

**CMP: INR 2,911**

**Rating: Accumulate**

**Target Price: INR 3,461**

**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)	47,444
52w H/L (INR)	5,060/2,458
Avg Yearly Vol (in 000')	978

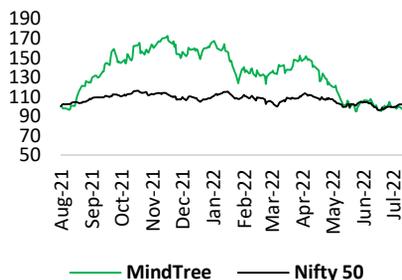
**Shareholding Pattern %**

(As on June, 2022)

Promoters	61.00
FII	11.69
DII	12.07
Public & Others	15.25

Stock Performance (%)	1m	3m	12m
MindTree	-0.6	-30.1	14.7
Nifty	1.4	-8.4	1.1

**MindTree Vs Nifty**



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**MindTree has reported revenue above our estimate:** Mindtree reported revenue of \$399.3 mn, 5.5% QoQ CC, +4.0% QoQ /+28.6% YoY USD terms against our estimate \$397 mn. Reported revenue of INR up 8% QoQ/36% YoY at INR 31,211 mn against INR 30,776 Mn. The growth was broad-based led by strong performance in HCARE and TTH (+43.5%QoQ/170.4%YoY & 11.2%QoQ/48.9%YoY), BFSI & CMT (+6.5%QoQ/31.7% YoY & 5.9% QoQ/24.7% YoY ) (all in USD terms). While the retail sector declined by 8.7% QoQ/+15.6% YoY due to ramping down of clients owing to rebalancing of other projects in Russia and China which was impacted.

**MindTree beat our estimate on the Margin front:** EBITDA margin was up 9bps QoQ/82 bps YoY at 21.1% against our estimates of 20.0%. Reported EBITDA has impact of 50bps visa and 60 bps from merger related expenses this was offset by 50 bps operational efficiency and 70bps forex benefits.

**PAT in-line with the estimates:** The company, consolidated PAT stood at INR 4,716 Mn, flat sequentially and up 37% YoY against our estimate of INR 4,723 Mn.

**Headcount:** Net addition of 37,455 professionals (Gross addition 4,700 in Q1FY23) and Trailing 12 months' attrition was 24.5% vs 23.8% in Q4FY22.It will take more quarters to stabilize. The company continue work for offshore and nearshore delivery footprint. It is working on to setting up full fledge offices in Coimbatore, Noida and satellite offices in Bangalore.

**Strong deal win momentum:** Deal wins remain strong with Order book at \$570mn vs \$504 mn in Q1FY22 growth of 13.1% YoY due to strong demand, aggressive customer mining, and end-to-end digital transformation capabilities. This reflects the relevance of value proposition in delivering business-critical transformation at scale. Overall demand environment remains strong with certain pockets of softness related to few clients.

**Geography wise:** North America (76.8% revenue mix) reported growth of 8.5% QoQ/28.9% YoY, Continental Europe (14.36% revenue mix) declined by 9.2% QoQ/+17.8% YoY. UK & Ireland (7.6% revenue mix), declined by 18.7% QoQ/14.0% YoY. APAC Or Middle East business grew by (8.6% revenue mix in Q1FY23) +2.6% QoQ/54.2% YoY in USD terms.

**Valuations & Outlook:**

Mindtree has reported strong performance during Q1FY23 mainly driven by the company's better service line and better execution. We believe that it will maintain growth momentum going forward backed by a robust pipeline and strong demand environment as it booked highest ever TCV of \$570mn in the quarter (up 13.1% YoY). The company remains confident of delivering EBITDA margin of >20% despite the ongoing supply-side challenges, supported by better margins in new deals. After the steep correction in the IT sector, valuations turn out to be attractive, we value Mindtree at a PE of 25x to its FY24E EPS of INR 138.4 which yields a revised target price of INR 3,461 per share (Previous target price was INR 4,153). **We upgrade our rating to Accumulate from Neutral earlier.**

