

October 11, 2011

### Reco

Accumulate

**CMP** Target Price  
Rs 341 Rs 415

Nifty 4,974

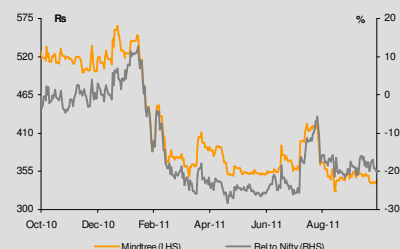
Sensex 16,536

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(7)	(11)	(33)
Rel. to Nifty	(1)	5	3	(18)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	IT Services
Bloomberg	MTCL@IN
Equity Capital (Rs mn)	405
Face Value(Rs)	10
No of shares o/s (mn)	40
52 Week H/L	571/321
Market Cap (Rs bn/USD mn)	14/286
Daily Avg Volume (No of sh)	193023
Daily Avg Turnover (US\$m)	1.6

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	26.4	31.9	32.0
FII/NRI	31.2	32.7	33.2
Institutions	6.8	5.4	5.4
Private Corp	17.6	17.3	17.1
Public	18.1	12.7	12.3

Source: Capitaline

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- **Initiate coverage with an ACCUMULATE rating and TP of Rs 415 as renewed focus on the core business along with recent deal wins drive uptick in financial performance**
- **Appreciate company's strategy of (1) focusing on fewer verticals, (2) and client mining initiatives, which have already started yielding results in the form of recent deal wins**
- **Estimate a 16%, 24% and 27% revenue, EBITDA and profit CAGR (16% US\$ revenue CAGR) over FY11-14E, as we expect margins to improve by 250 bps over the period**
- **Unsuccessful handset forays, discontinuation of guidance + hedging losses have driven de-rating. Valuations attractive at 9.3x/8.3x FY12/13E EPS, given better performance ahead**

### Renewed focus on core business to drive uptick in financial performance

Post its unsuccessful foray into the handset manufacturing business, Mindtree has renewed focus on the core services business in the form of (1) higher vertical focused approach, and (2) higher incentives on client mining /farming, early success of which, is evident from the recently announced large deals in the IT services business. In our view, ramp ups on recently announced large deals in the IT services segment, along with completion of ramp downs in some PES accounts will aid strong revenue uptick over the next few quarters. We see upside risks to our 19%/13% US\$ revenue growth estimates for FY12/13.

### Margins to improve by ~250 bps over FY11-14E

We estimate Mindtree's EBITDA margins to improve by ~250 bps over FY11-14E ( note that margins have fallen sharply by ~1500 bps over FY09-11) driven by (1) revenue growth leverage ( we see upsides to our 15.5% US\$ revenue CAGR over FY11-13E as we build in <3.5% US\$ revenue CQGR ), (2) absence of one off costs/losses related to handset business, (3) improvement in employee bulge ( only ~20% of employees <3 yrs of experience) and (4) utilization of high cost resources (related to Kyocera). We expect sustenance of the current INR depreciation to further aid margin performance, given higher sensitivity at ~55-60 bps for every 1% change in US\$/INR. We highlight that management remains confident of improving margins to 14-15% by Q4FY12 (at Rs 45/\$)

### De-rating driven by past flip flops; Expect reversal as financial performance improves

Mindtree has had its share of flip-flops in the form of - (1) its ill fated handset manufacturing foray, (2) discontinuing the practice of guidance from FY11 onwards and (3) an aggressive hedging policy in the past (hedging losses of ~Rs 2 bn in FY09 ) - driving sharp derating. We expect recent initiatives to drive course correction and an improvement in financial performance ahead. Valuations reasonably attractive at ~9x/8x FY12/13E earnings of Rs 37.6/42 given ~27% profit CAGR over FY11-14E (note that we base our currency assumptions at Rs 46/\$ for FY11-14). Initiate coverage with an ACCUMULATE rating and a March'13 TP of Rs 415.

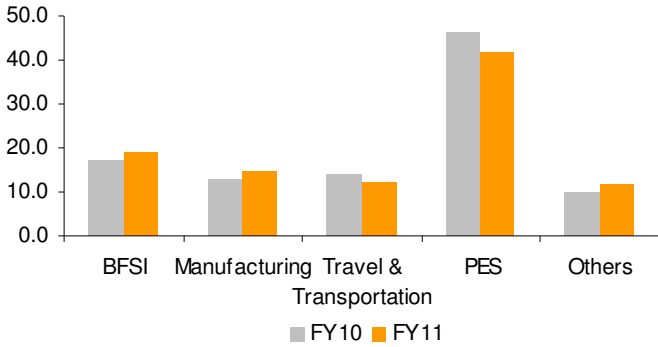
### Financials

Y/E March (in Rs mn)	Net Sales	EBITDA %	EBITDA %	PAT	EPS (Rs)	ROE %	P/E (x)	EV/ EBITDA	P/B (x)
FY11	15,091	1,779	11.8	1,017	25.0	15.5	14.0	7.7	2.0
FY12E	17,906	2,346	13.1	1,519	37.6	19.9	9.0	6.0	1.7
FY13E	20,439	2,908	14.2	1,698	42.0	19.1	8.0	4.9	1.5
FY14E	23,595	3,379	14.3	2,069	51.2	20.0	6.6	4.2	1.3

