

Tech Mahindra Ltd.**₹ 800****Engineered for Life...!!!****Accumulate**

Feb 15, 2019

Company Background

Tech Mahindra Ltd is a part of the Mahindra Group. Engaged in the business of computer programming, consultancy and related services. Its segments include IT & BPO. Company operates in various sectors, including telecom business and enterprise solutions business. Telecom business provides consulting-led integrated portfolio services to customers, which are telecom equipment manufacturer, telecom service providers and IT infrastructure services and BPO, as well as enterprise services delivered through a network of various locations around the world. The enterprise solutions business provides IT services, including IT-enabled services, application development and maintenance, consulting and enterprise business solutions, extended engineering solutions & infrastructure management services. Company started its life in the year of 1986 as Mahindra-British Telecom Ltd, for over two decades, Tech Mahindra has been the chosen transformation partner for wireline, wireless and broadband operators in Europe, Asia-Pacific and North America. The name of the company was changed from Mahindra-British Telecom Ltd to the present name Tech Mahindra Ltd on 3rd February 2006.

Key Highlights

- ➔ Consolidated sales increased by 5.6% to ₹ 3,07,729 million, the EBITDA grew by 12.6% to ₹ 47,096 million & PAT also rose by 35% to ₹ 37,998 million for FY18. Geographic revenue contributions were well balanced between America, Europe and RoW with 46%, 30% and 24% respectively.
- ➔ Company recently awarded the contract worth of ₹ 270 crore from Coal India for enterprise technology modernization, which will provide real-time information between company & its subsidiaries to aid quick decision-making.
- ➔ Tech Mahindra announced, its key leadership appointments in India to accelerate its digital transformation. The leadership changes were effective from January 1, 2019.
- ➔ Tech Mahindra announced a global strategic partnership with Avaamo, a leader in conversational artificial intelligence (AI). This partnership will include developing and delivering conversational AI solutions for global enterprises.

Key Financials

Year Ended 31 st	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	2,20,532.0	2,40,583.0	2,53,919.0
Rev. growth (%)	13.98	9.09	5.54
EBITDA (INR mn)	44,713.0	45,647.0	56,335.0
Net profit (INR mn)	31,728.0	30,473.0	39,993.0
Shares outstanding (mn)	967.0	973.6	979.4
EPS (INR)	32.8	31.3	40.8
EPS growth (%)	47.59	(4.60)	30.45
P/E (x)	14.49	14.68	15.63
RONW (%)	24.18	19.12	21.96
ROCE (%)	26.42	21.87	24.27

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Info Codes

Reuters	: TEMPL.BO
Bloomberg	: TECHM IN
NSE	: TECHM
BSE	: 532755

Market Data

52 Wk Range (₹)	: 564/824
Shares in Issue (mn)	: 979.4
Market. Cap (bn)	: 786.06
BSE 2 Wk Avg Vol	: 2,02,000

Share Holding Pattern (%)

Promoters Holding	: 35.94
Public & Others	: 09.66
Corporate Holding	: 01.99
Foreign Institution	: 39.47
Institutions	: 12.78
Govt Holding	: 00.16

Investment Theme

During the FY18, one of its America's subsidiaries, acquired 84.7% stake in CJS Solutions Group, for an initial consideration of ₹ 5,742 million, the remaining 15.3% stake also acquired by ending December 31, 2019. The CJS Solutions Group works with some of the world's most prestigious Tier-I healthcare service providers, primarily in the US & UK. Another America's subsidiary has invested an amount of \$ 15 million to acquire 22.5% shareholding in AltioStar. AltioStar is the mobile broadband industry's first provider of vRAN solution for LTE technology. Tech Mahindra has announced the acquisition of Dynacommerce Holding BV for ₹ 128 crore. This acquisition will allow DynaCommerce to improve its service for existing customers. The acquisitions will help to scale up revenue in the near term.

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Financial Statements

Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Operating Income	2,09,698.0	2,31,654.0	10.5	2,36,612.0	2.1
Other Income	10,834.0	8,929.0	(17.6)	17,307.0	93.8
Change in Stocks	0.0	0.0	0.0	0.0	0.0
Fuel Charges	0.0	0.0	0.0	0.0	0.0
Employee Exp.	74,290.0	77,444.0	4.2	81,065.0	4.7
Indirect Taxes	0.0	0.0	0.0	0.0	0.0
Other Exp.	1,01,529.0	1,17,492.0	15.7	1,16,519.0	(0.8)
Operating Exp.	1,75,819.0	1,94,936.0	10.9	1,97,584.0	1.4
Operating Profit	44,713.0	45,647.0	2.1	56,335.0	23.4
Total Interest	533.0	638.0	19.7	708.0	11.0
Gross Profit	44,180.0	45,009.0	1.9	55,627.0	23.6
Net Dep.	5,417.0	6,222.0	14.9	6,562.0	5.5
Total Taxation	7,035.0	8,314.0	18.2	9,072.0	9.1
Net Profit/Loss	31,728.0	30,473.0	(4.0)	39,993.0	31.2

