

**Above our estimate;
Growth momentum in H2**

CMP: INR 4,364

Rating: Neutral

Target Price: INR 4,279

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

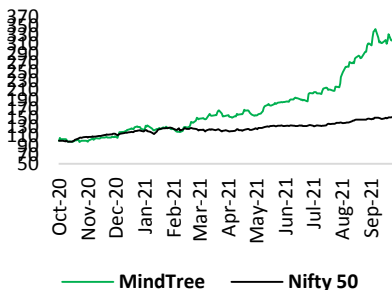
Shareholding Pattern %

(As on June, 2021)

Promoters	61.03
FII	13.66
DII	11.98
Public & Others	13.34

Stock Performance (%)	1m	3m	12m
MindTree	3.0	72.3	171.2
Nifty	4.7	14.9	52.2

MindTree Vs Nifty



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- MindTree has reported strong Q2FY22 numbers, above our estimate on all fronts .
- Constant Currency Revenue growth +34.1% YoY/12.8% QoQ to (Mn USD) 350.01 against our estimate of 334 (Mn USD).
- MindTree has reported consolidated revenue of INR 25,862 Mn, +34.3% YoY/12.9% QoQ in Q2FY22 against our estimate of INR 24,845 Mn.
- Consolidated EBIT stood at INR 4,697 Mn, up by 40.9% YoY/15.6% QoQ against our estimate of INR 4,173 Mn.
- On the margins front, EBIT margin expansion by 85 bps YoY/ 43bps QoQ to 18.2% against our estimate of 16.8%.
- Consolidated PAT stood at INR 3,989 Mn, up by 57.2% YoY/16.2% QoQ against our estimate of INR 3,362 Mn.
- Deal wins remain strong with TCV of \$360 mn(up 19% yoy).
- Declared dividend of INR 10/ share

Valuations

We raised our revenue growth of +19.6/+10.9% and EPS at 81.1/95.1 for FY22/23E respectively. At CMP of INR 4364, Mindtree is currently trading at FY24 P/E of 38.8x. The company is confident that it will maintain growth momentum in H2 on the back of a robust pipeline and a healthy demand environment, though seasonality might kick in during Q3 with holidays and furloughs. Considering expensive valuations and margin pressure, we value Mindtree at P/E of 38x to its FY24E EPS of INR 112.6 which yields a target price of INR 4,279 per share. **We downgraded our rating from Hold to Neutral.**

Particulars (INR mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	70,215	77,643	79,678	95,310	105,662	126,824
EBITDA	10,645	10,815	16,428	19,058	20,958	24,560
EBIDTA Margin	15.2%	13.9%	20.6%	20.0%	19.8%	19.4%
PAT	7,541	6,309	11,105	13,356	15,670	18,547
EPS (per share)	45.9	38.3	67.4	81.1	95.1	112.6
ROE	23%	20%	26%	25%	23%	21%
P/E	95.0	113.9	64.7	53.8	45.9	38.8

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

Q2 FY22 - Quarterly Performance (Consolidated)

(in INR Mn)

INR Mn (consolidated)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Net Revenues (US \$mn)	350	311	261	12.8%	34.1%
Net Revenue	25,862	22,917	19,260	12.9%	34.3%
Employee cost	15,644	13,673	12,623	14.4%	23.9%
Other Expenses	4,911	4,599	2,734	6.8%	79.6%
EBITDA	5,307	4,645	3,903	14.3%	36.0%
<i>EBITDA margin %</i>	<i>20.5%</i>	<i>20.3%</i>	<i>20.3%</i>	<i>25bps</i>	<i>26bps</i>
Depreciation	610	582	569	4.8%	7.2%
EBIT	4,697	4,063	3,334	15.6%	40.9%
<i>EBIT margin %</i>	<i>18.2%</i>	<i>17.7%</i>	<i>17.3%</i>	<i>43bps</i>	<i>85bps</i>
Other Income	748	718	245	4.2%	205.3%
Finance cost	125	129	132	-3.1%	-5.3%
Exceptional Item	-	-	-	0.0%	-
PBT	5,320	4,652	3,447	14.4%	54.3%
Tax Expense	1,331	1,218	910	9.3%	46.3%
<i>Effective tax rate %</i>	<i>25.0%</i>	<i>26.2%</i>	<i>26.4%</i>	<i>-116bps</i>	<i>-138bps</i>
PAT	3,989	3,434	2,537	16.2%	57.2%
MI & Associates					
Consolidated PAT	3,989	3,434	2,537	16.2%	57.2%
<i>PAT margin %</i>	<i>15.4%</i>	<i>15.0%</i>	<i>13.2%</i>	<i>2.9%</i>	<i>225bps</i>
EPS (INR)	24.2	20.9	15.4	16.1%	57.2%

