

# LTIMindtree

## HOLD

### From Challenger to dominator

#### Summary

The key highlight of LTIMindtree analyst meet is that it aspires to grow above the 15% CAGR as witnessed in the past. The company also plans to add US\$1 billion of synergy benefits in revenues. LTIM aims to achieve the same by cross sell to clients (i.e the company has potential to sell 9 services to its 374 US\$1 mn clients), tapping cybersecurity growth (expected to grow 10-15x in 2-3 years), IP and large deals. It also aims to achieve 17-18% margins in the medium term and post that further 200 bps improvement by FY27E led by synergy benefits. However, considering the challenges in medium term (led by bank crisis in US) we expect 13.5% CAGR growth in revenues over FY23E-FY25E and margins of 18% by FY25E. Further, recent run up in price prompt us to downgrade the stock from BUY to Hold to Rs 5000 (25x FY25E EPS).

#### Key Highlights

- Combined entity capable of end to end transformation:** The combined entity has no change in client interface, integrated large deals team, pre sales team and has aligned sales, delivery and service line. The company is currently pursuing 68 large deals of US\$3.1 bn (of US\$20 mn plus) and US\$3.7 bn (of US\$15 mn plus). The company plans to grow its revenues by mining top 100 clients (which account for 75% of its revenues), cross sell 374 US\$1 mn clients from 3 services to 5 services & take it up to 9 services, focus on new logos and new micro verticals. The combined entity due to its exclusive partnership and capability can help win larger deals & improve winning ratio.
- Long term margins to improve:** Company aspires to achieve 20% EBIT margin by FY27E mainly led by pyramid, tail account rationalisation, SGA leverage, improving utilization and rationalizing sub con cost.

TP Rs5,000

CMP Rs4,567

Potential upside/downside 9%

Previous Rating BUY

#### Price Performance (%)

	-1m	-3m	-12m
Absolute	(1.6)	2.8	(27.2)
Rel to Sensex	3.6	10.4	(29.7)

#### V/s Consensus

EPS (Rs)	FY23E	FY24E	FY25E
IDBI Capital	149	171	202
Consensus	150	176	208
% difference	(0.6)	(2.6)	(3.0)

#### Key Stock Data

Bloomberg/Reuters	LTIM IN / LRTI.BO
Sector	IT
Shares o/s (mn)	296
Market cap. (Rs mn)	1,350,927
3-m daily avg Trd value (Rs mn)	72.8
52-week high / low	Rs6,429 / 3,733
Sensex / Nifty	57,900 / 17,043

#### Shareholding Pattern (%)

Promoters	68.7
FII	9.2
DII	10.1
Public	12.0

#### Financial snapshot

Year	FY21*	FY22	FY23E	FY24E	FY25E
Revenue	203,376	261,087	331,587	372,994	425,486
Change (yoy, %)	9	28	27	12	14
EBITDA	43,679	52,486	60,624	74,404	87,089
Change (yoy, %)	41	20	16	23	17
EBITDA Margin(%)	21.5	20.1	18.3	19.9	20.5
Adj.PAT	30,131	39,483	44,176	50,652	59,907
EPS (Rs)	165	133	149	171	202
Change (yoy, %)	42	(19)	12	15	18
PE(x)	28	34	31	27	23
Dividend Yield (%)	1	1	1	2	2
EV/EBITDA (x)	17	24	21	17	14
RoE (%)	30.4	30.7	28.5	27.8	27.9
RoCE (%)	36	34	32	34	34

