

Results weak; TCV and Commentary assures double digit growth

- TECHM reported CC growth of 0.7% QoQ (DE: 2.0%) due to weak performance of most verticals except BFSI (4.9% QoQ growth). EBIT margin further improved by 55bps to 16.5% (DE: 15.5%) led by higher off-shoring and improved operational efficiency.
- Net New TCV signings showed a strong improvement at \$1Bn (Expects similar traction in Q1) while TTM TCV were down 40% at \$2.2Bn. It has guided for double digit growth in FY22 which is led by improved deal win momentum and recovery in Retail/Mfg./Telecom Verticals.
- Guided for EBIT Margin of 15%+ for FY22E as it expects to overcome headwinds of upcoming hike (from April'21), hiring, deal ramp-up costs, through operational efficiencies and operating leverage.
- Factoring modest results, confident outlook and strong TCV performance, we increase our earnings estimates by 4%/3% in FY22E/FY23E and maintain Accumulate rating with TP of Rs1060 valued at 18x FY23E EPS.

TCV Parameters strong but other indicators to yet improve

TECHM expects the strong TCV performance to continue given investments in Sales over FY21. In Q4, TCV has delivered strong growth in both Telecomm and Enterprise (~0.5Bn each) and in last quarter, it delivered one of the largest deals of legacy modernization in Telecom Vertical. Within Telecom it is expecting improved demand/performance across legacy deals, Network Spends, Cloud as well as 5G led deals in its Next.Now Model. Enterprise Vertical is expected to deliver double digit growth in FY22 led by recovery in Manufacturing & Retail Vertical and continued traction in Cloud theme in BFSI Vertical. Given improvement in TCV data (Telecomm & Enterprise) and traction in Manufacturing in H2, we are subscribing to the double digit growth hypothesis.

Q4 exit OPM strong - 16.5%, Operating efficiencies playing out

The performance improvement has been led by 1) Operational Efficiency Program 2) Improved Utilization 3) No Wage Hike (Q4 had variable payouts). Despite headwinds of hike in Q1, ramp-up cost, increment hiring (total empl. in H2 down by 2.6%) we believe 15%+ EBIT is now achievable given strong exit Margin in Q4, more improvement from operational efficiency program, large freshers hiring and operating leverage gains.

Q4FY21 Result (Rs Mn)

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Revenue	97,299	94,902	2.5	96,471	0.9
Total Expense	77,818	81,424	(4.4)	77,516	0.4
EBITDA	19,481	13,478	44.5	18,955	2.8
Depreciation	3,444	3,982	(13.5)	3,584	(3.9)
EBIT	16,037	9,496	68.9	15,371	4.3
Other Income	(179)	692	(125.9)	2,214	(108.1)
Interest	417	532	(21.6)	421	(1.0)
EBT	15,441	9,656	59.9	17,164	(10.0)
Tax	4,998	2,392	108.9	4,263	17.2
RPAT	10,814	8,039	34.5	13,098	(17.4)
APAT	10,814	8,039	34.5	13,098	(17.4)
			(bps)		(bps)
Gross Margin (%)	33.7	29.5	420	32.9	79
EBITDA Margin (%)	20.0	14.2	582	19.6	37
NPM (%)	11.1	8.5	264	13.6	(246)
Tax Rate (%)	32.4	24.8	760	24.8	753
EBIT Margin (%)	16.5	10.0	648	15.9	55

CMP	Rs 962
Target / Upside	Rs 1,060 / 10%
NIFTY	14,341

Scrip Details

Equity / FV	Rs 4,370mn / Rs 5		
Market Cap	Rs 840bn		
	USD 11bn		
52-week High/Low	Rs 1,082/ 490		
Avg. Volume (no)	42,19,650		
Bloom Code	TECHM IN		
Price Performance	1M	3M	12M
Absolute (%)	(3)	(1)	91
Rel to NIFTY (%)	(2)	(1)	37

Shareholding Pattern

	Sep'20	Dec'20	Mar'21
Promoters	35.8	35.8	35.8
MF/Banks/FIs	14.2	13.5	13.5
FIIIs	38.0	39.1	39.1
Public / Others	12.0	11.6	11.6

Valuation (x)

	FY21A	FY22E	FY23E
P/E	19.0	17.2	16.4
EV/EBITDA	10.7	9.3	8.5
ROE (%)	19.0	19.1	19.2
RoACE (%)	18.1	18.9	19.0

Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	3,78,551	4,19,450	4,64,811
EBITDA	68,470	78,135	84,063
PAT	44,281	48,845	51,825
EPS (Rs.)	50.7	55.9	58.8

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Exhibit 1: Quarterly performance versus estimates

(Rs mn)	Actual	Estimates		% Variation		Comment
		Dolat	Consensus	Dolat	Consensus	
USD Revenue	1,330	1,344	1,351	(1.1)	(1.6)	Revenue miss due by weak performance in most verticals.
INR Revenue	97,299	98,062	98,871	(0.8)	(1.6)	
EBIT	16,037	15,234	15,609	5.3	2.7	EBIT beat led by strong cost control (headcount down QoQ/YoY).
EBIT, margin	16.5	15.5	15.8	90 bps	70 bps	
PAT	10,814	12,532	13,173	(13.7)	(17.9)	PAT Miss due to higher ETR (32%) and Fx loss of Rs. 628Mn

Source: Company, DART

Change in Estimates

Factoring the double digit growth outlook backed by strong recovery in TCV wins (Growth assumptions are broadly unchanged for FY22/23E) in Q4 alongwith its 15%+ OPM guidance we have scaled up our OPM estimates by 93bps/68bps respectively. The OPM outlook is backed by strong exit quarter run rate of 16.5% and operating levers available that may help in cover up for upcoming tailwinds. As a result, we have seen upgrade in our EPS estimates by 4%/3% respectively for FY22/23E.

