

Retail Equity Research

Tech Mahindra Limited

IT

BSE CODE: 532755

NSE CODE: TECHM

Bloomberg CODE: TECHM:IN

SENSEX: 40,522

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 829

TARGET Rs. 923

RETURN 11% ↑

(Closing:27-10-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Decent results; Outlook intact

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

- In Q2FY21, revenue rose 2.9% QoQ (+3.3% YoY), owing to recovery in demand. In USD terms, on constant currency (CC) basis, revenue came in as mixed bag +2.9%/-3.0% on QoQ/YoY.
- EBIT margin expanded by ~410bps QoQ, led by demand/supply improvement (+160bps), prudent cost management (+160bps) and seasonality benefit (+160bps).
- No. of active clients stood at 988 vs. 981 in Q1FY21 and the company has won various multi-year deals to provide services across locations.
- The improved demand/supply scenario, margin expansion and increase in deal wins should support the company's steady recovery.
- Hence, we retain our BUY rating on the stock with a revised TP of Rs. 923 on 17x FY22E adj. EPS.

Topline recovers on revival in demand

The company's revenue increased 2.9% QoQ to Rs. 9,372cr in Q2FY21 (+3.3% YoY) driven by IT segment rising by 0.6% QoQ to Rs. 8,419cr (+2.4% YoY), accompanied by BPO segment increasing by 28.8% QoQ to Rs. 953cr (+12.7% YoY). Demand revival came across multiple segments, as customers accelerated their pace of digital transformation. In USD terms, revenue was up 4.8% QoQ to USD 1,265mn (+2.9% QoQ in CC), owing to increase in Technology (+13.3% QoQ), BFSI (+9.6%) and Retail segment (+7.8%). While Communications (+3.2% QoQ), and Manufacturing segment (0.5%) segments remained lackluster. However, management expects manufacturing sector to witness recovery soon as it has already bottomed out.

Margin rises on demand/supply recovery and cost management

EBIT increased 45.1% QoQ to Rs. 1,331cr (+14.8% YoY) in Q2FY21, as EBIT margin improved ~410bps QoQ mainly due to Cost management (~160bps), demand/supply side recovery (~160bps) and seasonality impact (~70bps). However, PAT grew only by 9.5% QoQ to Rs. 1,065cr (-5.3% YoY), impacted by a FX loss of USD 5mn (vs. Gain of USD 11mn in Q1FY21) as the dollar remained weak during the quarter.

Key concall highlights

- Net new deal wins during the quarter rose to USD 421mn vs. USD 290mn in Q1FY21 with growth coming in from medium-sized deals.
- Days of sales outstanding improved to 97 days in Q2FY21 from 107 days in Q1FY21.
- The company announced special dividend of Rs. 15/share during the quarter.
- The company along with Sumitomo Corporation have agreed to setup a 50:50 JV for providing Engineering Services to Automotive Sector.

Valuation

The recovery from both demand and supply side is promising. The margin improvement during the quarter was impressive and management remains confident of maintaining the same. The increase in technological spends across the sectors should drive growth in upcoming quarters. Hence we reiterate a BUY on the stock with a revised target price of Rs. 923 on 17x FY22E adj. EPS.

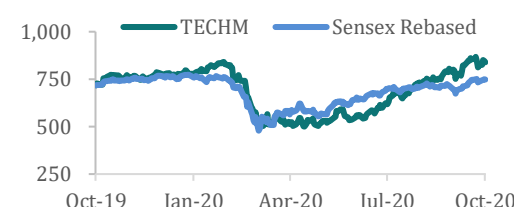
Company Data

Market Cap (cr)	Rs. 79,159
Enterprise Value (cr)	Rs. 76,703
Outstanding Shares (cr)	96.6
Free Float	64.0%
Dividend Yield	1.8%
52 week high	Rs. 888
52 week low	Rs. 470
6m average volume (lacs)	2.1
Beta	0.8
Face value	Rs. 5

