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Q4FY21 result review
and earnings revision

Technology

Target price: Rs1,000

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 4.9	↑ 1.8
EBIT	↑ 5.8	↑ 1.9
EPS	↑ 3.5	↓ 1.1

Target price revision

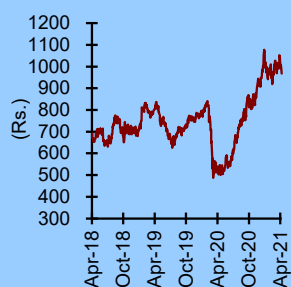
Rs1,000 from Rs1,010

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	35.8	35.8	35.8
Institutional investors	52.4	52.6	52.7
MF and others	9.1	8.4	8.7
FIs / Banks	0.1	0.1	0.1
Insurance Cos.	5.1	4.9	5.4
FII	38.1	39.2	38.5
Others	11.8	11.6	11.5

Source: www.nseindia.com

Price chart



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Tech Mahindra

HOLD
Maintained

Disappointing performance; Unchanged outlook! **Rs962**

Organic revenue remained largely stagnant (QoQ), behind our / consensus estimates. Even the tepid growth was driven by unreliable geographies like RoW (+6.2% QoQ, US\$), while key markets like US (-1.3% QoQ, US\$) posted a decline. Unburdened by wage hikes (contrary to industry), also aided by further ~0.9% QoQ reduction in delivery headcount and lower D&A, TechM was able to report 60bps EBIT margin expansion. Net new deal wins (US\$1,043mn) was strong driven by large deals like Telefonica. However, their translation into future growth is the key monitorable given the limited causality in the past. Adjusted for the inorganic growth contribution from the five acquisitions (+2.1%, I-Sec est.) announced over previous five months, FY22 growth outlook (double digit) is largely unchanged. EBIT margin guidance remained largely stable at 15%+. 1) Integration of acquired entities, 2) ramp up of large deals and 3) high utilisations (87%) may challenge this margin guidance unless significant operating leverage comes to rescue. As we adjust our exchange rate and revenue growth assumptions, FY22-23 estimates change by -1% to 3.5%. Maintain HOLD as we value the stock at 15x FY23E EPS.

► **Disappointing revenue performance; beat on margins.** Organic revenue growth (+0.2% QoQ, CC) was behind our / consensus estimates. Communications (+0.2% QoQ, CC) segment remained largely stagnant and enterprise growth (+1.1% QoQ, CC) too was tepid. Within enterprise, BFSI (+4.9% QoQ, USD) reported strong growth aided by Tenzing and Momenton acquisitions. Retail (-3.2% QoQ, USD) vertical witnessed a sharp revenue decline. The tepid overall growth was led by RoW (+6.2% QoQ, US\$) even as core geographies like US (-1.3% QoQ) posted a revenue decline. EBIT margin was 50 / 70bps ahead of our / consensus estimates. Unburdened by wage hikes, also aided by further ~0.9% QoQ reduction in delivery headcount and lower D&A, TechM was able to report 60bps EBIT margin expansion.

► **Translation of deal wins into revenue growth is key; outlook is largely unchanged.** While net new deal wins (US\$1,043mn) is strong, their translation into revenue growth is the key monitorable given the limited causality in the past. Optically, the double digit revenue growth guidance looks like an upgrade (from earlier guidance of high single digit growth). However, it should be noted that TechM announced five acquisitions in the last five months (Tenzing, Momenton, Perigord, Digital Onus & Eventus) with an expected inorganic growth contribution of 2.1% for FY22.

EBIT margin guidance remained largely stable at 15%+. (1) Integration of acquired entities, (2) ramp up of large deals and (3) high utilisations (87%) may challenge this margin guidance unless significant operating leverage comes to rescue. As we adjust our exchange rate and revenue growth assumptions, FY22-23E estimates change by -1% to 3.5%. Given its continued revenue growth underperformance and margin volatility, we expect TechM to trade at a significant discount to other Tier-I stocks. Maintain our **HOLD** rating valuing the stock at 15x FY23E EPS.

