

HOLD

TP: Rs 1,160 | ▲ 5%

TECH MAHINDRA

| Technology & Internet

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Sandstorm a potential game changer

- TECHM launches Sandstorm, a network monitoring service that allows clients to remotely measure customer experiences across devices
- New launch expected to generate positive deal win traction and could prove a game-changer in Horizon 3 projects
- Maintain HOLD with unchanged TP of Rs 1,160

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Launch of Sandstorm: TECHM has launched Sandstorm, a remote real-time network monitoring and smart device assurance service for telecom players and enterprises. According to the company, this cutting-edge solution allows service providers to remotely measure customer experiences on any device, from smartphones, tablets and virtual reality headsets to smart televisions and connected cars.

Unique solution for telecom players: Per TECHM, Sandstorm is a fully scalable and customisable solution designed to meet the unique requirements of customers. It is intended to help telecom players launch their networks faster by assuring end-to-end call flows from a remote location, eliminating the need for on-site testing by engineers. This apart, it is expected to expedite 5G implementation. We believe that TECHM will successfully resolve deal win challenges in the Horizon 2 and Horizon 3 growth framework.

Expect positive deal traction: We expect Sandstorm to spur positive traction in deal wins for TECHM, especially in Horizon 3 engagements. This apart, we note several positive markers for the company in Q3FY23: (1) enterprise segment crossed US\$ 1bn in quarterly revenue, driven by the retail and manufacturing verticals within the enterprise segment; (2) new deal bookings stood at US\$ 795mn total contract value (TCV), providing near-term growth visibility, with large wins expected in Q4, and (3) focus on cost optimisation projects in the communications, media & entertainment (CME) vertical, albeit with elongated timelines for deal closure and fewer renewals.

Maintain HOLD: The stock is trading at 14.1x/11.9x FY24E/FY25E EPS. In its quarterly earnings commentary, TECHM indicated that it was unlikely to meet its operating margin guidance of 14% for FY23. Moreover, we believe that portfolio rationalisation will continue in H2FY23, impacting revenue in the near term. Given the subdued revenue and margin outlook, we retain HOLD and continue to value the stock at 12.5x FY25E EPS – ~20% discount to WPRO considering the overhang from sluggish 5G rollout – for an unchanged TP of Rs 1,160.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TECHM IN/Rs 1,100
Market cap	US\$ 11.6bn
Free float	64%
3M ADV	US\$ 32.9mn
52wk high/low	Rs 1,575/Rs 944
Promoter/FPI/DII	36%/39%/25%

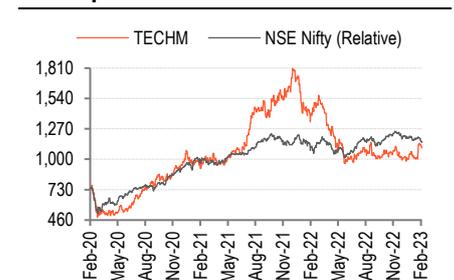
Source: NSE | Price as of 28 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	4,46,460	5,37,442	6,07,222
EBITDA (Rs mn)	80,201	82,605	99,771
Adj. net profit (Rs mn)	55,662	53,171	68,487
Adj. EPS (Rs)	63.9	60.5	77.9
Consensus EPS (Rs)	63.9	71.6	80.9
Adj. ROAE (%)	21.2	18.4	21.4
Adj. P/E (x)	17.2	18.2	14.1
EV/EBITDA (x)	11.9	11.3	9.2
Adj. EPS growth (%)	26.9	(5.4)	28.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	3,78,551	4,46,460	5,37,442	6,07,222	6,79,583
EBITDA	68,471	80,201	82,605	99,771	1,18,617
Depreciation	14,577	15,204	19,730	20,184	22,078
EBIT	53,894	64,997	62,875	79,587	96,539
Net interest inc./(exp.)	(1,740)	(1,626)	(1,853)	(1,320)	(1,320)
Other inc./(exp.)	7,871	11,123	7,153	8,585	9,510
Exceptional items	0	0	0	0	0
EBT	59,530	74,522	68,045	86,913	1,04,788
Income taxes	15,999	18,220	15,377	20,426	25,150
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	762	(612)	373	2,060	2,060
Reported net profit	44,281	55,662	53,171	68,487	81,638
Adjustments	0	0	0	0	0
Adjusted net profit	44,281	55,662	53,171	68,487	81,638

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	0	0	0	0	1
Other current liabilities	1,02,292	1,45,645	1,44,299	1,49,726	1,58,259
Provisions	13,121	15,527	14,724	16,636	18,619
Debt funds	16,618	1,420	1,420	1,420	1,420
Other liabilities	12,304	12,304	12,304	12,304	12,304
Equity capital	4,370	4,388	4,388	4,388	4,388
Reserves & surplus	2,48,075	2,69,423	2,98,405	3,34,382	3,77,652
Shareholders' fund	2,52,445	2,73,811	3,02,793	3,38,770	3,82,040
Total liab. and equities	3,96,780	4,48,707	4,75,541	5,18,856	5,72,642
Cash and cash eq.	26,904	37,889	51,456	83,599	1,23,322
Accounts receivables	64,728	74,676	80,984	83,181	83,784
Inventories	242	405	405	405	405
Other current assets	1,10,932	1,38,706	1,41,210	1,43,045	1,48,001
Investments	1,04,436	49,522	49,522	49,522	49,522
Net fixed assets	80,405	1,39,318	1,43,772	1,50,914	1,59,417
CWIP	1,183	1,651	1,651	1,651	1,651
Intangible assets	40,082	74,258	74,258	74,258	74,258
Deferred tax assets, net	9,133	8,191	8,191	8,191	8,191
Other assets	0	0	0	0	0
Total assets	3,96,780	4,48,707	4,75,541	5,18,856	5,72,642

