

Mindtree Ltd

UNDER PERFORMER

Sector: IT /Mid-Cap | Earnings Update – 3QFY22

14 January 2022

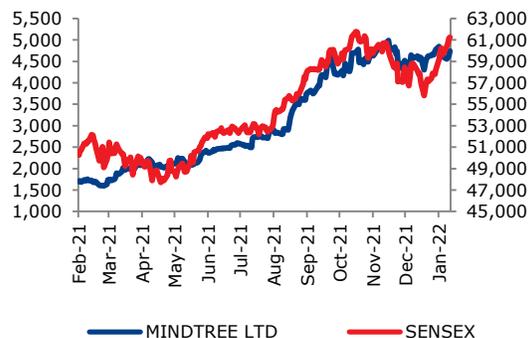
Background: Mindtree is a global technology consulting and services company, helping enterprises marry scale with agility to achieve competitive advantage. “Born digital,” in 1999 and now a Larsen & Toubro Group Company, Mindtree applies its deep domain knowledge to 290+ enterprise client engagements 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	61,223
Nifty	18,255
Price	₹ 4,545
Target Price (12 months)	₹4,220
Recommendation	UNDER PERFORMER
52 Week High/Low	₹ 5,059/1,539
Bloomberg / Reuters	MTCL IN/MINT.BO
Equity (shares in mn)	164.8
Mkt. Cap in bn	₹ 744.2/ \$ 10.0
Avg. Daily Vol. (*000)	1,225
Avg. Daily Vol. (mn)	₹ 5,567 /\$ 75.1

Shareholding	Dec-20	Sep-21	Dec-21
Promoters (%)	61.0	61.0	61.0
FII (%)	13.3	15.0	15.7
DII (%)	10.6	10.1	9.7
Others (%)	15.1	13.9	13.6
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2022E	2023E	2024E
Revenue	104.1	123.4	149.3
EBITDA	21.9	25.6	29.7
PAT	16.0	18.8	21.8
EPS	96.9	114.2	132.3
% growth	41.9	17.8	15.9
P/E	46.9	39.8	34.4
P/ BV	14.5	12.1	10.1
EV/EBITDA	33.2	28.5	24.6
EV/Sales	7.0	5.9	4.9
Div Yield (%)	0.8	0.9	1.1
ROE (%)	33.6	33.0	32.0

Performance(%)	1M	3M	12M
MINDTREE LTD	4.3	-0.8	172.1
SENSEX	6.0	0.0	23.5



Healthy quarter: Growth was broad based across verticals while better operating leverage aided margins. Management remains optimistic of double digit top-line growth while maintaining 20%+ EBITDA margins for FY22

- During 3QFY22 Mindtree registered a strong performance with 5.2% sequential USD topline growth to \$366m (up 33.7% YoY). This performance makes 3QFY22 the 5th consecutive quarter of 5%+ QoQ growth in cc terms. This was supported by a broad based growth across verticals, TTH (+7% QoQ USD), CMT (+6.1% QoQ USD) and BFSI (+4.7% QoQ USD). RCM reported a muted sequential performance (+0.1% QoQ USD) after a robust performance in previous quarter. HCARE the newly carved vertical increased by 23.7% QoQ on a small base. The management reiterated that the strong demand environment will enable company to register industry leading double-digit revenue growth in FY22.
- From a geographic mix perspective the strong revenue growth was driven by North America (5.1%/26.6% QoQ/YoY; 73% of topline), Continental Europe (6.9%/60.2% QoQ/YoY; 8.9% of topline) and APAC (14.7%/48.7% QoQ/YoY; 8.4% of topline). However UK & Ireland declined sequentially (down 7.1%/+64.2% QoQ/YoY; 9.7% of topline) owing to weak demand in the holiday season and impact of new covid wave. On a service lines basis the growth was broad based. Data & Intelligence service line increased by 7.7% QoQ/32.5% YoY USD followed by cloud which registered growth of 7.1% QoQ USD/32.9% YoY USD.
- From a vertical standpoint the growth was once again broad based. TTH vertical is back to pre-pandemic level revenue and appears to be on a stronger footing. The management plans to diversify this vertical mix by expanding into F&B, car rentals and surface transportation. Meanwhile the company believes that after correction and consolidation in the BFSI vertical, the business in this segment is expected to take off in the coming quarters.
- In 3QFY22, the deal wins remained healthy at US\$358mn (+14% YoY). The 9MFY22 TCY stood at \$1.2bn. The management indicated that the deal intake comprised of a healthy mix between annuity and transformational deals. During the quarter the deals included 10 deal wins in the cloud space on the back of improved client mining.
- During the quarter company delivered EBITDA Margin of 21.5% (+ 100bps QoQ). The margin growth was supported by better operating leverage, business growth and currency benefits. The management remains optimistic of achieving 20%+ EBITDA margins in FY22 despite supply side challenges supported by better margins in new deals, higher offshoring, improved utilizations and subcontract cost control.
- Net headcount addition during the quarter increased by 2,000 QoQ taking the headcount to 31,959. Attrition stood at 21.9% (+420bps). This is expected to be elevated in the coming quarter as well. To address the rising attrition the management expects hiring momentum to increase in FY23 with a target of hiring of 1,500 freshers per quarter. The increased headcount during the quarter led to a marginal decline in Utilization levels (including trainees) to 81.5% vs 82.9% in 2QFY22.

Valuation: Mindtree's quarterly deal intake continued its strong momentum and registered \$358mn worth of TCY during the quarter. In addition the average deal tenure is increasing owing to higher annuity deals. However the margins are expected to remain subdued in the short term due to higher subcontracting costs incurred to accommodate the robust demand environment. At CMP of ₹4,545 the stock currently trades at FY24 P/E of 34x. We maintain our rating on the stock as Under Performer with the target price of ₹4,220.

Risks: Adverse currency movements; delay in deal closures

Results Summary 3QFY22

Y/E March (₹ mn)	3QFY22	3QFY21	YoY Growth	2QFY22	QoQ Growth
Net sales	27,500.0	20,237.0	35.9%	25,862.0	6.3%
EBITDA	5,921.0	4,679.0	26.5%	5,307.0	11.6%
Depreciation	632.0	717.0	-11.9%	610.0	3.6%
Other Income	708.0	616.0	14.94%	748.0	-5.3%
PBT	5,870.0	4,451.0	31.9%	5,320.0	10.3%
Tax	1,495.0	1,186.0	26.1%	1,331.0	12.3%
PAT	4,375.0	3,265.0	34.0%	3,989.0	9.7%
EBITDA Margin (%)	21.5	23.1		20.5	
Tax Incidence (%)	25.5	26.6		25.0	
PAT Margin (%)	15.9	16.1		15.4	

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Analyst holding in the stock	No
Served as an officer, director or employee	No

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