## Company Background

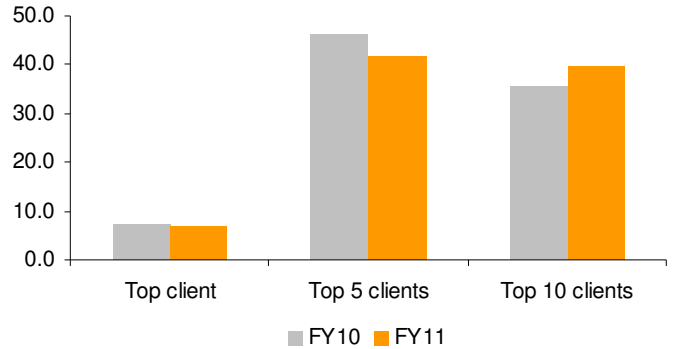
Mindtree is a mid tier IT services company with FY11 revenues at US\$ 331 mn (+22% YoY). Mindtree counts several Fortune 500 names amongst its client roster, which include names like Unilever, Microsoft, Volvo, Symantec, AIG, Arcelor Mittal, American Airlines amongst others

Vertical wise revenue contribution %



Source: Company, Emkay Research

Client contribution %

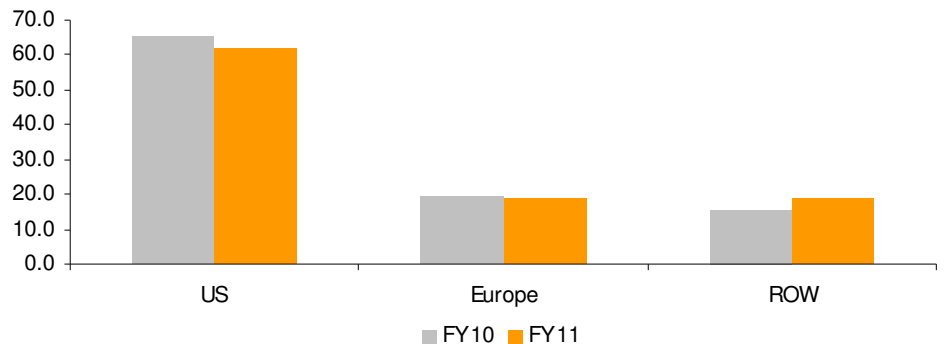


Source: Company, Emkay Research

Mindtree has 2 operating segments namely (1) IT services (~64% of revenues in Q1FY12, wherein the company provides services like application development, application maintenance, testing, consulting and IMS services to enterprise clients in verticals like manufacturing, BFSI, travel and transportation) and (2) Product Engineering Services (~36 % of revenues in Q1FY12, wherein the company provides R&D services and software product engineering services, which leverage Mindtree's expertise in the areas of H/w design, embedded software and Mindtree's IP's in the areas of Bluetooth, VOIP etc). During FY11, while IT services segment showed a 31% YoY growth, R&D services grew at a much slower clip at ~10% YoY.

Mindtree derived ~62% of revenues from US, 19% from Europe and balance from ROW in FY11. In the recent quarters, Mindtree has won large deals from European clients, ramp ups on which, have driven strong sequential growth from Europe, with % of revenues from Europe increasing by ~600 bps YoY to 22.8% in Q1FY12

Geographical Contribution %



Source: Company, Emkay Research

**Financials at a glance**

	FY07	FY08	FY09	FY10	FY11	FY07-11 CAGR
Revenue US \$ Mn	131.3	182.7	269.1	272.3	330.9	26.0%
<i>YoY Growth</i>		39%	47%	1%	22%	
Revenue Rs. Mn	5904	7338	12375	12960	15091	26.4%
<i>YoY Growth</i>		24%	69%	5%	16%	
EBITDA Rs. Mn	1096	1258	3309	2456	1779	12.9%
<i>YoY Growth</i>		15%	163%	-26%	-28%	
EBITDA Margin %	18.6	17.1	26.7	18.9	11.8	
PAT Rs. Mn	901	1042	523	2149	1017	3.1%
<i>YoY Growth</i>		16%	-50%	311%	-53%	

Source: Company, Emkay Research

## Investment Rationale

### Focus is back on the core business

Mindtree has fallen by 43% in the past 2 years, mainly on account of its unsuccessful foray into the handset manufacturing business in Oct'09. Mindtree lagged other mid tier peers (on an organic basis) for several quarters post the Kyocera acquisition owing to its increased focus on getting the product business to deliver (refer table below). However, we appreciate the company's decision to revert back its focus on the core business after realizing the challenges involved in the mobile handset business.

*Mindtree lagged peers on sequential revenue growth as management focus was occupied on getting the product business to deliver*

	Dec'09	March'10	June'10	Sep'10	Dec'10	March'11	June'11
eClerx	15.5%	6.0%	6.3%	7.1%	8.9%	7.7%	5.7%
Infinite Solutions	0.9%	18.3%	4.0%	11.2%	4.3%	11.4%	6.9%
Patni	1.8%	1.2%	-2.7%	6.7%	2.4%	4.0%	-3.4%
Hexaware	-0.9%	-10.0%	13.0%	11.3%	9.0%	5.7%	6.2%
Mindtree*	7.9%	5.8%	3.9%	7.7%	3.9%	4.1%	8.7%
Persistent	18.2%	10.0%	5.8%	2.6%	6.7%	8.8%	6.3%

Source: Company, Emkay Research

\* Sequential revenue growth (ex Kyocera)

We highlight that as part of the company's renewed focus on the core business, it is trying to move from a hitherto horizontal sales driven organization to a more vertically organized company. As part of its revamped strategy, Mindtree intends to leverage its domain knowledge, expertise and reference in select verticals and service lines to drive growth.

