REDUCE LTIMindtree

Making AI the center of operations

Emkay
Your success is our success

Information Technology ▸ Analyst Meet Update ▸ **November 27, 2024**

TARGET PRICE (Rs): 6,100

At its analyst meet, LTIMindtree (LTIM) highlighted the proliferation of AI across the value chain and the company's readiness to capitalize on this new opportunity. AI is fundamentally transforming the way clients and system integrators are functioning, and LTIM aims to be at the forefront of this change. The company's pivot to AI – AI in everything, everything for AI, and AI for everyone – has started reaping benefits, with AI now being a key part of the recent deal wins. The management outlined its goals—revenue of USD10bn with a strong foundation, well scaled verticals, marquee client base, deep horizontal capabilities, and strong partnerships—as being essential pillars of this journey. Along with its ~1.5x faster than industry revenue growth ambitions, LTIM continues to aspire for achieving 17-18% EBITM. Discretionary spend has not yet returned and, with the US elections now out of the way, clients will finalize their budgets in coming months; this should provide better visibility for FY26 revenue growth. We maintain REDUCE and TP of Rs6,100 at 28x Sep-26E EPS.

LTIMindtree: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	331,830	355,170	381,222	430,216	487,377
EBITDA	61,077	63,874	67,755	81,730	94,653
Adj. PAT	44,083	45,821	48,571	59,075	69,628
Adj. EPS (Rs)	149.0	154.8	164.0	199.5	235.1
EBITDA margin (%)	18.4	18.0	17.8	19.0	19.4
EBITDA growth (%)	16.4	4.6	6.1	20.6	15.8
Adj. EPS growth (%)	11.6	3.9	5.9	21.6	17.9
RoE (%)	26.6	25.0	22.6	24.0	24.6
RoIC (%)	53.8	51.5	47.8	56.0	61.7
P/E (x)	41.8	40.2	38.0	31.2	26.5
EV/EBITDA (x)	29.8	28.6	26.8	22.1	18.9
P/B (x)	11.1	9.2	8.1	7.0	6.1
FCFF yield (%)	1.2	2.6	2.3	3.0	3.4

Source: Company, Emkay Research

Pickup in deal-wins, pipeline remains healthy

In the last 18 months, LTIM has won over 45 large deals (worth more than USD25mn) with TCV of over USD2bn. More than 90% of the TCV has come from 3 key verticals—BFSI, CMT, and manufacturing & resources. The pipeline is healthy with TCV of over USD5bn, including 14 deals of over USD100mn with TCV of USD1.9bn, and 21 deals worth USD50mn-100mn with TCV of USD1.3bn. BFSI (30%), Manufacturing (33%), and CMT (31%) contribute a major portion to the pipeline. Cost optimization initiatives contribute 48% of the pipeline and vendor consolidation 17%. Transformation picked up in the last few months, led by S4 Hana and data for AI, and now forms a sizable 23% of the pipeline. Empanelment/GCCs form the balance 10%/2% of the pipeline, respectively.

AI to be key pillar of operations

The company has made a strategic pivot to AI, focusing on i) AI in everything: Infuse AI in everything the company does. ii) Everything for AI: AI at scale, engineered together. iii) AI for everyone: Empowering people, humanizing AI. AI is not only transforming the business models of the company's clients but also the delivery models. LTIM has highlighted 6 imperatives going ahead: i) Elevating outcomes through AI. ii) Catching major spend waves. iii) Leveraging scale for growth. iv) Punching above weight in key verticals. v) Holistic investment in talent. vi) Consistent profitable growth. AI may be margin positive in the short term, but management expects AI to be margin neutral from a medium-to-long term perspective.

Aspirational target of USD10bn and 17-18% EBIT margin

The management outlined its aspirational target of reaching revenue of USD10bn from USD4.3bn in FY24. The attainment of this milestone would, however, be contingent on recovery in discretionary spending and revenue growth bouncing back to double-digits after the weakness in the last couple of years. The management is hopeful of achieving this target on an organic basis by FY32, and much earlier with acquisitions. LTIM has an ongoing margin expansion program—*North Star*, which focuses on 4 key areas: i) Revenue maximization – growth, value-based pricing. ii) Bending the cost curve – pyramid and average costs, right sizing in managed services. iii) Productivity – Revenue per person, AI. iv) Overheads – growing spends slower than revenue growth. LTIM aspires to reach 17-18% EBITM, contingent on revenue growth accelerating back to double digits and benefits accruing from the abovementioned initiatives.

