

26 May 2011

MF Global Quarterly Report

Tech Mahindra

| Results in line with expectations

IT SERVICES

TECHM IN: **NEUTRAL**

RS 659

Tech Mahindra's 4QFY11 results were largely in line with estimates. The management has indicated that telecom companies are expected to start spending on new initiatives in the near term which could result in volumes trickling in from 2HFY12. Revenues from BT (Buy; PT: GBP210*) however are expected to continue to be flattish.

Revenue growth in line at 3.6%, Margins flat at 20.5% QoQ

- » Tech Mahindra's US\$ revenues at \$279mn grew by 3.6% QoQ. In constant currency, USD revenues grew by 2.6% QoQ
- » In INR terms, Q4FY11 revenues grew 4.1% QoQ
- » EBITDA margins were flat at 20.5% QoQ despite rise in SG&A expenses on account of lower traveling and other non-salary expenses.
- » Profit after tax excluding associates profit at Rs 2bn was flat QoQ
- » PAT including losses from Mahindra Satyam was at Rs925mn vs Rs2.6b in 3QFY11.
- » Tech Mahindra saw a headcount addition of 4125 employees, taking total headcount to 38,333. However, the addition was largely in BPO at 2,522 employees
- » Utilisation declined by 200bps QoQ to 74%.
- » BT revenues declined by 3% QoQ at GBP 71mn.

Valuation: We value the stock at 9x FY13E earnings (excluding Satyam and restructuring charge) and assign a 25% holding company discount to Satyam's valuation. Our revised target stands at Rs720. Maintain Neutral.

* Covered by John Karidis, Telecom analyst, MF Global UK Ltd.

VALUATION SUMMARY

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
NET SALES	44,647	46,254	51,402	54,149	60,256
GROWTH, %	18.5	3.6	11.1	5.3	11.3
EBIDTA	11,902	11,325	10,033	10,441	10,861
EBIDTA MARGINS, %	26.7	24.5	19.5	19.3	18.0
CORE EBIDTA	11,902	11,325	10,033	10,441	10,861
NET PROFIT	9,224	7,090	7,437	6,522	7,126
NET PROFIT MARGIN, %	20.7	15.3	14.5	12.0	11.8
EPS, RS	71.0	54.5	57.1	50.1	54.7
EPS GROWTH, %	19.8	(23.1)	4.7	(12.3)	9.2
PER, X	9.2	12.0	11.5	13.1	12.0
EV/EBIDTA, X	6.7	8.5	8.4	8.1	7.1
EV/NET SALES, X	1.8	2.1	1.6	1.6	1.3
PRICE/BOOK VALUE, X	4.4	2.9	1.9	1.6	1.3
ROIC, %	81.7	58.4	39.7	39.9	43.5
ROE, %	57.2	29.2	20.4	13.4	12.2
DIVIDEND YIELD %	0.6	0.4	0.4	0.4	0.4

Source: Company, MF Global India Research Estimates

TARGET RS 720 (10%)

SECTOR RATING

OW	N	UW

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	126MN
MARKET CAP (RS) :	83BN
MARKET CAP (USD) :	1.8BN
52 - WK HI/LO (RS) :	846 / 539
LIQUIDITY 3M (USD) :	5MN
FACE VALUE (RS) :	10

SHARE HOLDING PATTERN, %

PROMOTERS :	72.8
FII / NRI :	2.1
FI / MF :	15.1
NON-PROMOTER CORP. HOLDINGS :	1.0
PUBLIC & OTHERS :	8.8

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-9.1	2.9	3.8
REL TO BSE	-1.5	0.9	-6.4

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

QUARTERLY RESULTS

RS MN	Q4FY11	Q3FY11	QOQ(%)	Q4FY10	YOY (%)
NET SALES	12,615	12,111	4.2%	11,833	6.6%
TOTAL INCOME	12,615	12,111		11,833	
OPERATING EXPENSES	10,025	9,613		9,045	
EBITDA	2,590	2,498	3.7%	2,788	-7.1%
MARGINS (%)	20.5%	20.6%		23.6%	
DEPRECIATION	387	347		399	
EBIT	2,203	2,151	2.4%	2,389	-7.8%
MARGINS (%)	17.5%	17.8%		20.2%	
PRE-TAX PROFIT	2,307	2,420	-4.7%	2,817	-18.1%
TAX PROVIDED	226	359		542	
PROFIT AFTER TAX	2,065	2,055	0.5%	2,269	-9.0%
MF NET PROFIT	2,065	2,055	0.5%	2,269	-9.0%
EPS, RS	15.9	15.8		17.5	

