

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
- 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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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%

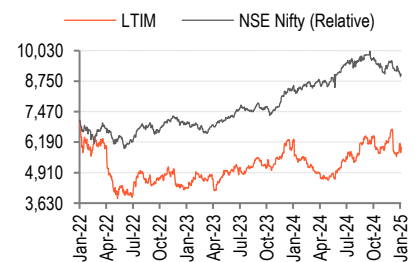
Source: NSE | Price as of 16 Jan 2025

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



Key points

- Revenue for 3Q FY25 stood at US\$1.14bn, reflecting 1.1% sequential growth and 5.1% YoY growth in USD terms. Constant currency growth was 1.8% QoQ and 5.6% YoY
- YoY growth was observed across all verticals, with significant growth in the BFSI vertical.
- In the manufacturing vertical, LTIMindtree has seen strong growth, including securing its largest ever deal in the previous quarter, along with several other large deals exceeding \$50 million. These wins are contributing to a solid order book and a positive outlook for the sector. The company's exposure to the auto vertical is relatively low, and it focuses more on industrial manufacturing clients. As a result, LTIMindtree is optimistic about the continued strength of the pipeline and momentum in this vertical.
- Retail Vertical: The company's retail exposure is mainly in consumer goods and pharmaceuticals, with some presence in retail. The demand environment in this space is stable, and while there are deals in the pipeline, growth is expected to remain steady.
- There are no specific issues affecting growth with the top 10 clients, and the growth in these accounts remains stable.
- The EBIT margin declined by 170 bps to 13.8%, from 15.5% in 2Q FY25, primarily due to wage hikes, which had an estimated impact of 220 bps. Seasonal challenges including furloughs and fewer working days were mitigated by cost optimization efforts, improving margins by 50 bps sequentially. The margin defense has been weaker than what we have seen in previous years.
- TCV signed in 3Q amounted to \$1.68 bn, a 29% increase QoQ. 17 new logos were added in 3Q.
- AI progress is on track, with multiple client conversations in progress leveraging AI solutions.
- 2,362 employees were onboarded in 3Q, bringing total headcount to 86,800
- Attrition remained stable at 14.3%
- Utilization rate, excluding trainees, dropped to 85.4%, down from 87.7% in 2Q FY25, aligning with the strategy to strengthen bench capacity
- AI spends are shifting from point proof of concepts to scaling projects in select areas, including foundational data and infrastructure
- LTIM says that political and economic uncertainties persist, especially with a new government in the US and the possibility of policy changes, making predicting spending trends challenging.
- Optimism remains for sustaining growth momentum into 4Q, supported by deal ramp-ups, reversal of furloughs, and strength in the BFSI vertical.

- AI-driven productivity may impact short-term growth, although margins are expected to improve in 4Q
- Deal composition in 3Q shows a substantial order intake, with the majority of orders related to cost takeout, productivity, and vendor consolidation.
- Short-cycle deals, particularly in the regulatory space within BFSI, have seen a return, but it is not back across all the industries in the uniform way
- The decision to pass on productivity gains to the top hyper scaler client (we believe Microsoft) is driven by their significant investment in AI infrastructure globally, with substantial CapEx announced in the last one to two quarters. As part of rebalancing their investment, the hyper scaler is looking to harvest efficiencies from ongoing operations, which is why they expect productivity improvements from partners. It is not a demand issue, but rather a focus on demonstrating AI-driven efficiencies in operations, which is driving the productivity expectations
- The productivity reset passed on to the hyper scaler client is not significantly impacting overall profitability. The productivity benefits are being generated and passed on, making the impact on margins relatively neutral. So it is more a revenue impact story than a margin impact one.
- Despite strong deal wins in 3Q, there is a cautious outlook due to clients still going through budgeting sessions, making it difficult to predict specific outcomes. The momentum generated over the last two quarters is expected to continue into 4Q, and the pipeline provides confidence that FY26 will be better than FY25. The cautious tone is not due to customer-specific issues, but rather the pressure on clients to do more with less, leading to vendor consolidation initiatives
- The discretionary spending has started to recover, particularly in regulatory work within BFSI, and is expected to continue into the next fiscal year. However the commentary around this has been the weakest we have heard thus far.
- Depreciation is expected to rise slightly in the short term due to ongoing investments in office spaces and infrastructure. As the buildings are completed and commissioned, lease rentals may also see rationalization, contributing to stabilization in depreciation in the future
- AI-driven productivity is expected to benefit clients, potentially leading to higher volumes and growth starting in FY26 as more efficiencies are realized
- Pass-through revenues have become a regular part of the company's revenue mix and are factored into quarter-on-quarter movement
- The productivity benefits from AI across different services within the top client are not uniform and vary by service. The company is gradually working through passing on the productivity gains, and this process is still in the early stages. The full impact of these gains will be visible in 4Q. The strategy of "more for less" is helping to offset the productivity pass back especially by achieving growth in adjacent areas within the client relationship.

View on the Indian IT services sector: We reinitiated coverage on the Indian IT Services with UW stance through a report on 1 January, 2025 (**Slow is the (new/old) normal**).

Current valuations are disconnected with fundamentals. Since 1 June 2024, Nifty IT has outperformed Nifty significantly. However, consensus earnings for FY25 and FY26 have not moved much during this period. It has been an entirely PE expansion story. Tier-1 and Tier-2 Indian IT services stocks are trading at +1 SD and +2 SD above their five-year means respectively. The PE premium of Tier-2 to Tier-1 is at its historic peak.

Current high PE multiples imply sharp growth pickup in FY25-FY27E. We think it will be slower. We do not believe structurally Indian IT services industry will see the pandemic's 'compressed transformation' type of demand in the foreseeable future. We believe the industry's structural USD organic revenue growth from here on will be lower than the ~7% CAGR – seen during FY15-FY20.

10-year study of valuations and earnings growth indicates that Indian IT stocks are currently trading at +2.1 SD to +18.3 SD higher valuations compared to the mean multiples during the FY15-FY20 period. Yes, we would admit that certain companies have undergone a structural change for the better, but not to the extent that the bulls assume and not all of them.

