Company report

HSBC Global Research

MindTree Consulting

Mind the valuations

- **MindTree is an emerging IT company with strong management, revenue growth and client relationships; we expect profit CAGR of 30% for FY08-10e**
- **As it gains scale, MindTree should benefit from operational efficiencies and improve operating margins (+240bps by FY10e); ESOPs and higher taxes to impact FY08 earnings**
- **Trades at PE of 26x FY08 and 20x FY09 EPS with valuations at c10-50% premium to top five offshore vendors; initiate with Underweight and target price of INR715**

Initiating coverage

Well managed despite uncertainties: We believe MindTree (MT) is likely to establish itself as a long-term offshore vendor in the offshore IT Services arena. Since inception in 1999, the company has negotiated global uncertainties to attain its current revenue base of cUSD130m. In our view, empanelment with GE (for IT projects) and subsequent account closure is an indicator of strong management abilities and willingness to trade short-term gains for long-term sustainable business advantages.

Outlook: Given its strong performance (+85% since listing), we expect the stock to give muted returns in the near term despite strong EBITDA growth. One-off events such as ESOP (employee share option plan) dilution and higher taxes are likely to impact FY08 earnings growth.

Financials: We expect FY08e revenues at INR7.8bn (+32% y-o-y) and profits of INR1.2bn (+30% y-o-y). MT should continue to benefit from margin leverage as it gains scale. It had cash of USD64m, was FCF positive with a ROAE of 32% in FY07.

Valuations: MT currently trades at a PE of 20x FY09e which is a 10-50% premium to larger vendors. We expect the stock to underperform over the next 12 months with the valuation premium to the top five vendors correcting over time.

Risks: Include currency, acquisition related and ESOP dilution; any large wins or faster than expected scale up could lead to better than expected stock price performance.

Index^	BOMBAY SE IDX
Index level	13929.33
RIC	MINT.BO
Bloomberg	MTCL IN

Source: HSBC

Enterprise value (INRm)	26894
Free float (%)	21
Market cap (USDm)	725
Market cap (INRm)	29,706

Source: HSBC

Underweight

Target price (INR)			**715.00**
Share price (INR)			**785.00**
Potential total return (%)			**-9.0**

Mar	2007a	2008e	2009e
HSBC EPS	27.70	30.21	40.13
HSBC PE	28.4	26.0	19.6

Performance	1M	3M	12M
Absolute (%)	-5.3	na	na
Relative^ (%)	-9.1	na	na

Note: (V) = volatile (please see disclosure appendix)

17 May 2007

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Summary

- Emerging offshore IT services company with presence in manufacturing, travel and BFSI verticals
- Revenues and profits forecast to grow to USD349m and 50m by FY10e, a FY08-10e CAGR of 33% and 31% respectively
- Currently trades at a PE of 26x FY08e and 20x FY09e EPS and remains expensive at a 10-50% premium to larger vendors

Initiating coverage

MindTree (MT) has been well managed since inception despite an adverse business environment but uncertainty over currency and government policies remain a risk in the short term.

Though long term prospects remain bright for MT, one time events in FY08 (impact of ESOPs and higher tax rates) are likely to restrict EPS growth to low single digits despite 30%+ y-o-y revenue growth. At current valuations the stock price is building in steep expectations and even if management outperforms its growth guidance, the stock is likely to underperform over the next 12 months.

We expect overall revenues and profits to increase at a CAGR of 33% and 31% respectively from FY08-10e. We are initiating coverage with an Underweight rating and a 12-month target price of INR715 which is based on a 10% premium to our fair value.

Experienced management team

MT has one of the strongest and most transparent management teams compared to other IT Services companies of its size and age. The management team has also delivered, growing revenues at a CAGR of 65% over FY04-07 and demonstrating the ability to win marquee clients like AIG, GE, Unilever and Volvo.

Focused client base

MT has a strategy of chasing large F1000 companies as clients that can offer significant opportunity to scale up. Top client contribution has declined from 18% to ~9% and top 10 client contributions are stable at 51% in FY07e. It has a total client base of 155 clients and revenue per client at USD0.8m is lower than larger peers given its presence in the domestic market.

Active inorganic growth strategy

Management has also shown the ability to acquire and integrate acquisitions. ASAP and Linc have already been acquired and management signed an agreement in Jan 2007 to acquire an embedded software company but it did not clear due diligence. As per management, future acquisitions are likely to be smaller companies with a USD10-20m revenue base.