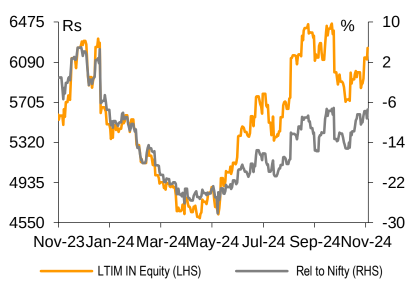
Target Price – 12M	Sep-25
Change in TP (%)	**-**
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(2.0)
CMP (26-Nov-24) (Rs)	6,227.2

Stock Data	Ticker
52-week High (Rs)	6,575
52-week Low (Rs)	4,514
Shares outstanding (mn)	296.2
Market-cap (Rs bn)	1,844
Market-cap (USD mn)	21,869
Net-debt, FY25E (Rs mn)	-29,037
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	3,506.5
ADTV-3M (USD mn)	41.6
Free float (%)	31.0
Nifty-50	24,195
INR/USD	84.3
Shareholding, Sep-24	
Promoters (%)	68.6
FPIs/MFs (%)	7.4/14.9

Price Performance

(%)	1M	3M	12M
Absolute	5.5	8.5	13.8
Rel. to Nifty	5.4	12.1	(6.9)

1-Year share price trend (Rs)



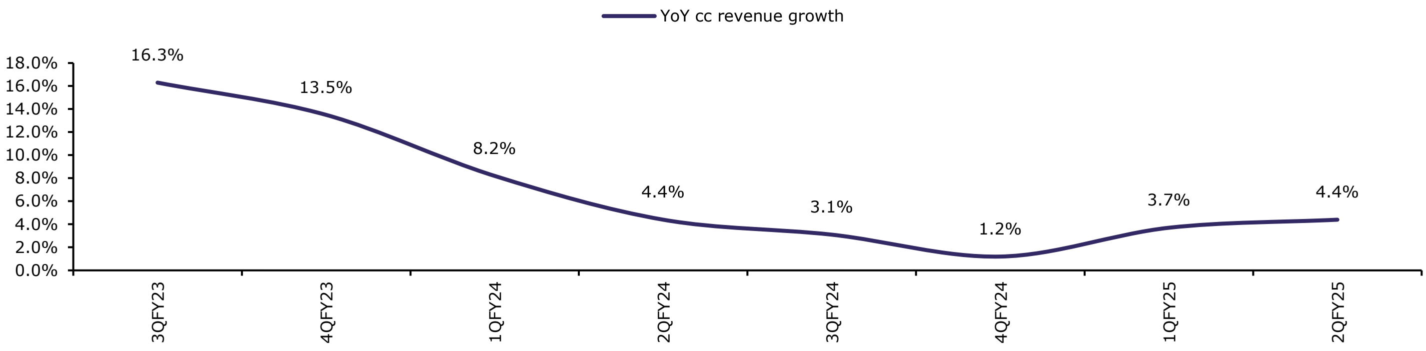
Dipesh Mehta
dipeshkumar.mehta@emkayglobal.com
+91 22 6612 1253

Kevin Shah
kevin.shah@emkayglobal.com
+91 22 6612 1340

Pulkit Chawla
pulkit.chawla@emkayglobal.com
+91 22 6624 2458

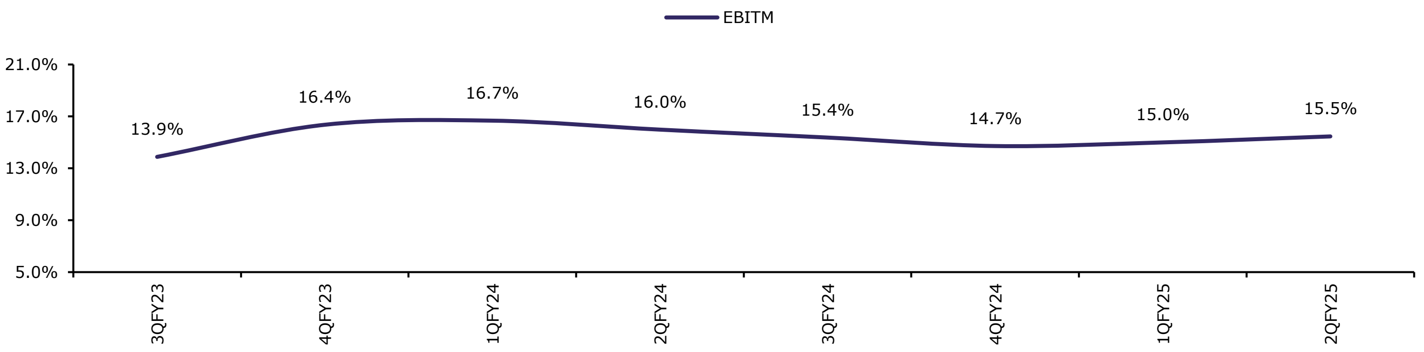
This report is intended for gaurav.narkar@emkayglobal.com use and downloaded at 11/27/2024 12:35 PM

