

BUY

TP: Rs 5,610 | ▲ 42%

MINDTREE

| Technology & Internet

| 18 April 2022

In-line quarter; robust TCV a key positive

- 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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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.

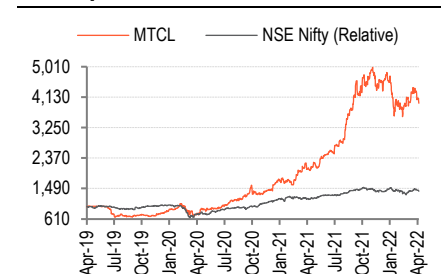
Ticker/Price	MTCL IN/Rs 3,958
Market cap	US\$ 8.6bn
Free float	87%
3M ADV	US\$ 38.7mn
52wk high/low	Rs 5,060/Rs 1,998
Promoter/FPI/DII	74%/11%/15%

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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Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	77,643	79,678	105,253	125,496	142,834
EBITDA	10,623	16,426	21,956	25,415	30,371
Depreciation	2,754	2,596	2,420	2,577	2,621
EBIT	7,869	13,830	19,536	22,838	27,750
Net interest inc./(exp.)	(529)	(504)	(502)	(600)	(640)
Other inc./(exp.)	948	1,656	3,072	1,561	1,879
Exceptional items	0	0	0	0	0
EBT	8,288	14,982	22,106	23,799	28,989
Income taxes	1,979	3,879	5,578	6,426	7,827
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	6,309	11,103	16,528	17,373	21,162
Adjustments	0	0	0	0	0
Adjusted net profit	6,309	11,103	16,528	17,373	21,162

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	0	0	0	0	0
Other current liabilities	17,690	17,914	22,516	27,506	31,306
Provisions	2,304	2,510	4,318	2,751	3,131
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	1,642	1,647	1,648	1,648	1,648
Reserves & surplus	29,926	41,547	53,091	63,564	75,813
Shareholders' fund	31,568	43,194	54,739	65,212	77,461
Total liab. and equities	51,562	63,618	81,573	95,469	111,897
Cash and cash eq.	5,870	7,597	10,513	16,460	30,284
Accounts receivables	14,389	12,742	17,313	24,068	27,393
Inventories	0	0	0	0	0
Other current assets	5,107	4,910	4,655	8,596	9,783
Investments	7,748	20,468	25,507	25,507	25,507
Net fixed assets	13,469	13,993	13,894	11,817	9,197
CWIP	136	224	215	215	215
Intangible assets	4,732	4,732	4,732	4,732	4,732
Deferred tax assets, net	1,835	355	3,864	3,864	3,864
Other assets	3,148	3,553	5,827	5,157	5,870
Total assets	51,566	63,618	81,573	95,469	111,897

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	7,754	5,557	13,376	12,386	21,499
Capital expenditures	(1,496)	(305)	(1,972)	(500)	0
Change in investments	0	0	(4,085)	0	0
Other investing cash flows	419	1,152	612	961	1,239
Cash flow from investing	(1,077)	847	(5,445)	461	1,239
Equities issued/Others	0	0	1	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	(502)	0	0
Dividends paid	(3,369)	(4,677)	(4,528)	(6,900)	(8,914)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(3,369)	(4,677)	(5,029)	(6,900)	(8,914)
Chg in cash & cash eq.	3,308	1,727	2,902	5,947	13,824
Closing cash & cash eq.	5,870	7,598	10,513	16,460	30,284

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	38.3	67.4	100.4	105.5	128.5
Adjusted EPS	38.3	67.4	100.4	105.5	128.5
Dividend per share	17.0	23.6	35.1	34.8	45.0
Book value per share	191.7	262.3	332.5	396.1	470.5

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	8.4	8.1	6.1	5.1	4.5
EV/EBITDA	61.2	39.4	29.4	25.3	21.0
Adjusted P/E	103.3	58.7	39.4	37.5	30.8
P/BV	20.6	15.1	11.9	10.0	8.4

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	76.1	74.1	74.8	73.0	73.0
Interest burden (PBT/EBIT)	105.3	108.3	113.2	104.2	104.5
EBIT margin (EBIT/Revenue)	10.1	17.4	18.6	18.2	19.4
Asset turnover (Rev./Avg TA)	166.3	138.3	145.0	141.8	137.8
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.5	1.5	1.5
Adjusted ROAE	19.5	29.7	33.8	29.0	29.7

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	10.6	2.6	32.1	19.2	13.8
EBITDA	(0.2)	54.6	33.7	15.8	19.5
Adjusted EPS	(16.3)	76.0	48.9	5.1	21.8
Profitability & Return ratios (%)					
EBITDA margin	13.7	20.6	20.9	20.3	21.3
EBIT margin	10.1	17.4	18.6	18.2	19.4
Adjusted profit margin	8.1	13.9	15.7	13.8	14.8
Adjusted ROAE	19.5	29.7	33.8	29.0	29.7
ROCE	27.9	45.0	48.8	49.0	57.7
Working capital days (days)					
Receivables	65	62	52	60	66
Inventory	0	0	0	0	0
Payables	68	103	89	91	95
Ratios (x)					
Gross asset turnover	6.6	5.8	7.5	9.8	13.6
Current ratio	1.4	1.4	1.6	1.9	2.2
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

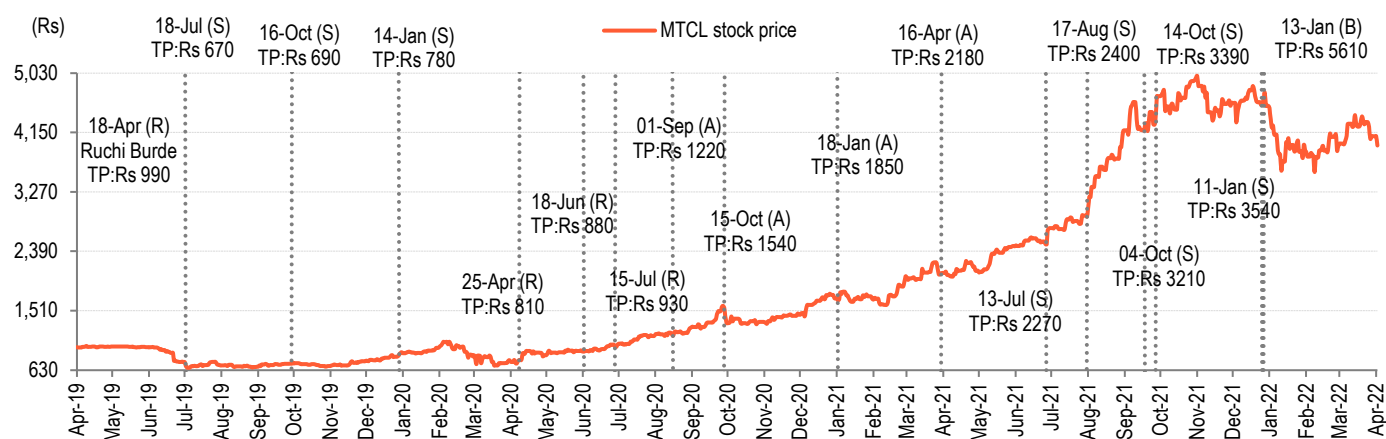
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): MINDTREE (MTCL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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