

**BUY**

TP: Rs 1,890 | ▲ 24%

**TECH MAHINDRA**

| Technology & Internet

| 26 October 2021

## Growth outperforms; 5G demand outlook robust

- Q2 revenue growth beat estimates at 6.4% QoQ USD on 6.3%/6.7% enterprise/communications business growth
- Management maintained upbeat commentary on demand and 5G-led deal activity
- We raise our target P/E to 22.5x and revise our Sep'22 TP to Rs 1,890 (vs. Rs 1,660) on a buoyant outlook; reiterate BUY

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**Growth ahead, margin in line:** TECHM reported broad-based Q2FY22 revenue growth of 6.4% QoQ USD/7.2% CC, exceeding our (4.1% USD/4.8% CC) and street expectations. This was due to traction in TME (+8.9% QoQ USD), retail, transport & logistics (8.1%), and other (+8.3%) verticals. Enterprise/communications business grew 6.3%/6.7% USD. EBIT margin at 15.2% was stable QoQ, in line with estimates. Employee costs and SG&A expense as a percentage of revenue were flat QoQ.

**TCV slightly muted:** TCV stood at US\$ 750mn, down 8% QoQ but up 78% YoY. The CME and enterprise segments contributed US\$ 255mn and US\$ 495mn respectively. Contract wins were in the areas of core digitisation, business process reengineering, cloud migration and transformation of legacy systems. Deals were from verticals such as telecom, energy and utility, manufacturing and transportation.

**Abundant 5G opportunity:** 5G rollout has expanded TECHM's addressable market. Demand is coming from the areas of (1) legacy OSS transformation, (2) network capability and 5G infrastructure buildup, and (3) R&D and product development.

**Record hiring:** TECHM hired its highest-ever quarterly tally of 14,930 employees in Q2, equally distributed between information technology and BPS. This was to backfill for elevated attrition of 21% (+400bps QoQ) amid intense talent supply pressure in the sector and inadequate hiring during Q3FY20-Q4FY21.

**Robust outlook:** Management expects deal win and growth momentum to continue. Communications business growth is likely to come from sustained 5G investments as well as digital and legacy modernisation, with H2FY22 to see the usual tailwind from Comviva revenues.

**Maintain BUY:** We adjust FY22/FY23 EPS estimates by -2% to +3% to factor in new USDINR estimates and retain BUY on revenue outperformance with margin resilience. During the 4G upcycle, TECHM traded at an average 15% discount to TCS. Baking in the upbeat 5G growth outlook, we raise our target one-year forward P/E from 20x to 22.5x – a 30-40% discount to Infosys/TCS – to arrive at a new Sep'22 TP of Rs 1,890.

## Key changes

| Target | Rating |
|--------|--------|
| ▲      | ◀ ▶    |

|                  |                   |
|------------------|-------------------|
| Ticker/Price     | TECHM IN/Rs 1,524 |
| Market cap       | US\$ 17.7bn       |
| Free float       | 64%               |
| 3M ADV           | US\$ 69.8mn       |
| 52wk high/low    | Rs 1,577/Rs 782   |
| Promoter/FPI/DII | 36%/39%/25%       |

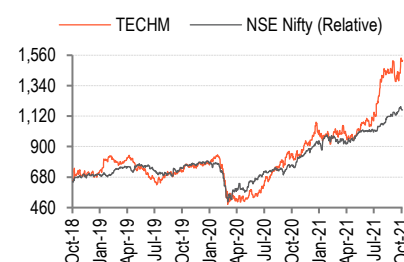
Source: NSE | Price as of 25 Oct 2021

## Key financials

| Y/E 31 Mar              | FY21A   | FY22E   | FY23E   |
|-------------------------|---------|---------|---------|
| Total revenue (Rs mn)   | 378,551 | 441,203 | 516,470 |
| EBITDA (Rs mn)          | 68,471  | 82,513  | 102,807 |
| Adj. net profit (Rs mn) | 44,281  | 57,302  | 70,359  |
| Adj. EPS (Rs)           | 50.4    | 65.2    | 80.0    |
| Consensus EPS (Rs)      | 50.4    | 59.9    | 66.2    |
| Adj. ROAE (%)           | 18.7    | 21.4    | 23.3    |
| Adj. P/E (x)            | 30.3    | 23.4    | 19.1    |
| EV/EBITDA (x)           | 19.3    | 16.0    | 12.7    |
| Adj. EPS growth (%)     | 4.2     | 29.4    | 22.8    |

