

# Mindtree

Sector: IT /Mid-Cap | Earnings Update – 4QFY19

## MARKETPERFORMER

22 April 2019

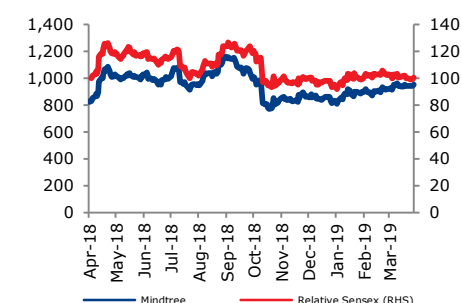
**Background:** Mindtree is a mid-cap IT company with revenues of INR 54.6bn (FY18). In 4QFY19: Revenue share by Geography mix: North America (73.6%), Europe (18.5%), India (3.7%) and ROW (4.2%). Revenue share by service mix: Application development & maintenance (51.9%), IMS (23.3%), Testing (12.3%), Consulting, package Implementation & IP led (11.4%). Revenue share by Vertical mix: BFSI (21.8%), Retail CPG & Manufacturing (22.2%), Travel & Hospitality (16.4%), Hi-tech Media & Entertainment (39.6%). The company has 20,204 employees spread across 27 offices to cater to 349 clients, which includes over 40 Fortune 500 companies. Top client revenue share stood at 19.8%, Top 5 clients (33.2%) and Top 10 clients (42.9%). DSO stood at 70 days.

Sensex	38,645
Nifty	11,594
Price	INR 973
Target Price(12 months)	INR 929
Recommendation	MP
52 Week High/Low	INR 1181/752
Bloomberg / Reuters	MTCL IN /MINT.BO
Equity (shares in mn)	164
Mkt. Cap in bn	INR 159.7/\$ 2.2
Avg. Daily Vol. ('000)	1769.26
Avg. Daily Vol. (mn)	INR 1721.1/\$ 24.6

Shareholding	Mar 18	Dec 18	Mar 19
Promoters (%)	13.6	13.3	13.3
FII (%)	22.3	40.2	39.3
DII (%)	26.5	10.4	11.5
Others (%)	37.5	36.1	35.9
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (INR bn)			
Y/E March	2019	2020E	2021E
Revenue	70.2	81.3	90.8
EBITDA	10.6	13.0	14.9
Adj PAT	7.5	8.3	10.1
Adj EPS	46.0	50.6	61.9
% growth	0.3	0.1	0.2
PE	21.1	19.2	15.7
P/ BV	4.7	3.9	3.2
EV/EBITDA	15.0	12.3	10.7
EV/Sales	2.3	2.0	1.8
Div Yield (%)	0.01	0.01	0.01
ROE (%)	25.0	22.0	23.0

Performance %	1M	3M	12M
Mindtree	3.9	16.8	18.3
Sensex	6.6	8.9	15.7



### Healthy revenue growth, softening deal wins

- In 4QFY19, Mindtree's revenue grew by 2.9% QoQ to INR 18.4bn (CSEC estimate INR 18.2bn). Blended volumes rose by 5.6% QoQ while billing rate declined by 1.1% sequentially. Revenue from digital business grew by 3.8%/26.8% QoQ/YoY contributing 49.3% to total revenues.
- EBITDA margin contracted by 62bps QoQ to 15.2% due to INR appreciation (-50bps) and higher sub contracting costs. PAT grew by 3.8% QoQ to INR 2bn, on account of higher other income.
- Amongst business verticals; growth was led by Hi-tech and Media vertical (+4.8% QoQ) and BFSI (+4.7% QoQ). Retail, CPG and Manufacturing grew by 3.5% QoQ and travel & transportation vertical grew by 2.2% QoQ.
- Total contract value signed was flat QoQ at USD 242mn (USD 256mn in 3QFY19), including renewal (USD 158mn) and new deals (USD 84mn). Of these, deals worth USD 218mn are executable over the next 12 months. Digital deal wins declined by 7% sequentially to USD 126mn (USD 136mn in 3QFY19). The recent bid by L&T had no impact on the deal win momentum.
- Utilization improved QoQ to 77.1% (74.6% in 3QFY19). The company added 296 new employees during the quarter and attrition levels inched up to 14.2% (13.4% in 3QFY19). The management stated that the rise in attrition is not on account of the L&T bid.
- The Management has guided for a 'low-teens' CC revenue growth in FY20 with a 100-120bps improvement in the margins on account of digital scale, better business-mix and pyramid rationalization.
- The board has recommended a special dividend of INR 20/share on account of crossing USD 1bn revenue mark and being the 20<sup>th</sup> anniversary of the company. A final dividend of INR 4/share in addition to an interim dividend of INR 3/share was also recommended. The final dividend and special dividend are payable subject to shareholder's approval.
- L&T takeover bid update: The last date for a competing open offer against that of L&T expired on the 16<sup>th</sup> of April with no bidders. Now, the independent board member's committee must come up with recommendations to the shareholders on May 10<sup>th</sup> on L&T's open offer.

**Valuation:** Outlook for key verticals like CPG & retail, Travel and Hi-Tech remains robust going into FY20E. At CMP, the stock is trading at a P/E 19.2X/15.7X FY20E and FY21E EPS. Given the softening of TCV deal wins and uncertainties of the impact of L&T's takeover we assign a target P/E multiple of 15X on FY21EPS to arrive at a target price of INR 929 and maintain a **MARKETPERFORMER** rating on the stock.

**Risks:** Increase in supply side constraints and currency risk.

### Results Summary 4QFY19

Y/E March ( INR mn)	4QFY19	4QFY18	YoY Growth	3QFY19	QoQ Growth
<b>Revenue</b>	18,394	14,640	25.6%	17,872	2.9%
<b>EBITDA</b>	2,803	2,355	19.0%	2,833	-1.1%
<b>Depreciation</b>	428	383	11.7%	410	4.4%
<b>Other Income</b>	290	591	-50.9%	-200	245.0%
<b>PBT</b>	2,665	2,505	6.4%	2,223	19.9%
<b>Tax</b>	681	683	-0.3%	311	119.0%
<b>Reported PAT</b>	1,984	1,822	8.9%	1,912	3.8%
<b>Adj. PAT</b>	1,984	1,822	8.9%	1,912	3.8%
<b>EBITDA Margin (%)</b>	15.2	16.1		15.9	
<b>Effective Tax Rate (%)</b>	25.6	27.3		14.0	
<b>Adj. PAT Margin (%)</b>	10.8	12.4		10.7	

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Served as an officer, director or employee	No

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