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FIRST LIGHT

17 January 2025

RESEARCH

LTIMINDTREE | TARGET: Rs 5,367 | -10% | SELL

Weakest body language amongst the peer set

INFOSYS | TARGET: Rs 1,992 | +3% | HOLD

Broadening of discretionary spend

AXIS BANK | TARGET: Rs 1,164 | +12% | HOLD

Another moderate quarter with deterioration in asset quality

SUMMARY

LTIMINDTREE

- While 3QFY25 was decent on revenue, ability to counter the wage hike impact was missing resulting in a 170bps EBIT margin drop QoQ
- Unlike other Tier-1 peers discretionary spend commentary was the weakest. The US$1.68bn TCV was the only key positive
- Cut numbers on lower margin estimates despite a weaker INR/USD in our estimates. Lower rating to sell largely due to stock runup

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INFOSYS

- 3QFY25 beats our estimates. European BFS and US Retail & CPG discretionary spends pick up. Higher than usual pass through impacts
- Sounds the most bullish on discretionary spend amongst Tier-1 players who reported 3QFY25. Value pricing uplift of 3.6% a positive surprise
- Maintain FY26/FY27 EPS estimates. Maintain Hold. Believe Infosys can outperform TCS/HCLT in revenue/EPS growth in FY26

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AXIS BANK

- Yet another soft quarter with moderate advances and deposits growth, with less signs of improvement in the next two quarters
- Elevated stress in the unsecured book, NIMs impacted by interest reversals and higher liquidity
- We assume coverage on AXSB and maintain HOLD on the stock with a revised TP of Rs 1,164; 1.5x Dec'26E ABV.

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SELL
TP: Rs 5,367 | ∀ 10%

LTIMINDTREE | IT Services | 17 January 2025

Weakest body language amongst the peer set

- **While 3QFY25 was decent on revenue, ability to counter the wage hike impact was missing resulting in a 170bps EBIT margin drop QoQ**
- **Unlike other Tier-1 peers discretionary spend commentary was the weakest. The US$1.68bn TCV was the only key positive**
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Revenue growth was better than expected: At 1.8% CC QoQ it beat our estimate of 1%. Looks like the deal ramp ups were stronger than what we anticipated.

Margin defense was weak: Unlike in the past when a significant part of the 150-200bps wage hike impact was largely countered, this time around that has not been the case. We wonder if this has to do with the upfront investments in large deals and the productivity benefit pass back to its largest client due to Gen AI

Points we made in our report borne out: LTIM discussion on its analyst call around pass back of Gen AI productivity benefits to its largest client and its intention to take 'AI in everything' and 'more for less' initiative to all of its large clients bears out two points we made in our recent sector report - **Slow is the (new/old) normal** (1) There has been a migration of IT spend dollars from IT services players to hyper scalers in the last 8-12 quarters and it will only accentuate as more capex is put into building AI data centers (2) Self cannibalization will become the norm and will have compressive revenue impact on the industry in the next 24-36 months as the phenomenon picks up pace

EBIT margin repair will take time: The EBIT margin is expected to improve back to the 15-16% levels over the next 2-3 quarters. There is no visibility on when the company would get back to its interim aspirational EBIT margin of 17-18%. We call it 'interim' because, post-merger there was a higher aspirational target of 19-20% in 3-4 years. LTIM says that successive double digit revenue growth years are required for the margin to get back to the aspired ranges.

Downgrade to Sell: When we released our sector piece recently LTIM barely made it to a HOLD rating. However, post reduction in EPS and due to a subsequent up move of the stock price it has become a 'SELL'. While the company has shown a lot of promise on paper due to its strong 100 Fortune 500 client base and a wider menu of capabilities, it has massively disappointed on execution. We do not see that improving any time soon. Even while building in a better FY26 over FY25 as stated by the management.

