

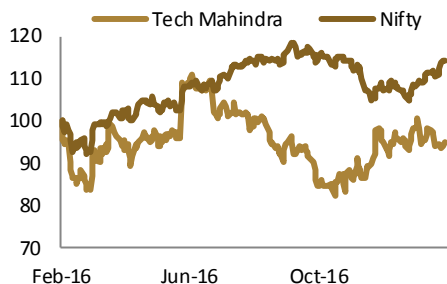
Market statistics

Current stock price (`)	472
Shares O/S (cr.)	97.3
Mcap (` cr)	45,903
52W H/L (`)	564/405
6m avg. volume	2,605,370
Bloomberg	TECHM IN

Shareholding pattern

Promoters	36.24
Domestic Institution	15.45
Foreign Institution	34.45
Non-institution	13.86
of which more than 1%	
National Westminster Bank	4.92
Life Insurance Corporation	3.63

Tech Mahindra vs Nifty



Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	21.4	18.3	18.9
EPS (`)	35.6	35.0	41.4
CEPS (`)	44.3	45.7	53.0
P/E (x)	13.3	13.5	11.4
P/BV (x)	2.6	2.3	2.0
EV/EBITDA (x)	8.0	7.5	6.0
Income growth (%)	17.9	10.9	12.0
EBITDA growth (%)	5.3	4.1	18.2
PAT growth (%)	20.0	(0.2)	16.6

Tech Mahindra's 3QFY17 result was better-than-expectation operationally, both on the revenue and profit front. TechM reported revenues at US\$1,116mn (up 4.1% QoQ, up 5.4% in cc terms). OPM (without one-off item in 2Q) decreased by 44bps QoQ to 15.7% on account of strong headcount addition affecting utilisation, higher investments, and weak season (higher furloughs). PAT was boosted by lower tax expense (tax provision write back of Rs899mn). Management indicates a healthy pipeline and pick up in spending primarily in the US & RoW and improving funnel in manufacturing. We continue to believe in Tech Mahindra's depth of capabilities in Telecom vertical as well as other verticals. Also, due to its legacy, Tech Mahindra has developed capabilities in Mobility and Cloud space which act as door-openers in new client accounts, while its depth of services help it increase penetration in existing accounts. We maintain our Buy recommendation on the stock.

Results better-than expected: TechM reported revenue of US\$1,116mn (up 4.1% QoQ, up 5.4% in cc terms). TechM saw an increase in BFSI (up 16.5% QoQ) and Retail, Transport & Logistics (16.3%). TechM won 8 large deals this quarter, with a TCV of US\$350mn (last quarter US\$325mn). EBITDA margin (without the one-offs in the last quarter) decreased by 44bps QoQ to 15.7% on account of strong headcount addition affecting utilisation, higher investments and weak season (higher furloughs). Software Professionals stood at 80,858, BPO at 29,372 and Support staff at 6,865 (Net employees joining TECHM 4,209 QoQ to 117,095 employees).

Management cites healthy pipe line, both US and Europe to do well for the company going forward. TechM remains confident of improving revenue growth citing healthy deal pipeline along with pick up in discretionary spending primarily in the US and improving funnel in Europe. Deal pipeline is up YoY. Network deal has potentially increased the addressable market opportunity in Telecom. Growth remains the primary focus, margins may see headwinds from onsite-centric revenue going forward. At the same time, Tech Mahindra is consistently increasing the addressable spend within clients' IT budgets.

Other highlights: 1) Cash and cash equivalents of `49.5bn and debt stood at `14.3bn. 2) Tech Mahindra added 12 clients to take the client base to 837 QoQ. 3) The company lost 2 clients QoQ in the US\$20mn+ and lost 1 in the US\$10mn+ to take the clients total to 38 and 65 respectively. Top 5 clients increased 1.5%, while client #6-10, #11-20 decreased 3.2% QoQ and increased 6.7% QoQ respectively. 4) Tech Mahindra won 8 deals, with a TCV of US\$350mn 5) Tech Mahindra reported a forex gain of US\$13.4mn for the quarter vs a gain of US\$13.1mn in Q2. 6) According to Management, slow decision making in Communication vertical due to M&A activity is not over yet. However, they expect M&A related work towards the end of FY16 and execution in FY17. They are confident of regaining lost market share based on investments made.

