

Good set of numbers, robust digital order pipeline and management's focus on improving margins augers well for future, Recommend Hold with a revised target price of Rs 1080

Current	Previous
CMP: Rs 972	
Rating: Hold	Rating: Buy
Target: Rs 1080	Target: Rs 1141

(NR-Not Rated)

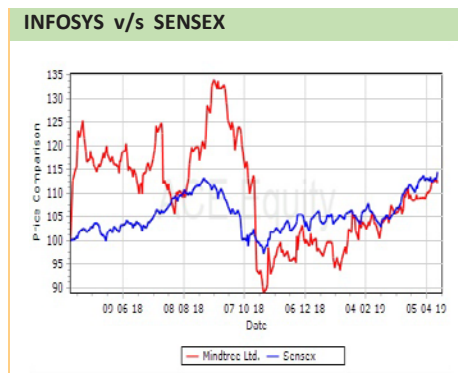
Stock Info	
INDEX	
BSE	532819
NSE	MINDTREE
Bloomberg	MTCL IN
Reuters	MINT.BO
Sector	Information Technology
Face Value (Rs)	10
Equity Capital (Rs Mn)	1642
Market Cap (Rs Mn)	159,602
52w H/L (Rs)	1184 / 752
Avg Weekly Vol (BSE+NSE)	1,271,490

Shareholding Pattern	%
(As on December, 2018)	
Promoters	13.3
Public & Others	86.7

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
MINDTREE	15.5	-1.3	12.0
SENSEX	8.1	11.7	14.5

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Mindtree came out with good set of numbers in Q4FY19, PAT was ahead of our estimate though revenue & EBITDA were below our estimate. Revenue grew 25.6% YoY to Rs 18,394mn against our estimate of Rs 18,870mn. EBITDA stood at Rs 2803mn against our estimate of Rs 3270mn. PAT for the quarter stood at Rs 1984mn ahead of our estimate of Rs 1820mn. We are positive on the stock from longer term perspective, however due to ongoing news flow regarding stake sale/open offer activities, not much clarity is there for continuity of current management. To factor in this uncertainty we have lowered our target P/E multiple to 17.5x from 18.5x earlier, though we have kept our estimates for FY20E/FY21E unchanged. We change our rating from Buy to Hold with a revised target price of Rs 1080.

Q4FY19 Highlights

- In US\$ terms revenue stood at \$ 262mn (4.2% QoQ/15.8% YoY growth), while PAT stood at \$ 28.2mn (5% QoQ/0.3% YoY growth).
- In rupee terms, revenue stood at Rs 18,394 mn (2.9% QoQ/ 25.6% YoY growth). While PAT stood at Rs 1,984 mn (3.8% QoQ/8.9% YoY growth).
- Mindtree has 349 active clients as of March 31, 2019. \$10 mn clients grew by 2 taking the total to 23; \$5 mn clients grew by 1, taking total to 45; \$1 million clients grew by 4, taking total to 120.

Multi-year and multi-million dollar wins with leading global clients

Existing clients:

1. For a large hospitality company, Mindtree extended its Digital presence into cloud migration services.
2. For a leading multinational paints and coatings company, Mindtree is chosen as a Digital Partner to provide Digital service operations and support services.

New clients:

1. For a leading sports retailer, Mindtree is chosen as a Digital partner for their e-commerce platform covering both applications and infrastructure services for end to end support.
2. Mindtree is awarded its largest Salesforce AMS contract to date by a leading tobacco giant. Under this contract Mindtree was chosen to provide support services for their Salesforce applications.
3. Mindtree is chosen as an automation solution partner for an industry leader in revenue integrity for healthcare provider organizations to bring efficiency in their business processes.

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	54,628	7,405	5,701	34.8	13.6	20.8	27.9
FY19	70,215	10,645	7,541	45.9	15.2	22.8	21.2
FY20E	81,434	13,336	8,896	54.2	16.4	23.9	17.9
FY21E	90,629	14,939	10,131	61.7	16.5	23.2	15.8