Key changes

Target	Rating
▼	▼

Ticker/Price	LTIM IN/Rs 5,979
Market cap	US$ 20.5bn
Free float	31%
3M ADV	US$ 22.9mn
52wk high/low	Rs 6,768/Rs 4,514
Promoter/FPI/DII	69%/7%/15%

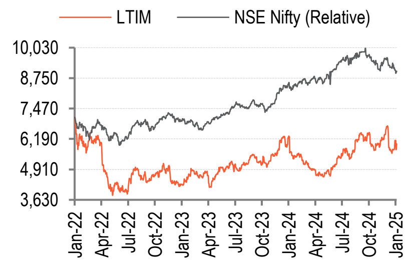
Source: NSE | Price as of 16 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	3,55,170	3,82,251	4,23,950
EBITDA (Rs mn)	63,874	66,015	78,599
Adj. net profit (Rs mn)	48,063	49,165	58,110
Adj. EPS (Rs)	154.6	158.5	195.7
Consensus EPS (Rs)	154.6	166.1	197.6
Adj. ROAE (%)	26.3	23.9	25.4
Adj. P/E (x)	38.7	37.7	30.6
EV/EBITDA (x)	27.5	26.6	22.2
Adj. EPS growth (%)	3.8	2.5	23.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

RESULT REVIEW

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HOLD
TP: Rs 1,992 | ▲ 3%

INFOSYS | IT Services | 17 January 2025

Broadening of discretionary spend

- **3QFY25 beats our estimates. European BFS and US Retail & CPG discretionary spends pick up. Higher than usual pass through impacts**
- **Sounds the most bullish on discretionary spend amongst Tier-1 players who reported 3QFY25. Value pricing uplift of 3.6% a positive surprise**
- **Maintain FY26/FY27 EPS estimates. Maintain Hold. Believe Infosys can outperform TCS/HCLT in revenue/EPS growth in FY26**

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Better than expected revenue growth: At 1.7% QoQ CC growth versus our expectation of 1%. The outperformance was driven by continuing BFS discretionary strength in the US, a pickup in the same for the first time in Europe BFS and US Retail & CPG. It was also supported by higher-than-normal pass through.

EBIT Margin also improves QoQ: By 20bps. driven by +40bps of net currency benefit, +30bps from Project Maximus largely generated by value-based pricing, +20bps due to lower provision for post sales client support and expected credit losses, offset by 70 bps from higher third-party items and furloughs

Revenue guidance increased but factors in a weak 4Q. Margin guidance maintained: FY25 revenue guidance was raised from 3.75%-4.5% to 4.5-5% in CC YoY terms, entirely driven by 3QFY25 performance. Points to a weak 4Q exit partly driven by lower pass through QoQ. 20-22% EBIT margin maintained.

Sounded the most confident on discretionary demand: Among the 4 Tier-1 companies (TCS, HCLT, Infosys and LTIM) that have delivered 3QFY25 results thus far, Infosys sounded the most confident on discretionary demand.

Value pricing push sees a surprising 3.6% pricing increase: Did not hear that from any other player in recent times – at least not to this extent

TCV at US$2.5bn was a dampener: Flat QoQ and down 22% YOY. But, net-new at 63% was better than 41% in 2QFY25. But 9MFY25 net new TCV is down 32% YoY. Just as was the case in TCS, TCV will have to see a massive uplift in 4QFY25 for the full year number to rival the one in FY24 or else discretionary spending must become much broader and much stronger than what we have seen in 3Q (which has been the best so far if one goes by management commentary of Tier-1 companies)

Preferred pick though we are cautious on the sector: As stated in our recent sector update (Slow is the (new/old) normal) while we are underweight the sector Infosys is among our preferred picks along with Tech Mahindra in Tier-1s.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	INFO IN/Rs 1,928
Market cap	US$ 92.2bn
Free float	87%
3M ADV	US$ 119.5mn
52wk high/low	Rs 2,006/Rs 1,358
Promoter/FPI/DII	14%/33%/38%

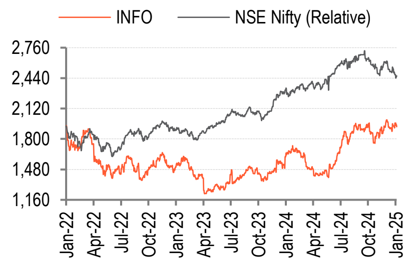
Source: NSE | Price as of 16 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	15,36,710	16,47,229	18,28,193
EBITDA (Rs mn)	3,64,250	3,93,888	4,42,161
Adj. net profit (Rs mn)	2,62,320	2,63,863	2,94,284
Adj. EPS (Rs)	63.3	63.6	70.9
Consensus EPS (Rs)	63.3	63.9	72.5
Adj. ROAE (%)	31.9	30.4	33.1
Adj. P/E (x)	30.5	30.3	27.2
EV/EBITDA (x)	21.5	19.9	17.7
Adj. EPS growth (%)	10.0	0.4	11.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 1,164 | ⮝ 12%

