

Mindtree

Driving change to revive revenue growth and profitability

Summary

- At its analyst meet, Mindtree (MTCL) reaffirmed its 3.0 strategy with focus on four areas – 1) Digital Packages & Platforms, 2) Consulting First approach, 3) Focused innovation in solutions for both Run and Grow the business and 4) Balanced approach towards automation.
- MTCL also confirmed that the worst as regards the client specific issues is behind and it expects growth to pick-up and profitability to improve in the medium term.
- MTCL currently trades at PER of 16.6x/14x FY18/19E with RoE of 18%.

Key Highlights

- Mindtree 3.0 – Focus on driving growth in digital arena**
 - Digital Packages & Platforms** – MTCL is targeting to accelerate growth through focus on select core packaged applications like Salesforce, SAP and Adobe and develop capabilities which would enable it drive leadership in these applications.
 - Focused innovation in solutions for Run and Grow the business** – With a focus on aligning with changing market approaches, MTCL is creating bi-model sales, delivery and operational model.
 - Consulting first approach** – MTCL targets to continue with this approach to drive competitive advantage even in Next-Gen technologies
 - Balance approach to automation** – MTCL is clear that it would leverage automation to drive productivity in competitive deals or based on client's requirement. At the same time, it continues to have a sharp focus on re-skilling employees as a part of its talent transformation initiative.
- Digital solutions will continue to drive growth; Leverage from recent M&A**
 MTCL confirmed that acquisition of Bluefin and Magnet 360 have been the integral part of its Digital Solutions (42% of revenue). MTCL is confident on driving growth in both the acquisitions and thus improve their profitability over next 3-4 quarters. MTCL believes that its focus areas like Salesforce itself provide huge growth opportunities. IT believes that by 2020 every \$1 of revenue for Salesforce would result in \$4.1 of revenue for technology partners like MTCL.

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V/s Consensus

| EPS (Rs) | FY18E | FY19E |
|------------------------|-------|-------|
| IDBI Capital Consensus | 27.9 | 32.8 |
| % difference | -- | -- |

Shareholding Pattern (%)

| | |
|-----------|------|
| Promoters | 13.6 |
| FII | 39.9 |
| DII | 6.3 |
| Public | 40.2 |

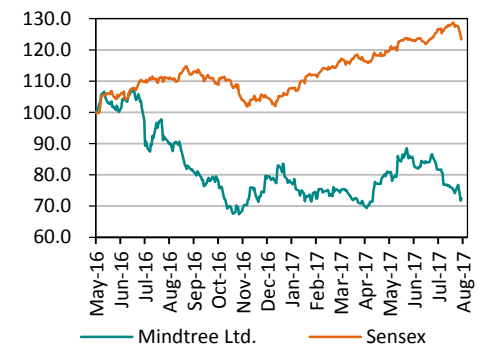
Price Performance (%)

| | -1m | -3m | -12m |
|---------------|-------|-------|--------|
| Absolute | (3.8) | (6.3) | (17.9) |
| Rel to Sensex | (2.6) | (9.8) | (30.2) |

Key Stock Data

| | |
|---------------------------------------|----------------|
| Bloomberg / Reuters MTCL IN / MINT.BO | |
| Sector | IT Services |
| Shares o/s (mn) | 168 |
| Market cap. (Rs mn) | 77,597 |
| Market cap. (US\$ mn) | 1,206 |
| 3-m daily average value (Rs mn) | 507 |
| 52-week high / low | Rs579 / 400 |
| Sensex / Nifty | 31,259 / 9,754 |

Relative to Sensex (%)



