

Tech Mahindra
Techno - Funda Stock Outlook

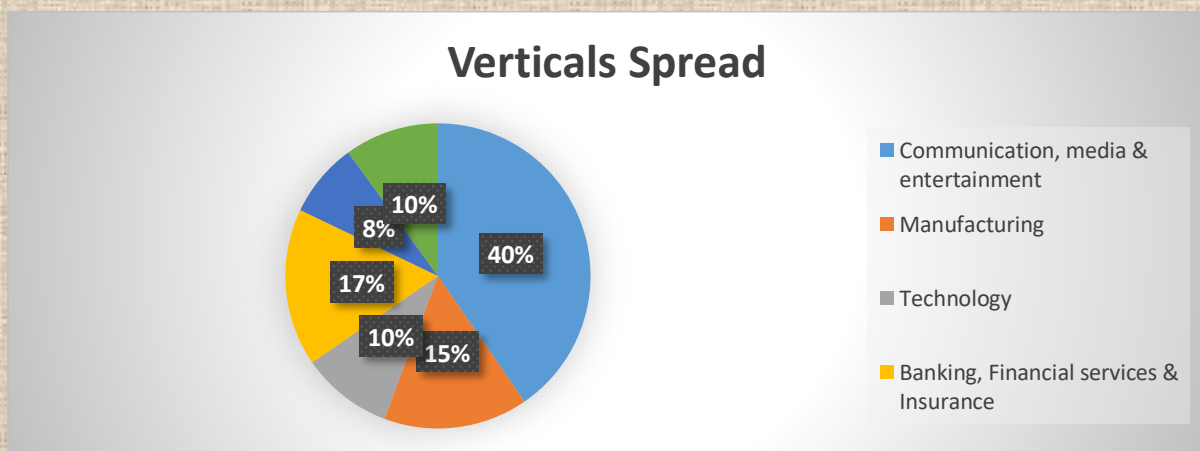
Stock Details	
NSE Scrip code	TECHM
BSE Scrip code	532755
Market cap (in Cr)	1,03,650
52-weekHigh/Low	1,838 / 944

CMP	Rs 1065
Target Price (medium term, 12.21% upside)	Rs 1195
Target Price (Long term, 20.9% upside)	Rs 1288

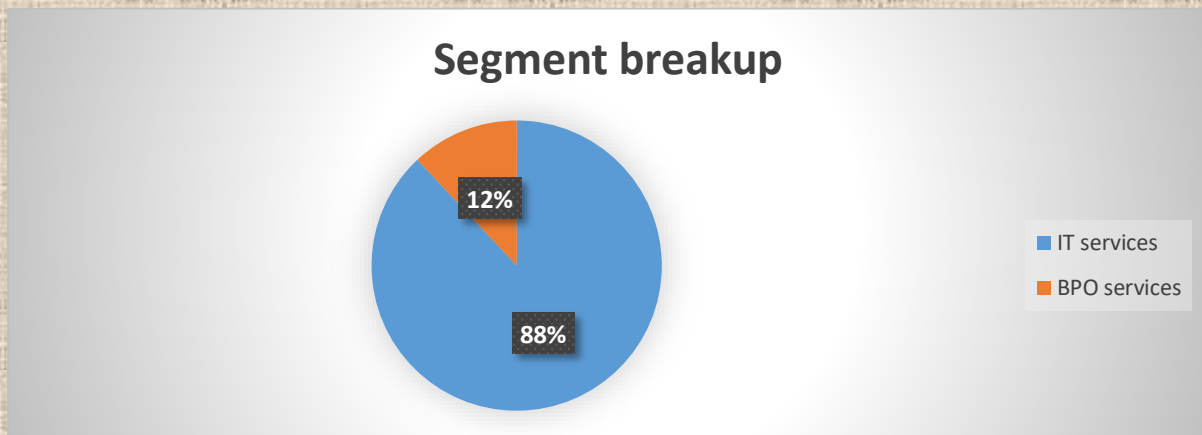
Holdings	%
Promoter	35.24
MF	12.8
FII	30.43
Public	13.43
Others	8.1

Business Description:

Tech Mahindra Ltd provides comprehensive range of IT services, including IT enabled service, application development and maintenance, consulting and enterprise business solutions, etc. to a diversified base of corporate customers in a wide range of industries.



For fiscal 2022, 88% of revenue came from IT services, whereas 12% of revenue came from BPO services.

