

Mindtree Limited



Mindtree Limited.

Q4 inline; Reassuring performance

CMP INR 3,639	Target INR 4,509	Potential Upside 23.9%	Market Cap (INR Mn) INR 599,781	Recommendation BUY	Sector Internet Software & Services
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Synopsis:

Mindtree (MTCL) has shown a stellar performance in Q4FY22, grew by 5.2% QoQ in CC terms, marking 6th consecutive quarter of 5%+ growth and inline our estimate. Dollar Revenue was up 4.6% QoQ to ~USD 384mn (KRChoksey est. USD 387mn). Rupee revenue grew by 5.4% QoQ to INR 28,974mn (KRChoksey est. INR 29,132Mn). Reported operating margin contracted by 30bps to 18.9% QoQ. Reported Net profit grew by ~8.1% QoQ to INR 4,735mn (KRChoksey est. INR 4,475mn) with margin of 16.3% (up 42bps on QoQ basis). The growth in the quarter for Mindtree was broad based and across geographies served, backed by rising appetite for digitization among clients, who seek business innovation for revenue maximization and other strategic outcomes. Deal TCV was at USD 390mn, up 4% YoY, comprising a healthy mix of annuity and transformational deals. Mindtree's improvement in both growth/margin and correlation between TCV/growth on short cycle deals is led by (1) building full-stack account and account mining focus (top-100 driving 90% of revenue as well as reduced T1 concentration risk) and (2) focus on building partner ecosystem and hyperscalers proposition (MTCL has strong rating within leading cloud providers). MTCL is expected to deliver mid-teen growth, supported by expansion into Continental Europe and core portfolio focus (cross-sell), with predictable margins (management maintained 20%+ EBITDAM outlook). Our target price of INR 4,509 is based on 33x Mar-24E EPS with EPS CAGR of 15.4% over FY22-24E.

MARKET DATA

Shares outs (Mn)	165
Mkt Cap (INR Mn)	599781
52 Wk H/L (INR)	5059.2/1999.8
Volume Avg (3m K)	762
Face Value (INR)	10
Bloomberg Code	MTCL:IN

KEY FINANCIALS

(INR Mn)	Q4FY22	Q3FY22A	Q4FY21A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	384	367	289	4.6%	32.8%	387	-0.8%
Revenue	28,974	27,500	21,093	5.4%	37.4%	29,132	-0.5%
EBIT	5,487	5,289	3,913	3.7%	40.2%	5,408	1.5%
PAT	4,730	4,375	3,086	8.1%	53.3%	4,475	5.7%
OPM (%)	18.9%	19.2%	18.6%	-30bps	39bps	18.6%	37bps
NPM(%)	16.3%	15.9%	14.6%	42bps	169	15.4%	96bps

Source: Company, KRChoksey Research

Robust growth across vertical/industry/geography

Mindtree (MTCL) reported revenue of USD 383.8mn, growth of 5.2% QoQ CC, 4.6% QoQ in USD terms led by healthy growth in both top and non-top accounts (+4.7% QoQ each). Q4FY22 results reflect the strength of its strategy, execution, partnerships and continued investments in business & people. MTCL continues to stay focused on the 4x4x4 strategy and believes that sharp focus on the service lines leads to improvement in capabilities and success in digital business. Among the verticals, growth was led by travel (+9.2% QoQ; FY22 revenue at pre-COVID level, led by increased focus on diversification into areas like surface transportation, F&B, car rental), BFSI (+8.9% QoQ; supported by core modernization); and communications, media & tech (+5.3% QoQ; supported by product engineering). However, retail, CPG and manufacturing declined -2.3% QoQ, impacted by ramp-down in one retail client. Healthcare, its most recent industry, contributed USD 17.3mn to revenue in FY22, its first year of operation.

Healthy deal momentum continues

MTCL is confident of delivering industry-leading double-digit revenue growth on robust demand, aggressive customer mining, healthy deal intake, deal pipeline, end-to-end digital transformation capabilities and disciplined execution. Deal TCV in FY22 was at USD 1.6bn, 16.7% YoY (book to bill at 1.14x compared to 1.28x in FY21). MTCL has successfully adapted cross-sell and up-sell its capabilities, leading to a significant expansion in relationships (Deals start out smaller and short-cycle ones, that generally do not appear in the TCV, and large deals in managed services and becomes a digital partner).

