

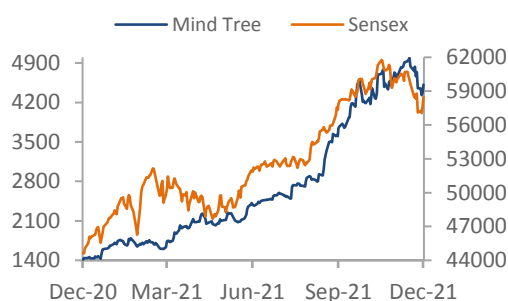
Sector	IT
Recommendation	BUY
Upside	16%

Stock Data	
Sensex	58,150
52 Week h/l (₹)	5,060/1,394
Market cap (` Cr)	74,420
BSE code	532819
NSE code	Mindtree
FV (₹)	10
Div. yield (%)	0.55%

Shareholding Pattern			
	Mar-21	Jun-21	Sep-21
Promoter	61.03	61.02	61.00
FII+DII	24.78	25.65	25.12
Others	14.19	13.33	13.88

Source: www.bseindia.com

Share Price Trend



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Profile

MindTree (MTCL) was started in 1999 by industry professionals from Cambridge Technology Partners, Lucent Technologies and Wipro. In IT Services, it started with ADM as the mainstay. However, over the next few years, the company diversified into other services. It added testing and software product development services through the acquisition of Aztecsoft, whereas the infrastructure services offering was mainly organic. Lately, it has restructured the organisation by verticals and increased its focus on select verticals such as BFSI, retail, manufacturing and travel. Partnerships with Microsoft, SAP and Salesforce are some examples of their leadership in digital offerings. L&T acquired a controlling stake in the company in 2019.

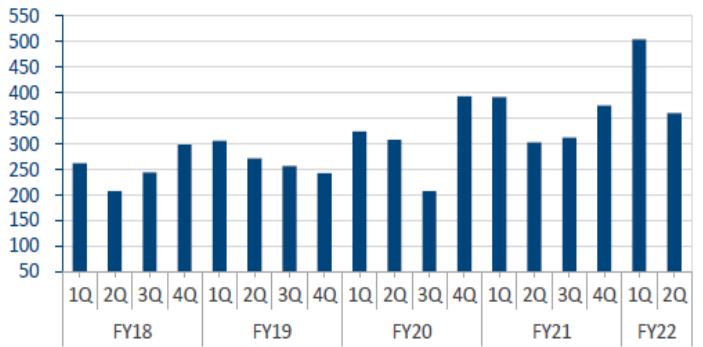
Investment Rationale

Broad-based sequential growth across verticals: MTCL's revenue growth QoQ was led by Retail (+29.6%) and Travel (+14.4%); BFSI saw further uptick (+8.4%), while Tech grew 5.6% QoQ despite flat growth in the top client. The top 2-10 and non-top-10 clients grew at 16-18% QoQ, demonstrating the breadth of growth in the client buckets. Deal wins of US\$360mn were healthy, with TTM book-to-bill ratio at 1.27x, giving reasonable visibility on growth despite a fairly strong 1H delivery.

Revenue growth above estimates: 2QFY22 USD revenue of 350m grew 13.4% cc QoQ with broad based growth across verticals, service lines and geographies. The Communications, Media & Tech (CMT) vertical saw another quarter of solid growth at 5.6% QoQ, despite flat revenues at the top client. The Retail, CPG & Manufacturing (RCM) vertical clocked stellar growth of 29.6% QoQ this quarter, further accelerating over the 7.7% QoQ growth seen last quarter, aided by pent up demand from opening up of economies. The BFSI vertical continued its momentum from last quarter, clocking 8.4% QoQ growth. The Travel & Hospitality vertical continued its robust double-digit upward trajectory on a sequential basis (for a 4th straight quarter), this time growing 14.4% QoQ. MTCL announced deal wins with TCV of USD360m in 2Q (+19% YoY), with good mix of annuity and transformational deals. Management highlighted that there is visible uptick in spends on technology by enterprises, and that its client mining strategy is working well. Management reiterated that the demand environment is considerably robust and the growth momentum continuing. MTCL remains confident of delivering industry-leading, double-digit revenue growth in FY22.

