

Tech Mahindra Limited



Result Update

16th May, 2022

Tech Mahindra Limited.

Deal momentum in Telecom drive the growth

CMP INR 1,190	Target INR 1,447	Potential Upside 21.6%	Market Cap (INR Mn) INR 1,154,286	Recommendation BUY	Sector Internet Software & Services
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Synopsis:

Tech Mahindra Ltd (TECHM) Q4FY22 performance was marginally higher than with our estimate. Dollar Revenue was up 4.9% QoQ and in CC term grew by 5.4% QoQ to USD 1,608Mn (KRChoksey est. USD 1,604Mn). Rupee revenue grew by 5.2% QoQ to INR 1,21,163Mn (KRChoksey est. INR 1,20,635Mn), driven by growth in communication/enterprise at 4.8%/5.8% in constant currency term with ~2.5% contribution from M&A. TCV deal win grew by 43.6% QoQ to USD 1Bn in Q4, was driven by telecom (TCV of USD 645Mn after AT&T deal) and enterprise (TCV of USD 366Mn). Reported operating margin contracted by 159bps QoQ to 13.2%, due to impacted by lower utilization, higher salary & retention cost, and higher depreciation & amortization charge. Enterprise was led by inorganic contribution which showed up in BFSI (18.4%) and technology (15.1%) verticals. Reported Net profit grew by 10% QoQ to INR 15,056Mn with margin of 12.4%. Though management believes that there will be improvement in profitability due to better pricing but we expect that there is a limited scope for improvement due to seasonality and wage hike (July) impacts. Our target price of INR 1,459 is based on 18x Mar-24E EPS with EPS CAGR of 13.4% over FY22-24E.

MARKET DATA

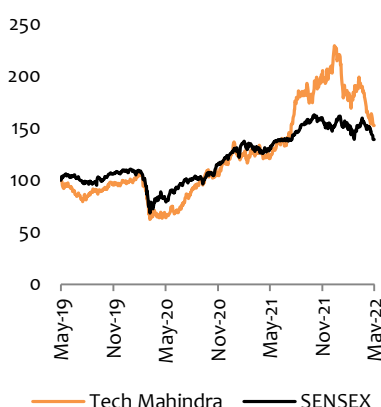
KEY FINANCIALS

Shares outs (Mn)	874
Mkt Cap (INR Mn)	1,154,286
52 Wk H/L (INR)	1837.75/941.45
Volume Avg (3m K)	2965.3
Face Value (INR)	5
Bloomberg Code	TECHM IN

(INR Mn)	Q4FY22A	Q3FY22A	Q4FY21A	QoQ	YoY	KRChoksey Est.	Variance (%)
USD Revenue	1,608	1,534	1,330	4.9%	20.9%	1,604	0.2%
Revenue	1,21,163	1,14,508	97,299	5.8%	24.5%	1,20,635	0.4%
EBIT	16,042	16,979	16,036	-5.5%	0.0%	16,935	-5.3%
PAT	15,056	13,685	10,813	10.0%	39.2%	13,637	10.4%
OPM (%)	13.2%	14.8%	16.5%	-159 bps	-324 bps	14.0%	-80 bps
NPM(%)	12.4%	12.0%	11.1%	48 bps	131 bps	11.3%	112 bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Communication and enterprise businesses to drive growth

Dollar Revenue was up 4.9% QoQ and in CC term grew by 5.4% QoQ to USD 1,608Mn (KRChoksey est. USD 1,604Mn). Rupee revenue grew by 5.2% QoQ to INR 1,21,163Mn (KRChoksey est. INR 1,20,635Mn), driven by growth in communication/enterprise at 4.8%/5.8% in constant currency term with ~2.5% contribution from M&A. TCV deal win grew by 43.6% QoQ to USD 1Bn in Q4, was driven by telecom (TCV of USD 645Mn after AT&T deal) and enterprise (TCV of USD 366Mn). BFSI/technology verticals registered healthy growth of +18.4%/+15.1% QoQ, while retail/manufacturing declined by -6.5%/1.3% QoQ. TechM to deliver a good revenue performance going forward, driven by continued spending from telcos and enterprises, as visible in its order wins (FY22: USD3.3b, book-to-bill ratio of 0.5x)

5G and digitals transformation drives the in deal momentum across geographies

Demand remains healthy in telecom vertical, on the back of increasing deal wins in 5G space where as Enterprise business shows strength over the last few quarters, backed by a few growth engines such as BPO and XDS. TM has made 12 acquisitions in the past 14-months entailing cash outflow of ~USD 950Mn. TechM's recent acquisitions (CTC, Allyis and Activus Connect) entailed cash outflow of USD 560Mn. TechM signed a large deal in 4QFY22 with a Europe telecom operator to build Europe's first fully cloud- native, end to end 5G network augmenting & operating network data centers, labs & the security infrastructure. Large deal TCV have increased from USD400-500Mn range in the past five quarters and will likely sustain in FY23.

