

Mindtree (MTCL IN)

Rating: BUY | CMP: Rs2,094 | TP: Rs2,567

May 21, 2021

Event Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	2,567		2,567	
Sales (Rs. m)	94,744	1,08,560	94,744	1,08,560
% Chng.	-	-	-	-
EBITDA (Rs. m)	20,120	23,604	20,120	23,604
% Chng.	-	-	-	-
EPS (Rs.)	86.1	107.0	86.1	107.0
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs.m)	77,643	79,678	94,744	1,08,560
EBITDA (Rs. m)	10,623	16,428	20,120	23,604
Margin (%)	13.7	20.6	21.2	21.7
PAT (Rs. m)	6,309	11,083	14,181	17,621
EPS (Rs.)	38.3	67.3	86.1	107.0
Gr. (%)	(16.5)	75.6	27.8	24.3
DPS (Rs.)	10.0	25.0	25.0	25.0
Yield (%)	0.5	1.2	1.2	1.2
RoE (%)	19.5	29.7	29.6	29.8
RoCE (%)	24.1	36.2	36.9	34.8
EV/Sales (x)	4.3	4.0	3.3	2.8
EV/EBITDA (x)	31.3	19.4	15.7	12.9
PE (x)	54.6	31.1	24.3	19.6
P/BV (x)	10.9	8.0	6.6	5.3

Key Data

MINT.BO | MTCL IN

52-W High / Low	Rs.2,301 / Rs.858
Sensex / Nifty	49,565 / 14,906
Market Cap	Rs.346bn / \$ 4,727m
Shares Outstanding	165m
3M Avg. Daily Value	Rs.5002.29m

Shareholding Pattern (%)

Promoter's	61.03
Foreign	13.92
Domestic Institution	10.86
Public & Others	14.19
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.7	54.6	132.0
Relative	(1.1)	36.8	44.2

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Mindtree makes industrial IOT play with acquisition

Quick Pointers:

- The acquisition aligns with their strategy of building unique end to end capabilities to gain edge over peers.
- MTCL is the only midcap player to foray in to futuristic growth area of Industrial IoT.

MTCL announced that it will be acquiring the NxT Digital Business, the cloud based IoT and AI platform for Industry 4.0 of L&T Group. This acquisition aligns well with MTCL's strategy of building deep domain expertise to deliver differentiated customer experience, positioning them as one of the leading partners for leveraging data and analytics to drive insights and deliver transformational services to their clients. Acquisition will enable MTCL to cater to emerging growth areas such as Industry 4.0, smart supply chain processes, end-to-end contactless experience across travel, logistics, healthcare and manufacturing industries. Current revenue size of NxT Digital is small at INR 375.9 mn in FY21, 0.5% of MTCL's revenue and the acquisition is not EPS accretive. NxT Digital's deep domain expertise in Industrial IoT combined with MTCL's scale and ability to cross-sell and up-sell across industries is expected to unlock huge growth potential.

This acquisition is in right direction as IoT and AI led Industry 4.0 is an emerging growth area. This is also reflected by Accenture's three recent acquisitions (Exhibit 3) in Industrial IoT space – 1) Salt Solutions 2) Pollux and 3) Electro 80. We believe that the acquisition is happening at right valuation of 5.2X EV/Sales (total consideration of INR 1,980 mn) given i) huge future growth potential and ii) as per our channel checks Accenture's acquisitions (Salt Solutions, Pollux, Electro 80) in this space also happened at similar valuations.

We continue to remain confident on Mindtree because of 1) Broad based growth across client buckets and across verticals, 2) Focus on building deep domain expertise in future growth areas and 3) Focus on improving operational performance. We continue to value MTCL on 24X (20% discount to LTI) multiple for FY23 earnings of INR 107 to arrive at a TP of INR 2567. MTCL is currently trading at 24.3/19.6X earnings of INR 86.1/ 107 for FY22/23 respectively with EPS CAGR of 26% for FY21-23E.

- **MTCL to acquire NxT Digital Business of L&T:** MTCL announced that it has signed an agreement to acquire the NxT Digital Business, the cloud based IoT and AI platform for Industry 4.0 of L&T Group. MTCL will be acquiring the IoT platform and allied ecosystem except hardware assets of NxT Business. Post-acquisition NxT Digital will be run as new service line by their highly experienced leadership team (Exhibit 1) in collaboration with MTCL's leadership to cross-sell and upsell across existing and new clients.

MTCL being the only midcap company which is building deep capabilities in the IoT & AI led Industry 4.0 space gives MTCL an edge over peers.

