

January 24, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs689	Rs 730
EPS change FY11E/12E (%)	8.8/4.2
Target Price change (%)	(9)
Nifty	5,697
Sensex	19,008

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(9)	(8)	(38)
Rel. to Nifty	4	(2)	(12)	(44)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	IT Services
Bloomberg	TECHM@IN
Equity Capital (Rs mn)	1258
Face Value(Rs)	10
No of shares o/s (mn)	126
52 Week H/L	1,158/600
Market Cap (Rs bn/USD mn)	87/1,905
Daily Avg Volume (No of sh)	211626
Daily Avg Turnover (US\$m)	3.3

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	72.8	72.8	73.8
FII/NRI	2.1	2.1	1.6
Institutions	15.3	15.1	15.6
Private Corp	1.1	1.0	1.3
Public	8.8	9.0	7.7

Source: Capitaline

Manik Taneja

manik.taneja@emkayglobal.com
+91 22 6612 1253

Priya Gajwani

priya.gajwani@emkayglobal.com
+91 22 6612 1385

- **Rev growth at 1.6% (like to like basis) missed est. of +4.8% QoQ, pales in comparison to strengthening growth at peers. Mgn declined by ~110 bps QoQ(V/s exp of -50 bps QoQ)**
- **Standalone Profits at ~Rs2.1 bn, +29%QoQ driven by forex gains of ~Rs 520 mn. Net adds tepid at ~200 with attrition continuing to be high at 30% on a qtrly annualized basis**
- **Raise FY11/12/13 adjusted EPS by ~8.8/4.2/2% to Rs 51.4/61.3/66.4 driven by lower currency resets, higher fx gains in FY11 despite marginal cut in US\$ revenue estimates**
- **Valuations inexpensive at ~11.2/10.4x FY12/13E EPS, however fair given sober growth vis-a-vis improving growth at peers. HOLD with a revised TP of Rs 730(V/s Rs 810 earlier)**

Where's the growth?

Tech Mahindra's Dec'10 results indicate the vagaries of exposure to single vertical and high exposure to a fewer set of clients, which in the recent past has continued to drag co's financial performance V/s peers. While most of the industry peers continue to report improvement in revenue growth, Tech M's reported revenues (in US\$ terms) were up by an anemic 1.6% sequentially on a like to like basis missed expectations of ~4.8% increase). (Note that revenues were flat QoQ in constant currency terms) Op margins were at 20.6%, down by ~110 bps sequentially (like to like basis) V/s expectations of ~50 bps decline. Standalone profits at ~RS 2.1 bn (+29% YoY) beat expectations driven by forex gains of ~Rs 520 mn. Revenues from top client were flat QoQ at ~GBP 75 mn. Co added 2 new clients during the quarter to take the total client count to 126 with an increase in no of 10 mn+ clients to 15(V/s 14 in Sep'10 qtr). Utilization during Dec'10 qtr is near historical highs at ~76%, with co looking to reduce it going ahead with fresher hiring (~4k campus offers for FY12).

Upping FY11/12/13E adjusted earnings by 8.8%/4.2%/2.2% respectively

We tweak our earnings model for (1) marginally lower US\$ revenue assumptions, (2) reset currency assumptions to Rs 45/\$ (V/s Rs 44/\$ earlier) and incorporate higher forex gains in Dec'10 driving a 8.8%/4.2%/2.2% increase in our FY11/12/13E adjusted earnings to Rs 51.4/61.3 /66.4 respectively.

