

Stock Update Tech Mahindra Ltd.

Dec 17, 2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
IT Consulting & Software	Rs. 1652.65	Buy in the Rs. 1643-1663 band & add more on dips to Rs. 1490-1510 band	Rs. 1815	Rs. 1894	2 quarters

HDFC Scrip Code	TECMAH
BSE Code	532755
NSE Code	TECHM
Bloomberg	TECHM IN
CMP Dec 16, 2021	1652.65
Equity Capital (Rs Cr)	437
Face Value (Rs)	5.0
Equity Share O/S (Cr)	87.4
Market Cap (Rs Cr)	160372.8
Book Value (Rs)	281.8
Avg. 52 Wk Volumes	4928316
52 Week High	1666.9
52 Week Low	890.1

Share holding Pattern % (Sept, 2021)	
Promoters	35.7
Institutions	52.5
Non Institutions	11.8
Total	100.0



HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Tech Mahindra won net new deals worth US\$ 750mn in Q2FY22 vs. US\$ 815mn in Q1FY22 and US\$ 1,043mn in Q4FY21. Net new deal wins declined sequentially, but were well split between enterprise (up 7% QoQ at US\$ 495mn) and communications (down 27.6% QoQ at US\$ 255mn). Deal wins were aided by a large deal in the healthcare vertical and a large deal in the business process outsourcing space in the communications vertical. Tech Mahindra is seeing good traction in digital transformation among clients and its 5G deal pipeline continues to be strong. The company has a strong deal pipeline and has been constantly focusing on large deal wins and has been experiencing traction in 5G spend (on communication & enterprise side).

Order intake in telecom and communication, supported by automation, Infrastructure modernization, 5G, network and cloud has started inching up and may pick-up the pace starting from FY23 as a whole and this could be a key growth accelerator starting from FY22. Revival of growth in manufacturing, acceleration in Europe and cloud is expected to drive revenues.

The company is well invested in capturing opportunities from the expansion of 5G value chain across networks and IT services from both telecom service providers and enterprises. The company indicated that almost 60-70% of its new signings in the telecom segment will be in the area of 5G. Hence, we expect strong deal flow in the 5G space from telecom players and enterprises in the coming quarters, given its strong capabilities in product development and product engineering around 5G, building IPs, and sharpening focus on core digitalisation of underlying systems. The company's investments and multiple small acquisitions for enhancing capabilities in newer areas have resulted in consistent deal flows in the enterprise segment.

Tech Mahindra has a superior services mix and its multiple long-term contracts are spread across verticals. We see healthy traction in Communications and Enterprise verticals which will help the company in gaining strong revenue acceleration moving ahead. The company remains aggressive on delivering double-digit organic revenue growth in FY22, given broad-based demand, strong deal wins (USD3bn in LTM), improving win rates (2x growth) and steady progress on client mining.

We had issued [Stock Note](#) on 19 June, 2020, and [Stock Update](#) on 24 June, 2021 on Tech Mahindra Ltd. Given healthy growth outlook and strong set of numbers in Q2FY22, we have now revised earnings and increased target price for the stock.

Valuation & Recommendation:

Tech Mahindra is US\$ 5.1bn the company with 121,000 professionals across 90 countries and engaged in the business of providing IT solutions to various clients. The company has established capabilities across verticals – Communication and Enterprise (Manufacturing, BFSI, Technology, Media and Entertainment (TME), Retail, transport and logistics (RTL), healthcare etc.). The company provides technologies and solution to more than one thousand active clients (with a ~93% repeat business in Q2FY22 vs. ~96% in Q1FY22) spread across Americas,



Europe and rest of the world. Its leadership in communication vertical could make it a key beneficiary of vendor consolidation in the segment. It could also benefit from 5G, AI, digital, Cloud and Network Operation opportunities. Efficient operations, cost optimization and delivery automation will be the key focus areas going forward.

