

CMP: ₹ 4400

Target: ₹ 5320 (21%)

Target Period: 12 months

April 28, 2023

BUY

Aiming for double digit growth in FY24...

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 700+ clients and combined annual revenue over US\$4.1 bn+
- LTIM has a combined employee strength of 84,000+ across 30+ countries

Q4FY23 Results: LTIM reported margin recovery in Q4 results.

- In CC terms, revenues grew 0.7% QoQ and 13.5% YoY
- EBIT margins improved 250 bps QoQ to 16.4%
- FY23 order book at US\$4.87 bn

What should investors do? LTIM's share price has grown by ~2.7x over the past five years (from ~₹ 1593 in April 2018 to ~₹ 4,400 levels in April 2023).

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

Target Price and Valuation: We value LTIM at ₹ 5,320 i.e., 25x 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 14.4% CAGR in FY23-25E

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 ₹ 1,600



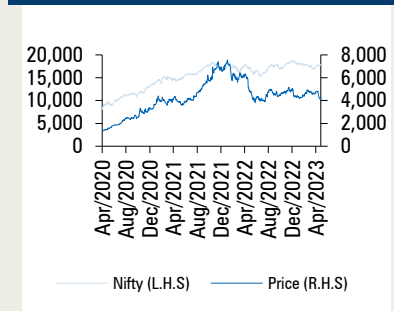
Particulars

Particular	Amount
Market Cap (₹ crore)	1,30,386
Total Debt (₹ crore)	1,365
Cash and Investment (₹ crore)	7,674
EV (₹ crore)	1,24,077
52 week H/L	5360/ 3733
Equity Capital (₹ crore)	29.6
Face Value	₹ 1

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	74.0	74.0	68.7	68.7
FII	8.4	8.1	9.2	8.4
DII	8.1	8.1	10.5	11.7
Public	9.5	9.7	11.6	11.2

Price Chart



Recent event & key risks

- Integration complete, operating as a one entity eff April 2023
- **Key Risk:** (i) Lower than expected margins (ii) Lower than expected revenue growth

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Key Financial Summary

(₹ Crore)	FY21	FY22	FY23	5 Year CAGR (FY18-23) %	FY24E	FY25E	2 year CAGR (FY23-25E) %
Net Sales	20,338	26,109	33,183	21.0	37,560	43,404	14.4
EBITDA	4,382	5,249	6,108	25.9	7,047	8,594	18.6
EBITDA Margins (%)	21.5	20.1	18.4		18.8	19.8	
Net Profit	3,049	3,950	4,410	21.3	5,187	6,324	19.7
EPS (₹)	102.9	133.4	148.8		175.0	213.4	
P/E (x)	42.8	33.0	29.6		25.1	20.6	
RoE (%)	26.2	27.6	26.6		27.0	28.3	
RoCE (%)	31.7	32.1	32.4		32.5	34.2	

