

# Tech Mahindra

Refer to important disclosures at the end of this report

## Revenue growth to accelerate to double digits in FY22

- Tech Mahindra reported a mixed operating performance in Q4FY21, with revenue slightly below expectations, while margins resilience surprising positively. Revenue grew 0.7% QoQ CC, led by the Enterprise business (1.1%). Communications remained muted (0.2%).
- Net new deal wins remained robust with TCV of ~USD1bn in Q4, spread evenly across Communications and Enterprise. Despite strong deal closures in Q4, management indicates a healthy deal pipeline and expects to sustain deal win momentum in coming quarters.
- Management remains confident of delivering double-digit revenue growth with at least 15% EBITM in FY22 (double-digit growth in Enterprise; high single-digit growth in communications) on the back of broad-based demand, healthy deal intake and strong deal pipeline.
- We largely retain our FY22/23E EPS (<1% change), factoring in Q4 performance, strong deal intake/pipeline and healthy cash conversion. We maintain Buy with a TP of Rs1,190 at 18x FY23E EPS, considering anticipated acceleration in revenue growth, margin resilience, healthy cash conversion, improving capital allocation and reasonable valuations.

**What we liked?** Strong order intake (~USD1bn net new TCV), improved capital allocation (~90% payouts), improvement in DSO (92 days vs. 95/112 days QoQ/YoY)

**What we did not like?** Continued softness in North America, net headcount reduction despite strong deal wins, unsustainably high utilization, and industry-wide uptick in attrition

**Robust deal intake to drive double-digit growth in FY22:** TechM's Q4FY21 revenues grew 1.6% QoQ to USD1.33bn (0.7% CC), a tad lower than expectations. Revenue growth was led by continued momentum in BFSI and Manufacturing verticals, and Europe and RoW regions. The company signed net new deals worth ~USD1bn (USD518mn in Communications and USD525mn in Enterprise) in Q4, highest since Q3FY20. Deal wins were broad based across verticals and geographies. Management expects Q1FY22 to be a good quarter despite adverse seasonality and expects a similar level of deal wins (~USD1bn) in Q1. Despite healthy deal closures in Q4, the deal pipeline remains strong entering into FY22, which augurs well for growth visibility and revenue acceleration. Management remains fairly confident of delivering double-digit revenue growth in FY22, given broad-based demand across verticals in Enterprise, recovery in Communications, robust deal wins and healthy deal pipeline.

**EBITM to be 15%+ in FY22:** EBITM was flat sequentially in Q4 and came in ahead of our expectations. Higher SG&A costs (-40bps) due to strong hiring and one-time impairment charges (-50bps) were negated by higher utilization and other operational efficiencies. The company remains confident of sustaining at least 15% EBITM in FY22 on the back of anticipated acceleration in revenue growth, improvement in portfolio companies' performance, offshore shift and automation-led operating efficiencies, negating impact of salary hike (wef Apr 1), large deal ramp-up costs, certain planned measures to manage attrition (skilled based allowances, niche skills salary hikes) and expected normalization of travel and other costs.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology \(Page 11\)](#)

### Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	347,421	368,677	378,551	420,381	468,268
EBITDA	63,368	57,261	68,471	78,374	85,507
EBITDA Margin (%)	18.2	15.5	18.1	18.6	18.3
APAT	42,975	40,330	44,281	50,969	57,581
EPS (Rs)	48.5	46.2	50.7	58.3	65.9
EPS (% chg)	12.7	(4.7)	9.6	15.1	13.0
ROE (%)	22.0	19.2	19.0	19.3	19.4
P/E (x)	19.9	20.8	19.0	16.5	14.6
EV/EBITDA (x)	12.2	13.5	10.6	9.0	7.9
P/BV (x)	4.2	3.8	3.4	3.0	2.7

Source: Company, Emkay Research

CMP	Target Price
Rs 962 as of (April 26, 2021)	Rs 1,190 (■) 12 months
Rating	Upside
BUY (■)	23.7 %

Change in Estimates	
EPS Chg FY22E/FY23E (%)	(0.3)/0
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

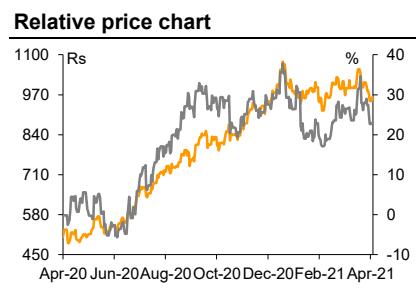
### Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	58.3	65.9
Consensus	59.9	66.3
Mean Consensus TP (12M)	Rs 1,119	

Stock Details	
Bloomberg Code	TECHM IN
Face Value (Rs)	5
Shares outstanding (mn)	968
52 Week H/L	1,097 / 481
M Cap (Rs bn/USD bn)	932 / 12.47
Daily Avg Volume (nos.)	4,407,127
Daily Avg Turnover (US\$ mn)	58.3

Shareholding Pattern Mar '21	
Promoters	35.8%
FII	38.3%
DII	14.4%
Public and Others	11.5%

Price Performance				
(%)	1M	3M	6M	12M
Absolute	(3)	(1)	20	95
Rel. to Nifty	(3)	(3)	(3)	23