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



## Other highlights

- During Q2FY22, TECHM acquired US-based Lodestone for US\$ 105mn (acquisition EV/revenue at 2.4x) in a deal that is expected to aid its digital engineering business. Lodestone posted annual revenue of US\$ 43.3mn in CY20 (0.8% of TECHM's FY21 revenue), having grown 45-55% YoY over the last two years. The company is a leading digital engineering quality assurance provider for new age digital companies.
- Management sees four drivers of demand: (1) cloud migration, (2) customer experience, (3) network modernisation, and (4) engineering services.
- The effective tax rate in Q2 was elevated at 29.4% due to one-off tax charges for a subsidiary. TECHM expects the tax rate to normalise at 26% going forward.
- The company's capital allocation policy is pivoted towards giving excess cash back to shareholders. The board has proposed an interim special dividend of Rs 15/sh, which will be its highest-ever dividend payout.
- DSO continued to decline, standing at 92 days in Q2, down 1 day QoQ and 5 YoY.

**Fig 1 – Quarterly Performance**

| (Rs mn)                                       | Q2FY22        | Q2FY21        | YoY (%)      | Q1FY22        | QoQ (%)      | H1FY22        | H1FY21        | YoY (%)      |
|---|---------------|---------------|--------------|---------------|--------------|---------------|---------------|--------------|
| Revenues (US\$ mn)                            | 1,473         | 1,265         | 16.4         | 1,384         | 6.4          | 2,857         | 2,472         | 15.5         |
| Revenue                                       | 108,813       | 93,718        | 16.1         | 101,976       | 6.7          | 210,789       | 184,781       | 14.1         |
| Operating Expenditure                         | 88,861        | 76,688        | 15.9         | 83,212        | 6.8          | 172,073       | 154,746       | 11.2         |
| Cost of revenues                              | 74,346        | 64,245        | 15.7         | 69,682        | 6.7          | 144,028       | 129,350       | 11.3         |
| as % of sales                                 | 68.3          | 68.6          | -            | 68.3          | -            | 68.3          | 70.0          | -            |
| SG&A expenses                                 | 14,515        | 12,443        | 16.7         | 13,530        | 7.3          | 28,045        | 25,396        | 10.4         |
| as % of sales                                 | 13.3          | 13.3          | -            | 13.3          | -            | 13.3          | 13.7          | -            |
| <b>EBITDA</b>                                 | <b>19,952</b> | <b>17,030</b> | <b>17.2</b>  | <b>18,764</b> | <b>6.3</b>   | <b>38,716</b> | <b>30,035</b> | <b>28.9</b>  |
| Depreciation                                  | 3,430         | 3,717         | -            | 3,311         | -            | 6,741         | 7,549         | (10.7)       |
| <b>EBIT</b>                                   | <b>16,522</b> | <b>13,313</b> | <b>24.1</b>  | <b>15,453</b> | <b>6.9</b>   | <b>31,975</b> | <b>22,486</b> | <b>42.2</b>  |
| Other Income                                  | 2,459         | 780           | -            | 2,490         | -            | 4,949         | 4,439         | 11.5         |
| Impairment of goodwill and non-current assets | -             | -             | -            | -             | -            | 0             | 0             | -            |
| PBT   | 18,981        | 14,093        | 34.7         | 17,943        | 5.8          | 36,924        | 26,925        | 37.1         |
| Total Tax                                     | 5,572         | 3,462         | -            | 4,286         | -            | 9,858         | 6,738         | -            |
| <b>Adjusted PAT</b>                           | <b>13,409</b> | <b>10,631</b> | <b>26.1</b>  | <b>13,657</b> | <b>(1.8)</b> | <b>27,066</b> | <b>20,187</b> | <b>34.1</b>  |
| (Profit)/loss from JV's/Ass/MI                | (22)          | 15            | -            | (125)         | -            | (147)         | 182           | -            |
| APAT after MI                                 | 13,387        | 10,646        | 25.7         | 13,532        | (1.1)        | 26,919        | 20,369        | 32.2         |
| Extra ordinary items                          | 0             | 0             | -            | 0             | -            | 0             | 0             | -            |
| <b>Reported PAT</b>                           | <b>13,387</b> | <b>10,646</b> | <b>25.7</b>  | <b>13,532</b> | <b>(1.1)</b> | <b>26,919</b> | <b>20,369</b> | <b>32.2</b>  |
| Reported EPS                                  | 15.2          | 12.1          | 25.7         | 15.4          | (1.1)        | 30.6          | 23.2          | 32.2         |
| <b>Margins (%)</b>                            |               |               | <b>(bps)</b> |               | <b>(bps)</b> |               |               | <b>(bps)</b> |
| EBIDTA  | 18.3          | 18.2          | 20           | 18.4          | (10)         | 18.4          | 16.3          | 210          |
| EBIT  | 15.2          | 14.2          | 100          | 15.2          | -            | 15.2          | 12.2          | 300          |
| EBT   | 17.4          | 15.0          | 240          | 17.6          | (20)         | 17.5          | 14.6          | 290          |
| PAT   | 12.3          | 11.4          | 90           | 13.3          | (100)        | 12.8          | 11.0          | 170          |
| Effective Tax rate                            | 29.4          | 24.6          | 480          | 23.9          | 550          | 26.7          | 25.0          | 170          |

