

**NOT RATED****LTIMINDTREE**

| IT Services

| 18 October 2024

## Softer revenue and TCV. Efficiency pivot should help

- **Softer than expected but broad-based growth. TCV numbers have been in a narrow range for many quarters now.**
- **LTIM says it now has right balance of capabilities to address transformation and efficiency work, That should bode well for TCV**
- **Better client mining happening - original goal of merger. Expect consensus EPS to stay put post 2Q. Initiating coverage soon.**

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**Softer than expected revenue though margins were better:** 2.3% QoQ revenue growth in CC terms was softer than our estimate of 3%. EBIT margins were, however, better (see figure 1) due to the absence of visa costs. The growth was broad-based across vertical and geos. LTIM indicated some of the large deals won in recent quarters will ramp in 3Q and offset part of the furlough pressure. Pyramid will offset part of the wage hike pressure (200bps) expected in 3Q.

**TCV stuck in a range:** TCV at US\$1.3bn has been in a narrow range for 8 quarters now. Needs a big jump to satisfy consensus revenue growth expectations in FY26 and beyond. The large deal pipeline was indicated to be >US\$5bn.

**LTIM bagged the largest deal in its history in the quarter:** US\$200mn for 5 years won in the US manufacturing space was a vendor consolidation deal. It used the AI-first operations framework to enhance efficiency, foster innovation and speed up transformation to get this deal.

**Discretionary is still under pressure except in BFS:** In most other verticals the situation has not changed much. It also indicated decent traction in governance, regulatory and compliance related work.

**Getting back to the aspirational 17-18% EBIT margin:** LTIM indicated that part of this is dependent on revenue growing in double digits on a consistent basis.

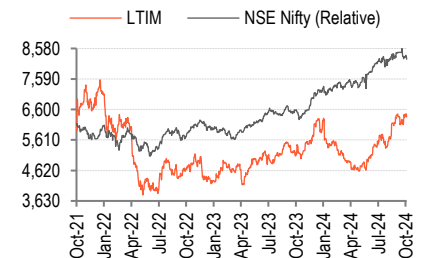
**Built capabilities in both transformation and cost take out:** LTIM indicated that over the last several quarters it has built capabilities to address the cost takeout demand – which is the predominant type of work now – which it was not adequately prepared for. May be this could help solve the narrow ranged TCV situation.

**Says client mining is gaining traction:** One of the key objectives post-merger of LTI and Mindtree was that it had a larger menu of services to sell to a high quality set of customers (it already had roughly 95-100 Global 500 customers). We believe that the process has probably gained traction in recent quarters.

Ticker/Price	LTIM IN/Rs 6,394
Market cap	US\$ 22.5bn
Free float	31%
3M ADV	US\$ 43.0mn
52wk high/low	Rs 6,575/Rs 4,514
Promoter/FPI/DII	69%/7%/15%