Source: Bloomberg

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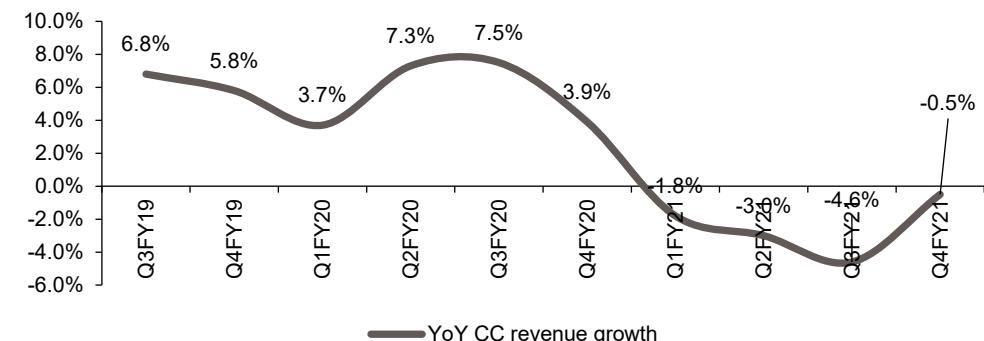
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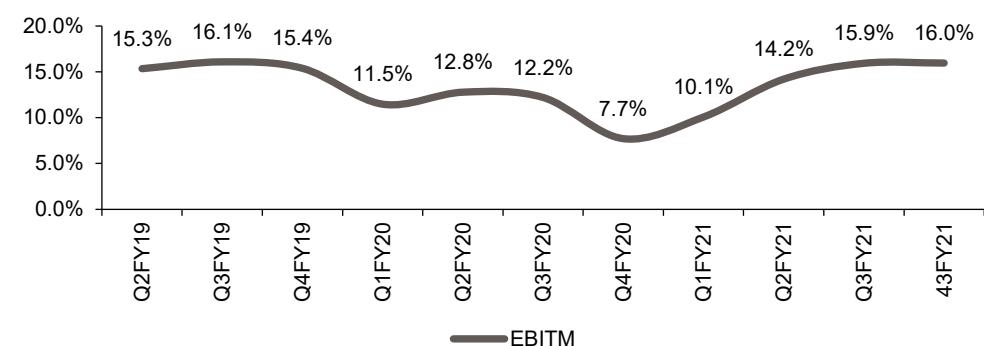
## Story in Charts

**Exhibit 1: YoY CC revenue growth continued its upward trajectory**



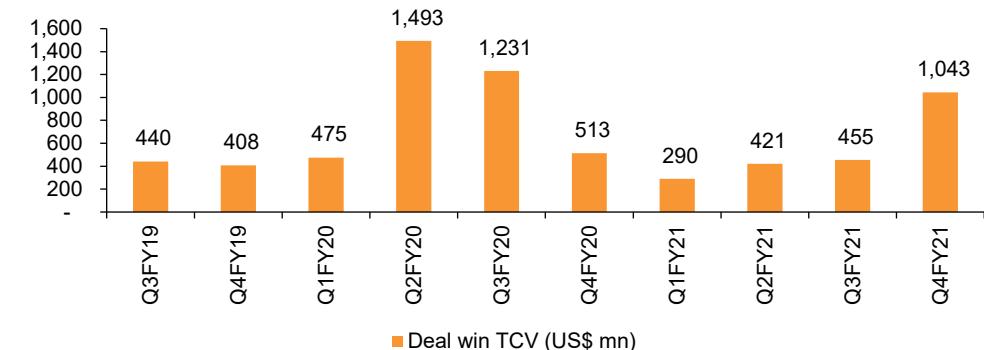
Source: Company, Emkay Research

**Exhibit 2: EBITM was resilient in Q4 despite higher S&A costs and one-off impairment charges**



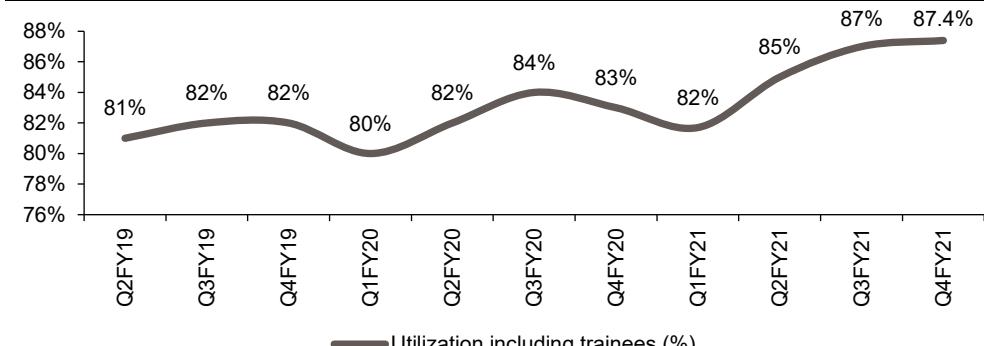
Source: Company, Emkay Research

**Exhibit 3: Deal intake was robust in Q4FY21**



Source: Company, Emkay Research

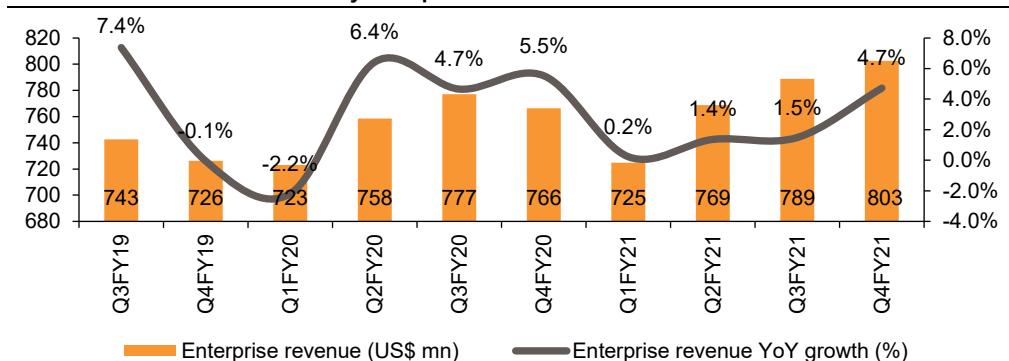
**Exhibit 4: Utilization was at an all-time high in Q4**



