



## STRONG EXECUTION, EXPECT BROAD BASED RECOVERY

Tech Mahindra reported better than expected results in Q1 FY21 in all the terms. Revenue for the period of Q1 FY21 stood at Rs. 9,106.3 cr decline by 4% QoQ and 6%QoQ in CC terms. Operating margin reported a marginal growth of 11bps and stood at 14.3% aided mainly by INR depreciation, lower utilization. Net income grew by 21% QoQ and stood at Rs. 972.3 cr. Its top line has impacted mainly due to supply side constraints but showed a strong recovery after May. Communication vertical decline by 8.2% QoQ while Enterprise verticals declined by 5.2% QoQ in CC terms. During the quarter, deal pipeline remained robust at TCV of \$ 290mn out of which \$105mn are from Communication and Enterprise \$185 mn. Management is expecting strong recovery from supply side constraints and expects recovery because of the ramp up in new deal wins.

### Strong broad based recovery is expected

On the vertical front, Banking Financial Services & Insurance de-grew by 6.2% QoQ, Manufacturing declined by 11.1% QoQ, Retail Transport & Logistics declined by 6.2% QoQ, Others declined by 9.5% QoQ. While Technology Media and Entertainment grew by 13.1% QoQ

On the geographical front, North America (49% of revenue) declined by 3.5% QoQ, Europe (26% of revenue) grew by 9.1% QoQ, Rest of World declined by 10.1% QoQ in CC terms.

### Our Take:

We believe Tech Mahindra has a better services mix and multiple long term contracts spread across verticals. With depreciation in INR, lower travel cost and strong execution EBITDA margins likely to expand in near term. We recommend HOLD and assign 13x P/E multiple to its FY22E earnings of Rs. 55 per share which gives a TP of Rs. 720 per share, an upside of 8%.

### Key Financials (Consolidated)

(Rs. Cr)	FY19	FY20	FY21E	FY22E
Net Sales	34,742	36,354	37,548	42,354
EBIDTA	6,337	5,832	6,563	7,498
Net Profit	4,298	16,594	16,969	18,974
EPS (Rs)	48.8	48.0	50.0	55.0
PER (x)	11	13.2	14.2	12.3
EV/EBIDTA (x)	6.4	7.3	7.3	6.4
P/BV (x)	3.3	3.3	2.9	2.6
ROE (%)	22%	20%	21%	22%

Source: Company, Axis Research

(CMP as of Jul 27, 2020)

CMP (Rs)	664
Upside /(Downside (%))	8%
High/Low (Rs)	730/597
Market cap (Cr)	Rs 64,165
Avg. daily vol. (6m) Shrs.	18,39,129
No. of shares (Cr)	96.61

### Shareholding (%)

	Dec -20	Mar -19	Jun-19
Promoter	13.15	13.15	13.15
FIIIs	33.51	31.76	31.01
MFs / UTI	12.92	13.36	13.66
Banks / FIIs	0.11	0.13	0.13
Others	40.31	41.6	42.05

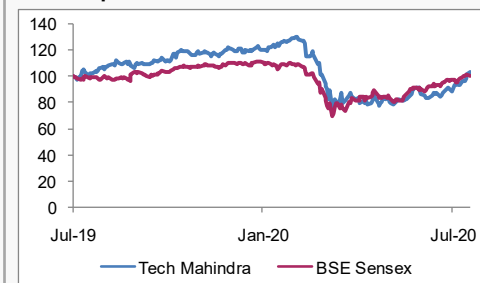
### Financial & Valuations

Y/E Mar (Rs. Cr)	2020	2021E	2022E
Net Sales	36,354	37,548	42,354
EBITDA	5,832	6,563	7,498
Net Profit	4,130	4,230	4,852
EPS (Rs)	48.0	50.0	55.0
PER (x)	13.2	14.2	12.3
EV/EBITDA (x)	7.3	7.3	6.4
P/BV (x)	3.3	2.9	2.6
RoE (%)	20%	21%	22%

