



Mindtree

Sector: Technology

3QFY17 Result Update

CMP: ₹ 485

Decent quarter, valuations expensive

Recommendation: Hold

Market statistics

Current stock price (₹)	485
Shares O/S (cr.)	16.8
Mcap (₹ cr)	8,145
52W H/L (₹)	804/400
6m avg. volume	755,704
Bloomberg	MTCL IN

Mindtree Q3FY17 performance was better on the margin front. Revenue declined 0.4% QoQ in US\$ terms to US\$192.2mn (up 0.4% in cc terms). Margin was up 92bps to 13.4% primarily on account of tight control on SG&A costs. TCV won in Q2 was US\$314mn (US\$220mn in 1Q, US\$184mn in 2Q) with digital comprising US\$103mn – which again was very robust. Mindtree's comments regarding future business opportunities indicated a transition in 4Q and a pick-up in FY18. We maintain our Hold recommendation on the stock primarily on account of rich valuations. We would become constructive on the stock once sustainability of revenue and margins kick in.

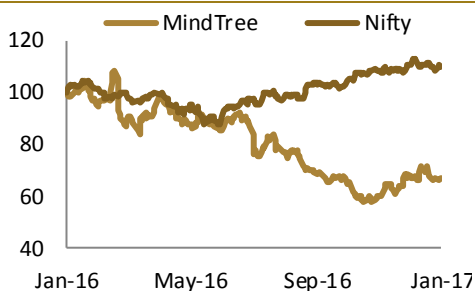
Shareholding pattern

Promoters	13.69
Domestic Institution	7.22
Foreign Institution	39.01
Non-institution	40.08
of which more than 1%	
Coffee Day	16.7
Nalanda India Fund Ltd	9.40

Higher-than-expected margins: Mindtree's Q3FY17 revenue was flat QoQ at Rs12.9bn in INR terms and by down 0.4% QoQ in USD terms to \$192.2mn. Volume declined 3% QoQ (offshore declined 3.2%, onsite declined by 2.2%). Blended pricing was up 2.6% QoQ. Mindtree's comments regarding future business opportunities indicated a transition in 4Q and a pick-up in FY18.

Order signing strong, provides decent revenue visibility: Clients #2-5 increased 2.1% QoQ, while Top client (was down 2.5% QoQ). The management indicated there were some project delays at its Top clients. **Robust TCV signings:** Mindtree's total contract value signed during the quarter was at US\$314mn (1Q: US\$220mn, 2Q: US\$184mn). Out of this, new deal wins accounted for US\$144mn, and contracts worth US\$234mn were to be executed within a year. Deal signings were up 54% YoY.

Mindtree vs Nifty



Operating metrics this quarter: (1) Travel & Hospitality increased by 4.4% QoQ while BFSI & Retail, CPG & Manufacturing was down by 2.8% and 0.8% respectively. Technology, Media & Services was down 0.4%. (2) Digital/SMAC declined by 1.9% QoQ (now at 39.4% of revenues), (3) 120 employees (net) left MTCL to take the employee base to 16,099 (a gross addition of 470). (4) US (+1.2% QoQ) and India (-11.8%). EU declined by 3.2%. (5) MTCL declares Rs2/share as interim dividend (6) Attrition decreased 30bps QoQ to 16.1%. (7) DSO went up 5 day QoQ to 71, while utilization (including trainees) was down 10bps QoQ at 71.3%. Utilization (excluding trainees) was down 80bps QoQ to 72.3%. (8) Volume decreased 3% QoQ. Pricing including acquisitions was up 2.6% QoQ.

Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	24.7	17.1	19.8
EPS (₹)	32.9	25.7	33.0
CEPS (₹)	42.8	36.7	44.7
P/E (x)	19.9	18.9	14.7
P/BV (x)	4.6	3.1	2.7
EV/EBITDA (x)	12.3	10.0	8.0
Income growth (%)	31.2	12.0	8.7
EBITDA growth (%)	15.8	(13.6)	20.3
PAT growth (%)	3.0	(22.0)	28.6

FY17 Outlook – not as robust as indicated earlier: MTCL over the past 3 years has grown at revenue CAGR of 15%+ on organic basis in reporting terms. Management had guided during the start of the year - FY17 would see similar kind of revenue growth rate. However, MTCL on the 1Q results call lowered its FY17 revenue guidance to 'beating NASSCOM's guidance' from its earlier guidance of 'beating NASSCOM's guidance organically' – leading to growth expectations falling to ~15% from an earlier ~18%. MTCL had post 1Q results warned of declining QoQ revenues for 2Q. MTCL sees muted 3Q as well with an elongated recovery path going forward. Mindtree's comments regarding future business opportunities indicated a transition in 4Q and a pick-up in FY18.

