

Retail Equity Research

Tech Mahindra Limited

IT

BSE CODE: 532755

NSE CODE: TECHM

Bloomberg CODE: TECHM:IN

SENSEX: 58,788

BUY

12 Months Investment

Rating as per Large Cap

CMP Rs. 1,455 TARGET Rs. 1,724 RETURN 18%
(Closing: 03-02-22) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Robust performance; Promising Outlook

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

- Topline rose 18.7% YoY to Rs. 11,451cr in Q3FY22 (+5.2% QoQ) driven by robust demand across all segments.
- EBITDA margin shrank 160bps YoY to 18.0% (-30bps QoQ) on lower margin product mix and increased costs on the supply side and lower utilization. PAT grew by modest 4.5% YoY to Rs. 1,369cr (+2.2% QoQ).
- We expect company to perform well in upcoming quarters on the back of improvement in EBIT margins, restructuring within the segments and with continued pace of deal wins. Hence, we reiterate our BUY rating on the stock with a rolled forward target price of Rs. 1,724 based on 19x FY24E adj. EPS.

Topline continues to grow but margins contract

During Q3FY22, revenue from core business grew by 18.7% YoY to Rs. 11,451cr (+5.2% QoQ) led by robust demand across all segments. CME vertical remained the key player and displayed a growth of 6.2% QoQ, while Enterprise growth was 2.7% QoQ. EBITDA rose 8.7% YoY to Rs. 2,060cr (+3.2% QoQ), despite EBITDA margin shrinking 160bps YoY to 18.0% (-30bps QoQ) impacted by supply-side challenges around salary and subcontracting and lower utilization. PAT showed modest growth of 4.5% YoY to Rs. 1,369cr (+2.2% QoQ), partly offset by higher tax rates (26.9% in Q3FY22 vs. 24.8% in Q3FY21) and lower other Income (-20.9% QoQ to Rs 222cr).

Key concall highlights

- BFSI segment demerges into two - BFS and Insurance, as Insurance segment ramps up with recent win deals moving forward and requires more focus to move globally in particular segment
- Management claimed to be a \$6bn annual run rate company (+4.7% QoQ) with revised forecast to soon become \$7bn annual run rate company
- New deal wins worth of \$704mn this quarter, in line with last four quarters (\$226mn for CME and \$478mn for enterprise)
- Company added 4,000 plus associates this quarter

Decent performance overseas

Ahead of Indian and Mexico supply market, Company extended its supply base to new infant cities- Romania, Costa Rica, Latvia, Belarus for better product quality and lower costs. Moving forward, owing to the Blockchain investment in Europe, the company will better perform with familiar names like Web 3.0, NFT and Metaverse combined with the connectivity solutions around 5G and some of the user applications. While on the Geographical revenue front, America grew to 48.9% vs 47.8% in Q2FY22 and Europe and rest of the world declined by 40bps and 30bps QoQ respectively.

Valuation

Company is expected to fare well on the backdrop of continued growth in revenue along with restructuring in the segments, while continued pace of deal wins will further aid the revenue growth. Also, pressure in margin due to higher supply costs, should be offset by cost control initiatives taken by the management. Hence, we reiterate our BUY rating on the stock with a rolled forward target price of Rs. 1,724 based on 19x FY24E adj. EPS.

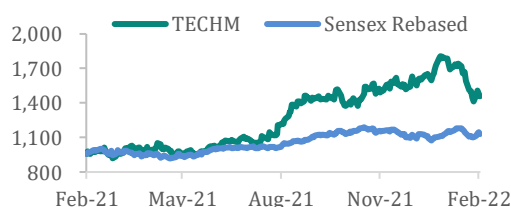
Company Data

Market Cap (cr)	Rs. 127,798
Enterprise Value (cr)	Rs. 139,746
Outstanding Shares (cr)	87.8
Free Float	64.0%
Dividend Yield	3.1%
52 week high	Rs. 1,838
52 week low	Rs. 915
6m average volume (lacs)	1.6
Beta	1.0
Face value	Rs. 5

Shareholding %	Q1FY22	Q2FY22	Q3FY22
Promoters	35.7	35.7	35.7
FII's	36.1	35.5	35.4
MFs/Insti	16.7	17.1	17.4
Public	8.6	8.7	8.7
Others	2.9	3.0	2.9
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-2.8%	18.7%	48.2%
Absolute Sensex	-1.6%	9.2%	17.0%
Relative Return*	-1.2%	9.5%	31.2%

