

**India**

May 09, 2022 - 8:17 AM

**HOLD** (no change)

Consensus ratings*: Buy 20 Hold 11 Sell 8	
Current price:	Rs4,593
Target price: <span style="color: green;">▶</span>	Rs5,251
Previous target:	Rs5,251
Up/downside:	14.3%
InCred Research / Consensus:	-13.8%
Reuters:	LRTI.NS
Bloomberg:	LTI IN
Market cap:	US\$10,466m Rs805,163m
Average daily turnover:	US\$32.4m Rs2492.0m
Current shares o/s:	175.0m
Free float:	26.0%
<small>*Source: Bloomberg</small>	

**Key financial forecast**

	Mar-22F	Mar-23F	Mar-24F
Net Profit (Rsm)	22,986	26,914	32,487
Core EPS (Rs)	130.89	153.31	185.06
Core EPS Growth	18.5%	17.1%	20.7%
FD Core P/E	35.09	29.96	24.82
Recurring ROE	28.5%	28.1%	28.9%
P/BV (x)	9.15	7.79	6.64
DPS (Rs)	55.00	65.92	83.28
Dividend Yield	1.19%	1.44%	1.81%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(27.4)	(26.9)	20.7
Relative (%)	(21.3)	(22.0)	8.3

Major shareholders	% held
UTI Flexi Cap Fund	1.9
FPI	10.1
Insurance companies	1.5

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# L&T Infotech

## A turn for the better

- LTI and Mindtree merger creates a scale player with US\$3.5bn in revenue.
- Merger bridges the gap with tier-I IT peers. Addresses concentration concern.
- Margin execution has an upside risk.

### Merger details

- The boards of L&T InfoTech (LTI) and Mindtree (MTCL) have approved the merger of Mindtree with LTI, subject to shareholder and regulatory approvals, and is expected to be completed in 9-12 months. Pending approvals, both companies will operate independently while the combined entity will be named 'LTI Mindtree Ltd' post-merger. Shareholders of MTCL will receive 73 shares of LTI for every 100 shares they own while the parent L&T Group will own 68.73% stake in the merged entity. The merger creates a scale player with US\$3.5bn in revenue, US\$530m in PAT, cash, and investments of US\$991m and an employee base of ~82,000 as at FY22 end.

### Bridges gap with tier-I IT peers; addresses concentration concerns

- LTIMindtree combined bridges the client metric gap with tier-I peers (refer Figure 5) and addresses top client concentration risk, especially for Mindtree (top client revenue contribution could be ~10% of combined entity's revenue vs. ~25% in FY22 for standalone Mindtree). Importantly, LTIMindtree will have ~600 clients with >US\$1m revenue and presents a significant opportunity to improve mining through cross-selling.

### Margin execution has upside risk

- Our proforma analysis indicates LTIMindtree combined could report a revenue of ~US\$ 5bn in FY24F with an EPS of ~Rs205, assuming the current proforma PAT margin of 15% while a 100bp improvement in margin from synergy benefits could drive EPS higher to Rs215. We believe the upside risk to estimates exists given that Mindtree demonstrated better margin execution under Mr. Debashis Chatterjee (CEO of the merged entity). Please note that Mindtree reported an average 18.7%+ EBIT margin during the past six quarters while EBITDA margin improved to 20.9% in FY22 from 15.2% in FY19 since Mr. Chatterjee taking over as the CEO of Mindtree.

### Prefer to remain on the sidelines

- We had highlighted previously that although the merger could be a long-term positive, the timing remains crucial with a potential to disrupt execution in the near term while realignment and reorganization of roles could be a major distraction to senior leadership. As a reminder, recently we trimmed LTI's PE/G multiple to 1.5x vs. 1.8x earlier by increasing the discount to Tata Consultancy Services (TCS IN) multiple to 25% vs. 10% to account for the uncertainty relating to the merger. This led to a change in the implied P/E to 28.4x vs. 34.1x, our target price to Rs5,251, and our rating to Hold. Better integration led by retention of senior leaders presents upside risks to our thesis while moderation in deal velocity and high attrition rate are key revenue/EBIT margin downside risks.

**Figure 1: LTI Mindtree Proforma size**

FY22	LTI	Mindtree	Proforma (As-is)
Revenue (US\$ m)	2102	1411	3513
EBIT (US\$ m)	363	262	625
EBIT margin	17.3%	18.6%	17.8%
PAT (US\$ m)	308	222	530
PAT margin	14.7%	15.7%	15.1%
Cash (US\$ m)	516	475	991

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Combined entity to have reduced vertical concentration risk**

