

Company update

Technology

Target price: Rs5651

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	74.0	74.0	68.7
Institutional investors	16.3	16.1	19.5
MFs and others	5.1	4.7	6.0
FIs/Bank	0.0	0.0	0.0
Insurance Cos.	2.8	3.1	4.0
FIs	8.4	8.3	9.5
Others	9.7	9.9	11.8

Source: www.nseindia.com

ESG disclosure score

Year	2021	2022	Chg
ESG score	61.1	59.2	(2.0)
Environment	37.6	35.9	(1.7)
Social	53.2	49.0	(4.1)
Governance	92.5	92.5	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-Sec research

On a strong footing with both revenue and cost synergies in place; remains our top pick

Rs4,567

We attended LTIMindtree (LTIM) Investor Day 2023 (on Mar 14), wherein the management reiterated its aspiration to achieve US\$1bn incremental revenue through cross-sell synergies over the next 2-4 years and reach 19-20% EBIT margins by FY27 i.e. improvement of ~200bps on pro-forma margins of the combined entity as on FY22. Mindtree is stronger in front-end digital solutions and LTI is stronger in back-end ERP related core transformation solutions. Given the complimentary service line expertise of LTI and Mindtree, LTIM aims to derive revenue synergies through cross-sell/up-sell opportunities across the existing 374 client accounts of more than US\$1mn in revenue size. For the same, it is investing in strengthening service line sales leadership and capabilities (Chart 5).

Management mentioned demand for technology transformation is secular; however, in the near term, due to macro uncertainty it is seeing longer decision-making cycles in terms of conversion of pipeline to TCV and execution of TCV to revenue largely in discretionary spends. Pipeline is healthy with 68 large deals (>US\$ 20mn deals) amounting to TCV of US\$3.2bn. It is characterised by higher share of cost optimisation deals compared to last year. LTIM's exposure to SVB is not material and the recent fallout of the bank does not have any material impact on it, as per the management.

We continue to assume 14.5% US\$ revenue CAGR over FY23-26E given 1) strong cross-sell/up-sell opportunities, 2) ability to participate in larger deals post-merger and strength in hyperscaler and SaaS partnership led sales (Chart 6, Table 1). We expect EBIT margin to improve by 260bps over FY23E-FY26E to 18.6% (in line with management guidance to improve margins to 19-20% by FY27) led by operating leverage with higher scale of operations and integration-related synergies around both employee costs and SG&A leading to 20% EPS CAGR over FY23-26 (highest in our coverage universe). We continue to value LTIM at 25x FY26E EPS of Rs253 (discounted back 1-year with WACC of 12%) to arrive at our 12-month target price of Rs5,651, implying ~24% potential upside. We see strong management execution track-records in the past at both Mindtree and LTI to become bedrock for LTIM to ensure industry-leading profitable growth in coming years. LTIM remains our top pick in the sector. Maintain BUY.

Key takeaways from LTIM Investor Day 2023:

- **No material impact on BFSI vertical due to SVB crisis:** LTIM management mentioned it has exposure to SVB both in terms of SVB as a client and SVB as a banker. But there is no material impact on LTIM due to SVB fallout in both the aspects, as per the management. Moreover, LTIM works with 12 out of 20 GSIBs (globally systematically important banks) which are likely to be in better financial health than regional banks in current macro scenario. Additionally, its major part of work is in GRC space (governance, risk management and compliance) which is also likely to gain prominence due to the recent SVB crisis.

Market Cap	Rs1351bn/US\$16.6bn
Reuters/Bloomberg	LTRI.BO/LTIM IN
Shares Outstanding (mn)	295.8
52-week Range (Rs)	6429/3733
Free Float (%)	31.3
FII (%)	9.5
Daily Volume (US\$'000)	24,939
Absolute Return 3m (%)	6.9
Absolute Return 12m (%)	(25.8)
Sensex Return 3m (%)	(6.7)
Sensex Return 12m (%)	6.2

