

December 4, 2020

Digital, large deal, client mining key theme...

We attended the virtual analyst meet of Mindtree Ltd. The company highlighted that it plans to grow via account mining, large annuity deals, digital transformation and growth via the partnership & inorganic route. The company has hired leadership (especially from tier 1) to scale large deals, 2) build M&A capability, 3) expand geographies and 4) scale verticals & service lines to achieve the growth objective. With this, coupled with vendor consolidation opportunity and captive carve outs, Mindtree aspires to have industry leading revenue growth in the long run. In the near term, the company is seeing healthy deal pipeline conversion and, hence, expects the momentum of Q2FY21 (up 3.1% QoQ in dollar terms) to continue in Q3FY21E (barring seasonality) and Q4FY21E. In terms of EBITDA margins, the company has multiple levers to sustain its margins at current levels (H2FY21 average margins at ~19%) despite investment in leadership, wage hikes and increase in other discretionary spends.

4*4*4 strategy to help improve growth prospects

In its analyst meet, Mindtree highlighted that cloud, automation, data, cybersecurity are key technology themes emerging in Covid times. In addition, captive carve outs, vendor consolidation are other emerging trends. In order to capture these trends, the company has devised a 4*4*4 strategy that will focus on four geographies, four service line and four verticals. In terms of verticals, Mindtree will focus on 1) Retail CPG & manufacturing with key focus on customer intimacy, 2) BFSI key focus would be core transformation, 3) Travel, Transport & Hospitality with focus on contactless experience and 4) Communication, Media & Technology with focus on reimagining experience and modernise the core. In addition, the company plans to add healthcare vertical to tap emerging opportunities in insurance, hospitals and medical devices. The company believes healthcare is an extension of its services. Also, since it is exiting domain clients like CPG (moving into personal care), retailers (moving to pharmacy) and Tech (moving into wearables) are moving towards healthcare it will benefit from the same. In terms of service lines, the company plans to tap on Customer success (experience led), Data & intelligence, Cloud and Enterprise IT (AMS focused). In terms of geographies, the company aims to focus on North America, UK & Ireland, Continental Europe and Asia Pacific & RoW. The company aims to expand in Norway, Finland, Denmark, Benelux and France (key strategy continued below).

Valuation & Outlook

Healthy order book, higher pipeline, strategy to drive large deals, hire tier 1 leaders to scale growth and expertise in digital technology bode well for long term growth. This, coupled with ability to sustain healthy margins, prompt us to remain positive on the stock. Hence, we maintain our **BUY** rating and target price of ₹ 1680/share (22x FY23E EPS).



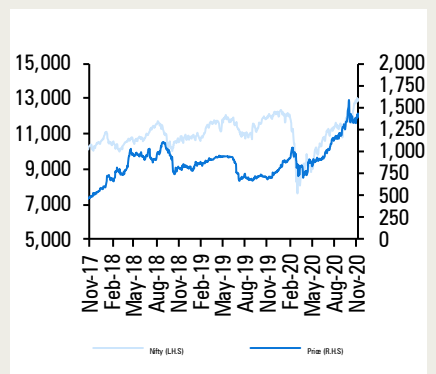
Particulars

| Particular | Amount |
|-------------------------------|-----------|
| Market Cap (₹ Crore) | 23,633.9 |
| Total Debt (₹ Crore) | - |
| Cash and Investment (₹ Crore) | 1,281.4 |
| EV (₹ Crore) | 22,352.5 |
| 52 week H/L | 1605/ 676 |
| Equity capital | 164.6 |
| Face value | ₹ 10 |

Key Highlights

- Client mining, focus on large annuity deals, leverage partnership, digital transformation, vendor consolidation, M&A are key growth drivers
- Aims to sustain margins at current levels despite headwinds
- Maintain BUY