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	35.9	35.8	35.8
FII's	39.7	39.6	38.0
MFs/Insti	13.4	13.2	14.4
Public	8.3	8.4	8.6
Others	2.8	2.9	3.2
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	34.2%	62.0%	16.7%
Absolute Sensex	6.7%	27.7%	4.2%
Relative Return*	27.5%	34.3%	12.5%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	36,868	38,068	41,428
Growth (%)	6.1	3.3	8.8
EBITDA	5,726	6,000	6,903
EBITDA Margin (%)	15.5	15.8	16.7
Adj. PAT	4,251	4,035	4,765
Growth (%)	(1.1)	(5.1)	18.1
Adj. EPS	48.3	45.9	54.2
Growth (%)	1.3	(4.9)	18.1
P/E	11.7	17.8	15.1
P/B	2.3	3.1	2.7
EV/EBITDA	9.5	13.0	11.0
ROE (%)	18.5	17.3	17.8
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	9,372	9,070	3.3	9,106	2.9	18,478	17,723	4.3
EBITDA	1,703	1,501	13.5	1,301	30.9	3,004	2,815	6.7
EBITDA margins	18.2	16.5	170bps	14.3	390bps	16.3	15.9	40bps
Depreciation	372	342	8.8	383	(3.0)	755	663	13.9
EBIT	1,331	1,159	14.8	917	45.1	2,249	2,152	4.5
Interest	40	38	4.2	50	(20.7)	90	84	7.8
Other Income	118	217	(45.6)	416	(71.7)	534	550	(2.9)
Exceptional Items	-	-	-	-	-	-	-	-
PBT	1,409	1,338	5.4	1,283	9.8	2,693	2,619	2.8
Tax	346	227	52.8	328	5.7	674	558	20.7
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	(2)	(13)	88.2	(17)	91.0	(18)	(23)	20.5
Reported PAT	1,065	1,124	(5.3)	972	9.5	2,037	2,083	(2.2)
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	1,065	1,124	(5.3)	972	9.5	2,037	2,083	(2.2)
No. of shares	87.9	87.9	(0.0)	87.8	0.1	87.9	87.9	(0.0)
Adj. EPS (Rs.)	12.1	12.8	(5.2)	11.1	9.4	23.2	23.7	(2.2)

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	37,816	40,987	38,068	41,428	0.7	1.1
EBITDA	5,728	6,700	6,000	6,903	4.8	3.0
Margins (%)	15.1	16.3	15.8	16.7	62bps	32bps
Adj. PAT	3,850	4,558	4,035	4,765	4.8	4.5
Adj. EPS	43.8	51.9	45.9	54.2	4.8	4.5

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	30,773	34,742	36,868	38,068	41,428
% change	5.6	12.9	6.1	3.3	8.8
EBITDA	4,710	6,337	5,726	6,000	6,903
% change	12.2	28.8	(3.9)	5.5	13.0
Depreciation	1,085	1,129	1,446	1,563	1,644
EBIT	3,625	5,208	4,063	4,437	5,260
Interest	162	133	192	150	64
Other Income	1,417	469	1,187	1,016	1,066
PBT	4,879	5,543	5,058	5,303	6,262
% change	26.6	13.6	(8.8)	4.8	18.1
Tax	1,093	1,254	1,160	1,404	1,658
Tax Rate (%)	22.4	22.6	22.9	26.5	26.5
Reported PAT	3,800	4,298	4,033	4,035	4,765
Adj*	-	-	218	-	-
Adj PAT	3,800	4,298	4,251	4,035	4,765
% change	34.6	13.1	(1.1)	(5.1)	18.1
No. of shares (cr)	89.1	90.1	88.0	87.8	87.8
Adj EPS (Rs.)	42.7	47.7	48.3	45.9	54.2
% change	34.3	11.9	1.3	(4.9)	18.1
DPS (Rs.)	14.0	14.0	15.0	28.8	16.3
CEPS (Rs.)	54.8	60.3	64.8	63.7	73.0

