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| IT Services

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Current momentum could put FY25 growth a bit ahead of FY24

- **Better-than-expected revenue growth in 1QFY25. Indicates growth momentum to sustain in 2QFY25. Did not offer its view on 2HFY25**
- **A 2.5% CQGR could lead to ~6% growth in USD terms in FY25 (vs 4.4% in FY24). Short cycle business is making a selective comeback**
- **Consensus FY25 EPS may stay put. We are in the process of reinitiating coverage on the sector and on LTIM**

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Revenue growth beats but margins are in line: 1QFY25 revenue growth of 2.6% in QoQ constant currency (CC) terms (2.5% in USD terms) was better than consensus estimates of ~2%. We believe the EBIT margin at 15% was in line with consensus. LTIM indicated that the revenue momentum will be maintained in 2QFY25 but declined to give a view beyond that.

Pickup in growth driven by BFSI and Hi-Tech sectors: The pickup in growth in 1Q (QoQ) was driven by the BFSI and Hi-Tech & Media verticals. After four quarters of successive declines (in USD terms) 1QFY25 was the first quarter of decent growth of 2.9% for the BFSI vertical. Growth is expected to continue for the next two quarters. The Hi-Tech, Media and Communications sector grew the fastest QoQ by 7.9% in USD terms. Communications did not play a role in this growth. There was no pass-through revenue impact in 1Q on a QoQ basis.

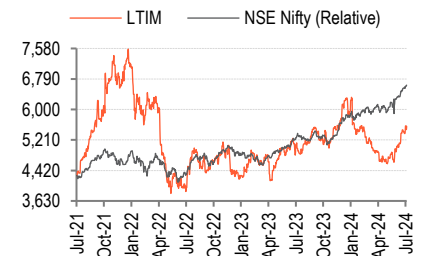
Selective pick-up in short cycle spend: While the company did not call out the return of discretionary spending, it stated that select priority projects are being taken up by clients in the BFSI and in the Hi-Tech arena especially in digital engineering and data modernisation. Many of these are short-cycle T&M (time & material) projects. For BSFI, LTIM specifically talked about regulatory and compliance, Data + AI are key areas. For Hi-Tech & Media it indicated business model transformation and platform operations being areas of spend.

Growth in FY25 may be better than FY24: In a recent media interview, Sudhir Chaturvedi, President, Sales, of LTIM, had indicated that FY25 would be a better year than FY24 (when it saw 4.2% revenue growth in CC terms and 4.4% in USD terms). Even if we have 2.5% CQGR in the next three quarters (same as in 1QFY25) we will get ~6.2% YoY growth in USD terms in FY25.

Ticker/Price	LTIM IN/Rs 5,562
Market cap	US\$ 11.9bn
Free float	25%
3M ADV	US\$ 28.3mn
52wk high/low	Rs 6,442/Rs 4,514
Promoter/FPI/DII	75%/8%/10%

Source: NSE | Price as of 16 Jul 2024

Stock performance



Source: NSE



- **Consensus EBIT margin estimate at risk:** The 30bps improvement in QoQ margins was due to the absence of project cancellations and productivity improvements that led to a total of 100bps positive impact which was partly offset by higher visa costs – 50bps and higher SGA by 20bps. But the current consensus EBIT margin at 16% for FY25 assumes a sharp pick up in the coming quarters. Looks ambitious considering a salary hike is to be considered in 3QFY25. Plus, utilisation as a lever has maxed out. Plus, LTIM stated that it has won several MSAs (master services agreement) in vendor consolidation situations where we believe it may have had to bid aggressively against incumbents to get those contracts. So, we believe consensus margins have probably got a downside of 30-40bps. LTIM stated that margin improvement from here will be function of operating leverage and pyramid improvement.
- **Sees green shoots in demand:** LTI stated that the overall demand environment remains like that of previous quarters but that it has seen green shoots in demand with clients who had restarted priority transformation projects that they had put on hold.
- **Savings being channeled into some priority transformation work:** LTIM is of the opinion that clients are assuming the macro environment to remain like what it is currently for the next 18-24 months and are moving ahead with their work. It stated that some of the savings from the cost take out and vendor consolidation situations are being channeled to priority transformation work.
- **No rampdowns:** Unlike TCS which stated that it continued to see rampdowns and reprioritisation of projects in the June 2024 quarter, LTIM stated that it did not see any of that (however, we need to understand that LTIM is roughly a seventh of the size of TCS).
- **Order inflow is the only sore point of the quarter:** If there was a weak spot in the results (and this has been the case the last many quarters now) it was the order inflow number – which has been stagnant at the US\$1.4bn level for the last six quarters. LTIM also indicated that closure of some deals has shifted forward. It is the third player to say that after TCS and HCL Tech.
- **LTIM did some modest net hiring in the quarter, but it will pick up if growth is as indicated.** Expects hiring to pick up in line with revenue growth – many of these will be on the lateral front. This is because utilisation (ex-trainees) has hit 88.3% – the highest since the LTI and Mindtree merger.

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