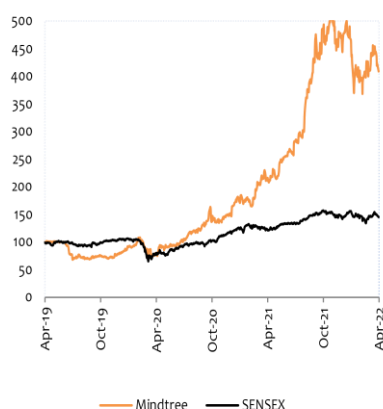
Continued Investment in Emerging technologies

MTCL has been investing in various areas of experiences using blockchain, IoT, AI/ML, and other cutting-edge technologies, which provide building blocks for the Metaverse and extend its technology/design thinking leadership into an integrated consulting-led offerings to the customers to optimize their transition to the Meta economy by immersive technology experience center, Immersive Aurora.

Strong beat in EBIT margin

EBIT margin contracted by 30bps QoQ to 18.9% in Q4FY22. Despite of stringent discipline, operational costs like travel, offices etc are expected to reach pre-pandemic levels in one-go. We know that subcon costs for a longer duration in any engagement tends to dilute margins and hence MTCL has introduced margin program to stabilize the situation by replacing them with permanent employees.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	56,463
NIFTY	16,959

SHARE HOLDING PATTERN (%)

Particulars	Dec-21	Sep-21	Jun-21
Promoters	61	61	61
FIIIs	15.7	15.7	13.7
DIIIs	9.7	9.7	12.0
Others	13.6	13.6	13.3
Total	100	100	100

20.6%

Revenue CAGR between FY22 and FY24E

25.4%

PAT CAGR between FY22 and FY24E

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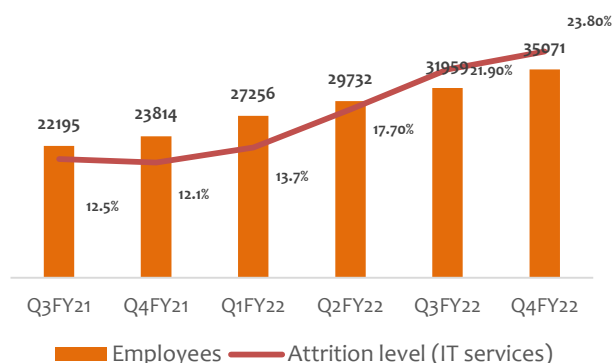
Key Concall Highlights

(i) Going forward, MTCL is focusing on shifting from product-centric models and dialing up full stack engagements, through cross sell/up sell with hyperscalers (ii) Focus continues on the deals with smaller/short-cycle (doesn't appear in the TCV), and large deals with managed services (iii) Top client- Microsoft grew but slower than the company average and became a smaller part of the revenue at ~25% in 4QFY22 (iv) MTCL tries to maintain a balance to keep a good control on margins in a systematic fashion by optimizing certain levers which are related to revenue (like billing rates, premium pricing etc) and certain levers related to cost efficiency (like utilization, pyramid restructuring etc) (v) subcontractors for a longer duration in any engagement tends to dilute margins and hence MTCL focuses on stabilizing the situation by replacing them with permanent employees (vi) continued investment in building capabilities in healthcare helped MTCL to win 4 new logos in Q4FY22 (vii) MTCL continues to expand its presence in Germany, Finland and Denmark and bolstered near shore capabilities in Europe with a center in Poland. It has also expanded its delivery footprint in India with an additional facility in Pune and its first development center in Kolkata.

Valuation and view

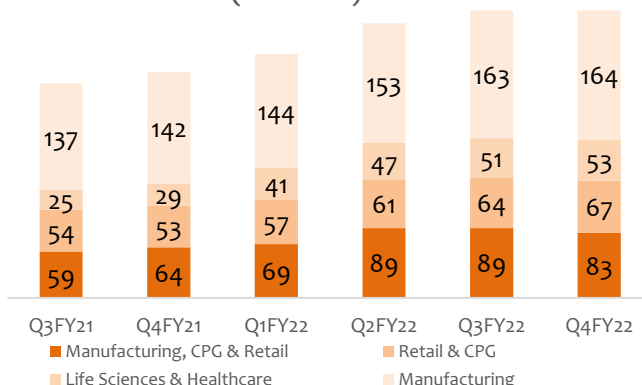
MTCL is currently trading at a valuation with a P/E multiple of 32.7x/26.6x on FY23E/FY24E earnings. We expect Tier-2 Indian IT companies may suffer due to vendor consolidation under the pressured profit picture for customers, a less diversified revenue mix and a larger exposure to non-Global 1000 clientele along with continued industry wide supply headwinds and resumption of travel/facility expenses and hence we are assigning a P/E multiple of 33x to the FY24 estimated EPS of INR 136.7 to arrive at a downward revised target price of INR 4,509 per share (Earlier target price INR 5,263), an upside of ~24% over the CMP. We maintain a "BUY" rating to the stock.

