



## Q3FY12 Results - Key Highlights

- MindTree registered an impressive topline growth of 13.8% to ₹ 5197 mn from ₹ 4567 mn on sequential basis and an increase of 35.5% from ₹ 3847 mn on YoY basis. It witnessed a pricing uptick of 3.5% and a volume decline of 0.8% leading to a 2.3% growth in \$ terms. IT services continued to grow at a healthy rate of 6.3%, thanks to milestone revenue from new Top client. Software Product Engg (SPE) registered a negative growth of 5%, due to seasonal weaknesses and intentional close down of few accounts. The company is confident of getting back SPE segment to growth trajectory in Q4. Travel & Transportation (T&T) led the growth with an increase of 16.4%. On geographical basis, Europe witnessed a good traction of 11.8%, followed by 8.6% growth from RoW (in \$ terms).
- EBITDA jumped by 52.6% to ₹897 mn from ₹ 588 mn (QoQ) and margin improved by 438 bps to 17.3%, largely driven by favourable rupee and operation efficiency of 30 bps. Strong employee additions at the bottom of the pyramid and improvement in utilization would act as a structural levers for MT in the upcoming quarters, besides favorable rupee.
- PAT improved by 11.2% to ₹ 606 mn from ₹ 545 mn (QoQ), despite forex loss as against one-time gains in other income and forex gain in Q2.

**Back to basics strategy – working well (QoQ growth in \$ terms):** MT's changed strategy of penetrating deeper into top clients & few verticals concentration have started to fructify, which resulted in notable increases in top clients numbers (\$1 mn clients & \$20 mn clients increased from 72 & 2 to 74 & 3 respectively). In addition to it, top client account grew by 19.8% (contributing 8.5%), Top 5 Clients grew by 12.1% (contribution increased to 30.7% vs 28%) and Top 10 clients grew by 7.1% (44% vs 42%). During Q3, MT has added 9 new clients and 354 net additions taking the total employee base to ~11k. Based upon the strategy, chosen services segments such as IMS (9.6%), Package Implementation (64.9% because of an onetime milestone revenue from Top Client) and IP & consulting (11.1%) grew significantly. Attrition has come down to 19.4% from 21.4%.

**Outlook & Valuation:** The Q3 revenues were inline with estimates, margin improvement and bottom line came as a positive surprise. We revise our earnings upwards by 30% for FY13E, predominately to factor in the favourable rupee and better than expected margin improvement. Management sounded cautious on Q4 results (similar kind of Q3 growth), especially in SPE segment, BFSI followed by manufacturing verticals.

However, we remain positive and believe MT is on the right direction on the strategic front and strong execution for three consecutive quarters brought them back to the industry levels. We believe that there are further internal levers for margin improvement and client mining strategy give us confidence in the company, nevertheless from here onwards the business performance would largely be a factor of overall opportunity in the Industry and less of internal improvement. The stock has moved up by ~35% from Aug lows on the back of strong 9M performance. Currently, MT trades at a consolidated P/E of 8.5x and 8x on its FY12E & FY13E EPS of ₹51.5 & ₹55.1 respectively. We value MT at 9x (reduced from 10.5x to factor in the upgradation in earnings, due to short term rupee impact, which we believe is not sustainable) of on its FY13E earnings of ₹ 55.1, and reiterate our Accumulate rating with **revised target price of ₹ 496.7**.

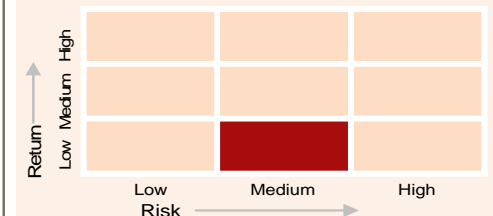
## Financial Snapshot (₹ mn)

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	8.1	7.0	2.6
FY11	15,090	16.4%	1,778	-27.6%	1,016	-52.7%	25.4	11.8%	14.0	17.9	17.4	9.7	2.3
FY12E	19,194	27.2%	2,871	61.5%	2,084	105.2%	51.5	15.0%	23.9	28.7	8.6	5.8	1.9
FY13E	22,061	14.9%	3,555	23.8%	2,232	7.1%	55.1	16.1%	20.9	26.0	8.0	4.3	1.5

Source: ABML Research, company data

Rating	CMP	Target	Upside %
Accumulate	442.95	496.7	12.0%

## Risk Return Matrix



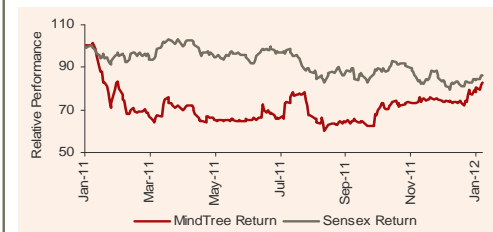
## Company Data

BSE Code	532819
NSE Code	MINDTREE
Equity Capital (₹ mn)	405
Face Value (₹)	10
Market Cap (₹ mn)	17939
Avg Daily Volume (Qtly)	36359
52 week H/L (₹)	555/287.6

