0.0%	11.6%	3.8%	13.5%	15.1%
FD Core P/E (x)	35.41	31.74	30.58	26.93	23.39
DPS (Rs)	55.0	60.0	65.0	73.7	88.9
Dividend Yield	0.69%	1.27%	1.37%	1.56%	1.88%
EV/EBITDA (x)	25.49	21.87	20.71	18.01	15.48
P/FCFE (x)	50.80	64.92	32.21	35.65	31.12
Net Gearing	(42.3%)	(38.3%)	(39.0%)	(44.9%)	(49.6%)
P/BV (x)	9.79	8.44	7.00	6.09	5.31
ROE	55.3%	28.6%	25.0%	24.2%	24.2%
% Change In Core EPS Estimates				(0.85%)	(1.44%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

Y/E Mar (Rs m)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	4QFY24F	Var. (%)
Revenue (US\$ m)	1,069	1,058	1.1	1,084	(1.3)	1,079	(0.9)
Revenue (Rs m)	88,929	86,910	2.3	90,166	(1.4)	89,593	(0.7)
USD-INR realization	83	82.2	1.2	83.2	(0.1)	83	0.1
EBITDA	15,357	16,037	(4.2)	15,849	(3.1)	15,634	(1.8)
EBITDA margin (%)	17.3	18.5	(118 bp)	17.6	(31 bp)	17.5	(18 bp)
EBIT	13,087	14,214	(7.9)	13,859	(5.6)	13,618	(3.9)
EBIT margin (%)	14.7	16.4	(164 bp)	15.4	(65 bp)	15.2	(48 bp)
Depreciation	2,270	1,823	24.5	1,990	14.1	2,016	12.6
Net other income	1,396	228	512.3	1,588	(12.1)	1,454	(4.0)
PBT	14,483	14,442	0.3	15,447	(6.2)	15,072	(3.9)
Provision for tax	3,476	3,301	5.3	3,754	(7.4)	3,693	(5.9)
% tax rate	24.0	22.9	114 bp	24.3	(30 bp)	24.5	(50 bp)
Net profit	10,999	11,137	(1.2)	11,689	(5.9)	11,375	(3.3)
EPS (Rs)	37.1	37.6	(1.4)	39.4	(5.9)	38.3	(3.3)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference-call takeaways

- **Guidance:** Management expects growth in 1QFY25F based on deal wins and the deal pipeline. **Demand commentary:** Uncertainty around deal ramp-up and decision-making, coupled with persistent weakness in discretionary spending, impacting revenue.
- **Vertical commentary:**
 - FSI: Revenue weakness (down 2.8% qoq) was largely attributed to two project cancellations, as clients reprioritized spending. This impacted margins by 80bp. The uncertain macroeconomic environment continues to drive clients' cautious approach, but LTIM is witnessing traction in areas such as regulatory and data analytics. Discretionary spending is missing though.
 - Technology: Sequential growth (1.7% qoq) was led by strategic clients which was offset by lack of discretionary spending.
 - Manufacturing demand led by ERP transformation, data estate modernization, supply chain modernization and Industry 4.0 initiatives.
- Some of the top 40 accounts witnessed a decline in FY24 revenue due to macroeconomic challenges and insourcing.
- The company added nine Fortune 500 clients in FY24, with the total count now at 104.
- Joint venture with Aramco could broaden geographic presence and new avenues for growth.
- Uptick in onsite headcount and onsite seasonality led to higher employee costs (up 3.3% qoq) in 4QFY24.
- ~85-86% is a comfortable utilization band.
- Management expects cash generation to remain strong in the medium term.

