

Smooth take off; synergy benefits likely visible in medium term

About the stock: LTIMindtree (LTIM) is the merged entity formed after the merger of erstwhile Mindtree with LTI. It offers application development, IMS, digital solution services to BFSI, retail, health, media & hi-tech verticals.

- LTIM has 750+ clients and combined annual revenue over US\$3.5 bn +
- LTIM has a combined employee strength of 86,000+ across 30+ countries

Q3FY23 Results: LTIM reported weak Q3 numbers.

- In CC terms, revenues grew 1.9% QoQ and 16.3% YoY
- EBIT margins declined 360 bps QoQ to 13.9%
- Order inflow of US\$1.25 billion (bn) for the quarter

What should investors do? LTIM's share price has grown by ~5.5x over the past five years (from ~₹ 770 in January 2018 to ~₹ 4,270 levels in January 2023).

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value LTIM at ₹ 4,940 i.e. 24x FY25E EPS

Key triggers for future price performance:

- Merger expected to provide cross sell and up sell opportunities with scale benefits likely to kick in while participating in large deals hunt
- Aiming for merger related benefit of US\$1 bn in revenues and 200-300 bps margin expansion in the next four to five years
- Vendor consolidation opportunity and digital acceleration. We expect LTIM to register revenue growth at 15.8% CAGR in FY22-25E

Alternate Stock Idea: Apart from LTIM, in our coverage we like Infosys.

- Key beneficiary of improved digital demand, industry leading revenue growth and healthy capital allocation prompt us to be positive
- We have a BUY rating with a target price of ₹ 1,730



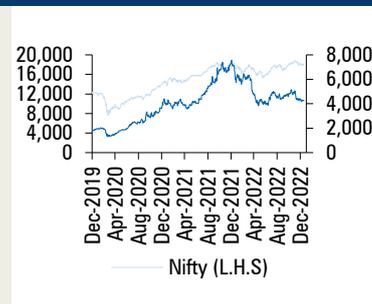
Particulars

Particular	Amount
Market Cap (₹ crore)	1,25,537
Total Debt (₹ crore)	52
Cash and Investment (₹ crore)	7,204
EV (₹ crore)	1,18,384
52 week H/L	5107/ 4146
Equity Capital (₹ crore)	30
Face Value	₹ 1

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	74.1	74.0	74.0	68.7
FII	10.1	8.4	8.1	9.2
DII	7.1	8.1	8.1	10.5
Public	8.7	9.5	9.7	11.6

Price Chart



Recent event & key risks

- TCV of US\$1.25 bn in Q3
- **Key Risk:** (i) Lower than expected margins (ii) Lower than expected revenue growth

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Key Financial Summary

(₹ Crore)	FY21	FY22	5 Year CAGR (FY17-22) %	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E) %
Net Sales	20,338	26,109	17.3	33,281	37,232	40,573	15.8
EBITDA	4,382	5,249	22.1	6,157	7,149	8,236	16.2
EBITDA Margins (%)	21.5	20.1		18.5	19.2	20.3	
Net Profit	3,049	3,950	23.2	4,554	5,229	6,093	15.5
EPS (₹)	177.7	133.4		153.9	176.8	206.0	
P/E (x)	47.7	32.0		27.7	24.2	20.7	
RoE (%)	26.2	27.6		27.2	27.1	27.2	
RoCE (%)	31.7	34.1		33.2	33.1	33.4	

