

## Resilient performance...

**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

**Q1FY23 Results:** Mindtree reported strong numbers.

- Sixth consecutive quarter of 5%+ CC QoQ growth
- EBITDA margins were up 10 bps to 21.1%
- Record TCv booking of US\$570 million

**What should investors do?** Mindtree's share price has grown by ~5.5x over the past five years (from ~₹ 514 in July 2017 to ~₹ 2,790 levels in July 2022).

- We change our rating on the stock from HOLD to **BUY**

**Target Price and Valuation:** We value Mindtree at ₹ 3320 i.e. 26x P/E on FY24E EPS.

### Key triggers for future price performance:

- Traction in multi-year deals client mining, scaling up and cross-selling to existing clients led to highest ever TCv
- 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 19.4% CAGR from FY22-24E

**Alternate Stock Idea:** Besides 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
- Recommend HOLD rating with a target price of ₹ 4,480



Mindtree  
Welcome to possible

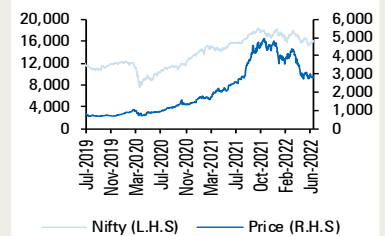
### Particulars

Particular	Amount
Market Cap (₹ Crore)	45,950.3
Total Debt (₹ Crore)	-
Cash and Investment (₹ Crore)	3,290.4
EV (₹ Crore)	42,659.9
52 week H/L	2.0
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

- Strong deal pipeline and EBITDA guidance of 20%+
- **Key Risk:** i) Steep decline in retail vertical & Europe region, ii) wage hike & increase in travel expenses having an impact on margins

### Research Analyst

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## Key Financial Summary

Key Financials	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	7,764	7,968	10,525	15.0%	12,925	15,007	19.4%
EBITDA	1,062	1,657	2,196	25.5%	2,585	3,001	16.9%
EBITDA Margins (%)	13.7	20.8	20.9		20.0	20.0	
Net Profit	631	1,111	1,653	31.6%	1,812	2,111	13.0%
EPS (₹)	38.3	67.4	100.3		109.8	127.9	
P/E	73.4	41.7	28.0		25.6	22.0	
RoNW (%)	20.0	25.7	30.2		27.4	26.6	
RoCE (%)	23.0	32.5	38.0		35.4	34.5	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

- The company reported constant currency growth of 5.5% QoQ. It is the sixth consecutive quarter of 5%+ CC growth on a QoQ basis. Dollar revenue grew 4% QoQ to US\$399 million (mn). In rupee terms, revenue grew 7.7% QoQ to ₹ 3,121 crore
- In terms of geographies, the growth in revenues was led by North America (77% of the mix) that grew 8.5% QoQ. APAC region grew 2.6% QoQ. Continental Europe (7.9% of the mix) and UK & Ireland (6.8% of the mix) declined 9.2% QoQ & 18.7% QoQ, respectively
- Vertical wise, growth was driven by travel & hospitality (up 11.2% QoQ) while BFSI was up 6.5% QoQ and technology, media & services were up 5.9% QoQ. Retail reported a decline of 8.7% QoQ due to ramp down by a couple of clients & cross currency headwinds. The company indicated that client's operations were impacted by the Russia Ukraine war and supply chain disruption due to lockdown in China. Its new vertical healthcare (forms 2% of the mix) grew 43.5% QoQ on a low base
- EBITDA grew 8.2% QoQ to ₹ 658 crore while EBITDA margins increased sequentially by ~10 bps to 21.1% (ex-merger cost margin was 21.7%). Headwinds for EBITDA margins were i) -50 bps by visa related cost ii) -60 bps impact of merger related costs. Tailwinds for margins were i) +50 bps due to operational efficiency ii) +70 bps forex gains. The company indicated that merger related costs are not recurring in nature. However, it mentioned that any integration related costs may come up in future but is expected to hit P&L of the combined entity. The company maintained 20% EBITDA margin guidance for FY23 despite wage hikes in Q2 on account of flattening of the pyramid due to which costs are not expected to pinch much
- Mindtree has added 1500 freshers for the quarter and indicated that this is the fourth consecutive quarter of 1500 fresher additions. The company is looking to add 7500 freshers in FY23, which indicates that freshers additions would accelerate from Q2 onward. The company indicated that freshers now form 20% of its employee base. Mindtree indicated that attrition is expected to be elevated for a couple of quarters before tapering down
- The company indicated that the travel vertical has now recovered and is above pre-pandemic level. Mindtree also indicated that diversification in this vertical (beyond servicing traditional clients in airlines and hotels space) also helped in the growth of the vertical
- Top client has contributed to 26% of the revenue mix, which grew 8.6% QoQ. The management indicated that its top client has multiple lines of businesses (LOBs) and impact of any slowdown will not be identical across businesses. Hence, growth in even a few LOBs would help the company to report strong growth
- Mindtree has been reporting a record order book of US\$570 mn, up 46% QoQ and 13% YoY. The company continues to focus on upscaling and cross selling to its focused clients. The Focus 100 clients contribute 90% of the income. Mindtree also indicated that client demand continues to be robust. Barring a few clients, they have not deviated from their annual plans
- Mindtree indicated that subcontractor costs as percentage of sales has been coming down in the last few quarters, which reflects in their operations skewed towards offshore. The company also indicated that as travel is now open. It expects travel cost to increase gradually from 1.8% in Q1FY23
- 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
- Mindtree received the NOC from stock exchanges for its merger with LTI. The company filed for NCLT approval for the merger on June 17, 2022 and expects the final approval by Q4FY23

