

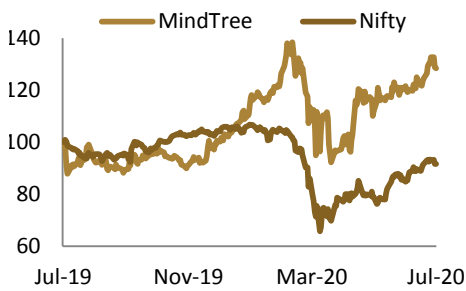
Market statistics

Current stock price (₹)	975
Shares O/S (cr.)	16.5
Mcap (₹ cr)	16,058
52W H/L (₹)	1062/653
Bloomberg	MTCL IN

Shareholding pattern

Promoters	73.49
Domestic Institution	7.88
Foreign Institution	10.39
Non-institution	8.24
of which more than 1%	
S Janakiraman	1.24

Mindtree vs Nifty



Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	20.1	25.7	24.1
EPS (₹)	38.3	55.0	62.5
CEPS (₹)	55.1	69.9	78.7
P/E (x)	21.9	17.7	15.6
P/BV (x)	4.4	4.1	3.5
EV/EBITDA (x)	11.0	9.8	8.9
Income growth (%)	10.6	1.6	7.4
EBITDA growth (%)	4.3	24.1	10.9
PAT growth (%)	(13.7)	39.3	13.7

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We maintain Hold on Mindtree, following a lower-than-expected Q1 revenue performance, offset by its strong operating trajectory. Significant growth divergence has been witnessed in the portfolio with T1 account (30% of revenue) posting double-digit QoQ, travel & hospitality (8% of 1Q revenue) downsizing to half QoQ and rest of the business (~62% of revenue) posting a decline of 4.6% QoQ. Mindtree expects QoQ revenue growth in 2QFY20. Large deal ramp-ups will help. We are positively surprised with the EBITDA margin resilience even after a sharp revenue decline. However, high client concentration and high exposure to challenged verticals keep us cautious.

Quarterly details. 1) Revenue came in lower than expected with a decline of 9.1% QoQ (flat QoQ ex-T&H); (2) All verticals except communications, media and technology (CMT) declined QoQ with travel & hospitality (T&H) leading the way at 54.6% QoQ. 3) Revenues ex-top client declined 15.5% QoQ and 16.2% YoY to US\$177mn. The top client was the silver lining and grew at 10.5% QoQ and 43.7% YoY to US\$76mn.

Strong deal wins TCV on the back of large deal win. Mindtree reported TCV of US\$391mn in 1QFY20, a YoY increase of 20.6%. The increase was entirely due to higher renewals. New deal TCV was unchanged at US\$76mn YoY. Deal wins have been healthy in the last couple of quarters and helped by large deal wins. Large deals have been a focus area under the new CEO and a key component of shift to managed services and annuity based revenues.

Senior management team augmented with new additions. Mindtree has hired Vinit Teredesai, ex-KPIT CFO. The company has also hired Radha Rajagopalan, ex-CTSH, as head of data practice. Mindtree has added senior management from reputed organizations to fill in gaps after exit of key management personnel. Dayapatra Nevatia has joined from Accenture as the COO.

Management confident of sustaining margins in FY21. Cost rationalization has aided strong margin expansion in recent quarters – (1) sharp cut in discretionary spends such as travel, (2) reduction in subcontractor usage, (3) tail account rationalization and (4) lesser lateral hiring and focus on reskilling, improvement in onsite and offshore utilization and higher offshoring also contributed to margin expansion.

Change in estimate of useful life of assets leads to lower depreciation - Depreciation declined 12.1% QoQ in 1QFY21. Mindtree has changed estimates of useful life of some tangible assets leading to depreciation over an extended period. The company has increased useful life of computers to 2-4 years from 2-3 years earlier. Plant and machinery will be depreciated over 4 years compared to 3-4 years earlier. Mindtree indicated that decline in depreciation charge was mainly due to increase in useful life for computers.

