

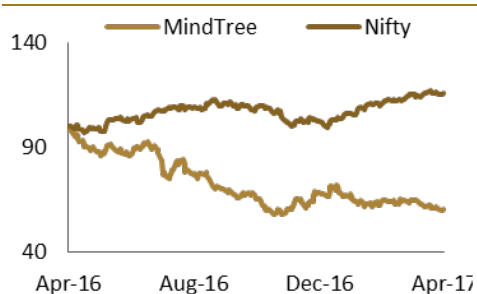
Market statistics

Current stock price (₹)	442
Shares O/S (cr.)	16.8
Mcap (₹ cr)	7,431
52W H/L (₹)	758/400
6m avg. volume	636,480
Bloomberg	MTCL IN

Shareholding pattern

Promoters	13.67
Domestic Institution	7.10
Foreign Institution	39.19
Non-institution	40.04
of which more than 1%	
Coffee Day	16.7
Nalanda India Fund Ltd	11.1

Mindtree vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	16.8	19.1	20.1
EPS (₹)	24.9	31.1	37.0
CEPS (₹)	36.0	42.8	49.7
P/E (x)	18.2	14.4	12.1
P/BV (x)	3.0	2.6	2.3
EV/EBITDA (x)	9.0	7.5	6.2
Income growth (%)	12.1	8.2	11.8
EBITDA growth (%)	(12.5)	16.9	15.0
PAT growth (%)	(24.2)	24.9	19.1

Mindtree Q4FY17 performance was operationally better on both the revenue and margin front. Revenue increased 1.8% QoQ in US\$ terms to US\$195.6mn (up 2% in cc terms). Margin was up 75bps to 14.2% primarily on account of tight control on SG&A costs. TCV won in Q4 was US\$209mn (US\$220mn in 1Q, US\$184mn in 2Q, US\$314mn in 3Q) with digital comprising US\$50mn – which again was weak. Mindtree's comments regarding future business opportunities indicated 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.

Higher-than-expected revenue/margins: Mindtree's Q4FY17 revenue was up 1.8% QoQ at Rs13.2bn in INR terms and in USD terms to \$195.6mn. Volume increased 2.2% QoQ (offshore increased 1%, onsite by 6.1%). Blended pricing was down 0.1% QoQ. Mindtree's comments regarding future business opportunities indicated a pick-up in FY18.

Order signing weak, provides lower revenue visibility: Clients #2-5 increased 4.3% QoQ, while Top client (was up 3.2% QoQ). **Robust TCV signings:** Mindtree's total contract value signed during the quarter was at US\$209mn (1Q: US\$220mn, 2Q: US\$184mn, 3Q: US\$314mn). Out of this, new deal wins accounted for US\$74mn, and contracts worth US\$182mn were to be executed within a year.

Operating metrics this quarter: (1) Travel & Hospitality decreased by 0.2% QoQ while BFSI & Technology, Media & Services was up by 4.3% and 4% respectively. Retail, CPG & Manufacturing was down 2.9%. (2) Digital/SMAC increased by 2.3% QoQ (now at 39.6% of revenues), (3) 371 employees (net) joined MTCL to take the employee base to 16,470 (a gross addition of 914). (4) US (+3.4% QoQ) and India (-8.1%). EU increased by 1.8%. (5) MTCL declares Rs3/share as final dividend, taking the total dividend payout to Rs8/share for FY17 (translating to a payout of ~37.6%) (6) Attrition decreased 100bps QoQ to 15.1%. (7) DSO went up 3 days QoQ to 74, while utilization (including trainees) was down 40bps QoQ at 70.9%. Utilization (excluding trainees) was up 40bps QoQ to 72.7%. (8) Volume increased 2.2% QoQ. Pricing including acquisitions was down 0.1% QoQ.

FY18 Outlook not as robust as FY17: 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 indicates a pick-up in FY18 and guided to a double-digit US\$ revenue growth for FY18.

Valuation & Outlook: We have cut our FY17E/18E earnings by 6/5% in order to accommodate lower other income and slightly lower margin assumptions. Mindtree's 4QFY17 result, the management commentary, signifies traction for the business in FY18. We expect valuations, which have remained rich as compared to peers, to come under pressure and hence maintain Hold recommendation.