Market Cap	Rs932bn/US\$12.5bn	Year to March	2021	2022E	2023E	2024E
Reuters/Bloomberg	TEML.NS/TECHM IN	Revenue (Rs mn)	378,551	425,544	463,595	503,053
Shares Outstanding (mn)	968.4	Net Income (Rs mn)	44,281	54,137	57,275	60,657
52-week Range (Rs)	1078/500	EPS (Rs)	50.3	61.4	64.9	68.8
Free Float (%)	65.2	% Chg YoY	9.6	22.0	5.8	5.9
FII (%)	38.5	P/E (x)	19.2	15.7	14.8	14.0
Daily Volume (US\$'000)	59,519	CEPS (Rs)	66.1	79.7	84.9	90.4
Absolute Return 3m (%)	(1.0)	EV/E (x)	11.0	9.0	8.0	7.2
Absolute Return 12m (%)	96.2	Dividend Yield (%)	4.6	2.1	2.6	2.6
Sensex Return 3m (%)	0.2	RoCE (%)	14.1	15.2	14.8	14.2
Sensex Return 12m (%)	56.1	RoE (%)	17.8	19.2	18.2	17.4

Table 1: Q4FY21 result review

(Rs mn, year ending March 31)

	Q4FY21	Q3FY21	Q4FY20	%chg (QoQ)	%chg (YoY)
Revenues (US\$)	1,330	1,309	1,295	1.6	2.7
Re/\$	73.2	73.7	73.3	(0.7)	(0.2)
Net Sales	97,299	96,471	94,902	0.9	2.5
Cost of Services	64,497	64,708	66,896	(0.3)	(3.6)
SG&A	13,321	12,808	14,528	4.0	(8.3)
Total Expenses	77,818	77,516	81,424	0.4	(4.4)
EBITDA	19,481	18,954	13,478	2.8	44.5
Depreciation	3,444	3,584	3,982	(3.9)	(13.5)
EBIT	16,037	15,371	9,496	4.3	68.9
Interest Expense	417	421	532	(1.0)	(21.6)
Other Income	326	2,209	2,852	(85.2)	(88.6)
Share of profit / (Loss) from associate	2	5	15	(60.0)	(86.7)
Recurring pre-tax income	15,948	17,164	11,831	(7.1)	34.8
Taxation	4,998	4,263	2,392	17.2	108.9
Minority Interest	371	197	775	88.3	(52.1)
Recurring Net Income	11,321	13,098	10,214	(13.6)	10.8
Extraordinaries	(507)	-	(2,175)	n.a.	(76.7)
Reported Net Income	10,814	13,098	8,039	(17.4)	34.5
Recurring adj. diluted EPS (Rs.)	12.8	14.9	11.6	(13.7)	10.5
Ratios (%)					
EBITDA margin	20.0	19.6	14.2		
EBIT margin	16.5	15.9	10.0		
Effective tax rate	31.3	24.8	20.2		
Recurring Net profit margins	11.1	13.6	8.5		

Source: Company data, I-Sec research

Table 2: Change in estimates

	Revised		Revised		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Rs/USD	75.0	76.0	73.0	74.5	2.7%	2.0%
USD Revenue (mn)	5,674	6,100	5,559	6,116	2.1%	-0.3%
Growth (%)	11.0	7.5	8.3	10.0	280bps	-250bps
EBIT margin - Overall (%)	14.9	14.5	14.8	14.5	10bps	0bps
PAT (Rs bn)	54	57	52	58	3.6%	-1.0%
EPS (Rs)	61.4	64.9	59.3	65.7	3.5%	-1.1%

Source: Company data, I-Sec research

Table 3: Q4FY21 actuals vs estimates

Rs mn	Mar-21A	Dec-20	QoQ	Mar-20	YoY	Mar-21E	%diff	Consensus	%diff
CC growth	0.7%	2.8%	-210bps	-3.3%	400bps	1.3%	-60bps	1.9%	-120bps
Revenue (US\$ mn)	1,330	1,309	1.6%	1,295	3%	1,335	-0.4%	1,342	-1%
USD revenue growth	1.6%	3.4%	-180bps	-4.3%	590bps	2.0%	-40bps	2.5%	-100bps
Revenue (Rs mn)	97,299	96,471	1%	94,902	3%	97,255	0%	97,915	-1%
EBIT	16,037	15,371	4%	9,496	69%	15,569	3%	15,471	4%
EBIT margins	16.5%	15.9%	50bps	10.0%	650bps	16.0%	50bps	15.8%	70bps
Net Income	10,814	13,098	-17%	8,039	35%	12,916	-16%	12,925	-16%
Adj EPS (Rs/ share)	12.3	14.9	-18%	9.1	34%	14.7	-16%	14.7	-16%

