

**Above our estimate;
Double digit growth guidance for FY22**

CMP: INR 2,496

Rating: Accumulate

Target Price: INR 2,805

Stock Info

BSE	532819
NSE	MINDTREE
Bloomberg	MTCL IN
Reuters	MINT.BO
Sector	IT
Face Value (INR)	10
Equity Capital (INR mn)	1647
Mkt Cap (INR mn)	4,11,136
52w H/L (INR)	2,618/962
Avg Yearly Vol (in 000')	1187

Shareholding Pattern %

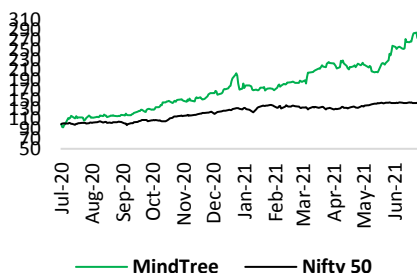
(As on March, 2021)

Promoters	61.03
FII	13.92
DII	10.86
Public & Others	14.19

Stock Performance (%)

	3m	6m	12m
MindTree	8.9	54.2	174
Nifty	-0.1	8.1	48.8

MindTree Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Mindtree reported results above our estimate on all front in Q1FY22. The Company has a stellar order book of \$ 504M. Consolidated revenue stood at INR 22,917 Mn against our estimate of INR 22,506 Mn, registering +20.1% YoY/8.6% QoQ. Net Revenue stood at \$311 mn against our estimate of INR \$303, up by 22.6% YoY/7.7%QoQ in constant currency, driven by INR depreciation. The growth was broad-based and aided by traction in travel vertical and North America market. Consolidated EBITDA stood at INR 4,645 Mn against our estimate of INR 4,456 Mn, up by 44.3% YoY/0.4% QoQ. On the margins front, EBITDA margin improved by 340bps YoY and contracted 166bps QoQ to 21.9% due to higher hiring in the quarter. Consolidated PAT saw a rise of 61.2%YoY/8.2% QoQ to INR 3,434 Mn against an estimate of INR 2,988 Mn in Q1FY22.

Q1FY22 Highlights

- The company has 260 active clients in Q1 FY22 against in Q4FY21 it was 270 active client. In \$5 million clients grew 3 and in total 44.
- In Q1 FY22 the company has added more than 3400 employees in the quarter (which is highest ever in the quarter) and trailing 12 month attrition is 13.7%.
- DSO declined by 3 days QoQ to 57 days. The company has added 7 new clients against to 4 in the previous quarter.
- Vertical-wise growth was led by Communications, Media & Technology (45.4% of revenue against 45.8% in Q4FY21) Retail & Manufacturing (22.1% of Revenue) and Travel & Hospitality (13.3% of Revenue). BFSI (18.2% of Revenue) respectively.
- On geographical front, North America contributed 76.6%, Continental Europe 7.2%, APAC and Middle East 7.2%
- In Q1 FY22 offshoring trend continued to Increase as the offshore effort mix grew 60 bps QoQ to 83.5%.

Valuations

We have factored in USD revenue growth of +16.4/+10.4% and EBITDA at 20.3%/20.7% for FY22/23E respectively. At CMP of INR 2,496, Mindtree is currently trading at FY23 P/E of 25.8x Company has healthy pipeline and robust order book with double digit growth expectation by FY22E. With gradual recovery in the BFSI vertical, Europe geo and non-IT will support growth ahead. We value Mindtree at P/E of 29x to its FY23E EPS 96.7, which yields a target price of INR 2,805 per share. **We upgrade our rating to Accumulate from Hold.**

Particulars (INR mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	70,215	77,643	79,678	92,967	1,03,423
EBITDA	10,645	10,815	16,428	18,832	21,385
EBIDTA Margin	15.2%	13.9%	20.6%	20.3%	20.7%
PAT	7,541	6,309	11,105	13,176	15,930
EPS (per share)	45.9	38.3	67.4	80.0	96.7
ROE	23%	20%	26%	25%	23%
P/E	54.3	65.1	37.0	31.2	25.8

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

Q1 FY22 - Quarterly Performance (Consolidated)

