

## RESEARCH

### Mindtree | Target: Rs 5,610 | +18% | BUY

Margin beat despite supply constraints; upgrade to BUY

### Consumer Durables | Q3FY22 Preview

Volume revival on track but RM and other cost headwinds persist

## SUMMARY

### Mindtree

- Mindtree (MTCL) reported growth of 4.7% QoQ USD, in-line with estimates. Momentum was driven by travel, CMT and BFSI
- Deal pipeline was strong. EBIT margin at 19.2% (up 110bps QoQ), beating our estimate of 18.4% in a supply constrained environment
- We raise FY23/24 EPS by 5%/7.5% and upgrade the stock to BUY, with a new TP of Rs5,610 on superlative growth and margin show

[Click here for the full report.](#)

### Consumer Durables: Q3FY22 Preview

- Due to high base, continued RM inflation, we expect modest net income growth in Q3FY22 in the range of -13% to +20%
- Margins unlikely to expand as RM costs remain elevated and advertisement expense is rising again
- Management commentary expected on the impact of surging Covid cases, inventory levels, summer season sales and RM cost outlook

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### Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.74	1bps	26bps	66bps
India 10Y yield (%)	6.60	3bps	23bps	69bps
USD/INR	73.92	0.0	2.5	(1.0)
Brent Crude (US\$/bbl)	84.67	1.1	12.7	51.0
Dow	36,290	0.1	0.9	16.8
Shanghai	3,597	0.8	(1.9)	0.0
Sensex	61,150	0.9	4.0	23.6
India FII (US\$ mn)	11-Jan	MTD	CYTD	FYTD
FII-D	36.5	(9.1)	(9.1)	493.2
FII-E	54.6	446.4	446.4	(3,118.8)

Source: Bloomberg

**BOBCAPS Research**

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**BUY**  
 TP: Rs 5,610 | ▲ 18%

**MINDTREE**

| Technology & Internet

| 13 January 2022

**Margin beat despite supply constraints; upgrade to BUY**

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**In-line growth performance:** MTCL showed growth of 4.7%, in-line with our estimate of 4.8% QoQ USD, in a seasonally weak quarter consisting of furloughs. The growth was broad-based across verticals. Travel, CMT and BFSI grew 7%/6.1%/4.7%, QoQ USD. Retail growth was muted QoQ. Travel revenues have crossed pre-pandemic levels. HLS: the new vertical crossed USD4.8mn quarterly revenue run-rate. Among service lines, Data and Intelligence grew the most, followed by cloud. The digital demand has been secular and broad based. Digital core transformation and hyper personalization are the key demand drivers.

**Consistent margin beat:** EBITDA margin at 21.5%, up 100bps QoQ. EBIT margin was at 19.2%, up 110bps QoQ vs. outperforming our estimate of 18.4%. 60bps tailwind came from operational efficiencies and 40bps came from cross currency gains. The margin uptick was led by decline in employee and SG&A costs. Gross margin expanded ~60bps QoQ. Pyramid correction is also a strong lever used to rein the margin. Management seems confident of achieving 20%+ EBITDA margin going forward too. The continuous margin improvement bodes well for MTCL in a supply constrained environment.

**Attrition up; sub-con under control:** Attrition stood at 21.9%, up 410bps QoQ, 940bps YoY. Mindtree hired >2000 employees in Q3FY22. Subcontractor costs as % of revenue came down 80bps QoQ, to 9.8%. To tackle attrition, MTCL is focused on reskilling workforce and hiring freshers from diverse academic background,

**Strong TCV:** Deal momentum was continued with TCV at USD358mn, was flat Qoq, up 14.7% YoY. YTD TCV crossed USD1.2bn. Key deals were won in cloud, travel, manufacturing, hi-tech and BFSI. MTCL won one of the largest deals in Data and Intelligence service line and 10 new deals in cloud in Q3. It is seeing increased number of deals with a long tail, eventually converting into strategic partnership.

