

## Mindtree (MTCL IN)

Rating: REDUCE | CMP: Rs978 | TP: Rs888

July 15, 2020

### Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

#### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	REDUCE		REDUCE	
Target Price	888		763	
Sales (Rs. m)	92,906	1,03,263	89,777	99,624
% Chng.	3.5	3.7		
EBITDA (Rs. m)	14,803	15,648	13,807	14,485
% Chng.	7.2	8.0		
EPS (Rs.)	61.1	65.9	56.9	60.5
% Chng.	7.3	8.8		

#### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs.m)	77,643	85,797	92,906	1,03,263
EBITDA (Rs. m)	10,623	14,010	14,803	15,648
Margin (%)	13.7	16.3	15.9	15.2
PAT (Rs. m)	6,309	9,380	10,048	10,839
EPS (Rs.)	38.3	57.0	61.1	65.9
Gr. (%)	(16.5)	48.6	7.1	7.9
DPS (Rs.)	10.0	10.0	10.0	10.0
Yield (%)	1.0	1.0	1.0	1.0
RoE (%)	19.5	26.3	22.9	20.6
RoCE (%)	24.1	31.6	27.0	23.8
EV/Sales (x)	1.9	1.7	1.5	1.3
EV/EBITDA (x)	14.0	10.4	9.4	8.5
PE (x)	25.5	17.2	16.0	14.9
P/BV (x)	5.1	4.0	3.4	2.8

#### Key Data

MINT.BO | MTCL IN

52-W High / Low	Rs.1,063 / Rs.652
Sensex / Nifty	36,033 / 10,607
Market Cap	Rs.161bn / \$ 2,134m
Shares Outstanding	165m
3M Avg. Daily Value	Rs.2145.03m

#### Shareholding Pattern (%)

Promoter's	73.49
Foreign	10.39
Domestic Institution	7.88
Public & Others	8.24
Promoter Pledge (Rs bn)	-

#### Stock Performance (%)

	1M	6M	12M
Absolute	7.0	13.2	30.0
Relative	0.3	31.8	39.8

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### Top clients drives performance, unknown risks ahead...

#### Quick Pointers:

- Mindtree reported sequential revenue decline of 9.1% to US\$253 mn, worse than estimate of 7.4% decline. EBIT margin was stable helped by 26% QoQ decline in other costs.
- MTCL over the last several quarters have been heavy dependence on the top client. Revenues from top client have grown by 35% CAGR over FY16-21 (~2.8x company growth), while revenues from the top 2-10 clients remained practically unchanged at US\$250mn levels over the years. In the Q1FY21, we have seen the same.
- We maintain our Reduce rating as we consider stock valuations expensive against the downturn of discretionary spends & top client concentration (30% of revenues). Our EPS estimates are upgraded on account on better margin performance, change in deprecation policy & higher other income. We value MTCL at 14X Sep-22 EPS of Rs. 63.5 to arrive at changed TP of Rs.888. MTCL is trading at 16X/15X FY22/23E earnings of Rs.61/66 respectively.

**Mindtree reported revenue de-growth of 9.1% in QoQ vs our estimates of 7.1% CC decline. Volumes were up 4% YoY. Pricing was down 5.2% YoY, mainly driven by lower revenue from travel and hospitality segment. Travel & Hospitality reported 55% QoQ decline followed by 7% QoQ decline in Manufacturing & Retail & 9.5% QoQ decline in BFSI. Management mentioned that uncertainty will continue in TTH in next quarter also but overall revenue decline will be much lower as it was in present quarter. The top client growth was excellent and grew at 10.5% QoQ and 43.7% YoY to US\$76 mn but, this has resulted in significant increase in top client concentration to 30% of revenues from 24.8% in 4QFY20 and 20.1% in 1QFY20.**

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- **Weak revenue & Inline margin performance:** Mindtree reported revenue de-growth of 9.1% in QoQ vs our estimates of 7.1% CC decline. Volumes were up 4% YoY. Pricing was down 5.2% YoY, mainly driven by lower revenue from travel and hospitality segment. Travel & Hospitality reported 55% QoQ decline followed by 7% QoQ decline in Manufacturing & Retail & 9.5% QoQ decline in BFSI. Management mentioned that uncertainty will continue in TTH in next quarter also but overall revenue decline will be much lower as it was in present quarter.