Source: NSE | Price as of 17 Oct 2024

## Stock performance



Source: NSE

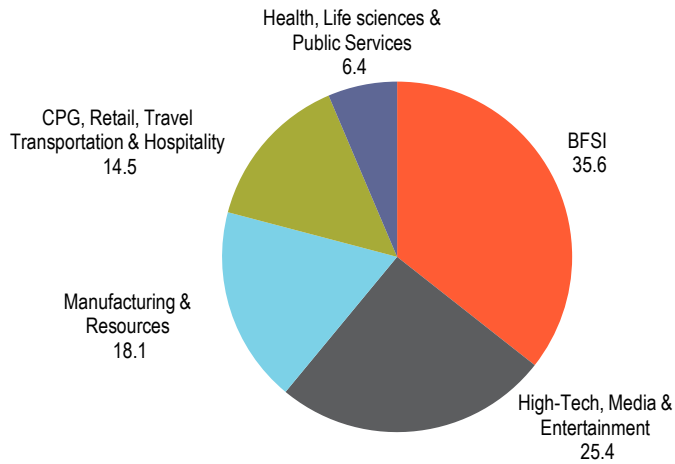


**Fig 1 – Quarterly results: Comparison of actuals with estimates**

Y/E Mar (Rs mn)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	2QFY25E	Dev (%)
Net Sales (US\$ mn)	1,076	1,096	1,127	4.8	2.8	1,136	(0.9)
Net Sales	89,054	91,426	94,329	5.9	3.2	95,232	(0.9)
Software Expenses (Direct Costs)	61,048	63,715	65,277	6.9	2.5	66,611	(2.0)
% of Sales	68.6	69.7	69.2			69.9	
Gross Margin	28,006	27,711	29,052	3.7	4.8	28,622	1.5
% of Sales	31.4	30.3	30.8			30.1	
Operating Expenses (Selling, General & Administration Expenses)	11,693	11,650	12,059	3.1	3.5	11766.5	2.5
% of Sales	13.1	12.7	12.8			12.4	
EBIT	14,231	13,709	14,582	2.5	6.4	14,488	0.6
EBIT Margin (%)	16.0	15.0	15.5			15.2	
Other Income	962	1,547	2,286	137.6	47.8	2,380	(4.0)
PBT	15,193	15,256	16,868	11.0	10.6	16,868	(0.0)
Provision for Tax	3,570	3,905	4,352	21.9	11.4	4,318	0.8
Effective Tax Rate	23.5	25.6	25.8			25.6	
Minority share in Profit / Loss	0	0	0			0	
PAT (Reported)	11,623	11,351	12,516	7.7	10.3	12,551	(0.3)
NPM (%)	13.1	12.4	13.3			13.2	

