

BSE SENSEX 83,185 S&P CNX 25,416

CMP: INR6,377 TP: INR7,400 (+16%) BUY



Stock Info

	LTIM IN
Bloomberg	LTIM IN
Equity Shares (m)	296
M.Cap.(INRb)/(USD\$b)	1888.7 / 22.6
52-Week Range (INR)	6575 / 4514
1, 6, 12 Rel. Per (%)	9/8/-11
12M Avg Val (INR M)	2663
Free float (%)	31.4

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	378	422	478
EBIT Margin (%)	15.8	16.5	17.1
PAT	49.6	57.6	67.4
EPS (INR)	167.3	194.2	227.4
EPS Gr. (%)	8.0	16.1	17.1
BV/Sh. (INR)	772.5	885.1	1,017.0

Ratios

RoE (%)	23.1	23.4	23.9
RoCE (%)	19.5	20.1	20.6
Payout (%)	42.0	42.0	42.0

Valuations

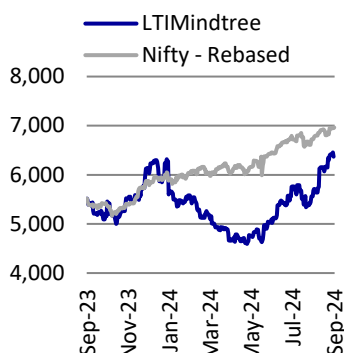
P/E (x)	38.2	32.9	28.1
P/BV (x)	8.3	7.2	6.3
EV/EBITDA (x)	26.0	22.4	18.9
Div Yield (%)	1.1	1.3	1.5

Shareholding Pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	68.6	68.6	68.7
DII	14.2	13.6	12.4
FII	7.3	7.9	8.2
Others	9.9	10.0	10.7

FII includes depository receipts

Stock Performance (one-year)



Key beneficiary of the US banking recovery

But margins remain a key concern

We upgraded LTIMindtree (LTIM) to BUY on 18th July, 2024, following its [1QFY25 Results](#). The nascent recovery in the US BFSI was a key consideration, but our decision was also driven by LTIM's superior offerings in data engineering and ERP modernization, along with its strong ecosystem partnerships. These factors position the company well for clients' next-gen and pre-GenAI spending. Since the upgrade, the stock has outperformed both the Nifty 50 index and Nifty IT index (LTIM gained 11.0% vs. ~2.5% for Nifty 50 and ~5.0% for Nifty IT). Going forward, we believe that the US BFS recovery will remain a key monitorable, with clients resuming 'high-priority' projects in this vertical (BFSI accounts for ~35% of the revenue). This, coupled with the resumption of ERP modernization projects, could catapult revenues higher for LTIM. However, the margin expansion and churn at the top-level management remain key concerns to our thesis. We value LTIM at 35x Sep'26E EPS. We reiterate BUY with a TP of INR7,400, implying a 16% upside potential.

Leveraging strengths to stay ahead of the next-gen technology curve

LTIM's strong offerings in areas such as data engineering, data estate modernization, and ERP modernization position it well for the next technology up-cycle. The company is capitalizing on these strengths to maintain a leading position in next-gen technology advancements. Following a prolonged period of subdued client activity, this development sets a positive trend for pre-GenAI investments. We believe that the successful adoption of GenAI will largely hinge on clients' preparedness in cloud and data infrastructure, suggesting that the initial investments will be centered on data, cloud, and digital infrastructure, and LTIM is well-placed to leverage this emerging opportunity.

Early signs of growth in key verticals

- In 1QFY25, LTIM experienced greenshoots in some client pockets, deploying savings and budgets to high transformation programs, especially in BFSI (LTIM's largest vertical). In our view, this bodes well for LTIM.
- In 1QFY25, the BFSI vertical (contributes 35% of revenue) returned to 2.8% QoQ growth after four consecutive quarters of decline, whereas the Hi-tech & Telecom vertical (contributes 25% of revenue) grew 8.0% QoQ.
- Growth momentum could sustain going forward as deals won in previous quarters are ramping up according to the plan.
- The company is also experiencing renewed traction in short-cycle deals. Additionally, transformation projects that were delayed or paused last year are now being resumed.

