

Mindtree (MTCL IN)

Rating: BUY | CMP: Rs1,441 | TP: Rs1,625

December 4, 2020

Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	1,625		1,625	
Sales (Rs. m)	87,132	94,835	87,132	94,835
% Chng.	-	-	-	-
EBITDA (Rs. m)	17,199	18,658	17,199	18,658
% Chng.	-	-	-	-
EPS (Rs.)	73.3	81.5	73.3	81.5
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs.m)	77,643	79,958	87,132	94,835
EBITDA (Rs. m)	10,623	15,514	17,199	18,658
Margin (%)	13.7	19.4	19.7	19.7
PAT (Rs. m)	6,309	10,112	12,065	13,408
EPS (Rs.)	38.3	61.4	73.3	81.5
Gr. (%)	(16.5)	60.2	19.3	11.1
DPS (Rs.)	10.0	17.5	17.5	17.5
Yield (%)	0.7	1.2	1.2	1.2
RoE (%)	19.5	28.6	27.7	25.3
RoCE (%)	24.1	36.1	33.1	29.6
EV/Sales (x)	2.9	2.8	2.5	2.2
EV/EBITDA (x)	21.2	14.3	12.4	11.0
PE (x)	37.6	23.5	19.7	17.7
P/BV (x)	7.5	6.1	4.9	4.1

Key Data

MINT.BO | MTCL IN

52-W High / Low	Rs.1,606 / Rs.692
Sensex / Nifty	44,633 / 13,134
Market Cap	Rs.237bn/ \$ 3,210m
Shares Outstanding	165m
3M Avg. Daily Value	Rs.4502.03m

Shareholding Pattern (%)

Promoter's	67.59
Foreign	12.02
Domestic Institution	11.97
Public & Others	8.42
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.3	58.6	100.9
Relative	(1.4)	21.2	83.1

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To drive the next S-curve of profitable growth

Quick Pointers:

- Without sacrificing profitability, they will focus on – 1) Top accounts mining 2) Enterprise scale digital transformation 3) Multi-year annuity deals 4) Seamless delivery & nimble operations 5) Partnerships and targeted M&A
- Management remains bullish on deal pipeline and is seeing good deal conversion ratio as their “Help and Grow” initiative undertaken in Apr-Jun is paying rich dividends.

Mindtree's order book increased 20% YoY excluding TTH and 10% YoY overall in H1FY21 driven by increased focus on large deals and annuity based deals. GTM Strategy is aligned to generate strong deal win momentum: 1) Double down focus on large deal teams through strategic engagement teams. 2) Service line specialist sales person aligned with each key account to increase account mining. 3) Geo focused leadership to expand into continental Europe and UK. 4) Leverage partnership ecosystem 5) Promote performance driven culture.

B2C & D2C commerce has picked up pace, touchless kiosk, contact less shopping, visual collaborative technologies, remote plant operations are new areas emerging areas of demand. Clients are moving from capex to opex based model. Adoption of cloud and cybersecurity has become absolute priority for clients. Mindtree is well positioned to serve this demand with their strong capabilities centered around the 4 vertical x 4 service lines x 4 geography strategy. MTCL has made few changes in go-to-market structure & have invested in a large deals' team in US and expanded to Europe to increase large deal wins. To increase account coverage, MTCL has assigned a specialist sales team to strategic accounts with strong industry expertise and expertise in one of the four new services offerings.

We maintain our BUY rating on MTCL as we believe that 1) Execution & focus on annuity deals is bringing back stability in revenue & margin performance, 2) 40% exposure to fastest growing hi-tech space & worst for TTH (Travel & Hospitality) is behind 3) Management's confidence to sustain margins at these levels and improve further. We continue to value MTCL on 21X multiple for Sep-22 earnings of INR 77.4 to arrive at an unchanged TP of INR 1625. MTCL is currently trading at 19.7/17.7X earnings of INR 73.3/ 81.5 for FY22/23 respectively with EPS CAGR of 16% for FY21-23E.

- Management bullish on strong deal conversion:** Mindtree management remains bullish on deal pipeline and is seeing good deal conversion ratio as their “Help and Grow” initiative undertaken in Apr-Jun is paying rich dividends. Order book increased 20% YoY excluding TTH and 10% YoY overall in H1FY21 driven by increased focus on large deals and annuity based deals. They have also rationalized their unprofitable tail accounts diverting focus to strategic growth accounts. **Mindtree aspires to be “go-to” business transformation partner – driving business outcomes through technology transformation.**

S-curve is the life cycle of a successful company that takes on the form of a sigmoid, or S curve. The S shape represents growth over time—starting out slowly, picking up speed during rapid growth, then tapering off as growth slows.