- **Better Margin performance:** MTCL posted margin better than our estimates at 13.7% (Ple: 12.3%). Better margin was led by operational efficiency (+100bps), INR depreciation (+80bps) & visa costs (-30bps). Gross margins were lower at 33.1% down 386 bps QoQ due to Lower pricing & Transition cost associates with some large deals (effort is included in hours but there is commensurate revenue). The above was off-set by optimising sub-contracting cost and Lower travel expenditure. No decision has been taken on wage hikes as of now. They will go ahead with the promotions, but wage hike has not been decided. Tax rate for the quarter was at higher at 26.5% vs 22% QoQ. Forex losses were 3.4mnUSD in the quarter. At the current spot rate, they will have forex gains from 2HFY21. DSO increased by 1day to 67 days. PAT at Rs2.1bn (+3.3% QoQ, +130% YoY), boosted by higher other income and lower depreciation
- **Growth only from top account:** The top client was the bright spot and grew at 10.5% QoQ and 43.7% YoY to US\$76 mn. However, this has resulted in significant increase in top client concentration to 30% of revenues from 24.8% in 4QFY20 and 20.1% in 1QFY20. Our concerns on Mindtree over the last several quarters have been heavy dependence on the top client. Revenues from top client have grown by 32% CAGR over FY16-20 (~2.8x company growth), while revenues from the top 2-10 clients remained practically unchanged at US\$250mn levels over the years. In the Q1FY21, we have seen the same.
- **Strong deal wins TCV on the back of large deal win:** Mindtree reported TCV of US\$391 mn in 1QFY20, YoY increase of 20.6%. The increase was entirely due to higher renewals. But new deal TCV was unchanged at US\$76 mn YoY. Management is confident of building on momentum in large deal wins although the Covid impact can lead to delay in deal closures. Large deal ramp-ups and transition have been smooth. Number of US\$50 mn clients was flat QoQ and YoY at 1. Number of US\$25 mn clients was flat QoQ and was up by 1 yoy to 5. Mindtree will focus more on cross sell and upsell to strategic clients. Rationalization will not create disruption in revenues and margins in tail accounts. Management is confident of upsell and cross sell of services across all service lines to every account, which is strategic.
- **Outlook on Travel Vertical:** Travel & Hospitality reported 55% QoQ decline followed by 7% QoQ decline in Manufacturing & Retail & 9.5% QoQ decline in BFSI. Mindtree expects weak outlook for the next couple of quarters, although discussions with clients have started in a few pockets. Mindtree indicated the company has not lost market share to peers and expects similar ramp down across vendors.

## Exhibit 1: Q1FY21 quick view on results

Rs m	1Q20	4Q20	1Q21	QoQ gr.	YoY gr.	1Q21E	% var from est
Net Sales (US\$ m)	264.2	278.4	253.2	(9.1)	(4.2)	260.2	-3%
Net Sales	18,342	20,505	19,088	(6.9)	4.1	19,944	-4%
EBITDA	1,841	3,237	3,220	(0.5)	74.9	2,844	13%
EBITDA margin (%)	10.0	15.8	16.9	108bp	683bp	14.3	261bp
EBIT	1,172	2,558	2,623	2.5	123.8	2,455	6.8
EBIT margin (%)	6.4	12.5	13.7	127bp	735bp	12.3	143bp
PBT	1,262	2,613	2,898	10.9	129.6	2,628	10.3
Income tax	335	551	686	24.5	104.8	657	4.4
Reported PAT	927	2,062	2,212	7.3	138.6	1,970	12.3
EPS diluted (Rs.)	5.64	12.52	12.93	3.3	129.3	12.0	8.1

