

**Margin beat;  
Growth momentum expected to be continue**

**CMP: INR 4,744**

**Rating: Neutral**

**Target Price: INR 4,684**

**Stock Info**

BSE	532819
NSE	MINDTREE
Bloomberg	MTCL IN
Reuters	MINT.BO
Sector	IT
Face Value (INR)	10
Equity Capital (INR mn)	1647
Mkt Cap (INR mn)	77,732
52w H/L (INR)	5,060/1,550
Avg Yearly Vol (in 000')	1,116

**Shareholding Pattern %**

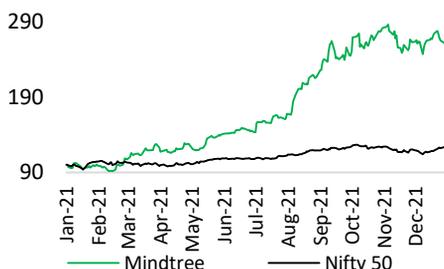
(As on December, 2021)

Promoters	61.00
FII	15.72
DII	7.11
Public & Others	16.17

**Stock Performance (%)**

	1m	3m	12m
MindTree	2.6	8.1	170.3
Nifty	5.1	0.5	25.3

**MindTree Vs Nifty**



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- MindTree has reported a decent set of numbers in Q3FY22, Revenue in-line, margin above estimate due to cost optimization.
- Constant Currency Revenue growth +33.7% YoY/4.7% QoQ to (Mn USD) 366 against our estimate of 369 (Mn USD).
- MindTree has reported consolidated revenue of INR 27,500 Mn, +36% YoY/6% QoQ in Q3FY22 against our estimate of INR 27,765 Mn, higher sequential growth led seasonal projects especially in Communications, Media & Technology and TTH (Travel, Transportation & Hospitality)
- Consolidated EBIT stood at INR 5,289 Mn, up by 33% YoY/13% QoQ against our estimate of INR 5,183 Mn, led by operating leverage and cost optimization.
- On the margins front, EBIT margin expansion by 107 bps QoQ / -35bps YoY to 19.2% against our estimate of 18.7%.
- Consolidated PAT stood at INR 4,375 Mn, up by 34% YoY/10% QoQ against our estimate of INR 4,330 Mn.
- Deal wins remain strong with order book for the Q3FY22 was \$358 million, up 14.6% year-over-year and YTD TCV crosses \$1.2 billion due to strong demand, aggressive customer mining, and end-to-end digital transformation capabilities.
- Client added: The company has 265 active clients as of December 31, 2021, \$5 million+ clients grew by 2, total 52, and \$10 million+ clients grew by 3, total 33.

**Valuations**

At a CMP of INR 4,744, Mindtree is currently trading at a P/E of 35.4x to its FY24E EPS of INR 133.8. Mindtree delivered in-line revenue, beat on margin despite furlough and wage hike. We believe that it will maintain growth momentum going forward backed by a robust pipeline and strong demand environment as it book TCV of \$358mn in the quarter( up 14.6% YoY). The company remains confident of delivering an EBITDA margin of >20% despite the ongoing supply-side challenges, supported by better margins in new deals. Considering expensive valuations and margin pressure, we value Mindtree at a P/E of 35x to its FY24E EPS of INR 133.8 which yields a target price of INR 4,684 per share. **We maintain our Neutral rating on the stock.**

Particulars (INR mn)	FY20	FY21E	FY22E	FY23E	FY24E
Net Sales	77,643	79,678	1,04,737	1,24,599	1,43,824
EBITDA	10,815	16,428	21,679	25,151	29,160
EBIDTA Margin	13.93%	20.62%	20.70%	20.19%	20.27%
PAT	6,309	11,105	16,307	18,857	22,043
EPS (per share)	38.3	67.4	99.0	114.5	133.8
P/E	123.8	70.4	47.9	41.4	35.4

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

## Q3 FY22 - Quarterly Performance (Consolidated)

(in INR Mn)

