Prabhudas Lilladher

Company Report
Industry: Technology

MindTree

Savouring the good times

Shashi Bhusan (ShashiBhusan@PLIndia.com)
+91-22-6632 2300

Contents

MindTree

Rating	**BUY**
Price	Rs570
Target Price	Rs750
Implied Upside	31.6%
Sensex	17,411

(Prices as on March 22, 2010)

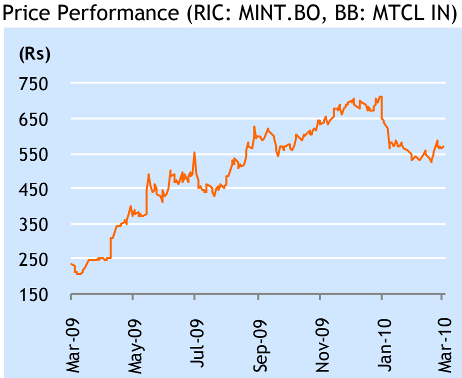
Trading Data	
Market Cap. (Rs bn)	21.7
Shares o/s (m)	38.1
Free Float	67.29%
3M Avg. Daily Vol ('000)	173.0
3M Avg. Daily Value (Rs m)	105.9

Major Shareholders	
Promoters	32.71%
Foreign	18.52%
Domestic Inst.	12.91%
Public & Others	35.86%

Stock Performance

(%)	1M	6M	12M
Absolute	3.0	(6.5)	139.8
Relative	(4.1)	(9.4)	45.9

Price Performance (RIC: MINT.BO, BB: MTCL IN)



Source: Bloomberg

We initiate coverage on MindTree with a **'BUY'** rating and a target price of Rs750, a target P/E of 14x FY12 earnings, an upside of ~33%. MindTree rides the tide of Product Engineering Services (PES) and R&D outsourcing, along with traditional IT Services offerings; hence, yielding well-diversified portfolio of service offerings.

- **Diversified services offering strong presence in growth area:** MindTree's strong presence in PES/R&D, contributing ~49% of total revenue, is one of the fastest growing offshoring verticals (CAGR-17% 2009-14E), according to International Data Corporation (IDC). We believe that as companies try to de-risk its earnings from R&D/PES, the opportunities for outsourcing (CAGR-19% 2009-14E) firms are going to increase. Moreover, we believe that a seasoned management has strengthened the company's foundation and set up a right strategy for growth.

- **Multiple levers to maintain stable margin with accelerated growth:** MindTree is best placed amongst its peers for an accelerated growth. As the company gears up to cash-in on the economic recovery, they are equipped with low utilization rate, high top clients mining, improving realization and room for improvement in fixed-price project. Improvement in demand environment provides scope for operating growth from underutilized multiple margin levers. We believe that it should be able to hold the current margin of ~19.0% without significant erosion.

- **Currency and macro-economic environment are key concerns:** MindTree is exposed to discretionary spend due to 50% revenue from PES/R&D. We believe that any macro-economic jolt could force its clients to fold its arms against expenditure. Also, the company is exposed to the risk of currency exposure in-line with other Indian IT Services companies. We have factored in 4-4.5% currency appreciation in our model. MindTree has a total hedge of US$157m.

- **Valuation and Recommendation:** MindTree is currently trading at 10xFY12E earnings and a ~60% and ~20% discount to Infosys and Patni, respectively against historical average of 10% and -43% discounts, respectively. We believe that improvement in the demand environment would trigger the demand for shelved projects. We are confident of ~17% revenue growth in FY11, with stable margins.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	12,375	12,877	14,483	16,470
Growth (%)	*67.3*	*4.1*	*12.5*	*13.7*
EBITDA (Rs m)	1,220	2,465	2,694	2,903
PAT (Rs m)	537	2,074	2,012	2,212
EPS (Rs)	13.7	51.1	49.6	54.5
Growth (%)	*(48.2)*	*271.8*	*(3.0)*	*9.9*
Net DPS (Rs)	2.4	2.5	3.5	3.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	*9.9*	*19.1*	*18.6*	*17.6*
RoE (%)	*9.5*	*31.4*	*23.9*	*21.0*
RoCE (%)	*9.0*	*26.9*	*23.1*	*20.2*
EV / sales (x)	1.9	1.7	1.5	1.3
EV / EBITDA (x)	18.9	8.8	8.1	7.5
PE (x)	41.1	10.8	11.1	10.1
P / BV (x)	3.9	3.5	2.7	2.2
Net dividend yield (%)	*0.4*	*0.4*	*0.6*	*0.5*

Source: Company Data; PL Research

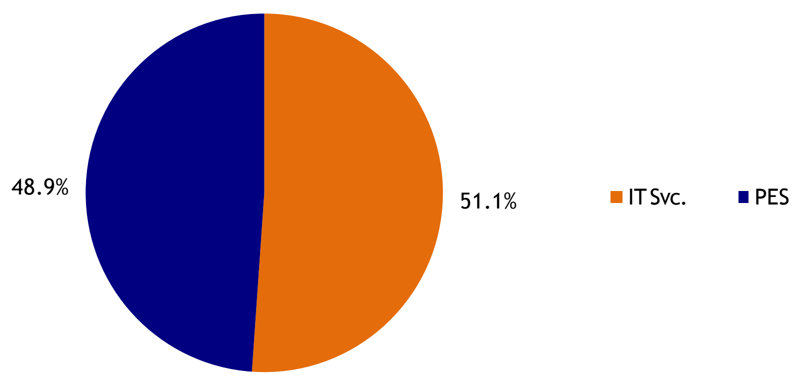
Investment Argument

Revenue visibility set to improve – addressing growth market

MindTree has a strong presence in R&D and PES. After the acquisition of Kyocera Wireless India (KWI) and Aztecsoft, the company has further strengthened its service portfolio. According to IDC, R&D and PES industry is one of the fastest growing offshoring verticals, with product companies spending hundreds of dollars on them. PES and R&D are the key building blocks for system integration and application development.

R&D services and PES – niche growth segment: Over the years, companies have offshored and outsourced parts of PES and R&D process to partners. MindTree services allow companies to benefit from the access to larger resource pool of developers at offshore locations at a lower cost. Captive centre's setup by product companies partially meet offshore development requirements for product companies but are really difficult to scale up. MindTree has steadily improved its exposure to R&D services to 48.5% of total revenue in Q3FY10 from ~21% in Q2FY09. We believe that the engineering and product expense will be back with improved macro-economic condition.

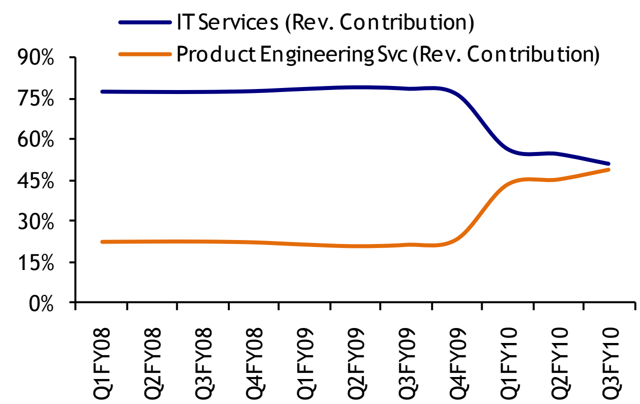
Diversification of discretionary R&D/PES along with sticky traditional IT services



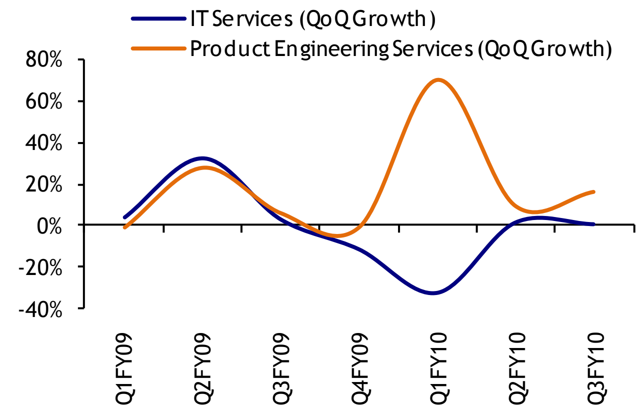
Source: Company Data, PL Research

IDC forecasts a five-year CAGR of 14% for R&D/PES, reaching an estimated US$65.7bn by 2013. IDC defines R&D/PES as the taking-over of development R&D of a product company's value chain (in part of full) by a third-party services organization.

