

Digital, large deal, client mining key theme...

We attended the virtual analyst meet of Mindtree Ltd. The company highlighted that it plans to grow via account mining, large annuity deals, digital transformation and growth via the partnership & inorganic route. The company has hired leadership (especially from tier 1) to scale large deals, 2) build M&A capability, 3) expand geographies and 4) scale verticals & service lines to achieve the growth objective. With this, coupled with vendor consolidation opportunity and captive carve outs, Mindtree aspires to have industry leading revenue growth in the long run. In the near term, the company is seeing healthy deal pipeline conversion and, hence, expects the momentum of Q2FY21 (up 3.1% QoQ in dollar terms) to continue in Q3FY21E (barring seasonality) and Q4FY21E. In terms of EBITDA margins, the company has multiple levers to sustain its margins at current levels (H2FY21 average margins at ~19%) despite investment in leadership, wage hikes and increase in other discretionary spends.

4*4*4 strategy to help improve growth prospects

In its analyst meet, Mindtree highlighted that cloud, automation, data, cybersecurity are key technology themes emerging in Covid times. In addition, captive carve outs, vendor consolidation are other emerging trends. In order to capture these trends, the company has devised a 4*4*4 strategy that will focus on four geographies, four service line and four verticals. In terms of verticals, Mindtree will focus on 1) Retail CPG & manufacturing with key focus on customer intimacy, 2) BFSI key focus would be core transformation, 3) Travel, Transport & Hospitality with focus on contactless experience and 4) Communication, Media & Technology with focus on reimagining experience and modernise the core. In addition, the company plans to add healthcare vertical to tap emerging opportunities in insurance, hospitals and medical devices. The company believes healthcare is an extension of its services. Also, since it is exiting domain clients like CPG (moving into personal care), retailers (moving to pharmacy) and Tech (moving into wearables) are moving towards healthcare it will benefit from the same. In terms of service lines, the company plans to tap on Customer success (experience led), Data & intelligence, Cloud and Enterprise IT (AMS focused). In terms of geographies, the company aims to focus on North America, UK & Ireland, Continental Europe and Asia Pacific & RoW. The company aims to expand in Norway, Finland, Denmark, Benelux and France (key strategy continued below).

Valuation & Outlook

Healthy order book, higher pipeline, strategy to drive large deals, hire tier 1 leaders to scale growth and expertise in digital technology bode well for long term growth. This, coupled with ability to sustain healthy margins, prompt us to remain positive on the stock. Hence, we maintain our **BUY** rating and target price of ₹ 1680/share (22x FY23E EPS).

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	7,022	7,764	7,867	8,672	9,664	7.6%
EBITDA	1,065	1,062	1,503	1,700	1,913	21.7%
EBITDA Margins (%)	15.2	13.7	19.1	19.6	19.8	
Net Profit	754	631	968	1,119	1,256	25.8%
EPS (₹)	45.9	38.3	58.8	68.0	76.3	
P/E	31.2	37.5	24.4	21.1	18.8	
RoNW (%)	22.8	20.0	25.5	25.4	24.6	
RoCE (%)	29.8	23.0	29.7	30.0	29.6	

Source: Company, ICICI Direct Research



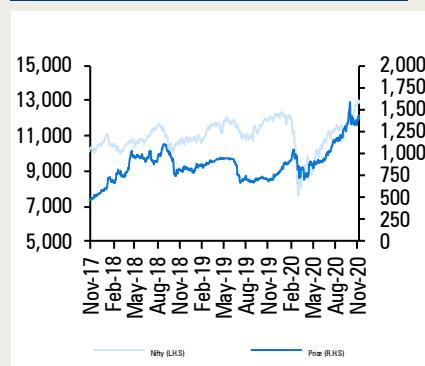
Particulars

Particular	Amount
Market Cap (₹ Crore)	23,633.9
Total Debt (₹ Crore)	-
Cash and Investment (₹ Crore)	1,281.4
EV (₹ Crore)	22,352.5
52 week H/L	1605/ 676
Equity capital	164.6
Face value	₹ 10

Key Highlights

- Client mining, focus on large annuity deals, leverage partnership, digital transformation, vendor consolidation, M&A are key growth drivers
- Aims to sustain margins at current levels despite headwinds
- Maintain BUY

Price Performance



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4*4*4 strategy to help improve growth prospects (continued)

To capture the growth in geographies, the company has hired geo focused leaders. Mindtree has also invested in leadership to structure large deals. Large deal team and vertical & service line leadership across geos will help in driving revenue growth. In addition, the company now aims to become a business transformation partner. Hence, it has hired leadership for Mindtree Consulting, which will help in stitching all its service lines to improve its large deals win ratio. Further, the company has partnered with Microsoft, Salesforce, Databricks, SAP and start-ups to integrate the emerging digital technologies and boost customer offerings. Mindtree also plans to do an acquisition, which will help boost its geo, service and vertical capability and has hired leadership for the same. Hence, we believe the company has all its strategy in place to capture the emerging digital technologies, scale up its large deals and boost long term revenue growth.

