

Mindtree Limited



Mindtree Limited.
Growth momentum to continue but the valuation is rich

CMP INR 4,363	Target INR 5,263	Potential Upside 20.6%	Market Cap (INR Mn) INR 7,17,065	Recommendation BUY	Sector Internet Software & Services
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Synopsis:

Mindtree (MTCL) has shown a stellar performance in Q2FY22 and beats the streets estimate. Dollar Revenue was up 12.8% to USD 350mn (KRChoksey est. USD 337mn). Rupee revenue grew by 12.9% QoQ to INR 25,862mn (KRChoksey est. INR 24,929Mn). Reported operating margin expanded by 43bps to 18.2% QoQ backed by healthy growth and operational efficiencies, partially offset by wage hike and cross currency movements. Reported Net profit grew by ~16.2% QoQ to INR 3,989mn (KRChoksey est. INR 3,585mn) with margin of 15.4% (up 44bps 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. Total Contract Value (TCV) was USD 360.0Mn for Q2FY22, up 18.8% YoY. BFSI, Retail and Consumer Products offer the opportunities for multi-year annuity deals. Retail and Consumer business experienced seasonality and pent up demand, led by project backlog but Healthcare witnessed higher growth due continuous investments in the identified targeted markets in the Q2. We expect to see the supply crunch to stay in the near term but management has initiated Mindtree Edge Program to tackle the higher attrition rate. Our target price of INR 5,263 is based on 48x Mar-24E EPS with EPS CAGR of 15.8% over FY22-24E.

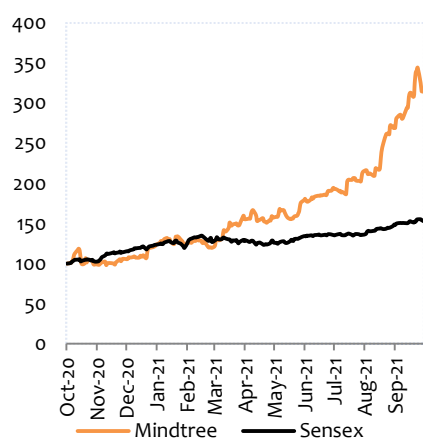
MARKET DATA

Shares outs (Mn)	165
Equity Cap (INR Mn)	1647
Mkt Cap (INR Mn)	708971
52 Wk H/L (INR)	4732.4/1264.25
Volume Avg (3m K)	1339.403
Face Value (INR)	10
Bloomberg Code	MTCL:IN

KEY FINANCIALS

(INR Mn)	Q2FY22A	Q1FY22A	Q2FY21A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	350	311	261	12.8%	34.1%	337	4.0%
Revenue	25,862	22,917	19,260	12.9%	34.3%	24,929	3.7%
EBIT	4,697	4,063	3,334	15.6%	40.9%	4,363	7.7%
PAT	3,989	3,434	2,537	16.2%	57.2%	3,585	11.3%
OPM (%)	18.2%	17.7%	17.3%	43bps	85bps	17.5%	66bps
NPM(%)	15.4%	15.0%	13.2%	44bps	225bps	14.4%	104bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE

Robust growth across verticals led to the overall growth of the business

Mindtree (MTCL) Q2FY22 performance is higher than our estimates. For Q2FY22, company reported dollar revenue growth of 34.1% YoY (up 12.8% QoQ) USD 350Mn. In Rupee terms, revenue was up by 12.9%QoQ to INR 25,862mn. In constant currency terms, revenue growth was 13.4%QoQ. For Q2FY22, the growth was led across verticals. Manufacturing, CPG & Retail (up ~38% CC YoY), BFSI (up 9.7% CC YoY), Travel and Hospitality (up 29.9% CC YoY) and Communications, Media & Technology (up 22% CC YoY) contributed 25.4%, 17.5%, 13.5% and 42.5% YoY respectively. Total Contract Value (TCV) or order book was USD 360.0Mn (book to bill ratio 1x) for Q2FY22, up 18.8% YoY but down 50%, QoQ, attributed to substantial number of renewals that took place in Q1FY22. Retail and consumers businesses have accelerated post pandemic restriction lifted but Healthcare business witnessed a material uptick as company has successfully done its strategic investment.

Cloud and Digitization to play strong deal wins

Strong deal wins across segments and strong pipeline with improved qualification provides growth visibility in coming quarters. Cloud and digitization are in demand for enabling connected operations, business innovation for revenue maximization and other strategic outcomes and we see a multi year tailwind. Mindtree is judicious in client selection, to add to its profit growth theme. Company is following the strategies of cross selling and upselling as we see that Top20 clients are higher in revenue share in spite of flattish sequential contribution from Top client, impacted by seasonality. On the geography-side, growth was broad based with the US growing 7.2% QoQ. Europe grew 36.4% QoQ, led by strong growth in the UK. APAC & Middle east reported a growth of 19% QoQ. Mindtree has successfully added clients especially in +USD 10Mn (5 Clients) and +USD 5Mn (3 Clients).

