

Earning was strong and second highest ever TCV in its history

CMP: INR 3,324

Rating: Accumulate

Target Price: INR 3,826

Stock Info

BSE	532819
NSE	MINDTREE
Bloomberg	MTCL IN
Reuters	MINT.BO
Sector	IT
Face Value (INR)	10
Equity Capital (INR mn)	1647
Mkt Cap (INR mn)	5,51,567
52w H/L (INR)	5,060/2,649
Avg Yearly Vol (in 000')	731

Shareholding Pattern %

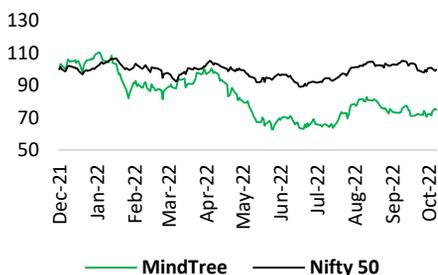
(As on June, 2022)

Promoters	61.00
FII	11.69
DII	12.07
Public & Others	15.25

Stock Performance (%)

	1m	3m	12m
MindTree	5.6	24.2	-26.1
Nifty	-3.9	8.5	-5.6

MindTree Vs Nifty



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MindTree has reported revenue above our estimate: Reported revenue of INR 34,004 Mn (up 9% QoQ/31% YoY) above our estimate of INR 33,275 Mn. The growth was broad-based led by strong performance in Healthcare (195.1% YoY/34.9% QoQ), BFSI (+33.3% YoY/10.2% QoQ), Travel, Transportation & Hospitality vertical (+41.9% YoY/8.8% QoQ), Communications, Media & Technology (23.3% YoY/4.3% QoQ) and Retail, CPG & Manufacturing de-grew (-11.5% YoY/-0.8% QoQ). Dollar term Revenue growth +20.6% YoY/5.7% QoQ to \$422 mn against our estimate \$414mn, up 7.2% sequentially in constant currency.

MindTree beat our estimate on the Margin front: EBIT margin was down 59bps QoQ/41bps YoY at 18.6% above our estimates of 18.3% despite wage hikes across the board, making it our seventh consecutive quarter of more than 5% revenue growth in constant currency, and eighth consecutive quarter of more than 20.5% EBITDA margin.

Geography: Among major markets, North America led with +29.4% YoY growth; Continental Europe de-grew -6.6% YoY and UK and Ireland grew -26.7%YoY. APAC and Middle East grew by 34.6% YoY.

LTI-Mindtree merger to close by 2022-end: LTI and Mindtree announced a merger on 6th May 2022 with the objective of combining complementary strengths of both the companies, create strong portfolio of offerings, participate in larger deals and have better ecosystem partnerships. It seems to have received most regulatory approvals and the merger will likely get consummated by the end of CY22. While no specific plans have been spelt out on the analyst call, it was indicated that the combined entity would have 700 customers with only ~10 being common clients to both companies. So, there is significant room to cross sell.

Valuations & Outlook:

Mindtree has reported strong performance during Q2FY23 mainly driven by the company's better service line and execution. The company has maintained growth momentum backed by a robust pipeline and strong demand environment as it booked TCV of ~US\$518mn as the second highest ever in its history, and seems to have benefited from the rise in longer tenure cost optimization deals. They remain confident of delivering EBITDA margin >20% despite the ongoing supply-side challenges, supported by better margins in new deals. We value Mindtree at a PE of 25x to its FY25E EPS of INR 153 and upgrade the target price to INR 3,826 per share (the earlier target price was INR 3,461). **We maintain our Accumulate rating on the stock.**

Exhibit 1: Financial Performance

Particulars (INR mn)	FY22	FY23E	FY24E	FY25E
Net Sales	105,253	131,190	143,824	165,006
EBITDA	21,956	25,785	28,462	32,909
EBIDTA Margin	20.86%	19.65%	19.79%	19.94%
PAT	17,031	19,947	21,915	25,222
EPS (per share)	103.3	121.0	133.0	153.0
ROE	31.11%	26.25%	22.06%	19.76%
P/E	32.2	27.5	25.0	21.7

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Exhibit 2: Q2FY23 - Quarterly Performance (Consolidated)

(in INR Mn)