Multiple speed breakers post FY25 drives our underweight stance

- Trump policies raise uncertainty. The tariffs, the conditional tax breaks, the immigration push back, DOGE, etc all point to uncertainty in the coming days which may delay decision making.
- Higher for longer interest rate environment: One of reasons for optimism around the Indian IT service sector in recent quarters has been the view that US would achieve a soft landing in 2025 (which we define as 0.5- 1.5% real GDP growth) and that Fed Funds rate would be gradually lowered from the recent peak of 5.25-5.5%, driven by lower inflation. This, the market felt, was the apt environment for a broader pick up in discretionary spending beyond that of North American BFSI sector, especially after two muted years when the constant refrain from vendors for the weak growth was of 'macro uncertainty'. However, recent inflation prints, stronger GDP growth, and a higher fiscal deficit have raised concerns. With US 10-year yields rising to 4.7% from a September 2024 low of 3.6%, there are fears that sustained high interest rates could reduce IT outsourcing demand, particularly in sectors like BFSI and Telecom, and dampen US consumption in areas like housing, autos and retail.
- Covid-induced pull forward of demand requires a multi-year unwind. We think there were excesses during the compressed transformation phase which are yet to be fully unwound.
- Gen AI – value compressive in the near term: Gen AI has significantly boosted revenue in semiconductors, data centers, and hyper scalers, but IT services have seen limited benefits. ROI remains a top concern arise due to heavy investment in surrounding services

- Massive hyper scaler AI capex should accentuate re-alignment in IT spend: Software players, including hyper scalers, are increasing capex on AI-related data centers. This will drive higher pricing, forcing enterprises to allocate more IT spend to cloud/SaaS
- Indian Tier-1 companies now face higher competition from Accenture, Tier-2 players, and Cognizant, likely slowing their growth compared to FY15-FY20. This is besides the fact that by FY25, Tier-1 revenue will reach \$85bn, double that in FY15. Due to the higher base now, growth may not be as rapid as it was when the base was lower
- The weak TCV for certain players in 1HFY25 and lack of any mega deal announcements in recent quarters points to a brewing growth problem for FY26

How we are valuing companies: We are using PE methodology and using TCS as our industry benchmark. The target PE multiple used for TCS is 24.6x (which is the average PE multiple of TCS over the last 5 years less 1SD). This is by no means pessimistic. 24.6x is higher than the 23.6x multiple which was the mean multiple of the FY15-FY20 time frame when revenue growth was ~150bps faster. During the Global Financial Crisis (GFC) downturn, the stock traded in the single digit PE multiple territory. We are using a 1SD discount to the five-year PE as we believe that industry and TCS will see a 'slower for longer' growth situation.

Why use a PE multiple that is 1SD lower than 5-year mean of TCS:

Through our choice of the benchmark Target PE multiple, we seek to capture the probability of downside risks to consensus growth expectations for FY26/FY27.

While the strong consensus estimates seem to imply a soft-landing macro scenario in the US, the higher probability event is a 'no landing, higher-for-longer interest rate' scenario which we believe has a 50-60% probability. The probability of a recession is also not insignificant (20% based on Bloomberg estimates).

Some of the speed breakers are industry/technology related, and some are related to the macro and policy environment especially in the US which is the key market for Indian IT services firms. Besides the US, we believe the European market macro looks quite bad (Europe – including UK – forms about 30-40% of revenue for Indian IT services firms) and corporate IT spending would be muted

Tier- 2 valuation reflects growth gap between it and Tier-1:

The Tier-2 set have been taking away market share from the Tier-1 set due to better execution and also due to their smaller size. And unlike in the past cycles, they have performed better than the Tier-1 largely due to better management teams.

However, the current PE premium to the Tier-1s is excessive as we believe that to deliver on the high consensus revenue growth expectations, they may be taking on more cost take out projects which are likely to impact their margins adversely.

Fig 1 – Quarterly results: Comparison of actuals with estimates

Y/E Mar (Rsmn)	3QFY24	2QFY25	3QFY25	YoY(%)	QoQ (%)	3QFY25	Dev(%)
Net Sales (USD mn)	1,084	1,127	1,139	5.1	1.1	1,132	0.6
Net Sales	90,166	94,329	96,609	7.1	2.4	95,508	1.2
Software Expenses (Direct Costs)	63,224	65,277	68,785	8.8	5.4	65,930	4.3
% of Sales	70.1	69.2	71.2			69.0	
Gross Margin	26,942	29,052	27,824	3.3	(4.2)	29,578	(5.9)
% of Sales	29.9	30.8	28.8			31.0	
Operating Expenses (Selling, General & Administration Expenses)	11,093	12,059	11,891	7.2	(1.4)	12484.1	(4.8)
% of Sales	12.3	12.8	12.3			13.1	
EBIT	13,859	14,582	13,289	(4.1)	(8.9)	14,547	(8.6)
EBIT Margin (%)	15.4	15.5	13.8			15.2	
Other Income	1,588	2,286	1,436	(9.6)	(37.2)	2,237	(35.8)
PBT	15,447	16,868	14,725	(4.7)	(12.7)	16,784	(12.3)
Provision for Tax	3,754	4,352	3,858	2.8	(11.4)	4,313	(10.6)
Effective Tax Rate	24.3	25.8	26.2			25.7	
Minority share in Profit / Loss	0	0	0			0	
PAT (Reported)	11,693	12,516	10,867	(7.1)	(13.2)	12,470	(12.9)
NPM (%)	13.0	13.3	11.2			13.1	