Key takeaways of quarter and conference call highlights

- The company reported constant currency growth of 0.7% QoQ while dollar revenue growth was 1% QoQ. LTIMindtree, in dollar terms, reported revenue of US\$1,057.5 mn while in rupee terms revenue was at ₹ 8,691 crore, up 0.8% QoQ
- Vertical wise BFSI (38% of mix) grew 2.7% QoQ while retail & manufacturing reported growth of 2.4% & 1% QoQ, respectively. Hitech & Health declined for a second straight quarter reporting a decline of 1.5% & 2.2%, respectively
- Geography wise North America (71.9% of mix) & RoW reported muted growth of 0.5% & 0.2% QoQ, respectively, while Europe reported sustained growth of 4.4%
- EBIT margin of the company improved by ~250 bps QoQ to 16.4%. The company indicated the following tailwinds for margin improvement: a) ~80 bps reversal of furlough impact, b) 80 bps impact of lower merger integration cost and c) 90 bps impact of operational efficiency
- For FY23, the company reported revenue of US\$4,105.7 mn, up 17.2% (19.9% in CC terms) while in rupee terms the company reported revenue of ₹ 33,183 crore, up 27.1%. LTIMindtree for FY23 reported an EBIT margin 16.2% compared to EBIT margin of 17.8% in FY22
- The company indicated that integration of the two erstwhile companies i.e., LTI and Mindtree is now complete and it has started operating as a single entity from April 1, 2023. LTIMindtree indicated that Q4 performance was impacted due to slower execution of deals due to delayed start to some of the programs, which it won recently. The company indicated that it is seeing a spill-over of the same in Q1FY24 and recovery is expected from Q2FY24 onwards. The company mentioned that it is guiding for double digit revenue growth in FY24 and the confidence of the same is coming from i) deal pipeline is healthy and the company is seeing no issue there, ii) order book continues to be healthy & order book is at US\$4.87 bn, iii) the company also indicated that its large deal pipeline has increased to US\$3.6 bn now compared to US\$3.2 bn at the same time last year, iv) the integration is now complete and LTIM as an entity has now got a seat on a table for more large deals discussion, v) cross sell and upscale opportunities in their focus 100 clients, vi) range of industries they are catering to
- The company indicated that its clients are now focusing on its costs. Hence, incremental pipeline is coming from cost take out deals and the trend is likely to continue till inflation pressure ease off. LTIMindtree also indicated that it is seeing strong opportunities in the BFSI space despite a couple of clients freezing some of the programs. The company also indicated that cost take out deals is generally slower in terms of ramp-ups as few things like vendor consolidation or client's own restructuring often delays execution there. It mentioned that it is expecting recovery in BFSI space from Q2FY23 onwards. The company also indicated that there is some seasonality, which plays in Q1 in the form of absence of licenses revenues in the erstwhile LTI, which is also one of the reasons for weak Q1FY24 performance. The company mentioned that client's investment interest continues in data & analytics, AI, EV, ADAS, industrial automation, sustainability and it is looking to capitalise on these opportunities and indicated that global banks and Insurance companies are already leveraging on data & analytics piece
- In the BFS space, the company is seeing cost take out programs forming majority of the portion of a deal pipeline as banks are looking to conserve cash. In insurance space, transformation programs continue with continued investments in data & analytics. In Hi-tech some of the delayed decision

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

making visible is product engineering, customer support however, the company mentioned that it has formidable position in this space due to vendor consolidation. In manufacturing, the company is seeing some vendor consolidation opportunities especially in some of its auto clients. In energy, stable commodity prices are helping growth. Also, there has been a continued investments in carbon footprint reduction and health & safety solutions. Retail has seen downward spending pattern due to higher interest rate and high inflation. The company's growth in travel & hospitality continues to be healthy. It expects sustained momentum there, going forward as well

- The company indicated that net decline in headcount addition for Q3 and Q4 should be seen in the context of merger wherein they were accessing headcount requirement from the merged entity perspective. Hence, a lot of fulfilments have been done from internal resources. The company indicated that from Q1FY24, they may go back to normal hiring cycle but indicated that hiring will be calibrated as per demand. LTIMindtree also indicated that subcontractor costs for it is already low compared to its peers but their bench strength will provide an opportunity to optimise it further. The company indicated that their aspirational EBIT margin band is 17-18%, which they will like to reach in the medium term. The company also indicated that in Q1FY24, it will have a slow start in margins and is likely pick up in the subsequent quarters. The company mentioned that wage hike will happen in Q2 and also mentioned that growth there would be lower than previous year
- The company's net employees during the quarter declined by 1,916 bringing the total number of employees to 84,546. LTM attrition of the company declined by 210 bps QoQ to 20.2%
- The company during the quarter added 31 new clients. Also, on a QoQ basis it added two clients to US\$50 mn+ and one client to US\$20 mn+ revenue bucket list
- The company declared a final dividend of ₹ 40 per share taking its total dividend for FY23 at ₹ 60 per share

Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
LTIM (LTINFO)	4,400	5,320	BUY	1,30,150	148.8	175.0	213.4	29.6	25.1	20.6	32.4	32.5	34.2	26.6	27.0	28.3
Coforge (NIIITEC)	4,050	4,725	BUY	24,666	111.5	165.0	189.4	36.3	24.5	21.4	27.9	30.3	29.9	22.5	28.1	27.4
TeamLease (TEASER)*	2,149	2,335	HOLD	3,674	73.7	77.5	93.4	29.2	27.7	23.0	15.5	14.3	14.9	15.3	14.0	14.5
Infoedge (INFEDG)*	3,715	3,265	HOLD	46,688	52.1	54.6	58.2	71.3	68.0	63.8	6.3	6.3	6.5	4.7	4.8	4.9

