

## India Ratings Affirms Mindtree at 'IND AA'/Stable; Withdraws CP Rating

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By Gaurav Mathur

India Ratings and Research (Ind-Ra) has affirmed Mindtree Limited's (MTL) Long-Term Issuer Rating at 'IND AA'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating	Rating Action
Fund-based working capital limits	-	-	-	INR7,900 (increased from INR7,235)	IND A1+	Affirmed
Non-fund-based limits	-	-	-	INR450 (reduced from INR1,800)	IND A1+	Affirmed
Commercial paper (CP)			21 February 2018	INR3,000	WD	Withdrawn (debt is repaid fully)

**Analytical Approach:** Ind-Ra continues to take a consolidated view of Mindtree and its 100% subsidiaries Magnet LLC, Bluefin Solutions Limited and Blouvin Limited to arrive at the ratings, due to operational and strategic linkages among them, driven by similar business lines and common promoters.

### KEY RATING DRIVERS

**Growing Digital Presence:** The ratings are underpinned by MTL's growing presence in the digital space in line with the evolving customer requirements. The company's digital product portfolio includes cloud computing, artificial intelligence, machine learning and productised end-to-end solutions. Digital-based technologies accounted for 43.5% of FY18 revenue, which increased to 48% during 1HFY18. Furthermore, MTL has developed a strong pool of SAP/salesforce

trained employees on the back of Bluefin Inc and Magnet 360 LLC acquisitions.

To enhance automation capabilities, MTL develops virtual workforce or bots using its CAPE platform. The company has entered into partnerships with educational institutions such as IIT and Stanford to create monetisable intellectual property which requires upfront investments.

**Strong Consolidated Credit Profile:** Gross adjusted leverage (gross adjusted debt/EBITDAR) increased slightly to 1.2x in FY18 from 1.0x in FY17, due to short-term financing using a CP and off-balance sheet rent capitalisation. However, the company repaid the CP during 1HFY19, leading to balance sheet debt at near zero level. Ind-Ra thus expects gross adjusted leverage to improve below 1x in FY19, with the repayment of debt and minimal near-term capex plans. At the current rate of revenue generation and EBITDA margins, MTL has the headroom to borrow an additional debt of about INR2700 million before breaching its negative sensitivity.

**Strong Liquidity, Despite Share Buyback:** Mindtree's cash and cash equivalent was INR10,500 million in FY18 (FY17: INR8,300 million) and INR7,960 million at end-1HFY18. The total debt at end-FY18 was INR3,009 million (FY17: INR978 million), leading to negative net debt. Also, Mindtree generated an average cash flow from operations of about INR5,500 million per annum over FY16-FY18, which was sufficient to meet its capex, dividend payment and share repurchase requirements over the period. Over the next two years, Mindtree has not planned any major acquisition capex, while Ind-Ra expects a recurring annual capex of INR1,300 million-1,500 million.

Mindtree concluded its first share buyback programme in FY18, under which the company bought back 42,24,000 of its equity shares amounting to INR2,640 million. Apart from this, the company paid dividends worth INR6,200 million over FY16-FY18.

**Moderate Earnings & Margin Expansion in Constant Currency:** In USD terms, EBITDA margin expanded 120bp to 14.7% during 1HFY19 (FY18: 13.6%; FY17: 13.7%), supported by a 19.5% yoy increase in revenue and a 170bp fall in employee cost. During 1HFY19, the company's top line amounted to USD487.9 million (FY18: USD846.8 million, up 8.6% yoy). The growth in revenue was driven by hitech-media and travel segments. However, the company witnessed some softness in BFSI segment during 2QFY19, based on a client-related issue. Revenue growth over the last six to 18 months has been driven by increased focus on digital products coupled with increased business from the top client. On a standalone basis, the company had INR53,250 million of revenue with EBITDA of INR7,762 million in FY18.

**Shareholder's Uncertainty:** As per the recent developments, VG Siddhartha has shown interest to sell his controlling 21% stake in Mindtree to external players. While nothing is not yet concrete, Ind-Ra notes there exists potential uncertainty regarding the shareholding pattern and the terms with which the new shareholder would enter the company by taking over the largest stake.

**Increasing Customer & Geographic Concentration:** Mindtree's top 10 customers contributed around 44.8% to revenues in 2QFY19 (2QFY18: 41.9%). Also, revenue contribution from the top client increased to 20% (nearly USD200 million annually) of the total revenue over the last six month, while the FY18 contribution was marginally lower at 16.5%. This is despite the company continuously adding new clients (341 as of 2QFY19) for healthy revenue visibility. Its geographic concentration has also increased, with revenue from the US increasing to 73.6% in 2QFY19 from 67.5% in 2QFY18 (FY18: 71.0%).

**Currency Fluctuations:** Mindtree earns around 89.8% of its revenue from the US and Europe and incurs about 65% operating expenses in foreign currency. The company has a hedging policy in place, which enables it to hedge 50% of its net cash accruals on a rolling three months basis. Although it has benefited from the currency impact based on the exchange rates over the past one year, any adverse exchange rate movement will be detrimental for the margins.

## RATING SENSITIVITIES

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Positive: An improvement in EBITDA margin or a reduction in gross adjusted debt/EBITDAR to below 0.5x on a sustained basis could result in a positive rating action.

Negative: Gross adjusted debt/EBIDTAR exceeding 1.5x on a sustained basis could lead to a negative rating action.

## COMPANY PROFILE

MTL was incorporated in August 1999 by a team of information technology professionals and ex- employees of companies such as Wipro Limited, Cambridge Technology Solutions and Lucent Technologies. The company classifies its business into four verticals namely manufacturing & retail, BFSI, travel and media, others and hi-tech. The company's service offerings include development, engineering, maintenance, consulting, package implementation, intellectual property, independent testing and infrastructure management and technical support. The company has presence in four geographies, viz. the US, Europe, India and rest of the world.

### FINANCIAL SUMMARY (Consolidated)

Particulars	FY18	FY17
Revenue (INR million)	54,628	52,364
EBITDA(INR million)	7,405	6,518
Interest expense (INR million)	169	191
Debt (INR million)	3,009	991
Cash & equivalents (INR million)	10,495	8,377
Adjusted leverage (x)	1.2	1.0
Source: MTL, Ind-Ra		

## RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	16 October 2017	1 February 2017	27 August 2015
Issuer rating	Long-term	-	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Fund-based working capital limits	Short-term	INR7,900	IND A1+	IND A1+	IND A1+	IND A1+
Non-fund-based limits	Short-term	INR450	IND A1+	IND A1+	IND A1+	IND A1+
CP	Short-term	INR3,000	WD	IND A1+	IND A1+	-

## COMPLEXITY LEVEL OF INSTRUMENTS

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## SOLICITATION DISCLOSURES

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## Applicable Criteria

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[Corporate Rating Methodology](#)

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