Mindtree has started transitioning from being a service provider with deep technical skills to becoming a business transformation partner that delivers business outcomes for clients, leveraging technology and the digital ecosystem.

One of the significant trends that this pandemic has brought about is the emergence of a 'no-shore' delivery model in the IT industry

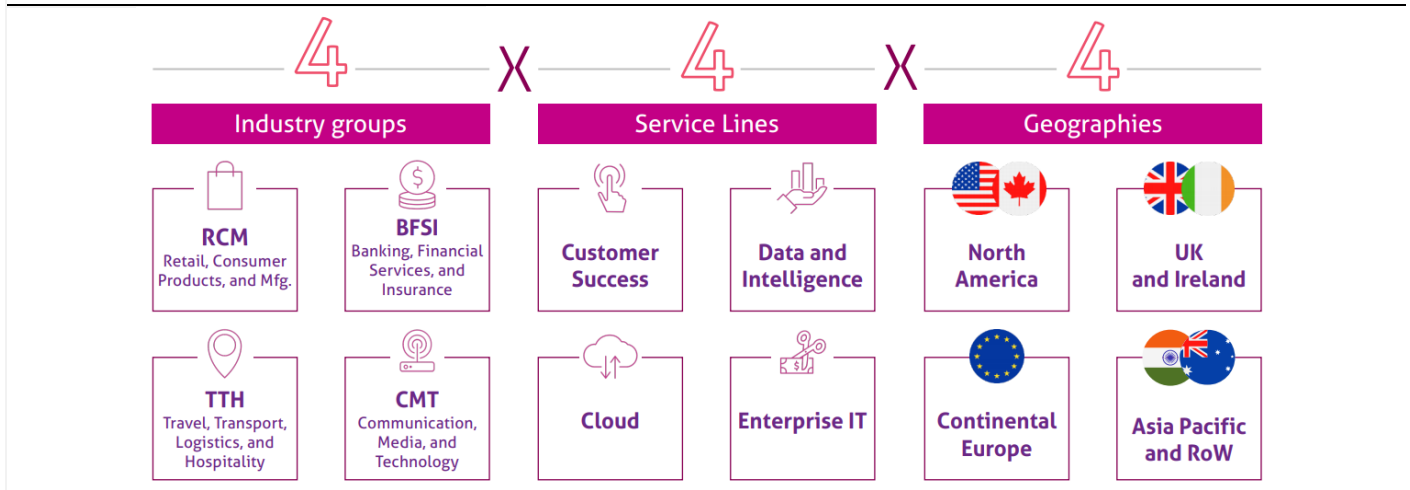
Mindtree has performed extremely well under the current management team with strong focus on profitability, deal wins, good hires etc. They have invested well in talent, senior leadership, IP, partner ecosystem, improving internal processes and systems.

- **GTM Strategy to continue strong deal momentum:**
 - **Double down focus on large deal teams** through strategic engagement teams. They have setup global solutioning team to stitch solutions together. Management stated that frequency of large deal wins is expected to improve in coming quarters. Mindtree is rejuvenating its consulting wing to deliver integrated service line capabilities necessary for large transformation deals.
 - **Service line specialist sales person** aligned with each key account to increase account mining.
 - **Geo focused leadership:** Mindtree has strong presence in North America and has dedicated focus to expand in to continental Europe (Norway, Finland, Denmark, Benelux, France), UK and Ireland. **As a result of these efforts they have won a Business transformation deal from Nordex Group headquartered in Germany.** They are also scaling their near shore capability center in Poland. They had invested in geo focused leadership in Australia two quarters back and in last quarter they brought in leadership to focus on Europe.
 - **Leverage partnership ecosystem:** Mindtree is winning deals in newer areas by engaging in robust partnership ecosystem. They speedily implemented Duck Creek solution for an insurance client ahead of hurricane season creating massive competitive advantage for the client. Recently they announced partnership with Databricks – Data & AI company - to help customers implement cloud-based data platforms for advanced analytics.
 - **Performance driven culture:** Mindtree has strong people focus and is building a highly motivated team. They performed seamless remote transitions and successfully handled no shore agile projects. **They reported 63% higher productivity and highest-ever customer satisfaction rating.** As part of their "Digital Inside" initiative, Mindtree has created unified digital platform to power futuristic delivery.
- **Focus on 4 Verticals x 4 Service lines x 4 Geographies.** Mindtree will leverage its deep domain knowledge in the 4 industry verticals and service line expertise to expand in geographies like Europe, UK, Australia. Delivery capabilities will also be aligned to these 4 geographies.
- **Synergetic extension into Healthcare:** Mindtree sees significant convergence of their existing clients' business into Healthcare. They have done synergetic extension to Healthcare vertical which includes payers, insurers & device manufacturers and healthcare providers (does not include life sciences). They have done substantial engagement with 2 clients in the provider space and are currently engaged with a healthcare device manufacturer.

