

Mindtree

MARKET PERFORMER

Sector: IT /Mid-Cap | Earnings Update – 3QFY21

20 January 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”.

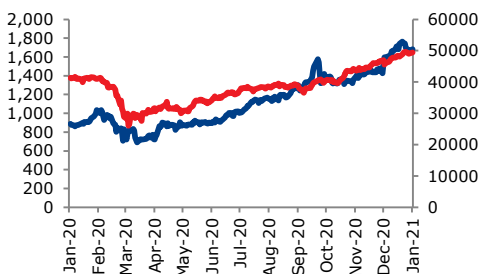
Sensex	49,628
Nifty	14,599
Price	₹1,680
Target Price (12 months)	₹1,609
Recommendation	MARKET PERFORMER

52 Week High/Low	₹1780/691
Bloomberg / Reuters	MTCL IN/MINT.BO
Equity (shares in mn)	164.5
Mkt. Cap in mn	₹273/ \$3.7
Avg. Daily Vol. (*000)	2597.1
Avg. Daily Vol. (mn)	₹1117.5 /\$15.2

Shareholding	Dec 19	Sept 20	Dec 20
Promoters (%)	73.6	67.6	61.0
FII (%)	10.5	12.0	13.3
DII (%)	6.2	12.0	10.6
Others (%)	9.6	8.4	15.1
Pledge (%) of promoter holding	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2020	2021E	2022E
Revenue	77.6	79.0	90.7
EBITDA	10.6	16.2	19.1
Adj PAT	6.3	10.9	12.1
Adj EPS*	38.3	66.4	73.7
% growth	-0.2	0.7	0.1
P/E	43.9	25.3	22.8
PV/ BV	7.3	6.0	5.1
EV/EBITDA	25.3	16.5	14.1
EV/Sales	3.5	3.4	3.0
Div Yield (%)	0.5%	0.8%	1.0%
ROE (%)	0.2	0.3	0.2

Performance(%)	1M	3M	12M
MTCL	15.8%	27.2%	95.1%
SENSEX	6.8%	21.1%	18.7%



Strong quarter led by growth across business verticals, sharp improvement in margins and healthy deal win momentum.

- Mindtree reported 4.9% QoQ growth in \$ revenues led by strong growth in HiTech, Media & Services (+5.1% QoQ \$), Manufacturing & Retail (+5.4% QoQ \$), while BFSI remained flat (+0.8% \$).
- The company reported strong sequential beat in margin (19.6%) for second consecutive quarter (+227 bps QoQ, +755 bps YoY) led by revenue growth, all-time high utilization and sustained high off shoring. Management is confident of sustaining EBITDA margins at ~20% levels.
- Higher margins were led by strong revenue growth and higher utilization of 83.1% (vs. 78.8% in 2Q) & sustained high off shoring at 82.8% (vs. 82.1% in 2Q21). The sharp uptick in utilization was driven by aggressive re-skilling of talent over past two quarters and utilizing the bench for new projects with very minimal hiring.
- In terms of geography, growth was broad-based, with the US growing 4.7% QoQ, while Europe inched up 3.7% QoQ. RoW reported robust growth of 10.9% QoQ. In terms of Services, growth was largely skewed towards Data & Intelligence (10.2% QoQ). Other service lines – Cloud (6.1% QoQ), Enterprise IT (4.6% QoQ), and Customer Success (2.9% QoQ) – also reported robust growth.
- During the quarter Mindtree maintained the deal win momentum, with total deals wins of USD \$312mn, + 3% QoQ, 53% YoY. (303\$ mn in 2QFY21, 207\$ mn in 3QFY20). MTCL crossed \$1Bn TCV mark for the first time in first 9 months of FY21. Management indicated healthy deal pipeline in areas of digital transformation to enhance client revenues, cost take out agenda through modernization & enabling remote operations. TTM book to bill remained at 1.33X. The wins were from Manufacturing, Travel, Retail and BFSI verticals.
- Mindtree added a total of 8 new clients during the quarter. The company is focusing on strengthening partnership with strategic accounts and they have rationalized around 20% of long tail accounts. Sequential revenue growth across client buckets was strong with 3.4% / 2.8% / 4% / 5.7% growth in top 1 / top 5 / top 10 / non-top 10 clients.
- The management continues to see strong demand across geographies and service lines, and the deal pipeline remains healthy. The management intends to invest in growth in the coming quarters, which would be a headwind to margins.

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 post covid in Travel, Transport, and Hospitality sectors remains a key risk. The 3QFY21 margin performance, has reiterated its ability to adapt to a disruptive situation quickly, however we do not expect these elevated margins to sustain for long. At CMP of ₹1,680 the stock is trading at P/E of 22.8x our FY22E, which in our view captures all near term positives. We maintain our Market Performer rating on the stock with a revised target price of ₹1,609 earlier (₹1,468).

Results Summary 3QFY21

Y/E March (₹ mn)	3QFY21	2QFY21	YoY Growth	3QFY20	QoQ Growth
Revenue	20,237	19,653	3.0%	19,260	5.1%
EBITDA	4,679	3,063	52.8%	3,784	23.7%
Depreciation	717	699	2.6%	569	26.0%
Other Income	616	348	77.0%	245	151.4%
PBT	717	699	2.6%	569	26.0%
Tax	1,186	609	94.7%	910	30.3%
PAT	3,265	1,970	65.7%	2,418	35.0%
EBITDA Margin	23%	16%		20%	
Tax Incidence	165%	87%		160%	

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Served as an officer, director or employee	No

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