Mindtree

19 January 2021

Reuters: MINT.BO; Bloomberg: MTCL IN

3QFY21 Result Update

Both growth and margins surprise

Mindtree's (MTCL) 3QFY21 QoQ revenue growth of 4.6% in CC (5% in USD) was significantly higher than our estimate of 2.5%. EBIT margin surprised massively at 19.6%, 310bps better than our estimate due to significant gross margin expansion (+320bps QoQ) on higher utilization, higher offshore delivery and possibly better revenue mix. Segmental margin for the Travel & Hospitality (TTH) sector also improved significantly QoQ. MTCL stated that it aims for industry-leading growth while maintaining profitability in a band, which is comfortable (+20% at the EBITDA level), so that it can continue to make investments and grow both organically as well as inorganically. Margins would be impacted (~250bps) in 4QFY21 due to salary hike which would be countered to some extent by operational improvements. Revenue contribution from its top client Microsoft declined QoQ to 28.5% from 28.9% in 2QFY21 but still remains high. MTCL expects this account to grow further as it engages with more parts of the customer and is able to deliver to the client's satisfaction. MTCL is trying to grow other accounts and we see top client's share coming off gradually – which will be a structural positive. MTCL witnessed further revival in demand from the TTH vertical after a big dip in 1QFY21. However, complete recovery to pre-Covid is many quarters away. 3QFY21 deal flow of US$312mn was decent (an increase of 3% QoQ, up 51% YoY on a low base) but was not very exciting. While the pipeline was indicated to be very strong, the conversion to deal flow still seems constricted. While MTCL stated that the growth momentum will continue and that it will see industry-leading growth in FY22, it refused to get into specifics. MTCL indicated that its strategy to transform from a project-based business to an annuity based one is still on and many of the new deal wins are multi-year annuity engagements. It stressed on the overall 4x4x4 strategy enunciated during the analyst meet (Update). Post 3QFY21, we have tweaked our estimates higher and raised our target price (TP) consequent to increasing the target PE of the benchmark - TCS. We keep discount to TCS' multiple constant at 20%. This leads us to a TP of Rs1,788 (21x FY23 EPS). We retain our 'Accumulate' rating.

Cloud relationships not impacted due to closeness with Microsoft: While MTCL has set up a separate business unit for Microsoft's Azure cloud services in Dec'20, we have not heard something similar for AWS and GCP. However, MTCL dispelled any thoughts that it is at a disadvantage vis-à-vis other cloud players because of its proximity to Microsoft. The dedicated Microsoft go-to-market business unit is centered on building new solutions based on Microsoft platforms and technologies, besides developing the next generation of talent across the Mindtree organization globally.

Broad based improvement in segmental profitability: 3QFY21 saw an improvement in margins across all verticals: the BFSI vertical margin was at 23.2% vs 21.2% in 2QFY21, the Retail-CPG vertical margin was 24% vs. 22.4% in 2QFY21, the Hi-Tech Media vertical margin improved to 23.7% vs. 19.9% in 2QFY21 and the TTH vertical, which contributed ~9% to the company's revenue in 3QFY21, saw its margin recover to 17.5% vs. 7.3% in 2QFY21. The focus on driving annuity deals seems to be paying off.

ACCUMULATE

Sector: Information Technology

CMP: Rs1,664

Target Price: Rs1,788

Upside: 7%

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Key Data

Current Shares O/S (mn)	164.7
Mkt Cap (Rsbn/US$bn)	274/3.7
52 Wk H / L (Rs)	1,780/692
Daily Vol. (3M NSE Avg.)	1,252,684

Price Performance (%)

	1 M	6 M	1 Yr
Mindtree	12.7	62.8	88.3
Nifty Index	3.8	31.0	15.6

Source: Bloomberg

Y/E March (Rsmn)	3QFY20	2QFY21	3QFY21	YoY (%)	QoQ (%)	3QFY21E	Deviation (%)
Net Sales (USD mn)	**275**	**261**	**274**	**(0.4)**	**5.0**	**268.5**	**2.1**
Net Sales	**19,653**	**19,260**	**20,237**	**3.0**	**5.1**	**19,793**	**2.2**
Staff Cost	12,535	12,623	12,610	0.6	(0.1)	13,173	(4.3)
% of Sales	63.8	65.5	62.3	-	-	66.6	-
Gross Profit	7118.0	6637.0	7627.0	2.4	5.2	6619.6	15.2
% of Sales	36.2%	34.5%	37.7%	-	-	33.4%	-
Other Expenses	4,055	2,734	2,948	(27.3)	7.8	2,771	6.4
% of Sales	20.6	14.2	14.6	-	-	14.0	-
Depreciation and Amortization	699	569	717	-	-	574	25.0
EBIT	**2,364**	**3,334**	**3,962**	**67.6**	**18.8**	**3,275**	**21.0**
EBIT Margin (%)	**12.0**	**17.3**	**19.6**	**-**	**-**	**16.5**	-
Other Income, Net	348	245	616	77.0	151.4	272	126.8
Finance costs	133	132	127	-	-	132	-
PBT	**2,579**	**3,447**	**4,451**	**72.6**	**29.1**	**3,414**	30.4
Provision for Tax	609	910	1186	94.7	30.3	785	51.0
Effective Tax Rate	23.6	26.4	26.6	-	-	23.0	-
PAT (Reported)	**1,970**	**2,537**	**3,265**	**65.7**	**28.7**	**2,629**	**24.2**
NPM (%)	**10.0**	**13.2**	**16.1**	**--**		**13.3**	**-**

Source: Company, Nirmal Bang Institutional Equities Research.

Exhibit 1: Key financials

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (Rsmn)	70,215	77,643	79,289	91,458	102,683
YoY Growth (%)	*28.5*	*10.6*	*2.1*	*15.3*	*12.3*
EBIT (Rsmn)	9,004	7,869	13,652	15,819	17,882
as % of sales	*12.8*	*10.1*	*17.2*	*17.3*	*17.4*
Adj. PAT (Rsmn)	7,541	6,309	10,861	12,281	14,021
YoY Growth (%)	*32.3*	*-16.3*	*72.1*	*13.1*	*14.2*
FDEPS (Rs)	45.8	38.3	65.9	74.6	85.1
RoE (%)	*24.9*	*19.5*	*30.6*	*28.7*	*27.9*
RoCE (%)	*31.5*	*23.8*	*35.5*	*35.7*	*35.0*
Pre Tax ROIC (%)	*45.5*	*33.2*	*60.1*	*67.5*	*66.6*
P/E(x)	36.3	43.4	25.2	22.3	19.5
P/BV (x)	8.3	8.7	7.0	5.9	5.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

	New			Old			*% Change*		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	*FY21E*	*FY22E*	*FY23E*
INR/USD	74.0	75.2	76.8	74.0	75.2	76.8	-	-	-
USD Revenue (USD mn)	1,071	1,216	1,338	1,061	1,195	1302.4	*1.0*	*1.8*	*2.7*
Revenue (Rsmn)	79,289	91,458	102,683	78,501	89,869	99,978	*1.0*	*1.8*	*2.7*
EBIT (Rsmn)	13,652	15,819	17,882	12,562	15,497	17131.0	*8.7*	*2.1*	*4.4*
EBIT Margin (%)	*17.2*	*17.3*	*17.4*	*16.0*	*17.2*	*17.1*	-	-	-
PAT (Rsmn)	10,861	12,281	14,021	10,023	12,126	13,559	*8.4*	*1.3*	*3.4*
EPS (Rs)	65.9	74.6	85.1	60.9	73.6	82.3	*8.4*	*1.3*	*3.4*