Source: Company, Emkay Research

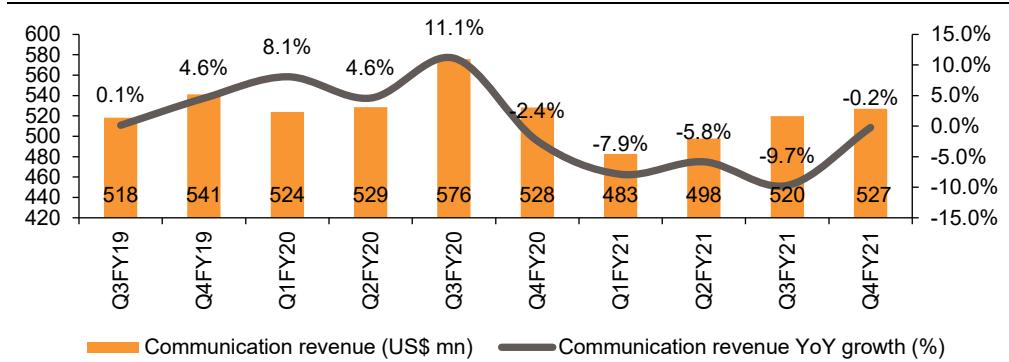
**Q4 revenue growth a tad softer than expectations; Revenues to grow in double digits in FY22:** TechM's Q4FY21 revenues grew 1.6% QoQ to USD1.33bn (0.7% CC), a tad lower than expectations, while EBITM remain resilient and beat expectations. The growth was led by BFSI (4.9% QoQ cc), Manufacturing (1.9%) and Communications (1.4%). Technology, Media and Entertainment recorded another flat quarter, while Retail, Transport and Logistic declined 3.2% QoQ. Management attributed the decline in Retail, Transport & Logistic verticals to seasonality and expects growth to pick up in coming quarters. Geographically, growth was led by Europe (2% QoQ) and RoW (6.2%). North America reported another quarter of muted performance (-1.3% QoQ). Q4FY21 was a stellar quarter in terms of deal intake, with net new TCV of deal at USD1.04bn (USD518mn in Communications and USD525mn in Enterprise; ~USD2.2bn in FY21). Deal wins were broad based across verticals as well as geographies. Management expects similar level of deal wins in Q1. Despite healthy deal closures in Q4, the deal pipeline remains strong entering into FY22, which augurs well for growth visibility and revenue acceleration. Management remains fairly confident of delivering double-digit revenue growth for FY22, considering broad-based demand across verticals in Enterprise, recovery in Communications, robust deal wins and deal pipeline. The Enterprise business is likely to grow in double digits in FY22, while Communications may grow in a high single digit.

**Exhibit 5: Growth in Q4 was led by Enterprise business**



Source: Company, Emkay Research

**Exhibit 6: Communications revenue continues on the recovery trend**



Source: Company, Emkay Research

**Acquire Eventus Solutions for USD44mn:** TechM acquired Eventus Solutions Group, a consulting and technology service company, for a cash consideration of up to USD44mn, including earn-outs (~1.3x EV/Sales on CY20 basis), to bolster consulting capabilities in Customer Experience and customer management space. Eventus Solutions Group offers end-to-end customer engagement solutions such as strategy consulting, cloud-based tools and automation services, and managed services. The acquisition will enable Tech Mahindra to build an industry-leading consulting practice and move up the value chain in the BPS business. Customer experience remains one of the focus areas for Tech Mahindra and the acquisition of Eventus Solutions will scale its consulting business and drive cross-sell and downstream revenue. Incorporated in 2009, Eventus Solutions is headquartered in Denver, Colorado, and has more than 100 employees. It reported revenues of USD20.8mn/ USD24.1mn/USD33.2mn in CY18/CY19/CY20. The deal is expected to close by June 15, 2021.

## Other Takeaways

**Q4FY21 performance:** Revenue grew 1.6%/2.7% QoQ/YoY (0.7%/-0.5% QoQ/YoY CC) to USD1.3bn. EBITM was flat sequentially in Q4 as higher SG&A costs (-40bps) due to strong hiring and one-off impairment costs (-50bps) were negated by higher utilization and other operational efficiencies. Deal wins were robust with net new TCV at ~USD1bn spread evenly across Communications and Enterprise. The deal pipeline remains robust despite healthy conversion during the quarter. The company registered improvement in its client buckets and added 7 and 2 clients QoQ to USD5mn+ and USD10mn+ buckets, respectively.

**Outlook:** Management continues to see traction in the areas of cloud, AI, cyber security and data services. The deal pipeline is robust despite healthy conversions in Q4 and contains a good mix of legacy modernization, digital and cloud transformation deals. The company is working closely with the hyperscalers to capitalize on the multi-year cloud opportunity. Based on the solid deal intake and healthy deal pipeline, it expects FY22 revenue growth to be in double digits and EBITM to be above 15%.

