

Mindtree Limited



Mindtree Limited.
Another good quarter; Cost take-out projects drive strong order inflow

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 3,398	INR 3,800	11.8%	INR 560,409	ACCUMULATE	Internet Software & Services

Synopsis:

Mindtree (MTCL) has shown a stellar performance in Q2FY23, grew by 5.2% QoQ in CC terms, marking 8th consecutive quarter of 5%+ growth and beats our estimate. Dollar Revenue was up 5.8% QoQ to ~USD 422mn. Rupee revenue grew by 8.9% QoQ to INR 34,004mn. Reported operating margin remained flattish by -3bps to 19.1% QoQ due to wage hike impact of 240 bps which was partially offset by the absence of 60 bps one-off merger expense, 50 bps net tailwind from Rupee depreciation/cross-currency movements, 70 bps from operational efficiencies and remaining from lower travel and other expenses. Reported Net profit was up by ~8% QoQ to INR 5,087mn with margin of 15.0%, down 14bps on QoQ basis. The growth in the quarter for Mindtree was broad based and across geographies/services. Deal TCv was at USD 518mn, up 44% YoY, and seems to have benefited from the rise in longer tenure cost optimization deals. We believe that Mindtree can balance out the two mandate (1) cost saving as well as (2) revenue maximization but LTI, its merger partner, is better at handling the cost take-out part. Our target price of INR 3,800 is based on 27.8x Mar-24E EPS over FY22-24E.

MARKET DATA

Shares outs (Mn)	165
Mkt Cap (INR Mn)	560,409
52 Wk H/L (INR)	5059.15/2650
Volume Avg (3m K)	776.2
Face Value (INR)	10
Bloomberg Code	MTCL IN

KEY FINANCIALS

(INR Mn)	Q2FY23A	Q1FY23A	Q2FY22A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	422	399	350	5.8%	20.6%	413	2.2%
Revenue	34,004	31,211	25,862	8.9%	31.5%	32,962	3.2%
EBIT	6,506	5,982	4,697	8.8%	38.5%	6,080	7.0%
PAT	5,087	4,712	3,989	8.0%	27.5%	4,985	2.0%
OPM (%)	19.1%	19.2%	18.2%	-3 bps	97 bps	18.4%	69 bps
NPM(%)	15.0%	15.1%	15.4%	-14 bps	-46 bps	15.1%	-16 bps

Source: Company, KRChoksey Research

Robust growth across vertical/industry/geography

Mindtree (MTCL) reported, a seventh consecutive quarter of revenue growth of > +5% QoQ CC, a revenue of USD422mn (up +7.2% QoQ in CC) in Q2FY23, beats the street's estimate, led by healthy growth in a top account (+6.9% QoQ). Among the verticals, growth was led by BFSI (+10.1% QoQ), followed by travel (+8.8% QoQ); and communications, media & tech (+4.3% QoQ). However, retail, CPG and manufacturing declined -0.7% QoQ, impacted by ramp-down in a retail client. Due to seasonality impact from furloughs/lower working days in Q3FY23, we expect a delay in spending from clients in hi-tech, manufacturing, retail, CPG and logistics verticals and in Europe (downside risks of recession) due to adverse macro environment. Deals won in the last couple of quarters will ramp up in H2FY23 to cushion the near-term impact.

Healthy deal momentum continues

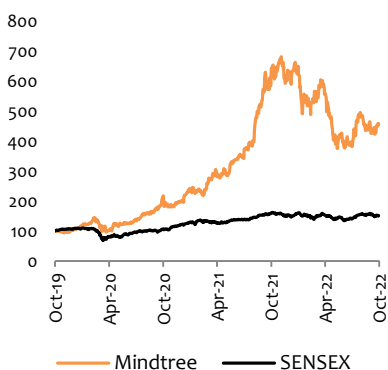
Deal TCv during the quarter was at USD 518mn, +44% YoY. Deal wins were broad-based across verticals. Mindtree went out of their comfort zone & won a few large deal wins especially in the managed services. Despite the gap in service offerings and capabilities, management highlighted that Mindtree is well adept at catering to cost-efficiency deals. MTCL had a net headcount addition of 835 in Q2 (vs 2.4K in Q1). Attrition declined marginally by 40bps QoQ to 24.1%, which indicates signs of stabilization.

