

Estimate change



TP change



Rating change



CMP: INR5,134

TP: INR4,700 (-8%)

Neutral

Expect a gradual recovery in growth in FY24

Margin recovery to support earnings; maintain Neutral

- LTIM posted revenue growth of 0.1% QoQ/8.2% YoY CC in 1QFY24 vs. our estimate of 0.5% QoQ. Adjusting for 4QFY23 pass-through revenue impact, it grew 0.9% QoQ CC. Growth was led by Hi-Tech, Media and Entertainment (+3.2% QoQ) and Healthcare (+5.0% QoQ), while BFSI, Manufacturing and Retail declined QoQ. EBIT margin stood at 16.7%, in line with our estimate.
- While LTIM delivered strong order inflow of USD1.41b in 1Q, the management retracted from providing FY24 guidance and acknowledged that double-digit growth seems challenging in FY24. Management commentary mirrored its peers on low demand visibility, pushout of deal scale-up despite strong deal flow momentum, and a shift in new wins toward cost optimization from discretionary deals seen over the last two years. The management expects a pick-up in Hi-tech to continue for the rest of the year on the back of strong deal wins. While the budgets remain intact, BFSI and Retail continue to be impacted by slower decision-making and delayed ramp-ups.
- Given the limited visibility on deal starts, we expect LTIM's revenue growth recovery to be gradual, and estimate FY24 USD CC revenue growth at 7.3% YoY. We continue to see LTIM as well placed to gain from a healthy mix of cost-takeout deals and transformation spending. We expect a strong recovery in FY25, with a USD revenue CAGR of 11% over FY23-25E despite weak macro.
- LTIM saw 30bp margin improvement in 1QFY24 (in line), partially due to a lower employee base (down 2.2% QoQ). Utilization was up 150bp QoQ (on reclassified base). The management remained confident about 17-18% exit EBIT margin for FY24 despite wage hikes in 2QFY24. We expect the company to deliver EBIT margin at the lower end of its guidance in FY24 at 16.5%, followed by a 140bp pickup in FY25 to 17.9%. This should help LTIM clock a PAT CAGR of 16.1% over FY23-25E.
- Our TP of INR4,700 implies 23x FY25E EPS. We maintain our **Neutral** rating.

Inline Q1 performance driven by Hi-Tech

- CC revenue was up 0.1% QoQ and 8.2% YoY, INR EBIT grew 9.3% YoY, and INR PAT was up 4.1 YoY in 1QFY24.
- The performance was led by Hi-Tech, Media & Entertainment (+3.2% QoQ) and top 5 clients (+5.2% QoQ). BFSI, Manufacturing and Retail declined QoQ.
- EBIT margin at 16.7% (+30bp QoQ) was in line with our estimate.
- The order inflow remained strong at USD1.41b vs. USD1.35b in Q4FY23.
- PAT came in at INR 11.5b, up 3.4% QoQ and 5% below our estimate, due to lower other income.
- Free cash flow stood at INR8.4b, translating to 73% of net income.

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Bloomberg	LTIM IN
Equity Shares (m)	296
M.Cap.(INRb)/(USDb)	1519.1 / 18.5
52-Week Range (INR)	5425 / 3990
1, 6, 12 Rel. Per (%)	-2/11/6
12M Avg Val (INR M)	2250

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	331.8	362.7	414.9
EBIT Margin (%)	16.5	16.5	17.9
PAT	44.9	48.6	60.5
EPS (INR)	151.8	164.2	204.3
EPS Gr. (%)	14.8	8.2	24.4
BV/Sh. (INR)	560.9	658.6	781.2

Ratios

RoE (%)	26.1	26.9	28.4
RoCE (%)	24.9	23.1	24.6
Payout (%)	39.5	40.0	40.0

Valuations

P/E (x)	33.8	31.3	25.1
P/BV (x)	9.2	7.8	6.6
EV/EBITDA (x)	23.3	21.1	17.0
Div Yield (%)	1.2	1.3	1.6

