

## Accumulate

**Tech Mahindra Analyst Meet 2020:** Company highlighted its revamped strategy (NXT.NOW) that is built around taking advantage of the accelerated changes in digital transformation due to the pandemic. The focused Big Bets are on 1) Customer Experiences (digitized customer journey) 2) Cloudification (Increased Penetration of Cloud) 3) Data & AI (increased used of Data & AI led by Cloud Adoption.) 4) Opportunities in 5G (Ecosystems, Consumer and Enterprise bring new use cases and potential). Tech Mahindra believes the strategy has already shown results in Q2FY21 (EBIT improvement, Strong Deal wins' data) and is doubling down on it to sustain the results (Focus on Large Deals, More Client Centric and Internalizing use of Data and AI). While no specific outlook has been highlighted, the focus remains on delivering growth acceleration (high single digit growth) and 15% EBIT Margins in FY22E.

**NXT Strategy:** The **NXT strategy focuses** on 1) Customer Delight (Human Centered Experience) 2) Force Multipliers & Alliances (Partnerships) 3) large Deals (Focus on AMS deals, built a large deal team) 4) Sustainable Execution (Built New Processes, More Client Centric) 5) M&A (focused largely on white-spaces, capabilities and GTM front) 6) Talent Transformation (focus on top 300 leaders and infuse outside talent). Tech Mahindra expects the 7 Pillars or services capabilities (Eng. Services, BPS, Cloud, Cyber Sec, Platforms, 5G, CMO) that are deeply entrenched across all its six key verticals – wherein some of them has already become big (CME and Manufacturing) and few of them (BFSI, Retail, Hi-Tech) likely to achieve 1bn\$ revenue mark in next couple of years.

**Growth/Margins to improve:** In FY22, expects double digit growth in Enterprise segment (60% of revenues) while Telecom would see acceleration (although double digit growth is unlikely) even if 5G do not come through and thus can achieve high single digit growth for the company. The company also aims to reduce the volatility in performance by focusing more towards annuity based revenues and scaling up in large deals, on profitability front company expects to achieve 15% EBIT margins, up 120bps+ from Q2FY21 levels despite cost normalisations (on travel, transportation, wages), supported by lower sub-contracting, increased offshoring, improved synergies and integration with subsidiaries.

**View:** Company continues to build its strength around 5G and expect it to drive its performance led by adoption by CSPs, Enterprises as well as Ecosystem platform players. Thus the momentum on this front and gradual gains in profitability can act as key triggers for rerating, however, till we see more visible signs on the same we believe current valuations although attractive on absolute basis but is fair on relative basis. We maintain our Accumulate Rating on the stock with TP of Rs 930 valued at 17x on FY23E earnings.

### FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	347,421	368,677	381,359	424,119	471,308
Growth(%)	12.9	6.1	3.4	11.2	11.1
EBITDA	63,368	57,261	63,939	69,621	77,322
OPM(%)	18.2	15.5	16.8	16.4	16.4
PAT	42,975	40,330	41,705	43,417	48,302
Growth(%)	13.1	(6.2)	3.4	4.1	11.2
EPS(Rs.)	47.7	45.9	47.4	49.4	54.9
Growth(%)	11.9	(3.9)	3.4	4.1	11.2
PER(x)	18.4	19.1	18.5	17.8	16.0
ROANW(%)	22.0	19.2	18.3	17.5	17.9
ROACE(%)	20.6	17.0	15.8	15.3	15.8

CMP	Rs 877
Target / Upside	Rs 930 / 6%
NIFTY	12,969

### Script Details

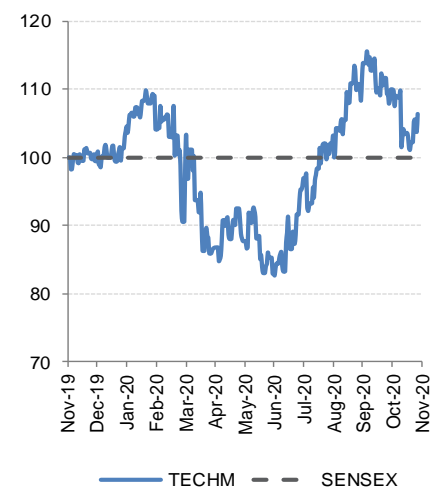
Equity / FV	Rs 4,359mn / Rs 1
Market Cap	Rs 771bn
	USD 10bn
52-week High/Low	Rs 890/ 471
Avg. Volume (no)	5,806,350
Bloom Code	TECHM IN

Price Performance	1M	3M	12M
Absolute (%)	8	17	15
Rel to NIFTY (%)	(4)	5	7

### Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	35.9	35.8	35.8
MF/Banks/FIs	13.2	13.0	14.2
FIIIs	39.7	39.6	38.0
Public / Others	11.3	11.6	12.0

### TECHM Relative to SENSEX



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## Strategy NXT.NOW – CP Gurnani

- Mr. CP Gurnani highlighted that the pandemic crisis was a very rude wakeup call where management realized that we are in for a journey where nobody can define the end line. During this period, the management team acted as “wartime generals” and did business planning to realize that **the pandemic was not about strategy but execution around organization, people, process and execution capabilities (realized need to focus more on client)**. CP highlighted that best of the team came out during the crisis.
- Tech Mahindra built the NXT.NOW strategy around **Trends** of Exponentiality of Content, Explosion of Intelligent Devices and Power of new Technologies and **Making Big Bets** on Human Centered Experience.NXT, Business.NXT, Platforms.NXT, Cloud.NXT with the **Objective** of Running Better, Changing Faster, Growing Greater.