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.

Flattish margin due to drag in Manufacturing and Logistics as well in Europe

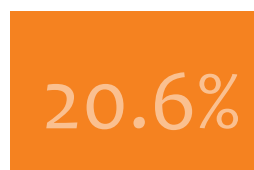
In-spite of sharp uptick in wage hike (+240bps), EBIT margin remained flattish at 19.1% driven by the absence of 60 bps one-off merger expense, 50 bps net tailwind from Rupee depreciation/cross-currency movements, 70 bps from operational efficiencies and remaining from lower travel and other expenses. MTCL will likely deliver industry-leading growth and steady margins in FY23, we expect a softer 2HFY23.

SHARE PRICE PERFORMANCE

MARKET INFO

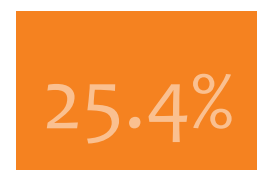
SENSEX	57,920
NIFTY	17,186

SHARE HOLDING PATTERN (%)

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



Revenue CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY24E

Mindtree Limited.

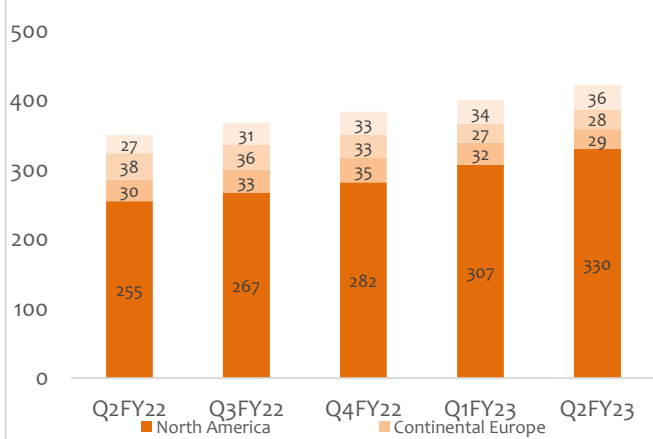
Key Concall Highlights

(i) The BFSI segment (19.4% of revenue) grew by 33.3% YoY on the back of MTCL’s strategy to expand full stack capabilities across focus accounts as well as strength in its partner ecosystem (ii) Over all TCV was a combination of annuity and transformational deals (iii) All MTCL offices are now operational and well over a third of the employees are now working from the office in a staggered manner (iv) The companies are in the last leg of regulatory approvals and expect to close the merger before the end of this calendar year. Collectively, the companies will have ~700 clients with only a handful of 10 clients common. This means that the capability to cross-sell and up-sell by leveraging the new organization structure will be significant (v) As the company has significant dependency in UK and Continental European region in terms of Retail and Consumer packaging goods, didn’t benefit in topline due to cross currency impact (vi) DSO was reported at 50 days for the second consecutive quarter v/s 60 days reported in 4QFY22 (vii) The average tenure of deals has not changed in the last few quarters. Deal wins have had a fair mix of smaller and larger tenured deals (viii) BFSI grew on the back of partner ecosystem and agile consulting-led delivery. Strong growth is from existing clients, new logos and Tier 1 wins. Top client and product engineering are growth drivers for CMT. Digitalization, supply chain and data transformation are aiding growth of Retail & CPG.

