

LTIMINDTREE

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Weak operating performance

LTIMindtree reported a weak operating performance in Q3. Revenue grew at a modest 1.9% QoQ CC, impacted by higher than anticipated furloughs and lesser working days. EBITM saw a sequential decline of 360bps on account of lower number of working days and furloughs-induced impact (-130bps), integration-related costs (-100bps), and increased employee & operations cost (-130bps). Management expects revenue growth to accelerate in Q4, as the effect of furloughs eases. EBITM is also expected to improve sequentially in Q4, on the back of receding influence of furloughs and lower integration-related costs. Management is confident of improving its revenue growth & margin trajectory and delivering top-quartile profitable growth FY24 onwards. The company has experienced deferral in some projects and delay in decision-making, but not any project cancellations so far. Order intake stood at USD1.25bn in Q3, with book-to-bill of ~1.2x. We cut EPS by 1-6% for FY23E-25E, factoring-in the Q3 performance miss. We maintain HOLD with TP of Rs4,600/sh (earlier Rs4,700) at 23x Dec-24E EPS.

Result summary: Revenue grew 2.4% QoQ to USD1,047mn (CC 1.9% QoQ), a tad below our expectations of USD1,056mn. EBITM declined ~360bps QoQ to 13.9%, 230bps below our expectations of 16.2%, due to impact of lower number of working days and furloughs (-130bps), integration-related costs (-100bps; includes provisional stamp duty of Rs500mn payable, pursuant to amalgamation of Mindtree), and increased employee & operations cost (-130bps; includes impact of increment given to freshers completing their first work anniversary, interventions/corrections to retain talent and ESOP costs). Net profit declined 15.8% QoQ to Rs10bn, below our expectations of Rs11.3bn, on account of operating performance miss. Revenue growth was led by Manufacturing (10.5% QoQ) and BFSI (5.7%), with Retail growth being flat and Hi-tech and Lifesciences declining sequentially by 4.7% and 3.8%, respectively. Segment margin declined sequentially for BFSI by 110bps, for Hi-tech by 580bps and for Manufacturing by ~550bps. **What we liked:** Healthy order intake (USD1.25bn; ~1.2x book-to-bill); moderation in attrition (22.3% vs 24.1% in Q2). **What we did not like:** Operating performance miss; weak cash conversion (OCF/EBITDA at ~48% in Q3).

Earnings KTAs: 1) Management indicated that near-term performance is likely to be impacted by the macro uncertainties, merger integration costs, and weak cash-conversion due to delayed billing. However, the combined business offers a well-diversified portfolio, improved large-deal participation with scale, end-to-end capabilities and cross-sell opportunities that would help in sustaining revenue growth on a larger scale. 2) Management aspires to create synergy revenue of at least USD1bn and at least 200bps margin synergy over the next 5 years. 3) Management highlighted that the BFSI, E&U, Travel and public sectors are demonstrating resilience amid macro uncertainties. 4) Retail, CPG and TTH are seeing some softness due to part-exposure to real estate, given the interest rate cycle. Within retail and CPG, clients are being cautious because of high inflation. Hi-tech vertical performance was impacted by higher than anticipated furloughs. 5) BFSI grew 5.7% QoQ on the back of deal wins, addition of new logos, rate increases and a growing pipeline of large deals. 6) DSO (billed) for Q3FY23 stood at 61 days; DSO (including unbilled) stood at 90 days. Management expects DSO to be in the range of 50-55 days from Q1FY24. 7) The Board declared an interim dividend of Rs20 per share. Management expects its payout policy to be 35-40% annually. 8) Quarterly annualized attrition declined sequentially by more than 600bps to ~18% in Q3; Management expects this to trend down further. 9) Company expects ETR of 23.5-24% for Q4 and of 25-25.5% from FY24.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	123,698	261,087	332,243	377,814	439,737
EBITDA	27,252	52,486	60,799	70,498	86,058
EBITDA Margin (%)	22.0	20.1	18.3	18.7	19.6
APAT	19,361	39,483	44,155	50,755	62,387
EPS (Rs)	110.8	133.5	149.3	171.6	210.9
EPS (% chg)	26.9	20.5	11.8	14.9	22.9
ROE (%)	30.5	36.6	26.1	27.5	28.6
P/E (x)	38.5	32.0	28.6	24.9	20.2
EV/EBITDA (x)	27.1	23.5	20.3	17.5	14.2
P/BV (x)	10.2	8.8	7.5	6.3	5.3

