

# Mindtree Limited



## Mindtree Limited.

**Inline with our expectation; Strong all-round performance**

CMP <b>INR 2,810</b>	Target <b>INR 3,143</b>	Potential Upside <b>11.8%</b>	Market Cap (INR Mn) <b>INR 46,3197</b>	Recommendation <b>ACCUMULATE</b>	Sector <b>Internet Software &amp; Services</b>
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### Synopsis:

Mindtree (MTCL) has shown a stellar performance in Q1FY23, grew by 5.2% QoQ in CC terms, marking 7th consecutive quarter of 5%+ growth and inline with our estimate. Dollar Revenue was up 4.0% QoQ to ~USD 399mn. Rupee revenue grew by 7.7% QoQ to INR 31,211. Reported operating margin expanded by 23bps to 19.2% QoQ (EBIT margin was at 19.7% excluding one-off impact of merger related costs). Reported Net profit was down by ~0.3% QoQ to INR 4,716mn with margin of 15.1% (down 122bps on QoQ basis). The growth in the quarter for Mindtree was broad based and across geographies/services. Deal TCV was at USD 570mn, up 13% YoY, comprising a healthy mix of annuity/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 hi-teen growth, supported by expansion into Top client and core portfolio focus (cross-sell), with predictable margins (management maintained 20%+ EBITDAM outlook). Our target price of INR 3,143 is based on 23x Mar-24E EPS over FY22-24E.

### MARKET DATA

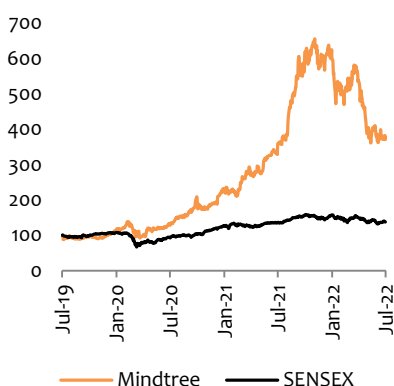
Shares outs (Mn)	165
Mkt Cap (INR Mn)	46,3197
52 Wk H/L (INR)	5059.15/2650
Volume Avg (3m K)	829.4
Face Value (INR)	10
Bloomberg Code	MTCL IN

### KEY FINANCIALS

(INR Mn)	Q1FY23A	Q4FY22A	Q1FY22A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	399	384	311	4.0%	28.4%	399	0.1%
Revenue	31,211	28,974	22,917	7.7%	36.2%	30,832	1.2%
EBIT	5,982	5,487	4,063	9.0%	47.2%	5,650	5.9%
PAT	4,716	4,731	3,434	-0.3%	37.3%	4,641	1.6%
OPM (%)	19.2%	18.9%	17.7%	23 bps	144 bps	18.3%	84 bps
NPM(%)	15.1%	16.3%	15.0%	-122 bps	13 bps	15.1%	6 bps

Source: Company, KRChoksey Research

### SHARE PRICE PERFORMANCE



### Robust growth across vertical/industry/geography

Mindtree (MTCL) reported a revenue of USD 399.3mn, growth of 5.2% QoQ CC, 4.0% QoQ in USD terms led by seasonal strength in top client which grew 8.6% QoQ, strong recovery in travel (+11.3% QoQ) and ramp up of deals win in BFSI (+6.3% QoQ). Retail business was materially down due to client specific ramp downs owing to Russia-Ukraine war and China lockdowns. Among the verticals, growth was led by travel (+11.3% QoQ; airline & hospitality exceeding pre-COVID level), BFSI (+6.6% QoQ); and communications, media & tech (+5.9% QoQ). Pullback in discretionary spending by top clients is the key risk to the growth but management is relying on cost efficiency model. Outlook for the top clients is healthy and there is no significant pockets of weakness in the company's portfolio of services and has low possibility of impacting revenue in FY2023. Focus continues to build full stack services, client rationalization and stable/lower sub-contracting expenses (9.6% of the revenue in Q1 vs 10.2% in FY22).

### Healthy deal momentum continues

Reported TCV of USD 570mn increased 13%YoY. Deal renewals from top client are strong. Revenue growth has outpaced TCV on YoY growth for the past few quarters. LTM book-to-bill ratio continues to trend above 1x though it has declined in the past few quarters. MTCL had a net headcount addition of 3,284 in Q1 (1,500 fresher intakes) and it intends to continue >1,500 quarterly fresher additions in the coming quarters too.

