

TechM reported a decent performance in Q1FY22 with a marginal beat on our estimates across the board

- \$ revenue: \$1,383.6 Mn, +4.1% qoq / +14.6% yoy and 2% above our estimates
- INR revenue: INR 101,976 Mn, +4.8% qoq / +12% yoy and 2% above our estimates
- EBITDA: INR 18,764 Mn, -3.7% qoq / +44.3% yoy and +1.3% vs our estimates.
- EBITDA margins: 18.4%, vs 20% / 14.3% in Q4FY21 / Q1FY21 respectively and in-line with our est.
- EBIT: INR 15,453 Mn, -3.6% qoq / +68.5% yoy and +7.6% vs our estimates
- EBIT margins: 15.2%, vs 16.5% / 10.1% in Q4FY21 / Q1FY21 respectively and 80 bps above our est.
- PAT: INR 13,532 Mn, +25.1% qoq / +39.2% yoy and +11.3% vs our estimates
- PAT reported a solid growth during the quarter due to Forex Gains of INR 1,077 Mn vs loss INR (628) Mn in Q4FY21
- EPS at INR 15.4 vs 12.8 / 11 in Q4FY21 / Q1FY21 respectively
- Company signed deals worth \$815 Mn in Q1 vs \$1,043 Mn / \$290 Mn in Q4FY21 / Q1FY21 respectively

Industry Highlights

- Growth was broad-based across segments but led by Technology (8.8% revenue) at 8.1% qoq / 22.7% yoy followed by Manufacturing (16.5% of revenue) at 4.5% qoq / 12.2% yoy and BFSI (16.4% of revenue) at 3.7% qoq / 19.7% yoy
- Communications (40% of revenue) grew 3.2% qoq / 12.6% yoy

Segmental Highlights

- Communications grew at 2.9% qoq / 7.8% yoy in cc terms
- Enterprise grew at 4.5% qoq / 12.9% yoy in cc terms

Geographical Highlights

- Americas (46.7% of revenue) led the growth with 6.8% qoq and 8.4% qoq followed by Europe (27.2% of revenue) at 6.6% qoq / 20.5% yoy
- ROW (26.1% of revenue) reported -2.7% qoq / +20.7% yoy

Financial Summary

Y/E Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Net sales	3,68,677	3,78,551	4,29,259	4,81,902
EBITDA	57,261	68,471	80,136	90,629
Adjusted net profit	42,505	44,788	54,456	61,553
Free cash flow	17,218	6,289	10,444	23,490
EPS (Rs)	48.1	50.7	62.3	70.4
growth (%)	-1%	5%	23%	13%
P/E (x)	24.7	22.0	18.1	16.0
P/B (x)	4.6	3.9	3.4	2.9
EV/EBITDA (x)	16.9	14.1	11.9	10.4
ROCE (%)	16.7	16.0	16.9	16.8
RoE (%)	19.0	18.6	19.3	19.0
Dividend yield (%)	2.8	0.9	1.7	1.9

Source: Company

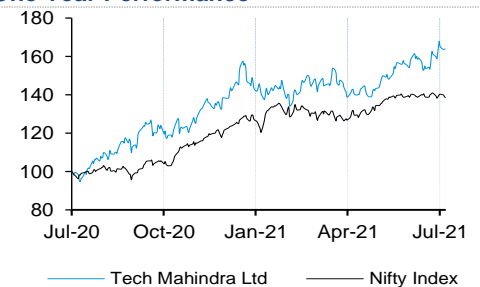
Rating	TP (Rs)	Up/Dn (%)
BUY	1407	26

Market data

Current price	Rs	1122
Market Cap (Rs.Bn)	(Rs Bn)	1087
Market Cap (US\$ Mn)	(US\$ Mn)	14597
Face Value	Rs	5
52 Weeks High/Low	Rs	1142/622
Average Daily Volume	('000)	1433
BSE Code		532755
Bloomberg		TECHM:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	35.73	35.76
Public	64.26	64.24
Others	0.01	0.01
Total	100	100

