

**CMP: INR 3,958**

**Rating: Neutral**

**Target Price: INR 4,153**

**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)	651,750
52w H/L (INR)	5,060/1,951
Avg Yearly Vol (in 000')	998

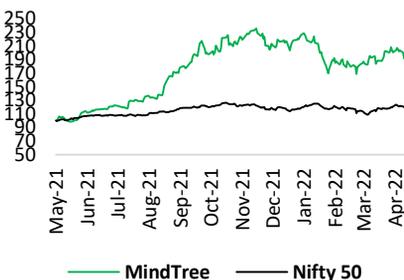
**Shareholding Pattern %**

(As on December, 2021)

Promoters	61.00
FII	15.72
DII	7.11
Public & Others	16.17

Stock Performance (%)	1m	3m	12m
MindTree	-0.8	-9.0	91.3
Nifty	-0.4	-4.9	17.7

**MindTree Vs Nifty**



Abhishek Jain  
abhishek.jain@arihantcapital.com  
022 67114851

Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114834

**MindTree has reported a decent growth: Margin slightly above our estimate due to cost optimization.**

MindTree during Q4FY22 has reported consolidated revenue of INR 28,974 Mn, +37% YoY/5% QoQ in Q4FY22 was above our estimate of INR 28,476 Mn, higher sequential growth led by seasonal projects especially in Communications, Media, Technology and TTH (Travel, Transportation & Hospitality) and BFSI. Constant Currency Revenue growth +33.2% YoY/4.7% QoQ to \$ 384Mn was in-line with our estimate of \$384 Mn. Consolidated EBIT stood at INR 5,487 Mn, was up by 40% YoY/4% QoQ was higher than our estimate of INR 5,313 Mn, supported by cost optimization. On the margins front, EBIT margin expansion by 39bpsYoY/ -30QoQ to 18.9% was above our estimate of 18.8%. Consolidated PAT stood at INR 4,731 Mn, was up by 49% YoY/ 8% QoQ higher than our estimate of INR 4,411 Mn.

**Investment, the company continues to strengthen its offerings** related to hyperscalers. It is increasing its investment in Metaverse offerings. The Metaverse offering will enable customers to accelerate and optimize their transition into the meta economy.

**The company continues with its multi-dimensional strategy of consolidating service lines,** consistent investment, focusing on collecting multi-year engagements, and scaling up top accounts that can aid in sales traction. Continues to rationalize tail accounts. We believe Mindtree has a resilient business model and has established a proven track record of strong execution capabilities.

**Broad based growth across verticals and TTH beyond the pre-pandemic level,** The BFSI vertical grew by 8.9% QoQ/31.6% YoY, Travel & Hospitality reported growth of 9.2% QoQ/51.5% YoY and Health care grew by 18% QoQ/ 89.4% (low base). While Retail Manufacturing and CPG muted growth of 2.4% QoQ/+36.5% YoY. The verticals are expected to continue their growth trajectory in the coming quarters considering a consistent deal pipeline in place.

**Growth geography wise,** North America reported growth of 5.6% QoQ/28% YoY, Europe advanced by 5.8% QoQ/69.2% YoY. APAC Or ROW business grew by 8.9% QoQ in CC terms.

**Valuations**

Mindtree has reported decent performance during Q4FY22 mainly driven by the company's better service line and better execution. We believe that it will maintain growth momentum going forward backed by a robust pipeline and strong demand environment as it book TCV of \$390mn in the quarter( up 9% 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 near term margin pressure, we value Mindtree at a PE of 30x to its FY24E EPS of INR 138.4 which yields a target price of INR 4,153 per share. **We maintain our Neutral rating on the stock.**

Particulars (INR mn)	FY21	FY22	FY23E	FY24E
Net Sales	79,678	1,05,253	1,24,874	1,43,824
EBITDA	16,428	21,956	25,371	29,342
EBIDTA Margin	20.62%	20.86%	20.32%	20.40%
PAT	11,105	16,529	19,860	22,812
EPS (per share)	67.4	100.3	120.5	138.4
ROE	25.71%	30.20%	25.96%	22.38%
PE(x)	58.7	39.5	32.8	28.6

