

# Tech Mahindra (TECHM IN)

Rating: BUY | CMP: Rs1,128 | TP: Rs1,494

July 30, 2021

## Q1FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
<b>Rating</b>	<b>BUY</b>		<b>BUY</b>	
<b>Target Price</b>	<b>1,494</b>		<b>1,237</b>	
Sales (Rs. m)	498,697	557,462	485,435	542,182
% Chng.	2.7	2.8		
EBITDA (Rs. m)	94,907	106,085	92,378	103,178
% Chng.	2.7	2.8		
EPS (Rs.)	70.9	78.5	69.1	76.4
% Chng.	2.6	2.7		

### Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	379	429	499	557
EBITDA (Rs. bn)	68	82	95	106
Margin (%)	18.1	19.1	19.0	19.0
PAT (Rs. bn)	44	56	62	69
EPS (Rs.)	50.7	63.5	70.9	78.5
Gr. (%)	4.0	25.3	11.5	10.8
DPS (Rs.)	45.4	10.1	10.1	10.1
Yield (%)	4.0	0.9	0.9	0.9
RoE (%)	18.5	20.5	19.4	18.4
RoCE (%)	20.9	22.2	21.9	21.2
EV/Sales (x)	2.3	2.0	1.7	1.4
EV/EBITDA (x)	12.9	10.6	8.8	7.5
PE (x)	22.2	17.7	15.9	14.4
P/BV (x)	4.0	3.4	2.9	2.4

### Key Data

TEML.BO | TECHM IN

52-W High / Low	Rs.1,142 / Rs.622
Sensex / Nifty	52,653 / 15,778
Market Cap	Rs.1,093bn / \$ 14,711m
Shares Outstanding	969m
3M Avg. Daily Value	Rs.5959.32m

### Shareholding Pattern (%)

Promoter's	35.74
Foreign	36.14
Domestic Institution	16.51
Public & Others	11.61
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	5.0	18.9	72.2
Relative	4.8	4.5	24.5

**Aniket Pande**

aniketpande@plindia.com | 91-22-66322300

**Aditi Patil**

aditipatil@plindia.com |

## Initiated Rally phase...

### Quick Pointers:

- Deal wins were strong for second consecutive quarter - USD 815 mn in 1Q22 and USD 1043 mn in 4Q21, much above US\$300-400 mn range pre-Covid
- TechM is trading at significant discount to all its peers, we believe discount to narrow down significantly as progress is happening in multiple dimensions— i) Improving margin profile ii) Restructuring of value acquisitions iii) Disciplined capital allocation with improved payout and FCF generation at 145% of net profit.

**TechM reported strong growth of 4.1% QoQ USD much above our and street estimates (Ple: 2.2%, Cons: 2.4%). Growth was led by Enterprise segment (+4.7% QoQ USD) & Communications in seasonally weak quarter grew +3.2% QoQ USD, registering highest ever 1Q growth in last 5 years.**

**EBIT Margins came at 15.2% (-130 bps QoQ) above our & cons estimates (Ple: 14%, Cons:14.4%). Management is confident on maintaining EBIT margins above 15% despite headwinds from supply side crunch - higher attrition (17%, +400bps QoQ) coupled with all-time high utilization (88% in 1Q22) due to margin levers such as i) Expand offshoring, ii) G&A costs centralization for portfolio companies iii) operational efficiency and automation, iv) pyramid optimization and v) revenue growth leverage.**

**On 5G theme, we believe TechM to be the biggest beneficiary as its strong play in network infrastructure services differentiates it from other Indian IT. Management mentioned that 5G is gaining traction in areas of 5G for cloud and 5G ecosystem for Telecom OEMs with 60-70% of new deals signed involving 5G element.**

**Management has outlined their strategy (Repair, Rally, Rise Beyond) to completely transforming the business and accelerate growth and margins. We have written detailed report on TechM's strategy in our note TechM's Annual Report Analysis ([click here for the report](#)).**

**We are assigning target multiple of 20X (earlier 17X) on Sep-23 EPS of INR of 74.7 (35% discount to TCS 5-year average + 2SD of 30.6X) to arrive at a TP of INR 1494 (earlier: 1237) with revenue CAGR of 13.4% & EPS CAGR of 18.2%. TechM is currently trading at 17.7X/15.9X at EPS of INR 63.5/70.9 on FY22/23E respectively, inexpensive. Maintain Buy.**

- Beat in revenue growth:** TechM reported revenue of \$1383.6 mn resulting in strong growth of 3.9% QoQ CC, 4.1% QoQ USD above our and street estimates (Ple: 2.2%, Cons: 2.4%). Growth was led by Enterprise segment (+4.7% QoQ USD). Communications grew +3.2% QoQ USD, registering highest ever 1Q growth in last 5 years despite seasonal decline in mobility business. In Enterprise segment, growth broad-based was led by Technology (+8.1% QoQ USD), Manufacturing (+4.5% QoQ USD), BFSI (+3.7% QoQ USD) and Retail (+3.2% QoQ USD).