The main highlight was management commentary & confidence of maintaining the margins at this levels going forward.

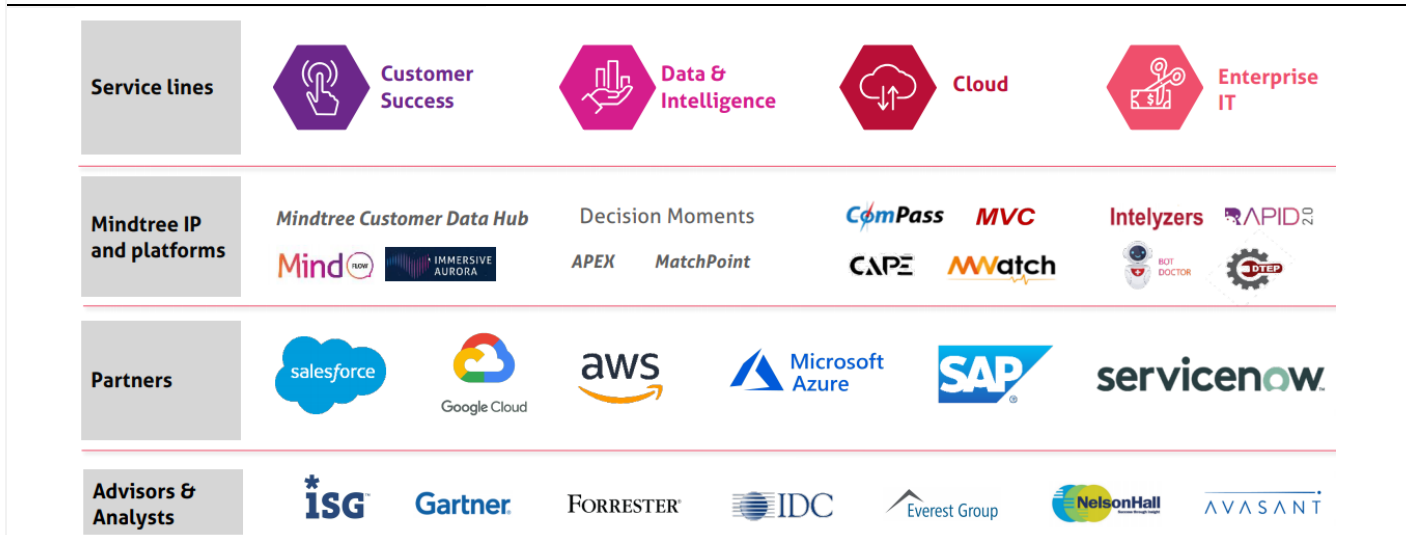
- **Significant traction across all 4 verticals x 4 services:** They have significant domain expertise in all 4 verticals and have service lines offerings catering to the entire C-suite ranging from CIO (Enterprise IT & Cloud), CMO (Customer Success), COO (Data and Intelligence) and CEO. Cloud and cybersecurity have become absolute priority for businesses.
 - Retail, CPG & Manufacturing – Retail and CPG clients are seeing exponential rise in online & omni-channel commerce. B2C, D2C business models are evolving. Touchless voice enabled kiosks, virtual market place, contactless payments & cognitive customer service solutions are evolving in this sector. Virtual tours and inspections using AR/VR, remote monitoring, vision and AI based quality management solutions are in demand in Manufacturing vertical.
 - BFSI – clients are adopting accelerating core transformation to make their technology system more robust and resilient.
 - TTH – Travel & Hospitality vertical is not seeing pricing pressure anymore and clients are inclined towards investment in future areas of growth – touch less / contact less operations. Mindtree will continue to stay invested with TTH clients as they believe, it will result in significant partnership which can be leveraged in future to enhance revenue streams of clients.
 - CMT – Areas of demand in this vertical are reimagining experiences and modernizing core – leveraging all service line capabilities. Mindtree helps CMT clients to get to their customer faster, improve service reliability, maintain business continuity. Even though there was slowdown in this vertical in 1Q, management has strong growth outlook for this vertical.
 - Additionally, Mindtree intends to make a foray into the **healthcare** providers and device manufactures space leveraging existing service capabilities and client relationships. MTCL's strategy is to use its existing capabilities to expand into the new vertical. There are no big investments involved and this expansions will not affect profitability. Coforge also mentioned expanding in healthcare vertical.
- **Sharp improvement in Margins:** Mindtree has significantly expanded margins (EBIT margin by + 800bps) in last one year by reducing cost of delivery and optimizing other overheads. They have also benefitted from improved utilization, higher offshore mix, re-shaping pyramid, stable pricing. Management is highly confident of sustaining margins and endeavor to improve them further even though travel and some other costs will come back post COVID. Mindtree's real estate and hiring strategy is still evolving with dependency on large cities to come down.
- **L&T Group does not have plans of merging LTI and Mindtree in near future.** In past 15 months, customer has influenced Mindtree and LTI to come together to serve client's needs. Chairman indicated that L&T will provide strong support to Mindtree in its growth journey.

