Tech Mahindra Ltd.

September 21, 2012 | HOLD | MEDIUM RISK | PRICE Rs.898 | TARGET Rs.1026

Technology

EARLIER RECO (Short Report)

BUY	
Price	Rs.832
Target	Rs.1026
Date	Sept. 06, 2012

SHARE HOLDING (%)

Mahindra Group	47.6
BT	9.2
FII/FI / MF	34.7
Body Corporate	0.5
Public & Others	8.0

STOCK DATA

Reuters Code	TEML.BO
Bloomberg Code	TECHM.IN
BSE Code	532755
NSE Symbol	TECHM
Market Capitalization*	Rs. 114.6 bn US$ 2.1 bn
Shares Outstanding*	127.6 mn
52 Weeks (H/L)	Rs.933 /524
Avg. Daily Volume (6m)	393,747 Shares

Price Performance (%)

1M	3M	6M
6	31	46

200 Days EMA: Rs.713

*On fully diluted equity shares

Part of Sushil Bonanza

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Tech Mahindra is a leading provider of solutions and services to the telecommunications industry with a majority stake owned by Mahindra Group, in partnership with British Telecommunications plc. (BT) Tech Mahindra serves telecom service providers, equipment manufacturers, software vendors and systems integrators worldwide and its proven delivery models, distinctive IT skills and decades of domain expertise enable clients to maximize returns on their IT investment.

India's largest IT solution provider to telecom industry; Best positioned to leverage telecom vendor consolidation opportunities

With its global footprint and presence in more than 31 countries, Tech Mahindra is the largest IT solution provider to global telecommunication companies. As per the latest Voice & Data magazine's Annual Survey, it leads the Rs. 234.43 bn Indian telecom software services market in FY 12 with 20.9 % market share. Over the years, it has positioned itself as an end to end service provider across telecom value chain through its service offerings of applications, IMS, BPO, network design & engineering, security, VAS, product engineering, performance engineering & Testing, and has become a preferred transformation partner for several leading wire-line, wireless & broadband operators in Europe, Asia-Pacific & North America. Currently, the telecom operators are looking for relationships with a few preferred vendors which are driving vendor consolidation, and tech Mahindra with its track record for value delivery, domain expertise, and in depth technology skill sets supported by over 40,500 professionals, is best positioned to leverage IT vendor consolidation opportunities going forward.

BT account to stabilize post restructuring; Non-BT accounts continue to deliver growth

During Q3FY10, BT restructured its long term contracts (Barcelona and Strada) and Tech Mahindra received restructuring charges of GBP 126 mn (~Rs.9.7 bn). The restructuring happened at lower rates with volume commitments over the period of contracts. Tech Mahindra recognized Rs.1.5 bn Revenue in Q3FY10 and balance was supposed to be amortized over the period at the run rate of Rs. 0.5 bn/quarter. Subsequently, BT also restructured its contract ANDES. During FY07-12, the BT Revenue in USD term grew at ~1% CAGR due to their restructuring exercise and cost cutting measures, while Non-BT accounts delivered 25.5% CAGR, driven by strong contribution from telecom majors such as AT&T, Motorola, MTN, Bharti, Alcatel Lucent, and Vodafone etc. Going forward, Tech Mahindra expects its BT contribution to remain flat, while Non BT accounts to grow at decent rate.

Mahindra Satyam merger to provide business synergies, diversification & scalability

The recently approved merger plan of Mahindra Satyam with Tech Mahindra will result into creation of USD 2.4 bn entity with over 75,000+ strong work force and 350+ active clients (including 75-80 Fortune Global 500 companies), across 54 countries. The joint entity will have a unified "go-to-market" strategy with deep competencies and a balanced mix of revenues from verticals such as Telecom (47%), Mfg. (17%), Tech, Media & Ent. (10%), BFSI (11%), Retail (5%) and Healthcare (3%). The merger will also de-risk business profile with well diversified global footprint that would have contribution from Americas (42%), Europe (35%) and Emerging Markets (23%). The combined entity will leverage Tech Mahindra's expertise in Mobility, System Integration (SI), managed services and BPO to better penetrate the opportunity presented by Mahindra Satyam' diverse set of clients across multiple verticals. Likewise Mahindra Satyam's expertise in Enterprise Solutions will enable a more complete value proposition to be delivered to Tech Mahindra's clients. Hence, the combination will provide operational synergies, scalability, sourcing benefits, and business diversification.

Acquisition of Hutchison Global Services to further Revenue & earnings visibility

The Recent acquisition of Hutchison Global Services (HGS) for USD 87.1 mn will enhance its expertise in the customer management space and enable Tech Mahindra to leverage the acquired capabilities for expanding its existing services to other parts of the Hutchison group as well as other customers and verticals. With associate base of over 11,500 employees operating from its facilities in Pune & Mumbai, HGS provides customer lifecycle operations to clients in UK, Ireland a Australia and is one of the largest captives in the Telecom Domain. As part of the deal, the clients of HGS have committed to procure services worth USD 845 mn over next 5 years. With this deal, Hutchison is now its 3rd largest client after BT & AT&T.

OUTLOOK & VALUATION

With over 25% CAGR in last five year in Non-BT accounts, compensating for decline in BT account, Tech Mahindra expects its Non-BT accounts to deliver decent growth, while BT's revenue is expected to stabilize at current level going forward. Moreover, the merger of Mahindra Satyam will further benefit the company by de-risking its business profile with more balanced industry, geography & client diversification, and business synergy by leveraging the expertise of both the companies. We expect Tech Mahindra to deliver 17.1% CAGR in Revenue and 12.1% CAGR in APAT during FY12-14E. At CMP of Rs. 898, it is trading at 10.1x & 8.8x its FY13E & FY14E Earnings respectively. We have valued the company at 10x its FY14E EPS and change our Rating from 'BUY' to 'HOLD' with a target price of Rs. 1026.

KEY FINANCIALS (Consolidated)

Y/E Mar.	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	AEPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
FY12	54,897.0	10,413.3	81.7	21.1	11.0	15.2	25.7	2.8
FY13E	**67,166.9**	**11,293.3**	**88.5**	**8.4**	**10.1**	**15.6**	**22.1**	**2.3**
FY14E	**75,226.9**	**13,091.4**	**102.6**	**15.9**	**8.8**	**16.0**	**20.7**	**1.8**

BUSINESSES OVERVIEW

Tech Mahindra is part of the USD 15.4 billion Mahindra Group and is one of the leading system integrator and business transformation consulting providers with focus on telecom industry. Its capabilities spread across a broad spectrum, including Business Support Systems (BSS), Operations Support Systems (OSS), Network Design & Engineering, Next Generation Networks, Mobility Solutions, and Security consulting & testing. The company has successfully implemented more than 16 Greenfield operations globally and has over 130 active engagements mostly in the Telecom sector. Currently, Tech Mahindra has a global presence in more than 31 countries with 17 sales offices and 15 delivery centers. Assessed at SEI CMMi Level 5, Tech Mahindra's track record for value delivery is supported by 40,630 professionals who provide a unique blend of culture, domain expertise and in depth technology skill sets. During FY09, it expanded its IT portfolio by acquiring the leading IT service provider, Mahindra Satyam (earlier known as Satyam Computer Services).