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	68.7	68.7	74.1
DII	11.7	10.4	7.5
FII	8.4	9.3	10.1
Others	11.2	11.6	8.4

FII Includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Key highlights from the management commentary

- Adjusted for seasonal pass-through in 4QFY23, LTIM grew 0.9% QoQ CC in 1QFY24.
- The deal wins remained strong at USD1.41b, up 16.9% YoY, with a higher share of efficiency-focused deals. The deal pipeline was up 13% vs. 4QFY23.
- Client budgets remained intact but revenue conversion was impacted by slower decision-making and cuts in discretionary spending. LTIM expects clients to utilize their budgets as the macro environment stabilizes.
- Wage hikes will be done in Jul'23, as planned. The management is confident of delivering 17-18% exit margin even after building for wage hikes.

Valuation and view: Industry-leading growth to defend rich valuations

- LTIM, as a combined entity, has deep domain capabilities, strong partnerships with hyperscalers, and a robust sales engine, which will result in industry-leading growth rates. We expect a USD revenue CAGR of 11.0% over FY23-25, which is at the top end of our Tier-I IT Coverage Universe. We see a PAT CAGR of 16% over FY23-25E.
- We value the stock at 23x FY25E EPS. We maintain our **Neutral** rating with a TP of INR4,700 per share.

Quarterly Performance

Y/E March	FY23				FY24E				FY23	FY24	Est.	Var. (% /
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QFY24	bp)
Revenue (USD m)	980	1,022	1,047	1,058	1,059	1,082	1,119	1,160	4,106	4,421	1,069	(1.0)
QoQ (%)	3.7	4.3	2.4	1.0	0.1	2.2	3.4	3.6	17.2	7.7	1.1	(100)
Revenue (INR m)	76,439	82,278	86,200	86,910	87,021	88,745	91,797	95,127	3,31,827	3,62,691	87,891	(1.0)
YoY (%)	32.8	29.5	25.3	20.7	13.8	7.9	6.5	9.5	33.6	9.3	15.0	(114)
GPM (%)	29.9	30.8	28.6	29.9	31.6	30.6	31.2	31.9	29.8	31.3	30.2	140
SGA (%)	10.4	11.0	11.7	11.4	12.8	12.7	12.8	12.8	11.2	12.8	11.4	141
EBITDA	14,889	16,356	14,548	16,037	16,355	15,885	16,891	18,166	61,830	67,297	16,524	(1.0)
EBITDA Margin (%)	19.5	19.9	16.9	18.5	18.8	17.9	18.4	19.1	18.6	18.6	18.8	(1)
EBIT	13,225	14,397	12,767	14,214	14,508	14,022	15,055	16,264	54,603	59,848	14,678	(1.2)
EBIT Margin (%)	17.3	17.5	14.8	16.4	16.7	15.8	16.4	17.1	16.5	16.5	16.7	(3)
Other income	1,540	1,233	1,139	228	856	1,331	1,377	1,427	4,140	4,991	1,582	(46)
ETR (%)	25.1	23.9	22.3	22.9	25.0	25.0	25.0	25.0	23.6	25.0	25.0	
Adj PAT	11,060	11,890	10,807	11,141	11,523	11,516	12,325	13,269	44,898	48,633	12,195	(5.5)
QoQ (%)	-0.4	7.5	-9.1	3.1	3.4	-0.1	7.0	7.7			9.5	
YoY (%)	31.6	25.1	2.9	0.3	4.2	-3.1	14.0	19.1	14.8	8.3	10.3	
EPS (INR)	36.1	40.1	35.4	37.6	38.9	38.9	41.6	44.8	151.8	164.2	41.3	(5.7)

