

INDUSTRY	IT
CMP (as on 20 Apr 2017)	Rs 442
Target Price	Rs 425
Nifty	9,136
Sensex	29,422

KEY STOCK DATA

Bloomberg	MTCL IN
No. of Shares (mn)	168
MCap (Rs bn) / (\$ mn)	74/1,152
6m avg traded value (Rs mn)	293

STOCK PERFORMANCE (%)

52 Week high / low	Rs 758 / 399		
	3M	6M	12M
Absolute (%)	(6.9)	(7.6)	(38.9)
Relative (%)	(15.7)	(12.2)	(52.7)

SHAREHOLDING PATTERN (%)

Promoters	13.67
FIs & Local MFs	7.09
FIIIs	39.19
Public & Others	40.05

Source : BSE

Apurva Prasad

 apurva.prasad@hdfcsec.com
 +91-22-6171-7327

Amit Chandra

 amit.chandra@hdfcsec.com
 +91-22-6171-7345

Still away from structural recovery

Mindtree's 4Q numbers were marked by a better operational performance (despite an increase in sub-contracting) and steady revenue growth (2% CC), supported by its top-5 and non top-10 accounts (3.7/2.6% QoQ). The trajectory of margin recovery (+75bps QoQ) was encouraging. Going ahead, growth on a weak base will be based on (1) An improvement in the profitability of the subsidiaries (BlueFin, Magnet 360), (2) Deal wins (TCV of new orders was up 16% in FY17) and (3) Lower volatility in the top-10 accounts. **However, challenges persist** in the form of (1) A deceleration in digital revenue (TCV of digital deals was 20% lower in FY17), (2) Lower profitability of digital deals (high onsite) and (3) Persistent growth challenges in a few large accounts (Retail, CPG & Mfg vertical).

We slightly lower EPS estimates (~3%), largely on margin moderation, and have factored in a USD revenue growth of 7.9/8.8% for FY18/19E and EBITDA% at 14.1/14.9%. Maintain NEUTRAL with a TP of Rs 425, 12x FY19E.

Financial Summary

YE March (Rs bn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	13.18	13.20	(0.2)	12.95	1.8	35.62	46.73	52.36	55.53	60.41
EBITDA	1.87	2.19	(14.6)	1.74	7.4	7.09	8.21	7.18	7.81	9.00
APAT	0.97	1.33	(26.8)	1.03	(5.8)	5.36	5.53	4.19	5.14	6.00
Diluted EPS (Rs)	5.8	7.9	(26.7)	6.1	(5.8)	32.1	32.9	24.9	30.6	35.7
P/E (x)						13.8	13.5	17.7	14.5	12.4
EV / EBITDA (x)						9.2	8.5	9.3	8.4	7.1
RoE (%)						29.4	25.0	16.8	19.1	20.3

Source: Company, HDFC sec Inst Research# Consolidated

Highlights of the quarter

- USD revenue came in at USD 195.6mn, 1.8% QoQ on 2% CC growth (volume +2.2% and a realisation decline of 0.1%). Volume growth was driven by onsite at 6.1% QoQ (supported by BlueFin and Magnet 360), and an offshore growth of 1% QoQ.
- The EBITDA% at 14.2%, +75bps QoQ, was supported by SG&A efficiencies (+85bps margin impact), mitigating a -33bps margin impact of higher sub-contracting expenses. APAT came in at Rs 972mn, -5.8% QoQ, impacted by forex loss of Rs 228mn.
- Digital revenue (39.6% of total revenue) grew 2.4% QoQ and 18.7% in FY17, while the Legacy business grew 4.1% in FY17. Management guided for 'low double-digit' revenue growth and an EBITDA margin higher than FY17, which, in our opinion, seems stretched for FY18.
- Near-term outlook:** Regular seasonality implies growth acceleration in 1Q, even as margins improve gradually.

