

Tech Mahindra

Getting back on track

We maintain our BUY rating on Tech Mahindra, based on better-than-expected growth and improving margin profile. USD revenue was up 2.9% QoQ CC vs. TCS/INFY/WIPRO/HCLT performance of +4.8/+4.0/+2.0/+4.5% QoQ CC respectively. Telecom was up 3.2% QoQ (in line with our estimate), but Enterprise (+6.0% QoQ) performed better than expected. Growth was led by Technology & Media (+14.1% QoQ), BFSI and Retail bounced back strongly, while manufacturing was stable. BPM recovered strongly (+31.1% QoQ) due to market share gains and reversal in supply-side factors. Net-new TCv improved to USD 421mn, and the pipeline continues to remain strong. The 5G related spend has shifted to FY22E, but TechM is well-poised to benefit from this spend. Telecom recovery will be gradual (led by 5G), but Enterprise will drive growth, supported by a revival in Manufacturing and Retail verticals. Margin expansion of +413bps QoQ was better than expected (14.2% vs. the estimate of 11.3%), led by offshoring, higher utilisation, lower sub-con and visa fees. TechM aims to expand the margin to 15%, but it will still have the lowest margin in Tier-1 IT. We increase our EPS estimate by 7.1/8.1% for FY22/23E to factor in better growth and margin. Our target price stands at Rs 940, based on 16x (~15% premium to 5Y average) Sep-22E EPS. The stock currently trades at a P/E of 17.0/15.2x FY21/22E.

- 2QFY21 highlights:** TechM revenue stood at USD 1,265mn +4.8% QoQ (vs. the estimate of USD 1,237mn). Technology/BFSI/Retail grew +14.1/+9.5/+7.7% QoQ, while Manufacturing was flat (+0.4% QoQ). EBIT margin expansion was led by demand and supply factors (+160bps), operational efficiency (+160bps) and +70bps from lower visa and telecom seasonality. Portfolio companies' (21% of revenue) EBIT margin stood at 10.9% vs. 3.5% in 1QFY21. Cash generation was strong (FCF/PAT at 164%), led by better collections.
- Outlook:** We expect USD revenue growth of -2.2/+6.9% in FY21/22E. We have factored in 3/4Q FY21 growth of +1.6/+2.1% respectively. EBIT will be at 12.9/13.5% for FY21/22E. Telecom/Enterprise growth for FY21E will be at -7.4/+1.6% and +3.9/+8.9% for FY22E respectively.

Quarterly Financial summary

YE March (Rs bn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	1,265	1,287	(1.7)	1,208	4.8	4,971	5,182	5,070	5,421	5,838
Net Revenue	93.72	90.70	3.3	91.06	2.9	347.42	368.68	378.29	411.98	443.72
EBIT	13.31	11.59	14.8	9.17	45.1	52.08	42.80	48.85	55.42	61.38
APAT	10.65	11.24	(5.3)	9.72	9.5	42.98	42.51	43.87	49.00	54.27
Diluted EPS (Rs)	12.1	12.8	(5.3)	11.1	9.5	48.9	48.3	49.9	55.7	61.7
P/E (x)						17.4	17.6	17.0	15.2	13.7
EV / EBITDA (x)						10.6	11.9	10.5	9.2	8.2
RoE (%)						22.0	20.2	19.3	19.9	20.3

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	4,984	5,070	1.7	5,297	5,421	2.3	5,637	5,838	3.6
Revenue	372.17	378.29	1.6	402.54	411.98	2.3	428.44	443.72	3.6
EBIT	42.28	48.85	15.6	49.14	55.42	12.8	53.94	61.38	13.8
EBIT margin (%)	11.4	12.9	155bps	12.2	13.5	125bps	12.6	13.8	124bps
APAT	41.65	43.87	5.3	45.76	49.00	7.1	50.19	54.27	8.1
EPS (Rs)	47.4	49.9	5.3	52.0	55.7	7.1	57.1	61.7	8.1

Source: Company, HSIE Research

BUY

CMP (as on 23 Oct 2020)	Rs 848
Target Price	Rs 940
NIFTY	11,930

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 875	Rs 940
EPS %	FY21E +5.3	FY22E +7.1

KEY STOCK DATA

Bloomberg code	TECHM IN
No. of Shares (mn)	967
MCap (Rs bn) / (\$ mn)	820/11,137
6m avg traded value (Rs mn)	3,812
52 Week high / low	Rs 888/470

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	34.1	62.0	16.7
Relative (%)	27.4	34.3	12.6

SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	35.83	35.82
FIs & Local MFs	13.02	14.23
FPIs	39.59	38.87
Public & Others	11.56	11.08
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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