Source: Company, Nirmal Bang Institutional Equities Research

Our view on the Indian IT services sector: In our sector updates of 6th September 2020 (Rising monetary and digital tides lifting most boats), 28th September 2020 (Medium term commentary turning more positive)and 28 December 2020(Looks stronger near term; Raising target prices), we upgraded our view to 'neutral' on the sector from a 'cautious' one held for the last many years on the back of both higher earnings and higher target PE multiples. The earnings uplift (~2x of the growth seen in FY15-FY20 timeframe) is coming from an expectation of 400-600bps pick-up in organic revenue growth over FY21-FY23 against the one seen in the FY15-FY20 timeframe (6-8% organic USD terms) along with an improvement in margins. The revenue acceleration is coming from increased overall spending on IT, increased spending on Digital by clients and a move towards greater outsourcing (driven by lack of internal talent), and which in our view will likely be compressed in a shorter period of time than was expected in the past. The demand uplift is more widespread than seen in the past and is a 'rising-tide-lifting-most-boats' kind of situation. Reasons for change in customer behavior, in our view are: (1) Strong need for digital transformation, not only to structurally cut costs, but also to deliver contact-less consumer and employee experiences, driven by the nature of the pandemic. Based on the commentary from customers, software companies and IT services vendors, we believe that digital demand has been pulled forward from the future. (2) quick and unprecedented 'whatever-it-takes' monetary and fiscal actions in the US and Europe that likely eliminated tail risks to economic recovery and reduced risk aversion among corporates. While customer P&Ls and cash flows saw pain, credit market conditions significantly eased up with investment grade and junk bond yields more than halving from their pandemic peak as the US Federal Reserve stepped into the credit markets directly. Corporate America binged on cheap debt. These monetary conditions could last, we believe, for at least 12-24 months if not longer. The changed view on margins has been driven by business model changes that the pandemic has induced, which we think are structurally positive. These involve higher offshoring, lower subcontractor cost, structurally lower travel and marketing costs. Also, we see accelerated employee pyramid reshaping that could control cost increases. We see WFH/WFA expanding the talent pool in a material way in the long term, leading to lesser pressure on talent costs.

Higher PE multiples are driven by (1) an upward shift in the revenue and earnings growth trajectory (2) lower interest rates globally and domestically (3) valuation exuberance (irrational!?) in the enterprise technology space in the US and (4) constrained domestic investment choices. While there could be a growth spike in FY22 after a modest dip in FY21 (lower than anticipated), we see organic revenue growth in FY23 being only a tad lower than that of FY22. We are yet to take a concrete view on a 'stronger for longer' (beyond FY23) situation.

Why not a sell: (1) We see earnings acceleration over FY21-FY23 due to faster revenue growth and a higher margin trajectory. (2) Current exuberance (irrational!?) in enterprise tech valuations in the US likely rubbing off on Indian IT services. (3) a situation where double-digit revenue growth could stretch beyond FY23. (4) lower for longer interest rates globally could keep PE multiples elevated.

Why not a buy: (1) PE multiples are already at 10–12-year highs and partly reflect the turnaround in fundamentals over FY21-FY23. (2) Adverse impact on US corporate profits in 2021 and beyond (leading to cut back in spending) due to higher taxation if new US President Joe Biden is able to push them through. (3) Likely slower organic growth in the medium term as spends are pulled forward. Growth could settle into mid-single digit territory in USD terms beyond a point in time. (4) A likely deflation in enterprise tech valuations in the US.

Valuation and stock calls: TCS continues to be our sector benchmark as it has the strongest position in the industry. With enterprise tech sector in the US going through a bout of exuberance currently, an overshoot on the upside is not entirely ruled out. We back our higher PE multiples with (1) expectation of earnings acceleration over FY21-FY23 against FY17-FY20 on revenue expansion (2) lower for longer interest rates globally and likely in India too that could keep PE multiples elevated (3) potential for good return of capital to investors due to strong cash flows. We have benchmarked all other coverage companies with respect to TCS. While historically we have not liked mid-tier IT companies due to their significant client, geographic and vertical concentration risks and weaker capabilities, we believe they could be beneficiaries in the next 24 months of robust demand. We believe vendor consolidation risks are lower due to this. We also think that some of them are undergoing a structural change for the better under new managements, which could set them up for better growth, margins and PE multiples.

Exhibit 3: Vertical-based QoQ and YoY USD revenue growth in 3QFY21

Vertical	Contribution to Revenue (%)	Growth-QoQ(%)	Growth-YoY(%)
Hi-Tech & Media Services	49.9	5.2	19.8
BFSI	19.6	0.9	(8.3)
Retail, CPG & Manufacturing	21.6	5.5	4.4
Travel & Hospitality	8.9	12.6	(46.6)
Total	**100.00**	**5.0**	**(0.4)**

Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Geography-based QoQ and YoY USD revenue growth in 3QFY21

Geographies	Contribution to Revenue(%)	Growth-QoQ(%)	Growth-YoY(%)
US	77.2	4.7	3.1
Europe	15.2	3.7	(10.9)
Asia Pacific	7.6	10.9	(11.6)
Total	**100.0**	**5.0**	**(0.4)**

Source: Nirmal Bang Institutional Equities Research

3QFY21 conference call highlights

- **Revenue growth analysis:** MTCL reported a strong revenue performance despite a seasonally weak 3Q, aided by sustained demand momentum and broad-based recovery across its business verticals. IT Services USD revenue (US$274mn; above our estimate of US$269mn) increased by 5.0% QoQ but declined by 0.4% YoY. INR revenue at Rs20bn increased by 3% YoY and 5.1% QoQ. In terms of geographies, US (77.2% of revenue) grew by 4.7% QoQ and 3.1% YoY. Europe, UK and Ireland (15.2% of revenue) grew by 3.7% QoQ but declined by 10.9% YoY. APAC (7.6% of revenue) increased by 10.9% QoQ but declined by 11.6% YoY. MTCL's overall order book surpassed US$1bn mark in 9MFY21 and the management commentary on business outlook and deal pipeline continues to remain positive. The management stated that it is witnessing strong business momentum across all verticals with a significant demand for cloud, data and analytics capabilities. MTCL is capitalizing on the evolving market dynamics with solutions that help enterprises navigate the new normal and grow their businesses. It also stated that it is looking forward to building on its existing capabilities both organically and inorganically.

- **Vertical performance:** MTCL witnessed good traction across segments and geographies. However, the management stated that while the worst is behind for the TTH vertical, a recovery to pre-Covid levels is still few quarters away. During the quarter, revenue from Retail-CPG was up ~5.5% QoQ and 4.4% YoY in USD terms. TTH vertical grew by 12.6% QoQ. The YoY revenue deceleration in the TTH segment (down 46.6%) was partly offset by the Communication, Media and Technology vertical (grew by 19.8%). 3QFY21 saw an improvement in margins across all verticals: the BFSI vertical margin was at 23.2% vs 21.2% in 2QFY21, the Retail-CPG vertical margin was 24% vs. 22.4% in 2QFY21, the Hi-Tech Media vertical margin improved to 23.7% vs. 19.9% in 2QFY21 and the TTH vertical, which contributed ~9% to the company's revenue in 3QFY21, saw its margin recover to 17.5% vs. 7.3% in 2QFY21.