Exhibit 1: Mindtree's strategic focus areas



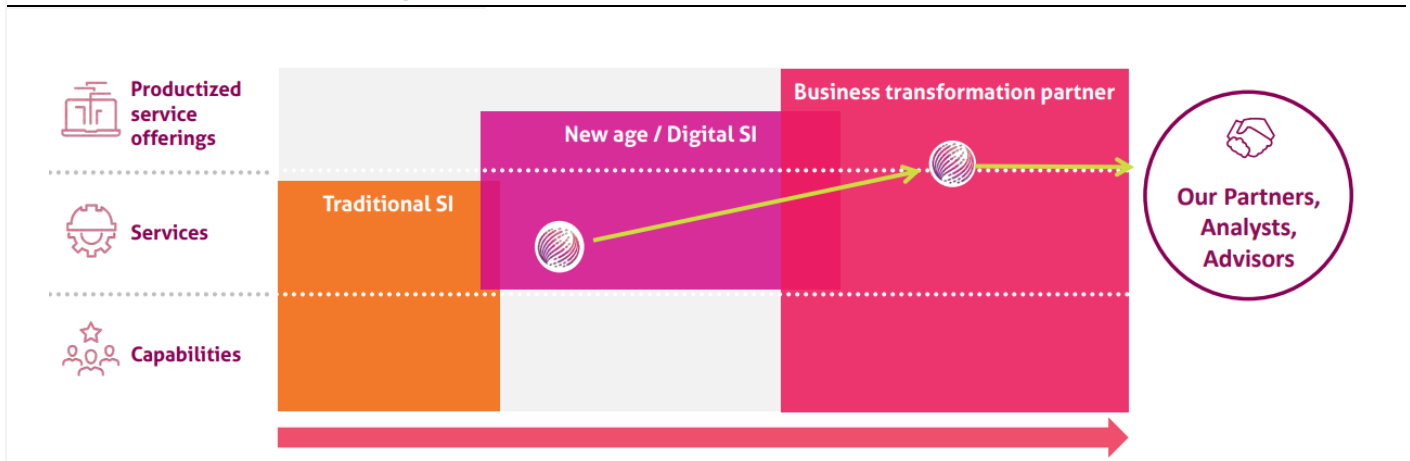
Source: Company, PL

Exhibit 2: Strong partnership & IP ecosystem







Source: Company, PL

Exhibit 3: Mindtree aspires to be “go-to” business transformation partner



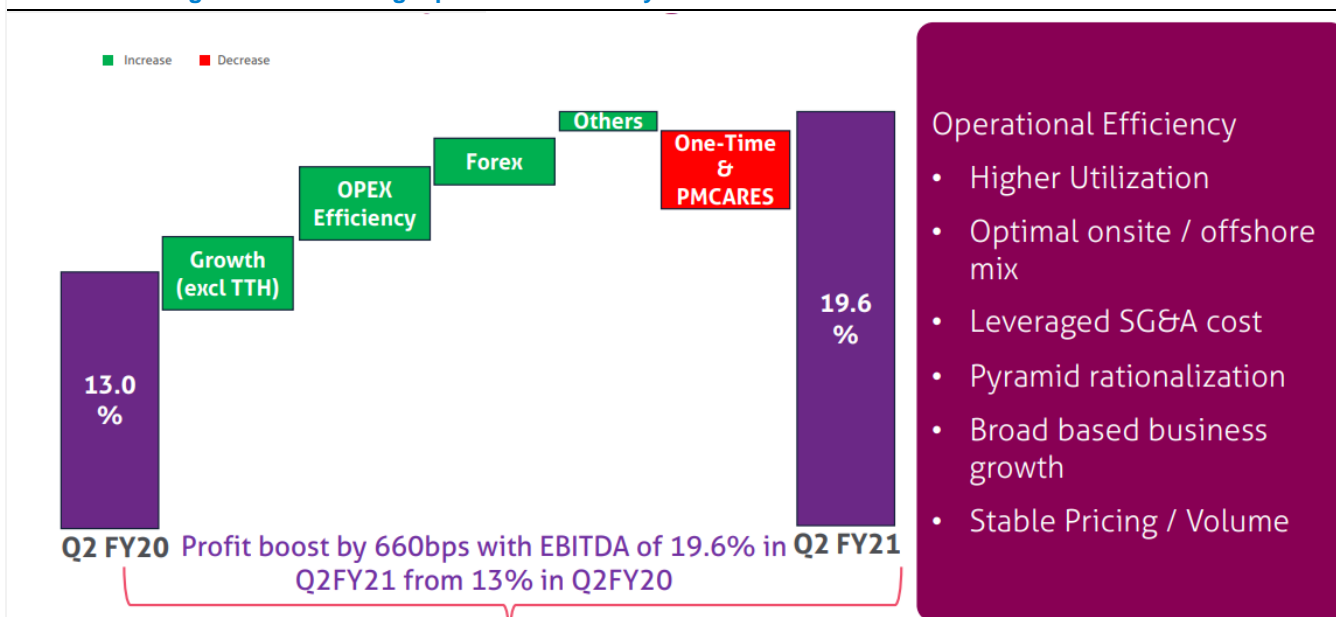
Source: Company, PL

Exhibit 4: Strong H1FY21 performance despite COVID-19 impact

01		Order book Strong Orderbook despite the COVID -19 impact	Y-o-Y (Overall)	Y-o-Y (Excl TTH)	