## Shareholding (%)

Holders	Dec 11	Sep 11	Jun 11
Promoters	24.05	24.26	26.38
FII's	17.72	18.50	19.89
MF's/Banks & FI's	9.51	8.03	6.83
Public & Others	48.72	49.21	46.90

## Chart: MindTree vs. Sensex



Source: Capitaline, NSE, BSE, ABML Research

## Analyst Details

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Quarterly Results Table (₹ mn)	Q3FY12	Q2FY12	QoQ%	Q3FY11	YoY%
<b>Net Sales</b>	<b>5197</b>	<b>4567</b>	<b>13.8%</b>	<b>3848</b>	<b>35.1%</b>
Cost of revenue	3242	3047	6.4%	2586	25.4%
S&GA	1058	932	13.5%	813	30.2%
<b>EBITDA</b>	<b>897</b>	<b>588</b>	<b>52.6%</b>	<b>449</b>	<b>99.8%</b>
<b>EBITDA Margin (%)</b>	<b>17.26%</b>	<b>12.87%</b>	<b>4.38%</b>	<b>11.67%</b>	
Depreciation	173	174	-0.6%	206	-15.9%
Other Income	36	70	-48.6%	16	120.9%
Forex Gain/Loss	-25	171	-114.6%	79	-131.6%
PBT	735	655	12.2%	337	117.8%
Tax	128	109	17.4%	32	295.1%
<b>PAT</b>	<b>606</b>	<b>545</b>	<b>11.2%</b>	<b>305</b>	<b>98.7%</b>
<b>PAT Margin (%)</b>	<b>11.7%</b>	<b>11.9%</b>		<b>7.9%</b>	
<b>EPS</b>	<b>14.96</b>	<b>13.52</b>		<b>7.65</b>	

## Key Operating Metrics

Vertical Mix	Q3FY12 **	Q2FY12**	QoQ (%) *	Q3FY11**	YoY (%) *
Manufacturing	15.4%	15.4%	13.8%	15.1%	37.8%
BFSI	20.9%	21.4%	11.1%	20.2%	39.8%
T&T	12.3%	10.8%	29.6%	11.8%	40.8%
Software Product Engg (SPE)	33.1%	35.8%	5.2%	24.0%	86.3%
Others	18.3%	16.6%	25.4%	12.2%	102.6%

\* Absolute Revenue numbers growth in rupee terms

\*\* % of contribution

Geographical Mix	Q3FY12**	Q2FY12**	QoQ (%) *	Q3FY11**	YoY (%) *
US	56.2%	58.4%	9.5%	60.4%	25.7%
Europe	28.1%	25.7%	24.4%	19.4%	95.6%
India	7.2%	7.9%	3.7%	8.4%	15.8%
Rest of World	8.5%	8.0%	20.9%	11.8%	-2.7%

\* Absolute Revenue numbers growth in rupee terms

\*\* % of contribution

Source: Company, ABML Research



Service Mix	Q3FY12 **	Q2FY12**	QoQ (%) *	Q3FY11**	YoY (%) *
Development	39.8%	39.7%	14.1%	45.6%	17.9%
Maintenance	23.5%	24.7%	8.3%	21.6%	47.0%
Consulting & IP Licensing	5.0%	4.6%	23.7%	4.0%	68.8%
Package Implementation	5.0%	3.1%	83.5%	2.9%	132.9%
Independent Testing	16.3%	18.2%	1.9%	17.8%	23.7%
Infrastructure Mgt & Tech Support	10.4%	9.7%	22.0%	8.1%	73.4%

\* Absolute Revenue numbers growth in rupee terms

\*\* % of contribution

Client Concentration	Q3FY12 **	Q2FY12**	QoQ (%) *	Q3FY11**	YoY (%) *
Revenue from Top Client	8.2%	7.0%	33.3%	6.9%	60.5%
Revenue from Top 5 Clients	30.7%	28.0%	24.8%	25.6%	62.0%
Revenue from Top 10 Clients	44.0%	42.0%	19.2%	40.2%	47.8%

	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Number of active clients	269	277	283	270	258
New client added	30	39	25	15	9
Number of Mn \$ clients					
\$1 mn clients	63	67	67	72	74
\$5 mn clients	14	14	14	17	16
\$10 mn clients	5	6	7	7	7
Revenue from repeat business	98.3%	98.4%	98.5%	99.0%	99.0%
Fortune 500 clients	48	48	42	43	44

\* 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 (Q2FY11)	Accumulate	395	445.7	12.8
20-Jan-12	Result Update (Q3FY11)	Accumulate	443	496.7	12.0