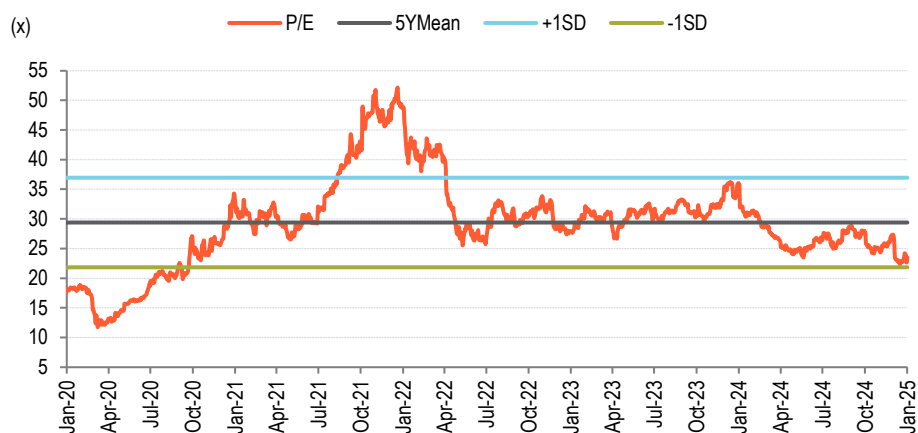
Source: Company, BOBCAPS Research

Fig 2 – Revised Estimates

	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
INR/USD	84.5	87.3	89.3	84.1	85.4	86.6	0.5	2.1	3.1
USD Revenue (USD mn)	4,523	4,858	5,259	4,509	4,915	5,332	0.3	(1.1)	(1.4)
USD Revenue Growth (%)	5.5	7.4	8.2	5.2	9.0	8.5			
Revenue (Rsmn)	3,82,251	4,23,950	4,69,422	3,79,201	4,19,850	4,61,856	0.8	1.0	1.6
EBIT (Rsmn)	56,061	67,245	77,385	59,031	68,543	76,390	(5.0)	(1.9)	1.3
EBIT Margin (%)	14.7	15.9	16.5	15.6	16.3	16.5			
PAT (Rsmn)	49,165	58,110	67,017	51,930	60,110	67,375	(5.3)	(3.3)	(0.5)
EPS (Rs)	158.5	195.7	225.7	170.2	202.7	227.2	(6.9)	(3.5)	(0.7)

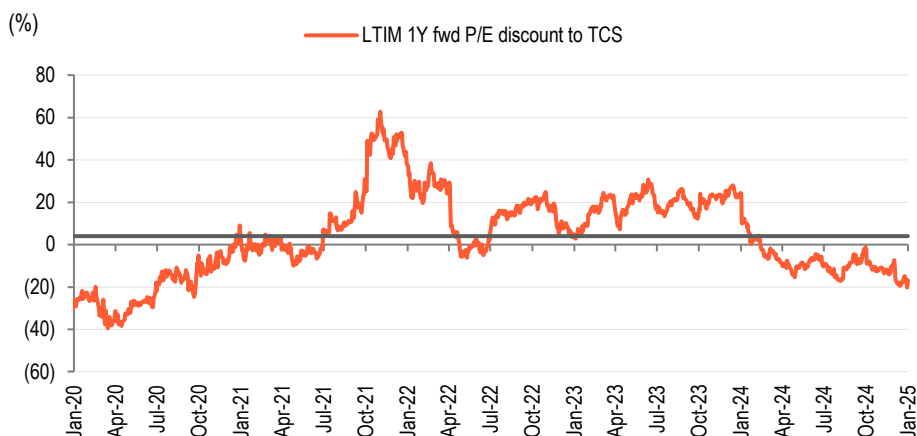
Source: Company, BOBCAPS Research

Fig 3 – 5 Year PE trend



Source: Company, BOBCAPS Research

Fig 4 – Premium/ Discount to TCS



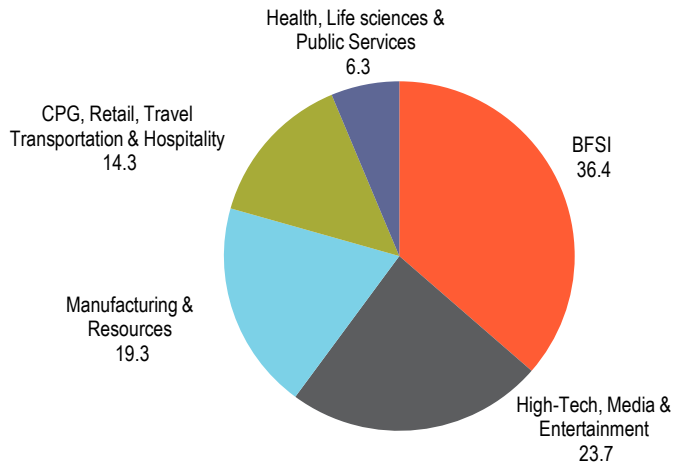
Source: Company, BOBCAPS Research

Fig 5 – P&L at a glance

Y/E Mar (Rsmn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Average INR/USD	60.8	61.2	65.9	67.0	64.5	70.0	71.4	74.2	75.0	80.7	82.8	84.5	87.3	89.3
Net Sales (USD mn)	809	813	887	970	1,132	1,349	1,525	1,670	3,502	4,106	4,287	4,523	4,858	5,259
-Growth (%)	-	0.5	9.1	9.3	16.7	19.1	13.0	9.5	109.7	17.2	4.4	5.5	7.4	8.2
Net Sales	49,205	49,780	58,463	65,009	73,065	94,458	1,08,786	1,23,698	2,61,086	3,31,830	3,55,170	3,82,251	4,23,950	4,69,422
-Growth (%)	-	1.2	17.4	11.2	12.4	29.3	15.2	13.7	111.1	27.1	7.0	7.6	10.9	10.7
Cost of Sales & Services	32,473	34,128	38,230	42,122	49,124	61,643	73,589	82,193	1,78,271	2,32,037	2,46,214	2,68,626	2,94,229	3,26,502
Gross Margin	16,732	15,652	20,233	22,887	23,941	32,815	35,197	41,505	82,815	99,793	1,08,956	1,13,625	1,29,721	1,42,920
% of sales	34.0	31.4	34.6	35.2	32.8	34.7	32.4	33.6	31.7	30.1	30.7	29.7	30.6	30.4
SG& A	5,259	5,607	10,000	10,583	12,065	13,980	14,905	14,254	30,330	38,715	45,082	47,610	51,121	54,180
% of sales	10.7	11.3	17.1	16.3	16.5	14.8	13.7	11.5	11.6	11.7	12.7	12.5	12.1	11.5
EBITDA	11,473	10,044	10,233	12,304	11,876	18,835	20,292	27,251	52,485	61,078	63,874	66,015	78,599	88,739
% of sales	23.3	20.2	17.5	18.9	16.3	19.9	18.7	22.0	20.1	18.4	18.0	17.3	18.5	18.9
Depreciation and Amortisation	1,300	1,579	1,738	1,780	1,563	1,471	2,731	3,325	5,971	7,227	8,189	9,954	11,355	11,355
% of sales	2.6	3.2	3.0	2.7	2.1	1.6	2.5	2.7	2.3	2.2	2.3	2.6	2.7	2.4
EBIT	10,173	8,465	8,495	10,524	10,313	17,364	17,561	23,926	46,514	53,851	55,685	56,061	67,245	77,385
EBIT Margin (%)	20.7	17.0	14.5	16.2	14.1	18.4	16.1	19.3	17.8	16.2	15.7	14.7	15.9	16.5
Gross other income (incl Forex gains/(loss))	(833)	915	1,914	1,855	4,225	3,021	3,291	2,743	8,892	7,073	9,236	12,416	14,493	16,716
Interest cost	305	104	59	17	123	106	826	788	1,233	1,504	2,217	2,826	2,998	3,291
PBT	9,034	9,276	10,350	12,362	14,415	20,279	20,026	25,881	54,173	59,420	62,704	65,651	78,740	90,810
-PBT margin (%)	18.4	18.6	17.7	19.0	19.7	21.5	18.4	20.9	20.7	17.9	17.7	17.2	18.6	19.3
Provision for tax	1,943	1,666	1,983	2,649	3,290	5,122	4,825	6,500	13,439	13,812	14,641	16,487	20,630	23,792
Effective tax rate (%)	21.5	18.0	19.2	21.4	22.8	25.3	24.1	25.1	24.8	23.2	23.3	25.1	26.2	26.2
Net profit	7,091	7,609	8,367	9,713	11,125	15,157	15,201	19,381	40,734	45,608	48,063	49,165	58,110	67,017
-Growth (%)	-	7.3	10.0	16.1	14.5	36.2	0.3	27.5	110.2	12.0	5.4	2.3	18.2	15.3
-Net profit margin (%)	14.4	15.3	14.3	14.9	15.2	16.0	14.0	15.7	15.6	13.7	13.5	12.9	13.7	14.3

