

A relatively better performance with bleak outlook

CMP: Rs 887

Rating: NEUTRAL

Target Price: Rs 888

Stock Info

BSE	532819
NSE	MINDTREE
Bloomberg	MTCL IN
Reuters	MINT.BO
Sector	IT
Face Value (Rs)	10
Equity Capital (Rs mn)	1646
Mkt Cap (Rs mn)	146,026
52w H/L (Rs)	996 / 652
Avg Yearly Vol (in 000')	1,201

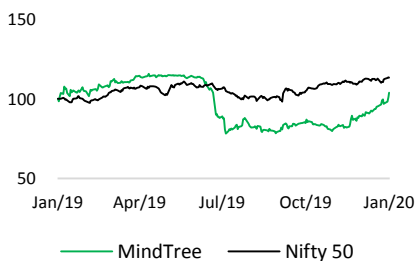
Shareholding Pattern %

(As on Dec, 2019)

Promoters	73.64
FII	10.46
DII	6.25
Public & Others	9.65

Stock Performance (%)	3m	6m	12m
MindTree	22.4	16.8	3.9
Nifty	8.0	6.5	13.4

MindTree Vs Nifty



Mindtree reported stable set of numbers in Q3FY20, mostly in line with our estimates except a minor miss on net sales due to slight sluggishness in European market. Consolidated revenue for Q2FY20 stood at Rs 19,653mn, slightly below our estimate of Rs 20,269 mn, registering +10.0% YoY/+2.7% QoQ growth. Reported EBITDA grew +8.1% YoY/+23.4% QoQ to Rs 3,063 mn, a tad above our estimate of Rs 2,736 mn, while EBITDA margin expanded 262bps QoQ to 15.6% above our estimate. PAT for the quarter grew +3.0% YoY to Rs 1,970 mn, beating our estimate of Rs 1,621 mn. With better than expected results, we maintain our rating on the stock at Neutral due to factors like 1) new management will take time to effectively manage the transition, 2) high attrition rate 3) still high concentration of top clients. We recommend Neutral rating on the stock with a target price of Rs 888.

Q3FY20 Highlights

- Growth was completely driven by top account (23.1% of rev) which grew 13.8% QoQ supported by ramp-up of multiple deals, while revenue ex-top account declined 1.6% QoQ (across verticals) impacted by furloughs. Amongst geographies, U.S. grew 2.7%, rest of the world grew 1.5% and Europe declined by 2.4%. Digital business grew 2.1% QoQ and 13.5% YoY.
- Deal wins during the quarter has been good with addition of 1 client of USD +25 mn taking the total client count to 320. Renewals were USD 128mn and new deals were USD 79mn, which fell on both annual and sequential basis. Deals worth USD 174mn are executable over the next 12 months.
- The management stated that the weakness in deal closure was on account of clients being in the process of formalizing their budgets (as most clients follow a calendar year).
- The company added 294 new employees during the quarter and attrition levels inched up to 17.2% (16.5% in 2QFY20).

Valuations

After factoring in stable results, we have kept our FY20E/FY21E estimate unchanged and increase the stock's P/E multiple to 18x on its FY21E earnings. At CMP of Rs 887, Mindtree is trading at FY20E and FY21E, P/E multiples of 23.6x and 18x respectively. **We maintain the stock at Neutral due to its concentrated client base, bleak future new deal wins outlook and decline in European business with a target price of Rs 888 valuing it at P/E multiple of 18.0x for FY21E earnings of INR 49 per share.**

Particulars (Rs mn)	FY18	FY19	FY20E	FY21E
Net Sales	54,628	70,215	78,022	88,111
EBITDA	7,405	10,645	10,533	13,217
PAT	5,701	7,541	6,199	8,138
EPS (per share)	34.8	45.9	37.7	49.4
ROE	20.8%	22.8%	17.5%	20.1%
P/E	25.5	19.3	23.6	18.0

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q3 FY20 - Quarterly Performance