Well-diversified portfolio of IT services and PES



PES growth complementing growth from IT services

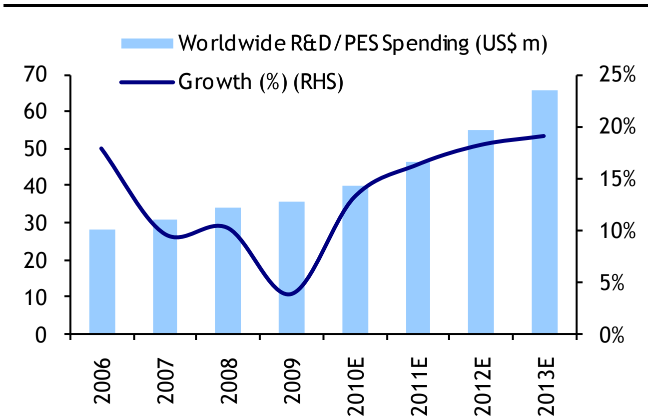


Source: Company Data, PL Research

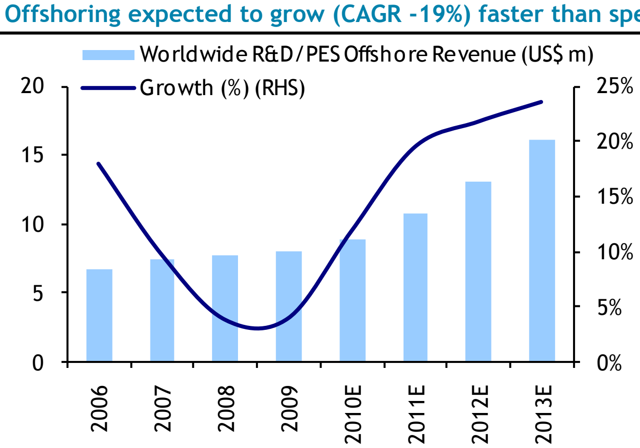
According to IDC, "*as technology product customers grapple with shrinking product life cycles, reduced product sales and engineering talent acquisition challenges, the value proposition tied to R&D/PES will continue to find favour with customers. Vendors would do well to continue improving their own infrastructure around these services by investing in the buying and creating of intellectual property (IP), hiring relevant talent and setting up proof-of-concept centres and labs, which will lead to increased adoption of these services by technology product customers*".

Shortage of high-tech engineering talent in the US and Europe, coupled with proactive infrastructure investment by outsourcing and offshoring service providers, will influence customers to relocate their own R&D product development and innovation centres as well as increase outsourcing contracts that are delivered from geographies such as India, China, and Russia.

PES/R&D spending expected to grow at a CAGR of 16%



Offshoring expected to grow (CAGR -19%) faster than spending

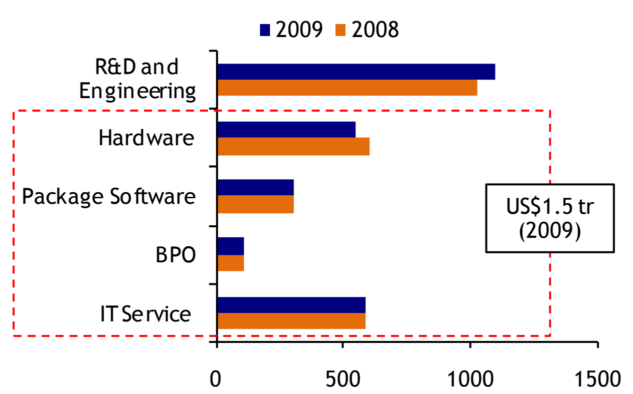


Source: IDC, NASSCOM, PL Research

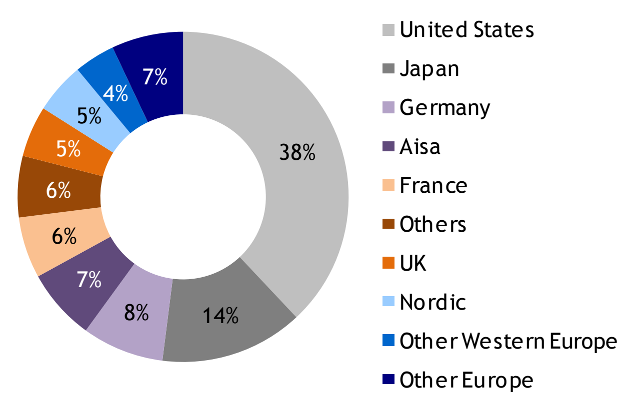
Engineering and R&D (ER&D) - least affected during downturn of 2008-09: The year 2008 witnessed a steady growth of 5.6% over 2007, but IT markets across the globe started contracting since Q4CY08. Spend on Global technologies declined by 2.9% in 2009 as compared to 2008, whereas spend on ER&D increased from US$1.03tr to US$1.1tr.

In 2009, the ER&D spend slowed down in comparison with the previous five years, but the total spend was more than US$1.1tr, 7% more than 2008 spend. More than 53% of spend is in the private sector, whereas geography-wise, US still commands the lion's share of 38%.

ER&D witnessed strongest growth in 2009



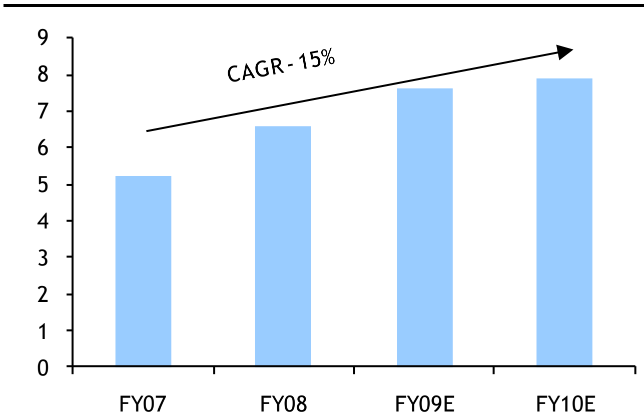
US and Europe commands ~75% of total ER&D spend



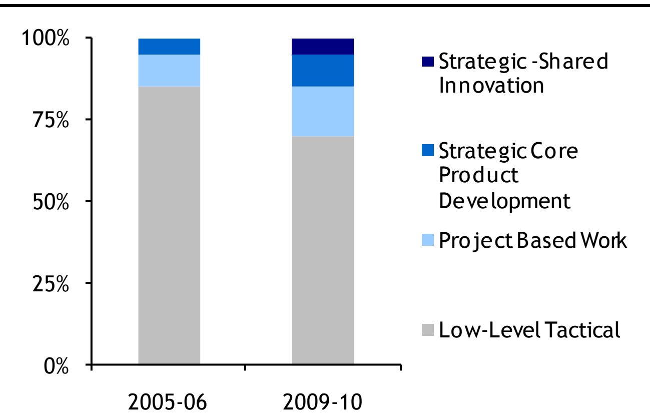
Source: IDC, NASSCOM, Booz & Co., PL Research

India moving up the value chain: The engineering services outsourcing market has grown at a CAGR of 15% over the last three years to US$7.9bn in FY10. In 2005-06, most of the work offshored to India was of low and medium complexity, accounting for 85% of the total work performed. Presently, it is estimated that medium and high complexity work contributes more than 30% of the engineering work.

ER&D witnessed steady growth @ 15% CAGR since 2007



High-end strategic work from India grew from 15% to 30%



Source: NASSCOM, Booz & Co., PL Research

India as a preferred destination for PES/R&D outsourcing: R&D/PES is still smaller than traditional IT Services companies. Many clients have shelved their new projects in product development and R&D due to the economic downturn over 2008-09. We expect some of the shelved projects by companies to be initiated again. We expect India to emerge as the preferred destination for outsourced PES/R&D due to:

- Increased cost pressure on clients
- Ability to scale up faster when compared to captives
- De-risk clients' earnings from uncertainties of success of PES/R&D
- Time constraints due to quicker turnaround of products

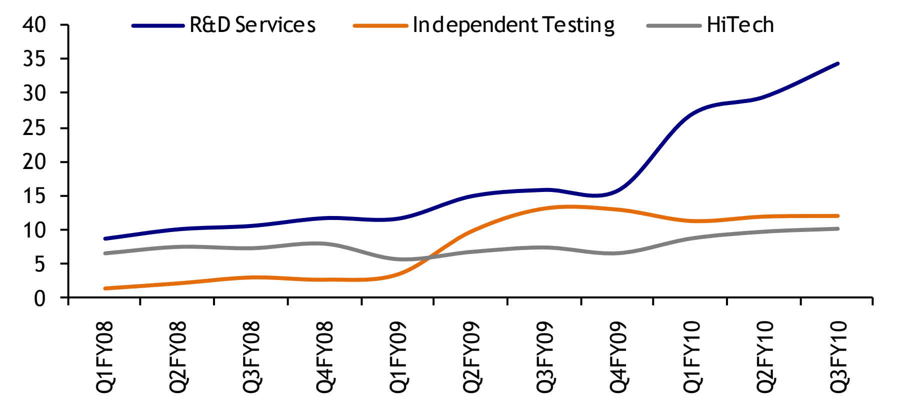
Inorganic growth still on cards to improve competency: MindTree has set a revenue target of US$1bn by 2014. The management didn't rule out strategic acquisitions to achieve the goal, although they are confident of achieving a target of US$800m even without acquisition. The company is looking at acquiring IMS and Package Implementation predominantly in the US and Europe. In the past, the company has successfully acquired companies and integrated them well with its business. We believe that a fearless acquisition strategy by the company has helped them to grow at a CAGR of 45% over the last eight years (2002-10E). The company currently has a net cash of ~Rs1.3bn.

