

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	TEMLBO
Bloomberg code	TECHM IN
Market cap. (US\$ mn)	2,491
6M avg. daily turnover (US\$ mn)	31.3
Issued shares (mn)	122
Target price (Rs)	990

Performance (%) 1M 3M 12M

Absolute	4	17	156
Relative	1	3	52

Valuation Ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	54.7	60.0
+/- (%)	(29.8)	9.7
PER (x)	17.2	15.7
PBV (x)	4.3	3.5
Dividend/Yield (%)	0.4	0.4
EV/Sales (x)	2.4	2.2
EV/EBITDA (x)	9.5	9.2

Major shareholders (%)

Promoters	83
MFs	1
BFSI's	4
Public & Others	12

Financial highlights

(Rs mn)	1QFY10	2QFY10	QoQ (%)	2QFY09	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Revenue	11,130	11,418	2.6	11,648	(2.0)	44,647	45,770	2.5	50,499	10.3
EBITDA	2,805	2,925	4.3	3,261	(10.3)	12,151	11,525	(5.1)	11,920	3.4
EBITDA margin (%)	25.2	25.6	-	28.0	-	27.2	25.2	-	23.6	-
Other Income	(261)	270	-	(320)	-	(378)	109	-	400	267.0
Depreciation	296	312	5.4	267	16.9	1,097	1,235	12.6	1,363	10.4
PBT	1,677	2,040	21.6	2,674	(23.7)	10,651	8,037	(24.5)	9,061	12.7
Tax	268	345	28.7	321	7.5	1,180	1,347	14.2	1,722	27.8
Adjusted PAT	1,401	1,690	20.6	2,354	(28.2)	9,472	6,661	(29.7)	7,307	9.7
Adjusted PAT margin (%)	12.6	14.8	-	26.0	-	21.2	14.6	-	14.5	-

Tech Mahindra

Maintain Outperformer

Price: Rs 942

BSE Index: 17,223

21 October 2009

2QFY10 Result – BT business stabilising?

Tech Mahindra's numbers were broadly in-line with estimates, with revenue growth of 2.6% and PAT growth of 20% QoQ, mainly led by forex gains in this quarter vs losses in 1Q. TechM was a major beneficiary of sterling appreciation during the quarter and the EBITDA margins improved by 40 bps QoQ to 25.6% despite pricing discounts to the top client, BT. The management indicated that the BT account has undergone re-structuring and the biz of BT's core operations will be clubbed with the GBP 500 mn (BT Barcelona) deal under a re-priced structure, which has given increased volume commitments to Tech Mahindra for four years. The management also indicated that there would not be a significant drop in the flow of volumes from BT in the new deal structure. Also, the Andes and the other deal with BT (~GBP 175 mn) are currently executing on track; however, there is a scope of re-negotiation and re-work on the volume commitments, if required. BT's contribution to revenue came down below 50% from 52% in 1Q. TechM's debt has come down by Rs 2 bn to Rs 21.8 bn and TechM re-financed Rs 11.5 bn of debt during the qtr, reducing the effective interest rate on the portfolio to 8.7% p.a. The management did not comment much on Satyam but indicated that Satyam is performing on track. We believe, BT should show stability from now and TechM's win of newer deals (like Etisalat deal) should give further visibility to revenue. The non BT clients are witnessing traction; non BT accounts grew by 7% QoQ the rest of the world's business grew by 13% QoQ. We have revised our earnings estimates to Rs 54.7 and Rs 60.0 for FY10 and FY11 and consolidating Mahindra Satyam, we expect FY10 and FY11 earnings to stand at Rs 61.5 and Rs 82.5, respectively. We maintain Outperformer with the target price of Rs 990, at 12x consolidated EPS of Rs 82.5.

