

FIRST LIGHT

16 October 2020

RESEARCH

Mindtree | Target: Rs 1,540 | +8% | ADD

Robust margin visibility

SUMMARY

Mindtree

Mindtree (MTCL) reported a strong Q2FY21 operational performance, with dollar revenue up 3.1% QoQ and EBIT margin at a 20-quarter high of 17.3% (+360bps QoQ). Management expects continued margin resilience in the near term despite impending wage hikes. Deal wins at US\$ 303mn slowed QoQ. We raise FY22/FY23 EPS by 18%/14% on higher margin assumptions and raise our target P/E by 10% to 21x. Rolling valuations over, we have a revised Sep'21 TP of Rs 1,540 (vs. Rs 1,220 earlier). Retain ADD.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
Tech Mahindra	Buy	910

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.73	0bps	6bps	(101bps)
India 10Y yield (%)	5.90	0bps	(14bps)	(56bps)
USD/INR	73.30	0.1	0.3	(2.6)
Brent Crude (US\$/bbl)	43.32	2.0	8.8	(27.1)
Dow	28,514	(0.6)	3.1	5.6
Shanghai	3,341	(0.6)	2.5	12.2
Sensex	40,795	0.4	5.0	5.7
India FII (US\$ mn)	13 Oct	MTD	CYTD	FYTD
FII-D	27.1	41.9	(14,637.8)	(4,878.3)
FII-E	255.7	1,077.0	5,117.1	11,720.1

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



ADD

TP: Rs 1,540 | ▲ 8%

MINDTREE

| IT Services

| 15 October 2020

Robust margin visibility

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Ruchi Burde | Seema Nayak

research@bobcaps.in

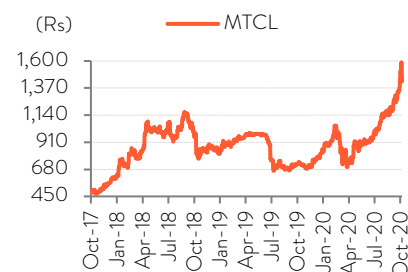
Margins outperform: MTCL's Q2 performance was a beat on both topline and margins. At 3.1% QoQ, USD revenue growth bettered our estimate of 2.3% due to broad-based recovery, including in the troubled communication and travel verticals. Manufacturing and retail showed the highest recovery of 7.6% QoQ aided by strong project delivery. MTCL's EBIT margin was the biggest surprise, expanding 360bps QoQ to 17.3%, led by an 11.6% drop in SG&A costs. The company had seen steep margin contraction to 6.1% post takeover by L&T in Q1FY20. Management expects to sustain current margins.

Ticker/Price	MTCL IN/Rs 1,425
Market cap	US\$ 3.2bn
Shares o/s	165mn
3M ADV	US\$ 22.2mn
52wk high/low	Rs 1,606/Rs 675
Promoter/FPI/DII	74%/11%/15%

Source: NSE

Slowdown in new deals QoQ: TCV stood at US\$ 303mn in Q2 (US\$ 694mn for H1FY21), declining 22.5% QoQ and remaining flatish YoY, with a significant portion coming from net new deals. The wins were from CPG, BFSI and healthcare. Management indicated that the large-deal pipeline remains strong and digital implementation is being expedited among enterprises.

STOCK PERFORMANCE



Source: NSE

Healthy pipeline; positive outlook: MTCL indicated that demand has grown in the areas of simplification of operations, cost takeout, vendor consolidation and customer experience. Contractual pricing remains stable and management anticipates a healthy win ratio and pipeline. Pending salary hikes will be carried out in Jan'21 but management expects margins to still remain intact.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	70,215	77,643	79,171	91,883	100,695
EBITDA (Rs mn)	10,645	10,623	15,286	18,377	19,650
Adj. net profit (Rs mn)	7,542	6,309	9,698	11,511	12,354
Adj. EPS (Rs)	45.8	38.3	58.9	69.9	75.0
Adj. EPS growth (%)	32.1	(16.3)	53.7	18.7	7.3
Adj. ROAE (%)	24.9	19.5	28.2	28.4	26.1
Adj. P/E (x)	31.1	37.2	24.2	20.4	19.0
EV/EBITDA (x)	22.0	21.9	15.1	12.3	11.1

Source: Company, BOBCAPS Research



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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