

18 July 2024

India | Equity Research | Q1FY25 results review

LTIMindtree

Technology

Upbeat quarter; management calls out early demand green shoots

LTIMindtree (LTIM) reported QoQ CC growth of 2.6% (vs. ISEC/ Cons of 1.7% each). Growth was mostly driven by: BFSI/ TMT (up 2.8%/8% QoQ). EBIT margin at 15% was a beat to our estimates and miss on consensus estimates. LTIM's Q1FY25 results share a few similar traits with TCS and HCLT announced yet which include: 1) the sequential revenue growth print has beat street's estimates; 2) headcount has been added QoQ in Q1FY25, after past 3-4 quarters of net headcount reduction; 3) BFSI is seeing a turnaround (after 4 quarters of sequential decline for LTIM); 4) better TCV to revenue conversion. Management called out early demand green-shoots in BFSI and TMT vertical with return of short cycled projects. We revise our FY26/27 EPS by <1% and maintain our FY26E TP at INR 5,980 on a one-year forward target PE of 26x (in-line with 5-year average).

Growth beat from TMT and BFSI ramp-up

LTIM reported better than expected revenue as well as operating margins rounding an operational beat. Company reported 2.5% QoQ dollar revenue growth V/s Isec/street estimate of 1.7%/2% sequential growth. Growth was led by Technology vertical (up 8%QoQ) followed by BFSI (up 2.8% QoQ) and Manufacturing (up 2%) (in dollar terms). BFSI win has come from vendor consolidation deals. Also, better deal conversion from earlier deals has helped Q1 revenue growth. **We highlight the growth turnaround in BFSI following four consecutive quarters of sequential revenue decline.** Company announced deal TCV of USD1.4bn – flat, QoQ and YoY. The growth momentum is expected to continue in Q2 with green shoots emerging in BFSI and TMT vertical and resurgence of short cycled projects.

EBITDA margin up despite visa and subcon costs

EBITDA margins at 17.6% (up 30bps QoQ) V/s our estimate of 30 bps QoQ decline. Gross margin improved by 50bps QoQ partially offset by 20bps QoQ increase in SG&A expenses. Subcontracting expenses were up 50bps QoQ at 7.2% of revenues. Margin lever going forward will be :1) revenue growth; 2) pyramid rationalization; 3) reduction of discretionary spend. Upcoming wage hikes are due in Q3FY25 and headcount addition in Q2. EBITDA margin target of 18-19% has been deferred for a few quarters.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	3,55,170	3,83,216	4,42,200	5,07,011
EBITDA	63,874	69,987	88,580	1,05,618
EBITDA Margin (%)	18.0	18.3	20.0	20.8
Net Profit	45,846	49,822	63,704	77,325
EPS (INR)	154.9	168.4	215.3	261.3
EPS % Chg YoY	4.0	8.7	27.9	21.4
P/E (x)	35.9	33.0	25.8	21.3
EV/EBITDA (x)	24.4	22.4	17.4	14.5
RoCE (%)	22.9	21.6	24.1	26.1
RoE (%)	25.0	23.7	26.2	28.7

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Market Data

Market Cap (INR)	1,647bn
Market Cap (USD)	19,722mn
Bloomberg Code	LTIM IN
Reuters Code	LTIM BO
52-week Range (INR)	6,443 /4,514
Free Float (%)	31.0
ADTV-3M (mn) (USD)	30.1

Price Performance (%)	3m	6m	12m
Absolute	19.3 (10.8)	9.2	
Relative to Sensex	8.6 (21.2)	(13.0)	

Earnings Revisions (%)

	FY25E	FY26E	FY27E
Revenue	1.5	1.7	1.7
EBITDA	(1.7)	1.6	0.0
EPS	(2.5)	(0.6)	(1.8)

Previous Reports

25-04-2024: [Q4FY24 results review](#)

18-01-2024: [Q3FY24 results review](#)

Concall highlights

Demand colour:

- Management stated that the demand environment remains unchanged. However, management emphasised on some green shoots of recovery (which is different from what TCS and HCLT have said so far) with clients deploying savings from cost-takeout and vendor consolidation deals to power high priority digital transformation programs and initial stage investments in gAI, more so in BFSI and TMT verticals. The demand is secular across verticals.
- Also, TCV to revenue conversion has improved. New deals are in areas of: 1) Aerospace 2) Insurance 3) data centre 4) MSA signing.

