

Current	Previous
CMP : Rs.979	
Rating : BUY	Rating : BUY
Target : Rs.1200	Target : Rs.1200

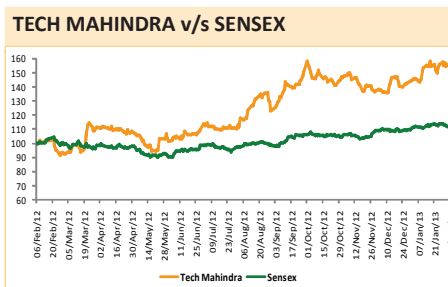
STOCK INFO	
BSE	532755
NSE	TECHM
Bloomberg	TECHM IN
Reuters	TEML.BO
Sector	IT-Software
Face Value (Rs)	10
Equity Capital (Rs mn)	1223
Mkt Cap (Rs mn)	125,320
52w H/L (Rs)	1043/579
Avg Daily Vol (BSE+NSE)	522387

SHAREHOLDING PATTERN	%
(as on 31st Dec. 2012)	
Institutions	42.3
Others, Incl Public	10.2
Promoters	47.5

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
TECH MAHINDRA	-3	0	50
SENSEX	-2	6	11

Source: IndiaNivesh Research



Source: IndiaNivesh Research, Capitaline

**Daljeet S. Kohli**  
Head of Research

Mobile: +91 77383 93371, 99205 94087  
Tel: +91 22 66188826  
[daljeet.kohli@indianivesh.in](mailto:daljeet.kohli@indianivesh.in)

**Amar Mourya**  
Research Analyst

Tel: +91 22 66188836  
[amar.mourya@indianivesh.in](mailto:amar.mourya@indianivesh.in)

### Q3FY13 Results Highlights

Tech Mahindra Ltd (TechM) Q3FY13 performance was ahead of our estimate on all fronts. USD revenues grew by 10.0% qoq to \$329mn (INSPL est: \$330mn) led by Non-BT and inorganic expansion, partially offset by decline in BT account. During the quarter, HGS and Comviva contributed \$37 mn and \$6 mn to the consolidated revenue, respectively. BT contributed ~29% to overall sales, de-grew by 3.3% qoq to \$95 mn (v/s \$99 mn in Q2FY13). Non-BT account (Ex HSG & Comviva) contributed 58.1% to overall sales, grew by 2.0% qoq to \$191 mn (v/s \$187 mn in Q2FY13). The company's rupee revenue went up by 9.8% qoq to Rs.17,911 mn (INSPL est: Rs.18,007mn). EBITDA margin during the quarter expanded ~31bps qoq to 21.0% (v/s INSPL estimate of 70bps contraction). This was led by cost rationalization initiatives (COGS 62% v/s 63% of rev in Q2FY13), partially offset by increase in the SG&A expenditures (17% v/s 16% of rev in Q2FY13). During the quarter, TechM reported forex gain of Rs.98mn (v/s 729 mn of loss in Q2FY13). Tax outgo in Q3FY13 was Rs.809mn (v/s Rs.251 mn), resulting in tax rate of 24.5% (v/s 12.4% in Q2FY13 and 23.6% in Q1FY13). The significant decline in Q2FY13 tax rate was due to the tax reversal of Rs259mn (tax refund from two global subsidiaries). Excluding Msat and minority, net profit increased 40.0% qoq to Rs.2,488 mn (INSPL est: Rs.2140 mn) due to increase in EBITDA base and forex income. Reported PAT went down 6.9% qoq to Rs.2,758mn (v/s Rs.2962mn in Q2FY13) led by lower revenue contribution from Msat (Rs.341 mn v/s Rs.1,185 mn in Q3FY13). Adjusting forex, reported PAT declined 28% qoq to Rs.2,659 mn, still ahead of our estimate of Rs.2,497 mn.