Exhibit 1: Revenue growth rebounding in H1



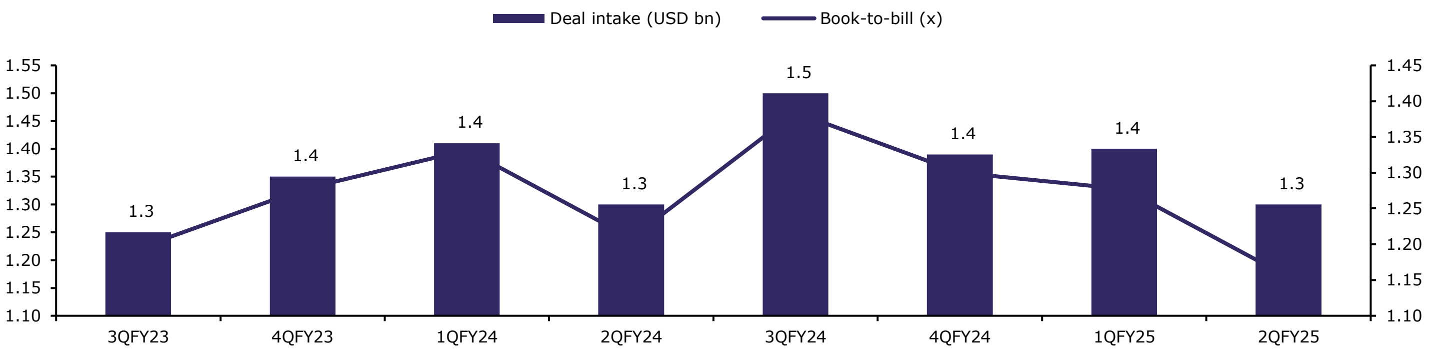
Source: Company, Emkay Research

Exhibit 2: Weak revenue growth weighed on EBITM; salary hike to weigh on margins in Q3



