

CMP: ₹ 4,595

Target: ₹ 5,320 (16%)

Target Period: 12 months

March 15, 2023

Integration complete, aiming for industry leading growth...

About the stock: LTIMindtree (LTIM) is the merged entity formed after the merger of erstwhile Mindtree with LTI and 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

Analyst day highlights:

- The company indicated that integration of LTIMindtree is complete and it is looking to capture growth opportunities with one Go to Market (GTM) approach
- The revenue grew at 15% CAGR over FY17-22 and it does not see any challenge in replicating the same in the future with strong TCV, large deal pipeline, combined capabilities, large deal participation, etc
- LTIM is looking to take EBIT margins to normalised levels of 17-18% in the near term and scale it up further to 19-20% in FY27, to be aided by bending of cost curve, operating efficiency and lower subcontracting costs, etc

What should investors do? LTIM's share price has grown by ~3.4x over the past five years (from ~₹ 1,332 in March 2018 to ~₹ 4,595 levels in March 2023).

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

Target Price and Valuation: We value LTIM at ₹ 5,320 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 17.5% CAGR revenue growth in FY22-25E

Alternate Stock Idea: Apart from LTIM, in our IT coverage we also 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

BUY



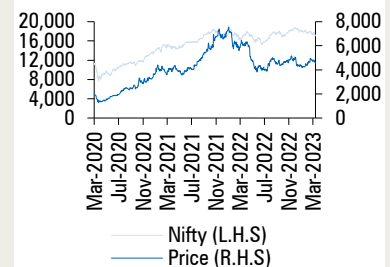
Particulars

Particular	Amount
Market Cap (₹ crore)	1,35,919
Total Debt (₹ crore)	52
Cash and Investment (₹ crore)	7,234
EV (₹ crore)	1,28,737
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

- Large deal pipeline of US\$3.2 bn (68 deals)
- **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			3 year	
			CAGR (FY17-22) %	FY23E	FY24E	FY25E	CAGR (FY22-25E) %
Net Sales	20,338	26,109	17.3	33,281	38,207	42,354	17.5
EBITDA	4,382	5,249	22.1	6,157	7,336	8,894	19.2
EBITDA Margins (%)	21.5	20.1		18.5	19.2	21.0	
Net Profit	3,049	3,950	23.2	4,554	5,353	6,557	18.4
EPS (₹)	177.7	133.4		153.9	181.0	221.7	
P/E (x)	51.3	34.5		29.8	25.4	20.7	
RoE (%)	26.2	27.6		27.2	27.6	28.9	
RoCE (%)	31.7	34.9		33.8	34.2	35.9	

Source: Company, ICICI Direct Research

Other key highlights

- The company indicated that integration of erstwhile LTI and Mindtree is now complete and it is looking to start on a strong footing from April 2023 onwards as a combined entity. The company indicated it is now looking to capture growth opportunities ahead with one go to market (GTM) strategy called LTIM One
- LTIM indicated it has seamlessly aligned the organisation in terms of sale, delivery and service lines while there is no change in client interfaces since there is hardly any overlapping business in terms of clients across the two organisations. The company also indicated that fitment of culture was one of the investors' concerns earlier, which has been addressed successfully through smooth integration,
- LTIM also indicated it is seeing stability in the top management as well as on the tier I leadership across the organisation while it does not expect any top management churn as of now. The company also indicated it did conduct town hall sessions across locations to highlight the purpose and opportunities for its employees in the merged entities. Hence, do not expect any material increase in churn from current levels apart from natural attrition
- The company indicated that due to integration of two companies, it is now looking to services its clients through 'One unified capability approach' where it now has offering in nine services lines. The company also indicated that clients are currently using on an average three service lines of the merged entity, which means it has enough levers for growth if clients start using more service lines than above number
- LTIM indicated that Silicon Valley Bank (SVB) is its client as well as its banker but also mentioned that the exposure to the bank is immaterial. The company also indicated it does not have exposure to start-ups in the US, which are going through a tough period. As per the company, its BFSI clients in the US are stable and it has not seen any change in behaviour of spending is concerned. The company also indicated it is watchful on the events unfolding in US but reiterated that long term tech spending is intact
- The company also indicated it is witnessing changes in client spending behaviour where it is going through business transformations and subsequently looking for more cost saving or efficiency led programs compared to cloud transformation programs earlier. LTIM has aligned itself to cater this opportunity,
- LTIM indicated it had a strong revenue growth track record (15% CAGR revenue growth over FY17-22) in the past and it does not see any challenge on replicating the same in the future based on i) strong TCV (TCV of US\$1.25 bn reported in Q3), ii) the company indicated it has resilient blue chip account portfolio and also mentioned that 55% of revenue currently in those capability areas (Experience, Data, Cloud, Cybersecurity) which are unaffected by macro, iii) incremental service line usage, iv) LTIM also indicated that in the past, it was unable to participate in the large deals as standalone entities due to scale and size. After integration, it is now competing with its Tier I peers,
- The company also indicated large deal pipeline of US\$3.18 bn (68 deals) (>US\$20 mn large deal definition) while that number is US\$3.72 bn (>US\$15 mn large deal definition). The company is also witnessing strong growth in cyber security services where it is investing and expects 10-15x growth in the next two to three years (on a small base). The company also indicated that cybersecurity spends in manufacturing clients is now approaching 0.75% of sales vs. 2% spend on IT services. LTIM also indicated it is looking at US\$1 bn revenue synergies, which will be played out in the medium term. They are also focusing on top 100 clients (75% mix) for its growth,
- The company indicated that Q3 EBIT margins were hit by one-time merger related costs and expect some recovery in margins in Q4. LTIM also indicated it expects EBIT margins to return to 17-18% in the medium term while in long term they are expecting EBIT margins to reach 19-20% through i) bending the cost curve ii) SG&A leverage iii) efficiency in operations,
- LTIM also indicated that partnerships also played a role in its growth in the last few years. It mentioned that three years ago, the company did not have relationship with AWS while now it has received global collaboration award.