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)	990	1,190	BUY	96,274	63.1	68.5	79.5	15.7	14.5	12.5	22.5	22.5	23.0	20.7	20.0	20.6
LTI (LTINFCL)	4,015	4,480	HOLD	70,360	130.8	140.3	165.9	30.7	28.6	24.2	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	2,810	3,320	BUY	46,310	100.3	109.8	127.9	28.0	25.6	22.0	38.0	35.4	34.5	30.2	27.4	26.6
Coforge (NIITEC)	3,506	4,550	BUY	21,354	106.5	147.8	175.0	32.9	23.7	20.0	25.6	31.5	31.8	24.2	28.4	28.3

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	3,121.1	3,096.3	2,291.7	36.2	2,897.4	7.7	Sixth consecutive quarter of 5%+ CC revenue growth
Employee expenses	1,853.6	1,886.3	1,367.3	35.6	1,750.3	5.9	
Gross Margin	1,267.5	1,210.0	924.4	37.1	1,147.1	10.5	
Gross margin (%)	40.6	39.1	40.3	27 bps	39.6	102 bps	
SG&A expenses	609.4	583.1	459.9	32.5	538.8	13.1	
EBITDA	658.1	626.9	464.5	41.7	608.3	8.2	
EBITDA Margin (%)	21.1	20.2	20.3	82 bps	21.0	9 bps	Margins impacted by following: headwinds -50 bps visa cost, -60 bps merger related cost & tailwinds +50 bps operational efficiency, +70 bps forex gains
Depreciation	59.9	66.9	58.2	2.9	59.6	0.5	
EBIT	598.2	560.0	406.3	47.2	548.7	9.0	
EBIT Margin (%)	19.2	18.1	17.7	144 bps	18.9	23 bps	
Other income	39.5	90.0	71.8	-45.0	89.9	-56.1	
PBT	625.5	637.5	465.2	34.5	626.5	-0.2	
Tax paid	153.9	156.2	121.8	26.4	153.4	0.3	
PAT	471.6	481.3	343.4	37.3	473.1	-0.3	

