



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q1 FY21 Result Update@ Dalal&Broacha

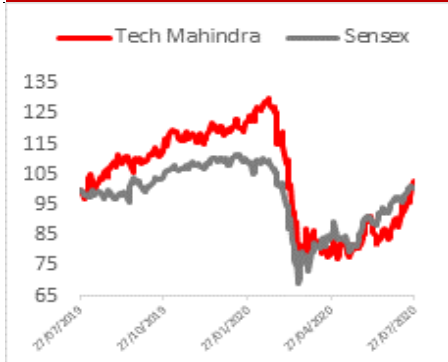
BUY

Current Price	664
Target Price	755
Upside	14%
52 Week Range	470/846

Key Share Data

Market Cap (Rs.Bn)	641.66
Market Cap (US\$ Bn)	8.58
No of o/s shares (Mn)	966.18
Face Value	5
Monthly Avg. Vol (BSE+NSE) ('000)	5771.21
BSE Code	532755
NSE Code	TECHM
Bloomberg	TECHM:IN

Price performance



% Shareholding	Jun-20	Mar-20
Promoters	35.83	35.85
Public	64.16	64.15
Others	0.01	0.01
Total	100	100

TechM's Q1FY21 performance was a big beat on our estimates, especially on the profitability front

- \$ revenue: \$ 1207.5 Mn, -6.7% qoq / -3.2% yoy and 1.3% above our estimates
- INR revenue: INR 91,063 Mn, -4% qoq / +5.2% yoy and 0.7% above our estimates
- EBITDA: INR 13005 Mn, -3.5% qoq / -1% yoy and +19% vs our estimates.
- EBITDA for the quarter was robust due to a 2.7% qoq reduction (+5.6% yoy) in Cost of Services and 10.8% qoq reduction (+10.8% yoy) in SGA expenses
- EBITDA margins: 14.3%, vs 14.2% / 15.2% in Q4FY20 / Q1FY20 respectively and 230 bps above our estimates
- EBIT: INR 9,173 Mn, -3.4% qoq / -7.6% yoy and +36% vs our estimates
- EBIT margins: 10.1%, vs 10% / 11.5% in Q4FY20 / Q1FY20 respectively and 260 bps above our estimates
- PAT: INR 9,723 Mn, -4.8% qoq / +1.4% yoy and 38.5% above our estimates
- EPS at INR 11.1 in Q1FY21 vs 11.6 / 10.9 in Q4FY20 / Q1FY20 respectively

Industry-wise

- Only **Technology, Media & Entertainment (9% of revenue)** reported a growth of **13.4% qoq / 14.7% yoy**
- De-growth was largely led by **Communications (40% of revenue)** which was down -8.6% qoq / -7.8% yoy. **Manufacturing (16.8% of revenue)** was down -11.5% qoq / -16.2% yoy. **BFSI (15.7% of revenue)** was down -4.3% qoq / +18.8% yoy

Concall KTAs

- Expect margins to improve sequentially as company is micro-managing each cost item, re-designing structure and bringing in more advanced tools
 - BPS saw a good bounce-back, however Network Services (large part of Comms) was sluggish and will recover slowly because while Ecosystem (Handsets, Apps, etc) players are spending and prepared, Communication Service Providers and Enterprises are deferring decisions and spends due to geo-political issues and COVID. See 5G spend picking up from FY22e
 - FCF stood at \$317 Mn
 - Reduced debt to the tune of \$50 Mn
 - 1/4th of impact in current quarter due to Supply Side issues and 3/4th due to demand side issues
 - Worst is behind us and should see momentum picking up at marginal pace going ahead. Momentum will be led by Enterprise segment as Comms is expected to recover slowly (FY22e) due to network services
 - Momentum in BFSI, Healthcare & Lifesciences, Manufacturing and Technology to pick up as management expects to close several deals in these segments
 - Sluggish automotive sector to serve as headwind for Manufacturing space
 - Geographically, US is seeing green shoots in terms of deal signings
- Seasonality of mobility business and higher visa costs served as margin headwinds whereas currency and cost savings were tailwinds

Consolidated Financials (In INR Mn)

INR Mn	Net Sales	% Growth	EBITDA	Margin (%)	PAT	Margin (%)	EPS	Growth (%)	PE (x)	ROE (%)	ROCE (%)
FY18	13863	12.4%	3460	25.0%	2400	17.3%	38.5	39%	23.7x	35.1%	38.3%
FY19	15969	15.2%	4150	26.0%	2903	18.2%	46.6	21%	19.6x	32.9%	35.5%
FY20	16099	0.8%	3430	21.3%	2571	16.0%	41.3	-11%	22.2x	24.0%	27.7%
FY21E	16659	3.5%	3974	23.9%	2972	17.8%	47.7	16%	19.2x	23.3%	26.3%
FY22E	18460	10.8%	4417	23.9%	3245	17.6%	52.1	9%	17.6x	21.7%	24.0%