Mindtree will leverage NxT Digital Business' capabilities across several industry segments in

integrating sensors and telemetry data with its advanced data analytics and insights leadership to drive

digitization across the manufacturing and engineering value chain, deliver tangible operational efficiencies

and a differentiated customer experience.

- **MTCL to unlock vast potential of IoT and AI led Industry 4.0:** NxT Digital IoT platform will enable MTCL to serve emerging growth areas such as IoT and AI led Industry 4.0, smart supply chain processes, end-to-end contact less experience across travel, logistics, healthcare and manufacturing industries. MTCL will leverage NxT Digital's capabilities to drive digitization across industries and entire engineering value chain through solutions such as smart assets, smart workers, smart materials & logistics and green tech solutions.
- **Acquisition positions MTCL as one of the leading player in IoT:** MTCL has rightly identified Industry 4.0 and end-to-end contactless ecosystem experience as an area with tremendous potential. This is also underscored by Accenture's recent acquisitions (Exhibit 3) in Industrial IoT domain – 1) Salt Solutions acquisition to help ACN build cloud based IoT, 2) Pollux, provider of Industrial Robotics and Automation solutions and 3) Electro 80's operational technology capabilities will strengthen ACN's Industry X capabilities.
- **Acquisition at reasonable valuation considering future potential:** The total consideration of acquisition is INR 1,980 mn, i.e. at EV/Sales of ~5.26X (Revenue in FY21: INR 375.9 mn). We believe that the acquisition is happening at reasonable valuation given huge future growth potential and similar valuations of recent acquisitions in this space. As per our channel checks, ACN's recent acquisitions in Industrial IoT space also happened at similar valuations.
- Acquisition will be completed subject to completion of customary conditions precedent on or before July 31, 2021. Entire consideration will be paid in cash.
- **Decision to acquire NxT Digital vs partner with L&T Group:** MTCL decided to acquire NxT Digital over partnering with L&T Group because they want to become domain expert and also have full control in leveraging the business to cross-sell and up-sell to their clients according to their strategy.
- **About NxT Digital Business (<https://www.intnxt.com/>):** The NxT Digital Business, was founded in 2019 as a startup with broad digital capabilities within L&T. It has played an instrumental role in extensive applications of IoT technology and digitalization of L&T's operations where numerous assets were connected and factories were digitalized to make the company's operations data driven for objective decision making. NxT Digital Business leverages the Group's deep industry domain expertise with emerging technologies like industrial IoT, artificial intelligence, machine learning and augmented and virtual reality, geospatial and cybersecurity applications. NxT Digital reported revenue of INR 375.9 mn in FY21 and INR 497.3 mn in FY20.

Exhibit 1: Key Management Personnel of L&T's NxT Digital Business

Leadership	Position	Experience
Deepak Parameswaran	Chief Business Officer	Deepak is spearheading L&T-NxT's thought leadership and development of its market-leading suite of Industry 4.0 Products & Platforms including IoT, AR/VR, Worker's Safety and a comprehensive Analytics/Insights platform aided by cutting edge Geospatial capabilities. Prior to L&T-NxT, Deepak spent 15 years at Cognizant in various leadership roles.
Alok Srivastava	Head- Global Sales & Marketing	He has over 25 years of professional experience working for global management consulting and technology firms. Prior to his current role at L&T-NxT, he has served in senior leadership positions at Accenture as Managing Director of Communications, Media & Technology, Cisco as Managing Director of IoT for Southeast Asia, Reliance as President of IT & Innovation etc.
Aan S Chauhan	Chief Technology Officer	He is a seasoned executive and technology leader with over 26 years of experience spanning across Banking & Financial Services, Insurance, Manufacturing, Healthcare, eCommerce, Retail and Technology sectors.
Mahesh Mahajan	Chief Operating Officer	He leads the product development of digital solutions in the space of Data, Analytics, AR / VR, Geospatial and IoT. He has domain expertise in Industrial Automation, Manufacturing & Avionics and spent six years in Germany at Airbus developing A380 and A340 aircraft systems.
Bikram K Nayak	Head- Human Resources	He has over 24 years of experience in HR and Talent Management, all of which has been with the L&T Group. He has been involved in making L&T-NxT a pioneering digital initiative within the L&T Group, playing a crucial role in guiding its journey since inception.
Diptarup Chakraborti	Head – Marketing	Over 21 years of global experience in marketing. Prior to L&T-NxT, Diptarup has worked in large IT multinationals like IBM and Capgemini where he was responsible for leading marketing functions for various products. Diptarup also has experience in heading global marketing for SaaS unicorns like Icertis, Majesco and Zycus.
Sudip Kumar Kar	Head- Finance	Sudip is a senior finance leader with over 20 years of professional experience. He brings over a decade of experience in the real estate and construction business with large organizations such as DLF and the Buildings & Factories business of the ECC division of Larsen & Toubro (L&T).