			+10.0%	+20.3%	
02		Revenue Growth excluding TTH	Y-o-Y (Overall)	Y-o-Y (Excl TTH)	
			(3.9%)	+6.1%	
03		Margins Margin expansion across all quarters	EBITDA	EBIT	PAT
			+57.8%	+94.4%	+92.6%
			+740 bps	+800 bps	+610 bps
04		Value Creation Committed to drive value	CASH	FCF/EBITDA	ROCE
			\$281 M	142.1%	33.1 %
			+159.4%	+78.1%	+13.6 %

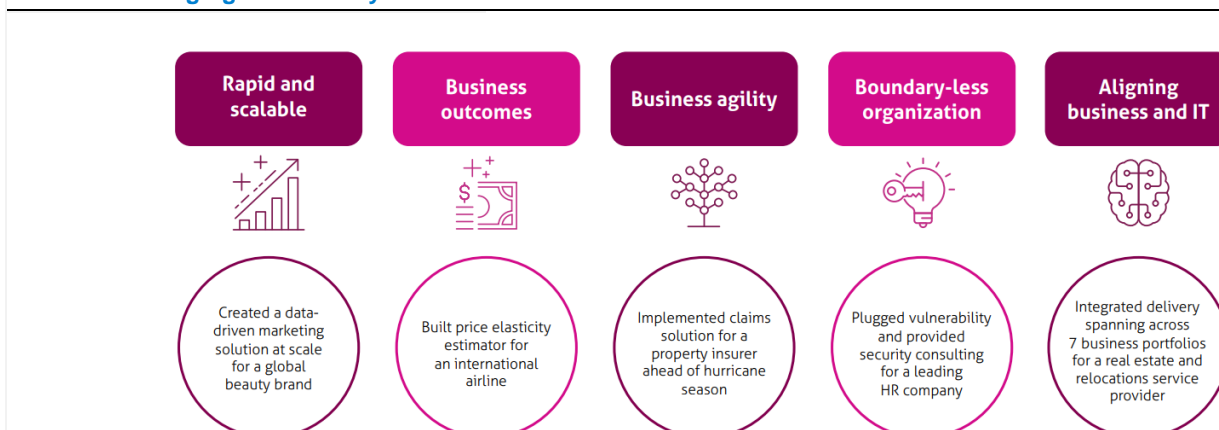
Source: Company, PL Note: All numbers are H1FY21 vs H1FY20

