



BSE SENSEX	S&P CNX	CMP: INR648	TP: INR844	Buy						
18,611	5,660									
Bloomberg	MTCL IN									
Equity Shares (m)	40.8									
52-Week Range (INR)	762/372									
1,6,12 Rel. Perf. (%)	-7/16/59									
M.Cap. (INR b)	27.6									
M.Cap. (USD b)	0.5									
Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
3/11A	15,091	1,085	24.8	-53.0	-	-	14.0	15.0	-	-
3/12A	19,152	2,186	53.7	116.5	12.1	-	22.8	25.2	1.2	7.7
3/13E	23,494	3,291	79.6	48.1	8.1	3.6	25.4	25.4	0.9	4.3
3/14E	26,013	3,496	84.4	6.1	7.7	3.4	21.8	24.1	0.7	3.9

- MindTree (MTCL) posted revenue of USD107.3m for 2QFY13, up 1.7% QoQ (2.2% QoQ in constant currency terms) v/s our estimate of 3.6% sequential growth. Revenue growth was driven by 3.2% QoQ growth in Product Engineering Services (PES). Growth in IT Services (ITS) was subdued at 1% QoQ, dragged by the Travel & Transportation vertical (-8.6% QoQ). A weak first half and continued sluggishness in deal closures and project ramp-ups drove the second downward revision in two quarters. MTCL now expects to grow its USD revenue by less than 11% in FY13.
- EBIT margin surprised positively yet again, expanding for the 7th quarter in a row, to 19.4% (+140bp QoQ v/s our estimate of -90bp QoQ), despite the impact of wage hikes. PAT of INR772m was below our estimate (INR861m), mainly due to forex loss of INR415m.
- Despite the weak guidance, MTCL guided better growth in 2H at both ITS and PES. Deals signed in PES have meant that growth in 3Q could be higher than 2Q. In ITS, the company could shortly close a large deal (~USD25m).
- MTCL's back-to-basics approach started on an impressive footing, and amid slowing growth, the company's execution on margins has been impressive. However, continued success in large deals remains imperative to the success of its execution, and sustenance of margins.
- We have revised our USD revenue estimates for FY13 / FY14 down by 2% / 4.3% after second consecutive quarter of cut in revenue guidance. Our EPS estimates are down 5.3% / 4.3% for FY13 / FY14, on the back of lower revenue estimates. The revision in our FY13 EPS estimate is also on account of revised currency assumptions for 2H (INR53/USD v/s INR54 earlier) and forex losses in 2Q, offset partially by margin surprise. We maintain **Buy**, with a target price of INR844 (10x FY14E EPS).

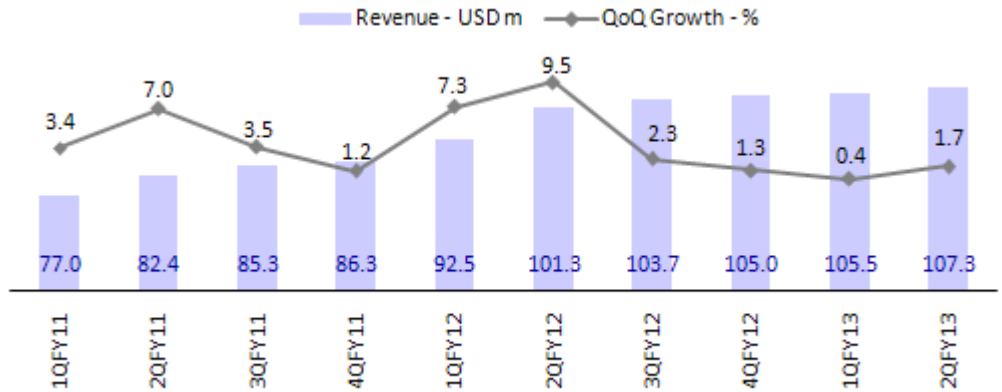
Quarterly Performance									INR million	
Y/E March	FY12				FY13				FY12	FY13E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenues	4,131	4,567	5,197	5,257	5,630	5,963	5,863	6,038	19,152	23,494
Q-o-Q Change (%)	7.4	10.6	13.8	1.2	23.3	5.9	-1.7	3.0	26.9	22.7
Direct Expenses	2,793	3,047	3,242	3,179	3,442	3,570	3,660	3,730	12,261	14,402
SGA	878	932	1,058	1,093	1,014	1,074	1,085	1,114	3,961	4,287
Operating Profit	460	588	897	985	1,174	1,319	1,118	1,194	2,930	4,805
Margins (%)	11.1	12.9	17.3	18.7	20.9	22.1	19.1	19.8	15.3	20.5
Other Income	31	70	36	51	52	74	77	91	188	294
Forex Gain / (Loss)	91	171	-25	-40	86	-415	0	0	197	-329
Depreciation & Amort.	180	174	173	168	159	159	167	175	695	659
Interest	0	1	1	3	3	4	0	0	5	7
PBT bef. Extra-ordinary	402	654	734	825	1,150	815	1,028	1,110	2,615	4,104
Provision for Tax	57	109	128	136	260	93	221	239	430	813
Rate (%)	14.2	16.7	17.4	16.5	22.6	11.4	21.5	21.5	16.4	19.8
Reported PAT	345	545	606	689	890	722	807	872	2,185	3,291
Q-o-Q Change (%)	13.2	58.0	11.2	13.7	63.3	-18.9	11.8	8.0	101.4	50.5
USD Revenue	92.5	101.3	103.7	105.0	105.5	107.3	110.6	113.9	402.6	437.3
Q-o-Q Change (%)	7.3	9.5	2.3	1.3	4.1	1.7	3.1	3.0	21.7	8.6