MindTree: Valuation summary*

Year	Revenues (INRm)	Growth (%)	EBITDA (INRm)	Growth (%)	EBIT (INRm)	Margin (%)	Growth (%)	PAT (INRm)	Growth (%)	Basic EPS (INR)	FD EPS (INR)	P/E (x)
FY05	2,465	89.0%	248	10.0%	143	5.8%	nm	169	559%	8.2	8.2	96.3
FY06	4,488	82.1%	754	204.4%	545	12.1%	281%	542	221%	20.0	17.2	39.5
FY07	5,904	31.5%	1,096	45.4%	852	14.4%	56%	901	66%	29.0	27.7	27.2
FY08e	7,805	32.2%	1,566	42.8%	1,239	15.9%	45%	1,171	30%	31.0	30.2	26.1
FY09e	10,639	36.3%	2,250	43.7%	1,750	16.5%	41%	1,635	40%	41.1	40.1	19.6
FY10e	13,784	29.6%	3,007	33.6%	2,313	16.8%	32%	1,992	22%	47.7	47.7	16.5

Source: Company, HSBC; *Price INR788 as of May 16, 2007

Diversified revenue contribution

MT gets 63% of its revenues from the US, 2.6% from Europe and 14% from Asia-Pacific; c6.7% of revenues came from India in FY07. MT generates a high proportion of revenue from development – 65% compared to c20-25% for other similar companies

After 73% y-o-y growth in FY06, revenue growth declined to 37% y-o-y due to client portfolio rationalisation and muted performance in domestic business in FY07. MT has two primary business segments: IT services and R&D.

1 IT services

IT services accounted for 75% of revenues and 77% of EBITDA in FY07. Revenue growth (+30% y-o-y) was impacted by transition with GE and rationalisation at ASAP (acquired in 2005). However, EBITDA margins during the year improved to 19.5% due to better revenue mix. Manufacturing (30% of revenues), travel (18%) and BFSI (21%) were the primary vertical segments for MT.

2 Research and Development

Research and Development accounted for 25% of revenues and 23% of EBITDA. In FY07, R&D reported revenues of INR1,445m (+37% y-o-y), with EBITDA margins of 17.6% and EBITDA of INR254m (+37.7% y-o-y).

A look at financials

Revenue CAGR of 65% over last three years

Since inception in 1999, MT has grown revenues to USD131m at a CAGR of 65% from FY04-07. We forecast revenue and profit CAGR of 33% and 30% respectively from FY07-FY10e, with EBIT margins improving by 240bps to 16.8% by FY10e driven by scale efficiencies and productivity benefits.

MT is free cash flow positive with an ROE of 24% and ROIC of 33% in FY08e, which is lower than larger vendors but in line with the smaller companies of similar size.

Valuations

PE multiples at premium

MT currently trades at a 10-50% premium to the top five offshore vendors in terms of PE multiples. The valuation premium with respect to large vendors should correct over the next 12 months, though we expect MT to continue trading at a premium to peers. Our target price of INR715 is based on a 10% premium to our fair value of 16x FY09e earnings. We expect the stock to underperform over the next 12 months and initiate coverage with an Underweight rating.

Valuation

- Trades at a 10-50% premium to the top five offshore vendors
- Valuation premium to large vendors should correct over the next 12 months, though we expect MindTree to continue trading at a premium to peers
- Our target price of INR715 is based on a 10% premium to our fair value of 16x FY09e earnings

Valuation comparison

Given its limited trading history, we look at Price/Sales, EV/EBITDA and P/E valuation metrics for MindTree for comparison with peers and sector leaders and benchmark MT's valuations with respect to the sector.

Valuation and financial comparison with IT vendors (FY08e)

Yr to Mar	TCS	Satyam	Hexaware	Patni	MindTree
Revenue grwth (%)	31.3	28.8	36.2	25.7	30.4
EBIT margin (%)	25.0	21.3	13.5	14.5	15.7
PAT growth (%)	26.9	25.5	31.7	24.0	27.0
EV/Sales	4.8	3.0	1.6	1.7	3.6
EV/EBITDA	17.8	13.0	10.0	9.5	17.8
PE	21.7	17.1	14.7	16.2	26.1

Source: Company, HSBC; for Hexaware and Patni Dec07 corresponds to FY08e

Trading at a premium to peers

Valuations: MT trades at a Price/Sales of 3.6x, EV/EBITDA of 18x and PE of 26x FY08e, which is a 10-20% premium to Infosys and TCS and a 45-50% premium to Satyam and HCLTech. Smaller companies like Hexaware, with a revenue base similar to MT, trade at c17x CY2007e EPS.

MT has a revenue base similar to Hexaware but has a much stronger and more credible management team. It is one of the few companies in the offshore universe that has demonstrated its focus on long-term profitable growth by exiting a large client like GE despite its small size in order to preserve margins. Consequently we believe MT deserves to trade at a premium to peers like Hexaware but at a discount to vendors like Satyam and HCL Tech, given its comparable growth rate despite a smaller revenue and profit base.

We believe that fair value for MT is around INR650 based on a PE multiple of 16x FY09e earnings – a 30% premium to Hexaware and around 14% and 35% discounts to Satyam and Infosys respectively.

However, given its long-term potential, low float (c25%) and strong management credibility the stock may trade at a premium to fair value in the short term.

Our target price of INR715 is based on a 10% premium to our estimated fair value based on 16x FY09e earnings

The stock trades at a PE of 26x FY08e and 20x FY09e EPS and is at a premium to the top five offshore IT services vendors. At current levels, MT stock looks overvalued and we would not be buyers of the stock at these levels.