Exhibit 2: Change in Estimates

Rs. Mn	FY21A			FY22E			FY23E		
	Old	Actual	Change	Old	New	Change	Old	New	Change
USD Revenue	5,125	5,111	(0.3)	5,647	5,629	(0.3)	6,110	6,116	0.1
YoY growth, %	(1.1)	(1.4)	(27 bps)	10.2	10.1	(5 bps)	8.2	8.6	46 bps
INR Revenue	3,79,314	3,78,551	(0.2)	4,20,778	4,19,450	(0.3)	4,64,330	4,64,811	0.1
YoY growth, %	(1.1)	(1.4)	(27 bps)	10.2	10.1	(5 bps)	8.2	8.6	46 bps
EBIT	53,091	53,894	1.5	59,055	62,768	6.3	63,411	66,628	5.1
EBIT Margin (%)	14.0	14.2	24 bps	14.0	15.0	93 bps	13.7	14.3	68 bps
Net Profit	45,999	44,281	(3.7)	46,783	48,845	4.4	49,998	51,825	3.7
EPS (Rs. Abs)	52.3	50.2	(4.1)	53.2	55.4	4.0	56.9	58.8	3.3

Source: DART, Company

Exhibit 3: Key Assumptions in our estimates

	FY20A	FY21A	FY22E	FY23E
USD revenue growth (%)	4.3	(1.4)	10.1	8.6
USD/INR	71.1	74.1	74.5	76.0
INR revenue growth (%)	6.1	2.7	10.8	10.8
EBIT margins (%)	11.6	14.2	15.0	14.3
EPS growth (%)	(3.9)	9.5	10.3	6.1

Source: DART, Company

Exhibit 4: Key Revenue Growth Matrix (%)

Particulars	FY21	Q1FY21	Q2FY21	Q3FY21	Q4FY21
CC Growth YoY	(2.5)	(1.8)	(3.0)	(4.6)	(0.5)
Telecomm USD Growth YoY	(6.1)	(7.8)	(6.0)	(9.9)	(0.3)
Enterprise USD Growth YoY	2.0	0.2	1.3	1.6	4.8
USD Growth YoY	(1.4)	(3.2)	(1.7)	(3.3)	2.7
INR Growth YoY	2.7	5.2	3.3	(0.1)	2.5

Source: DART, Company

Exhibit 5: Quarterly and YTD Trend

Rs mn	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)	FY20	FY21	YoY (%)
USD Revenue	1,295	1,208	1,265	1,309	1,330	2.7	1.6	5,182	5,111	(1.4)
INR Revenue	94,902	91,063	93,718	96,471	97,299	2.5	0.9	3,68,677	3,78,551	2.7
Operating Expenses	81,424	78,058	76,688	77,516	77,818	(4.4)	0.4	3,11,416	3,10,081	(0.4)
Cost of revenue	66,896	65,105	64,245	64,708	64,497	(3.6)	(0.3)	2,59,743	2,58,555	(0.5)
as % of sales	70.5	71.5	68.6	67.1	66.3	-420 bps	-79 bps	70.5	68.3	-215 bps
SG&A expense	14,528	12,953	12,443	12,808	13,321	(8.3)	4.0	51,673	51,525	(0.3)
as % of sales	15.3	14.2	13.3	13.3	13.7	-162 bps	41 bps	14.0	13.6	-40 bps
EBITDA	13,478	13,005	17,030	18,955	19,481	44.5	2.8	57,261	68,470	19.6
Depreciation	3,982	3,832	3,717	3,584	3,444	(13.5)	(3.9)	14,458	14,576	0.8
EBIT	9,496	9,173	13,313	15,371	16,037	68.9	4.3	42,803	53,894	25.9
Finance Cost	532	503	399	421	417	(21.6)	(1.0)	1,919	1,740	
Other Income	692	4,162	1,179	2,214	-179	(125.9)	(108.1)	9,694	7,376	(23.9)
PBT	9,656	12,832	14,093	17,164	15,441	59.9	(10.0)	50,578	59,530	17.7
Total Tax	2,392	3,276	3,462	4,263	4,998	108.9	17.2	11,604	15,999	37.9
PAT Before MI	7,264	9,556	10,631	12,901	10,443	43.8	(19.1)	38,974	43,531	11.7
Minority Interest	775	167	15	197	371	(52.1)	88.3	1,356	750	(44.7)
Reported PAT	8,039	9,723	10,646	13,098	10,814	34.5	(17.4)	40,330	44,281	9.8
Reported EPS	9.1	11.1	12.1	14.9	12.3	34.1	(17.5)	45.8	50.3	9.7
Margins (%)						(bps)	(bps)			(bps)
EBIDTA	14.2	14.3	18.2	19.6	20.0	582	37	15.5	18.1	256
EBIT	10.0	10.1	14.2	15.9	16.5	648	55	11.6	14.2	263
EBT	10.2	14.1	15.0	17.8	15.9	569	-192	13.7	15.7	201
PAT	8.5	10.7	11.4	13.6	11.1	264	-246	10.9	11.7	76
Effective Tax rate	24.8	25.5	24.6	24.8	32.4	760	753	22.9	26.9	393

