

Tech Mahindra

BSE SENSEX	S&P CNX
33,891	10,198
Bloomberg	TECHM IN
Equity Shares (m)	985
M.Cap.(INRb)/(USDb)	670.7 / 9.1
52-Week Range (INR)	780 / 459
1, 6, 12 Rel. Per (%)	-2/7/39
12M Avg Val (INR M)	2195
Free float (%)	64.0

CMP: INR684
TP: INR800(+17%)
Buy

Telecom strength offset by Enterprise softness

Execution on margins drives better-than-expected operating profit

- Revenue miss offset by margins beat:** TECHM's CC revenue came in flattish QoQ (+0.4% v/s our estimate of +1.5%) in 2QFY19. The miss can be ascribed to a sharper-than-expected decline in Healthcare. EBITDA margin expanded 240bp QoQ, mainly led by operational efficiencies and currency tailwinds. PAT growth of 19% QoQ was marginally below our estimate because of lower other income.
- Encouraging pick-up in Telecom:** Telecom revenue grew 5% QoQ CC, and is followed by two strong quarters of deal wins. Continual of the broad-based uptick in momentum is further substantiated by additional USD300m of wins in this quarter (of a total of USD550m) and a seasonally strong upcoming 2H.
- HCI softness impacts performance:** Enterprise had been growing in the high-teens for the last eight quarters. However, the USD40m decline in HCI resulted in growth rates dropping to -3.4% QoQ and +7.9% YoY. With new orders expected to partly fill the void in HCI and continued growth in the verticals of Manufacturing and Technology, Media & Entertainment, Enterprise is on track to achieve the targeted 8-10% YoY growth in FY19.
- Valuation view:** The softness in Enterprise offsets the strong performance and commentary on Telecom, driving a minor downward revision to our revenue estimates. However, the strong margins performance comes in as equipoise, leaving earnings unchanged. We expect revenue/EPS CAGR of 6/12% over FY18-20. At 14.3/12.7x FY19/20E, TECHM's valuations are attractive, considering the rerating potential from sustained Telecom growth. Our TP of INR800 discounts forward earnings by 14x. Maintain **Buy**.

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	307.7	353.9	396.7
EBITDA	47.2	66.3	74.2
PAT	38.0	43.4	48.6
EPS (INR)	42.7	48.0	54.0
Gr. (%)	33.6	12.5	12.4
BV/Sh (INR)	213.4	231.8	271.9
RoE (%)	21.5	22.0	21.7
RoCE (%)	17.8	18.2	18.2
P/E (x)	16.0	14.3	12.7
P/BV (x)	3.2	3.0	2.5

Estimate change

TP change

Rating change


Quarterly Performance (Consolidated)

Y/E March	FY18				FY19E				FY18	FY19E	Est. 2Q	Var. (% /
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue (USD m)	1,138	1,179	1,209	1,244	1,224	1,218	1,248	1,292	4,771	4,983	1,226	-0.6
QoQ (%)	0.6	3.6	2.5	2.9	-1.6	-0.5	2.5	3.5	9.6	4.4	0.1	-62bp
Revenue (INR m)	73,361	76,064	77,760	80,545	82,763	86,298	90,495	94,344	307,730	353,900	86,047	0.3
YoY (%)	6.0	6.1	2.9	7.5	12.8	13.5	16.4	17.1	5.6	15.0	13.1	33bp
GPM (%)	28.0	29.3	30.8	31.9	30.7	34.0	35.4	36.3	30.0	34.2	31.9	214bp
SGA (%)	15.3	14.7	14.6	14.3	14.3	15.3	16.0	13.8	14.7	15.5	14.5	78bp
EBITDA	9,347	11,057	12,638	14,119	13,569	16,186	17,595	18,908	47,161	66,258	14,968	8.1
EBITDA Margin (%)	12.7	14.5	16.3	17.5	16.4	18.8	19.4	20.0	15.3	18.7	17.4	136bp
EBIT Margin (%)	9.4	11.0	12.7	13.8	13.0	15.3	16.1	16.8	11.8	15.4	13.9	144bp
Other income	4,106	3,222	2,250	4,513	1,114	1,751	562	803	14,091	4,230	3,164	-44.7
Interest expense	370	386	341	527	305	388	267	266	1,624	1,226	253	53.5
ETR (%)	25.4	25.3	21.8	18.6	21.2	26.8	25.0	25.0	22.4	24.7	24.0	
PAT excl. BT amort & EOI	7,985	8,362	9,422	12,221	8,979	10,642	11,039	12,184	37,990	43,361	11,202	-5.0
QoQ (%)	35.8	4.7	12.7	29.7	-26.5	18.5	3.7	10.4			24.8	
YoY (%)	21.7	29.7	10.1	107.9	12.4	27.3	17.2	-0.3	38.3	14.1	34.0	
EPS (INR)	9.0	9.4	10.6	13.7	10.1	11.9	12.4	13.7	42.6	48.0	12.6	
Headcount	115,990	117,225	115,241	112,807	113,552	118,391	120,755	112,807	112,807	124,633	114,690	3.2
Util excl. trainees (%)	77.0	81.0	83.0	84.0	81.0	81.0	82.8	84.0	81.1	82.1	84.7	-366bp
Attrition (%)	17.0	16.0	17.0	18.0	19.0	20.0						
Offshore rev. (%)	36.3	35.9	34.2	33.0	33.4	35.5	35.6	33.0	34.8	35.0	35.8	-33bp

Ashish Chopra – Research Analyst (Ashish.Chopra@MotilalOswal.com); +91 22 6129 1530

Sagar Lele – Research Analyst (Sagar.Lele@MotilalOswal.com); +91 22 6129 1531 / Anmol Garg – Research Analyst (Anmol.Garg@MotilalOswal.com)

