

May 30, 2016

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Rating	<b>BUY</b>
Price	Rs536
Target Price	Rs585
Implied Upside	9.1%
Sensex	26,654
Nifty	8,157

(Prices as on May 27, 2016)

#### Trading data

Market Cap. (Rs bn)	514.7
Shares o/s (m)	960.8
3M Avg. Daily value (Rs m)	84.8

#### Major shareholders

Promoters	36.74%
Foreign	38.11%
Domestic Inst.	11.42%
Public & Other	13.73%

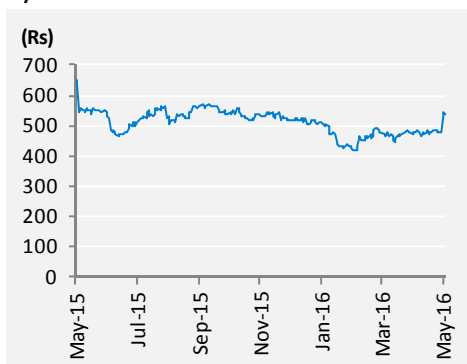
#### Stock Performance

(%)	1M	6M	12M
Absolute	11.7	0.4	(2.5)
Relative	9.4	(1.6)	0.8

#### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	35.3	36.5	-3.3
2018	37.6	42.0	-10.4

Price Performance (RIC: TEML.BO, BB: TECHM IN)



**Tech Mahindra (TechM) has announced acquisition of Target Group – UK based provider of platform based services in area of lending and investment products for an EV of GBP112mn. Target had CY15 revenues of GBP51mn and has reported 20% CAGR in past 3 years. We believe the acquisition is a step in the right direction to augment financial services capability along with addition of platform based, non-linear offerings. We retain BUY on the stock.**

- Enhance capability in the financial services vertical:** Target Group's proprietary platform automates complex and critical processing, servicing and administration of loans, investments and insurance. The platform helps deliver high quality services with built in compliance in a highly complex and regulated environment. TechM can participate in the GBP45-60bn spend by UK BFSI companies on software and services.
- Significant cross selling opportunities:** Target group's platform based services can be offered in Continental Europe and Emerging Markets. Target will have non-linear element and hence incremental revenues will come at higher margins. Additionally, TechM can sell its services to Target's clients.
- Strong client base:** Target works with financial institutions such as Goldman Sachs, Morgan Stanley and Credit Suisse, specialist lenders such as Shawbrook and mutual organisations, such as Yorkshire Building Society. Company had CY15 revenues of GBP51mn with EBITDA margins in high double digits. Company had total employee strength of 740.
- EPS accretive in FY17:** Transaction at an EV of GBP112mn values Target at CY16 EV/EBITDA of ~9-10x and will be EPS accretive in FY17. TechM expects Target revenue growth to be in the range of 18-20% in the medium term.

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	226,213	264,941	286,460	309,804
Growth (%)	20.1	17.1	8.1	8.1
EBITDA (Rs m)	41,920	43,426	48,135	51,888
PAT (Rs m)	26,275	31,169	33,940	36,161
EPS (Rs)	27.3	32.4	35.3	37.6
Growth (%)	(12.9)	18.6	8.9	6.5
Net DPS (Rs)	6.0	7.5	8.8	8.8

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	18.5	16.4	16.8	16.7
RoE (%)	24.5	23.1	21.2	19.4
RoCE (%)	20.7	20.2	18.8	17.5
EV / sales (x)	2.2	1.8	1.7	1.5
EV / EBITDA (x)	11.9	11.3	9.8	8.8
PE (x)	19.6	16.5	15.2	14.2
P / BV (x)	4.2	3.5	3.0	2.6
Net dividend yield (%)	1.1	1.4	1.6	1.6

Source: Company Data; PL Research

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**Income Statement (Rs m)**

Y/e March	2015	2016	2017E	2018E
<b>Net Revenue</b>	<b>226,213</b>	<b>264,941</b>	<b>286,460</b>	<b>309,804</b>
Raw Material Expenses	151,186	183,575	197,790	214,717
Gross Profit	75,027	81,367	88,670	95,087
Employee Cost	—	—	—	—
Other Expenses	33,107	37,940	40,535	43,200
<b>EBITDA</b>	<b>41,920</b>	<b>43,426</b>	<b>48,135</b>	<b>51,888</b>
Depr. & Amortization	6,114	7,620	8,511	9,557
Net Interest	691	961	675	675
Other Income	1,065	5,322	5,940	6,137
<b>Profit before Tax</b>	<b>36,180</b>	<b>40,167</b>	<b>44,889</b>	<b>47,792</b>
Total Tax	9,596	8,600	10,549	11,231
<b>Profit after Tax</b>	<b>26,584</b>	<b>31,567</b>	<b>34,340</b>	<b>36,561</b>
Ex-Od items / Min. Int.	309	398	400	400
<b>Adj. PAT</b>	<b>26,275</b>	<b>31,169</b>	<b>33,940</b>	<b>36,161</b>
<b>Avg. Shares O/S (m)</b>	<b>960.8</b>	<b>960.8</b>	<b>960.8</b>	<b>960.8</b>
<b>EPS (Rs.)</b>	<b>27.3</b>	<b>32.4</b>	<b>35.3</b>	<b>37.6</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2015	2016	2017E	2018E
C/F from Operations	23,974	27,650	38,695	41,609
C/F from Investing	(20,804)	(10,598)	(14,323)	(15,490)
C/F from Financing	(7,899)	2,395	(8,420)	(8,420)
Inc. / Dec. in Cash	(4,729)	19,448	15,952	17,699
Opening Cash	14,519	12,060	31,508	47,459
Closing Cash	12,060	31,508	47,459	65,158
FCFF	5,852	16,654	23,972	25,719
FCFE	12,074	16,654	23,972	25,719

