

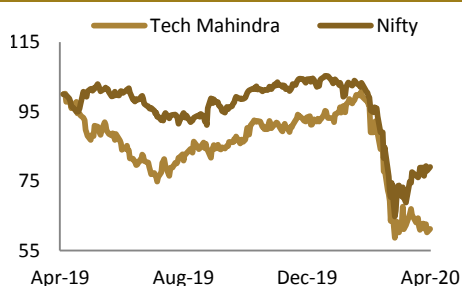
### Market statistics

Current stock price (₹)	546
Shares O/S (cr.)	96.4
Mcap (₹ cr)	52,745
52W H/L (₹)	846/470
Bloomberg	TECHM IN

### Shareholding pattern

Promoters	35.85
Domestic Institution	13.36
Foreign Institution	39.67
Non-institution	11.12
of which more than 1%	

### Tech Mahindra vs Nifty



### Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	18.1	14.1	15.1
EPS (₹)	46.3	41.5	48.2
CEPS (₹)	73.4	68.3	77.2
P/E (x) –ex treasury	10.3	11.7	10.0
P/BV (x) –ex treasury	1.8	1.6	1.5
EV/EBITDA (x)	5.5	5.5	4.5
Income growth (%)	6.1	(2.5)	7.5
EBITDA growth (%)	(9.6)	(10.0)	19.2
PAT growth (%)	(5.4)	(14.3)	18.7

#### ANALYST

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Tech Mahindra missed expectations on all fronts owing to supply-side constraints in its BPO business, revenue loss in network business and weakness in the Comviva business. Cc revenue declined 3.3% QoQ. EBITDA margin contracted 200bps QoQ to 14.2% owing to provisioning, lower revenue due to Covid-19 impact, transition costs and lower utilization, partially offset by INR depreciation. Positives include leadership position in Telecom, 5G opportunity and higher synergies between Enterprise and Telecom. Margin remains a challenge for TechM and the recovery planned for FY21E shifts ahead by another year. We maintain our Buy recommendation on the stock on compelling valuations since the stock has corrected 30%+ in last 3 months and factors in a lot of negatives already.

**Weak quarter:** TechM reported below-than-expected results. Cc revenue declined 3.3% QoQ, owing to Covid-19 challenges with supply constraints and lower demand. Revenue declined by 4.3% QoQ to US\$1,295mn. Revenues from telecom and enterprise vertical declined 8.4% and 1.3% QoQ. Within the enterprise segment, BFSI vertical revenue grew by 10.9% QoQ, while the remaining verticals declined. EBITDA margin contracted 200bps QoQ to 14.2%, owing to expected credit loss (-110bps) and Covid-19 impact (-80bps), offset by INR depreciation (+30bps). There was Rs.2.2bn impairment of goodwill of its subsidiaries which impacted reported net profit. Excluding impairment of goodwill, adjusted net profit stood at Rs.10.2bn, down 10.9% QoQ.

#### Expect weak FY21E owing to deterioration of demand and constraints in supply-side:

Management expects there would be a major impact on revenues in Q1FY21E owing to supply-side constraints in BPO business (8.6% of its revenue), deferment of spends by clients due to Covid-19 challenges and delay in the ramp-up of new deals. The management also highlighted that only 75% of employees have shifted to work-from-home (WFH) in BPO division due to lack of client's approval. In the telecom vertical, the management believes that the revenue impact would be temporary as its clients are committed to invest in 5G and strengthen the network. Though telecom vertical revenue impacted during the quarter owing to early lockdown mandates in Latin America, Middle East and Europe region, management remains optimistic that spends by its telecom clients would increase in medium-term as it sees traction in digital, network, customer experience and cloud areas.

**Management expects to mitigate margin headwinds:** Margins are expected to remain under pressure owing to lower revenue on account of cut in discretionary spends by clients and material deterioration in demand environment. However, the management has indicated that it has started taking some cost optimization measures to mitigate the margin headwinds. A decline in sub-contractor expenses, reduction in headcounts, cut in variable compensations, focus on all third-party costs, lower travel costs, rationalization of facilities and tightening synergies with portfolio companies would help the company to offset the cost pressure from lower revenue.