Source: DART, Company

What to expect next Quarter

We have factored revenue growth of about 2.5% QoQ in Q1 led by deal rampup, inorganic contribution for two acquisitions that should recoup some seasonality impact from Comviva in Q1. We expect OPM cut of about 160bps QoQ factoring in the wage hike that are effective April 1st and also impending resources additions starting Q1.

Exhibit 6: What to expect next Quarter

(Rs. Mn)	Q1FY22E	Q4FY21	Q1FY21	QoQ (%)	YoY (%)
USD Revenue	1,363	1,330	1,208	2.5	12.9
INR Revenue	1,00,889	97,299	91,063	3.7	10.8
EBIT	14,982	16,037	9,173	(6.6)	63.3
PAT	11,709	10,814	9,723	8.3	20.4
EPS (Rs Abs.)	13.3	12.3	11.1	8.3	20.0
EBIT Margin (%)	14.9	16.5	10.1	-163bps	478bps

Source: DART, Company

Valuations

We believe TECHM and other Tier II IT companies would continue to deliver strong revenue momentum over next 4-5 quarters (translating into double digit revenue growth in FY22/FY23E) and thus would sustain current valuations of 18x-20x which implies over 1.5x-2x on PEG basis. We currently value TECHM at 18x (unchanged) on FY23E Earnings of Rs. 58.8 (earlier Rs. 56.9) with TP of Rs. 1,060 per share (from Rs. 1,020) and maintain our **Accumulate** Rating.

Key Highlights from the Earning Call

- **Revenue:** Revenue grew by 0.7% in CC terms led by 0.2% CC growth in Telecom Revenue and 1.1% CC growth in Enterprise Vertical. The growth in USD and INR terms stood at 1.6% and 0.9% implying a 90bps favorable CC impact and 70bps negative USD/INR impact. The BPO Segment (10.9% of Revenue) stood flat after 2 quarters of strong growth. It is up 28.6% on YoY basis.
- **EBIT Margins:** EBIT Margin improved by 55bps QoQ to 16.5% led by saving in Cost of Revenue (down 0.3% QoQ) as Headcount declined by 0.7% QoQ. On Absolute basis, the employee cost decline by 5.5% QoQ and 2.4% YoY. The SG&A Cost inched up 4.0% QoQ. Tech Mahindra highlighted that SG&A includes increased recruitment cost. **We expect some pyramid gains in FY22 as the incremental headcount will now be increasingly captured by freshers.** Tech Mahindra has also guided that it will further work on profitability with the operating efficiency improvement program. Also, expects travel cost to inch up in H2.
- **Outlook:** Tech Mahindra has guided for double digit growth and EBIT Margins of 15%+. It expects continued improvement in deal signings (same magnitude of deal signing in Q1 as well as balanced across two business). Overall, Tech Mahindra is confident on Cloud led growth, Deals in Network Side and expects deal flow momentum to remain. Net New Deal Wins stood at \$1,043Mn with Telecomm Deal worth \$518mn and Enterprise Deals worth \$525mn. TechM expects lesser seasonality in Q1FY22 (from Comviva business) in this year.
- **Human Resources:** Tech Mahindra has started rolling out salary hikes from 1st April and expects to offset the impact from operating efficiency. Some variable payouts were done in Q4FY21 (was not paid in other 3 quarters in FY21).
- **Tax:** Tech Mahindra saw a higher tax charge in two of its subsidiaries causing the ETR for the quarter to increase to 32.4%. Expects ETR to stay in 25-26% band in FY22E.
- **Acquisition:** TechM has announced acquisition of Eventus Solutions Group, a US based Business Process Services player, for \$44mn (Incl Earnout) in Cash. The transaction is expected to complete by 15th June. Eventus Solutions Group offers end-to-end customer engagement solutions, such as strategy consulting, cloud based tools and automation services, and managed services. This will aid the consulting capabilities in Customer experience (CX) and customer management space for Tech Mahindra. The Revenue for Eventus stood at \$33.2Mn in CY20 and has been growing at a CAGR of 26% for last two years (\$20.8Mn in CY18).
- **Vertical Commentary:** Communications Vertical grew 0.2% in CC terms and contributed 34% to incremental revenue growth. Tech Mahindra is bullish on the Vertical given strong traction across key themes such as legacy modernization, cloud based deals, Networks roll outs (5G) and so on. Within Enterprise segment, Retail which declined 3.2% QoQ is expected to gradually recover over FY22. Manufacturing has already started recovery with 1.9% growth QoQ (2nd qtr of growth). BFSI grew 4.9% and contributed half of the incremental growth as Cloud themed demand continues. Tech Mahindra expects enterprise Vertical to show double digit growth in FY22E.