INR Mn (consolidated)	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
<b>Net Revenues (US \$mn)</b>	<b>366</b>	<b>350</b>	<b>274</b>	<b>4.7%</b>	<b>33.7%</b>
<b>Net Revenue</b>	<b>27,500</b>	<b>25,862</b>	<b>20,237</b>	<b>6%</b>	<b>36%</b>
Employee cost	16,458	15,644	12,610	5.2%	30.5%
Other Expenses	5,121	4,911	2,948	4.3%	73.7%
<b>EBITDA</b>	<b>5,921</b>	<b>5,307</b>	<b>4,679</b>	<b>12%</b>	<b>27%</b>
<i>EBITDA margin %</i>	<i>21.5%</i>	<i>20.5%</i>	<i>23.1%</i>	<i>101bps</i>	<i>-159bps</i>
Depreciation	632	610	717	3.6%	-11.9%
<b>EBIT</b>	<b>5,289</b>	<b>4,697</b>	<b>3,962</b>	<b>13%</b>	<b>33%</b>
<i>EBIT margin %</i>	<i>19.2%</i>	<i>18.2%</i>	<i>19.6%</i>	<i>107bps</i>	<i>-35bps</i>
Other Income	708	748	616	-5.3%	14.9%
Finance cost	127	125	127	1.6%	0.0%
Exceptional Item	-	-	-		
<b>PBT</b>	<b>5,870</b>	<b>5,320</b>	<b>4,451</b>	<b>10%</b>	<b>32%</b>
Tax Expense	1,495	1,331	1,186	12.3%	26.1%
<i>Effective tax rate %</i>	<i>25.5%</i>	<i>25.0%</i>	<i>26.6%</i>	<i>45bps</i>	<i>-118bps</i>
<b>PAT</b>	<b>4,375</b>	<b>3,989</b>	<b>3,265</b>	<b>10%</b>	<b>34%</b>
MI & Associates					
<b>Consolidated PAT</b>	<b>4,375</b>	<b>3,989</b>	<b>3,265</b>	<b>10%</b>	<b>34%</b>
<i>PAT margin %</i>	<i>15.9%</i>	<i>15.4%</i>	<i>16.1%</i>	<i>3.1%</i>	<i>-22bps</i>
<b>EPS (INR)</b>	<b>26.6</b>	<b>24.2</b>	<b>19.8</b>	<b>10%</b>	<b>34%</b>

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

## Q3FY22 – Key Concall Highlights

- The company EBITDA margin major from the margin efficiency came at a healthy 21.5%. In line with the 20+% EBITDA margin and 100bps due to 16bps business growth and operational efficient 40bps impact from the cross-currency.
- Communications, Media & Technology** grew by 6.1% on QoQ and 24.5% on a YoY basis. The company helps communication service providers and original equipment manufacturers to accelerate the rollout of the 5G offering, IoT platform, and devices.
- Retail, CPG & Manufacturing** segment grew marginally 0.1% on QoQ and 51.7% on YoY basis as the company is seeing good traction in the consumer experience to modernization services, supply chain transformation. The retail and consumer good and all the transformation take the back seat because of the holiday session and there is nothing to concern about it.
- BFSI segment** grew by 4.2% on QoQ/19.4% YoY beating the annualized revenue run rate. The strategy to stabilize this business and growth momentum and customer is focused to realign to portfolio and future technology. The company is seeing a lot of opportunity through the hyperscaler. The company is in process of the partnership. This segment takes time to build a relationship with the client. The company Modernisation and BFSI and Financial still have a lot of technology.
- Utilization was down 140 bps QoQ to 81.5% on account of Q3 seasonality
- Geography: In North America is contributed 73%, Continental Europe UK and Ireland 18.6%, and APAC and the Middle East 8.4% of the revenue during the quarter.
- Service-line: Customer success contributed 42.9% and data& intelligence contributed 14.8%, cloud contributed 18.1% and Enterprise IT contributed 23.2% for the revenue during the quarter.
- The company continues to hire more number of fresher's and has guided to add around 1500 fresher's next year. Attrition remains high due to continued high demand for talent and has almost stabilised.
- It sees pickup in onsite mix once travel starts.
- The healthcare segment has contributed \$4.8 mn in revenue. The company continues to synergize its growth to accelerate growth in the healthcare market.

