

Equities

2 November 2011 | 8 pages

MindTree (MINT.BO)

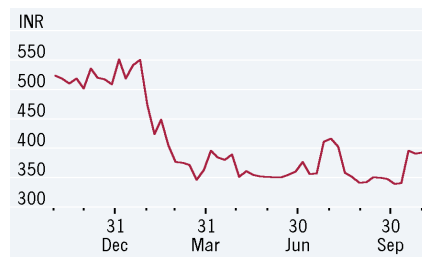
Model Update

- We raise our FY12E/13E/14E earnings estimates by ~6-9% as we use revised spot currency forecasts of Rs. 48.5/47/46 for rest of FY12/FY13/FY14 respectively. We also incorporate Q2FY12 results and make small changes to our pricing/volume/cost assumptions. We raise our target price to Rs. 360 (maintaining our earlier target multiple). Maintain Sell.

- Company Update
- Target Price Change
- Estimate Change

Sell	3
Price (02 Nov 11)	Rs394.90
Target price	Rs360.00
	<i>from Rs330.00</i>
Expected share price return	-8.8%
Expected dividend yield	0.8%
Expected total return	-8.1%
Market Cap	Rs15,906M
	US\$323M

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



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2010A	2,148	52.92	292.3	7.5	2.3	34.2	0.8
2011A	1,015	24.83	-53.1	15.9	2.0	14.0	0.6
2012E	1,620	40.06	61.3	9.9	1.8	19.4	1.0
2013E	1,621	40.07	0.0	9.9	1.5	16.8	0.9
2014E	1,777	43.95	9.7	9.0	1.3	15.9	0.9

Source: Powered by dataCentral

Surendra Goyal, CFA

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	7.5	15.9	9.9	9.9	9.0
EV/EBITDA adjusted (x)	5.7	7.9	6.2	5.1	4.6
P/BV (x)	2.3	2.0	1.8	1.5	1.3
Dividend yield (%)	0.8	0.6	1.0	0.9	0.9
Per Share Data (Rs)					
EPS adjusted	52.92	24.83	40.06	40.07	43.95
EPS reported	52.92	24.83	40.06	40.07	43.95
BVPS	169.74	194.05	222.81	259.19	299.46
DPS	3.00	2.50	4.00	3.50	3.50
Profit & Loss (RsM)					
Net sales	12,960	15,091	18,791	22,024	25,394
Operating expenses	-11,157	-14,027	-17,236	-20,157	-23,364
EBIT	1,803	1,064	1,555	1,867	2,031
Net interest expense	743	239	429	131	164
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	2,546	1,303	1,984	1,998	2,195
Tax	-398	-288	-364	-377	-417
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	2,148	1,015	1,620	1,621	1,777
Adjusted earnings	2,148	1,015	1,620	1,621	1,777
Adjusted EBITDA	2,455	1,776	2,281	2,745	3,005
Growth Rates (%)					
Sales	4.7	16.4	24.5	17.2	15.3
EBIT adjusted	-34.2	-41.0	46.1	20.1	8.8
EBITDA adjusted	-25.8	-27.7	28.4	20.4	9.5
EPS adjusted	292.3	-53.1	61.3	0.0	9.7
Cash Flow (RsM)					
Operating cash flow	1,440	213	1,157	1,586	2,171
Depreciation/amortization	652	712	726	878	974
Net working capital	-593	-1,272	-698	-782	-417
Investing cash flow	1,241	-334	-1,064	-1,396	-1,423
Capital expenditure	-703	-733	-1,047	-1,527	-1,587
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	-2,645	56	-452	-162	-162
Borrowings	-1,363	15	-4	0	0
Dividends paid	-136	-115	-186	-162	-162
Change in cash	36	-64	-359	28	585
Balance Sheet (RsM)					
Total assets	9,340	10,152	12,314	14,199	16,402
Cash & cash equivalent	523	459	100	128	713
Accounts receivable	2,370	2,825	4,016	4,707	5,427
Net fixed assets	2,859	3,034	3,355	4,004	4,617
Total liabilities	2,634	2,390	3,379	3,805	4,393
Accounts payable	0	0	0	0	0
Total Debt	31	46	42	42	42
Shareholders' funds	6,706	7,762	8,935	10,393	12,008
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	18.9	11.8	12.1	12.5	11.8
ROE adjusted	34.2	14.0	19.4	16.8	15.9
ROIC adjusted	31.9	14.4	18.2	19.2	18.0
Net debt to equity	-7.3	-5.3	-0.7	-0.8	-5.6
Total debt to capital	0.5	0.6	0.5	0.4	0.3

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MindTree

Company description

MindTree is a mid-tier Indian IT services company providing offshore-based services to global organizations in BFSI, Manufacturing, Transportation and Hi-Tech industries. It offers a range of services including IT and R&D services. In IT services, its offerings include application development, maintenance, package implementation, testing and infrastructure management. The company has consciously stayed away from BPO services. In R&D services, it offers product design, re-engineering, optimization and support.

