Tech Mahindra (TECHM IN)

**Rating:** BUY | **CMP:** Rs688 | **TP:** Rs885

**Telecom turnaround to revive momentum**

We believe Tech M is poised for turnaround in revenue growth trajectory post three years of tepid performance led by a) Turnaround in Telecom vertical b) expansion in portfolio in Enterprise vertical through acquisitions which has broadened the service offerings. We believe margins have also reached a stable state (2QFY19 EBITDA margin at 18.8%). Improving margin profile of subsidiaries and revival in growth should aid margin stability from hereon. Valuations remain cheap (12x FY20E EPS) and risk return remains favorable. 

**Retain TP at Rs885/sh (15x Sep20E EPS). In this report, we analyze the key opportunities for Tech M in 5G which could drive growth revival.**

- **Turnaround in Telecom vertical:** We believe Tech M’s organic revenue growth momentum could pivot in FY20E led by turnaround in Telecom vertical (41% of total revenues). Tech M’s Telecom vertical has shown three consecutive years of tepid performance over FY15-FY18 led by ramp down in LCC (Acquired entity), Pricing pressure in Top client (AT&T), softness in Comviva and client specific weakness (KPN deal ramp down). Communication vertical organic USD revenues (ex-LCC) remained tepid for three consecutive years (up 0.5% CAGR over FY15-FY18). We believe that worst is behind for Communication vertical and recent large deal wins in 1HFY19 should render stability for this vertical performance. While Telecom pickup has already been visible in 2QFY19, we expect turnaround in this segment performance in 2HFY19 and FY20E as well. Spends in Telecom tend to cyclical and we believe 5G led uptick should revive growth momentum in FY20E. Select vendors like T-Mobile, Verizon and AT&T have started 5G trials and we see Tech M to benefit from 5G led spends from 2HFY20E and beyond. While initial uptick from 5G would be seen with Equipment vendors, Service providers will benefit with a lag impact. We model Communication vertical revenues to grow at 5.5% CAGR over FY18-FY21E.

- **Acquisition broadened offerings in Enterprise portfolio:** Tech M has done a slew of acquisitions over the past three years to strengthen its Enterprise vertical. Enterprise (accounts to 59% of revenues) has grown at 15.6% CAGR over FY15-FY18 and growth was also aided by acquisitions. Enterprise business USD revenues have shown an organic growth of 9.8/9% for FY18/FY17. Most of the of the Incremental revenue growth in FY18 for the Enterprise vertical was led by HCI (an acquired entity in Healthcare). Tech M’s revenues from “Others vertical (HCI business is represented in this vertical) have grown by 60% YoY in FY18. However, we see scope for performance in HCI to taper off in FY19 which can weigh on Enterprise vertical growth. We see Enterprise vertical to deliver 8% USD revenue growth in FY19E. We model Enterprise vertical USD revenues to grow at 8% CAGR over FY18-FY21E.

**View:** We see scope for cyclical upturn in Telecom vertical (41% of Tech M’s total revenues) in FY20E which could swing consolidated revenue growth trajectory in FY20E. We model Tech M USD revenues to grow by 4.5/7.5/9.3% for FY19/FY20E/FY21E. Our EPS estimates are Rs48/57/63sh for FY19/FY20E/FY21E. Stock trades at 12.1x FY20E EPS which is cheap. Our TP is retained at Rs885sh (15x Sep20E EPS). Retain BUY.
Telecom Vertical could swing back in FY19

Tech Mahindra’s Telecom vertical has seen three consecutive years of tepid performance (FY16-FY18). LCC acquisition, tepid performance of Comviva, Price cuts in its large account (AT&T) as well as loss of business in select accounts (KPN) have been the key culprits for the weak performance in the Telecom vertical. A soft start in 1QFY19 and cross currency headwind will restrict Tech M’s Telecom vertical growth in FY19 as well.

Exhibit 1: Tech M’s Telecom vertical revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>Telecom vertical revenues</th>
<th>Growth (%)</th>
<th>Organic Growth (%)</th>
<th>As a % of Total Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY13</td>
<td>1206.2</td>
<td>4.3%</td>
<td>(5)%</td>
<td>45.8%</td>
</tr>
<tr>
<td>FY14</td>
<td>1527.4</td>
<td>26.6%</td>
<td>18%*</td>
<td>49.3%</td>
</tr>
<tr>
<td>FY15</td>
<td>1916.5</td>
<td>25.5%</td>
<td>19%*</td>
<td>52.3%</td>
</tr>
<tr>
<td>FY16</td>
<td>2097.2</td>
<td>9.4%</td>
<td>-3%</td>
<td>51.9%</td>
</tr>
<tr>
<td>FY17</td>
<td>2078.2</td>
<td>-0.9%</td>
<td>-9%</td>
<td>47.8%</td>
</tr>
<tr>
<td>FY18</td>
<td>2064.8</td>
<td>-0.6%</td>
<td>-6%</td>
<td>43.3%</td>
</tr>
<tr>
<td>FY19E</td>
<td>2058.4</td>
<td>-0.3%</td>
<td>-3%</td>
<td>41.3%</td>
</tr>
<tr>
<td>FY20E</td>
<td>2203</td>
<td>7.0%</td>
<td>7.0%</td>
<td>41.2%</td>
</tr>
<tr>
<td>FY21E</td>
<td>2423</td>
<td>10.0%</td>
<td>10.0%</td>
<td>41.5%</td>
</tr>
</tbody>
</table>

Source: Company, PL * LCC acquisition done in 4QFY15, For FY13 and FY14, the inorganic components are Hutchison Global Services and Comviva acquisitions

- When Tech M acquired LCC in 4QFY15, it has an annual revenue run rate of USD430mn. However, Tech M has gradually pruned this business owing to the lower margin in the entity owing to the nature of contracts. As on FY19, has annual revenue run rate of USD220mn which implies a shrinkage of the half of the LCC initial revenues. This itself contributed to a 10% leakage for Tech M’s revenue from Telecom vertical. LCC ramp down is complete and has reached a stable state from hereon.

