

24 January 2023

LTIMindtree

Growth in-line, margins lower due to one-offs; maintaining a Buy

With revenue up 2.4% q/q (~1% from pass-throughs) to ~\$1,047m, LTI-Mindtree grew on par with the industry and in line with our expectations. TCV was \$1.25bn, a book-to-bill of 1.2x (Mindtree operated in the past at 1.2x). The EBIT margin was lower due to more Hi-tech furloughs, employee costs and integration costs which may not recur in Q4, leading to management guidance of a 200bp expansion in Q4. Attrition moved down further and industry tailwinds are likely to continue. Estimates are largely unchanged with a revised TP of Rs5,520 (from Rs5,630) at 26x (unchanged) FY25e.

Large deal pipeline at record high, Q3 revenues affected by furloughs. Q3 revenue was up 2.4% q/q, 13.8% y/y, largely driven by Manufacturing & resources (up 10.5% q/q) and BFSI (up 5.7% q/q). Weakness was seen in Hi-tech (down 4/7% q/q) due to furloughs but the company is confident of recovering in Q4. The company is seeing deferred demand in certain projects and delays in decision-making but is yet confident of growth, given its current pipeline. It is also experiencing an increase in cost take-out deals.

EBIT margin to expand 200-250bps in Q4. In Q3, the EBIT margin was down ~260bps q/q, 360bps y/y (on adj. for M&A cost: 100bps) to 14.9%. This was largely due to furloughs (130bps) and rises in employee costs (130bps). The latter was higher due to ESOPs to top management and increments to fresh graduates. As some of these are non-recurring, Management guided to a 200-250bp margin expansion in Q4. Utilisation incl. trainees (est.) was 81.5% and offers headroom for improvement. Headcount moved down 474 in Q3 to 86,462; attrition also moved down, to 22.3% from 24.1% in Q2. We expect net addition to turn positive given current utilisation.

Retaining a Buy. We expect LTIM to deliver a 13% revenue CAGR over FY23-25 and increase EBIT margins to ~18% by FY25, from 16.3% in FY23, leading to a 20% EBIT CAGR. This would result in an EPS of Rs.213 for FY25. The stock trades at FY25e PE of 20x which we find attractive; our target is based on 26x FY25e EPS (Rs5,520). **Risks:** Continued headwinds in Hi-tech; high integration costs.

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	123,698	156,687	333,279	382,898	435,030
Net profit (Rs m)	19,384	22,969	44,584	53,070	62,980
EPS (Rs)	110.4	130.8	150.5	179.1	212.5
P E (x)	66.7	56.3	29.0	24.4	20.5
EV / EBITDA (x)	44.5	39.6	19.7	16.5	14.1
P/BV (x)	17.7	14.7	7.9	6.7	5.8
RoE (%)	30.5	28.5	29.1	29.8	30.2
RoCE (%)	23.8	22.3	29.6	25.0	25.5
Dividend yield (%)	0.9	1.3	1.7	1.8	2.4
Net debt / equity (x)	-0.6	-0.5	-0.5	-0.5	-0.5

Source: Company, Anand Rathi Research

Note: FY23 includes Mindtree

Rating: Buy

Target Price: Rs.5,520

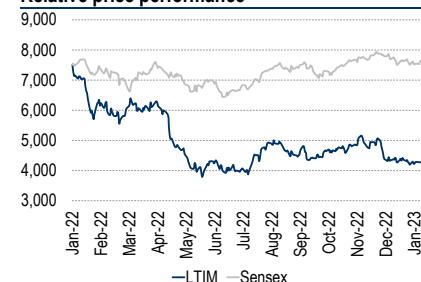
Share Price: Rs.4,361

Key data	LTI IN / LRTI.BO
52-week high / low	Rs.6,525 / 3733
Sensex / Nifty	60942 / 18119
3-m average volume	\$24.6m
Market cap	Rs.1,292bn / \$15877.1m
Shares outstanding	296m

Shareholding pattern (%)	Dec'22	Sep'22	Jun'22
Promoters	68.7	74.0	74.0
- of which, Pledged	-	-	-
Free float	31.3	26.0	26.0
- Foreign institutions	9.2	8.1	8.4
- Domestic institutions	10.5	8.1	8.1
- Public	11.6	9.7	9.5

Estimates revision (%)	FY23e	FY24e	FY25e
Sales (\$)	(0.0)	(0.5)	(1.0)
EBITDA	(1.5)	(2.2)	(1.5)
Net Profit	(0.3)	(0.8)	(1.4)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Revenues (US\$m)	1,670.0	2,102.6	4,122.1	4,653.9	5,287.6
Growth (%)	9.5	25.9	17.7	12.9	13.6
Net revenues (Rs m)	123,698	156,687	333,279	382,898	435,030
Employee & Direct Costs	91,617	119,763	253,282	290,728	328,046
Gross Profit	32,081	36,924	79,997	92,170	106,984
Gross Margin %	25.93	23.57	24.00	24.07	24.59
SG&A	4,830	6,339	18,355	18,878	20,919
EBITDA	27,251	30,585	61,643	73,292	86,065
EBITDA margins (%)	22.0	19.5	18.5	19.1	19.8
- Depreciation	3,325	3,549	7,221	7,637	8,267
Other income	2,743	4,667	5,780	6,993	8,432
Interest Exp	788	728	1,445	1,516	1,516
PBT	25,881	30,975	58,757	71,132	84,714
Effective tax rate (%)	25	26	24	25	26
+ Associates/(Minorities)	3	-17	-18	-8	-8
Net Income	19,384	22,969	44,584	53,070	62,980
WANS	176	176	296	296	296
FDEPS (Rs/share)	110.4	130.8	150.5	179.1	212.5

Fig 3 – Cash Flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT	25,881	30,975	58,757	71,132	84,714
+ Non-cash items	1,811	3,200	7,220	7,637	8,267
Operating profit before WC chang	27,692	34,175	65,977	78,769	92,980
- Incr./decr.) in WC	-2,704	9,542	19,291	12,380	11,482
Others including taxes	-6,400	-8,113	-11,904	-18,054	-21,725
Operating cash-flow	23,996	16,520	34,782	48,335	59,773
- Capex (tangible + Intangible)	2,719	8,590	11,665	6,509	6,525
Free cash-flow	21,277	7,930	23,117	41,826	53,247
Acquisitions	-426	-779	-904	-	-
- Dividend (including buyback & te	5,319	8,749	22,292	23,882	31,490
+ Equity raised	1	-	-	-	-
+ Debt raised	94	105	-519	-	-
- Fin Investments	14,611	-2,189	-17,367	17,236	37,344
- Misc. Items (CFI + CFF)	-1,326	517	215	-	-
Net cash-flow	2,342	179	16,554	708	-15,588

Source: Company, Anand Rath Research

Fig 2 – Balance sheet (Rs m)

