



Margins Miss; Improving Growth Outlook

Est. Vs. Actual for Q3FY23: Revenue – **INLINE**; EBITDA Margin – **MISS**; PAT – **MISS**; Deal Wins – **BEAT**

Growth Estimates post Q3FY23

FY23E/FY24E: Revenue 15%/17%; EBITDA Margins 17%/18.5%; PAT 17%/18%

Recommendation Rationale

- Improved outlook on the vertical and engagement with clients give us confidence in the future outlook of the company.
- TCV stood strong in Q3FY23 with eight quarter-high deal wins at \$1.5 Bn
- The management is confident of gaining medium-term demand momentum on the backdrop of the deals it has won in the previous quarters as well as it expects improvement on the margin front.

Sector Outlook: Cautiously positive

Company Outlook & Guidance: The management has guided for 200bps of expansion on the current combined-entity normalized margins. The revenue growth momentum will also likely continue.

Current Valuation: 26x FY25E P/E

Current TP: 4950/share

Recommendation: Given the company's strong growth potential backed by robust deal wins and superior execution capabilities, we **maintain** our **BUY** recommendation on the stock

Financial Performance

In Q3FY23, LTIMindtree Ltd (LTIMINDTREE) reported revenue of Rs 6,881 Cr, up 4.8% QoQ and 2.4% QoQ (in CC terms) which stood above our expectations. The company's operating profit stood at Rs 1,197 Cr, reporting a de-growth of 16.9% on a QoQ basis, largely because of the one-time integration cost, appraisal effect, and other higher impact costs. Its net profit for Q3FY23 stood at Rs 1,001 Cr, registering a de-growth of 10.7% QoQ.

Outlook

From a long-term perspective, we believe LTIMindtree is well-placed for encouraging growth, given its multiple long-term contracts with the world's leading brands. Richer revenue visibility gives us confidence in its business growth moving forward. However, rising concerns over the prospects of large economies along with prevailing supply-side constraints pose uncertainties over the company's short-term growth rates.

Valuation & Recommendation

We recommend a **BUY** rating on the stock and assign a 22x P/E multiple to its FY25E earnings of Rs 188/share to arrive at a TP of Rs 4,950/share, implying an upside of 16% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q3FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	8,620	5%	25%	8610	0%
EBITDA	1,375	-18%	21%	1593	-14%
EBITDA Margin	16%	393 bps	478 bps	19%	-14%
Net Profit	1,001	-16%	-5%	1141	-12%
EPS (Rs)	33.83	-16%	-5%	38.3	-12%

Source: Company, Axis Research

(CMP as of 20 Jan 2023)

CMP (Rs)	4270
Upside /Downside (%)	16%
High/Low (Rs)	6,928 / 3,733
Market cap (Cr)	1,26,301
Avg. daily vol. (6m)Shrs.	1,59,403
No. of shares (Cr)	29

Shareholding (%)

	Jun-22	Sep-22	Dec-22
Promoter	74.03	74	68.69
FIIs	8.42	8.13	9.21
MFs / UTI	5.09	4.74	5.99
Banks / FIs	12.46	13.13	16.11
Others	74.03	74	68.69

Financial & Valuations

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E
Net Sales	25,661	35,175	40,952
EBITDA	4,433	5,980	7,584
Net Profit	3,237	4,365	5,558
EPS (Rs)	109.4	147.4	187.8
PER (x)	54.0	40.1	31.5
P/BV (x)	38.9	28.7	20.7
EV/EBITDA (x)	16.1	12.1	8.8
ROE (%)	32%	33%	32%

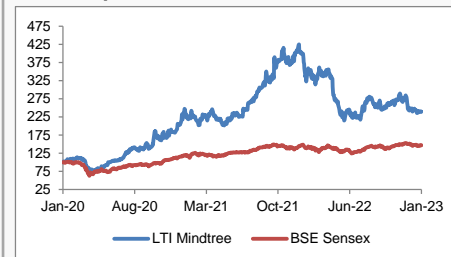
ESG disclosure Score**

Environmental Disclosure	44
Social Disclosure Score	60
Governance Disclosure	59
Total ESG Disclosure Score	51

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Recommendation Rationale & Key Highlights

- **Continuing strength in demand environment in the medium term:** The US is relatively better placed; the UK is seeing higher cost optimization deals (with faster decision-making) while the Europe market is impacted in the short term. As the macro environment stabilizes, the company expects a pick-up in its decision-making.
- **Broad-based vertical growth:** On the vertical front, the BFSI/Retail travel hospitality/Hi-Tech Media Entertainment verticals delivered an encouraging QoQ growth of 5.7%/0.6%/4.7% respectively. Manufacturing & resources, too, grew at 10.5% QoQ. The majority of the verticals witnessed strong growth and are likely to report further growth backed by a strong deal pipeline in the near term.
- **Better geographical performance:** On the geographical front, while North America (72% of revenue) improved by 1.6% QoQ, Europe (15% of revenue) grew by 4% QoQ, RoW (12.8% of revenue) business grew by 5.4% QoQ (in the CC terms). For Q3FY23, the company's free cash conversion stood at Rs 356 Cr.

