

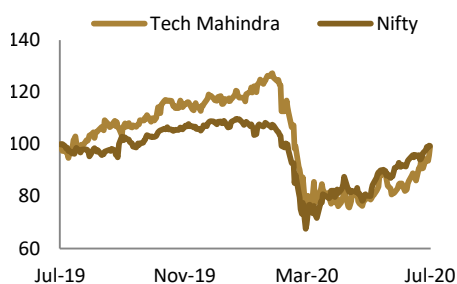
Market statistics

Current stock price (₹)	664
Shares O/S (cr.)	96.4
Mcap (₹ cr)	64,166
52W H/L (₹)	846/470
Bloomberg	TECHM IN

Shareholding pattern

Promoters	35.83
Domestic Institution	13.02
Foreign Institution	39.62
Non-institution	11.53
of which more than 1%	

Tech Mahindra vs Nifty



Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	18.1	14.9	15.9
EPS (₹)	46.3	44.2	51.9
CEPS (₹)	73.4	71.5	81.4
P/E (x) –ex treasury	10.3	13.4	11.3
P/BV (x) –ex treasury	1.8	1.9	1.7
EV/EBITDA (x)	5.5	6.8	5.5
Income growth (%)	6.1	(0.2)	8.0
EBITDA growth (%)	(9.6)	(3.8)	18.4
PAT growth (%)	(5.4)	(7.6)	18.6

ANALYST

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Tech Mahindra (TechM) reported better-than-expected performance on all parameters despite supply-side constraints in the BPO business, soft demand environment and weak seasonality in the Comviva business. Constant currency (cc) revenue declined by 6.3% QoQ, owing to a sharp fall in revenues in the communication (down 8.2% cc) and enterprise (down 5.1% cc) segments. Positives include leadership position in Telecom, 5G opportunity and higher synergies between Enterprise and Telecom. Margin remains a challenge for TechM. We expect margins to improve in FY22E by of alignment of cost structure with revenues for the overall business, especially portfolio companies. We maintain our Buy recommendation on the stock on compelling valuations.

Strong FCF Generation: TechM reported better-than-expected performance on all parameters. cc revenue declined by 6.3% QoQ, owing to a sharp fall in revenues of the communication (down 8.2% cc) vertical and enterprise (down 5.1% cc) segment. Revenues declined by 6.7% QoQ to US\$1.2bn, owing to Covid-19-led challenges with supply constraints (accounted for 1/4th of revenue loss due to COVID) and lower demand. Within the enterprise segment, technology, media & entertainment vertical revenue increased by 13.1% QoQ, while remaining verticals declined. EBITDA margin improved 8bps QoQ to 14.3%, led by better cost management, rupee depreciation and absence of one-time CSR spending, which was offset by COVID-19 impact, seasonality in Comviva business and H1-B visa costs. Free cash flow generation remained strong at US\$317mn (highest in the company's history), translating into a FCF-net profit conversion ratio of 246%.

5G capex delayed: The management highlighted that the pick-up in network business has been delayed due to slow decision making and higher uncertainties owing to COVID. Though the company has been executing projects relating to 5G for ecosystem, management highlighted that 5G spends by communication service providers and enterprises have been deferred by 5-7 months due to delay in decision making, geopolitical war and continuous postponement in spectrum allocation. However, it believes that 5G is a bigger requirement for the enterprise and communication service providers. Hence, capex on 5G is expected to start at early next year.

Management confident on margins rising in coming quarters: The management indicated that its cost optimization measures along with focus on structural changes would improve the margin trajectory in coming quarters. Further, lower travel costs, rationalisation of facilities, reduction in subcontractor expenses and tightening synergies with portfolio companies would help company to improve its margin trajectory. Hence, we believe that the company's margin improvement in FY22E would be led by (1) focus on structural changes like integration of back offices and building shared services units for all the operating units, (2) alignment of cost structure with revenues for the overall business especially portfolio companies, (3) reduction in subcontractor costs, (4) higher automation and (5) utilisation improvement.

Deal wins slowed down: The company signed deals with a total contract value (TCV) of worth US\$290mn vs US\$505mn in Q4FY20. TCVs of large deals remained lower during the quarter as compared to the average quarterly deal wins of US\$450-500mn. Management indicated that the company has a strong deal pipeline in Europe and expects to close these deals in next few quarters. The company expects improvement in TCVs of large deals in Q2 and Q3 as spending in BFSI, HLS and hi-tech remain strong.

Valuation and Outlook: Though spends around 5G have been delayed, we believe these spends will come back in medium term as the large global telecom players have already been committed to invest and strengthen their network. TechM is well invested to capitalise the benefit across networks and IT services from the expansion of 5G value chain. We maintain our Buy recommendation on the stock.