Particulars (INR mn)	FY21	FY22	FY23E	FY24E
Net Revenues (US \$mn)	1,077	1,411	1,668	1,919
Net Sales	79,678	1,05,253	1,24,874	1,43,824
EBITDA	16,428	21,956	25,371	29,342
EBIDTA Margin	20.62%	20.86%	20.32%	20.40%
PAT	11,105	16,529	19,860	22,812
EPS (per share)	67.4	100.3	120.5	138.4
ROE	25.71%	30.20%	25.96%	22.38%
P/E	43.2	29.0	24.2	21.0

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

## Q1FY23 - Quarterly Performance (Consolidated)

(in INR Mn)

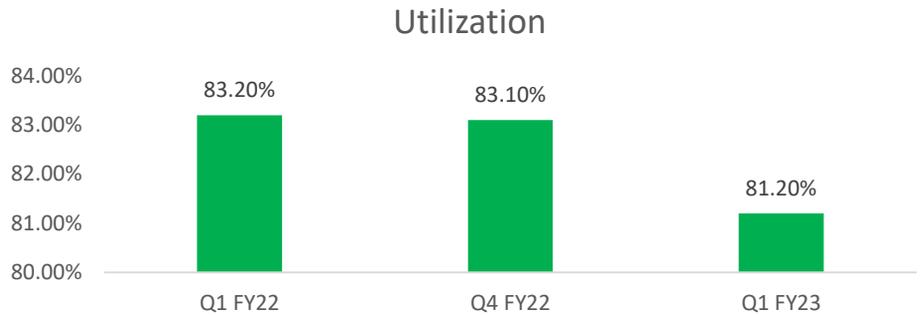
INR Mn (consolidated)	Q1FY23	Q4FY22	Q1FY22	Q-o-Q	Y-o-Y
<b>Net Revenues (US \$mn)</b>	<b>399</b>	<b>384</b>	<b>311</b>	<b>4.0%</b>	<b>28.6%</b>
<b>Net Revenue</b>	<b>31,211</b>	<b>28,974</b>	<b>22,917</b>	<b>8%</b>	<b>36%</b>
Employee cost	21,531	17,503	13,673	23.0%	57.5%
Other Expenses	3,099	5,388	4,599	-42.5%	-32.6%
<b>EBITDA</b>	<b>6,581</b>	<b>6,083</b>	<b>4,645</b>	<b>8%</b>	<b>42%</b>
<i>EBITDA margin %</i>	<i>21.1%</i>	<i>21.0%</i>	<i>20.3%</i>	<i>9bps</i>	<i>82bps</i>
Depreciation	599	596	582	0.5%	2.9%
<b>EBIT</b>	<b>5,982</b>	<b>5,487</b>	<b>4,063</b>	<b>9%</b>	<b>47%</b>
<i>EBIT margin %</i>	<i>19.2%</i>	<i>18.9%</i>	<i>17.7%</i>	<i>23bps</i>	<i>144bps</i>
Other Income	395	899	718	-56.1%	-45.0%
Finance cost	122	121	129	0.8%	-5.4%
Exceptional Item	-	-	-		
<b>PBT</b>	<b>6,255</b>	<b>6,265</b>	<b>4,652</b>	<b>-0.2%</b>	<b>34%</b>
Tax Expense	1,539	1,534	1,218	0.3%	26.4%
<i>Effective tax rate %</i>	<i>24.6%</i>	<i>24.5%</i>	<i>26.2%</i>	<i>12bps</i>	<i>-158bps</i>
<b>PAT</b>	<b>4,716</b>	<b>4,731</b>	<b>3,434</b>	<b>-0.3%</b>	<b>37%</b>
MI & Associates					
<b>Consolidated PAT</b>	<b>4,716</b>	<b>4,731</b>	<b>3,434</b>	<b>-0.3%</b>	<b>37%</b>
<i>PAT margin %</i>	<i>15.1%</i>	<i>16.3%</i>	<i>15.0%</i>	<i>-7.5%</i>	<i>13bps</i>
<b>EPS (INR)</b>	<b>28.6</b>	<b>28.7</b>	<b>20.9</b>	<b>0%</b>	<b>37%</b>

