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Tech Mahindra

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Growth momentum to remain intact

CMP	Target Price
Rs 1,522 as of (November 11, 2021)	Rs 1,870 (■) 12 months
Rating	**Upside**
BUY (■)	22.9 %

- Tech Mahindra gave further insights into NXT.NOW growth strategy at an analyst meet. It also shared updates on progress made on large deals participation and win rate, steps taken to broaden growth, account segmentation, delivery excellence and capital allocation.
- The company remains confident of delivering double-digit organic revenue growth in FY22, given broad-based demand, strong deal wins (USD3bn in LTM), improving win rates (2x growth) and steady progress on client mining.
- TechM reiterated its guidance to maintain EBITM at 15% with an upward bias in FY22 on the back of revenue momentum, automation-led operating efficiencies, and offshore shift, negating salary inflation, spike in attrition and normalization of WFH savings.
- We maintain Buy with a TP of Rs1,870 at 25x Sep'23E EPS, considering an improving revenue growth trajectory with a stable-to-improving margin profile, improving payout (~60% of FCF on 3-year rolling basis) and reasonable valuations.

5G revenue scaled to ~20% of CME revenue: TechM said that the 5G revenue run rate reached USD500mn in Q2 and crossed over 20% of the CME business. It also suggested that 50% of all the network services business is 5G related in Q2. TechM has a comprehensive growth strategy in place to capitalize on 5G opportunities, encompassing CSPs (CX, Network, Digital OSS/BSS), Enterprises (Industry solutions, private networks, Edge intelligence) and Ecosystem (Network platforms, Device platforms) by leveraging products, platforms, people and partnerships. 5G is causing metamorphosis of the industry across the metaverse (co-evolution of physical and virtual world), sensors (25bn sensors devices expected by 2025) and open 5G. 5G is expected to create business opportunities worth USD712bn across industries by 2030. TechM's focus industries, namely Healthcare, Manufacturing, Automotive and Hitech & Media, will form ~62% of overall spend. Management remains confident of capitalizing on growth opportunities across focus verticals. 5G is accelerating telcos' digital transformation as they invest into modernizing infrastructure, digitizing enterprise platforms, reinventing the core business and reimagining customer experience. Management believes scaling of 5G-related opportunities in the Enterprise business will be relatively slower as the use cases will take some time to evolve.

Increased focus on capital allocation: As per the current capital return policy, TechM distributes excess cash (FCF minus M&A and internal initiatives) through a combination of dividends and buybacks. It has generated USD2.4bn FCF in the last 3.5 years, of which it returned USD1.5bn (~64% payout). Historically, the company has invested around 35-40% of cash generation into capex and M&A and expects a similar approach in the future. TechM plans to return excess cash to shareholders and expects the payout to be ~60% of FCF on a three-year rolling basis.

Please see our sector model portfolio (Emkay Alpha Portfolio): Information Technology (Page 9)

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	368,677	378,551	441,192	502,229	563,414
EBITDA	57,261	68,471	80,644	91,331	101,194
EBITDA Margin (%)	15.5	18.1	18.3	18.2	18.0
APAT	40,330	44,281	54,933	61,811	69,811
EPS (Rs)	46.2	50.7	62.6	70.5	79.6
EPS (% chg)	(4.7)	9.6	23.7	12.5	12.9
ROE (%)	19.2	19.0	21.0	21.3	21.5
P/E (x)	32.9	30.0	24.3	21.6	19.1
EV/EBITDA (x)	22.0	17.8	15.0	12.9	11.4
P/BV (x)	6.1	5.4	4.9	4.4	3.9

Source: Company, Emkay Research

Change in Estimates	
EPS Chg FY22E/FY23E (%)	-/-
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

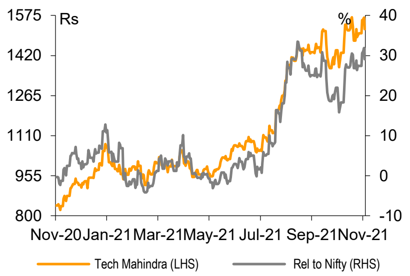
Emkay vs Consensus		
EPS Estimates		
	FY22E	FY23E
Emkay	62.6	70.5
Consensus	64.0	72.7
Mean Consensus TP (12M)		Rs 1,743

