



Mindtree

Sector: Technology

1QFY18 Result Update

CMP: ` 507

Acquisitions drag, guidance lowered

Recommendation: Hold

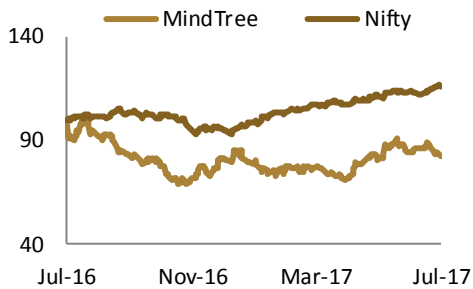
Market statistics

Current stock price (`)	507
Shares O/S (cr.)	16.8
Mcap (` cr)	8,520
52W H/L (`)	621/400
6m avg. volume	616,166
Bloomberg	MTCL IN

Shareholding pattern

Promoters	13.64
Domestic Institution	6.84
Foreign Institution	39.93
Non-institution	39.59
of which more than 1%	
Coffee Day	16.69
Nalanda India Fund Ltd	9.40

Mindtree vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	16.8	18.3	18.9
EPS (`)	24.9	29.8	34.3
CEPS (`)	36.0	41.0	46.5
P/E (x)	18.2	17.0	14.8
P/BV (x)	3.0	3.0	2.6
EV/EBITDA (x)	9.0	10.8	8.7
Income growth (%)	12.1	4.4	12.0
EBITDA growth (%)	(12.5)	(3.2)	20.7
PAT growth (%)	(24.2)	19.6	15.2

Mindtree Q1FY18 performance was operationally lower-than expected on both the revenue and margin front. Revenue increased 2.3% QoQ in US\$ terms to US\$200.1mn (up 1.2% in cc terms). Margin was down 132bps to 11.1% primarily on account of visa costs, INR appreciation and cost over-run at subsidiaries. TCV won in Q1 was US\$262mn (US\$220mn in 1Q, US\$184mn in 2Q, US\$314mn in 3Q, US\$209mn in 4Q) with digital comprising US\$108mn – which again was weak. Mindtree's comments regarding future business opportunities indicated a pick-up in 2HFY18. 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.

Lower-than-expected revenue/margins: Mindtree's Q1FY18 revenue was up 2.3% QoQ in USD terms to \$200.1mn. Organic growth stood at 3.1% QoQ. Volume increased 3.7% QoQ (offshore increased 5.2%, onsite decreased by 1.2%). Blended pricing decreased 1.3% QoQ. Both acquisitions, Bluefin and Magnet 360 showed weak revenue growth, Bluefin revenue was down 19% QoQ to US\$7.3mn while Magnet360 was down 13% to US\$6.1mn. Both the subsidiaries had a negative EBITDA. Mindtree's comments regarding future business opportunities indicated a pick-up in 2HFY18.

Order signing weak, provides lower revenue visibility: Clients #2-5 decreased 7.7% QoQ, while Top client (was up 9.5% QoQ). **Weak TCV signings:** Mindtree's total contract value signed during the quarter was at US\$262mn (1Q: US\$220mn, 2Q: US\$184mn, 3Q: US\$314mn, 4Q: US\$209mn). Out of this, new deal wins accounted for only US\$43mn, and contracts worth US\$198mn to be executed within a year.

Operating metrics this quarter: (1) Travel & Hospitality decreased by 1.1% QoQ while BFSI & Technology, Media & Services was up by 4% and 3.4% respectively. Retail, CPG & Manufacturing was up 1%. (2) Digital/SMAC increased by 9.3% QoQ (now at 42.3% of revenues), (3) 91 employees (net) joined MTCL to take the employee base to 16,561 (a gross addition of 645). (4) US (+2% QoQ) and India (+9.6%). EU increased by 3.8%. (5) MTCL board approves Rs2.7bn share buyback plan (6) Attrition decreased 110bps QoQ to 14%. (7) DSO went down 8 days QoQ to 65, while utilization (including trainees) was up 230bps QoQ at 73.2%. Utilization (excluding trainees) was up 110bps QoQ to 73.8%. (8) Volume increased 3.7% QoQ. Pricing including acquisitions was down 1.3% 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 indicated a pick-up in FY18 and guided to a double-digit US\$ revenue growth for FY18. However, this has been lowered to high single-digit growth in FY18 post 1QFY18 results.

