

BSE SENSEX

33,781

S&P CNX

9,973

**CMP: INR914 TP: INR1,080 (+18%)**

**Buy**

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**Stock Info**

Bloomberg	MTCL IN
Equity Shares (m)	165
M.Cap.(INRb)/(USD\$b)	150.3 / 2
52-Week Range (INR)	1062 / 653
1, 6, 12 Rel. Per (%)	-5/38/9
12M Avg Val (INR M)	870
Free float (%)	25.9

**Financials Snapshot (INR b)**

Y/E Mar	2020	2021E	2022E
Net Sales	77.6	81.1	94.5
EBIT	8.1	11.1	13.2
PAT	6.3	8.4	9.9
EPS (INR)	38.3	51.0	60.0
Gr. (%)	-16.4	33.0	17.7
BV/Sh (INR)	191.7	227.4	269.8

**Ratios**

RoE (%)	20.0	22.4	22.2
RoCE (%)	32.0	27.2	27.1
Payout (%)	33.9	25.5	25.0

**Valuations**

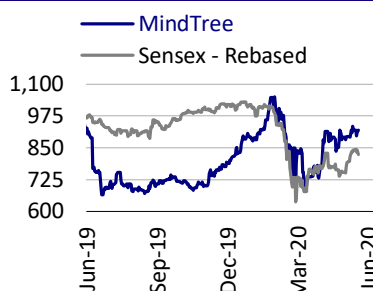
P/E (x)	23.8	17.9	15.2
P/BV (x)	4.8	4.0	3.4
EV/EBITDA (x)	13.2	10.0	8.1
Div Yield (%)	1.4	1.4	1.6

**Shareholding pattern (%)**

As On	Mar-20	Dec-19	Mar-19
Promoter	74.1	73.6	13.3
DII	5.8	6.2	11.5
FII	11.9	10.5	39.3
Others	8.3	9.7	35.9

FII Includes depository receipts

**Stock Performance (1-year)**



**Margin stability surprising!**

**Expect high single-digit revenue decline (USD, QoQ) in 1QFY21**

- Mindtree has informed the stock exchanges that it expects high single-digit revenue decline (USD, QoQ) in 1QFY21, driven by near-term headwinds in the Travel and Hospitality vertical (TTH, ~16% of sales). While the update is procedural best practice, we have factored in sequential decline of similar magnitude for 1QFY21.
- Mindtree has further highlighted that it is currently witnessing high demand in Communications, Media and Technology (CMT) and CPG verticals. The company expects sequential growth in 2QFY21 and top line recovery in 2HFY21. It foresees demand for Digital and Transformational services as clients invest in data, cloud-enabled solutions, customer centric and end-user experience businesses.

**Margins to remain stable**

- Despite near-term growth challenges, Mindtree expects margins to remain stable in 1QFY21 at 4QFY20 levels. Aggressive cost rationalization measures (viz. salary hike deferral, optimization in sub-contractor and discretionary expenses) seem to have driven this margin stability notwithstanding the expected revenue decline. Note that the company achieved EBITDA margin of 18.1% in 4QFY20 adjusted for (a) forex loss, and (b) one-off donation to PM-CARES fund.
- Conservatively, we were earlier building in ~300bp QoQ contraction in EBITDA margins for 1QFY21, to be followed by further ~170bp QoQ decline in 2QFY21. In that context, the margin defensibility communicated by Mindtree through this exchange update is surprising. Currently, it appears the peak of uncertainty would be behind by 1QFY21, thus, we expect limited likelihood of margin impact beyond the said period. We upgrade our EBIT margin/EPS estimates over FY21-22E by 70-180bp/5-13%.

**Valuation and view – Rich multiples justified!**

- Over the last one year (post the ownership change), Mindtree has undertaken encouraging steps in its journey to achieve stability on client/employee counts. The company’s operational resilience over the last three months reiterates its ability to adapt to a disruptive situation. Further, the company’s strategy refresh to increase focus on annuity revenue and tail-account rationalization are already showing signs of success.
- The stock is currently trading at 18x on depressed FY21E EPS. We value the stock at 18x FY22E EPS. Rich parentage and industry-leading growth/RoCE (~30%+ in steady state) should defend its premium multiple across the Tier II space. Potential insolvencies of some TTH companies, however, is a key risk and monitorable.

