

October 18, 2024

## Strong performance; Margin moderation likely in H2...

**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.

**Q2FY25 Performance:** LTIM reported revenue of US\$ 1,126.6 mn, up 2.8% QoQ/ 4.8% YoY (up 2.3% QoQ/ 4.4% YoY in CC terms). EBIT margin increased by ~50 bps QoQ to 15.5%, given the absence of visa cost and currency tailwinds. All segments and geographies reported growth on a QoQ basis. PAT was up 10.2% QoQ at ₹ 1252 crore.

### Investment Rationale

- **Strong growth momentum:** The company saw decent revenue growth in H1 due to growth in deal wins and revenues from BFSI (which saw traction in cost takeout & compliance/regulatory kind of deals), TMT (cost optimisation deals & focus on infusing AI/GenAI) and Manufacturing (traction in ERP & vendor consolidation deals. It also won a multi-year US\$ 200 mn+ deal in this vertical which is expected to ramp up in Q3) along with ramp up of previously won deals. However, with not much discretionary spend coming back and ongoing geopolitical & macro issues, management is cautiously optimistic of carrying this growth momentum in Q3, wherein growth is expected to moderate owing to seasonal headwinds from furloughs (expected to return to regular levels), fewer billing days, coupled with margin impact of wage hike (~200 bps).
- **Solid TCV wins and pipeline:** TCV & pipeline remain strong at US\$ 1.3 bn and US\$ 5 bn, featuring a combination of large deals and significant demand trends in BFSI, along with a slight increase in discretionary spending. The growth, currently is driven by the cost focused deals and would be boosted once the discretionary demand picks up meaningfully aiding the Mindtree portfolio. **We believe the company's US\$ revenue will grow at CAGR of 13.6% between FY24-27E, compared to CAGR of 10.7% between FY19-24.**
- **Aspirational margin band likely only when double digit growth kicks in:** Going ahead, in Q3, the margins shall be impacted by wage hikes (~200 bps) and seasonal headwinds which shall be partially offset by operational efficiencies. Thus, the aspiration to achieve margins in the range of 17-18% have been pushed back a little, as management focuses on maintaining margins. **We expect steady margin expansion over the medium term as double-digit revenue growth kicks in, ahead. Therefore, bake in EBIT margins of 15.2%/16.5%/17.3% in FY25/26/27.**

### Rating and Target Price

- We expect earnings growth of ~23% over FY24-27E, LTIM's presence in discretionary spend linked portfolio along with pick up in the BFSI segment, position it well for medium-long term growth.
- We assign **HOLD** rating on the stock and rollover our valuations to FY27E and value it at **target price of ₹ 6,050; at 26x P/E on FY27E EPS.**

### Key Financial Summary

(₹ Crore)	FY22	FY23	FY24	5 Year CAGR (FY19-24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
Net Sales	26,109	33,183	35,517	16.6	37,915	41,983	46,784	9.6
EBITDA	5,249	6,108	6,387	16.7	6,728	7,893	9,170	12.8
EBITDA Margins (%)	20.1	18.4	18.0		17.7	18.8	19.6	
Net Profit	3,950	4,410	4,585	15.1	4,874	5,893	6,920	14.7
EPS (₹)	133.4	148.8	154.5		164.2	198.6	233.2	
P/E (x)	45.0	40.3	38.8		36.5	30.2	25.7	
RoE (%)	27.6	26.6	22.9		21.7	23.0	23.7	
RoCE (%)	32.1	32.4	28.7		27.4	29.0	29.9	

Source: Company, ICICI Direct Research



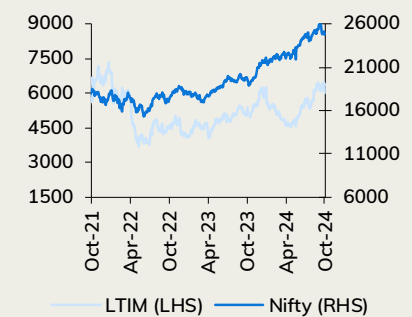
#### Particulars

Particular	Amount
Market Cap (₹ crore)	1,78,066
Total Debt (₹ crore)	1,759
Cash and Investment (₹ crore)	9,569
EV (₹ crore)	1,70,255
52 week H/L	6574/ 4513
Equity Capital (₹ crore)	29.6
Face Value (in ₹)	1

#### Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	68.6	68.6	68.6	68.6
FII	8.6	7.9	7.3	7.4
DII	12.9	13.6	14.2	14.9
Public	9.8	10.0	9.9	9.1

#### Price Chart



#### Key risks

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

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## Performance highlights and Outlook