Key takeaways of quarter and conference call highlights

- The company reported constant currency growth of 1.9% QoQ while dollar revenue growth was 2.4% QoQ. LTIMindtree in dollar terms reported revenue of US\$1,046.7 bn while in rupee terms revenue was at ₹ 8,620 crore, up 4.8% QoQ
- Vertical wise manufacturing (17.5% of mix) led the growth with 10.6% QoQ growth while BFSI (37.4% of mix) and CPG & Retail (15.2% of the mix) grew 5.8% and 1.1%, respectively. Hi-Tech & health declined 4.5% & 5.1% QoQ, respectively
- Geography wise North America (72.3% of mix) reported muted growth of 1.6% QoQ while Europe & RoW reported growth of 4.5% & 4.9%, respectively
- EBIT margin of the company declined ~360 bps QoQ to 13.9%. The company indicated that decline in margins was due to the impact of following headwinds: a) ~130 bps furlough impact, b) 100 bps merger integration cost and c) 130 bps due to increase in employee cost
- The company indicated that it had zero disturbance after the merger since the teams were working on it from some time in terms of client engagements as well as employee engagements internally and integration has been progressing smoothly. It is expecting synergy benefits of US\$1 bn and margin expansion of 200 to 300 bps over the next four to five years. LTIMindtree also mentioned that it has a healthy pipeline ahead and continues to see large deals in the market. The company also indicated that it is in advanced stages of some multi-year opportunities with a few of its clients and announcement of the same will made in due course
- The company also indicated it has a strong sales structure in place. It may go ahead with a consolidated sales head role (compared to a split role where it had appointed two senior leaders) ahead after the resignation of the senior leader there. LTIMindtree mentioned it has an overlap in a handful of clients and is using this opportunity for cross sales and upscale at the same time. It has kept the same leadership there for the comfort of the client. The company also indicated there are no white spaces in the structure as far as leadership is concerned
- The company also indicated it is not seeing any major issues in banking, insurance, energy verticals barring a few pockets of weakness as far as client spending is concerned and they are fairly resilient. LTIMindtree added that it has seen some weakness in the Hi-tech vertical as well as real estate piece of Travel & Hospitality (TTH) vertical. Real estate weakness could be attributed to high interest rate scenario and clients are re-aligning their budgets in this segment but the company is hopeful of a recovery in the medium term. The company also mentioned it has not seen any project cancellation so far from clients but slower decision making in some cases as mentioned above is visible
- The company indicated that BFSI is now a US\$1 bn vertical now for it and expects strong growth momentum in this vertical from deal wins and price increase. It also mentioned that regulatory, compliance, cost optimisation are some key areas for client spending. In manufacturing; ERP, IoT, security are some key spending areas. Healthcare vertical has seen some softness in public sector area while remote patient monitoring is one of the key areas of spending

LTIMM - ESG Disclosure Score*

Score	FY20	FY21	FY22
Environmental	17.6	17.6	0.0
Social	11.9	11.9	0.0
Governance	92.5	92.5	0.0
Overall ESG Score	40.8	40.8	0.0

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

- The company indicated that clients in the last two years have started on the path of digital transformation and it is not in its favour to stop this program considering the time and investment that has been put in over these years and clients are expected to continue their investments. LTIMindtree also added that tech spending in the areas of cloud, data and cybersecurity are resilient. The company also mentioned that clients are looking to spend on cost take out deals and are likely to continue spending on transformation through those savings. LTIMindtree is looking to double down on the efforts on large deals since it now has the combined large deal team of LTI and Mindtree. The company is in the process of finding a common leader for this team. LTIMindtree also indicated that it is looking to capitalise on the strength of engineering expertise of LTI and customer experience expertise of Mindtree to capture market opportunities while increase in scale will help it as far large deals are concerned
- The company indicated that its net employees declined by 474 taking the total number of employees to 86,462. LTIMindtree also added that its LTM attrition declined by 180 bps QoQ to 22.3%
- The company mentioned that net employee decline for the quarter is temporary and hiring is likely to see rebound. LTIMindtree also added that it is not looking for aggressive hiring ahead but hiring will be in line with demand. Quarterly annualised attrition has been at 18% for the quarter and it expects it to moderate, going forward. It has given one-time compensation for the niche skills for the quarter due to high inflation and indicated that few more interventions can be done
- The company also mentioned that since both companies follow different quarters of annual increments, it would continue with the same for the time being. Hence, some quarterly interventions may be required from time to time till it streamlines the process. The company also mentioned it has an opportunity to recover these costs from clients in the form of price hikes. The company also indicated that it is looking for margin expansion of 200-300 bps over the next four to five years on i) moderation of attrition, ii) fresher deployment, iii) synergy benefits and iv) price increase
- The company declared an interim dividend of ₹ 20 per share

Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
LTIM (LTINFO)	4,270	4,940	BUY	1,26,305	133.4	153.9	176.8	32.0	27.7	24.2	34.1	33.2	33.1	27.6	27.2	27.1
Coforge (NIIITEC)	4,100	4,870	BUY	24,971	106.5	148.9	172.7	38.5	27.5	23.7	25.6	31.8	31.5	24.2	28.5	28.0
TeamLease (TEASER)	2,474	2,540	HOLD	4,230	22.5	72.9	88.0	110.1	33.9	28.1	15.4	15.4	16.0	(4.7)	15.1	15.6
Infoedge (INFEDG)	3,669	4,590	HOLD	46,109	35.8	45.5	51.7	102.5	80.7	71.0	4.2	5.4	6.0	3.2	4.1	4.5