MARKET INFO

SENSEX	52,974
NIFTY	15,842

Impact of acquisitions to the EBIT margin

In 4QFY22, EBITM stood at 13.2%, declined -159bps QoQ due to supply-side pressures and sales investments (likely to continue over H1FY23) along with elevated amortization of eight acquisitions during FY22 would drag the margin down in FY23. The war for the talent remains intense. Attrition post wage hike in July will be a key monitorable.

SHARE HOLDING PATTERN (%)

Particulars	Mar-22	Dec-21	Sep-21
Promoters	35.3	35.7	35.7
FIIIs	34.3	35.4	35.5
DIIIs	18.2	17.2	17.1
Others	12.3	11.8	11.7
Total	100	100	100

15.9%

Revenue CAGR between FY22 and FY24E

13.4%

PAT CAGR between FY22 and FY24E

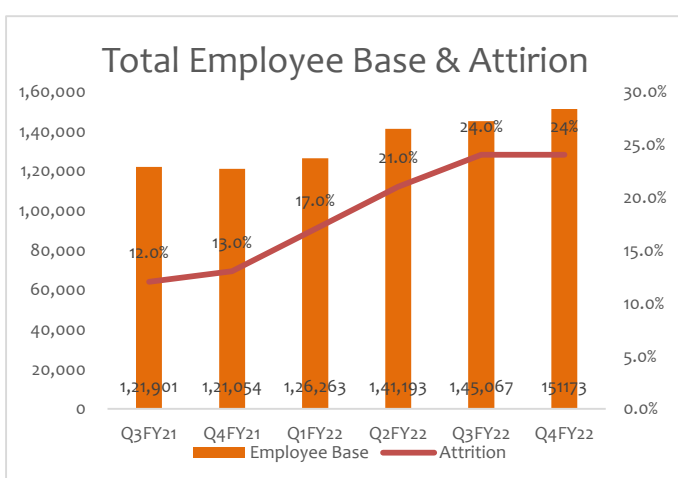
Tech Mahindra Limited.

Key Concall Highlights:

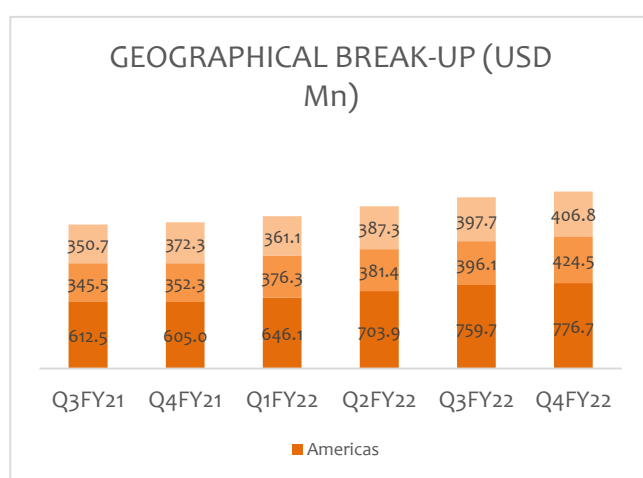
(i) Telecom will continue to grow at a healthy rate in FY2023. Technology vertical will show similar trend going ahead. BPO and XDS services will help grow enterprise business at a healthy pace (ii) Cloud adoption is accelerating across industries (iii) The lower tax rate was due to a one-time reversal of tax provision of SEZ benefits where as the normalized tax rate hovers in the range of 25-26% (iv) USD 50Mn clients increased by 1 to 23 while USD 20Mn clients increased by 4 to 54 on a sequential basis. On YoY basis USD50Mn clients increased by 2 while USD 20Mn clients increased by 4 (v) TechM added more than 10,000 freshers in FY2022, significantly higher than previous years (vi) SG&A expenses as a % of revenue will increase from current levels due to higher facilities cost and higher discretionary costs due to a return to office (vii) Higher visa cost in Q1FY23 will lead to 25-30 bps headwinds to margins (viii) TechM will provide company-wide wage hikes in July (ix) TechM announced INR 45/share dividend for FY2022

