

November 27, 2024

Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	BUY		BUY	
Target Price	7,360		7,360	
Sales (Rs. m)	423	478	423	478
% Chng.	-	-	-	-
EBITDA (Rs. m)	81	94	81	94
% Chng.	-	-	-	-
EPS (Rs.)	196.3	227.5	196.3	227.5
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. bn)	355	381	423	478
EBITDA (Rs. bn)	64	68	81	94
Margin (%)	18.0	17.9	19.2	19.7
PAT (Rs. bn)	46	49	58	67
EPS (Rs.)	155.0	164.9	196.3	227.5
Gr. (%)	2.1	6.4	19.1	15.9
DPS (Rs.)	64.9	69.1	82.4	95.4
Yield (%)	1.0	1.1	1.3	1.5
RoE (%)	25.1	22.8	23.7	23.9
RoCE (%)	23.1	20.4	21.4	21.6
EV/Sales (x)	4.9	4.5	4.0	3.4
EV/EBITDA (x)	27.3	25.0	20.6	17.3
PE (x)	40.1	37.7	31.7	27.3
P/BV (x)	9.2	8.1	7.0	6.1

Key Data

LTIM.BO | LTIM IN

52-W High / Low	Rs.6,575 / Rs.4,514
Sensex / Nifty	80,004 / 24,195
Market Cap	Rs.1,842bn/ \$ 21,838m
Shares Outstanding	296m
3M Avg. Daily Value	Rs.3506.52m

Shareholding Pattern (%)

Promoter's	68.62
Foreign	7.39
Domestic Institution	14.89
Public & Others	9.10
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.3	28.5	13.6
Relative	4.5	21.1	(6.3)

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Aspiring for Revenue of US\$ 10 bn in 7-8 years...

Quick Pointers:

- Scale revenue from US\$ 4.3 bn to US\$ 10 bn by 2031-32
- Laid out AI strategy to leverage the increasing demand for Gen AI services

We attended LTIM's Investor Day, where the company outlined its aspiration to achieve US\$10 billion in revenue by FY 2031-32. The company believes this goal could be accelerated through strategic acquisitions and industry returning to double-digit growth. LTIM has laid the strategic groundwork to achieve this goal and has invested in enhancing and expanding its AI offerings to capitalize on the rising demand for Gen AI services, which it views as the next major growth driver for the industry. On the margin front, LTIM initially aims to increase its margin to 17-18% range and subsequently improve it further through levers such as revenue growth, pricing, pyramid optimization, productivity enhancements, and G&A optimization. We keep our estimates unchanged and expect LTIM's USD revenue/earnings CAGR of 9.7% and 13.7%, respectively between FY24-27E. Maintain BUY with TP of 7,360 valuing the company at 32x FY27E EPS.

Revenue aspiration of US\$ 10 bn: The management in the investor day laid its aspirations to grow its revenue from US\$ 4.3 bn in FY24 to US\$ 10 bn by FY 2031-32 implying a CAGR of 11.2-12.9%. To achieve this, the company will leverage its Gen AI strategy as the next growth driver, maintain momentum in key verticals like BFSI and CMT, and accelerate growth in other segments. Additionally, the company will also pursue strategic acquisitions to further boost revenue growth.

Aim for EBIT margin band of 17-18%: LTIM launched Project North Star to improve its operating margin. LTIM's operating margin declined from 17.8% in FY22 to 15.7% in FY24. The company aims to improve its margins from these levels to band of 17-18% and scale it further from there. The levers for margin improvement would be revenue growth, increase in pricing, pyramid optimization, increase in productivity by using automation & AI and optimizing G&A expenses.

Gen AI Strategy: LTIM recognizes Gen AI as the next major growth driver for the IT services sector. To capitalize on this trend, they have revamped their AI strategy (AI in Everything, Everything for AI & AI for everyone), proactively integrating AI across all business functions and services. The company believes that AI will not only enhance existing offerings but also unlock new revenue streams and their pragmatic approach to AI solutions positions them to outcompete rivals and secure new business opportunities.