LTIM - 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 also mentioned it is no 1 national implementation partner with Microsoft. The company also mentioned it is working on scaling up products and platform business, which is very miniscule as of now

Exhibit 1: Change in estimates

	FY23E			FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
(₹ Crore)										
Revenue	33,281	33,281	0.0	37,232	38,207	2.6	40,573	42,354	4.4	We are baking some synergy benefits
EBIT	5,392	5,392	0.0	6,292	6,701	6.5	7,344	7,963	8.4	
EBIT Margin (%)	16.2	16.2	0 bps	16.9	17.5	64 bps	18.1	18.8	70 bps	Margins increased on account of bending the cost curve
PAT	4,554	4,554	0.0	5,229	5,353	2.4	6,093	6,557	7.6	
EPS (₹)	154	154	0.0	177	181	2.4	206	222	7.6	

Source: Company, ICICI Direct Research

Exhibit 2: Merged capability of LTIMindtree



Source: Company, ICICI Direct Research

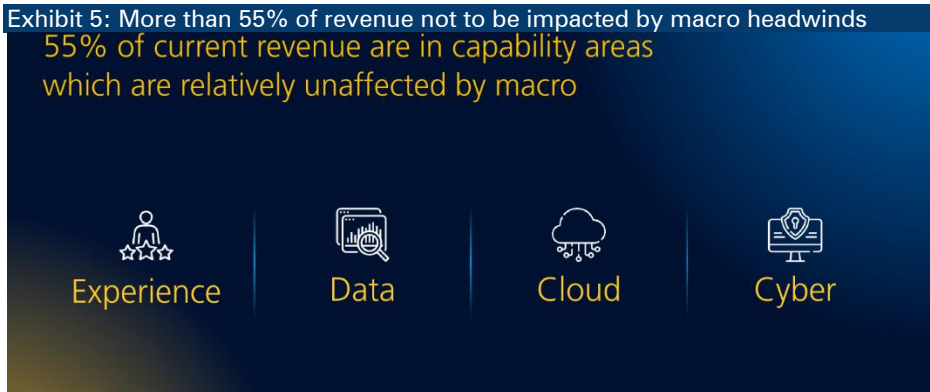
Exhibit 3: Drivers for growth forward



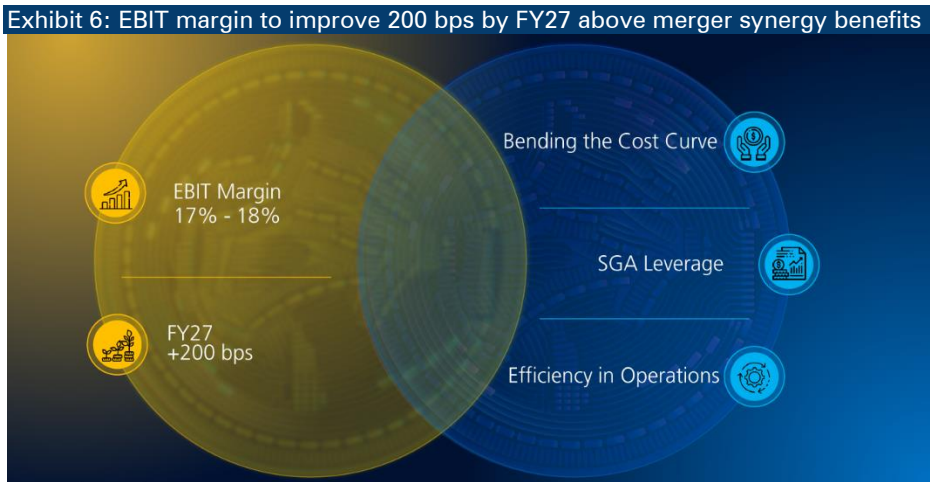
Source: Company, ICICI Direct Research



Source: Company, ICICI Direct Research



Source: Company, ICICI Direct Research



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total Revenues	26,109	33,281	38,207	42,354
Growth (%)	28.4	27.5	14.8	10.9
Employee costs	15,989	20,634	23,612	26,048
Total Operating Expenditure	20,860	27,124	30,871	33,460
EBITDA	5,249	6,157	7,336	8,894
Growth (%)	19.8	17.3	19.1	21.2
Depreciation & Amortization	597	765	879	932
Other Income	766	800	800	900
Interest	123	120	120	120
PBT before Exceptional Items	5,294	6,072	7,137	8,743
Growth (%)	31.2	14.7	17.5	22.5
Tax	1,344	1,518	1,784	2,186
PAT before Exceptional Items	3,950	4,554	5,353	6,557
Exceptional items	-	-	-	-
Minority Int & Pft. from associate	-	-	-	-
PAT	3,950	4,554	5,353	6,557
Growth (%)	29.6	15.3	17.5	22.5
Diluted EPS	133.4	153.9	181.0	221.7
EPS (Growth %)	(24.9)	15.4	17.5	22.5

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
PBT	5,308	6,072	7,137	8,743
Add: Depreciation	597	765	931	1,032
(Inc)/Dec in current assets	(1,663)	(1,433)	(887)	(747)
Inc/(Dec) in current liabilities	764	326	224	189
CF from operations	3,193	4,618	5,817	7,163