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 15	Mar 16	Mar 17	Mar 18
SOURCES OF FUNDS	1,28,210.0	1,69,237.0	1,91,262.0	2,18,829.0
Equity Share capital	4,804.0	4,835.0	4,868.0	4,897.0
Equity Application Money	3.0	14.0	19.0	23.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	1,07,754.0	1,45,052.0	1,64,015.0	1,90,491.0
Secured Loans	52.0	2,285.0	2,625.0	2,548.0
Unsecured Loans	15,597.0	17,051.0	19,735.0	20,870.0
USES OF FUNDS	1,28,210.0	1,69,237.0	1,91,262.0	2,18,829.0
Gross Block	48,528.0	54,584.0	63,786.0	76,685.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	28,718.0	33,359.0	38,804.0	44,381.0
Net Block	19,810.0	21,225.0	24,982.0	32,304.0
Capital Work in Progress	5,511.0	6,275.0	3,618.0	2,354.0
Investments	40,877.0	49,761.0	77,164.0	1,01,081.0
Current Assets	90,321.0	1,13,050.0	1,11,601.0	1,10,976.0
Less : Current Liabilities	41,955.0	39,706.0	46,066.0	49,159.0
Total Net Current Assets	48,366.0	73,344.0	65,535.0	61,817.0
Misc. Expenses not writtenoff	13,646.0	18,632.0	19,963.0	21,273.0
NOTE				
Book Value of Unquoted Investments	4,568.0	10,497.0	19,688.0	32,431.0
Market Value of Quoted Investments	29,718.0	28,657.0	45,045.0	40,983.0
Contingent Liabilities	0.0	0.0	0.0	0.0
Dividend (%)	120.0	240.0	180.0	280.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 18	Jun 18	Sep 18	Dec 18
Net Sales	60,213.3	62,868.5	68,754.0	69,897.0
Cost Of Sales	49,271.9	51,782.4	54,503.0	55,113.0
Operating Profit	10,941.4	11,086.1	14,251.0	14,784.0
Other Income	4,015.3	1,792.7	4,082.0	814.0
Adjusted PBDIT	14,956.7	12,878.8	18,333.0	15,598.0
Financial Expenses	167.4	80.0	119.0	129.0
Depreciation	1,797.8	1,690.6	1,759.0	1,621.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	12,991.5	11,108.2	16,455.0	13,848.0
Tax Charges	3,130.3	1,946.0	3,099.0	2,319.0
Reported Profit	9,861.2	9,162.2	13,356.0	11,529.0
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	9,861.2	9,162.2	13,356.0	11,529.0

52 Week Index Relative Percentage Appreciation



Tech Mahindra vs SENSEX

Risks Associated

- Company's major billing currencies are GBP, USD, Euro and AUD, due to fluctuation in these currencies may impact profit and losses. If any adverse currency fluctuation could also lead to impact on Company's profitability being hit.
- Company has operations in more than 90 countries and its employees work onsite at client locations on visas granted for extended or short term work. Protectionism is rising in a few economies like the USA, UK, Australia, Singapore, etc. Any changes in immigration laws or any local regulations can impact the onsite projects.
- As the company is getting 95% of the total revenue from exports, it derives 46% revenue from Americas, 30% from Europe and 24% from the Rest of the World. Economic growth activity in these nations could directly or indirectly affect the company. If any slowdown in these economies would cause lower growth or postponement of IT spends, it will impact growth.

Scope of Growth

- Tech Mahindra & Israel Aerospace Industries subsidiary ELTA Systems announce partnership to combine IAI's national-grade cybersecurity technologies to provide cutting edge cyber solutions and services to government and enterprise customers in India and around the world.
- Tech Mahindra & Rakuten Mobile Network have teamed up to build world-class Software Defined Network laboratories. This lab will help create the next generation of mobile broadband, enabled by 5G and transformation of industries across the globe. While the 5G impact on reported financials will likely be visible only over FY20.
- As per the NASSCOM, outlook for the Indian information technology sector is steady, with a positive bias for FY19. It expected the export revenues to grow to \$135-137 billion from the \$126 billion in FY18. The Domestic revenues are expected to grow 10-12% to \$28-29 billion in the FY19.

In a Nutshell

Tech Mahindra Ltd is a specialist in digital transformation, consulting and business re-engineering solutions and is a part of the Mahindra Group. It has been chosen transformation partner for wireline, wireless and broadband operators in Europe, Asia-Pacific and North America. Company invested in subsidiaries in the PF Holdings B.V, The CJS Solutions Group and Comviva Technologies Ltd during the FY18. Company had invested in proportion to its holding an amount of Euro 2.4 million in PF Holdings BV. The Company, through its subsidiary Tech Mahindra (Americas) Inc, acquired an 84.7% stake in CJS Solutions Group, for an initial consideration of ₹ 5,742 million. Further the subsidiary of the company has acquired the 15.3% Non-Controlling Interest to be exercised over a three-year period ended December 31, 2019. Company had acquired an additional 32.07% stake in Comviva Technologies Ltd from Bharati Group and Westbridge Ventures II Investment Holdings for a total consideration of ₹ 3,618 million and 0.68% stake from Comviva ESOP Trust for a consideration of ₹ 70 million respectively. As a result of this, the Company now holds 99.85% stake in Comviva Technologies Ltd as on March 31, 2018. In Q3FY19, Tech Mahindra has set up a Video Integration and Engineering business unit to leverage cutting-edge technology and solutions to cater to the heavy demand for video services in the 5G ecosystem. Tech Mahindra and Rakuten Mobile Network Inc. have collaborated for to built up Software Defined Network laboratories. This will help create the next generation of mobile broadband, enabled by 5G, and transformation of industries across the globe. The investments in its subsidiaries and partnership with other companies will improve both top and bottom line.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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