Stock Update

Company Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

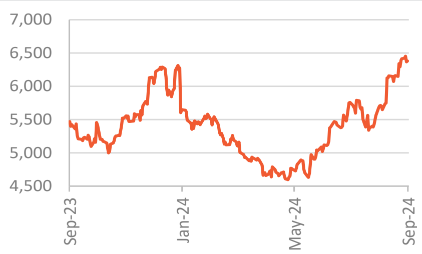
Company details

Market cap:	Rs. 1,88,755 cr
52-week high/low:	Rs. 6,575/4,518
NSE volume: (No of shares)	5.1 lakh
BSE code:	540005
NSE code:	LTIM
Free float: (No of shares)	9.3 cr

Shareholding (%)

Promoters	68.6
FII	7.3
DII	14.1
Others	10.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.7	26.2	25.0	16.5
Relative to Sensex	7.0	17.1	7.7	-10.1

Sharekhan Research, Bloomberg

LTIMindtree Ltd

BFS to drive growth, maintain BUY

IT & ITES	Sharekhan code: LTIM

Reco/View: Buy	↔	CMP: Rs. 6,373	Price Target: Rs. 7,500	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain Buy with revised PT of Rs. 7,500 (valued at 32x its Sep26E EPS). At CMP, the stock trades at 35.9/29.9/25x its FY25/26/27E EPS.
- The company expects growth in Q2 to be similar to Q1, with momentum in BFS expected to continue for the full year.
- Management believes utilisation has peaked and expects fresher intake, pyramid, and revenue growth to be margin levers.
- Benefits of the merger are gradually playing out, creating valuable cross-selling opportunities, especially in Digital Engineering, Data, and ERP.

We interacted with the management of LTIMindtree (LTIM) to understand the company's business strategy and growth prospects. Management is seeing marginal improvement in demand compared to last year. Although there are pockets of green shoots specially in BFS, there is no significant change in the demand environment. The company expects revenue growth in Q2FY25 to be similar to Q1FY25. BFS is expected to lead the company's growth, following the strong Q1FY25 performance. The BFSI vertical is poised for continued momentum, bolstered by recent rate cuts. The company expects margin improvement in Q2FY25, supported by revenue growth and the absence of visa costs, although significant margin increases may be deferred until FY26 due to wage hikes in Q3FY25. Additionally, benefits of the merger are becoming evident, creating valuable cross-selling opportunities and enhancing purchasing power for better vendor terms. The company has expanded its delivery capabilities in key nearshore markets, reinforcing its position as a preferred partner for global clients. We have introduced FY27 estimates and rolled forward to Sep26E EPS. We maintain Buy with revised price target (PT) of Rs. 7,500 (valued at 32x its Sep26E EPS). At CMP, the stock trades at 35.9/29.9/25x its FY25/26/27E EPS.

- **BFS to lead:** After a subdued performance in FY24, the company has delivered a strong Q1FY25. The company expects growth in Q2FY25 to be similar to Q1FY25. Management expects broad-level momentum to continue in Q2FY25 with momentum in BFS segment expected to continue for the full year. BFSI is the largest vertical for the company and contributed to 36.2% of the company's revenues in FY24. The recent rate cuts augurs well for BFS and is likely to support the growth momentum. While FY24 saw cost takeout and vendor consolidation, making 80-90% of deals with 10-20% on the discretionary side, the company is currently seeing an increase in discretionary share to 20-25%, with the rest being cost optimisation.
- **Margin levers:** The company expects wage hike in Q3FY25. Another quarter of strong revenue growth along with the absence of visa costs and wage hike is expected to support margin improvement in Q2FY25. Management believes utilisation has peaked and expects fresher intake, broadening pyramid, and revenue growth to be margin levers. We believe a significant increase in margins will be deferred until FY26 being impacted by wage hikes in Q3FY25 and driven by broad based traction across verticals, supported by stronger macros The company is expected to continue to add freshers in Q2 after onboarding 1400 freshers in Q1.
- **Merger benefits gradually playing out:** The benefits of merger are gradually playing out, creating valuable cross-selling opportunities, especially in Digital Engineering, Data, and ERP. Enhanced purchasing power has led to better vendor terms and significant cost savings. Further streamlining of operations has improved skill utilization and demand-supply matching resulting in strong improvement in utilisation. The company has expanded its delivery capabilities in key nearshore markets, reinforcing its position as a preferred partner for global clients.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 7,500: After a solid start to FY25, led by the BFSI vertical, the recent rate cuts augurs well, supporting the expectation of continued growth momentum for BFS. While LTIM is favourably positioned in vendor consolidations and cost takeout deals, a marginal uptick in discretionary spend is expected to give growth impetus. The merger is gradually yielding benefits, including cross-selling opportunities, enhanced vendor terms, improved skill utilisation, and expanded delivery capabilities in key nearshore markets, thereby reinforcing the company's position as a preferred partner for global clients. We expect Sales/PAT CAGR of ~13%/18% over FY24-27E. We maintain BUY rating with revised PT of Rs. 7,500 (valued at 32x its September 26E EPS). At CMP, the stock trades at 35.9/29.9/25x its FY25/FY26/FY27E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements. Contagion effect of banking crisis, macro headwinds, and recession in the U.S. can moderate the pace of technology spending.

