

Company update

Technology

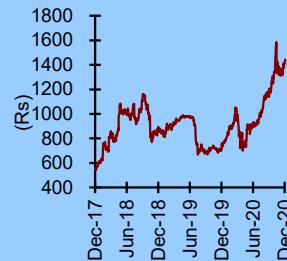
Target price: Rs1,810

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	74.1	73.5	67.6
Institutional investors	17.6	18.3	24.0
MFs and others	3.7	4.7	8.7
Banks / Fls	2.0	3.1	3.1
FIIs	11.9	10.5	12.2
Others	8.3	8.2	8.4

Source: www.nseindia.com

Price chart



Research Analysts:

Sudheer Guntupalli

sudheer.guntupalli@icicisecurities.com
+91 22 6637 7573

Hardik Sangani

hardik.sangani@icicisecurities.com
+91 22 6637 7504

INDIA

Mindtree

BUY

Maintained

Strong outlook on growth and marginsRs1,442

In its 4 X 4 X 4 strategy, Mindtree highlighted its focus on 4 each of service lines, verticals and geographies. Notably, it hinted at the ambition of expanding its presence to some new geographies (e.g. France, Norway, Finland etc.) and verticals (e.g. Healthcare). Company also indicated it is rejuvenating its consulting practice. Account mining, multi-year annuity deals and targeted M&As have been restated as the key focus areas. Management called out the industry trends of vendor consolidation and captive divestments. Aspiration of industry leading and profitable growth are reiterated. L&T's management indicated that no plans of merger between LTI and Mindtree are on the anvil. We reckon steady state EBIT/PAT margins of ~17.5%/14.5% by FY23E, by when Mindtree's cost structure should become identical to that of LTI. Increasing share of fixed price projects and continued focus on tail account rationalisation should be the key margin drivers, in our view. Multiples are undemanding (19x FY22E EPS) on our estimates as we already have factored-in the potential for further margin surprise. Reiterate BUY.

Market Cap	Rs237bn/US\$3.2bn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	MINT.BO/MTCL IN	Revenue (Rs mn)	77,643	79,126	93,378	106,685
Shares Outstanding (mn)	164.7	Net Income (Rs mn)	6,309	9,922	12,445	15,061
52-week Range (Rs)	1585/701	Recurring EPS (Rs)	38.3	60.2	75.5	91.4
Free Float (%)	32.4	% Chg YoY	(16.3)	57.1	25.4	21.0
FII (%)	12.2	P/E (x)	37.0	23.5	18.8	15.5
Daily Volume (US\$'000)	23,870	CEPS (Rs)	55.0	74.5	92.0	109.8
Absolute Return 3m (%)	20.2	EV/E (x)	20.9	14.3	11.4	9.1
Absolute Return 12m (%)	104.2	Dividend Yield (%)	0.9	1.1	1.4	1.4
Sensex Return 3m (%)	14.7	RoCE (%)	32.0	19.8	20.4	18.9
Sensex Return 12m (%)	11.0	RoE (%)	20.0	25.3	26.0	25.5

Please refer to important disclosures at the end of this report

Financial summary

Table 1: Profit and Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Revenues (US\$ mn)	1,089	1,062	1,229	1,377
Operating Revenues (Sales)	77,643	79,126	93,378	1,06,685
Operating Expenses	66,745	64,031	75,122	85,030
EBITDA	10,898	15,096	18,256	21,655
% margins	14.0	19.1	19.6	20.3
Depreciation & Amortisation	2,754	2,346	2,707	3,031
EBIT	8,144	12,750	15,549	18,624
% margins	10.5	16.1	16.7	17.5
Interest & Finance Chgs	529	527	560	560
Other Income	673	1,262	1,920	2,400
Recurring PBT	8,288	13,485	16,909	20,464
Add: Extraordinaries exps / (Inc)	0	0	0	0
Less: Taxes	1,979	3,563	4,464	5,402
Net Income (Reported)	6,309	9,922	12,445	15,061
Recurring Net Income	6,309	9,922	12,445	15,061