**Deal wins slowed down:** The company signed deals with a total contract value (TCV) of worth US\$505mn versus US\$1.23bn in Q3FY20. Deal sizes were higher during the last two quarters. The average deal size has been remained around US\$450mn (excluding the large deals in Q2FY20/Q3FY20) over last 6 quarters against US\$300mn earlier. The execution of new deals wins is slower than usual due to the current environment.

**Valuation and Outlook:** Growth recovery in Telecom and Enterprise, large deal wins and margin stability achieved in the first three quarters of FY20, gets derailed in 4Q due to Covid-19 uncertainty. Downtrend will continue in 1HFY21 and discretionary spending will get impacted in the near term. Pricing pressure, furloughs and delay in spend will impact growth and margins in FY21E. We expect these factors to subside in FY22E and TechM can be a beneficiary of vendor consolidation in Telecom segment, where it is an undisputed leader. We maintain our Buy recommendation on the stock.

**Exhibit 1: Quarterly details**

₹ mn	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	Comments
<b>Revenues (In US\$mn)</b>	<b>1,268</b>	<b>1,353</b>	<b>1,295</b>	<b>(4.3)</b>	<b>2.1</b>	Top-5/Top 10 client revenue declined 8.2%/4.3% QoQ
<b>Revenues</b>	<b>88,923</b>	<b>96,546</b>	<b>94,902</b>	<b>(1.7)</b>	<b>6.7</b>	
- Operating costs	72,536	80,913	81,424	0.6	12.3	
<b>EBITDA</b>	<b>16,387</b>	<b>15,633</b>	<b>13,478</b>	<b>(13.8)</b>	<b>(17.8)</b>	<b>EBIT margin declined 220bps QoQ to 10% due to provisioning &amp; higher CSR expense (-100bps), lower utilisation (-80bps) and transition cost (-70bps) offset by currency tailwind (+30bps)</b>
<b>EBITDA margin (%)</b>	<b>18.4</b>	<b>16.2</b>	<b>14.2</b>	<b>(199)bps</b>	<b>(423)bps</b>	
- Interest expense	281	550	532	(3.3)	89.3	
- Depreciation	2,704	3,848	3,982	3.5	47.3	
+ Other income, net (incl forex)	1,671	3,496	2,852	(18.4)	70.7	
<b>PBT</b>	<b>15,073</b>	<b>14,731</b>	<b>11,816</b>	<b>(19.8)</b>	<b>(21.6)</b>	
- Taxes	3,535	3,629	2,392	(34.1)	(32.3)	Tax rate to remain in the range of ~22-23% for FY21
Effective tax rate (%)	23.5	24.6	20.2	(439)bps	(321)bps	
<b>PAT</b>	<b>11,538</b>	<b>11,102</b>	<b>9,424</b>	<b>(15.1)</b>	<b>(18.3)</b>	
- Minority interest	(213)	352	790	NA	NA	
<b>Consolidated PAT</b>	<b>11,325</b>	<b>11,454</b>	<b>10,214</b>	<b>(10.8)</b>	<b>(9.8)</b>	
Net margin (%)	12.7	11.9	10.8	(110)bps	(197)bps	
<b>Reported profits</b>	<b>11,325</b>	<b>11,454</b>	<b>8,039</b>	<b>(29.8)</b>	<b>(29.0)</b>	There was Rs.2.2bn impairment of goodwill of its subsidiaries which impacted reported net profit

Source: Company

**Exhibit 2: Change in estimates**

₹ mn	FY21E			FY22E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	5,832	4,924	(15.6)	6,341	5,293	(16.5)
Revenue	408,247	359,473	(11.9)	443,848	386,421	(12.9)
EBITDA margin (%)	16.9	14.3	(255)bps	17.1	15.9	(120)bps
EPS (₹)	55.0	41.5	(24.5)	60.8	48.4	(20.4)

