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FIRST LIGHT

30 July 2021

RESEARCH

Tech Mahindra | Target: Rs 1,380 | +22% | BUY

Positive 5G-led traction in large deals

Coforge | Target: Rs 5,530 | +17% | BUY

Yet another positive surprise; maintain BUY

TVS Motor | Target: Rs 480 | –15% | SELL

Dull quarter; maintain SELL

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.23	(1bps)	(29bps)	66bps
India 10Y yield (%)	6.23	0bps	20bps	40bps
USD/INR	74.38	0.1	(0.2)	0.6
Brent Crude (US$/bbl)	74.74	0.3	(1.9)	70.8
Dow	34,931	(0.4)	1.4	31.6
Shanghai	3,362	(0.6)	(6.8)	2.0
Sensex	52,444	(0.3)	(0.9)	37.8
India FII (US$ mn)	**27-Jul**	**MTD**	**CYTD**	**FYTD**
FII-D	(34.6)	(148.3)	(3,315.1)	(1,287.8)
FII-E	(75.0)	(1,009.3)	7,074.8	(251.5)

Source: Bank of Baroda Economics Research

SUMMARY

Tech Mahindra

- Q1 dollar revenue growth beat our estimate at 4.1% QoQ on 4.7% enterprise business growth and 3.2% recovery in communications
- Management's demand outlook was positive, especially around large 5G deals finally coming through
- We raise our target P/E to 17.2x and roll over to a revised Jun'22 TP of Rs 1,380 (vs. Rs 1,190); reiterate BUY

Click here **for the full report.**

Coforge

- Q1 strong with 16% QoQ USD revenue growth led by BFSI. EBIT margin in line at 12.6% (-107bps QoQ)
- Organic revenue growth guidance raised to 19%+ YoY CC, backed by highest-ever organic executable order book of US$ 560mn
- We raise FY23 EPS, upgrade our target P/E to 30x and move to a Jun'22 TP of Rs 5,530 (from Rs 4,080) – BUY

Click here **for the full report.**

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TVS Motor

- Q1 revenue met our estimate but EBITDA margin fell short at 7% and adj. PAT declined 70% QoQ to Rs 833mn
- Sufficient dealer inventory could cap production volumes even as RM cost headwinds continue
- Reiterate SELL with an unchanged Mar'22 TP of Rs 480, valuing the core business at 24x FY23E EPS

Click here for the full report.

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BUY
TP: Rs 1,380 | ⮙ 22%

TECH MAHINDRA | IT Services | 29 July 2021

Positive 5G-led traction in large deals

- **Q1 dollar revenue growth beat our estimate at 4.1% QoQ on 4.7% enterprise business growth and 3.2% recovery in communications**
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Broad-based growth: TECHM grew 4.1% QoQ USD in Q1FY22 (with 20bps of cross-currency tailwinds), outperforming our estimate of 3.1%. Growth was spread across verticals, with technology (TME) leading the way at 8.1% QoQ and telecom up a robust 3.2% backed by 5G pickup. Enterprise business grew 4.7% QoQ. TCV was at a first-quarter peak of US$ 815mn, with US$ 352mn from the communication vertical and US$ 463mn from enterprise. The company signed large healthcare and BPO deals in Q1. Its deal pipeline remains strong and is now at an all-time high.

EBIT margin underperforms: EBIT margin stood at 15.2% in Q1 (16.7% est.), down 130bps QoQ. Cost of revenue increased 200bps QoQ as a percentage of sales. Lower margins stemmed from salary hikes, visa costs, a seasonal decline in the mobility business and higher subcontracting costs. This was partially offset by operating efficiency, leverage and lower SG&A cost. TECHM has guided for ~15% EBIT margins in FY22 amid a talent supply crunch.

5G deal activity picks up: TECHM has developed several 5G use cases and will continue to undertake projects in the areas of network digitisation, product engineering, ecosystem and enterprise. The 5G opportunity extends beyond network modernisation, going into complete core transformation, and is deeply integrated in all large telecom deals. 60-70% of the new communication deals going ahead will be centered around 5G. Management is positive on the demand environment but has decided not to go after low-margin, high-volume deals.

Supply pressure: Sluggish hiring over the last six quarters compelled TECHM to hire excessively in Q1. Attrition was at 17%, up 400bps QoQ, closing in on pre-Covid levels of 19-21%. Management sees margin pressure due to the supply-side crunch.

