

October 18, 2011

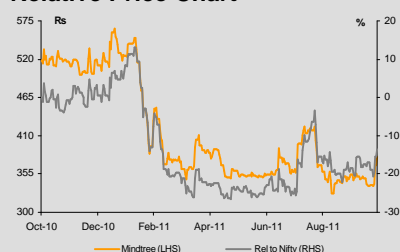
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 386	Rs 450
EPS change FY12E/13E (%)	9/7
Target Price change (%)	8
Nifty	5,118
Sensex	17,025

### Price Performance

(%)	1M	3M	6M	12M
Absolute	9	8	3	(25)
Rel. to Nifty	8	18	15	(12)

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)	16/327
Daily Avg Volume (No of sh)	202699
Daily Avg Turnover (US\$m)	1.7

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	28.4	28.4	28.4
FII/NRI	45.9	48.5	45.9
Institutions	8.9	7.2	8.9
Private Corp	5.7	4.3	5.7
Public	11.2	11.7	11.2

Source: Capitaline

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- **MindTree's results vindicate thesis on (1) strong revenue growth (+10% QoQ V/s exp of ~5% QoQ),(2) improvement in margins ( up by ~180 bps V/s est of ~110 bps increase)**
- **Pfts at Rs 546 mn (+58% QoQ) significantly higher than estimates aided by better op performance and hedging gains of ~Rs 170 mn. Hiring remains strong at 10%+ QoQ**
- **Decent improvement in client metrics ( no of US\$ 5 mn+ clients increase from 14 to 17) Top client/top 5/10 client revenues increase by 10/23/17% QoQ**
- **Raise FY12/13E EPS by 9%/7% to ~Rs 41.1/44.9 driven by marginal increase in rev estimates, lower US\$/INR assumptions to Rs 48/\$, ACCU, TP Rs 450( V/s Rs 415 earlier)**

### Strong op show and hedging gains gain drive profit beat

MindTree reported a strong ~10% sequential US\$ revenue growth to US\$ 101.4 mn (significantly ahead of Emkay est of 4.8% QoQ). Volume growth was ~6% (onsite volumes grew by 11% QoQ while offshore volumes increased by ~5.2% sequentially) with co wide pricing by ~350 bps (~100 bps impact from one time IP based revenues). **EBITDA margins improved by ~180 bps sequentially to 12.9% ( V/s est of ~110 bps improvement) aided largely by pricing increase and SG&A leverage ( note that average US\$/INR realized rate for MindTree was Rs 45.06 V/s Rs 46+ for peers in Sep'11 qtr).** Profits at Rs 546 mn (+58% QoQ) came in significantly ahead of estimates aided by hedging gains of ~Rs 170 mn. Headcount addition was solid with a net addition of ~1000 people(+10.5% QoQ) with quarterly annualized attrition reducing to ~19% ( V/s 25% in Q1FY12). Client metrics performance was good with no of US\$ 5 mn+ clients increasing by ~3 QoQ to 17 with top 5 clients growing by ~24% sequentially. Amongst geographies while Europe grew by 23.5% QoQ, revenues from US were up by 6% sequentially.

### See margins improving through FY12-14E

MindTree's margins have improved over the past 2 quarters despite wage increments aided largely by growth leverage. We see MindTree's margins improving further through FY12-14E aided by weak currency ( MindTree's margins have a higher exchange sensitivity at ~55-60 bps V/s 35-40 bps for Tier 1 peers). We see upsides to our new margin assumptions of 13.3%/14.5%/14.8% aided by lower currency rates

### Raise FY12/13E earnings by ~9/7%, retain ACCUMULATE with a revised TP of Rs 450

Our FY12/13 earnings estimates are raised by ~9%/7% to Rs 41.1/44.9 (V/s Rs 37.6/42 earlier) largely aided by lower currency assumptions (we factor in US\$/INR at Rs 48/\$ V/s Rs 46/\$ for H2FY12/FY13) and marginal increases in our US\$ revenue estimates. MindTree's Sep'11 results vindicate our thesis on improvement in operational performance and we see that continuing over the next few quarters. Retain ACCUMULATE with a revised March'13 TP of Rs 450 (V/s Rs 415 earlier)

### Financials

(in Rs mn)

Y/E	Net Sales	EBITDA %	EBITDA	PAT	EPS (Rs)	ROE %	P/E (x)	EV/EBITDA	P/B (x)
March									
FY11	15,091	11.8	1,779	1,017	25.0	15.5	15.4	8.5	2.2
FY12E	18,692	13.3	2,490	1,661	41.1	21.6	9.4	6.3	1.9
FY13E	22,057	14.5	3,194	1,815	44.9	20.1	8.6	4.9	1.6
FY14E	25,481	14.8	3,761	2,377	58.8	22.2	6.6	4.1	1.3

