

Tech Mahindra (TECHM)

BUY

Growth momentum continues

Summary

Tech Mahindra (TechM) reported robust set of Q2FY22 numbers. The company's revenue growth of 7.2% QoQ in CC terms was led by growth across communication and enterprise. The results were above expectation. The company continues to see strong net new deal wins (greater than US\$5 mn) at US\$750 mn with communication at US\$255 mn and Enterprise at US\$495 mn. TechM expects deal momentum to continue in coming quarters. This coupled with robust outlook in healthcare, BFSI, Hi tech and communication coupled with hiring of 14930 & doubling of fresher represents healthy revenue visibility. Hence, we upgrade the stock from HOLD to BUY with a target price of Rs 1770 (PE of 22x on FY23 EPS).

Key Highlights and Investment Rationale

■ Broad based performance in Q2FY22

Q2FY22 revenue grew 6.4%/+16.4% QoQ/YoY in US\$ driven by enterprise segment (60% of revenue) has grown by 7%/15.9% QoQ/YoY in CC terms. Communications, Media and Entertainment (40% of revenue) has grown by 6.7%/16.1% QoQ/YoY.

■ Communication & enterprise to drive long term double digit growth

The company has maintained its guidance of double digit revenue growth and 15% margins for FY22. The growth in revenues expectation is based on healthy H1 (15.5% YoY growth) and seasonally strong H2 growth. Hence we have built in a growth of 16.6% for FY22. Further, in the next two years we expect the company to register double digit growth led by higher traction in communication, BFSI, HI Tech and healthcare. We expect legacy modernisation, 5G, automation, network and cloud to drive communication revenues. This coupled with traction in enterprise segment (led by cloud, customer experience & data) will enable TechM to drive double digit organic growth in the long run.

■ EBIT margins on improving trend

Going forward, we expect margins to improve led by rationalising G&A (due to centralisation of back offices in portfolio companies), revenue growth, and higher offshoring. Hence, we expect margins to improve 210 bps to 16.3% over FY21-23.

TP	Rs1,770	
CMP	Rs1,524	
Potential upside / downside	+16%	
Previous Rating	HOLD	

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	66.2	78.9
Consensus	63.0	69.5
% difference	5.0	13.5

Shareholding Pattern (%)

Promoters	35.7
FII	35.6
DII	16.8
Public	11.9

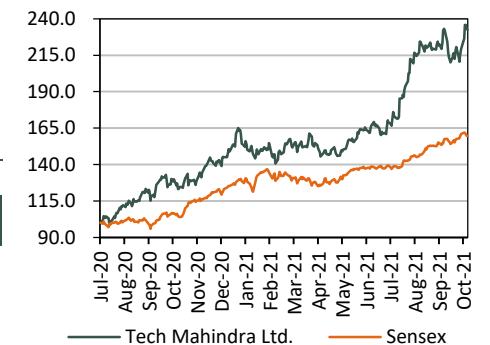
Price Performance (%)

	-1m	-3m	-12m
Absolute	0.7	34.9	79.7
Rel to Sensex	(0.9)	19.8	29.9

Key Stock Data

Bloomberg / Reuters	TECHM IN/TEML.BO
Sector	IT Services
Shares o/s (mn)	970
Market cap. (Rs mn)	1,478,709
Market cap. (US\$ mn)	19,743
3-m daily average value (Rs mn)	262.3
52-week high / low	Rs1,576 / 782
Sensex / Nifty	60,967 / 18,125

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	3,47,421	3,68,677	3,78,551	4,40,309	5,08,333
EBITDA	63,368	57,261	68,471	84,281	1,00,599
EBITDA (%)	18.2	15.5	18.1	19.1	19.8
Adj. PAT	42,975	42,505	44,788	57,828	68,968
EPS (Rs)	48.4	48.8	51.2	66.2	78.9
EPS Growth (%)	12.6	0.7	5.1	29.1	19.3
PE (x)	31.5	31.3	29.7	23.0	19.3
Dividend Yield (%)	0.9	1.0	3.0	3.3	3.5
EV/EBITDA (x)	19.7	22.1	17.9	14.5	11.9
RoE (%)	22.0	20.2	19.2	22.6	25.2
RoCE (%)	23.3	17.4	19.4	23.5	26.7

Source: IDBI Capital Research;

Exhibit 1: Financial snapshot

(Rs mn)

Q2FY22 revenue growth of 7.2%
QoQ CC was higher than our
forecast

EBIT margin of 15.2%, was flat QoQ
and inline with our estimate.

