



**ENAM Securities**  
India Research

**CMP: Rs 689**  
**Target Price: Rs 754**  
**Potential Upside: 9%**  
**Absolute Rating: HOLD**

# Tech Mahindra

Relative to sector: **Neutral**

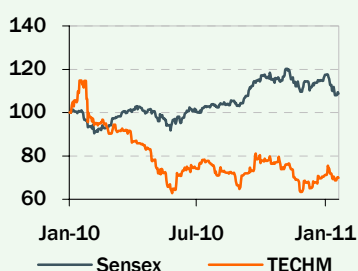
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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares : 126 mn  
Market cap : Rs 86.7 bn  
52 week high/low : Rs 1,158/ Rs 600  
Avg. daily vol. (6mth) : 365,200 shares  
Bloomberg code : TECHM IB  
Reuters code : TEML.B0

Shareholding (%)	Dec-10	QoQ chg
Promoters	72.8	(0.1)
FIs	1.7	(0.0)
MFs / UTI	0.6	0.1
Banks / FIs	14.8	0.2
Others	10.3	(0.1)

## Financial summary

Y/E Mar	Sales (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs.)	Adj. EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	EV/EBITDA (x)
2009	44,647	10,147	-	78.8	-	-	63.0	-
2010	46,254	7,089	-	54.4	(31)	-	29.2	-
2011E	51,491	7,137	53.4	54.8	1	12.6	22.7	9.2
2012E	56,642	7,552	59.3	58.0	6	11.9	20.2	7.3

Source: \*Consensus broker estimates, Company, ENAM estimates; Note: Consol. EPS including Satyam stands at ~Rs 68 for FY11E and ~Rs 75 for FY12E. Our est. are based on INR/USD of Rs 45.3 for Q4FY11E & Rs 44.1 for FY12E.

## DEMAND PRESSURE TO PERSIST IN THE NEAR-TO-MEDIUM TERM

Q3 topline was impacted by sluggish IT spend in the telecom vertical, as expected. Near-to-medium term demand outlook remains low key as the telecom vertical has yet to see any signs of discretionary IT spend like other verticals. Margins were impacted by salary hikes to onsite employees (~3% on avg.) and higher attrition at ~30%. Strong FY12E hiring plans (campus offers to ~4,000 freshers) and ramp-up of Airtel Africa contract (first phase of billing to start in Feb) are the key positives. TechM declared rev. of Rs 12.1 bn (↓ 21.0% QoQ & ↑ 2.0% YoY), EBITDA of Rs 2.5 bn (↓ 11.4% QoQ & 11.0% YoY) & PAT (before share of profit from Satyam) of Rs 2.1 bn (↑ 9.7% QoQ & 18.9% YoY).

## Key Highlights

- **Sales:** Adjusting for pass-through revs in Q2, revs declined ~1.9% QoQ (impacted by INR appn.). Volume growth was flat QoQ.
- **EBITDA:** Q3 margins were impacted by salary hikes to onsite employees and INR appreciation.
- **PAT:** PAT performance helped by higher forex gain (~USD 8 mn) and lower effective tax rate.

**Near-to-medium term pressure looms on topline & earnings growth.** We believe a protracted recovery in the telecom vertical is expected to put pressure on topline growth in the near-to-medium term. Topline client BT (rev share of ~44%) to see stability but no growth in near term. Mgmt believes the telecom vertical will return to meaningful growth in H2CY11. Supply challenges are also expected to exert pressure on margins. Higher attrition has led to 201 net employee additions only in Q3FY11. With utz rates at near-peak levels (~76%), employee additions hold key. Fresher recruitment is a step in that direction to leverage on demand uptick in H2CY11.

**Est./Valuations:** We have revised our FY12E EPS est downward by ~4% to reflect near-to-medium term demand pressure. Our TP of Rs 754 (vs. Rs 777 earlier) at 10x FY12E consolidated EPS implies upside of 9%. Maintain **HOLD** rating on the stock.

## Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
<b>Net Sales</b>	<b>12,111</b>	<b>11,873</b>	<b>2.0</b>	<b>15,339</b>	<b>(21.0)</b>	<b>51,491</b>	<b>46,254</b>	<b>11.3</b>
<b>EBIDTA</b>	<b>2,498</b>	<b>2,807</b>	<b>(11.0)</b>	<b>2,818</b>	<b>(11.4)</b>	<b>10,151</b>	<b>11,326</b>	<b>(10.4)</b>
Other income	521	6	8,583.3	83	531.5	932	754	23.7
<b>PBIDT</b>	<b>3,019</b>	<b>2,813</b>	<b>7.3</b>	<b>2,901</b>	<b>4.1</b>	<b>11,083</b>	<b>12,080</b>	<b>(8.3)</b>
Depreciation	347	331	4.8	347	0.1	1,403	1,339	4.8
Interest	252	459	(45.1)	270	(6.5)	1,030	2,184	(52.8)
<b>PBT</b>	<b>2,420</b>	<b>2,023</b>	<b>19.6</b>	<b>2,285</b>	<b>5.9</b>	<b>8,650</b>	<b>8,557</b>	<b>1.1</b>
Tax	359	285	26.0	418	(14.1)	1,508	1,440	4.7
<b>Adjusted PAT</b>	<b>2,055</b>	<b>1,729</b>	<b>18.9</b>	<b>1,874</b>	<b>9.7</b>	<b>7,137</b>	<b>7,089</b>	<b>0.7</b>
Share of profit in associates	515	-	-	(367)	-	148	-	-
Extra ordinary exp	-	-	-	-	-	-	85	-
<b>Reported PAT</b>	<b>2,570</b>	<b>1,729</b>	<b>48.6</b>	<b>1,507</b>	<b>70.6</b>	<b>7,285</b>	<b>7,004</b>	<b>4.0</b>
No. of shares (mn)	130	130	(0.1)	130	0.0	130	130	(0.1)
EBIDTA margins (%)	20.6	23.6	(302) bps	18.4	225 bps	19.7	24.5	(477) bps
PBIDT margins (%)	24.9	23.7	124 bps	18.9	602 bps	21.5	26.1	(459) bps
<b>Adj. EPS (Rs.)</b>	<b>15.8</b>	<b>13.3</b>	<b>19.0</b>	<b>14.4</b>	<b>9.6</b>	<b>54.8</b>	<b>54.4</b>	<b>0.8</b>

Source: Company, ENAM Research. Consolidated EPS for TechM (including Satyam) stands at ~Rs 68 for FY11E and ~Rs 75 for FY12E.

## Q3FY11 Result Analysis

	Q3FY11	% Change	
		QoQ	YoY
<b>Active Clients (nos)</b>	<b>126</b>		
Top Client (Rs mn)	5,329	(0.7)	(2.4)
Top 2-5 (Rs mn)	3,391	(47.4)	(1.5)
Top 6-10 (Rs mn)	1,090	1.5	31.1
Top 10 clients (Rs mn)	9,810	(23.9)	0.8
Remaining (Rs mn)	2,301	(6.2)	7.7
<b>Mix</b>			
Onsite (Rs mn)	4,481	(2.6)	(3.2)
Offshore (Rs mn)	7,630	(28.9)	5.3
Employees (nos)			
<b>Total</b>	<b>34,208</b>	<b>0.6</b>	<b>12.5</b>

Source: Company, ENAM Research

## Client Quality

(Nos)	Q3FY11	Q2FY11	Q3FY10
>USD 1 mn	53	52	49
>USD 2 mn	39	39	30
>USD 5 mn	20	21	18
>USD 10 mn	15	14	9
>USD 15 mn	8	8	8
>USD 20 mn	6	7	5
>USD 25 mn	5	5	4
>USD 50 mn	3	3	2

Source: Company, ENAM Research

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