

## Merger with LTI in final leg of regulatory approval...

**About the stock:** Mindtree Ltd (Mindtree) is a mid-tier IT company with a presence in the US, Europe & RoW catering to BFSI, communication media & technology, retail & travel.

- Expertise in infrastructure & application catering to Global 2000 clients
- Dividend leading margins (>20%) compared to mid-tier IT companies

### Q2FY23 Results: Mindtree reported strong numbers.

- CC revenue growth was strong at 7.2% QoQ, a seventh consecutive quarter of 5%+ CC QoQ growth
- EBITDA margins declined 60 bps QoQ to 20.5% due to wage hike
- Second consecutive quarter of US\$500 mn+ TCv

**What should investors do?** Mindtree's share price has grown by ~6.9x over the past five years (from ~₹ 484 in October 2017 to ~₹ 3,375 levels in October 2022).

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value Mindtree at ₹ 4000 i.e. 25x P/E on FY25E EPS.

### Key triggers for future price performance:

- Traction in multi-year deals client mining, scaling up and cross-selling to existing clients keeps TCv strong
- Strong margin performance due to flattening of the pyramid
- Recovery in travel segment with revenue back to pre Covid levels
- With a robust deal pipeline, we expect the company to post industry leading 19.6% CAGR from FY22-25E

**Alternate Stock Idea:** Besides Mindtree, in our IT coverage we also like Infosys.

- Key beneficiary of improved digital demand, industry leading revenue growth and healthy capital allocation prompt us to be positive
- BUY with a target price of ₹ 1,670



Mindtree

Welcome to possible

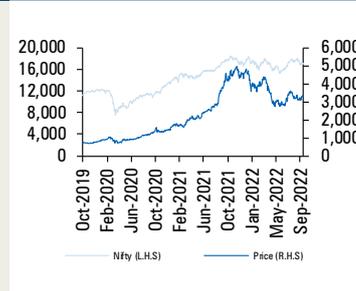
### Particulars

Particular	Amount
Market Cap (₹ Crore)	56,490.9
Total Debt (₹ Crore)	-
Cash and Investment (₹ Crore)	3,290.4
EV (₹ Crore)	53,200.5
52 week H/L	5060/ 2649
Equity capital	164.8
Face value	₹ 10

### Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	61.0	61.0	61.0	61.0
FII	15.0	15.7	14.4	11.7
DII	10.1	9.7	10.5	12.1
Public	13.9	13.6	14.1	15.3

### Price Chart



### Recent event & key risks

- LTI-Mindtree merger is in final leg of regulatory approval
- **Key Risk:** i) Lower than expected revenue ii) Churn in top management

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### Key Financial Summary

Key Financials	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	7,968	10,525	15.0%	13,519	15,989	18,023	19.6%
EBITDA	1,657	2,196	25.5%	2,812	3,342	3,785	19.9%
EBITDA Margins (%)	20.8	20.9		20.8	20.9	21.0	
Net Profit	1,111	1,653	31.6%	1,968	2,344	2,635	16.8%
EPS (₹)	67.4	100.3		119.2	142.0	159.6	
P/E	50.9	34.2		28.8	24.2	21.5	
RoNW (%)	25.7	30.2		29.3	28.6	26.8	
RoCE (%)	32.5	38.0		37.9	37.1	35.0	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