*Mindtree has moved from being horizontal sales driven organization to a vertically organized company now.*

*Focusing on fewer verticals /spaces, unlike the past*

Mindtree is currently focusing on select niche segments within manufacturing, financial services, travel and transportation and media/retail while doing away with some legacy projects in the areas of energy/utilities and healthcare. We highlight that Mindtree is transitioning from a horizontal sales driven organization to a vertical sales organized company, something that we see as an imperative for mid tier players to effectively compete against their larger IT brethren. Within the chosen verticals as well, Mindtree is focusing on certain sub verticals

### Manufacturing

Manufacturing contributes ~15% to Mindtree's revenues. Within manufacturing, the company boasts of several marquee and referable client names like Volvo, P&G, Unilever, Pepsi amongst others. Mindtree works with 6 of the world's top 10 CPG players and has won several strategic deals within the existing client roster, which will help drive growth in the near term

### Financial Services

BFSI contributes ~22% to Mindtree's revenues. Unlike Tier 1 players, Mindtree is focused on mid tier financial services clients and first time outsourcers in the BFSI space. We note that despite a relatively weaker positioning in the financial services vertical, Mindtree has not lost out in any vendor consolidation exercise and has recently won a potentially large deal with a big financial services client.

### Travel and Transportation

Travel and Transportation accounts for ~11% of Mindtree's revenues. With over 800+ dedicated team of technology consultants, business analysts and domain experts in this area, Mindtree specializes in building travel management systems across the entire travel supply chain.

Name	Verticals	Age of Relationship	Services provided
Avis Budget Group	Travel & Transportation	12	App Development, Maintenance and Independent Testing
Microsoft	Hi Tech	12	Product Development & Testing , Independent Testing
Unilever	Manufacturing	12	App Development & Maintenance
United Technologies	Hi Tech	11	Embedded S/w and App Development,Product Engg
Volvo	Travel & Transportation	11	App Development, Maintenance and System Integration
Symantec	Hi Tech	9	Product Development & Support , Independent Testing
Getronics	Hi Tech	8	App Development, Maintenance and Infrastructure Management
eBay	Hi Tech	7	Product Development, Independent Testing and Tech Support
Texas Instruments	Hi Tech	7	VLSI and Software

Source: Company, Emkay Research

### Higher focus on client mining

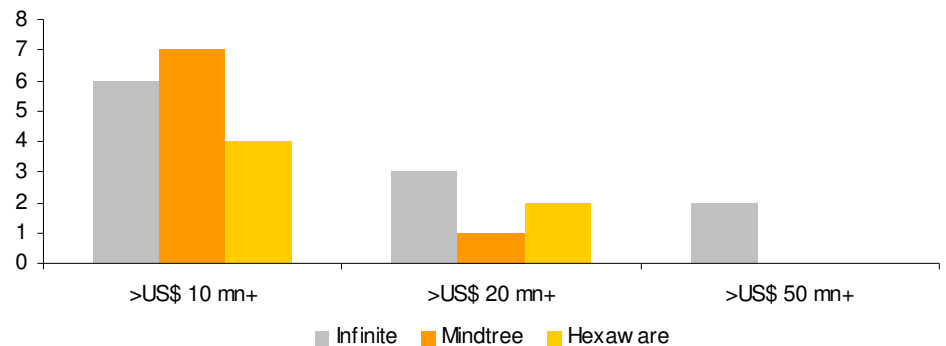
Apart from transitioning itself from a horizontal driven sales organization to a vertically organized company, Mindtree has started laying special emphasis on mining its existing clients. While Mindtree always boasted of a marquee and referable client base with 40+ Fortune 500 clients, it lacked focus on mining them given the fact that delivery managers doubled up as account managers.

Over the past 1.5-2 years, Mindtree has made investments in hiring senior talent from Tier I competition to address this inherent lacuna ( refer table below). The company has hired ~30-35 people from Tier 1 competition with special emphasis on farming the client accounts. The company has also laid out new incentive structures for account managers, which promote higher incentives for cross selling. In fact, the company's leadership team has set client mining targets for its sales staff, which include ramping up 2 of the US\$ 10 mn+ p.a client accounts to US\$ 50 mn+ p.a by FY13 end. (We would like to mention that the company has only a single client contributing US\$ 20 mn+ p.a currently). Similarly, the company aims to ramp up nearly 5-6 US\$ 5 mn+ clients to US\$ 10 mn+ in the same time frame

*Mindtree has hired senior talent from Tier 1 competition to address inherent lacuna on client mining.*

*Set targets to mine existing strong relationships with 2 of the US\$ 10mn+ p.a accounts to US\$ 50 mn+ p.a*

### Mindtree has higher no of US\$ 10 mn+clients, but lags peers on US\$ 20 mn+ and US\$ 50 mn+



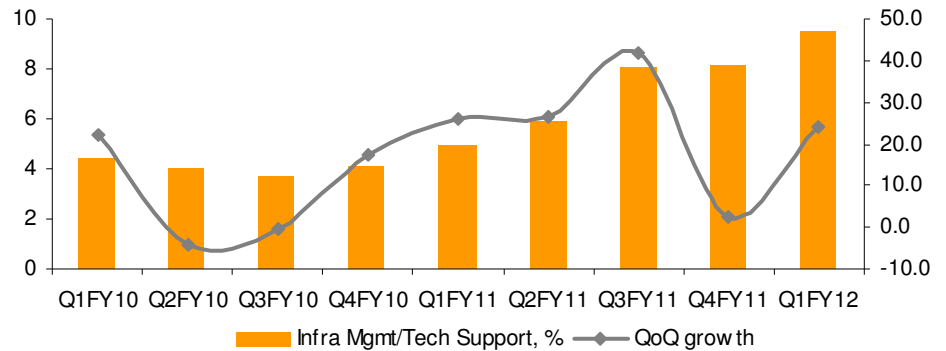
Source: Company, Emkay Research

### Focus on growing annuity revenue streams already yielding results

A valid concern across the street/investors (and also shared by us) has been Mindtree's higher exposure to discretionary spending (derives ~47% of revenues from Application Development), which could come under pressure in case of macro deterioration and cuts in IT spends.

