

# Retail Equity Research Tech Mahindra Limited

IT

BSE CODE: 532755

NSE CODE: TECHM

Bloomberg CODE: TECHM:IN

SENSEX: 54,319

**BUY**

12 Months Investment period Rating as per Large Cap  
CMP Rs. 1,198 TARGET Rs. 1,372 RETURN 15% ↑  
(Closing: 17-05-22)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

## Margins impacted; Outlook positive

Tech Mahindra Ltd. is one of the top 5 IT companies in India which provides IT and ER&D services for telecommunication equipment manufacturers, telecom service providers, software vendors, and systems integrators.

- For Q4FY22, Tech Mahindra Limited reported 24.5% YoY increase in revenue to reach Rs. 12,116cr and 39.2% YoY increase in PAT to reach Rs. 1,505cr.
- EBITDA margin shrank 230bps YoY to 17.2% due to increased subcontractor costs, higher employee costs along with lower utilization.
- We remain positive on the company's business outlook in the medium-to-long-term, considering company's capabilities in new techs and the strong deal pipeline. We reiterate our BUY rating on the stock with a revised target price of Rs. 1,372 based on 17x FY24E Adj. EPS.

## Margin contracted due to increased costs

Q4FY22 revenue rose 24.5% YoY and 5.8% QoQ to Rs. 12,116cr driven by the growth across all verticals. EBITDA increased to Rs. 2,088cr in Q4FY22 (+10.1% YoY, +1.4% QoQ), while EBITDA margin was down by 230bps YoY to 17.2% due to spike in employee benefit expenses (+28% YoY, 6.8% QoQ), higher depreciation and amortization expenses (+40.5% YoY, 33.7% QoQ) from additional investments in hardware and software. Upon continuation of Hedge policy approved by Board, Forex gain rose to 63.5% QoQ. Marginal Tax rate reduced to 17.5% vs 27% in Q3FY22, resultantly PAT rose to Rs.1,506cr 39.2% YoY and 10.0% QoQ.

## Key concall highlights

- Headcount stood at 151,173 (+4.2% QoQ). Total number of active client increased to 1,224 (+2.7% QoQ, +21.5% YoY).
- New deal wins amounted to \$1bn, constituting \$366mn worth of deals from the Enterprise segment, and the rest \$645mn from CME.
- Bharti Airtel and Tech Mahindra announced a strategic partnership to set up a joint 5G innovation lab to co-develop and market 5G use cases in India. This will also bring customized Enterprise Grade Private Networks to the country and helps in advancement of technology with the company.
- Company announced recent collaboration with Yellow.ai to work on next-gen conversational-AI solutions, and collaboration with Cisco, Celonis, APPSLINK, Ludium Labs, ASKA, and Nokia for the advancement in technologies and services offered.

## Growth across all verticals

Topline growth primarily driven by (+17.2% YoY, 4.1% QoQ) in communications, (+17.4% YoY, 5.4% QoQ) in Enterprise, (+14.6% YoY, 5.1% QoQ) in IT services and (42.9% YoY, 4.4% QoQ) in BPS, while on geographical basis (+18.6%, YoY, 3.6% QoQ) in Americas, (18.5% YoY, 8.3% QoQ) in Europe and (14.1% YoY, 3.8%QoQ) in rest of the world.

## Valuation

We remain positive on company's business outlook on the back of strong new deal wins, deal pipeline and capabilities in new tech. we expect the margin pressure led by supply side issues to subside in the coming quarters, supported by the higher fresher intakes. We foresee earnings to grow at a healthy 13% CAGR over FY22-24E and reiterate our BUY rating on the stock with a revised target price of Rs. 1,372 using a target multiple of 17x P/E on FY24E Adj. EPS.