Source: BOBCAPS Research

**Fig 2 – Operating metrics**

| (in USD terms)                       | Q2FY22<br>(% Contr. to Revenue) | Growth        |               |               |
|--------------------------------------|---------------------------------|---------------|---------------|---------------|
|                                      |                                 | QoQ (%)       | YoY (%)       |               |
| <b>Revenue by Geography</b>          |                                 |               |               |               |
| North America                        | 47.8                            | 8.9           | 14.9          |               |
| Europe                               | 25.9                            | 1.3           | 19.6          |               |
| Rest of the World                    | 26.3                            | 7.2           | 15.9          |               |
| <b>Client Concentration</b>          |                                 |               |               |               |
| Top 5                                | 22.0                            | 5.7           | 19.1          |               |
| Top 10                               | 31.0                            | 6.4           | 18.7          |               |
| Top 20                               | 43.0                            | 5.8           | 17.1          |               |
| Non Top 10 client revenues           | 69.0                            | 6.4           | 15.3          |               |
| <b>Revenue by Vertical</b>           |                                 |               |               |               |
| Telecom                              | 40.1                            | 6.6           | 16.1          |               |
| Manufacturing                        | 16.0                            | 3.0           | 14.1          |               |
| Technology, Media and Entertainment  | 9.0                             | 8.9           | 17.1          |               |
| BFSI                                 | 16.3                            | 5.9           | 15.8          |               |
| Retail , Transport and Logistics     | 7.8                             | 8.1           | 18.1          |               |
| Others                               | 10.8                            | 8.3           | 19.7          |               |
| <b>Revenue by Delivery</b>           |                                 |               |               |               |
| Onsite                               | 61.0                            | 4.7           | 12.7          |               |
| Offshore                             | 39.0                            | 9.2           | 22.7          |               |
|                                      |                                 | <b>(bps)</b>  | <b>(bps)</b>  |               |
| Utilisation (including trainees) (%) | 87%                             | (100)         | 200           |               |
| Attrition (%)                        | 21%                             | 400           | 700           |               |
| Headcount                            | 141,193                         | 14,930        | 16,935        |               |
|                                      |                                 | <b>Q2FY22</b> | <b>Q1FY22</b> | <b>Q2FY21</b> |
| <b>No. of Million \$ Clients</b>     |                                 |               |               |               |
| ≥ US\$ 1mn clients                   | 488                             | 466           | 460           |               |
| ≥ US\$ 5mn clients                   | 169                             | 168           | 165           |               |
| ≥ US\$ 10mn clients                  | 90                              | 86            | 82            |               |
| ≥ US\$ 20mn clients                  | 50                              | 51            | 50            |               |
| ≥ US\$ 50mn clients                  | 22                              | 22            | 21            |               |
| DSO                                  | 92                              | 93            | 97            |               |