- The company reported constant currency growth of 7.2% QoQ. It is the seventh consecutive quarter of 5%+ CC growth on a QoQ basis. Dollar revenue grew 5.7% QoQ to US\$422.1 million (mn). In rupee terms, revenue grew 8.9% QoQ to ₹ 3,400 crore
- In terms of geographies, growth in revenue was led by North America (78% of mix), which grew 7.5% QoQ, which more or less covered de-growth in Continental Europe market in the tune of 9.1%. QoQ. UK market (6.6% mix) and APAC regions (8.5% mix) grew 3.2% and 5% QoQ, respectively
- Vertical wise, growth was driven by technology, media & services (43% mix), which was up 4.3% QoQ and BFSI (19.4% mix) was up by 10.2% QoQ. Travel & hospitality (15.9% mix) also reported strong growth of 8.8% QoQ while RCM, as expected, reported decline of 0.8% QoQ (ex-currency impact, RCM was up 2.9% QoQ). Healthcare, its newest vertical (2.6% mix), grew 35% QoQ (base effect)
- EBITDA grew 6.9% QoQ to ₹ 696.7 crore while EBITDA margins declined sequentially by ~60 bps to 20.5%. Reported margins were 21% (adjusted for forex losses), which were down 10 bps QoQ. Headwinds for EBITDA margins were i) -240 bps wage hike for the quarter, which were mitigated by following tailwinds ii) +110 bps impact of merger related costs, which was already factored in Q1, iii) +50 bps currency benefits, iv) + 70bps operating efficiency. The company maintained 20% + EBITDA margin guidance for FY23 despite some impact of furlough in Q3 and Q4
- The company indicated that it had not witnessed any deal cancellations or deferral from the client side. However, decision making has been on the slower side. The company indicated that demand continued to be strong. As per the company, client tech spending was earlier being done on revenue maximisation programs. Now, due to high inflation scenario, client tech spends are also being done on cost optimisation programs. The company mentioned that since it is playing on both sides of demand, its TCW continues to be healthy. The company mentioned that clients in the same sector may behave differently as they would be at different stages of digital transformation programs. Hence, there is ample opportunity ahead; both in terms of revenue as well as cost optimisation programs
- The company indicated its strong growth of 10.2% QoQ in BFSI vertical was balanced across new as well as existing clients. It also indicated that BFSI vertical strong growth in the last few quarters could be attributed to transformation journey it had started a couple of years back. The company did some business restructuring in these verticals. It also initiated partnerships with various product companies and also invested in talent specially into client facing role, which is bearing fruit now
- On travel costs, which have come down QoQ in this quarter, the company mentioned that it will not return to pre-Covid levels. It also indicated that since markets are open now, due to a competitive scenario where you have to continue meeting clients, some travel costs are likely to increase, going forward. It also mentioned that due to increased airfares as well as hotel tariffs, the trend is likely upward.
- On facility expenses, the company mentioned that it is expected to see some uptrend, going forward but mentioned that work from office continued to be in a staggered manner as per plan so as to avoid any bump up in facility expenses in one particular quarter
- Mindtree indicated that fresher hiring continued to be strong and the company continued to deploy large portion of freshers into CMT, TTH verticals and also in fixed price contracts. The company indicated they are able to deploy 70% of freshers after 45 days of training

- Mindtree has been reporting a record order book as it crossed US\$1 bn in H1. The company did mention that TCV is a good mix of efficiency and revenue maximisation program deals. Lately it is skewed towards later. The company also indicated that it closed a few multi-year deals in the last two quarters resulting into such a strong TCV. It also mentioned that average tenure of the deals has not changed materially as it is good mix of short term deals (12-18 months) as well as long term deals. The company also observed that clients who were going for transformation programs in the last two quarters are now also opting for efficiency led deals (longer tenure)
- On pricing, the company indicated that it is getting price hikes in a few pockets and for niche skills like AI/ML, cloud, etc. Mindtree also indicated that it is not facing any pricing pressure from its clients and continues to push for a further price increase
- The company also indicated that it is in the final leg of approval as far as its merger with LTI is concerned and expects the merger to conclude at the end of CY22 vs. earlier indication of Q4FY23. Mindtree also indicated that steering committee has made a detailed plan on functioning of merged entity which will be shared later. The company also indicated that talent hiring, going forward, will be done as per the requirement of the merged entity. Mindtree sees a lot of cross sale and upscale opportunity for the merged entity as out of 700 clients of LTI Mindtree, only handful clients are common between them
- The company is witnessing early signs of moderation of LTM attrition and attrition is expected to be trending downward, going forward. As far as client's tech budgets are concerned, the company indicated that it will be in a better position to assess the demand in Q3FY23 or at the end of CY22