MindTree: Valuation summary

Year	Revenues (INRm)	Growth (%)	EBITDA (INRm)	Growth (%)	EBIT (INRm)	Margin (%)	Growth (%)	PAT (INRm)	Growth (%)	Basic EPS (INR)	FD EPS (INR)	P/E (x)
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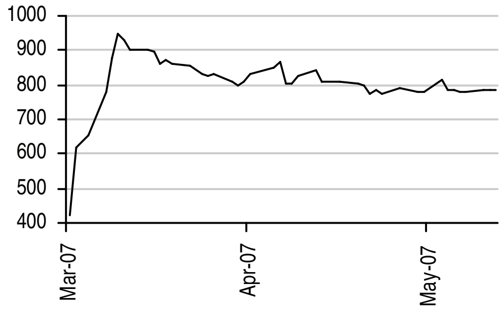
Price as of 16May 2007
Source: Company, HSBC

MindTree: Trend in share price



Source: Bloomberg, HSBC

IT Services: Valuation summary

Company INR	Price (INR) 16-May-07	Market cap (USDm)	Rating	EPS FY07a	EPS FY08e	EPS FY09e	PE FY07a	PE FY08e	PE FY09e	ROAE (%)	Net Margin (%) FY07a	Div. Yield (%)
Infosys	1,952	25,285	OW	67.1	85.2	107.3	29.1	22.9	18.2	41%	26.8%	0.5
TCS	1,224	27,856	OW	42.2	56.3	70.0	29.0	21.7	17.5	56%	22.2%	0.9
Wipro	540	17,933	OW	20.5	25.4	29.8	26.3	21.3	18.1	36%	19.5%	0.9
Satyam	452	7,020	OW	21.5	26.4	31.7	21.1	17.1	14.2	28%	21.7%	0.8
HCLTech	337	5,079	N	16.2	19.5	22.9	20.8	17.2	14.7	25%	18.3%	2.6
iflex	2,292	4,322	UW	39.9	51.3	64.8	57.5	44.7	35.4	20%	15.6%	0.2
Patni	476	1,529	N	24.4	30.2	34.8	19.5	15.8	13.7	16%	12.7%	0.6
MindTree	788	711	UW	27.7	30.21	40.13	28.4	26.1	19.6	24%	15.0%	0.5
Hexaware	168	509	N	9.2	11.5	14.8	18.3	14.7	11.3	20%	15.3%	0.9

Source: Company, HSBC

Risks

- Higher than expected discretionary spending by clients will accelerate revenue and profit growth for MindTree given its focus on development projects
- With 63% of revenues from the US, any significant rupee depreciation versus USD may lead to better than expected performance
- Any large wins may alter the company's growth profile and be a risk to our current rating

Key risks

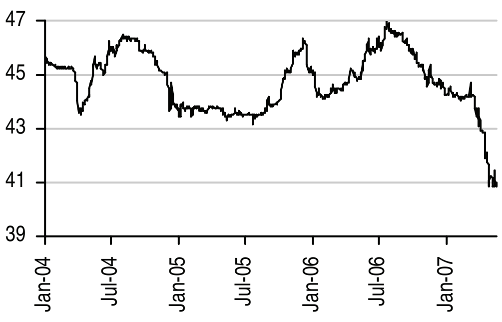
Company specific risks:

1. Significantly better than expected financial performance due to faster than expected revenue growth could be a trigger for the stock.
2. Any significant re-rating of the stock based on acquisitions, large deals or significant client wins may be positive for the stock.
3. Better than expected management execution in terms of organic revenue growth or margin improvement.
4. Higher than expected discretionary spending by clients may accelerate revenue and profit growth for MT given its higher reliance on development projects (63% of revenues).
5. Tax concessions for the IT services sector are valid until FY09 and any extension of tax holiday would lead to better than expected net profit growth post FY09.

Industry specific risks:

1. Any significant depreciation of the rupee versus the USD, euro or pound would be beneficial to MT's operating margins.
2. Political campaign against India or off-shoring in the US would adversely impact business prospects for India offshore vendors.

Trends in INR to USD



Source: Bloomberg, HSBC

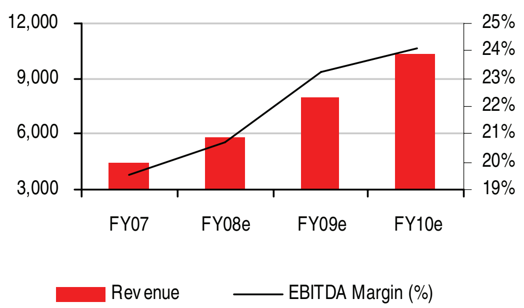
Business overview

- IT services account for 76% of revenues and 77% of EBITDA, with R&D services accounting for the rest
- IT revenues to grow at a CAGR of 32% and EBITDA margins to improve to 23.2% by FY10e; R&D revenues to grow in line and EBITDA margins expected to be stable
- Overall, we expect revenues and profit CAGR of 33% and 31% respectively from FY08-10e

Key business segments

IT Services: IT Services is the core business segment for MindTree and accounts for 76% of revenues and 77% of EBIT. We forecast revenue CAGR from this segment of to 40% from FY08-10e and have modelled EBITDA margins of 20.8% for FY08. IT Revenues in FY07 were also hurt by USD9.5m from exiting the GE account (cUSD6.5m/annum) and rationalisation of ASAP business (cUSD3m/annum).

