

## Healthy operating performance...

MindTree reported healthy set of Q3FY21 numbers and were above our estimates. The company reported dollar revenue growth of 5.0%QoQ above our estimate of 3.8% QoQ. The company registered EBITDA margin of 23.1% (up 286 bps QoQ mainly led by higher utilization and offshoring) and was higher than our expectation of 20.7%. The deal pipeline increased 3.0% QoQ and 50.7% YoY (due to low base last year) to US\$312 million. The company added 368 employees in the quarter, its utilization increased by 430 bps QoQ to 83.1% and offshore effort mix increased by 70 bps QoQ to 82.8%.

## Traction in digital, improving deal pipeline to drive growth

The company saw a healthy traction in deal pipeline and deal wins in the quarter. The company is also seeing improving deal pipeline in coming quarters and aspires to have industry leading growth. In addition, the company has a healthy digital portfolio making MindTree a key beneficiary of migration to cloud in coming quarters. In digital tech, the company is seeing healthy traction in cloud, data and analytics. Further, the company's focus on annuity type deals, expansion in healthcare vertical and expansion in Europe bodes well for future revenue growth. In addition, green shoots in travel, vendor consolidation opportunities and traction in multi-year deals is expected to drive revenue growth. MindTree is also focusing on client mining and scaling up existing clients to US\$50 million. This gives us comfort on the long term growth trajectory.

## Margins continues to be healthy in long term

In Q4FY21E the company will see margin headwinds in the nature of wage hikes (impact of 250 bps) and utilisation. However, the company believes it will be able to maintain margins at 20% plus in coming years. Hence, we expect FY21E margins to improve 682 bps YoY to 20.5%. In the long term the company plans to invest to drive growth which could act as a margin headwind. However, the company also has long term levers like offshoring, cutting long tail accounts, fixed price projects, annuity type revenues and other cost rationalisation. This coupled with improving revenue growth we believe will boost margins by 50 bps to 21.0% over FY20-23E.

## Valuation & Outlook

MindTree's has seen healthy traction across verticals and clients. Going forward we expect the company to benefit from strong growth in digital technologies, vendor consolidation and multi-year transformation deals. This coupled with healthy margin trajectory bodes well for profit growth. Based on these factors, we maintain our **BUY** rating with a revised target price of ₹ 1970/share (22x P/E on FY23E EPS) (earlier TP was ₹ 1680).



### Particulars

Particular	Amount
Market Cap (₹ Crore)	28,163.1
Total Debt (₹ Crore)	-
Cash and Investment (₹ Crore)	1,281.4
EV (₹ Crore)	26,881.7
52 week H/L	1780/ 692
Equity capital	164.6
Face value	₹ 10

### Key Risk

- Mindtree has expanded margins substantially led by cost rationalisation and operational efficiencies. We believe the company will be able to sustain healthy margins in longer term. However, in the event the company is unable to sustain its savings it will adversely impact financials
- Covid 19 has accelerated demand for digital technologies. We believe Mindtree will be a key beneficiary of this trend. Any deceleration in demand for digital technologies will adversely impact company's financials

### Research Analyst

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### Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	7,022	7,764	7,956	8,989	10,202	9.5%
EBITDA	1,065	1,062	1,631	1,861	2,142	26.3%
EBITDA Margins (%)	15.2	13.7	20.5	20.7	21.0	
Net Profit	754	631	1,102	1,240	1,443	31.8%
EPS (₹)	45.9	38.3	66.9	75.3	87.6	
P/E	37.2	44.6	25.6	22.7	19.5	
RoNW (%)	22.8	20.0	28.4	27.2	26.9	
RoCE (%)	29.8	23.0	33.4	32.5	32.7	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	2,023.7	1,999.4	1,965.3	3.0	1,926.0	5.1	Dollar revenues increased 5.0% QoQ mainly led by healthy growth in Technology & retail, CPG & manufacturing and travel vertical
Employee expenses	1,261.0	1,301.4	1,253.5	0.6	1,262.3	-0.1	
Gross Margin	762.7	698.0	711.8	7.2	663.7	14.9	
Gross margin (%)	37.7	34.9	36.2	147 bps	34.5	323 bps	
SG&A expenses	294.8	283.9	405.5	-27.3	273.4	7.8	
EBITDA	467.9	414.1	306.3	52.8	390.3	19.9	Margin improvement was led by higher utilisation and offshoring
EBITDA Margin (%)	23.1	20.7	15.6	754 bps	20.3	286 bps	
Depreciation	71.7	56.9	69.9	2.6	56.9	26.0	
EBIT	396.2	357.2	236.4	67.6	333.4	18.8	
EBIT Margin (%)	19.6	17.9	12.0	755 bps	17.3	227 bps	
Other income	61.6	24.5	34.8	77.0	24.5	151.4	
PBT	457.8	381.7	271.2	68.8	357.9	27.9	
Tax paid	138.6	97.3	66.2	109.4	96.2	44.1	
PAT	326.5	271.2	197.0	65.7	253.7	28.7	PAT was above our estimates on the back of better performance at operating level

