

MINDTREE LTD.

Industry IT
Bloomberg MTCL IN
BSE CODE 532819

Continued momentum in digital to drive growth in FY19

RATING	Buy
CMP	842
Price Target	1020
Potential Upside	21%

Rating Change	↑
Estimate Change	↑
Target Change	↑

Stock Info

52wk Range H/L	616/1181
Mkt Capital (Rs Cr)	13738
Free float (%)	63%
Avg. Vol 1M (,000)	1293
No. of Shares (Cr)	16
Promoters Pledged (Cr)	0

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Key Highlights-

- Companies 3QFY19 performance was a mixed set of number where revenue was in line with the estimates (USD251.5mn vs. USD251.4mn) whereas PAT declined 7.5%QoQ in USD terms (below estimates) due to lower than expected other income.
- Digital (highest contribution among its peers) where the company now nearly contributes half of the revenue (~49.5%) has continued to post growth in 3QFY19 too. It grew 5.1%QoQ and 32.4%YoY. The management continues to see strong demand environment and healthy pipeline for 4QFY19 and FY20.
- BFSI expected to be soft for the next quarter whereas other verticals continued to be strong going forward.
- Management expects 4QFY19 revenue to slightly better than 3QFY19 however margins to be stable at current level due to continued investment for FY19.

3Q FY19 Result Update

Mindtree posted a mixed set of numbers where revenue for the quarter stood at Rs1787 crore (in line with estimates), a growth of 1.8%QoQ led by continued growth digital business and strong growth across the verticals(except BFSI).In constant currency term revenue grew 2.4% QoQ and 2.1% in USD terms. EBITDA for the quarter stood at Rs283 crore. Margin improved 50bps to 15.9% vs.15.4% last quarter due to operational efficiency. Currency benefit remained flat for the quarter. PAT for the quarter was at Rs191.2 (below estimates) due to negative other income of Rs20 crore.

View and Valuation

Going forward, we expect Mindtree to post better revenue growth in 4QFY19 and FY20 led by strong Digital traction, positive demand environment, continued deal momentum and strong visibility across retail, travel and media verticals. Digital (contributes 49.5% of revenue)which is growing more than 30%YoY every quarter , is expected to continue to grow going ahead led by strong demand environment(contract won 136 mn in 3QFY19) and increase in digital deal sizes. Also the contract closure in 3QFY19 is giving clear visibility of revenue growth going forward (closed USD 256 mn out of which 212 mn will be executed within one year). The retail segment has bounced back in 3QFY19 (grew 4.7QoQ)as client specific issue now behind. We expect growth is retail to continue as the vertical is growing fastest in digital space .Even the management is confident of robust growth in retail, travel and Hi-tech seeing the healthy pipeline. However BFSI is slow in adopting digital and insurance is continuously facing challenges in client space .Thus expected to be remain soft compared to other verticals.

On margin front we have changed our FY20 margins post management commentary of better margins in FY20.However we expect 4QFY19 margins to remain similar to 3QFY19 as the management continues to do investment.**We expect Mindtree to post revenue growth of 28%CAGR over FY18 TO FY20E. We value the stock at a target of Rs1020 (18x FY20EPS) and recommend BUY.**

Key Risks to our rating and target

- Pressure from issues in top customers.
- Slow growth in major verticals like travel and retail.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	4673	5236	5463	7047	8352
EBITDA	821	705	741	1083	1292
EBIT	655	519	569	922	1102
PAT	553	419	570	779	930
EPS (Rs)	33	25	35	47	57
EPS growth (%)	-49%	-24%	40%	36%	19%
ROE (%)	23%	16%	21%	23%	23%
ROCE (%)	26%	19%	19%	25%	25%
BV	144	153	167	202	247
P/B (X)	5	3	4	4	3
P/E (x)	20	18	21	18	15

