



In partnership. With trust.

Mindtree

Sector: Technology

2QFY19 Result Update

CMP: ` 979

Soft quarter, Outlook stable for 2HFY19

Recommendation: Buy

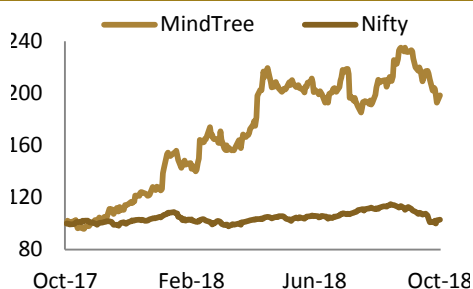
Market statistics

Current stock price (`)	979
Shares O/S (cr.)	16.4
Mcap (` cr)	16,073
52W H/L (`)	1182/469
6m avg. volume	1,948,761
Bloomberg	MTCL IN

Shareholding pattern

Promoters	13.34
Domestic Institution	8.07
Foreign Institution	43.16
Non-institution	35.43
of which more than 1%	
Coffee Day Enterprises	10.64
Coffee Day Trading	6.45

Mindtree vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	21.4	25.3	24.7
EPS (`)	34.8	46.2	53.3
CEPS (`)	45.2	56.2	64.1
P/E (x)	22.3	21.2	18.4
P/BV (x)	4.6	4.9	4.2
EV/EBITDA (x)	15.5	13.7	11.3
Income growth (%)	4.3	28.0	14.7
EBITDA growth (%)	6.5	44.5	18.1
PAT growth (%)	36.2	33.0	15.5

Mindtree's Q2FY19 performance was lower-than expected on revenue front, with margin coming in as-per-expectation. Revenue increased 2% QoQ to US\$246.4mn (up ~2.4% in cc terms). Margin was higher by 129bps to 15.4% primarily on account of wage hikes normalization, INR depreciation and missing one-off items. TCV won in Q2 was US\$271mn (US\$306mn in 1QFY19, US\$207mn in 2QFY18) with digital comprising US\$162mn – which again was strong. Mindtree's comments regarding future business opportunities indicated a sustainable pick-up in revenue trajectory in the medium term and gradual 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.

Lower-than-expected revenue: Mindtree's Q2FY19 revenue was up 2% QoQ in US\$ terms to US\$246.4mn. Volume increased 6.3% QoQ (offshore increased 7%, onsite increased by 3.9%). Blended pricing decreased ~4% QoQ on account of lower number of working days. Hi-Tech & Media vertical revenues remained steady, were up 3.1% QoQ led by traction in top account. BFSI vertical was up 2.5% QoQ. Retail, CPG & Manufacturing down 4.2% QoQ. Travel & Hospitality remains strong delivering 7.8% QoQ growth for the quarter. Digital accounted to 48.1% of total revenues and grew by 3.3% QoQ and 34.9% YoY. Revenues from Retail & CPG vertical were down 4.2% QoQ owing to completion of select projects in Europe. This has been the key culprit for the softer revenue growth in 2QFY19. Despite seasonality and furloughs, Mindtree guided that 3QFY19 US\$ revenue growth QoQ would be similar to that delivered in 2QFY19.

Order signing healthy, provides robust revenue visibility: Revenues from Top 2-10 accounts were up 4.1% QoQ. Top client (Microsoft) revenues were up 6.2% QoQ and accounted to 20.2% of total revenues. **Strong TCV signings:** Mindtree's total contract value signed during the quarter was at US\$271mn (US\$306mn in 1QFY19, US\$207mn in 2QFY18) with digital comprising US\$162mn – which again was strong. Out of this, new deal wins accounted for US\$49mn, and contracts worth US\$198mn to be executed within a year. US grew 3.3% QoQ on a higher base in Q1FY19, Europe declined by 5.1%. 412 employees (net) joined MTCL to take the employee base to 19,402 (a gross addition of 1,126). Utilization (excluding trainees) was up 20bps QoQ at 76.5%. Utilization (including trainees) was down 90bps QoQ at 74.5%.

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	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	206.2	241.5	246.4	2.0	19.5	Volumes increased 6.3%, pricing decreased ~4%.
Revenues	13,316	16,395	17,554	7.1	31.8	
- Operating costs	11,775	14,085	14,855	5.5	26.2	
EBITDA	1,541	2,310	2,699	16.8	75.1	
EBITDA margin (%)	11.6	14.1	15.4	129bps	380bps	Margin breakup QoQ – Promotions & full absorption of employee additions done in 1Q (-60bps), INR depreciation (+130bps), absence of one off costs (+60bps)
- Interest expense	25	28	1	(96.4)	(96.0)	
- Depreciation	454	400	403	0.8	(11.2)	
+ Other income, net (incl forex)	598	279	524	87.8	(12.4)	
PBT	1,660	2,161	2,819	30.4	69.8	
- Taxes	413	579	756	30.6	83.1	
Effective tax rate (%)	24.9	26.8	26.8	2bps	194bps	Effective tax rate for FY19 to be between 27-28%
PAT	1,247	1,582	2,063	30.4	65.4	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	1,009	1,002	(0.7)	1,150	1,145	(0.4)
Revenue	67,817	69,918	3.1	77,082	80,169	4.0
EBITDA margin (%)	15.4	15.3	(5)bps	16.0	15.8	(15)bps
EPS (`)	43.6	46.2	6.0	50.7	53.3	5.1

Source: Trust Research

Geography wise Revenues: US grew 3.3% QoQ on a higher base in Q1FY19, Europe declined by 5.1%.