Year-end: March	Q2FY22	Q1FY22	QoQ (%)	Q2FY21	YoY (%)
Revenues (US\$ mn)	1,473	1,384	6.4	1,265	16.4
Revenues	1,08,813	1,01,976	6.7	93,718	16.1
COGS	74,346	69,682	6.7	64,245	15.7
Gross profit	34,467	32,294	6.7	29,473	16.9
SG&A	14,515	13,530	7.3	12,443	16.7
EBITDA	19,952	18,764	6.3	17,030	17.2
Depreciation & amortization	3,430	3,311	3.6	3,717	(7.7)
EBIT	16,522	15,453	6.9	13,313	24.1
Other income	2,467	2,492	(1.0)	776	217.9
PBT	18,989	17,945	5.8	14,089	34.8
Tax	5,572	4,286	30.0	3,462	60.9
Adjusted net profit	-30	-127	(76.4)	19	n.m.
Minority interest	13,387	13,532	(1.1)	10,646	25.7
Exceptional items	0	0	n.m.	0	n.m.
Reported net profit	13,387	13,532	(1.1)	10,646	25.7
Diluted EPS (Rs)	15.3	15.4	(1.1)	12.2	25.1
As % of net revenue					
Gross profit	31.7	31.7		31.4	
SG&A	13.3	13.3		13.3	
EBITDA	18.3	18.4		18.2	
EBIT	15.2	15.2		14.2	
Reported net profit	12.3	13.3		11.4	
Tax rate	29.3	23.9		24.6	

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. estimates

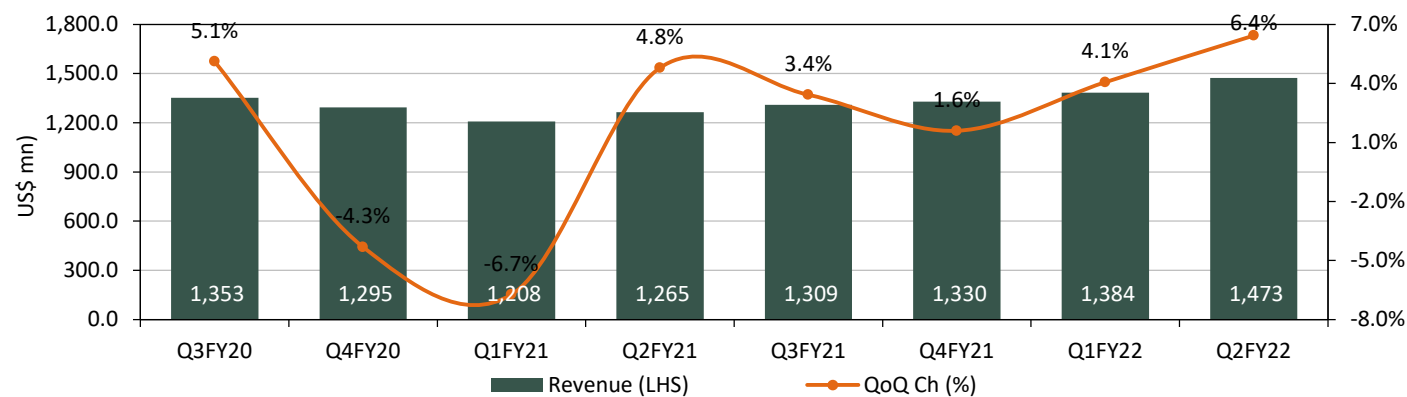
Year to March	Q2FY22	Q2Y22E	Variance (%)
Revenue (US\$ mn)	1,473	1,440	2.3%
Revenue (Rs mn)	1,08,813	1,06,245	2.4%
EBIT (Rs mn)	16,522	16,133	2.4%
EBIT margin (%)	15.2%	15.2%	0bps
Recurring PAT (Rs mn)	13,387	13,706	-2.3%
Recurring PAT margin (%)	12.3%	12.9%	(60)bps
Recurring EPS (Rs)	15.3	15.6	-2.3%