Continue to scale the key verticals of BFSI & CMT: The key verticals of BFSI and CMT are both billion-dollar revenue segments, having grown at a CAGR of approximately 15% between FY22-24, outpacing the company's overall revenue CAGR of 10.7% during the same period. The company believes it can sustain this momentum in these verticals, enabling them to grow at a faster pace than the company's overall growth rate. In the BFSI sector, the company serves some of the top spenders. The management indicated that their BFSI clients combined tech spending is ~\$7 bn, which could potentially increase to US\$ 1 tn, which presents significant growth potential for LTIM.

Large deal pipeline remain strong: LTIM, post-merger, has prioritized winning large deals. In the past 18 months, the company has secured 45+ large deals with a combined TCV exceeding US\$2 billion, demonstrating the effectiveness of its investments. The company's robust large deal pipeline, valued at US\$5 billion, comprises 14 deals worth US\$100 million+ (TCV of US\$1.9 billion) and 21 deals in the US\$50-100 million range (TCV of US\$1.3 billion). While cost optimization still dominates the pipeline (48%), there's a healthy mix of transformation projects (23%) and vendor consolidation deals (a strategy the company has successfully executed multiple times). Leveraging its Gen AI capabilities, LTIM aims to continue winning large deals and proactively pursue opportunities to maintain a robust pipeline and sustain its revenue growth trajectory.

Strategic acquisitions to boost growth: LTIM has strong cash & investment of US\$ 1.4 bn as on H1FY25. The healthy cash balance & cash flow provides enough cushion for the company to look out for strategic acquisitions. The company however clarified that it is not looking at M&A opportunity for revenue growth but to strengthen & expand its offerings.

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. We keep our estimates unchanged and are baking in USD revenue/earnings CAGR of 9.7% and 13.7%, respectively between FY24-27E. We are assigning P/E of 32x to FY27E with an unchanged target price of INR 7360. Maintain BUY.

Other KTA's

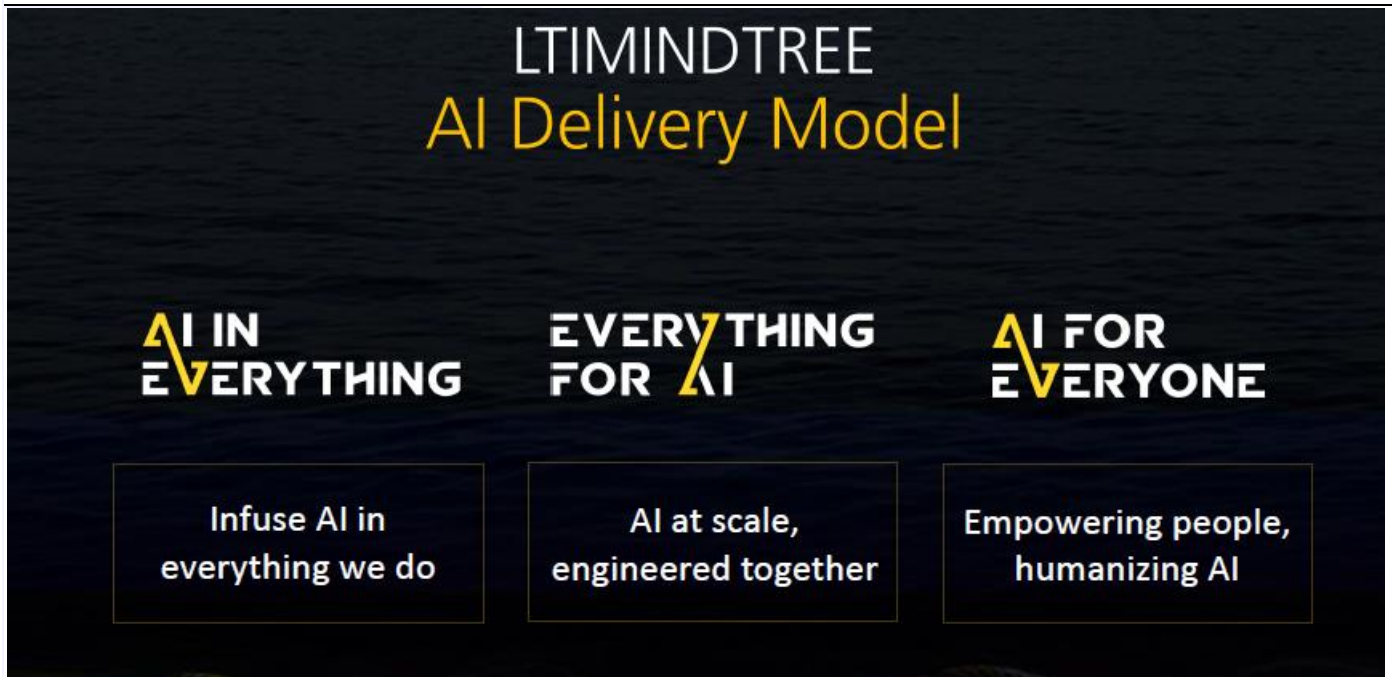
- The management noted that current demand is primarily driven by cost optimization and vendor consolidation deals. However, they anticipate a gradual pick-up in demand, particularly as the recently concluded US elections may accelerate client decision-making. They further mentioned that while there are no definitive indications from clients yet, as they are still in the budgeting phase, clearer visibility is expected by the next quarter.
- The management highlighted that the tech landscape has significantly transformed over the past two years by the advent of Gen AI. They further indicated that the next phase of growth would be fueled by GPU computing, necessitating increased investments in GPU-centric infrastructure. These investments in GPU computing will in turn accelerate the adoption of Gen AI services.
- The management previously anticipated a 200-300 basis point margin expansion over time, driven by merger synergy benefits. However, the post-merger deterioration in the demand environment has delayed the realization of these benefits. The company's immediate focus is on increasing the EBIT margin to the 17-18% range, with plans to further improve margins from there.
- The management indicated that while the key verticals of BFSI and CMT would maintain their growth momentum, while Manufacturing and Retail sectors are poised to grow at an even faster pace.
- The management mentioned that they would be adding 10k seating capacity in the centres of Chennai & Hyderabad