**Upgrade to BUY:** On renewed sales strategy, strong deal pipeline, deft margin defense despite supply pressure, we upgrade MTCL target multiple to 46x (vs. 36x earlier) and raise TP to Rs 5,610 (vs. Rs3,540 earlier). Upgrade to BUY.

**Key changes**

	Target	Rating
	▲	▲

Ticker/Price	MTCL IN/Rs 4,744
Market cap	US\$ 10.6bn
Free float	87%
3M ADV	US\$ 69.3mn
52wk high/low	Rs 5,060/Rs 1,550
Promoter/FPI/DII	74%/11%/15%

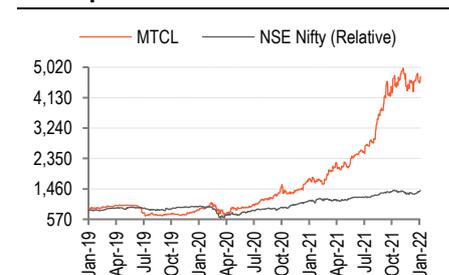
Source: NSE | Price as of 13 Jan 2022

**Key financials**

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	79,678	105,133	125,496
EBITDA (Rs mn)	16,426	22,077	25,415
Adj. net profit (Rs mn)	11,103	16,124	17,339
Adj. EPS (Rs)	67.4	97.9	105.3
Consensus EPS (Rs)	67.4	85.6	99.0
Adj. ROAE (%)	29.7	34.2	31.0
Adj. P/E (x)	70.4	48.4	45.0
EV/EBITDA (x)	47.3	35.1	30.3
Adj. EPS growth (%)	76.0	45.2	7.5

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



## Volume revival on track but RM and other cost headwinds persist

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**Festive season-led volume pickup:** We believe unlocking of the economy coupled with the festive and wedding season augured well for the consumer durables sector. We expect our coverage companies to post YoY net income growth of -13 to 20% in Q3FY22, driven by most product categories, and price increases. DIXON is likely to generate the strongest topline growth on the back of new client acquisitions and strong volumes in the mobile and EMS segments but EPS growth may be modest.

**Margins may not expand despite strong volume leverage:** The ongoing raw material inflation has depressed the margins of consumer durable companies. Since Q2FY21, major inputs such as copper and aluminium have been surging. However, RM price inflation for most categories has ebbed in Q3FY22 (sub 5% QoQ, Fig 2). But this may not be fully reflected in the results as prices hit companies with a lag, a stabilisation or a drop will be a positive. Companies have raised product prices but margins, both at EBITDA and PAT levels, may get hit by cost inflation and rising advertisement, as well as other expenses.

**What to watch for in Q3:** (1) The near-term impact of Omicron, (2) Rising raw material cost and if companies can continue to pass on the price increases, (3) Current inventory levels and production plans, (4) Progress on capex plans which are linked to the PLI scheme.

**Strong long-term sector outlook, near-term view hinges on Covid:** As unlocking progresses, we see a healthy long-term outlook for the consumer durables sector driven by an increasing number of middle-class households in India and the real estate upcycle, among other factors. The near-term outlook for most categories also remains upbeat. For instance, ACs are expected to see large pent-up demand after two washout summer seasons. However, the ongoing rise in cases due to Omicron has reawakened concerns. Any significant lockdowns can further impact demand, especially for AC companies.

### Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	3,532	3,471	HOLD
BLSTR IN	1,006	1,371	BUY
CROMPTON IN	445	621	BUY
DIXON IN	5,266	5,431	HOLD
ORIENTEL IN	370	381	HOLD
POLYCAB IN	2,481	2,401	HOLD
VGRD IN	224	321	BUY
VOLT IN	1,275	1,271	HOLD
WHIRL IN	1,846	2,901	BUY

Price & Target in Rupees | Price as of 12 Jan 2022



## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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