Valuation & Outlook: We have cut our FY17E/18E earnings by 4/7% in order to accommodate lower revenue and margin assumptions. Mindtree's 1QFY18 result, the management commentary, signifies traction for the business in 2HFY18. We expect valuations, which have remained rich as compared to peers, to come under pressure and hence maintain Hold recommendation.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.in



Exhibit 1: Quarterly details (IND-AS)

` mn	1QFY17	4QFY17	1QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	199.0	195.6	200.1	2.3	0.6	Volumes increased 3.7%, pricing decreased 1.3%.
Revenues	13,276	13,181	12,895	(2.2)	(2.9)	
- Operating costs	11,325	11,540	11,460	(0.7)	1.2	
EBITDA	1,951	1,641	1,435	(12.6)	(26.4)	
EBITDA margin (%)	14.7	12.4	11.1	(132)bps	(357)bps	Down on account of visa costs, INR appreciation
- Interest expense	51	47	40	(14.9)	(21.6)	
- Depreciation	468	468	459	(1.9)	(1.9)	
+ Other income, net (incl forex)	198	133	654	391.7	230.3	
PBT	1,630	1,259	1,590	26.3	(2.5)	
- Taxes	395	287	373	30.0	(5.6)	
Effective tax rate (%)	24.2	22.8	23.5	66bps	(77)bps	Effective tax rate for FY18 to be between 24-25%
PAT	1,235	972	1,217	25.2	(1.5)	
Net margin (%)	9.3	7.4	9.4	206bps	14bps	

Source: Company

Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	858	843	(1.7)	959	942	(1.8)
Revenue	56,634	54,674	(3.5)	63,307	61,220	(3.3)
EBITDA margin (%)	14.8	12.3	(250)bps	15.3	13.3	(200)bps
EPS (`)	31.1	29.8	(4.2)	37.0	34.3	(7.3)

Source: Trust Research

Geography wise Revenues: US (+2% QoQ) and India (+9.6%). EU increased by 3.8%

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
US	67.5	63.2	63.5	65.9	66.7	67.6	68.7	69.8	69.6
Europe	21.9	26.6	26.4	24.5	23.1	21.4	20.8	20.8	21.1
India	3.4	3.2	2.7	2.8	3.1	3.5	3.1	2.8	3.0
APAC	7.2	7.0	7.4	6.8	7.1	7.5	7.4	6.6	6.3
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 1.1% QoQ while BFSI & Technology, Media & Services was up by 4% and 3.4% respectively. Retail, CPG & Manufacturing was up 1%.

Exhibit 4: Service offering segmentation

Service offerings	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Development	24.4	23.2	23.7	23.0	22.7	22.0	22.3	21.4	22.6
Engineering	9.0	8.6	8.3	9.8	9.8	9.8	9.5	9.5	9.6
Maintenance	21.7	21.0	19.8	18.0	17.3	17.8	17.6	18.3	19.0
Consulting & IP Licensing	3.7	2.8	2.6	4.0	4.1	3.8	3.9	4.0	3.4
Package Implementation	7.2	13.3	12.9	13.6	13.9	13.1	12.4	12.6	11.5
Independent Testing	14.9	12.8	12.8	12.6	12.8	12.4	12.6	12.5	11.8
IMS	17.7	17.0	18.1	17.5	18.4	19.9	20.3	20.4	21.0
IP Licensing	1.4	1.3	1.8	1.3	1.0	1.2	1.4	1.3	1.1
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Human Resources: 91 employees (net) joined MTCL to take the employee base to 16,561 (a gross addition of 645). Attrition decreased 110bps QoQ to 14, while utilization (including trainees) was up 230bps QoQ at 73.2%. Utilization (excluding trainees) was up 110bps QoQ to 73.8%.