TES-Purple Vision: MindTree acquired Purple Vision for US$6.5m, which started contributing to earnings from the March 2008 quarter. TES acquired Purple Vision in 2005 and currently has 150 employees with expertise in IC design. Post the acquisition, MindTree will have 350 employees for IC design. The acquisition should help MindTree expand its presence in IC design, embedded and application software and chip design.

Aztecsoft: We believe that an aggressive acquisition strategy by the company to build competency helped them weather the seasonality in business. MindTree acquired Aztecsoft (US$90m) which has presence in product development and testing services in May 2008, to strengthen its services offerings and brought about relationship with 75-80 clients, including marquee clients like Microsoft and AOL.

Kyocera Wireless India: In October 2009, MindTree acquired KWI to strengthen its offerings in R&D space for wireless and mobility product space. With the acquisition of KWI, MindTree managed to acquire state-of-the-art lab and ~600 professionals. MindTree paid US$6m for the acquisition, which will contribute annual revenue of ~US$18m. They gained resource engaged in wireless product development and software engineering for wireless product portfolio.

Strategic acquisition set right tone for inorganic growth (US$m)



Source: Company Data, PL Research

Diversified portfolio across the industry line

MindTree service offering is better diversified across the industries when compared to its competitor. The company has little dependence on the 'once ailing' sector like BFSI. The diversification across industries de-risks the earnings from downturn in a particular industry.

Diversified across the industry line better than Tier-1

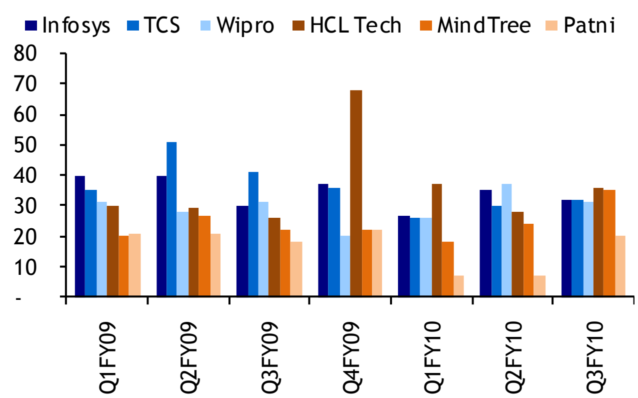
As per OND-09	Infosys	TCS	Wipro	HCL Tech	MindTree	Patni	Mphasis
By Industry							
Manufacturing	19.3%	8.3%	15.1%	25.6%	12.1%	30.3%	13.0%
BFSI	34.6%	45.0%	25.8%	26.1%	16.0%	42.5%	44.0%
Travel & Transportation	1.80%	3.4%	14.8%	NA	12.6%	NA	6.0%
R&D Services	NA	NA	8.4%	18.0%	14.4%	NA	NA
Software Product Services	NA	5.0%	NA	NA	27.8%	14.8%	18.0%
Others	44.3%	38.3%	35.9%	30.3%	17.1%	12.4%	19.0%

Source: Company Data, PL Research, Data as per Q3FY10 (OND-09)

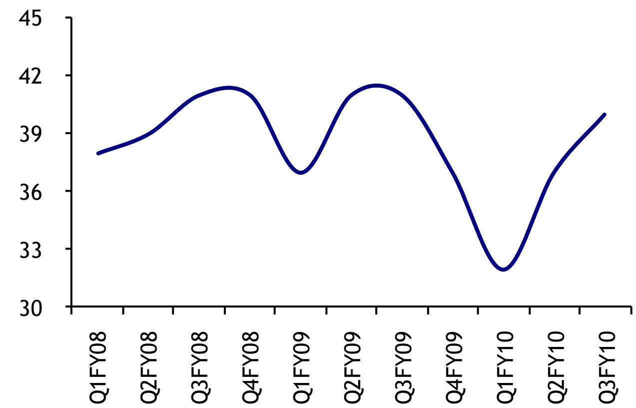
Well-regarded management and strong brand equity

Brand Equity - helped retain customer and talent: MindTree's strong brand equity not only helped them win Fortune 500 clients but also helped them to retain them during the downturn. Despite being smaller in size, the company is highly regarded as one of the best employers in India. The company has got the lowest client and employee attrition, when compared to its peers, in-line with Tier-1 Indian IT Services companies.

Clients addition in-line with Tier-1 better than its peers

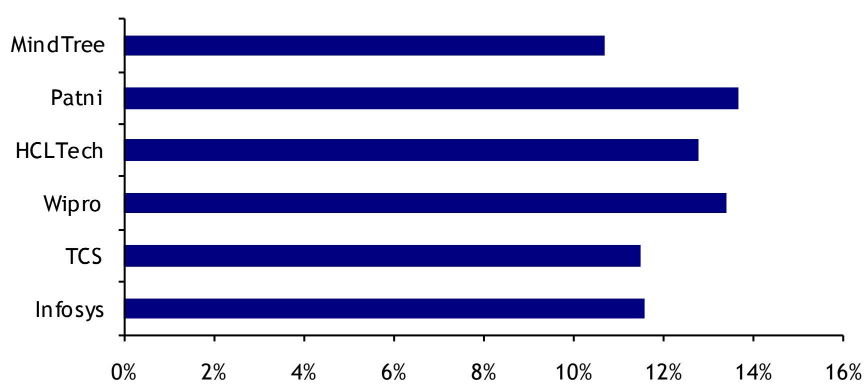


Fortune-500 clients are sticky and witnessed less attrition



Source: Company Data, PL Research

Rated as one of the best employers - resulting in lowest attrition in the industry



Source: Company Data, PL Research, Data as per Q3FY10 (OND-09)

Strong management: A rare survivor of the dot-com bust, the company has completed ten successful years under the leadership of professionals from Wipro, Lucent and Cambridge Technology. The company established around the tough time of 1999-2000, not only managed to survive but has also grown well to report revenue of US$270m in FY10. We believe that the seasoned management of MindTree made the right strategic decision to deliver growth even during the enduring time of 2007-09 by making right strategic acquisitions.

Management strength – second to none

Name	Title	Years of experience	Qualification
Ashok Soota	Co-founder, Chairman	Over 23 years in IT industry	"B. Tech - IIT, Roorkee , MBA - Asian Institute of Management, Philippines"
Subroto Bagchi	Co-Founder, Vice Chairman and Gardener	Over 20 years in IT industry	Degree in Political Science - Utkal University, Bhubaneswar
Krishnakumar Natarajan	Co-Founder, CEO and Managing Director	Over 28 years in IT industry	"B. Tech - College of Engineering, Chennai MBA - XLRI, Jamshedpur"
S. Janakiraman	Co-Founder, President and Group CEO, Product Engineering Services	Over 29 years in IT industry	"B. Tech - REC, Trichy Masters in Electronics - IIT, Chennai"
N S Parthasarthy	Co-Founder & CEO, Independent Testing & IMTS	Over 20 years in technology and operations management	"Masters in Mathematics - BITS, Pilani M. Tech in Computer Science - IIT, Kharagpur"
Vinod Deshmukh	President and CEO, R&D Services	Over 24 years in IT industry	"B. Tech - Nagpur University Masters in Technology - IIT, Kanpur"
Rostow Ravanan	Co-Founder, CFO & Company Secretary	Over 13 years of corporate finance	"CA, CS and Qualified Information Systems Auditor B.Com - Bangalore University"
Anjan Lahiri	Co-Founder & President and CEO, IT Services	Over 19 years in IT industry	"Bachelors in Engineering - BIT, Ranchi MBA – University of Florida, Gainesville"
Scott Staples	Co-Founder & President and CEO, Knowledge Services	Over 22 years in various fields	"Bachelors in Arts (English) - University of Delaware MBA - Fairleigh Dickinson University, New Jersey"
Kamran Ozair	Co-Founder & Executive Vice President and CTO	Over 27 years in IT industry	"Masters in Science - University of Wisconsin, Madison Graduate - Dartmouth College, Hanover"
Kalyan Kumar Banerjee	Co-Founder & Senior Vice President, R&D Services	Over 23 years in IT industry	"B. Tech - IIT, Delhi M. Tech - IIT, Kanpur"

