

# Retail Equity Research

## Mindtree Limited

IT Services

BSE CODE: 532819

NSE CODE: MINDTREE

Bloomberg CODE: MTCL:IN

SENSEX: 59,107

**BUY**

12 Months Investment period Rating as per Large Cap  
CMP Rs. 3,405 TARGET Rs. 3,860 RETURN 13%  
(Closing: 19-10-22) 

**KEY CHANGES:**

**TARGET** 

**RATING** 

**EARNINGS** 

### Strong quarter; growth momentum continues

Mindtree Ltd is an information technology (IT) consulting and implementation company focusing on select verticals viz. BFSI, Retail, Travel & Hospitality and Hi-Tech.

- Q2FY23 revenue rose 31.5% YoY to Rs. 3,400cr led by strong growth across most of the segments except Retail, CPG and Manufacturing.
- EBITDA grew 31.3% YoY despite wage hikes, while margin remained broadly flat at 20.5%. The PAT grew 27.5% YoY to Rs. 509cr.
- Mindtree has a resilient business structure with strong and efficient execution capabilities. The growth momentum is expected to continue, backed by a robust order book. We hereby upgrade our rating to BUY with a revised target price of Rs. 3,860 based on 28x FY24E adj. EPS.

### Strong performance across industries

Revenue grew 31.5% YoY to Rs. 3,400cr in Q2FY23 owing to strong revenue growth across verticals except Retail, CPG and Manufacturing which fell 11.5% YoY. BFSI rose 33.3% YoY, followed by High Technology and Media (23.3% YoY) and Travel and Hospitality (41.9% YoY). In terms of revenue mix by service lines, Customer Success contributed 40.7%, Data and Intelligence 16.1%, Cloud 20.3% and Enterprise IT 22.9%. On a geographical basis, North America grew 29.4% YoY, while Continental Europe fell 6.6% YoY as well as the UK and Ireland by 26.7%. Revenue from Top 5 clients grew 39.8% YoY (contributed 36.9% to revenue) and Top 10 clients increased 20.4% (45%) in Q2FY23. EBITDA witnessed 31.3% YoY growth to Rs. 697cr in Q2FY23 despite wage hikes, while EBITDA margin remained resilient at 20.5%. Adj. PAT rose 27.5% YoY to Rs. 509cr.

### Key concall highlights

- Mindtree order book grew sharply by 44% YoY to USD 518mn, with H1 signings crossing USD 1bn for the first time.
- Employee headcount increased 28.8% YoY and 2.2% QoQ to 38,290, with a trailing 12-month attrition rate of 24.1%.
- Management indicated the reporting would likely be on combined entity basis from Q2FY23 onwards if all necessary legal approvals are received on time.

### Mindtree-LTI merger nearing completion

Company's merger with L&T Infotech remains on track to be completed by FY22-end, that is, during the next 1-2 quarters. The strengths of the two entities – supply chain transformation in case of LTI, and customer satisfaction transformation for Mindtree – complement each other very well and should aid growth for the combined entity going forward. Post completion, the focus would be on driving efficiencies in terms of cost reduction, with attrition seen moderating for Mindtree.

### Valuation

Robust order book comprising of a healthy mix of annuity and transformational deals, coupled with strong execution capabilities, is expected to drive growth across verticals. Mindtree continues to see strong momentum in digital transformation and cloud related deals. Further, the Mindtree-LTI merger will provide a competitive advantage, improve capabilities, and boost access to a larger comprehensive portfolio of global clients and cost synergies, etc. We upgrade our rating to BUY on the stock with a revised target price of Rs. 3,860 based on 28x FY24E adj. EPS.

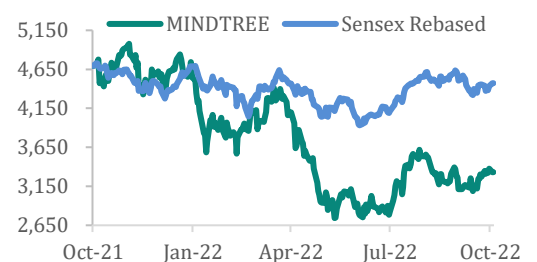
### Company Data

Market Cap (cr)	Rs. 56,156
Enterprise Value (cr)	Rs. 53,597
Outstanding Shares (cr)	16.5
Free Float	39.0%
Dividend Yield	0.8%
52 week high	Rs. 5,059
52 week low	Rs. 2,650
6m average volume	39,501
Beta	1.5
Face value	Rs. 10

Shareholding (%)	Q4FY22	Q1FY23	Q2FY23
Promoters	61.0	61.0	61.0
FII's	15.7	14.4	14.4
MFs/Insti	9.7	10.5	10.5
Public	11.8	12.2	12.2
Others	1.8	2.0	2.0
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	17.7%	-18.7%	-29.0%
Absolute Sensex	8.6%	0.1%	-4.7%
Relative Return*	9.1%	-18.8%	-24.3%

