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# TECH MAHINDRA LIMITED

## INITIATING COVERAGE REPORT

22nd February 2019

Research Analyst

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## Brief Overview

CMP (INR) (As on 21st Feb, 2019)	820
Target (INR)	954
Upside(%)	16
Recommendation	<b>BUY</b>

BSE Code	532755
NSE Code	TECHM
Reuters Ticker	TEML.BO
Bloomberg Ticker	TECHM IN

## Stock Scan

Market cap (INR Cr.)	80675
Outstanding Shares (Cr.)	98.34
Face Value (INR)	5.00
Dividend Yield(%)	1.71
P/E (x)	18.3
Industry P/E (x)	20.0
Debt/Equity (x)	0.13
Beta vs. Nifty	0.70
52 Week High/ Low (INR)	840/591
Avg. Daily Volume (NSE)/1yr	3264550

## Shareholding Pattern (%)

	Dec-2018	Sept-2018	Jun-2018
<b>Promoters</b>	35.94	35.96	35.98
<b>Institutions</b>	51.32	51.60	51.66
<b>Non-Institution</b>	12.71	12.41	12.37

## Stock vs. Nifty (Relative Returns)



Source: NSE

## Tech Mahindra: Connected World Connected Experiences

We initiate coverage on Tech Mahindra Ltd with a **BUY** rating. Tech Mahindra Limited is a leading provider of digital transformation, consulting and business reengineering services and solutions and is a part of the USD 20.7 bn Mahindra Group. Befitting its size, the Mahindra Group operates in 20 key industries, providing insightful and ingenious solutions that are global in their ramifications. Tech Mahindra represents the connected world, offering innovative and customer-centric information technology services and solutions, enabling Enterprises, Associates and the Society to Rise. It is a USD 4.8 bn company with 112,800+ professionals across 90 countries, helping over 913 global customers. Company's convergent, digital, design experiences, innovation platforms and reusable assets connect across a number of technologies to deliver tangible business value and experiences to its stakeholders.

## Investment Rationale

**Strong recovery in Communication Vertical:** Telecom vertical which has been declining/flat for several quarters came back strong in last two quarters. Telecom which contributes 41% of revenue, grew 2.5% QoQ in USD in Q3FY19. We expect further thrust in communication vertical going forward

**Valuation:** Central to our investment rationale is our view that TECHM is nicely putting in place the building blocks to win big in 5G. The industry expects 5G spending by the carriers to pick up in CY19, with TECHM getting its fair share of the network services piece from FY21. Further, Enterprise is likely to maintain good growth aided by higher digital revenue and strong TCV. Also, recent buyback announcements augur well for return ratios of the company. We have used DCF method and Relative Valuation to find the intrinsic value of the stock. **The derived intrinsic value and target price of Tech Mahindra is INR 954/share.**

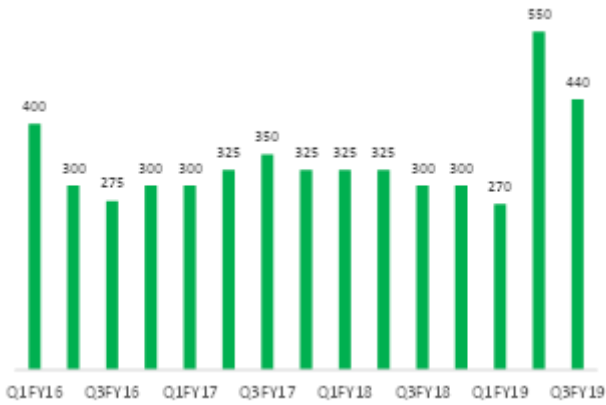
## Financial Performance at a glance (Consolidated)

Particulars (INR Cr.)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	29141	30773	34393	38797	43985
Revenue Growth(%)	10.0%	5.6%	11.8%	12.8%	13.4%
EBITDA	4184	4710	6281	7385	8823
EBITDA Margin	14.4%	15.3%	18.3%	19.0%	20.1%
Net Profit	2851	3786	4329	5017	6063
Net Profit Margin	9.5%	11.8%	12.3%	12.7%	13.8%
EPS	32.60	44.04	49.68	57.57	69.57
BVPS	190.51	218.39	226.53	256.97	293.73
P/E (x)	25.2	18.6	16.5	14.2	11.8
P/BV (x)	4.3	3.8	3.6	3.2	2.8
EV/EBITDA (x)	16.14	14.34	10.75	9.14	7.65
ROE (%)	18.4%	21.5%	22.6%	24.1%	25.5%
ROACE (%)	23.5%	25.6%	26.7%	28.8%	30.5%

Source: Company Data, SMIFS Research

**...Rationale Continued**

**Net New Deal Wins For FY19 YTD reached USDD1.26 Bn**



Source: Company Data, SMIFS Research

on the back of strong deal momentum, absence of revenue pruning at LCC and huge spends related to 5G roll out. The strong deal wins (USD540 mn in last two quarters) reflect the core health of the business. Reasonably good 5G deployments with even a couple of large carriers should suffice for robust growth uptick off a depressed base – driving comfortable double-digit % growth in TECHM’s telecom revenues. As we go ahead, 5G investments and modernization of existing systems by telecom operators, including pre-5G network transformation initiatives will be the key growth drivers in the Telecom Vertical.

**Encouraging deal pipeline, especially in Telecom Vertical:** TECHM has already signed some significant deals in the first 9 months of FY19. Tech Mahindra won TCV of USD440mn in Q3FY19 vs USD550mn in Q2FY19. The company has signed deals in excess of USD540 mn in the last two quarters, right in Communications and some of them are already into execution. The deal wins have been robust in recent times and provide growth visibility and strong exit rate for Q4FY19. Communication vertical has a revenue share of ~41% and revival in this business will be strongly positive for TECHM. Going ahead, the huge opportunity in 5G and the large deal momentum has the potential to change the complexion of growth in the communication vertical.

**EBITDA Margin improving over the quarters**



Source: Company Data, SMIFS Research

**Healthy margin performance:** Company has shown a steady recovery in margin profile in last several quarters (+730bps). The company’s focus on optimizing the operations has led to the highest EBITDA level and margin improvement. EBITDA margin rose 50bps QoQ to 19.3% in Q3FY19. Management maintained its margin improvement commentary and indicated its current onsite-heavy revenue mix (~67% of IT revenues) to be a key lever as it expects to offshore some of the work done by its subsidiaries. Also, incremental contribution from high margin digital segment (now 33% of revenues) and healthy growth in the same (10% QoQ) would bode well for margins.

Going forward, the margin improvement program is expected to be gradual due to wage hikes in Q1FY20, cost relating to deal ramp-ups and increase hiring in the IT business. A key negative is attrition which is at 21% vs 16% in Q2FY18, however, TECHM confirmed that attrition in case of high performers is much lower.

While IT utilization lever (at 83% exc. trainees) has peaked, the margin improvement will be led by employee pyramid optimization, automation, rupee tailwind and operational efficiencies. Also, since most of the investments in the communications vertical have already been done, we can expect margin improvement with the growth in this higher margin vertical. The efforts are being reflected well wholly at the gross margin level.

