

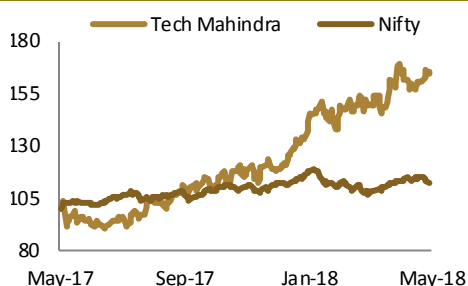
Market statistics

Current stock price (₹)	702
Shares O/S (cr.)	97.9
Mcap (₹ cr)	68,834
52W H/L (₹)	729/358
6m avg. volume	3,097,739
Bloomberg	TECHM IN

Shareholding pattern

Promoters	36.00
Domestic Institution	12.44
Foreign Institution	38.99
Non-institution	12.57
of which more than 1%	

Tech Mahindra vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	20.8	19.2	19.0
EPS (₹)	43.0	44.7	49.3
CEPS (₹)	62.0	65.5	71.7
P/E (x)	13.2	14.0	12.7
P/BV (x)	2.6	2.5	2.3
EV/EBITDA (x)	8.7	8.2	7.3
Income growth (%)	5.6	9.6	9.3
EBITDA growth (%)	12.7	17.2	9.8
PAT growth (%)	31.6	5.9	10.9

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in

Tech Mahindra's 4QFY18 result was better-than-expectation operationally, both on the revenue and PAT front. TechM reported revenues at US\$1,244mn (up 2.9% QoQ, 1.7% in cc terms). OPM increased by 127bps QoQ to 17.5% 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\$1,244mn (up 2.9% QoQ, 1.7% in cc terms). The growth continued to be driven by enterprise vertical (up 5.1%/19.7% QoQ/YoY), while the communication vertical remained muted (excluding LCC, telecom revenue reported growth). Margin performance was healthy; with EBITDA margin increasing 127bps to 17.5% led by continued benefits from a reduction in headcounts (software services headcounts declined 12% YoY), improved utilization (84% vs 83% in Q3), better business mix, seasonal tailwinds in communication business and a favourable currency. 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 72,437, BPO at 34,190 and Support staff at 6,180 (Net employees left TECHM; 2,434 QoQ to 112,807 employees). Tech Mahindra won 9 large deals. Further, higher than expected other income and lower tax due to tax benefit of its US subsidiary (18.6% vs 21.8% in Q3) 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.

Other highlights: Manufacturing and Technology, Media & Entertainment: Technology, Media & Entertainment/Manufacturing registered growth of 15.6%/4% respectively. Telecom revenues were flat QoQ at US\$518mn, while BFSI increased 0.6% QoQ. Tech Mahindra added 10 active clients during the quarter. The total active client count stood at 913 clients at the end of 4Q. Utilisation stood at 84%, up from 83% in 3Q. Employee attrition increased by 100 bps QoQ to 18%. The growth was continued to be driven by enterprise vertical (up 5.1% QoQ), while the communication vertical remained weak.

Near-term outlook: Tech Mahindra management indicated that it expects margin improvement to be gradual from hereon led by automation. The management believes Q1FY19 margins of TechM would be impacted due to a wage hike (60% of employees in Q1, while 40% in Q2), seasonality in Comviva and visa cost, though the depreciation of rupee could provide some respite.

Valuation and Outlook: We expect TECHM to grow its USD revenues at a CAGR of 9% 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	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	Comments
Revenues (In US\$mn)	1,131	1,209	1,244	2.9	10.0	Top-5/6-10 clients' revenue was up 2.9% and down 2.2% respectively, and growth came in from # Top 11-20 clients (+13.4% QoQ).
Revenues	74,950	77,760	80,545	3.6	7.5	
- Operating costs	65,963	65,113	66,426	2.0	0.7	
EBITDA	8,987	12,647	14,119	11.6	57.1	EBIT margin increased 108 bps QoQ on account of revenue trajectory, better productivity and increased utilization.
EBITDA margin (%)	12.0	16.3	17.5	127bps	554bps	
- Interest expense	318	341	527	54.5	65.7	
- Depreciation	2,835	2,742	2,986	8.9	5.3	
+ Other income, net (incl forex)	2,378	2,250	4,513	100.6	89.8	
PBT	8,212	11,814	15,119	28.0	84.1	
- Taxes	2,316	2,570	2,810	9.3	21.3	Tax rate to remain in the range of ~24-25% for FY19.
Effective tax rate (%)	28.2	21.8	18.6	(317)bps	(962)bps	
PAT	5,896	9,244	12,309	33.2	108.8	
- Minority interest	(17)	187	(88)	NA	NA	
Consolidated PAT	5,879	9,431	12,221	29.6	107.9	
Net margin (%)	7.8	12.1	15.2	304bps	733bps	
Reported profits	5,879	9,431	12,221	29.6	107.9	