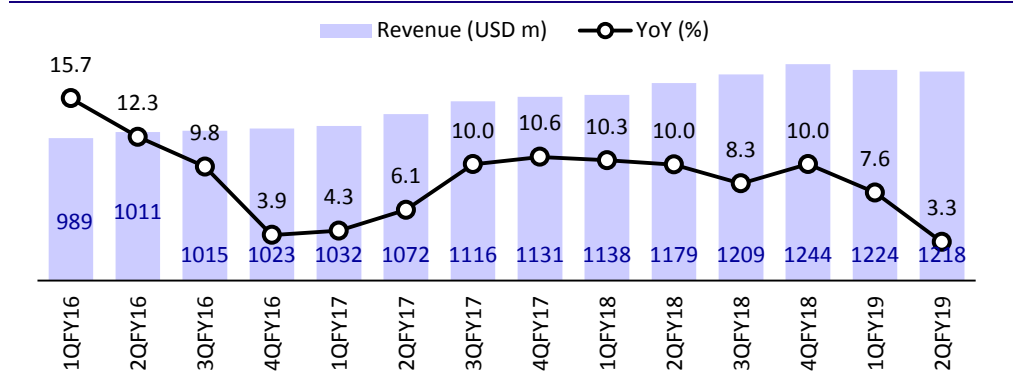
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Revenue marginally below expectations

- TECHM’s 2QFY19 constant currency revenue was flattish QoQ (0.4%), compared to our expectation of 1.5% QoQ CC.
- Our expectation was based on strength in Telecom being offset by some softness in Enterprise.
- In USD terms, revenue declined by 0.5% QoQ against an estimate of 0.1% growth. The cross-currency impact was 90bp while our calculations suggested 140bp.
- Constant currency growth in Communication was 5% QoQ. The decline in Healthcare was to the tune of USD40, excluding which Enterprise grew by 3.5% QoQ in CC terms.

Exhibit 1: Revenue deceleration caused by softness in Healthcare

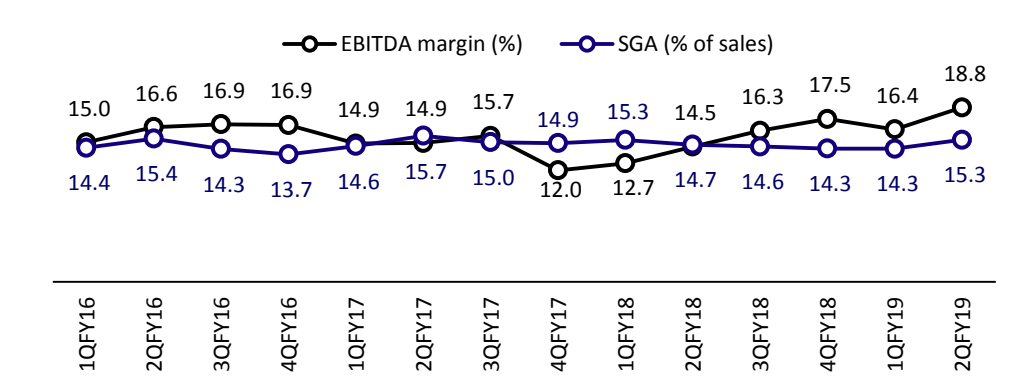


Source: MOSL, Company

Robust margin performance

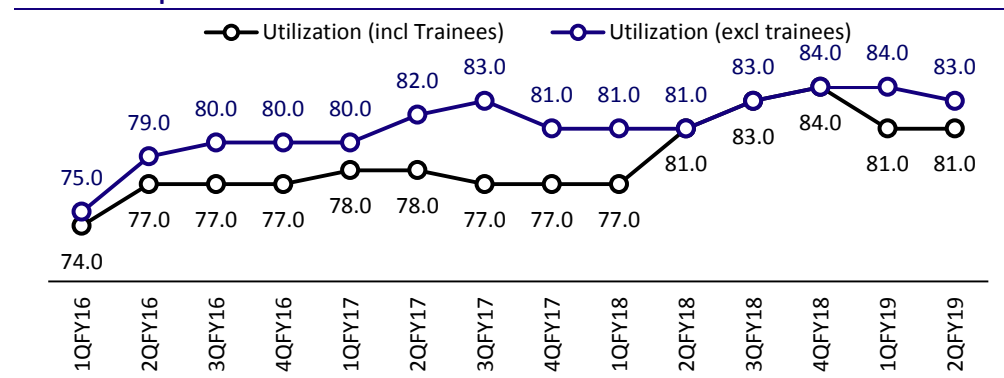
- EBITDA margin was 18.8%, up 240bp QoQ, better than our estimate of 17.4% (a beat of 140bp).
- Gross margin at 34% expanded by 330bp QoQ, and SGA increased by 100bp (as a percentage of revenue) resulting in 240bp expansion on EBITDA margin.
- The impact of wage hikes (-40bp) was more than offset by (i) the absence of visa expenses and INR depreciation (+80bp), and (ii) operational efficiencies and business mix (+140bp).

