

# Tech Mahindra

## Recovery on the cards

Tech Mahindra posted better-than-expected revenue and margin along with strong free cash generation. Revenue was down 6.3% QoQ CC vs. TCS/INFY/WIPRO/HCLT performance of -6.9/-2.0/-7.5/-7.2% QoQ CC respectively. Telecom was down 8.2% QoQ CC (in line with our estimate) but Enterprise (-5.1% QoQ CC) performed better than expected. Growth was led by Technology & Media (+13.1% QoQ), while all other verticals were under pressure. BPS was down 12.6% QoQ due to both demand and supply-side factors, and recovery is expected from 2H. Net new TCV wins were down 39% YoY to USD 290mn, but the pipeline remains strong. TechM will be a beneficiary of vendor consolidation in the Telecom segment because of its leadership position. The 5G related spend has shifted to early FY22, but TechM is well-poised to benefit from this spend. Margin performance was better than expected (10.1% vs. the estimate of 8.7%), led by lower travel cost, offshoring, and lower SG&A offset by higher sub-con cost. The margin recovery will be gradual, and 4Q exit will be similar to the 1QFY20 level. We increase the EPS estimate by 7.7/5.0% for FY21/22E to factor in better growth and margin. Our target price stands at Rs 720, based on 14x (in line with 5Y average) June-22E EPS. Maintain BUY.

- 1QFY21 highlights:** TechM revenue stood at USD 1,208mn -6.7% QoQ (vs. the estimate of USD 1,187mn). Telecom fall was driven by network services, Comviva seasonality, and COVID-19 impact. Enterprise fall was driven by manufacturing/BFSI/retail (-11.1/-4.4/-6.2% QoQ). EBIT margin expanded 10bps QoQ; a further expansion will be supported by rationalisation of portfolio companies, offshoring, and large deals turning steady.
- Outlook:** We expect USD revenue growth of -5.9/+6.2% in FY21/22E. We have factored in 2/3/4QFY21 growth of -0.6/+1.6/+2.3% respectively. EBIT will be at 10.5/12.0% for FY21/22E. Telecom/Enterprise growth for FY21E will be at -10.5/-2.7% YoY.

### Quarterly Financial summary

YE March (Rs bn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD Mn)	1,208	1,247	-3.2	1,295	-6.7	4,971	5,182	4,874	5,175	5,536
Net Revenue	91.06	86.53	5.2	94.9	-4.0	347.42	368.68	366.05	393.27	420.73
EBIT	9.17	9.93	-7.6	9.5	-3.4	52.08	42.80	38.60	47.05	51.15
APAT	9.72	9.59	1.4	10.21	-4.8	42.98	42.51	38.13	43.98	47.88
Diluted EPS (Rs)	11.1	10.9	1.4	11.6	-4.8	48.9	48.3	43.4	50.0	54.4
P/E (x)						13.6	13.8	15.3	13.3	12.2
EV / EBITDA (x)						8.0	9.1	9.5	7.8	7.0
RoE (%)						22.0	20.2	16.9	18.1	18.3

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Revenue (USD mn)	4,775	4,874	2.1	5,107	5,175	1.3
Revenue	359.11	366.05	1.9	388.12	393.27	1.3
EBIT	37.42	38.6	3.2	45.89	47.05	2.5
EBIT margin (%)	10.4	10.5	13bps	11.8	12.0	14bps
APAT	35.39	38.13	7.7	41.88	43.98	5.0
EPS (Rs)	40.2	43.4	7.7	47.6	50.0	5.0

Source: Company, HSIE Research

**BUY**

CMP (as on 28 Jul 2020)	Rs 684
Target Price	Rs 720
NIFTY	11,301

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 670	Rs 720
EPS %	FY21E	FY22E
	+7.7	+5.0

### KEY STOCK DATA

Bloomberg code	TECHM IN
No. of Shares (mn)	966
MCap (Rs bn) / (\$ mn)	661/8,835
6m avg traded value (Rs mn)	2,668
52 Week high / low	Rs 846/470

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.5	(13.8)	6.3
Relative (%)	11.6	(7.8)	4.7

### SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	35.85	35.83
FIs & Local MFs	13.19	13.02
FPIs	39.66	39.59
Public & Others	11.30	11.56
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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