E: MOSL Estimates

Revenue below estimate; margins surprise positively; forex losses drag PAT

2QFY13 revenue was USD107.3m, +1.7% QoQ, lower than our estimate of USD109.3m (+3.6% QoQ). Revenue growth in constant currency was 2.2% QoQ. Fee revenue during the quarter increased by 1.5% QoQ, with volumes increasing 1% QoQ and pricing uptick of 0.5% QoQ. ITS grew 1% QoQ and PES grew 3.3% QoQ.

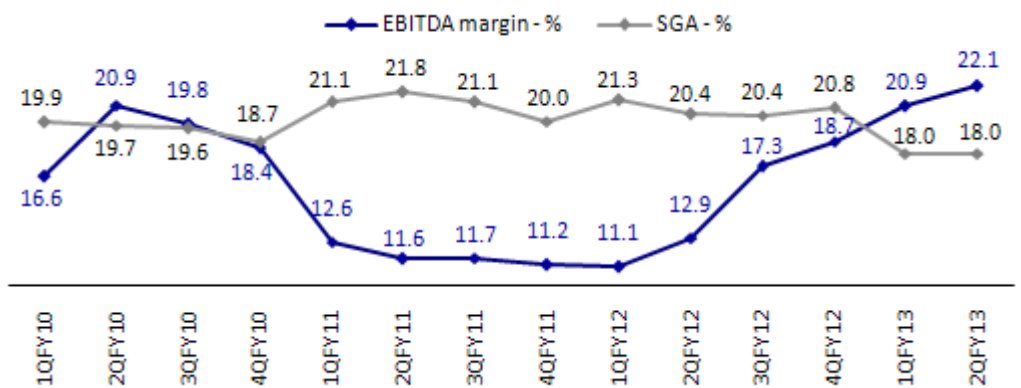
Growth remained subdued for the fourth consecutive quarter...



Source: Company, MOSL

EBIT margin expanded 140bp QoQ to 19.4% v/s our estimate of 90bp QoQ decline to 17.1%. Factors that contributed to the margin movement during the quarter were: [1] currency (+140bp), [2] operational improvements – mainly utilization (+280bp QoQ), employee pyramid and marginal contribution from pricing, which collectively aided +250bp margin uptick, [3] salary hikes (-180bp) and [4] rebranding exercise (-70bp).

...but EBITDA margin expanded for the 7th consecutive quarter



Source: Company, MOSL

The company incurred forex losses worth INR415m during the quarter, dragging PAT down to INR722m v/s our estimate of INR861m. Tax rate was 11.4% v/s our estimate of 21.5%.