Source: IDBI Capital Research, \*LTI standalone

#### Devang Bhatt

devang.bhatt@idbicapital.com  
+91-22-2217 1846

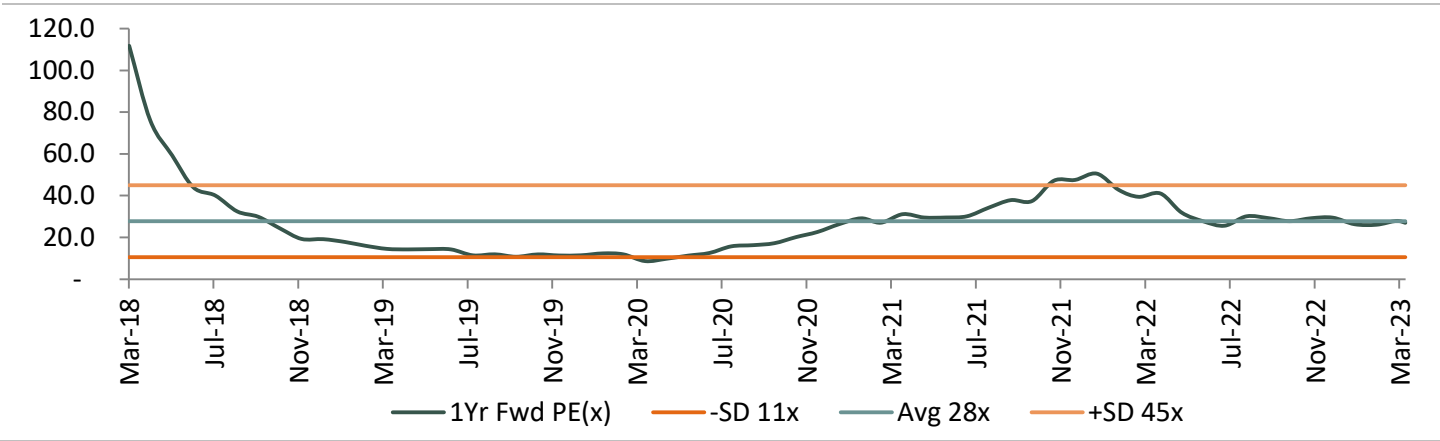
#### Dhawal Doshi

dhawal.doshi@idbicapital.com  
+91-22-2217 1841

### Other Key Highlights

- Management stated that the key focus of the merged entity remains at driving consistent profitable growth on the back of winning larger deals by leveraging its end to end service offerings, exploit cross sell & up sell opportunities, optimum utilisation of resources and increasing the operational efficiency.
- Revenue growth – LTIM has been able to record growth at CAGR of 15.5% on the back of strong partnerships with vendors and customers. Going forward, company will focus on 1) cross sell/up sell to \$1mn+ clients (374 such clients), 2) leverage partnerships to win new logos and grow existing accounts, 3) leverage its end to end service capabilities to proactively chase and win larger deals, 4) focus on emerging technology 5) maximise returns from focus 100 clients and 6) expand its presence in adjacent verticals. Management believes, the merger will lead to revenue synergy worth \$1 Bn in the next couple of years.
- Margin – Management stated that the merger will lead to synergies on cost front in the form of increased efficiency in operations, leverage of SGA and expanded pyramid. These, coupled with top-line growth and revenue synergies will lead to expansion in EBIT margins to 17%-18% from the current levels of ~14% and then further increase by 200 bps FY27E.
- In order to achieve the above mentioned growth and profitability aspirations, LTIM has undertaken various measures like integrating pre sales and large deal teams to proactively approach larger deals and aligned the sales, delivery and services lines which will lead to cross selling opportunities.
- Management informed that it has listed down few criteria to measure its success in achieving the above mentioned aspirations which are 1) revenue growth of emerging verticals should be higher than the growth of the company, 2) Increase in transformation deals, 3) Increase in number of clients and 4) Increasing revenue from existing clients led by cross sell and up sell.
- Demand environment – While there has been a delay in decision making by clients, there have been no cut in tech spends. With Covid behind us, execution of large deals have begun returning to pre covid levels. Nature of deals have changed as shorter deals continue to outnumber the larger ones. Company expects.
- Company stated that it will undertake inorganic route of growth with the focus on either expanding its service capabilities or to further penetrate in geos. Also, the current number of large deals (\$20 mn+) stands at 68 with a value of \$3.1 bn of which \$ 960mn is from new logos.

