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Q1FY22 result review and earnings revision

Technology

Target price: Rs2,375

Earnings revision

(%)	FY22E	FY23E	FY24E
Sales	↑ 5.2	↑ 5.6	↑ 5.6
EBIT	↑ 4.9	↑ 5.4	↑ 5.4
EPS	↑ 8.9	↑ 4.9	↑ 4.9

Target price revision

Rs2,375 from Rs2,173

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	67.6	61.0	61.0
Institutional investors	24.0	23.9	24.8
MFs and others	8.7	7.5	7.6
Banks / FIs	0.3	0.3	0.3
Insurance	2.8	2.7	2.8
FIs	12.2	13.4	14.1
Others	8.4	15.1	14.2

Source: www.nseindia.com

Price chart



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INDIA

Mindtree

HOLD

Maintained

Rs2,496

Weaker quality revenue growth

Revenue growth in Q1FY22 was largely in-line with our estimates. However, the quality of growth was weaker than usual. The Rs1.82bn incremental revenue (QoQ) in Jun-21 was accompanied by Rs1.45bn rise in receivables. This was despite a drop in revenue share from fixed price projects (71% to 68%). The normalisation impact of this in subsequent quarters needs to be seen. Lower D&A run-rate (by 90bps) led to 60bps beat on our EBIT margin expectations. Management reiterated the outlook of industry leading double-digit growth for FY22. We factor in sales growth of 20% YoY (CC) in FY22 partly aided by low base effect of FY21 (or 9.5% CAGR over FY20-22E). Investor focus will likely shift to steady state growth / margins in FY23 and ahead. (1) Expected moderation in cloud activity, (2) rise in share of onsite effort and (3) reversal of covid-led cost savings (e.g. travel) are the key headwinds to watch out. At 28x FY23E EPS, street is already factoring in mid-teens revenue growth with 20%+ EBITDA margin over the medium term. Scope for further surprises / upgrades are less likely.

► **In-line revenue and margins.** Revenue growth was largely in-line with our estimates. Across verticals, growth was broad based. Strong recovery in Travel, Transportation & Hospitality (~13% QoQ, US\$) was the key growth driver for Q1FY22. BFSI (+6.4% QoQ, US\$), which has been stagnant for some time, fired well during this quarter. Key geographies like North America (7.7% QoQ, US\$) reported strong growth. Large deal ramp up in continental Europe seems to have driven lumpy growth in the geography (+30.4% QoQ, US\$). Growth in top account was healthy (5% QoQ, US\$).

EBITDA margin contracted 160bps QoQ, largely in-line with our expectations. Headcount addition (-170bps impact), visa cost (-40bps impact), cross currency, operating leverage and operational efficiencies (+50bps impact) were the key margin movers for the quarter. Lower D&A run-rate (by 90bps) and higher other income led to strong beat on earnings. TCV of deal wins remained healthy at US\$504mn.

► **Investor focus will shift towards steady state growth / margins in FY23++.** We factor in sales growth of 20% YoY (CC) in FY22 partly aided by low base effect of FY21 (or 9.5% CAGR over FY20-22E). Investor focus will likely shift to steady state growth / margins in FY23 and ahead. (1) Expected moderation in cloud activity, (2) rise in share of onsite effort and (3) reversal of covid-led cost savings (e.g. travel) are the key headwinds to watch out. At 28x FY23E EPS, street is already factoring in mid-teens revenue growth with 20%+ EBITDA margin over the medium term. Scope for further surprises / upgrades are less likely. Maintain **HOLD**.

Market Cap	Rs411bn/US\$5.5bn	Year to March	FY21	FY22E	FY23E	FY24E
Reuters/Bloomberg	MINT.BO/MTCL IN	Revenue (Rs mn)	79,678	96,414	109,833	121,913
Shares Outstanding (mn)	164.7	Net Income (Rs mn)	11,105	13,156	14,842	16,464
52-week Range (Rs)	2601/976	Recurring EPS (Rs)	67.4	79.8	90.0	99.9
Free Float (%)	39.0	% Chg YoY	75.8	18.4	12.8	10.9
FII (%)	14.1	P/E (x)	37.2	31.4	27.8	25.1
Daily Volume (US\$'000)	28,506	CEPS (Rs)	83.1	96.7	110.0	122.1
Absolute Return 3m (%)	22.6	EV/E (x)	23.6	20.3	17.2	15.0
Absolute Return 12m (%)	150.7	Dividend Yield (%)	0.7	0.8	0.8	0.8
Sensex Return 3m (%)	9.2	RoCE (%)	18.6	24.8	21.0	19.7
Sensex Return 12m (%)	45.3	RoE (%)	25.7	25.1	23.4	21.6

Please refer to important disclosures at the end of this report

Table 1: Q1FY22 result review

	Jun-21A	Mar-21A	QoQ	Jun-20A	YoY	Jun-21E	vs Isec
Net sales (US\$ mn)	311	288	7.7%	253	22.6%	308	0.7%
Rs mn							
Net sales	22,917	21,093	8.6%	19,088	20.1%	22,733	0.8%
EBIT	4,063	3,913	3.8%	2,881	41.0%	3,892	4.4%
EBIT Margin	17.7%	18.6%	-80 bps	15.1%	260 bps	17.1%	60 bps
Recurring PAT	3,434	3,173	8.2%	2,130	61.2%	3,133	9.6%
Net margin	15.0%	15.0%	-10 bps	11.2%	380 bps	13.8%	120 bps
Recurring EPS (Rs)	20.8	19.3	8.2%	12.9	61.1%	19.0	9.6%