Source: Company, IDBI Capital Research

Exhibit 3: Earnings Revision

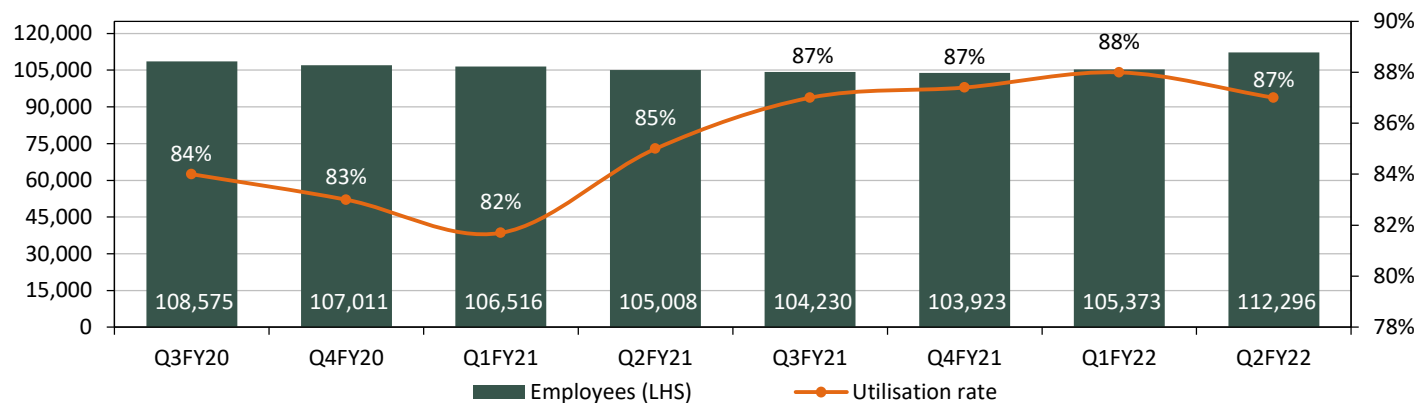
Year-end: March	FY22F			FY23F		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	5,958	5,803	2.7%	6,778	6,388	6.1%
Revenue (Rs bn)	440.3	428.7	2.7%	508.3	472.7	7.5%
EBIT margin (%)	15.7%	15.7%	0 bps	16.3%	16.0%	30 bps
EPS (Rs/sh)	66.2	65.3	1.3%	78.9	71.8	9.9%

