

Tech Mahindra

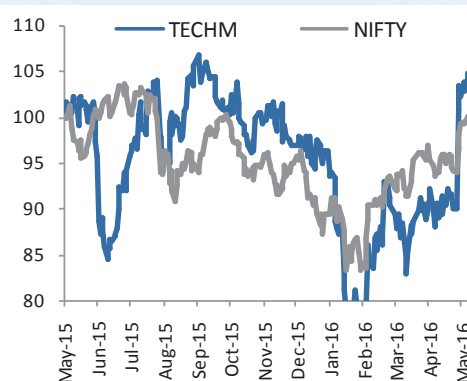
| Result Update | |
|-----------------------|-----|
| CMP | 539 |
| Target Price | 645 |
| Previous Target Price | - |
| Upside | 20% |
| Change from Previous | - |

| Market Data | |
|---------------------|--------------|
| BSE Code | 532755 |
| NSE Symbol | TECHM |
| 52wk Range H/L | 582.0/407.40 |
| Mkt Capital (Rs Cr) | 525.46B |
| Av. Volume | 381566 |
| Nifty | 8221 |

| Stock Performance | | | |
|-------------------|--------|---------|-------|
| | 1Month | 3 Month | 1Year |
| Absolute | 14.9 | 0.4 | 0.8 |
| Rel.to Nifty | 10.4 | 0.6 | 2.1 |

| Share Holding Pattern-% | | | |
|-------------------------|--------|--------|--------|
| | 2QFY16 | 3QFY16 | 4QFY16 |
| Promoters | 36.65 | 36.5 | 36.4 |
| Public | 63.35 | 63.4 | 63.48 |
| Others | | | |
| Total | 100.0 | 100.0 | 100.0 |

Company Vs NIFTY



Tech Mahindra acquire 100% stake in TARGET Group in UK.

Industry : BFSI

Purchase consideration : GBP 112 MN (Rs 1102.64 cr)

Transaction expected to close in 2QFY17

Revenue : In CY15 - GBP 51 Mn (497.68 Cr)

CY14 - GBP 45.7 Mn (448.6)

The acquisition will also enable Techm to strengthen its presence in europe also. Expected it to contribute from 3QFY17, Revenue around \$20 mn per quarter.

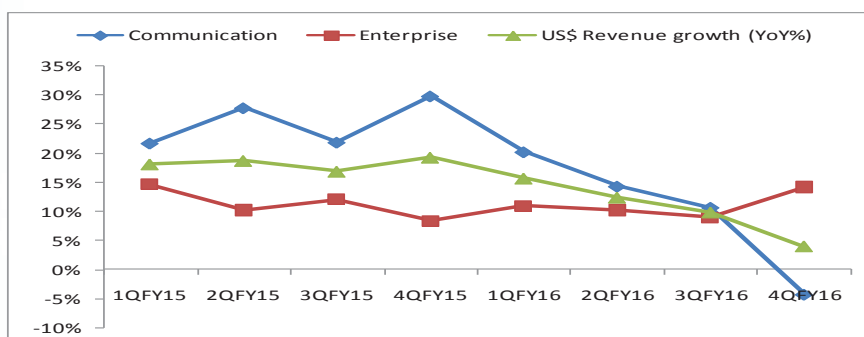
4QFY16 Result :

Tech Mahindra's Q4FY16 revenue at USD1,023mn (up 0.8% QoQ), while EBDITA margin at 16.9% was slightly above it on account of lower sub-contracting cost and sharp employee cut.

TECHM's telecom vertical posted flat revenue QoQ and Enterprise business revenue grew 1.6% QoQ in USD.

Management is more optimistic on the core telecom business based on customer discussions. It expects LCC to stabilise over the next few quarters, while the enterprise business is solid.

As we see from below graph that enterprise business grew YoY while telecom business fall YoY.



Outlook & Valuation :

We expect that in future revenue can be grow from recent acquisition and management guidance. Management expect that margins can be dilutive in near future. So we give BUY at Rs 645.