Valuation and view

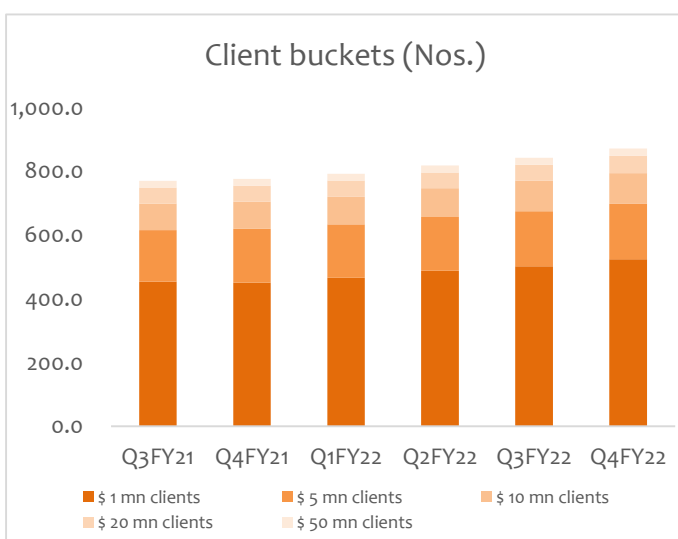
Tech Mahindra is currently trading at a valuation with a P/E multiple of 18.6x/15.6x on FY23E/FY24E earnings. We expect strong deal momentum across verticals, tailwind in 5G & digital product engineering and clients centric approach will aid growth over the medium to long term in future and hence we are assigning a P/E multiple of 19x to the FY24E estimated EPS of INR 76.2 to arrive at a target price of INR 1,447 (Earlier price of INR 1,770), with an upside of 21.6%. Accordingly, we maintain our rating to a “BUY” to the stock.



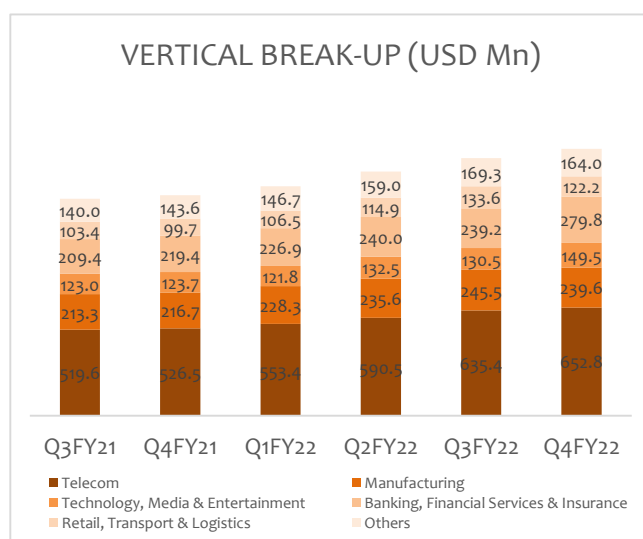
Source: Company, KRChoksey Research



Source: Company, KRChoksey Research



Source: Company, KRChoksey Research



Source: Company, KRChoksey Research

Tech Mahindra Limited.

KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Property, Plant and Equipment	29,810	26,229	26,609	24,632	22,992	19,620	17,254
Right-of-use Asset	-	-	11730	10072	10072	10072	10072
CWIP	2,399	2,763	501	1,183	1,183	1,183	1,183
Goodwill	27,727	28,163	33,877	40,082	40,082	40,082	40,082
Intangible Assets	16,781	14,512	15,060	14,508	14,508	14,508	14,508
Investments	12,458	7,520	2,360	5,757	5,757	5,757	5,757
Loans	52	43	45	47	47	47	47
Other non current assets	28,309	33,490	43,187	38,813	44,054	47,936	53,022
Total non current assets	1,17,536	1,12,720	1,33,369	1,35,094	1,38,695	1,39,205	1,41,925
Inventories	659	752	358	242	242	242	242
Investments	35,949	65,899	56,123	96,619	96,619	96,619	96,619
Trade receivables	64,979	69,586	75,772	64,728	79,754	93,109	1,05,324
Cash & equivalent	19,661	20,427	30,167	26,904	39,173	62,545	61,982
Other current assets	59,822	58,994	69,303	64,060	67,444	68,932	72,035
Deffered Tax Assets	5766	6091	8443	9133	9133	9133	9133
Total current assets	1,86,836	2,21,749	2,40,166	2,61,686	2,92,365	3,30,581	3,45,335
Total Assets	3,04,372	3,34,469	3,73,535	3,96,780	4,31,060	4,69,785	4,87,259
Equity Share Capital	4,417	4,437	4,359	4,370	4,370	4,370	4,370
Other Equity	1,84,011	1,98,407	2,13,772	2,44,280	2,73,814	3,12,162	3,26,344
Equity Attributable to Owners of the Company	1,88,428	2,02,844	2,18,131	2,48,650	2,78,184	3,16,532	3,30,714
Non controlling Interest	5,091	4,777	3,933	3,795	3,795	3,795	3,795
Total Equity	1,93,519	2,07,621	2,22,064	2,52,445	2,81,979	3,20,327	3,34,509
Loan Fund	7,711	2,086	1,787	1,658	1,326	1,244	1,161
Long term Provisions	11,338	8,821	19,370	17,796	17,796	17,796	17,796
Lease Liabilities	0	0	8,539	8,077	8,077	8,077	8,077
Other Long term Liabilities	333	325	214	1725	1725	1725	1725
Amount Pending Investigation	12304	12304	12304	12304	12304	12304	12304
Total non current liabilities	31,686	23,536	42,214	41,560	41,228	41,146	41,063
Sundry Creditors	20,368	24,893	32,566	27,850	29,892	31,477	35,977
Short Term Borrowings	9,549	11,961	22,495	14,960	17,996	16,871	15,747
Other Liabilities	45,220	62,506	46,373	50,651	50,651	50,651	50,651
Provision	4,030	3,952	4,364	5,311	5,311	5,311	5,311
Lease Liabilities	0	0	3,459	4,003	4,003	4,003	4,003
Total Current Liabilities	79,167	1,03,312	1,09,257	1,02,775	1,07,853	1,08,313	1,11,688
Total liabilities	3,04,372	3,34,469	3,73,535	3,96,780	4,31,060	4,69,785	4,87,259

