

LTI Mindtree Ltd

Analyst Recommendation: **HOLD**

BSE Code: 540005

NSE: LTIM

CMP: Rs 4,733
2 Year Target: Rs 5,000

Investor's Rationale

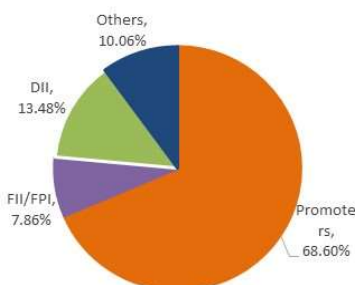
- Near term weakness long term intact: LTIM is seeing healthy traction in large deal wins (multi-year deals) and robust order intake of US\$5.6 bn (book to bill of 1.3x) in FY24. Further, improving growth in SAP digital, data, vendor consolidation, and ramp up of deal wins will boost revenue growth in long term. This coupled with cross sell, re-investment in business, improvement in discretionary spend, focus on top 100 clients and participation in bigger deals bodes well for long term growth. Hence, although in near term macro can impact revenue growth, longer term visibility remains robust
- Margins to improve but aspirational 18% delayed: LTIM has multiple headwinds in margins like higher transition cost, calibration of utilization and re-investment in business. Hence, we have revised our FY25E EBIT margin estimates downwards by 44 bps to 16.7% and FY26E margins by 48 bps to 17.6%.
- **Valuation**

LTIM reported subdued Q4FY24 numbers mainly led by ramp down in BFSI clients and lower discretionary spend. The company is winning cost efficiency & cost take out deals. Apart from this healthy order book (US\$5.6bn in FY24 up 15.7% & book to bill of 1.3x), absence of further ramp down, healthy deal pipeline and synergy benefits we expect the company to deliver better FY25E vs FY24. Hence, we have built in a 6.1% YoY growth in FY25E vs 4.4% YoY in FY24. However, we expect margins to be impacted due to re-investment in business & transition cost of large deals. Hence, we have revised our EPS estimates downwards by 7% & 9% for FY25E & FY26E. Consequently, we have lowered our target price downwards from Rs 5,660 to Rs 5,000 (25x FY26E EPS). However, recent decline in stock price prompts us to upgrade the stock from Sell to Hold

1 yr. Price Chart of Stock and Nifty



Shareholding pattern as on 31st March 2024

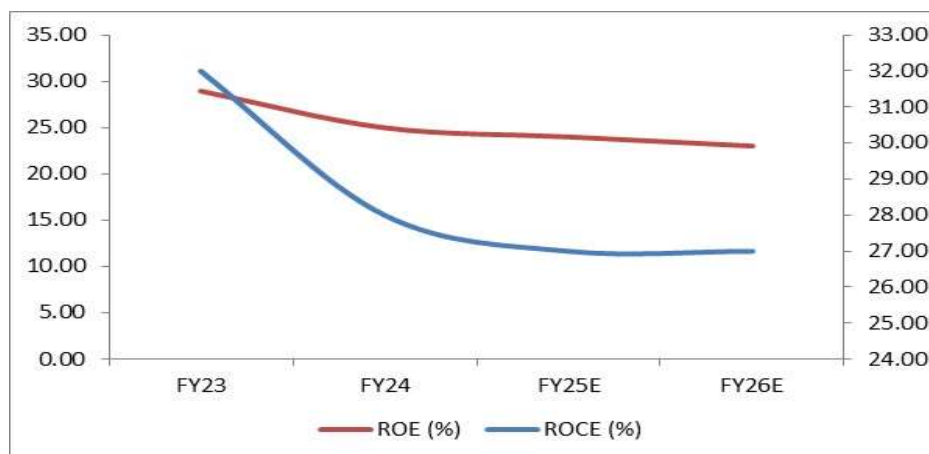


	FY23	FY24	FY25E	FY26E
Revenue (Rs. Million)	3,64,276.0	4,46,852.0	5,25,442.0	5,95,322.0
EBITDA (Rs. Million)	65,491.0	88,229.0	1,06,951.0	1,25,056.0
Adj. profit (Rs Million)	56,276.0	74,789.0	88,905.0	1,03,265.0
Adj. EPS (Rs.)	197.3	264.6	318.5	369.9
P/E (x)	49.3	36.7	30.5	26.3
ROE (%)	21.60	29.70	33.40	34.20
ROCE (%)	22.40	32.10	36.60	40.10

