

Industry
Bloomberg
BSE CODE

TECHNOLOGY
MTCL IN
532819

RATING	NEUTRAL
CMP	718
Price Target	709
Potential Upside	-1%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	996/653
Mkt Capital (Rs Cr)	11818
Free float (%)	63%
Avg. Vol 1M (,000)	28
No. of Shares (Crs)	16
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	7,022	7,708	8,640
EBITDA	1,065	1,036	1,288
EBIT	900	759	982
PAT	754	595	766
EPS (Rs)	46	36	47
EPS growth (%)	32%	-21%	29%
ROE (%)	23%	17%	20%
ROCE (%)	27%	22%	25%
BV	201	214	236
P/B (X)	5	3	3
P/E (x)	21	20	15

Higher Attrition weighing on margin in near term

2QFY20 Result Update

- Mindtree reported mixed set of number in 2QFY20 result. Revenue for the quarter grew at 3.3%QoQ in cc terms to USD271million (in line with our estimates)mainly owing to recovery in top account (5% QoQ USD) while PAT came at Rs 135crore(below our estimates of Rs151crore) , a growth of 45.6%QoQ .
- EBIT margin came at 9.3% .Margin expanded 288bps mainly led by cost optimization & INR depreciation which completely offset the wage hike .
- Digital revenues for the quarter grew 2.6% QoQ/18.7% YoY , now contribute 38% of revenues while digital TCV was up 2.2% QoQ.

Broad based growth across verticals & geographies

Mindtree posted broad based growth across verticals. Travel & Hospitality and Technology vertical led the growth by growing double digit of 12.1%YoY/11.4%YoY and 3.4%/3.6%QoQ respectively .BFSI reported a moderate growth of 6.3%YoY /2.6%QoQ, While retail remained flat by growing 0.1%QoQ during the quarter. Geography wise, US led the growth by growing 10.1% YoY While Europe grew by 3.5% YoY .

Decline in renewal

Deal wins during the quarter had mixed trends .Total order book declined 5.2% QoQ to US\$307 million vs. last quarter of USD324million .TCV from new wins increased 2.5x YoY while TCV from the renewals dipped 16.2% YoY.

Higher Attrition may remain a concern

Attrition for the company increased to 16.5% vs. 15.1% in 1QFY20 which is highest in last 8 quarter .The upward trajectory in Attrition will remains a concern (includes exits of some senior resources) as it can lead to loss of customer connect & revenues .

View and Valuation

After a new leadership on board, Mindtree managed to report a moderate growth in 2QFY20 result. Revenue grew 3.3%QoQ mainly owing to recovery in top client while margin were bit lower than expected. Renewal deal saw a dip in the quarter (16.2% YoY) as it could be due to the delay in decision making by the customers While new order posted a robust growth by increasing 1.6x in 2QFY20.Going ahead, healthy deal pipeline from the new business and continued growth in digital gives revenue visibility in near terms while higher attrition (16.5%in 2QFY20) will put execution risk in FY20.

Post result, factoring in execution risk and slow renewal, we have reduced our margins by 0.9%/0.5% for FY20/FY21E .Thus we maintain our Neutral stance on the stock with the target price of Rs709.

Key Risks to our rating and target

- Prolonged weakness in Retail vertical.
- Slow down in order booking.

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2QFY20 Results

Mixed quarter

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,755	1,787	1,839	1,834	1,914	9.1%	4.4%	5462.8	7021.5	28.5%
Other Income	52	(20)	29	22	20	-62.4%	-10.5%	190	89	-53.0%
Employee Exp	1,117	1,114	1,150	1,253	1,265	13.2%	0.9%	3,564	4,421	24.0%
Other Expenses	368	390	409	397	401	9.0%	1.1%	1,158	1,536	32.6%
EBITDA	270	283	280	184	248	-8.0%	34.8%	705	741	5.1%
Depreciation	40	41	43	67	71	75.4%	5.7%	172	164	-4.3%
EBIT	230	242	238	117	178	-22.7%	51.5%	569	900	58.2%
Interest	0	-	-	13	14		6.2%	17	3	-82.8%
PBT	282	222	267	126	183	-34.9%	45.3%	742	987	32.9%
Tax	76	31	68	34	48	-36.2%	44.5%	172	233	35.1%
PAT	206	191	198	93	135	-34.5%	45.6%	570	754	32.3%