Rs Mn (consolidated)	Q3FY20	Q2FY20	Q3FY19	Q-o-Q	Y-o-Y	9MFY20	9MFY19	Y-o-Y
Net Revenue	19,653	19,143	17,872	2.7%	10.0%	57,138	51,821	10.3%
Employee cost	12,535	12,647	11,142	-0.9%	12.5%	37,714	32,708	15.3%
Other Expenses	4,055	4,014	3,897	1.0%	4.1%	12,038	11,271	6.8%
EBITDA	3,063	2,482	2,833	23.4%	8.1%	7,386	7,842	-5.8%
<i>EBITDA margin %</i>	<i>15.6%</i>	<i>13.0%</i>	<i>15.9%</i>	<i>262bps</i>	<i>-27bps</i>	<i>12.9%</i>	<i>15.1%</i>	<i>-221bps</i>
Depreciation	699	707	410	-1.1%	70.5%	2,075	1,213	71.1%
EBIT	2,364	1,775	2,423	33.2%	-2.4%	5,311	6,629	-19.9%
Other Income	348	197	200	76.6%	-274.0%	765	603	26.9%
Finance cost	133	138	-	-3.6%	-	401	29	1282.8%
Exceptional Item	-	-	-	-	-	-	-	-
PBT	2,579	1,834	2,223	40.6%	16.0%	5,675	7,203	-21.2%
Tax Expense	609	484	311	25.8%	95.8%	1,428	1,646	-13.2%
<i>Effective tax rate %</i>	<i>23.6%</i>	<i>26.4%</i>	<i>14.0%</i>	<i>-278bps</i>	<i>962bps</i>	<i>25.2%</i>	<i>22.9%</i>	<i>231bps</i>
PAT	1,970	1,350	1,912	45.9%	3.0%	4,247	5,557	-23.6%
MI & Associates	-	-	-	-	-	-	-	-
Consolidated PAT	1,970	1,350	1,912	45.9%	3.0%	4,247	5,557	-23.6%
<i>PAT margin %</i>	<i>10.0%</i>	<i>7.1%</i>	<i>10.7%</i>	<i>297bps</i>	<i>-67bps</i>	<i>7.4%</i>	<i>10.7%</i>	<i>-329bps</i>
EPS (Rs)	11.97	8.20	11.64	46.0%	2.8%	25.82	33.87	-23.8%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q3 FY20 – Key Concall Highlights

- The management mentioned of trimming the middle & senior level employees strength during the quarter resulting into better operational efficiency and reduced expenses that caused an improvement of 140 bps in Q3 FY20.
- As per management, the smaller clients requires the company to spend more on acquisition of the clients as well as the per client expenses of the company. Hence going ahead, the focus and investments will be made in the company to win clients above USD 10 mn and USD 25 mn.
- The company is also focussing more to get the annuity based clients in the future which will provide more stability to the cash inflow in the long run.
- The management remained confident of winning more clients in the USD 50 mn plus contract category after winning 1 client in the USD 25 mn client in the past quarter.
- The management said the increased attrition rate looks higher due to the base effect of last 12 months, but the quarterly attrition remained low.
- Overall, the management remained tight-lipped of providing any material guidance on the company's business while the overall performance of the company remained flat.

Key Financials

Profit & Loss Statement	FY18	FY19	FY20E	FY21E	FY22E
Revenues	54,628	70,215	78,022	88,111	96,525
<i>Change (%)</i>	4.3%	28.5%	11.1%	12.9%	9.5%
Employee Costs	35,641	44,212	50,715	56,391	61,776
Other Expenses	11,582	15,358	16,775	18,503	20,270
Total Expenses	47,223	59,570	67,489	74,895	82,046
EBITDA	7,405	10,645	10,533	13,217	14,479
Other Income	1,902	893	1,007	1,252	1,627
Depreciation	1,715	1,641	2,642	2,877	3,400
Interest	169	29	520	520	520
PBT	7,423	9,868	8,377	11,073	12,185
Tax	1,722	2,327	2,178	2,934	3,229
<i>Rate (%)</i>	23.2%	23.6%	26.0%	26.5%	26.5%
PAT	5,701	7,541	6,199	8,138	8,956
MI & Associates	0	0	0	0	0
Consolidated PAT	5,701	7,541	6,199	8,138	8,956
<i>Change (%)</i>	36.2%	32.3%	-17.8%	31.3%	10.0%

Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E
Sources of Funds					
Share Capital	1,639	1,642	1,646	1,646	1,646
Reserves & Surplus	25,775	31,419	33,703	38,942	45,039
Net Worth	27,414	33,061	35,349	40,588	46,685
Loan Funds	3,009	1,599	1,776	2,038	2,343
MI, Deferred Tax & other Liabilities	-233	-303	-233	-233	-223
Capital Employed	30,190	34,357	36,892	42,393	48,805
Application of Funds					
Net Block	5,029	6,137	7,051	8,270	9,568
CWIP	92	297	129	151	175
Other Non-current Assets	6,837	7,296	7,735	8,240	8,777
Net Fixed Assets	11,958	13,730	14,914	16,661	18,520
Investments	58	1,200	1,210	1,220	1,230
Debtors	10,155	13,356	14,963	16,760	18,512
Cash & Bank Balance	10,495	9,826	9,108	11,443	14,605
Loans & Advances & other CA	4,381	4,795	6,455	7,231	7,986
Total Current Assets	25,031	27,977	30,527	35,434	41,103
Current Liabilities & Provisions	6,857	8,550	9,758	10,923	12,047
Net Current Assets	18,174	19,427	20,768	24,512	29,056
Total Assets	30,190	34,357	36,892	42,393	48,805

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Cash-Flow Statement	FY18	FY19	FY20E	FY21E	FY22E
PBT	7,423	9,868	8,377	11,073	12,185
Depreciation	1,715	1,641	2,642	2,877	3,400
Interest & others	202	-864	-487	-732	-1,107
Cash flow before WC changes	9,340	10,645	10,533	13,217	14,479
(Inc)/dec in working capital	-2,397	-2,780	-1,368	-1,614	-1,583
Operating CF after WC changes	6,943	7,865	9,165	11,602	12,896
Less: Taxes	-1,722	-2,327	-2,178	-2,934	-3,229
Operating Cash Flow	5,221	5,538	6,987	8,668	9,667
(Inc)/dec in F.A + CWIP	-1,020	-1,313	-2,883	-3,319	-3,921
(Pur)/sale of investment	0	0	0	0	0
Cash Flow from Investing	-1,020	-1,313	-2,883	-3,319	-3,921
Free Cash Flow (FCF)	4,201	4,225	4,104	5,349	5,746
Loan raised/(repaid)	2,018	-1,410	178	262	305
Equity raised	-41	3	4	0	0
Interest & others	-1,503	1,451	-1,995	277	277
Dividend	-2,557	-4,938	-3,553	-3,553	-3,553
Cash Flow from Financing Activities	-2,083	-4,894	-5,366	-3,014	-2,971
Net inc /(dec) in cash	2,118	-669	-1,263	2,335	2,774
Opening balance of cash	8,377	10,495	9,826	9,108	11,443
Closing balance of cash	10,495	9,826	9,108	11,443	14,605

Year End-March	FY18	FY19	FY20E	FY21E	FY22E
Per Share (Rs)					
EPS	34.8	45.9	37.7	49.4	54.4
CEPS	45.2	55.9	53.7	66.9	75.1
BVPS	167	201	215	247	284
DPS	13.0	30.0	18.0	18.0	18.0
Valuation (x)					
P/E	25.5	19.3	23.6	18.0	16.3
P/CEPS	19.6	15.9	16.5	13.3	11.8
P/BV	5.3	4.4	4.1	3.6	3.1
EV/EBITDA	20.5	14.2	14.5	11.4	10.2
Return Ratio (%)					
EBIDTA Margin	13.6%	15.2%	13.5%	15.0%	15.0%
PAT Margin	10.4%	10.7%	7.9%	9.2%	9.3%
ROE	20.8%	22.8%	17.5%	20.1%	19.2%
ROCE	18.8%	26.2%	21.4%	24.4%	22.7%
Dividend Yield	1.5%	3.4%	2.0%	2.0%	2.0%
Leverage Ratio (%)					
Total D/E	0.1	0.0	0.1	0.1	0.1
Net D/E	-0.3	-0.2	-0.2	-0.2	-0.3
Turnover Ratios					
Asset Turnover (x)	1.8	2.0	2.1	2.1	2.0
Receivable Days	68	69	70	69	70
Payable days	46	44	46	45	46

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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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% to -12%
SELL	<-12%

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