

April 25, 2024

Q4FY24 Result Update

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. bn)	332	355	376	408
EBITDA (Rs. bn)	62	64	70	79
Margin (%)	18.6	18.0	18.7	19.4
PAT (Rs. bn)	45	46	51	58
EPS (Rs.)	151.7	155.0	171.8	197.5
Gr. (%)	13.7	2.1	10.9	14.9
DPS (Rs.)	60.0	65.0	72.1	6.1
Yield (%)	1.3	1.4	1.5	0.1
RoE (%)	29.1	25.1	23.7	23.7
RoCE (%)	27.1	23.1	21.5	21.4
EV/Sales (x)	4.0	3.7	3.4	3.0
EV/EBITDA (x)	21.4	20.4	18.0	15.5
PE (x)	31.2	30.5	27.5	24.0
P/BV (x)	8.4	7.0	6.1	5.3

Key Data

LTIM.BO | LTIM IN

52-W High / Low	Rs.6,443 / Rs.4,148
Sensex / Nifty	73,853 / 22,402
Market Cap	Rs.1,402bn/ \$ 16,824m
Shares Outstanding	296m
3M Avg. Daily Value	Rs.2592.14m

Shareholding Pattern (%)

Promoter's	68.60
Foreign	7.86
Domestic Institution	13.58
Public & Others	9.95
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.4)	(9.0)	13.1
Relative	(6.7)	(20.4)	(8.0)

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LTIMindtree (LTIM IN)

Rating: ACCUMULATE | CMP: Rs4,733 | TP: Rs5,015

Small blip, recovery in progress

Quick Pointers:

- The quarter had a one-off impact through project cancellations on BFS
- Margins got impacted in 4Q, which should reverse its course in 1Q

LTIM reported revenue of USD1.07b, down 1.3% QoQ in CC and reported terms, below consensus of 0.9% CC decline. The decline was led by project cancellations within BFS verticals, where the clients have reprioritized their spends. Otherwise the growth was broad-based across verticals, while Mfg growth tapered off (down ~10% QoQ) over 3Q high base. The margin impact was meaningful, down 70bps QoQ (vs consensus of flat QoQ). The margin decline had a one-off impact (~80 bps QoQ) of project cancellations, which should reverse in Q1, as the talents are already been repurposed to drive other projects.

The management alluded that the project impacts have completely bottomed out in 4Q and it should see a recovery within the space in 1Q. It was confident of sustaining growth within BFS vertical. It actively participates in regulatory and compliance programs that are more critical in nature, while the discretionary spends continue to take a pause across its client portfolio. The deal pipeline remains strong with 80% of the mix is on the cost-takeout and vendor consolidation side while the rest is on large scale transformation. The cost benefits projects are multi-year in nature, many of them have ramped up well and expected to make further progress in FY25. The company exited FY24 with healthy order inflows of USD5.6b (BTB 1.3x), which gives confidence to the management to drive incremental growth in FY25.

Valuations and outlook: With strong execution strategy and robust sales engine, LTIM is well positioned to play in the challenging environment with a mix of cost and transformation programs. With robust front-end capabilities, it augurs well to capture the discretionary spend, if it were to reverse its course in FY25. The stock has witnessed sharp correction in recent times and it is trading at 27x (1-year forward) vs 7-year median of 25x that provides a strong risk-reward. We are baking in revenue growth of 5.2% and 9.0% YoY CC with margin improvement of 50bps and 80bps for FY25e and FY26e, respectively. The stock is currently trading at 24x FY26e, we are assigning P/E of 25x to FY26e with a target price of INR 5,015. With that we assume coverage on LTIMindtree with an "ACCUMULATE" rating.