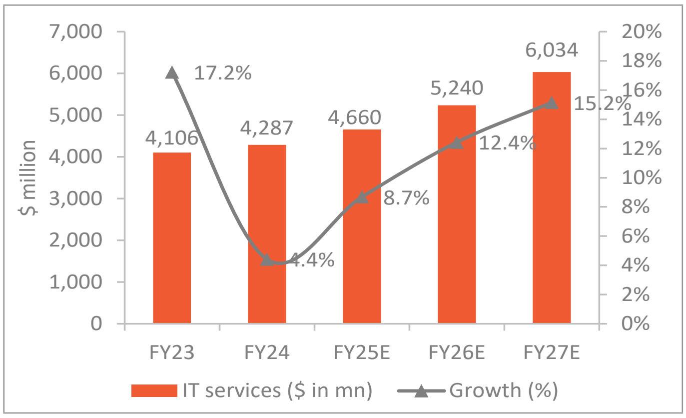
Valuation (consolidated) Rs cr

Particulars	FY24	FY25E	FY26E	FY27E
Total Revenue	35,517	39,144	44,537	51,288
EBITDA margin (%)	18.0%	18.3%	19.1%	19.7%
Adjusted Net Profit	4,582	5,261	6,330	7,562
YoY growth (%)	3.9	14.8	20.3	19.5
EPS (Rs.)	154.5	177.4	213.4	255.0
PER (x)	41.3	35.9	29.9	25.0
P/BV (x)	9.4	8.8	7.5	6.4
EV/EBITDA	25.2	20.2	14.9	10.2
ROE (%)	25.0	25.4	27.2	27.5
ROCE (%)	27.8	27.0	28.7	30.0

Source: Company; Sharekhan estimates

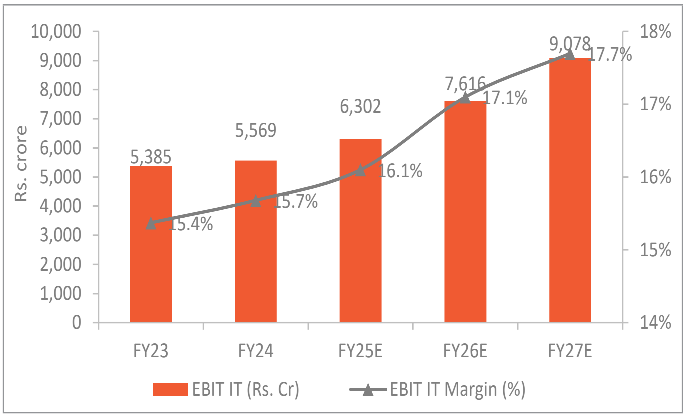
Financials in charts

Revenue (USD mn)