Key performance indicators

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue (QoQ CC %)	5.0	5.5	1.9	0.7	0.1					
Margins (%)										
Gross margin	29.9	30.8	28.6	29.9	31.6	30.6	31.2	31.9	29.8	31.3
EBIT margin	17.3	17.5	14.8	16.4	16.7	15.8	16.4	17.1	16.5	16.5
Net margin	14.5	14.5	12.5	12.8	13.2	13.0	13.4	13.9	13.5	13.4
Operating metrics										
Headcount	84,030	86,936	86,462	84,546	82,738				84,546	
Attrition (%)	24	24.1	22.3	20.2	17.8				20.2	
Offshore revenue (%)	83.5	83.5	82.9	81.7	84.8				82.9	
Utilization (incl. trainees)										
Key verticals (QoQ %)										
BFS	5.7	4.6	5.8	2.7	-1.2					
Insurance	5.3	3.9	-4.5	-1.5	3.2					
CPG, Retail, and Pharma	-2.9	3.7	10.6	1.0	-1.0					
Key geographies (QoQ %)										
North America	6.9	7.5	-5.1	-2.2	5.0					
Europe	3.7	2.3	1.1	2.4	-1.8					
	7.0	6.1	1.6	0.5	1.8					



Key highlights from the management commentary

Demand and industry outlook

- Adjusted for seasonal pass-through in 4QFY23, LTIM grew 0.9% QoQ CC in 1QFY24.
- The deal wins remained strong at USD1.41b, up 16.9% YoY with a higher share of efficiency-focused deals. The deal pipeline was up 13% vs. 4QFY23.
- Client budgets remained intact but revenue conversion was impacted by slower decision-making and cuts in discretionary spending. LTIM expects clients to utilize their budgets as macro environment stabilizes.
- Data, which is pre-requisite for leveraging generative AI, is large service line for LTIM and will drive strong growth. LTIM launched canvas.ai and is seeing strong productivity benefits in ADM (40-60%) and campaign management (time decreased from weeks to days), and achieved 1st parse accuracy document summarization, which was not possible through manual process.
- **BFSI** remains resilient despite weak macro as the nature of engagements is core. There is a strong vendor consolidation trend, but decision-making remains slow, coupled with hiring freeze at certain banks. Insurance continues to do well.
- **Hi-Tech** should remain strong for LTIM going forward on the back of strong deal wins. It expects increased spending in the later part of the year. There is a positive shift toward AI-based products; cost reduction and vendor consolidation remains in focus. 2QFY24 should remain strong for Hi-Tech.
- **Manufacturing** is seeing continued investments in supply chain. There is strong traction for IoT and data.
- For **Energy**, there are significant investments happening in core modernization.
- **CPG and Retail** – there are increased commitments for longer-term products and ERP and platform roll-out. Retail still remains a soft spot as it is lot more connected to inflation.
- **Travel** is seeing strong traction in leisure travel, while business travel is yet to recover. The traction in restaurant chains and hotels remains strong.

- **Healthcare** companies are divesting lower-margin businesses. Spending continues in areas such as regulatory requirements and value-based care. There is increasing traction for as-a-service model.
- LTIM will continue to focus on cross-selling and up-selling opportunities and Focus 100 accounts. It is confident of the leader's quadrant profitable growth for FY24.
- The management indicated higher growth in 2QFY24 vs. 1QFY24 and suggested growth in 2HFY24 to be similar to 2HFY23.

Margin performance

- The 30bp EBIT margin improvement was led by 170bp improvement in gross margin (out of which 120bp on account of reclassification), including 50bp on account of increased efficiency and 20bp hit on account of increased visa costs. Below gross margin level, reversal of 120bp reclassification cost and 20bp increase in marketing expenses in SG&A negatively impacted EBIT margin.
- The changing nature of deals to longer-tenure deals provides good lead time to plan talent and better manage the ramp-up costs.
- Wage hikes will be done in Jul'23, as planned. The management is confident of delivering 17-18% exit margin even after building for wage hikes.
- The management expects a further dip in LTM attrition as quarterly attrition has stabilized.