Source: Company, ICICI Direct Research

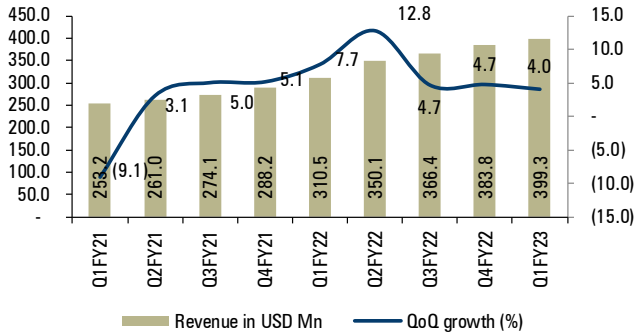
**Exhibit 3: Change in estimates**

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Revenue	12,925	12,925	0.0	15,007.0	15,007	0.0
EBITDA	2,585	2,585	0.0	3,001.4	3,001	0.0
EBITDA Margin (%)	20.0	20.0	0 bps	20.0	20.0	0 bps
PAT	1,812	1,812	0.0	2,110.6	2,111	0.0
EPS (₹)	109.8	109.8	0.0	127.9	127.9	0.0

Source: Company, ICICI Direct Research

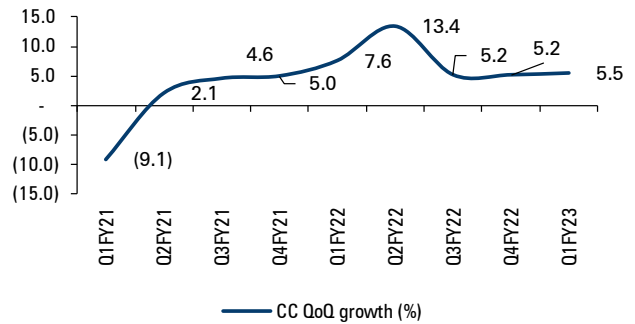
### Key Metrics

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



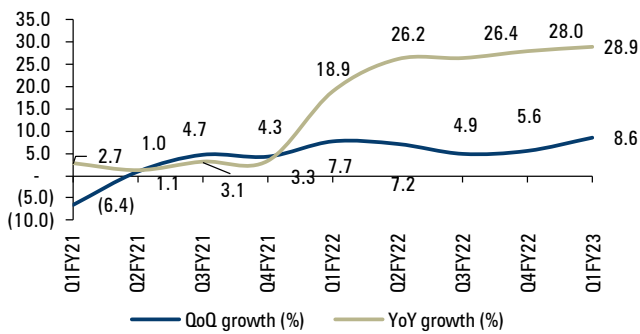
Source: Company, ICICI Direct Research

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



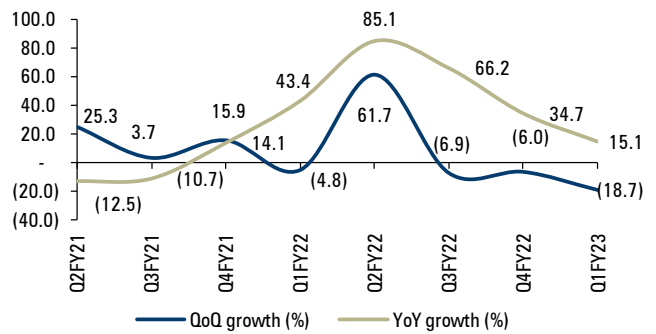
Source: Company, ICICI Direct Research

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