- Tech M has given a price cut to AT&T in 4QFY17 for the legacy business of AT&T and this amounted a leakage of USD60mn on an annual basis for FY18 revenues.

- Apart from that, softer performance in Comviva and loss of business in KPN account have weighed on Telecom vertical performance in FY17/FY18.

We believe that worst is behind and see a possibility of swing in Telecom vertical. This is led by large deal wins in the vertical as well as scope for 5G led uptick in FY20E. Management cited that it has won USD430mn worth TCV of deals in Telecom vertical in 1HFY19.

Tech M believes that 5G adoption would remain gradual rather than any pent up demand and expects 5G led demand uptick only from 2HFY20 onwards. Telecom spends tend be cyclical and Tech M has fared well in the earlier cycle (Telecom vertical revenues grew by 18/19% organically in FY14/15 which was the earlier upcycle). Hence, we believe that 5G led upcycle could augur well for Tech Mahindra from FY20 onwards.
"The rollout deployment and the implementation of the technology on the 5G is going to be very non-uniform, in the sense it is not just about network, it is about the entire infrastructure process, systems, digital and services that will all come along to justify and to make the power of 5G really work. The reason I am highlighting that one more time is so that all of us recognize that one thing that we have always architected our communication practice is around what we call as the diversity and comprehensivity will be of service offers.

So, the good news is that we remain very focused on that strategy and the initial feedback that we are getting from the market is indeed in the direction that we will benefit from across digital to network to upstream services as the 5G rollout happen and I am hoping that over maybe a quarter or so, we will be able to share more specific deals that we will be doing, whether it is in the video space, whether it is in the digital transformation from a customer experience standpoint, where companies are looking to get ready for 5G and beyond or from deploying some new core network assets for 5G." Tech M CEO in 1QFY19 concall

5G trials by select communication players in USA: We note that Verizon and T-Mobile are already test launching 5G Trials in select cities in USA. T-Mobile has signed a USD3.5bn contract with Nokia for 5G equipment. Please read: https://www.theverge.com/2018/7/30/17630042/t-mobile-nokia-5g-deal-three-billion-dollars-hardware-software-networking. Media reports also suggest that AT&T is also test launching 5G services in select cities in USA. https://www.zdnet.com/article/at-t-to-launch-5g-across-19-cities/

Key Global Trials in 5G

<table>
<thead>
<tr>
<th>Operator</th>
<th>5G trails expected in 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verizon</td>
<td>Launched a fixed wireless 5G service in four markets this year with plans to offer mobile in 2019.</td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>AT&amp;T is looking to offer mobile 5G services in a dozen markets by 2019 year-end.</td>
</tr>
<tr>
<td>KDDI (Japanese’s Telco)</td>
<td>Limited Launch in 2019</td>
</tr>
<tr>
<td>EE (UK Telecom Operator, part of BT)</td>
<td>Announced that nine 5G trial sites are now live across East London.</td>
</tr>
<tr>
<td>SK Telecom (South Korea)</td>
<td>Has selected Samsung Electronics, Nokia and Ericsson as preferred bidders for its 5G network equipment ahead of the launch of commercial services in March.</td>
</tr>
<tr>
<td>Sprint (US carrier)</td>
<td>5G launch plan</td>
</tr>
</tbody>
</table>

Source: PL
5G Ecosystem: Much Beyond Mobile Communication

Unlike previous standards, 5G standards include performance metrics for the number of simultaneously connected devices and a specification for latency in addition to specifications for the traditional mobile broadband use cases. This increased device connectivity will help to enable the Internet of Things (IoT) and the Industrial Internet of Things (IIoT) on a scale that cannot be realized by today’s LTE capabilities alone. While each of these three areas of specification enables new and expanded use cases, it’s the combination of all three together that is creating a rich ecosystem of applications around 5G. The below chart shows how different applications will take advantage of different performance aspects of 5G is shown below. Right now, IoT products include stand-alone devices such as fitness monitors, smart thermostats, programmable door locks and lightbulbs, connected appliances, and other gadgets.

Exhibit 3: 5G ecosystem to drive transformation in multiple industries

Source: Company, PL
Tech M is well positioned to tap opportunities in the 5G value chain. Company has entered into multiple partnerships as well as developed own platforms to drive growth in the 5G ecosystem.

Tech M would be able to tap the 5G ecosystem evolution through multiple phases:

- Upgradation of existing IT systems (Operational Support Systems and Business Support Systems) to enable 5G. The Peripheral existing IT Infrastructure might also have to be upgraded to be 5G ready.
- Network Planning: Tech M’s acquired entity (LCC) has strong competency in Network rollouts and Network Services and could get additional uptick led by 5G.
- Go to market with Network Equipment vendors: As 5G Network Deployment would offer large deals for equipment vendors (Nokia, Ericsson), they could subcontract some work to third party players. Hence, Tech M could win go to market deals along with Equipment companies.
- Bundled Deals in emerging markets: Multiple Hardware equipment vendors are building products for 5G. Tech M could win complex System Integration deals which include deploying products of different vendors.