Exhibit 2: Margins improved even after adjusting for 1Q visa costs and currency



Source: MOSL, Company

Exhibit 3: Gap in utilization metrics because of fresher additions



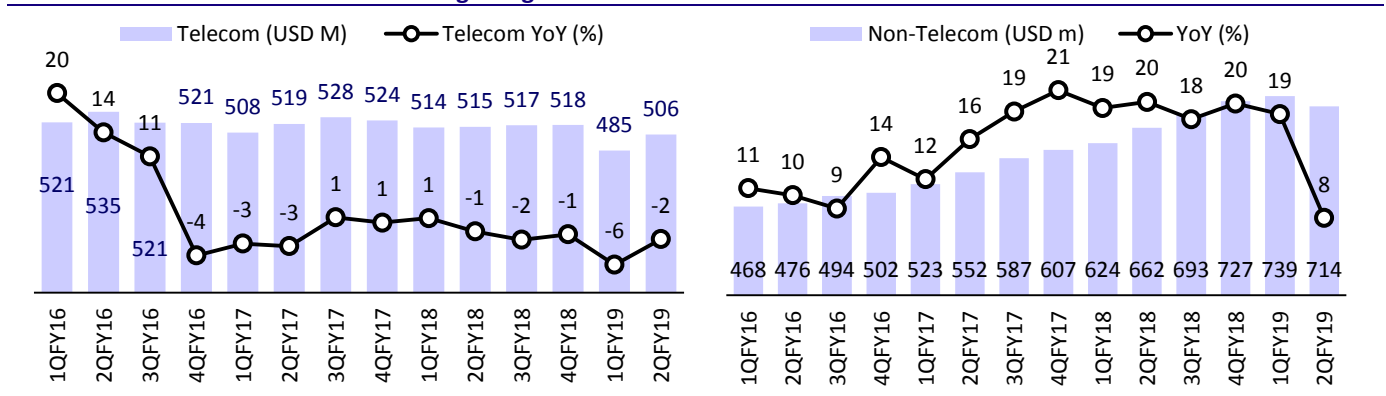
Source: Company, MOSL

- Other income during the quarter was lower at INR1,751m (versus expectations of INR3,164m).
- PAT at INR10.6b grew 19% QoQ; a tad lower than what we estimated as the margin beat was offset by lower other income.

Pick-up in Communications after three years

- In terms of verticals, Telecom grew by 4.3% QoQ – the highest sequential growth since FY15. It is however yet to see a YoY growth in revenue.
- Enterprise declined by 3.4% QoQ. A sequential decline was seen in Manufacturing (-0.5%), BFSI (-1.2%) and Others (-16.8%).
- The weakness in Others would have been led by Healthcare, which in the preceding few quarters had seen very high growth.

Exhibit 4: Communication revenue seen getting better



Source: MOSL, Company

Exhibit 5: Communication growth offset by softness in Enterprise

Verticals	Contr to Rev. (%)	Growth - QoQ (%)	4Qtr CQGR (%)
Communication	41.5	4.3	(0.5)
Manufacturing	20.1	(0.5)	2.2
Tech Media Entertainment	7.3	0.9	6.3
BFSI	13.5	(1.2)	(0.3)
Retail Transport Logistics	6.5	6.0	(1.7)
Others	11.2	(16.8)	4.0
Total	100.0	(0.4)	0.9

Source: Company, MOSL

- Amongst geographies, a sequential decline was seen in Americas (-3.0%) and in Europe (-1.8%). However, strong growth of 6.3% in ROW offset that.

Exhibit 6: Decline seen in Americas and in Europe in 2QFY19

Geographies	Contr to Rev. (%)	Growth - QoQ (%)	4Qtr CQGR (%)
Americas	47.0	(3.0)	1.7
Europe	29.6	(1.8)	0.5
ROW	23.4	6.3	(0.5)
Total	100.0	(0.4)	0.9

Source: Company, MOSL

- Top clients too saw polarized trends. While the top 5 grew by 5.9% QoQ, the top 6-10 declined by 11.7% QoQ and the top 11-20 declined by 6.3% QoQ.
- On a YoY basis, the top 5 declined by 2.9%, the top 6-10 declined by 5.7%, and the top 11-20 grew by 20.1%.

Exhibit 7: Mixed top client trends

Client concentration (QoQ)	Contr to Rev. (%)	Growth - QoQ (%)	4Qtr CQGR (%)
Top 5 clients	23.3	5.9	(0.7)
Top 6-10 clients	9.4	(11.7)	(1.5)
Top 11-20 clients	12.9	(6.3)	4.7

Source: Company, MOSL

Takeaways from management commentary

- **2Q performance:** From the revenue standpoint, 2Q appeared a little tepid. The primary reason for this was the decline in Healthcare, excluding which Enterprise revenue grew by 3.5% QoQ. Growth in Communication at 5% QoQ was strong post 15 quarters of moderate numbers.
- **HCI:** Implementation revenue came off in HCI because of completion of projects. The order book in this business is now building up, with new deals coming in and the business will show YoY growth for the year. Over the next couple of quarters, lost revenue is expected to start getting recovered.
- **Robust deal wins:** TECHM won deals worth USD550m during the quarter. Of these, USD300m were in Communications and USD250m in Enterprise. Deals in Communications were well distributed geographically. While the duration of most deals is 4-5 years, there are some with shorter cycles. Communication deals had a high amount of 5G and Enterprise had a high component of Digital.
- **Healthy outlook for Communications:** The trajectory for Communications appears positive given the deal flow and wins. TECHM is confident of seeing a better 2H, as it is seasonally strong. Opportunities are spread across focus areas, and are aligned with the capabilities that TECHM has built over time.
- **Enterprise on track:** While growth in Healthcare was slower, that in Manufacturing was strong on a YoY basis. There are multiple levers for growth in Enterprise, and it is on track to achieving 8-10% growth for the year.

Change in estimates

- The quarter was marked by strong growth in Communication being offset by a sharp decline in HCI. Factoring these two in our assumptions, we have changed our revenue expectations for FY19/20 by -0.1/-0.7%.
- However, margin performance during the quarter was robust, and expectations of continued expansion through the rest of the year make a case for upward revision of estimates. We have accordingly adjusted our expectations upward by 70/50bp for FY19/20.
- The counterbalancing factors of slightly reduced revenue and slightly increased margin assumptions cancel each other out resulting in unchanged earnings estimates.

Exhibit 8: Change in estimates

	Revised			Earlier			Change		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
INR/USD	71.0	73.4	72.0	70.9	73.4	72.0	0.2%	0.0%	0.0%
USD Revenue - m	4,983	5,404	5,922	4,989	5,439	5,918	-0.1%	-0.7%	0.1%
USD rev Gr.(%)	4.4	8.4	9.6	4.6	9.0	8.8	-12bp	-60bp	81bp
EBIDTA Margin (%)	18.7	18.7	18.1	18.0	18.2	17.5	73bp	53bp	68bp
EPS - INR	48.0	54.0	58.1	48.0	54.4	60.5	0.1%	-0.7%	-4.0%

Source: Company, MOSL

Valuation view

A foreword on the long term industry view: Growth for Indian IT should gradually pick-up from current 6-7% as Digital services proliferate, which today are still small to move the needle on overall performance. India will continue to remain the hotbed for talent supply en masse, making a case for increasing shift of Digital business from onsite. That said, with Automation the top priority of every Board, without exceptions, delineation of revenue growth with headcount growth appears obvious – and the only lever to stem the decline in profitability witnessed in recent years.