Exhibit 7: Vertical Trend for Q4FY21

Vertical	Amount (\$ mn)	Mix (%)	QoQ (%)	YoY (%)	Incremental Revenue (\$ mn)	% Contribution of Incremental Revenue
Communication	527	40	1.4	(0.2)	7	34
Manufacturing	217	16	1.9	(5.4)	4	19
Tech. ,Media & Entertainment	123	9	0.5	28.6	1	3
BFSI	219	16	4.9	10.6	10	49
Retail, Transport & Logistics	100	8	(3.2)	5.8	(3)	(16)
Others	144	11	1.6	(3.6)	2	11
Total	1,330	100	1.6	2.7	21	100

Source: DART, Company

- **Geographical Commentary:** Americas market declined 1.2% QoQ and Europe market grew 2% QoQ. Large part of the growth was delivered by Rest of World which grew 6.2% and is up 11.5% on YoY basis.

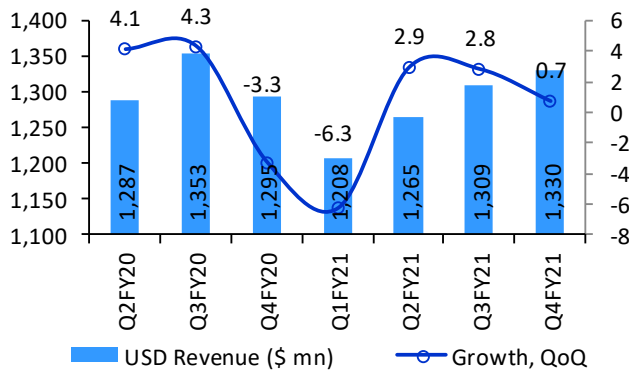
Exhibit 8: Geography Trend for Q4FY21

Geography	Amount (\$ mn)	Mix (%)	QoQ (%)	YoY (%)	Incremental Revenue (\$ mn)	% Contribution of Incremental Revenue
Americas	605	45	(1.2)	(2.1)	(8)	(36)
Europe	352	26	2.0	2.7	7	32
Rest of world	372	28	6.2	11.5	22	104
Total	1,330	100	1.6	2.7	21	100

Source: DART, Company

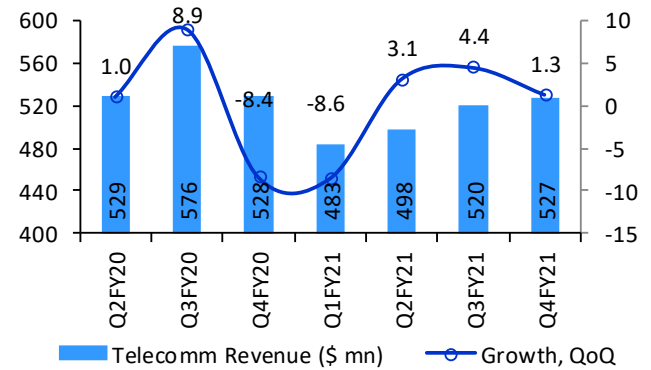
Key Charts

Exhibit 9: Revenue grew by 0.7% CC QoQ led by ...



