Mindtree

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Strong operating performance to sustain

CMP	Target Price
Rs 4,445 as of (November 29, 2021)	Rs 4,450 (▲) 12 months
Rating	**Upside**
HOLD (▲)	0.1 %

- MTCL's simple and focused 4*4*4 growth strategy, investments in partnerships and whitespace opportunities led to superior growth in the last few quarters. Though Q2 performance will be difficult to replicate, we expect revenue growth momentum to sustain.
- In the mid-cap space, MTCL benefitted from its better footprint among F500 clients amid a strong rebound in technology spending. The sharp recovery in TTH and deferral of uptick in travel & other expenses also led to strong operating performance and earnings upgrade.
- The company is confident of delivering industry-leading double-digit revenue growth on the back of strong deal wins, a healthy deal pipeline and broad-based revenue growth. MTCL remains confident of delivering 20%+ EBITDAM in FY22 and aspires to maintain it.
- We raise our FY22-24E EPS by 2-9%, factoring in secular demand trends. We roll forward TP to Dec'22 and upgrade the stock to Hold with a revised TP of Rs4,450 at 36x Dec'23E EPS (Rs3,300 earlier), considering higher medium-term growth assumptions (Exhibit 7) and the correction in the stock price (~10% correction from peak).

Strong operating performance on the back of a sharp rebound in tech spending, better footprint among F500 clients and steady execution of its 4*4*4 growth strategy: MTCL's steady execution of its well-devised '4*4*4 strategy' that focuses on four verticals (RCM, BFSI, TTH and CMT), four service lines (Customer Success, Data and Intelligence, Cloud and Enterprise IT) and four geographies (NA, UK & Ireland, Continental Europe, APAC & ME) led to solid revenue growth in the last 4 quarters (7.6% CQGR). Customer experience, digital transformation, cloud and workplace modernization have seen accelerated demand. TTH has seen a healthy recovery as clients invested in contactless experience in the wake of the pandemic. MTCL works with several Fortune 500 companies (best footprint among Tier-II peers) that have accelerated their digital transformation agenda, thus driving healthy revenue growth for the company. It has identified and is investing in whitespace opportunities - Health, Security and Enterprise Applications, expansion into APAC/ME and Japan, IoT capabilities (NxT acquisition) to augment revenue growth. MTCL has also created a dedicated unit with hyperscalers (AWS, Azure, Google, ServiceNow, Salesforce) focusing on joint offerings-led GTM. The company' focus on client mining and cross-selling has also worked as it has added 7 USD5mn+ and 6 USD10mn+ clients in the last four quarters. We expect revenue growth momentum to sustain on the back of strong deal wins (USD864mn in H1, 25% YoY), healthy deal pipeline and progress in account mining.

EBITDAM to sustain over 20% in FY22: MTCL has delivered strong expansion in EBITM in the last 8 quarters (9.3% in Q2FY20 to 18.2% in Q2FY22) on the back of revenue growth and intense focus on driving operating efficiencies. MTCL is confident of sustaining EBITDAM above 20% in FY22, factoring in sustained revenue growth momentum, benefits accruing from the WFH shift, a flattening pyramid (added more than 2,000 freshers in H1) and offshore shift negating the pressure from the shortage of talent. Management aspires to sustain EBITDAM within a narrow range in the medium term although the anticipated uptick in travel and other expenses (timing and pace of return remain uncertain) could weigh on margins.

Please see our sector model portfolio (Emkay Alpha Portfolio): Information Technology (page 8)

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	77,643	79,678	1,05,298	1,30,011	1,52,502
EBITDA	10,898	16,567	21,439	25,346	29,778
EBITDA Margin (%)	14.0	20.8	20.4	19.5	19.5
APAT	6,309	11,105	15,507	18,299	21,283
EPS (Rs)	38.3	67.4	94.1	111.1	129.2
EPS (% chg)	(16.5)	75.9	39.6	18.0	16.3
ROE (%)	19.5	29.7	32.5	31.6	30.3
P/E (x)	116.1	66.0	47.3	40.1	34.5
EV/EBITDA (x)	66.5	42.9	32.8	27.4	22.9
P/BV (x)	23.2	17.0	14.0	11.5	9.5

Source: Company, Emkay Research

Change in Estimates	
EPS Chg FY22E/FY23E (%)	2/6
Target Price change (%)	34.8
Target Period (Months)	12
Previous Reco	SELL

