

Result Snapshot

<u>Amt. in Rs. Crs.</u>	Q4FY20	Q3FY20	Q-o-Q(%)	Q4FY19	Y-o-Y(%)
Revenue	2050.5	1965.3	4.3%	1839.4	11.5%
Other Income	18.3	34.8		29	
Total Income	2068.8	2000.1	3.4%	1868.4	10.7%
EBITDA	351.2	306.3	14.7%	280.3	25.3%
EBIDTA (%)	17.1%	15.6%		15.2%	
EBIT	255.8	236.4	8.2%	237.5	7.7%
PBT	261.3	257.9	1.3%	266.5	-2.0%
PAT	206.2	197	4.7%	198.4	3.9%
PAT%	10.0%	9.8%		10.6%	

*EBITDA is adjusted for foreign exchange gain/loss

Result / Con-call Highlights:

1) Result Update: Mindtree, a part of L&T Group reported FY20 revenue at Rs. 7,764 cr up 10.6% from the previous financial year. The annual revenue grew by 9.4% in constant currency terms. The PAT fell by 16.3% to Rs. 630 cr in FY20 mainly on account of lower margins during H1 FY20. Mindtree also recommended a final dividend of Rs. 10 / share in Q4 FY20 bringing the cumulative dividend to Rs. 13 / share in FY20 with a dividend payout ratio of ~34%.

Mindtree reported EBITDA at Rs. 351 cr with EBITDA margin at 17.1% in Q4 FY20. Q4 EBITDA margin improved 150bps compared to previous quarter. Excluding one-time expense of donation to PM Care fund of Rs. 20 cr, EBITDA margins would be 18.1% in Q4 FY20.

Mindtree reported foreign exchange loss of Rs. 27.5 cr in other expense in Q4 FY20 compared to foreign exchange gain of Rs. 18.7 cr reported in other income.

2) Segmental Update:

Revenue by Geography	Q4 FY20	Q3 FY20	Revenue by Industry	Q4 FY20	Q3 FY20
USA	76.8%	74.6%	Hi-Tech & Media	43.1%	41.5%
Europe	15.3%	17.0%	BFSI	20.4%	21.3%
India	3.9%	4.0%	Retail, CPG & Manufacturing	20.3%	20.6%
ROW	4.0%	4.4%	Travel & Hospitality	16.2%	16.6%

Mindtree has 305 active clients, with 5 new clients added in Q4. \$10 mn and above clients increased by 1, taking the count to 23 in Q4 FY20..

Result / Con-call Highlights: (Continued)

3) Covid-19 impact: There was no impact of Covid-19 in Q4 FY20 results. However, as sizeable part of the business comes from Travel & Hospitality segment (16.2% of revenue in Q4FY20), management has guided for a de-growth both in terms of revenue as well as EBITDA margins in Q1FY21 as compared to Q4FY20.

Fundamentally company's Retail, CPG & Manufacturing segment (20.3% of revenue in Q4FY20) is also facing some headwind as most of the countries that the company caters to are facing lockdowns.

Company is facing renegotiation and price discounting from some clients and is taking up this issue on client wise basis. Clients from travel and hospitality industry being affected the worst are asking for deferment of orders rather than the cancellation of the contract.

Companies in the BFSI segment were deferring spends but the hi-tech, media, and consumer goods sector are doing well.

4) Job Offers: Mindtree said it was honoring all the job offers, including campus hiring. However, beyond that, the company hasn't taken a call on wage hikes, salary cuts, or freezing promotions. Management is set to take the decision as and when the picture gets more clear post Covid-19. Employee strength of the company stood at 21,991 whereas BOTs (a software that acts autonomously) stood at 764 at the end of Q4FY20.

5) Mindtree won the strategic annuity deal for 5 years with Realogy an existing leading real estate services company. The deal is to implement end to end digitally enabled technology services and help them embark on digital transformational journey. This deal is strategic not only from a size perspective but also encompasses multi service offerings cutting across IT life cycle.

Mindtree ended the quarter with all time high deal closures at \$393 mn in Q4; \$1.2 bn for full year. Deal signed with Realogy contributes to a sizeable part of deal closure in Q4. Management is focusing more on annuity and long term deals as they would bring more stability in revenue growth.

6) Revival of European operations is going to take some time. Macroeconomic factors such as financial condition of Europe also needs to be taken into consideration while reviewing european operations.

7) In such stressful situation cash is king. Mindtree is planning on deferring most of its CAPEX.

8) Effective tax rate in FY21 to be ~26% while the company will try to maintain its EBITDA margin at 17% - 18%

9) Outlook: Mindtree's EBITDA margins have been volatile over past several years, we believe maintaining 17%-18% EBITDA margins going forward would remain a work in progress. Mindtree's sectoral exposure to relatively lower impacted segments like Hitech, BFSI & Retail is a higher % then the directly pandemic impacted sectors like travel / manufacturing. Also, it's noteworthy that Management's commentary on business from the impacted sectors being renegotiated in terms of execution delay and not contract withdrawal, gives a strong sense of security on the businesses ability of survival through the tough times. However at the current trailing valuation ie. P/E of 20.38x FY20 earnings the stock is rated at a fair valuation based on it's archival ratings. We believe that in the current situation with lack of visibility on further earnings growth it is advisable to avoid fresh long positions in the stock. However, strong parentage, balance sheet and greater ability to steer through the pandemic due to the sectoral advantage of having work from home ready systems we don't see any business survival risks and assign a HOLD rating to the stock.

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