Consolidated Quick Fundamentals (Rs. Mn)					
	Q3FY13	Q2FY13	Q3FY12	Q-o-Q %	Y-o-Y %
Revenue	17,911	16,314	14,449	9.8	24.0
COGS	11,192	10,336	9,861	8.3	13.5
<b>Gross Profit</b>	<b>6,719</b>	<b>5,978</b>	<b>4,588</b>	<b>12.4</b>	<b>46.4</b>
SG&A	2,956	2,601	2,245	13.6	31.7
<b>EBITDA</b>	<b>3,763</b>	<b>3,377</b>	<b>2,343</b>	<b>11.4</b>	<b>60.6</b>
Other Income	301	-640	147	NM	104.8
Interest Expense	263	228	338	15.1	-22.3
Depreciation	505	481	390	4.9	29.4
<b>PBT</b>	<b>3,297</b>	<b>2,028</b>	<b>1,762</b>	<b>62.6</b>	<b>87.1</b>
Tax	809	251	294	222.1	175.0
<b>Reported PAT</b>	<b>2,488</b>	<b>1,777</b>	<b>1,468</b>	<b>40.0</b>	<b>69.5</b>
Associate Profit/(Loss)	341	1,185	1,315	-71.2	-74.1
Exceptional Items	0	0	0	NM	NM
Minority Interest	-72	0	-24	NM	NM
<b>Reported Net Profit (incl Assoc)</b>	<b>2,758</b>	<b>2,962</b>	<b>2,759</b>	<b>-6.9</b>	<b>0.0</b>
EPS	20.9	22.3	20.9	-6.4	-0.1
Margin Analysis %		Margin %		Basis Points (BPS)	
Gross %	37.5	36.6	31.8	87	576
EBITDA %	21.0	20.7	16.2	31	479
PBT %	18.4	12.4	12.2	597	621
Reported PAT %	13.9	10.9	10.2	300	373
Reported PAT % (incl Assoc)	15.4	18.2	19.1	-276	-370
Forex/Interest - Breakup					
	Q3FY13	Q2FY13	Q3FY12	QoQ%	YoY%
<b>Other Income:</b>					
Miscellaneous Income	180	56	104	224.3	73.6
Exch gain/(loss)	121	-695	44	-117.4	176.9
<b>Total</b>	<b>301</b>	<b>-640</b>	<b>147</b>	<b>-147.0</b>	<b>104.2</b>
<b>Interest:</b>					
Interest Cost on Borrowing	240	194	194	23.5	23.7
Forex loss/(gain) of foreign loans	23	34	144	-32.9	-84.3
<b>Total</b>	<b>263</b>	<b>228</b>	<b>338</b>	<b>15.1</b>	<b>-22.4</b>
<b>Forex Impact Gain/(Loss)</b>	<b>98</b>	<b>-729</b>	<b>-101</b>	<b>-113.5</b>	<b>-197.8</b>

Source: Company Filings; IndiaNivesh Research

## Key Conference call Takeaways

### Operating metrics largely remains stable

TechM won five deals during the quarter, total TCV is ~\$100mn, driven by new as well as renewal deals. During the quarter, its number of active client went up significantly to 140 (v/s 126), largely due to the consolidation of the Comviva. IT Utilization (ex Trainees) slightly went down to 76% (v/s 77% in Q2FY13 & 75% in Q3FY12). Attrition rate during the quarter spiked to 18% (v/s 16% in Q2FY13 & 19% in Q3FY12) due to ongoing restructuring in BPO segment. Despite consolidation of 1,546 employees from Comviva, the company's employee base went down to 49,059 (v/s 50,479). This was due to restructuring initiatives across BPO and Software verticals. BPO employee base went down by 2,438 employee at 22,565 (v/s 25,003 in Q2FY13). However, Software employee count gone up by 785 at 25,009 (v/s 24,224 in Q2FY13) due to Comviva consolidation. The significant decline in the BPO employee base was due to closer of the non profitable contracts. TechM's management sounded confident about future deal wins from Non-BT and BPO space.