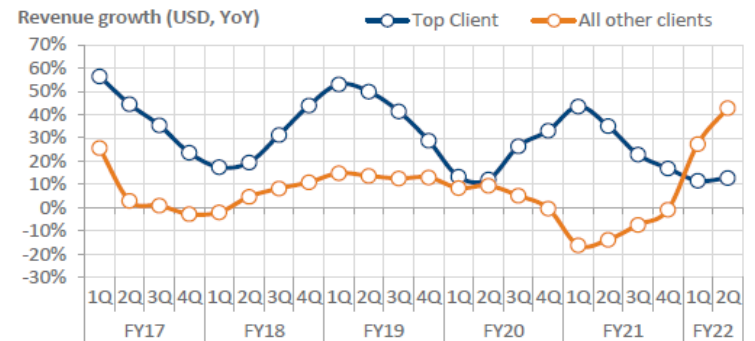
Margin above estimates: 2QFY22 EBIT margin stood at 18.2%, (+50bps QoQ), above IIFL estimate of 17%. EBITDA margin expanded 20bps QoQ. Margins saw tailwinds from strong revenue growth and operational efficiencies of 190bps, partially offset by headwinds of 140BPS from wage hikes and of 30bps from cross currency. Pricing for the quarter remained stable. Offshore effort mix further increased by 150bps QoQ to 85%, while utilisation was stable at 82.9% (-30bps QoQ). Headcount addition was again strong, at 2.5k net employee addition (+9% QoQ). MTCL acknowledged the supply-side constraints, but remains confident of sustaining EBITDA margins above 20%+ in FY2

TCV of deal wins (USD m)



Source: Company, IIFL Research

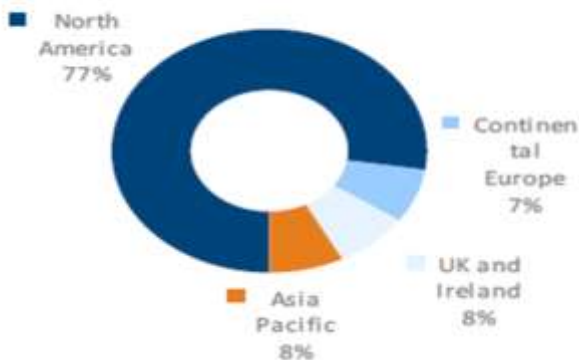
Growth was driven by clients other than the top-client



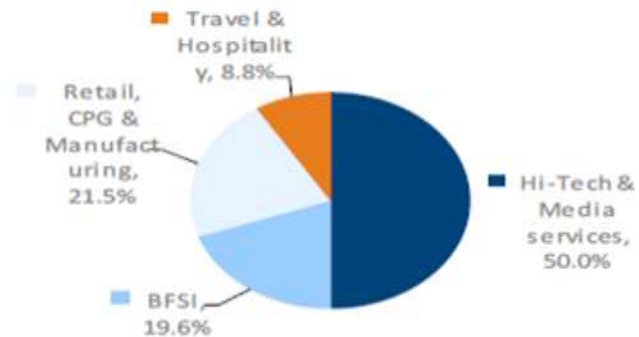
Source: Company, IIFL Research

Growth driven by client other than Top clients: Top-client revenues were flat QoQ, primarily due to seasonality, while the growth was driven by all buckets beyond the top-client. The Top 2-5, Top 6-10 and ex-Top 10 clients all delivered mid-to-high teen sequential growth, driven by MTCL's strategy of client mining. Reducing the client concentration has been one of the key focus areas for MTCL. The number of active clients increased sequentially, after 9 straight quarters of decline.

Rev by geography - FY21



Revenue by verticals - FY21



Risk

Client Concentration: A large part of the revenue continues to come from selective clients though there was an increase in other clients.

Outlook & Valuation:

MTCL's deal wins are improving and there is sharp recovery in the top clients too now, driven by rebound in their consumer facing verticals. Margin execution has been strong, despite strong hiring. The stock trades at 36x FY23ii P/E, at a premium to mid-cap peers but with strong FY22 outlook. We maintain BUY with a target of ₹,140 as we still expect the earnings upgrade to continue in the near term.

Financial Summary

Consolidated (INR in mn)	FY20	FY21	FY22ii	FY23ii	FY24ii
Total Income	77,643	79,678	103,744	125,821	143,631
YoY growth (%)	10.6	2.6	30.2	21.3	14.2
EBITDA margin (%)	14.7	20.8	20.7	20.6	20.2
PAT	6,309	11,105	16,496	20,157	23,116
ROE (%)	21.0	29.7	34.3	34.4	33.0
P/B (x)	22.8	16.6	13.6	11.2	9.5
EV/EBITDA (x)	61.2	41.7	32.3	26.3	23.2
Net Debt/Equity (x)	(0.4)	(0.6)	(0.5)	(0.6)	(0.6)

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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