Valuation and Outlook: We expect TECHM to grow its USD revenues at a CAGR of 12.6% over FY17-19 during this period (1) share gains in existing customers, new client penetration, and successful execution in new areas such as network services (NSM) in telecom, and (2) large deal wins in enterprise vertical. We believe that Tech Mahindra has hit an execution sweet spot and identified white spaces (network management, end-to-end offerings in manufacturing segment) that will drive sustained revenue growth. Multiples can rerate if the company improves working capital management, ensuring solid FCF generation. We maintain our Buy recommendation on the stock. We expect telecom vertical growth to improve led by M&A integration work, potential closure of large deals and displacement-led wins. The enterprise segment will continue to register strong growth.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in

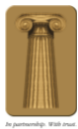


Exhibit 1: Quarterly details

mn	3QFY16	2QFY17	3QFY17	QoQ (%)	YoY (%)	Comments
Revenues (In US\$mn)	1,015	1,072	1,116	4.1	10.0	America was up 0.6%, EU was up 3% QoQ, while RoW was up 13.1% in US\$ terms.
Revenues	67,011	71,674	75,575	5.4	12.8	
- Operating costs	55,653	60,104	63,710	6.0	14.5	
EBITDA	11,358	11,570	11,865	2.6	4.5	OPM (without one-off item in 2Q) decreased by 44bps QoQ to 15.7% on account of strong headcount addition affecting utilisation, higher investments, and weak season (higher furloughs).
EBITDA margin (%)	16.9	16.1	15.7	(44)bps	(125)bps	
- Interest expense	244	345	349	1.2	43.0	
- Depreciation	1736	2,447	2,480	1.3	42.9	Includes a forex gain of US\$13.4mn vs a gain of US\$13.1mn in Q2
+ Other income, net (incl forex)	639	1,387	1,552	11.9	142.9	
PBT	10,017	10,165	10,588	4.2	5.7	
- Taxes	2,327	2,860	2,141	(25.1)	(8.0)	Tax rate to remain in the range of ~24% for FY17.
Effective tax rate (%)	23.2	28.1	20.2	(792)bps	(301)bps	
PAT	7,690	7,305	8,447	15.6	9.8	
- Minority interest	(97)	13	111	NA	NA	
Consolidated PAT	7,593	7,318	8,558	16.9	12.7	
Net margin (%)	11.3	10.2	11.3	111bps	(1)bps	
Reported profits	7,592	7,316	8,560	17.0	12.8	

Source: Company

Exhibit 2: Change in estimates

mn	FY17E			FY18E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	4,328	4,375	1.1	4,859	4,985	2.6
Revenue	285,554	293,942	2.9	315,866	329,039	4.2
EBITDA margin (%)	15.6	15.1	(45)bps	16.2	16.0	(15)bps
EPS (₹)	34.9	35.0	0.3	40.3	41.4	2.7

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
North America	48.8	45.4	47.7	48.9	47.8	46.8	49.0	48.3	46.7
Europe	31.4	29.8	29.4	29.3	28.9	28.5	28.3	29.7	29.4
RoW	19.8	24.8	22.9	21.8	23.3	24.7	22.7	22.0	23.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 4: Operating mix (%)

Details	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Onsite	55.3	61.1	61.0	61.7	62.7	63.2	63.4	63.5	63.9
Offshore	44.7	38.9	39.0	38.3	37.3	36.8	36.6	36.5	36.1
Utilisation (incl. trainees)	74	71	74	77	77	77	78	78	77

Source: Company

Human Resources: Software Professionals stood at 80,858, BPO at 29,372 and Support staff at 6,865 (Net employees joining TECHM 4,209 QoQ to 117,095 employees).

