

RETAIL EQUITY RESEARCH

Mindtree Ltd

IT

BSE CODE: 532819

NSE CODE: MINDTREE

Bloomberg CODE: MTCL:IN

SENSEX: 35,160

HOLD

Rating as per Midcap

12months investment period

CMP Rs. 1,085 TARGET Rs. 1,091 RETURN 1% ↑

2nd May 2018

Beat on all counts ...

MindTree Ltd is an information technology (IT) consulting and implementation company with focus on select verticals viz; BFSI, Retail, Travel & Hospitality and Hi-Tech.

- Mindtree reported better than expected results in Q4FY18 with consolidated revenue growth of 6.3% QoQ in INR terms (5.5% in USD terms) led by healthy deal wins and strong growth across verticals except BFSI.
- EBITDA margin rose 103bps QoQ to 16.1% largely driven by currency benefits (70bps) and operational efficiencies (30bps).
- Management sounded optimistic on revenue & margin growth outlook for FY19 on the back strong deal closure & pipeline, improving mix, traction in top account and operating efficiencies.
- Given strong performance in Q4FY18 and positive commentary on growth, we increase our revenue & EBITDA estimates by 3%/7% & 5%/10% for FY19E/20E.
- Hence, we revise our target multiple to 21x FY20E EPS (16x earlier) to arrive at a revised TP of Rs. 1,091. However, current valuations offer limited upside. Maintain HOLD.

Solid revenue growth buoyed by healthy deal wins

Mindtree posted better than expected results in Q4FY18 with strong revenue growth of 6.3% QoQ in INR terms (5.5% in USD terms) on consolidated basis powered by healthy deal wins. Further healthy growth in volumes (7.8% QoQ) helped to offset decline in realisation (2.1%) which got impacted by higher working days. On constant currency basis, revenue growth stood at 4.5% QoQ. While client addition stood robust as it added 23 new clients in Q4FY18, active clients reduced to 338 from 344 in Q3FY18. Additionally, the beat was also driven by continued traction in top client (+13% QoQ) and sustained momentum in digital business (contributing 45% to the overall revenue) with revenue growth of 8.2% QoQ in USD terms. Vertically, the growth was strong across the board excluding BFSI which declined by 4% QoQ. This decline was mainly due to completion of project with one of the clients.

Margin beat mainly led by currency tailwind

Driven by robust revenue growth, benefits of currency (70bps) and operational efficiencies (30bps), EBITDA margin surged by 103bps QoQ to 16.1% in Q4FY18. The beat in margin along with benefit of forex gain of USD2.9 mn (forex loss of USD1.3 mn in Q3FY17) and write back of Rs 91.6 crore (payable to Bluefin Solutions, Relational Solutions and Magnet 360 LLC) resulted in strong 29% QoQ growth in net profit. Notwithstanding 300bps margin headwind from advancement of wage hike to April 2018, the management expects further improvement in EBITDA margin in FY19 owing to various levers 1) Strong growth in revenue, 2) Pyramid rationalisation, 3) Improved performance in Bluefin and Magnet360 and 4) Operational efficiency. Hence, we model EBITDA margin of 15.2%/16.5% for FY19E/20E.

Positive growth outlook

The company continues to witness traction in deal wins with order intake growing strongly by ~22% QoQ to USD298 mn in Q4FY18, of which renewals accounted for USD256 mn and new deals comprised of USD42 mn. Digital deals accounted for ~34% of the overall orderbook. The management is confident of delivering healthy revenue growth in FY19 on the back of a) Strong deal closure & pipeline, b) Acceleration in digital business and c) Rebound in BFSI vertical driven by strong deal pipeline and ramp up of existing large deals. We estimate revenue CAGR of 16% over FY18-20E mainly on account of increasing wallet share and momentum in top accounts.

Outlook & Valuation: We increase our revenue & EBITDA estimates by 3%/7% & 5%/10% for FY19E/20E owing to better than expected performance in Q4FY18 and positive commentary on growth. However, PAT estimates stand revised by (2%)/8% in FY19E/20E due to higher tax rate. We revise our target multiple to 21x FY20E EPS (16x earlier) to arrive at a revised TP of Rs. 1,091. However, current valuations offer limited upside. Maintain HOLD.