Exhibit 3: Geographical wise Performance

Geographical mix	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
US	67.6	68.7	69.8	69.6	67.5	69.7	71.0	72.7	73.6
Europe	21.4	20.8	20.8	21.1	22.8	20.9	21.1	20.1	18.7
India	3.5	3.1	2.8	3.0	3.5	3.2	3.2	3.1	3.3
RoW	7.5	7.4	6.6	6.3	6.2	6.2	4.7	4.1	4.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

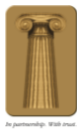
Source: Company

Vertical Performance: Hi-Tech & Media vertical revenues remained steady, were up 3.1% QoQ led by traction in top account. BFSI vertical was up 2.5% QoQ. Retail, CPG & Manufacturing down 4.2% QoQ. Travel & Hospitality remains strong delivering 7.8% QoQ growth for the quarter. Digital accounted to 48.1% of total revenues and grew by 3.3% QoQ and 34.9% YoY.

Exhibit 4: Service offering segmentation

Service offerings	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
ADM	49.6	49.4	49.2	51.2	50.0	50.2	50.3	50.7	50.8
Consulting & IP Licensing	3.8	3.9	4.0	3.4	4.0	4.0	3.9	3.4	3.1
Package Implementation	13.1	12.4	12.6	11.5	11.2	11.3	11.2	10.6	8.8
Independent Testing	12.4	12.6	12.5	11.8	12.1	12.6	12.7	13.1	13.1
IMS	19.9	20.3	20.4	21.0	21.8	21.1	21.0	21.6	23.4
IP Licensing	1.2	1.4	1.3	1.1	1.0	0.8	0.9	0.6	0.8
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Human Resources: 412 employees (net) joined MTCL to take the employee base to 19,402 (a gross addition of 1,126). Utilization (excluding trainees) was up 20bps QoQ at 76.5%. Utilization (including trainees) was down 90bps QoQ at 74.5%.

Exhibit 5: Employee strength at MTCL

Vertical Mix	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Software Professionals	15,189	15,068	15,413	15,441	15,782	16,068	16,595	17,837	18,214
Sales and Support	1,030	1,031	1,057	1,120	1,128	1,132	1,128	1,153	1,188
Total employees	16,219	16,099	16,470	16,561	16,910	17,200	17,723	18,990	19,402
Gross Addition	744	470	914	645	856	857	1,102	1,934	1,126
Net Addition	109	(120)	371	91	349	290	523	1,267	412
Attrition (LTM, %)	16.4	16.1	15.1	14.0	13.0	12.6	12.5	12.2	13.0

Source: Company, Trust Research

Exhibit 6: Client details

Employees	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Top client	14.4	14.1	14.3	15.3	16.1	16.6	17.8	19.4	20.2
Top 5 clients	30.0	30.1	30.7	30.1	30.1	31.6	32.0	32.3	33.8
Top 10 clients	42.5	42.3	41.9	41.5	41.9	43.7	43.7	43.5	44.8
Number Of Active Clients	337	348	328	336	327	344	338	339	341
New Client Additions	18	21	20	20	24	28	23	24	18
\$1 Mn Clients	107	106	111	113	114	114	118	117	111
\$5 Mn Clients	30	30	30	33	38	37	38	39	44
\$10 Mn Clients	16	17	16	16	16	15	17	19	21
\$25 Mn Clients	6	4	4	3	3	3	4	4	4
\$50 Mn Clients	2	1	1	1	1	1	1	1	1
\$100 Mn Clients	0	1	1	1	1	1	1	1	1