Stock Details	
Bloomberg Code	TECHM IN
Face Value (Rs)	5
Shares outstanding (mn)	969
52 Week H/L	1,623 / 794
M Cap (Rs bn/USD bn)	1,475 / 19.79
Daily Avg Volume (nos.)	3,780,928
Daily Avg Turnover (US$ mn)	73.9

Shareholding Pattern Sep '21	
Promoters	35.7%
FIIs	35.6%
DIIs	16.9%
Public and Others	11.8%

Price Performance				
(%)	1M	3M	6M	12M
Absolute	10	16	59	86
Rel. to Nifty	10	6	32	33

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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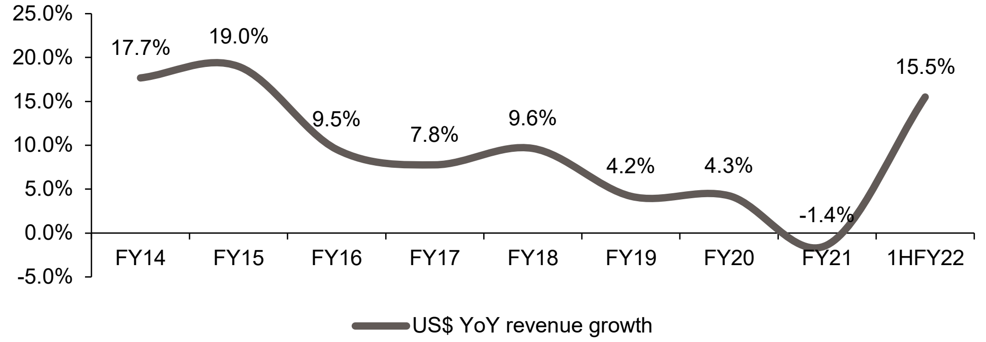
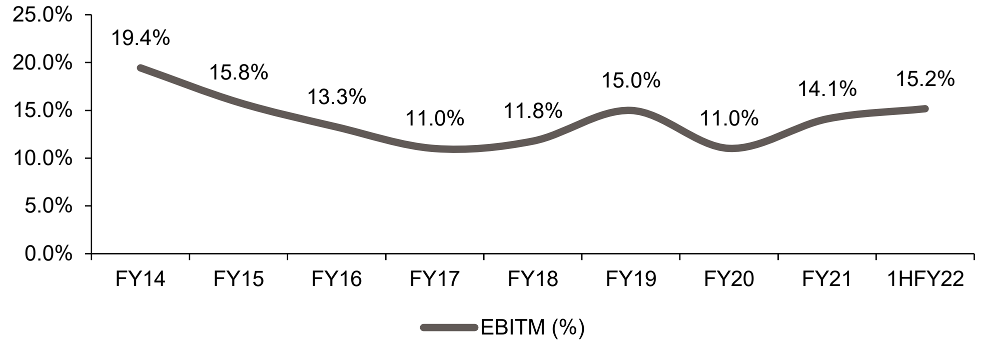
Story in charts

Exhibit 1: Revenue growth momentum to sustain



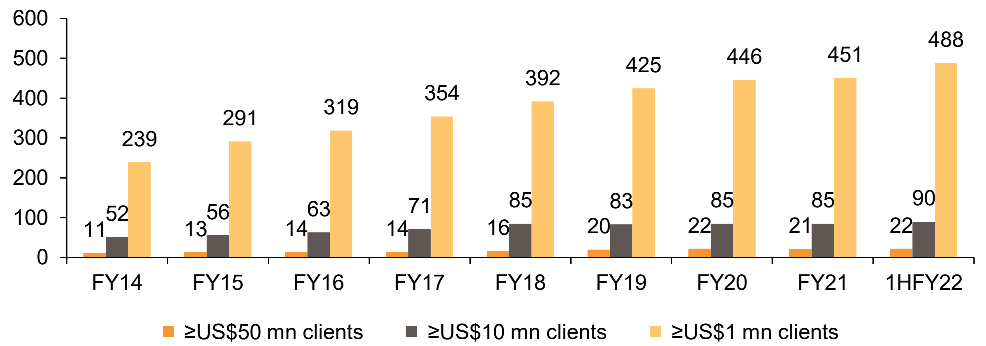
Source: Company, Emkay Research

Exhibit 2: Revenue growth, automation-led operating efficiencies, and improvement in profitability of portfolio companies drive margin improvement; confident to sustain it above 15%



