

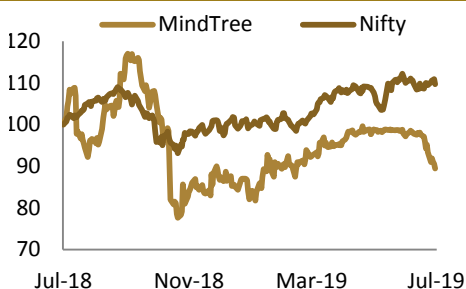
Market statistics

Current stock price (₹)	752
Shares O/S (cr.)	16.4
Mcap (₹ cr)	12,366
52W H/L (₹)	1182/735
6m avg. volume	1,690,472
Bloomberg	MTCL IN

Shareholding pattern

Promoters	13.72
Domestic Institution	7.18
Foreign Institution	40.91
Non-institution	38.19
of which more than 1%	
Coffee Day Enterprises Limited	10.40
Coffee Day Trading Limited	6.31

Mindtree vs Nifty



Capital efficiency & valuations

Particulars	FY19	FY20E	FY21E
RoE (%)	24.9	17.5	20.8
EPS (₹)	45.9	36.8	48.8
CEPS (₹)	55.9	53.5	66.3
P/E (x)	20.6	20.4	15.4
P/BV (x)	4.7	3.4	3.0
EV/EBITDA (x)	13.1	9.9	7.6
Income growth (%)	28.5	8.1	13.7
EBITDA growth (%)	43.8	1.1	24.8
PAT growth (%)	32.3	(19.6)	32.7

Mindtree's Q1FY20 performance was lower-than expected on revenue front and margin. Revenue increased 0.9% QoQ to US\$264.2mn (up ~1.1% in cc terms). Margin was lower by 520bps QoQ at 10% primarily on account of higher wage expenses and one-time special bonus to employees. TCV won in Q1 was US\$324mn (US\$242mn in Q4FY19, US\$306mn in Q1FY19) with digital comprising US\$137mn – which again was strong. Lower-than-expected OI dented PAT further. Mindtree's comments regarding future business opportunities indicated a sustainable pick-up in revenue trajectory in the medium term 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.

Quarterly details: Mindtree reported cc revenue growth of 1.1% QoQ, lower than our estimate. On reported basis revenues grew 0.8% QoQ and 9.4% YoY to US\$264.2mn. Revenues declined in financial services and were flattish in hi-tech & media. Volume increased 2.6% QoQ (offshore increase of 2.5%, onsite increase of 2.8%). Blended pricing decreased ~1.7% QoQ. Retail, CPG & Manufacturing grew by 0.9% QoQ; Hi-Tech & Media grew by 0.3% QoQ; Travel and Hospitality grew by 3.3% QoQ. Digital business grew 3.6% QoQ. EBIT margin declined by 650 bps QoQ. The company paid out Rs479mn as one-time bonus to employees on its 20th anniversary, which resulted in a margin hit of 260bps. The balance decline on QoQ can be attributed to wage revision (-190bps), INR appreciation (-40bps) and additional visa costs (-30bps). Adoption of Ind-AS 116 aided EBIT margin to the extent of 40 bps.

Order signing healthy, provides robust revenue visibility: Revenues from Top 2-5 accounts were up 1.6% QoQ. Top client (Microsoft) revenues were up 2.4% QoQ and accounted to 20.1% of total revenues. MTCL maintained strong traction going ahead in its Top account. **Strong TCV signings:** Mindtree's total contract value signed during the quarter was US\$324mn (US\$242mn in Q4FY19, US\$306mn in Q1FY19) with digital comprising US\$137mn – which again was strong. Out of this, new deal wins accounted for US\$76mn, and contracts worth US\$271mn to be executed within a year. US grew 1% QoQ on a higher base in Q1FY20, Europe declined by 3%. 731 employees (net) joined MTCL to take the employee base to 20,935 (a gross addition of 1,684). Utilization (excluding trainees) was up 80bps QoQ at 77.9%. Utilization (including trainees) was up 190bps QoQ at 77.2%.

