

BSE SENSEX 57,232
S&P CNX 17,063

CMP: INR3,799 TP: INR4050 (+7%) Neutral



Stock Info

Bloomberg	MTCL IN
Equity Shares (m)	165
M.Cap.(INRb)/(USDb)	626.1 / 8.4
52-Week Range (INR)	5059 / 1540
1, 6, 12 Rel. Per (%)	-5/5/122
12M Avg Val (INR M)	3873

Financials Snapshot (INR b)

Y/E Mar	FY21	FY22E	FY23E
Sales	79.7	105.0	129.0
EBIT Margin (%)	17.5	18.6	18.3
PAT	11.1	16.3	19.3
EPS (INR)	67.4	98.8	117.2
EPS Gr. (%)	75.7	46.6	18.6
BV/Sh. (INR)	262	317	381

Ratios

RoE (%)	29.7	34.2	33.7
RoCE (%)	24.1	27.5	27.2
Payout (%)	37.1	45.0	45.0

Valuations

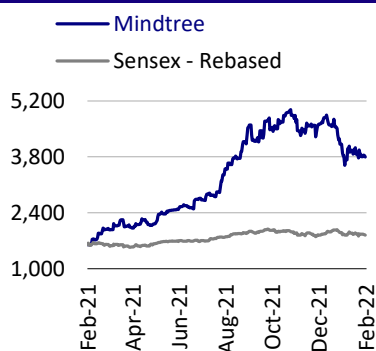
P/E (x)	56.4	38.5	32.4
P/BV (x)	14.5	12.0	10.0
EV/EBITDA (x)	36.2	26.9	22.0
Div Yield (%)	0.7	1.2	1.4

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	61.0	61.0	61.0
DII	9.7	10.1	10.6
FII	15.7	15.0	13.3
Others	13.6	13.9	15.1

FII Includes depository receipts

Stock performance (one-year)



Investor meet reinforces strong demand visibility

We attended MTCL's annual investor meet, where the management reiterated its strong demand outlook and detailed the six strategic levers for FY23. It sees scope for continued performance in their 4x4x4 strategy and investments required to boost long-term growth. Here are the key highlights from the meet:

- The demand outlook for the industry continues to remain strong. It has not seen any slowdown due to the recent inflationary concerns. This, aided by the ongoing shift of spends to Cloud-based migration from legacy, will help reallocate its technology expenses.
- While there is still pressure on the supply-side due to lower fresher additions over the last few years, MTCL is not worried as demand is sufficient to absorb the cost pressures. The management reiterated its plan to maintain EBITDA margin ~20% and reinvest any savings in accelerating business growth.
- The company introduced its six strategic levers for FY23, which they expect to boost their positioning. These are: a) full stack account, b) reimagine the ecosystem, c) shift from run IT to product IT ops, d) edge to experience for Industry X.0, e) enable industry convergence, and f) next-gen delivery capabilities for integrated solutions.
- It also reiterated its 4x4x4 strategy (four industry groups, four service lines, and four geographies). It continues to see opportunities across industries and services. Including the evolving Healthcare vertical as the fifth industry unit, MTCL is seeing an increased trend of clients operating across industry lines and sees convergence as a key theme going forward.
- Travel and Hospitality vertical continues to gain from the normalization theme. It is seeing strong spend interest from clients in this vertical.

Six strategic levers to help accelerate FY23 revenue growth

- **Build full stack accounts:** Clients that were utilizing one-to-two services are increasingly using multiple capabilities to get the best outcome.
- **Reimagine the ecosystem:** An entire Cloud ecosystem is coming up around hyperscalers. MTCL is undertaking sell to, sell with, and sell through with hyperscalers to capture expanded spending by clients.
- **Shift from run IT to product IT ops:** Digitization of processes, with new models enabling detailed transformation to a product-led approach.
- **Edge to experience for Industry X.0:** It acquired new capabilities with the acquisition of L&T NxT (now christened Mindtree NxT). It will offer digitization of the industry.
- **Enable industry convergence:** Expansion of capabilities to address increased convergence in areas adjoining to the core industry of large clients.
- **Next-gen delivery capabilities for integrated solutions:** It is building supply capabilities to address next-gen demand.