### Others

- TechM announced a dividend of Rs30 per share (final dividend of Rs15 per share and special dividend of Rs15 per share), taking the total dividend for FY21 to Rs45 – the highest ever.
- ETR was higher in Q4 on account of one-time tax charges at two of its subsidiaries. Expected ETR in FY22 will be in the range of 25-26%.
- TechM has rolled out a salary hike for FY22 effective 1<sup>st</sup> April for all the bands. There are no plans for a second salary hike in FY22 as of now and will be reevaluated depending on company's operating performance over next few quarters.
- DSO at 92 days in Q4 vs. 95 days in Q3.
- Restructuring in Brazil led to the impairment charges of Rs507mn in Q4.
- TechM expects hiring to pick up in coming quarters. It hired ~5,000 freshers in FY21.

**Exhibit 7: Actual vs Estimates (Q4FY21)**

(in Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues(USD mn)	1,330	1,348	1,342	-1.4%	-0.9%	Revenue growth was weaker than expectations.
Sales	97,299	98,266	98,155	-1.0%	-0.9%	
EBIT	15,530	15,240	15,508	1.9%	0.1%	Margins were higher than expectations on the back of record high utilization and other operational efficiencies.
EBIT margins, %	16.0%	15.5%	15.8%	50 bps	20 bps	
Profit	10,814	12,294	13,055	-12.0%	-17.2%	Lower other income and higher ETR led to profit miss.

Source: Company, Emkay Research

## Exhibit 8: Quarterly Snapshot

Rs mn	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
Revenues( in US\$ mn)	1,295	1,207	1,265	1,309	1,330	2.7	1.6	5,111	5,182	(1.4)
Revenue	94,902	91,063	93,718	96,471	97,299	2.5	0.9	378,551	368,677	2.7
Operating Expenditure	81,424	78,058	76,688	77,516	77,818	-4.4	0.4	310,080	311,416	(0.4)
Cost of revenues	66,896	65,105	64,245	64,708	64,497	-3.6	-0.3	258,555	259,743	(0.5)
as % of sales	70.5	71.5	68.6	67.1	66.3			68.3	70.5	
SG&A expenses	14,528	12,953	12,443	12,808	13,321	-8.3	4.0	51,526	51,673	(0.3)
as % of sales	15.3	14.2	13.3	13.3	13.7			13.6	14.0	
EBITDA	13,478	13,005	17,030	18,954	19,481	44.5	2.8	68,471	57,261	19.6
Depreciation	6,157	3,832	3,717	3,584	3,951			15,084	16,633	
EBIT	7,321	9,173	13,313	15,371	15,530	112.1	1.0	53,387	40,628	31.4
Other Income	2,320	3,658	776	1,788	(91)			6,131	10,005	(38.7)
PBT	9,641	12,831	14,089	17,159	15,439	60.1	-10.0	59,518	50,633	17.5
Total Tax	2,392	3,276	3,462	4,263	4,998			15,999	11,604	
Adjusted PAT	7,249	9,555	10,627	12,896	10,441	44.0	-19.0	43,519	39,029	11.5
(Profit)/loss from JV's/Ass/MI	790	168	19	202	373			762	1,301	
APAT after MI	8,039	9,723	10,646	13,098	10,814	34.5	-17.4	44,281	40,330	9.8
Reported PAT	8,039	9,723	10,646	13,098	10,814	34.5	-17.4	44,281	40,330	9.8
Reported EPS (Rs)	9.2	11.2	12.2	15.0	12.4	34.1	-17.4	51	46	9.5
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>			<b>(bps)</b>
EBIDTA	14.2	14.3	18.2	19.6	20.0	582	37	18.1	15.5	256
EBIT	7.7	10.1	14.2	15.9	16.0	825	3	14.1	11.0	308
EBT	10.2	14.1	15.0	17.8	15.9	571	(192)	15.7	13.7	199
PAT	8.5	10.7	11.4	13.6	11.1	264	(246)	11.7	10.9	76
Effective Tax rate	24.8	25.5	24.6	24.8	32.4	756	753	26.9	22.9	396

Source: Company, Emkay Research

## Exhibit 9: Revenues by geography

Particulars	As a % of revenue				
	Q4FY21	Q3FY21	Q4FY20	QoQ (%)	YoY (%)
North America	45.5%	46.8%	47.7%	-1.3%	-2.1%
Europe	26.5%	26.4%	26.5%	2.0%	2.7%
Rest of World	28.0%	26.8%	25.8%	6.2%	11.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1.6%</b>	<b>2.7%</b>

Source: Company, Emkay Research

## Exhibit 10: Revenue by industry

Particulars	As a % of revenue				
	Q4FY21	Q3FY21	Q4FY20	QoQ (%)	YoY (%)
Telecom	40%	40%	41%	1.4%	-0.2%
Manufacturing	16%	16%	18%	1.9%	-5.2%
Technology, Media & Entertainment	9%	9%	7%	0.5%	27.8%
Banking, financial services & insurance	16%	16%	15%	4.9%	10.3%
Retail, transport & logistics	8%	8%	7%	-3.2%	6.2%
Others	11%	11%	11%	1.6%	-3.4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>1.6%</b>	<b>2.7%</b>

Source: Company, Emkay Research

**Exhibit 11: Client Data**

Particulars	Q4FY21	Q3FY21	Q4FY20
<b>Client Concentration (%)</b>			
Top 5 clients	22%	22%	21%
Top 10 clients	31%	31%	31%
Top 20	43%	42%	44%
<b>Number of million dollar Clients (on LTM basis)</b>			
Million US\$ clients	451	454	446
5 million US\$ clients	169	162	160
10 million US\$ clients	85	83	85
20 million US\$ clients	50	50	49
50 million US\$ clients	21	21	22

