

Estimate change 

TP change 

Rating change 

CMP: INR5,155

TP: INR5,350 (+4%)

Neutral

Deal wins should support strong growth in 2HFY24

Margin recovery to support earnings; reiterate Neutral on fair valuation

Bloomberg	LTIM IN
Equity Shares (m)	296
M.Cap.(INRb)/(USD\$b)	1525.5 / 18.3
52-Week Range (INR)	5593 / 4120
1, 6, 12 Rel. Per (%)	-4/8/-3
12M Avg Val (INR M)	2243

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	331.8	363.3	416.9
EBIT Margin (%)	16.5	16.7	18.1
PAT	44.9	48.9	60.9
EPS (INR)	151.8	165.2	205.8
EPS Gr. (%)	13.7	8.9	24.5
BV/Sh. (INR)	560.9	659.6	783.2

Ratios

RoE (%)	26.1	27.1	28.5
RoCE (%)	24.9	23.5	24.8
Payout (%)	39.5	40.0	40.0

Valuations

P/E (x)	33.8	31.1	24.9
P/BV (x)	9.2	7.8	6.6
EV/EBITDA (x)	23.3	20.7	16.7
Div Yield (%)	1.2	1.3	1.6

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	68.7	68.7	74.0
DII	12.4	11.7	8.1
FII	8.2	8.4	8.4
Others	10.7	11.2	9.4

FII Includes depository receipts

- LTIM posted a revenue growth of 1.7% QoQ/4.4% YoY CC in 2QFY24 vs. our estimate of 1.4% QoQ CC. Deal wins were modest at USD1.3b (up 20% YoY). Despite wage hikes, the EBIT margin stood at 16.0%, surpassing our estimates by 30bp.
- Despite the persistent weakness in the macro environment and cautious client sentiment, the management expressed confidence in strong growth in 2HFY24. This optimism is fueled by the ramp-ups in deals secured in 1HFY24, despite higher than usual furloughs in 3QFY24. Additionally, the company benefits from a strong pipeline of upcoming opportunities. The management also suggested that deal signing activity is showing good momentum in 3QFY24. The management commentary mirrored that of its peers, acknowledging the challenging macro environment, cuts in discretionary spending and strong deal wins aided by shift in new wins towards cost-optimization initiatives. The management expects growth to be broad based in 2HFY24.
- Despite a weak 1HFY24, we estimate FY24 USD CC revenue growth for LTIM at 6.9% YoY on account of stronger 2HFY24. 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 a weak macro environment.
- Despite wage hikes, LTIM delivered good margin performance with lower-than-expected sequential dip in margin (70bp vs 100bp expected) on account of higher utilization and operational efficiencies. The management remained confident about 17-18% exit EBIT margin for FY24. We expect the company to deliver FY24/FY25 EBIT margin at 16.7/18.1%. This should help LTIM clock a PAT CAGR of 16% over FY23-25E.
- We have tweaked our FY24/25 estimates by ~2% to account for better margins. LTIM is currently trading at 25x FY25 EPS, which adequately captures the growth opportunities ahead. Our TP of INR5,350 implies 26x FY25E EPS. We reiterate our **Neutral** rating on the stock.

Good overall Q2 performance

- CC revenue was up 1.7% QoQ and 4.4% YoY, INR EBIT down 1.1% YoY, and INR PAT was down 2.2% YoY in 2QFY24.
- The performance was led by the Manufacturing segment (up 5.2% QoQ) while BFSI remained weak (down 1.1%)
- EBIT margin stood at 16.0% (down 70bp QoQ) was tad above MOFSLe of 100 bp QoQ decline.
- Order inflow stood at USD 1.3b (down 8% QoQ/up 20% YoY) vs USD 1.41b in Q1.
- PAT came in at INR 11.6b, up 1% QoQ and above our estimates due to better margins and lower ETR.
- Free cash flow stood at INR8.7b, translating to 75% of net income.

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

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Key highlights from the management commentary

- Despite expectations of higher furloughs (beyond manufacturing and banking), the management is confident of strong 2HFY24 growth. This confidence stems from the ramp-up of deals signed in 1HFY24 and a strong pipeline in the upcoming quarters.
- The management suggested better 2HFY24 growth than in 1HFY24. The growth is expected to remain broad based. 3QFY24 is already seeing good deal activity for LTIM.
- The management remains confident of exiting FY24 at 17-18% margin.