- **Revenue Performance:** The company reported revenue of US\$ 1,126.6 mn, up 2.8% QoQ/ 4.8% YoY. In CC terms revenue was up 2.3% QoQ/ 4.4% YoY. In rupee terms the revenue stood at ₹ 9,433 crore, up 3.2% QoQ/5.9% YoY.
- **Margin performance:** On the margins front, EBIT margin stood at 15.5%, up ~50 bps QoQ. The company stated that it shall be rolling out its annual wage hike in Q3 and Q4, which is expected to impact the margins by ~200bps, albeit partially offset by continued operational efficiency measures and controlled SG&A costs. The company's PAT margin came at 13.3%, up ~90 bps QoQ.
- **Geography performance:** All geographies reported growth on a QoQ basis in US\$ terms with ROW (10.6% of mix) North America (75% of mix) & Europe (14.4% of mix) expanding by 3.8%, 2.6% & 2.8% respectively.
- **Segment performance:** All segments grew on a QoQ basis with Health (6.4% of the mix), BFSI (35.6% of mix), Retail (14.5% of the mix), Hitech (25.4% of the mix) & Manufacturing (18.1% of the mix) reporting a growth of 6.1%, 4%, 2.8%, 2% and 0.6% respectively.
  - **Hitech segment: Cost optimization continues to remain the dominant theme, for both hardware and software vendors.** In addition, there has been a focus on infusing AI and Gen AI in products to enhance customer experience and will scale up further as market matures
  - **BFSI segment:** It reported a strong growth sequentially, led by BFS clients. The company is also seeing **increased traction in the vendor consolidation space and its strength in governance, regulatory and compliance** also helped them in closing some deals.
  - **Manufacturing Segment:** This segment **saw a continued traction in ERP while also gaining market share in vendor consolidation.** It has also **reported a US\$200 mn+ plus deal, the transition for the same has already started and will ramp up in Q3.**
- **Deal Wins:** LTIM during the quarter **won TCV of US\$ 1.3 bn, down 7.1% QoQ and flat YoY.** The management stated that they're seeing a slight uptick in the discretionary spends **however the demand environment still remains cautious.** However, the **company's deal pipeline remains strong with US\$5 bn plus and several deals being in final stages of closure in BFSI.**
- **AI/GenAI:** The company has initiated a new AI strategy which is based on three principles namely, AI in everything, everything for AI and AI for everyone. With this initiative the **company plans to leverage AI to enhance productivity and legacy modernization, create supportive ecosystem for AI innovation to scale within the enterprise and to develop co-pilots and navigator apps tailored for every persona.** Additionally, the company has currently trained and equipped 63% of its workforce with GenAI capabilities.
- **Revenue and Margin Guidance/Aspiration:** The management **didn't provide any revenue or margin guidance.** However, however it stated that its aspirational 17-18% margin guidance has elongated further mainly because of the external environment. And until the industry starts seeing double-digit kind of growth again, it's going to be difficult to kind achieve the same. Hence, as of now the management is focused on maintaining the margin and waiting for the growth to come back.

- **Attrition & Employee addition:** LTIM's net employees during the quarter increased by 2,504 (of which 1,100 plus are freshers) to 84,438 while attrition was up ~10 bps QoQ at 14.5%.
- **Dividend:** The company has declared a dividend of ₹20 per equity share.

**Exhibit 1: Quarter Performance**

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Revenue (US\$ mn)	1,127	1,076	4.8	1,096	2.8	In CC terms revenue grew by 2.3% QoQ and 4.4% YoY
Revenue (₹ crore)	9,433	8,905	5.9	9,143	3.2	
Employee expenses	6,528	6,105	6.9	6,372	2.5	
Gross Margin	2,905	2,801	3.7	2,771	4.8	
Gross margin (%)	30.8	31.4	-65 bps	30.3	49 bps	
Other expenses	1,206	1,169	3.1	1,165	3.5	
EBITDA	1,699	1,631	4.2	1,606	5.8	
EBITDA Margin (%)	18.0	18.3	-30 bps	17.6	45 bps	
Dep. & Amort.	241	208	15.8	235	2.5	
EBIT	1,458	1,423	2.5	1,371	6.4	
EBIT Margin (%)	15.5	16.0	-52 bps	15.0	46 bps	EBIT margin increased by ~50 bps QoQ to 15.5%, given the absence of visa cost and currency tailwinds.
Other Income	229	96	137.6	155	47.8	
PBT	1,687	1,519	11.0	1,526	10.6	
Tax paid	435	357	21.9	391	11.4	
PAT	1,252	1,162	7.7	1,135	10.3	

