

# Tech Mahindra

Refer to important disclosures at the end of this report

## Strong traction intact in Communications

- Tech Mahindra's Q3FY22 revenue came ahead of expectations, but EBITM missed estimates. Revenue grew 4.1% QoQ to USD1,534mn (4.7% CC; organic 4% CC), led by CME (6.9%) and Enterprise (3.2%) verticals. EBITM declined 40bps QoQ to 14.8%.
- Net new deal wins were robust, with a TCV of USD704mn, split across CME (USD226mn) and Enterprise (USD478mn). The deal pipeline remains healthy, and management expects healthy deal win momentum to continue.
- Management remains confident of sustaining revenue growth momentum on the back of broad-based demand, uptick in 5G-led spending, healthy deal intake and deal pipeline, and robust demand for digital engineering, cloud, data & analytics services.
- We tweaked our FY22-24 EPS estimates by -1.9% to 0.1%, factoring in the Q3 performance, recent acquisitions and higher ETR. We maintain Buy with a TP of Rs1,900 at 25x Dec'23E EPS, considering the improving revenue growth trajectory, dividend payout and reasonable valuations post recent corrections (~16% down in 1M).

**What we liked?** Broad-based growth, healthy deal intake (fourth quarter of over USD700mn deal wins), and progress across client buckets.

**What we did not like?** EBITM miss, elevated attrition rate (23.5% vs. 21.2% QoQ), weak OCF conversion (45.5% OCF/EBITDA in Q3).

**Broad-based revenue growth in Q3; growth momentum to continue:** Q3FY22 revenues grew 4.1% QoQ to USD1.53bn (4.7% CC), higher than our expectations. Organic growth stood at 4% QoQ. CME maintained its revenue growth momentum and grew by 6.9% QoQ CC, while Enterprise grew 3.2% CC (~2% organic growth). Network services led growth in CME. Revenue growth in Q3 was led by Retail, Transport & Logistics verticals (14.3% QoQ), CME (6.2%), Others (5.2%) and Manufacturing (3%) verticals. Revenue growth was driven by Digital Engineering, Cloud, Data & Analytics services. In Q3, the company signed net new deals worth USD704mn (USD226mn in CME and USD478mn in Enterprise). Management indicated that the deal pipeline remains robust. 5G, customer experience, data, analytics and cloud remain the key focus areas, and the company is actively strengthening its capabilities in these areas through M&A. Management remains fairly confident of sustaining revenue growth momentum on the back of broad-based demand, robust deal wins, strong deal pipeline and contribution from M&A. BFSI, Manufacturing, High-Tech and Healthcare verticals offer significant growth opportunities, and management sees potential to scale up the revenue run rate to over USD1bn for each.

**EBITM to sustain at current levels with an upward bias:** EBITM declined by 40bps QoQ to 14.8% on account of supply-side issues (increased subcontracting costs and skill-based salary hikes) and lower utilization, which was partly offset by revenue growth-led operating leverage and lower SG&A expenses (management indicated 70-80bps one-off benefits). Management remains confident of maintaining EBITM with an upward bias on the back of revenue growth-led operating leverage, employee pyramid rationalization, subcontracting costs optimization, increase in utilization (85-88% targeted range), pricing, and offshore shift, which will offset the impact of supply-side challenges (recruitment and retention costs) and expected normalization of travel costs and SG&A expenses.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology \(Page 10\)](#)

### Financial Snapshot (Consolidated)

| (Rs mn)           | FY20    | FY21    | FY22E   | FY23E   | FY24E   |
|-------------------|---------|---------|---------|---------|---------|
| Revenue           | 368,677 | 378,551 | 446,269 | 522,438 | 585,971 |
| EBITDA            | 57,261  | 68,471  | 81,212  | 94,723  | 105,528 |
| EBITDA Margin (%) | 15.5    | 18.1    | 18.2    | 18.1    | 18.0    |
| APAT              | 40,330  | 44,281  | 55,134  | 60,833  | 68,775  |
| EPS (Rs)          | 46.2    | 50.7    | 62.8    | 69.3    | 78.3    |
| EPS (% chg)       | (4.7)   | 9.6     | 23.9    | 10.3    | 13.1    |
| ROE (%)           | 19.2    | 19.0    | 21.0    | 20.9    | 21.3    |
| P/E (x)           | 32.6    | 29.7    | 24.0    | 21.7    | 19.2    |
| EV/EBITDA (x)     | 21.8    | 17.6    | 15.4    | 12.9    | 11.3    |
| P/BV (x)          | 6.0     | 5.3     | 4.8     | 4.3     | 3.9     |

Source: Company, Emkay Research

|                          |                     |
|--------------------------|---------------------|
| <b>CMP</b>               | <b>Target Price</b> |
| Rs 1,506                 | Rs 1,900 (▼)        |
| as of (February 2, 2022) | 12 months           |
| <b>Rating</b>            | <b>Upside</b>       |
| BUY (■)                  | 26.2 %              |

### Change in Estimates

|                         |           |
|-------------------------|-----------|
| EPS Chg FY22E/FY23E (%) | 0.1/(1.9) |
| Target Price change (%) | (1.6)     |
| Target Period (Months)  | 12        |
| Previous Reco           | BUY       |

### Emkay vs Consensus

| EPS Estimates           |          |       |
|-------------------------|----------|-------|
|                         | FY22E    | FY23E |
| Emkay                   | 62.8     | 69.3  |
| Consensus               | 64.4     | 73.5  |
| Mean Consensus TP (12M) | Rs 1,872 |       |

### Stock Details

|                              |               |
|------------------------------|---------------|
| Bloomberg Code               | TECHM IN      |
| Face Value (Rs)              | 5             |
| Shares outstanding (mn)      | 971           |
| 52 Week H/L                  | 1,838 / 894   |
| M Cap (Rs bn/USD bn)         | 1,462 / 19.55 |
| Daily Avg Volume (nos.)      | 2,862,000     |
| Daily Avg Turnover (US\$ mn) | 62.1          |

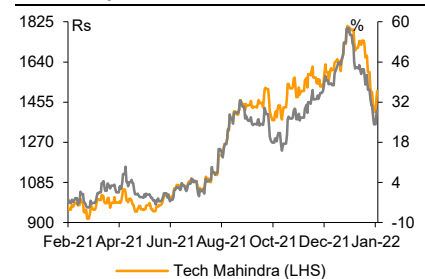
### Shareholding Pattern Dec '21

|                   |       |
|-------------------|-------|
| Promoters         | 35.7% |
| FIIIs             | 35.4% |
| DIIIs             | 17.2% |
| Public and Others | 11.8% |