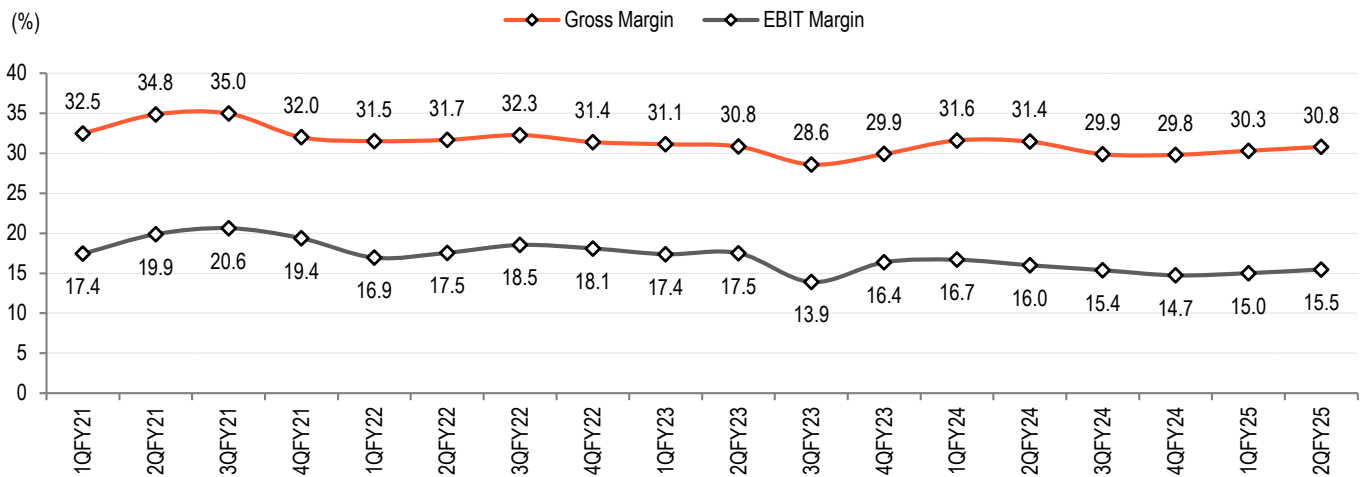
Source: Company, BOBCAPS Research

**Fig 2 – Vertical Mix for 2QFY25**



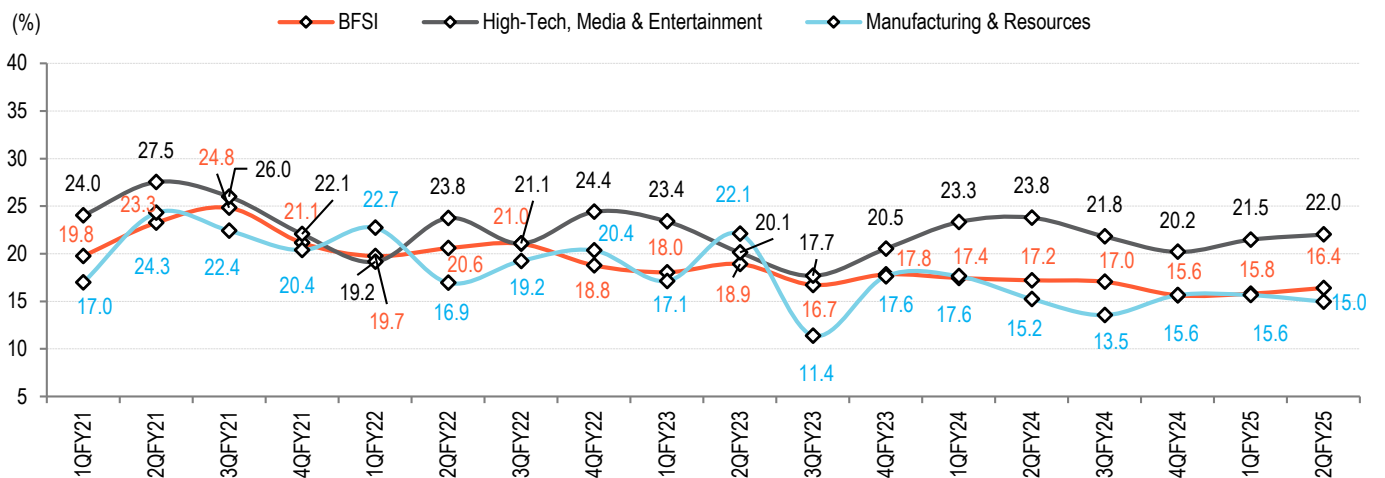
Source: Company, BOBCAPS Research

**Fig 3 – Gross Margin and EBIT Margin**



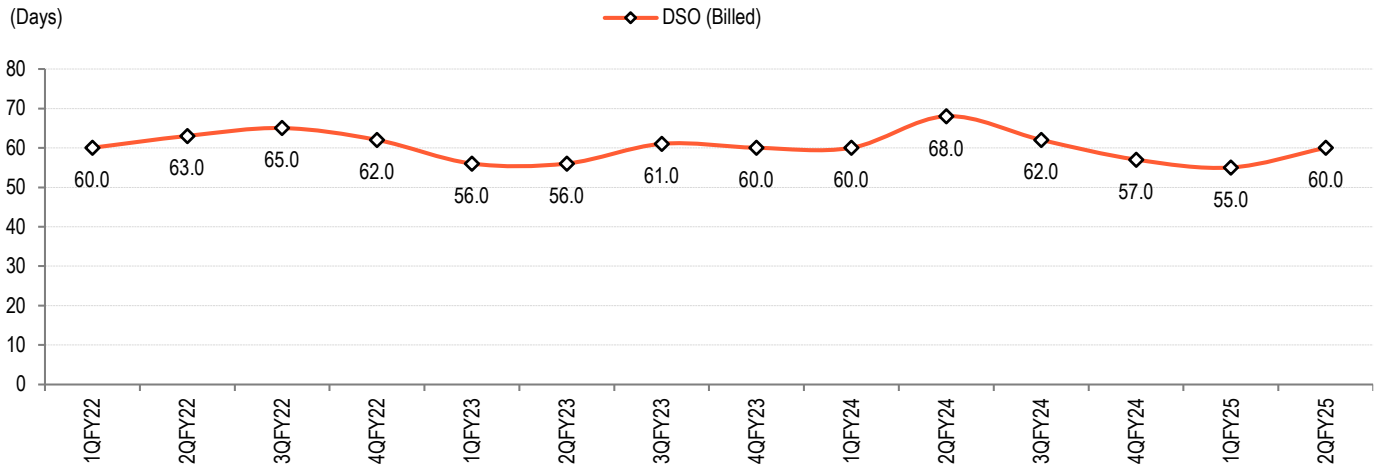
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA margin trends of the top 3 revenue segments**



