

Strong numbers, rich valuations...

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
- Leading margins (>20%) compared to mid-tier IT companies

Q2FY22 Results: Mindtree reported robust Q2FY22 results.

- US\$ revenues increased 12.8% QoQ to US\$350 million
- EBITDA margin saw a 140 bps impact on account of wage hike
- Attrition has gone up 400 bps QoQ to 17.7%

What should investors do? Mindtree's share price has grown by ~10x over the past five years (from ~₹ 452 in October 2016 to ~₹ 4693 levels in October 2021)

- We maintain HOLD rating on the stock

Target Price and Valuation: We value Mindtree at ₹ 4,915 i.e. 45x 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 ₹ 6.599



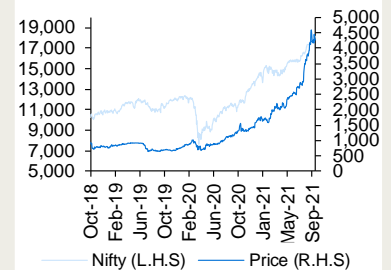
Particulars

Particular	Amount
Market Cap (₹ Crore)	77,295.4
Total Debt (₹ Crore)	-
Cash and Investment (₹ Crore)	2,690.4
EV (₹ Crore)	74,605.0
52 week H/L	4937.15/ 1264.25
Equity capital	164.7
Face value	₹ 10

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	67.6	61.0	61.0	61.0
F II	12.0	13.3	13.9	13.7
D II	12.0	10.6	10.9	11.5
Public	8.4	15.1	14.2	13.8

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%	10,579	12,810	26.8%
EBITDA	1,065	1,062	1,657	15.1%	2,148	2,600	25.3%
EBITDA Margins (%)	15.2	13.7	20.8		20.3	20.3	
Net Profit	754	631	1,111	15.0%	1,480	1,800	27.3%
EPS (₹)	45.9	38.3	67.4		89.8	109.2	
P/E	102.2	122.5	69.6		52.2	43.0	
RoNW (%)	22.8	20.0	25.7		28.2	28.2	
RoCE (%)	29.8	23.0	32.5		36.0	36.3	

Source: Company, ICICI Direct Research

Key takeaways of conference call

Q1FY22 Earnings Conference Call highlights

- The management indicated that customers earlier looking at technology as a tool to drive cost efficiency, are now looking to use it to drive revenues as well, which is enhancing their tech spend
- They indicated that strong numbers for Europe in the quarter were a result of certain backlog but also mentioned that it is a result of last 12 months' continuous investment in the region
- Margins in the quarter expanded 20 bps sequentially due to i) +190 bps added due to efficiency ii) there was an impact of (-140 bps) due to wage hike and (-30 bps) due to cross currency headwinds
- The management indicated growth momentum, going forward, continues to be strong as demand environment, client spending will continue
- They indicated that travelling costs for the quarter were subdued as economies are opening up gradually. They also indicated that travelling cost may remain at this level for Q3 and may start increasing in subsequent quarters
- The management indicated that they maintain their 20%+ EBITDA margin guidance for FY22 despite certain near term challenges in terms of elevated subcontractor's cost. The company is looking to offset cost challenges through continued fresher's hiring (2000 freshers added in last two quarters)
- Attrition was elevated at 17.7% (growth of 400 bps QoQ). The management indicated that supply side challenges are there but as per management these challenges will be short-term in nature

Peer comparison

Exhibit 1: Peer Comparison

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Tech M (TECMAH)	1,430	1,611	BUY	138,205	50.2	64.7	74.6	28.5	22.1	19.2	19.8	22.8	23.7	17.8	20.4	20.8
LTI (LTINFC)	6,098	6,599	BUY	107,055	111.0	126.2	146.4	54.9	48.3	41.6	31.9	30.9	30.6	26.5	25.7	25.4
Mindtree (MINCON)	4,693	4,915	HOLD	77,295	67.4	89.8	109.2	69.6	52.2	43.0	32.5	36.0	36.3	25.7	28.2	28.2
Coforge (NIITEC)	5,595	6,139	BUY	34,781	73.3	106.3	139.1	76.3	52.6	40.2	23.3	26.8	29.8	18.5	23.4	26.2

