

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	MTCL IN
Equity Shares (m)	165
M.Cap.(INRb)/(USD\$b)	548.2 / 6.7
52-Week Range (INR)	5059 / 2650
1, 6, 12 Rel. Per (%)	4/-17/-18
12M Avg Val (INR M)	3451

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	105.3	137.3	158.1
EBIT Margin (%)	18.6	19.4	19.7
PAT	16.5	21.2	25.1
EPS (INR)	100.1	128.4	152.2
EPS Gr. (%)	48.6	28.2	18.6
BV/Sh. (INR)	332	403	487

Ratios

RoE (%)	33.8	35.0	34.3
RoCE (%)	27.2	30.0	28.6
Payout (%)	37.0	45.0	45.0

Valuations

P/E (x)	33.2	25.9	21.8
P/BV (x)	10.0	8.3	6.8
EV/EBITDA (x)	23.4	17.2	14.4
Div Yield (%)	1.1	1.7	2.1

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	61.0	61.0	61.0
DII	12.1	10.5	12.0
FII	11.7	14.4	13.7
Others	15.3	14.2	13.3

FII Includes depository receipts

CMP: INR3,324 **TP: INR 3,350 (+1%)** **Neutral**

Another good quarter; valuations priced in

Focusing on synergies with LTI integration in 3QFY23E

- Mindtree (MTCL) reported 2QFY23 revenue of USD422m (up 7.2% QoQ in CC), 210bp ahead of our estimate. Reported USD revenue grew 5.7% QoQ, driven by broad-based growth across verticals, with RCM (+2.9% QoQ in CC) back in growth track. Deal TCv in 2QFY23 was strong at USD518m, up 44% YoY, and aided the company surpass USD1b TCv in 1HFY23.
- EBITDA margin contracted 10bp QoQ (50bp ahead of MOFSLe) to 21.0%, despite the full impact of wage hikes during the quarter. The company was able to compensate for this through operational efficiency, currency support and reversal of a one-off cost last quarter. Utilization (down 50bp QoQ) and attrition (decline of 40bp QoQ to 24.1%) were broadly stable.
- MTCL's management indicated that it has started to witness some softness and caution in parts of the business (especially in Europe), although these appear to be transitory in its opinion. Management remained confident that MTCL will be able to take advantage of the acquired projects that are cost-saving in nature, thereby boosting both performance and TCv. Strong commentary in other verticals, deal pipeline, and TCv should help it deliver a solid revenue growth in FY23E, as we expect USD revenue CAGR of 16.5% over FY22-24.
- MTCL should keep its profitability within a narrow range going ahead, which will help it absorb any adverse macro impact. Good revenue growth and stable margin should help it deliver 23% PAT CAGR in INR terms over FY22-24E.
- We maintain our **Neutral** rating on MTCL due to its fair valuations (based on 22x FY24E P/E), softness in Retail and constrains on management bandwidth because of its impending merger with LTI.
- We raise our FY23/FY24 EPS estimates by 3%/6% due to strong growth and margin beat. As the stock is trading at 22x FY24E EPS, we see limited upside hereafter. Our TP of INR3,350 is premised on 22x FY24E EPS.

Strong 2QFY23 revenue performance and deal wins

- MTCL's USD revenue grew 7.2% QoQ in CC terms, INR EBIT rose 39% YoY, and INR PAT increased 28% YoY in 2QFY23.
- For 1HFY23, USD revenue/INR EBIT/INR PAT rose 24%/43%/32%, respectively.
- FCF was at INR2.76b translating into ~55% FCF to Net Income conversion; Cash and Investments stood at INR38b.
- The US drove the good performance in 2QFY23 (+7.5% QoQ), while Europe was impacted adversely by currency depreciation.
- MTCL achieved the second-highest deal TCv of USD518m, down 9% QoQ but up 44% YoY; it clocked 1.2x book-to-bill ratio.
- Net profit was up 8% QoQ to INR5.09b (in line) due to lower other income.

Key highlights from the management commentary

- Clients that were earlier focusing on transformation work now prefer efficiency. MTCL is in a sweet spot to service both transformation and efficiency deals. Management also suggested that efficiency deals are generally longer in duration.
- Though macro indicators point to near-term softness, management expects them to be transitory. The current period of volatility is unlikely to be an exception to long-term technology shift.
- Management expects some negative impact in 3QFY23 due to seasonality from furloughs and some slowdown in client projects.
- Margins in 3QFY23 might be hurt by seasonality and currency headwinds.