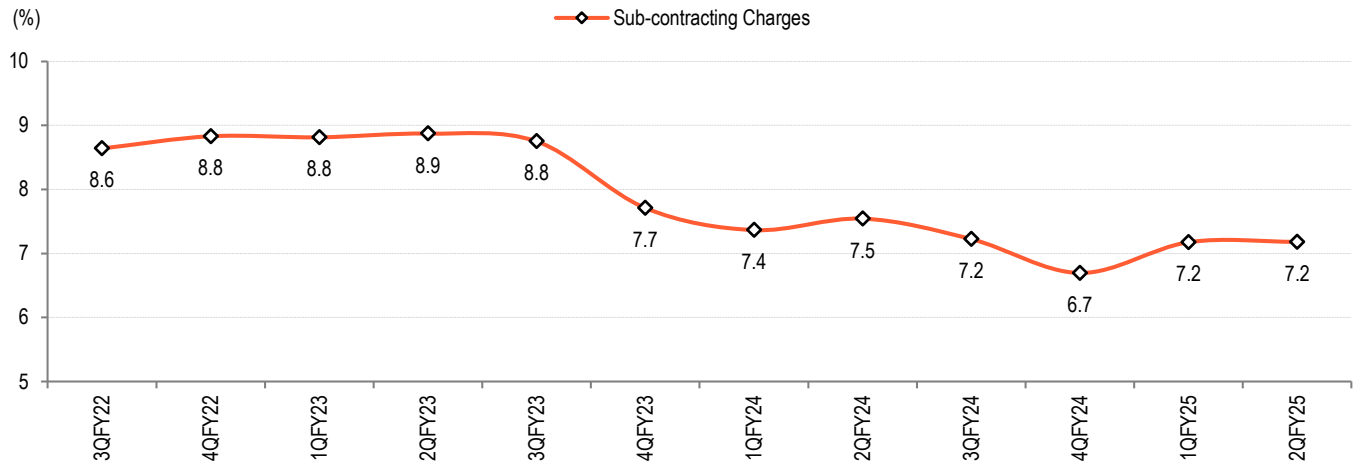
Source: Company, BOBCAPS Research

**Fig 5 – DSO trend**



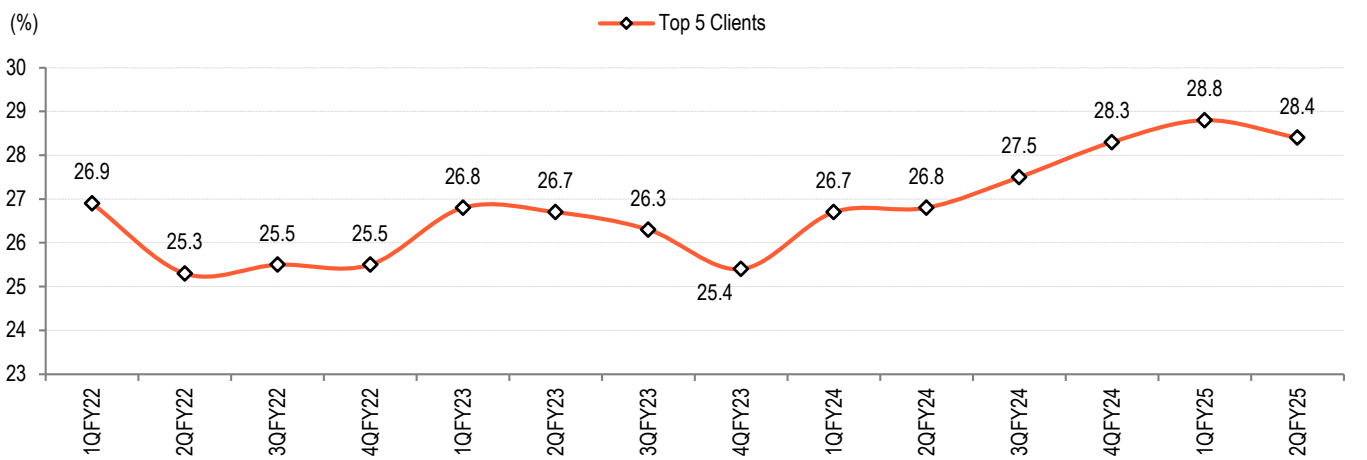
Source: Company, BOBCAPS Research

**Fig 6 – Sub-contracting charges**



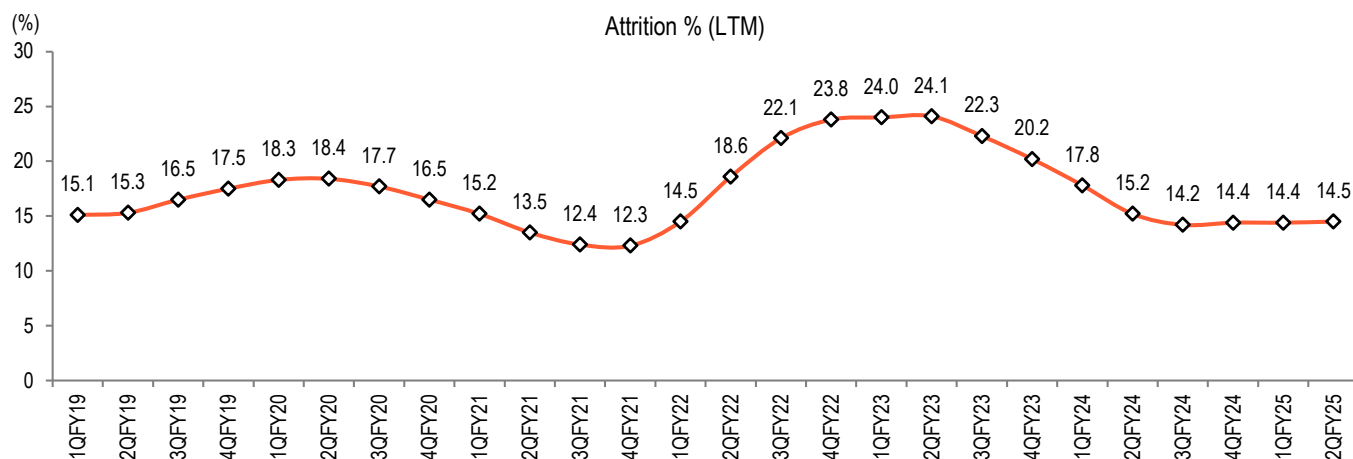
Source: Company, BOBCAPS Research

**Fig 7 – Top 5 client concentration (%)**



Source: Company, BOBCAPS Research

**Fig 8 – Attrition trend on a QoQ basis (%)**



Source: Company, BOBCAPS Research

**Fig 9 – Quarterly Snapshot**

Year to 31 March (Rs mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
INR/US\$	78.0	80.5	82.4	82.2	82.2	82.8	83.2	83.2	83.4	83.7
Revenue (in US\$ mn)	980	1,022	1,047	1,058	1,059	1,076	1,084	1,069	1,096	1,127
Revenue	76,442	82,278	86,200	86,910	87,021	89,054	90,166	88,929	91,426	94,329
Gross margin	23,787	25,374	24,645	25,987	27,502	28,006	26,942	26,506	27,711	29,052
SGA	8,850	9,018	10,897	9,950	11,147	11,693	11,093	11,149	11,650	12,059
Depreciation and Amortisation	1,664	1,959	1,781	1,823	1,847	2,082	1,990	2,270	2,352	2,411
EBIT	13,273	14,397	11,967	14,214	14,508	14,231	13,859	13,087	13,709	14,582
Revenue Related Forex gain/loss	861	198	490	(523)	(123)	(21)	426	(164)	134	751