Source: Company, Emkay Research

**Exhibit 12: Segmental performance**

Revenue (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
IT	81,077	78,572	82,245	87,067	86,681	83,667	84,193	85,905	86,730
BPO	7,846	7,958	8,454	9,479	8,221	7,396	9,525	10,566	10,569
<b>Total</b>	<b>88,923</b>	<b>86,530</b>	<b>90,699</b>	<b>96,546</b>	<b>94,902</b>	<b>91,063</b>	<b>93,718</b>	<b>96,471</b>	<b>97,299</b>
Growth YoY (%)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
IT	8.6%	2.6%	3.3%	6.3%	6.9%	6.5%	2.4%	-1.3%	0.1%
BPO	32.8%	29.4%	27.1%	25.7%	4.8%	-7.1%	12.7%	11.5%	28.6%
<b>Total</b>	<b>10.4%</b>	<b>4.6%</b>	<b>5.1%</b>	<b>7.9%</b>	<b>6.7%</b>	<b>5.2%</b>	<b>3.3%</b>	<b>-0.1%</b>	<b>2.5%</b>
EBITDA (%)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
IT	18.9%	15.3%	17.0%	16.1%	14.1%	14.9%	17.8%	19.1%	19.1%
BPO	13.9%	14.2%	12.1%	16.7%	14.9%	6.8%	21.9%	23.7%	28.0%
<b>Total</b>	<b>18.4%</b>	<b>15.2%</b>	<b>16.5%</b>	<b>16.2%</b>	<b>14.2%</b>	<b>14.3%</b>	<b>18.2%</b>	<b>19.6%</b>	<b>20.0%</b>

Source: Company, Emkay Research

**Exhibit 13: Changes in estimates**

( All fig in Rs mn except EPS)	FY22E			FY23E		
	Old	New	Change	Old	New	Change
US\$ Revenues (US\$ mn)	5,664	5,641	-0.4%	6,173	6,161	-0.2%
YoY growth, %	10.4%	10.4%		9.0%	9.2%	
Revenues	422,096	420,381	-0.4%	469,129	468,268	-0.2%
EBIT (in Rs mn)	62,082	61,998	-0.1%	68,853	68,805	-0.1%
EBIT mgns, %	14.7	14.7		14.7	14.7	
Net Profits	51,155	50,969	-0.4%	57,593	57,581	0.0%
EPS (Rs)	58.5	58.3	-0.3%	65.9	65.9	0.0%

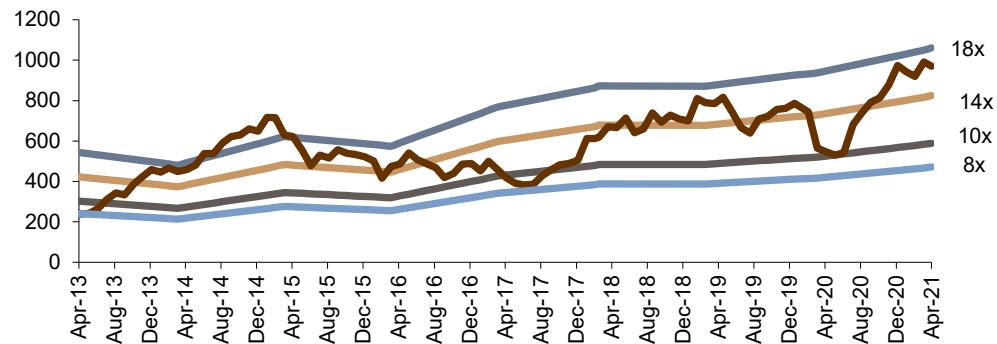
Source: Company, Emkay Research

**Exhibit 14: Key Assumptions****Assumptions Table**

(in Rs mn)	FY21	FY22E	FY23E
USD revenue growth (%)	-1.4%	10.4%	9.2%
USD/INR	74.1	74.5	76.0
INR revenue growth (%)	2.7%	11.0%	11.4%
EBIT margins (% of sales)	14.1%	14.7%	14.7%
EPS growth (%)	9.6%	15.1%	13.0%

Source: Company, Emkay Research

## Exhibit 15: TechM 1-year forward P/E band



Source: Company, Emkay Research

## Exhibit 16: Valuation Summary

Co Name	CMP	Reco.	Target Price	USD revenue growth (%)			EPS			P/E			EV/EBIT		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
TCS	3,101	HOLD	3,150	0.6	15.8	11.0	87.7	107.2	121.3	35.4	28.9	25.6	27.0	22.1	19.5
Infosys	1,344	BUY	1,550	6.1	17.6	12.4	45.5	54.9	61.8	29.5	24.5	21.7	21.6	18.1	15.8
Wipro	480	HOLD	450	-1.4	18.8	10.0	19.7	20.5	22.6	24.4	23.4	21.3	19.1	18.2	16.1
HCL Tech	928	BUY	1,130	2.4	12.8	9.7	45.8	52.2	56.9	20.3	17.8	16.3	15.5	13.0	11.6
<b>Tech Mahindra</b>	<b>962</b>	<b>BUY</b>	<b>1,190</b>	<b>-1.4</b>	<b>10.4</b>	<b>9.2</b>	<b>50.7</b>	<b>58.3</b>	<b>65.9</b>	<b>19.0</b>	<b>16.5</b>	<b>14.6</b>	<b>13.6</b>	<b>11.4</b>	<b>9.8</b>
L&T Infotech	3,934	SELL	3,490	9.4	16.5	15.3	107.7	124.6	145.4	36.5	31.6	27.1	28.4	24.5	20.9
Mphasis	1,724	HOLD	1,570	6.3	13.5	9.8	65.7	77.4	87.8	26.2	22.3	19.6	19.1	16.3	14.2
Mindtree	2,064	SELL	1,650	-1.1	15.5	12.0	67.4	77.5	82.9	30.6	26.6	24.9	22.7	19.2	17.9
Persistent Systems	1,934	BUY	2,200	12.6	17.0	15.0	56.5	76.1	91.1	34.2	25.4	21.2	27.0	19.6	15.6
Birlasoft	255	HOLD	290	3.4	14.0	13.0	11.0	14.3	17.7	23.2	17.8	14.4	14.2	11.1	8.8
Coforge	2,808	HOLD	2,740	5.2	16.4	13.0	75.3	101.1	119.3	37.3	27.8	23.5	27.0	21.2	17.5
Firstsource Solutions	114	BUY	125	17.2	12.0	8.5	6.3	7.2	8.3	18.1	15.7	13.7	14.7	12.4	10.6