IT Services: Trends in segment performance

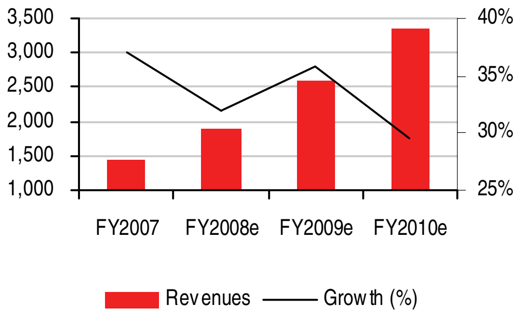


Source: Company, HSBC

In IT services, MT specialises in the internet and related technology skills (Businessweek online was a recent client win). There has also been good traction in BFSI (Banking, Financial Services and Insurance) with wins from mid-sized banks in the US. Apart from application development (64.6% of revenues) and maintenance (22.5%), MT has also introduced new services like testing, ERP, consulting, infrastructure and management services (combined 12.1% of revenues) over the last few years.

Research and Development (R&D) accounts for 24% of revenues and has EBITDA margins of 17.6% that are marginally lower than the company average. We expect revenues for R&D to grow in line with the company average from FY08-10e.

R&D: Segment revenues



Source: Company, HSBC

MT's R&D segment adds functionality and helps companies bring products to market faster through MindTree Incubated New Technologies (MINTs). Specific areas of focus include VLSI/IC design, embedded software development, protocol development, application development, testing and product assurance and support.

R&D clients offer high levels of repeat business which can progress to high-end outsourcing work. Apart from the US, Europe is also opening up to outsourcing technology R&D business which is a positive for the company.

The R&D business comprises of:

1 **Engineering services** to provide product architecture, design, reengineering and testing services to clients in communication, electronic storage and consumer industries.

2 **Research services to** develop and licence intellectual property solutions in segments like short range wireless communication.

Overall, the proportion of revenues from licensing (USD1.5m in FY07) was around 4.7% of R&D business revenues and only1.2% of total revenues.

Domestic business

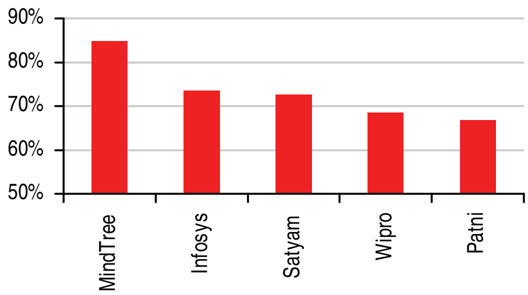
MT also caters to domestic clients in India (6.7% of revenues in FY07e, down from 11.5% in FY06. Margins in domestic business are usually lower than international business and we expect domestic revenues to remain a low proportion of overall revenues.

Comparison with peers

High proportion of offshore

MT generates a significantly higher proportion of revenues from offshore compared to peers – 85% compared to 74% for Infosys, 69% for Wipro and 67% for Patni. Consequently it has a significantly lower proportion of revenues from Onsite (29% of revenues) compared to c50-55% for peers in the industry which also reduces the average employee productivity given the significantly lower billing rates for high margin offshore work.

Comparison of offshore revenues (%)



Source: Company

Low proportion of annuity income

MT has a lower proportion (22.5% of revenues) of maintenance revenues (annuity) compared to the industry, implying slightly lower revenue predictability. We expect the proportion of maintenance business to grow going forward. Having a high proportion of revenues from development also exposes the company to quarterly variations of revenue growth and profitability. This can happen when large projects are completed and new projects are yet to begin.

Employee hiring and attrition

MindTree had a total head count of 4,162 in March 2007 and plans to hire 1,600 net employees in FY08, of which 1,000 will be fresh hires from college. The annual attrition rate was 15.7% as of Mar-07. To calculate attrition, MindTree excludes involuntary exits and people in the first six months of joining. The base is taken as the average number of employees for the last 12 months. Although the attrition rate would be 2-3% higher if all exits are included, computing attrition with the base as period end number of employees, would lower the attrition rate and negate the impact to a large extent.