Key Risks to our Estimates and TP

- The demand environment is uncertain because of the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact the company's operating margins negatively.

Results Review
(Rs Cr)

In Crs.	Q3FY23	Q2FY23	Q3FY22	% change (YoY)	% change (QoQ)
Total Revenue	8,620	8,228	6,881	25%	5%
Total Cost of Sales	6155.5	5690.4	4660.4		
Gross Profit	2,465	2,537	2,220		
Margin(%)	1,090	902	794		
Employee Cost	1,375	1,636	1,426	-4%	-16%
Other Costs	16%	20%	21%	(478.00)	(393.00)
Total Operating Expenses	178	196	152		
Operating Income	1,197	1,440	514	133%	-17%
Margin(%)	13.9%	17.5%	7.5%	641	(361)
Total Other Income/(Expense)	103	141	59		
Income Before Income Taxes	1,300	1,581	573		
Total Taxes	310	374	359		
ETR (%)	24%	24%	63%	(3,882.44)	18.99
Net Profit After Taxes	1,001	1,189	1,050	-5%	-16%
Non-Controlling Interest					
Net Income After Extraordinary Items	1,001	1,189	1,050	-5%	-16%
Margin(%)	12%	14%	15%	(365.25)	(284.20)
EPS	33.83	40.16	35.53	-5%	-16%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Net sales	14,641	25,661	35,175	40,952
Other operating income	0	0	0	0
Total income	14,641	25,661	35,175	40,952
Employee Expense	8,694	15,876	21,809	24,768
Contribution (%)	40.6%	38.1%	38.0%	39.5%
Other Expenses	2,881.2	5,351.6	7,386.8	8,599.9
Operating Profit	3,066	4,433	5,980	7,584
Other income	211	288	281	328
PBIDT	3,277	4,721	6,261	7,911
Depreciation	220	386	436	495
Interest & Fin Chg.	22	42	6	6
E/o income / (Expense)	0	0	0	0
Pre-tax profit	3,035	4,293	5,819	7,410
Tax provision	766	1,055	1,455	1,853
PAT				
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Other Comprehensive Income	0.0	0.0	0.0	0.0
Adjusted PAT	2,269	3,237	4,365	5,558
Reported PAT	2,269	3,237	4,365	5,558

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Total assets	9,257	11,603	15,075	20,314
Net Block	1,211	1,225	1,189	697
CWIP	4.0	4.0	4.0	0.0
Investments	110.9	110.9	110.9	110.9
Wkg. cap. (excl cash)	5,230	7,966	10,306	1,660
Cash / Bank balance	2,701.2	2,297.2	3,465.6	17,846.3
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	9,257	11,603	15,075	20,314
Equity capital	17.2	17.2	17.2	17.2
Reserves	8,430	10,842	14,381	19,938
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	1.3	1.3	1.3	1.3
Borrowings	782	712	642	357
Def tax Liabilities	26.9	30.6	34.2	0.0

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Sources	1,647	2,782	3,959	6,045
Cash profit	2,511	3,666	4,806	6,059
(-) Dividends	826	826	826	0
Retained earnings	1,685	2,840	3,981	6,059
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	0.0	0.0	0.0	0.0
Borrowings	-20	-20	-20	26
Others	-18	-38	-2	-40
Applications	1,647	2,782	3,959	6,045
Capital expenditure	400.0	400.0	400.0	0.0
Investments	0.0	0.0	0.0	0.0
Net current assets	600.7	2,785.6	2,390.3	(8,336.0)
Change in cash	646.4	(404.0)	1,168.5	14,380.7

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY22A	FY23E	FY24E	FY25E
Sales growth	18.4	75.3	37.1	16.4
OPM	20.9	17.3	17.0	18.5
Oper. profit growth	12.5	44.6	34.9	26.8
COGS / Net sales	59.4	61.9	62.0	60.5
Overheads/Net sales	19.7	20.9	21.0	21.0
Depreciation / G. block	7.5	11.6	11.7	13.2
Effective interest rate	4.8	10.8	1.8	4.0
Net sales / Gr block (x)	5.0	7.7	9.4	10.9
RoCE	39.2	44.6	46.0	43.1
Debt / equity (x)	0.05	0.03	0.02	0.00
Effective tax rate	25.2	24.6	25.0	25.0
RoE	27.9	32.2	33.5	32.4
Payout ratio (Div/NP)	36.4	25.5	18.9	0.0
EPS (Rs.)	76.7	109.4	147.4	187.8
EPS Growth	17.1	42.7	34.8	27.3
CEPS (Rs.)	84.1	122.4	162.2	204.5
DPS (Rs.)	27.9	27.9	27.9	0.0

Source: Company, Axis Securities

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