Source: Company, Dalal&Broacha Research



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Q1FY21 Performance Review

YE March (Rs. mn)	Q1 FY21	Q4 FY20	Q-o-Q change %	Q1 FY20	Y-o-Y change %	Q1 FY21 Estimates	Deviation %
Net Sales (USD Mn)	1,208	1,295	(6.7%)	1,247	(3.2%)	1,192	1.3%
Net Sales (INR Mn)	91,063	94,902	(4.0%)	86,530	5.2%	90,446	0.7%
Less:							
Employees Remuneration & Benefits	65,105	66,896	(2.7%)	61,642	5.6%	66,896	(2.7%)
Administrative & Other Expenses	12,953	14,528	(10.8%)	11,747	10.3%	12,662	2.3%
Total Operating Expenditure	78,058	81,424	(4.1%)	73,389	6.4%	79,558	(1.9%)
EBITDA	13,005	13,478	(3.5%)	13,141	(1.0%)	10,888	19.4%
Less: Depreciation	3,832	3,982	(3.8%)	3,213	19.3%	4,141	(7.5%)
EBIT	9,173	9,496	(3.4%)	9,928	(7.6%)	6,747	36.0%
Less: Interest	503	532	(5.5%)	454	10.8%	646	(22.1%)
Add: Other income	4,161	2,852	45.9%	3,413	21.9%	2,487	67.3%
Profit Before Tax	12,831	13,991	(8.3%)	12,887	(0.4%)	8,588	49.4%
Adjusted Profit Before Tax	12,831	11,816	8.6%	12,887	(0.4%)	8,588	49.4%
Less: Total Tax	3,276	2,392	37.0%	3,318	(1.3%)	2,018	62.3%
Minority Interest	167	775		102		452	
Reported PAT	9,723	8,039	20.9%	9,593	1.4%	7,022	38.5%
Adjusted PAT	9,722	10,214	(4.8%)	9,593	1.3%	7,022	38.4%
Reported Diluted EPS (Rs.)	11.0	9.1	20.9%	10.9	1.4%	8.0	38.5%
Adjusted Diluted EPS (Rs.)	11.0	11.6	(4.8%)	10.9	1.3%	8.0	38.4%
No of Shared Diluted (mn)	883.0	883.0		883.0		883.0	
Margin Analysis %			Change in bps		Change in bps		Change in bps
EBIT Margin	10.1%	10.0%	7	11.5%	(140)	7.5%	261
EBITDA Margin	14.3%	14.2%	8	15.2%	(91)	12.0%	224
NPM	10.7%	8.5%	221	11.1%	(41)	7.8%	291
Adjusted NPM	10.7%	10.8%	(9)	11.1%	(41)	7.8%	291
Effective Tax Rate %	25.5%	17.1%	844	25.7%	(21)	23.5%	203
Cost Analysis %			Change in bps		Change in bps		Change in bps
Employee Cost/Net Sales	71.5%	70.5%	100	71.2%	26	74.0%	(247)
SG&A/Net Sales	14.2%	15.3%	(108)	13.6%	65	14.0%	22

Source: Company, Dalal&Broacha Research

- \$ Revenue was 1.3% above our estimates

- EBITDA was 19.4% above our estimates mainly due to lower Employee expenses (-2.7% qoq) and lower SGA expenses (-10.8% qoq). Management guided for a positive margin trajectory going ahead

- PAT was higher due to higher operating profit as well as higher other income (forex gain of INR 857 Mn in Q1 vs INR 73 Mn in Q4FY20 + higher dividend and interest income of INR 3304 Mn vs INR 2779 Mn / INR 2395 Mn in Q4FY20 and Q1FY20 respectively)

Valuation & Outlook

Tech Mahindra is trading at 15.1x / 13.2x FY21e / FY22e EPS. As per management, the worst, as far as COVID impact is concerned, seems to be over and one can expect growth to bounce-back from Q2FY21 onwards. One can expect relatively healthier momentum in BFSI, Healthcare and Manufacturing whereas Technology, Media and Entertainment (9% of revenue) should continue to see strong momentum. However, management expects strong growth momentum in Network Services (part of Communications segment) to pick up from FY22e beginning only as CSPs and Enterprises have deferred 5G spend due to COVID and geo-political issues. Management's cost management initiatives should translate into positive margin trajectory going ahead and debt reduction (\$50 Mn paid off in current quarter) should aid bottom-line.

Management's commentary during the call was mixed as margin improvements and green shoots in enterprise segment were coupled with softness in Network Services. However, we are of the firm belief that 5G is inevitable albeit delayed (FY22e). Stock price might reflect the softness in management commentary and we believe this to be a good opportunity to BUY. Therefore, we upgrade our Target Price from INR 616 to INR 755, i.e. 15x FY22e EPS.