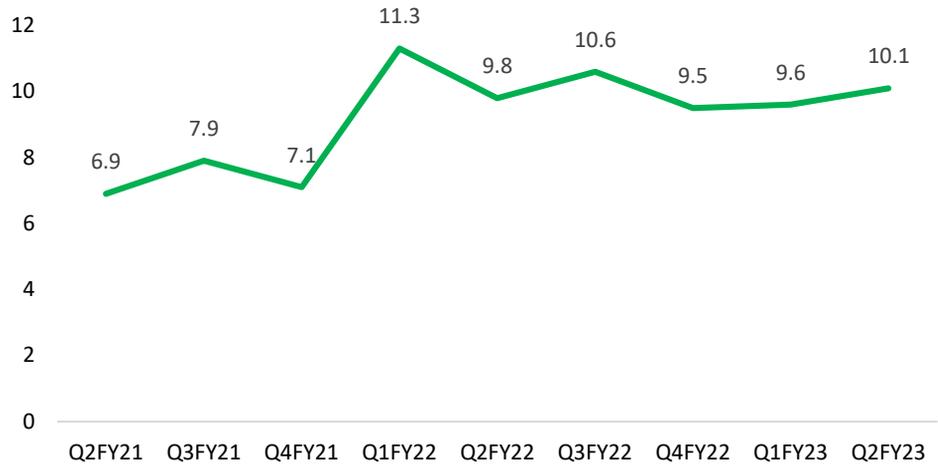
INR Mn (consolidated)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y
Net Revenues (US \$mn)	422	399	350	5.7%	20.6%
Net Revenue	34,004	31,211	25,862	9%	31%
Employee cost	20,474	18,536	15,644	10.5%	30.9%
Other Expenses	6,563	6,094	4,911	7.7%	33.6%
EBITDA	6,967	6,581	5,307	6%	31%
<i>EBITDA margin %</i>	<i>20.5%</i>	<i>21.1%</i>	<i>20.5%</i>	<i>-2.8%</i>	<i>-3bps</i>
Depreciation	651	599	610	8.7%	6.7%
EBIT	6,316	5,982	4,697	6%	34%
<i>EBIT margin %</i>	<i>19%</i>	<i>19.2%</i>	<i>18.2%</i>	<i>-59bps</i>	<i>41bps</i>
Other Income	486	395	748	23.0%	-35.0%
Finance cost	135	122	125	10.7%	8.0%
Exceptional Item	-	-	-		
PBT	6,667	6,255	5,320	7%	25%
Tax Expense	1,580	1,539	1,331	2.7%	18.7%
<i>Effective tax rate %</i>	<i>23.7%</i>	<i>24.6%</i>	<i>25.0%</i>	<i>-91bps</i>	<i>-132bps</i>
PAT	5,087	4,716	3,989	8%	28%
MI & Associates					
Consolidated PAT	5,087	4,716	3,989	8%	28%
<i>PAT margin %</i>	<i>15.0%</i>	<i>15.1%</i>	<i>15.4%</i>	<i>-1.0%</i>	<i>-46bps</i>
EPS (INR)	30.9	28.6	24.2	8%	27%

