

MindTree

Performance highlights

(₹ cr)	2QFY12	1QFY12	% chg (qoq)	2QFY11	% chg (yoy)
Net revenue	457	413	10.6	384	18.8
EBITDA	59	46	27.8	46	26.7
EBITDA margin (%)	12.9	11.1	174bp	12.1	80bp
PAT	54	34	57.9	23	134.8

Source: Company, Angel Research

MindTree reported a strong performance for 2QFY2012, with numbers ahead of street as well as our expectations on all fronts. The company reported volume growth of 6.1% qoq along with a 3.5% qoq increase in price realization. MindTree has been one of the good performers on the revenue growth front in the Indian IT mid-cap space, growing by a CQGR of 5.6% over the last six quarters. We expect MindTree to continue its growth momentum at a 17.9% CAGR in USD revenue over FY2011-13E. **We recommend Buy on the stock.**

Quarterly highlights: For 2QFY2012, MindTree reported USD revenue of US\$101.3mn, up 9.5% qoq. In INR terms, revenue came in at ₹456.7cr, up 10.6% qoq. The company's EBITDA margin increased by 174bp qoq to 12.9%; factors affecting EBITDA margin were 1) 440bp qoq positive gain on account of operational efficiency, 2) 40bp gain due to INR depreciation and 3) 320bp negative impact due to wage hikes given to 24% of the employee base. PAT came in at ₹54cr, aided by higher other income.

Outlook and valuation: MindTree has its IT services business (~64% of revenue) coming in from growth verticals such as BFSI, manufacturing and travel and transportation (T&T). Management is confident that its IT services business would continue its growth momentum and has planned to hire 4,000 people (~2,000 freshers) overall. We expect the company to record a 17.9% and 18.4% CAGR in USD and INR revenue, respectively, over FY2011-13E. MindTree has adequate amount of margin levers such as 1) improving utilization level on the back of volumes expected, 2) employee pyramid rationalization, 3) business growth even with a marginal increase in SGA on an absolute basis and 4) effort shift towards offshore to improve margin profile from 11.8% in FY2011 to 13.7% in FY2012E and 14.4% in FY2013E. We expect the company to record a 30.8% and 34.8% CAGR in EBITDA and PAT over FY2011-13E, respectively. **We value the stock at 10x FY2013 EPS i.e., with a target price of ₹462, and recommend Buy.**

Key financials (Indian GAAP, Consolidated)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net sales	1,296	1,509	1,884	2,117
% chg	4.7	16.4	24.8	12.4
Net profit	215	102	175	185
% chg	310.8	(52.6)	71.9	5.8
EBITDA margin (%)	18.9	11.8	13.7	14.4
EPS (₹)	54.4	24.9	43.3	45.8
P/E (x)	7.3	15.9	9.2	8.7
P/BV (x)	2.3	2.1	1.7	1.4
RoE (%)	32.0	13.1	18.6	16.5
RoCE (%)	26.8	13.7	18.6	18.6
EV/Sales (x)	1.1	1.0	0.7	0.6
EV/EBITDA (x)	5.9	8.3	5.4	4.2

Source: Company, Angel Research

BUY

CMP	₹396
Target Price	₹462

Investment Period	12 Months
-------------------	-----------

Stock Info

Sector	IT
Market Cap (₹ cr)	1,586
Beta	0.6
52 Week High / Low	571/321
Avg. Daily Volume	17,959
Face Value (₹)	10
BSE Sensex	16,748
Nifty	5,038
Reuters Code	MINT.BO
Bloomberg Code	MTCL@IN

Shareholding Pattern (%)

Promoters	24.3
MF / Banks / Indian Fls	8.0
FII / NRIs / OCBs	18.5
Indian Public / Others	49.2

Abs. (%)	3m	1yr	3yr
Sensex	(9.5)	(17.0)	67.9
Mindtree	9.4	(22.8)	62.9

Srishti Anand

+91 22 39357800 Ext: 6820
srishti.anand@angelbroking.com

Ankita Somani

+91 22 39357800 Ext: 6819
ankita.somani@angelbroking.com

Exhibit 1: 2QFY2012 performance (Indian GAAP, Consolidated)

