

**ADD**

TP: Rs 2,180 | ▲ 5%

**MINDTREE**

| IT Services

| 16 April 2021

## Continued recovery in travel; TCV robust

**Mindtree (MTCL) reported a strong Q4FY21 performance with dollar revenue growth of 5.2% QoQ, ahead of estimates. EBIT margin was in line at 18.6% (-100bps QoQ). Deal wins were healthy, rising 20% QoQ to US\$ 375mn. Management expects double-digit growth and a 20%+ EBITDA margin for FY22. We raise FY22/FY23 EPS by 14% each on better growth and margin assumptions. Rolling valuations over, we have a revised Mar'22 TP of Rs 2,180 (vs. Rs 1,850), based on an unchanged target P/E of 23.4x. Retain ADD.**

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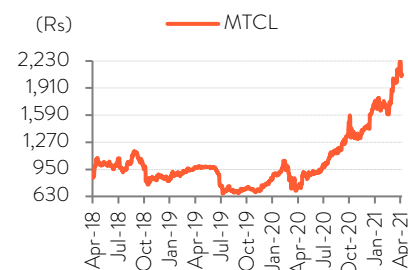
**Travel and manufacturing recovery continues:** Despite seasonality, MTCL's dollar revenue increased 5.2% QoQ vs. 4.7% estimated. Sequential growth was driven by a 17% uptick in travel, media & services and a 9% uptick in manufacturing. Communications, media and technology grew at a healthy 4.1% QoQ. BFSI was flattish due to a few large deals being pushed to Q1FY22. Among geographies, Europe led the momentum at 8.6%. TCV at US\$ 375mn increased 20% QoQ. Overall, MTCL has delivered Q4 growth on par with tier-I IT players.

Ticker/Price	MTCL IN/Rs 2,070
Market cap	US\$ 4.6bn
Shares o/s	165mn
3M ADV	US\$ 30.0mn
52wk high/low	Rs 2,276/Rs 721
Promoter/FPI/DII	74%/11%/15%

Source: NSE

**Margins steady:** EBITDA margin stood at 21.9%, in line with management's guidance of achieving a 20%+ EBITDA margin for Q4. EBIT margin contracted 100bps QoQ to 18.6% due to salary hikes and a spike in hiring. Utilisation was at an all-time high of 84.3%, up 120bps QoQ. MTCL has embarked on a positive growth cycle following new CEO takeover, resulting in elevated margins due to an aggressive focus on profitable growth (using levers such as utilisation, offshoring and deep account mining).

## STOCK PERFORMANCE



Source: NSE

**Healthy pipeline; positive outlook:** Per management, MTCL is on track to achieve double-digit growth in FY22 (already factored in our estimates), given its robust pipeline where a majority of the deals are annuity in nature. EBITDA margin is guided to hold above 20% in FY22.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	70,215	77,643	79,678	97,011	110,247
EBITDA (Rs mn)	10,645	10,623	16,426	21,913	23,006
Adj. net profit (Rs mn)	7,542	6,309	11,103	14,627	15,257
Adj. EPS (Rs)	45.8	38.3	67.4	88.8	92.7
Adj. EPS growth (%)	32.1	(16.3)	76.0	31.7	4.3
Adj. ROAE (%)	24.9	19.5	29.7	31.3	28.0
Adj. P/E (x)	45.2	54.0	30.7	23.3	22.3
EV/EBITDA (x)	31.9	31.9	20.5	15.2	14.3

Source: Company, BOBCAPS Research

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## Other highlights

- MTCL has been selected by a leading bank to provide salesforce transformation services across multiple geographies for their asset management division.
- The company's employee count increased by ~1,600 QoQ, the highest ever quarterly addition, to meet future demand and tackle the impending supply pressure.
- Top client concentration has decreased 50bps QoQ to 28% in Q4.
- The board has recommended final dividend of Rs 17.5/sh for FY21.

### FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Revenues (US\$ mn)</b>	<b>288.2</b>	<b>278.4</b>	<b>3.5</b>	<b>274.1</b>	<b>5.2</b>	<b>1,077</b>	<b>1,089</b>	<b>(1.1)</b>
<b>Revenue</b>	<b>21,093</b>	<b>20,505</b>	<b>2.9</b>	<b>20,237</b>	<b>4.2</b>	<b>79,678</b>	<b>77,643</b>	<b>2.6</b>
Operating Expenditure	16,467	17,268	(4.6)	15,558	5.8	63,252	67,020	(5.6)
Cost of revenues	13,123	12,933	1.5	12,610	4.1	51,134	50,647	1.0
as % of sales	62.2	63.1	-	62.3		64.2	65.2	-
SG&A expenses	3,344	4,335	(22.9)	2,948	13.4	12,118	16,373	(26.0)
as % of sales	15.9	21.1	(25.0)	14.6	-	15.2	21.1	-
<b>EBITDA</b>	<b>4,626</b>	<b>3,237</b>	<b>42.9</b>	<b>4,679</b>	<b>(1.1)</b>	<b>16,426</b>	<b>10,623</b>	<b>54.6</b>
Depreciation	713	679	5.0	717	(0.6)	2,596	2,754	(5.7)
<b>EBIT</b>	<b>3,913</b>	<b>2,558</b>	<b>53.0</b>	<b>3,962</b>	<b>(1.2)</b>	<b>13,830</b>	<b>7,869</b>	<b>75.8</b>
Other Income	275	55	400.0	489	(43.8)	1,152	419	174.9
PBT	4,188	2,613	60.3	4,451	(5.9)	14,982	8,288	80.8
Total Tax	1,015	551	84.2	1,186	(14.4)	3,879	1,979	96.0
<b>Adjusted PAT</b>	<b>3,173</b>	<b>2,062</b>	<b>53.9</b>	<b>3,265</b>	<b>(2.8)</b>	<b>11,103</b>	<b>6,309</b>	<b>76.0</b>
Other comprehensive income/(loss)	288	(2103)	-	714	-	3,298	(2,118)	-
APAT after MI	3,461	(41)	(8,541.5)	3,979	(13.0)	14,401	4,191	243.6
Extra ordinary items	0	0	-	0	-	0	0	-
<b>Reported PAT</b>	<b>3,461</b>	<b>(41)</b>	<b>(8,541.5)</b>	<b>3,979</b>	<b>(13.0)</b>	<b>14,401</b>	<b>4,283</b>	<b>236.2</b>
Reported EPS	19.3	12.5	53.9	19.8	(2.8)	67	38	76.0
<b>Margins (%)</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
EBITDA	21.9	15.8	610	23.1	(120)	20.6	13.7	690
EBIT	18.6	12.5	610	19.6	(100)	17.4	10.1	720
EBT	19.9	12.7	710	22.0	(210)	18.8	10.7	810
PAT	16.4	(0.2)	1,660	19.7	(330)	18.1	5.4	1,270
Effective Tax rate	24.2	21.1	310	26.6	(240)	25.9	23.9	200

Source: BOBCAPS Research, Company

**FIG 2 – OPERATING METRICS**

(in US\$ terms)	Q4FY21 (% Contri. to Revenue)	QoQ (%)	YoY (%)
Deal wins	375	20.2	(4.6)
<b>Revenue by Geography</b>			
North America	76.6	4.3	3.3
Europe	15.7	8.6	6.2
<b>Revenue by Vertical</b>			
Communications, media and technology	49.4	4.1	18.7
BFSI	18.4	(1.3)	(6.6)
Manufacturing & Retail	22.4	9.0	14.2
Travel, Media and Services	9.9	17.0	(36.7)
<b>Client Concentration</b>			
Top Client	28.0	3.3	16.9
Top 5 Clients	38.6	2.0	5.4
Top 10 Clients	47.3	1.5	3.3
Non-Top 10 Clients	52.7	8.6	3.7

Source: BOBCAPS Research, Company

## Valuation methodology

MTCL's operating margin recovery following change of ownership is tracking ahead of expectations. Factoring in QoQ USD growth beat, we raise our FY22/FY23 EPS estimates by 14.1%/14.5% as we believe the company is embarking on a phase of stable, high margins due to its aggressive focus on profitable growth. Management's strong FY22 EBITDA margin guidance of 20%+ levels, with a focus on utilisation (to be maintained at 80%+) and offshoring, points to better profit management.

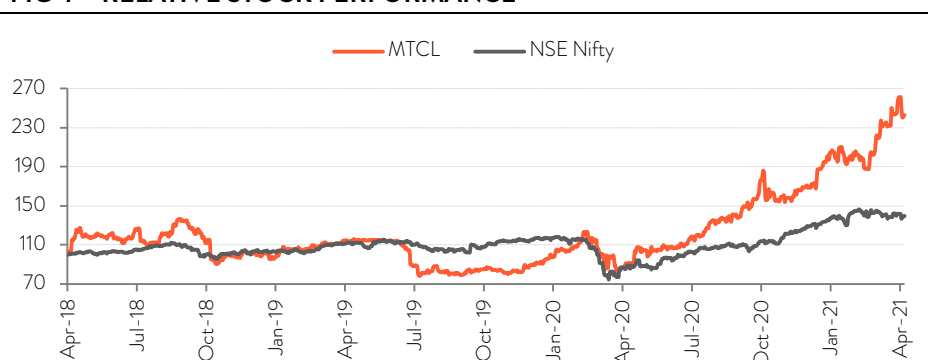
Rolling valuations forward, we have a revised Mar'22 target price of Rs 2,180 (Rs 1,850 earlier), set at an unchanged one-year forward P/E of 23.4x, which is one standard deviation above the last five-year average. MTCL has substantial exposure to the technology vertical (~49% of revenue with a chunk coming from the top client), which is less vulnerable to Covid-19 headwinds and has helped it maintain growth momentum. In addition, the travel vertical has been recovering well QoQ for the last two quarters which lends growth visibility for FY22. Reiterate ADD.