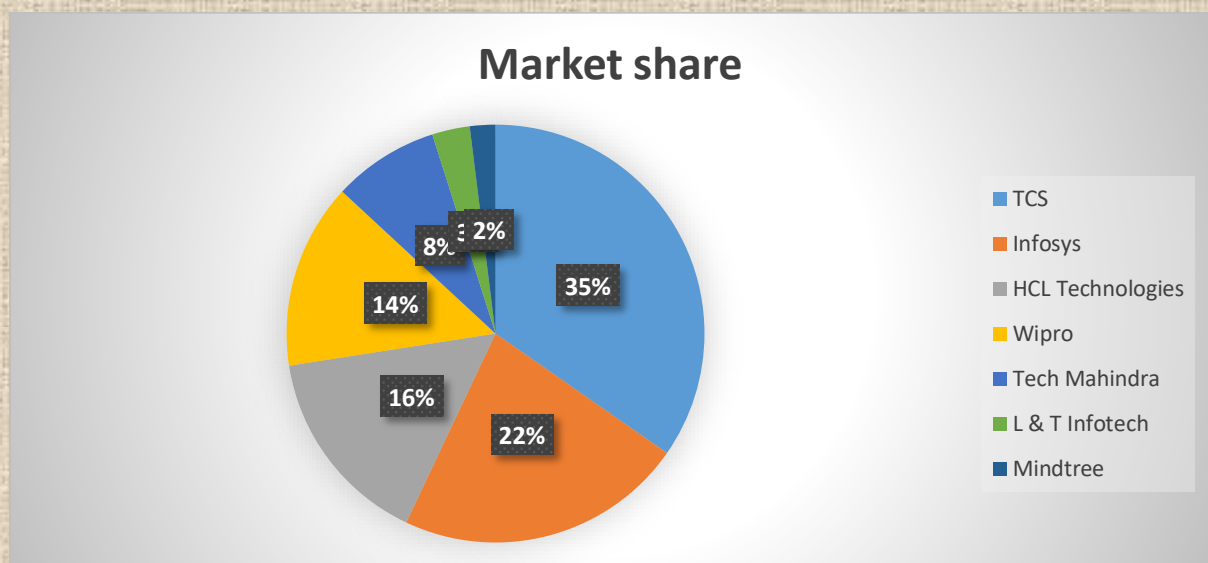


Industry Overview and competitive positioning

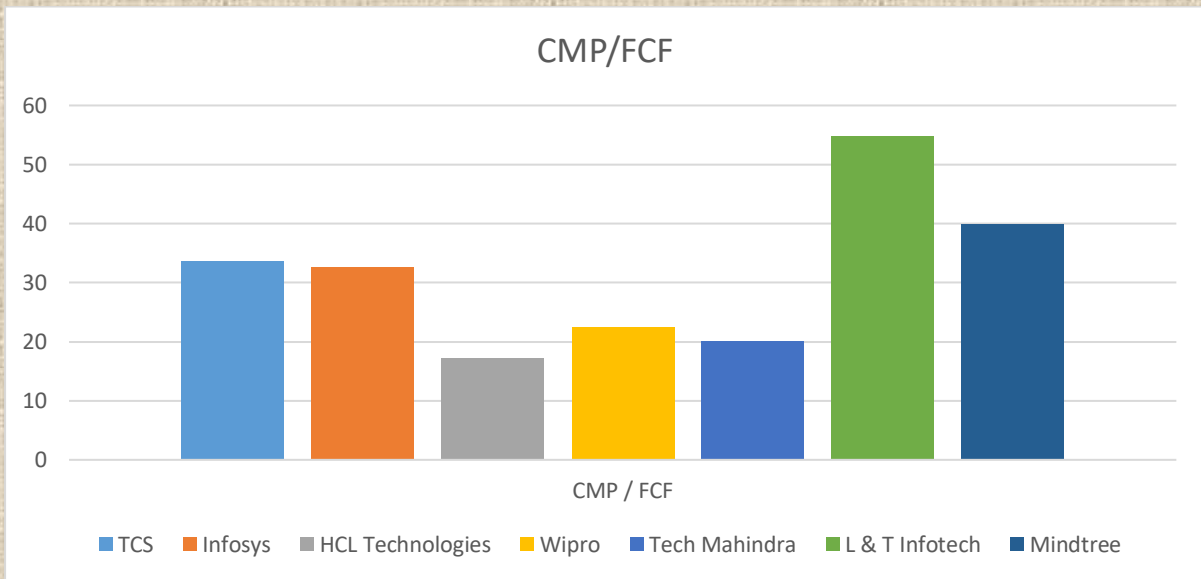
The IT and BPM market accounts for 9.3% of India's GDP and 56% of the global outsourcing market. In FY21, India ranked third worldwide with 608,000 cloud experts across all verticals, including technology. According to Gartner estimates, IT spending in India is expected to increase by 24.31% to US\$ 101.8 billion in 2022 from an estimated US\$ 81.89 billion in 2021.

