

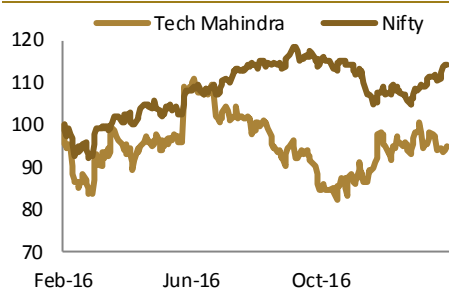
### Market statistics

Current stock price (₹)	499
Shares O/S (cr.)	97.3
Mcap (₹ cr)	48,599
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	14.3	12.1
P/BV (x)	2.6	2.4	2.1
EV/EBITDA (x)	8.0	8.0	6.4
Income growth (%)	17.9	10.9	12.0
EBITDA growth (%)	5.3	4.1	18.2
PAT growth (%)	20.0	(0.2)	16.6

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Tech Mahindra has announced acquisition of CJS Solutions Group LLC. It is a US-based healthcare information technology consulting company that does business as The HCI Group. The deal values CJS Solutions at an enterprise value of US\$110mn. Healthcare and life sciences has been one of the focus areas for Tech Mahindra globally and the acquisition will help in consolidating its position. We believe it is an attractive acquisition which is a complementary fit for Tech Mahindra. It would also aid in cross-selling services to clients coupled with scaling up of the Healthcare vertical for Tech Mahindra.

#### Acquisition to provide cross selling and scale up of Healthcare vertical for Tech Mahindra:

Tech Mahindra has announced acquisition of CJS Solutions Group LLC. It is a US-based healthcare information technology consulting company that does business as The HCI Group. The deal values CJS Solutions at an enterprise value of US\$110mn. Tech Mahindra will make an upfront payment of US\$89.5mn for purchase of an 84.7% stake in the firm. The balance stake of 15.3% will be acquired over a period of three years. It will be acquired with a combination of cash and borrowings, but it will mostly be funded via internal accruals. The HCI Group works with global tier-I healthcare service providers, primarily in the US and UK. It focuses on providing end-to-end implementation of electronic health record (EHR) and electronic medical record (EMR) software, training and support services. The company also has a presence in Europe, West Asia and Asia-Pacific, and employs more than 500 professionals globally. For TTM ending Sep'16, The HCI Group had revenues of US\$114mn. The margins of CJS Solutions are in high single digit. The transaction is expected to close by Apr'17. If CJS Solutions achieves certain milestones, the contingent consideration would be at US\$130.5mn.

**Synergies for Tech Mahindra:** Healthcare and Life sciences has been one of the focus areas for Tech Mahindra globally and the acquisition will help in consolidating its position. Healthcare is one of the few sectors globally that is driving adoption of digital technologies. The acquisition will not only position Tech Mahindra as a significant player in the healthcare provider space, but will also provide an opportunity to go deeper in this space via EMR implementation and surrounding services route. The acquisition aligns with Tech Mahindra's "DAVID" (digital, automation, verticalization, innovation and disruption) strategy where 'Digitalization' is one of the five main pillars of its growth strategy.

#### Inorganic initiatives should be used to fill up gaps in technology; maintain Buy:

TechM has used acquisitions smartly in the past five years to diversify/grow its revenue base and maintain its leadership position/skills in the telecom vertical. By and large, acquisitions have been integrated well by the company. However, acquisitions in the past couple of years have been faster and not all of them were best strategic fits. We like TechM's leadership in the telecom vertical and like its positioning in the enterprise business vertical.