1.8% QoQ revenue growth on 2% QoQ CC growth (2.2% volume growth and -0.1% realisation decline)

EBITDA% expanded by 75bps QoQ to 14.2%, +87bps margin impact on SG&A efficiencies; 1Q to be impacted by visa costs (USD 1.7mn)

Quarterly Consolidated Financials Snapshot

Particulars (Rs bn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Net Revenues (US \$mn)	195.6	195.0	0.3	192.2	1.8
Net Revenues	13.18	13.20	(0.2)	12.95	1.8
Employee Costs	8.70	8.19	6.2	8.53	2.0
SG&A and Other Operating Expenses	2.61	2.83	(7.6)	2.68	(2.5)
EBITDA	1.87	2.19	(14.6)	1.74	7.4
Depreciation	0.47	0.48	(1.5)	0.46	2.0
EBIT	1.40	1.71	(18.2)	1.28	9.3
Interest Cost	0.05	0.06	(25.4)	0.05	2.2
Other Income (Incl. Forex)	(0.10)	0.12	-	0.14	-
PBT	1.26	1.77	(28.8)	1.38	(8.7)
Tax	0.29	0.44	(34.9)	0.35	(17.5)
APAT	0.97	1.33	(26.8)	1.03	(5.8)
E/o (adj for tax)	-	-	-	-	NA
RPAT	0.97	1.33	(26.8)	1.03	(5.8)

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)
Employee Cost % Net Revenues	66.0	62.0	397	65.9	13
SG&A And Other Expenses % Net Revenues	19.8	21.4	(159)	20.7	(87)
EBITDA Margin (%)	14.2	16.6	(239)	13.4	74
EBIT Margin (%)	10.6	13.0	(234)	9.9	73
Tax Rate (%)	22.8	24.9	(214)	25.2	(243)
APAT Margin (%)	7.4	10.1	(268)	8.0	(59)

Source: Company, HDFC sec Inst Research

ADM grew 1.2% QoQ, supported by an application maintenance service growth of 6% QoQ, while application development declined 2.6% QoQ

Consulting services growth of 4.3% QoQ was supported by growth in BlueFin (11.1% QoQ)

Service Line Break-up

(% of revenue)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
ADM	44.2	43.5	41.1	40.0	39.8	39.9	39.7
Application Development	23.2	23.7	23.0	22.7	22.0	22.3	21.4
Application Maintenance	21.0	19.8	18.0	17.3	17.8	17.6	18.3
IMS & Tech Support	17.0	18.1	17.4	18.4	19.9	20.3	20.4
Package Implementation	13.3	12.9	13.7	13.9	13.1	12.4	12.6
Independent Testing	12.8	12.8	12.7	12.8	12.4	12.6	12.5
Engineering	8.6	8.3	9.8	9.8	9.8	9.5	9.5
Consulting	2.8	2.6	4.0	4.1	3.8	3.9	4.0
IP Licensing	1.3	1.8	1.3	1.0	1.2	1.4	1.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Digital/SMAC	36.6	36.1	38.6	39.9	40.0	39.4	39.6

Source: Company, HDFC Sec Inst Research

Service Line Growth

(QoQ, %)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
ADM	11.9	0.5	0.4	(0.6)	(3.5)	(0.2)	1.2
Application Development	11.2	4.2	3.4	0.6	(6.0)	1.2	(2.6)
Application Maintenance	12.6	(3.6)	(3.3)	(2.1)	(0.1)	(1.8)	6.0
IMS & Tech Support	11.6	9.3	1.9	7.9	4.9	1.5	2.2
Package Implementation	112.6	(0.9)	12.6	3.5	(8.6)	(5.5)	3.6
Independent Testing	0.3	1.8	5.5	2.8	(6.1)	0.9	1.0
Engineering	10.9	(0.7)	25.0	2.0	(3.0)	(3.1)	1.5
Consulting	(11.2)	(6.7)	65.1	4.4	(10.9)	3.7	4.3
IP Licensing	9.1	38.7	(22.1)	(21.9)	19.3	9.7	(0.4)
Total	16.5	2.2	6.2	2.1	(3.0)	(0.4)	1.8
Digital/SMAC	23.0	0.7	13.4	5.6	(2.9)	(1.9)	2.4

Source: Company, HDFC Sec Inst Research

Geographical growth was largely secular, with US and Europe growing at 3.4/2.1% QoQ

Headcount addition was the highest in the last four quarters, supported by high gross addition and moderation in attrition

