



## Q2FY12 Results - Key Highlights

- MindTree registered an impressive topline growth of 10.6% to ₹ 4567 mn from ₹ 4131 mn on sequential basis and an increase of 18.8% from ₹ 3843 mn on YoY basis. It witnessed a robust volume growth of 6.1%, pricing uptick of 3.5% and translating into a 9.5% growth in dollar terms. In addition to that, MindTree reached a milestone of \$100 mn quarterly run-rate. Manufacturing & BFSI led the growth with an increase of 12.5% & 10% respectively. More notably, MT's specialized Software Product Engg (SPE) business grew by an encouraging 9.3%. On geographical basis, Europe witnessed a good growth of 24.6%, followed by 7.1% growth from US.
- EBITDA increased by 27.8% to ₹ 588 mn from ₹ 460 mn (QoQ) and margin improved by 174 bps to 12.9% on the back of improving operation efficiency (Utilization rates, excluding trainees have gone up from 72.9% in Q1 to 77.7% in Q2), which mitigated the partial wage revision in this quarter. Management is quite upbeat on further room for margin improvement in the upcoming quarters as well. Strong employee additions at the bottom of the pyramid (Average exp of MT employees are ~5 yrs as against industry's ~2 yrs) would act as a major lever.
- PAT jumped by 58.3% to ₹ 546 mn from ₹ 345 mn (QoQ) on the back of couple of one-time gains in other income and forex gain.

**Back to basics strategy – working well:** Client mining strategy has started to reap rich dividends for MT, as number of \$5 mn & \$1 mn client has increased from 14 & 67 in Q112 to 17 & 72 respectively (QoQ). In addition to it, top client account grew by 10.6% (contributing 7%), Top 5 Clients grew by 25.3% (contribution increased to 28% from 24.7%) and Top 10 clients grew by 18% (to 42% from 39.4%) on QoQ basis. During Q2, MT has added 15 new clients and ~1k net additions taking the total employee base to 10k. Based upon the strategy, chosen services segments such as IMS (12.9%), Independent Testing (10%), Package Implementation (18.1%) and non-linearity concentration of IP & consulting (27.1%) grew significantly. Attrition has come down to 21.7% from 25.6% (QoQ).

**Outlook & Valuation:** On an overall basis, the results were well above estimates, margin improvement (despite partial wage revision impact of ~320 bps) and bottom line positive surprise, would make consensus estimates upgrade the earnings. We revise our earnings upwards by 8.8% and 10.3% for FY12E and FY13E to factor in the better than expected earnings. Notably, we remain skeptical on FY13E estimates and our estimates are conservative relative to the consensus estimates.

Management has hinted for caution on the SPE segment, expecting softer Q3FY12. However, we remain positive and believe MT is on the right direction on strategic front and strong execution in Q1 & Q2 reconfirm our conviction on the stock. Strong Q1& Q2 results brought back MT to the industry levels after extensive lull period post smart phone entry. Currently, MT trades at a consolidated P/E of 10.4x and 9.3x on its FY12E & FY13E EPS of ₹ 38 & ₹ 42.4 respectively. We believe that MT would be gradually re-rated in the medium term. We continued to value MT at 10.5x on its FY13E earnings of ₹ 42.4. and reiterate our Accumulate rating with **revised target price of ₹ 445.7**.

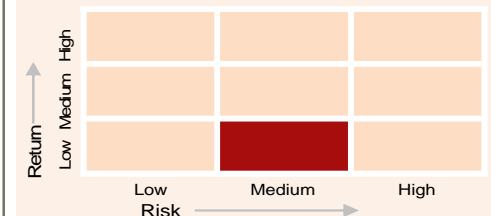
## Financial Snapshot (₹ mn)

In ₹ mn	Sales	YoY(%)	EBITDA	YoY(%)	PAT	YoY(%)	EPS(₹)	EBITDA (%)	RoE(%)	RoCE(%)	P/E(x)	EV/EBITDA(x)	P/B(x)
FY10	12,960	4.7%	2,456	-25.8%	2,148	310.7%	54.4	19.0%	35.2	37.7	7.3	6.2	2.3
FY11	15,090	16.4%	1,778	-27.6%	1,016	-52.7%	25.4	11.8%	14.0	17.9	15.5	8.7	2.0
FY12E	18,209	20.7%	2,379	33.8%	1,530	50.6%	38.0	13.1%	18.1	22.2	10.4	6.2	1.7
FY13E	20,108	10.4%	2,723	14.5%	1,711	11.8%	42.4	13.5%	17.2	21.7	9.3	5.1	1.5

