



Mindtree

Sector: Technology

1QFY19 Result Update

CMP: ` 1063

Robust revenue visibility, margin expansion intact

Recommendation: Buy

Market statistics

Current stock price (₹)	1,063
Shares O/S (cr.)	16.4
Mcap (₹ cr)	17,428
52W H/L (₹)	1102/436
6m avg. volume	2,148,206
Bloomberg	MTCL IN

Mindtree's Q1FY19 performance was higher-than expected on revenue front, with margin coming in lower-than-expected. Revenue increased 6.8% QoQ to US\$241.5mn (up ~8.2% in cc terms). Margin was lower by 200bps to 14.5% primarily on account of wage hikes and investment at Stanford University. TCV won in Q1 was US\$306mn (US\$298mn in 4QFY18, US\$262mn in 1QFY18) with digital comprising US\$139mn – which again was strong. Mindtree's comments regarding future business opportunities indicated a sustainable pick-up in revenue trajectory and margin recovery. We maintain our Buy recommendation on the stock on account of large deal ramp-ups and continued momentum in deal wins and pipeline courtesy improving positioning in digital.

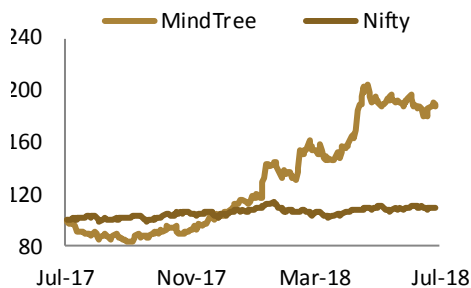
Shareholding pattern

Promoters	13.35
Domestic Institution	7.14
Foreign Institution	44.36
Non-institution	35.15
of which more than 1%	
Coffee Day	17.11
V G Siddhartha	3.33

Higher-than-expected revenue, margin lower on account of future investments:

Mindtree's Q1FY19 revenue was up 6.8% QoQ in US\$ terms to US\$241.5mn. Volume increased 6.6% QoQ (offshore increased 6.6%, onsite increased by 6.5%). Blended pricing decreased ~0.3% QoQ. The growth was primarily due to strong performance across verticals - Hi-Tech and Media grew 9.3% QoQ; Travel and Hospitality grew by 6%; BFSI grew by 5%; Retail CPG and Manufacturing grew by 4.9%. Digital business grew 35.4% YoY and 12.6% QoQ. Mindtree's comments regarding future business opportunities indicated a sustainable pick-up in revenue trajectory and margin recovery. MTCL invested US\$1.5mn at Stanford University to create a faculty position, as part of its efforts to be future ready, for developing skills like artificial intelligence, cognitive intelligence and quantum computing. The investment had a 60bps impact on margins. The management was going to explore more such opportunities and would invest between US\$3-4mn in promoting AI research this year.

Mindtree vs Nifty



Order signing healthy, provides robust revenue visibility: Clients #2-5 were down 3% QoQ, while Top client (was up 16.4% QoQ). **Strong TCV signings:** Mindtree's total contract value signed during the quarter was at US\$306mn (US\$298mn in 4QFY18, US\$262mn in 1QFY18). Out of this, new deal wins accounted for US\$51mn, and contracts worth US\$259mn to be executed within a year. US grew 9.3% QoQ on a higher base in 4QFY18, Europe grew by 1.7% (~7.3% in cc terms). 1,267 employees (net) joined MTCL to take the employee base to 18,990 (a gross addition of 1,934). Utilization (excluding trainees) was up 110bps QoQ at 76.3%. Utilization (including trainees) was up 160bps QoQ at 75.4%.

Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	21.4	24.2	24.1
EPS (₹)	34.8	43.6	50.7
CEPS (₹)	45.2	53.7	61.7
P/E (x)	22.3	24.3	20.9
P/BV (x)	4.6	5.5	4.7
EV/EBITDA (x)	15.5	15.4	12.7
Income growth (%)	4.3	24.1	13.7
EBITDA growth (%)	6.5	40.9	18.5
PAT growth (%)	36.2	25.6	16.4

Digital—positioning and improving sales cycle: Mindtree has made significant investments in digital over the past couple of years and developed domain expertise in Salesforce, SAP/S4 HANA, Adobe, Sitecore and Azure. These efforts are reflecting in increased deal flow

FY19 Outlook: We expect both, robust revenue growth and margin expansion on account of (1) An improvement in client IT spends, healthy deal pipeline and increasing win-rates (pipeline ~20% higher and ~30% win-rate), (2) Multiplicity of service offerings and supplementing revenue growth with digital (highest share amongst peers at 44% of revenue, with an increasing deal size), (3) Stability in acquisitions, and (4) No pricing pressure from large clients expected in the coming future. MTCL has guided to FY19US\$ revenue growth rate and margins to be higher than FY18.