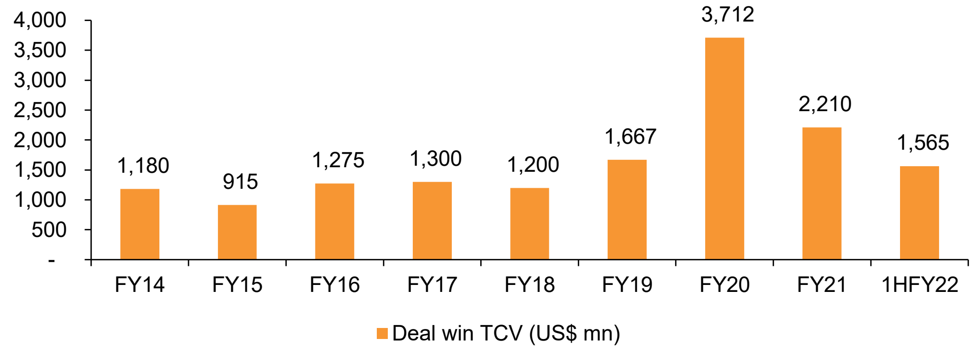
Source: Company, Emkay Research

Exhibit 3: Steady expansion in engagements with clients across buckets



Source: Company, Emkay Research

Exhibit 4: Deal wins momentum remains healthy



Source: Company, Emkay Research

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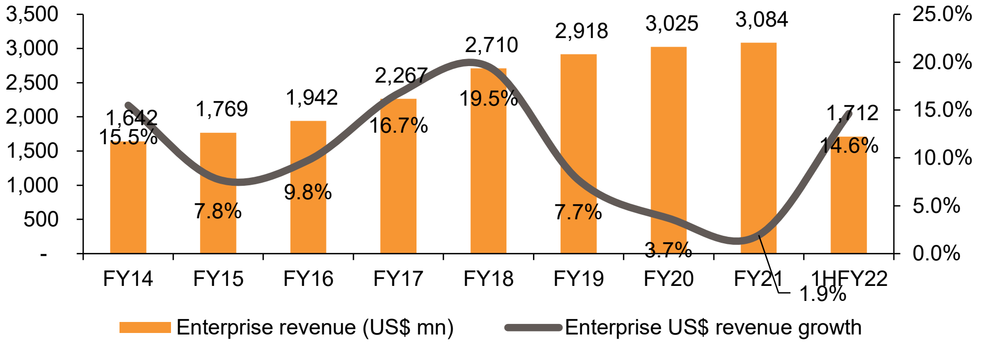
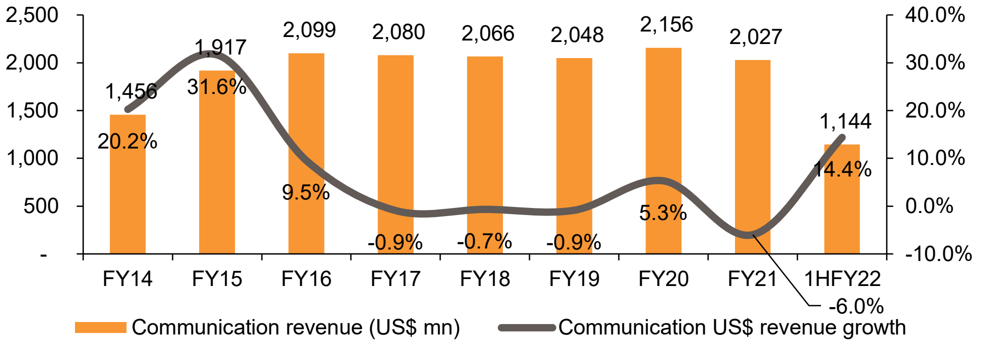
Confident of delivering double-digit organic revenue growth in FY22: TechM remains confident of delivering double-digit organic revenue growth on the back of broad-based growth, progress made on client mining, strong deal intake (over USD3bn), robust deal pipeline and improving win rates. Revenue growth was broad-based in H1, led by continued momentum in the Technology, CME, BFSI and Retail, Transport & Logistics verticals. It expects increased investments in identified growth verticals (HLS, Hitech), competencies (cloud, digital engineering, experience design, 5G) and investments in SaaS platforms (Factoreal, Yabx, Helthnxt) should support growth momentum. TechM is augmenting growth momentum through programmatic M&A, focusing on cloud, AI, cyber security, 5G, digital engineering, digital transformation & customer experience, and data & analytics. The company has spent USD640mn in M&A since 2019 and the acquired businesses reported a revenue CQGR of 8.7% (from pre-acquisition revenue run rate to Q2FY22 run rate). TechM has increased freshers intake and is also focusing on tier 2 cities (hired 5000+ employees in Q2) and near shore locations to tackle supply-side challenges.