MindTree employee metrics

Year to Mar	FY07
Total Headcount	**4,162**
IT Services	3,814
Addition	**1,034**
Addition as % of FY06	*33%*
Support Employees	348
Support as % of total	*8.4%*
Attrition (%)	15.7%

Source: Company, HSBC

Client distribution

MT has a total of 155 active clients including c15 clients for its domestic IT Services business in India. Its client base for export business is comparable with that of peers. MT has an average revenue per client of USD1m – lower than large vendors and peers like Hexaware and slightly larger than vendors like Patni.

Client distribution metrics

FY07	MindTree	Infosys	Satyam	Hexaware
Top 1 Client (%)	9.0%	8.5%	6.5%	8.1%
Top 5 Client (%)	36.9%	21.3%	22.0%	32.3%
Top 10 Client (%)	50.7%	33.4%	34.1%	47.1%
Active clients	155	500	538	129
Repeat business	92.0%	93.3%	88.7%	88.4%

Source: Company

Industry environment remains favourable

Over the years, offshore outsourcing has become ubiquitous, both in good times and bad. Offshore outsourcing is chosen to control costs when budgets are under pressure and is used to get more delivered out of the same when budgets are increasing.

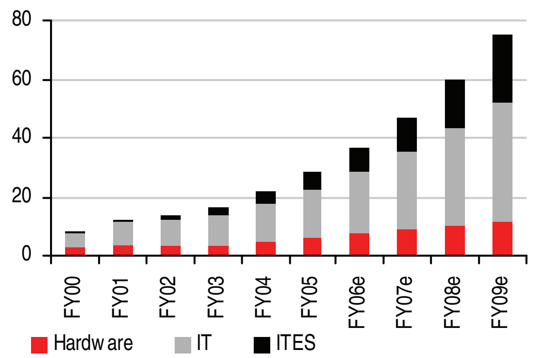
The offshore global delivery model has clearly won the first round with incumbents establishing delivery credibility. Increased focus on offshoring by clients in key markets like the US and Europe and increased ramp-ups by MNCs to scale up their offshore presence are indicators that the offshore delivery model will play an important role in future sourcing/delivery capabilities of organisations.

Segment-wise IT spending in the US (USDbn)

	2005	2006	2010	CAGR(%)
BFSI	75.7	81.0	96.4	5.0%
Manufacturing	75.2	78.6	94.8	4.7%
Retail	36.5	38.5	45.0	4.3%
Transportation	14.3	14.9	17.8	4.5%
Communication	40.0	43.0	54.5	6.4%
Utilities	18.3	19.1	22.7	4.4%
Healthcare	20.9	22.2	28.7	6.5%
Others	166.3	175.4	205.9	4.4%
Total	**447.2**	**472.7**	**565.8**	**4.8%**

Note: BFSI is Banking, Financial Services and Insurance
Source: IDC, HSBC

Trends in India IT revenues (USDbn)



Source: HSBC estimates

For discussion of the macro environment, please refer to our reports *IT Services: Are companies in the US overspending on IT?* dated 23 March 2007 and *India Monthly* dated 11 May 2007.

Financial forecasts

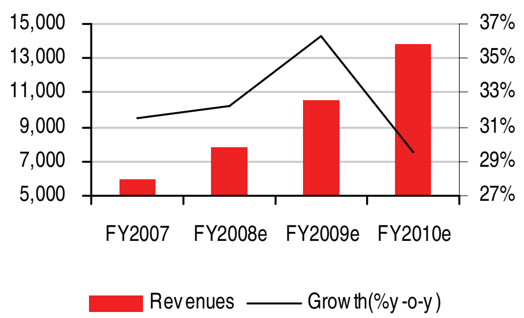
- Revenue to rise to USD347m by FY10e (FY08-10e CAGR of 33%); net profit to rise to USD50m or 30% CAGR by FY10e
- EBIT margins to improve by 240bps to 16.8% over next three years; ESOP dilution, higher tax rates likely to impact earnings growth in FY08e
- Net cash of USD64m (INR77/share); FCF positive and an expected dividend yield of 0.5%; ROIC was at 31% and DSO at 72 days in FY07

Financials

Strong revenue and profit growth

We forecast revenues for MindTree at INR7.8bn (+32% y-o-y) and a CAGR of 33% from FY08-10e. We expect pricing momentum to remain favourable with strong volume led growth. At an effective exchange rate of INR41.5 for FY08e, currency appreciation would be c8.5% from FY07 levels of INR45.4.

Trends in revenues (INRm, %)



Source: HSBC

Pricing environment has been favourable. MT saw 5% q-o-q onsite and 2.5% q-o-q offshore price improvement in the March 2007 quarter. In addition, new clients are coming in at 2-3% higher onsite rates and 4-6% higher for offshore.

EBIT margins to improve to 240bps by FY10e

We expect MT's operating margins to continue improving as it gains scale and benefits from scale efficiencies. Overall, we expect EBIT margins to improve to 17.8% by FY10.

For FY08, the company plans to raise offshore salaries by 16% and onsite salaries by 3-5% which will impact margins in 1H FY08. However, the salary hikes will be staggered over the next three quarters; additions of low cost graduates should help cushion the impact of salary hikes for the full year.