*Share of repeat business improved to 96% of revenue from 92% in 4Q21 indicating recovery in demand from existing clients.*

*1 client each was added in \$50mn+, \$20mn+ and \$10mn+ bucket*

*TechM's services platforms are gaining traction and have registered 60+ new wins this quarter.*

*TechM's netOps.ai, Network Automation and Managed Services Framework, is geared to accelerate 5G Network adoption by automating all the key network life cycle stages.*

- **Technology vertical reported strong performance in last 5 quarters:** Technology vertical continues to show strong growth, +8.1% QoQ, 23% YoY led by traction in hyper-scalars, product engineering and large investments in semiconductor space. TechM has split 'Technology Media and Entertainment' vertical into 1) Technology and 2) clubbed Media and Entertainment with Communication vertical to reflect true performance of strongly growing technology vertical.
- **Sustained strong deal momentum:** Net new TCV was strong at USD 815 mn for second consecutive quarter on top of record high TCV at USD 1043 mn in 4Q21. Deal wins were well distributed across - Enterprise TCV at USD 463 mn and Communication TCV at USD 352 mn. TechM won one of the biggest deals in 1) Healthcare with one of the largest private healthcare systems in US for patient care modernization and in 2) BPS space for back-office integration.
- **Management mentioned that deal pipeline is at an all-time despite strong bookings in last two quarter. TechM's qualified pipeline has improved even further.** Their investments in 5G, Customer Experience, Data & Analytics, IoT and AI are yielding results.
- TechM won 10 large deals well distributed across verticals: 2 Healthcare, 2 Communication, 1 BFSI, 1 Technology, 1 E&U, 1 Manufacturing, 1 Transport, 1 Public Sector.
- **5G gaining traction:** Management mentioned that 60-70% of new deals signed involve 5G element. There are three core demand areas for 5G – 5G for cloud, 5G ecosystem for Telecom OEMs and 5G for enterprises. TechM is experiencing strong traction in first two areas while the Enterprise 5G demand is yet to pick-up as it involves complex architecture changes. Management mentioned that telecom operator's capex as % of revenues has remained flat however, they are repurposing spends in to cloud, 5G and data transformation. TechM is investing on OEM infra side on OFS orchestration, IP development and core 5G architecture.
- **Beat in margins:** EBIT Margins came at 15.2% (-130 bps QoQ) above our & cons estimates (Ple: 14%, Cons:14.4%). Beat in margins was because headwind from 1) wage hike rollout in 1Q22, 2) visa costs, 3) seasonal decline in mobility business and 4) 210 bps QoQ increase in sub-con costs were partially offset by higher utilization (incl. trainees) of 88% (+100bps QoQ), lower SG&A expenses of (-42bps QoQ) and operating efficiencies.
- **Management is confident on maintaining EBIT margins above 15%** and improving them in coming quarters despite **headwinds** from supply side crunch - higher attrition (17%, +400bps QoQ) coupled with all-time high utilization (88% in 1Q22) due to **margin levers** such as i) further scope to expand offshoring, ii) G&A costs centralization for portfolio companies iii) operational efficiency and automation, iv) pyramid optimization and v) revenue growth leverage. Management did not disclose their plans for wage hikes or selective interventions in FY22 and this can pose further risk to rising attrition.
- PAT came at INR 13532 mn, +25% QoQ aided by higher other income and normalization of ETR to 24% vs 33% in 4Q21

- **Healthy cash flow management:** DSO increased by only 1 day QoQ to 93 days despite strong rise in revenue. FCF/PAT was healthy at 94.1% for 1Q22 vs 126.6% for 4QFY21.

#### Exhibit 1: Q1FY22: Quick view on results

Y/e March (Rs mn)	1Q22	4Q21	QoQ gr.	1Q21	YoY gr.	Ple vs. Act	Ple
Net Sales (\$ m)	1,384	1,330	4.1%	1,207	14.6%	1.8%	1,358.6
Net Sales	1,01,976	97,299	4.8%	91,063	12.0%	1.7%	1,00,265
EBITDA	18,764	19,481	-3.7%	13,005	44.3%	4.0%	18,048
EBITDA Margin	18.4%	20.0%	-162 bps	14.3%	412 bps	40 bps	18.0%
EBIT	15,453	16,037	-3.6%	9,173	68.5%	10.1%	14,037
EBIT margin	15.2%	16.5%	-133 bps	10.1%	508 bps	115 bps	14.0%
PAT	13,532	10,814	25.1%	9,722	39.2%	12.4%	12,038
EPS (diluted)	15.32	12.26	25.0%	11.05	38.6%	12.2%	13.65