Exhibit 5: Enterprise growth bounced back strongly post Covid-19-led disruptions



Note: The company has reclassified industry verticals from FY22 and thus prior data are not strictly comparable
Source: Company, Emkay Research

Exhibit 6: CME growth rate bounced back strongly in H1FY22



Note: The company has reclassified industry verticals from FY22 (report combined CME revenue vs earlier Communications) and thus prior data are not strictly comparable
Source: Company, Emkay Research

BPS revenue growth momentum to sustain and likely to lead overall growth

BPS has driven revenue growth for TechM for the last few years. BPS revenue was affected in H1CY20 due to Covid-19 but recovered strongly in subsequent quarters. Customer experience forms 57% of BPS revenue. From a segment perspective, 47% of revenue comes from CME and 57% from Enterprise. Management expects to sustain healthy growth momentum in the BPS business, considering a strong deal intake (USD567mn deal TCV in H1) and the highest-ever deal pipeline.

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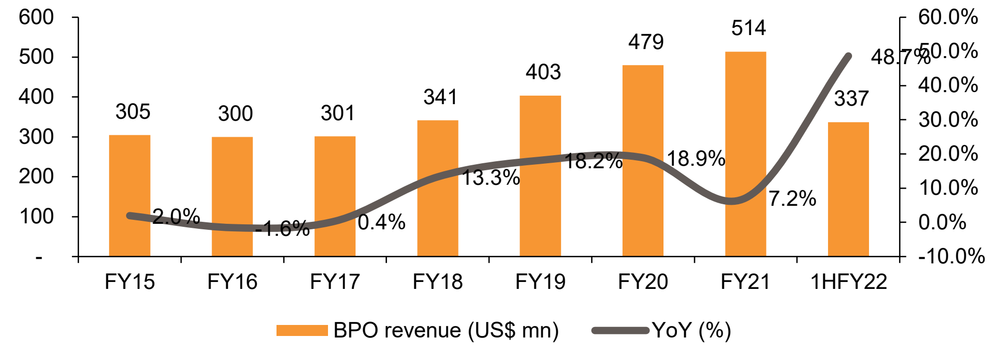
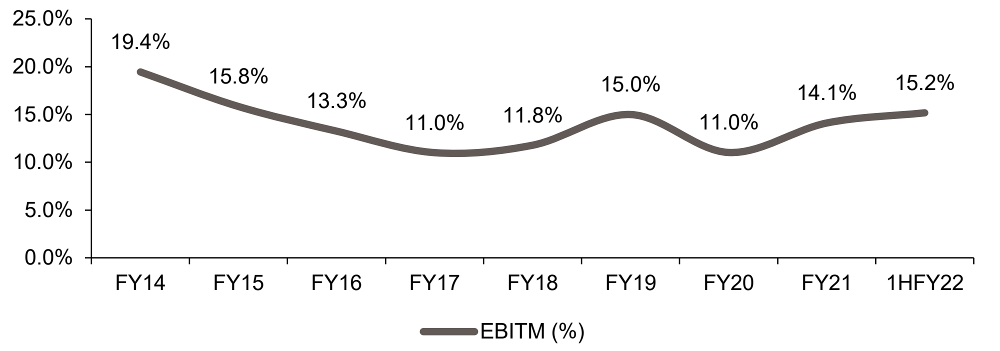
Exhibit 7: BPS-led revenue growth in the past; growth momentum to sustain