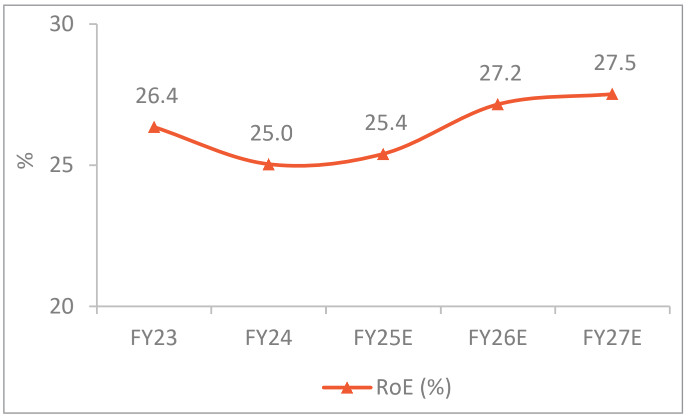
Source: Company, Sharekhan Research

EBIT and EBIT Margin



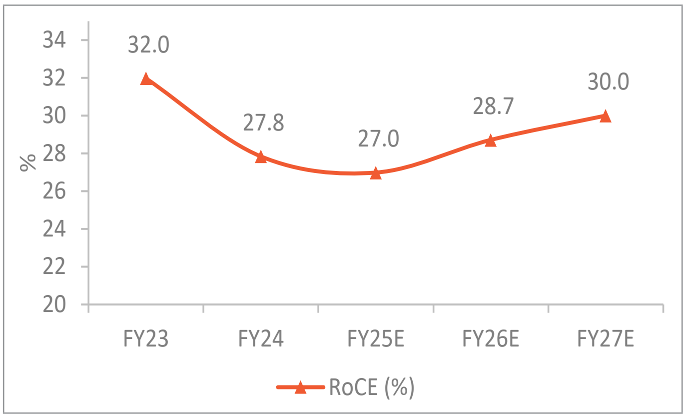
Source: Company, Sharekhan Research

RoE



Source: Company, Sharekhan Research

RoCE



Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector Outlook – Macro headwinds bottoming out coupled with better earnings visibility**

We anticipate growth momentum to return in FY25, aided by a lower base coupled with easing sector headwinds. Though, IT sector has already outperformed the Nifty last year, we expect overall outperformance in CY24 as well, driven by receding headwinds and better earnings visibility.

■ **Company Outlook – Superior execution likely to drive outperformance**

We believe that LTIM's prudent strategies along with an efficient sales-force would lead to market share gains in large accounts and new deal wins. Hence, we expect LTIM to deliver industry-leading revenue growth in the long term on account of consistent large deal wins and deal pipeline, a higher digital mix, prudent account mining strategies and a marquee client base. Further, LTIM's sharp focus on bringing new-age disruptive technologies and leveraging of platforms (in-house and external) would help it transform the core business of enterprises on a large scale.

■ **Valuation – Maintain Buy with revised PT of Rs 7,500**

After a solid start to FY25 led by BFSI vertical, the recent rate cuts augurs well supporting the expectation of continued growth momentum for BFS. While LTIM is favourably positioned in vendor consolidations and cost takeout deals, marginal uptick in discretionary spend is expected to give growth impetus. The merger is gradually yielding benefits, including cross-selling opportunities, enhanced vendor terms, improved skill utilization, and expanded delivery capabilities in key nearshore markets, thereby reinforcing the company's position as a preferred partner for global clients. We expect Sales/PAT CAGR of ~13%/18% over FY24-27E. We maintain Buy with revised price target (PT) of Rs 7,500 (valued at 32x Sep26E EPS). At CMP the stock trades at 35.9/29.9/25x its FY25/26/27E EPS.

About the company

LTI and Mindtree Ltd (Mindtree), on May 06, 2022, announced the proposal to merge Mindtree into LTI through a scheme of amalgamation as approved by the respective boards of the companies. L&T Infotech (LTI) and Mindtree have merged into LTIMindtree in Nov 2022, becoming the country's fifth largest provider of IT services by market capitalisation and sixth largest IT company revenue.

Investment theme

L&T Infotech and Mindtree have merged into LTIMindtree to become the country's fifth largest provider of IT services by market capitalisation and sixth largest IT company by revenue. LTIM expects the broad level momentum to continue in Q2FY25 with momentum in BFSI expected to continue for the full year. Management expects EBIT margins to improve going forward. The achievement of target margin levels may be deferred by a few quarters. Post-merger, LTIMindtree is expected to leverage on cross-selling and up-selling opportunities and reap significant revenue and cost synergies over the longer term.

Key Risks

1)Rupee appreciation and/or adverse cross-currency movements. 2)Contagion effect of banking crisis, macro headwinds and recession in the US can moderate the pace of technology spending.

Additional Data

Key management personnel

Debashis Chatterjee	MD & CEO
Nachiket Deshpande	WTD & COO
Sudhir Chaturvedi	WTD & President, Markets
Vipul Chandra	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	6.64
2	Vanguard Group Inc/The	1.24
3	UTI Asset Management Co Ltd	1.23
4	BlackRock Inc	1.03
5	ICICI Prudential Asset Management	0.86
6	SBI Funds Management Ltd	0.84
7	Norges Bank	0.48
8	Tata Asset Management Pvt Ltd	0.47
9	Teachers Insurance & Annuity Assoc	0.42
10	Nippon Life India Asset Management	0.40

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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