Source: Company, ICICI Direct Research

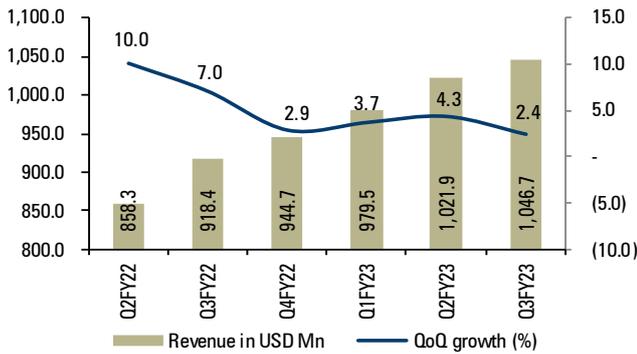
Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue (US\$ mn)	1,047	1,051	918	14.0	1,022	2.4	Revenue grew 1.9% in CC terms, Q3 revenues impacted by furloughs
Revenue (₹ crore)	8,620	8,639	6,881	25.3	8,228	4.8	
Employee expenses	6,156	5,788	4,660	32.1	5,690	8.2	Employee cost increased due to hike given to certain employees for certain niche skills & annual bonus given freshers on completion of 12 months
Gross Margin	2,465	2,851	2,220	11.0	2,537	-2.9	
Gross margin (%)	28.6	33.0	32.3	-368 bps	30.8	-225 bps	
Other expenses	1,090	1,339	794	37.2	902	20.8	
EBITDA	1,375	1,512	1,426	-3.6	1,636	-15.9	
EBITDA Margin (%)	15.9	17.5	20.7	-478 bps	19.9	-393 bps	
Depreciation & amort	178	216	152	17.3	196	-9.1	
EBIT	1,197	1,296	1,275	-6.1	1,440	-16.9	
EBIT Margin (%)	13.9	15.0	18.5	-464 bps	17.5	-362 bps	Margin impacted by the following Headwinds - a) ~130 bps furlough impact, b) 100 bps merger integration cost & c) 130bps due to increase in employee cost
Other income	114	128	135	-15.4	152	-25.3	
PBT	1,311	1,424	1,409	-7.0	1,592	-17.7	
Tax paid	310	356	359	-13.7	374	-17.1	
PAT	1,001	1,068	1,050	-4.7	1,189	-15.8	