Valuations fair, upside limited

- The management's increased focus on annuity revenue and strategic accounts is reflected in its revenue and client mix.
- A strong outlook on strategic accounts, decent deal signings, and the ability to sustain improved margin are key positives for the company.
- The stock is currently trading at 22x FY24E EPS. As the key positives are already factored in, we see limited upside hereafter. Our TP of INR3,350 implies 22x FY24E EPS. We maintain our **Neutral** rating on the stock.

Quarterly performance

Y/E March	(INR m)											
	FY22				FY23E				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE		(%/bp)
Revenue (USD m)	311	350	366	384	399	422	430	444	1,411	1,696	416	1.6
QoQ (%)	7.7	12.8	4.7	4.7	4.0	5.7	2.0	3.1	31.1	20.2	4.1	162bp
Revenue (INR m)	22,917	25,862	27,500	28,974	31,211	34,004	35,503	36,613	1,05,253	1,37,331	33,125	2.7
YoY (%)	20.1	34.3	35.9	37.4	36.2	31.5	29.1	26.4	32.1	30.5	28.1	340bp
GPM (%)	29.0	28.9	30.4	30.1	31.0	29.7	30.5	31.5	29.6	30.7	29.9	-16bp
SGA (%)	8.8	8.4	8.8	9.1	9.9	8.7	9.4	9.5	8.8	9.4	9.4	-71bp
EBITDA (INR m)	4,645	5,307	5,921	6,083	6,581	7,157	7,491	8,039	21,956	29,268	6,791	5.4
EBITDA margin (%)	20.3	20.5	21.5	21.0	21.1	21.0	21.1	22.0	20.9	21.3	20.5	55bp
EBIT (INR m)	4,063	4,697	5,289	5,487	5,982	6,506	6,781	7,307	19,536	26,576	6,128	6.2
EBIT margin (%)	17.7	18.2	19.2	18.9	19.2	19.1	19.1	20.0	18.6	19.4	18.5	63bp
Other income	589	623	581	778	273	161	533	549	2,571	1,516	497	-67.6
ETR (%)	26.2	25.0	25.5	24.5	24.6	23.7	25.0	25.0	25.2	24.6	25.0	-130bp
PAT	3,434	3,989	4,375	4,731	4,716	5,087	5,485	5,892	16,529	21,180	4,969	2.4
QoQ (%)	8.2	16.2	9.7	8.1	-0.3	7.9	7.8	7.4			5.4	251bp
YoY (%)	61.2	57.2	34.0	49.1	37.3	27.5	25.4	24.5	48.8	28.1	24.6	297bp
EPS (INR)	20.8	24.2	26.5	28.7	28.6	30.8	33.2	35.7	100.1	128.4	30.1	2.4

E: MOFSL estimates

Key performance indicators

Y/E March	FY22				FY23E				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Margins										
Gross margin	29.0	28.9	30.4	30.1	31.0	29.7	30.5	31.5	29.6	30.7
EBIT margin	17.7	18.2	19.2	18.9	19.2	19.1	19.1	20.0	18.6	19.4
Net margin	15.0	15.4	15.9	16.3	15.1	15.0	15.5	16.1	15.7	15.4
Operating metrics										
Headcount	27,256	29,732	31,959	34,827	37,455	38,290			27,256	
Attrition (%)	13.7	17.7	21.9	23.8	24.5	24.1			13.7	
Utilization	83.2	82.9	81.5	83.1	81.2	80.7			82.4	
Deal win TCV (USD m)	504.0	360.0	358.0	390.0	570.0	518.0			1494.0	
Top client (YoY %)										
Top client	11.6	12.8	16.8	18.4	22.0	30.5			15.0	
Outside top 10 clients	34.1	45.5	44.4	40.5	33.0	20.8			41.3	
Key geographies (YoY %)										
North America	18.9	26.2	26.4	28.0	28.9	29.3	26.9	24.2	25.0	27.2



Highlights from the management commentary

2QFY23 performance and order book

- MTCL delivered a strong growth of 7.2% QoQ (in CC) in 2QFY23.
- It clocked the second-highest order book ever at USD518m after record 1Q deals (down 9% QoQ, up 44% YoY).
- The order book has a good mix of deals with both cost optimization and revenue maximization projects. There are quite a few multi-year opportunities in the deals closed in 1HFY23.
- Clients that were earlier focusing on transformation work now prefer efficiency. MTCL is in a sweet spot to service both transformation and efficiency deals. Management also suggested that efficiency deals are generally longer in duration.