Exhibit 4: Tech M aims to tap multiple opportunities emanating from 5G

Source: Company, PL
The Rising prominence of Software in Networks

In the recent analyst meet, Tech M expects USD30bn Capex to shift from Hardware to Software by 2022 which indicates the relatively increasing importance of Software in Communication Networks. Tech M has invested and partnered with startups engaging in these space (Software Defined Networks).

Exhibit 5: Tech M’s offerings in Software defined Networks

Source: Company, PL

We believe 5G led uptick could end the draught faced by Tech M in the Telecom vertical. Telecom vertical spends tend be cyclic and an uptick in spend from FY20 could pivot Tech M consolidated revenue growth momentum. Tech M’s annual revenues in Telecom vertical stands at USD2.06bn for FY19E. Tech M would need USD200mn of Incremental revenues to deliver 10% growth in the Telecom vertical. Considering the huge scope for spends in the 5G network upgradation across the globe, we believe company could see a multiyear upcycle in the vertical. Tech M’s well balanced positioning across the globe in Communication vertical can help it tap opportunities in multiple regions.

We model Telecom vertical revenues to grow by 0/7/10% for FY19/FY20/FY21E. Hence, FY20 could be the start of recovery in organic growth.
Enterprise Vertical Revenues: Acquisitions broaden portfolio in Enterprise segment

Within, Enterprise vertical, Tech M’s key verticals are Manufacturing, BFSI and Retail verticals. Tech M has done a slew of acquisitions over the past three years to strengthen the portfolio in Enterprise vertical. This include Pininfarina (Strengthen Automotive Design), Target Group (BpaaS catering to Banking vertical), Bio Agency (Design Agency), HCI (Healthcare Platform implementation). However, Tech M continued to show steady performance even on organic growth front in the Enterprise vertical. We expect Enterprise vertical growth to show YoY softness in FY19 owing to softness in HCI business owing to project centric nature of the business. We believe Enterprise vertical would grow by only 8% YoY in FY19E. We also build conservative growth of 7.5/8.8% USD revenue growth in Enterprise vertical in FY20/FY21E.

### Exhibit 6: Tech M’s Enterprise vertical performance

<table>
<thead>
<tr>
<th>Fig in USD mn</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19E</th>
<th>FY20E</th>
<th>FY21E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise</td>
<td>1426.4</td>
<td>1572.8</td>
<td>1749.5</td>
<td>1941.4</td>
<td>2273</td>
<td>2705.7</td>
<td>2925.8</td>
<td>3144.0</td>
<td>3421.4</td>
</tr>
<tr>
<td>Growth (%)</td>
<td>9.0%</td>
<td>10.3%</td>
<td>11.2%</td>
<td>11.0%</td>
<td>17.1%</td>
<td>19.0%</td>
<td>8.1%</td>
<td>7.5%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Organic Growth (%)</td>
<td>9%</td>
<td>10.30%</td>
<td>10%</td>
<td>7.70%</td>
<td>9%</td>
<td>9.80%</td>
<td>7%</td>
<td>7.5%</td>
<td>8.8%</td>
</tr>
</tbody>
</table>

As a % of Total Revenues | 54.2% | 50.8% | 47.7% | 48.1% | 52.2% | 56.7% | 58.7% | 58.8% | 58.5% |

Source: Company, PL

### Exhibit 7: Major Acquisitions done by Tech M

<table>
<thead>
<tr>
<th>Company Bought</th>
<th>Amount Paid</th>
<th>Year of acquisition</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pininfarina</td>
<td>Upfront USD27.5 mn for 76% in the company</td>
<td>Dec-15</td>
<td>USD90mn</td>
</tr>
<tr>
<td>Target Group</td>
<td>USD164 mn</td>
<td>May-16</td>
<td>USD76.5mn</td>
</tr>
<tr>
<td>Bio Agency</td>
<td>USD67.5 mn</td>
<td>Jun-16</td>
<td>USD18.7mn</td>
</tr>
<tr>
<td>CNS (HCI acquisition)</td>
<td>USD89.5 mn</td>
<td>Mar-17</td>
<td>USD114mn</td>
</tr>
<tr>
<td>IBM IP</td>
<td>USD140mn</td>
<td>Sep-17</td>
<td>USD40mn</td>
</tr>
<tr>
<td>Altiostar</td>
<td>USD155mn for 17.5% stakes</td>
<td>Jan-18</td>
<td>Minority stake</td>
</tr>
<tr>
<td>Inter Informatics</td>
<td>USD7mn</td>
<td>Aug-18</td>
<td>USD11mn</td>
</tr>
</tbody>
</table>