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YE March (Rs. mn)	Profit & Loss A/c				
	FY18	FY19	FY20	FY21E	FY22E
Net Sales	307,730	347,421	368,677	373,199	400,226
Growth %	5.6%	12.9%	6.1%	1.2%	7.2%
Total Revenue	307,730	347,421	368,677	373,199	400,226
Less:					
Employee Expenses	215,299	233,590	259,743	264,960	282,387
SGA Expenses	45,261	50,463	51,673	52,452	56,032
Total Operating Expenditure	260,560	284,053	311,416	317,412	338,418
EBIDTA	47,170	63,368	57,261	55,787	61,807
Growth %	12.7%	34.3%	-9.6%	-2.6%	10.8%
Less: Depreciation	10,849	11,292	14,458	18,713	18,730
EBIT	36,321	52,076	42,803	37,074	43,077
Growth %	13.3%	43.4%	-17.8%	-13.4%	16.2%
EBIT Margin (%)	11.8%	15.0%	11.6%	9.9%	10.8%
Non-operating Income	14,092	5,342	11,924	16,577	18,010
Profit Before tax	48,789	56,086	54,983	51,304	58,662
Tax	10,925	12,544	11,604	13,099	14,978
Minority Interest	137	88	1,356	684	734
Net Profit	38,001	43,630	44,735	38,890	44,419
Adjusted Profit	38,001	43,630	42,560	38,890	44,419
Reported Diluted EPS Rs	43.0	49.4	50.7	44.0	50.3
Growth %	33.8%	14.8%	2.5%	-13.1%	14.2%
Adjusted Diluted EPS Rs	43.0	49.4	48.2	44.0	50.3
Growth %	33.8%	14.8%	-2.5%	-8.6%	14.2%

Key Ratios					
EBIDTA (%)	15.3%	18.2%	15.5%	14.9%	15.4%
NPM (%)	12.3%	12.6%	12.1%	10.4%	11.1%
RoE (%)	20.9%	21.4%	19.0%	16.4%	16.4%
RoCE (%)	18.1%	18.9%	16.7%	14.1%	14.3%
Book Value Per share (Rs.)	213.4	229.7	247.0	282.3	317.5
Valuation Ratios					
P/E (x)	15.4x	13.4x	13.1x	15.1x	13.2x
EV/EBITDA	11.9x	8.9x	9.7x	9.8x	8.6x
P/BV (x)	3.1x	2.9x	2.7x	2.4x	2.1x
Market Cap. / Sales (x)	1.9x	1.7x	1.6x	1.6x	1.5x

YE March(Rs. mn)	Balance Sheet				
	FY18	FY19	FY20	FY21E	FY22E
Liabilities					
Equity Capital	4,417	4,437	4,359	4,359	4,359
Reserves & Surplus	184,011	198,407	213,772	244,884	275,977
Equity	188,428	202,844	218,131	249,243	280,336
Net Worth	188,428	202,844	218,131	249,243	280,336
Total Loans	7,711	2,086	1,787	1,587	1,387
Long term Provisions	5,551	5,801	6,691	7,360	8,096
Amount Pending Investigation	12,304	12,304	12,304	12,304	12,304
Lease Liabilities				11,998	11,998
Capital Employed	225,205	231,157	267,737	300,607	333,655
Assets					
Net Block	29,810	26,229	26,609	23,093	24,362
Right of Use Assets				11,730	7,277
Capital WIP	2,399	2,763	501	501	501
Investments	14,364	9,228	3,804	4,184	4,603
Intangible Assets	44,508	42,675	48,937	50,443	52,100
Current Assets					
Sundry Debtors	64,979	69,586	75,772	87,138	95,852
Cash and Bank Balance	30,443	23,587	31,483	39,144	56,753
Total Current Assets	181,070	215,658	231,723	262,548	301,029
Less:Current Liabilities & Provisions					
Sundry Creditors	20,368	24,893	32,566	34,846	37,633
Total Current Liabilities & Provisions	79,167	103,312	105,798	109,708	116,871
Capital Applied	225,205	231,157	267,737	300,607	333,655

YE March (Rs. mn)	Key Ratios				
	FY18	FY19	FY20	FY21E	FY22E
Key Operating Ratios					
EBITDA Margin (%)	15.3%	18.2%	15.5%	14.9%	15.4%
Tax / PBT (%)	22.4%	22.4%	21.1%	25.5%	25.5%
Net Profit Margin (%)	12.3%	12.6%	12.1%	10.4%	11.1%
RoE (%)	20.9%	21.4%	19.0%	16.4%	16.4%
RoCE (%)	18.1%	18.9%	16.7%	14.1%	14.3%
Current Ratio (x)	2.3x	2.1x	2.2x	2.4x	2.6x
Dividend Payout (%)	30.0%	37.6%	61.5%	20.0%	30.0%
Book Value Per Share (Rs.)	213.4	229.7	247.0	282.3	317.5
Growth Indicators %					
Growth in Gross Block (%)					
Sales Growth (%)	5.6%	12.9%	6.1%	1.2%	7.2%
EBITDA Growth (%)	12.7%	34.3%	(9.6%)	(2.6%)	10.8%
Net Profit Growth (%)	33.8%	14.8%	2.5%	(13.1%)	14.2%
Diluted EPS Growth (%)	33.8%	14.8%	2.5%	(13.1%)	14.2%



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