**FIG 3 – REVISED ESTIMATES**

(Rs mn)	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
Overall Revenues (US\$ mn)	1,240	1,268	2.2	1,359	1,409	3.7
YoY growth (%)	15.3	17.8	-	9.6	11.1	-
Revenues	94,876	97,011	2.2	105,993	110,247	4.0
EBITDA	20,011	21,913	9.5	20,930	23,006	9.9
EBITDA margin (%)	21.1	22.6	-	19.7	20.9	-
Net profits	12,816	14,627	14.1	13,330	15,257	14.5
EPS (Rs)	77.8	88.8	14.1	81.0	92.7	14.5

Source: BOBCAPS Research

**FIG 4 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Key downside risks to our estimates are:

- revenue contraction from large clients,
- sell off in mid-caps, and
- margin reverting to previous (FY20) levels.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Total revenue</b>	<b>70,215</b>	<b>77,643</b>	<b>79,678</b>	<b>97,011</b>	<b>110,247</b>
EBITDA	10,645	10,623	16,426	21,913	23,006
Depreciation	1,641	2,754	2,596	2,575	2,878
EBIT	9,004	7,869	13,830	19,338	20,128
Net interest income/(expenses)	(29)	(529)	(504)	(680)	(720)
Other income/(expenses)	894	948	1,656	1,243	1,492
Exceptional items	0	0	0	0	0
EBT	9,869	8,288	14,982	19,900	20,900
Income taxes	2,327	1,979	3,879	5,274	5,643
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>7,542</b>	<b>6,309</b>	<b>11,103</b>	<b>14,627</b>	<b>15,257</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>7,542</b>	<b>6,309</b>	<b>11,103</b>	<b>14,627</b>	<b>15,257</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	0	0	0	0	0
Other current liabilities	7,330	17,690	17,914	23,921	27,184
Provisions	1,399	2,304	2,510	2,126	2,416
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	1,642	1,642	1,647	1,647	1,647
Reserves & surplus	31,419	29,926	41,547	48,477	57,307
Shareholders' fund	33,061	31,568	43,194	50,124	58,954
<b>Total liabilities and equities</b>	<b>41,790</b>	<b>51,562</b>	<b>63,618</b>	<b>76,170</b>	<b>88,555</b>
Cash and cash eq.	2,562	5,870	7,597	13,831	23,540
Accounts receivables	13,356	14,389	12,742	18,605	21,143
Inventories	0	0	0	0	0
Other current assets	6,634	5,107	4,910	6,645	7,551
Investments	8,036	7,748	20,468	20,468	20,468
Net fixed assets	9,966	13,469	13,993	12,280	10,967
CWIP	297	136	224	224	224
Intangible assets	4,732	4,732	4,732	4,732	4,732
Deferred tax assets, net	388	1,835	355	355	355
Other assets	848	3,148	3,553	3,987	4,531
<b>Total assets</b>	<b>41,790</b>	<b>51,566</b>	<b>63,618</b>	<b>76,170</b>	<b>88,555</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	6,927	9,063	13,699	17,202	18,135
Interest expenses	(117)	(419)	(1,152)	(563)	(772)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(2,360)	9,459	2,737	(3,276)	(435)
Other operating cash flows	1,855	(10,349)	(9,727)	0	0
<b>Cash flow from operations</b>	<b>6,305</b>	<b>7,754</b>	<b>5,557</b>	<b>13,363</b>	<b>16,928</b>
Capital expenditures	(1,708)	(1,496)	(305)	(1,530)	(1,565)
Change in investments	(301)	0	0	0	0
Other investing cash flows	209	419	1,152	563	772
<b>Cash flow from investing</b>	<b>(1,800)</b>	<b>(1,077)</b>	<b>847</b>	<b>(968)</b>	<b>(793)</b>
Equities issued/Others	3	0	0	0	0
Debt raised/repaid	(3,004)	0	0	0	0
Interest expenses	(37)	0	0	0	0
Dividends paid	(2,180)	(3,369)	(4,677)	(6,161)	(6,427)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(5,218)</b>	<b>(3,369)</b>	<b>(4,677)</b>	<b>(6,161)</b>	<b>(6,427)</b>
<b>Changes in cash and cash eq.</b>	<b>(713)</b>	<b>3,308</b>	<b>1,727</b>	<b>6,234</b>	<b>9,709</b>
<b>Closing cash and cash eq.</b>	<b>2,562</b>	<b>5,870</b>	<b>7,598</b>	<b>13,831</b>	<b>23,540</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	45.8	38.3	67.4	88.8	92.7
Adjusted EPS	45.8	38.3	67.4	88.8	92.7
Dividend per share	33.0	17.0	23.6	31.1	32.4
Book value per share	200.8	191.7	262.3	304.4	358.1