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3QFY19 Results

Mixed performance

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	1,378	1,464	1,640	1,755	1,787	29.7%	1.8%	5,236	5,463	4.3%
Other Income	6	59	28	52	(20)	-439%	-138%	55	190	244%
Employee	895	930	1,040	1,117	1,114	25%	0%	3,413	3,564	4%
Other Exp	276	298	369	368	390	41%	6%	1,119	1,158	3.5%
EBITDA	207	236	231	270	283	37%	5%	821	705	-14.2%
Dep and	42	39	40	40	41	-2%	2%	186	172	-7.7%
EBIT	166	197	191	230	242	46%	6%	519	569	9.7%
Interest	5	6	3	0	-	0%	0%	19	17	0.0%
PBT	167	250	216	282	222	33%	-21%	555	742	33.8%
Tax	25	68	58	76	31	23%	-59%	136	172	26.3%
Exceptional	-	-	-	-	-	0%	0%	-	-	0.0%
PAT	142	182	158	206	191	35%	-7.2%	419	570	36.2%

3QFY19 performance - Revenue growth in line with estimates

Revenue for the quarter stood at Rs1787 crore (growth of 1.8% QoQ) led by continued growth across verticals and strong growth in digital. In constant currency term, revenue grew 2.4% QoQ and 2.1% QoQ in USD term. Volume in 3QFY19 declined 1.1%QoQ whereas realization increased 3.2%QoQ. Increase in realized rate is mainly attributable to volumes dropping and incremental revenues coming in at better pricing. Digital revenue which now contributes half of the revenue grew 5.1% QoQ and 33.2%YoY in USD term.

Strong growth across vertical except BFSI

Industry(usd mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ%	YoY%
Retail	45	48	50	53	56	54	56	4.6%	12%
BFSI	50	51	53	51	54	55	55	-0.9%	3%
Technology	76	77	79	86	94	97	99	2.3%	26%
Travel & Hospitality	29	30	33	36	38	41	42	2.2%	28%

Growth during the quarter was driven by Hi-Tech and Media (2.3% QoQ) and Travel and Hospitality (2.2% QoQ). Retail, CPG and Manufacturing bounced back and grew 4.6% QoQ whereas declined by 0.9% QoQ due to seasonality and client specific issue.

Revival in Europe after dip in 2QFY19

Geography(usd mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ%	YoY%
US	139	139	149	161	176	181	185	1.8%	24%
Europe	42	47	45	48	49	46	47	2.0%	5%
India	6	7	7	7	7	8	9	11.3%	32%
Rest of the World	13	13	13	11	10	11	11	-2.6%	-21%

Growth seen across services

Service(usd mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ%	YoY%
ADM	103	103	108	114	123	125	128	1.8%	18%
Consulting	7	8	9	9	8	8	8	5.3%	-6%
Package	23	23	24	25	26	22	23	4.4%	-7%
IP Led	2	2	2	2	1	2	2	2.0%	4%
Independent Testing	24	25	27	29	32	32	32	0.5%	20%
IM & T	42	45	45	48	52	58	59	2.0%	30%

In terms of Services, growth was seen in ADM (1.8% QoQ), IP (2% QoQ), Testing (0.5% QoQ) and IMS (2% QoQ), Consulting posted a strong growth (5.3% growth QoQ) after declining 7% in last quarter and also Package Implementation grew 4.4%QoQ .

Slow growth seen in top client

Client(usd mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ%	YoY%
Top Client	31	33	36	40	47	50	50	1.0%	41%
Top 5 Clients	60	62	68	72	78	83	85	2.0%	25%
Top 10 Clients	60	62	94	99	105	110	111	0.5%	18%

Currency benefit remained flat, operational efficiency improved overall margin

EBITDA for the quarter stood at Rs283 crore. Margin improved 50bps to 15.9% vs.15.4% last quarter due to operational efficiency. Currency benefit remains flat of the quarter.

Other income decline 138% QoQ to negative 20 crore as compared to Rs 52 crore last quarter due to forex loss .