### Price Performance

| (%)                | 1M   | 3M | 6M | 12M |
|--------------------|------|----|----|-----|
| Absolute           | (16) | -  | 26 | 64  |
| Rel. to Nifty (17) | 2    | 13 | 33 |     |

### Relative price chart



Source: Bloomberg

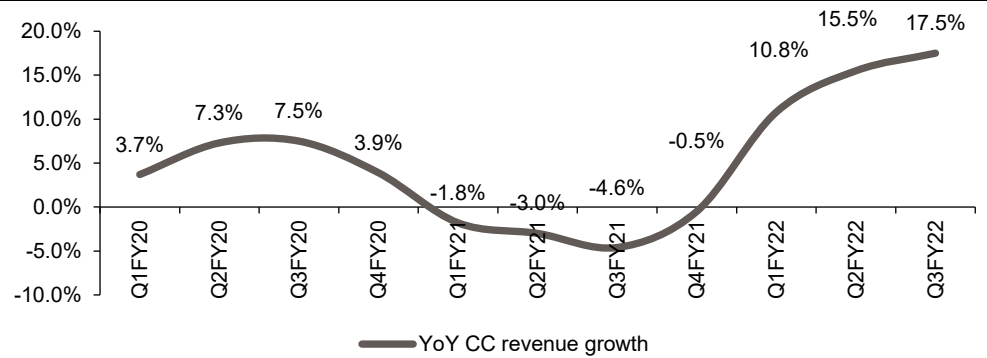
This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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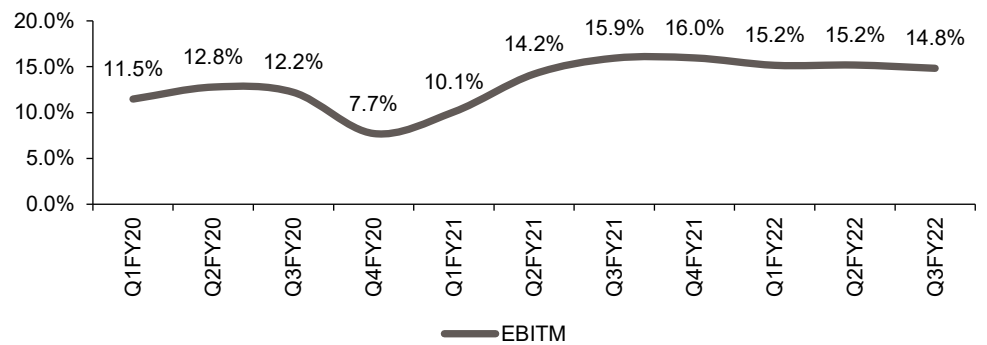
## Story in Charts

**Exhibit 1: YoY CC growth accelerated further in Q3**



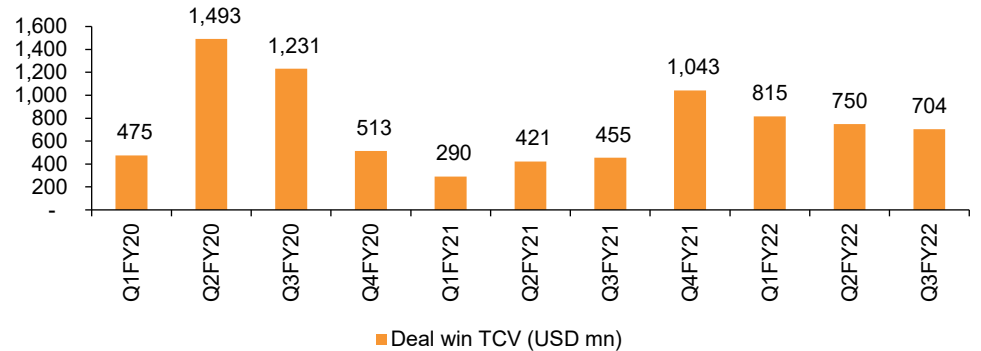
Source: Company, Emkay Research

**Exhibit 2: EBITM declined by 40bps QoQ in Q3**



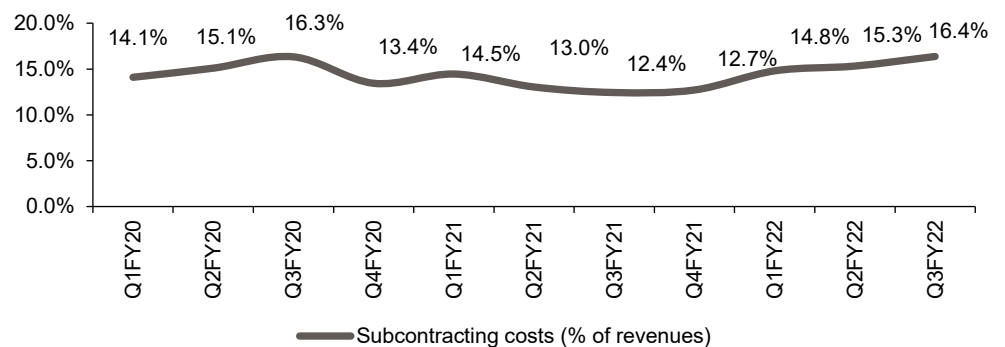
Source: Company, Emkay Research

**Exhibit 3: Deal intake remained healthy**



Source: Company, Emkay Research

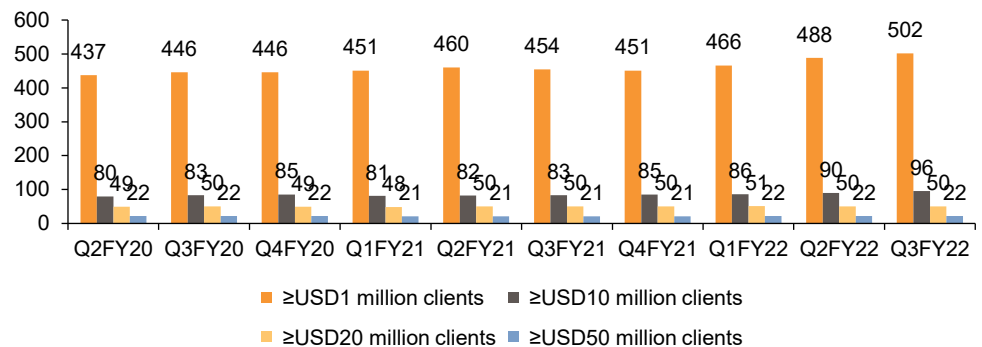
**Exhibit 4: Subcontracting costs continue to inch up**



