

### TechM reported a strong set of numbers with revenue growth a strong beat on our estimates and EBITDA margins slightly above our estimates

- \$ revenue: \$1,472.6 Mn, +6.4% qoq / +16.4% yoy and 2.4% above our estimates
- INR revenue: INR 108,813 Mn, +6.7% qoq / +16% yoy and 2.6% above our estimates
- EBITDA: INR 19,952 Mn, +6.3% qoq / +17.2% yoy and +4.1% vs our estimates
- EBITDA margins: 18.3%, vs 18.4% / 18.2% in Q1FY22 / Q2FY21 respectively and +20 bps vs our est.
- EBIT: INR 16,552 Mn, +6.9% qoq / +24.1% yoy and +4.2% vs our estimates
- EBIT margins: 15.2%, vs 15.2% / 14.2% in Q1FY22 / Q2FY21 respectively and 20 bps above our est.
- PAT: INR 13,387 Mn, -1% qoq / +25.7% yoy and in-line with our estimates
- EPS at INR 15.3 vs 15.5 / 12.1 in Q1FY22 / Q2FY21 respectively
- Company signed deals worth \$750 Mn in Q2 vs \$815 Mn / \$421 Mn in Q1FY22 / Q2FY21 respectively

### Industry Highlights

- Growth was broad-based across segments but led by Technology (9% revenue) at 8.4% qoq / 16.6% yoy followed by Retail, Transport & Logistics (7.8% of revenue) at 7.7% qoq / 17.6% yoy, BFSI (16.3% of revenue) at +6% qoq / +15.9% yoy and Communications, Media & Entertainment (40.1% of revenue) at +6.7% qoq / +16.1% yoy

### Segmental Highlights

- Communications grew at 7.7% qoq / 15% yoy in cc terms
- Enterprise grew at 7% qoq / 15.9% yoy in cc terms

### Geographical Highlights

- Americas (47.8% of revenue) led the growth with 8.9% qoq and 14.9% yoy followed by ROW (26.3% of revenue) at +7% qoq / +15.7% yoy
- Europe (25.9% of revenue) reported +1.6% qoq / +19.9% yoy

### Financial Summary

Y/E Mar (Rs mn)	FY 20	FY 21	FY 22E	FY 23E
Net sales	3,68,677	3,78,551	4,48,741	5,19,030
EBITDA	57,261	68,471	82,672	95,518
Adjusted net profit	42,505	44,788	58,554	67,056
Free cash flow	17,218	6,289	9,712	24,300
EPS (Rs)	48.1	50.7	66.9	76.7
growth (%)	-1%	5%	32%	15%
P/E (x)	33.4	29.7	22.8	19.9
P/B (x)	6.2	5.3	4.5	3.9
EV/EBITDA (x)	23.0	19.2	15.7	13.5
ROCE (%)	16.7	16.0	18.0	18.0
RoE (%)	19.0	18.6	20.6	20.4
Dividend yield (%)	2.0	0.7	1.3	1.5

Source: Company

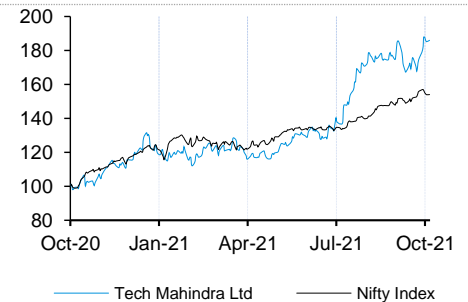
Rating	TP (Rs)	Up/Dn (%)
<b>BUY</b>	<b>1,763</b>	<b>16</b>

### Market data

<b>Current price</b>	<b>Rs</b>	<b>1,524</b>
Market Cap (Rs.Bn)	(Rs Bn)	1,477
Market Cap (US\$ Mn)	(US\$ Mn)	19,723
Face Value	Rs	5
52 Weeks High/Low	Rs	1.639 / 771
Average Daily Volume	('000)	5349
BSE Code		532755
Bloomberg		TECHM.IN

Source: Bloomberg

### One Year Performance



Source: Bloomberg

% Shareholding	Sep-21	Jun-21
Promoters	3.70	35.73
Public	64.29	64.26
Others	0.01	0.01
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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## Conference Call Key Takeaways

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- Recorded highest ever sequential growth in the last decade
- **Margin walk: Operating leverage was offset by lower utilization and higher subcon costs**
- Tax rate was high at 29% due to one-off tax in one of the subsidiaries. Expect ETR to be 26% for FY22e.
- FCF stood at \$188 Mn
- Cash at \$1626 Mn
- **Aspire to maintain growth momentum and margins into H2FY22**
- Communications: 5G and modernization from legacy to digital is a big driver of growth. Deal signings in Comms also has been strong and expect growth momentum to continue.
- Headcount addition: 15,000 added – equally split between BPS and IT. Hiring increased to match demand. Q3 will be seasonally strong for BPS and hence the hiring.
- Deal pipeline profile: good mix in terms of geography, segments and competency. 5G contributes a good deal also to pipeline.
- **Margins:** travel expense might come back as economies open up but that will be replaced by reduced subcon costs. **Stick to margin guidance given earlier at 15% EBIT margins.**
- Investing in Sales and Client partners for growth therefore not much leverage played out in SG&A despite growth
- Investments in 5G in the past have expanded the capabilities and services offered
- **TechM has a considerable edge in the 5G space because of various factors: 1. Incumbency is a big platform TechM can play on, 2. Breadth and Depth of offerings: TechM's offerings cater to all the players in the 5G space (CSPs, Ecosystem players and Enterprises), 3. Cloud and Platform offerings complete the circle of offerings**

