

Mindtree

20 July 2017

Reuters: MINT.BO; Bloomberg: MTCL IN

Lowered Guidance Is Still At Risk: Mid Single-digit Growth Likely

Mindtree's 1QFY18 performance was significantly below our and street expectations, both on revenues and more so on the margin front. 1.2% CC QoQ revenue growth in 1QFY18 was against our estimate of 3.9%. While we were expecting only mid single-digit growth in FY18 versus guidance of 'low double-digit' revenue growth (see our recent initiating coverage report [Not Too Late To Sell: Market Is Giving It The Benefit Of Doubt](#)), we expected a stronger start to the year. EBIT margin at 7.6% declined 300bps on QoQ basis and 300bps below our estimate. The decline in margins was attributed to high visa costs (150bps), currency headwind because of INR appreciation (90bps) and the rest to poor performance of its subsidiaries Bluefin and Magnet 360 countered by positive movement on revenue mix and employee utilisation. While we were expecting some margin headwinds for the quarter, we expected improvement in subsidiaries to counter that after many quarters of poor performance. That was not the case. While the management exuded confidence of revival in Magnet 360 in the coming quarters, the outlook provided for Bluefin was cautious and the poor performance was indicated to be because of its own sales & execution challenges and poor market demand. We are surprised that 18-24 months into their acquisition, integration still remains a 'work-in-progress'. As regards FY18 outlook, Mindtree lowered its 'low double-digit' revenue growth guidance to 'high single-digit' growth because of the ongoing sluggishness in its subsidiaries. It expects strong growth on a standalone basis because of deals won in 2HFY17 and 1QFY18. To deliver this new FY18 guidance, Mindtree will need ~4% CQGR for the next three quarters which we believe is going to be tough, given the seasonal weakness in 2H. As regards margin outlook, Mindtree indicated that wage hike in 2QFY18 will impact margins by ~150bps (but visa costs will not be there in that quarter). Post 1QFY18, we have retained our Sell rating on Mindtree with a March 2018 target price of Rs382 (down 24% from CMP) based on 11.5x FY19E EPS (20% discount to the target P/E multiple we have assigned to Infosys and TCS). While the stock price is down ~40% from its life-time high, we see more downside. A large part of the market, in our opinion, believes that: (1) Mindtree has in it not only to make it through the current transition phase in the industry, but also remain a relevant player. (2) It will grow into a large-cap next generation IT services company after this phase. Based on its performance over the past 18-24 months and our reading of its capabilities and strategies and the evolving industry and macro context, we have doubts about this view that the market holds. We believe Mindtree faces problems with: (1) Differentiation, (2) Vendor consolidation, (3) Significant senior management churn, (4) Less-than-adequate digital and automation capabilities, and (5) Poor M&A execution.

Disconnect in commentary and numbers: The USD revenue growth of 2.3% consisted of volume growth of 3.7% (offshore led) and realisation decline of 1.4%. The decline in realisation was attributed to the shift in revenue mix offshore. Offshore revenue grew by an unusual 8.9% QoQ. With Digital (onsite-centric) constituting ~42% of revenues growing at 9.3% QoQ, we are surprised by the rise in offshore revenues and believe that there is a disconnect between management commentary and the actual numbers.

We are participating in AsiaMoney's Brokers Poll 2017. We would be pleased if you vote for us as the feedback helps us align our equity research offerings to meet your requirements. [Click Here](#)

SELL

Sector: Information Technology

CMP: Rs506

Target price: Rs382

Downside: 24%

Girish Pai

 Head of Research
 girish.pai@nirmalbang.com
 +91-22-3926 8017

Devanshu Bansal

 Research Associate
 devanshu.bansal@nirmalbang.com
 +91-22-3926 8179

Key Data

Current Shares O/S (mn)	168.1
Mkt Cap (Rsbn/US\$bn)	85.2/1.3
52 Wk H / L (Rs)	621/399
Daily Vol. (3M NSE Avg.)	689,768

Price Performance (%)

	1 M	6 M	1 Yr
Mindtree	(1.8)	4.4	(9.8)
Nifty Index	2.5	17.4	16.1

Source: Bloomberg

Y/E March (Rsmn)	1QFY17	4QFY17	1QFY18	YoY (%)	QoQ (%)	1QFY18E	Deviation (%)
Net Sales (USD mn)	199	196	200	0.6	2.30	205	(2.2)
Net Sales	13,276	13,181	12,895	(2.9)	(2.2)	13,173	(2.1)
Staff Cost	8,299	8,700	8,393	1.1	(3.5)	8,744	(4.0)
% of Sales	62.5	66.0	65.1	-	-	66.4	-
Other Expenses	3,022	2,612	3,067	1.5	17.4	2,569	19.4
% of Sales	22.8	19.8	23.8	-	-	19.5	-
EBIT	1,487	1,401	976	(34.4)	(30.3)	1,391	(29.8)
EBIT Margin (%)	11.2	10.6	7.6	-	-	10.6	-
Other Income, Net	106	133	654	517.0	391.7	205	218.6
Forex Gain/(Losses)	88	-228	0	(100.0)	(100.0)	200	(100.0)
PBT	1,630	1,259	1,590	(2.5)	26.3	1,766	(10.0)
Provision for Tax	422	287	373	(11.6)	30.0	450	(17.2)
Effective Tax Rate	25.9	22.8	23.5	-	-	25.5	-
PAT (Reported)	1,208	972	1,217	0.7	25.2	1,316	(7.5)
NPM (%)	9.1	7.4	9.4	-	-	10.0	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

Y/E March (Rsbn)	FY15	FY16	FY17	FY18E	FY19E
Revenue (Rsmn)	35,619	46,819	52,364	54,449	60,313
YoY Growth (%)	17.5	31.4	11.8	4.0	10.8
EBIT (Rsmn)	6,074	6,840	5,327	5,452	6,711
as % of sales	17.1	14.6	10.2	10.0	11.1
Adj. PAT (Rsmn)	5,363	5,899	4,159	4,950	5,585
YoY Growth (%)	18.9	10.0	(29.5)	19.0	12.8
FDEPS (Rs)	31.9	35.1	24.7	29.4	33.2
RoE (%)	30.9	28.1	17.4	19.0	19.7
RoCE (%)	34.3	31.9	21.8	20.7	23.6
RoIC (%)	49.8	40.6	27.8	30.1	36.5
P/E(x)	15.8	14.4	20.4	17.2	15.2
P/BV (x)	4.0	3.5	3.3	3.0	2.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