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**Exhibit 1: Revision to our estimates**

	Revised		Earlier		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
INR/USD	76.0	77.0	76.0	77.0	0.0%	0.0%
USD Revenue - m	1,067	1,227	1,089	1,231	-2.0%	-0.3%
Growth (%)	(2.0)	15.0	0.0	13.0	-200bps	200bps
EBIT margin(%)	13.7	14.0	11.8	13.3	180bps	70bps
PAT (INR M)	8,394	9,876	7,434	9,395	12.9%	5.1%
EPS	51.0	60.0	45.1	57.0	12.9%	5.1%

Source: MOFSL

## Financials and valuations

Income Statement								(INR M)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Sales</b>	<b>35,619</b>	<b>46,857</b>	<b>52,364</b>	<b>54,628</b>	<b>70,215</b>	<b>77,643</b>	<b>81,118</b>	<b>94,517</b>
Change (%)	17.5	31.6	11.8	4.3	28.5	10.6	4.5	16.5
Cost of Services	21,759	29,476	35,983	37,356	45,853	53,401	53,790	62,527
SG&A Expenses	7,786	10,594	11,058	11,582	15,358	16,098	16,224	18,779
<b>EBITDA</b>	<b>7,092</b>	<b>8,246</b>	<b>7,181</b>	<b>7,405</b>	<b>10,645</b>	<b>10,898</b>	<b>13,790</b>	<b>16,341</b>
% of Net Sales	19.9	17.6	13.7	13.6	15.2	14.0	17.0	17.3
Depreciation & Amortization	1,018	1,459	1,858	1,715	1,641	2,754	2,686	3,130
Interest	1	65	191	169	29	529	536	560
Other Income	835	821	417	1,528	893	673	775	695
<b>PBT</b>	<b>6,908</b>	<b>7,543</b>	<b>5,549</b>	<b>7,049</b>	<b>9,868</b>	<b>8,288</b>	<b>11,343</b>	<b>13,346</b>
Tax	1,545	1,740	1,363	1,722	2,327	1,979	2,949	3,470
Rate (%)	22.4	23.1	24.6	24.4	23.6	23.9	26.0	26.0
<b>PAT</b>	<b>5,363</b>	<b>5,803</b>	<b>4,186</b>	<b>5,327</b>	<b>7,541</b>	<b>6,309</b>	<b>8,394</b>	<b>9,876</b>
Change (%)	19.0	8.2	-27.9	36.2	32.3	-16.3	33.0	17.7

Balance Sheet								(INR M)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	837	1,678	1,680	1,639	1,642	1,646	1,646	1,646
Reserves	19,291	22,471	24,091	25,775	31,419	29,922	35,811	42,796
<b>Net Worth</b>	<b>20,128</b>	<b>24,149</b>	<b>25,771</b>	<b>27,414</b>	<b>33,061</b>	<b>31,568</b>	<b>37,457</b>	<b>44,442</b>
Loan	362	856	314	94	178	6,762	6,762	6,762
<b>Capital Employed</b>	<b>20,490</b>	<b>25,005</b>	<b>26,085</b>	<b>27,508</b>	<b>33,239</b>	<b>38,330</b>	<b>44,219</b>	<b>51,204</b>
Gross Block	9,881	10,769	18,414	19,377	21,324	28,340	25,812	28,647
Less : Depreciation	5,248	6,144	8,002	9,717	11,358	14,112	16,798	19,928
<b>Net Block</b>	<b>4,633</b>	<b>11,620</b>	<b>10,412</b>	<b>9,660</b>	<b>9,966</b>	<b>14,228</b>	<b>9,013</b>	<b>8,719</b>
Other LT Assets	2,114	2,643	2,884	2,674	4,152	4,789	9,067	9,067
<b>Curr. Assets</b>	<b>18,526</b>	<b>20,104</b>	<b>20,610</b>	<b>25,031</b>	<b>27,672</b>	<b>32,549</b>	<b>36,814</b>	<b>45,695</b>
Debtors	7,945	11,558	8,962	10,155	13,356	14,389	13,324	15,323
Cash & Bank Balance	9,106	4,598	8,377	10,495	9,398	12,814	18,237	24,251
Other Current Assets	1,475	3,948	3,271	4,381	4,918	5,346	5,253	6,121
<b>Current Liab. &amp; Prov</b>	<b>6,059</b>	<b>7,764</b>	<b>7,821</b>	<b>9,857</b>	<b>8,550</b>	<b>13,236</b>	<b>10,675</b>	<b>12,277</b>
<b>Net Current Assets</b>	<b>12,467</b>	<b>12,340</b>	<b>12,789</b>	<b>15,174</b>	<b>19,122</b>	<b>19,313</b>	<b>26,138</b>	<b>33,418</b>
<b>Application of Funds</b>	<b>20,490</b>	<b>25,005</b>	<b>26,085</b>	<b>27,508</b>	<b>33,239</b>	<b>38,330</b>	<b>44,219</b>	<b>51,204</b>