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E			FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	7,867	7,956	1.1	8,572	8,989	4.9	9,664.0	10,202	5.6	We revise our revenue estimates upwards led by traction in digital and healthy deal pipeline
EBITDA	1,466	1,631	11.2	1,686	1,861	10.4	1,905.0	2,142	12.5	
EBITDA Margin (%)	18.6	20.5	187 bps	19.7	20.7	103 bps	19.7	21.0	129 bps	We revise our margin estimates upwards considering multiple levers available to the company
PAT	968	1,102	13.8	1,119	1,240	10.8	1,256.0	1,443	14.9	Upward revision in operating margins leads to increase in PAT estimates
EPS (₹)	58.8	66.9	13.9	68.0	75.3	10.8	76.3	87.6	14.9	

Source: Company, ICICI Direct Research

## Conference Call Highlights

- **Revenue outlook:** The company is seeing healthy order book & deal pipeline and hence the company plans to hire aggressively in coming quarters to support growth. In terms of trends the company is seeing traction in cloud, data and customer success. The company's focus on annuity and fixed project deals has helped it win a multi-year transformational deal. Further, MindTree aims to grow its revenues by improving mining of existing top 20 accounts and also keeping the pace of growth in top client at a steady rate. This coupled with healthy win ratio, shift of spend from run to new, transformational projects and the company's digital prowess will lead to sustainable revenue growth in coming years. Vertical wise, the company sees green shoots in travel vertical and expect full recovery in next couple of quarters. The company believes travel vertical has bottomed out.
- **Margin walkthrough:** A key highlight of the quarter was margin of 23.1% led by revenue growth and operational efficiency. In Q4FY21E the company will see margin headwinds in the nature of wage hikes (impact of 250 bps) and utilisation. However, the company believes it will be able to maintain margins at 20% plus in coming years. Hence, we expect FY21E margins to improve 682 bps YoY to 20.5%. In the long term the company plans to invest to drive growth which could act as a margin headwind. However, the company also has long term levers like offshoring (higher fixed price & remote working driving this), cutting long tail accounts, fixed price projects, annuity type revenues and other cost rationalisation. This coupled with improving revenue growth we believe it will further boost margins by 50 bps to 21.0% over FY20-23E.
- **Other highlights:** In the Top 10 clients, the company has exposure to the travel vertical and hence it has impacted top 2-5 & top 6-10 clients growth on YoY terms. DSO days declined by 4 to 61 days. In terms of clients US\$25 million client declined by 1 QoQ and US\$10 million client declined by 3 QoQ. The impact is mainly due to travel vertical. There was a change in reporting in terms of services.
- **Order book:** The order book increased by 50.7% YoY and 3% QoQ to US\$312 million. The company has not reported digital and new & renew order book in the quarter
- **Clientele details:** Top customer contribution to overall revenues was at 28.5% in the quarter and witnessed a growth of 3.6% QoQ. Top 2-5 & 6-10 customers increased 1.4% QoQ & 9.8% QoQ. The company has cut some of its tail clients. This has led to a dip in overall clients from 283 to 276.
- **Employee update:** With a net addition of 368 in Q3, employee strength was at 22,195. Utilisation (including trainees) increased 430 bps QoQ to 83.1% mainly led by aggressive reskilling helped company to cater to demand. The company plans to hire to cater to increased demand in coming quarters and hence expect utilisation in the range of 81-82% in coming quarters.