	New		Old		Change (%)	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
INR/USD	65.6	67.0	65.6	67.0	0.0	-
USD Revenue (USD mn)	830	900	836	895	(0.8)	0.6
Revenue (Rsmn)	54,449	60,313	54,861	59,968	(0.8)	0.6
EBIT (Rsmn)	5,452	6,711	5,947	6,677	(8.3)	0.5
PAT (Rsmn)	4,950	5,585	5,066	5,586	(2.3)	(0.0)
EPS (Rs)	29.4	33.2	30.1	33.2	(2.3)	(0.0)
EBIT Margin (%)	10.0	11.1	10.8	11.1	-	-

Source: Company, Nirmal Bang Institutional Equities Research

We have a negative view on Indian IT services sector: We have been cautious on the Indian IT services sector for more than two years and have advocated an underweight stance. We expect the sector to post 3%-6% USD revenue growth in FY18 (likely lowest on the street, organic). In our sector reports [Structural And Cyclical Speed-breakers Ahead](#) and [Downside Risks Open Up - It Is That Time Of The Cycle!](#), we had indicated the reasons for being bearish on the sector: These include: (1) The probability of below-trend growth in the US over the next 12-24 months is high as the economic cycle is maturing. This, in our view, will have a deleterious impact on Global 2000 corporations' sales growth - key driver of Indian IT sector's revenue growth. (2) We believe volume growth, pricing and margins are all likely to disappoint current consensus expectations amid intense competition because of convergence of capabilities and strategies among Tier-1 Indian players. (3) We see revenue cannibalisation from automation to accelerate as the entire industry is in a challenger-defender paradigm and some players have already factored in aggressive assumptions on gains from it and therefore have to deliver unless they want to witness material margin downside. (4) We do not believe digital business is material enough to offset the pressure one expects in traditional business. Besides we believe Indian industry is not getting a fair share of this business because of lower capabilities in consulting and design. (5) We see P/E multiple remaining compressed for the sector as revenue and earnings growth will be anaemic. We also expect return ratios to move down materially over FY17-FY19. (6) In the near term, we believe the changes to H1-B visa rules are likely to have a negative impact on the margins of the companies under our coverage over FY17-FY19 ([H1-B Related Minimum Wage Increase – Material Damage Likely To Margins](#)). Even if the minimum wage rule does not kick in, higher onsite hiring, higher onsite wage inflation, lower onsite utilisation and higher use of sub-contractors will damage margins. We expect RoIC to also move down in tandem.

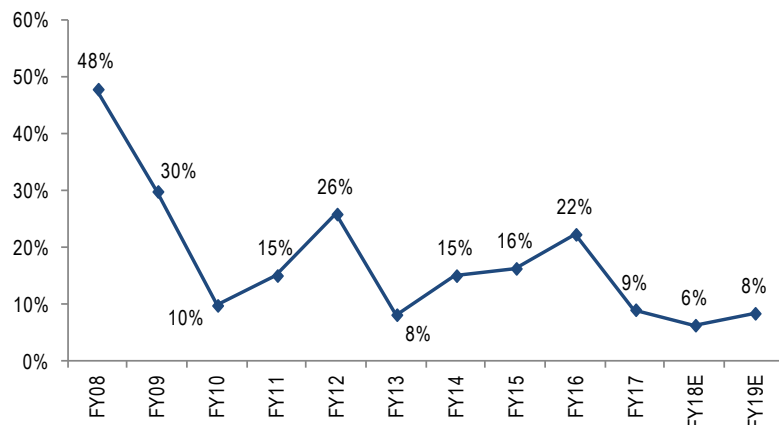
1QFY18 Conference-call highlights:

- **Vertical-wise performance:** All verticals except Travel & Hospitality grew on QoQ basis. Travel & Hospitality declined 2% QoQ in USD terms. The growth was led by BFSI and Hi-Tech & Media Services which grew 4.0%/3.4% respectively, in USD terms on QoQ basis.
- **Geography-wise performance:** All geographies except ROW grew on QoQ basis in USD terms led by India and Europe which grew 9.6%/3.8%, respectively. North America, which constitutes 70% of total revenues, grew lower than the company average with 2% USD QoQ growth while ROW declined 2.3% in USD terms on QoQ basis.
- **Digital:** Digital revenues grew 9.3% on QoQ basis in 1QFY18 and contributed ~42% to overall revenues. The management indicated that clients continue to prioritise Digital spending as this spending is helping them to increase their revenues. The company highlighted that it aims to shift towards long-term Digital contracts (in the range of US\$5mn-US\$20mn), parts of which can be serviced from its offshore locations which will in turn help it improve margins going forward and also highlighted that the current small value digital contracts (in the range of US\$0.25mn- US\$1mn) are more onsite-centric in which clients demand 100% work to be done onsite.
- **More than 50% of incremental revenues comes from the Top account:** Barring its Top client which grew 9.5% in USD terms on QoQ basis, there was hardly any growth witnessed in its other Top 10 accounts with contribution from its Top 2 to Top 5 clients declining 8% in 1QFY18 on QoQ basis in USD terms. The management highlighted that the composition of its Top 10 accounts has changed due to ongoing client specific internal issues and the revenue contribution from its Top 10 accounts is going to remain volatile for some more time. While the growth in its top client (which is a Tech major) is heartening, we believe its growth in this account can invite other big players to compete with it and we also believe that continuous churn in its Top 10 clients can be a result of vendor consolidation in which it is losing its share of revenues to other big players.
- **Bluefin and Magnet 360 Performance:** While the management exuded confidence of revival in Magnet 360 in the coming quarters and asserted that EBITDA-level losses in Magnet 360 were because of slippage of some contracts to the coming quarters, it stated that the broader market outlook remains encouraging for Magnet 360 services (Salesforce-based implementations), the outlook provided for Bluefin was grim and the poor performance was indicated to be because of its own sales & execution challenges and poor market demand for Bluefin services (SAP and HANA-based implementations). The management indicated that revenue compression of US\$1mn and an additional cost of US\$1mn were accounted for in 1QFY18 because of non-execution of a particular project in its Bluefin subsidiary which led to EBITDA-level loss. Bluefin and Magnet 360 posted revenues of US\$7.3mn and US\$6.5mn, down 19.3% and 13%, respectively, on QoQ basis.
- **Post 1QFY18 results, FY18 guidance implies strong growth in 3Q and 4Q:** Mindtree has lowered its 'low double-digit' revenue growth guidance which it had given in the 4QFY17 con-call to high single-digit revenue growth by taking into consideration the ongoing sluggishness in its subsidiaries, but stated that it will be able to grow organically, given the large quantum of deals it won in 2HFY17 and 1QFY18. Post 1QFY18, Mindtree will require ~4% CQGR for the next three quarters to post high single-digit revenues which we believe is going to be an arduous task, given the seasonal weakness in 3Q and 4Q.
- **2QFY18 & FY18 margin outlook:** Mindtree indicated that it will be accounting for wage hikes for 70% of its employees in 2QFY18 which will, on an average, be 5.5% for offshore employees and 1.8% for onsite employees. The company indicated the impact of wage hike to EBITDA margin in 2QFY18 will be similar to the impact of visa costs in 1QFY18 i.e. 150bps. The management, however, stated that it will be able to maintain its CC EBITDA margin at the standalone level which we believe is also going to be an uphill task post: (1) Poor performance in 1QFY18, (2) Impending wage hike in 2QFY18, (3) Additional costs relating to share buyback, (4) Seasonally slow 3Q and 4Q, (5) Delay (60-90 days) and slow ramp-up in two of the large deals which it won recently, (6) Plan to hire 1,200 fresh graduates in FY18, and (7) No clear identification of margin levers such as automation and employee utilisation level. As regards the levers for margin improvement in FY18, the management provided broad and consequential levers such as revenue growth, cost optimisation and improvement in subsidiary performance.

