

August 09, 2016

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Rating	Accumulate
Price	Rs616
Target Price	Rs600
Implied Upside	-2.6%
Sensex	28,183
Nifty	8,711

(Prices as on August 08, 2016)

Trading data

Market Cap. (Rs bn)	103.1
Shares o/s (m)	167.4
3M Avg. Daily value (Rs m)	343

Major shareholders

Promoters	13.76%
Foreign	37.25%
Domestic Inst.	7.33%
Public & Other	41.66%

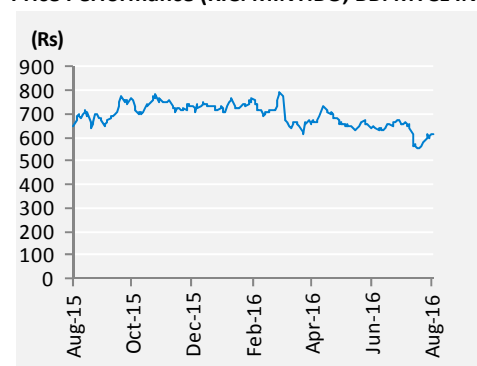
Stock Performance

(%)	1M	6M	12M
Absolute	(5.9)	(19.4)	(5.1)
Relative	(9.8)	(35.4)	(4.9)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	34.6	35.2	-1.7
2018	40.1	45.7	-12.3

Price Performance (RIC: MINT.BO, BB: MTCL IN)



Source: Bloomberg

We attended Mindtree's (MTCL's) Analyst/Investor meet where the company showcased its capabilities across two core areas – Digital and Traditional IT services. Company envisioned the digital trend early and currently derives 38% of revenues from Digital. Company has also used acquisition to augment its digital capabilities. MTCL's aim is to grow revenues above industry average with stable or improving margins.

MTCL is ahead of the mid-cap companies in creating expertise in digital technologies. The company continues to execute its strategy of focusing on chosen verticals & segments by scaling up key client relationships. This has been the stated strategy for the last few years and has yielded good results. However, we find the stock fairly valued at ~15x FY18 EPS in an environment of short-term demand uncertainty. Retain "Accumulate" with TP of Rs600 (15 x FY18 EPS).

- **Scaling-up the Digital quotient:** Management outlined that digital is becoming critical to how businesses innovate and differentiate from their competitors. Company believes they are positioned to win in the digital era by redesigning business processes through a) creating different touch points in the business and b) simplifying back-end processes. MTCL is also using its digital capabilities to train people by making learning available anywhere at any point of time.
- **Re-imagining end-to-end IT:** MTCL has adopted a unique integrated way to manage end-to-end IT services in a modular approach customised for the customer landscape through unified DevOps and Agile. MTCL wants to provide smart solutions to clients that are continuous and unified across the entire service stack (ADM, IMS, Testing and Packaging).
- **Making Mindtree a memorable company:** Management outlined its vision of becoming the most memorable company in the world via its unique ideas & positioning, distinctive culture, connection with customers beyond IT, differentiated leadership & talent and focus on governance & social responsibility.

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	35,619	46,896	55,041	62,149
Growth (%)	17.5	31.7	17.4	12.9
EBITDA (Rs m)	7,092	8,304	8,953	10,436
PAT (Rs m)	5,363	6,033	5,792	6,708
EPS (Rs)	32.0	36.0	34.6	40.1
Growth (%)	19.0	12.5	(4.0)	15.8
Net DPS (Rs)	8.5	11.0	13.0	14.0

