

July 18, 2024

Decent show; near term margins to be range bound...

About the stock: LTIMindtree (LTIM) is the merged entity formed after the merger of erstwhile Mindtree with LTI. It offers application development, IMS, digital solution services to BFSI, retail, health, media & hi-tech verticals. LTIM has 740+ clients and a combined employee strength of 81,000+ across 30+ countries.

Q1FY25 Performance: LTIMindtree Q1FY25 was marked with uptick in both revenue (at US\$ 1,096.2 mn, up 2.6% QoQ/3.7% YoY in CC terms) & margins (EBIT% at 15%, up 30bpsQoQ). Segment wise on QoQ basis, Hitech (25.6% of mix), BFSI (35.2% of mix) & Manufacturing (18.5% of mix) grew by 8%, 2.8% & 2% QoQ while Health (6.2% of mix) & Retail (14.5% of mix) declined by 7.9% & 1.6% respectively.

Investment Rationale

- **Early green shoots of recovery in the BFSI and Hitech segment:** The company is witnessing a positive turnaround in its BFSI and Hitech segments, primarily due to acceleration of previously closed/paused deals. As per the company, momentum in the BFSI segment is expected to be broad-based and sustained throughout FY25, (without discretionary spend uptick) as clients continue to focus on cost takeout & vendor consolidation deals along with scaling up of high priority transformation deals.
- **Revenue visibility improves:** While deal TCV at ~US\$ 1.4 bn, flattish QoQ and YoY, management has highlighted a rise in MSA signings this quarter which is expected to drive growth and offer medium to long-term revenue visibility extending beyond Q2. Moreover, in the GenAI space, clients are ploughing savings from cost takeout towards scaling up POCs and investing more at foundation stage, signalling increased future commitment. **We believe the company's US\$ revenue will grow at CAGR of 9.1% between FY24-26E, compared to CAGR of 10.7% between FY19-24.**
- **Margin to remain rangebound in FY25:** The EBIT margin stood at 15% this quarter, and the company expects improvement hereon on the back of its continued margin improvement program, ramp up in deals & recovery in BFSI segment. However, wage hikes might impact the margins in H2, hence **we expect flattish margins in FY25 followed by an uptick in FY26 once the margin levers kick in. Therefore, going forward we have baked in gradual yet steady margins recovery and expect EBIT margins of 15.6%/17.3% in FY25/26.**

Rating and Target Price

- **We expect earnings growth of ~16.9% over FY24-26, LTIM's discretionary heavy portfolio along with higher exposure in the BFSI segment, position it well for medium-long term growth.**
- **We assign HOLD rating on the stock and value it at target price of ₹ 5,500; at 26x P/E on FY26E EPS.**

Key Financial Summary

(₹ Crore)	FY22	FY23	FY24	2 Year CAGR (FY22-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	26,109	33,183	35,517	16.6	37,919	42,854	9.8
EBITDA	5,249	6,108	6,387	4.0	6,863	8,399	14.7
EBITDA Margins (%)	20.1	18.4	18.0		18.1	19.6	
Net Profit	3,950	4,410	4,585	3.0	4,961	6,265	16.9
EPS (₹)	133.4	148.8	154.5		167.2	211.1	
P/E (x)	43.1	38.6	37.2		34.4	26.8	
RoE (%)	27.6	26.6	22.9		22.0	24.3	
RoCE (%)	32.1	32.4	28.7		27.9	30.5	

Source: Company, ICICI Direct Research



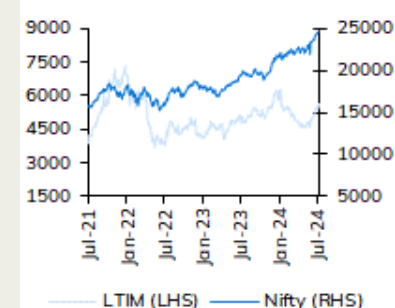
Particulars

Particular	Amount
Market Cap (₹ crore)	1,69,756
Total Debt (₹ crore)	1,759
Cash and Investment (₹ crore)	9,569
EV (₹ crore)	1,61,946
52 week H/L	6442/ 4513
Equity Capital (₹ crore)	29.6
Face Value (in ₹)	1

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	68.7	68.6	68.6	68.6
FII	8.1	8.6	7.9	7.3
DII	13.0	12.9	13.6	14.2
Public	10.3	9.8	10.0	9.9