Thus overall PAT declined 7.2% to Rs 191 crore as compared to Rs206 crore in 2QFY19.

Concall Highlights

- ❑ Retail , CPG &MFG bounced back in 3Q with the growth of 4.7% despite one deal that got delayed in 2QFY19 continued in 3qfy19 too. However the management sees strong pipeline in retail as its growing fastest among other vertical in digital part .Thus remains positive for FY20
- ❑ Hi-Tech & Media grew 2.3% and Travel &hospitality grew2.1%.The management is confident strong growth in travel and retail going forward.
- ❑ BFSI continued to decline 1% in 3QFY19 mainly due to client specific issue with one customer and also due to seasonality. The management expects BFSI to be little bit softer compared to the other three verticals in 4QFY19.However the management expects growth in BFS to continue in FY20 and in insurance expects to improve in next few quarters.
- ❑ Digital continued to be strong for the company: Digital continued to strong in 3QFY19 and grew 5.1% in QoQ and 32.4%YoY.It now contributes nearly half of the revenue (~49.5%).The management is seeing strong market demand for the digital .
- ❑ Client addition: Client addition during the quarter was 23.The management continues to see growth in all the vertical as the demand and pipeline continues to be robust
- ❑ Outlook for FY19: Contract closure during the quarter was at USD256mn out of which renewal were at USD180mn and new contract was USD72 mn . The contract to be executed within one year was at USD 212mn and one than 1 year execution was USD44mn. Digital contract during was USD 136 mn. Thus overall the management expect better performance in FY19(highest growth rate in the industry) than FY18 .Even the company expect 4QFY19 revenue growth to be slightly better than 3QFY19 led by stable win ratio and strong pipeline.
- ❑ Magnet 360 has been amalgamated in the mind tree. Thus the result is part of mind tree standalone numbers.
- ❑ Margin performance in 3QFY19: EBITDA margin for the quarter was at 15.9% , improved by 50 bps completely came on improvement in operational efficiency (50 bps).Currency benefit(EBITDA level) in 3QFY19 was flat. Forex loss of 5.4 mn came in 3QFY19.
- ❑ TAX RATE: 3QFY19 tax received a onetime benefit from NCLT in order on the amalgamation of magnet 360.However for 4QFY19 the company expects tax rate to be in 26 to 27% range .
- ❑ Outlook for margin: The Company aspires to maintain its margin to current level in 4QFY19 as investment will continue in 4QFY19.FY20 margins expected to better than FY19.
- ❑ Client budget for FY20: Though the management did not stated any clear visibility for FY20 and asked to wait still April to get complete picture but was sounding confident of positive outlook as digital becoming more important and size of the deals in digital are increasing .
- ❑ On subcontracting cost: The management does not see any spike in cost due to subcontracting as of now. However continuously monitoring regulatory immigration, talent forecast, that's skill shortage, is multivariate equation.
- ❑ Macro environment: The management expects that it would best growth year for mind trees strategy, priority, investments is completely aligned with what the customer are demanding .Even for FY20 is expected to be growth year as demand environment is positive .
- ❑ Clarity on promoter stake: The management team of Mind Tree is completely committed, passionate, so they have completely denied the report. However it has stated that any shareholder can sell their stake as it's their own financial decisions So they are not commenting on shareholders plans, but reiterate that there is no change in the approach by the management team at Mind Tree.