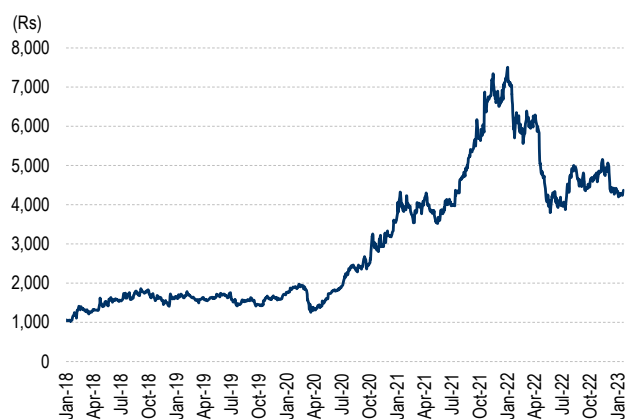
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	175	175	295	295	295
Net worth	73,034	88,146	163,359	192,547	224,038
Total debt (incl. Pref)	414	519	-	-	-
Minority interest	37	57	75	83	91
DTL/(Asset)	-511	-444	-6,322	-6,322	-6,322
Capital employed	72,974	88,278	157,112	186,308	217,807
Net tangible assets	10,078	11,359	25,750	25,622	24,881
Net Intangible assets	9,241	10,057	14,657	13,657	12,657
Goodwill	6,574	6,900	6,900	6,900	6,900
CWIP (tang. & intang.)	403	4,374	4,589	4,589	4,589
Investments (Strategic)					
Investments (Financial)	38,890	34,820	57,453	74,689	112,033
Current Assets (ex Cash)	40,339	55,761	98,705	111,232	124,045
Cash	7,594	7,773	24,327	25,035	9,448
Current Liabilities	33,571	35,866	68,369	68,516	69,846
Working capital	6,768	19,895	30,336	42,716	54,199
Capital deployed	72,974	88,278	157,112	186,308	217,807
Contingent Liabilities	3,791	3,803	-	-	-

Fig 4 – Ratio analysis

Year end Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	66.7	56.3	29.0	24.4	20.5
EV/EBITDA (x)	44.5	39.6	19.7	16.5	14.1
EV/sales (x)	9.8	7.7	3.6	3.2	2.8
P/B (x)	17.7	14.7	7.9	6.7	5.8
RoE (%)	30.5	28.5	29.1	29.8	30.2
RoCE (%) - After tax	23.8	22.3	29.6	25.0	25.5
RoIC (%) - After tax	46.6	44.3	53.5	46.5	49.9
DPS (Rs per share)	40.0	55.0	75.2	80.6	106.3
Dividend yield (%)	0.9	1.3	1.7	1.8	2.4
Dividend payout (%) - Inc. DDT	36.2	42.1	50.0	45.0	50.0
Net debt/equity (x)	-0.6	-0.5	-0.5	-0.5	-0.5
Receivables (days)	79	87	80	79	77
Payables (days)	31	23	21	20	20
CFO:PAT %	123.8	71.9	78.0	91.1	94.9
FCF:PAT % - includ M&A payou	107.6	31.1	49.8	78.8	84.5

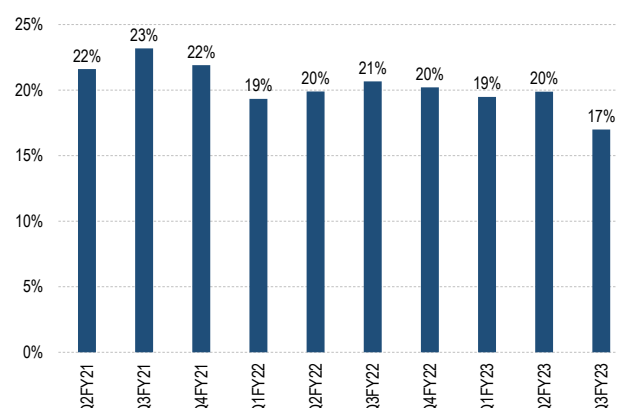
Source: Company, Anand Rath Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – EBITDA margin (LTMindtree, Proforma till Q1 FY23)



Source: Company, Anand Rath research

Quarterly result

Fig 7 – LTMindtree quarterly result

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q/Q	Y/Y%
Revenue (\$ m)	919	954	980	1,022	1,047	2.4%	13.8%
Growth Y/Y %	31%	30%	25%	19%	14%		
Industry Y/Y % (est.)	21%	20%	16%	13%	9%		
Revenue (Rs m)	68,876	71,990	76,439	82,278	86,200	4.8%	25.2%
Effec. exchange rate	74.9	75.4	78.0	80.5	82.4	2.3%	9.9%
Net New TCV (\$ m) LTI	32	80	79	80	NA		
TCV (LTM)	128	142	221	271	NA		
MTCL TCV (\$ m)	358	390	570	518	NA		
TCV (LTM)	1,597	1,612	1,678	1,836	NA		
Visibility							
Total TCV (LTIIM)					1,250		
Employees (EoP)	76,159	81,719	84,030	86,936	86,462	-0.5%	13.5%
Rev. prod. (\$ '000/employee)	12.4	12.1	11.8	12.0	12.1	1.0%	-2.7%
Utilisation % (LTI)	80.3%	80.1%	83.0%	82.4%	81.5%	-90 bps	120 bps
Utilisation % (MTCL)	81.5%	83.1%	81.2%	80.7%	NA		
Attrition LTI	22.5%	24.0%	24.0%	24.1%	22.3%	-180 bps	-20 bps
Attrition MTCL	21.9%	23.8%	24.5%	24.1%	NA		
CoR (excl. D&A)	(50,634)	(52,979)	(56,857)	(61,912)	(66,350)	7.2%	31.0%
As % of revenue	-74%	-74%	-74%	-75%	-77%	-172 bps	-346 bps
SG&A	(4,010)	(4,464)	(4,693)	(4,010)	(5,202)	29.7%	29.7%
As % of revenue.	-6%	-6%	-6%	-5%	-6%	-116 bps	-21 bps
EBITDA	14,232	14,547	14,889	16,356	14,648	-10.4%	2.9%
EBITDA margins %	20.7%	20.2%	19.5%	19.9%	17.0%	-289 bps	-367 bps
EBIT	12,715	12,932	13,225	14,397	12,867	-10.6%	1.2%
EBIT margins %	18.5%	18.0%	17.3%	17.5%	14.9%	-257 bps	-353 bps
Industry margins % (est.)	17.9%	17.3%	16.4%	14.6%	15.4%	78 bps	-259 bps
Other income (excl. forex)	579	829	966	1,413	1,028	-27.2%	77.5%
Non-recurring / Forex	1,128	1,410	870	198	(410)	-307.1%	-136.3%
Interest expenses	(315)	(310)	(309)	(378)	(379)	0.3%	20.3%
PBT	14,107	14,861	14,752	15,630	13,106	-16.1%	-7.1%
PBT margins %	20.5%	20.6%	19.3%	19.0%	15.2%	-379 bps	-528 bps
Taxes	(3,607)	(3,755)	(3,705)	(3,740)	(3,099)	-17.1%	-14.1%
ETR %	-26%	-25%	-25%	-24%	-24%	28 bps	192 bps
Minority interest/Income from associates	(5)	(5)	(9)	(5)	(2)	-60.0%	-60.0%
Net income	10,495	11,101	11,038	11,885	10,005	-15.8%	-4.7%
Net margins %	15.2%	15.4%	14.4%	14.4%	11.6%	-284 bps	-363 bps
Industry net margins %	14.0%	14.3%	12.5%	11.8%	11.1%	-70 bps	-288 bps
EPS (Rs)	35.4	37.5	37.3	40.1	33.8	-15.8%	-4.7%

