

Beat Estimates; stable outlook

CMP: Rs 1009

Rating: Hold

Target Price: Rs 1062

Stock Info

BSE	532819
NSE	MINDTREE
Bloomberg	MTCL IN
Reuters	MINT.BO
Sector	IT
Face Value (Rs)	10
Equity Capital (Rs mn)	1646
Mkt Cap (Rs mn)	1,60,978
52w H/L (Rs)	1063/ 652
Avg Yearly Vol (in 000')	1021

Shareholding Pattern %

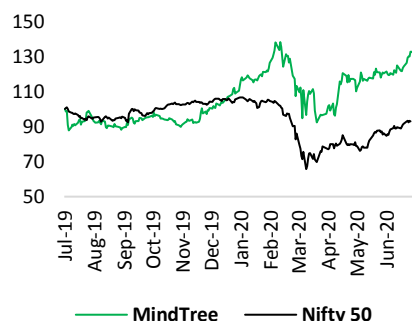
(As on Jun, 2020)

Promoters	73.49
FII	10.39
DII	9.36
Public & Others	6.76

Stock Performance (%)

	3m	6m	12m
MindTree	25.9	10.7	28.7
Nifty	-24.4	-22.3	-21.9

MindTree Vs Nifty



Mindtree reported good set of numbers in Q1FY21. Revenue stood slightly below our estimates while EBITDA and PAT are above our estimates. Company anticipates a healthy order book of USD 391M despite the global headwinds due to Covid-19 pandemic. Consolidated revenue for Q1FY21 stood at Rs 19,088 mn, slightly below our estimate of Rs 20,827 mn registering -6.9% QoQ/+4.1% YoY growth. Reported EBITDA grew +74.9% YoY/flat -0.5% QoQ to Rs 3,220 mn, above our estimate of Rs 2,916 mn, while EBITDA margin expanded 683bps YoY/108bps QoQ. PAT for the quarter grew +129.8% YoY to Rs 2,130 mn, beating our estimate of Rs 1,694 mn.

Q1FY21 Highlights

- Top account now contributes ~30% to revenue, the Hi-Tech and Media vertical accounts for half of the overall revenue.
- The sharp decline in revenue was largely attributed to the Travel, Transportation, and Hospitality vertical (-55% QoQ). BFSI and Retail witnessed high single digit decline.
- Across geographies, even as revenue decline in the US was relatively low, Europe/APAC also reported a sharp contraction in revenues.
- Tight control on cost more than offset the margin impact from a drop in the revenue run-rate. Adjusted for the differential accounting treatment of forex loss and the PM CARES fund contribution, the company reported marginal expansion (~30bp QoQ) in the EBIT margin.
- Deal signings were maintained at the Mar'20 run-rate (~USD390m). However, deal signings in Jun'20 were largely skewed toward renewals (~80%), unlike in Mar'20, when the company reported a healthy mix of renewals (52%) and new deals (48%). On a YoY basis, deal signings still improved ~21%.

Valuations

Going ahead, The company anticipates growth recovery in Q2FY21, supported by decent deal signing and strong margin execution are key positives so we have increased our revenue estimates for FY21-22. At CMP of Rs 1009, Mindtree currently trades at FY20 P/E of 26.3x. We value Mindtree at P/E of 17.5 to its FY22E EPS 60.7, which yields target price of Rs 1062 per share. **We upgrade our rating to Hold from Neutral earlier.**

Key Risks :

Increasing client concentration and potential insolvencies in some airlines/hospitality companies on account of the COVID-19 disruption are key risks for the stock.

Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
Net Sales	70,215	77,643	86,923	98,632
EBITDA	10,645	10,815	13,038	14,795
PAT	7,541	6,309	8,349	9,987
EPS (per share)	45.9	38.3	50.7	60.7
ROE(%)	22.8	20.0	22.0	21.8
P/E	22.0	26.3	19.9	16.6

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q1 FY21 - Quarterly Performance (Consolidated)

(in Rs Mn)

Rs Mn (consolidated)	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
Net Revenue	19,088	20,505	18,342	-6.9%	4.1%
Employee cost	12,776	12,933	12,532	-1.2%	1.9%
Other Expenses	3,092	4,335	3,969	-28.7%	-22.1%
EBITDA	3,220	3,237	1,841	-0.5%	74.9%
<i>EBITDA margin %</i>	<i>16.9%</i>	<i>15.8%</i>	<i>10.0%</i>	<i>108bps</i>	<i>683bps</i>
Depreciation	597	679	669	-12.1%	-10.8%
EBIT	2,623	2,558	1,172	2.5%	123.8%
Other Income	406	183	220	121.9%	84.5%
Finance cost	131	128	130	2.3%	-
Exceptional Item	-	-	-	-	-
PBT	2,898	2,613	1,262	10.9%	129.6%
Tax Expense	768	551	335	39.4%	129.3%
Effective tax rate %	26.5%	21.1%	26.5%	541bps	-4bps
PAT	2,130	2,062	927	3.3%	129.8%
MI & Associates	-	-	-	-	-
Consolidated PAT	2,130	2,062	927	3.3%	129.8%
<i>PAT margin %</i>	<i>11.2%</i>	<i>10.1%</i>	<i>5.1%</i>	<i>110bps</i>	<i>610bps</i>
EPS (Rs)	12.9	12.5	5.64	3.3%	129.4%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q1 FY21 – Key Concall Highlights