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 26x FY25E EPS. We reiterate our **Neutral** rating with a TP of INR5,350.

Quarterly Performance

Y/E March	FY23				FY24E				FY23	FY24	(INR m)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			Est. 2QFY24	Var. (% / bp)
Revenue (USD m)	980	1,022	1,047	1,058	1,059	1,076	1,108	1,148	4,106	4,389	1,074	0.1
QoQ (%)	3.7	4.3	2.4	1.0	0.1	1.6	3.0	3.6	17.2	6.9	1.5	13
Revenue (INR m)	76,442	82,278	86,200	86,910	87,021	89,054	91,933	95,246	3,31,830	3,63,254	88,774	0.3
YoY (%)	32.9	29.6	25.3	21.9	13.8	8.2	6.7	9.6	27.1	9.5	7.9	34
GPM (%)	31.1	30.8	28.6	29.9	31.6	31.4	31.5	32.3	30.1	31.7	30.5	95
SGA (%)	11.6	11.0	11.7	11.4	12.8	13.1	12.8	12.8	11.4	12.9	12.7	43
EBITDA	14,937	16,356	14,548	16,037	16,355	16,313	17,191	18,575	61,878	68,434	15,802	3.2
EBITDA Margin (%)	19.5	19.9	16.9	18.5	18.8	18.3	18.7	19.5	18.6	18.8	17.8	52
EBIT	13,273	14,397	12,767	14,214	14,508	14,231	15,353	16,670	54,651	60,762	13,938	2.1
EBIT Margin (%)	17.4	17.5	14.8	16.4	16.7	16.0	16.7	17.5	16.5	16.7	15.7	28
Other income	1,465	1,233	1,139	228	856	962	1,103	1,238	4,065	4,159	1,332	(28)
ETR (%)	24.9	23.9	22.3	22.9	25.0	23.5	25.0	25.0	23.5	24.6	25.0	
Adj PAT	11,066	11,890	10,807	11,141	11,523	11,623	12,342	13,431	44,904	48,919	11,453	1.5
QoQ (%)	-0.2	7.4	-9.1	3.1	3.4	0.9	6.2	8.8			-0.6	
YoY (%)	31.7	25.1	2.9	0.5	4.1	-2.2	14.2	20.6	13.7	8.9	-3.7	
EPS (INR)	36.1	40.1	35.4	37.6	38.9	39.2	41.7	45.4	151.8	165.2	38.7	1.3

Key performance indicators

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (QoQ CC %)	5.0	5.5	1.9	0.7	0.1	1.7				
Margins (%)										
Gross margin	29.9	30.8	28.6	29.9	31.6	31.4	31.5	32.3	30.1	31.7
EBIT margin	17.3	17.5	14.8	16.4	16.7	16.0	16.7	17.5	16.5	16.7
Net margin	14.5	14.5	12.5	12.8	13.2	13.1	13.4	14.1	13.5	13.5
Operating metrics										
Headcount	84,030	86,936	86,462	84,546	82,738	83,532			84,546	
Attrition (%)	24	24.1	22.3	20.2	17.8	15.2			20.2	
Offshore revenue (%)	83.5	83.5	82.9	81.7	84.8	86.6			82.9	
Utilization (incl. trainees)										
Key verticals (QoQ %)										
BFSI	5.7	4.6	5.8	2.7	-1.2	-1.1				
CMT	5.3	3.9	-4.5	-1.5	3.2	2.0				
Manufacturing	-2.9	3.7	10.6	1.0	-1.0	5.1				
Healthcare	6.9	7.5	-5.1	-2.2	5.0	3.2				
CPG, Retail, and Pharma	3.7	2.3	1.1	2.4	-1.8	2.9				
Key geographies (QoQ %)										
North America	7.0	6.1	1.6	0.5	1.8	2.0				
Europe	-6.7	-0.4	4.5	4.4	-1.2	2.3				