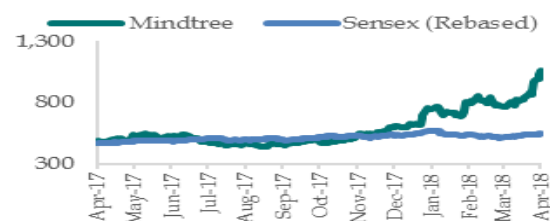
Company Data

Market Cap (Rs. cr)	17,783
Enterprise Value (Rs. cr)	17,035
Outstanding Shares (cr)	16.4
Free Float	87%
Dividend Yield	1.0%
52 week high	Rs. 1,098
52 week low	Rs. 438
6m average volume (lakh)	18.4
Beta	1.1
Face value	Rs. 10

Shareholding %	Q2FY18	Q3FY18	Q4FY18
Promoters	13.6	13.6	13.4
FII's	40.3	40.6	41.7
MFs/Insti	5.7	8.4	8.9
Public	15.2	13.1	15.1
Others	25.2	24.3	20.9
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	42%	126%	123%
Absolute Sensex	(2%)	6%	18%
Relative Return*	44%	120%	105%

*over or under performance to benchmark index



Consolidated (Rs.cr)	FY18E	FY19E	FY20E
Sales	5,463	6,326	7,384
Growth (%)	4.3%	15.8%	16.7%
EBITDA	741	959	1,215
Margin(%)	13.6	15.2	16.5
PAT Adj	570	642	851
Growth (%)	36.2%	12.6%	32.6%
Adj.EPS	34.8	39.2	51.9
Growth (%)	39.6%	12.6%	32.6%
P/E	31.2	27.7	20.9
P/B	6.5	5.7	4.9
EV/EBITDA	24.0	18.4	14.4
RoE (%)	21.4	21.9	25.3
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs cr)	Q4FY18	Q4FY17	YoY Growth %	Q3FY18	QoQ Growth %
Sales	1,464	1,318	11.1	1,378	6.3
EBITDA	236	164	43.5	207	13.5
EBITDA margin (%)	16.1%	12.4%	364bps	15.1%	103bps
Depreciation	38	47	(18.2)	42	(8.6)
EBIT	197	117	68.1	166	19.2
Interest	6	5	23.4	5	26.1
Other Income	59	13	344.4	6	901.7
Exceptional Items	-	-	-	-	-
PBT	251	126	99.0	167	50.2
Tax	68	29	138.0	25	170.0
PAT	182	97	87.4	142	28.8
Minority Interest	-	-	-	-	-
Reported PAT	182	97	87.4	142	28.8
Adjustment	-	-	-	-	-
Adj. PAT	182	97	87.4	142	28.8
No. of shares (cr)	16.4	16.8	(2.4)	16.4	-
EPS (Rs)	11.1	5.9	87.4	8.6	28.8

Segmental Revenue

(Rs cr)	Q4FY18	Q4FY17	YoY Growth %	Q3FY18	QoQ Growth %
Retail, CPG and Manufacturing	344	303	13.4	321	7.1
Banking, Financial Services and Insurance	332	325	2.1	341	(2.8)
Technology, Media and Services	556	494	12.5	505	10.0
Travel and Hospitality	233	196	18.8	211	10.6
Total revenue from operations	1,464	1,318	11.1	1,378	6.3

Source: Company, Geojit Research

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY19E	FY20E	FY19E	FY20E	FY18E	FY19E
Revenue	6,171	6,878	6,326	7,384	3	7
EBITDA	914	1,101	959	1,215	5	10
Margins (%)	14.8	16.0	15.2	16.5	40bps	50bps
PAT	655	789	642	851	(2)	8
EPS	39.9	48.1	39.2	51.9	(2)	8

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
Sales	4,673	5,236	5,463	6,326	7,384
% change	31.2%	12.1%	4.3%	15.8%	16.7%
EBITDA	821	704	741	959	1,215
% change	15.8%	-14.2%	5.1%	29.5%	26.7%
Depreciation	166	186	172	162	173
EBIT	655	519	569	797	1,042
Interest	16	19	17	25	25
Other Income	84	55	190	108	150
PBT	723	555	742	879	1,166
% change	4.7%	-23.3%	33.8%	18.5%	32.6%
Tax	171	136	172	237	315
Tax Rate (%)	23.6%	24.6%	23.2%	27.0%	27.0%
Reported PAT	553	419	570	642	851
Adj*	-	-	-	-	-
Adj PAT	553	419	570	642	851
% change	3.0%	-24.2%	36.2%	12.6%	32.6%
No. of shares (cr)	16.8	16.8	16.4	16.4	16.4
Adj EPS (Rs)	32.9	24.9	34.8	39.2	51.9
% change	3.0%	-24.3%	39.6%	12.6%	32.6%
DPS (Rs)	10.5	10.0	11.0	14.0	17.0