Source: Company data, I-Sec research

Financial summary

Table 4: Profit and loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
Revenues (US\$mn)	5,111	5,674	6,100	6,619
Operating Revenues (Sales)	3,78,551	425,544	4,63,595	503,053
Operating Expenses	3,10,080	345,982	3,78,757	413,363
EBITDA	68,470	79,562	84,838	89,690
% margins	18.1	18.7	18.3	17.8
Depreciation & Amortisation	14,577	16,171	17,617	19,116
EBIT	53,894	63,391	67,221	70,574
% margins	14.2	14.9	14.5	14.0
Net other income	6,131	7,284	7,666	8,853
Recurring PBT	60,025	70,675	74,887	79,427
Less: Taxes	15,999	18,022	19,096	20,254
Add: Extraordinaries Inc/(Exp)	(507)	-	-	-
Less: Minority Interest/Income from Associates	762	1,484	1,484	1,484
Net Income (Reported)	44,281	54,137	57,275	60,657

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
LIABILITIES				
Shareholders' funds	2,48,650	2,82,331	3,14,034	3,49,121
Minority Interest	3,795	2,311	827	-657
Non-current liabilities	44,216	44,216	44,216	44,216
Current Liabilities	87,815	99,021	1,06,913	1,15,777
Amounts pending investigation	12,304	12,304	12,304	12,304
Total Liabilities	3,96,780	4,40,182	4,78,295	5,20,761
ASSETS				
Fixed Assets	91,368	81,575	70,907	59,331
Other non-current assets	52,859	52,859	52,859	52,859
Total non-current assets	1,44,227	1,34,434	1,23,766	1,12,190
Current Assets	2,52,553	3,05,748	3,54,529	4,08,571
Total Assets	3,96,780	4,40,182	4,78,295	5,20,761

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	91,063	93,718	96,471	97,299
% growth (YoY)	5.2	3.3	-0.1	2.5
Recurring EBITDA	13,005	17,030	18,954	19,481
Margin (%)	14.3	18.2	19.6	20.0
Other income	3,658	776	1,788	-91
Extraord Inc / (Loss)	-	-	-	-507
Recurring Net Income	9,723	10,646	13,098	11,321

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
OCF before W Cap changes	62,784	72,108	77,073	83,142
Working Capital Inflow / (Outflow)	17,658	(14,294)	(3,134)	(2,361)
Capex	(16,723)	(6,378)	(6,948)	(7,540)
Free Cash flow	63,718	51,436	66,990	73,241
Cash Flow from other Invst Act (Ex Capex)	-	-	-	-
Proceeds from Issue of Share Capital and buyback	1	1	1	1
Inc/(Dec) in Borrowings and lease liabilities	(8,327)	(1,484)	(1,484)	(1,484)
Dividend paid	(46,025)	(20,457)	(25,571)	(25,571)
Others	(4,181)	(3,284)	(3,666)	(4,853)
Increase/(Decrease) in Cash	5,187	26,213	36,271	41,335

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)				
Earnings per share (Adjusted Diluted Recurring)	50.3	61.4	64.9	68.8
Earnings per share (Basic Reported)	50.7	61.9	65.5	69.4
Cash earnings per share	66.1	79.7	84.9	90.4
Dividend per share	45.0	20.0	25.0	25.0
Book Value per share	279	320	356	396
Growth Ratios (%)				
Operating Income (Sales) - US\$	(1.4)	11.0	7.5	8.5
Operating Income (Sales)	2.7	12.4	8.9	8.5
EBITDA	19.6	16.2	6.6	5.7
Recurring Net Income	5.4	20.9	5.8	5.9
Diluted Recurring EPS	9.6	22.0	5.8	5.9
Diluted Recurring CEPS	11.7	20.6	6.5	6.5
Valuation Ratios (x)				
P/E	19.2	15.7	14.8	14.0
P/CEPS	14.7	12.2	11.4	10.7
P/BV	3.5	3.0	2.7	2.5
EV / EBITDA	11.0	9.0	8.0	7.2
EV / Sales	2.0	1.7	1.5	1.3
Operating Ratio				
Gross margin/Sales (%)	27.8	28.7	28.7	28.3
SG&A/Sales (%)	13.6	13.8	14.2	14.3
Other Income / PBT (%)	10.2	10.3	10.2	11.1
Effective Tax Rate (%)	26.7	25.5	25.5	25.5
Fixed Asset Turnover (x) on average	4.1	5.2	6.5	8.5
Receivables (days) on average	95	96	96	96
D/E Ratio (x)	0.1	0.1	0.1	0.0
Return/Profitability Ratio (%)				
Recurring Net Income Margins	11.8	12.7	12.4	12.1
RoCEex Cash	14.1	15.2	14.8	14.2
RoNW	17.8	19.2	18.2	17.4
Dividend Payout Ratio	89.5	32.6	38.5	36.4
Dividend Yield	4.6	2.1	2.6	2.6
EBITDA Margin	18.1	18.7	18.3	17.8

Source: Company data, I-Sec research

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