Key highlights from the management commentary

Demand and industry outlook

- The deal wins remained strong during the quarter at USD1.3bn, up 20% YoY with a higher share of efficiency-focused deals. The deal pipeline continues to remain healthy.
- The management indicated that there was a large renewal deal in 2Q order book. The number of higher tenure cost take-out deals is increasing.
- LTIM has participated in multiple vendor consolidation deals, resulting in a net gain for the company.
- Many clients are expected to finalize their budgets for the next calendar year during the October to December quarter. Although these budgets could potentially be higher than the current year, it remains difficult to make precise predictions at this time.
- Completion of existing programs and cuts in client budgets are creating short-term pressure on growth, despite positive developments in deal signings.
- **BFSI** – There is a heightened sense of caution among clients in the BFSI sector; however, the insurance segment continues to perform well. Large financial institutions continue to focus on cost-optimization efforts, while specific Fin-tech clients are focusing on modernizing their technology stack. The insurance sector is expected to see continued spends as it upgrades its technological infrastructure.
- **Hi-Tech** should remain strong for LTIM with continued growth momentum in 3QFY24. The growth should remain broad based.
- Expect sustained growth in **the Manufacturing** sector due to the acquisition of new accounts.
- For **Energy**, large EMS and IMS deals will continue to drive growth.
- **CPG and Retail** should benefit from an uptick in deal pipeline with several deals conversions expected in 3QFY24.

- The **Travel** sector is experiencing significant traction in international leisure and business travel. Despite inflationary pressures, the vertical is expected to grow due to the new deal wins.
- **Healthcare** should continue to do well on data-led transformation deals.
- Europe did well on the back of successful ramp-ups in key accounts.
- Despite expectations of higher furloughs (beyond manufacturing and banking), the management is confident of strong 2HFY24 growth. This confidence stems from the ramp-up of deals signed in 1HFY24 and a strong pipeline in the upcoming quarters.
- The management suggested better 2HFY24 growth than in 1HFY24. The growth is expected to remain broad based. 3QFY24 is already seeing good deal activity for LTIM.
- The management re-iterated its USD 10b aspiration over the next four to five years, which would be a combination of both organic and inorganic growth.

Margin performance

- The 200bp wage hike impact on EBIT margin was partly offset by higher utilization (60bp) and operational efficiency, including gains from the absence of visa costs (70bp).
- The larger deals are structured in nature and can be planned and executed more efficiently (unlike discretionary work, which required JIT hiring).
- The management remains confident of exiting FY24 at 17-18% margin. Additionally, it anticipates another 200-bp margin improvement above that by FY27, driven by the synergies resulting from the merger.
- LTIM on boarded 1,400 freshers during the quarter. Going forward, the hiring will be in line with the growth expectations.
- The management is comfortable with the current level of utilization.

Exhibit 1: Europe led sequential growth in 2QFY24

Geographies	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
North America	73.4	2.0	6.0
Europe	15.3	2.3	10.3
RoW	11.3	(1.9)	(4.9)

Exhibit 2: Manufacturing drove sequential growth in 2QFY24

Verticals	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
BFSI	36.5	(1.1)	6.1
Manufacturing	17.9	5.1	16.3
CPG, Retail & Pharma	15.3	2.9	4.6
High-Tech, Media & Entertainment	23.8	2.0	(1.0)
Healthcare	6.5	3.2	0.6

Source: MOFSL, Company

Exhibit 3: Broad-based growth across client buckets

Clients	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
Top five clients	26.8	2.0	5.6
Top 10 clients	34.3	2.2	5.2
Top 20 clients	45.2	2.3	5.5

Source: MOFSL, Company

Exhibit 4: Changes in Estimates

	Revised		Earlier		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
INR/USD	82.8	83.0	82.7	83.0	0.0%	0.0%
USD Revenue - m	4,389	5,023	4,384	5,006	0.1%	0.3%
Growth (%)	6.9	14.4	6.8	14.2	10bps	20bps
EBIT margin(%)	16.7	18.1	16.3	17.7	40bps	40bps
PAT (INR m)	48,919	60,914	48,057	59,711	1.8%	2.0%
EPS	165.2	205.8	162.2	201.6	1.9%	2.1%

