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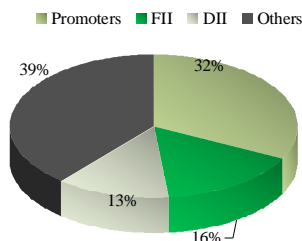
BUY MindTree Limited

MindTree Limited is an international Information Technology consulting and implementation company that delivers business solutions through global software development. It was founded in 1999 by a team of ten professionals coming from three different nations. MindTree is structured into two business units that focus on software development—R&D Services and IT Services. R&D services enables faster product realization by leveraging the expertise in the areas of hardware design, embedded software, middleware (software that connects other softwares) and through MindTree's own IP (Internet Protocol) building blocks in the areas of Bluetooth, VOIP (Voice Over Internet Protocol), IPv6 (Internet Protocol version 6), and others in datacom, telecom, wireless, storage, industrial automation and computing. MindTree is headquartered in Bangalore and has offices in India, United States and many other countries.

| Investment Details | |
|----------------------|---------|
| CMP (Rs.) | 579 |
| Target (Rs.) | 685 |
| Upside Potential (%) | 20 |
| Horizon (Months) | 10-12 M |

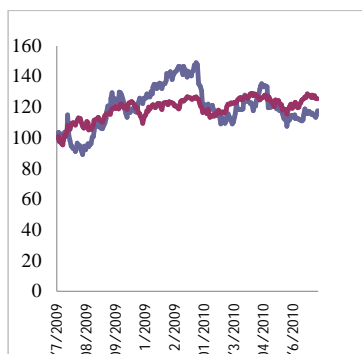
| Profile | |
|----------------------------|---------|
| Industry | IT |
| Market Cap (Rs cr.) | 2292.6 |
| Face Value (Rs.) | 10.0 |
| 52-week high/low (Rs.) | 747/423 |
| Book Value (Rs.) | 169.4 |
| Price / Book Value | 3.4 |
| PE Ratio (TTM) | 10.8 |
| Dividend (%) | 30 |
| Average Daily Volume (6 m) | 48542 |

Shareholding



Source: NSE. Figures as on March 31, 2010.

MindTree V/s Nifty



KEY INVESTMENT ARGUMENTS

➤ MindTree bags one the largest GOI services (UID) project

MindTree has bagged an IT deal from the Unique Identification (UID) Project 'Aadhaar'. UID order was one of the largest orders on a pure services basis from the Government of India. However, the value of the project has not been disclosed. The project aims to ensure that every Indian has a unique smart card which will act as their identification proof. The multi-crore project involves services across the application lifecycle—from designing, developing, testing maintaining and supporting the Aadhaar application to providing help desk services from the UIDAI's Bangalore Technology Centre. MindTree will work as a development partner to build the Aadhaar application, in collaboration with the technology team of UIDAI. The company would recognize revenue proportionately every quarter depending on the work that is done. The work started in the early part of June 2010.

➤ Strong presence in Product Engineering Services (PES)

MindTree has been able to increase its exposure to PES, which is a fast growing service area. During FY10, PES accounted for 46.1% of the total revenues as against 42.4% in the previous year. In fact, revenues from this segment also grew by 14% to Rs 598 cr. Going forward, as the global economic condition improves, R&D and PES revenues will witness substantial growth. The acquisition of Kyocera Wireless India (KWI) is likely to act as a revenue booster in this segment.

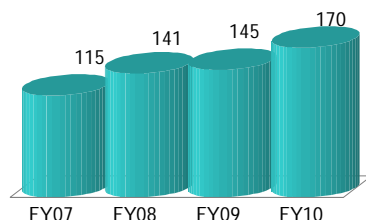
➤ Industry wise revenue diversification

Revenue of the company is well diversified in terms of industries and is less likely to be impacted by unfavourable development in any particular industry. BFSI, which is probably the worst hit by slowdown of overall global economy and lower credit growth, contributes substantial percentage of the overall revenues of even the tier-1 Indian IT companies. For instance, during Q4FY10, BFSI contributed 44.4%, 26.1% and 34.8% to the revenues of TCS, Wipro and Infosys Technologies, respectively. MindTree received only 17.5% of its revenue from BFSI.

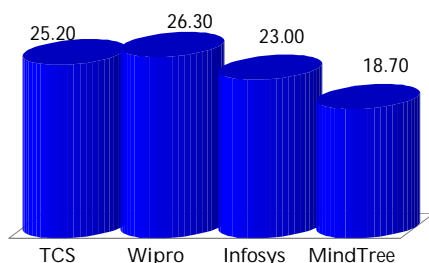
➤ Decent client composition with less dependence on top clients

It has over 258 active clients, including 40 Global Fortune 500 companies, which generally continue to do business for long period. Given the composition of MindTree's Global Fortune clients, there is decent revenue visibility. Many of its clients such as Unilever, Microsoft and avis budget group have been doing business with MindTree for the last 10 years. Also, its revenues are less dependent on a few top clients. During Q4, the revenue contribution from top five and top ten clients stood at 27.9% and 40.0%, respectively.