Vertical colour:

- BFSI vertical up 2.9% QoQ, with customers starting to spend in high priority transformation projects in areas of :1) customer experience 2) vendor consolidation 3) regulations 4) reduction of technical debt.
- The areas of spending in TMT vertical were: 1) business model transformation 2) platform operations 3) ERP transformation 4) industry 4.0. 5) data engineering 6) generative AI. Communication presence is miniscule for LTIM.

Generative AI demand colour:

- As per LTIM's recent survey in collaboration with a third party, >85% enterprises are looking to collaborate to accelerate their genAI projects. Generative AI is moving from POC stage to deploying projects across enterprise. Knowledge management, intelligent summarization, software engineering are early adopters of AI. Majority of top100 clients are takers of AI projects. AI projects are seeing enterprise adoption in areas of: healthcare life-sciences, BFSI and manufacturing. LTIM is infusing AI in all its service lines

Other highlights:

- Tail rationalization of accounts is an ongoing process.
- Among geographies North America led growth with 4.3% QoQ dollar revenue growth followed by Europe with 1.1% QoQ growth.
- Company added 284 employees taking total headcount to 81,934. This marks a trend change compared to prior two quarter of headcount reduction.
- LTIM has added 10 new clients QoQ. USD1 million+ clients increased by 2 on a Y-o-Y basis, total 390 USD20 million+ clients increased by 3 on a Y-o-Y basis, total 43.
- LTIM continued its expansion in middle east, continuing its JV with Aramco to ramp up IT services industry in the region. LTIM also opened offices in Calgary, Shanghai and Brazil, and now has delivery centres across all major locations.
- DSO improved from 57 days in Q4FY24 to 55 in Q1FY25.
- Attrition was stable at 14.4%.

Exhibit 1: Q1FY25 actuals vs. estimates

	Q1FY25	Q4FY24	QoQ	Q1FY24	YoY	Bloomberg	vs bloomberg estimates
Revenue QoQ CC	2.6%	-1.3%		0.1%			
Revenues (US\$mn)	1,096	1,069	2.5%	1,059	3.5%	1,079	1.6%
USD/INR	83.4	83.4	0.0%	82.2	1.4%	83.2	0.2%
Revenues (INR mn)	91,426	88,929	2.8%	87,021	5.1%	89,751	1.9%
EBIT (INR mn)	13,709	13,087	4.8%	14,508	-5.5%	13,830	-0.9%
EBIT margin (%)	15.0%	14.7%	28 bps	16.7%	-168 bps	15.4%	-40.00
Adjusted net profit (INR mn)	11,351	11,007	3.1%	11,523	-1.5%	11,541	-1.6%
EPS (INR/share)	38.2	37.1	3.0%	38.9	-1.7%	38.9	-1.8%