Operational Details

Industry Revenue	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Technology	36.7%	37.5%	37.9%	37.8%	36.6%	37.6%	38.9%	39.3%	39.3%
BFSI	24.1%	24.7%	25.1%	24.8%	24.8%	22.5%	22.3%	22.4%	21.7%
Retail,CPG & Mfg	24.1%	23.0%	22.7%	22.9%	23.3%	24.0%	23.1%	21.7%	22.3%
Travel & Hospitality	15.1%	14.9%	14.3%	14.5%	15.3%	15.9%	15.8%	16.7%	16.7%
Service offering	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Development	22.3%	21.4%	22.6%	23.1%	24.5%	25.5%	25.5%	50.8%	50.7%
Engineering	9.5%	9.5%	9.6%	9.2%	9.1%	9.1%	9.6%	n/a	n/a
Maintenance	17.6%	18.3%	19.0%	17.7%	16.6%	15.7%	15.7%	n/a	n/a
Consulting	3.9%	4.0%	3.4%	4.0%	4.0%	3.9%	3.4%	3.1%	3.2%
Package Implementation	12.4%	12.6%	11.5%	11.2%	11.3%	11.2%	10.6%	8.8%	9.0%
IP Led Revenue	1.4%	1.3%	1.1%	1.0%	0.9%	0.9%	0.6%	0.8%	0.8%
Independent Testing	12.6%	12.5%	11.8%	12.1%	12.6%	12.7%	13.1%	13.1%	12.8%
Infrastructure Management	20.3%	20.4%	21.0%	21.8%	21.1%	21.0%	21.6%	23.4%	23.4%
Geography	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
US	68.7%	69.8%	69.6%	67.5%	69.7%	71.0%	72.7%	73.6%	73.4%
Europe	20.8%	20.8%	21.1%	22.8%	20.9%	21.1%	20.1%	18.7%	18.7%
India	3.1%	2.8%	3.0%	3.5%	3.2%	3.2%	3.1%	3.3%	3.6%
Rest of the World	7.4%	6.6%	6.3%	6.3%	6.2%	4.7%	4.2%	4.4%	4.2%
Project Type	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Fixed Cost , Fixed Monthl	52.5%	52.8%	52.9%	55.5%	56.4%	56.8%	56.4%	56.1%	56.0%
Time & Materials	47.5%	47.2%	47.1%	44.5%	43.6%	43.2%	43.6%	43.9%	44.0%
Revenue mix	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Onsite	60.2%	60.5%	58.0%	57.6%	57.9%	58.9%	58.9%	58.9%	n/a
Offshore	39.8%	39.5%	42.0%	42.4%	42.1%	41.1%	41.1%	41.1%	n/a
Utilization	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Including Trainees	71.3%	70.9%	73.2%	73.2%	72.8%	73.8%	75.4%	74.5%	74.6%
Excluding Trainees	72.3%	72.7%	73.8%	74.6%	74.3%	75.2%	76.3%	76.5%	76.4%
Client	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Top Client	14.1%	14.3%	15.3%	16.1%	16.6%	17.8%	19.4%	20.2%	20.0%
Top 5 Clients	30.1%	30.7%	30.1%	30.1%	31.6%	32.0%	32.3%	33.8%	33.8%
Deal wins	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Renewals	170	135	219	130	187	256	255	222	184
New	144	74	43	77	57	42	51	49	72
Client Details	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Number of Active clients	348	328	336	327	344	338	339	341	340
New Clients Added	21	20	20	24	28	23	24	18	23
\$1 mn clients	106	111	113	114	114	118	117	111	116
\$5 mn clients	30	30	33	38	37	38	39	44	44
\$10 mn clients	17	16	16	16	15	17	19	21	21
\$25 mn clients	4	4	3	3	3	4	4	4	4
\$50 mn clients	1	1	1	1	1	1	1	1	1
\$100 mn clients	1	1	1	1	1	1	1	1	1
Efforts Mix - %	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Onsite	23.5	22.4	23.2	22.8	22.9	22.8	22.8	22.3	23
Offshore	76.5	75.6	76.8	77.2	77.1	77.2	77.2	77.7	77
Attrition(%)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Onsite	16.1%	15.1%	14.0%	13.0%	12.6%	12.5%	12.2%	13.0%	13.4%

Exhibit: Revenue trend

Strong growth across vertical led the growth in 3QFY19.