Source: Company; IDBI Capital Research

Exhibit 4: Q2FY22 revenue was better than our forecast

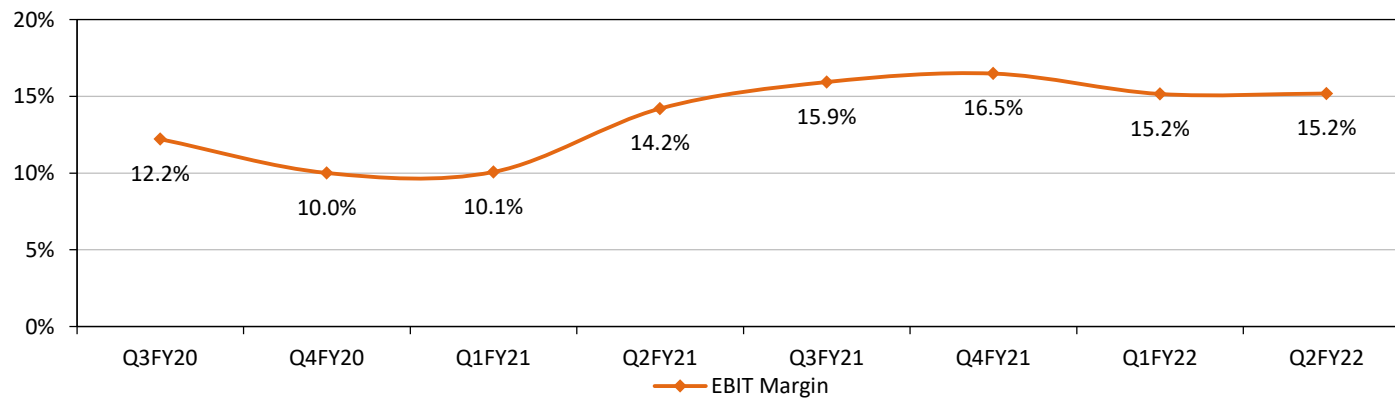
Source: Company; IDBI Capital Research

Exhibit 5: Utilisation was declined QoQ



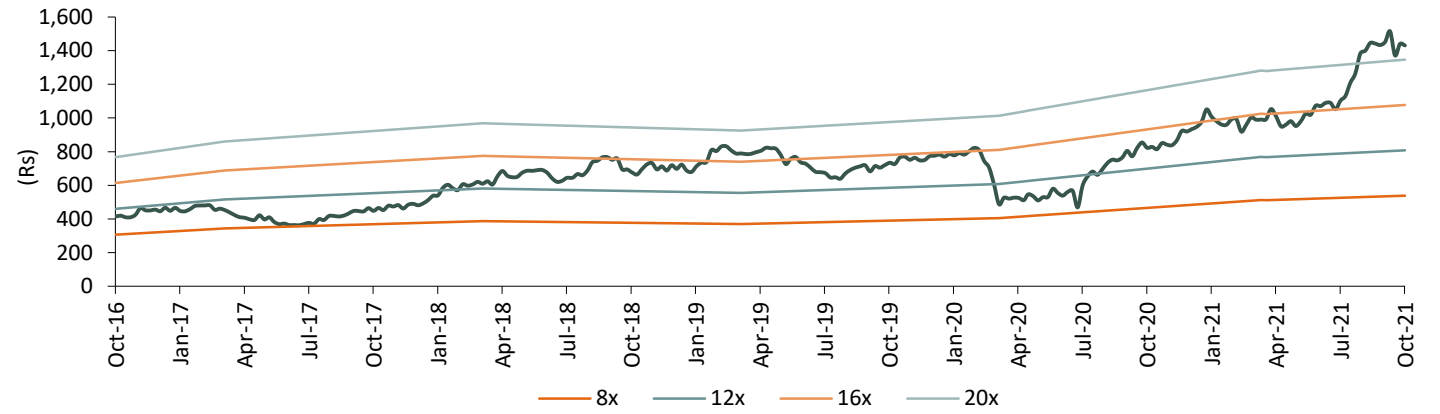
Source: Company; IDBI Capital Research

Exhibit 6: EBIT Margin was in line to our forecast



Source: Company; IDBI Capital Research

Exhibit 7: One-year forward PER trend



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: Mar.	FY20	FY21	FY22E	FY23E
Net sales	3,68,677	3,78,551	4,40,309	5,08,333
<i>growth (%)</i>	6.1	2.7	16.3	15.4
Operating expenses	(3,11,416)	(3,10,080)	(3,56,029)	(4,07,734)
EBITDA	57,261	68,471	84,281	1,00,599
<i>growth (%)</i>	(9.6)	19.6	23.1	19.4
Depreciation	(14,458)	(14,577)	(15,055)	(17,710)
EBIT	42,803	53,894	69,226	82,889
Interest paid	(1,919)	(1,740)	(1,443)	(1,226)
Other income	11,924	7,871	9,910	10,121
Pre-tax profit	52,808	60,025	77,693	91,785
Tax	(11,604)	(15,999)	(20,048)	(23,497)
<i>Effective tax rate (%)</i>	22.0	26.7	25.8	25.6
Minority Interest	(874.0)	255.0	183.0	680.0
Net profit	40,330	44,281	57,828	68,968
Adjusted net profit	42,505	44,788	57,828	68,968
<i>growth (%)</i>	(1.1)	5.4	29.1	19.3
<i>Shares o/s (mn nos)</i>	872	874	874	874