Source: Company, PL

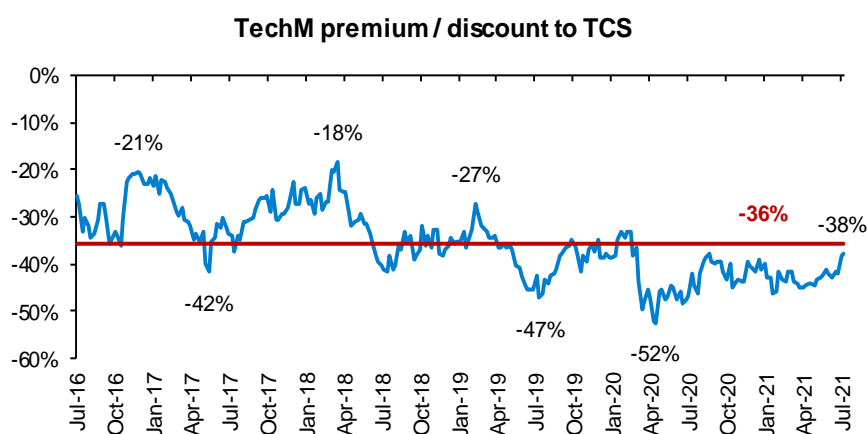
## Valuation

TechM is trading as significant discount to all its peers TCS (41%), INFY (40%), Wipro (31%) & HCLT (9%) on FY23E earnings, we believe discount to narrow down significantly as TechM is doing progress in multiple dimensions— i) Improving margin profile ii) Restructuring of value acquisitions iii) Disciplined capital allocation with improved payout and FCF generation at 145% of net profit.

Historically TechM has traded at 36% discount (5-yr average P/E discount) to TCS. Now this gap has widened to 41%. Historically, TechM's EPS CAGR was also lower at 6 over FY18-21 vs 10% of TCS (Exhibit 3). Given the progress made by TechM in multiple dimensions, we believe TechM's EPS CAGR to improve to 18% over FY21-23E vs 16% of TCS.

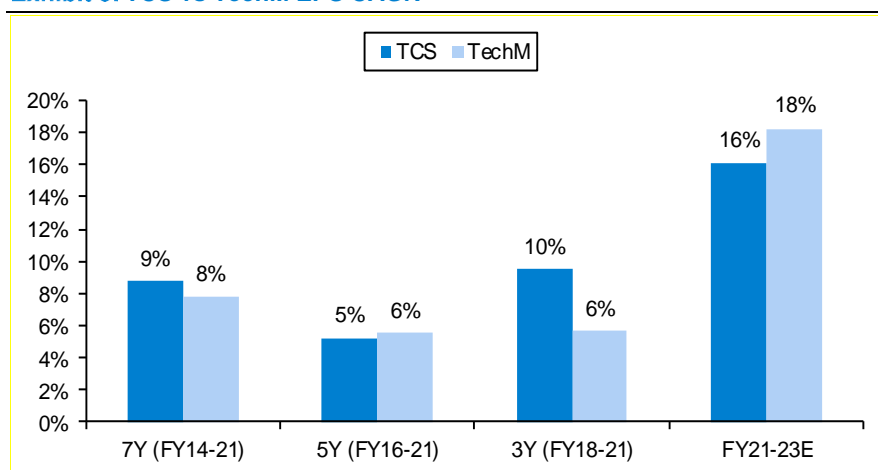
We are assigning target multiple of 20X (earlier 17X) on Sep-23 EPS of INR of 74.7 (35% discount to TCS 5-year average +2SD of 30.6X) to arrive at a TP of INR 1494 (earlier: 1237) with revenue CAGR of 13.4% & EPS CAGR of 18.2%. TechM is currently trading at 17.7X/15.9X at EPS of INR 63.5/70.9 on FY22/23E respectively, inexpensive. Maintain Buy.