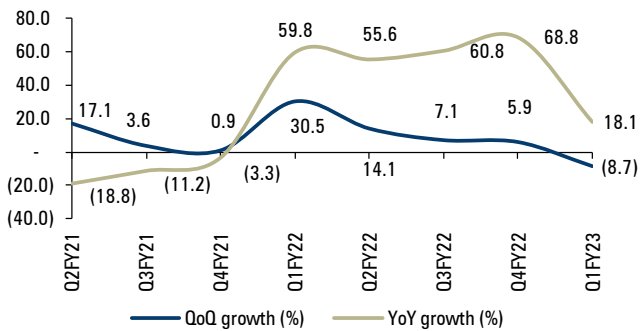
Source: Company, ICICI Direct Research

**Exhibit 7: UK sees moderation QoQ**



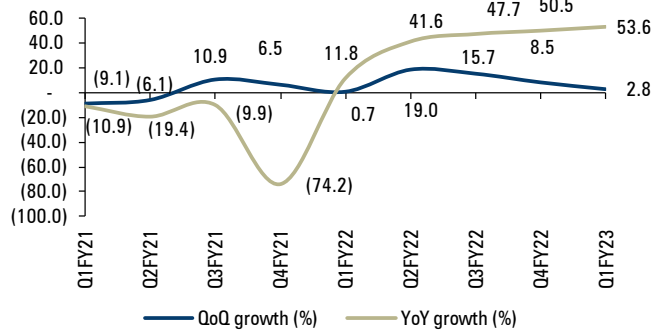
Source: Company, ICICI Direct Research

**Exhibit 8: As does Continental Europe on client ramp down**



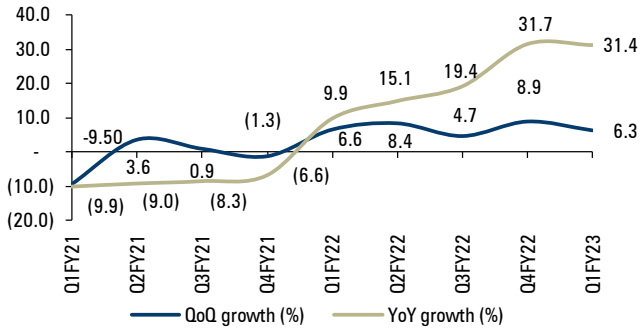
Source: Company, ICICI Direct Research

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



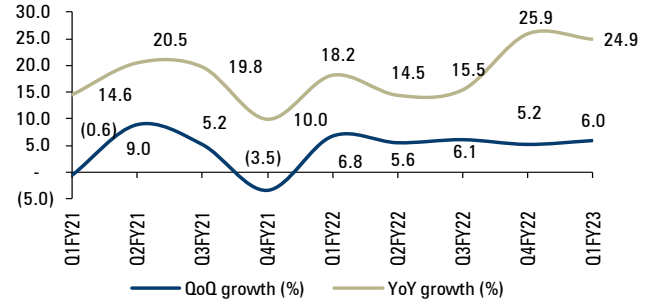
Source: Company, ICICI Direct Research

Exhibit 10: BFSI vertical QoQ, YoY growth



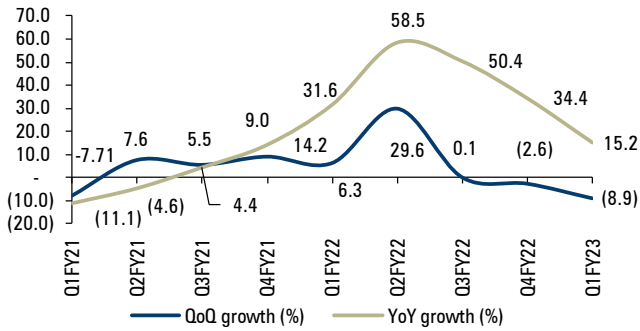
Source: Company, ICICI Direct Research

Exhibit 11: CMT has been growing steadily



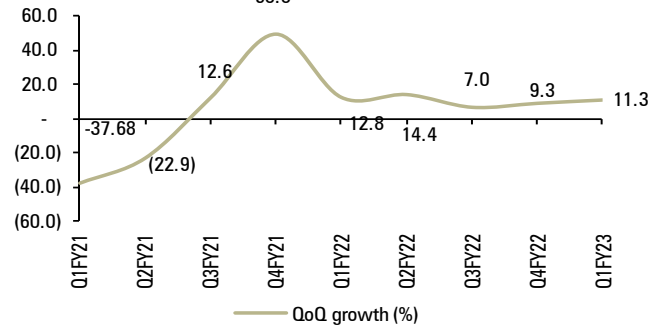
Source: Company, ICICI Direct Research

Exhibit 12: Retail muted due to client ramp down