Valuation & Outlook: Mindtree's margin recovery commenced in 2QFY18 with 50bps expansion in EBITDA margin led by tightening of execution. Continued tightening of execution, improvement in revenue growth trajectory and reduction in loss of acquired entities offer significant headroom for margin expansion. We maintain our Buy recommendation on the stock on account of large deal ramp-ups and continued momentum in deal wins and pipeline courtesy improving positioning in digital.

ANALYST

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Exhibit 1: Quarterly details (IND-AS)

` mn	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	200.1	226.2	241.5	6.8	20.7	Volumes increased 6.6%, pricing decreased ~0.3%.
Revenues	12,895	14,640	16,395	12.0	27.1	
- Operating costs	11,460	12,285	14,085	14.7	22.9	
EBITDA	1,435	2,355	2,310	(1.9)	61.0	
EBITDA margin (%)	11.1	16.1	14.1	(200)bps	296bps	Margin breakup QoQ – wage hike (-270bps), visa Costs (-20bps), Stanford investment (-60bps), INR Dep (+120bps), operational efficiencies (+30bps)
- Interest expense	40	58	28	(51.7)	(30.0)	
- Depreciation	459	383	400	4.4	(12.9)	
+ Other income, net (incl forex)	654	591	279	(52.8)	(57.3)	
PBT	1,590	2,505	2,161	(13.7)	35.9	
- Taxes	373	683	579	(15.2)	55.2	
Effective tax rate (%)	23.5	27.3	26.8	(47)bps	333bps	Effective tax rate for FY19 to be between 27-28%
PAT	1,217	1,822	1,582	(13.2)	30.0	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	956	1,009	5.5	1,065	1,150	8.0
Revenue	62,123	67,817	9.2	69,217	77,082	11.4
EBITDA margin (%)	15.3	15.4	5bps	16.0	16.0	-
EPS (₹)	37.4	43.6	15.5	44.7	50.7	13.4

Source: Trust Research

Geography wise Revenues: US grew 7.5% QoQ on a higher base in Q3FY18, Europe grew by 6.6% (had declined by 4.7% in Q3FY18).

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
US	66.7	67.6	68.7	69.8	69.6	67.5	69.7	71.0	72.7
Europe	23.1	21.4	20.8	20.8	21.1	22.8	20.9	21.1	20.1
India	3.1	3.5	3.1	2.8	3.0	3.5	3.2	3.2	3.1
RoW	7.1	7.5	7.4	6.6	6.3	6.2	6.2	4.7	4.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Vertical Performance: The growth was primarily due to strong performance across verticals - Hi-Tech and Media grew 9.3% QoQ; Travel and Hospitality grew by 6%; BFSI grew by 5%; Retail CPG and Manufacturing grew by 4.9%. Digital business grew 35.4% YoY and 12.6% QoQ.

Exhibit 4: Service offering segmentation

Service offerings	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
ADM	49.8	49.6	49.4	49.2	51.2	50.0	50.2	50.3	50.7
Consulting & IP Licensing	4.1	3.8	3.9	4.0	3.4	4.0	4.0	3.9	3.4
Package Implementation	13.9	13.1	12.4	12.6	11.5	11.2	11.3	11.2	10.6
Independent Testing	12.8	12.4	12.6	12.5	11.8	12.1	12.6	12.7	13.1
IMS	18.4	19.9	20.3	20.4	21.0	21.8	21.1	21.0	21.6
IP Licensing	1.0	1.2	1.4	1.3	1.1	1.0	0.8	0.9	0.6
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Human Resources: 1,267 employees (net) joined MTCL to take the employee base to 18,990 (a gross addition of 1,934). Utilization (excluding trainees) was up 110bps QoQ at 76.3%. Utilization (including trainees) was up 160bps QoQ at 75.4%.

