

Top client drives performance but growth lopsided

CMP: Rs 880

Rating: NEUTRAL

Target Price: Rs 870

Stock Info

BSE	532819
NSE	MINDTREE
Bloomberg	MTCL IN
Reuters	MINT.BO
Sector	IT
Face Value (Rs)	10
Equity Capital (Rs mn)	1647
Mkt Cap (Rs mn)	144,767
52w H/L (Rs)	1063/ 652
Avg Yearly Vol (in 000')	951

Shareholding Pattern %

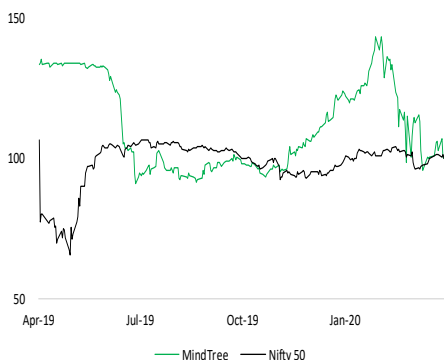
(As on Dec, 2019)

Promoters	72.95
FII	11.86
DII	6.67
Public & Others	8.52

Stock Performance (%)

	3m	6m	12m
MindTree	-13.9	7.01	-20.0
Nifty	-24.4	-22.3	-21.9

MindTree Vs Nifty



Mindtree reported stable set of numbers in Q4FY20, mostly in line with our estimates, it anticipates softness in demand ahead as client defer spending due to COVID-19 pandemic. Consolidated revenue for Q4FY20 stood at Rs 20,505mn, slightly below our estimate of Rs 20,884 mn, registering +11.5% YoY/+4.3% QoQ growth. Reported EBITDA grew +15.5% YoY/+5.7% QoQ to Rs 3,237 mn, above our estimate of Rs 3,143 mn, while EBITDA margin expanded 55bps/20bps QoQ. PAT for the quarter grew +4.0% YoY to Rs 2,062 mn, beating our estimate of Rs 1,952 mn. We maintain neutral rating on the stock due to 1) immediate softness 2) Revenue performance was weak QoQ in all verticals barring Hi-Tech vertical, 3) Cash generation suffered on a QoQ basis.

Q4FY20 Highlights

- Amongst the verticals for the quarter, Hi-tech media grew 5.2% and other verticals declined. For the full year, saw robust performance across all verticals. Hi-tech and media had a strong growth of 13.3%, followed by travel and hospitality, 10.6%; BFSI, 4.7%; and retail, CPG and manufacturing, 3.2%.
- Geographies, for the quarter, U.S. grew 4.1%, Europe declined 8.4%. For the full year, U.S. grew 10.7%, India grew 27.4%. Rest of the world grew 11.5% and Europe declined 3%. Amongst services, for the quarter, digital business grew 1.8%, infrastructure management and tech support grew 4.9% and testing 4.3%. For the full year, had a strong growth in infrastructure management and tech support, 15.9% and digital, 15.3%.
- On the people front, ended the year with close to 22,000 Mindtree Minds with a net increase of 430 minds for the quarter and around 1,800 for the full year.
- Attrition has seen a gradual decline quarter-on-quarter with LTM being 17.4%. For FY 2021, campus onboarding will continue as planned.

Valuations

Going ahead, The company anticipates softness in demand in FY21 due to the unprecedented Covid-19 pandemic so we have reduce our revenue estimates by 5.6%. At CMP of Rs 880, Mindtree is trading at FY21E and FY22E, P/E multiples of 21x and 19x respectively. **We maintain Neutral rating on the stock due to its concentrated client base, 1)Revenue performance was weak QoQ in all verticals barring Hi-Tech vertical, 2) Cash generation suffered on a QoQ basis. with a target price of Rs 870 valuing it at P/E multiple of 19x for FY22E earnings of INR 45.8 per share.**