(in INR Mn)

INR Mn (consolidated)	Q1FY22	Q4FY21	Q1FY21	Q-o-Q	Y-o-Y
Net Revenues (US \$mn)	311	288	253	7.7%	22.6%
Net Revenue	22,917	21,093	19,088	8.6%	20.1%
Employee cost	13,673	13,123	12,776	4.2%	7.0%
Other Expenses	4,599	3,344	3,092	37.5%	48.7%
EBITDA	4,645	4,626	3,220	0.4%	44.3%
EBITDA margin %	20.3%	21.9%	16.9%	-166bps	340bps
Depreciation	582	713	597	-18.4%	-2.5%
EBIT	4,063	3,913	2,623	3.8%	54.9%
EBIT margin %	17.7%	18.6%	13.7%	-82bps	399bps
Other Income	718	389	406	84.6%	76.8%
Finance cost	129	114	131	13.2%	-1.5%
Exceptional Item	-	-	-	0.0%	-
PBT	4,652	4,188	2,898	11.1%	60.5%
Tax Expense	1,218	1,015	768	20.0%	58.6%
Effective tax rate %	26.2%	24.2%	26.5%	195bps	-32bps
PAT	3,434	3,173	2,130	8.2%	61.2%
MI & Associates					
Consolidated PAT	3,434	3,173	2,130	8.2%	61.2%
PAT margin %	15.0%	15.0%	11.2%	-6bps	383bps
EPS (Rs)	20.9	19.3	12.9	8.3%	61.1%

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

Q1 FY22 – Key Concall Highlights

- Decline in margin was driven by massive hiring during the Q1 FY22 and visa cost.
- Growth in the Q1 FY 22 was broad based across verticals with healthy traction in the Travel segment as it grew 13.7% QoQ. BFSI segment has shown recovery and expected to continue growth momentum.
- Annual revenue of parent company: Larsen & Toubro was \$20 bn. The company has completed the acquisition of NXT Digital business of L&T, that would add to its digital capabilities.
- The company is planning to further ramp up employee hiring and would soon initiate another wage hike for junior to mid management employees.
- During the quarter the company increase in subcontracting cost was planned move for ramping up deals and is expected to normalize going ahead.
- The company has rationalized 150 long tail clients over the last 2 years and still continuing with the process to rationalize client list. The strategy is to develop deep relationships few select clients.
- Effective tax rate was 26.2% in the Q1 FY22 against to 24.3% in Q4FY21.
- Deal Pipeline to remain robust and increasing quarter on quarter and pretty healthy and strong through FY22.
- Demand and outlook:** Mindtree expect double-digit growth led by healthy pipeline and robust order book with multi-year deals becoming transformational for the company in the longer term. Sustain EBITDA Margin around 20% which will be led by improvement in the operational matrix.

Key Financials

Income Statement (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Net Revenues (US \$mn)	1001	1089	1077	1253	1381
Change (%)	18.3%	8.7%	-1.1%	16.4%	10.3%
Revenues	70,215	77,643	79,678	92,967	1,03,423
Change (%)	28.5%	10.6%	2.6%	16.7%	11.2%
Employee Costs	44,212	50,647	51,132	58,964	65,508
Other Expenses	15,358	16,181	12,118	15,171	16,530
Total Expenses	59,570	66,828	63,250	74,136	82,037
EBITDA	10,645	10,815	16,428	18,832	21,385
Other Income	893	756	1,656	1,496	2,294
Depreciation	1,641	2,754	2,596	2,486	2,425
EBIT	9,004	8,061	13,832	16,345	18,961
Interest	29	529	504	296	294
PBT	9,868	8,288	14,984	17,545	20,961
Tax	2,327	1,979	3,879	4,369	5,031
Rate (%)	23.6%	23.9%	25.9%	24.9%	24.0%
PAT	7,541	6,309	11,105	13,176	15,930
MI & Associates	0	0	0	0	0
Consolidated PAT	7,541	6,309	11,105	13,176	15,930
Change (%)	32.3%	-16.3%	76.0%	18.7%	20.9%