Source: Company, Emkay Research

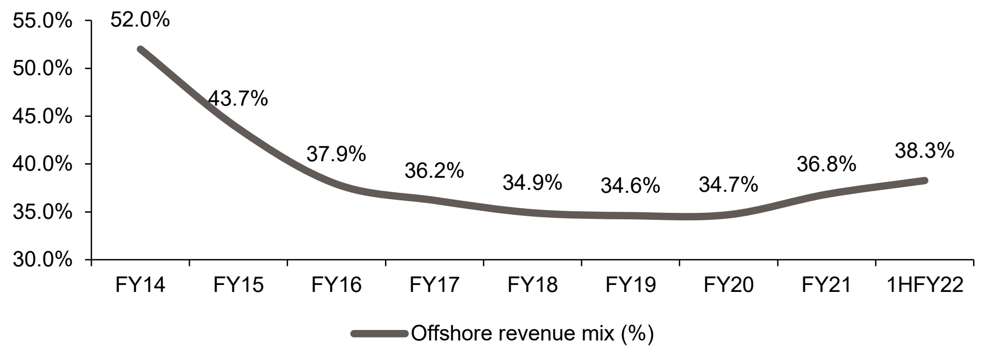
EBITM to sustain at 15% with upward bias in FY22: EBITM expanded by ~300bps YoY to 15.2% in H1FY22. TechM is confident of maintaining EBITM of at least 15% in FY22E, given sustained revenue growth momentum, automation-led operating efficiencies, delivery excellence initiatives, improvement in the performance of portfolio companies, subcontracting costs optimization, flattening employee pyramid (increased fresher intake by 3x), offshore shift and focus on yield at account/business level. These factors should negate the impact of supply-side challenges (recruitment and retention costs) and an expected normalization of travel and other costs.

Exhibit 8: Revenue growth, automation-led operating efficiencies, and improvement in profitability of portfolio companies drive margin improvement; confident to maintain it above 15%



Source: Company, Emkay Research

Exhibit 9: Shift in offshore revenue mix likely to sustain



Source: Company, Emkay Research

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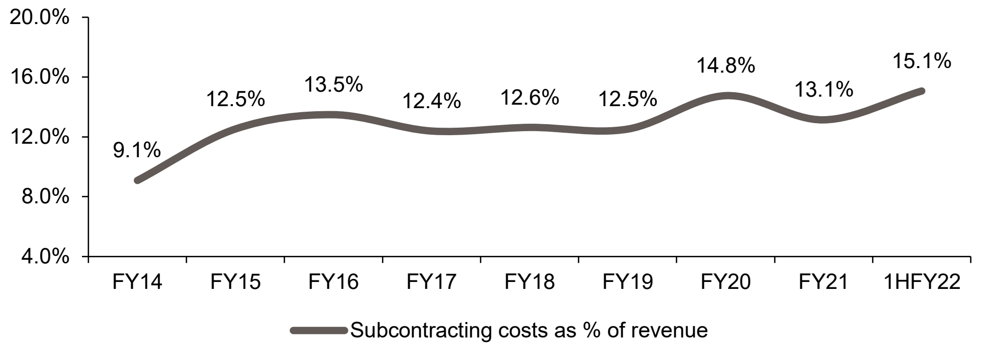
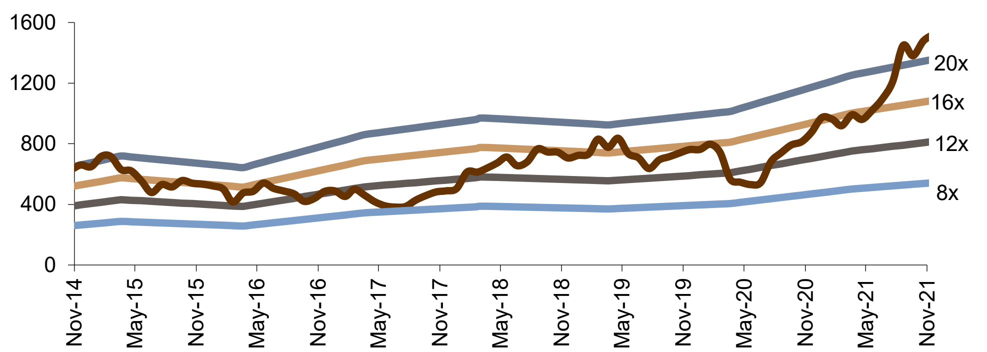
Exhibit 10: Subcontracting costs inched up due to travel restrictions and supply challenges