Source: Company

Exhibit 2: Change in estimates

mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	5,179	5,188	0.2	5,690	5,668	(0.4)
Revenue	336,664	337,203	0.2	369,861	368,416	(0.4)
EBITDA margin (%)	15.3	16.4	105bps	15.4	16.5	105bps
EPS (₹)	44.3	44.7	0.9	47.6	49.3	3.6

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
North America	46.8	49.0	48.3	46.7	45.1	46.8	45.3	46.9	47.4
Europe	28.5	28.3	29.7	29.4	29.6	29.8	30.0	29.8	29.6
RoW	24.7	22.7	22.0	23.9	25.3	23.4	24.7	23.3	23.0
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	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Onsite	63.2	63.4	63.5	63.9	64.3	63.7	64.1	65.8	67.0
Offshore	36.8	36.6	36.5	36.1	35.7	36.3	35.9	34.2	33.0
Utilisation (incl. trainees)	77	78	78	77	77	77	81	83	84

Source: Company



Human Resources: Software Professionals stood at 72,437, BPO at 34,190 and Support staff at 6,180 (Net employees left TECHM; 2,434 QoQ to 112,807 employees).

Exhibit 5: Employee strength at TECHM

Details	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Software Professionals	72,125	73,590	78,404	80,858	82,403	78,996	75,587	73,460	72,437
BPO employees	27,254	27,326	27,669	29,372	28,414	30,322	35,287	35,496	34,190
Sales & Support	6,053	6,300	6,813	6,865	6,876	6,662	6,351	6,285	6,180
Total employees	105,432	107,216	112,886	117,095	117,693	115,980	117,225	115,241	112,807

Source: Company

Client Concentration: The company added 2 and 4 clients QoQ in the US\$10mn+ and US\$20mn+ to take the clients total to 85 and 44 respectively. Top-5/6-10 clients' revenue was up 2.9% and down 2.2% respectively, and growth came in from # Top 11-20 clients (+13.4% QoQ).

Exhibit 6: Client details

Vertical Mix	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
No. of Active Clients	807	818	825	837	843	864	885	903	913
> \$1 million clients	319	317	341	356	354	377	390	389	392
> \$5 million clients	112	120	120	128	134	139	147	154	156
> \$10 million clients	63	64	66	65	71	74	81	83	85
> \$20 million clients	40	42	40	38	36	41	40	40	44
> \$50 million clients	14	14	14	14	14	14	14	16	16
Top 5 clients (%)	28	29	29	28	27	26	25	23	23
Top 10 clients (%)	39	40	40	38	38	36	35	33	33
Top 20 clients (%)	52	53	52	51	49	49	46	45	46

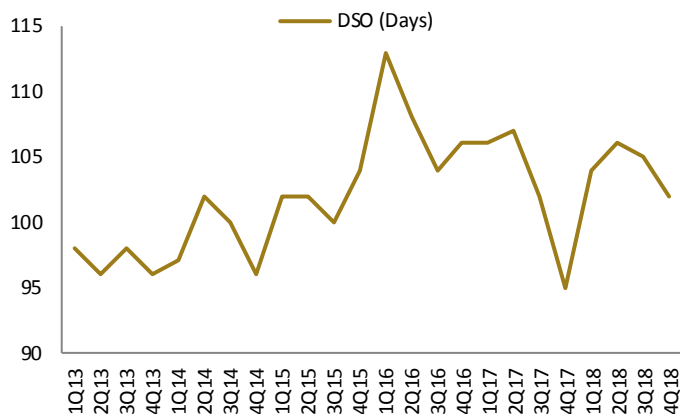
Source: Company

Exhibit 7: Vertical-wise breakup

Employees	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Telecom	50.9	49.2	48.4	47.3	46.3	45.2	43.7	42.8	41.6
Manufacturing	17.1	18.1	19.2	18.4	19.2	19.3	19.0	19.1	19.3
Technology, Media & Ent.	7.5	7.5	7.2	6.4	6.2	6.0	5.9	6.5	7.3
BFSI	10.6	11.3	11.5	13.1	14.1	14.4	14.1	13.3	13.0
Retail, Transport & Logistics	6.2	6.5	6.8	7.6	6.5	6.8	7.2	7.1	6.2
Others	7.7	7.4	6.9	7.2	7.7	8.3	10.1	11.2	12.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