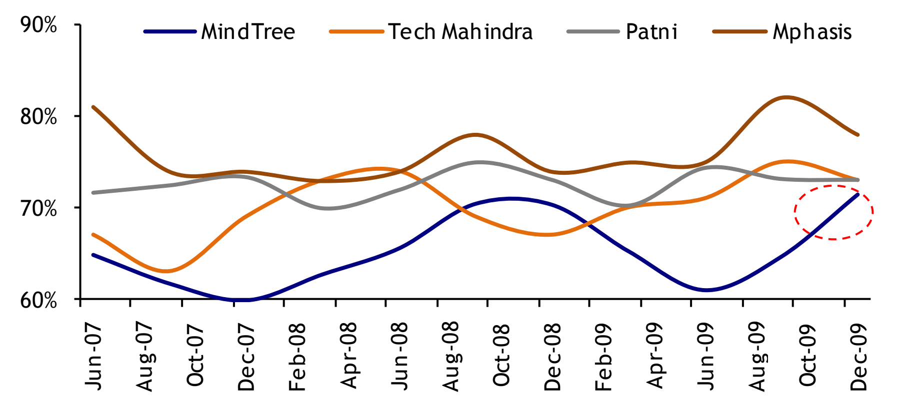
Source: Company Data, PL Research

Best placed among peers for growth with resilient margin

MindTree is best placed amongst its peers for an accelerated growth. As the company gears up to cash-in on the speedy economic recovery, they are equipped with low utilization rate, high top clients mining, improving realization and room for improvement in fixed-price project. An improvement in demand environment provides scope for operating growth due to underutilized multiple levers.

Lowest utilization among its peers: MindTree has the lowest utilization (incl. trainees 71.3% and excl. trainees 72.9% - Q3FY10) among its peers, giving them room for accelerated demand pick-up. An improvement in utilization also gives scope for margin improvement. The management is comfortable with the utilization rate of 75%, providing scope for stretching the lever further without adding to the cost. We expect the company to improve utilization by 300-400bps over the next two quarters, resulting in a positive impact on margin by 100-120bps.

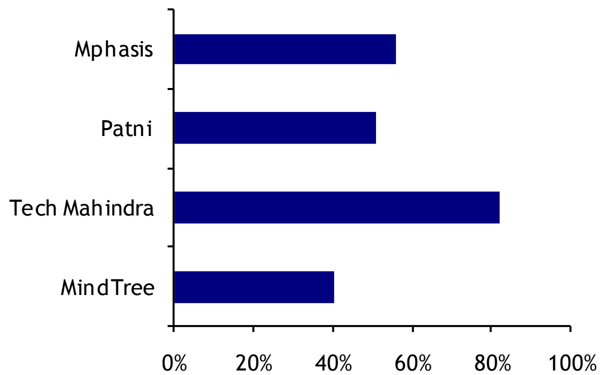
Lowest utilization among its peers - scope of stretching this lever



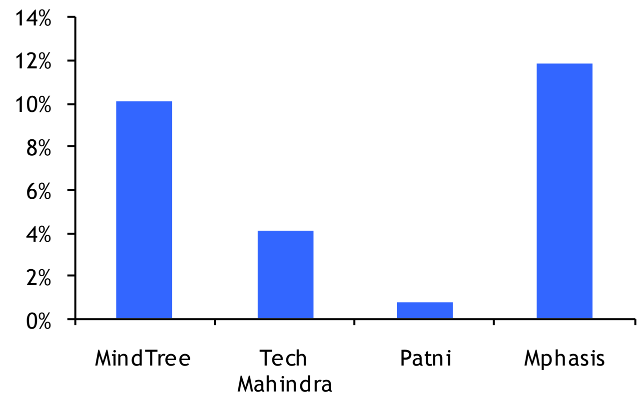
Source: Company Data, PL Research

Top client mining strongest among its peers: MindTree is least exposed to the top 10 clients when compared to its peers, driving only ~41% of revenue from them. But strong focus on top client mining helped them grow these accounts faster than peers. We anticipate a continued focus on the existing clients to help the company register stronger growth as management strengthens its ties with the existing company. Diversified portfolio of the company would help them to register lesser seasonality in earnings. As the company strengthens its offering portfolio, the company's revenue from top 10 clients is expected to grow at mid-single digit.

Dependence on top 10 clients lowest among peers



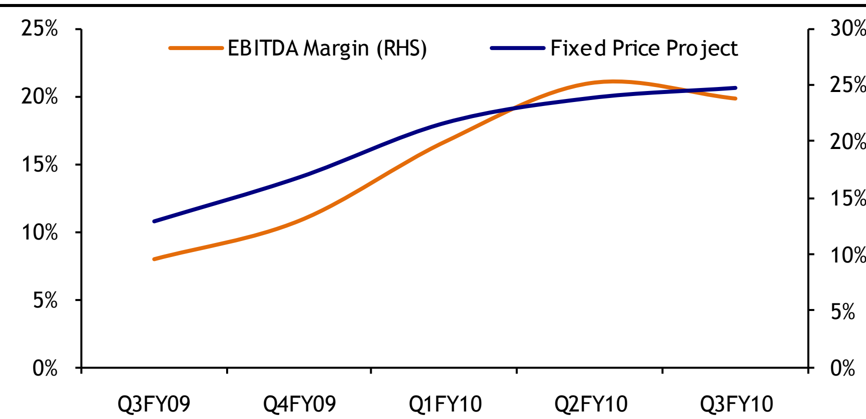
Growth from top 10 clients highest among peers



Source: Company Data, PL Research, Data as per Q3FY10 (OND-09)

Lowest contribution from fixed price projects (FPP), provide scope of improvement: MindTree drives less than 15% of revenue from FPP, least among its mid-cap peers. Contribution from FPP projects has improved steadily over the last six quarters and so are the margins. We believe that the company would continue its focus on increasing contribution from FPP, providing room for margin expansion. Over the last five quarters, margins and FPP have shown a steady improvement. Also, we believe that as the company is improving its product offering and service portfolio, FPP projects are expected to inch forward when compared to its T&M.

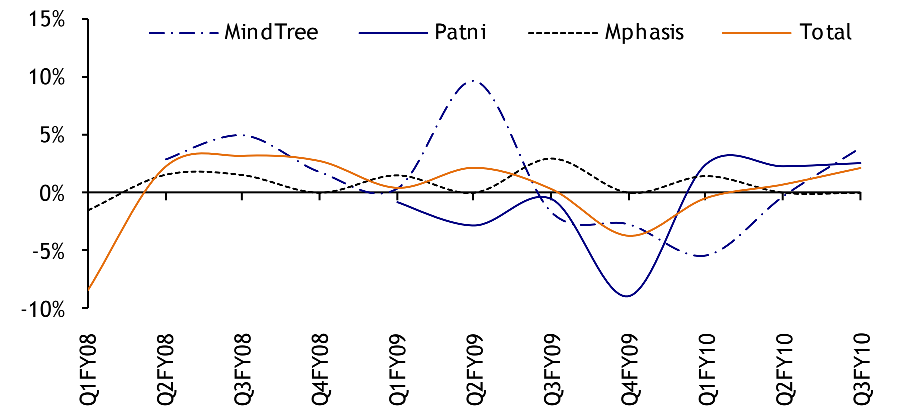
Steady improvement in FPP accompanied by margin expansion



Source: Company Data, PL Research

IP focus should help increase in realization: Onsite realization has shown a steady improvement for the company when compared to its peers. We expect onsite realization to remain steady with little or no positive bias. The company continues its focus on product management and building IP would help the company improve its realization rate.