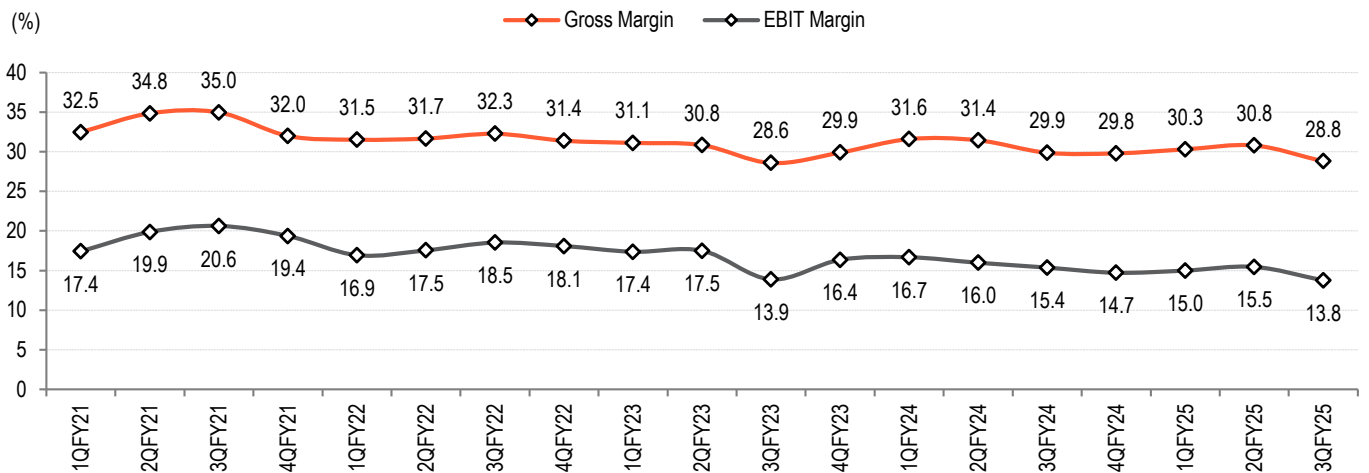
Source: Company, BOBCAPS Research

Fig 6 – Vertical Mix for 3QFY25



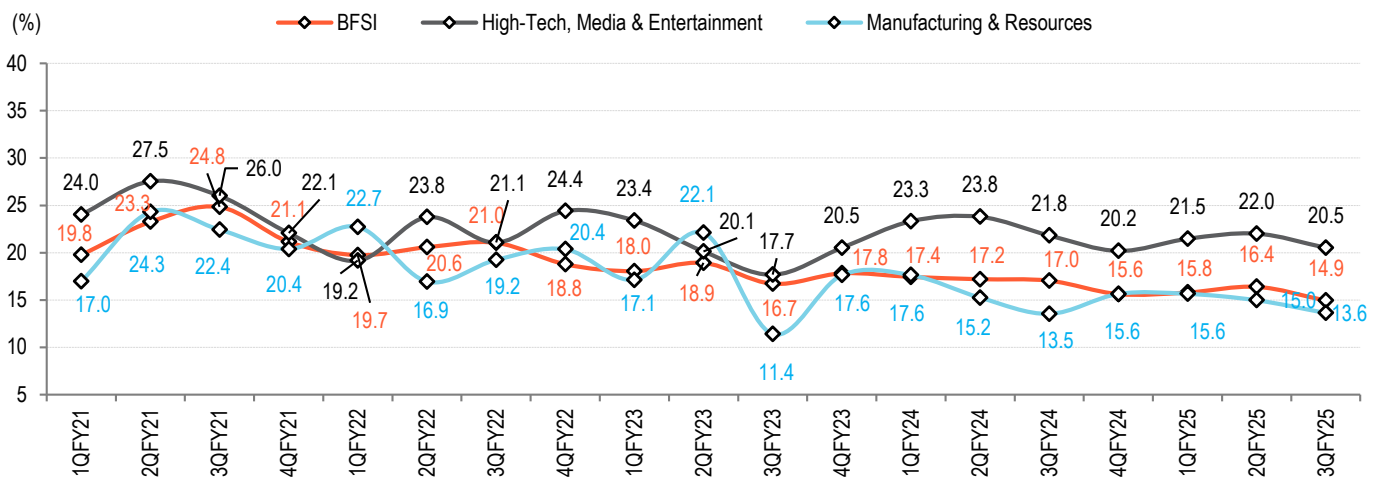
Source: Company, BOBCAPS Research

Fig 7 – Gross Margin and EBIT Margin



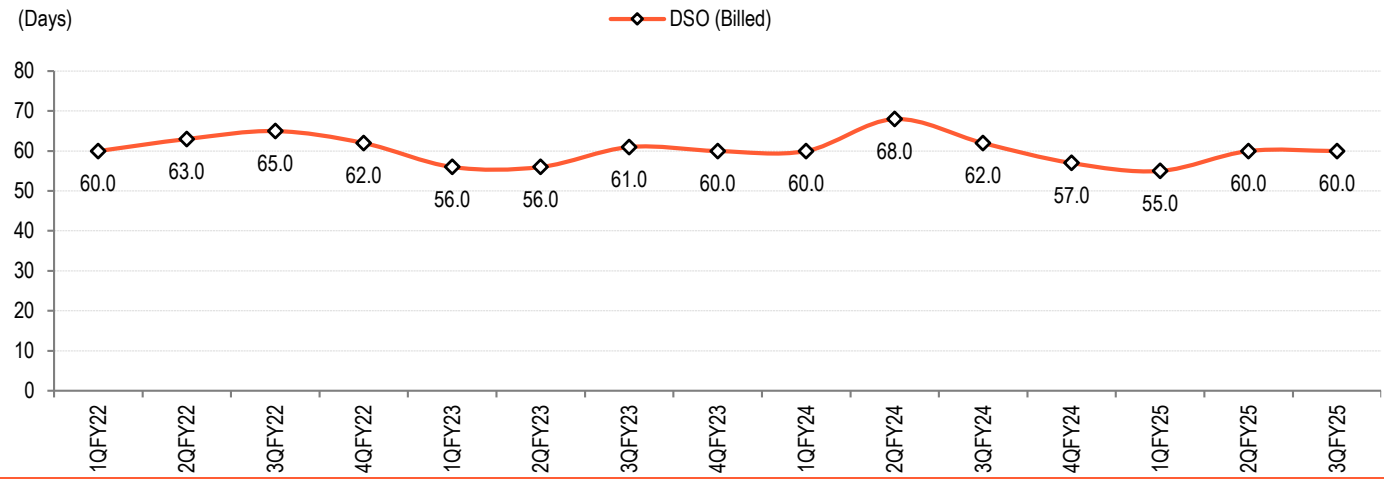
Source: Company, BOBCAPS Research

Fig 8 – EBITDA margin trends of the top 3 revenue segments



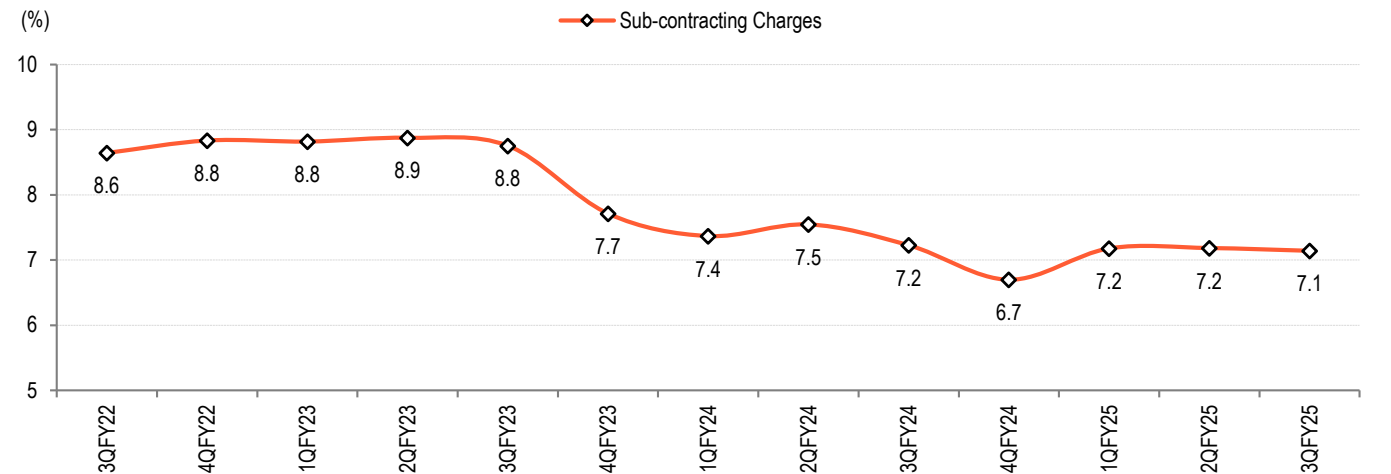
Source: Company, BOBCAPS Research

Fig 9 – DSO trend



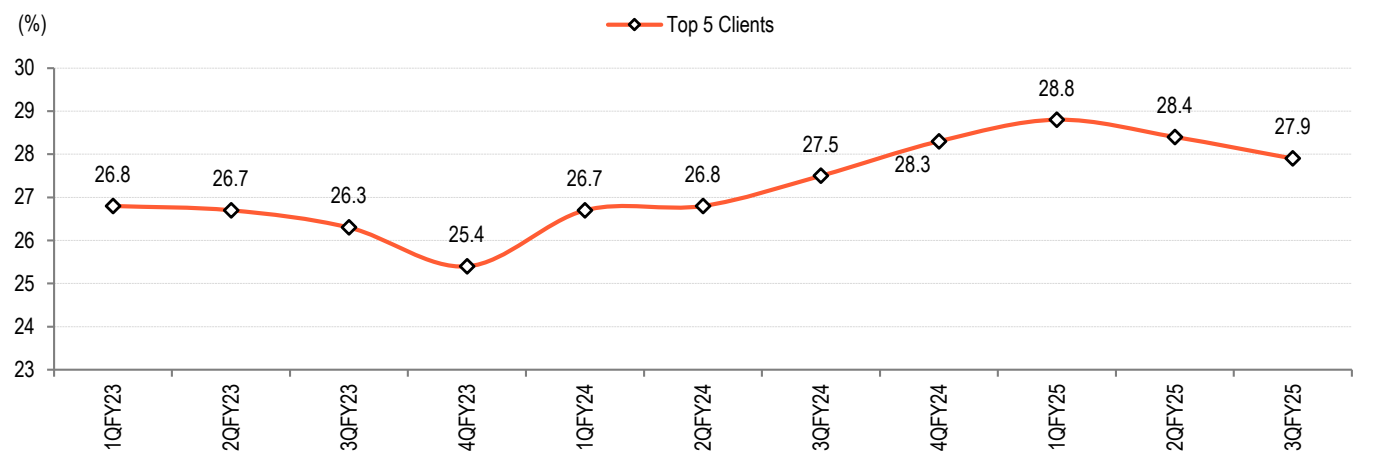
Source: Company, BOBCAPS Research

Fig 10 – Sub-contracting charges



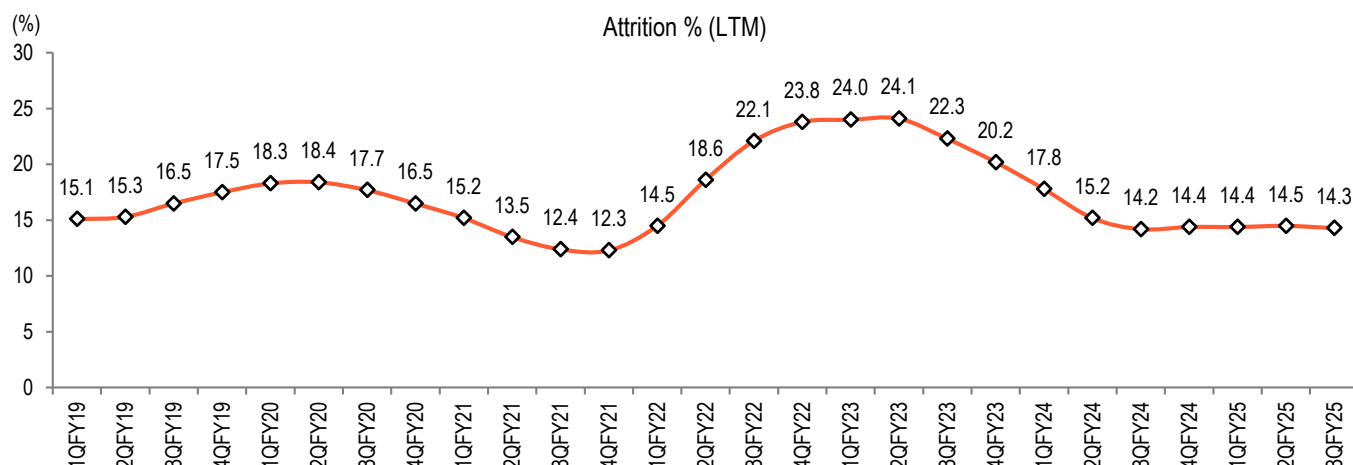
Source: Company, BOBCAPS Research

Fig 11 – Top 5 client concentration (%)



Source: Company, BOBCAPS Research

Fig 12 – Attrition trend on a QoQ basis (%)



Source: Company, BOBCAPS Research

Fig 13 – Quarterly Snapshot

Year to 31 March (Rsmn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