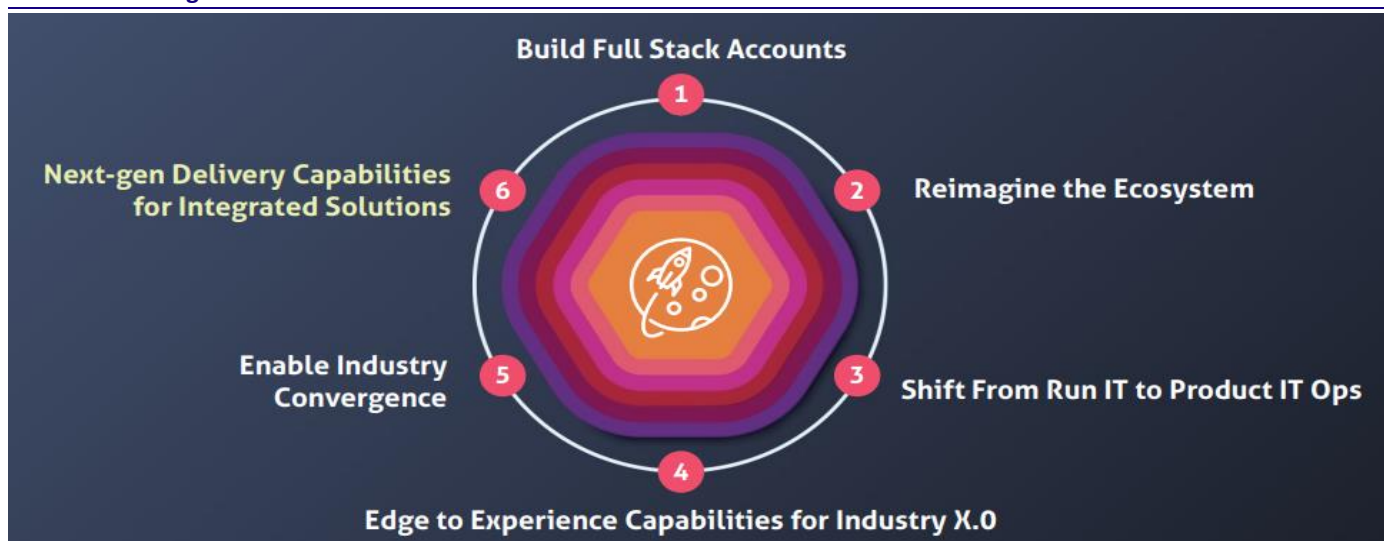
Other levers remain on track

- The management reiterated the other levers it has been highlighting over the last two years, indicating continued scope in its 4x4x4 strategy, while adding Healthcare as a developing vertical. Geographical expansion has worked well, with Europe continuing to grow above the company level.
- It also remains optimistic on key clients beyond their top account, with the top two to 40 accounts outgrowing it. The management reiterated its confidence that their focus 100 accounts (20 each in the five industry verticals) have good scope for further penetration.
- It also sees an improvement in partnership across key hyperscalers in the Cloud ecosystem, with a good position in both Azure and GCP.

Valuations factoring in its performance

- The management's increased focus on annuity revenue and tail account rationalization has delivered a good improvement in topline growth and profitability.
- We continue to see strong topline growth, driven by its actions and overall demand strength. With its focus on stable margin, we expect margin in FY23 to moderate slightly, limiting gains from operating leverage to earnings.
- The stock is currently trading at 27x FY24E EPS. With a strong performance (+136%) in the last one-year, the key positives are already captured in the valuation. We see limited upside hereafter. Our TP stands at INR4,050/share, implying 29x FY24E EPS. **We maintain our Neutral rating.**