Source: BOBCAPS Research, Company

## Valuation methodology

TECHM's prowess in the communications vertical positions it well to benefit from 5G adoption (see our Deep Dive report of 14 Sep 2021: [5G juggernaut gains momentum; BUY TECHM](#)). We expect 5G capex to spur a ~15% revenue CAGR in TECHM's communications vertical over FY22-FY24 and value the company at a higher one-year forward P/E multiple of 22.5x vs. 20x earlier to bake in the upbeat growth outlook.

Factoring in the Q2FY22 print and new USDINR estimates, we adjust FY22/FY23 EPS estimates by -2% to +3%. Our Sep'22 TP rises to Rs 1,890 (vs. Rs 1,660). During the 4G upcycle, TECHM traded at an average 15% discount to TCS. We have valued the company at a 30-40% discount to our target multiples for TCS and Infosys (INFO). Reiterate BUY.

**Fig 3 – Revised estimates**

| (Rs mn)            | New     |         |         | Old     |         |         | Change (%) |       |       |
|--------------------|---------|---------|---------|---------|---------|---------|------------|-------|-------|
|                    | FY22E   | FY23E   | FY24E   | FY22E   | FY23E   | FY24E   | FY22E      | FY23E | FY24E |
| Revenues (US\$ mn) | 5,929   | 6,796   | 7833    | 5,831   | 6,649   | 7,833   | 1.7        | 2.2   | 0.0   |
| YoY growth (%)     | 16.0    | 14.6    | 15.3    | 14.1    | 14.0    | 15.3    | -          | -     | -     |
| Revenues           | 441,203 | 516,470 | 595,287 | 438,742 | 520,348 | 595,287 | 0.6        | (0.7) | 0.0   |
| EBITDA (Rs mn)     | 82,513  | 102,807 | 118,522 | 84,773  | 103,590 | 118,522 | (2.7)      | (0.8) | 0.0   |
| EBITDA margins (%) | 18.7    | 19.9    | 19.9    | 19.3    | 19.9    | 19.9    | -          | -     | -     |
| EBIT Margin (%)    | 15.5    | 16.7    | 16.7    | 16.1    | 16.7    | 16.7    | -          | -     | -     |
| Net Profits        | 57302   | 70359   | 78557   | 58708   | 68668   | 78557   | (2.4)      | 2.5   | 0.0   |
| EPS (Rs)           | 65.2    | 80.0    | 89.3    | 66.8    | 78.1    | 89.3    | (2.4)      | 2.5   | 0.0   |

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

| Parameter          | FY21  | FY22E | FY23E | FY24E |
|--------------------|-------|-------|-------|-------|
| Revenues (US\$ mn) | 5,111 | 5,929 | 6,796 | 7,833 |
| YoY growth (%)     | (1.4) | 16.0  | 14.6  | 15.3  |
| EBIT (%)           | 14.2  | 15.5  | 16.7  | 16.7  |