Although we do not see the mix changing favorably in the medium term, we highlight that the company has been building up newer service lines like IMS and testing, which should help drive the annuity proportion higher. The recent large deal wins for Mindtree are a testimony of its early success in the IMS business. We expect IMS to account for 10%+ of revenues in FY12 itself (V/s <7% in FY11)

*Driven by sharp ramp ups on recent deals, IMS will account for >10% of revenues Vs 7% in FY11*

**IMS revenues have grown strongly in the past 2 years**

Source: Company, Emkay Research

**Margins to improve by 250 bps over FY11-14E**

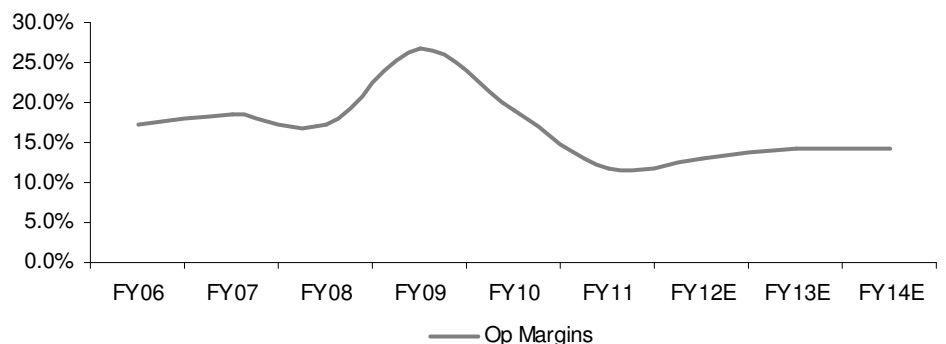
Mindtree's margins have declined by ~1,500 bps over FY09-11E, driven by impact of INR appreciation, supply side pressures and investments/losses in the wireless business. (However, it should be noted that operating margins for Mindtree were in a narrow range between 17-19.5% earlier).

*We expect Mindtree's margins to improve by ~250 bps over FY11-14E. See upsides to margin assumptions if current exchange rates were to sustain (we base our estimates at Rs 46/\$)*

In our view, Mindtree's margins will improve by 250 bps over FY11-14E on account of

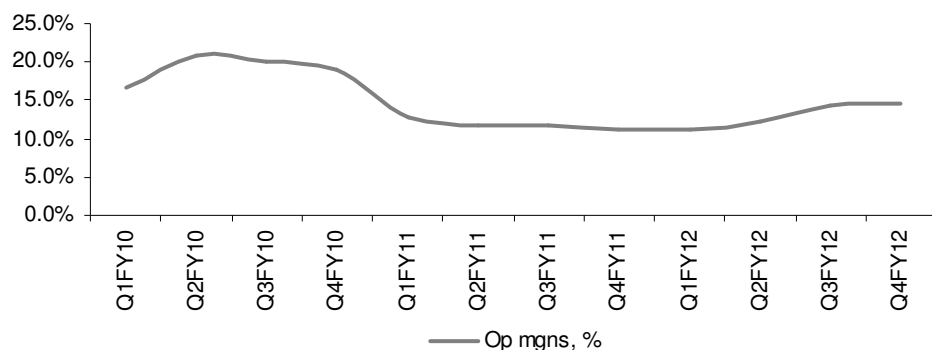
- Pickup in utilization of hitherto under utilized high cost resources (that came in through the Kyocera acquisition) as they get deployed on new deals
- Broadening of the employee pyramid - Mindtree's average employee experience at ~5 yrs is higher than peers and intends to bring it down by hiring more freshers through FY12-13. Company has already hired ~900 freshers in Q2FY12, which should also bring down the average salary cost/employee.
- Higher proportion of non linear revenues ( company targets to increase the non-linear proportion of business from ~4% currently to 9-10% in 1-2 yrs)

We build in ~340 bps margin expansion through FY12. Infact, we expect margins to expand by ~100 bps QoQ in Q2FY12 itself despite wage hikes for ~23% of the employees and strong fresher hiring during the quarter (note that Mindtree reported nearly flat margins in Q1FY12 despite wage increments for ~77% of the employees). We build in operating margins of 13.1%/14.2% in FY12 and FY13 (V/s 11.8% in FY11).

**Mindtree's margins to improve by ~250 bps over FY11-14E**

Source: Company, Emkay Research

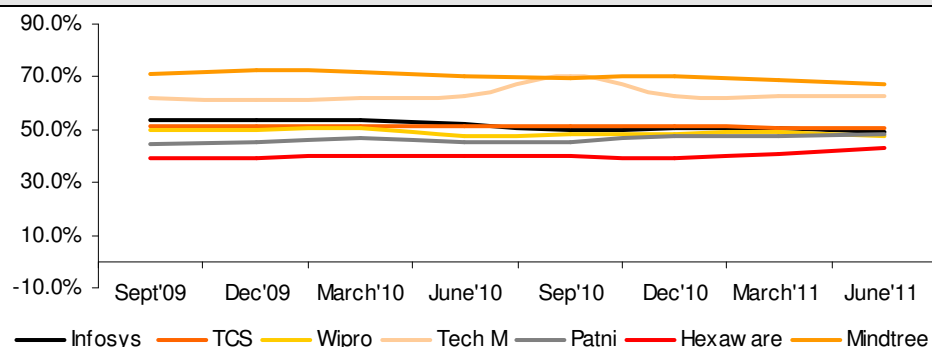
**We expect ~340 bps improvement in FY12 alone**



Source: Company, Emkay Research

We base our US\$/INR assumptions at Rs 46/\$. We see upsides to Mindtree's margins in case the current exchange rates were to sustain, given its high exchange rate sensitivity (55-60 bps for every 1% change in US\$ /INR). (Insert chart for comparison of offshore proportion of business with peers)

