

ACCUMULATE

CMP*	Rs437
Target Price	Rs495

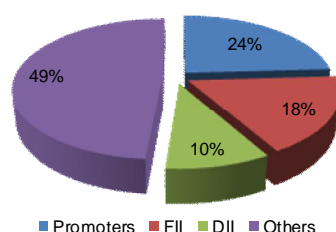
Stock Info

Sector	IT
Market Cap (Rs cr)	1,773
52 Week High/Low	555/288
Avg. Daily Volume (3m, '000)	58
Avg. Daily Value (3m, cr)	2.6
Dividend Yield (%)	0.9
Sensex	16,996
Nifty	5,127
BSE Code	532819
NSE Code	MINDTREE

Stock Performance

(%)	MINDTREE	NIFTY
1-week	(2.7)	4.1
1-month	9.3	9.4
1-year	(20.3)	(9.3)

Shareholding Pattern (%)



Stock Price Chart



Note: *CMP as on January 25, 2012

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INR backed EBITDA growth

Key highlights of the result

- Moderate top-line growth:** MindTree's revenue grew at a moderate pace of 2.3% qoq to US\$103.7mn as indicated by the Management. The growth in revenue was broadly in line with our estimates. However, surprisingly the volumes witnessed a decline of 0.8% qoq, which the Management has attributed to seasonality (lower working days due to holidays and number of leaves taken by employees) and exit from some of the non-core industrial automotive segment as a part of long term strategy. Pricing was up 3.5% qoq. In INR terms, revenue grew 13.8% qoq to Rs520cr reflecting INR depreciation against USD.
- INR depreciation boosts EBITDA:** EBITDA reported an astronomical growth of 52.6% qoq at Rs90cr. EBITDA was driven by strong INR depreciation against USD and better pricing. Consequently, EBITDA margin increased ~440bp qoq to 17.3%, which was much higher than our expectations. Operational efficiencies contributed 30bp to the EBITDA margin.
- PAT registers a decent growth:** MindTree reported a foreign exchange loss of ~Rs3cr in 3QFY2012 on account of its hedged position as compared to a gain of Rs17cr in 2QFY2012. This resulted in a lower growth of ~11.2% qoq in PAT to Rs60cr.

Outlook and Valuation

MindTree's result was broadly in line with our expectations except for volume growth. The growth in pricing was on account of one-time revenue earned by the company on a large transformational deal for a leading telecom operator in Europe. Thus, pricing growth will reverse in the coming quarter. MindTree's IT Services segment has seen a qoq growth of more than 5% in last 8 quarters. Going forward, we expect a moderate growth in FY2013, as we remain cautious on the company's strategy of exiting some customers from non-core areas; we would wait to see how this strategy works out for the company. Further, moderate client budgets can impact the company's revenues from IT Services segment which has been the growth engine for the company. EBITDA margin is also expected to decline in FY2013 on account of volatility in INR. **We initiated coverage on MindTree with a Buy recommendation (December 05, 2011). The stock has appreciated more than 20% to surpass our target of Rs495 (on January 19, 2012). At the CMP of Rs437, the stock is available at a P/E of 8.9x and 8.8x its FY2012E and FY2013E EPS respectively. We maintain our target price of Rs495, indicating a potential upside of ~13% from the current level. We recommend an Accumulate.**

Risks to the view

- Unstable US and European economies could impact the demand environment and lead to a delay in decision making regarding new deals
- Sharp cut in client budgets can lead to a lower than anticipated volume growth
- We have factored in USD/INR rate of Rs52 and Rs50 for 4QFY2012 and FY2013 respectively. Any sharp appreciation in INR will negatively impact our estimates

Year End	Net Revenues		EBITDA		Net income (reported)		RoAE	RoIC	EPS	Valuations (X)	
	(Rs cr)	% growth	(Rs cr)	% margin	(Rs cr)	% growth				%	%
FY2010	1,296	4.7	246	18.9	215	300.3	30.8	27.6	52.8	8.3	7.0
FY2011	1,509	16.4	178	11.8	102	(52.7)	14.0	14.2	25.4	17.2	9.6
FY2012E	1,920	27.3	278	14.5	198	94.8	22.7	24.2	49.1	8.9	6.0
FY2013E	2,194	14.2	302	13.7	200	1.0	19.0	22.3	49.6	8.8	5.3

Exhibit 1: Quarterly Performance (Consolidated)