Maintain BUY: TECHM has done well in a seasonally weak quarter and its guidance of double-digit organic growth in FY22 remains intact. We expect 5G capex to spur a 15.5% communications revenue CAGR over FY22-FY24 and thus raise our target one-year forward P/E from 15.7x to 17.2x, realigning to the stock's average during the 4G upcycle of FY14-FY15. On rollover, our Jun'22 TP rises to Rs 1,380 (vs. Rs 1,190).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TECHM IN/Rs 1,128
Market cap	US$ 13.3bn
Free float	64%
3M ADV	US$ 39.5mn
52wk high/low	Rs 1,153/Rs 643
Promoter/FPI/DII	36%/39%/25%

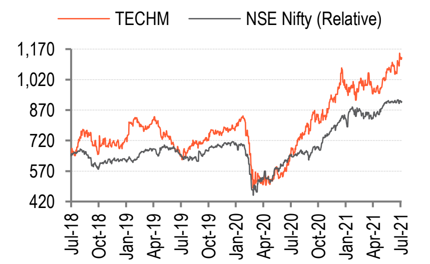
Source: NSE | Price as of 29 Jul 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	378,551	441,945	518,834
EBITDA (Rs mn)	68,471	85,355	103,288
Adj. net profit (Rs mn)	44,281	58,587	68,477
Adj. EPS (Rs)	50.4	66.6	77.9
Consensus EPS (Rs)	50.4	59.9	66.2
Adj. ROAE (%)	18.7	21.8	22.7
Adj. P/E (x)	22.4	16.9	14.5
EV/EBITDA (x)	14.3	11.4	9.3
Adj. EPS growth (%)	4.2	32.3	16.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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BUY
TP: Rs 5,530 | ▲ 17%

COFORGE | IT Services | 29 July 2021

Yet another positive surprise; maintain BUY

- **Q1 strong with 16% QoQ USD revenue growth led by BFSI. EBIT margin in line at 12.6% (-107bps QoQ)**
- **Organic revenue growth guidance raised to 19%+ YoY CC, backed by highest-ever organic executable order book of US$ 560mn**
- **We raise FY23 EPS, upgrade our target P/E to 30x and move to a Jun'22 TP of Rs 5,530 (from Rs 4,080) – BUY**

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Growth surprise continues: Coforge's sequential growth continued to outperform our/consensus estimates, in line with the Q1FY22 trend across the sector. Reported dollar revenue increased 16% QoQ (11.4% est.) and included two months of revenue consolidation from the SLK Global acquisition. Organic revenue growth came as a positive surprise at 7.6% QoQ USD. Growth was led by a secular uptick across verticals, including travel (+15% QoQ) and BFSI (+44% due to revenues from SLK Global). Geography-wise, North America/RoW grew the most.

EBIT margin in line: EBIT margin declined 107bps QoQ to 12.6% (12.8% est.) due to wage hikes and large-deal transition costs. Employee cost increased 200bps QoQ. Coforge continued to use offshoring as a lever and it now forms 40% share of quarterly revenue (vs. 39% in Q4FY21).

Record executable order book: The executable order book for the next 12 months was at a record US$ 560mn (+8% QoQ, +20% YoY) plus US$ 80mn from SLK Global. A total of 11 new logos were signed in Q1. Coforge won three large deals including a US$ 105mn engagement for enterprise core transformation and hybrid cloud management. The company bagged a three-year US$ 20mn+ contract in insure-tech, marking its largest deal for the 'Advantage Go' platform.

Supply-side pressure: Coforge's total headcount stood at 20,491 in Q1FY22 as it added ~8,100 employees during the quarter, its highest ever (including 6,962 employees rebadged from SLK Global). Attrition stood at an eight-quarter high of 12.6%, up 210bps QoQ, though lower than many peers. Utilisation dropped 400bps to 77% on increased hiring and employee intake from SLK Global. Management expects utilisation to normalise as large-deal transitions take place.

Maintain BUY: Following the strong Q1 results and FY22 guidance of at least 19% CC organic growth, we raise FY23 EPS by 7%. We also upgrade our FY23E P/E to 30x (from 25x), in line with our multiple for LTI, backed by steady earnings upgrades, an upbeat growth outlook, record executable order book and timely revenue diversification. On rollover, we move to a Jun'22 TP of Rs 5,530 (vs. Rs 4,080). BUY.