## Quarterly Performance Analysis

### Exhibit 1

YE March (Rs. mn)	Q2 FY22	Q1 FY22	Q-o-Q change %	Q2 FY21	Y-o-Y change %	Q1 FY22 Estimates	Deviation %
Net Sales (USD Mn)	1,473	1,384	6.4%	1,265	16.4%	1,439	2.4%
Net Sales (INR Mn)	1,08,813	1,01,976	6.7%	93,718	16.1%	1,06,029	2.6%
Less:							
Employees Remuneration & Benefits	74,346	69,682	6.7%	64,245	15.7%	72,230	2.9%
Administrative & Other Expenses	14,515	13,530	7.3%	12,443	16.7%	14,632	(0.8%)
Total Operating Expenditure	88,861	83,212	6.8%	76,688	15.9%	86,862	2.3%
EBITDA	19,952	18,764	6.3%	17,030	17.2%	19,167	4.1%
Less: Depreciation	3,430	3,311	3.6%	3,717	(7.7%)	3,311	3.6%
EBIT	16,522	15,453	6.9%	13,313	24.1%	15,856	4.2%
Less: Interest	354	381	(7.1%)	399	(11.3%)	379	(6.5%)
Add: Other income	2,821	2,873	(1.8%)	1,175	140.1%	2,121	33.0%
Profit Before Tax	18,989	17,945	5.8%	14,089	34.8%	17,598	7.9%
Adjusted Profit Before Tax	18,989	17,945	5.8%	14,089	34.8%	17,598	7.9%
Less: Total Tax	5,572	4,286	30.0%	3,462	60.9%	4,203	32.6%
Minority Interest	-22	-125		15		-130	
Reported PAT	13,387	13,532	(1.1%)	10,646	25.7%	13,265	0.9%
Adjusted PAT	13,387	13,532	(1.1%)	10,642	25.8%	13,265	0.9%
Reported Diluted EPS (Rs.)	15.3	15.5	(1.1%)	12.1	26.9%	15.2	0.9%
Adjusted Diluted EPS (Rs.)	15.3	15.5	(1.1%)	12.1	27.0%	15.2	0.9%
No of Shared Diluted (mn)	874.8	874.8		883.0		874.8	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>		<b>Change in bps</b>
EBIT Margin	15.2%	15.2%	3	14.2%	98	15.0%	23
EBITDA Margin	18.3%	18.4%	(6)	18.2%	16	18.1%	26
NPM	12.3%	13.3%	(97)	11.4%	94	12.5%	(21)
Adjusted NPM	12.3%	13.3%	(97)	11.4%	95	12.5%	(21)
Effective Tax Rate %	29.3%	23.9%	546	24.6%	477	23.9%	546
<b>Cost Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>		<b>Change in bps</b>
Employee Cost/Net Sales	68.3%	68.3%	(1)	68.6%	(23)	68.1%	20
SG&A/Net sales	13.3%	13.3%	7	13.3%	6	13.8%	(46)

Growth was above expectations and was broad-based

Management aspires to maintain this growth momentum and margins well into H2FY22

Source: Dalal & Broacha Research, Company

## Valuation & Outlook

Tech Mahindra is currently trading at 22.8x / 19.9x FY22e / FY23e EPS. We believe that TechM is well poised to take advantage of the 5G story - which is increasingly getting evident from the strong performance in consecutive quarters. Deal wins are strong on a sequential basis which not only improves visibility in earnings but also indicates that 5G spends have finally resumed. Sustainable momentum, strong pipeline and robust 5G as well as Enterprise demand means that TechM will fire on all cylinders going ahead. Lastly, being the cheapest stock in the large cap space, it gives significant comfort and headroom for upgrading the stock.

We therefore maintain our BUY rating on the stock and upgrade our target price on TechM from INR 1,407 to INR 1,763, i.e. 23x FY23e EPS estimates.