Exhibit 5: Strong sustainable margin performance led by reduction in SG&A costs



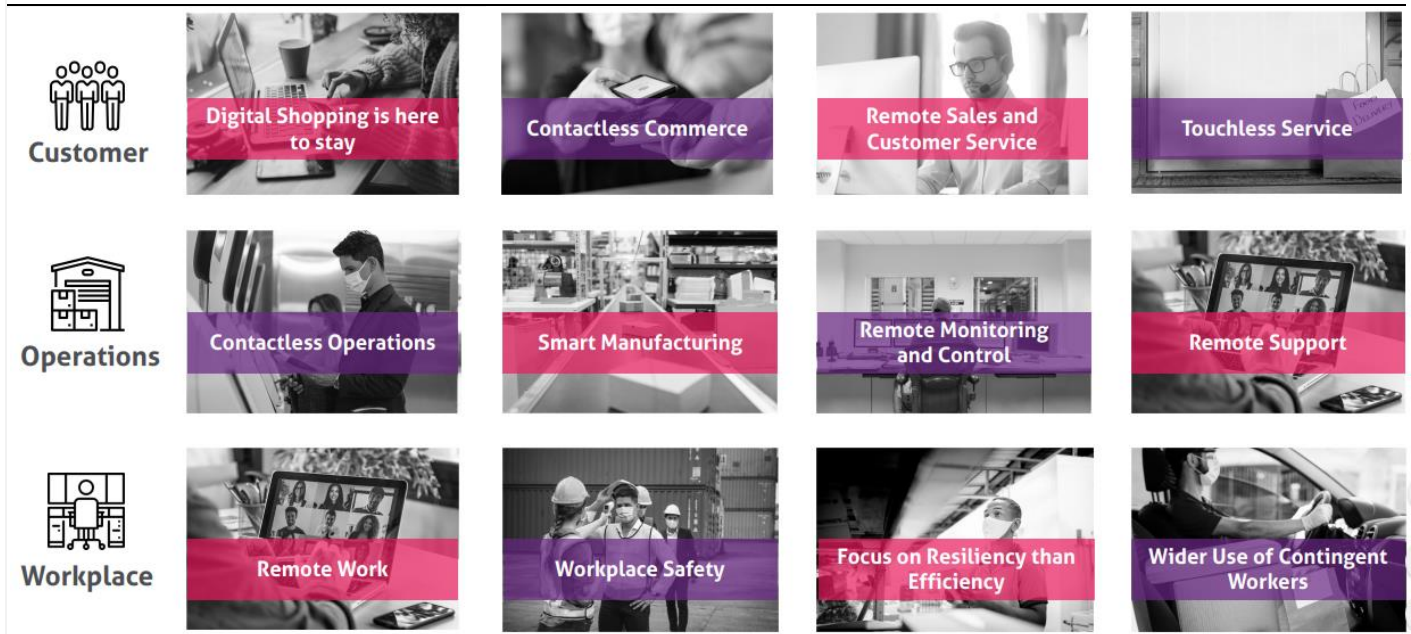
Source: Company, PL

Exhibit 6: Changing business dynamics

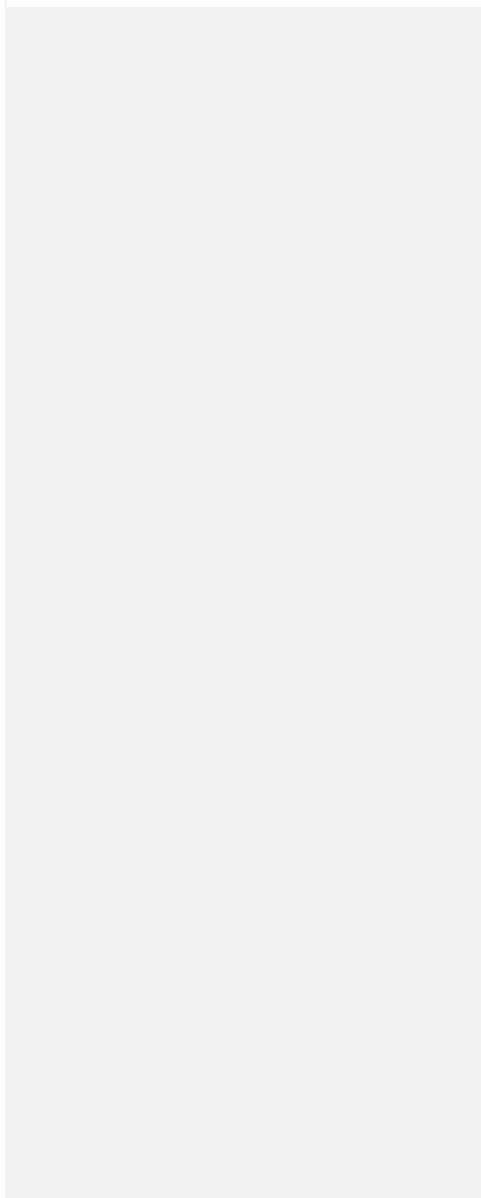


Source: Company, PL

Exhibit 7: Trends gaining traction in this pandemic



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	77,643	79,958	87,132	94,835
YoY gr. (%)	10.6	3.0	9.0	8.8
Employee Cost	50,647	50,036	53,732	59,042
Gross Profit	26,996	29,921	33,400	35,793
Margin (%)	34.8	37.4	38.3	37.7
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	10,623	15,514	17,199	18,658
YoY gr. (%)	(0.2)	46.0	10.9	8.5
Margin (%)	13.7	19.4	19.7	19.7
Depreciation and Amortization	2,754	2,451	2,502	2,710
EBIT	7,869	13,063	14,697	15,947
Margin (%)	10.1	16.3	16.9	16.8
Net Interest	529	463	180	180
Other Income	948	946	1,459	2,042
Profit Before Tax	8,288	13,547	15,976	17,809
Margin (%)	10.7	16.9	18.3	18.8
Total Tax	1,979	3,435	3,911	4,401
Effective tax rate (%)	23.9	25.4	24.5	24.7
Profit after tax	6,309	10,112	12,065	13,408
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,309	10,112	12,065	13,408
YoY gr. (%)	(16.3)	60.3	19.3	11.1
Margin (%)	8.1	12.6	13.8	14.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,309	10,112	12,065	13,408
YoY gr. (%)	(16.3)	60.3	19.3	11.1
