

Retail Equity Research

Tech Mahindra Limited

IT

BSE CODE: 532755

NSE CODE: TECHM

Bloomberg CODE: TECHM:IN

SENSEX: 49,734

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 978

TARGET Rs. 1,175

 RETURN 20% 

(Closing: 28-04-21)

KEY CHANGES:
TARGET 
RATING 
EARNINGS 

Promising Q4; Outlook optimistic

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

- Q4FY21 revenue up 2.5% YoY (+0.9% QoQ), primarily due to widening BPO segment (+28.6% YoY). On constant currency (CC) basis, revenue in USD terms was at +0.7%/-0.5% on QoQ/YoY.
- EBIT margin stretched by ~820bps QoQ, backed by better utilization (87.0%) and modest depreciation.
- No. of active clients rose by 10, QoQ to 1007 vs. 997 in Q3FY21.
- Expanding margins and prospective deal wins should support company performance and help gain market share. We reiterate our BUY rating on the stock with a revised TP of Rs. 1,175 on 18x FY23E adj. EPS.

Strong deal pipeline to help gain momentum

Consolidated revenue for Q4FY21 rose 2.5% YoY to Rs. 9,730cr (+0.9% QoQ) mainly as BPO segment outperformed at a 28.6% YoY growth (flat QoQ) to Rs. 1,057cr. IT segment remained flat YoY at Rs. 8,673cr (+1.0% QoQ). In USD terms, BFSI (+10.3% YoY, +4.9% QoQ) and Technology segment (+27.8% YoY, +0.5% QoQ) outgrew with strong demand acceleration and structural shift to digital world. Whereas, Manufacturing (-5.2% YoY, +1.9% QoQ) and Retail segments (+6.2% YoY, -3.2% QoQ) witnessed mixed results. However, robust net new deal wins at ~USD1.04bn (Communication - USD518mn, Enterprise - USD525mn) are expected to fuel growth going forward.

Sustained margin improvements

EBIT for Q4FY21 soared at a 112.1 % YoY growth to Rs.1,553cr (+1.0% QoQ) with a margin expansion of ~820bps YoY, aided by operational efficiency, high utilization (87.0%), improved offshoring, lower employee expenses and modest depreciation due to conservative capex. SG&A saw an increase on annual basis due to ramp-up of recruitment costs (+2.6%YoY). Adj. PAT (after adjusting for impairment of goodwill) saw an uptick of 10.5% YoY to Rs. 1,132cr with a strong FCF of Rs. 186mn (164.3% of PAT) for Q4FY21.

Key concall highlights

- Receivable days improved to 92 days in Q4FY21 (vs. 95 days in Q3FY21), resulting in FCF growth.
- Guidance of 15% reiterated for coming quarters upon recording its highest EBIT margins (16.5% in Q4FY21) in the last 6 years.
- Highest in history - Dividend declared at Rs.45 per share (Final - Rs.30 + Special - Rs.15).

Valuation

The telecom business should benefit with 5G roll out, demand for Cloud, AI, legacy modernization and strong digital transformation deals. Further, TechM stands out from the crowd with strong play in network infrastructure services. Gaining significant traction in the market remains its primary focus in the near term. We reiterate our BUY rating on the stock with a revised target price of Rs. 1,175 on ~18x FY23E adj. EPS.

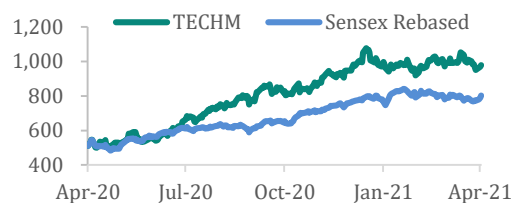
Company Data

Market Cap (cr)	Rs. 94,681
Enterprise Value (cr)	Rs. 93,994
Outstanding Shares (cr)	96.8
Free Float	64.0%
Dividend Yield	4.6%
52 week high	Rs. 1,081
52 week low	Rs. 490
6m average volume (lacs)	1.9
Beta	0.8
Face value	Rs. 5

