

**SELL**

TP: Rs 670 | ▼ 3%

**MINDTREE**

| IT Services

| 23 August 2019

## CEO interaction takeaways: Navigating rough waters

We attended a call hosted by the newly appointed CEO of Mindtree (MTCL) to discuss the company's growth strategy post takeover by L&T.

**Prioritising growth and profitability:** Upliftment of growth and profits remain priorities for MTCL. The company also intends to leverage opportunities from L&T's wide client connect. Management, however, was noncommittal on its earlier guidance of double-digit revenue growth and annual margin gains. An update on the FY20 growth outlook will be put out in tandem with the half-yearly results.

**Key margin levers:** Management is counting on operating margin levers such as larger deals with a higher offshore component, employee pyramid correction and right pricing. We highlight that these initiatives innately play out over the medium-to-long term and thus may not deliver early margin benefits.

**Digital and talent strategy:** MTCL's long-term growth strategy hinges on accelerating growth in the digital business. On talent, the priority is to leverage existing leadership before considering lateral inductions.

**Client and employee outreach:** Building on the initiatives of new owner L&T, MTCL's newly appointed CEO Debashis Chatterjee is reaching out to top clients and employees as he endeavours to steer the company through an ungainly transition. His immediate focus is to connect with top clients to soothe apprehensions and simultaneously to align the company's top leadership with the rejigged growth plans.

**BOBCAPS view:** The hostile takeover and challenging transition phase can have protracted implications on MTCL's performance, in our view. The Jun'19 quarter already marked a loss of business momentum and profitability for the company (0.8% QoQ dollar revenue decline and 650bps QoQ EBIT margin contraction).

Further, contrary to Director SN Subrahmanyan's indication that MTCL's founders were cooperating with the leadership change, we note that the new CEO has assumed charge with no support from the exiting founders. We stay cautious on the stock and retain SELL on risk of further operational slippage.

**Ruchi Burde**

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Ticker/Price	MTCL IN/Rs 693
Market cap	US\$ 1.6bn
Shares o/s	164mn
3M ADV	US\$ 13.9mn
52wk high/low	Rs 1,184/Rs 652
Promoter/FPI/DII	13%/42%/45%

Source: NSE

### KEY FINANCIALS

Y/E 31 Mar	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	5,742	7,812	9,354
Adj. EPS (Rs)	34.9	47.4	56.8
Adj. EPS growth (%)	(23.9)	36.0	19.7
Adj. ROAE (%)	16.5	20.2	21.4
Adj. P/E (x)	19.9	14.6	12.2
EV/EBITDA (x)	10.7	8.2	6.8

Source: Company, BOBCAPS Research

### STOCK PERFORMANCE



Source: NSE

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

**BUY** – Expected return >+15%

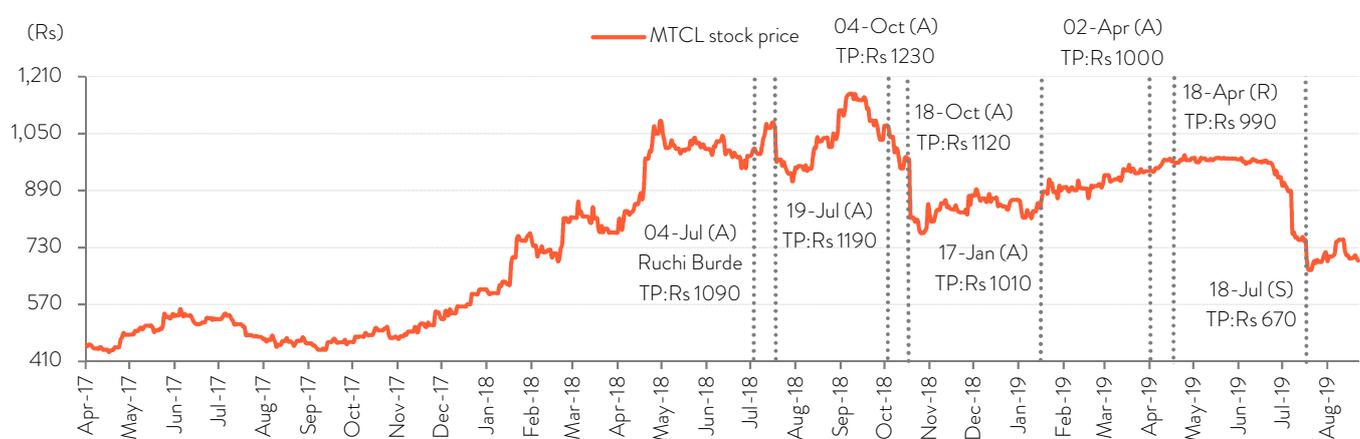
**ADD** – Expected return from >+5% to +15%

**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)

### HISTORICAL RATINGS AND TARGET PRICE: MINDTREE (MTCL IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell

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