Exhibit 1: AI to be major growth driver for the industry



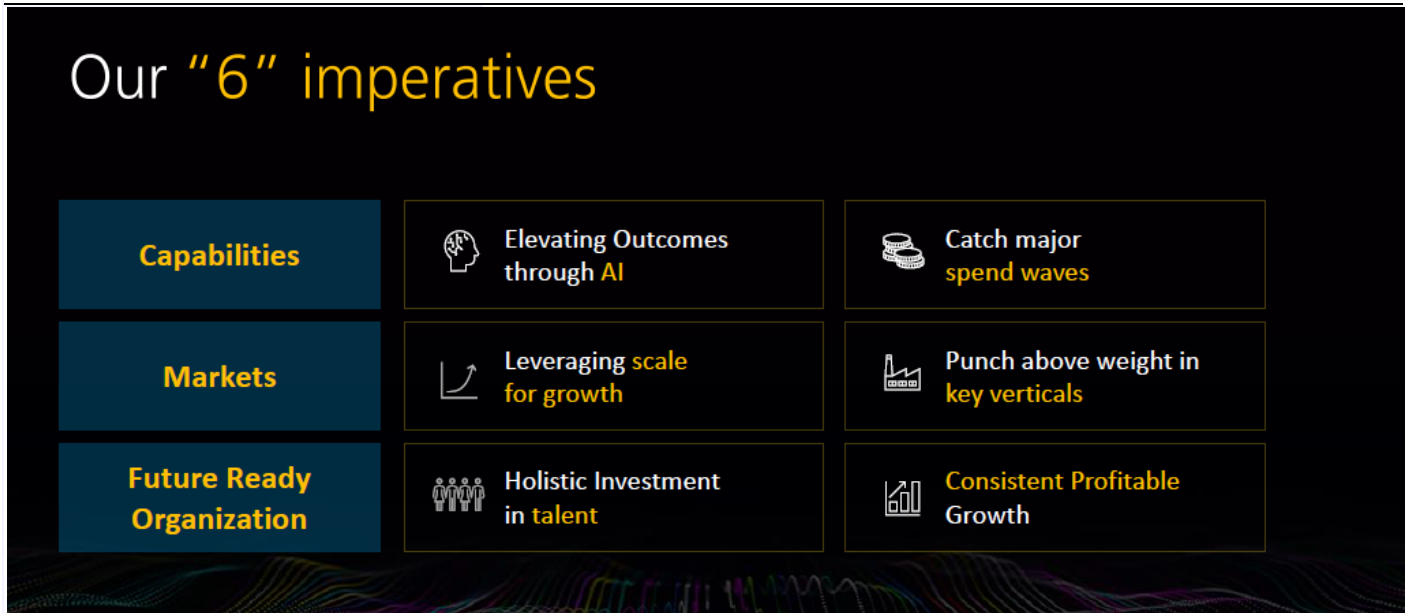
Source: Company, PL

Exhibit 2: LTIM AI model to cater the growing Gen AI demand



Source: Company, PL

Exhibit 3: Roadmap to achieve revenue goal of US\$ 10 bn

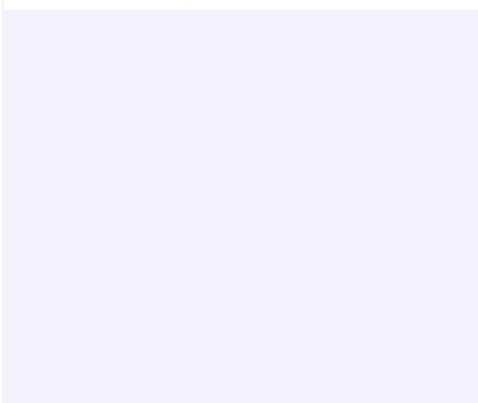


Source: Company, PL

Exhibit 4: Project North Star for margin improvement to band of 17-18%



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	355	381	423	478
YoY gr. (%)	7.0	7.2	11.1	13.2
Employee Cost	246	264	289	324
Gross Profit	109	117	134	155
Margin (%)	30.7	30.6	31.7	32.3
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	64	68	81	94
YoY gr. (%)	3.2	6.8	19.1	16.4
Margin (%)	18.0	17.9	19.2	19.7
Depreciation and Amortization	8	9	11	12
EBIT	56	59	71	82
Margin (%)	15.7	15.4	16.7	17.1
Net Interest	-	-	-	-
Other Income	5	7	8	9
Profit Before Tax	60	66	78	91
Margin (%)	17.0	17.3	18.5	18.9
Total Tax	15	17	20	23
Effective tax rate (%)	24.2	25.8	25.8	25.8
Profit after tax	46	49	58	67
Minority interest	0	0	0	0
Share Profit from Associate	-	-	-	-
Adjusted PAT	46	49	58	67
YoY gr. (%)	2.1	6.4	19.1	15.9
Margin (%)	12.9	12.8	13.7	14.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	46	49	58	67