Other key conference-call highlights

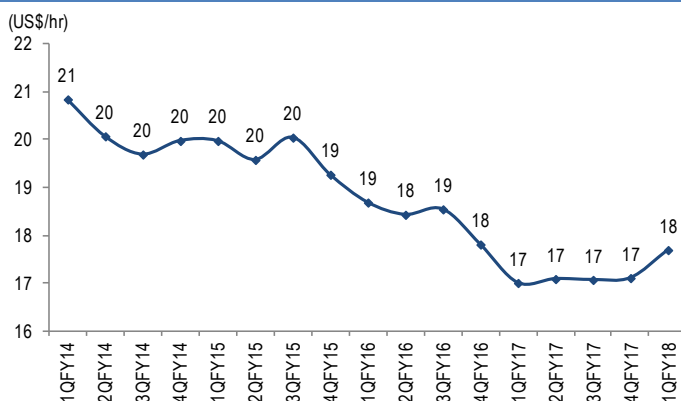
- **Other income boosted by earn-out cancellation:** About Rs370mn in other income was because of the cancellation of earn-out in Magnet 360 with integration being ahead of schedule, according to the management
- **Deal wins:** Mindtree won deals worth US\$262mn of which renewal deals stood at US\$219 mn and new deals at US\$43mn. Digital accounted for US\$108mn of the total deal value. The deals, which are going to get executed within a year, are worth US\$198 mn while deals which are going to take >1 year are worth US\$64mn.
- **Strong cash flow generation:** DSO came in at 57 days in 1QFY18 versus 65 days in 4QFY17, which led to healthy cash generation and resulted in EBITDA to operating cash flow conversion at 132.6% and EBITDA to free cash flow at 108.8%.
- **Capital allocation policy:** Mindtree, post its board meeting on 28 June 2017, announced buyback of equity shares worth Rs2,700mn. The company will repurchase up to 4.32mn shares, comprising 2.57% of its total paid-up equity share capital, at a price not exceeding Rs625 per share.
- **Re-categorisation of Profit & Loss or P&L line items:** The company has stopped reporting forex gain/(loss) number in the P&L statement. Effective from 1QFY18, it will report forex gains in the other income category and forex loss in the other expenses category.
- **Headcount addition:** The company plans to hire 1,200 fresh graduates in FY18 of which ~500 will be employed in 2QFY18.
- **Attrition data:** Mindtree's LTM attrition rate declined to 14.0% from 15.0% in 4QFY17 and 18.4% in 1QFY17.

Exhibit 3: YoY revenue growth (USD terms)



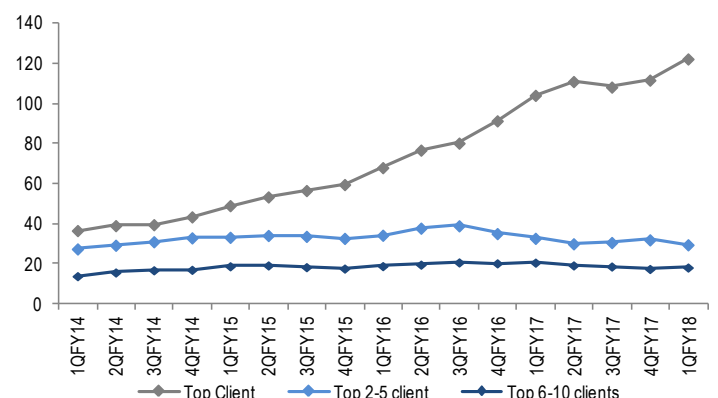
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Offshore bill rate sees a spurt which may be unsustainable



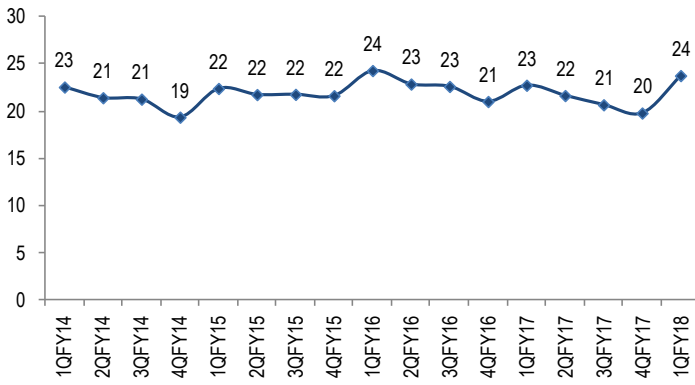
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Top client continues to be a big driver of growth (annualised revenue run rate)