Board composition changes after takeover: The composition of the BoD has undergone a major change post L&T acquiring majority stake. L&T CEO NS Subrahmanyam, L&T Group CFO, R Shankar Raman and Director of L&T Defence business, JD Patil have been inducted into the Board as non-Executive Directors. Mindtree founders have exited the Board. Mindtree CEO, COO and Executive Chairman have resigned as Board members and will continue as employees with the company to ensure a smooth transition. Subrato Bagchi, whose term ended during the year, did not offer himself for reappointment. Two additional Independent Directors have also been appointed to the Board. The Board has appointed L&T Group Chairman AM Naik as the non-Executive Chairman of Mindtree.

FY20 Outlook: Mindtree expects FY20 revenue growth to be higher than the industry average. Ramp-up of deals won in earlier quarters and a strong deal pipeline provide confidence on growth outlook. The company expects to improve margins QoQ. Mindtree is confident of a slight margin expansion in FY20E on the back of three margin levers—(1) focus on operational efficiencies, (2) improvement in pricing and (3) elimination of costs, which do not add value to clients or employees

Valuation & Outlook: 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	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	241.5	261.9	264.2	0.9	9.4	Volumes increased 2.6%, pricing decreased ~1.7%.
Revenues	16,395	18,394	18,342	(0.3)	11.9	
- Operating costs	14,085	15,591	16,501	5.8	17.2	
EBITDA	2,310	2,803	1,841	(34.3)	(20.3)	
						Margin was dented by higher Software development Costs QoQ
EBITDA margin (%)	14.1	15.2	10.0	(520)bps	(405)bps	
- Interest expense	28	-	130	NA	364.3	
- Depreciation	400	428	669	56.3	67.3	
+ Other income, net (incl forex)	279	290	220	(24.1)	(21.1)	
PBT	2,161	2,665	1,262	(52.6)	(41.6)	
- Taxes	579	681	335	(50.8)	(42.1)	
Effective tax rate (%)	26.8	25.6	26.5	99bps	(25)bps	Effective tax rate for FY20 to be between 27-28%
PAT	1,582	1,984	927	(53.3)	(41.4)	

Source: Company

Exhibit 2: Change in estimates

` mn	FY20E			FY21E		
	Old	New	% Chg	Old	New	% Chg
Revenue (US\$ mn)	1,142	1,092	(4.4)	1,273	1,242	(2.4)
Revenue	79,959	75,907	(5.1)	89,085	86,292	(3.1)
EBITDA margin (%)	16.5	14.2	(230)bps	16.7	15.6	(110)bps
EPS (`)	53.3	36.8	(31.0)	60.7	48.8	(19.6)

Source: Trust Research

Geography wise Revenues: US grew 1% QoQ on a higher base in Q1FY20, Europe declined by 3%.**Exhibit 3: Geographical wise Performance**

Geographical mix	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
US	69.6	67.5	69.7	71.0	72.7	73.6	73.4	73.6	73.7
Europe	21.1	22.8	20.9	21.1	20.1	18.7	18.7	18.5	17.8
India	3.0	3.5	3.2	3.2	3.1	3.3	3.6	3.7	4.1
RoW	6.3	6.2	6.2	4.7	4.1	4.4	4.3	4.2	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: Retail, CPG & Manufacturing grew by 0.9% QoQ; Hi-Tech & Media grew by 0.3% QoQ; Travel and Hospitality grew by 3.3% QoQ. Digital business grew 3.6% QoQ.**Exhibit 4: Service offering segmentation**

Service offerings	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Technology, Media & Services	37.9	37.8	36.6	38.0	38.9	39.3	39.4	39.6	39.4
BFSI	25.1	24.8	24.8	22.7	22.3	22.4	21.7	21.8	21.6
Retail, CPG and Manufacturing	22.7	22.9	23.3	23.5	23.1	21.7	22.3	22.2	22.2
Travel & Hospitality	14.3	14.5	15.3	15.8	15.7	16.7	16.6	16.4	16.8
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Human Resources: 731 employees (net) joined MTCL to take the employee base to 20,935 (a gross addition of 1,684). Utilization (excluding trainees) was up 80bps QoQ at 77.9%. Utilization (including trainees) was up 190bps QoQ at 77.2%.

