

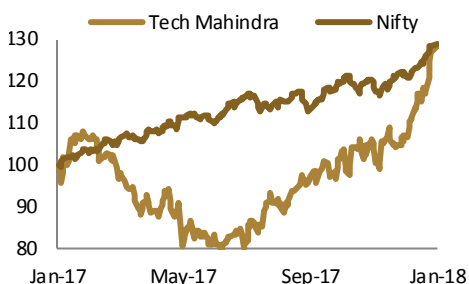
Market statistics

Current stock price (₹)	605
Shares O/S (cr.)	97.9
Mcap (₹ cr)	59,294
52W H/L (₹)	613/358
6m avg. volume	2,609,551
Bloomberg	TECHM IN

Shareholding pattern

Promoters	36.01
Domestic Institution	13.23
Foreign Institution	37.63
Non-institution	13.13
of which more than 1%	
First State Investments Icvv	4.88
LIC of India	3.60

Tech Mahindra vs Nifty



Capital efficiency & valuations

Particulars	FY18E	FY19E	FY20E
RoE (%)	24.2	23.2	21.9
EPS (₹)	36.2	40.1	43.2
CEPS (₹)	47.0	51.7	56.6
P/E (x)	15.1	13.6	12.6
P/BV (x)	2.6	2.3	2.0
EV/EBITDA (x)	9.4	8.1	7.0
Income growth (%)	5.3	9.7	9.9
EBITDA growth (%)	10.4	11.3	10.6
PAT growth (%)	21.5	10.5	8.4

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Tech Mahindra's 3QFY18 result was better-than-expectation operationally, both on the revenue and PAT front. TechM reported revenues at US\$1,209mn (up 2.5% QoQ, 2.4% in cc terms). OPM increased by 173bps QoQ to 16.3% on account of revenue trajectory, increased contributions from IP deals and increased utilisation. Management indicates a healthy pipeline and pick up in spending primarily in the US 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 higher-than expected: TechM reported revenue of US\$1,209mn (up 2.5% QoQ, 2.4% in cc terms). Margin performance was healthy; with EBITDA margin increasing 173bps to 16.3%. The improvement was led by contribution from IPs deal signed in Q2FY18 coupled with continued benefits from a reduction in headcounts (software services headcounts declined 9% YoY) and improved utilization. We believe EBITDA margin will slowly improve from hereon as well, led by (1) LCC stability (2) Higher utilisation and (3) Automation. Software Professionals stood at 73,460, BPO at 35,496 and Support staff at 6,285 (Net employees left TECHM; 1,984 QoQ to 115,241 employees). Tech Mahindra won 10 large deals. Further, higher than expected other income and lower tax provisioning owing to write backs (21.8% vs 25.3% in Q2) led to strong beat in net income.

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: Manufacturing and Technology, Media & Entertainment: Technology, Media & Entertainment/Manufacturing registered growth of 13/3.1% respectively. Telecom revenues increased just 0.4% QoQ to US\$518mn, while BFSI declined 3.3% QoQ. Tech Mahindra added 18 active clients during the quarter. The total active client count stood at 903 clients at the end of 3Q. Utilisation stood at 83%, up from 81% in 2Q. Employee attrition increased by 100 bps QoQ to 17%. The growth was continued to be driven by enterprise vertical (up 4.2% QoQ), while the communication vertical remained weak.

Near-term outlook: Tech Mahindra management indicated that it expects margin improvement to be largely led by automation. The execution was led by a turnaround in loss making LCC (network business), which has reported low single digit margin in Q3 vs loss in H1FY2018.

Valuation and Outlook: We expect TECHM to grow its USD revenues at a CAGR of 9.4% over FY18-20E 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: Quarterly details

mn	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	Comments
Revenues (In US\$mn)	1,116	1,179	1,209	2.5	8.3	Top-5/6-10 clients' revenue was down 4.1% and 0.4% respectively, and growth came in from # Top 11-20 clients (+9% QoQ).
Revenues	75,575	76,064	77,760	2.2	2.9	
- Operating costs	63,710	65,007	65,113	0.2	2.2	
EBITDA	11,865	11,057	12,647	14.4	6.6	EBIT margin increased 169 bps QoQ on account of revenue trajectory, IP deal contribution and increased utilisation
EBITDA margin (%)	15.7	14.5	16.3	173bps	56bps	
- Interest expense	349	386	341	(11.7)	(2.3)	
- Depreciation	2,480	2,653	2,742	3.4	10.6	
+ Other income, net (incl forex)	1,552	3,222	2,250	(30.2)	45.0	
PBT	10,588	11,240	11,814	5.1	11.6	
- Taxes	2,141	2,847	2,570	(9.7)	20.0	Tax rate to remain in the range of ~24% for FY19.
Effective tax rate (%)	20.2	25.3	21.8	(358)bps	153bps	
PAT	8,447	8,393	9,244	10.1	9.4	
- Minority interest	111	(31)	187	NA	NA	
Consolidated PAT	8,558	8,362	9,431	12.8	10.2	
Net margin (%)	11.3	11.0	12.1	113bps	80bps	
Reported profits	8,560	8,362	9,431	12.8	10.2	