Source: Company, Emkay Research

CMP	Target Price
Rs 4,268	Rs 4,600 (▼)
as of (January 21, 2023)	12 months
Rating	Upside
HOLD (■)	7.8 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(5.0)/(5.8)
Target Price change (%)	(2.1)
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	149.3	171.6
Consensus	157.0	181.1
Mean Consensus TP (12M)	Rs 4,981	

Stock Details

Bloomberg Code	LTIM IN
Face Value (Rs)	1
Shares outstanding (mn)	296
52 Week H/L	6,982 / 3,733
M Cap (Rs bn/USD bn)	1,262 / 15.56
Daily Avg Volume (nos.)	427,636
Daily Avg Turnover (USD mn)	24.5

Shareholding Pattern Nov '22

Promoters	68.7%
FIIIs	9.6%
DIIIs	10.1%
Public and Others	11.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	(10)	(4)	(35)
Rel. to Nifty	-	(13)	(12)	(36)

Relative price trend



Source: Bloomberg

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Exhibit 1: Quarterly snapshot (Q3FY23)

(Rs mn)	Q3FY23	Q2FY23	QoQ (%)	Q3FY22	YoY (%)
Revenue (US\$)	1047	1022	2.4	918	14.0
Net sales	86,200	82,278	4.8	68,807	25.3
Operating expenses	72,452	65,922		54,544	
EBITDA	13,748	16,356	-15.9	14,263	-3.6
EBITDA Margin (%)	15.9	19.9	(390.0)	20.7	(480.0)
Depreciation	1781	1959		1518	
EBIT	11,967	14,397	-16.9	12,745	-6.1
EBIT Margin (%)	13.9	17.5	(360.0)	18.5	(460.0)
Forex Gains/(Losses)	490	198		1071	
Other income	649	1035		276	
Pre-tax profit	13,106	15,630	-16.1	14,092	-7.0
Tax provided	3,099	3,740		3,591	
Profit after tax	10,007	11,890		10,501	
Emkay Net profit	10,005	11,885	-15.8	10,496	-4.7
EPS (Rs)	33.8	40.2	-15.8	35.5	-4.8

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates (Q3FY23)

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales (USD mn)	1,047	1,056	1,057	-0.9%	-1.0%	Revenue came lower than expectations due to higher than anticipated furloughs.
Sales	86,200	86,896	86,975	-0.8%	-0.9%	
EBIT	11,967	14,103	14,253	-15.1%	-16.0%	Margins came in 230bps below our expectations
EBIT, margin	13.9%	16.2%	16.4%	-230 bps	-250 bps	
Net profit	10,005	11,322	11,457	-11.6%	-12.7%	PAT missed estimates due to operating performance miss.

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY23E			FY24E			FY25E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (USD mn)	4,148	4,126	-0.5%	4,690	4,664	-0.5%	5,391	5,363	-0.5%
YoY growth (%)	18.1	17.5		13.1	13.0		15.0	15.0	
Revenue	333,965	332,243	-0.5%	379,884	377,814	-0.5%	442,101	439,737	-0.5%
EBIT	56,940	53,551	-6.0%	66,836	62,747	-6.1%	77,737	76,978	-1.0%
EBIT margins (%)	17.0	16.1		17.6	16.6		17.6	17.5	
Net profit	46,463	44,155		53,858	50,755		63,051	62,387	
EPS (Rs)	157.1	149.3	-5.0%	182.1	171.6	-5.8%	213.2	210.9	-1.1%