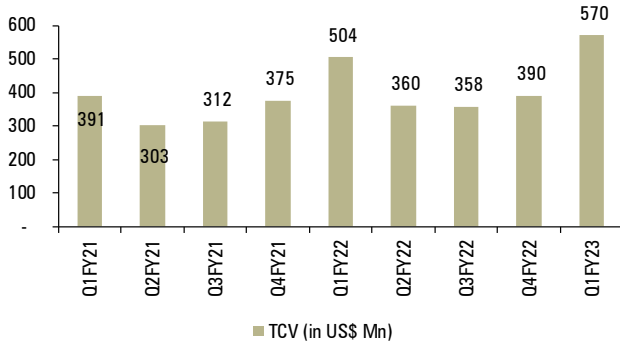
Source: Company, ICICI Direct Research

Exhibit 13: Travel vertical reports recovery



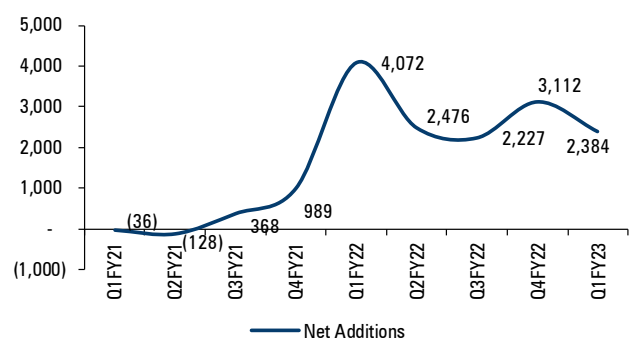
Source: Company, ICICI Direct Research

Exhibit 14: TCV has been growing steadily



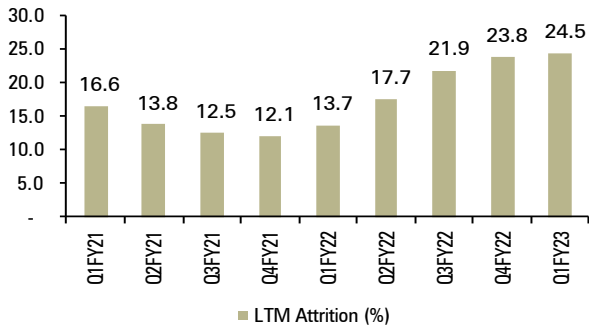
Source: Company, ICICI Direct Research

Exhibit 15: Net employee additions have been strong



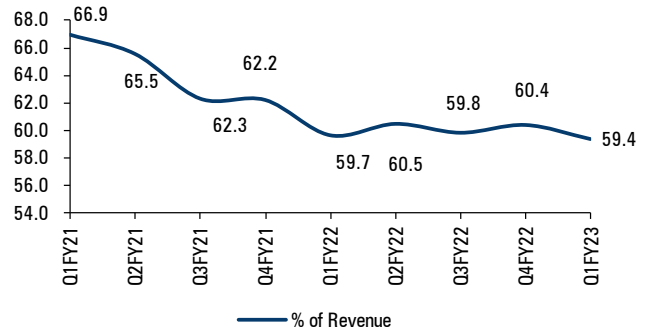
Source: Company, ICICI Direct Research

Exhibit 16: LTM attrition has been rising



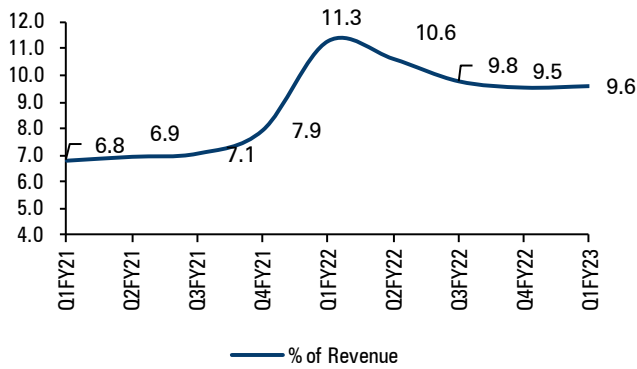
Source: Company, ICICI Direct Research

Exhibit 17: Employee cost as % of revenue coming down...



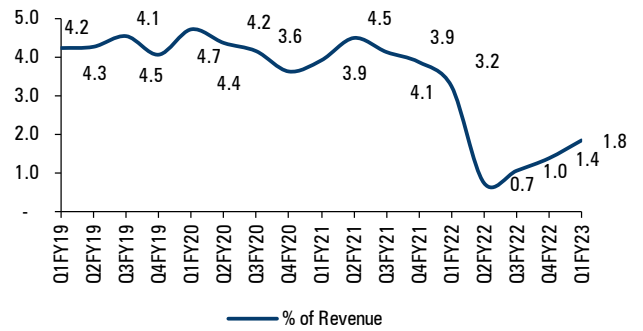
Source: Company, ICICI Direct Research

Exhibit 18: ...As is sub-contractor cost as % of revenue...