Particulars (Rs mn)	FY19	FY20	FY21E	FY22E
Net Sales	70,215	77,643	83,307	93,707
EBITDA	10,645	10,815	11,663	13,119
PAT	7,540	6,309	6,775	7,546
EPS (per share)	45.9	38.3	41.1	45.8
ROE	22.8%	20.0%	19.8%	19.7%
P/E	19	23	21	19

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

Q4 FY20 - Quarterly Performance (Consolidated)

(in Rs Mn)

Rs Mn (consolidated)	Q4FY20	Q3FY20	Q4FY19	Q-o-Q	Y-o-Y
Net Revenue	20,505	19,653	18,394	4.3%	11.5%
Employee cost	12,933	12,535	11,504	3.2%	12.4%
Other Expenses	4,335	4,055	4,088	6.9%	6.0%
EBITDA	3,237	3,063	2,802	5.7%	15.5%
<i>EBITDA margin %</i>	<i>15.8%</i>	<i>15.6%</i>	<i>15.2%</i>	<i>20bps</i>	<i>55bps</i>
Depreciation	679	699	428	-2.9%	58.6%
EBIT	2,558	2,364	2,374	8.2%	7.8%
Other Income	183	348	290	-47.4%	-36.9%
Finance cost	128	133	-	-3.8%	-
Exceptional Item	-	-	-	-	-
PBT	2,613	2,579	2,664	1.3%	-1.9%
Tax Expense	551	609	681	-9.5%	-19.1%
Effective tax rate %	21.1%	23.6%	25.6%	-253bps	-448bps
PAT	2,062	1,970	1,983	4.7%	4.0%
MI & Associates	-	-	-	-	-
Consolidated PAT	2,062	1,970	1,983	4.7%	4.0%
<i>PAT margin %</i>	<i>10.1%</i>	<i>10.0%</i>	<i>10.8%</i>	<i>3bps</i>	<i>-72bps</i>
EPS (Rs)	12.5	11.97	12.05	4.7%	4.0%

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

Q4 FY20 – Key Concall Highlights

- Response to COVID-19 work from home- Mindtree having very strong processes, tools, infrastructure built in, and Company has had work-from-home policy for quite some time for employees where they could periodically also work from home. So whether look at governance mechanisms, project delivery processes, tracking, using digital collaboration tools, et cetera, Mindtree have very strong foundation of that. but, in the new normal, post-COVID, work-from-home, or remote working, is going to be a lot more prevalent than it has been.
- During this crisis, have not had a single engagement where had any delivery issues. So company have been able to successfully deliver in last 1.5 months, since the crisis started.
- Mindtree closed Q4 and the full year with record deal closures and margin expansion.
- Company signed contracts worth \$393 million in Q4 and \$1.2 billion for the full year, thus underlying strong transformational capabilities.
- MindTree have 307 active clients with the addition of 5 new clients in Q4. \$10 million clients increased by one, taking the count to 23. Our top 10 clients grew 5.2% quarter-on-quarter, and 17.3% year-over-year.
- Hiring volume continues to be healthy. In the current business scenario, we continue to attract, qualify, acquire and onboard talent via our digital onboarding platform. Company has moved campus training to Digital Orchard platform, through which continuing campus training virtually as per original plan.
- Company closed a multiyear annuity deal with one of existing clients. Client-focused initiatives are yielding good results. Pipeline continues to be healthy, and continue to see increase in win ratio.
- **Outlook:**
- Company see some immediate softness in Q1FY21 • On the CapEx outlook, cautious on the CapEx and will invest only whether it's at the bottom line or top line. On the demand side, There was no really impact of COVID in Q4. But, Q1, there is a softness. And even within Q1, Hi-tech and consumer goods, where there are clients who are very keen to move into more digital.
- FY '20 perspective, the H1 has been a very low margin, but H2, have picked up. So from the full year perspective for FY '21, will end higher than what FY '20.