Other Key Highlights

- Revenue stood at \$1.069.4 bn, degrew by 1.3% QoQ and grew by 1.2% YoY in CC terms and 1.1% YoY in dollar terms. Revenue growth was impacted by ramp down in two BFSI projects and slowdown in discretionary spends.
 - EBIT margin came at 14.7%, declined due to headwinds of 80 bps from ramp down of two projects and impact of higher SG&A and depreciation by 60 bps which was positively offset by 70 bps from reversal of furloughs, higher working days and lower pass through revenue.
 - In terms of verticals, growth was led by Healthcare & life-science which grew by 4.5% QoQ, Technology & Media grew 5.1% QoQ led by increase in demand within the vertical by ERP, data transformation, supply chain modernization and Consumer Business grew by 1.2% QoQ. This was offset by 2.8% QoQ decline in BFSI due to ramp down of two projects and 9.6% QoQ decline in Manufacturing.
 - Demand trend: Management stated pressure on discretionary spends to be at the same levels as last year. There could be an uptick in deal wins and ramp ups in Q1FY25. Vertically, BFSI could see recovery in Q1FY25E on the back of strong deal pipeline. Manufacturing would continue to show the seasonality impact.
 - Order inflow for the quarter came at \$1.4bn up 3.7% YoY and full year TCV is \$5.6bn which grew by 15.7%. Management stated deal pipeline to be stronger and 80% of deals are cost take out which could impact the margins in the near term but would give larger tenure deals.
 - For Q4FY24, LTM attrition was down to 14.4% and utilization for the quarter is ~87%. However, management expects utilization to come down to 85-86% led by hiring of talent and large deal ramp ups. Management emphasized on rebounding of discretionary spends would lead to uptick in revenue.
 - Management deferred the aspiration of 17-18% range of EBIT margin in the near term. However, the company aims to achieve the same in longer run. The company will continue to focus on margin improvement led by pyramid rationalization, reducing average cost on resources and benefiting advantage from multiyear deals. The company sees revenue growth as key catalyst for margin expansion
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Return ratios to show growth in future



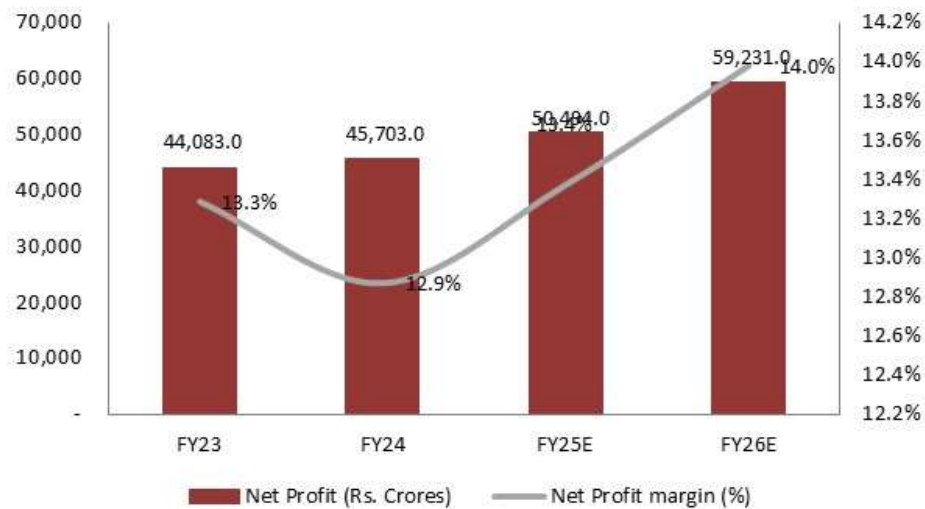
Revenue will experience growth



EBITDA will experience strong growth



Net profit will experience a growth trajectory



Outlook and Valuation

LTIM reported subdued Q4FY24 numbers mainly led by ramp down in BFSI clients and lower discretionary spend. The company is winning cost efficiency & cost take out deals. Apart from this healthy order book (US\$5.6bn in FY24 up 15.7% & book to bill of 1.3x), absence of further ramp down, healthy deal pipeline and synergy benefits we expect the company to deliver better FY25E vs FY24. Hence, we have built in a 6.1% YoY growth in FY25E vs 4.4% YoY in FY24. However, we expect margins to be impacted due to re-investment in business & transition cost of large deals. Hence, we have revised our EPS estimates downwards by 7% & 9% for FY25E & FY26E. Consequently, we have lowered our target price downwards from Rs 5,660 to Rs 5,000 (25x FY26E EPS). However, recent decline in stock price prompts us to upgrade the stock from Sell to Hold

LTI Mindtree Ltd - Company Overview

Larsen & Toubro Infotech Ltd offers extensive range of IT services like application development, maintenance and outsourcing, enterprise solutions, infrastructure management services, testing, digital solutions, and platform-based solutions to the clients in diverse industries.