**Mindtree's margins have a higher currency sensitivity on a/c of higher offshore % of business**

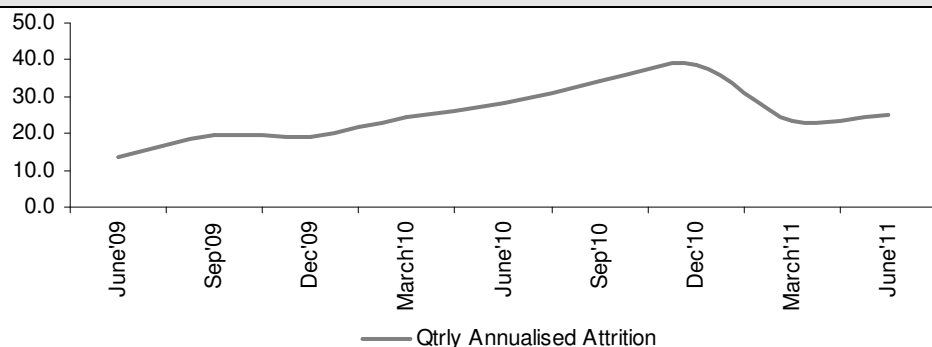


Source: Company, Emkay Research

**Attrition to moderate ahead**

Mindtree, like most other mid tier companies, suffered from a sharp pick up in attrition during late CY09-CY10, as demand picked up. In case of Mindtree, employee turnover was further accentuated by its ill fated foray into the wireless business followed by subsequent exit and ramp downs in the Kyocera account. We note that Mindtree's quarterly annualized attrition spiked 2x in 4 quarters to ~39% in Q3FY11. Since then, the attrition has moderated to 25%. Our discussions with company management indicate that the high churn at its Product Engineering Services (PES) segment had contributed to the high turnover at the company wide level (while IT services segment attrition was much lower). Going ahead, we

**Going ahead, expect attrition to trend down after the sharp jump in FY11**



Source: Company, Emkay Research

See attrition moderating ahead aided by completion of ramp downs in the Kyocera account

**Revenue growth + Margin expansion =27% net profit CAGR over FY11-FY14E**

We expect Mindtree to report a 27% net profit CAGR over FY11-14E, driven primarily by

- 15.6% US\$ revenue growth CAGR over FY11-14E. We build in a 19%/13% US\$ revenue growth for FY12/13.
- ~250 bps expansion in margins over FY11-14E. We build in EBITDA margins at 13.1%/14.2% in FY12/13 V/s 11.8% in FY11. We believe Mindtree's operating margins could surprise positively aided by weak currency and a higher than expected revenue growth.

We thereby expect Mindtree to report earnings of Rs 37.6/42/51.2 in FY12/13/14 respectively

*De-rating driven by an ill fated foray in the wireless business, an inconsistent guidance policy and disappointing financial performance.*

*Expect that trend to reverse as we see company getting its act together through focus on core services business*

**Inexpensive valuations + Improving financial performance, Initiate with ACCUMULATE, TP Rs 415**

Mindtree has seen a sharp derating in valuation multiples owing to

- Its ill fated foray into the wireless business (although company reversed course within a year and focused energies on the core services business),
- An inconsistent guidance policy: Mindtree discontinued the practice of providing an annual revenue and earnings guidance from FY11 onwards; and
- Disappointing financial performance in the past few years

Going ahead, we see the company getting its act together in terms of renewed focus on the core services business along with special emphasis on client mining. We back an uptick in financial performance (and the much wanted consistency ahead) which in our view will help the stock deliver positive returns. We find valuations attractive at ~9x/8x FY12/13E earnings of Rs 37.6/42 respectively. Initiate coverage with an ACCUMULATE rating and a March'13 TP Rs 415, implying ~10x FY13E earnings

	CMP	Market Cap	Revenue CAGR	EBITDA CAGR	PAT CAGR	P/E	
		Rs. Mn	FY11-13E	FY11-13E	FY11-13E	FY12E	FY13E
Kpit Cummins Infosystems Ltd*	146	12,866	22%	28%	27%	10.7	8.5
Infotech Enterprises Ltd*	113	12,588	19%	21%	13%	8.8	7.0
Mindtree Ltd	338	13,674	16%	28%	29%	9.0	8.0
Patni Computer Systems Ltd	295	39,481	9%	-1%	-20%	10.6	10.4
Persistent Systems Ltd	300	12,000	21%	18%	-3%	10.3	9.1
Infinite Computer Solutions	95	4,167	21%	21%	16%	3.5	2.9
Hexaware Technologies Ltd	82	24,120	34%	74%	66%	11.3	11.1
Eclerx Services Ltd	728	21,108	27%	26%	22%	14.3	12.0
Tech Mahindra Ltd	573	72,881	10%	3%	-5%	7.3	7.5
Mahindra Satyam Ltd	70	82,136	19%	48%	-18%	9.8	10.9

Source: Emkay Research, \* Bloomberg Consensus Estimates\*\* Prices as on Oct 10 '2011



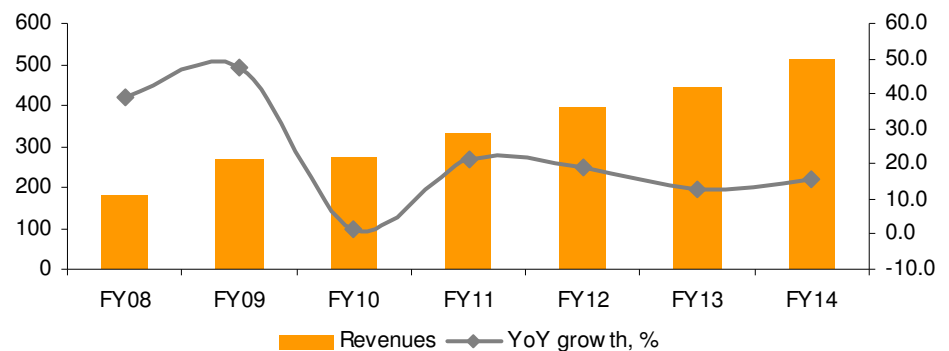
## Financial Overview

### Estimate 16% US\$ revenue CAGR over FY11-14E

Mindtree reported a strong 21.5% US\$ revenue growth in FY11 (after a more sedate FY10 wherein revenues were nearly flat YoY) despite a relatively weak revenue growth in R&D Services segment (~41% of revenues, +10% YoY).

