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3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green with check	Grey	Red
Right Valuation (RV)	Green	Grey with check	Red
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Grey	↔	Grey

ESG Disclosure Score NEW

ESG RISK RATING **18.25**
Updated Feb 08, 2023

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 1,35,551 cr
52-week high/low:	Rs. 6,429 / 3,733
NSE volume: (No of shares)	4.2 lakh
BSE code:	540005
NSE code:	LTIM
Free float: (No of shares)	9.3 cr

Shareholding (%)

Promoters	68.7
FII	9.2
DII	10.4
Others	11.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.4	5.7	-0.2	-24.1
Relative to Sensex	2.7	12.6	3.7	-27.3

Sharekhan Research, Bloomberg

LTIMindtree Ltd

Aligned to take up synergies, Maintain Buy

IT & ITES	Sharekhan code: LTIM		
Reco/View: Buy	↔	CMP: Rs. 4,583	Price Target: Rs. 5,170 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- The management indicated that unified offerings under LTIMindtree are aiding deal wins owing to expanded capabilities of the merged entity which would not be possible as a standalone entity. Large deal pipeline remains robust; the company has 68 large deals with TCV of \$3.18 billion.
- The company expects 17%-18% margin levels over the next few quarters, post which it aspires to expand margins by 200 bps by FY27. The management indicated that there are enough margin levers in place for improvement through higher Utilization, lower subcontracting costs and by ensuring that existing resources are billed at the right price.
- LTI-Mindtree with its diverse set of clients across categories is well placed to leverage to cross sell/ up sell services. The company highlighted that its current cross sell ratio is three with nine service lines and are targeting to reach five; this will provide strong growth even with no new deal wins.
- The outlook for FY24 continues to be uncertain on account of global headwinds and any recovery is most likely to be gradual. However, we believe that LTIMindtree can take market share from tier-1 IT companies (LTIMindtree ~5% of India tier-1 IT but 8-10% share of incremental growth). Hence, we maintain Buy rating on LTIMindtree with a revised PT of Rs. 5170 (valued at 25x FY25E EPS) based on ~16% revenue/PAT CAGR over FY22-25E. The opportunities of transition from mid-tier IT to tier-1 are greater than the risks of this transition. At CMP, the stock trades at 25.8/22.2x its FY24E/ FY25E EPS respectively.

During the LTIMindtree Investor Day, the Management highlighted the company's strategy post integration and stated its aspirations on growth and margins. The company indicated that unified offerings under LTIMindtree are aiding deal wins owing to expanded capabilities of the merged entity. The large deal pipeline continues to remain strong with 68 large deals with TCV of \$3.18 billion. LTIMindtree has a diverse set of clients across categories and intends to leverage to cross sell/ up sell services. The management indicated aspirations of strong revenue synergies of \$1 billion over the coming years led by diverse clients, verticals, large deals, cross-sell/upsell opportunities, partnerships and strong IP portfolio. The management expects margins of 17-18% margin levels over the next few quarters, post which it aspires to expand margins further by 200 bps by FY27. The management highlighted that within the same industry they are witnessing diverse customer requirements and admitted to seeing delay in decision in some accounts. The outlook for FY24 continues to be uncertain on account of global headwinds and any recovery is most likely to be gradual. However, we believe that LTIMindtree can take market share from tier-1 IT companies (LTIMindtree ~5% of India tier-1 IT but 8-10% share of incremental growth). Hence, we maintain Buy rating on LTIMindtree with a revised PT of Rs. 5170 (valued at 25x FY25E EPS) based on ~16% revenue/PAT CAGR over FY22-25E. The opportunities of transition from mid-tier IT to tier-1 are greater than the risks of this transition. At CMP, the stock trades at 25.8/22.2x its FY24E/ FY25E EPS respectively.

Margin uptick with aspiration of ~19-20% EBIT margin by FY27: The company expects an uptick in margins in the near term as integration cost and impact of furloughs recede and expects 17%-18% margins over the next few quarters, post which it aspires to expand the margin by 200 bps by FY27. The company highlighted that it has enough margin levers in place for improvement through higher Utilization, lower subcontracting cost, and by ensuring existing resources are billed at the right price.

Well-positioned to cross-sell with expanded service lines: The company highlighted that its current cross sell ratio is three with nine service lines and the target is to reach five; this will provide strong growth even with no new deal wins. LTIMindtree has a diverse set of clients across categories and intends to leverage to cross sell/ up sell services. The large deal pipeline remains strong with 68 large deals with TCV of \$3.18 billion.