With its range of service offerings for telecom Service providers (TSPs), telecom equipment manufacturers (TEMs) and Independent Software vendors (ISVs), Tech Mahindra is a chosen transformation partner for several leading operators in wire-line, wireless & broadband space, in Europe, Asia-Pacific & North America. Its solutions portfolio includes Consulting, Application Development & Management (ADM), Network Services, Solution Integration, Product Engineering, Infrastructure Managed Services, Remote Infrastructure Management and BSG (comprises BPO, Services and Consulting).

Tech Mahindra has Operations Support Systems (OSS) or back office IT offerings for following market segments:

• TSPs (Wire line and Wireless)

• Open Source Software (OSS) /ISV vendors

• TEMs

Application Development & Management (ADM): It offers end-to-end application development and management solutions from requirement analysis to deployment and rollout. Tech Mahindra's services span the following application lifecycle stages:

- Application Development - Providing end-to-end development from requirement analysis to deployment and rollout.
- Application Maintenance - Changing or enhancing software to meet changing business demands in the post-rollout phase of an application
- Application Support - Providing first, second, third line support and on-call support.
- Application Integration/Migration/Transformation - Replacing, migrating and integrating legacy systems with COTS (Commercially available Off-The-Shelf) products.
- Application Management - It takes complete ownership of the outsourced suite of applications as per the agreed scope and manages the support.

System Integration (SI): Tech Mahindra, with more than two decades of experience of serving the Telecom industry, has witnessed the evolution in the nature of SI and transformation needs of Communication Service Providers (CSP), such as:

- Incumbent CSP doing incremental functional enhancements
- Incumbent CSP doing large scale transformation
- Aspiring CSP (Greenfield Mobile Network Operator) starting business from ground-zero
- Aspiring CSP (MVNO) starting business from ground-zero

Managed Services: It has the expertise & experience of managing infrastructure, applications and run outsourced operations for large telecom operators. Its Managed Services model is a non-invasive approach to outsourcing, providing skills and competencies, with support tailored to customer requirements and the flexibility to implement and manage key projects as part of ongoing operations. Tech Mahindra's Managed Services offerings cover the entire array of IT outsourcing services including networks, IT infrastructure, applications and business processes.

Consulting: Tech Mahindra offers a full range of consulting services, which covers Strategy planning, Assessment, Procurement, Re-engineering solutions, planning, audits, best practices etc. It emphasizes in solving clients' business and IT problems, flexibility around the vendor/client relationship, pricing and packaging, the ability to assist in corporate transformation and agility, as well as commitment to creativity and innovation.

BSG: Its Business Services Group (BSG) reflects the diverse nature of services and true business value that Tech Mahindra provides. The BSG consists of three key pillars – BPO, Services and Consulting. It has 14,600+ associates supporting 300 million+ transactions on an annualized basis of customers for outsourcing their business processes.

Infrastructure Management Services: It provides full lifecycle Infrastructure Management Services to the clients across the globe. Supported by global alliances, Tech Mahindra brings in agility and efficiency in managing critical infrastructure services. It offers low-risk, high-quality managed infrastructure services that include Data Centre Services, Managed Network Services, Application Support Services and End User Services.

Network Solutions and Services: Tech Mahindra provides Network Solutions and Services for the end-to-end infrastructure employed in realization of communication services for end-users. This implies those parts of the infrastructure that are involved in the communication path – namely, the devices and customer premises equipment, home network components, broadband and optical access networks, the core network infrastructure and associated gateways, application servers and application hosting platforms etc. Tech Mahindra enables this communications infrastructure to interact with the external IT systems to achieve Service Management and Business Processes Management solutions for Communication Service Providers (CSPs) and provides for external Value Added Service (VAS) Platforms.

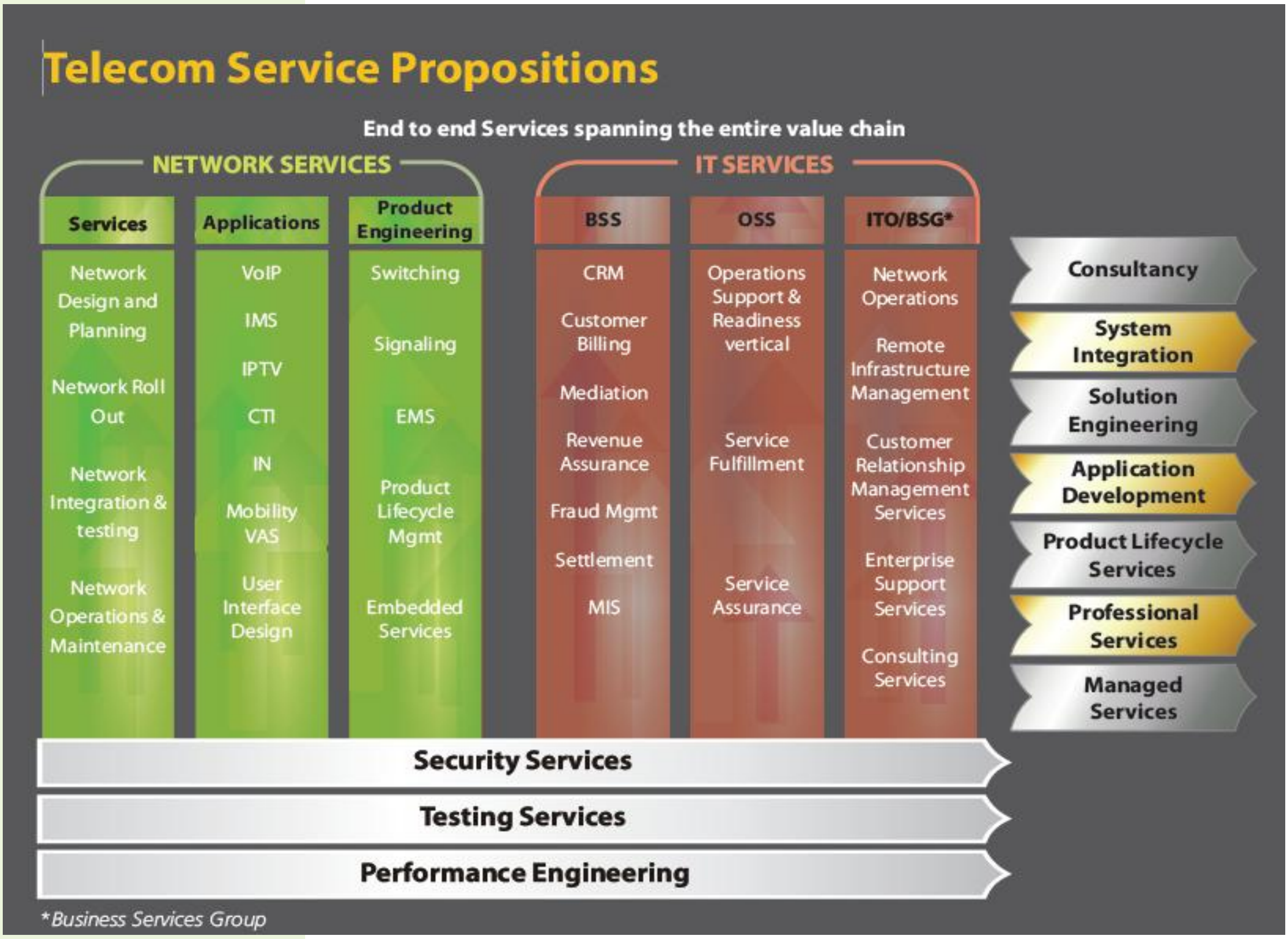
Security Services: Tech Mahindra Security Consulting Practice is a leading provider of information security services to Telecommunication companies worldwide. It offers a broad range of solutions from Consulting and Implementation to Managed Services and its solutions are among the most comprehensive in the security services marketplace.