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

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	2,586.2	2,386.4	1,926.0	34.3	2,291.7	12.9	Dollar revenues increased 12.9% QoQ, led by 36.4% QoQ growth in Europe due to post Covid opening up in retail segment
Employee expenses	1,564.4	1,460.0	1,262.3	23.9	1,367.3	14.4	
Gross Margin	1,021.8	926.4	663.7	54.0	924.4	10.5	
Gross margin (%)	39.5	38.8	34.5	505 bps	40.3	-83 bps	
SG&A expenses	491.1	459.9	273.4	79.6	459.9	6.8	Higher subcontracting cost led to increase in SG&A
EBITDA	530.7	466.5	390.3	36.0	464.5	14.3	
EBITDA Margin (%)	20.5	19.5	20.3	26 bps	20.3	25 bps	Margins were positively impacted by 20 bps despite wage hike and currency headwinds
Depreciation	61.0	58.2	56.9	7.2	58.2	4.8	
EBIT	469.7	408.3	333.4	40.9	406.3	15.6	
EBIT Margin (%)	18.2	17.1	17.3	85 bps	17.7	43 bps	
Other income	74.8	71.8	24.5	205.3	71.8	4.2	
PBT	544.5	480.1	357.9	52.1	478.1	13.9	
Tax paid	138.7	124.9	96.2	44.2	124.9	11.0	
PAT	398.9	345.4	253.7	57.2	343.4	16.2	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

₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	9,630	10,579	9.9	11,164.7	12,810	14.7	We revise our revenue estimates upwards on strong H1 numbers aided by Europe growth
EBITDA	2,003	2,148	7.2	2,344.6	2,600	10.9	
EBITDA Margin (%)	20.8	20.3	-50 bps	21.0	20.3	-70 bps	We cut margins on cost increase
PAT	1,337	1,480	10.7	1,578.6	1,800	14.0	
EPS (₹)	81.1	89.8	10.7	95.8	109.2	14.0	

Source: Company, ICICI Direct Research

Key Metrics

Exhibit 4: Geography wise break-up

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue by geography (%)					
US	77.4	77.2	76.6	76.6	72.8
Europe	15.4	15.2	15.7	16.2	19.6
RoW	7.2	7.6	7.7	7.2	7.6
Growth QoQ (%)					
US	1.0	4.7	4.3	7.7	7.2
Europe	21.2	3.7	8.6	11.2	36.4
RoW	-6.1	10.9	6.5	0.7	19.0

Europe drives growth in revenues

Source: Company, ICICI Direct Research

Exhibit 5: Industry wise break-up

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue by verticals (%)					
Communication Media & Technology	49.8	49.9	45.8	45.4	42.5
BFSI	20.4	19.6	18.4	18.2	17.5
Retail, CPG & Mfg	21.5	21.6	22.4	22.1	25.4
Travel & Hospitality	8.3	8.9	12.7	13.3	13.5
Growth QoQ (%)					
Technology, Media & services	9.0	5.2	-3.5	6.8	5.6
BFSI	3.6	0.9	-1.3	6.6	8.4
Retail, CPG & Mfg	7.6	5.5	9.0	6.3	29.6
Travel & Hospitality	-22.9	12.6	50.0	12.8	14.4

Source: Company, ICICI Direct Research

Growth was driven by Retail, CPG & manufacturing

Exhibit 6: Service offerings break up

	Q2FY21	Q1FY22	Q2FY22	QoQ	YoY
Revenue by service offerings (%)					
Customer Success	38.9	40	43.2	21.8	49.0
Data & Intelligence	14.2	15	14.3	7.5	35.1
Cloud Services	19	19.9	18.7	6.0	32.0
Enterprise IT	27.9	25.1	23.8	6.9	14.4

Source: Company, ICICI Direct Research

In terms of service offering Customer Success drove growth

Exhibit 7: Client & human resource matrix

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Client metrics					
\$1 mn Clients	125	120	118	120	127
\$10 mn Clients	24	21	20	25	30
\$20 mn Clients	5	4	7	8	8
\$50 mn Clients	1	1	1	1	1
\$100 mn Clients	1	1	1	1	1
Headcount, Utilization & Attrition					
Total Employees	21827	22195	23184	27256	29732
Utilization	78.8	83.1	84.3	83.2	82.9

Source: Company, ICICI Direct Research

Client additions has been on lower deal size

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Total Revenues	7,764	7,968	10,579	12,810
Growth (%)	10.6	2.6	32.8	21.1
COGS	5,065	5,113	6,876	8,326
Other Expenses	1,637	1,198	1,555	1,883
EBITDA	1,062	1,657	2,148	2,600
Growth (%)	(0.2)	56.0	29.6	21.1
Depreciation	275	260	307	371
Other Income	95	152	210	254
Interest paid	53	50	50	50
PBT	829	1,498	2,000	2,432
PBT	829	1,498	2,000	2,432
Growth (%)	(16.0)	80.8	33.5	21.6
Total Tax	198	388	520	632
PAT before MI	631	1,111	1,480	1,800
Minority interest	-	-	-	-
PAT	631	1,111	1,480	1,800
EPS - diluted	38.3	67.4	89.8	109.2
EPS (Growth %)	(16.6)	76.0	33.3	21.6