Source: Company, ICICI Direct Research, * FY23 EPS are estimates

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue (US\$ mn)	1,058	1,078	945	11.9	1,047	1.0	Revenue grew 0.7% QoQ in CC terms
Revenue (₹ crore)	8,691	8,868	7,129	21.9	8,620	0.8	
Employee expenses	6,092	6,226	4,891	24.6	6,156	-1.0	
Gross Margin	2,599	2,643	2,238	16.1	2,465	5.4	
Gross margin (%)	29.9	29.8	31.4	-149 bps	28.6	131 bps	
Other expenses	995	1,082	787	26.4	1,090	-8.7	
EBITDA	1,604	1,561	1,451	10.5	1,375	16.6	
EBITDA Margin (%)	18.5	17.6	20.4	-190 bps	15.9	250 bps	
Depreciation & amort	182	204	162	12.8	178	2.4	
EBIT	1,421	1,357	1,289	10.2	1,197	18.8	
EBIT Margin (%)	16.4	15.3	18.1	-173 bps	13.9	247 bps	Margin tailwinds - a) 80 bps reversal of furlough impact, b) 80 bps lower merger integration cost & c) 90bps operational efficiency benefits
Other income	23	113	191	-88.1	114	-80.0	
PBT	1,444	1,470	1,481	-2.5	1,311	10.2	
Tax paid	330	367	372	-11.2	310	6.5	
PAT	1,114	1,102	1,109	0.5	1,001	11.3	

Source: Company, ICICI Direct Research

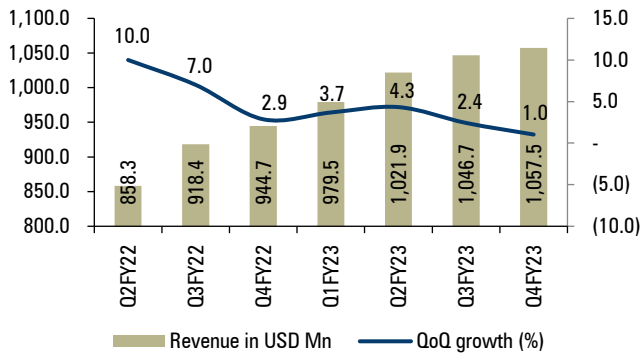
Exhibit 3: Change in estimates

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	38,207	37,560	-1.7	42,354	43,404	2.5	FY24 growth cut on management guidance of back ended growth in the year
EBIT	6,701	6,368	-5.0	7,963	7,726	-3.0	
EBIT Margin (%)	17.5	17.0	-58 bps	18.8	17.8	-100 bps	Margins trimmed due to relatively elevated attrition which likely keep employee costs up
PAT	5,353	5,187	-3.1	6,557	6,324	-3.6	
EPS (₹)	181	175	-3.1	222	213	-3.6	

