

# Retail Equity Research Tech Mahindra Limited

IT

BSE CODE: 532755

NSE CODE: TECHM

Bloomberg CODE: TECHM:IN

SENSEX: 38,041

**BUY**

12M Investment period

Rating as per Large Cap

CMP Rs. 662

TARGET Rs. 779

RETURN 18% ↑

(Closing: 07-08-20)

**KEY CHANGES:**

**TARGET ↑**

**RATING ↔**

**EARNINGS ↓**

## Q1FY21 dent; Gradual recovery ahead

Tech Mahindra Ltd. develops and markets computer software. The Company markets software for telecommunications equipment manufacturers, telecom service providers, software vendors, and systems integrators.

- Revenue grew 5.2% YoY to Rs. 9,106cr, while declined 4.0% on QoQ basis. In USD terms, on constant currency (CC) basis, revenue de-growth 6.3/ 1.8% on QoQ/YoY in Q1FY21.
- EBITDA declined 1.0% YoY with margin contracting 91bps YoY to 14.3% on account of higher employee cost.
- Clocked deal wins of USD 290mn (declined 43.5% QoQ), impacted by delays in closure of some of enterprise deals. Also, no. of active clients stood at 981 in Q1FY21.
- While valuation looks expensive in the short-term, we remain bullish on TechM's long-term outlook, with strong growth seen in enterprises segment and gradual recovery in communication vertical. We retain our BUY rating on the stock with a TP of Rs. 779 on 15x FY22E adj. EPS.

## Decent quarter despite challenging time

Company recorded revenue growth of 5.2% YoY to Rs. 9,106cr (vs. Rs. 8,653cr in Q1FY20). The increase in revenue driven by growth in IT segment (91.9% of total revenue) 6.5% YoY to Rs. 8,367cr, which was partially offset by declined in BPO segment 7.1% YoY to Rs. 740cr. In USD terms, revenue fell 6.7% QoQ to USD 1,207mn (-6.3% QoQ in CC), attributable to Communications segment (-8.6% QoQ/ -8.2% QoQ in CC), and Enterprises segment (-5.4% QoQ/ -5.1% QoQ in CC). This decline was majorly attributable to COVID-19. Based on geography, revenue from Americas (-3.5%/0.3% on QoQ/YoY), Europe (-9.1%/ -9.5% on QoQ/YoY) and Rest of the world also declined by -10.1%/ -2.9% on QoQ/YoY.

## Bottom line grew despite drop in operations

EBITDA was down 1.0% YoY to Rs. 1,301cr, as EBITDA margin contracted 91bps YoY to 14.3% in Q1FY20. The decline in margin was led by higher employee benefits expense (+80bps YoY as a percentage of sales) and higher sub-contracting expense. Net profit grew 1.4% YoY to Rs. 972cr, primarily supported by higher other income (+21.9% YoY) and deferred tax (+162.9% YoY).

## Roadmap ahead

Robust growth movement in enterprise vertical expects to continue owing to improved digital traction and upcoming 5G opportunities. Further, topline should be supported by recovery in supply side, along with improved US market (pipeline was strongest over the last three year) mainly BFSI, Hitech and Healthcare segment. Although, deal wins were lower due to lockdown, management remain positive on gradual recovery in deal wins. Additionally, Telco's spend on network expansion should support company's outlook. Company emerges as a strong player after merger with Satyam and enables company to compete with strong industry player and also provides opportunity to diversified its portfolio and expand geographically.

## Valuation

While valuation looks expensive in the short-run, we remain optimistic on company's long-term outlook, supported by strong growth in enterprises segment on revival of telecom sector along with gradual recovery in communication vertical backed by improved US market and large deal wins. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs 779 based on 15x FY22E adj. EPS.

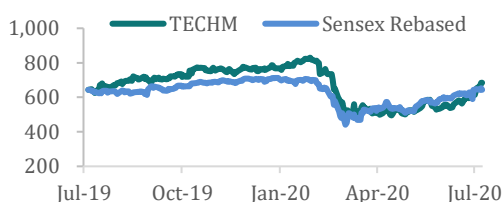
## Company Data

Market Cap (cr)	Rs. 66,026
Enterprise Value (cr)	Rs. 63,984
Outstanding Shares (cr)	96.6
Free Float	64.0%
Dividend Yield	2.2%
52 week high	Rs. 846
52 week low	Rs. 470
6m average volume (lac)	1.6
Beta	0.9
Face value	Rs. 5

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	35.9	35.9	35.8
FII's	39.7	39.7	39.6
MFs/Insti	13.1	13.4	13.2
Public	8.5	8.3	8.4
Others	2.7	2.8	2.9
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	32.4%	-12.8%	6.2%
Absolute Sensex	19.9%	-6.5%	1.6%
Relative Return*	12.6%	-6.3%	4.6%

