

Margin surprise continues

CMP: Rs 1664

Rating: HOLD

Target Price: Rs 1806

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)	2,74,020
52w H/L (Rs)	1780/ 692
Avg Yearly Vol (in 000')	1228

Shareholding Pattern %

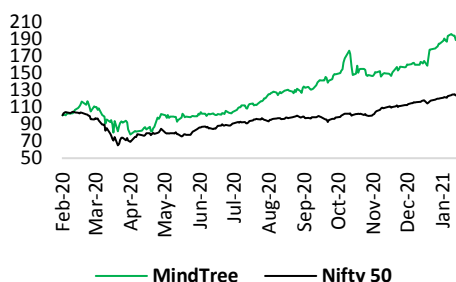
(As on Dec, 2020)

Promoters	61.03
FII	13.27
DII	10.61
Public & Others	15.09

Stock Performance (%)

	3m	6m	12m
MindTree	25.1	62.7	88.2
Nifty	21.8	32.7	17.1

MindTree Vs Nifty



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Mindtree reported good set of numbers in Q3FY21. Revenue stood slightly below our estimates while EBITDA and PAT are above our estimates. Company has healthy order book of \$ 312M. Consolidated revenue stood at Rs 20,237 Mn, registering +3.0% YoY/5.1% QoQ. Consolidated EBITDA stood at Rs 4,679 Mn, up by 52.8% YoY/19.9% QoQ. On the margins front, EBITDA margin improved by 754bps YoY/286bps QoQ to 23.1%. Margins were aided by an increase in utilization rates, higher offshore mix and tight cost control. Consolidated PAT saw a rise of 28.7%YoY/3.3% QoQ to Rs 3,265 Mn vs 1970 Mn in Q3FY20. Revenue at \$274.1 million (growth of 5.0% QoQ / decline of 0.4% YoY) in constant currency.

Q3FY21 Highlights

- Clients: 276 active clients as of December 31, 2020 & 8 new clients added during the quarter
- People: 22,195 Mindtree Minds as of December 31, 2020 & Trailing 12 months attrition is 12.5%.
- In constant currency terms, revenue grew 4.6% quarter-on-quarter (q-o-q) led by sequential improvement in the travel & hospitality and communication and media & technology segments.
- The management said it is witnessing good traction across segments and geographies. However, while the worst is behind the travel & hospitality segment, a broad-based recovery is still a few quarters away, the management added.
- Amongst the geographies, North America On vertical front, BFSI vertical grew by 90 bps, Retail Manufacturing& CPG vertical grew by 5% QoQ, Travel & Hospitality grew by 12.6% QoQ. Majority of the verticals sees strong recovery and likely to report growth backed by strong deal pipeline in forthcoming quarters
- On geographical front, North America (77% of revenue) improved by 3.6% QoQ, Europe (7.5% of revenue) grew by 3.6% QoQ, India business grew by 40 bps QoQ in CC terms.

Valuations

The company witnessed strong demand across service lines, industries and geographies. We expect this strong performance to continue in the medium to long term as the company continues to see strong momentum in digital and cloud related work. At CMP of Rs 1664, Mindtree currently trades at FY20 P/E of 43x. We value Mindtree at P/E of 22 to its FY23E EPS 82, which yields a target price of Rs 1806 per share. **We maintain a Hold rating on the stock.**

Particulars (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	70,215	77,643	79,555	92,896	1,05,174
EBITDA	10,645	10,815	16,427	19,102	21,229
PAT	7,541	6,309	10,556	11,947	13,509
EPS (per share)	46	38	64	73	82
ROE	23%	20%	27%	25%	22%
P/E	36	43	26	23	20

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

Q3 FY21 - Quarterly Performance (Consolidated)

(in Rs Mn)