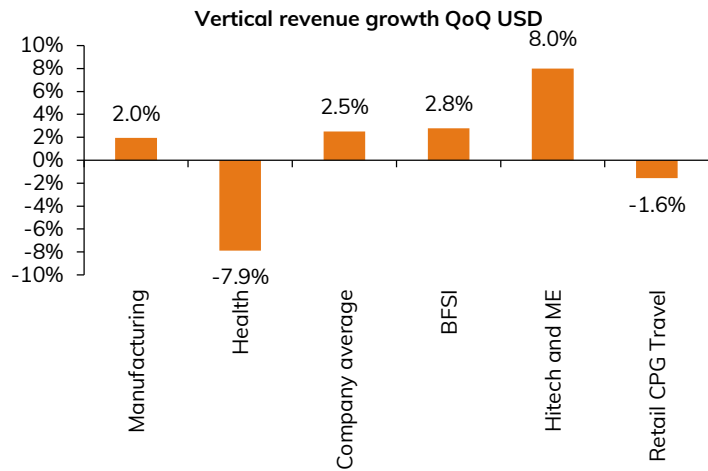
Source: I-Sec research, Company data

Exhibit 2: LTIM – change in estimates y

	Revised			Old			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenues (US\$ mn)	4,595	5,264	6,036	4,527	5,175	5,934	1.5%	1.7%	1.7%
Revenue growth YoY CC	7.3%	14.6%	14.8%	5.6%	14.3%	14.9%	170bps	20bps	-10bps
Revenue growth YoY US\$	7.2%	14.6%	14.7%	5.6%	14.3%	14.7%	160bps	20bps	0bps
USD/INR	83.4	84.0	84.0	83.4	84.0	84.0	0.0%	0.0%	0.0%
INR mn									
Revenues	3,83,216	4,42,200	5,07,011	3,77,624	4,34,689	4,98,420	1.5%	1.7%	1.7%
EBIT	60,129	77,204	92,943	61,141	75,980	92,942	-1.7%	1.6%	0.0%
EBIT margin	15.7%	17.5%	18.3%	16.2%	17.5%	18.6%	-50bps	0bps	-30bps
EPS (INR/share)	167.7	214.4	260.2	172.0	215.7	265.0	-2.5%	-0.6%	-1.8%