...Rationale Continued

**Management indicated that while growth in Enterprise vertical can be volatile on a QoQ basis, it expects growth momentum to continue on an annual basis (8-10% in CC terms).**

**Enterprise business growing ahead of industry:** Enterprise vertical has led growth for Tech M for last several quarters, and is expected to show strong growth in FY19. Enterprise revenues (57% share in FY18) logged a CAGR of 18% over FY16-FY18, buttressing growth for TECHM at a time when telecom posted a largely flattish performance.

Management indicated that while growth in Enterprise vertical can be volatile on a QoQ basis, it expects growth momentum to continue on an annual basis (8-10% in CC terms) despite the challenge company had on account of the HCI business (revenue drop by more than 50% in Q2FY19). Tech M expects growth continuation in its manufacturing business as it is seeing traction for digital factories (IOT, Analytics, and AI-based offerings). Growth in the healthcare vertical was indicated to have picked up with new deals win post large decline in Q2FY19 due to the completion of number of projects in this vertical.

**Revenue from digital services for TECHM is ~33%. A positive factor is digital deal sizes are on the rise which will fuel the digital business further.**

**Digital engagements gaining critical mass:** Digital technology is throwing up a new set of opportunities for the industry and in the past few years, the industry is witnessing a wide shift in terms of revenue share. TECHM is well equipped to address this new and changing business trend. TECHM has enabled its customers to constantly evolve and cater to new age consumer demands. TECHM digital business now contributes ~33% vs ~31% in Q2FY19 to the total revenue growing roughly 10% QoQ due to the TECHM NEXT platform. A positive factor is digital deal sizes are on the rise given increasing investments being committed by clients. In the last four quarters, the growth in the digital business is in the 28%-30% range and the changing demand landscape for next generation technologies is going to fuel the digital business further.

**With continued strong booking in communications and the possibility of a lead in setting credentials for 5G via anchor customers for Altiostar, we think the growth prospects are strong.**

**Focus on improving Onsite-Offshore Revenue Mix:** In Q3FY19, TECHM's onsite revenue moved 100bps to 65.5%. The on-site mix is relatively higher than peers mostly because of acquisitions and part of the digital business being more onsite in nature. But over a period of time, once company starts digital engagement we will start witnessing movement offshore. Management commented that for the subsidiaries they expect to offshore some of the work done. So, this is a strong margin lever and it will help further improve the operational efficiencies.

**Strengthening position through Investments & Acquisitions:** TECHM is seeing strong growth from their acquisitions and strategic investments made by the company. Company acquired slightly about 20% stake in Altiostar in January 2018. This investment helps them to get access to telecom service providers with the technology in the RAN space where CTOs continues to spend lot of money and where bulk of the 5G investments will happen. Altiostar is being used by Rakuten for network rollout, and we expect this can help TECHM be a leader in 5G. Similarly, the acquired entity CJS Solutions Group LLC, has shown sharp growth over previous three quarters. In Others vertical, the bulk of the weight of growth is being pulled by CJS in Healthcare and Life Science space.

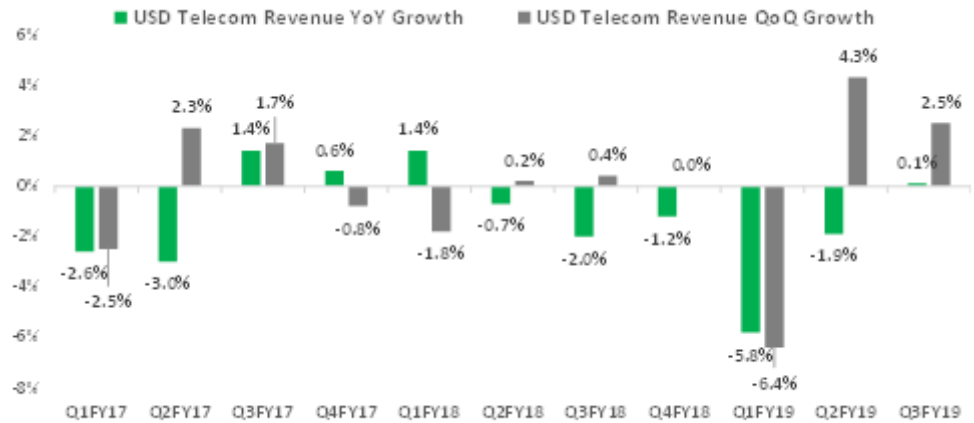
...Rationale Continued

After no-growth over the past three years, we believe Communication Vertical has bottomed out and we expect it to continue recovery in the coming quarters on the back of strong deal wins.

Company has shown a steady recovery in margin profile in last few quarters and we expect gradual improvement going forward.

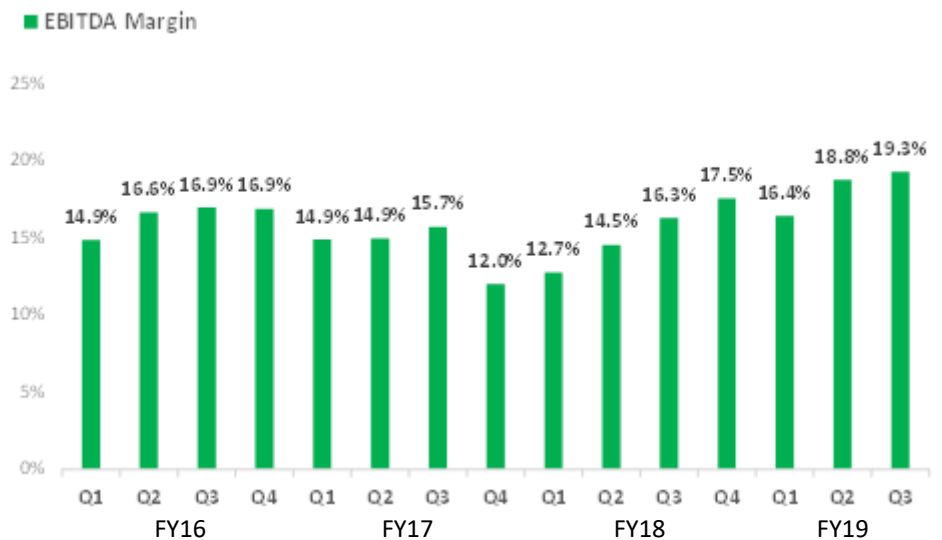
The company added one new client in USD50 mn plus category and nine in USD1 mn plus category in Q3FY19.