Exhibit 1: Strategic levers for FY23



Source: Company, MOFSL

MTCL lists six strategic levers for FY23

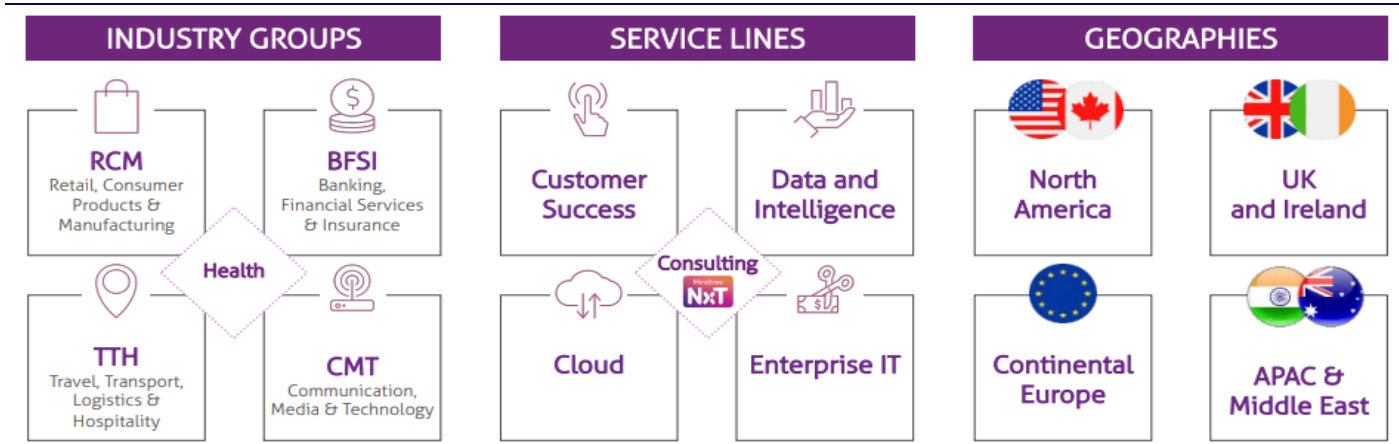
- 1) **Build full stack accounts:** Clients that were utilizing one-to-two services are now using multiple capabilities. The management sees a good opportunity to cross-sell and up-sell across service lines and make their clients full stack accounts.
- 2) **Reimagine the ecosystem:** The focus remains on building ecosystems around hyperscalers – sell through, sell with, and sell to hyperscalers, which will unlock huge value for the company. MTCL earns 10-40 cents for each dollar earned by hyperscalers via such partnerships.

- 3) **Shift from run IT to product IT ops:** A shift to IT products from traditional IT Services will help it earn incremental revenue. Customer life cycle, sourcing solutions, experience, and digital focused models will be the focus areas.
- 4) **Edge to experience for Industry X.0:** The focus here will be end-to-end transformation to the front-end from the back-end. This, coupled with IoT, will be a huge opportunity, given the capabilities of NxT.
- 5) **Enable industry convergence:** As the lines between the industry blurs, the management plans to capture the business around industry adjacencies.
- 6) **Next-gen delivery capabilities for integrated solutions:** MTCL plans to further expand its capabilities in emerging technologies such as AR/VR, IoT, and the Metaverse, which will create great value going forward.

Three-pronged approach

- **Accelerate:** The management plans to accelerate its core portfolio with 100 Focused clients (20 clients in each industry), a further focus on BFSI and TTH, strategic M&As, and digital solutions around Cloud, customer experience, data, and enterprise apps.
- **Expand:** To expand into new geographies (Nordics, Benelux, DACH, and APAC). The management is looking to expand its digital engineering capabilities. It is eyeing new industries (Healthcare) and areas like Cybersecurity, Platform Tech and Operations, and Industry 4.0 leveraging NxT.
- **Incubate:** To partner with startups and co-innovate with clients in areas of Low Code/No Code, Web 3.0, Blockchain, Metaverse, Clean Tech, Quantum Tech, and Applied AI.