The company provides a wide range of IT services such as application development maintenance (ADM), enterprise solutions, infrastructure management services, testing, analytics & artificial intelligence.

LTI and Mindtree Ltd (Mindtree), on May 06, 2022, announced the proposal to merge Mindtree into LTI through a scheme of amalgamation as approved by the respective boards of the companies. The shareholders of Mindtree will receive 73 shares of LTI (face value of Rs 1 each) in exchange for 100 shares of Mindtree (face value of Rs 10 each)



Balance sheet (Consolidated)

Year-end: March	FY23	FY24	FY25E	FY26E
Shareholders' funds	165921	200172	226986	256617
Share capital	296	296	296	296
Reserves & surplus	165625	199876	226690	256321
Total Debt	1253	407	407	407
Other liabilities	14,143.00	17,934.00	17,934.00	17,934.00
Curr Liab & prov	53,573	57,025	57,971	59,909
Current liabilities	45439	48539	49485	51423
Provisions	8134	8486	8486	8486
Total liabilities	68969	75366	76312	78250
Total equity & liabilities	234961	275630	303389	334959
Net fixed assets	45,814	55,315	53,626	55,198
Investments	7,165	19,902	19,902	19,902
Other non-curr assets	10,085	11,883	11,883	11,883
Current assets	171897	188530	217979	247976
Inventories	33	30	-	-
Sundry Debtors	56273	57126	60742	68156
Cash and Bank	76,738	95,694	1,19,298	1,37,251
Loans and advances	-	-	-	-
Total assets	2,34,961	2,75,630	3,03,389	3,34,959

Equity Research

Profit & Loss Account (Consolidated)

Rs in Million	FY23	FY24	FY25E	FY26E
Net sales	331830	355170	377654	423745
Change (yoy, %)	27.0	7.0	6.0	12.0
Operating expenses	-270753	-291296	-304728	-337661
EBITDA	61077	63874	72926	86084
Change (yoy, %)	16	5	14	18
Margin (%)	18	18	19	20
Depreciation	-7227	-8189	-9997	-11427
EBIT	53850	55685	62929	74657
Interest paid	-479	-2217	-2720	-2720
Other income	4544	6901	7600	7600
Pre-tax profit	57915	60369	67809	79537
Tax	-13812	-14641	-17291	-20282
Effective tax rate (%)	23.80	24.30	25.50	25.50
Minority Interest	-20.00	-25.00	-24.00	-24.00
Net Profit	44083	45703	50494	59231
Exceptional items	-	-	-	-
Adjusted net profit	44083	45703	50494	59231



Equity Research

Cash Flow (Consolidated)

Year-end: March	FY23	FY24E	FY25E	FY26E
Pre-tax profit	57915	60369	67809	79537
Depreciation	-	-	-	-
Tax paid	-13770	-14601	-17291	-20282
Chg in working capital	-7522	2602	-2641	-5475
Other operating activities	-8488	12914	-2259	-4630
Cash flow from operations (a)	28135	61284	45618	49150
Capital expenditure	-6057	-9501	1689	-1573
Chg in investments	-652	-12737	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	-6709	-22238	1689	-1573
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	734	-846	-	-
Dividend (incl. tax)	-17,760	-19,240	-23,680	-29,600
Chg in minorities	-6	-4	-24	-24
Other financing activities	-	-	-	-
Cash flow from financing (c)	-17032	-20090	-23704	-29624
Net chg in cash (a+b+c)	4394	18956	23604	17953

Key Ratios & Valuations (Consolidated)

Year-end: March	FY23	FY24	FY25E	FY26E
PER (x)	32	31	28	24
Price/Book value (x)	8.4	7	6.2	5.5
EV/Net sales (x)	4	4	3	3
EV/EBITDA (x)	22	20	18	15
Dividend Yield (%)	1.3	1.4	1.7	2.1
Book Value (Rs)	561	676	767	867
Adj EPS (Rs)	149	154	171	200
Adj EPS growth (%)	12	4	10	17
EBITDA margin (%)	18.4	18	19.3	20.3
Pre-tax margin (%)	17.5	17	18	18.8
Net Debt/Equity (x)	-0.5	-0.5	-0.5	-0.5
ROCE (%)	32	28	27	27
ROE (%)	29	25	24	23
DuPont Analysis				
Asset turnover (x)	1.5	1.4	1.3	1.3
Leverage factor (x)	1.4	1.4	1.4	1.3

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Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*



Member: BSE, NSE, MCX, MCX-SX, CDSL

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