## Key Financials

## Income Statement (INR Mn)

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues (US \$mn)	1089	1077	1404	1664	1919
Change (%)	8.7%	-1.1%	30.4%	18.5%	15.3%
<b>Revenues</b>	<b>77,643</b>	<b>79,678</b>	<b>1,04,737</b>	<b>1,24,599</b>	<b>1,43,824</b>
Change (%)	10.6%	2.6%	31.4%	19.0%	15.4%
Employee Costs	50,647	51,132	62,906	74,984	85,594
Other Expenses	16,181	12,118	20,151	24,464	29,070
<b>Total Expenses</b>	<b>66,828</b>	<b>63,250</b>	<b>83,057</b>	<b>99,448</b>	<b>1,14,664</b>
<b>EBITDA</b>	<b>10,815</b>	<b>16,428</b>	<b>21,679</b>	<b>25,151</b>	<b>29,160</b>
Other Income	756	1,656	2,927	2,294	2,358
Depreciation	2,754	2,596	2,465	2,340	2,216
<b>EBIT</b>	<b>8,061</b>	<b>13,832</b>	<b>19,214</b>	<b>22,811</b>	<b>26,944</b>
Interest	529	504	427	294	298
<b>PBT</b>	<b>8,288</b>	<b>14,984</b>	<b>21,714</b>	<b>24,811</b>	<b>29,004</b>
Tax	1,979	3,879	5,407	5,955	6,961
Rate (%)	23.9%	25.9%	24.9%	24.0%	24.0%
<b>PAT</b>	<b>6,309</b>	<b>11,105</b>	<b>16,307</b>	<b>18,857</b>	<b>22,043</b>
MI & Associates	0	0	0	0	0
<b>Consolidated PAT</b>	<b>6,309</b>	<b>11,105</b>	<b>16,307</b>	<b>18,857</b>	<b>22,043</b>
Change (%)	-16.3%	76.0%	46.8%	15.6%	16.9%

## Balance Sheet (INR Mn)

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
<b>Sources of Funds</b>					
Share Capital	1,646	1,647	1,647	1,647	1,647
Reserves & Surplus	29,921	41,543	54,738	75,241	99,643
<b>Net Worth</b>	<b>31,568</b>	<b>43,190</b>	<b>56,386</b>	<b>76,889</b>	<b>1,01,291</b>
Loan Funds	1,798	6	0	0	0
MI, Deferred Tax & other Liabilities	-2,072	-632	-351	-351	-351
<b>Capital Employed</b>	<b>31,294</b>	<b>42,564</b>	<b>56,035</b>	<b>76,538</b>	<b>1,00,940</b>
<b>Application of Funds</b>					
Net Block	4,159	3,253	8,884	8,450	7,517
CWIP	136	224	275	261	232
Other Non-current Assets	6,882	8,098	7,040	6,927	6,685
<b>Net Fixed Assets</b>	<b>11,177</b>	<b>11,575</b>	<b>16,199</b>	<b>15,638</b>	<b>14,434</b>
<b>Investments</b>	<b>804</b>	<b>1,161</b>	<b>824</b>	<b>834</b>	<b>844</b>
Debtors	14,389	12,742	16,643	19,799	23,248
Cash & Bank Balance	12,814	26,904	33,937	54,036	78,068
Loans & Advances & other CA	5,346	6,108	7,978	9,491	11,144
<b>Total Current Assets</b>	<b>32,549</b>	<b>45,754</b>	<b>58,558</b>	<b>83,326</b>	<b>1,12,461</b>
Current Liabilities & Provisions	13,236	15,926	19,546	23,260	26,799
<b>Net Current Assets</b>	<b>19,313</b>	<b>29,828</b>	<b>39,012</b>	<b>60,066</b>	<b>85,662</b>
<b>Total Assets</b>	<b>31,294</b>	<b>42,564</b>	<b>56,035</b>	<b>76,538</b>	<b>1,00,940</b>