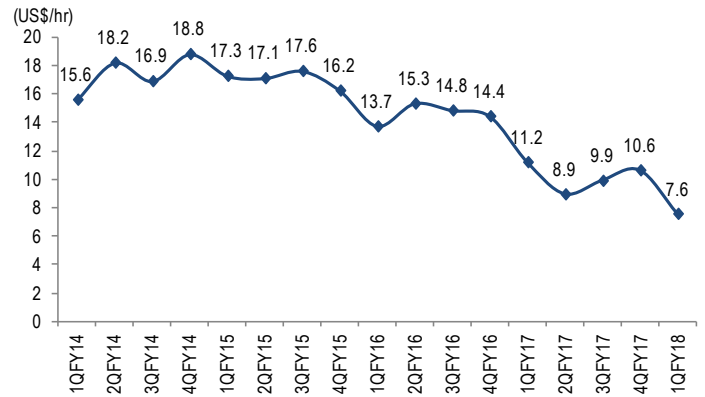
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Spurt in SG&A expenses hits margins (%)



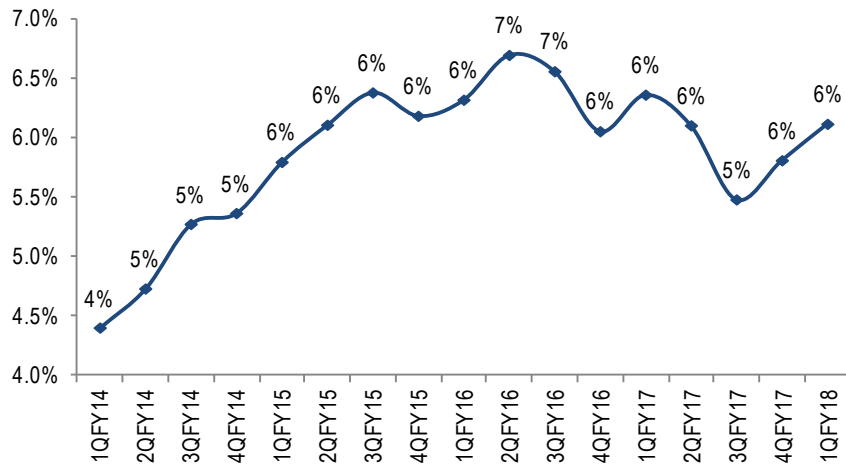
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: EBIT margin performance witnesses significant deterioration over the quarters



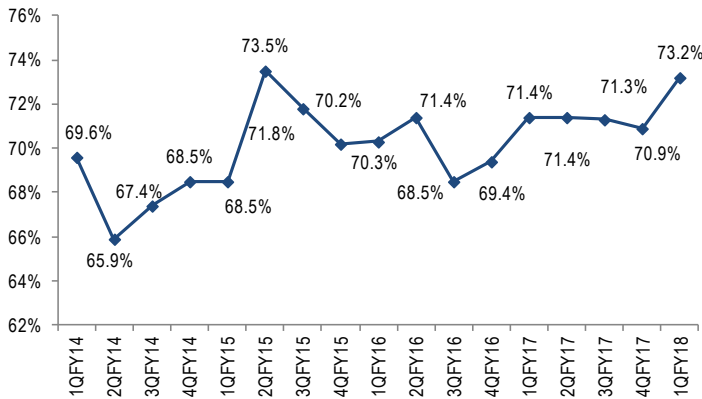
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Sub-contractor expenses see an uptick



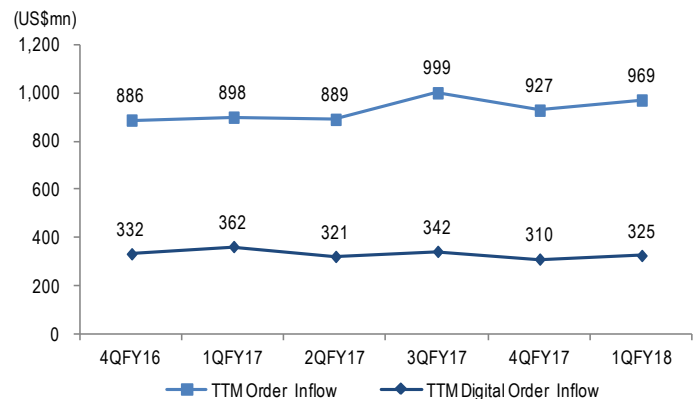
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Utilisation is still a significant lever



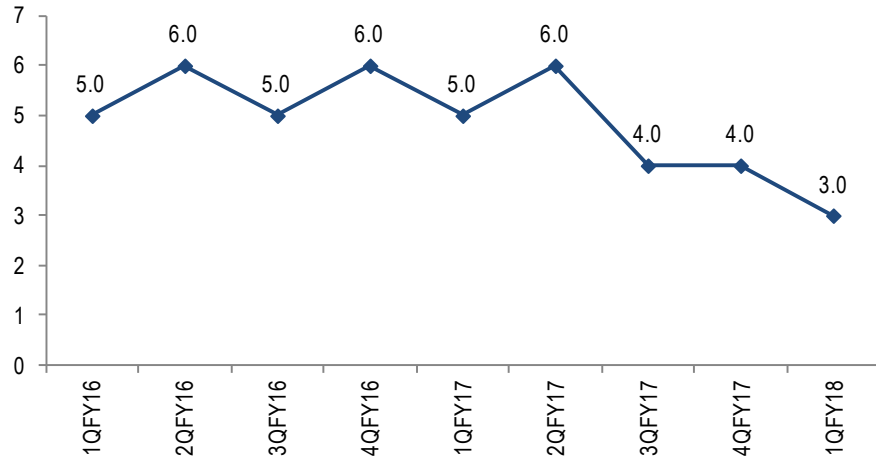
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: TTM total order inflow has peaked and flattened, so has the digital order inflow number



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Clients greater than US\$25mn in revenues have dipped further