Exhibit 5: Employee strength at MTCL

Vertical Mix	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Software Professionals	15,092	15,189	15,068	15,413	15,441	15,782	16,068	16,595	17,837
Sales and Support	1,018	1,030	1,031	1,057	1,120	1,128	1,132	1,128	1,153
Total employees	16,110	16,219	16,099	16,470	16,561	16,910	17,200	17,723	18,990
Gross Addition	210	744	470	914	645	856	857	1,102	1,934
Net Addition	(513)	109	(120)	371	91	349	290	523	1,267
Attrition (LTM, %)	16.5	16.4	16.1	15.1	14.0	13.0	12.6	12.5	12.2

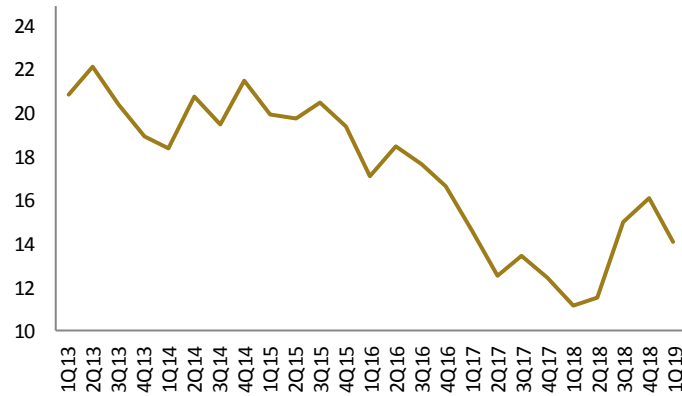
Source: Company, Trust Research

Exhibit 6: Client details

Employees	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Top client	13.1	14.4	14.1	14.3	15.3	16.1	16.6	17.8	19.4
Top 5 clients	29.6	30.0	30.1	30.7	30.1	30.1	31.6	32.0	32.3
Top 10 clients	42.6	42.5	42.3	41.9	41.5	41.9	43.7	43.7	43.5
Number Of Active Clients	343	337	348	328	336	327	344	338	339
New Client Additions	17	18	21	20	20	24	28	23	24
\$1 Mn Clients	98	107	106	111	113	114	114	118	117
\$5 Mn Clients	31	30	30	30	33	38	37	38	39
\$10 Mn Clients	16	16	17	16	16	16	15	17	19
\$25 Mn Clients	5	6	4	4	3	3	3	4	4
\$50 Mn Clients	2	2	1	1	1	1	1	1	1
\$100 Mn Clients	0	0	1	1	1	1	1	1	1

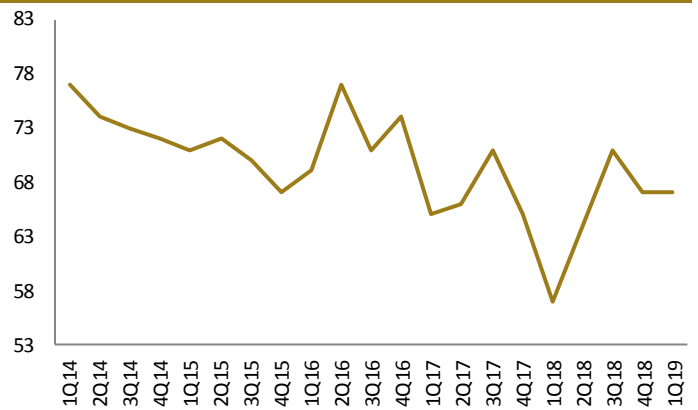
Source: Company

Exhibit 7: Margin was lower than we had expected



Source: Company, Trust

Exhibit 8: DSO was flat QoQ at 67



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Revenues	46,730	52,364	54,628	67,817	77,082
Op. Expenses	38,520	45,183	47,223	57,383	64,721
EBITDA	8,210	7,181	7,405	10,434	12,361
Other Income	839	417	1,902	1,176	1,000
Depreciation	1,658	1,858	1,715	1,660	1,800
EBIT	7,391	5,740	7,592	9,950	11,561
Interest	160	191	169	82	66
PBT	7,231	5,549	7,423	9,868	11,495
Tax	1,706	1,363	1,722	2,710	3,161
PAT	5,525	4,186	5,701	7,158	8,334
Ex. ordinary	-	-	-	-	-
Adj Pat	6,033	4,186	5,701	7,158	8,334

Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (`)					
EPS	32.9	24.9	34.8	43.6	50.7
CEPS	42.8	36.0	45.2	53.7	61.7
BVPS	143.9	153.4	167.2	193.7	226.8
DPS	10.5	8.0	11.0	13.0	16.0
Payout (%)	37.3	37.6	37.0	34.9	34.6
Valuation (x)					
P/E	19.9	18.2	22.3	24.3	20.9
P/BV	4.6	3.0	4.6	5.5	4.7
EV/EBITDA	12.3	9.0	15.5	15.4	12.7
Dividend Yield (%)	1.6	1.8	1.4	1.2	1.5
Return ratio (%)					
EBITDA Margin	17.6	13.7	13.6	15.4	16.0
PAT Margin	11.8	8.0	10.4	10.6	10.8
ROAE	24.7	16.8	21.4	24.2	24.1
ROACE	32.4	22.2	26.4	31.5	32.5
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)
Debt/EBITDA	0.1	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	2.4	2.6	2.5	2.5	2.7
Growth Ratios (%)					
Income growth	31.2	12.1	4.3	24.1	13.7
EBITDA growth	15.8	(12.5)	6.5	40.9	18.5
PAT growth	3.0	(24.2)	36.2	25.6	16.4
Turnover Ratios					
F.A Turnover x	6.6	8.8	10.7	12.7	14.0
Debtors Days	65	65	64	63	63
Payable days	5	4	4	4	4

Balance Sheet (` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	1,678	1,680	1,639	1,641	1,643
Reserves & Surplus	22,471	24,091	25,775	28,980	33,256
Total Shareholders Fund	24,149	25,771	27,414	30,621	34,899
Non- current liabilities	450	(310)	(224)	(215)	(203)
Long term borrowings	765	243	9	9	9
Deferred tax liabilities	(406)	(624)	(318)	(318)	(318)
Other LT liabilities & prov	91	71	85	94	106
Current Liabilities	7,764	7,821	9,857	11,440	12,475
Short term borrowings	415	978	3,000	2,950	2,900
Trade payables	1,890	1,651	1,710	2,044	2,305
Other cur liabilities & Prov	5,459	5,192	5,147	6,446	7,270
Total Liabilities	32,363	33,282	37,047	41,846	47,172
Assets					
Non- current Assets	14,089	12,672	12,016	12,703	13,284
Fixed assets	7,037	5,942	5,121	5,319	5,519
Non-current investments	4,877	4,528	4,597	4,597	4,597
Long-term loans & adv	844	876	751	929	1,056
Other non-current assets	1,331	1,326	1,547	1,858	2,112
Current assets	18,274	20,610	25,031	29,143	33,888
Current investments	2,266	5,869	7,206	8,206	9,206
Trade receivables	9,728	8,962	10,155	12,449	14,149
Cash & Bank balances	2,332	2,508	3,289	3,286	4,620
Short term loans & adv.	2,799	2,237	3,098	3,716	4,224
Other current assets	1,149	1,034	1,283	1,486	1,689
Total Assets	32,363	33,282	37,047	41,846	47,172

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	7,231	5,549	7,423	9,868	11,495
Depreciation	1,701	1,640	2,021	1,660	1,800
Interest Exp	160	191	169	82	66
CF before W.cap	9,092	7,380	9,613	11,610	13,361
Inc/dec in W.cap	3,732	(890)	2,371	1,962	1,694
Op CF after W.cap	5,360	8,270	7,242	9,648	11,666
Less Taxes	1,706	1,363	1,722	2,710	3,161
Net CF From Operations	3,654	6,907	5,520	6,938	8,505
Inc/(dec) in F.A + CWIP	3,708	763	894	1,858	2,000
(Pur)/sale of Investments	870	3,254	1,406	1,000	1,000
Others	(160)	(191)	(169)	(82)	(66)
CF from Invst Activities	(4,738)	(4,208)	(2,469)	(2,940)	(3,066)
Loan Raised	1,157	41	1,788	(50)	(50)
Equity Raised	557	(992)	(1,948)	(1,455)	(1,174)
Dividend	2,061	1,572	2,110	2,496	2,882
CF from Fin Activities	(347)	(2,523)	(2,270)	(4,001)	(4,106)
Net inc /(dec) in cash	(1,431)	176	781	(3)	1,334
Op. bal of cash	3,763	2,332	2,508	3,289	3,286
Cl. balance of cash	2,332	2,508	3,289	3,286	4,620

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