

RESULT UPDATE

MID CAP

Share Data

Reuters code	MINT.BO
Bloomberg code	MTCLIN
Market cap. (US\$ mn)	615
6M avg. daily turnover (US\$ mn)	3.6
Issued shares (mn)	40
Target price (Rs)	669

Performance (%)	1M	3M	12M
Absolute	2	25	197
Relative	(2)	24	59

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	51.6	47.8
+/- (%)	272.7	(7.3)
PER (x)	13.8	14.9
PBV (x)	4.4	3.5
Dividend/Yield (%)	0.5	0.5
EV/Sales (x)	2.1	1.8
EV/EBITDA (x)	10.9	9.6

Major shareholders (%)

Promoters	33
FII's	15
MF's	10
BFSI's	1
Public & Others	41

Financial highlights

(Rs mn)	2QFY10	3QFY10	QoQ (%)	3QFY09	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net sales	3,150	3,319	5.4	3,638	(8.8)	12,375	12,861	3.9	14,704	14.3
EBITDA	659	658	(0.2)	1,109	(40.7)	3,310	2,482	(25.0)	2,813	13.4
EBITDA margin (%)	20.9	19.8	-	30.5	-	26.7	19.3	-	19.1	-
Other Income	38	202	425.5	(757)	(126.7)	(1,947)	604	(131.0)	152	(74.8)
Depreciation	159	168	5.3	161	4.4	570	659	15.7	750	13.8
PBT	537	691	28.6	140	393.6	631	2,401	280.3	2,213	(7.8)
Tax	39	153	295.9	37	313.0	67	372	453.0	332	(10.7)
PAT	499	538	7.9	87	517.3	523	2,029	287.9	1,881	(7.3)
PAT Margin (%)	15.8	16.2	-	2.4	-	4.2	15.8	-	12.8	-

MindTree

Downgrade to Underperformer

Price: Rs 710

BSE Index: 17,486

20 January 2010

3QFY10 Result – Weak operational performance...

MindTree reported weak set of numbers; organically, revenue grew by just 0.6% QoQ in dollars, compared to a strong growth of 6-7% QoQ shown by larger IT companies. The management attributed the muted growth to lower number of working days in the quarter, more leaves taken by billable employees (impact of 2.5%), increase in India revenue contribution which garners lower billing and couple of projects were in knowledge transition stage, where the effort had been put in but yet to get reflected in revenue. Realisations were also impacted by a 4% QoQ growth in offshore volumes as compared to flat growth in onsite. Including numbers from Kyocera Wireless, revenue grew by 7.9% QoQ in USD. Operating level performance was also disappointing with a 110 bps decline in margins, especially given utilisation improvement of 490 bps QoQ.

Also, the revenue guidance for FY10E was revised to US\$ 269.5-270.5 mn, including numbers from Kyocera, which is disappointing. On an organic business (assuming Kyocera's 2HFY10 revenue run rate of US\$ 9 mn), the guidance has been revised downwards by 3% at the upper end. EPS guidance for FY10E has been revised upwards to Rs 48.6-49.5, mainly to factor in M2M forex gains on ineffective hedges. The management also indicated discontinuing from giving annual guidance from FY11E, attributing it to changes in external environment; which we believe will also impact the stock's performance in the near-term, given that the demand environment has been improving for IT companies, providing better visibility to companies. The management has indicated a gross hiring target of ~1,000 for FY11E and our estimates build in revenue growth of 18% in US dollars. We broadly maintain our earnings estimates for FY11, factoring in higher volume negated by the rupee appreciation. At our revised earnings, MindTree trades at 14.9x FY11E EPS; limiting the potential for upsides, in our view. We downgrade the stock to Underperformer.

Operational performance consolidated (in dollar terms)

Service offerings

	Revenue contribution (%)				Growth
	Mar 09	Jun 09	Sep 09	Dec 09	QoQ (%)
Development	46.5	46.9	48.6	51.8	15.0
Maintenance	24.0	23.6	22.0	20.8	2.0
Consulting and IP Licensing	3.7	2.9	2.9	2.5	(7.0)
Package Implementation	3.5	4.1	4.3	4.2	5.4
Independent Testing	19.0	18.1	18.2	17.0	0.8
Infrastructure Management & Tech Support	3.3	4.4	4.0	3.7	(0.2)

Geographies

	Revenue contribution (%)				Growth
	Mar 09	Jun 09	Sep 09	Dec 09	QoQ (%)
US	68.6	66.8	66.2	64.4	5.0
Europe	15.8	21.0	21.0	18.4	(5.4)
India	8.0	5.8	5.3	6.4	30.3
APAC	7.6	6.4	7.5	10.8	55.4

Revenue contribution (%)

Industries

	Revenue contribution (%)			Growth
	Jun 09	Sep 09	Dec 09	QoQ (%)
Manufacturing	12.9	13.3	12.1	(1.8)
Banking, Financial and Insurance	17.8	17.4	16.0	(0.8)
Travel and Transportation	15.1	13.8	12.6	(1.5)
R&D Services (RDS)	14.1	14.9	14.4	4.3
Software product engineering (SPE)	29.3	30.3	27.8	(1.0)
MindTree wireless products	–	–	6.7	–
Others	10.8	10.3	10.4	9.0