Tech Mahindra is benefitting from higher and faster adoption of cloud and digital. Revenue growth would not be driven by only CMT, which is benefitting from investment in 5G, but also the other 4 segments (Hi-tech, Manufacturing, BFSI and Healthcare & Life science) touching USD1bn+ in revenue in due course. Given strong Q2FY22 performance across verticals, geographies and services, strong deal wins, healthy deal pipeline, and broad-based growth across verticals, management believes there would be an upside potential to its earlier double-digit revenue growth guidance. Recent weakness in the Rupee could also act as a tailwind unless reversed quickly. **We believe the base case fair value of the stock is Rs 1815 (23x Sept FY23E EPS) and the bull case fair value of the stock is Rs 1894 (24x Sept FY23E EPS) over the next two quarters. Investors can buy in the Rs 1643-1663 band and add further on dips in the Rs 1490-1510 band (19x Sept FY23E EPS). At the LTP of Rs 1652.65, the stock is trading at 20.9x Sept FY23E EPS.**

Change in Estimates

Rs in Cr	FY22E		FY23E		FY24E
	Old	Revised	Old	Revised	New
Revenue	41522	44134	46544	51418	58744
EBIT	6267	6689	7173	7938	9289
APAT	5302	5565	5901	6509	7418
EPS	60.2	64.2	68.0	73.8	84.1

(Source: Company, HDFC sec)

Financial Summary (Consolidated)

Particulars (Rs Cr)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Total Operating Income	10881	9372	16.1	10198	6.7	37855	44134	51418	58744
EBITDA	1995	1703	17.2	1876	6.3	6847	8166	9579	10983
Depreciation	343	372	-7.7	331	3.6	1458	1477	1641	1695
Other Income	282	118	140.1	287	-1.8	736	1119	1003	940
Interest Cost	35	40	-11.3	38	-7.1	174	141	154	158
Tax	557	346	60.9	429	30.0	1600	2108	2389	2769
APAT	1339	1065	25.7	1353	-1.1	4506	5665	6509	7418
Diluted EPS (Rs)	15.2	12.1	25.7	15.3	-1.1	51.1	64.2	73.8	84.1
RoE-%						19.3	21.3	21.3	20.9
P/E (x)						32.4	25.7	22.4	19.7
EV/EBITDA (x)						19.6	16.3	13.7	11.7

(Source: Company, HDFC sec)



Q2FY22 Result Update

- Tech Mahindra numbers were above estimates in Q2FY22 led by all round performance across the verticals and services. The quarter recorded highest sequential growth in a decade, and remain committed to deliver long-term sustainable and profitable growth for the company. The company has expanded client engagement with large deal wins this quarter.
- Consolidated revenue grew by 6.7% QoQ and 16.1% YoY to Rs 10,881 crore, driven by healthy growth momentum across segments and geographies. Revenue in dollar terms grew by 6.4% sequentially and 16.4% YoY to US\$ 1,472.6mn and the revenue growth in constant currency terms stood at 7.2% QoQ.
- EBIT was up by 6.9% QoQ and 24.1% YoY to Rs 1,652 crore. Net Profit was up by 25.8% YoY to Rs 1,339 crore. On a sequential basis, profit fell 1%.
- On vertical front, Communications, media & entertainment business registered a 6.7% sequential growth in Q2FY22, manufacturing 3%, and technology at 8.4%, Banking, financial services insurance (BFSI) segment witnessed 6% QoQ growth, and retail, transport & logistics business revenue was up by 7.7% QoQ in Q2FY22.
- Geography wise, revenue from America increased by 8.9% sequentially, and Europe registered a 1.6% growth, whereas the rest of world grew by 15.7% in the quarter.
- IT attrition rate increased to 21% in Q2FY22 vs. 17% in Q1FY22 and 13% in Q4FY21. The total headcount stood at 141,193, net addition was 14,930 QoQ in the quarter.

Key Updates

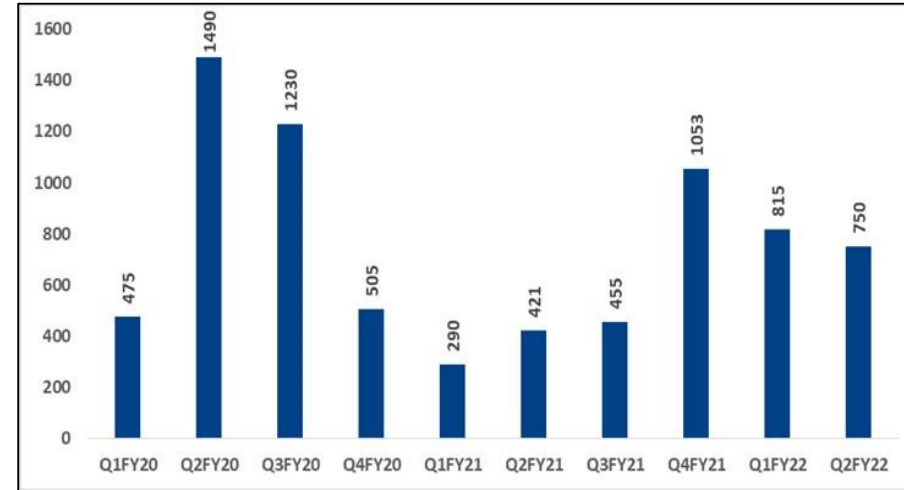
Strong deal momentum and adoption of 5G network services to drive growth