TECHM in that industry backdrop

- **Prowess in Telecom:** TECHM has strong capabilities in Communications (nearly half of current revenue) and works with most of the major global service providers. It has historically benefitted out of upswings in capital expenditure triggered by adoption of new technology. With 5G implementation being spoken of by most providers, 2019 looks like the year that will see higher spends in the industry – benefitting TECHM directly.
- **Sustained outperformance in Enterprise:** TECHM has been able to see sustained outperformance in Enterprise, because of [1] success in large deal wins [2] less baggage of traditional services, [3] small scale in most verticals and [4] sizeable Engineering revenue. Above-industry growth has been an indicator of competitive prowess, a sustenance of which will bode well for overall growth.

Basis the above (mid-single digit growth in Telecom and 10-12% in Enterprise), we expect TECHM to grow revenues in line with the industry as of today. However, any uptick in spend in Telecom would be reflected in better performance for the company. Assuming a pick-up in spend in Telecom towards FY20/21E, our roll forward earnings CAGR over the next three years at 10% for TECHM is in line with industry, but with the potential of being higher.

Exhibit 9: TECHM – Business Construct

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
USD revenue growth (%)	6.9	17.7	18.2	10.2	7.8	9.6	4.4	8.4	9.6
Employee growth (%)	12.1	7.6	15.5	2.1	11.6	(4.2)	10.5	8.1	8.5
Revenue per employee (USDk per annum)	33,490	35,910	38,018	38,689	39,002	41,394	41,972	41,669	42,163
EBITDA margin (%)	21.4	22.2	18.5	16.4	14.4	15.3	18.7	18.7	18.1
EPS growth (%)	23.6	40.2	(4.5)	19.0	(12.6)	37.0	13.6	12.1	7.3

Source: Company, MOSL

Valuation and view

- Restructuring of LCC and sluggish offtake in the large deals signings in Communications have dragged TECHM's revenue growth performance, and more so the margins.
- While Telecom recovery may be gradual, there are some structural strengths in TECHM's business to drive much improved growth over the medium-to-long term:
 - Success in large deal wins and above-industry growth in the Enterprise segment is an encouraging indicator of improving competitive prowess.
 - Network management services have potentially expanded the addressable market for TECHM, with directly addressable spend standing at ~USD40b. That may not start playing out until TECHM brings the LCC house in order

(revenue has been pruned down to ~USD300-310m annualized in run rate USD430m during acquisition 1 year ago).

- TECHM also has a sizeable scale in Engineering services, and the opportunity in the same can be leveraged, especially after the acquisition of Mahindra Engineering Services (MES)
- Profitability has taken a hit for TECHM over the last three years, with a cumulative decline in EBITDA margin of 780bp over FY14-17. This has shown improvement intermittently as the company squeezed some of its operational levers and underwent cost optimization. However, further improvement in margins would be a function of a serious pick-up in revenue from the Communications vertical and from better performance in portfolio companies.
- We expect TECHM to grow its revenues/EPS at a CAGR of 6/12% over FY18-20. At 14.3/12.7x FY19/20E, TECHM’s valuations are attractive considering the recovery demonstrated in margins, which may now be followed by strong traction in Telecom.

What it means for the target price

- **3-year view:** This key premise drives our expectation of a target multiple slightly higher than average (not surprising during a heavy Telecom capex cycle) of 15x 1-year forward, which on earnings three years from now works out to INR1,050. This implies a returns CAGR of 15.4%
- **1-year view:** We expect TECHM to grow its revenues/EPS at a CAGR of 6/12% over FY18-20. At 14.3/12.7x FY19/20E, TECHM’s valuations are attractive considering the recovery demonstrated in margins, which may now be followed by strong traction in Telecom. Our TP of INR800 discounts forward earnings by 14x. **Maintain Buy.**

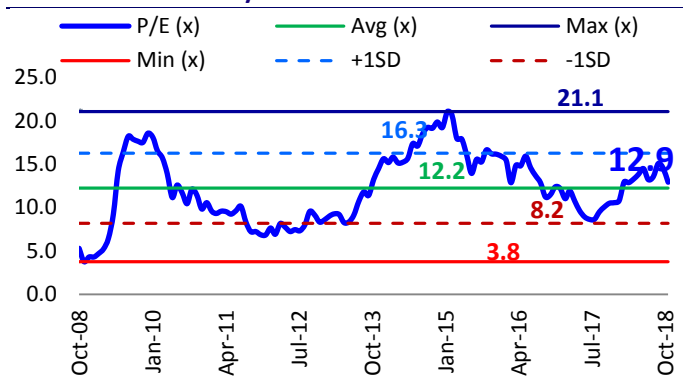
Key Triggers

- Large deal announcements in Enterprise segment
- Continued momentum in Telecom
- Sustained margin improvement on account of measures taken

Key Risks

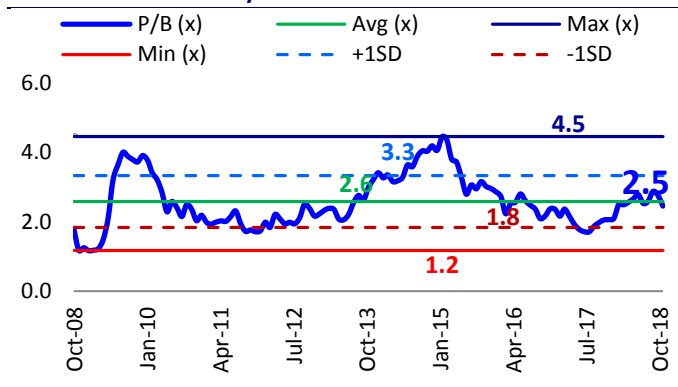
- Adverse visa related regulations as TECHM’s proportion of local resources at onsite is lower than peers
- Currency fluctuations given higher sensitivity to earnings v/s peers
- More adversity in integration of acquisitions

