

Investment Idea

Technology

20th February, 2013

Tech Mahindra

BUY

CMP	:	1,055
MBP	:	1,057
Target	:	1,225
Allocation	:	5%

	FY13E	FY14E	FY15E
EPS(₹)	95.5	102.8	116.8
PE(X)	11.0	10.3	9.0

- Tech Mahindra Ltd is part of the USD12.5b Mahindra Group. Company is one of India's largest software exporters and serves telecom service providers, equipment manufacturers, software vendors and systems integrators, having offices in over 13 countries. It employs over 49,000 people and its key clients include British Telecom and AT&T.

Key investment positives

- Deal pipeline is healthier than that in the past couple of quarters and the environment has steadied in comparison to the gloomy outlook in the recent past. Deal activity is strong in verticals like healthcare, while manufacturing is steady. BFSI is seeing deals around risk, governance and compliance.
- Satyam's acquisition will help Tech Mahindra to diversify its client base and industry focus. Large deals like those of Bharti and a gradual revival in the telecom vertical will help volume growth. Deals have kept growth coming (outside the BT account) despite challenged IT budgets in the telecom vertical.
- Pent up demand in discretionary spending is reasonably high, which could compound to the improving outlook, potentially driving better growth in FY14. As of now, a lot of deal activity is around IMS and Enterprise related work.
- We expect TECHM to post USD revenues (ex-Satyam) at a CAGR of 10.3% over FY13E-15E. In line with the company's guidance, we factor a decline in BT revenues for the next two quarters followed by stable revenues there on. TECHM's continued impressive execution on the profitability front keep us sanguine on margins. We upgrade FY14E/15E EBITDA margin estimates by 97bp/142bp. Higher margins drive 1%/5.5% increase in our EPS estimates over FY14E/15E.

Valuation and View:

- The stock trades at 10.3x FY14E EPS and 9.0x FY15E EPS. We value TECHM at a 25% discount to our target multiple for HCLT due to: [1] relatively smallscale, [2] skew of revenues towards telecom vertical and [3] increasing proportion of BPO revenues. Our target price for TECHM is INR1,225, which discounts FY15E EPS by 10.5x

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Please refer to important disclosures and disclaimers in the report.

Performance Summary as of Tuesday February 19, 2013

Account Summary

Cash Market	(₹)	Return %
Model Corpus Value	1000000	
Total Return till date	178425	17.8%
Booked Profit	187578	18.8%
Unrealised Profit	-9153	-0.9%

Benchmarks Comparison

Index	9th Sep 2011	CMP	Benchmark (%)	Relative Performance
BSE 200	2088.0	2417.6	15.8%	2.1%

Stock Name	Sector Name	Reco Date	Buy/Sell	Wtg. (%)	No. of Shares	Reco Price	CMP	Mark to Market	Remarks
ICICI BANK	BANKING	12-Nov-12	BUY	5.0%	44	1132	1131	-44	Avg Price
MARUTI	AUTO	27-Dec-12	BUY	5.0%	32	1519	1511	-256	Avg Price
INDUSIND BANK	BANKING	2-Jan-13	BUY	5.0%	116	431	443	1395	
SBI	BANKING	4-Jan-13	BUY	5.0%	20	2480	2274	-4120	Avg Price
INFY	IT	16-Jan-13	BUY	5.0%	18	2769	2820	917	
ACC	CEMENT	16-Jan-13	BUY	5.0%	36	1381	1300	-2916	
LUPIN	PHARMA	18-Jan-13	BUY	7.5%	127	591	599	1016	
IDEA	TELECOM	23-Jan-13	BUY	5.0%	411	122	110	-4776	
DABUR	FMCG	1-Feb-13	BUY	5.0%	377	133	132	-219	
DRREDDY	PHARMA	12-Feb-13	BUY	5.0%	26	1915	1824	-2371	
ONGC	OIL&GAS	13-Feb-13	BUY	7.5%	230	325	330	1063	Avg Price
ANDHRA BANK	BANKING	18-Feb-13	BUY	5.0%	487	103	105	1159	
Cash				35.0%					
Total				100.0%				-9153	