

MINDTREE LTD.

BSE Code	: 532819
Time Duration	: 18 months
CMP	: ₹2,534 (as on 24 June 2021)
Target Price	: ₹3,168



Our Large Rhino pick for the month of June 2021 is Mindtree Limited, a leading digital transformation & technology services company with a 4x4x4 strategy, which constitutes four verticals (healthcare, retail, consumer & manufacturing, communication media & technologies), four geographies (North America, UK & Ireland, Continental Europe, APAC Middle East) along with four service lines i.e. customer success, data & intelligence, cloud, and enterprise IT. The company is building deep capabilities in the IoT & AI-led Industry 4.0 space, which gives it an edge over its peers. In a recent meet with analysts, the management of the company had reiterated its plans to register industry-leading growth and 20 per cent+ EBITDA margins. Mindtree's order book at the year-end remained at an all-time high of US\$ 1.4 billion, showing healthy growth of 12.3 per cent YoY while its annuity type revenues are likely to deliver healthy FY22E growth.

White space opportunities

Mindtree is looking at several whitespace opportunities to grow in the future. It plans to expand in the healthcare segment, for which, it will start reporting revenues in Q1FY22. In this space, it will focus on digital transformation on provider & medical device companies. The company is also expanding into the security space. It has set up a security operations division in Bengaluru to strengthen capabilities and capture strong demand in the security space.

Mindtree plans to increase investment in Europe with a focus on UK, Nordics & DACH i.e. Germany (D), Austria (A) and Switzerland (CH) regions. The company aims to capture the increasing growth opportunity in Europe as it has become more open to outsourcing. They have hired significant client partners to expand their presence in the Nordic region (Finland and Norway) and also aim to expand in the DACH region. Apart from Europe expansion, the company also plans to expand in the travel & hospitality as well as banking, financial services & insurance (BFSI) segment in the Middle East. They have added a sales team to expand in Australia and will leverage its parent's strong presence to expand in Japan. These initiatives showcase the immense potential for the company's growth in the quarters ahead.

Hyperscalers and Cloud to drive industry-leading growth

Mindtree has established a separate service line for Hyperscalers like Microsoft Azure, Google & AWS & SAAS vendors- Salesforce & ServiceNow to capture the growing cloud market. Hyperscalers such as Microsoft, Google, and Amazon have a strong market presence and partnering with these industry-leading service providers will help Mindtree to add big logos in its portfolio under specified verticals and eventually, increase market share & presence.

Mindtree is betting on Cloud to drive industry-leading growth. For every \$1 spent by a client on Cloud, Mindtree aims to maximise its revenue to 1.5x, led by multiple value-added cloud offerings ranging from enterprise workload transformation, cloud security, data modernisation to industry platforms. All four service lines leverage the Cloud in a big way. The company expects substantial growth of FY22E from cloud consumption.

L&T Nxt acquisition synergies

Mindtree acquired L&T Nxt for Rs 198 crore, which will enable the company to cater to emerging growth areas such as Industry 4.0, smart supply chain processes, end-to-end contactless experience across travel, logistics, healthcare & manufacturing industries. This acquisition will entail the addition of products like smart assets, smart worker (for worker safety), smart material & logistics, smart projects and give Mindtree access to select clients in India & Middle East. The company 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 in the industrial IoT domain. With a total consideration of Rs 198 crore, i.e. at EV/sales of approximately 5.26x (revenue in FY21: Rs 37.59 crore), the acquisition is at a reasonable valuation, given huge future growth potential and similar valuations of recent acquisitions in this space.

Continued On PG 2...

CONFIDENTIALITY NOTICE : Information contained in this report is intended for the subscribers of this product only. Unauthorized forwarding, printing, copying, distribution, or using the information in a searchable, machine-readable database is strictly prohibited and may be unlawful. **Disclaimer**: The recommendations are purely a view point and there is no guarantee on the returns. Hence all the clients (paid or unpaid) are requested to apply their prudence before acting on any of the recommendations. Neither DSJ Pvt Ltd nor any of its promoters, members, or employees shall be held responsible for any losses incurred (if any) by acting on the recommendations. Disclosure : Kindly refer to the detailed disclosures as per SEBI (investment advisors) regulations, 2013 placed at www.DSJI.in

DSJ Pvt. Ltd. : Office no 211, Vascon Platinum Square, Next to Hyatt Regency, Vimanagar, Pune- 411014 | For Customer Service : 020-66663-802/803 OR service@dsj.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Research Analyst - INH000006396

DSJI INVESTMENT ADVISORY UNIT (CRU)

Financials:

In Q4FY21, the revenue of the firm increased by 2.86 per cent YoY and stood at Rs 2,109.3 crore as against Rs 2,050.5 crore, a year ago. In dollar terms, the revenue of the company grew by 5.2 per cent on a QoQ basis. The PBIDT (ex OI) increased by 42.91 per cent YoY to Rs 462.60 crore in the fourth quarter of FY21. The corresponding margin improved by 614 bps YoY from 15.79 to 21.93 per cent majorly due to a reduction in the travel expenses caused by the COVID-19 pandemic restrictions and a decrease in other expenses. Further, PAT increased by 53.87 per cent YoY to Rs 317.30 crore during the same period. The PAT margins in Q4FY21 also improved by 498 bps from 10.06 per cent to 15.04 per cent on a YoY basis. In terms of verticals, the revenue of communications, media & technology (CMT) accounted for 49 per cent of the total revenues, followed by retail at 22 per cent and BFSI at 18 per cent, which shows a good diversification mix of the company.