Onsite Realization (QoQ) - strong performance during downturn



Source: Company Data, PL Research

Key non-linear initiatives - leveraging IPs

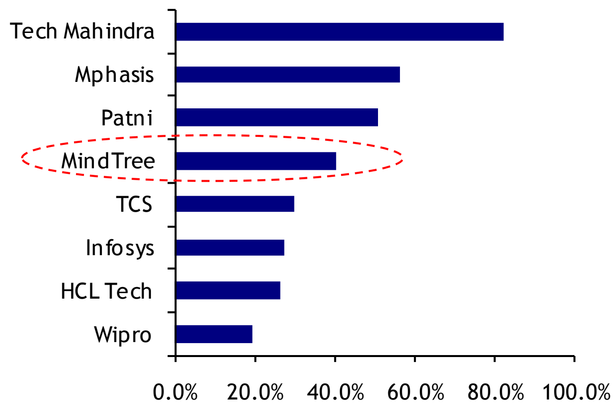
Key Area	Focus
Semiconductor	
Consumer Systems IG (CSIG)	Equipment vendors, Solution/Service providers and Chip Manufacturers in the Consumer Electronics, Mobile Handset and Computer Peripherals Space
Network and Storage Systems IG (NSIG)	Equipment vendors and solution providers in Communication, Networking, Computing and Storage space
Infrastructure Systems (ISIG):	High availability, high reliability product engineering market includes Industrial Automation, Automotive Electronics, Medical Electronics and Defense Electronics segments
VLSI Industry group (VSIG)	Building business in full chip design and other VLSI services
Digital Surveillance Business	Emerging digital surveillance market, R2M products & solutions for the video surveillance market
Research	
Intellectual Property (IP)	Development initiatives will include: 1) Short Range Wireless 2) Android 3) Telemedicine 4) Analog IP

Source: Company Data, PL Research

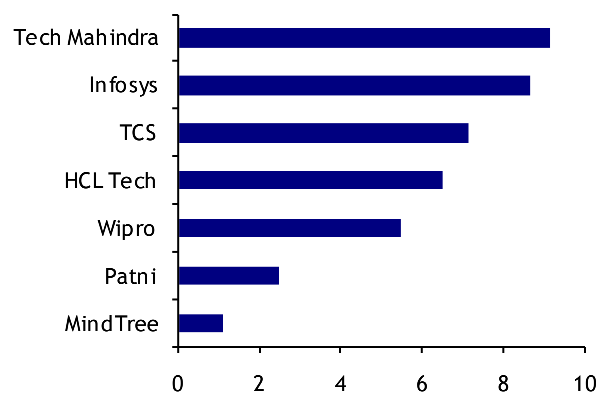
Diversified client portfolio: MindTree has got the least exposure to top 10 clients when compared to other mid-Tier Indian IT companies. Tier-1 Indian IT services companies drive ~30% of revenue from their top 10 clients, whereas Tier-2 companies drives more than 50% of revenue from top 10 clients.

Also, MindTree has got the most diversified earnings portfolio when compared to its peers. It has 253 clients contributing about an annual run-rate of US$280m, making it most diversified in terms of revenue per client. We believe that small dependence on each client diversifies the risk of earnings for the company. Also, it provides opportunities to mine some of the existing relationship with the client. We believe that there is scope of improving business from these existing clients.

Revenue from top 10 clients inline with larger peers



Revenue per client still lowest - scope to grow account (US$ m)



Source: Company Data, PL Research, Data as per Q3FY10 (OND-09)

Financial outlook – Room for accelerated growth

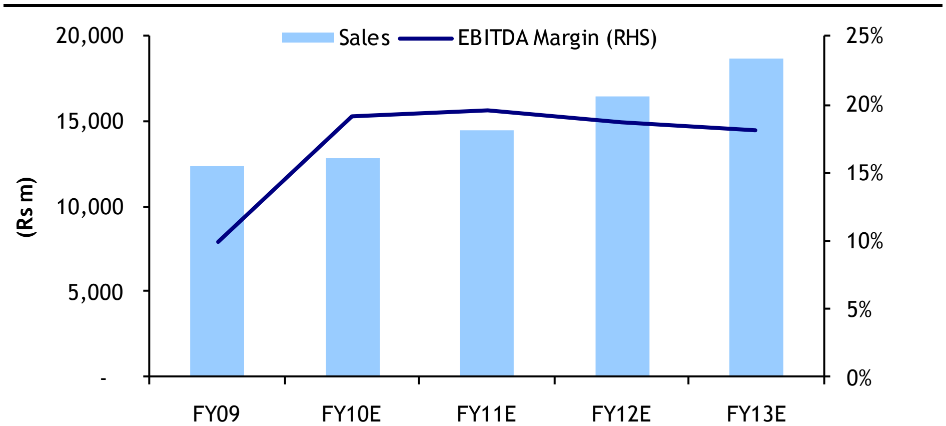
MindTree, a mid-sized company with slightly over US$250m revenue in FY10, has broader service capability relative to its peers, addressing a wider target market. It has two broad service offerings – R&D and IT – which contribute equal proportion to the revenue. Within R&D services, MindTree has three distinct vertical domains and develops IP that is owned by the company. The IT services business has multiple service offerings similar to many of its peers; these include application development and maintenance, infrastructure management and support, testing, ERP (Enterprise Resource Planning) implementation and product engineering. We believe that diversified service offering for its size would help company to grow at faster pace when compared to its peers.

Growth levers intact with scope of margin improvement

MindTree has high exposure to PES, which contributed ~50% of total revenue, while IT services contributed remaining of the total revenues in Q3FY10. We expect PES to grow stronger than group revenue as the company strengthens its services offerings. Smaller divisions such as Package Implementation and Infrastructure Management Services that combined contributed less than 10% are expected to grow at a CAGR of 25%. The company is looking at expanding the capabilities in these two verticals through acquisitions in Europe or the US.

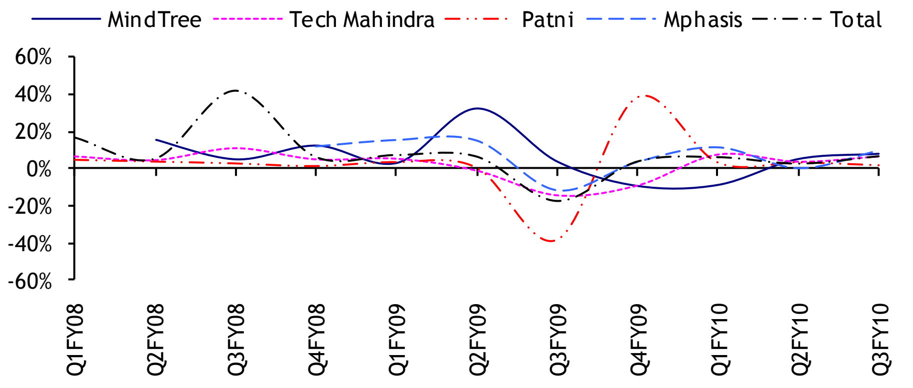
The management has a target of a billion dollar revenue by 2014 which includes inorganic growth as well. To achieve the target set by the company, the company needs inorganic revenue CAGR of ~38% over (2010-14E).

Improved revenue visibility – margin expected to be stable



Source: Company Data, PL Research

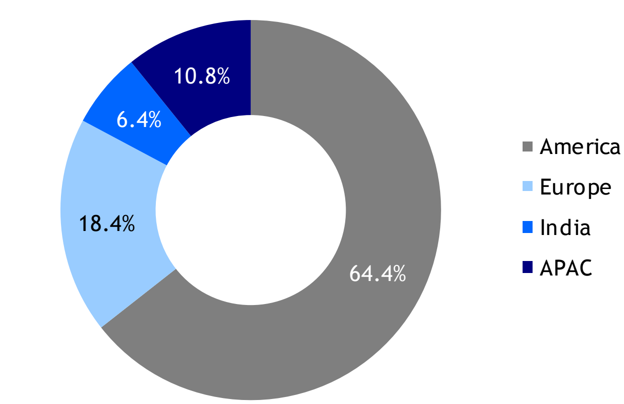
Lesser seasonality in topline when compared to its peers



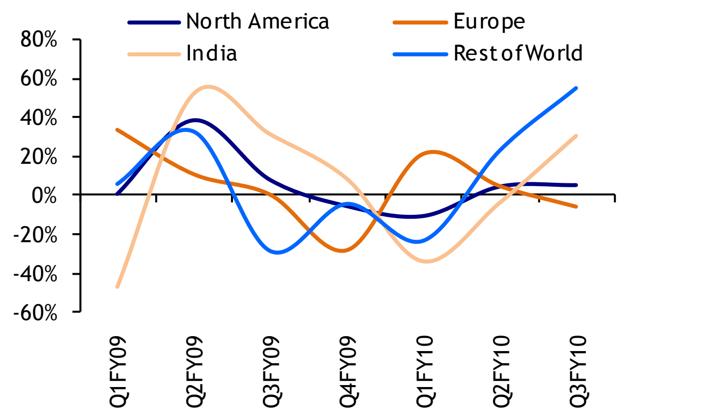
Source: Company Data, PL Research

The company derived about two-third of its revenue from US and got very low exposure to the ailing Europe. We believe that the company would reap the benefit of stronger presence in the economically improving US market. We expect US to demonstrate the stronger-than-group revenue growth for FY11E.