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Tech M (TECMAH)	1,013	1,170	BUY	98,547	63.1	66.2	77.9	16.1	15.3	13.0	22.5	21.8	22.7	20.7	19.4	20.3
LTI (LTINFC)	4,594	4,480	HOLD	80,497	130.8	140.3	165.9	35.1	32.7	27.7	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	3,375	4,000	BUY	55,622	100.3	119.2	142.0	33.7	28.3	23.8	38.0	37.9	37.1	30.2	29.3	28.6
Coforge (NIITEC)	3,631	4,375	BUY	22,114	106.5	147.8	175.0	34.1	24.6	20.7	25.6	31.5	31.8	24.2	28.4	28.3

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	3,400.4	3,313.9	2,586.2	31.5	3,121.1	8.9	Seventh consecutive quarter of 5%+ CC revenue growth
Employee expenses	2,047.4	2,021.5	1,564.4	30.9	1,853.6	10.5	
Gross Margin	1,353.0	1,292.4	1,021.8	32.4	1,267.5	6.7	
Gross margin (%)	39.8	39.0	39.5	28 bps	40.6	-82 bps	
SG&A expenses	656.3	636.3	491.1	33.6	609.4	7.7	
EBITDA	696.7	656.1	530.7	31.3	658.1	5.9	
EBITDA Margin (%)	20.5	19.8	20.5	-3 bps	21.1	-60 bps	EBITDA margins adjusted forex loss was down 10 bps impacted by headwinds of -240 bps wage hike for the quarter, which were mitigated by following tailwinds of i)+110 bps impact of merger related costs which was already factored in Q1 ii) +50 bps currency benefits iii) + 70bps operating efficiency
Depreciation	65.1	63.0	61.0	6.7	59.9	8.7	
EBIT	631.6	593.2	469.7	34.5	598.2	5.6	
EBIT Margin (%)	18.6	17.9	18.2	41 bps	19.2	-59 bps	
Other income	48.6	40.0	74.8	-35.0	39.5	23.0	
PBT	666.7	621.2	532.0	25.3	625.5	6.6	
Tax paid	158.0	162.2	133.1	18.7	153.9	2.7	
PAT	508.7	459.0	398.9	27.5	471.6	7.9	

Source: Company, ICICI Direct Research

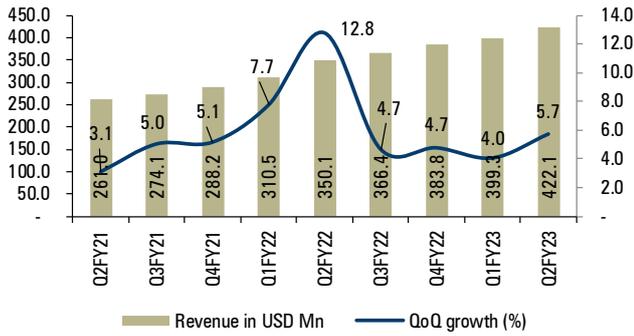
**Exhibit 3: Change in estimates**

₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	12,925	13,519	4.6	15,007.0	15,989	6.5	18,023	Realigned numbers as per strong H1
EBITDA	2,585	2,812	8.8	3,001.4	3,342	11.3	3,785	
EBITDA Margin (%)	20.0	20.8	80 bps	20.0	20.9	90 bps	21.0	We bake in margin improvement on utilisation improvement, pricing benefit, moderation of subcontractor costs
PAT	1,812	1,968	8.6	2,110.6	2,344	11.1	2,635	
EPS (₹)	109.8	119.2	8.6	127.9	142.0	11.1	159.6	