Source: Company, ICICI Direct Research

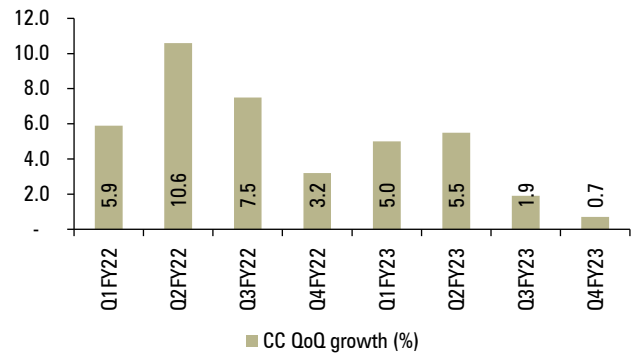
Key metrics

Exhibit 4: Delayed project start impacted growth



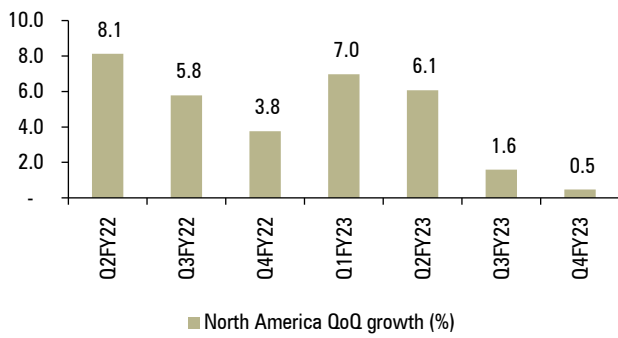
Source: Company, ICICI Direct Research

Exhibit 5: CC growth trend



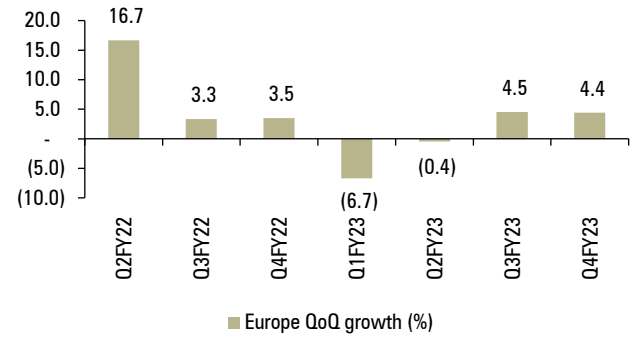
Source: Company, ICICI Direct Research

Exhibit 6: North America impacted by decision slowdown



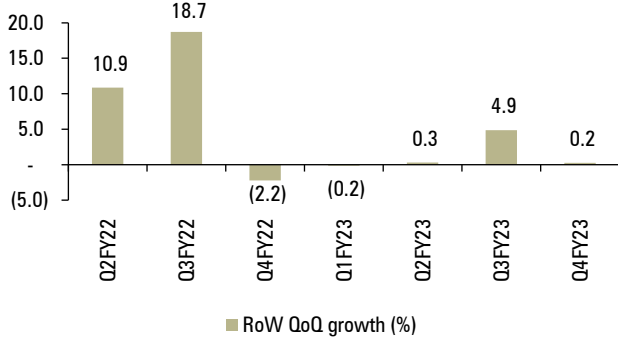
Source: Company, ICICI Direct Research

Exhibit 7: Europe continues growth momentum



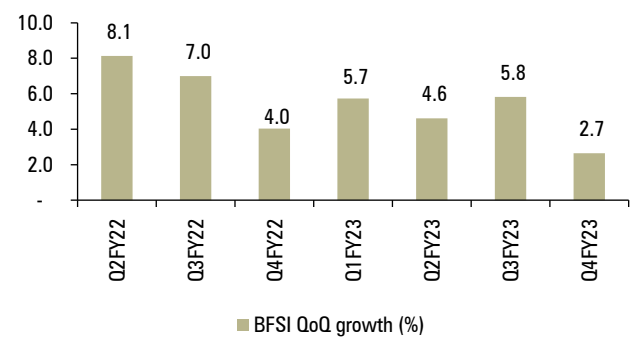
Source: Company, ICICI Direct Research

Exhibit 8: RoW region QoQ trend



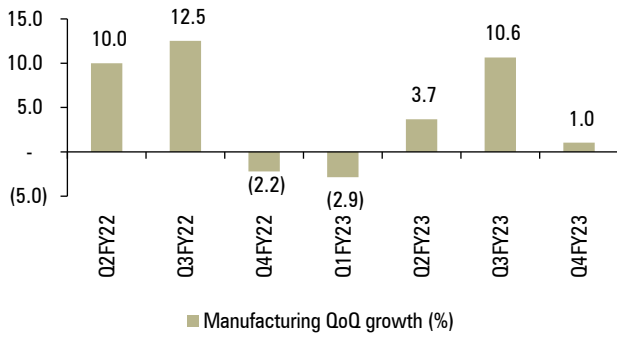
Source: Company, ICICI Direct Research

Exhibit 9: BFSI growth moderates in Q4



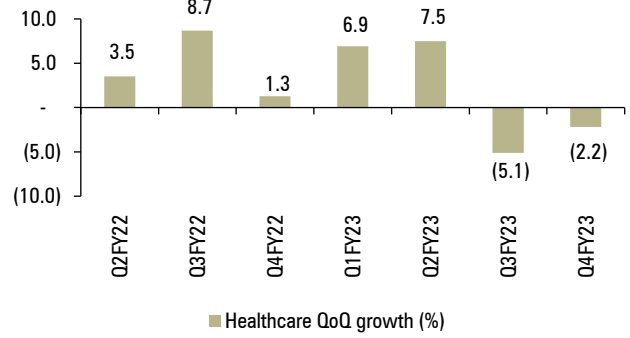
Source: Company, ICICI Direct Research

Exhibit 10: Manufacturing also impacted by delayed starts



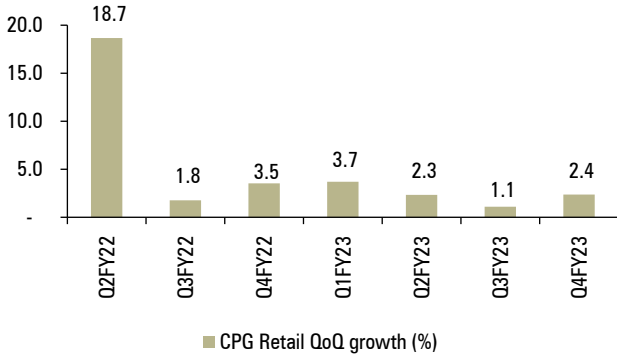
Source: Company, ICICI Direct Research

Exhibit 11: Healthcare declines for 2nd consecutive quarter



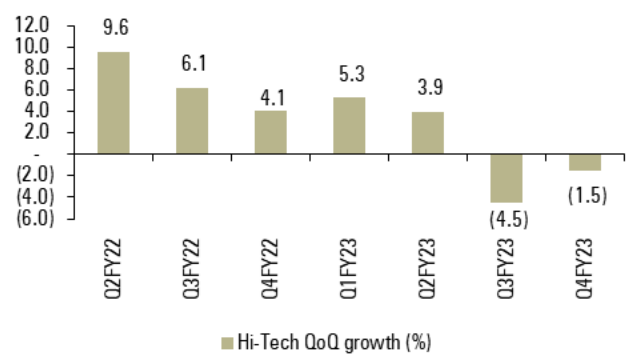
Source: Company, ICICI Direct Research