We expect a 16.6% revenue CAGR over FY11-14E (15.6% CAGR in US\$ terms over FY11-14E, with US\$/INR assumptions at Rs 46/\$ for FY12/13/14 respectively). We expect FY12 revenues at US\$ 393 mn (+18.8% YoY), which essentially implies a 3.2% CQGR over the next 3 quarters. However, we see upside risks to our US\$ revenue growth expectations driven by ramp ups on recent deals won by Mindtree in the IT services segment. We note that the company remains confident of beating Nasscom's growth guidance of 16-18% for FY12 easily.

#### Revenues (US\$ mn) , YoY growth %



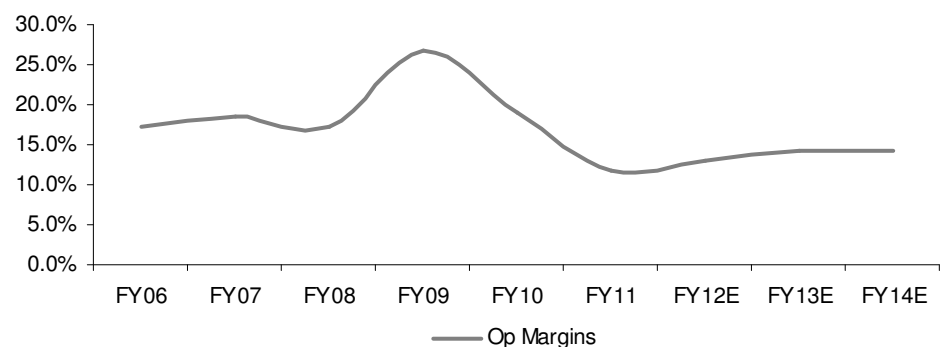
Source: Company, Emkay Research

### Expect operating margins to expand by ~250 bps over FY11-14E

Mindtree's operating margins have been really disappointing in the recent past, with margins dropping by ~1500 bps over FY09-11, adversely impacted by supply side pressures, investments in the wireless business and currency appreciation. Q1FY12 was the 1<sup>st</sup> quarter, wherein Mindtree's margins surprised positively with margins coming in flat QoQ at 11.1% despite wage increments for nearly 77% of the staff (~60% of the salary costs).

We expect margins to improve further by ~340 bps through FY12 (infact expect margins to improve by ~100 bps QoQ in Q2FY12 itself despite headwinds from wage increments for balance workforce and strong fresher addition during the quarter albeit aided by weak currency to some extent). We estimate operating margins of 13.1%/14.2% in FY12/13 respectively (V/s 11.8% in FY11). We see upside risks to our margin assumptions driven by weak currency (we have assumed a US\$/INR exchange rate of Rs 46/\$ for FY12/13/14 respectively, which is higher than current exchange rates of ~Rs 49/\$)

#### Expect operating margins to expand by ~250 bps over FY11E-14E



Source: Company, Emkay Research

**Estimate profit CAGR of 27% over FY11-14E**

We expect Mindtree to report a 27% CAGR in profits over FY11-14E albeit on a low base driven primarily by

- Strong revenue growth ( we expect a 15.6% US\$ revenue CAGR over FY11-14E),
- Improvement in operating margins (we build in margins at 13.1%/14.2%/14.3% in FY12/13/14 V/s 11.8% in FY11) ,

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## Key Risks

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### Supply side pressures

Tier II companies like Mindtree face greater supply side pressures, as they compete aggressively for experienced talent with Tier I and MNC competition. Mindtree has suffered from higher attrition level than peers in the recent past, which we expect to trend down as supply side pressures abate, going ahead.

### Macro shock, akin to late CY08-early CY09, could pose risks to our revenue estimates

We build in 16% revenue CAGR over FY11-14E for Mindtree, which bakes in ~19% US\$ revenue growth in FY12, followed by a sedate 13% growth in FY13 (in line with our industry estimates of 13-14%), as we expect recent macro deterioration to impact CY12 IT budgeting cycle.

### Every 1% change in US\$/INR impacts margins by ~55 bps

Our calculations suggest that every 1% change in US\$/INR impacts EBITDA margins by ~55bps for Mindtree. We currently assume US\$/INR at Rs 46/\$ for FY12/13/14 respectively (V/s current exchange rates of ~Rs 49 /\$, and hence do not rule out upside risks to our margin assumptions if current exchange rates were to sustain)

## Valuations and Recommendation

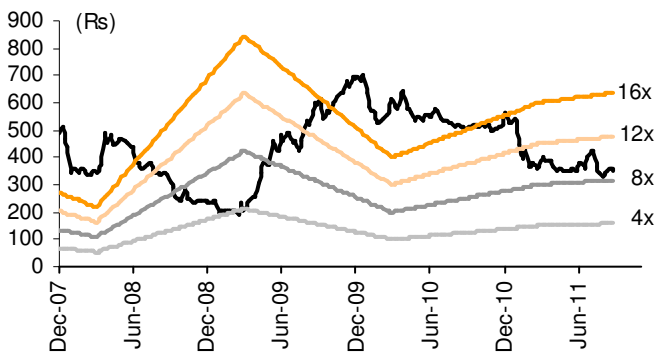
### Revenue growth+ Margin improvement- perfect recipe for re-rating