Source: Company, PL

### Exhibit 8: Tech M’s Sub verticals in Enterprise vertical

<table>
<thead>
<tr>
<th>Fig in %</th>
<th>Q3FY16</th>
<th>Q4FY16</th>
<th>Q1FY17</th>
<th>Q2FY17</th>
<th>Q3FY17</th>
<th>Q4FY17</th>
<th>Q1FY18</th>
<th>Q2FY18</th>
<th>Q3FY18</th>
<th>Q4FY18</th>
<th>Q1FY19</th>
<th>Q2FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>17.1</td>
<td>17.1</td>
<td>18.1</td>
<td>19.2</td>
<td>18.4</td>
<td>19.2</td>
<td>19.3</td>
<td>19</td>
<td>19.1</td>
<td>19.3</td>
<td>20.1</td>
<td>20.1</td>
</tr>
<tr>
<td>Technology/media and Entertainment</td>
<td>7.4</td>
<td>7.5</td>
<td>7.5</td>
<td>7.2</td>
<td>6.4</td>
<td>6.2</td>
<td>6.0</td>
<td>5.9</td>
<td>6.5</td>
<td>7.3</td>
<td>7.2</td>
<td>7.3</td>
</tr>
<tr>
<td>BFSI</td>
<td>9.8</td>
<td>10.6</td>
<td>11.3</td>
<td>11.5</td>
<td>13.1</td>
<td>14.1</td>
<td>14.4</td>
<td>14.1</td>
<td>13.3</td>
<td>13</td>
<td>13.6</td>
<td>13.5</td>
</tr>
<tr>
<td>Retail, Transport and logistics</td>
<td>6.8</td>
<td>6.2</td>
<td>6.5</td>
<td>6.8</td>
<td>7.6</td>
<td>6.5</td>
<td>6.8</td>
<td>7.2</td>
<td>7.1</td>
<td>6.2</td>
<td>6.1</td>
<td>6.5</td>
</tr>
<tr>
<td>Others</td>
<td>7.6</td>
<td>7.7</td>
<td>7.3</td>
<td>6.8</td>
<td>7.1</td>
<td>7.7</td>
<td>8.3</td>
<td>9.9</td>
<td>11.3</td>
<td>12.6</td>
<td>13.4</td>
<td>11.2</td>
</tr>
</tbody>
</table>

Source: Company, PL

Tech M has cited expanding Partnerships with Platform Providers as well as building In-hoose Platforms. Tech M also enhanced its delivery by implementing third party RPA platforms like UiPath to drive operational efficiencies as well as using in house Automation platforms (UNO) to drive operational execution.
Revival visible from 2HFY19 onwards: 1Q is a seasonally weak quarter for Tech M owing to seasonality in Comviva business. This coupled with cross currency headwinds have led to Tech M report weak 1Q USD revenues (On Constant currency, 1Q revenues grew by 0.4% QoQ for 1QFY19). Tech M’s consolidated performance in 2QFY19 was also soft owing to weakness in HCI business.

We note that HCI which was acquired by Tech M in March 2017 has seen a sharp 40% YoY revenue growth in FY18. HCI revenues stood at ~USD174mn for FY18 (vs USD118mn as on FY17). This growth is represented in the Healthcare vertical which is reported in the “Others” vertical. Please see Table above. Revenues from “Others vertical “accounted to 11.2% of total revenues for 1QFY19 (vs 7.7% as on 4QFY17). This sharp momentum was led by growth in HCI business. However, a drag in HCI business weighed on Tech M’s overall growth in 2QFY19.

Source: Company, PL * A slew of acquisitions have also been aiding higher growth in Enterprise vertical

### Exhibit 10: Tech M’s consolidated Quarterly USD revenues

<table>
<thead>
<tr>
<th>Fig in USD mn</th>
<th>1QFY17</th>
<th>2QFY17</th>
<th>3QFY17</th>
<th>4QFY17</th>
<th>1QFY18</th>
<th>2QFY18</th>
<th>Q3FY18</th>
<th>4QFY18</th>
<th>1QFY19</th>
<th>2QFY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Vertical Revenues</td>
<td>523.0</td>
<td>552.3</td>
<td>587.1</td>
<td>607.5</td>
<td>623.6</td>
<td>661.5</td>
<td>692.8</td>
<td>726.7</td>
<td>739.4</td>
<td>713.9</td>
</tr>
<tr>
<td>QoQ growth (%)</td>
<td>4.10%*</td>
<td>5.6%*</td>
<td>6.3%</td>
<td>3.5%</td>
<td>2.7%*</td>
<td>6.1%*</td>
<td>4.7%</td>
<td>4.9%</td>
<td>1.7%</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Telecom Vertical</td>
<td>507</td>
<td>519</td>
<td>528</td>
<td>524</td>
<td>514</td>
<td>515</td>
<td>517</td>
<td>518</td>
<td>485</td>
<td>505.6</td>
</tr>
<tr>
<td>QoQ growth (%)</td>
<td>-2.5%</td>
<td>2.3%</td>
<td>1.7%</td>
<td>-0.8%</td>
<td>-1.8%</td>
<td>0.2%</td>
<td>0.4%</td>
<td>0.0%</td>
<td>-6.4%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>1030.5</td>
<td>1071.3</td>
<td>1115.0</td>
<td>1131.2</td>
<td>1138.0</td>
<td>1176.8</td>
<td>1210.2</td>
<td>1244.3</td>
<td>1224.1</td>
<td>1200</td>
</tr>
<tr>
<td>QoQ growth (%)</td>
<td>0.9%</td>
<td>4.0%</td>
<td>4.1%</td>
<td>1.5%</td>
<td>0.6%</td>
<td>3.4%</td>
<td>2.8%</td>
<td>2.8%</td>
<td>-1.6%</td>
<td>-0.4%</td>
</tr>
</tbody>
</table>
Margin upswing led by INR depreciation could swing earnings: Tech M has seen steep margin erosion in 4QFY15 led by LCC acquisition. A slew of other factors also led by margins hit a new low in 4QFY17. Company has gradually improved margins over the past few quarters through headcount reduction and operational efficiencies. We believe recent INR drop has also aided in swing in margin trajectory. We model consolidated EBIDTA margin at 18.1%/18.6% for FY19/FY20E (vs 15.3% for FY18). We expect gradual improvement in margin performance from hereon.
Tech Mahindra

See turnaround in growth and margins in FY20E: We believe FY19E would be the year of transition with moderate growth coupled with margin expansion. We expect Tech M USD revenue growth to pivot in FY20E onwards. We see continued EBIDTA margin expansion for the company in FY20E as well led by recovery in growth, G&A leverage and improvement in margins of subsidiaries.