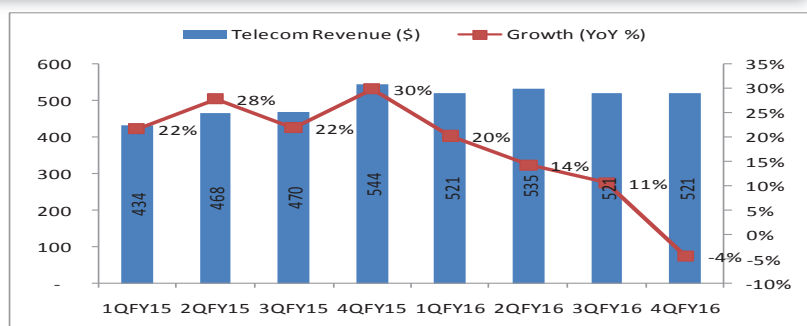
| | Rs Crore | | | | |
|------------|----------|-------|-------|-------|-------|
| Financials | FY13 | FY14 | FY15 | FY16 | FY17E |
| Sales | 5490 | 6873 | 18831 | 22621 | 26494 |
| EBITDA | 1424 | 4184 | 4153 | 4318 | 4316 |
| Net Profit | 1288 | 3029 | 2628 | 3118 | 2842 |
| EBIDTA% | 20.7% | 22.2% | 18.4% | 16.3% | 15.1% |
| P/E | 2.6 | 3.5 | 23.0 | 14.9 | 19.9 |

(Source: Company/Eastwind)

Revenue by key verticals :

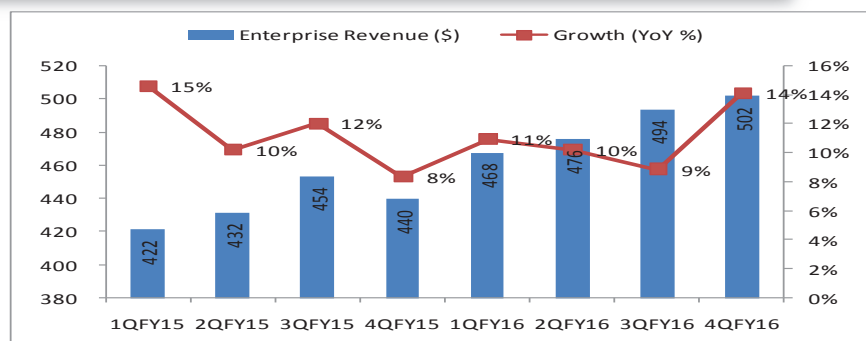
| Revenue By Vertical USD (In mn) | 1QFY15 | 2QFY15 | 3QFY15 | 4QFY15 | 1QFY16 | 2QFY16 | 3QFY16 | 4QFY16 | 1QFY17E | 2QFY17E | 3QFY17E | 4QFY17E |
|-------------------------------------|------------|------------|------------|------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total Communication | 434 | 468 | 470 | 544 | 521 | 535 | 521 | 521 | 516 | 510 | 505 | 500 |
| Communication from USD | 151 | 172 | 170 | 248 | 225 | 241 | 243 | 248 | 243 | 243 | 243 | 243 |
| >>LCC | | | | 100 | 120 | 117 | 115 | 117 | 115 | 115 | 115 | 115 |
| >>Others | 151 | 172 | 170 | 148 | 105 | 124 | 128 | 131 | 128 | 128 | 128 | 128 |
| Communication from GBP | 139 | 145 | 138 | 127 | 131 | 128 | 116 | 110 | 108 | 102 | 97 | 92 |
| Communication from Euro | 87 | 93 | 109 | 124 | 116 | 119 | 115 | 116 | 119 | 119 | 119 | 119 |
| Communication from AUD | 57 | 58 | 54 | 45 | 49 | 45 | 48 | 46 | 47 | 47 | 47 | 47 |
| Enterprise USD | 422 | 432 | 454 | 440 | 468 | 476 | 494 | 502 | 515 | 528 | 541 | 554 |
| >>Sofgen | | | | | 9 | | | | | | | |
| Total Revenue in USD (In mn) | 855 | 900 | 924 | 984 | 989 | 1,011 | 1,015 | 1,023 | 1,031 | 1,038 | 1,066 | 1,075 |