- **Margin picture:** MTCL recorded 19.6% EBIT margin i.e. an increase of 260bps QoQ and 760bpsYoY on the back of higher utilization and better offshore mix. QoQ improvement in EBITDA margin – highest ever in the history of MTCL (21.6% as calculated by MTCL) of 350bps was led by revenue growth and operational efficiencies. The management stated that MTCL would implement salary increments across the board, which will affect margins in 4QFY21. Increments would be in line with the industry average. MTCL believes that the impact of these salary increments would be ~250bps. However, due to efforts towards cost optimization and efficiency programs, MTCL is confident that it will be able to absorb the impact of salary increments to a great extent and sustain margin above 20%. It will also continue to make investments in its business, which should fuel its growth going forward.

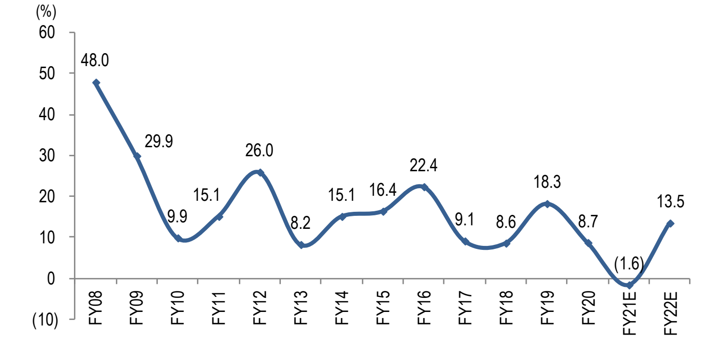
- **BFSI EBITDA margin improves further:** The segmental margin in BFSI improved further after recording an all-time high in 2QFY21. BFSI EBITDA margin improved by 200bps QoQ and 820bps YoY to23.2%.

- **New client addition remains poor:** While the management has time and again stressed on its pursuit of revenue diversification, the dependence on top clients has been a structural problem in the business model of MTCL. After witnessing a significant uptick in revenue contribution from its top client in 1QFY21 (30.1%) and a decline to 28.9% in 2QFY21, revenue contribution from the top client further declined to 28.5% in 3QFY21. We believe this could be because 1Q was an exceptional quarter for Microsoft and there was some moderation in 2Q due to a higher base. Demand for collaboration platforms (Microsoft Teams etc.) owing to Work from Home led to a steep surge in 1Q. MTCL stated that the top account will continue to grow further. Decline was witnessed in its top 10 accounts (ex-top client). Revenue contribution from top 5 and top 10 clients declined by 0.8% and 0.4%, respectively. MTCL's number of active clients declined during the quarter to 276 vs. 283 active clients in 2QFY21 and 320 active clients in 3QFY20. This was due to MTCL cutting some of its tail clients. The process of cutting tail accounts is not something that has prevented MTCL from adding 8 new clients in 3Q. MTCL lost 1 client in the US$25mn bucket and 3 clients in the US$10mn bucket. We believe that MTCL needs a sustainable growth turnaround outside its top client, which is still a work-in-progress and requires larger deal wins to move beyond the project-based model.

Other key conference call highlights

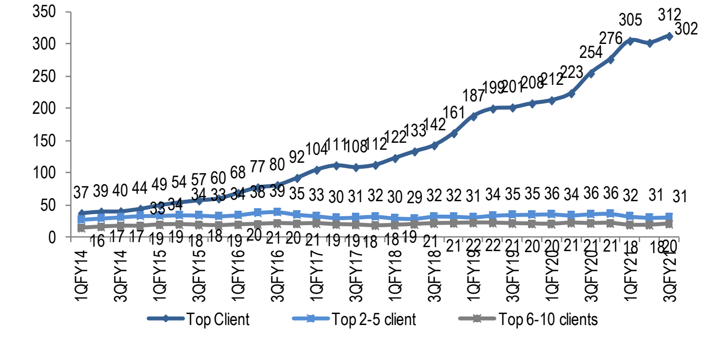
- **TTM new deal order wins:** MTCL recorded new deals worth US$312mn in 3QFY21 vs US$303mn in 2QFY21, an increase of 3% QoQ. This constitutes a fair balance of multi-year new deals as well as renewals. MTCL has been adding a set of new logos every quarter. Growth in the last few quarters was aligned to MTCL's overall service line strategy. A lot of deals were in the areas of customer success, data and cloud. MTCL stated that the pipeline looks pretty good and it's a good combination of existing as well as the new logos and new deals. MTCL, in its 1QFY21 earnings call, had mentioned that it was looking forward to reorganizing its service lines in a post Covid world into 4 parts, namely: (1) Customer success – it will enable clients to deliver intuitive experiences to their clients (2) Data and Intelligence – help clients articulate, implement and realize their strategy to arrive at a business outcome by leveraging data (3) Cloud – partner with clients to enable and simplify their cloud transformation journey (4) Enterprise IT – ambition is to enable clients to deliver zero cost digital transformations. MTCL recorded revenue contribution from these service lines in 3QFY21 as follows: Customer success: 38.1%; Data & Intelligence: 14.9%; Cloud: 19.2% and Enterprise IT: 27.8%. MTCL stated that large transformation deals or consolidations are time consuming from a closure perspective while deals where customers are trying to do something for their end customers are happening pretty fast - like in the areas of the Sales Force, customer success or moving on to cloud. So overall, there may be a delay in conversions based on the specific deals.
- **Headcount addition:** The headcount in 3QFY21 increased by 368 employees QoQ. MTCL's sub-contracting costs as a %age of sales increased marginally on a QoQ basis. It was 7.1% in 3QFY21 vs. 6.9% in 2QFY21 and 7.6% in 3QFY20. MTCL stated that all campus offers were honoured during the quarter and the last batch is expected to join in February. It indicated that hiring will increase in the coming quarters (both campus hires and laterals) and that the company has completed its promotion cycle as planned and has delivered increments across the board, effective January 2021. MTCL is focusing on reskilling its employees in emerging technologies.
- **Attrition:** MTCL had an employee base of ~22,195 at the end of 3QFY21. MTCL's LTM attrition rate declined significantly to 12.5% in 3QFY21 from 13.8% in 2QFY21 and 17.2% in 3QFY20. MTCL reported a significant improvement in utilization (ex-trainees) at 83.1% compared to 78.8% in 2QFY21 and 75.9% in 3QFY20. This was driven by reskilling and upskilling employees over the last few quarters. MTCL indicated that going forward, utilization will remain in the 81-82% range.
- **Strong collections, pricing remains stable:** MTCL stated that contractual pricing remained stable during the quarter. EBITDA to operating cash flow conversion for the quarter was at 125.9% and EBITDA to free cash flow conversion was at 123.9%. DSO stood at 61 days vs. 65 days in 2QFY21 and 66 days in 3QFY20.
- **Effective tax rate:** MTCL's ETR for 3QFY21 was slightly higher at 26.6% vs. 26.4% in 2QFY21 and 23.6% in 3QFY20.