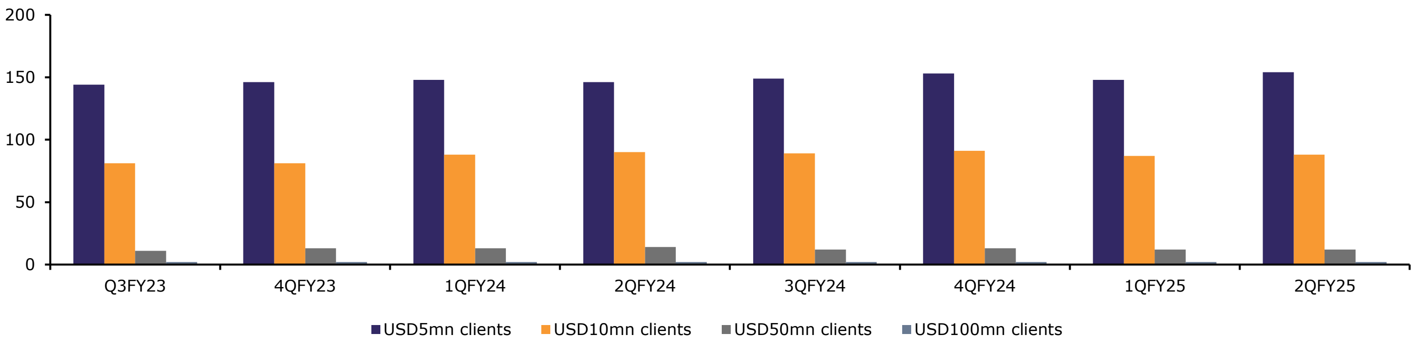
Source: Company, Emkay Research

Exhibit 3: Deal intake is steady



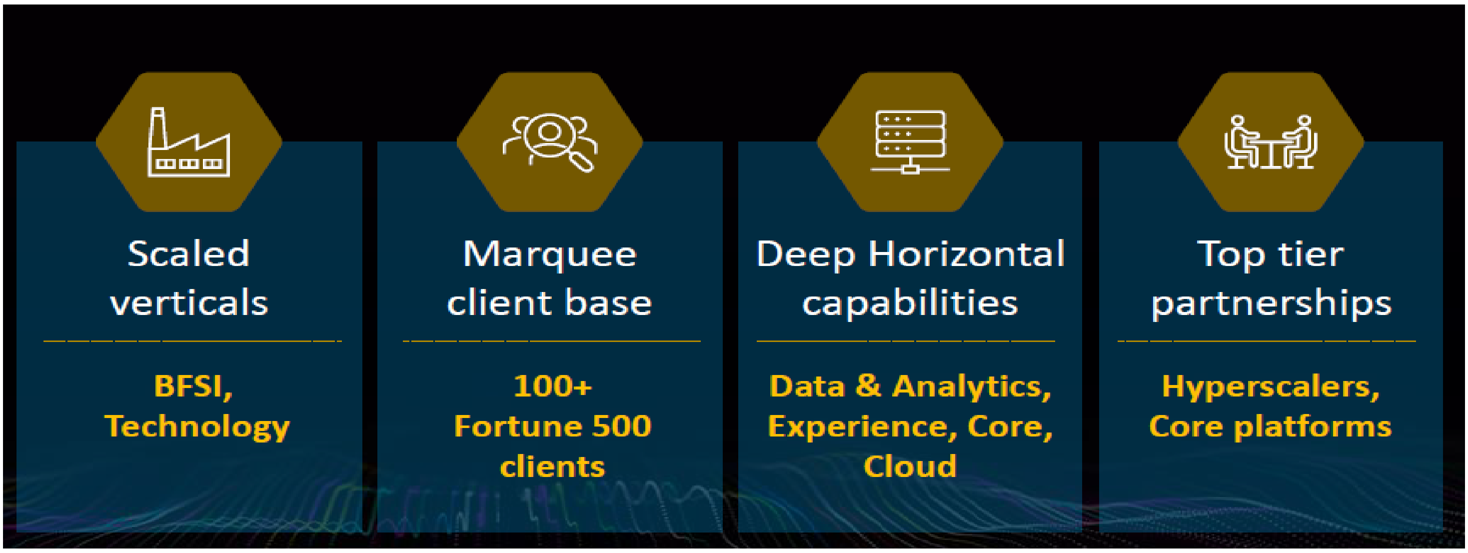
Source: Company, Emkay Research

Exhibit 4: Steady expansion in engagements with clients across buckets



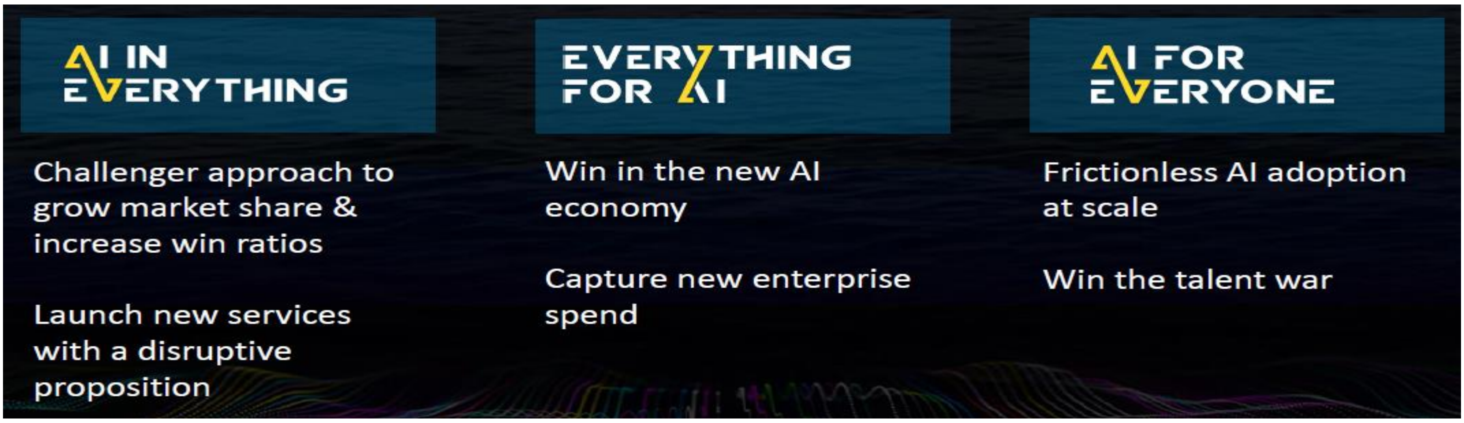
Source: Company, Emkay Research