Emkay vs Consensus

EPS Estimates	FY22E	FY23E
Emkay	94.1	111.1
Consensus	89.9	104.4
Mean Consensus TP (12M)	Rs 4,227	

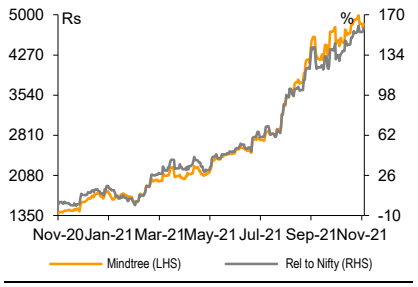
Stock Details	
Bloomberg Code	MTCL IN
Face Value (Rs)	10
Shares outstanding (mn)	165
52 Week H/L	5,060 / 1,349
M Cap (Rs bn/USD bn)	734 / 9.80
Daily Avg Volume (nos.)	14,26,241
Daily Avg Turnover (US$ mn)	83.3

Shareholding Pattern Sep '21	
Promoters	61.0%
FIIs	15.0%
DIIs	10.1%
Public and Others	13.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	27	102	220
Rel. to Nifty	5	24	81	144

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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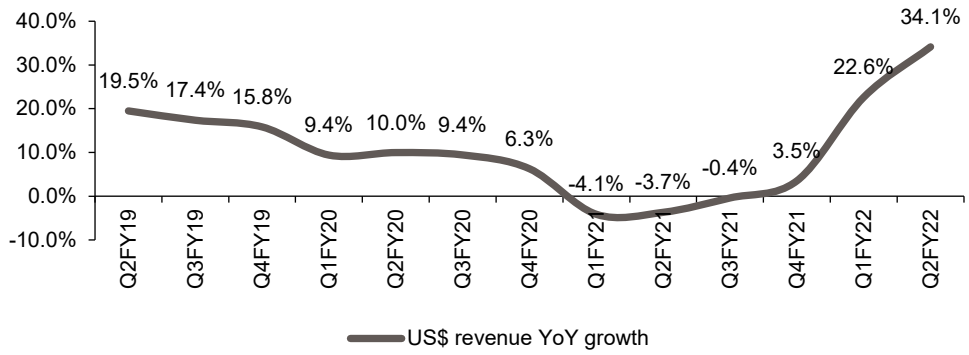
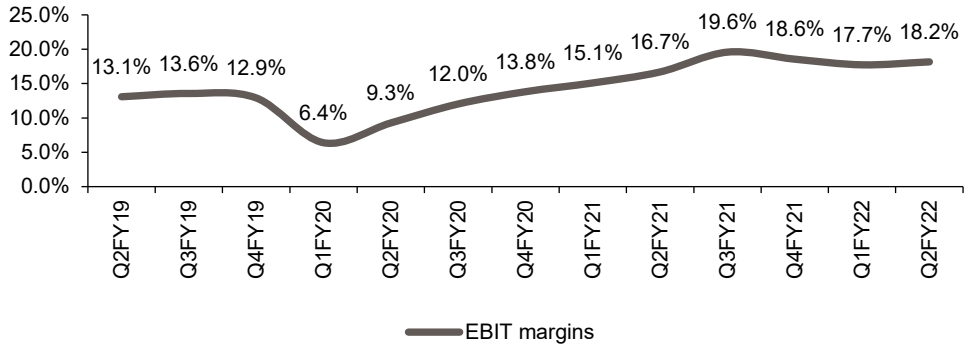
Story in Charts

Exhibit 1: USD revenue growth momentum showing sharp rebound over last few quarters



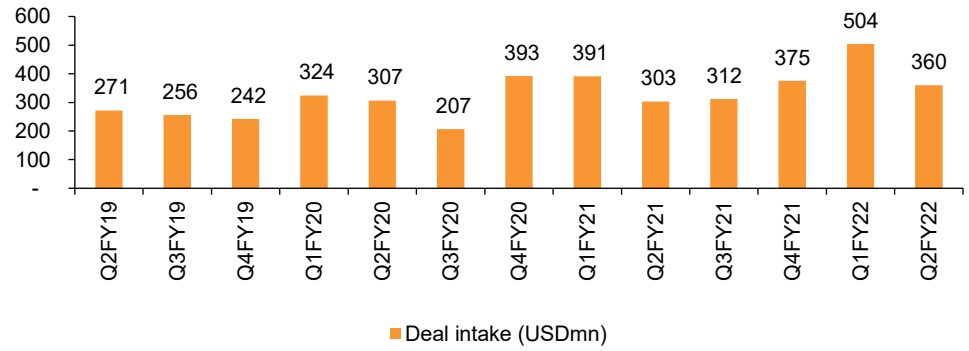
Source: Company, Emkay Research

Exhibit 2: MTCL has defended its margin well despite the supply side issues in recent quarters