Source: Company, PL

Exhibit 2: Vertical and Service capabilities

	Mindtree	NxT Business
Vertical presence	Retail, CPG, Manufacturing (22% of revenues) BFSI (18.5% of revenues) Travel (10% of revenues) HiTech & Media (49.5% of revenues)	Manufacturing Transport and Logistics Energy & Utilities Energy & construction
Service line Capabilities	Customer success Data & Intelligence Cloud Enterprise IT	Platform - L&T NxT Insight Platform Product – Asset Insight Product – Smart worker Product - Alchemy Product – Geospatial suite

Source: Company, PL

Exhibit 3: Accenture's IoT acquisitions

Company	Domain	Date of acquisition
Salt Solutions	Acquisition will help Accenture build cloud-based industrial internet of things (IoT) platforms	Sept 2020
Pollux	Provider of industrial robotics and automation solutions	March 2021
Electro 80	A leading provider of operational technology (OT), will strengthen Accenture's Industry X	May 2021

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	77,643	79,678	94,744	1,08,560
YoY gr. (%)	10.6	2.6	18.9	14.6
Employee Cost	50,647	51,132	59,464	67,586
Gross Profit	26,996	28,546	35,279	40,974
Margin (%)	34.8	35.8	37.2	37.7
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	10,623	16,428	20,120	23,604
YoY gr. (%)	(0.2)	54.6	22.5	17.3
Margin (%)	13.7	20.6	21.2	21.7
Depreciation and Amortization	2,754	2,596	2,119	2,774
EBIT	7,869	13,832	18,001	20,830
Margin (%)	10.1	17.4	19.0	19.2
Net Interest	529	504	400	400
Other Income	948	1,656	1,926	2,833
Profit Before Tax	8,288	14,984	19,527	23,263
Margin (%)	10.7	18.8	20.6	21.4
Total Tax	1,979	3,901	5,346	5,641
Effective tax rate (%)	23.9	26.0	27.4	24.3
Profit after tax	6,309	11,083	14,181	17,621
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,309	11,083	14,181	17,621
YoY gr. (%)	(16.3)	75.7	28.0	24.3
Margin (%)	8.1	13.9	15.0	16.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,309	11,083	14,181	17,621
YoY gr. (%)	(16.3)	75.7	28.0	24.3
Margin (%)	8.1	13.9	15.0	16.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,309	11,083	14,181	17,621
Equity Shares O/s (m)	165	165	165	165
EPS (Rs)	38.3	67.3	86.1	107.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	19,398	26,494	26,894	30,589
Tangibles	19,398	26,494	26,894	30,589
Intangibles	-	-	-	-
Acc: Dep / Amortization	15,862	18,458	20,577	23,352
Tangibles	15,862	18,458	20,577	23,352
Intangibles	-	-	-	-
Net fixed assets	3,536	8,036	6,316	7,237
Tangibles	3,536	8,036	6,316	7,237
Intangibles	-	-	-	-
Capital Work In Progress	-	-	-	-
Goodwill	5,491	4,946	4,946	4,946
Non-Current Investments	804	1,161	1,161	1,161
Net Deferred tax assets	1,835	351	351	351
Other Non-Current Assets	7,351	3,366	4,122	4,301
Current Assets				
Investments	6,944	19,307	19,307	19,307
Inventories	-	-	-	-
Trade receivables	14,389	12,742	16,093	18,440
Cash & Bank Balance	5,870	7,597	11,489	21,200
Other Current Assets	5,247	6,094	6,158	7,056
Total Assets	51,566	63,614	69,962	84,022
Equity				
Equity Share Capital	1,646	1,647	1,647	1,647
Other Equity	29,922	41,543	50,960	63,818
Total Network	31,568	43,190	52,607	65,465
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	6,762	4,498	4,498	4,498
Current Liabilities				
ST Debt / Current of LT Debt	699	885	885	885
Trade payables	2,587	2,676	2,676	2,676
Other current liabilities	9,950	12,365	9,296	10,498
Total Equity & Liabilities	51,566	63,614	69,962	84,022