Telecom vertical revenue and growth :



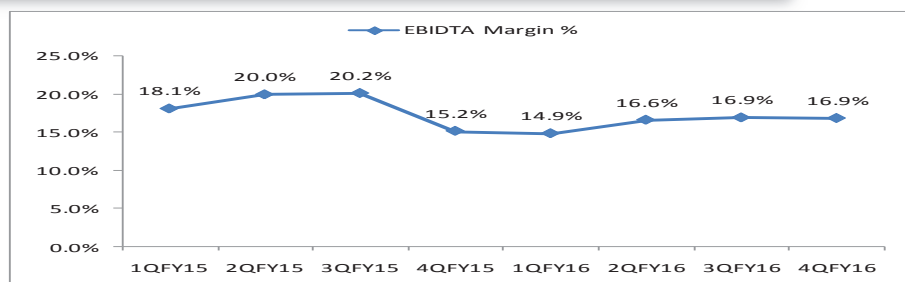
Communication business start falling when LCC acquire.

Enterprise vertical revenue and growth :



Management indicated that it expects enterprise segment to continue to grow in line with the industry.

EBITDA Margin trend (%)



Management outlook :

- >> Outlook for 1QFY17: Management indicated weak revenue growth (possibly decline) in June quarter due to seasonal weakness in Comviva business. Adjusted for Comviva seasonality, it expects revenues to grow qoq in 1Q.
- >> Tax rate: TechM effective tax rate declined to 14.6%, down 860 bps qoq. Effective tax rate in FY2016 was 21.4%, down 500 bps yoy. Lower tax rate was attributable to higher sales and better profitability from SEZ units, utilization of DTAs and accumulated losses of TechM business services and LCC respectively. The management has guided tax rate of 23-24% for FY2017.
- >> Other income in the March quarter was US\$24.7 mn as against US\$9.6 mn in the December quarter due to forex gain of US\$9.6 mn as against loss of US\$1.5 mn in 3Q.
- >> TM has paid `12/share as dividend, which includes `6/share to celebrate 10 years of listing.

Key Triggers :

- >> Large deal announcements in enterprise segment
- >> Recovery in Telecom growth
- >> Sustained margin improvement on account of measures taken

Key Risk :

- >> Deterioration in cash conversion
- >> INR appreciation given higher sensitivity to earnings v/s peers
- >> Slowdown in Enterprise dragged by Oil & Gas / BFSI

Company description:

Tech Mahindra Limited (Tech Mahindra or TechM) is an India-based information technology (IT) provider. The Company offers information technology services and solutions. It operates in two business segments: Information Technology (IT) Business and Business Processing Outsourcing (BPO). It provides solutions and services across verticals with its principal operations in the United Kingdom, United States, Germany, the United Arab Emirates, Egypt, Singapore, India, Thailand, Taiwan, Malaysia, Philippines, Canada and Australia. It has a global foot print with around 40 sales offices and 72 delivery centers in approximately 51 countries around the world.

Financials Snap Shot

| | INCOME STATEMENT | | | |
|--------------------------|------------------|-------|-------|-------|
| | FY13 | FY14 | FY15 | FY16 |
| Revenue (Net of Excise D | 6873 | 18831 | 22621 | 26494 |
| Other Income | -75 | 113 | 106 | 557 |
| Total Revenue | 6798 | 18944 | 22728 | 27051 |
| COGS | 0 | 0 | 0 | 0 |
| GPM | 0% | 0% | 0% | 0% |
| Other Expenses | 1115 | 3201 | 2824 | 3732 |
| EBITDA | 1424 | 4184 | 4153 | 4318 |
| EBITDA Margin (%) | 21% | 22% | 18% | 16% |
| Depreciation | 200 | 522 | 611 | 762 |
| EBIT | 1224 | 3662 | 3541 | 3556 |
| Interest | 103 | 80 | 30 | 96 |
| PBT | 1047 | 3695 | 3618 | 4017 |
| Tax | 236 | 752 | 960 | 860 |
| Tax Rate (%) | 23% | 20% | 27% | 21% |
| Reported PAT | 1288 | 3029 | 2628 | 3118 |
| Dividend Paid | 136 | 550 | 625 | 629 |
| No. of Shares (In crore) | 13 | 23 | 96 | 97 |