Y/E March (₹ cr)	2QFY12	1QFY12	% chg (qoq)	2QFY11	% chg (yoy)	1HFY12	1HFY11	% chg (yoy)
Net revenue	457	413	10.6	384	18.8	870	733	18.6
Cost of revenue	309	289	7.0	256	20.8	598	483	23.9
Gross profit	148	124	18.8	129	14.9	272	251	8.5
SG&A expenses	89	78	13.6	82	8.2	167	162	3.2
EBITDA	59	46	27.8	46	26.7	105	89	18.1
Depreciation	17	18	(3.3)	18	(1.7)	35	32	9.9
EBIT	41	28	47.9	29	44.2	69	57	22.8
Interest expense	0	-	-	-	-	0	-	-
Other income	24	12	-	3	-	36	5	-
PBT	65	40	62.6	31	109.5	106	61	72.8
Income tax	11	6	91.2	8	36.3	17	22	(24.5)
PAT	54	34	57.9	23	134.8	89	39	127.6
Minority interest	-	-	-	-	-	-	-	-
Share in profit of associates	-	-	-	-	-	-	-	-
Adj. PAT	54	34	57.9	23	134.8	89	39	127.6
EPS	13.5	8.5	57.9	5.7	137.5	22.0	9.6	130.3
Gross margin (%)	32.3	30.1	225bp	33.4	(111)bp	31.2	34.2	(294)bp
EBITDA margin (%)	12.9	11.1	174bp	12.1	80bp	12.0	12.1	(5)bp
EBIT margin (%)	9.1	6.8	229bp	7.5	160bp	8.0	7.7	27bp
PAT margin (%)	11.3	8.1	322bp	6.0	534bp	9.8	5.3	452bp

Source: Company, Angel Research

Exhibit 2: Actual vs. Angel estimates

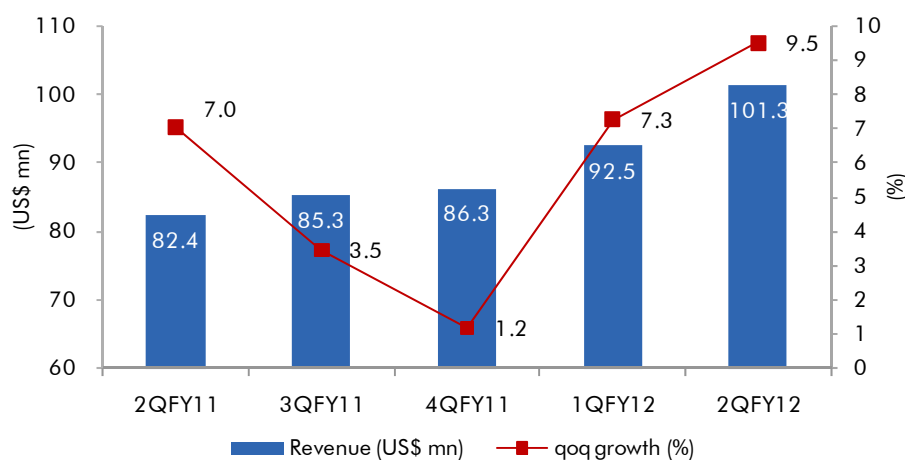
(₹ cr)	Actual	Estimate	% Var
Net revenue	457	445	2.6
EBITDA margin (%)	12.9	11.8	107bp
PAT	54	30	81.2

Source: Company, Angel Research

Robust revenue growth

For 2QFY2012, MindTree reported stellar USD revenue growth of 9.5% qoq to US\$101.3mn, on the back of strong 6.1% qoq volume growth and a 3.5% qoq increase in price realization (includes cross currency benefit as well). Improvement in price realization was a combination of normal price elevation as well as the company's realization of US\$1mn non-linear revenue. In INR terms, revenue came in at ₹456.7cr, up 10.6% qoq.

Exhibit 3: Trend in revenue growth (qoq)



Source: Company, Angel Research

Service verticals wise, the company's growth was broad-based. Revenue from discretionary services such as consulting and IP licensing (contributed 4.6% to revenue) and package implementation (contributed 3.1% to revenue) grew by 25.9% and 17.1% qoq, respectively. Also, infrastructure management and technical support service posted whopping 11.8% qoq growth in revenue. Other services such as application maintenance, application development and independent testing reported revenue growth of 8.7%, 6.9% and 8.9% qoq, respectively.

