

TECH MAHINDRA LTD

Result Update

CMP	524
Target Price	620
Previous Target Price	-
Upside	18%
Change from Previous	-

Market Data

BSE Code	532755
NSE Symbol	TECHM
52wk Range H/L	2,998 / 458
Mkt Capital (Rs Cr)	50,619
Av. Volume	64986
Nifty	7741

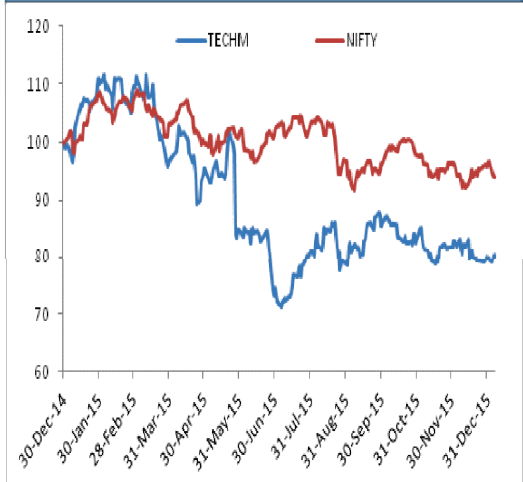
Stock Performance

	1Month	3 Month	1Year
Absolute	-3.76	-1.7	-17.5
Rel.to Nifty	-3.4	-1.8	-15.7

Share Holding Pattern-%

	2QFY16	1QFY16	4QFY15
Promoters	36.7	36.7	36.7
FII	37.0	34.2	37.5
DII	12.1	13.9	10.4
Others	14.3	15.2	15.4

Company Vs NIFTY



Valuation :

Tech Mahindra reported encouraging set of Q2FY16 earnings with both revenue and margins. This is driven by enterprise business, acquisitions, order bookings and large deal ramp-ups. Pininfarina acquisition will dilute earnings because it has been loss making for past few years. However Techm has strong demand transaction in Telecom (Non BT) and healthy deal win ratios make us optimistic view on the stock. At a CMP of 524, the stock is trading at 19.5 X FY2016E EPS. We maintain "BUY" at target price of 620.

Recent Acquisition :

Tech Mahindra and the parent company M&M was announced the acquisition of 76% stake in Pininfarina, an Italian auto designing and engineering services firm, through a SPV for 25 mn euro. The SPV would be owned 60% by Techm & 40% by M&M. Rest 24% stake would make an open offer for EUR 8 mn. The SPV would infuse EUR 20mn into Pininfarina via a rights issue before the end of 2016. The management expected that Pininfarina acquisition will bolster the Mahindra Engineering Services capabilities. It has been loss making for past few year. It had net debt of EUR 48 mn at end-September 2015. The acquisition will dilute earnings.

Q2FY16_Result Update

Tech Mahindra reported pretty good Q2 earning. The revenue grew by 3% of the constant currency led by telecom vertical which grew by 3% of constant currency. EBITDA margin grew by 170 bps to 16.6% QoQ. The factor responsible for improved EBITDA margin are INR depreciation by 60bps, improvement of utilization, 80 bps due to lower visa costs. Profits after tax for the quarter were Rs.786 crores or around US\$ 119 million, up 16.4%. PAT margin improved because of higher other income, lower taxes, DSO decreased sequentially by 5 days.

Top client Matrix:

Top-5 and top-10 clients declined by 0.9% and 0.1% QoQ, respectively. Top 11-20 customer growth continues 2.2% QoQ. The active client stood at 788 versus 770 in QoQ. The number of \$20 million client & \$5 million client remained flat and \$10 million client increased by 2 (from 60 to 62).

Financials	FY12	FY13	FY14	FY15	FY16E
Sales	5490	6873	18831	22621	27307
EBITDA	919	1424	4184	4153	4443
Net Profit	1096	1288	3029	2628	3003
EBITDA%	16.7%	20.7%	22.2%	18.4%	16.3%
P/E	2.1	2.6	3.5	23.0	19.8

(Source: Company/Eastwind)

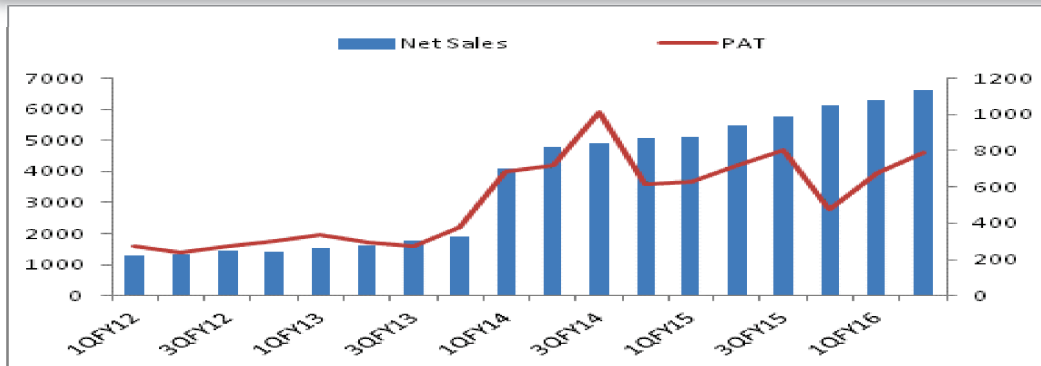
Employee Matrix :

Tech Mahindra hired around 1576 employee in Q2FY16 with total overall headcount around 105235. The BPO head count increased by 2119 and stand around 26513 . But software headcount remained flat. Attrition (on LTM basis) was at 20%. Utilization (ex trainee) was 79%, up 400 bps QoQ.