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 2: Profit and loss statement					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
<b>Total Revenues</b>	<b>35,517</b>	<b>37,915</b>	<b>41,983</b>	<b>46,784</b>	
Growth (%)	7.0	6.8	10.7	11.4	
Employee costs	24,621	26,437	28,968	32,047	
Total Operating Expenditure	29,130	31,186	34,090	37,615	
<b>EBITDA</b>	<b>6,387</b>	<b>6,728</b>	<b>7,893</b>	<b>9,170</b>	
Growth (%)	4.6	5.3	17.3	16.2	
Depreciation & Amortization	819	955	987	1,099	
Other Income	690	871	1,033	1,228	
Interest	222	248	185	193	
PBT before Exceptional Items	6,049	6,485	7,754	9,105	
Growth (%)	4.4	7.2	19.6	17.4	
Tax	1,464	1,611	1,861	2,185	
PAT before Exceptional Items	4,585	4,874	5,893	6,920	
Exceptional items	-	-	-	-	
Minority Int & Pft. from associ	-	-	-	-	
<b>PAT</b>	<b>4,585</b>	<b>4,874</b>	<b>5,893</b>	<b>6,920</b>	
Growth (%)	4.0	6.3	20.9	17.4	
Diluted EPS	154.5	164.2	198.6	233.2	
EPS (Growth %)	3.8	6.3	20.9	17.4	

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
<b>Liabilities</b>					
Equity	29.6	29.6	29.6	29.6	
Reserves & Surplus	19,988	22,439	25,559	29,223	
Networth	20,017	22,469	25,589	29,253	
Minority Interest	9	9	9	9	
Long term Liabilities & prov	34	35	37	39	
Total Debt	1,759	1,759	1,759	1,759	
<b>Source of funds</b>	<b>21,820</b>	<b>24,272</b>	<b>27,395</b>	<b>31,061</b>	
<b>Assets</b>					
Net fixed assets	4,024	3,999	4,004	4,009	
Net intangible assets	315	285	291	297	
Goodwill	1,193	1,193	1,193	1,193	
Other non current assets	3,185	3,246	3,349	3,470	
Unbilled revenue	1,326	1,416	1,568	1,747	
Debtors	5,706	6,091	6,745	7,516	
Current Investments	6,753	6,753	6,753	6,753	
Cash & Cash equivalents	2,816	5,024	7,629	10,684	
Other current assets	2,245	2,396	2,654	2,957	
Trade payables	1,494	1,595	1,766	1,968	
Current liabilities	4,249	4,536	5,023	5,597	
<b>Application of funds</b>	<b>21,820</b>	<b>24,272</b>	<b>27,395</b>	<b>31,061</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement					₹ crore
(Year-end March)	FY24	FY25E	FY26E	FY27E	
PBT	6,049	6,485	7,754	9,105	
Add: Depreciation	819	955	987	1,099	
(Inc)/Dec in current assets	505	(385)	(654)	(771)	
Inc/(Dec) in current liabilities	-	1	2	2	
<b>CF from operations</b>	<b>5,670</b>	<b>4,819</b>	<b>5,526</b>	<b>6,388</b>	
(Inc)/dec in other investments	(3,331)	-	-	-	
(Inc)/dec in Fixed Assets	(833)	(900)	(997)	(1,111)	
Other investing cash flow	257	959	1,033	1,228	
<b>CF from investing Activities</b>	<b>(3,912)</b>	<b>59</b>	<b>36</b>	<b>117</b>	
Issue of equity	1	-	-	-	
Inc/(dec) in loan funds	(87)	0	0	0	
Dividend paid & dividend tax	(1,775)	(2,422)	(2,773)	(3,256)	
Others	(160)	(248)	(185)	(193)	
<b>CF from Financial Activities</b>	<b>(2,269)</b>	<b>(2,670)</b>	<b>(2,957)</b>	<b>(3,449)</b>	
Net cash flow	(511)	2,208	2,604	3,056	
Effect of exchange rate changes	(8)	-	-	-	
Opening cash	2,932	2,816	5,024	7,629	
<b>Closing cash</b>	<b>2,816</b>	<b>5,024</b>	<b>7,629</b>	<b>10,684</b>	

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY24	FY25E	FY26E	FY27E
<b>Per share data (₹)</b>				
EPS	154.5	164.2	198.6	233.2
Cash Per Share	95.1	169.7	257.7	360.9
BV	674.5	757.1	862.2	985.7
DPS	65.2	81.8	93.7	110.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	18.0	17.7	18.8	19.6
PBT Margin	17.0	17.1	18.5	19.5
PAT Margin	12.9	12.9	14.0	14.8
<b>Turnover Ratios</b>				
Debtor days	59	59	59	59
Creditor days	15	15	15	15
<b>Return Ratios (%)</b>				
RoE	22.9	21.7	23.0	23.7
RoCE	28.7	27.4	29.0	29.9
RoIC	45.5	46.2	53.1	59.2
<b>Valuation Ratios (x)</b>				
P/E	38.8	36.5	30.2	25.7
EV / EBITDA	26.7	25.0	21.0	17.7
Market Cap / Sales	5.0	4.7	4.2	3.8
<b>Solvency Ratios</b>				
Debt/EBITDA	0.3	0.3	0.2	0.2
Debt/Equity	0.1	0.1	0.1	0.1
Current Ratio	1.6	1.6	1.6	1.6
Quick Ratio	1.4	1.4	1.4	1.4

Source: Company, ICICI Direct Research

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