**Valuation & Outlook:** Deal valuation is reasonable. The acquisition size of CJS Solutions is small (would increase TECHM FY18E revenues by just ~2.5%), in comparison to the recent (2014) acquisitions – LCC (Revenue run-rate of US\$420mn, consideration of US\$240mn, P/S of 0.6x), HGS (US\$169mn, US\$87.1mn, 0.5x), Comviva (US\$70mn, US\$95mn, 1.4x) and MESL (US\$40mn, US\$95.8mn, 2.2x). Multiples can re-rate if the company improves working capital management, ensuring solid FCF generation. We are not changing our estimates, but are confident about the business prospects of TECHM. Valuations are inexpensive and risk reward is attractive. **We retain our BUY rating on the stock.**



## Financials

## Income Statement (₹ mn)

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

## Key Parameters

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
<b>Per share (₹)</b>					
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
<b>Valuation (x)</b>					
P/E	21.1	13.3	14.3	12.1	10.8
P/BV	4.1	2.6	2.4	2.1	1.8
EV/EBITDA	12.0	8.0	8.0	6.4	5.5
Dividend Yield (%)	1.4	2.9	1.3	1.5	1.7
<b>Return ratio (%)</b>					
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
<b>Leverage Ratios (x)</b>					
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
<b>Growth Ratios (%)</b>					
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
<b>Turnover Ratios</b>					
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
<b>Total Shareholders Fund</b>	<b>134,793</b>	<b>155,981</b>	<b>179,280</b>	<b>207,230</b>	<b>238,421</b>
Minority Interest	1,601	2,020	2,020	2,020	2,020
<b>Non-current liabilities</b>	<b>1,100</b>	<b>1,934</b>	<b>2,542</b>	<b>3,209</b>	<b>3,969</b>
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
<b>Current Liabilities</b>	<b>57,086</b>	<b>69,560</b>	<b>76,381</b>	<b>83,799</b>	<b>92,244</b>
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
<b>Total Liabilities</b>	<b>194,580</b>	<b>229,495</b>	<b>260,222</b>	<b>296,258</b>	<b>336,654</b>
<b>Assets</b>					
<b>Non-current Assets</b>	<b>72,054</b>	<b>80,044</b>	<b>83,903</b>	<b>88,168</b>	<b>92,562</b>
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
<b>Current assets</b>	<b>122,526</b>	<b>149,451</b>	<b>176,319</b>	<b>208,090</b>	<b>244,092</b>
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
<b>Total Assets</b>	<b>194,580</b>	<b>229,495</b>	<b>260,222</b>	<b>296,258</b>	<b>336,654</b>

## Cash flow Statement

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
<b>PBT</b>	<b>35,774</b>	<b>40,167</b>	<b>40,538</b>	<b>47,459</b>	<b>53,280</b>
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
<b>CF before W.cap</b>	<b>42,055</b>	<b>46,597</b>	<b>51,008</b>	<b>59,117</b>	<b>65,917</b>
Inc/dec in W.cap	22,374	(519)	5,171	7,155	6,897
<b>Op CF after W.cap</b>	<b>19,681</b>	<b>47,117</b>	<b>45,838</b>	<b>51,962</b>	<b>59,020</b>
Less Taxes	9,472	8,600	9,611	11,390	12,787
<b>Net CF From Operations</b>	<b>10,209</b>	<b>38,517</b>	<b>36,227</b>	<b>40,572</b>	<b>46,233</b>
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)
<b>CF from Invst Activities</b>	<b>(30,085)</b>	<b>(16,130)</b>	<b>(12,723)</b>	<b>(13,214)</b>	<b>(14,193)</b>
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
<b>CF from Fin Activities</b>	<b>10,776</b>	<b>(6,298)</b>	<b>(7,376)</b>	<b>(8,562)</b>	<b>(9,746)</b>
Net inc/(dec) in cash	(9,100)	16,089	16,128	18,796	22,294
<b>Op. bal of cash</b>	<b>33,202</b>	<b>24,049</b>	<b>40,138</b>	<b>56,266</b>	<b>75,061</b>
<b>Cl. balance of cash</b>	<b>24,049</b>	<b>40,138</b>	<b>56,266</b>	<b>75,061</b>	<b>97,355</b>



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