Source: Company, ICICI Direct Research

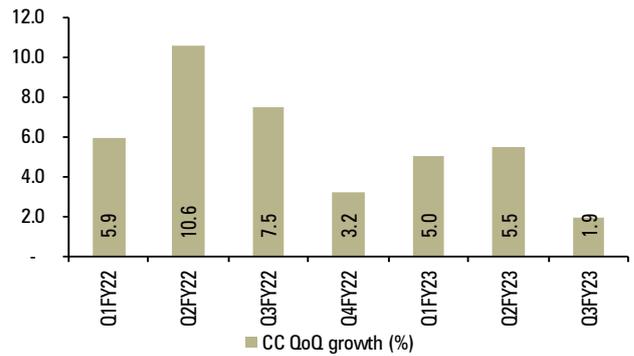
Key metrics

Exhibit 3: Revenue in US\$ millions with QoQ growth



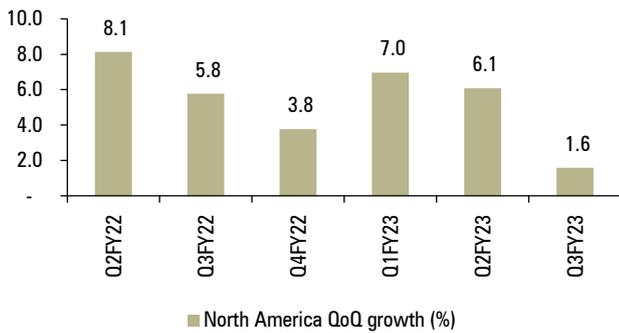
Source: Company, ICICI Direct Research

Exhibit 4: Furloughs impact Q3 revenue



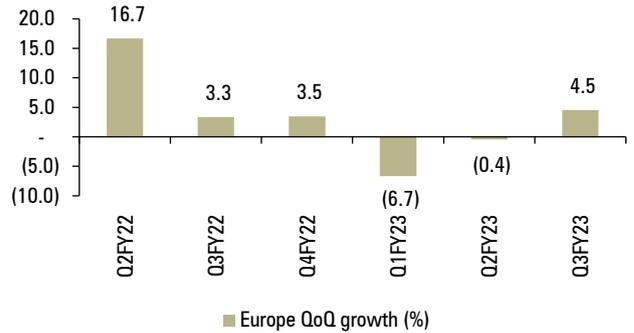
Source: Company, ICICI Direct Research

Exhibit 5: North America revenue declines in Q3



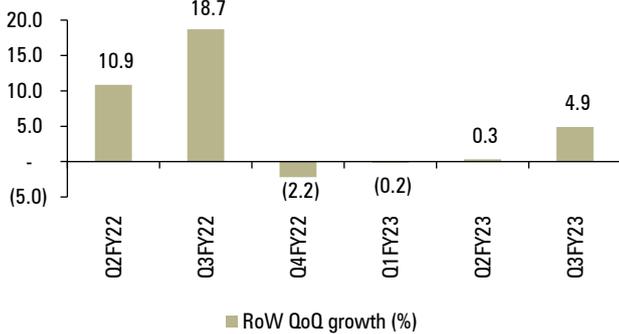
Source: Company, ICICI Direct Research

Exhibit 6: While Europe rebounds



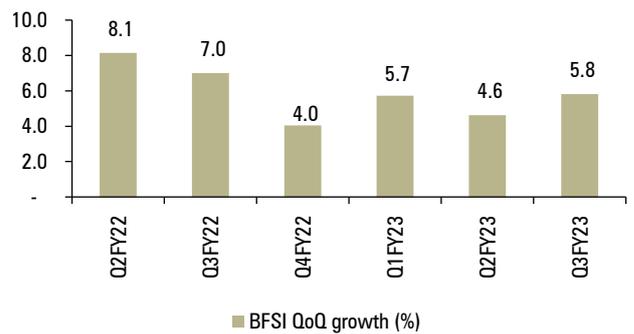
Source: Company, ICICI Direct Research

Exhibit 7: RoW region QoQ trend



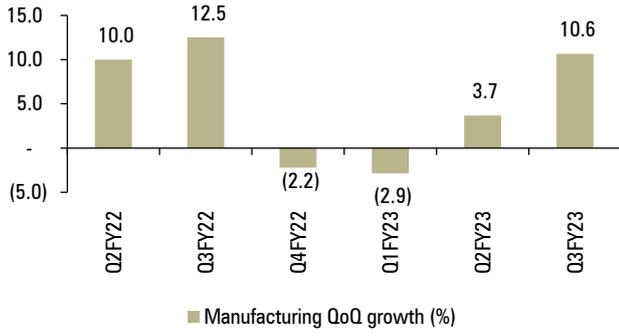
Source: Company, ICICI Direct Research

Exhibit 8: BFSI growth remains strong



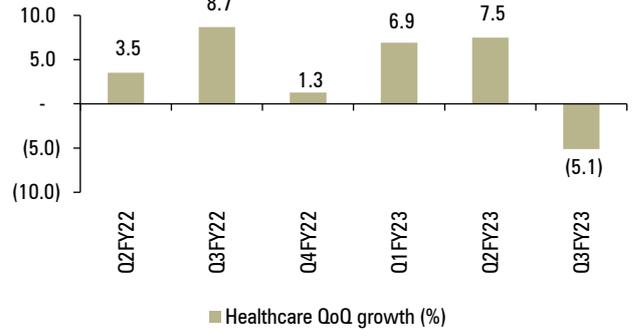
Source: Company, ICICI Direct Research