Source: Company, MF Global India Research

Note: Excluding Satyam's earnings and not adjusted for restructuring fees

FINANCIALS

INCOME STATEMENT

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
NET SALES	44,647	46,254	51,402	54,149	60,256
GROWTH, %	19	4	11	5	11
OPERATING EXPENSES	-32,745	-34,929	-41,369	-43,708	-49,395
EBITDA (CORE)	11,902	11,325	10,033	10,441	10,861
GROWTH, %	44.2	(4.8)	(11.4)	4.1	4.0
MARGIN, %	26.7	24.5	19.5	19.3	18.0
DEPRECIATION	-1,097	-1,338	-1,435	-1,557	-1,687
EBIT	10,805	9,987	8,598	8,884	9,174
GROWTH, %	44.2	(4.8)	(11.4)	4.1	4.0
MARGIN, %	26.7	24.5	19.5	19.3	18.0
INTEREST PAID	-25	-2,184	-999	-760	-516
OTHER NON-OPERATING INCOME	-378	754	1,174	542	802
PRE-TAX PROFIT	10,402	8,557	8,773	8,666	9,460
TAX PROVIDED	-1,178	-1,440	-1,315	-2,080	-2,270
MF NET PROFIT	9,224	7,090	7,437	6,522	7,126
GROWTH, %	19.8	(23.1)	4.9	(12.3)	9.2
NET PROFIT (ADJUSTED)	9,224	7,090	7,437	6,522	7,126
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	0	-85	0	0	0
UNADJ. SHARES (M)	130	130	130	130	130
WTD AVG SHARES (M)	130	130	130	130	130

Note: Excluding Satyam's earnings and not adjusted for restructuring fees

CASH FLOW

Y/E MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
PRE-TAX PROFIT	10,402	8,557	8,773	8,666	9,460
DEPRECIATION	1,097	1,338	1,435	1,557	1,687
CHG IN WORKING CAPITAL	2,944	-5,777	-3,536	7,054	-2,748
TOTAL TAX PAID	-1,259	6,040	-3,442	-7,836	-2,181
OTHER OPERATING ACTIVITIES	-1,824	2,702	7,876	3,228	3,809
CASH FLOW FROM OPERATING ACTIVITIES	11,360	12,861	11,106	12,670	10,027
CAPITAL EXPENDITURE	-1,621	-4,069	542	-3,300	-2,100
CHG IN INVESTMENTS	-3,714	-25,798	1,064	-8,615	0
CASH FLOW FROM INVESTING ACTIVITIES	-5,335	-29,867	1,606	-11,915	-2,100
FREE CASH FLOW	6,025	-17,006	12,711	756	7,927
EQUITY RAISED/(REPAID)	30	50	37	-43	0
DEBT RAISED/(REPAID)	-300	13,672	-1,445	-5,176	-2,952
DIVIDEND (INCL. TAX)	-1,352	91	-501	-377	-382
CASH FLOW FROM FINANCING ACTIVITIES	-1,619	13,811	-1,910	-5,656	-3,393
NET CHG IN CASH	4,406	-3,195	10,802	-4,900	4,534

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2009	FY2010	FY2011	FY2012E	FY2013E
CASH & BANK	5,382	2,187	12,989	8,089	12,623
DEBTORS	9,022	10,420	12,468	12,689	14,768
INVENTORY	13	14	0	5	10
LOANS & ADVANCES	1,271	6,724	8,321	1,541	1,715
OTHER CURRENT ASSETS	1,682	0	0	2,485	2,930
TOTAL CURRENT ASSETS	17,370	19,345	33,778	24,809	32,047
INVESTMENTS	4,346	30,144	29,081	37,695	37,695
NET FIXED ASSETS	6,520	9,251	7,274	9,017	9,429
TOTAL ASSETS	28,432	59,016	70,770	72,158	79,809
CURRENT LIABILITIES	6,738	5,895	5,631	8,427	8,175
PROVISIONS	2,150	2,770	3,080	3,355	3,687
TOTAL CURRENT LIABILITIES	8,888	8,665	8,711	11,781	11,862
NON-CURRENT LIABILITIES	0	21,349	18,064	7,051	4,098
TOTAL LIABILITIES	8,888	30,014	26,775	18,832	15,960
PAID-UP CAPITAL	1,217	1,223	1,260	1,217	1,217
RESERVES & SURPLUS	18,214	27,640	42,576	51,945	62,462
SHAREHOLDERS' EQUITY	19,544	29,002	43,995	53,326	63,849
TOTAL EQUITY & LIABILITIES	28,432	59,016	70,770	72,158	79,809