*over or under performance to benchmark index



Consolidated (cr)	FY22E	FY23E	FY24E
Sales	44,182	51,375	61,404
Growth (%)	16.7	16.3	19.5
EBITDA	8,123	9,489	11,384
EBITDA Margin (%)	13.0	13.8	18.7
Adj. PAT	5,561	6,639	8,014
Growth (%)	24.2	19.4	20.7
Adj. EPS	63.0	75.2	90.7
Growth (%)	24.0	19.4	20.7
P/E	23.1	19.4	16.0
P/B	4.5	3.9	3.3
EV/EBITDA	17.2	14.6	12.2
ROE (%)	19.4	20.0	20.7
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q3FY22	Q3FY21	YoY Growth %	Q2FY22	QoQ Growth %	9MFY22	9MFY21	YoY Growth %
Revenue	11,451	9,647	18.7	10,881	5.2	32,530	28,125	15.7
EBITDA	2,060	1,896	8.7	1,995	3.2	5,932	4,899	21.1
EBITDA margins	18.0	19.6	(160bps)	18.3	(30bps)	18.2	17.4	80bps
Depreciation	362	358	1.0	343	5.6	1,036	1,113	(6.9)
EBIT	1,698	1,537	10.5	1,652	2.8	4,895	3,786	29.3
Interest	34	42	(19.5)	35	(4.2)	107	132	(18.8)
Other Income	222	221	0.5	281	(20.9)	791	756	4.7
Exceptional Items	-	-	-	-	-	-	-	-
PBT	1,886	1,716	9.9	1,898	(0.6)	5,579	4,409	26.5
Tax	508	426	19.2	557	(8.8)	1,494	1,100	35.8
Sh. of profit from Assoc.	-	-	-	-	-	-	-	-
Minority Interest	10	(20)	149.2	2	340.9	24	(38)	164.4
Reported PAT	1,369	1,310	4.5	1,339	2.2	4,060	3,347	21.3
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	1,369	1,310	4.5	1,339	2.2	4,060	3,347	21.3
No. of shares	88.5	88.1	0.5	88.4	0.1	88.5	88.1	0.5
Adj. EPS (Rs.)	15.5	14.9	4.0	15.1	2.1	45.9	38.0	20.7

Change in Estimates

	Old estimates		New estimates			Change %	
Year / Rs. cr	FY22E	FY23E	FY22E	FY23E	FY24E	FY22E	FY23E
Revenue	43,804	50,670	44,182	51,375	61,404	0.9	1.4
EBITDA	8,432	9,975	8,123	9,489	11,384	(3.6)	(4.9)
Margins (%)	19.3	19.7	18.3846	18.4709	18.5403	(90bps)	(120bps)
Adj. PAT	5,731	6,831	5,561	6,639	8,014	(3.0)	(2.8)
Adj. EPS	64.9	77.3	63.0	75.2	90.7	(3.0)	(2.8)

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	36,868	37,855	44,182	51,375	61,404
% change	6.1	2.7	16.7	16.3	19.5
EBITDA	5,726	6,847	8,123	9,489	11,384
% change	(3.9)	15.8	13.0	13.8	18.7
Depreciation	1,446	1,458	1,260	1,186	1,285
EBIT	4,063	5,339	6,863	8,304	10,099
Interest	192	174	138	157	129
Other Income	1,187	788	828	870	913
PBT	5,058	5,953	7,553	9,016	10,884
% change	(8.8)	17.7	26.9	19.4	20.7
Tax	1,160	1,600	1,964	2,344	2,830
Tax Rate (%)	22.9	26.9	26.0	26.0	26.0
Reported PAT	4,033	4,428	5,561	6,639	8,014
Adj*	218	51	-	-	-
Adj PAT	4,251	4,479	5,561	6,639	8,014
% change	(1.1)	5.4	24.2	19.4	20.7
No. of shares (cr)	88.0	88.2	88.3	88.3	88.3
Adj EPS (Rs.)	48.3	50.8	63.0	75.2	90.7
% change	1.3	5.1	24.0	19.4	20.7
DPS (Rs.)	15.0	45.0	20.1	24.1	29.0
CEPS (Rs.)	64.8	67.3	77.2	88.6	105.3