Year to March	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	2,61,871	3,33,743	3,83,637	4,39,258
Net Income (Rs mn)	39,516	44,109	49,814	62,651
EPS (Rs)	133.4	147.2	168.2	211.5
% Chg YoY	29.7	10.3	14.3	25.8
P/E (x)	35.2	31.9	27.9	22.2
CEPS (Rs)	154.0	173.5	195.1	242.4
EV/E (x)	25.0	22.1	18.8	14.9
Dividend Yield	2.0	1.6	2.1	2.3
RoCE (%)	24.5	25.5	28.0	31.6
RoE (%)	30.5	30.3	31.9	35.5

Research Analysts:

Sumeet Jain

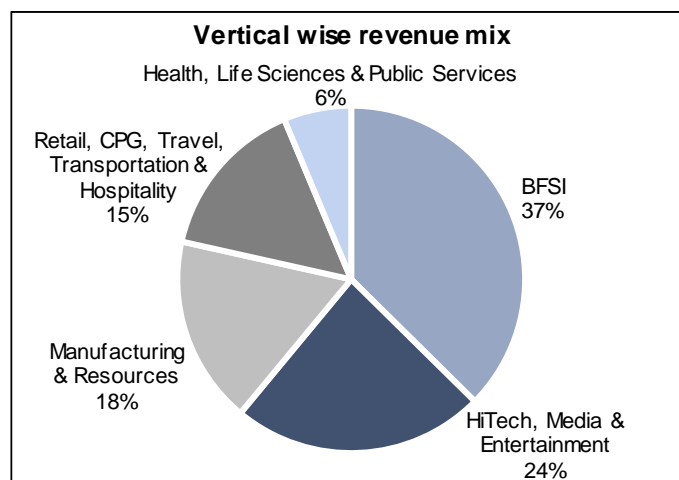
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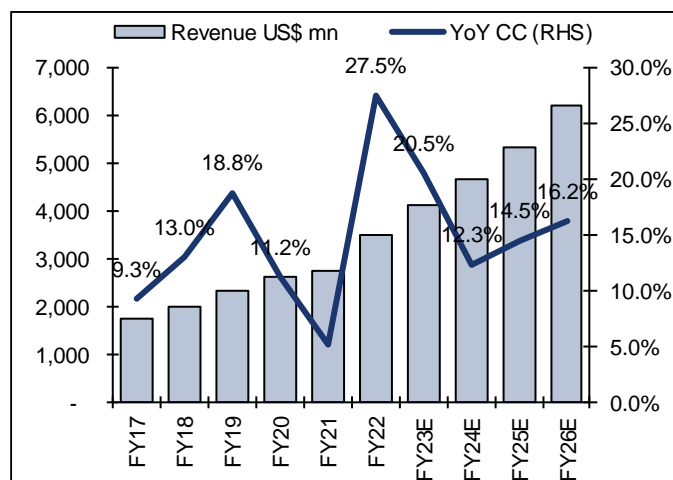
- ▶ **Management expects EBIT margins to improve to 19-20% by FY27** led by levers 1) ensuring all resources are getting billed at right price, in line with demand for their skills, 2) managing bench effectively and improving utilisation, 3) optimising sub-contracting costs, 4) SG&A leverage, 5) tail account rationalisation and operating efficiencies.
- ▶ **LTIM has resilient bluechip account portfolio:** Management mentioned 55% of its current revenue capability area (experience, data, cloud and cybersecurity) is unaffected by the current challenging macros. It has bluechip clientele i.e. 95 Fortune 500 clients and works with a number of clients across each of its industry vertical. LTIM is also investing in building cybersecurity capabilities which it sees as a high growth area largely immune to macro uncertainties. For example, its manufacturing client's spend on cybersecurity alone is ~0.75-1% of its revenue vs IT spends of 2% of revenue.
- ▶ **Huge cross sell/upsell potential:** LTIM aims to derive revenue synergies through cross-sell/up-sell opportunities across the existing 374 client accounts of more than US\$1mn in revenue size. For the same, it is investing in strengthening service line sales leadership and capabilities. Management mentioned its current cross-sell ratio is 3 and this can be increased up to 9 by integrating service line expertise of both LTI and Mindtree. (Chart 5).