Exhibit 5: YoY revenue growth declines (USD terms) in FY21 but expected to pick up in FY22



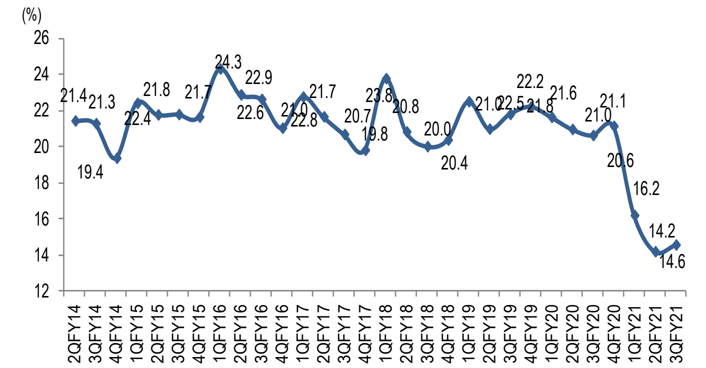
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Top client revenue increases QoQ(annualized revenue run-rate in US$mn)



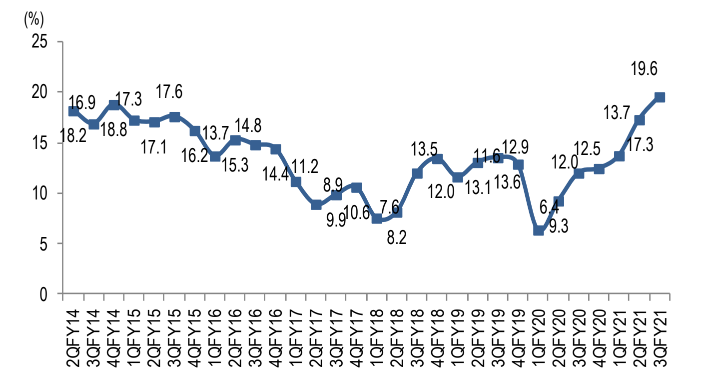
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: SG&A expenses increased marginally(%of sales)



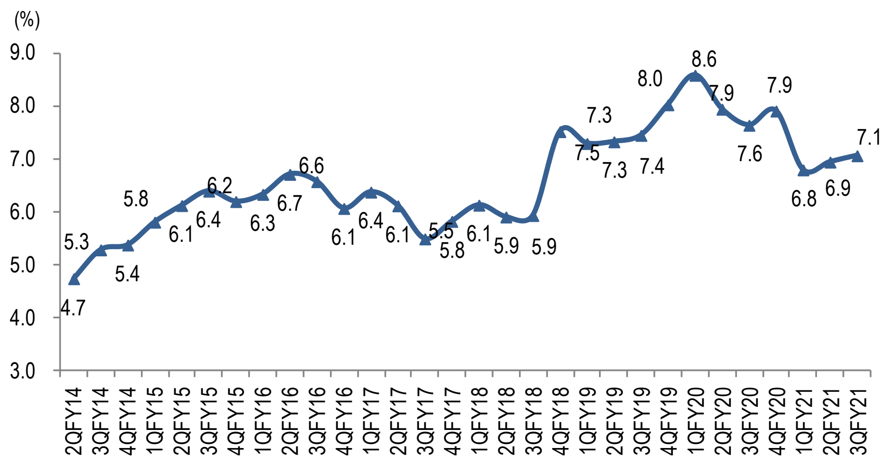
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: EBIT margin improved by 230bps QoQ



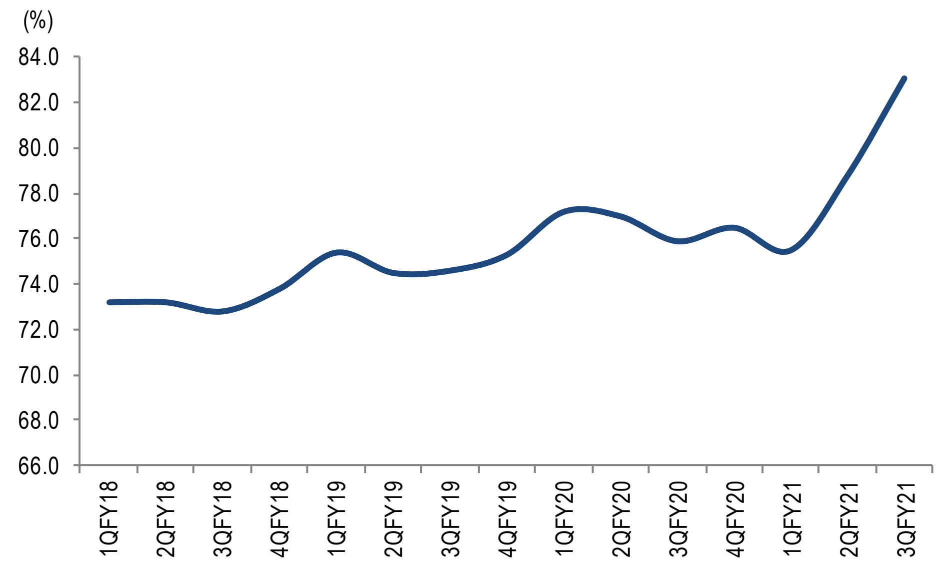
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Subcontractor expenses(as % a percentage of sales) increases by 20bpsQoQ



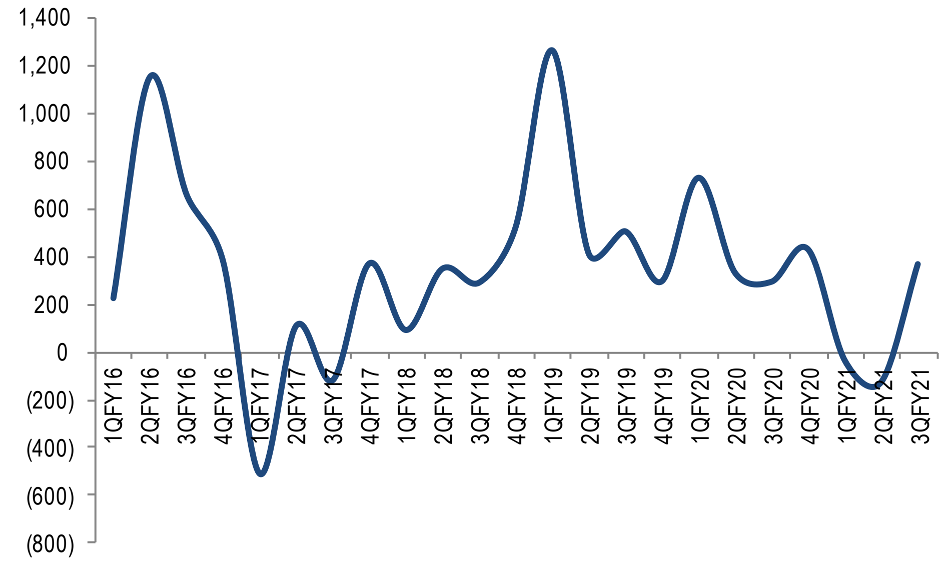
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Margins supported by a significant utilisation improvement (incl trainees)



