MindTree Ltd (MINLIM)

CMP: ₹ 2622 | Target: ₹ 3065 (17%) | Target Period: 12 months | BUY

July 14, 2021

Robust revenue growth

About the stock: Mindtree Ltd (Mindtree) is a mid-tier IT company with a presence in US, Europe & RoW catering to BFSI, Communication Media & Technology, Retail & Travel

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

Q1FY22 Results: Mindtree reported robust Q1FY22 results.

- US$ revenues increased 7.7% QoQ to US$310
- EBITDA declined 166 bps QoQ to 20.3% led by headcount addition
- Deal pipeline is up 34.2% QoQ to US$504 million

What should investors do? Mindtree share price has grown by ~4x over the past five years (from ~₹ 650 in Jul 2016 to ~₹ 2622 levels in July 2021)

- We upgrade the stock from HOLD to **BUY**

Target Price and Valuation: We value Mindtree at ₹ 3065 i.e. 32x P/E on FY23E

Key triggers for future price performance:

- Key beneficiary of robust growth in cloud, data and experience
- Traction in multi-year deals client mining, scaling up existing clients to US$50 million
- Well poised to clock industry leading double digit growth
- Well poised to maintain 20% plus margins

Alternate Stock Idea: Apart from Mindtree, in our IT coverage we also like LTI.

- Larsen & Toubro Infotech's (LTI) ability to deliver end-to-end solutions is expected to help in registering industry leading growth
- BUY with a target price of ₹ 4,580

Result Update

ICICI Securities – Retail Equity Research

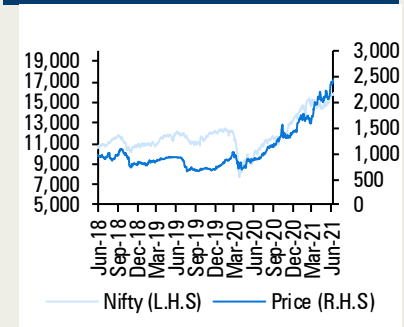
Particulars

Particular	Amount
Market Cap (₹ Crore)	43,183.4
Total Debt (₹ Crore)	-
Cash and Investment (₹ Crore)	1,281.4
EV (₹ Crore)	41,902.0
52 week H/L	2637/ 936
Equity capital	164.7
Face value	₹ 10

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	73.5	67.6	61.0	61.0
FII	10.4	12.0	13.3	13.9
DII	7.9	12.0	10.6	10.9
Public	8.2	8.4	15.1	14.2

Price Chart



Recent Event & Key risks

- Industry leading double digit growth
- **Key Risk:** (i) Muted digital demand prospects, (ii) inability to sustain margin savings

Research Analyst

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Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	7,022	7,764	7,968	11.3%	9,630	11,165	18.4%
EBITDA	1,065	1,062	1,657	15.1%	2,003	2,345	19.0%
EBITDA Margins (%)	15.2	13.7	20.8		20.8	21.0	
Net Profit	754	631	1,111	15.0%	1,337	1,579	19.2%
EPS (₹)	45.9	38.3	67.4		81.1	95.8	
P/E	57.1	68.4	38.9		32.3	27.4	
RoNW (%)	22.8	20.0	25.7		25.9	25.7	
RoCE (%)	29.8	23.0	32.5		33.1	33.1	

Source: Company, ICICI Direct Research

Key takeaways of the conference call

Q1FY22 Earnings Conference Call highlights

- The company has seen healthy order book led by closure of certain deals (especially BFSI), increase in multi-year deals (increase in deal tenures), renewals, higher demand from retail & CPG clients and traction in cloud & customer experience
- Mindtree is seeing healthy traction in travel clients (led by leisure travel). An increase in business travel will further boost growth. Further, considering the company's ability to cross sell, up sell, inorganic expansion, organic expansion via P&L, expansion in Europe and higher growth in BFSI & Retail prompts the company to believe it will be able to clock industry leading double digit growth in FY22E (which we estimate at 21% YoY)
- This, coupled with healthy win ratio, shift of spend from run to new, transformational projects and the company's digital prowess is expected to lead to sustainable revenue growth in coming years
- Margins in the quarter dipped 160 bps due to headcount addition (160 bps impact) visa cost (40 bps impact) partially offset by 50 bps operation efficiency
- Going forward, the company is seeing margin headwind in terms of second selective wage hike, investments to drive growth and return of few cost (which was saved due to Covid). However, Mindtree believes it will be able to maintain margins at 20% plus in coming years mainly led by pyramid rationalisation, fixed price projects, higher offshoring, lower sub con cost, annuity type revenues and revenue growth
- We expect Mindtree to register 50 bps improvement in margins to 20.8% in FY22E and a modest increase of 20 bps YoY to 21% in FY23E
- The company has added three clients in the US$5 million category, five in US$10 million category and one in the US$20 million category. DSO days is down by three days to 57
- Top customer contribution to overall revenues was at 27.4% in the quarter and witnessed growth of 5.4% QoQ. Top 2-5 & 6-10 customers increased 12.8% QoQ & 11.5% QoQ, respectively, which, we believe, is due to a revival in travel clients
- With a net addition of 4072 (including support) in Q1, employee strength was at 27,256. This is robust hiring indicating healthy demand in coming quarters and also to address increase in attrition. The attrition increased 110 bps QoQ to 13.7
- Utilisation (including trainees) declined 110 bps QoQ to 83.2%

