



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Investor Day 2019@ Dalal&Broacha

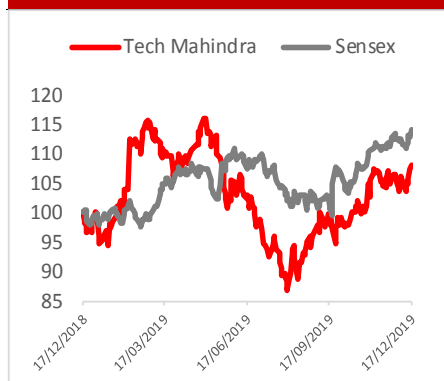
ACCUMULATE

Current Price	777
Target Price	851
Upside	10%
52 Week Range	608/846

Key Share Data

Market Cap (Rs.Bn)	757.25
Market Cap (US\$ Mn)	10665.49
No of o/s shares (Mn)	964.82
Face Value	5
Monthly Avg. Vol(BSE+NSE) '000	
BSE Code	532755
NSE Code	TECHM
Bloomberg	TECHM:IN

Price performance



% Shareholding	Sept-19	June-19
Promoters	35.88	35.90
Public	64.11	64.09
Others	0.01	0.01
Total	100	100

Consolidated Financials

INR Mn	Net Sales	% Growth	EBITDA	EBITDA Margin (%)	PAT	PAT Margin (%)	EPS	% Growth	P/E (x)	ROE (%)	ROCE (%)
FY18	3,07,730	5.6%	47,170	15.3%	38,001	12.3%	43.0	33.8%	18.1x	20.7%	18.0%
FY19	3,47,421	12.9%	63,368	18.2%	43,630	12.6%	49.4	14.8%	15.7x	20.5%	18.2%
FY20e	3,66,154	5.4%	61,879	16.9%	45,258	12.4%	51.3	3.7%	15.2x	18.5%	17.0%
FY21e	3,95,140	7.9%	69,619	17.6%	50,199	12.7%	56.9	10.9%	13.7x	18.0%	16.7%
FY22e	4,26,912	8.0%	75,915	9.0%	55,650	10.9%	63.0	10.9%	12.3x	17.6%	16.4%

TechM's Investor Day 2019 - 'Synergize & Simplify' focussed on "3-4-3:NXt" strategy (3 trends with 4 major offerings and 3 Objectives) that revolved around 4 broad themes: (i) AI (ii) 5G (iii) Cyber Security and (iv) Business by Design.

Key takeaways:

- Large deal wins momentum has gradually picked up over the last 6 quarters. TechM has won a total of \$3.7 Bn in large deals between Q1FY19 to Q2FY20. Notably, the quantum of deal wins have increased by 5.6x at \$1,493 Mn in Q2FY20 vis-à-vis \$265 Mn in Q1FY19.
- Deal wins have been broadbased across Comms and Enterprise and across various verticals and geographies
- Digital revenue stands at 39% of total in Q2FY20 vs 26.7% of revenue in Q1FY19. Digital revenue has grown at a CQGR of 10% over the last 5 quarters.
- EBIT margin stood at 15% in FY19. With TechM transitioning to a more Agile led delivery model and an integrated offerings approach, expect this transition to impact margins in FY20. Additionally, headwinds such as stagnant currency and slowdown in comms spend have also impacted margins in FY20. However, FY21e should be marked with an uptick in margins due to transformed delivery model, recuperation of transition cost and synergies from portfolio companies.
- In terms of talent, TechM focussed on upskilling through their Talex platform, automation and AI

Communications:

- Deal wins in Comms has seen a marked shift from a "Run the business" dominated in H1FY19 to "Change/Grow the business" dominated in H1FY20
- Going ahead, the 3 major trends in Comms will be – 5G, Customer of tomorrow and Telco Media Convergence. These trends will materialize through traction in following areas: Network Modernisation, IT Transformation, CSP Operations, IT Infra and Security
- TechM sees opportunities in following segments:
 - 5G: rollout of 5G should impact High Tech, Transportation, BFS, Manufacturing, Retail, Education and Healthcare. TechM sees massive opportunity in Network Slicing, Private 5G Networks, 5G labs, Industrialization and Factory of the Future
 - Media and Entertainment: Company sees major trends in Media through convergence, collision and collaboration between Telecoms and Media and TechM plans to address these trends through its portfolio companies MadPow, BORN and VIE
 - Customer Experience Transformation (CX) – higher personalization should result in Customer Experience market growing at 18.5% CAGR going ahead. Portfolio companies that address these trends: BORN, ServiceNow BIO and DynaCommerce
 - Digital Business Support Services (BSS) – Cloud and AI modernization are 2 major areas which can be addressed by Blue Marble, DynaCommerce, GAIA and Salesforce



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- Network Services – will leverage cloud going ahead and witness co-existence of Legacy and New Networks
- Cloud Transformation – Go to Market with healthy partner ecosystem (AWS, Google Cloud, MPAC and Microsoft Azure)

Enterprise Business

- TechM's enterprise business has come a long way since its birthplace through Satyam acquisition.
- 4 main strategies include Deeper and Wider Service Lines, Change in Business Mix, New Delivery Centers and Agile
- TechM plans to re-imagine its Enterprise business through a completely integrated approach of offering its service offerings combined with partner ecosystem and portfolio companies.