North America contributes lion's share of revenue



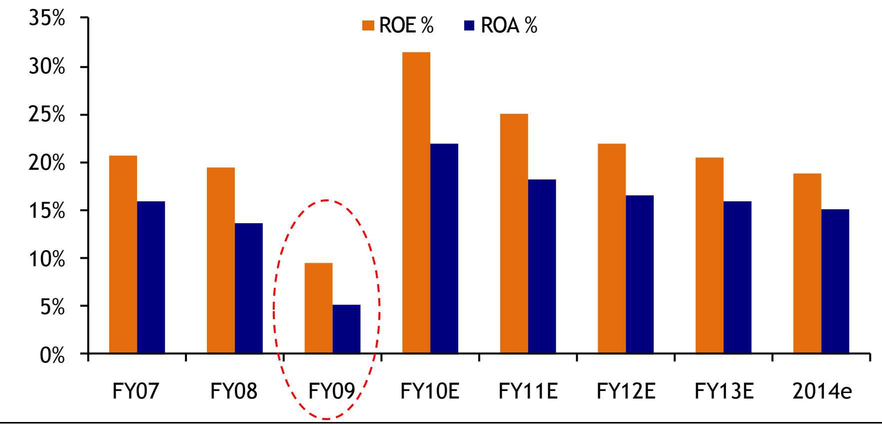
America and India - driving growth



Source: Company Data, PL Research

MindTree has consistently generated good returns on its asset and equity. RoE is expected to grow to 31% by FY10E from 9.5% in FY09 (due to losses in forex hedging) but decline to 25% in FY11E due to lesser gain in forex. ROA is expected to grow steadily from 5% in 2009 to 22% in FY10E.

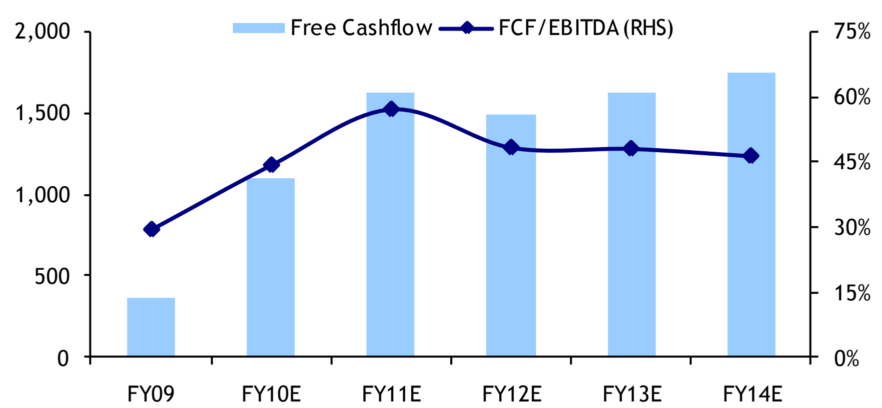
Returns in FY09 marred by foreign exchange losses



Source: Company Data, PL Research

MindTree has high earnings quality with FCF conversion (30% of EBITDA in FY09), which is expected to improve steadily over FY10E and FY11E to 44% and 61%, respectively and going forward, we expect to see steady FCF growth. We expect strong cash conversion by the company.

Free cash flow generation help building war-chest of cash for acquisition



Source: Company Data, PL Research

Forex hedging - withstand currency appreciation: MindTree has been proactive in taking the currency hedges during 2009, which would help the company to withstand currency appreciation. It has got US$158m hedges mostly in long-term options out of which US$110m is expected to expire in FY11. We believe that the company is adequately hedged, but a sudden appreciation in currency could impact the margin.

Low tax rate – prudent SEZ plans: MindTree has got the highest percentage of revenue coming from SEZ (35% of total revenue). The company has one SEZ each in Whitefield (Bengaluru) and Chennai. The company expects the tax rate to be in the range of 15-17% even after the end of STPI tax benefit getting over in FY11.

No guidance – management cautious due to volatility: The management will stop providing guidance from FY11. According to the management, the guidance is exposed to volatility in the exchange rate and macro-economic environment. Investors reacted negatively after Q3FY10 results, but we believe that the company still signifies high level of corporate governance. The management will continue to provide qualitative information to help investors understand the state of the business. We believe that the negative sentiments around the sudden change in policy resulted in de-rating of the stock, but according to us, as management starts providing more of qualitative information, the stock should get re-rated.

Key Risks to Recommendation

Company Specific

Slower recovery in Europe and US: MindTree is exposed to discretionary spend of its clients. Due to high exposure to R&D/PES space, a slow recovery or another dip is likely to negatively impact the growth prospect of the company. Any increase in uncertainty could lead to a delay in investment in the business by clients which could lead to slower-than-anticipated growth.

Volatility in margin during inflexion points: MindTree margins were volatile in the past due to economic slowdown. We believe that due to high exposure to new development work, which gets shelved during downturn, the margins of the company could be volatile in case of increased uncertainty. Also, R&D outsourcing business is more cyclical in nature, like change in the business model post dot-com, availability of PE/VC fund for new ventures, when compared to traditional IT Services business exposing MindTree to the risk of volatility.

Sector specific

Backlash against offshore outsourcing: Due to jobless economic recovery in the US, there is a possibility of some legislative changes that could hurt the Indian IT Outsourcing industry. There could be regulatory or visa restrictions and customers might defer decisions, leading to lengthening sales cycles. The possibility of such a backlash in the medium term looks low, in our view.

Rupee appreciation could eat into company's growth and margins: A sudden appreciation in rupee could erode the operational growth delivered by the company. In line with the larger peers, the margin eroded due to percentage point appreciation in rupee would be 40-50bps.

Valuations – growth not in price

Our DCF points to a base-case fair value of Rs750/share. This assumes an average Weighted Average Cost of Capital (WACC) of 13.6% and operating margin of 14%.

DCF Valuation Summary of MindTree - Target Price Rs750

PV of Cash Flow	12,682	50%
Terminal Value	12,635	50%
Firm Value	25,317	
Tax asset		
Less Net Debt/(Cash)	(3,148)	
Equity Value	28465.0	
Number of Shares O/s	38.1	
Per Share	**747.1**	

Source: Company Data, PL Research

DCF sensitivity (Beta v/s Terminal growth)

Terminal Growth Rate	Beta Sensitivity						
	0.90	**1.00**	**1.10**	**1.20**	**1.30**	**1.40**	**1.5**
2.75%	830	790	754	722	692	665	640
3.00%	843	801	763	730	699	671	646
3.25%	856	812	773	738	707	678	652
3.50%	869	824	783	747	714	685	658
3.75%	884	836	794	757	723	692	664
4.00%	899	850	806	766	731	700	671
4.25%	916	864	818	777	741	708	678

Source: Company Data, PL Research

Key long-term model assumption

Operating assumptions: We forecast a strong revenue growth in the near term, driven by robust demand in PES and R&D services, with margins of 14.5% in the near term decreasing to 13% for terminal. MindTree's strong position in R&D services and PES brings sustainable strong returns.

We do not forecast acquisitions: Our forecasts do not assume acquisitions. However, we note that the management follows a strong acquisition policy (three acquisitions in last three years). Also, the management in their guidance talked about acquisition in IMS and PI in Europe or the US.

Capital intensity remains consistent: We assume that capex is likely to remain stable between 4.0-4.5% of sales in the near term due to strong growth in demand and services and 3.3% for long term.

Cost of capital: We use a WACC of 13.6% based on the cost of equity of 13.6% and cost of debt of 9.0% with debt-to-capital ratio stable at 10%.

Terminal assumption: For the terminal value, we assume 3.5% growth in revenue at 13% operating margin.