Exhibit 5: Building on its strong foundation, to accelerate growth



Source: Company, Emkay Research

Exhibit 6: Strategic pivot to AI with monetizing plan

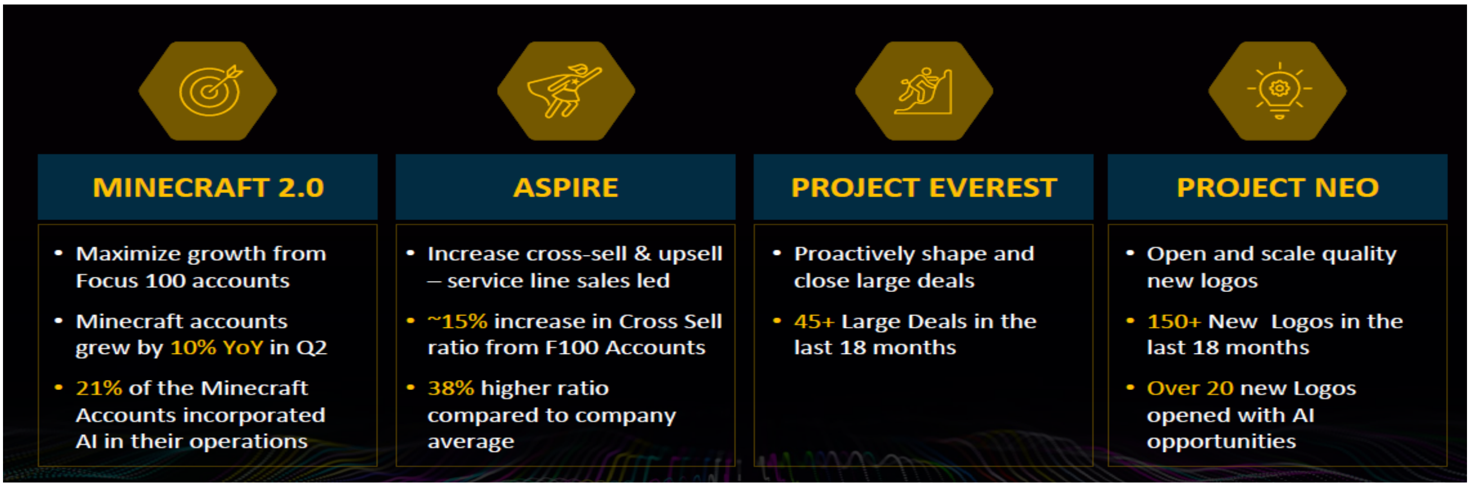


Source: Company, Emkay Research

Exhibit 7: Turbocharged portfolio to drive toward the company's aspirational USD10bn revenue target