Value Added Services: Its offerings, especially in Value Added Services, Enterprise Mobility, Device Experience and assurance, enable telecom service providers to create unique value proposition for their customers. Tech Mahindra's wholly owned subsidiary, CanvasM Technologies Ltd, caters to mobility needs of its customers. Founded in 2006, CanvasM specializes in providing end-to-end mobility solutions and services to telecom operators, device manufacturers, media houses and enterprises across multitude of business verticals enabling the customers to take advantage of the mobility ecosystem. Ranked by "Voice & Data" amongst the top 10 players in mobile VAS area, its offerings bring together content, technology and device expertise to ensure an enhanced digital experience to the end users. Moreover, the recent acquisition of Comviva Tech will further enhance its capabilities in the mobile VAS domain and will provide access to a marquee client base, enabling significant cross-selling opportunities. It fits into Tech Mahindra's strategies, namely investing in emerging areas such as Network, Mobility, Analytics, Cloud, Security and further focus on non-linear growth.

Product Engineering: Tech Mahindra's competencies in product engineering practice span across the entire network infrastructure - from devices and CPEs, through access, core and transport networks, to applications. It also offers services in other complementary domains such as OSS/BSS, BPO, IT Services, and Network applications.

Product Testing and certification: Tech Mahindra has the largest telecom testing practice with over 5000 engineers provide a full range of testing services to operators, telecom equipment manufacturers and telecom focused independent software vendors and enterprises. It offers operators and telecom service providers, end-to-end testing services that cover IT applications testing and network testing services that fully leverage its expertise in telecom, to assure the end-to-end performance of operators' core business applications.

Performance Engineering: Performance Engineering is a dedicated horizontal business unit with over 500+ multi-skilled, expert team from a wide variety of backgrounds ranging from performance testers, performance monitoring, performance consultants, NF testers, analysts, developers, application support, database administrators, and COTS experts focused on Performance Engineering aspects in this delivery unit.



Source: Company Website

Milestones:

- 1986: Incorporation in India
- 1987: Commencement of Business
- 1993: Incorporation of MBT International Inc., the first overseas subsidiary
- 2001: Incorporated MBT GmbH, Germany
- 2006: Name changed to Tech Mahindra Ltd, Raised Rs 4.65 billion ($100 million) from IPO to build a new facility in Pune, to house about 9,000 staff, Formed a JV with Motorola Inc. under the name CanvasM
- 2007: Acquired iPolicy Networks Private Ltd
- 2009: With Satyam acquisition, Tech Mahindra is well positioned to be a leader in the broader IT services space, serving a wide array of industry verticals like BFSI, manufacturing, energy and utilities in addition to telecom
- 2010: AT&T 2010 Supplier Award for outstanding performance & service to AT&T and its affiliates; Expands footprint in Latin America
- 2012: Acquisitions of Hutchison Global Services (HGS) to enhance its expertise in the customer management space, while acquisition of Comviva Tech to enhance its capabilities in the mobile VAS domain.

INVESTMENT RATIONALE

India's largest IT solution provider to telecom Industry; Best positioned to leverage telecom vendor consolidation opportunities

Market leading IT solution provider to telecommunication Industry

The telecom Software industry delivered flat growth during FY12 after ~5% growth in FY11 due to sluggish business environment. However, Tech Mahindra maintained its position as India's largest IT solution provider to global telecommunication companies with its global footprint and presence in more than 31 countries through its 17 sales offices and 15 delivery centers. According to the latest Voice & Data magazine's Annual Survey, Tech Mahindra leads the Rs. 234.43 bn Indian telecom software services market in FY 12 with ~21 % market share.

Top IT Services providers in Telecom Segment

Revenues in Rs mn	FY10	FY11	FY12	Growth % FY12 vs. FY11	Growth % FY11 vs. FY10
Tech Mahindra	42380	47350	48996	3.5%	11.7%
TCS	43650	44370	48894	10.2%	1.6%
Wipro	40520	43410	44636	2.8%	7.1%
Infosys	36610	35490	34408	-3.0%	-3.1%
HCL Tech	15580	16820	17371	3.3%	8.0%
Sasken	5740	5460	5200	-4.8%	-4.9%
Others	39940	42430	34926	-17.7%	6.2%
Total	**224420**	**235330**	**234430**	**-0.4%**	**4.9%**

Emerging Technology continue to drive telecom sector's spending

Although the environment for telecom segment is challenging globally, the emerging technologies such as computing, cloud, analytics, mobility continue to provide traction and influence spending in the Telecom vertical. The business growth in the Telecom sector is expected to be sustained in the wireless area due to increased usage of smart devices. The growth in mobile devices is leading to investments in mobile data networks and application development and the creation of smart devices, solutions around M2M (machine to machine) communication are finding greater traction. The video is rapidly taking a major share of the mobile data traffic. Another area of investment is private and public cloud computing services. Investments in the Cloud arena are shifting from infrastructure development to development of platforms and creation of ecosystems around those platforms. Hence, telecom service providers globally are looking to invest in new technologies like 4G and LTE to cater to the increasing demand for high speed data and the investment in these emerging Technologies continues to drive telecom sector's spending and provide opportunities for IT solution provides in these segments. Tech Mahindra, with its strong relationships with global telecom players and presence across all segments is well positioned to capitalize on the opportunities being generated in new technology development.