Telecom revenue growth has been strong for second consecutive quarter



Source: Company Data, SMIFS Research

Consistent EBITDA Margin Improvement; Can sustain margin going forward



Source: Company Data, SMIFS Research

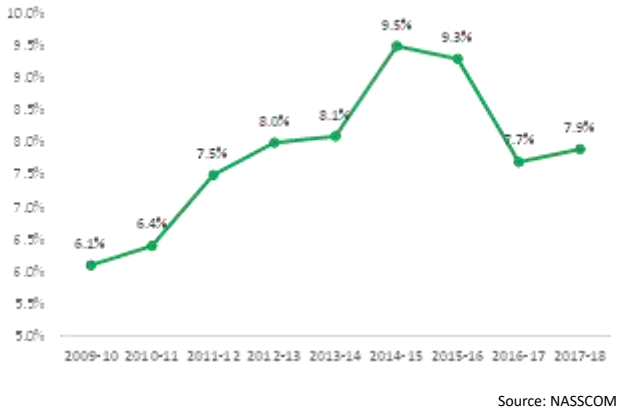
Number of >20mn and >10mn clients showing strong growth YoY



Source: Company Data, SMIFS Research

**Indian Information Technology Industry—Outlook**

**IT Industry Contribution to GDP India (%)**

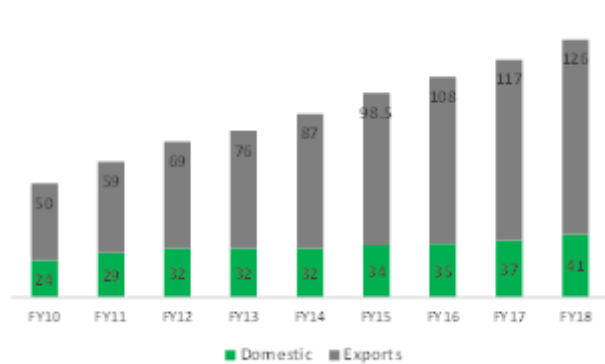


**Global IT-BPM industry**

In 2017, global IT-BPM industry stood at USD 1.3 trillion (excl. hardware) showing a growth of 4.3% over 2016:

- IT services grew a modest 2.4% driven by the continuous need for digital solutions.
- BPM (3.4%) saw greater implementations of RPA.
- Packaged software: Was the fastest growth segment (7.7%) - SaaS driving growth esp. FMS, HCM, analytics.
- Hardware segment grew 1.5% to cross USD 1 trillion.
- Global ER&D spend saw a decent 3.2% growth (as compared to previous two years which saw more or less flat growth); the push for autonomous vehicles & equipment, connectivity and smart products were key growth drivers.

**Market Size of IT Industry in India (USD bn)**



Global sourcing growth outperformed global IT-BPM spend growth in 2017, global sourcing grew 1.4X to reach USD 185-190 bn. India continued as the world’s No.1 sourcing destination with a share of 55 %. 271 new global delivery centres were set up worldwide (by US headquartered firms) in 2017 - India accounted for 24% share and Europe (29%).

**Indian IT-BPM industry**

India is the topmost offshoring destination for IT companies across the world with its proven capabilities in delivering both on-shore and off-shore services to global clients.

As per NASSCOM Strategic Review Report 2018, India’s IT-BPM industry stood at USD ~167 bn market and employs around 4 mn people. It continues to be the leader in the global sourcing market with a ~55% share.

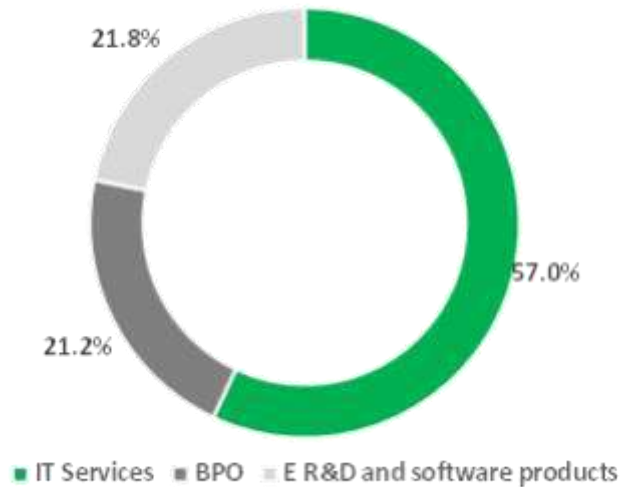
Despite the slowing down in growth rates due to the base effect, the industry would add ~USD 24 bn revenue since last year and continues to be a net hirer, having addition of ~100,000+ in FY 2018. Share in total service exports is estimated over 45% and the industry’s contribution relative to India’s GDP is ~7.9%.

The market size of India’s IT-BPM sector is expected to grow to USD 350 bn by 2025 and BPM is expected to account for USD 50-55 bn out of the total revenue.

**Indian IT and BPM Industry is expected to grow to USD 350 bn by 2025.**

**Indian Information Technology Industry—Outlook (Continuation)**

**Sector-wise breakup of export revenues (FY18)**



Source: Company Data, SMIFS Research

**Strong growth in IT & ITeS Exports:**

- The total exports from the IT-BPM sector (including hardware) were estimated to have been USD126 bn during FY18. The exports rose at a CAGR of 12.26% during FY09–18.
- Export of IT services has been the major contributor, accounting for 57% of total IT exports (including hardware) during FY18.
- BPO and E R&D and software products exports accounted for 21.20% and 21.80% of total IT exports during FY18, respectively.
- Exports from the sector are expected to grow 7-9% to reach USD 135-137 bn in FY19.

**Digital Exports to be a major growth driver:**

Digital technology is throwing up a new set of opportunities for the technology industry and over the past few years, the business has seen a shift: in revenue share, talent, business models, revenue source and organizational structure.

Currently the traditional services (ISO, CADM, software testing, F&A, HRO, etc.) continue to have a major share of revenue (~80%), the share of digital revenue is increasing rapidly. From about 14% in FY2016, it is now ~18% and is expected to reach 38% by 2025.

India’s IT industry is increasingly focusing on digital opportunities as digital is poised to be a major segment in the next few years. It is also currently the fastest growing segment, growing over 30% annually.

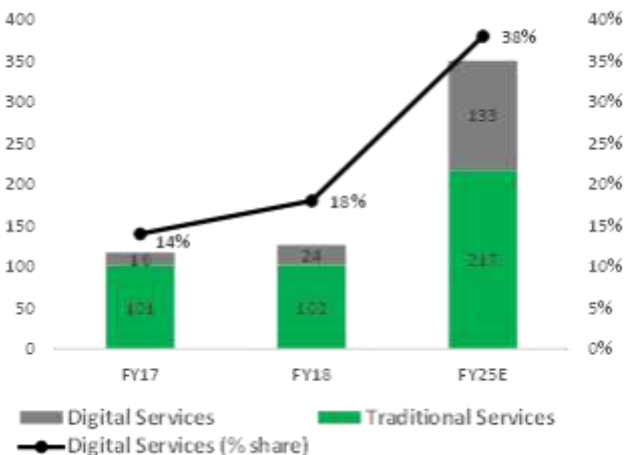
India’s value proposition for the global technology industry is steadily shifting towards offering end-to-end digital technologies. India is setting itself up as the Digital capabilities hub for the world:

- 8,100+ firms offering digital solutions.
- Boasts of a digitally skilled talent pool of 450,000-500,000.
- Accounts for ~75% of global digital talent.

Apart from this, India continues to be the leader in terms of: cost arbitrage (5X-6X cheaper than the US), has global presence (80+ countries), a fast growing domestic market (USD 41 bn) and a potential consumer market (1.3 bn population).

All these factors combined are enabling India to maintain it’s position as the world’s No. 1 preferred location for offshoring with a share of 55% in global sourcing.

