

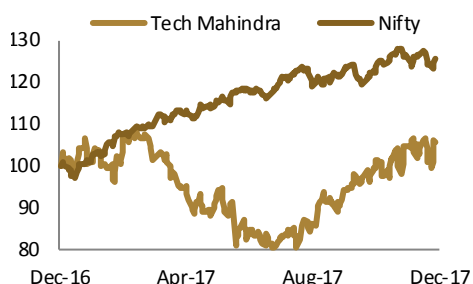
Market statistics

Current stock price (₹)	500
Shares O/S (cr.)	97.6
Mcap (₹ cr)	48,831
52W H/L (₹)	515/358
6m avg. volume	2,267,247
Bloomberg	TECHM IN

Shareholding pattern

Promoters	36.14
Domestic Institution	12.83
Foreign Institution	37.41
Non-institution	13.62
of which more than 1%	
First State Investments Icvc	4.90
LIC of India	3.62

Tech Mahindra vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	17.2	18.3	18.1
EPS (₹)	29.1	35.0	39.6
CEPS (₹)	39.2	45.7	50.9
P/E (x)	14.1	12.9	11.4
P/BV (x)	2.3	2.2	1.9
EV/EBITDA (x)	7.7	7.8	6.6
Income growth (%)	10.0	4.6	10.3
EBITDA growth (%)	(2.0)	3.9	14.1
PAT growth (%)	(7.1)	19.1	13.9

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Tech Mahindra showcased its Telecom and Enterprise business growth strategy along with Demonstrations of IoT, Machine Learning and Digital Transformation initiatives. Telecom industry is going through a transformation where spends are happening on building network of the future, Digital Technology, investing in platforms for vertical solutions, IoT network backbone and improving customer experiences. These initiatives will spur Telecom IT spends. 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.

The 3-4-3 strategy, 3 Mega trends: TECHM highlighted 3 mega trends that are shaping up the industry - (1) exponential growth in connected devices (50bn by 2029), (2) faster speeds through new technologies, (3) massive increase in content consumption and experience. TECHM is betting on 4 key areas - (1) Integrated digital experience, (2) Interconnectivity through IoT, (3) Software transformation and (4) Network of the future. 3 key objectives - (1) to run operations efficiently, (2) be able to change faster and (3) grow at a higher clip

Enterprise business remains strong, healthy pipeline for BFSI: Management expects robust momentum to continue in the enterprise business (55%+ of revenue). Financial Services (14% of overall revenue) has done decently over the TTM and the pipeline remains healthy in its niche segments (wealth management, core retail banking) across the markets. While 20-25% YoY growth looks steep, outlook continues to be positive—it has very little "run" the kind of business. The outlook is also positive on manufacturing (19% of overall revenue)—management highlighted IOT, analytics and engineering services as key drivers of growth.

Margin focus – a priority: Management focus is on margin recovery (+180bps in 2Q to 14.5%) led by operational efficiencies, higher utilisation and no wage hike. EBITDA margin has bottomed and recovery from here will be gradual led by (1) LCC turnaround (2) higher utilisation & offshoring and (3) Automation benefits. TechM highlighted platforms as one of the key focus areas—it has been co-innovating with the clients and also building own solutions on top of third-party platforms. This, along with incremental automation focus (several large accounts have gone through price adjustments over the last two years, and with automation, TechM plans to recover some of the margins lost), and recovery in LCC, Comviva and Complex IT's margins are key margin levers.

M&A strategy working well for TECHM: Pininfarina and HCI have won some synergistic deals. Pininfarina announced two contracts with TCV of over US\$70mn each. HCI closed a deal with a Top-20 health system. Management also indicated a deal where TechM, Bio Agency and Sofgen are bidding jointly. TechM has also been able to cross-sell its offerings (consulting, analytics etc.) on the top of LCC's network services.

Valuation and Outlook: We expect TECHM to grow its USD revenues at a CAGR of 9.1% 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.