Exhibit 5: Employee strength at TECHM

Details	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Software Professionals	67,592	72,952	71,997	71,657	71,892	72,125	73,590	78,404	80,858
BPO employees	23,566	22,693	24,394	26,513	28,279	27,254	27,326	27,669	29,372
Sales & Support	6,861	7,636	7,282	7,065	6,966	6,053	6,300	6,813	6,865
Total employees	98,009	103,281	103,673	105,235	107,137	105,432	107,216	112,886	117,095

Source: Company

Client Concentration: The company lost 2 clients QoQ in the US\$20mn+ and lost 1 in the US\$10mn+ to take the clients total to 38 and 65 respectively. Top 5 clients increased 1.5%, while client #6-10, #11-20 decreased 3.2% QoQ and increased 6.7% QoQ respectively.

Exhibit 6: Client details

Vertical Mix	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
No. of Active Clients	674	767	770	788	801	807	818	825	837
> \$1 million clients	254	291	296	298	326	319	317	341	356
> \$5 million clients	88	96	101	102	105	112	120	120	128
> \$10 million clients	51	56	60	62	63	63	64	66	65
> \$20 million clients	32	35	36	36	37	40	42	40	38
> \$50 million clients	13	13	13	14	14	14	14	14	14
Top 5 clients (%)	37	33	33	32	28	28	29	29	28
Top 10 clients (%)	49	45	44	43	40	39	40	40	38
Top 20 clients (%)	61	57	57	56	52	52	53	52	51

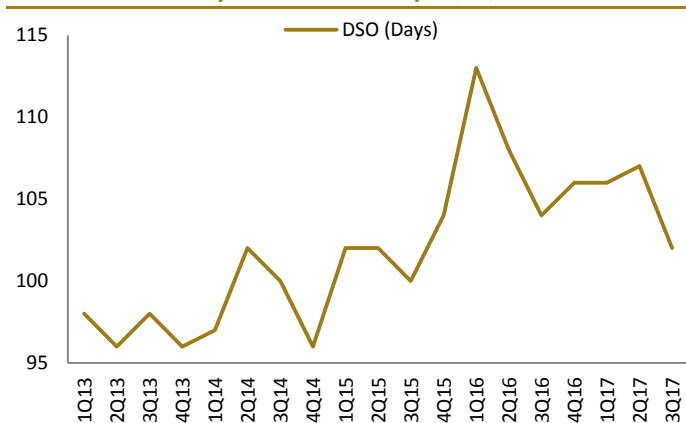
Source: Company

Exhibit 7: Vertical-wise breakup

Employees	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Telecom	50.9	55.3	52.7	52.9	51.3	50.9	49.2	48.4	47.3
Manufacturing	19.7	16.5	17.1	16.7	17.1	17.1	18.1	19.2	18.4
Technology, Media & Ent.	7.3	7.0	7.3	8.2	7.4	7.5	7.5	7.0	6.4
BFSI	9.8	9.1	10.0	9.6	9.8	10.6	11.3	11.7	13.1
Retail, Transport & Logistics	6.4	6.2	6.5	6.0	6.8	6.2	6.5	6.8	7.6
Others	5.9	5.9	6.4	6.6	7.6	7.7	7.4	6.9	7.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