Source: Company, Emkay Research

### Key Financials (Consolidated)

#### Income Statement

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Revenue</b>	<b>347,421</b>	<b>368,677</b>	<b>378,551</b>	<b>420,381</b>	<b>468,268</b>
<b>Expenditure</b>	<b>284,053</b>	<b>311,416</b>	<b>310,080</b>	<b>342,007</b>	<b>382,761</b>
<b>EBITDA</b>	<b>63,368</b>	<b>57,261</b>	<b>68,471</b>	<b>78,374</b>	<b>85,507</b>
Depreciation	11,292	16,633	15,084	16,375	16,702
<b>EBIT</b>	<b>52,076</b>	<b>40,628</b>	<b>53,387</b>	<b>61,998</b>	<b>68,805</b>
Other Income	4,010	10,005	6,131	5,074	7,143
Interest expenses	0	0	0	0	0
<b>PBT</b>	<b>56,086</b>	<b>50,633</b>	<b>59,518</b>	<b>67,072</b>	<b>75,948</b>
Tax	12,544	11,604	15,999	17,103	19,367
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	567	(1,301)	(762)	(1,000)	(1,000)
<b>Reported Net Income</b>	<b>42,975</b>	<b>40,330</b>	<b>44,281</b>	<b>50,969</b>	<b>57,581</b>
<b>Adjusted PAT</b>	<b>42,975</b>	<b>40,330</b>	<b>44,281</b>	<b>50,969</b>	<b>57,581</b>

#### Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity share capital	4,437	4,359	4,370	4,370	4,370
Reserves & surplus	198,407	213,772	244,280	275,146	309,566
<b>Net worth</b>	<b>202,844</b>	<b>218,131</b>	<b>248,650</b>	<b>279,517</b>	<b>313,936</b>
<b>Minority Interest</b>	<b>4,777</b>	<b>3,933</b>	<b>3,795</b>	<b>3,795</b>	<b>3,795</b>
<b>Loan Funds</b>	<b>14,047</b>	<b>24,282</b>	<b>16,618</b>	<b>15,860</b>	<b>15,860</b>
Net deferred tax liability	(6,080)	(8,087)	(8,372)	(8,372)	(8,372)
<b>Total Liabilities</b>	<b>215,588</b>	<b>238,259</b>	<b>260,691</b>	<b>290,800</b>	<b>325,219</b>
<b>Net block</b>	<b>70,612</b>	<b>88,720</b>	<b>90,230</b>	<b>88,454</b>	<b>83,453</b>
<b>Investment</b>	<b>73,419</b>	<b>58,483</b>	<b>102,376</b>	<b>105,337</b>	<b>110,255</b>
<b>Current Assets</b>	<b>181,584</b>	<b>217,388</b>	<b>193,903</b>	<b>228,187</b>	<b>271,422</b>
Cash & bank balance	23,587	31,483	28,352	47,184	73,691
Other Current Assets	0	0	0	0	0
<b>Current liabilities &amp; Provision</b>	<b>112,790</b>	<b>126,833</b>	<b>126,956</b>	<b>131,680</b>	<b>140,411</b>
<b>Net current assets</b>	<b>68,794</b>	<b>90,555</b>	<b>66,947</b>	<b>96,508</b>	<b>131,011</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>215,588</b>	<b>238,259</b>	<b>260,691</b>	<b>290,800</b>	<b>325,219</b>

#### Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>55,432</b>	<b>50,578</b>	<b>59,529</b>	<b>67,072</b>	<b>75,948</b>
Other Non-Cash items	4,782	(1,106)	5,343	1,000	1,000
Chg in working cap	(10,574)	(5,218)	15,635	(10,728)	(7,997)
<b>Operating Cashflow</b>	<b>44,320</b>	<b>43,581</b>	<b>80,938</b>	<b>56,616</b>	<b>66,286</b>
Capital expenditure	(9,143)	(12,971)	(17,065)	(13,962)	(11,700)
<b>Free Cash Flow</b>	<b>35,177</b>	<b>30,610</b>	<b>63,873</b>	<b>42,654</b>	<b>54,586</b>
Investments	(15,924)	20,420	(39,997)	(2,961)	(4,918)
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(23,270)</b>	<b>10,286</b>	<b>(54,501)</b>	<b>(16,923)</b>	<b>(16,618)</b>
Equity Capital Raised	359	(17,411)	1,257	0	0
Loans Taken / (Repaid)	(4,504)	(444)	(11,743)	(758)	0
Dividend paid (incl tax)	(14,907)	(24,917)	(17,594)	(20,103)	(23,162)
Other Financing Cash Flow	0	0	0	0	0
<b>Financing Cashflow</b>	<b>(20,406)</b>	<b>(44,655)</b>	<b>(29,869)</b>	<b>(20,860)</b>	<b>(23,162)</b>
<b>Net chg in cash</b>	<b>644</b>	<b>9,212</b>	<b>(3,432)</b>	<b>18,832</b>	<b>26,507</b>
Opening cash position	19,661	20,427	30,167	26,904	45,736
<b>Closing cash position</b>	<b>23,587</b>	<b>31,483</b>	<b>28,352</b>	<b>47,184</b>	<b>73,691</b>