Source: Arihant Research, Company Filings

Key Conference Highlights

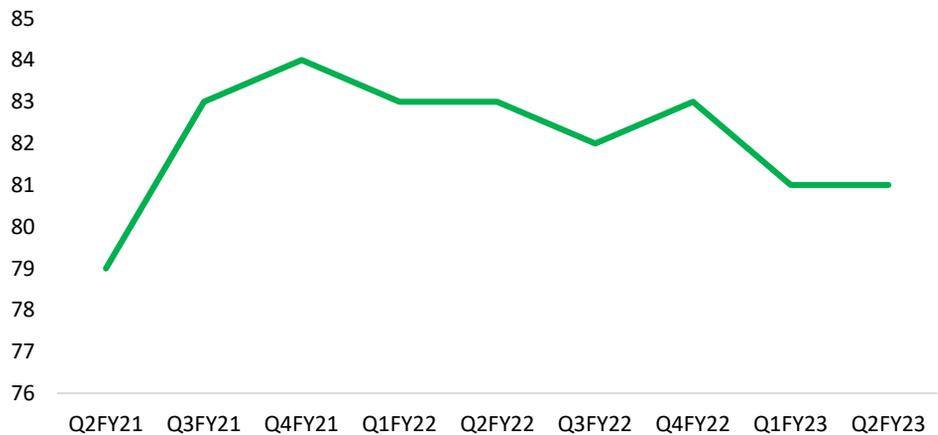
- LTI- Mindtree merger is in final stage and expected to be completed before CY22 year end.
- Cash flows were lower in the quarter due to higher tax outflow and spend on office space.
- Macroeconomic situation points to softness in near term for certain sectors like manufacturing, Retail, Logistics, etc. But, it would be transitional. It is watchful of news flow in the hitech sector.
- There has been some delay in decision making for new deals.
- Geography: It has high dependence on UK and Continental Europe for Retail sector and that was reflected in muted growth for the vertical.
- Utilization rate will broadly be within 80-82% range for Mindtree going ahead.
- The company is doing lot of integrated talent planning with regard to merger with LTI.
- After merger, the merged entity would have 700 clients with little overlap.
- Q3 would remain seasonally weak quarter due to furloughs.
- The company aim would be to maintain EBITDA margin of 20% plus going ahead.
- BFSI has picked up well for Mindtree over last few quarters.
- With offices opening, costs will increase but not in the same proportion as pre-covid times.
- It was able to get decent amount of increase in realization in the quarter.
- DSO was reported at 50 days for the second consecutive quarter v/s 60 days reported in 4QFY22. MTCL had earlier shown intent to maintain DSO in the 60-65 range, but now has an aspiration to keep the current level as benchmark and sustain DSO at the same level.
- The company on-boarded 3,100 employees, taking its employee base to 38,200+. LTM attrition rate decreased to 24.1% in 2QFY23 from 24.5% in 1QFY23.

Exhibit 3: Subcontractor expenses (as % a percentage of sales) increased marginally by ~50bpsQoQ



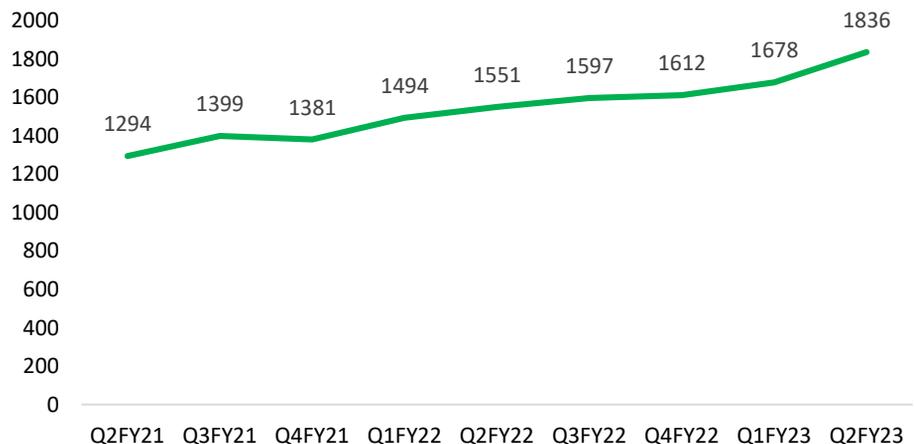
Source: Arianth Research, Company Filings

Exhibit 4: Utilisation declined by 50bps (incl trainees) Including trainees



Source: Arianth Research, Company Filings

Exhibit 5: TTM Order Inflow- Total (US\$m) improved sequentially.



Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Mn)

Year End-March	FY22	FY23E	FY24E	FY25E
Net Revenues (US \$mn)	1411	1668	1919	2089
<i>Change (%)</i>	31.1%	18.2%	15.1%	8.8%
Revenues	105,253	131,190	143,824	165,006
<i>Change (%)</i>	32.1%	24.6%	9.6%	14.7%
Employee Costs	63,278	79,641	86,474	98,949
Other Expenses	20,019	25,764	28,888	33,147
Total Expenses	83,297	105,405	115,362	132,096
EBITDA	21,956	25,785	28,462	32,909
Margin (%)	20.9%	19.7%	19.8%	19.9%
Other Income	3,575	3,332	3,337	3,342
Depreciation	2,420	2,340	2,426	2,522
EBIT	19,536	23,446	26,036	30,387
Margin (%)	18.6%	17.9%	18.1%	18.4%
Interest	502	532	537	542
PBT	22,609	26,246	28,836	33,187
Tax	5,578	6,299	6,921	7,965
<i>Rate (%)</i>	24.7%	24.0%	24.0%	24.0%
PAT	17,031	19,947	21,915	25,222
MI & Associates	-	-	-	-
Consolidated PAT	17,031	19,947	21,915	25,222
<i>Change (%)</i>	53.4%	17.1%	9.9%	15.1%