Weak performance, but order inflows sustained

- Revenue stood at USD1.07b, down 1.3% QoQ CC and reported terms, below consensus of 0.9% QoQ decline.
- The decline was majorly led by BFSI (down 2.7% QoQ) and Mfg & Resources (down 9.6% QoQ vs +14.3% QoQ growth in 3Q), while CMT and Healthcare reported solid growth, +4.7% and 4.8% QoQ respectively

- **EBIT margin at 14.7%, down 70bp QoQ, below consensus of 15.4%, led by higher SG&A**
- **Employee metrics: Software headcount down ~750 (-1.0% QoQ), utilization down 50bp QoQ at 86.9%, attrition up 20bp QoQ at 14.4%**
- Order inflows sustained at USD1.5b (-3% QoQ/+3% YoY), with BTB of 1.4x
- PAT came in at INR11.0b, down 5.9% QoQ/down 1.2% YoY, led by higher depreciation and weak revenue growth.

Concall Highlights

Growth Drivers and Demand Outlook

- BFSI growth was impacted in Q4 due to cancellation of two projects, where the clients have reprioritized their spends. The project cancellation had a margin impact of 80 bps QoQ. The cancellation impact was limited to 4Q and from 1Q it expects the BFSI growth to rebound and sustain for the rest of the year FY25
- The cut-down in discretionary spends continued in Q4, while customers are more focused to drive cost savings and process optimization programs. Around 80% of the overall pipeline has cost-takeout and vendor consolidation opportunity, while the rest is on large scale transformation projects
- Within Financial service, there is balancing equation on the regulatory and compliance related work which looks promising and growing at a healthy pace, while the discretionary spends are still getting paused which is diluting the overall performance of BFSI. However, it remained confident to capture those spends once the macro uncertainty improves and non-critical spends reverses its course
- The growth for the top-5 and top-10 accounts remained healthy, the solid sales engine, strategic account mining and cross-selling initiatives are working really well to drive incremental revenues, while it keeps on pruning the tail accounts which are having low potential to scale
- The management indicated that the growth slowdown in FY24 (4.2% YoY CC) is more of a function of macro uncertainty rather than the senior level exits it has witnessed over the last year.
- It expects the capex to stay at an elevated level over the next two years as the workforce continued its transition to work from office, which is leading to acquire new facilities

Margin Outlook

- The margin had a tailwind of 70bps on account of reversal of furloughs and low pass-through revenues, which got more than offset by 80 bps impact of project cancellation and 60 bps due to higher SG&A
- The 80 bps impact on project cancellation is one-time and it is expected to get reversed in 1Q, as the company has already repurposed those employees into new projects. Additionally, the management also indicated that the project cancellation was attributed to the ex-top 40 accounts, while top-40 accounts remained healthy

- The management has maintained its aspiration of improving margins over FY24 and achieving a margin band of 17-18% over 2-3 years. It expects the margin expansion to come through pyramid rationalization, SG&A capabilities, pricing and better growth in FY25

Exhibit 1: 4QFY24 Results: USD revenues decline at 1.3%, EBIT margin contracted by 70bps QoQ

Consolidated (INR b)	4QFY24	3QFY24	QoQ gr. (%)	4QFY23	YoY gr. (%)	FY24	FY23	YoY gr. (%)
IT Services Revenue (USD m)	1,069	1,084	-1.3	1,058	1.1	4,287	4,106	4.4
Overall Revenue (INR b)	89	90	-1.4	87	2.3	355	332	7.0
Gross Profit	27	27	-1.6	26	2.0	109	100	9.2
Gross Margin (%)	29.8	29.9	-10bps	29.9	-10bps	30.7	30.1	60bps
SG&A and Other Costs	11.1	11.1	0.5	10.0	12.1	45.1	37.9	18.9
% of Rev	12.5	12.3	20bps	11.4	110bps	12.7	11.4	130bps
EBITDA	15	16	-3.1	16	-4.2	64	62	3.2
EBIT Margin (%)	17.3	17.6	-30bps	18.5	-120bps	18.0	18.6	-70bps
Depreciation	2	2	14	2	24.5	8	7	13.3
% of Rev	2.6	2.2	30bps	2.1	50bps	2.3	2.2	10bps
EBIT	13	14	-5.6	14	-7.9	56	55	1.9
EBIT Margin (%)	14.7	15.4	-70bps	16.4	-160bps	15.7	16.5	-80bps
Other Income (net)	1	2	-12.1	0	512.3	5	4	18.1
PBT	14	15	-6.2	14	0.3	60	59	3.0
Tax	3	4	-7.4	3	5.3	15	14	6.0
Effective tax rate (%)	24.0	24.3	-30bps	22.9	110bps	24.2	23.5	70bps
Adjusted PAT	11	12	-5.9	11	-1.2	46	45	2.1
Exceptional items	0	0	NA	0	NA	0	-1	NA
Reported PAT	11	12	-5.9	11	-1.2	46	44	3.9
Reported EPS (INR)	37	39	-5.9	38	-1.4	155	149	3.8