Exhibit 4: Growth trend in service verticals

Particulars	% to revenue	% chg (qoq)	% chg (yoy)
Development	39.7	8.7	(2.9)
Maintenance	24.7	6.9	49.6
Consulting and IP licensing	4.6	25.9	82.5
Package implementation	3.1	17.1	36.1
Independent testing	18.2	8.9	27.2
Infrastructure mgmt. and tech. support	9.7	11.8	102.2

Source: Company, Angel Research

Industry wise, revenue from total IT services (ITS) during the quarter grew by 10.1% qoq. In ITS, the major growth driver was manufacturing, revenue of which grew by 11.7% qoq. Other industries such as BFSI and T&T posted 9.0% and 3.8% qoq growth in revenue, respectively. Product engineering services (PES), which reported a decline in its revenue in 2HFY2011 came to the growth track and reported 8.3% qoq growth in revenue. Going ahead, management indicated that growth in PES will be softer as initial signs of slowdown in the product outsourcing space are seen, however growth momentum in IT services will continue.

Exhibit 5: Growth trend in industry segments

Particulars	% to revenue	% chg (qoq)	% chg (yoy)
ITS			
– Manufacturing	15.4	11.7	35.3
– BFSI	21.4	9.0	45.4
– T&T	10.8	3.8	5.4
– Others	16.6	15.1	66.0
PES	35.8	8.3	2.4

Source: Company, Angel Research

Geography wise, US continued to maintain its revenue traction by reporting 6.1% qoq growth in revenue. Revenue from Europe grew strongly by 23.4% qoq during the quarter.

Exhibit 6: Growth trend in geographies

Particulars	% to revenue	% chg (qoq)	% chg (yoy)
US	58.4	6.1	13.8
Europe	25.7	23.4	75.6
India	7.9	0.6	14.3
Rest of World	8.0	5.6	(5.4)

Source: Company, Angel Research

Hiring and utilization

During 2QFY2012, the gross and net addition of MindTree stood at 1,478 and 1,003, respectively, taking its total employee base to 10,580. Out of the total gross hiring done by the company, 1,000 employees added were freshers. The company added 1,016 net employees in software professionals, whereas sales and support employee base witnessed a reduction of 13 people. Attrition rate (LTM basis) during the quarter decreased to 21.7% from 25.6% in 1QFY2012.

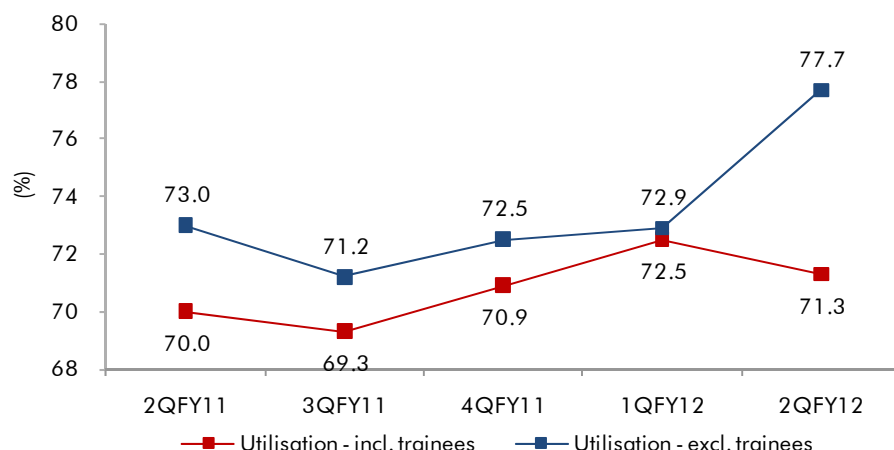
Exhibit 7: Employee metrics

Particulars	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Software professionals	8,893	8,968	8,862	8,887	9,903
Sales and support	691	703	685	690	677
Total employee base	9,584	9,671	9,547	9,577	10,580
Gross addition	1,373	1,021	435	630	1,478
Net addition	572	87	(124)	30	1,003
Attrition – LTM (%)	21.9	24.2	25.1	25.6	21.7

Source: Company, Angel Research

Utilization level, excluding trainees, increased substantially to 77.7% from 72.9% in 1QFY2012; this significantly aided the company's operating margin. Utilization level, including trainees, declined to 71.3% from 72.5% due to higher intake of freshers. Further, management indicated that 2,000 employees will be added in the system in 2HFY2012.