Price Performance



Research Analyst

Devang Bhatt
devang.bhatt@icicisecurities.com

Key Financial Summary

| Key Financials | FY19 | FY20 | FY21E | FY22E | FY23E | CAGR (FY20-23E) |
|--------------------|-------|-------|-------|-------|-------|-----------------|
| Net Sales | 7,022 | 7,764 | 7,867 | 8,672 | 9,664 | 7.6% |
| EBITDA | 1,065 | 1,062 | 1,503 | 1,700 | 1,913 | 21.7% |
| EBITDA Margins (%) | 15.2 | 13.7 | 19.1 | 19.6 | 19.8 | |
| Net Profit | 754 | 631 | 968 | 1,119 | 1,256 | 25.8% |
| EPS (₹) | 45.9 | 38.3 | 58.8 | 68.0 | 76.3 | |
| P/E | 31.2 | 37.5 | 24.4 | 21.1 | 18.8 | |
| RoNW (%) | 22.8 | 20.0 | 25.5 | 25.4 | 24.6 | |
| RoCE (%) | 29.8 | 23.0 | 29.7 | 30.0 | 29.6 | |

Source: Company, ICICI Direct Research

4*4*4 strategy to help improve growth prospects (continued)

To capture the growth in geographies, the company has hired geo focused leaders. Mindtree has also invested in leadership to structure large deals. Large deal team and vertical & service line leadership across geos will help in driving revenue growth. In addition, the company now aims to become a business transformation partner. Hence, it has hired leadership for Mindtree Consulting, which will help in stitching all its service lines to improve its large deals win ratio. Further, the company has partnered with Microsoft Salesforce, Databricks, SAP and start-ups to integrate the emerging digital technologies and boost customer offerings. Mindtree also plans to do an acquisition, which will help boost its geo, service and vertical capability and has hired leadership for the same. Hence, we believe the company has all its strategy in place to capture the emerging digital technologies, scale up its large deals and boost long term revenue growth.

Margins to sustain in longer run

Despite headwinds like investment in leadership, increase in discretionary spends and wage hike, the company aims to sustain margins at current levels. This is due to tailwinds like pyramid rationalisation, SG&A optimisation, automation & productivity and onsite offshore mix.

Other highlights

- The company highlighted that although technology budgets have not increase in post Covid environment, the shift to digital has seen an acceleration. As a result, funds are repurposed to digital from legacy
- Mindtree has collaborated with Larsen & Toubro Infotech on certain deals and is open to more such deals. However, the management denied the merger of the two entities

Financial summary

| Exhibit 1: Profit and loss statement | | | | |
|--------------------------------------|--------------|--------------|--------------|--------------|
| | ₹ crore | | | |
| | FY20 | FY21E | FY22E | FY23E |
| Total Revenues | 7,764 | 7,867 | 8,672 | 9,664 |
| Growth (%) | 10.6 | 1.3 | 10.2 | 11.4 |
| COGS | 5,065 | 5,208 | 5,741 | 6,378 |
| Other Expenses | 1,637 | 1,156 | 1,231 | 1,372 |
| EBITDA | 1,062 | 1,503 | 1,700 | 1,913 |
| Growth (%) | (0.2) | 41.4 | 13.1 | 12.6 |
| Depreciation | 275 | 260 | 286 | 319 |
| Other Income | 95 | 84 | 114 | 114 |
| Interest paid | 53 | 54 | 55 | 56 |
| PBT | 829 | 1,273 | 1,473 | 1,653 |
| PBT | 829 | 1,273 | 1,473 | 1,653 |
| Growth (%) | (16.0) | 53.6 | 15.7 | 12.2 |
| Total Tax | 198 | 306 | 354 | 397 |
| PAT before MI | 631 | 968 | 1,119 | 1,256 |
| Minority interest | - | - | - | - |
| PAT | 631 | 968 | 1,119 | 1,256 |
| EPS - diluted | 38.3 | 58.8 | 68.0 | 76.3 |
| EPS (Growth %) | (16.6) | 53.4 | 15.7 | 12.2 |

Source: Company, ICICI Direct Research

| Exhibit 2: Cash flow statement | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| | ₹ crore | | | |
| | FY20 | FY21E | FY22E | FY23E |
| Net profit before Tax | 829 | 1,273 | 1,473 | 1,653 |
| Depreciation | 275 | 260 | 286 | 319 |
| (inc)/dec in Current Assets | (135) | (239) | (311) | (244) |
| (inc)/dec in current Liabilities | 177 | (18) | 51 | 71 |
| CF from operations | 825 | 860 | 1,006 | 1,264 |
| Other Investments | 99 | 84 | 114 | 114 |
| (Purchase)/Sale of Fixed Asset: | (122) | (315) | (347) | (387) |
| CF from investing Activities | (23) | (230) | (232) | (272) |
| Inc / (Dec) in Equity Capital | (49) | - | - | - |
| Inc / (Dec) in sec.loan Funds | (1) | - | - | - |
| Dividend & Dividend tax | (594) | (329) | (504) | (565) |
| Interest Paid on Loans | (53) | (54) | (55) | (56) |
| CF from Financial Activities | (696) | (383) | (559) | (621) |
| Cash generating during the year | 135 | 247 | 215 | 370 |
| Opening cash balance | 256 | 391 | 638 | 853 |
| Exchange rate differences | 29 | - | - | - |
| Closing cash | 587 | 834 | 1,049 | 1,419 |

