



Between the Lines

Daily Corporate News Analysis

June 15th, 2007

Tech Mahindra Ltd (TML)

Result Update: Q4FY07

Key Data

CMP	Rs 1477
Date	June 15 th , 2007
Sector	IT Software
Face Value	Rs 10
BSE Code	532755
52 Week H/L	Rs 2049.80 / 520.60
Market Cap	Rs 17901.24 Cr

Investment Rationale

Tech Mahindra provides software solutions primarily for Telecom sector. In Q4 FY07 the company witnessed strong topline growth of 13% q-o-q and 108% y-o-y to Rs 874.50 crore, while the net profits (before one time payment to BT) increased by 18% q-o-q and 120% y-o-y to Rs 196 crore. However EBIDTA margins witnessed contraction of 157 bps on account higher SG&A costs. TML derives less than 20% of revenues from N.American geography, whereas its Europe geography contributes over 70% of revenues and is witnessing strong growth. This would help the company to contain the negative impact of Rupee appreciation against US dollar on its margins. The recently signed large contract of \$ 1 bn with BT is expected to contribute robustly to the company's revenues going forward, whereas the non-BT customers (AT&T and Alcatel) are also expected to witness fast ramp ups. TML is also getting into lot of new projects in the high end areas like convergence, wi-max, web 250, IPTV etc. which is a large opportunity yet to be explored. Thus we expect to see yet another strong year of performance from Tech Mahindra during FY08.

Key Developments

Sun Microsystems and Tech Mahindra in strategic alliance on IPTV services

Sun Microsystems India and Tech Mahindra have entered in a strategic alliance to enable the rollout of cost-effective, efficient and high tech IPTV (Internet Protocol Television) services to the Indian and Asia Pacific markets. These services help in receiving TV/Video signals/any other multimedia services via broadband connection.

As part of this alliance, Sun and Tech Mahindra along with AMD will jointly set up a next generation IPTV lab at the Tech Mahindra facility in Pune. The IPTV lab at Tech Mahindra would feature solutions from an exclusive consortium of solution partners



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including, Digisoft, Envivio, Harmonic, I-Make, Verimatrix and Mototech, and Sun's own Streaming System. This lab will showcase a pre-integrated end-to-end IPTV system for Tier1, tier2 and Tier3 service providers. This is Sun's first alliance in India for IPTV services. Tech Mahindra is already engaged with various service providers to offer IPTV solutions in various geographies and through its sustained investments in R&D has developed IPTV capabilities across several high end technological areas. Thus TML plans to partner vendors like Sun and others to offer an end-to-end IPTV system to service providers globally, which would contribute strongly to the company's revenues going forward.

Financials

Net Sales up 14% and profits before extraordinary expenses up 18% q-o-q

The company has witnessed strong growth of 14% q-o-q and 108% y-o-y in revenues to Rs 874.50 crore during Q4 FY07. This is attributed to 17% q-o-q revenue growth from BT in the quarter. Also non-BT clients witnessed strong ramp ups and Europe contributed 76% to the revenues. However EBITDA margins declined by 157 bps at 25.36% due to higher SG&A costs incurred for moving to new premises (one-time) in the quarter. The company also expensed Rs 5.25 bn (US\$118.5m), a one-time payment made to BT in Dec'06, during Q4 FY07. Consequently, there was a net loss of Rs 328.90 crore in Q4 FY07. However excluding this one-time payment to BT, the net profit grew by 18% q-o-q to Rs 196 crore backed by strong volume growth and higher other income of Rs 15.4 crore.

Valuations

At current market price of Rs 1477, TML is quoting at a PER of 29.23x. On EV/Sales and on EV/ EBITDA basis it is quoting at 6.09x and 24.23x respectively of its ttm consolidated earnings as on Mar'07.



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