Exhibit 12: CPG & Retail resilient despite high inflation



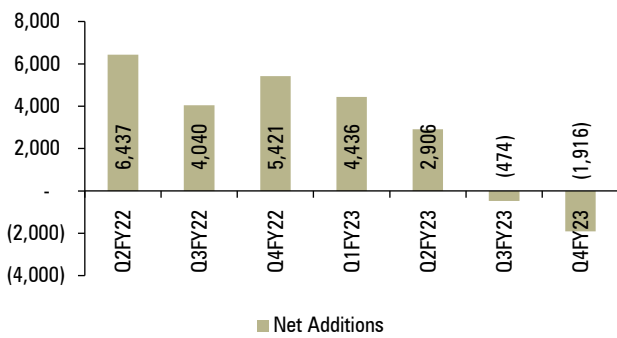
Source: Company, ICICI Direct Research

Exhibit 13: Hi-tech impacted by decision delays



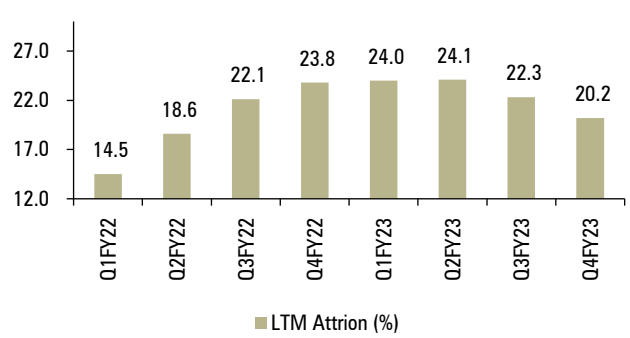
Source: Company, ICICI Direct Research

Exhibit 14: Internal sourcing reflected in decline



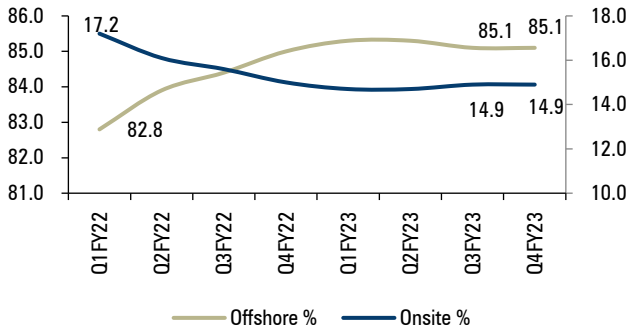
Source: Company, ICICI Direct Research

Exhibit 15: LTM attrition continues to moderate



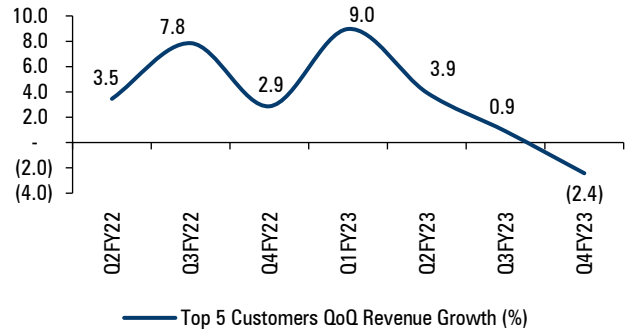
Source: Company, ICICI Direct Research

Exhibit 16: Onsite/Offshore Mix (%) steady



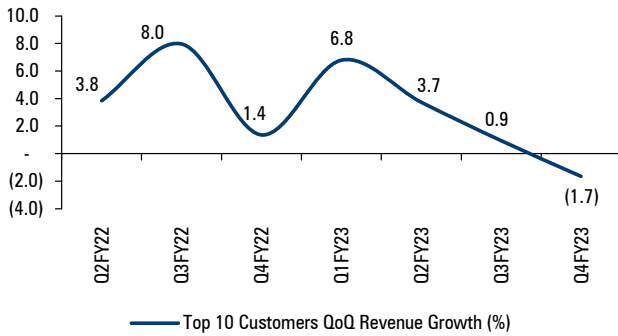
Source: Company, ICICI Direct Research

Exhibit 17: Top five customers QoQ growth trend



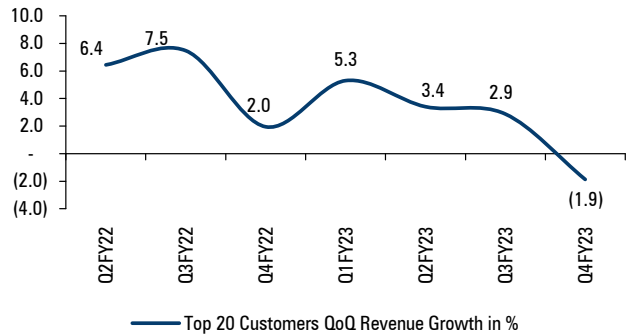
Source: Company, ICICI Direct Research

Exhibit 18: Top 10 customers QoQ growth trend



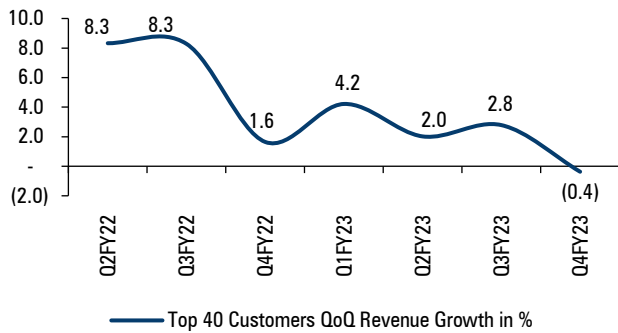
Source: Company, ICICI Direct Research

Exhibit 19: Top 20 customers QoQ growth trend



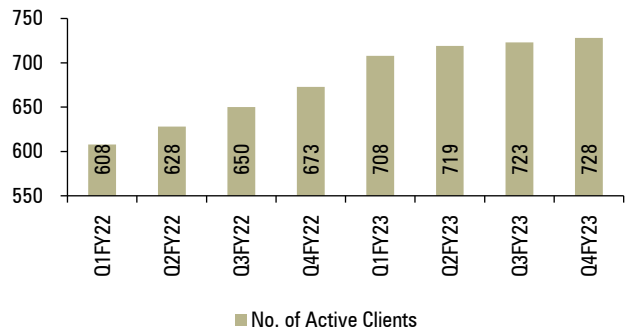
Source: Company, ICICI Direct Research

Exhibit 20: Top 40 customers QoQ growth trend



