

October 16, 2012

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Rating	BUY
Price	Rs678
Target Price	Rs800
Implied Upside	18.0%
Sensex	18,578
Nifty	5,648

(Prices as on October 16, 2012)
Trading data

Market Cap. (Rs bn)	26.8
Shares o/s (m)	39.5
3M Avg. Daily value (Rs m)	102.8

Major shareholders

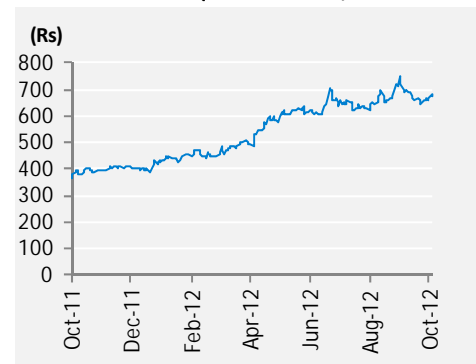
Promoters	19.47%
Foreign	23.25%
Domestic Inst.	9.76%
Public & Other	47.52%

Stock Performance

(%)	1M	6M	12M
Absolute	(6.3)	38.7	78.8
Relative	(7.0)	30.4	70.1

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	78.9	73.0	8.0
2014	90.9	78.4	16.0

Price Performance (RIC: MINT.BO, BB: MTCL IN)


Source: Bloomberg

MindTree (MTCL) reported quarter with top-line growth touch-below our expectation, whereas, margin expansion ahead of expectation. This is the fifth consecutive quarter of positive surprise on margin. We believe that continued focus on margin improvement will yield positive result, but expect revenue momentum to take a pause. We reiterate our **'BUY'** rating, with a target price of **Rs800**.

■ **Currency led positive surprise:** MTCL reported Q2FY13 results ahead of expectation. Revenue growth was 5.9% QoQ at Rs5,963m (PLe: Rs5,998m, Cons: Rs5,907m) in INR terms and grew by 1.7% (@cc 2.2%) QoQ in USD terms to \$107.3m (PLe: US\$108.7m). EBITDA margin expanded by 127bps QoQ to 22.1% (PLe: 20.6% Cons: 19.3%) aided by currency depreciation and operational efficiency. However, EPS de-grew by 18.9% QoQ to Rs17.85 (PLe: Rs16.37, Cons: Rs16.92), due to forex loss of Rs341m (Gain Q1FY13: Rs52m).

■ **Focus on large deals persists:** The company continues to pin their hope on large deal pipeline. According to the management, there are 6-7 large deals in the pipeline. They are in the process of closing one large deal from the existing client with tenure of three years.

■ **Lowered revenue guidance to below 11% USD revenue:** Management has lowered their revenue guidance from earlier 11-14% YoY growth to below 11% YoY revenue growth in USD term. We expect revenue growth to be in high single digit. The weakness in revenue has largely been attributed to softness in PES (Telecom and Semiconductor). The company expects revenue growth for PES to be lower than FY12 (0%). But, H2FY13 revenue momentum is likely to be better than H1FY13. However, we expect margin to remain sticky as company will have lower SG&A expense in H2FY13. Moreover, the company has pipeline of 3k fresher for FY13 that will help rationalizing pyramid. (0-3 yrs exp: ~32%).

■ **Valuation & Recommendation – BUY, Target Price Rs800:** Revenue growth now hinge to large deal pipeline, however, margin lever would surprise on upside. We retain our **'BUY'** rating, with a TP of **Rs800**, 10x FY13e earnings estimate.

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	15,090	19,152	23,256	25,577
Growth (%)	16.4	26.9	21.4	10.0
EBITDA (Rs m)	1,778	2,930	4,702	5,113
PAT (Rs m)	1,016	2,153	3,195	3,683
EPS (Rs)	25.4	53.2	78.9	90.9
Growth (%)	(53.3)	109.3	48.4	15.3
Net DPS (Rs)	3.8	4.3	4.8	5.8

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	11.8	15.3	20.2	20.0
RoE (%)	14.0	24.8	28.9	25.8
RoCE (%)	14.0	24.7	29.8	26.5
EV / sales (x)	1.8	1.4	1.1	0.9
EV / EBITDA (x)	15.0	9.2	5.4	4.4
PE (x)	26.7	12.7	8.6	7.5
P / BV (x)	3.5	2.9	2.2	1.7
Net dividend yield (%)	0.6	0.6	0.7	0.9

Source: Company Data; PL Research

Exhibit 1: Revenue weak, operating margin a positive surprise (Rs m)