Source: Company, ICICI Direct Research

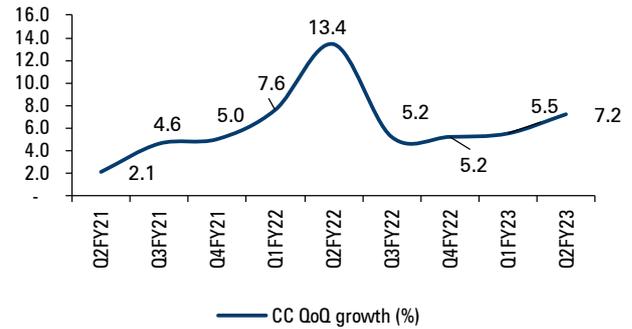
### Key Metrics

**Exhibit 4: Revenue in US\$ millions with QoQ growth**



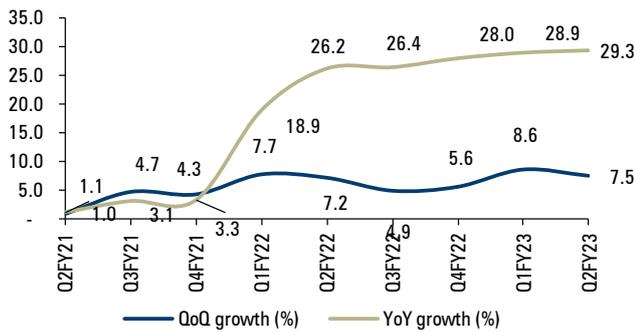
Source: Company, ICICI Direct Research

**Exhibit 5: Seventh consecutive 5%+ QoQ CC growth**



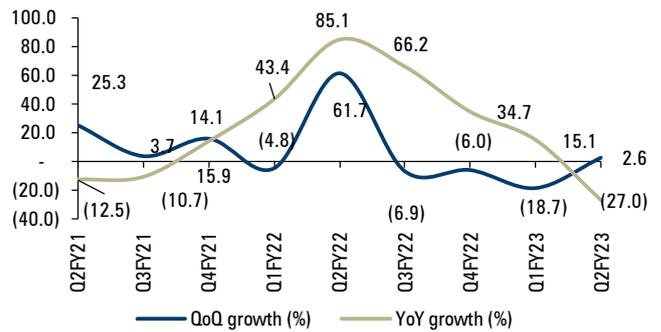
Source: Company, ICICI Direct Research

**Exhibit 6: Continued strong growth in North America**



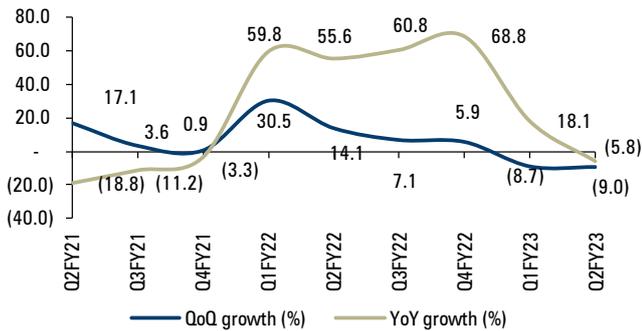
Source: Company, ICICI Direct Research

**Exhibit 7: UK witnesses some recovery QoQ**



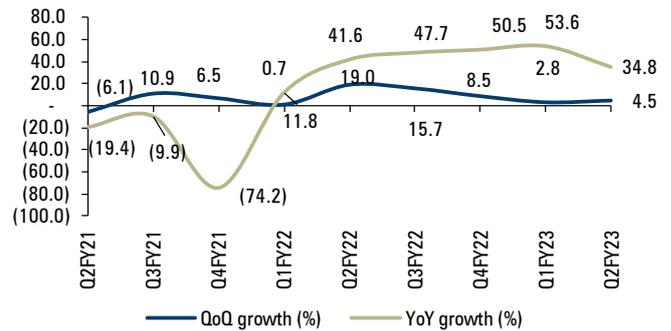