BPS Business

- TechM's BPS business is outperforming industry growth as a result of its heavy leveraging of automation and leadership in CX and Front Office. For instance in 2019 itself, while industry grew at 4%, TechM's BPS business grew at 18%.
- TechM's usage of Automation (m.ai.a) and Analytics (SeeR) is enabling disruption of traditional BPS business
- Moreover, company plans to further disrupt its BPS business through Productized Services and Outcome based revenue models . Platforms include Tactix, GAiA, NewAgeDelivery, BlueMarble and Carexa

Integrated Engineering Services (IES)

- Within IES, TechM's major focus is on Automotive and emerging themes therein: Connected Cars, V2X and Connected Ecosystem
- TechM plans to go the market with an integrated offering of Design (through pininfarina), engineering and Consulting
- Going ahead, management plans to focus on other industries such as Manufacturing, Hi-Tech and Communications as well.

Synergies through portfolio companies

- TechM has been able to achieve major synergies such as solid revenue growth, multifold increase in pipeline and TCW wins
- Acquisitions such as MadPow, pininfarina, BIO and BORN have enabled designing capabilities whereas DynaCommerce and Target have given access to industry leading platforms. Going ahead, management plans to double down its focus on integrating its offerings portfolio to extract higher synergies

Delivery Transformation

- TechM plans to transform its delivery through its AQT framework and NewAgeDelivery platform which largely leverage automation and agile models to drive efficiency
- AQT was launched in 2015 and now has over 7500 associates trained under this framework application across 350+ accounts
- These delivery models have enabled major efficiency benefits through capex and opex reduction, faster time to market, increase in revenue per employee and increase in time savings.

Valuations & Outlook

We believe that TechM is a clear leader in the Communications space. Rollout of 5G should open several avenues in the comms space as it will bring about an exponential increase in connected devices, disruptive business models due to better AI and automation capabilities. 5G rollout will unwind massive opportunities for Tech Mahindra not only in the Comms business, but also in Engineering and Design. Expect opportunities due to 5G will be industry agnostic. However, 5G implementation is still at nascent stages in US and Europe, EMEA and Asia Pacific (barring China and Korea) and will take another year or 2 before a fullscale rollout. We still follow the thumb rule in communications which is a minimum of 2 years requirement for hardware rollout followed by 2 years of software transformation. We are particularly positive of TechM's transformation initiatives in internal ops, delivery and an integrated approach to Go-To-Market, however, H2FY20 will be consumed in this transition and therefore margins should be relatively softer.

We believe that TechM has got its timing right of coinciding its transition with the 5 implementation, which will enable the company to reap maximum benefits when the time is right. However, we believe that this transition and a 5G rollout over the next year or 2 will offer ample opportunities to accumulate the stock. At CMP of INR 777, the stock is trading at 13.7x and 12.3x FY21e and FY22e EPS. We recommend to 'Accumulate' the stock at lower levels with a revised target price of INR 851 based on FY22e EPS of INR 62.



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YE March (Rs. mn)	Profit & Loss A/c				
	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	3,07,730	3,47,421	3,66,154	3,95,140	4,26,912
Growth %	5.6%	12.9%	5.4%	7.9%	8.0%
Total Revenue	3,07,730	3,47,421	3,66,154	3,95,140	4,26,912
Less:					
Software development expenses	2,15,299	2,33,590	2,54,268	2,70,202	2,91,230
Selling, Mktg & General expenses	45,261	50,463	50,006	55,320	59,768
Total Operating Expenditure	2,60,560	2,84,053	3,04,275	3,25,522	3,50,997
EBIDTA	47,170	63,368	61,879	69,619	75,915
Growth %	12.7%	34.3%	-2.3%	12.5%	9.0%
Less: Depreciation	10,849	11,292	12,741	12,927	12,927
EBIT	36,321	52,076	49,138	56,692	62,988
Growth %	13.3%	43.4%	-5.6%	15.4%	11.1%
EBIT Margin (%)	11.8%	15.0%	13.4%	14.3%	14.8%
Non-operating Income	14,092	5,342	11,315	12,004	12,969
Profit Before tax	48,789	56,086	58,855	67,195	74,485
Tax	10,925	12,544	13,732	16,799	18,621
Minority Interest	137	88	135	-198	-213
Net Profit	38,001	43,630	45,258	50,199	55,650
Adjusted Profit	38,001	43,630	45,258	50,199	55,650
Reported Diluted EPS Rs	43.0	49.4	51.3	56.9	63.0
Growth %	33.8%	14.8%	3.7%	10.9%	10.9%
Adjusted Diluted EPS Rs	43.0	49.4	51.3	56.9	63.0
Growth %	33.8%	14.8%	3.7%	10.9%	10.9%