Profit CAGR of 30% from FY08-10e

Despite improving gross margins and EBIT margins, net profit over the next three years is likely to be impacted by higher tax rates in FY08e and the one-time impact in FY10 of tax holidays under section 10A/10B which end in FY09.

Net margins to be maintained despite higher tax rates in FY08. We expect MT to have over 50% of its seats under SEZs post 2009 and consequently forecast the effective tax rate to increase from 10% in FY08e to 18% in FY10e. We forecast net profit of INR1.17bn (+30% y-o-y) in FY08e and a CAGR of 30% from FY08-10e.

MT is free cash flow positive and has an ROE of 24% and a ROIC of 33% for FY08e and is negative net debt company with a cash balance of USD64m.

Guidance for FY08

Management has guided for revenues of USD178-180m (+36% y-o-y) and net profit of USD25.1-USD25.2m (+32% y-o-y) based on a rupee rate of INR42.25/USD.

Dilution due to ESOPs would imply a lower EPS growth and EPS guidance is for INR28.9-29.4 (+1.4% y-o-y).

Guidance and forecasts for FY08e

Yr to Mar	Revenues	Profits
FY07	130	19.8
FY08e	**188**	**27.9**
Guidance	**180**	**25.2**
Growth (%y-o-y)	*44.6%*	*40.9%*
Varn to Guidance	*4.4%*	*10.7%*

Source: Company, HSBC

Management has indicated that it is open to acquiring small companies with revenues in the USD10-20m range.

Management has guided at a capex of USD29m and net addition of 1,600 net employees of which 600 will be professionals and rest fresh graduate hires.

Impact of 10A/10B on FY10 profits and tax rates

MT is likely to complete its new centres in Bangalore and Chennai (SEZs) in 2007 and all incremental revenues will be transitioned to the new SEZ centres. Consequently the impact on tax rates will be mitigated in FY10 due to the tax holiday provided to SEZ facilities for the first five years. We expect tax rates for MT to increase to around 18% in FY10 from 10% currently and MT is likely to be one of the companies with the lowest tax rates even post FY09.

Dividend Policy is defined as a function of net profit margins for MT. The company policy is to pay a dividend only if net margins are above 12%. The maximum dividend payout is limited to 15% of PAT if net margins are over 20% for the full year.

HSBC

Financials & valuation: MindTree Consulting

Underweight

Financial statements

Year to Mar	03/2007a	03/2008e	03/2009e	03/2010e
Profit & loss summary (INRm)				
Revenue	5,904	7,805	10,639	13,784
EBITDA	1,096	1,566	2,250	3,007
Depreciation & amortisation	-244	-327	-500	-695
Operating profit/EBIT	852	1,239	1,750	2,313
Net interest	-30	-35	-45	-55
PBT	896	1,298	1,844	2,423
HSBC PBT	896	1,298	1,844	2,423
Taxation	5	-127	-209	-431
Net profit	901	1,171	1,635	1,992
HSBC net profit	901	1,171	1,635	1,992
Cash flow summary (INRm)				
Cash flow from operations	1,096	1,566	2,250	3,007
Capex	-535	-748	-845	-1,015
Cash flow from investment	-535	-808	-845	-1,015
Dividends	-79	-113	-159	-209
Change in net debt	-3,124	-167	-716	-1,047
FCF equity	536	656	1,152	1,507
Balance sheet summary (INRm)				
Tangible fixed assets	699	1,240	1,585	1,906
Current assets	4,910	6,265	8,177	10,484
Cash & others	2,908	3,592	4,591	5,953
Total assets	5,656	7,564	9,842	12,513
Operating liabilities	862	1,139	1,553	2,012
Gross debt	264	781	1,064	1,378
Net debt	-2,645	-2,811	-3,527	-4,574
Shareholders funds	4,355	5,412	6,908	8,712
Invested capital	1,840	2,774	3,618	4,425

Ratio, growth and per share analysis

Year to	03/2007a	03/2008e	03/2009e	03/2010e
Y-o-y % change				
Revenue	31.5	32.2	36.3	29.6
EBITDA	45.4	42.8	43.7	33.6
Operating profit	56.5	45.4	41.3	32.1
PBT	62.0	44.9	42.1	31.4
HSBC EPS	61.0	9.1	32.8	18.9
Ratios (%)				
Revenue/IC (x)	3.8	3.4	3.3	3.4
ROIC	54.5	48.4	48.6	47.3
ROE	31.9	24.0	26.5	25.5
ROA	21.9	18.2	19.2	18.2
EBITDA margin	18.6	20.1	21.2	21.8
Operating profit margin	14.4	15.9	16.5	16.8
EBITDA/net interest (x)	36.6	44.7	50.0	54.7
Net debt/equity	-60.7	-51.9	-51.1	-52.5
Net debt/EBITDA (x)	-2.4	-1.8	-1.6	-1.5
CF from operations/net debt				
Per share data (INR)				
EPS Rep (fully diluted)	27.70	30.21	40.13	47.72
HSBC EPS (fully diluted)	27.70	30.21	40.13	47.72
DPS	2.54	3.00	4.00	5.00
NAV	140.16	143.35	173.78	208.65