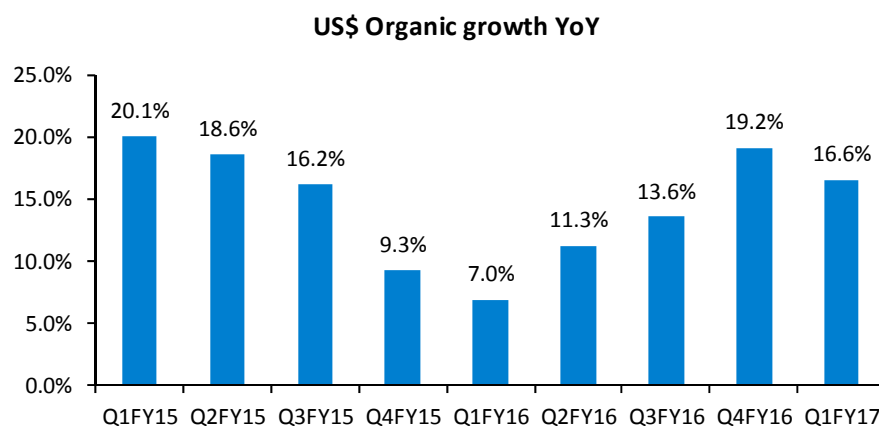
Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	19.9	17.7	16.3	16.8
RoE (%)	29.4	27.1	22.2	22.3
RoCE (%)	28.9	26.7	22.4	22.5
EV / sales (x)	2.8	2.1	1.7	1.5
EV / EBITDA (x)	14.0	11.8	10.7	8.8
PE (x)	19.2	17.1	17.8	15.4
P / BV (x)	5.1	4.2	3.7	3.2
Net dividend yield (%)	1.4	1.8	2.1	2.3

Source: Company Data; PL Research

Other Highlights

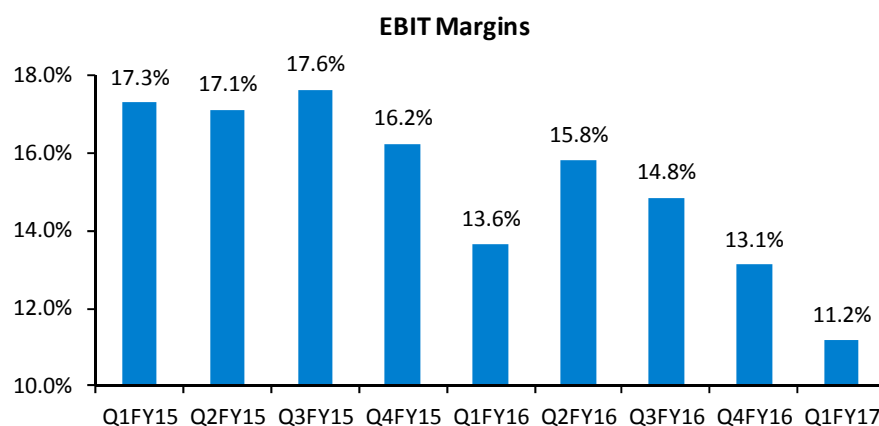
- Adoption cycle for technology is very fast which is working to its advantage as Mindtree doesn't have any legacy business.
- MTCL has been rated well by industry analysts which validates company strategy.
- All the acquisitions such as *Bluefin*, *Magnet 360*, *Discoverture* have added to digital expertise of the company.
- Cognitive computing, Cognitive automation, Autonomic computing are some of the technology trends which the company has invested ahead of time and current investments are in future trends such as a) Blockchain and b) Virtual & Augmented reality.