**Digital Revenue Share (Export) is expected to double by FY2025 (USD bn)**

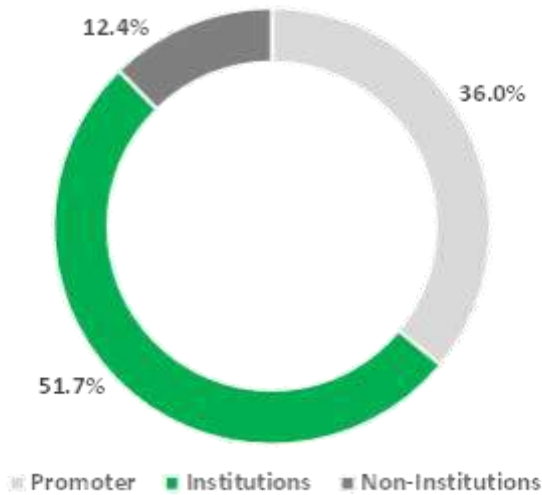


Source: NASSCOM



**Company: Tech Mahindra**

**Shareholding Pattern (December 2018)**



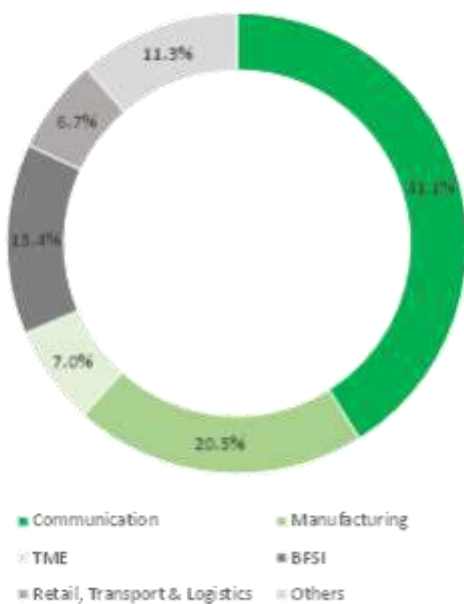
Source: Company Data, SMIFS Research

Tech Mahindra represents the connected world, offering innovative and customer-centric information technology experiences, enabling Enterprises, Associates and the Society to Rise. TECHM is a USD4.9 bn company with 113,550+ professionals across 90 countries, helping over 926 global customers including Fortune 500 companies. Their convergent, digital, design experiences, innovation platforms and reusable assets connect across a number of technologies to deliver tangible business value and experiences to the stakeholders. Tech Mahindra is amongst the Fab 50 companies in Asia (Forbes 2016 list).

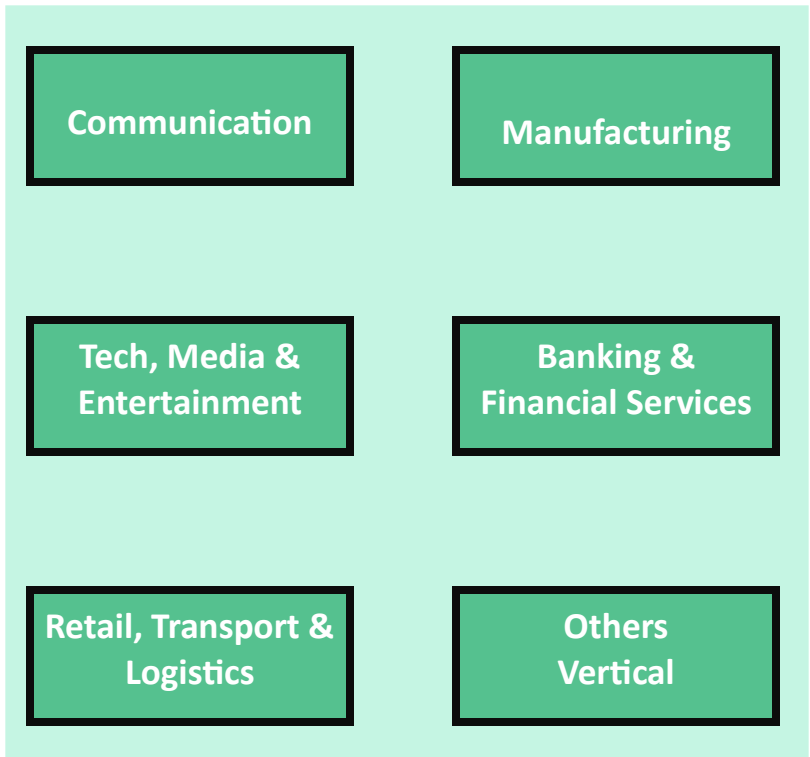
TECHM is part of the USD21 bn Mahindra Group that employs more than 200,000 people in over 100 countries. The Group operates in the key industries that drive economic growth, enjoying a leadership position in tractors, utility vehicles, after-market, information technology and vacation ownership.

**Verticals**

**Revenue Distribution in terms of Vertical (Q3FY19)**



Source: Company Data, SMIFS Research



**Company: Tech Mahindra 3-4-3 Business Strategy For Organization**

**RUN BETTER**  
Deliver Operational  
Excellence

As Tech Mahindra builds diversified and deep relationships with its customers, in this rapidly changing times, the company has rolled out a strategy which is termed as “3-4-3 strategy”. It means addressing 3 Megatrends that are happening in the markets, 4 bets that Tech Mahindra would take to address those mega trends and which fits in to the 3 areas of a CXO’s priorities.

The three mega trends which Company believes will provide immense opportunities are:

- **Explosion of connected devices ~20 bn connected IoT devices by 2023.**
- **Data Explosion ~75% of data would be consumed by Video and**
- **The power of new network Technologies like 5G, which will enable always connected experience.**

**CHANGE FASTER**  
Transform Business  
Processes

The 4 Tech bets defining Tech Mahindra’s strategy for Future - Company’s innovation and automation focus and assets and capabilities; both organically and inorganically; has placed it in an unique position to help customers transform for the future. To enable manifest these transformations, Company has identified its strategy across 4 key business and technology related areas that are changing the way we work and live:

- **Customer Experience Management:** Orchestrate the interplay of design, digital and convergent deliver connected customer experiences.
- **Software Transformation:** This has been Tech Mahindra’s historical strength. Company has proven capabilities and has helped its customers transform at a faster pace
- **Network of Future:** Creating the Foundation for the connected world by creating intuitive networks where physical & digital come together.
- **Internet of Things:** To drive connected everything by being the largest systems orchestrator in the world.

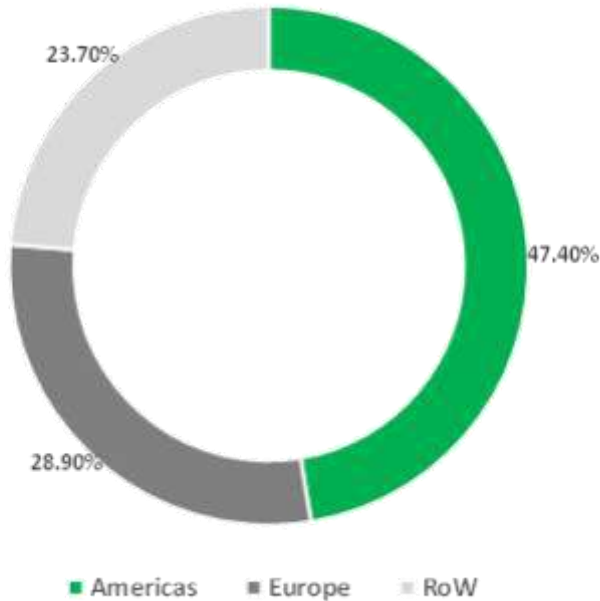
**GROW GREATER**  
Create New  
Revenue Streams

The above 3 mega technology trends and 4 key Tech bets will help address CXO’s IT priority for his company which is of running better, changing faster and growing greater.