Source: Company, Emkay Research

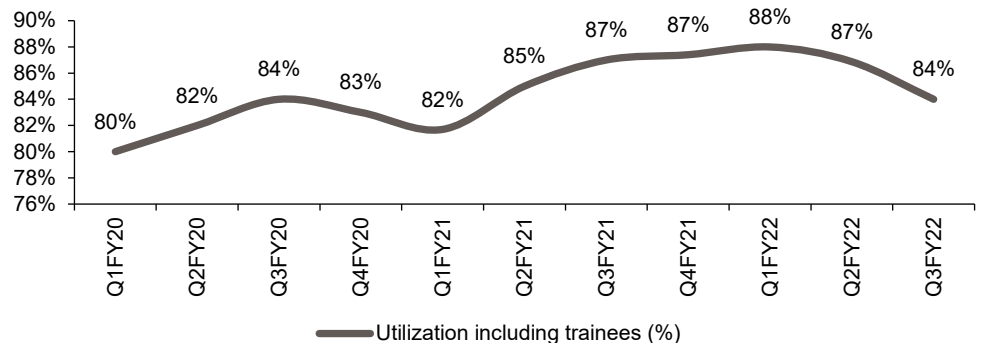
**CME leads the growth in Q3:** TechM's Q3FY22 revenues grew 4.1% QoQ to USD1.53bn (4.7% CC), higher than our estimates. The Enterprise business grew 3.2% QoQ CC, while Communication, Media & Entertainment (CME) grew 6.9% QoQ CC. Growth was led by Retail, Transport & Logistics verticals (14.3% QoQ), CME (6.2%), Others (5.2%) and Manufacturing verticals (3%). Technology (-1.9% QoQ) and BFSI (-1.5%) had a soft quarter on account of seasonality and furloughs, and management expects these verticals to strongly bounce back in Q4. Geographically, growth was led by Americas (6.5% QoQ), Europe (2.6%), and RoW (1.2%). The deal intake in Q3 was robust, with net new TCV of deals at USD704mn (USD226mn in CME and USD478mn in Enterprise; ~USD3.3bn in LTM). Management indicated that the deal pipeline remains robust even after healthy deal closure momentum in recent quarters. TechM added 6 and 4 clients, respectively, to its USD10mn+ and USD5mn+ client buckets. Management remains fairly confident of sustaining revenue growth momentum, given broad-based demand across verticals, robust deal wins and a strong deal pipeline.

**Exhibit 5: Improvement seen across client buckets**



Source: Company, Emkay Research

**Exhibit 6: Utilization moderates in Q3 due to higher fresher intake**



Source: Company, Emkay Research

## Other Takeaways

**Q3FY22 performance:** Revenue grew 4.1%/17.2% QoQ/YoY (4.7%/17.5% QoQ/YoY CC) to USD1.53bn. Revenue grew 5.2%/18.7% QoQ/YoY to Rs114.5bn. EBITM came in at 14.8%, down 40bps QoQ and 30bps lower than our estimates. The deal intake was strong, with net new TCV of USD704mn (USD226mn in CME and USD478mn in Enterprise). Attrition continued to inch up to 23.5% from 21.2% in Q2.

**Outlook:** TechM expects to maintain revenue growth momentum in coming quarters. EBITM is also expected to remain at current levels with an upward bias. Management continues to see traction in the areas of cloud, digital engineering, and data & analytics services. The deal pipeline remains healthy. Sustained revenue growth-led operating leverage, flattening employee pyramid, higher utilization and offshore shift should support margins and negate the impact of travel costs, SGA cost normalization and increase in costs due to supply-side constraints.

### Others

- The company plans to hire ~10,000 freshers in FY22 and hire more in FY23.
- Subcontracting costs remained high due to strong demand, tight job markets, travel restrictions, and timings of deal ramp-ups. Management expects it to moderate in FY23.
- The company has stepped up hiring from tier 2 cities (added over 8,000 employees over last few quarters) and near shore centers.
- DSO days stood at 101 in Q3 vs. 92 in Q2. The increase in DSO was on account of a delay in collections in few large clients due to the holiday season. Management suggested that the company has collected money in the first week of Jan'22.
- Quarterly annualized attrition has moderated sequentially.
- ETR is expected to be 26-27% on the normalized basis.
- Hedge book stood at USD2.2bn at Q3-end vs. USD2.39bn in Q2.

**Exhibit 7: Actual vs. Estimates (Q3FY22)**

| (in Rs mn)        |         | Estimates |           | % variation |           | Comment                                       |
|-------------------|---------|-----------|-----------|-------------|-----------|---|
|                   | Actual  | Emkay     | Consensus | Emkay       | Consensus |   |
| Revenues(US\$ mn) | 1,534   | 1,521     | 1,522     | 0.8%        | 0.8%      | Revenue growth was ahead of our expectations  |
| Sales             | 114,508 | 114,068   | 114,129   | 0.4%        | 0.3%      |   |
| EBIT              | 16,979  | 17,269    | 17,296    | -1.7%       | -1.8%     | Margins came below expectations               |
| EBIT margins, %   | 14.8%   | 15.1%     | 15.2%     | -30 bps     | -30 bps   |   |
| Profit            | 13,684  | 14,059    | 14,540    | -2.7%       | -5.9%     | Margin miss and higher ETR led to profit miss |

