

## MindTree

## Q3FY10 Earnings Review

<b>Recommendation</b>	:	<b>Outperformer</b>
CMP	:	Rs 567
<b>Target</b>	:	<b>Rs 689</b>
Upside Potential	:	22%

<b>Sector</b>	:	<b>IT</b>
Sensex	:	16289
Bloomberg code	:	MTCL IN
Reuters Code	:	MINT BO

### AT A GLANCE

Issued Equity Capital (Cr. Shrs)	:	3.91
Mkt. Cap (Rs. in Crs)	:	2216
Major Shareholders		
Promoters (%)	:	33.12%
Free Float (%)	:	66.88%
Avg. Daily Vol. ('000)	:	2844.9

**Background:** MindTree Ltd. headquartered in India and the U.S was incorporated on 5th August 1999 as MindTree Consulting Private Limited. The Company is a global IT Solutions provider specializing in IT Services, Independent Testing, Infrastructure Management and Technical Support (IMTS), Knowledge Services and Product Engineering, which comprises of R&D Services and Software Product Engineering. The company has offices in India, the US, the UK, Japan, Singapore, Australia, Germany, Sweden, the UAE and France. The company has employee strength of over 7,700 people.

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### Q3 performance on expected lines...

MindTree reported 5.4% growth in revenues at Rs 331.85 crore on sequential basis. During the quarter the company consolidated the results of Kyocera India (now called MindTree Wireless Private Limited). Kyocera contributed \$4.75 mn to the overall revenues during the quarter. In terms of the business segments, IT services and R&D services showed a sequential growth of 0.4% and 3.8% respectively whereas, software product engineering reported a decline of 0.7% QoQ. The Q3 revenues got adversely impacted by 2.5% due to the lower working days falling in the quarter as well as increase in the number of leaves taken by employees. Together this impacted 30,000 billable hours. The Net profit recorded a growth of 7.8% QoQ at Rs. 53.7crore.

### Margins declined on appreciating rupee...

For Q3FY10 the EBIDTA margins declined by 110bps at 19.80% compared to 20.90% in the sequential quarter. The margins got impacted by 3.3% on rupee appreciation and also due to addition of 160 fresh campus graduates during the quarter. This apart, the increase in the revenue contribution from India business had an adverse impact on margins (as the pricing levels are low in India).The contribution from India business increased to 6.8% from 5.3% QoQ. Going forward, we believe the margins are likely to inch lower due to increase in the employee cost owing to fresh hiring and salary hikes. Also, the margins will get diluted marginally due to consolidation of low margin business from Kyocera.

### Management revised guidance upwards...

The management has guided the revenues to be in the range of 269.5 to 270.5 mn USD compared to 255-270 mn USD. The PAT is guided to be in the range of 40.5 to 41.25 million USD compared to 30.4-36.8 mn USD. EPS guidance is revised to Rs 48.6 to 49.5 compared to the previous guidance of Rs 37.4-45.3. This guidance assumes a consolidated number from MindTree and MindTree Wireless Private Limited (Kyocera). The revised guidance reflects management's optimism towards future growth. However, we believe the uncertainty towards the rupee movement and lower number of days falling in Q4 has kept the upper range of the guidance unchanged.

FY March (Rs Crore)	Turnover	EBITDA	PBT	Net Profit	EPS (Rs)	BVPS (Rs)	PE (X)	Net Div Yield (%)	P/BV (X)	ROE (%)
2009	1237.47	136.29	63.13	56.41	14.84	135.64	38.21	0.33%	4.18	10.94%
2010E	1277.76	236.40	220.40	195.10	49.90	183.54	11.36	0.33%	3.09	27.19%
2011E	1418.31	262.40	245.40	207.40	53.03	234.57	10.69	0.33%	2.42	22.61%

## Valuations

MindTree delivered Q3 performance on expected lines owing to growth in IT services and R&D services. The quarter also benefited on consolidation of Kyocera's revenues. Going forward, we believe that Q4FY10 would deliver moderate growth on the back of lower working days and slow ramp-ups. We expect better growth to start kicking in from FY11 onwards. The growth would be largely driven by up tick in discretionary spending. We revise our EPS estimates for FY10 on lower tax rate and higher than expected forex gains in Q3 FY10. We also revise our FY11 earnings estimates building in better growth prospects and improvement in IT spending going forward. At the current market price the stock is quoting at 11.36x and 10.69x its FY10E and FY11E estimates. We recommend an Outperformer rating on the stock with a target price of Rs. 689. Rupee appreciation continues to remain a key concern.

## Result Summary & Comments Q3FY10 (Consolidated)

in Rs. Cr	Q3FY10	Q3FY09	gr%(yoy)	Q2FY10	gr%(qoq)	Comments
<b>Revenues</b>	<b>331.85</b>	<b>363.8</b>	<b>-8.8%</b>	<b>314.98</b>	<b>5.4%</b>	consolidation of Kyocera Wireless Acquisition
Cost of revenues	201.24	195.62	2.9%	186.9	7.7%	
<b>Gross profit</b>	<b>130.61</b>	<b>168.18</b>	<b>-22.3%</b>	<b>128.08</b>	<b>2.0%</b>	
SG&A expenses	64.84	55.23	17.4%	60.53	7.1%	
Provision for bad and doubtful debts	0.06	2.01	-97.0%	1.62	-96.3%	
<b>EBIDTA</b>	<b>65.71</b>	<b>110.94</b>	<b>-40.8%</b>	<b>65.93</b>	<b>-0.3%</b>	
Interest including finance charges	0.06	5.15	-98.8%	0.09	-33.3%	
Depreciation	16.78	16.07	4.4%	15.94	5.3%	
Operating profit	48.87	89.72	-45.5%	49.9	-2.1%	
Foreign exchange gain/(loss)	17.38	-78.94	-122.0%	2.94	491.2%	
Other income	2.8	3.22	-13.0%	0.9	211.1%	
<b>Profit before tax</b>	<b>69.05</b>	<b>14.00</b>	<b>393.2%</b>	<b>53.74</b>	<b>28.5%</b>	
Provision for taxation including fringe benefit tax	17.12	5.31	222.4%	6.29	172.2%	
Deferred tax charge/(credit)	-2.61	-1.61		-1.66		
MAT credit entitlement	0.77			-0.77		
<b>PAT before share of profits of associates and minority interest</b>	<b>53.77</b>	<b>10.3</b>	<b>422.0%</b>	<b>49.88</b>	<b>7.8%</b>	Higher forex gains
Share of profits of associates						
Minority interest		1.58				
<b>Adj. PAT</b>	<b>53.77</b>	<b>8.72</b>	<b>516.6%</b>	<b>49.88</b>	<b>7.80%</b>	
Paid up equity share capital (face value Rs. 10/- each)	39.33	<b>37.99</b>	3.5%	39.19	0.36%	
EBIDTA margin	19.8%	30.5%		20.9%		margins declined on Rupee appreciation, hiring and increase in India business
PAT margin	16.2%	2.4%		15.8%		
Tax rate	21.0%	26.4%		8.6%		

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STOCK RATING: Outperformer: > 20% upside over the next 12 months; Marketperformer: trade within a +/-20% range over the next 12 months; Underperformer: > 20% downside over the next 12 months.