Sustained growth in manufacturing to continue

- The Manufacturing & Resources vertical (contributes 18.5% of revenue) grew 1.8%/10.5% on a QoQ/YoY basis, driven by a focus on ERP transformation, data modernization, and Industry 4.0.
- The company is seeing good momentum in manufacturing. Going forward, we believe that this momentum is likely to sustain as a rate cut cycle to further spur investments in technology.

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Margins remain a key monitorable and the biggest risk to our thesis

- Margins remain a concern and the biggest risk to our thesis. It is apparent that post-merger synergies have not been realized to the extent previously anticipated, and a challenging demand environment has made it tougher to improve margins.
- LTIM's re-rating depends on significant margin recovery, driven primarily by volume recovery, as we do not see many levers apart from the revenue growth. Any further hiccups in execution could result in downside risks to our estimates.
- We believe that the utilization levels are too high (~87%) and in the event of an outsized growth recovery, LTIM would need to hire so as to effectively execute. Headcount addition has been meek in the past four quarters and ramping up hiring could lead to margin pressures.
- While we anticipate some operating leverage from revenue recovery, there is downside risks to our numbers.

Top-level attrition continues to pose a risk

- As shown in Exhibit 1, the merger has resulted in numerous top-level exits, leading to a high attrition rate among the senior management. We believe that integration challenges at LTIM could have been better managed. However, we believe that the worst is behind and the top-level management churn is likely to remain benign going forward.

IMPACT Framework

- LTIM has emerged as one of the top performers in our IMPACT evaluation framework with a total score of 24. Its top-tier ecosystem partnerships and excellent technology readiness position it well for next-gen and pre-GenAI expenditures. The company balances top client relationships with effective new client acquisitions.
- **Industry Exposure (5/5):** Clients in banking, financial services, and insurance are starting to invest in high-priority transformation projects once again. Moreover, we view exposure to manufacturing and energy as a positive factor.
- **Margin Expansion Scope (1/5):** Margin performance remains a key concern for LTIM. It is apparent that the post-merger synergies have not been realized to the extent previously expected, and a challenging demand environment has made it tough to improve margins.
- **Partnerships (5/5):** The company has top-tier ecosystem partnerships, particularly in niche areas such as Snowflake, Databricks, Google Cloud, and Azure.
- **Automation Threat (5/5):** Its portfolio comprises top-tier modernization offerings and very little legacy burden.
- **Client Strategies (3/5):** LTIM needs to acquire more clients in the USD100m+ range at its scale.
- **Technology Readiness (5/5):** LTIM would be the key beneficiary of next-gen/pre-GenAI spending owing to its superior next-gen readiness.

Valuations and View

- We reiterate our BUY rating on LTIM due to its superior offerings in data engineering and ERP modernization, positioning it well to capture pre-GenAI expenditures. Further, clients are resuming 'high-priority transformation' projects in these areas. We anticipate LTIM to outperform its large-cap peers and expect low double-digit CC growth for FY26/FY27. However, margins remain a concern and headwind to our thesis.
- We expect LTIM to clock a CAGR of ~10.0%/13.7% in USD revenue/INR PAT over FY24-27E. We value LTIM at 35x Sep'26E EPS. Our TP of INR7,400 implies a 16% upside potential.

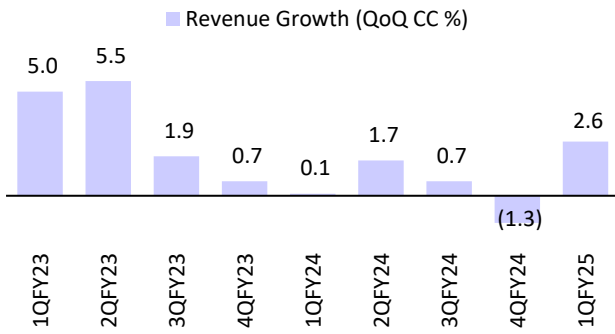
Exhibit 1: List of leadership exits at LTIM