Cash flow

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
Pre-tax profit	553	419	570	879	1,166
Depreciation	166	186	172	162	173
Changes in W.C	(252)	122	(83)	(80)	(148)
Others	149	105	69	(82)	(124)
Tax paid	(194)	(177)	(163)	(237)	(315)
C.F.O	421	654	564	641	753
Capital exp.	(158)	(87)	(102)	(180)	(200)
Change in inv.	332	(328)	(88)	(200)	(200)
Other invest.CF	(590)	(44)	(10)	108	150
C.F - investing	(417)	(459)	(200)	(272)	(250)
Issue of equity	2	1	(264)	-	-
Issue/repay debt	41	55	196	-	-
Dividends paid	(215)	(193)	(214)	(275)	(334)
Other finance.CF	(0)	(0)	(5)	(25)	(25)
C.F - Financing	(172)	(138)	(288)	(301)	(360)
Chg. in cash	(167)	57	77	68	142
Closing cash	233	251	329	397	540

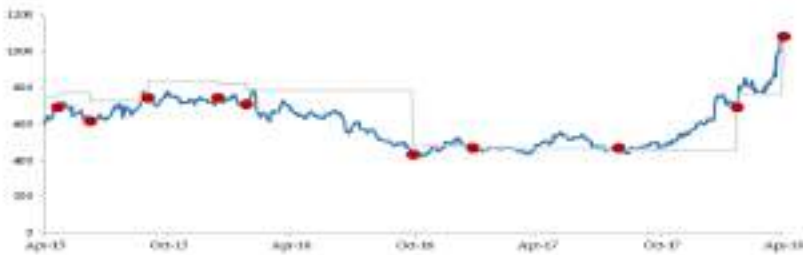
Balance Sheet

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
Cash	233	251	329	397	540
Accounts Receivable	973	896	1,016	1,130	1,319
Inventories	-	-	-	-	-
Other Cur. Assets	460	394	438	451	465
Investments	233	593	726	926	1,126
Gross Fixed Assets	1,319	1,374	1,448	1,628	1,828
Net Fixed Assets	681	575	503	521	549
CWIP	23	19	9	9	9
Intangible Assets	482	447	454	454	454
Def. Tax (Net)	41	62	32	32	32
Other Assets	152	154	230	230	230
Total Assets	3,277	3,391	3,737	4,151	4,723
Current Liabilities	733	684	686	733	789
Provisions	-	-	-	-	-
Debt Funds	43	99	301	301	301
Other Liabilities	86	30	9	9	9
Equity Capital	168	168	164	164	164
Reserves and Surplus	2,247	2,409	2,578	2,944	3,461
Shareholder's Fund	2,415	2,577	2,741	3,108	3,625
Total Liabilities	3,277	3,391	3,737	4,151	4,723
BVPS (Rs)	143.9	153.4	167.3	189.6	221.2

Ratios

Y.E March	FY16	FY17	FY18	FY19E	FY20E
Profitab. & Return					
EBITDA margin (%)	17.6	13.5	13.6	15.2	16.5
EBIT margin (%)	14.0	9.9	10.4	12.6	14.1
Net profit mgn.(%)	11.8	8.0	10.4	10.1	11.5
ROE (%)	25.0	16.8	21.4	21.9	25.3
ROCE (%)	33.0	22.4	26.6	28.1	32.5
W.C & Liquidity					
Receivables (days)	76	62	68	65	65
Inventory (days)	0	0	0	0	0
Payables (days)	18	13	13	13	13
Current ratio (x)	2.3	2.3	2.6	2.7	2.9
Quick ratio (x)	2.3	2.3	2.6	2.7	2.9
Turnover & Levq.					
Gross asset T.O (x)	3.9	3.9	3.9	4.1	4.3
Total asset T.O (x)	1.6	1.6	1.5	1.6	1.7
Adj. debt/equity (x)	0.0	0.0	0.1	0.1	0.1
Valuation ratios					
EV/Net Sales (x)	3.9	3.5	3.3	2.8	2.4
EV/EBITDA (x)	21.9	25.7	24.0	18.4	14.4
P/E (x)	33.0	43.5	31.2	27.7	20.9
P/BV (x)	7.5	7.1	6.5	5.7	4.9

Recommendation Summary (last 3 years)



Dates	Rating	Target
06 April 2015	BUY	750
20 May 2015	BUY	775
08 July 2015	BUY	730
01 October 2015	BUY	840
12 January 2016	BUY	825
24 February 2016	BUY	790
28 October 2016	HOLD	482
24 January 2017	HOLD	468
29 August 2017	SELL	460
21 February 2018	HOLD	770
2 May 2018	HOLD	1091

Source: Bloomberg, Geojit Research

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable.	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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