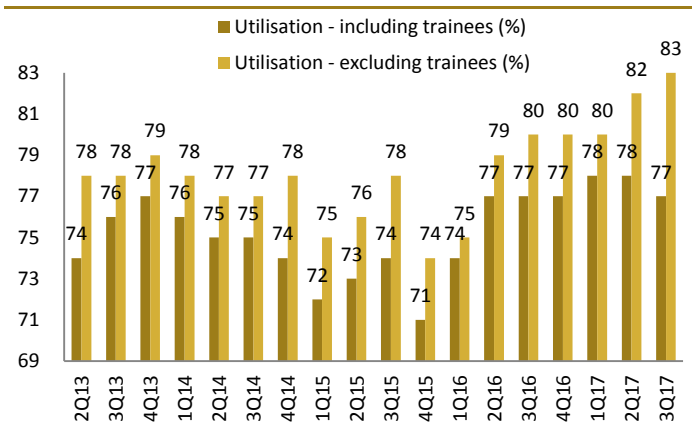
Source: Company

Exhibit 8: DSO days decreased 5 days QoQ



Source: Company, Trust

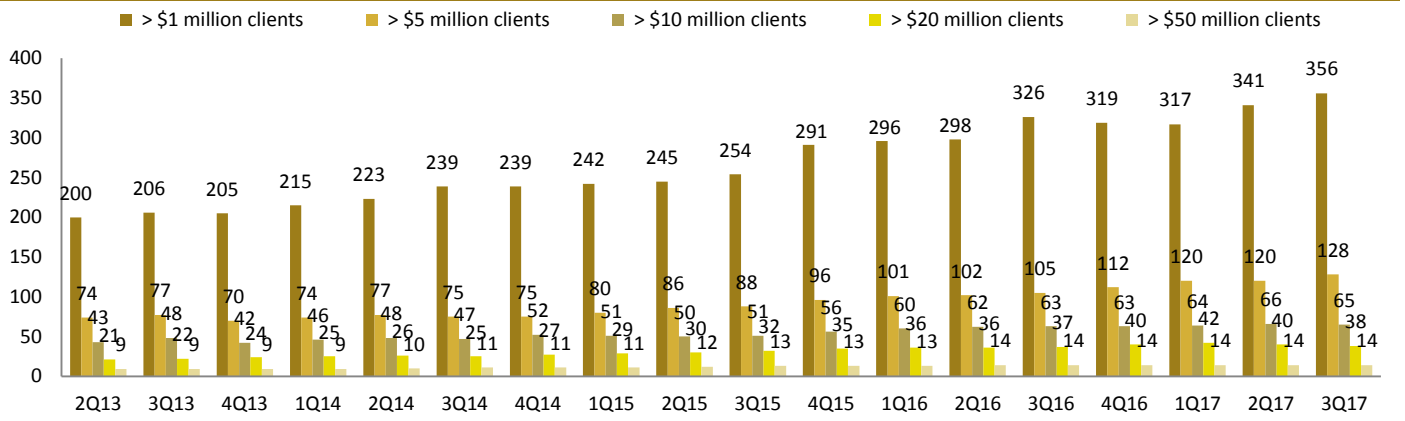
Exhibit 9: Utilization as a lever has some room



Source: Company, Trust



Exhibit 10: TECHM lost 2 and 1 clients QoQ in the US\$20mn+ and US\$10mn+ bracket



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Revenues	224,779	264,942	293,853	329,039	366,213
Op. Expenses	183,635	222,235	249,390	276,466	307,291
EBITDA	41,144	42,707	44,463	52,573	58,923
Other Income	1,006	5,015	6,797	6,100	6,550
Depreciation	6,079	7,589	9,436	10,238	11,443
EBIT	36,071	40,133	41,825	48,435	54,030
Interest	297	970	1,287	976	750
PBT	35,774	39,163	40,538	47,459	53,280
Tax	9,472	8,183	9,611	11,390	12,787
PAT	26,302	30,979	30,927	36,068	40,493
Minority	(24)	26	(229)	444	444
Adj Pat	26,278	31,006	30,675	36,512	40,937

Key Parameters

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Per share (`)					
EPS	30.1	35.6	35.0	41.4	46.2
CEPS	37.1	44.3	45.7	53.0	59.1
BVPS	155.9	178.9	204.5	235.5	269.8
DPS	6.0	12.0	6.5	7.5	8.5
Payout (%)	25.9	43.4	24.1	23.5	23.9
Valuation (x)					
P/E	21.1	13.3	13.5	11.4	10.2
P/BV	4.1	2.6	2.3	2.0	1.7
EV/EBITDA	12.0	8.0	7.5	6.0	5.1
Dividend Yield (%)	1.4	2.9	1.6	1.8	2.1
Return ratio (%)					
EBITDA Margin	18.3	16.4	15.1	16.0	16.1
PAT Margin	11.7	11.9	10.5	11.0	11.1
ROAE	21.8	21.4	18.3	18.9	18.3
ROACE	28.1	26.4	23.4	24.0	23.5
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)
Debt/EBITDA	0.1	0.0	0.0	0.0	0.0
Interest Coverage	121.5	47.1	32.5	49.6	72.0
Current ratio	2.1	2.1	2.3	2.5	2.6
Growth Ratios (%)					
Income growth	19.4	17.9	10.9	12.0	11.3
EBITDA growth	(1.7)	5.3	4.1	18.2	12.1
PAT growth	(10.6)	20.0	(0.2)	16.6	12.3
Turnover Ratios					
F.A Turnover x	7.8	8.2	8.5	9.0	9.5
Debtors Days	92	86	84	85	84
Payable days	46	41	39	39	39