Source: Trust Research

**Exhibit 3: Geographical wise Performance**

Geographical mix	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
North America	47.4	48.2	47.0	47.4	46.4	47.6	48.5	48.4	47.7
Europe	29.6	30.0	29.6	28.9	28.6	27.6	26.7	27.0	26.5
RoW	23.0	21.8	23.4	23.7	25.0	24.8	24.8	24.6	25.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

**Exhibit 4: Operating mix (%)**

Details	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Onsite	67.0	66.6	64.5	65.5	65.2	65.3	65.4	65.3	65.2
Offshore	33.0	33.4	35.5	34.5	34.8	34.7	34.6	34.7	34.8
Utilisation (incl. trainees)	84	81	81	82	82	80	82	84	83

Source: Company



**Human Resources:** Software Professionals stood at 71,515, BPO at 46,816 and Support staff at 6,905 (5,603 Net employees left TECHM taking total to 125,236).

**Exhibit 5: Employee strength at TECHM**

Details	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Software Professionals	72,437	72,462	72,534	71,785	71,477	74,093	72,597	73,079	71,515
BPO employees	34,190	34,700	39,407	43,439	43,081	45,000	52,193	51,096	46,816
Sales & Support	6,180	6,390	6,450	6,618	6,524	6,680	6,732	6,664	6,905
<b>Total employees</b>	<b>112,807</b>	<b>113,552</b>	<b>118,391</b>	<b>121,842</b>	<b>121,082</b>	<b>125,773</b>	<b>131,522</b>	<b>130,839</b>	<b>125,236</b>

Source: Company

**Client Concentration:** The Company added 2 clients in the US\$10mn+ to take the clients total to 85. Top-5/Top 10 client revenue declined 8.2%/4.3% QoQ.

**Exhibit 6: Client details**

Vertical Mix	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
No. of Active Clients	913	926	930	935	938	941	946	964	973
> \$1 million clients	392	396	407	416	425	429	437	446	446
> \$5 million clients	156	154	157	157	156	160	155	164	160
> \$10 million clients	85	86	86	88	83	81	80	83	85
> \$20 million clients	44	47	45	46	50	49	49	50	50
> \$50 million clients	16	16	17	18	20	21	22	22	22
Top 5 clients (%)	23	22	23	23	23	21	22	22	21
Top 10 clients (%)	33	33	33	32	32	31	32	31	31
Top 20 clients (%)	46	46	46	44	45	44	44	42	44

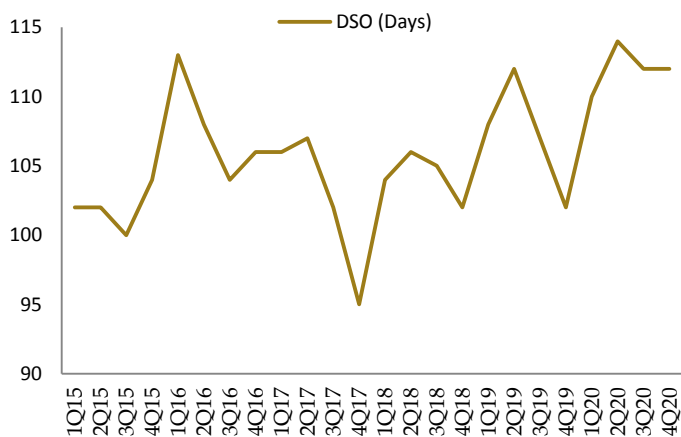
Source: Company

**Exhibit 7: Vertical-wise breakup**

Employees	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Telecom	41.6	39.6	41.5	41.1	42.7	42.0	41.1	42.6	40.8
Manufacturing	19.3	20.1	20.1	20.5	20.2	19.4	18.0	17.3	17.7
Technology, Media & Ent.	7.3	7.2	7.3	7.0	7.5	7.6	8.1	7.6	7.4
BFSI	13.0	13.6	13.5	13.4	13.1	12.8	13.0	13.2	15.3
Retail, Transport & Logistics	6.2	6.1	6.5	6.7	6.4	6.2	7.0	7.2	7.3
Others	12.6	13.4	11.1	11.3	10.1	12.0	12.8	12.1	11.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