Source: Company, PL

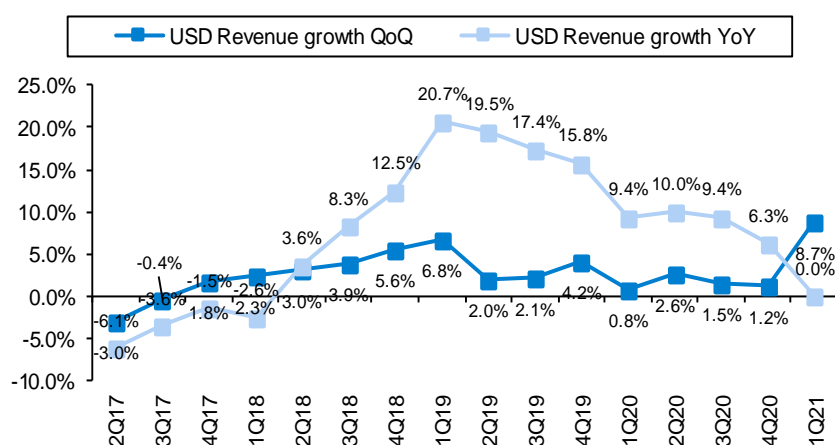
## Exhibit 2: Change in Estimates

Y/e March	FY21E	FY22E	FY23E
<b>USD revenues (US\$ m)</b>			
- New	985	1,051	1,119
- Old	1,010	1,073	1,145
Change (%)	-2.5%	-2.1%	-2.3%
<b>EBIT Margin</b>			
- New	13.5%	13.1%	12.3%
- Old	11.9%	12.5%	11.7%
Change (%)	155 bps	52 bps	62 bps
<b>Recurring EPS - Fully diluted (Rs)</b>			
- New	57.0	61.0	65.8
- Old	47.3	56.8	60.5
Change (%)	20.3%	7.3%	8.8%

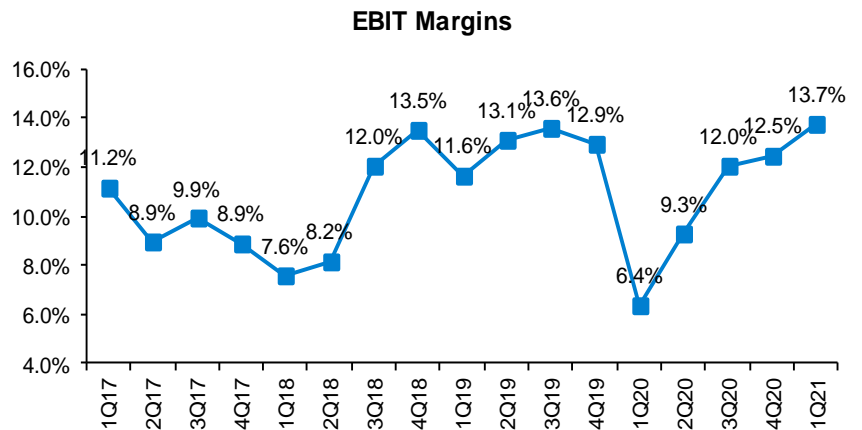
Source: PL

Mindtree reported revenue de-growth of 9.1% in QoQ vs our estimates of 7.1% CC decline. Volumes were up 4% YoY. Pricing was down 5.2% YoY, mainly driven by lower revenue from travel and hospitality segment