Tech Mahindra's net new deal TCVs has been remain significantly higher than the average quarterly deal wins of US\$ 400mn -500mn. Tech Mahindra added net new deals worth US\$ 750mn in Q2FY22 vs. US\$ 815mn in Q1FY22, of which US\$ 495mn/US\$ 255mn was in enterprise/Communications. The company added four new client in the US\$ 10mn category, 1 in US\$ 5mn plus bracket and 22 in the new clients in the US\$1 mn plus category in the quarter, total clients stood at 1123 as on 30 Sept, 2021 vs. 1058 as on 30 June vs. 1007 in Q4FY21.

Tech Mahindra is best placed among Indian IT companies to gain from the rising adoption of 5G standard by consumers and companies. Ericsson in its 20th edition Mobility Report projected that global 5G mobile subscriptions will exceed 580 million by the end of 2021 led by increased roll-outs in China, US and South Korea. 5G networks will be key in facilitating digital transformations across all sectors. Its ultrafast connectivity, low-latency and ultra-reliability offers businesses the ability to improve performance, transform their operations and reduce carbon emissions. Tech Mahindra is well-positioned to expand a fair share of 5G network services and the deal win trajectory has accelerated. The company is experiencing large-deal strategy and customer-led approach.



Deal Wins (US\$, Mn)



Communication vertical to generate revenue actively

Tech Mahindra’s Communications, Media, and Entertainment (CME) vertical continued to be an important vertical as well as growth driver. Overall CME vertical contributed ~50% of revenue in Q2FY22. 5G accounts for 20% of the CME business and ~50% of Network Services revenues. The company’s CME portfolio continues to be focused on the high-growth segments of Digital Transformation (44%), Network & 5G Services (32%), Business Process Services (13%), and Telecom Engineering Services (7%). On growth opportunity, the global 5G services market size to grow from USD 53.0 billion in 2020 to USD 249.2 billion by 2026, at a Compound Annual Growth Rate (CAGR) of 29.4% during the forecast period. 5G offers a huge addressable market of US\$ 712bn. The 5G ecosystem has witnessed strong growth (the highest growth rate on a low base).

Tech Mahindra’s focus on collaboration, acquisitions and investment in new gen technologies to generate revenue going forward

Tech Mahindra is focused on leveraging next-generation technologies including Blockchain, Cybersecurity, Artificial Intelligence, 5G and more, to disrupt and enable digital transformation, and to build cutting-edge technology solutions and services. Tech Mahindra could see improved spending on network operations, 5G, Cloud, AI and customer experience on the communication side in the longer term.

Tech Mahindra Ltd has collaborated with enterprises, academicians, and industry advisors to launch a cloud advisory board that will work towards accelerating and building a robust roadmap for cloud transformation. The constituents of the cloud advisory board have a total revenue of about \$2,285 billion and approximately spend \$200 billion on technology annually. The cloud advisory board will be a 30-member body with three regional chapters – Americas; Europe, Middle East & Africa (EMEA), and Asia Pacific (APAC) – representing some of the top organizations, experts, academicians, and industry advisors.



Tech Mahindra has partnered with StaTwig, a Singapore and Hyderabad-based digital supply chain solution provider, to implement vaccine traceability platform "VaccineLedger" globally. The companies aim to roll-out a blockchain-based traceability solution for global vaccine supply chain transparency, predict and prevent failures in supply chains, including problems related to expired vaccines, stock out and counterfeiting. VaccineLedger is an open source platform and designed to perform end-to-end traceability at vial level for vaccines in the global supply chain

On 01 July 2021, Tech Mahindra announced partnership with TAC Security, the global leader of risk & vulnerability management, to enable next-generation enterprise security for customers globally. The partnership will leverage artificial intelligence and user-friendly analytics to help measure, prioritize, and mitigate vulnerabilities across the entire IT stack.

On 30 Sept, 2021, Tech Mahindra Ltd partnered with the Cybersecurity Centre of Excellence, part of Data Security Council of India (CCoE-DSCI) to drive cybersecurity innovation ecosystem in India. The partnership is expected to provide an opportunity for startups to co-innovate and co-create business concepts and solutions with Tech Mahindra for key customers globally.