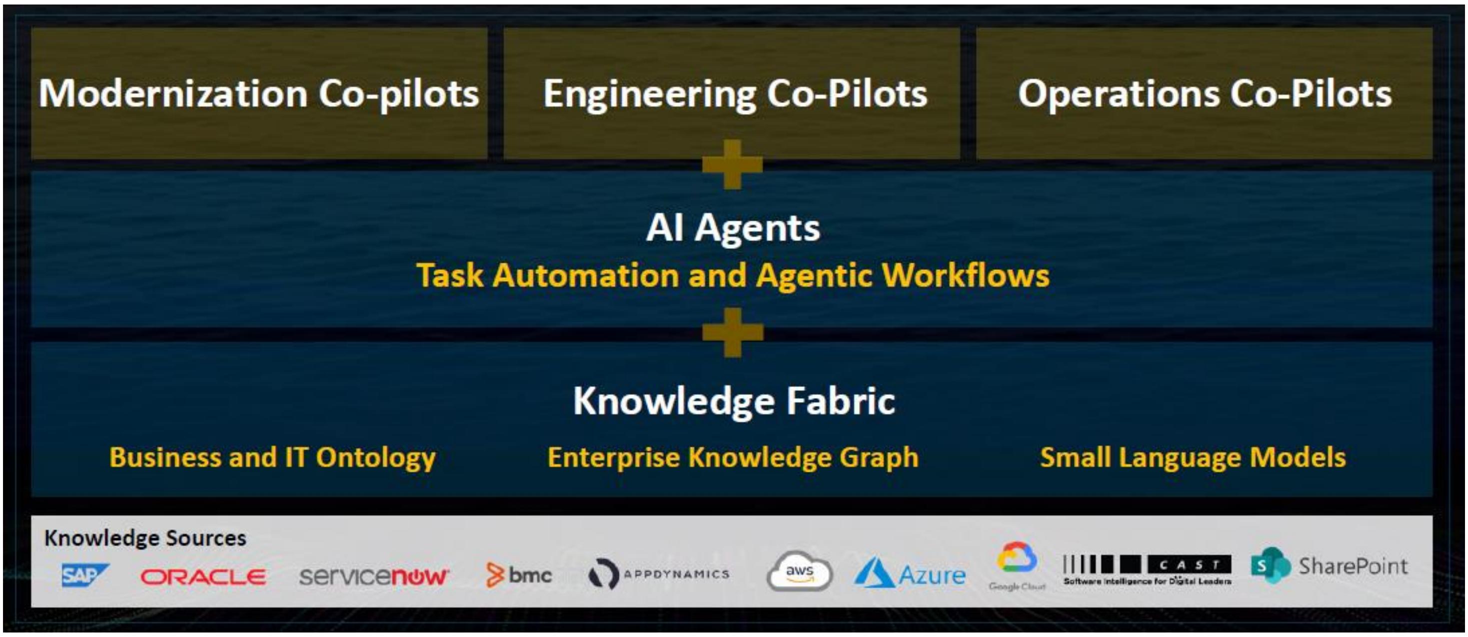
Source: Company, Emkay Research

Exhibit 8: Strategic initiative for driving growth



Source: Company, Emkay Research

Exhibit 9: Scaling AI-driven delivery in IT operations and engineering



Source: Company, Emkay Research

Exhibit 10: Everything for AI – The company is building new offerings to capture new opportunities

Source: Company, Emkay Research

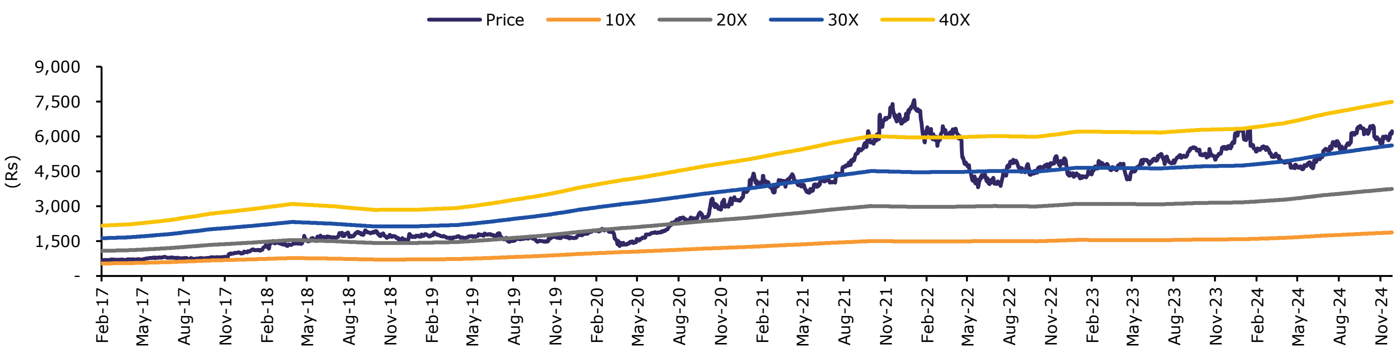
Exhibit 11: Company's deep capabilities having a positive impact

Source: Company, Emkay Research

Exhibit 12: Three phases for achieving the USD10bn target

Source: Company, Emkay Research

Exhibit 13: LTIM – One-year forward PER



Source: Company, Emkay Research

LTIMindtree: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**331,830**	**355,170**	**381,222**	**430,216**	**487,377**
Revenue growth (%)	27.1	7.0	7.3	12.9	13.3
EBITDA	**61,077**	**63,874**	**67,755**	**81,730**	**94,653**
EBITDA growth (%)	16.4	4.6	6.1	20.6	15.8
Depreciation & Amortization	7,227	8,189	9,749	10,262	10,909
EBIT	**53,850**	**55,685**	**58,007**	**71,469**	**83,744**
EBIT growth (%)	15.8	3.4	4.2	23.2	17.2
Other operating income	1,504	2,217	2,699	2,677	2,749
Other income	5,569	7,019	9,797	10,023	11,902
Financial expense	1,504	2,217	2,699	2,677	2,749
PBT	**57,915**	**60,487**	**65,104**	**78,815**	**92,897**
Extraordinary items	0	0	0	0	0
Taxes	13,812	14,641	16,502	19,704	23,224
Minority interest	20	25	31	36	45
Income from JV/Associates	0	0	0	0	0
Reported PAT	**44,083**	**45,821**	**48,571**	**59,075**	**69,628**
PAT growth (%)	11.7	3.9	6.0	21.6	17.9
Adjusted PAT	**44,083**	**45,821**	**48,571**	**59,075**	**69,628**
Diluted EPS (Rs)	**149.0**	**154.8**	**164.0**	**199.5**	**235.1**
Diluted EPS growth (%)	11.6	3.9	5.9	21.6	17.9
DPS (Rs)	**60.0**	**65.0**	**67.0**	**84.0**	**98.0**
Dividend payout (%)	**40.3**	**42.0**	**40.9**	**42.1**	**41.7**
EBITDA margin (%)	18.4	18.0	17.8	19.0	19.4
EBIT margin (%)	16.2	15.7	15.2	16.6	17.2
Effective tax rate (%)	23.8	24.2	25.3	25.0	25.0
NOPLAT (pre-IndAS)	**41,007**	**42,206**	**43,304**	**53,602**	**62,808**
Shares outstanding (mn)	295.8	295.9	296.2	296.2	296.2