\*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	36,868	37,816	40,987
Growth (%)	6.1	2.6	8.4
EBITDA	5,726	5,728	6,700
EBITDA Margin (%)	15.5	15.1	16.3
Adj. PAT	4,251	3,850	4,558
Growth (%)	(1.1)	(9.4)	18.4
Adj. EPS	48.3	43.8	51.9
Growth (%)	1.3	(9.3)	18.4
P/E	11.7	15.6	13.2
P/B	2.3	2.5	2.2
EV/EBITDA	8.7	11.2	9.2
ROE (%)	18.5	15.9	16.6
D/E	0.1	0.1	0.1

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	9,106	8,653	5.2	9,490	(4.0)
<b>EBITDA</b>	<b>1,301</b>	<b>1,314</b>	(1.0)	<b>1,348</b>	(3.5)
EBITDA margins	14.3	15.2	(91bps)	14.2	8bps
Depreciation	383	321	19.3	398	(3.8)
<b>EBIT</b>	<b>917</b>	<b>993</b>	(7.6)	<b>732</b>	25.3
Interest	50	45	10.8	53	(5.5)
Other Income	416	341	21.9	287	45.9
Exceptional Items	-	-	-	-	-
<b>PBT</b>	<b>1,283</b>	<b>1,281</b>	0.2	<b>966</b>	32.9
Tax	328	332	(1.3)	239	37.0
Share of profit from Associate	0	(8)	n.m.	2	(93.3)
Minority Interest	(17)	(10)	n.m.	(78)	n.m.
<b>Reported PAT</b>	<b>972</b>	<b>959</b>	1.4	<b>804</b>	20.9
Adjustments	-	-	-	218	-
<b>Adj. PAT</b>	<b>972</b>	<b>959</b>	1.4	<b>1,021</b>	(4.9)
No. of shares	87.8	88.1	n.m.	88.0	n.m.
<b>Adj. EPS (Rs.)</b>	<b>11.1</b>	<b>10.9</b>	1.7	<b>11.6</b>	(4.8)

### Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	39,626	42,732	37,816	40,987	(4.6)	(4.1)
EBITDA	6,200	6,819	5,728	6,700	(7.6)	(1.7)
Margins (%)	15.6	16.0	15.1	16.3	(50bps)	39bps
Adj. PAT	4,521	5,142	3,850	4,558	(14.8)	(11.4)
Adj. EPS (Rs.)	51.4	58.5	43.8	51.9	(14.7)	(11.3)

## PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>30,773</b>	<b>34,742</b>	<b>36,868</b>	<b>37,816</b>	<b>40,987</b>
% change	5.6	12.9	6.1	2.6	8.4
<b>EBITDA</b>	<b>4,710</b>	<b>6,337</b>	<b>5,726</b>	<b>5,728</b>	<b>6,700</b>
% change	12.2	28.8	(3.9)	1.7	14.6
Depreciation	1,085	1,129	1,446	1,563	1,654
<b>EBIT</b>	<b>3,625</b>	<b>5,208</b>	<b>4,063</b>	<b>4,164</b>	<b>5,047</b>
Interest	162	133	192	112	115
Other Income	1,417	469	1,187	1,008	1,059
<b>PBT</b>	<b>4,879</b>	<b>5,543</b>	<b>5,058</b>	<b>5,060</b>	<b>5,990</b>
% change	26.6	13.6	(8.8)	0.0	18.4
Tax	1,093	1,254	1,160	1,339	1,586
Tax Rate (%)	22.4	22.6	22.9	26.5	26.5
<b>Reported PAT</b>	<b>3,800</b>	<b>4,298</b>	<b>4,033</b>	<b>3,850</b>	<b>4,558</b>
Adj*	-	-	218	-	-
<b>Adj PAT</b>	<b>3,800</b>	<b>4,298</b>	<b>4,251</b>	<b>3,850</b>	<b>4,558</b>
% change	34.6	13.1	(1.1)	(9.4)	18.4
No. of shares (cr)	89.1	90.1	88.0	87.8	87.8
<b>Adj EPS (Rs.)</b>	<b>42.7</b>	<b>47.7</b>	<b>48.3</b>	<b>43.8</b>	<b>51.9</b>
% change	34.3	11.9	1.3	(9.3)	18.4
DPS (Rs.)	14.0	14.0	15.0	16.0	17.0
CEPS (Rs.)	54.8	60.3	64.8	61.6	70.7

## BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	3,044	2,359	3,148	4,830	6,710
Accounts Receivable	6,498	6,959	7,577	7,734	8,342
Inventories	66	75	36	39	45
Other Cur. Assets	8,499	12,173	12,411	12,507	12,828
Investments	1,436	923	380	385	390
Gross Fixed Assets	8,335	8,941	9,214	10,348	11,578
Net Fixed Assets	2,981	2,623	2,434	2,002	1,575
CWIP	240	276	277	280	283
Intangible Assets	4,451	4,268	6,067	6,117	6,167
Def. Tax (Net)	2,354	2,749	3,260	3,762	4,454
Other Assets	868	1,043	1,764	1,864	1,964
<b>Total Assets</b>	<b>30,437</b>	<b>33,447</b>	<b>37,354</b>	<b>39,521</b>	<b>42,757</b>
Current Liabilities	8,192	10,366	9,561	9,610	9,947
Provisions	555	580	669	694	719
Debt Funds	1,726	1,405	2,774	2,524	2,424
Other Liabilities	612	335	2,143	2,164	2,171
Equity Capital	442	444	436	436	436
Reserves & Surplus	18,401	19,841	21,377	23,830	26,949
Shareholder's Fund	18,843	20,284	21,813	24,266	27,385
Minority Interest	509	478	393	264	111
<b>Total Liabilities</b>	<b>30,437</b>	<b>33,447</b>	<b>37,354</b>	<b>39,521</b>	<b>42,757</b>
<b>BVPS (Rs.)</b>	<b>212</b>	<b>225</b>	<b>248</b>	<b>277</b>	<b>312</b>

## CASH FLOW

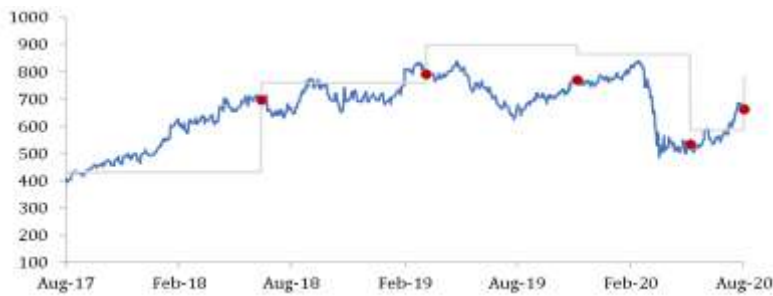
Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Net inc. + Depn.</b>	<b>4,885</b>	<b>5,427</b>	<b>5,479</b>	<b>5,413</b>	<b>6,211</b>
Non-cash adj.	(548)	63	(599)	(129)	(153)
Changes in W.C	(783)	(1,057)	(522)	(62)	(225)
<b>C.F. Operation</b>	<b>3,554</b>	<b>4,432</b>	<b>4,358</b>	<b>5,222</b>	<b>5,833</b>
Capital exp.	(790)	(779)	(829)	(1,134)	(1,230)
Change in inv.	(3,176)	(2,322)	1,927	(201)	(426)
Other invest.CF	607	985	(69)	(553)	(741)
<b>C.F - Investment</b>	<b>(3,360)</b>	<b>(2,116)</b>	<b>1,029</b>	<b>(1,888)</b>	<b>(2,397)</b>
Issue of equity	25	(175)	(1,741)	-	-
Issue/repay debt	749	(450)	(44)	(300)	(150)
Dividends paid	(944)	(1,491)	(2,492)	(1,398)	(1,485)
Other finance.CF	(99)	(135)	(188)	45	80
<b>C.F - Finance</b>	<b>(269)</b>	<b>(2,251)</b>	<b>(4,466)</b>	<b>(1,652)</b>	<b>(1,556)</b>
Chg. in cash	(76)	64	921	1,682	1,880
Closing cash	3,044	2,359	3,148	4,830	6,710

## RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	15.3	18.2	15.5	15.1	16.3
EBIT margin (%)	11.8	15.0	11.0	11.0	12.3
Net profit mgn. (%)	12.3	12.4	10.9	10.2	11.1
ROE (%)	20.2	21.2	18.5	15.9	16.6
ROCE (%)	17.2	23.5	16.3	15.4	16.9
<b>W.C &amp; Liquidity</b>					
Receivables (days)	77.1	73.1	75.0	74.7	74.3
Inventory (days)	6.2	6.3	2.4	2.6	2.8
Payables (days)	191.2	208.9	218.5	217.9	217.4
Current ratio (x)	2.0	1.9	1.9	2.1	2.3
Quick ratio (x)	1.4	1.4	1.3	1.5	1.7
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	4.3	4.0	4.1	3.9	3.7
Total asset T.O (x)	1.1	1.1	1.0	1.0	1.0
Int. coverage ratio (x)	22.3	39.1	21.2	37.1	43.8
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
<b>Valuation</b>					
EV/Sales (x)	1.8	2.0	1.3	1.7	1.5
EV/EBITDA (x)	11.6	11.0	8.7	11.2	9.2
P/E (x)	14.6	16.3	11.7	15.6	13.2
P/BV (x)	2.9	3.4	2.3	2.5	2.2



## Recommendation Summary



Source: Geojit, Bloomberg research

Dates	Rating	Target
8-Feb-17	HOLD	490
5-Jun-17	HOLD	430
19-Jun-18	HOLD	760
13-Mar-19	BUY	899
11-Nov-19	BUY	863
12-May-20	BUY	585
10-Aug-20	BUY	779

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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