Source: Company, Emkay Research

Increased focus on Healthcare & Life Sciences and Hi-tech verticals to drive revenue growth: TechM's revenue from the Hi-tech vertical grew ~1.7x in the last three years. It offers product engineering, IT transformation and digital operations services to over 70 clients across semiconductor, hyperscalers and ISVs segments. Management said that the Hi-tech business is currently concentrated in the North America and the company plans to expand its presence in Japan, Europe, Taiwan and India to accelerate growth momentum. It also plans to expand offerings into newer verticals, such as Edutech and Fintech, to augment the growth trajectory. Healthcare & Life Sciences achieved a revenue run rate of over USD400mn and the company is focusing on Provider and Pharma & Life Sciences clients. Management expects TAM of USD40bn (10% CAGR FY25) in the Provider segment and company is betting big on EMR-EHR services, Infra & cloud services, and virtual patient care. Addressable market spend in the Pharma and Life Science segment is USD30bn (9% CAGR FY25). The company is focusing on research & clinical services, manufacturing 4.0, connected factories, and patient engagement and digital health.

Exhibit 11: TechM 1-year forward PE band



Source: Company, Emkay Research

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	**368,677**	**378,551**	**441,192**	**502,229**	**563,414**
Expenditure	**311,416**	**310,080**	**360,548**	**410,899**	**462,220**
EBITDA	**57,261**	**68,471**	**80,644**	**91,331**	**101,194**
Depreciation	16,633	15,084	14,272	16,061	16,659
EBIT	**40,628**	**53,387**	**66,371**	**75,269**	**84,536**
Other Income	10,005	6,131	7,628	6,517	7,935
Interest expenses	0	0	0	0	0
PBT	**50,633**	**59,518**	**73,999**	**81,787**	**92,471**
Tax	11,604	15,999	19,310	20,856	23,580
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	(1,301)	(762)	(243)	(880)	(920)
Reported Net Income	**40,330**	**44,281**	**54,933**	**61,811**	**69,811**
Adjusted PAT	**40,330**	**44,281**	**54,933**	**61,811**	**69,811**

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	4,359	4,370	4,374	4,374	4,374
Reserves & surplus	213,772	244,280	270,783	301,978	337,674
Net worth	**218,131**	**248,650**	**275,157**	**306,352**	**342,047**
Minority Interest	**3,933**	**3,795**	**3,795**	**3,795**	**3,795**
Loan Funds	**24,282**	**16,618**	**12,361**	**12,361**	**12,361**
Net deferred tax liability	(8,087)	(8,372)	(8,372)	(8,372)	(8,372)
Total Liabilities	**238,259**	**260,691**	**282,941**	**314,136**	**349,831**
Net block	**88,720**	**90,185**	**91,603**	**85,501**	**80,753**
Investment	**58,483**	**102,376**	**105,337**	**110,255**	**110,255**
Current Assets	**217,388**	**193,903**	**220,801**	**264,199**	**315,287**
Cash & bank balance	31,483	28,352	32,528	54,604	84,320
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	**126,833**	**126,956**	**135,300**	**146,319**	**156,964**
Net current assets	**90,555**	**66,947**	**85,501**	**117,879**	**158,324**
Misc. exp	0	0	0	0	0
Total Assets	**238,259**	**260,691**	**282,941**	**314,136**	**349,831**

