

BSE Code: 532819

NSE Code: MINDTREE

Reuters Code: MINT.NS

Bloomberg Code: MTCL: IN

Incorporated in 1999, MindTree Ltd. operates in two segments, viz; production engineering (PE) services and IT services. PE services include research and development (R&D) services and software product engineering (SPE). SPE provides full life cycle product engineering, professional services and sustained engineering services. IT Services offer consulting and implementation and post production support for customers in manufacturing, financial services, travel and leisure and other industries.

## Investment Rationale

**Inorganic growth moves to improve competency:** MindTree is in the process of consolidating its analytical competences via inorganic growth. It acquired UK-based Bluefin Solutions, an independent consultant in SAP HANA (High Performance Analytic Appliance) solutions, for Rs. 483 Crores in July'2015.

It also took over US-based Relational Solutions Inc (RSI), an IP-led analytic solutions provider to consumer products and goods (CPG) industry. We expect the company to benefit from HANA opportunity as existing SAP customers shift to HANA in the next 18 months. The acquisition will also aid in cross-selling opportunities (Bluefin has large UK clientele while MTL has higher US presence). Also, the management expects the RSI to help tap into the Rs. 1,500 Crores analytics services spend opportunity of CPG companies.

**Thrust on the digital vertical for growth:** Digital vertical of the company accounts for ~33% to its top-line. Starting FY17E, the company expects to derive ~50% of its revenues from this as it sees opportunities in the Digital and IoT spend growing to ~Rs. 22,500 Crores and ~Rs. 17,500 Crores by 2020E. Also, the size of the digital deals for the company has risen by ~15% over past few months. This is a key positive for the company. Moreover, its BFSI and manufacturing & CPG segments are seeing strong traction in digital projects.

**Top-line growth expected at a CAGR of 17% by FY17E:** In the June 2015 quarter, Mindtree reported total order wins of US\$208 million — the strongest in the last several quarters and up from the March quarter's USD 164 million. Of the new orders, projects worth USD 159 million are scheduled for execution in the current year and the rest in the subsequent year. It recently won an order from MoInlycke Health Care to enhance its business efficiency using the SAP application suite. The company added one new client to the USD 50-million-plus category in the June quarter. We expect the higher orders to translate into higher revenue. We estimate the revenue growth at a CAGR of 17% for FY15-17E at Rs. 4,839 Crores.

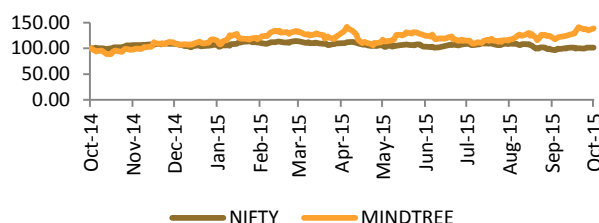
### Market Data

Rating	BUY
CMP (Rs.)	1,529
Target (Rs.)	1,680
Potential Upside	10%
Duration	Long Term
Face Value (Rs.)	10
52 week H/L (Rs.)	1,602/967
Adj. all time High (Rs.)	1,604
Decline from 52WH (%)	5
Rise from 52WL (%)	58
Beta	1
Mkt. Cap (Rs.Cr)	12,796

### Fiscal Year Ended

Y/E	FY14A	FY15A	FY16E	FY17E
Net Revenue (Rs. Crores)	3,032	3,562	4,151	4,839
EBITDA (Rs. Crores)	610	709	812	951
Net Profit (Rs. Crores)	451	536	596	703
EPS (Rs.)	108.1	64.1	71.2	84.0
P/E (x)	6.2	23.9	21.5	18.2
P/BV (x)	1.7	6.4	4.9	3.9
EV/EBITDA (x)	4.4	17.5	15.0	12.7

### One year Price Chart



Shareholding Pattern	Jun-15	Mar-15	Chg.
Promoters (%)	13.7	13.7	0.0
FII (%)	37.8	37.7	0.1
DII (%)	7.4	7.9	(0.5)
Others (%)	41.1	40.7	0.4

**Incorporated in 1999, MindTree Ltd. is an international information technology (IT) consulting and implementation company.**

## Mindtree Ltd.

Incorporated in 1999, MindTree Ltd. is an international information technology (IT) consulting and implementation company. It operates in two units: production engineering (PE) services and IT services.

