

## Strong growth continues, valuations rich...

**About the stock:** Mindtree Ltd (Mindtree) is a mid-tier IT company with a presence in the US, Europe & RoW catering to BFSI, communication media & technology, retail & travel.

- Expertise in infrastructure & application catering to Global 2000 clients
- Leading margins (>20%) compared to mid-tier IT companies

**Q3FY22 Results:** Mindtree reported robust Q3FY22 results.

- US\$ revenues increased 4.7% QoQ to US\$366 million
- EBITDA margin improved 100 bps to 21.5%
- Cash & Investments at all-time high of US\$412.7 million (mn)

**What should investors do?** Mindtree's share price has grown by ~10x over the past five years (from ~₹ 440 in January 2017 to ~₹ 4545 levels in January 2022)

- We maintain HOLD rating on the stock

**Target Price and Valuation:** We value Mindtree at ₹ 5,055 i.e. 40x P/E on FY24E

**Key triggers for future price performance:**

- Key beneficiary of robust growth in cloud, data and experience
- Traction in multi-year deals client mining, scaling up existing clients to US\$50 million
- Well poised to clock industry leading double digit growth
- Well poised to maintain 20% plus margins

**Alternate Stock Idea:** Apart from Mindtree, in our IT coverage we also like LTI.

- Larsen & Toubro Infotech's (LTI) ability to deliver end-to-end solutions is expected to help in registering industry leading growth
- BUY with a target price of ₹ 7,650



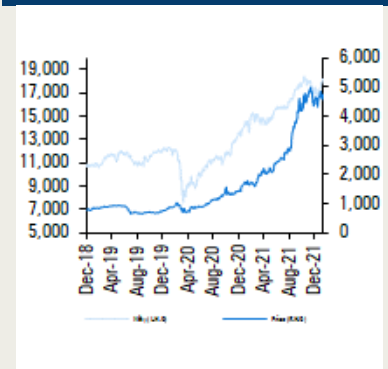
### Particulars

Particular	Amount
Market Cap (₹ Crore)	74,854.6
Total Debt (₹ Crore)	-
Cash and Investment (₹ Crore)	2,690.4
EV (₹ Crore)	72,164.2
52 week H/L	5059/1539
Equity capital	164.7
Face value	₹ 10

### Shareholding pattern

	Mar-21	Jun-21	Sep-21	Sep-21
Promoters	61.0	61.0	61.0	61.0
FII	13.9	13.7	15.0	15.7
DII	10.9	11.5	9.7	9.3
Public	14.2	13.8	14.3	14.0

### Price Chart



### Recent Event & Key risks

- Industry leading double digit growth
- **Key Risk:** (i) Muted digital demand prospects, (ii) Better than expected margins

### Research Analyst

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	7,022	7,764	7,968	11.3%	10,579	12,810	14,872	23.1%
EBITDA	1,065	1,062	1,657	15.1%	2,148	2,600	3,019	22.1%
EBITDA Margins (%)	15.2	13.7	20.8		20.3	20.3	20.3	
Net Profit	754	631	1,111	15.0%	1,480	1,800	2,082	23.3%
EPS (₹)	45.9	38.3	67.4		89.8	109.2	126.4	
P/E	99.0	118.6	67.4		50.6	41.6	36.0	
RoNW (%)	22.8	20.0	25.7		28.2	28.2	27.1	
RoCE (%)	29.8	23.0	32.5		36.0	36.3	35.2	