FY22 revenue split	LTI		FY22 revenue split	Mindtree		FY22 revenue split	LTIMindtree Ltd	
	(US\$ m)	Share (%)		(US\$ m)	Share (%)		(US\$ m)	Share (%)
BFSI	974	47%	BFSI	251	18%	BFSI	1,225	35%
Hi-tech & Media	255	12%	Communications, media & technology	614	43%	Communications, Media & Technology	869	25%
CPG, Retail & Pharma	216	10%	CPG, Retail & Manufacturing	334	24%	Manufacturing, CPG, Retail & Healthcare	906	26%
Manufacturing	339	16%	Healthcare	17	1%	Energy & Utilities	187	5%
Energy & Utilities	187	9%	Travel, transportation & Hospitality	195	14%	Travel, transportation & Hospitality	195	5%
Others	131	6%				Others	131	4%
<b>Total</b>	<b>2,102</b>	<b>100%</b>	<b>Total</b>	<b>1,411</b>	<b>100%</b>	<b>Total</b>	<b>3,513</b>	<b>100%</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Americas will continue to be a key market post-merger**

FY22 geographical split	LTI		FY22 geographical split	Mindtree		FY22 geographical split	LTIMindtree Ltd	
	(US\$ m)	Share (%)		(US\$ m)	Share (%)		(US\$ m)	Share (%)
Americas	1398	67%	Americas	1044	74%	Americas	2,442	69%
Europe	340	16%	Europe	254	18%	Europe	594	17%
Rest of the World	364	17%	Rest of the World	113	8%	Rest of the World	477	14%
<b>Total</b>	<b>2,102</b>	<b>100%</b>	<b>Total</b>	<b>1,411</b>	<b>100%</b>	<b>Total</b>	<b>3,513</b>	<b>100%</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: Merger could address MTCL's top client concentration concerns**

FY22 client split	LTI		FY22 client split	Mindtree		FY22 client split	LTIMindtree Ltd	
	(US\$ m)	Share (%)		(US\$ m)	Share (%)		(US\$ m)	Share (%)
Top 5	589	28%	Top 5	507	36%	Top 5	1,095	31%
Top 6-10	254	12%	Top 6-10	126	9%	Top 6-10	380	11%
Top 11-20	315	15%	Top 11-20	193	14%	Top 11-20	509	14%
Non top 20	944	45%	Non top 20	586	42%	Non top 20	1,529	44%
<b>Total revenue</b>	<b>2,102</b>	<b>100%</b>	<b>Total revenue</b>	<b>1,411</b>	<b>100%</b>	<b>Total revenue</b>	<b>3,513</b>	<b>100%</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: LTIMindtree bridges the gap with tier-I peers**

FY22 client split	LTIMindtree Ltd (US\$ m)	TechM (US\$ m)
Revenue per active client (US\$ m)	5.2	4.8
Revenue per top 5	219	256
Revenue per top 6-10	76	101
Revenue per top 11-20	51	67

SOURCES: INCRED RESEARCH, COMPANY REPORTS, TECHM NUMBERS ARE BASED ON TRAILING TWELVE MONTH BASIS AS OF 3QFY22

**Figure 6: Merger presents significant cross-selling and mining opportunities**

Client profile	LTI	Mindtree	LTIMintree Ltd	TechM
US\$ 1 mn+	198	139	337	502
US\$ 5 mn+	74	56	130	173
US\$ 10 mn+	44	32	76	96
US\$ 20 mn+	24	14	38	50
US\$ 50 mn+	8	1	9	22
US\$ 100 mn+	1	1	2	NA

SOURCES: INCRED RESEARCH, COMPANY REPORTS. LTIMINDTREE LTD NUMBERS ARE AS-IS WHILE TECHM NUMBERS ARE AS ON 3QFY22

**Profit & Loss**

(Rs mn)	Mar-21A	Mar-22F	Mar-23F	Mar-24F
<b>Total Net Revenues</b>	<b>123,698</b>	<b>156,687</b>	<b>193,317</b>	<b>227,235</b>
<b>Gross Profit</b>	<b>41,505</b>	<b>48,120</b>	<b>59,213</b>	<b>70,693</b>
<b>Operating EBITDA</b>	<b>27,251</b>	<b>30,585</b>	<b>37,175</b>	<b>45,015</b>
Depreciation And Amortisation	(3,325)	(3,549)	(4,833)	(5,681)
<b>Operating EBIT</b>	<b>23,926</b>	<b>27,036</b>	<b>32,342</b>	<b>39,334</b>
Financial Income/(Expense)	1,956	3,939	4,077	4,243
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)				
<b>Profit Before Tax (pre-EI)</b>	<b>25,882</b>	<b>30,975</b>	<b>36,419</b>	<b>43,577</b>
Exceptional Items				
<b>Pre-tax Profit</b>	<b>25,882</b>	<b>30,975</b>	<b>36,419</b>	<b>43,577</b>
Taxation	(6,500)	(7,989)	(9,505)	(11,090)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>19,382</b>	<b>22,986</b>	<b>26,914</b>	<b>32,487</b>
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>19,382</b>	<b>22,986</b>	<b>26,914</b>	<b>32,487</b>
Recurring Net Profit	19,382	22,986	26,914	32,487
<b>Fully Diluted Recurring Net Profit</b>	<b>19,382</b>	<b>22,986</b>	<b>26,914</b>	<b>32,487</b>

