

## RESEARCH

### Tech Mahindra | Target: Rs 740 | -5% | REDUCE

Analyst meet takeaways

## SUMMARY

### Tech Mahindra

Key takeaways from Tech Mahindra's (TECHM) analyst meet:

(1) Management's fresh growth strategy brings little new to the table.

Outcome-based solutions and large deals remain in focus, albeit with a shift toward the enterprise business (where large deal pipeline has doubled in FY20YTD). (2) Management is pinning hopes of EBIT margin recovery (-210bps in H1) on recouping contract transition costs. In our view, the path to margin revival looks difficult; valuations at 12.7x FY22E P/E leave limited upside given a telecom-heavy portfolio and operational volatility.

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	570
<a href="#">ONGC</a>	Buy	210
<a href="#">Petronet LNG</a>	Buy	400
<a href="#">Reliance Industries</a>	Buy	1,670
<a href="#">TCS</a>	Add	2,230

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,290
<a href="#">Future Supply</a>	Buy	680
<a href="#">Greenply Industries</a>	Buy	210
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">PNC Infratech</a>	Buy	245

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.88	1bps	5bps	(94bps)
India 10Y yield (%)	6.75	(5bps)	23bps	(59bps)
USD/INR	70.97	0	1.1	(0.8)
Brent Crude (US\$/bbl)	66.10	1.2	4.4	17.5
Dow	28,267	0.1	0.9	19.4
Shanghai	3,022	1.3	4.5	17.3
Sensex	41,352	1.0	2.5	13.8
India FII (US\$ mn)	16 Dec	MTD	CYTD	FYTD
FII-D	40.9	(319.8)	3,925.0	3,380.4
FII-E	122.6	45.7	13,418.0	6,572.8

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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**REDUCE**  
 TP: Rs 740 | ▼ 5%

**TECH MAHINDRA**

| IT Services

| 18 December 2019

**Analyst meet takeaways**

**Key takeaways from Tech Mahindra’s (TECHM) analyst meet: (1) Management’s fresh growth strategy brings little new to the table. Outcome-based solutions and large deals remain in focus, albeit with a shift toward the enterprise business (where large deal pipeline has doubled in FY20YTD). (2) Management is pinning hopes of EBIT margin recovery (–210bps in H1) on recouping contract transition costs. In our view, the path to margin revival looks difficult; valuations at 12.7x FY22E P/E leave limited upside given a telecom-heavy portfolio and operational volatility.**

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**Static strategic narrative:** In our view, TECHM’s ‘3-4-3 Next’ strategy unveiled at its recent analyst meet (see page 2 for details) sticks to the roadmap set two years ago, with a continued focus on delivering outcome-based solutions to clients. Management reiterated its emphasis on large deal signings, higher growth visibility and margin improvement.

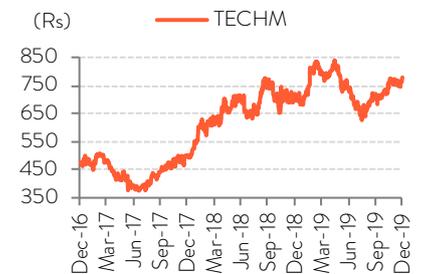
**Higher communications deal wins but trend likely to change:** Over the last six quarters, deal wins were buoyed by the communications vertical which contributed ~55% of signings. Management hinted that the trend may shift in favour of the enterprise business, which has seen a 20% YoY increase in deal pipeline in Dec’19, including a 100% jump in large contracts versus at the start of FY20. We note that three out of four US\$ 100mn+ TCV deal signings over the last six quarters were from the enterprise vertical.

**Path to margin improvement hazy:** Management attributed EBIT margin contraction in H1FY20 (down 210bps YoY) to a “shift caused by large deal transition costs” and is counting on recouping these costs in FY21 as a lever for margin improvement (besides refining delivery capabilities). In our view TECHM’s path to mitigating these transition costs is still not concrete, clouding the outlook on margins.

Ticker/Price	TECHM IN/Rs 777
Market cap	US\$ 9.6bn
Shares o/s	873mn
3M ADV	US\$ 26.4mn
52wk high/low	Rs 847/Rs 607
Promoter/FPI/DII	36%/39%/25%

Source: NSE

**STOCK PERFORMANCE**



Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	3,07,729	3,47,421	3,64,534	3,99,099	4,37,307
EBITDA (Rs mn)	47,169	63,368	60,937	70,631	81,078
Adj. net profit (Rs mn)	38,001	42,975	43,015	48,285	53,659
Adj. EPS (Rs)	42.7	47.7	48.9	54.8	60.9
Adj. EPS growth (%)	33.6	11.9	2.3	12.2	11.1
Adj. ROAE (%)	21.0	21.4	19.6	19.6	19.5
Adj. P/E (x)	18.2	16.3	15.9	14.2	12.8
EV/EBITDA (x)	14.0	10.6	11.1	9.3	7.7

Source: Company, BOBCAPS Research



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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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