## Key Metrics

### Exhibit 3: Geography wise break-up

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
<b>Revenue by geography (%)</b>					
US	74.6	76.8	79.0	77.4	77.2
Europe	17.0	15.3	13.1	15.4	15.2
RoW	8.4	4.0	7.9	7.2	7.6
<b>Growth QoQ (%)</b>					
US	2.8	4.1	-6.4	1.0	4.7
Europe	-1.9	-9.0	-22.1	21.2	3.7
RoW	-0.8	-51.8	79.6	-6.1	10.9

Source: Company, ICICI Direct Research

*Growth in revenues was led by US & Europe*

### Exhibit 4: Industry wise break-up

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
<b>Revenue by verticals (%)</b>					
Communication Media & Technology	41.5	43.1	51.0	49.8	49.9
BFSI	21.3	20.4	20.3	20.4	19.6
Retail, CPG & Mfg	20.6	20.3	20.6	21.5	21.6
Travel & Hospitality	16.6	16.2	8.1	8.3	8.9
<b>Growth QoQ (%)</b>					
Technology, Media & services	5.9	5.1	7.6	0.7	5.2
BFSI	0.1	-3.1	-9.5	3.6	0.9
Retail, CPG & Mfg	-3.6	-0.3	-7.7	7.6	5.5
Travel & Hospitality	-0.3	-1.3	-54.5	5.6	12.6

Source: Company, ICICI Direct Research

*Growth was driven by Technology, retail and travel*

### Exhibit 5: Service offerings break up

	Q3FY20	Q2FY21	Q3FY21	QoQ	YoY
<b>Revenue by service offerings (%)</b>					
Customer Success	39.8	38.9	38.1	2.9	-4.7
Data & Intelligence	14	14.2	14.9	10.2	6.0
Cloud Services	15.9	19	19.2	6.1	20.3
Enterprise IT	30.3	27.9	27.8	4.6	-8.6

Source: Company, ICICI Direct Research

*The growth was led by Data & Intelligence and Cloud services*

### Exhibit 6: Client & human resource matrix

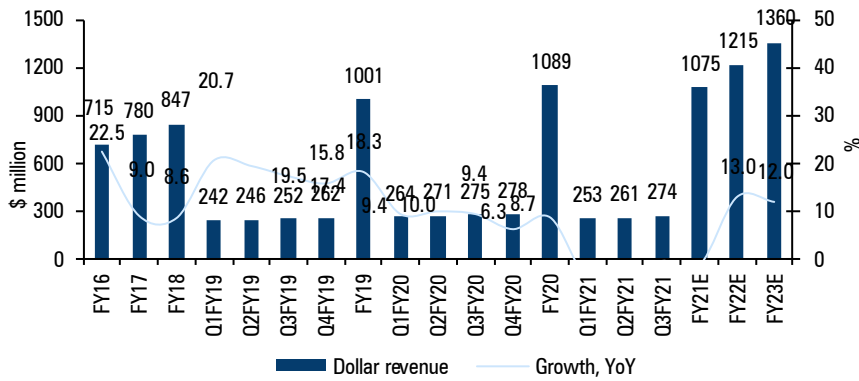
	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
<b>Client metrics</b>					
\$1 mn Clients	134	134	127	125	120
\$10 mn Clients	22	23	23	24	21
\$25 mn Clients	5	5	5	5	4
\$50 mn Clients	1	1	1	1	1
\$100 mn Clients	1	1	1	1	1
<b>Headcount, Utilization &amp; Attrition</b>					
Total Employees	21561	21991	21955	21827	22195
Utilization	75.9	76.5	75.5	78.8	83.1