Source: Company, ICICI Direct Research

| Exhibit 3: Balance sheet | | | | |
|-----------------------------|--------------|--------------|--------------|--------------|
| | ₹ crore | | | |
| | FY20 | FY21E | FY22E | FY23E |
| Equity | 165 | 165 | 165 | 165 |
| Reserves & Surplus | 2,992 | 3,631 | 4,247 | 4,937 |
| Networth | 3,157 | 3,795 | 4,411 | 5,102 |
| Minority Interest | - | - | - | - |
| Total Debt | - | - | - | - |
| Other long term liability: | 676 | 676 | 676 | 676 |
| Source of funds | 3,833 | 4,472 | 5,087 | 5,778 |
| Net Block | 860 | 915 | 976 | 1,044 |
| CWIP | 14 | 14 | 14 | 14 |
| Other intangible assets | 549 | 549 | 549 | 549 |
| Other long term assets | 479 | 559 | 639 | 719 |
| Current investments | 694 | 694 | 694 | 694 |
| Debtors | 1,439 | 1,489 | 1,618 | 1,791 |
| Cash & Cash equivalent | 587 | 834 | 1,049 | 1,419 |
| Loans and advances | 10 | 10 | 17 | 19 |
| Other Current Assets | 525 | 713 | 888 | 957 |
| Trade payables | 259 | 259 | 285 | 318 |
| Other Current liabilities | 893 | 905 | 941 | 964 |
| Provisions | 172 | 142 | 130 | 145 |
| Application of funds | 3,833 | 4,472 | 5,087 | 5,778 |

Source: Company, ICICI Direct Research

| Exhibit 4: Key ratios | | | | |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March) | FY20 | FY21E | FY22E | FY23E |
| Per share data (₹) | | | | |
| Adjusted EPS (Diluted) | 38.3 | 58.8 | 68.0 | 76.3 |
| BV per share | 191.7 | 230.5 | 267.8 | 309.8 |
| DPS | 13.0 | 20.0 | 30.6 | 34.3 |
| Cash per Share | 35.6 | 50.6 | 63.7 | 86.2 |
| Operating Ratios | | | | |
| EBITDA Margin (%) | 13.7 | 19.1 | 19.6 | 19.8 |
| PBT Margin (%) | 10.7 | 16.2 | 17.0 | 17.1 |
| PAT Margin (%) | 8.1 | 12.3 | 12.9 | 13.0 |
| Debtor days | 68 | 69 | 68 | 68 |
| Creditor days | 12 | 12 | 12 | 12 |
| Return Ratios (%) | | | | |
| RoE | 20.0 | 25.5 | 25.4 | 24.6 |
| RoCE | 23.0 | 29.7 | 30.0 | 29.6 |
| RoIC | 31.0 | 42.4 | 42.4 | 43.7 |
| Valuation Ratios (x) | | | | |
| P/E | 37.5 | 24.4 | 21.1 | 18.8 |
| EV / EBITDA | 21.0 | 14.7 | 12.9 | 11.2 |
| Price to Book Value | 7.5 | 6.2 | 5.4 | 4.6 |
| EV / Net Sales | 2.9 | 2.8 | 2.5 | 2.2 |
| Market Cap / Sales | 3.0 | 3.0 | 2.7 | 2.4 |
| Solvency Ratios | | | | |
| Debt/EBITDA | - | - | - | - |
| Debt / Equity | - | - | - | - |
| Current Ratio | 1.5 | 1.7 | 1.9 | 1.9 |
| Quick Ratio | 1.5 | 1.7 | 1.9 | 1.9 |

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Devang Bhatt, PGDBM, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with SEBI Registration Number – INH00000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.