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	35.8	35.8	35.8
FII's	38.0	39.0	38.3
MFs/Insti	14.4	13.7	14.6
Public	8.6	8.4	8.6
Others	3.2	3.0	2.8
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	-0.5%	21.6%	87.9%
Absolute Sensex	6.1%	24.6%	54.9%
Relative Return*	-6.6%	-3.0%	33.0%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	37,855	41,577	45,926
Growth (%)	2.7	9.8	10.5
EBITDA	6,847	7,901	8,535
EBITDA Margin (%)	18.1	19.0	18.6
Adj. PAT	4,479	5,255	5,758
Growth (%)	5.4	17.3	9.6
Adj. EPS	50.8	59.6	65.3
Growth (%)	5.1	17.3	9.6
P/E	19.5	16.4	15.0
P/B	3.5	3.0	2.6
EV/EBITDA	14.0	11.9	10.7
ROE (%)	17.8	18.4	17.6
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Revenue	9,730	9,490	2.5	9,647	0.9	37,855	36,868	2.68
EBITDA	1,948	1,348	44.5	1,896	2.8	6,847	5,726	19.6
EBITDA margins	20.0	14.2	580bps	19.6	40bps	18.1	15.5	260bps
Depreciation	344	398	(13.5)	358	(3.9)	1,458	1,446	0.8
EBIT	1,553	732	112.1	1,537	1.0	5,339	4,063	31.4
Interest	42	53	(21.6)	42	(1.0)	174	192	-9.3
Other Income	33	287	(88.6)	221	(85.2)	788	1,186	-33.6
Exceptional Items	-	-	-	-	-	-	-	-
PBT	1,544	966	59.9	1,716	(10.0)	5,953	5,058	17.7
Tax	500	239	108.9	426	17.2	1,600	1,160	37.9
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	(37)	(78)	n.m.	(20)	n.m.	(75)	(136)	n.m.
Reported PAT	1,081	804	34.5	1,310	(17.4)	4,428	4,033	9.8
Adjustments	51	218	(139.0)	-	-	51	218	(139.0)
Adj. PAT	1,132	1,021	10.8	1,310	(13.6)	4,479	4,251	5.4
No. of shares	89.1	88.0	1.3	88.1	1.1	88.2	88.0	n.m.
Adj. EPS (Rs.)	12.7	11.6	9.4	14.9	(14.5)	50.8	48.3	5.1

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	42,027	46,395	41,577	45,926	(1.1)	(1)
EBITDA	7,459	8,186	7,901	8,535	5.9	4.3
Margins (%)	17.7	17.6	19.0	18.6	130bps	100bps
Adj. PAT	5,160	5,742	5,255	5,758	1.8	0.3
Adj. EPS	58.7	65.4	59.6	65.3	1.4	(0.2)

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	34,742	36,868	37,855	41,577	45,926
% change	12.9	6.1	2.7	9.8	10.5
EBITDA	6,337	5,726	6,847	7,901	8,535
% change	28.8	(3.9)	15.8	14.0	7.6
Depreciation	1,129	1,446	1,458	1,562	1,651
EBIT	5,208	4,063	5,339	6,339	6,883
Interest	133	192	174	104	119
Other Income	469	1,187	788	828	870
PBT	5,543	5,058	5,953	7,064	7,635
% change	13.6	(8.8)	17.7	18.7	8.1
Tax	1,254	1,160	1,600	1,886	1,962
Tax Rate (%)	22.6	22.9	26.9	26.7	25.7
Reported PAT	4,298	4,033	4,428	5,255	5,758
Adj*	-	218	51	-	-
Adj PAT	4,298	4,251	4,479	5,255	5,758
% change	13.1	(1.1)	5.4	17.3	9.6
No. of shares (cr)	90.1	88.0	88.2	88.2	88.2
Adj EPS (Rs.)	47.7	48.3	50.8	59.6	65.3
% change	11.9	1.3	5.1	17.3	9.6
DPS (Rs.)	14.0	15.0	45.0	17.9	19.6
CEPS (Rs.)	60.3	64.8	67.3	77.3	84.0