Source: Company, Emkay Research

Exhibit 3: Deal intake has been healthy over the last few quarters



Source: Company, Emkay Research

Exhibit 4: Focus on client mining has led to healthy addition across client buckets

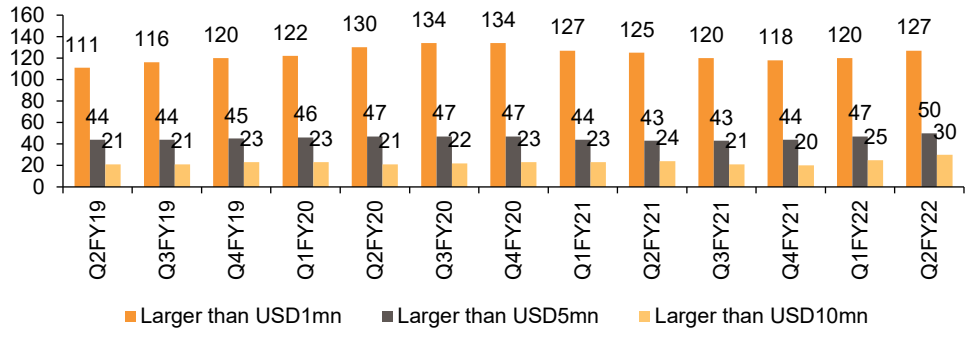


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Exhibit 5: Changes in estimates

All fig in Rs mn except EPS and %)	FY22E			FY23E			FY24E		
	Old	New	% change	Old	New	% change	Old	New	% change
Overall Revenues(in US$ mn)	1,400	1,414	1.0%	1,665	1,711	2.7%	1,914	1,968	2.8%
YoY growth, %	*30.0%*	*31.4%*		*19.0%*	*21.0%*		*15.0%*	*15.0%*	
Revenues	1,04,219	1,05,298	1.0%	1,26,546	1,30,011	2.7%	1,48,369	1,52,502	2.8%
EBIT	18,493	18,879	2.1%	21,083	22,479	6.6%	24,235	26,556	9.6%
EBIT margins, %	*17.7*	*17.9*		*16.7*	*17.3*		*16.3*	*17.4*	
Net profits	15,220	15,507	1.9%	17,246	18,299	6.1%	19,496	21,283	9.2%
EPS	92.4	94.1	1.9%	104.7	111.1	6.1%	118.4	129.2	9.2%

Source: Company, Emkay Research

Exhibit 6: Key assumptions

(in Rs mn)	FY22E	FY23E	FY24E
USD revenues growth (%)	31.4%	21.0%	15.0%
USD/INR	74.5	76.0	77.5
INR revenues Growth (%)	32.2%	23.5%	17.3%
EBIT margin (%)	17.9%	17.3%	17.4%
EPS Growth (%)	39.6%	18.0%	16.3%

Source: Company, Emkay Research

Exhibit 7: Increased medium term revenue growth assumptions leading to higher target PE multiple

Rupee revenue growth assumptions (%)	FY21-25E	FY26-30E	FY31-35E	Beyond FY35E
Old	21.6%	14.0%	7.0%	7.0%
New	22.4%	14.0%	14.0%	7.0%

Source: Company, Emkay Research

Exhibit 8: 2-Stage Gordon Growth Model valuation

Particular	
FY21E-24E Revenue CAGR (%)	23%
FY21E-24E EPS CAGR (%)	21%
Stage-1 (FY25E-35E) - Growth (%)	14.0
Stage-1 (FY25E-35E) - DPR (%)	69.0
Stage-1 (FY25E-35E) - Incr RoE (%)	45.2
Terminal stage - Growth (%)	7.0
Terminal stage - DPR (%)	84.5
CoE (%)	11.5
Implied P/E (x)	35.6
Target P/E (x)	36.0
TP (INR) Dec-22E	**4,450**

