

**Growth trajectory has improved;
Double digit growth guidance for FY22**

CMP: INR 2,070

Rating: HOLD

Target Price: INR 2,183

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)	34,091
52w H/L (INR)	2276/721
Avg Yearly Vol (in 000')	1264

Shareholding Pattern %

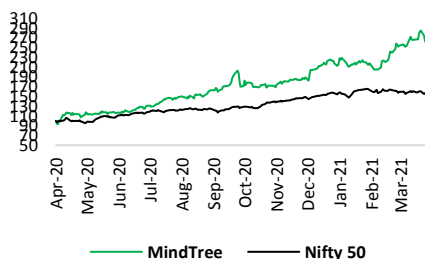
(As on March, 2021)

Promoters	61.03
FII	13.92
DII	10.86
Public & Others	14.19

Stock Performance (%)

	3m	6m	12m
MindTree	21.9	55.7	166
Nifty	1.28	24.2	62.5

MindTree Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Mindtree reported stable set of numbers in Q4FY21. Revenue (CC Terms) and EBITDA stood in-line with our estimates while Revenue (INR) and PAT above our estimates. Company has healthy order book of \$ 375M. Consolidated revenue stood at INR 21,093 Mn, registering +2.9% YoY/4.2% QoQ. Net Revenues at \$288 mn, up by 3.5% YoY/5.1%QoQ in constant currency, driven by significant traction in client portfolio globally. Consolidated EBITDA stood at INR 4,626 Mn, up by 42.9% YoY/-1.1% QoQ. On the margins front, EBITDA margin improved by 615bps YoY/-119bps QoQ to 21.9%. Consolidated PAT saw a rise of 53.9%YoY/-2.9% QoQ to INR 3,173 Mn vs 2,062 Mn in Q4FY20.

Q4FY21 Highlights

- **Clients:** 270 active clients as of March 31, 2021 and \$5 million clients grew by 1, total 44
- **People:** 23,814 Mindtree Minds as of March 31, 2021 and Trailing 12 months attrition is 12.1%
- Wage Hikes carried out in January, 2021 along with increase in G&A costs by 4.5% QoQ / +1.8% YoY have impacted the EBITDA Margins on marginal basis.
- Vertical-wise growth was led by Retail & Manufacturing (22.4% of Revenue) and Travel & Hospitality (9.9% of Revenue) growing at 4% QoQ & 11% QoQ respectively. BFSI (18.4% of Revenue) & Communications & Media (49.4% of Revenue) declined by -6% QoQ & -1% QoQ respectively.
- On geographical front, North America contributed 76.6%, Continental Europe 7.1%, APAC and Middle East 7.7%, Due to focus on Europe and UK it led to grow 8.6% QoQ.
- Q4 Order book was reported at \$375 Mn, growing at +20.2% QoQ. FY21 Orderbook was reported at \$1382 Mn growing +12.3% YoY.

Valuations

We have factored in USD revenue growth of +16.3/+11.8% and EBITDA at 20.9%/20.3% for FY22/23E respectively. At CMP of INR 2,070, Mindtree currently trading at FY23 P/E of 23x- Healthy pipeline and robust order book with multi-year deals becoming transformational for the company in the longer term. While recovery in BFSI vertical, Europe geo and non-IT will support growth ahead.. We value Mindtree at P/E of 24x to its FY23E EPS 90, which yields a target price of INR 2,183 per share. **We maintain a Hold rating on the stock.**

Particulars (INR mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	70,215	77,643	79,678	92,629	1,03,564
EBITDA	10,645	10,815	16,428	19,331	20,983
EBIDTA Margin	15.2%	13.9%	20.6%	20.9%	20.3%
PAT	7,541	6,309	11,105	13,540	14,856
EPS (per share)	46	38	67	82	90
ROE	23%	20%	26%	26%	22%
P/E	45	54	31	25	23

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

Q4 FY21 - Quarterly Performance (Consolidated)

(in INR Mn)

INR Mn (consolidated)	Q4FY21	Q3FY21	Q4FY20	Q-o-Q	Y-o-Y
Net Revenues (US \$mn)	288	274	278	5.1%	3.5%
Net Revenue	21,093	20,237	20,505	4.2%	2.9%
Employee cost	13,123	12,610	12,933	4.1%	1.5%
Other Expenses	3,344	2,948	4,335	13.4%	-22.9%
EBITDA	4,626	4,679	3,237	-1.1%	42.9%
EBITDA margin %	21.9%	23.1%	15.8%	-119bps	615bps
Depreciation	713	717	679	-0.6%	5.0%
EBIT	3,913	3,962	2,558	-1.2%	53.0%
Other Income	389	616	183	-36.9%	112.6%
Finance cost	114	127	128	-10.2%	-10.9%
Exceptional Item	-	-	-	-	-
PBT	4,188	4,451	2,613	-5.9%	60.3%
Tax Expense	1,015	1,186	551	-14.4%	84.2%
Effective tax rate %	24.2%	26.6%	21.1%	-241bps	315bps
PAT	3,173	3,265	2,062	-2.8%	53.9%
MI & Associates			-		
Consolidated PAT	3,173	3,265	2,062	-2.8%	53.9%
PAT margin %	15.0%	16.1%	10.1%	-109bps	499bps
EPS (Rs)	19.3	19.8	12.5	-2.8%	53.7%

