INSTITUTIONAL RESEARCH

HSIE Results Daily

Contents

Results Reviews

- **Mindtree:** Mindtree (MTCL) delivered healthy QoQ growth (following a very strong quarter) and margin beat (~100bps expansion) was the highlight of the quarter. Recovery in T1 business was encouraging and growth was broad-based across verticals, geographies, and service lines. Mindtree's growth momentum is expected to continue, powered by T1 account (+7.2% QoQ) and stable growth in non-T1 accounts (+3.8% QoQ), customer success (+3.9% QoQ) and cloud services (won 10 deals with cloud hyperscaler). The sustainable growth is validated by (1) strong deal TCV of >USD 300mn (TTM USD 1.6bn +14% YoY), which includes annuity and transformational deals; (2) lower dependence on sub-contractors; and (3) healthy growth in the travel vertical, which is almost touching the pre-pandemic level. The company is confident of delivering an EBITDA margin of >20%, despite the ongoing supply side challenges, as it expects support from better margins in new deals, higher offshoring, and better pricing. To address the issue of rising attrition (+420bps), the company continues to hire freshers (>50% of total hire) and when the freshers come into the billing cycle, the dependence on sub-con will reduce and utilisation will revive. We maintain our revenue/EPS estimates for FY23/24E. Our target price of INR 5,060 is based on 37x Mar-24E EPS (25% CAGR over FY21-24E on a high base in FY21 of >70%). Maintain ADD.
- **CESC:** CESC's consolidated PAT in Q3FY22 remained flat at INR3.4bn (+0.6% YoY) as higher earnings across the Dhariwal project (from high merchant rates in Q3FY22) were offset by increased losses in the distribution franchisee (DF) business (a loss of INR100mn vs profit of INR70mn YoY), given subdued power demand and delays in loss recovery. Dhariwal continued to perform strongly, benefitting from rise in merchant tariffs, while standalone PAT growth remained flat despite the delayed WBERC tariff order. The Dhariwal project has emerged as L1 for 210 MW bid in a medium-term tender floated by the Railway Energy Management Company (REMCL). CESC's bid for a 100% stake in the Chandigarh discom is likely to receive a letter of intent (LoI) in Q4FY22. We now expect CESC's franchisee division to attain profitability only in FY23, while reporting a loss of INR211mn in FY22 (vs the earlier estimate of INR112mn PAT). Accordingly, while we retain our BUY rating on CESC, we marginally lower our TP to INR119 (vs INR120 earlier). We have not included the Chandigarh discom in our valuation yet as we are waiting for LoA.

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Mindtree

High spot: margin discipline

Mindtree (MTCL) delivered healthy QoQ growth (following a very strong quarter) and margin beat (~100bps expansion) was the highlight of the quarter. Recovery in T1 business was encouraging and growth was broad-based across verticals, geographies, and service lines. Mindtree's growth momentum is expected to continue, powered by T1 account (+7.2% QoQ) and stable growth in non-T1 accounts (+3.8% QoQ), customer success (+3.9% QoQ) and cloud services (won 10 deals with cloud hyperscaler). The sustainable growth is validated by (1) strong deal TCV of >USD 300mn (TTM USD 1.6bn +14% YoY), which includes annuity and transformational deals; (2) lower dependence on sub-contractors; and (3) healthy growth in the travel vertical, which is almost touching the pre-pandemic level. The company is confident of delivering an EBITDA margin of >20%, despite the ongoing supply side challenges, as it expects support from better margins in new deals, higher offshoring, and better pricing. To address the issue of rising attrition (+420bps), the company continues to hire freshers (>50% of total hire) and when the freshers come into the billing cycle, the dependence on sub-con will reduce and utilisation will revive. We maintain our revenue/EPS estimates for FY23/24E. Our target price of INR 5,060 is based on 37x Mar-24E EPS (25% CAGR over FY21-24E on a high base in FY21 of >70%). Maintain ADD.