Wage hike cycle in 2Q and campus recruitment of 1,200 planned in FY18

Geographic Revenue Break-up

(% of revenue)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
US	63.2	63.5	65.7	66.7	67.6	68.7	69.8
Europe	26.6	26.4	24.6	23.1	21.4	20.8	20.8
India	3.2	2.7	2.8	3.1	3.5	3.1	2.8
Rest of the World	7.0	7.4	6.9	7.1	7.5	7.4	6.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Geographic Revenue Growth

(QoQ, %)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
US	9.5	2.5	10.1	3.4	(1.7)	1.1	3.4
Europe	40.6	1.6	(1.0)	(4.2)	(10.0)	(3.6)	2.1
India	9.3	(12.1)	7.7	13.6	8.8	(11.0)	(6.8)
Rest of the World	11.8	7.8	(0.8)	5.0	2.0	(0.7)	(10.0)
Total	16.5	2.2	6.3	2.0	(3.0)	(0.4)	1.8

Source: Company, HDFC Sec Inst Research

Headcount, Utilisation Data

(Nos.)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Total headcount	15,582	16,243	16,623	16,110	16,219	16,099	16,470
Software Professionals	14,655	15,296	15,623	15,092	15,189	15,068	15,413
Sales	211	216	265	247	254	253	271
Support	716	731	735	771	776	778	786
Net additions	1,155	661	380	(513)	109	(120)	371

Utilisation Including Trainees (%)	71.4	68.5	69.4	71.4	71.4	71.3	70.9
Utilisation Excluding Trainees (%)	73.3	69.9	70.6	72.0	73.1	72.3	72.7

Source: Company, HDFC Sec Inst Research

Management alluded to an increase in size of digital deals and an improvement in the overall pipeline, despite macro headwinds

Key Assumptions

Particulars	FY14	FY15	FY16	FY17	FY18E	FY19E
Volume Growth (%)	13.3	13.4	16.5	5.0	6.4	8.4
Pricing Change (%)	1.3	3.0	5.2	3.8	2.0	0.4
USD Revenue Growth (%)	15.1	16.4	22.1	9.4	7.9	8.8
USD/INR Rate	60.44	61.01	65.80	67.15	66.00	66.00
EBITDA Margin (%)	20.1	19.9	17.6	13.7	14.1	14.9

Source: Company, HDFC Sec Inst Research

Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
	FY18E	FY18E	
Revenue (US\$mn)	842	841	(0.0)
Revenue (Rsmn)	55,541	55,526	(0.0)
EBITDA (Rsmn)	8,344	7,806	(6.4)
EBITDA margin (%)	15.0	14.1	(97bps)
EPS (Rs)	32.1	30.6	(4.7)
	FY19E	FY19E	% change
Revenue (US\$mn)	926	915	(1.1)
Revenue (Rsmn)	61,091	60,412	(1.1)
EBITDA (Rsmn)	9,627	9,004	(6.5)
EBITDA margin (%)	15.8	14.9	(85bps)
EPS (Rs)	36.8	35.7	(3.1)

Source: HDFC sec Inst Research

Peer Valuations

Company	Mcap (Rs bn)	CMP (Rs)	Reco	TP (Rs)	EPS (Rs)			P/E (x)			RoE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Mphasis	114	540	BUY	645	39.1	41.0	46.1	13.8	13.2	11.7	12.7	12.7	13.5
Mindtree	74	442	NEU	425	24.9	30.6	35.7	17.7	14.5	12.4	16.8	19.1	20.3
Hexaware *	61	207	NEU	215	13.8	15.0	16.4	15.0	13.8	12.6	26.5	24.0	23.0
eClerx	52	1,316	SELL	1,275	91.9	84.5	98.0	14.3	15.6	13.4	30.1	24.2	25.7
Cyient	56	503	NEU	512	32.3	37.7	42.7	15.6	13.3	11.8	17.9	18.9	19.2
Persistent	45	568	BUY	740	38.8	42.3	52.9	14.6	13.4	10.7	17.5	16.5	17.8
Zensar Technologies	40	901	BUY	1,209	69.6	82.3	93.0	12.9	10.9	9.7	19.6	19.9	19.3
KPIT Technologies	25	127	NEU	130	11.1	12.3	14.5	11.5	10.3	8.8	15.0	15.0	15.7
Sonata Software	17	163	BUY	243	15.0	17.3	20.2	10.9	9.5	8.1	30.7	30.1	30.1