**Balance Sheet**

(Rs mn)	Mar-21A	Mar-22F	Mar-23F	Mar-24F
<b>Total Cash And Equivalents</b>	<b>43,876</b>	<b>39,139</b>	<b>41,283</b>	<b>52,676</b>
<b>Total Debtors</b>	<b>31,248</b>	<b>41,710</b>	<b>50,845</b>	<b>59,766</b>
Inventories				
<b>Total Other Current Assets</b>	<b>6,189</b>	<b>7,807</b>	<b>7,807</b>	<b>7,807</b>
<b>Total Current Assets</b>	<b>81,313</b>	<b>88,656</b>	<b>99,935</b>	<b>120,249</b>
Fixed Assets	10,481	15,723	21,830	21,149
Total Investments	3,065	6,474	6,474	6,474
Intangible Assets	9,241	10,057	10,057	10,057
Total Other Non-Current Assets	2,991	3,773	3,773	3,773
<b>Total Non-current Assets</b>	<b>25,778</b>	<b>36,027</b>	<b>42,134</b>	<b>41,453</b>
Short-term Debt	414	519	519	519
Current Portion of Long-Term Debt				
<b>Total Creditors</b>	<b>8,277</b>	<b>8,028</b>	<b>10,063</b>	<b>11,829</b>
Other Current Liabilities	17,632	20,636	20,636	20,636
<b>Total Current Liabilities</b>	<b>26,323</b>	<b>29,183</b>	<b>31,218</b>	<b>32,984</b>
Total Long-term Debt				
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	7,697	7,307	7,307	7,307
<b>Total Non-current Liabilities</b>	<b>7,697</b>	<b>7,307</b>	<b>7,307</b>	<b>7,307</b>
Total Provisions				
<b>Total Liabilities</b>	<b>34,020</b>	<b>36,490</b>	<b>38,525</b>	<b>40,291</b>
Shareholders Equity	73,034	88,146	103,487	121,355
Minority Interests	37	57	57	57
<b>Total Equity</b>	<b>73,071</b>	<b>88,203</b>	<b>103,544</b>	<b>121,412</b>

**Cash Flow**

(Rs mn)	Mar-21A	Mar-22F	Mar-23F	Mar-24F
<b>EBITDA</b>	<b>27,251</b>	<b>30,585</b>	<b>37,175</b>	<b>45,015</b>
Cash Flow from Invt. & Assoc.				
Change In Working Capital	2,704	(9,542)	(7,100)	(7,155)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow				
Net Interest (Paid)/Received				
Tax Paid	(6,400)	(8,113)	(9,505)	(11,090)
<b>Cashflow From Operations</b>	<b>23,555</b>	<b>12,930</b>	<b>20,570</b>	<b>26,770</b>
Capex	(2,719)	(8,590)	(7,000)	(5,000)
Disposals Of FAs/subsidiaries	54	34		
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	(13,895)	(1,038)	4,833	4,999
<b>Cash Flow From Investing</b>	<b>(16,560)</b>	<b>(9,594)</b>	<b>(2,167)</b>	<b>(1)</b>
Debt Raised/(repaid)				
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(5,319)	(8,749)	(11,573)	(14,619)
Preferred Dividends				
Other Financing Cashflow	231	(1,709)	(861)	(756)
<b>Cash Flow From Financing</b>	<b>(5,088)</b>	<b>(10,458)</b>	<b>(12,434)</b>	<b>(15,375)</b>
Total Cash Generated	1,907	(7,122)	5,969	11,394
<b>Free Cashflow To Equity</b>	<b>20,836</b>	<b>4,340</b>	<b>13,570</b>	<b>21,770</b>
<b>Free Cashflow To Firm</b>	<b>6,995</b>	<b>3,336</b>	<b>18,403</b>	<b>26,769</b>

**Key Ratios**

	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	13.7%	26.7%	23.4%	17.5%
Operating EBITDA Growth	34.3%	12.2%	21.5%	21.1%
Operating EBITDA Margin	22.0%	19.5%	19.2%	19.8%
Net Cash Per Share (Rs)	205.84	181.21	193.42	258.32
BVPS (Rs)	415.72	502.12	589.51	691.29
Gross Interest Cover				
Effective Tax Rate	25.1%	25.8%	26.1%	25.5%
Net Dividend Payout Ratio	36.0%	41.9%	43.0%	45.0%
Accounts Receivables Days	93.14	84.98	87.38	88.84
Inventory Days				
Accounts Payables Days	33.81	27.41	24.62	25.52
ROIC (%)	48.2%	58.6%	47.4%	46.1%
ROCE (%)	24.6%	22.8%	23.2%	24.5%
Return On Average Assets	18.3%	17.3%	17.9%	19.3%

**12-mth Fwd FD Core P/E (x)**


SOURCE: INCRED RESEARCH, COMPANY REPORTS

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**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021**

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- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.