Higher growth opportunities and deal wins post-merger: Management indicated that unified offerings of under LTIMindtree are aiding deal wins owing to expanded capabilities of the merged entity. The company highlighted that the growth opportunities are unique to LTIMindtree owing to 1) Resilient blue-chip accounts 2) Large base of accounts to cross sell/up sell, 3) Large Deals track record, 4) Alliance and partnership-led growth, and 5) New logo track record. The company highlighted that they are working with largest companies across sectors and have a more resilient Blue chip account Portfolio with 55% of current revenue being unaffected by macros.

Our Call

Valuation – Aligned to take up synergies, Maintain Buy: The outlook for FY24 continues to be uncertain on account of global headwinds and any recovery is most likely to be gradual. However, we believe that LTIMindtree can take market share from tier-1 IT companies (LTIMindtree ~5% of India tier-1 IT but 8-10% share of incremental growth). Hence, we maintain Buy rating on LTIMindtree with a revised PT of Rs. 5170 (valued at 25x FY25E EPS) based on ~16% revenue/PAT CAGR over FY22-25E. The opportunities of transition from mid-tier IT to tier-1 are greater than the risks of this transition. At CMP, the stock trades at 25.8/22.2x its FY24E/ FY25E EPS respectively.

Key Risks

Rupee appreciation or/and adverse cross-currency movements, slower-than-expected technology spends by customers and a loss of any large clients would affect earnings.

Valuation

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	26,109	33,162	36,115	41,006
OPM (%)	20.1%	18.1%	19.5%	19.8%
Adjusted PAT (Rs cr)	3,948	4,322	5,259	6,119
% YoY growth		9.5	21.7	16.4
Adjusted EPS (Rs)	133.5	146.1	177.8	206.9
P/E (x)	34.3	31.4	25.8	22.2
P/B (x)	9.3	7.6	6.2	5.5
EV/EBITDA	22.4	15.5	8.1	3.9
ROE (%)	30.2	26.7	26.6	26.3
ROCE (%)	34.9	34.1	33.5	33.2

Source: Company; Sharekhan estimates

Key Investor Day 2023 highlights

Revenue and margin aspiration: The management expects 17%-18% margin levels over the next few quarters, post which it aspires to expand the margin by 200 bps by FY27. The management indicated aspirations of strong revenue synergies of \$1 billion over coming years.

Increased Cross Sell/ Up Sell Opportunities: LTIMindtree has a diverse set of clients across categories with current cross-sell ratio is just over three, although LTIM has nine service lines, which offer a strong opportunity to cross-sell.

Sales Transformation Programs: The management indicated four programs to deliver growth in paradoxical times 1) Minecraft 2.0 (Maximize returns from focus Top 100 accounts) 2)Aspire (cross-sell/upsell in \$1m+ accounts) 3) Everest (proactive large deals) 4)Neo (focus on new logos, adjacent micro verticals and emerging tech players).

Demand environment: The management highlighted that within the same industry they are witnessing diverse customers requirement as some of them who went for aggressive in cloud adoption during the pandemic have slowed down and are looking to preserve cash while some are continuing with their transformation journeys depending on the different stages. They also admitted to seeing delay in decision in some accounts.

SVB concerns allayed: The Management indicated that SVB is among its clients, but the revenue exposure is not significant. It has few US regional banks as its clients however the revenue contribution from US regional banks is not significant.

Higher Cross Sell/Up Sell opportunities



Source: Company; Sharekhan Research

Partnerships to drive growth

Partnership led Sales engine LTIMindtree

HYPERSCALERS		ENTERPRISE APPS		DIGITAL & DATA		VERTICAL SPECIFIC	
aws	IBM	SirionLabs	servicenow	snowflake	PEGA	majesco	GUIDEWIRE
		ORACLE	KINAXIS	databricks	snaplogic	temenos	MUREX
		BlueYonder	zilliant	boomi	TIBCO	FINASTRA	duckcreek
Microsoft	Google Cloud	SAP	coupa	OPERA		MAMBU	FIS
		ig	ARIA	WSO2	salesforce	AVEVA	SIEMENS
					NEWGEN		

servicenow	aws	aws	snowflake	Hitachi Vantara	ORACLE
Emerging Service Provider Americas 2023	Global Collaboration Partner of the Year 2022	North American Migration Partner of the Year 2022	GSI Global Delivery Platform Partner of the Year 2022	Upcoming Partner of the Year, GSI Summit 2022	Earthfirst Award for Operational Excellence in Sustainability 2021

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Persisting multiple global headwinds turning outlook for FY24E uncertain

Owing to multiple global headwinds the outlook for FY24E looks uncertain, and the recovery could be gradual in the coming quarters. Hence, concerns relating to macro headwinds are unlikely to abate anytime soon thus restricting any material outperformance for Indian IT companies.

