

BUY**TP: Rs 1,940 | ▲ 61%****TECH MAHINDRA**

Technology & Internet

13 May 2022

In-line performance; Communication TCV strong

- Q4 revenue growth in line at 4.9% QoQ USD, spearheaded by the enterprise segment; TCV robust at US\$ 1.01bn
- EBIT margin declined 80bps QoQ to 13.2%, impacted by higher employee cost
- We maintain FY23/FY24 EPS estimates and retain BUY with an unchanged TP of Rs 1,940

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In-line performance: TECHM's Q4FY22 revenue grew 4.9% QoQ USD, in keeping with our estimate of 5%. The telecom/enterprise segments grew 4.1%/ 5.4% QoQ USD. Within the enterprise segment, TME/BFSI led the way at 16.1%/18.5% QoQ USD. Manufacturing, RCPG and others were laggards. Geography-wise, Europe posted the highest uptick of 8.6% QoQ USD aided by some changes in leadership. A total of 22 new clients were added in the >US\$ 1mn bucket.

Margin declines: EBIT margin fell 160bps QoQ to 13.2%, slightly below our estimate of 14%. While SG&A remained flat QoQ as a percentage of revenue, employee cost increased 70bps QoQ (salary and retention-related impacts). Lower utilisation at 83% (-100bps QoQ) and offshoring at 38% (-100bps QoQ) weighed on margins. Q4 saw a higher forex gain and lower tax rate as TECHM moved to the new tax regime. The company plans to hire more freshers and increase offshoring to stabilise margins. It hired ~6k employees QoQ and reported a flat sequential attrition rate of 24%. TECHM will have another wage hike cycle in July.

Strong TCV uptick: Total TCV stood at US\$ 1.01bn, up 43.6% QoQ. TCV was split between CME and enterprise business as US\$ 645mn and US\$ 366mn respectively. Most large deals were concentrated in the CME and BFSI verticals, which signals strong traction in the communication vertical in upcoming quarters.

FY23 outlook: TECHM indicated that it will continue to focus on organic growth, higher EBIT margins (~15%) and the metaverse going forward. The company aims to move away from low-margin geographies to reduce margin impact. Management expects the technology vertical to boost growth in a major way.

Other takeaways: The board has recommended a final dividend of Rs 15/sh. DSO stood at 97, down 4 days QoQ, improving from last quarter.

Retain BUY: Given the in-line performance, we keep our FY23/FY24 EPS estimates unchanged. Maintain BUY with a TP of Rs 1,940, based on an unchanged P/E of 22.5x.

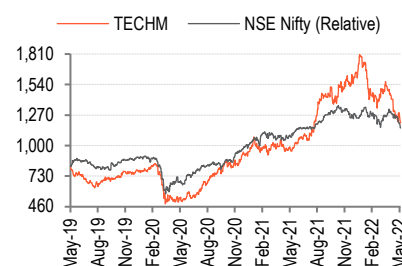
Ticker/Price	TECHM IN/Rs 1,203
Market cap	US\$ 13.6bn
Free float	64%
3M ADV	US\$ 49.3mn
52wk high/low	Rs 1,838/Rs 941
Promoter/FPI/DII	36%/39%/25%

Source: NSE | Price as of 13 May 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	446,460	536,667	622,673
EBITDA (Rs mn)	80,201	102,366	120,807
Adj. net profit (Rs mn)	55,662	65,565	77,652
Adj. EPS (Rs)	63.3	74.6	88.3
Consensus EPS (Rs)	63.9	72.7	80.1
Adj. ROAE (%)	21.2	22.5	23.6
Adj. P/E (x)	19.0	16.1	13.6
EV/EBITDA (x)	13.0	10.0	8.4
Adj. EPS growth (%)	25.7	17.8	18.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE

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Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	368,677	378,551	446,460	536,667	622,673
EBITDA	57,261	68,471	80,201	102,366	120,807
Depreciation	14,458	14,577	15,204	17,173	19,926
EBIT	42,803	53,894	64,997	85,193	100,882
Net interest inc./(exp.)	(1,919)	(1,740)	(1,626)	(1,650)	(1,650)
Other inc./(exp.)	11,924	7,871	11,123	1,704	1,577
Exceptional items	0	0	0	0	0
EBT	52,753	59,530	74,522	85,287	100,869
Income taxes	11,604	15,999	18,220	21,322	25,217
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	1,301	762	(612)	1,640	2,060
Reported net profit	42,505	44,281	55,662	65,565	77,652
Adjustments	0	0	0	0	0
Adjusted net profit	42,505	44,281	55,662	65,565	77,652

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	0	0	0	0	0
Other current liabilities	103,830	102,292	145,645	139,680	162,066
Provisions	11,055	13,121	15,527	14,703	17,060
Debt funds	24,282	16,618	1,420	1,420	1,420
Other liabilities	12,304	12,304	12,304	12,304	12,304
Equity capital	4,359	4,370	4,388	4,388	4,388
Reserves & surplus	217,705	248,075	269,423	304,180	345,240
Shareholders' fund	222,064	252,445	273,811	308,568	349,628
Total liab. and equities	373,535	396,780	448,707	476,676	542,477
Cash and cash eq.	30,167	26,904	37,889	31,570	77,695
Accounts receivables	75,772	64,728	74,676	105,863	122,829
Inventories	358	242	405	405	405
Other current assets	121,702	110,932	138,706	145,564	152,633
Investments	61,046	104,436	49,522	49,522	49,522
Net fixed assets	76,047	80,405	139,318	135,561	131,203
CWIP	501	1,183	1,651	1,651	1,651
Intangible assets	33,877	40,082	74,258	74,258	74,258
Deferred tax assets, net	8,443	9,133	8,191	8,191	8,191
Other assets	0	0	0	0	0
Total assets	373,535	396,780	448,707	476,676	542,477