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key metrics

	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Revenues(US\$m)	45,184	44,344	41,628	42,947	46,130	45,410	47,067	49,410	47,598	47,755	47,505	48,330
EBIT (US\$m)	7,729	7,752	6,759	5,855	7,063	6,734	6,789	5,534	4,255	4,722	5,050	3,659
PAT (US\$m)	6,986	6,796	5,834	5,772	5,964	5,639	5,542	4,495	3,483	3,801	3,503	4,562
P&L (Rsmn)												
Revenues	8,886	9,117	9,181	9,775	11,657	12,145	13,242	13,276	12,954	12,953	13,181	12,895
EBITDA	1,755	1,866	1,786	1,675	2,195	2,147	2,259	1,955	1,621	1,740	1,869	1,435
PAT	1,374	1,408	1,287	1,322	1,508	1,509	1,560	1,208	948	1,031	972	1,217
Vertical mix (%)												
Hi-Tech & Media Services	32.7	32.7	32.6	31.7	30.4	30.2	31.4	36.1	36.7	36.7	37.5	37.9
BFSI	22.8	23.5	25.0	26.4	24.7	25.1	23.2	24.9	24.7	24.1	24.7	25.1
Retail, CPG & Manufacturing	21.6	22.2	21.7	22.0	20.6	20.3	18.2	24.1	24.2	24.1	23.0	22.7
Travel & Hospitality	17.1	16.2	16.0	15.5	13.9	15.6	16.1	15.0	14.4	15.1	14.9	14.3
Others	5.8	5.4	4.7	4.3	10.5	8.7	11.1	NA	NA	NA	NA	NA
Horizontal mix (%)												
Development	24.0	23.7	23.2	24.4	23.2	23.7	23.0	22.7	22.0	22.3	21.4	22.6
Engineering	9.4	10.3	10.0	9.0	8.6	8.3	9.8	9.8	9.8	9.5	9.5	9.6
Maintenance	21.2	21.4	20.8	21.7	21.0	19.8	18.0	17.3	17.8	17.6	18.3	19.0
Consulting	4.2	4.1	3.9	3.7	2.8	2.6	4.0	4.1	3.8	3.9	4.0	3.4
Package Implementation	5.4	5.8	7.5	7.2	13.3	12.9	13.7	13.9	13.1	12.4	12.6	11.5
IP Led Revenue	1.6	1.6	1.7	1.4	1.3	1.8	1.3	1.0	1.2	1.4	1.3	1.1
Independent Testing	15.5	15.4	15.4	14.9	12.8	12.8	12.7	12.8	12.4	12.6	12.5	11.8
Infrastructure Management & Tech Support	18.7	17.6	17.5	17.7	17.0	18.1	17.4	18.4	19.9	20.3	20.4	21.0
Geographic Mix (%)												
US	60.4	63.1	64.9	67.5	63.2	63.5	65.9	66.7	67.6	68.7	69.8	69.6
Europe	26.1	24.2	23.7	21.9	26.6	26.4	24.5	23.1	21.4	20.8	20.8	21.1
India	4.0	4.1	3.6	3.4	3.2	2.7	2.8	3.1	3.5	3.1	2.8	3.0
RoW	9.6	8.6	7.8	7.2	7.0	7.4	6.8	7.1	7.5	7.4	6.6	6.3
Utilization (%) (including Trainees)												
Utilization (%) (including Trainees)	73.5	71.8	70.2	70.3	71.4	68.5	69.4	71.4	71.4	71.3	70.9	73.2
Utilization (%) (Excluding Trainees)												
Utilization (%) (Excluding Trainees)	74.2	74.2	71.1	71.9	73.3	69.9	70.6	72	73.1	72.3	72.7	73.8
Revenue mix-Onsite	45.6	45.8	47.1	48.1	52.4	54.5	57.6	59.5	59.2	60.2	60.5	58.0
Revenue mix-Offshore	54.4	54.2	52.9	51.9	47.6	45.5	42.4	40.5	40.8	39.8	39.5	42.0
Clients Concentration (%)												
Top client	9.1	9.6	10.1	11.0	10.7	10.9	11.7	13.1	14.4	14.1	14.3	15.3
Top 5 clients	32.4	32.5	32.3	33.2	31.8	32.1	29.7	29.6	30.0	30.1	30.7	30.1
Top 10 clients	48.8	48.1	47.3	48.5	45.5	46.2	42.7	42.6	42.5	42.3	41.9	41.5
Number of Client												
1 mn USD +	77	83	88	75	92	93	101	98	107	106	111	113
5 mn USD +	27	27	28	26	29	29	31	31	30	30	30	33
10 mn USD +	13	13	14	13	13	13	15	16	16	17	16	16
25 mn USD +	7	6	6	0	0	0	0	0	6	4	4	3
30 mn USD +	4	4	4	0	0	0	0	0				
50 mn USD +	0	1	1	0	2	2	2	2	2	1	1	1
100 mn USD +										1	1	1
Employees	13,018	13,323	14,202	14,427	15,582	16,243	16,623	16,110	16,219	16,099	16,470	16,561
Attrition (%)	16	18	18	18	17	16	16	18	16	16	15	14
Productivity Metrics (USD mn)												
Revenue	147	148	148	155	180	184	196	199	193	192	196	200
EBIT	25	26	24	21	28	27	28	22	17	19	21	15
PAT	23	23	21	21	23	23	23	18.1	14.1	15.3	14.4	18.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: QoQ and YoY growth of various parameters