**Exhibit 1: Quarterly details**

₹ mn	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
Revenues (In US\$mn)	1,247	1,295	1,207	(6.8)	(3.2)	Communications vertical declined by 8.2% QoQ in cc. Revenue decline was lower in the enterprise segment at 5.1% in cc terms.
Revenues	86,530	94,902	91,063	(4.0)	5.2	
- Operating costs	73,389	81,424	78,058	(4.1)	6.4	
EBITDA	13,141	13,478	13,005	(3.5)	(1.0)	EBIT margin was flat at 10.1% qoq (1) 120 bps - one-offs in Mar'20 (2) 60 bps INR depreciation (3) cost optimization of 200 bps, offset by (1) Covid-related impact of 220 bps, (2) seasonality and visa cost of 70 bps, (3) utilization impact of 40 bps and (4) supply-side hit of 40 bps.
EBITDA margin (%)	15.2	14.2	14.3	8bps	(91)bps	
- Interest expense	454	532	503	(5.5)	10.8	
- Depreciation	3,213	3,982	3,832	(3.8)	19.3	
+ Other income, net (incl forex)	3,413	2,852	4,161	45.9	21.9	
PBT	12,887	11,816	12,831	8.6	(0.4)	
- Taxes	3,318	2,392	3,276	37.0	(1.3)	Tax rate to remain in the range of ~23-25% for FY21
Effective tax rate (%)	25.7	20.2	25.5	529bps	(21)bps	
PAT	9,569	9,424	9,555	1.4	(0.1)	
- Minority interest	24	790	168	NA	NA	
Consolidated PAT	9,593	10,214	9,723	(4.8)	1.4	
Net margin (%)	11.1	10.8	10.7	(9)bps	(41)bps	
Reported profits	9,593	8,039	9,723	20.9	1.4	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY21E			FY22E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	4,924	4,901	(0.5)	5,293	5,303	0.2
Revenue	359,473	368,120	2.4	386,421	397,753	2.9
EBITDA margin (%)	14.3	15.0	70bps	15.9	16.4	50bps
EPS (₹)	41.5	44.2	6.5	48.4	52.1	7.6

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
North America	48.2	47.0	47.4	46.4	47.6	48.5	48.4	47.7	49.3
Europe	30.0	29.6	28.9	28.6	27.6	26.7	27.0	26.5	25.8
RoW	21.8	23.4	23.7	25.0	24.8	24.8	24.6	25.8	24.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 4: Operating mix (%)

Details	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Onsite	66.6	64.5	65.5	65.2	65.3	65.4	65.3	65.2	64.0
Offshore	33.4	35.5	34.5	34.8	34.7	34.6	34.7	34.8	36.0
Utilisation (incl. trainees)	81	81	82	82	80	82	84	83	82

Source: Company



Human Resources: Software Professionals stood at 71,020, BPO at 45,554 and Support staff at 6,842 (1,820 Net employees left TECHM taking total to 123,416).

Exhibit 5: Employee strength at TECHM

Details	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Software Professionals	72,462	72,534	71,785	71,477	74,093	72,597	73,079	71,515	71,020
BPO employees	34,700	39,407	43,439	43,081	45,000	52,193	51,096	46,816	45,554
Sales & Support	6,390	6,450	6,618	6,524	6,680	6,732	6,664	6,905	6,842
Total employees	113,552	118,391	121,842	121,082	125,773	131,522	130,839	125,236	1,23,416

Source: Company

Client Concentration: TechM indicated that AT&T mega deal and insurance mega deal are progressing per schedule. Phase 1 of AT&T deal has been completed. Timing of execution on phase 2 of the deal is uncertain.

Exhibit 6: Client details

Vertical Mix	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
No. of Active Clients	926	930	935	938	941	946	964	973	981
> \$1 million clients	396	407	416	425	429	437	446	446	451
> \$5 million clients	154	157	157	156	160	155	164	160	161
> \$10 million clients	86	86	88	83	81	80	83	85	81
> \$20 million clients	47	45	46	50	49	49	50	50	48
> \$50 million clients	16	17	18	20	21	22	22	22	21
Top 5 clients (%)	22	23	23	23	21	22	22	21	22.0
Top 10 clients (%)	33	33	32	32	31	32	31	31	31.0
Top 20 clients (%)	46	46	44	45	44	44	42	44	43.0