Balance Sheet (INR Mn)

Year End-March	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Share Capital	1,648	1,648	1,648	1,648
Reserves & Surplus	53,090	74,334	97,698	125,990
Net Worth	54,739	75,983	99,347	127,639
Loan Funds	4	-	-	-
MI, Deferred Tax & other Liabilities	(57)	-	-	-
Capital Employed	55,696	75,983	99,347	127,639
Application of Funds				
Net Block	4,296	8,450	7,517	8,099
CWIP	215	261	232	250
Other Non-current Assets	8,482	8,844	8,390	8,673
Net Fixed Assets	12,993	17,555	16,139	17,022
Investments	3,116	3,126	3,136	3,146
Debtors	17,313	21,579	23,658	27,142
Cash & Bank Balance	32,904	47,038	70,940	96,973
Loans & Advances & other CA	10,482	13,065	14,323	16,433
Total Current Assets	60,699	81,682	108,921	140,547
Current Liabilities & Provisions	21,112	26,380	28,849	33,076
Net Current Assets	39,587	55,302	80,072	107,471
Total Assets	55,696	75,983	99,347	127,639

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Cash Flow Statement (INR Mn)

Year End-March	FY22	FY23E	FY24E	FY25E
PBT	17,031	19,947	21,915	25,222
Depreciation	2,420	2,340	2,426	2,522
Interest & others	(3,073)	(2,800)	(2,800)	(2,800)
Cash flow before WC changes	16,378	19,487	21,541	24,944
(Inc)/dec in working capital	(226)	(748)	(460)	(686)
Operating CF after WC changes	16,152	18,739	21,081	24,259
Less: Taxes	(5,578)	(6,299)	(6,921)	(7,965)
Operating Cash Flow	10,574	12,440	14,160	16,294
(Inc)/dec in F.A + CWIP	(3,244)	(2,340)	(2,426)	(919)
(Pur)/sale of investment	0	0	0	0
Cash Flow from Investing	(3,244)	(2,340)	(2,426)	(919)
Free Cash Flow (FCF)	7,330	10,100	11,734	15,375
Loan raised/(repaid)	(2)	(4)	0	0
Equity raised	1	0	0	0
Interest & others	(502)	(532)	(537)	(542)
Dividend	(3,111)	(3,284)	(3,313)	(3,313)
Cash Flow from Financing Activities	(3,614)	(3,819)	(3,850)	(3,855)
Net inc/(dec) in cash	3,716	6,281	7,885	11,520
Opening balance of cash	26,904	32,904	47,038	70,940
Closing balance of cash	32,904	47,038	70,940	96,973

Key Ratios

Year End-March	FY22	FY23E	FY24E	FY25E
Per Share (INR)				
EPS	103.3	121.0	133.0	153.0
CEPS	118.0	135.2	147.7	168.4
BVPS	332	461	603	775
DPS	17.5	17.5	17.5	17.5
Valuation (x)				
P/E	32.2	27.5	25.0	21.7
P/CEPS	28.2	24.6	22.5	19.7
P/BV	10.0	7.2	5.5	4.3
EV/EBITDA	5.8	4.4	3.1	1.9
Return Ratio (%)				
EBIDTA Margin	20.9%	19.7%	19.8%	19.9%
EBIT Margin	18.6%	17.9%	18.1%	18.4%
PAT Margin	16.2%	15.2%	15.2%	15.3%
ROE	31.1%	26.3%	22.1%	19.8%
ROCE	35.1%	30.9%	26.2%	23.8%
Dividend Yield	0.5%	0.5%	0.5%	0.5%
Leverage Ratio (%)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.6	-0.6	-0.7	-0.8
Turnover Ratios				
Asset Turnover (x)	1.9	1.7	1.4	1.3
Receivable Days	60	60	60	60
Payable days	73	73	73	73

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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