- **Run Better:** TECHM wants to pioneer this digital journey for its customers, while ensuring their existing business run better.
- **Change Faster:** TECHM wants to enable its customers transform, but transform faster as technology partner of choice.
- **Grow Greater:** TECHM wants to continue to enable its customers grow through risk sharing, technology as a service and through various business Models.

As we look at the four bets, company is confident that they are resonating well with the market. Company has got validations done of the bets and are continuously working to make them more robust and relevant to the market. The company is co-creating solutions with the customer, taking them to the market and executing them one by one.

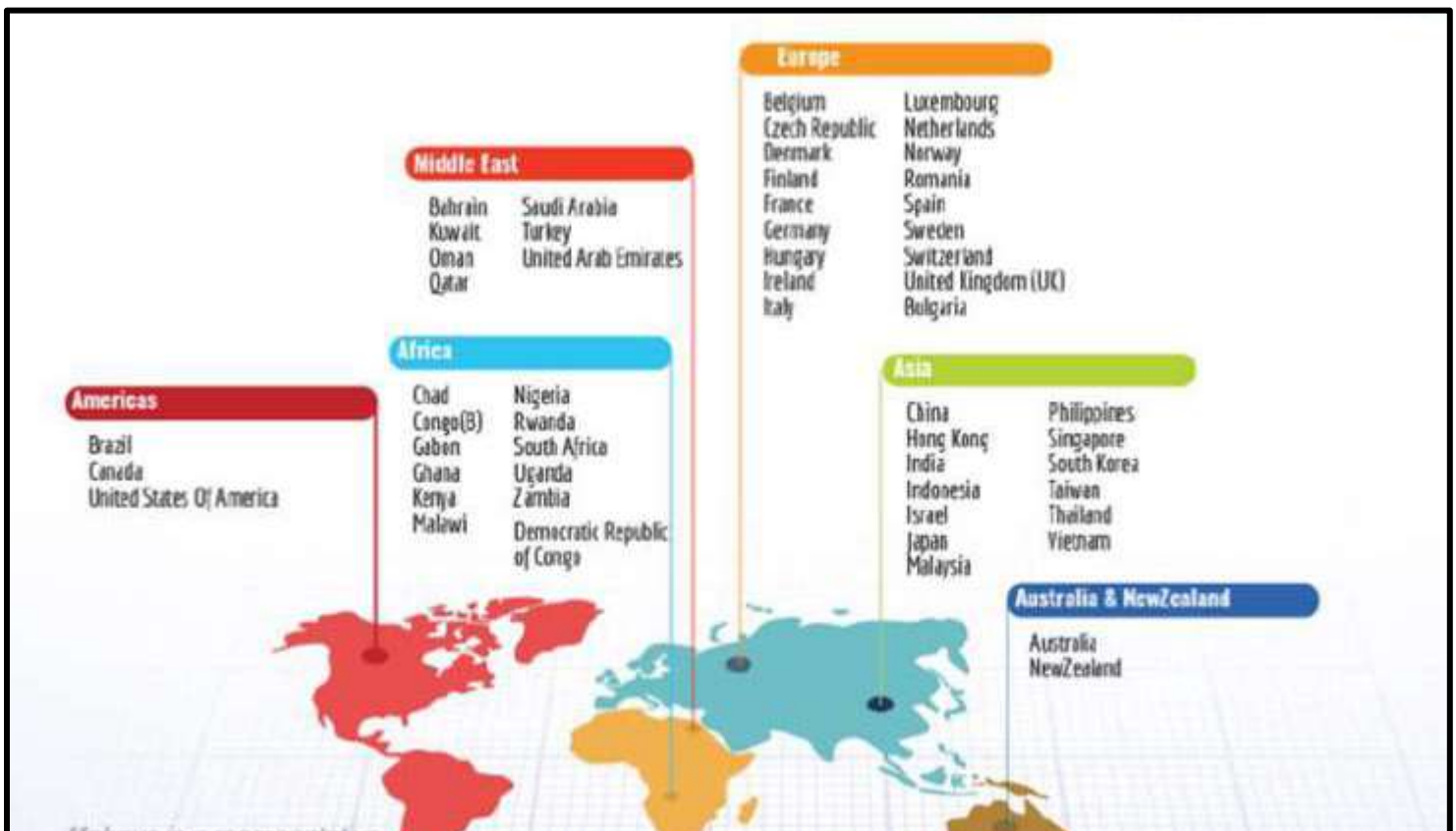
Tech Mahindra Limited: Delivering in 90+ countries



US has traditionally been the biggest importer of Indian IT exports; over 62% of Indian IT-BPM exports were absorbed by the US during FY18. Non US-UK countries accounted for just 21% of total Indian IT-BPM exports during FY18.

As of FY18, US and UK are the leading customer markets for TechM with a combined share of nearly 80%. However, there is growing demand from APAC, Latin America and Middle East Asia.

Source: Company Data, SMIFS Research



Source: Company Data, SMIFS Research

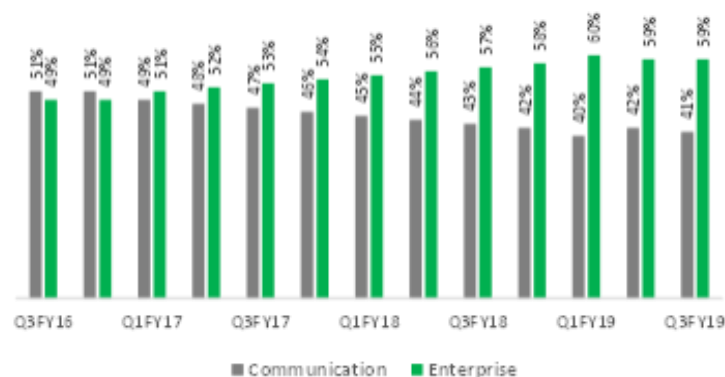
**Key Operating Indicators**
**Quarter-wise Revenue Contribution in terms of Verticals**

Verticals	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Communication	49.2%	48.4%	47.3%	46.3%	45.2%	43.7%	42.8%	41.6%	39.6%	41.5%	41.1%
Manufacturing	18.1%	19.2%	18.4%	19.2%	19.3%	19.0%	19.1%	19.3%	20.1%	20.1%	20.5%
Tech, Media & Entertainment	7.5%	7.2%	6.4%	6.2%	6.0%	5.9%	6.5%	7.3%	7.2%	7.3%	7.0%
BFSI	11.3%	11.5%	13.1%	14.1%	14.4%	14.1%	13.3%	13.0%	13.6%	13.5%	13.4%
Retail, Transport & Logistics	6.5%	6.8%	7.6%	6.5%	6.8%	7.2%	7.1%	6.2%	6.1%	6.5%	6.7%
Others	7.4%	6.8%	7.1%	7.7%	8.3%	9.9%	11.3%	12.6%	13.4%	11.2%	11.3%

Source: Company Data, SMIFS Research

**Revival in Telecom vertical contribution to revenues**

Contribution to Total Revenue



Source: Company Data, SMIFS Research

**Broad-based growth in Enterprise over several quarters**


Source: Company Data, SMIFS Research

**Quarter-wise Revenue Contribution in terms of Geography**

Geography	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
America	49.0%	48.3%	46.7%	45.1%	46.8%	45.3%	46.9%	47.4%	48.2%	47.0%	47.4%
Europe	28.3%	29.7%	29.4%	29.6%	29.8%	30.0%	29.8%	29.6%	30.0%	29.6%	28.9%
Rest of world	22.8%	22.0%	23.9%	25.3%	23.4%	24.7%	23.3%	23.0%	21.9%	23.4%	23.7%