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**Exhibit 1: Quarterly details (IND-AS)**

₹ mn	4QFY16	3QFY17	4QFY17	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	194.9	192.2	195.6	1.8	0.4	Volumes increased 2.2%, pricing decreased 0.1%.
Revenues	13,203	12,953	13,181	1.8	(0.2)	
- Operating costs	10,997	11,213	11,312	0.9	2.9	
EBITDA	2,206	1,740	1,869	7.4	(15.3)	
EBITDA margin (%)	16.7	13.4	14.2	75bps	(253)bps	Up on account of tight control on SG&A costs.
- Interest expense	63	46	47	2.2	(25.4)	
- Depreciation	475	459	468	2.0	(1.5)	
+ Other income, net (incl forex)	105	144	(95)	NA	NA	Forex loss of RS228mn vs gain of 32mn In 3Q.
PBT	1,773	1,379	1,259	(8.7)	(29.0)	
- Taxes	443	348	287	(17.5)	(35.2)	
Effective tax rate (%)	25.0	25.2	22.8	(244)bps	(219)bps	Effective tax rate for FY18 to be between 24-25%
PAT	1,330	1,031	972	(5.7)	(26.9)	
Net margin (%)	10.1	8.0	7.4	(59)bps	(270)bps	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY18E			FY19E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	862	858	(0.5)	960	959	(0.1)
Revenue	56,907	56,634	(0.5)	63,374	63,307	(0.1)
EBITDA margin (%)	15.0	14.8	(15)bps	15.4	15.3	(5)bps
EPS (₹)	33.0	31.1	(5.8)	39.1	37.0	(5.4)

Source: Trust Research

Geography wise Revenues: US (+3.4% QoQ) and India (-8.1%). EU increased by 1.8%**Exhibit 3: Geographical wise Performance**

Geographical mix	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
US	64.9	67.5	63.2	63.5	65.9	66.7	67.6	68.7	69.8
Europe	23.7	21.9	26.6	26.4	24.5	23.1	21.4	20.8	20.8
India	3.6	3.4	3.2	2.7	2.8	3.1	3.5	3.1	2.8
APAC	7.8	7.2	7.0	7.4	6.8	7.1	7.5	7.4	6.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Vertical Performance: Travel & Hospitality decreased by 0.2% QoQ while BFSI & Technology, Media & Services was up by 4.3% and 4% respectively. Retail, CPG & Manufacturing was down 2.9%.**Exhibit 4: Service offering segmentation**

Service offerings	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Development	23.2	24.4	23.2	23.7	23.0	22.7	22.0	22.3	21.4
Engineering	10.0	9.0	8.6	8.3	9.8	9.8	9.8	9.5	9.5
Maintenance	20.8	21.7	21.0	19.8	18.0	17.3	17.8	17.6	18.3
Consulting & IP Licensing	3.9	3.7	2.8	2.6	4.0	4.1	3.8	3.9	4.0
Package Implementation	7.5	7.2	13.3	12.9	13.6	13.9	13.1	12.4	12.6
Independent Testing	15.4	14.9	12.8	12.8	12.6	12.8	12.4	12.6	12.5
IMS	17.5	17.7	17.0	18.1	17.5	18.4	19.9	20.3	20.4
IP Licensing	1.7	1.4	1.3	1.8	1.3	1.0	1.2	1.4	1.3
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Human Resources: 371 employees (net) joined MTCL to take the employee base to 16,470 (a gross addition of 914). Attrition decreased 100bps QoQ to 15.1% Utilization (including trainees) was down 40bps QoQ at 70.9%. Utilization (excluding trainees) was up 40bps QoQ to 72.7%.