Exhibit 2: MTCL’s 4x4x4 strategy



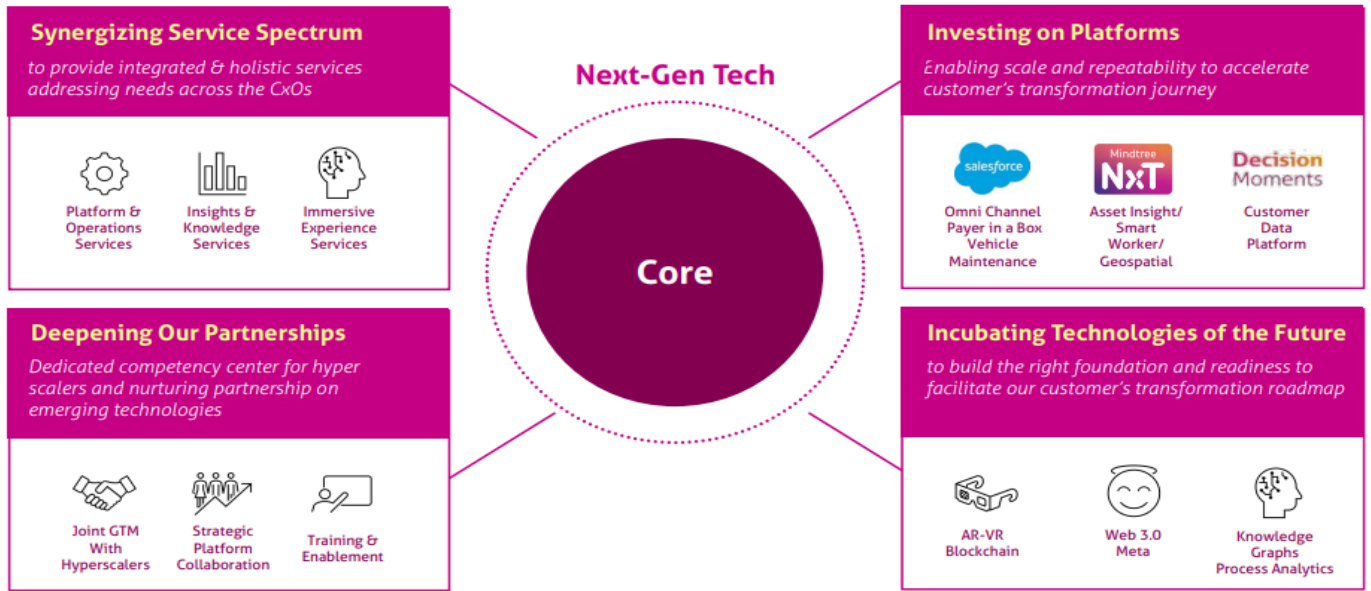
Source: MOFSL, Company

MTCL’s 4x4x4 strategy

- MTCL’s strategy is focused on four industry groups, across four service lines, in four geographies. It has added Healthcare in the industry group where it sees rapid Digital adoption and industry convergence. It has also added NxT in the service lines.
- The management has continued to focus on driving profitable growth through:
 - Expanding client wallet share,
 - Doubling down in Europe,
 - Strong industry partnerships,

