

Estimate change	↔
TP change	↔
Rating change	↓

Bloomberg	MTCL IN
Equity Shares (m)	165
M.Cap.(INRb)/(USD\$)	235.1 / 3.5
52-Week Range (INR)	1605 / 676
1, 6, 12 Rel. Per (%)	12/54/94
12M Avg Val (INR M)	1098

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	77.6	79.2	90.4
EBIT Margin (%)	10.5	16.4	16.5
PAT	6.3	9.9	11.5
EPS (INR)	38.3	60.1	69.6
EPS Gr. (%)	(16.4)	56.8	15.9
BV/Sh. (INR)	192	238	285

Ratios

RoE (%)	20.0	25.2	24.5
RoCE (%)	32.0	19.6	19.4
Payout (%)	33.9	37.4	28.7

Valuations

P/E (x)	37.5	23.9	20.6
P/BV (x)	7.5	6.0	5.1
EV/EBITDA (x)	21.2	14.3	12.1
Div Yield (%)	0.9	1.6	1.4

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	67.6	73.5	73.8
DII	12.0	7.9	5.3
FII	12.0	10.4	10.8
Others	8.4	8.2	10.1

FII Includes depository receipts

CMP: INR1,428 TP: INR1,550 (+9%) Downgrade to Neutral

Beat on margins; fair valuations

Top 2–10 clients remain soft

- Mindtree's revenue growth (2.1% QoQ CC) was largely in-line. Margin expansion of 160bp QoQ was a surprise. Management commentary to sustain margin despite wage hikes, seasonal impact, and the possibility of transient tailwind factors (such as lower attrition and travel costs) gradually waning out are encouraging.
- Deal wins (USD303m) were reasonably stable, and the deal pipeline remains healthy. The strategy refresh – involving a revamped GTM strategy, shift to annuity deals, operational efficiency, and tail account rationalization – has shown results in terms of margin expansion and increased annuity deals, which have been positives.
- Persistent weakness in the Top 2–10 client bucket (-3.5% QoQ, 8 quarter CQGR of -2%) remains a concern given its 20% contribution to the topline. Additionally, unexpected decline in the Top client (-1% QoQ) also chips away at the bull case. High exposure to Travel, Transport, and Hospitality is expected to remain a drag on overall recovery.
- We marginally upgrade our FY21/FY22 EPS estimates by 4%/3% as we adjust our revenue/margin trajectory with the margin surprise. The stock is trading at 21x FY22 EPS. The stock has been one of the best performers in CY20 in the IT sector, with returns of 77% YTD. We believe the key positives are already captured and see limited upside hereafter. Our TP implies 22x FY22 EPS. Downgrade to Neutral.

Largely in-line revenue; beat on margins

- Mindtree reported revenue (USD) / EBIT / PAT growth of -4%/81%/88% v/s our estimate of -4%/66%/73%. For 1H, the company reported revenue (USD) / EBIT / PAT growth of -4%/78%/105%.
- Recovery across verticals was broad-based with Manufacturing, CPG & Retail (7.6% QoQ), Travel & Hospitality (5.6% QoQ), and BFSI (3.6% QoQ) reporting growth higher than the company average. However, Communications, Media & Technology, which constitutes ~50% of the total revenues, grew marginally at 0.7% QoQ.
- Among the geographies, Continental Europe and UK saw strong recovery at 21% QoQ. North America (1% QoQ) reported modest growth, while Asia Pacific (-6% QoQ) declined.
- Decline in the Top client (1% QoQ) and across the Top 2–5 clients (-6% QoQ) indicates delayed recovery. While the Top 6–10 clients were flattish, growth was driven by clients outside the Top 10 bucket (8.7% QoQ).
- EBITDA margin expansion of ~140bps was on account of: 1) +120bps due to operational efficiency, 2) +60bps on the absence of one-offs from the previous quarter, and 3) -40bps due to forex movement.
- Offshore contribution increased 190bp QoQ to 82% in the effort mix. Utilization recovered and was up 330bp QoQ to 78.8%.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- Order booking worth USD303m was reasonably stable v/s the past eight quarters (although lower v/s very strong deal wins of ~USD390m in each of the last two quarters).
- Attrition (LTM) decreased by 280bp QoQ to 13.8%, similar to the trend seen across IT companies. DSO was down by 2 days QoQ to 65 days.
- Cash conversion was healthy and stood at ~115% in 2Q.