Peer comparison

Exhibit 1: Peer Comparison

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹ Cr)	Dollar revenue growth				Margins				P/E				RoCE (%)			
					FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Mindtree (MINCON)	2,622	3,065	Buy	43,183	8.7	(1.1)	20.9	14.4	14	21	21	21	68	39	32	27	23	32	33	33
LTI (LTINFC)	1,513	4,580	Buy	26,435	13.0	9.5	16.9	15.3	19	22	22	22	17	14	12	10	31	32	32	32
Coforge (NIITEC)	4,320	3,985	Buy	26,180	12.3	5.9	29.6	15.8	17	17	19	19	61	59	40	33	23	24	28	29
Tech M (TECMAH)	1,050	1,120	Buy	1,01,584	4.3	(1.4)	10.7	10.1	16	18	19	19	18	21	17	15	18	20	21	23
Average					10	3	20	14	16	19	20	20	41	33	25	21	24	27	28	29

Source: Company, ICICI Direct Research

Industry leading revenue growth and turnaround in margins prompt us to value the company in above the mid-tier peer average at 32x.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	2,291.7	2,270.9	1,908.8	20.1	2,109.3	8.6	Dollar revenues increased 7.7% QoQ, led by growth across verticals and geographies
Employee expenses	1,367.3	1,442.0	1,277.6	7.0	1,312.3	4.2	
Gross Margin	924.4	828.9	631.2	46.5	797.0	16.0	
Gross margin (%)	40.3	36.5	33.1	727 bps	37.8	255 bps	
SG&A expenses	459.9	363.3	309.2	48.7	334.4	37.5	Higher sub contracting cost led to increase in SG&A
EBITDA	464.5	465.5	322.0	44.3	462.6	0.4	
EBITDA Margin (%)	20.3	20.5	16.9	340 bps	21.9	-166 bps	The decline in margins was due to higher headcount addition (170 bps), 40 bps impact visa cost offset by 50 bps operational efficiencies & revenue growth
Depreciation	58.2	70.9	59.7	-2.5	71.3	-18.4	
EBIT	406.3	394.6	262.3	54.9	391.3	3.8	
EBIT Margin (%)	17.7	17.4	13.7	399 bps	18.6	-82 bps	
Other income	71.8	49.3	40.6	76.8	38.9	84.6	
PBT	478.1	443.9	302.9	57.8	430.2	11.1	
Tax paid	124.9	112.0	72.7	71.8	113.9	9.7	
PAT	343.4	318.8	213.0	61.2	317.3	8.2	PAT was above our estimates on the back of better performance at the operating level and higher other income

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

	FY22E			FY23E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	9,466	9,630	1.7	10,956.0	11,165	1.9	We revise our revenue estimates upwards led by traction in cloud & customer experience and healthy deal pipeline
EBITDA	1,969	2,003	1.7	2,301.0	2,345	1.9	
EBITDA Margin (%)	20.8	20.8	0 bps	21.0	21.0	0 bps	We expect margins to stabilise at 21% in FY23E
PAT	1,314	1,337	1.7	1,549.0	1,579	1.9	
EPS (₹)	79.8	81.1	1.7	94.0	95.8	1.9	