Total Employee Base & Attrition



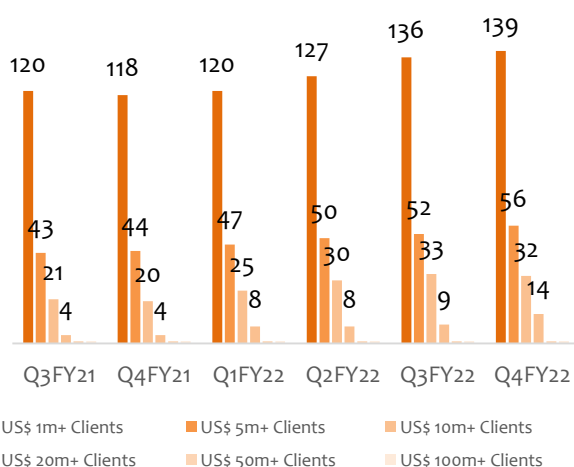
Source: Company, KRChoksey Research

Vertical-wise Revenue Contribution (USD Mn)



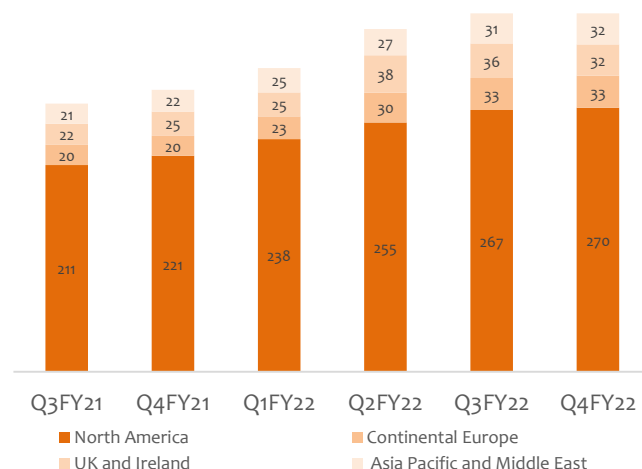
Source: Company, KRChoksey Research

Client Contribution



Source: Company, KRChoksey Research

Revenue by Geography (USD Mn)



Source: Company, KRChoksey Research

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KEY FINANCIALS
Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Property, Plant and Equipment	3,509	3,757	3,400	3,039	2,225	1,664	1,243
Right-of-use Asset	0	0	5201	4773	4773	4773	4773
CWIP	92	297	136	224	224	224	224
Goodwill & Intangibles	6,059	5,912	5,491	4,946	4,946	4,946	4,946
Non-Current Investments	58	1,200	804	1,161	1,161	1,161	1,161
Long Term Loans & Advances	751	675	457	476	476	476	476
Deferred Income Tax Assets	318	388	1835	351	351	351	351
Other non current assets	1,547	1,889	1,693	2,890	2,890	2,890	2,890
Total non current assets	12,334	14,118	19,017	17,860	17,046	16,485	16,064
Cash & equivalent	3289	2562	3909	7597	15620	21022	28538
Sundry debtors	10,155	13,356	14,389	12,742	17,443	20,833	23,568
Short Term Loans & Advances	17	123	99	41	41	41	41
Current Investments	7,206	6,836	6,944	19,307	19,307	19,307	19,307
Other Current Assets	4,364	4,795	7,208	6,067	7,819	8,908	10,077
Total current assets	25,031	27,672	32,549	45,754	60,229	70,111	81,531
Total Assets	37,365	41,790	51,566	63,614	77,275	86,596	97,595
Equity Share Capital	1,639	1,642	1,646	1,647	1,647	1,647	1,647
Other Equity	25,775	31,419	29,922	41,543	48,090	53,296	62,464
Equity Attributable to Owners of the Company	27,414	33,061	31,568	43,190	49,737	54,943	64,111
Non controlling Interest	0	0	0	0	0	0	0
Total Equity	27,414	33,061	31,568	43,190	49,737	54,943	64,111
Total Debt	9	5	0	0	0	0	0
Lease Liabilities	0	0	4,964	4,492	4,492	4,492	4,492
Other Long Term Liabilities	85	174	1,798	6	6	6	6
Total non current liabilities	94	179	6,762	4,498	4,498	4,498	4,498
Total Sundry Creditors	1,710	2,131	2,554	2,676	3,454	3,922	4,223
Short Term Debt	3,000	0	0	0	0	0	0
Lease Liabilities	0	0	699	885	885	885	885
Other Liabilities	3,929	5,020	8,967	10,138	13,351	15,469	16,999
Provisions	1,218	1,399	1,016	2,227	5,350	6,879	6,879
Total Current Liabilities	9,857	8,550	13,236	15,926	23,040	27,155	28,986
Total liabilities	37,365	41,790	51,566	63,614	77,275	86,596	97,595