Source: Company, Emkay Research

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	123,698	261,087	332,243	377,814	439,737
Expenditure	96,446	208,601	271,444	307,316	353,679
EBITDA	27,252	52,486	60,799	70,498	86,058
Depreciation	3,325	5,971	7,248	7,751	9,080
EBIT	23,927	46,515	53,551	62,747	76,978
Other Income	1,955	7,658	6,391	6,806	8,212
Interest expenses	0	1,234	1,382	1,399	1,423
PBT	25,882	52,939	58,560	68,154	83,767
Tax	6,500	13,439	14,384	17,379	21,361
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	(21)	(17)	(21)	(20)	(20)
Reported Net Income	19,361	39,483	44,155	50,755	62,387
Adjusted PAT	19,361	39,483	44,155	50,755	62,387

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	175	296	296	296	296
Reserves & surplus	72,859	142,602	169,009	199,058	236,302
Net worth	73,034	142,898	169,305	199,354	236,598
Minority Interest	37	57	78	98	118
Loan Funds	414	519	519	519	519
Net deferred tax liability	(511)	(444)	(441)	(441)	(441)
Total Liabilities	72,974	143,030	169,461	199,530	236,794
Net block	19,060	33,983	38,745	39,794	40,015
Investment	37,295	63,347	66,503	96,503	116,503
Current Assets	49,528	103,318	132,251	139,237	166,390
Cash & bank balance	7,594	18,286	23,977	21,246	30,246
Other Current Assets	14,271	30,138	24,140	26,637	30,030
Current liabilities & Provision	33,571	62,646	69,977	77,443	87,553
Net current assets	15,957	40,672	62,274	61,794	78,837
Misc. exp	0	0	0	0	0
Total Assets	72,974	143,030	169,461	199,530	236,794

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	23,927	45,281	52,169	61,348	75,555
Other Non-Cash items	4,985	7,641	14,384	17,379	21,361
Chg in working cap	2,704	(9,542)	(15,907)	(2,252)	(8,043)
Operating Cashflow	23,996	16,520	35,516	56,274	63,443
Capital expenditure	(3,091)	(9,335)	(8,921)	(8,300)	(9,300)
Free Cash Flow	20,905	7,185	26,595	47,974	54,143
Investments	(14,611)	(1,635)	(3,156)	(30,000)	(20,000)
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(16,560)	(9,594)	(12,077)	(38,300)	(29,300)
Equity Capital Raised	1	0	0	0	0
Loans Taken / (Repaid)	94	105	0	0	0
Dividend paid (incl tax)	(5,319)	(8,749)	(17,748)	(20,706)	(25,143)
Other Financing Cash Flow	157	(1,766)	0	0	0
Financing Cashflow	(5,088)	(10,458)	(17,748)	(20,706)	(25,143)
Net chg in cash	2,348	(3,532)	5,691	(2,732)	9,000
Opening cash position	5,252	7,594	18,286	23,977	21,246
Closing cash position	7,594	3,949	23,977	21,246	30,246

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	22.0	20.1	18.3	18.7	19.6
EBIT Margin	19.3	17.8	16.1	16.6	17.5
Effective Tax Rate	25.1	25.4	24.6	25.5	25.5
Net Margin	15.7	15.1	13.3	13.4	14.2
ROCE	41.3	50.2	35.4	37.7	39.0
ROE	30.5	36.6	26.1	27.5	28.6
RoIC	69.4	82.8	52.4	59.4	67.9

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	110.8	133.5	149.3	171.6	210.9
CEPS	129.8	153.7	173.8	197.8	241.6
BVPS	417.9	483.1	572.4	674.0	799.9
DPS	40.0	32.6	60.0	70.0	85.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	38.5	32.0	28.6	24.9	20.2
P/CEPS	32.9	27.8	24.6	21.6	17.7
P/BV	10.2	8.8	7.5	6.3	5.3
EV / Sales	6.0	4.7	3.7	3.3	2.8
EV / EBITDA	27.1	23.5	20.3	17.5	14.2
Dividend Yield (%)	0.9	0.8	1.4	1.6	2.0