Source: Company, ICICI Direct Research

Key Metrics

Exhibit 4: Geography wise break-up

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Revenue by geography (%)					
US	79.0	77.4	77.2	76.6	76.6
Europe	13.1	15.4	15.2	15.7	16.2
RoW	7.9	7.2	7.6	7.7	7.2
Growth QoQ (%)					
US	-6.4	1.0	4.7	4.3	7.7
Europe	-22.1	21.2	3.7	8.6	11.2
RoW	79.6	-6.1	10.9	6.5	0.7

Source: Company, ICICI Direct Research

Growth in revenues was across geography

Exhibit 5: Industry wise break-up

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Revenue by verticals (%)					
Communication Media & Technology	47.1	49.8	49.9	45.8	45.4
BFSI	20.3	20.4	19.6	18.4	18.2
Retail, CPG & Mfg	20.6	21.5	21.6	22.4	22.1
Travel & Hospitality	11.1	8.3	8.9	12.7	13.3
Growth QoQ (%)					
Technology, Media & services	-0.6	9.0	5.2	-3.5	6.8
BFSI	-9.5	3.6	0.9	-1.3	6.6
Retail, CPG & Mfg	-7.7	7.6	5.5	9.0	6.3
Travel & Hospitality	-37.7	-22.9	12.6	50.0	12.8

Source: Company, ICICI Direct Research

Growth was driven by Technology, BFSI, retail and travel

Exhibit 6: Service offerings break up

	Q1FY21	Q4FY21	Q4FY21	QoQ	YoY
Revenue by service offerings (%)					
Customer Success	39.8	38.6	40	11.6	23.2
Data & Intelligence	13.9	16	15	1.0	32.3
Cloud Services	20.1	19.4	19.9	10.5	21.4
Enterpirse IT	26.2	26	25.1	4.0	17.5

Source: Company, ICICI Direct Research

In terms of service offering Customer Success and Cloud services drove growth

Exhibit 7: Client & human resource matrix

	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Client metrics					
$1 mn Clients	127	125	120	118	120
$10 mn Clients	23	24	21	20	25
$20 mn Clients	8	5	4	7	8
$50 mn Clients	1	1	1	1	1
$100 mn Clients	1	1	1	1	1
Headcount, Utilization & Attrition					
Total Employees	21955	21827	22195	23184	27256
Utilization	75.5	78.8	83.1	84.3	83.2

Source: Company, ICICI Direct Research

Client mining continues to be robust. Added one client in US$20 million category

Financial summary

Exhibit 8: Profit and loss statement ₹ crore

	FY20	FY21	FY22E	FY23E
Total Revenues	**7,764**	**7,968**	**9,630**	**11,165**
Growth (%)	10.6	2.6	20.9	15.9
COGS	5,065	5,113	6,211	7,179
Other Expenses	1,637	1,198	1,416	1,641
EBITDA	**1,062**	**1,657**	**2,003**	**2,345**
Growth (%)	(0.2)	56.0	20.9	17.1
Depreciation	275	260	314	364
Other Income	95	152	168	203
Interest paid	53	50	50	50
PBT	829	1,498	1,807	2,133
PBT	829	1,498	1,807	2,133
Growth (%)	(16.0)	80.8	20.6	18.1
Total Tax	198	388	470	555
PAT before MI	631	1,111	1,337	1,579
Minority interest	-	-	-	-
PAT	**631**	**1,111**	**1,337**	**1,579**
EPS - diluted	38.3	67.4	81.1	95.8
EPS (Growth %)	(16.6)	76.0	20.4	18.1

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore

	FY20	FY21	FY22E	FY23E
Net profit before Tax	829	1,498	1,807	2,133
Depreciation	275	260	314	364
(inc)/dec in Current Assets	(135)	123	(327)	(311)
(inc)/dec in current Liabilities	177	291	249	73
CF from operations	**825**	**1,996**	**1,376**	**1,472**
Other Investments	99	(1,121)	168	203
(Purchase)/Sale of Fixed Asset	(122)	(62)	(289)	(145)
CF from investing Activities	**(23)**	**(1,183)**	**(121)**	**58**
Inc / (Dec) in Equity Capital	(49)	(84)	-	-
Othes	(1)	(1)	(150)	(200)
Dividend & Dividend tax	(594)	(288)	(496)	(586)
Interest Paid on Loans	(53)	(50)	(50)	(50)
CF from Financial Activities	**(696)**	**(423)**	**(696)**	**(836)**
Cash generating during the yea	135	369	558	694
Opening cash balance	256	391	564	1,122
Exchange rate differences	29	(21)	-	-
Closing cash	**587**	**564**	**1,318**	**2,012**

