



Strong Margins, Weak deal wins

Mindtree reported much broad based growth in Q2 FY21, revenue stood at Rs. 1,926 crs up 0.6% YoY and 0.9% QoQ. Operating profit showed a growth of 52.5% YoY at Rs. 378 cr, operating margin grew by 170 bps at 16.7% than previous quarter aided by strong execution, lower utilization and lower travel cost. Net profit for Q2 FY21 stood at Rs.253.7 cr reported a growth of 6.4% YoY. The management commentary is positive in the verticals like BFSI, Hi tech Media and Life Sciences. However management is positive on the H2 FY21 outlook despite seasonal weakness. Deal wins for the quarter remained below than expectations at \$307mn. Mindtree management also guided for investment, timely strategy refresh led by consolidation of service lines, attention towards multi-year engagements and focus on scaling top accounts can aid sales traction.

We believe Mindtree has a resilient business structure from a long term perspective and strong execution strategy. **We recommend HOLD and assign 21x P/E multiple to its FY23E earnings of Rs. 74 per share which gives a TP of Rs. 1,530 per share, an upside of 7%.**

Marginal growth in vertical performance

On vertical front, BFSI vertical grew by 10 bps, Retail Manufacturing & CPG vertical grew by 90 bps QoQ, Travel & Hospitality grew by 20 bps. Majority of the verticals sees strong recovery and likely to report growth backed by strong deal pipeline in forthcoming quarters.

On geographical front, North America (77% of revenue) improved by 1.1% QoQ, Europe (7.5% of revenue) grew by 90 bps QoQ, India business grew by 140 bps QoQ in CC terms. For Q2FY21 Free cash grew 12.1% at Rs. 5,524 cr.

Our Take:

We believe Mindtree has a resilient business structure from a long term perspective and multiple long term contracts with world's leading brands. With depreciation in INR, lower travel cost, lower on site expenses EBITDA margins likely to expand in near term. **We recommend HOLD and assign 21x P/E multiple to its FY23E earnings of Rs. 74 per share which gives a TP of Rs. 1,530 per share, an upside of 7%.**

Key Financials (Consolidated)

(Rs. Cr)	2020	2021E	2022E	2023E
Net Sales	7,764	8,127	9,038	10,015
EBIDTA	1,082	1,404	1,573	1,743
Net Profit	631	951	1,072	1,221
EPS (Rs)	38.3	57.8	65.1	74.2
PER (x)	25.5	22.2	19.7	17.3
EV/EBIDTA (x)	15	14	12	11
P/BV (x)	5	6	5	4
ROE (%)	18%	26%	25%	25%

Source: Company, Axis Research

(CMP as of Oct 15, 2020)

CMP (Rs)	1428
Upside /(Downside (%))	7%
High/Low (Rs)	1,605/676
Market cap (Cr)	Rs 21,528
Avg. daily vol. (6m) Shrs.	13,30,144
No. of shares (Cr)	16.5

Shareholding (%)

	Mar-20	Jun-20	Sep-20
Promoter	74.1	73.5	67.6
FIs	11.86	10.39	12.02
MFs / UTI	3.68	4.71	8.66
Banks / FIs	1.24	1.37	0.3
Others	9.11	10.04	11.43

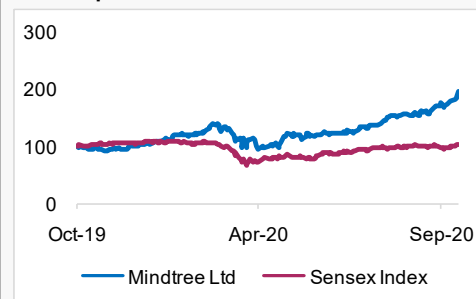
Financial & Valuations

Y/E Mar (Rs. Cr)	2021E	2022E	2023E
Net Sales	8,127	9,038	10,015
EBITDA	1,404	1,573	1,743
Net Profit	951	1,072	1,221
EPS (Rs)	58	65	74
PER (x)	22	20	17
EV/EBITDA (x)	14	12	11
P/BV (x)	6	5	4
RoE (%)	26%	25%	25%

Change in Estimates (%)

Y/E Mar	FY21E	FY22E	FY23E
Sales	1%	2%	3%
EBITDA	2%	3%	2%
PAT	2%	3%	2%

Relative performance



Source: Capitaline, Axis Securities

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Key Investment Arguments

- 1) Mindtree management continues to focus on improving operational efficiencies which has led to margin expansion (+740 bps YoY). Company is extending wage increments to its employees effective January 2020. Despite increments, management expects stable margin led by operational improvements and revenue growth.
- 2) Mindtree's service mix within the client is well diversified and management's engagement continues to be strong. Completion of renewal cycle in Q1 showcases importance of the collaboration. Management is confident of continuing growth with the top client.