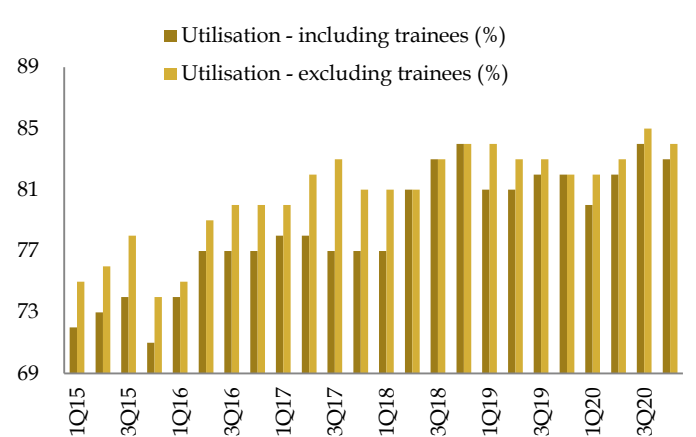
Source: Company

**Exhibit 8: DSO days remained flat QoQ**



Source: Company, Trust

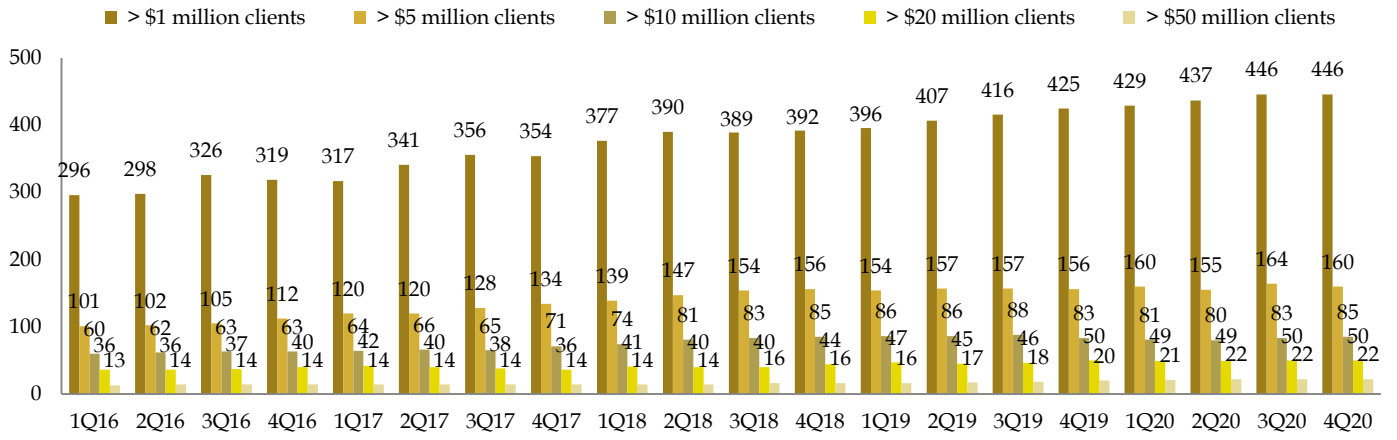
**Exhibit 9: Utilization has limited room as a margin lever**