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Net inc. + Depn.	5,479	5,886	6,821	7,825	9,299
Non-cash adj.	(599)	1,181	28	33	40
Changes in W.C	(522)	1,027	(859)	(1,163)	(1,089)
C.F. Operation	4,358	8,094	5,990	6,694	8,250
Capital exp.	(829)	(573)	(1,325)	(1,336)	(1,596)
Change in inv.	1,927	(4,015)	(743)	(1,515)	(3,458)
Other invest.CF	(69)	(862)	(594)	(725)	(862)
C.F - Investment	1,029	(5,450)	(2,662)	(3,576)	(5,916)
Issue of equity	(1,741)	57	0	0	0
Issue/repay debt	(44)	(1,174)	(150)	(150)	(100)
Dividends paid	(2,492)	(1,759)	(1,762)	(2,104)	(2,540)
Other finance.CF	(188)	(110)	89	43	48
C.F - Finance	(4,466)	(2,987)	(1,823)	(2,211)	(2,592)
Chg. in cash	921	(343)	1,505	907	(257)
Closing cash	3,148	2,835	4,340	5,247	4,990

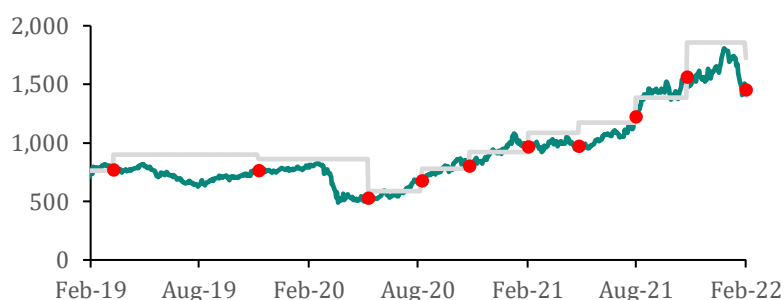
BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	3,148	2,835	4,340	5,247	4,990
Accounts Receivable	7,577	6,473	7,732	9,350	11,605
Inventories	36	24	117	157	212
Other Cur. Assets	12,411	15,923	16,911	18,597	22,025
Investments	380	665	670	699	729
Gross Fixed Assets	9,214	9,880	11,205	12,541	14,138
Net Fixed Assets	2,434	2,301	2,364	2,511	2,819
CWIP	277	280	283	286	289
Intangible Assets	6,067	6,466	6,516	6,566	6,566
Def. Tax (Net)	3,260	2,942	3,486	4,161	5,023
Other Assets	1,764	1,768	1,868	1,968	1,968
Total Assets	37,354	39,678	44,286	49,543	56,227
Current Liabilities	9,561	9,612	10,404	11,149	12,371
Provisions	669	781	806	831	856
Debt Funds	3,628	2,870	2,770	2,670	2,570
Other Liabilities	1,289	1,171	1,188	1,207	1,230
Equity Capital	436	437	437	437	437
Reserves & Surplus	21,377	24,428	28,274	32,809	38,282
Shareholder's Fund	21,813	24,865	28,711	33,246	38,719
Minority Interest	393	380	407	441	481
Total Liabilities	37,354	39,678	44,286	49,543	56,227
BVPS (Rs.)	248	282	325	376	438

RATIOS

Y.E March	FY20A	FY21A	FY22E	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	15.5	18.1	18.4	18.5	18.5
EBIT margin (%)	11.0	14.1	15.5	16.2	16.4
Net profit mgn.(%)	10.9	11.7	12.6	12.9	13.1
ROE (%)	18.5	17.8	19.4	20.0	20.7
ROCE (%)	15.7	19.0	21.5	22.8	24.2
W.C & Liquidity					
Receivables (days)	75.0	62.4	63.9	66.6	69.2
Inventory (days)	2.4	1.8	7.3	8.4	9.5
Payables (days)	218.5	204.4	204.4	197.6	197.6
Current ratio (x)	1.9	2.2	2.4	2.6	2.8
Quick ratio (x)	1.3	1.6	1.8	1.9	2.1
Turnover & Leverage					
Gross asset T.O (x)	4.1	4.0	4.2	4.3	4.6
Total asset T.O (x)	1.0	1.0	1.0	1.1	1.2
Int. coverage ratio (x)	21.2	30.7	49.6	52.9	78.4
Adj. debt/equity (x)	0.2	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	1.5	2.5	3.2	2.7	2.3
EV/EBITDA (x)	9.7	14.0	17.2	14.6	12.2
P/E (x)	11.7	19.5	23.1	19.4	16.0
P/BV (x)	2.3	3.5	4.5	3.9	3.3

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
12-May-20	BUY	585
10-Aug-20	BUY	779
28-Oct-20	BUY	923
4-Feb-21	BUY	1,087
29-Apr-21	BUY	1,175
3-Aug-21	BUY	1,384
28-Oct-21	BUY	1,857
4-Feb-22	BUY	1,724

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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