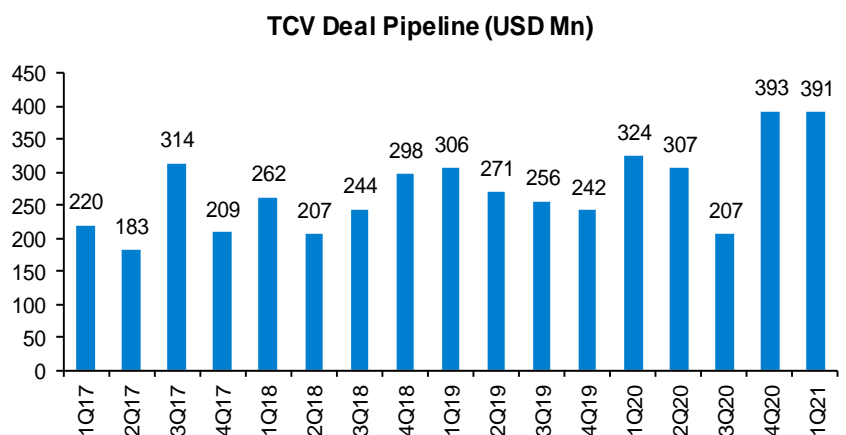
## Exhibit 3: Inline revenue growth



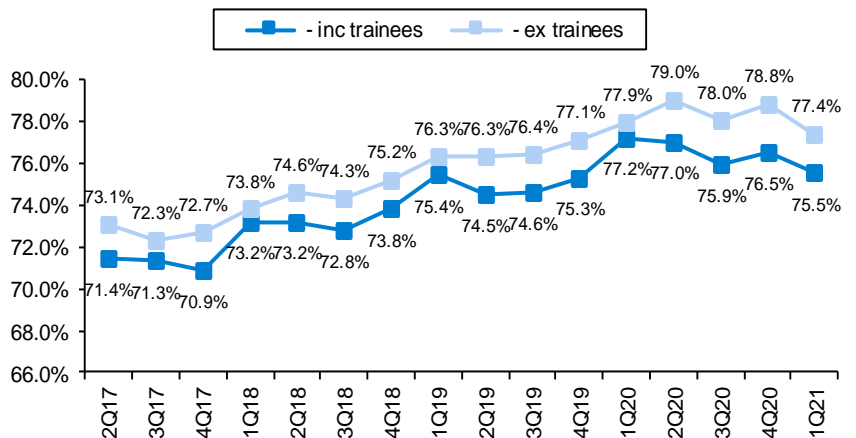
Source: Company, PL

**Exhibit 4: EBIT margin inline with our estimates**


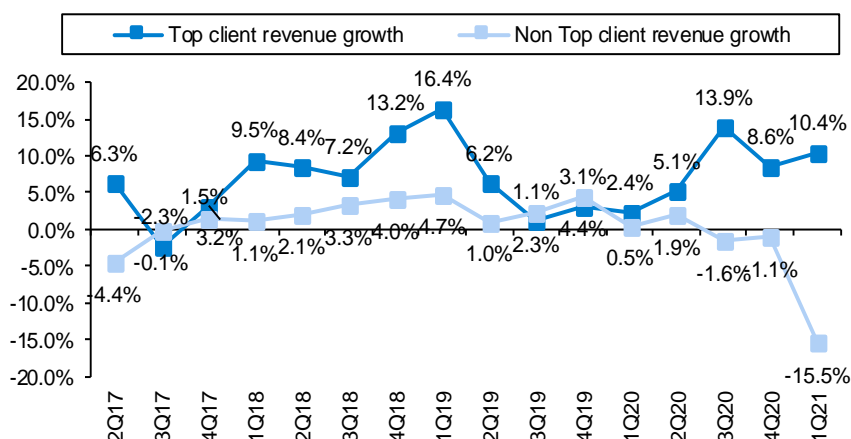
Source: Company, PL

**Exhibit 5: Momentum in TCV maintained**


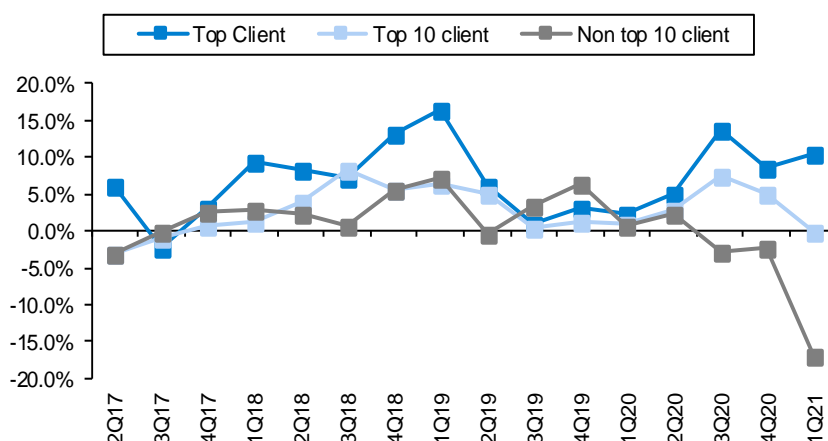
Source: Company, PL

**Exhibit 6: Utilization continues to improve**


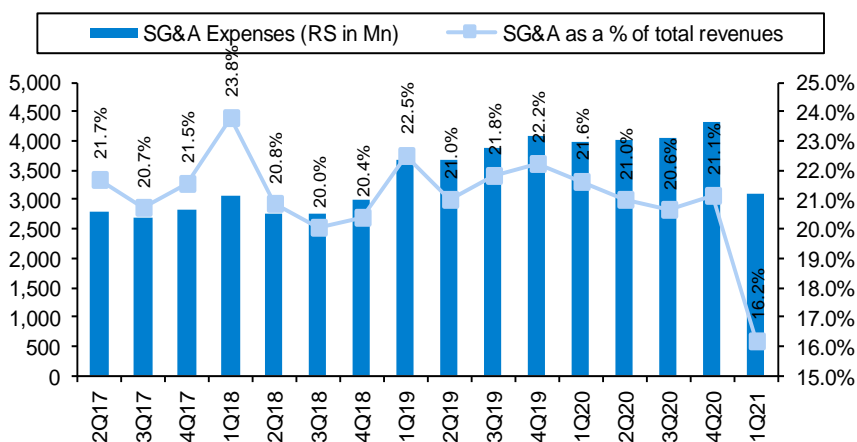
Source: Company, PL

**Exhibit 7: Revenues from top client's (USD) marginally grew**


Source: Company, PL

**Exhibit 8: Weak revenue growth among all clients**


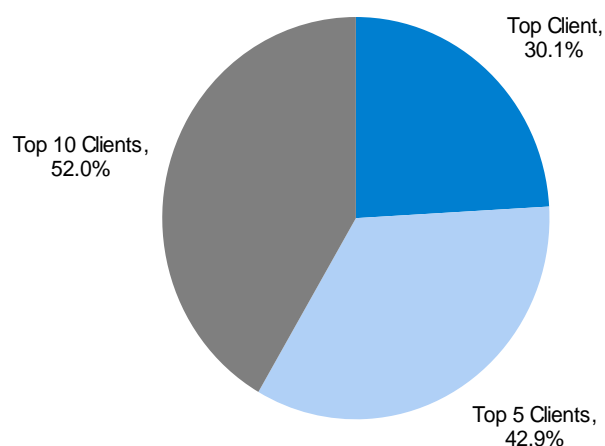
Source: Company, PL

**Exhibit 9: SG&A Expenses declined**


Source: Company, PL

Revenue contribution from top clients continue to remain steady

**Exhibit 10: Customer Concentration (%)**



Source: Company, PL

**Exhibit 11: Geography wise Revenues**

(US\$ m)	Q1FY20	Q4FY20	Q1FY21	QoQ gr. (%)	YoY gr. (%)
America	194	214	200	(6.4)	3.2
Europe	50	43	33	(22.1)	(33.9)
India	9	11	10	(4.4)	14.5
APAC / Rest of the World	11	11	10	(13.6)	(13.3)
<b>Geography wise(% of sales)</b>					
America	73.3%	76.8%	79.0%	220bp	567bp
Europe	19.0%	15.3%	13.1%	-220bp	-589bp
India	3.4%	3.9%	4.1%	20bp	67bp
APAC / Rest of the World	4.2%	4.0%	3.8%	-20bp	-40bp

