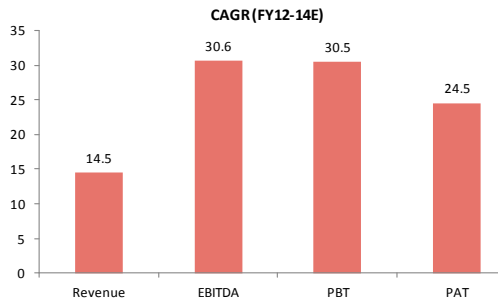


October 17, 2012

Result Update

IT services
Sector Outlook - Cautious

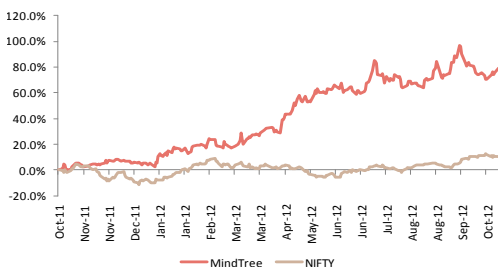


Stock Recommendation	Buy
CMP (₹)	678
Price Target (₹)	820
Upside (%)	21
52 Week H / L ₹	762/372
BSE 30	18578

Key Data	
No. of Shares, Mn.	40.9
Mcap, ₹ Mn	27743.8
Mcap, USD Mn @ ₹53	523.5
2 W Avg Qty (BSE+NSE) Mn	0.2

Share holding, Sept '12	
Promoters	19.5
Institutional Investors	23.3
Others	9.8
Public & Others	47.5

Performance	1 M	3 M	6 M	12 M
Stock Return %	-6.4	5.7	38.7	78.4
Relative Return %	-7.6	-3.0	30.6	68.3



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MindTree results were better than our expectations operationally, while maintaining a decent demand growth environment for its IT services. In Q2FY13, the revenues of MindTree grew 5.9% QoQ (in INR terms) and 1.7% QoQ (in USD terms), while growing 2.1% in constant currency terms. Volume growth of 1% QoQ, while pricing saw an increase of 0.5%. EBITDA margin increased by 127 bps QoQ on rupee depreciation and operational efficiencies and was higher-than-expected.

Growth forecast lowered, but company maintains healthy growth for H2FY13
Management expects company to show a lower than industry growth rate of less than ~11%. We believe MindTree would grow revenue at a CQGR of 3-3.5% in the IT services segment over the coming quarters. IT Services grew 0.9% QoQ in Q2FY13 (primarily due to ramp down in one of the large project in the Travel vertical). PES part of the business is expected to show lumpy growth in the semiconductor and telecom business, while the other verticals are expected to show growth. In this quarter, PES business was up 3.2% QoQ due to ramp-up in large deals won in the previous quarters.

Operational Metrics improves: 1) Salary hike for 80-85% of the employees already taken in Q2FY13, remaining to be taken in Q3FY13. 2) EBITDA margin break-up: +140bps from Forex movement, +250bps from operational efficiencies, (-) 180bps from salary hikes and (-) 80bps due to branding during the quarter. 3) Margin outlook – Impact of the remaining wage hike will be a ~80-100bps - headwind for margins; Management expects flattish EBITDA margins in Q3. 4) Despite longer cycle time for decision making, clients have not cut pricing or IT budgets or cancellation of projects. 5) Onsite volumes/revenues grew 4%/4.6% QoQ, indicating ramp-up in new projects. 6) US and Europe grew at 1.7% and 3.4% QoQ, respectively. 7) BFSI and Manufacturing, both grew ahead of company average, at 6.3% and 3.2% QoQ, respectively.

High cash holdings provides strong downside cushion. 1) Cash and cash equivalents of ₹4.4bn (translating to ₹107/share, 15.8% of Mcap in cash) as on Jun-12. 2) DSO was stable at 73 days. 3) Hedge position of US\$136m (US\$82 mn for FY13 @ ₹52.07/US\$ and US\$54 mn for FY14 @ ₹57.72/US\$). 4) Company is currently making investments in front end to win large deals. 5) Headcount increased by 53 QoQ to 10,883.

Valuation: We maintain our "BUY" recommendation on MindTree with a target price of ₹820 per share, implying a target multiple of 10x FY14E EPS. Risks: As MindTree is aggressive in acquiring companies to plug its offerings, the issues pertaining to integration/scale-up could hurt going forward.