Source: ABML Research, company data

Rating	CMP	Target	Upside %
Accumulate	394.9	445.7	12.9%

## Risk Return Matrix



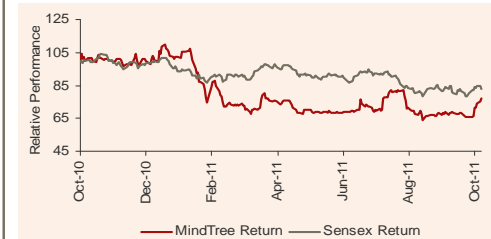
## Company Data

BSE Code	532819
NSE Code	MINDTREE
Equity Capital (₹ mn)	400
Face Value (₹)	10
Market Cap (₹ mn)	15912
Avg Daily Volume (Qtly)	208633
52 week H/L (₹)	570.9/287.6

## Shareholding (%)

Holders	Sep 11	Jun 11	Mar 11
Promoters	24.26	26.38	31.94
FII's	18.50	19.89	20.27
MFs/Banks & FI's	8.03	6.83	5.43
Public & Others	49.21	46.90	42.30

## Chart: MindTree vs. Sensex



Source: Capitaline, NSE, BSE, ABML Research

## Analyst Details

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Quarterly Results Table (₹ mn)	Q2FY12	Q1FY12	QoQ%	Q2FY1	YoY%
<b>Net Sales</b>	<b>4567</b>	<b>4131</b>	<b>10.6%</b>	<b>3844</b>	<b>18.8%</b>
Cost of revenue	3047	2793	9.1%	2559	19.1%
S&GA	932	878	6.2%	858	8.6%
<b>EBITDA</b>	<b>588</b>	<b>460</b>	<b>27.8%</b>	<b>427</b>	<b>37.8%</b>
<b>EBITDA Margin (%)</b>	<b>12.9%</b>	<b>11.1%</b>		<b>11.1%</b>	
Depreciation	174	180	-3.3%	177	-1.8%
Other Income	70	31	125.8%	22	225.6%
Forex Gain/Loss	171	91	87.9%	21	706.6%
PBT	655	402	62.9%	292	124.2%
Tax	109	57	91.2%	80	35.9%
<b>PAT</b>	<b>546</b>	<b>345</b>	<b>58.3%</b>	<b>212</b>	<b>157.7%</b>
<b>PAT Margin (%)</b>	<b>12.0%</b>	<b>8.4%</b>		<b>5.5%</b>	
<b>EPS</b>	<b>13.55</b>	<b>8.63</b>		<b>5.33</b>	

## Key Operating Metrics

Vertical Mix	Q2FY12 **	Q1FY12**	QoQ (%) *	Q2FY11**	YoY (%) *
Manufacturing	15.4%	15.1%	12.8%	14.0%	30.7%
BFSI	21.4%	21.5%	10.0%	18.1%	40.5%
T&T	10.8%	11.4%	4.7%	12.6%	1.8%
Software Product Engg (SPE)	35.8%	36.2%	9.3%	43.0%	-1.1%
Others	16.6%	15.8%	16.2%	12.3%	60.4%

\* Absolute Revenue numbers growth in rupee terms

\*\* % of contribution

Geographical Mix	Q2FY12**	Q1FY12**	QoQ (%) *	Q2FY11**	YoY (%) *
US	58.4%	60.3%	7.1%	63.1%	10.0%
Europe	25.7%	22.8%	24.6%	18.0%	69.6%
India	7.9%	8.6%	1.6%	8.5%	10.4%
Rest of World	8.0%	8.3%	6.6%	10.4%	-8.6%

\* Absolute Revenue numbers growth in rupee terms

\*\* % of contribution

Source: Company, ABML Research



Service Mix	Q2FY12 **	Q1FY12 **	QoQ (%) *	Q2FY11 **	YoY (%) *
Development	39.7%	40.0%	9.7%	50.3%	-6.2%
Maintenance	24.7%	25.3%	7.9%	20.3%	44.6%
Consulting & IP Licensing	4.6%	4.0%	27.1%	3.1%	76.3%
Package Implementation	3.1%	2.9%	18.2%	2.8%	31.5%
Independent Testing	18.2%	18.3%	10.0%	17.6%	22.9%
Infrastructure Mgt & Tech Support	9.7%	9.5%	12.9%	5.9%	95.3%