Mergers and acquisitions have been a vital part of Tech Mahindra's business strategy. Forming meaningful alliances helped in enhancing service offerings, enabling to emerge as a 'partner of choice'. Recently, Tech Mahindra has acquired several companies to boost its offering.

On 20 April, 2021, Tech Mahindra has acquired DigitalOnUS, a hybrid cloud and DevOps services provider, for US\$ 120 mn (about Rs 898 crore) to augment hybrid-cloud offerings for enterprise customers globally. Tech Mahindra has acquired 100% stake in the organisation to strengthen cloud-native development, hybrid cloud infrastructure and SRE (Site Reliability Engineering) automation.

On 26 April 2021, Tech Mahindra has acquired US-based Eventus Solutions Group for up to \$44 million (around Rs 330 crore). Tech Mahindra, through its wholly-owned subsidiary - Tech Mahindra (Americas) Inc, has approved the proposal to acquire 100% equity shares in Eventus Solutions Group, LLC. The acquisition will strengthen consulting capabilities in customer experience (CX) and customer management space and will enable Tech Mahindra to build an industry leading consulting practice and move up the value chain in the BPS business. Eventus has more than 100 employees. Its revenue stood at\$ 33.2 million in 2020.

On 04 Oct, 2021 Tech Mahindra acquired IT consultancy service provider Beris Consulting GmbH for 7 million euros or about Rs 60 crore through its German subsidiary. Beris has over 125 employees and the company had revenues of 10.1 million euros for the financial year ended December 31, 2020. The company through its wholly owned subsidiary viz., Tech Mahindra GmbH, approved the proposal to acquire 100 per cent equity shares in Beris consulting GmbH.



On 25 Oct, 2021, Tech Mahindra Ltd has acquired two companies – US-based Infostar LLC (Lodestone) and London-based We Make Websites Ltd (WMW), for \$105 million and 9.4 million pounds (approx. \$13 million) respectively to strengthen its digital portfolio. Lodestone is a leading digital engineering quality assurance provider for new age digital companies. The company has more than 300 employees and generated revenue of \$43.3 million for the year ending 30 December, 2020. WMW is focused on website building and migration services on the Shopify Plus platform and has 43 employees in the UK and US.

On 04 Nov, 2021, Tech Mahindra has acquired 100% stake in Activus Connect, which provides work-at-home customer experience management solutions, for \$62 million (about Rs 466 crore). The acquisition is expected to bolster its capabilities in emerging workplace solutions and strengthen its end-to-end customer experience portfolio.

Besides, Tech Mahindra is looking for acquisitions in Europe to upgrade its capabilities in various segments, including cloud computing, 5G, SAP and Salesforce software. Tech Mahindra is also planning to add around 250 people in next 18-24 months in the Nordic region to support its growth. Tech Mahindra has over 3,500 workforce in Continental Europe including Nordic Region. This will significantly enhance local presence in the markets and create significant synergies which can help bring next-generation solutions to customers.

Collaboration with IBM to jointly develop solutions and the expecting to generate US\$ 1bn in revenue ecosystem together over the next three years

Tech Mahindra Ltd and IBM Corp. have partnered at the end of FY21 to jointly develop solutions for clients and Tech Mahindra is expecting to generate US\$1 bn in revenue jointly over the next three years. The two companies have been in a global partnership for more than two decades, will work on five strategic focus areas comprising 5G, automation, hybrid cloud, cyber security, data and artificial intelligence (AI). The companies will also co-invest in centres of excellence and innovation centres in India, south Asia, and the US.