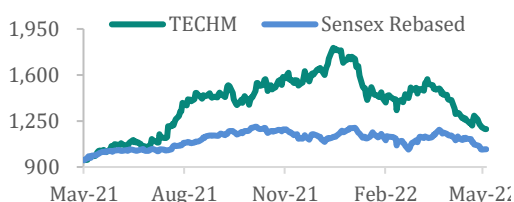
## Company Data

|                          |             |
|--------------------------|-------------|
| Market Cap (cr)          | Rs. 104,224 |
| Enterprise Value (cr)    | Rs. 103,920 |
| Outstanding Shares (cr)  | 88.9        |
| Free Float               | 64.0%       |
| Dividend Yield           | 2.5%        |
| 52 week high             | Rs. 1,838   |
| 52 week low              | Rs. 958     |
| 6m average volume (lacs) | 1.6         |
| Beta                     | 1.0         |
| Face value               | Rs. 5       |

| Shareholding %    | Q2FY22 | Q3FY22 | Q4FY22 |
|-------------------|--------|--------|--------|
| Promoters         | 35.7   | 35.7   | 35.3   |
| FII's             | 35.5   | 35.4   | 34.3   |
| MFs/Insti         | 17.1   | 17.4   | 18.2   |
| Public            | 8.7    | 8.7    | 9.3    |
| Others            | 3.0    | 2.9    | 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   | -17.7%  | -25.8%  | 24.8%  |
| Absolute Sensex   | -8.7%   | -12.2%  | 8.7%   |
| Relative Return*  | -9.1%   | -13.6%  | 16.1%  |

\*over or under performance to benchmark index



| Consolidated (cr) | FY22A  | FY23E  | FY24E  |
|-------------------|--------|--------|--------|
| Sales             | 44,646 | 51,924 | 59,821 |
| Growth (%)        | 17.9   | 16.3   | 15.2   |
| EBITDA            | 8,020  | 9,689  | 10,428 |
| EBITDA Margin (%) | 18.0   | 18.7   | 17.4   |
| Adj. PAT          | 5,566  | 6,515  | 7,149  |
| Growth (%)        | 24.3   | 17.0   | 9.7    |
| Adj. EPS          | 62.8   | 73.5   | 80.7   |
| Growth (%)        | 23.7   | 17.0   | 9.7    |
| P/E               | 23.9   | 16.2   | 14.7   |
| P/B               | 4.9    | 3.5    | 3.1    |
| EV/EBITDA         | 16.5   | 10.7   | 9.9    |
| ROE (%)           | 20.7   | 21.6   | 21.2   |
| D/E               | 0.1    | 0.1    | 0.1    |

## Quarterly Financials (Consolidated)

### Profit & Loss Account

|                                | Q4FY22       | Q4FY21       | YoY Growth % | Q3FY22       | QoQ Growth % | FY22         | FY21         | YoY Growth % |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue                        | 12,116       | 9,730        | 24.5         | 11,451       | 5.8          | 44,646       | 37,855       | 17.9         |
| <b>EBITDA</b>                  | <b>2,088</b> | <b>1,897</b> | <b>10.1</b>  | <b>2,060</b> | <b>1.4</b>   | <b>8,020</b> | <b>6,796</b> | <b>18.0</b>  |
| EBITDA margins                 | 17.2         | 19.5         | (230bps)     | 18.0         | (80bps)      | 18.0         | 18.0         | 0bps         |
| Depreciation                   | 484          | 344          | 40.6         | 362          | 33.7         | 1,520        | 1,458        | 4.3          |
| <b>EBIT</b>                    | <b>1,604</b> | <b>1,553</b> | <b>3.3</b>   | <b>1,698</b> | <b>(5.5)</b> | <b>6,500</b> | <b>5,339</b> | <b>21.7</b>  |
| Interest                       | 55           | 42           | 32.4         | 34           | 62.8         | 163          | 174          | (6.6)        |
| Other Income                   | 324          | 33           | 888.7        | 222          | 45.8         | 1,115        | 788          | 41.5         |
| Exceptional Items              | -            | -            | -            | -            | -            | -            | -            | -            |
| <b>PBT</b>                     | <b>1,873</b> | <b>1,544</b> | <b>21.3</b>  | <b>1,886</b> | <b>(0.7)</b> | <b>7,452</b> | <b>5,953</b> | <b>25.2</b>  |
| Tax                            | 328          | 500          | (34.4)       | 508          | (35.5)       | 1,822        | 1,600        | 13.9         |
| Share of profit from Associate | -            | -            | -            | -            | -            | -            | -            | -            |
| Minority Interest              | 40           | (37)         | 206.7        | 10           | 308.2        | 64           | (75)         | 185.3        |
| <b>Reported PAT</b>            | <b>1,506</b> | <b>1,081</b> | <b>39.2</b>  | <b>1,369</b> | <b>10.0</b>  | <b>5,566</b> | <b>4,428</b> | <b>25.7</b>  |
| Adjustments                    | -            | -            | -            | -            | -            | -            | -            | -            |
| <b>Adj. PAT</b>                | <b>1,506</b> | <b>1,081</b> | <b>39.2</b>  | <b>1,369</b> | <b>10.0</b>  | <b>5,566</b> | <b>4,428</b> | <b>25.7</b>  |
| No. of shares                  | 88.9         | 88.2         | 0.8          | 88.5         | 0.4          | 88.9         | 88.2         | 0.8          |
| <b>Adj. EPS (Rs.)</b>          | <b>16.9</b>  | <b>12.3</b>  | <b>38.2</b>  | <b>15.5</b>  | <b>9.6</b>   | <b>62.6</b>  | <b>50.2</b>  | <b>24.7</b>  |

