

Tech Mahindra

Strong operational performance

We maintain our BUY rating on Tech Mahindra based on better-than-expected growth and improving margin profile. USD revenue was up 2.8% QoQ CC vs. TCS/INFY/WIPRO/HCLT performance of +4.1/+5.3/+3.4/+3.5% QoQ CC respectively. Telecom growth bounced back to +4.4% QoQ (better than expected), led by rebound in Network Services and traction in BPM (+11.5% QoQ). Enterprise growth of 2.8% QoQ was supported by Retail and rebound in Manufacturing. Net-new TCW improved to USD 455mn (+8.1% QoQ), the pipeline remains robust and deal closures will improve. Spend on 5G (Networks & 5G Enterprise) is gradually increasing, and TechM, being the leader, is well-placed to benefit from this trend. Growth will be driven by both Telecom (Network services) and Enterprise (BFSI and Technology and Retail). Operational performance continues to improve, margin expansion of +173/373bps QoQ/YoY was better than expected, led by Offshoring, lower sub-con and higher utilisation. We increase our EPS estimate by +4.2/2.9% for FY22/23E to factor in better growth and margin profile. Our target price stands at Rs 1,110, based on 17x Dec-22E EPS (5Y average 1Y fwd P/E of 14x). The stock currently trades at a P/E of 18.1/16.2x FY21/22E EPS.

- 3QFY21 highlights:** TechM revenue stood at USD 1,309mn +3.4% QoQ (vs. our estimate of USD 1,293mn). Manufacturing/Retail grew at +4.7/+8.9% QoQ while BFSI was stable at +0.9% QoQ. EBIT margin stood at 15.9% (eight quarter high), expansion was led by offshoring, utilisation (+80bps), and operating leverage. The EBIT margin of portfolio companies (22% of revenue) stood at 8.1%. Wage hike will be given in a staggered manner and operating margin band will be 14-15%.
- Outlook:** We expect USD revenue growth of -1.2/+8.2/+8.9% in FY21/22/23E with Telecom growth at 5.6/7.2/7.4% and Enterprise growth at +1.9/8.9/9.9% for FY21/22/23E respectively. We estimate EBIT margin at 14.0/14.2/14.7% over FY21/22/23E, resulting in FY21-23E EPS CAGR at 12.5%.

Quarterly Financial summary

YE March (Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue (USD mn)	1,309	1,353	-3.3	1,265	3.4	4,971	5,182	5,121	5,540	6,033
Net Revenue	96.47	96.55	-0.1	93.72	2.9	347.42	368.68	380.36	418.32	464.55
EBIT	15.37	11.79	30.4	13.31	15.5	52.08	42.80	53.06	59.54	68.25
APAT	13.10	11.46	14.3	10.65	23.0	42.98	42.51	46.80	52.18	59.25
Diluted EPS (Rs)	14.9	13.0	14.3	12.1	23.0	48.9	48.3	53.2	59.3	67.4
P/E (x)						19.7	19.9	18.1	16.2	14.3
EV / EBITDA (x)						12.2	13.7	11.3	10.0	8.7
RoE (%)						22.0	20.2	20.5	21.0	21.8

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (Rs bn)	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Revenue (USD mn)	5,090	5,121	0.6	5,474	5,540	1.2	5,960	6,033	1.2
Revenue	377.78	380.36	0.7	413.30	418.32	1.2	458.96	464.55	1.2
EBIT	49.48	53.06	7.2	56.25	59.54	5.9	65.67	68.25	3.9
EBIT margin (%)	13.1	14.0	85bps	13.6	14.2	62bps	14.3	14.7	38bps
APAT	44.17	46.80	6.0	50.09	52.18	4.2	57.57	59.25	2.9
EPS (Rs)	50.2	53.2	6.0	57.0	59.3	4.2	65.5	67.4	2.9

Source: Company, HSIE Research

BUY

CMP (as on 29 Jan 2021)	Rs 961
Target Price	Rs 1,110
NIFTY	13,635

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 1,080	Rs 1,110
	FY21E	FY22E
EPS %	+6.0	+4.2

KEY STOCK DATA

Bloomberg code	TECHM IN
No. of Shares (mn)	968
MCap (Rs bn) / (\$ mn)	930/12,754
6m avg traded value (Rs mn)	4,614
52 Week high / low	Rs 1,097/461

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.5	44.8	21.8
Relative (%)	3.1	23.3	9.5

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	35.82	35.79
FIs & Local MFs	14.23	13.54
FPIs	38.87	39.04
Public & Others	11.08	11.63
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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