#### Exhibit 2: TechM's discount to TCS



Source: Company, PL

Exhibit 3: TCS vs TechM EPS CAGR



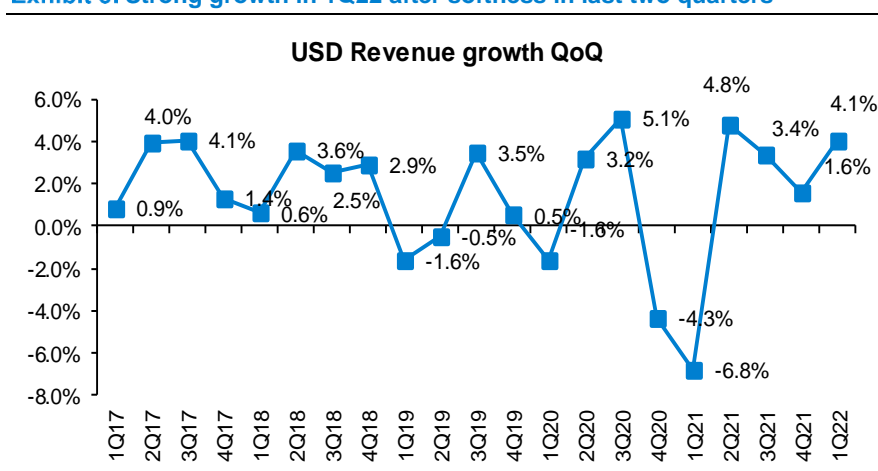
Source: Company, PL

Exhibit 4: Change in Estimates

Y/e March	FY22E	FY23E	FY24E
<b>USD revenues (US\$ m)</b>			
- New	5,800	6,562	7,335
- Old	5,679	6,387	7,134
Change (%)	2.1%	2.7%	2.8%
<b>EBIT Margin</b>			
- New	15.3%	15.0%	15.0%
- Old	15.0%	15.0%	15.0%
Change (%)	28 bps	0 bps	0 bps
<b>Recurring EPS - Fully diluted (Rs)</b>			
- New	63.5	70.9	78.5
- Old	61.1	69.1	76.4
Change (%)	4.0%	2.6%	2.8%