Revenue by Geography

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Revenue by Geography						
America	73.7%	73.7%	74.6%	76.8%	79.0%	77.4%
Europe	17.8%	17.6%	17.0%	15.3%	13.0%	7.5%
India	4.1%	4.2%	4.0%	3.9%	4.1%	7.9%
ROW	4.4%	4.5%	4.4%	4.0%	3.8%	7.2%
Total	100%	100%	100%	100%	100%	100%

Source: Company, Axis Research

Revenue by Industry

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Hi- Tech & Media	39.4%	39.8%	41.5%	43.1%	51.0%	49.8%
BFSI	21.6%	21.6%	21.3%	20.4%	20.3%	20.4%
Retail CPG & Manufacturing	22.2%	21.7%	20.6%	20.3%	20.6%	21.5%
Travel and Hospitality	16.8%	16.9%	16.6%	16.2%	8.1%	8.3%

Source: Company, Axis Research

Revenue by Service Offering

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Interactive	24%	24%	22%	22%	21%	39%
Data Science& Engineering Service	11%	11%	12%	12%	12%	14%
Cloud Services	3%	3%	4%	4%	4%	19%
Other	0%	0%	0%	0%	0%	28%
Digital	38%	38%	38%	39%	37%	0%
Test Engineering	18%	19%	18%	18%	16%	0%
Package Solutions	7%	7%	7%	6%	6%	0%
Infrastructure Management & Tech Support	24%	25%	25%	26%	29%	0%
ADM & Test Engineering	13%	12%	13%	12%	13%	0%
Utilization	78%	79%	78%	79%	77%	76%

Source: Company, Axis Research

Key Client Matrix

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Number of Active Clients	346	343	320	307	292	283
New Clients Added	12	14	7	5	6	8

Source: Company, Axis Research

Key Client Matrix

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
\$1 mn Client	122	130	134	134	127	125
\$ 5 mn Client	46	47	47	47	44	43
\$10 mn Client	23	21	22	23	23	24
\$ 25 mn Client	4	4	5	5	5	5
\$ 50 mn Client	1	1	1	1	1	1
\$100 mn Client	1	1	1	1	1	1

Source: Company, Axis Research

Top Client

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Top Client	20%	21%	23%	25%	30%	29%
Top 5 Client	20%	33%	36%	38%	43%	41%
Top 10 client	34%	43%	46%	47%	52%	49%

Source: Company, Axis Research

Employee Data

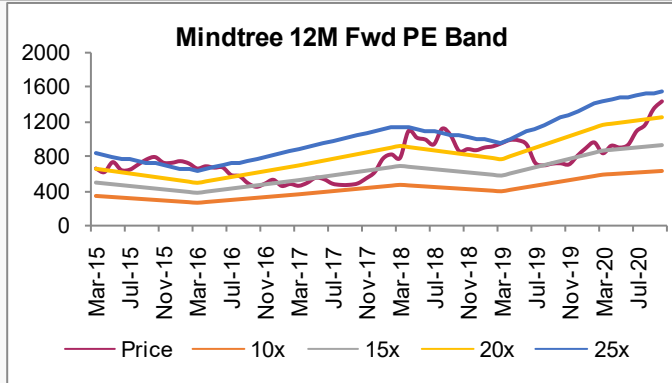
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Total Employee Matrix	20,935	21,267	21,561	21,991	21,955	21,827
SW Professional	19,681	20,001	20,348	20,817	20,851	20,633
Sales	266	265	247	229	330	1,194
Support	988	1,001	966	945	945	-
Gross Additions	1,684	1,400	1,202	1,322	738	-
Net Additions'	731	332	294	430	-36	
Attritions	15%	16.50%	17.20%	17.40%	17%	13.80%

Source: Company, Axis Research

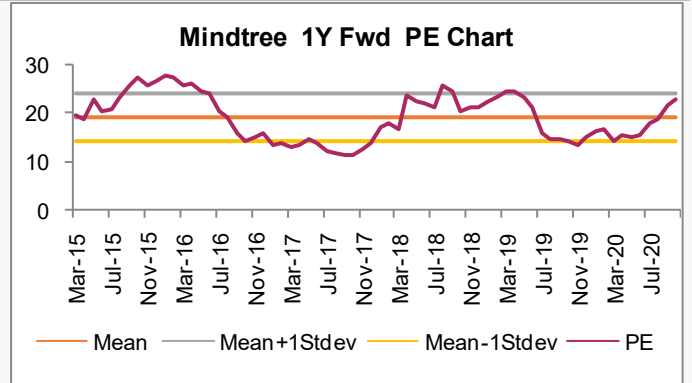
Valuation and Outlook

Although there are near term challenges to growth owing to COVID-19, we believe in Mindtree track record of delivering profitable growth in tough environment thereby reaffirming our confidence in management's ability to deliver in longer term. **We recommend HOLD rating and target price of Rs. 1530/share.**