Source: Company, Anand Rathi Research Note: Pro forma till Q1FY23

Fig 8 – Quarterly results

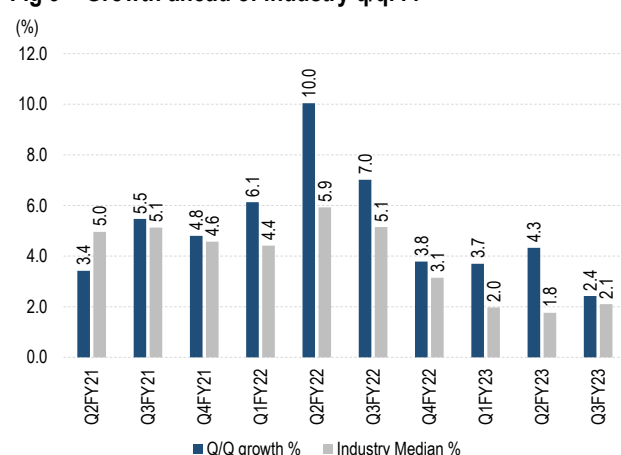
Year-end: Mar (Rs m)	Q3FY23	% chg. Q/Q	% chg. Y/Y	9M as of FY23	FY23e	FY23e % chg. Y/Y	FY24e % chg. Y/Y
Sales (\$ m)	1,047	2.4	13.8	74	4,122	17.3	12.9
Sales	86,200	4.8	25.2	73	333,279	27.2	14.9
EBITDA	14,648	(10.4)	2.9	74	61,643	17.3	18.9
EBITDA margin (%)	17.0	-289bps	-367bps	-	18.5	-156bps	65bps
EBIT	12,867	(10.6)	1.2	74	54,422	16.9	20.6
EBIT margin (%)	14.9	-257bps	-353bps	-	16.3	-145bps	82bps
PBT	13,106	(16.1)	(7.1)	74	58,756	10.7	21.1
Tax	(3,099)	(17.1)	(14.1)	74	(14,154)	4.3	27.6
Tax rate (%)	(23.6)	28bps	192bps	-	(24.1)	147bps	-129bps
Net income	10,005	(15.8)	(4.7)	74	44,584	12.9	19.0

Source: Company, Anand Rathi Research

Continues to grow faster than industry; Q3 an aberration

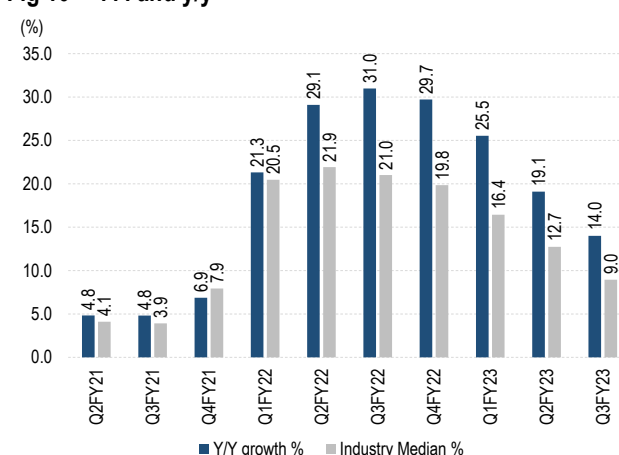
LTMindtree's Q3 FY23 \$1,047m revenue was in line with expectations, up 2.4% q/q, higher than industry growth for the ninth successive quarter and despite more-than-usual furloughs in Hi-tech. Y/y though, the company grew faster than the industry for the seventh consecutive quarter and is likely to retain this outpacing as some of the concentrated exposures to verticals are now better diversified (BFSI, Retail CPG, Hi-tech). Further, it should benefit from revenue synergies ahead, per management, \$1bn cumulatively in 4-5 years. In the past, the company has grown ~4-8% more than the industry and we expect this gap to continue.

Fig 9 – Growth ahead of industry q/q...



Source: Company, Anand Rathi Research Note: Pro forma numbers used till Q4FY22

Fig 10 – ... and y/y



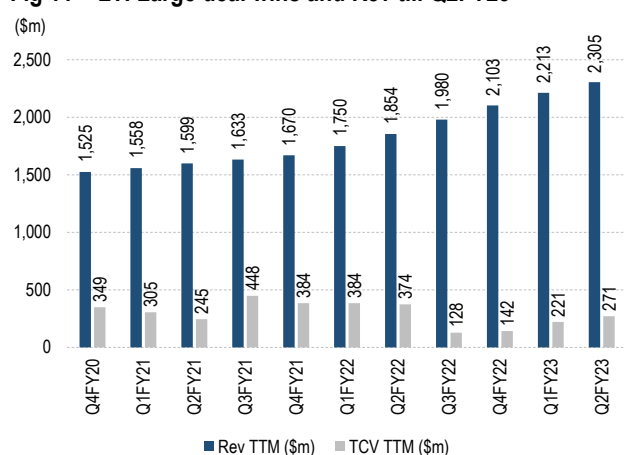
Source: Company, Anand Rathi Research Note: Pro forma numbers used till Q4FY22

LTIM registered TCV of \$1.25bn in Q3, and management said that the large deal pipeline is at an all-time high. Deals won in the quarter include one from an American multinational financial services company (expanded engagement with LTI's Temenos capabilities), one from a global airline and one from a North American specialty insurer, among others.

Management is seeing the number of cost take-out deals increasing and is seeing deferment of certain projects but not any cancellation at this time. Hence, given the deal pipeline, it expects to remain on the growth path.