Investment strategy

We rate MindTree shares as Sell (3). Mindtree has a higher proportion of application development work (~40% of revenues), so risks are higher given the global macro economic uncertainties facing the sector. In IT services, the tier-one players have done better than the industry, and we expect this to continue. We expect revenue and EBITDA CAGRs of ~19% and ~24% over FY11-13E. While the EBITDA CAGR of 24% looks good, it comes on the back of a sharp decline of ~28% yoy in FY11.

Valuation

Our Rs360 target price is derived from 9x Sep-12E EPS, in line with mid cap IT Services multiples and factors in management's decision to enter and then exit the telecom products business within a short span of time. With the Founder and Chairman deciding to move on from MindTree some time back, this multiple also excludes the Promoter premium that the stock used to enjoy.

Risks

The key upside risks to our investment thesis on MindTree are: (a) Sustained INR depreciation - Mindtree's sensitivity to INR depreciation should be high given higher offshore proportion of revenues; (b) Lesser than anticipated impact of the global macro uncertainty; and (c) Price increases in FY13 continue - we expect flattish prices in FY13.

If the impact of any of these upside risks is greater than we anticipate, the stock could exceed our target price.

Appendix A-1

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Analyst: Surendra Goyal, CFA
Covered since September 26 2011

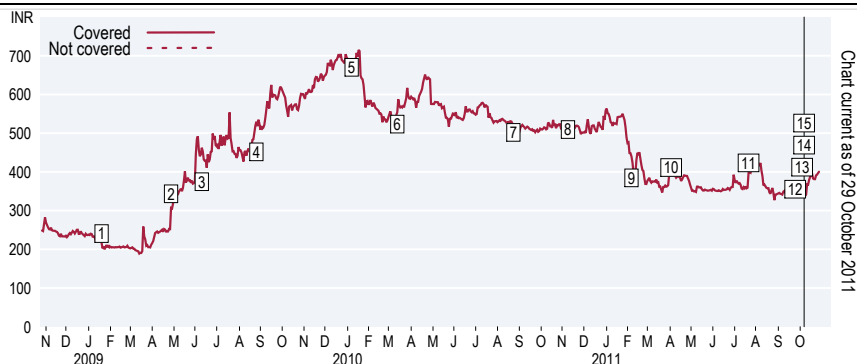


Chart current as of 29 October 2011

	Date	Rating	Target Price	Closing Price
1	20-Jan-09	*3H	*190.00	216.55
2	28-Apr-09	3H	*240.00	306.90
3	10-Jun-09	3H	*415.00	462.45
4	26-Aug-09	*3M	*485.00	529.65
5	7-Jan-10	3M	*665.00	676.80

* Indicates change

	Date	Rating	Target Price	Closing Price
6	12-Mar-10	*1M	665.00	554.25
7	24-Aug-10	*3M	*510.00	521.00
8	9-Nov-10	3M	*500.00	518.05
9	7-Feb-11	3M	*440.00	439.95
10	4-Apr-11	3M	*380.00	411.25

	Date	Rating	Target Price	Closing Price
11	21-Jul-11	3M	*375.00	397.60
12	26-Sep-11	3M	*335.00	347.60
13	5-Oct-11	3M	*330.00	337.80
14	7-Oct-11	Stock rating system changed		
15	7-Oct-11	*3	330.00	339.35

Rating/target price changes above reflect Eastern Standard Time

MindTree (MINT.BO) Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Surendra Goyal, CFA
Covered since September 26 2011

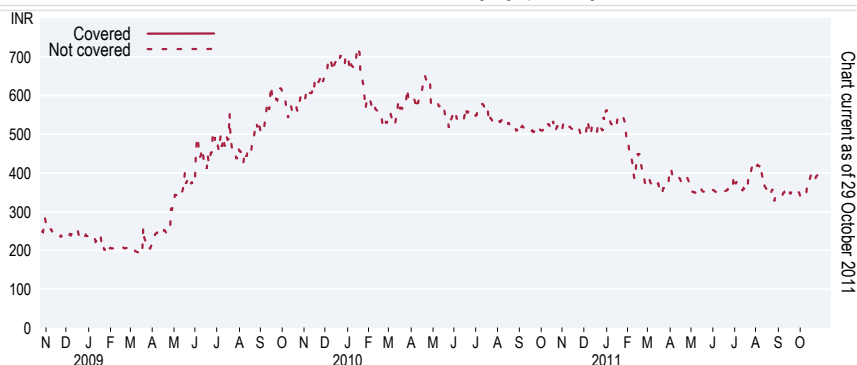


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Data current as of 9 Oct 2011

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% of companies in each rating category that are investment banking clients

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	59%	34%	7%	10%	79%	10%
% of companies in each rating category that are investment banking clients	45%	42%	37%	50%	43%	46%

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