\* Absolute Revenue numbers growth in rupee terms

\*\* % of contribution

Client Concentration	Q2FY12 **	Q1FY12 **	QoQ (%) *	Q2FY11 **	YoY (%) *
Revenue from Top Client	7.0%	7.0%	10.6%	6.8%	22.3%
Revenue from Top 5 Clients	28.0%	24.7%	25.3%	26.2%	27.0%
Revenue from Top 10 Clients	42.0%	39.4%	17.8%	39.9%	25.1%

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Number of active clients	261	269	277	283	270
New client added	21	30	39	25	15
Number of Mn \$ clients					
\$1 mn clients	64	63	67	67	72
\$5 mn clients	14	14	14	14	17
\$10 mn clients	5	5	6	7	7
Revenue from repeat business	99.4%	98.3%	98.4%	98.5%	99.0%
Fortune 500 clients	45	48	48	42	43

\* Absolute Revenue numbers growth in rupee terms

\*\* % of contribution

Source: Company, ABML Research

## Recommendation Summary

Date	Reports	Rating	Last Closing Price (₹)	Target Price (₹)	Upside %
21-Sep-11	Initiating Coverage	Accumulate	350.8	404.3	15.2
19-Oct-11	Result Update (Q2FY12)	Accumulate	394.9	445.7	12.9

Source: ABML Research



Profit & Loss					
In ₹ mn	FY09	FY10	FY11	FY12E	FY13E
Net sales	12,375	12,960	15,090	18,209	20,108
Other Operating Income	0	0	0	0	0
<b>Total Income</b>	<b>12,375</b>	<b>12,960</b>	<b>15,090</b>	<b>18,209</b>	<b>20,108</b>
YoY (%)		4.7%	16.4%	20.7%	10.4%
Total expenses	9,065	10,504	13,312	15,830	17,385
Cost of Revenues	6,968	8,006	10,145	12,166	13,460
S&GA	2,097	2,498	3,167	3,663	3,925
<b>EBIDTA</b>	<b>3,310</b>	<b>2,456</b>	<b>1,778</b>	<b>2,379</b>	<b>2,723</b>
YoY (%)		-25.8%	-27.6%	33.8%	14.5%
<b>EBIDTA Margin (%)</b>	<b>26.7%</b>	<b>19.0%</b>	<b>11.78%</b>	<b>13.07%</b>	<b>13.54%</b>
Depreciation	570	652	712	762	818
Non-operating income	(1,974)	770	242	276	264
<b>EBIT</b>	<b>766</b>	<b>2,574</b>	<b>1,307</b>	<b>1,892</b>	<b>2,169</b>
Interest	162	27	4	4	4
Extraordinary income/(expenses)	0	0	0	0	0
<b>PBT</b>	<b>604</b>	<b>2,547</b>	<b>1,304</b>	<b>1,889</b>	<b>2,165</b>
(-) Tax	67	399	288	359	455
Tax/ PBT (%)	11.1%	15.7%	22.1%	19.0%	21.0%
<b>PAT</b>	<b>537</b>	<b>2,148</b>	<b>1,016</b>	<b>1,530</b>	<b>1,711</b>
Share of Associates	27	0	0	0	0
MI	41	0	0	0	0
<b>PAT (after MI)</b>	<b>523</b>	<b>2,148</b>	<b>1,016</b>	<b>1,530</b>	<b>1,711</b>
YoY (%)		310.7%	-52.7%	50.6%	11.8%
Preference Dividend	0	0	0	0	0
<b>Adjusted net profit (after MI)</b>	<b>523</b>	<b>2,148</b>	<b>1,016</b>	<b>1,530</b>	<b>1,711</b>
YoY (%)		310.7%	-52.7%	50.6%	11.8%