Source: Company

Exhibit 2: Change in estimates

mn	FY18E			FY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	4,709	4,751	0.9	5,175	5,179	0.1
Revenue	304,876	306,791	0.6	336,377	336,664	0.1
EBITDA margin (%)	14.3	15.1	75bps	14.8	15.3	45bps
EPS (₹)	35.0	36.2	3.4	39.6	40.1	1.3

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
North America	47.8	46.8	49.0	48.3	46.7	45.1	46.8	45.3	46.9
Europe	28.9	28.5	28.3	29.7	29.4	29.6	29.8	30.0	29.8
RoW	23.3	24.7	22.7	22.0	23.9	25.3	23.4	24.7	23.3
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	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Onsite	62.7	63.2	63.4	63.5	63.9	64.3	63.7	64.1	65.8
Offshore	37.3	36.8	36.6	36.5	36.1	35.7	36.3	35.9	34.2
Utilisation (incl. trainees)	77	77	78	78	77	77	77	81	83

Source: Company



Human Resources: Software Professionals stood at 73,460, BPO at 35,496 and Support staff at 6,285 (Net employees left TECHM; 1,984 QoQ to 115,241 employees).

Exhibit 5: Employee strength at TECHM

Details	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Software Professionals	71,892	72,125	73,590	78,404	80,858	82,403	78,996	75,587	73,460
BPO employees	28,279	27,254	27,326	27,669	29,372	28,414	30,322	35,287	35,496
Sales & Support	6,966	6,053	6,300	6,813	6,865	6,876	6,662	6,351	6,285
Total employees	107,137	105,432	107,216	112,886	117,095	117,693	115,980	117,225	115,241

Source: Company

Client Concentration: The company added 2 clients QoQ in the US\$50mn+ and US\$10mn+ to take the clients total to 16 and 83 respectively. Top-5/6-10 clients' revenue was down 4.1% and 0.4% respectively, and growth came in from # Top 11-20 clients (+9% QoQ).

Exhibit 6: Client details

Vertical Mix	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
No. of Active Clients	801	807	818	825	837	843	864	885	903
> \$1 million clients	326	319	317	341	356	354	377	390	389
> \$5 million clients	105	112	120	120	128	134	139	147	154
> \$10 million clients	63	63	64	66	65	71	74	81	83
> \$20 million clients	37	40	42	40	38	36	41	40	40
> \$50 million clients	14	14	14	14	14	14	14	14	16
Top 5 clients (%)	28	28	29	29	28	27	26	25	23
Top 10 clients (%)	40	39	40	40	38	38	36	35	33
Top 20 clients (%)	52	52	53	52	51	49	49	46	45

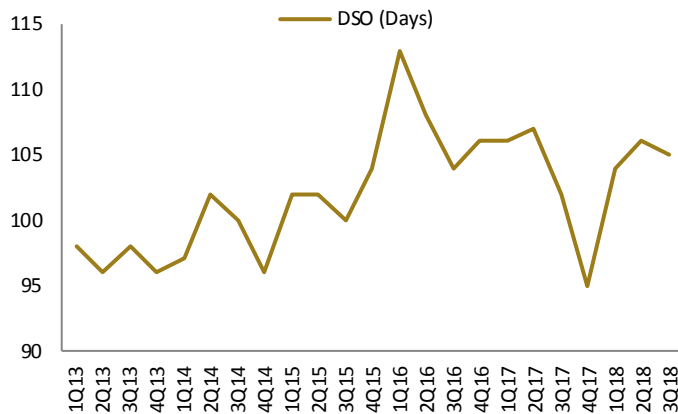
Source: Company

Exhibit 7: Vertical-wise breakup

Employees	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Telecom	51.3	50.9	49.2	48.4	47.3	46.3	45.2	43.7	42.8
Manufacturing	17.1	17.1	18.1	19.2	18.4	19.2	19.3	19.0	19.1
Technology, Media & Ent.	7.4	7.5	7.5	7.2	6.4	6.2	6.0	5.9	6.5
BFSI	9.8	10.6	11.3	11.5	13.1	14.1	14.4	14.1	13.3
Retail, Transport & Logistics	6.8	6.2	6.5	6.8	7.6	6.5	6.8	7.2	7.1
Others	7.6	7.7	7.4	6.9	7.2	7.7	8.3	10.1	11.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