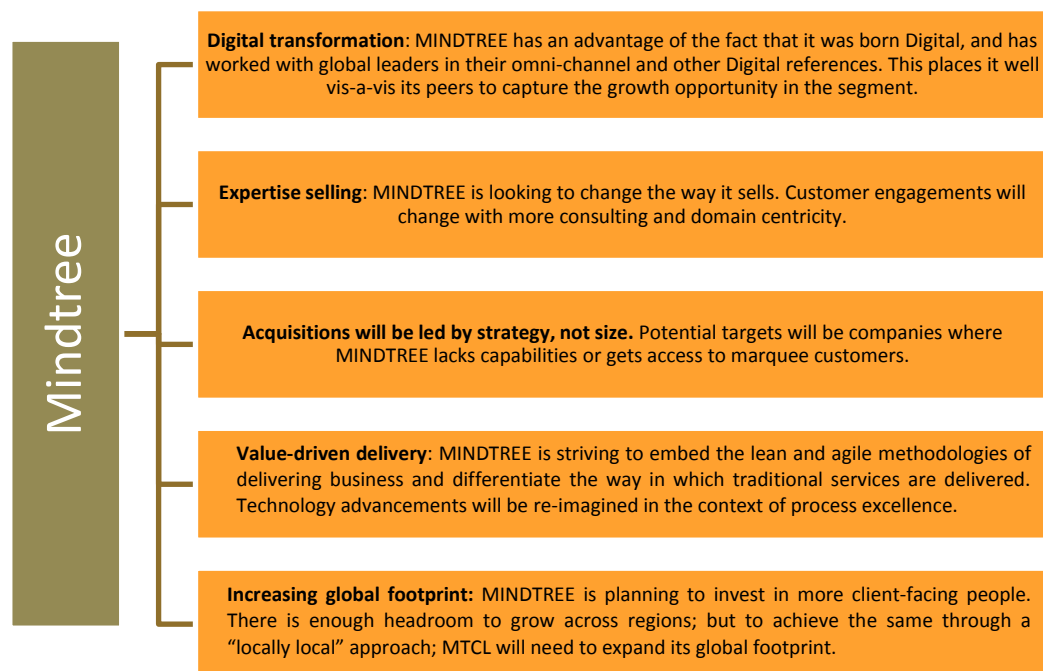
PE services include research and development (R&D) services and software product engineering (SPE). SPE provides full life cycle product engineering, professional services and sustained engineering services.

IT Services offer consulting, implementation and post production support for customers in manufacturing, financial services, travel, leisure and other industries, in the areas of e-business, data warehousing and business intelligence, supply chain management, enterprise resource planning (ERP) and maintenance and re-engineering of legacy mainframe applications. Mindtree has formed successful business and technology alliances with big companies like Microsoft, Hewlett Packard, Oracle and many more. The client list includes name like Getronics, Sonoco, ABB, Elance, Symantec and Samsung among others.

### Fast facts

- Revenues (FY15): Rs. 3,561.9 Crores
- 25+ Global offices
- ~220 active clients
- 40+ Fortune 500 customers
- Headcount: 15,392
- 8 State-of-the-art R&D facilities

### Mindtree's five pillar strategy



**Mindtree reported a 16.4% growth (6.9% on a QoQ basis) in its net consolidated revenues to Rs. 981.6 Crores in Q1FY16 from Rs. 843.5 Crores in Q1FY15.**

## Q1FY16 performance

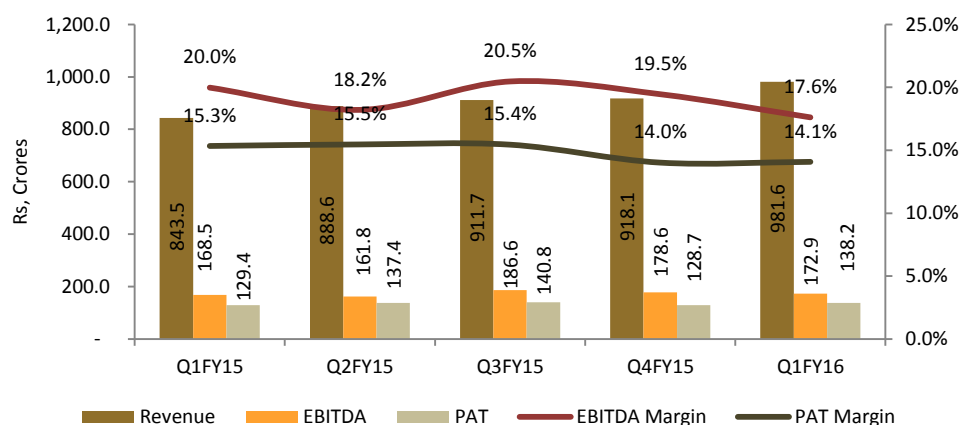
Mindtree reported a 16.4% growth (6.9% on a QoQ basis) in its net consolidated revenues to Rs. 981.6 Crores in Q1FY16 from Rs. 843.5 Crores in Q1FY15. Increase in revenues was majorly on account of a revenue growth of 35.0% in the Banking, Financial Services and Insurance segment and of 21.2% in the Retail, CPG and Manufacturing segment.