Forecast Summary

Y/e March	'04-'06	'07-'09	'10e-'14e	'15e-'17e	'9-'17e
Sales CAGR	76.0%	44.8%	10.7%	11.5%	11.7%
EBITDA CAGR	-264.6%	-12.6%	10.0%	11.5%	25.1%
Average Operating Margin	0.5%	10.6%	14.0%	13.0%	12.7%
ROIC	6.6%	16.5%	19.3%	14.2%	16.4%
Return on Equity	21.2%	16.5%	23.8%	20.5%	21.1%
Sales To Average WC	4.2	6.6	6.0	6.0	6.4
Average Capex to Depn	1.2	3.1	1.1	1.0	1.0
Operating Asset Turnover	1.5	1.4	1.6	1.3	1.5
WACC	13.4%	13.4%	13.4%	13.4%	13.4%
FCF Growth	-344.1%	-31.6%	9.9%	12.2%	28.2%

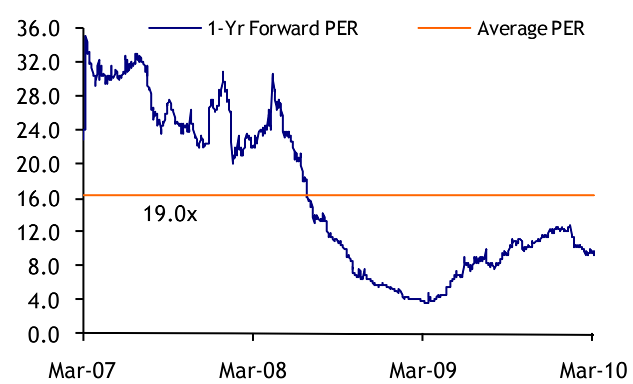
Source: Company Data, PL Research

Current valuations at discount to Infosys and Patni

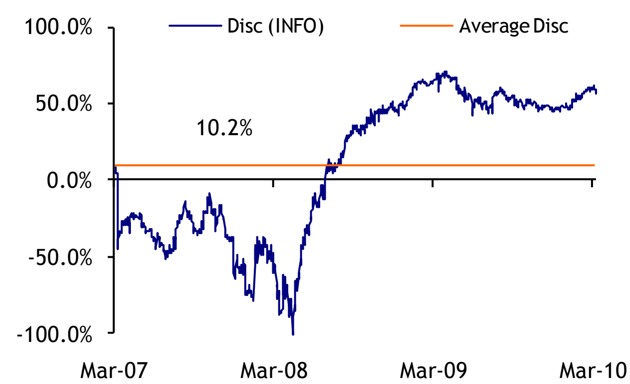
The business environment of MindTree is improving but not its valuation with respect to Infosys (figure below). The discount to Infosys has been extended to ~55-65% in 2010 from a premium of 40-50% in 2007. Our DCF-based target price of Rs750 for MindTree, translates to a 45% discount to Infosys' target PER for FY12 earnings, which looks conceivable.

45% discount to Infosys valuation points target price of Rs750/share. MindTree is currently trading at a 58% discount to Infosys' on 1Yr forward earning basis against historical average of 10% discount. We value MindTree at Rs750, 45% discount to Infosys (1300bp lower than current discount), giving an upside of 33%. We believe that the service portfolio has strong growth potential which will narrow the discount to Infosys.

Currently trading at steep discount to long term average



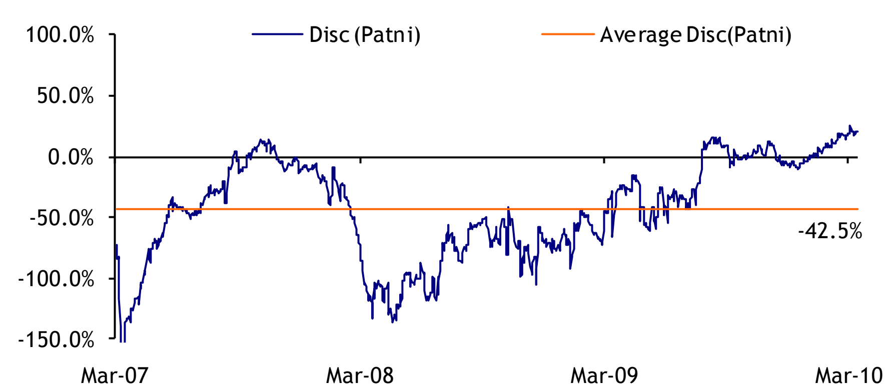
Discount to Infosys peaked - expect a mean reversal



Source: Company Data, PL Research

Discount to Patni should witness mean reversal: MindTree is currently trading at a 20% discount to Patni on 1Yr forward earning basis against historical average of 43% premium. We anticipate that as the earning momentum would help MindTree move back to the premium range.

Trading at 20% discount to Patni against historical average of 43% premium



Source: Company Data, PL Research

Financials

Income Statement (Rs m)