- ▶ **Robust partnership led sales engine:** LTIM mentioned it has been investing in strengthening partnerships with hyperscalers and SaaS players. As per our analysis, it ranks better compared to mid-tier peers in terms of digital capabilities (Table 1). **The** company has a dedicated sales organisation across each of AWS, Azure and GCP. Additionally, top management is heading some of these key partnerships. For example, Debashis Chatterjee (CEO) leads Microsoft partnership, Siddharth Bohra (Chief Business Officer) leads AWS partnership, Nachiket Deshpande (COO) leads ServiceNow partnership and Sudhir Chaturvedi (President Sales) leads Snowflake partnership. Partnerships also improve win ratio. For example, Snowflake partnership brought business from 30 new clients over the last one year without much incremental investments in sales.
- ▶ **Combined entity LTIM has higher large deal opportunities because** 1) participation in large deals is based on revenue scale, 2) ability to stitch together complimentary service line capabilities and create integrated proactive large transformation deals improves, 3) given large deals are margin dilutive in the first year, higher revenue scale of the combined entity gives them cushion to win large deals.
- ▶ **Company embarked on AI journey** three years ago and has created an AI embedded solution "Lumin" which can do descriptive and predictive data analysis and display the analysis in a story board format. Lumin can also be integrated with open AI platforms. Lumin is a part of LTIM's Fosfor product platform that helps businesses monetise data at speed and scale. Fosfor has a robust clientele (PepsiCo, Staircase, Experian, MARS, OTIS, Carrier, HMS Host, Vizient etc.)
- ▶ **Capital allocation framework and RoCE target:** Company plans to invest in new growth areas, expanding geos and facility expansion to accommodate strong hiring done over the last 2 years. It targets to maintain RoCE above 40%.
- ▶ **Downside risks to our recommendation:** 1) Longer than expected current global macro downcycle extending beyond CY23E, 2) further hike in interest rates globally leading to lower valuation multiples, 3) weakness in BFSI vertical due to tepid credit demand, 4) pricing pressure in large deals particularly around cost optimisation, 5) high attrition leading to increased employee costs and lower scope for margin expansion, 6) INR appreciation against the US\$, 7) merger-related synergies on topline growth and margins taking longer than expected, 8) resignation of key top management executives amid merger-related uncertainties of role distribution.