### Change in Estimates (%)

Y/E Mar	FY21E	FY22E
Sales	37,548	42,354
EBITDA	6,563	7,498
PAT	4,230	4,852

### Relative performance



Source: Capitaline, Axis Securities

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## Key Concall takeaways

- 1) Management is expecting strong demand for the services like Cloud computing and other digital services and more headroom from Enterprise business. Deal wins for Q1 FY21 strong with \$295 mn. \$105 from Communication and \$185 from Enterprise business.
- 2) The company has efficiently transforms 95% Work from home (WFH) of its staff working closely with its clients.
- 3) Q1 revenue was impacted by COVID-19 outbreak with 25% impact from supply side and 75% th from demand side. Moreover, Integration of Zen3 was offset by season weakness in Comviva business. Management sees Q1 as the trough quarter and expects sequential recovery hereon.
- 4) Management sees 5G opportunity in three buckets: (1) 5G for Communications, (2) 5G for Enterprise and (3) 5G for Ecosystem. Within Communications, company sees a setback of 5-7 months in spending for 5G impacted by geo-political issues. On Enterprise side, deal funnel and use cases remain strong, however decision making is slower.
- 5) DSO (including unbilled) improved by 5 days to 107 days resulting in FCF of USD 317 mn.

### Employee Data

	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Software professional	74,093	72,597	73,079	71,515	71,020
BPO Professional	45,000	52,193	50,886	46,816	45,554
Sales and Support	6,680	6,730	6,872	6,905	6,842
Total Headcount	125,773	131,520	130,837	125,236	123,416
Attrition (%)	21%	21%	20%	19%	17%
Utilization (%)	82%	83%	85%	84%	82%

Source: Company, Axis Research

### Revenue By Geography (%)

	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
America	48%	49%	48%	48%	49%
Europe	28%	27%	27%	27%	26%
Rest of the World	25%	25%	25%	26%	25%

Source: Company, Axis Research

### Revenue By Industry (%)

	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Communication	42%	41%	43%	41%	40%
Manufacturing	19%	18%	17%	18%	17%
Tech, Media and Entertainment	8%	8%	8%	7%	9%
BFSI	13%	13%	13%	15%	16%
Retail, Transport and Logistics	6%	7%	7%	7%	7%
Others	12%	13%	2%	12%	11%

Source: Company, Axis Research

#### No of Active Clients

	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
No Of Active Clients	941	946	964	973	981
% of Repeat Business	98%	95%	91%	86%	97%

Source: Company, Axis Research

#### No of mn \$ Clients

	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
\$ 1 mn + Clients	429	437	446	446	451
\$5 mn + Clients	160	155	164	160	161
\$10 Mn + Clients	81	80	83	85	81
\$20 mn + Clients	49	49	50	49	48
\$50 mn +Clients	21	22	22	22	21

Source: Company, Axis Research

#### Top Clients Data (%)

	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Top 5	21%	22%	22%	21%	22%
Top 10	31%	32%	31%	31%	31%
Top 20	44%	44%	42%	44%	43%

Source: Company, Axis Research

#### On/ Off Breakup (%)

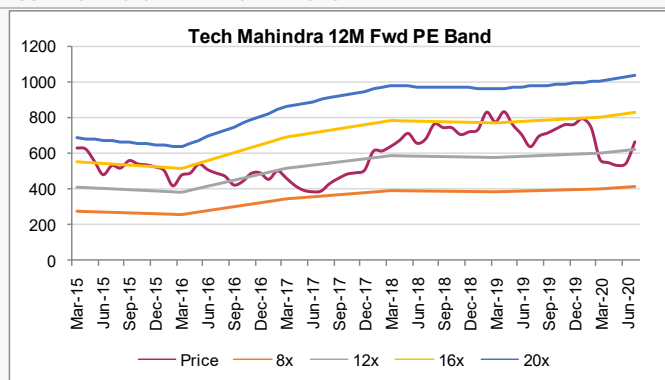
	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21
Onsite	65%	65%	65%	65%	64%
Offshore	35%	34%	35%	35%	36%