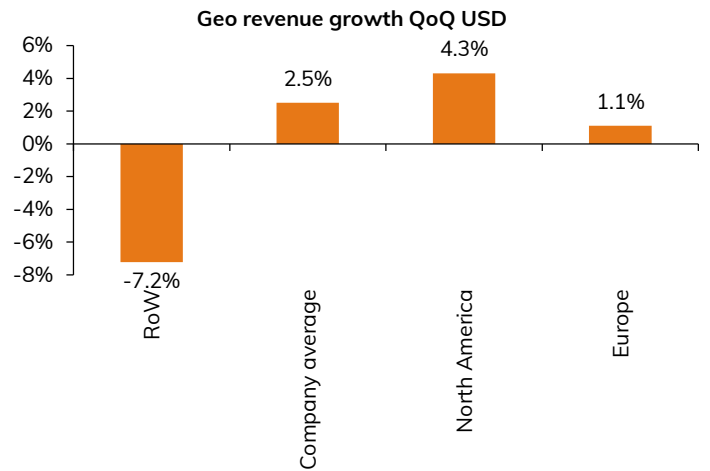
Source: Company data, I-Sec research

Exhibit 3: Q1FY25 growth driven by hi-tech and BFSI



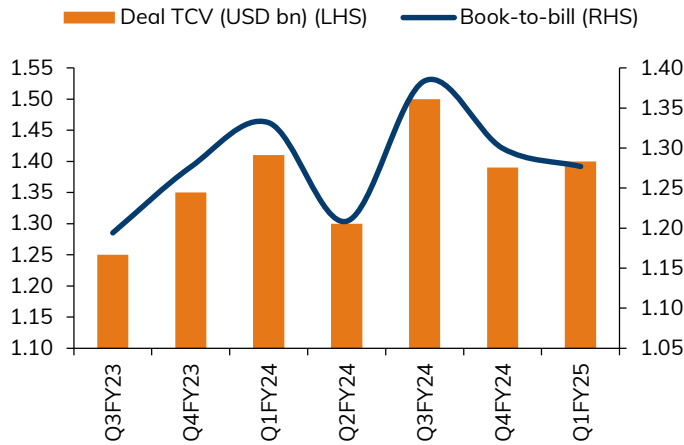
Source: I-Sec research, Company data

Exhibit 4: North America growth comes back



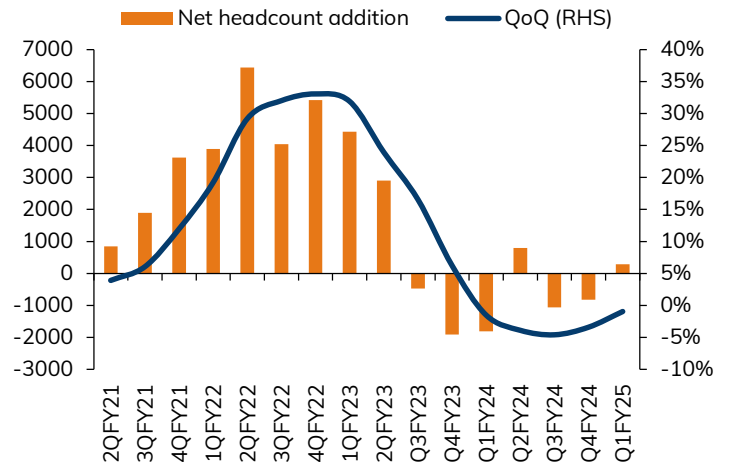
Source: I-Sec research, Company data

Exhibit 5: Book-to-bill stable at 1.28x, deal conversion improving



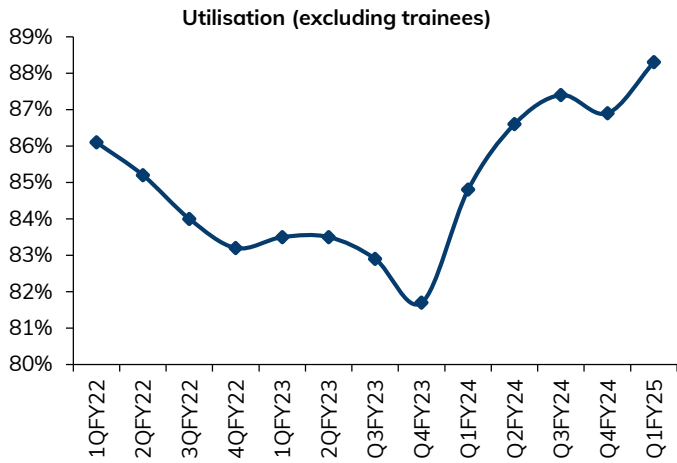
Source: I-Sec research, Company data

Exhibit 6: Headcount down by 1% YoY



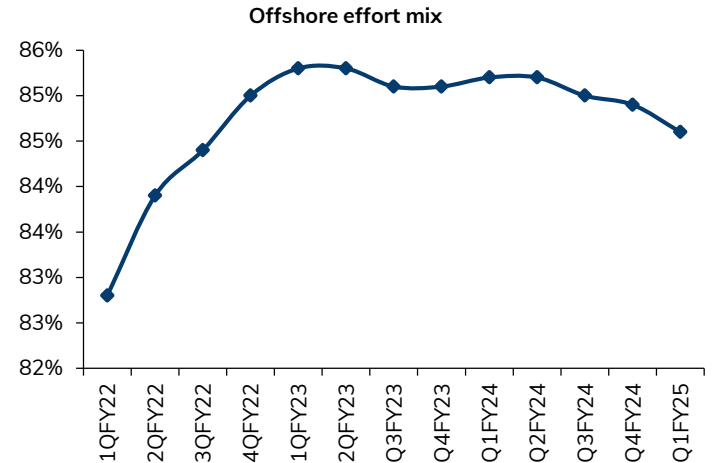
Source: I-Sec research, Company data

Exhibit 7: Utilisation at peak levels



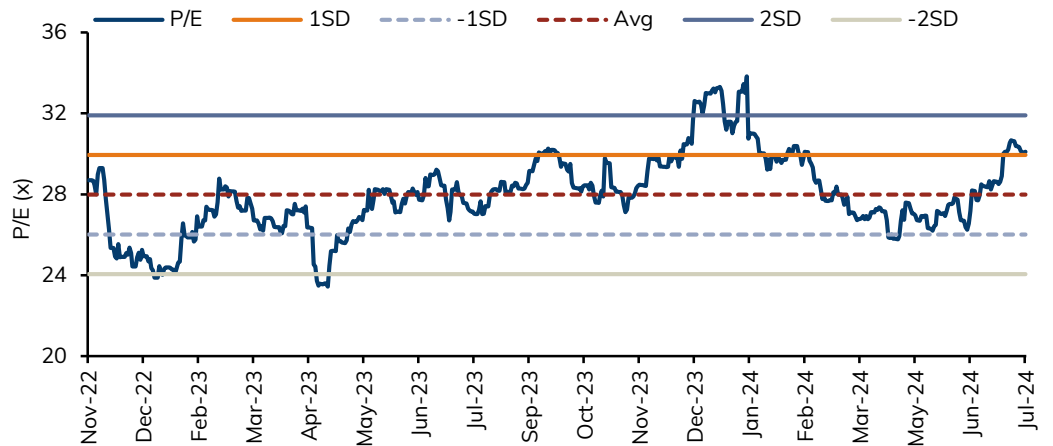
Source: I-Sec research, Company data

Exhibit 8: Offshore effort mix near peak levels



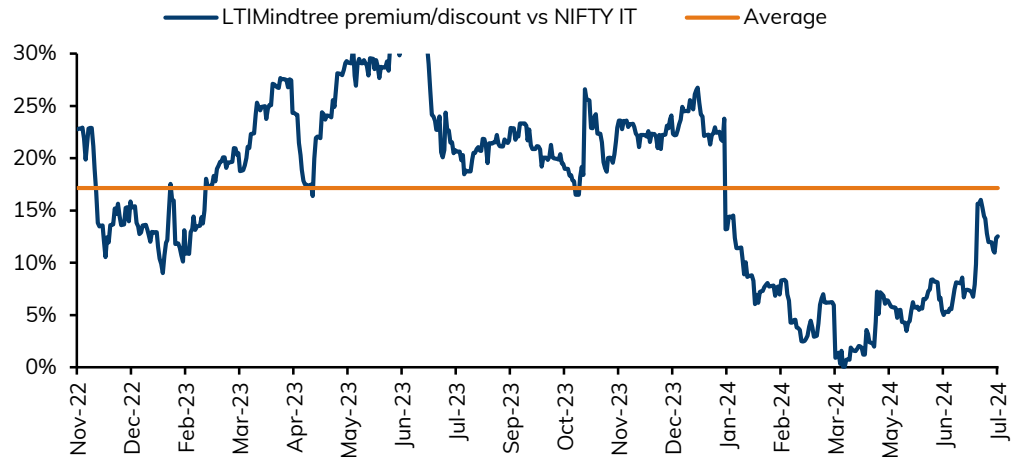
Source: I-Sec research, Company data

Exhibit 9: LTIM is trading at 30.1x (2-year forward P/E) close to all time average of 23.7x



Source: I-Sec research, Company data

Exhibit 10: LTIM is trading at 13% premium to NIFTY IT vs. all time average premium of 12%



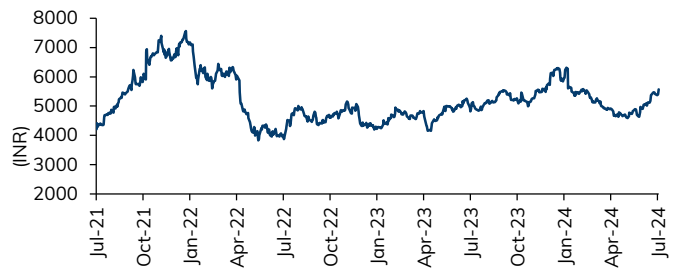