Exhibit 1: North America led growth in 1QFY24

Geographies	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
North America	73.1	1.8	10.2
Europe	15.2	(1.2)	7.4
RoW	11.7	(7.8)	(2.7)

Exhibit 2: Hi-Tech and Healthcare drove growth in 1QFY24

Verticals	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
BFSI	37.5	(1.2)	12.3
Manufacturing	17.3	(1.0)	14.7
CPG, Retail & Pharma	15.1	(1.8)	4.0
High-Tech, Media & Entertainment	23.7	3.2	0.9
Healthcare	6.4	5.0	4.8

Source: MOFSL, Company

Exhibit 3: Strong growth in Top-5 accounts

Clients	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
Top five clients	26.7	5.2	7.7
Top 10 clients	34.1	3.8	6.8
Top 20 clients	44.9	2.2	6.7

Source: MOFSL, Company

Exhibit 4: Changes in Estimates

	Revised		Earlier		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
INR/USD	82.1	82.0	82.1	82.0	0.0%	0.0%
USD Revenue - m	4,421	5,059	4,482	5,114	-1.4%	-1.1%
Growth (%)	7.7	14.5	9.2	14.1	-150bps	40bps
EBIT margin(%)	16.5	17.9	16.4	17.9	10bps	0bps
PAT (INR m)	48,633	60,508	50,281	62,678	-3.3%	-3.5%
EPS	164.2	204.3	170.1	212.1	-3.5%	-3.7%

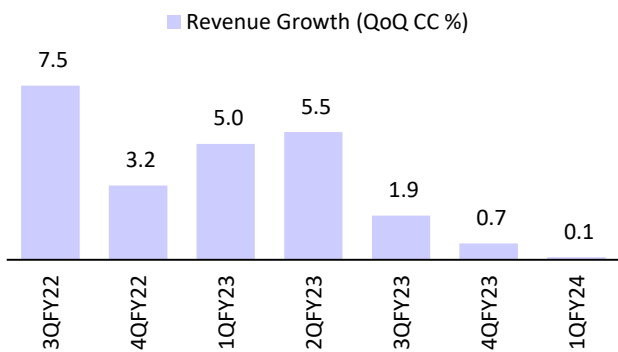
Source: MOFSL, Company

Industry-leading growth to defend rich valuations

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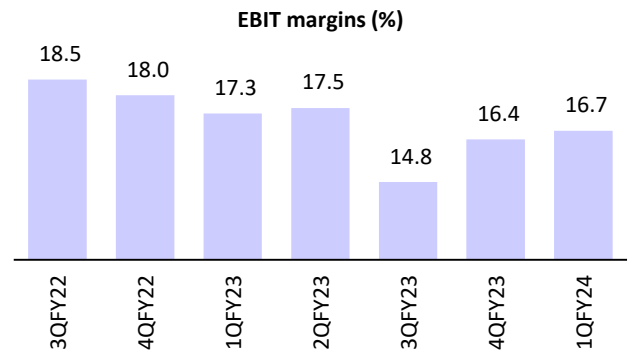
Story in charts