- **Q3FY22 highlights**: (1) MTCL reported healthy revenue of USD 366mn (marginally below our estimate of USD 369mn), +4.7% QoQ in USD terms (+5.2% QoQ CC), supported by healthy growth in T1 business at 7.2% QoQ and continued growth in non-T1 business at +3.8% QoQ. (2) EBITDA margin improved by 101bps QoQ to 21.5%, aided by GM expansion (+64bps QoQ), operational efficiencies (+60bps QoQ), and FX tailwind (+41bps). (3) Growth was broad-based across verticals, led by travel (+7.3% QoQ), communications, media & tech (+6.1% QoQ; supported by healthy growth in T1 business); and BFSI (+4.3% QoQ); retail, CPG and manufacturing remained flat sequentially. (4) Deal TCV was at USD 358mn, 15% YoY (book to bill at 0.98x compared to 1.14x in Q3FY21). (5) The company had a net headcount addition of 2,227 in Q3 while attrition inched up by 420bps QoQ to 21.9%.
- **Outlook** We have factored in USD revenue growth of +31.3/+20.2/+14.8% and EBITDA at 21.2/21.3/21.8% for FY22/23/24E respectively. We expect an EPS CAGR of 25% over FY21-24E and RoIC of >45% to support the valuation (41x FY23E).

Quarterly Financial summary

YE March (INR bn)	Q3 FY22	Q3 FY21	YoY (%)	Q2 FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue (USD mn)	366	274	*33.7*	350	*4.7*	1,089	1,077	1,413	1,698	1,950
Net Sales	27.50	20.24	*35.9*	25.86	*6.3*	77.64	79.68	105.24	127.36	148.22
EBIT	5.92	4.68	*26.5*	5.31	*11.6*	7.87	13.83	19.73	23.79	28.40
APAT	4.38	3.73	*17.2*	3.99	*9.7*	6.66	11.57	15.62	18.85	22.52
Diluted EPS (INR)	26.6	22.7	*17.2*	24.2	*9.7*	40.4	70.3	94.8	114.4	136.7
P/E (x)						117.3	67.5	50.0	41.5	34.7
EV / EBITDA (x)						72.3	45.9	33.6	27.2	22.5
RoE (%)						19.5	29.7	32.2	31.2	30.1

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD mn)	1,419	1,413	*(0.4)*	1,704	1,698	*(0.4)*	1,962	1,950	*(0.6)*
Revenue	105.64	105.24	*(0.4)*	127.82	127.36	*(0.4)*	149.14	148.22	*(0.6)*
EBIT	19.44	19.73	*1.5*	23.67	23.79	*0.5*	28.27	28.40	*0.5*
EBIT margin (%)	18.4	18.7	34bps	18.5	18.7	16bps	19.0	19.2	21bps
APAT	15.46	15.62	*1.1*	18.76	18.85	*0.5*	22.42	22.52	*0.4*
EPS (INR)	93.8	94.8	*1.1*	113.9	114.4	*0.5*	136.1	136.7	*0.4*

Source: Company, HSIE Research

ADD

CMP *(as on 13 Jan 2022)*	**INR 4,744**
Target Price	**INR 5,060**
NIFTY	**18,258**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 5,040	INR 5,060
EPS %	FY22E	FY23E
	+1.1	+0.5

KEY STOCK DATA	
Bloomberg code	MTCL IN
No. of Shares (mn)	165
MCap (INR bn) / ($ mn)	782/10,506
6m avg traded value (INR mn)	5,170
52 Week high / low	INR 5,060/1,540

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	8.7	90.1	171.8
Relative (%)	7.9	74.0	148.1

SHAREHOLDING PATTERN (%)	Sep-21	Dec-21
Promoters	61.00	61.00
FIs & Local MFs	10.10	9.71
FPIs	15.01	15.72
Public & Others	13.89	13.57
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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CESC

Subdued power demand ups franchisee losses

CESC's consolidated PAT in Q3FY22 remained flat at INR3.4bn (+0.6% YoY) as higher earnings across the Dhariwal project (from high merchant rates in Q3FY22) were offset by increased losses in the distribution franchisee (DF) business (a loss of INR100mn vs profit of INR70mn YoY), given subdued power demand and delays in loss recovery. Dhariwal continued to perform strongly, benefitting from rise in merchant tariffs, while standalone PAT growth remained flat despite the delayed WBERC tariff order. The Dhariwal project has emerged as L1 for 210 MW bid in a medium-term tender floated by the Railway Energy Management Company (REMCL). CESC's bid for a 100% stake in the Chandigarh discom is likely to receive a letter of intent (LoI) in Q4FY22. We now expect CESC's franchisee division to attain profitability only in FY23, while reporting a loss of INR211mn in FY22 (vs the earlier estimate of INR112mn PAT). Accordingly, while we retain our BUY rating on CESC, we marginally lower our TP to INR119 (vs INR120 earlier). We have not included the Chandigarh discom in our valuation yet as we are waiting for LoA.