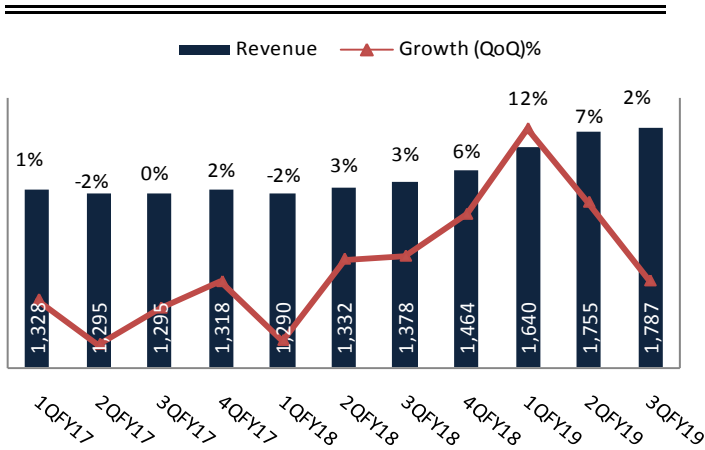


Exhibit: Digital Revenue

Momentum continued in digital, now contributes approx half of the revenue (49.5%).

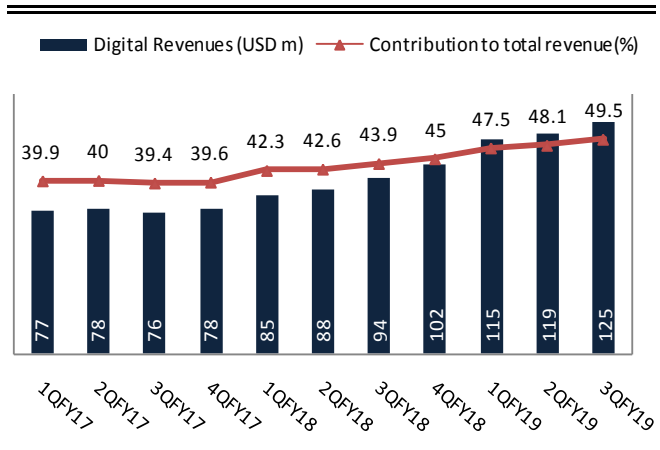


Exhibit: EBITDA and EBITDA margin

Operational efficiency led to margin expansion, similar margin expected in 4QFY19.

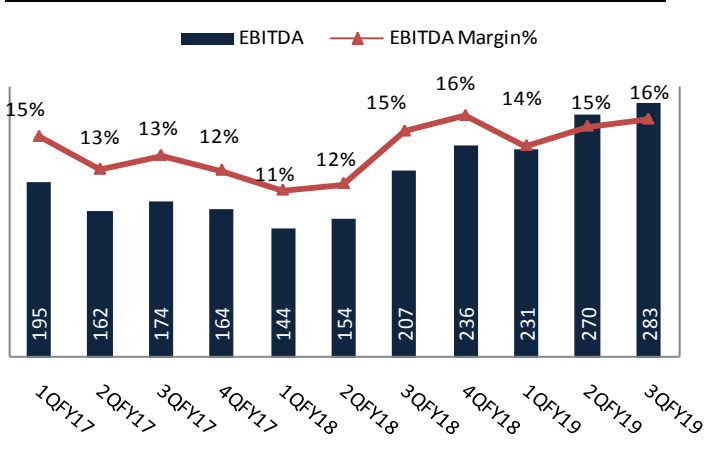


Exhibit: Utilization

Utilization including or excluding trainee at stable range.