Best positioned to leverage telecom vendor consolidation opportunities

In the Telecom sector, Tech Mahindra has niche and proven domain expertise, distinctive IT skills, R&D, innovative delivery models and approach to off-shoring. Over the years, it has positioned itself as an end to end service provider across telecom value chain, with its portfolio of offerings including applications, IMS, BPO, network design & engineering, security, VAS, product engineering, performance engineering & Testing. With its range of offerings for TSPs, TEMs and ISVs, it has become a preferred transformation partner for several leading wire-line, wireless & broadband operators in Europe, Asia-Pacific & North America. Its focus on emerging markets and investments in areas like Managed Services provides a distinct advantage to Tech Mahindra which can be leveraged in developed markets. The growth opportunities are also likely through application and system consolidation as Telecom operators are trying to optimize their IT spend. As part of this initiative, operators are looking for relationships with a few preferred vendors which are driving vendor consolidation. We believe, with its extensive portfolio of service offerings and investments in emerging areas of spend, Tech Mahindra is best positioned to capitalize on this trend of vendor consolidation going forward.

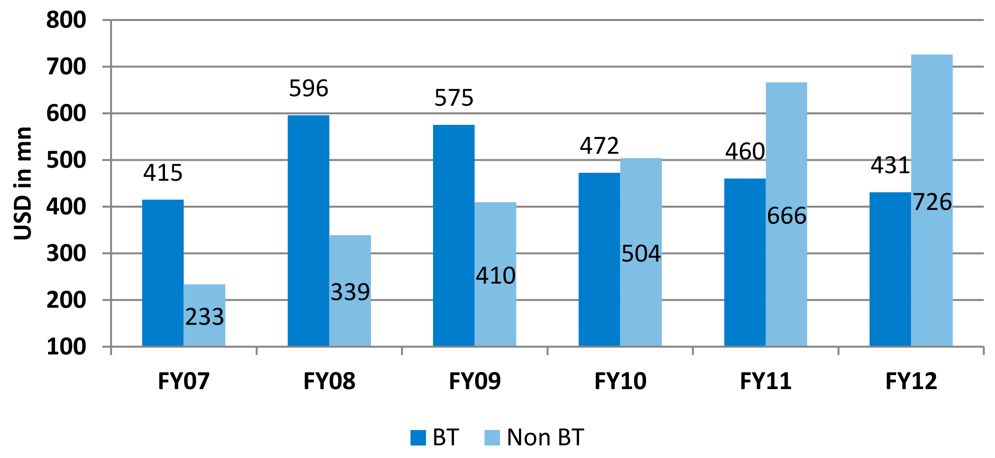
BT account to stabilize post restructuring; Non-BT accounts continue to deliver growth

During Q3FY10, UK bases British Telecommunication Group Plc restructured its long term contracts (Barcelona and Strada) with Tech Mahindra which was entered into Dec'06 and Tech Mahindra received restructuring charges of GBP 126 mn (~Rs.9.7 bn). In line with BT's cost cutting measures, the restructuring happened at lower rates with volume commitments over the period of contracts. Tech Mahindra recognized Rs.1.5 bn Revenue in Q3FY10 and balance was supposed to be amortized over the period at the run rate of Rs. 0.5 bn/quarter. Subsequently, BT also restructured its contract ANDES. Hence, the contribution from BT continued to be sluggish due to their restructuring exercise and has fallen from 64% of revenue in FY07 to 37% in FY12.

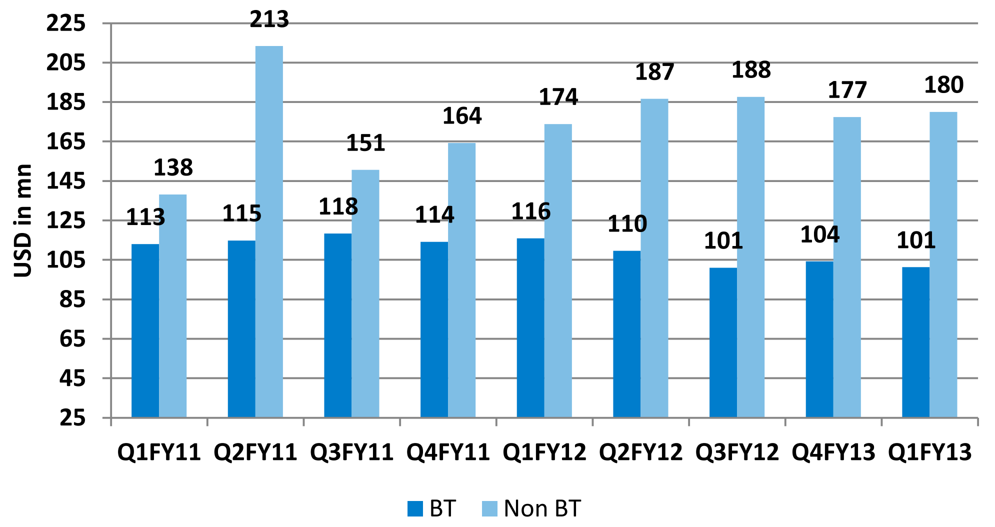
However, the growth in its Non-BT account remained strong during FY07-12. The business from Non-BT has been driven by telecom majors such as AT&T, Motorola, MTN, Bharti, Alcatel Lucent, and Vodafone etc. During FY07-12, while the BT Revenue in USD term grew at ~1% CAGR, its Non-BT accounts registered strong 25.5% CAGR.

Going forward, as major restructuring of contracts is behind; Tech Mahindra expects its BT contribution to remain stable, while Non BT accounts continue to show decent growth driven by growth in existing accounts and new customers' acquisitions.

BT & Non BT accounts Annual Revenue trend



BT & Non BT accounts Quarterly Revenue trend



Source: Company Website, Sushil Finance Research

Mahindra Satyam merger to provide business synergies, diversification & scalability

Recently the Board of Directors and shareholders of Mahindra Satyam and Tech Mahindra have approved the merger of Mahindra Satyam with Tech Mahindra through a Share Swap ratio of 2 shares of Tech Mahindra for every 17 shares of Mahindra Satyam. The rationales for the merger are (i) Creation of a unified 'go-to-market' strategy, (ii) Scale benefits due to substantially larger size of the business, (iii) De-risked business profile, and (iv) Optimized costs and productivity improvement with benefits of scale.