Valuation & Outlook: Stock valuations are expensive against the backdrop of high discretionary spending exposure and client concentration risks. Clients in the challenged verticals are conserving cash; furloughing employees and cutting back on all discretionary spends. Mindtree has done well to navigate several challenges post ownership transition. High top client concentration, moderating growth in digital services and aggressive cost rationalization are a few areas of concern. Against the backdrop of these risks, we do not find comfort in current valuation of 15.6X FY22E earnings and hence maintain our Hold recommendation.

**Exhibit 1: Quarterly details (IND-AS)**

₹ mn	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	264.2	278.4	253.2	(9.0)	(4.1)	Volumes increased 0.4%, pricing decreased ~6.9%.
Revenues	18,342	20,505	19,088	(6.9)	4.1	
- Operating costs	16,501	16,793	15,868	(5.5)	(3.8)	
EBITDA	1,841	3,712	3,220	(13.3)	74.9	
EBITDA margin (%)	10.0	18.1	16.9	(123)bps	683bps	Margin was helped by better operational efficiencies and INR depreciation
- Interest expense	130	128	131	2.3	0.8	
- Depreciation	669	679	597	(12.1)	(10.8)	
+ Other income, net (incl forex)	220	(92)	406	NA	84.5	
PBT	1,262	2,813	2,898	3.0	129.6	
- Taxes	335	551	768	39.4	129.3	
Effective tax rate (%)	26.5	19.6	26.5	691bps	(4)bps	Effective tax rate for FY21 to be ~26%
PAT	927	2,262	2,130	(5.8)	129.8	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY21E			FY22E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	1,088	1,050	(3.5)	1,184	1,129	(4.6)
Revenue	79,432	78,856	(0.7)	86,444	84,684	(2.0)
EBITDA margin (%)	17.0	17.5	50bps	17.4	18.0	55bps
EPS (₹)	47.6	55.0	15.5	55.1	62.5	13.4

Source: Trust Research

Geography wise Revenues: US declined 12.7% QoQ on a higher base in Q4FY20, Europe increased by 5.8%.

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
US	72.7	73.6	73.4	73.6	73.7	73.7	74.6	76.8	73.7
Europe	20.1	18.7	18.7	18.5	17.8	17.6	17.0	15.3	17.8
India	3.1	3.3	3.6	3.7	4.1	4.2	4.0	3.9	4.1
RoW	4.1	4.4	4.3	4.2	4.4	4.5	4.4	4.0	4.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Vertical Performance: Hi-tech & Media vertical (51% of revenue) led the growth in 1Q at 7.6% QoQ. Travel & Hospitality vertical (8.1% of revenue) declined 54.6% QoQ Mindtree is fairly strong in insurance and is working on a few deals in banking. The company is hopeful of reviving growth in the vertical.

Exhibit 4: Service offering segmentation

Service offerings	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Technology, Media & Services	38.9	39.3	39.4	39.6	39.4	39.8	41.5	43.1	51.0
BFSI	22.3	22.4	21.7	21.8	21.6	21.6	21.3	20.4	20.3
Retail, CPG and Manufacturing	23.1	21.7	22.3	22.2	22.2	21.7	20.6	20.3	20.6
Travel & Hospitality	15.7	16.7	16.6	16.4	16.8	16.9	16.6	16.2	8.1
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Human Resources: 36 employees (net) left MTCL to take the employee base to 21,955 (a gross addition of 738). Utilization (excluding trainees) was down 140bps QoQ at 77.4%. Utilization (including trainees) was down 100bps QoQ at 75.5%

Exhibit 5: Employee strength at MTCL

Vertical Mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY20
Software Professionals	17,837	18,214	18,713	19,017	19,681	20,001	20,348	20,817	20,851
Sales and Support	1,153	1,188	1,195	1,187	1,254	1,266	1,213	1,174	1,104
Total employees	18,990	19,402	19,908	20,204	20,935	21,267	21,561	21,991	21,955
Gross Addition	1,934	1,126	1,214	1,072	1,684	1,400	1,202	1,322	738
Net Addition	1,267	412	506	296	731	332	294	430	(36)
Attrition (LTM, %)	12.2	13.0	13.4	14.2	15.1	16.5	17.2	17.4	16.6