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.1)	(0.2)	(0.2)	(0.1)	(0.2)
Net Debt/EBIDTA	(0.3)	(0.5)	(0.5)	(0.4)	(0.4)
Working Cap Cycle (days)	24.7	31.3	42.1	39.2	40.3

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	13.7	111.1	27.3	13.7	16.4
EBITDA	34.3	92.6	15.8	16.0	22.1
EBIT	36.2	94.4	15.1	17.2	22.7
PAT	27.4	103.9	11.8	14.9	22.9

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	68,807	71,990	76,439	82,278	86,200
EBITDA	14,263	14,547	14,889	16,356	13,748
EBITDA Margin (%)	20.7	20.2	19.5	19.9	15.9
PAT	10,496	11,101	11,051	11,885	10,005
EPS (Rs)	35.5	37.5	37.4	40.2	33.8

Source: Company, Emkay Research

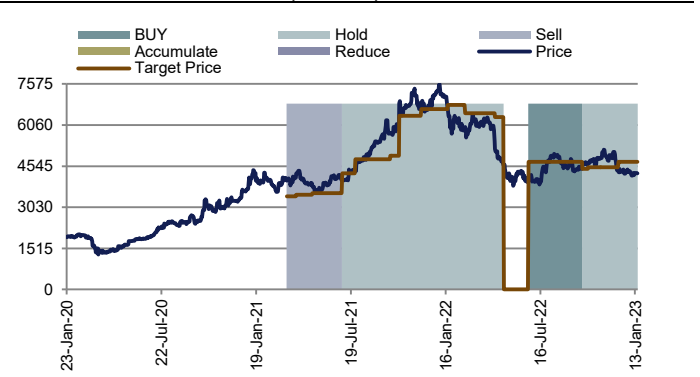
Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Nov-22
Promoters	74.1	74.1	74.0	74.0	68.7
FII	12.5	10.1	8.4	8.1	9.6
DII	5.4	7.5	8.1	8.1	10.1
Public and Others	8.0	8.4	9.5	9.7	11.6

Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
2-Jan-23	4,322	4,700	12m	Hold	Dipeshkumar Mehta
12-Dec-22	4,331	4,700	12m	Hold	Dipeshkumar Mehta
15-Oct-22	4,669	4,500	12m	Hold	Dipeshkumar Mehta
4-Oct-22	4,588	4,450	12m	Hold	Dipeshkumar Mehta
15-Jul-22	3,975	4,700	12m	Buy	Dipeshkumar Mehta
23-Jun-22	4,133	4,700	12m	Buy	Dipeshkumar Mehta
7-May-22	4,593	-	12m	UR	Dipeshkumar Mehta
20-Apr-22	5,170	6,350	12m	Hold	Dipeshkumar Mehta
1-Apr-22	6,174	6,500	12m	Hold	Dipeshkumar Mehta
22-Feb-22	5,991	6,500	12m	Hold	Dipeshkumar Mehta
20-Jan-22	6,606	6,800	12m	Hold	Dipeshkumar Mehta
1-Jan-22	7,332	6,650	12m	Hold	Dipeshkumar Mehta
9-Dec-21	6,606	6,650	12m	Hold	Dipeshkumar Mehta
30-Nov-21	6,810	6,650	12m	Hold	Dipeshkumar Mehta
19-Oct-21	6,855	6,400	12m	Hold	Dipeshkumar Mehta
2-Oct-21	5,751	4,930	12m	Hold	Dipeshkumar Mehta
27-Jul-21	4,349	4,800	12m	Hold	Dipeshkumar Mehta
17-Jul-21	4,289	4,280	12m	Hold	Dipeshkumar Mehta
2-Jul-21	4,043	4,280	12m	Hold	Dipeshkumar Mehta
16-Jun-21	4,210	3,550	12m	Sell	Dipeshkumar Mehta
6-May-21	3,812	3,550	12m	Sell	Dipeshkumar Mehta
5-Apr-21	4,270	3,490	12m	Sell	Dipeshkumar Mehta
18-Mar-21	4,007	3,430	12m	Sell	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)


Source: Bloomberg, Company, Emkay Research

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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