Concall Highlights

- **Broad based growth across verticals:** BFSI for the quarter grew 2.8%QoQ regaining its growth momentum, Travel and hospitality grew 3.3%QoQ, Technology and Media grew by 3.6%QoQ and Retail, CPG and manufacturing remain flat during the quarter.
- **Digital business:** Digital continuous to grow stronger for Mindtree. Digital revenue is 2times of Mindtree growth which 18.8%YoY.
- **Margin Performance:** EBITDA margin expanded 300 bps QoQ to 13% on low 2Q base while on adjusted terms, margins increased 40 bps QoQ. The movement in margins was on account of wage hike increase (-150 bps) partially offset by operational efficiency in terms of utilization uptick & higher off shoring (+140 bps) and currency (+50 bps).
- **Tax rate:** Tax as a percentage of PBT was at 26.4% in Q2FY20. Management stated ETR in the similar range is expected for next two years and will not incorporate the new tax regime announced as of now.
- **Restated Hedging policy:** The Company has revisited its forex hedging policy by increasing the hedging coverage. As on 30 sep, the company's cash flow hedge book stood at USD130million and balance sheet stood at USD98million.
- **Clientele details:** Top customer contribution to overall revenues was at 20.6% in the quarter and witnessed growth of 5.1% QoQ. Top 2- 5 customers dipped 4.3% QoQ while top 6-10 customers grew 8% QoQ. Three clients were dropped from active client base on sequential basis taking the active client base to 343. The company added three clients in the \$1 million bucket
- **Order book:** The company's order book declined 5.2% QoQ to USD307 million wherein TCV from new increased 2.5x YoY while TCV from the renewals dipped 16.2% YoY. The change in management has led to dip in renewals. The digital order book increased 2.2% QoQ to USD140 million. The company expects deal wins that has not come this quarter is expected to grow in next quarters without any incremental cost involved.
- **Margin outlook:** Driving profitability will be the key priority for the company. The management continues to see margin expansion in H2, however does expect FY20 margins to cross FY19 margins.

Revenues by Business Segments

BROAD-BASED REVENUE GROWTH ACROSS VERTICALS

VERTICALS (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Retail	53	56	54	56	58	59	59	0.1%	9.6%
BFSI	51	54	55	55	57	57	59	2.9%	6.3%
Technology	86	94	97	99	104	104	108	3.6%	11.4%
Travel & Hospitality	36	38	41	42	43	44	46	3.4%	12.1%

Revenues by Client Geography

GROWTH SEEN ACROSS GEOGRAPHIES

GEOGRAPHY (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Americas	161	176	181	185	193	195	200	2.6%	10.1%
Europe	48	49	46	47	48	47	48	1.4%	3.5%
India	7	7	8	9	10	11	11	5.1%	39.9%
ROW	11	10	11	11	11	12	12	4.9%	12.4%

Deal wins

STRONG GROWTH IN NEW DEALS WHILE RENEWAL DECLINED

DEALS (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Digital TCV	102	139	162	136	126	137	140	2.2%	-13.6%
Non-digital TCV	196	167	109	120	116	187	167	-10.7%	53.2%
Total TCV	298	306	271	256	242	324	307	-5.2%	13.3%
Renewals	256	255	222	184	158	248	186	-25.0%	-16.2%
New order	42	51	49	72	84	76	121	59.2%	146.9%
Total TCV	298	306	271	256	242	324	307	-5.2%	13.3%

Revenue by services

SLOW GROWTH IN DIGITAL REVENUE

DEALS (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Interactive			51		59	63	64	2.1%	26.4%
Data Science and Engineering s			26		29	28	30	7.5%	15.2%
Cloud Services			9		8	9	8	-6.8%	-8.4%
Others			1		1	1	1	-31.6%	-45.0%
Digital			87		97	100	103	2.6%	18.7%
Test Engineering			47		48	48	51	5.4%	8.8%
Package Solutions			20		21	20	19	-3.0%	-6.2%
IMS			57		61	63	67	6.0%	16.1%
ADM and Product Engineering			36		35	33	32	-4.8%	-10.7%

Exhibit: Revenue trend

Broad-based revenue growth across verticals led to moderate 2Q.

