

**RESEARCH**
**Mindtree | Target: Rs 5,610 | +42% | BUY**

In-line quarter; robust TCV a key positive

**SUMMARY**
**Mindtree**

- Q4 revenue growth at 4.8% QoQ USD was largely in line with our estimate, driven by travel and BFSI verticals; manufacturing and retail slowed
- EBIT margin at 18.9% dipped 30bps QoQ but came in slightly above our forecast of 18.7%. TCV held strong at US\$ 390mn, up 9% QoQ
- We maintain earnings estimates and retain our TP at Rs 5,610; reiterate BUY

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**Daily macro indicators**

Indicator	14-Apr	15-Apr	Chg (%)
US 10Y yield (%)	2.70	2.83	13bps
India 10Y yield (%)	7.19	7.22	2bps
USD/INR	76.14	76.18	(0.1)
Brent Crude (US\$/bbl)	108.8	111.7	2.7
Dow	34,565	34,451	(0.3)
Hang Seng	21,374	21,518	0.7
Sensex	58,576	58,339	(0.4)
India FII (US\$ mn)	11-Apr	12-Apr	Chg (\$ mn)
FII-D	(41.5)	(7.2)	34.3
FII-E	(192.7)	(349.4)	(156.8)

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

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**BUY**

TP: Rs 5,610 | ▲ 42%

**MINDTREE**

| Technology &amp; Internet

| 18 April 2022

**In-line quarter; robust TCV a key positive**

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**In-line growth:** MTCL's Q4FY22 revenue grew 4.8% QoQ USD, largely in line with our estimate of 4.7%, in a seasonally weak quarter consisting of furloughs. Growth was broad-based across verticals, with travel/CMT/BFSI up 9.3%/5.2%/8.9% QoQ USD. Retail contracted 2.6% due to a ramp-down in one account. Travel revenue crossed pre-pandemic levels. New vertical HLS (healthcare & life science) surpassed an annual revenue run-rate of ~US\$ 17mn. Service lines posted 4-5% QoQ growth each. Digital demand was also secular and broad-based, led by digital core transformation and hyper-personalisation.

**Consistent margin beat:** EBITDA margin at 21% dipped 50bps QoQ. EBIT margin also declined 30bps QoQ to 18.9% but was slightly ahead of our 18.7% estimate. Margins were soft due to higher employee costs while SG&A cost remained flat as a percentage of revenue. Gross margin decreased 55bps QoQ. Pyramid correction using fresher hiring is a strong lever being used by MTCL to cushion margins. Management appears confident of achieving a 20%+ EBITDA margin going ahead as well. Sustained margin gains bode well for MTCL in a tight supply environment.

**Attrition up, subcontracting expense stabilising:** MTCL hired over 3,000 employees in Q4. Attrition stood at 23.8%, up 190bps QoQ and 1170bps YoY, which management expects will normalise in the next few quarters. To tackle this churn, MTCL is focused on reskilling the workforce and hiring freshers from diverse academic backgrounds. Subcontractor cost as a percentage of revenue declined 30bps QoQ to 9.5% in Q4.

**Strong TCV, maintain BUY:** Deal momentum continued with TCV at US\$ 390mn, up 8.9% QoQ and 4% YoY. FY22 TCV stood at US\$ 1.6bn. The company had key wins in managed services, travel, healthcare, hi-tech and BFSI. Management's outlook on demand environment is positive as clients are displaying renewed urgency to shift from legacy to cloud. The company indicated that its FY23 focus will be to drive full-stack engagement, shift from run IT to product-centric models, and to form deeper relationships with hyperscalers. We keep MTCL's target P/E at 46x and roll over to Jun'24 valuations – our TP remains unchanged at Rs 5,610. BUY.

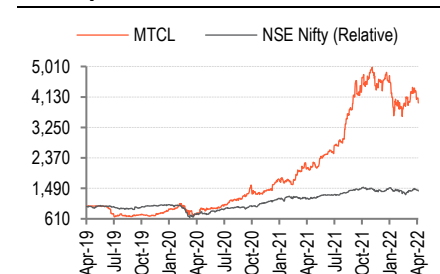
Ticker/Price	MTCL IN/Rs 3,958
Market cap	US\$ 8.6bn
Free float	87%
3M ADV	US\$ 38.7mn
52wk high/low	Rs 5,060/Rs 1,998
Promoter/FPI/DII	74%/11%/15%

Source: NSE | Price as of 18 Apr 2022

**Key financials**

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	79,678	105,253	125,496
EBITDA (Rs mn)	16,426	21,956	25,415
Adj. net profit (Rs mn)	11,103	16,528	17,373
Adj. EPS (Rs)	67.4	100.4	105.5
Consensus EPS (Rs)	67.4	85.6	99.0
Adj. ROAE (%)	29.7	33.8	29.0
Adj. P/E (x)	58.7	39.4	37.5
EV/EBITDA (x)	39.4	29.4	25.3
Adj. EPS growth (%)	76.0	48.9	5.1

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE

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**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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