Exhibit 5: Revenue remained flat in 1QFY24



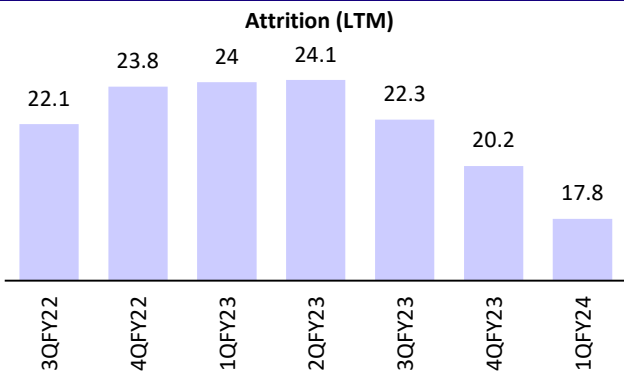
Source: Company, MOFSL

Exhibit 6: 1QFY24 saw 30bp margin expansion



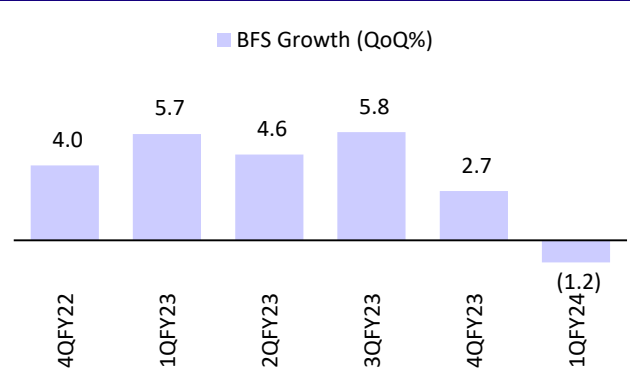
Source: Company, MOFSL

Exhibit 7: Attrition saw meaningful moderation in 1QFY24



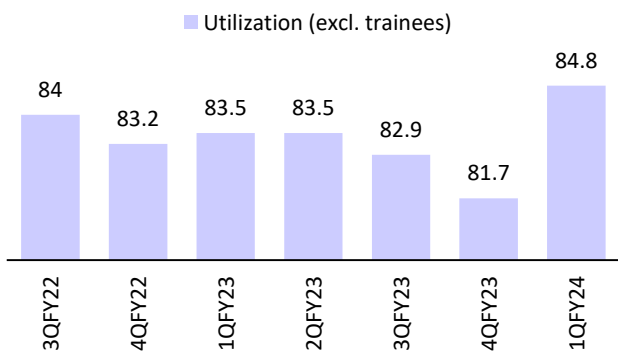
Source: Company, MOFSL

Exhibit 8: BFSI declined 1.2% QoQ in 1QFY24



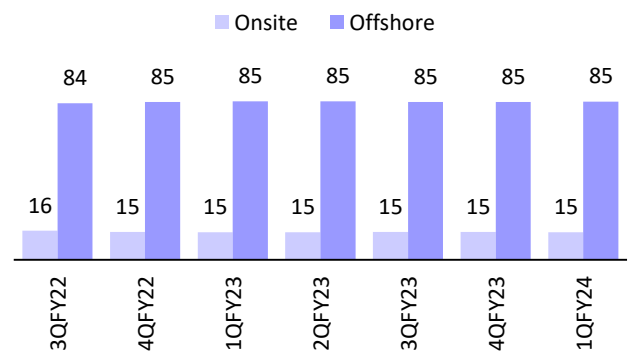
Source: Company, MOFSL

Exhibit 9: Utilization jumped (partly on re-classification)