Exhibit 5: Employee strength at MTCL

Vertical Mix	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Software Professionals	15,441	15,782	16,068	16,595	17,837	18,214	18,713	19,017	19,681
Sales and Support	1,120	1,128	1,132	1,128	1,153	1,188	1,195	1,187	1,254
Total employees	16,561	16,910	17,200	17,723	18,990	19,402	19,908	20,204	20,935
Gross Addition	645	856	857	1,102	1,934	1,126	1,214	1,072	1,684
Net Addition	91	349	290	523	1,267	412	506	296	731
Attrition (LTM, %)	14.0	13.0	12.6	12.5	12.2	13.0	13.4	14.2	15.1

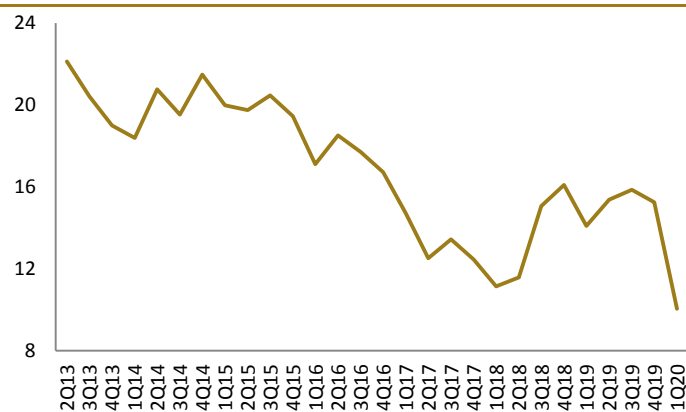
Source: Company, Trust Research

Exhibit 6: Client details

Employees	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Top client	15.3	16.1	16.6	17.8	19.4	20.2	20.0	19.8	20.1
Top 5 clients	30.1	30.1	31.6	32.0	32.3	33.8	33.8	33.2	33.6
Top 10 clients	41.5	41.9	43.7	43.7	43.5	44.8	44.1	42.9	43.0
Number Of Active Clients	336	327	344	338	339	341	340	349	346
New Client Additions	20	24	28	23	24	18	23	15	12
\$1 Mn Clients	113	114	114	118	117	111	116	120	122
\$5 Mn Clients	33	38	37	38	39	44	44	45	46
\$10 Mn Clients	16	16	15	17	19	21	21	23	23
\$25 Mn Clients	3	3	3	4	4	4	4	4	4
\$50 Mn Clients	1	1	1	1	1	1	1	1	1
\$100 Mn Clients	1	1	1	1	1	1	1	1	1

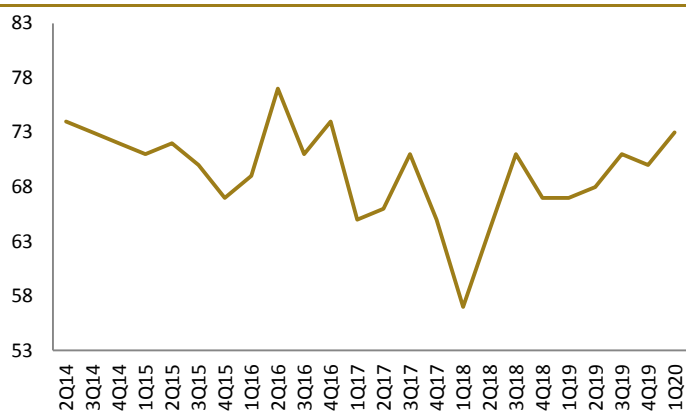
Source: Company

Exhibit 7: Margin was lower-than-our expectation



Source: Company, Trust

Exhibit 8: DSO increased by 3 day QoQ to 73



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Revenues	52,364	54,628	70,215	75,907	86,292
Op. Expenses	45,183	47,223	59,570	65,149	72,866
EBITDA	7,181	7,405	10,645	10,758	13,427
Other Income	417	1,902	893	895	1,045
Depreciation	1,858	1,715	1,641	2,736	2,876
EBIT	5,740	7,592	9,897	8,917	11,596
Interest	191	169	29	520	416
PBT	5,549	7,423	9,868	8,397	11,180
Tax	1,363	1,722	2,327	2,333	3,130
PAT	4,186	5,701	7,541	6,064	8,049
Ex. ordinary	-	-	-	-	-
Adj Pat	4,186	5,701	7,541	6,064	8,049

