

CMP: ₹ 1202

Target: ₹ 1410 (17%)

Target Period: 12 months

May 15, 2022

BUY

## New deal TCV remains healthy

**About the stock:** Tech Mahindra (TechM) has over 1.2 lakh employees across 90 countries serving 1000+ clients with higher exposure to telecom (40% of revenues).

- Apart from telecom, the company caters to BFSI, manufacturing & retail
- TechM has grown organically & inorganically (dollar revenue CAGR of 6.6% over the past five years)

**Q4FY22 Results:** TechM reported weak numbers on the margins front.

- Dollar revenues increased 4.9% QoQ, while it was up 5.4% in CC
- EBIT margins dipped 160 bps QoQ at 13.2%
- New deal TCV at US\$3.3 billion (bn) for FY22

**What should investors do?** TechM's share price has grown by ~3.3x over the past five years (from ~₹ 383 in May 2017 to ~₹ 1,202 levels in May 2022).

- We continue to remain positive and retain our **BUY** rating on the stock

**Target Price and Valuation:** We value TechM at ₹ 1410 i.e. 17x P/E on FY24E EPS

**Key triggers for future price performance:**

- Healthy deal wins, traction in communication segment led by legacy modernisation, 5G, customer care, automation, network and cloud to drive revenues
- Pruning of low return geographies, acceleration in Europe and improving demand from lift & shift deals to drive 9.6% CAGR growth in FY22-24E
- Margins in the near term would be impacted due to continued higher employee and subcontractor costs but are expected to recover

**Alternate Stock Idea:** Apart from TechM, in our IT coverage we also like Infosys.

- Key beneficiary of improved digital demand, industry leading revenue growth and healthy capital allocation prompt us to be positive
- HOLD with a target price of ₹ 2,000

## Tech Mahindra

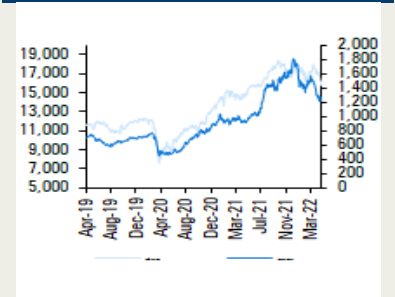
### Particulars

Particular	Amount
Market Cap (₹ Crore)	116,149
Total Debt (₹ Crore)	1,582
Cash and Invest (₹ Crore)	8,949
EV (₹ Crore)	108,605
52 week H/L	1837 / 941
Equity capital	439
Face value	₹ 5

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	36	36	36	35
FII	36	36	35	34
DII	17	17	17	18
Public	12	12	12	13

### Price Chart



### Recent event & key risks

- Order book remains healthy
- **Key Risk:** (i) Deceleration in deal pipeline, (ii) Inability to sustain cost savings.

### Research Analyst

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### Key Financial Summary

Key Financials	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 years CAGR (FY22-24E)
Net sales	36,868	37,855	44,646	8.9	51,569	56,822	12.8
EBITDA	5,726	6,847	8,020	13.9	9,231	10,058	12.0
EBITDA Margin (%)	15.5	18.1	18.0		17.9	17.7	
Net Profit	3,816	4,428	5,566	14.6	6,478	7,326	14.7
EPS (₹)	59.5	50	63.1		73	83	
P/E	20.2	23.9	19.1		16.4	14.5	
RoNW (%)	17.5	18	20.7		21	21	
RoCE (%)	18.3	20	22.5		24	24	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