Exhibit 1: US\$ organic revenue growth YoY

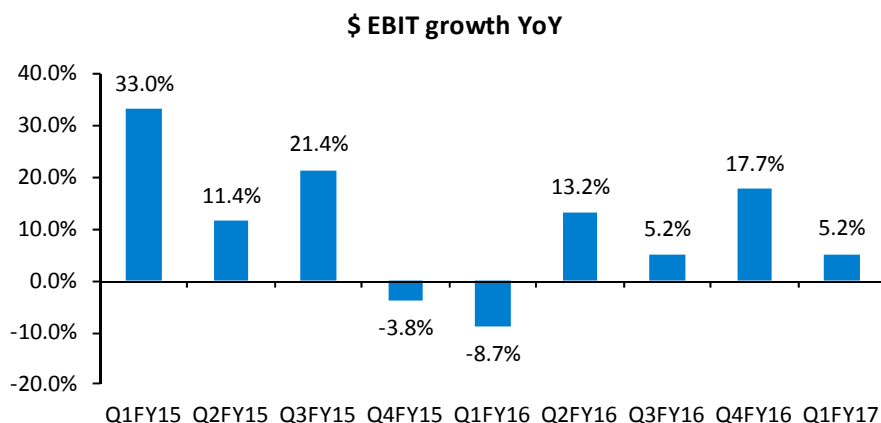


Source: Company Data, PL Research

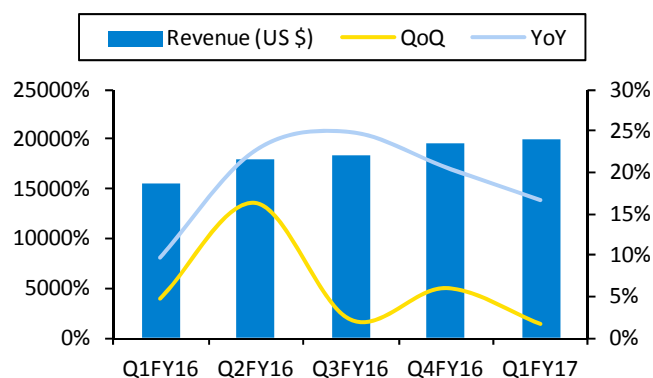
Exhibit 2: EBIT margins have been under pressure



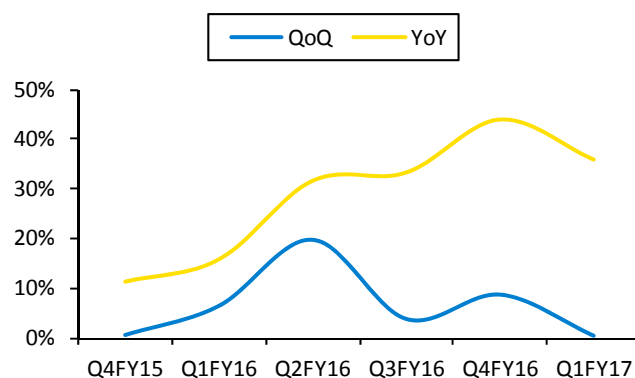
Source: Company Data, PL Research, (Q1FY16/Q4FY16/Q1FY17 EBIT margins as per Ind AS)

Exhibit 3: US\$ EBIT growth trend YoY


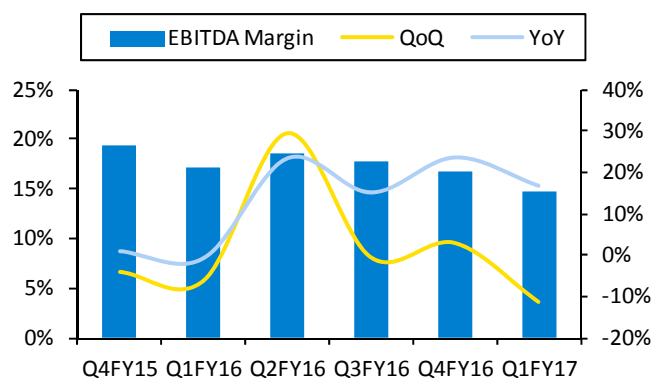
Source: Company Data, PL Research

Exhibit 4: US\$ growth trend over the last few quarters


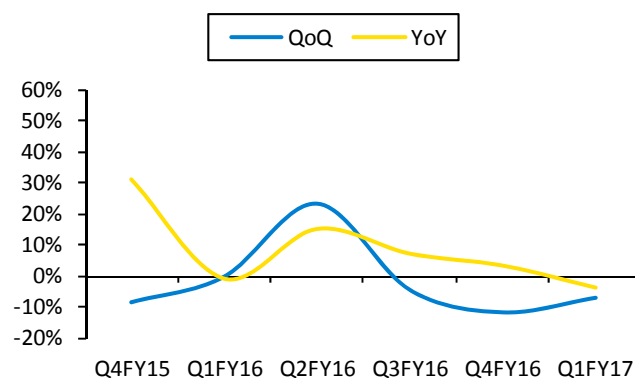
Source: Company Data, PL Research

Exhibit 5: INR revenue growth trend


Source: Company Data, PL Research

Exhibit 6: EBITDA margin trajectory and EBITDA growth


Source: Company Data, PL Research

Exhibit 7: Net profit growth movement over the last few quarters


Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	35,619	46,896	55,041	62,149
Raw Material Expenses	20,741	28,026	33,678	37,819
Gross Profit	14,878	18,870	21,362	24,330
Employee Cost	—	—	—	—
Other Expenses	7,786	10,566	12,410	13,894
EBITDA	7,092	8,304	8,953	10,436
Depr. & Amortization	1,018	1,332	1,926	2,196
Net Interest	1	3	200	220
Other Income	835	805	814	864
Profit before Tax	6,908	7,774	7,641	8,885
Total Tax	1,545	1,741	1,849	2,177
Profit after Tax	5,363	6,033	5,792	6,708
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	5,363	6,033	5,792	6,708
Avg. Shares O/S (m)	167.4	167.4	167.4	167.4
EPS (Rs.)	32.0	36.0	34.6	40.1