Source: Company, PL

**Exhibit 12: Client Metrics**

	Q1FY20	Q4FY20	Q1FY21	QoQ gr. (%)	YoY gr. (%)
Total active clients	346	307	292	-15.00	(54.0)
New clients added	12	5	6	1.00	(6.0)
<b>Customer Concentration (%)</b>					
Top Customer	20.1%	24.8%	30.1%	530bp	1000bp
Top 5 Customers	33.6%	37.9%	42.9%	500bp	930bp
Top 10 Customers	43.0%	47.4%	52.0%	460bp	900bp
<b>Receivables position</b>					
Days of Sales Outstanding	71	66	66	0.0	(5.0)
<b>Client relationships</b>					
US\$ 1m+	122	134	127	(7.0)	5.0
US\$ 5m+	46	47	44	(3.0)	(2.0)
US\$ 10m+	23	23	23	0.0	0.0
US\$ 50m+	1	1	1	0.0	0.0

Source: Company, PL

## Exhibit 13: Headcount Metrics

	Q1FY20	Q4FY20	Q1FY21	QoQ gr. (%)	YoY gr. (%)
Total employees	20,935	21,991	21,955	(36.0)	4.9
- net hiring	731	332	-36	(368.0)	(104.9)
Delivery employees	19,681	20,817	20,851	34.0	5.9
- net addition	664	469	1,170	701.0	76.2
Sales and support	1,254	1,174	1,104	(70.0)	(12.0)
Utilization %					
- inc trainees	77.2%	76.5%	75.5%	-100bp	-170bp
- ex trainees	77.9%	78.8%	77.4%	-140bp	-50bp
Attrition rate - LTM	15.1%	17.4%	16.6%	-80bp	150bp