Source: Company, Trust



Exhibit 10: TECHM added 2 clients respectively QoQ in the US\$10mn+ bracket



Source: Company, Trust



## Financials

### Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	<b>307,730</b>	<b>347,421</b>	<b>368,677</b>	<b>359,473</b>	<b>386,421</b>
Op. Expenses	260,560	284,053	311,416	307,925	324,994
<b>EBITDA</b>	<b>47,170</b>	<b>63,368</b>	<b>57,261</b>	<b>51,548</b>	<b>61,427</b>
Other Income	14,092	5,342	11,924	13,408	13,758
Depreciation	10,849	11,292	14,458	16,981	17,812
<b>EBIT</b>	<b>50,413</b>	<b>57,418</b>	<b>54,727</b>	<b>47,975</b>	<b>57,372</b>
Interest	1,624	1,332	1,919	2,128	2,234
<b>PBT</b>	<b>48,789</b>	<b>56,086</b>	<b>52,808</b>	<b>45,847</b>	<b>55,138</b>
Tax	10,925	12,544	11,604	10,545	13,233
<b>PAT</b>	<b>37,864</b>	<b>43,542</b>	<b>41,204</b>	<b>35,302</b>	<b>41,905</b>
Minority	137	(567)	1,296	1,000	500
Extra. Ord. Exp	-	-	(2,175)	-	-
<b>Adj Pat</b>	<b>38,001</b>	<b>42,975</b>	<b>40,325</b>	<b>36,302</b>	<b>42,405</b>

### Key Parameters

Year End-March	FY18	FY19	FY20	FY21E	FY22E
<b>Per share (₹)</b>					
EPS	43.0	48.4	46.3	41.5	48.2
CEPS	62.0	68.6	73.4	68.3	77.2
BVPS	247.2	282.1	319.1	344.5	375.3
DPS	14.0	14.0	15.0	15.0	18.0
Payout (%)	38.1	33.8	36.0	42.3	43.5
<b>Valuation (x)</b>					
P/E (excl. treasury shares)	13.2	14.5	10.3	11.7	10.0
P/BV	2.6	2.8	1.8	1.6	1.5
EV/EBITDA	8.7	8.2	5.5	5.5	4.5
Dividend Yield (%)	2.2	1.8	2.7	2.7	3.3
<b>Return ratio (%)</b>					
EBITDA Margin	15.3	18.2	15.5	14.3	15.9
PAT Margin	12.3	12.5	11.2	9.8	10.8
ROAE	20.8	20.6	18.1	14.1	15.1
ROACE	26.4	26.6	22.6	18.1	19.9
<b>Leverage Ratios (x)</b>					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.2)	(0.4)	(0.4)	(0.3)	(0.4)
Debt/EBITDA	0.2	0.0	0.0	0.0	0.0
Interest Coverage	31.0	43.1	28.5	22.5	25.7
Current ratio	2.3	2.1	2.1	2.3	2.5
<b>Growth Ratios (%)</b>					
Income growth	5.6	12.9	6.1	(2.5)	7.5
EBITDA growth	12.7	34.3	(9.6)	(10.0)	19.2
PAT growth	31.6	15.0	(5.4)	(14.3)	18.7
<b>Turnover Ratios</b>					
F.A Turnover x	9.0	11.3	12.9	11.8	11.9
Debtors Days	79	78	77	94	88
Payable days	29	30	40	35	36