Exhibit 1: One-year forward PER trend



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20*	FY21*	FY22	FY23E	FY24E	FY25E
<b>Net sales</b>	<b>186,429</b>	<b>203,376</b>	<b>261,087</b>	<b>331,587</b>	<b>372,994</b>	<b>425,486</b>
<i>Change (yoy, %)</i>	13	9	28	27	12	14
Operating expenses	(155,514)	(159,697)	(208,601)	(270,963)	(298,591)	(338,397)
<b>EBITDA</b>	<b>30,915</b>	<b>43,679</b>	<b>52,486</b>	<b>60,624</b>	<b>74,404</b>	<b>87,089</b>
<i>Change (yoy, %)</i>	5	41	20	16	23	17
<i>Margin (%)</i>	16.6	21.5	20.1	18.3	19.9	20.5
Depreciation	(5,484)	(5,921)	(5,971)	(7,222)	(8,833)	(10,393)
<b>EBIT</b>	<b>25,431</b>	<b>37,758</b>	<b>46,515</b>	<b>53,401</b>	<b>65,570</b>	<b>76,696</b>
Interest paid	(1,355)	(1,292)	(1,234)	(1,432)	(1,516)	(1,516)
Other income	4,240	4,400	7,658	5,677	4,000	5,296
<b>Pre-tax profit</b>	<b>28,316</b>	<b>40,866</b>	<b>52,939</b>	<b>57,646</b>	<b>68,054</b>	<b>80,476</b>
Tax	(7,158)	(10,714)	(13,439)	(13,442)	(17,354)	(20,521)
<i>Effective tax rate (%)</i>	25	26	25	23	26	26
Minority Interest	(4)	(21)	(17)	(28)	(48)	(48)
Exceptional Items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>21,154</b>	<b>30,131</b>	<b>39,483</b>	<b>44,176</b>	<b>50,652</b>	<b>59,907</b>
<i>Change (yoy, %)</i>	(6)	42	31	12	15	18
EPS	116.2	165.4	133.4	149.2	171.1	202.4
Dividend per share	28	40	55	68	70	80
<i>Dividend Payout (%)</i>	29	24	41	46	41	40

\* LTI standalone

**Balance Sheet**

(Rs mn)

Year-end: March	FY20*	FY21*	FY22	FY23E	FY24E	FY25E
<b>Shareholders' funds</b>	<b>83,970</b>	<b>114,584</b>	<b>142,872</b>	<b>166,920</b>	<b>196,852</b>	<b>233,079</b>
Share capital	182	182	296	296	296	296
Reserves & surplus	83,788	114,402	142,576	166,624	196,556	232,783
<b>Total Debt</b>	<b>330</b>	<b>414</b>	<b>519</b>	<b>519</b>	<b>519</b>	<b>519</b>
Other liabilities	4,641	3,987	11,972	11,972	11,972	11,972
<b>Curr Liab &amp; prov</b>	<b>47,003</b>	<b>49,497</b>	<b>50,404</b>	<b>53,982</b>	<b>56,083</b>	<b>58,747</b>
Current liabilities	42,691	43,221	44,112	47,690	49,791	52,455
Provisions	4,312	6,276	6,292	6,292	6,292	6,292
<b>Total liabilities</b>	<b>51,974</b>	<b>53,898</b>	<b>62,895</b>	<b>66,473</b>	<b>68,574</b>	<b>71,238</b>
<b>Total equity &amp; liabilities</b>	<b>135,955</b>	<b>168,519</b>	<b>205,824</b>	<b>233,450</b>	<b>265,483</b>	<b>304,374</b>
Net fixed assets	33,258	32,490	39,757	41,249	45,415	48,022
Investments	806	2,174	6,513	6,513	6,513	6,513
Other non-curr assets	7,130	7,971	10,168	10,168	10,168	10,168
<b>Current assets</b>	<b>94,761</b>	<b>125,884</b>	<b>149,386</b>	<b>175,520</b>	<b>203,387</b>	<b>239,671</b>
Inventories	-	-	41	-	-	-
Sundry Debtors	41,930	39,648	45,574	79,036	76,643	75,772
Cash and Bank	38,614	69,140	72,344	68,776	95,577	128,345
Loans and advances	788	798	-	2,271	2,555	2,914
<b>Total assets</b>	<b>135,955</b>	<b>168,519</b>	<b>205,824</b>	<b>233,450</b>	<b>265,483</b>	<b>304,374</b>

\* LTI standalone

**Cash Flow Statement**

(Rs mn)