## Quarterly performance

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4 FY11	Q1 FY12	Q2 FY12	YoY (%)	QoQ (%)	YTD 12	YTD 11	YoY (%)
<b>Revenues (in US\$ mn)</b>	<b>77.0</b>	<b>82.4</b>	<b>85.3</b>	<b>86.3</b>	<b>92.5</b>	<b>101.3</b>	<b>23.0</b>	<b>9.5</b>	<b>193.9</b>	<b>159</b>	<b>21.6</b>
<b>Revenue</b>	<b>3,487</b>	<b>3,844</b>	<b>3,848</b>	<b>3,912</b>	<b>4,131</b>	<b>4,567</b>	<b>18.8</b>	<b>10.6</b>	<b>8,698</b>	<b>7,331</b>	<b>18.6</b>
<b>Operating Exp.</b>	<b>3,046</b>	<b>3,396</b>	<b>3,399</b>	<b>3,471</b>	<b>3,671</b>	<b>3,979</b>	<b>17.2</b>	<b>8.4</b>	<b>7,650</b>	<b>6,442</b>	<b>18.8</b>
Cost of revenues	2,209	2,559	2,586	2,690	2,793	3,047	19.1	9.1	5,840	4,768	22.5
as % of sales	63.3	66.6	67.2	68.8	67.6	66.7			67.1	65.0	
SG&A expenses	837	837	813	781	878	932	11.4	6.2	1,810	1,674	8.1
as % of sales	24.0	21.8	21.1	20.0	21.3	20.4			20.8	22.8	
<b>EBITDA</b>	<b>441</b>	<b>448</b>	<b>449</b>	<b>441</b>	<b>460</b>	<b>588</b>	<b>31.3</b>	<b>27.8</b>	<b>1,048</b>	<b>889</b>	<b>17.9</b>
Depreciation	145	177	206	184	180	174	(1.7)	(3.3)	354	322	9.9
<b>EBIT</b>	<b>296</b>	<b>271</b>	<b>243</b>	<b>257</b>	<b>280</b>	<b>414</b>	<b>52.8</b>	<b>47.9</b>	<b>694</b>	<b>567</b>	<b>22.4</b>
Other Income	3	43	95	97	122	241			363	46	689.1
<b>PBT</b>	<b>299</b>	<b>314</b>	<b>338</b>	<b>354</b>	<b>402</b>	<b>655</b>	<b>108.6</b>	<b>62.9</b>	<b>1,057</b>	<b>613</b>	<b>72.4</b>
Total Tax	140	80	33	35	57	109	36.3	91.2	166	220	(24.5)
<b>Adjusted PAT</b>	<b>159</b>	<b>234</b>	<b>305</b>	<b>319</b>	<b>345</b>	<b>546</b>	<b>133.3</b>	<b>58.3</b>	<b>891</b>	<b>393</b>	<b>126.7</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0			0	0	
<b>APAT after MI</b>	<b>159</b>	<b>234</b>	<b>305</b>	<b>319</b>	<b>345</b>	<b>546</b>	<b>133.3</b>	<b>58.3</b>	<b>891</b>	<b>393</b>	<b>126.7</b>
<b>Extra ordinary items</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>			0	0	
<b>Reported PAT</b>	<b>159</b>	<b>234</b>	<b>305</b>	<b>319</b>	<b>345</b>	<b>546</b>	<b>133.3</b>	<b>58.3</b>	<b>891</b>	<b>393</b>	<b>126.7</b>
<b>Reported EPS</b>	<b>3.9</b>	<b>5.7</b>	<b>7.5</b>	<b>7.8</b>	<b>8.5</b>	<b>13.5</b>	<b>136.0</b>	<b>58.3</b>	<b>22.0</b>	<b>9.6</b>	<b>129.5</b>