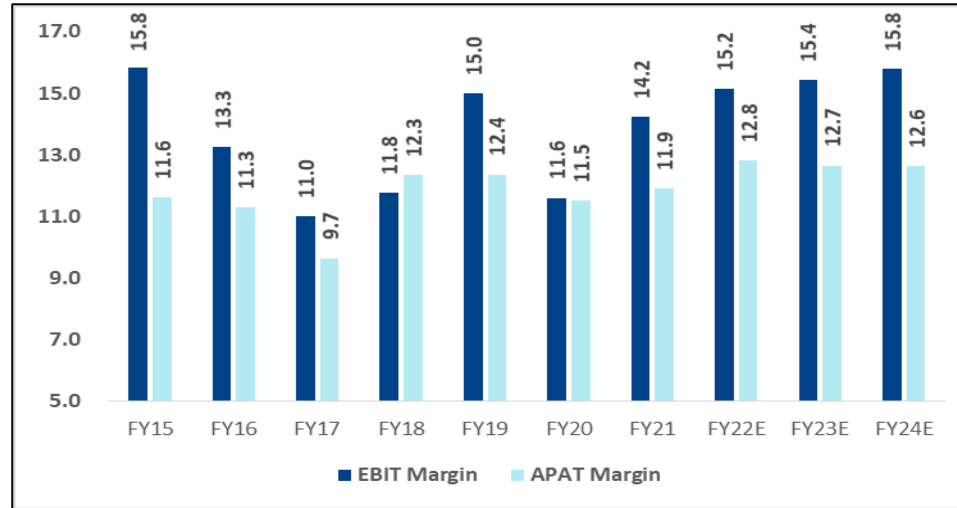
The partnership is aimed at expanding access to more clients, thus increasing the overall size of the market. About 40% of the revenue will be driven by telecommunications and 5G, powered by hybrid cloud, while 60% will be from other industries.

Margins ramp up led by operational efficiencies

Tech Mahindra EBIT margin was unchanged QoQ and it expanded 100bps YoY to 15.2% in Q2FY22, supported by strong revenue growth. PAT margin slipped to 12.3% in Q2FY22 vs. 11.4% in Q2FY21 and 13.3% in Q1FY22. Despite concerns like wage hikes (effective April 2021), higher recruitment expenses, higher travel cost in FY22, retention pay to niche talent, increased fresher's hiring, the company could achieve 15%+ EBIT margin in FY22E and FY23E. We expect these headwinds to be offset by delivery transformation, operating leverage, operational efficiencies, automation, and digitisation of assets across IT services and BPS segments and portfolio synergies.



Margins (%)

