

# FIRST LIGHT

17 October 2019

## RESEARCH

### Mindtree | Target: Rs 690 | -7% | SELL

High attrition, hazy outlook worrying – reiterate SELL

## SUMMARY

### Mindtree

Mindtree's (MTCL) Q2FY20 operating performance was in line (3.2% QoQ CC revenue growth), with a broad-based uptick across verticals. But attrition, a key monitorable post L&T takeover, hit a 19-quarter high of 20.2%. Further, management did not proffer concrete growth guidance for FY20 and cautioned that Q4 exit margins would be softer than in the year-ago period. We trim FY20/ FY21 EPS by 5%/2% and stay cautious given transition risks post ownership change. Reiterate SELL, rolling to a revised Sep'20 TP of Rs 690 (vs. Rs 670).

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	555
<a href="#">GAIL</a>	Buy	200
<a href="#">HPCL</a>	Buy	400
<a href="#">ONGC</a>	Buy	200
<a href="#">TCS</a>	Add	2,230

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,230
<a href="#">Future Supply</a>	Buy	730
<a href="#">Greenply Industries</a>	Buy	200
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">PNC Infratech</a>	Buy	250

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.77	4bps	(12bps)	(139bps)
India 10Y yield (%)*	6.67	(1bps)	3bps	(120bps)
USD/INR	71.54	(0.4)	(0.9)	2.6
Brent Crude (US\$/bbl)	58.74	(1.0)	(2.5)	(27.8)
Dow	27,025	0.9	(0.7)	4.8
Shanghai	2,991	(0.6)	(1.3)	17.5
Sensex	38,506	0.8	3.0	9.5
India FII (US\$ mn)	14 Oct	MTD	CYTD	FYTD
FII-D	(8.0)	30.1	4,003.5	3,458.8
FII-E	866.4	130.5	8,291.2	1,446.0

Source: Bank of Baroda Economics Research | \*7.26% GS 2029

## BOBCAPS Research

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**SELL**

TP: Rs 690 | ▼ 7%

**MINDTREE**

| IT Services

| 16 October 2019

## High attrition, hazy outlook worrying – reiterate SELL

Mindtree's (MTCL) Q2FY20 operating performance was in line (3.2% QoQ CC revenue growth), with a broad-based uptick across verticals. But attrition, a key monitorable post L&T takeover, hit a 19-quarter high of 20.2%. Further, management did not proffer concrete growth guidance for FY20 and cautioned that Q4 exit margins would be softer than in the year-ago period. We trim FY20/FY21 EPS by 5%/2% and stay cautious given transition risks post ownership change. Reiterate SELL, rolling to a revised Sep'20 TP of Rs 690 (vs. Rs 670).

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**Operating metrics in line; attrition a concern:** MTCL reported 3.2% QoQ CC revenue growth and 290bps QoQ EBIT margin improvement to 9.3% in the Sep'19 quarter. Broad-based growth across verticals and healthy top client performance (+5.1% QoQ in dollar terms) were key positives. But revenues from the top 2-5 clients declined 4.3% QoQ. Also, quarterly annualised attrition hit a 19-quarter high of 20.2%, rising 170bps QoQ.

Ticker/Price	MTCL IN/Rs 743
Market cap	US\$ 1.7bn
Shares o/s	165mn
3M ADV	US\$ 11.2mn
52wk high/low	Rs 1,000/Rs 652
Promoter/FPI/DII	74%/11%/15%

Source: NSE

**Modest deal signings; digital mix shrinks:** Deal wins for the quarter were modest at US\$ 307mn (-5.2% QoQ, +13% YoY). We highlight that digital deal wins at US\$ 140mn were lacklustre and their share in overall signings came down to 44% in H1FY20 vs. 52% in H1FY19.

## STOCK PERFORMANCE



Source: NSE

**Retain SELL:** Management did not put out any specific growth guidance vs. its prior indication of updating the FY20 outlook along with Q2 results (MTCL had indicated double-digit growth at the start of the financial year). We trim FY20/FY21 EPS estimates by 5%/2% as we moderate operating margin assumptions following management's indication of weaker FY20 exit margins (vs. FY19). Retain SELL (revised TP of Rs 690) as we remain wary of operational risks amidst the unfolding leadership transition.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	54,628	70,215	76,418	84,780	95,212
EBITDA (Rs mn)	7,405	10,645	10,132	13,135	15,278
Adj. net profit (Rs mn)	5,701	7,542	5,444	7,673	9,247
Adj. EPS (Rs)	34.7	45.8	33.1	46.6	56.2
Adj. EPS growth (%)	39.5	32.1	(27.8)	41.0	20.5
Adj. ROAE (%)	21.4	24.9	15.7	20.0	21.3
Adj. P/E (x)	21.4	16.2	22.5	16.0	13.2
EV/EBITDA (x)	16.3	11.5	11.8	8.8	7.3

Source: Company, BOBCAPS Research



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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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