EBITDA increased marginally by 2.6% to Rs. 172.9 Crores during the quarter from Rs. 168.5 Crores in Q1FY15. EBITDA margins fell by 236 bps to 18% from 20% during the same period due to an upsurge in the operating expenses of the company by 19.8% YoY.

Net profit inclined 6.8% YoY (7.4% on a QoQ basis) to Rs. 138.2 Crores in Q1FY16 from Rs. 129.4 Crores in the corresponding quarter of the last fiscal. The major factor which led to the increase in the bottom-line was an increase in the other income of the company by 78.1% YoY which offset the increase in depreciation and tax expenses by 41.2%, 7.0% respectively. PAT margin fell by 126 bps to 14.1% in the quarter under review from 15.3% in Q1FY15.

The company added 900 employees during the quarter on a gross basis taking the total headcount to 15,392 as of June 30, 2015. There were 218 active clients of Mindtree as of June 30, 2015.

Quarterly performance Trend



## FY15 performance

For the year ended 2015, Mind tree's revenues were Rs. 3,561.9 Crores (USD 583.8 million), which was a 17.5% growth over the previous year in rupee terms and 16.4% growth in USD terms. The net profit grew 19% (in rupee terms) and 17.9% (in USD terms) over the previous year due to the company's efforts to drive higher operational efficiencies and aided by favorable currency movements.

The company continued to maintain a strong balance sheet with cash and liquid investments of Rs. 910.6 Crores. The company's ROCE stood at 33.7%. The company ended the year with 14,202 Mindtree Minds. During the year under review, the company opened two new training centres in Bhubaneswar and Washington. It also acquired Discoverture Solutions L.L.C. aiding it to expand its reach to serve clients in the Insurance industry. This contributed Rs. 162 Crores in revenues and Rs. 21.6 Crores in net profits for the year.

**For the year ended 2015, MindTree's revenues were Rs. 3,561.9 Crores (USD 583.8 million), which was a 17.5% growth over the previous year in rupee terms and 16.4% growth in USD terms.**

**Mindtree strengthened its analytical capabilities with acquisition of Bluefin Solution (SAP HANA) and Relational Solutions (CPG analytics)**

**Company's aggressive expansion plans to increase the revenue growth at a CAGR of ~17% by FY17E.**

### Consolidating analytical competences through inorganic acquisitions

MindTree acquired UK-based Bluefin Solutions, an independent consultant in SAP HANA (High Performance Analytic Appliance) solutions, for Rs. 483 Crores in July'2015. The consideration for this acquisition includes an upfront payment of Rs. 390 Crores and earn-outs of Rs. 93 Crores, payable over three years, based on set goals. The company expects to benefit from HANA opportunity exists as existing SAP customers shift to HANA in the next 18 months. The acquisition will also aid in cross-selling opportunities (Bluefin has large UK clientele while MTL has higher US presence). In FY15, Bluefin generated Rs. 333.5 Crores revenues on an LTM basis across 60+ clients and ~170 experts. However, Bluefin entails higher onsite effort that leads to lower margins vis-à-vis MindTree.

MindTree also took over US-based Relational Solutions Inc (RSI), an IP-led analytic solutions provider to consumer products and goods (CPG) industry, for a total consideration of ~Rs. 600 Crores. This value includes an upfront payment of Rs. 420 Crores and earn-outs of Rs. 180 Crores, payable over two years. The management expects RSI to help tap into the Rs. 1,500 Crores analytics services spend opportunity of CPG companies.