Source: Eastwind/Company

| | RATIOS | | | |
|-----------------------------|--------|-------|-------|-------|
| | FY13 | FY14 | FY15 | FY16 |
| EPS | 100.5 | 129.7 | 27.3 | 32.2 |
| Book Value | 423.5 | 393.2 | 127.5 | 148.4 |
| DPS | 10.6 | 23.5 | 6.5 | 6.5 |
| Payout (incl. Div. Tax.) | 11% | 18% | 24% | 20% |
| Valuation(x) | | | | |
| P/E | 2.6 | 3.5 | 23.0 | 14.9 |
| Price / Book Value | 0.6 | 1.1 | 4.9 | 3.2 |
| Dividend Yield (%) | 4.00% | 5.24% | 1.03% | 1.35% |
| Profitability Ratios | | | | |
| RoE | 24% | 33% | 21% | 22% |
| RoCE | 21% | 40% | 29% | 24% |
| Turnover Ratios | | | | |
| Asset Turnover (x) | 0.8 | 1.2 | 1.1 | 1.1 |
| Debtors (No. of Days) | 103.1 | 84.3 | 84.0 | 79.5 |
| Inventory (No. of Days) | 0.6 | 0.2 | 0.4 | 0.6 |
| Creditors (No. of Days) | 34.0 | 28.5 | 33.2 | 31.3 |
| Net Debt/Equity (x) | 0.06 | 0.00 | 0.00 | 0.01 |

Source: Eastwind/Company

| | BALANCE SHEET | | | |
|------------------------|---------------|-------|-------|-------|
| | FY13 | FY14 | FY15 | FY16 |
| Share Capital | 128 | 234 | 480 | 484 |
| Reserves | 5297 | 8947 | 11768 | 13882 |
| Net Worth | 5425 | 9181 | 12249 | 14366 |
| Long term Debt | 300 | 19 | 46 | 197 |
| Short term Debt | 780 | 33 | 629 | 805 |
| Deferred Tax | 0 | 0 | 0 | 0 |
| Total Capital Employed | 5725 | 9200 | 12295 | 14563 |
| Net Fixed Assets | 938 | 2297 | 2872 | 3238 |
| Capital WIP | 34 | 266 | 568 | 0 |
| Debtors | 1704 | 4349 | 5206 | 5770 |
| Cash & Bank Balances | 536 | 3315 | 2405 | 4014 |
| Trade payables | 640 | 1472 | 2059 | 2276 |
| Total Provisions | 523 | 1681 | 2209 | 2940 |
| Net Current Assets | 1154 | 6000 | 7173 | 8795 |
| Total Assets | 8984 | 15940 | 19848 | 23507 |

Source: Eastwind/Company

| | FY13 | FY14 | FY15 | FY16 |
|----------------------------|------|------|------|------|
| | | | | |
| OP/(Loss) before Tax | 1047 | 3695 | 3618 | 4017 |
| Depreciation | 200 | 522 | 611 | 762 |
| Direct Taxes Paid | 341 | 1094 | 1073 | 1303 |
| Operating profit before w | 1227 | 4302 | 4332 | 4996 |
| CF from Op. Activity | 855 | 1593 | 2397 | 3213 |
| Capital expenditure on fix | 179 | 940 | 1123 | 919 |
| CF from Inv. Activity | 783 | 641 | 2080 | 1467 |
| Repayment of Long Term | 0 | 2 | 577 | 65 |
| Interest Paid | 102 | 97 | 64 | 93 |
| Divd Paid (incl Tax) | 59 | 136 | 550 | 625 |
| CF from Fin. Activity | 65 | 972 | 790 | 565 |
| Inc/(Dec) in Cash | 138 | 21 | 473 | 1181 |
| Add: Opening Balance | 239 | 537 | 1452 | 1206 |
| Closing Balance | 538 | 2780 | 1206 | 2393 |

Source: Eastwind/Company