Source: Company, BOBCAPS Research

**Fig 5 – Peer comparison**

| Ticker     | Rating | Target Price (Rs) | US\$ Revenue CAGR FY21-23E (%) | EPS (Rs) |       | ROE (%) |       | P/E   |       |
|------------|--------|-------------------|--------------------------------|----------|-------|---------|-------|-------|-------|
|            |        |                   |                                | FY22E    | FY23E | FY22E   | FY23E | FY22E | FY23E |
| TCS IN     | BUY    | 4,630             | 13.8                           | 103.4    | 119.7 | 39.4    | 37.4  | 33.8  | 29.2  |
| INFO IN    | BUY    | 2,000             | 14.4                           | 53.9     | 59.5  | 29.6    | 30.7  | 31.7  | 28.7  |
| WPRO IN    | BUY    | 840               | 18.4                           | 23.4     | 26.9  | 21.2    | 21.6  | 28.5  | 24.8  |
| HCLT IN    | BUY    | 1,440             | 10.7                           | 49.1     | 55.2  | 20.3    | 20.5  | 23.7  | 21.1  |
| TECHM IN   | BUY    | 1,890             | 15.3                           | 65.2     | 80.0  | 21.4    | 23.3  | 23.4  | 19.1  |
| LTI IN     | BUY    | 7,980             | 21.1                           | 134.5    | 161.8 | 29.5    | 29.9  | 47.7  | 39.6  |
| MPHL IN    | HOLD   | 3,510             | 16.1                           | 76.5     | 92.6  | 21.0    | 23.6  | 41.9  | 34.6  |
| MTCL IN    | SELL   | 3,390             | 21.0                           | 94.1     | 100.2 | 33.0    | 29.8  | 47.1  | 44.3  |
| PSYS IN    | HOLD   | 3,560             | 21.0                           | 74.0     | 91.5  | 19.9    | 21.5  | 53.5  | 43.3  |
| COFORGE IN | BUY    | 6,680             | 27.1                           | 125.6    | 172.0 | 28.4    | 32.8  | 40.3  | 29.5  |

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- low growth in the communications business,
- lack of synergy among portfolio companies, and
- prolonged delay in 5G timelines.

## Sector recommendation snapshot

| Company                   | Ticker     | Market Cap (US\$ bn) | Price (Rs) | Target (Rs) | Rating |
|---------------------------|------------|----------------------|------------|-------------|--------|
| Affle (India)             | AFFLE IN   | 0.4                  | 1,154      | 1,240       | BUY    |
| Coforge                   | COFORGE IN | 4.2                  | 5,069      | 6,680       | BUY    |
| eClerx Services           | ECLX IN    | 1.0                  | 1,960      | 2,880       | BUY    |
| HCL Technologies          | HCLT IN    | 42.1                 | 1,165      | 1,440       | BUY    |
| IndiaMart InterMesh       | INMART IN  | 3.0                  | 7,324      | 8,430       | HOLD   |
| Info Edge                 | INFOE IN   | 10.2                 | 5,956      | 6,530       | BUY    |
| Infosys                   | INFO IN    | 96.8                 | 1,708      | 2,000       | BUY    |
| Just Dial                 | JUST IN    | 0.7                  | 803        | 1,190       | BUY    |
| L&T Infotech              | LTI IN     | 15.0                 | 6,411      | 7,980       | BUY    |
| Mindtree                  | MTCL IN    | 9.7                  | 4,433      | 3,390       | SELL   |
| Mphasis                   | MPHL IN    | 7.9                  | 3,204      | 3,510       | HOLD   |
| Persistent Systems        | PSYS IN    | 4.2                  | 3,960      | 3,560       | HOLD   |
| Tata Consultancy Services | TCS IN     | 174.6                | 3,493      | 4,630       | BUY    |
| Tech Mahindra             | TECHM IN   | 17.7                 | 1,524      | 1,890       | BUY    |
| Wipro                     | WPRO IN    | 49.1                 | 668        | 840         | BUY    |