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	**50,578**	**59,529**	**73,999**	**81,787**	**92,471**
Other Non-Cash items	(1,106)	5,343	243	880	920
Chg in working cap	(5,218)	15,635	(14,378)	(10,302)	(10,728)
Operating Cashflow	**43,581**	**80,938**	**54,827**	**67,570**	**75,741**
Capital expenditure	(12,971)	(17,065)	(15,007)	(9,960)	(11,910)
Free Cash Flow	**30,610**	**63,873**	**39,820**	**57,610**	**63,831**
Investments	20,420	(39,997)	(2,961)	(4,918)	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	**10,286**	**(54,501)**	**(17,968)**	**(14,878)**	**(11,910)**
Equity Capital Raised	(17,411)	1,257	4	0	0
Loans Taken / (Repaid)	(444)	(11,743)	(4,257)	0	0
Dividend paid (incl tax)	(24,917)	(17,594)	(28,429)	(30,616)	(34,115)
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	**(44,655)**	**(29,869)**	**(32,683)**	**(30,616)**	**(34,115)**
Net chg in cash	**9,212**	**(3,432)**	**4,176**	**22,076**	**29,716**
Opening cash position	20,427	30,167	26,904	31,080	53,156
Closing cash position	**31,483**	**28,352**	**32,528**	**54,604**	**84,320**

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	15.5	18.1	18.3	18.2	18.0
EBIT Margin	11.0	14.1	15.0	15.0	15.0
Effective Tax Rate	22.9	26.9	26.1	25.5	25.5
Net Margin	10.6	11.5	12.4	12.1	12.2
ROCE	22.3	23.9	27.2	27.4	27.9
ROE	19.2	19.0	21.0	21.3	21.5
RoIC	30.8	38.6	48.6	51.3	55.7

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	46.2	50.7	62.6	70.5	79.6
CEPS	65.3	67.9	78.9	88.8	98.6
BVPS	249.9	284.4	313.8	349.3	390.0
DPS	15.0	45.0	32.4	34.9	38.9

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	32.9	30.0	24.3	21.6	19.1
P/CEPS	23.3	22.4	19.3	17.1	15.4
P/BV	6.1	5.4	4.9	4.4	3.9
EV / Sales	3.4	3.2	2.7	2.4	2.0
EV / EBITDA	22.0	17.8	15.0	12.9	11.4
Dividend Yield (%)	1.0	3.0	2.1	2.3	2.6

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)
Net Debt/EBIDTA	(1.1)	(1.7)	(1.6)	(1.7)	(1.8)
Working Cap Cycle (days)	58.5	37.2	43.8	46.0	47.9

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	6.1	2.7	16.5	13.8	12.2
EBITDA	(9.6)	19.6	17.8	13.3	10.8
EBIT	(22.0)	31.4	24.3	13.4	12.3
PAT	(6.2)	9.8	24.1	12.5	12.9

Quarterly (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue	93,718	96,471	97,299	101,976	108,813
EBITDA	17,030	18,954	19,481	18,764	19,952
EBITDA Margin (%)	**18.2**	**19.6**	**20.0**	**18.4**	**18.3**
PAT	10,646	13,098	10,814	13,532	13,387
EPS (Rs)	**12.0**	**14.8**	**12.4**	**15.5**	**15.4**

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	35.8	35.8	35.8	35.7	35.7
FIIs	38.0	39.1	38.3	36.2	35.6
DIIs	14.2	13.5	14.4	16.5	16.9
Public and Others	12.0	11.6	11.5	11.6	11.8

Source: Capitaline

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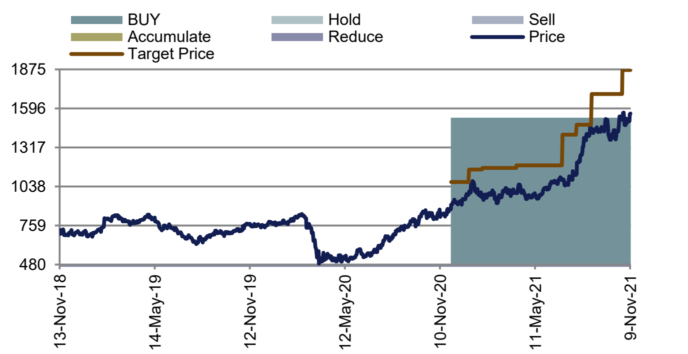
RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
25-Oct-21	1,524	1,870	12m	Buy	Dipeshkumar Mehta
2-Oct-21	1,371	1,700	12m	Buy	Dipeshkumar Mehta
27-Aug-21	1,445	1,700	12m	Buy	Dipeshkumar Mehta
29-Jul-21	1,128	1,480	12m	Buy	Dipeshkumar Mehta
2-Jul-21	1,089	1,410	12m	Buy	Dipeshkumar Mehta
27-Apr-21	969	1,190	12m	Buy	Dipeshkumar Mehta
5-Apr-21	998	1,190	12m	Buy	Dipeshkumar Mehta
18-Mar-21	996	1,170	12m	Buy	Dipeshkumar Mehta
15-Mar-21	1,027	1,170	12m	Buy	Dipeshkumar Mehta
30-Jan-21	961	1,170	12m	Buy	Dipeshkumar Mehta
4-Jan-21	1,002	1,160	12m	Buy	Dipeshkumar Mehta
18-Dec-20	934	1,070	12m	Buy	Dipeshkumar Mehta
1-Dec-20	907	1,070	12m	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