Source: BSE

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Conference Call Key Takeaways

- Communications, Media and Entertainment grew despite seasonally weak mobility business
- Large deals signed in Healthcare and BPS segment. BPS has strong visibility going ahead.
- Margins: Seasonally weak quarter due to salary hikes, visa costs, mobility costs and higher subcon cost offset by operating leverage, lower SG&A and efficiency
- Expect momentum in current quarter to continue which translates into double digit organic growth.
- With higher revenue growth, even operating leverage will play in + G&A centralization for all the portfolio companies will be big tailwinds for margins
- Tax rate lower at 24% in Q1FY22 vs 32% (due to higher tax in subsidiaries) in Q4. Will remain in 24-26%.
- \$7.5 Mn gain in P&L as a result of hedge gains
- 5G: continue transformation work for 1. CSPs in Network and Digitization, 2. For Enterprise and 3. for Ecosystem providers. Strategy and investments are playing out well and will continue to see results of that as TechM continues to sign and scale projects around 5G. 5G is deeply integrated in every single telecom transformation project. This is the year of reckoning – 5G story is playing out. Management is conscious and will not go for low margin and high-volume business.
- In communications, Engineering and Product development is shaping out well and seeing good demand for Ecosystem and Telecos is seeing good traction. Device, software and equipment are seeing good demand. Digital infrastructure in comms: TechM will play OSS orchestration, IP and focus on Core. Deal win momentum to also continue and aspire to improve deal closures further.
- Non-5G revenues will also continue to grow as well
- Technology vertical: no customer concentration in this segment – largest customer would be 15%. Seeing increasing traction qoq. Growth is being driven by engagement in hyperscalers, product engineering, and investments paying off. Expect growth momentum to continue on the back of global revival.
- Pipeline in Communications is robust despite high deal wins. Absolute pipeline is at all time high and qualifications of pipeline has improved as well

Quarterly Performance Analysis

Exhibit 1

YE March (Rs. mn)	Q1 FY22	Q4 FY21	Q-o-Q change %	Q1 FY21	Y-o-Y change %	Q1 FY22 Estimates	Deviation %
Net Sales (USD Mn)	1,384	1,330	4.1%	1,208	14.6%	1,356	2.0%
Net Sales (INR Mn)	1,01,976	97,299	4.8%	91,063	12.0%	1,00,022	2.0%
Less:							
Employees Remuneration & Benefits	69,682	64,497	8.0%	65,105	7.0%	67,492	3.2%
Administrative & Other Expenses	13,530	13,321	1.6%	12,953	4.5%	14,003	(3.4%)
Total Operating Expenditure	83,212	77,818	6.9%	78,058	6.6%	81,495	2.1%
EBITDA	18,764	19,481	(3.7%)	13,005	44.3%	18,526	1.3%
Less: Depreciation	3,311	3,444	(3.9%)	3,832	(13.6%)	4,166	(20.5%)
EBIT	15,453	16,037	(3.6%)	9,173	68.5%	14,360	7.6%
Less: Interest	381	417	(8.6%)	503	(24.3%)	415	(8.1%)
Add: Other income	2,873	326	781.3%	4,161	(31.0%)	2,000	43.6%
Profit Before Tax	17,945	16,453	9.1%	12,831	39.9%	15,946	12.5%
Adjusted Profit Before Tax	17,945	15,946	12.5%	12,831	39.9%	15,946	12.5%
Less: Total Tax	4,286	4,998	(14.2%)	3,276	30.8%	3,986	7.5%
Minority Interest	-125	371		167		204	
Reported PAT	13,532	10,814	25.1%	9,723	39.2%	12,164	11.3%
Adjusted PAT	13,532	11,321	19.5%	9,722	39.2%	12,164	11.3%
Reported Diluted EPS (Rs.)	15.5	12.2	26.3%	11.0	40.5%	13.8	12.3%
Adjusted Diluted EPS (Rs.)	15.5	12.8	20.7%	11.0	40.5%	13.8	12.3%
No of Shared Diluted (mn)	874.8	883.0		883.0		883.0	
Margin Analysis %			Change in bps		Change in bps		Change in bps
EBIT Margin	15.2%	16.5%	(133)	10.1%	508	14.4%	80
EBIDTA Margin	18.4%	20.0%	(162)	14.3%	412	18.5%	(12)
NPM	13.3%	11.1%	216	10.7%	259	12.2%	111
Adjusted NPM	13.3%	11.6%	163	10.7%	259	12.2%	111
Effective Tax Rate %	23.9%	30.4%	(649)	25.5%	(165)	25.0%	(112)
Cost Analysis %			Change in bps		Change in bps		Change in bps
Employee Cost/Net Sales	68.3%	66.3%	204	71.5%	(316)	67.5%	85
SG&A/Net sales	13.3%	13.7%	(42)	14.2%	(96)	14.0%	(73)