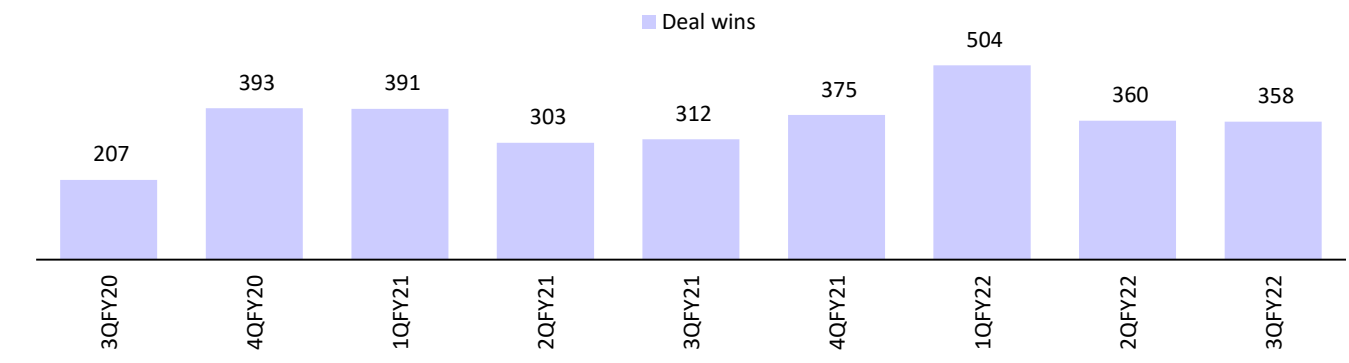
- Marketing and thought leadership, and
- Focus on hyper growth from hyperscalers.
- The management is seeing significant traction and huge demand across all spaces. It reiterated its strong demand momentum, which will drive growth in coming years.