Source: Company, ICICI Direct Research

**Exhibit 8: Continental Europe decline continues**



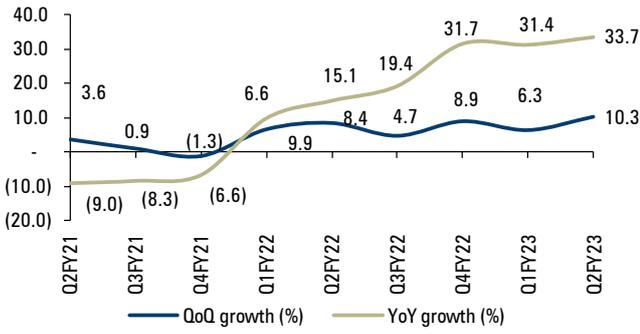
Source: Company, ICICI Direct Research

**Exhibit 9: APAC region QoQ, YoY growth**



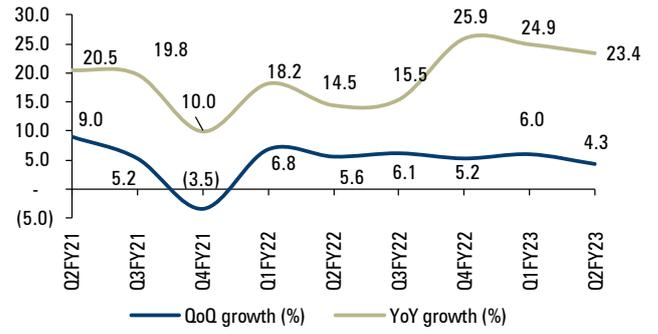
Source: Company, ICICI Direct Research

Exhibit 10: BFSI leads revenue growth



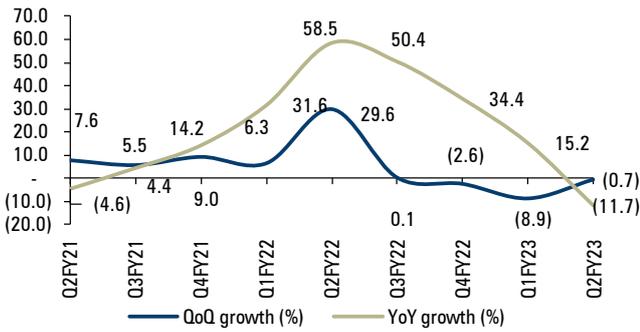
Source: Company, ICICI Direct Research

Exhibit 11: CMT growth continues



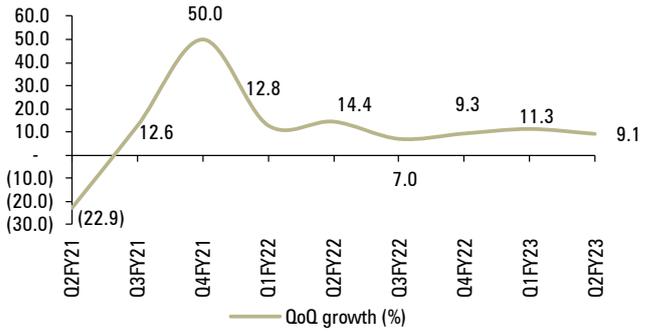
Source: Company, ICICI Direct Research

Exhibit 12: Retail business still impacted



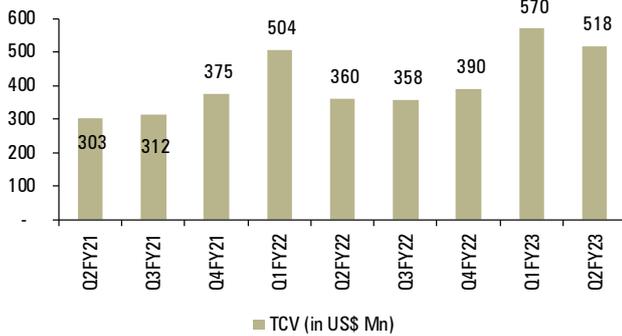