Figure 2: Operating metric trend

Operating trend	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Revenue (US\$m)	980	1,022	1,047	1,058	1,059	1,076	1,084	1,069
Growth yoy (%)	25.5	19.1	14.0	11.9	8.1	5.2	3.5	1.1
Growth qoq (%)	3.7	4.3	2.4	1.0	0.1	1.6	0.8	-1.3
CC Growth yoy (%)	NA	NA	16.3	13.5	8.2	4.4	3.1	1.2
CC Growth qoq (%)	5.0	5.5	1.9	0.7	0.1	1.7	0.7	-1.3
Revenue (Rsm)	76,442	82,278	86,200	86,910	87,021	89,054	90,166	88,929
Growth yoy (%)	32.9	29.6	25.3	21.9	13.8	8.2	4.6	2.3
Growth qoq (%)	7.2	7.6	4.8	0.8	0.1	2.3	1.2	-1.4
EBIT Margin (%)	17.4	17.5	13.9	16.4	16.7	16.0	15.4	14.7
US\$-INR realized rate	78.0	80.5	82.4	82.2	82.2	82.8	83.2	83.2
Headcount	84,030	86,936	86,462	84,546	82,738	83,532	82,471	81,650
Utilization - ex-trainees (%)	83.5	83.5	82.9	81.7	84.8	86.6	87.4	86.9
LTM attrition (%)	24.0	24.1	22.3	20.2	17.8	15.2	14.2	14.4
Vertical (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
FSI	36.0	36.2	37.4	38.0	37.5	36.5	35.6	35.1
Tech, Media & Coms	25.4	25.3	23.6	23.0	23.7	23.8	22.9	24.3
Manufacturing & resources	16.3	16.2	17.5	17.5	17.3	17.9	20.3	18.6
Consumer business	15.7	15.4	15.2	15.4	15.1	15.3	14.7	15.1
Health, Lifesciences & Public	6.6	6.8	6.3	6.1	6.4	6.5	6.5	6.9
Vertical (US\$m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
FSI	353	370	391	402	397	393	386	375
Tech, Media & Coms	249	259	247	243	251	256	248	260
Manufacturing & resources	160	166	183	185	183	193	220	199
Consumer business	154	157	159	163	160	165	159	161
Health, Lifesciences & Public	65	69	66	65	68	70	70	74
Vertical yoy (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
FSI	26.9	23.1	21.8	20.2	12.6	6.1	-1.4	-6.6
Tech, Media & Coms	27.5	21.0	8.9	3.0	0.9	-1.0	0.5	6.8
Manufacturing & resources	17.6	10.8	9.0	12.6	14.7	16.3	20.1	7.5
Consumer business	29.7	11.8	11.0	9.8	4.0	4.6	0.1	-0.8
Health, Lifesciences & Public	21.8	26.5	10.5	6.7	4.8	0.6	6.8	14.4
Vertical qoq (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
FSI	5.4	4.9	5.8	2.7	-1.2	-1.1	-1.7	-2.7
Tech, Media & Coms	5.3	3.9	-4.5	-1.5	3.2	2.0	-3.0	4.7
Manufacturing & resources	-2.9	3.7	10.6	1.0	-1.0	5.1	14.3	-9.6
Consumer business	3.7	2.3	1.1	2.4	-1.8	2.9	-3.2	1.4
Health, Lifesciences & Public	6.9	7.5	-5.1	-2.2	5.0	3.2	0.8	4.8
Incremental revenue (US\$m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
FSI	18.2	17.3	21.5	10.4	-4.8	-4.5	-6.8	-10.4
Tech, Media & Coms	12.6	9.7	-11.5	-3.8	7.7	5.1	-7.8	11.7
Manufacturing & resources	-4.7	5.9	17.6	1.9	-1.9	9.4	27.5	-21.1
Consumer business	5.5	3.6	1.7	3.8	-3.0	4.7	-5.2	2.2
Health, Lifesciences & Public	4.2	4.8	-3.5	-1.4	3.2	2.2	0.5	3.3
Geography (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
North America	71.7	72.9	72.3	71.9	73.1	73.4	72.7	73.8
Europe	15.3	14.6	14.9	15.4	15.2	15.3	14.5	14.6
RoW	13.0	12.5	12.8	12.7	11.7	11.3	12.8	11.6
Geography (US\$m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
North America	702	745	757	760	774	789	788	789
Europe	150	149	156	163	161	165	157	156
RoW	127	128	134	134	124	122	139	124
Geography yoy (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
North America	26.9	24.5	19.6	15.8	10.2	6.0	4.1	3.8
Europe	16.4	-0.7	0.5	1.4	7.4	10.3	0.8	-4.1
RoW	28.5	16.3	2.7	5.3	-2.7	-4.9	3.5	-7.6
Geography qoq (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
North America	7.0	6.1	1.6	0.5	1.8	2.0	-0.2	0.2
Europe	-6.7	-0.4	4.5	4.4	-1.2	2.3	-4.5	-0.6
RoW	-0.2	0.3	4.9	0.2	-7.8	-1.9	14.1	-10.6
Incremental revenue (US\$m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
North America	45.7	42.7	11.8	3.6	13.6	15.5	-1.6	1.4
Europe	-10.7	-0.7	6.8	6.9	-1.9	3.6	-7.4	-1.0
RoW	-0.2	0.4	6.2	0.3	-10.4	-2.3	17.2	-14.7
Client (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Top 5	26.8	26.7	26.3	25.4	26.7	26.8	27.5	28.3
Top 6-10	7.7	7.6	7.5	7.5	7.4	7.5	7.8	7.2
Top 11-20	11.0	10.8	11.5	11.1	10.8	10.9	10.6	10.4
Top 21-40	13.2	12.3	12.3	12.8	12.3	12.4	12.6	12.1
Client US\$m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Top 5	262.5	272.8	275.3	268.6	282.7	288.2	298.0	302.6
Top 6-10	75.4	77.7	78.5	79.3	78.3	80.7	84.5	77.0