■ Company outlook - Superior execution likely to drive outperformance

We believe that LTI's prudent strategies along with an efficient sales-force would lead to market share gains in large accounts and new deal wins. Hence, we expect LTI to deliver industry-leading revenue growth in the long term on account of consistent large deal wins and deal pipeline, higher digital mix, prudent account mining strategies and a marquee client base. Further, LTI's sharp focus on bringing new-age disruptive technologies and leveraging of platforms (in-house and external) would help it transform the core business of enterprises on a large scale. L&T Infotech (LTI) and Mindtree have merged into LTIMindtree in Nov 2022, becoming the country's fifth largest provider of IT services by market capitalisation and sixth largest IT company revenue.

■ Valuation - Aligned to take up synergies, Maintain Buy

The outlook for FY24 continues to be uncertain on account of global headwinds and any recovery is most likely to be gradual. However, we believe that LTIMindtree can take market share from tier-1 IT companies (LTIMindtree ~5% of India tier-1 IT but 8-10% share of incremental growth). Hence, we maintain Buy rating on LTIMindtree with a revised PT of Rs. 5170 (valued at 25x FY25E EPS) based on ~16% revenue/PAT CAGR over FY22-25E. The opportunities of transition from mid-tier IT to tier-1 are greater than the risks of this transition. At CMP, the stock trades at 25.8/22.2x its FY24E/ FY25E EPS respectively.

Peer Comparison

Companies	CMP Rs./ share	O/S crore	Mcap Rs crore	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
				FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
LTIMindtree	4583	30	1,35,551	31.4	25.8	15.5	8.1	7.6	6.2	26.7	26.6
Infosys	1,419	420	5,96,055	24.3	22.8	16.1	14.9	4.0	3.7	30.5	30.1
TCS	3,199	366	11,70,439	27.8	25.5	19.0	17.6	11.9	10.5	44.7	43.6

Source: Company; Sharekhan Research

About company

Promoted by Larsen & Toubro (L&T) in 1996, LTI is the sixth largest (\$2,102 million in FY2022) IT services company in India in terms of export revenue and is among the top-20 IT service providers globally. With operations in 27 countries, LTI provides technology consulting and digital solutions to around 289 clients across the globe. LTI provides services to 77 of the Fortune Global 500 companies. The company has 23 delivery centres and 43 sales offices, with employee strength of over 48,000+. LTI's vertical focus is heavily towards banking and financial services, insurance, and manufacturing, which together contribute ~62% to total revenue. 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. L&T Infotech (LTI) and Mindtree have merged into LTIMindtree in Nov 2022, becoming the country's fifth largest provider of IT services by market capitalisation and sixth largest IT company revenue.

Investment theme

A multitude of factors such as strong execution capabilities, a dynamic sales team, accelerating revenue contribution from its digital business, leverage of domain experience, solid top account mining, and healthy deal wins have been helping LTI to outpace the average industry growth rate. Further, the gradual increase in digital deal sizes along with high volume digital deals and migration of the legacy business has helped the company grow at a rapid pace compared to its peers. We believe the sharpened focus on large account mining and new client additions augurs well for LTI to deliver above-industry average revenue growth.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements, 2) constraint in local talent supply in the US would have an adverse impact on its earnings and 3) macro headwinds and possible recession in the US are likely to moderate the pace of technology spending.

Additional Data

Key management personnel

A. M. Naik	Founder Chairman
S. N. Subrahmanyam	Non-Executive Vice Chairman
Nachiket Deshpande	COO
Sudhir Chaturvedi	President sales

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	UTI Asset Management Co Ltd	1.88
2	Aditya Birla Sun life Asset management	0.97
3	Blackrock Inc	0.88
4	Vanguard Group	0.86
5	Axis Asset Management Co Ltd	0.65
6	Tata Asset Management Pvt Ltd	0.48
7	UTI International Singapore Pte	0.44
8	Wasatch advisors Inc	0.41
9	Norges Bank	0.36
10	Quant Money Managers Ltd	0.34

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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