Margin (%)	8.1	12.6	13.8	14.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,309	10,112	12,065	13,408
Equity Shares O/s (m)	165	165	165	165
EPS (Rs)	38.3	61.4	73.3	81.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	19,398	23,643	26,624	29,847
Tangibles	19,398	23,643	26,624	29,847
Intangibles	-	-	-	-
Acc: Dep / Amortization	15,862	18,313	20,815	23,525
Tangibles	15,862	18,313	20,815	23,525
Intangibles	-	-	-	-
Net fixed assets	3,536	5,331	5,809	6,322
Tangibles	3,536	5,331	5,809	6,322
Intangibles	-	-	-	-
Capital Work In Progress	-	-	-	-
Goodwill	5,491	5,393	5,393	5,393
Non-Current Investments	804	205	205	205
Net Deferred tax assets	1,835	1,308	1,308	1,308
Other Non-Current Assets	7,351	8,261	8,355	8,455
Current Assets				
Investments	6,944	15,182	15,182	15,182
Inventories	-	-	-	-
Trade receivables	14,389	13,582	14,801	16,109
Cash & Bank Balance	5,870	1,570	8,766	17,178
Other Current Assets	5,247	5,197	5,664	6,164
Total Assets	51,566	56,045	65,499	76,335
Equity				
Equity Share Capital	1,646	1,646	1,646	1,646
Other Equity	29,922	37,542	46,276	56,353
Total Network	31,568	39,188	47,922	57,999
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	6,762	6,063	6,063	6,063
Current Liabilities				
ST Debt / Current of LT Debt	699	890	890	890
Trade payables	2,587	2,554	2,554	2,554
Other current liabilities	9,950	7,350	8,070	8,829
Total Equity & Liabilities	51,566	56,045	65,499	76,335