Key changes

Target	Rating
▲	◄►

Ticker/Price	COFORGE IN/Rs 4,743
Market cap	US$ 4.0bn
Free float	43%
3M ADV	US$ 37.7mn
52wk high/low	Rs 4,850/Rs 1,773
Promoter/FPI/DII	70%/13%/17%

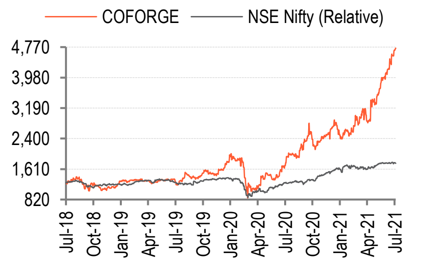
Source: NSE | Price as of 28 Jul 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	46,628	65,007	78,938
EBITDA (Rs mn)	7,911	12,127	15,313
Adj. net profit (Rs mn)	4,556	8,002	10,583
Adj. EPS (Rs)	75.0	131.8	174.3
Consensus EPS (Rs)	75.0	109.7	133.3
Adj. ROAE (%)	17.0	25.3	28.8
Adj. P/E (x)	63.2	36.0	27.2
EV/EBITDA (x)	36.5	23.7	18.6
Adj. EPS growth (%)	2.9	75.7	32.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

SELL
TP: Rs 480 | ⋎ 15%

TVS MOTOR | Automobiles | 29 July 2021

Dull quarter; maintain SELL

- **Q1 revenue met our estimate but EBITDA margin fell short at 7% and adj. PAT declined 70% QoQ to Rs 833mn**
- **Sufficient dealer inventory could cap production volumes even as RM cost headwinds continue**
- **Reiterate SELL with an unchanged Mar'22 TP of Rs 480, valuing the core business at 24x FY23E EPS**

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Poor volumes weaken performance: TVSL's Q1FY22 revenue declined 26% QoQ to Rs 39.3bn, in line with our estimate. Volumes fell 29% and ASP grew 4% QoQ. Gross margin slipped 40bps QoQ and lower volumes eroded operating leverage, causing EBITDA margin to shrink 310bps QoQ to 7% (8.7% est.) and EBITDA to fall 49% QoQ to Rs 2.7bn. TVSL reported one-off expenses of Rs 300mn related to Covid-19 (medical, vaccination and oxygen supplies). Adj. PAT was down 70% QoQ to Rs 833mn. While standalone reported PAT was at Rs 531mn, TVSL had a consolidated loss of Rs 147mn led by a loss of ~Rs 250mn in TVS Credit.

Demand steady: Our channel checks suggest dealer inventory of 40-50 days. Though management remains confident of a bounce-back in domestic demand from both rural and urban areas after the second Covid-19 wave, we believe production will hinge on retail sales amid the high inventory levels. Management indicated that retail sales in July have improved to the Q4FY21 monthly run-rate. Semiconductor availability remains a challenge for certain Apache products. On the exports front, management expects momentum to build up with markets in Nepal and Bangladesh reopening in August.

RM cost pressure persists: The company expects raw material cost inflation in Q2FY22 as well. TVSL took a price hike of ~2% in July following a ~1% increase in Q1 and is still incurring under-recovery of ~1% of RM costs due to high input costs.

Retain SELL: We maintain our FY22/FY23 estimates and introduce FY24 projections, building in a volume CAGR of 9% and a revenue/EBITDA/PAT CAGR of 12%/14%/21% over FY21-FY24. Our SOTP-based TP remains at Rs 480 and is based on (1) 24x FY23E standalone EPS (in line with the 10-year average multiple), and (2) Rs 30/sh for the stake in TVS Credit Services (as per consensus). Reiterate SELL as current valuations look rich at 28x FY23E EPS (adj. for TVS credit share).

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	TVSL IN/Rs 562
Market cap	US$ 3.6bn
Free float	47%
3M ADV	US$ 16.8mn
52wk high/low	Rs 666/Rs 384
Promoter/FPI/DII	57%/11%/22%

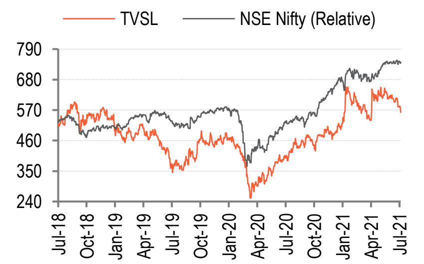
Source: NSE | Price as of 29 Jul 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	167,505	192,724	211,892
EBITDA (Rs mn)	14,286	16,646	18,506
Adj. net profit (Rs mn)	6,121	8,022	9,081
Adj. EPS (Rs)	12.9	16.9	19.1
Consensus EPS (Rs)	12.9	20.7	26.9
Adj. ROAE (%)	15.0	17.3	17.2
Adj. P/E (x)	43.6	33.3	29.4
EV/EBITDA (x)	18.5	15.5	14.1
Adj. EPS growth (%)	3.4	31.1	13.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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