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	5,427	5,479	5,886	6,818	7,409
Non-cash adj.	63	(599)	1,181	(78)	(85)
Changes in W.C	(1,057)	(522)	1,027	(1,888)	(958)
C.F. Operation	4,432	4,358	8,094	4,852	6,365
Capital exp.	(779)	(829)	(573)	(707)	(827)
Change in inv.	(2,322)	1,927	(4,015)	(1,019)	(1,029)
Other invest.CF	985	(69)	(862)	(576)	(190)
C.F - Investment	(2,116)	1,029	(5,450)	(2,302)	(2,045)
Issue of equity	(175)	(1,741)	57	-	-
Issue/repay debt	(450)	(44)	(1,174)	(150)	(150)
Dividends paid	(1,491)	(2,492)	(1,759)	(1,562)	(1,711)
Other finance.CF	(135)	(188)	(110)	86	29
C.F - Finance	(2,251)	(4,466)	(2,987)	(1,626)	(1,832)
Chg. in cash	64	921	(343)	924	2,488
Closing cash	2,359	3,148	2,835	3,759	6,247

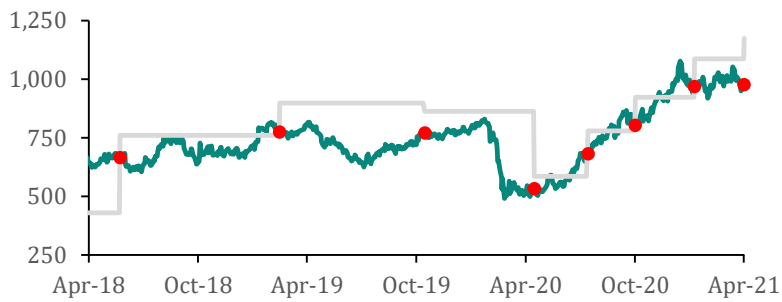
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	2,359	3,148	2,835	3,759	6,247
Accounts Receivable	6,959	7,577	6,473	8,606	9,966
Inventories	75	36	24	41	59
Other Cur. Assets	12,173	12,411	15,923	17,137	18,336
Investments	923	380	665	670	699
Gross Fixed Assets	8,941	9,214	9,880	10,587	11,413
Net Fixed Assets	2,623	2,434	2,301	1,443	615
CWIP	276	277	280	283	286
Intangible Assets	4,268	6,067	6,466	6,516	6,566
Def. Tax (Net)	2,749	3,260	2,942	3,468	3,608
Other Assets	1,043	1,764	1,768	1,868	1,968
Total Assets	33,447	37,354	39,678	43,792	48,351
Current Liabilities	10,366	9,561	9,612	10,124	10,794
Provisions	580	669	781	806	831
Debt Funds	1,405	3,628	2,870	2,770	2,670
Other Liabilities	335	1,289	1,171	1,185	1,188
Equity Capital	444	436	437	437	437
Reserves & Surplus	19,841	21,377	24,428	28,168	32,215
Shareholder's Fund	20,284	21,813	24,865	28,605	32,652
Minority Interest	478	393	380	302	217
Total Liabilities	33,447	37,354	39,678	43,792	48,351
BVPS (Rs.)	225	248	282	324	370

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	18.2	15.5	18.1	19.0	18.6
EBIT margin (%)	15.0	11.0	14.1	15.2	15.0
Net profit mgn.(%)	12.4	10.9	11.7	12.6	12.5
ROE (%)	21.2	18.5	17.8	18.4	17.6
ROCE (%)	23.5	15.7	19.0	20.0	19.4
W.C & Liquidity					
Receivables (days)	73.1	75.0	62.4	75.6	79.4
Inventory (days)	6.3	2.4	1.8	2.8	3.5
Payables (days)	208.9	218.5	204.4	211.7	214.1
Current ratio (x)	1.9	1.9	2.2	2.5	2.8
Quick ratio (x)	1.4	1.3	1.6	1.9	2.2
Turnover & Leverage					
Gross asset T.O (x)	4.0	4.1	4.0	4.1	4.2
Total asset T.O (x)	1.1	1.0	1.0	1.0	1.0
Int. coverage ratio (x)	39.1	21.2	30.7	61.1	58.0
Adj. debt/equity (x)	0.1	0.2	0.1	0.1	0.1
Valuation					
EV/Sales (x)	2.0	1.5	2.5	2.3	2.0
EV/EBITDA (x)	11.0	9.7	14.0	11.9	10.7
P/E (x)	16.3	11.7	19.5	16.4	15.0
P/BV (x)	3.4	2.3	3.5	3.0	2.6

Recommendation Summary



Dates	Rating	Target
05-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
28-Oct-20	BUY	923
04-Feb-21	BUY	1,087
29-Apr-21	BUY	1,175

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. The stock may still be a quality stock.

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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