Y/e March	Q2FY13	Q1FY12	QoQ gr. (%)	Q2FY12	YoY gr. (%)	Cons	PLe	Var (Act. Vs Est.)
Sales (\$ m)	107.3	105.5	1.7%	101.3	5.9%		108.7	-1.3%
Sales	5,963	5,630	5.9%	4,567	30.6%	5,907	5,998.3	-0.6%
EBITDA	1,319.0	1,174	12.4%	588	124.3%	1,142	1,235.7	6.7%
EBITDA Margin	22.1%	20.9%	127 bps	12.9%	924 bps	19.3%	20.6%	152 bps
PAT	722	890	-18.9%	545	32.5%	667	662	9.1%
EPS (diluted) (Rs)	17.85	22.01	-18.9%	13.48	32.5%	16.92	16.37	9.1%

Source: Company Data, Bloomberg, PL Research

Conference call highlights

1) Volume: 1% QoQ, Pricing: 0.6% **2)** Added 11 new customers during the quarter **3)** Attrition Q2FY13 at 16.3% (Q4FY12: 18%) **4)** FY13: Hedge - US\$82m (@ Rs52.07), FY14: Hedge US\$54m (@57.72) **5)** Revenue growth @cc 2.2% QoQ **6)** Fresher joining FY13: 3k (70-75% joining rate) **7)** Tax rate for FY13: 20-21% (Q2FY13:11.4% due to reversal) **8)** H1FY13 Capex: US\$13m (H2FY13: \$6-8m) **9)** Asset translation loss of \$7.3m **10)** DSO-73 days **11)** SG&A to come down in Q3FY13 by ~\$1m (spend on branding in Q2FY13) **12)** Microsoft is reinstated as top client **13)** Expect higher onsite due to ramp-up in business critical projects **14)** Good ramp-up in KPN for billing and associated services **15)** ISVs driving growth in PES

Change in the Board

The Board elected Anjan Lahiri, President, IT Services, as an additional Director to the Board. Anjan will hold the office with effect from October 24, 2012 till the date of the next Annual General Meeting. The Board nominated N. S. Parthasarathy, President & COO as an alternate Director to S. Janakiraman.

Exhibit 2: IT Services steady, PES bounced back to growth due to ISV revenue

By Businesses (\$ m)	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
IT Svc.	73.5	72.8	1.0%	65.1	13.0%
Product Engineering Services	33.8	32.7	3.3%	36.3	-6.8%
% of Total					
IT Svc.	68.5%	69.0%	-50 bps	64.2%	430 bps
PES	31.5%	31.0%	50 bps	35.8%	-430 bps

Source: Company Data, PL Research

Exhibit 3: Growth in US & Europe

By Geography (\$ m)	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
US	62.3	61.3	1.7%	59.2	5.3%
Europe	31.4	30.4	3.5%	26.0	20.7%
India	6.4	6.8	-4.7%	8.0	-19.6%
Rest of World	7.1	7.1	0.2%	8.1	-12.7%
% of Total					
US	58.1%	58.1%	0 bps	58.4%	-30 bps
Europe	29.3%	28.8%	50 bps	25.7%	360 bps
India	6.0%	6.4%	-40 bps	7.9%	-190 bps
Rest of World	6.6%	6.7%	-10 bps	8.0%	-140 bps

Source: Company Data, PL Research

Exhibit 4: Growth in IMS and Testing Services

By Service Offering (\$ m)	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
Development	27.1	26.8	1.3%	21.1	28.8%
Engineering	16.4	17.4	-5.7%	20.5	-19.8%
Maintenance	23.1	23.2	-0.6%	22.7	1.6%
Consulting	3.9	3.5	11.0%	4.0	-2.3%
Package implementation	2.9	3.2	-8.5%	3.1	-7.8%
IP Led Revenue	1.4	1.3	10.2%	1.3	
Independent Testing	19.0	18.4	3.5%	18.4	3.0%
Infrastructure Management & Tech Support	13.7	11.8	16.2%	9.8	39.7%
% of Total					
Development	25.3%	25.4%	-10 bps	20.8%	450 bps
Engineering	15.3%	16.5%	-120 bps	20.2%	-490 bps
Maintenance	21.5%	22.0%	-50 bps	22.4%	-90 bps
Consulting	3.6%	3.3%	30 bps	3.9%	-30 bps
Package implementation	2.7%	3.0%	-30 bps	3.1%	-40 bps
IP Led Revenue	1.3%	1.2%	10 bps	1.3%	0 bps
Independent Testing	17.7%	17.4%	30 bps	18.2%	-50 bps
Infrastructure Management & Tech Support	12.8%	11.2%	160 bps	9.7%	310 bps

Source: Company Data, PL Research

Exhibit 5: Shift towards FPP is steady

By Project Type (\$ m)	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
Fixed Price	41.6	39.6	5.2%	34.2	21.9%
Time & Material	65.7	65.9	-0.4%	67.2	-2.3%
% of Total					
Fixed Price	38.8%	37.5%	130 bps	33.7%	510 bps
Time & Material	61.2%	62.5%	-130 bps	66.3%	-510 bps

