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MindTree - Buy

MindTree incorporated in the year 1999, is global IT Solutions Company specializing in IT Services, Independent Testing, Infrastructure Management and Technical Support (IMTS), Knowledge Services, and Product Engineering.

MindTree is today one of the fastest growing mid-sized companies, and has been ranked 45th among the leaders in The 2009 Global Outsourcing 100 by the International Association of Outsourcing Professionals.

MindTree has presence in 10 countries through 20 offices spread across the US, Asia-Pacific, Europe and the Middle East. MindTree is further planning to expand its footprints, both in new and existing countries.

Management

The management of the company is led by Ashok Soota- Chairman, Krishnakumar Natarajan- Managing Director, Janakiraman S and Subroto Bagchi - Executive Director, Rajesh Subramaniam and Siddharth V G- Non Executive Director, the company is also having few independent directors on board.

Business Overview

The company offers a diverse range of services viz; IT Service, Knowledge Service, R&D Service, Infrastructure Management and Tech Support, Software Product Engineering Services and Independent testing Services.

MindTree's comprehensive range of end-to-end IT services enables a company's current and future technology needs.

With over 2100 products developed and tested so far, MindTree's Software Product Engineering business provides dedicated product development services to ISVs globally. Its end-to-end product engineering services ranging from design and development to technology engineering and testing have enabled several small, medium-sized, as well as Fortune 100 product companies to roll out and improve quality of some of the most complex software products.

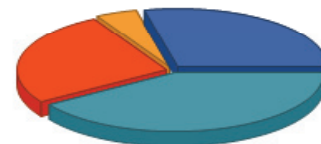
MindTree's independent testing business caters to the breadth of software products and solutions. MindTree's end-to-end services include setting up a Test COE, functional testing and specialized testing such as Test Automation, Performance Engineering and Security Testing.

MindTree is a pioneer in offshoring such business functions that put pressure on operational bandwidth. MindTree's services span the full spectrum of infrastructure management and technical support. Through experience, technology and automation, MindTree drives seamless operational performance into any enterprise.

MindTree's Knowledge Services business is a one-stop-shop for any enterprise's information and data

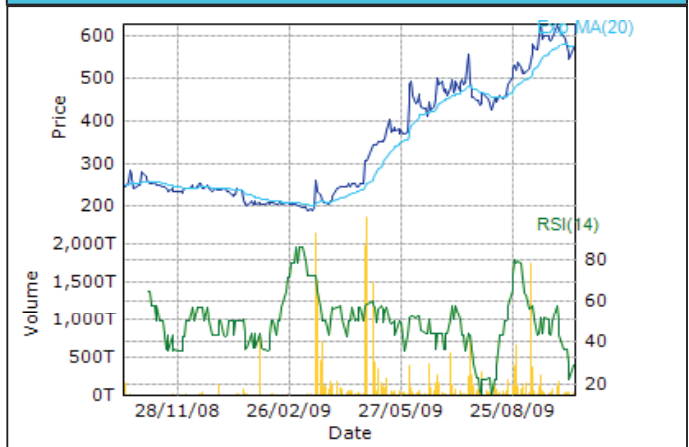
Stock Data		16/10/09
Current Mkt Price (Rs)		567.90
52 Week High		650.00
52 Week Low		187.10
Mkt Cap (Rs. in Million)		22357.26
Return in last one Month (%)		1.63

Share Holding



28.64 Indian Promotor	4.48 Foreign Promotor
26.02 Total Institutions	40.86 Total Non-Institutions

Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	10125.70	7338.40	37.98
Other Income	79.27	288.05	-72.48
Total Expenditure	9231.05	6086.67	51.66
Operating Profit	973.92	1539.77	-36.75
Interest	179.89	63.18	184.74
Profits After Tax	300.05	1041.79	-71.20
Reserve & Surplus	4881.34	4928.26	-0.95
Reported EPS(Rs)	7.94	27.69	-71.33
Core EBITDA Margin (%)	9.62	20.98	-54.16



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management needs. The business offers a wide range of services including reporting and advanced statistical analysis. With extensive experience, MindTree's knowledge experts possess authority on the world's finest statistical frameworks and techniques.

Latest result analysis

- For the quarter ended June 30, 2009 the company reported a sales growth of 30% to Rs 288.84 crore compared to Rs 222.21 crore in the same quarter last year.
- The total income of the company increased by 28.68% to Rs 291.60 crore compared to Rs 226.61 crore.
- Other income of the company declined by 37.27% to Rs 2.76 crore compared to Rs 4.40 crore in the corresponding previous quarter.
- The company reported a profit of Rs 54.54 crore for the quarter as compared to a loss of Rs 12.96 crore.
- Net Profit Margin of the company improved considerably to 18.88 compared to (5.83) in the same quarter last year.

Industry Scenario

The software industry has become a synonym with India's growth story. It was the software industry that started writing the success story of nation after the deregulation of 1990s. The software success changed the outlook of India from the poverty ridden, illiterate and backward nation into the tech-savvy, educated and fast growing democracy.

The software Industry started to hold ground after the economic deregulation in 1991 that opened the doors of global exposure for Indian Industry. The Y2K trouble towards turn of nineteenth century proved to be a big boost for the industry and gave it the much needed international exposure as well as recognition. The industry has since been riding on the dream growth path.

Currently Indian information technology industry is going through a slack phase due to its major dependency on the global markets which is still looking bearish, but slowly the industry is picking up and the domestic demand too is showing some sign of improvement.