Source: Arian Research, Company Filings

## Key Conference Highlights

- **Revenue:** Overall demand environment remains strong with certain pockets of softness related to few clients. The management is confident in the growth outlook for 1HFY23 and is closely watching the impact of evolving macroeconomic situation on clients.
- **Order wins:** Order book comprising healthy annuity and transformation mix stood at \$570mn growth of 13.1% YoY and this marks the highest ever TCV in Mindtree history.
- **Segment:** Communication Media and technology (CMT) grew 5.9% QoQ/24.7% YoY. The company supported ad scale transformation with leading technology enterprises with product engineering, digital marketing, E-commerce enterprises IT platform development, and Cyber security service. Retail CPG & Manufacturing business declined by 8.7% QoQ/+15.6% YoY. The sequential decrease was because of ramping down of clients due to rebalancing of other projects in Russia and China which was impacted. BFSI grew 6.5% QoQ/+31.7 YoY with the company strategy to expand full-stack capabilities across focused accounts and a recent year one win.
- TTH grew 11.2% QoQ /+48.9% YoY as the company diversification strategy continues to deliver results with wins in newer sub-sector scaling up well due to recovery in airlines and hospitality. HCARE continues on a strong trajectory with the growth of 43.5% QoQ/ 170.4% YoY as investments made in co-health, and it's helping the company to play in intersection and technology.
- **Margin:** The company, adjusted EBIT margin for the quarter was 19.2%, adjusted for one-off merger-related costs. Mindtree's aim is to maintain a 20% plus EBITDA margin going ahead.
- Mindtree focused on 100 accounts for 90% of the revenue of the company. The company has been rationalizing its long tail list of clients in order to focus on key accounts.
- Mindtree, ongoing fresher intake ( ~1500 per quarter) has led to lower per capita employee cost and has helped to improve the employee pyramid.
- **DSO** decreased by 10 days QoQ to 50 days and to sustain within 60 days.
- **Utilization:** Employee Utilization for the company in the medium term would be in the range of 80-81%. Attrition will take more quarters to stabilize.
- **Fresher:** Employee costs decreased due to an increase in fresher intake. The company is getting 20% above business from fresher categories.

Exhibit 1: Employee Utilization for the company in the medium term would be in the range of 80-81%.



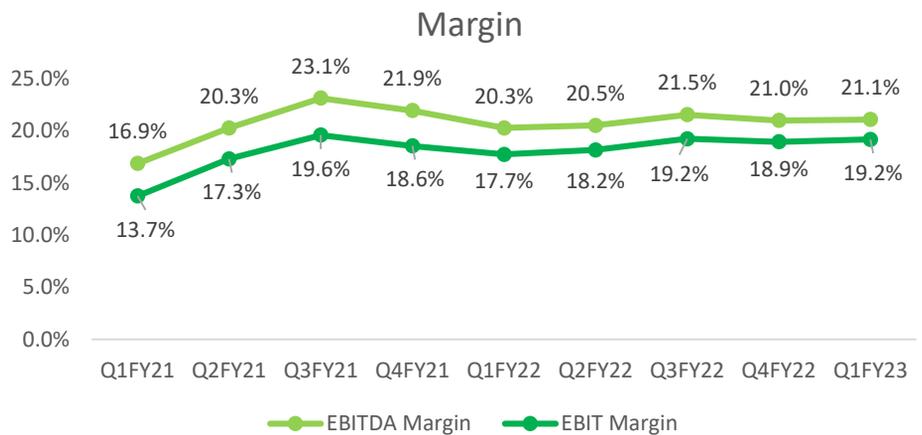
Source: Arianth Research, Company Filings

Exhibit 2: The company continue work for offshore and nearshore delivery footprint. The company is working on to setting up full fledge offices in Coimbatore, Noida and satellite offices in Bangalore.