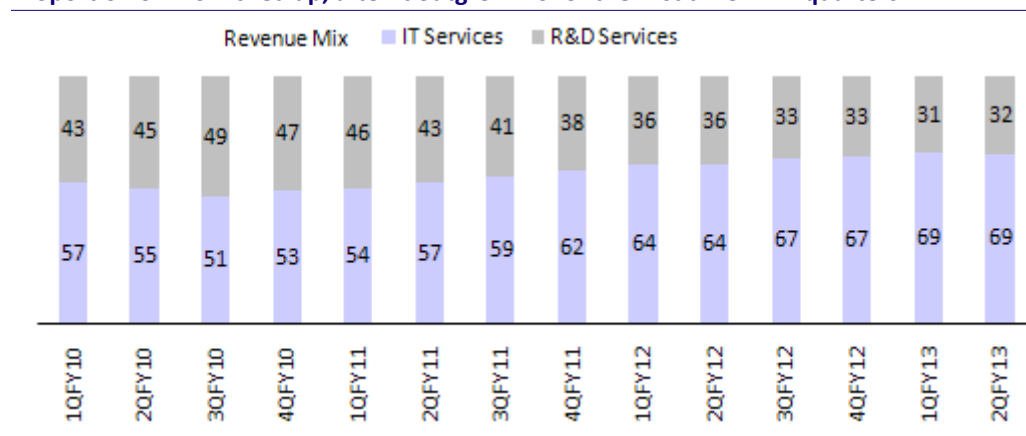
Travel & Transport the key drag; growth remains strong at IMS

The Travel & Transport vertical declined 8.6% QoQ, as a large engagement from a top client neared completion. Maximum contribution to incremental revenue came from BFSI (+6.3% QoQ), followed by PES (+3.3% QoQ).

BFSI, PES key growth industries

Verticals	Contribution to Rev. (%)	Growth QoQ (%)	Contr to incr. rev (%)
Manufacturing	18.8	3.3	36.9
Banking, Financial & Insurance	23.0	6.3	83.3
Travel & Transportation	18.8	(8.6)	(107.8)
PES	31.5	3.3	61.6
Others	7.9	5.7	26.0

Proportion of PES inched up, after it outgrew ITS for the first time in 11 quarters



Source: Company, MOSL

Among services, IMS continued to shine, growing 16.2% QoQ, followed by Consulting and IP Licensing, each growing at 10%+ on a low base.

IMS was the key growth service line

Services	Contribution to Rev. (%)	Growth QoQ (%)	Contr to incr. rev (%)
Development & Engg	40.6	(1.5)	(33.6)
Maintenance	21.5	(0.7)	(7.7)
Consulting	3.6	10.9	19.3
Package Implementation	2.7	(8.5)	(13.7)
Independent Testing	17.7	3.4	31.9
Infrastructure Mgt & Tech Support	12.8	16.2	97.3
IP Licensing	1.3	10.1	6.5

Source: Company, MOSL

Europe was the fastest growing geography in 2QFY13 (+3.4% QoQ), followed by US (+1.7% QoQ) while APAC was flat. India declined 0.1% QoQ.

Europe was the fastest growing geography

Geographies	Contribution to Rev. (%)	Growth QoQ (%)	Contr to incr. rev (%)
US	58.1	1.7	58.1
Europe	29.3	3.4	59.4
India	6.0	(4.7)	(18.1)
APAC	6.6	0.1	0.6

Source: Company, MOSL

Takeaways from management commentary: Cuts revenue guidance; expects execution on margins to remain strong; guidance for better 2H in both ITS and PES