Name	Original Company	Designation	Joining Date	Resignation Date	New Role and Firm
Venugopal Lamba	Mindtree	President	Aug-20	Jan-23	CEO, Randstad
Rajesh Gharpure	LTI	EVP& Global Delivery leader - Manufacturing	Jun-00	Jan-23	Chief Delivery Officer, Persistent Systems
Anil Rander	LTI	CFO-LTI	Apr-21	Feb-23	Group CFO, Inspira Enterprise India Ltd.
Radhakrishnan Rajgopalan	Mindtree	SVP and Global Head - Digital, Data & Insights, Connected Universe, QE	Jun-20	Mar-23	Tiger Analytics
Suresh HP	Mindtree	Head - Global Delivery Office	Apr-07	Mar-23	Chief Delivery Officer, Sonata Software
Neha Kathuria	Mindtree	Head of Global Marketing	Feb-14	Mar-23	CMO, Infogain
Siddharth Bohra	LTI	CBO - Digital Business	Sep-15	Jun-23	Founder, Startup
Sriramkumar Kumaresan	Mindtree	EVP - Global Head of Cloud and Security	Jul-20	Jun-23	Head, Cloud Infra & Security, CTSH
Kunal Dhingra	LTI	CTO & Global Head	Jul-18	Jun-23	CTO, RBL Bank
Naresh KN (Mindtree)	Mindtree	SVP, Global Delivery Head - BFS	Apr-10	Jul-23	President, Chief Account Officer, ITC Infotech
Archana Ramanakumar	LTI	EVP & Global Delivery Head, Life Sciences	Jul-20	Jul-23	SVP & Global Head of Industry Solutions, CTSH
Tridib Barat	LTI	Company Secretary and Compliance officer	Dec-21	Aug-23	VP & Company Secretary, Chambal Fertilisers
Dinesh Bajaj	LTIMindtree*	SVP & Chief Business Officer	Nov-22	Sep-23	EVP, Qualitest
Paresh Vankar	LTIMindtree*	Chief Marketing officer	Jan-23	Oct-23	Not available
Raj Pandya	LTI	Head, America Region	Jun-93	Nov-23	CEO, Quantum Integrators
Ashish Deshpande	LTI	CBO - Lifesciences	Jun-21	Dec-23	Chief Revenue Officer, HSO
Milind Shah	LTI	Chief Business Officer, Globa Captive Centers	Mar-08	Dec-23	Managing Director, Randstad
Mukund Rao	Mindtree	CBO - BFSI	Aug-20	Jan-24	President, Global Markets, Xoriant
Dilip Panjwani	LTI	Global Head, Cybersecurity Practice	Nov-22	Jan-24	Head of Cyber Security Service Line, Persistent
Vinit Teredesai	Mindtree	CFO	Jun-20	Apr-24	CFO, Persistent Systems
Manoj Shikarkhane	LTI	CHRO	Aug-15	Apr-24	Not available
Raghavendra Parvataraju	LTI	Head, Hi-tech and Services	Nov-22	Apr-24	CEO and Founder, Stealth Startup
Mr. Pankaj Chugh	LTI	Head, Google Cloud BU	May-15	Apr-24	President & COO, 66degrees
Mr. Gregory Dietrich	LTI	Executive Vice President - Global Sales	Aug-20	Apr-24	COO, Cloud & Infra Services, North America, Capgemini
Mr. A.M. Naik	LTI	Founder & Chairman	NA	Jun-24	Not Applicable