## Cash Flow Statement (INR Mn)

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
<b>PBT</b>	<b>6,309</b>	<b>11,105</b>	<b>16,307</b>	<b>18,857</b>	<b>22,043</b>
Depreciation	2,754	2,596	2,465	2,340	2,216
Interest & others	-227	-1,152	-2,500	-2,000	-2,060
Cash flow before WC changes	8,836	12,549	16,273	19,197	22,199
<b>(Inc)/dec in working capital</b>	<b>2,885</b>	<b>2,120</b>	<b>-1,954</b>	<b>-1,500</b>	<b>-2,090</b>
Operating CF after WC changes	11,721	14,669	14,319	17,697	20,109
Less: Taxes	-1,979	-3,879	-5,407	-5,955	-6,961
<b>Operating Cash Flow</b>	<b>9,742</b>	<b>10,790</b>	<b>8,912</b>	<b>11,742</b>	<b>13,148</b>
(Inc)/dec in F.A + CWIP (Pur)/sale of investment	-3,781	-3,770	-3,289	-162	419
<b>Cash Flow from Investing</b>	<b>-3,781</b>	<b>-3,770</b>	<b>-3,289</b>	<b>-162</b>	<b>419</b>
<b>Free Cash Flow (FCF)</b>	<b>5,961</b>	<b>7,020</b>	<b>5,623</b>	<b>11,580</b>	<b>13,568</b>
Loan raised/(repaid)	1,793	-1,792	-6	0	0
Equity raised	4	1	0	0	0
Interest & others	-529	-504	-427	-294	-298
Dividend	-3,555	-3,399	-3,111	-3,284	-3,313
<b>Cash Flow from Financing Activities</b>	<b>-2,287</b>	<b>-5,694</b>	<b>-3,543</b>	<b>-3,578</b>	<b>-3,611</b>
<b>Net inc/(dec) in cash</b>	<b>3,673</b>	<b>1,326</b>	<b>2,079</b>	<b>8,002</b>	<b>9,957</b>
Opening balance of cash	9,398	12,814	26,904	33,937	54,036
Closing balance of cash	12,814	26,904	33,937	54,036	78,068

## Key Ratios

Year End-March	FY20	FY21	FY22E	FY23E	FY24E
<b>Per Share (INR)</b>					
EPS	38	67.4	99.0	114.5	133.8
CEPS	55.1	83.2	114.0	128.7	147.3
BVPS	192	262	342	467	615
DPS	18.0	17.5	17.5	17.5	17.5
<b>Valuation (x)</b>					
P/E	123.8	70.4	47.9	41.4	35.4
P/CEPS	86.2	57.0	41.6	36.9	32.2
P/BV	24.7	18.1	13.9	10.2	7.7
EV/EBITDA	13.8	8.1	5.8	4.2	2.8
<b>Return Ratio (%)</b>					
EBITDA Margin	13.9%	20.6%	20.7%	20.2%	20.3%
EBIT Margin	10%	17%	18.3%	18.3%	18.7%
PAT Margin	8.1%	13.9%	15.6%	15.1%	15.3%
ROE	20.0%	25.7%	28.9%	24.5%	21.8%
ROCE	25.8%	32.5%	34.3%	29.8%	26.7%
Dividend Yield	0.4%	0.4%	0.4%	0.4%	0.4%
<b>Leverage Ratio (%)</b>					
Total D/E	0.1	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.6	-0.6	-0.7	-0.8
<b>Turnover Ratios</b>					
Asset Turnover (x)	2.5	1.9	1.9	1.6	1.4
Receivable Days	68	58	58	58	59
Payable days	62	73	68	68	68

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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