

Mindtree

MARKET PERFORMER

Sector: IT /Mid-Cap | Earnings Update – 4QFY21

20 April 2021

Background: Mindtree is a global technology consulting and services company, helping enterprises marry scale with agility to achieve competitive advantage. “Born digital,” in 1999 and now a Larsen & Toubro Group Company, Mindtree applies its deep domain knowledge to 290+ enterprise client engagements to break down silos, make sense of digital complexity and bring new initiatives to market faster. We enable IT to move at the speed of business, leveraging emerging technologies and the efficiencies of Continuous Delivery to spur business innovation. Operating in more than 15 countries across the world, we’re consistently regarded as one of the best places to work, embodied every day by our winning culture made up of over 21,000 entrepreneurial, collaborative and dedicated “Mindtree Minds”.

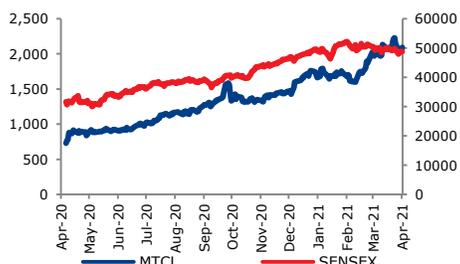
Sensex	47,982
Nifty	14,364
Price	₹2,093
Target Price (12 months)	₹2,145
Recommendation	MARKET PERFORMER

52 Week High/Low	₹2,275/722
Bloomberg / Reuters	MTCL IN/MINT.BO
Equity (shares in mn)	165
Mkt. Cap in mn	₹340.6/\$4.6
Avg. Daily Vol. ('000)	1798
Avg. Daily Vol. (mn)	₹1117.5 /\$15.2

Shareholding	Mar 20	Dec 20	Mar 21
Promoters (%)	74.1	61.0	61.0
FII (%)	11.9	13.3	13.9
DII (%)	5.8	10.6	10.9
Others (%)	8.3	15.1	14.2
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2021	2022E	2023E
Revenue	79.7	87.9	105.8
EBITDA	16.4	19.1	22.0
Adj PAT	11.2	12.3	14.1
Adj EPS*	68.6	75.0	85.8
% growth	0.8	0.1	0.1
P/E	30.5	27.9	24.4
P/ BV	7.4	6.2	5.3
EV/EBITDA	20.4	17.6	15.2
EV/Sales	4.2	3.8	3.2
Div Yield (%)	0.7%	0.8%	0.9%
ROE (%)	0.27	0.24	0.23

Performance(%)	1M	3M	12M
NIIT	8.3%	19.5%	128.5%
SENSEX	-3.9%	-0.9%	52.1%



Strong quarter led by growth across business verticals, margin improvement and healthy deal win momentum. Management remains optimistic of double digit top-line growth while maintaining 20% EBITDA margins for FY22

- Mindtree reported 5.1% QoQ growth in \$ revenues at \$288.2m registering the highest ever quarterly revenue — the company registered 2nd consecutive quarter of above 5% revenue growth; driven by robust growth outside of the top 10 accounts (+8.6% QoQ USD) and end of discounts in the Travel and Hospitality vertical (+17% QoQ USD).
- The Company delivered EBITDA Margin of 21.9% in 4Q'FY21 despite impact of wage hike impact and 1.6k new headcount addition. The gross margins improved by 100bps in FY21 at 35.8% while savings of ~570bps in SG&A aided EBITDA margins.
- BFSI (18.0% of Revenue) de-grew 1.3% QoQ in USD Terms as deal closures were pushed to 1QFY22 while 4Q is cyclically weak. The management commentary remains strong with company pursuing more strategic clients. The CMT Vertical Ex Top Client (21% of Revenue) grew by 5.2% QoQ (better than top client growth of 3.3% QoQ). The Travel and Hospitality Vertical (10% of Revenue) has reported strong growth at 17.0% growth QoQ though full recovery is several quarters away, although green shots are visible.
- BFSI vertical despite its underperformance in Q4 (down 6.6%) is expected to gain momentum as the deals that were delayed come into active pursuit in 1QFY22. The travel vertical's full recovery is 4-5 quarters away but gradual improvement in momentum is likely to aid growth (17.0% QoQ).
- TCV stood at \$375Mn (up 20% QoQ) yet the TTM TCV remains modest at 12%, \$1.4Bn. MTCL expects the revenue momentum to continue and expects strong double digit growth in FY22 as the deal pipeline remains healthy (all time high) with new opportunities.
- The management continues to see strong demand across geographies, service lines, and the deal pipeline remains healthy. FY21 TCV is higher by ~12%, robust pipeline (at an all-time high) and expectation of strong closures in 1HFY22 will support ~16% growth in FY22.
- The Management commentary on future outlook remains strong. During the call company also highlighted that the investments in Front-line sales team have aided in transformational deal wins and the company intends to continue investments in new talent acquisition and sales team. Mindtree has rationalized 70 clients (tail accounts) in FY21 and will continue the rationalization plan. The company continues to focus on Annuity-led deals while avoiding margin dilutive deals.

Valuation: We remain optimistic about revenue growth trajectory in coming quarters, which will be driven by 1) Additional business from existing clients 2) Healthy mix in new deal wins 3) Opportunities arising from vendor consolidation and 4) company's expertise in digital technology. On the down side slower than expected recovery in Travel, Transport, and Hospitality sectors remains a key risk. At CMP of ₹2,093 the stock currently trades at FY22 P/E of 24.4x. We maintain our rating on the stock to a Market Performer and revise our target price to ₹2,145 (previously ₹1,609).

Results Summary 4QFY21

Y/E March (₹ mn)	4QFY21	4QFY20	YoY Growth	3QFY21	QoQ Growth
Revenue	21,093	20,505	2.9%	20,237	4.2%
EBITDA	4,626	3,512	31.7%	4,679	-1.1%
Depreciation	713	679	5.0%	717	-0.6%
Other Income	389	290	34.1%	616	-36.9%
PBT	713	679	5.0%	717	-0.6%
Tax	1,015	681	49.0%	1,186	-14.4%
PAT	3,173	2,314	37.1%	3,265	-2.8%
EBITDA Margin	22%	17%		23%	
Tax Incidence	142%	100%		165%	

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Served as an officer, director or employee	No

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