Exhibit 3: MTCL’s approach to strengthen the core portfolio and next-gen tech



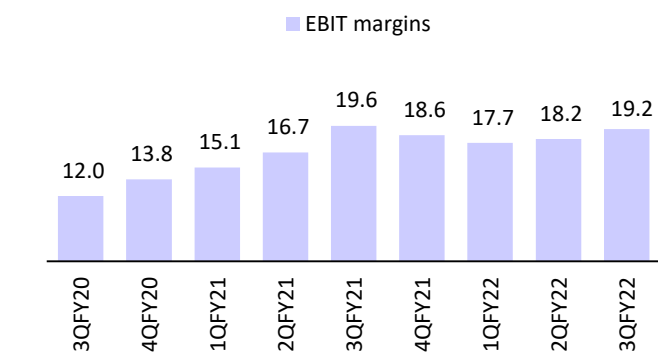
Source: MOFSL, Company

Exhibit 4: Robust deal wins



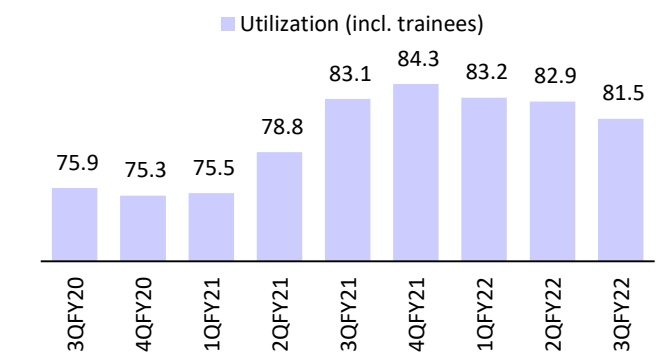
Source: Company, MOFSL

Exhibit 5: Promising EBIT margin trend



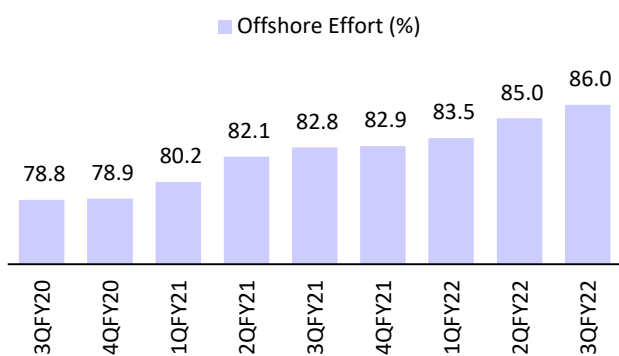
Source: Company, MOFSL

Exhibit 6: Utilization levels moderating



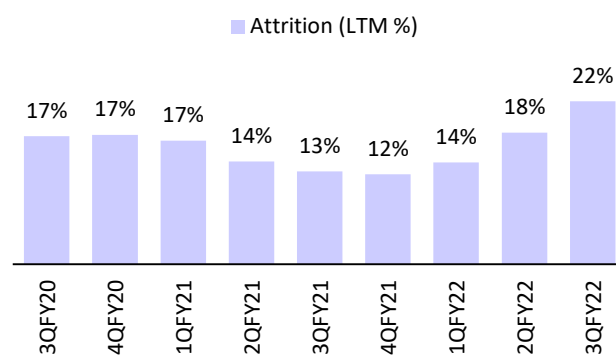
Source: Company, MOFSL

Exhibit 7: Good improvement in offshoring



Source: Company, MOFSL

Exhibit 8: Attrition levels stay elevated



Source: Company, MOFSL

Valuation and view

- The management's increased focus on annuity revenue and tail account rationalization has delivered a good improvement in topline growth and profitability.
- We continue to see strong topline growth, driven by its actions and overall demand strength. With its focus on stable margin, we expect margin in FY23 to moderate slightly, limiting gains from operating leverage to earnings.
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Financials and valuations

Income Statement						(INR m)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Sales	52,365	54,628	70,215	77,643	79,678	1,05,048	1,28,960	1,51,977
Change (%)	12.1	4.3	28.5	10.6	2.6	31.8	22.8	17.8
Cost of Services	36,500	38,192	47,997	55,686	56,862	73,766	90,948	1,06,868
SG&A Expenses	8,681	9,021	11,522	10,582	6,249	9,196	11,349	13,374
EBITDA	7,184	7,415	10,696	11,375	16,567	22,085	26,664	31,734
As a percentage of Net Sales	13.7	13.6	15.2	14.7	20.8	21.0	20.7	20.9
Depreciation and Amortization	1,850	1,715	1,692	2,754	2,596	2,514	3,095	3,647
Other Income	216	1,723	864	-333	1,013	2,368	2,579	3,040
PBT	5,550	7,423	9,868	8,288	14,984	21,939	26,148	31,126
Tax	1,390	1,722	2,327	1,979	3,879	5,629	6,799	8,093
Rate (%)	25.0	23.2	23.6	23.9	25.9	25.7	26.0	26.0
PAT	4,160	5,701	7,541	6,309	11,105	16,310	19,350	23,034
Change (%)	-24.7	37.0	32.3	-16.3	76.0	46.9	18.6	19.0

Balance Sheet						(INR m)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	1,680	1,639	1,642	1,646	1,647	1,647	1,647	1,647
Other components	1,019	0	993	0	0	0	0	0
Reserves	23,072	25,775	30,430	29,922	41,543	50,513	61,156	73,824
Net Worth	25,771	27,414	33,065	31,568	43,190	52,160	62,803	75,471
Loans	991	3,009	10	0	0	0	0	0
Long-term liabilities	301	85	174	6,762	4,498	5,930	7,280	8,579
Capital Employed	27,063	30,508	33,249	38,330	47,688	58,091	70,083	84,051
Gross Block	14,288	15,988	12,321	14,321	16,421	18,921	21,421	23,921
Less: Depreciation	7,995	9,710	889	3,643	6,239	8,753	11,848	15,496
Net Block	5,942	5,121	5,234	9,496	8,250	8,236	7,641	6,493
Goodwill	4,470	4,539	4,732	4,732	4,732	4,732	4,732	4,732
Other LT Assets	2,826	2,616	2,952	3,985	3,717	4,901	6,016	7,090
Investments	58	58	1,200	804	1,161	1,161	1,161	1,161
Curr. Assets	20,610	25,031	27,672	32,549	45,754	58,670	72,638	89,082
Current Investments	5,869	10,287	6,920	8,905	19,307	21,307	23,307	25,307
Debtors	11,187	10,155	16,347	17,194	15,665	22,046	27,064	31,894
Cash and Bank Balance	2,508	3,289	2,562	3,909	7,597	11,173	17,178	25,884
Other Current Assets	1,046	1,283	1,843	2,541	3,144	4,145	5,089	5,997
Current Liab. and Prov.	6,843	6,857	8,541	13,236	15,926	19,609	22,105	24,507
Trade payables	1,651	1,710	2,131	2,587	2,676	4,893	6,006	7,078
Other liabilities	4,087	3,929	5,666	8,925	11,023	11,780	12,494	13,181
Provisions	1,105	1,218	744	1,724	2,227	2,936	3,604	4,248
Net Current Assets	13,767	18,174	19,131	19,313	29,828	39,061	50,533	64,575
Application of Funds	27,063	30,508	33,249	38,330	47,688	58,091	70,083	84,051