Source: HDFC sec Inst Research * YE Dec

Consolidated Income Statement

YE March (Rs bn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues (US \$mn)	583.9	712.7	779.8	841.3	915.3
Growth (%)	16.4	22.1	9.4	7.9	8.8
Net Revenues	35.62	46.73	52.36	55.53	60.41
Growth (%)	17.5	31.2	12.1	6.0	8.8
Employee Costs	20.74	27.99	34.13	36.25	38.97
SG&A and Other Operating Expenses	7.79	10.53	11.06	11.47	12.44
EBITDA	7.09	8.21	7.18	7.81	9.00
EBITDA (%)	19.9	17.6	13.7	14.1	14.9
EBITDA Growth (%)	16.3	15.8	(12.5)	8.7	15.3
Depreciation	1.02	1.66	1.86	1.88	2.01
EBIT	6.07	6.55	5.32	5.93	7.00
Other Income	0.84	0.84	0.42	1.03	1.11
Interest	0.00	0.16	0.19	0.10	0.11
PBT	6.91	7.23	5.55	6.85	8.00
Tax (incl deferred)	1.55	1.71	1.36	1.71	2.00
Minority Interest and associate profit	-	-	-	-	-
RPAT	5.36	5.53	4.19	5.14	6.00
APAT	5.36	5.53	4.19	5.14	6.00
APAT Growth (%)	19.0	3.0	(24.2)	22.7	16.7
EPS	32.1	32.9	24.9	30.6	35.7
EPS Growth (%)	18.3	2.7	(24.3)	22.7	16.7

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY15	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital - Equity	0.84	1.68	1.68	1.68	1.68
Reserves	19.29	22.47	24.09	26.45	29.28
Total Shareholders' Funds	20.12	24.15	25.77	28.13	30.96
Total Debt	0.02	0.43	0.99	1.09	1.20
Net Deferred Taxes	(0.45)	(0.41)	(0.62)	(0.62)	(0.62)
Long-term Provisions & Others	0.34	0.84	0.30	0.31	0.31
TOTAL SOURCES OF FUNDS	20.04	25.01	26.44	28.90	31.84
APPLICATION OF FUNDS					
Net Block	5.56	6.81	5.75	6.19	6.59
CWIP	0.35	0.23	0.19	0.21	0.22
Investments	0.01	0.06	0.06	0.06	0.07
LT Loans & Advances, Others	1.66	6.99	6.67	7.41	7.58
Total Non Current Assets	7.57	14.09	12.67	13.86	14.46
Debtors	6.96	9.73	8.96	9.50	10.34
Cash & Equivalents	9.11	4.60	8.38	9.42	11.25
Other Current Assets	2.46	3.95	3.27	3.37	3.67
Total Current Assets	18.53	18.27	20.61	22.30	25.26
Creditors	0.54	1.89	1.65	1.75	1.89
Other Current Liabilities & Provns	5.53	5.46	5.19	5.51	5.99
Total Current Liabilities	6.06	7.35	6.84	7.26	7.88
Net Current Assets	12.46	10.93	13.77	15.04	17.39
TOTAL APPLICATION OF FUNDS	20.04	25.01	26.44	28.90	31.84

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY15	FY16	FY17	FY18E	FY19E
Reported PBT	6.91	7.23	5.55	6.85	8.00
Non-operating & EO items	(0.73)	0.29	(0.60)	(0.70)	(0.07)
Interest expenses	0.00	0.16	0.19	0.10	0.11
Depreciation	1.02	1.66	1.86	1.88	2.01
Working Capital Change	0.33	(3.00)	1.10	(0.26)	(0.62)
Tax paid	(1.55)	(1.71)	(1.36)	(1.71)	(2.00)
OPERATING CASH FLOW (a)	5.98	4.48	6.54	6.06	7.32
Capex	(2.00)	(1.58)	(0.87)	(2.33)	(2.42)
Free cash flow (FCF)	3.99	2.90	5.67	3.73	4.90
Investments	(0.10)	(2.75)	(3.49)	2.99	(0.19)
Non-operating income	-	-	-	-	-
INVESTING CASH FLOW (b)	(2.10)	(4.33)	(4.36)	0.65	(2.62)
Debt Issuance	(0.00)	0.41	0.56	0.09	0.11
Interest expenses	(0.00)	(0.16)	(0.19)	(0.10)	(0.11)
FCFE	3.98	3.15	6.04	3.72	4.89
Share capital Issuance	0.42	0.84	0.00	-	-
Dividend	(1.68)	(2.08)	(2.18)	(2.78)	(3.17)
FINANCING CASH FLOW (c)	(1.38)	(1.72)	(2.01)	(2.68)	(3.06)
NET CASH FLOW (a+b+c)	2.51	(1.57)	0.18	4.03	1.64
Closing Cash & Equivalents	9.11	4.60	8.38	9.42	11.25