Source: Company, Emkay Research

**Exhibit 8: Quarterly snapshot**

| Rs mn                          | Q3FY21 | Q4FY21 | Q1FY22  | Q2FY22  | Q3FY22  | YoY (%) | QoQ (%) | FY22YTD | FY21YTD | YoY (%) |
|--------------------------------|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
| Revenues( in US\$ mn)          | 1,309  | 1,330  | 1,384   | 1,473   | 1,534   | 17.2    | 4.1     | 4,390   | 3,782   | 16.1    |
| Revenue                        | 96,471 | 97,299 | 101,976 | 108,813 | 114,508 | 18.7    | 5.2     | 325,297 | 281,252 | 15.7    |
| Operating Expenditure          | 77,516 | 77,818 | 83,212  | 88,861  | 93,908  | 21.1    | 5.7     | 265,981 | 232,262 | 14.5    |
| Cost of revenues               | 64,708 | 64,497 | 69,682  | 74,346  | 80,088  | 23.8    | 7.7     | 224,116 | 194,058 | 15.5    |
| as % of sales                  | 67.1   | 66.3   | 68.3    | 68.3    | 69.9    |         |         | 68.9    | 69.0    |         |
| SG&A expenses                  | 12,808 | 13,321 | 13,530  | 14,515  | 13,819  | 7.9     | -4.8    | 41,864  | 38,205  | 9.6     |
| as % of sales                  | 13.3   | 13.7   | 13.3    | 13.3    | 12.1    |         |         | 12.9    | 13.6    |         |
| EBITDA                         | 18,954 | 19,481 | 18,764  | 19,952  | 20,600  | 8.7     | 3.2     | 59,316  | 48,990  | 21.1    |
| Depreciation                   | 3,584  | 3,951  | 3,311   | 3,430   | 3,621   |         |         | 10,362  | 11,133  |         |
| EBIT                           | 15,371 | 15,530 | 15,453  | 16,522  | 16,979  | 10.5    | 2.8     | 48,954  | 37,857  | 29.3    |
| Other Income                   | 1,788  | (91)   | 2,492   | 2,467   | 1,892   |         |         | 6,851   | 6,222   | 10.1    |
| PBT                            | 17,159 | 15,439 | 17,945  | 18,989  | 18,871  | 10.0    | -0.6    | 55,805  | 44,079  | 26.6    |
| Total Tax                      | 4,263  | 4,998  | 4,286   | 5,572   | 5,082   |         |         | 14,940  | 11,001  |         |
| Adjusted PAT                   | 12,896 | 10,441 | 13,659  | 13,417  | 13,789  | 6.9     | 2.8     | 40,865  | 33,078  | 23.5    |
| (Profit)/loss from JV's/Ass/MI | 202    | 373    | -127    | -30     | -105    |         |         | -262    | 389     |         |
| APAT after MI                  | 13,098 | 10,814 | 13,532  | 13,387  | 13,684  | 4.5     | 2.2     | 40,603  | 33,467  | 21.3    |
| Extra ordinary items           | 0      | 0      | 0       | 0       | 0       |         |         | 0       | 0       |         |
| Reported PAT                   | 13,098 | 10,814 | 13,532  | 13,387  | 13,684  | 4.5     | 2.2     | 40,603  | 33,467  | 21.3    |
| Reported EPS                   | 15.0   | 12.4   | 15.5    | 15.3    | 15.6    | 4.2     | 2.0     | 46      | 38      | 21.0    |

| Margins (%)        | (bps) |      | (bps) |      | (bps) |       | (bps) |      | (bps) |     |
|--------------------|-------|------|-------|------|-------|-------|-------|------|-------|-----|
| EBIDTA             | 19.6  | 20.0 | 18.4  | 18.3 | 18.0  | (166) | (35)  | 18.2 | 17.4  | 82  |
| EBIT               | 15.9  | 16.0 | 15.2  | 15.2 | 14.8  | (110) | (36)  | 15.0 | 13.5  | 159 |
| EBT                | 17.8  | 15.9 | 17.6  | 17.5 | 16.5  | (131) | (97)  | 17.2 | 15.7  | 148 |
| PAT                | 13.6  | 11.1 | 13.3  | 12.3 | 12.0  | (163) | (35)  | 12.5 | 11.9  | 58  |
| Effective Tax rate | 24.8  | 32.4 | 23.9  | 29.3 | 26.9  | 209   | (241) | 26.8 | 25.0  | 181 |

Source: Company, Emkay Research

**Exhibit 9: Revenue by geographies**

| Particulars   | As a % of revenue |        |        |         |         |
|---------------|-------------------|--------|--------|---------|---------|
|               | Q3FY22            | Q2FY22 | Q3FY21 | QoQ (%) | YoY (%) |
| North America | 48.9%             | 47.8%  | 46.8%  | 6.5%    | 22.3%   |
| Europe        | 25.5%             | 25.9%  | 26.4%  | 2.6%    | 13.4%   |
| Rest of World | 25.6%             | 26.3%  | 26.8%  | 1.2%    | 11.9%   |
| Total         | 100%              | 100%   | 100%   | 4.1%    | 17.2%   |

Source: Company, Emkay Research

**Exhibit 10:**

| Particulars                             | As a % of revenue |        |        |         |         |
|---|-------------------|--------|--------|---------|---------|
|   | Q3FY22            | Q2FY22 | Q3FY21 | QoQ (%) | YoY (%) |
| Communication, Media & Entertainment    | 40.9%             | 40.1%  | 40.6%  | 6.2%    | 18.0%   |
| Manufacturing                           | 15.8%             | 16.0%  | 16.4%  | 3.0%    | 13.3%   |
| Technology, Media & Entertainment       | 8.4%              | 9.0%   | 8.5%   | -1.9%   | 17.0%   |
| Banking, financial services & insurance | 15.4%             | 16.3%  | 16.0%  | -1.5%   | 13.3%   |
| Retail, transport & logistics           | 8.5%              | 7.8%   | 8.1%   | 14.3%   | 23.9%   |
| Others                                  | 10.9%             | 10.8%  | 10.6%  | 5.2%    | 20.9%   |
| Total                                   | 100%              | 100%   | 100%   | 4.1%    | 17.2%   |

Source: Company, Emkay Research

**Exhibit 11: Clients data**

| Particulars                                     | Q3FY22 | Q2FY22 | Q3FY21 |
|---|--------|--------|--------|
| Client Concentration (%)                        |        |        |        |
| Top 5 clients                                   | 23%    | 22%    | 22%    |
| Top 10 clients                                  | 31%    | 31%    | 31%    |
| Top 20  | 42%    | 43%    | 42%    |
| Number of million dollar Clients (on LTM basis) |        |        |        |
| Million US\$ clients                            | 502    | 488    | 454    |
| 5 million US\$ clients                          | 173    | 169    | 162    |
| 10 million US\$ clients                         | 96     | 90     | 83     |
| 20 million US\$ clients                         | 50     | 50     | 50     |
| 50 million US\$ clients                         | 22     | 22     | 21     |