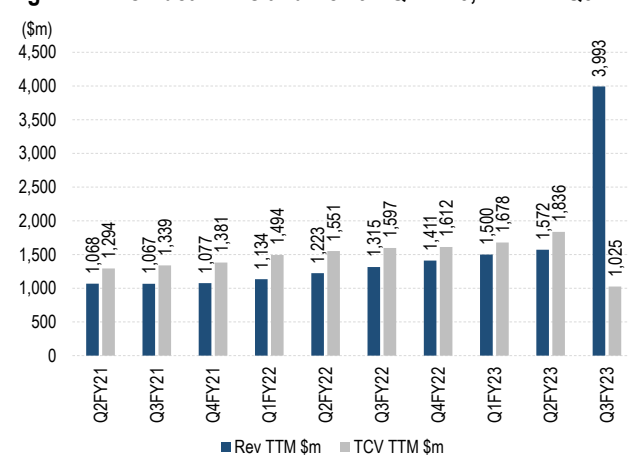
On a TTM basis, revenues have grown 21%, and the company's TCV is \$1,025m. The TCV gives us some assurance into FY24 from a growth perspective. The current book-to-bill is 1.2x (similar to that of MTCL's past book-to-bill), but behind other high-growth peers such as PSYS (1.7x; four-quarter average 1.6x) and Coforge (1.4x; four-quarter average 1.3x). Management expects acceleration ahead as the current quarter took more resources and bandwidth in executing the merger.

Fig 11 – LTI Large deal wins and Rev till Q2FY23



Source: Company, Anand Rathi Research

Fig 12 – MTCL deal wins and Rev till Q2FY23, LTIM in Q3FY23



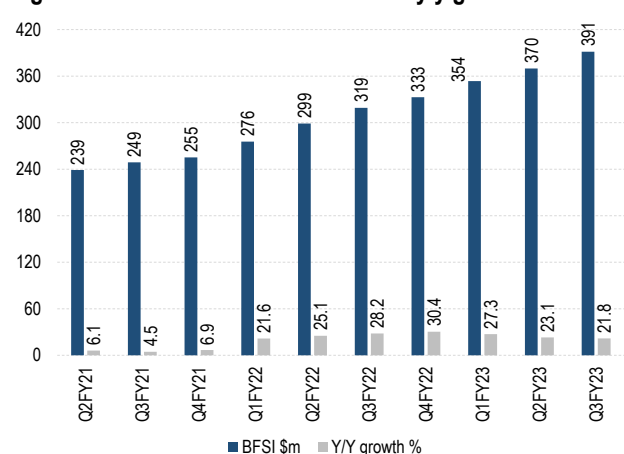
Source: Company, Anand Rathi Research Note: LTIM Q3 TCV is only for Q3 not LTIM.

BFSI, Manufacturing lead the way for sequential growth

In Q3 for LTIM, growth in BFSI (37% of revenue) came at 6% q/q, 22% y/y. Growth in this vertical has been above 20% y/y for the last seven quarters. Management said that the BFS portion was at a \$1bn annual run-rate in Q3 and that it saw significant deals, addition of logos, rate increases and growth in the large-deals pipeline.

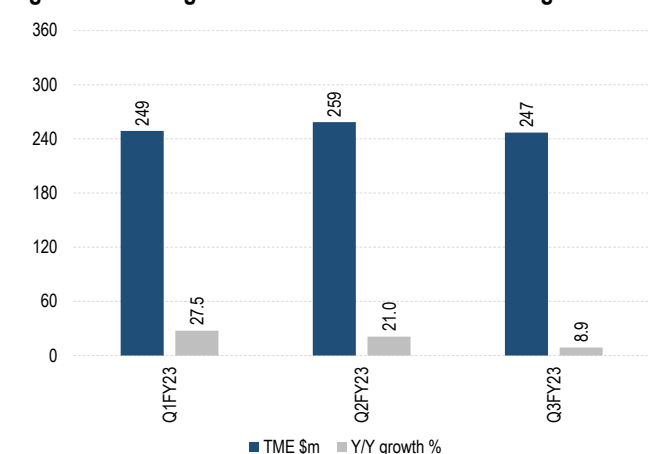
For LTIM, Hitech, Media and Entertainment (Hi-Tech) brings 24% to overall revenue, making it the second-largest vertical for the company. This vertical declined sequentially 4.7% q/q, but was up 8.9% y/y, lower than the company level largely due to furloughs. Within Media and Entertainment, the company secured renewals in some of the large managed services deals. Management is seeing strong demand for platform services and application modernisation, leveraging cloud for OTT streaming. Ahead, it is confident of partial recovery in this vertical in Q4 and full recovery by Q1 as furloughs get over.

Fig 13 – BFSI continues to deliver 20% y/y growth



Source: Company, Anand Rathi Research

Fig 14 – Hi-Tech growth slows on account of furloughs

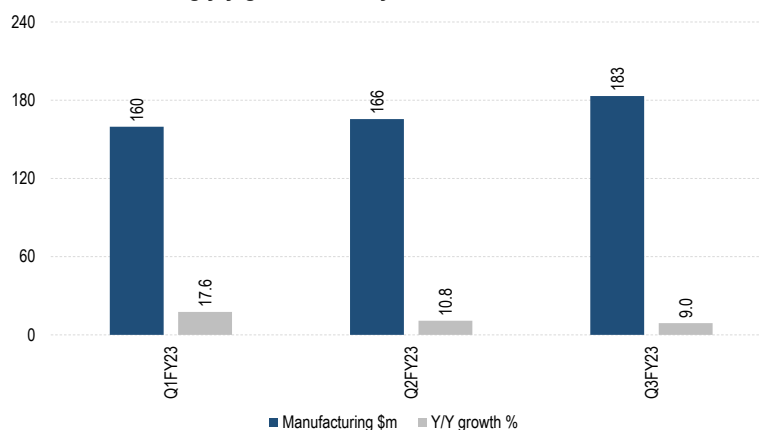


Source: Company, Anand Rathi Research

In Q3, the Manufacturing vertical's (18% of total revenue) performance was strong. This is the third-largest vertical for LTIM. Growth here was driven by improvement in the outsourcing pipeline and good deals, especially in the automotive sector. The resources portfolio continues to see traction in digital

transformation of core operations. Manufacturing has grown 10.5% q/q, reflecting erstwhile LTI's seasonality on equipment sales (or pass-through) although it was slightly lower than in Q3 FY22.

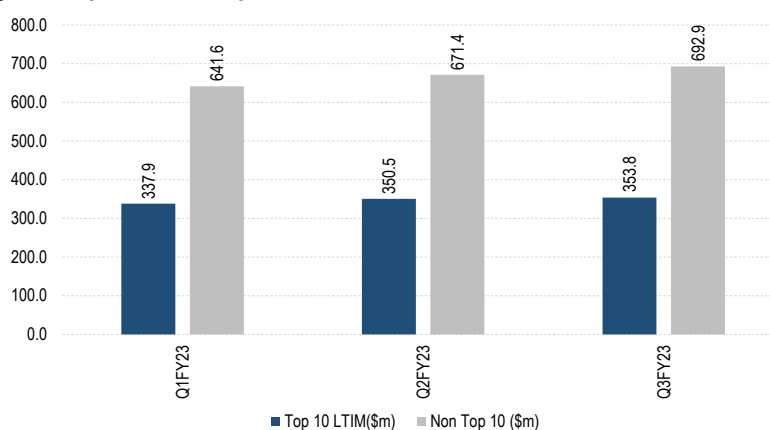
Fig 15 – Manufacturing y/y growth steady



Source: Company, Anand Rath Research

LTIM gets 34% of revenue from the top-10 clients. In Q3 FY23, LTIM's top clients grew slower than the company. The contribution of the top-10 fell to 33.8%, from 34.3% in Q2 and 34% in Q3 FY23. The top-10 grew 0.9% q/q, 13.3% y/y. the non-top-10 grew faster, at 3.2% q/q, 14.3% y/y.