Source: Company, PL

Exhibit 2: Regional growth (%)

Geographies	Contribution to revenue (%)	QoQ gr. (%)
North America	73.8	0.2
Europe	14.6	(0.6)
RoW	11.6	(10.6)

Source: Company, PL

Exhibit 3: Vertical Growth (%)

Verticals	Contribution to revenue (%)	QoQ gr. (%)
BFSI	35.1	(2.7)
Manufacturing	18.6	(9.6)
CPG, Retail & Pharma	15.1	1.4
High-Tech, Media & Entertainment	24.3	4.7
Healthcare	6.9	4.8

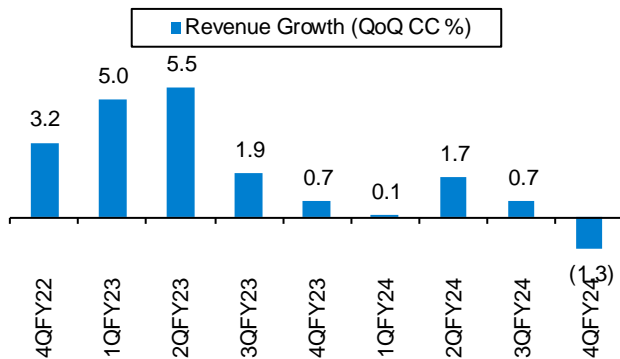
Source: Company, PL

Exhibit 4: Key Performance Indicator

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	FY23	FY24
Revenue (QoQ CC %)	5.0	5.5	1.9	0.7	0.1	1.7	0.7	-1.3	19.9	4.2
Margins (%)										
Gross Margin	31.1	30.8	28.6	29.9	31.6	31.4	29.9	29.8	30.1	30.7
EBIT Margin	17.4	17.5	14.8	16.4	16.7	16.0	15.4	14.7	16.5	15.7
Net Margin	14.5	14.5	12.5	12.8	13.3	13.1	13.0	12.4	13.5	12.9
Operating metrics										
Headcount	84,030	86,936	86,462	84,546	82,738	83,532	82,471	81,650	84,546	84,546
Attrition (%)	24	24.1	22.3	20.2	17.8	15.2	14.2	14.4	20.2	14.4
Utilization (excl. trainees)	83.5	83.5	82.9	81.7	84.8	86.6	87.4	86.9	82.9	86.4