Retain HOLD with a revised TP of Rs 730

We retain HOLD on TechM with a revised target price of Rs 730, based on 11x adjusted FY13 earnings. Valuations no doubt are inexpensive at ~11.2x/10.4x FY12/13E earnings, however are fair in view of Tech M's sombre revenue growth as compared to a strengthening revenue profile both at Tier 1 peers as well as smaller Tier 2 peers with company hoping of a pickup in demand prospects in the telecom vertical in H2CY11

Financials

(Rs mn)

Y/E Mar	Net Sales	EBITDA	EBITDA %	PAT	EPS (Rs)	ROE %	EV/ EBITDA	P/B (x)	P/E(x)
FY09	44,647	12,152	27.2	10,145	72.3	59.2	7.0	4.7	9.6
FY10	46,254	11,325	24.5	7,005	54.1	29.4	9.0	3.1	12.8
FY11E	51,151	9,938	19.4	7,080	64.2	26.5	8.5	2.6	10.8
FY12E	55,897	10,882	19.5	7,235	74.1	24.9	7.0	2.1	9.4

Quarterly performance

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11E	YTD'10	YoY (%)
Revenue	11,873	11,833	11,337	15,339	12,110	2.0	(21.1)	38,786	34,421	12.7
Operating Expenditure	9,066	9,045	9,210	12,521	9,613	6.0	(23.2)	31,344	25,884	21.1
Cost of revenues	7,514	7,373	7,458	10,701	7,882	4.9	(26.3)	26,041	21,338	22.0
<i>as % of sales</i>	<i>63.3</i>	<i>62.3</i>	<i>65.8</i>	<i>69.8</i>	<i>65.1</i>			<i>67.1</i>	<i>62.0</i>	
SG&A expenses	1,552	1,672	1,752	1,820	1,731	11.5	(4.9)	5,303	4546	16.7
<i>as % of sales</i>	<i>13.1</i>	<i>14.1</i>	<i>15.5</i>	<i>11.9</i>	<i>14.3</i>			<i>13.7</i>	<i>13.2</i>	
EBITDA	2,807	2,788	2,127	2,818	2,497	(11.0)	(11.4)	7,442	8,537	(12.8)
Depreciation	331	399	354	347	347	4.8	-	1,048	939	
EBIT	2,476	2,389	1,773	2,471	2,150	(13.2)	(13.0)	6,394	7,598	(15.9)
Other Income	(453)	428	(11)	(187)	269	(159.4)	(243.9)	71	(1,858)	(103.8)
PBT	2,023	2,817	1,762	2,284	2,419	19.6	5.9	6,465	5,740	12.6
Total Tax	285	542	312	418	359			1,089	898	
Adjusted PAT	1,738	2,275	1,450	1,866	2,060	18.5	10.4	5,376	4,842	11.0
(Profit)/loss from JV's/Ass/MI	-9	-6	-6	-360	509			143	4	
APAT after MI	1,729	2,269	1,444	1,506	2,569	48.6	70.6	5,519	4,846	13.9
Extra ordinary items	0	0	0	0	0			0	85	
Reported PAT	1,729	2,269	1,444	1,506	2,569	48.6	70.6	5,519	4,761	15.9
Reported EPS	13.2	17.3	11.0	14.2	15.7	19.2	10.5	41	36.1	13.4

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	23.6	23.6	18.8	18.4	20.6	(302)	225	19.2	24.8	(561)
EBIT	20.9	20.2	15.6	16.1	17.8	(310)	164	16.5	22.1	(559)
EBT	17.0	23.8	15.5	14.9	20.0	294	509	16.7	16.7	(1)
PAT	14.6	19.2	12.7	9.8	21.2	665	1,140	14.2	13.8	40
Effective Tax rate	14.1	19.2	17.7	18.3	14.8	75	(346)	16.8	15.6	120