Overall demand environment

- Though macro indicators point to near-term softness, management expects them to be transitory. The current period of volatility is unlikely to be an exception to long-term technology shift.
- Though there is a lot of apprehension and caution in decision making in Europe, MTCL has not seen any cancellations until now.

Vertical outlook

- The Communications, Media, and Technology verticals witnessed strong demand in product engineering and customer experience.
- Manufacturing has lots of digital transformation opportunities despite the challenging macro environment.
- Retail should see improvement going forward as the ramp downs are behind. It has a good amount of dependency on the UK and continental Europe.
- In the Travel vertical, diversification in newer areas aided growth.

Margin performance

- MTCL reported an EBITDA margin of 21% (-10bp QoQ) despite the full-quarter impact of wage hikes.
- Margin for the quarter was adversely impacted by 280bp from planned wage hikes while it benefited 50bp from favorable FX, 70bp from operational efficiency and 110bp from a one-off in 1QFY23.
- There was no material change in utilization on a QoQ basis and management expects it to remain in the 80-82% range.
- MTCL received good amount of price realization this quarter.

Outlook

- Management expects some negative impact in 3QFY23 due to seasonality from furloughs and some slowdown in client projects.
- Margins in 3QFY23 might be hurt by seasonality and currency headwinds.

Other highlights

- LTM attrition moderated 40bp QoQ to 24.1%. MTCL expects it to trend down in the coming quarters.
- Fresher hiring and deployment remained strong during the quarter.
- For LTI-Mindtree merger, the last leg of regulatory approval is pending and is likely to close in this calendar year.

Exhibit 1: Growth led by BFSI

Verticals	Contribution to revenue (%)	Growth (QoQ %)	Growth (YoY %)
Communications, Media, and Technology	43.5	4.3	23.4
BFSI	19.4	10.3	33.7
Manufacturing, CPG, and Retail	18.6	-0.7	-11.7
Travel and Hospitality	15.9	9.1	42.0

Source: Company, MOFSL

Exhibit 2: Growth led by North America; Europe slows down

Geographies	Contribution to revenue (%)	Growth (QoQ %)	Growth (YoY %)
North America	78.1	7.5	29.3
Continental Europe	8.7	-9.1	-6.6
The UK and Ireland	10.9	3.2	-26.7
Asia Pacific	7.6	5.0	34.6

Source: Company, MOFSL

Exhibit 3: Cloud led the QoQ growth in its service offerings

Service offerings	Contribution to revenue (%)	Growth (QoQ %)	Growth (YoY %)
Customer Success	40.7	5.5	13.6
Data and Intelligence	16.1	7.0	35.7
Cloud	20.3	10.0	30.9
Enterprise IT	22.9	1.7	16.0

Source: Company, MOFSL

Valuations fair, upside limited

- The management's increased focus on annuity revenue and strategic accounts is reflected in its revenue and client mix.
- A strong outlook on strategic accounts, decent deal signings, and the ability to sustain improved margin are key positives for the company.
- The stock is currently trading at 22x FY24E EPS. As the key positives are already factored in, we see limited upside hereafter. Our TP of INR3,350 is premised on 22x FY24E EPS. We maintain our **Neutral** rating on the stock.

