

## 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), taping 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			Key Stock Data	
CMP	Rs4,567			Bloomberg/Reuters	LTIM IN / LRTI.BO
Potential upside/downside	9%			Sector	IT
Previous Rating	BUY			Shares o/s (mn)	296
Price Performance (%)					
	-1m	-3m	-12m		
Absolute	(1.6)	2.8	(27.2)		
Rel to Sensex	3.6	10.4	(29.7)		
V/s Consensus				Shareholding Pattern (%)	
EPS (Rs)	FY23E	FY24E	FY25E	Promoters	68.7
IDBI Capital	149	171	202	FII	9.2
Consensus	150	176	208	DII	10.1
% difference	(0.6)	(2.6)	(3.0)	Public	12.0

Year	FY21*	FY22	FY23E	FY24E	FY25E	(Rs mn)
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

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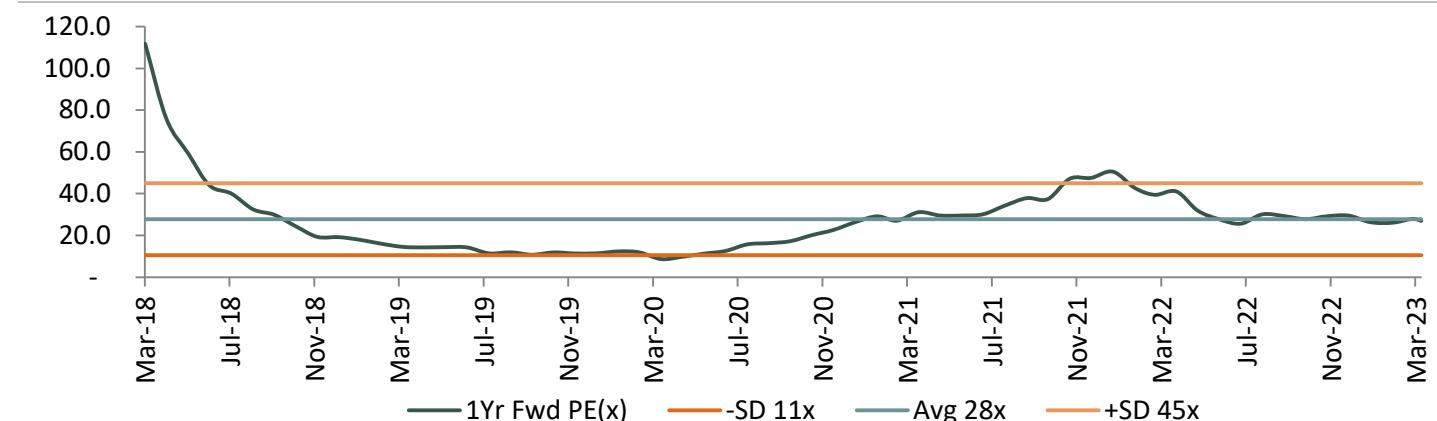
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### Other Key Highlights

- 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
<i>Adj EPS (Rs)</i>	116	165	133	149	171	202
<i>Adj EPS growth (%)</i>	835	42	-19	12	15	18
<i>EBITDA margin (%)</i>	16.6	21.5	20.1	18.3	19.9	20.5
<i>Pre-tax margin (%)</i>	15	20	20	17	18	19
<i>Net Debt/Equity (x)</i>	0	-1	-1	0	0	-1
<i>ROCE (%)</i>	30	36	34	32	34	34
<i>ROE (%)</i>	25.5	30.4	30.7	28.5	27.8	27.9
<b>DuPont Analysis</b>						
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
<i>Net margin (%)</i>	11.3	14.8	15.1	13.3	13.6	14.1
<b>Working Capital &amp; Liquidity ratio</b>						
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
<i>Dividend Yield (%)</i>	0.6	0.9	1.2	1.5	1.5	1.8

Source: Company; IDBI Capital Research



# Notes

Dealing

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**Key to Ratings Stocks:**

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

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