- The company reported 4.9% QoQ growth in revenues at US\$1,608.1 mn while growth in CC terms was at 5.4% QoQ. In rupee terms, revenue grew 5.8% QoQ to ₹ 12,166 crore. For FY22, the company reported revenues of US\$5997.8 mn, growth of 17.3%
- The revenue growth was aided by CME vertical, which grew 4.1% QoQ, BFSI came back strongly after furlough impact in Q3 and grew by 18.5% QoQ while technology vertical also reported strong growth of 16.1% QoQ. Retail, transport was laggard with decline of 6.2% QoQ. In terms of geographies, Americas reported growth of 3.6% QoQ. Growth in Europe was stellar at 8.6% QoQ while RoW reported 3.6% QoQ growth
- The company indicated that communication will continue to be the growth driver for TechM, going ahead. The company indicated that digital transformation programs for telecom companies are different from other verticals as it runs on end-to-end of the telecom network. The company indicated that continued spend by telcos on traditional network infra as well as new areas of customer analytics, etc, would help with respect to differentiated offerings, especially on the enterprise side
- EBIT margins for the quarter were down 160 bps QoQ. Margins for the quarter were lower due to i) 80bps impact due to lower utilisation, higher salary and retention related costs and there was one-time favourable impact in costs in Q3, which was not there in Q4
- There was also an impact of 80 bps due to additional investments in hardware as well as impact of amortisation related to acquisitions. The company missed its FY22 EBIT margin guidance of 15% as EBIT margins came in at 14.6% for FY22. The company indicated that EBIT margins for FY23 may be in a similar range to that of FY22
- The company called out the following levers for margin improvement, going forward: i) Pricing: The company mentioned that they have received price hikes on some deals in H2FY22 but positive impact of the same was not visible in FY22 due to lag effect, the same is expected to have full impact in FY23 ii) Utilisation has come down in FY22 due to elevated fresh hiring (the company added ~10,000 freshers in FY22). Cost hits P&L immediately but billing happens with a lag of a couple of quarters, iii) the company mentioned that they will take a re-look at their portfolio and identify the geographies where they are getting margin below the company margins and will exit gradually, iv) The continued focus on off-shoring
- TechM indicated that they would pause acquisitions in FY23 and focus on integration of assets acquired. The company indicated that amortisation costs would largely be similar in FY23 and would taper down from FY24 onwards
- TechM indicated that tax for the quarter was lower due to reversal of some tax related provisioning related to SEZ establishments. The company opted for the new tax regime for FY22 and indicated that ETR would be in the range of 26-27% for FY23
- TechM indicated that they have made some leadership changes in a few of the geographies in Europe and North America last year and that has resulted in good growth in the region
- The company indicated that they are not seeing any issues as far as current macro headwinds are concerned. TechM said it may give an opportunity for clients to re-align their cost structure but they do not see any knee-jerk reaction in client spending

**Exhibit 1: Variance Analysis**

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	12,116	12,079	9,730	24.5	11,451	5.8	Revenue was aided by Europe geography while from Technology vertical
Employee expenses	8,560	8,515	6,450	32.7	8,009	6.9	
Gross Margin	3,556	3,563	3,280	8.4	3,442	3.3	
Gross margin (%)	29.3	29.5	33.7	-436 bps	30.1	-71 bps	
SG&A expenses	1,468	1,474	1,332	10.2	1,382	6.2	
EBITDA	2,088	2,090	1,948	7.2	2,060	1.4	
EBITDA Margin (%)	17	17.3	20	-278 bps	18	-75 bps	
Depreciation & amortisation	484.2	387	395.1	22.6	362.1	33.7	
EBIT	1,604	1,703	1,553	3.3	1,698	(5.5)	
EBIT Margin (%)	13.2	14.1	16	-272 bps	15	-159 bps	EBIT margins impacted due to higher employee costs and higher amortisation charges ( acquisition related)
Other income (less interest)	265	171	(9)	(3,007.7)	189	39.9	
PBT	1,869	1,874	1,544	21.0	1,887	(1.0)	
Tax paid	328	510	500	(34.4)	508	(35.5)	Tax was lower due to reversal of provisions made in the earlier quarters related to SEZ
PAT	1,506	1,354	1,081	39.2	1,369	10.0	
Adjusted PAT	1,506	1,354	1,081	39.2	1,369	10.0	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	49,833	51,569	3.5	55,484	56,822	2.4	revenue increased due to integration of recent acquisitions
EBIT	7,076	7,475	5.6	8,156	8,239	1.0	
EBIT Margin (%)	14.2	14.5	29 bps	14.7	14.5	-20 bps	We trim margins on elevated cost pressure amid supply side challenges
PAT	6,035	6,478	7.3	7,112	7,326	3.0	
EPS (₹)	68.4	73.4	7.3	80.6	83.0	3.0	

Source: Company, ICICI Direct Research

## Key Metrics

Exhibit 3: Geography wise break-up

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Revenue by geography (%)</b>					
Americas	45.5	46.7	47.8	48.9	48.3
Europe	26.5	27.2	25.9	25.5	26.4
Rest of World	28.0	26.1	26.3	25.6	25.3
<b>Growth QoQ (%)</b>					
Americas	-1.2	6.8	8.9	6.5	3.6
Europe	2.0	6.8	1.3	2.5	8.6
Rest of World	6.1	-3.0	7.2	1.4	3.6