Tech Mahindra has a global presence with 1,50,000+ employees across 90+ countries. It services 1,200+ clients including several fortune 500 companies.

- TECHM ranks 3rd in the industry with a 16% market share –



- TECHM ranks 2nd in terms of CMP/FCF indicating that it is undervalued as compared to most of its peers-



Management Commentary & Outlook:

Globally, the IT spend is expected to grow at a CAGR of 8.7% during 2021-25.

The IT & BPM sector has become one of the most important growth catalysts for the Indian economy, contributing significantly to the country's GDP and public welfare. The IT industry accounted for 8% of India's GDP in 2020 and it is expected to contribute 10% to India's GDP by 2025.

- TECHM's revenue is expected to grow by 23.11% in FY23
- TECHM's net profit is expected to grow by 19.47% in FY23

Consolidated Financials:

QUARTERS (In Rs. Cr)					
	Jun-21	Mar-22	Jun-22	Y-O-Y	Q-O-Q
Sales	10,197.60	12,116.30	12,707.90	25%	4.9%
Expenses	8,321.40	10,027.90	10,827.80	30%	8.0%
Operating Profit	1,876.20	2,088.40	1,880.10	0%	-10.0%
Other Income	287.30	324.30	122.40	-57%	-62.3%
Depreciation	331.10	484.20	476.70	44%	-1.5%
Interest	38.10	55.20	40.30	6%	-27.0%
Profit before tax	1,794.30	1,873.30	1,485.50	-17%	-20.7%
Tax	428.60	328.00	338.00	-21%	3.0%
Net profit	1,365.70	1545.3	1147.5	-16%	-25.7%
OPM	18%	17%	15%		

ANNUAL (In Rs Cr.)

	Mar-21	Mar-22	Y-O-Y	Mar-23 E	Mar-24 E
Sales	37,855.10	44,646.00	17.9%	54,963.55	61,921.93
Expenses	31,058.80	36,626.00	17.9%	45,258.75	51,309.84
Operating Profit	6,796.30	8,020.00	18.0%	9,704.80	10,612.09
Other Income	788.30	1,115.10	41.5%	1,389.21	1,758.24
Depreciation	1,457.70	1,520.40	4.3%	1992.32	1772.61
Interest	174.00	162.60	-6.6%	151.95	141.99
Profit before tax	5,952.90	7,452.10	25.2%	8,949.74	10,455.73
Tax	1,599.90	1,822.00	13.9%	2,300.08	2,621.25
Net profit	4,428.00	5,566.10	25.7%	6,649.66	7,834.48
EPS	45.73	57.28	25.2%	68.35	80.53
OPM	18%	18%		18%	17%

Piotroski F Score Breakdown :

Profitability	
ROA	1
CFO	1
ΔROA	1
ACCRUAL	0
Leverage, Liquidity, Source of Funds	
ΔLEVER	1
ΔLIQUID	0
EQ_OFFER	1
Operating Efficiency	
ΔMARGIN	0
ΔTURN	1
Total Score	6

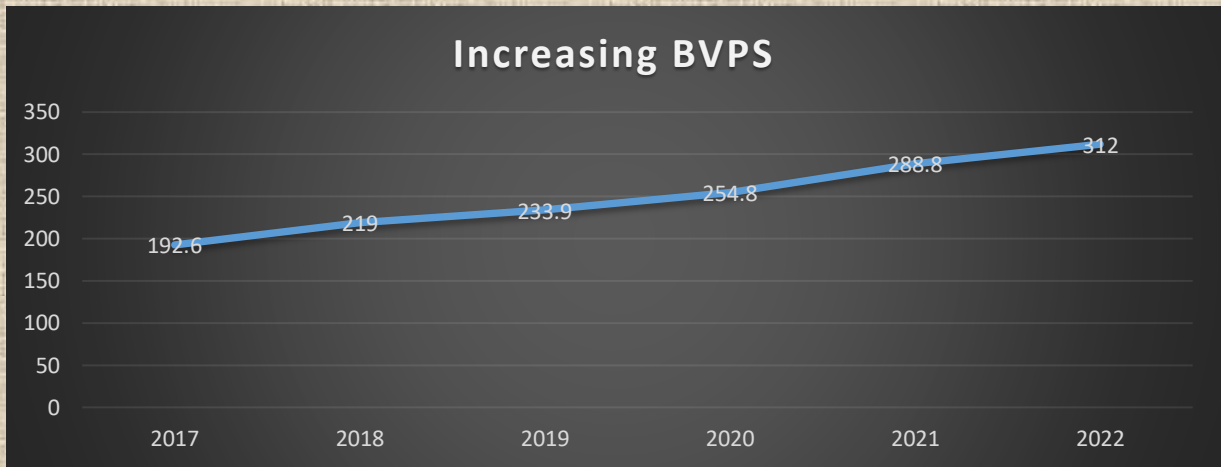
Piotroski score ranges between 0-9, with 9 being the best. The company has a score of 6 indicating a decent financial position