Rs Mn (consolidated)	Q3FY21	Q2FY21	Q3FY20	Q-o-Q	Y-o-Y
Net Revenue	20,237	19,260	19,653	5.1%	3.0%
Employee cost	12,610	12,623	12,535	-0.1%	0.6%
Other Expenses	2,948	2,734	4,055	7.8%	-100.0%
EBITDA	4,679	3,903	3,063	19.9%	52.8%
<i>EBITDA margin %</i>	<i>23.1%</i>	<i>20.3%</i>	<i>15.6%</i>	<i>286bps</i>	<i>754bps</i>
Depreciation	717	569	699	26.0%	2.6%
EBIT	3,962	3,334	2,364	18.8%	67.6%
Other Income	616	245	348	151.4%	151.4%
Finance cost	127	132	133	2.3%	-
Exceptional Item	-	-	-	-	-
PBT	4,451	3,447	2,579	10.9%	29.1%
Tax Expense	1,186	910	609	39.4%	30.3%
Effective tax rate %	26.6%	26.4%	23.6%	541bps	25bps
PAT	3,265	2,537	1,970	3.3%	28.7%
MI & Associates	-	-	-	-	-
Consolidated PAT	3,265	2,537	1,970	3.3%	28.7%
<i>PAT margin %</i>	<i>16.1%</i>	<i>13.2%</i>	<i>10.0%</i>	<i>110bps</i>	<i>296bps</i>
EPS (Rs)	19.8	15.4	11.97	3.3%	28.6%

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

Q3 FY21 – Key Concall Highlights

- **Deal Wins:** On the deals front, the total contract value (TCV) increased to \$312 million in the December quarter from \$303 million in the September quarter.
- The company added eight new clients in Q3, taking its total active client base to 276.
- In Q3FY21, the top client's contribution to revenue largely remained flat at 28.5%.
- Mindtree is working with its top client in multiple areas, but at the same time, the company is taking efforts to boost business from other clients, so that the percentage of the large client remains the same or reduces over a period of time.
- **Business:**
- Mindtree is getting ready to roll out its healthcare strategy with the focus on payer and provider segment. The strategy is defined and rolling out is in progress. Company completed the hiring for healthcare business leaders in the US.
- Company started putting across the plan comprising of leveraging company capabilities into these two segments. As Mindtree starts rolling this strategy on the ground company will start looking for opportunities where company can bring synergies and capabilities together.
- The company currently focuses on 4 industry verticals such as banking and financial services, travel and hospitality, communication, media and technology and retail, consumer products and manufacturing.
- In addition to healthcare, the company is also focusing on expanding its presence in the non-US regions such as Continental Europe. The company is in the process of creating local teams and leadership in these geographies.
- Company has implemented an innovative medical procedure equipment tray management solution for a global medical solutions leader using SAP suite of technologies and cloud that is helping them plan, design and package trays 25% faster with more than 98% accuracy. For a large insurance company in the U.S., we implemented a fully automated enterprise B2B data access solution for payments processing, resulting in 80% savings in effort and significant cost savings. In addition, we enabled access to real-time data that help to track and improve their business KPIs and SLAs
- Company has announced investments to set up a global Microsoft as the center and collaborating with database to offer advanced cloud based data intelligence and critical steps towards having a constantly future talent and market relevant services for the push for the quarter.

Key Financials

Income Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues (US \$mn)	1001	1089	1078	1281	1451
Revenues	70,215	77,643	79,555	92,896	1,05,174
Change (%)	28.5%	10.6%	2.5%	16.8%	13.2%
Employee Costs	44,212	50,647	50,767	58,989	67,047
Other Expenses	15,358	16,181	12,361	14,806	16,898
Total Expenses	59,570	66,828	63,128	73,794	83,945
EBITDA	10,645	10,815	16,427	19,102	21,229
Other Income	893	756	1,288	946	1,067
Depreciation	1,641	2,754	2,807	3,226	3,225
Interest	29	529	525	546	667
PBT	9,868	8,288	14,384	16,276	18,404
Tax	2,327	1,979	3,828	4,329	4,896
Rate (%)	23.6%	23.9%	26.6%	26.6%	26.6%
PAT	7,541	6,309	10,556	11,947	13,509
MI & Associates	0	0	0	0	0
Consolidated PAT	7,541	6,309	10,556	11,947	13,509
Change (%)	32.3%	-16.3%	67.3%	13.2%	13.1%