Fig 17 – Top-10 vs non-top10 for LTIMindtree

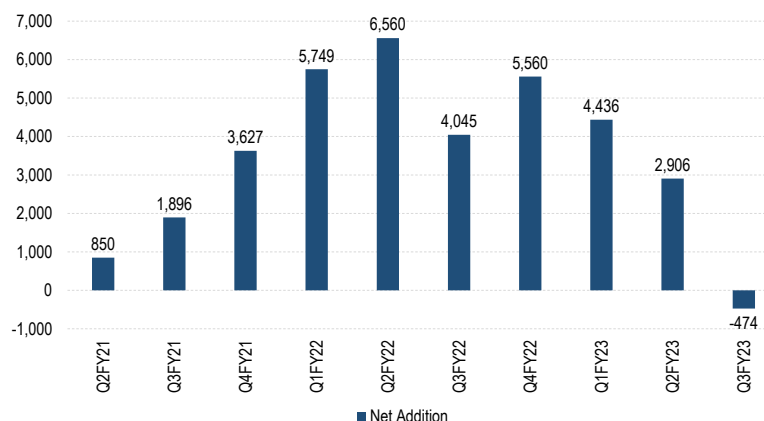


Source: Company, Anand Rath Research

Headcount and Margins decline

LTMindtree's headcount declined by 474 in Q3 FY23, and utilisation was ~82% (incl. trainees). Gross utilisation was not disclosed. Hiring in the quarter was lower sequentially than the last quarter's 2,906 as the company regains focus on utilisation. However, given its current utilisation, we expect headcount addition to resume for LTIM from Q4 FY23.

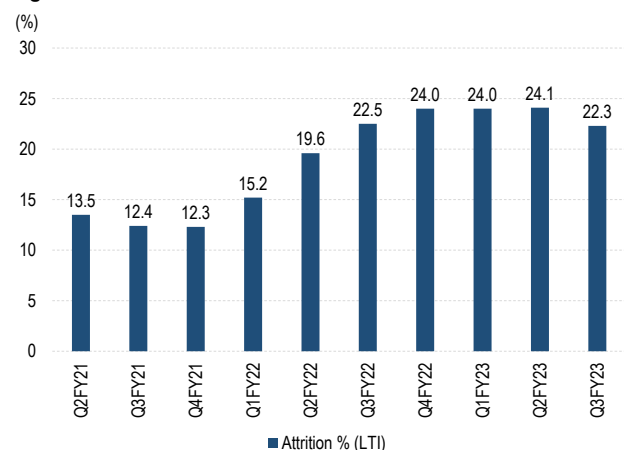
Fig 18 – Headcount decline in Q3



Source: Company, Anand Rath Research Note: LTIM net addition from Q1FY23

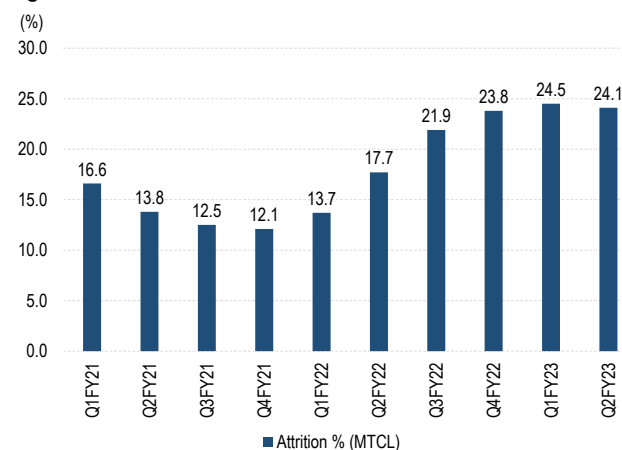
LTIM's Q3 attrition slid 180bps sequentially to 22.3%, and management suggested that attrition should moderate further. In Q3, the quarterly annualized attrition declined more than 6%, to 18%.

Fig 19 – Attrition to moderate further



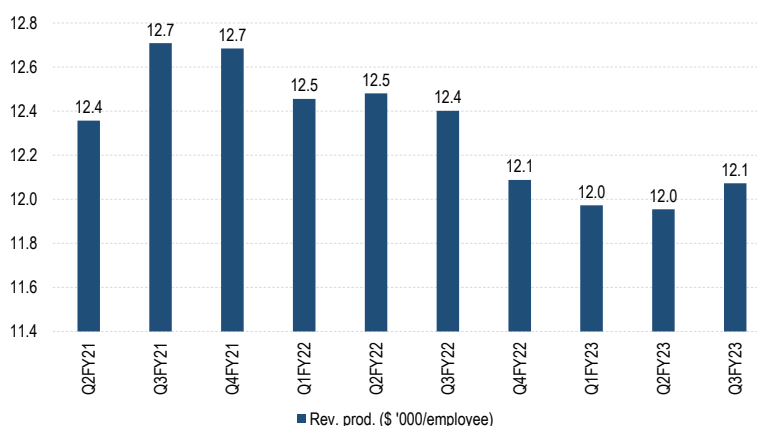
Source: Company, Anand Rath Research Note: LTIM attrition from Q1FY23

Fig 20 – Attrition for MTCL till Q2 FY23

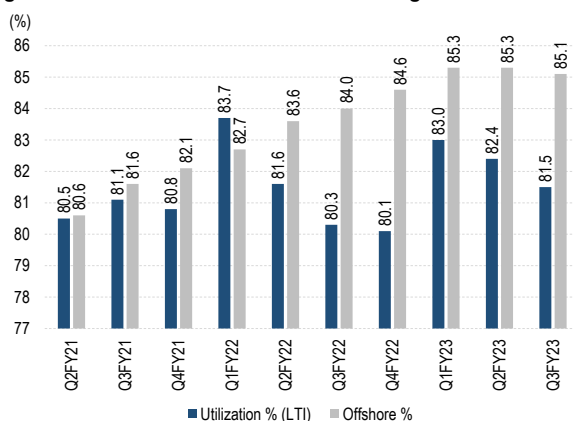


Source: Company, Anand Rath Research

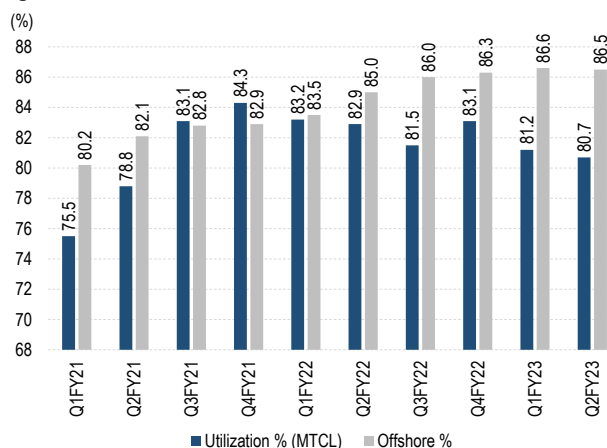
From an employee-productivity perspective, LTMindtree was steady in Q3 FY23, with some benefit accrued on account of reduced headcount in the quarter. Since the company is already running at optimal utilisation and offshore levels, synergy is the only lever to improve on this metric. Therefore, we expect this number to be steady in the near term.