Exhibit 9: Manufacturing leads growth in Q3



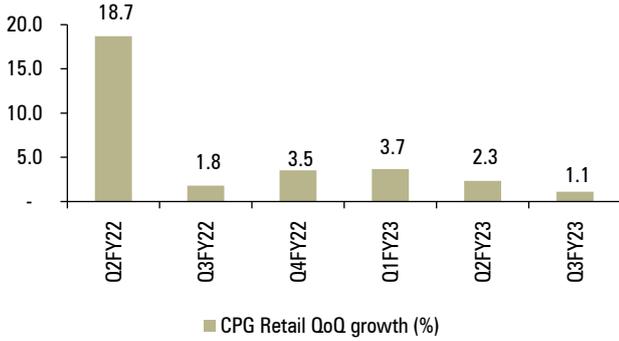
Source: Company, ICICI Direct Research

Exhibit 10: Public sector mitigates growth of healthcare



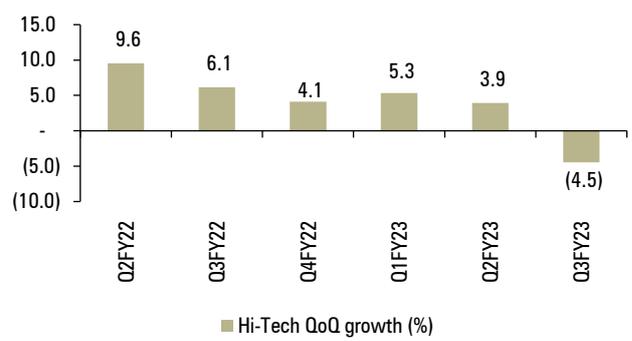
Source: Company, ICICI Direct Research

Exhibit 11: Some pockets showing weakness



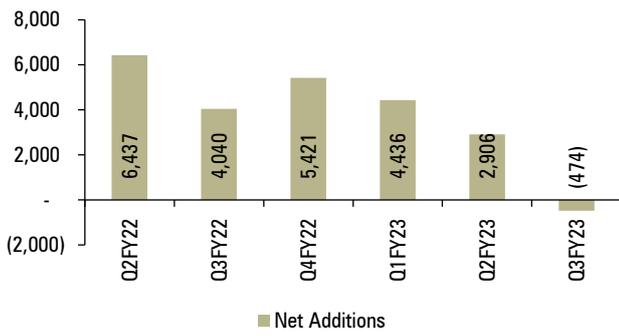
Source: Company, ICICI Direct Research

Exhibit 12: Hi-tech weak for the quarter



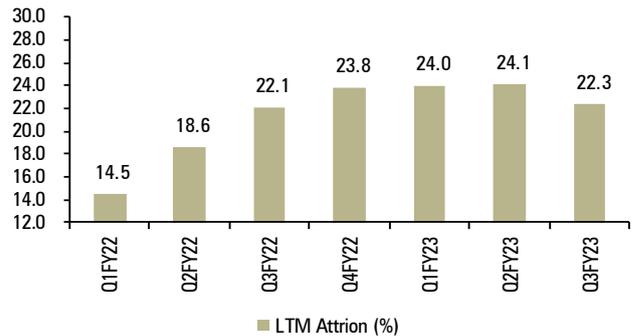
Source: Company, ICICI Direct Research

Exhibit 13: Merger related adjustments result in decline



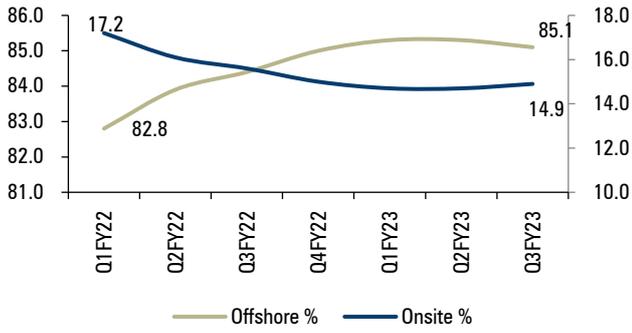
Source: Company, ICICI Direct Research

Exhibit 14: While LTM attrition starts moderating



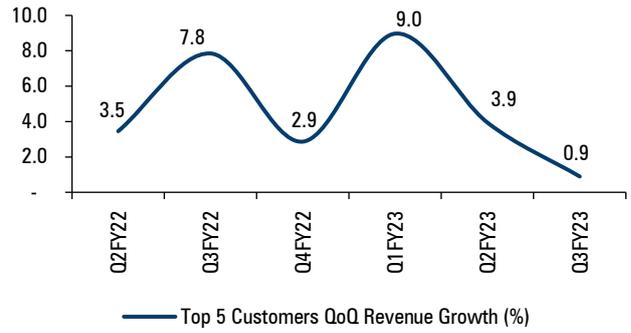
Source: Company, ICICI Direct Research

Exhibit 15: Onsite/Offshore Mix (%)