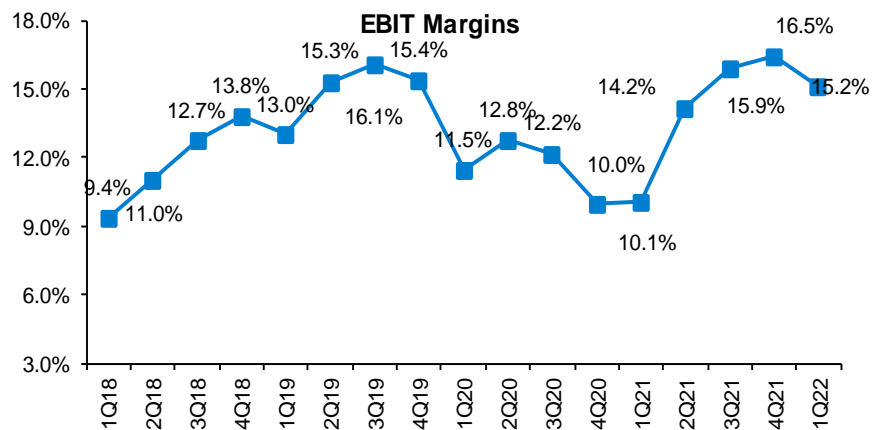
Source: PL

Exhibit 5: Strong growth in 1Q22 after softness in last two quarters



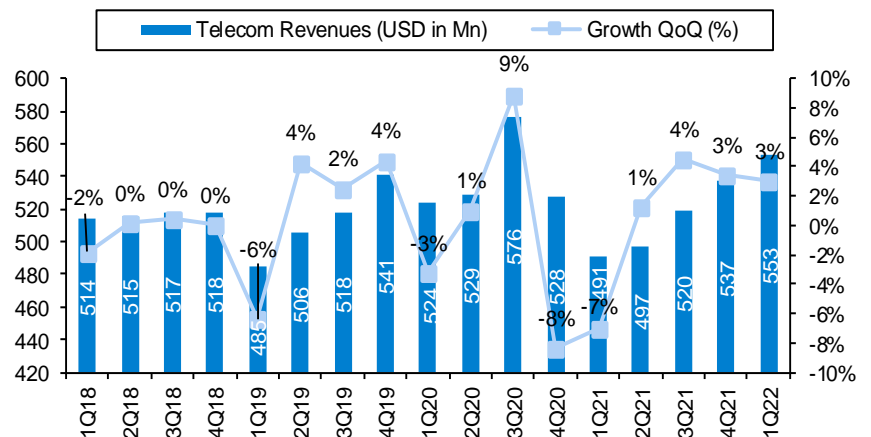
Source: Company, PL

**Exhibit 6: Sequential decline in margins due to wage hike**



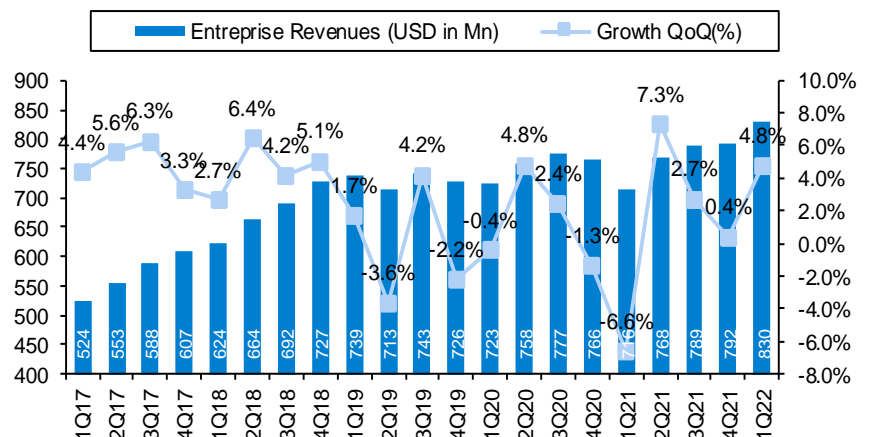
Source: Company, PL

**Exhibit 7: Modest growth in Communications vertical**

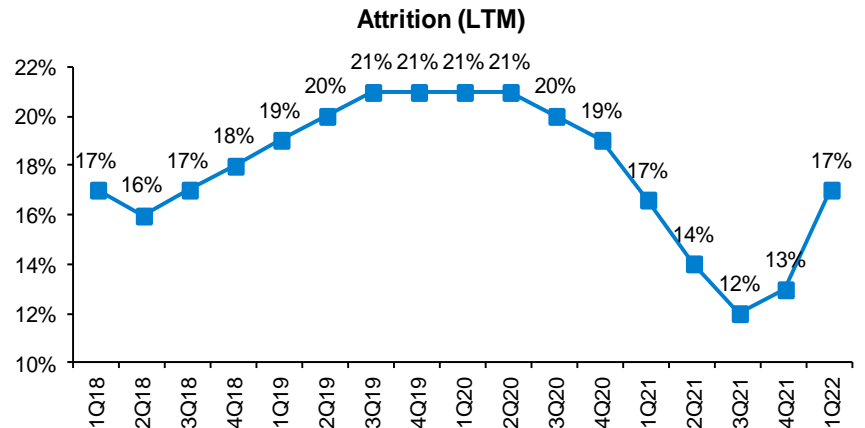


Source: Company, PL

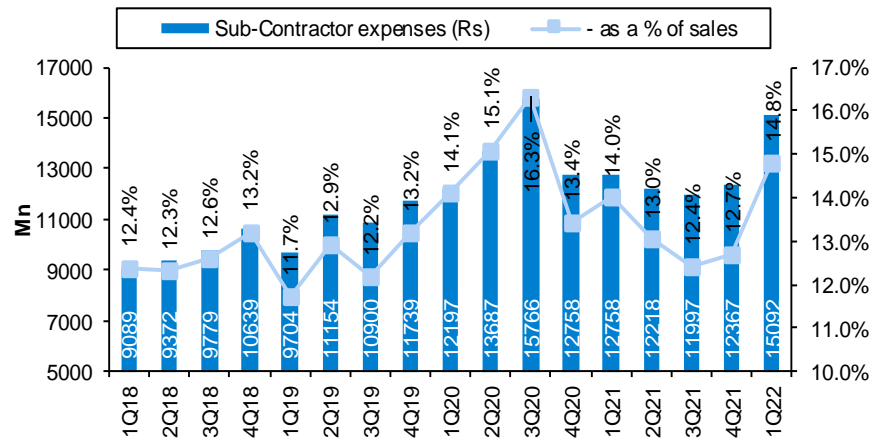
**Exhibit 8: Growth back in Enterprise vertical**



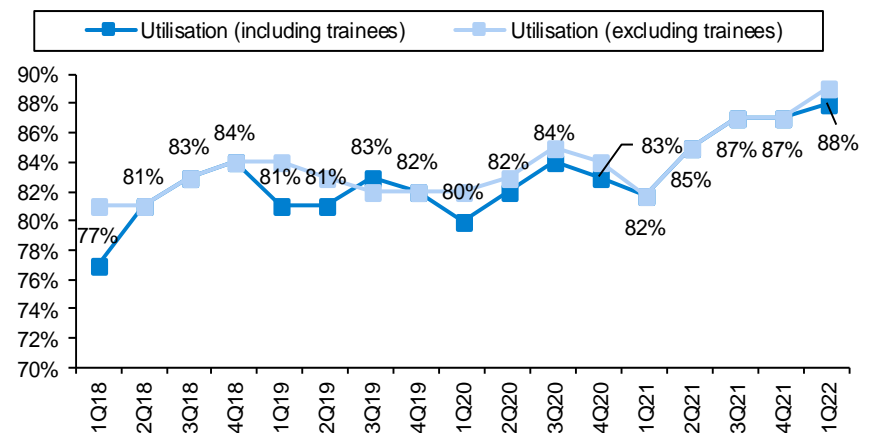
Source: Company, PL

**Exhibit 9: Attrition jumped up by +400bps QoQ**


Source: Company, PL

**Exhibit 10: Subcontracting costs increased sharply by 210 bps QoQ**


Source: Company, PL

**Exhibit 11: Sustained high utilization levels**


Source: Company, PL

**Exhibit 12: Deal Wins (USD Mn)**

	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Communications	150	174	105	208	104	518	352
Enterprise	1,081	339	185	214	352	525	463
<b>Total</b>	<b>1,231</b>	<b>513</b>	<b>290</b>	<b>421</b>	<b>455</b>	<b>1043</b>	<b>815</b>

Source: Company, PL

**Exhibit 13: Geography-wise revenues**

(US\$ m)	1Q22	4Q21	QoQ gr.	1Q21	YoY gr.
North America	646.1	605.0	6.8%	595.5	8.5%
Europe	376.3	352.3	6.8%	311.5	20.8%
RoW	361.1	372.3	-3.0%	300.0	20.4%
<b>% of Total</b>					
North America	46.7%	45.5%	120 bps	49.3%	-264 bps
Europe	27.2%	26.5%	70 bps	25.8%	139 bps
RoW	26.1%	28.0%	-190 bps	24.9%	125 bps