YE March(Rs. mn)	Balance Sheet				
	FY18	FY19	FY20E	FY21E	FY22E
Liabilities					
Equity Capital	4,417	4,437	4,437	4,437	4,437
Reserves & Surplus	1,86,535	2,17,076	2,48,757	2,83,896	3,22,851
Equity	1,90,952	2,21,513	2,53,194	2,88,333	3,27,288
Net Worth	1,90,952	2,21,513	2,53,194	2,88,333	3,27,288
Total Loans	7,711	2,086	1,886	1,686	1,486
Long term Provisions	5,551	5,801	6,381	7,019	7,721
Amount Pending Investigation	12,304	12,304	12,304	12,304	12,304
Capital Employed	2,27,729	2,49,826	2,82,221	3,18,167	3,58,028
Assets					
Net Block	29,810	26,229	18,488	20,561	27,634
Capital WIP	2,399	2,763	2,763	2,763	2,763
Investments	14,364	9,228	9,228	9,228	9,228
Intangible Assets	16,781	14,512	14,512	14,512	14,512
Current Assets					
Sundry Debtors	64,979	69,586	76,545	84,199	92,619
Cash and Bank Balance	60,694	70,419	95,555	1,12,829	1,27,255
Total Current Assets	2,11,321	2,62,490	3,06,222	3,43,910	3,80,744
Less:Current Liabilities & Provisions					
Sundry Creditors	20,368	24,893	26,884	29,035	31,358
Total Current Liabilities & Provisions	79,167	1,03,312	1,10,699	1,18,685	1,27,319
Capital Applied	2,27,729	2,49,826	2,82,221	3,18,167	3,58,028

YE March (Rs. mn)	Free Cash Flow Statement				
	FY18	FY19	FY20E	FY21E	FY22E
EBIDTA	36,321	52,076	49,138	56,692	62,988
Less: Adjusted Taxes	8,133	11,647	11,464	14,173	15,747
NOPLAT	28,188	40,429	37,673	42,519	47,241
Plus: Depreciation	10,849	11,292	12,741	12,927	12,927
Less: Increase in Working Capital	4,636	18,093	11,584	13,007	14,410
Operating Cashflow	34,400	33,628	38,831	42,439	45,758
Less: Net Capex	8,612	8,075	5,000	15,000	20,000
Less: Increase in Net Other Asset	14,441	6,515	3,457	3,803	4,183
Total FCF	11,347	19,038	30,374	23,636	21,575

YE March (Rs. mn)	Key Ratios				
	FY18	FY19	FY20E	FY21E	FY22E
Key Operating Ratios					
EBITDA Margin (%)	15.3%	18.2%	16.9%	17.6%	17.8%
Tax / PBT (%)	22.4%	22.4%	23.3%	25.0%	25.0%
Net Profit Margin (%)	12.3%	12.6%	12.4%	12.7%	13.0%
RoE (%)	20.7%	20.5%	18.5%	18.0%	17.6%
RoCE (%)	18.0%	18.2%	17.0%	16.7%	16.4%
Current Ratio (x)	2.7x	2.5x	2.8x	2.9x	3.0x
Dividend Payout (%)	30.0%	30.0%	30.0%	30.0%	30.0%
Book Value Per Share (Rs.)	216.3	250.9	286.7	326.5	370.7
Growth Indicators %					
Growth in Gross Block (%)					
Sales Growth (%)	5.6%	12.9%	5.4%	7.9%	8.0%
EBITDA Growth (%)	12.7%	34.3%	(2.3%)	12.5%	9.0%
Net Profit Growth (%)	33.8%	14.8%	3.7%	10.9%	10.9%
Diluted EPS Growth (%)	33.8%	14.8%	3.7%	10.9%	10.9%
Turnover Ratios					
Debtors (Days of net sales)	77	73	76	78	79

Key Ratios					
EBIDTA (%)	15.3%	18.2%	16.9%	17.6%	17.8%
NPM (%)	12.3%	12.6%	12.4%	12.7%	13.0%
RoE (%)	20.7%	20.5%	18.5%	18.0%	17.6%
RoCE (%)	18.0%	18.2%	17.0%	16.7%	16.4%
Book Value Pershare (Rs.)	216.3	250.9	286.7	326.5	370.7
Valuation Ratios					
P/E (x)	18.1x	15.7x	15.2x	13.7x	12.3x
EV/EBITDA	13.4x	9.7x	9.6x	8.3x	7.4x
P/BV (x)	3.6x	3.1x	2.7x	2.4x	2.1x
Market Cap. / Sales (x)	2.2x	2.0x	1.9x	1.7x	1.6x



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