Latest developments

- Mindtree has joined a the Continua Health Alliance, a non profit, open industry coalition of more than 200 technology, healthcare and fitness providers dedicated to establishing an ecosystem of connected personal health and fitness product services. The company will help the alliance achieve its mission of establishing a system of interoperable personal telehealth solutions.
- MindTree has agreed to buy Bangalore-based Kyocera Wireless India and make an upfront payment

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Jun 2009	Jun 2008	Change(%)
Net Sales	2888.40	2222.10	29.99
Expenditure	2107.10	1759.10	19.78
Other Income	27.60	44.00	-37.27
EBITDA	808.90	507.00	59.55
Interest	24.00	24.40	-1.64
Net Profit	545.40	-129.60	-
EBITDA Margin (%)	0.28	0.23	22.74
NPM (%)	0.19	-0.06	-
EPS	13.95	-3.43	-

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	10125.70	7338.40	37.98
Total Income	10204.97	7626.44	33.81
Total Expenditure	9231.05	6086.67	51.66
Operating Profit	973.92	1539.77	-36.75
Profits After Tax	300.05	1041.79	-71.20

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	379.97	379.21	0.20
Reserve & Surplus	4881.34	4928.26	-0.95
Total Liabilities	6697.25	6257.48	7.03
Investments	3108.36	1654.87	87.83
Current Liabilities	2498.82	1115.35	124.04
Net Current Assets	1006.23	1923.02	-47.67
Total Assests	6697.25	6257.48	7.03

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	7.90	27.47
Core EBITDA Margin (%)	9.62	20.98
EBIT Margin (%)	4.99	16.22
ROA (%)	4.48	16.65
ROE (%)	5.70	19.63
ROCE (%)	7.55	19.02
Price/Book (x)	1.53	2.38
Net Sales Growth (%)	37.98	24.31
EBIT Growth (%)	-57.55	28.15
PAT Growth (%)	-71.20	15.69
Total Debt/Mcap (%)	0.17	0.07



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of \$6 million, while further payments will be linked to revenue in FY11 and FY12. The deal also includes further cash payments based on the local unit of US-based Kyocera Wireless Corp. meeting certain revenue targets in the fiscal years ending March 2011 and 2012.

- MindTree has set up a new business unit NIMo or Next in Mobility, which will be part of the company's product engineering services group.
- Private equity firm SAIF Partners has exited its investments in MindTree, it was holding 4.97% stake in the company at March end 2009 and sold its interest through various bulk deals since March this year, an official from the PE firm told VCCircle.

Peer group comparison

Company	Year End	Net Sales	PBDIT	PAT	NPM	EPS	P/E
Mindtree Ltd	200903	1012.57	89.47	30	2.96	7.94	23.41
HCL Infosystems	200903	12411.44	460.05	304.75	2.13	17.81	10.64
Patni Computer	200812	1541.02	398.75	389.15	25.1	25.88	12.22
Rolta India	200906	850.92	400.62	262.94	39.33	16.34	8.34

MindTree is a madcap IT company so it has been compared here with other mid cap IT companies. As far as the net sales growth is concerned the company is just next to Rolta India, the company has reported a net sales growth of 37.98% over the year while the Rolta India was having a growth of 42.02% while its other peers Patni Computers was having a growth of 31.45% and HCL Infosystem was having a growth of mere 6.68% and considering the net sales for the passing fiscal the company was in much better position than Rolta India. The total income of the company has been rising consistently over the years.

Recommendation Factors

The company in its list of active clients is having 32 global fortune 500 companies and its 95% of the existing clients have expressed their willingness to do repeat business with the company. The company is also having a proven track record of association with global enterprises, to name few:

Client	Age of relationship
Microsoft	10 years
Avis Budget Group	9 years
Unilever	9 years
United Technologies	8 years
PSA	8 years
Cadence	7 years
Volvo	7 years
Symantec	6 years
AIG	5 years
Texas Instruments	5 years

In the last quarter the company has completed the regulatory procedures for the merger of Aztecsoft. Aztecsoft's leading clients included Microsoft, AOL, Cadence Design, Hyperion (now acquired by Oracle) etc. Only 15% of Aztecsoft's customers are start ups and small organisations, with revenue concentration higher with larger clients. Aztecsoft's top 10 clients contributed 70% and top 5 56% to its revenues, with total client base of ~80 at the time of acquisition by MindTree

The company accrues its revenue from different sectors as manufacturing contributes 12.9% of revenue, Banking Financial and Insurance (BFSI) contributes 17.8%, T&T 15.1, R&D Services 14.1%, Software Product Engineering contributes the majority portion of 29.3% while the others contribute 10.8%.

MindTree has agreed to buy Bangalore-based Kyocera Wireless India the acquisition is likely to contribute about \$9 million in revenues for the period Oct 2009 to March 2010, with profit after tax expected to be in the range of 13-15%.

In July, the company had lowered its outlook for the current fiscal year, citing uncertainty due to the global slowdown and had said that its consolidated earnings would be \$30.4 million-\$36.8 million on revenue of \$255 million-\$270 million, compared with its previous view of \$37.7 million-\$39 million on revenue of \$290 million-\$300 million, but now with the acquisition of Kyocera it can now increase its revenue guidance by \$9 million while its annualized revenue from this deal would amount to \$18 million-\$20 million, the analyst added.

On the flip side the company has given its guidance based on an average exchange rate of Rs 48.4 = 1\$ (US) and the rupee is continuing its uptrend and has strengthened to 45-46 these days and if the trend remains the same the guidance will ultimately get effected.

The scrip of the company is trading at Rs 568 and a P/E of 23.4, it is one of the best IT company in the madcap and the current quarter results of the company are expected to be good but its final guidance for the fiscal is not likely to be met despite lowering it. But for a long term outlook we would expect the company to perform well in FY2011 as the company has made a good beginning by signing MSAs with high-potential clients recently also the company has along list of marquee clients and don't have to rely on new clients. We would recommend a BUY in the stock with a long term outlook and a price target of Rs 650.



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