### Non-BT + HSG + Comviva lead growth

As expected, BT continues to deliver negative revenue performance, down 3.3% qoq to \$95mn (v/s \$99 mn in Q2FY13). As a result, TechM dependence on BT's has further came down to 29% v/s 33% in Q2FY13. Non-BT account, excluding HGS+Comviva revenue grew by ~2.0% qoq to \$191 mn (v/s \$187 mn in Q2FY13). During the quarter, share of Top-9 client stood at 53% (v/s 48%/46% in Q2FY13/Q1FY13) and delivered 21.5% qoq growth (Incl HGS + Comviva). Excluding HGS and Comviva Top 9 accounts delivered 26.3% qoq growth to \$187 mn (v/s 148 mn in Q2FY13). TechM is expected to close few more large deals in the range of \$20-100mn (won five deals during Q3FY13) going ahead. Despite the healthy win rate in BT retendering process (~75%), management expect few more sluggish quarter before BT account getting stabilize.

### All geography delivered positive performance

Europe grew by 8.9% qoq to \$151 mn (v/s \$139 mn in Q2FY13) led by inorganic expansion. Followed by RoW, went up by 23.5% qoq to \$76 mn due to consolidation of Comviva and high demand for transformational nature of business. However, North America performance during the quarter was below company average, Up 3.4% qoq to \$102mn (v/s \$99 mn in Q2FY13) and contributed 31% to overall sales due to HGS revenue. However, excluding HGS & Comviva revenue, North America and Europe geography de-grew by 5.9%/0.9% qoq to \$89/\$132mn (v/s \$94/\$133 mn in Q2FY13).

### Valuation & Outlook

At CMP of Rs.979, the stock is trading at 10.1x FY13E and 8.8x FY14E EPS estimate, which looks attractive. Further, the company's strong multi-year and multi-million dollar deal wins remains a plus for Non-BT account. The recent acquisitions integrated well and likely to drive the overall revenue growth going-ahead. However, traction of large size deal wins could put pressure on profitability in the near-term. The merger with Mahindra Satyam remains the key trigger for the stock (TechM will emerge as 6th largest IT Indian Co.). In addition, merger would lead to diversification of revenue risk and scale benefits. The strong revival in the performance by Mahindra Satyam looks positive. We maintain BUY with the target price of Rs.1200 on TechM. At our target price TechM will trade at 10.8x FY14 combined entity (TechM & Mahindra Satyam) earnings.

## Key Performance Indicators

Segment Rev (Rs. Mn)	Q3FY13	Q2FY13	Q3FY12	QoQ%	YoY%
Telecom Service Providers	12679	12602	11351	0.6	11.7
Telecom Equipment Manuf	1089	1019	1061	6.9	2.7
BPO	3505	2228	1389	57.3	152.4
Others	638	465	648	37.1	-1.7
<b>Total</b>	<b>17,911</b>	<b>16,314</b>	<b>14,449</b>	<b>9.8</b>	<b>24.0</b>
One time rev	0	0	0	NM	NM
<b>Adjusted Rev</b>	<b>17,911</b>	<b>16,314</b>	<b>14,449</b>	<b>9.8</b>	<b>24.0</b>

Geography Rev (\$-Mn)	Q3FY13	Q2FY13	Q3FY12	QoQ%	YoY%
North America	102	99	95	3.4	6.9
Europe	151	139	130	8.9	16.4
Rest of World	76	61	64	23.5	19.0
<b>Total</b>	<b>329</b>	<b>299</b>	<b>289</b>	<b>10.0</b>	<b>13.8</b>

Client Rev (\$-Mn)	Q3FY13	Q2FY13	Q3FY12	QoQ%	YoY%
Top client	95	99	101	-3.3	-5.7
Top 5	243	212	194	14.7	25.7
Top 10	270	242	223	11.4	21.2
Non-Top 10	59	57	66	4.2	-10.9

Onsite/Offshore Rev (\$-Mn)	Q3FY13	Q2FY13	Q3FY12	QoQ%	YoY%
Onsite	132	117	113	12.9	16.8
Offshore	197	182	176	8.2	12.0
<b>Total</b>	<b>329</b>	<b>299</b>	<b>289</b>	<b>10.0</b>	<b>13.8</b>

Source: Company Filings; IndiaNivesh Research



Trust.....we earn it.

**IndiaNivesh Securities Private Limited**

601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400 007.

Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: [research@indianivesh.in](mailto:research@indianivesh.in) | Website: [www.indianivesh.in](http://www.indianivesh.in)

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