INR/USD	78.0	80.5	82.4	82.2	82.2	82.8	83.2	83.2	83.4	83.7	84.8
Revenue (in USDmn)	980	1,022	1,047	1,058	1,059	1,076	1,084	1,069	1,096	1,127	1,139
Revenue	76,442	82,278	86,200	86,910	87,021	89,054	90,166	88,929	91,426	94,329	96,609
Gross margin	23,787	25,374	24,645	25,987	27,502	28,006	26,942	26,506	27,711	29,052	27,824
SGA	8,850	9,018	10,897	9,950	11,147	11,693	11,093	11,149	11,650	12,059	11,891
Depreciation and Amortisation	1,664	1,959	1,781	1,823	1,847	2,082	1,990	2,270	2,352	2,411	2,644
EBIT	13,273	14,397	11,967	14,214	14,508	14,231	13,859	13,087	13,709	14,582	13,289
Revenue Related Forex gain/loss	861	198	490	(523)	(123)	(21)	426	(164)	134	751	132
Other income	915	1,413	1,028	1,187	1,439	1,453	1,769	2,240	2,137	2,238	1,993
Interest	311	378	379	436	460	470	607	680	724	703	689
PBT	14,738	15,630	13,106	14,442	15,364	15,193	15,447	14,483	15,256	16,868	14,725
Tax	3,672	3,740	3,099	3,301	3,841	3,570	3,754	3,476	3,905	4,352	3,858