Source: Company, Emkay Research

(All fig in US\$ mn unless spec)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Quarterly Revenues	237	254	258.6	251.1	328.2	268.9
QoQ growth	3.9%	7.3%	1.9%	-2.9%	30.7%	-18.1%
YoY growth	-12.3%	9.4%	22.3%	10.3%	38.8%	5.9%
Top client	50%	46%	46%	45%	35%	44%
Top client revenues(GBP mn)	72.1	71.4	76.3	75.3	75.1	74.9
Top client revenues	118.3	116.7	119.0	113.0	114.9	118.3
QoQ growth	-0.1%	-1.3%	1.9%	-5.0%	1.7%	3.0%
YoY growth	-27.0%	-11.7%	8.2%	-4.6%	22	1.3%
Non Top client revenues	118.3	137.1	139.6	138.1	213.3	150.6
QoQ growth	8.2%	15.9%	1.9%	-1.1%	54.5%	-29.4%
YoY growth	9.6%	37.4%	37.6%	26.4%	80.4%	9.9%
Top 2- 5 client revenues	59.1	73.6	67.2	72.8	137.8	75.3
QoQ growth	-0.1%	24.5%	-8.6%	8.3%	89.3%	-45.4%
Top 5	75%	75%	72%	74%	77%	72%
Top 5 client revenues	177.4	190.4	186.2	185.8	252.7	193.6
QoQ growth	-0.1%	7.3%	-2.2%	-0.2%	36.0%	-23.4%
Non Top 5 client revenues	59.1	63.5	72.4	65.3	75.5	75.3
QoQ growth	18.0%	7.3%	14.1%	-9.8%	15.6%	-0.3%
Top 5-10 clients	21.3	17.8	23.3	20.1	23.0	24.2
QoQ growth	16.8%	-16.5%	31.0%	-13.7%	14.4%	5.3%
Top 10	84%	82%	81%	82%	84%	81%
Top 10 client revenues	198.7	208.1	209.5	205.9	275.7	217.8
QoQ growth	1.4%	4.8%	0.6%	-1.7%	33.9%	-21.0%
Non Top 10 client revenues	37.8	45.7	49.1	45.2	52.5	51.1
QoQ growth	18.7%	20.7%	7.6%	-8.0%	16.2%	-2.7%

Revenue growth was nearly flat across the board as compared to improving revenue growth at peers

Source: Company, Emkay Research

	FY11E			FY12E			FY13E		
	Old	New	% Change	Old	New	Change	Old	New	Change
Revenues(US\$ mn)	1,133	1,123	-0.9	1,252	1,242	-0.8	1,441	1,420	-1.5
Revenues	51,048	51,151	0.2	55,073	55,897	1.5	63,422	63,886	0.7
EBITDA(in Rs mn)	9,720	9,938	2.2	10,464	10,882	4.0	11,956	12,186	1.9
EBITDA mgns, %	19.0	19.4		19.0	19.5		19	19.1	
Standalone Net profits	6,535	7,080	8.3	6,912	7,235	4.7	7,143	7,308	2.3
Standalone EPS	49.9	54.0	8.3	52.8	55.2	4.7	54.5	55.8	2.3
Consolidated Net profits	7861.0	8405.5	6.9	9383.1	9706.2	3.4	10,206	10370.8	1.6
Consolidated EPS	60.0	64.2	6.9	71.6	74.1	3.4	77.9	79.2	1.6
Adjusted Consolidated EPS	47.2	51.4	8.8	58.9	61.3	4.2	65.1	66.4	1.9

Source: Emkay Research

Upping FY11/12/13 E earnings up by ~8.8%/4.2%/2% respectively driven primarily by lower currency resets and incorporation of higher hedging gains during Dec'10 quarter

Financials

Income Statement				
Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Net Sales	44,647	46,254	51,151	55,897
Growth (%)		4	11	9
Total Expenditure	(32,495)	(34,929)	(41,213)	(45,015)
Growth (%)		7	18	9
EBIDTA	12,152	11,325	9,938	10,882
Growth (%)		(7)	(12)	10
EBIDTA %	27.2	24.5	19.4	19.5
Other Income	(719)	(1,968)	(890)	(418)
Depreciation	(1,097)	(1,338)	(1,412)	(1,731)
EBIT	10,336	8,019	7,636	8,734
Interest	25	2,184	1,031	980
EBT	10,361	10,203	8,667	9,714
Tax	-	-	-	-
EAT	10,361	10,203	8,667	9,714
Growth (%)		(2)	(15)	12
EAT (%)	23.2	22.1	16.9	17.4