Source: BOBCAPS Research, NSE | Price as of 25 Oct 2021

## Financials

### Income Statement

| Y/E 31 Mar (Rs mn)         | FY20A          | FY21A          | FY22E          | FY23E          | FY24E          |
|----------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Total revenue</b>       | <b>368,677</b> | <b>378,551</b> | <b>441,203</b> | <b>516,470</b> | <b>595,287</b> |
| EBITDA                     | 57,261         | 68,471         | 82,513         | 102,807        | 118,522        |
| Depreciation               | 14,458         | 14,577         | 14,114         | 16,527         | 19,049         |
| EBIT                       | 42,803         | 53,894         | 68,399         | 86,280         | 99,473         |
| Net interest inc./(exp.)   | (1,919)        | (1,740)        | (1,510)        | (1,650)        | (1,650)        |
| Other inc./(exp.)          | 11,924         | 7,871          | 9,207          | 6,401          | 3,517          |
| Exceptional items          | 0              | 0              | 0              | 0              | 0              |
| EBT                        | 52,753         | 59,530         | 76,107         | 91,071         | 101,400        |
| Income taxes               | 11,604         | 15,999         | 19,458         | 22,313         | 24,843         |
| Extraordinary items        | 0              | 0              | 0              | 0              | 0              |
| Min. int./Inc. from assoc. | 1,301          | 762            | 663            | 1,640          | 2,060          |
| <b>Reported net profit</b> | <b>42,505</b>  | <b>44,281</b>  | <b>57,302</b>  | <b>70,359</b>  | <b>78,557</b>  |
| Adjustments                | 0              | 0              | 0              | 0              | 0              |
| <b>Adjusted net profit</b> | <b>42,505</b>  | <b>44,281</b>  | <b>57,302</b>  | <b>70,359</b>  | <b>78,557</b>  |

### Balance Sheet

| Y/E 31 Mar (Rs mn)              | FY20A          | FY21A          | FY22E          | FY23E          | FY24E          |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Accounts payables               | 0              | 0              | 0              | 0              | 0              |
| Other current liabilities       | 103,830        | 102,292        | 114,834        | 134,424        | 154,938        |
| Provisions                      | 11,055         | 13,121         | 12,088         | 14,150         | 16,309         |
| Debt funds                      | 24,282         | 16,618         | 16,618         | 16,618         | 16,618         |
| Other liabilities               | 12,304         | 12,304         | 12,304         | 12,304         | 12,304         |
| Equity capital                  | 4,359          | 4,370          | 4,370          | 4,370          | 4,370          |
| Reserves & surplus              | 217,705        | 248,075        | 279,197        | 316,613        | 358,174        |
| Shareholders' fund              | 222,064        | 252,445        | 283,567        | 320,983        | 362,544        |
| <b>Total liab. and equities</b> | <b>373,535</b> | <b>396,780</b> | <b>439,411</b> | <b>498,478</b> | <b>562,713</b> |
| Cash and cash eq.               | 30,167         | 26,904         | 47,252         | 88,901         | 135,277        |
| Accounts receivables            | 75,772         | 64,728         | 87,032         | 101,879        | 117,427        |
| Inventories                     | 358            | 242            | 242            | 242            | 242            |
| Other current assets            | 121,702        | 110,932        | 113,995        | 120,182        | 126,660        |
| Investments                     | 61,046         | 104,436        | 104,436        | 104,436        | 104,436        |
| Net fixed assets                | 76,047         | 80,405         | 77,321         | 73,706         | 69,539         |
| CWIP                            | 501            | 1,183          | 1,183          | 1,183          | 1,183          |
| Intangible assets               | 33,877         | 40,082         | 40,082         | 40,082         | 40,082         |
| Deferred tax assets, net        | 8,443          | 9,133          | 9,133          | 9,133          | 9,133          |
| Other assets                    | 0              | 0              | 0              | 0              | 0              |
| <b>Total assets</b>             | <b>373,535</b> | <b>396,780</b> | <b>439,411</b> | <b>498,478</b> | <b>562,713</b> |