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

## Q4 FY22 - Quarterly Performance (Consolidated)

(in INR Mn)

INR Mn (consolidated)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
<b>Net Revenues (US \$mn)</b>	<b>384</b>	<b>366</b>	<b>288</b>	<b>4.7%</b>	<b>33.2%</b>
<b>Net Revenue</b>	<b>28,974</b>	<b>27,500</b>	<b>21,093</b>	<b>5%</b>	<b>37%</b>
Employee cost	17,503	16,458	13,123	6.3%	33.4%
Other Expenses	5,388	5,121	3,344	5.2%	61.1%
<b>EBITDA</b>	<b>6,083</b>	<b>5,921</b>	<b>4,626</b>	<b>3%</b>	<b>31%</b>
<i>EBITDA margin %</i>	<i>21.0%</i>	<i>21.5%</i>	<i>21.9%</i>	<i>-54bps</i>	<i>-94bps</i>
Depreciation	596	632	713	-5.7%	-16.4%
<b>EBIT</b>	<b>5,487</b>	<b>5,289</b>	<b>3,913</b>	<b>4%</b>	<b>40%</b>
<i>EBIT margin %</i>	<i>18.9%</i>	<i>19.2%</i>	<i>18.6%</i>	<i>-30bps</i>	<i>39bps</i>
Other Income	899	708	389	27.0%	131.1%
Finance cost	121	127	114	-4.7%	6.1%
Exceptional Item	-	-	-		
<b>PBT</b>	<b>6,265</b>	<b>5,870</b>	<b>4,188</b>	<b>7%</b>	<b>50%</b>
Tax Expense	1,534	1,495	1,015	2.6%	51.1%
<i>Effective tax rate %</i>	<i>24.5%</i>	<i>25.5%</i>	<i>24.2%</i>	<i>-98bps</i>	<i>25bps</i>
<b>PAT</b>	<b>4,731</b>	<b>4,375</b>	<b>3,173</b>	<b>8%</b>	<b>49%</b>
MI & Associates					
<b>Consolidated PAT</b>	<b>4,731</b>	<b>4,375</b>	<b>3,173</b>	<b>8%</b>	<b>49%</b>
<i>PAT margin %</i>	<i>16.3%</i>	<i>15.9%</i>	<i>15.0%</i>	<i>2.6%</i>	<i>129bps</i>
<b>EPS (INR)</b>	<b>28.7</b>	<b>26.6</b>	<b>19.3</b>	<b>8%</b>	<b>49%</b>

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

## Key Conference Highlights

- **Guidance:** The company is expecting broad based growth in FY23 continue across the segment and geography. In newer segment healthcare is expecting to do better growth going forward.
- **Offerings:** The company continues to strengthen its offerings related to hyperscalers. It is increasing its investment in Metaverse offerings.
- **Margin:** MindTree aims to deliver among industry leading revenue growth for FY23 with EBITDA margin of around 20%.The Salary hike is in line with the industry.
- **Attrition:** The company expects employee attrition to stabilize over coming quarters. It has increased fresher hiring to manage high attrition.
- **Deals:** Deal wins remain strong with order book for the Q4FY22 was \$390 million, up 9% YoY/ 4% QoQ due to strong demand, aggressive customer mining, and end-to-end digital transformation capabilities. MindTree continues to see increasing number of deals expand into strategic engagement with clients.
- **Segment:** There was a ramp down in a Retail account that affected sequential growth for the this segment.
- **Travel, Transport, Logistics & Hospitality (TTH):** The TTH a revenue beyond the pre-pandemic level 4% CAGR growth in last 4 quarter. The company is doing pretty well on the TTH front and going forward looking to diversify focused on the sub-segment in TTH.
- **Clients:** Mindtree's focus remains on cross-selling and upselling to top clients as part of the client mining strategy. The company is continues to rationalize tail accounts.
- **Headcounts:** Mindtree has added >1500 fresher's for the quarter and many of them absorb on a faster note. The company is building the capacity for the demand that the company has in hand. Net headcount addition in FY22 was over 11,200 – 6x addition in FY21.
- **Strategy:** The company would use all levers like utilization, employee pyramid, productivity measures and premium pricing for niche skills to maintain margin.
- **Effort Mix:** There can be some increase in onsite effort mix once covid19 tapers off in Europe and the US.
- **Expansion:** The company has expanded its presence in Germany, Poland and Finland during the quarter. The company also expand its presence in India, facility in Pune and first development center in Kolkata.
- **DSO days** decreased to 60 against 64 days in Q3FY22 and 60 days in 4QFY21.
- **Dividend:** The Board of directors have recommended a final dividend of INR 27 per equity share