Exhibit 1: NXT Strategy



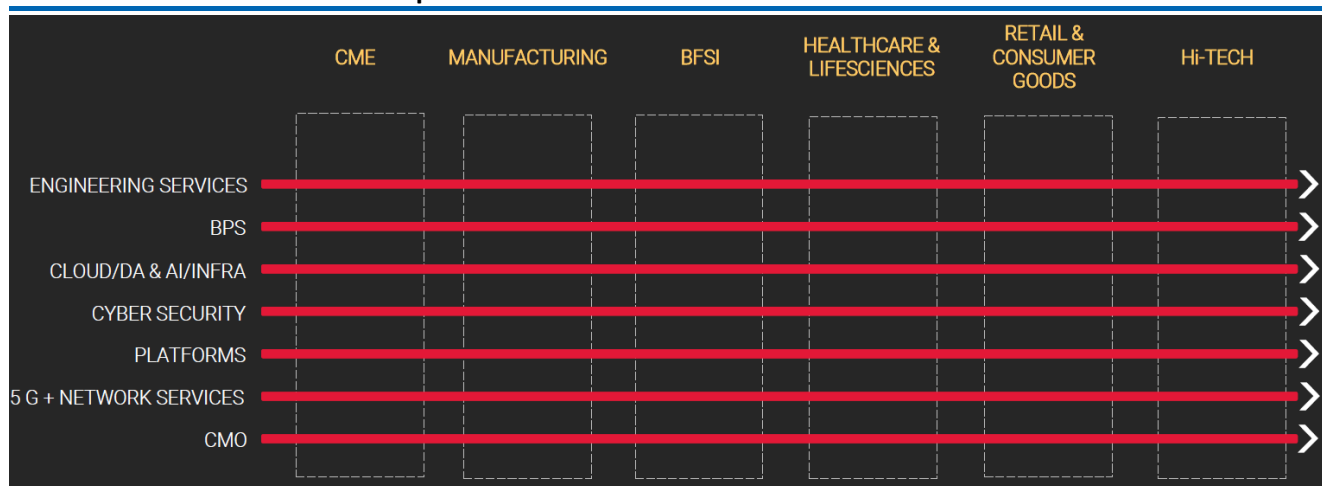
Source: DART, Company

- CP believes that the **strategy of NXT is already yielding results** with improved CME growth in 6.8% CC in FY20 and BFSI, Retail and other sectors are countering the negative growth in Aerospace, Auto, Travel and a more Efficient Capital Allocation is covering the necessary gaps in capabilities.
- Mr. Gurnani highlighted that **Enterprise Transformation has accelerated** as companies are 1) focusing more on ‘tech centric’ business models, 2) Fast-tracking Digital Spends 3) Finding New Emerging Commercial Model for Digital Proposition and 4) Looking for Trusted Transformation Partners.
- Mr. CP Gurnani highlighted that during Tech Mahindra’s CIO conference, Canada based CIO highlighted that “**COVID is the chief digital officer of the year**”.

Tech Mahindra highlighted that it has **7 strong pillars of growth** across the verticals: 1) Engineering Services: leveraging Pininfarina (Auto Design) 2) BPS – observed sudden brake as supply side challenges, process change required, but expects to be evolved much faster. 3) Cyber Security: touch points increased which will lead to more demand 4) Platforms: Strong potential 5) 5G + Network

Services: New ecosystem is getting created and network services has already started growing 6) CMO: Growth led by Born Acquisition (Headed by Dileep Keshu) 7) Cloud: More Cloudification (Migration).

## Exhibit 2: Focus Vertical and Competencies



Source: DART, Company

- CEO highlighted that post NXT strategy implementation, the **customer scores have improved and he feels more confident about correcting the pace** after implementation. He expects sustainable execution of the strategy by 1) Right sizing high potential goals 2) Embedding AI to enhance delivery platforms 3) Reversing the Pyramid.
- He further highlighted that there is now a hyper focus on how to drive synergy in client growth and number of accounts and more focus on integrating and bringing capabilities (internal, acquired) together. **Become More Tech Enabled and Agile.**
- Within this strategy and other feedback, 1) Tech Mahindra has become **more disciplined in M&A and capital allocation** in last 24 months 2) Done a leadership refresh effort for development of top 300 leaders in Tech Mahindra and infuse some outside talent in Tech Mahindra.

**Key Areas: Human Centered Experiences** potential will be led by need for building digitized customer journey and use of Automation, D&A and AI. The **Cloud migration** has already accelerated due to pandemic and TechM is positioned well due to its' strong capability and ability to perform large scale migration. Increased Cloud Migration and availability of data will lead to Increased use of **Data Analytics and AI**. The **5G business opportunity** is expected to bring new business cases / uses for Consumer and Enterprises together. (Hyper Personalization, Real Time Analytics, Open Platform, etc).

## Reimagining Experiences – Ritesh Idnani

- Mr. Ritesh Idnani highlighted the **key trends for Human Centered Experiences**: 1) Hyper Personalization (world is getting more ready for hyper personalization and moving away from mass segmentation), 2) Elastic Enterprise (Business model changing dramatically, businesses need a Direct to Consumer model), 3) Use of Connected Data Science (Data is the New Oil), 4) Speed of Human Mind (5G will make technology hyper persuasive) and 5) Resilience (Be battle ready always, no companies wants the situation the pandemic brought)
- He highlighted that now in purchase decisions (based on new research) **brand experience is a key** and a unique buying proposition, behavioral experience is

important as well (earlier, price and value). The size of Experience market is also expected to grow at 11% CAGR to \$219Bn in FY24 from \$ 143mn in FY20 (wherein Tech Mahindra is already growing faster than market in last 12-24 months)

- He highlighted that **all stakeholders and aspects** (Customers, Consumers, Suppliers, Organization, Community, Brand) **are considered** while building a framework for delivering CX. The proprietary framework is **Stella**. Some of Stella's aspects are Brand Experience (UI, UX, Journey for building a brand experience, Behavioral Experience (Store, Voice, Social Media, IOT – Delivering info via channels) and Book of Record (Recording behavior in data vault to improve brand experience).
- Case Studies:** 1) Delivered NXT CX for a Multi-National Financial Services company for **building a Home Loan App which is fully digital**. Achieved: Issued loans in 3 days' v/s weeks. 90% of customers use the bank's digital mortgage application and 95% will recommend the same) 2) Delivered NXT CX for A French Luxury brand which resulted in doubling of its sales during pandemic. 3) Delivered End to End CX for Telecomm Provider where the client achieved **2x Customers resolution at 50% cost**. Reduced cost by automating 40% of traffic.

### Exhibit 3: Communications Sector 360 Degree Experience

Cases	Particulars
Digitized customer journey	B2B/B2C <b>customer Journey design &amp; implementation</b> focused on “zero touch” operations across order placement, provisioning and fulfillment.
CRM call center modernization & customer support	Voice & Non Voice BPM support coupled with <b>RPA/AI enabled solutions</b> for B2C and B2B business.
Digital self-serve portal across multiple channels to cater to clients	60% of customer requirements incl features like <b>24*7 intelligent Chabot , query resolution</b> through experts etc
Digitization of fixed line field force	<b>Introduction of dispatching tools</b> , workflow management

Source: DART, Company

### Exhibit 4: Human Centered Experiences NXT is under one roof



Source: DART, Company

### Intelligence Within - Rajesh Chandiramani

- Mr. Rajesh highlighted that Tech Mahindra has 35 F500 customers (300 total customers) within Data and AI segment with a Revenue of \$800mn.
- Mr Rajesh highlighted the market trends for Data and Analytics: 1) **Cloud is a Given:** By 2022, public cloud services will be essential for 90% of data and analytics innovation and by 2023 By 2023, **cloud based AI workload will increase 5x** from 2019 making AI one of the top workload categories in the cloud. 2) **Smarter, Faster, More Responsible AI:** By the end of 2024, **75% of enterprises will shift from piloting to operationalizing AI**, driving 5X increase in streaming data and analytics infrastructures. 3) **Data and Analytics Worlds Collide:** By 2023, 95% of F500 companies will have converged analytics governance into broader data and analytics governance initiatives. 4) **X Analytics:** By 2025, AI for

video, audio, vibration, text, emotion & other content **analytics will trigger major innovations & transformations in 75% of F500 companies.**