Cash Flow Statement

(Rs mn)

Year-end: Mar.	FY20	FY21	FY22E	FY23E
Pre-tax profit	52,808	60,025	77,693	91,785
Depreciation	9,343	14,577	15,055	17,710
Tax paid	(13,611)	(16,284)	(20,048)	(23,497)
Chg in working capital	(13,353)	14,633	(2,669)	1,075
Other operating activities	(50,579)	33,059	(3,185)	(3,423)
Cash flow from operations (a)	(15,392)	1,06,010	66,847	83,649
Capital expenditure	(13,723)	(18,935)	(15,000)	(15,000)
Chg in investments	5,424	(2,844)	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(8,299)	(21,779)	(15,000)	(15,000)
Equity raised/(repaid)	(78)	11	-	-
Debt raised/(repaid)	10,235	(7,664)	(2,000)	(2,000)
Dividend (incl. tax)	(15,692)	(39,330)	(43,700)	(46,322)
Chg in minorities	(1,718)	117	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(7,253)	(46,866)	(45,700)	(48,322)
Net chg in cash (a+b+c)	(30,944)	37,365	6,147	20,327

Balance Sheet

(Rs mn)

Year-end: Mar.	FY20	FY21	FY22E	FY23E
Net fixed assets	76,047	80,405	80,350	77,641
Investments	3,804	6,648	6,648	6,648
Other non-curr assets	61,605	56,413	56,413	56,413
Current assets	2,31,723	2,52,553	2,80,053	3,21,179
Inventories	358	242	281	325
Sundry Debtors	75,772	64,728	78,411	90,525
Cash and Bank	87,606	1,24,971	1,28,873	1,46,643
Loans and advances	30,632	29,331	33,777	38,995
Total assets	3,73,179	3,96,019	4,23,465	4,61,881
Shareholders' funds	2,18,131	2,48,650	2,62,778	2,85,424
Share capital	4,359	4,370	4,370	4,370
Reserves & surplus	2,13,772	2,44,280	2,58,408	2,81,054
Total Debt	24,282	16,618	14,618	12,618
Secured loans	-	-	-	-
Unsecured loans	24,282	16,618	14,618	12,618
Other liabilities	21,076	19,027	19,027	19,027
Curr Liab & prov	1,05,757	1,07,929	1,23,429	1,41,880
Current liabilities	72,193	71,361	81,208	93,135
Provisions	33,564	36,568	42,221	48,744
Total liabilities	1,51,115	1,43,574	1,57,074	1,73,525
Total equity & liabilities	3,73,179	3,96,019	4,23,465	4,61,881
Book Value (Rs)	250	284	301	327

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Mar.	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	48.8	51.2	66.2	78.9
Adj. EPS growth (%)	0.7	5.1	29.1	19.3
EBITDA margin (%)	15.5	18.1	19.1	19.8
Pre-tax margin (%)	14.3	15.9	17.6	18.1
ROE (%)	20.2	19.2	22.6	25.2
ROCE (%)	17.4	19.4	23.5	26.7
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.0	1.0	1.1	1.1
Leverage factor (x)	1.7	1.6	1.6	1.6
Net margin (%)	11.5	11.8	13.1	13.6
Net Debt/Equity (x)	(0.3)	(0.4)	(0.4)	(0.5)
Working Capital & Liquidity ratio				
Inventory days	0	0	0	0
Receivable days	75	62	65	65
Payable days	38	33	32	32

Valuation

Year-end: Mar.	FY20	FY21	FY22E	FY23E
P/E (x)	31.3	29.7	23.0	19.3
Price / Book value (x)	6.1	5.4	5.1	4.7
PCE (x)	23.3	22.4	18.3	15.4
EV / Net sales (x)	3.4	3.2	2.8	2.4
EV / EBITDA (x)	22.1	17.9	14.5	11.9
Dividend Yield (%)	1.0	3.0	3.3	3.5



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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