PAT	11,066	11,890	10,007	11,141	11,523	11,623	11,693	11,007	11,351	12,516	10,867
EPS	37.4	40.2	33.8	37.6	38.9	39.2	39.4	37.1	38.2	42.2	39.4
YoY Growth											
USD Revenue	25.5	19.1	14.0	11.9	8.1	5.2	3.5	1.1	3.5	4.8	5.1
INR Revenues			25.3	21.9	13.8	8.2	4.6	2.3	5.1	5.9	7.1
Gross profit			11.0	16.1	15.6	10.4	9.3	2.0	0.8	3.7	3.3
EBIT			(6.1)	10.2	9.3	(1.2)	15.8	(7.9)	(5.5)	2.5	(4.1)
Net profit			(4.7)	0.5	4.1	(2.2)	16.8	(1.2)	(1.5)	7.7	(7.1)
QoQ Growth											
USD Revenues	3.7	4.3	2.4	1.0	0.1	1.6	0.8	(1.3)	2.5	2.8	1.1
INR Revenues			4.8	0.8	0.1	2.3	1.2	(1.4)	2.8	3.2	2.4
EBIT			(16.9)	18.8	2.1	(1.9)	(2.6)	(5.6)	4.8	6.4	(8.9)
Net profit			(15.8)	11.3	3.4	0.9	0.6	(5.9)	3.1	10.3	(13.2)
Margins (%)											
Gross margin	31.1	30.8	28.6	29.9	31.6	31.4	29.9	29.8	30.3	30.8	28.8
EBIT	17.4	17.5	13.9	16.4	16.7	16.0	15.4	14.7	15.0	15.5	13.8
PAT	14.5	14.5	11.6	12.8	13.2	13.1	13.0	12.4	12.4	13.3	11.2
SGA	11.6	11.0	12.6	11.4	12.8	13.1	12.3	12.5	12.7	12.8	12.3