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	3,044	2,359	3,148	4,121	6,016
Accounts Receivable	6,498	6,959	7,577	6,662	7,208
Inventories	66	75	36	36	44
Other Cur. Assets	8,499	12,173	12,411	12,989	13,792
Investments	1,436	923	380	385	390
Gross Fixed Assets	8,335	8,941	9,214	10,318	11,519
Net Fixed Assets	2,981	2,623	2,434	1,972	1,526
CWIP	240	276	277	280	283
Intangible Assets	4,451	4,268	6,067	6,117	6,167
Def. Tax (Net)	2,354	2,749	3,260	3,943	4,656
Other Assets	868	1,043	1,764	1,864	1,964
Total Assets	30,437	33,447	37,354	38,369	42,046
Current Liabilities	8,192	10,366	9,561	9,394	9,908
Provisions	555	580	669	694	719
Debt Funds	1,726	1,405	2,774	2,524	2,424
Other Liabilities	612	335	2,143	2,166	2,173
Equity Capital	442	444	436	436	436
Reserves & Surplus	18,401	19,841	21,377	22,898	26,288
Shareholder's Fund	18,843	20,284	21,813	23,334	26,724
Minority Interest	509	478	393	258	97
Total Liabilities	30,437	33,447	37,354	38,369	42,046
BVPS (Rs.)	212	225	248	266	304

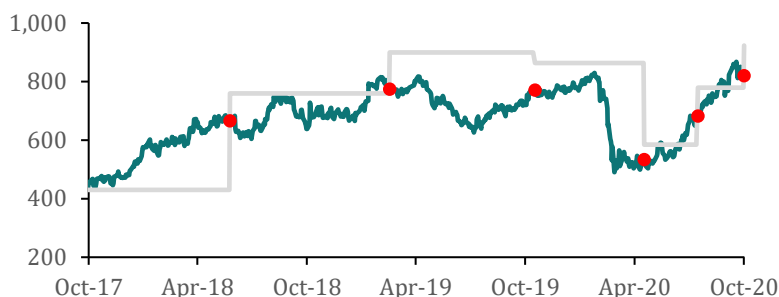
CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	4,885	5,427	5,479	5,598	6,408
Non-cash adj.	(548)	63	(599)	(136)	(160)
Changes in W.C	(783)	(1,057)	(522)	798	10
C.F. Operation	3,554	4,432	4,358	6,260	6,258
Capital exp.	(790)	(779)	(829)	(1,104)	(1,201)
Change in inv.	(3,176)	(2,322)	1,927	(683)	(907)
Other invest.CF	607	985	(69)	(733)	(763)
C.F - Investment	(3,360)	(2,116)	1,029	(2,521)	(2,872)
Issue of equity	25	(175)	(1,741)	-	-
Issue/repay debt	749	(450)	(44)	(300)	(150)
Dividends paid	(944)	(1,491)	(2,492)	(2,514)	(1,422)
Other finance.CF	(99)	(135)	(188)	47	80
C.F - Finance	(269)	(2,251)	(4,466)	(2,767)	(1,492)
Chg. in cash	(76)	64	921	973	1,895
Closing cash	3,044	2,359	3,148	4,121	6,016

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	15.3	18.2	15.5	15.8	16.7
EBIT margin (%)	11.8	15.0	11.0	11.7	12.7
Net profit mgn.(%)	12.3	12.4	10.9	10.6	11.5
ROE (%)	20.2	21.2	18.5	17.3	17.8
ROCE (%)	17.2	23.5	16.3	17.0	18.0
W.C & Liquidity					
Receivables (days)	77.1	73.1	75.0	63.9	63.5
Inventory (days)	6.2	6.3	2.4	2.6	2.8
Payables (days)	191.2	208.9	218.5	217.9	217.4
Current ratio (x)	2.0	1.9	1.9	2.0	2.2
Quick ratio (x)	1.4	1.4	1.3	1.5	1.7
Turnover & Leverage					
Gross asset T.O (x)	4.3	4.0	4.1	3.9	3.8
Total asset T.O (x)	1.1	1.1	1.0	1.0	1.0
Int. coverage ratio (x)	22.3	39.1	21.2	29.6	82.3
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	1.8	2.0	1.5	2.0	1.8
EV/EBITDA (x)	11.6	11.0	9.5	13.0	11.0
P/E (x)	14.6	16.3	11.7	17.8	15.1
P/BV (x)	2.9	3.4	2.3	3.1	2.7

Recommendation Summary



Dates	Rating	Target
8-Feb-17	HOLD	490
5-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

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..

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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