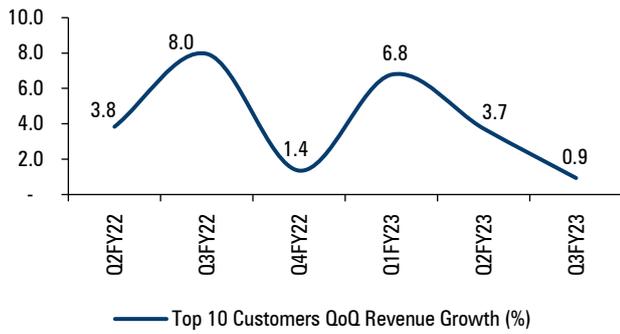
Source: Company, ICICI Direct Research

Exhibit 16: Top five customers QoQ growth trend



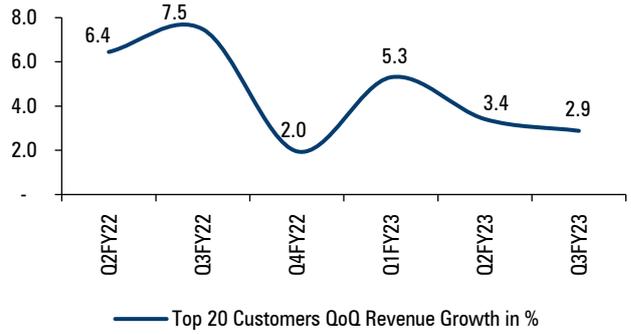
Source: Company, ICICI Direct Research

Exhibit 17: Top 10 customers QoQ growth trend



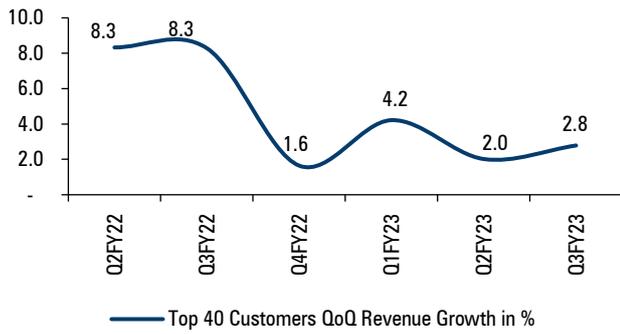
Source: Company, ICICI Direct Research

Exhibit 18: Top 20 customers QoQ growth trend



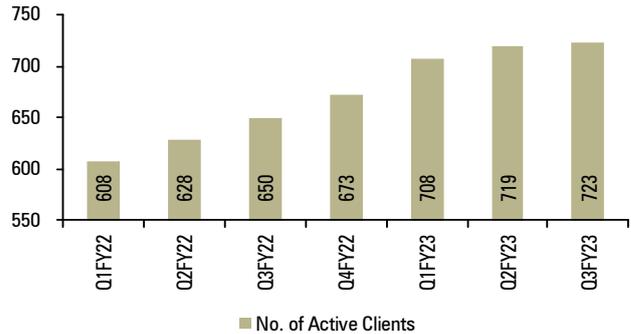
Source: Company, ICICI Direct Research

Exhibit 19: Top 40 customers QoQ growth trend



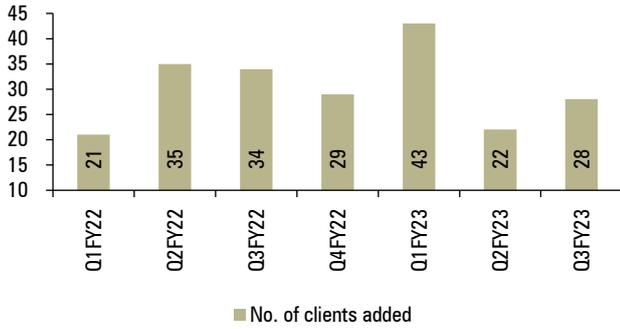
Source: Company, ICICI Direct Research

Exhibit 20: Number of active clients



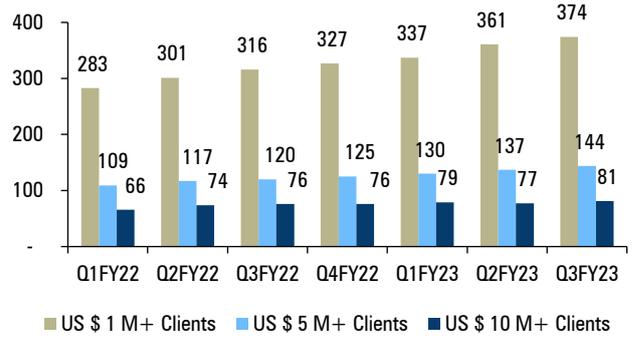
Source: Company, ICICI Direct Research

Exhibit 21: Number of clients added



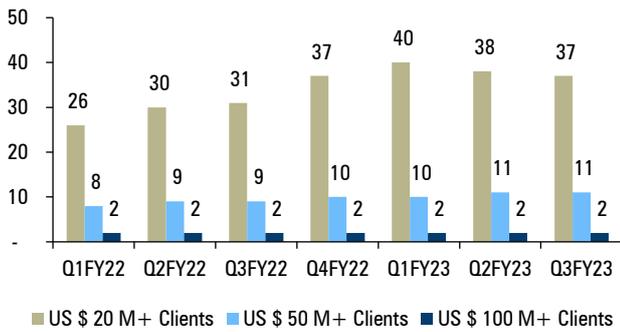
Source: Company, ICICI Direct Research

Exhibit 22: Client mix trend



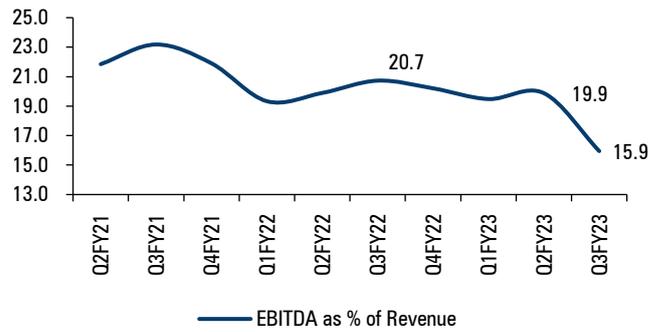
Source: Company, ICICI Direct Research

Exhibit 23: Client mix trend



Source: Company, ICICI Direct Research

Exhibit 24: EBITDA margin impacted by some one-off costs



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 25: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total Revenues	26,109	33,281	37,232	40,573
Growth (%)	28.4	27.5	11.9	9.0
Employee costs	15,989	20,634	23,010	24,952
Total Operating Expenditure	20,860	27,124	30,084	32,336