Fig 21 – Productivity steady for LTIM

Source: Company, Anand Rathi Research Note: LTIM productivity from Q1FY23

Fig 22 – Utilisation can be a lever for margins

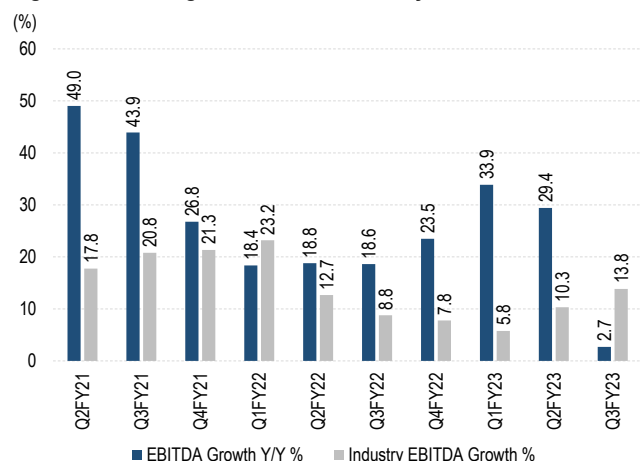
Source: Company, Anand Rathi Research Note: Offshore by effort mix, LTIM numbers from Q1FY23, utilisation (incl. trainees) estimated.

Fig 23 – Utilisation and offshore for MTCL till Q2 FY23

Source: Company, Anand Rathi Research Note: Offshore by effort mix

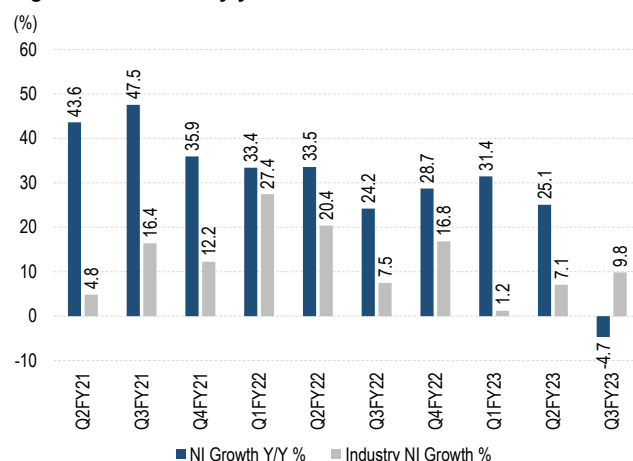
LTMindtree delivered 3% y/y EBITDA growth (after adjusting for integration costs) in Q3 FY23, falling behind the industry for only the second time in ten quarters. We believe this was largely on account of one-offs during the quarter. Y/y margins were down ~370bps to 17%. This was largely on account of furloughs and higher employee costs. We estimate that the company can deliver EBITDA margins of ~20% by FY25, which may then improve further as it unveils synergies and operating leverage of larger companies. NI was down 5% y/y, lagging the industry for the first time in the last ten quarters. This was due to lower other income (down 63% y/y, including integration costs).

Fig 24 – EBITDA growth behind industry



Source: Company, Anand Rathi Research Note: Pro forma numbers used till Q2FY23

Fig 25 – NI declines y/y



Source: Company, Anand Rathi Research Note: Pro forma numbers used till Q2FY23

LTIMindtree historically strong from a client-mining perspective

LTIM's active client count was 723, up four q/q, 73 y/y. Efforts in mining have been visible in the \$5m+, \$10m+, \$20m+ and \$50m+ categories. On an LTM basis, the company added 24 clients in the \$5m+ bucket, five in \$10m+, six in \$20m+ and two in \$50m+. Clients in the \$20m+ basket have recently dropped, but that's primarily to do with rapid gain in clients in Q1 FY23 and potentially reflects weakness in Retail CPG.

Fig 26 – Client profiles (LTM from Q1FY23)

	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
\$1m+	169	165	167	169	180	187	198	337	361	374
\$5m+	61	60	63	66	71	73	74	130	137	144
\$10m+	32	32	35	38	43	43	44	79	77	81
\$20m+	16	18	18	18	21	20	24	40	38	37
\$50m+	6	5	5	6	7	8	8	10	11	11
\$100m+	1	1	1	1	1	1	1	2	2	2

Source: Company, Anand Rathi Research

Fig 27 – Client profiles (Mindtree)

	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
\$1m+	127	125	120	118	120	127	136	139	145	160
\$5m+	44	43	43	44	47	50	52	56	58	61
\$10m+	23	24	21	20	25	30	33	32	35	34
\$20m+	8	8	8	7	8	8	9	14	18	16
\$50m+	1	1	1	1	1	1	1	1	1	1
\$100m+	1	1	1	1	1	1	1	1	1	1

Source: Company, Anand Rathi Research

Conference-call highlights

- Q3 had pass-through revenues, which were similar y/y
- BFSI seeing significant deals with existing and new logos, rate increases and a growing pipeline of large deals. Management is very bullish on the BFS part here
- Health, Life-sciences and Public Services. The Health portion grew 24% y/y but was partially offset by Public Services growth. The company is seeing significant opportunities in Health and Life-sciences
- The Hi-tech vertical was affected by furloughs; expected to recover in Q4
- The Manufacturing vertical was aided by automotive deals
- Retail clients are cautious because of inflation
- TTH growth is strong here; momentum to continue except in the real estate part of this business, which has been affected by increasing rates
- Order inflows were of \$1.25bn. Management isn't seeing any program cancellation but delays in decision-making and deferment of certain projects. There is also an increase in cost take-out deals
- Cost take-out deals are larger multi-year deals. Clients are opting for cost take-out deals to keep their transformation ongoing
- Large-deal pipeline at a record high
- Minimal overlap in clients between LTI and MTCL; within BFSI, there was some overlap
- EBIT margins affected by furloughs (130bps), integration of the two companies (100bps) and more employee and operational costs (130bps). Major impact of acquisition behind
- Some acquisition and furlough costs to persist in Q4
- Employee cost up partially due to increments given to freshers
- Endeavor to operate at higher utilisation than the independent companies operated at
- Quarterly annualized attrition declined more than 6% to 18%; to continue moving down
- Billed DSO to be 50-55 in 2-3 quarters.
- The company expects \$1billion revenue from synergies in 4-5 years. Margins to see synergy benefits of 200bps-300bps in 4-5 years.