Source: Company Data, SMIFS Research

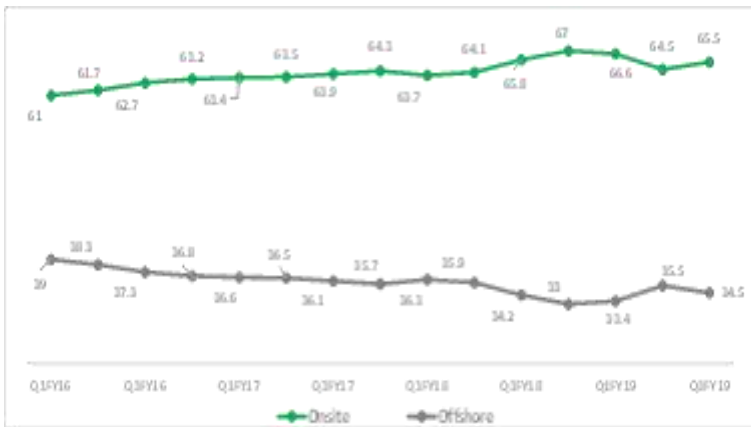
Key Operating Indicators

Total Headcount

Particulars	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Total Headcount	103673	105238	107137	105432	107216	112886	117095	117693	115980	117225	115241	112807	113552	118391	121842
IT Attrition %	19%	20%	20%	21%	21%	19%	18%	17%	17%	16%	17%	18%	19%	20%	21%

Source: Company Data, SMIFS Research

Onsite/Offshore Break-up in %; Focus on improving Onsite-Offshore Revenue Mix



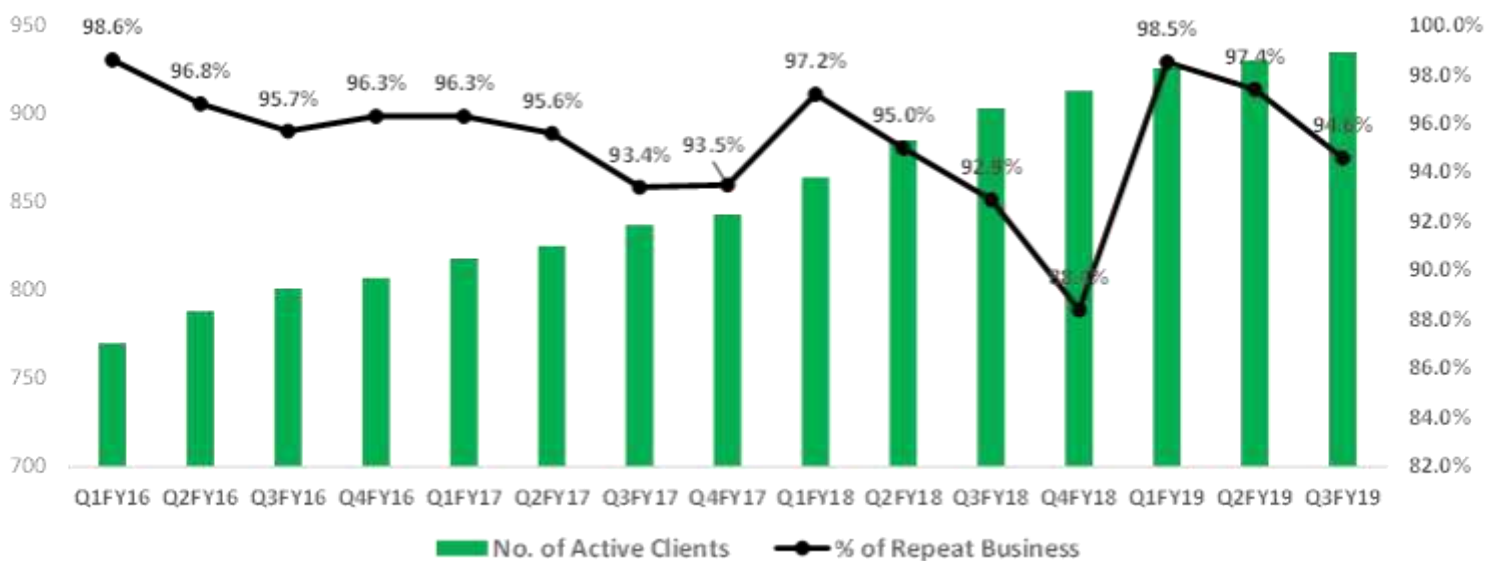
Source: Company Data, SMIFS Research

Employee Utilization % (including trainees) peaked at 82



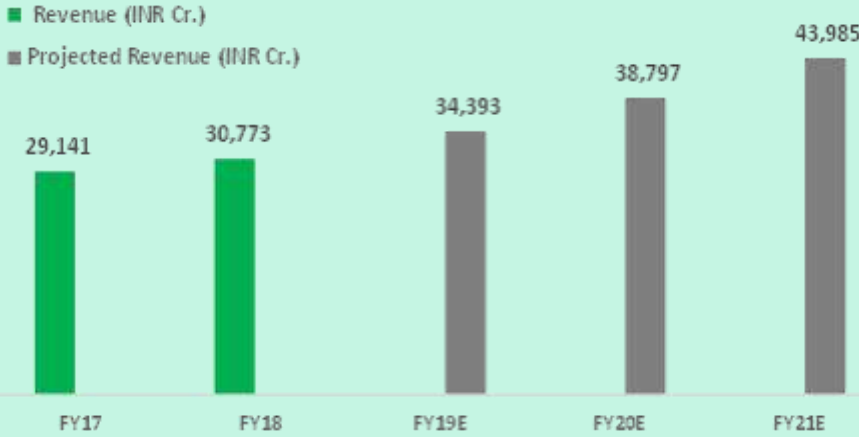
Source: Company Data, SMIFS Research

Tech Mahindra have added 22 new clients in FY19; Maintains high % of repeat business



Source: Company Data, SMIFS Research

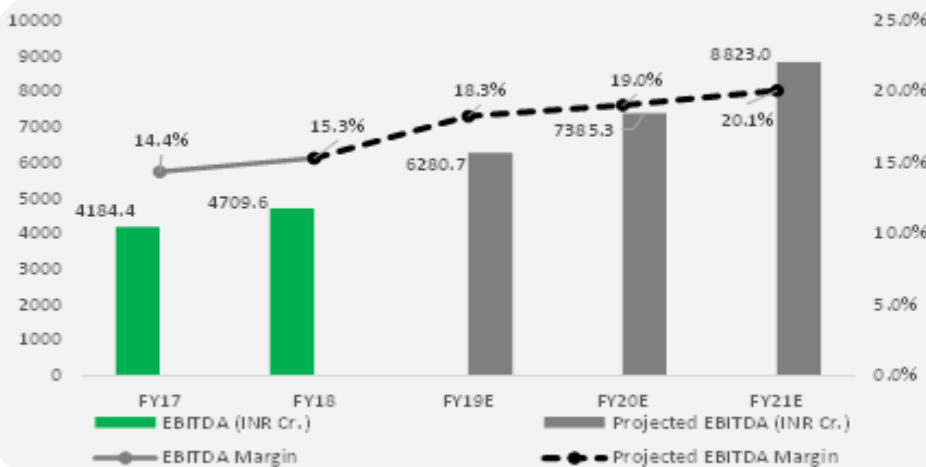
Key Performance Indicators



Revenue

Revenues likely to grow on the back of 5G led pickup in telecom vertical, better performance in subsidiaries, strong order book and improved business mix.