QoQ Growth	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Client Wise																	
Top Client	2	7	1	10	13	9	6	5	14	13	5	14	14	7	(2)	3	9
Top 5 clients	3	7	5	7	4	4	1	(1)	8	11	4	(2)	1	(2)	(0)	4	0
Top 10 clients	5	9	6	5	6	4	(1)	(2)	7	9	4	(2)	1	(3)	(1)	1	1
Service Line Wise																	
Development	10	4	(1)	(4)	11	3	(1)	(2)	10	10	5	3	0	(6)	1	(2)	8
Engineering	(6)	3	(7)	1	5	1	10	(3)	(6)	11	(1)	26	2	(3)	(3)	2	3
Maintenance	8	6	7	(0)	(3)	7	1	(3)	9	12	(3)	(3)	(2)	(0)	(2)	6	6
Consulting	1	13	13	20	6	15	(2)	(5)	(1)	(12)	(5)	64	4	(10)	2	4	(13)
Package Implementation	(28)	(18)	(2)	78	40	4	8	29	1	114	(0)	12	3	(8)	(6)	3	(7)
IP Led Revenue	(8)	(44)	(10)	64	64	(2)	0	6	(14)	8	42	(23)	(25)	20	16	(6)	(13)
Independent Testing	7	3	(3)	5	0	3	(0)	0	1	(0)	3	5	3	(6)	1	1	(3)
Infrastructure Management & Tech Support	8	20	12	9	8	3	(5)	(1)	6	11	9	2	7	5	2	2	5
Vertical Wise																	
Hi-Tech & Media Services	19	2	(16)	23	9	4	0	(0)	2	11	2	10	17	(1)	(0)	4	3
BFSI	9	5	5	4	4	5	4	6	11	9	4	(2)	9	(4)	(3)	4	4
Retail, CPG & Manufacturing	9	9	2	7	2	6	3	(2)	6	9	1	(5)	35	(3)	(1)	(3)	1
Travel & Hospitality	(24)	13	36	(22)	13	9	(5)	(1)	2	4	15	9	(5)	(7)	4	0	(2)
Geography wise																	
US	9	5	3	7	7	6	5	3	9	9	3	10	3	(2)	1	3	2
Europe	(3)	11	1	3	2	1	(7)	(2)	(3)	41	2	(2)	(4)	(10)	(3)	2	4
India	(1)	(11)	(2)	(18)	1	19	3	(12)	(1)	9	(13)	10	13	9	(12)	(8)	10
RoW	1	2	10	6	19	(5)	(10)	(9)	(3)	13	8	(3)	6	2	(2)	(9)	(2)
YoY Growth																	
Client Wise																	
Top Client	14	13	10	20	34	37	43	37	39	44	42	53	53	45	35	22	17
Top 5 clients	4	8	11	23	24	22	17	9	13	20	23	22	15	1	(2)	3	2
Top 10 clients	9	17	20	27	28	22	14	7	9	14	20	19	13	0	(5)	(2)	(2)
Service Line Wise																	
Development	16	19	14	9	10	9	9	11	11	18	25	31	20	2	(2)	(7)	(0)
Engineering	(24)	(16)	(12)	(8)	3	0	19	14	2	12	1	30	40	22	19	(3)	(2)
Maintenance	14	22	26	22	10	11	5	2	15	21	16	15	3	(9)	(7)	1	10
Consulting	(5)	(4)	19	54	63	66	44	14	7	(19)	(21)	36	42	46	56	(0)	(17)
Package Implementation	19	7	(32)	5	103	156	181	104	46	201	178	141	148	6	0	(8)	(17)
IP Led Revenue	39	(29)	(38)	(24)	36	137	166	72	(10)	(1)	40	2	(11)	(1)	(19)	(1)	14
Independent Testing	15	15	8	12	5	4	8	3	4	1	4	9	10	4	3	(1)	(7)
Infrastructure Management & Tech Support	42	47	57	58	59	36	15	5	3	11	28	32	33	26	17	17	15
Vertical Wise																	
Hi-Tech & Media Services	23	21	4	25	15	17	41	14	6	14	15	27	46	30	27	19	6
BFSI	16	14	18	26	20	19	17	19	27	32	33	23	21	7	0	6	1
Retail, CPG & Manufacturing	26	33	32	31	22	19	20	9	14	17	14	11	41	26	24	26	(5)
Travel & Hospitality	(23)	(5)	20	(9)	36	31	(9)	16	4	(1)	20	33	24	11	1	(7)	(4)
Geography wise																	
US	11	14	19	25	23	25	27	23	25	28	26	34	27	15	13	6	5
Europe	6	14	8	12	17	7	(1)	(6)	(10)	25	36	37	36	(14)	(18)	(15)	(8)
India	1	(6)	(14)	(29)	(28)	(3)	1	8	6	(2)	(18)	3	17	17	20	-	(3)
RoW	50	52	38	19	40	31	7	(8)	(25)	(11)	7	15	27	15	4	(3)	(11)

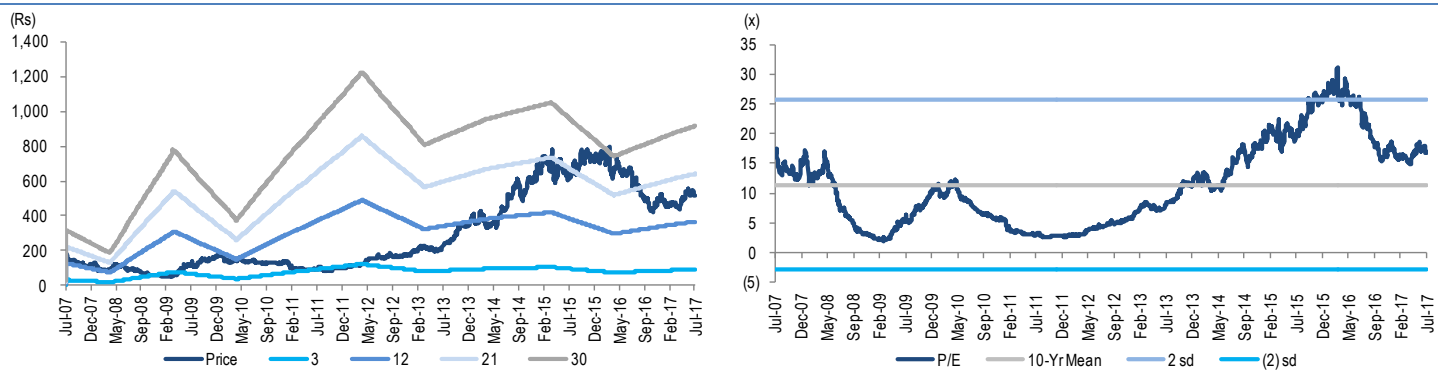
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Quarterly snapshot