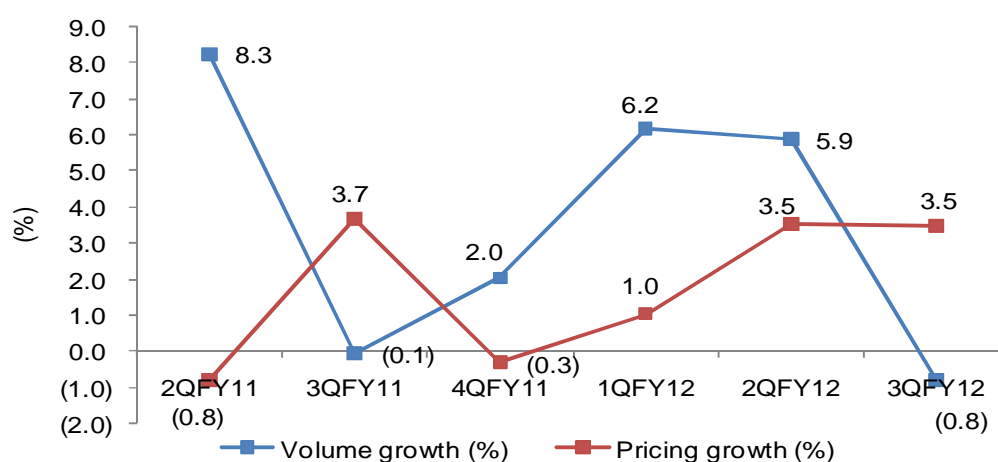
(Rs cr)	3QFY12	2QFY12	% qoq	3QFY11	% yoy	9MFY12	9MFY11	% yoy
Revenues	520	457	13.8	385	35.1	1,390	1,118	24.3
Cost of revenues	324	305	6.4	259	25.4	908	732	24.1
Gross profit	196	152	28.6	126	54.9	481	386	24.7
SG&A Expenses	106	93	13.5	81	30.1	287	254	12.8
EBITDA	90	59	52.6	45	99.8	195	132	47.6
Margin (%)	17.3	12.9		11.7		14.0	11.8	
Dep and Amort	17	17	(0.6)	21	(16.0)	53	53	(0.2)
EBIT	72	41	74.9	24	197.9	142	79	79.6
Margin (%)	13.9	9.1		6.3		10.2	7.1	
Other income, net	4	7	(49.3)	2	133.3	14	6	132.8
Forex gain/(loss)	(3)	17	NA	8	NA	24	10	137.0
PBT	73	65	12.2	34	117.8	179	95	88.9
Tax	13	11	17.4	2	456.5	29	26	14.4
Tax Rate (%)	17.4	16.7		6.8		16.4	27.1	
PAT	61	55	11.2	31	93.0	150	69	116.6
Margin (%)	11.7	11.9		8.2		10.8	6.2	
Diluted EPS	14.9	13.5	10.3	7.6	95.1	37.1	17.5	112.0

Source: Company, RSec Research

Strong growth in revenues

INR depreciation led to a robust top-line growth

MindTree's 3QFY2012 revenues grew 13.8% qoq to Rs520cr driven by pricing growth of 3.5% and positive impact from exchange rate movement, while volumes witnessed a decline of 0.8%. Pricing contributed ~2% to the top-line growth while effort mix had a marginal negative impact of 0.7%. The primary reason for lower volume growth is seasonality (lower working days due to holidays and the number of leaves taken by employees) and lower volume growth in Product Engineering Services (PES) segment.

Exhibit 2: Volume and pricing growth

Source: Company, RSec Research

Europe witnessed a sensational growth of ~12% on the back of new deals won during the quarter

Revenue was primarily driven by Europe, where the company started a new transformational deal with a leading telecom company. This client became MindTree's largest client for 3QFY2012 (Microsoft was the company's largest client earlier).

Exhibit 3: Geography wise performance

(In USD terms)	3QFY2012 (% of total rev)	2QFY2012 (% of total rev)	% qoq
US	56.2	58.4	(1.6)
Europe	28.1	25.7	11.9
India	7.2	7.9	(7.3)
MEA	8.5	8.0	9.7

Source: Company, RSec Research

Decline in revenues from PES led to overall subdued growth

In terms of Verticals, Travel & Transportation reported strong growth while BFSI was flattish. Revenues from Other verticals increased substantially, reflecting the new deal implementation as stated earlier. Revenue from PES segment, which accounts for one-third of the company's revenues, saw a significant decline of 5.4% qoq. The reasons for the decline are a) headwinds in embedded systems business due to slowness in semiconductor, consumer electronics, handset and communication segments, b) lower number of working days, and c) the company's strategic decision to exit some businesses such as automotive industrial and core auto business.