Valuation & Outlook: We have cut our FY17E/18E earnings by 1.5/3.7%. Our estimates revision is primarily on account of (1) lower-than expected revenue for 3QFY17, (2) lower revenue guidance for FY17, and (3) lower margin assumption. Mindtree's 3QFY17 result, the management commentary, signifies transition for the business. We expect valuations, which have remained rich as compared to peers, to come under pressure and hence maintain Hold recommendation.

ANALYST

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Exhibit 1: Quarterly details (IND-AS)

₹ mn	3QFY16	2QFY17	3QFY17	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	183.5	193.0	192.2	(0.4)	4.7	Volumes decreased 3%, pricing increased 2.6%.
Revenues	12,095	12,954	12,953	(0.0)	7.1	
- Operating costs	9,955	11,333	11,213	(1.1)	12.6	
EBITDA	2,140	1,621	1,740	7.3	(18.7)	
EBITDA margin (%)	17.7	12.5	13.4	92bps	(426)bps	
- Interest expense	43	47	46	(2.1)	7.0	
- Depreciation	435	463	459	(0.9)	5.5	
+ Other income, net (incl forex)	174	170	144	(15.3)	(17.2)	OI breakup: Forex profit of Rs32mn vs a loss of Rs28mn in the last quarter.
PBT	1,836	1,281	1,379	7.7	(24.9)	
- Taxes	429	333	348	4.5	(18.9)	
Effective tax rate (%)	23.4	26.0	25.2	(76)bps	187bps	Effective tax rate for FY18 to be between 22-23%
PAT	1,407	948	1,031	8.8	(26.7)	
Net margin (%)	11.6	7.3	8.0	64bps	(367)bps	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY17E			FY18E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	787	780	(0.9)	878	862	(1.8)
Revenue	51,934	52,330	0.8	57,057	56,907	(0.3)
EBITDA margin (%)	13.7	13.6	(10)bps	15.3	15.0	(25)bps
EPS (₹)	26.1	25.7	(1.5)	34.3	33.0	(3.7)

Source: Trust Research

Geography wise Revenues: US (+1.2% QoQ) and India (-11.8%). EU declined by 3.2%.

Exhibit 3: Geographical wise Performance

Geographical mix	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
US	63.1	64.9	67.5	63.2	63.5	65.9	66.7	67.6	68.7
Europe	24.2	23.7	21.9	26.6	26.4	24.5	23.1	21.4	20.8
India	4.1	3.6	3.4	3.2	2.7	2.8	3.1	3.5	3.1
APAC	8.6	7.8	7.2	7.0	7.4	6.8	7.1	7.5	7.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Verticals: Travel & Hospitality (+4.4%) QoQ while BFSI & Retail, CPG & Manufacturing was -2.8% and -0.8% respectively.

Exhibit 4: Service offering segmentation

Service offerings	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Development	23.7	23.2	24.4	23.2	23.7	23.0	22.7	22.0	22.3
Engineering	10.3	10.0	9.0	8.6	8.3	9.8	9.8	9.8	9.5
Maintenance	21.4	20.8	21.7	21.0	19.8	18.0	17.3	17.8	17.6
Consulting & IP Licensing	5.8	3.9	3.7	2.8	2.6	4.0	4.1	3.8	3.9
Package Implementation	5.8	7.5	7.2	13.3	12.9	13.6	13.9	13.1	12.4
Independent Testing	15.4	15.4	14.9	12.8	12.8	12.6	12.8	12.4	12.6
IMS	17.6	17.5	17.7	17.0	18.1	17.5	18.4	19.9	20.3
IP Licensing	1.7	1.7	1.4	1.3	1.8	1.3	1.0	1.2	1.4
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Human Resources: 120 employees (net) left MTCL to take the employee base to 16,099 (a gross addition of 470). Attrition decreased 30bps QoQ to 16.1%. Utilization (including trainees) was down 10bps QoQ at 71.3%. Utilization (excluding trainees) was down 80bps QoQ to 72.3%.