YoY gr. (%)	4.0	6.4	19.1	15.9
Margin (%)	12.9	12.8	13.7	14.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	46	49	58	67
Equity Shares O/s (bn)	0	0	0	0
EPS (Rs)	155.0	164.9	196.3	227.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	65	74	83	92
Tangibles	48	57	66	75
Intangibles	17	17	17	17
Acc: Dep / Amortization	40	50	60	73
Tangibles	27	36	47	59
Intangibles	14	14	14	14
Net fixed assets	24	24	22	19
Tangibles	21	21	19	16
Intangibles	3	3	3	3
Capital Work In Progress	-	-	-	-
Goodwill	12	12	12	12
Non-Current Investments	19	19	19	19
Net Deferred tax assets	5	6	6	6
Other Non-Current Assets	27	25	23	26
Current Assets				
Investments	77	97	117	137
Inventories	-	-	-	-
Trade receivables	70	65	71	80
Cash & Bank Balance	18	36	50	64
Other Current Assets	20	20	22	25
Total Assets	276	306	346	392
Equity				
Equity Share Capital	0	0	0	0
Other Equity	200	228	262	301
Total Networkth	200	228	262	301
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	0	0	0	0
Other non current liabilities	18	18	18	18
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	15	15	17	19
Other current liabilities	42	44	49	54
Total Equity & Liabilities	276	306	346	392