Source: Company data, I-Sec research

Table 2: Change in estimates

	Revised			Earlier			Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
INR/USD	74.7	76.0	76.0	75.0	76.0	76.0	-0.4%	0.0%	0.0%
USD Revenue - m	1,290	1,445	1,604	1,222	1,369	1,519	5.6%	5.6%	5.6%
Growth (%)	19.9	12.0	11.0	13.5	12.0	11.0	640bps	0bps	0bps
EBIT margin - Overall (%)	16.6	16.7	16.7	16.6	16.7	16.7	0bps	0bps	0bps
PAT (INR B)	13,156	14,842	16,464	12,074	14,151	15,694	9.0%	4.9%	4.9%
EPS	79.8	90.0	99.9	73.3	85.9	95.2	8.9%	4.9%	4.9%

Source: Company data, I-Sec research

Financial summary

Table 3: Profit and loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	1,076	1,290	1,445	1,604
Operating Revenues (Sales)	79,678	96,414	1,09,833	1,21,913
Operating Expenses	63,111	77,637	88,244	97,896
EBITDA	16,567	18,777	21,589	24,017
% margins	20.8	19.5	19.7	19.7
Depreciation & Amortisation	2,596	2,787	3,295	3,657
EBIT	13,971	15,990	18,294	20,360
% margins	17.5	16.6	16.7	16.7
Interest & Finance Chgs	504	516	520	560
Other Income	1,517	2,405	2,420	2,600
Recurring PBT	14,984	17,879	20,194	22,400
Add: Extraordinaries exps / (Inc)				
Less: Taxes	3,879	4,723	5,351	5,936
Net Income (Reported)	11,105	13,156	14,842	16,464
Recurring Net Income	11,105	13,156	14,842	16,464

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Assets				
Total Current Assets	45,754	57,841	71,291	86,179
Total Current Liabilities & Provisions	15,926	18,283	20,748	23,030
Net Current Assets	29,828	39,558	50,543	63,149
Other Non-Current Assets	4,878	4,878	4,878	4,878
Net Fixed Assets	12,982	12,982	12,982	12,982
Total Assets	47,688	57,418	68,403	81,009
Liabilities				
Long Term Borrowings				
Other Long term Liabilities	4,498	4,924	4,924	4,924
Equity Share Capital	1,647	1,647	1,647	1,647
Reserves & Surplus	41,543	50,847	61,832	74,438
Net Worth	43,190	52,494	63,479	76,085
Total Liabilities	47,688	57,418	68,403	81,009

Source: Company data, I-Sec Research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Sep-20	Dec-20	Mar-21	Jun-21
Net sales	19,260	20,237	21,093	22,917
% growth (YoY)	0.6	3.0	2.9	20.1
Recurring EBITDA	3,784	4,679	4,626	4,645
Margin (%)	19.6	23.1	21.9	20.3
Other income	364	616	389	718
Recurring Net Income	2,537	3,265	3,173	3,434

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Operating Cashflow before W Cap changes	13,868	16,036	18,137	20,121
Working Capital Inflow / (Outflow)	6,092	(744)	(489)	(427)
Capex	(614)	(2,091)	(3,295)	(3,657)
Free Cashflow	19,346	13,201	14,354	16,036
Cashflow from other Invst Act (Ex Capex)	(11,219)	(3,906)	-	-
Proceeds from Issue of Share Capital	1	-	-	-
Inc/(Dec) in Borrowings / Deferred Liabilities	(1,346)	(355)	(0)	(0)
Dividend paid	(2,880)	(3,858)	(3,858)	(3,858)
Others	(214)	-	-	-
Increase/(Decrease) in Cash	3,688	5,082	10,496	12,179

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)				
Diluted Earnings per share	67.4	79.8	90.0	99.9
Cash earnings per share	83.1	96.7	110.0	122.1
Dividend per share	17.5	20.0	20.0	20.0
Book Value per share	262.0	318.4	385.0	461.5
Growth Ratios (%)				
Operating Income (Sales) - US\$	(1.1)	19.9	12.0	11.0
Operating Income (Sales)	2.6	21.0	13.9	11.0
EBITDA	52.0	13.3	15.0	11.2
Recurring Net Income	76.0	18.5	12.8	10.9
Diluted Recurring EPS	75.8	18.4	12.8	10.9
Diluted Recurring CEPS	51.1	16.3	13.8	10.9
Valuation Ratios (x)				
P/E	37.2	31.4	27.8	25.1
P/BV	9.6	7.9	6.5	5.4
EV / EBITDA	23.6	20.3	17.2	15.0
EV / Sales	4.9	4.0	3.4	2.9

Operating Ratios

Software Development Exp./Sales (%)	67.4	63.3	65.5	65.5
SG&A/Sales (%)	15.0	20.1	17.8	17.8
Other Income / PBT (%)	2.5	3.0	2.7	2.6
Effective Tax Rate (%)	25.9	26.4	26.5	26.5
Fixed Asset Turnover (x) on average	6.1	7.4	8.5	9.4
Receivables (days)	58	55	55	55
D/E Ratio (x)	0.0	0.0	0.0	0.0

Return/Profitability Ratios (%)

Recurring Net Income Margins	13.9	13.6	13.5	13.5
RoIC (Based on Avg)	48.6	53.0	59.5	65.1
RoCE (Based on Avg)	18.6	24.8	21.0	19.7
RoNW (Based on Avg)	25.7	25.1	23.4	21.6
Dividend Payout Ratio	26.0	25.1	22.2	20.0
Dividend Yield	0.7	0.8	0.8	0.8
EBITDA Margin	20.8	19.5	19.7	19.7

Source: Company data, I-Sec research

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