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Emkay Alpha Portfolio – Information Technology

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Sector

IT Services, ITeS and Software

Analyst bio

Dipesh is a seasoned Equities professional who has covered Technology sector for over 15 years. Dipesh has completed his B.E. in Information Technology from Sardar Patel University and MMS in Finance from Mumbai University.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Information Technology	**13.56**	**13.29**	**-2%**	**-27**	**100.00**
BirlaSoft	0.00	0.06	NA	6	0.47
Coforge	0.00	0.00	NA	0	0.00
Firstsource Solutions	0.00	0.04	NA	4	0.27
HCL Tech	1.21	1.30	7%	9	9.60
Infosys	6.12	6.27	2%	15	46.20
L&T Infotech	0.30	0.00	-100%	-30	0.00
Mindtree	0.28	0.00	-100%	-28	0.00
Mphasis	0.26	0.21	-22%	-6	1.51
Oracle Financial Services*	0.10	0.00	-100%	-10	0.00
Persistent Systems	0.00	0.35	NA	35	2.57
TCS	3.44	3.43	0%	-1	25.33
Tech Mahindra	0.93	0.96	4%	4	7.09
Wipro	0.92	0.67	-27%	-25	4.96
Cash	**0.00**	**0.27**	**NA**	**27**	**2.00**

Source: Emkay Research

** Not under coverage: Equal Weight*

High Conviction/Strong Over Weight   High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	11-Nov-20	12-May-21	11-Aug-21	11-Oct-21	10-Nov-21
EAP - Information Technology	100.0	146.2	176.2	214.8	229.7	226.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	139.3	165.0	200.3	214.8	212.2

**Performance measurement base date 1st April 2019*

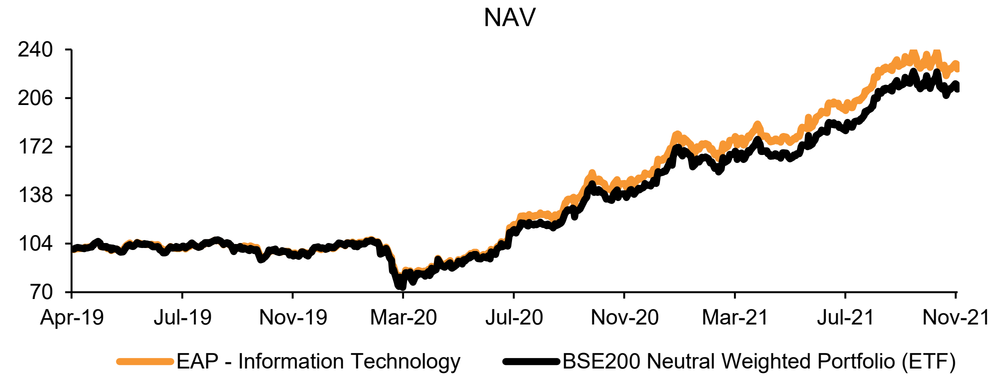
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Information Technology	-1.5%	5.4%	28.5%	54.8%
BSE200 Neutral Weighted Portfolio (ETF)	-1.2%	5.9%	28.6%	52.4%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty]

Please see our model portfolio (Emkay Alpha Portfolio): [SMID]

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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