Source: Company, Axis Research

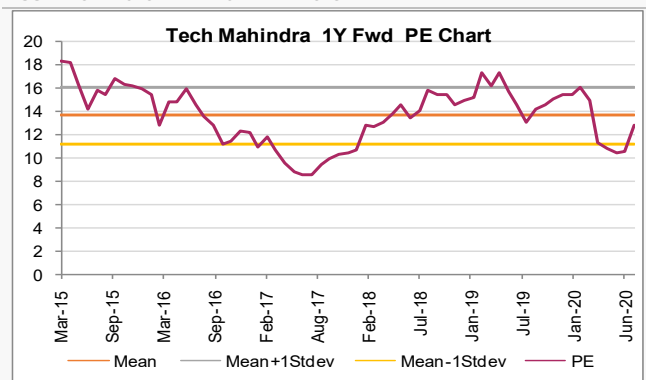
## Valuation and Outlook

Resilient business structure, better services mix will help Tech Mahindra to attain long term sustainable growth. we believe Tech Mahindra will deliver long term sustainable growth aided by healthy deal pipeline and strong execution . **We maintain HOLD rating and target price of Rs. 720/share.**

Tech Mahindra 12M Fwd PE Band



Tech Mahindra 1Y Fwd PE Chart



Source: Company, Axis Securities

**Result Update**
**(Rs Cr)**

Y/E March	Q1 FY21	Q4 FY20	Q1 FY20	% change (YoY)	% change (QoQ)
<b>Total Revenue</b>	9,106	9,490	8,652	5%	-4%
Total Cost of Sales	6,511	6,690	6,164		
<b>Gross Profit</b>	2,596	2,801	2,488	4%	-7%
Margin (%)	29%	30%	29%	-25	-101
SGA	1,295	1,453	1,175		
<b>EBITDA</b>	1,301	1,348	1,313	-1%	-4%
Margin (%)	14%	14%	15%	-90	8
Depreciation	384	285	321		
<b>Operating profit</b>	<b>917</b>	<b>966</b>	<b>993</b>		
Margin (%)	10%	10%	11%		
Other Income	416	285	240		
Interest Expenses	50	53	45		
<b>Pre Tax Profit</b>	<b>1,283</b>	<b>966</b>	<b>1,281</b>		
Tax	328	239	332		
ETR (%)	26%	25%	26%	-37	76
<b>Net Profit After Taxes</b>	<b>956</b>	<b>726</b>	<b>949</b>	1%	32%
Non Controlling Interest	17	78	10		
<b>Net Income After Extraordinary Items</b>	<b>972</b>	<b>804</b>	<b>959</b>	1%	21%
Margin (%)	11%	20%	21%		
<b>EPS</b>	<b>11.07</b>	<b>9.14</b>	<b>10.89</b>	2%	21%

Source: Company, Axis Securities

**Financials (Consolidated)**
**Profit & Loss**

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
<b>Net sales</b>	<b>34,742</b>	<b>36,354</b>	<b>37,548</b>	<b>42,354</b>
Growth, %	8.5	5%	3%	13%
Other income	534	1,090	1,232	1,380
Total income	3,528	3,744	3,878	4,373
Employee expenses	17,508	18,718	20,767	22,858
Other Operating expenses	6,548	6,561	7,611	8,307
EBITDA (Core)	6,337	5,832	6,563	7,498
<b>Growth, %</b>	<b>7%</b>	<b>-8%</b>	<b>13%</b>	<b>14%</b>
Margin, %	18%	16%	17%	18%
Depreciation	1,129	1,379	1,438	1,485
EBIT	5,208	4,453	5,126	6,013
<b>Growth, %</b>	<b>8%</b>	<b>-14%</b>	<b>15%</b>	<b>17%</b>
Margin, %	15%	12%	14%	14%
Interest paid	133	185	133	104
<b>Pre-tax profit</b>	<b>5,609</b>	<b>5,358</b>	<b>6,225</b>	<b>7,289</b>
Tax provided	1,254	1,268	1,666	1,950
Profit after tax	4,354	4,089	4,559	5,339
<b>Net Profit</b>	<b>4,298</b>	<b>4,130</b>	<b>4,230</b>	<b>4,852</b>
<b>Growth, %</b>	<b>8%</b>	<b>-4%</b>	<b>2%</b>	<b>15%</b>
Net Profit (adjusted)	4,298	4,130	4,230	4,852