Exhibit 5: Employee strength at MTCL

Vertical Mix	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Software Professionals	12,500	13,350	13,560	14,655	15,296	15,623	15,092	15,189	15,068
Sales and Support	823	852	867	927	947	1,000	1,018	1,030	1,031
Total employees	13,323	14,202	14,427	15,582	16,243	16,623	16,110	16,219	16,099
Gross Addition	1,016	1,517	900	1,801	1,306	1,020	210	744	470
Net Addition	305	879	225	1,155	661	380	(513)	109	(120)
Attrition (LTM, %)	18.1	18.2	18.4	17.1	16.0	15.7	16.5	16.4	16.1

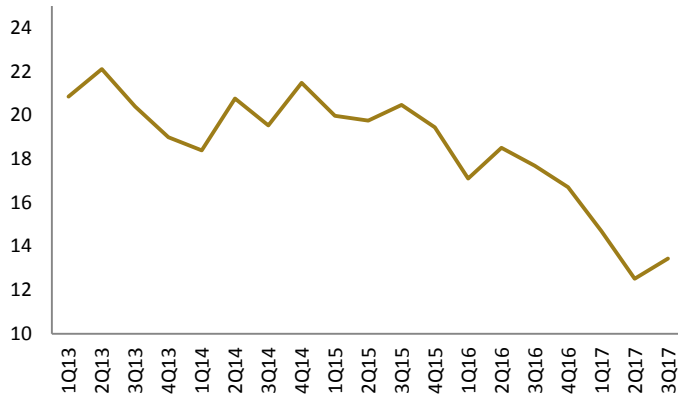
Source: Company, Trust Research

Exhibit 6: Client details

Employees	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Top client	9.6	10.1	11.0	10.7	10.9	11.7	13.1	14.4	14.1
Top 5 clients	32.5	32.3	33.2	31.8	32.1	29.7	29.6	30.0	30.1
Top 10 clients	48.1	47.3	48.5	45.5	46.2	42.7	42.6	42.5	42.3
Number Of Active Clients	201	217	218	296	294	348	343	337	348
New Client Additions	5	8	16	18	23	37	17	18	21
\$1 Mn Clients	83	88	88	92	93	101	98	107	106
\$5 Mn Clients	27	28	28	29	29	31	31	30	30
\$10 Mn Clients	13	14	13	13	13	15	16	16	17
\$25 Mn Clients	6	6	6	6	5	6	5	6	4
\$50 Mn Clients	1	1	2	2	2	2	2	2	1
\$100 Mn Clients	0	0	0	0	0	0	0	0	1

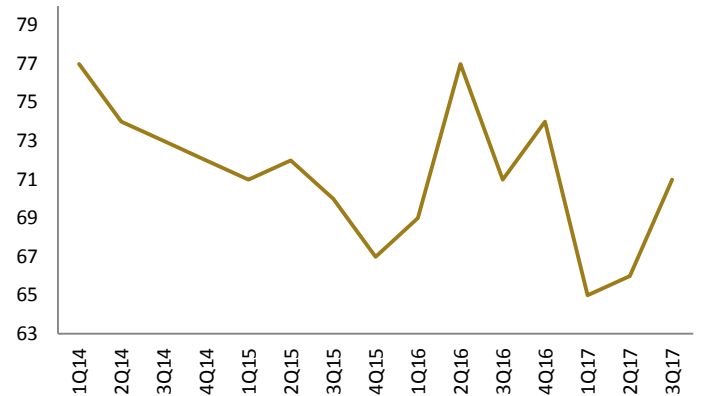
Source: Company

Exhibit 7: Margin was higher than we had expected



Source: Company, Trust

Exhibit 8: DSO increased by 5 days QoQ to 71



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Revenues	35,619	46,730	52,330	56,907	63,374
Op. Expenses	28,527	38,520	45,235	48,368	53,596
EBITDA	7,092	8,210	7,095	8,539	9,778
Other Income	835	839	662	750	950
Depreciation	1,018	1,658	1,859	1,976	2,095
EBIT	6,909	7,391	5,898	7,313	8,633
Interest	1	160	185	114	91
PBT	6,908	7,231	5,713	7,199	8,542
Tax	1,545	1,706	1,403	1,656	1,965
PAT	5,363	5,525	4,310	5,543	6,577
Ex. ordinary	-	-	-	-	-
Adj Pat	5,363	6,033	4,310	5,543	6,577