Mahindra Satyam is a leading global business and information technology services company that leverages deep industry and functional expertise, leading technology practices, and an advanced, global delivery model to help clients transform their highest-value business processes and improve their business performance. The company's professionals excel in enterprise solutions, supply chain management, client relationship management, business intelligence, business process quality, engineering and product lifecycle management, and infrastructure services, among other key capabilities.

Creation of a unified 'go-to-market' strategy

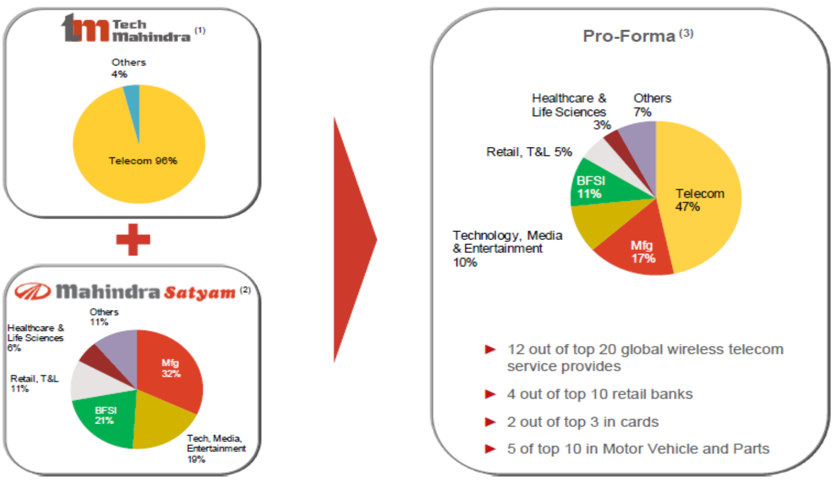
The joint entity will provide a unified 'go-to-market' strategy with benefits of scale and enhanced depth & breadth of capabilities, translating into increased business opportunities and reduced expenses. The combined entity will leverage Tech Mahindra's expertise in Mobility, System Integration (SI), managed services and BPO to better penetrate the opportunity presented by Mahindra Satyam' diverse set of clients across multiple verticals. Likewise Mahindra Satyam's expertise in Enterprise Solutions will enable a more complete value proposition to be delivered to Tech Mahindra's clients. Hence, the combination will provide operational synergies, scalability, sourcing benefits, and business diversification.

Scale benefits due to substantially larger size of the business

The merged entity provides economic of scale by creating the USD 2.4 bn company with over 75,000+ strong work force and 350+ active clients (including 70-80 Fortune Global 500 companies), across 54 countries. The merger is expected to benefit the combined entity in terms of cost optimization, better employee utilization and business scalability going forward.

De-risked business profile

The merger will also de-risk business profile and reduce the risk of client & sector specific concentration as currently 36% of Revenue comes from BT and over 96% from telecom sector. Geographically, Tech Mahindra derives a significant portion of its revenues (45%) from Europe, while Mahindra Satyam's business is highly focused on Americas. The amalgamated entity will have minimal overlap of services and offerings and this would lead to an ease in the integration process of the two entities. Post amalgamation, the joint entity will have a balanced mix of revenues from verticals such as Telecom (47%), Manufacturing (17%), Tech, Media & Entertainment (10%), BFSI (11%), Retail (5%) and Healthcare (3%), while Revenue contribution from BT will come down to 17%. The joint entity will also have a well balanced diversified global footprint that would have of contribution from Americas (42%), Europe (35%) and Emerging Markets (23%).



Acquisition of Hutchison Global Services to further Revenue & earnings visibility

The Recent acquisition of Hutchison Global Services (HGS) for USD 87.1 mn will enhance its expertise in the customer management space and enable Tech Mahindra to leverage the acquired capabilities for expanding its existing services to other parts of the Hutchison group as well as other customers and verticals. This acquisition provides a USD 1 bn business opportunity in key markets and builds on the significant relationship between Tech Mahindra and the Hutchison group across multiple countries. It will provide significant enhancement of Tech Mahindra's expertise in the customer management space and will thus be a key component of its strategic plans going forward. In addition, the acquisition will enable Tech Mahindra to leverage the acquired capabilities and scale for expanding the scope of their existing services to other parts of the Hutchison group, and also to other customers and verticals. With associate base of over 11,500 employees operating from its facilities in Pune & Mumbai, HGS provides customer lifecycle operations to clients in UK, Ireland a Australia and is one of the largest captives in the Telecom Domain. As part of the deal, the clients of HGS have committed to procure services worth USD 845 mn over next 5 years and have agreed to Hutchison Global Services being their exclusive provider of certain agreed services in India. With this deal, Hutchison is now its 3rd largest client after BT & AT&T.

HSG's business Profile: HGS is one of India's largest international captive telecom BPOs. In the BPO industry, it remains one of the leading and reputed contact centers. Founded and managed by a pool of professionals, HGS services the customers of Three in the UK and Ireland as well as Vodafone in Australia. It offers services in voice BPO space and handles end-to-end CRM services for Three and Vodafone such as Customer Care, Channel Support, Collections, Value-Added Services, Customer Retention and Technical Support. With employees catering to 5 million customers in the UK, 7 million customers in Australia and a million in Ireland, HGS provides customized and flexible solutions according to the needs and objectives of each.

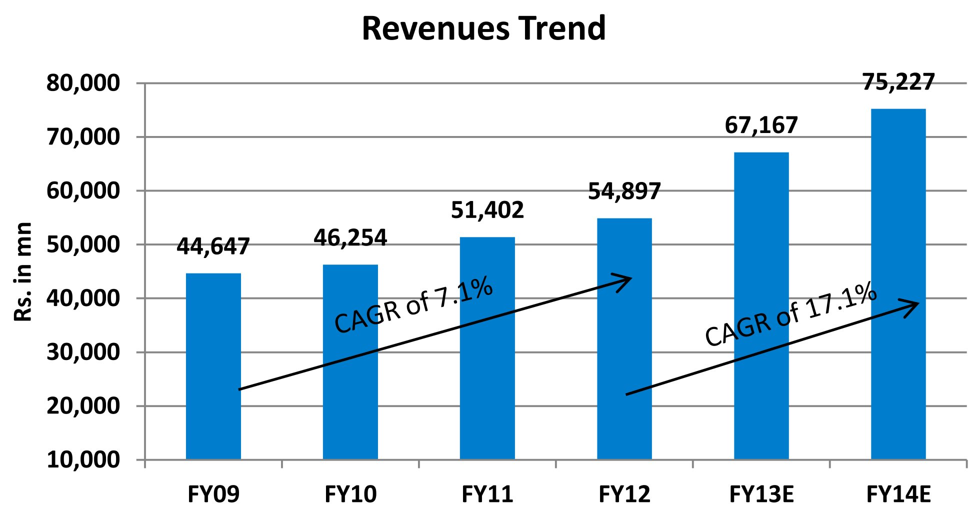
Acquisition of Comviva Technologies to expand its Mobility product offerings