Source: Emkay Research

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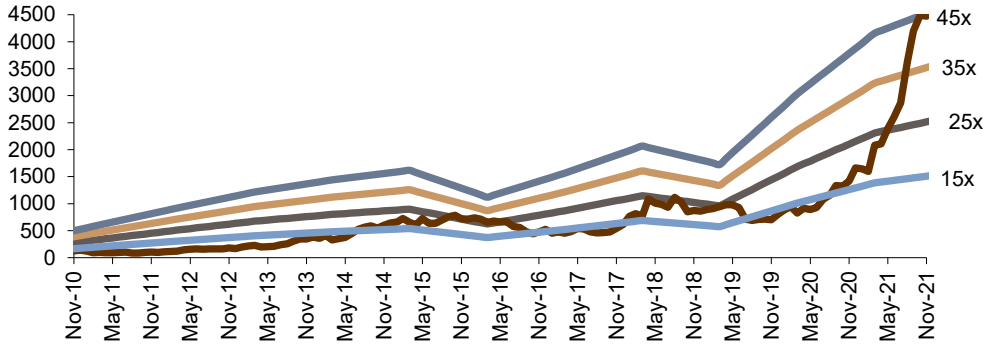
Exhibit 9: MTCL has proved us wrong in the last four quarters with flawless execution amid a sharp rebound in demand (we deemed it a low probability event but the full credit goes to management for superior execution)

All fig in Rs mn except EPS and %	FY22E			FY23E			Comment
	At the end of Q2FY21	Current Assumptions	% change	At the end of Q2FY21	Current Assumptions	% change	
Overall Revenues (in US$ mn)	1,181	1,414	19.7%	1,312	1,711	30.4%	Strong broad-based demand recovery and rebound in TTH led to better-than-expected revenue growth
YoY growth, %	*12.0%*	*31.4%*		*11.0%*	*21.0%*		
Revenues	87,421	1,05,298	20.4%	98,384	1,30,011	32.1%	
EBIT	12,936	18,879	45.9%	14,643	22,479	53.5%	
EBIT margins, %	*14.8*	*17.9*		*14.9*	*17.3*		Strong revenue growth-led operating leverage and delayed reversal of travel and other WFH-related savings led to strong beat on margins
Net profits	10,212	15,507	51.8%	11,751	18,299	55.7%	
EPS	62.0	94.1	51.8%	71.3	111.1	55.7%	Revenue acceleration and better margin performance have led to the upside on EPS (consensus EPS seen broadly similar upgrade in the same period)

Source: Company, Emkay Research

Exhibit 10: MTCL's 1-year forward PE chart



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Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	**77,643**	**79,678**	**1,05,298**	**1,30,011**	**1,52,502**
Expenditure	**66,745**	**63,111**	**83,859**	**1,04,665**	**1,22,724**
EBITDA	**10,898**	**16,567**	**21,439**	**25,346**	**29,778**
Depreciation	2,754	2,596	2,560	2,867	3,222
EBIT	**8,144**	**13,971**	**18,879**	**22,479**	**26,556**
Other Income	144	1,013	2,091	2,417	2,400
Interest expenses	0	0	0	0	0
PBT	**8,288**	**14,984**	**20,970**	**24,896**	**28,956**
Tax	1,979	3,879	5,463	6,597	7,673
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	**6,309**	**11,105**	**15,507**	**18,299**	**21,283**
Adjusted PAT	**6,309**	**11,105**	**15,507**	**18,299**	**21,283**

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	1,646	1,647	1,647	1,647	1,647
Reserves & surplus	29,922	41,543	50,625	62,006	75,382
Net worth	**31,568**	**43,190**	**52,273**	**63,653**	**77,029**
Minority Interest	**0**	**0**	**0**	**0**	**0**
Loan Funds	**5,663**	**5,377**	**5,600**	**5,800**	**5,900**
Net deferred tax liability	(1,835)	(351)	(351)	(351)	(351)
Total Liabilities	**35,396**	**48,216**	**57,522**	**69,102**	**82,578**
Net block	**14,092**	**12,758**	**13,458**	**13,171**	**13,049**
Investment	**9,709**	**20,468**	**14,161**	**14,161**	**14,161**
Current Assets	**25,794**	**29,813**	**48,742**	**63,689**	**80,614**
Cash & bank balance	3,909	7,597	20,713	30,447	42,627
Other Current Assets	7,496	9,474	10,142	11,158	12,082
Current liabilities & Provision	**14,335**	**15,047**	**18,939**	**22,019**	**25,346**
Net current assets	**11,459**	**14,766**	**29,803**	**41,670**	**55,268**
Misc. exp	0	0	0	0	0
Total Assets	**35,396**	**48,216**	**57,522**	**69,102**	**82,578**