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

Q2 FY22 – Key Concall Highlights

- Overall, pricing remains stable for the MindTree at portfolio level
- Current, sequential growth unlikely to sustain, but the overall demand environment remains strong and would drive revenue growth
- The strategy of upselling in the top 20 clients has been working for them.
- The company has guided that it should be able to maintain 20%+ margin for FY22.
- The company has increased the intake of fresher's to manage current supply constraints and this hiring trend would continue.
- Travel expense to remain low for Q3FY22.
- Carefully adding new clients but still in the process of rationalizing the marginal clients.
- Bookings will be higher for the entire fiscal but may see up/down QoQ. Travel spends may increase from Q4.
- Europe and UK economy unlock started which resulted in relatively higher revenue contribution. Co was investing in the geography for the last 12 months.

Key Financials

Income Statement (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues (US \$mn)	1001	1089	1077	1279	1411	1692
Change (%)	18.3%	8.7%	-1.1%	18.8%	10.3%	19.9%
Revenues	70,215	77,643	79,678	95,310	105,662	126,824
Change (%)	28.5%	10.6%	2.6%	19.6%	10.9%	20.0%
Employee Costs	44,212	50,647	51,132	59,885	67,812	77,407
Other Expenses	15,358	16,181	12,118	16,367	16,892	24,858
Total Expenses	59,570	66,828	63,250	76,252	84,704	102,265
EBITDA	10,645	10,815	16,428	19,058	20,958	24,560
Other Income	893	756	1,656	1,560	2,294	2,358
Depreciation	1,641	2,754	2,596	2,474	2,340	2,216
EBIT	9,004	8,061	13,832	16,584	18,618	22,344
Interest	29	529	504	360	294	298
PBT	9,868	8,288	14,984	17,784	20,618	24,404
Tax	2,327	1,979	3,879	4,428	4,948	5,857
Rate (%)	23.6%	23.9%	25.9%	24.9%	24.0%	24.0%
PAT	7,541	6,309	11,105	13,356	15,670	18,547
MI & Associates	0	0	0	0	0	0
Consolidated PAT	7,541	6,309	11,105	13,356	15,670	18,547
Change (%)	32.3%	-16.3%	76.0%	20.3%	17.3%	18.4%