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	46	49	58	67
Add. Depreciation	8	9	11	12
Add. Interest	2	-	-	-
Less Financial Other Income	5	7	8	9
Add. Other	(4)	-	-	-
Op. profit before WC changes	52	58	69	80
Net Changes-WC	6	9	(1)	(9)
Direct tax	(1)	-	-	-
Net cash from Op. activities	57	67	68	71
Capital expenditures	(8)	(9)	(9)	(9)
Interest / Dividend Income	3	-	-	-
Others	(33)	(20)	(20)	(20)
Net Cash from Invt. activities	(39)	(29)	(29)	(29)
Issue of share cap. / premium	0	-	-	-
Debt changes	(2)	-	-	-
Dividend paid	(18)	(20)	(24)	(28)
Interest paid	-	-	-	-
Others	(3)	-	-	-
Net cash from Fin. activities	(23)	(20)	(24)	(28)
Net change in cash	(5)	18	14	14
Free Cash Flow	48	58	59	62

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	90	89	91	94
YoY gr. (%)	4.6	2.3	5.1	5.9
Raw Material Expenses	63	62	64	65
Gross Profit	27	27	28	29
Margin (%)	29.9	29.8	30.3	30.8
EBITDA	16	15	16	17
YoY gr. (%)	8.9	(4.2)	(1.8)	4.2
Margin (%)	17.6	17.3	17.6	18.0
Depreciation / Depletion	2	2	2	2
EBIT	14	13	14	15
Margin (%)	15.4	14.7	15.0	15.5
Net Interest	-	-	-	-
Other Income	2	1	2	2
Profit before Tax	15	14	15	17
Margin (%)	17.1	16.3	16.7	17.9
Total Tax	4	3	4	4
Effective tax rate (%)	24.3	24.0	25.6	25.8
Profit after Tax	12	11	11	13
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	12	11	11	13
YoY gr. (%)	8.2	(1.2)	(1.4)	7.7
Margin (%)	13.0	12.4	12.4	13.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12	11	11	13
YoY gr. (%)	0.8	(1.2)	(1.4)	7.7
Margin (%)	13.0	12.4	12.4	13.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12	11	11	13
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	39.5	37.3	38.4	42.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	155.0	164.9	196.3	227.5
CEPS	182.6	196.8	232.0	269.5
BVPS	676.3	771.9	885.9	1,018.0
FCF	163.1	196.0	198.2	209.5
DPS	64.9	69.1	82.4	95.4
Return Ratio(%)				
RoCE	23.1	20.4	21.4	21.6
ROIC	19.0	17.2	17.8	18.1
RoE	25.1	22.8	23.7	23.9
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.6)	(0.6)	(0.7)
Net Working Capital (Days)	57	47	46	46
Valuation(x)				
PER	40.1	37.7	31.7	27.3
P/B	9.2	8.1	7.0	6.1
P/CEPS	34.0	31.6	26.8	23.1
EV/EBITDA	27.3	25.0	20.6	17.3
EV/Sales	4.9	4.5	4.0	3.4
Dividend Yield (%)	1.0	1.1	1.3	1.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Revenue (USD mn)	4,287	4,552	5,026	5,655

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	18-Oct-24	BUY	7,360	6,394
2	03-Oct-24	BUY	7,200	6,273
3	18-Jul-24	Accumulate	6,040	5,574
4	02-Jul-24	Accumulate	5,910	5,440
5	25-Apr-24	Accumulate	5,015	4,733

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	BUY	2,120	1,778
2	HCL Technologies	BUY	2,130	1,856
3	Infosys	BUY	2,260	1,968
4	LTIMindtree	BUY	7,360	6,394
5	Mphasis	Hold	3,050	3,080
6	Persistent Systems	Accumulate	5,810	5,182
7	Tata Consultancy Services	BUY	4,920	4,227
8	Tech Mahindra	Accumulate	1,790	1,688
9	Wipro	Accumulate	580	529

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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