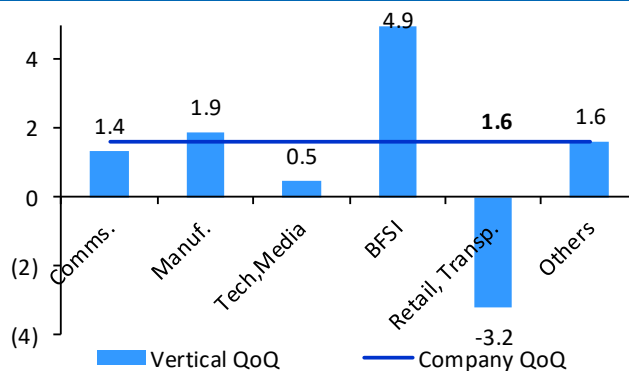
Source: DART, Company

Exhibit 10: Weak growth in Telecom Vertical at 1.3%



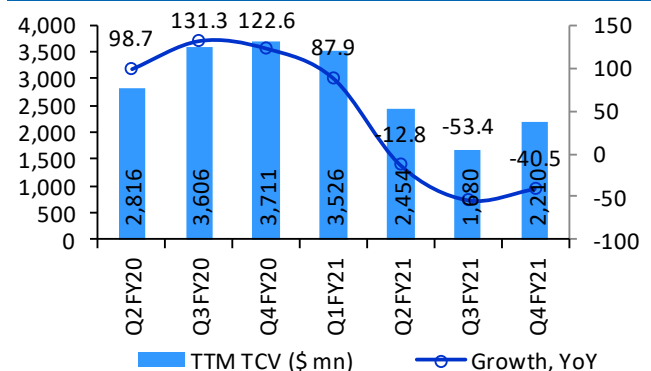
Source: DART, Company

Exhibit 11: Enterprise Vertical also remained weak on Ex BFSI basis



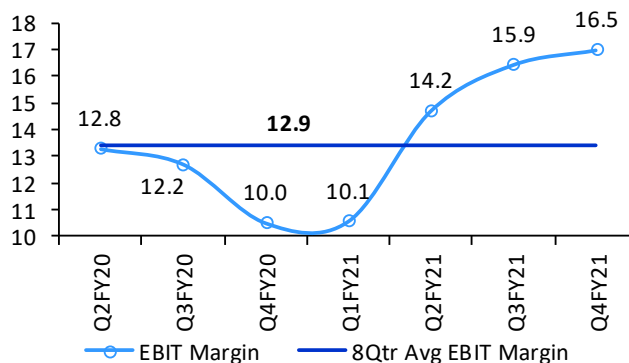
Source: DART, Company

Exhibit 12: Strong TCV signings but TTM TCV still weak



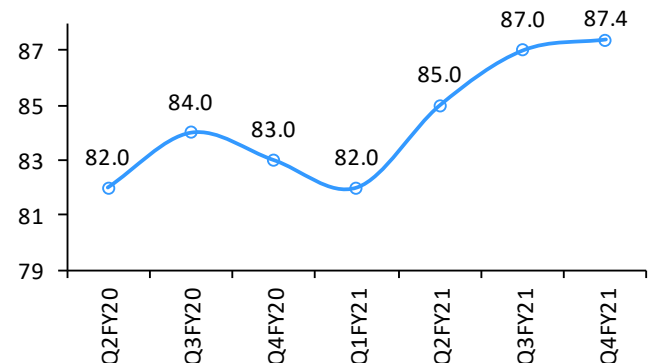
Source: DART, Company

Exhibit 13: EBIT Margin up by 55bps QoQ to 16.5%



Source: DART, Company

Exhibit 14: Utilization to inch down as hiring scales up



Source: DART, Company

Exhibit 15: Operating Metrics 1

Particulars	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Growth in CC (QoQ)	4.3	0.1	(1.1)	4.1	4.3	(3.3)	(6.3)	2.9	2.8	0.7
Growth in CC (YoY)	6.8	5.1	3.7	7.3	7.5	3.9	(1.8)	(3.0)	(4.6)	(0.5)
Telecomm CC growth (%) (QoQ)							(8.2)	0.8	3.6	0.2
Telecomm CC growth (%) (YoY)							(6.5)	(7.8)	(11.3)	(4.3)
Enterprise CC growth (%) (QoQ)							(5.1)	4.3	2.3	1.1
Enterprise CC growth (%) (YoY)							1.6	0.3	0.2	2.1
OPM (%)	16.1	15.4	11.5	12.8	12.2	10.0	10.1	14.2	15.9	16.5
TCV Data (\$mn) Net New										
Communication	245	171	100	1,079	150	174	105	208	104	518
Enterprise	195	237	375	414	1,081	339	185	214	352	525
Total	440	408	475	1,493	1,231	513	290	421	456	1,043
TCV Growth YoY										
Communication			(22.5)	259.4	(38.9)	1.5	5.0	(80.8)	(30.7)	197.7
Enterprise			176.5	62.9	455.5	43.3	(50.7)	(48.4)	(67.4)	54.9
Total	47.7	36.0	79.2	169.5	179.5	22.5	(38.9)	(71.8)	(63.0)	103.3
TTM TCV (\$mn) Net New										
Communication		846	817	1,596	1,500	1,503	1,508	637	591	935
Enterprise		821	1,060	1,220	2,107	2,209	2,019	1,819	1,090	1,276
Total	1,559	1,667	1,877	2,816	3,606	3,698	3,513	2,441	1,666	2,210
TTM TCV Growth YoY										
Communication						77.6	84.6	(60.1)	(60.6)	(37.8)
Enterprise						169.1	90.4	49.1	(48.3)	(42.2)
Total	23.8	35.1	60.0	98.7	131.3	121.8	87.2	(13.3)	(53.8)	(40.5)
Vertical Amount (\$mn)										
Communication	518	541	524	529	576	528	483	497	520	527
Manufacturing	258	256	242	232	234	229	203	204	213	217
Tech. ,Media & Entertain.	88	95	95	104	103	96	109	124	123	123
BFSI	169	166	160	167	179	198	190	208	209	219
Retail, Transp. & Logistics	84	81	77	90	97	95	88	95	103	100
Others	142	129	148	165	165	149	135	138	141	144
Vertical Amount (YoY)										
Communication	0.1	4.6	8.1	4.6	11.2	(2.4)	(7.8)	(6.0)	(9.8)	(0.2)
Manufacturing	11.9	6.6	(1.7)	(5.4)	(9.4)	(10.5)	(16.2)	(12.1)	(9.1)	(5.4)
Tech. ,Media & Entertain.	12.3	4.7	7.5	17.2	16.5	0.8	14.7	18.9	19.2	28.6
BFSI	5.1	2.6	(4.1)	1.8	5.7	19.3	18.8	24.0	16.9	10.6
Retail, Transp. & Logistics	(1.6)	5.2	3.5	13.8	15.3	16.5	14.0	5.3	6.1	5.8
Others	4.3	(17.5)	(9.5)	20.8	15.9	15.2	(8.9)	(16.3)	(14.4)	(3.6)
Geography Amount (\$mn)										
North America	598	588	594	624	655	618	595	612	612	605
Europe	364	363	344	344	365	343	312	319	345	352
Rest of the World	299	316	309	321	333	334	301	334	351	372
Geography Amount (YoY)										
North America	5.4	(0.3)	0.6	9.0	9.6	5.0	0.3	(1.9)	(6.5)	(2.1)
Europe	1.1	(1.6)	(6.3)	(4.7)	0.3	(5.4)	(9.5)	(7.2)	(5.4)	2.7
Rest of the World	6.1	10.3	15.4	12.4	11.4	5.8	(2.8)	4.2	5.4	11.5
New/Old Revenue										
New Business (\$mn)	68	143	29	67	118	180	32	69	74	103
Repeat Business (\$mn)	1193	1124	1218	1220	1235	1115	1175	1197	1234	1226
DSO Reported	107	102	110	114	112	112	107	97	95	92