- **Continued trouble in decision velocity drove guidance cut:** After growing revenue by 1.7% QoQ in 2Q, MTCL cut its full-year revenue guidance for the second quarter running. It now expects to grow USD revenue by less than 11% in FY13. In 1QFY13, MTCL had cut its revenue guidance to 11-14% (growth within Nasscom band v/s earlier guidance of beating the Nasscom band).
- **Reasonable visibility on 2H panning out better than 1H:** MTCL expects 2H to be stronger than 1H, in both ITS and PES. It has been chasing 4-6 large deals in pipeline, one of which is likely to close shortly (TCV of ~USD25m with tenure of three years). Even within PES, despite continued weakness in Telecom and Semi-conductors, Software Product Engineering is strong and will drive growth.
- **1,000 campus offers made till date for FY14:** MTCL has so far made 1,000 campus offers for FY14 (on the back of 3,000 campus offers made for FY13). It is yet to decide whether more offers will be made, which remains a function of growth outlook at the end of this quarter.
- **Completion of large engagement hurt travel vertical:** The Travel & Transport vertical declined 8.6% QoQ due to a large engagement with a top customer coming to an end. This may be followed by a large engagement from the same client, which will be the second phase of the project, but that may take a couple of quarters to kick-start.
- **Margins to remain strong:** MTCL grew its operating margin for the 7th consecutive quarter, and remains confident of holding on to margins, with key levers being: [1] employee pyramid, [2] revenue growth, [3] utilization. The company will continue to invest in scaling up its front end, to be able to win large deals, which may offset the gains from exercise of profitability levers.

Cutting revenue estimates by 2-4.3%, EPS estimates by 4.3-5.3%; Buy

- We have revised our USD revenue estimates for FY13 / FY14 down by 2% / 4.3% after second consecutive quarter of cut in revenue guidance. Given that deal velocity remains sluggish, adequate replenishment of orders nearing completion remains a challenge, as seen in the Travel vertical at MTCL in 2Q, driving incremental conservatism in our revenue growth estimates.
- Our EPS estimates are down 5.3% / 4.3% for FY13 / FY14, on the back of revenue decline. The revision in our FY13 EPS estimate is also on account of revised currency assumptions for 2H (INR53/USD v/s INR54 earlier) and forex losses in 2Q, offset partially by margin surprise. We expect MTCL to grow USD revenue at a CAGR of 10.4% over FY12-14 and EPS at a CAGR of 25%. The stock trades at 8.1x FY13E and 7.7x FY14E EPS. **Buy** with a target price of INR844 (10x FY14E EPS).

Change in Estimates

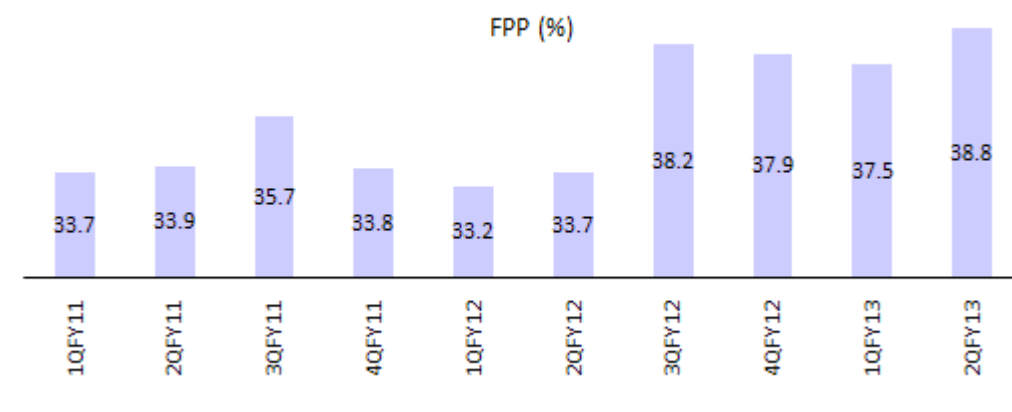
	Revised		Earlier		Change (%)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
INR/USD	53.7	53.0	54.2	53.1	-0.9	-0.2
USD Revenue (m)	437	491	446	513	-2.0	-4.3
EBIT Margin (%)	17.6	15.6	16.9	15.5	71bp	10bp
EPS (INR)	79.6	84.4	84.0	88.2	-5.3	-4.3

Source: MOSL

Other results highlights

- The company announced an interim dividend of INR3/share.
- MTCL has hedge covers worth USD82m for FY13 @ INR52.07/USD and USD54m for FY14 @ INR57.72/USD.
- Utilization including trainees increased by 280bp QoQ to 71.7%.
- Headcount increased by 53 employees to 10,883. There were 454 gross additions during the quarter.
- LTM attrition came down to 16.3% from 17% in 1Q. Quarterly annualized attrition was 14.7% (v/s 16.3% in 1QFY13).
- The company added 11 new clients during the quarter. Total active client count was 247.
- Proportion of revenue from fixed price contracts increased 130bp QoQ to 38.8%.
- MTCL closed the quarter with INR4.4b of cash and equivalents.
- Receivables in 2QFY13 stood at 73 days.