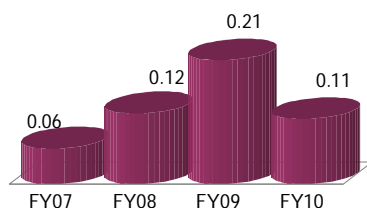
Book Value (Consolidated)



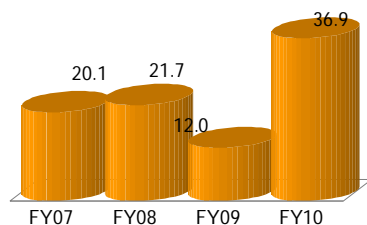
Exposure to Europe



Debt-Equity Ratio



ROCE (%)



➤ **Strategic acquisitions to bear fruits**

MindTree’s has made several acquisitions during the last few years. All these acquisitions will continue to add value. While, the acquisition of Aztecssoft helped grow its presence in product development and testing services, Kyocera Wireless India (KWI), which provides software system and application services for all types of telecommunications equipments, opens new room of opportunities in the field of telecommunication. MindTree is offering this service under the segment New in Wireless (NIW) and is divided into two segments—Ready-to-Brand phones and cellular infrastructure. In the phone business it is working towards developing an Android based 3G enabled Smartphone. In the infrastructure business the company is building intellectual property around 4G telecom infrastructure. The first phone and the first intellectual property sale are expected to happen during the second half of FY11.

MindTree has entered into a definitive agreement to acquire the business (including people, customer contracts and intellectual properties) of 7Strata, a Chennai based privately held Remote Infrastructure Management (RIM) services provider. The acquisition is effective from 1st May, 2010. The acquisition will enable MindTree to offer remote management services for India-based and global customers.

➤ **Less likely to be impacted from European crisis**

MindTree is better covered from the European sovereign crisis. At 18.7% of the revenue coming from Europe, it has relatively less exposure to this geography when compared to top tier-1 companies. Companies like TCS, Wipro and Infosys Tech get around 25.2%, 26.3% and 23% of their revenues from Europe, respectively. With revival in the US economy, the IT spending is likely to go up and this will benefit Indian IT companies.

➤ **Better placed to encash economic upturn**

MindTree is better placed to reap the benefit of economic recovery given its lower utilization and attrition levels. Its utilization level including trainees stood at 71.4% in the last quarter. Also, attrition rate at 13.6% has remained in line with top tier-1 companies.

➤ **Robust management**

MindTree is in the hands of a robust and seasoned management. Ten minds behind establishing MindTree in 1999 come from three different nations and have long proven experience in the field of Information Technology. Ashok Soota, Executive Chairman, prior to co-founding MindTree, was President of Wipro Infotech from 1984 to 1999. Under his leadership the company grew from a \$2 mn business to a \$500 mn. He holds a Bachelor of Engineering degree from Roorkee University (now IIT, Roorkee) and an MBA from the Asian Institute of Management, Philippines. Subroto Bagchi, Vice Chairman and Gardener, is best known for co-founding MindTree in 1999 where he started as the Chief Operating Officer. Krishnakumar Natarajan, CEO and MD, prior to MindTree, was Chief Executive of the Electronic Commerce & Financial Solutions Division at Wipro, and held several other key positions in the same organization from 1982 until 1999. During the growth phase of Wipro’s software business, he started and grew the e-commerce division of Wipro, developing a team of 300 people and generating \$30 million in revenues annually.

➤ **High return on net worth at low debt**

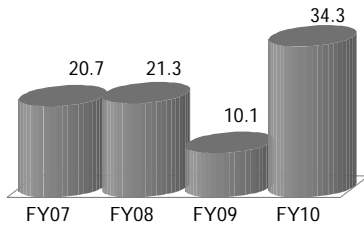
Debt to equity ratio remained negligible for FY10. At the same time, it enjoys high return on net worth at 34.3%. Also, the EBIT and APAT margins at 19.9% and 16.6% remained decent. In fact, all RONW, EBITM and APATM ratios are highest in the last four years.

KEY CONCERNS

➤ **Increasing attrition**

Rising attrition rate is a big challenge for the whole IT industry. The attrition rate of MindTree grew to 13.6% during FY10 from 11.8% during the previous year.

RONW (%)



➤ **Risk related to Exchange rate**

Since it earns major part of the revenue in foreign currency it suffers from exchange rate fluctuation risk and its revenues and margins are likely to hit if rupee appreciates substantially.