Tech Mahindra also announced the acquisition of 51% stake on a fully diluted basis in Comviva Technologies Ltd, a Bharti Group Company, and a global leader in providing mobile Value Added Services (VAS), Mobile Money and Mobile Payment solutions, for a value of Rs. 2,600 mn. The new brand identity will be Mahindra Comviva, reflecting the combined strength and spirit of both the entities. As part of this arrangement, Tech Mahindra will make an upfront payment of Rs. 1,250 mn towards the stake acquired and the balance amount of Rs. 1,350 mn will be paid out over a period of five years based, on Comviva achieving mutually agreed performance targets. The current promoters will continue to hold a 20% stake on a fully diluted basis in Comviva, post the deal closure. This acquisition will significantly enhance Tech Mahindra's capabilities in the mobile VAS domain and likely to provide access to a marquee client base, enabling significant cross-selling opportunities. It comes together into two of Tech Mahindra's stated strategies, namely investing in emerging areas such as Network, Mobility, Analytics, Cloud and Security and further focus on non-linear growth. Comviva's primary focus & business model is expected to strengthen this aspiration.

Comviva's business Profile: Comviva has an extensive portfolio of solutions spanning mobile money and payments, mobile data, integrated messaging, mobile lifestyle and customer life cycle management solutions, which enable mobile service providers to enrich mobile users' lives, whilst rationalizing costs, accelerating revenue growth and enhancing customer lifetime value. Its solutions are deployed with over 130 service providers and banks in over 90 countries across Asia, Africa, Middle East, Latin America and Europe, and powers services to more than a billion mobile subscribers. During FY12, Comviva delivered revenues of about USD 70 mn and it has about 1,400 employees.

Revenue Growth Outlook

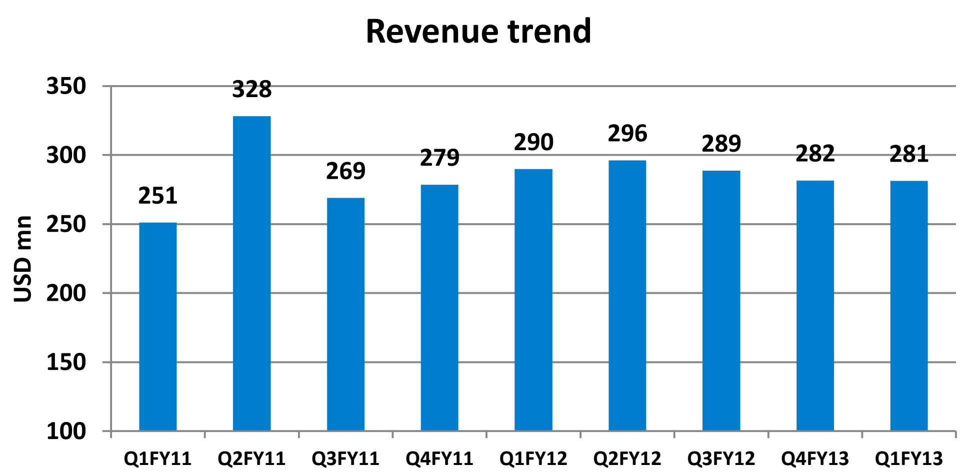
Tech Mahindra has delivered 7.1% CAGR during FY09-12 in its Consolidated Revenues, while it grew by 8.8% QoQ & 19.4% YoY to Rs. 15,434 mn during Q1FY13. We expect its Revenues to grow at CAGR of 17.1% during FY12-FY14E to reach Rs. 75,227 mn in FY14E.



Source: Company, Sushil Finance Research Estimates

Quarterly Revenue Trend

In USD term, the quarterly Revenues have been flattish mainly due to declining contribution of its top client BT, which has been mitigated by decent growth in Non-BT accounts.



Source: Company

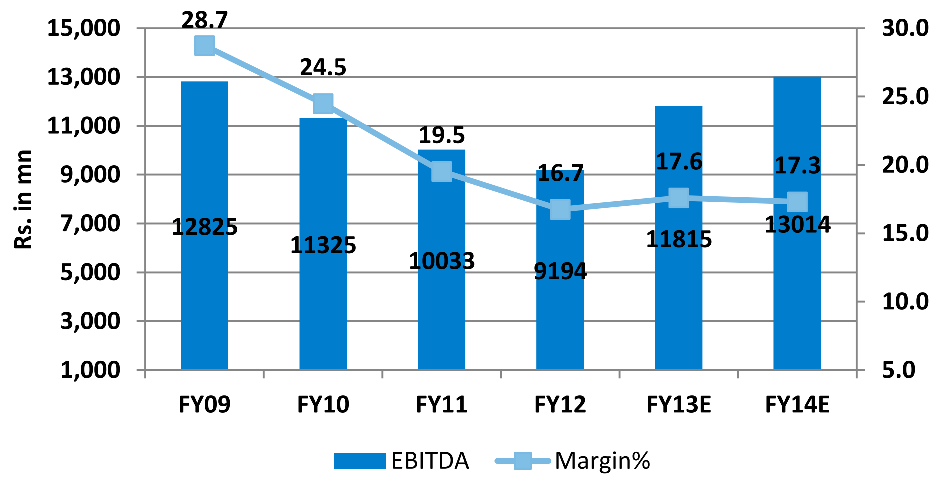
Revenue Contribution

The contribution to Revenues from Non-BT accounts has increased from 55% in Q1FY11 to 64% in Q1FY13, while the contribution from BT account has decreased from 45% in Q1FY11 to 36% in Q1FY13. We expect its Contribution to Revenues from Non-BT to increase further going forward due to slower growth in BT account.