Source: Company, PL

**Exhibit 14: Vertical-wise revenues**

(US\$ m)	1Q22	4Q21	QoQ gr.	1Q21	YoY gr.
Telecom	553.4	537.2	3.0%	491.2	12.7%
Enterprise	830.2	792.4	4.8%	715.8	16.0%
- Manufacturing	228.3	218.1	4.7%	204.0	11.9%
- Technology, media & entertainment	121.8	113.0	7.7%	99.0	23.0%
- BFSI	226.9	218.1	4.1%	189.5	19.7%
- Retail, Transport & Logistics	106.5	102.4	4.1%	91.7	16.1%
- Others	146.7	140.9	4.1%	131.6	11.5%
<b>% of Total</b>					
Telecom	40.0%	40.4%	-40 bps	40.7%	-70 bps
Enterprise	60.0%	59.6%	40 bps	59.3%	70 bps
- Manufacturing	16.5%	16.4%	10 bps	16.9%	-40 bps
- Technology, media & entertainment	8.8%	8.5%	30 bps	8.2%	60 bps
- BFSI	16.4%	16.4%	0 bps	15.7%	70 bps
- Retail, Transport & Logistics	7.7%	7.7%	0 bps	7.6%	10 bps
- Others	10.6%	10.6%	0 bps	10.9%	-30 bps

Source: Company, PL

**Exhibit 15: Client Metrics**

	1Q22	4Q21	QoQ gr.	1Q21	YoY gr.
≥ \$1 million clients	466	451	3.3%	451	3.3%
≥ \$5 million clients	168	169	-0.6%	161	4.3%
≥ \$10 million clients	86	85	1.2%	81	6.2%
≥ \$20 million clients	51	50	2.0%	48	6.3%
≥ \$50 million clients	22	21	4.8%	21	4.8%
<b>Number Of active clients</b>	<b>1,058</b>	<b>1,007</b>	<b>5.1%</b>	<b>981</b>	<b>7.8%</b>

Source: Company, PL

**Exhibit 16: Client concentration**

(US\$ m)	1Q22	4Q21	QoQ gr.	1Q21	YoY gr.
Top 5 Client	304	293	4.1%	263	15.8%
Top 6-10 Clients	125	120	4.1%	112	11.0%
Top 10 Clients	429	412	4.1%	375	14.4%
Top 10-20 Clients	166	160	4.1%	150	10.7%
Top 20 Clients	595	572	4.1%	525	13.4%
Non Top 20 Clients	789	758	4.1%	682	15.6%
<b>% of Total</b>					
Top 5 Clients	22.0%	22.0%	0 bps	21.8%	23 bps
Top 10 Clients	31.0%	31.0%	0 bps	31.1%	-6 bps
Top 20 Clients	43.0%	43.0%	0 bps	43.5%	-48 bps
Non Top 20 Clients	57.0%	57.0%	0 bps	56.5%	48 bps

Source: Company, PL

**Exhibit 17: Headcount Metrics**

	1Q22	4Q21	QoQ gr.	1Q21	YoY gr.
Software Professional	69,877	68,427	2.1%	71,020	-1.6%
BPO Professionals	49,668	46,125	7.7%	45,554	9.0%
Sales & Support	6,718	6,502	3.3%	6,842	-1.8%
<b>Total Employees</b>	<b>1,26,263</b>	<b>1,21,054</b>	<b>4.3%</b>	<b>1,23,416</b>	<b>2.3%</b>
<b>Attrition</b>					
IT Utilization(excl. trainees)	89.0%	87.0%	200 bps	81.8%	720 bps
IT Utilization(incl. trainees)	88.0%	87.0%	100 bps	81.7%	630 bps

Source: Company, PL

**Exhibit 18: Effort Mix**

(US\$ m)	1Q22	4Q21	QoQ gr.	1Q21	YoY gr.
Onsite	858	838	2.4%	774	10.9%
Offshore	526	492	6.9%	433	21.4%
<b>% of Total</b>					
Onsite	62.0%	63.0%	-100 bps	64.1%	-211 bps
Offshore	38.0%	37.0%	100 bps	35.9%	211 bps

Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	<b>378,551</b>	<b>428,815</b>	<b>498,697</b>	<b>557,462</b>
YoY gr. (%)	2.7	13.3	16.3	11.8
Employee Cost	258,555	287,535	328,986	367,758
Gross Profit	119,997	141,281	169,712	189,705
Margin (%)	31.7	32.9	34.0	34.0
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>68,471</b>	<b>81,993</b>	<b>94,907</b>	<b>106,085</b>
YoY gr. (%)	19.6	19.7	15.8	11.8
Margin (%)	18.1	19.1	19.0	19.0
Depreciation and Amortization	14,577	16,385	19,948	22,298
<b>EBIT</b>	<b>53,894</b>	<b>65,608</b>	<b>74,959</b>	<b>83,787</b>
Margin (%)	14.2	15.3	15.0	15.0
Net Interest	1,740	1,881	1,500	1,500
Other Income	7,364	8,873	8,873	8,873
<b>Profit Before Tax</b>	<b>59,518</b>	<b>72,600</b>	<b>82,332</b>	<b>91,160</b>
Margin (%)	15.7	16.9	16.5	16.4
Total Tax	15,999	17,334	20,634	22,773
Effective tax rate (%)	26.9	23.9	25.1	25.0
<b>Profit after tax</b>	<b>43,519</b>	<b>55,267</b>	<b>61,698</b>	<b>68,387</b>
Minority interest	(750)	(458)	(458)	(458)
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>44,269</b>	<b>55,725</b>	<b>62,156</b>	<b>68,845</b>
YoY gr. (%)	4.0	25.9	11.5	10.8
Margin (%)	11.7	13.0	12.5	12.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>44,269</b>	<b>55,725</b>	<b>62,156</b>	<b>68,845</b>
YoY gr. (%)	4.0	25.9	11.5	10.8
Margin (%)	11.7	13.0	12.5	12.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	44,269	55,725	62,156	68,845
<b>Equity Shares O/s (m)</b>	<b>873</b>	<b>877</b>	<b>877</b>	<b>877</b>
<b>EPS (Rs)</b>	<b>50.7</b>	<b>63.5</b>	<b>70.9</b>	<b>78.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>64,430</b>	<b>53,602</b>	<b>62,337</b>	<b>69,683</b>
Tangibles	64,430	53,602	62,337	69,683
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Tangibles	-	-	-	-
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>64,430</b>	<b>53,602</b>	<b>62,337</b>	<b>69,683</b>
Tangibles	64,430	53,602	62,337	69,683
Intangibles	-	-	-	-
Capital Work In Progress	-	-	-	-
Goodwill	40,082	41,672	43,262	44,852
Non-Current Investments	10,294	10,294	10,294	10,294
Net Deferred tax assets	9,133	9,133	9,133	9,133
Other Non-Current Assets	20,288	20,331	20,338	20,344
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	64,728	82,239	95,641	106,911
Cash & Bank Balance	124,971	145,621	176,642	217,096
Other Current Assets	62,612	70,755	82,285	91,981
<b>Total Assets</b>	<b>396,780</b>	<b>441,364</b>	<b>508,908</b>	<b>580,328</b>
<b>Equity</b>				
Equity Share Capital	4,370	4,370	4,370	4,370
Other Equity	244,280	289,668	341,490	400,000
<b>Total Network</b>	<b>248,650</b>	<b>294,038</b>	<b>345,860</b>	<b>404,370</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	9,735	9,735	9,735	9,735
Provisions	-	-	-	-
Other non current liabilities	31,825	29,457	32,252	34,602
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	14,960	13,460	11,960	10,460
Trade payables	27,850	36,449	42,389	47,384
Other current liabilities	59,965	54,888	63,833	71,355
<b>Total Equity &amp; Liabilities</b>	<b>396,780</b>	<b>441,364</b>	<b>508,908</b>	<b>580,328</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	59,518	72,600	82,332	91,160
Add. Depreciation	14,577	16,385	19,948	22,298
Add. Interest	1,740	1,881	1,500	1,500
Less Financial Other Income	7,364	8,873	8,873	8,873
Add. Other	-	-	-	-
Op. profit before WC changes	75,835	90,866	103,780	114,958
Net Changes-WC	25,798	(32,018)	(8,517)	(7,162)
Direct tax	(15,999)	(17,334)	(20,634)	(22,773)
<b>Net cash from Op. activities</b>	<b>85,634</b>	<b>41,514</b>	<b>74,629</b>	<b>85,023</b>
Capital expenditures	(31,781)	(7,146)	(30,273)	(31,234)
Interest / Dividend Income	-	-	-	-
Others	7,611	-	-	-
<b>Net Cash from Invst. activities</b>	<b>(24,170)</b>	<b>(7,146)</b>	<b>(30,273)</b>	<b>(31,234)</b>
Issue of share cap. / premium	(67)	-	-	-
Debt changes	12,148	(1,500)	(1,500)	(1,500)
Dividend paid	(46,387)	(10,334)	(10,334)	(10,334)
Interest paid	(1,740)	(1,881)	(1,500)	(1,500)
Others	22,052	(2)	-	-
<b>Net cash from Fin. activities</b>	<b>(13,994)</b>	<b>(13,717)</b>	<b>(13,334)</b>	<b>(13,334)</b>
<b>Net change in cash</b>	<b>47,470</b>	<b>20,650</b>	<b>31,021</b>	<b>40,454</b>
Free Cash Flow	56,895	34,367	44,355	53,789

