

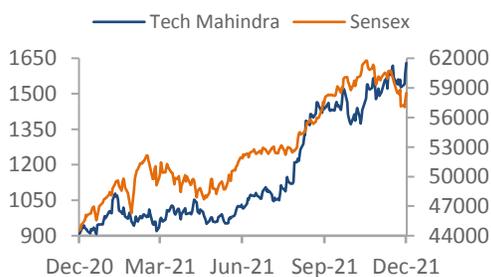
Sector	IT
Recommendation	BUY
Upside	16%

Stock Data	
Sensex	58,150
52 Week h/l (₹)	1,630/887
Market cap (` Cr)	156,459
BSE code	532755
NSE code	TECHM
FV (₹)	5
Div. yield (%)	0.93

Shareholding Pattern			
	Mar-21	Jun-21	Sep-21
Promoter	35.76	35.73	35.70
FII+DII	52.71	52.65	52.45
Others	11.53	11.62	11.85

Source: www.bseindia.com

## Share Price Trend



## Profile

Tech Mahindra (TechM) was initially incorporated as a joint venture between Mahindra & Mahindra and British Telecom plc in 1986 under the name of 'Mahindra British Telecom'. The company has, over the years, developed a niche in the telecom vertical by providing end-to-end services to telecom OEMs and service providers. It has filled gaps in its service offerings in the telecom space through acquisitions of Comviva Technologies (a mobile VAS provider) and Hutchison Global Services (a customer services BPO). Tech Mahindra has entered into the enterprise solutions space through its acquisition of erstwhile Satyam and has now diversified its exposure to other verticals like BFSI and Manufacturing. With ~121,000 employees and FY21 revenue of ~US\$5.1bn, Tech Mahindra is the fifth largest Indian IT services company.

## Investment Rationale

**Margin improvement still has legs:** Despite a 360bps EBIT margin improvement since FY21, TechM continues to see further room for improvement in margins, driven by improving operational metrics like offshoring, employee pyramid rationalisation and utilisation, combined with focus on yield management, portfolio synergies and changing business mix. We see upside risk to our forecasts of stable EBIT margins over FY21-24ii.

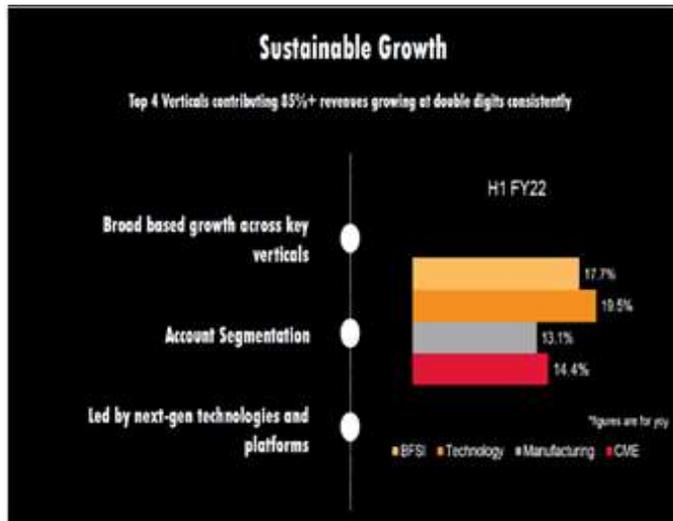
**Rise in Telecom revenue:** 5G-related revenues hit a US\$500mn annual run-rate in 2QFY22 vs. US\$110mn in FY21, leading to a 16% YoY growth in the Telecom vertical. Management expects 5G investments to accelerate going forward, leading to spurt in growth.

**Enterprise:** The Enterprise vertical has seen broad-based growth across verticals in 1H and TechM expects each of its four focus verticals (BFSI, Mfg, HLS and Hi-Tech) to reach US\$1bn in revenues over the medium term.