PER-SHARE DATA

	FY2009	FY2010	FY2011	FY2012E	FY2013E
MF EPS (INR)	71.0	54.5	57.1	50.1	54.7
GROWTH, %	19.8	(23.1)	4.7	(12.3)	9.2
BOOK NAV/SHARE (INR)	150.3	223.1	337.8	409.4	490.2
FDEPS (INR)	71.0	54.5	57.1	50.1	54.7
CEPS (INR)	79.4	64.8	68.1	62.0	67.7
CFPS (INR)	104.3	72.3	15.8	68.3	41.6
DPS (INR)	3.8	2.7	2.5	2.5	2.7

FINANCIAL STRUCTURE

	FY2009	FY2010	FY2011	FY2012E	FY2013E
TOTAL DEBT/EQUITY (%)	-	47.1	27.8	13.2	6.4
NET DEBT/EQUITY (%)	(27.5)	39.6	(1.7)	(1.9)	(13.4)

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2009	FY2010	FY2011	FY2012E	FY2013E
RETURN ON ASSETS (%)	36.5	19.5	12.5	9.9	9.9
RETURN ON EQUITY (%)	57.2	29.2	20.4	13.4	12.2
RETURN ON INVESTED CAPITAL (%)	81.7	58.4	39.7	39.9	43.5
ROIC/COST OF CAPITAL (X)	10.3	6.7	4.7	4.9	5.4
ROIC - COST OF CAPITAL (%)	73.8	49.6	31.2	31.7	35.4
RETURN ON CAPITAL EMPLOYED (%)	52.8	23.4	14.0	11.2	11.3
COST OF CAPITAL (%)	7.9	8.7	8.5	8.2	8.1
ROCE - COST OF CAPITAL (%)	44.9	14.7	5.5	3.0	3.3
ASSET TURNOVER (X)	3.5	2.9	2.4	2.7	3.2
SALES/TOTAL ASSETS (X)	1.8	1.1	0.8	0.8	0.8
SALES/NET FA (X)	7.1	5.9	6.2	6.6	6.5
WORKING CAPITAL/SALES (X)	0.1	0.2	0.3	0.1	0.2
FIXED CAPITAL/SALES (X)	-	-	-	-	-
RECEIVABLE DAYS	73.8	82.2	88.5	85.5	89.5
INVENTORY DAYS	0.1	0.1	-	0.0	0.1
PAYABLE DAYS	75.1	61.6	49.7	87.1	90.0
CURRENT RATIO (X)	2.3	2.7	5.0	2.6	3.3
QUICK RATIO (X)	2.3	2.7	5.0	2.6	3.3
INTEREST COVER (X)	435.7	4.6	8.6	11.7	17.8
DIVIDEND COVER (X)	18.9	20.2	23.1	20.0	20.0
PER (X)	9.2	12.0	11.5	13.1	12.0
PEG (X) - Y-O-Y GROWTH	0.5	(0.5)	2.4	(1.1)	1.3
PRICE/BOOK (X)	4.4	2.9	1.9	1.6	1.3
YIELD (%)	0.6	0.4	0.4	0.4	0.4
EV/NET SALES (X)	1.8	2.1	1.6	1.6	1.3
EV/EBITDA (X)	6.7	8.5	8.4	8.1	7.1
EV/EBIT (X)	6.7	8.5	8.4	8.1	7.1
EV/NOPLAT (X)	7.5	9.8	9.7	10.1	9.0
EV/CE	3.8	1.9	1.3	1.4	1.1
EV/IC (X)	6.2	6.0	3.9	4.2	4.0

Source: Company, MF Global India Research Estimates

RECOMMENDATION HISTORY

RECOMMENDATION	TARGET, RS	CMP, RS	DATE
NEUTRAL	720	659	26 MAY 2011
NEUTRAL	700	689	24-JANUARY 2011
NEUTRAL	729	786	27-OCTOBER 2010
NEUTRAL	782	756	9-JULY-2010

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Rating Rationale

BUY and SELL recommendations are used to draw attention to stocks, which we believe are under-priced or over-priced by circa 15%, that is, price differential of +/- 15% between our price target and the market price. Stocks which do not achieve this price differential are NEUTRAL. Price targets are established in the context of a flat market.

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