

# Tech Mahindra

ADD

CMP Rs962

Target Rs1,025

Upside 6.6%

## Result Highlights

- ✓ Reported USD revenue of \$1,330mn (up1.6% QoQ). In INR terms, revenue was Rs 97.3 bn (up 0.9% QoQ) - slightly below consensus estimate. The INR revenue growth was also impacted by INR appreciation during the quarter.
- ✓ Growth was broad based with BFSI (+5% QoQ) being the key performer, followed by Manufacturing (1.9% QoQ), Communications (1.3% QoQ)
- ✓ EBIT margin grew by 55 bps QoQ to 16.5%, led by continued focus on cost optimization
- ✓ Deal win for the quarter stood at \$1,043 mn (5 quarter high deal booking)
- ✓ LTM attrition stood at 13% in the quarter vs 12% in 3QFY21
- ✓ Utilization level remained flat QoQ at strong 87% for the quarter.
- ✓ Cash and equivalents increased by Rs11.5bn QoQ to Rs 130.2bn
- ✓ The Board has proposed a Final Dividend of Rs15/- per share (300%) and a Special Dividend of Rs15/- per share (FY21 Dividend is Rs45/share).
- ✓ Strong deal win to support double digit revenue growth in FY22. Margin has been better than target range of 15% and this will enable management to make investment for growth

**Our view:** For Q4FY21, the margin performance was robust while the revenue was below expectation. Strong deal pipeline would help it to post double digit revenue growth in FY22; while optimization of margin levers would enable it to manage 15%+ EBIT margin in FY22, factoring in the wage hike being implemented from April quarter. The company has been using acquisitions to generate growth and optimize its service portfolio. The valuation remains attractive as the stock trades at PE of 15x on FY23 earnings, given better growth outlook. Initiate coverage on the stock with ADD rating.

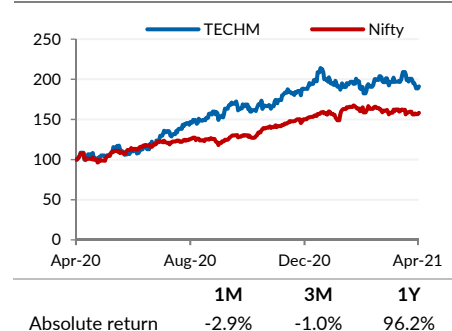
## Exhibit 1: Result table

Particulars (Rs mn)	Mar-21	Mar-20	yoy %	Dec-20	qoq %
Sales (\$ mn)	1,330.0	1,294.6	2.7	1,308.7	1.6
Sales	97,299	94,902	2.5	96,471	0.9
EBITDA	19,481	13,478	44.5	18,955	2.8
EBITDA %	20.0	14.2	582 bps	19.6	37 bps
Depreciation	3,444	3,982	(13.5)	3,584	(3.9)
EBIT	16,037	9,496	68.9	15,371	4.3
EBIT Margin %	16.5	10.0	648 bps	15.9	55 bps
Other income	328	2,852	(88.5)	2,214	(85.2)
Interest	417	532	(21.6)	421	(1.0)
PBT	15,948	11,816	35.0	17,164	(7.1)
Tax	4,998	2,392	108.9	4,263	17.2
Adj PAT	10,814	8,039	34.5	13,098	(17.4)
NPM (%)	11.1	8.5	264 bps	13.6	(246) bps

## Stock data (as on Apr 26, 2021)

Nifty	14,485
52 Week h/l (Rs)	1,082 / 481
Market cap (Rs/USD mn)	931,809 / 12,469
Outstanding Shares	968
6m Avg t/o (Rs mn)	4,269
Div yield (%)	2.1
Bloomberg code:	TECHM IN
NSE code:	TECHM

## Stock performance



## Shareholding pattern (As of Dec'20 end)

Promoter	35.8%
FII+DII	52.2%
Others	12.0%

## Financial Summary

(Rs mn)	FY21	FY22E	FY23E
Net Revenue	379,350	423,486	476,966
YoY Growth	2.9%	11.6%	12.6%
EBITDA	69,270	82,156	93,008
YoY Growth	21.0%	18.6%	13.2%
PAT	45,587	50,248	57,000
YoY Growth	7.3%	10.2%	13.4%
ROE	19.6%	18.9%	18.8%
EPS	52	57	65
P/E	18.8	17.0	15.0
BV	281	320	367
P/BV	14.2	12.9	11.4

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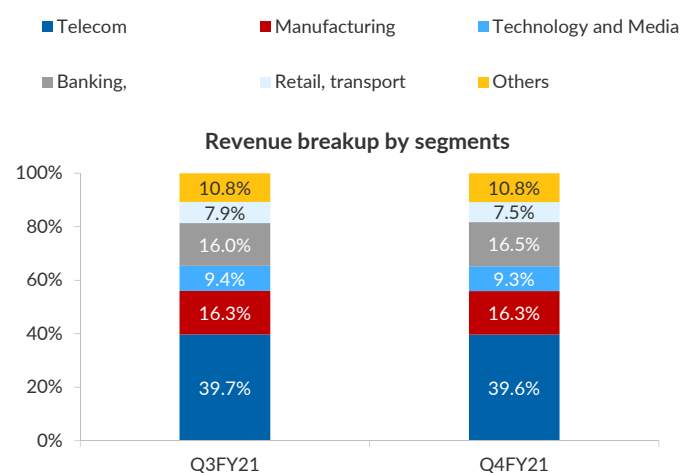
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## CON-CALL HIGHLIGHTS

- ✓ The management is confident of double-digit revenue growth in FY22, led by strong deal pipeline
- ✓ Manufacturing vertical has returned to growth after being adversely impacted in Q1FY21.
- ✓ In Telecom, it has started getting few deals especially in cloud related architecture in preparation for 5G implementation. Expect the 5G related deals to drive telecom deal pipeline going ahead.
- ✓ After taking into account the wage hike being implemented and other operational efficiency programs to be carried out, it has guided for above 15% + EBIT margin for FY22
- ✓ Overall hiring will pick up going ahead with focus on improving the employee pyramid structure.
- ✓ To check attrition, it reinstated variable pay in Q4FY21; and the wage hike across the organization has been implemented from April Quarter. At this stage, they have not planned for another wage hike in FY22

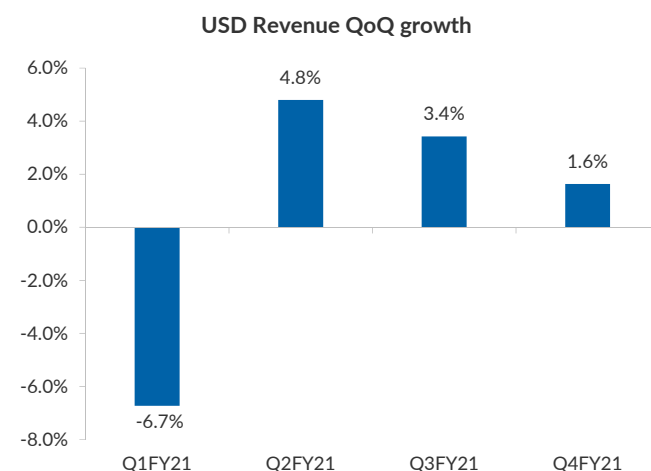
## CHARTS

**Exhibit 2: BFSI recorded maximum QoQ growth**



Source: Company, YES Sec – Research

**Exhibit 3: Moderation in Q4FY21 revenue growth**



Source: Company, YES Sec – Research

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