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	64,824	52,836	52,432	80,072	95,843
Capital expenditures	(12,048)	(8,353)	(24,185)	(27,325)	(30,581)
Change in investments	43,390	57,765	0	0	0
Other investing cash flows	(64,787)	(44,597)	9,006	9,905	10,830
Cash flow from investing	(33,445)	4,815	(15,179)	(17,420)	(19,752)
Equities issued/Others	(569)	(1,238)	0	0	0
Debt raised/repaid	(13,624)	(1,625)	0	0	0
Interest expenses	(1,789)	(3,995)	0	0	0
Dividends paid	(18,660)	(39,808)	(23,687)	(30,510)	(36,368)
Other financing cash flows	0	0	0	0	1
Cash flow from financing	(34,642)	(46,666)	(23,687)	(30,510)	(36,367)
Chg in cash & cash eq.	(3,263)	10,985	13,567	32,143	39,724
Closing cash & cash eq.	26,904	37,889	51,456	83,599	1,23,322

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	50.4	63.9	60.5	77.9	92.8
Adjusted EPS	50.4	63.9	60.5	77.9	92.8
Dividend per share	17.6	23.4	22.4	28.8	34.3
Book value per share	287.1	311.3	344.3	385.2	434.4

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	2.5	2.1	1.7	1.5	1.3
EV/EBITDA	13.9	11.9	11.3	9.2	7.5
Adjusted P/E	21.9	17.2	18.2	14.1	11.9
P/BV	3.8	3.5	3.2	2.9	2.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	74.4	74.7	78.1	78.8	77.9
Interest burden (PBT/EBIT)	110.5	114.7	108.2	109.2	108.5
EBIT margin (EBIT/Revenue)	14.2	14.6	11.7	13.1	14.2
Asset turnover (Rev./Avg TA)	98.3	105.6	116.3	122.1	124.5
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.6	1.5	1.5
Adjusted ROAE	18.7	21.2	18.4	21.4	22.7

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	2.7	17.9	20.4	13.0	11.9
EBITDA	19.6	17.1	3.0	20.8	18.9
Adjusted EPS	4.2	26.9	(5.4)	28.8	19.2
Profitability & Return ratios (%)					
EBITDA margin	18.1	18.0	15.4	16.4	17.5
EBIT margin	14.2	14.6	11.7	13.1	14.2
Adjusted profit margin	11.7	12.5	9.9	11.3	12.0
Adjusted ROAE	18.7	21.2	18.4	21.4	22.7
ROCE	16.3	19.5	18.9	22.8	27.1
Working capital days (days)					
Receivables	68	57	53	49	45
Inventory	0	0	0	0	0
Payables	121	124	116	106	100
Ratios (x)					
Gross asset turnover	4.8	4.1	3.8	4.1	4.4
Current ratio	1.8	1.6	1.7	1.9	2.0
Net interest coverage ratio	(31.0)	(40.0)	(33.9)	(60.3)	(73.1)
Adjusted debt/equity	0.0	(0.1)	(0.2)	(0.2)	(0.3)

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

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

BUY – Expected return >+15%

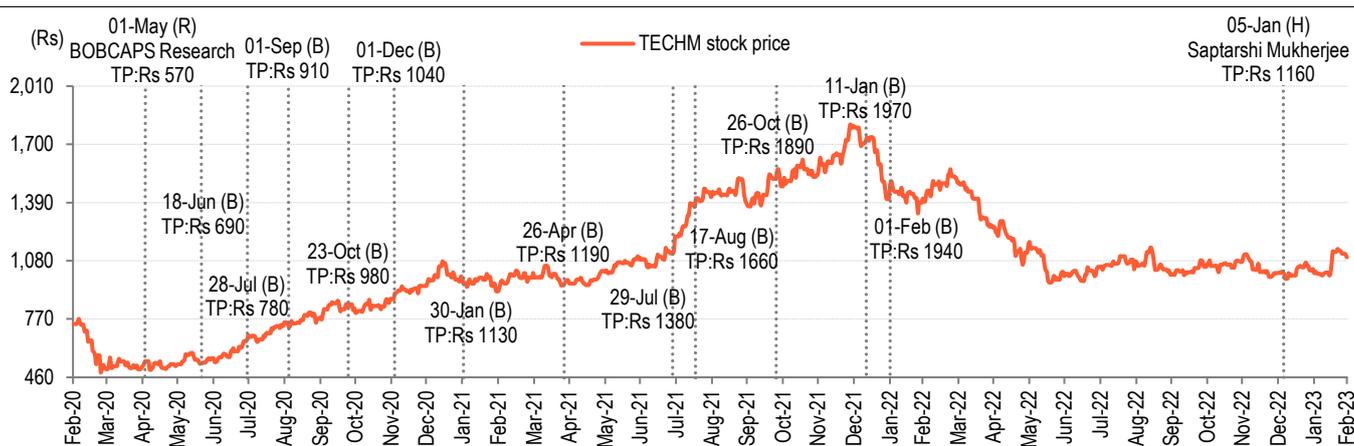
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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