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	**8,144**	**13,971**	**18,879**	**22,479**	**26,556**
Other Non-Cash items	390	(544)	(870)	(1,406)	(1,941)
Chg in working cap	(1,541)	5,882	(1,920)	(2,134)	(1,417)
Operating Cashflow	**8,251**	**19,960**	**15,276**	**17,626**	**21,146**
Capital expenditure	(1,220)	(619)	(2,913)	(2,380)	(3,000)
Free Cash Flow	**7,031**	**19,341**	**12,363**	**15,246**	**18,146**
Investments	858	(11,382)	6,796	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	**(229)**	**(11,833)**	**4,778**	**(414)**	**(459)**
Equity Capital Raised	4	1	0	0	0
Loans Taken / (Repaid)	(495)	(842)	0	0	0
Dividend paid (incl tax)	(5,940)	(2,880)	(6,424)	(6,918)	(7,907)
Other Financing Cash Flow	288	(214)	0	0	0
Financing Cashflow	**(6,672)**	**(4,439)**	**(6,938)**	**(7,478)**	**(8,507)**
Net chg in cash	**1,350**	**3,688**	**13,116**	**9,733**	**12,181**
Opening cash position	2,559	3,909	7,597	20,713	30,447
Closing cash position	**3,909**	**7,597**	**20,713**	**30,447**	**42,627**

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	14.0	20.8	20.4	19.5	19.5
EBIT Margin	10.5	17.5	17.9	17.3	17.4
Effective Tax Rate	23.9	25.9	26.1	26.5	26.5
Net Margin	8.1	13.9	14.7	14.1	14.0
ROCE	24.3	35.8	39.7	39.3	38.2
ROE	19.5	29.7	32.5	31.6	30.3
RoIC	37.5	67.2	88.9	95.8	106.0

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	38.3	67.4	94.1	111.1	129.2
CEPS	55.1	83.2	109.7	128.5	148.8
BVPS	191.8	262.2	317.3	386.4	467.6
DPS	30.0	17.5	39.0	42.0	48.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	116.1	66.0	47.3	40.1	34.5
P/CEPS	80.8	53.5	40.6	34.6	29.9
P/BV	23.2	17.0	14.0	11.5	9.5
EV / Sales	9.3	8.9	6.7	5.3	4.5
EV / EBITDA	66.5	42.9	32.8	27.4	22.9
Dividend Yield (%)	0.7	0.4	0.9	0.9	1.1

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	(0.3)	(0.5)	(0.6)	(0.6)	(0.7)
Net Debt/EBIDTA	(0.7)	(1.4)	(1.4)	(1.5)	(1.7)
Working Cap Cycle (days)	35.5	32.8	31.5	31.5	30.3

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	10.6	2.6	32.2	23.5	17.3
EBITDA	2.4	52.0	29.4	18.2	17.5
EBIT	(9.6)	71.5	35.1	19.1	18.1
PAT	(16.3)	76.0	39.6	18.0	16.3

Quarterly (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue	19,260	20,237	21,093	22,917	25,862
EBITDA	3,784	4,679	4,626	4,645	5,307
EBITDA Margin (%)	**19.6**	**23.1**	**21.9**	**20.3**	**20.5**
PAT	2,537	3,265	3,173	3,434	3,989
EPS (Rs)	**15.4**	**19.8**	**19.3**	**20.8**	**24.2**

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	67.6	61.0	61.0	61.0	61.0
FIIs	12.0	13.3	13.9	13.7	15.0
DIIs	12.0	10.6	10.9	12.0	10.1
Public and Others	8.4	15.1	14.2	13.3	13.9