Chart 1: Diversified vertical exposure of the combined entity – LTIMindtree



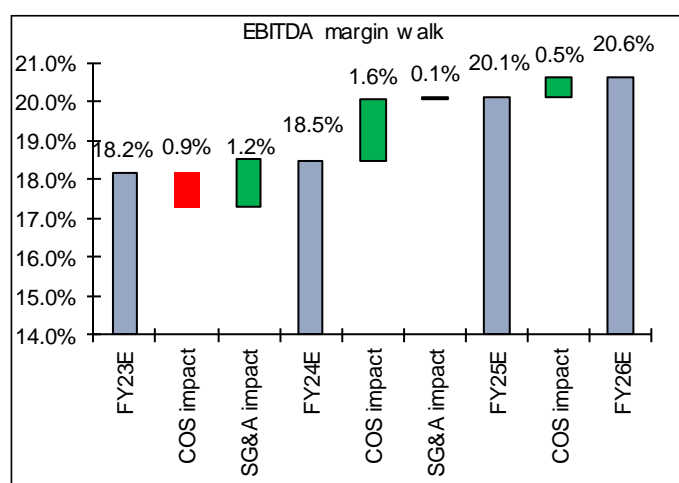
Source: Company data, I-Sec research.

Chart 2: Healthy deal TCV growth despite macro weakness



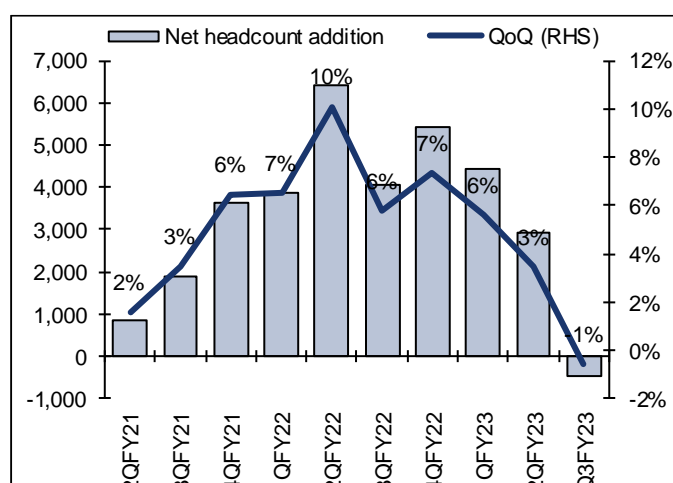
Source: Company data, I-Sec research.

Chart 3: Margins expected to improve by ~250bps over FY23E-FY26E led by merger cost synergies



Source: Company data, I-Sec research.

Chart 4: Net headcount addition likely to remain muted in the near term due to focus on utilisation



Source: Company data, I-Sec research.

Chart 5: LTIM is investing to strengthen service line capabilities in order to derive cross-sell synergies

Core	Core Transformation	Platform Transformation	Digital Re-Imagination	Modern Operations	
Experience Relations, Insights	Experience	CRM, Commerce	MarTech	Digital Engineering	Data and Analytics
Edge	Industry X.0	ESG	Connected Products	Smart Spaces	Connected Supply Chain
Cloud, Security	Cloud, Optimization	Platform Engineering	Cloud Modernization	Data In Cloud	Cloud Security
Quality Engineering	Advisory Services	Experience Assurance	Business Assurance	Product Assurance	QE As A Service
Consulting	Domain Consulting	Customer Experience	ESG & Sustainability	Applied Innovation	Value Engineering

Source: Company data, I-Sec research.

Chart 6: Strong partnership led sales engine

HYPERSCALERS		ENTERPRISE APPS		DIGITAL & DATA		VERTICAL SPECIFIC	
aws	IBM	SirionLabs	servicenow	snowflake	PEGA	majesco	GUIDEWIRE
		ORACLE	kinaxis	databricks	snaplogic	temenos	MUREX
Microsoft	Google Cloud	BlueYonder	zilliant	boomi	TIBCO	FINASTRA	duckcreek technologies
		SAP	coupa	OPERA		MAMBU	FIS
		ig	ARIA	WSO2	sageforce	AVEVA	SIEMENS
servicenow		aws		aws		snowflake	
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	
						Hitachi Vantara	
						Upcoming Partner of the Year, GSI Summit 2022	
						ORACLE	
						Earthfirst Award for Operational Excellence in Sustainability 2021	

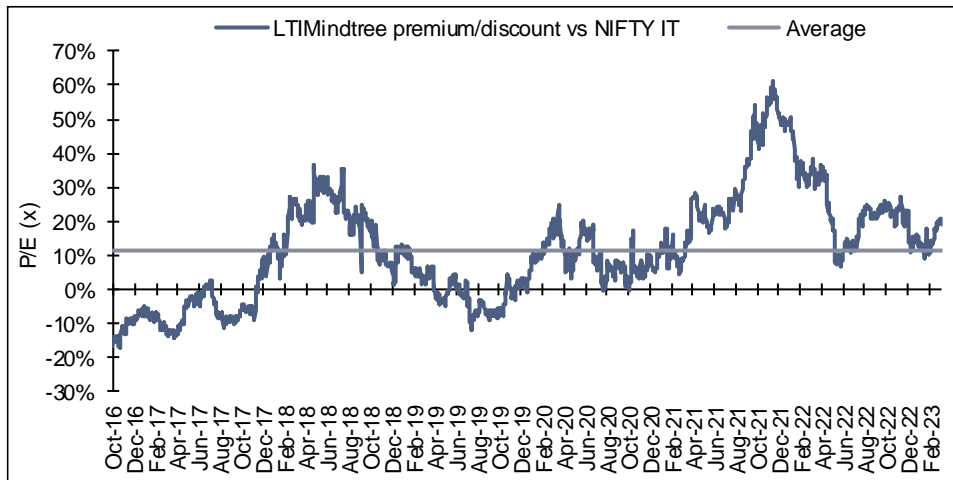
Source: Company data, I-Sec research.