Source: Company, ICICI Direct Research

Exhibit 21: Number of active clients



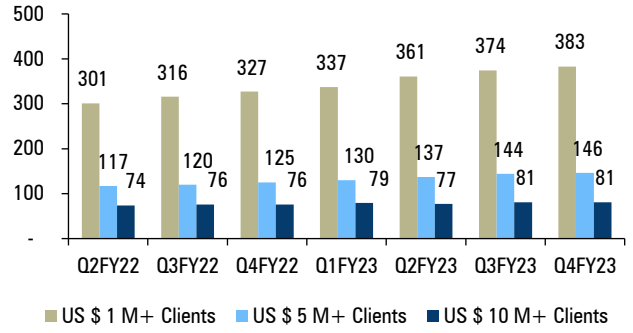
Source: Company, ICICI Direct Research

Exhibit 22: Number of clients addition



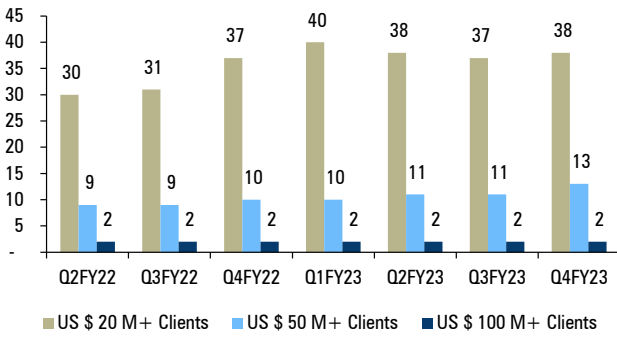
Source: Company, ICICI Direct Research

Exhibit 23: Client mix trend



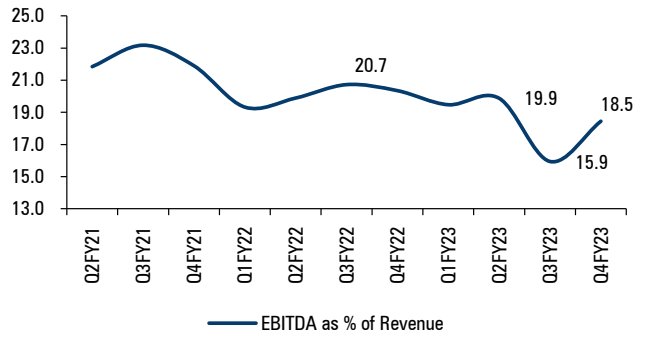
Source: Company, ICICI Direct Research

Exhibit 24: Added two clients to US\$50mn+ in Q4



Source: Company, ICICI Direct Research

Exhibit 25: EBITDA margin improved by ~250 bps in Q4



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 26: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Total Revenues	26,109	33,183	37,560	43,404
Growth (%)	28.4	27.1	13.2	15.6
Employee costs	17,827	23,204	26,231	29,949
Total Operating Expenditure	20,860	27,075	30,512	34,810
EBITDA	5,249	6,108	7,047	8,594
Growth (%)	19.8	16.4	15.4	21.9
Depreciation & Amortization	597	723	751	868
Other Income	328	454	461	507
Interest	123	150	160	160
PBT before Exceptional Items	5,294	5,792	6,737	8,213
Growth (%)	31.2	9.4	16.3	21.9
Tax	1,344	1,381	1,549	1,889