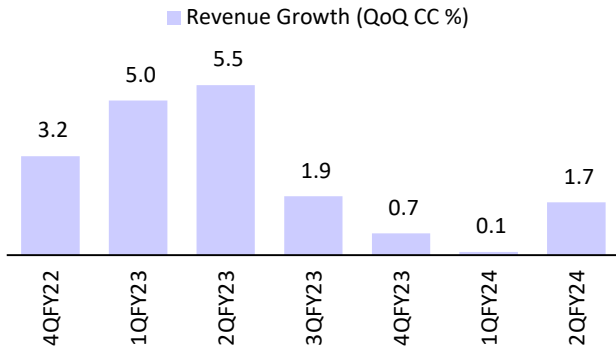
Source: MOFSL, Company

Industry-leading growth to defend rich valuations

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- We value the stock at 26x FY25E EPS. We reiterate our **Neutral** rating with a TP of INR5,350.

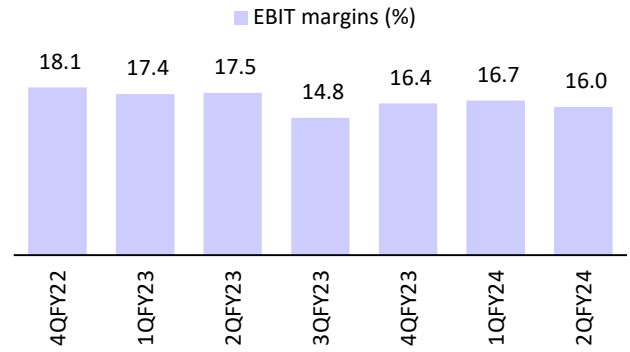
Story in charts

Exhibit 5: LRIM saw 1.7% QoQ CC growth in 2QFY24



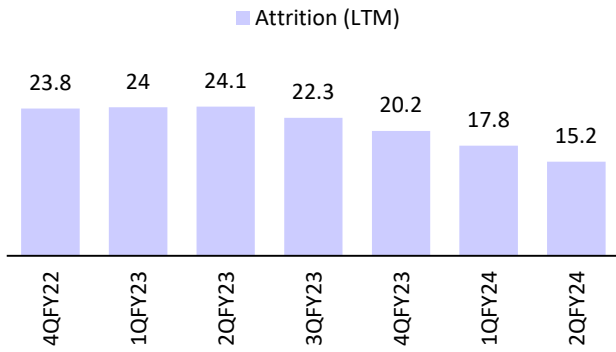
Source: Company, MOFSL

Exhibit 6: Margins declined 70bp on account of wage hikes



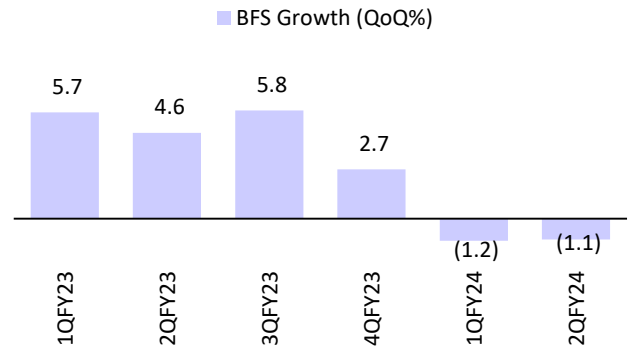
Source: Company, MOFSL

Exhibit 7: Attrition saw meaningful moderation in 2QFY24



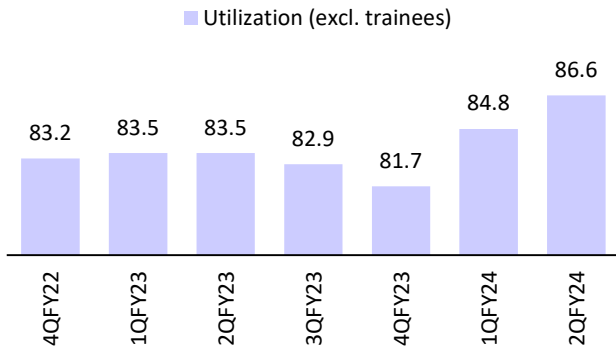
Source: Company, MOFSL

Exhibit 8: BFSI continued to decline in 2QFY24



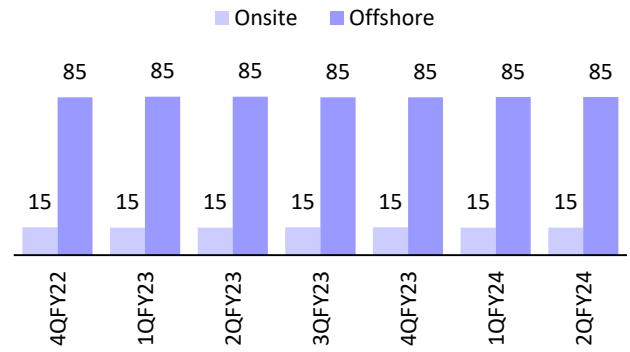
Source: Company, MOFSL

Exhibit 9: Utilization continued to inch up



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	2QFY24
Revenue by verticals (%)									
BFSI	37.4	37.4	37.5	37.3	37.3	37.2	38.0	37.5	36.5
Manufacturing	17.4	18.3	17.4	16.3	16.2	17.5	17.5	17.3	17.9
CPG, retail & pharma	16.4	15.6	15.7	15.7	15.4	15.2	15.4	15.1	15.3
High tech, media & entertainment	24.9	24.7	25.0	25.4	25.3	23.6	23.0	23.7	23.8
Healthcare, Life, Public Science	6.4	6.5	6.4	6.6	6.8	6.3	6.1	6.4	6.5
Revenue by geography (%)									
North America	69.7	68.9	69.5	71.7	72.9	72.3	71.9	73.1	73.4
Europe	17.5	16.9	17.0	15.3	14.6	14.9	15.4	15.2	15.3
ROW	12.8	14.2	13.5	13.0	12.5	12.8	12.7	11.7	11.3
Client metrics (% of revenues)									
Top 5 client	25.3	25.5	25.5	26.8	26.7	26.3	25.4	26.7	26.8
Top 10 client	33.7	34.0	33.5	34.5	34.3	33.8	32.9	34.1	34.3
Top 20 client	45.0	45.2	44.8	45.5	45.1	45.3	44.0	44.9	45.2
Top 40 client	58.4	59.1	58.4	58.7	57.4	57.6	56.8	57.2	57.6
Non Top 20 clients	55.0	54.8	55.2	54.5	54.9	54.7	56.0	55.1	54.8