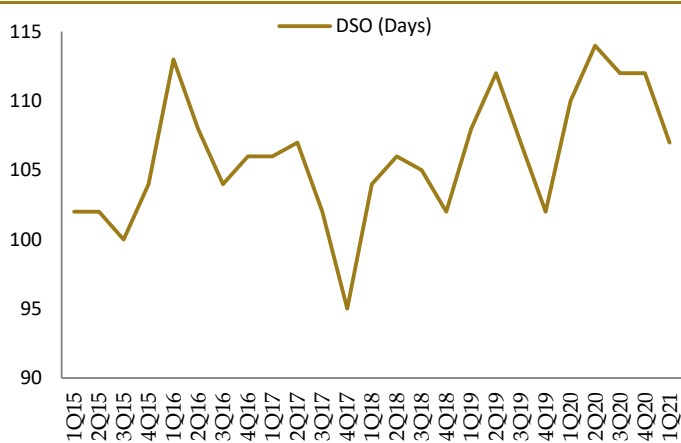
Source: Company

Exhibit 7: Vertical-wise breakup

Employees	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Telecom	39.6	41.5	41.1	42.7	42.0	41.1	42.6	40.8	40.0
Manufacturing	20.1	20.1	20.5	20.2	19.4	18.0	17.3	17.7	16.8
Technology, Media & Ent.	7.2	7.3	7.0	7.5	7.6	8.1	7.6	7.4	9.0
BFSI	13.6	13.5	13.4	13.1	12.8	13.0	13.2	15.3	15.7
Retail, Transport & Logistics	6.1	6.5	6.7	6.4	6.2	7.0	7.2	7.3	7.3
Others	13.4	11.1	11.3	10.1	12.0	12.8	12.1	11.5	11.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

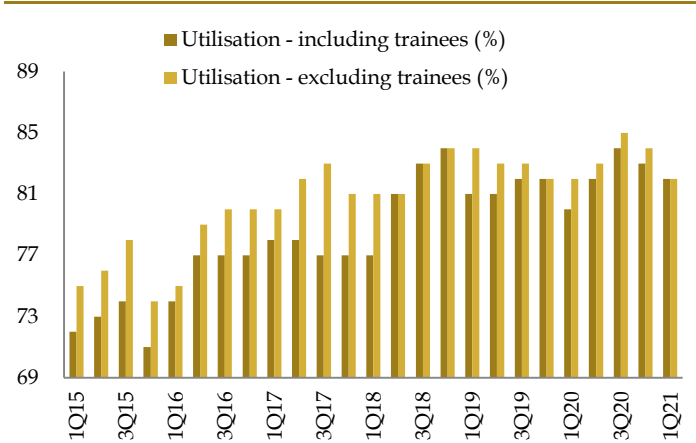
Source: Company

Exhibit 8: DSO days were down 5 QoQ to 107



Source: Company, Trust

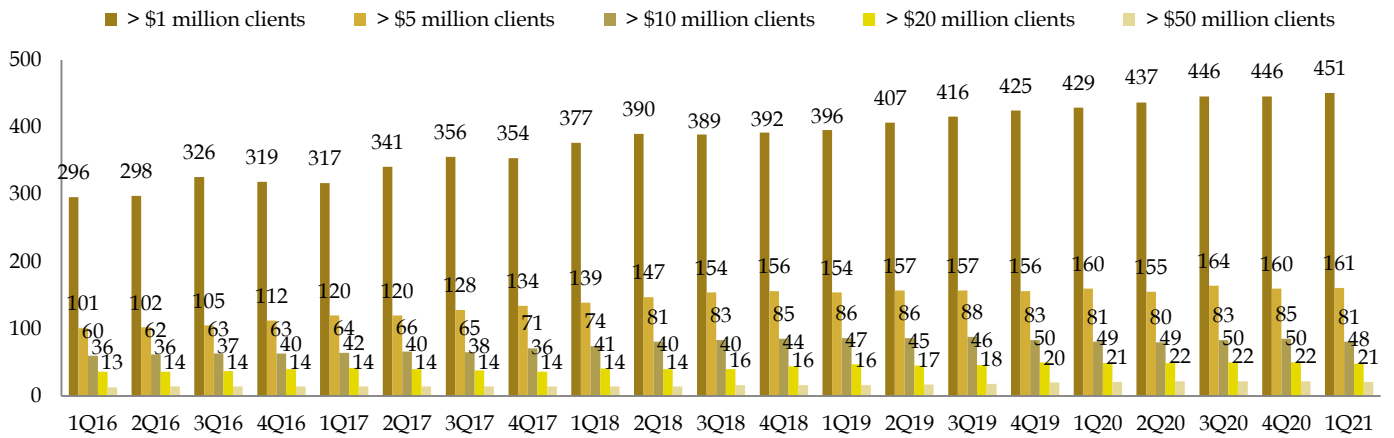
Exhibit 9: Utilization has limited room as a margin lever