Growth was above expectations largely driven by healthy growth in Communications and Enterprise segment

Management has indicated that EBIT margins are on a positive trajectory due to strong tailwinds

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Tech Mahindra is currently trading at 18.3x / 16.2x FY22e / FY23e EPS. We believe that TechM is well poised to take advantage of the 5G story. Revival in the current quarter, sustainable momentum, strong pipeline and robust 5G as well as Enterprise demand means that TechM will fire on all cylinders going ahead. Growth in Enterprise will largely be driven by strong partnership ecosystem with Hyperscalers. Management has given a positive outlook on margins going ahead. Healthy deal pipeline, improvement in deal closures coupled with attractive valuations make TechM our top pick in the large cap space.

We assign a BUY rating on the stock and upgrade our target price on TechM to INR 1,407 (earlier TP INR 1,367), based on 20x FY23e EPS estimates.

Financial

YE March (Rs. mn)	Profit & Loss A/c				YE March (Rs. mn)	Balance Sheet			
	FY20	FY21	FY22E	FY23E		FY20	FY21	FY22E	FY23E
Net Sales	3,68,677	3,78,551	4,29,259	4,81,902	Liabilities				
<i>Growth %</i>	6.1%	2.7%	13.4%	12.3%	Equity Capital	4,359	4,370	4,370	4,370
Total Revenue	3,68,677	3,78,551	4,29,259	4,81,902	Reserves & Surplus	2,13,772	2,50,008	2,88,127	3,31,215
Less:					Equity	2,18,131	2,54,378	2,92,497	3,35,585
Employee Expenses	2,59,743	2,58,555	2,90,268	3,19,563	Net Worth	2,18,131	2,54,378	2,92,497	3,35,585
SGA Expenses	51,673	51,525	58,855	71,710	Total Loans	1,787	1,658	1,458	1,258
Total Operating Expenditure	3,11,416	3,10,080	3,49,122	3,91,273	Long term Provisions	6,691	7,810	8,591	9,450
EBIDTA	57,261	68,471	80,136	90,629	Amount Pending Investigation	12,304	12,304	12,304	12,304
<i>Growth %</i>	-9.6%	19.6%	17.0%	13.1%	Lease Liabilities	11,998	8,077	11,998	11,998
Less: Depreciation	14,458	14,577	15,810	16,665	Capital Employed	2,67,737	2,99,733	3,43,526	3,84,765
EBIT	42,803	53,894	64,327	73,964	Assets				
<i>Growth %</i>	-17.8%	25.9%	19.4%	15.0%	Net Block	26,609	24,632	40,699	44,034
EBIT Margin (%)	11.6%	14.2%	15.0%	15.3%	Right of Use Assets	11,730	10,072	10,072	10,072
Non-operating Income	11,924	7,871	9,419	9,152	Capital WIP	501	1,183	1,183	1,183
Profit Before tax	50,633	60,532	72,235	81,644	Investments	3,804	6,648	7,313	8,044