Source: Company, ICICI Direct Research

## Key takeaways of quarter & conference call highlights

- The company reported 4.7% QoQ to US\$366 mn. Rupee revenue grew 6.3% QoQ to ₹ 2750 crore. The growth was driven by the US and APAC regions, which grew 4.9% and 15.7% QoQ, respectively. Vertical wise, growth was aided by Technology, BFSI, Travel verticals, which grew 6.1%, 4.7%, 7.0%, respectively, QoQ while Retail vertical was a laggard that was flattening QoQ
- EBITDA grew 11.6% QoQ to ₹ 592 crore while EBITDA margins improved sequentially by 100 bps to 21.5%. EBITDA margins were aided by 60 bps due to business growth while 40 bps was due to currency tailwinds
- The management indicated that diversification in travel verticals is helping the company to tide over Covid related impact. The company also indicated that in travel vertical they are expanding beyond traditional tie up like airlines and hotels. Mindtree is tying up with car rental companies, online delivery companies, which is expected to drive growth in future
- They indicated Europe has reported weakness in the quarter due to a temporary pause in transformation programmes due to focus on business continuity in the Covid peak period. As per the management, the programmes have started to ramp up in Q4FY22
- The management indicated that they maintain their 20%+ EBITDA margin guidance for FY22 despite certain near term challenges. The company is looking to offset cost challenges through continued fresher's hiring. The better management of subcontractor costs is also one of the levers for margin guidance. The company's sub costs as percentage of revenue has come down from 11.2% of revenue in Q1FY22 to 9.7% in Q3FY22
- The company is looking to scale up the fresher hiring run rate. Mindtree has added 1500 freshers for the quarter and looking to keep up this pace for the next few quarters to cater to the increasing demand
- The company indicated that they are not looking to hire new a COO, after its COO resigned in October 2021. Mindtree has distributed the responsibilities of the COO to the other senior employees of the company. The company also indicated that talent function has been integrated and brought under a senior leader who is also responsible for upscaling the employees
- Mindtree has undertaken a client rationalisation programme for long tail clients. So far, it has rationalised 150+ clients while it added new 75 clients. The plan is to focus on limited strategic clients, going forward
- The company indicated that in the BFSI sector, there was a consolidation post the management change. It mentioned that customers focus on realigning technologies, investing in future technologies. Mindtree is in discussions to provide some product related services as well. BFSI offers large scope for legacy technology upgradation
- The company indicated that deal duration is getting shorter as clients are focusing on transformation deals. Mindtree is also in active discussions with clients for rate card increase and new cloud transformation deals are coming at a higher price

## Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Tech M (TECMAH)	1,719	2,150	BUY	166,107	50.2	64.7	76.8	34.2	26.6	22.4	19.8	22.8	24.4	17.8	20.4	21.4
LTI (LTINFNC)	7,100	7,650	BUY	124,646	111.0	137.3	169.9	64.0	51.7	41.8	31.9	33.0	34.0	26.5	27.6	28.5
Mindtree (MINCON)	4,545	5,055	HOLD	74,855	67.4	89.8	109.2	67.4	50.6	41.6	32.5	36.0	36.3	25.7	28.2	28.2
Coforge (NIITEC)	5,726	5,870	BUY	35,595	73.3	115.2	146.7	78.1	49.7	39.0	23.3	28.6	30.9	18.5	25.0	27.1
TeamLease (TEASER)	4,249	4,220	HOLD	7,291	46.5	66.7	101.0	91.4	63.7	42.1	14.2	16.3	19.9	11.6	15.7	18.7

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	2,750.0	2,740.3	1,926.0	42.8	2,291.7	20.0	Dollar revenues increased 4.7% QoQ, growth in technology and travel verticals
Employee expenses	1,645.8	1,632.7	1,262.3	30.4	1,367.3	20.4	
Gross Margin	1,104.2	1,107.5	663.7	66.4	924.4	19.5	
Gross margin (%)	40.2	40.4	34.5	569 bps	40.3	-18 bps	
SG&A expenses	512.1	534.9	273.4	87.3	459.9	11.4	
EBITDA	592.1	572.7	390.3	51.7	464.5	27.5	
EBITDA Margin (%)	21.5	20.9	20.3	127 bps	20.3	126 bps	Margins improved 100 bps aided by i) 60 bps on business growth ii) 40 bps on currency tailwind
Depreciation	63.2	67.6	56.9	11.1	58.2	8.6	
EBIT	528.9	505.1	333.4	58.6	406.3	30.2	
EBIT Margin (%)	19.2	18.4	17.3	192 bps	17.7	150 bps	
Other income	70.8	74.8	24.5	189.0	71.8	-1.4	
PBT	599.7	579.9	357.9	67.6	478.1	25.4	
Tax paid	161.2	147.7	96.2	67.6	124.9	29.1	
PAT	437.5	425.2	253.7	72.4	343.4	27.4	PAT was higher due to better-than-expected operating performance

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue	10,579	10,579	0.0	12,810	12,810	0.0	14,872
EBITDA	2,148	2,148	0.0	2,600	2,600	0.0	3,019
EBITDA Margin (%)	20.3	20.3	0 bps	20.3	20.3	0 bps	20.3
PAT	1,480	1,480	0.0	1,800	1,800	0.0	2,082
EPS (₹)	89.8	89.8	0.0	109	109.2	0.0	126.4

Source: Company, ICICI Direct Research

## Key Metrics

Exhibit 4: Geography wise break-up

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
<b>Revenue by geography (%)</b>					
US	77.2	76.6	76.6	72.8	73.0
Europe	15.2	15.7	16.2	19.6	18.6
RoW	7.6	7.7	7.2	7.6	8.4
<b>Growth QoQ (%)</b>					
US	4.7	4.3	7.7	7.2	4.9
Europe	3.7	8.6	11.2	36.4	-0.7
RoW	10.9	6.5	0.7	19.0	15.7