Margins to sustain in longer run

Despite headwinds like investment in leadership, increase in discretionary spends and wage hike, the company aims to sustain margins at current levels. This is due to tailwinds like pyramid rationalisation, SG&A optimisation, automation & productivity and onsite/offshore mix.

Other highlights

- The company highlighted that although technology budgets have not increased in post Covid environment, the shift to digital has seen an acceleration. As a result, funds are repurposed to digital from legacy
- Mindtree has collaborated with Larsen & Toubro Infotech on certain deals and is open to more such deals. However, the management denied the merger of the two entities

Financial summary

Exhibit 1: Profit and loss statement				₹ crore
	FY20	FY21E	FY22E	FY23E
Total Revenues	7,764	7,867	8,672	9,664
Growth (%)	10.6	1.3	10.2	11.4
COGS	5,065	5,208	5,741	6,378
Other Expenses	1,637	1,156	1,231	1,372
EBITDA	1,062	1,503	1,700	1,913
Growth (%)	(0.2)	41.4	13.1	12.6
Depreciation	275	260	286	319
Other Income	95	84	114	114
Interest paid	53	54	55	56
PBT	829	1,273	1,473	1,653
PBT	829	1,273	1,473	1,653
Growth (%)	(16.0)	53.6	15.7	12.2
Total Tax	198	306	354	397
PAT before MI	631	968	1,119	1,256
Minority interest	-	-	-	-
PAT	631	968	1,119	1,256
EPS - diluted	38.3	58.8	68.0	76.3
EPS (Growth %)	(16.6)	53.4	15.7	12.2

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore
	FY20	FY21E	FY22E	FY23E	
Net profit before Tax	829	1,273	1,473	1,653	
Depreciation	275	260	286	319	
(inc)/dec in Current Assets	(135)	(239)	(311)	(244)	
(inc)/dec in current Liabilities	177	(18)	51	71	
CF from operations	825	860	1,006	1,264	
Other Investments	99	84	114	114	
(Purchase)/Sale of Fixed Asset:	(122)	(315)	(347)	(387)	
CF from investing Activities	(23)	(230)	(232)	(272)	
Inc / (Dec) in Equity Capital	(49)	-	-	-	
Inc / (Dec) in sec.loan Funds	(1)	-	-	-	
Dividend & Dividend tax	(594)	(329)	(504)	(565)	
Interest Paid on Loans	(53)	(54)	(55)	(56)	
CF from Financial Activities	(696)	(383)	(559)	(621)	
Cash generating during the year	135	247	215	370	
Opening cash balance	256	391	638	853	
Exchange rate differences	29	-	-	-	
Closing cash	587	834	1,049	1,419	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				₹ crore
	FY20	FY21E	FY22E	FY23E
Equity	165	165	165	165
Reserves & Surplus	2,992	3,631	4,247	4,937
Networth	3,157	3,795	4,411	5,102
Minority Interest	-	-	-	-
Total Debt	-	-	-	-
Other long term liabilities	676	676	676	676
Source of funds	3,833	4,472	5,087	5,778
Net Block	860	915	976	1,044
CWIP	14	14	14	14
Other intangible assets	549	549	549	549
Other long term assets	479	559	639	719
Current investments	694	694	694	694
Debtors	1,439	1,489	1,618	1,791
Cash & Cash equivalent	587	834	1,049	1,419
Loans and advances	10	10	17	19
Other Current Assets(0)	525	713	888	957
Trade payables	259	259	285	318
Other Current liabilities	893	905	941	964
Provisions	172	142	130	145
Application of funds	3,833	4,472	5,087	5,778

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Adjusted EPS (Diluted)	38.3	58.8	68.0	76.3
BV per share	191.7	230.5	267.8	309.8
DPS	13.0	20.0	30.6	34.3
Cash per Share	35.6	50.6	63.7	86.2
Operating Ratios				
EBITDA Margin (%)	13.7	19.1	19.6	19.8
PBT Margin (%)	10.7	16.2	17.0	17.1
PAT Margin (%)	8.1	12.3	12.9	13.0
Debtor days	68	69	68	68
Creditor days	12	12	12	12
Return Ratios (%)				
RoE	20.0	25.5	25.4	24.6
RoCE	23.0	29.7	30.0	29.6
RoIC	31.0	42.4	42.4	43.7
Valuation Ratios (x)				
P/E	37.5	24.4	21.1	18.8
EV / EBITDA	21.0	14.7	12.9	11.2
Price to Book Value	7.5	6.2	5.4	4.6
EV / Net Sales	2.9	2.8	2.5	2.2
Market Cap / Sales	3.0	3.0	2.7	2.4
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Debt / Equity	-	-	-	-
Current Ratio	1.5	1.7	1.9	1.9
Quick Ratio	1.5	1.7	1.9	1.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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