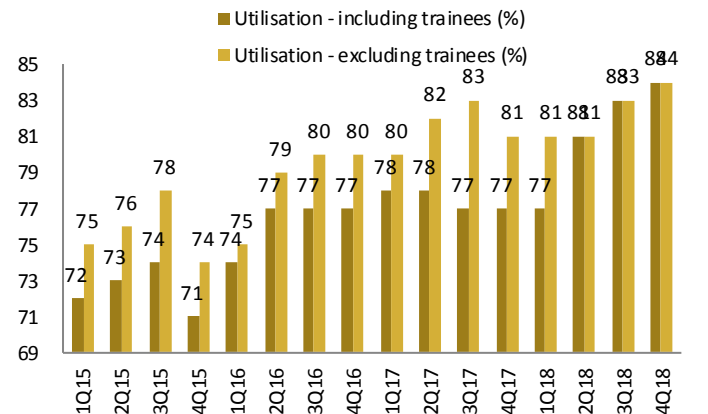
Source: Company

Exhibit 8: DSO days decreased 3 days QoQ (incl. unbilled)



Source: Company, Trust

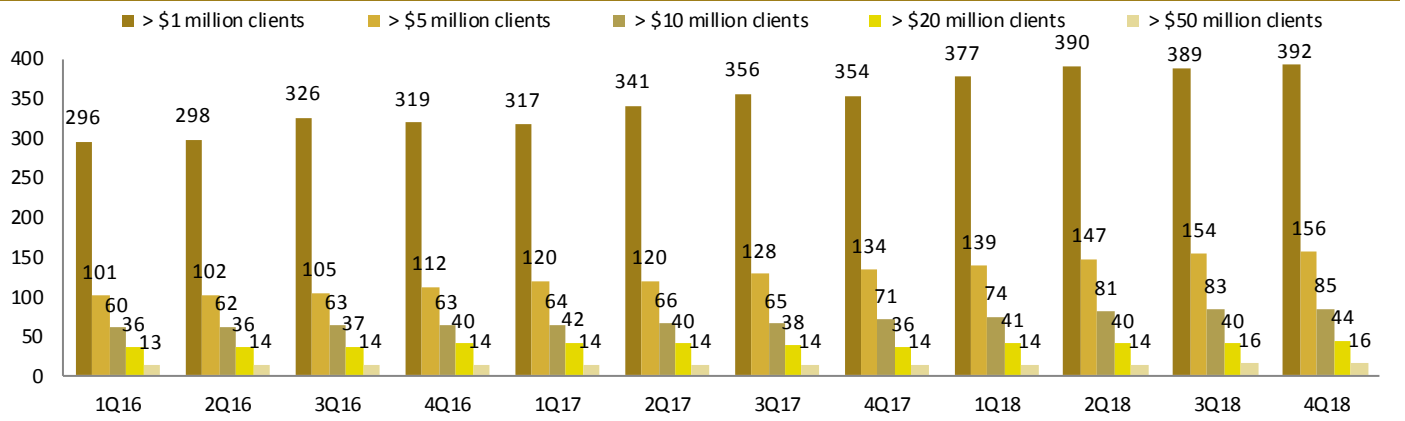
Exhibit 9: Utilization has limited room as a margin lever



Source: Company, Trust



Exhibit 10: TECHM added 2 and 4 clients QoQ in the US\$10mn+ and US\$20mn+ bracket



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Revenues	264,942	291,408	307,730	337,203	368,416
Op. Expenses	222,235	249,565	260,560	281,901	307,691
EBITDA	42,707	41,843	47,170	55,301	60,725
Other Income	5,015	7,775	14,092	11,500	12,500
Depreciation	7,589	9,781	10,849	12,232	13,183
EBIT	40,133	39,837	50,413	54,569	60,042
Interest	970	1,286	1,624	1,808	750
PBT	39,163	38,551	48,789	52,761	59,292
Tax	8,183	9,785	10,925	12,663	14,823
PAT	30,979	28,766	37,864	40,098	44,469
Minority	26	(357)	137	(352)	(352)
Adj Pat	31,006	28,386	38,001	39,746	44,117

Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (₹)					
EPS	35.6	32.3	43.0	44.7	49.3
CEPS	49.8	48.9	62.0	65.5	71.7
BVPS	201.2	218.6	247.2	276.1	307.3
DPS	12.0	9.0	14.0	15.0	17.0
Payout (%)	39.4	32.5	38.1	39.3	40.4
Valuation (x)					
P/E	11.8	11.8	13.2	14.0	12.7
P/BV	2.4	2.0	2.6	2.5	2.3
EV/EBITDA	6.9	6.2	8.7	8.2	7.3
Dividend Yield (%)	1.7	1.3	2.2	2.1	2.4
Return ratio (%)					
EBITDA Margin	16.1	14.4	15.3	16.4	16.5
PAT Margin	11.7	9.9	12.3	11.9	12.1
ROAE	21.3	17.4	20.8	19.2	19.0
ROACE	25.8	22.8	26.4	25.5	25.1
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.2)	(0.2)	(0.2)	(0.4)	(0.4)
Debt/EBITDA	0.0	0.1	0.2	0.1	0.1
Interest Coverage	41.4	31.0	31.0	30.2	80.1
Current ratio	2.7	2.6	2.3	2.5	2.6
Growth Ratios (%)					
Income growth	17.9	10.0	5.6	9.6	9.3
EBITDA growth	3.8	(2.0)	12.7	17.2	9.8
PAT growth	17.8	(7.1)	31.6	5.9	10.9
Turnover Ratios					
F.A Turnover x	8.6	8.2	9.0	9.3	9.7
Debtors Days	86	70	79	81	80
Payable days	41	36	29	29	29

Balance Sheet (₹ mn)

Year End-March	FY16	FY17E	FY18	FY19E	FY20E
Equity Share Capital	4,355	4,388	4,417	4,447	4,477
Reserves & Surplus	153,858	172,288	196,315	220,453	246,760
Total Shareholders Fund	158,213	176,676	200,732	224,900	251,237
Minority Interest	1,927	4,641	5,091	5,091	5,091
Non- current liabilities	3,428	12,745	13,617	14,361	15,491
Long term Borrowings	1,966	3,853	7,711	7,711	7,711
Deferred tax liabilities	(5,322)	(2,579)	(5,708)	(5,708)	(5,708)
Other LT liabilities & prov	6,784	11,471	11,613	12,357	13,488
Current Liabilities	56,357	63,929	79,167	83,693	90,476
Short-term borrowings	8,055	8,342	9,549	9,549	9,549
Trade payables	22,758	23,117	20,368	21,625	23,604
Other cur liabilities & Prov	25,544	32,470	49,250	52,519	57,323
Total Liabilities	219,925	257,991	298,607	328,044	362,295
Assets					
Non- current Assets	70,064	94,726	117,537	122,699	127,441
Fixed assets	30,635	35,457	34,115	36,115	38,115
Non-current investments	20,475	35,181	56,966	56,966	56,966
Long-term loans & adv	-	9	52	55	61
Other non-current assets	18,954	24,079	26,404	29,563	32,299
Current assets	149,861	163,265	181,070	205,345	234,854
Current investments	11,248	21,647	34,449	34,449	34,449
Trade receivables	57,705	53,377	64,979	71,136	77,721
Inventories	403	611	659	739	807
Cash & bank balances	23,978	20,013	19,661	57,448	76,456
Short-term loans & adv	-	4,287	1,500	1,848	2,019
Other current assets	56,527	63,331	59,822	39,725	43,402
Total Assets	219,925	257,991	298,607	328,044	362,295

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	39,163	38,551	48,789	52,761	59,292
Depreciation	6,168	12,524	7,720	12,232	13,183
Interest Exp	970	1,286	1,624	1,808	750
Others	26	(380)	137	(352)	(352)
CF before W.cap	46,328	51,981	58,270	66,449	72,873
Inc/dec in W.cap	30,347	132	(6,450)	(15,620)	5,329
Op CF after W.cap	15,981	51,849	64,721	82,069	67,544
Less Taxes	8,183	9,785	10,925	12,663	14,823
Net CF From Operations	7,797	42,064	53,796	69,406	52,721
Inc/(dec) in F.A + CWIP	10,507	14,603	9,507	14,232	15,183
(Pur)/sale of Investments	(7,594)	25,105	34,587	-	-
Others	(970)	(1,286)	(1,624)	(1,808)	(750)
CF from Invst Activities	(3,884)	(40,994)	(45,718)	(16,040)	(15,933)
Loan Raised/(repaid)	3,275	2,174	5,065	-	-
Equity Raised	6,328	3,047	975	30	30
Dividend	13,588	10,256	14,470	15,609	17,810
CF from Fin Activities	(3,985)	(5,035)	(8,430)	(15,579)	(17,780)
Net inc/(dec) in cash	(71)	(3,965)	(352)	37,787	19,008
Op. bal of cash	24,049	23,978	20,013	19,661	57,448
Cl. balance of cash	23,978	20,013	19,661	57,448	76,456



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales				
Vijay Shah	Sales		vijay.shah@trustgroup.in	+91-22-4084-5090
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4084-5028
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
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
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119

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