Source: Company, MOFSL, LinkedIn; Note: *Joined after merger

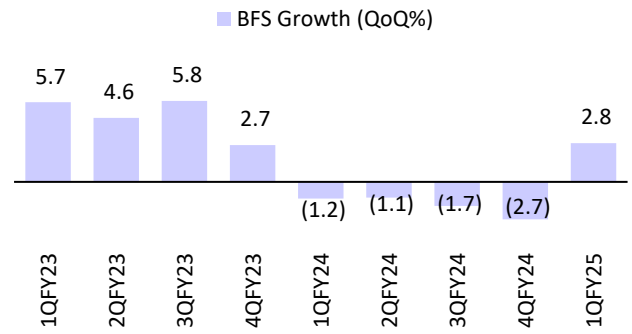
Story in charts

Exhibit 2: Strong revenue growth (+2.6 QoQ CC) in 1QFY25



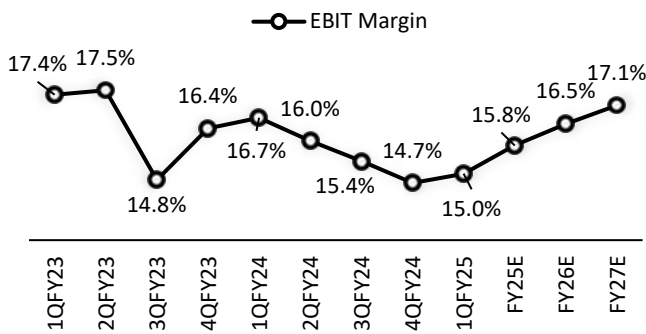
Source: MOFSL, Company

Exhibit 3: BFSI back on growth trajectory in 1QFY25



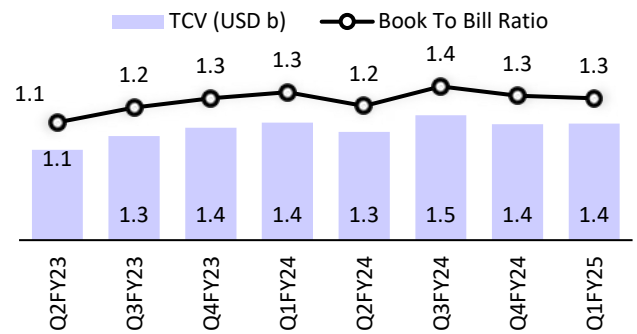
Source: MOFSL, Company

Exhibit 4: EBIT margin to expand to 17.1% by FY27



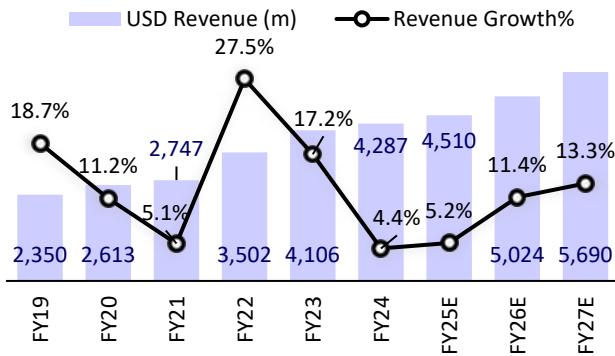
Source: MOFSL, Company

Exhibit 5: Total TCV at USD1.4b in 1QFY25 with 1.3x BBR



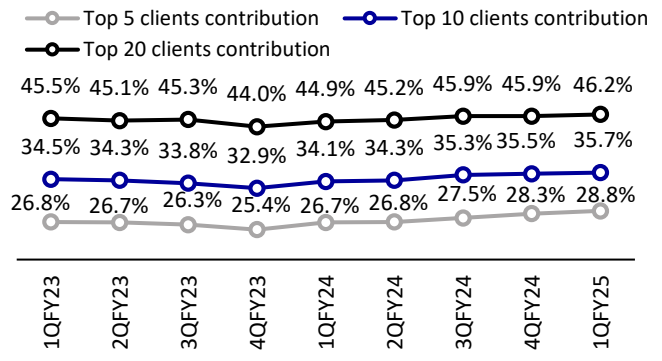
Source: MOFSL, Company

Exhibit 6: Revenue to grow at 5.2%/11.4%/13.3% YoY for FY25/26/27



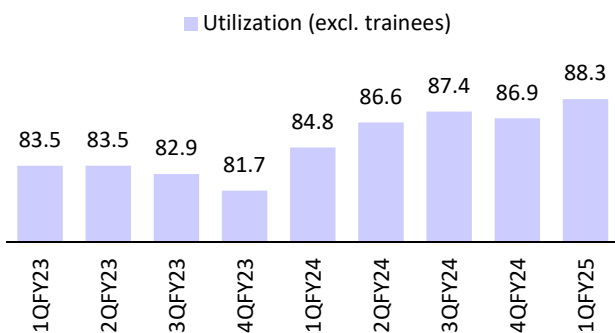
Source: MOFSL, Company

Exhibit 7: Top 5 clients made up ~29% of revenue in 1QFY25



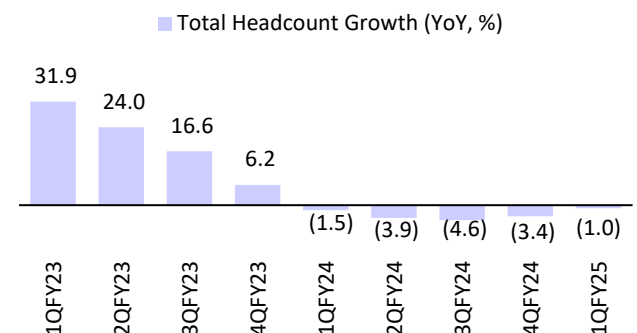
Source: MOFSL, Company

Exhibit 8: Utilization is now uncomfortably high and a key margin risk



Source: MOFSL, Company

Exhibit 9: Headcount addition meek; LTIM needs to ramp up hiring for the next up-cycle



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sales	2,69,413	2,86,287	2,61,086	3,31,830	3,55,170	3,78,152	4,21,989	4,77,980
Change (%)	12.2	6.3	(8.8)	27.1	7.0	6.5	11.6	13.3
Cost of Services	1,77,967	1,95,985	1,78,271	2,32,037	2,46,214	2,61,809	2,89,626	3,27,416
Gross Profit	91,446	90,302	82,815	99,793	1,08,956	1,16,343	1,32,362	1,50,564
SG&A Expenses	36,068	26,759	30,330	37,915	45,082	48,069	54,015	59,508
EBITDA	55,378	63,543	52,485	61,878	63,874	68,273	78,348	91,055
% of Net Sales	20.6	22.2	20.1	18.6	18.0	18.1	18.6	19.1
Depreciation	8,239	8,520	5,971	7,227	8,189	8,373	8,750	9,560
EBIT	47,139	55,023	46,514	54,651	55,685	59,900	69,598	81,496
% of Net Sales	17.5	19.2	17.8	16.5	15.7	15.8	16.5	17.1
Other Income	1,796	3,410	6,426	4,065	4,802	5,657	6,127	7,170