Table 1: LTIM ranks better in digital capabilities across mid-tier peers.

Digital Capability ranking	TCS	Infosys	HCLT	Wipro	TechM	LTIMindtree	Mphasis	Coforge	Persistent	Accenture	Cognizant	Capgemini
AWS	4	3	7	8	9	2	10	12	11	1	6	5
Microsoft Azure and other services	1	4	2	5	9	7	10	NA	11	8	5	3
Google Cloud	1	3	2	3	10	9	10	NA	6	5	8	7
Salesforce	4	3	6	NA	NA	5	8	NA	7	1	2	NA
Servicenow	7	3	6	5	9	8	NA	10	NA	1	2	4
SAP	5	2	3	4	9	6	10	NA	NA	7	8	1
Adobe	1	3	9	5	8	10	10	7	NA	6	4	2
Snowflake	7	8	6	5	9	2	NA	9	11	1	3	4

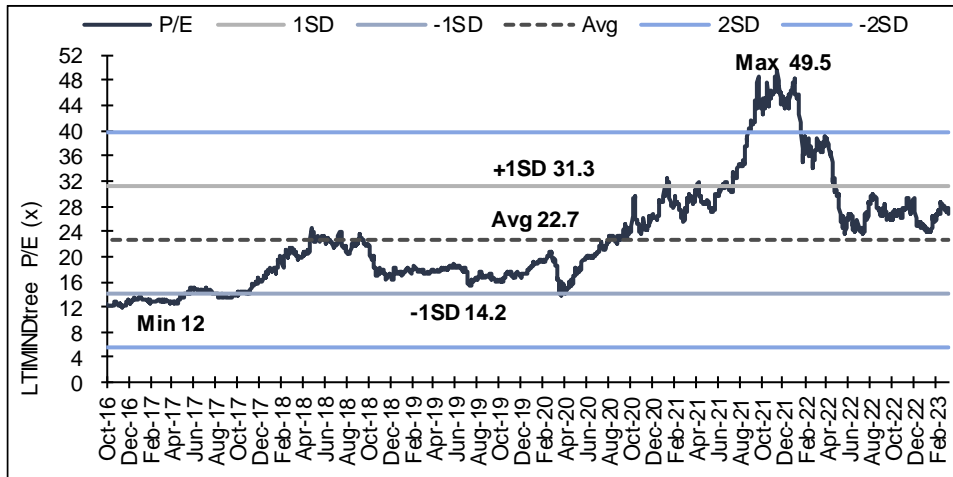
Source: Company data, I-Sec research.

Chart 7: LTIMindtree is trading at 19% premium to NIFTY IT, above its historical average premium of 12%