Exhibit 14: Tech M’s consolidated Revenue growth and margins:

<table>
<thead>
<tr>
<th>Fig in USD mn</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19E</th>
<th>FY20E</th>
<th>FY21E</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD Revenues (USD mn)</td>
<td>2632</td>
<td>3098</td>
<td>3664</td>
<td>4038</td>
<td>4351</td>
<td>4771</td>
<td>4985</td>
<td>5355</td>
<td>5854</td>
</tr>
<tr>
<td>Growth (%)</td>
<td>6.8%</td>
<td>17.7%</td>
<td>18.3%</td>
<td>10.2%</td>
<td>7.8%</td>
<td>9.6%</td>
<td>4.5%</td>
<td>7.4%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Organic Growth (%)</td>
<td>6.8%</td>
<td>12.7%</td>
<td>14.4%</td>
<td>1.5%</td>
<td>3.9%</td>
<td>5.7%</td>
<td>3.8%</td>
<td>7.4%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Average Rate (USD vs INR)</td>
<td>54.46</td>
<td>60.72</td>
<td>61.20</td>
<td>65.60</td>
<td>66.97</td>
<td>64.50</td>
<td>70.11</td>
<td>72.00</td>
<td>70.00</td>
</tr>
<tr>
<td>EBIDTA Margin (%)</td>
<td>21.4%</td>
<td>22.2%</td>
<td>18.4%</td>
<td>16.3%</td>
<td>14.4%</td>
<td>15.3%</td>
<td>18.1%</td>
<td>18.6%</td>
<td>19.0%</td>
</tr>
</tbody>
</table>

Source: Company, PL
Key Takeaways from Analyst Day held on November 21, 2018

**Strategy:** Tech M continues to focus on 3-4-3 strategy as cited earlier. The focus on 3 mega trends (Connected Devices, High speed Networks, Video on all devices), 4 big bets (Digital CX, Software Transformation, IoT, Networks of the Future) to achieve 3 objectives (Run Better, Change Faster and Grow Better). Company has focused on Partnerships with major Platform providers and Startups. Tech M also invested in building its own Platforms (CareXa, UNO etc).

**Communication vertical (41% of total revenues):** Tech M cited that Communication Industry is seeing a strong tectonic shift with explosion of Data Consumption. Tech M expects USD30bn Capex to shift from Hardware to Software by 2022 which indicates the relatively increasing importance of Software in Communication Networks. Tech M has invested and partnered with startups engaging in these space (Software Defined Networks).

**5G demand:** Tech M expects 5G traction to have different characteristics and give multiple opportunities a) Overhaul of existing Back office process (Upgrading existing OSS/BSS). b) 5G would be a Platform for Innovation across Industries (As 5G is much more than Mobile Communication, it would provide new applications in Automotive, Industrial, Healthcare etc) driving new opportunities. Overall Tech M expects 5G adoption to remain gradual and non-uniform based on evolution of the Technology. Overall, Tech M expects Telecom vertical to grow mid-single digit in FY20E.

**Enterprise Solutions (59% of total revenues):** Key verticals here include Manufacturing, BFSI and Healthcare. Within Manufacturing, Tech M enjoys strength in Automotive, Aerospace, Process Industry. Management indicated focus on Core Banking, Mortgage, Insurance sub segments to drive growth. Overall, Tech M expects Enterprise vertical to grow 8-10% in FY20E.
Valuation and View

At CMP of Rs690/share, Tech M is currently trading at 12x FY20E EPS (TCS’ trading at 20.5x FY20E EPS). Valuations and risk return remains favorable. Tech M trades at 41% discount to TCS. We retain TP to R885/sh valuing Tech M at 15x Sep20E EPS.

Exhibit 15: Tech M one-year forward P/E Chart

Source: Company, PL, Bloomberg
### Exhibit 16: Consolidated Model Sheet of Tech M