Source: Company, Emkay Research

**Exhibit 12: Segmental performance**

| Revenue (Rs mn) | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22  | Q2FY22  | Q3FY22  |
|-----------------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| IT              | 87,067 | 86,681 | 83,667 | 84,193 | 85,905 | 86,730 | 90,158  | 95,758  | 100,010 |
| BPO             | 9,479  | 8,221  | 7,396  | 9,525  | 10,566 | 10,569 | 11,818  | 13,055  | 14,498  |
| Total           | 96,546 | 94,902 | 91,063 | 93,718 | 96,471 | 97,299 | 101,976 | 108,813 | 114,508 |
| Growth YoY (%)  | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22  | Q2FY22  | Q3FY22  |
| IT              | 6.3%   | 6.9%   | 6.5%   | 2.4%   | -1.3%  | 0.1%   | 7.8%    | 13.7%   | 16.4%   |
| BPO             | 25.7%  | 4.8%   | -7.1%  | 12.7%  | 11.5%  | 28.6%  | 59.8%   | 37.1%   | 37.2%   |
| Total           | 7.9%   | 6.7%   | 5.2%   | 3.3%   | -0.1%  | 2.5%   | 12.0%   | 16.1%   | 18.7%   |
| EBITDA (%)      | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22  | Q2FY22  | Q3FY22  |
| IT              | 16.1%  | 14.1%  | 14.9%  | 17.8%  | 19.1%  | 19.1%  | 18.0%   | 18.4%   | 17.6%   |
| BPO             | 16.7%  | 14.9%  | 6.8%   | 21.9%  | 23.7%  | 28.0%  | 21.3%   | 18.2%   | 20.8%   |
| Total           | 16.2%  | 14.2%  | 14.3%  | 18.2%  | 19.6%  | 20.0%  | 18.4%   | 18.3%   | 18.0%   |

Source: Company, Emkay Research

**Exhibit 13: Changes in estimates**

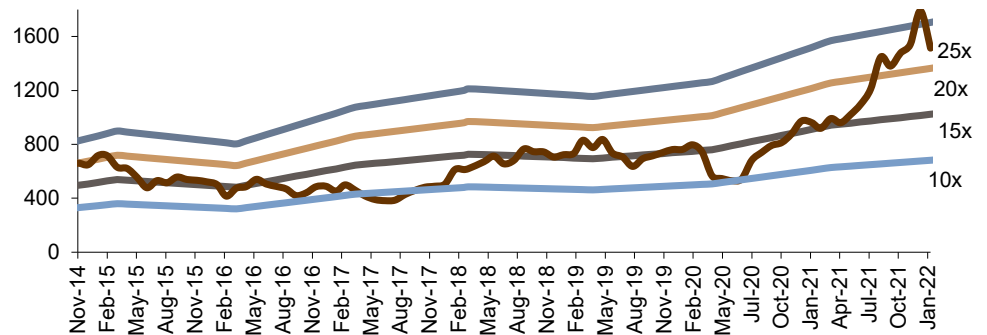
| (Rs mn)                 | FY22E   |         |        | FY23E   |         |        | FY24E   |         |        |
|-------------------------|---------|---------|--------|---------|---------|--------|---------|---------|--------|
|                         | Old     | New     | Change | Old     | New     | Change | Old     | New     | Change |
| US\$ Revenues (US\$ mn) | 5,936   | 6,003   | 1.1%   | 6,625   | 6,874   | 3.8%   | 7,287   | 7,561   | 3.8%   |
| YoY growth, %           | 16.1%   | 17.4%   |        | 11.6%   | 14.5%   |        | 10.0%   | 10.0%   |        |
| Revenues                | 441,776 | 446,269 | 1.0%   | 503,477 | 522,438 | 3.8%   | 564,763 | 585,971 | 3.8%   |
| EBIT (in Rs mn)         | 66,478  | 66,775  | 0.4%   | 75,496  | 77,824  | 3.1%   | 84,778  | 87,951  | 3.7%   |
| EBITM (%)               | 15.0    | 15.0    |        | 15.0    | 14.9    |        | 15.0    | 15.0    |        |
| Net Profits             | 55,012  | 55,134  | 0.2%   | 61,980  | 60,833  | -1.9%  | 69,996  | 68,775  | -1.7%  |
| EPS (Rs)                | 62.7    | 62.8    | 0.1%   | 70.7    | 69.3    | -2.0%  | 79.8    | 78.3    | -1.9%  |

Source: Company, Emkay Research

**Exhibit 14: Key Assumptions****Assumptions Table**

| (in Rs mn)                | FY22E | FY23E | FY24E |
|---------------------------|-------|-------|-------|
| USD revenue growth (%)    | 17.4% | 14.5% | 10.0% |
| USD/INR                   | 74.3  | 76.0  | 77.5  |
| INR revenue growth (%)    | 17.9% | 17.1% | 12.2% |
| EBIT margins (% of sales) | 15.0% | 14.9% | 15.0% |
| EPS growth (%)            | 23.9% | 10.3% | 13.1% |

Source: Company, Emkay Research

**Exhibit 15: TechM 1-year forward P/E chart**

Source: Company, Emkay Research

**Exhibit 16: Valuation Summary**

| Co Name               | Reco.      | CMP (Rs)     | Target Price (Rs) | USD revenue growth (%) |             |             | EPS (Rs)    |             |             | P/E (x)     |             |             | EV/EBITDA (x) |             |             |
|-----------------------|------------|--------------|-------------------|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|-------------|-------------|
|                       |            |              |                   | FY22E                  | FY23E       | FY24E       | FY22E       | FY23E       | FY24E       | FY22E       | FY23E       | FY24E       | FY22E         | FY23E       | FY24E       |
| TCS                   | BUY        | 3,801        | 4,150             | 15.9                   | 14.0        | 13.0        | 103.8       | 123.4       | 142.0       | 36.6        | 30.8        | 26.8        | 25.6          | 21.6        | 18.5        |
| Infosys               | BUY        | 1,772        | 2,160             | 20.7                   | 16.0        | 13.0        | 53.6        | 63.9        | 74.7        | 33.0        | 27.7        | 23.7        | 21.9          | 18.4        | 15.6        |
| Wipro                 | HOLD       | 577          | 700               | 27.6                   | 14.5        | 11.0        | 22.3        | 25.3        | 28.9        | 25.8        | 22.8        | 19.9        | 17.1          | 14.4        | 12.5        |
| HCL Tech              | BUY        | 1,133        | 1,460             | 13.0                   | 13.5        | 10.5        | 48.8        | 56.9        | 65.2        | 23.2        | 19.9        | 17.4        | 14.4          | 12.4        | 10.9        |
| <b>Tech Mahindra</b>  | <b>BUY</b> | <b>1,506</b> | <b>1,900</b>      | <b>17.4</b>            | <b>14.5</b> | <b>10.0</b> | <b>62.8</b> | <b>69.3</b> | <b>78.3</b> | <b>24.0</b> | <b>21.7</b> | <b>19.2</b> | <b>15.4</b>   | <b>12.9</b> | <b>11.3</b> |
| L&T Infotech          | HOLD       | 6,295        | 6,800             | 26.5                   | 21.0        | 16.0        | 131.3       | 162.1       | 191.7       | 47.9        | 38.8        | 32.8        | 35.2          | 28.1        | 23.7        |
| Mphasis               | BUY        | 3,147        | 3,780             | 22.2                   | 18.5        | 13.8        | 75.5        | 91.9        | 110.6       | 41.7        | 34.2        | 28.5        | 26.9          | 21.9        | 18.3        |
| Mindtree              | HOLD       | 3,984        | 4,550             | 31.2                   | 21.5        | 15.0        | 97.3        | 114.2       | 129.9       | 40.9        | 34.9        | 30.7        | 28.7          | 23.7        | 20.3        |
| Persistent Systems    | BUY        | 4,497        | 5,000             | 32.8                   | 25.0        | 17.0        | 87.4        | 108.2       | 130.4       | 51.4        | 41.6        | 34.5        | 34.3          | 26.7        | 22.0        |
| Coforge               | HOLD       | 4,791        | 5,300             | 38.5                   | 20.0        | 15.0        | 108.5       | 134.9       | 163.6       | 44.2        | 35.5        | 29.3        | 25.7          | 20.4        | 17.2        |
| Birlasoft             | BUY        | 472          | 550               | 16.5                   | 16.5        | 15.0        | 15.7        | 18.8        | 22.9        | 30.0        | 25.1        | 20.6        | 18.5          | 15.0        | 12.2        |
| Firstsource Solutions | BUY        | 161          | 230               | 18.1                   | 17.9        | 12.7        | 8.0         | 9.6         | 11.3        | 20.2        | 16.7        | 14.2        | 12.3          | 9.9         | 8.4         |
| eClerx                | BUY        | 2,450        | 2,700             | 32.1                   | 7.5         | 7.0         | 116.3       | 127.5       | 139.1       | 21.1        | 19.2        | 17.6        | 11.9          | 10.7        | 9.7         |