Source: Company, MOFSL

Exhibit 10: Offshore Effort mix remained stable



Source: Company, MOFSL

Operating metrics

Exhibit 11: Operating metrics

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Revenue by verticals (%)								
BFSI	37.4	37.4	37.5	37.3	37.3	37.2	38.0	37.5
Manufacturing	17.4	18.3	17.4	16.3	16.2	17.5	17.5	17.3
CPG, retail & pharma	16.4	15.6	15.7	15.7	15.4	15.2	15.4	15.1
High tech, media & entertainment	24.9	24.7	25.0	25.4	25.3	23.6	23.0	23.7
Healthcare, Life, Public Science	6.4	6.5	6.4	6.6	6.8	6.3	6.1	6.4
Revenue by geography (%)								
North America	69.7	68.9	69.5	71.7	72.9	72.3	71.9	73.1
Europe	17.5	16.9	17.0	15.3	14.6	14.9	15.4	15.2
ROW	12.8	14.2	13.5	13.0	12.5	12.8	12.7	11.7
Client metrics (% of revenues)								
Top 5 client	25.3	25.5	25.5	26.8	26.7	26.3	25.4	26.7
Top 10 client	33.7	34.0	33.5	34.5	34.3	33.8	32.9	34.1
Top 20 client	45.0	45.2	44.8	45.5	45.1	45.3	44.0	44.9
Top 40 client	58.4	59.1	58.4	58.7	57.4	57.6	56.8	57.2
Non Top 20 clients	55.0	54.8	55.2	54.5	54.9	54.7	56.0	55.1
Number of active clients	628	650	673	708	719	723	728	723
New clients added in the period	35	34	29	43	22	28	31	19
Million \$ clients								
5 Million \$ clients	117	120	125	130	137	144	146	148
10 Million \$ clients	74	76	76	79	77	81	81	88
20 Million \$ clients	30	31	37	40	38	37	38	40
50 Million \$ clients	9	9	10	10	11	11	13	13
100 Million \$ clients	2	2	2	2	2	2	2	2
Employee metrics								
Development	66,824	70,710	75,869	79,998	82,681	82,197	80,283	77,555
Sales and support	3,309	3,463	3,725	4,032	4,355	4,265	4,263	5,183
Total employees	70,133	74,137	79,594	84,030	86,936	86,462	84,546	82,738
Efforts mix								
Onsite	16.1	15.6	15.0	14.7	14.7	14.7	14.9	14.8
Offshore	83.9	84.4	85.0	85.3	85.3	85.1	85.1	85.2
Utilization measures								
Excluding trainees	85.2	84.0	83.2	83.5	83.5	82.9	81.7	84.8
Attrition LTM (%)	18.6	22.1	23.8	24.0	24.1	22.3	20.2	17.8

Source: Company, MOFSL

Financials and valuations

Income Statement (#)								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Sales	1,90,505	2,40,199	2,69,413	2,86,287	2,48,454	3,31,827	3,62,691	4,14,873
Change (%)	11.9	26.1	12.2	6.3	(13.2)	33.6	9.3	14.4
Cost of Services	1,20,111	1,51,777	1,77,967	1,95,985	1,74,845	2,32,988	2,49,049	2,79,440
SG&A Expenses	30,057	37,003	36,068	26,759	23,938	37,009	46,344	52,689
EBITDA	40,337	51,419	55,378	63,543	49,671	61,830	67,297	82,745
As a percentage of Net Sales	21.2	21.4	20.6	22.2	20.0	18.6	18.6	19.9
Depreciation	4,996	4,852	8,239	8,520	5,301	7,227	7,449	8,297
Other Income	7,553	4,639	1,796	3,410	7,699	4,140	4,991	6,223
PBT	42,893	51,206	48,934	58,434	52,069	58,743	64,839	80,670
Tax	6,738	9,770	8,780	14,262	12,946	13,845	16,206	20,162
Rate (%)	15.7	19.1	17.9	24.4	24.9	23.6	25.0	25.0
Minority Interest	0	0	0	0	0	11	8	0
Extraordinary	617	0	0	-571	0	800	0	0
Adjusted PAT	36,155	41,435	40,154	44,172	39,123	44,898	48,633	60,508
Change (%)	52	15	-3	10	-11	15	8	24
Reported PAT	35,538	41,435	40,154	44,743	39,123	44,098	48,633	60,508