Key highlights from management commentary

- Management indicated the company is well-positioned to benefit from the new normal as clients engage to enable business model transformations.
- The company's alignment of its service offerings has led to a strong order book and winning market share.
- The company is on the path to transformation as demand is seeing good momentum, supported by a healthy deal pipeline, healthy win ratio, and broad-based growth.
- Management alluded that the Travel and Hospitality vertical is seeing green shoots amid uncertainty in the market, and other industries continue to see traction. This would lead to growth momentum in 3Q despite the seasonal furloughs.
- North America was impacted due to seasonal variation in the Top client. However, order bookings saw good contribution from this geography in 2Q, and the deal pipeline is strong going ahead.
- The company is seeing good traction in its Top client; it aims to gradually generate higher growth from the rest of the portfolio going forward to reduce concentration risk.
- The company completed its promotion cycles in 2Q and now intends to offer wage hikes, as per industry standards, effective from 1st January 2021.
- Management is confident of sustaining margins despite the wage hikes. It stated that the company has reached a comfortable margin band. It intends to further invest in the business going forward to aid profitable growth.

Valuation and view – fair valuations; limited upside

- Since Jul'19, post the disruption pertaining to ownership change, Mindtree has been undertaking encouraging steps toward achieving stability in both its client and employee count.
- The strategy change to increase focus on annuity revenue and tail account rationalization is already reflected in the revenue and client mixes. Share of revenue from fixed-price contracts recently showed a meaningful increase.
- (1) A stable outlook for the Top account, (2) decent deal signings, and (3) the ability to sustain improved margins are key positives.
- Persistent weakness in the Top 2–10 client bucket (-3.5% QoQ, eight-quarter CQGR of -2%) remains a concern given its 20% contribution to the topline. High exposure to Travel, Transport, and Hospitality is also expected to remain a drag on overall recovery.
- The stock is currently trading at 21x FY22E EPS. The stock has been one of the best performers in CY20 in the IT sector, with returns of 77% YTD. We believe the key positives are already captured and see limited upside hereafter. Our TP implies 22x FY22 EPS. Downgrade to Neutral.

- Increasing client concentration and potential insolvencies in some airlines / hospitality companies on account of the COVID-19 disruption are key monitorable risks.

Quarterly Performance

(INR m)

Y/E March	FY20				FY21E				FY20	FY21E	Est. 2QFY21	Var. (% / bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Revenue (USD m)	264	271	275	278	253	261	267	274	1,089	1,055	260	0.4
QoQ (%)	0.9	2.6	1.5	1.2	-9.0	3.1	2.4	2.5	8.7	-3.1	2.7	42bp
Revenue (INR m)	18,342	19,143	19,653	20,505	19,088	19,260	20,179	20,684	77,643	79,211	19,393	-0.7
YoY (%)	11.9	9.1	10.0	11.5	4.1	0.6	2.7	0.9	10.6	2.0	1.3	-69bp
GPM (%)	28.0	30.2	32.7	33.6	29.9	31.5	31.6	31.8	31.2	31.3	30.9	61bp
SGA (%)	21.6	21.0	20.6	19.8	14.8	14.8	14.8	15.0	20.7	14.9	15.7	-89bp
Adj. EBITDA (INR M)	2,318	2,482	3,063	3,712	3,478	3,784	3,995	4,095	11,098	15,353	3,529	7.2
EBITDA Margin (%)	12.6	13.0	15.6	18.1	18.2	19.6	19.8	19.8	14.0	19.4	18.2	145bp
Adj. EBIT (INR M)	1,649	1,775	2,364	3,033	2,881	3,215	3,399	3,484	8,344	12,980	2,948	9.1
EBIT Margin (%)	9.0	9.3	12.0	14.8	15.1	16.7	16.8	16.8	10.5	16.4	15.2	149bp
Other income	220	197	348	-92	148	364	244	250	673	1,006	300	21.3
ETR (%)	26.5	26.4	23.6	21.1	26.5	26.4	26.4	26.4	23.9	26.4	25.0	140bp
Adj. PAT	927	1,350	1,970	2,062	2,130	2,537	2,584	2,651	6,309	9,903	2,338	8.5
YoY (%)	-41.4	-34.6	3.0	3.9	129.8	87.9	31.2	28.6	-16.3	57.0	73.1	1478bp
EPS (INR)	5.6	8.2	12.0	12.5	12.9	15.4	15.7	16.1	38.3	60.1	14.2	8.5