- **Poor demand recovery widens franchisee losses:** Sales volume in standalone business was flat at 0.3% YoY, with lower power demand. PAT also remained flat at INR1.84bn (-1.1% YoY) despite the delayed WBERC tariff order, which impacted tariff realisation. Consolidated PAT, too, remained flat at INR3.4bn (0.6% YoY) as strong earnings in the Dhariwal project (+78.6% YoY to INR500mn) were offset by increased losses in the DF business (loss of INR100mn vs PAT of INR70mn YoY), given the subdued power demand and recovery. We now expect the franchisee segment to gain a profit of INR263mn in FY23, while in FY22, it is expected to incur a loss of INR211mn.
- **CESC's Dhariwal emerges L1 in REMCL medium-term tender:** CESC's wholly owned subsidiary Dhariwal Infrastructure has emerged an L1 with a tariff of INR4.1/unit for a 210-MW capacity. REMCL floated a 1,500-MW medium-term tender for three years against which it received bids only for 600 MW. We have not yet factored these developments into our financials as we wait for the awarding of LoI. Further, its Case IV PPA with Maharashtra discoms for the supply of 185 MW has been extended to 31 March 2022.
- **Maintain BUY**: We have marginally revised our consolidated earnings estimates downward by 1.9% and 1.2% for FY22E and FY23E respectively to factor in the delay in loss recovery in the DF business in Rajasthan. We expect this nosiness to turn profitable in FY23, with a PAT of INR388mn in FY24. On a consolidated basis, CESC is valued at an attractive P/BV of 0.9x and PE of 7.4x for FY24. A high dividend yield of ~5-6% is in line with investor expectations. Hence, we retain BUY with a revised TP of INR119 (vs INR120).

Financial summary (standalone)

(INR mn, Mar YE)	3Q FY22	3Q FY21	YoY (%)	2Q FY22	QoQ (%)	FY22E	FY23E	FY24E
Net Revenues	16,620	16,590	*0.2*	20,910	*-20.5*	82,643	87,292	92,145
EBITDA	2,120	3,030	*-30.0*	4,180	*-49.3*	16,505	17,424	18,381
APAT (Consol)	3,400	3,380	*0.6*	3,400	*0.0*	13,790	14,795	16,421
Diluted Consol EPS (INR)	2.6	2.5	*0.6*	2.6	*0.0*	10.4	11.2	12.4
P/E (x) (Consol)						8.8	8.2	7.4
Price/BV (Consol)						1.1	1.0	0.9
RoE (%)						13.7	14.0	14.4

Source: Company, HSIE Research

BUY

CMP *(as on 13 Jan 2022)*	**INR 92**
Target Price	**INR 119**
NIFTY	**18,258**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 120	INR 119
EPS Change %	FY22E	FY23E
	(1.9)	*(1.2)*

KEY STOCK DATA	
Bloomberg code	CESC IN
No. of Shares (mn)	1,326
MCap (INR bn) / ($ mn)	122/1,643
6m avg traded value (INR mn)	491
52 Week high / low	INR 102/57

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	0.9	8.5	34.9
Relative (%)	0.1	(7.5)	11.2

SHAREHOLDING PATTERN (%)	Dec-21	Sept-21
Promoters	52.1	52.1
FIs & Local MFs	22.1	23
FPIs	13.5	12.9
Public & Others	12.4	11.9
Pledged Shares	-	-

Source : BSE

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Amit Chandra	Mindtree	MBA	NO
Anuj Upadhyay	CESC	MBA	NO
Hinal Choudhary	CESC	CA	NO

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