Top 11-20	107.7	110.4	120.4	117.4	114.3	117.2	114.9	111.2
Top 21-40	129.3	125.7	128.7	135.4	130.2	133.4	136.5	129.4
Client qoq	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Top 5	9.0	3.9	0.9	-2.4	5.2	2.0	3.4	1.6
Top 6-10	-0.2	3.0	1.1	1.0	-1.2	3.0	4.8	-8.9
Top 11-20	0.9	2.4	9.1	-2.5	-2.6	2.5	-2.0	-3.2
Top 21-40	0.6	-2.8	2.4	5.1	-3.8	2.4	2.4	-5.2
Client yoy	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Top 5	25.1	25.6	17.5	11.5	7.7	5.6	8.3	12.7
Top 6-10	9.8	7.7	0.6	4.9	3.9	3.9	7.7	-2.9
Top 11-20	27.9	13.8	17.0	10.0	6.1	6.2	-4.6	-5.3
Top 21-40	29.5	9.3	0.9	5.4	0.7	6.1	6.1	-4.4
Client metrics	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
No of active clients	708	719	723	728	723	737	739	738
Revenue per active client	5	5	6	6	6	6	6	6
US\$1m+	337	361	374	383	388	391	388	394
US\$5m+	130	137	144	146	148	146	149	153
US\$10m+	79	77	81	81	88	90	89	91
US\$20m+	40	38	37	38	40	41	40	40
US\$50m+	10	11	11	13	13	14	12	13
US\$100m+	2	2	2	2	2	2	2	2
Per employee analysis	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Revenue (US\$m) - TTM	3,701	3,865	3,993	4,106	4,185	4,238	4,275	4,287
Employee (average TTM)	76,983	81,183	84,256	85,494	85,171	84,320	83,322	82,598
Revenue per employee (TTM)	48,075	47,602	47,389	48,022	49,134	50,266	51,312	51,906

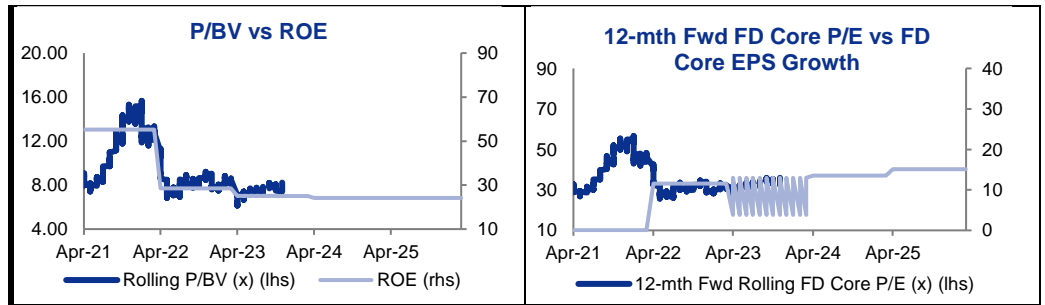
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Change in earnings estimates

Y/E Mar (Rsm)	FY25F			FY26F		
	New	Old	% change	New	Old	% change
US\$ revenue	4,589	4,613	-0.5	5,026	5,052	-0.5
Revenue	3,85,511	3,87,487	-0.5	4,32,271	4,34,476	-0.5
EBIT	63,609	65,020	-2.2	73,486	75,164	-2.2
EBIT margin (%)	16.5	16.8	(28) bp	17.0	17.3	(30) bp
Net PAT	52,059	52,502	-0.8	59,931	60,799	-1.4
EPS (Rs)	175.5	177.0	-0.8	202.0	205.0	-1.4