### 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

Management has mentioned that margin pressure from cost inflation will continue but will be partially offset by pyramid, reduction in sub-con cost, pricing and utilization. Interestingly, MTCL is the only IT services company which is operating at higher than pre-Covid margins. Employee cost as a % of revenue has reduced by 3.7% in the same period while employee costs per headcount has declined materially by 19% in USD terms.

### MARKET INFO

SENSEX	53,565.6
NIFTY	15,945.3

### SHARE HOLDING PATTERN (%)

Particulars	Jun-22	Mar-22	Dec-21
Promoters	61	61	61
FIIIs	11.7	14.4	15.7
DIIIs	12.1	10.5	9.7
Others	15.3	14.2	13.6
Total	100	100	100

20.6%

Revenue CAGR between FY22 and FY24E

25.4%

PAT CAGR between FY22 and FY24E

## Mindtree Limited.

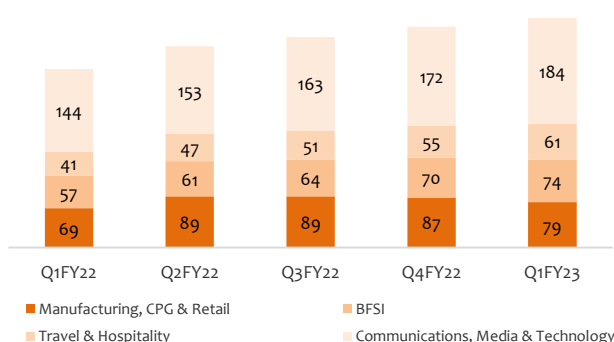
### Key Concall Highlights

(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) RCM business was impacted by Retail project deferments; this drag was due to geopolitical exposure rather than a macro slowdown (iii) MTCL continues to witness robust demand which is intact in the near term, backed by the long-term transformational initiatives taken by the customers (iv) Client concentration for the Top 1 client has increased to 26% on the back of LoBs. Cloud opportunity from hyperscaler clients will see multi year tailwind given the strong backlogs (v) Clients have the appetite to pay premium prices for niche skills. In addition to that, management has confirmed that there is no significant downward pressure on pricing. Cost saving mandate is not directly proportional to the pricing (vi) Many long tail accounts have been rationalized without the client getting impacted and the effort has been shifted to mining of focus 100 accounts & to get quality new accounts (vii) Wage inflation may not impact all employees since hikes will be lower for laterals that joined in the past 12 months at elevated pay.

### Valuation and view

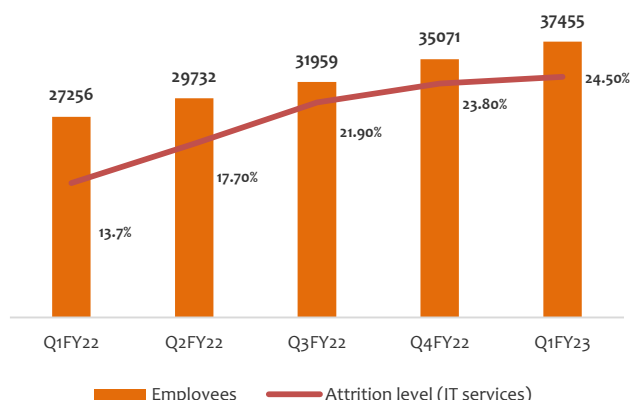
MTCL is currently trading at a valuation with a P/E multiple of 25.2x/20.6x on FY23E/FY24E earnings. We believe that management has increased its focus on annuity revenue & strategic accounts (revenue/client mix). All the positive levers (a strong outlook on strategic accounts, deal signings and ability to maintain margins) have already been captured with limited upside; hence we are assigning a P/E multiple of 23x to the FY24 estimated EPS of INR 136.7 to arrive at a revised target price of INR 3,143 per share (Earlier target price of INR 4,509), an upside of ~11.8% over the CMP. We have reduced our rating from a “BUY” to “ACCUMULATE” for the stock.