### Change in Estimates

|               | Old estimates |        | New estimates |        | Change % |          |
|---------------|---------------|--------|---------------|--------|----------|----------|
| Year / Rs. cr | FY23E         | FY24E  | FY23E         | FY24E  | FY23E    | FY24E    |
| Revenue       | 51,375        | 61,404 | 51,924        | 59,821 | 1.1      | (2.6)    |
| EBITDA        | 9,489         | 11,384 | 9,689         | 10,428 | 2.1      | (8.4)    |
| Margins (%)   | 18.5          | 18.5   | 18.7          | 17.4   | 20bps    | (110bps) |
| Adj. PAT      | 6,639         | 8,014  | 6,515         | 7,149  | (1.9)    | (10.8)   |
| Adj. EPS      | 75.2          | 90.7   | 73.5          | 80.7   | (2.2)    | (11.1)   |

## PROFIT & LOSS

| Y.E March (Rs. cr)   | FY20A         | FY21A         | FY22A         | FY23E         | FY24E         |
|----------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>       | <b>36,868</b> | <b>37,855</b> | <b>44,646</b> | <b>51,924</b> | <b>59,821</b> |
| % change             | 6.1           | 2.7           | 17.9          | 16.3          | 15.2          |
| <b>EBITDA</b>        | <b>5,726</b>  | <b>6,847</b>  | <b>8,020</b>  | <b>9,689</b>  | <b>10,428</b> |
| % change             | (3.9)         | 15.8          | 14.9          | 22.2          | 5.9           |
| Depreciation         | 1,663         | 1,508         | 1,520         | 1,972         | 1,924         |
| <b>EBIT</b>          | <b>4,063</b>  | <b>5,339</b>  | <b>6,500</b>  | <b>7,717</b>  | <b>8,504</b>  |
| Interest             | 192           | 174           | 163           | 148           | 140           |
| Other Income         | 1,187         | 788           | 1,115         | 1,226         | 1,287         |
| <b>PBT</b>           | <b>5,058</b>  | <b>5,953</b>  | <b>7,452</b>  | <b>8,794</b>  | <b>9,651</b>  |
| % change             | (8.8)         | 17.7          | 25.2          | 18.0          | 9.7           |
| Tax                  | 1,160         | 1,600         | 1,822         | 2,213         | 2,429         |
| Tax Rate (%)         | 22.9          | 26.9          | 24.4          | 25.2          | 25.2          |
| <b>Reported PAT</b>  | <b>4,033</b>  | <b>4,428</b>  | <b>5,566</b>  | <b>6,515</b>  | <b>7,149</b>  |
| Adj*                 | 218           | 51            | -             | -             | -             |
| <b>Adj PAT</b>       | <b>4,251</b>  | <b>4,479</b>  | <b>5,566</b>  | <b>6,515</b>  | <b>7,149</b>  |
| % change             | (1.1)         | 5.4           | 24.3          | 17.0          | 9.7           |
| No. of shares (cr)   | 88.0          | 88.2          | 88.6          | 88.6          | 88.6          |
| <b>Adj EPS (Rs.)</b> | <b>48.3</b>   | <b>50.8</b>   | <b>62.8</b>   | <b>73.5</b>   | <b>80.7</b>   |
| % change             | 1.3           | 5.1           | 23.7          | 17.0          | 9.7           |
| DPS (Rs.)            | 15.0          | 45.0          | 30.0          | 36.8          | 40.3          |
| CEPS (Rs.)           | 64.8          | 67.3          | 80.0          | 95.8          | 102.4         |