### Cash Flows

| Y/E 31 Mar (Rs mn)                 | FY20A           | FY21A           | FY22E           | FY23E           | FY24E           |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Cash flow from operations</b>   | <b>46,075</b>   | <b>64,824</b>   | <b>46,187</b>   | <b>77,853</b>   | <b>91,087</b>   |
| Capital expenditures               | (15,386)        | (12,048)        | (11,030)        | (12,912)        | (14,882)        |
| Change in investments              | (16,880)        | 43,390          | 0               | 0               | 0               |
| Other investing cash flows         | 13,843          | (64,787)        | 10,717          | 8,051           | 5,167           |
| <b>Cash flow from investing</b>    | <b>(18,423)</b> | <b>(33,445)</b> | <b>(313)</b>    | <b>(4,861)</b>  | <b>(9,716)</b>  |
| Equities issued/Others             | 0               | (569)           | 0               | 0               | 0               |
| Debt raised/repaid                 | 0               | (13,624)        | 0               | 0               | 0               |
| Interest expenses                  | 0               | (1,789)         | 0               | 0               | 0               |
| Dividends paid                     | (17,912)        | (18,660)        | (25,527)        | (31,344)        | (34,996)        |
| Other financing cash flows         | 0               | 0               | 0               | 0               | 0               |
| <b>Cash flow from financing</b>    | <b>(17,912)</b> | <b>(34,642)</b> | <b>(25,527)</b> | <b>(31,344)</b> | <b>(34,996)</b> |
| <b>Chg in cash &amp; cash eq.</b>  | <b>9,740</b>    | <b>(3,263)</b>  | <b>20,348</b>   | <b>41,649</b>   | <b>46,376</b>   |
| <b>Closing cash &amp; cash eq.</b> | <b>30,167</b>   | <b>26,904</b>   | <b>47,252</b>   | <b>88,901</b>   | <b>135,277</b>  |

### Per Share

| Y/E 31 Mar (Rs)      | FY20A | FY21A | FY22E | FY23E | FY24E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS         | 48.3  | 50.4  | 65.2  | 80.0  | 89.3  |
| Adjusted EPS         | 48.3  | 50.4  | 65.2  | 80.0  | 89.3  |
| Dividend per share   | 16.9  | 17.6  | 24.1  | 29.6  | 33.1  |
| Book value per share | 252.5 | 287.1 | 322.4 | 365.0 | 412.2 |

### Valuations Ratios

| Y/E 31 Mar (x) | FY20A | FY21A | FY22E | FY23E | FY24E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales       | 3.6   | 3.5   | 3.0   | 2.5   | 2.1   |
| EV/EBITDA      | 23.2  | 19.3  | 16.0  | 12.7  | 10.8  |
| Adjusted P/E   | 31.5  | 30.3  | 23.4  | 19.1  | 17.1  |
| P/BV           | 6.0   | 5.3   | 4.7   | 4.2   | 3.7   |

### DuPont Analysis

| Y/E 31 Mar (%)               | FY20A       | FY21A       | FY22E       | FY23E       | FY24E       |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| Tax burden (Net profit/PBT)  | 80.6        | 74.4        | 75.3        | 77.3        | 77.5        |
| Interest burden (PBT/EBIT)   | 123.2       | 110.5       | 111.3       | 105.6       | 101.9       |
| EBIT margin (EBIT/Revenue)   | 11.6        | 14.2        | 15.5        | 16.7        | 16.7        |
| Asset turnover (Rev./Avg TA) | 104.1       | 98.3        | 105.5       | 110.1       | 112.2       |
| Leverage (Avg TA/Avg Equity) | 1.6         | 1.6         | 1.6         | 1.6         | 1.6         |
| <b>Adjusted ROAE</b>         | <b>19.8</b> | <b>18.7</b> | <b>21.4</b> | <b>23.3</b> | <b>23.0</b> |