Mindtree 12M Fwd PE Band



Mindtree 1Y Fwd PE Chart



Source: Company, Axis Securities

Result Update

(Rs Cr)

Y/E March	Q2 FY21	Q1 FY21	Q2 FY20	% change (YoY)	% change (QoQ)
Total Revenue	1,926	1,909	1,914	1%	1%
Employee benefit Expenses	1,262	1,278	1,265		
Other Expenses	273	309	401		
Total Operating Expenses	1,536	1,587	1,666		
EBITDA	390	322	248		
Margin(%)	20%	17%	13%		
Depreciation	57	60	71		
Operating Income	333	262	178	88%	27%
Margin(%)	17%	14%	9%	804	357
Total Other Income/(Expense)	25	41	20		
Income Before Income Taxes	358	303	197		
Total Taxes	91	77	48		
ETR (%)	25%	26%	25%	83	-18
Net Profit After Taxes	254	213	135	88%	19%
Non Controlling Interest	0	0	0		
Net Income After Extraordinary Items	254	213	135	88%	19%
Margin(%)	20%	20%	21%	-123	-22
EPS	15.40	12.93	8.20	88%	19%

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	7,764	8,127	9,038	10,015
Other operating income	0	0	0	0
Total income	7,764	8,127	9,038	10,015
Employee benefit Expenses	5,064.7	5,201.3	5,703.1	6,319.2
Other Expenses	1,618.1	1,521.8	1,762.5	1,952.8
EBITDA	1,082	1,404	1,573	1,743
Other income	76	90	72	80
PBITD	1,157	1,494	1,645	1,823
Depreciation	275	276	319	319
Interest & Fin Chg.	53	51	50	50
E/o income / (Expense)	0	0	0	0
Pre-tax profit	829	1,168	1,276	1,454
Tax provision	198	217	204	233
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Profit after Tax	631	951	1,072	1,221
Other Comprehensive Income	0.0	0.0	0.0	0.0
PAT after Comprehensive Income	631	951	1,072	1,221

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Total assets	3,846	4,454	5,102	6,682
Net Block	340.1	141.1	(40.0)	(208.5)
CWIP	13.6	25.0	37.5	37.5
Investments	1,561.7	1,103.5	1,178.9	1,255.1
Wkg. cap. (excl cash)	1,540	2,000	2,235	2,540
Cash / Bank balance	390.9	1,146.1	1,572.8	1,912.9
Misc. Assets	(1.0)	(1.0)	(1.0)	(1.0)
Capital employed	3,846	4,454	5,102	6,682
Equity capital	164.6	164.6	164.6	164.6
Reserves	2,828	3,584	4,188	4,785
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	180	178	176	174
Def tax Liabilities	496.4	496.4	496.4	496.4

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Sources	870	1,203	1,232	1,217
Cash profit	959	1,277	1,441	1,590
(-) Dividends	595	346	468	624
Retained earnings	365	931	973	966
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	86.8	324.7	310.8	303.3
Borrowings	179	(2)	(2)	(2)
Others	240	(51)	(50)	(50)
Applications	870	1,203	1,232	1,217
Capital expenditure	725.6	(364.8)	216.7	216.4
Investments	(24.5)	8.0	8.8	9.7
Net current assets	34.2	804.6	579.4	650.4
Change in cash	134.7	755.2	426.7	340.1
Closing cash	391	1,146	1,146	1,146

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
Sales growth	10.6	4.7	11.2	10.8
OPM	13.9	17.3	17.4	17.4
Oper. profit growth	1.6	29.8	12.0	10.8
COGS / Net sales	0.0	0.0	0.0	0.0
Overheads/Net sales	20.8	18.7	19.5	19.5
Depreciation / G. block	56.8	(38.3)	(175.9)	(189.0)
Effective interest rate (%)	42.7	29.7	29.7	30.1
Net wkg.cap / Net sales	0.22	0.24	0.25	0.26
Net sales / Gr block (x)	6.4	6.3	6.4	6.4
RoCE	25%	30%	28%	28%
Debt / equity (x)	0.16	0.13	0.11	0.10
Effective tax rate	23.9	18.6	16.0	16.0
RoE	18%	26%	25%	25%
Payout ratio (Div/NP)	94.3	31.1	37.3	43.7
EPS (Rs.)	38.3	57.8	65.1	74.2
EPS Growth	(16.3)	50.7	12.8	13.9
CEPS (Rs.)	55.1	74.5	84.5	93.5
DPS (Rs.)	36.1	18.0	24.3	32.4

Source: Company, Axis Securities

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