Source: Company, Arihant Research

Q4FY19 and FY19 Financial Performance

Rs Mn (consolidated)	Q4FY19	Q3FY19	Q4FY18	Q-o-Q	Y-o-Y	FY19	FY18	Y-o-Y
Net Revenue	18,394	17,872	14,640	2.9%	25.6%	70,215	54,628	28.5%
Employee cost	11,504	11,142	9,301	3.2%	23.7%	44,212	35,641	24.0%
Other Expenses	4,087	3,897	2,984	4.9%	37.0%	15,358	11,582	32.6%
EBITDA	2,803	2,833	2,355	-1.1%	19.0%	10,645	7,405	43.8%
<i>EBITDA margin %</i>	<i>15.2%</i>	<i>15.9%</i>	<i>16.1%</i>	<i>-61bps</i>	<i>-85bps</i>	<i>15.2%</i>	<i>13.6%</i>	<i>161bps</i>
Depreciation	428	410	383	4.4%	11.7%	1,641	1,715	-4.3%
EBIT	2,375	2,423	1,972	-2.0%	20.4%	9,004	5,690	58.2%
Other Income	290	-200	591	NA	-50.9%	893	1,902	-53.0%
Finance cost	-	-	58	NA	NA	29	169	-82.8%
Exceptional Item	-	-	-	-	-	-	-	-
PBT	2,665	2,223	2,505	19.9%	6.4%	9,868	7,423	32.9%
Tax Expense	681	311	683	119.0%	-0.3%	2,327	1,722	35.1%
Effective tax rate %	25.6%	14.0%	27.3%	1156bps	-171bps	23.6%	23.2%	38bps
PAT	1,984	1,912	1,822	3.8%	8.9%	7,541	5,701	32.3%
MI & Associates	-	-	-	-	-	-	-	-
Consolidated PAT	1,984	1,912	1,822	3.8%	8.9%	7,541	5,701	32.3%
<i>PAT margin %</i>	<i>10.8%</i>	<i>10.7%</i>	<i>12.4%</i>	<i>9bps</i>	<i>-166bps</i>	<i>10.7%</i>	<i>10.4%</i>	<i>30bps</i>
EPS (Rs)	12.1	11.6	11.1	3.8%	8.9%	45.9	34.7	32.3%

Source: Company, Arianth Research

Post Result Conference Call Highlights

- Mindtree management expects its revenue growth to be in mid-teens in FY20E, while adjusted margin is likely to expand by 100-120bps in FY20E.
- The company management has started giving explicit company specific guidance starting this quarter, following discontinuation of NASSCOM guidance for FY20 for the whole Information Technology industry, which earlier it used to follow.
- Mindtree expects robust growth momentum to continue in its key verticals like Travel and Hi-Tech as well as in CPG & Retail. However despite decent growth (7.4% in FY19) in BFSI vertical, margins were under pressure due to client-specific issues. Mindtree expects the vertical to remain soft going forward. However given the higher digital spending in BFSI and also due to Mindtree's increasing focus on change-the-business services, some positive impact on its margins cannot be ruled out in FY20E.
- The company is planning to provide the stakeholder and investor community more insights into its digital business starting Q1FY20E. The digital business activity will be sub-divided into three core groups,-- 1) Mindtree Interactive (will cover the front end work with clients), 2) Data Science and Engineering Services (Big Data and Analytics) and 3) Cloud Services (covering cloud migration & cloud infrastructure management).

Valuations

At CMP of Rs 972, Mindtree is trading at FY20E and FY21E, P/E multiples of 17.9x and 15.8x respectively. We maintain our FY20E/FY21E estimates, however cut our target P/E multiple to 17.5x from 18.5x earlier to factor in the current uncertainty regarding continuation of existing management in the light of L&T open offer. We now value the stock at FY21E target P/E multiple of 17.5x, which yields a target price of Rs 1080 per share. We are positive on the future prospects of Mindtree and recommend a Hold rating with a revised target price of Rs 1080, which gives an upside potential of 11.1%.

Consolidated Financials

Income Statement (Rs Mn)

Year End-March	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenues	46,730	52,364	54,628	70,215	81,434	90,629
Change (%)	31.2%	12.1%	4.3%	28.5%	16.0%	11.3%
Employee Costs	27,991	34,125	35,641	44,212	50,173	56,035
Other Expenses	10,529	11,058	11,582	15,358	17,925	19,654
Total Expenses	38,520	45,183	47,223	59,570	68,098	75,690
EBITDA	8,210	7,181	7,405	10,645	13,336	14,939
Other Income	839	417	1,902	893	796	1,042
Depreciation	1,658	1,858	1,715	1,641	1,842	2,077
Interest	160	191	169	29	103	120
PBT	7,231	5,549	7,423	9,868	12,187	13,784
Tax	1,706	1,363	1,722	2,327	3,290	3,653
Rate (%)	23.6%	24.6%	23.2%	23.6%	27.0%	26.5%
PAT	5,525	4,186	5,701	7,541	8,896	10,131
MI & Associates	0	0	0	0	0	0
Consolidated PAT	5,525	4,186	5,701	7,541	8,896	10,131
Change (%)	3%	-24.2%	36.2%	32.3%	18.0%	13.9%

Source: Company, Arianth Research

Balance Sheet (Rs Mn)