PBT	48,934	58,434	52,940	58,716	60,487	65,557	75,724	88,665
Tax	8,780	14,262	13,439	13,812	14,641	15,977	18,174	21,280
Rate (%)	17.9	24.4	25.4	23.5	24.2	24.4	24.0	24.0
Minority Interest	0	0	0	11	25	0	0	0
Extraordinary	0	-571	0	800	0	0	0	0
Adjusted PAT	40,154	44,172	39,501	44,904	45,846	49,580	57,550	67,386
Change (%)	-3	10	-11	14	2	8	16	17

Balance Sheet								(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	174	175	296	296	296	296	296	296
Reserves	53,866	72,859	1,42,576	1,65,625	1,99,876	2,28,639	2,62,027	3,01,120
Net Worth	54,040	73,034	1,42,872	1,65,921	2,00,172	2,28,935	2,62,323	3,01,416
Minority Interest	11	37	57	71	92	92	92	92
Other Liabilities	10,886	7,697	11,972	14,143	17,934	17,918	17,956	18,004
Capital Employed	64,937	80,768	1,54,901	1,80,135	2,18,198	2,46,945	2,80,371	3,19,512
Net Block	12,104	10,481	13,772	17,823	21,224	20,851	20,100	18,541
Intangibles	7,684	9,241	14,861	15,452	15,078	15,078	15,078	15,078
Other LT Assets	5,170	6,056	27,805	29,789	50,798	46,618	49,818	53,906
Curr. Assets	63,290	81,313	1,49,386	1,71,897	1,88,530	2,13,394	2,48,885	2,91,266
Current Investments	22,186	36,282	57,882	53,349	77,494	92,494	1,12,494	1,32,494
Debtors	27,541	26,906	56,271	72,284	70,387	66,306	73,993	83,810
Cash & Bank Balance	5,252	7,594	14,462	23,389	18,200	25,488	30,224	38,868
Other Current Assets	8,311	10,531	20,771	22,875	22,449	29,106	32,174	36,094
Current Liab. & Prov	23,311	26,323	50,923	54,826	57,432	48,996	53,511	59,278
Trade Payables	7,269	8,277	13,250	12,938	14,939	9,454	10,550	11,949
Other Liabilities	13,454	14,504	31,381	33,754	34,007	31,056	34,475	38,842
Provisions	2,588	3,542	6,292	8,134	8,486	8,486	8,486	8,486
Net Current Assets	39,979	54,990	98,463	1,17,071	1,31,098	1,64,398	1,95,374	2,31,988
Application of Funds	64,937	80,768	1,54,901	1,80,135	2,18,198	2,46,945	2,80,371	3,19,512

