

# Mindtree Ltd

**UNDER PERFORMER**

Sector: IT /Mid-Cap | Earnings Update – 2QFY22

14 October 2021

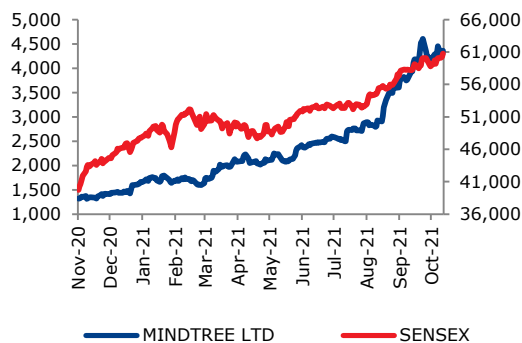
**Background:** Mindtree is a global technology consulting and services company, helping enterprises marry scale with agility to achieve competitive advantage. “Born digital,” in 1999 and now a Larsen & Toubro Group Company, Mindtree applies its deep domain knowledge to 290+ enterprise client engagements 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	61,305
Nifty	18,338
Price	₹ 4,693
Target Price (12 months)	₹4,220
Recommendation	UNDER PERFORMER
52 Week High/Low	₹ 4,937/1,264
Bloomberg / Reuters	MTCL IN/MINT.BO
Equity (shares in mn)	164.7
Mkt. Cap in bn	₹ 782.9/ \$ 10.4
Avg. Daily Vol. ('000)	1,104.4
Avg. Daily Vol. (mn)	₹ 5,182 /\$ 68.8

Shareholding	Jun-20	Mar-21	Jun-21
Promoters (%)	74.1	61.0	61.0
FII (%)	10.4	13.9	13.7
DII (%)	7.9	10.9	12.0
Others (%)	8.2	14.2	13.3
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2021	2022E	2023E
Revenue	79.7	102.4	121.8
EBITDA	16.4	21.6	24.9
PAT	11.2	15.4	18.3
EPS	68.3	93.3	111.0
% growth	78.0	36.7	19.0
P/E	68.8	50.3	42.3
P/ BV	17.9	15.0	12.6
EV/EBITDA	19.6	36.6	31.7
EV/Sales	4.0	7.7	6.5
Div Yield (%)	0.5	0.7	0.9
ROE (%)	28.2	32.5	32.4

Performance(%)	1M	3M	12M
MINDTREE LTD	10.9	59.5	181.2
SENSEX	4.4	14.3	48.9



## Robust quarter: Growth across verticals boosted topline while better operating leverage aided margins. Management remains optimistic of double digit top-line growth while maintaining 20%+ EBITDA margins for FY22

- During 2QFY22 Mindtree registered a robust performance with 12.8% sequential USD topline growth to \$350m (up 34.1% YoY). This was supported by a broad based growth across verticals, Retail C&M (+29.7% QoQ USD), Travel (+14.2% QoQ USD), BFSI (+8.9% QoQ USD) and Hcare (+23.6% QoQ USD). 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 UK & Ireland (+60.5% QoQ USD) and APAC & Middle East (+20.3% QoQ USD). On a service lines basis the growth was broad based. Customer success service line increased by 21.9% QoQ/48.9% YoY USD while cloud registered growth of 6% QoQ USD/32.2% YoY USD.
- From a vertical standpoint the growth was once again broad based. Retail, CPG and Manufacturing (RCM) vertical witnessed robust sequential growth of 29.6%. This was owing to seasonality and pent up demand driven by project backlogs. In the BFSI vertical (+8.9% QoQ, +15.5% YoY USD) growth was driven by core modernization, digital engineering and increased product rollouts. Travel vertical registered a fourth consecutive quarter of double-digit sequential growth.
- In ongoing 3QFY22, the company is witnessing strong deal win momentum in BFSI vertical, which include engagements with a large credit card agency and an asset management firm for ESG related initiatives. In 2QFY22 the company registered TCV of \$360mn (down 29% QoQ, +19% YoY). The strong order inflow was driven by good mix of annuity and transformational initiatives.
- During the quarter company delivered EBITDA Margin of 20.6% (+ 200bps QoQ) despite a wage hike. The margin growth was supported by better operating leverage and currency benefits, however was partially offset by wage hike (140 bps QoQ). The management is optimistic of achieving 20%+ EBITDA margins in FY22 despite supply side challenges supported by better margins in new deals.
- Gross headcount addition during the quarter increased by 4,400 QoQ. Attrition stood at 17.7% (+400bps). To address the rising attrition the management expects hiring to remain at a higher level and rely on sub-contracting for niche talent. The company is also focused on reskilling its existing workforce to cater to high demand. The increased headcount during the quarter led to a marginal decline in Utilization levels (including trainees) to 82.9% vs 83.2% in 1QFY22.

**Valuation:** Mindtree’s quarterly deal intake continued its strong momentum and registered \$360mn worth of TCV during the quarter. In addition the average deal tenure is increasing owing to higher annuity deals. However the margins are expected to remain under pressure in the short term due to higher subcontracting costs incurred to accommodate the robust demand environment. The recent rally in stock seems to have factored in all the near term positives. At CMP of ₹4,693 the stock currently trades at FY23 P/E of 42x. We downgrade our rating on the stock to Under Performer (Earlier: Market Performer) with target price of ₹4,220.

**Risks:** Adverse currency movements; delay in deal closures

## Results Summary 2QFY22

Y/E March (₹ mn)	2QFY22	2QFY21	YoY Growth	1QFY22	QoQ Growth
<b>Net sales</b>	25,862.0	19,260.0	34.3%	22,917.0	12.9%
<b>EBITDA</b>	5,307.0	3,784.0	40.2%	4,645.0	14.3%
<b>Depreciation</b>	610.0	569.0	7.2%	582.0	4.8%
<b>Other Income</b>	748.0	245.0	205.31%	718.0	4.2%
<b>PBT</b>	5,320.0	3,328.0	59.9%	4,652.0	14.4%
<b>Tax</b>	1,331.0	910.0	46.3%	1,218.0	9.3%
<b>PAT</b>	3,989.0	2,418.0	65.0%	3,434.0	16.2%
<b>EBITDA Margin (%)</b>	20.5	19.6		20.3	
<b>Tax Incidence (%)</b>	25.0	27.3		26.2	
<b>PAT Margin (%)</b>	15.4	12.6		15.0	

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Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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**OUT PERFORMER:** The stock's total return is expected to be within 5-15% over the next 12 months.

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

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**SELL:** The stock's total return is expected to more than -15% over the next 12 months.

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RESEARCH			
Kedar S Kadam	DGM & Head of Research	+91-44 - 4004 7361	kedarsk@chola.murugappa.com
Mugilan K	Technical Analyst	+91-44 - 4004 7353	mugilank@chola.murugappa.com
Arjun Prasad Pasumarthi	Fundamental Analyst	+91-44 - 4004 7363	arjunpp@chola.murugappa.com
Nilesh Patil	Fundamental Analyst	+91-44 - 4004 7366	nileshmp@chola.murugappa.com
Ammar Haider	Associate	+91-44 - 4004 7360	amarh@chola.murugappa.com
Balaji H	Compliance Officer	044-30007226	balajih@chola.murugappa.com
Gayathri Devi	Customer service	1800 425 4477	gayathrids@chola.murugappa.com