**Exhibit 1: Geographical wise Performance**

Geographical mix	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
North America	48.9	47.8	46.8	49.0	48.3	46.7	45.1	46.8	45.3
Europe	29.3	28.9	28.5	28.3	29.7	29.4	29.6	29.8	30.0
RoW	21.8	23.3	24.7	22.7	22.0	23.9	25.3	23.4	24.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 2: Operating mix (%)

Details	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Onsite	61.7	62.7	63.2	63.4	63.5	63.9	64.3	63.7	64.1
Offshore	38.3	37.3	36.8	36.6	36.5	36.1	35.7	36.3	35.9
Utilisation (incl. trainees)	77	77	77	78	78	77	77	77	81

Source: Company

Exhibit 3: Employee strength at TECHM

Details	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Software Professionals	71,657	71,892	72,125	73,590	78,404	80,858	82,403	78,996	75,587
BPO employees	26,513	28,279	27,254	27,326	27,669	29,372	28,414	30,322	35,287
Sales & Support	7,065	6,966	6,053	6,300	6,813	6,865	6,876	6,662	6,351
Total employees	105,235	107,137	105,432	107,216	112,886	117,095	117,693	115,980	117,225

Source: Company

Exhibit 4: Client details

Vertical Mix	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
No. of Active Clients	788	801	807	818	825	837	843	864	885
> \$1 million clients	298	326	319	317	341	356	354	377	390
> \$5 million clients	102	105	112	120	120	128	134	139	147
> \$10 million clients	62	63	63	64	66	65	71	74	81
> \$20 million clients	36	37	40	42	40	38	36	41	40
> \$50 million clients	14	14	14	14	14	14	14	14	14
Top 5 clients (%)	32	28	28	29	29	28	27	26	25
Top 10 clients (%)	43	40	39	40	40	38	38	36	35
Top 20 clients (%)	56	52	52	53	52	51	49	49	46

Source: Company

Exhibit 5: Vertical-wise breakup

Employees	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Telecom	52.9	51.3	50.9	49.2	48.4	47.3	46.3	45.2	43.7
Manufacturing	16.7	17.1	17.1	18.1	19.2	18.4	19.2	19.3	19.0
Technology, Media & Ent.	8.2	7.4	7.5	7.5	7.2	6.4	6.2	6.0	5.9
BFSI	9.6	9.8	10.6	11.3	11.5	13.1	14.1	14.4	14.1
Retail, Transport & Logistics	6.0	6.8	6.2	6.5	6.8	7.6	6.5	6.8	7.2
Others	6.6	7.6	7.7	7.4	6.9	7.2	7.7	8.3	10.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Financials

Income Statement (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Revenues	224,779	264,942	291,408	304,876	336,377
Op. Expenses	183,635	222,235	249,565	261,381	286,749
EBITDA	41,144	42,707	41,843	43,495	49,628
Other Income	1,006	5,015	7,775	13,923	13,788
Depreciation	6,079	7,589	9,781	10,506	11,088
EBIT	36,071	40,133	39,837	46,912	52,328
Interest	297	970	1,286	1,438	1,004
PBT	35,774	39,163	38,551	45,474	51,324
Tax	9,472	8,183	9,785	11,213	12,318
PAT	26,302	30,979	28,766	34,261	39,006
Minority	(24)	26	(357)	(24)	(124)
Adj Pat	26,278	31,006	28,386	34,237	38,882

Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (`)					
EPS	27.4	32.0	29.1	35.0	39.6
CEPS	33.7	39.9	39.2	45.7	50.9
BVPS	140.3	161.2	179.1	204.8	233.8
DPS	6.0	12.0	9.0	7.5	8.5
Payout (%)	25.9	43.4	36.1	25.1	25.1
Valuation (x)					
P/E	21.1	13.3	14.1	12.9	11.4
P/BV	2.7	2.3	2.3	2.2	1.9
EV/EBITDA	12.0	8.0	7.7	7.8	6.6
Dividend Yield (%)	1.4	2.9	2.0	1.5	1.7
Return ratio (%)					
EBITDA Margin	18.3	16.4	14.4	14.3	14.8
PAT Margin	11.7	11.9	9.9	11.2	11.6
ROAE	21.8	21.4	17.2	18.3	18.1
ROACE	28.1	26.4	22.6	24.0	23.6
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)
Debt/EBITDA	0.1	0.0	0.1	0.1	0.1
Interest Coverage	121.5	47.1	31.0	32.6	52.1
Current ratio	2.1	2.1	2.6	2.8	3.0
Growth Ratios (%)					
Income growth	19.4	17.9	10.0	4.6	10.3
EBITDA growth	(1.7)	5.3	(2.0)	3.9	14.1
PAT growth	(10.6)	20.0	(7.1)	19.1	13.9
Turnover Ratios					
F.A Turnover x	7.8	8.2	8.2	8.1	8.5
Debtors Days	92	86	75	1	1
Payable days	46	41	37	69	70

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	153,374	171,806	197,460	226,576
Total Shareholders Fund	134,793	158,213	176,676	202,350	231,487
Minority Interest	1,601	1,927	4,641	4,641	4,641
Non- current liabilities	1,100	3,428	12,745	12,732	13,844
Long term Borrowings	460	1,966	3,853	3,853	3,853
Deferred tax liabilities	(3,901)	(5,322)	(2,579)	(2,579)	(2,579)
Other LT liabilities & prov	4,541	6,784	11,471	11,458	12,570
Current Liabilities	57,086	56,357	63,929	67,063	72,762
Short-term borrowings	6,286	8,055	8,342	8,342	8,342
Trade payables	20,587	22,758	23,117	24,348	26,711
Other cur liabilities & Prov	30,213	25,544	32,470	34,373	37,709
Total Liabilities	194,580	219,925	257,991	286,786	322,734
Assets					
Non- current Assets	72,054	70,064	94,726	97,696	102,285
Fixed assets	27,717	30,635	35,457	37,457	39,457
Non-current investments	31,276	20,475	35,181	35,181	35,181
Long-term loans & adv	12,755	2,910	4,329	4,176	4,608
Other non-current assets	306	16,044	19,759	20,882	23,040
Current assets	122,526	149,861	163,265	189,090	220,448
Current investments	8,041	11,248	21,647	21,647	21,647
Trade receivables	52,059	57,705	53,377	55,964	61,746
Inventories	245	403	611	668	737
Cash & bank balances	24,049	23,978	20,013	39,813	57,984
Short-term loans & adv	18,728	24,455	33,608	35,082	38,706
Other current assets	19,404	32,072	34,009	35,917	39,628
Total Assets	194,580	219,925	257,991	286,786	322,734

Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	35,774	39,163	38,551	45,474	51,324
Depreciation	6,008	6,168	12,524	10,506	11,088
Interest Exp	297	970	1,286	1,438	1,004
Others	(24)	26	(380)	(24)	(124)
CF before W.cap	42,055	46,328	51,981	57,394	63,292
Inc/dec in W.cap	22,374	30,347	132	3,875	8,965
Op CF after W.cap	19,681	15,981	51,849	53,520	54,327
Less Taxes	9,472	8,183	9,785	11,213	12,318
Net CF From Operations	10,209	7,797	42,064	42,306	42,009
Inc/(dec) in F.A + CWIP	11,675	10,507	14,603	12,506	13,088
(Pur)/sale of Investments	18,113	(7,594)	25,105	-	-
Others	(297)	(970)	(1,286)	(1,438)	(1,004)
CF from Invst Activities	(30,085)	(3,884)	(40,994)	(13,944)	(14,092)
Loan Raised/(repaid)	6,222	3,275	2,174	-	-
Equity Raised	11,299	6,328	3,047	20	20
Dividend	6,745	13,588	10,256	8,582	9,766
CF from Fin Activities	10,776	(3,985)	(5,035)	(8,563)	(9,746)
Net inc/(dec) in cash	(9,100)	(71)	(3,965)	19,800	18,171
Op. bal of cash	33,202	24,049	23,978	20,013	39,813
Cl. balance of cash	24,049	23,978	20,013	39,813	57,984



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