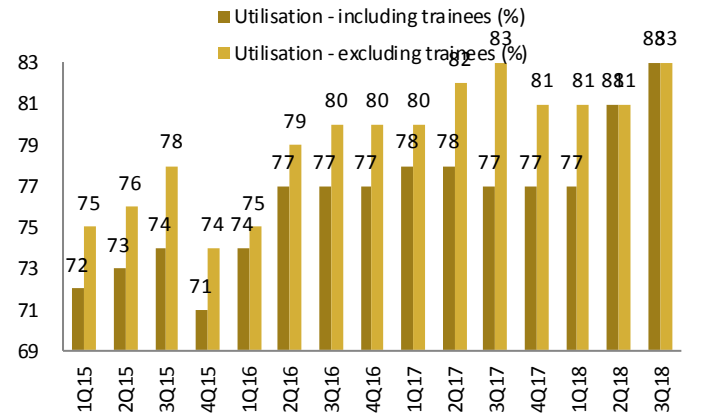
Source: Company

Exhibit 8: DSO days decreased a day QoQ (incl. unbilled)



Source: Company, Trust

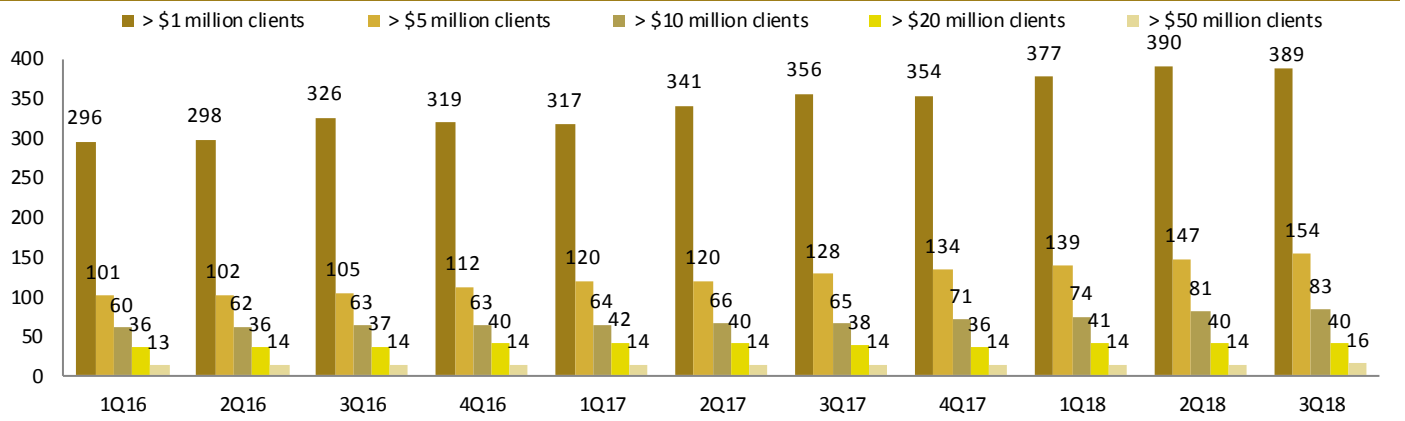
Exhibit 9: Utilization to be used as a margin lever



Source: Company, Trust



Exhibit 10: TECHM added 2 clients each QoQ in the US\$50mn+ and US\$10mn+ bracket



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
Revenues	264,942	291,408	306,791	336,664	369,861
Op. Expenses	222,235	249,565	260,592	285,222	312,963
EBITDA	42,707	41,843	46,199	51,442	56,898
Other Income	5,015	7,775	11,879	11,700	12,150
Depreciation	7,589	9,781	10,640	11,364	13,183
EBIT	40,133	39,837	47,438	51,778	55,864
Interest	970	1,286	1,408	944	750
PBT	39,163	38,551	46,030	50,834	55,114
Tax	8,183	9,785	11,081	12,200	13,227
PAT	30,979	28,766	34,949	38,634	41,887
Minority	26	(357)	412	748	748
Adj Pat	31,006	28,386	35,361	39,382	42,635