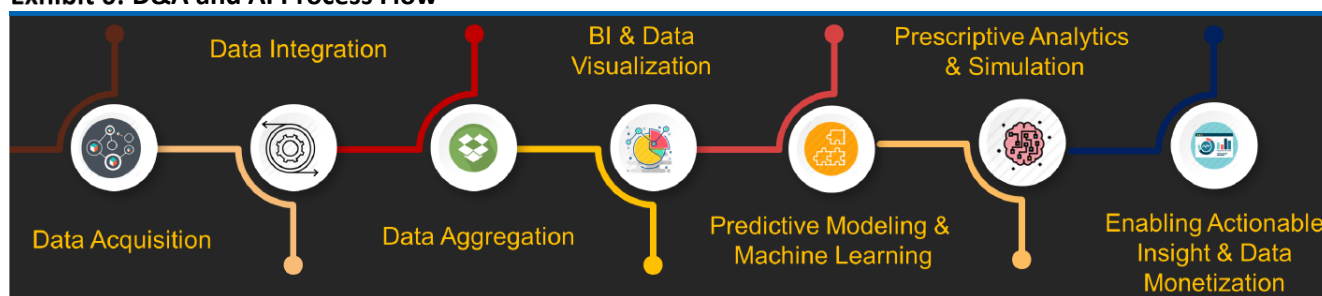
- The strategy for D&A and AI Growth strategy is based on 1) **Leverage:** Expanding D&A + AI footprint across 1000+ accounts of Tech Mahindra 2) **Enhance:** Focus on improving penetration in growth geographies and growth verticals. 3) **Collaborate:** Co-innovate with startup and partners 4) **Innovate:** Build Data Science Community (already setup lab with AWS, AZURE, GCP).

**Exhibit 5: Market Size and growth potential in Data, Analytics and AI**

Segment	Market	Size (\$ Bn)	CAGR (%)	CAGR Till
Data & Analytics	Data Value Management	120	9.5	2025
Data & Analytics	Data on Cloud	800	17.5	2025
Data & Analytics	Data Monetisation	6	21.5	2025
AI	Advanced Analytics	60	25.3	2027
AI	Cognitive Services	11	42.1	2022
AI	Conversational AI	14	21.9	2025

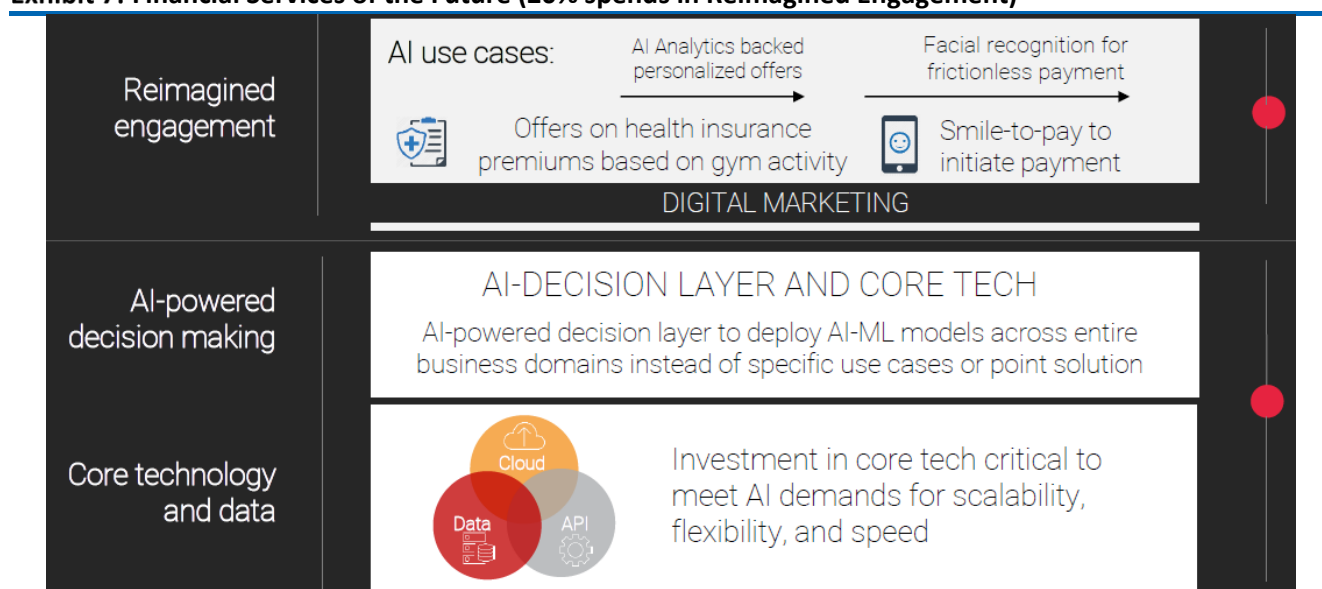
Source: DART, Company

**Exhibit 6: D&A and AI Process Flow**



Source: DART, Company

**Exhibit 7: Financial Services of the Future (20% spends in Reimagined Engagement)**



Source: DART, Company



**Exhibit 8: Big Bet in D&A and AI to be aided by Partners**



Source: DART, Company

**Exhibit 9: AI Use Cases (Fraud Detection, 360 Customer Profile, Automation)**

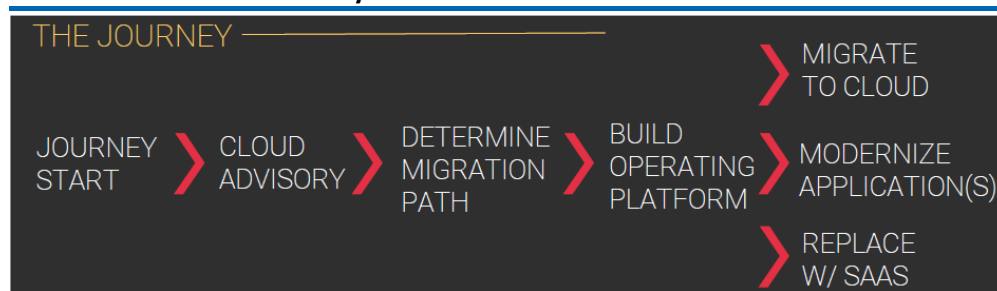
Reconciliation of Telco pole inventory using Computer vision Multinational Telco major based in UK	AI powered Vendor Selection to automate Procurement process US based Tier 1 Aircraft Manufacturer	Cognitive Signature Detection and Verification American multinational investment bank	AI Platform for implementing Fraud and customer 360 use-cases Large Bank based in Canada	Truck roll reduction using Auto-machine learning and Deep learning Telecom Major in Australia
Cognitive Component Assembly Inspection for Blood transfusion Equipment Medical Devices major in Japan	Intelligent network operations with AIOps and NOC Automation Large German communication provider	Automation of Menu capture and operations using Computer Vision/OCR Online food ordering and delivery major	Digital Freight Matching and optimization engine using AI/ML US Headquartered Logistics provider	Virtual Agent for patient engagement towards Antibiotic usage Global Pharma Major based in UK

Source: DART, Company

## Cloudification of Everything - Sudhir Nair

- Mr. Sudhir Nair highlighted that Cloud Market is expected to grow at **18% CAGR** to \$484Bn by CY24. **The focus of enterprises will be beyond cost reduction and towards Agility, Speed to Innovate and CX.**
- Mr. Sudhir Nair highlighted that **Customer Journey passes via 4 stages** 1) Advise 2) Build 3) Move, Modernize and Replace 4) Manage. The top priorities for clients are 1) Cost Reduction 2) Monetizing Data Center Exits 3) Speed to Innovate 4) Customer Experience 5) Everything as a Service. The **Opportunities for SI** like Tech Mahindra are 1) SaaS Implementation 2) Cloud Ops & Fin Ops 3) App Modernization 4) Workload Migration.
- Now, there is a strong bias from customers based on workloads as they choose cloud provider from a workload standpoint. Moreover, cloud adoption enablers more than 100 functionality are getting delivered by cloud adoption.
- The movement from On Prem (exit from data center) to Cloud saves cost and enablers investments in App Modernization (Big Money Spinner). Cloud deal can be as low as \$100K (cloud usually are 200K to 700K) but is imp as it still has potential of expanding the scope (multifold).