Y/e March	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Overseas Revenues	3,970	5,534	6,865	11,609	-	-	-
Domestic Revenues	518	369	533	766	-	-	-
Total Revenues	**4,488**	**5,903**	**7,398**	**12,375**	**12,877**	**14,483**	**16,470**
Software Development Expense	2,735	3,509	4,725	6,968	7,875	8,953	10,368
Admin & Other Exp	977	1,298	1,419	4,187	2,537	2,836	3,198
Total Expenditure	3,712	4,807	6,144	11,154	10,412	11,789	13,567
Operating Profit (EBITDA)	**776**	**1,096**	**1,254**	**1,220**	**2,465**	**2,694**	**2,903**
Margin (%)	*17.3*	*18.6*	*16.9*	*9.9*	*19.1*	*18.6*	*17.6*
Depreciation	209	244	356	570	660	718	758
as % of sales	*4.7*	*4.1*	*4.8*	*0.0*	*5.1*	*5.0*	*4.6*
EBIT	**567**	**852**	**898**	**651**	**1,805**	**1,975**	**2,145**
Margin (%)	*12.6*	*14.4*	*12.1*	*5.3*	*14.0*	*13.6*	*13.0*
Other Income	66	74	279	115	662	427	628
Interest	53	30	59	162	27	7	8
PBT	**557**	**896**	**1,118**	**604**	**2,440**	**2,395**	**2,764**
Margin (%)	*12.4*	*15.2*	*15.1*	*4.9*	*19.0*	*16.5*	*16.8*
Prov. For Taxes	15	(5)	85	66	366	383	553
Tax (as % of PBT)	*2.8*	*(0.5)*	*7.6*	*11.0*	*15.0*	*16.0*	*20.0*
Net Profit	**542**	**900**	**1,033**	**537**	**2,074**	**2,012**	**2,212**
Minority Interest & E.O.	-	-	-	41	-	-	-
Share of profit from associates	-	-	-	27	-	-	-
PAT	**542**	**900**	**1,033**	**524**	**2,074**	**2,012**	**2,212**
NPM (%)	*12.1*	*15.3*	*14.0*	*4.2*	*16.1*	*13.9*	*13.4*
Outstanding Equity Shares -Basic	31.1	31.1	37.6	37.8	39.2	39.2	39.2
Outstanding Equity Shares- Diluted	32.5	32.5	38.9	38.1	40.6	40.6	40.6
Basic EPS (Rs)	**17.4**	**29.0**	**27.5**	**13.9**	**53.0**	**51.4**	**56.5**
Diluted EPS (Rs)	**16.7**	**27.7**	**26.5**	**13.7**	**51.1**	**49.6**	**54.5**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Sources of Funds							
Shareholder's Funds							
Share Capital	59	378	379	380	393	393	393
Share Application Money	1	0	1	0	-	-	-
Reserves and Surplus	1,229	3,977	4,952	5,133	6,205	8,031	10,125
Total Shareholder's fund	1,288	4,355	5,331	5,513	6,599	8,424	10,519
Minority Interest	-	-	-	328	-	-	-
Loan Funds							
Secured Loans	742	264	919	1,376	82	82	82
Unsecured Loans	-	-	-	18	31	31	31
Total Capital Employed	**2,030**	**4,619**	**6,250**	**7,234**	**6,711**	**8,536**	**10,631**
Application of Funds							
Fixed Assets							
Gross Block	937	1,368	3,582	4,941	5,240	5,935	6,709
Accumulated Depreciation	576	800	1,189	2,110	2,613	3,331	4,089
Net Block	361	568	2,393	2,831	2,627	2,604	2,620
Capital Work-in-Progress	28	132	233	130	180	196	222
Total Fixed Asset	389	699	2,625	2,962	2,807	2,799	2,842
Goodwill	-	-	214	1,460	154	154	154
Investments	538	2,141	1,395	1,013	974	974	974
Deferred Tax Assets, Net	-	46	90	190	260	260	260
CURRENT ASSETS ,LOANS & ADVANCES							
Sundry Debtors	1,098	1,172	1,756	2,792	2,822	3,174	3,610
Cash & Bank Balances	262	768	553	488	449	2,167	3,896
Loans & Advances	558	830	949	1,411	1,905	2,063	2,346
Total Current Assets	1,918	2,770	3,258	4,691	5,225	7,404	9,852
CURRENT LIABILITIES AND PROVISIONS							
Current Liabilities	742	862	1,162	2,860	2,328	2,619	2,955
Provisions	73	176	170	222	381	436	496
Net Current Assets	1,103	1,732	1,926	1,609	2,516	4,349	6,400
Total Capital Employed	**2,029**	**4,619**	**6,250**	**7,234**	**6,711**	**8,536**	**10,631**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e March	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
PBT & Extra-ordinary items	558	896	1,118	604	2,440	2,395	2,764
Prior Period Adjustments/Tax w/back	-	-	-	-	-	-	-
Depreciation	209	244	356	570	660	718	758
Amortization of stock compensation	-	-	-	-	5	-	-
Interest Expense	53	30	59	162	27	-	-
Interest & Dividend Income	(15)	(35)	(174)	(87)	(117)	-	-
(Profit)/loss on sales of Asset	(0)	1	(1)	(19)	2	-	-
(Profit)/loss on sales of Investments	(19)	(12)	(25)	(6)	(12)	-	-
Tax Paid	(32)	(48)	(188)	(287)	(409)	(383)	(553)
Other Adjustments	25	12	19	1,533	134	-	-
(Inc.)/Dec. in WC	(343)	(266)	(252)	(668)	(576)	(180)	(349)
Cash from Operations	**435**	**821**	**912**	**1,802**	**2,154**	**2,550**	**2,621**
(Purchase)/Sale of Fixed Assets	(212)	(558)	(2,183)	(435)	(155)	(695)	(774)
Proceed from the sale of fixed assets	8	9	8	65	2	-	-
Purchase of Business/Acquisition	(236)	(17)	(254)	(2,920)	(373)	-	-
Interest & Dividend Recd	10	20	85	63	36	-	-
Purchase of Investments	(496)	(2,506)	(2,032)	(8,076)	(6,112)	-	-
Sales/Maturities Of Investments	320	930	2,877	9,079	5,859	-	-
Cash from Investing Activities	**(605)**	**(2,122)**	**(1,501)**	**(2,224)**	**(743)**	**(695)**	**(774)**
Issue of Equity Shares	64	2,365	(119)	6	93	-	-
Interest Paid on loans	(52)	(30)	(59)	(159)	(29)	-	-
Proceeds From Term Loans	294	-	955	1,018	82	-	-
Repayment of Term Loans	(209)	(186)	(128)	(1,369)	-	-	-
Proceeds/Repayments of Other Loans, Net	149	(287)	(165)	858	(953)	-	-
Equity Dividend paid (incl tax)	(59)	(35)	(88)	(90)	(98)	(137)	(118)
Others	(23)	(21)	(23)	(38)	(410)	-	-
Cash from Financing Activities	**163**	**1,807**	**373**	**226**	**(1,316)**	**(137)**	**(118)**
Effect Of Forex Differences	1	1	1	(3)	-	-	-
Inc/(Dec) in Cash	**(6)**	**507**	**(214)**	**(199)**	**95**	**1,718**	**1,729**
Cash At the beginning of the Period	265	259	766	552	353	449	2,167
Cash From Acquisition	-	-	-	-	-	-	-
Cash At the end of the period	**259**	**766**	**552**	**353**	**449**	**2,167**	**3,896**

Source: Company Data, PL Research

Key Ratios

Y/e March	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
P&L Ratios							
FV/Sales	5.0	3.7	3.1	1.9	1.7	1.5	1.3
FV/EBITDA	28.9	20.1	18.1	18.9	8.8	8.1	7.5
FV/EBITA	39.6	25.8	25.2	35.5	12.1	11.0	10.2
FV/ Net Profit	41.4	24.4	21.9	43.0	10.5	10.8	9.9
Price to Cash							
Price to Ops CF	49.9	26.4	23.8	12.1	10.1	8.5	8.3
Price to FCF	25.3	28.2	(44.4)	60.3	19.9	14.5	16.1
Price to Change in Cash	(3,680.8)	42.9	(101.6)	(109.2)	227.7	12.6	12.6
Returns on Capital Ratios							
RoCE %	27.9	18.4	14.4	9.0	26.9	23.1	20.2
RoIC %	23.8	18.7	15.1	6.0	29.5	22.0	19.7
RoE %	42.1	20.7	19.4	9.5	31.4	23.9	21.0
RoA %	19.1	15.9	13.6	5.1	22.0	17.4	15.7
Earning Quality							
FCF/Sales	0.2	0.1	(0.1)	0.0	0.1	0.1	0.1
FCF/EBITDA	1.1	0.7	(0.4)	0.3	0.4	0.6	0.5
FCF/EBIT	1.5	0.9	(0.5)	0.6	0.6	0.8	0.6
Per Share Ratios							
P/E (FD, pre excepts)	32.7	19.7	20.8	41.1	10.8	11.1	10.1
Dividend Yield	NA	0.0	0.0	0.0	0.0	0.0	0.0
Price to Book (FD)	NA	4.3	4.2	3.9	3.5	2.7	2.2
Leverage & Solvency							
Current Ratio	2.4	2.7	2.4	1.5	1.9	2.4	2.9
Quick Ratio	1.0	1.5	1.1	0.6	0.9	1.4	1.8
Net Debt/(Cash) (Reported)	(57.7)	(2,644.7)	(1,029.2)	(107.2)	(1,310.3)	(3,028.3)	(4,757.7)
Debt/Equity	66.8	9.3	18.7	25.9	1.9	1.5	1.2
Net Debt/Equity	(4.5)	(60.7)	(19.3)	(1.8)	(19.9)	(35.9)	(45.2)
Net Debt to EBITDA	(7.4)	(241.2)	(82.1)	(8.8)	(53.2)	(112.4)	(163.9)
Asset Turnover	157.8	104.4	97.6	120.0	136.7	124.9	117.0
Avg Total Assets/Avg. Total Equity	155.9	117.8	114.5	132.3	103.5	82.1	71.4

Source: Company Data, PL Research

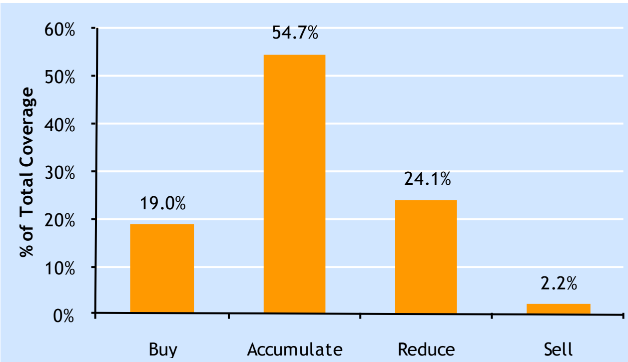
Company Background

MindTree was started in 1999 by a diverse team of 10 professionals who came from three different nations and had already scripted their successful careers. Their vision to build an institution that is among the most admired companies globally is shared with every employee and is reflected in the way they do business. MindTree is amongst the fastest growing IT and R&D services company. Their growth has been powered by consultative approach, deep understanding of business and technology, passion for innovation - and above all, integrity.

MindTree now has six business line that includes IT Services, Independent Testing, Infrastructure Management and Technical Support (IMTS), Knowledge Services and Product Engineering, which comprises of R&D Services and Outsourced Product Development and strong presence in North America, Europe and Asia Pacific. The company caters to industries like Banking and Financial Services, Manufacturing, Transportation, Engineering and Software Product Services.

Prabhudas Lilladher Pvt. Ltd.
3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

For Clients / Recipients in United States of America:

All materials are furnished courtesy of Direct Access Partners LLC ("DAP") and produced by Prabhudas Lilladher Pvt. Ltd. ("PLI"). This material is for informational purposes only and provided to Qualified and Accredited Investors. You are under no obligation to DAP or PLI for the information provided herein unless agreed to by all of the parties. Additionally, you are prohibited from using the information for any reason or purpose outside its intended use. Any questions should be directed to Gerard Visci at DAP at 212.850.8888.