Source: Company, ICICI Direct Research

US drives growth in revenues

Exhibit 5: Industry wise break-up

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
<b>Revenue by verticals (%)</b>					
Communication Media & Technology	49.9	45.8	45.4	42.5	43.1
BFSI	19.6	18.4	18.2	17.5	17.5
Retail, CPG & Mfg	21.6	22.4	22.1	25.4	24.3
Travel & Hospitality	8.9	12.7	13.3	13.5	13.8
<b>Growth QoQ (%)</b>					
Technology, Media & services	5.2	-3.5	6.8	5.6	6.1
BFSI	0.9	-1.3	6.6	8.4	4.7
Retail, CPG & Mfg	5.5	9.0	6.3	29.6	0.1
Travel & Hospitality	12.6	50.0	12.8	14.4	7.0

Source: Company, ICICI Direct Research

Growth was driven by Technology and Travel & Hospitality

Exhibit 6: Service offerings break up

	Q3FY21	Q2FY22	Q3FY22	QoQ	YoY
<b>Revenue by service offerings (%)</b>					
Customer Success	38.1	43.2	42.9	3.9	50.5
Data & Intelligence	14.9	14.3	14.8	8.3	32.8
Cloud Services	19.2	18.7	19.1	6.9	33.0
Enterprise IT	27.8	23.8	23.2	2.0	11.6

Source: Company, ICICI Direct Research

In terms of service offering Customer Success drove growth

Exhibit 7: Client & human resource matrix

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
<b>Client metrics</b>					
\$1 mn Clients	120	118	120	127	136
\$10 mn Clients	21	20	25	30	33
\$20 mn Clients	4	7	8	8	9
\$50 mn Clients	1	1	1	1	1
\$100 mn Clients	1	1	1	1	1
<b>Headcount, Utilization &amp; Attrition</b>					
Total Employees	22195	23184	27256	29732	31959
Utilization	83.1	84.3	83.2	82.9	81.5

Source: Company, ICICI Direct Research

Client additions have been on lower deal size

## Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
	FY21	FY22E	FY23E	FY24E
<b>Total Revenues</b>	<b>7,968</b>	<b>10,579</b>	<b>12,810</b>	<b>14,872</b>
Growth (%)	2.6	32.8	21.1	16.1
COGS	5,113	6,876	8,326	9,667
Other Expenses	1,198	1,555	1,883	2,186
<b>EBITDA</b>	<b>1,657</b>	<b>2,148</b>	<b>2,600</b>	<b>3,019</b>
Growth (%)	56.0	29.6	21.1	16.1
Depreciation	260	307	371	431
Other Income	152	210	254	276
Interest paid	50	50	50	50
PBT	1,498	2,000	2,432	2,814
PBT	1,498	2,000	2,432	2,814
Growth (%)	80.8	33.5	21.6	15.7
Total Tax	388	520	632	732
PAT before MI	1,111	1,480	1,800	2,082
Minority interest	-	-	-	-
<b>PAT</b>	<b>1,111</b>	<b>1,480</b>	<b>1,800</b>	<b>2,082</b>
EPS - diluted	67.4	89.8	109.2	126.4
EPS (Growth %)	76.0	33.3	21.6	15.7