Source: DART, Company

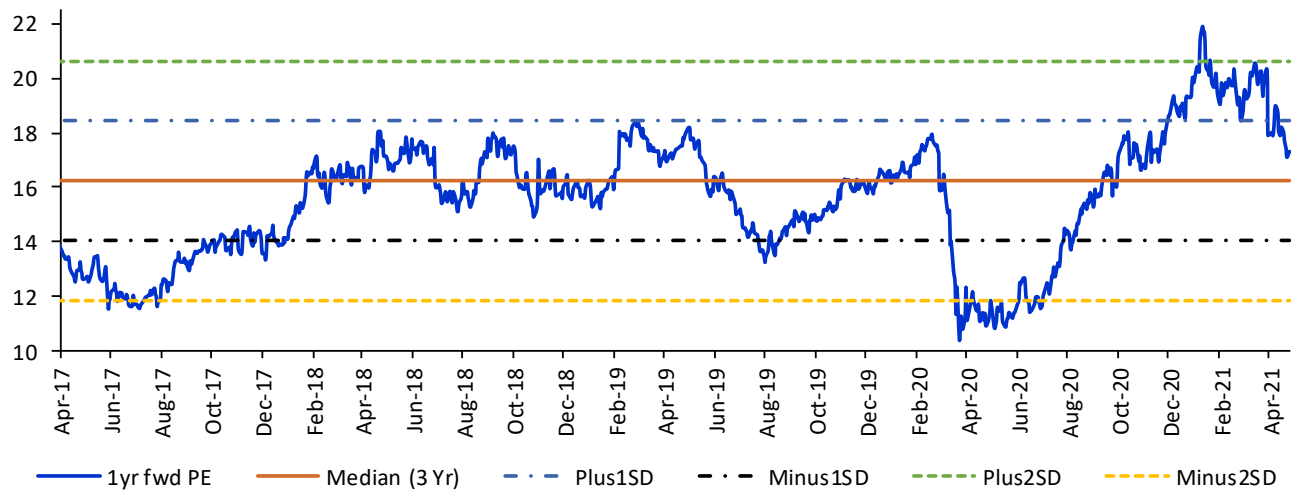
Exhibit 16: Operating Metrics 2

Particulars	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenue Metrics (\$mn)										
Onsite Revenue	826	826	814	842	884	844	774	797	824	835
Offshore Revenue	435	441	433	445	469	451	433	468	484	495
Revenue Metrics (YoY)										
Onsite Revenue	3.8	(0.9)	(0.1)	7.1	7.0	2.1	(5.0)	(5.3)	(6.7)	(1.1)
Offshore Revenue	5.2	7.4	5.8	3.0	7.9	2.1	0.2	5.1	3.1	9.8
Employee Data										
S/W professionals	71,785	71,477	74,093	72,597	73,079	71,515	71,020	69,512	68,734	68,427
Support and sales	6,618	6,524	6,680	6,732	6,664	6,905	6,842	6,284	6,335	6,502
BPO	43,439	43,081	45,000	52,193	51,096	46,816	45,554	48,462	46,832	46,125
Total Employees	1,21,842	1,21,082	1,25,773	1,31,522	1,30,839	1,25,236	1,23,416	1,24,258	1,21,901	1,21,054
Net Addition	3,451	(760)	4,691	5,749	(683)	(5,603)	(1,820)	842	(2,357)	(847)
Utilization (%) incl. Trainee	82	82	80	82	84	83	82	85	87	87.4
Attrition (IT Services)	21	21	21	21	20	19	17	13.5	12.4	13.3
Client Metrics (\$mn)										
Top 5 client	285	289	267	278	302	277	263	272	286	296
Top 6-10 client	113	117	116	127	118	124	112	112	115	116
Top 11-19 client	156	166	161	156	150	163	150	156	155	163
Non Top 20 client	706	696	703	726	783	730	682	724	753	755
Client Metrics (YoY)										
Top 5 client	1.6	0.1	(0.4)	(2.0)	5.9	(4.1)	(1.5)	(2.1)	(5.3)	6.8
Top 6-10 client	(6.2)	(1.4)	(10.6)	11.3	3.7	6.6	(3.3)	(11.8)	(2.6)	(6.3)
Top 11-19 client	9.6	2.6	(4.1)	(0.9)	(3.9)	(1.8)	(6.8)	0.4	3.4	(0.3)
Non Top 20 client	6.2	3.0	6.8	9.5	11.0	4.9	(3.0)	(0.2)	(3.9)	3.4
Revenue by Type										
IT	1,154	1,156	1,132	1,167	1,220	1,182	1,109	1,137	1,165	1,185
BPO	106	112	115	120	133	112	98	129	143	144
Revenue by Type (YoY)										
IT	3.7	0.2	(0.1)	3.8	5.7	2.3	(2.0)	(2.6)	(4.5)	0.2
BPO	10.5	22.5	26.1	27.8	24.9	0.3	(14.5)	7.2	7.9	28.8
EBITDA Margin										
IT	19.3	18.9	15.3	17.0	16.1	14.1	14.9	17.8	19.1	19.1
BPO	18.9	13.9	14.2	12.1	16.7	14.9	6.8	21.9	23.7	28.0
Client Data										
>US\$1 million	416	425	429	437	446	446	451	460	454	451
>US\$5 million	157	156	160	155	164	160	161	165	162	169
>US\$10 million	88	83	81	80	83	85	81	82	83	85
>US\$20 million	46	50	49	49	50	49	48	50	50	50
>US\$50 million	18	20	21	22	22	22	21	21	21	21
Number of active clients	935	938	941	946	964	973	981	988	997	1007