## Key Financials

## Income Statement (INR Mn)

Year End-March	FY21	FY22	FY23E	FY24E
<b>Net Revenues (US \$mn)</b>	<b>1077</b>	<b>1411</b>	<b>1668</b>	<b>1919</b>
Change (%)	-1.1%	31.1%	18.2%	15.1%
<b>Revenues</b>	<b>79,678</b>	<b>1,05,253</b>	<b>1,24,874</b>	<b>1,43,824</b>
Change (%)	2.6%	32.1%	18.6%	15.2%
Employee Costs	51,132	63,278	74,984	85,594
Other Expenses	12,118	20,019	24,519	28,888
<b>Total Expenses</b>	<b>63,250</b>	<b>83,297</b>	<b>99,503</b>	<b>1,14,482</b>
<b>EBITDA</b>	<b>16,428</b>	<b>21,956</b>	<b>25,371</b>	<b>29,342</b>
Other Income	1,656	3,073	3,394	3,398
Depreciation	2,596	2,420	2,340	2,426
<b>EBIT</b>	<b>13,832</b>	<b>19,536</b>	<b>23,032</b>	<b>26,916</b>
Interest	504	502	294	298
<b>PBT</b>	<b>14,984</b>	<b>22,107</b>	<b>26,132</b>	<b>30,016</b>
Tax	3,879	5,578	6,272	7,204
Rate (%)	25.9%	25.2%	24.0%	24.0%
<b>PAT</b>	<b>11,105</b>	<b>16,529</b>	<b>19,860</b>	<b>22,812</b>
MI & Associates	0	0	0	0
<b>Consolidated PAT</b>	<b>11,105</b>	<b>16,529</b>	<b>19,860</b>	<b>22,812</b>
Change (%)	76.0%	48.8%	20.2%	14.9%

## Cash Flow Statement (INR Mn)

Year End-March	FY21	FY22	FY23E	FY24E
<b>PBT</b>	<b>11,105</b>	<b>16,529</b>	<b>19,860</b>	<b>22,812</b>
Depreciation	2,596	2,420	2,340	2,426
Interest & others	-1,152	-2,571	-3,100	-3,100
Cash flow before WC changes	12,549	16,378	19,100	22,138
<b>(Inc)/dec in working capital</b>	<b>5,043</b>	<b>-226</b>	<b>-622</b>	<b>-660</b>
Operating CF after WC changes	17,592	16,152	18,477	21,478
Less: Taxes	-3,879	-5,578	-6,272	-7,204
<b>Operating Cash Flow</b>	<b>13,713</b>	<b>10,574</b>	<b>12,206</b>	<b>14,274</b>
(Inc)/dec in F.A + CWIP	-3,770	-3,244	-2,340	-2,426
(Pur)/sale of investment	0	0	0	0
<b>Cash Flow from Investing</b>	<b>-3,770</b>	<b>-3,244</b>	<b>-2,340</b>	<b>-2,426</b>
<b>Free Cash Flow (FCF)</b>	<b>9,943</b>	<b>7,330</b>	<b>9,866</b>	<b>11,848</b>
Loan raised/(repaid)	-1,792	-2	-4	0
Equity raised	1	1	0	0
Interest & others	-504	-502	-294	-298
Dividend	-3,399	-3,111	-3,284	-3,313
<b>Cash Flow from Financing Activities</b>	<b>-5,694</b>	<b>-3,614</b>	<b>-3,582</b>	<b>-3,611</b>
<b>Net inc/(dec) in cash</b>	<b>4,249</b>	<b>3,716</b>	<b>6,284</b>	<b>8,237</b>
Opening balance of cash	12,814	26,904	32,904	47,886
Closing balance of cash	26,904	32,904	47,886	73,435