Valuation data

Year to Mar	03/2007a	03/2008e	03/2009e	03/2010e
EV/sales	4.6	3.4	2.5	1.8
EV/EBITDA	24.7	17.2	11.6	8.4
EV/IC	14.7	9.7	7.2	5.7
PE*	28.4	26.0	19.6	16.5
P/NAV	5.6	5.5	4.5	3.8
FCF yield (%)	1.8	2.2	3.9	5.1
Dividend yield (%)	0.3	0.4	0.5	0.6

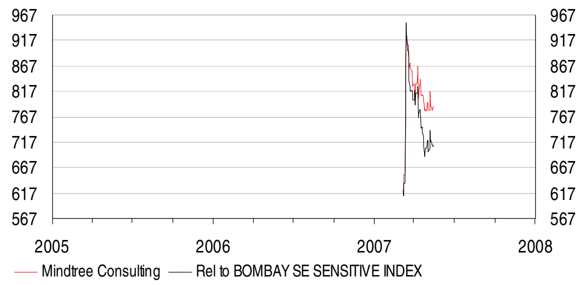
Note: * = Based on HSBC EPS (fully diluted)

Issuer information

Share price (INR)	785	Target price (INR)	715.00	Potent'l tot rtn (%)	-9.0

Reuters (Equity)	MINT.BO	Bloomberg (Equity)	MTCL IN
Market cap (USDm)	725	Market cap (INRm)	29,706
Free float (%)	21	Enterprise value (INRm)	26894
Country	India	Sector	It Services
Analyst	Vipin Khare	Contact	+9122 22681238

Price relative



Source: HSBC

Note: price at close of 16 May 2007

Background

- Started in 1999 and headquartered in Bangalore Promoter holding of 30%. Total 79% shares are currently under lock-in post IPO
- Largest client Volvo accounts for 9% of revenues; top 10 clients contribute 51% of revenues
- Diversified service portfolio and presence in 10 countries in US, UK and Asia Pacific

Management profile

Key executives

MindTree executives in the management team are Mr. Ashok Soota, Chairman and Managing Director, and Mr. Subroto Bagchi, Chief Operating Officer, who have extensive experience in the IT industry and have served at senior positions in Wipro prior to MindTree. The senior management of MindTree including R&D and IT services businesses have a cumulative experience of more than 100 years in the IT industry.

Shareholding pattern

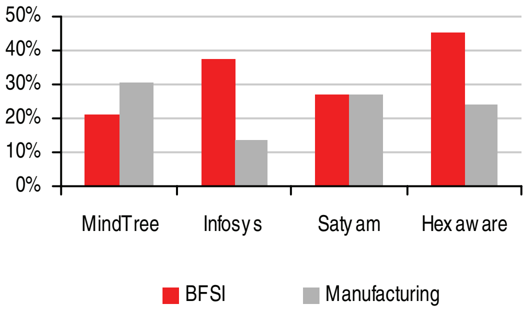
MindTree: Shareholding pattern March 2007

Promoters	35.5%
FII	4.8%
Foreign company	34.5%
Public	13.5%
Others	11.7%

Source: Company, HSBC

Vertical and service offering

Comparing revenues contribution by verticals



Source: Company, HSBC

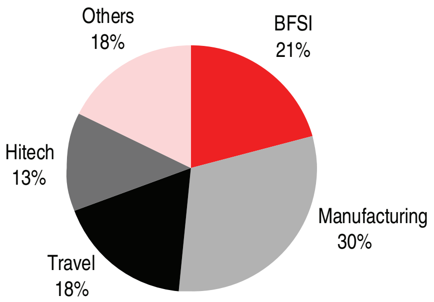
Key clients

MindTree: Key clients

Technology	Manufacturing	Others
Sony	Unilever	Franklin Templeton
Texas Instruments ,	Hindustan Lever	Avis Rent A Car
Toshiba	Johnson & Johnson	Pfizer
United Technologies	Kraft Foods	Volvo
Alcatel		
Cisco		
Epson		
Hewlett Packard		

Source: Company

MindTree: Revenues by Verticals (%)



Source: Company

MindTree: Revenue distribution in FY07 (%)

Yr to Mar	% of revenues
Geographies	
US	**63.3%**
Europe	22.1%
India	5.2%
ROW	9.4%
Horizontals	
Development	**64.7%**
Maintenance	22.3%
ERP	2.8%
Testing	2.7%
Consulting	**4.5%**
Technology	2.4%
Others	0.6%

Source: Company

MindTree: Income Statement (INR Million)