Source: Company, KRChoksey Research

Tech Mahindra Limited.

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	3,07,729	3,47,421	3,68,677	3,78,551	4,46,460	5,29,702	6,00,212
Total Operating Cost	2,60,633	2,84,052	3,11,416	3,10,081	3,66,260	4,36,564	4,91,879
EBITDA	47,096	63,369	57,261	68,470	80,200	93,139	1,08,333
Depreciation	10,850	11,292	14,458	14,577	15,204	19,510	19,902
EBIT	36,246	52,077	42,803	53,893	64,996	73,629	88,431
Other income, net	14,165	5,342	11,924	7,871	11,123	9,575	9,419
Finance costs	1,624	1,332	1,919	1,740	1,626	1,694	1,724
Pre-tax Income	48,787	56,087	52,808	60,024	74,493	81,510	96,126
Income tax expense	10,926	12,544	11,604	15,999	18,220	24,675	28,278
Net profit	37,861	43,543	41,204	44,025	56,273	56,835	67,847
MI, EI & Share of Profit from Associates	-137	567	874	-255	640	640	640
Net Profit after MI, EI & Profit from Associates	37,998	42,976	40,330	44,280	55,633	56,195	67,207
Diluted EPS (INR)	42.7	47.7	45.9	50.2	63.1	63.7	76.2
Shares in Million	891	901	880	882	882	882	882

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	52,428	50,197	45,836	56,178	69,164	93,153	1,02,628
Net Cash Flow from/(used in) Investing Activities	-18,763	-3,137	-7,416	-16,679	-13,034	-12,137	-13,536
Net Cash Flow from Financing Activities	5,094	-3,193	10,157	-7,653	2,704	-1,208	-1,208
Others	-39,111	-43,101	-38,837	-35,109	-46,565	-56,436	-88,448
Net Inc/Dec in cash equivalents	-352	766	9,740	-3,263	12,269	23,372	-563
Opening Balance	20,013	19,661	20,427	30,167	26,904	39,173	62,545
Closing Balance Cash and Cash Equivalents	19,661	20,427	30,167	26,904	39,173	62,545	61,982

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBIT Margin (%)	11.8%	15.0%	11.6%	14.2%	14.6%	13.9%	14.7%
Tax rate (%)	22.4%	22.4%	22.0%	26.7%	24.5%	30.3%	29.4%
Net Profit Margin (%)	12.3%	12.4%	10.9%	11.7%	12.5%	10.6%	11.2%
RoE (%)	21.5%	22.0%	19.2%	19.0%	20.7%	23.7%	23.1%
RoCE (%)	14.7%	19.1%	14.5%	15.6%	17.2%	20.5%	21.8%
Current Ratio (x)	2.3	2.1	2.1	2.5	2.6	3.0	3.0
EPS (INR per share)	42.7	47.7	45.9	50.2	63.1	63.7	76.2

Source: Company, KRChoksey Research

Tech Mahindra Limited.

Tech Mahindra Limited				Rating Legend (Expected over a 12-month period)	
				Our Rating	Upside
Date	CMP (INR)	TP(INR)	Recommendation	Buy	More than 15%
16-May-22	1,190	1,447	BUY	Accumulate	5% – 15%
02-Feb-22	1,483	1,770	BUY	Hold	0 – 5%
				Reduce	-5% – 0
25-Oct-21	1,563	1,770	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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