EFFORT MIX			
Location %	Q1 FY22	Q4 FY22	Q1 FY23
Onsite	16.50%	13.70%	13.40%
Offshore	83.50%	86.30%	86.60%

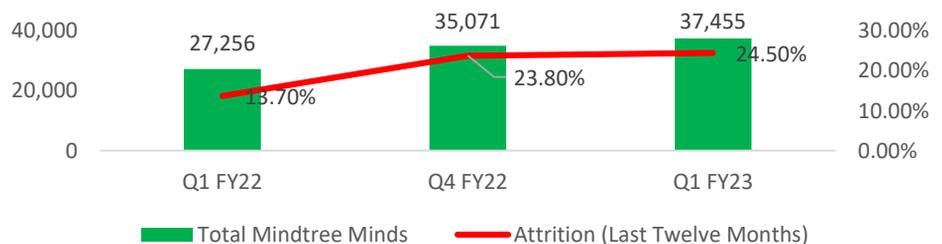
Source: Arianth Research, Company Filings

Exhibit 3: Increase in margin led by operational efficiency and 70bps forex benefits.



Source: Arianth Research, Company Filings

Exhibit 4: Attrition will take more quarters to stabilize.



Source: Arianth Research, Company Filings

**Key Financials**

**Income Statement (INR Mn)**

Year End-March	FY21	FY22	FY23E	FY24E
<b>Net Revenues (US \$mn)</b>	<b>1077</b>	<b>1411</b>	<b>1668</b>	<b>1919</b>
<i>Change (%)</i>	-1.1%	31.1%	18.2%	15.1%
<b>Revenues</b>	<b>79,678</b>	<b>1,05,253</b>	<b>1,24,874</b>	<b>1,43,824</b>
<i>Change (%)</i>	2.6%	32.1%	18.6%	15.2%
Employee Costs	51,132	63,278	74,984	85,594
Other Expenses	12,118	20,019	24,519	28,888
<b>Total Expenses</b>	<b>63,250</b>	<b>83,297</b>	<b>99,503</b>	<b>1,14,482</b>
<b>EBITDA</b>	<b>16,428</b>	<b>21,956</b>	<b>25,371</b>	<b>29,342</b>
Other Income	1,656	3,073	3,394	3,398
Depreciation	2,596	2,420	2,340	2,426
<b>EBIT</b>	<b>13,832</b>	<b>19,536</b>	<b>23,032</b>	<b>26,916</b>
Interest	504	502	294	298
<b>PBT</b>	<b>14,984</b>	<b>22,107</b>	<b>26,132</b>	<b>30,016</b>
Tax	3,879	5,578	6,272	7,204
<i>Rate (%)</i>	25.9%	25.2%	24.0%	24.0%
<b>PAT</b>	<b>11,105</b>	<b>16,529</b>	<b>19,860</b>	<b>22,812</b>
<b>MI &amp; Associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Consolidated PAT</b>	<b>11,105</b>	<b>16,529</b>	<b>19,860</b>	<b>22,812</b>
<i>Change (%)</i>	76.0%	48.8%	20.2%	14.9%

**Balance Sheet (INR Mn)**

Year End-March	FY21	FY22	FY23E	FY24E
<b>Sources of Funds</b>				
Share Capital	1,647	1,648	1,648	1,648
Reserves & Surplus	41,543	53,090	74,854	1,00,267
<b>Net Worth</b>	<b>43,190</b>	<b>54,739</b>	<b>76,503</b>	<b>1,01,916</b>
<b>Loan Funds</b>	<b>6</b>	<b>4</b>	<b>0</b>	<b>0</b>
MI, Deferred Tax & other				
Liabilities	-632	-57	0	0
<b>Capital Employed</b>	<b>42,564</b>	<b>55,696</b>	<b>76,503</b>	<b>1,01,916</b>
<b>Application of Funds</b>				
Net Block	3,253	4,296	8,450	7,517
CWIP	224	215	261	232
Other Non-current Assets	8,098	8,482	8,844	8,390
<b>Net Fixed Assets</b>	<b>11,575</b>	<b>12,993</b>	<b>17,555</b>	<b>16,139</b>
<b>Investments</b>	<b>1,161</b>	<b>3,116</b>	<b>3,126</b>	<b>3,136</b>
Debtors	12,742	17,313	20,540	23,658
Cash & Bank Balance	26,904	32,904	47,886	73,435
Loans & Advances & other				
CA	6,108	10,482	12,436	14,323
<b>Total Current Assets</b>	<b>45,754</b>	<b>60,699</b>	<b>80,862</b>	<b>1,11,416</b>
Current Liabilities & Provisions	15,926	21,112	25,040	28,775
<b>Net Current Assets</b>	<b>29,828</b>	<b>39,587</b>	<b>55,822</b>	<b>82,641</b>
<b>Total Assets</b>	<b>42,564</b>	<b>55,696</b>	<b>76,503</b>	<b>1,01,916</b>