Source: Capitaline

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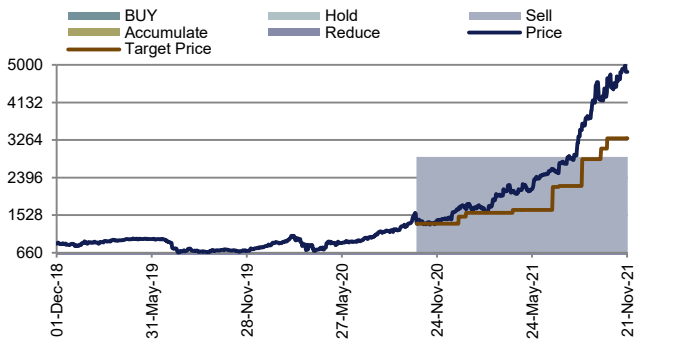
RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
14-Oct-21	4,691	3,300	12m	Sell	Dipeshkumar Mehta
02-Oct-21	4,185	3,070	12m	Sell	Dipeshkumar Mehta
27-Aug-21	3,643	2,825	12m	Sell	Dipeshkumar Mehta
14-Jul-21	2,703	2,200	12m	Sell	Dipeshkumar Mehta
02-Jul-21	2,583	2,180	12m	Sell	Dipeshkumar Mehta
27-Apr-21	2,055	1,650	12m	Sell	Dipeshkumar Mehta
17-Apr-21	2,070	1,650	12m	Sell	Dipeshkumar Mehta
05-Apr-21	2,088	1,580	12m	Sell	Dipeshkumar Mehta
18-Mar-21	1,970	1,580	12m	Sell	Dipeshkumar Mehta
18-Jan-21	1,664	1,580	12m	Sell	Dipeshkumar Mehta
04-Jan-21	1,689	1,490	12m	Sell	Dipeshkumar Mehta
18-Dec-20	1,476	1,330	12m	Sell	Dipeshkumar Mehta
04-Dec-20	1,438	1,330	12m	Sell	Dipeshkumar Mehta
16-Oct-20	1,329	1,330	12m	Sell	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



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Emkay Alpha Portfolio – Information Technology

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Sector

IT Services, ITeS and Software

Analyst bio

Dipesh is a seasoned Equities professional who has covered Technology sector for over 15 years. Dipesh has completed his B.E. in Information Technology from Sardar Patel University and MMS in Finance from Mumbai University.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Information Technology	**13.91**	**13.63**	**-2%**	**-28**	**100.00**
BirlaSoft	0.00	0.07	NA	7	0.54
Coforge	0.00	0.00	NA	0	0.00
Firstsource Solutions	0.00	0.03	NA	3	0.25
HCL Tech	1.21	1.30	7%	9	9.33
Infosys	6.29	6.43	2%	14	46.24
L&T Infotech	0.31	0.00	-100%	-31	0.00
Mindtree	0.27	0.00	-100%	-27	0.00
Mphasis	0.25	0.19	-23%	-6	1.40
Oracle Financial Services*	0.10	0.00	-100%	-10	0.00
Persistent Systems	0.00	0.34	NA	34	2.47
TCS	3.60	3.58	-1%	-2	25.71
Tech Mahindra	0.95	1.00	5%	4	7.16
Wipro	0.93	0.68	-27%	-25	4.87
Cash	**0.00**	**0.28**	**NA**	**28**	**2.03**

Source: Emkay Research

** Not under coverage: Equal Weight*

High Conviction/Strong Over Weight High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	27-Nov-20	28-May-21	27-Aug-21	27-Oct-21	26-Nov-21
EAP - Information Technology	100.0	145.7	185.1	227.1	229.1	222.8
BSE200 Neutral Weighted Portfolio (ETF)	100.0	138.5	172.8	212.8	214.8	208.5

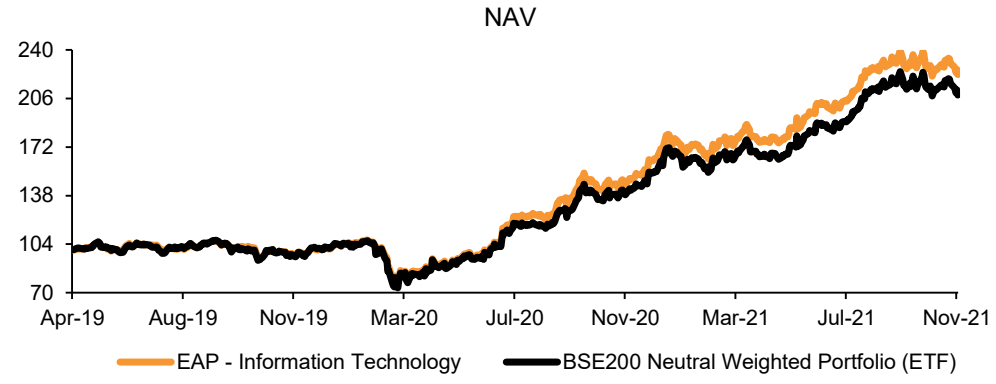
**Performance measurement base date 1st April 2019*
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Information Technology	-2.7%	-1.9%	20.4%	53.0%
BSE200 Neutral Weighted Portfolio (ETF)	-2.9%	-2.0%	20.7%	50.6%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): Nifty

Please see our model portfolio (Emkay Alpha Portfolio): SMID

"Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals"

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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