Year-end: March**	FY20	FY21	FY22*	FY23E	FY24E	FY25E
Pre-tax profit	28,316	40,866	52,939	57,646	68,054	80,476
Depreciation	-	-	-	-	-	-
Tax paid	(7,790)	(9,104)	(12,823)	(13,442)	(17,354)	(20,521)
Chg in working capital	15,913	4,766	(4,262)	(32,114)	4,211	3,176
Other operating activities	48,452	67,389	82,084	(3,795)	(2,700)	(1,806)
<b>Cash flow from operations (a)</b>	<b>84,891</b>	<b>103,917</b>	<b>117,938</b>	<b>8,295</b>	<b>52,211</b>	<b>61,324</b>
Capital expenditure	(15,058)	768	(7,267)	(1,492)	(4,167)	(2,607)
Chg in investments	395	(1,368)	(4,339)	-	-	-
Other investing activities	-	-	-	103,475	108,285	102,526
<b>Cash flow from investing (b)</b>	<b>(14,663)</b>	<b>(600)</b>	<b>(11,606)</b>	<b>101,983</b>	<b>104,118</b>	<b>99,919</b>
Equity raised/(repaid)	(1,634)	0	114	-	-	-
Debt raised/(repaid)	325	84	105	-	-	-
Chg in minorities	(1)	5	3	(28)	(48)	(48)
Dividend	(6,125)	(7,288)	(16,280)	(20,128)	(20,720)	(23,680)
<b>Cash flow from financing (c)</b>	<b>(7,435)</b>	<b>(7,199)</b>	<b>(16,058)</b>	<b>(20,156)</b>	<b>(20,768)</b>	<b>(23,728)</b>
<b>Net chg in cash (a+b+c)</b>	<b>62,793</b>	<b>96,118</b>	<b>90,274</b>	<b>90,122</b>	<b>135,562</b>	<b>137,516</b>

\*Calculated \*\* LTI standalone

**Financial Ratios**

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Book Value (Rs)	461	629	483	564	665	787
Adj EPS (Rs)	116	165	133	149	171	202
Adj EPS growth (%)	835	42	-19	12	15	18
EBITDA margin (%)	16.6	21.5	20.1	18.3	19.9	20.5
Pre-tax margin (%)	15	20	20	17	18	19
Net Debt/Equity (x)	0	-1	-1	0	0	-1
ROCE (%)	30	36	34	32	34	34
ROE (%)	25.5	30.4	30.7	28.5	27.8	27.9

**DuPont Analysis**

Asset turnover (x)	1.5	1.3	1.4	1.5	1.5	1.5
Leverage factor (x)	1.5	1.5	1.5	1.4	1.4	1.3
Net margin (%)	11.3	14.8	15.1	13.3	13.6	14.1

**Working Capital & Liquidity ratio**

Inventory days	0	0	0	0	0	0
Receivable days	82	71	64	87	75	65
Payable days	22	25	23	23	23	23

**Valuations**

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
PER (x)	39.3	27.6	34.2	30.6	26.7	22.6
Price/Book value (x)	9.9	7.3	9.5	8.1	6.9	5.8
EV/Net sales (x)	4.3	3.8	4.9	3.9	3.4	2.9
EV/EBITDA (x)	26	17	24	21	17	14
Dividend Yield (%)	0.6	0.9	1.2	1.5	1.5	1.8

Source: Company; IDBI Capital Research

# Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
---------	-------------------	-------------------------

## Key to Ratings Stocks:

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

## IDBI Capital Markets & Securities Ltd.

### Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

**SEBI Registration:** BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

**Compliance Officer:** Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

## Disclaimer

This report has been published by IDBI Capital Markets & Securities Ltd.(hereinafter referred to as "IDBI Capital") for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.



## Analyst Disclosures

We, Devang Bhatt and Dhawal Doshi, hereby certify that the views expressed in this report accurately reflect our personal views about the subject companies and / or securities. We also certify that no part of our compensation were, are or would be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, We will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

## Other Disclosure

IDBI Capital Markets & Securities Ltd.(herein after referred to as “IDBI Capital”) was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India’s leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail) , Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on [www.idbicapital.com](http://www.idbicapital.com) IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relative's may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at [www.bseindia.com](http://www.bseindia.com); [www.nseindia.com](http://www.nseindia.com) and [www.economictimes.indiatimes.com/markets/stocks/stock-quotes](http://www.economictimes.indiatimes.com/markets/stocks/stock-quotes).