% of Revenue	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY13	Q1FY13
BT	45	35	44	41	40	37	35	37	36
Non-BT	55	65	56	59	60	63	65	63	64

EBITDA Margins Outlook

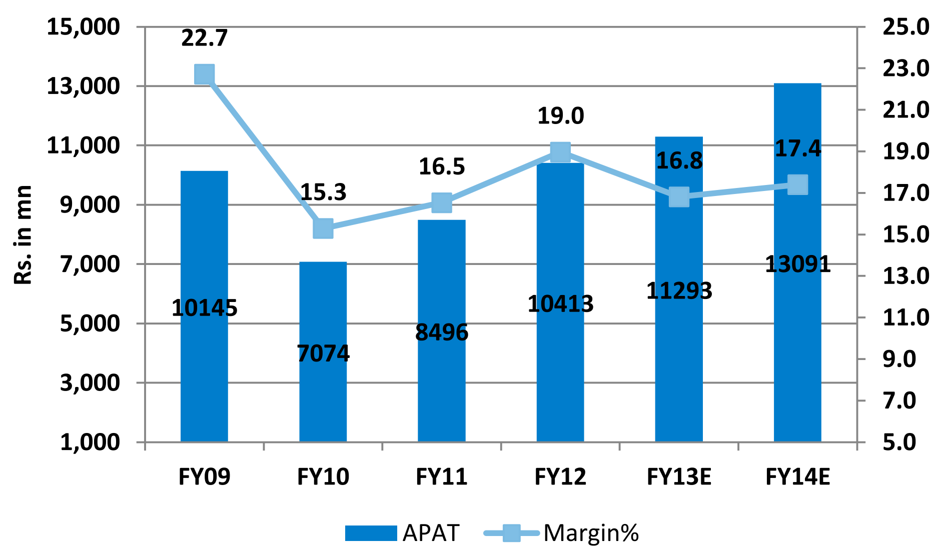
Its EBITDA margins has witnessed declining trend during FY09-12, mainly due to pricing pressure coming from clients especially TSPs that are facing challenges such as increased competition, decreasing long distance call rates, continuous investments in next generation networks. However the EBITDA margin is stabilizing at 17% levels currently and going forward, we expect its EBITDA margin to remain at ~17.5% level, while EBITDA to grow at CAGR of 19% during FY12-14E.



Source: Company, Sushil Finance Research Estimates

Decent Growth in Profits

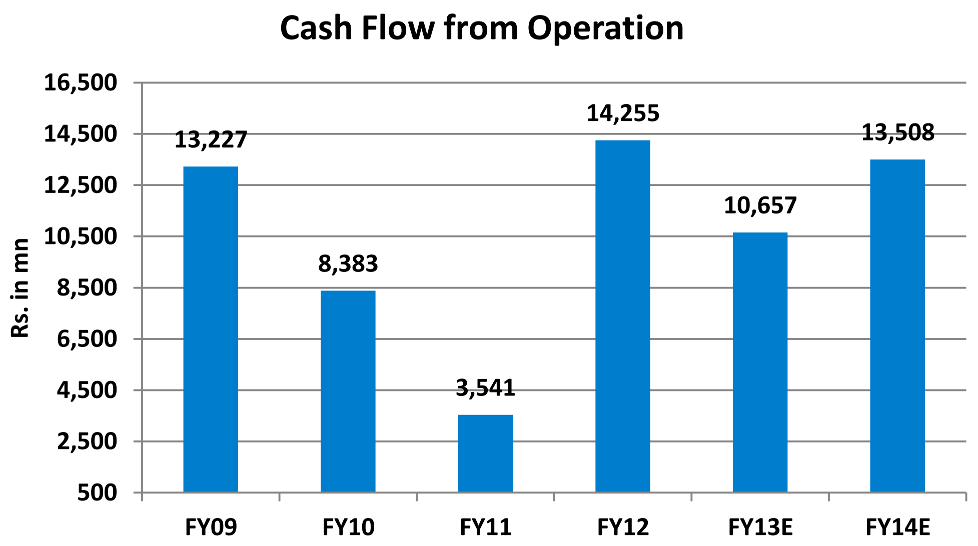
During FY09-12, Tech Mahindra has delivered just ~1% CAGR in its APAT, on account of (i) declining margins of Tech Mahindra, (ii) increased interest cost on debt raised for acquisition of Satyam, and (iii) low/negative contribution in profits from Mahindra Satyam during first two years of acquisition. However, the business of Mahindra Satyam witnessed good traction during FY12 with 24% Revenue growth and 16% EBTDA margins. Hence, going forward, we expect Tech Mahindra's APAT margin to stabilize at 17% level, while its APAT to grow at CAGR of 12% during FY12-14E.



Source: Company, Sushil Finance Research Estimates

Strong Cash Flow from Operations

Tech Mahindra has maintained strong cash flow from operations consistently during FY09-FY12, due to its low working capital and decent profitability. We expect it to maintain strong cash flow from operations during FY13E-FY14E.



Source: Company, Sushil Finance Research Estimates

Risks & Concerns

1. high Industry & client concentration with over 96% of Revenue from Telecom segment, and about 36% Revenue from top client BT. However, with merger of Mahindra Satyam and Acquisition of Hutchison Global Services, Tech Mahindra will have more balanced business portfolio, reducing its over dependence on specific sector and top client.
2. Further decline in business from BT to impact overall growth of Tech Mahindra. However, with major restructuring of contracts is completed, BT revenue contribution is likely to be stable going forward.
3. European geography which is facing slowdown risk contributes ~ 45% of its revenue. However, post merger European contribution will reduce to ~35%.
4. Financial risk from potential class action suits filed against Satyam from different claimants along with IT department's claim.

OUTLOOK & VALUATION

With over 25% CAGR in last five year in Non-BT accounts, compensating for decline in BT account, Tech Mahindra expects its Non-BT accounts to deliver decent growth, while BT's revenue is expected to stabilize at current level going forward. Moreover, the merger of Mahindra Satyam will further benefit the company by de-risking its business profile with more balanced industry, geography & client diversification, and business synergy by leveraging the expertise of both the companies. We expect Tech Mahindra to deliver 17.1% CAGR in Revenue and 12.1% CAGR in APAT during FY12-14E. At CMP of Rs.898, it is trading at 10.1x & 8.8x its FY13E & FY14E Earnings respectively. We have valued the company at 10x its FY14E EPS and change our Rating from 'BUY' to 'HOLD' with a target price of Rs.1026.