Price Chart



Key risks

- Better than expected revenue and margin improvement;
- Delay in BFSI recovery

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

CA Anjini Sharma
anjini.sharma@icicisecurities.com

Performance highlights and Outlook

- Revenue Performance:** The company reported revenue of US\$ 1,096.2 mn, up 2.5% QoQ/ 3.5% YoY. While in CC terms revenue was up 2.6% QoQ and 3.7% YoY. In rupee terms the revenue came at ₹ 9,142.6 crore, up 2.8% QoQ/5.1% YoY.
- Margin performance:** On the margins front, **EBIT margin of the company stood at 15%, up ~30 bps QoQ due to the tailwinds from absence of -80 bps impact of cancellation of 2 projects from the last quarter & operational efficiencies which were partially offset by headwinds from higher visa costs (50 bps) and higher SG&A expenses on account of travel & marketing events.** The company's PAT margin stood at 12.4%, down ~50 bps QoQ/ ~82 bps YoY.
- Geography performance:** Geography wise on a QoQ basis in US\$ terms **North America (75.1% of mix) & Europe (14.4% of mix) expanded by 4.3% & 1.1% while ROW (10.5% of mix) de-grew by 7.2%.** The company has setup various offices in Saudi Arabia, Calgary, Shanghai and is now looking forward to expanding in Brazil as well.
- Segment performance:** Segment wise on QoQ basis in US\$ terms, **Hitech (25.6% of mix), BFSI (35.2% of mix) & Manufacturing (18.5% of mix) grew by 8%, 2.8% & 2% QoQ while Health (6.2% of mix) & Retail (14.5% of mix) declined by 7.9% & 1.6% respectively.**
 - Hitech segment:** The segment is doing well for the company and the key themes playing out in the segment include business model transformation & platform operations.
 - BFSI segment:** Clients are scaling up high priority transformation deals by ploughing in their savings from cost takeout deals, especially in the banking sector. These deals are mostly those which were paused in the last year and are now being accelerated to reduce technical debt. The segment is expected to see continued momentum throughout FY25.
- Deal Wins:** LTIM during **Q1FY25 won TCV deals worth US\$ 1.4 bn, flat QoQ and YoY.** The management mentioned that there is no change in the demand environment from the last quarter as the discretionary spending environment continues to be weak. The company saw AI play across deals and increased MSA signings which is expected to drive growth further.
- AI/GenAI:** The company conducted a survey in collaboration with an external research agency, wherein it was found that more than 85% of enterprises are looking to accelerate their AI related investments. It is seeing a lot of opportunities in the AI space as many of their customers are progressing from POC stage and moving towards deploying AI use cases across the enterprise. Currently, the **company is infusing AI in all of its service lines and systematically investing in its AI capabilities such as Canvas.ai platform to enable its customers in the scaling up journey.** The company mentioned that the **current deals mainly comprise of deals in the nature of preparing enterprises for AI and include data engineering, data lineage, data governance and platform building engagements.**
- Top 5/10/20/40 clients performance:** The company's top 5 clients revenue grew by 4.3% QoQ while the top 10/20/40 client's revenue grew by 3.1%/3.2%/4.1% respectively.
- Revenue and Margin Guidance/Aspiration:** The management **didn't provide any revenue or margin guidance.** However, **it reiterated that its margin improvement plan to achieve its aspirational margin in the band of 17-18% is in place (albeit delayed by couple of quarters) and expects**

margins to improve hereon. The management mentioned that it is too soon to call out sustained growth momentum in verticals barring BFSI for which continued growth is expected in FY25. Near to medium term margin levers would be growth and pyramid along with reducing discretionary spend wherever possible.

- **Attrition & Employee addition:** The attrition rate during the quarter was flat QoQ at 14.4%. The company's headcount increased by 284 employees, bringing the total employee headcount to 81,934. LTIM onboarded 1,400 freshers during the quarter and plans to build on its headcount Q2 onwards to return to its comfort utilisation range of 85-86% (currently at 88.3%, excluding trainees).