Exhibit 4: Vertical wise performance

(In USD terms)	3QFY2012 (% of total rev)	2QFY2011 (% of total rev)	% qoq
ITS – Manufacturing	15.4	15.4	2.3
ITS – BFSI	20.9	21.4	(0.1)
ITS – T&T	12.3	10.8	16.5
ITS – Other	18.3	16.6	12.8
PES	33.1	35.8	(5.4)
Wireless	15.4	15.4	2.3

Source: Company, RSec Research

In terms of Service Offering, Package Implementation and Consulting & IP (which forms small proportion of the company's revenues) saw the highest growth for the reasons discussed above. Development and Maintenance together saw a muted growth.

Package Implementation reported a healthy growth, though, it was on a lower base

Exhibit 5: Service Offering wise performance

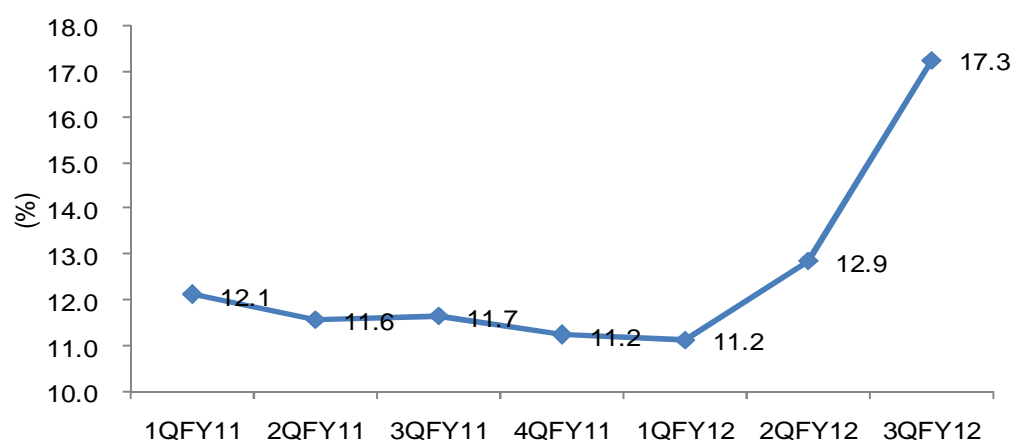
(In USD terms)	3QFY2012 (% of total rev)	2QFY2012 (% of total rev)	% qoq
Development	39.8	39.7	2.6
Maintenance	23.5	24.7	(2.7)
Consulting & IP Licensing	5.0	4.6	11.2
Package Implementation	5.0	3.1	65.0
Testing	16.3	18.2	(8.4)
IMS	10.4	9.7	9.7

Source: Company, RSec Research

Growth in EBITDA on account of falling INR

EBITDA reported an astronomical growth of 52.6% qoq at Rs90cr. EBITDA was driven by strong INR depreciation against USD and better pricing. Consequently, EBITDA margin increased ~440bp qoq to 17.3%, which was much higher than our expectations. Operational efficiencies contributed 30bp to the EBITDA margin while SG&A as a % of revenues remained flat at 20.4%.

Exhibit 6: EBITDA Margin trend



Source: Company, RSec Research

MTM foreign losses led to a lower growth in PAT as compared to the growth at EBITDA level

Impressive growth in PAT despite forex losses

MindTree reported a foreign exchange loss of ~Rs3cr in 3QFY2012 on account of its hedged position as compared to a gain of Rs17cr in 2QFY2012. This resulted in lower growth of ~11.2% qoq in PAT to Rs60cr. Effective tax rate remained stable at ~17.4% in 3QFY2012.