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	8,288	14,984	19,527	23,263
Add. Depreciation	2,754	2,596	2,119	2,774
Add. Interest	529	504	400	400
Less Financial Other Income	948	1,656	1,926	2,833
Add. Other	-	-	-	-
Op. profit before WC changes	11,571	18,084	22,046	26,437
Net Changes-WC	4,328	5,110	(7,246)	(2,226)
Direct tax	(1,979)	(3,901)	(5,346)	(5,641)
Net cash from Op. activities	13,920	19,293	9,455	18,570
Capital expenditures	(1,815)	(6,551)	(400)	(3,695)
Interest / Dividend Income	-	-	-	-
Others	288	(12,720)	-	-
Net Cash from Inv. activities	(1,527)	(19,271)	(400)	(3,695)
Issue of share cap. / premium	4	1	-	-
Debt changes	694	186	-	-
Dividend paid	(1,975)	(4,762)	(4,764)	(4,764)
Interest paid	(529)	(504)	(400)	(400)
Others	(7,279)	6,784	-	-
Net cash from Fin. activities	(9,085)	1,705	(5,164)	(5,164)
Net change in cash	3,308	1,727	3,892	9,711
Free Cash Flow	12,105	12,742	9,055	14,875

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Net Revenue	19,088	19,260	20,237	21,093
YoY gr. (%)	4.1	0.6	3.0	2.9
Raw Material Expenses	12,776	12,623	12,610	13,123
Gross Profit	6,312	6,637	7,627	7,970
Margin (%)	33.1	34.5	37.7	37.8
EBITDA	3,220	3,903	4,679	4,626
YoY gr. (%)	74.9	57.3	52.8	42.9
Margin (%)	16.9	20.3	23.1	21.9
Depreciation / Depletion	597	569	717	713
EBIT	2,623	3,334	3,962	3,913
Margin (%)	13.7	17.3	19.6	18.6
Net Interest	131	132	127	114
Other Income	406	245	616	389
Profit before Tax	2,898	3,447	4,451	4,188
Margin (%)	15.2	17.9	22.0	19.9
Total Tax	686	1,014	1,186	1,015
Effective tax rate (%)	23.7	29.4	26.6	24.2
Profit after Tax	2,212	2,433	3,265	3,173
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,212	2,433	3,265	3,173
YoY gr. (%)	138.6	80.2	65.7	53.9
Margin (%)	11.6	12.6	16.1	15.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,212	2,433	3,265	3,173
YoY gr. (%)	138.6	80.2	65.7	53.9
Margin (%)	11.6	12.6	16.1	15.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,212	2,433	3,265	3,173
Avg. Shares O/s (m)	165	165	165	165
EPS (Rs)	13.4	14.8	19.8	19.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	38.3	67.3	86.1	107.0
CEPS	55.1	83.1	98.9	123.8
BVPS	191.9	262.4	319.3	397.4
FCF	73.6	77.4	55.0	90.3
DPS	10.0	25.0	25.0	25.0
Return Ratio(%)				
RoCE	24.1	36.2	36.9	34.8
ROIC	25.6	32.8	30.3	29.4
RoE	19.5	29.7	29.6	29.8
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.6)	(0.6)	(0.6)
Debtor (Days)	68	58	62	62
Valuation(x)				
PER	54.6	31.1	24.3	19.6
P/B	10.9	8.0	6.6	5.3
P/CEPS	55.7	84.1	100.1	125.3
EV/EBITDA	31.3	19.4	15.7	12.9
EV/Sales	4.3	4.0	3.3	2.8
Dividend Yield (%)	0.5	1.2	1.2	1.2

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	19-Apr-21	BUY	2,567	2,070
2	05-Apr-21	BUY	2,326	2,068
3	17-Mar-21	BUY	2,170	2,021
4	19-Jan-21	BUY	1,940	1,664
5	04-Jan-21	BUY	1,792	1,659
6	04-Dec-20	BUY	1,625	1,441
7	16-Oct-20	BUY	1,625	1,438
8	05-Oct-20	BUY	1,560	1,336
9	01-Oct-20	BUY	1,560	1,339
10	15-Jul-20	Reduce	888	978

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	3,762	3,396
2	Cyient	BUY	825	689
3	HCL Technologies	BUY	1,010	956
4	Infosys	BUY	1,632	1,397
5	L&T Technology Services	BUY	3,006	2,797
6	Larsen & Toubro Infotech	BUY	4,415	3,915
7	Mindtree	BUY	2,567	2,070
8	Mphasis	BUY	1,935	1,789
9	Persistent Systems	BUY	2,344	2,038
10	Redington (India)	BUY	189	184
11	Sonata Software	BUY	674	586
12	Tata Consultancy Services	BUY	3,636	3,247
13	TeamLease Services	BUY	4,002	3,774
14	Tech Mahindra	BUY	1,132	962
15	Wipro	BUY	500	431
16	Zensar Technologies	BUY	290	276

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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