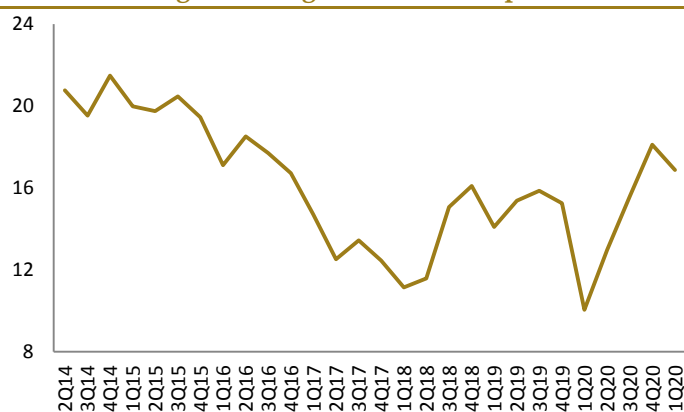
Source: Company, Trust Research

Exhibit 6: Client details

Employees	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Top client	19.4	20.2	20.0	19.8	20.1	20.6	23.1	24.8	30.1
Top 5 clients	32.3	33.8	33.8	33.2	33.6	33.2	36.1	37.9	42.9
Top 10 clients	43.5	44.8	44.1	42.9	43.0	43.1	45.6	47.4	52.0
Number Of Active Clients	339	341	340	349	346	343	320	307	292
New Client Additions	24	18	23	15	12	14	7	5	6
\$1 Mn Clients	117	111	116	120	122	130	134	134	127
\$5 Mn Clients	39	44	44	45	46	47	47	47	44
\$10 Mn Clients	19	21	21	23	23	21	22	23	23
\$25 Mn Clients	4	4	4	4	4	4	5	5	5
\$50 Mn Clients	1	1	1	1	1	1	1	1	1
\$100 Mn Clients	1	1	1	1	1	1	1	1	1

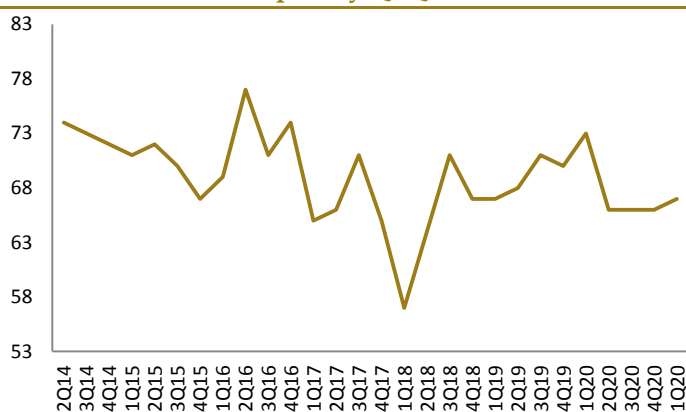
Source: Company

Exhibit 7: Margin was higher-than-our expectation



Source: Company, Trust

Exhibit 8: DSO went up a day QoQ to 67



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Revenues	54,628	70,215	77,643	78,856	84,684
Op. Expenses	47,223	59,570	66,545	65,084	69,410
EBITDA	7,405	10,645	11,098	13,772	15,274
Other Income	1,902	893	673	1,474	1,774
Depreciation	1,715	1,641	2,754	2,448	2,672
EBIT	7,592	9,897	9,017	12,798	14,376
Interest	169	29	529	524	445
PBT	7,423	9,868	8,488	12,274	13,931
Tax	1,722	2,327	1,979	3,206	3,622
PAT	5,701	7,541	6,509	9,068	10,309
Ex. ordinary	-	-	(200)	-	-
Adj Pat	5,701	7,541	6,309	9,068	10,309

