

Mindtree

Sector: IT /Mid-Cap | Earnings Update – 1QFY21

UNDER PERFORMER

16 July 2020

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”.

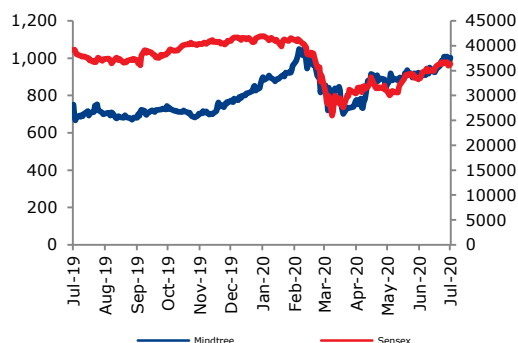
Sensex	40,799
Nifty	11,961
Price	₹ 987
Target Price (12 months)	₹ 904
Recommendation	UNDER PERFORMER

52 Week High/Low	₹ 151/48
Bloomberg / Reuters	MTCL IN/MINT.NS
Equity (shares in mn)	3157.9
Mkt. Cap in mn	₹ 328.4/ \$ 4.4
Avg. Daily Vol. ('000)	36,009
Avg. Daily Vol. (mn)	₹ 3744.9 / \$ 49.6

Shareholding	Mar 19	Dec 19	Mar 20
Promoters (%)	61.7	61.7	61.7
FII (%)	18.1	16.4	15.5
DII (%)	9.7	12.6	13.5
Others (%)	10.4	9.3	9.2
Pledge (% of promoter holding)	3.7	9.2	13.1

Valuation Summary (₹ bn)			
Y/E March	2020	2021E	2022E
Revenue	77.6	75.5	90.0
EBITDA	10.6	11.3	13.6
Adj PAT	6.3	6.8	8.6
Adj EPS*	38.3	41.6	52.6
% growth	-0.2	0.1	0.3
P/E	25.4	23.4	18.5
P/ BV	4.2	3.7	3.3
EV/EBITDA	15.0	14.1	11.7
EV/Sales	2.1	2.1	1.8
Div Yield (%)	0.01	0.01	0.01
ROE (%)	0.18	0.17	0.19

Performance(%)	1M	3M	12M
MSSL	10.6	33.2	33.6
SENSEX	8.4	15.0	-7.2



Resilient performance amid challenging times; Deal inflow remains robust coupled with improving operating margins

- Mindtree's revenue, excluding for the top account, plunged (~16% QoQ) ₹ 18.3bn, largely weighed by Travel, Transportation, and Hospitality (-55% QoQ). Despite the sharp drop in revenue (-9% QoQ), the EBIT margin remained resilient, aided by operational efficiencies and favorable currency. While the deal win run-rate was maintained (QoQ), the mix was more skewed toward renewals (~80%). The top account / overall outlook remained positive/stable.
- The company reported yet another quarter of strong performance from the top account (Microsoft, +10% QoQ and +44% YoY). With the exception of this account, remaining portfolio saw steep decline (16% QoQ; 16% YoY). While the top account now contributes ~30% to revenue, the Hi-Tech and Media vertical accounts for half of the overall revenue.
- Utilization fell marginally v/s Mar'20 (100bp to 77.4%). Cash conversion was healthy during the quarter. DSO remained largely stable (67 days v/s 66 days in the previous quarter). Deal signings were maintained at the Mar'20 run-rate (~USD391m). However, deal signings in Jun'20 were largely skewed toward renewals (~80%), unlike in Mar'20, when the company reported a healthy mix of renewals (52%) and new deals (48%). On a YoY basis, deal signings still improved ~21%.
- Order book: The Company's order book increased 89.9% QoQ and 62.4% YoY to US\$393 million wherein TCV from new increased 122.6% YoY and from renewals increased 30.4% YoY. The digital order book increased 49.6% QoQ to US\$190 million. Digital order book accounts for 48.3% of overall order book.
- Management indicated that the worst impact of COVID-19 was largely behind. It hinted that 2QFY21 should be better than 1QFY21. Within the top account, Mindtree indicated it is well-diversified across areas such as analytics, networks, customer/tech support, and marketing operations. Additionally, it now has decent exposure to annuity/project-based work in the account.

Valuation: Since Jul'19, post the disruption pertaining to ownership change, Mindtree has been undertaking encouraging steps toward achieving stability in both its client and employee count. Jun'20 margin performance, despite COVID-19, has reiterated its ability to adapt to a disruptive situation quickly. High exposure to Travel, Transport, and Hospitality resulted in a sharp drop in revenue in 1QFY21. However, (1) a continued robust outlook for the top account, (2) decent deal signings, and (3) strong margin execution are key positives. However given the recent sharp run-up in stock price near term positives seems largely priced in. We revise our rating to an **UNDERPERFORMER** with a target multiple of 17.2X on FY22EPS to arrive at a target price of ₹ 904.

Results Summary 1QFY21

Y/E March (₹ mn)	4QFY20	4QFY19	YoY Growth	3QFY20	QoQ Growth
Net sales	19,088	20,505	-6.9%	18,342	4.1%
EBITDA	3,478	3,512	-1.0%	1,841	88.9%
Depreciation	597	679	-12.1%	669	-10.8%
Other Income	406	290	40.0%	220	84.5%
PBT	3,156	2,995	5.4%	1,262	150.1%
Tax	768	681	12.8%	335	129.3%
PAT	2,388	2,314	3.2%	927	157.6%
EBIDTA Margin (%)	2,388	2,314	3.2%	927	157.6%
Tax Incidence (%)	18.2	17.1		10.0	
PAT Margin (%)	24.3	22.7		26.5	

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Served as an officer, director or employee	No

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MARKET PERFORMER: The stock's total return is expected to be between -5% to +5% over the next 12 months.

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