Source: Company, BOBCAPS Research

Fig 14 – Key Metrics

Key Metrics	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
P and L (Rs mn)											
Revenue	76,442	82,278	86,200	86,910	87,021	89,054	90,166	88,929	91,426	94,329	96,609
EBIT	13,273	14,397	11,967	14,214	14,508	14,231	13,859	13,087	13,709	14,582	13,289
PAT	11,066	11,890	10,007	11,141	11,523	11,623	11,693	11,007	11,351	12,516	10,867
Vertical Mix (%)											
Revenue by Vertical											
BFSI	36.1	36.2	37.4	38.0	37.5	36.5	35.6	35.1	35.2	35.6	36.4
High-Tech, Media & Entertainment	25.4	25.3	23.6	23.0	23.7	23.8	22.9	24.3	25.6	25.4	23.7
Manufacturing & Resources	16.3	16.2	17.5	17.5	17.3	17.9	20.3	18.6	18.5	18.1	19.3
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	14.3
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	6.3
Geographic Mix (%)											
North America	71.7	72.9	72.3	71.9	73.1	73.4	72.7	73.8	75.1	75.0	74.7
Europe	15.3	14.6	14.9	15.4	15.2	15.3	14.5	14.6	14.4	14.4	13.8
RoW	13.0	12.5	12.8	12.7	11.7	11.3	12.8	11.6	10.5	10.6	11.5
Effort mix (%)											
Onsite	14.7	14.7	14.9	14.9	14.8	14.8	15.0	15.1	15.4	15.5	15.4
Off shore	85.3	83.5	85.1	85.1	85.2	85.2	85.0	84.9	84.6	84.5	84.6
Utilization (%) (including Trainees)	83.5%	83.5%	82.9%	81.7%	84.8%	86.6%	87.4%	86.9%	88.3%	87.7%	85.4%
Clients Concentration (%)											
Top 5 Clients	26.8	26.7	26.3	25.4	26.7	26.8	27.5	28.3	28.8	28.4	27.9
Top 10 Clients	34.5	34.3	33.8	32.9	34.1	34.3	35.3	35.5	35.7	35.0	34.5
Top 20 Clients	45.5	45.1	45.3	44.0	44.9	45.2	45.9	45.9	46.2	45.8	45.5
Top 40 Clients	58.7	57.4	57.6	56.8	57.2	57.6	58.5	58.0	58.9	58.2	58.1
Client Profile											
Number of Active Clients*	708	719	723	728	723	737	739	738	748	742	742
New Clients Added	43	22	28	31	19	30	23	30	27	22	23
100 Million dollar +	2	2	2	2	2	2	2	2	2	2	2
50 Million dollar +	10	11	11	13	13	14	12	13	12	12	13
20 Million dollar +	40	38	37	38	40	41	40	40	43	42	39
10 Million dollar +	79	77	81	81	88	90	89	91	87	88	90
5 Million dollar +	130	137	144	146	148	146	149	153	148	154	152
1 Million dollar +	337	361	374	383	388	391	388	394	390	392	401
Employee Number	84,030	86,936	86,462	84,546	82,738	83,532	82,471	81,650	81,934	84,438	86,800
Net employee addition	4,436	2,906	(474)	(1,916)	(1,808)	794	(1,061)	(821)	284	2,504	2,362
Attrition LTM (%)	24.0	24.1	22.3	20.2	17.8	15.2	14.2	14.4	14.4	14.5	14.3
(USD mn)											
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	1,138.7
USD-INR	77.95	80.51	82.35	82.18	82.20	82.80	83.20	83.16	83.40	83.73	84.84
TCV (US\$m)			1250	1350	1410	1300	1500	1390	1400	1300	1680

Source: Company, BOBCAPS Research

Fig 15 – QoQ and YoY growth of various parameters

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
QoQ Growth (%)											
Geographical Data											
North America	7.0	6.1	1.6	0.5	1.8	2.0	(0.2)	0.2	4.3	2.6	0.7
Europe	(6.7)	(0.4)	4.5	4.4	(1.2)	2.3	(4.5)	(0.6)	1.1	2.8	(3.1)
RoW	(0.2)	0.3	4.9	0.2	(7.8)	(1.9)	14.1	(10.6)	(7.2)	3.8	9.7
Verticals											
BFSI	5.4	4.6	5.8	2.7	(1.2)	(1.1)	(1.7)	(2.7)	2.8	3.9	3.3
High-Tech, Media & Entertainment	5.3	3.9	(4.5)	(1.5)	3.2	2.0	(3.0)	4.7	8.0	2.0	(5.7)
Manufacturing & Resources	(2.9)	3.7	10.6	1.0	(1.0)	5.1	14.3	(9.6)	2.0	0.6	7.8
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	(0.3)
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	(0.5)
Client Metrics											
Top 5 Clients	9.0	3.9	0.9	(2.4)	5.2	2.0	3.4	1.6	4.3	1.3	(0.7)
Top 10 Clients	6.8	3.7	0.9	(1.7)	3.8	2.2	3.7	(0.8)	3.1	0.8	(0.4)
Top 20 Clients	5.3	3.4	2.9	(1.9)	2.2	2.3	2.3	(1.3)	3.2	1.9	0.4
Top 40 clients	4.2	2.0	2.8	(0.4)	0.8	2.3	2.3	(2.2)	4.1	1.6	0.9
YoY Growth (%)											
Geographical Data											
North America	27.1	24.5	19.6	15.8	10.2	6.0	4.1	3.8	6.4	7.0	8.0
Europe	16.4	(0.7)	0.5	1.4	7.4	10.3	0.8	(4.1)	(1.9)	(1.4)	0.0
RoW	28.5	16.3	2.7	5.3	(2.7)	(4.9)	3.5	(7.6)	(7.1)	(1.7)	(5.6)
Verticals											
BFSI	27.3	23.5	22.1	19.8	12.3	6.1	(1.4)	(6.6)	(2.8)	2.2	7.4
High-Tech, Media & Entertainment	27.5	21.0	8.9	3.0	0.9	(1.0)	0.5	6.8	11.8	11.8	8.7
Manufacturing & Resources	17.6	10.8	9.0	12.6	14.7	16.3	20.1	7.5	10.7	5.9	(0.1)
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)	2.2
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	1.8
Client Metrics											
Top 5 Clients	25.1	25.6	17.5	11.5	7.7	5.6	8.3	12.7	11.7	11.0	6.6
Top 10 Clients	21.3	21.2	13.3	9.9	6.8	5.2	8.1	9.1	8.4	6.9	2.7
Top 20 Clients	22.8	19.3	14.2	9.9	6.7	5.5	4.9	5.5	6.5	6.1	4.2
Top 40 clients	24.3	17.0	11.1	8.9	5.3	5.6	5.2	3.3	6.6	5.8	4.4

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	3,31,830	3,55,170	3,82,251	4,23,950	4,69,422
EBITDA	61,078	63,874	66,015	78,599	88,739
Depreciation	7,227	8,189	9,954	11,355	11,355
EBIT	53,851	55,685	56,061	67,245	77,385
Net interest inc./(exp.)	(1,504)	(2,217)	(2,826)	(2,998)	(3,291)
Other inc./(exp.)	7,073	9,236	12,416	14,493	16,716
Exceptional items	0	0	0	0	0
EBT	59,420	62,704	65,651	78,740	90,810
Income taxes	13,812	14,641	16,487	20,630	23,792
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	45,608	48,063	49,165	58,110	67,017
Adjustments	0	0	0	0	0
Adjusted net profit	45,608	48,063	49,165	58,110	67,017