Financials	Revenues	EBIDTA	Net Profit	EPS	P/E	EV/EBIDTA	ROE
	₹ mn	₹ mn	₹ mn	₹	x	x	%
FY11	15,090	1,778	1,016	25.7	26.4	14.4	14.0
FY12	19,152	2,930	2,185	54.5	12.5	8.1	25.2
FY13E	23,274	4,907	3,267	80.5	8.4	4.7	28.8
FY14E	25,108	4,997	3,386	81.8	8.3	4.6	23.1
FY15E	28,685	5,656	3,651	88.0	7.7	4.0	20.4

Source: Company & Sunidhi Research



Results review

Exhibit 1: Q2FY13 quarterly details

₹ mn	2Q12	1Q13	2Q13	QoQ (%)	YoY (%)	Comments
Revenues	4,567	5,630	5,963	5.9	30.6	MindTree saw a constant currency growth of 2.1%. IT Services grew at 0.9% QoQ, while PES grew at 3.2%. Growth in US\$ revenue to be sub 11%
- Operating costs	3,979	4,456	4,644	4.2	16.7	
EBITDA	588	1,174	1,319	12.4	124.3	
EBITDA margin (%)	12.9	20.9	22.1	127bps	925bps	EBITDA margin break-up: +140bps from Forex movement, +250bps from operational efficiencies, (-) 180bps from salary hikes and (-) 80bps due to branding during the quarter.
- Interest expense	1	3	4	33.3	300.0	
- Depreciation	174	159	159	-	(8.6)	
+ Other income, net (incl forex)	241	138	(341)	NA	NA	Most of the forex loss is primarily on account revaluation of assets and liabilities.
PBT	654	1,150	815	(29.1)	24.6	
- Taxes	109	260	93	(64.2)	(14.7)	
Effective tax rate (%)	16.7	22.6	11.4	(1,120)bps	(526)bps	Effective tax rate for FY13 to be between 22-23%
PAT	545	890	722	(18.9)	32.5	
Net margin (%)	11.9	15.8	12.1	(370)bps	18bps	
Reported profits	545	890	722	(18.9)	32.5	

Source: Company & Sunidhi Research

Exhibit 2: Change in estimates

₹ mn	FY13E			FY14E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	442	438	(0.8)	503	492	(2.1)
Revenue	23,307	23,274	(0.1)	25,635	25,108	(2.1)
EBITDA margin (%)	18.6	21.1	245bps	18.2	19.9	165bps
EPS (₹)	73.4	80.5	9.7	78.0	81.8	4.9

Source: Company & Sunidhi Research

We have primarily increased our FY13E and FY14E EPS on account of better-than-expected operational efficiencies shown by MindTree, due to which we saw healthy expansion in the margins in the quarter. We have slightly lowered our US\$ revenue estimates for FY13/14E to account in for difficult macro environment, and a large project in IT services coming to an end, and the project that was to start in its place taking more-than-expected time to ramp up.



Geography wise Revenues: US and Europe grew at 1.7% and 3.4% QoQ, respectively.

Exhibit 3: Geographical wise Performance

Geographical mix	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13
US	63.1	60.4	60.0	60.3	58.4	56.2	57.3	58.1	58.1
Europe	18.0	19.4	21.9	22.8	25.7	28.1	27.7	28.8	29.3
India	8.5	8.4	9.0	8.6	7.9	7.2	7.5	6.4	6.0
APAC	10.4	11.8	9.1	8.3	8.0	8.5	7.5	6.7	6.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Sunidhi Research

Vertical wise Performance: Infrastructure Management and Technical Support increased by 16.0% QoQ.

Exhibit 1: Vertical wise Performance

Vertical Mix	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Development	50.3	45.6	42.9	40.0	39.7	39.8	40.8	42.0	40.6
Maintenance	20.3	21.6	23.9	25.3	24.7	23.5	23.4	22.0	21.5
Consulting & IP Licensing	3.1	4.0	4.0	4.0	4.6	5.0	4.6	4.5	4.9
Package Implementation	2.8	2.9	3.2	2.9	3.1	5.0	3.6	3.0	2.7
Independent Testing	17.6	17.8	17.8	18.3	18.2	16.3	17.9	17.4	17.7
IMS	5.9	8.1	8.2	9.5	9.7	10.4	9.7	11.1	12.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Sunidhi Research

Human Resources: Headcount increased by 53 QoQ to 10,883.

Exhibit 6: Employee strength of MTCL

Employees	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Software Professionals	8,893	8,968	8,862	8,887	9,903	10,268	10,330	10,173	10,226
Sales and Support	691	703	685	690	677	666	670	657	657
Total employees	9,584	9,671	9,547	9,577	10,580	10,934	11,000	10,830	10,883
Gross Addition	1,373	1,021	435	630	1,478	846	502	272	454
Net Addition	572	87	(124)	30	1,003	354	66	(170)	53
Attrition (LTM, %)	21.9	24.2	25.1	25.6	21.7	19.4	18.2	17	16

Source: Company, Sunidhi Research

Client Concentration: Client mining trends remain strong, with MindTree adding 11 clients to take the active client list to 247.