Vertical-wise Revenue Contribution  
(USD Mn)



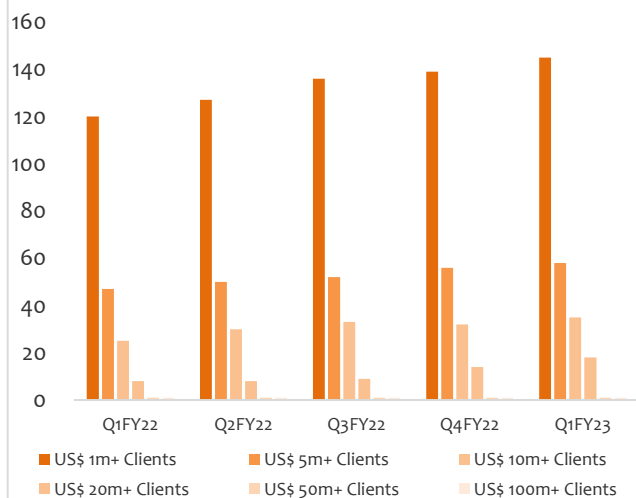
Source: Company, KRChoksey Research

Total Employee Base & Attrition



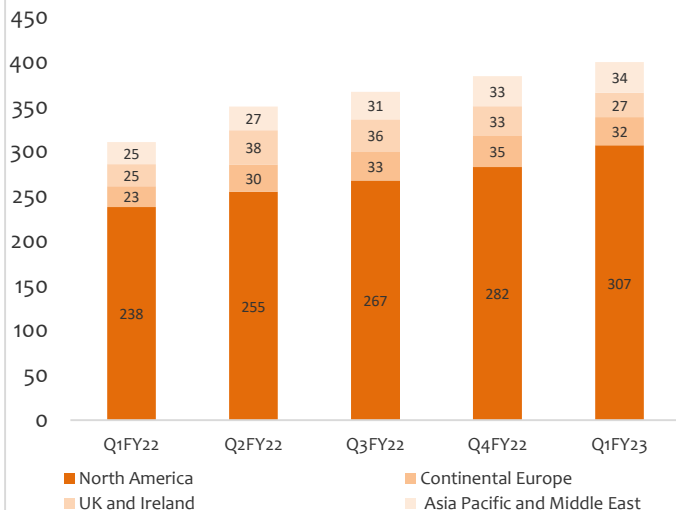
Source: Company, KRChoksey Research

Client Contribution



Source: Company, KRChoksey Research

Revenue by Geography (USD Mn)



Source: Company, KRChoksey Research

## Mindtree Limited.

### 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
<b>Total non current assets</b>	<b>12,334</b>	<b>14,118</b>	<b>19,017</b>	<b>17,860</b>	<b>17,046</b>	<b>16,485</b>	<b>16,064</b>
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
<b>Total current assets</b>	<b>25,031</b>	<b>27,672</b>	<b>32,549</b>	<b>45,754</b>	<b>60,229</b>	<b>70,111</b>	<b>81,531</b>
<b>Total Assets</b>	<b>37,365</b>	<b>41,790</b>	<b>51,566</b>	<b>63,614</b>	<b>77,275</b>	<b>86,596</b>	<b>97,595</b>
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
<b>Total Equity</b>	<b>27,414</b>	<b>33,061</b>	<b>31,568</b>	<b>43,190</b>	<b>49,737</b>	<b>54,943</b>	<b>64,111</b>
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
<b>Total non current liabilities</b>	<b>94</b>	<b>179</b>	<b>6,762</b>	<b>4,498</b>	<b>4,498</b>	<b>4,498</b>	<b>4,498</b>
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
<b>Total Current Liabilities</b>	<b>9,857</b>	<b>8,550</b>	<b>13,236</b>	<b>15,926</b>	<b>23,040</b>	<b>27,155</b>	<b>28,986</b>
<b>Total liabilities</b>	<b>37,365</b>	<b>41,790</b>	<b>51,566</b>	<b>63,614</b>	<b>77,275</b>	<b>86,596</b>	<b>97,595</b>

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	FY22	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%
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

## Mindtree Limited.

Mindtree Limited				Rating Legend (Expected over a 12-month period)	
				Our Rating	Upside
Date	CMP (INR)	TP(INR)	Recommendation	Buy	More than 15%
14-Jul-22	2810	3143	ACCUMULATE	Accumulate	5% – 15%
19-Apr-22	3792	5263	BUY	Hold	0 – 5%
				Reduce	-5% – 0
14-Jan-22	4545	5263	BUY	Sell	Less than – 5%

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**KR Choksey Shares and Securities Pvt. Ltd**

**Registered Office:**

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

**Corporate Office:**

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.