**Cash Flow Statement (INR Mn)**

Year End-March	FY21	FY22	FY23E	FY24E
<b>PBT</b>	<b>11,105</b>	<b>16,529</b>	<b>19,860</b>	<b>22,812</b>
Depreciation	2,596	2,420	2,340	2,426
Interest & others	-1,152	-2,571	-3,100	-3,100
Cash flow before WC changes	12,549	16,378	19,100	22,138
<b>(Inc)/dec in working capital</b>	<b>5,043</b>	<b>-226</b>	<b>-622</b>	<b>-660</b>
Operating CF after WC changes	17,592	16,152	18,477	21,478
Less: Taxes	-3,879	-5,578	-6,272	-7,204
<b>Operating Cash Flow</b>	<b>13,713</b>	<b>10,574</b>	<b>12,206</b>	<b>14,274</b>
(Inc)/dec in F.A + CWIP	-3,770	-3,244	-2,340	-2,426
(Pur)/sale of investment	0	0	0	0
<b>Cash Flow from Investing</b>	<b>-3,770</b>	<b>-3,244</b>	<b>-2,340</b>	<b>-2,426</b>
<b>Free Cash Flow (FCF)</b>	<b>9,943</b>	<b>7,330</b>	<b>9,866</b>	<b>11,848</b>
Loan raised/(repaid)	-1,792	-2	-4	0
Equity raised	1	1	0	0
Interest & others	-504	-502	-294	-298
Dividend	-3,399	-3,111	-3,284	-3,313
<b>Cash Flow from Financing Activities</b>	<b>-5,694</b>	<b>-3,614</b>	<b>-3,582</b>	<b>-3,611</b>
<b>Net inc /(dec) in cash</b>	<b>4,249</b>	<b>3,716</b>	<b>6,284</b>	<b>8,237</b>
Opening balance of cash	12,814	26,904	32,904	47,886
Closing balance of cash	26,904	32,904	47,886	73,435

**Key Ratios**

Year End-March	FY21	FY22	FY23E	FY24E
<b>Per Share (INR)</b>				
EPS	67.4	100.3	120.5	138.4
CEPS	83.2	115.0	134.7	153.1
BVPS	262	332	464	618
DPS	17.5	17.5	17.5	17.5
<b>Valuation (x)</b>				
P/E	43.2	29.0	24.2	21.0
P/CEPS	35.0	25.3	21.6	19.0
P/BV	11.1	8.8	6.3	4.7
EV/EBITDA	8.1	5.8	4.4	3.0
<b>Return Ratio (%)</b>				
EBIDTA Margin	20.6%	20.9%	20.3%	20.4%
EBIT Margin	17%	18.6%	18.4%	18.7%
PAT Margin	13.9%	15.7%	15.9%	15.9%
ROE	25.7%	30.2%	26.0%	22.4%
ROCE	32.5%	35.1%	30.1%	26.4%
Dividend Yield	0.6%	0.6%	0.6%	0.6%
<b>Leverage Ratio (%)</b>				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.6	-0.6	-0.6	-0.7
<b>Turnover Ratios</b>				
Asset Turnover (x)	1.9	1.9	1.6	1.4
Receivable Days	58	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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