Source: Company Data, SMIFS Research



EBITDA Margin

EBITDA Margin to improve further from current levels on accounts of profit augmentation at acquired entities, better utilization & employee pyramid, operational efficiencies and rupee tailwind. We expect gradual EBITDA margin expansion going forward.

Source: Company Data, SMIFS Research



Return Ratios

Return ratios to improve with company's increased focus on margin improvements and strong free cash flow generation. The management also mentioned that they will conduct buyback on an annual basis.

Source: Company Data, SMIFS Research

## Key Investment Risks

**High concentration in communication Vertical:** In FY18, Communication Vertical had a revenue share of ~43% of the total business. This is much higher when compared to leading Indian and global IT peers of TECHM. Even though the telecom industry is one of the largest spenders on the IT and Network Services, the high concentration in one vertical is dangerous for the business perspective.

**Global economy risk:** TECHM's export revenues are over 95% and it derives 46% revenue from Americas, 30% from Europe and 24% from the Rest of the World. The Economic growth activity in these nations could directly or indirectly affect TECHM customers' IT spends. A slowdown in these economies would pose lower growth or deferred IT spends thus impacting growth for TECHM.

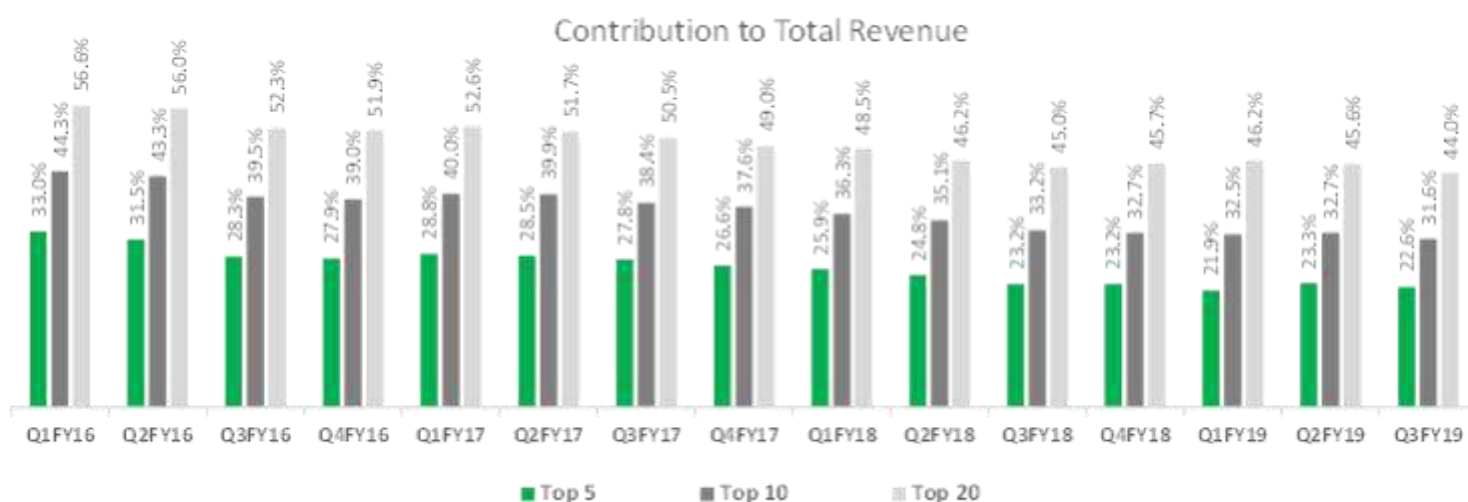
**Exchange rate risk:** The exchange rate of TECHM's major billing currencies like GBP, USD, Euro and AUD has fluctuated widely in the recent past and may continue to fluctuate significantly in the future thus resulting in wide fluctuation in not only revenues but also ForEx losses and gains. Adverse currency impact could also lead to impact on Company's profitability being hit.

**Cyclical spends in Communication Vertical:** The IT services spend in Communications industry has been cyclical, resulting in periods of prolonged and tepid spends. Post the global financial crisis in year 2009, the IT spends cycle for the global Communications industry have been on the tepid side increasing the risk of growth for ~43% business going ahead.

**Regulatory changes risk/ Visa Risk:** The Company has operations in over 90 countries and its employees work onsite at client facilities and locations on visas granted for extended or short term work. Protectionism is rising in few economies like USA, UK, Australia, Singapore, etc. Any changes in immigration laws or any local regulations can impact the profitability and growth of the company.

**Competition risk:** The global IT services industry is highly competitive with competition arising from Indian IT companies and MNC IT services companies having sizable presence in low cost geographies, deep pockets, strong client relationships, In house and captive services companies etc. The stiff competition can lead to pressure on pricing, vendor consolidation and hence can impact Company growth and profitability.

**Diminishing Top 20 Client Performance due to challenges in Telecom Industry and Price Renegotiations: expected to pick up from FY20 with pick up in Communication Vertical**



## Valuation & Outlook

Several macro and micro factors compel us to believe a good visibility of growth in India's export-oriented IT services sector driven by favorable currency rates, improved demand and large deal wins that have helped extend its recovery. The industry is witnessing a shift from 'outsourcing' to 'real value partnering' with more realistic expectations since vendors have experienced difficulty with in-housing and talent shortages. The trend of outsourcing larger technology contracts and awarding work that was earlier done internally to its vendors show strong growth prospects in the IT services sector.

With the pressure on Telecom Industry waning, and Enterprise business showing good momentum on the back of Manufacturing and Public Services, the growth trajectory looks much stronger for Tech Mahindra. The strong growth visibility in the Telecom Vertical on the back of large deal wins in last few quarters fares well for Tech Mahindra. The company has been able to gradually improve margins led by operational efficiencies, automation and employee pyramid optimization and we would watch for sustenance of the margin level, going forward.

Central to our investment rationale is our view that TECHM is nicely putting in place the building blocks to win big in 5G. The industry expects 5G spending by the carriers to pick up in CY19, with TECHM getting its fair share of the network services piece from FY21 onwards. This holds the potential to driving double digit growth in TECHM's telecom revenues change. Further, Enterprise is likely to maintain good growth aided by higher Digital revenue and strong TCV. Margin can improve modestly from here, given the scope in profitability improvement among subsidiaries.