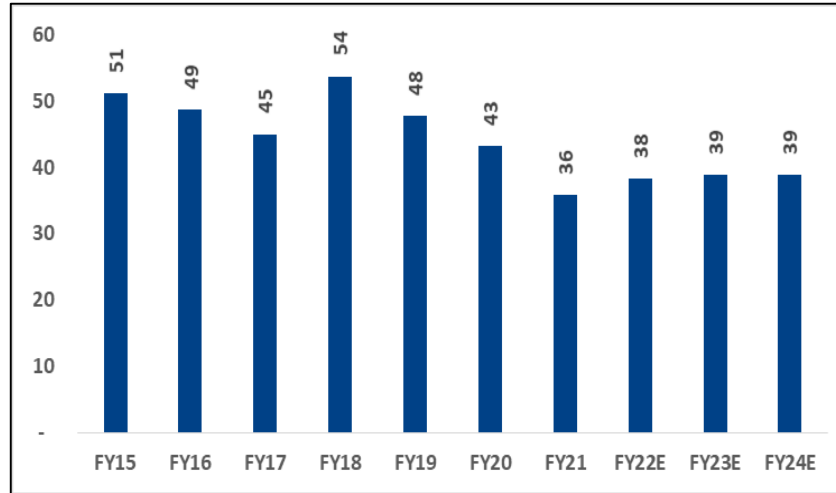


Strong fundamentals led by healthy debt protection metrics and liquidity

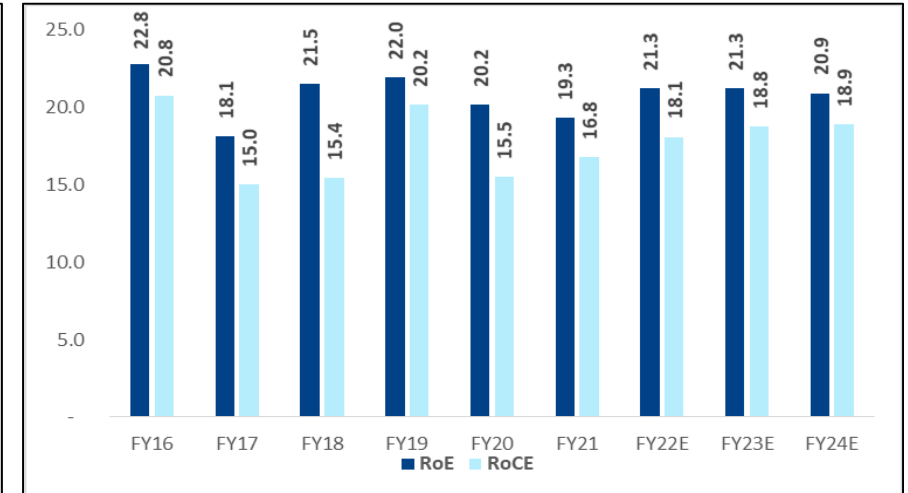
- The company has reported stable and strong revenue growth in the past. The company total revenue grew at a CAGR of 10.5% over the past seven years. We expect consolidated revenue to grow by 16.8%/16.5%/ 14.2% in FY22E/FY23E/FY24E, respectively.
- The company has reported operating margin at 15-18.5% band over the past and we expect 18.5%/18.6%/18.7% in FY22E/FY23E/FY24E, respectively, supported by cost rationalisation efforts, and operational efficiencies.
- Healthy cash flow generation has helped to reduce its debt levels and reliance on external borrowings to fund its working capital as well as capital expenditure programs. As on March 31, 2021, overall gearing stood at 0.1x. Interest coverage stood at 31x in FY21 vs. 22.3x in FY20. We expect that the company to maintain its robust debt servicing ability in the medium term backed by strong liquidity position, consistent cash accruals, and limited debt requirements.
- The company has substantial financial flexibility on account of its strong liquidity position with free cash and cash equivalents. Cash and Cash Equivalent stood at US\$ 1626 mn (Rs 12,066 crore) as on 30 Sept, 2021 and Free cash flow at \$ 188 mn, conversion to PAT at 103.8%.
- The net working capital cycle was moderate and reduced to 36 days in FY21 vs. 43 days in FY20 due to the decrease in debtor days.
- We expect the FCF to remain positive, going forward, even after factoring in annual capex. Because of cost rationalization efforts, the company could see growth in profitability as well as better return ratios in the future.
- Rise in net profit margin could help to increase its return ratios, we expect RoE at ~21% and RoCE at 18-19% over the FY22E to FY24E.
- The company recommended a final dividend of Rs 45/ per share to shareholders for the FY21 including Rs 30 per share as a special dividend, dividend yield stood 2.7%. The company recently announced a special dividend of Rs 15 per share (F.V at Rs 5/Share) for FY22.



Working Capital Cycle (Days)



Return Ratio (%)



What could go wrong?

- Indian rupee appreciation against the USD, pricing pressure, retention of the skilled headcounts, strict immigration norms and rise in visa costs are key concerns.
- Slowdown in 5G spends could impact its growth rate.
- Slowdown in Europe could also impact its growth trajectory.
- Circulation of new COVID variant Omicron across the geographies could impact its operations going forward and steep decline in revenues or sustained deterioration in margin can impact revenues and cash generation.
- Tech Mahindra has to constantly compete with Indian IT majors such as TCS, Infosys, HCL Tech, Cognizant, and Wipro; and also global players such as IBM, Accenture, and Computer Sciences Corporation.
- Tech Mahindra's presence in a highly competitive industry leads to pricing pressure, deal re-negotiations and deferrals and hence can impact company's growth and profitability.
- Unsustainable high utilisation rates are reasons for worry. The attrition rate remained higher at 21% for Q2FY22 vs 17% in Q1FY22.
- Impact of on-going investigations and legal proceedings by various regulators and investigating agencies in respect of financial irregularities pertaining to erstwhile Satyam Computers Ltd and the ability to improve operating margins amongst rising direct costs could impact its equity as well as brand value going forward. However, the company has already provided for Rs 1,230 crore for contingency.
- Any reputation loss on account of breach in compliance can impact the growth prospects and new order inflows.



Operating Metrics

Vertical split

(% of revenue)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Telecom	42	41	43	41	40	40.2	40	40	40	40.1
Manufacturing	19	18	17	18	17	16.3	16	16	16.5	16.0
BFSI	13	13	13	15	16	8.9	16	17	8.8	9.0
Others	12	13	12	12	11	16.4	11	11	16.4	16.3
Technology, Media & Entertain-	8	8	8	7	9	10.5	9	9	7.7	7.8
Retail, Transport & Logistics	6	7	7	7	7	7.7	8	8	10.6	10.8
Total	100	100	100	100	100	100	100	100	100	100

Geographical split

(% of revenue)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Americas	47.6	48.5	48.4	47.7	49.3	48.4	46.8	45.5	46.7	47.8
Europe	27.6	26.7	27	26.5	25.8	25.2	26.4	26.5	27.2	25.9
Rest of the World	24.8	24.8	24.6	25.8	24.9	26.4	26.8	28	26.1	26.3
Total	100	100	100	100	100	100	100	100	100	100