Key Parameters

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Per share (₹)					
EPS	34.8	45.9	38.3	55.0	62.5
CEPS	45.2	55.9	55.1	69.9	78.7
BVPS	167.2	201.3	191.8	237.2	282.5
DPS	11.0	33.0	10.0	15.0	17.0
Payout (%)	37.0	84.1	29.6	27.3	27.2
Valuation (x)					
P/E	22.3	20.6	21.9	17.7	15.6
P/BV	4.6	4.7	4.4	4.1	3.5
EV/EBITDA	15.5	13.1	11.0	9.8	8.9
Dividend Yield (%)	1.4	3.5	1.2	1.5	1.7
Return ratio (%)					
EBIDTA Margin	13.6	15.2	14.3	17.5	18.0
PAT Margin	10.4	10.7	8.4	11.5	12.2
ROAE	21.4	24.9	20.1	25.7	24.1
ROACE	26.4	31.2	27.9	36.2	33.6
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	-	-	-
Net Debt/Equity	(0.4)	(0.3)	(0.3)	(0.4)	(0.5)
Debt/EBITDA	0.0	0.0	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	2.5	3.2	2.5	2.6	2.9
Growth Ratios (%)					
Income growth	4.3	28.5	10.6	1.6	7.4
EBITDA growth	6.5	43.8	4.3	24.1	10.9
PAT growth	36.2	32.3	(13.7)	39.3	13.7
Turnover Ratios					
F.A Turnover x	10.7	13.4	18.1	17.8	17.0
Debtors Days	64	64	65	71	70
Payable days	4	4	4	5	5

Balance Sheet (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	1,639	1,642	1,646	1,647	1,647
Reserves & Surplus	25,775	31,419	29,922	33,759	40,022
Total Shareholders Fund	27,414	33,061	31,568	35,406	41,669
Non- current liabilities	(224)	(209)	4,927	4,941	5,391
Long term borrowings	9	5	-	-	-
Deferred tax liabilities	(318)	(388)	(1,835)	(1,835)	(1,835)
Other LT liabilities & prov	85	174	6,762	6,776	7,226
Current Liabilities	9,857	8,550	13,236	13,908	14,833
Short term borrowings	3,000	-	-	-	-
Trade payables	1,710	2,131	2,587	3,210	3,423
Other cur liabilities & Prov	5,147	6,419	10,649	10,699	11,410
Total Liabilities	37,047	41,402	49,731	54,255	61,893
Assets					
Non- current Assets	12,016	13,730	17,182	17,539	18,625
Fixed assets	5,121	5,234	4,295	4,441	4,969
Non-current investments	4,597	5,932	5,536	5,536	5,536
Long-term loans & adv	751	675	457	432	464
Other non-current assets	1,547	1,889	6,894	7,129	7,656
Current assets	25,031	27,672	32,549	36,717	43,267
Current investments	7,206	6,836	6,944	7,944	8,944
Trade receivables	10,155	13,356	14,389	16,203	16,241
Cash & Bank balances	3,289	2,562	3,909	5,440	10,426
Short term loans & adv.	3,098	2,651	2,904	2,809	3,016
Other current assets	1,283	2,267	4,403	4,321	4,640
Total Assets	37,047	41,402	49,731	54,255	61,893

Cash flow Statement

Year End-March	FY18	FY19	FY20	FY21E	FY22E
PBT	7,423	9,868	8,488	12,274	13,931
Depreciation	2,021	1,571	1,307	2,448	2,672
Interest Exp	169	29	529	524	445
Non-operating & EO	(1,584)	(785)	(200)	-	-
CF before W.cap	8,029	10,683	10,124	15,246	17,048
Inc/dec in W.cap	833	2,360	(3,065)	1,161	(252)
Op CF after W.cap	7,196	8,323	13,189	14,085	17,300
Less Taxes	1,632	2,255	1,979	3,206	3,622
Net CF From Operations	5,564	6,068	11,210	10,879	13,678
Inc/(dec) in F.A + CWIP	1,011	1,708	1,815	2,594	3,200
(Pur)/sale of Investments	1,338	189	(288)	1,000	1,000
Others	(164)	-	(529)	(524)	(445)
CF from Invst Activities	(2,513)	(1,897)	(2,056)	(4,118)	(4,645)
Loan Raised	1,788	(3,004)	(5)	-	-
Equity Raised	(1,948)	4,446	(5,876)	(2,758)	(1,241)
Dividend	2,110	6,340	1,926	2,472	2,805
CF from Fin Activities	(2,270)	(4,898)	(7,807)	(5,230)	(4,046)
Net inc/(dec) in cash	781	(727)	1,347	1,531	4,987
Op. bal of cash	2,508	3,289	2,562	3,909	5,440
Cl. balance of cash	3,289	2,562	3,909	5,440	10,426

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