### Balance Sheet (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY21E
Equity Share Capital	4,417	4,437	4,359	4,379	4,399
Reserves & Surplus	196,315	210,711	226,076	247,008	270,968
<b>Total Shareholders Fund</b>	<b>200,732</b>	<b>215,148</b>	<b>230,435</b>	<b>251,387</b>	<b>275,367</b>
Minority Interest	5,091	4,777	3,933	3,933	3,933
<b>Non- current liabilities</b>	<b>13,617</b>	<b>5,141</b>	<b>21,467</b>	<b>20,696</b>	<b>22,193</b>
Long term Borrowings	7,711	2,086	1,787	1,787	1,787
Deferred tax liabilities	(5,708)	(6,080)	(8,087)	(8,087)	(8,087)
Other LT liabilities & prov	11,613	9,135	27,767	26,996	28,493
<b>Current Liabilities</b>	<b>79,167</b>	<b>103,312</b>	<b>109,257</b>	<b>106,858</b>	<b>111,535</b>
Short-term borrowings	9,549	11,961	22,495	22,495	22,495
Trade payables	20,368	24,893	32,566	29,527	31,164
Other cur liabilities & Prov	49,250	66,458	54,196	54,836	57,876
<b>Total Liabilities</b>	<b>298,607</b>	<b>328,378</b>	<b>365,092</b>	<b>382,874</b>	<b>413,028</b>
<b>Assets</b>					
<b>Non- current Assets</b>	<b>117,537</b>	<b>112,720</b>	<b>133,369</b>	<b>133,812</b>	<b>138,843</b>
Fixed assets	34,115	30,700	28,554	30,554	32,554
Non-current investments	56,966	50,195	62,830	62,830	62,830
Long-term loans & adv	52	43	45	49	53
Other non-current assets	26,404	31,782	41,940	40,379	43,406
<b>Current assets</b>	<b>181,070</b>	<b>215,658</b>	<b>231,723</b>	<b>249,062</b>	<b>274,184</b>
Current investments	35,949	65,899	56,123	56,123	56,123
Trade receivables	64,979	69,586	75,772	93,562	89,988
Inventories	659	752	358	394	423
Cash & bank balances	19,661	20,427	30,167	32,013	55,659
Other current assets	59,822	58,994	69,303	66,970	71,991
<b>Total Assets</b>	<b>298,607</b>	<b>328,378</b>	<b>365,092</b>	<b>382,874</b>	<b>413,028</b>

### Cash flow Statement

Year End-March	FY18	FY19	FY20	FY21E	FY22E
<b>PBT</b>	<b>48,789</b>	<b>56,086</b>	<b>52,808</b>	<b>45,847</b>	<b>55,138</b>
Depreciation	7,720	10,920	12,451	16,981	17,812
Interest Exp	1,624	1,332	1,919	2,128	2,234
Others	(17,863)	(20,567)	(879)	1,000	500
<b>CF before W.cap</b>	<b>40,270</b>	<b>47,771</b>	<b>66,299</b>	<b>65,956</b>	<b>75,685</b>
Inc/dec in W.cap	(3,663)	(10,014)	12,460	17,106	(1,666)
<b>Op CF after W.cap</b>	<b>43,934</b>	<b>57,785</b>	<b>53,839</b>	<b>48,850</b>	<b>77,350</b>
Less Taxes	10,925	12,544	11,604	10,545	13,233
<b>Net CF From Operations</b>	<b>33,009</b>	<b>45,241</b>	<b>42,235</b>	<b>38,305</b>	<b>64,117</b>
Inc/(dec) in F.A + CWIP	9,507	7,877	12,312	18,981	19,812
(Pur)/sale of Investments	31,800	23,179	2,859	-	-
Others	16,376	18,668	(1,919)	(2,128)	(2,234)
<b>CF from Invst Activities</b>	<b>(24,931)</b>	<b>(12,388)</b>	<b>(17,090)</b>	<b>(21,109)</b>	<b>(22,047)</b>
Loan Raised/(repaid)	5,065	(3,213)	10,477	-	-
Equity Raised	975	(14,338)	(10,582)	20	20
Dividend	14,470	14,536	15,300	15,370	18,444
<b>CF from Fin Activities</b>	<b>(8,430)</b>	<b>(32,086)</b>	<b>(15,405)</b>	<b>(15,350)</b>	<b>(18,424)</b>
Net inc / (dec) in cash	(352)	766	9,740	1,846	23,646
<b>Op. bal of cash</b>	<b>20,013</b>	<b>19,661</b>	<b>20,427</b>	<b>30,167</b>	<b>32,013</b>
<b>Cl. balance of cash</b>	<b>19,661</b>	<b>20,427</b>	<b>30,167</b>	<b>32,013</b>	<b>55,659</b>



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