Source: Company Data, PL Research

Exhibit 6: Attrition still high but spiralling down

Manpower details	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
Total MindTree Minds	10883	10830	0.5%	10580	2.9%
Software Professionals	10226	10173	0.5%	9903	3.3%
Sales and Support	657	657	0.0%	677	-3.0%
Gross Addition	454	272	66.9%	1478	-69.3%
Net addition	53	-170	-131.2%	1003	-94.7%
<i>Attrition (LTM)</i>	<i>16.3%</i>	<i>17.0%</i>	<i>-70 bps</i>	<i>21.7%</i>	<i>-540 bps</i>

Source: Company Data, PL Research

Exhibit 7: T&T is weak due to culmination of large project by top client

By Industry (\$ m)	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
Manufacturing & Retail	20.2	19.5	3.4%	15.6	29.3%
BFSI	24.7	23.2	6.3%	21.7	13.8%
Travel, Media & Services	20.2	22.0	-8.5%	10.9	84.3%
Others	8.5	8.0	5.7%	16.8	-49.6%
PES	33.8	32.7	3.3%	36.3	-6.8%
% of Total					
Manufacturing & Retail	18.8%	18.5%	30 bps	15.4%	340 bps
BFSI	23.0%	22.0%	100 bps	21.4%	160 bps
Travel, Media & Services	18.8%	20.9%	-210 bps	10.8%	800 bps
Others	7.9%	7.6%	30 bps	16.6%	-870 bps
PES	31.5%	31.0%	50 bps	35.8%	-430 bps

Source: Company Data, PL Research

Exhibit 8: Volume growth weak, realization uptick is bucking the trend

Effort and Utilization	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
Billed Hours					
Onsite	541,116	520,460	4.0%	463,438	16.8%
Offshore	3,222,190	3,206,511	0.5%	3,104,902	3.8%
Total Efforts Billed	3,763,306	3,726,971	1.0%	3,568,340	5.5%
Fee Revenue					
Onsite	40.1	39.5	1.6%	33.3	20.7%
Offshore	66.1	65.1	1.5%	66.7	-1.0%
Total	106.2	104.6	1.5%	100.0	6.2%
Pricing					
Onsite	74.2	75.9	-2.3%	71.7	3.4%
Offshore	20.5	20.3	1.0%	21.5	-4.6%
Blended	28.2	28.1	0.6%	28.0	0.7%
Utilization					
Including Trainees	71.7%	68.9%	280 bps	71.3%	40 bps
Excluding Trainees	72.3%	71.5%	80 bps	77.7%	-540 bps

Source: Company Data, PL Research

**Exhibit 9: Weakness in top 6-10 client is attributed to weakness in PES**

Client Details	Q2FY13	Q1FY13	QoQ	Q2FY12	YoY
Number of Clients	247	245	0.8%	270	-8.5%
New Clients added	11	19	-42.1%	15	-26.7%
Number of \$m clients					
\$1 m Clients	73	78	-6.4%	72	1.4%
\$5 m Clients	17	17	0.0%	17	0.0%
\$10 m Clients	8	8	0.0%	7	14.3%
Top Customer	8.7	8.0	8.4%	7.1	22.5%
Top 5 Customers	36.2	35.3	2.3%	28.4	27.4%
Top 2-5 Customers	27.5	27.3	0.5%	21.3	29.1%
Top 10 Customers	50.2	49.7	1.1%	42.6	18.0%
Top 6-10 Customers	14.1	14.3	-2.0%	14.2	-0.9%
Non-Top 10 Customers	57.1	55.8	2.3%	58.8	-2.9%
% of Total					
Top Customer	8.1%	7.6%	50 bps	7.0%	110 bps
Top 5 Customers	33.7%	33.5%	20 bps	28.0%	570 bps
Top 10 Customers	46.8%	47.1%	-30 bps	42.0%	480 bps
Revenue from repeat business	106.7	104.2	2.3%	100.3	6.3%
Non-repeat business	0.6	1.3	-49.1%	1.0	-36.5%
% of Total					
Revenue from repeat business	99.4%	98.8%	60 bps	99.0%	40 bps
Non-repeat business	0.6%	1.2%	-60 bps	1.0%	-40 bps