➤ **Any slowdown in pace of economic recovery may hurt revenues**

MindTree has sizable exposure to PES segment, which is to some extent discretionary expenditure for the clients. Any unfavourable economic development may affect its revenues negatively.

VALUATIONS

MindTree Ltd. has a market capitalization of Rs.2292.6 cr. and is trading at a share price of Rs. 579. The EPS for FY2010 is Rs 53.5 translating into a PE of 10.8. The company is available at a P/B of 3.4 and market cap/sales ratio of 1.7. We expect the company to post above industry growth rate. The stock is an attractive buy considering the growth prospects of the company. The PE and other valuation parameters ensure that one is not overpaying for the growth.

We recommend a “BUY” on the stock with an investment horizon of 10-12 months and target price of Rs. 685.

FINANCIAL STATEMENTS:

| Income Statement: | | Rs. Crores | | | |
|-------------------|--------|------------|--------|---------|---------|
| Particulars | Q4FY10 | Q3FY10 | Q4FY09 | QoQ (%) | YoY (%) |
| Net Sales | 344.4 | 331.9 | 338.1 | 3.8 | 1.9 |
| Other Income | 19.7 | 20.2 | 1.3 | -2.4 | 1,370.1 |
| Total Income | 364.1 | 352.0 | 339.4 | 3.4 | 7.3 |
| Total Expenditure | 281.1 | 266.1 | 300.9 | 5.6 | -6.6 |
| % of sales | 81.6 | 80.2 | 89.0 | 1.4 | -7.4 |
| PBIDT | 82.9 | 85.9 | 38.5 | -3.4 | 115.3 |
| PBIDT margin (%) | 24.1 | 25.9 | 11.4 | -1.8 | 12.7 |
| Interest | 0.1 | 0.1 | 4.2 | 100.0 | -97.1 |
| PBDT | 82.8 | 85.8 | 34.4 | -3.5 | 141.0 |
| Depreciation | 16.4 | 16.8 | 15.9 | -2.5 | 2.7 |
| PBIT | 66.6 | 69.1 | 22.6 | -3.7 | 194.7 |
| PBIT margin (%) | 19.3 | 20.8 | 6.7 | -1.5 | 12.6 |
| Tax | 4.8 | 17.9 | 3.0 | -73.3 | 57.8 |
| Adjusted PAT | 54.5 | 53.8 | 18.8 | 1.3 | 189.7 |
| NPM (%) | 15.8 | 16.2 | 5.6 | -0.4 | 10.2 |

| Financials: | | Rs. Crores | | | | |
|----------------------------|---------|------------|--------|--------|-------------|--|
| | 201003 | 200903 | 200803 | 200703 | 3 yr CAGR % | |
| Share Capital | 39.5 | 38.0 | 37.9 | 37.8 | | |
| Networth | 670.6 | 551.3 | 533.1 | 435.5 | | |
| Total Income | 1373.44 | 1251.78 | 768.77 | 597.72 | 32.0 | |
| Total Expenditure | 1050.3 | 1113.63 | 615.02 | 480.39 | 29.8 | |
| Revenues | 1,296.0 | 1,237.5 | 739.8 | 590.4 | 30.0 | |
| EBITDA | 323.1 | 138.2 | 153.8 | 117.3 | 40.2 | |
| Other Income | 77.46 | 14.31 | 28.98 | 7.37 | | |
| APAT | 213.98 | 50.37 | 101 | 88.92 | 34.0 | |
| Operating Cash Flows | 229.4 | 180.2 | 91.2 | 82.1 | | |
| Free Cash Flows | 128.9 | -53 | -58.9 | -130.1 | | |
| Dividend % | 30.0 | 10.0 | 20.0 | 18.0 | | |
| CEPS (Rs.) | 70.4 | 29.7 | 36.3 | 30.1 | | |
| EPS (Rs.) | 53.9 | 14.7 | 26.9 | 23.6 | 31.7 | |
| Debt-Equity Ratio | 0.1 | 0.2 | 0.1 | 0.1 | | |
| Interest Coverage Ratio | 78.7 | 4.5 | 18.7 | 27.9 | | |
| RoNW % | 34.3 | 10.1 | 21.3 | 20.7 | | |
| EBITDA Margin % | 24.9 | 11.2 | 20.8 | 19.9 | | |
| EBIT Margin % | 19.9 | 6.6 | 16.0 | 15.7 | | |
| APAT Margin % | 16.6 | 4.6 | 14.0 | 15.3 | | |
| Total Asset Turnover Ratio | 2.2 | 2.4 | 2.9 | 4.3 | | |
| Market Cap/Sales | 1.7 | | | | | |
| PE Multiple | 10.8 | | | | | |
| P/BV Ratio | 3.4 | | | | | |

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