Exhibit 10: TECHM 1-year forward PE chart



Source: Company, MOSL

Exhibit 11: TECHM 1-year forward PB chart



Source: Company, MOSL

Story in charts

Exhibit 12: Communications vertical >40% of revenue

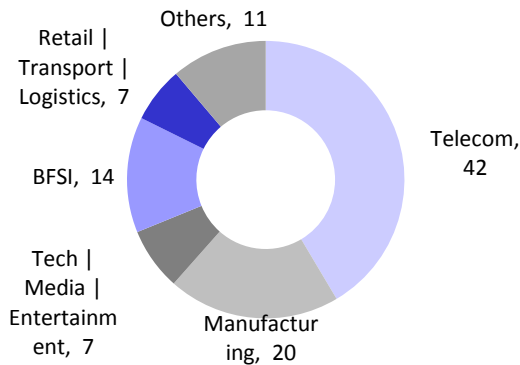
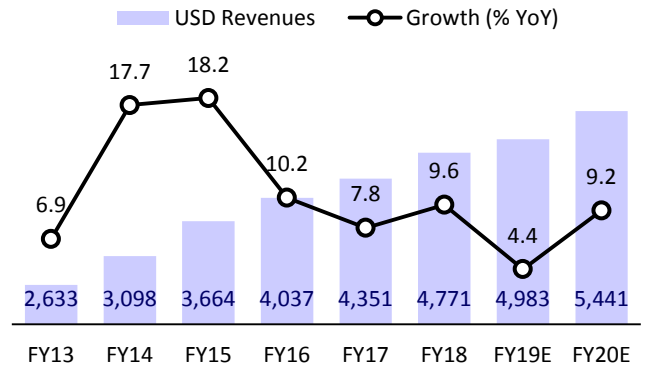


Exhibit 13: Growth expected to turn around



Source: Company, MOSL

Exhibit 14: As the fate of Communication vertical gets better

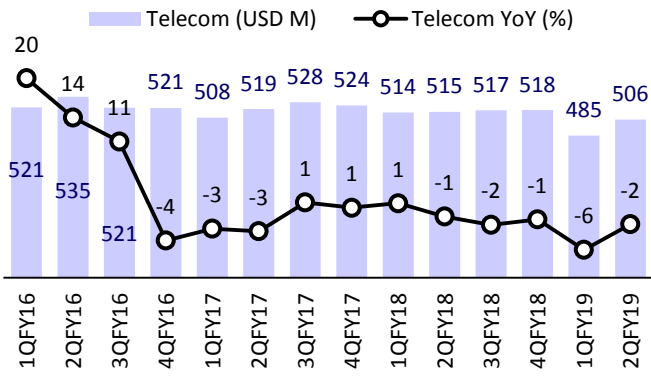
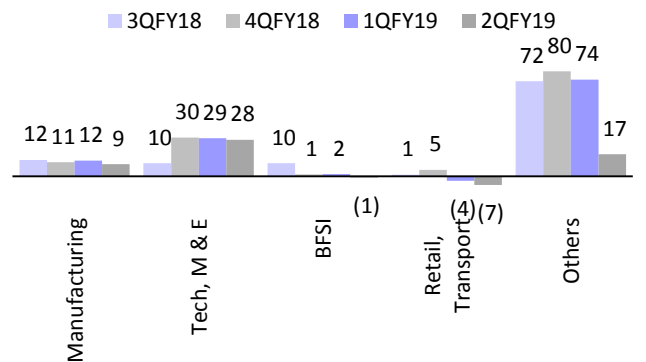


Exhibit 15: Multi-faceted growth in Enterprise



Source: Company, MOSL

Exhibit 16: Significant margin improvement lately

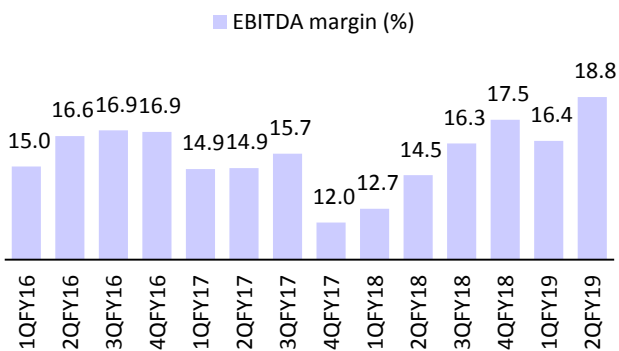
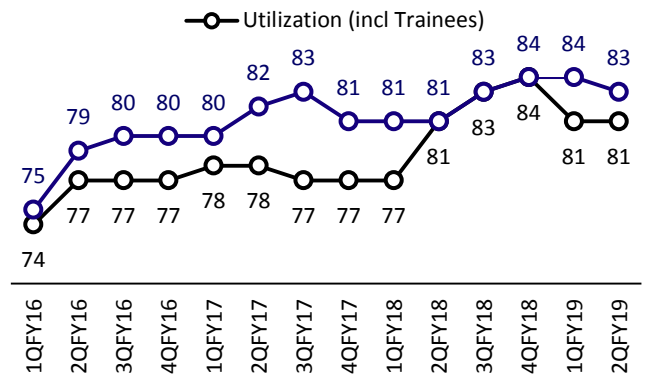