## Exhibit 10: Customer Journey



Source: DART, Company

- The Cloud Business for Tech Mahindra is growing strongly with 22% YoY growth and is achieving higher yields as leveraging the IP led platforms built by Tech Mahindra. The **booking TCV is also up by 100% on TTM basis**.
- Mr. Sudhir highlighted that the advantage for Tech Mahindra is 1) **It's ability and experience to perform very large scale transformations** (recent 200K VM engagement) 2) Availability of Best in Class Framework and Accelerators 3) Deep Focus on Automation.
- Tech Mahindra is focusing on **4 key areas to scale up** in cloud market: 1) **ToS & large AMS Deals** 2) DataCenter CarveOuts 3) Scaling SaaS & Hyperscalers 4) NETOPS.ai.

## Leadership in 5G – Manish Vyas

- Manish Vyas highlighted that current network transformation from 4G to 5G **unlocks new business dimensions within Enterprise** (Connected Devices, Digital MRO, Tele-Medicine, Remote Monitoring, etc) and **Consumer Domain** (More Services, Low latency, Higher Device Density).
- Manish believes that 5G is not just about connectivity, **it is about a platform and customer experience**. Some of the potential 5G activities have already started in America, Europe and some parts of Asia which excites Tech Mahindra regarding the potential.
- Tech Mahindra expects **5G Tech to bring paradigm shifts** with 1) Open Platform 2) Ability to Hyper personalize (Driven by AI) 3) Enable Cost Reduction via iOps.Ai 4) Bring Service Agility via faster cloud adoption 5) Enable Real Time Analytics 6) Promote Localized Innovation.
- Tech Mahindra plans to drive 5G growth by 1) **Making CSP Realize the potential** and drive transformation 2) **Monetizing 5G for Enterprises** by building Industry Solutions, Private Networks, Edge Intelligence. 3) **Innovate the ecosystem** around Network and Device Platforms.
- The New **(3.0) Network services strategy will be defined around Openness, Being Cloud-native & AI driven** unlike the 2.0 strategy which was defined under Virtualization, Automation and was Software defined.

## Exhibit 11: Network Services 3.0 Potential

Particulars	Market Opportunity	CAGR % 2020-25E
Open 5G Network	\$40-50B	65-70%
Intelligent & Cognitive Managed Ops	\$8-10B	20-25%
Network on the Cloud	\$10-15B	15-20%
Digital OSS	\$5-8B	10-12%
Enterprise Network Modernization	>\$50B	12-14%

Source: Company, DART

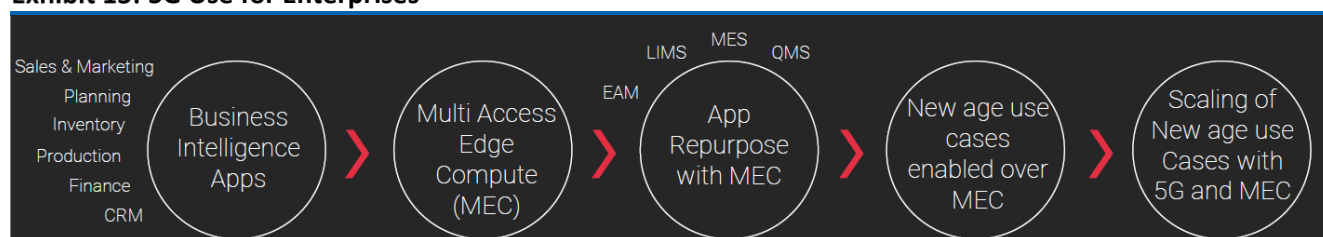
## Exhibit 12: 5G Case Studies

Particulars	Client	Solution
Open 5G Network	Greenfield Telco Operator in Japan	Set Up intelligent NOC and SOC. CI via AI Led Automation
Intelligent & Cognitive Managed Ops	Greenfield Telco Operator in Japan	Integrated and helped launch world's 1st cloud native network
Network on the Cloud	Tier 1 Operator in Europe	Continual improvement in service levels through automation
Digital OSS	Tier 1 Operator in Europe	E2E Network Systems Consolidation & Optimization. Next generation Workflow Management Tool for automated planning
Enterprise Network Modernization	A Global Mass Media Enterprise	Automated Operations to be 5G Ready E2E Managed Network Service. Global NOC

Source: DART, Company

- Tech Mahindra highlighted that 5G for Enterprise is the new growth frontier. Network is a “platform” for innovation. **Currently, only 34% of data moves to cloud and rest is at On-Premise.** Moreover, 500ZB+ data is expected to be generated by IOT devices per year and 87% of health org will adopt IT based systems and 200Mn vehicles will be OTA enabled. Tech Mahindra expects Cloudification, Use of Data Analytics and AI, Private 5G networks and 5G led applications (pre-integrated) to drive growth for Enterprise in 5G.

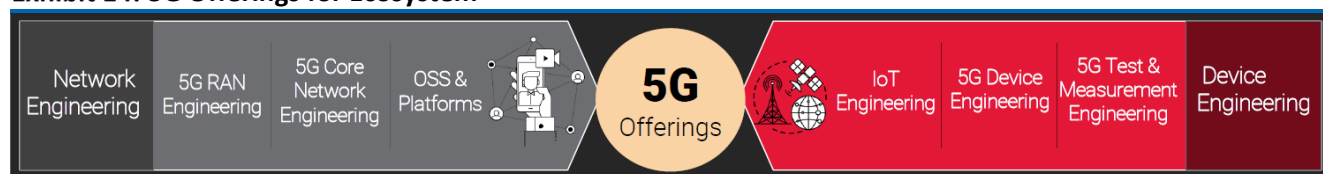
## Exhibit 13: 5G Use for Enterprises



Source: DART, Company

- Tech Mahindra expects that **5G ecosystem will witness large spends** around building new software for 5G network platforms (\$62Bn) and new device platforms (\$15Bn).