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Net profit before Tax	829	1,498	2,000	2,432
Depreciation	275	260	307	371
(inc)/dec in Current Assets	(135)	123	(642)	(274)
(inc)/dec in current Liabilities	177	291	389	94
CF from operations	825	1,996	1,295	1,708
Other Investments	99	(1,121)	210	254
(Purchase)/Sale of Fixed Assets	(122)	(62)	(317)	(167)
CF from investing Activities	(23)	(1,183)	(108)	87
Inc / (Dec) in Equity Capital	(49)	(84)	-	-
Othes	(1)	(1)	(150)	(200)
Dividend & Dividend tax	(594)	(288)	(549)	(668)
Interest Paid on Loans	(53)	(50)	(50)	(50)
CF from Financial Activities	(696)	(423)	(749)	(918)
Cash generating during the year	135	369	438	877
Opening cash balance	256	391	564	1,001
Exchange rate differences	29	(21)	-	-
Closing cash	587	564	1,198	2,074

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	5,085	6,217
Networth	3,157	4,319	5,250	6,382
Minority Interest	-	-	-	-
Total Debt	-	-	-	-
Other long term liabilities	676	450	450	450
Source of funds	3,833	4,769	5,700	6,832
Net Block	860	781	942	937
CWIP	14	22	22	22
Other intangible assets&c	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	1,811	1,996
Cash & Cash equivalents	587	760	1,198	2,074
Loans and advances	10	4	5	7
Other Current Assets(OC	525	607	710	798
Trade payables	259	268	349	422
Other Current liabilities	893	1,102	1,337	1,295
Provisions	172	223	296	358
Application of funds	3,833	4,769	5,700	6,832

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	₹ crore			
	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adjusted EPS (Diluted)	38.3	67.4	89.8	109.2
BV per share	191.7	262.2	318.7	387.4
DPS	13.0	25.0	33.3	40.5
Cash per Share	35.6	46.1	72.7	125.9
Operating Ratios				
EBITDA Margin (%)	13.7	20.8	20.3	20.3
PBT Margin (%)	10.7	18.8	18.9	19.0
PAT Margin (%)	8.1	13.9	14.0	14.0
Debtor days	68	58	62	57
Creditor days	12	12	12	12
Return Ratios (%)				
RoE	20.0	25.7	28.2	28.2
RoCE	23.0	32.5	36.0	36.3
RoIC	31.0	68.0	72.2	79.5
Valuation Ratios (x)				
P/E	122.5	69.6	52.2	43.0
EV / EBITDA	71.6	45.0	34.5	28.2
Price to Book Value	24.5	17.9	14.7	12.1
EV / Net Sales	9.8	9.4	7.0	5.7
Market Cap / Sales	10.0	9.7	7.3	6.0
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.5	1.2	1.3	1.3
Quick Ratio	1.5	1.2	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (IT)

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HCL Tech (HCLTEC)	1,251	1,475	BUY	339,452	45.8	50.6	60.9	27.3	24.7	20.5	23.5	24.1	25.7	20.8	20.5	21.4
Infosys (INFTEC)	1,716	2,060	BUY	729,276	45.5	54.8	64.3	37.7	31.3	26.7	31.7	34.0	37.0	25.2	27.8	30.3
TCS (TCS)	3,611	4,530	BUY	1,336,070	87.6	110.9	133.0	41.2	32.6	27.2	45.9	51.9	55.8	37.5	43.8	46.8
Tech M (TECMAH)	1,430	1,611	BUY	138,205	50.2	64.7	74.6	28.5	22.1	19.2	19.8	22.8	23.7	17.8	20.4	20.8
Wipro (WIPRO)	708	743	BUY	387,525	19.1	21.2	25.7	37.0	33.5	27.5	21.3	22.8	27.5	19.5	21.6	26.3
LTI (LTINFC)	6,098	6,599	BUY	107,055	111.0	126.2	146.4	54.9	48.3	41.6	31.9	30.9	30.6	26.5	25.7	25.4
Mindtree (MINCON)	4,693	4,915	HOLD	77,295	67.4	89.8	109.2	69.6	52.2	43.0	32.5	36.0	36.3	25.7	28.2	28.2
Coforge (NIITEC)	5,595	6,139	BUY	34,781	73.3	106.3	139.1	76.3	52.6	40.2	23.3	26.8	29.8	18.5	23.4	26.2
TeamLease (TEASER)	4,988	4,550	BUY	8,560	46.5	67.5	100.3	107.3	73.9	49.7	14.2	16.4	19.8	11.6	15.8	18.6
Infoedge (INFEDG)	7,010	6,270	BUY	90,824	20.9	37.1	51.0	335.2	189.0	137.6	7.7	13.1	16.7	6.0	9.9	12.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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