## Balance Sheet (INR Mn)

Year End-March	FY21	FY22	FY23E	FY24E
<b>Sources of Funds</b>				
Share Capital	1,647	1,648	1,648	1,648
Reserves & Surplus	41,543	53,090	74,854	1,00,267
<b>Net Worth</b>	<b>43,190</b>	<b>54,739</b>	<b>76,503</b>	<b>1,01,916</b>
<b>Loan Funds</b>	<b>6</b>	<b>4</b>	<b>-</b>	<b>-</b>
MI, Deferred Tax & other Liabilities	-632	-57	-	-
<b>Capital Employed</b>	<b>42,564</b>	<b>55,696</b>	<b>76,503</b>	<b>1,01,916</b>
<b>Application of Funds</b>				
Net Block	3,253	4,296	8,450	7,517
CWIP	224	215	261	232
Other Non-current Assets	8,098	8,482	8,844	8,390
<b>Net Fixed Assets</b>	<b>11,575</b>	<b>12,993</b>	<b>17,555</b>	<b>16,139</b>
<b>Investments</b>	<b>1,161</b>	<b>3,116</b>	<b>3,126</b>	<b>3,136</b>
Debtors	12,742	17,313	20,540	23,658
Cash & Bank Balance	26,904	32,904	47,886	73,435
Loans & Advances & other CA	6,108	10,482	12,436	14,323
<b>Total Current Assets</b>	<b>45,754</b>	<b>60,699</b>	<b>80,862</b>	<b>1,11,416</b>
Current Liabilities & Provisions	15,926	21,112	25,040	28,775
<b>Net Current Assets</b>	<b>29,828</b>	<b>39,587</b>	<b>55,822</b>	<b>82,641</b>
<b>Total Assets</b>	<b>42,564</b>	<b>55,696</b>	<b>76,503</b>	<b>1,01,916</b>

## Key Ratios

Year End-March	FY21	FY22	FY23E	FY24E
<b>Per Share (INR)</b>				
EPS	67.4	100.3	120.5	138.4
CEPS	83.2	115.0	134.7	153.1
BVPS	262	332	464	618
DPS	17.5	17.5	17.5	17.5
<b>Valuation (x)</b>				
P/E	58.7	39.5	32.8	28.6
P/CEPS	47.6	34.4	29.4	25.8
P/BV	15.1	11.9	8.5	6.4
EV/EBITDA	8.1	5.8	4.4	3.0
<b>Return Ratio (%)</b>				
EBIDTA Margin	20.6%	20.9%	20.3%	20.4%
EBIT Margin	17%	18.6%	18.4%	18.7%
PAT Margin	13.9%	15.7%	15.9%	15.9%
ROE	25.7%	30.2%	26.0%	22.4%
ROCE	32.5%	35.1%	30.1%	26.4%
Dividend Yield	0.4%	0.4%	0.4%	0.4%
<b>Leverage Ratio (%)</b>				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.6	-0.6	-0.6	-0.7
<b>Turnover Ratios</b>				
Asset Turnover (x)	1.9	1.9	1.6	1.4
Receivable Days	58	60	60	60
Payable days	73	73	73	73

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

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880