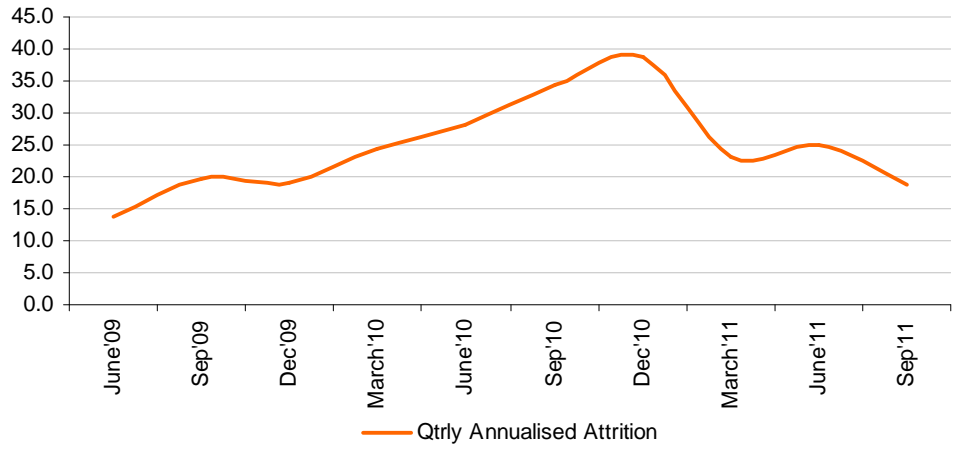
Margins (%)							(bps)	(bps)				(bps)
EBIDTA	12.6	11.7	11.7	11.3	11.1	12.9	122	174	12.0	12.1		(8)
EBIT	8.5	7.0	6.3	6.6	6.8	9.1	202	229	8.0	7.7		24
EBT	8.6	8.2	8.8	9.0	9.7	14.3	617	461	12.2	8.4		379
PAT	4.6	6.1	7.9	8.2	8.4	12.0	587	360	10.2	5.4		488
Effective Tax rate	46.8	25.5	9.9	9.9	14.2	16.6	(883.6)	246.2	15.7	35.9		(2,018)

Source: Company, Emkay Research

Raise FY12/13E earnings by ~9% /7% to Rs 41.1/44.9 aided by marginal increases in revenue estimates and reset in US\$/INR assumptions to Rs 48/\$ V/s Rs 46/\$ for H2FY12/FY13

All fig in Rs mn except (EPS and %)	FY12E			FY13 E		
	Old	New	% change	Old	New	% change
Revenues( US\$ mn)	393	402	2.3%	444	460	3.5%
Revenues	17,906	18,692	4.4%	20,439	22,057	7.9%
EBITDA	2,346	2,490	6.1%	2,908	3,194	9.8%
EBITDA mgns, %	13.1	13.3		14.2	14.5	
Net profits	1,519	1,661	9.3%	1,698	1,815	6.9%
EPS	37.6	41.1	9.2%	42.0	44.9	6.8%

*Attrition has come down to <20 % levels after the sharp jump through FY11.*



## Financials

## Income Statement

Y/E, March. (Rs. m)	FY11	FY12E	FY13E	FY14E
<b>Net Sales</b>	<b>15,091</b>	<b>18,692</b>	<b>22,057</b>	<b>25,481</b>
Growth (%)	16.4	23.9	18.0	15.5
<b>Total Expenditure</b>	<b>(13,312)</b>	<b>(16,202)</b>	<b>(18,862)</b>	<b>(21,721)</b>
Growth (%)		21.7	16.4	15.2
<b>Cost Of Revenues</b>	<b>(10,044)</b>	<b>(12,437)</b>	<b>(14,561)</b>	<b>(16,878)</b>
Growth (%)		23.8	17.1	15.9
COR, as % of Revenues	66.6	66.5	66.0	66.2
<b>SG&amp;A expenses</b>	<b>(3,268)</b>	<b>(3,766)</b>	<b>(4,301)</b>	<b>(4,843)</b>
Growth (%)		15.2	14.2	12.6
SG&A expenses as % of Revenues	21.7	20.1	19.5	19.0
<b>EBIDTA</b>	<b>1,779</b>	<b>2,490</b>	<b>3,194</b>	<b>3,761</b>
Growth (%)		39.9	28.3	17.7
<b>EBIDTA %</b>	11.8	13.3	14.5	14.8
Other Income	242	263	(92)	159
Depreciation	712	746	890	1,021
<b>EBIT</b>	<b>1,309</b>	<b>2,007</b>	<b>2,213</b>	<b>2,899</b>
Interest	4	-	-	-
<b>EBT</b>	<b>1,305</b>	<b>2,007</b>	<b>2,213</b>	<b>2,899</b>
Tax	(288)	(347)	(398)	(522)
<b>EAT</b>	<b>1,017</b>	<b>1,661</b>	<b>1,815</b>	<b>2,377</b>
Growth (%)		63.3	9.3	31.0
EAT (%)	6.7	8.9	8.2	9.3