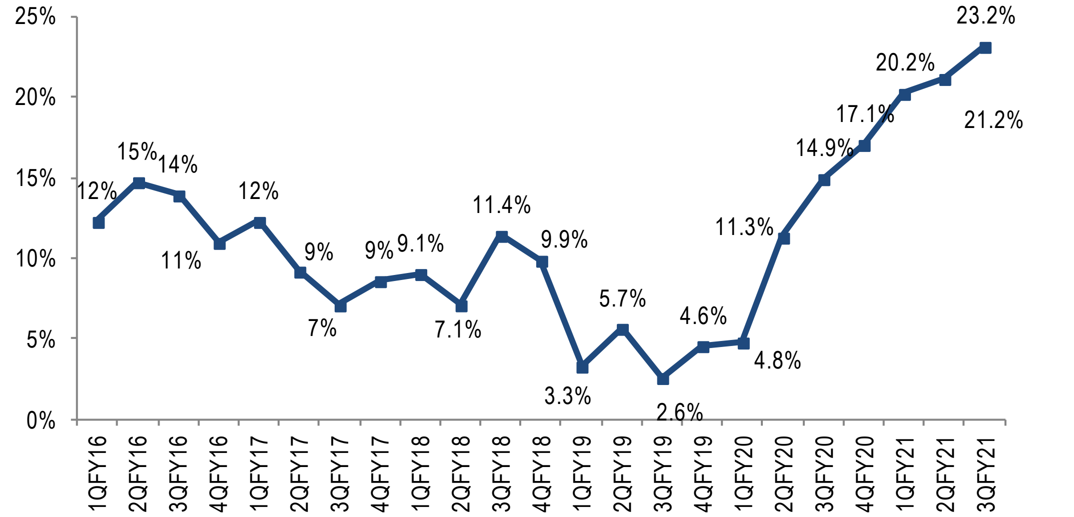
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Net addition of employees has also been fairly tight



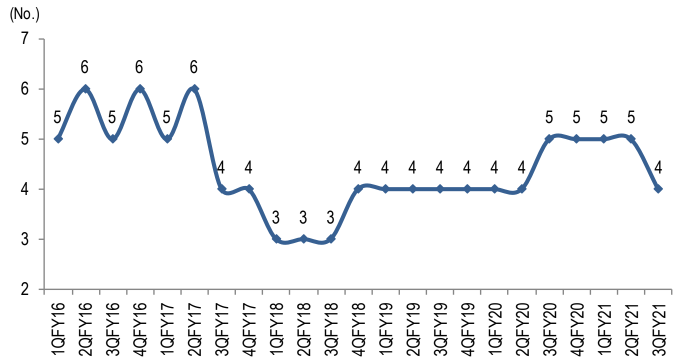
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: BFSI segment EBITDA margin inches further up



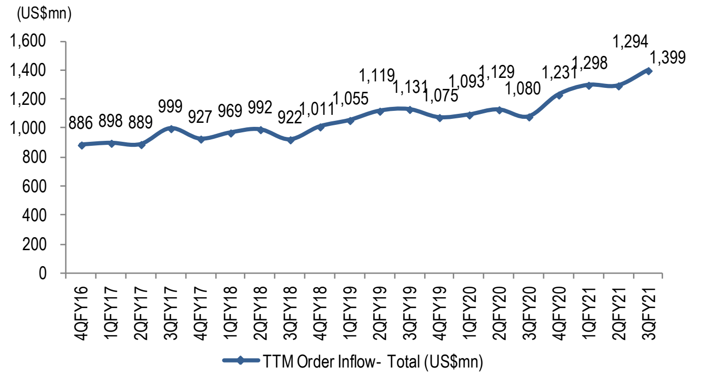
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Clients topping US$25mn in revenues declines in3QFY21



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: TTM Order inflow at a record high



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Quarterly snapshot

Year to 31 March (Rsmn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
INR/USD	**64.4**	**64.6**	**64.3**	**64.7**	**67.9**	**70.6**	**71.1**	**70.2**	**67.9**	**70.6**	**71.4**	**73.7**	**77.2**	**73.8**	**73.8**
USD Revenue (USD mn)	200.1	206.2	214.3	226.2	241.5	246.4	251.5	262.0	264.2	271.0	275.2	278.4	253.2	261.0	274.1
INR Revenue	12,895	13,316	13,777	14,640	16,395	17,554	17,872	18,394	18,342	19,143	19,653	20,505	19,088	19,260	20,237
Gross Margin	4,502	4,315	4,831	5,339	6,000	6,383	6,730	6,890	5,810	6,496	7,118	7,572	6,312	6,637	7,627
EBITDA	1,435	1,541	2,073	2,355	2,310	2,699	2,833	2,803	1,841	2,482	3,063	3,237	3,220	3,903	4,679
Depreciation	459	454	416	383	400	403	410	428	669	707	699	679	597	569	717
Other Expenses	3,067	2,774	2,758	2,984	3,690	3,684	3,897	4,087	3,969	4,014	4,055	4,335	3,092	2,734	2,948
EBIT	976	1,087	1,657	1,972	1,910	2,296	2,423	2,375	1,172	1,775	2,364	2,558	2,623	3,334	3,962
Other income (net)	654	598	57	591	279	524	(200)	290	220	197	348	183	406	245	616
Interest expense	40	25	46	58	28	1	-	-	130	138	133	128	131	132	127
PBT	1,590	1,660	1,668	2,505	2,161	2,819	2,223	2,665	1,262	1,834	2,579	2,613	2,898	3,447	4,451
Tax	373	413	253	683	579	756	311	681	335	484	609	551	768	910	1,186
PAT	1,217	1,247	1,415	1,822	1,582	2,063	1,912	1,984	927	1,350	1,970	2,062	2,130	2,537	3,265
YoY Growth (%)															
USD Revenue	0.6	6.8	11.5	15.6	20.7	19.5	17.4	15.8	9.4	10.0	9.4	6	-4.2	-3.7	-0.4
INR Revenue	-2.9	2.8	6.4	11.1	27.1	31.8	29.7	25.6	11.9	9.1	10.0	11	4.1	0.6	3.0
Gross Profit	-9.5	-2.6	9.3	19.1	33.3	47.9	39.3	29.1	-3.2	1.8	5.8	10	8.6	2.2	7.2
EBIT	-34.4	-6.1	29.4	40.8	95.7	111.2	46.2	20.4	-38.6	-22.7	-2.4	8	123.8	87.8	67.6
Net Profit	0.7	31.5	37.2	87.4	30.0	65.4	35.1	8.9	-41.4	-34.6	3.0	4	129.8	87.9	65.7
QoQ growth (%)															
USD Revenue	2.3	3.0	3.9	5.6	6.8	2.0	2.1	4.2	0.8	2.6	1.5	1.2	-9.1	3.1	5.0
INR Revenue	-2.2	3.3	3.5	6.3	12.0	7.1	1.8	2.9	-0.3	4.4	2.7	4	-6.9	0.9	5.1
EBIT	-30.3	11.4	52.4	19.0	-3.1	20.2	5.5	-2.0	-50.7	51.5	33.2	8	2.5	27.1	18.8
Net Profit	25.2	2.5	13.5	28.8	-13.2	30.4	-7.3	3.8	-53.3	45.6	45.9	5	3.3	19.1	28.7
Margins (%)															
Gross Margin	34.9	32.4	35.1	36.5	36.6	36.4	37.7	37.5	31.7	33.9	36.2	36.9	33.1	34.5	37.7
EBITDA Margin	11.1	11.6	15.0	16.1	14.1	15.4	15.9	15.2	10.0	13.0	15.6	15.8	16.9	20.3	23.1
EBIT	7.6	8.2	12.0	13.5	11.6	13.1	13.6	12.9	6.4	9.3	12.0	12.5	13.7	17.3	19.6
PAT	9.4	9.4	10.3	12.4	9.6	11.8	10.7	10.8	5.1	7.1	10.0	10.1	11.2	13.2	16.1
SGA	23.8	20.8	20.0	20.4	22.5	21.0	21.8	22.2	21.6	21.0	20.6	21.1	16.2	14.2	14.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Key metrics

