

MindTree Ltd

Writedowns in handset business aggressive; margins in core business to improve

MindTree Ltd is a global IT and R&D services company. The company's activity is structured into two business units that focus on software development - IT Services and R&D Services, in which the company offers different IT Services to Capital Markets, Insurance, Manufacturing, Retail and Travel & Transportation Industries.

Key Updates: The writedown of USD 12 mn–14 mn for the handset business is an aggressive worst-case scenario and the actual number may be lower; (2) Most of the writedowns could come in Q3FY11; (3) The core IT services business continues to show strong growth, but the R&D business remains weak and is expected to revive only by Q4; (4) The management expects to expand margins back to 18–19% levels by the fiscal-end and 5) On IT budget renewals, unlike the past couple of years, the management has not heard any negative news flow so far and expects some growth in discretionary spending next year.

Handset business writedowns could be lower: MindTree has guided towards total write-offs of USD12 mn–14 mn for closing down the handset business, which includes people separation, asset writedowns, outstanding purchase orders and operating losses. The management guidance appears aggressive and actual numbers could be lower depending on employee absorption and other factors. The product segment has 750 people, of which 400 work in services and will be transferred to the core services business. The company would also look to redeploy as many of the remaining employees as possible in the product engineering and R&D services businesses.

Strong growth in IT services, but R&D services to recover only from Q4: MindTree has been seeing strong growth in the core IT services business, with 12% QoQ volume growth in the last quarter. Software product engineering services have also increased at 3.5% sequentially. R&D services have been weak, but the management expects the decline to moderate and growth to resume by Q4. On the margins front, the management expects to improve operating margins over the next two quarters and achieve 18–19% levels by the year-end in the core services business.

CMP	RATING
RS 523	BUY

Company Data

Market cap (Rs mn)	20,810
Outstanding equity Shares (mn)	39
Free float (%)	67.74
Dividend yield (%)	0.57
52-week high/low (Rs)	747/498

Data Matrix

Beta	0.39
PE(x)	10.03
BV	162.38
PB(x)	3.22

Shareholding Pattern

Particulars	(%)
Promoters	32.26
Bank & FIs	2.27
FII	17.53
Mutual Funds/UTI	3.34
Others	44.50



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