Source: Company, Axis Securities

**Balance Sheet**

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Cash & bank	2,043	1,722	3,154	5,575
Debtors	6,959	7,370	8,336	9,225
Other current assets	6,590	6,590	6,590	6,590
<b>Total current assets</b>	<b>21,566</b>	<b>22,065</b>	<b>24,803</b>	<b>28,416</b>
Net fixed assets	2,623	1,971	1,243	431
CWIP	276	276	276	276
Other Noncurrent assets	752	752	752	752
Differed tax assets	609	609	609	609
<b>Total Non Current Assets</b>	<b>426</b>	<b>361</b>	<b>288</b>	<b>207</b>
	0	0	0	0
<b>Total assets</b>	<b>33,447</b>	<b>33,543</b>	<b>35,964</b>	<b>39,166</b>
	0	0	0	0
Creditors	2,489	2,592	2,795	2,971
Provisions	395	395	395	395
<b>Total current liabilities</b>	<b>9,936</b>	<b>9,800</b>	<b>9,763</b>	<b>9,939</b>
Other liabilities	42	42	42	42
Paid-up capital	444	433	433	433
Reserves & surplus	19,841	20,125	22,624	25,692
Shareholders' equity	2,028	2,056	2,306	2,613
<b>Total equity &amp; liabilities</b>	<b>33,447</b>	<b>33,543</b>	<b>35,964</b>	<b>39,166</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E
Pre-tax profit	5,609	5,358	6,225	7,289
Depreciation	1,129	1,379	1,438	1,485
Chg in working capital	-3,382	-820	-1,306	-1,192
Total tax paid	1,254	1,268	1,666	1,950
<b>Cash flow from operating activities</b>	<b>5,020</b>	<b>5,812</b>	<b>6,200</b>	<b>7,410</b>
Capital expenditure	808	727	710	673
<b>Cash flow from investing activities</b>	<b>-314</b>	<b>-727</b>	<b>-710</b>	<b>-673</b>
Free cash flow	5,514	5,812	6,200	7,410
Dividend (incl. tax)	1,491	3,846	2,112	2,323
<b>Cash flow from financing activities</b>	<b>-319</b>	<b>-291</b>	<b>-281</b>	<b>-42</b>
Net chg in cash	1,642	-321	1,432	2,422

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY19	FY20	FY21E	FY22E
<b>Sales growth</b>	<b>33.4</b>	<b>15.0</b>	<b>13.4</b>	<b>15.2</b>
EPS (INR)	48.8	48.0	50.0	55.0
Growth, %	14%	-2%	4%	10%
Book NAV/share (INR)	230.5	233.6	262.0	296.9
FDEPS (INR)	35	39	42	46
CEPS (INR)	61.7	62.6	68.7	78.1
CFPS (INR)	28.1	36.5	43.8	42.8
DPS (INR)	14	24	21	24
<b>Return ratios</b>				
Return on assets (%)	13%	12%	13%	14%
Return on equity (%)	22%	20%	21%	22%
Return on capital employed (%)	21%	19%	19%	19%
<b>Turnover ratios</b>				
Asset turnover (x)	13.2	18.4	32.6	104.1
Sales/Total assets (x)	13.2	18.4	32.6	104.1
Receivables Days	102.4	102.4	102.4	102.4
Cash conversion cycle	23.7	25.5	5.1	5.0
<b>Liquidity ratios</b>				
Current ratio (x)	2.1	2.2	2.4	2.7
Quick Ratio	1.4	1.4	1.6	1.9
Net debt/Equity (%)	0	0	0	0
Leverage Ratio	2	2	2	1
<b>Valuation</b>				
PER (x)	11	13.2	14.2	12.3
Price/Book (x)	3.3	3.3	2.9	2.6
EV/Net sales (x)	2.9	3.1	2.9	2.8
EV/EBITDA (x)	6.4	7.3	7.3	6.4
Dividend Yield	2.7	4.4	2.9	4.4

Source: Company, Axis Securities

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