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
	FY21	FY22E	FY23E	FY24E
Net profit before Tax	1,498	2,000	2,432	2,814
Depreciation	260	307	371	431
(inc)/dec in Current Assets	123	(642)	(274)	(511)
(inc)/dec in current Liabilities	291	389	94	346
<b>CF from operations</b>	<b>1,996</b>	<b>1,295</b>	<b>1,708</b>	<b>2,043</b>
Other Investments	(1,121)	210	254	276
(Purchase)/Sale of Fixed Assets	(62)	(317)	(167)	(193)
<b>CF from investing Activities</b>	<b>(1,183)</b>	<b>(108)</b>	<b>87</b>	<b>83</b>
Inc / (Dec) in Equity Capital	(84)	-	-	-
Others	(1)	(150)	(200)	(200)
Dividend & Dividend tax	(288)	(549)	(668)	(772)
Interest Paid on Loans	(50)	(50)	(50)	(50)
<b>CF from Financial Activities</b>	<b>(423)</b>	<b>(749)</b>	<b>(918)</b>	<b>(1,023)</b>
Cash generating during the year	369	438	877	1,103
Opening cash balance	391	564	1,001	1,878
Exchange rate differences	(21)	-	-	-
<b>Closing cash</b>	<b>564</b>	<b>1,001</b>	<b>1,878</b>	<b>2,981</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
	FY21	FY22E	FY23E	FY24E
Equity	165	165	165	165
Reserves & Surplus	4,154	5,085	6,217	7,527
Networth	4,319	5,250	6,382	7,692
Minority Interest	-	-	-	-
Total Debt	-	-	-	-
Other long term liabilities	450	450	450	450
<b>Source of funds</b>	<b>4,769</b>	<b>5,700</b>	<b>6,832</b>	<b>8,141</b>
Net Block	781	942	937	899
CWIP	22	22	22	22
Other intangible assets&t	495	495	495	495
Other long term assets	488	568	648	728
Current investments	1,931	2,127	2,127	2,127
Debtors	1,274	1,811	1,996	2,425
Cash & Cash equivalents	760	1,001	1,878	2,981
Loans and advances	4	5	7	8
Other Current Assets(OC	607	710	798	879
Trade payables	268	349	422	490
Other Current liabilities	1,102	1,337	1,295	1,516
Provisions	223	296	358	416
<b>Application of funds</b>	<b>4,769</b>	<b>5,700</b>	<b>6,832</b>	<b>8,141</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	₹ crore			
	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
Adjusted EPS (Diluted)	67.4	89.8	109.2	126.4
BV per share	262.2	318.7	387.4	466.9
DPS	25.0	33.3	40.5	46.9
Cash per Share	46.1	60.8	114.0	180.9
<b>Operating Ratios</b>				
EBITDA Margin (%)	20.8	20.3	20.3	20.3
PBT Margin (%)	18.8	18.9	19.0	18.9
PAT Margin (%)	13.9	14.0	14.0	14.0
Debtor days	58	62	57	60
Creditor days	12	12	12	12
<b>Return Ratios (%)</b>				
RoE	25.7	28.2	28.2	27.1
RoCE	32.5	36.0	36.3	35.2
RoIC	68.0	72.2	79.5	85.9
<b>Valuation Ratios (x)</b>				
P/E	67.4	50.6	41.6	36.0
EV / EBITDA	43.6	33.4	27.2	23.1
Price to Book Value	17.3	14.3	11.7	9.7
EV / Net Sales	9.1	6.8	5.5	4.7
Market Cap / Sales	9.4	7.1	5.8	5.0
<b>Solvency Ratios</b>				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.2	1.3	1.3	1.4
Quick Ratio	1.2	1.3	1.3	1.4

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HCL Tech (HCLTEC)	1,330	1,430	HOLD	360,917	45.8	48.0	54.9	29.0	27.7	24.2	23.5	23.0	25.1	20.8	19.5	21.1
Infosys (INFTEC)	1,897	2,300	BUY	806,433	45.5	55.9	63.2	41.7	34.0	30.0	31.7	34.5	36.4	25.2	28.2	29.8
TCS (TCS)	3,965	4,600	BUY	1,467,050	87.6	104.0	120.9	45.2	38.1	32.8	45.9	49.0	51.7	37.5	41.4	43.4
Tech M (TECMAH)	1,719	2,150	BUY	166,107	50.2	64.7	76.8	34.2	26.6	22.4	19.8	22.8	24.4	17.8	20.4	21.4
Wipro (WIPRO)	640	750	BUY	350,528	19.1	21.8	25.6	33.6	29.4	25.0	21.3	22.5	26.2	19.5	21.6	25.4
LTI (LTINFC)	7,100	7,650	BUY	124,646	111.0	137.3	169.9	64.0	51.7	41.8	31.9	33.0	34.0	26.5	27.6	28.5
Mindtree (MINCON)	4,545	5,055	HOLD	74,855	67.4	89.8	109.2	67.4	50.6	41.6	32.5	36.0	36.3	25.7	28.2	28.2
Coforge (NIITEC)	5,726	5,870	BUY	35,595	73.3	115.2	146.7	78.1	49.7	39.0	23.3	28.6	30.9	18.5	25.0	27.1
TeamLease (TEASER)	4,249	4,220	HOLD	7,291	46.5	66.7	101.0	91.4	63.7	42.1	14.2	16.3	19.9	11.6	15.7	18.7
Infoedge (INFEDG)	5,589	6,270	BUY	72,413	20.9	37.1	51.0	267.3	150.7	109.7	7.7	13.1	16.7	6.0	9.9	12.6

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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