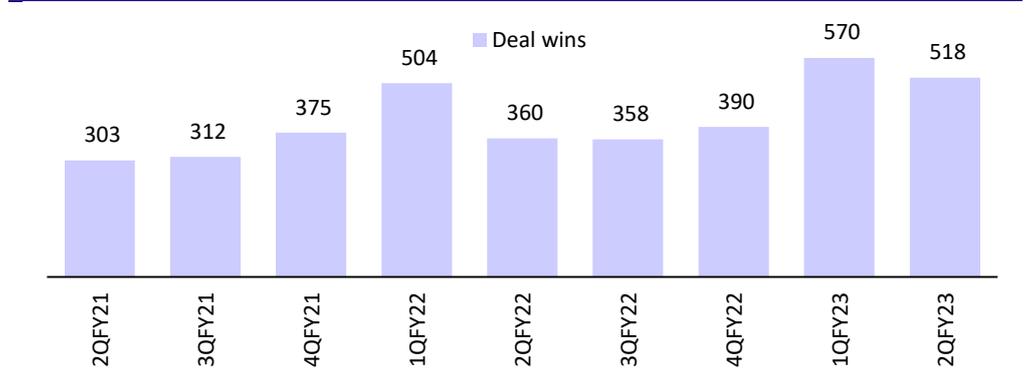
Exhibit 4: Revisions to our estimates

	Revised		Earlier		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
USD:INR	80.9	82.5	80.4	81.8	0.7	0.9
Revenue (USD m)	1,696	1,916	1,677	1,880	1.1	1.9
Growth (%)	20.2	13.0	18.9	12.1	130bps	90bps
EBIT margin (%)	19.4	19.7	19.0	19.0	40bps	70bps
PAT (INR m)	21,180	25,121	20,595	23,660	2.8	6.2
EPS	128.4	152.2	124.8	143.3	2.9	6.2