Exhibit 8: Utilization trend

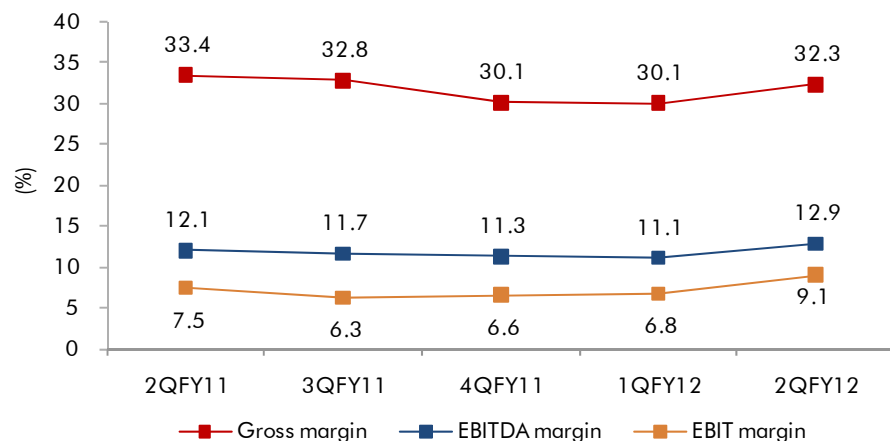


Source: Company, Angel Research

Margin profile

For 2QFY2012, MindTree’s EBITDA and EBIT margins improved by 174bp and 229bp qoq to 12.9% and 9.1%, respectively, despite giving wage hikes to 24% of the overall employee base. Factors affecting the company’s EBITDA margin were 1) 440bp qoq positive gain on account of operational efficiency, part of which is derived from higher utilization level, 2) 40bp gain due to INR depreciation and 3) 320bp negative impact due to wage hikes given to 24% of the employee base, which covers 40% of the total wage bill.

Exhibit 9: Margin profile



Source: Company, Angel Research

PAT came in at ₹54cr, up 57.9% qoq, on the back of higher other income derived by gain on realization and restatement of debtors to the extent of US\$7.2mn. However, this gain was slightly offset by MTM loss on options of about US\$3.4mn.

Client pyramid

MindTree added 15 new clients during 2QFY2012. The company added three new clients in the US\$5mn-10mn revenue bracket and two clients in the US\$1mn-5mn revenue bracket.

Exhibit 10: Client metrics

Particulars	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Active clients	261	269	277	283	270
New clients added	21	30	39	25	15
US\$1mn-5mn	50	49	53	53	55
US\$5mn-10mn	9	9	8	7	10
US\$10mn plus	5	5	6	7	7

Source: Company, Angel Research

Outlook and valuation

MindTree has its IT services business (~64% of revenue) coming in from growth verticals such as BFSI (~21% of total revenue), manufacturing (~15% to revenue) and T&T (~11% to revenue). Management is confident about its IT services business to continue its momentum and has planned to hire 4,000 people on an overall basis and plans to recruit 2,000 freshers in FY2012. This would help MindTree to rationalize its employee pyramid substantially and cushion margins. The PES business is expected to remain soft going ahead. On an overall basis, we expect the company to record a 17.9% and 18.4% CAGR in USD and INR revenue, respectively, over FY2011-13E.

MindTree has adequate amount of margin levers such as 1) improving utilization level on the back of volumes expected, 2) employee pyramid rationalization (people with less than three years of experience constitute ~20%), 3) business growth even with a marginal increase in SGA on an absolute basis and 4) effort shift towards offshore to improve margin profile from 11.8% in FY2011 to 13.7% in FY2012E and 14.4% in FY2013E. We expect the company to record a 30.8% and 34.8% CAGR in EBITDA and PAT over FY2011-13E, respectively. **At the CMP of ₹396, the stock is trading at 8.7x FY2013E EPS of ₹45.8 i.e., with PEG ratio of 0.25x. We value the stock at 10x FY2013 EPS (45% discount to Infosys) i.e., with a target price of ₹462, and recommend a Buy rating.**