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	4.8	4.4	4.2	3.4	3.0
EV/EBITDA	31.9	31.9	20.5	15.2	14.3
Adjusted P/E	45.2	54.0	30.7	23.3	22.3
P/BV	10.3	10.8	7.9	6.8	5.8

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	76.4	76.1	74.1	73.5	73.0
Interest burden (PBT/EBIT)	109.6	105.3	108.3	102.9	103.8
EBIT margin (EBIT/Revenue)	12.8	10.1	17.4	19.9	18.3
Asset turnover (Revenue/Avg TA)	177.4	166.3	138.3	138.8	133.9
Leverage (Avg TA/Avg Equity)	1.3	1.4	1.5	1.5	1.5
Adjusted ROAE	24.9	19.5	29.7	31.3	28.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	28.5	10.6	2.6	21.8	13.6
EBITDA	43.8	(0.2)	54.6	33.4	5.0
Adjusted EPS	32.1	(16.3)	76.0	31.7	4.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.2	13.7	20.6	22.6	20.9
EBIT margin	12.8	10.1	17.4	19.9	18.3
Adjusted profit margin	10.7	8.1	13.9	15.1	13.8
Adjusted ROAE	24.9	19.5	29.7	31.3	28.0
ROCE	31.2	27.9	45.0	53.7	56.0
<b>Working capital days (days)</b>					
Receivables	61	65	62	59	66
Inventory	0	0	0	0	0
Payables	40	68	103	102	107
<b>Ratios (x)</b>					
Gross asset turnover	7.2	6.6	5.8	7.4	9.5
Current ratio	2.7	1.4	1.4	1.7	1.9
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.1)	(0.2)	(0.2)	(0.3)	(0.4)

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

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

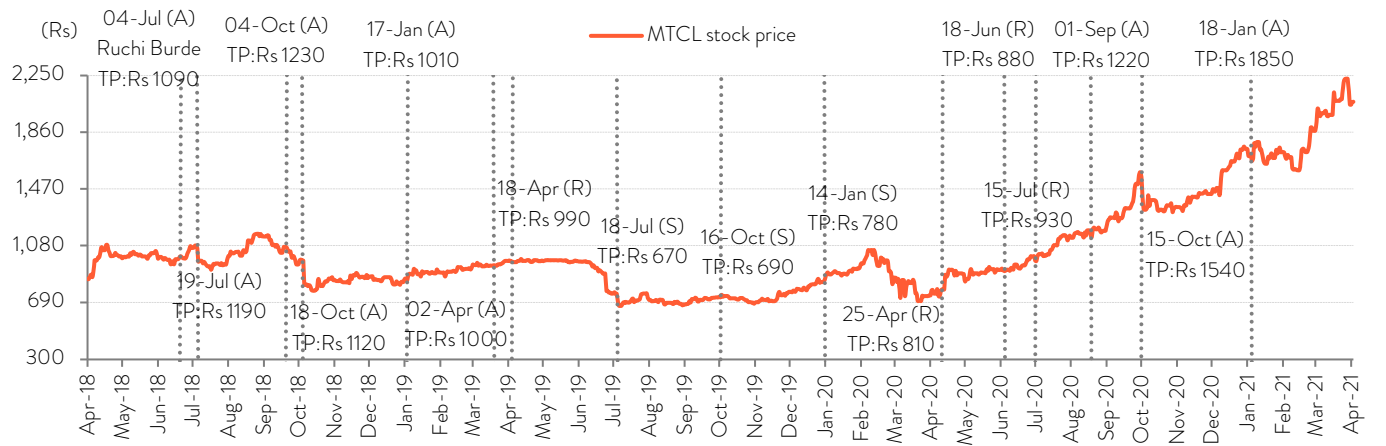
**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): MINDTREE (MTCL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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