Source: Company, Emkay Research

**Key Financials (Consolidated)****Income Statement**

| Y/E Mar (Rs mn)                  | FY20           | FY21           | FY22E          | FY23E          | FY24E          |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>                   | <b>368,677</b> | <b>378,551</b> | <b>446,269</b> | <b>522,438</b> | <b>585,971</b> |
| <b>Expenditure</b>               | <b>311,416</b> | <b>310,080</b> | <b>365,057</b> | <b>427,715</b> | <b>480,443</b> |
| <b>EBITDA</b>                    | <b>57,261</b>  | <b>68,471</b>  | <b>81,212</b>  | <b>94,723</b>  | <b>105,528</b> |
| Depreciation                     | 16,633         | 15,084         | 14,438         | 16,899         | 17,576         |
| <b>EBIT</b>                      | <b>40,628</b>  | <b>53,387</b>  | <b>66,775</b>  | <b>77,824</b>  | <b>87,951</b>  |
| Other Income                     | 10,005         | 6,131          | 8,735          | 4,653          | 5,258          |
| Interest expenses                | 0              | 0              | 0              | 0              | 0              |
| <b>PBT</b>                       | <b>50,633</b>  | <b>59,518</b>  | <b>75,510</b>  | <b>82,476</b>  | <b>93,209</b>  |
| Tax                              | 11,604         | 15,999         | 20,063         | 21,444         | 24,234         |
| Extraordinary Items              | 0              | 0              | 0              | 0              | 0              |
| Minority Int./Income from Assoc. | (1,301)        | (762)          | 312            | 200            | 200            |
| <b>Reported Net Income</b>       | <b>40,330</b>  | <b>44,281</b>  | <b>55,134</b>  | <b>60,833</b>  | <b>68,775</b>  |
| <b>Adjusted PAT</b>              | <b>40,330</b>  | <b>44,281</b>  | <b>55,134</b>  | <b>60,833</b>  | <b>68,775</b>  |

**Balance Sheet**

| Y/E Mar (Rs mn)                            | FY20           | FY21           | FY22E          | FY23E          | FY24E          |
|--|----------------|----------------|----------------|----------------|----------------|
| Equity share capital                       | 4,359          | 4,370          | 4,382          | 4,382          | 4,382          |
| Reserves & surplus                         | 213,772        | 244,280        | 270,957        | 301,117        | 335,714        |
| <b>Net worth</b>                           | <b>218,131</b> | <b>248,650</b> | <b>275,339</b> | <b>305,499</b> | <b>340,096</b> |
| <b>Minority Interest</b>                   | <b>3,933</b>   | <b>3,795</b>   | <b>3,795</b>   | <b>3,795</b>   | <b>3,795</b>   |
| <b>Loan Funds</b>                          | <b>24,282</b>  | <b>16,618</b>  | <b>12,361</b>  | <b>12,361</b>  | <b>12,361</b>  |
| Net deferred tax liability                 | (8,087)        | (8,372)        | (8,372)        | (8,372)        | (8,372)        |
| <b>Total Liabilities</b>                   | <b>238,259</b> | <b>260,691</b> | <b>283,123</b> | <b>313,283</b> | <b>347,880</b> |
| <b>Net block</b>                           | <b>88,720</b>  | <b>90,185</b>  | <b>138,927</b> | <b>131,988</b> | <b>125,122</b> |
| <b>Investment</b>                          | <b>58,483</b>  | <b>102,376</b> | <b>65,337</b>  | <b>90,255</b>  | <b>120,255</b> |
| <b>Current Assets</b>                      | <b>217,388</b> | <b>193,903</b> | <b>217,210</b> | <b>245,600</b> | <b>268,812</b> |
| Cash & bank balance                        | 31,483         | 28,352         | 22,272         | 23,221         | 23,544         |
| Other Current Assets                       | 0              | 0              | 0              | 0              | 0              |
| <b>Current liabilities &amp; Provision</b> | <b>126,833</b> | <b>126,956</b> | <b>139,852</b> | <b>155,560</b> | <b>167,309</b> |
| <b>Net current assets</b>                  | <b>90,555</b>  | <b>66,947</b>  | <b>77,358</b>  | <b>90,040</b>  | <b>101,503</b> |
| Misc. exp                                  | 0              | 0              | 0              | 0              | 0              |
| <b>Total Assets</b>                        | <b>238,259</b> | <b>260,691</b> | <b>283,123</b> | <b>313,283</b> | <b>347,880</b> |