Headcount, utilisation data

(Nos.)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Total headcount	125773	131522	130839	125236	123416	124258	121901	121054	126263	141193
Software employees	74093	72597	73079	71515	71020	69512	68734	68427	69877	76800
BPO employees	45000	52193	50886	46816	45554	48462	46832	46125	49668	57058
Sales & Support	6680	6732	6874	6905	6842	6284	6335	6502	6718	7335
Net additions	4691	5749	-683	-5603	-1820	842	-2357	-847	5209	14930
IT attrition (%)	21	21	20	19	17	14	12	13	17	21
Utilisation including trainees (%)	80	82	84	83	82	85	87	87	88	87
Utilisation excluding trainees (%)	82	83	85	84	82	85	87	87	89	89

Onsite-offshore break-up (IT services)

(% of revenue)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Onsite	65	65	65	65	64	63	63	63	62	61
Offshore	35	35	35	35	36	37	37	37	38	39



Client metrics

(Nos.)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
No of active clients	941	946	964	973	981	988	997	1007	1058	1123
% of repeat business	97.7	94.8	91.2	86.1	97	95	94	92	96	93

Peer Comparison

Company, Rs in Cr	Mkt Cap, Cr	Sales			EBIT			PAT			ROE-%			P/E (x)		
		FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Infosys	752265	119909	138168	154198	28055	31997	36238	21874	25617	28573	30.3	35.9	36.4	33.8	28.9	25.9
Wipro	454474	78681	89459	99794	13161	15441	18707	12216	13654	16455	20.9	21.0	22.7	28.8	25.8	21.4
HCL Tech	312071	84406	96985	109572	16384	19905	22628	13324	16104	18468	21.0	22.6	22.9	23.4	19.4	16.9
Tech Mahindra	160373	44134	51418	58744	6689	7938	9289	5665	6509	7418	21.3	21.3	20.9	25.7	22.4	19.7



Financials (Consolidated)

Income Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	36868	37855	44134	51418	58744
Growth (%)	6.1	2.7	16.6	16.5	14.2
Operating Expenses	31142	31008	35969	41839	47761
EBITDA	5726	6847	8166	9579	10983
Growth (%)	-9.6	19.6	19.3	17.3	14.7
EBITDA Margin (%)	15.5	18.1	18.5	18.6	18.7
Depreciation	1446	1458	1477	1641	1695
EBIT	4280	5389	6689	7938	9289
Other Income	975	736	1119	1003	940
Interest expenses	192	174	141	154	158
PBT	5063	5952	7667	8787	10071
Tax	1160	1600	2108	2389	2769
RPAT	3903	4352	5559	6398	7301
Minority Int-& Share of JV/Asso-Exceptional Item	-130	-103	-106	-111	-117
APAT	4251	4506	5665	6509	7418
Growth (%)	-1.1	6.0	25.7	14.9	14.0
EPS	48.3	51.1	64.2	73.8	84.1

Balance Sheet

As at March	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	436	437	437	437	437
Reserves	21377	24428	27974	32365	37664
Shareholders' Funds	21813	24865	28411	32802	38101
Long Term Debt	179	166	166	166	166
Net Deferred Taxes	-844	-913	-986	-1065	-1150
Long Term Provisions & Others	4043	3990	4266	4570	4904
Minority Interest	393	380	380	380	380
Total Source of Funds	25584	28487	32236	36851	42400
APPLICATION OF FUNDS					
Net Block & Goodwill	8872	9019	9257	9532	9851
CWIP	50	118	118	118	118
Other Non-Current Assets	2852	2510	2751	3015	3305
Total Non Current Assets	11774	11647	12126	12666	13274
Inventories	36	24	24	24	24
Trade Receivables	7577	6473	7860	9297	10783
Cash & Equivalents	8997	13073	14221	16333	19156
Other Current Assets (inc Misc Exp)	6799	6261	6984	7816	8710
Total Current Assets	23408	25831	29089	33470	38673
Short-Term Borrowings	2250	1496	1496	1496	1496
Trade Payables	3257	2785	2781	3099	3380
Other Current Liab & Provisions	5420	5997	6104	6218	6338
Total Current Liabilities	10926	10278	10381	10813	11214
Net Current Assets	12483	15554	18708	22657	27459
Misc Expenses	1327	1287	1402	1528	1666
Total Application of Funds	25584	28487	32236	36851	42400