\*over or under performance to benchmark index



Consolidated (cr)	FY22A	FY23E	FY24E
Sales	10,525	13,297	15,470
Growth (%)	32.1	26.3	16.3
EBITDA	2,196	2,724	3,135
EBITDA Margin (%)	20.9	20.5	20.3
Adj. PAT	1,653	2,026	2,274
Growth (%)	48.8	22.6	12.2
Adj. EPS	100.3	122.9	137.9
Growth (%)	48.7	22.6	12.2
P/E	42.9	27.1	24.2
P/B	13.0	8.2	6.7
EV/EBITDA	32.1	19.7	16.9
ROE (%)	30.2	30.3	27.9
D/E	0.1	0.1	0.1

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q2FY23	Q2FY22	YoY Growth(%)	Q1FY23	QoQ Growth(%)	H1FY23	H1FY22	YoY Growth (%)
Revenue	3,400	2,586	31.5	3,121	8.9	6,522	4,878	33.7
<b>EBITDA</b>	<b>697</b>	<b>531</b>	<b>31.3</b>	<b>658</b>	<b>5.9</b>	<b>1,355</b>	<b>995</b>	<b>36.1</b>
EBITDA margins	20.5	20.5	0bps	21.1	(60bps)	20.8	20.4	40bps
Depreciation	65	61	6.7	60	8.7	125	119	4.9
<b>EBIT</b>	<b>632</b>	<b>470</b>	<b>34.5</b>	<b>598</b>	<b>5.6</b>	<b>1,230</b>	<b>876</b>	<b>40.4</b>
Interest	14	13	8.0	12	10.7	26	25	1.2
Other Income	49	75	(35.0)	40	23.0	88	147	(39.9)
Exceptional Items	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>667</b>	<b>532</b>	<b>25.3</b>	<b>626</b>	<b>6.6</b>	<b>1,292</b>	<b>997</b>	<b>29.6</b>
Tax	158	133	18.7	154	2.7	312	255	22.4
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>509</b>	<b>399</b>	<b>27.5</b>	<b>472</b>	<b>7.9</b>	<b>980</b>	<b>742</b>	<b>32.1</b>
Adjustments	-	-	-	-	-	-	-	-
<b>Adj. PAT</b>	<b>509</b>	<b>399</b>	<b>27.5</b>	<b>472</b>	<b>7.9</b>	<b>980</b>	<b>742</b>	<b>32.1</b>
No. of shares	16.5	16.5	-	16.5	-	16.5	16.5	-
<b>Adj. EPS (Rs.)</b>	<b>30.9</b>	<b>24.2</b>	<b>27.6</b>	<b>28.6</b>	<b>7.8</b>	<b>59.5</b>	<b>45.0</b>	<b>32.1</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	12,651	14,900	13,297	15,470	5.1	3.8
EBITDA	2,592	3,030	2,724	3,135	5.1	3.5
Margins (%)	20.5	20.3	20.5	20.3	0bps	0bps
Adj. PAT	1,912	2,185	2,026	2,274	6.0	4.0
Adj. EPS	116.0	132.5	122.9	137.9	6.0	4.0

## PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Revenue</b>	<b>7,764</b>	<b>7,968</b>	<b>10,525</b>	<b>13,297</b>	<b>15,470</b>
% change	10.6	2.6	32.1	26.3	16.3
<b>EBITDA</b>	<b>1,018</b>	<b>1,643</b>	<b>2,196</b>	<b>2,724</b>	<b>3,135</b>
% change	(4.4)	61.4	33.6	24.1	15.1
Depreciation	275	260	242	259	266
<b>EBIT</b>	<b>806</b>	<b>1,397</b>	<b>1,954</b>	<b>2,466</b>	<b>2,869</b>
Interest	53	50	50	63	73
Other Income	76	152	307	259	116
<b>PBT</b>	<b>829</b>	<b>1,498</b>	<b>2,211</b>	<b>2,662</b>	<b>2,911</b>
% change	(16.0)	80.8	47.5	20.4	9.4
Tax	198	388	558	636	638
Tax Rate (%)	23.9	25.9	25.2	23.9	21.9
<b>Reported PAT</b>	<b>631</b>	<b>1,111</b>	<b>1,653</b>	<b>2,026</b>	<b>2,274</b>
Adj*	-	-	-	-	-
<b>Adj PAT</b>	<b>631</b>	<b>1,111</b>	<b>1,653</b>	<b>2,026</b>	<b>2,274</b>
% change	(16.3)	76.0	48.8	22.6	12.2
No. of shares (cr)	16.5	16.5	16.5	16.5	16.5
<b>Adj EPS (Rs.)</b>	<b>38.3</b>	<b>67.4</b>	<b>100.3</b>	<b>122.9</b>	<b>137.9</b>
% change	(16.4)	76.0	48.7	22.6	12.2
DPS (Rs.)	30.0	25.0	27.0	49.2	49.2
CEPS (Rs.)	55.0	83.2	114.9	138.6	154.0

## CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Net inc. + Depn.</b>	<b>906</b>	<b>1,370</b>	<b>1,895</b>	<b>2,284</b>	<b>2,539</b>
Non-cash adj.	(16)	455	(157)	503	(76)
Changes in W.C	(66)	171	(201)	(465)	(271)
<b>C.F. Operation</b>	<b>825</b>	<b>1,996</b>	<b>1,537</b>	<b>2,322</b>	<b>2,192</b>
Capital exp.	(122)	(61)	(197)	(332)	(387)
Change in inv.	86	(1,184)	(409)	(351)	(224)
Other invest.CF	13	62	(80)	-	(0)
<b>C.F - Investment</b>	<b>(23)</b>	<b>(1,183)</b>	<b>(686)</b>	<b>(683)</b>	<b>(611)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	(1)	(1)	-	(15)	(10)
Dividends paid	(594)	(288)	(453)	(810)	(810)
Other finance.CF	(102)	(134)	(143)	(63)	(73)
<b>C.F - Finance</b>	<b>(696)</b>	<b>(423)</b>	<b>(596)</b>	<b>(888)</b>	<b>(894)</b>
Chg. in cash	106	390	255	751	687
Closing cash	587	760	1,051	1,802	2,489

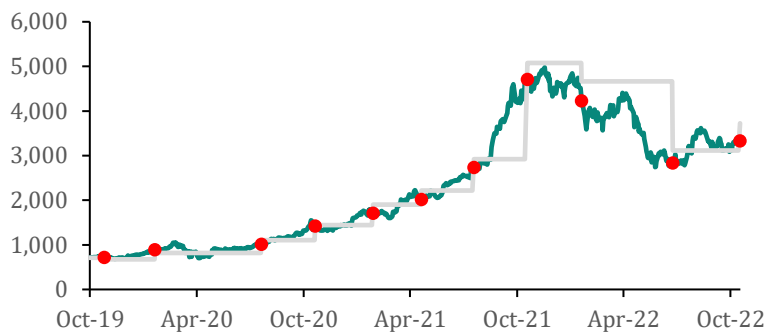
## BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	587	760	1,051	1,802	2,489
Accounts Receivable	1,439	1,274	1,731	2,261	2,630
Inventories	-	-	-	-	-
Other Cur. Assets	1,229	2,542	3,291	2,821	2,938
Investments	80	116	312	662	887
Gross Fixed Assets	1,208	1,239	1,439	1,771	2,158
Net Fixed Assets	340	304	422	494	613
CWIP	14	22	22	24	26
Intangible Assets	549	495	953	977	1,002
Def. Tax (Net)	184	35	-	-	-
Other Assets	735	814	375	381	388
<b>Total Assets</b>	<b>5,157</b>	<b>6,361</b>	<b>8,157</b>	<b>9,422</b>	<b>10,973</b>
Current Liabilities	1,324	1,593	2,201	2,265	2,363
Provisions	-	-	-	-	-
Debt Funds	676	450	483	468	458
Other Liabilities	-	-	-	-	-
Equity Capital	165	165	165	165	165
Reserves & Surplus	2,992	4,154	5,309	6,525	7,988
Shareholder's Fund	3,157	4,319	5,474	6,689	8,153
Minority Interest	-	-	-	-	-
<b>Total Liabilities</b>	<b>5,157</b>	<b>6,361</b>	<b>8,157</b>	<b>9,422</b>	<b>10,973</b>
<b>BVPS (Rs.)</b>	<b>192</b>	<b>262</b>	<b>332</b>	<b>406</b>	<b>494</b>

## RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	13.1	20.6	20.9	20.5	20.3
EBIT margin (%)	10.4	17.5	18.6	18.5	18.5
Net profit mgn.(%)	8.1	13.9	15.7	15.2	14.7
ROE (%)	20.0	25.7	30.2	30.3	27.9
ROCE (%)	21.0	29.3	32.8	34.5	33.3
<b>W.C &amp; Liquidity</b>					
Receivables (days)	67.6	58.4	60.0	62.1	62.1
Inventory (days)	-	-	-	-	-
Payables (days)	12.2	12.3	18.6	16.5	16.5
Current ratio (x)	2.5	2.9	2.8	3.0	3.4
Quick ratio (x)	2.1	2.5	2.3	2.8	3.2
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	6.5	6.5	7.9	8.3	7.9
Total asset T.O (x)	1.7	1.4	1.4	1.5	1.5
Int. coverage ratio (x)	15.2	27.7	38.9	39.4	39.1
Adj. debt/equity (x)	0.2	0.1	0.1	0.1	0.1
<b>Valuation</b>					
EV/Sales (x)	1.8	4.3	6.7	4.0	3.4
EV/EBITDA (x)	13.5	20.7	32.1	19.7	16.9
P/E (x)	21.6	30.9	42.9	27.1	24.2
P/BV (x)	4.3	8.0	13.0	8.2	6.7

## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
20-Oct-20	HOLD	1,445
27-Jan-21	HOLD	1,903
20-Apr-21	HOLD	2,216
19-Jul-21	HOLD	2,919
18-Oct-21	HOLD	5,077
19-Jan-22	HOLD	4,668
24-Jun-22	HOLD	3,114
20-Oct-22	BUY	3,860

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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