PROFIT & LOSS (Consolidated)

(Rs.mn)

Y/E Mar.	FY11	FY12	FY13E	FY14E
Total Revenue	**51,402.0**	**54,897.0**	**67,166.9**	**75,226.9**
% Ch. YoY	11.1	6.8	22.4	12.0
EBITDA	**10,033.0**	**9,194.0**	**11,814.7**	**13,014.3**
% Ch. YoY	(11.4)	(8.4)	28.5	10.2
% of STO	19.5	16.7	17.6	17.3
Interest Cost	999.0	1,026.0	998.2	752.3
% of STO	1.9	1.9	1.5	1.0
Depreciation	1,435.0	1,613.0	1,817.8	2,031.1
% of STO	2.8	2.9	2.7	2.7
Other Income	1,175.0	982.0	(374.0)	526.6
% of STO	2.3	1.8	(0.6)	0.7
Exceptional Items	0.0	679.0	0.0	0.0
EBTA incl. OI & EI	**8,774.0**	**6,858.0**	**8,624.6**	**10,757.4**
% Ch. YoY	3.6	(21.8)	25.8	24.7
% of STO	17.1	12.5	12.8	14.3
Tax	**1,316.0**	**1,437.0**	**2,143.7**	**2,743.1**
% of PBT	15.0	21.0	24.9	25.4
PAT	**7,458.0**	**5,421.0**	**6,480.9**	**8,014.3**
% Ch. YoY	6.1	(27.3)	19.6	23.7
Profit in associate	(996.0)	5,570.0	4,812.4	5,077.1
Minority Interest	(21.0)	(36.0)	0.0	0.0
RPAT	**6,441.0**	**10,955.0**	**11,293.3**	**13,091.4**
% of YoY	(8.0)	70.1	3.1	15.9
APAT	**8,496.4**	**10,413.3**	**11,293.3**	**13,091.4**
% of YoY	20.1	22.6	8.5	15.9
% of STO	16.5	19.0	16.8	17.4

BALANCE SHEET (Consolidated)

(Rs.mn)

As on 31st Mar.	FY11	FY12	FY13E	FY14E
Equity Share Capital	1,260.0	1,275.0	1,280.0	1,285.0
Reserves & Surplus	32,254.0	39,234.0	49,783.7	61,979.2
Net worth	33,514.0	40,509.0	51,063.7	63,264.2
Minority Interest	159.0	0.0	0.0	0.0
Total Debt	12,227.0	11,266.0	10,702.7	8,562.2
Capital Employed	**45,900.0**	**51,775.0**	**61,766.4**	**71,826.3**
Net Block	6,170.0	6,825.0	11,461.7	11,938.3
Cap. WIP	608.0	1,671.0	1,200.0	1,200.0
Investments	29,080.0	35,876.0	39,876.0	44,876.0
Sundry Debtors	10,361.0	13,172.0	15,959.3	17,874.4
Cash & Bank Bal	2,665.0	2,418.0	2,244.2	5,720.5
Loans & Advances	8,819.0	6,105.0	7,020.8	7,863.2
Inventories	6.0	2.0	2.0	2.0
Unbilled revenue	2,206.0	2,124.0	2,442.6	2,735.7
Current Liab. & Prov.	**14,653.0**	**17,416.0**	**19,438.1**	**21,381.9**
Net Current Assets	**9,404.0**	**6,405.0**	**8,230.7**	**12,814.0**
Deferred Tax Asset	638.0	998.0	998.0	998.0
Total Assets	**45,900.0**	**51,775.0**	**61,766.4**	**71,826.3**

FINANCIAL RATIOS (Consolidated)

Y/E Mar.	FY11	FY12	FY13E	FY14E
Growth (%)				
Net Sales	11.1	6.8	22.4	12.0
APAT	20.1	22.6	8.5	15.9
EBITDA	(11.4)	(8.4)	28.5	10.2
Profitability (%)				
EBITDA Margin	19.5	16.7	17.6	17.3
Adj. PAT Margin	16.5	19.0	16.8	17.4
ROCE	21.3	15.2	15.6	16.0
ROE	25.4	25.7	22.1	20.7
Per Share Data (Rs)				
Adj. EPS	67.4	81.7	88.5	102.6
Adj. CEPS	75.9	91.5	102.7	118.5
BVPS	266.0	317.7	398.9	492.3
Valuations (X)				
PER	13.3	11.0	10.1	8.8
PEG	0.8	0.5	1.2	0.5
P/BV	3.4	2.8	2.3	1.8
EV / EBITDA	9.3	9.5	7.1	5.6
EV / Net sales	1.8	1.6	1.2	1.0
Dividend Yield (%)	0.5	0.4	0.6	0.7
Turnover Days				
Debtors days	89	102	100	100
Creditors days	82	93	85	84

Source: Company, Sushil Finance Research Estimates

CASH FLOW (Consolidated)

(Rs.mn)

Y/E Mar.	FY11	FY12	FY13E	FY14E
PAT	6,441.0	10,955.0	11,293.3	13,091.4
Dep. & Amortization	1,344.0	1,067.0	1,363.3	1,523.3
Chg in Deferred tax	(362.0)	(360.0)	0.0	0.0
Chg in Working cap	(3,902.0)	2,752.0	(1,999.6)	(1,106.9)
Chg. In Misc. Exp.	20.0	(159.0)	0.0	0.0
Cash flow from operations	**3,541.0**	**14,255.0**	**10,657.1**	**13,507.8**
Chg in Gross PPE	(1,471.0)	(1,722.0)	(6,000.0)	(2,000.0)
Chg in WIP	580.0	(1,063.0)	471.0	0.0
Chg in Investments	1,065.0	(6,796.0)	(4,000.0)	(5,000.0)
Cash flow from investing	**174.0**	**(9,581.0)**	**(9,529.0)**	**(7,000.0)**
Chg in debt	(1,445.0)	(961.0)	(563.3)	(2,140.5)
Chg in Share Capital	35.0	15.0	5.0	5.0
Chg in reserves	(1,234.0)	(3,378.0)	0.0	0.0
Dividend	(593.0)	(597.0)	(743.7)	(895.9)
Cash flow from financing	**(3,237.0)**	**(4,921.0)**	**(1,302.0)**	**(3,031.4)**
Chg in cash	**478.0**	**(247.0)**	**(173.8)**	**3,476.4**
Cash at start	2,187.0	2,665.0	2,418.0	2,244.2
Cash at end	**2,665.0**	**2,418.0**	**2,244.2**	**5,720.5**

Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	**High predictability / Low volatility**
Medium Risk	**Moderate predictability / volatility**
High Risk	**Low predictability / High volatility**

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	**Over 15 %**	**Over 20%**	**Over 25%**
Accumulate	**10 % to 15 %**	**15% to 20%**	**20% to 25%**
Hold	**0% to 10 %**	**0% to 15%**	**0% to 20%**
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with “Neutral” Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
- **Stock Review Reports:** These are Soft coverage’s on companies where Management access is difficult or Market capitalization is below Rs. 2000 mn. Views and recommendation on such companies may not necessarily be based on management meeting but may be based on the publicly available information and/or attending Company AGMs. Hence Stock Reviews may be just one-time coverage’s with an occasional Update, wherever possible.