Exhibit 11: Key assumptions

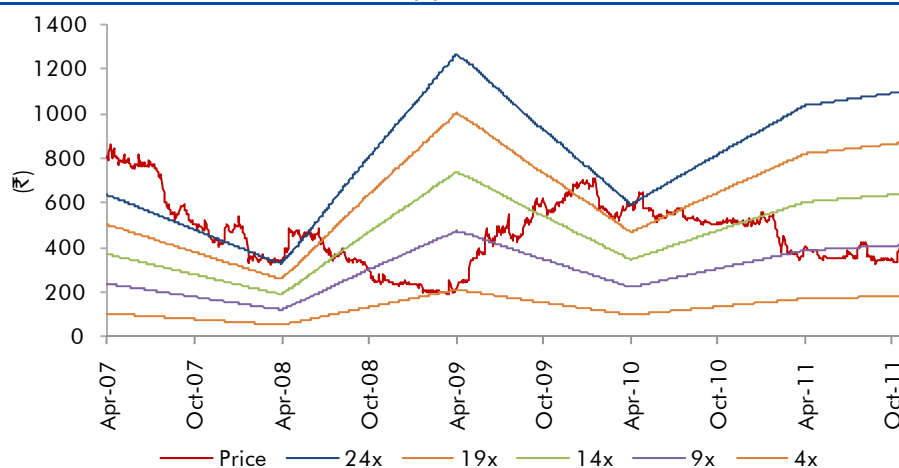
Particulars	FY2012	FY2013
Revenue growth-USD terms (%)	23.1	13.0
USD-INR rate	46.2	46.0
Revenue growth-INR terms (%)	24.8	12.4
EBITDA margin (%)	13.7	14.4
Tax rate (%)	16.6	19.0
EPS growth (%)	73.8	5.8

Source: Company, Angel Research

Exhibit 12: Change in estimates

Parameter (₹ cr)	FY2012E			FY2013E		
	Earlier estimates	Revised estimates	Variation (%)	Earlier estimates	Revised estimates	Variation (%)
Net revenue	1,798	1,884	4.8	1,993	2,117	6.2
EBITDA	234	258	10.1	277	304	9.6
Other income	32	34		19	20	
PBT	181	210	16.1	202	228	12.8
Tax	30	35	17.8	36	43	19.1
PAT	151	175	15.8	166	185	11.5

Source: Company, Angel Research

Exhibit 13: One-year forward PE(x) chart


Source: Company, Angel Research

Exhibit 14: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	Target P/E (x)	FY2013 EBITDA (%)	FY2013E P/E (x)	FY2011-13E EPS CAGR (%)	FY2013E RoCE (%)	FY2013E RoE (%)
HCL Tech	Buy	401	558	39.1	15.0	17.2	10.6	24.3	20.3	22.4
Hexaware	Neutral	86	-	-	11.0	15.3	10.9	66.0	16.2	18.0
Infosys	Neutral	2,703	-	-	18.0	30.6	17.1	14.8	24.0	22.5
Infotech Entp.	Neutral	117	-	-	8.0	15.1	7.8	8.8	9.0	8.1
KPIT Cummins	Reduce	163	154	(5.6)	10.0	15.3	10.6	16.5	18.7	16.4
Mahindra Satyam	Accumulate	71	79	11.2	11.0	14.6	9.9	30.4	10.8	13.5
MindTree	Buy	396	462	16.5	10.0	14.4	8.7	35.6	18.6	16.5
Mphasis	Buy	321	382	19.2	11.5	15.5	8.1	0.4	13.4	14.5
NIIT ^	Buy	48	57	18.5	8.2	13.8	7.0	11.2	12.4	16.6
Persistent	Neutral	318	-	-	9.0	20.0	8.7	2.5	15.8	14.8
TCS	Buy	1,034	1,220	18.0	20.0	28.7	16.9	17.0	29.8	30.9
Tech Mahindra	Buy	571	734	28.5	9.0	16.3	7.0	28.5	13.6	20.2
Wipro	Accumulate	346	374	8.0	15.3	18.3	14.2	6.1	12.9	18.7

Source: Company, Angel Research; Note: ^ Valued on SOTP basis

Profit and loss statement (Indian GAAP, Consolidated)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net sales	1,296	1,509	1,884	2,117
S/w development exp.	798	1,015	1,263	1,417
<i>% of net sales</i>	61.6	67.2	67.1	66.9
Gross profit	498	495	621	700
<i>% of net sales</i>	38.4	32.8	32.9	33.1
SG&A expenses	252	317	363	396
<i>% of net sales</i>	19.5	21.0	19.3	18.7
EBITDA	246	178	258	304
<i>% of net sales</i>	18.9	11.8	13.7	14.4
Depreciation	65	71	82	96
EBIT	180	107	176	208
Interest expense, net	3	0	0	0
Other income, net	77	24	34	20
Profit before tax	255	131	210	228
Provision for tax	40	29	35	43
<i>% of PBT</i>	15.6	22.1	16.6	19.0
PAT	215	102	175	185
Minority interest	-	-	-	-
Share in profit of associates	-	-	-	-
Adj. PAT	215	102	175	185
EPS (₹)	54.4	24.9	43.3	45.8