Valuation and view

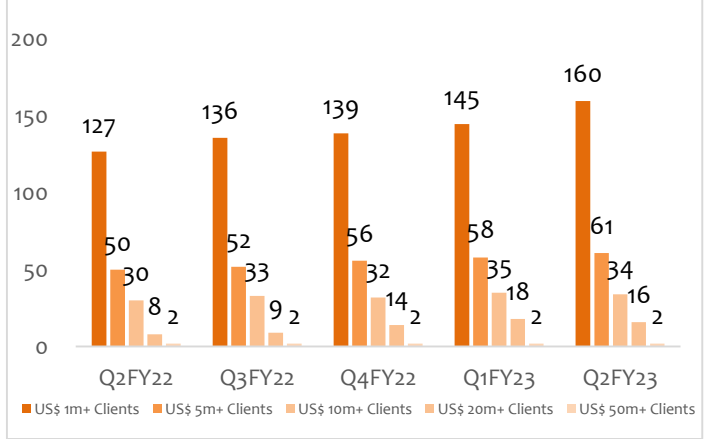
MTCL is currently trading at a valuation with a P/E multiple of 30.6x/24.8x on FY23E/FY24E earnings. A strong outlook on strategic accounts, decent deal signings, and the ability to sustain improved margin are key positives for the company. As the key positives are already factored in, we believe that the stock trading at full valuations which limits upside hereafter; hence we are assigning a P/E multiple of 27.8x to the FY24 estimated EPS of INR 136.7 to arrive at a revised target price of INR 3,800 per share (Earlier target price of INR 3,143), an upside of ~11.8% over the CMP. We continue with our rating to “ACCUMULATE” for the stock.

Revenue by Geography (USD Mn)



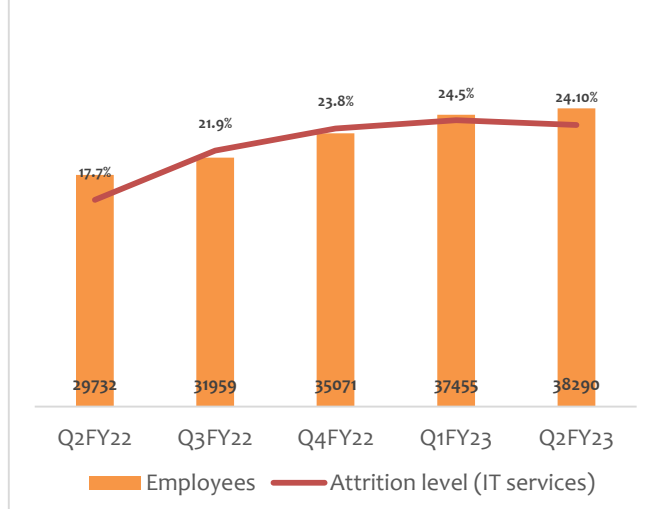
Source: Company, KRChoksey Research

Client Contribution



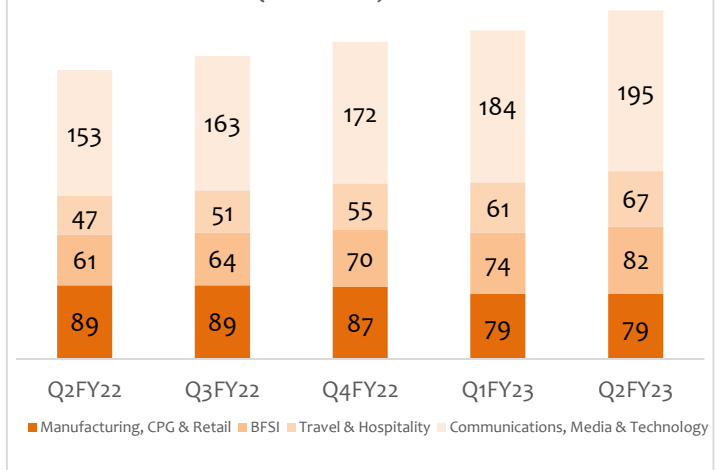
Source: Company, KRChoksey Research

Total Employee Base & Attrition



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	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	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

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Mindtree Limited				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
14-Oct-22	3398	3800	ACCUMULATE	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
				Sell	Less than – 5%

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