## BALANCE SHEET

| Y.E March (Rs. cr)       | FY20A         | FY21A         | FY22A         | FY23E         | FY24E         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash                     | 3,148         | 2,835         | 3,975         | 4,359         | 5,347         |
| Accounts Receivable      | 7,577         | 6,473         | 11,933        | 11,423        | 11,964        |
| Inventories              | 36            | 24            | 41            | 61            | 93            |
| Other Cur. Assets        | 12,411        | 15,923        | 8,507         | 13,435        | 16,666        |
| Investments              | 380           | 665           | 528           | 550           | 574           |
| Gross Fixed Assets       | 9,214         | 9,880         | 10,838        | 12,188        | 13,744        |
| Net Fixed Assets         | 2,661         | 2,463         | 2,682         | 2,057         | 1,685         |
| CWIP                     | 50            | 118           | 165           | 168           | 171           |
| Intangible Assets        | 6,067         | 6,466         | 12,022        | 12,072        | 12,072        |
| Def. Tax (Net)           | 3,260         | 2,942         | 3,333         | 3,209         | 3,521         |
| Other Assets             | 1,764         | 1,768         | 1,686         | 1,786         | 1,886         |
| <b>Total Assets</b>      | <b>37,354</b> | <b>39,678</b> | <b>44,871</b> | <b>49,119</b> | <b>53,978</b> |
| Current Liabilities      | 9,561         | 9,612         | 11,979        | 12,898        | 14,144        |
| Provisions               | 669           | 781           | 881           | 906           | 931           |
| Debt Funds               | 3,628         | 2,870         | 2,618         | 2,475         | 2,334         |
| Other Liabilities        | 1,289         | 1,171         | 2,011         | 2,109         | 2,163         |
| Equity Capital           | 436           | 437           | 439           | 439           | 439           |
| Reserves & Surplus       | 21,377        | 24,428        | 26,447        | 29,730        | 33,334        |
| Shareholder's Fund       | 21,813        | 24,865        | 26,886        | 30,169        | 33,773        |
| Minority Interest        | 393           | 380           | 495           | 561           | 633           |
| <b>Total Liabilities</b> | <b>37,354</b> | <b>39,678</b> | <b>44,871</b> | <b>49,119</b> | <b>53,978</b> |
| <b>BVPS (Rs.)</b>        | <b>248</b>    | <b>282</b>    | <b>303</b>    | <b>340</b>    | <b>381</b>    |