Balance Sheet (` mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	4,804	4,839	4,870	4,890	4,910
Reserves & Surplus	129,989	151,142	174,410	202,340	233,511
Total Shareholders Fund	134,793	155,981	179,280	207,230	238,421
Minority Interest	1,601	2,020	2,020	2,020	2,020
Non- current liabilities	1,100	1,934	2,542	3,209	3,969
Long term Borrowings	460	1,967	1,967	1,967	1,967
Deferred tax liabilities	(3,901)	(5,575)	(5,575)	(5,575)	(5,575)
Other LT liabilities & prov	4,541	5,542	6,149	6,817	7,577
Current Liabilities	57,086	69,560	76,381	83,799	92,244
Short-term borrowings	6,286	8,055	8,055	8,055	8,055
Trade payables	20,587	22,755	25,281	28,025	31,150
Other cur liabilities & Prov	30,213	38,750	43,045	47,719	53,039
Total Liabilities	194,580	229,495	260,222	296,258	336,654
Assets					
Non- current Assets	72,054	80,044	83,903	88,168	92,562
Fixed assets	27,717	32,383	34,383	36,383	38,383
Non-current investments	31,276	30,601	30,601	30,601	30,601
Long-term loans & adv	12,755	16,766	18,517	20,734	23,076
Other non-current assets	306	294	403	451	502
Current assets	122,526	149,451	176,319	208,090	244,092
Current investments	8,041	11,690	11,690	11,690	11,690
Trade receivables	52,059	57,705	64,406	72,118	80,266
Inventories	245	414	483	541	602
Cash & bank balances	24,049	40,138	56,266	75,061	97,355
Short-term loans & adv	18,728	17,084	19,322	21,635	24,080
Other current assets	19,404	22,420	24,152	27,044	30,100
Total Assets	194,580	229,495	260,222	296,258	336,654

Cash flow Statement

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
PBT	35,774	40,167	40,538	47,459	53,280
Depreciation	6,008	5,946	9,436	10,238	11,443
Interest Exp	297	871	1,287	976	750
Others	(24)	(387)	(252)	444	444
CF before W.cap	42,055	46,597	51,008	59,117	65,917
Inc/dec in W.cap	22,374	(519)	5,171	7,155	6,897
Op CF after W.cap	19,681	47,117	45,838	51,962	59,020
Less Taxes	9,472	8,600	9,611	11,390	12,787
Net CF From Operations	10,209	38,517	36,227	40,572	46,233
Inc/(dec) in F.A + CWIP	11,675	12,286	11,436	12,238	13,443
(Pur)/sale of Investments	18,113	2,974	-	-	-
Others	(297)	(871)	(1,287)	(976)	(750)
CF from Invst Activities	(30,085)	(16,130)	(12,723)	(13,214)	(14,193)
Loan Raised/(repaid)	6,222	3,276	-	-	-
Equity Raised	11,299	3,939	31	20	20
Dividend	6,745	13,513	7,407	8,582	9,766
CF from Fin Activities	10,776	(6,298)	(7,376)	(8,562)	(9,746)
Net inc /(dec) in cash	(9,100)	16,089	16,128	18,796	22,294
Op. bal of cash	33,202	24,049	40,138	56,266	75,061
Cl. balance of cash	24,049	40,138	56,266	75,061	97,355



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Institutional Sales				
Sriram Rangarajan	Sales		sriram.rangarajan@trustgroup.in	+91-22-4224-5216
Vivek Kumar	Sales		vivek.kumar@trustgroup.in	+91-22-4224-5197
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Nikhil Shah	Dealer		nikhil.shah@trustgroup.in	+91-22-4084-5089
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Ritu Chaudhary	Associate	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183

DISCLAIMER

We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Financial Consultancy Services Pvt. Ltd. has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Financial Consultancy Services Pvt. Ltd., its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Financial Consultancy Services Pvt. Ltd. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Copyright in this document vests exclusively with Trust Financial Consultancy Services Pvt. Ltd.