Source: DART, Company

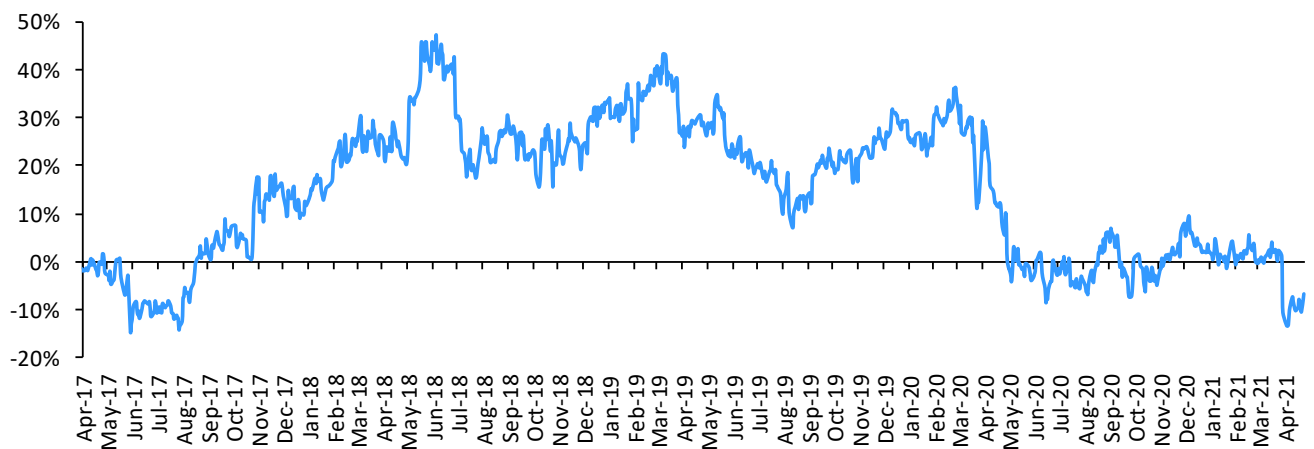
Band Chart

Exhibit 17: Tech Mahindra is trading above its 3 Year Median (16.1x) valuation with PER of 17.3x



Source: DART, Company

Exhibit 18: Tech Mahindra trades at 6.6% discount to HCLT (gap should ideally widen)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	3,68,677	3,78,551	4,19,450	4,64,811
Total Expense	3,11,416	3,10,081	3,41,315	3,80,747
COGS	2,59,743	2,58,555	2,82,738	3,15,446
Employees Cost	0	0	0	0
Other expenses	51,673	51,525	58,577	65,301
EBIDTA	57,261	68,470	78,135	84,063
Depreciation	14,458	14,576	15,367	17,435
EBIT	42,803	53,894	62,768	66,628
Interest	1,919	1,740	1,613	1,548
Other Income	9,694	7,376	4,463	5,028
Exc. / E.O. items	0	0	0	0
EBT	50,578	59,530	65,618	70,108
Tax	11,604	15,999	16,818	18,228
RPAT	40,330	44,281	48,845	51,825
Minority Interest	(1,356)	(750)	(45)	55
Profit/Loss share of associates	0	0	0	0
APAT	40,330	44,281	48,845	51,825