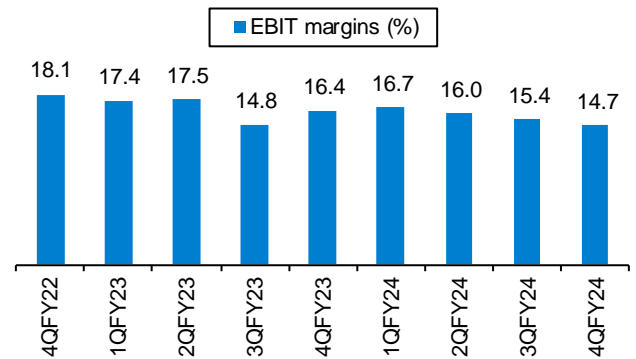
Source: Company, PL

Exhibit 5: Revenue declined 1.3% QoQ CC



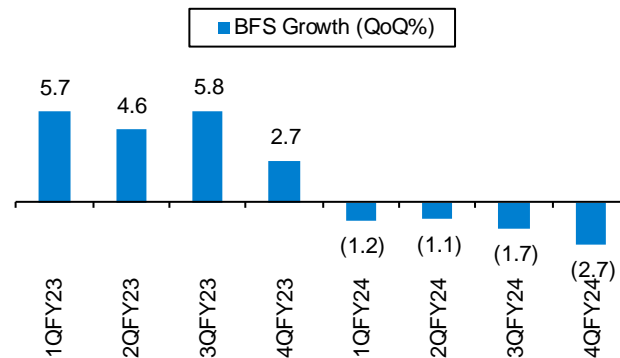
Source: Company, PL

Exhibit 6: EBIT margin (%) declined by 70bps



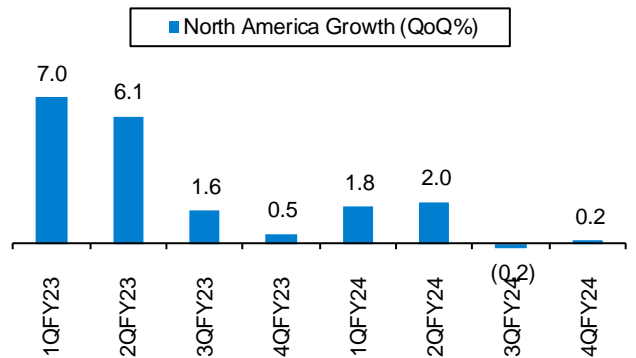
Source: Company, PL

Exhibit 7: BFSI growth (QoQ %)



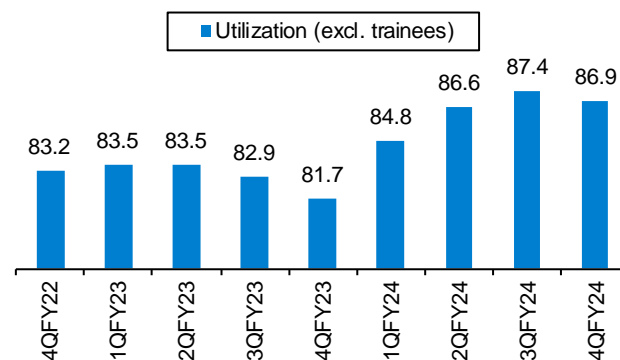
Source: Company, PL

Exhibit 8: North America (QoQ %)



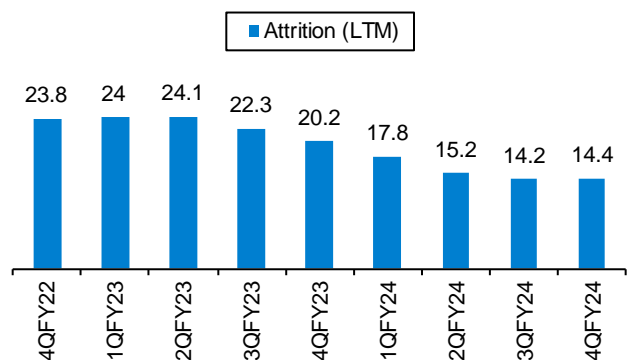
Source: Company, PL

Exhibit 9: Utilization (Ex. Trainees %)