Key Parameters

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Per share (₹)					
EPS	32.0	32.9	25.7	33.0	39.1
CEPS	38.1	42.8	36.7	44.7	51.6
BVPS	123.0	143.9	156.3	177.5	202.6
DPS	8.5	10.5	8.5	10.0	12.5
Payout (%)	31.0	37.3	38.8	35.5	35.7
Valuation (x)					
P/E	20.3	19.9	18.9	14.7	12.4
P/BV	5.3	4.6	3.1	2.7	2.4
EV/EBITDA	6.4	12.3	10.0	8.0	6.7
Dividend Yield (%)	1.3	1.6	1.8	2.1	2.6
Return ratio (%)					
EBITDA Margin	19.9	17.6	13.6	15.0	15.4
PAT Margin	15.1	11.8	8.2	9.7	10.4
ROAE	29.0	24.7	17.1	19.8	20.6
ROACE	36.8	32.4	22.9	25.5	26.5
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.5)	(0.2)	(0.3)	(0.3)	(0.4)
Debt/EBITDA	0.0	0.1	0.1	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	3.1	2.4	2.6	2.8	2.9
Growth Ratios (%)					
Income growth	17.5	31.2	12.0	8.7	11.4
EBITDA growth	16.2	15.8	(13.6)	20.3	14.5
PAT growth	18.9	3.0	(22.0)	28.6	18.7
Turnover Ratios					
F.A Turnover x	7.1	6.6	8.3	9.4	11.2
Debtors Days	66	65	69	67	66
Payable days	2	5	5	5	5

Balance Sheet (₹ mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	837	1,678	1,680	1,682	1,684
Reserves & Surplus	19,291	22,471	26,325	28,668	31,863
Total Shareholders Fund	20,128	24,149	28,005	30,349	33,547
Non- current liabilities	(92)	450	283	92	(94)
Long term borrowings	23	765	565	365	165
Deferred tax liabilities	(449)	(406)	(406)	(406)	(406)
Other LT liabilities & prov	334	91	124	133	147
Current Liabilities	6,064	7,764	8,916	9,459	10,397
Short term borrowings	-	415	365	315	265
Trade payables	536	1,890	2,231	2,385	2,643
Other cur liabilities & Prov	5,528	5,459	6,320	6,758	7,489
Total Liabilities	26,100	32,363	37,205	39,900	43,850
Assets					
Non- current Assets	7,574	14,089	13,619	13,556	13,463
Fixed assets	4,987	7,037	6,305	6,029	5,634
Non-current investments	930	4,877	4,877	4,877	4,877
Long-term loans & adv	654	844	1,004	1,091	1,215
Other non-current assets	1,003	1,331	1,434	1,559	1,736
Current assets	18,526	18,274	23,585	26,343	30,387
Current investments	5,343	2,266	5,266	6,266	7,266
Trade receivables	6,963	9,728	10,036	10,914	12,154
Cash & Bank balances	3,763	2,332	3,839	4,330	5,585
Short term loans & adv.	836	2,799	3,154	3,430	3,820
Other current assets	1,621	1,149	1,290	1,403	1,563
Total Assets	26,100	32,363	37,205	39,900	43,850

Cash flow Statement

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
PBT	6,908	7,231	5,713	7,199	8,542
Depreciation	971	1,701	1,859	1,976	2,095
Interest Exp	1	160	185	114	91
CF before W.cap	7,880	9,092	7,757	9,289	10,728
Inc/dec in W.cap	(900)	3,732	(169)	879	1,088
Op CF after W.cap	8,780	5,360	7,926	8,410	9,640
Less Taxes	1,545	1,706	1,403	1,656	1,965
Net CF From Operations	7,235	3,654	6,522	6,754	7,676
Inc/(dec) in F.A + CWIP	2,073	3,708	1,127	1,700	1,700
(Pur)/sale of Investments	938	870	3,000	1,000	1,000
Others	(1)	(160)	(185)	(114)	(91)
CF from Invst Activities	(3,012)	(4,738)	(4,312)	(2,814)	(2,791)
Loan Raised	(4)	1,157	(250)	(250)	(250)
Equity Raised	25	557	1,217	(1,231)	(1,032)
Dividend	1,665	2,061	1,671	1,968	2,348
CF from Fin Activities	(1,644)	(347)	(703)	(3,449)	(3,630)
Net inc /(dec) in cash	2,579	(1,431)	1,507	491	1,254
Op. bal of cash	1,184	3,763	2,332	3,839	4,330
Cl. balance of cash	3,763	2,332	3,839	4,330	5,585



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