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	4,359	4,370	4,359	4,359
Minority Interest	3,933	3,795	3,750	3,805
Reserves & Surplus	2,13,772	2,44,280	2,58,157	2,72,935
Net Worth	2,18,131	2,48,650	2,62,516	2,77,294
Total Debt	24,282	16,618	15,870	15,159
Net Deferred Tax Liability	(8,087)	(8,372)	(8,372)	(8,372)
Total Capital Employed	2,38,259	2,60,691	2,73,764	2,87,887

Applications of Funds

Net Block	87,276	89,294	90,267	86,177
CWIP	501	1,183	1,183	1,183
Investments	3,804	6,648	6,648	6,648
Current Assets, Loans & Advances	2,73,511	2,90,522	3,08,014	3,31,409
Inventories	358	242	390	435
Receivables	75,809	64,753	72,423	81,526
Cash and Bank Balances	31,483	28,352	29,496	33,693
Loans and Advances	45	47	47	47
Other Current Assets	1,09,693	1,00,509	1,03,439	1,07,890
Less: Current Liabilities & Provisions	1,26,833	1,26,956	1,32,348	1,37,530
Payables	32,566	27,850	31,794	35,467
Other Current Liabilities	94,267	99,106	1,00,555	1,02,064
<i>sub total</i>				
Net Current Assets	1,46,678	1,63,566	1,75,666	1,93,879
Total Assets	2,38,259	2,60,691	2,73,764	2,87,887

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	29.5	31.7	32.6	32.1
EBIDTA Margin	15.5	18.1	18.6	18.1
EBIT Margin	11.6	14.2	15.0	14.3
Tax rate	22.9	26.9	25.6	26.0
Net Profit Margin	10.9	11.7	11.6	11.1
(B) As Percentage of Net Sales (%)				
COGS	70.5	68.3	67.4	67.9
Employee	0.0	0.0	0.0	0.0
Other	14.0	13.6	14.0	14.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	22.3	31.0	38.9	43.0
Inventory days	0	0	0	0
Debtors days	75	62	63	64
Average Cost of Debt	10.0	8.5	9.9	10.0
Payable days	32	27	28	28
Working Capital days	145	158	153	152
FA T/O	4.2	4.2	4.6	5.4
(D) Measures of Investment				
AEPS (Rs)	46.2	50.7	55.9	58.8
CEPS (Rs)	62.8	67.3	73.5	78.5
DPS (Rs)	14.8	45.0	40.0	42.0
Dividend Payout (%)	31.9	88.8	71.6	71.5
BVPS (Rs)	249.9	284.4	300.3	314.4
RoANW (%)	19.2	19.0	19.1	19.2
RoACE (%)	18.0	18.1	18.9	19.0
RoAIC (%)	21.3	24.5	26.3	26.7
(E) Valuation Ratios				
CMP (Rs)	962	962	962	962
P/E	20.8	19.0	17.2	16.4
Mcap (Rs Mn)	8,39,748	8,39,748	8,39,748	8,39,748
MCap/ Sales	2.3	2.2	2.0	1.8
EV	7,76,424	7,31,395	7,23,903	7,13,396
EV/Sales	2.1	1.9	1.7	1.5
EV/EBITDA	13.6	10.7	9.3	8.5
P/BV	3.8	3.4	3.2	3.1
Dividend Yield (%)	1.5	4.7	4.2	4.4
(F) Growth Rate (%)				
Revenue	6.1	2.7	10.8	10.8
EBITDA	(9.6)	19.6	14.1	7.6
EBIT	(17.8)	25.9	16.5	6.2
PBT	(8.8)	17.7	10.2	6.8
APAT	(6.2)	9.8	10.3	6.1
EPS	(4.7)	9.6	10.3	5.2

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	43,581	80,938	56,034	57,446
CFI	10,286	(54,501)	(17,550)	(13,945)
CFF	(44,655)	(29,869)	(37,340)	(39,305)
FCFF	35,288	75,213	39,694	44,101
Opening Cash	20,427	30,167	26,904	28,048
Closing Cash	30,167	26,904	28,048	32,245

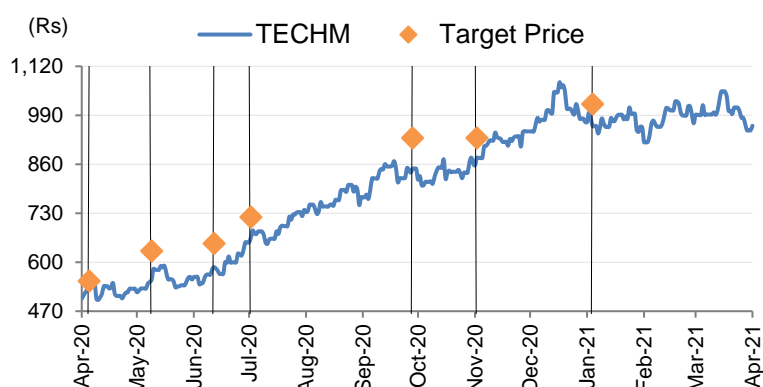
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Apr-20	REDUCE	550	546
Jun-20	Accumulate	630	553
Jul-20	Accumulate	650	587
Jul-20	Accumulate	720	665
Oct-20	Accumulate	930	848
Nov-20	Accumulate	930	877
Jan-21	Accumulate	1,020	961

*Price as on recommendation date

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