Business outlook

- FY24 to return to industry-leading profitable growth
- Margins to start expanding from Q4
- ETR to be 23.6-24% in Q4, FY24 25-25.5%
- Payout of 25-30% annually.

Previous con calls

LTI

- BFS: GRC, payments and commercial banking budgets are increasing for LTI's clients. BFSI: not seeing any change in demand here, continues to be the growth driver
- Manufacturing: seeing some caution here, clients are reducing spends on discretionary programs
- E&U demand environment strong
- Hi-tech 20% y/y growth to continue (outlook unchanged, seeing good growth here, good pipeline and large deals). Hi-tech vertical declines as a large engagement moved offshore.
- Europe seeing strong demand in Cloud, ERP and Data.
- Won four large deals of TCV \$80m+, three of these are with existing clients, one with a global Fortune 500 (hi-tech company). These deals were spread across Insurance, Hi-tech and Manufacturing. the deal pipeline is \$2bn+ and has a good mix of growth and efficiency deals. Most large deals are outsourcing deals. The company is not seeing any delays in ramp-ups
- Decision time is slower than during the pandemic period but is still faster than pre pandemic times. Clients are looking to spread investments over a longer period, in particular, manufacturing clients.
- LTI and Mindtree are working together on 80+ pursuits
- Of the 22 Logos added, the BFS vertical added the most.
- The EBIT margin was 16.1%, increase in employee costs and modest utilisation were offset by currency benefits and number of working days
- Hired 1600 freshers in Q2, 1,000 in Q1 and on track to hire 6,500 for FY23.
- Attrition to moderate in H2, although niche skills attrition will not moderate as much
- Integration cost for LTIMindtree might come in Q3 and Q4 FY23.

Business outlook

- Q3 performance to be as strong as or better than in Q2, and FY23 revenue growth to be in the leaders' quadrant growth
- FY23 PAT margin to be 14-15%.

Mindtree

- Better pricing for niche skills was a key revenue-growth driver.
- Revenue: Q3 is a seasonally weak quarter and the company is seeing delays in program decisions across sectors. Therefore, usual seasonality will play out.
- Manufacturing: Management is seeing many DT opportunities and is bullish on this sector.
- TTH: diversification strategy delivering good results

- Healthcare: This vertical has 20 clients now and is scaling up fast.
- RCG: Muted growth due to cross-currency, and ramp-downs previously called out.
- Europe: Not seeing deals canceled but caution in decision-making. Manufacturing, RCG and Logistics seeing some delays in decision-making
- Deal wins reflect more managed-services deals and these are longer-term deals. TCV composition is a good mix of cost-optimisation and revenue-maximisation deals. Last few quarters closed multi-year opportunities.
- Delivered 21% EBITDA margin despite full wage-hike cycle in Q2
- The EBITDA margin had a 240bp impact from wage hikes, offset by the absence of one-off expense (110bps), currency benefit (50bps) and operational efficiency (70bps)
- Facility expense and Travel expense to move up but not to be at pre-pandemic levels.
- Utilisation in the short run to remain in the 80-82% range
- Attrition to further trend down.

Business outlook

- Industry-leading growth in FY23
- Sustain 20%+ margins.

Factsheet

Fig 29 – Revenue-split, by industry (%)

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
BFS	32.8	32.7	36.1	36.2	37.4
Insurance	13.3	13.4	NA	NA	NA
CPG/Retail	10.0	10.3	15.7	15.4	15.2
Manufacturing	17.0	16.8	16.3	16.2	17.5
Hi-tech	11.8	11.7	25.4	25.3	23.6
Energy and Utilities	8.8	8.8	6.6	6.8	6.3
Others	6.4	6.3	NA	NA	NA

Source: Company, Anand Rathi Research Note: Q3FY22 and Q4FY22 are LTI numbers

Fig 30 – Revenue split by service line (%)

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
ADM	33.5	33.0	37.1	36.5	NA
Enterprise Solutions	31.4	30.8	26.6	26.3	NA
Enterprise Integration & Mobility	9.3	9.7	6.2	6.2	NA
IMS	13.2	13.7	15.5	15.9	NA
Analytics, AI & Cognitive	12.7	12.8	14.6	15.2	NA

Source: Company, Anand Rathi Research Note: Q3FY22 and Q4FY22 are LTI numbers. Q1FY23 and Q2FY23 are LTIM Pro forma numbers.

Fig 31 – Revenue-split, by region (%)

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
North America	66.0	65.6	71.7	72.9	72.3
Europe (includes UK)	15.8	16.2	15.3	14.6	14.9
India	9.6	9.9	NA	NA	NA
RoW	8.6	8.3	13.0	12.5	12.8

Source: Company, Anand Rathi Research Note: Q3FY22 and Q4FY22 are LTI numbers

Fig 32 – Revenue-split by delivery type and billing (%)

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
On-site	16.0	15.4	14.7	14.7	14.9
Offshore	84.0	84.6	85.3	85.3	85.1

Source: Company, Anand Rathi Research Note: Q3FY22 and Q4FY22 are LTI numbers

Fig 33 – Client profiles (LTM)

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Client concentration %					
Top 5	28.3	28.2	26.8	26.7	26.3
Top 10	40.4	40.4	34.5	34.3	33.8
Top 20	55.5	55.8	45.5	45.1	45.3
Growth rates Q/Q%					
Top 5	9	3	NA	4	1
Top 10	8	3	NA	4	1
Top 20	10	4	NA	3	3
Active clients	476	486	708	719	723

Source: Company, Anand Rathi Research Note: Q3FY22 and Q4FY22 are LTI numbers

Fig 34 – Client profiles (LTM) - LTI

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
\$1m+	187	198	337	361	374
\$5m+	73	74	130	137	144
\$10m+	43	44	79	77	81
\$20m+	20	24	40	38	37
\$50m+	8	8	10	11	11
\$100m+	1	1	2	2	2
Client additions (LTM)					
\$1m+	22	31	54	60	58
\$5m+	13	11	21	20	24
\$10m+	11	9	13	3	5
\$20m+	2	6	14	8	6
\$50m+	3	3	2	2	2
\$100m+	0	0	0	0	0

Source: Company, Anand Rathi Research Note: Q3FY22 and Q4FY22 are LTI numbers

Fig 35 – Employee movement

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Number of employees	44,200	46,648	84,030	86,936	86,462
Net addition, quarterly	1,818	2,448	4,436	2,906	-474
Attrition % (LTI)	22.5	24.0	24.0	24.1	22.3
Attrition % (MTCL)	21.9	23.8	24.5	24.1	NA
Utilisation % (cum trainees, LTI)	80.3	80.1	83.0	82.4	81.5
Utilisation % (cum trainees, MTCL)	81.5	83.1	81.2	80.7	NA