Exhibit 1: Quarter Performance

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
Revenue (US\$ mn)	1,096	1,059	3.5	1,069	2.5	In CC terms revenue grew by 2.6% QoQ and 3.7% YoY
Revenue (₹ crore)	9,143	8,702	5.1	8,893	2.8	
Employee expenses	6,372	5,952	7.0	6,242	2.1	
Gross Margin	2,771	2,750	0.8	2,651	4.5	
Gross margin (%)	30.3	31.6	-129 bps	29.8	50 bps	
Other expenses	1,165	1,115	4.5	1,115	4.5	
EBITDA	1,606	1,636	-1.8	1,536	4.6	
EBITDA Margin (%)	17.6	18.8	-123 bps	17.3	30 bps	
Dep. & Amort.	235	185	27.3	227	3.6	
EBIT	1,371	1,451	-5.5	1,309	4.8	
EBIT Margin (%)	15.0	16.7	-168 bps	14.7	28 bps	Margin Tailwinds - a) absence of -80 bps impact of cancellation of 2 projects from the last quarter b) operational efficiencies which were partially offset by headwinds - a) 50 bps from higher visa costs (50 bps) b) higher SG&A expenses on account of travel & marketing events.
Other Income	155	86	80.7	140	10.8	
PBT	1,526	1,536	-0.7	1,448	5.3	
Tax paid	391	384	1.7	348	12.3	
PAT	1,135	1,152	-1.5	1,100	3.2	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
Total Revenues	33,183	35,517	37,919	42,854
Growth (%)	27.1	7.0	6.8	13.0
Employee costs	23,204	24,621	26,332	29,355
Total Operating Expenditure	27,075	29,130	31,056	34,455
EBITDA	6,108	6,387	6,863	8,399
Growth (%)	16.4	4.6	7.4	22.4
Depreciation & Amortization	723	819	950	1,007
Other Income	454	690	864	1,035
Interest	150	222	231	185
PBT before Exceptional Items	5,792	6,049	6,560	8,243
Growth (%)	9.4	4.4	8.5	25.7
Tax	1,381	1,464	1,599	1,978
PAT before Exceptional Items	4,410	4,585	4,961	6,265
Exceptional items	-	-	-	-
Minority Int & Pft. from associ	-	-	-	-
PAT	4,410	4,585	4,961	6,265
Growth (%)	11.7	4.0	8.2	26.3
Diluted EPS	148.8	154.5	167.2	211.1
EPS (Growth %)	11.6	3.8	8.2	26.3

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
Liabilities				
Equity	29.6	29.6	29.6	29.6
Reserves & Surplus	16,563	19,988	22,483	25,800
Networth	16,592	20,017	22,513	25,830
Minority Interest	7	9	9	9
Long term Liabilities & prov	50	34	35	38
Total Debt	1,365	1,759	1,759	1,759
Source of funds	18,014	21,820	24,316	27,636
Assets				
Net fixed assets	3,036	4,024	4,001	4,006
Net intangible assets	356	315	288	294
Goodwill	1,189	1,193	1,193	1,193
Other non current assets	1,729	3,185	3,246	3,371
Unbilled revenue	1,601	1,326	1,416	1,600
Debtors	5,623	5,706	6,092	6,885
Current Investments	4,742	6,753	6,753	6,753
Cash & Cash equivalents	2,932	2,816	5,062	7,756
Other current assets	2,288	2,245	2,397	2,709
Trade payables	1,294	1,494	1,595	1,803
Current liabilities	4,189	4,249	4,537	5,127
Application of funds	18,014	21,820	24,316	27,636

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
PBT	5,792	6,049	6,560	8,243
Add: Depreciation	723	819	950	1,007
(Inc)/Dec in current assets	(1,969)	505	(386)	(793)
Inc/(Dec) in current liabilities	-	-	1	2
CF from operations	3,095	5,670	4,966	5,807
(Inc)/dec in other investments	626	(3,331)	-	-
(Inc)/dec in Fixed Assets	(935)	(833)	(900)	(1,017)
Other investing cash flow	127	257	877	1,035
CF from investing Activities	(331)	(3,912)	(23)	18
Issue of equity	0	1	-	-
Inc/(dec) in loan funds	67	(87)	0	(0)
Dividend paid & dividend tax	(1,563)	(1,775)	(2,466)	(2,948)
Others	(209)	(160)	(231)	(185)
CF from Financial Activities	(1,932)	(2,269)	(2,696)	(3,132)
Net cash flow	832	(511)	2,246	2,693
Effect of exchange rate changes	61	(8)	-	-
Opening cash	1,837	2,932	2,816	5,062
Closing cash	2,932	2,816	5,062	7,756

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
EPS	148.8	154.5	167.2	211.1
Cash Per Share	99.1	95.1	171.0	262.0
BV	559.9	674.5	758.6	870.4
DPS	60.1	65.2	83.3	99.6
Operating Ratios (%)				
EBITDA Margin	18.4	18.0	18.1	19.6
PBT Margin	17.5	17.0	17.3	19.2
PAT Margin	13.3	12.9	13.1	14.6
Turnover Ratios				
Debtor days	62	59	59	59
Creditor days	14	15	15	15
Return Ratios (%)				
RoE	26.6	22.9	22.0	24.3
RoCE	32.4	28.7	27.9	30.5
RoIC	52.1	45.5	47.3	56.3
Valuation Ratios (x)				
P/E	38.6	37.2	34.4	26.8
EV / EBITDA	26.9	25.5	22.9	18.4
Market Cap / Sales	5.1	4.8	4.5	4.0
Solvency Ratios				
Debt/EBITDA	0.2	0.3	0.3	0.2
Debt/Equity	0.1	0.1	0.1	0.1
Current Ratio	1.7	1.6	1.6	1.6
Quick Ratio	1.4	1.4	1.4	1.4

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Bhupendra Tiwary, CFA, MBA (Finance), Anjini Sharma, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicquality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.