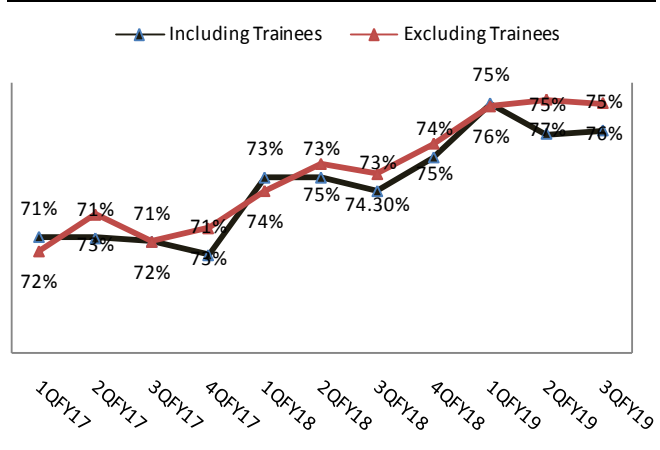


Exhibit: Deal Wins

Continued New TCV wins every quarter however below USD60 mn of last 8 quarters.

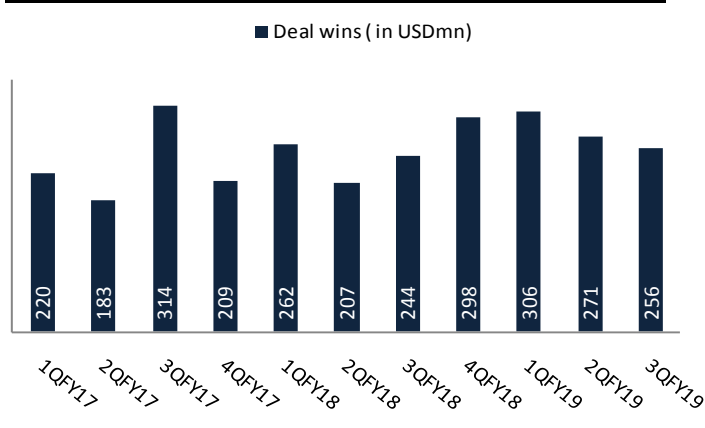
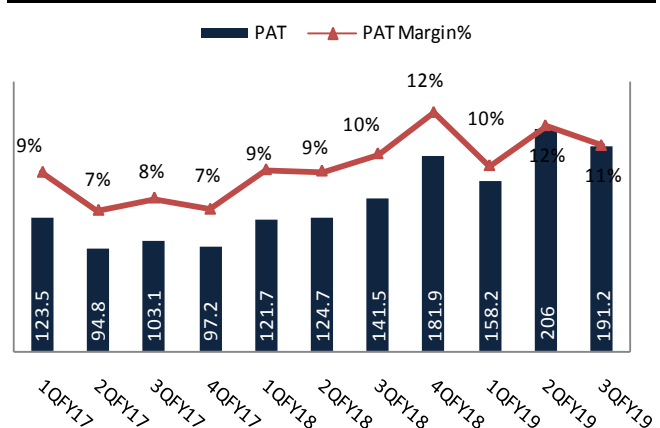


Exhibit: PAT and PAT Margin

Negative other income impacted the Pat however some portion offset by onetime benefit in Tax.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	42	42	84	168	168	164	164	164
Reserves	1,272	1,599	1,929	2,247	2,409	2,578	3,161	3,896
Networth	1,314	1,641	2,012	2,415	2,577	2,741	3,325	4,060
Debt	25	3	2	43	99	301	301	301
Other Non Cur Liab	6	17	33	86	30	9	9	9
Total Capital Employed	1,344	1,660	2,049	2,544	2,706	3,051	3,635	4,370
Net Fixed Assets (incl CWIP)	316	393	591	704	594	512	513	516
Non Cur Investments	23	18	1	6	6	6	6	6
Other Non Cur Asst	518	613	802	1,443	1,324	1,228	1,229	1,231
Non Curr Assets	541	631	802	1,450	1,330	1,233	1,235	1,237
Debtors	451	600	696	973	896	1,016	1,313	1,556
Cash & Bank	125	118	376	233	251	328	335	528
Other Curr Assets	128	173	162	115	103	129	166	197
Current investments	403	516	534	227	587	721	1,099	1,477
Other financial assets	43	61	84	280	224	310	310	311
Curr Assets	1,150	1,469	1,853	1,827	2,061	2,503	3,223	4,068
Creditors	19	8	54	189	165	171	221	261
Provisions	111	157	206	129	111	122	157	186
Other Curr Liab	217	274	347	105	113	180	232	275
Current tax liabilities	-	-	-	35	32	32	32	32
Other financial liabilities	-	-	-	275	264	181	181	181
Curr Assets	347	439	606	733	684	686	823	936
Net Curr Assets	803	1,029	1,246	1,095	1,377	1,817	2,400	3,133
Total Assets	1,691	2,099	2,655	3,277	3,391	3,736	4,458	5,306