### Ratio Analysis

| Y/E 31 Mar                                   | FY20A      | FY21A      | FY22E        | FY23E        | FY24E        |
|--|------------|------------|--------------|--------------|--------------|
| <b>YoY growth (%)</b>                        |            |            |              |              |              |
| Revenue                                      | 6.1        | 2.7        | 16.6         | 17.1         | 15.3         |
| EBITDA                                       | (9.6)      | 19.6       | 20.5         | 24.6         | 15.3         |
| Adjusted EPS                                 | 1.2        | 4.2        | 29.4         | 22.8         | 11.7         |
| <b>Profitability &amp; Return ratios (%)</b> |            |            |              |              |              |
| EBITDA margin                                | 15.5       | 18.1       | 18.7         | 19.9         | 19.9         |
| EBIT margin                                  | 11.6       | 14.2       | 15.5         | 16.7         | 16.7         |
| Adjusted profit margin                       | 11.5       | 11.7       | 13.0         | 13.6         | 13.2         |
| Adjusted ROAE                                | 19.8       | 18.7       | 21.4         | 23.3         | 23.0         |
| ROCE   | 15.1       | 16.3       | 19.6         | 24.8         | 29.0         |
| <b>Working capital days (days)</b>           |            |            |              |              |              |
| Receivables                                  | 72         | 68         | 63           | 67           | 67           |
| Inventory                                    | 1          | 0          | 0            | 0            | 0            |
| Payables                                     | 114        | 121        | 110          | 110          | 111          |
| <b>Ratios (x)</b>                            |            |            |              |              |              |
| Gross asset turnover                         | 5.0        | 4.8        | 5.6          | 6.8          | 8.3          |
| Current ratio                                | 2.0        | 1.8        | 2.0          | 2.1          | 2.2          |
| Net interest coverage ratio                  | (22.3)     | (31.0)     | (45.3)       | (52.3)       | (60.3)       |
| <b>Adjusted debt/equity</b>                  | <b>0.0</b> | <b>0.0</b> | <b>(0.1)</b> | <b>(0.2)</b> | <b>(0.3)</b> |

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

## Disclaimer

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

**BUY** – Expected return >+15%

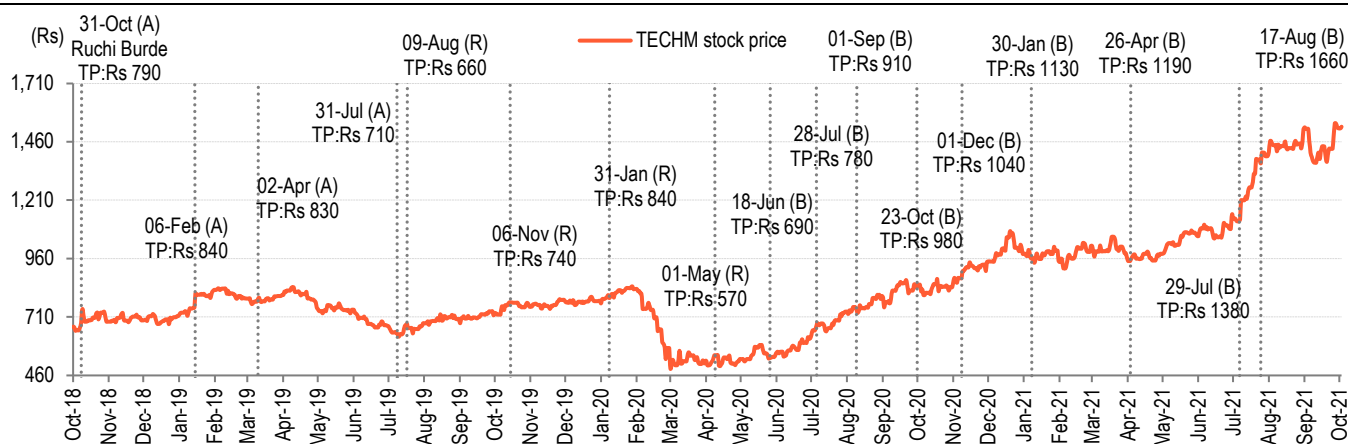
**HOLD** – Expected return from -6% to +15%

**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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