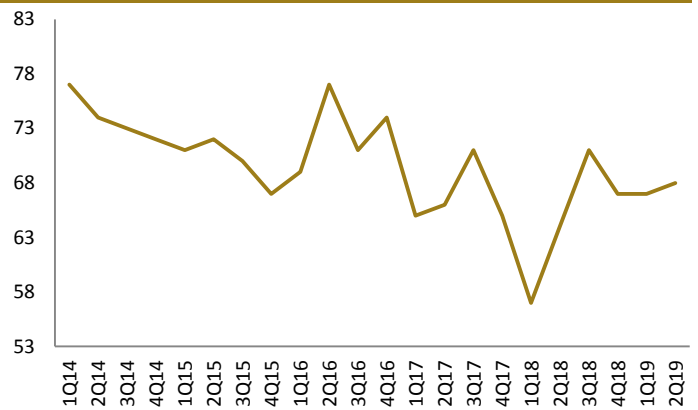
Source: Company

Exhibit 7: Margin was as per our expectation



Source: Company, Trust

Exhibit 8: DSO increased by a day QoQ to 68



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Revenues	46,730	52,364	54,628	69,919	80,169
Op. Expenses	38,520	45,183	47,223	59,220	67,537
EBITDA	8,210	7,181	7,405	10,699	12,632
Other Income	839	417	1,902	1,403	1,250
Depreciation	1,658	1,858	1,715	1,639	1,779
EBIT	7,391	5,740	7,592	10,463	12,103
Interest	160	191	169	31	25
PBT	7,231	5,549	7,423	10,432	12,078
Tax	1,706	1,363	1,722	2,848	3,322
PAT	5,525	4,186	5,701	7,584	8,757
Ex. ordinary	-	-	-	-	-
Adj Pat	6,033	4,186	5,701	7,584	8,757

Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (`)					
EPS	32.9	24.9	34.8	46.2	53.3
CEPS	42.8	36.0	45.2	56.2	64.1
BVPS	143.9	153.4	167.2	198.3	233.9
DPS	10.5	8.0	11.0	12.0	16.0
Payout (%)	37.3	37.6	37.0	30.4	32.9
Valuation (x)					
P/E	19.9	18.2	22.3	21.2	18.4
P/BV	4.6	3.0	4.6	4.9	4.2
EV/EBITDA	12.3	9.0	15.5	13.7	11.3
Dividend Yield (%)	1.6	1.8	1.4	1.2	1.6
Return ratio (%)					
EBITDA Margin	17.6	13.7	13.6	15.3	15.8
PAT Margin	11.8	8.0	10.4	10.8	10.9
ROAE	24.7	16.8	21.4	25.3	24.7
ROACE	32.4	22.2	26.4	33.2	34.1
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	28.0	14.7
EBITDA growth	15.8	(12.5)	6.5	44.5	18.1
PAT growth	3.0	(24.2)	36.2	33.0	15.5
Turnover Ratios					
F.A Turnover x	6.6	8.8	10.7	13.6	14.9
Debtors Days	65	65	64	64	64
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	29,172	33,873
Total Shareholders Fund	24,149	25,771	27,414	30,813	35,517
Non- current liabilities	450	(310)	(224)	(212)	(198)
Long term borrowings	765	243	9	9	9
Deferred tax liabilities	(406)	(624)	(318)	(318)	(318)
Other LT liabilities & prov	91	71	85	97	111
Current Liabilities	7,764	7,821	9,857	11,711	12,892
Short term borrowings	415	978	3,000	2,950	2,900
Trade payables	1,890	1,651	1,710	2,109	2,405
Other cur liabilities & Prov	5,459	5,192	5,147	6,652	7,586
Total Liabilities	32,363	33,282	37,047	42,313	48,210
Assets					
Non- current Assets	14,089	12,672	12,016	12,620	13,263
Fixed assets	7,037	5,942	5,121	5,150	5,371
Non-current investments	4,877	4,528	4,597	4,597	4,597
Long-term loans & adv	844	876	751	958	1,098
Other non-current assets	1,331	1,326	1,547	1,916	2,196
Current assets	18,274	20,610	25,031	29,692	34,948
Current investments	2,266	5,869	7,206	8,206	9,206
Trade receivables	9,728	8,962	10,155	12,834	14,716
Cash & Bank balances	2,332	2,508	3,289	3,288	4,876
Short term loans & adv.	2,799	2,237	3,098	3,831	4,393
Other current assets	1,149	1,034	1,283	1,532	1,757
Total Assets	32,363	33,282	37,047	42,313	48,210

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	7,231	5,549	7,423	10,432	12,078
Depreciation	1,701	1,640	2,021	1,639	1,779
Interest Exp	160	191	169	31	25
CF before W.cap	9,092	7,380	9,613	12,102	13,882
Inc/dec in W.cap	3,732	(890)	2,371	2,321	1,845
Op CF after W.cap	5,360	8,270	7,242	9,781	12,037
Less Taxes	1,706	1,363	1,722	2,848	3,322
Net CF From Operations	3,654	6,907	5,520	6,933	8,716
Inc/(dec) in F.A + CWIP	3,708	763	894	1,668	2,000
(Pur)/sale of Investments	870	3,254	1,406	1,000	1,000
Others	(160)	(191)	(169)	(31)	(25)
CF from Invst Activities	(4,738)	(4,208)	(2,469)	(2,699)	(3,025)
Loan Raised	1,157	41	1,788	(50)	(50)
Equity Raised	557	(992)	(1,948)	(1,881)	(1,171)
Dividend	2,061	1,572	2,110	2,304	2,882
CF from Fin Activities	(347)	(2,523)	(2,270)	(4,235)	(4,103)
Net inc /(dec) in cash	(1,431)	176	781	(1)	1,588
Op. bal of cash	3,763	2,332	2,508	3,289	3,288
Cl. balance of cash	2,332	2,508	3,289	3,288	4,876



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