Source: Company, ICICI Direct Research

*The company witnessed a healthy improvement in the quarter*

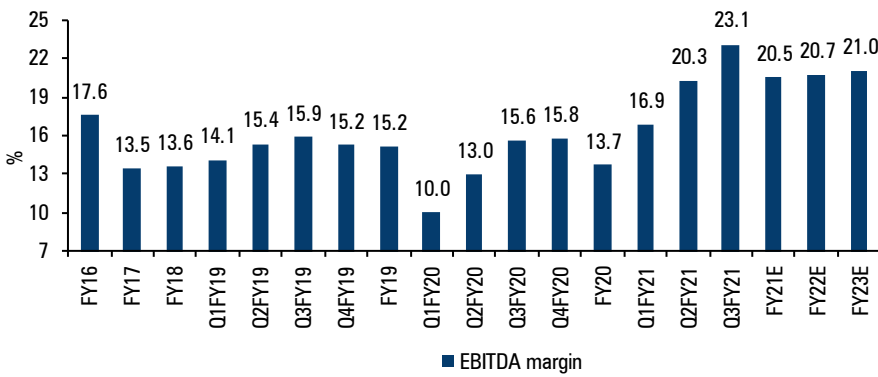
### Financial story in charts

Exhibit 7: Dollar revenues to increase ~8% over FY20-23E



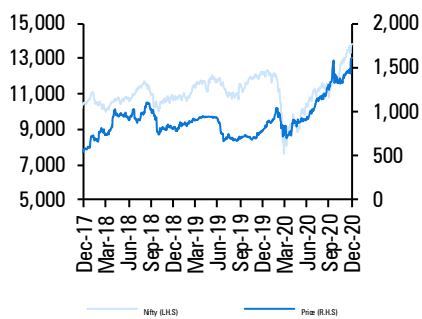
Source: Company, ICICI Direct Research

Exhibit 8: Revise EBITDA margin estimates



Source: Company, ICICI Direct Research

Exhibit 9: Three year chart



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
<b>Total Revenues</b>	<b>7,764</b>	<b>7,956</b>	<b>8,989</b>	<b>10,202</b>
Growth (%)	10.6	2.5	13.0	13.5
COGS	5,065	5,155	5,807	6,560
Other Expenses	1,637	1,169	1,321	1,500
<b>EBITDA</b>	<b>1,062</b>	<b>1,631</b>	<b>1,861</b>	<b>2,142</b>
Growth (%)	(0.2)	53.5	14.1	15.1
Depreciation	275	263	297	337
Other Income	95	153	141	171
Interest paid	53	52	52	52
PBT	829	1,469	1,653	1,925
PBT	829	1,469	1,653	1,925
Growth (%)	(16.0)	77.3	12.5	16.4
Total Tax	198	367	413	481
PAT before MI	631	1,102	1,240	1,443
Minority interest	-	-	-	-
<b>PAT</b>	<b>631</b>	<b>1,102</b>	<b>1,240</b>	<b>1,443</b>
EPS - diluted	38.3	66.9	75.3	87.6
EPS (Growth %)	(16.6)	74.7	12.5	16.4