Source: I-Sec research, Company data

Exhibit 11: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	68.6	68.6	68.0
Institutional investors	21.6	21.4	21.0
MFs and others	7.1	6.2	5.0
FIs/Banks	0.0	0.1	0.0
Insurance	5.1	6.4	7.0
FII	9.4	8.7	9.0
Others	9.8	10.0	11.0

Source: Bloomberg

Exhibit 12: Price chart



Source: Bloomberg

Financial Summary

Exhibit 13: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales (USD mn)	4,287	4,595	5,264	6,036
Net Sales (INR. mn)	3,55,170	3,83,216	4,42,200	5,07,011
Operating Expense	2,91,296	3,13,228	3,53,620	4,01,393
EBITDA	63,874	69,987	88,580	1,05,618
EBITDA Margin (%)	18.0	18.3	20.0	20.8
Depreciation & Amortization	8,189	9,858	11,376	12,675
EBIT	55,685	60,129	77,204	92,943
Interest expenditure	2,217	2,408	2,245	2,245
Other Non-operating Income	7,019	8,155	8,862	11,045
Recurring PBT	60,487	65,876	83,821	1,01,743
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	14,641	16,054	20,117	24,418
PAT	45,846	49,822	63,704	77,325
Less: Minority Interest	-	-	-	-
Net Income (Reported)	45,846	49,822	63,704	77,325
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	45,846	49,822	63,704	77,325