Year to 31 March	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Rsmn																	
INR/USD	55.1	62.1	62.2	62.0	62.0	60.4	62.2	62.1	63.5	64.9	65.9	67.7	66.7	67.1	67.4	67.4	64.4
USD Revenue (USD mn)	117.7	124.0	127.1	132.8	141.3	147.1	147.7	147.8	154.9	179.7	184.4	195.6	199.0	193.0	192.2	195.6	200.1
INR Revenue	6,477	7,696	7,906	8,237	8,435	8,886	9,117	9,181	9,775	11,657	12,145	13,242	13,276	12,954	12,953	13,181	12,895
Gross Margin	2,653	3,248	3,227	3,368	3,576	3,690	3,853	3,774	4,052	4,863	4,896	5,045	4,977	4,428	4,420	4,481	4,502
EBITDA	1,191	1,598	1,544	1,772	1,685	1,755	1,866	1,786	1,675	2,195	2,147	2,259	1,955	1,621	1,740	1,869	1,435
Depreciation	181	197	208	223	228	235	260	295	334	409	345	348	468	463	459	468	459
Other Expenses	1,462	1,650	1,683	1,596	1,891	1,935	1,987	1,988	2,377	2,668	2,749	2,786	3,022	2,807	2,680	2,612	3,067
EBIT	1,010	1,401	1,336	1,549	1,457	1,520	1,606	1,491	1,341	1,786	1,802	1,911	1,487	1,158	1,281	1,401	976
Other income (net)	734	248	(189)	(298)	210	241	210	174	384	232	147	94	194	170	144	(95)	654
PBT	1,743	1,647	1,146	1,251	1,667	1,761	1,815	1,665	1,716	1,973	1,949	2,004	1,630	1,281	1,379	1,259	1,590
Tax	390	360	258	267	373	387	407	378	394	465	440	444	422	333	348	287	373
PAT	1,353	1,287	888	984	1,294	1,374	1,408	1,287	1,322	1,508	1,509	1,560	1,208	948	1,031	972	1,217
YoY Growth (%)																	
USD Revenue	12%	16%	16%	18%	20%	19%	16%	11%	10%	22%	25%	32%	28%	7%	4%	0%	1%
INR Revenue	15%	29%	34%	35%	30%	15%	15%	11%	16%	31%	33%	44%	36%	11%	7%	0%	-3%
Gross Profit	21%	36%	35%	42%	35%	14%	19%	12%	13%	32%	27%	34%	23%	-9%	-10%	-11%	-10%
EBIT	0%	21%	27%	54%	44%	8%	20%	-4%	-8%	18%	12%	28%	11%	-35%	-29%	-27%	-34%
Net Profit	52%	78%	-10%	25%	-4%	7%	59%	31%	2%	10%	7%	21%	-9%	-37%	-32%	-38%	1%
QoQ growth (%)																	
USD Revenue	4%	5%	2%	4%	6%	4%	0%	0%	5%	16%	3%	6%	2%	-3%	0%	1.8%	2.3%
INR Revenue	6%	19%	3%	4%	2%	5%	3%	1%	6%	19%	4%	9%	0%	-2%	0%	2%	-2%
EBIT	0%	39%	-5%	16%	-6%	4%	6%	-7%	-10%	33%	1%	6%	-22%	-22%	11%	9%	-30%
Net Profit	71%	-5%	-31%	11%	32%	6%	2%	-9%	3%	14%	0%	3%	-23%	-22%	9%	-6%	25%
Margins (%)																	
Gross Margin	41.0%	42.2%	40.8%	40.9%	42.4%	41.5%	42.3%	41.1%	41.5%	41.7%	40.3%	38.1%	37.5%	34.2%	34.1%	34.0%	34.9%
EBITDA Margin	18.4%	20.8%	19.5%	21.5%	20.0%	19.8%	20.5%	19.5%	17.1%	18.8%	17.7%	17.1%	14.7%	12.5%	13.4%	14.2%	11.1%
EBIT	15.6%	18.2%	16.9%	18.8%	17.3%	17.1%	17.6%	16.2%	13.7%	15.3%	14.8%	14.4%	11.2%	8.9%	9.9%	10.6%	7.6%
PAT	20.9%	16.7%	11.2%	11.9%	15.3%	15.5%	15.4%	14.0%	13.5%	12.9%	12.4%	11.8%	9.1%	7.3%	8.0%	7.4%	9.4%
SGA	22.6%	21.4%	21.3%	19.4%	22.4%	21.8%	21.8%	21.7%	24.3%	22.9%	22.6%	21.0%	22.8%	21.7%	20.7%	19.8%	23.8%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: P/E multiple charts



Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 16: Income statement

Y/E March (Rsbn)	FY15	FY16	FY17	FY18E	FY19E
Average INR/USD	61.7	65.5	67.2	65.6	67.0
Net Sales (USD mn)	584	715	780	830	900
YoY Growth (%)	16.4	22.4	9.1	6.4	8.5
Net Sales	35,619	46,819	52,364	54,449	60,313
YoY Growth (%)	17.5	31.4	11.8	4.0	10.8
Employee benefits expense	20,726	27,963	34,058	35,672	39,172
% of sales	58.2	59.7	65.0	65.5	64.9
Gross Margin	14893	18856	18306	18777	21142
% of sales	41.8	40.3	35.0	34.5	35.1
Other expenses	7,801	10,580	11,121	11,439	12,364
% of sales	21.9	22.6	21.2	21.0	20.5
EBITDA	7,092	8,276	7,185	7,338	8,777
% of sales	19.9	17.7	13.7	13.5	14.6
Depreciation & Amortisation	1,018	1,436	1,858	1,886	2,066
EBIT	6,074	6,840	5,327	5,452	6,711
% of sales	17.1	14.6	10.2	10.0	11.1
Interest expenses	1	55	191	73	0
Other income (net)	835	857	413	1,122	638
PBT	6,908	7,642	5,549	6,502	7,349
-PBT margin (%)	19.4	16.3	10.6	11.9	12.2
Provision for tax	1,545	1,743	1,390	1,552	1,764
Effective tax rate (%)	22.4	22.8	25.0	23.9	24.0
Net profit	5,363	5,899	4,159	4,950	5,585
-Growth (%)	18.9	10.0	-29.5	19.0	12.8
-Net profit margin (%)	15.1	12.6	7.9	9.1	9.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Balance sheet

Y/E March (Rsbn)	FY15	FY16	FY17	FY18E	FY19E
Equity capital	837	1,678	1,680	1,681	1,681
Reserves & surplus	20,443	22,501	24,095	26,585	29,138
Net worth	21,280	24,179	25,775	28,266	30,819
Other liabilities	337	832	301	109	-
Total loans	18	14	13	-	-
Total liabilities	21,635	25,025	26,089	28,375	30,819
Net block	4,967	7,015	5,932	5,144	4,279
Goodwill	740	4,815	4,470	4,525	4,525
Investments	4,802	2,078	5,927	9,210	11,210
Deferred tax asset - net	493	432	624	616	616
Other non-current assets	1,768	2,146	2,202	1,959	1,959
Unbilled revenue	982	2,132	1,885	2,297	2,442
Other current assets	2,176	2,070	1,386	1,443	1,533
Debtors	6,963	9,728	8,962	10,050	10,682
Cash & bank balance	3,763	2,332	2,508	548	1,425
Total current assets	13,884	16,262	14,741	14,338	16,081
Total current liabilities	5,019	7,723	7,807	7,417	7,851
Net current assets	8,865	8,539	6,934	6,920	8,231
Total assets	21,635	25,025	26,089	28,375	30,819