**There is a clear visibility of strong Free Cash Flow to the Equity (FCFE) for Tech Mahindra and we have used DCF method and Relative Valuation to find the intrinsic value of the stock. The derived intrinsic value of Tech Mahindra is INR 954. On the back of increasing margins, strong balance sheet and robust earnings growth we are using Tech Mahindra's intrinsic value INR 954/share as the Target Price.**



**Financial Details**
**Balance Sheet Consolidated**

Particulars (in Cr.)	FY17	FY18	FY19E	FY20E	FY21E
<b>Equity &amp; Liabilities</b>					
Share Capital	439	442	431	431	431
Reserves & Surplus	15,998	18,401	19,114	21,740	24,912
<b>Total Net Worth</b>	<b>16,437</b>	<b>18,843</b>	<b>19,546</b>	<b>22,172</b>	<b>25,343</b>
Minority Interest	464	509	529	602	689
<b>Long Term Borrowings</b>	<b>385</b>	<b>771</b>	<b>926</b>	<b>1,081</b>	<b>1,236</b>
Other Financial Liabilities	497	573	573	573	573
Provisions	620	555	555	555	555
Deferred tax liabilities (Net)	10	6	8	8	8
Other Non-Current Liabilities	31	33	33	33	33
<b>Non-Current Assets</b>					
Tangible Fixed Assets	3,546	3,412	3,498	3,287	3,089
Intangible Assets	3,287	4,451	4,959	5,392	5,751
Financial Assets	680	1,512	1,766	2,266	2,766
Advance Income Taxes (Net of provisions)	1,314	1,778	2,222	2,777	3,472
Deferred Tax Assets (Net)	267	577	602	732	874
Other Non-Current Assets	646	602	602	602	602
<b>Current Assets</b>					
Inventory	61	66	55	55	55
Debtors	5,338	6,498	6,548	7,149	8,210
Cash & Cash Equivalents	2,001	1,966	1,347	1,758	2,091
Other Financial Assets	6,743	7,615	6,670	7,670	8,670
Other Current Assets	2,184	1,962	1,962	1,962	1,962
<b>Total Assets</b>	<b>26,067</b>	<b>30,437</b>	<b>30,231</b>	<b>33,650</b>	<b>37,542</b>
<b>Current Liabilities &amp; Provisions</b>					
ST Borrowings	834	955	1,025	1,095	1,165
Provisions	387	403	403	403	403
Financial Liabilities	2,735	3,914	3,065	3,238	3,405
Other Current Liabilities	1,612	1,707	1,519	1,613	1,613
Current Tax Liabilities (Net of advance income taxes)	825	938	819	1,048	1,287
<b>Total Equity &amp; Liabilities</b>	<b>26,067</b>	<b>30,437</b>	<b>30,231</b>	<b>33,650</b>	<b>37,542</b>

Source: Company Data, SMIFS Research

**Financial Details**
**Profit & Loss Statement Consolidated**

Particulars (in Cr.)	FY17	FY18	FY19E	FY20E	FY21E
<b>Revenue from Operation</b>	<b>29,141</b>	<b>30,773</b>	<b>34,393</b>	<b>38,797</b>	<b>43,985</b>
Change (%)	10.0%	5.6%	11.8%	12.8%	13.4%
Employee Benefit Expenses	15,454	16,624	18,483	20,549	22,846
Subcontracting Expenses	3,611	3,888	4,471	5,432	6,158
Other Expenses	5,891	5,551	5,159	5,432	6,158
Expenses	24,956	26,063	28,113	31,412	35,162
<b>EBITDA</b>	<b>4,184</b>	<b>4,710</b>	<b>6,281</b>	<b>7,385</b>	<b>8,823</b>
Change (%)	-2.0%	12.5%	33.4%	17.6%	19.5%
Depr & Amor.	978	1,085	1,344	1,467	1,588
EBIT	3,206	3,625	4,936	5,918	7,235
Interest & Other Financial Cost	129	162	202	227	252
Other Income	778	1,417	850	850	900
EBT	3,855	4,879	5,584	6,541	7,883
Tax	1,002	1,093	1,255	1,524	1,820
Reported PAT	2,853	3,786	4,329	5,017	6,063
<b>Adjusted PAT</b>	<b>2,851</b>	<b>3,786</b>	<b>4,329</b>	<b>5,017</b>	<b>6,063</b>
Change (%)	-5.8%	32.8%	14.3%	15.9%	20.9%
<b>Profit for the period attributable to:</b>					
Owners of the Company	2,813	3,800	4,286	4,967	6,002
Non Controlling Interests	38	(14)	43	50	61
<b>EPS</b>	<b>32.60</b>	<b>44.04</b>	<b>49.68</b>	<b>57.57</b>	<b>69.57</b>

**Cash Flow Statement Consolidated**

Particulars (in Cr.)	FY17	FY18	FY19E	FY20E	FY21E
PBT	3,853	4,879	5,584	6,541	7,883
(Inc)/Dec in Working Capital	588	(783)	(48)	(679)	(1,010)
Non Cash Op Expenses	710	984	1,294	1,282	1,413
Interest Paid	-	-	-	-	1.00
Tax Paid	(1,080)	(1,526)	(1,255)	(1,524)	(1,820)
<b>CF from Op. Activities</b>	<b>4,071</b>	<b>3,554</b>	<b>5,576</b>	<b>5,619</b>	<b>6,466</b>
(Inc)/Dec in FA & CWIP	(760)	(790)	(1,013)	(993)	(973)
Free Cashflow	(1,066)	(499)	(877)	(623)	(634)
(Pur)/Sale of Inv.	(1,063)	(2,070)	(721)	(1,272)	(1,696)
<b>CF from Inv. Activities</b>	<b>(2,890)</b>	<b>(3,360)</b>	<b>(2,611)</b>	<b>(2,888)</b>	<b>(3,303)</b>
Inc/(dec) in NW	35	25	-	-	-
Inc/(dec) in Debt	(255)	749	225	225	225
Int. Paid	(111)	(160)	(202)	(227)	(252)
Div Paid (incl tax)	(1,239)	(944)	(1,651)	(2,318)	(2,803)
Buyback	-	-	(1,956)	-	-
Others	-	61	-	-	-
<b>CF from Fin. Activities</b>	<b>(1,571)</b>	<b>(269)</b>	<b>(3,584)</b>	<b>(2,320)</b>	<b>(2,830)</b>
Inc(Dec) in Cash	(389)	(76)	(619)	411	333
Add: Opening Balance	2,390	2,042	1,966	1,347	1,758
<b>Closing Balance</b>	<b>2,001</b>	<b>1,966</b>	<b>1,347</b>	<b>1,758</b>	<b>2,091</b>

Source: Company Data, SMIFS Research

**Financial Details**
**Ratio Analysis**

Particulars	FY17	FY18	FY19E	FY20E	FY21E
<b>Profit Margins</b>					
EBITDA Margin	14.4%	15.3%	18.3%	19.0%	20.1%
EBIT Margin	13.3%	15.7%	16.4%	17.1%	18.1%
PBT Margin	12.9%	15.2%	15.8%	16.5%	17.9%
Net Income Margin	9.5%	11.8%	12.3%	12.7%	13.8%
<b>Return Ratios</b>					
ROE	18.4%	21.5%	22.6%	24.1%	25.5%
ROCE	23.5%	25.6%	26.7%	28.8%	30.5%
<b>Per Share</b>					
BVPS	190.51	218.39	226.53	256.97	293.73
EPS	32.60	44.04	49.68	57.57	69.57

Source: Company Data, SMIFS Research

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 12% and 20%
Accumulate	between 6% and 12%
Hold	between 0% and 6%
Sell	0 to < -10%
Neutral	No Rating
Stock Recommendation	Expected absolute returns (%) over 12 months

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