## Cash Flow

Y/E, March. (Rs. m)	FY11	FY12E	FY13E	FY14E
Net Profit after Tax	1,017	1,661	1,815	2,377
Add : Depreciation	712	746	890	1,021
Add : Misc exp w/off	398	-	-	-
<b>Net changes in WC</b>	<b>(1,363)</b>	<b>(1,336)</b>	<b>(976)</b>	<b>(822)</b>
<b>Operational Cash Flows</b>	<b>457</b>	<b>1,041</b>	<b>2,042</b>	<b>2,689</b>
<b>Capital expenditure</b>	<b>(733)</b>	<b>(901)</b>	<b>(960)</b>	<b>(1,104)</b>
Investments	(103)	24	-	-
<b>Investing Cash Flows</b>	<b>(836)</b>	<b>(877)</b>	<b>(960)</b>	<b>(1,104)</b>
Borrowings	15	-	-	-
dividend paid	(117)	(194)	(212)	(278)
Issue of shares	139	-	-	-
Share Premium				
<b>Financing Cash Flows</b>	<b>37</b>	<b>(194)</b>	<b>(212)</b>	<b>(278)</b>
changes in cash	<b>(342)</b>	<b>(31)</b>	<b>869</b>	<b>1,307</b>
Opening balance	<b>1,913</b>	<b>1,571</b>	<b>1,540</b>	<b>2,409</b>
<b>Closing balance</b>	<b>1,571</b>	<b>1,540</b>	<b>2,409</b>	<b>3,716</b>

## Balance Sheet

Y/E, March. (Rs. m)	FY11	FY12E	FY13E	FY14E
Equity share capital	400	400	400	400
Reserves & surplus	7,362	8,852	10,455	12,554
Minority Interest	-	-	-	-
<b>Networth</b>	<b>7,762</b>	<b>9,252</b>	<b>10,855</b>	<b>12,954</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>9,298</b>	<b>10,901</b>	<b>13,000</b>
Goodwill	-	-	-	-
Gross Block	5,624	6,525	7,485	8,589
Less: Depreciation	(2,618)	(3,364)	(4,253)	(5,274)
<b>Net block</b>	<b>3,006</b>	<b>3,161</b>	<b>3,232</b>	<b>3,315</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>7,700</b>	<b>9,757</b>	<b>12,308</b>
Inventories	-	-	-	-
Sundry debtors	2,825	3,892	4,532	5,236
Cash & bank balance	459	428	1,297	2,604
Loans & advances	2,506	3,380	3,928	4,468
Other current assets	-	-	-	-
<b>Current Liab &amp; Prov</b>	<b>2,344</b>	<b>2,919</b>	<b>3,444</b>	<b>3,979</b>
Current liabilities	1,814	2,304	2,719	3,142
Provisions	530	615	725	838
<b>Net current assets</b>	<b>3,446</b>	<b>4,781</b>	<b>6,313</b>	<b>8,329</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>9,298</b>	<b>10,901</b>	<b>13,000</b>

## Key Ratios

Y/E, March	FY11	FY12E	FY13E	FY14E
EPS (Rs)	25.0	41.1	44.9	58.8
CEPS (Rs)	42.5	59.5	66.9	84.0
Book Value Per Share (Rs)	172.3	206.1	241.3	287.3
Dividend Per Share (Rs)	2.5	4.1	4.5	5.9
DSO	68.3	76.0	75.0	75.0
<b>Valuations Ratios (x)</b>				
PER	15.4	9.4	8.6	6.6
P/CEPS	9.1	6.5	5.8	4.6
P/BV	2.2	1.9	1.6	1.3
EV/EBIDTA	8.5	6.3	4.9	4.1
EV/Sales	1.0	0.8	0.7	0.6
M-Cap/sales	1.0	0.8	0.7	0.6
<b>Profitability Ratios (%)</b>				
RoCE	11.8	16.8	18.8	19.0
RoNW	15.5	21.6	20.1	22.2
EBITDA Margin	11.8	13.3	14.5	14.8
EBIT Margins	7.1	9.3	10.4	10.8
Net Profit Margin	6.7	8.9	8.2	9.3

**Recommendation History: Mindtree – MTCL IN**

Date	Reports	Reco	CMP	Target
11/10/2011	<a href="#">Mindtree Ltd Initiating Coverage</a>	Accumulate	341	415

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
12/10/2011	<a href="#">Infosys Q2FY12 Result Update</a>	Accumulate	2,681	2,800
08/09/2011	<a href="#">IT Services Sector Update</a>			
25/08/2011	<a href="#">Mphasis July'11 Result Update</a>	Reduce	396	325
22/08/2011	<a href="#">IT Services Sector Update</a>			

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