Balance sheet (Indian GAAP, Consolidated)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Liabilities				
Share capital	40	40	40	40
Application money	-	-	-	-
Reserves and surplus	631	736	902	1,079
Total shareholders' funds	671	776	942	1,119
Minority interest	-	-	-	-
Secured loans	-	-	-	-
Unsecured loans	3	5	4	4
Total debt	3	5	4	4
Total liabilities	674	781	947	1,123
Assets				
Gross block - fixed asst.	515	562	612	662
Acc.depreciation	253	262	344	440
Net block	261	301	269	223
Capital WIP	25	3	27	59
Total fixed assets	286	303	295	282
Goodwill	15	-	-	-
Investments	127	111	100	100
Deferred tax assets, net	21	22	45	56
Current assets				
Sundry debtors	237	283	320	360
Cash and bank balance	52	46	139	251
Loans and advances	195	251	348	402
Total current assets	484	579	808	1,012
Less:- Current liabilities				
Current liabilities	211	181	235	264
Provisions	49	53	66	63
Net current assets	224	345	506	685
Total assets	674	781	947	1,123

Cash flow statement (Indian GAAP, Consolidated)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Pre-tax profit from operations	178	106	176	208
Depreciation	65	71	82	96
Pre tax cash from operations	243	178	258	304
Other income/prior period ad	77	24	34	20
Net cash from operations	320	202	292	324
Tax	40	29	35	43
Cash profits	280	173	257	281
(Inc)/dec in				
Current assets	(11)	(101)	(135)	(93)
Current liabilities	(48)	(26)	67	26
Net trade working capital	(59)	(127)	(68)	(67)
Cashflow from operating activities	221	46	189	214
(Inc)/dec in fixed assets	(55)	(89)	(74)	(82)
(Inc)/dec in investments	(26)	16	11	-
(Inc)/dec in deferred tax assets	(2)	(0)	(23)	(11)
(Inc)/dec in intangibles	131	15	-	-
(Inc)/dec in minority interest	(33)	-	-	-
Cashflow from investing activities	15	(57)	(86)	(93)
Inc/(dec) in debt	(136)	2	(1)	(0)
Inc/(dec) in equity/premium	(82)	15	0	-
Dividends	(14)	(12)	(9)	(9)
Cashflow from financing activities	(232)	5	(9)	(9)
Cash generated/(utilised)	4	(6)	93	112
Cash at start of the year	49	52	46	139
Cash at end of the year	52	46	139	251

Key ratios

Y/E March	FY2010	FY2011	FY2012E	FY2013E
Valuation ratio (x)				
P/E (on FDEPS)	7.3	15.9	9.2	8.7
P/CEPS	5.6	9.4	6.2	5.7
P/BVPS	2.3	2.1	1.7	1.4
Dividend yield (%)	3.0	2.5	1.9	1.9
EV/Sales	1.1	1.0	0.7	0.6
EV/EBITDA	5.9	8.3	5.4	4.2
EV/Total assets	2.2	1.9	1.5	1.1
Per share data (₹)				
EPS	54.4	24.9	43.3	45.8
Cash EPS	70.9	42.3	63.5	69.4
Dividend	11.8	10.0	7.5	7.5
Book value	170	190	233	277
Dupont analysis				
Tax retention ratio (PAT/PBT)	0.8	0.8	0.8	0.8
Cost of debt (PBT/EBIT)	1.4	1.2	1.2	1.1
EBIT margin (EBIT/Sales)	0.1	0.1	0.1	0.1
Asset turnover ratio (Sales/Assets)	1.9	1.9	2.0	1.9
Leverage ratio (Assets/Equity)	1.0	1.0	1.0	1.0
Operating ROE	32.0	13.1	18.6	16.5
Return ratios (%)				
RoCE (pre-tax)	26.8	13.7	18.6	18.6
Angel RoIC	39.7	17.2	25.8	29.2
RoE	32.0	13.1	18.6	16.5
Turnover ratios (x)				
Asset turnover (fixed assets)	4.5	5.0	6.4	7.5
Receivables days	73	63	62	62
Payable days	114	71	68	68

Research Team Tel: 022 - 3935 7800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement

Disclosure of Interest Statement	Mindtree
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)