Financial snapshot

| Year | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 |
|--------------------|--------|--------|--------|--------|--------|
| Revenue | 23,618 | 30,316 | 35,461 | 46,730 | 52,364 |
| EBITDA | 4,864 | 6,100 | 7,014 | 8,210 | 7,181 |
| EBITDA (%) | 20.6 | 20.1 | 19.8 | 17.6 | 13.7 |
| Adj. PAT | 3,393 | 4,508 | 5,322 | 5,525 | 4,186 |
| EPS (Rs) | 20.4 | 27.0 | 31.8 | 32.9 | 24.9 |
| EPS Growth (%) | (26.2) | 32.2 | 17.6 | 3.6 | (24.3) |
| PE (x) | 22.6 | 17.1 | 14.5 | 14.0 | 18.5 |
| Dividend Yield (%) | 0.6 | 1.4 | 1.8 | 2.7 | 2.2 |
| EV/EBITDA (x) | 14.7 | 11.6 | 9.7 | 8.9 | 9.8 |
| RoE (%) | 51.7 | 30.5 | 28.3 | 24.3 | 16.8 |
| RoCE (%) | 65.2 | 36.4 | 32.6 | 29.2 | 21.2 |

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

| Year-end: March | FY14 | FY15 | FY16 | FY17 |
|-------------------------------|---------------|---------------|---------------|---------------|
| Net sales | 30,316 | 35,461 | 46,730 | 52,364 |
| <i>Growth (%)</i> | 28.4 | 17.0 | 31.8 | 12.1 |
| Operating expenses | (24,216) | (28,447) | (38,520) | (45,183) |
| EBITDA | 6,100 | 7,014 | 8,210 | 7,181 |
| <i>Growth (%)</i> | 25.4 | 15.0 | 17.1 | (12.5) |
| Depreciation | (809) | (1,024) | (1,658) | (1,858) |
| EBIT | 5,291 | 5,990 | 6,552 | 5,323 |
| Interest paid | (4) | (2) | (160) | (191) |
| Other income | 496 | 876 | 839 | 417 |
| Pre-tax profit | 5,783 | 6,864 | 7,231 | 5,549 |
| Tax | (1,275) | (1,542) | (1,706) | (1,363) |
| <i>Effective tax rate (%)</i> | 22.0 | 22.5 | 23.6 | 24.6 |
| Net profit | 4,508 | 5,322 | 5,525 | 4,186 |
| Adjusted net profit | 4,508 | 5,322 | 5,525 | 4,186 |
| <i>Growth (%)</i> | 32.9 | 18.1 | 3.8 | (24.2) |
| <i>Shares o/s (mn nos)</i> | 167 | 167 | 168 | 168 |

Cash Flow Statement

(Rs mn)

| Year-end: March | FY14 | FY15 | FY16 | FY17 |
|--------------------------------------|----------------|----------------|----------------|----------------|
| Pre-tax profit | 5,783 | 6,864 | 7,231 | 5,549 |
| Depreciation | 592 | 759 | 1,213 | 1,609 |
| Tax paid | (1,317) | (1,687) | (1,568) | (1,578) |
| Chg in working capital | (643) | 132 | (70) | (117) |
| Other operating activities | (566) | 880 | (1,908) | (63) |
| Cash flow from operations (a) | 3,849 | 6,948 | 4,898 | 5,400 |
| Capital expenditure | (1,364) | (2,492) | (7,400) | (169) |
| Chg in investments | 55 | 163 | (50) | 4 |
| Other investing activities | - | - | - | - |
| Cash flow from investing (b) | (1,309) | (2,329) | (7,450) | (165) |
| Equity raised/(repaid) | 8 | 6 | 4 | 2 |
| Debt raised/(repaid) | (212) | (9) | 410 | 558 |
| Dividend (incl. tax) | (1,261) | (1,707) | (2,517) | (2,016) |
| Chg in minorities | - | - | - | - |
| Other financing activities | - | - | - | - |
| Cash flow from financing (c) | (1,465) | (1,710) | (2,103) | (1,456) |
| Net chg in cash (a+b+c) | 1,075 | 2,909 | (4,655) | 3,779 |

