

Retail Equity Research

Mindtree Limited

IT Services

BSE CODE: 532819

NSE CODE: MINDTREE

Bloomberg CODE: MTCL:IN SENSEX: 39,250

REDUCE

12M Investment period

Rating as per Mid Cap

CMP Rs 714 **TARGET** Rs 671 **RETURN** -6%

(Closing: 27-10-19)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Sailing the rough seas

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 Limited registered revenue growth of 9.1% in Q2FY20 reaching Rs. 1,914.3cr beating consensus estimates marginally by 0.7%.
- EBITDA margin contracted 240bps YoY to 13.0% on higher compensation and ramp up costs.
- Mindtree Limited reported 34.6% YoY decrease in PAT in Q2FY20 to reach Rs. 135.0cr missing street estimates by 8.2%.
- We downgrade our rating to **REDUCE** on the stock with a revised target price of Rs 671 based on 14.5x FY21E adj. EPS given its risky transition and difficult macro conditions.

Topline meets expectations

Mindtree Limited's revenue grew by 9.1% YoY (11.1% YoY in constant currency) driven primarily by HiTech and Media segment (39.8% of revenue) which grew 10.4% YoY supported by 11.1% YoY growth in Travel and Hospitality segment (17.0% of revenue) while BFSI (21.6% of revenue) and Retail, CPG and Manufacturing segments (21.7% of revenue) were up 5.4% and 8.7% respectively. Geographically, US (73.7% of revenue) witnessed significant improvement of 9.3% YoY while Europe (17.6% of revenue) saw limited YoY growth of 2.8%. The revenue growth was driven primarily by Digital business which was up 18.8% YoY and maintained its contribution to total revenue at 38.0%. EBIT Margin declined by 580 bps YoY to 10.3% on account of ramp up costs, compensation revision cycle and a higher head count. The net profit of the company witnessed a 34.6% YoY fall but grew sequentially by 45.6%.

Key concall highlights

- 343 active clients with 47 clients in USD 5mn band with top 5 clients holding 33.2% of revenue; 14 new additions in Q2
- Number of clients in \$10mn band has dropped to 21 from 23 in the prior quarter
- Attrition on trailing 12 months basis up to 16.5% from 15.1% in Q1 following the hostile takeover by L&T indicating stability has not been achieved yet
- Contract signed up 13.3% YoY to \$307mn; new contracts amounting to \$121mn
- BFSI growth primarily from Insurance companies and Tier 2 banks
- Focus on automation with 700 BOTs employed across the company

Focus on Customer Engagement and Ramp-up of Operations

The compensation revision cycle had a 150bps negative impact on the EBITDA margin (13.0%) which was partially offset by the operational efficiencies from the acquisition amounting to +140bps. Ramp up of operations across verticals led to higher costs in Q2FY20 which the management expects to reduce in the next two quarters leading to margin growth. However, the management emphasized that the expectation of a full year margin greater than the prior year may not be realistic. Also, we are yet to see the fruits of the client engagement activities undertaken by the newly appointed CEO Debashis Chatterjee.

Valuation

We estimate revenue to grow at 10.7% FY19-21E CAGR and expect the near future to be turbulent for the company as it is still in its transition phase. Given the hostile macro factors, difficult transition period and customer's doubt in the new management, we downgrade our rating to **REDUCE** with a revised target price of Rs 671 using a target multiple of 14.5x FY21E adj. EPS.

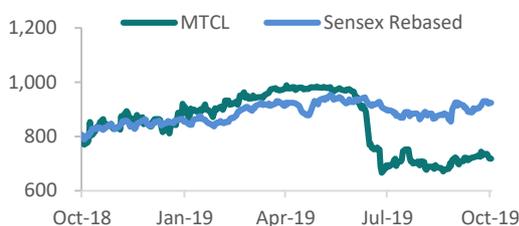
Company Data

Market Cap (cr)	Rs. 11,818
Enterprise Value (cr)	Rs. 11,628
Outstanding Shares (cr)	16.5
Free Float	22.6%
Dividend Yield	1.5%
52 week high	Rs.997
52 week low	Rs.653
6m average volume (cr)	0.3
Beta	0.6
Face value	Rs.10

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	13.3	13.3	73.8
FII's	39.3	36.2	10.8
MFs/Insti	11.5	8.7	5.3
Public	10.8	8.1	7.7
Others	25.1	33.8	2.4
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	3.4%	-27.4%	-8.1%
Absolute Sensex	3.2%	0.8%	15.9%
Relative Return*	0.1%	-28.2%	-24.1%