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

Q4 FY21 – Key Concall Highlights

- **Deal Wins:** Healthy order book of \$1,382M with a growth of 12.3% for FY21 and will start yielding revenue once deals ramp-up.
- **Client Matrix:** 70 Clients were rationalized in FY21 and the firm will continue client rationalization in FY22 and company has not lost any of the clients from Travel vertical even due to the pandemic crisis and is confident of revival in this segment in upcoming quarters.
- **Business: 1) BFSI:** Declined sequentially as well as -1.1% YoY as some of the deals did not materialize however overall deal pipeline remains healthy and will bounce-back in the upcoming quarters. 2)Media, Communications & Technology grew by 4.1% YoY and has some robust deals in the pipeline. 3) Retail, CPG & Manufacturing after reviving from the pandemic crisis, Retail, CPS and Manufacturing grew 8.6% YoY and will continue its momentum in the upcoming quarters. 4) Travel & Hospitality grew by 16.1% YoY and has been growing sequentially past 2 quarters led by healthy revival in H2FY21.
- **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 above 20% which will be led by improvement in the operational matrix. (includes the impact of wage hikes in FY22 as well as certain costs returning back to normalcy. Utilization at an all-time high but these levels are not sustainable as the firm will onboard more people including freshers in the upcoming year. 4) Focus remains on multi-year strategic annuity deals and maintaining strategic partnership with Hyperscalers such as Microsoft Azure, Google Cloud, etc

Key Financials

Income Statement (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Net Revenues (US \$mn)	1001	1089	1077	1258	1383
Revenues	70,215	77,643	79,678	92,629	1,03,564
Change (%)	28.5%	10.6%	2.6%	16.3%	11.8%
Employee Costs	44,212	50,647	51,132	58,907	65,508
Other Expenses	15,358	16,181	12,118	14,390	17,073
Total Expenses	59,570	66,828	63,250	73,298	82,580
EBITDA	10,645	10,815	16,428	19,331	20,983
Other Income	893	756	1,656	1,607	1,899
Depreciation	1,641	2,754	2,596	2,501	2,721
EBIT	9,004	8,061	13,832	16,830	18,262
Interest	29	529	504	407	379
PBT	9,868	8,288	14,984	18,030	19,782
Tax	2,327	1,979	3,879	4,489	4,926
Rate (%)	24%	24%	26%	25%	25%
PAT	7,541	6,309	11,105	13,540	14,856
MI & Associates	0	0	0	0	0
Consolidated PAT	7,541	6,309	11,105	13,540	14,856
Change (%)	32.3%	-16.3%	76.0%	21.9%	9.7%

Cash Flow Statement (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
PBT	7,541	6,309	11,105	13,540	14,856
Depreciation	1,641	2,754	2,596	2,501	2,721
Interest & others	-864	-227	-1,152	-1,200	-1,520
Cash flow before WC changes	8,318	8,836	12,549	14,842	16,058
(Inc)/dec in working capital	-2,780	2,885	2,120	-864	-828
Operating CF after WC changes	5,538	11,721	14,669	13,978	15,229
Less: Taxes	-2,327	-1,979	-3,879	-4,489	-4,926
Operating Cash Flow	3,211	9,742	10,790	9,489	10,304
(Inc)/dec in F.A + CWIP	-113	-3,781	-3,770	-3,325	-162
(Pur)/sale of investment	0	0	0	0	0
Cash Flow from Investing	-113	-3,781	-3,770	-3,325	-162
Free Cash Flow (FCF)	3,098	5,961	7,020	6,163	10,142
Loan raised/(repaid)	-3,004	1,793	-1,792	-6	0
Equity raised	3	4	1	0	0
Interest & others	1,451	-529	-504	-407	-379
Dividend	-4,938	-3,555	-3,399	-3,111	-3,284
Cash Flow from Financing Activities	-6,488	-2,287	-5,694	-3,523	-3,663
Net inc/(dec) in cash	-3,390	3,673	1,326	2,640	6,479
Opening balance of cash	10,495	9,398	12,814	26,904	31,374
Closing balance of cash	9,398	12,814	26,904	31,374	47,248

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	51,417	67,269
Net Worth	33,061	31,568	43,190	53,065	68,917
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	52,714	68,566
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	14,719	16,457
Cash & Bank Balance	9,398	12,814	26,904	31,374	47,248
Loans & Advances & other CA	4,918	5,346	6,108	7,056	7,889
Total Current Assets	27,672	32,549	45,754	53,149	71,593
Current Liabilities & Provisions	8,550	13,236	15,926	17,458	19,500
Net Current Assets	19,122	19,313	29,828	35,691	52,093
Total Assets	32,852	31,294	42,564	52,714	68,566

Key Ratios

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Per Share (Rs)					
EPS	46	38	67	82	90
CEPS	55.9	55.1	83.2	97.4	106.7
BVPS	201	192	262	322	418
DPS	30.0	18.0	17.5	17.5	17.5
Valuation (x)					
P/E	45	54	31	25	23
P/CEPS	37.0	37.6	24.9	21.2	19.4
P/BV	10.3	10.8	7.9	6.4	4.9
EV/EBITDA	14.1	13.8	8.1	6.7	5.4
Return Ratio (%)					
EBITDA Margin	15.2%	13.9%	20.6%	20.9%	20.3%
EBIT Margin	13%	10%	17%	18.2%	17.6%
PAT Margin	10.7%	8.1%	13.9%	14.6%	14.3%
ROE	22.8%	20.0%	25.7%	25.5%	21.6%
ROCE	27.4%	25.8%	32.5%	31.9%	26.6%
Dividend Yield	1.4%	0.9%	0.8%	0.8%	0.8%
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

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

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

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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