Source: MOFSL

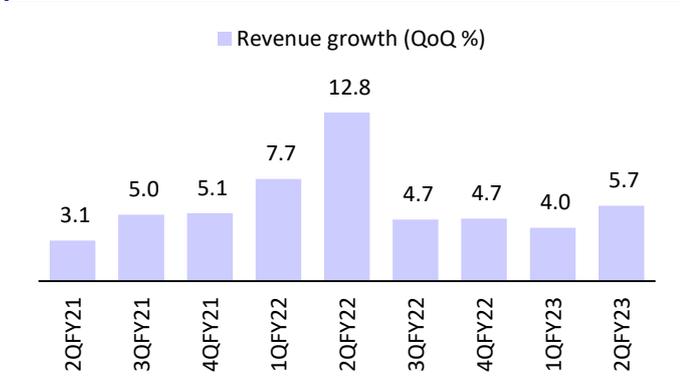
Story in charts

Exhibit 5: Strong deal wins in 2QFY23



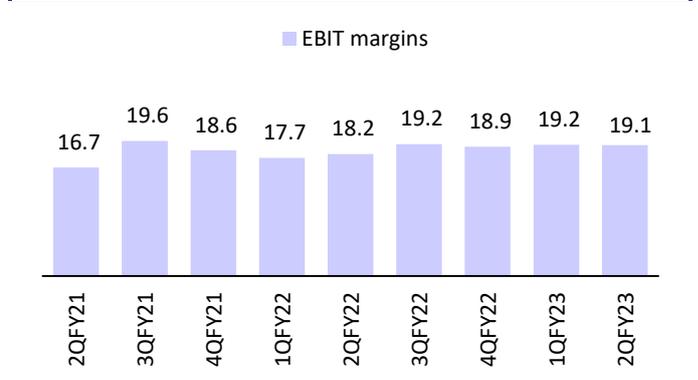
Source: Company, MOFSL

Exhibit 6: Revenue grows 5.7% QoQ in 2QFY23



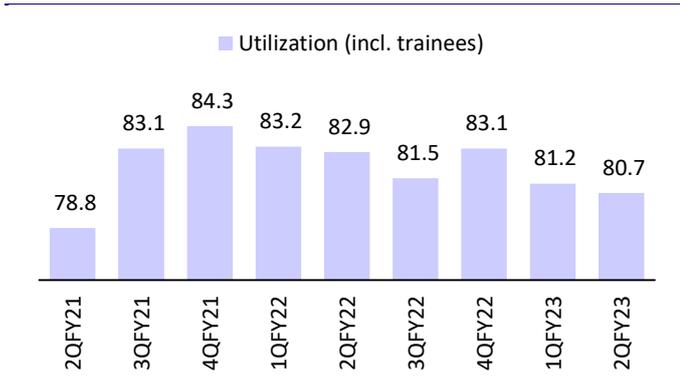
Source: Company, MOFSL

Exhibit 7: Margin largely flat in 2QFY23 despite wage hikes



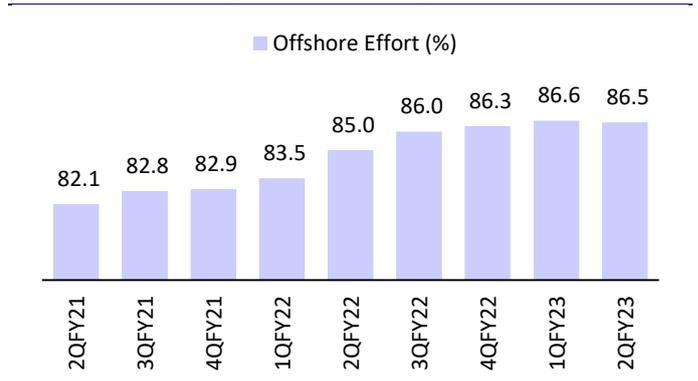
Source: Company, MOFSL

Exhibit 8: Utilization moderates in 2QFY23



Source: Company, MOFSL

Exhibit 9: Offshoring touches new highs in 2QFY23



Source: Company, MOFSL

Operating metrics

Exhibit 10: Operating metrics

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Geographic mix (%)*									
North America	77.4	77.2	76.6	76.6	72.8	73.0	73.6	76.8	78.1
Continental Europe	7.5	7.4	7.1	8.6	8.7	18.6	17.7	14.7	13.4
The UK and Ireland	7.9	7.8	8.6	7.6	10.9				
Asia Pacific	7.2	7.6	7.7	7.2	7.6	8.4	8.7	8.5	8.5
Utilization (%)									
Including trainees	78.8	83.1	84.3	83.2	82.9	81.5	83.1	81.2	80.7
Client metrics									
No. of active clients	283	276	270	260	263	265	276	274	276
New clients added	8	8	4	7	7	8	11	13	8
Client buckets									
USD1m clients	125	120	118	120	127	136	139	145	160
USD5m clients	43	43	44	47	50	52	56	58	61
USD10m clients	24	21	20	25	30	33	32	35	34
USD50m clients	1	1	1	1	1	1	1	1	1
USD100m clients	1	1	1	1	1	1	1	1	1
Contribution from clients (%)									
Top clients	28.9	28.5	28.0	27.4	24.3	24.9	24.9	26.0	26.3
Top five clients	40.6	39.8	38.6	38.5	35.7	35.4	35.7	37.0	36.9
Top 10 clients	49.4	49.0	47.3	47.5	45.1	44.9	44.4	45.7	45.0
Service lines (%)*									
Customer success	38.9	38.1	38.6	40.0	43.2	42.9	42.9	40.8	40.7
Data and Intelligence	14.2	14.9	16.0	15.0	14.3	14.8	14.9	15.9	16.1
Cloud	19.0	19.2	19.4	19.9	18.7	19.1	19.1	19.5	20.3
Enterprise IT	27.9	27.8	26.0	25.1	23.8	23.2	23.1	23.8	22.9

Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sales	52,365	54,628	70,215	77,643	79,678	1,05,253	1,37,331	1,58,053
Change (%)	12.1	4.3	28.5	10.6	2.6	32.1	30.5	15.1
Cost of Services	36,500	38,192	47,997	55,686	56,862	74,066	95,193	1,08,632
SG&A Expenses	8,681	9,021	11,522	10,582	6,249	9,231	12,869	15,136
EBITDA	7,184	7,415	10,696	11,375	16,567	21,956	29,268	34,285
As a percentage of Net Sales	13.7	13.6	15.2	14.7	20.8	20.9	21.3	21.7
Depreciation and Amortization	1,850	1,715	1,692	2,754	2,596	2,420	2,692	3,161
Other Income	216	1,723	864	-333	1,013	2,571	1,516	2,371
PBT	5,550	7,423	9,868	8,288	14,984	22,107	28,092	33,495
Tax	1,390	1,722	2,327	1,979	3,879	5,578	6,911	8,374
Rate (%)	25.0	23.2	23.6	23.9	25.9	25.2	24.6	25.0
PAT	4,160	5,701	7,541	6,309	11,105	16,529	21,180	25,121
Change (%)	-24.7	37.0	32.3	-16.3	76.0	48.8	28.1	18.6