Balance Sheet (*)								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	172	174	174	175	296	296	296	296
Reserves	38,426	48,764	53,866	72,859	1,42,576	1,65,625	1,94,805	2,31,110
Net Worth	38,598	48,938	54,040	73,034	1,42,872	1,65,921	1,95,101	2,31,406
Minority Interest	13	8	11	37	57	71	71	71
Other liabilities	1,453	1,283	10,886	7,697	11,972	14,143	14,099	14,164
Capital Employed	40,064	50,229	64,937	80,768	1,54,901	1,80,135	2,09,271	2,45,641
Net Block	2,508	3,084	12,104	10,481	13,772	17,823	18,374	18,076
Intangibles	4,298	6,330	7,684	9,241	14,861	15,452	15,452	15,452
Other LT Assets	5,047	5,614	5,170	6,056	27,805	29,789	34,300	42,825
Curr. Assets	41,645	51,664	63,290	81,313	1,49,386	1,71,897	1,90,881	2,21,861
Current Investments	12,643	17,402	22,186	36,282	57,882	53,349	63,349	73,349
Debtors	22,327	23,845	27,541	26,906	56,271	72,284	62,601	72,745
Cash and Bank Balance	3,323	4,150	5,252	7,594	14,462	23,389	39,526	44,895
Other Current Assets	3,352	6,267	8,311	10,531	20,771	22,875	25,405	30,871
Current Liab. and Prov.	13,434	16,463	23,311	26,323	50,923	54,826	49,737	52,573
Trade payables	3,792	4,669	7,269	8,277	13,250	12,938	10,881	10,372
Other liabilities	7,798	9,686	13,454	14,504	31,381	33,754	30,722	34,067
Provisions	1,844	2,108	2,588	3,542	6,292	8,134	8,134	8,134
Net Current Assets	28,211	35,201	39,979	54,990	98,463	1,17,071	1,41,144	1,69,288
Application of Funds	40,064	50,229	64,937	80,768	1,54,901	1,80,135	2,09,271	2,45,641

E: MOFSL estimates

Pro Forma P&L statement for the combined entity (LTIM)s from FY18 to FY21

* Standalone (LTI) Balance Sheet from FY18 to FY21

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	78.4	92.4	89.4	98.9	132.2	151.8	164.2	204.3
Cash EPS	89.5	103.3	107.8	117.8	150.1	173.5	189.3	232.3
Book Value	85.2	109.2	120.3	161.5	482.7	560.9	658.6	781.2
DPS	29.9	31.1	22.7	37.6	63.9	60.0	65.7	81.7
Payout (%)	38.1	33.7	25.4	38.0	48.3	39.5	40.0	40.0
Valuation (x)								
P/E ratio	65.5	55.5	57.4	51.9	38.8	33.8	31.3	25.1
Cash P/E ratio	57.4	49.7	47.6	43.6	34.2	29.6	27.1	22.1
EV/EBITDA ratio	57.3	44.3	41.1	35.8	29.1	23.3	21.1	17.0
EV/Sales ratio	12.1	9.5	8.5	8.0	5.8	4.3	3.9	3.4
Price/Book Value ratio	60.3	47.0	42.7	31.8	10.6	9.2	7.8	6.6
Dividend Yield (%)	0.6	0.6	0.4	0.7	1.2	1.2	1.3	1.6
Profitability Ratios (%)								
RoE	101.4	94.6	78.0	70.4	36.2	26.1	26.9	28.4
RoCE	82.8	83.5	67.2	57.1	28.3	24.9	23.1	24.6
Turnover Ratios								
Debtors (Days)	42.78	36.23	37.31	34.30	83	80	63	64
Fixed Asset Turnover (x)	76.0	77.9	22.3	27.3	18.0	18.6	19.7	23.0

Cash Flow Statement

Y/E March	FY22	FY23	FY24E	FY25E
CF from Operations	44,695	48,591	59,220	71,323
Cash for Working Capital	-12,188	-17,645	-4,220	-21,546
Net Operating CF	32,507	30,946	55,000	49,778
Net Purchase of FA	-10,529	-9,346	-8,000	-8,000
Free Cash Flow	21,978	21,600	47,000	41,778
Net Purchase of Invest.	-5,924	6,037	-10,000	-10,000
Net Cash from Invest.	-16,453	-3,309	-18,000	-18,000
Proc. from equity issues	2	12	0	0
Proceeds from LTB/STB	-3,529	-3,702	0	0
Dividend Payments	-13,277	-15,627	-20,564	-24,965
Cash Flow from Fin.	-16,804	-19,317	-20,564	-24,965
Exchange difference	21	607	0	0
Net Cash Flow	-729	8,927	16,436	6,813
Opening Cash Bal.	15,191	14,462	23,389	39,825
Add: Net Cash	-729	8,927	16,436	6,813
Closing Cash Bal.	14,462	23,389	39,825	46,638

E: MOFSL estimates

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