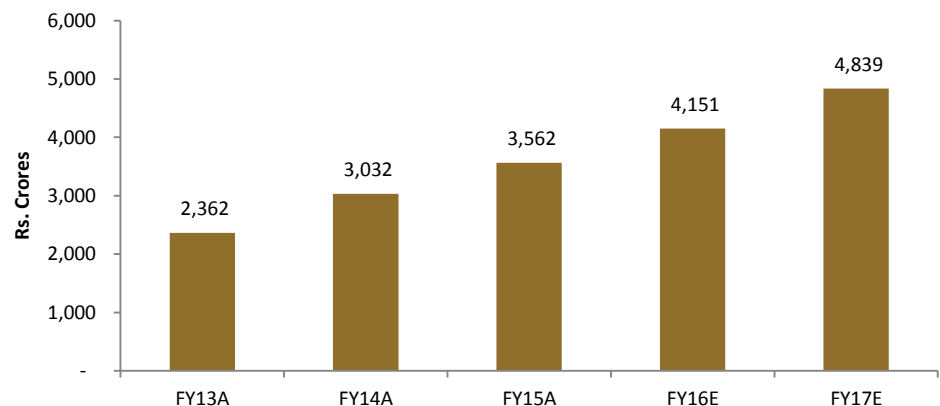
RSI generated revenues of Rs. 192 Crores in FY15 across 30 CPG clients (including two out of the top 10 global FMCG companies). Since the business is IP-led, it has a better margin profile compared to the other businesses of the company.

### Focus on new technologies to aid growth

Digital vertical of the company accounts for ~33% to its top-line. Starting FY17E, the company expects to derive ~50% of its revenues from this as it sees opportunities in the Digital and IoT spend growing to ~Rs. 22,500 Crores and ~Rs. 17,500 Crores. Also, the size of the digital deals for the company has risen by ~15% over past few months. This is a key positive for the company. Moreover, its BFSI and manufacturing & CPG segments are seeing strong traction in digital projects. Mindtree has created ecosystem of partnership for Digital (Intel, Cisco, Microsoft, SAP, ThingWorx), Cognitive Computing (Universities, Start-ups), and Autonomic Computing (IBM, Microsoft) to exploit growth opportunities in these segments as despite an increase in Digital deal sizes, but no pricing premium which leaves further room for growth.

Going forward, its focus on acquiring firms with technology platforms is expected to generate more revenue per employee (RPE) from its digital practice. The company's current RPE in dollar terms is \$42,000 which is less than the industry standard and it looks forward to increasing it to USD 50,000 by FY17E.

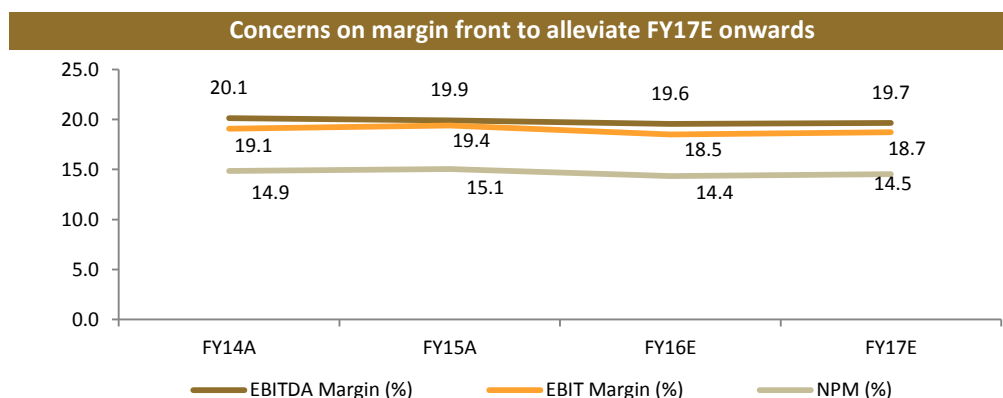
Revenue growth expected at a CAGR of ~17% for FY15-17E



## Increased order book provides high revenue visibility

For FY15, Mindtree's revenue grew by 16.4% beating Nasscom's estimate of 12-14% growth for the industry. Further, the company is expecting to sustain the revenue growth for FY16 as well given the renewed traction in orders for the company. In the June 2015 quarter, Mindtree reported total order wins of USD 208 million — the strongest in the last several quarters and up from the March quarter's USD 164 million. Of the new orders, projects worth USD 159 million are scheduled for execution in the current year and the rest in the subsequent year. The company added one new client to the USD 50-million-plus category in the June quarter.