EBITDA	5,249	6,157	7,149	8,236
Growth (%)	19.8	17.3	16.1	15.2
Depreciation & Amortization	597	765	856	893
Other Income (net)	642	680	680	780
Interest	123	120	120	120
PBT before Exceptional Items	5,171	5,952	6,852	8,004
Growth (%)	28.1	15.1	15.1	16.8
Tax	1,344	1,518	1,743	2,031
PAT before Exceptional Items	3,827	4,434	5,109	5,973
Exceptional items	-	-	-	-
Minority Int & Pft. from associates	-	-	-	-
PAT	3,950	4,554	5,229	6,093
Growth (%)	29.6	15.3	14.8	16.5
Diluted EPS	133.4	153.9	176.8	206.0
EPS (Growth %)	(24.9)	15.4	14.8	16.5

Source: Company, ICICI Direct Research

Exhibit 26: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
PBT	5,308	6,072	6,972	8,124
Add: Depreciation	597	765	908	989
(Inc)/Dec in current assets	(1,663)	(1,433)	(711)	(601)
Inc/(Dec) in current liabilities	764	326	180	152
CF from operations	3,193	4,618	5,755	6,729
(Inc)/dec in other investments	(464)	125	132	132
(Inc)/dec in Fixed Assets	(1,053)	(913)	(1,021)	(1,113)
Other investing cash flow	57	8	25	50
CF from investing Activities	(1,645)	(779)	(864)	(931)
Issue of equity	(93)	-	-	-
Inc/(dec) in loan funds	2	153	0	0
Dividend paid & dividend tax	(1,328)	(2,277)	(2,615)	(3,046)
Others	(55)	-	-	-
CF from Financial Activities	(1,642)	(2,224)	(2,715)	(3,146)
Net cash flow	(94)	1,615	2,176	2,651
Effect of exchange rate changes	25	-	-	-
Opening cash	1,902	1,833	3,447	5,623
Closing cash	1,833	3,447	5,623	8,274