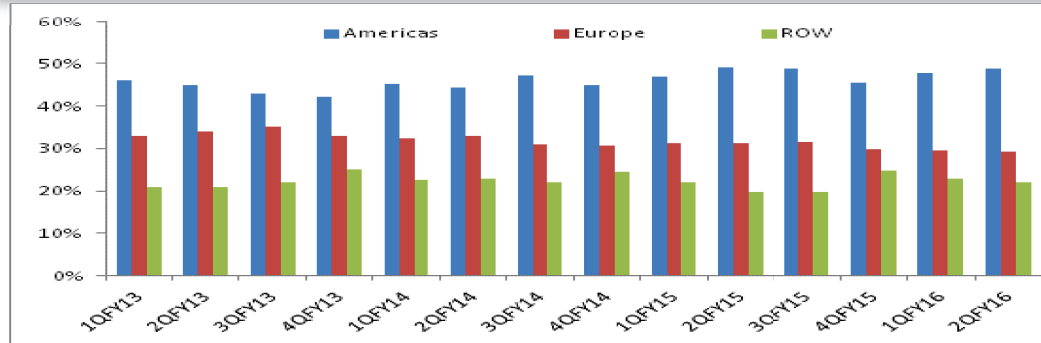
Hedging Details :

The company has outstanding hedges worth USD1,505mn at an average rate of INR68.5, and GBP167 mn at an average rate of INR 105.8.

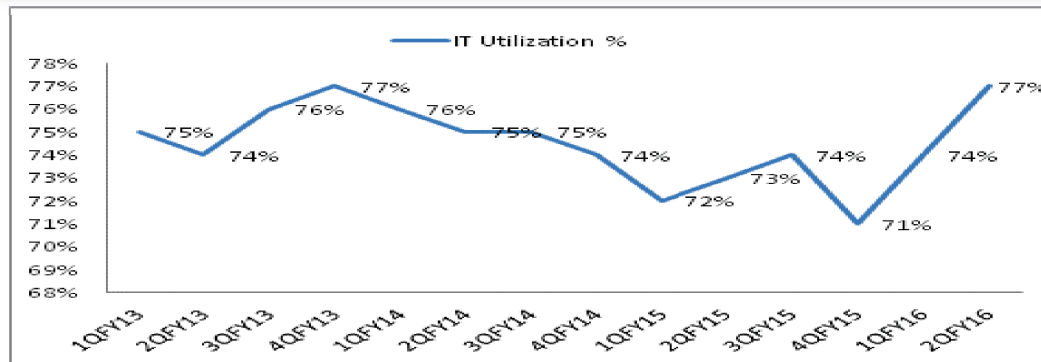
Revenue & PAT Trend :



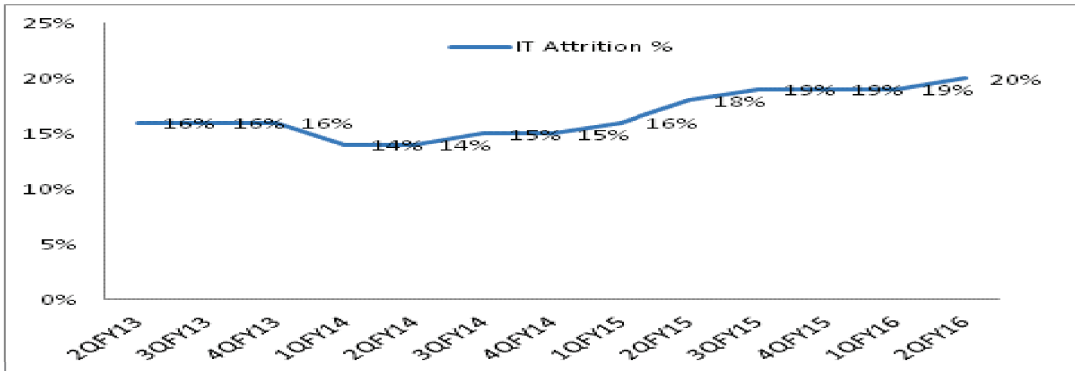
Revenue By Geography %:



Utilization Trend:



IT Attrition :



Operating Performance Highlight :

From Geography perspective, Company grew by 4.6% QoQ in US for Comversal deal . The Company observed steady growth of 1.9% QoQ in Europe . In the rest of the world it experienced flat growth in constant currency.