Source: Company, ICICI Direct Research

Exhibit 13: Travel vertical recovery continues



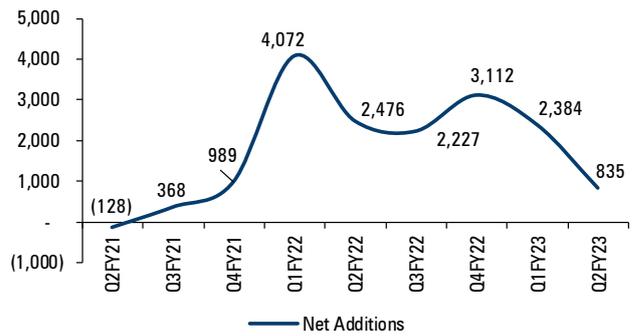
Source: Company, ICICI Direct Research

Exhibit 14: TCV going strong



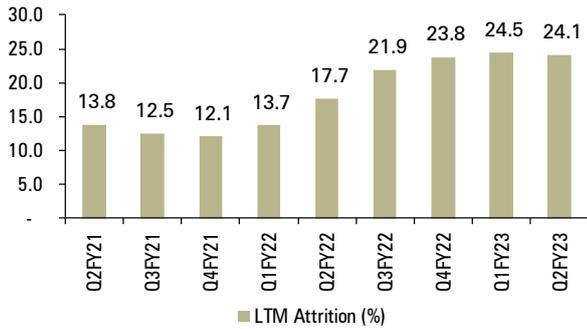
Source: Company, ICICI Direct Research

Exhibit 15: Hiring lower on approaching merger



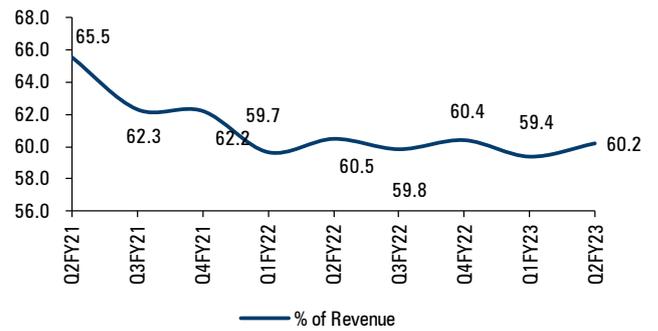
Source: Company, ICICI Direct Research

Exhibit 16: LTM attrition still high but moderating



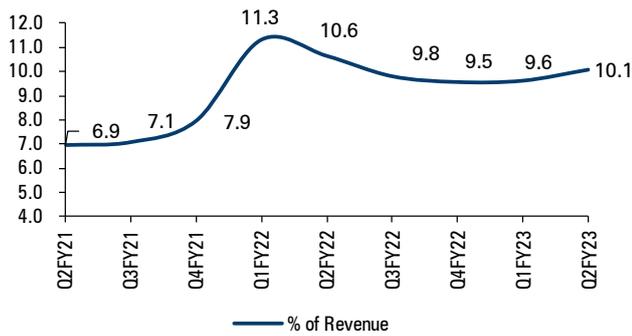
Source: Company, ICICI Direct Research

Exhibit 17: Employee cost as percentage of revenue increases due to wage hike...