Year End-March	FY16	FY17	FY18	FY19	FY20E	FY21E
Sources of Funds						
Share Capital	1,678	1,680	1,639	1,642	1,642	1,642
Reserves & Surplus	22,471	24,091	25,775	31,419	35,512	42,097
Net Worth	24,149	25,771	27,414	33,061	37,154	43,739
Loan Funds	433	991	3,009	1,599	1,867	2,196
MI, Deferred Tax & other Liabilities	432	-323	-233	-303	-233	-233
Capital Employed	25,014	26,439	30,190	34,357	38,788	45,702
Application of Funds						
Net Block	6,805	5,750	5,029	6,137	7,051	8,270
CWIP	232	192	92	297	129	151
Other Non-current Assets	6,990	6,672	6,837	7,296	7,735	8,240
Net Fixed Assets	14,027	12,614	11,958	13,730	14,914	16,661
Investments	62	58	58	1,200	1,210	1,220
Debtors	9,728	8,962	10,155	13,356	15,618	17,381
Cash & Bank Balance	4,598	8,377	10,495	9,826	10,389	14,169
Loans & Advances & other CA	3,948	3,271	4,381	4,795	6,738	7,498
Total Current Assets	18,274	20,610	25,031	27,977	32,744	39,048
Current Liabilities & Provisions	7,349	6,843	6,857	8,550	10,080	11,227
Net Current Assets	10,925	13,767	18,174	19,427	22,664	27,820
Total Assets	25,014	26,439	30,190	34,357	38,788	45,702

Source: Company, Arianth Research

Cash Flow Statement (Rs Mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	7,231	5,549	7,423	9,868	12,187	13,784
Depreciation	1,658	1,858	1,715	1,641	1,842	2,077
Interest & others	454	-404	202	-864	-74	-183
Cash flow before WC changes	9,343	7,003	9,340	10,645	13,955	15,678
(Inc)/dec in working capital	-2,995	1,095	-2,397	-2,780	-2,258	-1,579
Operating CF after WC changes	6,348	8,098	6,943	7,865	11,696	14,099
Less: Taxes	-1,706	-1,363	-1,722	-2,327	-3,290	-3,653
Operating Cash Flow	4,642	6,735	5,221	5,538	8,406	10,446
(Inc)/dec in F.A + CWIP	-1,584	-871	-1,020	-1,313	-2,883	-3,319
(Pur)/sale of investment	0	0	0	0	0	0
Cash Flow from Investing	-1,584	-871	-1,020	-1,313	-2,883	-3,319
Free Cash Flow (FCF)	3,058	5,864	4,201	4,225	5,523	7,128
Loan raised/(repaid)	410	558	2,018	-1,410	267	329
Equity raised	841	2	-41	3	0	0
Interest & others	-6,738	-464	-1,254	260	-103	-120
Dividend	-2,079	-2,181	-2,557	-4,926	-3,547	-3,547
Cash Flow from Financing Activities	-7,566	-2,085	-1,834	-6,073	-3,383	-3,338
Net inc /(dec) in cash	-4,508	3,779	2,367	-1,848	2,140	3,790
Opening balance of cash	9,106	4,598	8,377	10,495	9,826	10,389
Closing balance of cash	4,598	8,377	10,495	9,826	10,389	14,169

Source: Company, Arianth Research

Key Ratios

Year End-March	FY16	FY17	FY18	FY19	FY20E	FY21E
Per Share (Rs)						
EPS	32.9	24.9	34.8	45.9	54.2	61.7
CEPS	42.8	36.0	45.2	55.9	65.4	74.3
BVPS	143.9	153.4	167.2	201.3	226.3	266.4
DPS	10.5	11.0	13.0	30.0	18.0	18.0
Valuation (x)						
P/E	29.5	39.0	27.9	21.2	17.9	15.8
P/CEPS	22.7	27.0	21.5	17.4	14.9	13.1
P/BV	6.8	6.3	5.8	4.8	4.3	3.6
EV/EBITDA	19.4	21.7	20.5	14.2	11.2	9.8
Return Ratio (%)						
EBIDTA Margin	17.6%	13.7%	13.6%	15.2%	16.4%	16.5%
PAT Margin	11.8%	8.0%	10.4%	10.7%	10.9%	11.2%
ROE	22.9%	16.2%	20.8%	22.8%	23.9%	23.2%
ROCE	26.2%	20.1%	18.8%	26.2%	29.6%	28.1%
Dividend Yield	1.1%	1.1%	1.3%	3.1%	1.9%	1.9%
Leverage Ratio (%)						
Total D/E	0.0	0.0	0.1	0.0	0.1	0.1
Net D/E	-0.2	-0.3	-0.3	-0.2	-0.3	-0.3
Turnover Ratios						
Asset Turnover (x)	1.9	2.0	1.8	2.0	2.1	2.0
Receivable Days	76	62	68	69	70	70
Payable days	57	48	46	44	45	45

Source: Company, Arianth Research

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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