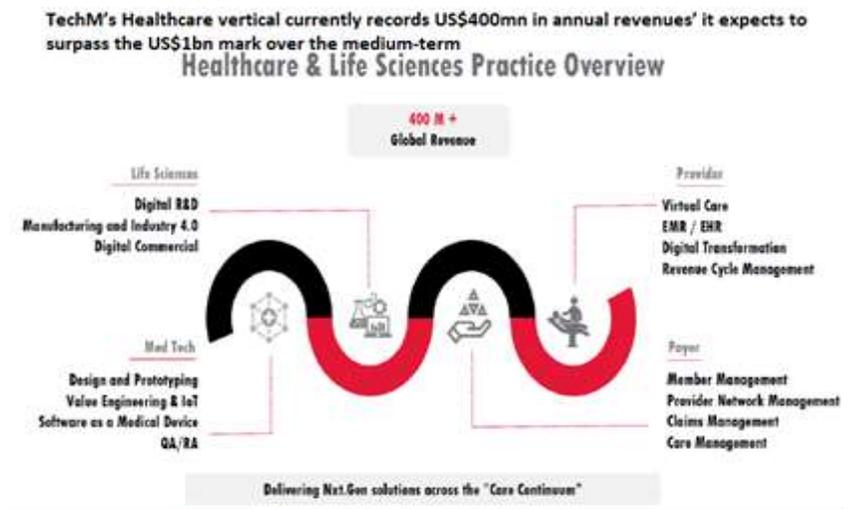
**Top four verticals to drive growth:** TechM highlighted that it expects growth to be driven by its core CME vertical, driven by 5G, along with each of its four focus verticals – BFSI, Manufacturing, Healthcare & LifeSciences and Hi-tech – surpassing US\$1bn in revenues over the medium term. Its investments in building competencies around Cloud, Network services, Engineering Services and Experience Design are likely to drive growth across the verticals. TechM has restructured its account management to focus on better client mining within its top- 100 accounts. On the back of broad-based growth in 1H, TechM remains confident of exceeding its double-digit organic revenue growth guidance in FY22.

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2nd December, 2021

**Revenue growth to be driven by the focus verticals and client mining:** TechM has delivered broad-based growth in 1HFY22 and sees the momentum in its focus verticals continuing. 5G has started contributing meaningfully to its top line, with annualised revenue run rate of US\$500mn in 2QFY22. Given the strong order book, pick up in hiring and focus on client mining, we forecast TECHM's USD revenues to clock 14% CAGR over FY21-24ii.



Source: Company, IIFL Research



Source: Company, IIFL Research

**Deal wins picking up pace:** TechM has won over US\$3bn of net new deals in the last 12 months, driven by its strategic focus on proactive deals, collaborative deals and dedicated squads. Management expects the deal momentum to continue going forward. Its success in large-deal wins over the last three quarters is visible in the quarterly average deal wins increasing by 3x in 1HFY22 vs. FY18.

TechM is trading at over 30% discount to peers on FY23ii P/E which we believe will narrow if it can deliver consistently on growth and sustain margins



Source: Company, IIFL Research

TechM has delivered deal wins worth >US\$750mn over the last 3 quarters



Source: Company, IIFL Research

## Risks

**Client concentration:** Top 4 verticals contributing 85%+ revenues.

## Outlook & Valuation:

TechM has restructured its large-deal team which has led to a 3x increase in the average quarterly deal-win TCV since FY18. TECHM is improving operational metrics like utilisation, offshoring and employee pyramid rationalisation, along with improving portfolio companies' margins, have led to 360bps EBIT margin improvement from FY20 to 2QFY22. Management is confident of exceeding its FY22 guidance of double-digit organic revenue growth and sees room for further margin improvement. Thus, we recommend a buy with a target of ₹,850 for a 12-month period.

## Financial Summary

Consolidated (INR in mn)	FY20	FY21	FY22ii	FY23ii	FY24ii
Total Income	368,677	378,551	444,286	509,010	562,993
YoY growth (%)	6.1	2.7	17.4	14.6	10.6
EBITDA margin (%)	15.5	18.1	18.4	18.1	17.9
PAT	40,330	44,280	57,987	65,534	71,566
ROE (%)	20.2	19.2	22.0	22.3	22
P/B (x)	6.1	5.3	4.8	4.3	3.9
EV/EBITDA (x)	21.9	17.8	15.1	13.2	11.8
Net Debt/Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)

## Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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