<table>
<thead>
<tr>
<th></th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19E</th>
<th>FY20E</th>
<th>FY21E</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD Revenues (USD mn)</td>
<td>3664</td>
<td>4038</td>
<td>4351</td>
<td>4771</td>
<td>4985</td>
<td>5355</td>
<td>5854</td>
</tr>
<tr>
<td>Growth (%)</td>
<td>18.3%</td>
<td>10.2%</td>
<td>7.8%</td>
<td>9.6%</td>
<td>4.5%</td>
<td>7.4%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Organic Growth (%)</td>
<td>14.4%</td>
<td>1.5%</td>
<td>3.9%</td>
<td>5.7%</td>
<td>3.8%</td>
<td>7.4%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Average Rate (USD vs INR)</td>
<td>61.20</td>
<td>65.60</td>
<td>66.97</td>
<td>64.50</td>
<td>70.11</td>
<td>72.00</td>
<td>70.00</td>
</tr>
<tr>
<td>Revenues (Rs mn)</td>
<td>226,213</td>
<td>264,942</td>
<td>291,408</td>
<td>307,730</td>
<td>349,582</td>
<td>385,573</td>
<td>409,758</td>
</tr>
<tr>
<td>Growth (%)</td>
<td>20.1%</td>
<td>17.1%</td>
<td>10.0%</td>
<td>5.6%</td>
<td>13.6%</td>
<td>10.3%</td>
<td>6.3%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>41,529</td>
<td>43,184</td>
<td>41,844</td>
<td>47,161</td>
<td>63,151</td>
<td>71,831</td>
<td>77,894</td>
</tr>
<tr>
<td>EBIT</td>
<td>35,415</td>
<td>35,564</td>
<td>32,063</td>
<td>36,312</td>
<td>51,532</td>
<td>59,979</td>
<td>65,812</td>
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<tr>
<td>APAT</td>
<td>26,277</td>
<td>31,180</td>
<td>28,129</td>
<td>38,001</td>
<td>42,879</td>
<td>50,466</td>
<td>56,001</td>
</tr>
<tr>
<td>EBITDA Margin(%)</td>
<td>18.4%</td>
<td>16.3%</td>
<td>14.4%</td>
<td>15.3%</td>
<td>18.1%</td>
<td>18.6%</td>
<td>19.0%</td>
</tr>
<tr>
<td>EBIT Margin(%)</td>
<td>15.7%</td>
<td>13.4%</td>
<td>11.0%</td>
<td>11.8%</td>
<td>14.7%</td>
<td>15.6%</td>
<td>16.1%</td>
</tr>
<tr>
<td>NPM(%)</td>
<td>11.6%</td>
<td>11.8%</td>
<td>9.7%</td>
<td>12.3%</td>
<td>12.3%</td>
<td>13.1%</td>
<td>13.7%</td>
</tr>
<tr>
<td>Adjusted Diluted EPS(ex-Treasury)</td>
<td>30.58</td>
<td>35.08</td>
<td>31.63</td>
<td>42.7</td>
<td>48.2</td>
<td>56.7</td>
<td>63.0</td>
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<tr>
<td>Growth (%)</td>
<td>-2.0%</td>
<td>14.7%</td>
<td>-9.9%</td>
<td>35.1%</td>
<td>12.8%</td>
<td>17.7%</td>
<td>11.0%</td>
</tr>
<tr>
<td>P/E(Ex - Treasury Share EPS)</td>
<td>21.5</td>
<td>18.7</td>
<td>20.7</td>
<td>15.4</td>
<td>14.4</td>
<td>12.2</td>
<td>11.0</td>
</tr>
<tr>
<td>EV/EBIDTA</td>
<td>15</td>
<td>14</td>
<td>14</td>
<td>12</td>
<td>9</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>ROE(%)</td>
<td>24.5%</td>
<td>23.4%</td>
<td>18.1%</td>
<td>21.5%</td>
<td>21.2%</td>
<td>21.8%</td>
<td>21.0%</td>
</tr>
<tr>
<td>Consolitdated Balance sheet (Rs mn)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Cash on Balance Sheet</td>
<td>24904</td>
<td>41407</td>
<td>41638</td>
<td>47632</td>
<td>76457</td>
<td>105388</td>
<td>139619</td>
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<tr>
<td>Net Cash per Share on balance sheet</td>
<td>26.0</td>
<td>42.0</td>
<td>46.8</td>
<td>53.6</td>
<td>86.0</td>
<td>118.5</td>
<td>157.0</td>
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<tr>
<td>Net cash per share as a % of stock price</td>
<td>4.0%</td>
<td>6.4%</td>
<td>7.1%</td>
<td>8.2%</td>
<td>12.4%</td>
<td>17.1%</td>
<td>22.7%</td>
</tr>
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</table>

### Consolidated Cash Flows (Rs mn)

<table>
<thead>
<tr>
<th></th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19E</th>
<th>FY20E</th>
<th>FY21E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow from Operating Activities</td>
<td>23974</td>
<td>32132</td>
<td>40714</td>
<td>35535</td>
<td>43711</td>
<td>49276</td>
<td>55130</td>
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<tr>
<td>Capex+ Acquisitions</td>
<td>(24,873)</td>
<td>(9,046)</td>
<td>(19,658)</td>
<td>(21,045)</td>
<td>(8,000)</td>
<td>(8,000)</td>
<td>(8,000)</td>
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<tr>
<td>Free Cash Flow</td>
<td>(899)</td>
<td>23,086</td>
<td>21,056</td>
<td>14,490</td>
<td>35,711</td>
<td>41,276</td>
<td>47,130</td>
</tr>
<tr>
<td>FCF/EBIDTA</td>
<td>-2.2%</td>
<td>53.5%</td>
<td>50.3%</td>
<td>30.7%</td>
<td>56.5%</td>
<td>57.5%</td>
<td>60.5%</td>
</tr>
</tbody>
</table>