AXIS BANK | Banking | 17 January 2025

Another moderate quarter with deterioration in asset quality

- **Yet another soft quarter with moderate advances and deposits growth, with less signs of improvement in the next two quarters**
- **Elevated stress in the unsecured book, NIMs impacted by interest reversals and higher liquidity**
- **We assume coverage on AXSB and maintain HOLD on the stock with a revised TP of Rs 1,164; 1.5x Dec'26E ABV.**

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Continued moderate business growth: AXSB's advances were muted at 9% YoY (up 1% QoQ) to Rs 10,145.6bn in Q3FY25 aided by retail book (11% YoY/1% QoQ). Wholesale book rose 3% YoY/1% QoQ, below the industry growth. In Q2FY25 advances growth was at 11% YoY, thus witnessing a significant decline. Retail growth was aided by personal loans (up 17% YoY/1% QoQ), SBB (up 20% YoY/4% QoQ) and LAP book (up 19% YoY/4% QoQ). While home loans and auto loans continued to show tepid growth during the quarter. Deposits came in at Rs 10,958.8bn, up 9% YoY (1% QoQ), primarily driven by TDs. This led to a decline in the CASA ratio by 108bps QoQ to 39.5%. In the light of systemic constraints of acquiring deposits and slowdown in credit growth, we have trimmed our credit/deposits growth for FY25E/FY26E and estimate credit and deposits to grow at a CAGR of 12% and 13% respectively. The bank does not expect credit growth to pick up substantially, upwards of ~12% in FY26E also.

NIM contraction: NIM contracted 6bps QoQ to 3.93% in Q3FY25, impacted by interest reversal and excess liquidity. C/I ratio was lower at 46.2% vs. 47% in Q2FY25.

Continued stress in unsecured retail loans: GNPA ratio came in at 1.46%, up 2bps QoQ, primarily driven by retail NPLs (GNPA at 1.63%) consisting of PL and credit card book. Slippages rose 2.13% vs. 1.78% in Q2FY25 and credit cost was at 1.28% vs. 0.9% in Q2FY25. Management foresees asset quality improving/stabilising going ahead.

Maintain HOLD: We assume coverage on AXSB and revise our growth estimates on a competitive environment and expect return performance to remain modest coupled with higher credit costs. We roll over valuation to 1.5x FY26E (Dec'26) ABV using the Gordon Growth Model and lower our SOTP-based TP to Rs 1,164 (earlier Rs 1,222), with Rs 117/sh as value of subsidiaries. We maintain our HOLD rating on the stock.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	AXSB IN/Rs 1,038
Market cap	US$ 37.1bn
Free float	92%
3M ADV	US$ 106.5mn
52wk high/low	Rs 1,340/Rs 996
Promoter/FPI/DII	8%/47%/37%

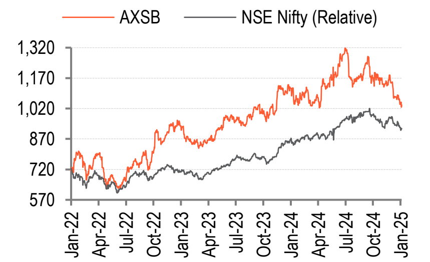
Source: NSE | Price as of 16 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NII (Rs mn)	4,98,945	5,51,662	6,33,285
NII growth (%)	16.2	10.6	14.8
Adj. net profit (Rs mn)	2,48,614	2,62,707	3,10,197
EPS (Rs)	80.7	85.0	100.2
Consensus EPS (Rs)	80.7	87.5	101.7
P/E (x)	12.9	12.2	10.4
P/BV (x)	2.1	1.8	1.5
ROA (%)	1.8	1.7	1.8
ROE (%)	18.0	15.9	15.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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