## Financials and valuations

### Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>31.9</b>	<b>34.5</b>	<b>24.9</b>	<b>34.3</b>	<b>45.8</b>	<b>38.3</b>	<b>51.0</b>	<b>60.0</b>
Cash EPS	38.0	43.2	35.9	42.8	55.8	55.0	67.3	79.0
Book Value	119.8	143.6	153.0	166.7	200.8	191.7	227.4	269.8
DPS	17.0	16.0	13.0	8.0	33.0	13.0	13.0	15.0
Payout %	53.2	46.3	52.2	23.3	72.0	33.9	25.5	25.0
<b>Valuation (x)</b>								
P/E	28.5	26.4	36.6	26.6	19.9	23.8	17.9	15.2
Cash P/E	24.0	21.1	25.4	21.3	16.3	16.6	13.5	11.5
EV/EBITDA	20.3	18.1	20.2	18.8	13.2	13.2	10.0	8.1
EV/Sales	4.1	3.2	2.8	2.6	2.0	1.9	1.7	1.4
Price/Book Value	7.6	6.3	6.0	5.5	4.5	4.8	4.0	3.4
Dividend Yield (%)	1.9	1.8	1.4	0.9	3.6	1.4	1.4	1.6
<b>Profitability Ratios (%)</b>								
RoE	29.4	26.2	16.8	21.4	22.8	20.0	22.4	22.2
RoCE	33.4	35.1	31.5	32.7	35.3	32.0	27.2	27.1
RoIC	43.7	30.9	19.8	22.9	28.0	24.2	31.4	36.1
<b>Turnover Ratios</b>								
Debtors (Days)	81	90	62	68	69	68	60	59
Fixed Asset Turnover (x)	7.7	4.0	5.0	5.7	7.0	5.5	9.0	10.8

### Cash Flow Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
CF from Operations	5,955	6,742	5,287	6,476	8,569	9,792	11,080	13,006
Cash for Working Capital	28	-2,243	1,217	-833	-2,213	-1,541	-1,403	-1,265
<b>Net Operating CF</b>	<b>5,983</b>	<b>4,499</b>	<b>6,504</b>	<b>5,643</b>	<b>6,356</b>	<b>8,251</b>	<b>9,677</b>	<b>11,741</b>
Net Purchase of FA	-1,987	-1,315	-846	-1,011	-1,708	-1,220	2,528	-2,836
<b>Free Cash Flow</b>	<b>3,996</b>	<b>3,184</b>	<b>5,658</b>	<b>4,632</b>	<b>4,648</b>	<b>7,031</b>	<b>12,206</b>	<b>8,905</b>
Net Purchase of Invest.	-111	-3,039	-3,687	-989	-225	991	-4,278	0
<b>Net Cash from Invest.</b>	<b>-2,098</b>	<b>-4,354</b>	<b>-4,533</b>	<b>-2,000</b>	<b>-1,933</b>	<b>-229</b>	<b>-1,750</b>	<b>-2,836</b>
Proc. from equity issues	67	24	8	1	3	4	0	0
Proceeds from LTB/STB	-5	407	550	1,906	-3,044	-1,024	0	0
Dividend Payments	-1,438	-2,151	-1,934	-4,782	-2,180	-5,940	-2,505	-2,890
<b>Cash Flow from Fin.</b>	<b>-1,376</b>	<b>-1,720</b>	<b>-1,376</b>	<b>-2,875</b>	<b>-5,221</b>	<b>-6,960</b>	<b>-2,505</b>	<b>-2,890</b>
Exchange difference	70	92	-55	-2	133	288	0	259
<b>Net Cash Flow</b>	<b>2,579</b>	<b>-1,483</b>	<b>540</b>	<b>766</b>	<b>-665</b>	<b>1,350</b>	<b>5,423</b>	<b>6,274</b>
<b>Opening Cash Bal.</b>	<b>6,344</b>	<b>9,106</b>	<b>4,598</b>	<b>8,377</b>	<b>10,495</b>	<b>9,398</b>	<b>12,814</b>	<b>18,237</b>
Add: Net Cash	2,579	-1,483	540	766	-665	1,350	5,423	6,274
<b>Closing Cash Bal.</b>	<b>9,106</b>	<b>4,598</b>	<b>8,377</b>	<b>10,495</b>	<b>9,398</b>	<b>12,814</b>	<b>18,237</b>	<b>24,251</b>

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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