(Inc)/dec in other investments	(464)	125	132	132
(Inc)/dec in Fixed Assets	(1,053)	(913)	(1,048)	(1,161)
Other investing cash flow	57	8	25	52
CF from investing Activities	(1,645)	(779)	(891)	(977)
Issue of equity	(93)	-	-	-
Inc/(dec) in loan funds	2	153	0	(0)
Dividend paid & dividend tax	(1,328)	(2,277)	(2,676)	(3,278)
Others	(55)	-	-	-
CF from Financial Activities	(1,642)	(2,224)	(2,776)	(3,378)
Net cash flow	(94)	1,615	2,150	2,807
Effect of exchange rate changes	25	-	-	-
Opening cash	1,902	1,833	3,447	5,597
Closing cash	1,833	3,447	5,597	8,404

Source: Company, ICICI Direct Research

Exhibit 9: 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	19,363	22,642
Networth	14,287	16,717	19,393	22,672
Minority Interest	6	6	6	6
Long term Liabilities & provisions	1,197	1,523	1,747	1,936
Total Debt	52	52	52	52
Source of funds	15,542	18,298	21,198	24,665
Assets				
Net fixed assets	2,310	2,569	2,745	2,948
Net intangible assets	323	404	497	623
Goodwill	1,163	1,163	1,163	1,163
Other non current assets	1,668	1,886	2,036	2,163
Unbilled revenue	1,070	1,364	1,565	1,735
Debtors	4,557	5,991	6,877	7,624
Current Investments	5,397	5,397	5,397	5,397
Cash & Cash equivalents	1,837	3,447	5,597	8,404
Other current assets	2,077	2,648	3,040	3,370
Trade payables	1,325	1,792	2,058	2,281
Current liabilities	3,768	4,803	5,513	6,112
Application of funds	15,542	18,298	21,197	24,665

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	133.4	153.9	181.0	221.7
Cash Per Share	62.2	116.5	189.2	284.1
BV	482.3	565.1	655.6	766.5
DPS	53.4	77.0	90.5	110.8
Operating Ratios (%)				
EBITDA Margin	20.1	18.5	19.2	21.0
PBT Margin	20.3	18.2	18.7	20.6
PAT Margin	15.1	13.7	14.0	15.5
Turnover Ratios				
Debtor days	64	66	66	66
Creditor days	19	20	20	20
Return Ratios (%)				
RoE	27.6	27.2	27.6	28.9
RoCE	34.1	33.2	33.7	35.4
RoIC	57.6	57.2	62.4	70.9
Valuation Ratios (x)				
P/E	34.2	29.7	25.2	20.6
EV / EBITDA	24.4	20.5	16.9	13.6
Market Cap / Sales	5.2	4.1	3.5	3.2
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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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