**Cash Flow**

| Y/E Mar (Rs mn)                       | FY20            | FY21            | FY22E           | FY23E           | FY24E           |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>PBT (Ex-Other income) (NI+Dep)</b> | <b>50,578</b>   | <b>59,529</b>   | <b>75,510</b>   | <b>82,476</b>   | <b>93,209</b>   |
| Other Non-Cash items                  | (1,106)         | 5,343           | (312)           | (200)           | (200)           |
| Chg in working cap                    | (5,218)         | 15,635          | (16,491)        | (11,733)        | (11,140)        |
| <b>Operating Cashflow</b>             | <b>43,581</b>   | <b>80,938</b>   | <b>53,081</b>   | <b>65,999</b>   | <b>75,211</b>   |
| Capital expenditure                   | (12,971)        | (17,065)        | (63,497)        | (9,460)         | (10,710)        |
| <b>Free Cash Flow</b>                 | <b>30,610</b>   | <b>63,873</b>   | <b>(10,415)</b> | <b>56,539</b>   | <b>64,501</b>   |
| Investments                           | 20,420          | (39,997)        | 37,039          | (24,918)        | (30,000)        |
| Other Investing Cash Flow             | 0               | 0               | 0               | 0               | 0               |
| <b>Investing Cashflow</b>             | <b>10,286</b>   | <b>(54,501)</b> | <b>(26,458)</b> | <b>(34,378)</b> | <b>(40,710)</b> |
| Equity Capital Raised                 | (17,411)        | 1,257           | 12              | 0               | 0               |
| Loans Taken / (Repaid)                | (444)           | (11,743)        | (4,257)         | 0               | 0               |
| Dividend paid (incl tax)              | (24,917)        | (17,594)        | (28,457)        | (30,672)        | (34,178)        |
| Other Financing Cash Flow             | 0               | 0               | 0               | 0               | 0               |
| <b>Financing Cashflow</b>             | <b>(44,655)</b> | <b>(29,869)</b> | <b>(32,703)</b> | <b>(30,672)</b> | <b>(34,178)</b> |
| <b>Net chg in cash</b>                | <b>9,212</b>    | <b>(3,432)</b>  | <b>(6,080)</b>  | <b>949</b>      | <b>323</b>      |
| Opening cash position                 | 20,427          | 30,167          | 26,904          | 20,824          | 21,773          |
| <b>Closing cash position</b>          | <b>31,483</b>   | <b>28,352</b>   | <b>22,272</b>   | <b>23,221</b>   | <b>23,544</b>   |

Source: Company, Emkay Research

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**Key Ratios**

| <b>Profitability (%)</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> | <b>FY24E</b> |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| EBITDA Margin            | 15.5        | 18.1        | 18.2         | 18.1         | 18.0         |
| EBIT Margin              | 11.0        | 14.1        | 15.0         | 14.9         | 15.0         |
| Effective Tax Rate       | 22.9        | 26.9        | 26.6         | 26.0         | 26.0         |
| Net Margin               | 10.6        | 11.5        | 12.4         | 11.7         | 11.8         |
| ROCE                     | 22.3        | 23.9        | 27.8         | 27.7         | 28.2         |
| ROE                      | 19.2        | 19.0        | 21.0         | 20.9         | 21.3         |
| RoIC                     | 30.8        | 38.6        | 41.4         | 39.6         | 43.8         |

| <b>Per Share Data (Rs)</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> | <b>FY24E</b> |
|----------------------------|-------------|-------------|--------------|--------------|--------------|
| EPS                        | 46.2        | 50.7        | 62.8         | 69.3         | 78.3         |
| CEPS                       | 65.3        | 67.9        | 79.2         | 88.5         | 98.3         |
| BVPS                       | 249.9       | 284.4       | 313.5        | 347.8        | 387.2        |
| DPS                        | 15.0        | 45.0        | 32.4         | 34.9         | 38.9         |

| <b>Valuations (x)</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> | <b>FY24E</b> |
|-----------------------|-------------|-------------|--------------|--------------|--------------|
| PER                   | 32.6        | 29.7        | 24.0         | 21.7         | 19.2         |
| P/CEPS                | 23.1        | 22.2        | 19.0         | 17.0         | 15.3         |
| P/BV                  | 6.0         | 5.3         | 4.8          | 4.3          | 3.9          |
| EV / Sales            | 3.4         | 3.2         | 2.8          | 2.3          | 2.0          |
| EV / EBITDA           | 21.8        | 17.6        | 15.4         | 12.9         | 11.3         |
| Dividend Yield (%)    | 1.0         | 3.0         | 2.2          | 2.3          | 2.6          |

| <b>Gearing Ratio (x)</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> | <b>FY24E</b> |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| Net Debt/ Equity         | (0.3)       | (0.5)       | (0.3)        | (0.3)        | (0.4)        |
| Net Debt/EBIDTA          | (1.1)       | (1.7)       | (0.9)        | (1.1)        | (1.2)        |
| Working Cap Cycle (days) | 58.5        | 37.2        | 45.1         | 46.7         | 48.6         |

| <b>Growth (%)</b> | <b>FY20</b> | <b>FY21</b> | <b>FY22E</b> | <b>FY23E</b> | <b>FY24E</b> |
|-------------------|-------------|-------------|--------------|--------------|--------------|
| Revenue           | 6.1         | 2.7         | 17.9         | 17.1         | 12.2         |
| EBITDA            | (9.6)       | 19.6        | 18.6         | 16.6         | 11.4         |
| EBIT              | (22.0)      | 31.4        | 25.1         | 16.5         | 13.0         |
| PAT               | (6.2)       | 9.8         | 24.5         | 10.3         | 13.1         |

| <b>Quarterly (Rs mn)</b> | <b>Q3FY21</b> | <b>Q4FY21</b> | <b>Q1FY22</b> | <b>Q2FY22</b> | <b>Q3FY22</b> |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue                  | 96,471        | 97,299        | 101,976       | 108,813       | 114,508       |
| EBITDA                   | 18,954        | 19,481        | 18,764        | 19,952        | 20,600        |
| <b>EBITDA Margin (%)</b> | <b>19.6</b>   | <b>20.0</b>   | <b>18.4</b>   | <b>18.3</b>   | <b>18.0</b>   |
| PAT                      | 13,098        | 10,814        | 13,532        | 13,387        | 13,684        |
| <b>EPS (Rs)</b>          | <b>14.8</b>   | <b>12.4</b>   | <b>15.5</b>   | <b>15.4</b>   | <b>15.7</b>   |

Source: Company, Emkay Research

| <b>Shareholding Pattern (%)</b> | <b>Dec-20</b> | <b>Mar-21</b> | <b>Jun-21</b> | <b>Sep-21</b> | <b>Dec-21</b> |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Promoters                       | 35.8          | 35.8          | 35.7          | 35.7          | 35.7          |
| FII                             | 39.1          | 38.3          | 36.2          | 35.6          | 35.4          |
| DII                             | 13.5          | 14.4          | 16.5          | 16.9          | 17.2          |
| Public and Others               | 11.6          | 11.5          | 11.6          | 11.8          | 11.8          |