We expect a 27% EPS CAGR over FY11-14E with earnings of Rs 37.6/42/51.2 respectively for FY12, FY13 and FY14 respectively. Given the inconsistency in financial performance coupled with the failed foray in the wireless business, Mindtree has seen a sharp de-rating in valuation multiples, which in our view, will get reversed over the medium/long term as company gets its act together in the core IT services business. We believe that an improvement in financial performance will drive improvement in valuation multiples, going ahead. Initiate coverage with an ACCUMULATE rating and a March'13 target price of Rs 415 (10x March'13 earnings)

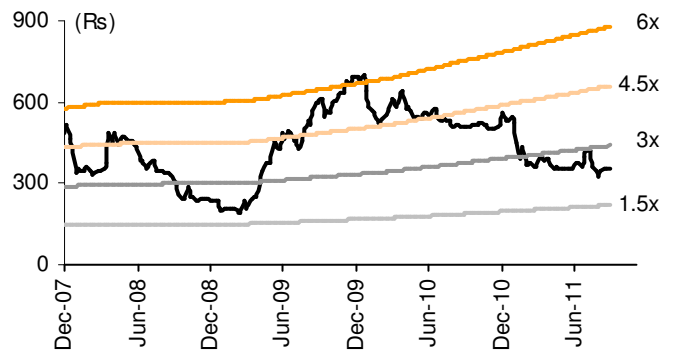
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Source: Emkay Research, \* Bloomberg Consensus Estimates\*\* Prices as on Oct 10 '2011

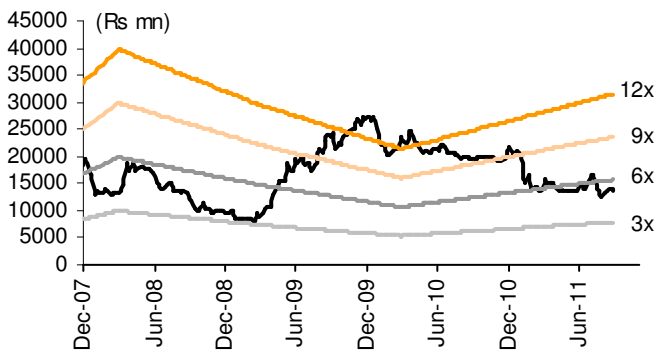
1 Year forward P/E Bands



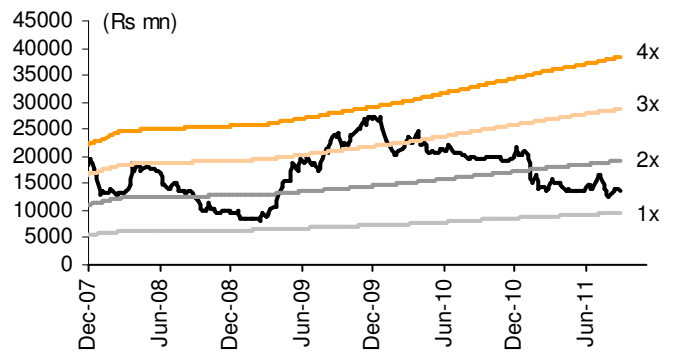
1 Year forward P/BV



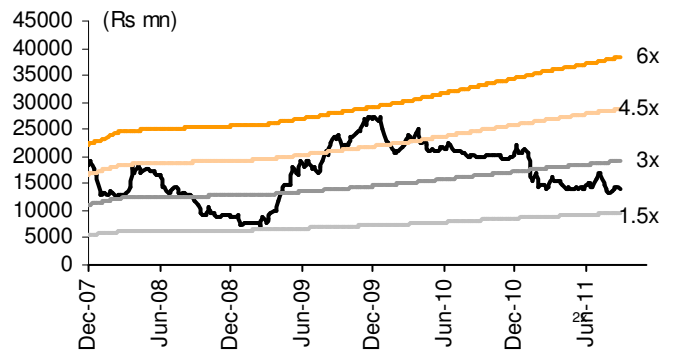
1 Year forward EV/EBITDA



1 Year forward EV/Sales



1 Year forward Market cap/Sales



## Financials

## Income Statement

Y/E, March (Rs. m)	FY11	FY12E	FY13E	FY14E
<b>Net Sales</b>	<b>15,091</b>	<b>17,906</b>	<b>20,439</b>	<b>23,595</b>
Growth (%)	16.4	18.7	14.1	15.4
<b>Total Expenditure</b>	<b>(13,312)</b>	<b>(15,560)</b>	<b>(17,530)</b>	<b>(20,217)</b>
Growth (%)		16.9	12.7	15.3
<b>Cost Of Revenues</b>	<b>(10,044)</b>	<b>(11,835)</b>	<b>(13,488)</b>	<b>(15,647)</b>
Growth (%)		17.8	14.0	16.0
COR, as % of Revenues	66.6	66.1	66.0	66.3
<b>SG&amp;A expenses</b>	<b>(3,268)</b>	<b>(3,725)</b>	<b>(4,042)</b>	<b>(4,570)</b>
Growth (%)		14.0	8.5	13.1
SG&A exp. as % of Revenues	21.7	20.8	19.8	19.4
<b>EBIDTA</b>	<b>1,779</b>	<b>2,346</b>	<b>2,908</b>	<b>3,379</b>
Growth (%)		31.9	24.0	16.2
<b>EBIDTA %</b>	<b>11.8</b>	<b>13.1</b>	<b>14.2</b>	<b>14.3</b>
Other Income	242	252	51	159
Depreciation	712	764	888	1,014
<b>EBIT</b>	<b>1,309</b>	<b>1,834</b>	<b>2,071</b>	<b>2,524</b>
Interest	4	-	-	-
<b>EBT</b>	<b>1,305</b>	<b>1,834</b>	<b>2,071</b>	<b>2,524</b>
Tax	(288)	(315)	(373)	(454)
<b>EAT</b>	<b>1,017</b>	<b>1,519</b>	<b>1,698</b>	<b>2,069</b>
Growth (%)		49.4	11.8	21.9
EAT (%)	6.7	8.5	8.3	8.8