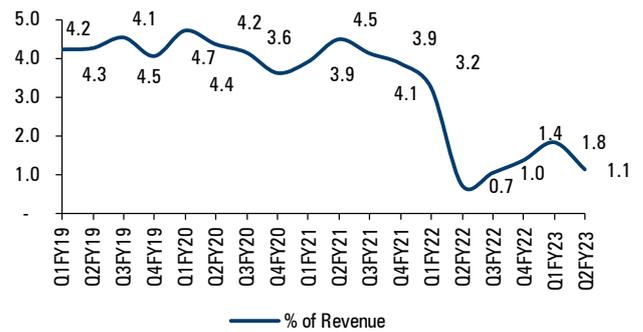
Source: Company, ICICI Direct Research

Exhibit 18: Slight uptick in sub-contractor costs QoQ



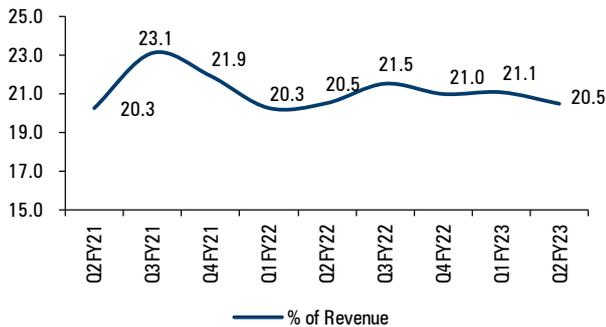
Source: Company, ICICI Direct Research

Exhibit 19: ...while travel costs moderate



Source: Company, ICICI Direct Research

Exhibit 20: EBITDA margin resilient



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 21: Profit and loss statement				
	₹ crore			
	FY22	FY23E	FY24E	FY25E
<b>Total Revenues</b>	<b>10,525</b>	<b>13,519</b>	<b>15,989</b>	<b>18,023</b>
Growth (%)	32.1	28.4	18.3	12.7
COGS	6,328	8,679	10,249	11,535
Other Expenses	2,002	2,028	2,398	2,703
<b>EBITDA</b>	<b>2,196</b>	<b>2,812</b>	<b>3,342</b>	<b>3,785</b>
Growth (%)	32.5	28.1	18.8	13.3
Depreciation	242	338	400	451
Other Income	307	254	276	276
Interest paid	50	50	50	50
PBT	2,211	2,677	3,168	3,560
PBT	2,211	2,677	3,168	3,560
Growth (%)	47.5	21.1	18.3	12.4
Total Tax	558	709	824	926
PAT before MI	1,653	1,968	2,344	2,635
Minority interest	-	-	-	-
<b>PAT</b>	<b>1,653</b>	<b>1,968</b>	<b>2,344</b>	<b>2,635</b>
EPS - diluted	100.3	119.2	142.0	159.6
EPS (Growth %)	48.7	18.9	19.1	12.4

Source: Company, ICICI Direct Research

Exhibit 22: Cash flow statement				
	₹ crore			
	FY22	FY23E	FY24E	FY25E
Net profit before Tax	2,211	2,677	3,168	3,560
Depreciation	242	338	400	451
(inc)/dec in Current Assets	(820)	(626)	(278)	(507)
(inc)/dec in current Liabilities	508	169	239	211
<b>CF from operations</b>	<b>1,537</b>	<b>1,565</b>	<b>2,399</b>	<b>2,484</b>
Other Investments	(489)	254	276	276
(Purchase)/Sale of Fixed Assets	(197)	(176)	(208)	(234)
<b>CF from investing Activities</b>	<b>(686)</b>	<b>78</b>	<b>68</b>	<b>42</b>
Inc / (Dec) in Equity Capital	(93)	-	-	-
Othes	-	(200)	(200)	(200)
Dividend & Dividend tax	(453)	(730)	(870)	(977)
Interest Paid on Loans	(50)	(50)	(50)	(50)
<b>CF from Financial Activities</b>	<b>(596)</b>	<b>(980)</b>	<b>(1,120)</b>	<b>(1,228)</b>
Cash generating during the year	292	662	1,348	1,298
Opening cash balance	760	1,051	1,714	3,061
Exchange rate differences	36	-	-	-
<b>Closing cash</b>	<b>1,051</b>	<b>1,714</b>	<b>3,061</b>	<b>4,359</b>