Exhibit7: Client details

Client concentration	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Top client	6.8	6.9	7.0	7.0	7.0	8.2	7.5	7.6	8.1
Top 5 clients	26.2	25.6	24.7	24.9	28.0	30.7	31.4	33.5	33.7
Top 10 clients	39.9	40.2	38.5	39.4	42.0	44.0	45.6	47.1	46.8
Number Of Active Clients	261	269	277	283	270	258	237	245	247
New Client Additions	21	30	39	25	15	9	6	19	11

Source: Company, Sunidhi Research



Valuations Summary

Year End-March	FY11	FY12	FY13E	FY14E	FY15E
Per share (₹)					
EPS	25.7	54.5	80.5	81.8	88.0
CEPS	43.7	71.8	97.4	103.8	112.5
BVPS	196.2	238.5	322.2	392.1	472.7
DPS	2.5	4.0	4.5	5.0	5.5
Payout (%)	11.5	8.7	6.6	7.1	7.3
Valuation (x)					
P/E	26.4	12.5	8.4	8.3	7.7
P/BV	3.5	2.8	2.1	1.7	1.4
EV/EBITDA	14.4	8.1	4.7	4.6	4.0
Dividend Yield (%)	0.4	0.6	0.7	0.7	0.8
Return ratio (%)					
EBITDA Margin	11.8	15.3	21.1	19.9	19.7
PAT Margin	6.7	11.4	14.0	13.5	12.7
ROAE	14.0	25.2	28.8	23.1	20.4
ROACE	14.7	25.6	37.1	27.9	25.9
Leverage Ratios (x)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.2)	(0.4)	(0.5)	(0.5)	(0.5)
Current ratio	2.5	2.0	2.4	2.8	3.1
Growth Ratios (%)					
Income growth	16.4	26.9	21.5	7.9	14.2
EBITDA growth	(27.6)	64.8	67.5	1.8	13.2
PAT growth	(52.7)	115.1	49.5	3.7	7.8
Turnover Ratios					
Inventory Days	-	-	-	-	-
Debtors Days	62.8	65.8	67.4	69.4	72.0
Payable days	3.5	3.5	4.0	5.0	6.0
Income Statement(₹ mn)					
Year End-March	FY11	FY12	FY13E	FY14E	FY15E
Revenues	15,090	19,152	23,274	25,108	28,685
Op. Expenses	13,312	16,222	18,367	20,112	23,029
EBITDA	1,778	2,930	4,907	4,997	5,656
Other Income	242	385	(96)	371	366
Depreciation	712	695	688	908	1,016
EBIT	1,308	2,620	4,123	4,460	5,006
Interest	4	5	10	5	5
PBT	1,304	2,615	4,114	4,455	5,001
Tax	288	430	847	1,069	1,350
PAT	1,016	2,185	3,267	3,386	3,651
Minority	-	-	-	-	-
Adj Pat	1,016	2,185	3,267	3,386	3,651

Source: Company, Sunidhi Research

Balance Sheet (₹ mn)

Year End-March	FY11	FY12	FY13E	FY14E	FY15E
Sources of Funds					
Equity Share Capital	400	405	410	414	415
Reserves & Surplus	7,362	9,167	12,667	15,811	19,195
Net Worth	7,762	9,572	13,077	16,225	19,610
Loan Funds	46	71	32	32	32
Deferred Tax Liability	(216)	(321)	(347)	(347)	(347)
Capital Employed	7,592	9,322	12,762	15,910	19,295
Application of Funds					
Net Block	3,034	2,676	3,213	3,905	4,690
Goodwill	-	-	-	-	-
Investments	1,112	3,075	3,722	3,722	3,722
Current Assets	5,790	7,274	9,989	12,944	16,148
Debtors	2,825	4,078	4,524	5,030	6,287
Inventory	-	-	-	-	-
Cash	459	602	2,234	4,321	6,246
Others	2,506	2,594	3,231	3,593	3,615
Current Liabilities	2,344	3,703	4,162	4,661	5,265
Creditors	167	137	155	216	298
Provisions	2,177	3,566	4,007	4,445	4,967
Net Current Asset	3,446	3,571	5,826	8,283	10,883
Misc Expenses	-	-	-	-	-
Total	7,592	9,322	12,761	15,910	19,295
Cash flow Statement					
Year End-March	FY11	FY12	FY13E	FY14E	FY15E
PBT	1,304	2,615	4,114	4,455	5,001
Depreciation	712	695	688	908	1,016
Others	(2)	(105)	(26)	-	-
CF before W.cap	2,014	3,205	4,776	5,363	6,017
Inc/dec in W.cap					
Op CF after W.cap	861	3,223	4,153	4,994	5,341
Less Taxes	288	430	847	1,069	1,350
Net CF From Operations	573	2,793	3,305	3,925	3,991
Inc/(dec) in F.A + CWIP	887	337	1,225	1,600	1,800
(Pur)/sale of Investments	(315)	1,963	647	-	-
CF from Invst Activities	(572)	(2,300)	(1,872)	(1,600)	(1,800)
Loan Raised/(repaid)	15	25	(39)	-	-
Equity Raised	157	(185)	453	4	1
Dividend	117	189	215	241	267
CF from Fin Activities	55	(349)	198	(237)	(266)
Net inc /(dec) in cash	56	143	1,632	2,087	1,925
Op. bal of cash	403	459	602	2,234	4,321
Cl. balance of cash	459	602	2,234	4,321	6,246



Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

BUY	Absolute Return >20%
ACCUMULATE	Absolute Return Between 10-20%
HOLD	Absolute Return Between 0-10%
REDUCE	Absolute Return 0 To Negative 10%
SELL	Absolute Return > Negative 10%

Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

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