Another major positive for the company is that the US economy is showing green shoots; hence the company's outlook is positive. Mindtree derives over 60% of its revenue from North America. In the June quarter, the company saw its US business record 9% sequential growth (in dollar terms), more than making up for the 3.1% decline in revenue from Europe. The ADMS (IT application, development and maintenance services) business has also picked up pace and was a major revenue driver in the June quarter. Mindtree has been aggressively expanding its digital presence through acquisitions. Owing to these factors we believe that the company will be able to attain higher revenue in the forthcoming time. We estimate the revenue for FY17E to grow at a CAGR of 17% over FY15-17E.



## Key risks

- **Rupee depreciation:** A steep depreciation in the rupee could also create margin tailwinds partially offset by higher SG&A investments and onsite mix.
- **Concerns on margin front:** Even as the IT spends are slowing on the global level, demand for digital solutions in retail, BFSI and hospitality sectors (Mind Tree's focus areas) are growing. The company's aggressive steps to develop inorganically and build up its digital capabilities should benefit it in the coming years. But, in the near term, the investments that go into building the platform and the need to keep more employees onsite may pressurise margins.
- The revenues are highly dependent on clients primarily located in the US and Europe, as well as on certain industries and an economic slowdown can effect company's revenue.

## Balance Sheet (Consolidated)

Y/E (Rs. Crores)	FY14A	FY15A	FY16E	FY17E
Share Capital	42	84	84	84
Reserve & surplus	1,599	1,929	2,508	3,195
<b>Net Worth</b>	<b>1,641</b>	<b>2,012</b>	<b>2,592</b>	<b>3,278</b>
Total debt	3	2	2	2
Other non-current liabilities	17	33	24	25
<b>Capital Employed</b>	<b>1,660</b>	<b>2,048</b>	<b>2,618</b>	<b>3,305</b>
Net Fixed Assets	393	591	548	495
Net Current Assets	1,047	1,247	1,843	2,565
Deferred tax (net)assets	40	45	45	45
Other non-current assets	180	166	182	201
<b>Capital Deployed</b>	<b>1,660</b>	<b>2,048</b>	<b>2,618</b>	<b>3,305</b>

## Key Ratios (Consolidated)

Y/E	FY14A	FY15A	FY16E	FY17E
EBITDA Margin (%)	20.1	19.9	19.6	19.7
EBIT Margin (%)	19.1	19.4	18.5	18.7
NPM (%)	14.9	15.1	14.4	14.5
ROCE (%)	34.9	33.7	29.3	27.4
ROE (%)	27.5	26.6	23.0	21.5
EPS (Rs.)	108.1	64.1	71.2	84.0
P/E (x)	6.2	23.9	21.5	18.2
BVPS(Rs.)	393.4	240.4	309.6	391.7
P/BVPS (x)	1.7	6.4	4.9	3.9
EV/EBITDA (x)	4.4	17.5	15.0	12.7

## Profit & Loss Account (Consolidated)

Y/E (Rs. Crores)	FY14A	FY15A	FY16E	FY17E
<b>Total revenue</b>	<b>3,032</b>	<b>3,562</b>	<b>4,151</b>	<b>4,839</b>
Expenses	2,422	2,853	3,340	3,887
<b>EBITDA</b>	<b>610</b>	<b>709</b>	<b>812</b>	<b>951</b>
Other Income	50	84	84	92
Depreciation	81	102	128	138
<b>EBIT</b>	<b>579</b>	<b>691</b>	<b>768</b>	<b>906</b>
Interest	0.1	0.1	0.1	0.1
<b>Profit Before Tax</b>	<b>578</b>	<b>691</b>	<b>768</b>	<b>906</b>
Tax	128	155	172	203
<b>Net Profit</b>	<b>451</b>	<b>536</b>	<b>596</b>	<b>703</b>

## Valuation and view

Mindtree plans to remain a single segment specialist player and achieve strong client recall in the digital vertical. The company means to continue focus on BFSI, Travel and Transport, Hitech and Retail, CPG& Manufacturing verticals. Albeit, we expect strong revenue growth, scope for improvement in utilisation to act as tailwinds, were have factored in headwinds to margins in FY16 owing to appreciating rupee. We expect the top-line and bottom-line to grow at a CAGR of 17% and 14% respectively by FY17E.

At the current market price (CMP) of Rs.1,529, the stock trades at P/E multiple of 21.5x FY16E and 18.2x FY17E. We recommend 'BUY' with a target price of Rs. 1,680, assigning a forward P/E multiple of 20x, which implies a potential upside of ~10% to the CMP from 12 months perspective.

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