Key Performance Indicators

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Margins										
Gross Margin	28.0	30.2	32.7	33.6	29.9	31.5	31.6	31.8	31.2	31.3
EBIT Margin	6.4	9.3	12.0	13.8	15.1	16.7	16.8	16.8	10.5	16.4
Net Margin	5.1	7.1	10.0	10.1	11.2	13.2	12.8	12.8	8.1	12.5
Operating metrics										
Headcount	20,935	21,267	21,561	21,991	21,955	21,827			21,991	
Attrition (%)	15.1	16.5	17.2	17.4	16.6	13.8			17.4	
Utilization	77.2	77.0	75.9	76.5	75.5	78.8			78.4	
Deal Win TCV (USD m)	324.0	306.7	207.0	393.0	391.0	303.0			1230.7	
Top Client (YoY %)										
Top Client	13.3	12.1	26.4	33.1	43.8	35.0			21.5	
Outside Top 10	10.4	13.3	6.5	-2.1	-19.3	-14.4			6.8	
Key Geographies (YoY%)										
North America	10.8	10.1	11.2	10.9	2.8	1.0			10.8	
Europe	-2.9	3.7	-0.5	-12.1	-29.5				-3.1	

Management commentary highlights

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Key exhibits

Exhibit 1: While CMT was flat, other verticals reported sequential growth

Verticals	Contribution to rev(%)	Growth (QoQ %)	Growth (YoY %)
Communications, Media & Technology	49.8	0.7	20.5
BFSI	20.4	3.6	-9.0
Manufacturing, CPG & Retail	21.5	7.6	-4.6
Travel & Hospitality	8.3	5.6	-52.7

Source: Company, MOFSL

Exhibit 2: Barring Asia-Pacific, other geographies reported flattish/strong growth

Geographies	Contribution to rev(%)	Growth (QoQ %)	Growth (YoY %)
North America	77.4	1.0	1.0
Continental Europe	7.5	17.1	-18.8
UK and Ireland	7.9	25.3	-12.6
Asia Pacific	7.2	-6.1	-19.4

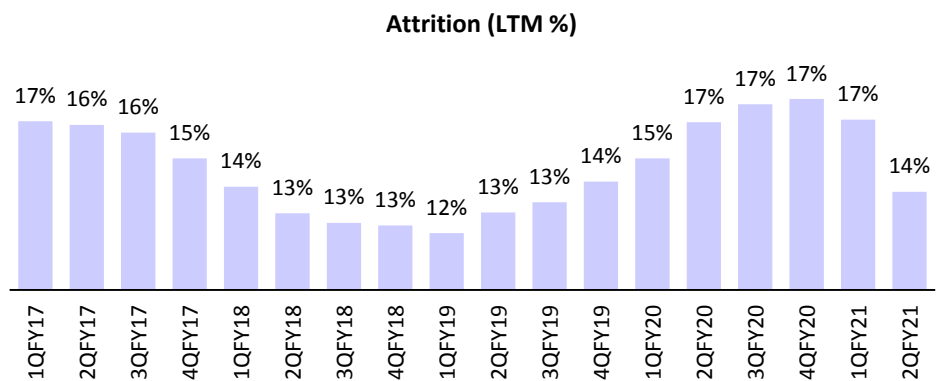
Source: Company, MOFSL

Exhibit 3: Enterprise IT / Data & Intelligence reported strong growth sequentially

Service Offerings	Contribution to rev(%)	Growth (QoQ %)	Growth (YoY %)
Customer success	38.9	0.7	-10.4
Data & Intelligence	14.2	5.3	13.0
Cloud	19.0	-2.6	26.2
Enterprise IT	27.9	9.8	-15.0