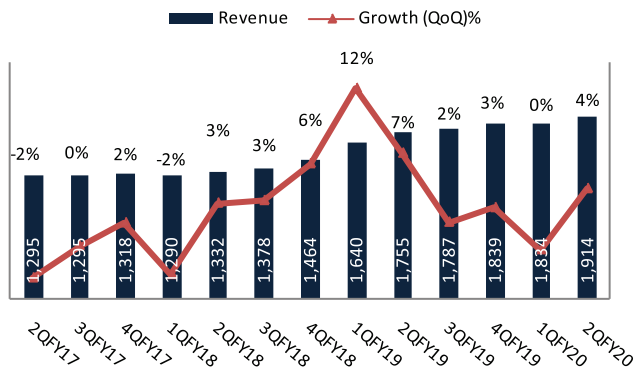


Exhibit: Deal wins

Strong growth in new deals.

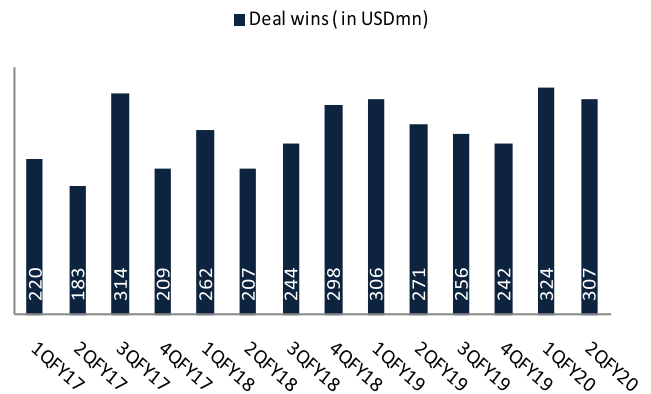


Exhibit: Margin Trend

Margin expansion due to better operational execution and tightness in overall cost

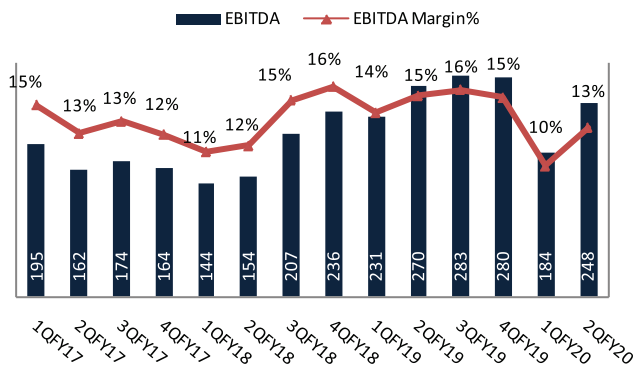


Exhibit: Attrition trend

Attrition at all-time high.

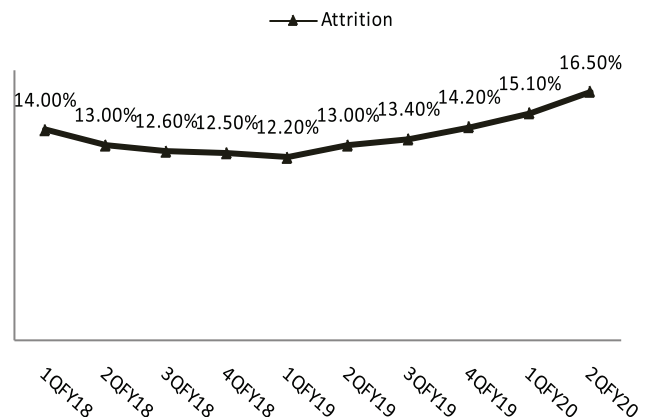
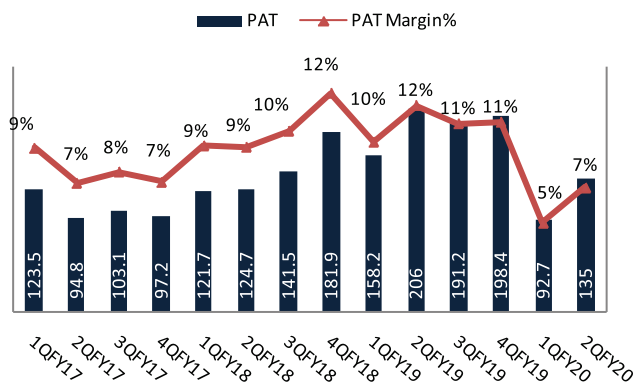