## Exhibit 14: 5G Offerings for Ecosystem



Source: Company, DART









## Exhibit 15: Case Studies for Enterprise and Ecosystem

Particulars	PROJECT OBJECTIVES	IMPACT DELIVERED
Wireless Mines (5G for Enterprise)	Full Managed Service, Design, Deploy, Management of complete network, Coverage 4 Pits, 2 Roads	Lower Cost compared to traditional LANs Better TCO/ROI
	Eight Base Stations and seven towers/ masts	Availability of strong and secured network
	Backhaul Connectivity for Towers	All Assets (including cranes, moving trucks) connected
Greenfield 5G Network Emulator (5G for Ecosystem)	Develop Greenfield Network Emulator for validation of services	Each Component Verified & Successfully Tested
	Product Development with off the shelf components	Implemented customization as per carrier requirements
	Product supports Multiple Technologies and Features	Verification of the system at device chipset level
ORAN Compliant RAN Design (5G for Ecosystem)	Design of ORAN compliant, Multi-Vendor RAN	Vendor Compliance to ORAN Specification
	Specify / Refine requirements for ONAP to manage ORAN Compliant RAN network	Design specification for Management through ONAP
	Identify gaps in vendor compliance. Verify gaps in ORAN standards	Implementation phase plan for a Proof of Concept ORAN system

Source: DART, Company

- Tech Mahindra believes it the relevant platform for the approach to market and the correct products solutions. It is also investing in people and partnerships.

## Exhibit 16: 5G Differentiation led by ...

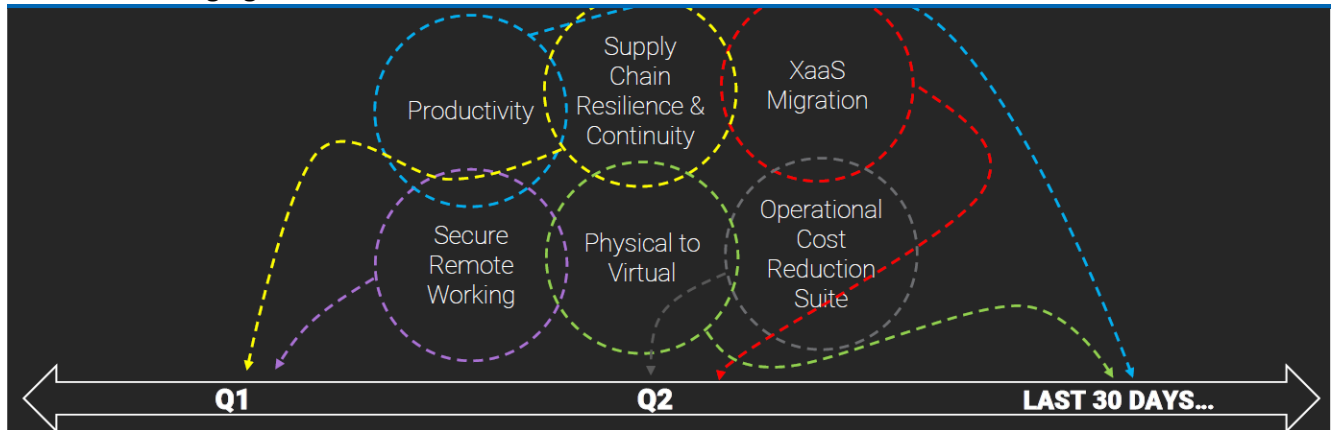
PRODUCTS	PLATFORMS	PEOPLE	PARTNERS
  	 	 	DEVICES & SENSORS NETWORK MULTI ACCESS EDGE CLOUD DIGITAL PLATFORM SDWAN

Source: DART, Company

## The Now Normal - Jagdish Mitra

- Mr. Jagdish Mitra **highlighted the various tools and solutions which enable businesses to deliver growth** and that today solutions in most verticals are being delivered based tools around on 1) Human Centered Experiences 2) Intelligence (AI) 3) Cloud and 4) 5G (or 4G or LTE). Example: Garment Shops having Smart Mirrors (12 customers looking at similar solutions)
- Mr. Jagdish highlighted that deals wins (recent large insurance deal win) are coming from **a self-funding model i.e. cost take outs in existing infra solutions to fund new transformation.**
- The change in trends in last 210 days (during Pandemic) highlighted the pace of transformation: **Q1 was about Cost Take Out**, Automation, Process Re design, Security. **Q2 was about Productivity solutions, Cloudification, Traceability, Making Supply chain more versatile**, carve outs and **the last 30 days are around Engagement, Experience** and Service design, New Business Model. During the same trend, TECHM witnessed 20% growth in pipeline (including 73 large deal potential).

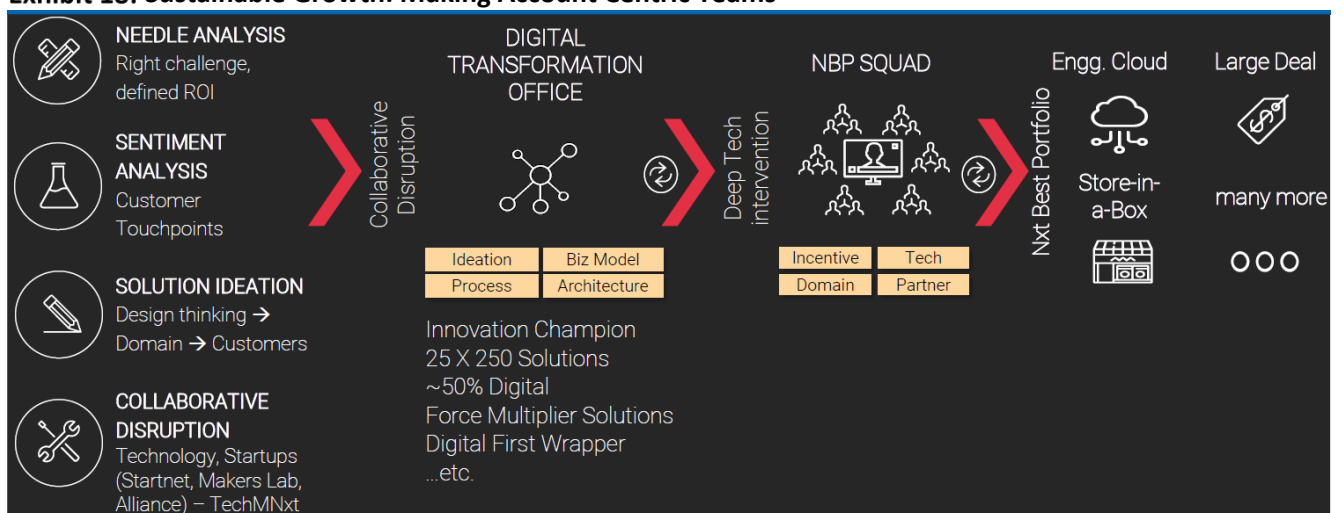
**Exhibit 17: Changing Trend**



Source: DART, Company

- For Manufacturing Vertical where cloud transformation was lagging, COVID pushed the transformation, running factories remotely was key.
- To ensure sustainable growth, Tech Mahindra has **built a process which covers initial Steps:** 1) NEED Analysis (Right Challenge, Define ROI) 2) Sentiment Analysis (Customer Touchpoints) 3) Solution Ideation (Design Thinking -> Domain -> Customers) 4) Collaborative Disruption (use of TechMNXT Portfolio of Technology and Startups).
- All these steps are put together by a Digital Transformational Office (DTO) who analyses challenges faced by the account, opportunities around the client. DTO puts an account at the center of the discussion. **Tech Mahindra has also created a NBP Squad which is aligned (incentivized) with the account's capability to drive growth.** This NBP squad delivers the next-gen growth from the account and drive potential large deals.