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	8,288	13,547	15,976	17,809
Add. Depreciation	2,754	2,451	2,502	2,710
Add. Interest	529	463	180	180
Less Financial Other Income	948	946	1,459	2,042
Add. Other	-	-	-	-
Op. profit before WC changes	11,571	16,461	18,658	20,699
Net Changes-WC	4,328	(3,303)	(1,060)	(1,152)
Direct tax	(1,979)	(3,435)	(3,911)	(4,401)
Net cash from Op. activities	13,920	9,723	13,688	15,146
Capital expenditures	(1,815)	(4,147)	(2,980)	(3,224)
Interest / Dividend Income	-	-	-	-
Others	288	(7,639)	-	-
Net Cash from Inv. activities	(1,527)	(11,786)	(2,980)	(3,224)
Issue of share cap. / premium	4	-	-	-
Debt changes	694	191	-	-
Dividend paid	(1,975)	(3,331)	(3,331)	(3,331)
Interest paid	(529)	(463)	(180)	(180)
Others	(7,279)	1,366	-	-
Net cash from Fin. activities	(9,085)	(2,237)	(3,511)	(3,511)
Net change in cash	3,308	(4,300)	7,196	8,411
Free Cash Flow	12,105	5,576	10,707	11,922

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	19,653	20,505	19,088	19,260
YoY gr. (%)	10.0	11.5	4.1	0.6
Raw Material Expenses	12,535	12,933	12,776	12,623
Gross Profit	7,118	7,572	6,312	6,637
Margin (%)	36.2	36.9	33.1	34.5
EBITDA	3,063	3,237	3,220	3,903
YoY gr. (%)	8.1	15.5	74.9	57.3
Margin (%)	15.6	15.8	16.9	20.3
Depreciation / Depletion	699	679	597	569
EBIT	2,364	2,558	2,623	3,334
Margin (%)	12.0	12.5	13.7	17.3
Net Interest	133	128	131	132
Other Income	348	183	406	245
Profit before Tax	2,579	2,613	2,898	3,447
Margin (%)	13.1	12.7	15.2	17.9
Total Tax	609	551	686	1,014
Effective tax rate (%)	23.6	21.1	23.7	29.4
Profit after Tax	1,970	2,062	2,212	2,433
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,970	2,062	2,212	2,433
YoY gr. (%)	3.0	3.9	138.6	80.2
Margin (%)	10.0	10.1	11.6	12.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,970	2,062	2,212	2,433
YoY gr. (%)	3.0	3.9	138.6	80.2
Margin (%)	10.0	10.1	11.6	12.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,970	2,062	2,212	2,433
Avg. Shares O/s (m)	165	165	165	165
EPS (Rs)	12.0	12.5	13.4	14.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	38.3	61.4	73.3	81.5
CEPS	55.1	76.3	88.5	97.9
BVPS	191.9	238.1	291.2	352.4
FCF	73.6	33.9	65.1	72.4
DPS	10.0	17.5	17.5	17.5
Return Ratio(%)				
RoCE	24.1	36.1	33.1	29.6
ROIC	25.6	35.8	31.4	26.9
RoE	19.5	28.6	27.7	25.3
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.5)	(0.5)
Debtor (Days)	68	62	62	62
Valuation(x)				
PER	37.6	23.5	19.7	17.7
P/B	7.5	6.1	4.9	4.1
P/CEPS	55.2	76.5	88.7	98.1
EV/EBITDA	21.2	14.3	12.4	11.0
EV/Sales	2.9	2.8	2.5	2.2
Dividend Yield (%)	0.7	1.2	1.2	1.2

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Oct-20	BUY	1,625	1,438
2	05-Oct-20	BUY	1,560	1,336
3	01-Oct-20	BUY	1,560	1,339
4	15-Jul-20	Reduce	888	978
5	04-Jul-20	Reduce	763	945
6	26-Apr-20	Reduce	680	780
7	12-Apr-20	Reduce	665	734
8	15-Jan-20	Reduce	808	863
9	03-Jan-20	Reduce	743	816

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	2,784	2,457
2	Cyient	BUY	492	485
3	HCL Technologies	BUY	1,101	830
4	Infosys	BUY	1,436	1,137
5	L&T Technology Services	Accumulate	1,860	1,754
6	Larsen & Toubro Infotech	BUY	3,465	3,100
7	Mindtree	BUY	1,625	1,438
8	Mphasis	BUY	1,711	1,382
9	Persistent Systems	BUY	1,368	1,189
10	Redington (India)	BUY	138	138
11	Sonata Software	BUY	427	339
12	Tata Consultancy Services	BUY	3,200	2,736
13	TeamLease Services	BUY	2,677	2,724
14	Tech Mahindra	BUY	1,042	848
15	Wipro	BUY	415	345
16	Zensar Technologies	BUY	215	225

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

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