Exhibit: PAT Trend

PAT came in below our estimates on the back of lower other income



Operational Details

INDUSTRY REVENUE (%)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Technology	36.6%	37.6%	38.9%	39.3%	39.3%	39.6%	39.4%	39.8%
BFSI	24.8%	22.5%	22.3%	22.4%	21.7%	21.8%	21.6%	21.6%
Retail,CPG & Mfg	23.3%	24.0%	23.1%	21.7%	22.3%	22.2%	22.2%	21.7%
Travel & Hospitality	15.3%	15.9%	15.8%	16.7%	16.7%	16.4%	16.8%	16.9%

SERVICE OFFERING (%)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Interactive						23%	24%	24%
Data Science and Engineering s						11%	11%	11%
Cloud Services						3%	3%	3%
Others						1%	0%	0%
Digital						37%	38%	38%
Test Engineering						18%	18%	19%
Package Solutions						8%	7%	7%
IMS						23%	24%	25%
ADM and Product Engineering						13%	13%	12%

REVENUE BY GEOGRAPHY	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
US	69.7%	71.0%	72.7%	73.6%	73.4%	73.6%	73.7%	73.7%
Europe	20.9%	21.1%	20.1%	18.7%	18.7%	18.5%	17.8%	17.6%
India	3.2%	3.2%	3.1%	3.3%	3.6%	3.7%	4.1%	4.2%
Rest of the World	6.2%	4.7%	4.2%	4.4%	4.2%	4.2%	4.4%	4.5%

REVENUE BY PROJECT TYP	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Fixed Cost , Fixed Monthly	56.4%	56.8%	56.4%	56.1%	56.0%	55.9%	55.3%	55.9%
Time & Materials	43.6%	43.2%	43.6%	43.9%	44.0%	44.1%	44.7%	44.1%

REVENUE MIX	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	57.9%	58.9%	58.9%	58.9%	58.5%	N/A	N/A	N/A
Offshore	42.1%	41.1%	41.1%	41.1%	41.5%	N/A	N/A	N/A

UTILIZATION	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Including Trainees	72.8%	73.8%	75.4%	74.5%	74.6%	75.3%	77.2%	77.0%
Excluding Trainees	74.3%	75.2%	76.3%	76.5%	76.4%	77.1%	77.9%	79.0%

Operational Details

CLIENT CONTRIBUTION TO REVENUE	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Top Client	16.6%	17.8%	19.4%	20.2%	20.0%	19.8%	20.1%	20.6%
Top 5 Clients	31.6%	32.0%	32.3%	33.8%	33.8%	33.2%	33.6%	33.2%
Top 10 Clients	43.7%	43.7%	43.5%	44.8%	44.1%	42.9%	43.0%	43.1%

TOTAL CONTRACT VALUE	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Renewals	187	256	255	222	184	158	248	186
New	57	42	51	49	72	84	76	121
Total	244	298	306	271	256	242	324	307
Expiring within 1 year	206	237	259	198	212	218	271	239
Expiring > 1 year	38	61	47	73	44	23	53	68

CLIENT DETAILS	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Number of Active clients	344	338	339	341	340	349	346	343
New Clients Added	28	23	24	18	23	15	12	14
\$1 mn clients	114	118	117	111	116	120	122	130
\$5 mn clients	37	38	39	44	44	45	46	47
\$10 mn clients	15	17	19	21	21	23	23	21
\$25 mn clients	3	4	4	4	4	4	4	4
\$50 mn clients	1	1	1	1	1	1	1	1
\$100 mn clients	1	1	1	1	1	1	1	1