*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	7,022	7,695	8,599
Growth (%)	28.5	9.6	11.7
EBITDA	1,065	1,038	1,361
EBITDA Margin (%)	15.2	13.5	15.8
Adj. PAT	754	588	761
Growth (%)	32.3	-22.1	29.6
Adj. EPS	45.8	35.7	46.3
Growth (%)	33.6	-22.0	29.6
P/E	20.6	20.4	15.8
P/B	4.7	3.6	3.1
EV/EBITDA	14.4	11.4	8.7
ROE (%)	22.8	17.7	19.9
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	1,914	1,755	9.1	1,834	4.4	3,749	3,395	10.4
EBITDA	248	270	<i>(8.0)</i>	184	34.8	432	501	<i>(13.7)</i>
EBITDA margins	13.0	15.4	(240bps)	11.2	280bps	11.5	14.8	(330bps)
Depreciation	71	40	75.4	67	5.7	138	80	71.4
EBIT	197	282	<i>(30.1)</i>	139	41.7	336	501	<i>(32.8)</i>
Interest	14	0	<i>n.m.</i>	13	6.2	27	3	824.1
Other Income	0	(0)	<i>n.m.</i>	0	25.0	0	0	103.9
Exceptional Items	-	-	<i>n.m.</i>	-	<i>n.m.</i>	-	-	<i>n.m.</i>
PBT	183	282	<i>(34.9)</i>	126	45.3	310	498	<i>(37.8)</i>
Tax	48	76	<i>(36.0)</i>	34	44.5	82	134	<i>(38.7)</i>
Share of profit from Associate	-	-	<i>n.m.</i>	-	<i>n.m.</i>	-	-	<i>n.m.</i>
Minority Interest	-	-	<i>n.m.</i>	-	<i>n.m.</i>	-	-	<i>n.m.</i>
Reported PAT	135	206	<i>(34.6)</i>	93	45.6	228	365	<i>(37.5)</i>
Adjustments	-	-	<i>n.m.</i>	-	<i>n.m.</i>	-	-	<i>n.m.</i>
Adjusted PAT	135	206	<i>(34.6)</i>	93	45.6	228	365	<i>(37.5)</i>
No. of shares	16.5	16.4	0.1	16.4	0.1	16.5	16.4	0.1
EPS (Rs)	8.2	12.6	<i>(34.6)</i>	5.6	45.5	13.8	22.2	<i>(37.6)</i>

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	8,084	8,961	7,695	8,599	<i>(4.8)</i>	<i>(4.0)</i>
EBITDA	1,089	1,298	1,038	1,361	<i>(4.7)</i>	4.9
Margins (%)	13.5	14.5	13.5	15.8	<i>(1bps)</i>	133bps
Adj. PAT	688	853	588	761	<i>(14.5)</i>	<i>(10.8)</i>
EPS	41.9	52.0	35.7	46.3	<i>(14.8)</i>	<i>(11.0)</i>

PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	5,236	5,463	7,022	7,695	8,599
% change	11.7	4.3	28.5	9.6	11.7
EBITDA	718	741	1,065	1,038	1,361
% change	(13.5)	3.1	43.8	(2.5)	31.0
Depreciation	186	172	164	236	292
EBIT	574	759	990	803	1,069
Interest	19	17	3	54	66
Other Income	(0)	(0)	(0)	36	17
PBT	555	742	987	785	1,019
% change	(28.6)	33.8	32.9	(20.5)	29.9
Tax	136	172	233	197	258
Tax Rate (%)	24.6	23.2	23.6	25.1	25.3
Reported PAT	419	570	754	588	761
Adj*	-	-	-	-	-
Adj PAT	419	570	754	588	761
% change	(30.6)	36.2	32.3	(22.1)	29.6
No. of shares (cr)	16.8	16.6	16.5	16.5	16.5
Adj EPS (Rs)	24.9	34.3	45.8	35.7	46.3
% change	(30.7)	37.8	33.6	(22.0)	29.6
DPS (Rs)	7.0	9.0	11.0	35.0	15.0
CEPS (Rs)	35.9	44.6	55.8	50.0	64.0

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	604	742	918	823	1,054
Non-cash adj.	9	(78)	1	81	58
Changes in W.C	40	(99)	(289)	(108)	(333)
C.F. Operation	654	564	631	796	779
Capital exp.	(85)	(101)	(171)	(111)	(258)
Change in inv.	(328)	(88)	(30)	(95)	(162)
Other invest.CF	(41)	(11)	8	(27)	(32)
C.F - Investment	(453)	(200)	(193)	(233)	(452)
Issue of equity	1	(264)	0	-	-
Issue/repay debt	55	196	(300)	-	-
Dividends paid	(193)	(214)	(218)	(576)	(247)
Other finance.CF	(0)	(5)	(4)	(54)	(66)
C.F - Finance	(138)	(288)	(522)	(630)	(313)
Chg. in cash	57	77	(72)	(66)	13
Closing cash	251	329	256	190	204