PAT before Exceptional Items	3,950	4,410	5,187	6,324
Exceptional items	-	-	-	-
Minority Int & Pft. from associates	-	-	-	-
PAT	3,950	4,410	5,187	6,324
Growth (%)	29.6	11.7	17.6	21.9
Diluted EPS	133.4	148.8	175.0	213.4
EPS (Growth %)	(24.9)	11.6	17.6	21.9

Source: Company, ICICI Direct Research

Exhibit 27: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
PBT	5,294	5,792	6,737	8,213
Add: Depreciation	597	723	931	1,032
(Inc)/Dec in current assets	(1,824)	(1,969)	(742)	(990)
Inc/(Dec) in current liabilities	-	-	5	6
CF from operations	3,251	3,095	5,649	6,675
(Inc)/dec in other investments	(464)	626	-	-
(Inc)/dec in Fixed Assets	(1,053)	(935)	(1,063)	(1,229)
Other investing cash flow	57	127	-	-
CF from investing Activities	(1,645)	(331)	(1,063)	(1,229)
Issue of equity	0	0	-	-
Inc/(dec) in loan funds	11	67	0	0
Dividend paid & dividend tax	(1,328)	(1,563)	(2,594)	(3,162)
Others	(163)	(209)	-	-
CF from Financial Activities	(1,680)	(1,932)	(2,594)	(3,162)
Net cash flow	(75)	832	1,992	2,285
Effect of exchange rate changes	2	61	-	-
Opening cash	1,519	1,837	2,932	4,331
Closing cash	1,837	2,932	4,331	6,616