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	46,075	64,824	52,836	32,952	93,057
Capital expenditures	(15,386)	(12,048)	(8,353)	(13,417)	(15,567)
Change in investments	(16,880)	43,390	57,765	0	0
Other investing cash flows	13,843	(64,787)	(44,597)	3,354	3,227
Cash flow from investing	(18,423)	(33,445)	4,815	(10,063)	(12,339)
Equities issued/Others	0	(569)	(1,238)	0	0
Debt raised/repaid	0	(13,624)	(1,625)	0	0
Interest expenses	0	(1,789)	(3,995)	0	0
Dividends paid	(17,912)	(18,660)	(39,808)	(29,208)	(34,592)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(17,912)	(34,642)	(46,666)	(29,208)	(34,592)
Chg in cash & cash eq.	9,740	(3,263)	10,985	(6,319)	46,125
Closing cash & cash eq.	30,167	26,904	37,889	31,570	77,695

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	48.3	50.4	63.3	74.6	88.3
Adjusted EPS	48.3	50.4	63.3	74.6	88.3
Dividend per share	16.9	17.6	23.4	27.6	32.7
Book value per share	252.5	287.1	311.3	350.9	397.6

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	2.8	2.8	2.3	1.9	1.6
EV/EBITDA	18.3	15.2	13.0	10.0	8.4
Adjusted P/E	24.9	23.9	19.0	16.1	13.6
P/BV	4.8	4.2	3.9	3.4	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	80.6	74.4	74.7	76.9	77.0
Interest burden (PBT/EBIT)	123.2	110.5	114.7	100.1	100.0
EBIT margin (EBIT/Revenue)	11.6	14.2	14.6	15.9	16.2
Asset turnover (Rev./Avg TA)	104.1	98.3	105.6	116.0	122.2
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.6	1.6	1.5
Adjusted ROAE	19.8	18.7	21.2	22.5	23.6

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	6.1	2.7	17.9	20.2	16.0
EBITDA	(9.6)	19.6	17.1	27.6	18.0
Adjusted EPS	1.2	4.2	25.7	17.8	18.4
Profitability & Return ratios (%)					
EBITDA margin	15.5	18.1	18.0	19.1	19.4
EBIT margin	11.6	14.2	14.6	15.9	16.2
Adjusted profit margin	11.5	11.7	12.5	12.2	12.5
Adjusted ROAE	19.8	18.7	21.2	22.5	23.6
ROCE	15.1	16.3	19.5	23.6	26.3

Working capital days (days)

Receivables	72	68	57	61	67
Inventory	1	0	0	0	0
Payables	114	121	124	120	110

Ratios (x)

Gross asset turnover	5.0	4.8	4.1	3.9	4.7
Current ratio	2.0	1.8	1.6	1.8	2.0
Net interest coverage ratio	(22.3)	(31.0)	(40.0)	(51.6)	(61.1)
Adjusted debt/equity	0.0	0.0	(0.1)	(0.1)	(0.2)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

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

BUY – Expected return >+15%

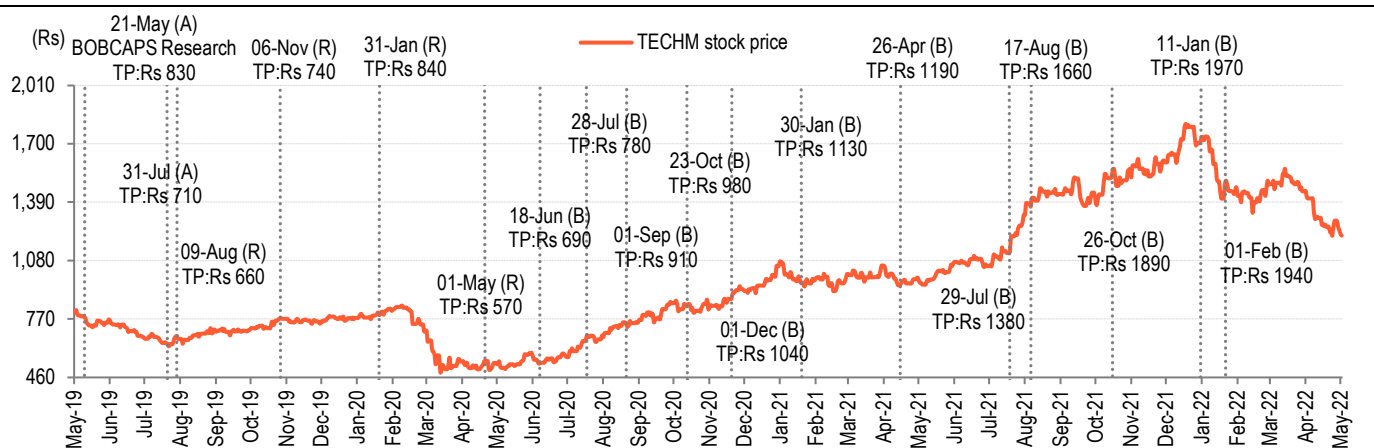
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): TECH MAHINDRA (TECHM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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