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	2,362	3,032	3,562	4,673	5,236	5,463	7,047	8,352
Change (%)	23%	28%	17%	31%	12%	4%	29%	19%
	-	-	-	-	-	-	-	-
EBITDA	452	610	709	821	705	741	1,083	1,292
Change (%)	54%	35%	16%	16%	-14%	5%	46%	19%
Margin (%)	19%	20%	20%	18%	13%	14%	15%	15%
Depr & Amor.	62	81	102	166	186	172	160	190
EBIT	390	529	607	655	519	569	922	1,102
Int. & other fin. Cost	1	0	0	16	19	17	3	-
Other Income	35	50	84	84	55	190	107	156
EBT	424	578	691	723	555	742	1,026	1,258
Exp Item	-	-	-	-	-	-	-	-
Tax	85	128	155	171	136	172	247	328
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	339	451	536	553	419	570	779	930
Adjusted PAT	339	451	536	553	419	570	779	930
Change (%)	55%	33%	19%	3%	-24%	36%	37%	19%
Margin(%)	14%	15%	15%	12%	8%	10%	11%	11%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	26%	27%	27%	23%	16%	21%	23%	23%
ROCE	29%	32%	30%	26%	19%	19%	25%	25%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	70	72	71	76	62	68	68	68
BV	316	394	240	144	153	167	202	247
Payable Days	3	1	5	15	12	11	11	11
Earnings Per Share	82	108	64	33	25	35	47	57
P/E	11	12	20	20	18	21	18	15
Price / Book Value	3	3	5	5	3	4	4	3
EV/EBITDA	8	9	15	13	11	16	13	11
EPS GROWTH	52%	32%	-41%	-49%	-24%	40%	36%	19%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	424	578	691	553	419	570	1026	1258
(inc)/Dec in Working Capital	-60	-177	3	-252	122	-83	-198	-161
Non Cash Op Exp	0	50	59	314	290	241	160	190
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-97	-130	-154	-194	-177	-163	-247	-328
others	0	0	0	0	0	0	0	0
CF from Op. Activities	266	322	598	421	654	564	741	958
(inc)/Dec in FA & CWIP	-107	-152	-200	-158	-87	-102	-162	-192
Free Cashflow	160	170	399	263	566	462	579	766
(Pur)/Sale of Inv	1022	1050	1025	1339	989	1377	0	0
others	-1320	-1426	-1435	-1923	-1530	-1679	-701	-762
CF from Inv. Activities	-192	-224	-210	-426	-453	-200	-540	-570
inc/(dec) in NW	32	6	7	2	1	0	0	0
inc/(dec) in Debt	-22	-25	0	41	55	196	0	0
Int. Paid	-1	-1	0	0	0	-5	0	0
Div Paid (inc tax)	-21	-92	-144	-215	-193	-214	-195	-195
others	0	0	0	0	0	0	0	0
CF from Fin. Activities	-13	-111	-138	-172	-138	-288	-195	-195
Inc(Dec) in Cash	62	-14	251	-176	63	77	6	193
Add: Opening Balance	63	132	125	370	188	251	328	335
Closing Balance	125	118	376	194	251	328	334	528

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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