Cash Flow Statement (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E	FY24E
PBT	7,541	6,309	11,105	13,356	15,670	18,547
Depreciation	1,641	2,754	2,596	2,474	2,340	2,216
Interest & others	(864)	(227)	(1,152)	(1,200)	(2,000)	(2,060)
Cash flow before WC changes	8,318	8,836	12,549	14,630	16,010	18,703
(Inc)/dec in working capital	(2,780)	2,885	2,120	(1,100)	(696)	(2,282)
Operating CF after WC changes	5,538	11,721	14,669	13,529	15,314	16,421
Less: Taxes	(2,327)	(1,979)	(3,879)	(4,428)	(4,948)	(5,857)
Operating Cash Flow	3,211	9,742	10,790	9,101	10,365	10,564
(Inc)/dec in F.A + CWIP	(113)	(3,781)	(3,770)	(3,298)	(162)	419
(Pur)/sale of investment	0	0	0	0	0	0
Cash Flow from Investing	(113)	(3,781)	(3,770)	(3,298)	(162)	419
Free Cash Flow (FCF)	3,098	5,961	7,020	5,803	10,203	10,983
Loan raised/(repaid)	(3,004)	1,793	(1,792)	(6)	0	0
Equity raised	3	4	1	0	0	0
Interest & others	1,451	(529)	(504)	(360)	(294)	(298)
Dividend	(4,938)	(3,555)	(3,399)	(3,111)	(3,284)	(3,313)
Cash Flow from Financing Activities	(6,488)	(2,287)	(5,694)	(3,477)	(3,578)	(3,611)
Net inc/(dec) in cash	(3,390)	3,673	1,326	2,326	6,625	7,372
Opening balance of cash	10,495	9,398	12,814	26,904	31,235	47,832
Closing balance of cash	9,398	12,814	26,904	31,235	47,832	67,438

Balance Sheet (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds						
Share Capital	1,642	1,646	1,647	1,647	1,647	1,647
Reserves & Surplus	31,419	29,921	41,543	51,441	67,900	88,014
Net Worth	33,061	31,568	43,190	53,089	69,548	89,662
Loan Funds	5	1,798	6	0	0	0
MI, Deferred Tax & other Liabilities	(214)	(2,072)	(632)	(351)	(351)	(351)
Capital Employed	32,852	31,294	42,564	52,738	69,197	89,311
Application of Funds						
Net Block	4,937	4,159	3,253	8,884	8,450	7,517
CWIP	297	136	224	275	261	232
Other Non-current Assets	7,296	6,882	8,098	7,040	6,927	6,685
Net Fixed Assets	12,530	11,177	11,575	16,199	15,638	14,434
Investments	1,200	804	1,161	824	834	844
Debtors	13,356	14,389	12,742	15,145	16,790	20,500
Cash & Bank Balance	9,398	12,814	26,904	31,235	47,832	67,438
Loans & Advances & other CA	4,918	5,346	6,108	7,260	8,049	9,827
Total Current Assets	27,672	32,549	45,754	53,640	72,671	97,766
Current Liabilities & Provisions	8,550	13,236	15,926	17,925	19,946	23,733
Net Current Assets	19,122	19,313	29,828	35,715	52,725	74,033
Total Assets	32,852	31,294	42,564	52,738	69,197	89,311

Key Ratios

Year End-March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Per Share (INR)						
EPS	46	38	67.4	81.1	95.1	112.6
CEPS	55.9	55.1	83.2	96.1	109.3	126.1
BVPS	201	192	262	322	422	544
DPS	30.0	18.0	17.5	17.5	17.5	17.5
Valuation (x)						
P/E	95.0	113.9	64.7	53.8	45.9	38.8
P/CEPS	78.0	79.3	52.5	45.4	39.9	34.6
P/BV	21.7	22.8	16.6	13.5	10.3	8.0
EV/EBITDA	14.1	13.8	8.1	6.8	5.4	3.8
Return Ratio (%)						
EBITDA Margin	15.2%	13.9%	20.6%	20.0%	19.8%	19.4%
EBIT Margin	13%	10%	17%	17.4%	17.6%	17.6%
PAT Margin	10.7%	8.1%	13.9%	14.0%	14.8%	14.6%
ROE	22.8%	20.0%	25.7%	25.2%	22.5%	20.7%
ROCE	27.4%	25.8%	32.5%	31.4%	26.9%	25.0%
Dividend Yield	0.7%	0.4%	0.4%	0.4%	0.4%	0.4%
Leverage Ratio (%)						
Total D/E	0.0	0.1	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.3	-0.6	-0.6	-0.7	-0.8
Turnover Ratios						
Asset Turnover (x)	2.1	2.5	1.9	1.8	1.5	1.4
Receivable Days	69	68	58	58	58	59
Payable days	44	62	73	69	69	68

Source: Arian 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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