Source: ABML Research



Profit & Loss					
In ₹ mn	FY09	FY10	FY11	FY12E	FY13E
Net sales	12,375	12,960	15,090	19,194	22,061
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>19,194</b>	<b>22,061</b>
YoY (%)		4.7%	16.4%	27.2%	14.9%
Total expenses	9,065	10,504	13,312	16,324	18,506
Cost of Revenues	6,968	8,006	10,145	12,443	14,201
S&GA	2,097	2,498	3,167	3,881	4,305
<b>EBIDTA</b>	<b>3,310</b>	<b>2,456</b>	<b>1,778</b>	<b>2,871</b>	<b>3,555</b>
YoY (%)		-25.8%	-27.6%	61.5%	23.8%
<b>EBIDTA Margin (%)</b>	<b>26.7%</b>	<b>19.0%</b>	<b>11.78%</b>	<b>14.96%</b>	<b>16.11%</b>
Depreciation	570	652	712	731	818
Non-operating income	(1,974)	770	242	375	57
<b>EBIT</b>	<b>766</b>	<b>2,574</b>	<b>1,307</b>	<b>2,515</b>	<b>2,794</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>2,511</b>	<b>2,791</b>
(-) Tax	67	399	288	427	558
Tax/ PBT (%)	11.1%	15.7%	22.1%	17.0%	20.0%
<b>PAT</b>	<b>537</b>	<b>2,148</b>	<b>1,016</b>	<b>2,084</b>	<b>2,232</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>2,084</b>	<b>2,232</b>
YoY (%)		310.7%	-52.7%	105.2%	7.1%
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>2,084</b>	<b>2,232</b>
YoY (%)		310.7%	-52.7%	105.2%	7.1%

Source: Company, ABML Research

Balance Sheet					
In ₹ mn	FY09	FY10	FY11	FY12E	FY13E
Equity capital	380	395	400	405	405
Reserves	5,133	6,311	7,362	9,252	11,276
<b>Net worth</b>	<b>5,513</b>	<b>6,706</b>	<b>7,762</b>	<b>9,657</b>	<b>11,681</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>9,703</b>	<b>11,727</b>
Total Fixed Assets	2,962	2,859	3,034	3,032	2,976
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>8,078</b>	<b>10,566</b>
Inventories	0	0	0	0	0
Debtors	2,792	2,370	2,825	3,471	4,110
Cash	488	403	459	1,452	2,769
Loans and advances	1,411	1,898	2,506	3,155	3,687
Other current assets	0	0	0	0	0
Current liabilities & provisions	3,082	2,603	2,344	2,735	3,143
<b>Net current assets</b>	<b>1,609</b>	<b>2,068</b>	<b>3,446</b>	<b>5,343</b>	<b>7,423</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>9,703</b>	<b>11,727</b>

Source: Company, ABML Research



Key Ratios					
	FY09	FY10	FY11	FY12E	FY13E
EPS (₹)	13.8	54.4	25.4	51.5	55.1
Adjusted EPS (₹)	13.8	54.4	25.4	51.5	55.1
CEPS (₹)	28.8	70.9	43.2	69.5	75.3
Book value (₹)	145.1	169.7	194.1	238.4	288.4
Dividend per share (₹)	1.0	3.0	2.5	4.1	4.4
Net debt-equity (x)	0.2	(0.1)	(0.1)	(0.1)	(0.2)
ROCE		37.7	17.9	28.7	26.0
ROE		35.2	14.0	23.9	20.9
Valuations					
PE (x)	32.2	8.1	17.4	8.6	8.0
Cash PE (x)	15.4	6.3	10.3	6.4	5.9
Price/book value (x)	3.1	2.6	2.3	1.9	1.5
Dividend yield (%)	0.2	0.7	0.6	0.9	1.0
P/sales	6.8	6.8	5.9	4.7	4.1
EV/sales (x)	1.4	1.3	1.1	0.9	0.7
EV/EBITDA (x)	5.4	7.0	9.7	5.8	4.3

Source: Company, ABML Research

Cash Flow					
In ₹ mn	FY09	FY10	FY11	FY12E	FY13E
Net profit	537	2,148	1,016	2,084	2,232
Depn and w/o	570	652	712	731	818
Change in working cap	(251)	(544)	(1,322)	(904)	(762)
Non-operating income	(1,974)	770	242	375	57
Others	(509)	(313)	(227)	0	0
<b>Operating cash flow</b>	<b>2,320</b>	<b>1,174</b>	<b>-63</b>	<b>1,536</b>	<b>2,231</b>
Non-operating income	(1,974)	770	242	375	57
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>(354)</b>	<b>(705)</b>
Dividend	(44)	(138)	(117)	(194)	(208)
Equity	6	94	139	5	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>(189)</b>	<b>(208)</b>
Net change in cash	(195)	(84)	56	993	1,318
Opening cash	683	488	403	459	1,452
Closing cash	488	403	459	1,452	2,769

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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