Number of active clients	628	650	673	708	719	723	728	723	737
New clients added in the period	35	34	29	43	22	28	31	19	30
Million \$ clients									
5 Million \$ clients	117	120	125	130	137	144	146	148	146
10 Million \$ clients	74	76	76	79	77	81	81	88	90
20 Million \$ clients	30	31	37	40	38	37	38	40	41
50 Million \$ clients	9	9	10	10	11	11	13	13	14
100 Million \$ clients	2	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	78,276
Sales and support	3,309	3,463	3,725	4,032	4,355	4,265	4,263	5,183	5,256
Total employees	70,133	74,137	79,594	84,030	86,936	86,462	84,546	82,738	83,532
Efforts mix									
Onsite	16.1	15.6	15.0	14.7	14.7	14.7	14.9	14.8	14.8
Offshore	83.9	84.4	85.0	85.3	85.3	85.1	85.1	85.2	85.2
Utilization measures									
Excluding trainees	85.2	84.0	83.2	83.5	83.5	82.9	81.7	84.8	86.6
Attrition LTM (%)	18.6	22.1	23.8	24.0	24.1	22.3	20.2	17.8	15.2

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	2,61,086	3,31,830	3,63,254	4,16,885
Change (%)	11.9	26.1	12.2	6.3	(8.8)	27.1	9.5	14.8
Cost of Services	1,20,111	1,51,777	1,77,967	1,95,985	1,78,271	2,32,037	2,48,021	2,80,031
SG&A Expenses	30,057	37,003	36,068	26,759	30,330	37,915	46,799	53,145
EBITDA	40,337	51,419	55,378	63,543	52,485	61,878	68,434	83,709
As a percentage of Net Sales	21.2	21.4	20.6	22.2	20.1	18.6	18.8	20.1
Depreciation	4,996	4,852	8,239	8,520	5,971	7,227	7,673	8,338
Other Income	7,553	4,639	1,796	3,410	6,426	4,065	4,159	5,848
PBT	42,893	51,206	48,934	58,434	52,940	58,716	64,921	81,219
Tax	6,738	9,770	8,780	14,262	13,439	13,812	16,002	20,305
Rate (%)	15.7	19.1	17.9	24.4	25.4	23.5	24.6	25.0
Minority Interest	0	0	0	0	0	11	13	0
Extraordinary	617	0	0	-571	0	800	0	0
Adjusted PAT	36,155	41,435	40,154	44,172	39,501	44,904	48,919	60,914
Change (%)	52	15	-3	10	-11	14	9	25
Reported PAT	35,538	41,435	40,154	44,743	39,501	44,104	48,919	60,914