In the last three years, the company's consolidated net sales have recorded 13.40 per cent CAGR to reach Rs 7,967.80 crore in FY21. Similarly, PBIDT and PAT have grown at a CAGR of 24.78 per cent and 24.88 per cent, respectively, between FY18 and FY20.

Valuation & outlook:

At CMP, Mindtree is trading at a TTM PE of 36.79, as compared to the industry average of 31.28x. EV/TTM EBITDA stands at 22.17x. The stock price has given good returns of 167 per cent and 36 per cent CAGR over a 1-year and 3-year period, respectively. ROCE stood at 41.43 per cent in FY21 while ROE at 29.78 per cent. The company is debt-free. Promoters hold a 61.03 per cent holding in the company, a holding that remains unpledged. With a focus on client mining, geographic expansion, partnership with Hyperscalers and expansion in whitespace opportunities, Mindtree has a solid growth trajectory. Given the healthy margins of the business (core EBITDA margin of 20.79 per cent in FY21) and healthy business prospects, we recommend a BUY on the stock with a target of Rs 3,168, representing a 25 per cent potential upside.

Inc/Exp Statement (Consolidated) (in Rs Crore)

Description	202103	202003	201903	201803	201703
Net Sales	7967.80	7764.30	7021.50	5462.80	5236.40
Total Income	8119.50	7839.90	7110.80	5653.00	5291.70
Total Expenditure	6311.10	6682.80	5957.00	4722.30	4531.90
PBIDT	1808.40	1157.10	1153.80	930.70	759.80
PAT	1110.50	630.90	754.10	570.10	418.60
Dividend %	250.00	130.00	330.00	90.00	100.00
Adj. EPS(Rs)	67.43	38.33	45.93	34.78	24.92

Quarter On Quarter (Consolidated) (in Rs Crore)

Particulars	202103	202012	Q on Q Var %	202003	Y on Y Var %
Net Sales	2109.30	2023.70	4.23	2050.50	2.87
Total Expenditure	1646.70	1555.80	5.84	1726.80	-4.64
PBIDT (Excl OI)	462.60	467.90	-1.13	323.70	42.91
PAT	317.30	326.50	-2.82	206.20	53.88
PBIDTM% (Excl OI)	21.93	23.12	-5.15	15.79	38.89
PBIDTM%	23.78	26.16	-9.10	16.68	42.57
PATM%	15.04	16.13	-6.76	10.06	49.50
Adj. EPS(Rs)	19.27	19.82	-2.77	12.53	53.79

Continued On PG 3...



**Track calls using our new investor app

DISCLAIMER & DISCLOSURE:

This report has been prepared by DSIJ Private Limited and is meant for sole use by the recipient and not for circulation. For all content we have relied upon and assumed, without any independent verification, accuracy and completeness of all information available in public domain or from sources considered reliable. The content contains certain assumptions and views, which DSIJ considers reasonable now, and which are subject to change. Computations adopted are indicative and are based on current market prices and general market sentiment. No representation or warranty is given by DSIJ as to the achievement or reasonableness or completeness of any idea and/or assumptions. The content does not purport to contain all the information that the recipient may require. Recipients should not construe any of the contents herein as advice relating to business, financial, legal, taxation, or other matters and they are advised to consult their own business, financial, legal, taxation and other experts / advisors concerning the company regarding the appropriateness of investing in any securities or investment strategies discussed or recommended and should understand that statements regarding future prospects may not be realized. It may be noted that investments in equity and equity-related securities involve a degree of risk and investors should not invest any funds unless they can afford to take the risk of losing their investment. Investors are advised to undertake necessary due diligence before making an investment decision. For making an investment decision, investors must rely on their own examination of the Company including the risks involved. Investors should note that income from investment in such securities, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

- Neither DSIJ nor any of its employees shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. The content does not constitute an offer for sale, or an invitation to subscribe for, or purchase equity shares or other assets or securities of the company and the information contained herein shall not form the basis of any contract. It is also not meant to be or to constitute any offer for any transaction.
- DSIJ or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report.
- Subject company may have been client of DSIJ or its associates during twelve months preceding the date of publication of the

research report.

- DSIJ or its associates may have received compensation from the subject company in the past twelve months.
- DSIJ or its associates have not managed or co-managed public offering of securities for the subject Company in the past twelve months.
- The Research Analysts of the company have not served as an officer, director or employee of the subject Company.
- The Research Analysts or the Company have not been engaged in market making activity for the subject Company.
- Research analyst or his/her relatives may have actual/ beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.
- DSIJ or Research analyst or his/her relatives may have financial interest in the subject company in ordinary course of business.
- DSIJ and its associate company(ies), their directors and employees may from time to time, have a long or short position in, and buy or sell the
- securities of the company(ies) mentioned herein or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

Definitions of Terms Used in the research reports:

'Subject company' means the company where a recommendation is being suggested.

- **Buy:** The intended audience is being informed that they can consider purchasing the shares of the said company
- **Sell:** The intended audience is being informed that they can consider selling the shares of the said company
- **Hold:** The intended audience is being informed that they can consider to neither purchase or sell but continue to hold, if any, the shares of the said company