Exhibit 5: Employee strength at MTCL

Vertical Mix	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Software Professionals	13,560	14,655	15,296	15,623	15,092	15,189	15,068	15,413	15,441
Sales and Support	867	927	947	1,000	1,018	1,030	1,031	1,057	1,120
Total employees	14,427	15,582	16,243	16,623	16,110	16,219	16,099	16,470	16,561
Gross Addition	900	1,801	1,306	1,020	210	744	470	914	645
Net Addition	225	1,155	661	380	(513)	109	(120)	371	91
Attrition (LTM, %)	18.4	17.1	16.0	15.7	16.5	16.4	16.1	15.1	14.0

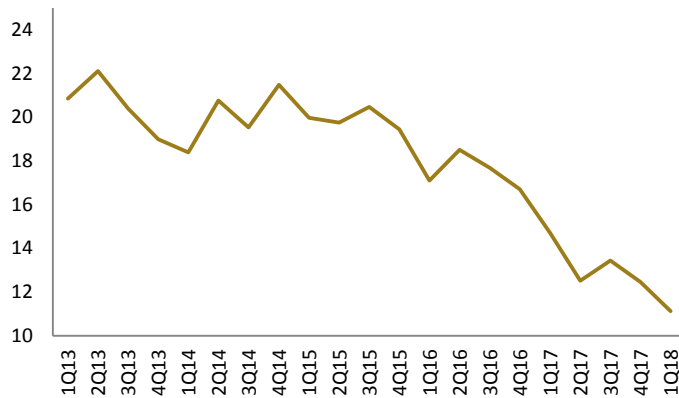
Source: Company, Trust Research

Exhibit 6: Client details

Employees	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Top client	11.0	10.7	10.9	11.7	13.1	14.4	14.1	14.3	15.3
Top 5 clients	33.2	31.8	32.1	29.7	29.6	30.0	30.1	30.7	30.1
Top 10 clients	48.5	45.5	46.2	42.7	42.6	42.5	42.3	41.9	41.5
Number Of Active Clients	218	296	294	348	343	337	348	328	336
New Client Additions	16	18	23	37	17	18	21	20	20
\$1 Mn Clients	88	92	93	101	98	107	106	111	113
\$5 Mn Clients	28	29	29	31	31	30	30	30	33
\$10 Mn Clients	13	13	13	15	16	16	17	16	16
\$25 Mn Clients	6	6	5	6	5	6	4	4	3
\$50 Mn Clients	2	2	2	2	2	2	1	1	1
\$100 Mn Clients	0	0	0	0	0	0	1	1	1

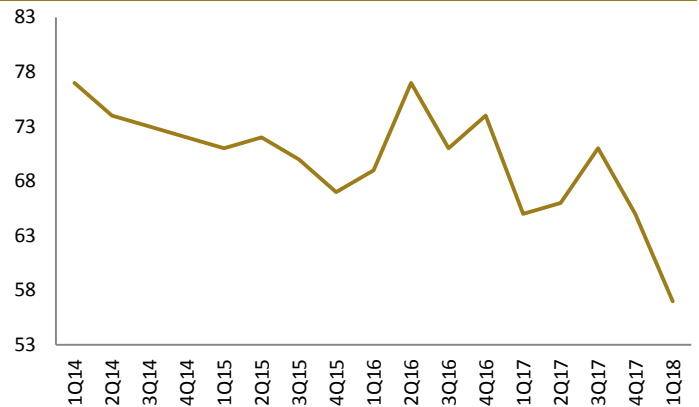
Source: Company

Exhibit 7: Margin was lower than we had expected



Source: Company, Trust

Exhibit 8: DSO decreased by 8 days QoQ to 57



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Revenues	35,619	46,730	52,364	54,674	61,220
Op. Expenses	28,527	38,520	45,183	47,946	53,100
EBITDA	7,092	8,210	7,181	6,729	8,120
Other Income	835	839	417	1,854	1,600
Depreciation	1,018	1,658	1,858	1,896	2,056
EBIT	6,909	7,391	5,740	6,687	7,664
Interest	1	160	191	130	50
PBT	6,908	7,231	5,549	6,557	7,614
Tax	1,545	1,706	1,363	1,550	1,847
PAT	5,363	5,525	4,186	5,007	5,767
Ex. ordinary	-	-	-	-	-
Adj Pat	5,363	6,033	4,186	5,007	5,767

Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (`)					
EPS	32.0	32.9	24.9	29.8	34.3
CEPS	38.1	42.8	36.0	41.0	46.5
BVPS	123.0	143.9	153.4	171.4	191.6
DPS	8.5	10.5	8.0	10.0	12.0
Payout (%)	31.0	37.3	37.6	39.3	41.0
Valuation (x)					
P/E	20.3	19.9	18.2	17.0	14.8
P/BV	5.3	4.6	3.0	3.0	2.6
EV/EBITDA	6.4	12.3	9.0	10.8	8.7
Dividend Yield (%)	1.3	1.6	1.8	2.0	2.4
Return ratio (%)					
EBITDA Margin	19.9	17.6	13.7	12.3	13.3
PAT Margin	15.1	11.8	8.0	9.2	9.4
ROAE	29.0	24.7	16.8	18.3	18.9
ROACE	36.8	32.4	22.2	23.4	24.1
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	4.4	12.0
EBITDA growth	16.2	15.8	(12.5)	(3.2)	20.7
PAT growth	18.9	3.0	(24.2)	19.6	15.2
Turnover Ratios					
F.A Turnover x	7.1	6.6	8.8	9.5	11.4
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	1,683	1,685
Reserves & Surplus	19,291	22,471	24,091	26,308	28,950
Total Shareholders Fund	20,128	24,149	25,771	27,991	30,634
Non- current liabilities	(92)	450	(310)	(302)	(294)
Long term borrowings	23	765	243	243	243
Deferred tax liabilities	(449)	(406)	(624)	(624)	(624)
Other LT liabilities & prov	334	91	71	79	87
Current Liabilities	6,064	7,764	7,821	8,021	8,734
Short term borrowings	-	415	978	928	878
Trade payables	536	1,890	1,651	1,708	1,891
Other cur liabilities & Prov	5,528	5,459	5,192	5,386	5,965
Total Liabilities	26,100	32,363	33,282	35,710	39,074
Assets					
Non- current Assets	7,574	14,089	12,672	12,521	12,434
Fixed assets	4,987	7,037	5,942	5,746	5,390
Non-current investments	930	4,877	4,528	4,528	4,528
Long-term loans & adv	654	844	876	899	1,006
Other non-current assets	1,003	1,331	1,326	1,348	1,510
Current assets	18,526	18,274	20,610	23,189	26,641
Current investments	5,343	2,266	5,869	6,869	7,869
Trade receivables	6,963	9,728	8,962	9,287	10,399
Cash & Bank balances	3,763	2,332	2,508	3,738	4,683
Short term loans & adv.	836	2,799	2,237	2,247	2,516
Other current assets	1,621	1,149	1,034	1,049	1,174
Total Assets	26,100	32,363	33,282	35,710	39,074

Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	6,908	7,231	5,549	6,557	7,614
Depreciation	971	1,701	1,640	1,896	2,056
Interest Exp	1	160	191	130	50
CF before W.cap	7,880	9,092	7,380	8,583	9,720
Inc/dec in W.cap	(900)	3,732	(890)	136	1,004
Op CF after W.cap	8,780	5,360	8,270	8,446	8,716
Less Taxes	1,545	1,706	1,363	1,550	1,847
Net CF From Operations	7,235	3,654	6,907	6,896	6,869
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)	(130)	(50)
CF from Invst Activities	(3,012)	(4,738)	(4,208)	(2,830)	(2,750)
Loan Raised	(4)	1,157	41	(50)	(50)
Equity Raised	25	557	(992)	(818)	(759)
Dividend	1,665	2,061	1,572	1,969	2,365
CF from Fin Activities	(1,644)	(347)	(2,523)	(2,837)	(3,174)
Net inc /(dec) in cash	2,579	(1,431)	176	1,230	945
Op. bal of cash	1,184	3,763	2,332	2,508	3,738
Cl. balance of cash	3,763	2,332	2,508	3,738	4,683



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119
Ritu Chaudhary	Associate	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183

**DISCLAIMER**

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows :- Recommendation Interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	15% to -15%
Sell	Less than -15%

Regional Disclosures (outside India): This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject TFCSP or its associate/subsidiary companies to registration or licensing requirements within such jurisdictions.