Source: Company, ICICI Direct Research

Exhibit 27: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity	29.6	29.6	29.6	29.6
Reserves & Surplus	14,258	16,687	19,302	22,348
Networth	14,287	16,717	19,331	22,378
Minority Interest	6	6	6	6
Long term Liabilities & provisions	1,197	1,523	1,703	1,855
Total Debt	52	52	52	52
Source of funds	15,542	18,298	21,092	24,290
Assets				
Net fixed assets	2,310	2,569	2,743	2,942
Net intangible assets	323	404	494	615
Goodwill	1,163	1,163	1,163	1,163
Other non current assets	1,668	1,886	2,007	2,109
Unbilled revenue	1,070	1,364	1,525	1,662
Debtors	4,557	5,991	6,702	7,303
Current Investments	5,397	5,397	5,397	5,397
Cash & Cash equivalents	1,837	3,447	5,623	8,274
Other current assets	2,077	2,648	2,962	3,228
Trade payables	1,325	1,792	2,005	2,185
Current liabilities	3,768	4,803	5,373	5,855
Application of funds	15,542	18,298	21,092	24,289

Source: Company, ICICI Direct Research

Exhibit 28: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	133.4	153.9	176.8	206.0
Cash Per Share	62.2	116.5	190.1	279.7
BV	482.3	565.1	653.5	756.5
DPS	53.4	77.0	88.4	103.0
Operating Ratios (%)				
EBITDA Margin	20.1	18.5	19.2	20.3
PBT Margin	20.3	18.2	18.7	20.0
PAT Margin	15.1	13.7	14.0	15.0
Turnover Ratios				
Debtor days	64	66	66	66
Creditor days	19	20	20	20
Return Ratios (%)				
RoE	27.6	27.2	27.1	27.2
RoCE	34.1	33.2	33.1	33.4
RoIC	57.6	57.2	61.6	66.9
Valuation Ratios (x)				
P/E	32.0	27.7	24.2	20.7
EV / EBITDA	22.7	19.1	16.1	13.7
Market Cap / Sales	4.8	3.8	3.4	3.1
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	1.5	1.5	1.5	1.5
Quick Ratio	1.3	1.3	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 29: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
HCL Tech (HCLTEC)	1,108	1,220	BUY	3,00,674	49.8	53.6	59.2	22.2	20.7	18.7	24.2	26.2	27.7	21.8	22.2	23.3
Infosys (INFTEC)	1,525	1,730	BUY	6,41,662	52.1	60.7	70.8	29.3	25.1	21.5	36.0	36.2	39.1	29.2	30.1	32.3
TCS (TCS)	3,362	3,780	BUY	12,30,173	104.7	118.5	133.4	32.1	28.4	25.2	51.4	50.1	49.3	43.0	42.6	41.5
Tech M (TECMAH)	1,048	1,240	BUY	1,01,951	63.1	65.2	80.0	16.6	16.1	13.1	22.5	21.5	23.2	20.7	19.1	20.8
Wipro (WIPRO)	403	455	BUY	2,20,896	23.5	23.3	26.4	17.2	17.3	15.3	18.8	18.9	20.5	19.6	18.7	20.3
LTIM (LTINFO)	4,270	4,940	BUY	1,26,305	133.4	153.9	176.8	32.0	27.7	24.2	34.1	33.2	33.1	27.6	27.2	27.1
Coforge (NIITEC)	4,100	4,870	BUY	24,971	106.5	148.9	172.7	38.5	27.5	23.7	25.6	31.8	31.5	24.2	28.5	28.0
TeamLease (TEASER)	2,474	2,540	HOLD	4,230	22.5	72.9	88.0	110.1	33.9	28.1	15.4	15.4	16.0	(4.7)	15.1	15.6
Infoedge (INFEDG)	3,669	4,590	HOLD	46,109	35.8	45.5	51.7	102.5	80.7	71.0	4.2	5.4	6.0	3.2	4.1	4.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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