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet ₹ crore

	FY20	FY21	FY22E	FY23E
Equity	165	165	165	165
Reserves & Surplus	2,992	4,154	4,995	5,988
Networth	3,157	4,319	5,160	6,153
Minority Interest	-	-	-	-
Total Debt	-	-	-	-
Other long term liabilitie	676	450	450	450
Source of funds	**3,833**	**4,769**	**5,610**	**6,603**
Net Block	860	781	906	888
CWIP	14	22	22	22
Other intangible assets	549	495	495	495
Other long term assets	479	488	568	648
Current investments	694	1,931	1,931	1,931
Debtors	1,439	1,274	1,535	1,784
Cash & Cash equivalen	587	760	1,318	2,012
Loans and advances	10	4	5	6
Other Current Assets(O	525	607	672	733
Trade payables	259	268	317	368
Other Current liabilities	893	1,102	1,255	1,235
Provisions	172	223	269	312
Application of funds	**3,833**	**4,769**	**5,610**	**6,603**

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adjusted EPS (Diluted)	38.3	67.4	81.1	95.8
BV per share	191.7	262.2	313.2	373.5
DPS	13.0	25.0	30.1	35.6
Cash per Share	35.6	46.1	80.0	122.1
Operating Ratios				
EBITDA Margin (%)	13.7	20.8	20.8	21.0
PBT Margin (%)	10.7	18.8	18.8	19.1
PAT Margin (%)	8.1	13.9	13.9	14.1
Debtor days	68	58	58	58
Creditor days	12	12	12	12
Return Ratios (%)				
RoE	20.0	25.7	25.9	25.7
RoCE	23.0	32.5	33.1	33.1
RoIC	31.0	68.0	72.2	75.1
Valuation Ratios (x)				
P/E	68.4	38.9	32.3	27.4
EV / EBITDA	39.4	24.4	19.9	16.7
Price to Book Value	13.7	10.0	8.4	7.0
EV / Net Sales	5.4	5.1	4.1	3.5
Market Cap / Sales	5.6	5.4	4.5	3.9
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.5	1.2	1.2	1.3
Quick Ratio	1.5	1.2	1.2	1.3

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (IT)

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹ Cr)	EPS (₹)				P/E (x)				RoCE (%)				RoE (%)			
					FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
HCL Tech (HCLTEC)	969	1,110	Buy	2,62,863	40.8	45.8	52.3	60.9	24	21	19	16	23.0	23.5	24.7	25.5	21.6	20.8	21.0	21.2
Infosys (INFTEC)	1,545	1,650	Buy	6,58,106	38.9	45.6	55.1	64.2	40	34	28	24	30.8	31.7	34.1	36.9	25.2	25.2	27.9	30.2
TCS (TCS)	3,188	3,800	Buy	11,79,560	86.2	86.7	108.3	127.2	37	37	29	25	44.4	45.9	50.9	54.0	38.4	37.5	43.0	45.3
Tech M (TECMAH)	1,050	1,120	Buy	1,01,584	59.5	50.2	60.1	70.2	18	21	17	15	18.3	19.8	21.2	22.5	17.5	17.8	19.1	19.9
Wipro (WIPRO)	525	530	Hold	2,87,807	16.6	19.1	21.6	26.0	32	28	24	20	19.3	21.3	22.6	27.0	17.4	19.5	22.1	26.6
Mindtree (MINCON)	2,622	3,065	Buy	43,183	38.3	67.4	81.1	95.8	68	39	32	27	23.0	32.5	33.1	33.1	20.0	25.7	25.9	25.7
LTI (LTINFC)	1,513	4,580	Buy	26,435	86.6	110.3	130.5	151.6	17	14	12	10	30.7	31.9	32.1	31.7	28.1	26.5	26.6	26.2
Coforge (NIITEC)	4,320	3,985	Buy	26,180	71.4	73.3	109.0	131.0	61	59	40	33	23.0	23.6	27.6	28.6	18.5	19.2	24.7	25.5
Infoedge (INFEDG)	5,156	5,740	Buy	66,298	26.8	21.2	33.3	47.1	192	243	155	109	18.0	7.7	12.4	16.2	13.5	6.0	9.3	12.2
Teamlease (TEASER)	3,815	4,205	Buy	6,522	20.5	45.3	58.8	92.6	186	84	65	41	15.0	14.2	14.3	18.5	6.5	11.6	13.8	18.0

Source: Company, ICICI Direct Research

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