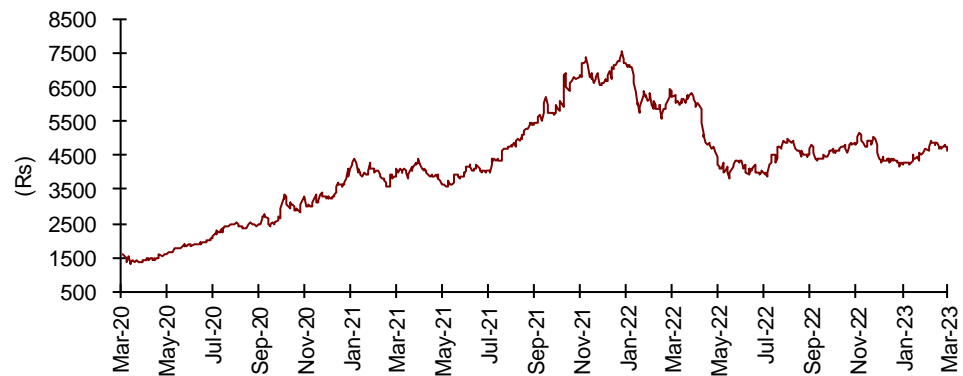
Source: Bloomberg, I-Sec research

Chart 8: LTIM trades at 26x 1yr fwd P/E, above its long term average P/E of 23x



Source: Bloomberg, I-Sec research

Price chart



Source: Bloomberg

Financial summary

Table 2: Profit and Loss statement
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Revenue (US\$mn)	3,502	4,125	4,650	5,324
Total Income (Sales)	2,61,871	3,33,743	3,83,637	4,39,258
Operating Expenses	2,09,299	2,73,149	3,12,704	3,50,842
EBITDA	52,572	60,593	70,933	88,415
% margin	20.1	18.2	18.5	20.1
Depreciation & Amortisation	5,970	7,239	7,926	9,076
EBIT	46,602	53,354	63,006	79,340
% margin	17.8	16.0	16.4	18.1
Other Income (net)	6,465	4,597	2,234	2,713
Recurring PBT	53,067	57,952	65,241	82,053
Tax expense	13,551	13,843	15,427	19,402
Reported net income	39,516	44,109	49,814	62,651
Extraordinary items	-	-	-	-
Restatement adjustments	-	-	-	-
Reported net income	39,516	44,109	49,814	62,651

Source: Company data, I-Sec research

Table 3: Balance sheet
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Liabilities				
Net Worth	1,42,872	1,48,662	1,64,051	1,88,729
Non-current Liabilities	12,029	15,530	15,530	15,530
Total Liabilities	1,54,901	1,64,192	1,79,581	2,04,259
Assets				
Fixed Assets	39,757	45,661	45,741	45,821
Other Non-current assets	16,681	18,614	18,614	18,614
Current assets	1,49,386	1,38,790	1,56,106	1,83,582
less: current liabilities	50,923	38,873	40,879	43,758
Net current assets	98,463	99,917	1,15,226	1,39,824
Total Assets	1,54,901	1,64,192	1,79,581	2,04,259

Source: Company data, I-Sec Research

Table 4: Cashflow statement
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Op. CF before W Cap changes	55,264	61,021	70,154	87,637
Working Capital change	(9,797)	(23,405)	(8,958)	(12,861)
Taxes	(13,577)	(13,843)	(15,427)	(19,402)
Capex	(10,924)	(13,143)	(8,006)	(9,156)
Free Cash flow	20,966	10,630	37,763	46,218
CF from other Invst Act (Ex Capex)	(5,530)	6,870	3,013	3,492
Dividend paid	(13,277)	(27,327)	(34,425)	(37,973)
Others	(3,138)	(7,484)	-	-
Increase/(Decrease) in Cash	(979)	(17,311)	6,351	11,737

Source: Company data, I-Sec research

Table 5: Key ratios
(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Per Share Data (Rs)				
Reported EPS	133.4	147.2	168.2	211.5
Book Value per share (BV)	483.7	502.3	554.3	637.7
Cash EPS	154.0	173.5	195.1	242.4
Dividend per share	92.0	77.0	97.0	107.0
Growth Ratios (%)				
Total Income (Sales) - US\$	27.5	17.8	12.7	14.5
Total Income (Sales)	28.8	27.4	14.9	14.5
EBITDA	20.4	15.3	17.1	24.6
Net Income	29.7	11.6	12.9	25.8
Reported EPS	29.7	10.3	14.3	25.8
Valuation Ratios (x)				
P/E	35.2	31.9	27.9	22.2
P/BV	9.7	9.3	8.5	7.4
EV / EBITDA	25.0	22.1	18.8	14.9
EV / Sales	5.0	4.0	3.5	3.0
Operating Ratio				
Other Income / PBT (%)	13.5	9.8	4.6	4.3
Effective Tax Rate (%)	25.5	23.9	23.6	23.6
Fixed Asset Turnover (x)	6.6	7.3	8.4	9.6
Receivables (days)	78	73	71	73
Return/Profitability Ratio (%)				
Net Income Margins	15.1	13.2	13.0	14.3
EBITDA Margins	20.1	18.2	18.5	20.1
RoCE (Based on Avg)	24.5	25.5	28.0	31.6
RoNW (Based on Avg)	30.5	30.3	31.9	35.5
Dividend Yield	2.0	1.6	2.1	2.3

Source: Company data, I-Sec research

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