Pro Forma P&L statement for the combined entity (LTIM) for FY20 and FY21

* Standalone (LTI) Balance Sheet for FY20 and FY21

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
EPS	89.4	98.9	133.5	151.8	154.8	167.3	194.2	227.4
Cash EPS	107.8	117.8	153.7	173.5	182.5	195.5	223.7	259.6
Book Value	120.3	161.5	483.0	560.9	676.0	772.5	885.1	1,017.0
DPS	22.7	37.6	63.9	60.0	65.0	70.2	81.5	95.5
Payout (%)	25.4	38.0	47.9	39.5	42.0	42.0	42.0	42.0
Valuation (x)								
P/E Ratio	71.5	64.6	47.9	42.1	41.3	38.2	32.9	28.1
Cash P/E Ratio	59.3	54.3	41.6	36.8	35.0	32.7	28.6	24.6
EV/EBITDA Ratio	51.3	44.8	34.6	29.3	28.1	26.0	22.4	18.9
EV/Sales Ratio	10.6	9.9	7.0	5.5	5.1	4.7	4.2	3.6
Price/Book Value ratio	53.1	39.6	13.2	11.4	9.5	8.3	7.2	6.3
Dividend Yield (%)	0.4	0.6	1.0	0.9	1.0	1.1	1.3	1.5
Profitability Ratios (%)								
RoE	78.0	70.4	36.6	26.1	24.4	23.1	23.4	23.9
RoCE	67.2	57.1	29.5	24.9	21.2	19.5	20.1	20.6
Turnover Ratios								
Debtors (Days)	37	34	79	80	72	64	64	64
Fixed Asset Turnover (x)	22.3	27.3	19.0	18.6	16.7	18.1	21.0	25.8

Cash Flow Statement

(INR m)

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
CF from Operations	44,695	48,591	50,720	57,953	66,301	76,945
Cash for Working Capital	-12,188	-17,645	5,975	-6,848	-9,402	-12,009
Net Operating CF	32,507	30,946	56,695	51,105	56,899	64,937
Net Purchase of FA	-10,529	-9,346	-8,330	-8,000	-8,000	-8,000
Free Cash Flow	21,978	21,600	48,365	43,105	48,899	56,937
Net Purchase of Invest.	-5,924	6,037	-30,791	-15,000	-20,000	-20,000
Net Cash from Invest.	-16,453	-3,309	-39,121	-23,000	-28,000	-28,000
Proc. from Equity Issues	2	12	0	0	0	0
Proceeds from LTB/STB	-3,529	-3,702	-4,947	0	0	0
Dividend Payments	-13,277	-15,627	-17,753	-20,817	-24,163	-28,292
Cash Flow from Fin.	-16,804	-19,317	-22,700	-20,817	-24,163	-28,292
Exchange Difference	21	607	-63	0	0	0
Net Cash Flow	-729	8,927	-5,189	7,288	4,736	8,644
Opening Cash Bal.	15,191	14,462	23,389	18,200	25,488	30,224
Add: Net Cash	-729	8,927	-5,189	7,288	4,736	8,644
Closing Cash Bal.	14,462	23,389	18,200	25,488	30,224	38,868

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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