Source: Company, ICICI Direct Research

Growth in revenues led by Europe region

Exhibit 4: Industry wise break-up

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Revenue by verticals (%)</b>					
Telecom	40.4	40.0	40.1	40.9	40.6
Manufacturing	16.4	16.5	16.0	15.8	14.9
Technology, media & entertainment	8.5	8.8	9.0	8.4	9.3
Banking, financial services & insurance	16.4	16.4	16.3	15.4	17.4
Retail, transport & logistics	7.7	7.7	7.8	8.5	7.6
Others	10.6	10.6	10.8	10.9	10.2
<b>Growth QoQ (%)</b>					
Telecom	3.4	3.0	6.7	6.2	4.1
Manufacturing	2.2	4.7	3.2	2.8	-1.1
Technology	-8.1	7.7	8.9	-2.8	16.1
Banking, financial services & insurance	4.1	4.1	5.8	-1.6	18.5
Retail, transport & logistics	-1.0	4.1	7.8	13.5	-6.2
Others	-0.3	4.1	8.4	5.1	-1.9

Source: Company, ICICI Direct Research

Technology and Banking along with CME drives growth

Exhibit 5: Client & human resource matrix

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Client Metrics</b>					
≥ \$1 million clients	451	466	488	502	524
≥ \$5 million clients	169	168	169	173	174
≥ \$10 million clients	85	86	90	96	97
≥ \$20 million clients	50	51	50	50	54
≥ \$50 million clients	21	22	22	22	23
<b>Headcount, Attrition, Utilization</b>					
Total Employees	121054	126263	141193	145067	151173
IT Attrition (LTM)	13.0	17.0	21.0	23.5	23.5
IT Utilization % (Excluding Trainees)	87.0	89.0	89.0	86.0	84.2

Source: Company, ICICI Direct Research

LTM attrition was flat QoQ

## Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Net sales</b>	<b>37,855</b>	<b>44,646</b>	<b>51,569</b>	<b>56,822</b>
Growth (%)	3	18	16	10
COGS (employee expenses)	25,856	30,972	35,583	39,321
Gross profit	12,000	13,674	15,987	17,501
S,G&A expenses	5,153	5,654	6,756	7,444
Total Operating Expenditure	31,008	36,626	42,339	46,765
<b>EBITDA</b>	<b>6,847</b>	<b>8,020</b>	<b>9,231</b>	<b>10,058</b>
Growth (%)	20	17	15	9
Depreciation	1,508	1,520	1,756	1,818
Interest	174	163	163	163
Other Income	787	1,112	1,465	1,644
PBT	5,952	7,449	8,777	9,720
Total Tax	1,600	1,822	2,238	2,333
Exceptional item	-	-	-	-
<b>PAT</b>	<b>4,428</b>	<b>5,566</b>	<b>6,478</b>	<b>7,326</b>
Growth (%)	16	26	16	13
EPS (₹)	50.2	63.1	73.4	83.0

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit before Tax	5,953	7,452	8,777	9,720
Add: Depreciation	1,508	1,520	1,756	1,818
(Inc)/dec in Current Assets	1,646	(3,362)	(2,475)	(1,884)
Inc/(dec) in CL and Provisions	(83)	1,928	1,716	1,302
Taxes paid	(1,415)	(2,314)	(2,238)	(2,333)
<b>CF from operating activities</b>	<b>8,094</b>	<b>5,285</b>	<b>6,798</b>	<b>7,707</b>
(Inc)/dec in Investments	(5,149)	1,188	-	-
(Inc)/dec in Fixed Assets	(573)	(835)	(1,289)	(1,421)
Others	221	108	901	1,079
<b>CF from investing activities</b>	<b>(5,450)</b>	<b>482</b>	<b>(389)</b>	<b>(341)</b>
Issue/(Buy back) of Equity	57	87	-	-
Inc/(dec) in loan funds	(795)	(163)	-	-
Dividend paid & dividend tax	(1,759)	(3,981)	(2,915)	(3,297)
Inc/(dec) in debentures	-	-	-	-
Finance charges	(558)	(123)	(163)	(163)
<b>CF from financing activities</b>	<b>(2,987)</b>	<b>(4,667)</b>	<b>(3,428)</b>	<b>(3,809)</b>
Net Cash flow	(343)	1,100	2,982	3,556
Cash by acquisition	-	-	-	-
Opening Cash	3,017	2,835	3,975	6,957
<b>Cash carried to B/S</b>	<b>2,835</b>	<b>3,975</b>	<b>6,957</b>	<b>10,513</b>