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>77,643</b>	<b>85,797</b>	<b>92,906</b>	<b>1,03,263</b>
YoY gr. (%)	10.6	10.5	8.3	11.1
Employee Cost	50,647	54,289	60,633	68,248
Gross Profit	26,996	31,508	32,273	35,016
Margin (%)	34.8	36.7	34.7	33.9
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>10,623</b>	<b>14,010</b>	<b>14,803</b>	<b>15,648</b>
YoY gr. (%)	(0.2)	31.9	5.7	5.7
Margin (%)	13.7	16.3	15.9	15.2
Depreciation and Amortization	2,754	2,463	2,676	2,931
<b>EBIT</b>	<b>7,869</b>	<b>11,548</b>	<b>12,127</b>	<b>12,717</b>
Margin (%)	10.1	13.5	13.1	12.3
Net Interest	529	431	180	180
Other Income	948	1,255	1,391	1,903
<b>Profit Before Tax</b>	<b>8,288</b>	<b>12,371</b>	<b>13,338</b>	<b>14,440</b>
Margin (%)	10.7	14.4	14.4	14.0
Total Tax	1,979	2,992	3,289	3,600
Effective tax rate (%)	23.9	24.2	24.7	24.9
<b>Profit after tax</b>	<b>6,309</b>	<b>9,380</b>	<b>10,048</b>	<b>10,839</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>6,309</b>	<b>9,380</b>	<b>10,048</b>	<b>10,839</b>
YoY gr. (%)	(16.3)	48.7	7.1	7.9
Margin (%)	8.1	10.9	10.8	10.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>6,309</b>	<b>9,380</b>	<b>10,048</b>	<b>10,839</b>
YoY gr. (%)	(16.3)	48.7	7.1	7.9
Margin (%)	8.1	10.9	10.8	10.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,309	9,380	10,048	10,839
<b>Equity Shares O/s (m)</b>	<b>165</b>	<b>165</b>	<b>165</b>	<b>165</b>
<b>EPS (Rs)</b>	<b>38.3</b>	<b>57.0</b>	<b>61.1</b>	<b>65.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>19,398</b>	<b>24,044</b>	<b>27,194</b>	<b>30,816</b>
Tangibles	19,398	24,044	27,194	30,816
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>15,862</b>	<b>18,325</b>	<b>21,001</b>	<b>23,931</b>
Tangibles	15,862	18,325	21,001	23,931
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>3,536</b>	<b>5,720</b>	<b>6,194</b>	<b>6,884</b>
Tangibles	3,536	5,720	6,194	6,884
Intangibles	-	-	-	-
Capital Work In Progress	-	-	-	-
Goodwill	5,491	5,393	5,393	5,393
Non-Current Investments	804	205	205	205
Net Deferred tax assets	1,835	1,308	1,308	1,308
Other Non-Current Assets	7,351	8,337	8,430	8,564
<b>Current Assets</b>				
Investments	6,944	15,182	15,182	15,182
Inventories	-	-	-	-
Trade receivables	14,389	14,574	15,781	17,541
Cash & Bank Balance	5,870	851	7,474	14,101
Other Current Assets	5,247	5,577	6,039	6,712
<b>Total Assets</b>	<b>51,566</b>	<b>57,164</b>	<b>66,024</b>	<b>75,911</b>
<b>Equity</b>				
Equity Share Capital	1,646	1,646	1,646	1,646
Other Equity	29,922	38,237	46,382	55,319
<b>Total Network</b>	<b>31,568</b>	<b>39,883</b>	<b>48,028</b>	<b>56,965</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	6,762	6,063	6,063	6,063
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	699	890	890	890
Trade payables	2,587	2,554	2,554	2,554
Other current liabilities	9,950	7,773	8,489	9,440
<b>Total Equity &amp; Liabilities</b>	<b>51,566</b>	<b>57,164</b>	<b>66,024</b>	<b>75,911</b>

Source: Company Data, PL Research



### Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	8,288	12,371	13,338	14,440
Add. Depreciation	2,754	2,463	2,676	2,931
Add. Interest	529	431	180	180
Less Financial Other Income	948	1,255	1,391	1,903
Add. Other	-	-	-	-
Op. profit before WC changes	11,571	15,265	16,194	17,551
Net Changes-WC	4,328	(4,328)	(1,048)	(1,618)
Direct tax	(1,979)	(2,992)	(3,289)	(3,600)
<b>Net cash from Op. activities</b>	<b>13,920</b>	<b>7,945</b>	<b>11,857</b>	<b>12,332</b>
Capital expenditures	(1,815)	(4,548)	(3,150)	(3,621)
Interest / Dividend Income	-	-	-	-
Others	288	(7,639)	-	-
<b>Net Cash from Invt. activities</b>	<b>(1,527)</b>	<b>(12,187)</b>	<b>(3,150)</b>	<b>(3,621)</b>
Issue of share cap. / premium	4	-	-	-
Debt changes	694	191	-	-
Dividend paid	(1,975)	(1,903)	(1,903)	(1,903)
Interest paid	(529)	(431)	(180)	(180)
Others	(7,279)	1,366	-	-
<b>Net cash from Fin. activities</b>	<b>(9,085)</b>	<b>(777)</b>	<b>(2,083)</b>	<b>(2,083)</b>
<b>Net change in cash</b>	<b>3,308</b>	<b>(5,019)</b>	<b>6,623</b>	<b>6,627</b>
Free Cash Flow	12,105	3,397	8,707	8,711