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	15,090	19,152	23,256	25,577
Raw Material Expenses	10,145	12,261	13,989	15,417
Gross Profit	4,945	6,891	9,267	10,160
Employee Cost	—	—	—	—
Other Expenses	3,167	3,961	4,565	5,047
EBITDA	1,778	2,930	4,702	5,113
Depr. & Amortization	712	695	643	712
Net Interest	4	3	183	176
Other Income	242	383	221	379
Profit before Tax	1,304	2,615	4,097	4,604
Total Tax	288	462	901	921
Profit after Tax	1,016	2,153	3,195	3,683
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	1,016	2,153	3,195	3,683
Avg. Shares O/S (m)	40.0	40.5	40.5	40.5
EPS (Rs.)	25.4	53.2	78.9	90.9

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	433	2,063	3,324	3,813
C/F from Investing	(383)	(2,306)	(1,395)	(767)
C/F from Financing	(114)	386	(196)	(235)
Inc. / Dec. in Cash	(64)	143	1,733	2,811
Opening Cash	523	459	602	2,335
Closing Cash	459	602	2,335	5,146
FCFF	(23)	3,545	1,928	3,046
FCFE	(8)	3,570	1,928	3,046

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	16.4	26.9	21.4	10.0
EBITDA (%)	(27.6)	64.8	60.5	8.7
PAT (%)	(52.7)	111.9	48.4	15.3
EPS (%)	(53.3)	109.3	48.4	15.3
Profitability				
EBITDA Margin (%)	11.8	15.3	20.2	20.0
PAT Margin (%)	6.7	11.2	13.7	14.4
RoCE (%)	14.0	24.7	29.8	26.5
RoE (%)	14.0	24.8	28.9	25.8
Balance Sheet				
Net Debt : Equity	(0.1)	(0.1)	(0.2)	(0.3)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	26.7	12.7	8.6	7.5
P / B (x)	3.5	2.9	2.2	1.7
EV / EBITDA (x)	15.0	9.2	5.4	4.4
EV / Sales (x)	1.8	1.4	1.1	0.9
Earnings Quality				
Eff. Tax Rate	22.1	17.7	22.0	20.0
Other Inc / PBT	18.6	14.6	5.4	8.2
Eff. Depr. Rate (%)	12.7	12.1	9.0	9.0
FCFE / PAT	(0.8)	165.8	60.3	82.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	7,762	9,572	12,572	16,020
Total Debt	46	71	71	71
Other Liabilities	—	—	—	—
Total Liabilities	7,808	9,643	12,643	16,091
Net Fixed Assets	3,034	2,633	3,385	3,440
Goodwill	—	43	43	43
Investments	1,112	3,082	3,082	3,082
Net Current Assets	3,446	2,763	5,011	8,404
<i>Cash & Equivalents</i>	459	602	2,335	5,146
<i>Other Current Assets</i>	5,331	5,864	6,881	7,708
<i>Current Liabilities</i>	2,344	3,703	4,205	4,450
Other Assets	216	1,122	1,122	1,122
Total Assets	7,808	9,643	12,643	16,091

Quarterly Financials (Rs m)

Y/e March	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Net Revenue	5,197	5,257	5,630	5,963
EBITDA	897	985	1,174	1,319
<i>% of revenue</i>	17.3	18.7	20.9	22.1
Depr. & Amortization	173	168	159	159
Net Interest	—	3	3	4
Other Income	10	11	138	(341)
Profit before Tax	734	825	1,150	815
Total Tax	128	136	260	93
Profit after Tax	606	689	890	722
Adj. PAT	606	689	890	722

Key Operating Metrics

Y/e March	2011	2012	2013E	2014E
Volume (persons months)	69,749	80,671	87,932	98,044
Realization (US\$ / Hr)	26.5	28.0	28.0	28.7
Currency (USDINR)	45.6	47.6	53.0	51.0
SW Devp. Cost (% of Sales)	67.2	64.0	60.2	60.3
SG&A (% of sales)	21.0	20.7	19.6	19.7
Revenue (US\$ m)	331	403	439	502
EBITDA Margin Expansion/(Erosion) (bps)	(717)	352	492	(23)
Tax Rate (%)	22.1	16.4	22.0	20.0

Source: Company Data, PL Research.

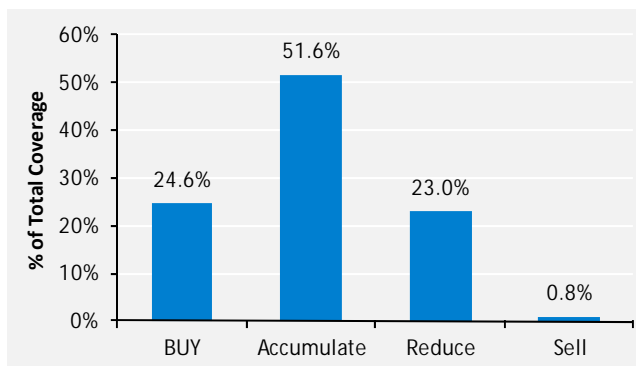


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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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