**Key Financial Metrics**

Y/e March	2015	2016	2017E	2018E
<b>Growth</b>				
Revenue (%)	20.1	17.1	8.1	8.1
EBITDA (%)	0.2	3.6	10.8	7.8
PAT (%)	(10.4)	18.6	8.9	6.5
EPS (%)	(12.9)	18.6	8.9	6.5
<b>Profitability</b>				
EBITDA Margin (%)	18.5	16.4	16.8	16.7
PAT Margin (%)	11.6	11.8	11.8	11.7
RoCE (%)	20.7	20.2	18.8	17.5
RoE (%)	24.5	23.1	21.2	19.4
<b>Balance Sheet</b>				
Net Debt : Equity	(0.1)	(0.2)	(0.2)	(0.3)
Net Wrkng Cap. (days)	35	42	42	42
<b>Valuation</b>				
PER (x)	19.6	16.5	15.2	14.2
P / B (x)	4.2	3.5	3.0	2.6
EV / EBITDA (x)	11.9	11.3	9.8	8.8
EV / Sales (x)	2.2	1.8	1.7	1.5
<b>Earnings Quality</b>				
Eff. Tax Rate	26.5	21.4	23.5	23.5
Other Inc / PBT	2.9	13.2	13.2	12.8
Eff. Depr. Rate (%)	10.2	10.8	10.0	9.5
FCFE / PAT	46.0	53.4	70.6	71.1

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	122,489	146,839	172,759	200,899
Total Debt	6,746	6,746	6,746	6,746
Other Liabilities	18,446	18,446	18,446	18,446
<b>Total Liabilities</b>	<b>147,681</b>	<b>172,031</b>	<b>197,951</b>	<b>226,091</b>
Net Fixed Assets	28,723	34,077	39,888	45,822
Goodwill	17,283	17,283	17,283	17,283
Investments	21,028	21,028	21,028	21,028
Net Current Assets	63,685	82,681	102,789	124,997
<i>Cash &amp; Equivalents</i>	<i>24,049</i>	<i>31,508</i>	<i>47,459</i>	<i>65,158</i>
<i>Other Current Assets</i>	<i>90,436</i>	<i>105,614</i>	<i>114,192</i>	<i>123,497</i>
<i>Current Liabilities</i>	<i>50,800</i>	<i>54,440</i>	<i>58,862</i>	<i>63,658</i>
Other Assets	16,962	16,962	16,962	16,962
<b>Total Assets</b>	<b>147,681</b>	<b>172,031</b>	<b>197,951</b>	<b>226,091</b>

**Quarterly Financials (Rs m)**

Y/e March	Q1FY16	Q2FY16	Q3FY16	Q4FY16
<b>Net Revenue</b>	<b>62,938</b>	<b>66,155</b>	<b>67,011</b>	<b>68,837</b>
<b>EBITDA</b>	<b>9,445</b>	<b>11,010</b>	<b>11,358</b>	<b>11,613</b>
<i>% of revenue</i>	<i>15.0</i>	<i>16.6</i>	<i>16.9</i>	<i>16.9</i>
Depr. & Amortization	1,733	1,974	1,736	2,177
Net Interest	214	173	244	330
Other Income	1,366	1,658	639	1,659
<b>Profit before Tax</b>	<b>8,864</b>	<b>10,521</b>	<b>10,017</b>	<b>10,765</b>
Total Tax	2,098	2,604	2,327	1,571
<b>Profit after Tax</b>	<b>6,762</b>	<b>7,855</b>	<b>7,593</b>	<b>8,959</b>
<b>Adj. PAT</b>	<b>6,762</b>	<b>7,855</b>	<b>7,593</b>	<b>8,971</b>

**Key Operating Metrics**

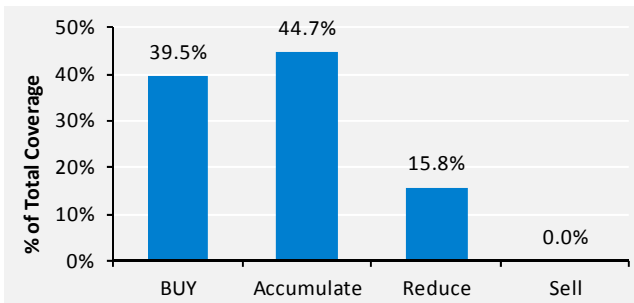
Y/e March	2015	2016	2017E	2018E
Revenue (US\$ mn)	3,686	4,037	4,340	4,694

Source: Company Data, PL Research.

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<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month
<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
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