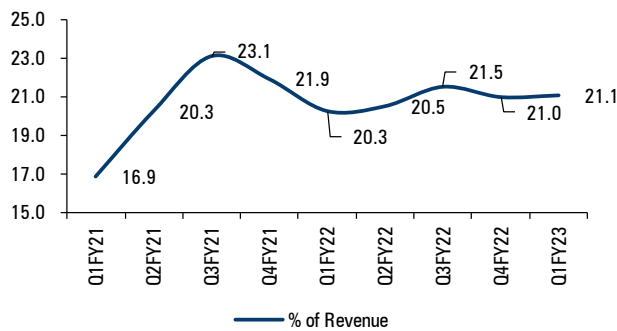
Source: Company, ICICI Direct Research

Exhibit 19: ...While travel costs are resuming



Source: Company, ICICI Direct Research

Exhibit 20: EBITDA margin has been resilient



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 21: Profit and loss statement				
	₹ crore			
	FY21	FY22	FY23E	FY24E
<b>Total Revenues</b>	<b>7,968</b>	<b>10,525</b>	<b>12,925</b>	<b>15,007</b>
Growth (%)	2.6	32.1	22.8	16.1
COGS	5,113	6,328	8,402	9,755
Other Expenses	1,198	2,002	1,939	2,251
<b>EBITDA</b>	<b>1,657</b>	<b>2,196</b>	<b>2,585</b>	<b>3,001</b>
Growth (%)	56.0	32.5	17.7	16.1
Depreciation	260	242	323	375
Other Income	152	307	254	276
Interest paid	50	50	50	50
PBT	1,498	2,211	2,465	2,852
PBT	1,498	2,211	2,465	2,852
Growth (%)	80.8	47.5	11.5	15.7
Total Tax	388	558	653	742
PAT before MI	1,111	1,653	1,812	2,111
Minority interest	-	-	-	-
<b>PAT</b>	<b>1,111</b>	<b>1,653</b>	<b>1,812</b>	<b>2,111</b>
EPS - diluted	67.4	100.3	109.8	127.9
EPS (Growth %)	76.0	48.7	9.5	16.5

Source: Company, ICICI Direct Research

Exhibit 22: Cash flow statement				
	₹ crore			
	FY21	FY22	FY23E	FY24E
Net profit before Tax	1,498	2,211	2,465	2,852
Depreciation	260	242	323	375
(inc)/dec in Current Assets	123	(820)	(426)	(323)
(inc)/dec in current Liabilities	291	508	81	233
<b>CF from operations</b>	<b>1,996</b>	<b>1,537</b>	<b>1,507</b>	<b>2,090</b>
Other Investments	(1,121)	(489)	254	276
(Purchase)/Sale of Fixed Assets	(62)	(197)	(168)	(195)
<b>CF from investing Activities</b>	<b>(1,183)</b>	<b>(686)</b>	<b>86</b>	<b>81</b>
Inc / (Dec) in Equity Capital	(84)	(93)	-	-
Others	(1)	-	(200)	(200)
Dividend & Dividend tax	(288)	(453)	(672)	(783)
Interest Paid on Loans	(50)	(50)	(50)	(50)
<b>CF from Financial Activities</b>	<b>(423)</b>	<b>(596)</b>	<b>(922)</b>	<b>(1,033)</b>
Cash generating during the year	369	292	670	1,138
Opening cash balance	391	760	1,051	1,721
Exchange rate differences	(21)	36	-	-
<b>Closing cash</b>	<b>760</b>	<b>1,051</b>	<b>1,721</b>	<b>2,859</b>