- The management stated that deal closures and delay in decision making process led to a decline in revenue during the quarter but the overall pipeline still looks healthy. According to the company, the bulk of the hit to revenue has been seen in the June quarter.
- On the positive side, the management expects overall revenue in Q2FY21 to be better than Q1FY21.
- Within the top accounts, Mindtree indicated it is well-diversified across areas such as analytics, networks, customer/tech support, and marketing operations. Additionally, it now has decent exposure to annuity-/project-based work in the account.
- Verticals such as CMT and CPG are witnessing good traction in terms of the deal pipeline. However, deal closures have been slower. The company expects continued softness in Travel, Transportation, and Hospitality.
- Q1FY21 saw an improvement in margins in the BFSI and Hi-Tech Media verticals and a decline in the Retail-CPG vertical. The management stated that while the decision making process is taking longer, the overall pipeline is healthy
- While the management has time and again stressed on its pursuit of revenue diversification, the dependence on top clients has been a structural problem in the business model of MTCL. The revenue share of the top client accounts increased to 30.1% of revenue in 1QFY21 vs. 24.8% in 4QFY20 and 20.1% in 1QFY20. The management alluded to sustained focus on nurturing and growing the top client and the next set of clients through deeper engagements and cross selling of services.
- While promotions were extended to eligible candidates, the company is yet to reach a decision on salary hikes for the year.

Key Financials

Income Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Revenues	70,215	77,643	86,923	98,632
Change (%)	28.5%	10.6%	12.0%	13.5%
Employee Costs	44,212	50,647	55,631	63,124
Other Expenses	15,358	16,181	18,254	20,713
Total Expenses	59,570	66,828	73,884	83,837
EBITDA	10,645	10,815	13,038	14,795
Other Income	893	756	1,413	1,716
Depreciation	1,641	2,754	2,557	2,377
Interest	29	529	535	546
PBT	9,868	8,288	11,359	13,588
Tax	2,327	1,979	3,010	3,601
Rate (%)	23.6%	23.9%	26.5%	26.5%
PAT	7,541	6,309	8,349	9,987
MI & Associates	0	0	0	0
Consolidated PAT	7,541	6,309	8,349	9,987
Change (%)	32.3%	-16.3%	32.3%	19.6%

Key Ratios

Year End-March	FY19	FY20	FY21E	FY22E
Per Share (Rs)				
EPS	45.9	38.3	50.7	60.7
CEPS	55.9	55.1	66.3	75.1
BVPS	201	192	231	278
DPS	30.0	18.0	18.0	18.0
Valuation (x)				
P/E	22.0	26.3	19.9	16.6
P/CEPS	18.0	18.3	15.2	13.4
P/BV	5.0	5.3	4.4	3.6
EV/EBITDA	14.1	13.8	11.1	9.4
Return Ratio (%)				
EBITDA Margin	15.2%	13.9%	15.0%	15.0%
PAT Margin	10.7%	8.1%	9.6%	10.1%
ROE	22.8%	20.0%	22.0%	21.8%
ROCE	27.4%	25.8%	29.0%	28.3%
Dividend Yield	3.0%	1.8%	1.8%	1.8%
Leverage Ratio (%)				
Total D/E	0.0	0.1	0.0	0.0
Net D/E	-0.3	-0.3	-0.4	-0.4
Turnover Ratios				
Asset Turnover (x)	2.1	2.5	2.4	2.2
Receivable Days	69	68	70	70
Payable days	44	62	58	58

Balance Sheet (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Sources of Funds				
Share Capital	1,642	1,646	1,646	1,646
Reserves & Surplus	31,419	29,921	36,303	44,117
Net Worth	33,061	31,568	37,949	45,764
Loan Funds	5	1,798	0	0
MI, Deferred Tax & other Liabilities	-214	-2,072	-1,835	-1,835
Capital Employed	32,852	31,294	36,114	43,929
Application of Funds				
Net Block	4,937	4,159	4,621	5,759
CWIP	297	136	118	148
Other Non-current Assets	7,296	6,882	6,275	6,635
Net Fixed Assets	12,530	11,177	11,014	12,542
Investments	1,200	804	814	824
Debtors	13,356	14,389	16,670	18,916
Cash & Bank Balance	9,398	12,814	15,221	20,218
Loans & Advances & other CA	4,918	5,346	6,194	7,028
Total Current Assets	27,672	32,549	38,085	46,161
Current Liabilities & Provisions	8,550	13,236	13,799	15,598
Net Current Assets	19,122	19,313	24,285	30,563
Total Assets	32,852	31,294	36,114	43,929

Cash Flow Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
PBT	9,868	8,288	11,359	13,588
Depreciation	1,641	2,754	2,557	2,377
Interest & others	-864	-227	-878	-1,170
Cash flow before WC changes	10,645	10,815	13,038	14,795
(Inc)/dec in working capital	-2,780	2,177	-2,057	-1,526
Operating CF after WC changes	7,865	12,992	10,982	13,269
Less: Taxes	-2,327	-1,979	-3,010	-3,601
Operating Cash Flow	5,538	11,013	7,972	9,668
(Inc)/dec in F.A + CWIP	-113	-3,781	665	-2,745
(Pur)/sale of investment	0	0	0	0
Cash Flow from Investing	-113	-3,781	665	-2,745
Free Cash Flow (FCF)	5,425	7,232	8,636	6,924
Loan raised/(repaid)	-3,004	1,793	-1,798	0
Equity raised	3	4	0	0
Interest & others	1,451	-529	-535	-546
Dividend	-4,938	-3,555	-3,555	-3,555
Cash Flow from Financing Activities	-6,488	-2,287	-5,888	-4,101
Net inc/(dec) in cash	-1,063	4,944	2,748	2,822
Opening balance of cash	10,495	9,398	12,814	15,221
Closing balance of cash	9,398	12,814	15,221	20,218

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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