Source Company data, I-Sec research

Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	1,20,930	1,20,840	1,68,532	1,75,802
of which cash & cash eqv.	18,200	9,005	40,810	49,011
Total Current Liabilities & Provisions	57,025	40,873	42,723	43,186
Net Current Assets	63,905	79,967	1,25,808	1,32,616
Investments	67,534	68,402	68,402	68,402
Net Fixed Assets	21,224	22,288	22,368	22,388
ROU Assets	19,013	21,304	21,304	21,304
Capital Work-in-Progress	-	-	-	-
Goodwill	11,927	11,900	11,900	11,900
Other assets	31,851	34,184	34,184	34,184
Deferred Tax Assets	-	-	-	-
Total Assets	2,18,605	2,41,008	2,86,929	2,93,757
Liabilities				
Borrowings	407	407	407	407
Deferred Tax Liability	187	202	202	202
provisions	157	164	164	164
other Liabilities	318	213	213	213
Minority Interest	92	109	109	109
Equity Share Capital	296	296	296	296
Reserves & Surplus*	1,99,876	2,19,981	2,65,902	2,72,730
Total Net Worth	2,00,172	2,20,277	2,66,198	2,73,026
Total Liabilities	2,18,605	2,41,008	2,86,929	2,93,757

Source Company data, I-Sec research

Exhibit 15: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	89,054	90,166	88,929	91,426
EBIT	14,231	13,859	13,087	13,709
Margin %	16.0	15.4	14.7	15.0
Adjusted Net Profit	11,623	11,693	11,007	11,351

Source Company data, I-Sec research

Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
CFO before WC changes	61,775	67,714	86,335	1,03,373
CFO after WC changes	62,702	42,457	72,298	1,04,767
Capital Commitments	(17,690)	(12,998)	(11,456)	(12,695)
Free Cashflow	65,751	39,402	63,637	93,044
Other investing cashflow	(27,777)	4,820	8,862	11,045
Cashflow from Investing Activities	(45,467)	(8,179)	(2,594)	(1,650)
Issue of Share Capital	7,660	(11,918)	-	6,560
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(1,456)	(105)	-	-
Cash flow from Financing Activities	(7,783)	(27,419)	(17,782)	(70,497)
Dividend paid	(19,234)	(17,782)	(17,782)	(77,056)
Others	5,247	2,386	-	-
Chg. in Cash & Bank balance	(5,189)	(9,195)	31,804	8,202
Closing cash & balance	18,200	9,005	40,810	49,011

Source Company data, I-Sec research

Exhibit 17: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	154.9	168.4	215.3	261.3
Diluted EPS	154.9	168.4	215.3	261.3
Cash EPS	182.6	201.7	253.7	304.1
Dividend per share (DPS)	65.0	60.1	60.1	260.4
Book Value per share (BV)	676.4	744.3	899.5	922.6
Dividend Payout (%)	42.0	35.7	27.9	99.7
Growth (%)				
Net Sales	7.0	7.9	15.4	14.7
EBITDA	4.6	9.6	26.6	19.2
EPS	4.0	8.7	27.9	21.4
Valuation Ratios (x)				
P/E	35.9	33.0	25.8	21.3
P/CEPS	30.5	27.6	21.9	18.3
P/BV	8.2	7.5	6.2	6.0
EV / EBITDA	24.4	22.4	17.4	14.5
P/S	4.6	4.3	3.7	3.2
Dividend Yield (%)	1.2	1.1	1.1	4.7
Operating Ratios				
EBITDA Margins (%)	18.0	18.3	20.0	20.8
EBIT Margins (%)	15.7	15.7	17.5	18.3
Effective Tax Rate (%)	24.2	24.4	24.0	24.0
Net Profit Margins (%)	12.9	13.0	14.4	15.3
Inventory Turnover Days	-	-	-	-
Fixed Asset Turnover (x)	18.2	17.6	19.8	22.7
Receivables Days	73	71	71	66
Payables Days	14	7	-	-
Working Capital Days	48	56	64	61
Net Debt / EBITDA (x)	(10.4)	(7.8)	(9.6)	(9.2)
Profitability Ratios				
RoCE (%)	22.9	21.6	24.1	26.1
RoC (%)	51.5	42.1	48.0	58.4
RoNW (%)	25.0	23.7	26.2	28.7

Source Company data, I-Sec research

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