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	296	296	296	296	296
Reserves & Surplus	165,625	199,876	228,603	262,799	303,400
Net worth	**165,921**	**200,172**	**228,899**	**263,095**	**303,696**
Minority interests	71	92	123	159	204
Deferred tax liability (net)	(3,662)	(2,063)	(2,063)	(2,063)	(2,063)
Total debt	**0**	**0**	**0**	**0**	**0**
Total liabilities & equity	**162,330**	**198,201**	**226,959**	**261,191**	**301,837**
Net tangible fixed assets	9,697	16,555	15,744	15,678	15,721
Net intangible assets	3,560	3,151	2,896	2,533	2,179
Net ROU assets	12,539	19,013	18,850	18,737	19,360
Capital WIP	8,126	4,669	4,669	4,669	4,669
Goodwill	11,892	11,927	11,927	11,927	11,927
Investments [JV/Associates]	54,622	87,502	99,902	119,902	139,902
Cash & equivalents	**23,389**	**18,200**	**29,037**	**38,683**	**51,651**
Current assets (ex-cash)	107,327	112,363	124,490	138,134	154,036
Current Liab. & Prov.	68,822	75,179	80,557	89,073	97,608
NWC (ex-cash)	**38,505**	**37,184**	**43,933**	**49,062**	**56,428**
Total assets	**162,330**	**198,201**	**226,959**	**261,191**	**301,837**
Net debt	(23,389)	(18,200)	(29,037)	(38,683)	(51,651)
Capital employed	162,330	198,201	226,959	261,191	301,837
Invested capital	**76,193**	**87,830**	**93,351**	**97,937**	**105,615**
BVPS (Rs)	560.9	676.5	772.8	888.3	1,025.4
Net Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Net Debt/EBITDA (x)	(0.4)	(0.3)	(0.4)	(0.5)	(0.5)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	**36.6**	**34.8**	**31.9**	**33.4**	**34.0**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	57,915	60,487	65,104	78,815	92,897
Others (non-cash items)	5,893	5,940	9,749	10,262	10,909
Taxes paid	(15,217)	(15,707)	(16,502)	(19,704)	(23,224)
Change in NWC	(17,645)	5,975	(6,749)	(5,128)	(7,366)
Operating cash flow	**30,946**	**56,695**	**51,601**	**64,245**	**73,215**
Capital expenditure	(9,346)	(8,330)	(8,520)	(9,720)	(11,220)
Acquisition of business	(1,486)	(59)	0	0	0
Interest & dividend income	1,266	2,573	0	0	0
Investing cash flow	**(3,309)**	**(39,121)**	**(20,920)**	**(29,720)**	**(31,220)**
Equity raised/(repaid)	2	12	0	0	0
Debt raised/(repaid)	71	(280)	0	0	0
Payment of lease liabilities	(3,388)	(3,761)	0	0	0
Interest paid	(375)	(906)	0	0	0
Dividend paid (incl tax)	(15,627)	(17,753)	(19,844)	(24,879)	(29,026)
Others	0	0	0	0	0
Financing cash flow	**(19,317)**	**(22,688)**	**(19,844)**	**(24,879)**	**(29,026)**
Net chg in Cash	8,320	(5,114)	10,837	9,645	12,969
OCF	30,946	56,695	51,601	64,245	73,215
Adj. OCF (w/o NWC chg.)	48,591	50,720	58,351	69,373	80,581
FCFF	21,600	48,365	43,081	54,525	61,995
FCFE	21,362	48,721	40,382	51,848	59,246
OCF/EBITDA (%)	50.7	88.8	76.2	78.6	77.4
FCFE/PAT (%)	48.5	106.3	83.1	87.8	85.1
FCFF/NOPLAT (%)	**52.7**	**114.6**	**99.5**	**101.7**	**98.7**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	41.8	40.2	38.0	31.2	26.5
P/CE(x)	35.9	34.1	31.6	26.6	22.9
P/B (x)	11.1	9.2	8.1	7.0	6.1
EV/Sales (x)	5.5	5.1	4.8	4.2	3.7
EV/EBITDA (x)	29.8	28.6	26.8	22.1	18.9
EV/EBIT(x)	33.8	32.8	31.3	25.3	21.4
EV/IC (x)	23.9	20.8	19.4	18.4	17.0
FCFF yield (%)	1.2	2.6	2.3	3.0	3.4
FCFE yield (%)	1.2	2.6	2.2	2.8	3.2
Dividend yield (%)	1.0	1.0	1.1	1.3	1.6
DuPont-RoE split					
Net profit margin (%)	13.3	12.9	12.7	13.7	14.3
Total asset turnover (x)	2.0	2.0	1.8	1.8	1.7
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	**26.6**	**25.0**	**22.6**	**24.0**	**24.6**
DuPont-RoIC					
NOPLAT margin (%)	12.4	11.9	11.4	12.5	12.9
IC turnover (x)	4.4	4.3	4.2	4.5	4.8
RoIC (%)	**53.8**	**51.5**	**47.8**	**56.0**	**61.7**
Operating metrics					
Core NWC days	42.4	38.2	42.1	41.6	42.3
Total NWC days	**42.4**	**38.2**	**42.1**	**41.6**	**42.3**
Fixed asset turnover	8.8	8.0	7.6	8.8	9.9
Opex-to-revenue (%)	81.6	82.0	82.2	81.0	80.6

