

HSIE Results Daily

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Results Reviews

- **Mindtree:** We maintain ADD on Mindtree, following broad-based growth (a second successive quarter of non-T1 growing ahead of T1) and a stellar 3Q operational performance (offshore + utilisation led). Margins have increased an astounding 13pp since the pre-COVID trough and management expects the >20% EBITDA to continue. Growth accelerated beyond the T1 account as deal TCV was a robust USD 312mn (9MFY21 TCV at >USD 1bn up 20%). While Travel & Hospitality vertical bounced back, it is still ~45% off the 4Q levels. The BFSI vertical performance was soft (relative to larger peers), but the narrative changes in Tech & Media vertical and CPG, Retail & Mfg with greater than mid-single-digit sequential growth. The near-term growth outlook remains positive and blends well with the favourable operational outcome of the strategic initiatives (annuity, partnerships, tail rationalisation and re-skilling focus). Our target price is Rs 1,735, valued at 20x Dec-22E EPS (13% CAGR over FY21-23E following ~70% in FY21).

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Mindtree

Into another operating orbit

We maintain ADD on Mindtree, following broad-based growth (a second successive quarter of non-T1 growing ahead of T1) and a stellar 3Q operational performance (offshore + utilisation led). Margins have increased an astounding 13pp since the pre-COVID trough and management expects the >20% EBITDA to continue. Growth accelerated beyond the T1 account as deal TCV was a robust USD 312mn (9MFY21 TCV at >USD 1bn up 20%). While Travel & Hospitality vertical bounced back, it is still ~45% off the 4Q levels. The BFSI vertical performance was soft (relative to larger peers), but the narrative changes in Tech & Media vertical and CPG, Retail & Mfg with greater than mid-single-digit sequential growth. The near-term growth outlook remains positive and blends well with the favourable operational outcome of the strategic initiatives (annuity, partnerships, tail rationalisation and re-skilling focus). Our target price is Rs 1,735, valued at 20x Dec-22E EPS (13% CAGR over FY21-23E following ~70% in FY21).

- 3QFY21 highlights:** (1) Mindtree's revenue came at USD 274mn, 5% QoQ in USD terms with T1 growth at 3.6% QoQ following -1% QoQ in 2Q and strong growth in ex-T1 business (+5.6% QoQ following +4.9% QoQ in 2Q). (2) EBITDA margin improved by +286bps QoQ to 23.1% supported by healthy revenue growth and operational efficiencies; wage hike across the board to be rolled out in 4QFY21, which will have a negative impact of -250bps on margins (offset by the absence of 3Q one-time provision). (4) Management expects EBITDA margin to be in the range 20%+, going ahead. (4) Growth was broad-based across the verticals with recovery in Travel (+13% QoQ); however, softness has been witnessed in BFSI (+0.8% QoQ).
- Outlook:** With healthy deal pipeline, recovery in travel vertical will support growth ahead. We have factored in USD revenue growth of -1.7/+12.9/+10.7% and EBITDA% at 20.6/20.8/20.7% for FY21/22/23E respectively. EPS CAGR of 13% over FY21-23E, >40% RoIC, >5% FCF yield support valuations (21.0/18.7x FY22/23E).

Quarterly Financial summary

YE March (Rs Bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	274	275	-0.4	261	5.0	1,001	1,089	1,070	1,208	1,337
Net Sales	20.24	19.65	3.0	19.26	5.1	70.22	77.64	79.44	91.19	103.58
EBIT	4.68	3.06	52.8	3.90	19.9	9.00	7.87	13.86	16.24	18.29
APAT	4.00	1.97	103.1	2.54	57.7	7.25	6.66	11.61	13.07	14.69
Diluted EPS (Rs)	24.3	12.0	102.9	15.4	57.7	44.1	40.5	70.5	79.3	89.2
P/E (x)						37.8	41.1	23.6	21.0	18.7
EV / EBITDA (x)						24.7	24.5	15.3	12.8	10.9
RoE (%)						24.9	19.5	31.4	29.6	27.1

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs Bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	1,060	1,070	1.0	1,186	1,208	1.9	1,311	1,337	2.0
Revenue	78.63	79.44	1.0	89.52	91.19	1.9	101.60	103.58	2.0
EBIT	12.41	13.86	11.7	14.51	16.24	11.9	17.11	18.29	6.9
EBIT margin (%)	15.8	17.4	167bps	16.2	17.8	160bps	16.8	17.7	82bps
APAT	9.63	11.61	20.6	11.57	13.07	12.9	13.56	14.69	8.3
EPS (Rs)	58.4	70.5	20.6	70.2	79.3	13.0	82.3	89.2	8.4

Source: Company, HSIE Research

ADD

CMP (as on 18 Jan 2021)	Rs 1,664
Target Price	Rs 1,735
NIFTY	14,281

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 1,590	Rs 1,735
EPS %	FY21E +20.6	FY22E +13.0

KEY STOCK DATA

Bloomberg code	MTCL IN
No. of Shares (mn)	165
MCap (Rs bn) / (\$ mn)	274/3,739
6m avg traded value (Rs mn)	1,874
52 Week high / low	Rs 1,780/692

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	24.0	62.8	88.3
Relative (%)	2.5	31.6	72.5

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	67.59	61.03
FIs & Local MFs	11.96	10.61
FPIs	12.02	13.27
Public & Others	8.43	15.09
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: >10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Apurva Prasad	Mindtree	MBA	NO
Amit Chandra	Mindtree	MBA	NO
Vinesh Vala	Mindtree	MBA	NO

Disclosure:

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