Key Metrics	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
P and L (Rsmn)													
Revenue	13,777	14,640	16,395	17,554	17,872	18,394	18,342	19,143	19,653	20,505	19,088	19,260	20,237
EBITDA	2,073	2,355	2,310	2,699	2,833	2,803	1,841	2,482	3,063	3,237	3,220	3,903	4,679
PAT	1,415	1,822	1,582	2,063	1,912	1,984	927	1,350	1,970	2,062	2,130	2,537	3,265
Vertical Mix (%)													
Hi-Tech & Media Services	37%	38%	39%	39%	39%	40%	39%	40%	42%	43%	51%	49.8%	49.9%
BFSI	25%	23%	22%	22%	22%	22%	22%	22%	21%	20%	20%	20.4%	19.6%
Retail, CPG & Manufacturing	23%	24%	23%	22%	22%	22%	22%	22%	21%	20%	21%	21.5%	21.6%
Travel & Hospitality	15%	16%	16%	17%	17%	16%	17%	17%	17%	16%	8%	8.3%	8.9%
Geography Mix (%)													
US	70%	71%	73%	74%	73%	74%	74%	74%	75%	77%	79%	77.4%	77.2%
Europe	21%	21%	20%	19%	19%	19%	18%	18%	17%	15%	13%	15.4%	15.2%
India	3%	3%	3%	3%	4%	4%	4%	4%	4%	4%	4%	NA	NA
RoW	6%	5%	4%	4%	4%	4%	4%	5%	4%	4%	4%	NA	NA
Utilization (%) (including Trainees)	**72.8**	**73.8**	**75.4**	**74.5**	**74.6**	**75.3**	**77.2**	**77.0**	**75.9**	**76.5**	**75.5**	**78.8**	**83.1**
Utilization (%) (Excluding Trainees)	**74.3**	**75.2**	**76.3**	**76.5**	**76.4**	**77.1**	**77.9**	**79.0**	**78.0**	**78.8**	**77.4**	**NA**	**NA**
Revenue mix-Onsite	58%	59%	-	-	-	-	-	-	-	-	-	-	-
Revenue mix-Offshore	42%	41%	-	-	-	-	-	-	-	-	-	-	-
Clients Concentration (%)													
Top client	17%	18%	19%	20%	20%	20%	20%	21%	23%	25%	30%	29%	29%
Top 5 clients	32%	32%	32%	34%	34%	33%	34%	33%	36%	38%	43%	41%	40%
Top 10 clients	44%	44%	44%	45%	44%	43%	43%	43%	46%	47%	52%	49%	49%
Number of Client													
1 mn USD +	114	118	117	111	116	120	122	130	134	134	127	125	120
5 mn USD +	37	38	39	44	44	45	46	47	47	47	44	43	43
10 mn USD +	15	17	19	21	21	23	23	21	22	23	23	24	21
25 mn USD +	3	4	4	4	4	4	4	4	5	5	5	5	4
30 mn USD +													
50 mn USD +	1	1	1	1	1	1	1	1	1	1	1	1	1
100 mn USD +	1	1	1	1	1	1	1	1	1	1	1	1	1
Employees	17200	17723	18990	19402	19908	20204	20935	21267	21561	21991	21955	21827	22195
Attrition (%)	13%	13%	12.2%	13.0%	13.4%	14.2%	15.1%	16.5%	17.2%	17.4%	16.6%	13.8%	12.5%
P&L(USD mn)													
Revenue	214	226	242	246	252	262	264	271	275	278	253	261	274
EBIT	26	30	28	33	34	34	17	25	33	35	34	45	54
PAT	22.0	28.1	23.3	29.2	26.9	28.3	13.7	19.1	27.6	28.0	27.6	34.4	44.2
Per Capita (Annualised) - USD													
Revenue	49,837	51,052	50,869	50,799	50,532	51,871	50,480	50,971	51,055	50,639	46,131	47,831	49,399
EBIT	5,993	6,876	5,926	6,709	6,851	6,696	3,298	4,726	6,147	6,317	6,188	8,280	9,670
PAT	5,118	6,353	4,908	6,028	5,406	5,594	2,609	3,594	5,122	5,092	5,025	6,301	7,969
Total Contract Value signed (USD mn)													
Renewals	187	256	255	222	184	158	248	186	128	206	315	0	0
New	57	42	51	49	72	84	76	121	79	187	76	0	0
Total	244	298	306	271	256	242	324	307	207	393	391	0	0
Expiring within 1 year	206	237	259	198	212	218	271	239	174	286	265	0	0
Expiring > 1 year	38	61	47	73	44	23	53	68	33	107	126	0	0
Digital	**132**	**102**	**139**	**162**	**136**	**126**	**137**	**140**	**127**	**190**	**0**	**0**	**0**

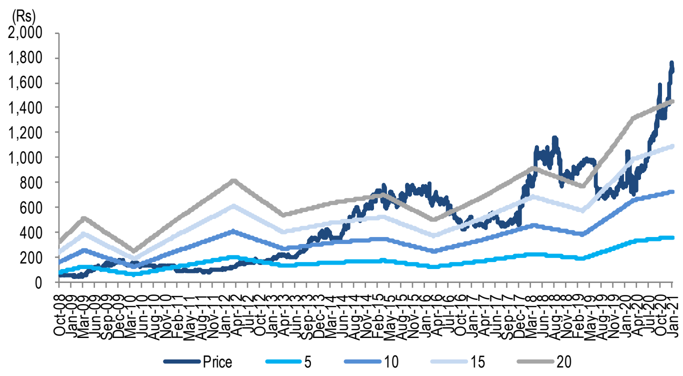
*** Re-classified Revenue Source: Company, Nirmal Bang Institutional Equities Research*

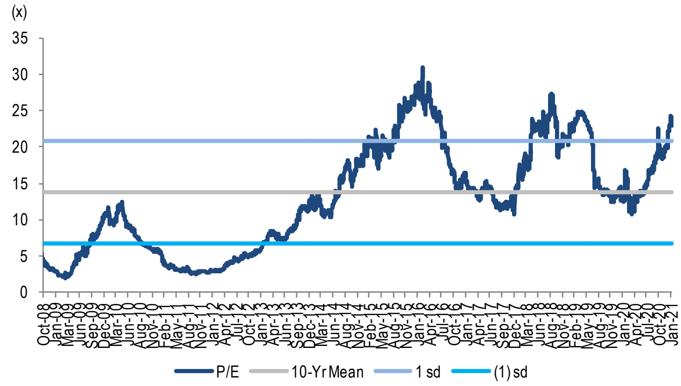
Exhibit 17: QoQ and YoY growth of various parameters