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	5,983	4,779	6,172	7,891
C/F from Investing	(2,098)	(1,360)	(1,596)	(1,802)
C/F from Financing	(1,382)	(2,200)	(2,181)	(2,349)
Inc. / Dec. in Cash	2,503	1,219	2,395	3,740
Opening Cash	1,184	3,763	4,982	7,377
Closing Cash	3,763	4,982	7,377	11,116
FCFF	4,940	3,065	4,576	6,089
FCFE	4,936	3,065	4,576	6,089

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	17.5	31.7	17.4	12.9
EBITDA (%)	16.3	17.1	7.8	16.6
PAT (%)	19.0	12.5	(4.0)	15.8
EPS (%)	19.0	12.5	(4.0)	15.8
Profitability				
EBITDA Margin (%)	19.9	17.7	16.3	16.8
PAT Margin (%)	15.1	12.9	10.5	10.8
RoCE (%)	28.9	26.7	22.4	22.5
RoE (%)	29.4	27.1	22.2	22.3
Balance Sheet				
Net Debt : Equity	(0.2)	(0.2)	(0.3)	(0.3)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	19.2	17.1	17.8	15.4
P / B (x)	5.1	4.2	3.7	3.2
EV / EBITDA (x)	14.0	11.8	10.7	8.8
EV / Sales (x)	2.8	2.1	1.7	1.5
Earnings Quality				
Eff. Tax Rate	22.4	22.4	24.2	24.5
Other Inc / PBT	12.1	10.4	10.7	9.7
Eff. Depr. Rate (%)	10.3	11.8	15.0	15.0
FCFE / PAT	92.0	50.8	79.0	90.8

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	20,128	24,315	27,926	32,284
Total Debt	23	23	23	23
Other Liabilities	334	334	334	334
Total Liabilities	20,485	24,672	28,283	32,641
Net Fixed Assets	4,987	5,015	4,686	4,292
Goodwill	922	5,732	5,732	5,732
Investments	5,351	541	541	541
Net Current Assets	7,119	11,278	15,218	19,971
<i>Cash & Equivalents</i>	<i>3,763</i>	<i>4,982</i>	<i>7,377</i>	<i>11,116</i>
<i>Other Current Assets</i>	<i>9,420</i>	<i>13,491</i>	<i>16,286</i>	<i>18,389</i>
<i>Current Liabilities</i>	<i>6,064</i>	<i>7,195</i>	<i>8,445</i>	<i>9,535</i>
Other Assets	2,106	2,106	2,106	2,106
Total Assets	20,485	24,672	28,283	32,641

Quarterly Financials (Rs m)

Y/e March	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Net Revenue	11,693	12,145	13,203	13,276
EBITDA	2,164	2,147	2,206	1,951
% of revenue	18.5	17.7	16.7	14.7
Depr. & Amortization	317	345	475	468
Net Interest	2	—	63	51
Other Income	195	147	105	198
Profit before Tax	2,040	1,949	1,773	1,630
Total Tax	458	440	443	395
Profit after Tax	1,582	1,509	1,330	1,235
Adj. PAT	1,582	1,509	1,330	1,235

Key Operating Metrics

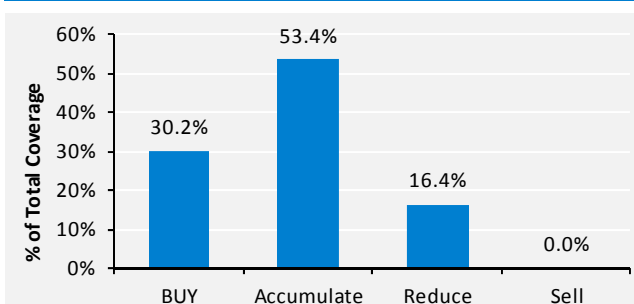
Y/e March	2015	2016	2017E	2018E
Revenue (US\$ m)	584	715	822	928

Source: Company Data, PL Research.

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Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month
Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock
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