Exhibit 17: Lever of utilization utilized well so far



Source: Company, MOSL

Exhibit 18: Operating metrics

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Revenue by geography (%)										
Americas	49.0	48.3	46.7	45.1	46.8	45.3	46.9	47.4	48.2	47.0
Europe	28.28	29.7	29.4	29.6	29.8	30.0	29.8	29.6	30.0	29.6
Rest of World	22.78	22	23.9	25.3	23.4	24.7	23.3	23.0	21.9	23.4
Vertical Split (%)										
Telecom	49.24	48.4	47.3	46.3	45.2	43.7	42.8	41.6	39.6	41.5
Manufacturing	18.14	19.2	18.4	19.2	19.3	19	19.1	19.3	20.1	20.1
Tech Media Entertainment	7.5	7.2	6.4	6.2	6.0	5.9	6.5	7.3	7.2	7.3
BFSI	11.3	11.5	13.1	14.1	14.4	14.1	13.3	13.0	13.6	13.5
Retail Transport Logistics	6.5	6.8	7.6	6.5	6.8	7.2	7.1	6.2	6.1	6.5
Others	7.3	6.8	7.1	7.7	8.3	9.9	11.3	12.6	13.4	11.2
Onsite-offshore mix (%)										
Onsite	63.4	63.5	63.9	64.3	63.7	64.1	65.8	67.0	66.6	64.5
Offshore	36.6	36.5	36.1	35.7	36.3	35.9	34.2	33.0	33.4	35.5
Client metrics										
No. of active clients	818	825	837	843	864	885	903	913	926	930
% of repeat business	96.3	95.6	93.4	93.5	97.2	95	92.9	88.4	98.5	97.4
No. of Million \$ clients										
USD1m+	317	341	356	354	377	390	389	392	396	407
USD5m+	120	120	128	134	139	147	154	156	154	157
USD10m+	64	66	65	71	74	81	83	85	86	86
USD20m+	42	40	38	36	41	40	40	44	47	45
USD50m+	14	14	14	14	14	14	16	16	16	17
Client concentration (%)										
Top client										
Top 5 Clients	28.8	28.5	27.8	26.6	25.9	24.8	23.2	23.2	21.9	23.3
Top 6-10	11.2	11.4	10.6	11	10.4	10.3	10	9.5	10.6	9.4
Top 11-20	12.6	11.8	12.1	11.4	12.2	11.1	11.8	13	13.7	12.9
Headcount (end of period)										
Software professionals	73,590	78,404	80,858	82,403	78,996	75,587	73,460	72,437	72,462	72,534
BPO	27,326	27,669	29,372	28,414	30,332	35,287	35,496	34,190	34,700	39,407
Sales and Support	6,300	5,670	6,865	6,876	6,662	6,351	6,285	6,180	6,390	6,450
Total	107,216	111,743	117,095	117,693	115,990	117,225	115,241	112,807	1,13,552	118,391
IT Attrition (LTM) (%)										
IT Attrition (LTM) (%)	21	19	18	17	17	16	17	18	19	20
IT Utilization (%)										
IT Utilization (%)	78	78	77	77	77	81	83	84	81	81
IT Utilization (excluding trainees) (%)										
IT Utilization (excluding trainees) (%)	80	82	83	81	81	81	83	84	84	83
Receivable Days (DSO)-Including Unbilled										
Receivable Days (DSO)-Including Unbilled	106	107	102	95	104	106	105	102	108	112
Borrowings (USD m)										
Borrowings (USD m)	200	206.3	211	210.7	320.7	210.7	341.5	367.7	363.2	353.3
Cash and Cash Equivalent (USD m)										
Cash and Cash Equivalent (USD m)	851.2	600.7	728.9	830.2	931.8	913.2	950.1	1192.9	1228.7	1089.8
Capital Expenditure (USD m)										
Capital Expenditure (USD m)	23.5	50.4	28.1	42.8	22.5	70.6	25.6	32.4	27.7	21.3

Source: Company, MOSL

Exhibit 19: Operating metrics

Operating metrics	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Rupee USD Rate										
Period closing rate	67.52	66.61	67.92	64.85	64.57	65.28	63.87	65.17	68.47	72.49
Period average Rate	67.04	66.86	67.7	66.47	64.44	64.45	64.35	64.64	67.51	70.68
Proportion of Revenues From Major Currencies										
USD	50.0	48.9	48.6	45.9	48.6	46.9	47.4	49.4	49.3	48.0
GBP	10.4	11	12	12.3	12.1	12	11.4	12.1	11.6	11.2
EURO	11.2	12.7	11.5	11.4	11.0	11.2	11.9	11.7	11.4	11.4
AUD	4.7	4.6	4.4	4.6	4.8	4.9	4.9	4.6	4.8	4.9
Others	23.7	22.7	23.5	25.8	23.4	24.9	24.5	22.2	22.9	24.5
Consolidated Hedge Position										
GBP In Mn	185.5	192.6	226.7	201	247	260	241	229	213	190
Strike rate (INR)	107.1	104.8	100.2	99.8	97.0	95.4	94.2	94.4	95.1	97
USD In Mn	1246.6	1087.9	1123.2	1030.2	878	646	577	598	894	1069
Strike rate (INR)	71.5	72.4	72.5	72.9	72.6	72.2	72.2	71	70.7	71.9
Verticals (QoQ)										
Telecom	-2.4	2.2	1.7	-0.8	-1.8	0.2	0.4	0.0	-6.4	4.3
Manufacturing	7.0	10.0	-0.3	5.8	1.1	2.0	3.1	4.0	2.5	-0.5
Tech Media Entertainment	0.9	-0.2	-7.5	-1.8	-2.6	1.9	13.0	15.6	-3.0	0.9
BFSI	7.5	5.8	18.6	9.1	2.8	1.5	-3.3	0.6	2.9	-1.2
Retail Transport Logistics	5.8	8.8	16.3	-13.3	5.3	9.7	1.1	-10.1	-3.2	6.0
Others	-4.4	-3.2	8.7	9.9	8.4	23.6	17.0	14.8	4.6	-16.8
Total	0.9	3.9	4.1	1.5	0.6	3.4	2.8	2.8	-1.6	-0.4
Revenue by geography (QoQ)										
Americas	5.6	2.5	0.6	-2.1	4.4	0.3	6.2	4.0	0.0	-3.0
Europe	0.1	9.2	3.0	2.0	1.3	4.3	1.9	2.2	-0.3	-1.8
Rest of World	-7.0	0.4	13.1	7.3	-6.9	9.4	-3.3	1.6	-6.3	6.3
Total	0.9	3.9	4.1	1.4	0.6	3.6	2.5	2.9	-1.5	-0.6
Client concentration (QoQ)										
Top 5	4.1	2.9	1.5	-3.0	-2.0	-0.8	-4.1	2.9	-7.1	5.9
Top 6-10	1.8	5.8	-3.2	5.2	-4.9	2.6	-0.5	-2.2	9.8	-11.7
Top 11-20	-1.5	-2.6	6.7	-4.5	7.7	-5.7	9.0	13.4	3.7	-6.3
Net additions										
Software professionals	1,465	4,814	2,454	1,545	-3,407	-3,409	-2,127	-1,023	25	72
BPO	72	343	1,703	-958	1,918	4,955	209	-1,306	510	4,707
Sales and Support	247	-630	1,195	11	-214	-311	-66	-105	210	60
Total	1,784	4,527	5,352	598	-1,703	1,235	-1,984	-2,434	745	4,839