Clients

	Revenue contribution (%)				Growth
	Mar 09	Jun 09	Sep 09	Dec 09	QoQ (%)
Top customer	6.7	7.0	7.8	7.2	(0.4)
Top 5 customers	24.6	26.4	26.9	28.4	13.9
Top 10 customers	37.2	39.4	39.7	40.5	10.1
Ex-top customer	93.3	93.0	92.2	92.8	8.6
Ex-top 5 customers	75.4	73.6	73.1	71.6	5.7
Ex-top 10 customers	62.8	60.6	60.3	59.5	6.5

Client metrics

(Nos.)	Mar 09	Jun 09	Sep 09	Dec 09
No. of active clients	261	239	243	253
New clients added	22	18	24	35
\$ 1 mn clients	64	60	59	58
\$ 5 mn clients	13	12	11	13
\$ 10 mn clients	3	3	4	5
Fortune 500 accounts	37	32	37	40
Repeat business (%)	99.2	99.1	98.8	82.2
DSO	70	86	70	65

Employee metrics

	Mar 09	Jun 09	Sep 09	Dec 09
Total employees	7,866	7,693	7,450	8,127
S/w Professionals	7,281	7,073	6,832	7,460
Sales and support	585	620	618	667
Gross Addition	539	92	132	462
Net Addition	217	(173)	(243)	41
Utilisation (incl. trainees) (%)	65.3	61.1	64.7	71.4
Utilisation (excl. trainees) (%)	67.1	63.7	65.6	72.9

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	7,398	12,375	12,861	14,704
Growth (%)	25.3	67.3	3.9	14.3
Operating expenses	(6,144)	(9,065)	(10,379)	(11,891)
Operating profit	1,254	3,310	2,482	2,813
EBITDA	1,254	3,310	2,482	2,813
Growth (%)	14.4	163.9	(25.0)	13.4
Depreciation	(356)	(570)	(659)	(750)
Other income	279	(1,947)	604	152
EBIT	1,177	793	2,427	2,216
Interest paid	(59)	(162)	(26)	(3)
Pre-tax profit (before non-recurring)	1,118	631	2,401	2,213
Pre-tax profit (after non-recurring)	1,118	631	2,401	2,213
Tax (current + deferred)	(85)	(67)	(372)	(332)
Net profit (before Minority Interest, Pref. Dividend, etc.)	1,033	564	2,029	1,881
Minority interests	0	(41)	0	0
Reported PAT	1,033	523	2,029	1,881
Adjusted net profit	1,033	523	2,029	1,881
Growth (%)	14.7	(49.4)	287.9	(7.3)

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and Marketable sec.	1,948	1,501	1,095	2,808
Other current assets	2,765	4,203	4,792	5,479
Net fixed assets	2,840	4,422	2,970	2,820
Other non-current assets	90	190	190	190
Total assets	7,643	10,316	9,047	11,297
Current liabilities	1,392	3,082	2,653	3,211
Total debt	919	1,394	30	0
Total liabilities	2,311	4,476	2,683	3,211
Share capital	379	380	391	393
Reserves & surplus	4,952	5,133	5,973	7,693
Shareholders' funds	5,331	5,513	6,364	8,086
Minorities interests	0	328	0	0
Total equity & liabilities	7,643	10,316	9,047	11,297
Capital employed	6,250	7,234	6,394	8,086

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	1,118	631	2,401	2,213
Depreciation	356	570	659	750
Change in working capital	(408)	251	(1,018)	(129)
Total tax paid	(129)	(167)	(372)	(332)
Cash flow from oper. (a)	937	1,285	1,670	2,502
Capital expenditure	(2,529)	(2,503)	793	(600)
Change in investments	745	382	513	0
Others	33	351	(0)	0
Cash flow from inv. (b) (1,751)	(1,770)	1,306	(600)	(600)
Free cash flow (a+b)	(814)	(485)	2,976	1,902
Equity raised/(repaid)	13	(208)	(1,133)	2
Debt raised/(repaid)	655	475	(1,364)	(30)
Dividend (incl. tax)	(89)	(44)	(161)	(161)
Others	20	198	(212)	0
Cash flow from fin. (c)	599	420	(2,869)	(189)
Net change in cash (a+b+c)	(215)	(65)	107	1,713

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	27.5	13.8	51.6	47.8
Growth	12.5	(49.6)	272.7	(7.3)
Book NAV/share (Rs)	141.7	154.6	161.8	205.6
Dividend/share (Rs)	2.0	1.0	3.5	3.5
Dividend payout ratio	8.6	8.5	7.9	8.6
Tax	7.6	10.6	15.5	15.0
EBITDA margin	16.9	26.7	19.3	19.1
EBIT margin	15.9	6.4	18.9	15.1
RoCE	21.7	11.8	35.6	30.6
Net debt/Equity	(19.3)	(1.8)	(16.7)	(34.7)

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	25.9	51.3	13.8	14.9
PCE	19.2	24.6	10.4	10.6
Price/Book	5.0	4.6	4.4	3.5
Yield (%)	0.3	0.1	0.5	0.5
EV/Net sales	3.7	2.2	2.1	1.8
EV/EBITDA	21.5	8.2	10.9	9.6

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	14.0	4.2	15.8	12.8
Asset turnover	1.1	1.4	1.3	1.4
Leverage factor	1.4	1.6	1.6	1.4
Return on equity (%)	21.3	9.4	33.3	26.0

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