QoQ Growth %	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
Client Wise																
Top Client	3.2	9.5	8.4	7.2	13.2	16.4	6.4	0.9	3.1	2.4	5.1	13.9	8.6	10.4	(1.0)	3.6
Top 5 clients	3.8	0.3	3.0	9.1	6.9	7.8	6.9	1.9	2.3	2.1	1.4	10.4	6.2	2.9	(2.4)	2.9
Top 10 clients	0.8	1.3	4.0	8.4	5.6	6.3	5.0	0.5	1.3	1.1	2.8	7.4	5.2	(0.2)	(2.1)	4.2
Vertical Wise																
Hi-Tech & Media Services	4.0	3.4	2.8	0.6	8.4	10.5	3.0	2.4	4.7	0.3	3.6	5.9	5.1	7.6	0.7	5.2
BFSI	4.3	4.0	1.8	3.9	(4.2)	5.8	2.3	(0.9)	4.7	(0.1)	2.6	0.1	(3.1)	(9.5)	3.6	0.9
Retail, CPG & Manufacturing	(2.9)	1.0	4.0	5.7	8.7	2.8	(4.1)	4.8	3.7	0.8	0.3	(3.6)	(0.3)	(7.7)	7.6	5.5
Travel & Hospitality	0.4	(1.8)	4.5	9.7	9.7	6.1	7.5	2.3	2.3	3.3	3.2	(0.3)	(1.3)	(54.5)	5.6	12.6
Geography wise																
US	3.4	2.0	(0.1)	7.3	7.5	9.3	3.3	1.8	4.5	1.0	2.6	2.8	4.1	(6.4)	1.0	4.7
Europe	1.8	3.8	11.4	(4.7)	6.6	1.7	(5.2)	2.2	3.1	(3.0)	1.4	(1.9)	(9.0)	(22.1)	21.2	3.7
India	(8.1)	9.6	16.8	(2.2)	5.6	3.4	8.0	12.0	7.1	11.7	5.1	(3.3)	(1.4)	(4.4)	NA	NA
RoW	(9.2)	(2.3)	3.0	2.3	(20.0)	(6.9)	10.2	(3.2)	4.2	5.6	4.9	(0.7)	(8.0)	(13.6)	NA	NA
YoY Growth %																
Client Wise																
Top Client	22.2	17.4	19.5	31.3	43.9	53.0	50.2	41.4	28.8	13.3	12.0	26.4	33.1	43.5	35.1	22.9
Top 5 clients	3.4	2.3	7.2	17.1	20.5	29.5	34.4	25.5	20.2	13.8	7.9	16.9	21.3	22.4	17.8	9.8
Top 10 clients	(1.9)	(2.0)	5.3	15.2	20.6	26.5	27.7	18.4	13.7	8.1	5.8	13.1	17.4	15.9	10.4	7.0
Vertical Wise																
Hi-Tech & Media Services	19.4	5.6	10.0	11.2	16.0	23.9	24.2	26.3	22.0	10.8	11.5	15.3	15.7	24.1	20.5	19.8
BFSI	6.5	1.4	7.3	14.7	5.3	7.2	7.7	2.7	12.2	6.0	6.3	7.4	(0.6)	(9.9)	(9.0)	(8.3)
Retail, CPG & Manufacturing	26.4	(5.3)	1.1	7.8	20.7	22.8	13.3	12.3	7.1	5.1	9.9	1.1	(2.8)	(11.1)	(4.6)	4.4
Travel & Hospitality	(7.5)	(4.1)	7.6	13.0	23.4	33.3	37.3	28.1	19.5	16.3	11.6	8.8	5.0	(53.8)	(52.7)	(46.6)
Geography wise																
US	5.9	4.9	6.7	13.1	17.6	26.1	30.3	23.6	20.1	10.9	10.1	11.2	10.9	2.7	1.1	3.1
Europe	(15.1)	(8.2)	13.8	12.0	17.3	15.0	(2.2)	5.0	1.6	(3.1)	3.7	(0.5)	(12.1)	(29.5)	(15.7)	(10.9)
India	-	(2.7)	3.8	15.1	32.2	24.7	15.3	32.0	33.9	44.7	40.8	21.6	12.0	(4.2)	NA	NA
RoW	(2.9)	(10.8)	(10.3)	(6.6)	(17.6)	(21.5)	(16.0)	(20.5)	3.5	17.4	11.7	14.6	1.2	(17.2)	NA	NA

*** Re-classified Revenues; Source: Company, Nirmal Bang Institutional Equities Research*

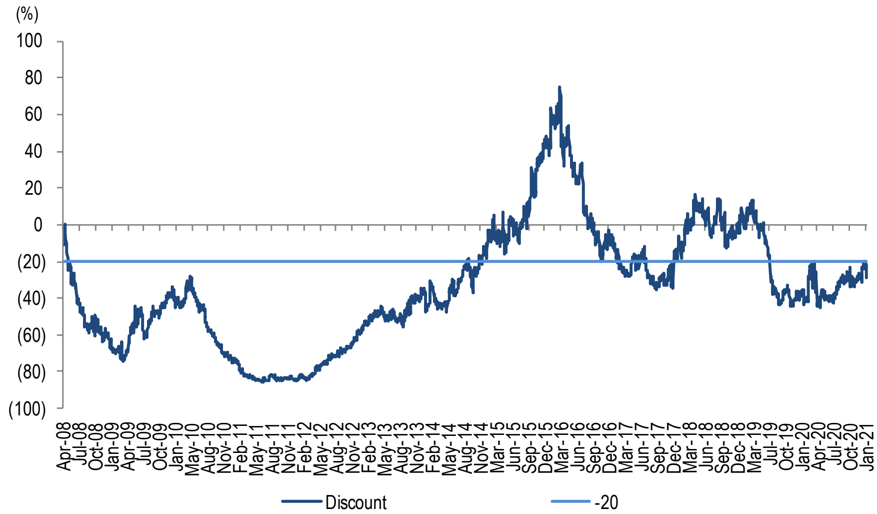
Exhibit 18: P/E charts





Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 19: P/E (discount)/premium of Mindtree to TCS



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 20: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Average INR/USD	**69.9**	**70.9**	**74.0**	**75.2**	**76.8**
Net Sales (USD mn)	**1,001**	**1,089**	**1,071**	**1,216**	**1,338**
YoY Growth (%)	***18.3***	***8.7***	***-1.6***	***13.5***	***10.0***
Net Sales	**70,215**	**77,643**	**79,289**	**91,458**	**102,683**
YoY Growth (%)	*28.5*	*10.6*	*2.1*	*15.3*	*12.3*
Employee benefits expense	44,212	50,647	51,408	60,057	67,501
% of sales	*63.0*	*65.2*	*64.8*	*65.7*	*65.7*
Gross Margin	**26003**	**26996**	**27881**	**31400**	**35182**
% of sales	***37.0***	***34.8***	***35.2***	***34.3***	***34.3***
Other expenses	15,358	16,373	11,776	13,261	14,889
% of sales	*21.9*	*21.1*	*14.9*	*14.5*	*14.5*
EBITDA	10,645	10,623	16,105	18,139	20,293
% of sales	***15.2***	***13.7***	***20.3***	***19.8***	***19.8***
Depreciation & Amortisation	1,641	2,754	2,453	2,320	2,412
EBIT	**9,004**	**7,869**	**13,652**	**15,819**	**17,882**
% of sales	***12.8***	***10.1***	***17.2***	***17.3***	***17.4***
Interest expenses	29	529	517	508	508
Other income (net)	893	948	1,646	1,397	1,703
PBT	9,868	8,288	14,780	16,709	19,076
-PBT margin (%)	*14.1*	*10.7*	*18.6*	*18.3*	*18.6*
Provision for tax	2,327	1,979	3,920	4,428	5,055
Effective tax rate (%)	*23.6*	*23.9*	*26.5*	*26.5*	*26.5*
Net profit	**7,541**	**6,309**	**10,861**	**12,281**	**14,021**
-Growth (%)	*32.3*	*-16.3*	*72.1*	*13.1*	*14.2*
-Net profit margin (%)	*10.7*	*8.1*	*13.7*	*13.4*	*13.7*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
EBIT	9,004	7,869	13,652	15,819	17,882
(Inc.)/dec. in working capital	(5,045)	3,225	1,085	(5,837)	(1,432)
Cash flow from operations	**3,959**	**11,094**	**14,737**	**9,982**	**16,450**
Other income	893	948	1,646	1,397	1,703
Depreciation & amortisation	1,641	2,754	2,453	2,320	2,412
Financial expenses	(29)	(529)	(517)	(508)	(508)
Tax paid	(2,327)	(1,979)	(3,920)	(4,428)	(5,055)
Dividends paid	(5,342)	(2,572)	(4,516)	(5,337)	(6,158)
Net cash from operations	**(1,205)**	**9,716**	**9,883**	**3,427**	**8,843**
Capital expenditure	1,587	147	210	1,200	1,600
Net cash after capex	**(2,792)**	**9,569**	**9,673**	**2,227**	**7,243**
Inc./(dec.) in debt	85	1,619	(1,792)	-	-
(Inc.)/dec. in investments	(1,108)	(745)	(14,729)	(4,000)	(4,000)
Equity issue/(buyback)	3	4	1	-	-
Cash from financial activities	**(1,020)**	**878**	**(16,520)**	**(4,000)**	**(4,000)**
Others	3,085	(7,139)	172	(720)	(720)
Opening cash	3,289	2,562	5,870	(804)	(3,298)
Closing cash	2,562	5,870	(804)	(3,298)	(774)
Change in cash	(727)	3,308	(6,674)	(2,493)	2,523