Balance Sheet								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	1,680	1,639	1,642	1,646	1,647	1,648	1,648	1,648
Other components	1,019	0	993	0	0	0	0	0
Reserves	23,072	25,775	30,430	29,922	41,543	53,091	64,740	78,557
Net Worth	25,771	27,414	33,065	31,568	43,190	54,739	66,388	80,205
Loans	991	3,009	10	0	0	0	0	0
Long-term liabilities	301	85	174	6,762	4,498	4,826	7,753	8,922
Capital Employed	27,063	30,508	33,249	38,330	47,688	59,565	74,141	89,127
Gross Block	14,288	15,988	12,321	14,321	16,421	18,921	21,421	23,921
Less: Depreciation	7,995	9,710	889	3,643	6,239	8,659	11,351	14,512
Net Block	5,942	5,121	5,234	9,496	8,250	9,235	9,043	8,382
Goodwill	4,470	4,539	4,732	4,732	4,732	4,732	4,732	4,732
Other LT Assets	2,826	2,616	2,952	3,985	3,717	3,750	6,407	7,373
Investments	58	58	1,200	804	1,161	3,116	3,116	3,116
Curr. Assets	20,610	25,031	27,672	32,549	45,754	60,740	77,276	94,120
Current Investments	5,869	10,287	6,920	8,905	19,307	22,391	26,476	30,561
Debtors	11,187	10,155	16,347	17,194	15,665	23,124	28,821	33,169
Cash and Bank Balance	2,508	3,289	2,562	3,909	7,597	10,513	16,560	24,153
Other Current Assets	1,046	1,283	1,843	2,541	3,144	4,696	5,419	6,237
Current Liab. and Prov.	6,843	6,857	8,541	13,236	15,926	22,008	26,432	28,595
Trade payables	1,651	1,710	2,131	2,587	2,676	5,357	6,396	7,361
Other liabilities	4,087	3,929	5,666	8,925	11,023	14,209	16,198	16,816
Provisions	1,105	1,218	744	1,724	2,227	2,442	3,838	4,418
Net Current Assets	13,767	18,174	19,131	19,313	29,828	38,732	50,844	65,525
Application of Funds	27,063	30,508	33,249	38,330	47,688	59,565	74,141	89,127

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	24.7	34.2	45.8	38.3	67.4	100.1	128.4	152.2
Cash EPS	35.7	44.5	56.1	55.1	83.1	114.8	144.7	171.4
Book Value	153.5	164.9	201.5	191.9	262.2	332.2	402.7	486.6
DPS	10.0	9.0	33.0	16.0	25.0	37.0	57.8	68.5
Payout (%)	40.4	26.3	72.0	41.7	37.1	37.0	45.0	45.0
Valuation (x)								
P/E ratio	134.4	97.1	72.5	86.7	49.3	33.2	25.9	21.8
Cash P/E ratio	93.0	74.7	59.2	60.3	40.0	29.0	23.0	19.4
EV/EBITDA ratio	76.6	73.1	50.1	46.9	31.4	23.4	17.2	14.4
EV/Sales ratio	10.5	9.9	7.6	6.9	6.5	4.9	3.7	3.1
Price/Book Value	21.7	20.2	16.5	17.3	12.7	10.0	8.3	6.8
Dividend Yield (%)	0.3	0.3	1.0	0.5	0.8	1.1	1.7	2.1
Profitability Ratios (%)								
RoE	16.7	21.4	24.9	19.5	29.7	33.8	35.0	34.3
RoCE	15.6	16.3	22.7	18.3	24.1	27.2	30.0	28.6
Turnover Ratios								
Debtors (Days)	78	68	85	81	72	80	77	77
Fixed Asset Turnover (x)	8.8	10.7	13.4	8.2	9.7	11.4	15.2	18.9

Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
CF from Operations	5,318	6,477	8,716	9,792	13,868	18,484	22,357	25,912
Cash for Working Capital	902	-819	-2,371	-1,541	6,092	-3,114	-1,709	-2,801
Net Operating CF	6,220	5,658	6,345	8,251	19,960	15,370	20,648	23,111
Net Purchase of FA	-846	-1,011	-1,759	-1,220	-160	-1,972	-2,500	-2,500
Free Cash Flow	5,374	4,647	4,586	7,031	19,800	13,398	18,148	20,611
Net Purchase of Invest.	-3,687	-989	-225	991	-11,673	-4,888	-2,569	-1,714
Net Cash from Invest.	-4,533	-2,000	-1,984	-229	-11,833	-6,860	-5,069	-4,214
Proc. from equity issues	8	1	3	4	1	1	0	0
Proceeds from LTB/STB	550	1,906	-3,044	-1,024	-1,346	-1,430	0	0
Dividend Payments	-1,934	-4,782	-2,180	-5,940	-2,880	-4,528	-9,531	-11,305
Cash Flow from Fin.	-1,376	-2,875	-5,221	-6,960	-4,225	-5,957	-9,531	-11,305
Exchange difference	-135	-2	133	285	-214	363	0	0
Net Cash Flow	176	781	-727	1,347	3,688	2,916	6,047	7,592
Opening Cash Bal.	2,332	2,508	3,289	2,562	3,909	7,597	10,513	16,560
Add: Net Cash	176	781	-727	1,347	3,688	2,916	6,047	7,592
Closing Cash Bal.	2,508	3,289	2,562	3,909	7,597	10,513	16,560	24,152

E: MOFSL estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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