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Net profit before Tax	829	1,469	1,653	1,925
Depreciation	275	263	297	337
(inc)/dec in Current Assets	(135)	(233)	(389)	(322)
(inc)/dec in current Liabilities	177	(8)	70	87
<b>CF from operations</b>	<b>825</b>	<b>943</b>	<b>1,048</b>	<b>1,346</b>
Other Investments	99	153	141	171
(Purchase)/Sale of Fixed Asset	(122)	(135)	(153)	(173)
<b>CF from investing Activities</b>	<b>(23)</b>	<b>18</b>	<b>(12)</b>	<b>(3)</b>
Inc / (Dec) in Equity Capital	(49)	-	-	-
Inc / (Dec) in sec.loan Funds	(1)	(150)	(150)	(150)
Dividend & Dividend tax	(594)	(375)	(558)	(650)
Interest Paid on Loans	(53)	(52)	(52)	(52)
<b>CF from Financial Activities</b>	<b>(696)</b>	<b>(577)</b>	<b>(760)</b>	<b>(852)</b>
Cash generating during the yea	135	384	276	492
Opening cash balance	256	391	774	1,051
Exchange rate differences	29	-	-	-
<b>Closing cash</b>	<b>587</b>	<b>971</b>	<b>1,247</b>	<b>1,739</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Equity	165	165	165	165
Reserves & Surplus	2,992	3,719	4,401	5,195
Networth	3,157	3,884	4,566	5,360
Minority Interest	-	-	-	-
Total Debt	-	-	-	-
Other long term liability	676	676	676	676
<b>Source of funds</b>	<b>3,833</b>	<b>4,560</b>	<b>5,242</b>	<b>6,036</b>
Net Block	860	883	889	876
CWIP	14	14	14	14
Other intangible assets	549	549	549	549
Other long term assets	479	559	639	719
Current investments	694	694	694	694
Debtors	1,439	1,478	1,668	1,903
Cash & Cash equivalen	587	971	1,247	1,739
Loans and advances	10	10	18	20
Other Current Assets(0	525	718	910	995
Trade payables	259	262	296	336
Other Current liabilities	893	910	954	983
Provisions	172	143	135	153
<b>Application of funds</b>	<b>3,833</b>	<b>4,560</b>	<b>5,242</b>	<b>6,036</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	₹ crore			
	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
Adjusted EPS (Diluted)	38.3	66.9	75.3	87.6
BV per share	191.7	235.8	277.2	325.4
DPS	13.0	22.7	33.9	39.4
Cash per Share	35.6	58.9	75.7	105.6
<b>Operating Ratios</b>				
EBITDA Margin (%)	13.7	20.5	20.7	21.0
PBT Margin (%)	10.7	18.5	18.4	18.9
PAT Margin (%)	8.1	13.9	13.8	14.1
Debtor days	68	68	68	68
Creditor days	12	12	12	12
<b>Return Ratios (%)</b>				
RoE	20.0	28.4	27.2	26.9
RoCE	23.0	33.4	32.5	32.7
RoC	31.0	47.5	47.6	50.3
<b>Valuation Ratios (x)</b>				
P/E	44.6	25.6	22.7	19.5
EV / EBITDA	25.3	16.2	14.1	12.0
Price to Book Value	8.9	7.3	6.2	5.3
EV / Net Sales	3.5	3.3	2.9	2.5
Market Cap / Sales	3.6	3.5	3.1	2.8
<b>Solvency Ratios</b>				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.5	1.7	1.9	2.0
Quick Ratio	1.5	1.7	1.9	2.0

Source: Company, ICICI Direct Research

**Exhibit 14: ICICI Direct coverage universe (IT)**

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹ Cr)	EPS (₹)				P/E (x)				RoCE (%)				RoE (%)			
					FY20	FY21E	FY22E	FY23E	FY20E	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
HCL Tech (HCLTEC)	986	1,150	Buy	2,67,475	40.8	49.4	54.3	63	24	20	18	16	23.0	24.0	24.3	24.7	21.6	21.9	20.8	20.6
Infosys (INFTEC)	1,318	1,610	Buy	5,61,413	38.9	47.6	54.5	63	34	28	24	21	30.8	34.9	36.1	38.2	25.2	28.0	29.2	30.9
TCS (TCS)	3,245	3,600	Buy	12,17,629	86.2	89.0	107.7	124	38	36	30	26	43.5	44.0	46.9	49.2	37.5	35.7	39.3	40.9
Tech M (TECMAH)	992	1,105	Buy	95,972	45.9	50.0	58.8	69	22	20	17	14	19.1	18.7	19.8	20.9	18.5	18.3	18.9	19.5
Wipro (WIPRO)	433	490	Hold	2,53,650	16.6	19.8	21.8	24	26	22	20	18	19.3	22.4	24.6	27.2	17.4	19.9	22.0	24.5
Mindtree (MINCON)	1,710	1,970	Buy	28,163	38.3	66.9	75.3	88	45	26	23	20	23.0	33.4	32.5	32.7	20.0	28.4	27.2	26.9
LTI (LTINFC)	4,126	3,850	Buy	72,090	86.6	105.9	126.5	149	48	39	33	28	30.7	31.8	31.6	31.3	28.1	28.3	28.3	28.0
Coforge (NIITEC)	2,521	2,690	Hold	15,176	71.4	75.7	94.4	110	35	33	27	23	23.0	25.5	27.0	27.6	18.5	20.1	22.0	22.6
Infoedge (INFEDG)	4,940	4,090	Buy	63,520	26.8	23.8	33.1	39	184	208	149	126	18.0	9.1	11.9	13.3	13.5	6.8	9.0	10.0
Teamlease (TEASER)	2,731	2,840	Buy	4,669	20.5	47.2	64.9	83	133	58	42	33	15.0	13.8	15.9	17.2	6.5	12.7	14.7	15.9

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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