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
EBITDA Margin	18.2	15.5	18.1	18.6	18.3
EBIT Margin	15.0	11.0	14.1	14.7	14.7
Effective Tax Rate	22.4	22.9	26.9	25.5	25.5
Net Margin	12.5	10.6	11.5	11.9	12.1
ROCE	26.7	22.3	23.9	24.3	24.7
ROE	22.0	19.2	19.0	19.3	19.4
RoIC	43.2	30.8	38.6	46.5	49.4

<b>Per Share Data (Rs)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
EPS	48.5	46.2	50.7	58.3	65.9
CEPS	61.2	65.3	67.9	77.0	85.0
BVPS	228.8	249.9	284.4	319.7	359.1
DPS	14.0	15.0	45.0	23.0	26.5

<b>Valuations (x)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
PER	19.9	20.8	19.0	16.5	14.6
P/CEPS	15.7	14.7	14.2	12.5	11.3
P/BV	4.2	3.8	3.4	3.0	2.7
EV / Sales	2.2	2.1	1.9	1.7	1.4
EV / EBITDA	12.2	13.5	10.6	9.0	7.9
Dividend Yield (%)	1.5	1.6	4.7	2.4	2.8

<b>Gearing Ratio (x)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
Net Debt/ Equity	(0.4)	(0.3)	(0.5)	(0.5)	(0.5)
Net Debt/EBITDA	(1.3)	(1.1)	(1.7)	(1.7)	(2.0)
Working Cap Cycle (days)	47.5	58.5	37.2	42.8	44.7

<b>Growth (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
Revenue	12.9	6.1	2.7	11.0	11.4
EBITDA	34.3	(9.6)	19.6	14.5	9.1
EBIT	43.4	(22.0)	31.4	16.1	11.0
PAT	13.1	(6.2)	9.8	15.1	13.0

<b>Quarterly (Rs mn)</b>	<b>Q4FY20</b>	<b>Q1FY21</b>	<b>Q2FY21</b>	<b>Q3FY21</b>	<b>Q4FY21</b>
Revenue	94,902	91,063	93,718	96,471	97,299
EBITDA	13,478	13,005	17,030	18,954	19,481
<b>EBITDA Margin (%)</b>	<b>14.2</b>	<b>14.3</b>	<b>18.2</b>	<b>19.6</b>	<b>20.0</b>
PAT	8,039	9,723	10,646	13,098	10,814
<b>EPS (Rs)</b>	<b>9.1</b>	<b>11.0</b>	<b>12.0</b>	<b>14.8</b>	<b>12.4</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Sep-20</b>	<b>Dec-20</b>	<b>Mar-21</b>
Promoters	35.9	35.8	35.8	35.8	35.8
FII	39.7	39.6	38.0	39.1	38.3
DII	13.2	13.0	14.2	13.5	14.4
Public and Others	11.3	11.5	12.0	11.6	11.5

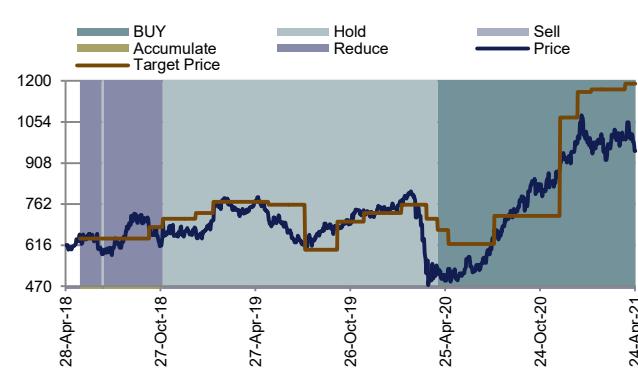
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
5-Apr-21	998	1,190	12m	Buy	Dipeshkumar Mehta
18-Mar-21	996	1,170	12m	Buy	Dipeshkumar Mehta
15-Mar-21	1,027	1,170	12m	Buy	Dipeshkumar Mehta
30-Jan-21	961	1,170	12m	Buy	Dipeshkumar Mehta
4-Jan-21	1,002	1,160	12m	Buy	Dipeshkumar Mehta
18-Dec-20	934	1,070	12m	Buy	Dipeshkumar Mehta
1-Dec-20	907	1,070	12m	Buy	Dipeshkumar Mehta
28-Jul-20	672	720	12m	Buy	Manik Taneja
5-Jul-20	552	620	12m	Buy	Manik Taneja
26-Jun-20	546	620	12m	Buy	Manik Taneja
18-Jun-20	522	620	12m	Buy	Manik Taneja
26-May-20	507	620	12m	Buy	Manik Taneja
1-May-20	532	620	12m	Buy	Manik Taneja
10-Apr-20	531	670	12m	Buy	Manik Taneja
20-Mar-20	561	710	12m	Hold	Manik Taneja
5-Mar-20	736	760	12m	Hold	Manik Taneja
3-Feb-20	762	760	12m	Hold	Manik Taneja
1-Feb-20	776	760	12m	Hold	Manik Taneja
8-Jan-20	739	730	12m	Hold	Manik Taneja
1-Jan-20	732	730	12m	Hold	Manik Taneja
17-Dec-19	747	730	12m	Hold	Manik Taneja
21-Nov-19	735	730	12m	Hold	Manik Taneja
6-Nov-19	741	700	12m	Hold	Manik Taneja
1-Oct-19	677	700	12m	Hold	Manik Taneja
31-Jul-19	611	600	12m	Hold	Manik Taneja
3-Jul-19	659	760	12m	Hold	Manik Taneja
22-May-19	705	760	12m	Hold	Rahul Jain
8-Apr-19	740	770	12m	Hold	Rahul Jain
5-Feb-19	706	770	12m	Hold	Rahul Jain
9-Jan-19	652	730	12m	Hold	Rahul Jain
2-Jan-19	669	730	12m	Hold	Rahul Jain
31-Oct-18	699	710	12m	Hold	Rahul Jain
5-Oct-18	672	680	12m	Reduce	Rahul Jain
31-Jul-18	640	640	12m	Reduce	Rahul Jain
10-Jul-18	598	640	12m	Reduce	Rahul Jain
6-Jul-18	584	640	12m	Hold	Rahul Jain
25-May-18	646	640	12m	Reduce	Rahul Jain