Cash Flow Statement (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
PBT	7,541	6,309	11,105	13,176	15,930
Depreciation	1,641	2,754	2,596	2,486	2,425
Interest & others	-864	-227	-1,152	-1,200	-2,000
Cash flow before WC changes	8,318	8,836	12,549	14,463	16,355
(Inc)/dec in working capital	-2,780	2,885	2,120	-897	-780
Operating CF after WC changes	5,538	11,721	14,669	13,566	15,575
Less: Taxes	-2,327	-1,979	-3,879	-4,369	-5,031
Operating Cash Flow	3,211	9,742	10,790	9,197	10,544
(Inc)/dec in F.A + CWIP	-113	-3,781	-3,770	-3,310	-162
(Pur)/sale of investment	0	0	0	0	0
Cash Flow from Investing	-113	-3,781	-3,770	-3,310	-162
Free Cash Flow (FCF)	3,098	5,961	7,020	5,887	10,382
Loan raised/(repaid)	-3,004	1,793	-1,792	-6	0
Equity raised	3	4	1	0	0
Interest & others	1,451	-529	-504	-296	-294
Dividend	-4,938	-3,555	-3,399	-3,111	-3,284
Cash Flow from Financing Activities	-6,488	-2,287	-5,694	-3,413	-3,578
Net inc/(dec) in cash	-3,390	3,673	1,326	2,474	6,804
Opening balance of cash	10,495	9,398	12,814	26,904	31,142
Closing balance of cash	9,398	12,814	26,904	31,142	48,177

Balance Sheet (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share Capital	1,642	1,646	1,647	1,647	1,647
Reserves & Surplus	31,419	29,921	41,543	51,209	68,186
Net Worth	33,061	31,568	43,190	52,857	69,834
Loan Funds	5	1,798	6	0	0
MI, Deferred Tax & other Liabilities	-214	-2,072	-632	-351	-351
Capital Employed	32,852	31,294	42,564	52,506	69,483
Application of Funds					
Net Block	4,937	4,159	3,253	8,884	8,450
CWIP	297	136	224	275	261
Other Non-current Assets	7,296	6,882	8,098	7,040	6,927
Net Fixed Assets	12,530	11,177	11,575	16,199	15,638
Investments	1,200	804	1,161	824	834
Debtors	13,356	14,389	12,742	14,773	16,434
Cash & Bank Balance	9,398	12,814	26,904	31,142	48,177
Loans & Advances & other CA	4,918	5,346	6,108	7,082	7,878
Total Current Assets	27,672	32,549	45,754	52,997	72,489
Current Liabilities & Provisions	8,550	13,236	15,926	17,513	19,478
Net Current Assets	19,122	19,313	29,828	35,484	53,011
Total Assets	32,852	31,294	42,564	52,506	69,483

Key Ratios

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Per Share (Rs)					
EPS	46	38	67.4	80.0	96.7
CEPS	55.9	55.1	83.2	95.1	111.4
BVPS	201	192	262	321	424
DPS	30.0	18.0	17.5	17.5	17.5
Valuation (x)					
P/E	54.3	65.1	37.0	31.2	25.8
P/CEPS	44.6	45.3	30.0	26.2	22.4
P/BV	12.4	13.0	9.5	7.8	5.9
EV/EBITDA	14.1	13.8	8.1	6.8	5.2
Return Ratio (%)					
EBITDA Margin	15.2%	13.9%	20.6%	20.3%	20.7%
EBIT Margin	13%	10%	17%	17.6%	18.3%
PAT Margin	10.7%	8.1%	13.9%	14.2%	15.4%
ROE	22.8%	20.0%	25.7%	24.9%	22.8%
ROCE	27.4%	25.8%	32.5%	31.1%	27.3%
Dividend Yield	1.2%	0.7%	0.7%	0.7%	0.7%
Leverage Ratio (%)					
Total D/E	0.0	0.1	0.0	0.0	0.0
Net D/E	-0.3	-0.3	-0.6	-0.6	-0.7
Turnover Ratios					
Asset Turnover (x)	2.1	2.5	1.9	1.8	1.5
Receivable Days	69	68	58	58	58
Payable days	44	62	73	69	69

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880