Other income	915	1,413	1,028	1,187	1,439	1,453	1,769	2,240	2,137	2,238
Interest	311	378	379	436	460	470	607	680	724	703
PBT	14,738	15,630	13,106	14,442	15,364	15,193	15,447	14,483	15,256	16,868
Tax	3,672	3,740	3,099	3,301	3,841	3,570	3,754	3,476	3,905	4,352
PAT	11,066	11,890	10,007	11,141	11,523	11,623	11,693	11,007	11,351	12,516
EPS	37.4	40.2	33.8	37.6	38.9	39.2	39.4	37.1	38.2	42.2
<b>YoY Growth (%)</b>										
US\$ Revenue	25.5	19.1	14.0	11.9	8.1	5.2	3.5	1.1	3.5	4.8
INR Revenues			25.3	21.9	13.8	8.2	4.6	2.3	5.1	5.9
Gross profit			11.0	16.1	15.6	10.4	9.3	2.0	0.8	3.7
EBIT			(6.1)	10.2	9.3	(1.2)	15.8	(7.9)	(5.5)	2.5
Net profit			(4.7)	0.5	4.1	(2.2)	16.8	(1.2)	(1.5)	7.7
<b>QoQ Growth (%)</b>										
US\$ Revenues	3.7	4.3	2.4	1.0	0.1	1.6	0.8	(1.3)	2.5	2.8
INR Revenues			4.8	0.8	0.1	2.3	1.2	(1.4)	2.8	3.2
EBIT			(16.9)	18.8	2.1	(1.9)	(2.6)	(5.6)	4.8	6.4
Net profit			(15.8)	11.3	3.4	0.9	0.6	(5.9)	3.1	10.3
<b>Margins (%)</b>										
Gross margin	31.1	30.8	28.6	29.9	31.6	31.4	29.9	29.8	30.3	30.8
EBIT	17.4	17.5	13.9	16.4	16.7	16.0	15.4	14.7	15.0	15.5
PAT	14.5	14.5	11.6	12.8	13.2	13.1	13.0	12.4	12.4	13.3
SGA	11.6	11.0	12.6	11.4	12.8	13.1	12.3	12.5	12.7	12.8