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Information Technology



### Analyst: Dipesh Mehta

#### Contact Details

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+91 22 6612 1253

#### Sector

IT Services, ITeS and Software

#### Analyst bio

Dipesh is a seasoned Equities professional who has covered Technology sector for over 15 years. Dipesh has completed his B.E. in Information Technology from Sardar Patel University and MMS in Finance from Mumbai University.

#### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>Information Technology</b>	<b>13.38</b>	<b>13.11</b>	<b>-2%</b>	<b>-27</b>	<b>100.00</b>
BirlaSoft	0.00	0.07	NA	7	0.50
Coforge	0.00	0.00	NA	0	0.00
eClerx Services*	0.00	0.00	NA	0	0.00
Firstsource Solutions	0.00	0.06	NA	6	0.48
HCL Tech	1.28	1.36	6%	8	10.16
Infosys	6.01	6.11	2%	10	45.66
Intellect Design*	0.00	0.00	NA	0	0.00
L&T Infotech	0.20	0.00	-100%	-20	0.00
Majesco*	0.00	0.00	NA	0	0.00
Mindtree	0.11	0.00	-100%	-11	0.00
Mphasis	0.17	0.13	-22%	-4	1.00
MPS*	0.00	0.00	NA	0	0.00
NIIT*	0.00	0.00	NA	0	0.00
Nucleus Software*	0.00	0.00	NA	0	0.00
Oracle Financial Services*	0.09	0.00	-100%	-9	0.00
Persistent Systems	0.00	0.46	NA	46	3.44
Ramco Systems*	0.00	0.00	NA	0	0.00
TCS	3.96	3.37	-15%	-60	25.15
Tech Mahindra	0.72	0.75	3%	2	5.60
Wipro	0.83	0.80	-4%	-3	5.97
<b>Cash</b>	<b>0.00</b>	<b>0.27</b>	<b>NA</b>	<b>27</b>	<b>2.05</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

#### Sector portfolio NAV

	Base						Latest
	01-Apr-19	23-Apr-20	23-Oct-20	22-Jan-21	23-Mar-21	23-Apr-21	
EAP - Information Technology	100.0	88.1	147.1	176.9	178.1	175.4	
BSE200 Neutral Weighted Portfolio (ETF)	100.0	86.9	139.9	168.6	167.6	165.2	

\*Performance measurement base date 1<sup>st</sup> April 2019

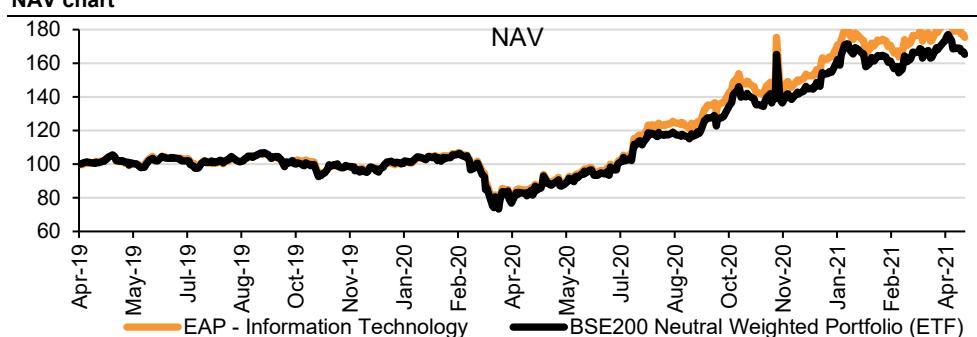
Source: Emkay Research

#### Price Performance (%)

	1m	3m	6m	12m
EAP - Information Technology	-1.5%	-0.8%	19.2%	99.1%
BSE200 Neutral Weighted Portfolio (ETF)	-1.4%	-2.0%	18.1%	90.1%

Source: Emkay Research

#### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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

Completed Date: 27 Apr 2021 03:31:30 (SGT)  
 Dissemination Date: 27 Apr 2021 03:32:30 (SGT)

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