**Exhibit 18: Sustainable Growth: Making Account Centric Teams**

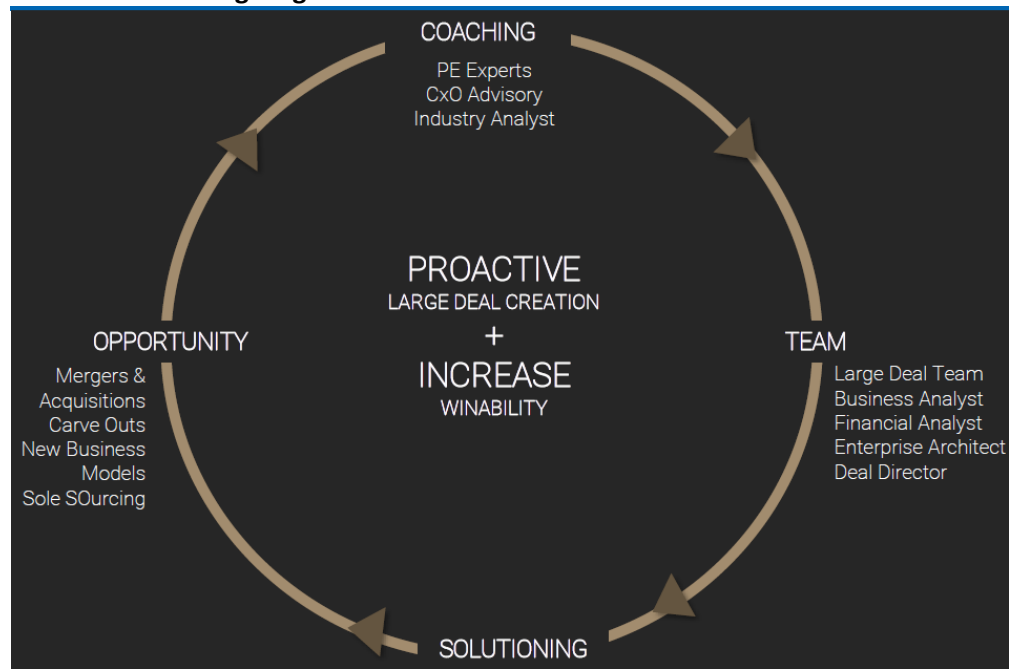


Source: DART, Company

- To sustain large deal performance, Tech Mahindra has built a similar process for large deals as well. **Tech Mahindra has created new teams for large deals consisting of Business Analyst, Financial Analyst and Deals Director with coaching from PE Experts and CxO Advisory** (best deal makers around the globe).

- Jagdish highlighted that now large deals are not only about responding to RFPs but **proactively going to clients** with solutions.

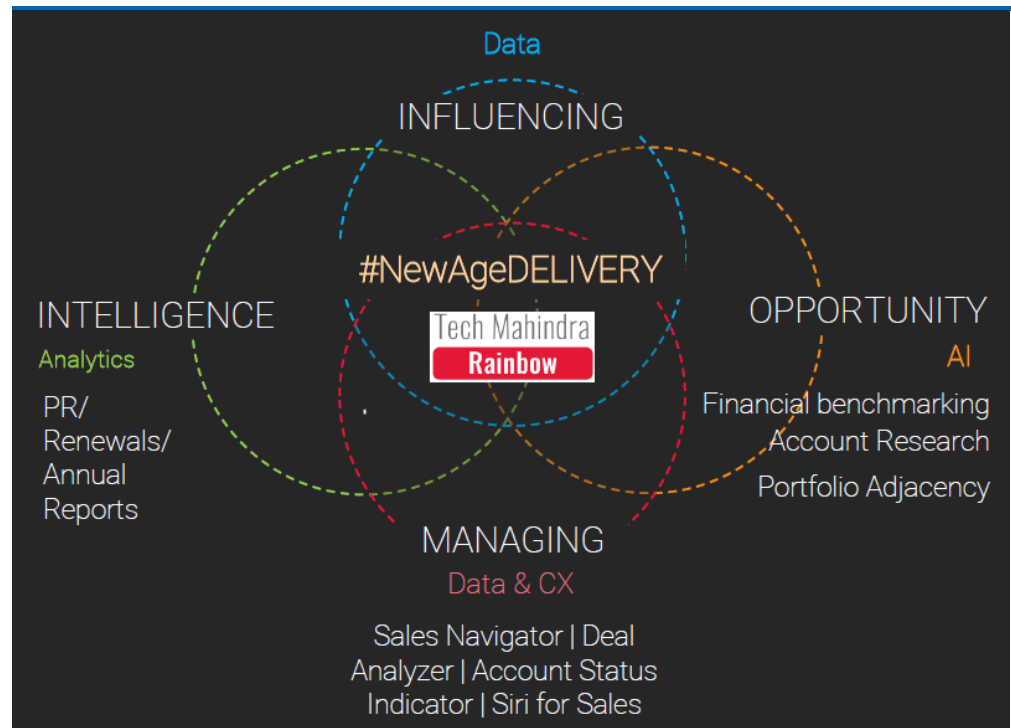
**Exhibit 19: Creating Large Deal Teams**



Source: DART, Company

- Tech Mahindra has also **empowered (revamped) the front office staff with AI and Data led tools to find best solutions for clients**. They have updated the Rainmaker Solution with new AI and Data tools to provide solutions spanning from Board, CEO (Budgeting, Managing PL) to Intelligence on Customer, Domains and Technology. The same Rainmaker solution is combined to the Tech Mahindra Rainbow which is a New age delivery database for Tech Mahindra.