Yr to Mar	FY2006	FY2007	FY2008e	FY2009e	FY2010e
Exports	3,970	5,534	7,320	10,094	13,171
Domestic	518	369	485	545	613
Total Revenues	**4,488**	**5,904**	**7,805**	**10,639**	**13,784**
% yoy	82.1%	31.5%	32.2%	36.3%	29.6%
S/W DEV EXPENSES	2,735	3,509	4,605	6,243	8,055
Gross Profit	**1,753**	**2,395**	**3,200**	**4,396**	**5,729**
Gross Margin (%)	*39.1%*	*40.6%*	*41.0%*	*41.3%*	*41.6%*
ADMIN EXPENSES	977	1,298	1,634	2,146	2,721
% of sales	*21.8%*	*22.0%*	*20.9%*	*20.2%*	*19.7%*
Amortisation of goodwill	22	-	-	-	-
EBITDA	**754**	**1,096**	**1,566**	**2,250**	**3,007**
% of sales	*16.8%*	*18.6%*	*20.1%*	*21.2%*	*21.8%*
% yoy	*204.4%*	*45.4%*	*42.8%*	*43.7%*	*33.6%*
Depreciation	209	244	327	500	695
EBIT	**545**	**852**	**1,239**	**1,750**	**2,313**
% of sales	*12.1%*	*14.4%*	*15.9%*	*16.5%*	*16.8%*
% yoy	*281.0%*	*56.5%*	*45.4%*	*41.3%*	*32.1%*
Interest	53	30.0	35	45	55
% of sales	*1.2%*	*0.5%*	*0.4%*	*0.4%*	*0.4%*
Other income	66	74	94	138	165
PBT	**558**	**896**	**1,297**	**1,844**	**2,423**
% of sales	*12.4%*	*15.2%*	*16.6%*	*17.3%*	*17.6%*
% yoy	*222.8%*	*60.7%*	*44.8%*	*42.1%*	*31.4%*
Total Tax	15.4	(5)	127	209	431
Eff tax rate(%)	*3%*	*-1%*	*10%*	*11%*	*18%*
PAT	**542**	**901**	**1,171**	**1,635**	**1,992**
% of sales	12.1%	15.3%	15.0%	15.4%	14.5%
% yoy	221.1%	66.1%	29.9%	39.7%	21.8%
EPS (INR)					
Basic	20.0	29.0	31.0	41.1	47.7
FD	17.2	27.7	30.2	40.1	47.7

Source: Company, HSBC

MindTree: Balance Sheet (INR Million)

Yr to Mar	FY2006	FY2007	FY2008e	FY2009e	FY2010e
Fixed Assets	389	699	1,240	1,585	1,906
Investments	537.6	0	0	0	0
Deferred tax assets	0	46	59	80	123
Debtors	1097.7	1,172	1,711	2,274	2,832
Cash	262.1	2,908	3,592	4,591	5,953
Loans and Advances	558.3	830	962	1,312	1,699
Total CA	1918.1	4,910	6,265	8,177	10,484
TOTAL ASSETS	**2844.2**	**5,656**	**7,564**	**9,842**	**12,513**
	FY06	FY2007	FY2008e	FY2009e	FY2010e
CURRENT LIABILITIES					
Secured Loans	742	264	781	1,064	1,378
Current Liabilities	741.3	862	1,139	1,553	2,012
Provisions	73.1	176	233	317	411
Total CL	1,556	1,301	2,152	2,934	3,801
Shareholder Funds	1,287	4,355	5,412	6,908	8,712
Total Liabilities	**2,844**	**5,656**	**7,564**	**9,842**	**12,513**

Source: Company, HSBC

MindTree: Cash Flow Statement (INR Million)

Yr to Mar	FY2006	FY2007	FY2008e	FY2009e	FY2010e
PBT	**558**	**896**	**1,297**	**1,844**	**2,423**
Depreciation	232	244	327	500	695
Working Cap Changes	(136)	(601)	180	(131)	(79)
Others	(151)	306	-	-	-
Operating cash flow	**434**	**820**	**1,642**	**1,959**	**2,553**
Capex	(254)	(535)	(808)	(845)	(1,015)
Free cash flow	**180**	**285**	**774**	**1,114**	**1,538**
Others	(351)	(1,587)	(60)	-	-
Investing cash flow	(605)	(2,122)	(868)	(845)	(1,015)
Investments	-	538	-	-	-
Dividends	(81)	(79)	(113)	(159)	(209)
Reserves	1,005	2,748	1,057	1,476	1,784
Others	(776)	423	(1,035)	(1,452)	(1,772)
Total Change in cash	**(7)**	**2,647**	**683**	**1,000**	**1,361**
Cash at beginning	**269**	**262**	**2,908**	**3,592**	**4,591**
Cash at end	**262**	**2,909**	**3,592**	**4,591**	**5,952**

Source: Company, HSBC

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Disclosure appendix

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This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

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Rating definitions for long-term investment opportunities

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For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

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Prior to this, from 7 June 2005 HSBC applied a ratings structure which ranked the stocks according to their notional target price vs current market price and then categorised (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is 2 years. The notional target price was defined as the mid-point of the analysts' valuation for a stock.

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