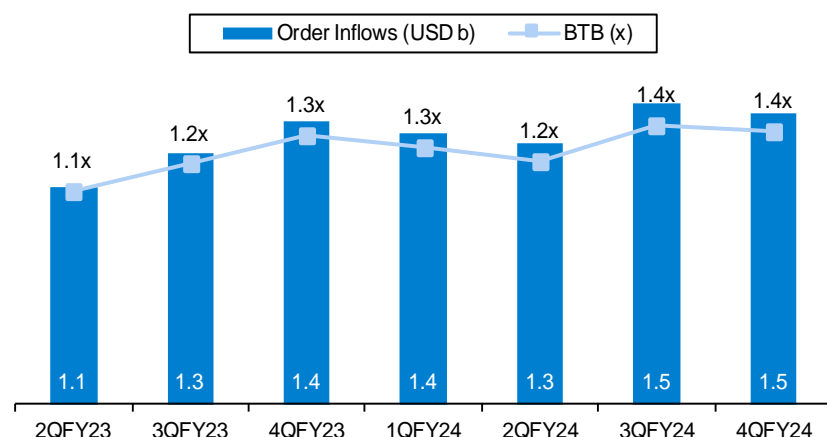
Source: Company, PL

Exhibit 10: Attrition (LTM %)



Source: Company, PL

Exhibit 11: Order Inflows (USD b)



Source: Company, PL

Exhibit 12: Operating Metrics

Consolidated (INR b)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Revenue by verticals (%)												
BFSI	36.2	37.4	38.0	37.5	36.5	35.6	35.1	38.0	37.5	36.5	35.6	35.1
Manufacturing	17.4	17.4	18.3	17.4	16.3	16.2	17.5	17.5	17.3	17.9	20.3	18.6
CPG, retail & pharma	15.2	16.4	15.6	15.7	15.7	15.4	15.2	15.4	15.1	15.3	14.7	15.1
High tech, media & entertainment	25.0	24.9	24.7	25.0	25.4	25.3	23.6	23.0	23.7	23.8	22.9	24.3
Healthcare, Life, Public Science	6.8	6.4	6.5	6.4	6.6	6.8	6.3	6.1	6.4	6.5	6.5	6.9
Revenue by geography (%)												
North America	70.9	69.7	68.9	69.5	71.7	72.9	72.3	71.9	73.1	73.4	72.7	73.8
Europe	16.5	17.5	16.9	17.0	15.3	14.6	14.9	15.4	15.2	15.3	14.5	14.6
ROW	12.7	12.8	14.2	13.5	13.0	12.5	12.8	12.7	11.7	11.3	12.8	11.6
Client metrics (% of revenues)												
Top 5 client	26.9	25.3	25.5	25.5	26.8	26.7	26.3	25.4	26.7	26.8	27.5	28.3
Top 10 client	35.7	33.7	34.0	33.5	34.5	34.3	33.8	32.9	34.1	34.3	35.3	35.5
Top 20 client	46.5	45.0	45.2	44.8	45.5	45.1	45.3	44.0	44.9	45.2	45.9	45.9
Top 40 client	59.3	58.4	59.1	58.4	58.7	57.4	57.6	56.8	57.2	57.6	58.5	58.0
Non Top 20 clients	53.5	55.0	54.8	55.2	54.5	54.9	54.7	56.0	55.1	54.8	54.1	54.1
Number of active clients	608	628	650	673	708	719	723	728	723	737	739	738
New clients added in the period	21	35	34	29	43	22	28	31	19	30	23	30
Million \$ clients												
5 Million \$ clients	109	117	120	125	130	137	144	146	148	146	149	153
10 Million \$ clients	66	74	76	76	79	77	81	81	88	90	89	91
20 Million \$ clients	26	30	31	37	40	38	37	38	40	41	40	40
50 Million \$ clients	8	9	9	10	10	11	11	13	13	14	12	13
100 Million \$ clients	2	2	2	2	2	2	2	2	2	2	2	2
Employee metrics												
Development	60,603	66,824	70,710	75,869	79,998	82,681	82,197	80,283	77,555	78,276	77,203	76,460
Sales and support	3,093	3,309	3,463	3,725	4,032	4,355	4,265	4,263	5,183	5,256	5,268	5,190
Total employees	63,696	70,133	74,137	79,594	84,030	86,936	86,462	84,546	82,738	83,532	82,471	81,650
Efforts mix												
Onsite	17.2	16.1	15.6	15.0	14.7	14.7	14.9	14.9	14.8	14.8	15.0	15.1
Offshore	82.8	83.9	84.4	85.0	85.3	85.3	85.1	85.1	85.2	85.2	85.0	84.9
Utilization measures												
Excluding trainees	86.1	85.2	84.0	83.2	83.5	83.5	82.9	81.7	84.8	86.6	87.4	86.9
Attrition LTM (%)	14.5	18.6	22.1	23.8	24.0	24.1	22.3	20.2	17.8	15.2	14.2	14.4