Key Parameters

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Per share (`)					
EPS	24.9	34.8	45.9	36.8	48.8
CEPS	36.0	45.2	55.9	53.5	66.3
BVPS	153.4	167.2	201.3	220.4	250.2
DPS	8.0	11.0	33.0	15.0	17.0
Payout (%)	37.6	37.0	84.1	47.6	38.6
Valuation (x)					
P/E	18.2	22.3	20.6	20.4	15.4
P/BV	3.0	4.6	4.7	3.4	3.0
EV/EBITDA	9.0	15.5	13.1	9.9	7.6
Dividend Yield (%)	1.8	1.4	3.5	2.0	2.3
Return ratio (%)					
EBITDA Margin	13.7	13.6	15.2	14.2	15.6
PAT Margin	8.0	10.4	10.7	8.0	9.3
ROAE	16.8	21.4	24.9	17.5	20.8
ROACE	22.2	26.4	31.2	25.7	29.9
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.3)	(0.4)	(0.3)	(0.4)	(0.4)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	2.6	2.5	3.2	3.6	3.6
Growth Ratios (%)					
Income growth	12.1	4.3	28.5	8.1	13.7
EBITDA growth	(12.5)	6.5	43.8	1.1	24.8
PAT growth	(24.2)	36.2	32.3	(19.6)	32.7
Turnover Ratios					
F.A Turnover x	8.8	10.7	13.4	14.5	15.7
Debtors Days	65	64	64	63	62
Payable days	4	4	4	4	4

Balance Sheet (` mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	1,680	1,639	1,642	1,646	1,648
Reserves & Surplus	24,091	25,775	31,419	36,071	39,027
Total Shareholders Fund	25,771	27,414	33,061	37,717	40,675
Non- current liabilities	(310)	(224)	(209)	(205)	(183)
Long term borrowings	243	9	5	5	5
Deferred tax liabilities	(624)	(318)	(388)	(388)	(388)
Other LT liabilities & prov	71	85	174	178	200
Current Liabilities	7,821	9,857	8,550	9,281	10,780
Short term borrowings	978	3,000	-	-	-
Trade payables	1,651	1,710	2,131	2,320	2,595
Other cur liabilities & Prov	5,192	5,147	6,419	6,961	8,185
Total Liabilities	33,282	37,047	41,402	46,794	51,272
Assets					
Non- current Assets	12,672	12,016	13,730	13,238	12,746
Fixed assets	5,942	5,121	5,234	4,498	3,622
Non-current investments	4,528	4,597	5,932	5,932	5,932
Long-term loans & adv	876	751	675	728	827
Other non-current assets	1,326	1,547	1,889	2,080	2,364
Current assets	20,610	25,031	27,672	33,557	38,526
Current investments	5,869	7,206	6,836	7,836	8,836
Trade receivables	8,962	10,155	13,356	14,350	16,313
Cash & Bank balances	2,508	3,289	2,562	5,964	7,231
Short term loans & adv.	2,237	3,098	2,651	2,911	3,310
Other current assets	1,034	1,283	2,267	2,496	2,837
Total Assets	33,282	37,047	41,402	46,794	51,272

Cash flow Statement

Year End-March	FY17	FY18	FY19	FY20E	FY21E
PBT	5,549	7,423	9,868	8,397	11,180
Depreciation	1,640	2,021	1,571	2,736	2,876
Interest Exp	191	169	29	520	416
CF before W.cap	7,380	9,613	11,468	11,653	14,472
Inc/dec in W.cap	(890)	2,371	2,222	990	1,567
Op CF after W.cap	8,270	7,242	9,246	10,663	12,904
Less Taxes	1,363	1,722	2,327	2,333	3,130
Net CF From Operations	6,907	5,520	6,919	8,330	9,774
Inc/(dec) in F.A + CWIP	763	894	1,754	2,000	2,000
(Pur)/sale of Investments	3,254	1,406	965	1,000	1,000
Others	(191)	(169)	(29)	(520)	(416)
CF from Invst Activities	(4,208)	(2,469)	(2,748)	(3,520)	(3,416)
Loan Raised	41	1,788	(3,004)	-	-
Equity Raised	(992)	(1,948)	4,446	1,481	(1,983)
Dividend	1,572	2,110	6,340	2,889	3,108
CF from Fin Activities	(2,523)	(2,270)	(4,898)	(1,408)	(5,092)
Net inc /(dec) in cash	176	781	(727)	3,402	1,266
Op. bal of cash	2,332	2,508	3,289	2,562	5,964
Cl. balance of cash	2,508	3,289	2,562	5,964	7,231



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