Source: Company, MOSL

Financials and Valuations

Key assumption

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
INR/USD Rate	54.4	60.8	61.4	65.6	67.0	64.5	71.0	73.4
Revenues (USD m)	2,633	3,098	3,664	4,037	4,351	4,771	4,983	5,404
Total Headcount	83,109	89,441	103,281	105,432	117,693	112,807	124,633	134,726
Net Addition	8,993	6,332	13,840	2,151	12,261	-4,886	11,826	10,093
Per Capita Productivity (USD)	31,678	34,638	35,471	38,294	36,971	42,291	39,981	40,108
Utilization incl. Trainees (%)	73.1	73.1	69.9	74.0	73.4	80.1	79.9	81.9
IT Services (%)	90.5	90.3	91.7	92.6	93.1	92.8	92.4	92.6

Income Statement

(INR Million)

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Net Sales	143,320	188,313	224,779	264,941	291,408	307,730	353,900	396,665
Change (%)	161.1	31.4	19.4	17.9	10.0	5.6	15.0	12.1
EBITDA	30,631	41,836	41,536	43,426	41,843	47,161	66,258	74,245
EBITDA Margin (%)	21.4	22.2	18.5	16.4	14.4	15.3	18.7	18.7
Depreciation	3,896	5,221	6,079	7,620	9,781	10,849	11,852	12,695
EBIT	26,735	36,615	35,457	35,806	32,062	36,312	54,406	61,550
Interest	922	673	689	961	1,286	1,624	1,226	892
Other Income	2,121	1,129	1,006	5,322	6,836	14,091	4,230	3,982
Extraordinary items	-2,940	-1,117	0	0	0	0	0	0
PBT	24,994	35,954	35,774	40,167	37,612	48,779	57,410	64,640
Tax	6,479	9,790	9,472	8,600	9,785	10,925	14,180	16,160
Tax Rate (%)	25.9	27.2	26.5	21.4	26.0	22.4	24.7	25.0
Min. Int. & Assoc. Share	301	336	310	412	357	-136	-130	-120
Reported PAT	18,214	25,828	25,992	31,155	27,470	37,990	43,361	48,600
Adjusted PAT	19,554	26,945	25,992	31,155	27,470	37,990	43,361	48,600
Change (%)	79.1	37.8	-3.5	19.9	-11.8	38.3	14.1	12.1

Balance Sheet

(INR Million)

Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Share Capital	2,316	2,335	4,804	4,839	4,388	4,417	4,422	4,422
Reserves	66,214	89,469	117,682	138,824	159,984	184,011	201,310	236,946
Net Worth	68,530	91,804	122,486	143,663	164,372	188,428	205,732	241,368
Debt	14,702	8,420	11,287	15,564	23,761	28,931	28,477	28,385
Deferred Tax	-3,477	-3,830	-3,901	-5,575	-2,674	-5,766	-8,025	-8,025
Total Capital Employed	93,408	110,151	143,780	167,990	202,404	228,988	243,737	279,281
Gross Fixed Assets	22,318	28,606	40,329	43,446	63,590	74,318	75,058	76,363
Less: Acc Depreciation	0	0	0	0	0	0	0	0
Net Fixed Assets	22,318	28,606	40,329	43,446	63,590	74,318	75,058	76,363
Capital WIP	2,595	0	5,677	6,294	3,729	2,399	2,608	2,608
Investments	14,174	14,718	21,028	24,934	24,966	48,813	48,361	51,861
Current Assets	95,541	112,241	127,545	154,821	165,706	173,076	201,955	249,902
Inventory	0	0	0	0	0	0	0	0
Debtors	33,688	43,486	52,059	57,705	53,377	64,979	76,509	84,084
Cash & Bank	34,629	33,202	24,049	40,138	32,186	30,443	32,474	69,468
Loans & Adv, Others	27,224	35,554	51,438	56,978	80,143	77,654	92,972	96,350
Curr Liabs & Provns	41,220	45,415	50,800	61,505	55,587	69,618	84,245	101,453
Curr. Liabilities	8,577	14,722	20,587	22,755	23,117	20,368	23,036	25,966
Provisions	32,643	30,693	30,213	38,750	32,470	49,250	61,209	75,487
Net Current Assets	54,321	66,827	76,745	93,316	110,119	103,458	117,710	148,449
Total Assets	93,408	110,151	143,779	167,990	202,404	228,988	243,737	279,281