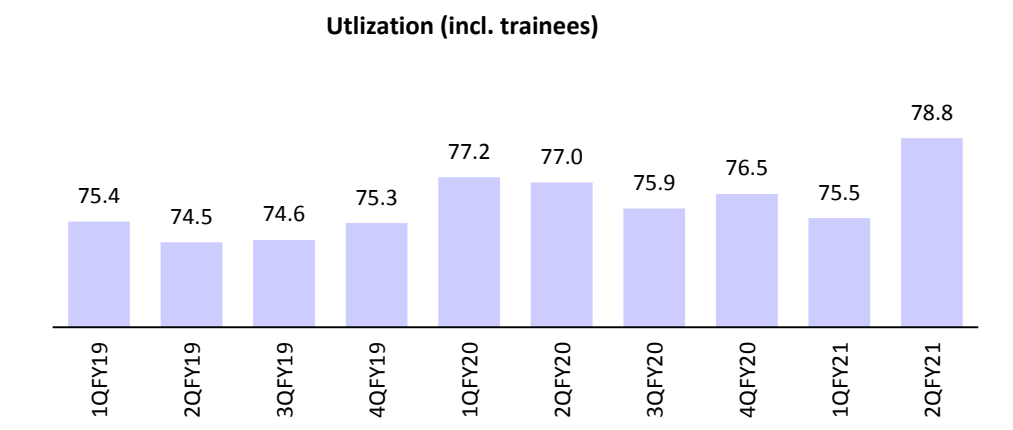
Source: Company, MOFSL

Exhibit 4: Attrition dipped further in 2QFY21



Source: MOFSL, Company

Exhibit 5: Utilizations saw strong improvement during the quarter

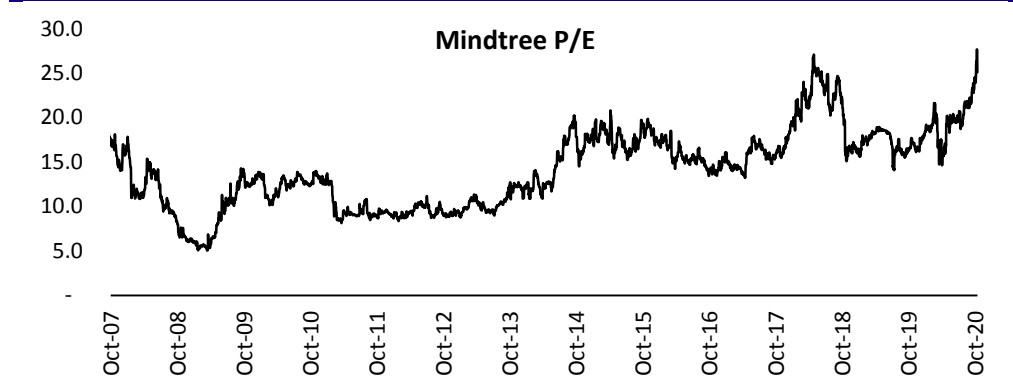


Source: MOFSL, Company

Valuation and view – Fair valuations; limited upside

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- Increasing client concentration and potential insolvencies in some airlines / hospitality companies on account of the COVID-19 disruption are key monitorable risks.

Exhibit 6: Stock is fairly valued



Source: Bloomberg, MOFSL

Exhibit 7: Revisions to our estimates

	Revised		Earlier		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
INR/USD	75.0	76.5	75.2	76.5	-0.3%	0.0%
USD Revenue - m	1,055	1,182	1,054	1,202	0.2%	-1.6%
Growth (%)	(3.1)	12.0	(3.2)	14.0	10bps	-200bps
EBIT margin(%)	16.4	16.5	15.2	15.5	120bps	100bps
PAT (INR M)	9,903	11,474	9,462	11,179	4.7%	2.6%
EPS	60.1	69.6	57.4	67.9	4.7%	2.6%