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	42	84	168	168	164	164	164	164
Reserves	1,599	1,929	2,247	2,409	2,578	3,142	3,346	3,720
Networth	1,641	2,012	2,415	2,577	2,741	3,306	3,510	3,885
Debt	3	2	43	99	301	1	1	1
Other Non Current Liab	17	33	86	30	9	17	17	17
Total Capital Employed	1,660	2,049	2,544	2,706	3,051	3,324	3,528	3,903
Net Fixed Assets (incl CWIP)	393	591	704	594	512	523	455	382
Non Current Investments	18	1	6	6	6	120	120	220
Other Non Cur Asst	613	802	1,443	1,324	1,228	1,292	1,223	1,151
Non Current Assets	631	802	1,450	1,330	1,233	1,412	1,343	1,371
Debtors	600	696	973	896	1,016	1,336	1,466	1,643
Cash & Bank	118	376	233	251	328	256	197	294
Other Curr Assets	173	162	115	103	129	227	249	279
Current investments	516	534	227	587	721	684	920	1,040
Other financial assets	61	84	280	224	310	265	266	268
Curr Assets	1,469	1,853	1,827	2,061	2,503	2,767	3,099	3,524
Creditors	8	54	189	165	171	213	234	262
Provisions	157	206	129	111	122	140	154	172
Other Curr Liab	274	347	105	113	180	243	267	300
Current tax liabilities	-	-	35	32	32	75	75	75
Other financial liabilities	-	-	275	264	181	184	184	184
Curr Assets	439	606	733	684	686	855	913	992
Net Curr Assets	1,029	1,246	1,095	1,377	1,817	1,912	2,185	2,532
Total Assets	2,099	2,655	3,277	3,391	3,736	4,179	4,442	4,895

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	3032	3562	4673	5236	5463	7022	7708	8640
Change (%)	28%	17%	31%	12%	4%	29%	10%	12%
EBITDA	610	709	821	705	741	1,065	1,036	1,288
Change (%)	35%	16%	16%	-14%	5%	44%	-3%	24%
Margin (%)	20%	20%	18%	13%	14%	15%	13%	15%
Depr & Amor.	81	102	166	186	172	164	277	305
EBIT	529	607	655	519	569	900	759	982
Int. & other fin. Cost	0	0	16	19	17	3	54	55
Other Income	50	84	84	55	190	89	101	108
EBT	578	691	723	555	742	987	806	1,035
Exp Item	-	-	-	-	-	-	-	-
Tax	128	155	171	136	172	233	211	269
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	451	536	553	419	570	754	595	766
Adjusted PAT	451	536	553	419	570	754	595	766
Change (%)	33%	19%	3%	-24%	36%	32%	-21%	29%
Margin(%)	15%	15%	12%	8%	10%	11%	8%	9%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	27%	27%	23%	16%	21%	23%	17%	20%
ROCE	32%	30%	26%	19%	19%	27%	22%	25%
Asset Turnover	1	1	1	1	1	1	2	2
Current Ratio	3	3	2.5	3.0	3.6	3.2	3.4	3.6
Debtor Days	72	71	76	62	68	69	69	69
Book Value Per Share	394	240	144	153	167	201	214	236
Payable Days	1	5	15	12	11	11	11	11
Earnings Per Share	108	64	33	25	35	46	36	47
P/E	12	20	20	18	21	21	20	15
Price / Book Value	3	5	5	3	4	5	3	3
EV/EBITDA	9	15	13	11	16	14	11	9
EV/Sales	2	3	2	1	2	2	2	1

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	578	691	553	419	570	754	595	766
(inc)/Dec in Working Capital	-177	3	-252	122	-83	-236	-96	-230
Non Cash Op Exp	50	59	314	290	241	338	277	305
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-130	-154	-194	-177	-163	-226	0	0
others	0	0	0	0	0	0	0	0
CF from Op. Activities	322	598	421	654	564	631	777	841
(inc)/Dec in FA & CWIP	-152	-200	-158	-87	-102	-175	-208	-233
Free Cashflow	170	399	263	566	462	456	568	608
(Pur)/Sale of Inv	1050	1025	1339	989	1377	1786	0	0
others	-1426	-1435	-1923	-1530	-1679	-2154	-653	-586
CF from Inv. Activities	-224	-210	-426	-453	-200	-193	-445	-353
inc/(dec) in NW	6	7	2	1	0	0	0	0
inc/(dec) in Debt	-25	0	41	55	196	-300	0	0
Int. Paid	-1	0	0	0	-5	-4	0	0
Div Paid (inc tax)	-92	-144	-215	-193	-214	-218	-391	-391
others	0	0	0	0	0	0	0	0
CF from Fin. Activities	-111	-138	-172	-138	-288	-522	-391	-391
Inc(Dec) in Cash	-14	251	-176	63	77	-85	-59	97
Add: Opening Balance	132	125	370	188	251	341	256	197
Closing Balance	118	376	194	251	328	256	197	294

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