Exhibit 5: Employee strength at MTCL

Vertical Mix	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Software Professionals	13,350	13,560	14,655	15,296	15,623	15,092	15,189	15,068	15,413
Sales and Support	852	867	927	947	1,000	1,018	1,030	1,031	1,057
Total employees	14,202	14,427	15,582	16,243	16,623	16,110	16,219	16,099	16,470
Gross Addition	1,517	900	1,801	1,306	1,020	210	744	470	914
Net Addition	879	225	1,155	661	380	(513)	109	(120)	371
Attrition (LTM, %)	18.2	18.4	17.1	16.0	15.7	16.5	16.4	16.1	15.1

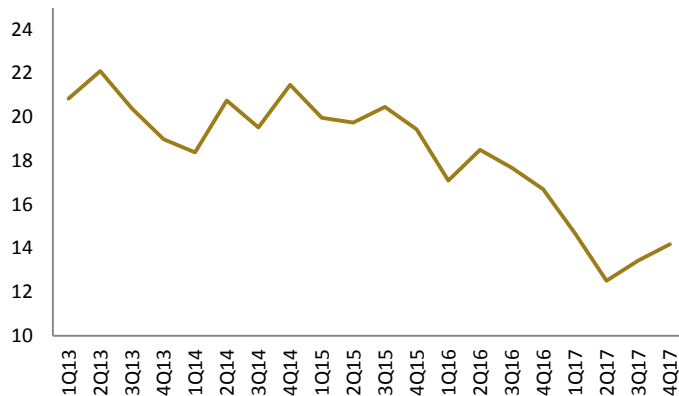
Source: Company, Trust Research

Exhibit 6: Client details

Employees	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Top client	10.1	11.0	10.7	10.9	11.7	13.1	14.4	14.1	14.3
Top 5 clients	32.3	33.2	31.8	32.1	29.7	29.6	30.0	30.1	30.7
Top 10 clients	47.3	48.5	45.5	46.2	42.7	42.6	42.5	42.3	41.9
Number Of Active Clients	217	218	296	294	348	343	337	348	328
New Client Additions	8	16	18	23	37	17	18	21	20
\$1 Mn Clients	88	88	92	93	101	98	107	106	111
\$5 Mn Clients	28	28	29	29	31	31	30	30	30
\$10 Mn Clients	14	13	13	13	15	16	16	17	16
\$25 Mn Clients	6	6	6	5	6	5	6	4	4
\$50 Mn Clients	1	2	2	2	2	2	2	1	1
\$100 Mn Clients	0	0	0	0	0	0	0	1	1

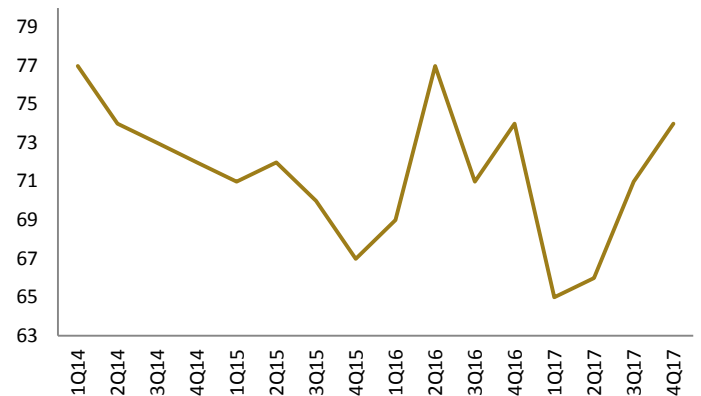
Source: Company

Exhibit 7: Margin was higher than we had expected



Source: Company, Trust

Exhibit 8: DSO increased by 3 days QoQ to 74



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Revenues	35,619	46,730	52,364	56,634	63,307
Op. Expenses	28,527	38,520	45,183	48,239	53,649
EBITDA	7,092	8,210	7,181	8,396	9,659
Other Income	835	839	417	550	750
Depreciation	1,018	1,658	1,858	1,972	2,132
EBIT	6,909	7,391	5,740	6,974	8,277
Interest	1	160	191	138	58
PBT	6,908	7,231	5,549	6,836	8,219
Tax	1,545	1,706	1,363	1,609	1,994
PAT	5,363	5,525	4,186	5,227	6,225
Ex. ordinary	-	-	-	-	-
Adj Pat	5,363	6,033	4,186	5,227	6,225

Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (₹)					
EPS	32.0	32.9	24.9	31.1	37.0
CEPS	38.1	42.8	36.0	42.8	49.7
BVPS	123.0	143.9	153.4	172.7	195.7
DPS	8.5	10.5	8.0	10.0	12.0
Payout (%)	31.0	37.3	37.6	37.6	38.0
Valuation (x)					
P/E	20.3	19.9	18.2	14.4	12.1
P/BV	5.3	4.6	3.0	2.6	2.3
EV/EBITDA	6.4	12.3	9.0	7.5	6.2
Dividend Yield (%)	1.3	1.6	1.8	2.2	2.7
Return ratio (%)					
EBITDA Margin	19.9	17.6	13.7	14.8	15.3
PAT Margin	15.1	11.8	8.0	9.2	9.8
ROAE	29.0	24.7	16.8	19.1	20.1
ROACE	36.8	32.4	22.2	24.4	25.7
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)	(0.4)	(0.4)
Debt/EBITDA	0.0	0.1	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	3.1	2.4	2.6	2.9	3.1
Growth Ratios (%)					
Income growth	17.5	31.2	12.1	8.2	11.8
EBITDA growth	16.2	15.8	(12.5)	16.9	15.0
PAT growth	18.9	3.0	(24.2)	24.9	19.1
Turnover Ratios					
F.A Turnover x	7.1	6.6	8.8	10.0	12.1
Debtors Days	66	65	65	64	63
Payable days	2	5	4	4	4

Balance Sheet (₹ mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	837	1,678	1,680	1,682	1,684
Reserves & Surplus	19,291	22,471	24,091	26,309	29,173
Total Shareholders Fund	20,128	24,149	25,771	27,991	30,857
Non-current liabilities	(92)	450	(310)	(302)	(293)
Long term borrowings	23	765	243	243	243
Deferred tax liabilities	(449)	(406)	(624)	(624)	(624)
Other LT liabilities & prov	334	91	71	79	88
Current Liabilities	6,064	7,764	7,821	8,065	8,815
Short term borrowings	-	415	978	928	878
Trade payables	536	1,890	1,651	1,718	1,911
Other cur liabilities & Prov	5,528	5,459	5,192	5,419	6,026
Total Liabilities	26,100	32,363	33,282	35,754	39,379
Assets					
Non-current Assets	7,574	14,089	12,672	12,525	12,368
Fixed assets	4,987	7,037	5,942	5,670	5,238
Non-current investments	930	4,877	4,528	4,528	4,528
Long-term loans & adv	654	844	876	931	1,041
Other non-current assets	1,003	1,331	1,326	1,396	1,561
Current assets	18,526	18,274	20,610	23,229	27,011
Current investments	5,343	2,266	5,869	6,869	7,869
Trade receivables	6,963	9,728	8,962	9,620	10,754
Cash & Bank balances	3,763	2,332	2,508	3,326	4,573
Short term loans & adv.	836	2,799	2,237	2,327	2,602
Other current assets	1,621	1,149	1,034	1,086	1,214
Total Assets	26,100	32,363	33,282	35,754	39,379

Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	6,908	7,231	5,549	6,836	8,219
Depreciation	971	1,701	1,640	1,972	2,132
Interest Exp	1	160	191	138	58
CF before W.cap	7,880	9,092	7,380	8,946	10,409
Inc/dec in W.cap	(900)	3,732	(890)	624	1,001
Op CF after W.cap	8,780	5,360	8,270	8,321	9,408
Less Taxes	1,545	1,706	1,363	1,609	1,994
Net CF From Operations	7,235	3,654	6,907	6,713	7,414
Inc/(dec) in F.A + CWIP	2,073	3,708	763	1,700	1,700
(Pur)/sale of Investments	938	870	3,254	1,000	1,000
Others	(1)	(160)	(191)	(138)	(58)
CF from Invst Activities	(3,012)	(4,738)	(4,208)	(2,838)	(2,758)
Loan Raised	(4)	1,157	41	(50)	(50)
Equity Raised	25	557	(992)	(1,039)	(996)
Dividend	1,665	2,061	1,572	1,968	2,364
CF from Fin Activities	(1,644)	(347)	(2,523)	(3,057)	(3,409)
Net inc /(dec) in cash	2,579	(1,431)	176	818	1,247
Op. bal of cash	1,184	3,763	2,332	2,508	3,326
Cl. balance of cash	3,763	2,332	2,508	3,326	4,573



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