Cash Flow				
Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Net Profit after Tax	9,472	7,090	8,405	9,706
Add : Depreciation	516	516	516	516
Add : Misc exp w/off	-	-	(1,326)	(2,471)
Net changes in WC	3	(1)	(2)	(2)
Operational Cash Flows	12,652	10,658	7,522	10,528
Capital expenditure	(1,621)	(33,764)	(2,532)	(1,840)
Investments	(5,756)	6,690	-	-
Investing Cash Flows	(7,377)	(27,074)	(2,532)	(1,840)
Borrowings	(300)	13,672	-	-
dividend paid	(571)	(501)	(766)	(766)
Issue of shares	2	50	-	-
Share Premium	27	44	-	-
Financing Cash Flows	(869)	13,220	(777)	(790)
changes in cash	4,406	(3,195)	4,213	7,897
Opening balance	976	5,382	2,187	6,400
Closing balance	5,382	2,187	6,400	14,297

Balance Sheet				
Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Equity share capital	1,217	1,223	1,223	1,223
Reserves & surplus	18,214	27,642	35,281	44,221
Minority Interest	112	139	139	139
Networth	19,543	29,004	36,643	45,583
Deferred Revenues	-	7,677	5,677	3,677
Unsecured Loans	-	13,672	13,672	13,672
Loan Funds	-	21,349	19,349	17,349
Total Liabilities	19,543	50,353	55,992	62,932
- Goodwill	-	33	33	33
Gross Block	9,079	11,279	13,811	15,651
Less: Depreciation	4,100	5,269	6,681	8,412
Net block	4,979	6,043	7,163	7,272
Capital WIP	1,541	3,208	3,208	3,208
Investment	4,345	450	450	450
Current Assets	17,370	19,346	25,599	34,971
Inventories	13	14	-	-
Sundry debtors	9,022	10,420	12,192	13,323
Cash & bank balance	5,382	2,187	6,400	14,297
Loans & advances	2,233	3,905	7,007	7,351
Other current assets	720	2,820	-	-
Current Liab & Prov	8,888	8,665	10,398	12,940
Current liabilities	6,738	5,895	6,306	7,351
Provisions	2,150	2,770	4,092	5,590
Net current assets	8,482	10,681	15,201	22,031
Associates	85	29,695	29,694	29,695
Misc exps	-	-	-	-
Deferred Tax	196	276	276	276
Total Assets	19,543	50,353	55,992	62,932

Key Ratios				
Y/E, Mar	FY09	FY10	FY11E	FY12E
EPS (Rs)	72.3	54.1	64.2	74.1
CEPS (Rs)	80.7	64.3	74.9	87.3
Book Value Per Share (Rs)	148.3	220.3	263.9	332.1
Dividend Per Share (Rs)	3.7	3.3	5.0	5.0
Valuations Ratios (x)				
PER	9.6	12.8	10.8	9.4
P/CEPS	9.6	12.0	10.3	8.9
P/BV	4.7	3.1	2.6	2.1
EV/EBIDTA	7.0	9.0	8.5	7.0
EV/Sales	1.9	2.2	1.7	1.4
M-Cap/sales	2.0	2.0	1.8	1.6
Profitability Ratios (%)				
- RoCE	68.0	32.1	22.0	23.4
RoNW	59.2	29.4	26.5	24.9
EBITDA Margin	27.2	24.5	19.4	19.5
EBIT Margins	24.8	21.6	16.7	16.4
Net Profit Margin	23.2	22.1	16.9	17.4

Recommendation History: Tech Mahindra – TECHM IN

Date	Reports	Reco	CMP	Target
27/10/2010	Tech Mahindra Q2FY11 Result Update	Hold	787	810
27/07/2010	Tech Mahindra Q1FY11 Result Update	Hold	737	720
03/05/2010	Tech Mahindra Q4FY10 Result Update	Hold	774	800
25/01/2010	Tech Mahindra Q3FY10 Result Update	Reduce	1,140	950

Recent Research Reports

Date	Reports	Reco	CMP	Target
20/01/2011	HCL Technologies Q2FY11 Result Update	Hold	508	540
18/01/2011	TCS Q3FY11 Result Update	Accumulate	1,139	1,275
13/01/2011	Infosys Technologies Q3FY11 Result Update	Accumulate	3,205	3,400
11/01/2011	Patni Computers Event Update	NR	646	NA

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.