Key Parameters

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
Per share (₹)					
EPS	32.0	29.1	36.2	40.1	43.2
CEPS	39.9	39.2	47.0	51.7	56.6
BVPS	161.2	179.1	205.9	235.4	267.9
DPS	12.0	9.0	7.5	8.5	8.5
Payout (%)	43.4	36.1	24.3	24.8	23.0
Valuation (x)					
P/E	13.3	14.1	15.1	13.6	12.6
P/BV	2.3	2.3	2.6	2.3	2.0
EV/EBITDA	8.0	7.7	9.4	8.1	7.0
Dividend Yield (%)	2.9	2.0	1.2	1.4	1.4
Return ratio (%)					
EBITDA Margin	16.4	14.4	15.1	15.3	15.4
PAT Margin	11.9	9.9	11.4	11.5	11.3
ROAE	21.4	17.2	18.8	18.2	17.2
ROACE	26.4	22.6	24.2	23.2	21.9
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.3)	(0.2)	(0.3)	(0.3)	(0.4)
Debt/EBITDA	0.0	0.1	0.1	0.1	0.1
Interest Coverage	47.1	31.0	33.7	54.8	74.5
Current ratio	2.1	2.6	2.8	3.1	3.3
Growth Ratios (%)					
Income growth	17.9	10.0	5.3	9.7	9.9
EBITDA growth	5.3	(2.0)	10.4	11.3	10.6
PAT growth	20.0	(7.1)	21.5	10.5	8.4
Turnover Ratios					
F.A Turnover x	8.2	8.2	8.2	8.5	8.9
Debtors Days	86	725	73	72	72
Payable days	41	37	36	36	35

Balance Sheet (₹ mn)

Year End-March	FY16	FY17E	FY18E	FY19E	FY20E
Equity Share Capital	4,839	4,870	4,890	4,910	4,930
Reserves & Surplus	153,374	171,806	198,584	228,200	261,029
Total Shareholders Fund	158,213	176,676	203,474	233,110	265,959
Minority Interest	1,927	4,641	4,641	4,641	4,641
Non-current liabilities	3,428	12,745	12,697	13,777	14,993
Long term Borrowings	1,966	3,853	3,853	3,853	3,853
Deferred tax liabilities	(5,322)	(2,579)	(2,579)	(2,579)	(2,579)
Other LT liabilities & prov	6,784	11,471	11,423	12,503	13,719
Current Liabilities	56,357	63,929	66,886	72,419	78,652
Short-term borrowings	8,055	8,342	8,342	8,342	8,342
Trade payables	22,758	23,117	24,274	26,569	29,153
Other cur liabilities & Prov	25,544	32,470	34,270	37,509	41,157
Total Liabilities	219,925	257,991	287,698	323,947	364,244
Assets					
Non-current Assets	70,064	94,726	97,854	102,309	107,038
Fixed assets	30,635	35,457	37,457	39,457	41,457
Non-current investments	20,475	35,181	35,181	35,181	35,181
Long-term loans & adv	2,910	4,329	4,203	4,612	5,067
Other non-current assets	16,044	19,759	21,013	23,059	25,333
Current assets	149,861	163,265	189,845	221,638	257,207
Current investments	11,248	21,647	21,647	21,647	21,647
Trade receivables	57,705	53,377	56,315	61,799	67,892
Inventories	403	611	672	738	811
Cash & bank balances	23,978	20,013	39,766	59,053	80,725
Short-term loans & adv	24,455	33,608	35,302	38,739	42,559
Other current assets	32,072	34,009	36,142	39,662	43,573
Total Assets	219,925	257,991	287,698	323,947	364,244

Cash flow Statement

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
PBT	39,163	38,551	46,030	50,834	55,114
Depreciation	6,168	12,524	10,640	11,364	13,183
Interest Exp	970	1,286	1,408	944	750
Others	26	(380)	412	748	748
CF before W.cap	46,328	51,981	58,490	63,890	69,796
Inc/dec in W.cap	30,347	132	5,045	8,348	9,177
Op CF after W.cap	15,981	51,849	53,445	55,542	60,618
Less Taxes	8,183	9,785	11,081	12,200	13,227
Net CF From Operations	7,797	42,064	42,363	43,342	47,391
Inc/(dec) in F.A + CWIP	10,507	14,603	12,640	13,364	15,183
(Pur)/sale of Investments	(7,594)	25,105	-	-	-
Others	(970)	(1,286)	(1,408)	(944)	(750)
CF from Invst Activities	(3,884)	(40,994)	(14,048)	(14,308)	(15,933)
Loan Raised/(repaid)	3,275	2,174	-	-	-
Equity Raised	6,328	3,047	20	20	20
Dividend	13,588	10,256	8,582	9,766	9,806
CF from Fin Activities	(3,985)	(5,035)	(8,563)	(9,746)	(9,786)
Net inc/(dec) in cash	(71)	(3,965)	19,753	19,287	21,672
Op. bal of cash	24,049	23,978	20,013	39,766	59,053
Cl. balance of cash	23,978	20,013	39,766	59,053	80,725



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