RATIOS

	FY21	FY22
RoA %	11.15	12.4
ROE %	17.81	20.7
ROCE %	20.83	23.51
EV Per EBITDA	11.3	14.2
EV/net sales	2.3	2.9
P/BV	3.9	5.4
D/E	0.1	0.1
Net Profit Margin%	11.49	12.6
Current ratio	0.9	0.9

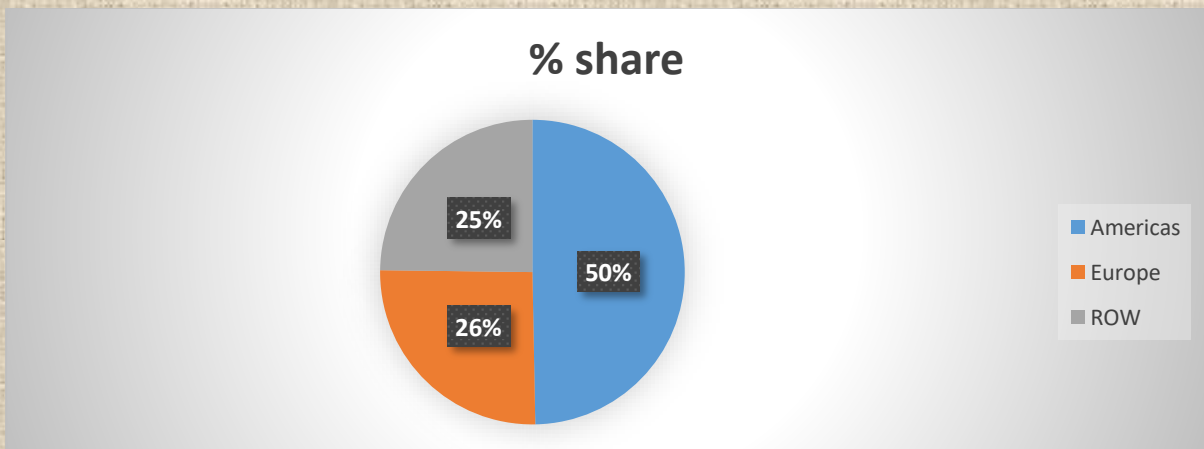
Consistent rise in BVPS

If the firm's BVPS increases, the stock should be perceived as more valuable, and the stock price should increase.



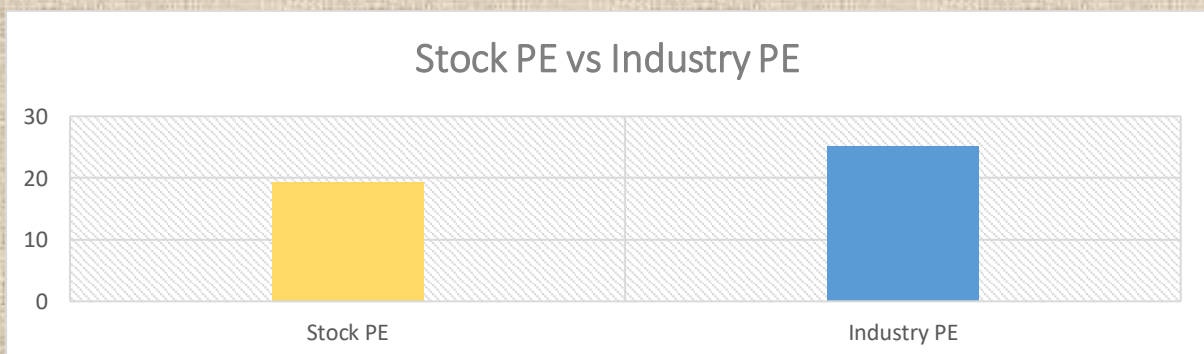
Benefits of rising dollar

Since most of the company's revenue comes from the America's, it is bound to be benefitted by the rising dollar strength –



Investment Rationale & Valuation

- Stock is trading at less than industry PE -



Technical Outlook



- We recommend short term BUY for a TP of Rs 1195 based on simple moving averages, place SL at Rs 1017
- We recommend long term BUY for a TP of Rs 1288.4 based on 16x FY24E EPS.

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