Source: Company, ICICI Direct Research

Exhibit 28: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Liabilities				
Equity	29.6	29.6	29.6	29.6
Reserves & Surplus	14,258	16,563	19,156	22,318
Networth	14,287	16,592	19,186	22,348
Minority Interest	6	7	7	7
Long term Liabilities & provisions	39	50	54	60
Total Debt	1,159	1,365	1,530	1,654
Source of funds	15,490	18,014	20,777	24,069
Assets				
Net fixed assets	2,490	3,036	3,595	3,556
Net intangible assets	323	356	528	726
Goodwill	1,163	1,189	1,189	1,189
Other non current assets	1,668	1,729	1,832	1,969
Unbilled revenue	1,070	1,601	1,812	2,094
Debtors	4,557	5,623	6,365	7,355
Current Investments	5,397	4,742	4,742	4,742
Cash & Cash equivalents	1,837	2,932	4,331	6,616
Other current assets	2,077	2,288	2,589	2,992
Trade payables	1,325	1,294	1,464	1,692
Current liabilities	3,767	4,189	4,741	5,479
Application of funds	15,490	18,014	20,777	24,069

Source: Company, ICICI Direct Research

Exhibit 29: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	133.4	148.8	175.0	213.4
Cash Per Share	62.2	99.1	146.4	223.6
BV	482.3	559.9	647.4	754.1
DPS	63.9	60.1	87.7	106.9
Operating Ratios (%)				
EBITDA Margin	20.1	18.4	18.8	19.8
PBT Margin	20.3	17.5	17.9	18.9
PAT Margin	15.1	13.3	13.8	14.6
Turnover Ratios				
Debtor days	64	62	62	62
Creditor days	19	14	14	14
Return Ratios (%)				
RoE	27.6	26.6	27.0	28.3
RoCE	32.1	32.4	32.5	34.2
RoIC	56.3	52.1	53.8	60.8
Valuation Ratios (x)				
P/E	33.0	29.6	25.1	20.6
EV / EBITDA	23.7	20.3	17.4	14.0
Market Cap / Sales	5.0	3.9	3.5	3.0
Solvency Ratios				
Debt/EBITDA	0.2	0.2	0.2	0.2
Debt/Equity	0.1	0.1	0.1	0.1
Current Ratio	1.5	1.7	1.7	1.7
Quick Ratio	1.3	1.4	1.4	1.4

Source: Company, ICICI Direct Research

Exhibit 30: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
HCL Tech (HCLTEC)	1,071	1,220	BUY	2,90,634	54.8	58.7	64.4	19.6	18.3	16.6	27.1	28.4	30.6	22.7	23.2	24.8
Infosys (INFTEC)	1,246	1,600	BUY	5,21,586	57.6	64.5	73.1	21.6	19.3	17.1	38.5	37.8	39.3	31.8	32.5	33.4
TCS (TCS)	3,187	3,720	BUY	11,66,140	115.2	129.6	143.1	27.7	24.6	22.3	56.0	54.6	52.4	46.6	45.6	43.3
Tech M (TECMAH)*	1,004	1,130	HOLD	97,671	63.0	74.0	86.3	15.9	13.6	11.6	20.9	21.8	22.9	18.6	19.5	20.2
Wipro (WIPRO)*	374	455	BUY	2,05,000	23.3	26.4	28.4	16.0	14.2	13.2	18.9	20.5	21.0	18.7	20.3	21.0
LTIM (LTINFO)	4,400	5,320	BUY	1,30,150	148.8	175.0	213.4	29.6	25.1	20.6	32.4	32.5	34.2	26.6	27.0	28.3
Coforge (NIITEC)	4,050	4,725	BUY	24,666	111.5	165.0	189.4	36.3	24.5	21.4	27.9	30.3	29.9	22.5	28.1	27.4
TeamLease (TEASER)*	2,149	2,335	HOLD	3,674	73.7	77.5	93.4	29.2	27.7	23.0	15.5	14.3	14.9	15.3	14.0	14.5
Infoedge (INFEDG)*	3,715	3,265	HOLD	46,688	52.1	54.6	58.2	71.3	68.0	63.8	6.3	6.3	6.5	4.7	4.8	4.9

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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