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	50.7	63.5	70.9	78.5
CEPS	67.4	82.2	93.6	103.9
BVPS	284.9	335.3	394.4	461.1
FCF	65.2	39.2	50.6	61.3
DPS	45.4	10.1	10.1	10.1
<b>Return Ratio(%)</b>				
RoCE	20.9	22.2	21.9	21.2
ROIC	19.1	20.1	19.1	18.0
RoE	18.5	20.5	19.4	18.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.4)	(0.5)
Debtor (Days)	62	70	70	70
<b>Valuation(x)</b>				
PER	22.2	17.7	15.9	14.4
P/B	4.0	3.4	2.9	2.4
P/CEPS	16.7	13.7	12.0	10.9
EV/EBITDA	12.9	10.6	8.8	7.5
EV/Sales	2.3	2.0	1.7	1.4
Dividend Yield (%)	4.0	0.9	0.9	0.9

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Net Revenue</b>	<b>93,718</b>	<b>96,471</b>	<b>97,299</b>	<b>101,976</b>
YoY gr. (%)	3.3	(0.1)	2.5	12.0
Raw Material Expenses	64,245	64,708	64,497	69,682
Gross Profit	29,473	31,763	32,802	32,294
Margin (%)	31.4	32.9	33.7	31.7
<b>EBITDA</b>	<b>17,030</b>	<b>18,955</b>	<b>19,481</b>	<b>18,764</b>
YoY gr. (%)	13.5	21.2	44.5	44.3
Margin (%)	18.2	19.6	20.0	18.4
Depreciation / Depletion	3,717	3,584	3,444	3,311
<b>EBIT</b>	<b>13,313</b>	<b>15,371</b>	<b>16,037</b>	<b>15,453</b>
Margin (%)	14.2	15.9	16.5	15.2
Net Interest	399	421	417	381
Other Income	1,175	2,209	(181)	2,873
<b>Profit before Tax</b>	<b>14,089</b>	<b>17,159</b>	<b>15,439</b>	<b>17,945</b>
Margin (%)	15.0	17.8	15.9	17.6
Total Tax	3,462	4,263	4,998	4,286
Effective tax rate (%)	24.6	24.8	32.4	23.9
<b>Profit after Tax</b>	<b>10,627</b>	<b>12,896</b>	<b>10,441</b>	<b>13,659</b>
Minority interest	(15)	(197)	(371)	125
Share Profit from Associates	4	5	2	(2)
<b>Adjusted PAT</b>	<b>10,646</b>	<b>13,098</b>	<b>10,814</b>	<b>13,532</b>
YoY gr. (%)	(5.3)	14.3	5.9	39.2
Margin (%)	11.4	13.6	11.1	13.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>10,646</b>	<b>13,098</b>	<b>10,814</b>	<b>13,532</b>
YoY gr. (%)	(5.3)	14.3	5.9	39.2
Margin (%)	11.4	13.6	11.1	13.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>10,646</b>	<b>13,098</b>	<b>10,814</b>	<b>13,532</b>
Avg. Shares O/s (m)	879	879	882	883
<b>EPS (Rs)</b>	<b>12.1</b>	<b>14.9</b>	<b>12.3</b>	<b>15.3</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	22-Jul-21	BUY	1,237	1,149
2	2-Jul-21	BUY	1,174	1,085
3	27-Apr-21	BUY	1,132	962
4	5-Apr-21	BUY	1,143	990
5	1-Feb-21	BUY	1,138	961
6	4-Jan-21	BUY	1,099	978
7	26-Oct-20	BUY	1,042	848
8	5-Oct-20	BUY	966	823
9	1-Oct-20	BUY	966	792

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Coforge	BUY	5,306	4,749
2	Cyient	BUY	1,088	946
3	HCL Technologies	BUY	1,094	1,000
4	Infosys	BUY	1,832	1,577
5	L&T Technology Services	BUY	3,149	2,911
6	Larsen & Toubro Infotech	Accumulate	4,623	4,289
7	Mindtree	BUY	3,229	2,505
8	Mphasis	BUY	2,770	2,530
9	Persistent Systems	Hold	2,851	3,039
10	Redington (India)	BUY	301	279
11	Sonata Software	BUY	834	757
12	Tata Consultancy Services	BUY	3,776	3,259
13	TeamLease Services	BUY	4,716	3,731
14	Tech Mahindra	BUY	1,237	1,149
15	Wipro	BUY	678	576
16	Zensar Technologies	BUY	424	401

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

## **ANALYST CERTIFICATION**

### **(Indian Clients)**

We/I, Mr. Aniket Pande- MBA, Ms. Aditi Patil- MBA Finance Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

### **(US Clients)**

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

## **DISCLAIMER**

### **Indian Clients**

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at [www.plindia.com](http://www.plindia.com).

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Aniket Pande- MBA, Ms. Aditi Patil- MBA Finance Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

### **US Clients**

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

---

**Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

**[www.plindia.com](http://www.plindia.com)**