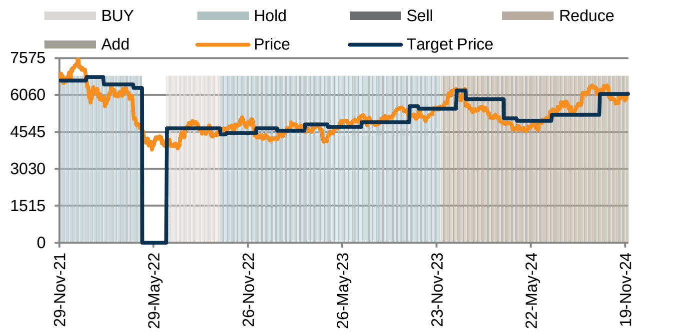
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
18-Oct-24	5,992	6,100	Reduce	Dipeshkumar Mehta
01-Oct-24	6,273	6,100	Reduce	Dipeshkumar Mehta
17-Jul-24	5,562	5,250	Reduce	Dipeshkumar Mehta
01-Jul-24	5,448	5,250	Reduce	Dipeshkumar Mehta
03-Jun-24	4,649	5,000	Reduce	Dipeshkumar Mehta
27-May-24	4,892	5,000	Reduce	Dipeshkumar Mehta
25-Apr-24	4,635	5,000	Reduce	Dipeshkumar Mehta
31-Mar-24	4,938	5,100	Reduce	Dipeshkumar Mehta
01-Mar-24	5,274	5,900	Reduce	Dipeshkumar Mehta
18-Jan-24	5,603	5,900	Reduce	Dipeshkumar Mehta
31-Dec-23	6,295	6,250	Reduce	Dipeshkumar Mehta
30-Nov-23	5,537	5,500	Reduce	Dipeshkumar Mehta
19-Oct-23	5,458	5,500	Hold	Dipeshkumar Mehta
02-Oct-23	5,210	5,600	Hold	Dipeshkumar Mehta
17-Jul-23	5,135	4,950	Hold	Dipeshkumar Mehta
02-Jul-23	5,197	4,950	Hold	Dipeshkumar Mehta
28-Apr-23	4,419	4,750	Hold	Dipeshkumar Mehta
01-Apr-23	4,760	4,850	Hold	Dipeshkumar Mehta
15-Mar-23	4,592	4,850	Hold	Dipeshkumar Mehta
21-Jan-23	4,268	4,600	Hold	Dipeshkumar Mehta
02-Jan-23	4,322	4,700	Hold	Dipeshkumar Mehta
12-Dec-22	4,331	4,700	Hold	Dipeshkumar Mehta
15-Oct-22	4,669	4,500	Hold	Dipeshkumar Mehta
04-Oct-22	4,588	4,450	Hold	Dipeshkumar Mehta
15-Jul-22	3,975	4,700	Buy	Dipeshkumar Mehta
23-Jun-22	4,133	4,700	Buy	Dipeshkumar Mehta
07-May-22	4,593	-	UR	Dipeshkumar Mehta
20-Apr-22	5,170	6,350	Hold	Dipeshkumar Mehta
01-Apr-22	6,174	6,500	Hold	Dipeshkumar Mehta
22-Feb-22	5,991	6,500	Hold	Dipeshkumar Mehta
20-Jan-22	6,606	6,800	Hold	Dipeshkumar Mehta
01-Jan-22	7,332	6,650	Hold	Dipeshkumar Mehta
09-Dec-21	6,606	6,650	Hold	Dipeshkumar Mehta
30-Nov-21	6,810	6,650	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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SESHADRI KUMAR SEN

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