Tax	11,604	15,999	17,253	19,500	Intangible Assets	48,937	54,590	59,247	65,172
Minority Interest	1,356	750	-526	-591	Current Assets				
Net Profit	40,385	45,283	54,456	61,553	Sundry Debtors	75,772	64,728	72,819	81,921
Adjusted Profit	42,505	44,788	54,456	61,553	Cash and Bank Balance	31,483	30,077	34,529	45,789
Reported Diluted EPS	45.7	51.3	62.3	70.4	Total Current Asset s	2,31,723	2,54,278	2,79,380	3,13,535
<i>Growth %</i>	-6.2%	12.3%	21.4%	13.0%	Less:Current Liabilities				
Adjusted Diluted EPS	48.1	50.7	62.3	70.4	Sundry Creditors	32,566	27,850	28,964	30,123
<i>Growth %</i>	-1.1%	5.4%	22.7%	13.0%	Total Current Liabilities	1,05,798	98,772	1,04,469	1,10,588
					Capital Applied	2,67,737	2,99,733	3,43,526	3,84,765
Key Ratios					Free Cash Flow Statement				
YE March (Rs. mn)	FY20	FY21	FY22E	FY23E	YE March (Rs. mn)	FY20	FY21	FY22E	FY23E
EBIDTA (%)	15.5%	18.1%	18.7%	18.8%	EBIDTA	42,803	53,894	64,327	73,964
NPM (%)	11.5%	12.0%	12.7%	12.8%	Less: Adjusted Taxes	9,810	14,245	15,364	17,666
RoE (%)	19.0%	18.6%	19.3%	19.0%	NOPLAT	32,993	39,649	48,963	56,298
RoCE (%)	16.7%	16.0%	16.9%	16.8%	Plus: Depreciation	14,458	14,577	15,810	16,665
Book Value Per share (Rs.)	247.0	288.1	331.3	380.1	Less: Increase in Working Capita	6,108	31,184	15,967	17,829
Valuation Ratios					Operating Cashflow	41,343	23,042	48,806	55,134
P/E (x)	24.7x	22.0x	18.3x	16.2x	Less: Net Capex	12,576	13,282	31,877	20,000
EV/EBITDA	16.9x	14.1x	12.0x	10.5x	Less: Increase in Net Other Asset	9,873	3,844	6,485	11,644
P/BV (x)	4.6x	3.9x	3.4x	3.0x	Total FCF	17,218	6,289	10,444	23,490
Market Cap. / Sales (x)	2.7x	2.6x	2.3x	2.1x					
Key Ratios									
YE March (Rs. mn)	FY20	FY21	FY22E	FY23E					
Key Operating Ratios									
EBITDA Margin (%)	15.5%	18.1%	18.7%	18.8%					
Tax / PBT (%)	22.9%	26.4%	23.9%	23.9%					
Net Profit Margin (%)	10.9%	12.0%	12.7%	12.8%					
RoE (%)	19.0%	18.6%	19.3%	19.0%					
RoCE (%)	16.7%	16.0%	16.9%	16.8%					
Current Ratio (x)	2.2x	2.6x	2.7x	2.8x					
Dividend Payout (%)	68.2%	20.0%	30.0%	30.0%					
Book Value Per Share (Rs.)	247.0	288.1	331.3	380.1					
Growth Indicators %									
Growth in Gross Block (%)									
Sales Growth (%)	6.1%	2.7%	13.4%	12.3%					
EBITDA Growth (%)	(9.6%)	19.6%	17.0%	13.1%					
Net Profit Growth (%)	(6.2%)	12.3%	20.2%	13.0%					
Diluted EPS Growth (%)	(6.2%)	12.3%	20.2%	13.0%					

Source: Dalal & Broacha Research, Company

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