Source: Company, ICICI Direct Research

Exhibit 23: Balance sheet				
	₹ crore			
	FY21	FY22	FY23E	FY24E
Equity	165	165	165	165
Reserves & Surplus	4,154	5,309	6,449	7,776
Networth	4,319	5,474	6,614	7,941
Minority Interest	-	-	-	-
Total Debt	-	-	-	-
Other long term liabilities	450	483	483	483
<b>Source of funds</b>	<b>4,769</b>	<b>5,957</b>	<b>7,096</b>	<b>8,424</b>
Net Block	781	895	782	802
CWIP	22	22	22	22
Other intangible assets&I	495	481	481	481
Other long term assets	488	687	767	847
Current investments	1,931	2,239	2,396	2,396
Debtors	1,274	1,731	2,110	2,350
Cash & Cash equivalents	760	1,051	1,721	2,859
Loans and advances	4	4	7	8
Other Current Assets(OC	607	1,048	1,093	1,175
Trade payables	268	536	426	495
Other Current liabilities	1,102	1,421	1,495	1,601
Provisions	223	244	361	419
<b>Application of funds</b>	<b>4,769</b>	<b>5,957</b>	<b>7,096</b>	<b>8,424</b>

Source: Company, ICICI Direct Research

Exhibit 24: Key ratios				
(Year-end March)	₹ crore			
	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Adjusted EPS (Diluted)	67.4	100.3	109.8	127.9
BV per share	262.2	332.0	400.6	481.1
DPS	25.0	37.1	40.7	47.4
Cash per Share	46.1	63.8	104.3	173.2
<b>Operating Ratios</b>				
EBITDA Margin (%)	20.8	20.9	20.0	20.0
PBT Margin (%)	18.8	21.0	19.1	19.0
PAT Margin (%)	13.9	15.7	14.0	14.1
Debtor days	58	60	60	57
Creditor days	12	19	12	12
<b>Return Ratios (%)</b>				
RoE	25.7	30.2	27.4	26.6
RoCE	32.5	38.0	35.4	34.5
RoIC	68.0	73.9	76.5	83.4
<b>Valuation Ratios (x)</b>				
P/E	41.4	27.8	25.4	21.8
EV / EBITDA	26.1	19.4	16.2	13.6
Price to Book Value	10.6	8.4	7.0	5.8
EV / Net Sales	5.4	4.1	3.2	2.7
Market Cap / Sales	5.8	4.4	3.6	3.1
<b>Solvency Ratios</b>				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.2	1.3	1.4	1.4
Quick Ratio	1.2	1.3	1.4	1.4

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)	918	1,050	HOLD	2,49,047	49.8	50.5	55.2	18.4	18.2	16.6	24.2	24.8	26.0	21.8	21.0	21.9
Infosys (INFTEC)	1,445	1,745	BUY	6,07,980	52.1	58.2	67.1	27.7	24.8	21.5	36.0	35.2	37.7	29.2	29.2	31.2
TCS (TCS)	3,039	3,785	BUY	11,11,821	104.7	115.1	130.4	29.0	26.4	23.3	51.4	49.2	48.7	43.0	41.9	41.0
Tech M (TECMAH)	990	1,190	BUY	96,274	63.1	68.5	79.5	15.7	14.5	12.5	22.5	22.5	23.0	20.7	20.0	20.6
Wipro (WIPRO)	407	465	HOLD	2,23,033	22.3	24.5	27.4	18.3	16.6	14.8	18.1	19.8	21.2	18.6	19.6	21.1
LTI (LTINFC)	4,015	4,480	HOLD	70,360	130.8	140.3	165.9	30.7	28.6	24.2	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	2,790	3,320	BUY	45,981	100.3	109.8	127.9	27.8	25.4	21.8	38.0	35.4	34.5	30.2	27.4	26.6
Coforge (NIITEC)	3,506	4,550	BUY	21,354	106.5	147.8	175.0	32.9	23.7	20.0	25.6	31.5	31.8	24.2	28.4	28.3
TeamLease (TEASER)	3,536	4,025	BUY	6,046	22.5	95.0	125.4	157.3	37.2	28.2	15.4	19.2	20.7	(4.7)	18.9	20.2
Infoedge (INFEDG)	3,885	4,575	BUY	48,818	35.8	41.6	45.5	108.6	93.3	85.4	4.2	5.0	5.3	3.2	3.8	4.0

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours 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%



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## ANALYST CERTIFICATION

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