Outlook & Valuation

MindTree's result was broadly in line with our expectations except for volume growth. The growth in pricing was on account of one-time revenue earned by the company on a large transformational deal for a leading telecom operator in Europe. Thus, pricing growth will reverse in the coming quarter. MindTree's IT Services segment has seen a qoq growth of more than 5% in last 8 quarters. Going forward, we expect a moderate growth in FY2013, as we remain cautious on the company's strategy of exiting some customers from non-core areas; we would wait to see how this strategy works out for the company. Further, moderate client budgets can impact the company's revenues from IT Services segment which has been the growth engine for the company. EBITDA margin is also expected to decline in FY2013 on account of volatility in INR. **We initiated coverage on MindTree with a Buy recommendation (December 05, 2011). The stock has appreciated more than 20% to surpass our target of Rs495 (on January 19, 2012). At the CMP of Rs437, the stock is available at a P/E of 8.9x and 8.8x its FY2012E and FY2013E EPS respectively. We maintain our target price of Rs495, indicating a potential upside of ~13% from the current level. We recommend an Accumulate.**

Profit & Loss Statement

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
Revenues	1,296	1,509	1,920	2,194
Total Expenditure	1,050	1,331	1,642	1,892
Employee exp	798	1,015	1,248	1,448
SG&A	252	317	394	445
EBITDA	246	178	278	302
% chg	(25.8)	(27.6)	56.6	8.3
(% of Revenues)	18.9	11.8	14.5	13.7
D&A	65	71	72	84
EBIT	180	107	207	218
% chg	(34.2)	(40.9)	94.0	5.4
(% of Revenues)	13.9	7.1	10.8	9.9
Other Income, net of int	7	8	15	24
(% of revenues)	0.5	0.5	0.8	1.1
Foreign exch gain / (loss)	67	16	16	2
PBT (reported)	255	130	238	244
Tax	40	29	40	44
(% of PBT)	15.6	22.1	16.8	18.0
PAT (reported)	215	102	198	200
% chg	300.3	(52.7)	94.8	1.0
(% of Revenues)	16.6	6.7	10.3	9.1
Adjusted EPS (Rs)	52.8	25.4	49.1	49.6
% chg	285.4	(51.9)	93.3	1.0

Balance Sheet

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS				
Equity Share Capital	40	40	40	40
Reserves & Surplus	631	736	915	1,096
Shareholders Funds	671	776	955	1,136
Total Loans	3	5	5	5
Total Liabilities	674	781	960	1,141
APPLICATION OF FUNDS				
Gross Block	513	562	662	762
Less: Acc. Dep.	252	262	334	417
Net Block	261	301	329	345
Capital WIP	25	3	0	0
Goodwill	15	0	0	0
Investments	144	111	150	180
Deferred Tax Assets	21	22	28	29
Current Assets	467	579	758	934
Cash	40	46	76	155
Debtors	237	283	384	439
Loans & Advances	190	251	298	340
Current Liab & Prov	260	234	305	348
Current Liabilities	211	181	246	284
Provisions	49	53	58	64
Net Current Assets	207	345	453	586
Total Assets	674	781	960	1,141

Cash Flow Statement

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	255	130	238	244
Depreciation	65	71	72	84
Change in Working Cap	67	(84)	(85)	(55)
Interest / Divd (Net)	(2)	(7)	(15)	(24)
Direct taxes paid	(44)	(53)	(40)	(44)
Others	(111)	(14)	0	0
Cash Flow from Op	230	43	170	205
(Inc.)/Dec in Fixed Assets	(75)	(84)	(97)	(100)
Interest/Divd Recd	5	6	16	24
(Inc.)/ Dec. in Inv.	(31)	39	(39)	(30)
Cash Flow from Inv	(100)	(38)	(120)	(106)
Issue of Equity	9	14	0	0
Borrowings	(139)	1	(0)	(0)
Dividend Paid (Incl. Tax)	(5)	(15)	(19)	(19)
Cash Flow from Fin.	(134)	0	(19)	(19)
Inc./ (Dec.) in Cash	(4)	5	30	79
Effect of exch diff	(1)	0	0	0
Opening Cash balances	45	40	46	76
Closing Cash balances	40	46	76	155

Key Ratios

Y/E March	FY2010	FY2011	FY2012E	FY2013E
Valuation Ratio (x)				
P/E	8.3	17.2	8.9	8.8
P/CEPS	6.2	10.1	6.5	6.2
P/BV	2.6	2.3	1.8	1.5
Dividend yield (%)	0.7	0.6	0.9	0.9
EV/Sales	1.3	1.1	0.9	0.7
EV/EBITDA	7.0	9.6	6.0	5.3
Per Share Data (Rs)				
EPS (Basic)	54.4	25.4	49.5	49.9
EPS Adjusted	52.8	25.4	49.1	49.6
Cash EPS	70.9	43.2	67.4	70.9
DPS	3.0	2.5	4.0	4.0
Book Value	169.8	194.1	238.8	284.0
Returns (%)				
RoIC	27.6	14.2	24.2	22.3
RoE	30.8	14.0	22.7	19.0

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