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	0	0	0	0	0
Other current liabilities	31,467	30,980	60,839	66,960	70,789
Provisions	8,134	8,486	9,050	9,050	9,050
Debt funds	1,774	318	1,352	1,352	1,352
Other liabilities	27,665	35,674	39,125	39,572	40,032
Equity capital	296	296	296	296	296
Reserves & surplus	1,65,625	1,99,876	2,11,502	2,45,891	2,84,740
Shareholders' fund	1,65,921	2,00,172	2,11,798	2,46,187	2,85,036
Total liab. and equities	2,34,961	2,75,630	3,22,164	3,63,121	4,06,259
Cash and cash eq.	23,389	18,200	45,875	67,040	87,442
Accounts receivables	72,284	70,387	78,998	86,641	96,378
Inventories	33	30	29	29	29
Other current assets	28,773	32,379	28,146	30,589	33,700
Investments	66,651	98,768	1,09,865	1,17,865	1,25,865
Net fixed assets	5,131	15,037	15,502	15,746	15,990
CWIP	8,126	4,669	4,087	4,087	4,087
Intangible assets	11,892	11,927	11,896	11,896	11,896
Deferred tax assets, net	6,143	5,220	6,852	7,515	8,359
Other assets	12,539	19,013	20,914	21,714	22,514
Total assets	2,34,961	2,75,630	3,22,164	3,63,121	4,06,259

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	38,186	80,673	63,945	68,498	72,644
Capital expenditures	(4,435)	(10,310)	(8,400)	(8,400)	(8,400)
Change in investments	5,985	(32,117)	(11,097)	(8,000)	(8,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	1,550	(42,427)	(19,497)	(16,400)	(16,400)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	1,525	(1,456)	1,034	0	0
Interest expenses	(1,504)	(2,217)	(2,826)	(2,998)	(3,291)
Dividends paid	(17,752)	(19,234)	(19,261)	(23,721)	(28,168)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(17,731)	(22,907)	(21,053)	(26,718)	(31,459)
Chg in cash & cash eq.	8,927	(5,189)	27,675	21,165	20,402
Closing cash & cash eq.	23,389	18,200	45,875	67,040	87,442

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	149.1	154.9	158.8	196.0	226.0
Adjusted EPS	149.0	154.6	158.5	195.7	225.7
Dividend per share	60.0	65.0	65.0	80.0	95.0
Book value per share	561.0	676.8	714.7	830.7	961.7

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.3	4.9	4.6	4.1	3.7
EV/EBITDA	28.8	27.5	26.6	22.2	19.4
Adjusted P/E	40.1	38.7	37.7	30.6	26.5
P/BV	10.7	8.8	8.4	7.2	6.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	76.8	76.7	74.9	73.8	73.8
Interest burden (PBT/EBIT)	110.3	112.6	117.1	117.1	117.3
EBIT margin (EBIT/Revenue)	16.2	15.7	14.7	15.9	16.5
Asset turnover (Rev./Avg TA)	150.6	139.1	127.9	123.7	122.0
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.5	1.5	1.4
Adjusted ROAE	29.5	26.2	23.9	25.4	25.2

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	27.1	7.0	7.6	10.9	10.7
EBITDA	16.4	4.6	3.4	19.1	12.9
Adjusted EPS	11.7	3.8	2.5	23.5	15.3
Profitability & Return ratios (%)					
EBITDA margin	18.4	18.0	17.3	18.5	18.9
EBIT margin	16.2	15.7	14.7	15.9	16.5
Adjusted profit margin	13.7	13.5	12.9	13.7	14.3
Adjusted ROAE	29.5	26.3	23.9	25.4	25.2
ROCE	22.6	20.9	18.1	18.4	18.6
Working capital days (days)					
Receivables	80	72	75	75	75
Inventory	NA	NA	NA	NA	NA
Payables	NA	NA	NA	NA	NA
Ratios (x)					
Gross asset turnover	64.7	23.6	24.7	26.9	29.4
Current ratio	3.1	3.1	2.2	2.4	2.7
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.1)	(0.1)	(0.2)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

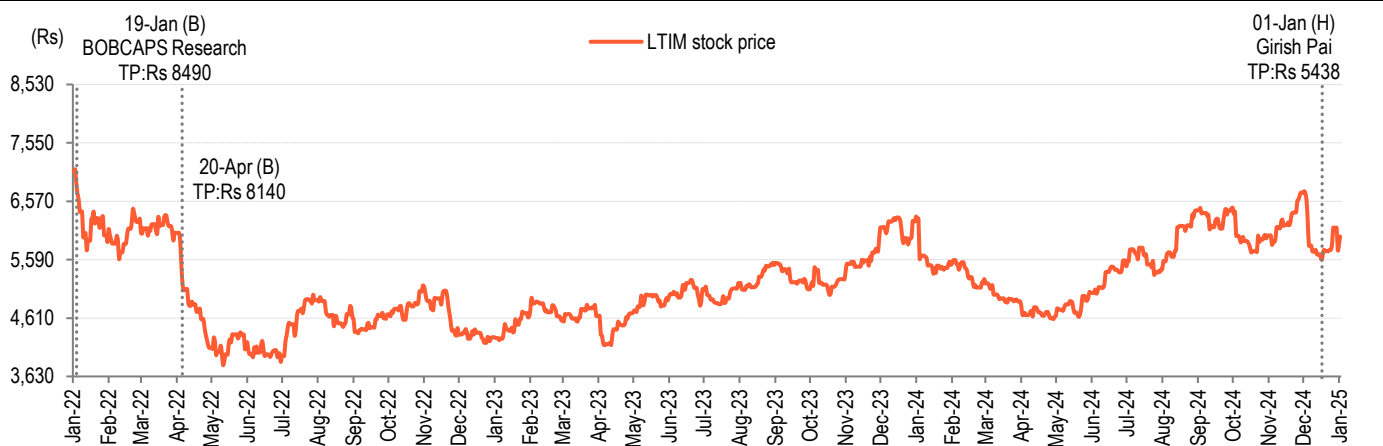
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): LTIMINDTREE (LTIM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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