EBIT margin to sustain in the range of 17-19%

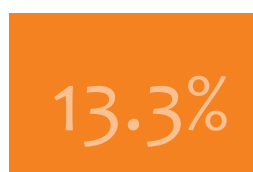
In Q2FY22, the company registered EBIT margin of 18.2% which is higher by 43 bps QoQ, benefitted from lower depreciation, given strong growth. Net additions (2,476, +9% QoQ) were strong in 2QFY22. MTCL added ~2,000 fresher in 2HFY22, which is expected to continue. Offshore mix was at multi-year high of 85% (+150bp QoQ), while utilization fell to 82.9% (-30bp QoQ) and attrition is up 400bp QoQ to 17.7%

MARKET INFO

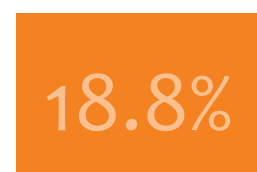
SENSEX	60,737
NIFTY	18,161.75

SHARE HOLDING PATTERN (%)

Particulars	Jun-21	Mar-21	Dec-20
Promoters	61.02	61.03	61.03
FIIIs	13.66	13.92	13.27
DIIIs	11.99	10.86	10.62
Others	13.33	14.19	15.08
Total	100	100	100



Revenue CAGR between FY21 and FY23E



PAT CAGR between FY21 and FY23E

Mindtree Limited.

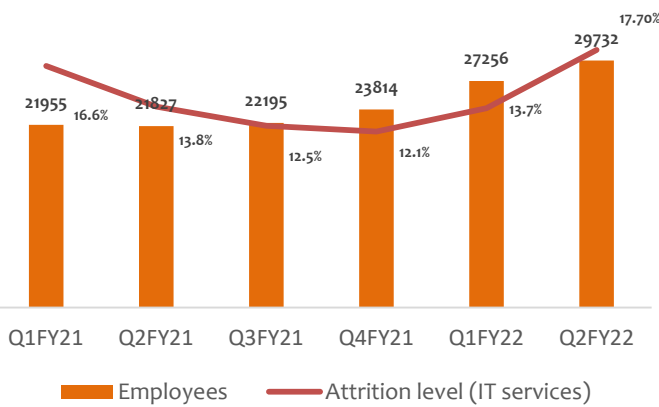
Key Concall Highlights

(i) Overall value chain of technological spendings at the client level is increasing as it is now used to drive the topline which was earlier used to generate greater cost efficiencies (ii) Retail and Consumer business experienced seasonality and pent up demand, led by project backlog but Healthcare witnessed higher growth due continuous investments in the identified targeted markets in the Q2 (iii) MTCL is investing in Europe for the last one year and we see tractions in Europe business (iv) The Cost pressure from the supply side will continue in the medium term which will be partially offset by pyramid rationalization and reduced sub-contracting (v) Rising appetite for digitization for enabling connected operations along with diversified industries catered well working for Mindtree (vi) A telecom company engaged Mindtree to deploy their employee application to reduce capex by 50%.

Valuation and view

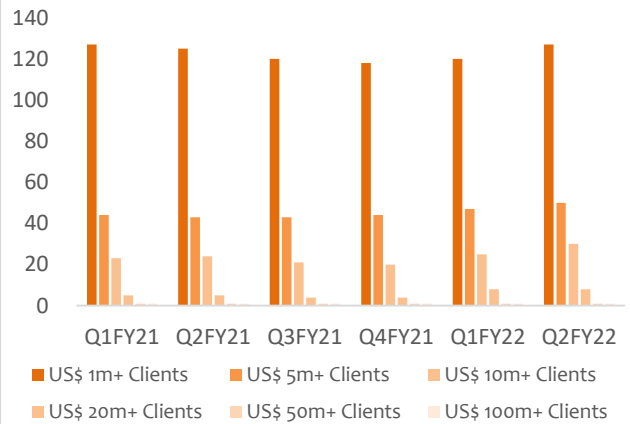
MTCL is currently trading at a valuation with a P/E multiple of 50.9x/39.7x on FY23E/FY24E earnings. We expect strong deal outlook for strategic accounts, decent deal signings, continued focus on annuity based revenue models and client mix will help maintain the growth momentum in medium term future and hence we are assigning a P/E multiple of 48x to the FY24 estimated EPS of INR 109.7 to arrive at a target price of INR 5,263 per share (earlier target of INR 4,430), an upside of 20.6% over the CMP. We upgrade Mindtree from an “ACCUMULATE” rating to “BUY rating”.