Source: Company, Anand Rathi Research Note: Q3FY22 and Q4FY22 are LTI numbers

Fig 36 – Key vertical, horizontal and geographic growth

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Top verticals growth (Y/Y)					
BFS	39%	36%	27%	23%	22%
Insurance	15%	18%			
CPG/Retail	19%	22%	30%	12%	11%
Manufacturing	31%	27%	18%	11%	9%
Hi-tech	41%	24%	28%	21%	9%
Top horizontals growth (Y/Y)					
ADM	29%	26%	28%	15%	NA
Enterprise Solutions	29%	22%	17%	13%	NA
Enterprise Integration & Mobility	37%	51%	48%	35%	NA
IMS	19%	16%	15%	18%	NA
Analytics, AI & Cognitive	38%	47%	41%	39%	NA
Key regional growth, %, Y/Y					
North America	26%	26%	27%	25%	20%
Europe (includes UK)	27%	25%	16%	-1%	0%
India	44%	42%	NA	NA	NA
ROW	50%	26%	28%	16%	3%

Source: Company, Anand Rathi Research Note: Q3FY22 and Q4FY22 are LTI numbers

Valuations

The stock trades at P/E of 20x FY25e, attractive given the strong pipeline and growth expected over FY23-FY25. We have not accounted for net synergies till FY25 as the management's current focus is on integration and on returning to a high-growth zone.

Both companies in the past have delivered results in the top quadrant and strong results are expected over the next two years. The stock has fallen ~27% in the past 12 months and is flatish (-3%) in the last six months, this is not in line with the sector which has fallen 17% in the last twelve months and is up 7% in the last six months. We, however, believe that LTMindtree management's performance and track record in the last few years reduces some of the risks related to integration.

We project a 13% revenue CAGR over FY23-FY25. The EBIT margin was 17.8% (pro-forma) in FY22, and we project it will slip to 16.3% in FY23 on merger-related costs before returning to 17.9% by FY25. LTMindtree is expected to clock a 20% EBIT CAGR over FY23-FY25.

LTMindtree's net cash of Rs80,406m (\$976m) at end-Q3 FY23 allows it enough headroom to re-invest in the business. Still, we don't expect any major M&A in the next 12 months, and haven't built them into our estimates. Our new target is Rs5,520 (previously Rs5,630) at 26x FY25e; we retain our Buy recommendation. No meaningful change to our estimates.

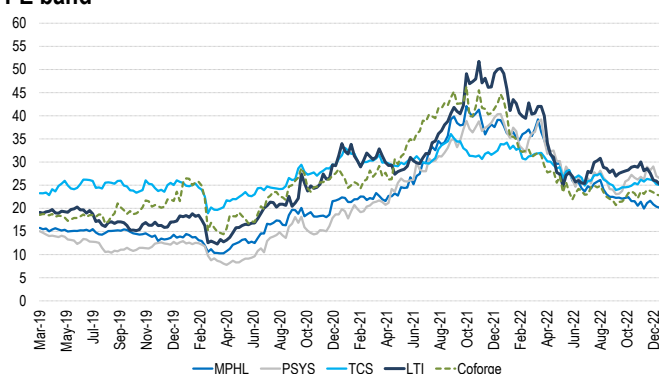
From a valuation standpoint, LTMindtree now trades at a ~20% higher multiple than pre-pandemic averages. This, in our opinion, will hold as the company size and performance have since improved. Also, there is this aspiration of operating at a slightly higher margin range than in the past. Besides, if synergies pan out, the combined entity with newer service lines could sustain higher growth for longer or may deliver higher margins ahead.

Fig 37 – Change in estimates

(Rs m)	FY23			FY24			FY25		
	New	Old	% Change	New	Old	% Change	New	Old	% Change
Revenue (\$ m)	4,122	4,124	(0.0)	4,654	4,678	(0.5)	5,288	5,339	(1.0)
Revenues	333,279	332,952	0.1	382,898	384,106	(0.3)	435,030	438,323	(0.8)
EBITDA	61,643	62,609	(1.5)	73,292	74,924	(2.2)	86,065	87,336	(1.5)
EBITDA margins %	18.5%	18.8%	-31 bps	19.1%	19.5%	-36 bps	19.8%	19.9%	-14 bps
EBIT	54,422	54,950	(1.0)	65,655	66,355	(1.1)	77,798	78,061	(0.3)
EBIT margins %	16.3%	16.5%	-17 bps	17.1%	17.3%	-13 bps	17.9%	17.8%	7 bps
PBT	58,756	59,733	(1.6)	71,132	72,441	(1.8)	84,714	86,480	(2.0)
Net profit	44,584	44,696	(0.3)	53,070	53,504	(0.8)	62,980	63,873	(1.4)

Source: Anand Rathi Research

Fig 38 – PE band



Source: Bloomberg, Anand Rathi Research

Risk

- Continued headwinds in Hi-tech

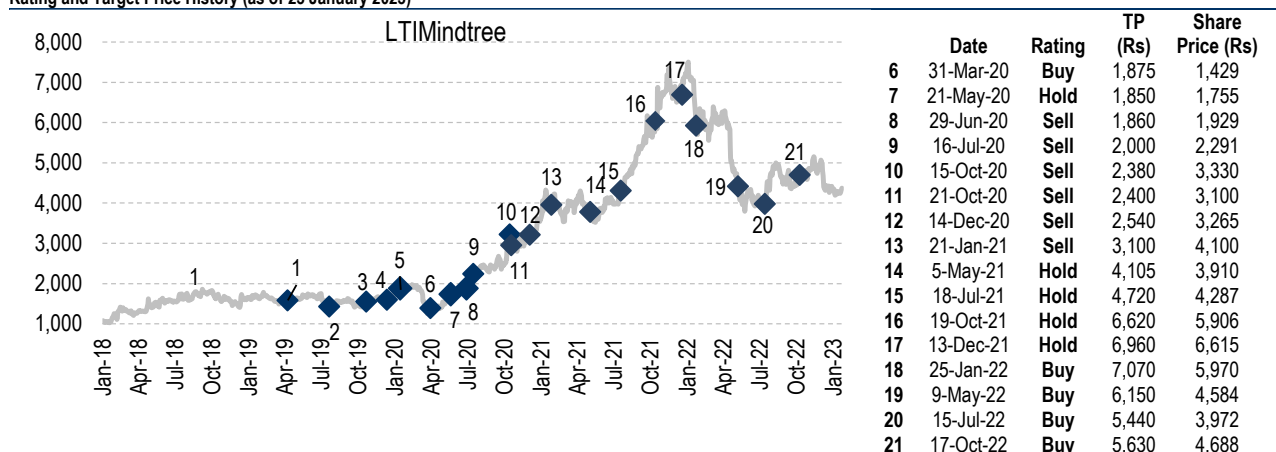
Appendix

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