Source: Company, PL

Financials

Income Statement (Rs bn)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	332	355	376	408
YoY gr. (%)	27.1	7.0	5.8	8.7
Employee Cost	232	246	259	280
Gross Profit	100	109	117	129
Margin (%)	30.1	30.7	31.0	31.5
EBITDA	62	64	70	79
YoY gr. (%)	17.9	3.2	10.0	12.9
Margin (%)	18.6	18.0	18.7	19.4
Depreciation and Amortization	7	8	9	10
EBIT	55	56	61	70
Margin (%)	16.5	15.7	16.2	17.0
Net Interest	-	-	-	-
Other Income	4	5	6	7
Profit Before Tax	59	60	67	77
Margin (%)	17.7	17.0	17.8	18.8
Total Tax	14	15	16	18
Effective tax rate (%)	23.5	24.2	24.0	24.0
Profit after tax	45	46	51	58
Minority interest	0	0	0	0
Share Profit from Associate	-	-	-	-
Adjusted PAT	45	46	51	58
YoY gr. (%)	13.7	2.1	10.9	14.9
Margin (%)	13.5	12.9	13.5	14.3
Extra Ord. Income / (Exp)	(1)	-	-	-
Reported PAT	44	46	51	58
YoY gr. (%)	11.7	4.0	10.9	14.9
Margin (%)	13.3	12.9	13.5	14.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	44	46	51	58
Equity Shares O/s (bn)	0	0	0	0
EPS (Rs)	151.7	155.0	171.8	197.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs bn)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	53	65	74	83
Tangibles	36	48	57	66
Intangibles	17	17	17	17
Acc: Dep / Amortization	32	40	50	59
Tangibles	18	27	36	46
Intangibles	14	14	14	14
Net fixed assets	21	24	24	23
Tangibles	18	21	21	20
Intangibles	4	3	3	3
Capital Work In Progress	-	-	-	-
Goodwill	12	12	12	12
Non-Current Investments	13	19	19	19
Net Deferred tax assets	6	5	5	6
Other Non-Current Assets	11	27	24	22
Current Assets				
Investments	53	77	97	117
Inventories	-	-	-	-
Trade receivables	72	70	64	68
Cash & Bank Balance	23	18	38	53
Other Current Assets	21	20	20	22
Total Assets	235	276	307	345
Equity				
Equity Share Capital	0	0	0	0
Other Equity	166	200	229	263
Total Network	166	200	230	264
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	0	0	0	0
Other non current liabilities	14	18	18	18
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	13	15	15	16
Other current liabilities	42	42	44	47
Total Equity & Liabilities	235	276	307	345