Key Financials

Key Ratios

Year End-March	FY19	FY20E	FY21E	FY22E
Per Share (Rs)				
EPS	45.9	38.3	41.1	45.8
CEPS	55.9	55.0	58.6	66.5
BVPS	201	192	208	232
DPS	33.0	10.0	10.0	10.0
Valuation (x)				
P/E	19	23	21	19
P/CEPS	16	16	15	13
P/BV	4	5	4	4
EV/EBITDA	15	14	13	11
Return Ratio (%)				
EBIDTA Margin	15.2%	13.9%	14.0%	14.0%
PAT Margin	10.7%	8.1%	8.1%	8.1%
ROE	22.8%	20.0%	19.8%	19.7%
ROCE	21.5%	15.6%	16.0%	16.3%
Dividend Yield	3.8%	1.1%	1.1%	1.1%
Leverage Ratio (%)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.1	-0.2	-0.2	-0.3
Turnover Ratios				
Asset Turnover (x)	1.7	1.5	1.5	1.6
Payable days	44	59	27	27

Source: Company, Arianth Research

Income Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Revenues	70,215	77,643	83,307	93,707
Change (%)	28.5%	10.6%	7.3%	12.5%
Employee Costs	44,212	50,647	54,149	60,910
Other Expenses	15,358	16,181	17,494	19,678
Total Expenses	59,570	66,828	71,644	80,588
EBITDA	10,645	10,815	11,663	13,119
Other Income	893	756	906	1,089
Depreciation	1,641	2,754	2,879	3,400
Interest	29	529	535	540
PBT	9,868	8,288	9,156	10,267
Tax	2,328	1,979	2,380	2,721
Rate (%)	23.6%	23.9%	26.0%	26.5%
PAT	7,540	6,309	6,775	7,546
MI & Associates	0	0	0	0
Consolidated PAT	7,540	6,309	6,775	7,546
Change (%)	32.3%	-16.3%	7.4%	11.4%

Source: Company, Arianth Research

Balance Sheet (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Sources of Funds				
Share Capital	1,642	1,647	1,647	1,647
Reserves & Surplus	31,419	29,921	32,605	36,603
Net Worth	33,061	31,568	34,252	38,250
Loan Funds	5	5	5	5
Non-Current Liabilities	8,729	19,998	20,789	21,400
MI, Deferred Tax & other Liabilities	-388	-1,835	-1,835	-1,835
Total Liabilities	41,790	51,566	55,041	59,650
Application of Funds				
Net Block	9,669	14,092	14,906	16,374
Investments	8,036	7,748	7,748	7,748
Current Assets	27,672	32,549	33,362	37,382
Cash & Bank Balance	2,562	5,870	7,073	10,499
Current Liabilities & Provisions	8,550	12,525	6,259	7,006
Non Current Assets	14,118	19,017	21,679	22,268
Misc. Exp	0	0	0	0
Total Assets	41,790	51,566	55,041	59,650

Source: Company, Arianth Research

Cash Flow Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
PBT	9,868	8,288	9,156	10,267
Depreciation	1,641	2,754	2,879	3,400
Interest & others	29	529	535	540
Financial and other Income	893	756	906	1,089
Cash flow before WC changes	11,538	11,571	12,569	14,208
(Inc)/dec in working capital	-2,223	4,328	-1,890	-1,506
Less: Taxes	-2,328	-1,979	-2,380	-2,721
Operating CF after WC changes	6,987	13,920	8,299	9,981
Operating Cash Flow	4,659	11,941	5,918	7,260
Capital Expenditure	-1,947	-1,815	-3,974	-3,183
Others	-772	288	0	0
Cash Flow from Investing	-2,719	-1,527	-3,974	-3,183
Issue of share cap. / premium	3	4	0	0
Loan raised/(repaid)	-3,004	694		
Dividend Paid	-6,504	-1,975	-1,903	-1,903
Interest & others	-29	-529	-535	-540
Others	4,539	-7,279		
Cash Flow from Financing Activities	-4,995	-9,085	-2,438	-2,443
Net inc /(dec) in cash	-727	3,308	1,887	4,355
Opening balance of cash	10,495	2,562	5,870	7,073
Closing balance of cash	2,562	5,870	7,073	10,499

Source: Company, Arianth Research

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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