Source: Company, ICICI Direct Research

Exhibit 23: Balance sheet				
	₹ crore			
	FY22	FY23E	FY24E	FY25E
Equity	165	165	165	165
Reserves & Surplus	5,309	6,547	8,021	9,679
Networth	5,474	6,712	8,186	9,843
Minority Interest	-	-	-	-
Total Debt	-	-	-	-
Other long term liabilities	483	483	483	483
<b>Source of funds</b>	<b>5,957</b>	<b>7,194</b>	<b>8,669</b>	<b>10,326</b>
Net Block	895	775	783	767
CWIP	22	22	22	22
Other intangible assets&c	481	481	481	481
Other long term assets	687	767	847	927
Current investments	2,239	2,396	2,396	2,396
Debtors	1,731	2,287	2,466	2,891
Cash & Cash equivalents	1,051	1,714	3,061	4,359
Loans and advances	4	7	8	9
Other Current Assets(OC	1,048	1,116	1,214	1,294
Trade payables	536	446	527	594
Other Current liabilities	1,421	1,546	1,634	1,722
Provisions	244	378	447	504
<b>Application of funds</b>	<b>5,957</b>	<b>7,194</b>	<b>8,669</b>	<b>10,326</b>

Source: Company, ICICI Direct Research

Exhibit 24: Key ratios				
	₹ crore			
	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
Adjusted EPS (Diluted)	100.3	119.2	142.0	159.6
BV per share	332.0	406.6	495.9	596.3
DPS	37.1	44.2	52.7	59.2
Cash per Share	63.8	103.8	185.5	264.1
<b>Operating Ratios</b>				
EBITDA Margin (%)	20.9	20.8	20.9	21.0
PBT Margin (%)	21.0	19.8	19.8	19.8
PAT Margin (%)	15.7	14.6	14.7	14.6
Debtor days	60	62	56	59
Creditor days	19	12	12	12
<b>Return Ratios (%)</b>				
RoE	30.2	29.3	28.6	26.8
RoCE	38.0	37.9	37.1	35.0
RoIC	73.9	80.8	92.2	94.0
<b>Valuation Ratios (x)</b>				
P/E	34.2	28.8	24.2	21.5
EV / EBITDA	24.2	18.6	15.3	13.1
Price to Book Value	10.3	8.4	6.9	5.8
EV / Net Sales	5.1	3.9	3.2	2.8
Market Cap / Sales	5.4	4.2	3.5	3.1
<b>Solvency Ratios</b>				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.3	1.4	1.4	1.5
Quick Ratio	1.3	1.4	1.4	1.5

Source: Company, ICICI Direct Research

Exhibit 25: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
HCL Tech (HCLTEC)	982	1,115	BUY	2,66,482	49.8	52.8	58.3	19.7	18.6	16.8	24.2	25.8	27.4	21.8	21.9	23.0
Infosys (INFTEC)	1,420	1,670	BUY	5,97,482	52.1	59.7	68.7	27.2	23.8	20.7	36.0	35.8	38.3	29.2	29.7	31.6
TCS (TCS)	3,101	3,630	BUY	11,34,672	104.7	115.7	130.3	29.6	26.8	23.8	51.4	49.3	48.7	43.0	42.0	41.0
Tech M (TECMAH)	1,013	1,170	BUY	98,547	63.1	66.2	77.9	16.1	15.3	13.0	22.5	21.8	22.7	20.7	19.4	20.3
Wipro (WIPRO)	379	420	HOLD	2,07,741	23.5	23.1	26.1	16.2	16.4	14.5	18.8	18.7	20.3	19.6	18.5	20.1
LTI (LTINFC)	4,594	4,480	HOLD	80,497	130.8	140.3	165.9	35.1	32.7	27.7	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	3,375	4,000	BUY	55,622	100.3	119.2	142.0	33.7	28.3	23.8	38.0	37.9	37.1	30.2	29.3	28.6
Coforge (NIITEC)	3,631	4,375	BUY	22,114	106.5	147.8	175.0	34.1	24.6	20.7	25.6	31.5	31.8	24.2	28.4	28.3
TeamLease (TEASER)	3,012	4,240	BUY	5,150	22.5	85.6	124.6	134.0	35.2	24.2	15.4	17.6	20.8	(4.7)	17.4	20.4
Infoedge (INFEDG)	3,769	5,230	BUY	47,366	35.8	47.8	54.2	105.3	78.9	69.5	4.2	5.7	6.3	3.2	4.3	4.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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