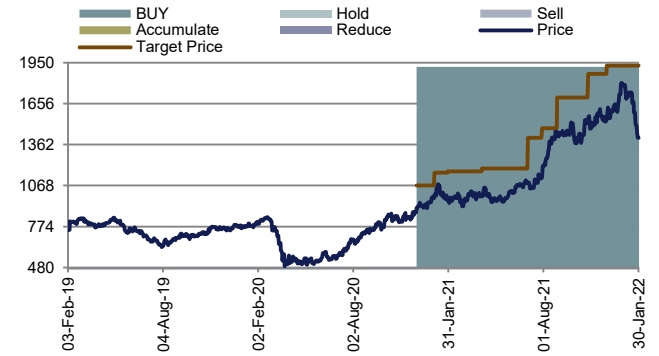
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

| Date      | Closing Price | TP    | Period (months) | Rating | Analyst           |
|-----------|---------------|-------|-----------------|--------|-------------------|
| 18-Jan-22 | 1,661         | 1,930 | 12m             | Buy    | Dipeshkumar Mehta |
| 01-Jan-22 | 1,791         | 1,930 | 12m             | Buy    | Dipeshkumar Mehta |
| 30-Nov-21 | 1,541         | 1,930 | 12m             | Buy    | Dipeshkumar Mehta |
| 11-Nov-21 | 1,522         | 1,870 | 12m             | Buy    | Dipeshkumar Mehta |
| 25-Oct-21 | 1,524         | 1,870 | 12m             | Buy    | Dipeshkumar Mehta |
| 02-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 |
| 02-Jul-21 | 1,089         | 1,410 | 12m             | Buy    | Dipeshkumar Mehta |
| 27-Apr-21 | 969           | 1,190 | 12m             | Buy    | Dipeshkumar Mehta |
| 05-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 |
| 04-Jan-21 | 1,002         | 1,160 | 12m             | Buy    | Dipeshkumar Mehta |
| 18-Dec-20 | 934           | 1,070 | 12m             | Buy    | Dipeshkumar Mehta |
| 01-Dec-20 | 907           | 1,070 | 12m             | Buy    | Dipeshkumar Mehta |

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Information Technology



### Analyst: Dipesh Mehta

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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 based on Current NAV | Change vs last published EAP (bps) |
|-------------------------------|---------------|--------------|------------|-------------|---------------------------------|------------------------------------|
| <b>Information Technology</b> | <b>14.01</b>  | <b>13.71</b> | <b>-2%</b> | <b>-29</b>  | <b>100.00</b>                   |                                    |
| BirlaSoft                     | 0.00          | 0.05         | NA         | 5           | 0.38                            | 0                                  |
| Coforge                       | 0.13          | 0.00         | -100%      | -13         | 0.00                            | 0                                  |
| Firstsource Solutions         | 0.00          | 0.05         | NA         | 5           | 0.38                            | 0                                  |
| HCL Tech                      | 1.18          | 1.24         | 5%         | 6           | 8.86                            | 0                                  |
| Infosys                       | 6.28          | 6.43         | 2%         | 15          | 45.89                           | 0                                  |
| L&T Infotech                  | 0.28          | 0.00         | -100%      | -28         | 0.00                            | 0                                  |
| Mindtree                      | 0.24          | 0.00         | -100%      | -24         | 0.00                            | 0                                  |
| Mphasis                       | 0.25          | 0.25         | -1%        | 0           | 1.79                            | 0                                  |
| Oracle Financial Services*    | 0.08          | 0.00         | -100%      | -8          | 0.00                            | 0                                  |
| Persistent Systems            | 0.00          | 0.34         | NA         | 34          | 2.44                            | 0                                  |
| TCS                           | 3.82          | 3.80         | -1%        | -2          | 27.16                           | 0                                  |
| Tech Mahindra                 | 0.91          | 0.88         | -3%        | -3          | 6.30                            | 0                                  |
| Wipro                         | 0.84          | 0.66         | -21%       | -18         | 4.70                            | 0                                  |
| <b>Cash</b>                   | <b>0.00</b>   | <b>0.30</b>  | <b>NA</b>  | <b>30</b>   | <b>2.10</b>                     | <b>0</b>                           |

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 | 29-Jan-21 | 30-Jul-21 | 29-Oct-21 | 31-Dec-21 | 31-Jan-22 |
| EAP - Information Technology            | 100.0    | 166.0     | 205.7     | 221.6     | 250.4     | 230.0     |
| BSE200 Neutral Weighted Portfolio (ETF) | 100.0    | 157.9     | 191.6     | 207.8     | 233.5     | 213.3     |

\*Performance measurement base date 1<sup>st</sup> April 2019

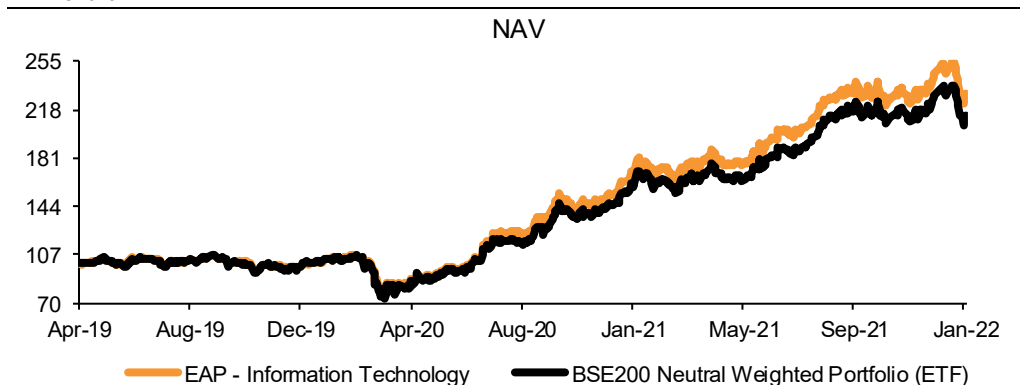
Source: Emkay Research

### Price Performance (%)

|   | 1m    | 3m   | 6m    | 12m   |
|---|-------|------|-------|-------|
| EAP - Information Technology            | -8.1% | 3.8% | 11.8% | 38.6% |
| BSE200 Neutral Weighted Portfolio (ETF) | -8.6% | 2.7% | 11.4% | 35.1% |

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](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

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

Completed Date: 02 Feb 2022 03:02:22 (SGT)

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