Source: Company, PL
# Financials

## Income Statement (Rs m)

<table>
<thead>
<tr>
<th>Y/e Mar</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19E</th>
<th>FY20E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Revenues</td>
<td>2,91,408</td>
<td>3,07,730</td>
<td>3,49,582</td>
<td>3,85,573</td>
</tr>
<tr>
<td>YoY gr. (%)</td>
<td>10.0</td>
<td>5.6</td>
<td>13.6</td>
<td>10.3</td>
</tr>
<tr>
<td>Employee Cost</td>
<td>1,90,651</td>
<td>2,05,120</td>
<td>2,36,115</td>
<td>2,60,750</td>
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<tr>
<td>Gross Profit</td>
<td>1,00,757</td>
<td>1,02,610</td>
<td>1,13,467</td>
<td>1,24,822</td>
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<tr>
<td>Margin (%)</td>
<td>34.6</td>
<td>33.3</td>
<td>32.5</td>
<td>32.4</td>
</tr>
<tr>
<td>SG&amp;A Expenses</td>
<td>58,913</td>
<td>55,513</td>
<td>50,316</td>
<td>52,991</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>EBITDA</td>
<td>41,844</td>
<td>47,097</td>
<td>63,151</td>
<td>71,831</td>
</tr>
<tr>
<td>YoY gr. (%)</td>
<td>(3.1)</td>
<td>12.6</td>
<td>34.1</td>
<td>13.7</td>
</tr>
<tr>
<td>Margin (%)</td>
<td>14.4</td>
<td>15.3</td>
<td>18.1</td>
<td>18.6</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>9,781</td>
<td>10,849</td>
<td>11,619</td>
<td>11,853</td>
</tr>
<tr>
<td>EBIT</td>
<td>32,063</td>
<td>36,248</td>
<td>51,532</td>
<td>59,979</td>
</tr>
<tr>
<td>Margin (%)</td>
<td>11.0</td>
<td>11.8</td>
<td>14.7</td>
<td>15.6</td>
</tr>
<tr>
<td>Net Interest</td>
<td>1,286</td>
<td>1,624</td>
<td>1,293</td>
<td>1,000</td>
</tr>
<tr>
<td>Other Income</td>
<td>7,776</td>
<td>14,165</td>
<td>6,065</td>
<td>7,000</td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>38,553</td>
<td>48,789</td>
<td>56,304</td>
<td>65,979</td>
</tr>
<tr>
<td>Margin (%)</td>
<td>13.2</td>
<td>15.9</td>
<td>16.1</td>
<td>17.1</td>
</tr>
<tr>
<td>Total Tax</td>
<td>10,021</td>
<td>10,926</td>
<td>13,904</td>
<td>15,835</td>
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<tr>
<td>Effective tax rate (%)</td>
<td>26.0</td>
<td>22.4</td>
<td>24.7</td>
<td>24.0</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>28,532</td>
<td>37,863</td>
<td>42,400</td>
<td>50,144</td>
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<td>Minority interest</td>
<td>380</td>
<td>(137)</td>
<td>(78)</td>
<td>(122)</td>
</tr>
<tr>
<td>Share Profit from Associate</td>
<td>(23)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Adjusted PAT</td>
<td>28,129</td>
<td>38,000</td>
<td>42,476</td>
<td>50,266</td>
</tr>
<tr>
<td>YoY gr. (%)</td>
<td>(9.8)</td>
<td>35.1</td>
<td>11.8</td>
<td>18.3</td>
</tr>
<tr>
<td>Margin (%)</td>
<td>9.7</td>
<td>12.3</td>
<td>12.2</td>
<td>13.0</td>
</tr>
<tr>
<td>Extra Ord. Income / (Exp)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Reported PAT</td>
<td>28,129</td>
<td>38,000</td>
<td>42,476</td>
<td>50,266</td>
</tr>
<tr>
<td>YoY gr. (%)</td>
<td>(9.8)</td>
<td>35.1</td>
<td>11.8</td>
<td>18.3</td>
</tr>
<tr>
<td>Margin (%)</td>
<td>9.7</td>
<td>12.3</td>
<td>12.2</td>
<td>13.0</td>
</tr>
<tr>
<td>Other Comprehensive Income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Comprehensive Income</td>
<td>28,129</td>
<td>38,000</td>
<td>42,476</td>
<td>50,266</td>
</tr>
<tr>
<td>Equity Shares O/s (m)</td>
<td>878</td>
<td>883</td>
<td>883</td>
<td>883</td>
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<tr>
<td>EPS (Rs)</td>
<td>32.1</td>
<td>43.0</td>
<td>48.1</td>
<td>56.9</td>
</tr>
</tbody>
</table>

