

Mindtree Ltd

OUT PERFORMER

Sector: IT /Mid-Cap | Earnings Update – 4QFY22

19 April 2022

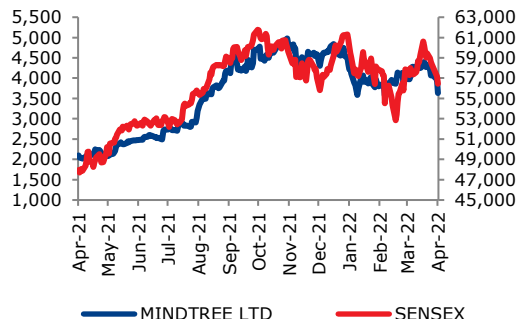
Background: Mindtree is a global technology consulting and services company, helping enterprises marry scale with agility to achieve competitive advantage. “Born digital,” in 1999 and now a Larsen & Toubro Group Company, Mindtree applies its deep domain knowledge to 290+ enterprise client engagements 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	56,463
Nifty	16,959
Price	₹ 3,636
Target Price (12 months)	₹4,180
Recommendation	OUT PERFORMER
52 Week High/Low	₹ 5,060/1,998
Bloomberg / Reuters	MTCL IN/MINT.BO
Equity (shares in mn)	164.8
Mkt. Cap in bn	₹ 599.2/ \$ 7.9
Avg. Daily Vol. ('000)	734
Avg. Daily Vol. (mn)	₹ 2,668.9 /\$ 35.0

Shareholding	Dec-20	Sep-21	Dec-21
Promoters (%)	61.0	61.0	61.0
FII (%)	13.9	15.7	15.7
DII (%)	10.9	9.7	9.7
Others (%)	14.2	13.6	13.6
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2022	2023E	2024E
Revenue	105.3	126.9	153.0
EBITDA	22.0	25.2	29.0
PAT	16.5	18.6	21.4
EPS	100.3	113.1	130.2
% growth	47.0	12.7	15.1
P/E	36.2	32.2	27.9
P/ BV	11.5	9.6	8.1
EV/EBITDA	33.2	28.9	25.1
EV/Sales	6.9	5.7	4.8
Div Yield (%)	1.0	1.1	1.3
ROE (%)	34.7	32.6	31.4

Performance(%)	1M	3M	12M
MINDTREE LTD	-8.6	-13.8	73.6
SENSEX	-1.4	-4.9	17.8



Robust demand environment propels the topline while cost inflation drags margin

- Mindtree’s consol. USD revenue during the quarter stood at US\$384mn (+4.7%QoQ) led by strong growth across all the key business segments. EBIT improved by 3.7%/35% QoQ/YoY while EBIT margin declined by 30bps to 18.9% QoQ. EBIT margin decline was largely transpired by higher employee (+6.3% QoQ) & SG&A expenses (+5.2% QoQ). EBITDA stood at ₹6.1bn while EBITDA margin came at 21% (-90bps). The management is assertive of registering 20%+ EBITDA margins (constant to FY22 guidance) for FY23 (FY22 margin came at 20.9%).
- Mindtree’s robust deal wins improved by 9%/4% QoQ/YoY to US\$390mn led by new contracts in North America & Continental European regions. The FY22 TCV exceeded US\$1.6bn (+16.7% YoY). The strong demand environment ensures the continuance in deal wins for coming quarters. Mindtree’s order wins represent a compilation of annuity & transformational orders. The Influx of transformational orders in recent period is noteworthy and emphasizes on management’s ambition to become a strong digital player.
- Amongst geography-wise trend for 4QFY22, the APAC & Middle East’s (including RoW) contribution to total revenue increased by 8.9% QoQ (51.3% YoY) while North America & Continental Europe’s contribution remained largely intact (5.6% & 5.8% QoQ respectively). UK & Ireland contribution to total revenues persists its weakness (-6.0% QoQ) due to weak demand. On service lines basis, the growth was broad based with data intelligence segment reporting the highest USD growth (5.7% QoQ). The rest of the service lines segments (customer success, cloud & Enterprise IT) reported 4%+ QoQ USD growth.
- While the net headcount crossed the 35k mark (5.2k+ additions in 4Q) the inflated attrition rate remains a concern. The attrition rate has escalated to 23.8% from 21.9% QoQ (12.1% in 4QFY21). The management intends to address the inflated attrition rate by adding ~1,500 freshers/quarter for FY23. Net headcount addition in FY22 was over 11.2k (6x of addition in FY21). Despite the rampant headcount addition, the utilization level has remained intact (83.1% in 4QFY22 vs 84.3% in 4QFY21).

Valuation: Mindtree intends to persist the industry leading growth structure in the wake of robust demand environment, robust TCV’s & strong financial performance. The constant client addition & major portion of TCV attributed from Top-100 clients augers well for the company but the inflating attrition rate remains a key concern. The higher employee costs are likely to pressurize the margin profile in near term. While we lower our target price to ₹4,180 (earlier: ₹4,220), valuing the company at 37x FY23EPS, the recent drop (-8.6% MoM) in stock price offers revision of rating to OUTPERFORMER from UNDERPERFORMER.

Risks: Adverse currency movements; delay in deal closures

Results Summary 4QFY22

Y/E March (₹ mn)	4QFY22	4QFY21	YoY Growth	3QFY22	QoQ Growth
Revenue	28,974.0	21,093.0	37.4%	27,500.0	5.4%
EBITDA	6,083.0	4,626.0	31.5%	5,921.0	2.7%
Depreciation	596.0	713.0	-16.4%	632.0	-5.7%
Other Income	899.0	389.0	131.11%	708.0	27.0%
PBT	6,265.0	4,188.0	49.6%	5,870.0	6.7%
Tax	1,534.0	1,015.0	51.1%	1,495.0	2.6%
PAT	4,731.0	3,173.0	49.1%	4,375.0	8.1%
EBITDA Margin (%)	21.0	21.9		21.5	
Tax (%)	24.5	24.2		25.5	
PAT Margin (%)	16.3	15.0		15.9	

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

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