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	32,549	39,749	50,626	63,694
Total Current Liabilities & Provisions	13,236	13,622	15,952	17,860
Net Current Assets	19,313	26,126	34,674	45,834
Other Non Current Assets	4,789	3,776	3,776	3,776
Net Fixed Assets	14,228	14,254	14,296	14,343
Total Assets	38,330	44,157	52,746	63,953
Liabilities				
Long Term Borrowings				
Other Long term Liabilities	6,762	4,871	4,871	4,871
Equity Share Capital	1,646	1,647	1,647	1,647
Reserves & Surplus	29,922	37,639	46,228	57,435
Net Worth	31,568	39,286	47,875	59,082
Total Liabilities	38,330	44,157	52,746	63,953

Source: Company data, I-Sec Research

Table 3: Quarterly trend

(Rs mn, year ending March 31)

	Dec-19	Mar-20	Jun-20	Sep-20
Net sales	19,653	20,505	19,088	19,260
% growth (YoY)	10.0	11.5	4.1	0.6
Recurring EBITDA	3,063	3,512	3,478	3,784
Margin (%)	15.6	17.1	18.2	19.6
Other income	348	-92	148	364
Recurring Net Income	1,970	2,062	2,130	2,537

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow before W				
Cap changes	9,792	12,134	15,152	18,093
Working Capital Inflow / (Outflow)	(1,541)	4,624	(714)	(587)
Capex	(1,220)	(1,827)	(2,749)	(3,078)
Free Cashflow	7,031	14,931	11,689	14,427
Cashflow from other Invst Act				
(Ex Capex)	991	(10,182)	-	-
Proceeds from Issue of Share				
Capital	4	1	-	-
Inc/(Dec) in Borrowings /				
Deferred Liabilities	(1,024)	(652)	(0)	(0)
Dividend paid	(5,940)	(4,548)	(3,855)	(3,855)
Others	288	42	-	-
Increase/(Decrease) in Cash	1,350	(408)	7,834	10,573

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
Diluted Earnings per share	38.3	60.2	75.5	91.4
Cash earnings per share	55.0	74.5	92.0	109.8
Dividend per share	13.0	15.0	20.0	20.0
Book Value per share	191.7	238.5	290.6	358.6
Growth Ratios (%)				
Operating Income (Sales) - US\$	8.7	(2.5)	15.7	12.0
Operating Income (Sales)	10.6	1.9	18.0	14.3
EBITDA	2.4	38.5	20.9	18.6
Recurring Net Income	(16.3)	57.3	25.4	21.0
Diluted Recurring EPS	(16.4)	57.1	25.4	21.0
Diluted Recurring CEPS	(1.3)	35.3	23.5	19.4
Valuation Ratios (x)				
P/E	37.0	23.5	18.8	15.5
P/BV	7.4	5.9	4.9	4.0
EV / EBITDA	20.9	14.3	11.4	9.1
EV / Sales	2.9	2.7	2.2	1.9
Operating Ratio				
Software Development Exp./Sales (%)	68.8	68.9	67.7	67.2
SG&A/Sales (%)	20.7	15.0	15.7	15.4
Other Income / PBT (%)	1.5	2.3	2.7	2.8
Effective Tax Rate (%)	23.9	26.4	26.4	26.4
Fixed Asset Turnover (x) on average	5.5	5.6	6.5	7.4
Receivables (days)	68	63	62	61
D/E Ratio (x)	0.0	0.0	0.0	0.0
Return/Profitability Ratio (%)				
Recurring Net Income Margins	8.1	12.5	13.3	14.1
RoIC (Based on Avg)	24.2	41.3	48.2	56.0
RoCE (Based on Avg)	32.0	19.8	20.4	18.9
RoNW (Based on Avg)	20.0	25.3	26.0	25.5
Dividend Payout Ratio	33.9	24.9	26.5	21.9
Dividend Yield	0.9	1.1	1.4	1.4
EBITDA Margin	14.0	19.1	19.6	20.3

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)

BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Sudheer Guntupalli, PGDM; Hardik Sangani, CA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.