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	37,660	44,647	45,770	50,499
Growth (%)	28.6	18.6	2.5	10.3
Operating expenses	(29,404)	(32,496)	(34,245)	(38,579)
Operating profit	8,256	12,151	11,525	11,920
EBITDA	8,256	12,151	11,525	11,920
Growth (%)	11.8	47.2	(5.1)	3.4
Depreciation	(796)	(1,097)	(1,235)	(1,363)
Other income	1,044	(378)	109	400
EBIT	8,504	10,676	10,399	10,957
Interest paid	(62)	(25)	(2,362)	(1,896)
Pre-tax profit (before non-recurring)	8,442	10,651	8,037	9,061
Non-recurring items	(4,401)	673	(85)	0
Pre-tax profit (after non-recurring)	4,041	11,324	7,952	9,061
Tax (current + deferred)	(748)	(1,180)	(1,347)	(1,722)
Net profit (before Minority Interest, Pref. Dividend, etc.)	3,293	10,144	6,605	7,339
Minority interests	5	1	(29)	(32)
Reported PAT	3,298	10,145	6,576	7,307
Adjusted net profit	7,699	9,472	6,661	7,307
Growth (%)	25.7	23.0	(29.7)	9.7

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & Marketable securities	976	5,382	6,246	9,242
Other current assets	14,586	11,988	17,985	21,738
Investments	633	4,346	29,803	29,803
Net fixed assets	5,996	6,520	6,785	7,422
Other non-current assets	60	196	196	196
Total assets	22,251	28,432	61,015	68,401
Current liabilities	9,268	8,889	10,731	11,866
Total debt	300	0	23,800	23,800
Total liabilities	9,568	8,889	34,531	35,666
Share capital	1,214	1,217	1,217	1,217
Reserves & surplus	11,358	18,214	25,156	31,405
Shareholders' funds	12,572	19,431	26,373	32,622
Minorities interests	111	112	112	112
Total equity & liabilities	22,251	28,432	61,015	68,401
Capital employed	12,983	19,543	50,285	56,534

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	4,041	11,324	7,952	9,061
Depreciation	796	1,097	1,235	1,363
Change in working capital	(1,989)	2,219	(4,156)	(2,617)
Total tax paid	(734)	(1,316)	(1,347)	(1,722)
Cash flow from oper. (a)	2,114	13,324	3,684	6,086
Capital expenditure	(2,273)	(1,523)	(1,500)	(2,000)
Change in investments	346	(3,713)	(25,457)	0
Others	(98)	(98)	0	0
Cash flow from inv. (b)	(2,025)	(5,334)	(26,957)	(2,000)
Free cash flow (a+b)	89	7,990	(23,273)	4,086
Equity raised/(repaid)	12	31	0	0
Debt raised/(repaid)	130	(300)	23,800	0
Dividend (incl. tax)	(781)	(569)	(570)	(1,058)
Others	0	2	(29)	(32)
Cash flow from fin. (c)	(639)	(837)	23,201	(1,090)
Net change in cash (a+b+c)	(550)	7,153	(72)	2,996

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	63.5	77.9	54.7	60.0
Growth	25.6	22.7	(29.8)	9.7
Book NAV/share (Rs)	104.6	160.7	217.4	268.7
Dividend/share (Rs)	5.5	4.0	4.0	4.0
Dividend payout ratio	10.1	6.0	8.6	14.5
Tax	18.5	10.4	16.9	19.0
EBITDA margin	21.9	27.2	25.2	23.6
EBIT margin	22.6	23.9	22.7	21.7
RoCE	75.8	65.6	29.8	20.5
Net debt/Equity	(5.3)	(27.5)	66.3	44.5

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	14.8	12.1	17.2	15.7
PCE	13.4	10.8	14.5	13.2
Price/Book	9.0	5.9	4.3	3.5
Yield (%)	0.6	0.4	0.4	0.4
EV/Net sales	2.9	2.5	2.4	2.2
EV/EBITDA	13.3	9.0	9.5	9.2

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	20.4	21.2	14.6	14.5
Asset turnover	2.0	1.8	1.0	0.8
Leverage factor	1.7	1.6	1.9	2.2
Return on equity (%)	70.0	58.8	28.9	24.7

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