Balance Sheet

(Rs mn)

| Year-end: March | FY14 | FY15 | FY16 | FY17 |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Net fixed assets | 3,932 | 5,665 | 11,852 | 10,412 |
| Investments | 175 | 12 | 62 | 58 |
| Other non-curr assets | 1,797 | 1,772 | 2,172 | 2,202 |
| Current assets | 14,688 | 18,698 | 18,274 | 20,610 |
| Inventories | - | - | - | - |
| Sundry Debtors | 6,004 | 6,963 | 9,728 | 8,962 |
| Cash and Bank | 6,344 | 9,253 | 4,598 | 8,377 |
| Loans and advances | 613 | 368 | 454 | 294 |
| Total assets | 20,592 | 26,147 | 32,360 | 33,282 |
| Shareholders' funds | 16,402 | 21,265 | 24,149 | 25,771 |
| Share capital | 1,668 | 1,674 | 1,678 | 1,680 |
| Reserves & surplus | 14,734 | 19,591 | 22,471 | 24,091 |
| Total Debt | 32 | 23 | 433 | 991 |
| Secured loans | - | - | 415 | 36 |
| Unsecured loans | 32 | 23 | 18 | 955 |
| Other liabilities | (402) | (547) | (409) | (624) |
| Curr Liab & prov | 4,560 | 5,406 | 8,187 | 7,144 |
| Current liabilities | 2,947 | 4,382 | 6,131 | 5,809 |
| Provisions | 1,613 | 1,024 | 2,056 | 1,335 |
| Total liabilities | 4,190 | 4,882 | 8,211 | 7,511 |
| Total equity & liabilities | 20,592 | 26,147 | 32,360 | 33,282 |
| Book Value (Rs) | 98 | 127 | 144 | 153 |

Source: Company; IDBI Capital Research

Financial Ratios

| Year-end: March | FY14 | FY15 | FY16 | FY17 |
|--|-------|-------|-------|--------|
| Adj. EPS (Rs) | 27.0 | 31.8 | 32.9 | 24.9 |
| Adj. EPS growth (%) | 32.2 | 17.6 | 3.6 | (24.3) |
| EBITDA margin (%) | 20.1 | 19.8 | 17.6 | 13.7 |
| Pre-tax margin (%) | 19.1 | 19.4 | 15.5 | 10.6 |
| ROE (%) | 30.5 | 28.3 | 24.3 | 16.8 |
| ROCE (%) | 36.4 | 32.6 | 29.2 | 21.2 |
| Turnover & Leverage ratios (x) | | | | |
| Asset turnover (x) | 1.6 | 1.5 | 1.6 | 1.6 |
| Leverage factor (x) | 1.3 | 1.2 | 1.3 | 1.3 |
| Net margin (%) | 14.9 | 15.0 | 11.8 | 8.0 |
| Net Debt/Equity (x) | (0.4) | (0.4) | (0.2) | (0.3) |
| Working Capital & Liquidity ratio | | | | |
| Inventory days | 0 | 0 | 0 | 0 |
| Receivable days | 72 | 72 | 76 | 62 |
| Payable days | 1 | 18 | 18 | 13 |

Valuation

| Year-end: March | FY14 | FY15 | FY16 | FY17 |
|------------------------|------|------|------|------|
| P/E (x) | 17.1 | 14.5 | 14.0 | 18.5 |
| Price / Book value (x) | 4.7 | 3.6 | 3.2 | 3.0 |
| PCE (x) | 14.5 | 12.2 | 10.8 | 12.8 |
| EV / Net sales (x) | 2.3 | 1.9 | 1.6 | 1.3 |
| EV / EBITDA (x) | 11.6 | 9.7 | 8.9 | 9.8 |
| Dividend Yield (%) | 1.4 | 1.8 | 2.7 | 2.2 |



Notes

| | | |
|---------|-------------------|-------------------------|
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|---------|-------------------|-------------------------|

Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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