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)								
EPS	24.7	34.2	45.8	38.3	67.4	98.8	117.2	139.5
Cash EPS	35.7	44.5	56.1	55.1	83.1	114.0	136.0	161.6
Book Value	153.5	164.9	201.5	191.9	262.2	316.5	381.1	458.0
DPS	10.0	9.0	33.0	16.0	25.0	44.5	52.7	62.8
Payout (%)	40.4	26.3	72.0	41.7	37.1	45.0	45.0	45.0
Valuation (x)								
P/E	153.7	111.1	82.9	99.2	56.4	38.5	32.4	27.3
Cash P/E	106.4	85.4	67.7	69.0	45.7	33.3	28.0	23.5
EV/EBITDA	87.8	83.8	57.5	53.9	36.2	26.9	22.0	18.1
EV/Sales	12.0	11.4	8.8	7.9	7.5	5.7	4.5	3.8
Price/Book Value	24.8	23.1	18.9	19.8	14.5	12.0	10.0	8.3
Dividend Yield (%)	0.3	0.2	0.9	0.4	0.7	1.2	1.4	1.7
Profitability Ratios (%)								
RoE	16.7	21.4	24.9	19.5	29.7	34.2	33.7	33.3
RoCE	15.6	16.3	22.7	18.3	24.1	27.5	27.2	27.0
Turnover Ratios								
Debtors (Days)	78	68	85	81	72	77	77	77
Fixed Asset Turnover (x)	8.8	10.7	13.4	8.2	9.7	12.8	16.9	23.4

Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
CF from Operations	5,318	6,477	8,716	9,792	13,868	16,456	19,866	23,641
Cash for Working Capital	902	-819	-2,371	-1,541	6,092	-3,409	-3,232	-3,111
Net Operating CF	6,220	5,658	6,345	8,251	19,960	13,047	16,634	20,531
Net Purchase of FA	-846	-1,011	-1,759	-1,220	-160	-2,500	-2,500	-2,500
Free Cash Flow	5,374	4,647	4,586	7,031	19,800	10,547	14,134	18,031
Net Purchase of Invest.	-3,687	-989	-225	991	-11,673	368	579	1,040
Net Cash from Invest.	-4,533	-2,000	-1,984	-229	-11,833	-2,132	-1,921	-1,460
Proc. from equity issues	8	1	3	4	1	0	0	0
Proceeds from LTB/STB	550	1,906	-3,044	-1,024	-1,346	0	0	0
Dividend Payments	-1,934	-4,782	-2,180	-5,940	-2,880	-7,339	-8,707	-10,365
Cash Flow from Fin.	-1,376	-2,875	-5,221	-6,960	-4,225	-7,339	-8,707	-10,365
Exchange difference	-135	-2	133	285	-214	0	0	0
Net Cash Flow	176	781	-727	1,347	3,688	3,576	6,006	8,705
Opening Cash Bal.	2,332	2,508	3,289	2,562	3,909	7,597	11,172	17,178
Add: Net Cash	176	781	-727	1,347	3,688	3,576	6,006	8,705
Closing Cash Bal.	2,508	3,289	2,562	3,909	7,597	11,172	17,178	25,883

E: MOFSL estimates

NOTES

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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