

Tech Mahindra

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Good show in Sep'19 quarter but retains growth outlook

CMP	Target Price
Rs 773 as of (November 5, 2019)	Rs 700 (■) 12 months
Rating	Upside
HOLD (■)	(9.5) %

- TechM revenues grew 4.1%/7.3% CC qoq/yoy and were better than our expectations of 2.9% qoq CC growth. Growth was driven by the Enterprise business (up 5.6% qoq in CC terms; ~59% of sales), while Telecom revenues grew 2.0% qoq in CC.
- TechM retained its FY20 revenue growth outlook of 'in-line with industry growth' in the Telecom business (~41% of sales) and mid-single digit growth in the Enterprise segment (~59% of sales), suggesting nearly 6.0-7.0% CC yoy growth for the entire business. EBIT margins are expected to decline 150-250bps yoy in FY20.
- TCV of deal wins was healthy and came in at USD1.49bn, of which Telecom contributed USD1.0bn and Enterprise contributed USD0.49bn. TCV of deal wins in the Telecom segment was supported by a large deal with AT&T in the quarter.
- We do not see any material changes to our estimates on retention of revenue growth outlook and an in-line margin outlook. We currently have a Hold rating on TechM with a TP of Rs700 (based on 13x Sep'21E EPS). We will be releasing a detailed note shortly.

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What we liked? Growth pick-up and stable commentary for the Enterprise business (up 5.6% qoq in CC terms; ~59% of sales) which had remained volatile over the last four quarters.

What we did not like? Retention of growth outlook for FY20 despite strong TCV of deal signings (USD1,490mn in Sep'19 quarter) and a pick-up in the Enterprise business.

Growth pick-up in Enterprise business is encouraging: TechM's growth beat in the Sep'19 quarter was driven by growth pick-up in BFSI, Retail and 'Others' verticals, while the Manufacturing vertical continued to see decline (down ~4% qoq, ~18% of sales) - all part of Enterprise revenues. TechM expects continued growth in the Enterprise business in H2FY20, albeit at a slower pace (relative to Sep'19 quarter growth) on a ramp-up in projects in Sep'19 quarter. EBIT margins improved 130bps qoq to 12.8% and were in line with expectations. The improvement was led by gains in operational efficiencies (+100bps qoq) and improvement in subsidiary profitability (+55bps qoq), but partially offset by remaining wage hikes (~25bps qoq). For full-year FY20, TechM expects EBIT margins to decline 150-250bps yoy due to the ramp-up of large deals. Cash flow from operations remained weak at ~Rs7.3bn (vs. Rs8.0bn/Rs9.5bn in Q1FY20/Q2FY19) as DSO (billed + unbilled) increased further to 114 days vs. 110 days in Jun'19 quarter. TechM attributed the increase to rise in billed revenues and expects to normalize the DSO in the coming quarters.

Do not see material changes to estimates: With the retention of revenue growth outlook and an in-line margin outlook, we do not see material changes to our estimates. We currently have a Hold rating on the stock with a TP of Rs700 (based on 13x Sep'21E EPS). We will be releasing a detailed note shortly.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Revenue	3,07,730	3,47,421	3,61,495	3,90,028	4,21,648
EBITDA	47,098	63,368	60,189	65,418	71,778
EBITDA Margin (%)	15.3	18.2	16.7	16.8	17.0
APAT	38,002	43,630	40,331	43,969	49,249
EPS (Rs)	42.7	48.5	46.2	50.3	56.4
EPS (% chg)	33.6	13.6	(4.8)	9.0	12.0
ROE (%)	21.5	22.3	19.7	20.1	20.0
P/E (x)	18.1	16.0	16.8	15.4	13.7
EV/EBITDA (x)	13.6	9.7	9.9	8.7	7.6
P/BV (x)	3.7	3.4	3.3	2.9	2.6

Source: Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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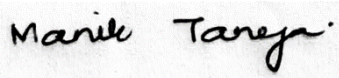
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