

Equity Research

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BSE Sensex: 44633

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Company update

Technology

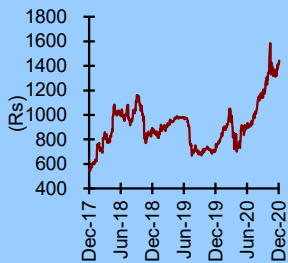
Target price: Rs1,810

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 / FIs	2.0	3.1	3.1
FII	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

Rs1,442

Strong outlook on growth and margins

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
Reuters/Bloomberg	MINT.BO/MTCL IN
Shares Outstanding (mn)	164.7
52-week Range (Rs)	1585/701
Free Float (%)	32.4
FII (%)	12.2
Daily Volume (US\$'000)	23,870
Absolute Return 3m (%)	20.2
Absolute Return 12m (%)	104.2
Sensex Return 3m (%)	14.7
Sensex Return 12m (%)	11.0

Year to March	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	77,643	79,126	93,378	106,685
Net Income (Rs mn)	6,309	9,922	12,445	15,061
Recurring EPS (Rs)	38.3	60.2	75.5	91.4
% Chg YoY	(16.3)	57.1	25.4	21.0
P/E (x)	37.0	23.5	18.8	15.5
CEPS (Rs)	55.0	74.5	92.0	109.8
EV/E (x)	20.9	14.3	11.4	9.1
Dividend Yield (%)	0.9	1.1	1.4	1.4
RoCE (%)	32.0	19.8	20.4	18.9
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: Extraordinary 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				
Othe 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

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