Source: Company, KRChoksey Research

Mindtree Limited.

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	54,628	70,215	77,643	79,678	1,05,253	1,29,710	1,53,135
Employee Cost	35,641	44,212	50,647	51,132	63,278	80,525	93,327
SG&A and Other Cost	11,582	15,358	16,181	11,979	20,019	22,432	26,402
EBITDA	7,405	10,645	10,815	16,567	21,956	26,753	33,406
Depreciation	1,715	1,641	2,754	2,596	2,667	3,173	5,296
EBIT	5,690	9,004	8,061	13,971	19,289	23,580	28,110
Other income, net	1,902	893	756	1,517	1,082	740	500
Finance costs	169	29	529	504	484	548	470
Pre-tax Income	7,423	9,868	8,288	14,984	19,887	23,773	28,139
Income tax expense	1,722	2,327	1,979	3,879	5,578	5,468	5,628
Net profit Before EI & MI	5,701	7,541	6,309	11,105	14,309	18,305	22,511
Extraordinary item, EI	0	0	0	0	0	0	0
Minority Interest, MI	0	0	0	0	0	0	0
Net Profit After MI	5,701	7,541	6,309	11,105	14,309	18,305	22,511
Diluted EPS (INR)	34.66	45.85	38.34	67.41	86.86	111.12	136.65
Shares in Million	166	164	165	165	165	165	165

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Cash Generated From Operations	8,017	8,560	9,891	23,128	21,482	21,573	25,742
Net Cash Flow from/(used in) Investing Activities	-2,000	-1,933	-229	-11,833	-1,848	-2,574	-3,309
Net Cash Flow from Financing Activities	-45	-3,041	-1,020	-1,345	0	0	0
Others	-1,327	194	285	-214	0	0	0
Net Inc/Dec in cash equivalents	781	-727	1,347	3,688	8,023	5,403	7,516
Opening Balance	2,508	3,289	2,562	3,909	7,597	15,620	21,022
Closing Balance Cash & Cash Equivalents	3,289	2,562	3,909	7,597	15,620	21,022	28,538

Exhibit 4: Ratio Analysis

Key Ratio	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBIT Margin (%)	13.6%	15.2%	13.9%	20.8%	20.9%	20.6%	21.8%
Tax rate (%)	23.2%	23.6%	23.9%	25.9%	28.0%	22.9%	19.0%
Net Profit Margin (%)	10.4%	10.7%	8.1%	13.9%	13.6%	14.2%	15.6%
RoE (%)	21.4%	24.9%	19.5%	29.7%	30.6%	33.5%	35.6%
RoA (%)	15.3%	18.0%	12.2%	17.5%	18.3%	19.8%	21.6%
Current Ratio	2.5	3.2	2.5	2.9	2.6	2.7	3.0
EPS (INR per share)	34.7	45.9	38.3	67.4	86.9	111.1	136.6

Source: Company, KRChoksey Research

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Mindtree Limited				Rating Legend (Expected over a 12-month period)	
				Our Rating	Upside
Date	CMP (INR)	TP(INR)	Recommendation	Buy	More than 15%
19-Apr-22	3639	4509	BUY	Accumulate	5% – 15%
14-Jan-22	4545	5263	BUY	Hold	0 – 5%
				Reduce	-5% – 0
13-Oct-21	4363	5263	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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