Source: MOFSL

Operating metrics

Exhibit 8: Operating metrics

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Geographic Mix (%)*										
North America						73.8			79.0	77.4
Continental Europe						8.9			6.6	7.5
UK and Ireland						8.7			6.5	7.9
Asia Pacific						8.6			7.9	7.2
Vertical Mix (%)										
Hi-Tech & Media	38.9	39.3	39.4	39.6	39.4	39.8	41.5	43.1	51.0	49.8
BFSI	22.3	22.4	21.7	21.8	21.6	21.6	21.3	20.4	20.3	20.4
Manufacturing, CPG & Retail	23.1	21.7	22.3	22.2	22.2	21.7	20.6	20.3	20.6	21.5
Travel & Hospitality	15.8	16.7	16.7	16.4	16.8	16.9	16.6	16.2	8.1	8.3
Utilization (%)										
Including trainees	75.4	74.5	74.6	75.3	77.2	77.0	75.9	76.5	75.5	78.8
Client Metrics										
No. of Active clients	339	341	340	349	346	343	320	307	292	283
New clients added	24	18	23	15	12	14	7	5	6	8
Client buckets										
US\$1mn clients	117	111	116	120	122	130	134	134	127	125
US\$5mn clients	39	44	44	45	46	47	47	47	44	43
US\$10mn clients	19	21	21	23	23	21	22	23	23	24
US\$25mn clients	4	4	4	4	4	4	5	5	5	5
US\$50mn clients	1	1	1	1	1	1	1	1	1	1
US\$100mn clients	1	1	1	1	1	1	1	1	1	1
Client contribution (%)										
Top client	19.4	20.2	20.0	19.8	20.1	20.6	23.1	24.8	30.1	28.9
Top 5	32.3	33.8	33.8	33.2	33.6	33.2	36.1	37.9	42.9	40.6
Top 10	43.5	44.8	44.1	42.9	43.0	43.1	45.6	47.4	52.0	49.4
Service lines (%)*										
Customer success						41.8			39.8	38.9
Data & Intelligence						12.1			13.9	14.2
Cloud						14.5			20.1	19.0
Enterprise IT						31.6			26.2	27.9

Source: MOFSL, Company. Note: Geography and Service Line mix has been reclassified from 2QFY21.

Financials and valuations

Income Statement								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Sales	35,619	46,857	52,364	54,628	70,215	77,643	79,211	90,411
Change (%)	17.5	31.6	11.8	4.3	28.5	10.6	2.0	14.1
Cost of Services	21,759	29,476	35,983	37,356	45,853	53,401	54,455	61,800
SG&A Expenses	7,786	10,594	11,058	11,582	15,358	16,098	11,776	13,652
EBITDA	7,092	8,246	7,181	7,405	10,645	10,898	15,353	17,630
% of Net Sales	19.9	17.6	13.7	13.6	15.2	14.0	19.4	19.5
Depreciation & Amortization	1,018	1,459	1,858	1,715	1,641	2,754	2,373	2,671
Interest	1	65	191	169	29	529	527	560
Other Income	835	821	417	1,528	893	673	1,006	1,190
PBT	6,908	7,543	5,549	7,049	9,868	8,288	13,459	15,589
Tax	1,545	1,740	1,363	1,722	2,327	1,979	3,556	4,115
Rate (%)	22.4	23.1	24.6	24.4	23.6	23.9	26.4	26.4
PAT	5,363	5,803	4,186	5,327	7,541	6,309	9,903	11,474
Change (%)	19.0	8.2	-27.9	36.2	32.3	-16.3	57.0	15.9