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	1,94,976	2,31,525
Net Worth	38,598	48,938	54,040	73,034	1,42,872	1,65,921	1,95,272	2,31,821
Minority Interest	13	8	11	37	57	71	71	71
Other liabilities	1,453	1,283	10,886	7,697	11,972	14,143	14,098	14,165
Capital Employed	40,064	50,229	64,937	80,768	1,54,901	1,80,135	2,09,441	2,46,056
Net Block	2,508	3,084	12,104	10,481	13,772	17,823	18,150	17,813
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	34,334	42,972
Curr. Assets	41,645	51,664	63,290	81,313	1,49,386	1,71,897	1,91,304	2,22,600
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	62,699	73,098
Cash and Bank Balance	3,323	4,150	5,252	7,594	14,462	23,389	39,814	45,142
Other Current Assets	3,352	6,267	8,311	10,531	20,771	22,875	25,442	31,012
Current Liab. and Prov.	13,434	16,463	23,311	26,323	50,923	54,826	49,799	52,780
Trade payables	3,792	4,669	7,269	8,277	13,250	12,938	10,898	10,422
Other liabilities	7,798	9,686	13,454	14,504	31,381	33,754	30,767	34,224
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	1,41,505	1,69,820
Application of Funds	40,064	50,229	64,937	80,768	1,54,901	1,80,135	2,09,441	2,46,056

E: MOFSL estimates

Pro Forma P&L statement for the combined entity (LTI) 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	133.5	151.8	165.2	205.8
Cash EPS	89.5	103.3	107.8	117.8	153.7	173.5	191.2	234.0
Book Value	85.2	109.2	120.3	161.5	483.0	560.9	659.6	783.2
DPS	29.9	31.1	22.7	37.6	63.9	60.0	66.1	82.3
Payout (%)	38.1	33.7	25.4	38.0	47.9	39.5	40.0	40.0
Valuation (x)								
P/E ratio	65.5	55.5	57.4	51.9	38.4	33.8	31.1	24.9
Cash P/E ratio	57.4	49.7	47.6	43.6	33.4	29.6	26.9	21.9
EV/EBITDA ratio	57.3	44.3	41.1	35.8	27.6	23.3	20.7	16.7
EV/Sales ratio	12.1	9.5	8.5	8.0	5.5	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	36.6	26.1	27.1	28.5
RoCE	82.8	83.5	67.2	57.1	29.5	24.9	23.5	24.8
Turnover Ratios								
Debtors (Days)	42.78	36.23	37.31	34.30	79	80	63	64
Fixed Asset Turnover (x)	76.0	77.9	22.3	27.3	19.0	18.6	20.0	23.4

Cash Flow Statement

Y/E March	FY22	FY23	FY24E	FY25E
CF from Operations	44,695	48,591	56,592	69,252
Cash for Working Capital	-12,188	-17,645	-2,598	-21,559
Net Operating CF	32,507	30,946	53,993	47,693
Net Purchase of FA	-10,529	-9,346	-8,000	-8,000
Free Cash Flow	21,978	21,600	45,993	39,693
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	-19,568	-24,366
Cash Flow from Fin.	-16,804	-19,317	-19,568	-24,366
Exchange difference	21	607	0	0
Net Cash Flow	-729	8,927	16,425	5,327
Opening Cash Bal.	15,191	14,462	23,389	39,814
Add: Net Cash	-729	8,927	16,425	5,327
Closing Cash Bal.	14,462	23,389	39,814	45,142

E: MOFSL estimates

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
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