Source: Company Data, PL Research

Cash Flow (Rs bn)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	44	46	51	58
Add. Depreciation	7	8	9	10
Add. Interest	2	2	-	-
Less Financial Other Income	4	5	6	7
Add. Other	(3)	(4)	-	-
Op. profit before WC changes	50	52	60	68
Net Changes-WC	(18)	6	10	0
Direct tax	(1)	(1)	-	-
Net cash from Op. activities	31	57	70	69
Capital expenditures	(9)	(8)	(9)	(9)
Interest / Dividend Income	1	3	-	-
Others	5	(33)	(20)	(20)
Net Cash from Invt. activities	(3)	(39)	(29)	(29)
Issue of share cap. / premium	0	0	-	-
Debt changes	(1)	(2)	-	-
Dividend paid	(16)	(18)	(21)	(25)
Interest paid	0	-	-	-
Others	(3)	(3)	-	-
Net cash from Fin. activities	(19)	(23)	(21)	(25)
Net change in cash	8	(5)	20	15
Free Cash Flow	22	48	61	60

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	151.7	155.0	171.8	197.5
CEPS	176.2	182.6	203.5	230.6
BVPS	560.5	676.3	776.0	890.6
FCF	72.8	163.1	205.8	201.6
DPS	60.0	65.0	72.1	6.1
Return Ratio(%)				
RoCE	27.1	23.1	21.5	21.4
ROIC	20.7	19.0	18.2	17.9
RoE	29.1	25.1	23.7	23.7
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.5)	(0.6)	(0.6)
Net Working Capital (Days)	65	57	47	46
Valuation(x)				
PER	31.2	30.5	27.5	24.0
P/B	8.4	7.0	6.1	5.3
P/CEPS	26.9	25.9	23.3	20.5
EV/EBITDA	21.4	20.4	18.0	15.5
EV/Sales	4.0	3.7	3.4	3.0
Dividend Yield (%)	1.3	1.4	1.5	0.1

Source: Company Data, PL Research

Quarterly Financials (Rs bn)

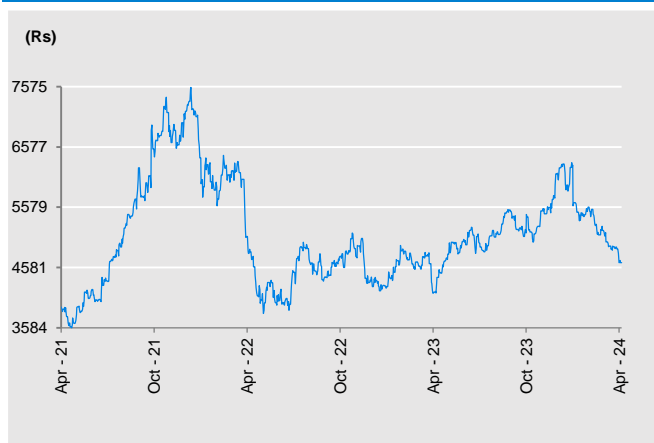
Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	87	89	90	89
YoY gr. (%)	13.8	8.2	4.6	2.3
Raw Material Expenses	60	61	63	62
Gross Profit	28	28	27	27
Margin (%)	31.6	31.4	29.9	29.8
EBITDA	16	16	16	15
YoY gr. (%)	9.5	(0.3)	8.9	(4.2)
Margin (%)	18.8	18.3	17.6	17.3
Depreciation / Depletion	2	2	2	2
EBIT	15	14	14	13
Margin (%)	16.7	16.0	15.4	14.7
Net Interest	-	-	-	-
Other Income	1	1	2	1
Profit before Tax	15	15	15	14
Margin (%)	17.7	17.1	17.1	16.3
Total Tax	4	4	4	3
Effective tax rate (%)	25.0	23.5	24.3	24.0
Profit after Tax	12	12	12	11
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	12	12	12	11
YoY gr. (%)	4.2	(2.2)	8.2	(1.2)
Margin (%)	13.3	13.1	13.0	12.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12	12	12	11
YoY gr. (%)	4.2	(2.2)	0.8	(1.2)
Margin (%)	13.3	13.1	13.0	12.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12	12	12	11
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	38.9	39.3	39.5	37.2

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
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Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Infosys	Hold	1,375	1,419
2	Tata Consultancy Services	Accumulate	4,360	4,001
3	Wipro	Hold	440	453

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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