

CMP: Rs 1427

Rating: Hold

Target Price: Rs 1517

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)	217242
52w H/L (Rs)	1605/ 675
Avg Yearly Vol (in 000')	1044

Shareholding Pattern %

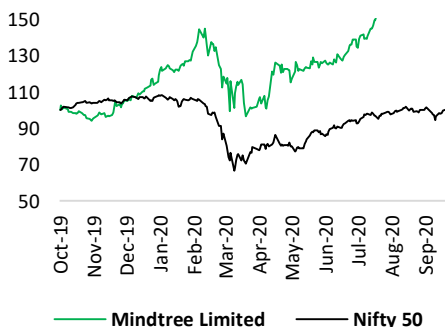
(As on September, 2020)

Promoters	67.59
FII	12.02
DII	11.97
Public & Others	8.42

Stock Performance (%)

	3m	6m	12m
MindTree	27.6	67.4	76.3
Nifty	6.7	26.9	2.6

MindTree Vs Nifty



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Mindtree reported mix set of numbers in Q2FY21. Revenue stood below our estimates while EBITDA and PAT were above our estimates. Company has gained deals worth \$303 million during Q2FY21 and anticipates a healthy order book going ahead. Consolidated revenue for Q2FY21 stood at Rs 19,260 mn, below our estimate of Rs 22,612 mn registering flattish growth of 0.9% QoQ/0.6% YoY growth. Reported EBITDA grew +57.3% YoY/+21.2% QoQ to Rs 3,903 mn, above our estimate of Rs 3,273 mn, while EBITDA margin expanded 730bps YoY/340bps QoQ. PAT for the quarter grew +88% YoY to Rs 2,537 mn, beating our estimate of Rs 2,073 mn. Outperformance on EBITDA & PAT front was mainly due to better operational efficiency.

Q2FY21 Highlights

- In dollar terms, Company's net profit rose by 79.2 % YoY to \$34.3 million, while revenue declined 3.7 % YoY to \$261 million in Q2FY21.
- The company's active client base stood at 283, and eight new clients were added during the period.
- Company had 21,827 employees at the end of the September quarter with trailing 12-months attrition at 13.8%.
- Company's balanced approach of redefining possibilities in the new normal for businesses enabled to deliver a balanced H1 (first half of the fiscal) performance..
- For a global CPG client, Mindtree has been chosen as a strategic partner for digital transformation. Mindtree will provide managed services to maintain digital platforms, create digital assets, and provide insights for real-time analytics for timely decision-making process.
- **Valuations**

Despite muted top line growth mainly as revenue from the top client which contributes(29% of total revenue) declined by 1.1% qoq to US\$75 mn, after stellar 10.5% growth in Q1FY21. Mindtree benefited from temporary spike in demand from the top client during Covid in Q1FY21. However we see revenue growth to pickup in coming quarters as the company is confident that the relationship with top clients will remain healthy on growth prospects. The company is also focusing on mining other strategic clients and expects benefit in the medium term. Also good mix in deal wins with new business and new business from existing clients are positive signs. Company's operational efficiency is likely to continue going ahead which will help in margin expansion. However we are cautious on factors such as slow recovery in travel sector post covid and heavy dependence of revenue on a single client. At CMP of Rs 1427, Mindtree currently trades at FY20 P/E of 37.2x. We value Mindtree at P/E of 25x to its FY22E EPS 60.7, which yields target price of Rs 1517 per share. **We maintain Hold rating on 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	31.1	37.2	28.1	23.5

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

Q2 FY21 - Quarterly Performance (Consolidated)

(in Rs Mn)

Rs Mn (consolidated)	Q2FY21	Q1FY21	Q2FY20	Q-o-Q	Y-o-Y
Net Revenue	19,260	19,088	19,143	0.9%	0.6%
Employee cost	12,623	12,776	12,647	-1.2%	-0.2%
Other Expenses	2,734	3,092	4,014	-11.6%	-31.9%
EBITDA	3,903	3,220	2,482	21.2%	57.3%
<i>EBITDA margin %</i>	20.3%	16.9%	13.0%	340bps	730bps
Depreciation	569	597	707	-4.7%	-19.5%
EBIT	3,334	2,623	1,775	27.1%	87.8%
Other Income	245	406	197	-39.7%	24.4%
Finance cost	132	131	138	0.8%	-4.3%
Exceptional Item	-	-	-	-	-
PBT	3,447	2,898	1,834	18.9%	87.9%
Tax Expense	910	768	484	18.5%	88.0%
Effective tax rate %	26.4%	26.5%	26.4%	-10bps	1bps
PAT	2,537	2,130	1,350	19.1%	87.9%
MI & Associates	-	-	-	-	-
Consolidated PAT	2,537	2,130	1,350	19.1%	87.9%
<i>PAT margin %</i>	13.2%	11.2%	7.1%	201bps	612bps
EPS (Rs)	15	12.9	8.20	19.0%	87.8%

Q2 FY21 – Key Concall Highlights

- Mindtree benefited from temporary spike in demand from the top client during Covid in Q1FY21. The company is confident that the relationship will remain healthy and is bullish on growth prospects from the top client. The company is focusing on mining other strategic clients and expects benefit in the medium term.
- Offshore revenue mix improved 190 bps to 82.1%. Mindtree believes clients will be more open to remote delivery. Company expects some portion of shift to higher offshore mix to be permanent post Covid.
- Regarding the employees, Company had come up with a new initiative called CARE through which they connect with their employees on a regular basis and provide facilities to support employees and their family members.
- Management indicated that CPG and CMT verticals have higher appetite for spending on transformation. CPG clients are spending on technology to increase sales through direct-to-consumer channels. SAP migration to the cloud, manufacturing automation and connected devices are transformation imperatives for manufacturing clients. Management also stated that BFSI clients are investing significantly in digital transformation.
- Company indicated that contractual pricing remained stable in Q2FY21; salary hike for employees will be effective from Jan 1, 2020
- Revenue contribution from customer services was 39%, data and intelligence was 14%, from cloud services it was 19% and from the enterprise IP it was 28%.
- Good growth momentum has been seen in all the sectors except for the travel and hospitality sector. Company also said that the travel and the hospitality sector might take several quarters to come back to the normal level.
- There has been an increase by 10% YoY as for the order book. Mindtree is optimistic about the growth momentum in Q3FY21.
- Company has declared an interim dividend of Rs 7.5 per equity share of par value of Rs 10 each.

Key Financials

Income Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Revenues	70,215	77,643	86,923	98,632
<i>Change (%)</i>	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
<i>Rate (%)</i>	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
<i>Change (%)</i>	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	31.1	37.2	28.1	23.5
P/CEPS	25.5	25.9	21.5	19.0
P/BV	7.1	7.4	6.2	5.1
EV/EBITDA	14.1	13.8	11.1	9.4
Return Ratio (%)				
EBIDTA 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: Arihant 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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