Balance Sheet (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E	FY23E
Sources of Funds					
Share Capital	1,642	1,646	1,646	1,646	1,646
Reserves & Surplus	31,419	29,921	37,193	45,480	60,191
Net Worth	33,061	31,568	38,839	47,127	61,838
Loan Funds	5	1,798	0	0	0
MI, Deferred Tax & other Liabilities	-214	-2,072	-1,835	-1,835	-1,835
Capital Employed	32,852	31,294	37,004	45,292	60,003
Application of Funds					
Net Block	4,937	4,159	13,792	11,726	10,529
CWIP	297	136	427	363	326
Other Non-current Assets	7,296	6,882	9,196	8,540	8,160
Net Fixed Assets	12,530	11,177	23,415	20,628	19,015
Investments	1,200	804	814	824	834
Debtors	13,356	14,389	15,257	17,816	20,459
Cash & Bank Balance	9,398	12,814	4,484	14,145	28,795
Loans & Advances & other CA	4,918	5,346	5,669	6,619	7,601
Total Current Assets	27,672	32,549	25,410	38,579	56,855
Current Liabilities & Provisions	8,550	13,236	12,635	14,740	16,701
Net Current Assets	19,122	19,313	12,775	23,839	40,154
Total Assets	32,852	31,294	37,004	45,292	60,003

Cash Flow Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E	FY23E
PBT	9,868	8,288	14,384	16,276	18,404
Depreciation	1,641	2,754	2,807	3,226	3,225
Interest & others	-864	-227	-763	-400	-400
Cash flow before WC changes	10,645	10,815	16,427	19,102	21,229
(Inc)/dec in working capital	-2,780	2,177	-1,129	-1,683	-1,918
Operating CF after WC changes	7,865	12,992	15,298	17,419	19,310
Less: Taxes	-2,327	-1,979	-3,828	-4,329	-4,896
Operating Cash Flow	5,538	11,013	11,470	13,089	14,415
(Inc)/dec in F.A + CWIP	-113	-3,781	-9,865	-1,095	474
(Pur)/sale of investment	0	0	0	0	0
Cash Flow from Investing	-113	-3,781	-9,865	-1,095	474
Free Cash Flow (FCF)	5,425	7,232	1,605	11,994	14,889
Loan raised/(repaid)	-3,004	1,793	-1,798	0	0
Equity raised	3	4	0	0	0
Interest & others	1,451	-529	-525	-546	-667
Dividend	-4,938	-3,555	-3,399	-3,200	-3,378
Cash Flow from Financing Activities	-6,488	-2,287	-5,721	-3,746	-4,045
Net inc/(dec) in cash	-1,063	4,944	-4,116	8,248	10,844
Opening balance of cash	10,495	9,398	12,814	4,484	14,145
Closing balance of cash	9,398	12,814	4,484	14,145	28,795

Key Ratios

Year End-March	FY19	FY20	FY21E	FY22E	FY23E
Per Share (Rs)					
EPS	45.9	38.3	64.1	72.6	82.1
CEPS	55.9	55.1	81.2	92.2	101.7
BVPS	201	192	236	286	376
DPS	30.0	18.0	17.5	18.0	18.0
Valuation (x)					
P/E	36.2	43.4	25.9	22.9	20.3
P/CEPS	29.7	30.2	20.5	18.0	16.4
P/BV	8.3	8.7	7.1	5.8	4.4
EV/EBITDA	14.1	13.8	9.5	7.6	6.2
Return Ratio (%)					
EBITDA Margin	15.2%	13.9%	20.6%	20.6%	20.2%
PAT Margin	10.7%	8.1%	13.3%	12.9%	12.8%
ROE	22.8%	20.0%	27.2%	25.3%	21.8%
ROCE	27.4%	25.8%	36.8%	35.1%	30.0%
Dividend Yield	1.8%	1.1%	1.1%	1.1%	1.1%
Leverage Ratio (%)					
Total D/E	0.0	0.1	0.0	0.0	0.0
Net D/E	-0.3	-0.3	-0.1	-0.3	-0.5
Turnover Ratios					
Asset Turnover (x)	2.1	2.5	2.1	2.1	1.8
Receivable Days	69	68	70	70	71
Payable days	44	62	58	58	58

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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