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Cash flow

Y/E March (Rsbn)	FY15	FY16	FY17	FY18E	FY19E
EBIT	6,074	6,840	5,327	5,452	6,711
(Inc./dec. in working capital)	105	(1,105)	1,781	(1,946)	(433)
Cash flow from operations	6,179	5,735	7,108	3,506	6,278
Other income	835	857	413	1,122	638
Depreciation & amortisation	1,018	1,436	1,858	1,886	2,066
Financial expenses	(1)	(55)	(191)	(73)	-
Tax paid	(1,545)	(1,743)	(1,390)	(1,552)	(1,764)
Dividends paid	(1,438)	(2,489)	(1,934)	(2,628)	(3,032)
Net cash from operations	5,048	3,741	5,864	2,262	4,186
Capital expenditure	2,723	4,702	411	1,235	1,600
Net cash after capex	2,325	(961)	5,453	1,027	2,586
Inc./(dec.) in debt	(93)	(4)	(1)	(13)	-
(Inc./dec. in investments)	291	2,724	(3,849)	(3,283)	(2,000)
Equity issue/(buyback)	3	4	2	1	-
Cash from financial activities	201	2,724	(3,848)	(3,295)	(2,000)
Others	52	(3,194)	(1,429)	308	291
Opening cash	1,185	3,763	2,332	2,508	548
Closing cash	3,763	2,332	2,508	548	1,425

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Key ratios

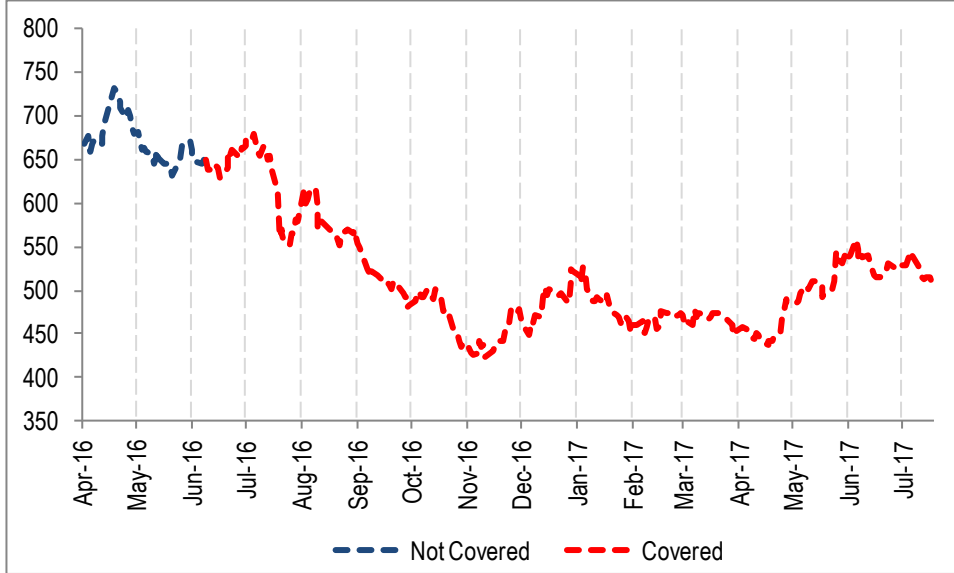
Y/E March	FY15	FY16	FY17	FY18E	FY19E
Per Share (Rs)					
EPS	31.9	35.1	24.8	29.5	33.3
FDEPS	31.9	35.1	24.7	29.4	33.2
Dividend Per Share	7.1	12.3	9.6	13.0	15.0
Book Value	126	144	153	168	183
Dividend Payout Ratio (incl DDT)	27	42	47	53	54
Return ratios (%)					
RoE	30.9	28.1	17.4	19.0	19.7
RoCE	34.3	31.9	21.8	20.7	23.6
ROIC	49.8	40.6	27.8	30.1	36.5
Turnover Ratios					
Asset Turnover Ratio	1.3	1.4	1.5	1.5	1.6
Debtor Days (incl. unbilled Rev)	81	92	76	83	79
Working Capital Cycle Days	53	44	37	36	40
Valuation ratios (x)					
PER	15.8	14.4	20.4	17.2	15.2
P/BV	4.0	3.5	3.3	3.0	2.8
EV/EBITDA	10.8	9.9	10.7	10.3	8.3
EV/Sales	2.2	1.7	1.5	1.4	1.2
M-cap/Sales	2.4	1.8	1.6	1.6	1.4
Dividend Yield (%)	1.4	2.4	1.9	2.6	3.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
07 June 2017	Sell	547	424
21 June 2017	Sell	519	382
20 July 2017	Sell	506	382

Rating track graph



Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is published by Nirmal Bang's Institutional Equities Research desk. Nirmal Bang group has other business units with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets. Reports based on technical and derivative analysis may not match with reports based on a company's fundamental analysis. This report is for the personal information of the authorised recipient and is not for public distribution. This should not be reproduced or redistributed to any other person or in any form. This report is for the general information for the clients of Nirmal Bang Equities Pvt. Ltd., a division of Nirmal Bang, and should not be construed as an offer or solicitation of an offer to buy/sell any securities.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Nirmal Bang or any persons connected with it do not accept any liability arising from the use of this document or the information contained therein. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information. Nirmal Bang or any of its connected persons including its directors or subsidiaries or associates or employees or agents shall not be in any way responsible for any loss or damage that may arise to any person/s from any inadvertent error in the information contained, views and opinions expressed in this publication.

Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited. NBEPL has registered with SEBI as a Research Entity in terms of SEBI (Research Analyst) Regulations, 2014. (Registration No: INH000001436 - 19.08.2015 to 18.08.2020).

NBEPL or its associates including its relatives/analyst do not hold any financial interest/beneficial ownership of more than 1% in the company covered by Analyst.

NBEPL or its associates/analyst has not received any compensation from the company covered by Analyst during the past twelve months. NBEPL /analyst has not served as an officer, director or employee of company covered by Analyst and has not been engaged in market-making activity of the company covered by Analyst.

The views expressed are based solely on information available publicly and believed to be true. Investors are advised to independently evaluate the market conditions/risks involved before making any investment decision.

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 3926 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830
Atul Vitha	Dealing Desk	atul.vitha@nirmalbang.com	+91 22 3926 8071 / +91 22 3926 8226

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 3926 8000/1; Fax. : 022 3926 8010