Source: Company, BOBCAPS Research

**Fig 10 – Key Metrics**

Key Metrics	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
<b>P and L (Rs mn)</b>										
Revenue	76,442	82,278	86,200	86,910	87,021	89,054	90,166	88,929	91,426	94,329
EBIT	13,273	14,397	11,967	14,214	14,508	14,231	13,859	13,087	13,709	14,582
PAT	11,066	11,890	10,007	11,141	11,523	11,623	11,693	11,007	11,351	12,516
<b>Vertical Mix (%)</b>										
Revenue by Vertical										
BFSI	36.1	36.2	37.4	38.0	37.5	36.5	35.6	35.1	35.2	35.6
High-Tech, Media & Entertainment	25.4	25.3	23.6	23.0	23.7	23.8	22.9	24.3	25.6	25.4
Manufacturing & Resources	16.3	16.2	17.5	17.5	17.3	17.9	20.3	18.6	18.5	18.1
CPG, Retail, Travel Transportation & Hospitality	15.7	15.4	15.2	15.4	15.1	15.3	14.7	15.1	14.5	14.5
Health, Life sciences & Public Services	6.6	6.8	6.3	6.1	6.4	6.5	6.5	6.9	6.2	6.4
<b>Geographic Mix (%)</b>										
North America	71.7	72.9	72.3	71.9	73.1	73.4	72.7	73.8	75.1	75.0
Europe	15.3	14.6	14.9	15.4	15.2	15.3	14.5	14.6	14.4	14.4
RoW	13.0	12.5	12.8	12.7	11.7	11.3	12.8	11.6	10.5	10.6
<b>Effort mix (%)</b>										
Onsite	14.7	14.7	14.9	14.9	14.8	14.8	15.0	15.1	15.4	15.5
Off shore	85.3	83.5	85.1	85.1	85.2	85.2	85.0	84.9	84.6	84.5
Utilization (%) (including Trainees)	83.5	83.5	82.9	81.7	84.8	86.6	87.4	86.9	88.3	87.7
<b>Clients Concentration (%)</b>										
Top 5 Clients	26.8	26.7	26.3	25.4	26.7	26.8	27.5	28.3	28.8	28.4
Top 10 Clients	34.5	34.3	33.8	32.9	34.1	34.3	35.3	35.5	35.7	35.0
Top 20 Clients	45.5	45.1	45.3	44.0	44.9	45.2	45.9	45.9	46.2	45.8
Top 40 Clients	58.7	57.4	57.6	56.8	57.2	57.6	58.5	58.0	58.9	58.2
<b>Client Profile</b>										
Number of Active Clients*	708	719	723	728	723	737	739	738	748	742
New Clients Added	43	22	28	31	19	30	23	30	27	22
100 Million dollar +	2	2	2	2	2	2	2	2	2	2
50 Million dollar +	10	11	11	13	13	14	12	13	12	12
20 Million dollar +	40	38	37	38	40	41	40	40	43	42
10 Million dollar +	79	77	81	81	88	90	89	91	87	88
5 Million dollar +	130	137	144	146	148	146	149	153	148	154
1 Million dollar +	337	361	374	383	388	391	388	394	390	392
Employee Number	84,030	86,936	86,462	84,546	82,738	83,532	82,471	81,650	81,934	84,438
Net employee addition	4,436	2,906	(474)	(1,916)	(1,808)	794	(1,061)	(821)	284	2,504
Attrition LTM (%)	24.0	24.1	22.3	20.2	17.8	15.2	14.2	14.4	14.4	14.5
<b>(US\$ mn)</b>										
Revenue	979.5	1,021.9	1,046.7	1,057.5	1,058.7	1,075.5	1,083.7	1,069.4	1,096.2	1,126.6
US\$-INR	77.95	80.51	82.35	82.18	82.20	82.80	83.20	83.16	83.40	83.73
TCV (US\$ mn)			1250	1350	1410	1300	1500	1390	1400	1300