# Financial

YE March (Rs. mn)	Profit & Loss A/c			
	FY20	FY21	FY22E	FY23E
Net Sales	3,68,677	3,78,551	4,48,741	5,19,030
Growth %	6.1%	2.7%	18.5%	15.7%
Total Revenue	3,68,677	3,78,551	4,48,741	5,19,030
Less:				
Employee Expenses	2,59,743	2,58,555	3,02,778	3,45,658
SGA Expenses	51,673	51,525	63,291	77,855
Total Operating Expenditure	3,11,416	3,10,080	3,66,069	4,23,512
EBIDTA	57,261	68,471	82,672	95,518
Growth %	-9.6%	19.6%	20.7%	15.5%
Less: Depreciation	14,458	14,577	13,363	13,244
EBIT	42,803	53,894	69,309	82,274
Growth %	-17.8%	25.9%	28.6%	18.7%
EBIT Margin (%)	11.6%	14.2%	15.4%	15.9%
Non-operating Income	11,924	7,871	11,863	9,859
Profit Before tax	50,633	60,532	79,736	90,758
Tax	11,604	15,999	20,987	23,597
Minority Interest	1,356	750	-195	-105
Net Profit	40,385	45,283	58,554	67,056
Adjusted Profit	42,505	44,788	58,554	67,056
Reported Diluted EPS	45.7	51.3	66.9	76.7
Growth %	-6.2%	12.3%	30.5%	14.5%
Adjusted Diluted EPS	48.1	50.7	66.9	76.7
Growth %	-1.1%	5.4%	32.0%	14.5%

Key Ratios				
EBIDTA (%)	15.5%	18.1%	18.4%	18.4%
NPM (%)	11.5%	12.0%	13.0%	12.9%
RoE (%)	19.0%	18.6%	20.6%	20.4%
RoCE (%)	16.7%	16.0%	18.0%	18.0%
Book Value Per share (Rs.)	247.0	288.1	337.6	391.3
Valuation Ratios				
P/E (x)	33.4x	29.7x	22.8x	19.9x
EV/EBITDA	23.0x	19.2x	15.7x	13.5x
P/BV (x)	6.2x	5.3x	4.5x	3.9x
Market Cap. / Sales (x)	3.7x	3.6x	3.0x	2.6x

YE March (Rs. mn)	Key Ratios			
	FY20	FY21	FY22E	FY23E
<b>Key Operating Ratios</b>				
EBITDA Margin (%)	15.5%	18.1%	18.4%	18.4%
Tax / PBT (%)	22.9%	26.4%	26.3%	26.0%
Net Profit Margin (%)	10.9%	12.0%	13.0%	12.9%
RoE (%)	19.0%	18.6%	20.6%	20.4%
RoCE (%)	16.7%	16.0%	18.0%	18.0%
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	337.6	391.3
<b>Growth Indicators %</b>				
Growth in Gross Block (%)				
Sales Growth (%)	6.1%	2.7%	18.5%	15.7%
EBITDA Growth (%)	(9.6%)	19.6%	20.7%	15.5%
Net Profit Growth (%)	(6.2%)	12.3%	29.3%	14.5%
Diluted EPS Growth (%)	(6.2%)	12.3%	30.5%	14.5%

YE March (Rs. mn)	Balance Sheet			
	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	4,359	4,370	4,370	4,370
Reserves & Surplus	2,13,772	2,50,008	2,90,996	3,37,935
Equity	2,18,131	2,54,378	2,95,366	3,42,305
Net Worth	2,18,131	2,54,378	2,95,366	3,42,305
Total Loans	1,787	1,658	1,458	1,258
Long term Provisions	6,691	7,810	8,591	9,450
Amount Pending Investigation	12,304	12,304	12,304	12,304
Lease Liabilities	11,998	8,077	11,998	11,998
Capital Employed	2,67,737	2,99,733	3,46,394	3,91,486
<b>Assets</b>				
Net Block	26,609	24,632	43,146	49,902
Right of Use Assets	11,730	10,072	10,072	10,072
Capital WIP	501	1,183	1,183	1,183
Investments	3,804	6,648	7,313	8,044
Intangible Assets	48,937	54,590	59,247	65,172
<b>Current Assets</b>				
Sundry Debtors	75,772	64,728	72,819	81,921
Cash and Bank Balance	31,483	30,077	34,951	46,642
Total Current Assets	2,31,723	2,54,278	2,79,802	3,14,388
<b>Less: Current Liabilities</b>				
Sundry Creditors	32,566	27,850	28,964	30,123
Total Current Liabilities	1,05,798	98,772	1,04,469	1,10,588
Capital Applied	2,67,737	2,99,733	3,46,394	3,91,486

YE March (Rs. mn)	Free Cash Flow Statement			
	FY20	FY21	FY22E	FY23E
EBIDTA	42,803	53,894	69,309	82,274
Less: Adjusted Taxes	9,810	14,245	18,242	21,391
NOPLAT	32,993	39,649	51,067	60,882
Plus: Depreciation	14,458	14,577	13,363	13,244
Less: Increase in Working Capital	6,108	31,184	16,356	18,182
Operating Cashflow	41,343	23,042	48,074	55,944
Less: Net Capex	12,576	13,282	31,877	20,000
Less: Increase in Net Other Assets	9,873	3,844	6,485	11,644
Total FCF	17,218	6,289	9,712	24,300

Source: Dalal & Broacha Research, Company

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