Total Employee Base & Attrition



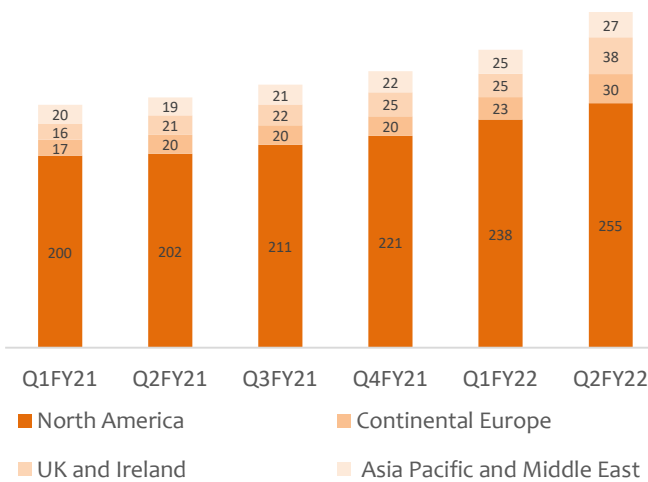
Source: Company, KRChoksey Research

Client Contribution



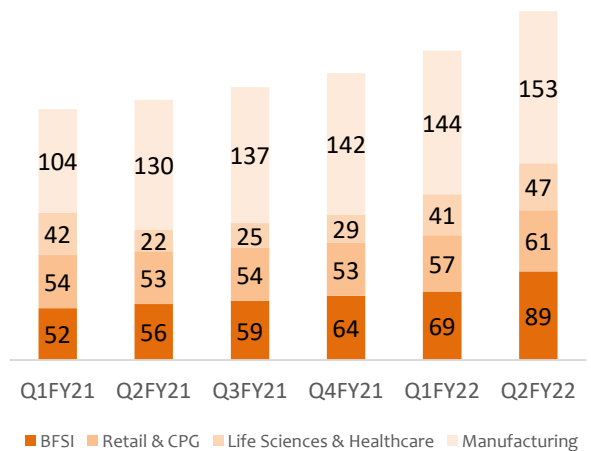
Source: Company, KRChoksey Research

Revenue by Geography (USD Mn)



Source: Company, KRChoksey Research

Vertical-wise Revenue Contribution (USD Mn)



Source: Company, KRChoksey Research

Mindtree Limited.
KEY FINANCIALS
Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22E	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	FY22E	FY23E	FY24E
Revenue	54,628	70,215	77,643	79,678	1,02,686	1,16,986	1,32,344
Employee Cost	35,641	44,212	50,647	51,132	64,978	77,125	84,299
SG&A and Other Cost	11,582	15,358	16,181	11,979	18,135	19,174	21,523
EBITDA	7,405	10,645	10,815	16,567	19,572	20,687	26,523
Depreciation	1,715	1,641	2,754	2,596	2,662	3,135	3,729
EBIT	5,690	9,004	8,061	13,971	16,910	17,552	22,793
Other income, net	1,902	893	756	1,517	1,732	1,708	1,763
Finance costs	169	29	529	504	484	457	470
Pre-tax Income	7,423	9,868	8,288	14,984	18,158	18,803	24,086
Income tax expense	1,722	2,327	1,979	3,879	4,691	4,701	6,021
Net profit Before EI & MI	5,701	7,541	6,309	11,105	13,466	14,102	18,064
Extraordinary item, EI	0	0	0	0	0	0	0
Minority Interest, MI	0	0	0	0	0	0	0
Net Profit After fore MI	5,701	7,541	6,309	11,105	13,466	14,102	18,064
Diluted EPS (INR)	34.66	45.85	38.34	67.41	81.74	85.60	109.65
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	FY22E	FY23E	FY24E
EBIT Margin (%)	13.6%	15.2%	13.9%	20.8%	19.1%	17.7%	20.0%
Tax rate (%)	23.2%	23.6%	23.9%	25.9%	25.8%	25.0%	25.0%
Net Profit Margin (%)	10.4%	10.7%	8.1%	13.9%	13.1%	12.1%	13.6%
RoE (%)	21.4%	24.9%	19.5%	29.7%	29.0%	26.9%	30.3%
RoA (%)	15.3%	18.0%	12.2%	17.5%	17.4%	16.3%	18.5%
Current Ratio	2.5	3.2	2.5	2.9	2.6	2.6	2.8
EPS (INR per share)	34.7	45.9	38.3	67.4	81.7	85.6	109.7

Source: Company, KRChoksey Research

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Mindtree Limited				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
13-Oct-21	4363	4430	ACCUMULATE	Buy	More than 15%
25-Aug-21	3509	4381	ACCUMULATE	Accumulate	5% – 15%
30-Jun-21	2601	2700	HOLD	Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

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