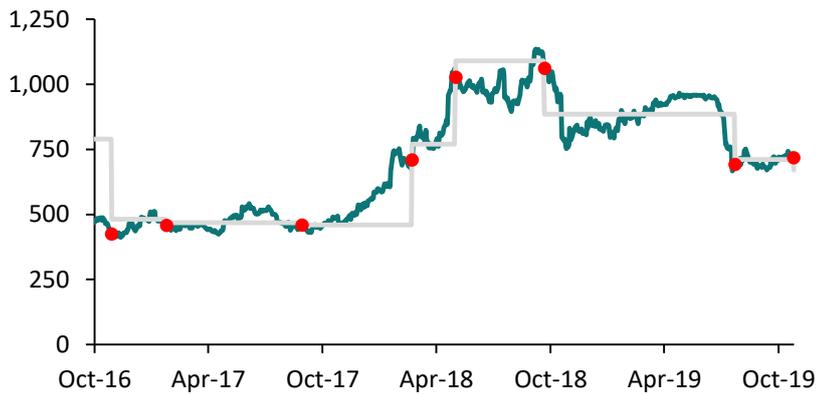
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	251	329	256	190	204
Accounts Receivable	896	1,016	1,336	1,464	1,806
Inventories	-	-	-	-	-
Other Cur. Assets	914	1,159	1,175	1,131	1,147
Investments	6	6	120	215	377
Gross Fixed Assets	979	1,055	1,177	1,288	1,546
Net Fixed Assets	381	351	376	251	215
CWIP	19	9	30	30	30
Intangible Assets	641	606	591	1,167	1,201
Def. Tax (Net)	62	32	39	39	41
Other Assets	220	230	256	266	298
Total Assets	3,391	3,737	4,179	4,752	5,318
Current Liabilities	684	686	855	910	919
Provisions	-	-	-	-	-
Debt Funds	122	301	1	1	1
Other Liabilities	7	9	17	524	565
Equity Capital	168	164	164	164	164
Reserves & Surplus	2,409	2,578	3,142	3,154	3,668
Shareholder's Fund	2,577	2,741	3,306	3,318	3,833
Minority Interest	-	-	-	-	-
Total Liabilities	3,391	3,737	4,179	4,752	5,318
BVPS (Rs)	153	165	201	202	233

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	13.7	13.6	15.2	13.5	15.8
EBIT margin (%)	11.0	13.9	14.1	10.4	12.4
Net profit mgn.(%)	8.0	10.4	10.7	7.6	8.9
ROE (%)	16.2	20.8	22.8	17.7	19.9
ROCE (%)	21.3	25.0	29.9	24.2	27.9
W.C & Liquidity					
Receivables (days)	62.5	67.9	69.4	69.4	76.7
Inventory (days)	-	-	-	-	-
Payables (days)	11.5	11.4	11.1	11.1	10.3
Current ratio (x)	2.6	2.5	3.2	3.1	3.4
Quick ratio (x)	2.2	2.1	2.7	2.6	2.9
Turnover & Leverage					
Gross asset T.O (x)	5.5	5.4	6.3	6.2	6.1
Total asset T.O (x)	1.6	1.5	1.8	1.7	1.7
Int. covge. ratio (x)	30.1	44.9	341.3	15.0	16.1
Adj. debt/equity (x)	0.0	0.1	0.0	0.0	0.0
Valuation					
EV/Sales (x)	1.5	2.4	2.2	1.5	1.4
EV/EBITDA (x)	10.8	17.5	14.4	11.4	8.7
P/E (x)	18.9	22.8	20.6	20.4	15.8
P/BV (x)	3.1	4.7	4.7	3.6	3.1

Recommendation Summary (last 3 years)



Dates	Rating	Target
12-Jan-16	BUY	825
24-Feb-16	BUY	790
28-Oct-16	HOLD	482
24-Jan-17	HOLD	468
29-Aug-17	SELL	460
21-Feb-18	HOLD	770
2-May-18	HOLD	1,091
21-Sep-18	HOLD	885
23-Jul-19	HOLD	711
29-Oct-19	REDUCE	671

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.

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Neutral- The analyst has no investment opinion on the stock under review

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