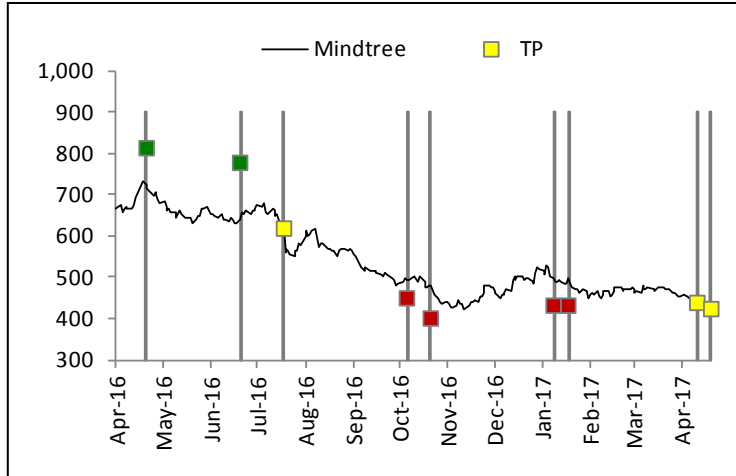
Source: Company, HDFC sec Inst Research

Key Ratios

	FY15	FY16	FY17	FY18E	FY19E
PROFITABILITY (%)					
EBITDA Margin	19.9	17.6	13.7	14.1	14.9
APAT Margin	15.1	11.8	8.0	9.3	9.9
RoE	29.4	25.0	16.8	19.1	20.3
RoIC or Core RoCE	43.6	31.5	21.1	24.2	26.9
RoCE	23.0	21.1	15.1	16.9	17.8
EFFICIENCY					
Tax Rate (%)	22.4	23.6	24.6	25.0	25.0
Fixed Asset Turnover (x)	4.0	4.5	4.7	4.4	4.0
Debtors (days)	71	76	62	62	62
Payables (days)	5	15	12	12	11
Cash Conversion Cycle (days)	66	61	51	51	51
Net Debt/EBITDA (x)	(1.3)	(0.5)	(1.0)	(1.1)	(1.1)
Net Debt/Equity (x)	(0.5)	(0.2)	(0.3)	(0.3)	(0.3)
Interest Coverage (x)	6,074	41	28	58	61
PER SHARE DATA					
EPS (Rs/sh)	32.1	32.9	24.9	30.6	35.7
CEPS (Rs/sh)	38.0	42.8	36.0	41.8	47.7
DPS (Rs/sh)	8.5	10.5	11.0	14.0	16.0
BV (Rs/sh)	119.9	143.9	153.4	167.4	184.2
VALUATION					
P/E	13.8	13.4	17.7	14.5	12.4
P/BV	3.7	3.1	2.9	2.6	2.4
EV/EBITDA	9.2	8.5	9.3	8.4	7.1
OCF/EV (%)	9.2	6.4	9.8	9.2	11.4
FCF/EV (%)	6.1	4.1	8.5	5.7	7.6
FCFE/mkt cap (%)	6.1	4.5	9.0	5.6	7.6
Dividend Yield (%)	1.9	2.4	2.5	3.2	3.6

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
21-Apr-16	724	BUY	813
20-Jun-16	640	BUY	775
19-Jul-16	614	NEU	620
6-Oct-16	498	SELL	450
24-Oct-16	479	SELL	400
9-Jan-17	496	SELL	430
20-Jan-17	485	SELL	430
11-Apr-17	445	NEU	440
21-Apr-17	442	NEU	425

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
Disclosure:

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HDFC securities
Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board : +91-22-6171-7330 www.hdfcsec.com