Source: Company, ABML Research

Balance Sheet					
In ₹ mn	FY09	FY10	FY11	FY12E	FY13E
Equity capital	380	395	400	403	403
Reserves	5,133	6,311	7,362	8,749	10,300
<b>Net worth</b>	<b>5,513</b>	<b>6,706</b>	<b>7,762</b>	<b>9,152</b>	<b>10,703</b>
Minority Interest/Others	328	0	0	0	0
Total borrowings	1,394	31	46	46	46
<b>Total liabilities</b>	<b>7,234</b>	<b>6,737</b>	<b>7,808</b>	<b>9,198</b>	<b>10,749</b>
Total Fixed Assets	2,962	2,859	3,034	3,000	2,944
Investments	1,013	1,442	1,112	1,112	1,112
Goodwill	1,460	154	0	0	0
Deferred Tax	190	214	216	216	216
<b>Current assets</b>	<b>4,691</b>	<b>4,671</b>	<b>5,790</b>	<b>7,464</b>	<b>9,342</b>
Inventories	0	0	0	0	0
Debtors	2,792	2,370	2,825	3,293	3,967
Cash	488	403	459	1,179	2,015
Loans and advances	1,411	1,898	2,506	2,993	3,361
Other current assets	0	0	0	0	0
Current liabilities & provisions	3,082	2,603	2,344	2,594	2,865
<b>Net current assets</b>	<b>1,609</b>	<b>2,068</b>	<b>3,446</b>	<b>4,870</b>	<b>6,477</b>
Miscellaneous expenses	0	0	0	0	0
<b>Total assets</b>	<b>7,234</b>	<b>6,737</b>	<b>7,808</b>	<b>9,198</b>	<b>10,749</b>

Source: Company, ABML Research



Key Ratios					
	FY09	FY10	FY11	FY12E	FY13E
EPS (₹)	13.8	54.4	25.4	38.0	42.4
Adjusted EPS (₹)	13.8	54.4	25.4	38.0	42.4
CEPS (₹)	28.8	70.9	43.2	56.9	62.8
Book value (₹)	145.1	169.7	194.1	227.1	265.6
Dividend per share (₹)	1.0	3.0	2.5	3.0	3.4
Net debt-equity (x)	0.2	(0.1)	(0.1)	(0.1)	(0.2)
ROCE		37.7	17.9	22.2	21.7
ROE		35.2	14.0	18.1	17.2
Valuations					
PE (x)	28.7	7.3	15.5	10.4	9.3
Cash PE (x)	13.7	5.6	9.1	6.9	6.3
Price/book value (x)	2.7	2.3	2.0	1.7	1.5
Dividend yield (%)	0.3	0.8	0.6	0.8	0.9
P/sales	6.1	6.0	5.2	4.4	4.0
EV/sales (x)	1.3	1.2	1.0	0.8	0.7
EV/EBITDA (x)	4.8	6.2	8.7	6.2	5.1

Source: Company, ABML Research

Cash Flow					
In ₹ mn	FY09	FY10	FY11	FY12E	FY13E
Net profit	537	2,148	1,016	1,530	1,711
Depn and w/o	570	652	712	762	818
Change in working cap	(251)	(544)	(1,322)	(705)	(771)
Non-operating income	(1,974)	770	242	276	264
Others	(509)	(313)	(227)	0	0
<b>Operating cash flow</b>	<b>2,320</b>	<b>1,174</b>	<b>-63</b>	<b>1,312</b>	<b>1,494</b>
Non-operating income	(1,974)	770	242	276	264
Capex	(1,359)	(192)	(491)	(728)	(762)
Investments	382	(429)	330	0	0
Others	0	0	0	0	0
<b>Investing cash flow</b>	<b>(2,951)</b>	<b>149</b>	<b>81</b>	<b>(453)</b>	<b>(498)</b>
Dividend	(44)	(138)	(117)	(143)	(160)
Equity	6	94	139	3	0
Debt	475	(1,363)	15	0	0
Others	0	0	0	0	0
<b>Financing cash flow</b>	<b>436</b>	<b>(1,407)</b>	<b>38</b>	<b>(140)</b>	<b>(160)</b>
Net change in cash	(195)	(84)	56	720	836
Opening cash	683	488	403	459	1,179
Closing cash	488	403	459	1,179	2,015

Source: Company, ABML Research



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ABML research is also accessible in Bloomberg at ABMR



## Our Rating Methodology

Stock Ratings	Buy	Accumulate	Neutral	Reduce	Sell
Absolute Returns (R)	$R > 15\%$	$5\% < R \leq 15\%$	$-5\% < R \leq 5\%$	$-10\% < R \leq 5\%$	$R \leq -10\%$

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