Balance Sheet								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	837	1,678	1,680	1,639	1,642	1,646	1,647	1,647
Reserves	19,291	22,471	24,091	25,775	31,419	29,922	37,619	45,238
Net Worth	20,128	24,149	25,771	27,414	33,061	31,568	39,266	46,885
Loan	362	856	314	94	178	6,762	4,871	4,871
Capital Employed	20,490	25,005	26,085	27,508	33,239	38,330	44,137	51,756
Gross Block	9,881	10,769	18,414	19,377	21,324	28,340	30,740	33,452
Less : Depreciation	5,248	6,144	8,002	9,717	11,358	14,112	16,485	19,156
Net Block	4,633	11,620	10,412	9,660	9,966	14,228	14,255	14,296
Other LT Assets	2,114	2,643	2,884	2,674	4,152	4,789	3,776	3,776
Curr. Assets	18,526	20,104	20,610	25,031	27,672	32,549	39,622	48,817
Debtors	7,945	11,558	8,962	10,155	13,356	14,389	13,513	15,131
Cash & Bank Balance	9,106	4,598	8,377	10,495	9,398	12,814	21,867	28,845
Other Current Assets	1,475	3,948	3,271	4,381	4,918	5,346	4,242	4,842
Current Liab. & Prov	6,059	7,764	7,821	9,857	8,550	13,236	13,515	15,133
Net Current Assets	12,467	12,340	12,789	15,174	19,122	19,313	26,107	33,684
Application of Funds	20,490	25,005	26,085	27,508	33,239	38,330	44,137	51,756

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)								
EPS	31.9	34.5	24.9	34.3	45.8	38.3	60.1	69.6
Cash EPS	38.0	43.2	35.9	42.8	55.8	55.0	74.5	85.9
Book Value	119.8	143.6	153.0	166.7	200.8	191.7	238.4	284.6
DPS	17.0	16.0	13.0	8.0	33.0	13.0	22.5	20.0
Payout %	53.2	46.3	52.2	23.3	72.0	33.9	37.4	28.7
Valuation (x)								
P/E	45.0	41.7	57.8	41.9	31.4	37.5	23.9	20.6
Cash P/E	37.9	33.3	40.1	33.6	25.8	26.1	19.3	16.7
EV/EBITDA	32.8	28.9	32.6	30.5	21.4	21.2	14.3	12.1
EV/Sales	6.5	5.1	4.5	4.1	3.2	3.0	2.8	2.4
Price/Book Value	12.0	10.0	9.4	8.6	7.2	7.5	6.0	5.1
Dividend Yield (%)	1.2	1.1	0.9	0.6	2.3	0.9	1.6	1.4
Profitability Ratios (%)								
RoE	29.4	26.2	16.8	21.4	22.8	20.0	25.2	24.5
RoCE	33.4	35.1	31.5	32.7	35.3	32.0	19.6	19.4
RoIC	43.7	30.9	19.8	22.9	28.0	24.2	42.3	47.3
Turnover Ratios								
Debtors (Days)	81	90	62	68	69	68	62	61
Fixed Asset Turnover (x)	7.7	4.0	5.0	5.7	7.0	5.5	5.6	6.3

Cash Flow Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
CF from Operations	5,955	6,742	5,287	6,476	8,569	9,792	12,142	14,145
Cash for Working Capital	28	-2,243	1,217	-833	-2,213	-1,541	4,575	-600
Net Operating CF	5,983	4,499	6,504	5,643	6,356	8,251	16,717	13,545
Net Purchase of FA	-1,987	-1,315	-846	-1,011	-1,708	-1,220	-1,391	-2,712
Free Cash Flow	3,996	3,184	5,658	4,632	4,648	7,031	15,326	10,833
Net Purchase of Invest.	-111	-3,039	-3,687	-989	-225	991	-10,646	0
Net Cash from Invest.	-2,098	-4,354	-4,533	-2,000	-1,933	-229	-12,037	-2,712
Proc. from equity issues	67	24	8	1	3	4	1	0
Proceeds from LTB/STB	-5	407	550	1,906	-3,044	-1,024	-652	0
Dividend Payments	-1,438	-2,151	-1,934	-4,782	-2,180	-5,940	-4,538	-3,855
Cash Flow from Fin.	-1,376	-1,720	-1,376	-2,875	-5,221	-6,960	-5,189	-3,855
Exchange difference	70	92	-55	-2	133	288	-42	217
Net Cash Flow	2,579	-1,483	540	766	-665	1,350	-551	7,195
Opening Cash Bal.	6,344	9,106	4,598	8,377	10,495	9,398	12,814	21,867
Add: Net Cash	2,579	-1,483	540	766	-665	1,350	-551	7,195
Closing Cash Bal.	9,106	4,598	8,377	10,495	9,398	12,814	21,867	28,845

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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