Enterprise business comprises of technology, media, entertainment vertical grew by 3.1% QoQ & 13.1% YoY. The manufacturing vertical declined by 0.2% QoQ and BFSI also declined by 1.9% QoQ .

Key takeaways from Conference call

- > Management is optimistic in verticals like Manufacturing, BFS as large deal transactions in this segment are expected in H2FY16.
- > Company won deals worth TCV of US\$300 mn in Q2FY16 with ~60% of deals in Enterprise Segment while rest in Telecom. Company added one customer in \$50 million category. Management highlighted that deals in pipeline are healthy with 4-5 large telecom deals in pipeline.
- > Company is in the process of discontinuing certain projects of LCC which are value destructive (negative margin) and US\$ 15 to 20 million may decline FY16 LCC's revenue due to this.
- > Company expects ~Rs 2,000 mn investment for payment bank which will be contributed by both TechM and Mahindra Finance.

View & Valuation :

Techm reported encouraging set of Q2FY16 earnings with both revenue and margins . This is driven by enterprise business, acquisitions, order bookings and large deal ramp-ups . Pininfarina acquisition will dilute earnings because of it has been loss making for past few year but Company has strong demand traction in Telecom (Non BT) and healthy deal win ratios make us optimistic view on the stock .At a CMP of 524, the stock is trading at 19.5 X FY2016E EPS . We maintain " BUY" at target price of `620 .

Financials Snap Shot

INCOME STATEMENT					RATIOS				
	FY13	FY14	FY15	FY16E		FY11	FY12	FY13	FY14
Revenue (Net of Excise D	6873	18831	22621	27307	EPS	100.5	129.7	27.3	31.3
Other Income	-75	113	106	402	Book Value	423.5	393.2	127.5	152.1
Total Revenue	6798	18944	22728	27709	DPS	10.5	23.4	6.0	6.9
COGS	0	0	0	0	Payout (incl. Div. Tax.)	10%	18%	22%	22%
GPM	0	0	0	0	Valuation(x)				
Other Expenses	1115	3201	2824	3716	P/E	2.6	3.5	23.0	19.8
EBITDA	1424	4184	4153	4443	Price / Book Value	0.6	1.1	4.9	4.1
EBITDA Margin (%)	21%	22%	18%	16%	Dividend Yield (%)	3.98%	5.21%	0.95%	1.11%
Depreciation	200	522	611	765	Profitability Ratios				
EBIT	1224	3662	3541	3677	RoE	24%	33%	21%	21%
Interest	103	80	30	64	RoCE	21%	40%	29%	25%
PBT	1047	3695	3618	4015	Turnover Ratios				
Tax	236	752	960	990	Asset Turnover (x)	0.8	1.2	1.1	1.2
Tax Rate (%)	23%	20%	27%	25%	Debtors (No. of Days)	103.1	84.3	84.0	90.5
Reported PAT	1288	3029	2628	3003	Inventory (No. of Days)	0.6	0.2	0.4	0.3
Dividend Paid	135	546	576	659	Creditors (No. of Days)	34.0	28.5	33.2	31.9
No. of Shares	13	23	96	96	Net Debt/Equity (x)	0.06	0.00	0.00	0.00
Souce: Eastwind/Company					Souce: Eastwind/Company				

BALANCE SHEET									
	FY13	FY14	FY15	FY16E		FY13	FY14	FY15	FY16E
Share Capital	128	234	480	480	OP/(Loss) before Tax	1047	3695	3618	4015
Reserves	5297	8947	11768	14135	Depreciation	200	522	611	765
Net Worth	5425	9181	12249	14616	Direct Taxes Paid	341	1094	1073	990
Long term Debt	300	19	46	46	Operating profit before w	1227	4302	4332	4768
Short term Debt	780	33	629	33	CF from Op. Activity	855	1593	2397	3314
Deferred Tax	0	0	0	0					
Total Capital Employed	5725	9200	12295	14662	Capital expenditure on fix	179	940	1123	1340
Net Fixed Assets	938	2297	2872	3447	CF from Inv. Activity	783	641	2080	1340
Capital WIP	34	266	568	0	Repayment of Long Term	0	2	577	0
Debtors	1704	4349	5206	6767	Interest Paid	102	97	64	64
Cash & Bank Balances	536	3315	2405	3131	Divd Paid (incl Tax)	59	136	550	659
Trade payables	640	1472	2059	2388	CF from Fin. Activity	65	972	790	1318
Total Provisions	523	1681	2209	2389	Inc/(Dec) in Cash	138	21	473	656
Net Current Assets	1154	6000	7173	8465	Add: Opening Balance	239	537	1452	2405
Total Assets	8984	15940	19848	23186	Closing Balance	538	2780	1206	3061
Souce: Eastwind/Company					Souce: Eastwind/Company				