Proportion of revenue from fixed price projects increased after falling in the last two quarters



Source: Company, MOSL

MindTree: an investment profile

Company description

Mindtree is a global information technology solutions company with revenues of over USD420m (LTM) and over 10,800 employees. The company is strategic partner to many Fortune 500 enterprises, providing services in areas like Application development, Application Maintenance, Consulting, Testing and Infrastructure Services; across industries like BFSI, Travel and Retail. It enables customers achieve competitive advantage through flexible and next generation global delivery models, agile methodologies and expert frameworks.

Key investment arguments

- The company's back-to-basic approach has kick-started with impressive results, and it continues to fruitfully put the growth engine in place.
- Margins have expanded for 7 consecutive quarters, substantiating the company's impressive execution.
- IT Services segment posted industry-leading revenue growth in the last 2 years, following impressive mining in key accounts.

Key investment risks

- Failure to close large deals could hurt growth.
- The appreciation of the rupee and price headwinds could derail the margin progress.

Comparative valuations

		MindTree	NIIT Tech	Hexaware
P/E (x)	FY13E	8.1	8.0	9.2
	FY14E	7.7	7.1	8.0
P/BV(x)	FY13E	3.6	1.6	3.3
	FY14E	3.4	1.4	3.1
EV/Sales (x)	FY13E	0.9	0.8	1.4
	FY14E	0.7	0.5	1.2
EV/EBITDA (x)	FY13E	4.3	4.5	6.4
	FY14E	3.9	3.3	5.3

Shareholding pattern (%)

	Sep-12	Jun-12	Sep-11
Promoter	19.5	19.8	24.3
Domestic Inst	9.8	10.8	8.0
Foreign	24.6	23.3	29.7
Others	46.1	46.1	38.0

Recent developments

- Mindtree has been selected as strategic IT partner for a large manufacturer of high-quality, value-priced nutritional supplements, based in the US.
- 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.

Valuation and view

- We expect MTCL to grow USD revenues at a CAGR of 10.4% over FY12-14 and EPS at a CAGR of 25%.
- The stock trades at 8.1x FY13E and 7.7x FY14E EPS. **Buy** with a target price of INR844 (10x FY14E EPS).

Sector view

- In the last few months, increasingly weak macro economic data have been emanating from both the US and Europe, which implies deceleration in growth for Indian IT services.
- CY12 budget spends have faced challenges, with continued delays in deal closures and as well as in ramp ups in signed deals.
- We reckon frontline Indian IT companies would be better placed to sail through the near-term challenges mentioned above. Niche IT/ITeS services companies with strong business models are also likely to be better placed to face uncertainties in the near term.

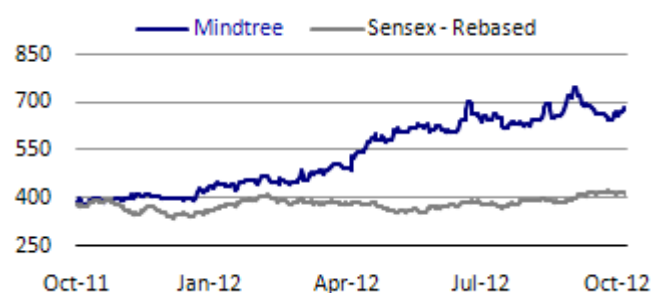
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	79.6	72.7	9.4
FY14	84.4	78.0	8.1

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
648	844	30.2	Buy

Stock performance (1 year)



Financials and Valuations

Income Statement		(INR Million)				
Y/E March	FY10	FY11	FY12	FY13E	FY14E	
Sales	12,960	15,091	19,152	23,494	26,013	
Change (%)	4.7	16.4	26.9	22.7	10.7	
Cost of Services	7,982	10,145	12,261	14,402	16,400	
SG&A Expenses	2,512	3,164	3,961	4,287	4,766	
EBITDA	2,466	1,781	2,930	4,805	4,847	
% of Net Sales	19.0	11.8	15.3	20.5	18.6	
Depreciation	652	712	695	659	777	
Interest	27	4	5	7	-	
Other Income	96	86	188	294	384	
Forex	673	155	197	-329	-	
PBT	2,557	1,307	2,615	4,104	4,454	
Tax	398	222	430	813	958	
Rate (%)	15.6	17.0	16.4	19.8	21.5	
PAT	2,159	1,085	2,186	3,291	3,496	
Change (%)	387.8	-49.7	101.5	50.5	6.2	