(Source: Company, HDFC sec)



Cash Flow Statement

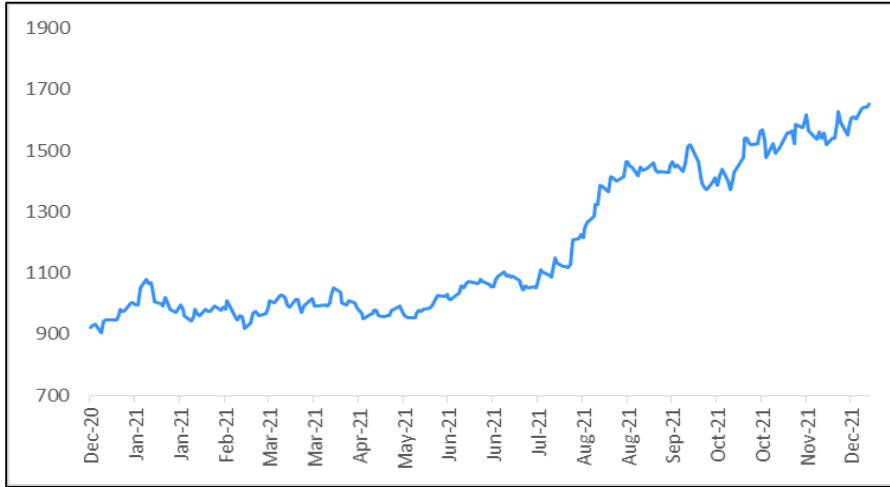
(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	5,281	6,003	7,667	8,787	10,071
Non-operating & EO items	-520	311	-732	-632	-637
Interest Expenses	192	174	141	154	158
Depreciation	1,446	1,458	1,477	1,641	1,695
Working Capital Change	-522	1,564	-2,122	-1,964	-2,117
Tax Paid	-1,513	-1,415	-2,108	-2,389	-2,769
OPERATING CASH FLOW (a)	4,364	8,094	4,323	5,596	6,400
Capex	-1,377	-1,707	-1,715	-1,947	-2,193
Free Cash Flow	2,986	6,387	2,608	3,649	4,207
Investments	0	0	0	0	0
Non-operating income	520	-311	1,119	1,003	940
INVESTING CASH FLOW (b)	-857	-2,017	-595	-944	-1,253
Debt Issuance / (Repaid)	193	-795	0	0	0
Interest Expenses	-192	-174	-141	-154	-158
FCFE	2,988	5,418	2,467	3,496	4,049
Share Capital Issuance	-1,741	57	0	0	0
Dividend	-2,492	-1,759	-2,119	-2,119	-2,119
FINANCING CASH FLOW (c)	-4,231	-2,671	-2,260	-2,272	-2,277
NET CASH FLOW (a+b+c)	-725	3,405	1,468	2,380	2,870

Key Ratios

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Profitability Ratio (%)					
EBITDA Margin	15.5	18.1	18.5	18.6	18.7
EBIT Margin	11.6	14.2	15.2	15.4	15.8
APAT Margin	11.5	11.9	12.8	12.7	12.6
RoE	20.2	19.3	21.3	21.3	20.9
RoCE	15.5	16.8	18.1	18.8	18.9
Solvency Ratio (x)					
Net Debt/EBITDA	0.4	0.2	0.2	0.2	0.2
Net D/E	0.1	0.1	0.1	0.1	0.0
Per Share Data (Rs)					
EPS	48.3	51.1	64.2	73.8	84.1
CEPS	64.6	67.6	80.9	92.4	103.3
BV	247.2	281.8	322.0	371.8	431.9
Dividend	24.2	45.0	24.0	24.0	24.0
Turnover Ratios (days)					
Debtor days	75.0	62.4	65.5	65.5	65.5
Inventory days	0.4	0.2	0.3	0.3	0.3
Creditors days	32.2	26.9	27.5	27.0	27.0
Valuation (x)					
P/E	34.2	32.4	25.7	22.4	19.7
P/BV	6.7	5.9	5.1	4.4	3.8
EV/EBITDA	24.3	19.6	16.3	13.7	11.7
EV / Revenues	3.8	3.6	3.0	2.6	2.2
Dividend Yield (%)	1.5	2.7	1.5	1.5	1.5
Dividend Payout (%)	50.1	88.1	37.4	32.5	28.6



One Year Price Chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



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