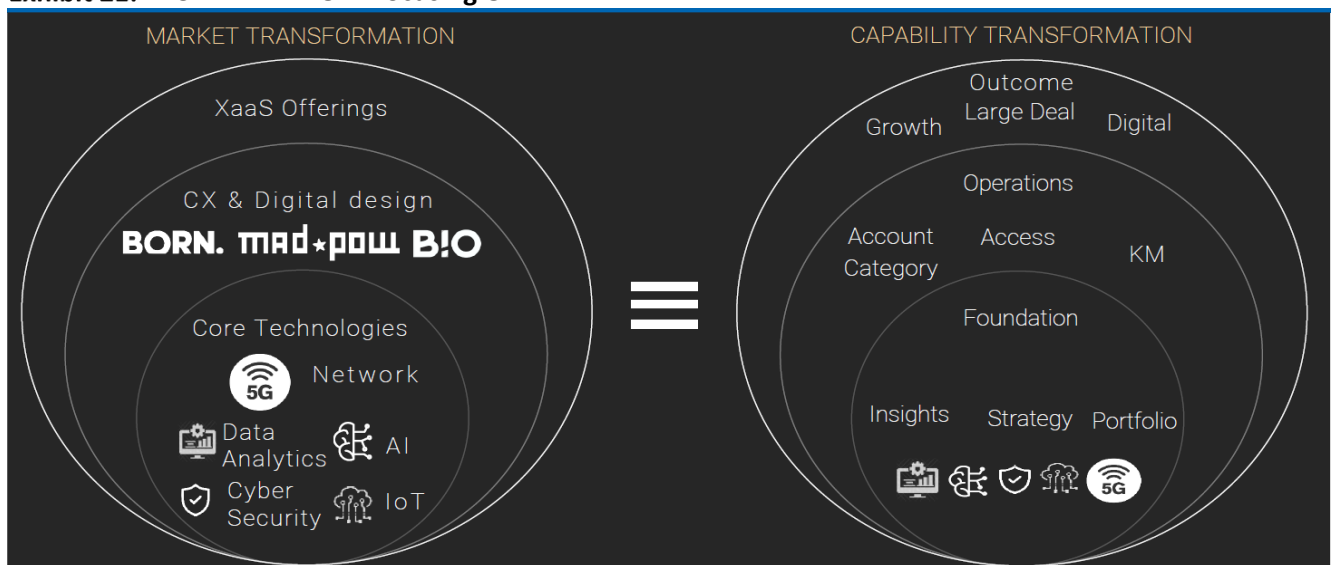
Exhibit 20: Tech Mahindra Rainbow



Source: DART, Company

- Tech Mahindra has also divided **the clients in different buckets** highlighting the different focus. A) Top 60 (Reinforce) B) Top 300 (On right track retain) C) Top 650 (Change Teams and Re-focus) D) Non-Top 650 (Don't focus)
- This **current model has already shown some result during H1FY21** with 40% growth in Large Deal signings.
- Tech Mahindra NXT is driving market transformation with new SaaS solutions and enabling Capability Transformation internal by cutting layers and starting knowledge management.

Exhibit 21: TECHM.NXT.NOW Focusing On ...



Source: DART, Company

## View and Valuation

**View:** Company continues to build its strength around 5G and expect it to drive its performance led by adoption by CSPs, Enterprises as well as Ecosystem platform players. Thus the momentum on this front and gradual gains in profitability can act as key triggers for rerating, however, till we see more visible signs on the same we believe current valuations although attractive on absolute basis but is fair on relative basis. We maintain our Accumulate Rating on the stock with TP of Rs 930 valued at 17x on FY23E earnings.

## PER Band Chart

**Exhibit 22: Tech Mahindra trading at 18.5x PER ahead of its 1SD**



Source: DART, Company



**Exhibit 23: Operating Metrics 1**

Particulars	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
CC growth (QoQ)	0.3	0.4	4.3	0.1	(1.1)	4.1	4.3	(3.3)	(6.3)	2.9
CC growth (YoY)	4.4	2.4	6.8	5.1	3.7	7.5	7.5	3.9	(1.6)	(3.0)
OPM (%)	13.0	15.3	16.1	15.4	11.5	12.8	12.2	10.0	10.1	14.2
<b>Vertical Amount (\$mn)</b>										
Communication	485	506	518	541	524	529	576	528	483	497
Manufacturing	246	245	258	256	242	232	234	229	203	204
Technology,Media	88	89	88	95	95	104	103	96	109	124
BFSI	166	164	169	166	160	167	179	198	190	208
Retail, & Logistics	75	79	84	81	77	90	97	95	88	95
Others	164	136	142	129	148	165	165	149	135	138
<b>Vertical Amount (YoY)</b>										
Communication	(5.8)	(1.9)	0.1	4.6	8.1	4.6	11.2	(2.4)	(7.8)	(6.0)
Manufacturing	12.0	9.3	11.9	6.6	(1.7)	(5.4)	(9.4)	(10.5)	(16.2)	(12.1)
Technology Media	29.1	27.8	12.3	4.7	7.5	17.2	16.5	0.8	14.7	18.9
BFSI	1.6	(1.1)	5.1	2.6	(4.1)	1.8	5.7	19.3	18.8	24.0
Retail, & Logistics	(3.5)	(6.7)	(1.6)	5.2	3.5	13.8	15.3	16.5	14.0	5.3
Others	73.6	16.9	4.3	(17.5)	(9.5)	20.8	15.9	15.2	(8.9)	(16.3)
<b>Segment EBIT (%)</b>										
IT	16.1	18.5	19.3	18.9	15.3	17.0	16.1	14.1	14.9	17.8
BPO	20.6	21.8	18.9	13.9	14.2	12.1	16.7	14.9	6.8	21.9
<b>Geography Amount (\$mn)</b>										
North America	590	573	598	588	594	624	655	618	595	612
Europe	367	361	364	363	344	344	365	343	312	319
Rest of the World	268	285	299	316	309	321	333	334	301	334
<b>Geography Amount (YoY)</b>										
North America	0.0	(3.0)	4.4	(1.6)	0.9	5.2	4.9	(5.7)	(3.6)	2.9
Europe	(0.3)	(1.8)	1.0	(0.5)	(5.0)	(0.2)	6.3	(6.1)	(9.2)	2.4
Rest of the World	(6.3)	6.3	4.8	5.6	(2.0)	3.6	3.8	0.4	(10.0)	11.1
<b>Revenue Mix (\$mn)</b>										
Onsite Revenue	66.6	64.5	65.5	65.2	65.3	65.4	65.3	65.2	64.0	63.0
Offshore Revenue	33.4	35.5	34.5	34.8	34.7	34.6	34.7	34.8	36.0	37.0
<b>Client Metrics (\$mn)</b>										
Top 5 clients	268	284	285	289	267	278	302	277	266	278
Top 6-10 clients	130	115	113	117	116	127	118	124	109	101
Top 11-20 clients	168	157	156	166	161	156	150	163	145	165
Non-Top 20 clients	659	663	706	696	703	726	783	730	688	721
<b>Client Metrics (YoY)</b>										
Top 5 clients	(7.1)	5.9	0.4	1.4	(7.7)	4.2	8.5	(8.2)	(4.1)	4.8
Top 6-10 clients	9.8	(11.7)	(0.9)	2.8	(0.5)	9.9	(7.6)	5.6	(12.6)	(6.8)
Top 11-20 clients	3.7	(6.3)	(0.5)	6.2	(3.1)	(3.2)	(3.6)	8.6	(11.2)	13.5
Non-Top 20 clients	(2.5)	0.6	6.5	(1.4)	1.1	3.2	7.9	(6.8)	(5.7)	4.8
<b>Client Data</b>										
≥ \$1 mn clients	396	407	416	425	429	437	446	446	451	460
≥ \$5 mn clients	154	157	157	156	160	155	164	160	161	165
≥ \$10 mn clients	86	86	88	83	81	80	83	85	81	82
≥ \$20 mn clients	47	45	46	50	49	49	50	49	48	50
≥ \$50 mn clients	16	17	18	20	21	22	22	22	21	21
Active Clients	926	930	935	938	941	946	964	973	981	988
<b>TCV Data</b>										
TCV Data (\$ mn)	265	554	440	408	475	1493	1230	500	290	421
TTM basis (\$ mn)	1173	1417	1559	1667	1877	2816	3606	3698	3513	2441
Revenue coverage	24.2	28.9	31.5	33.5	37.6	55.6	70.0	71.4	68.3	47.7