Balance Sheet		(INR Million)				
Y/E March	FY10	FY11	FY12	FY13E	FY14E	
Share Capital	395	400	405	409	409	
Reserves	6,311	7,362	9,167	12,524	15,638	
Net Worth	6,706	7,762	9,572	12,933	16,047	
Loan	31	46	37	32	32	
Capital Employed	6,737	7,808	9,609	12,965	16,079	
Gross Block	5,145	5,624	5,820	6,715	8,115	
Less : Depreciation	-2,533	-2,618	-3,229	-3,888	-4,666	
Net Block	7,678	8,242	9,049	10,603	12,781	
CWIP	247	28	85	215	215	
Other LT Assets	154	0	0	339	224	
Investments	1,272	1,112	7	7	7	
Curr. Assets	4,841	5,790	9,541	13,540	16,529	
Current Investments	-	-	3,075	-	-	
Debtors	2,370	2,825	4,078	4,301	4,841	
Cash & Bank Balance	523	459	602	5,599	7,592	
Loans & Advances	1,948	2,506	1,786	3,639	4,096	
Current Liab. & Prov	7,670	7,580	9,394	12,086	14,024	
Current Liabilities	2,114	1,814	2,979	0	0	
Other liabilities	5,066	5,236	5,691	12,086	14,024	
Provisions	490	530	724	0	0	
Net Current Assets	-2,828	-1,790	147	1,454	2,505	
Deferred Tax	214	216	321	347	347	
Application of Funds	6,737	7,808	9,609	12,965	16,079	

E: MOSL Estimates

Ratios						
Y/E March	FY10	FY11	FY12	FY13E	FY14E	
Basic (INR)						
EPS	52.8	24.8	53.7	79.6	84.4	
Cash EPS	69.1	43.9	70.3	95.4	103.2	
Book Value	164.8	189.4	233.5	312.2	387.4	
DPS	3.0	2.5	4.0	4.5	5.0	
Payout %	5.7	10.1	7.4	5.7	5.9	
Valuation (x)						
P/E			12.1	8.1	7.7	
Cash P/E			9.2	6.8	6.3	
EV/EBITDA			7.7	4.3	3.9	
EV/Sales			1.2	0.9	0.7	
Price/Book Value			2.8	2.1	1.7	
Dividend Yield (%)			0.6	0.7	0.8	
Profitability Ratios (%)						
RoE	35.3	15.0	25.2	25.4	24.1	
RoCE	27.0	15.8	27.7	39.2	30.7	

Turnover Ratios						
Y/E March	FY10	FY11	FY12	FY13E	FY14E	
Debtors (Days)	67	68	78	67	68	
Fixed Asset Turnover (x)	5.0	5.0	7.4	8.3	7.5	

Cash Flow Statement		(INR Million)				
Y/E March	FY10	FY11	FY12	FY13E	FY14E	
CF from Operations		1,277	2,459	4,007	3,928	
Cash for Working Capital		-389	2,079	-1,586	42	
Net Operating CF		1,277	2,459	4,007	3,928	
Net Purchase of FA		-836	-253	-1,025	-1,400	
Net Purchase of Invest.		453	1,293	294	384	
Net Cash from Invest.		-383	1,040	-731	-1,016	
Proc. from equity issues		139	5	4	0	
Proceeds from LTB/STB		13	-9	-5	0	
Dividend Payments		-150	0	-382	-382	
Cash Flow from Fin.		2	-4	-383	-382	
Net Cash Flow		896	3,495	2,893	2,529	
Opening Cash Bal.	488	523	459	602	5,599	
Add: Net Cash	0	896	3,495	2,893	2,529	
Closing Cash Bal.	523	459	602	5,599	7,592	

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MindTree

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Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com