

Mindtree

7 February 2013

Reuters: MINT.BO; Bloomberg: MTCL IN

We held a conference call for investors with Mindtree's Chief Financial Officer Mr Rostow Ramanan to throw light on how demand will shape up in FY14, reasons behind the company being more positive about FY14 as against FY13, specific pockets where it is seeing a stronger pipeline and how the hitherto under-performing product engineering services (PES) business will grow in FY14. Following are the key takeaways: **FY14 seen better than FY13 with the pipeline stronger and likely increase in pricing:** At this point, Mindtree is more positive on FY14 compared to FY13 in terms of revenue growth. While FY13 witnessed challenges due to delays in decision making and the PES business under-performing, the company expects FY14 to be a better year for growth. Its confidence stems from clients' positive feedback in terms of project pipeline and lesser uncertainty in their own business environment. On the deal pipeline, Mr. Ramanan said the number of opportunities as well as the value of deal pipeline is higher in FY14 compared to FY13. Unlike FY13, clients are likely to spend their information technology (IT) budgets in FY14. Mindtree expects a 1%-2% rise in billing rates in FY14. It should be noted that the optimistic commentary is more qualitative than quantitative at this point of time.

Europe still witnessing uncertainty, US outlook more positive: Geographically, Mindtree's US customers have given a positive feedback in terms of the projects they are looking to execute. The financial services, manufacturing and travel verticals have healthy order pipelines. European clients, on the other hand, particularly whose businesses are more Europe-focused, are showing lesser optimism compared with US clients (except Unilever).

PES business remains challenging: Mr Ramanan said the PES business remains challenging and is likely to grow in mid-single digits in FY14E (flat in FY13E). It will continue to see volatility, even as restructuring efforts have borne fruit, with profitability higher than that of IT services so far in FY13. However, from a revenue perspective, it is unlikely to grow at a significant pace. Mindtree has been approached by some clients in respect of taking over some PES work from top-tier IT firms, given that it is not a focus area for the latter, which could be a growth driver.

Large deals unlikely to contribute substantially in FY14: Mr Ramanan said the company's large deal wins have been below expectations, even as it is seeing some new opportunities in the pipeline. Mindtree had won a couple of large deals, which, however, got reduced in scope by the time they were finally approved by the clients. Going forward, we do not expect large deals to contribute significantly to Mindtree's revenue growth in FY14.

Margins can rise 100bps-150bps, enough levers in place: Mr Ramanan said Mindtree can increase its EBITDA margin by 100bps-150bps in FY14E, aided by the employee pyramid, SG&A leverage and higher billing rates. It does not expect employee utilisation to be a major lever and we expect maximum 1%-2% rise in this metric from the current level.

Capex US\$13mn-US\$15mn, Bhubaneswar facility delayed, FY14E tax rate at 21%-22%: Mindtree's capex is seen at US\$13mn-US\$15mn in FY13E. The Bhubaneswar facility, where it was allotted 20 acres of land, has been delayed and will come on stream post FY14, leading to US\$25mn of capex. Tax rate is seen at 18%-19% in FY13E and at 21%-22% in FY14E.

Valuation: We marginally raise our FY14E revenue/EBITDA margin/EPS by 0.9%/52bps/3.8%, respectively, as we factor in slightly higher pricing. **We retain our Hold rating on the stock with a revised TP of Rs804 (from Rs775 earlier), implying a PE of 8.5x FY14E EPS.**

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	12,960	15,090	19,152	23,669	27,314
YoY (%)	4.7	16.4	26.9	23.6	15.4
EBITDA	2,456	1,777	2,933	4,968	5,634
EBITDA (%)	18.9	11.8	15.3	21.0	20.6
Adj. PAT	2,149	1,015	2,187	3,496	3,927
YoY (%)	310.8	(52.8)	115.5	59.8	12.3
FDEPS (Rs)	51.7	24.4	52.7	84.2	94.6
RoE (%)	35.2	14.0	25.2	31.2	26.8
RoCE (%)	22.3	11.4	21.0	29.9	25.2
P/E (x)	15.0	31.7	14.7	9.2	8.2
EV/EBITDA (x)	12.1	16.8	9.6	5.3	4.2

Source: Company, Nirmal Bang Institutional Equities Research

HOLD

Sector: Information Technology

CMP: Rs779

Target Price: Rs804

Upside: 4%

Harit Shah

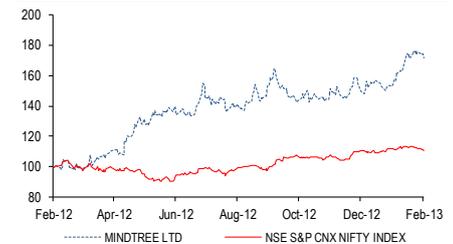
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Key Data

Current Shares O/S (mn)	41.4
Mkt Cap (Rsb/US\$m)	32.2/605.5
52 Wk H / L (Rs)	814/414
Daily Vol. (3M NSE Avg.)	126,322

One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Mindtree	12.3	22.1	72.1
Nifty Index	(0.8)	11.3	11.3

Source: Bloomberg

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
4 June 2012	Buy	629	820
29 June 2012	Buy	641	820
16 July 2012	Buy	643	820
4 October 2012	Buy	660	820
17 October 2012	Hold	677	725
7 January 2013	Sell	698	650
21 January 2013	Hold	756	775

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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