Source: Company, Trust



Exhibit 10: TECHM lost a client QoQ in the US\$50mn+ bracket



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Revenues	307,730	347,421	368,677	3,68,120	3,97,753
Op. Expenses	260,560	284,053	311,416	3,13,021	3,32,528
EBITDA	47,170	63,368	57,261	55,099	65,225
Other Income	14,092	5,342	11,924	13,761	14,111
Depreciation	10,849	11,292	14,458	16,981	17,812
EBIT	50,413	57,418	54,727	51,878	61,524
Interest	1,624	1,332	1,919	2,012	2,113
PBT	48,789	56,086	52,808	49,866	59,411
Tax	10,925	12,544	11,604	11,794	14,259
PAT	37,864	43,542	41,204	38,072	45,152
Minority	137	(567)	1,296	672	500
Extra. Ord. Exp	-	-	(2,175)	-	-
Adj Pat	38,001	42,975	40,325	38,744	45,652

Key Parameters

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Per share (₹)					
EPS	43.0	48.4	46.3	44.2	51.9
CEPS	62.0	68.6	73.4	71.5	81.4
BVPS	247.2	282.1	319.1	349.4	386.6
DPS	14.0	14.0	15.0	16.0	19.0
Payout (%)	38.1	33.8	36.0	36.2	36.4
Valuation (x)					
P/E (excl. treasury shares)	13.2	14.5	10.3	13.4	11.3
P/BV	2.6	2.8	1.8	1.9	1.7
EV/EBITDA	8.7	8.2	5.5	6.8	5.5
Dividend Yield (%)	2.2	1.8	2.7	2.4	2.9
Return ratio (%)					
EBITDA Margin	15.3	18.2	15.5	15.0	16.4
PAT Margin	12.3	12.5	11.2	10.3	11.4
ROAE	20.8	20.6	18.1	14.9	15.9
ROACE	26.4	26.6	22.6	19.4	20.9
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)
Debt/EBITDA	0.2	0.0	0.0	0.0	0.0
Interest Coverage	31.0	43.1	28.5	25.8	29.1
Current ratio	2.3	2.1	2.1	2.3	2.5
Growth Ratios (%)					
Income growth	5.6	12.9	6.1	(0.2)	8.0
EBITDA growth	12.7	34.3	(9.6)	(3.8)	18.4
PAT growth	31.6	15.0	(5.4)	(7.6)	18.6
Turnover Ratios					
F.A Turnover x	9.0	11.3	12.9	12.0	12.2
Debtors Days	79	78	77	75	78
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	2,50,807	2,79,820
Total Shareholders Fund	200,732	215,148	230,435	2,55,186	2,84,219
Minority Interest	5,091	4,777	3,933	3,933	3,933
Non-current liabilities	13,617	5,141	21,467	21,143	22,853
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	27,443	29,153
Current Liabilities	79,167	103,312	109,257	1,08,254	1,13,599
Short-term borrowings	9,549	11,961	22,495	22,495	22,495
Trade payables	20,368	24,893	32,566	30,016	31,886
Other cur liabilities & Prov	49,250	66,458	54,196	55,743	59,217
Total Liabilities	298,607	328,378	365,092	3,88,517	4,24,603
Assets					
Non-current Assets	117,537	112,720	133,369	1,34,785	1,40,118
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	50	54
Other non-current assets	26,404	31,782	41,940	41,350	44,679
Current assets	181,070	215,658	231,723	2,53,732	2,84,486
Current investments	35,949	65,899	56,123	56,123	56,123
Trade receivables	64,979	69,586	75,772	75,641	81,730
Inventories	659	752	358	403	436
Cash & bank balances	19,661	20,427	30,167	52,983	72,095
Other current assets	59,822	58,994	69,303	68,581	74,102
Total Assets	298,607	328,378	365,092	3,88,517	4,24,603

Cash flow Statement

Year End-March	FY18	FY19	FY20	FY21E	FY22E
PBT	48,789	56,086	52,808	49,866	59,411
Depreciation	7,720	10,920	12,451	16,981	17,812
Interest Exp	1,624	1,332	1,919	2,012	2,113
Others	(17,863)	(20,567)	(879)	672	500
CF before W.cap	40,270	47,771	66,299	69,532	79,836
Inc/dec in W.cap	(3,663)	(10,014)	12,460	(65)	7,920
Op CF after W.cap	43,934	57,785	53,839	69,596	71,916
Less Taxes	10,925	12,544	11,604	11,794	14,259
Net CF From Operations	33,009	45,241	42,235	57,802	57,657
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)	(2,012)	(2,113)
CF from Invst Activities	(24,931)	(12,388)	(17,090)	(20,993)	(21,925)
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	14,013	16,640
CF from Fin Activities	(8,430)	(32,086)	(15,405)	(13,993)	(16,620)
Net inc/(dec) in cash	(352)	766	9,740	22,816	19,112
Op. bal of cash	20,013	19,661	20,427	30,167	52,983
Cl. balance of cash	19,661	20,427	30,167	52,983	72,095



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