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	1,642	1,646	1,647	1,647	1,647
Reserves & surplus	31,423	29,926	37,693	44,637	52,500
Net worth	33,065	31,572	39,340	46,284	54,147
Other liabilities	174	54	6	6	6
Total loans	5	1,744	-	-	-
Lease Liabilties		4,964	4,616	4,616	4,616
Total liabilities	**33,244**	**38,334**	**43,962**	**50,906**	**58,769**
Net block	5,234	4,295	3,242	2,842	2,750
Goodwill	4,732	4,732	4,732	4,732	4,732
Investments	8,036	7,748	24,040	28,040	32,040
Deferred tax asset - net	388	1,835	363	363	363
Other non-current assets	2,564	2,150	2,059	2,059	2,059
Unbilled revenue	2,991	3,148	2,881	3,336	3,688
Other current assets	1,927	2,198	1,613	1,867	2,063
Debtors	13,356	14,389	12,580	17,981	19,876
Cash & bank balance	2,562	5,870	(804)	(3,298)	(774)
Right-of-use Assets		5,201	4,912	4,912	4,912
Total current assets	20,836	30,806	21,181	24,799	29,765
Total current liabilities	8,546	13,232	11,656	11,929	12,940
Net current assets	12,290	17,574	9,526	12,870	16,825
Total assets	**33,244**	**38,334**	**43,962**	**50,906**	**58,769**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Key ratios

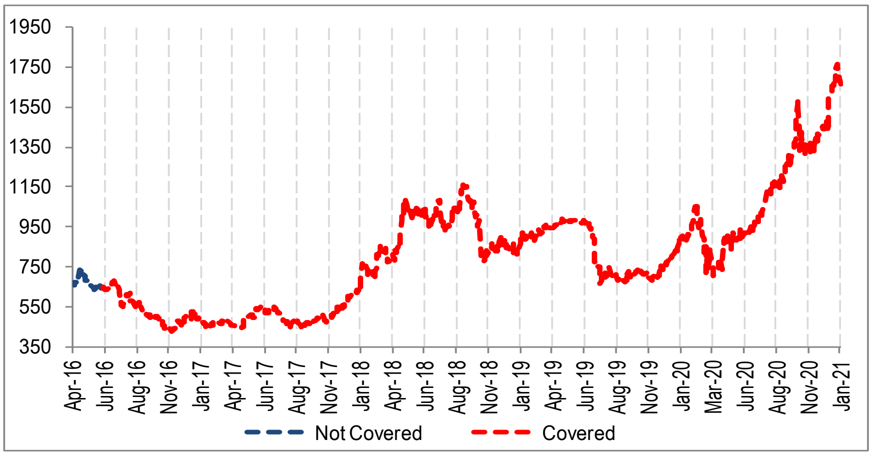
Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Per Share (Rs)					
EPS	45.9	38.4	66.1	74.8	85.4
FDEPS	45.8	38.3	65.9	74.6	85.1
Dividend Per Share	27.0	13.0	27.5	32.5	37.5
Book Value	201	192	239	281	329
Dividend Payout Ratio (incl DDT)	71	41	42	43	44
Return ratios (%)					
RoE	24.9	19.5	30.6	28.7	27.9
RoCE	31.5	23.8	35.5	35.7	35.0
Pre Tax ROIC (%)	45.5	33.2	60.1	67.5	66.6
Tunover Ratios					
Asset Turnover Ratio	1.7	1.5	1.4	1.5	1.4
Debtor Days (incl. unbilled Rev)	85	82	71	85	84
Working Capital Cycle Days	37	38	27	33	43
Valuation ratios (x)					
PER	36.3	43.4	25.2	22.3	19.5
P/BV	8.3	8.7	7.0	5.9	5.1
EV/EBITDA	24.9	24.8	15.6	13.8	12.0
EV/Sales	3.8	3.4	3.2	2.7	2.4
M-cap/Sales	3.9	3.5	3.5	3.0	2.7
Dividend Yield (%)	1.6	0.8	1.7	2.0	2.3

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
7June 2017	Sell	547	424
21June 2017	Sell	519	382
20 July 2017	Sell	506	382
22 August 2017	Sell	461	382
28 September 2017	Sell	471	396
26 October 2017	Sell	507	426
26 December 2017	Under Review	600	-
18 January 2018	Under Review	622	-
17 March 2018	Sell	812	574
26 October 2017	Sell	867	-
26 December 2017	Under Review	600	-
18 January 2018	Under Review	622	-
17 March 2018	Sell	812	574
19 April 2018	Sell	867	577
3 July 2018	Sell	986	716
19 July 2018	Sell	1,062	803
4 September 2018	Sell	1,100	803
5 October 2018	Sell	1,063	986
19 October 2018	Sell	978	778
27 December 2018	Sell	855	631
7 January 2019	Sell	815	552
17 January 2019	Sell	835	553
19 March 2019	Sell	963	554
20 March 2019	Sell	943	554
18 April 2019	Sell	972	563
18 July 2019	Sell	751	531
23 September 2019	Sell	711	567
17 October 2019	Sell	744	532
2 January 2020	Under Review	812	-
15 January 2020	Under Review	863	-
31 March 2020	Sell	830	522
27 April 2020	Sell	780	532
9 July 2020	Under Review	988	-
15 July 2020	Under Review	973	-
6 September 2020	Accumulate	1,194	1,222
28 September 2020	Accumulate	1,269	1,310
16 October 2020	Accumulate	1,425	1,544
4 December 2020	Accumulate	1,442	1,544
29 December 2020	Accumulate	1,609	1,646
19 January 2021	Accumulate	1,664	1,788

Rating track graph



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Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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