Source: DART, Company

### Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>368,677</b>	<b>381,359</b>	<b>424,119</b>	<b>471,308</b>
<b>Total Expense</b>	<b>311,416</b>	<b>317,420</b>	<b>354,499</b>	<b>393,986</b>
COGS	259,743	265,289	296,280	328,945
Employees Cost	0	0	0	0
Other expenses	51,673	52,131	58,218	65,040
<b>EBIDTA</b>	<b>57,261</b>	<b>63,939</b>	<b>69,621</b>	<b>77,322</b>
Depreciation	14,458	15,412	16,541	17,910
<b>EBIT</b>	<b>42,803</b>	<b>48,527</b>	<b>53,080</b>	<b>59,413</b>
Interest	1,919	1,722	1,805	1,935
Other Income	9,694	8,521	6,736	7,204
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>50,578</b>	<b>55,326</b>	<b>58,011</b>	<b>64,681</b>
Tax	11,604	13,838	14,619	16,300
RPAT	40,330	41,705	43,417	48,302
Minority Interest	(1,356)	(217)	(25)	80
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>40,330</b>	<b>41,705</b>	<b>43,417</b>	<b>48,302</b>

### Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	4,359	4,359	4,359	4,359
Minority Interest	3,933	3,716	3,691	3,771
Reserves & Surplus	213,772	233,625	255,065	276,993
<b>Net Worth</b>	<b>218,131</b>	<b>237,984</b>	<b>259,424</b>	<b>281,352</b>
Total Debt	48,603	49,369	50,944	52,590
Net Deferred Tax Liability	(8,087)	(8,087)	(8,087)	(8,087)
<b>Total Capital Employed</b>	<b>262,580</b>	<b>282,982</b>	<b>305,971</b>	<b>329,626</b>

### Applications of Funds

Net Block	87,276	87,364	87,323	85,914
CWIP	501	501	501	501
Investments	3,804	3,804	3,804	3,804
<b>Current Assets, Loans &amp; Advances</b>	<b>273,511</b>	<b>294,500</b>	<b>321,993</b>	<b>352,722</b>
Inventories	358	366	408	453
Receivables	75,772	77,317	84,824	92,970
Cash and Bank Balances	30,167	42,991	55,059	69,509
Loans and Advances	24,152	24,152	24,152	24,152
Other Current Assets	86,939	89,052	91,327	93,814
<b>Less: Current Liabilities &amp; Provisions</b>	<b>102,512</b>	<b>103,187</b>	<b>107,650</b>	<b>113,314</b>
Payables	32,566	32,177	34,964	38,859
Other Current Liabilities	69,946	71,010	72,686	74,455
<i>sub total</i>				
Net Current Assets	170,999	191,313	214,343	239,407
<b>Total Assets</b>	<b>262,580</b>	<b>282,982</b>	<b>305,971</b>	<b>329,626</b>

E – Estimates

### Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	29.5	30.4	30.1	30.2
EBIDTA Margin	15.5	16.8	16.4	16.4
EBIT Margin	11.6	12.7	12.5	12.6
Tax rate	22.9	25.0	25.2	25.2
Net Profit Margin	10.9	10.9	10.2	10.2
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	70.5	69.6	69.9	69.8
Employee	0.0	0.0	0.0	0.0
Other	14.0	13.7	13.7	13.8
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.2	0.2	0.2	0.2
Interest Coverage	22.3	28.2	29.4	30.7
Inventory days	0	0	0	0
Debtors days	75	74	73	72
Average Cost of Debt	5.8	3.5	3.6	3.7
Payable days	32	31	30	30
Working Capital days	169	183	184	185
FA T/O	4.2	4.4	4.9	5.5
<b>(D) Measures of Investment</b>				
AEPS (Rs)	45.9	47.4	49.4	54.9
CEPS (Rs)	62.3	65.0	68.2	75.3
DPS (Rs)	14.6	24.9	25.0	30.0
Dividend Payout (%)	31.9	52.4	50.6	54.6
BVPS (Rs)	248.0	270.7	295.1	320.0
RoANW (%)	19.2	18.3	17.5	17.9
RoACE (%)	17.0	15.8	15.3	15.8
RoAIC (%)	19.9	20.5	21.6	23.3
<b>(E) Valuation Ratios</b>				
CMP (Rs)	877	877	877	877
P/E	19.1	18.5	17.8	16.0
Mcap (Rs Mn)	771,130	771,130	771,130	771,130
MCap/ Sales	2.1	2.0	1.8	1.6
EV	733,443	716,884	700,791	682,388
EV/Sales	2.0	1.9	1.7	1.4
EV/EBITDA	12.8	11.2	10.1	8.8
P/BV	3.5	3.2	3.0	2.7
Dividend Yield (%)	1.7	2.8	2.9	3.4
<b>(F) Growth Rate (%)</b>				
Revenue	6.1	3.4	11.2	11.1
EBITDA	(9.6)	11.7	8.9	11.1
EBIT	(17.8)	13.4	9.4	11.9
PBT	(8.8)	9.4	4.9	11.5
APAT	(6.2)	3.4	4.1	11.2
EPS	(3.9)	3.4	4.1	11.2

### Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	43,581	47,889	49,934	56,296
CFI	10,286	(12,011)	(15,407)	(14,928)
CFF	(44,127)	(23,054)	(22,459)	(26,918)
FCFF	30,610	32,389	33,434	39,796
Opening Cash	20,427	30,167	42,991	55,059
Closing Cash	30,167	42,991	55,059	69,509

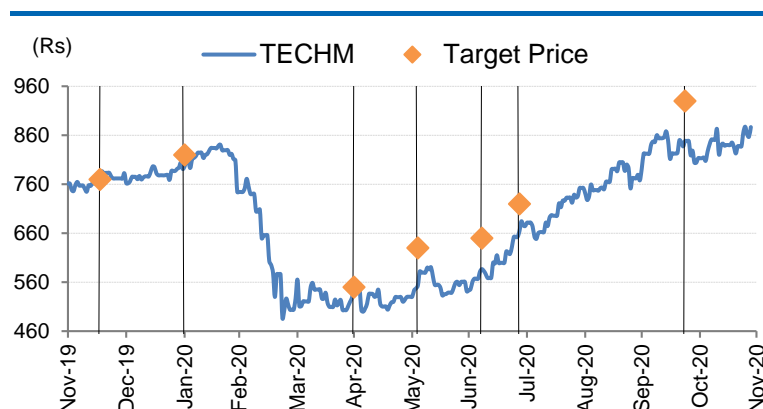
E – Estimates

## DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

## Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Dec-19	Reduce	770	777
Jan-20	Reduce	820	797
Apr-20	REDUCE	550	546
Jun-20	Accumulate	630	553
Jul-20	Accumulate	650	587
Jul-20	Accumulate	720	665
Oct-20	Accumulate	930	848

\*Price as on recommendation date

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