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	261,087	331,830	355,170	385,511	432,271
Gross Profit	101,195	123,031	127,847	141,868	160,373
Operating EBITDA	52,486	61,077	63,874	72,091	82,132
Depreciation And Amortisation	(5,971)	(7,227)	(8,189)	(8,481)	(8,645)
Operating EBIT	46,515	53,850	55,685	63,609	73,486
Financial Income/(Expense)	6,424	4,065	4,802	5,376	5,925
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	52,939	57,915	60,487	68,985	79,412
Exceptional Items					
Pre-tax Profit	52,939	57,915	60,487	68,985	79,412
Taxation	(13,439)	(13,812)	(14,641)	(16,901)	(19,456)
Exceptional Income - post-tax					
Profit After Tax	39,500	44,103	45,846	52,084	59,956
Minority Interests	(17)	(20)	(25)	(25)	(25)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	39,483	44,083	45,821	52,059	59,931
Recurring Net Profit	39,483	44,083	45,821	52,059	59,931
Fully Diluted Recurring Net Profit	39,483	44,083	45,821	52,059	59,931

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	52,486	61,077	63,874	72,091	82,132
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(9,542)	(17,645)	5,975	(5,143)	(6,909)
(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)	(2,217)	(2,720)	(2,720)
Tax Paid	(13,478)	(15,217)	(15,707)	(16,901)	(19,456)
Cashflow From Operations	32,507	30,946	51,925	47,326	53,047
Capex	(10,573)	(9,393)	(8,432)	(8,000)	(8,000)
Disposals Of FAs/subsidiaries	34				
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(5,880)	6,084	(30,689)	8,096	8,645
Cash Flow From Investing	(16,419)	(3,309)	(39,121)	96	645
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(13,277)	(15,627)	(17,753)	(21,865)	(26,370)
Preferred Dividends					
Other Financing Cashflow	(3,527)	(3,690)	(4,935)	(2,720)	(2,720)
Cash Flow From Financing	(16,804)	(19,317)	(22,688)	(24,585)	(29,090)
Total Cash Generated	(716)	8,320	(9,884)	22,837	24,603
Free Cashflow To Equity	21,934	21,553	43,493	39,326	45,047
Free Cashflow To Firm	17,322	29,141	15,021	50,142	56,412

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	72,344	76,738	95,694	121,226	148,521
Total Debtors	56,271	72,245	70,321	76,717	85,590
Inventories					
Total Other Current Assets	20,771	22,875	22,449	22,449	22,452
Total Current Assets	149,386	171,858	188,464	220,392	256,562
Fixed Assets	24,896	30,362	40,237	39,756	39,110
Total Investments	6,513	7,165	19,902	19,902	19,902
Intangible Assets	14,861	15,452	15,078	15,078	15,078
Total Other Non-Current Assets	10,168	10,124	11,949	11,949	11,949
Total Non-current Assets	56,438	63,103	87,166	86,685	86,039
Short-term Debt	519	1,253	407	407	407
Current Portion of Long-Term Debt					
Total Creditors	13,250	12,938	14,939	16,191	18,155
Other Current Liabilities	37,154	40,635	42,086	42,086	42,086
Total Current Liabilities	50,923	54,826	57,432	58,684	60,648
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	11,972	14,143	17,934	17,934	17,934
Total Non-current Liabilities	11,972	14,143	17,934	17,934	17,934
Total Provisions					
Total Liabilities	62,895	68,969	75,366	76,618	78,582
Shareholders Equity	142,872	165,921	200,172	230,366	263,927
Minority Interests	57	71	92	92	92
Total Equity	142,929	165,992	200,264	230,458	264,019

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth		27.1%	7.0%	8.5%	12.1%
Operating EBITDA Growth		16.4%	4.6%	12.9%	13.9%
Operating EBITDA Margin	20.1%	18.4%	18.0%	18.7%	19.0%
Net Cash Per Share (Rs)	204.49	214.77	263.02	349.09	441.11
BVPS (Rs)	483.00	560.18	674.85	776.65	889.79
Gross Interest Cover	37.69	35.80	25.12	23.39	27.02
Effective Tax Rate	25.4%	23.8%	24.2%	24.5%	24.5%
Net Dividend Payout Ratio	24.4%	40.3%	42.0%	42.0%	44.0%
Accounts Receivables Days	39.33	70.68	73.26	69.61	68.52
Inventory Days					
Accounts Payables Days	15.12	22.89	22.38	23.32	23.05
ROIC (%)		53.6%	43.3%	46.6%	51.5%
ROCE (%)	44.8%	24.6%	21.3%	20.6%	20.9%
Return On Average Assets	33.7%	18.6%	16.5%	16.5%	17.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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