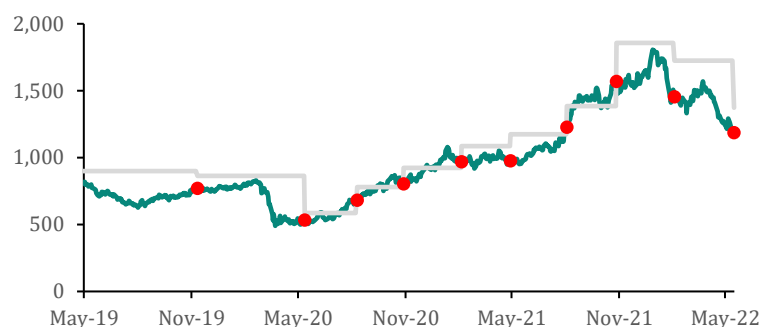
## CASH FLOW

| Y.E March (Rs. cr)      | FY20A          | FY21A          | FY22A          | FY23E          | FY24E          |
|-------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Net inc. + Depn.</b> | <b>5,479</b>   | <b>5,886</b>   | <b>7,087</b>   | <b>8,487</b>   | <b>9,073</b>   |
| Non-cash adj.           | (599)          | 1,181          | (367)          | 66             | 72             |
| Changes in W.C          | (522)          | 1,027          | (1,434)        | 1,159          | 672            |
| <b>C.F. Operation</b>   | <b>4,358</b>   | <b>8,094</b>   | <b>5,285</b>   | <b>9,712</b>   | <b>9,818</b>   |
| Capital exp.            | (829)          | (573)          | (835)          | (1,350)        | (1,555)        |
| Change in inv.          | 1,927          | (4,015)        | 5,849          | (4,750)        | (3,354)        |
| Other invest.CF         | (69)           | (862)          | (4,532)        | 74             | (313)          |
| <b>C.F - Investment</b> | <b>1,029</b>   | <b>(5,450)</b> | <b>482</b>     | <b>(6,026)</b> | <b>(5,222)</b> |
| Issue of equity         | (1,741)        | 57             | 87             | -              | -              |
| Issue/repay debt        | (44)           | (1,174)        | (680)          | (193)          | (141)          |
| Dividends paid          | (2,492)        | (1,759)        | (3,981)        | (3,231)        | (3,546)        |
| Other finance.CF        | (188)          | (110)          | (92)           | 123            | 79             |
| <b>C.F - Finance</b>    | <b>(4,466)</b> | <b>(2,987)</b> | <b>(4,667)</b> | <b>(3,301)</b> | <b>(3,608)</b> |
| Chg. in cash            | 921            | (343)          | 1,100          | 384            | 988            |
| Closing cash            | 3,148          | 2,835          | 3,975          | 4,359          | 5,347          |

## RATIOS

| Y.E March                      | FY20A | FY21A | FY22A | FY23E | FY24E |
|--------------------------------|-------|-------|-------|-------|-------|
| <b>Profitab. &amp; Return</b>  |       |       |       |       |       |
| EBITDA margin (%)              | 15.5  | 18.1  | 18.0  | 18.7  | 17.4  |
| EBIT margin (%)                | 11.0  | 14.1  | 14.6  | 14.9  | 14.2  |
| Net profit mgn.(%)             | 10.9  | 11.7  | 12.5  | 12.5  | 12.0  |
| ROE (%)                        | 18.5  | 17.8  | 20.7  | 21.6  | 21.2  |
| ROCE (%)                       | 15.7  | 19.0  | 21.7  | 23.2  | 23.1  |
| <b>W.C &amp; Liquidity</b>     |       |       |       |       |       |
| Receivables (days)             | 75.0  | 62.4  | 97.6  | 80.5  | 73.2  |
| Inventory (days)               | 2.4   | 1.8   | 2.1   | 2.7   | 3.7   |
| Payables (days)                | 218.5 | 204.4 | 214.8 | 197.6 | 205.0 |
| Current ratio (x)              | 1.9   | 2.2   | 1.8   | 2.0   | 2.2   |
| Quick ratio (x)                | 1.3   | 1.6   | 1.5   | 1.4   | 1.6   |
| <b>Turnover &amp; Leverage</b> |       |       |       |       |       |
| Gross asset T.O (x)            | 4.1   | 4.0   | 4.3   | 4.5   | 4.6   |
| Total asset T.O (x)            | 1.0   | 1.0   | 1.1   | 1.1   | 1.2   |
| Int. coverage ratio (x)        | 21.2  | 30.7  | 40.0  | 52.0  | 60.6  |
| Adj. debt/equity (x)           | 0.2   | 0.1   | 0.1   | 0.1   | 0.1   |
| <b>Valuation</b>               |       |       |       |       |       |
| EV/Sales (x)                   | 1.4   | 2.3   | 3.0   | 2.0   | 1.7   |
| EV/EBITDA (x)                  | 8.8   | 12.8  | 16.5  | 10.7  | 9.9   |
| P/E (x)                        | 11.7  | 19.5  | 23.9  | 16.2  | 14.7  |
| P/BV (x)                       | 2.3   | 3.5   | 4.9   | 3.5   | 3.1   |

## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

| Dates     | Rating | Target |
|-----------|--------|--------|
| 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  |
| 27-Oct-21 | BUY    | 1,857  |
| 3-Feb-22  | BUY    | 1,724  |
| 18-May-22 | BUY    | 1,372  |

## 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.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/ lack of clarity/ event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

## General Disclosures and Disclaimers

### CERTIFICATION

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