Financials and Valuations

Ratios								
Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)								
EPS	22.0	28.7	29.6	35.1	32.0	42.7	48.0	54.0
Cash EPS	27.8	38.2	36.1	43.6	41.9	54.8	61.3	68.3
Book Value	81.4	112.3	142.2	165.6	187.9	213.4	231.8	271.9
DPS	5.0	5.0	6.0	12.0	9.0	14.0	10.0	12.0
Payout (incl. Div. Tax.)	22.7	17.4	20.3	34.2	28.2	32.8	20.8	22.2
Valuation(x)								
P/E	31.1	23.8	23.1	19.5	21.4	16.0	14.3	12.7
Cash P/E	24.6	17.9	19.0	15.7	16.4	12.5	11.2	10.0
Price / Book Value	8.2	6.1	4.8	4.1	3.6	3.2	3.0	2.5
EV/Sales	3.7	2.8	2.5	2.1	2.0	1.9	1.7	1.4
EV/EBITDA	17.2	12.5	13.6	12.8	14.0	12.5	8.9	7.4
Dividend Yield (%)	0.7	0.7	0.9	1.8	1.3	2.0	1.5	1.8
Profitability Ratios (%)								
RoE	32.6	36.4	24.5	23.4	18.4	21.5	22.0	21.7
RoCE	28.7	26.3	20.5	20.1	15.2	17.8	18.2	18.2
RoIC	65.1	46.5	30.0	25.7	17.0	15.9	20.9	22.9
Turnover Ratios (%)								
Fixed Asset Turnover (x)	5.8	7.0	6.0	5.5	5.0	4.3	4.6	5.1
Debtors (No. of Days)	60	75	78	76	70	70	73	74
Leverage Ratios (%)								
Net Debt/Equity (x)	-0.3	-0.3	-0.1	-0.2	0.0	0.0	0.0	-0.2
Cash Flow Statement							(INR Million)	
Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Adjusted EBITDA	30,631	41,836	41,536	43,426	41,843	47,161	66,258	74,245
Non cash opr. exp (inc)	-16,372	-7,901	-9,496	-8,987	-9,226	-10,789	-14,566	-16,454
(Inc)/Dec in Wkg. Cap.	-7,608	-12,302	-8,874	5,456	-17,243	8,540	-6,067	6,255
Tax Paid	0	0	0	0	0	0	0	0
Other operating activities	37,353	0	0	0	0	0	0	0
CF from Op. Activity	44,004	21,634	23,167	39,895	15,374	44,912	45,625	64,047
(Inc)/Dec in FA & CWIP	-3,099	-7,854	-21,365	-17,357	-9,694	-9,735	-9,375	-12,000
Free cash flows	40,905	13,780	1,802	22,538	5,680	35,177	36,250	52,047
(Pur)/Sale of Invt	-1,940	-8,539	-9,050	10,611	5,293	-16,794	-24,614	-1,702
Others	0	0	0	0	0	0	0	0
CF from Inv. Activity	-5,039	-16,393	-30,415	-6,746	-4,401	-26,529	-33,989	-13,702
Inc/(Dec) in Net Worth	1,032	19	2,469	35	-451	29	5	0
Inc / (Dec) in Debt	-7,036	-1,305	2,396	-3,469	-9,196	-5,587	850	-800
Interest Paid	0	0	0	0	0	0	0	0
Divd Paid (incl Tax) & Others	-750	-5,381	-6,771	-13,626	-9,278	-14,568	-10,459	-12,551
CF from Fin. Activity	-6,754	-6,668	-1,905	-17,060	-18,925	-20,126	-9,604	-13,351
Inc/(Dec) in Cash	32,211	-1,427	-9,154	16,089	-7,952	-1,743	2,031	36,994
Add: Opening Balance	2,418	34,629	33,202	24,048	40,138	32,185	30,443	32,474
Closing Balance	34,629	33,202	24,048	40,138	32,185	30,443	32,474	69,467

Corporate profile

Company description

Tech Mahindra represents the connected world, offering innovative and customer-centric information technology services and solutions, enabling Enterprises, Associates and the Society to Rise™. It is a USD3.5b company with ~98,000+ professionals across 51 countries, helping over 674 global customers including Fortune 500 companies. It is a part of the USD 16.7 billion Mahindra Group that employs more than 180,000 people in over 100 countries

Exhibit 1: Sensex rebased

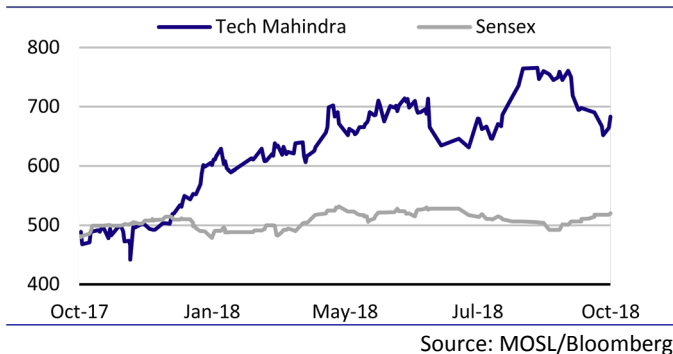


Exhibit 2: Shareholding pattern (%)

	Sep-18	Jun-18	Sep-17
Promoter	36.0	36.0	36.1
DII	12.6	13.0	13.1
FII	39.2	38.7	37.5
Others	12.2	12.3	13.4

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
First State Investments Icvc- Stewart Investors Asia Pacific Leaders Fund	4.6
Aditya Birla Sun Life Trustee Private Limited A/C Aditya Birla Sun Life Frontline Equity Fund	2.0
ICICI Prudential Balanced Advantage Fund	2.0
Government Pension Fund Global	1.7
Life Insurance Corporation Of India P& Gs Fund	1.3

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Anand Mahindra	Chairman
C P Gurnani	Managing Director & CEO
Anil Khatri	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Anupam Puri	M Damodaran
M Rajyalakshmi Rao	Ravindra Kulkarni
T N Manoharan	Ulhas N Yargop
V S Parthasarathy	

*Independent

Exhibit 6: Auditors

Name	Type
K R Chandratre	Secretarial Audit
B S R & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	48.0	46.0	4.4
FY20	54.0	52.7	2.4

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022-3980 4263; www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 3080 1000. Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-38281085.

Registration details: MOSL: SEBI Registration: INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL: IN-DP-16-2015; NSDL: IN-DP-NSDL-152-2000; Research Analyst: INH000000412. AMFI: ARN 17397. Investment Adviser: INA000007100. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670) offers PMS and Mutual Funds products. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) offers wealth management solutions. *Motilal Oswal Securities Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance and IPO products. *Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. offers Real Estate products. * Motilal Oswal Private Equity Investment Advisors Pvt. Ltd. offers Private Equity products.

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