## Balance Sheet

Y/E, March (Rs. m)	FY11	FY12E	FY13E	FY14E
Equity share capital	400	400	400	400
Reserves & surplus	7,362	8,728	10,227	12,054
Minority Interest	-	-	-	-
<b>Networth</b>	<b>7,762</b>	<b>9,128</b>	<b>10,627</b>	<b>12,454</b>
Secured Loans	-	-	-	-
Unsecured Loans	46	46	46	46
<b>Loan Funds</b>	<b>46</b>	<b>46</b>	<b>46</b>	<b>46</b>
Deferred Tax Liabilities	0	0	0	0
<b>Total Liabilities</b>	<b>7,808</b>	<b>9,174</b>	<b>10,673</b>	<b>12,500</b>
Goodwill	-	-	-	-
Gross Block	5,624	6,534	7,454	8,512
Less: Depreciation	(2,618)	(3,382)	(4,270)	(5,284)
<b>Net block</b>	<b>3,006</b>	<b>3,152</b>	<b>3,184</b>	<b>3,228</b>
<b>Capital WIP</b>	<b>28</b>	<b>28</b>	<b>28</b>	<b>28</b>
<b>Investment</b>	<b>1,112</b>	<b>1,112</b>	<b>1,112</b>	<b>1,112</b>
<b>Current Assets</b>	<b>5,790</b>	<b>7,461</b>	<b>9,325</b>	<b>11,601</b>
Inventories	-	-	-	-
Sundry debtors	2,825	3,728	4,200	4,848
Cash & bank balance	459	495	1,485	2,615
Loans & advances	2,506	3,238	3,640	4,137
Other current assets	-	-	-	-
<b>Current Liab &amp; Prov</b>	<b>2,344</b>	<b>2,796</b>	<b>3,192</b>	<b>3,685</b>
Current liabilities	1,814	2,208	2,520	2,909
Provisions	530	589	672	776
<b>Net current assets</b>	<b>3,446</b>	<b>4,665</b>	<b>6,133</b>	<b>7,916</b>
<b>Misc exps</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax Assets</b>	<b>216</b>	<b>216</b>	<b>216</b>	<b>216</b>
<b>Total Assets</b>	<b>7,808</b>	<b>9,174</b>	<b>10,673</b>	<b>12,500</b>

## Cash Flow

Y/E, March (Rs. m)	FY11	FY12E	FY13E	FY14E
Net Profit after Tax	1,017	1,519	1,698	2,069
Add : Depreciation	712	764	888	1,014
Add : Misc exp w/off	398	-	-	-
<b>Net changes in WC</b>	<b>(1,363)</b>	<b>(1,093)</b>	<b>(621)</b>	<b>(757)</b>
<b>Operational Cash Flows</b>	<b>457</b>	<b>1,100</b>	<b>2,109</b>	<b>2,430</b>
<b>Capital expenditure</b>	<b>(733)</b>	<b>(910)</b>	<b>(920)</b>	<b>(1,058)</b>
Investments	(103)	24	-	-
<b>Investing Cash Flows</b>	<b>(836)</b>	<b>(886)</b>	<b>(920)</b>	<b>(1,058)</b>
Borrowings	15	-	-	-
dividend paid	(117)	(178)	(199)	(242)
Issue of shares	139	-	-	-
Share Premium				
<b>Financing Cash Flows</b>	<b>37</b>	<b>(178)</b>	<b>(199)</b>	<b>(242)</b>
changes in cash	<b>(342)</b>	<b>36</b>	<b>990</b>	<b>1,130</b>
Opening balance	<b>1,913</b>	<b>1,571</b>	<b>1,607</b>	<b>2,597</b>
<b>Closing balance</b>	<b>1,571</b>	<b>1,607</b>	<b>2,597</b>	<b>3,727</b>

## Key Ratios

Y/E, March	FY11	FY12E	FY13E	FY14E
EPS (Rs)	25.0	37.6	42.0	51.2
CEPS (Rs)	42.5	56.4	63.9	76.2
Book Value Per Share (Rs)	172.3	203.4	236.3	276.3
Dividend Per Share (Rs)	2.5	3.8	4.2	5.1
DSO	68.3	76.0	75.0	75.0
<b>Valuations Ratios (x)</b>				
PER	14.0	9.3	8.3	6.8
P/CEPS	8.2	6.2	5.5	4.6
P/BV	2.0	1.7	1.5	1.3
EV/EBIDTA	7.7	6.0	4.9	4.2
EV/Sales	0.9	0.8	0.7	0.6
M-Cap/sales	0.9	0.8	0.7	0.6
<b>Profitability Ratios (%)</b>				
RoCE	11.8	15.5	16.9	17.1
RoNW	15.5	19.9	19.1	20.0
EBITDA Margin	11.8	13.1	14.2	14.3
EBIT Margins	7.1	8.8	9.9	10.0
Net Profit Margin	6.7	8.5	8.3	8.8

## Emkay Rating Distribution

BUY	Expected total return (%) (stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (stock price depreciation) of upto (-)10% within the next 12-18 months.
SELL	The stock is believed to under perform the broad market indices or its related universe within the next 12-18 months.

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