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	437	439	439	439
Share application money	-	-	-	-
Reserve and Surplus	24,428	26,447	30,010	34,039
Total Shareholders funds	24,865	26,886	30,448	34,478
Minority Interest	380	495	559	623
Total Debt	1,662	1,582	1,582	1,582
Other long term liabilities	3,990	4,843	4,843	4,843
<b>Total Liabilities</b>	<b>30,897</b>	<b>33,806</b>	<b>37,432</b>	<b>41,526</b>
<b>Assets</b>				
Net Block	3,470	3,620	3,309	3,261
Capital WIP	118	165	165	165
Investments	10,238	4,884	4,887	4,889
Deferred tax assets	913	819	819	819
Goodwill on consolidation	4,008	7,426	7,426	7,426
Debtors	6,475	11,934	13,785	15,189
Loans and Advances (short)	-	-	-	-
Other non-current assets	3,794	4,198	4,191	4,192
Cash	2,835	3,975	6,957	10,513
Other current assets	6,261	4,071	4,703	5,182
Total Current Assets	25,258	24,457	29,921	35,360
Trade payables	2,785	4,095	4,730	5,211
Current liabilities	5,465	6,299	7,276	8,017
Provisions	531	672	776	855
Total Current Liabilities	8,782	11,065	12,781	14,083
<b>Application of Funds</b>	<b>30,897</b>	<b>33,806</b>	<b>37,432</b>	<b>41,525</b>

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	50.2	63.1	73.4	83.0
Cash EPS	67.3	80.3	93.3	103.7
BV	281.8	304.7	345.1	390.8
DPS	45.0	28.4	33.0	28.4
Cash Per Share	32.1	45.0	78.8	119.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	18.1	18.0	17.9	17.7
PAT Margin	11.7	12.5	12.6	12.9
<b>Return Ratios (%)</b>				
RoE	17.8	20.7	21.3	21.2
RoCE	19.8	22.5	23.9	23.8
RoIC	29.2	25.8	29.1	31.4
<b>Valuation Ratios (x)</b>				
P/E	23.9	19.1	16.4	14.5
EV / EBITDA	15.4	13.6	11.5	10.2
EV / Net Sales	2.8	2.4	2.1	1.8
Market Cap / Sales	3.1	2.6	2.3	2.0
Price to Book Value	4.3	3.9	3.5	3.1
<b>Solvency Ratios</b>				
Debt/EBITDA	0.2	0.2	0.2	0.2
Debt/Equity	0.1	0.1	0.1	0.0
Current Ratio	1.5	1.5	1.4	1.4
Quick Ratio	1.5	1.4	1.4	1.4

Source: Company, ICICI Direct Research

**Exhibit 10: ICICI Direct coverage universe (IT)**

Company Name	CMP	TP (₹)	Rating	Mcap (₹)	EPS (₹)			P/E			RoCE (x)			RoE(x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
HCL Tech (HCLTEC)	1,054	1,220	HOLD	286,115	49.8	51.4	55.4	21.2	20.5	19.0	24.2	25.2	26.1	21.8	21.3	22.0
Infosys (INFTEC)	1,503	2,000	HOLD	632,420	52.1	61.0	71.1	28.8	24.6	21.1	36.0	36.8	39.6	29.2	30.5	32.8
TCS (TCS)	3,413	4,120	HOLD	1,262,653	104.7	119.3	133.0	32.6	28.6	25.7	51.4	50.8	49.5	43.0	43.2	41.5
Tech M (TECMAH)	1,202	1,410	BUY	116,844	63.1	73.4	83.0	19.1	16.4	14.5	22.5	23.9	23.8	20.7	21.3	21.2
Wipro (WIPRO)	469	575	HOLD	256,826	22.3	24.5	27.4	21.0	19.1	17.1	18.1	19.8	21.2	18.6	19.6	21.1
LTI (LTINFNC)	4,108	4,990	HOLD	71,982	130.8	140.3	165.9	31.4	29.3	24.8	32.3	29.0	29.6	26.1	24.1	24.4
Mindtree (MINCON)	2,942	3,700	HOLD	48,491	100.3	109.8	127.9	29.3	26.8	23.0	38.0	35.4	34.5	30.2	27.4	26.6
Coforge (NIITEC)	3,744	4,370	BUY	22,804	106.5	147.8	175.0	35.2	25.3	21.4	25.6	31.5	31.8	24.2	28.4	28.3
TeamLease (TEASER)	3,449	4,500	BUY	5,896	68.2	101.0	125.1	50.6	34.1	27.6	16.3	19.9	20.3	15.7	18.7	19.0
Infoedge (INFEDG)	3,464	5,800	BUY	43,539	37.1	51.0	55.1	93.4	68.0	62.9	13.1	16.7	16.7	9.9	12.6	12.6

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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