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	38.3	57.0	61.1	65.9
CEPS	55.1	72.0	77.3	83.7
BVPS	191.9	242.4	291.9	346.2
FCF	73.6	20.6	52.9	52.9
DPS	10.0	10.0	10.0	10.0
<b>Return Ratio(%)</b>				
RoCE	24.1	31.6	27.0	23.8
ROIC	25.6	31.8	25.6	21.7
RoE	19.5	26.3	22.9	20.6
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.5)	(0.5)
Debtor (Days)	68	62	62	62
<b>Valuation(x)</b>				
PER	25.5	17.2	16.0	14.9
P/B	5.1	4.0	3.4	2.8
P/CEPS	55.1	72.0	77.3	83.7
EV/EBITDA	14.0	10.4	9.4	8.5
EV/Sales	1.9	1.7	1.5	1.3
Dividend Yield (%)	1.0	1.0	1.0	1.0

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Net Revenue</b>	<b>19,143</b>	<b>19,653</b>	<b>20,505</b>	<b>19,088</b>
YoY gr. (%)	9.1	10.0	11.5	4.1
Raw Material Expenses	12,647	12,535	12,933	12,776
Gross Profit	6,496	7,118	7,572	6,312
Margin (%)	33.9	36.2	36.9	33.1
<b>EBITDA</b>	<b>2,482</b>	<b>3,063</b>	<b>3,237</b>	<b>3,220</b>
YoY gr. (%)	(8.0)	8.1	15.5	74.9
Margin (%)	13.0	15.6	15.8	16.9
Depreciation / Depletion	707	699	679	597
<b>EBIT</b>	<b>1,775</b>	<b>2,364</b>	<b>2,558</b>	<b>2,623</b>
Margin (%)	9.3	12.0	12.5	13.7
Net Interest	138	133	128	131
Other Income	197	348	183	406
<b>Profit before Tax</b>	<b>1,834</b>	<b>2,579</b>	<b>2,613</b>	<b>2,898</b>
Margin (%)	9.6	13.1	12.7	15.2
Total Tax	484	609	551	686
Effective tax rate (%)	26.4	23.6	21.1	23.7
<b>Profit after Tax</b>	<b>1,350</b>	<b>1,970</b>	<b>2,062</b>	<b>2,212</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,350</b>	<b>1,970</b>	<b>2,062</b>	<b>2,212</b>
YoY gr. (%)	(34.5)	3.0	3.9	138.6
Margin (%)	7.1	10.0	10.1	11.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,350</b>	<b>1,970</b>	<b>2,062</b>	<b>2,212</b>
YoY gr. (%)	(34.5)	3.0	3.9	138.6
Margin (%)	7.1	10.0	10.1	11.6
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,350</b>	<b>1,970</b>	<b>2,062</b>	<b>2,212</b>
Avg. Shares O/s (m)	165	165	165	165
<b>EPS (Rs)</b>	<b>8.2</b>	<b>12.0</b>	<b>12.5</b>	<b>13.4</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-20	Reduce	763	945
2	26-Apr-20	Reduce	680	780
3	12-Apr-20	Reduce	665	734
4	15-Jan-20	Reduce	808	863
5	03-Jan-20	Reduce	743	816
6	16-Oct-19	Reduce	716	744
7	03-Oct-19	Reduce	687	720
8	18-Jul-19	Reduce	755	750

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	Hold	450	437
2	HCL Technologies	Hold	591	579
3	Hexaware Technologies	Reduce	282	334
4	Infosys	Hold	788	763
5	L&T Technology Services	Hold	1,169	1,295
6	Larsen & Toubro Infotech	Hold	1,894	1,978
7	Mindtree	Reduce	763	945
8	Mphasis	Accumulate	943	887
9	NIIT Technologies	BUY	1,533	1,420
10	Persistent Systems	Reduce	447	514
11	Redington (India)	BUY	114	117
12	Sonata Software	Accumulate	400	313
13	Tata Consultancy Services	Hold	2,116	2,204
14	TeamLease Services	Hold	3,203	2,487
15	Tech Mahindra	Reduce	493	567
16	Wipro	Sell	201	225
17	Zensar Technologies	Accumulate	246	191

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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