Source: Company, BOBCAPS Research

**Fig 11 – QoQ and YoY growth of various parameters**

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
<b>QoQ Growth (%)</b>										
<b>Geographical Data</b>										
North America	7.0	6.1	1.6	0.5	1.8	2.0	(0.2)	0.2	4.3	2.6
Europe	(6.7)	(0.4)	4.5	4.4	(1.2)	2.3	(4.5)	(0.6)	1.1	2.8
RoW	(0.2)	0.3	4.9	0.2	(7.8)	(1.9)	14.1	(10.6)	(7.2)	3.8
<b>Verticals</b>										
BFSI	5.4	4.6	5.8	2.7	(1.2)	(1.1)	(1.7)	(2.7)	2.8	3.9
High-Tech, Media & Entertainment	5.3	3.9	(4.5)	(1.5)	3.2	2.0	(3.0)	4.7	8.0	2.0
Manufacturing & Resources	(2.9)	3.7	10.6	1.0	(1.0)	5.1	14.3	(9.6)	2.0	0.6
CPG, Retail, Travel Transportation & Hospitality	3.7	2.3	1.1	2.4	(1.8)	2.9	(3.2)	1.4	(1.6)	2.8
Health, Life sciences & Public Services	6.9	7.5	(5.1)	(2.2)	5.0	3.2	0.8	4.8	(7.9)	6.1
<b>Client Metrics</b>										
Top 5 Clients	9.0	3.9	0.9	(2.4)	5.2	2.0	3.4	1.6	4.3	1.3
Top 10 Clients	6.8	3.7	0.9	(1.7)	3.8	2.2	3.7	(0.8)	3.1	0.8
Top 20 Clients	5.3	3.4	2.9	(1.9)	2.2	2.3	2.3	(1.3)	3.2	1.9
Top 40 clients	4.2	2.0	2.8	(0.4)	0.8	2.3	2.3	(2.2)	4.1	1.6
<b>YoY Growth (%)</b>										
<b>Geographical Data</b>										
North America	27.1	24.5	19.6	15.8	10.2	6.0	4.1	3.8	6.4	7.0
Europe	16.4	(0.7)	0.5	1.4	7.4	10.3	0.8	(4.1)	(1.9)	(1.4)
RoW	28.5	16.3	2.7	5.3	(2.7)	(4.9)	3.5	(7.6)	(7.1)	(1.7)
<b>Verticals</b>										
BFSI	27.3	23.5	22.1	19.8	12.3	6.1	(1.4)	(6.6)	(2.8)	2.2
High-Tech, Media & Entertainment	27.5	21.0	8.9	3.0	0.9	(1.0)	0.5	6.8	11.8	11.8
Manufacturing & Resources	17.6	10.8	9.0	12.6	14.7	16.3	20.1	7.5	10.7	5.9
CPG, Retail, Travel Transportation & Hospitality	29.7	11.8	11.0	9.8	4.0	4.6	0.1	(0.8)	(0.6)	(0.7)
Health, Life sciences & Public Services	21.8	26.5	10.5	6.7	4.8	0.6	6.8	14.4	0.3	3.1
<b>Client Metrics</b>										
Top 5 Clients	25.1	25.6	17.5	11.5	7.7	5.6	8.3	12.7	11.7	11.0
Top 10 Clients	21.3	21.2	13.3	9.9	6.8	5.2	8.1	9.1	8.4	6.9
Top 20 Clients	22.8	19.3	14.2	9.9	6.7	5.5	4.9	5.5	6.5	6.1
Top 40 clients	24.3	17.0	11.1	8.9	5.3	5.6	5.2	3.3	6.6	5.8

Source: Company, BOBCAPS Research

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