Source: Company Data, PL Research

## Balance Sheet Abstract (Rs m)

<table>
<thead>
<tr>
<th>Y/e Mar</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19E</th>
<th>FY20E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Current Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Block</td>
<td>99,002</td>
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<td>1,35,695</td>
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<td>Tangibles</td>
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<td>99,313</td>
<td>1,07,313</td>
</tr>
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<td>Intangibles</td>
<td>14,641</td>
<td>28,382</td>
<td>28,382</td>
<td>28,382</td>
</tr>
<tr>
<td>Acc: Dep / Amortization</td>
<td>60,680</td>
<td>71,198</td>
<td>82,817</td>
<td>94,669</td>
</tr>
<tr>
<td>Tangibles</td>
<td>52,633</td>
<td>59,597</td>
<td>71,216</td>
<td>83,068</td>
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<tr>
<td>Intangibles</td>
<td>8,047</td>
<td>11,601</td>
<td>11,601</td>
<td>11,601</td>
</tr>
<tr>
<td>Net fixed assets</td>
<td>38,322</td>
<td>48,497</td>
<td>44,878</td>
<td>41,025</td>
</tr>
<tr>
<td>Tangibles</td>
<td>31,728</td>
<td>31,716</td>
<td>26,097</td>
<td>24,244</td>
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<tr>
<td>Intangibles</td>
<td>6,594</td>
<td>16,781</td>
<td>16,781</td>
<td>16,781</td>
</tr>
<tr>
<td>Capital Work In Progress</td>
<td>3,729</td>
<td>2,399</td>
<td>2,399</td>
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<td>Goodwill</td>
<td>26,279</td>
<td>27,727</td>
<td>27,727</td>
<td>27,727</td>
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<td>Non-Current Investments</td>
<td>6,802</td>
<td>15,117</td>
<td>15,417</td>
<td>15,717</td>
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<td>Non-Current Liabilities</td>
<td>2,579</td>
<td>5,708</td>
<td>5,708</td>
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</tr>
<tr>
<td>Other Non-Current Assets</td>
<td>19,594</td>
<td>23,798</td>
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</tr>
<tr>
<td>Current Assets</td>
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<td>Investments</td>
<td>21,647</td>
<td>34,449</td>
<td>35,449</td>
<td>36,449</td>
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<tr>
<td>Inventories</td>
<td>611</td>
<td>659</td>
<td>659</td>
<td>659</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>53,377</td>
<td>64,979</td>
<td>73,816</td>
<td>81,416</td>
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<td>Cash &amp; Bank Balance</td>
<td>32,186</td>
<td>30,443</td>
<td>58,968</td>
<td>87,598</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>21,571</td>
<td>19,623</td>
<td>19,623</td>
<td>19,623</td>
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<tr>
<td>Total Assets</td>
<td>2,60,665</td>
<td>3,04,373</td>
<td>3,39,416</td>
<td>3,73,094</td>
</tr>
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<td>Equity Share Capital</td>
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<td>4,417</td>
</tr>
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<td>Other Equity</td>
<td>1,59,984</td>
<td>1,84,011</td>
<td>2,11,454</td>
<td>2,43,752</td>
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<tr>
<td>Total Networth</td>
<td>1,64,372</td>
<td>1,88,428</td>
<td>2,15,871</td>
<td>2,48,169</td>
</tr>
<tr>
<td>Non-Current Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long Term borrowings</td>
<td>3,853</td>
<td>7,711</td>
<td>8,411</td>
<td>9,111</td>
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<tr>
<td>Provisions</td>
<td>6,201</td>
<td>5,551</td>
<td>5,551</td>
<td>5,551</td>
</tr>
<tr>
<td>Other noncurrent liabilities</td>
<td>305</td>
<td>333</td>
<td>333</td>
<td>333</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ST Debt / Current of LT Debt</td>
<td>8,342</td>
<td>9,549</td>
<td>9,549</td>
<td>9,549</td>
</tr>
<tr>
<td>Trade payables</td>
<td>23,117</td>
<td>20,368</td>
<td>29,691</td>
<td>32,747</td>
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<td>Other current liabilities</td>
<td>44,774</td>
<td>61,554</td>
<td>59,054</td>
<td>56,555</td>
</tr>
<tr>
<td>Total Equity &amp; Liabilities</td>
<td>2,60,665</td>
<td>3,04,373</td>
<td>3,39,416</td>
<td>3,73,094</td>
</tr>
</tbody>
</table>

Source: Company Data, PL Research

November 30, 2018
### Cash Flow (Rs m)

<table>
<thead>
<tr>
<th>Y/e Mar</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19E</th>
<th>FY20E</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBT</td>
<td>38,530</td>
<td>48,788</td>
<td>56,705</td>
<td>66,179</td>
</tr>
<tr>
<td>Add. Depreciation</td>
<td>9,781</td>
<td>10,850</td>
<td>11,619</td>
<td>11,853</td>
</tr>
<tr>
<td>Add. Interest</td>
<td>1,286</td>
<td>1,624</td>
<td>1,293</td>
<td>1,000</td>
</tr>
<tr>
<td>Less Financial Other Income</td>
<td>7,776</td>
<td>14,165</td>
<td>6,065</td>
<td>7,000</td>
</tr>
<tr>
<td>Add. Other</td>
<td>3,969</td>
<td>2,631</td>
<td>9,987</td>
<td>6,878</td>
</tr>
<tr>
<td>Op. profit before WC changes</td>
<td>45,628</td>
<td>58,631</td>
<td>59,630</td>
<td>72,153</td>
</tr>
<tr>
<td>Net Changes-WC</td>
<td>5,881</td>
<td>7,832</td>
<td>2,015</td>
<td>7,043</td>
</tr>
<tr>
<td>Direct tax</td>
<td>(10,795)</td>
<td>(15,264)</td>
<td>(13,904)</td>
<td>(15,835)</td>
</tr>
<tr>
<td>Net cash from Op. activities</td>
<td>40,714</td>
<td>35,535</td>
<td>43,711</td>
<td>49,276</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>(19,579)</td>
<td>(18,781)</td>
<td>(8,000)</td>
<td>(8,000)</td>
</tr>
<tr>
<td>Interest / Dividend Income</td>
<td>5,513</td>
<td>2,645</td>
<td>10,065</td>
<td>7,000</td>
</tr>
<tr>
<td>Others</td>
<td>(14,829)</td>
<td>(17,461)</td>
<td>(2,300)</td>
<td>(2,300)</td>
</tr>
<tr>
<td>Net Cash from Invt. activities</td>
<td>(28,895)</td>
<td>(33,597)</td>
<td>(235)</td>
<td>(3,300)</td>
</tr>
<tr>
<td>Issue of share cap. / premium</td>
<td>345</td>
<td>857</td>
<td>78</td>
<td>122</td>
</tr>
<tr>
<td>Debt changes</td>
<td>(2,551)</td>
<td>7,486</td>
<td>700</td>
<td>700</td>
</tr>
<tr>
<td>Dividend paid</td>
<td>(12,392)</td>
<td>(9,438)</td>
<td>(15,436)</td>
<td>(18,168)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(1,111)</td>
<td>(1,599)</td>
<td>(1,293)</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net cash from Fin. activities</td>
<td>(15,709)</td>
<td>(2,694)</td>
<td>(15,951)</td>
<td>(18,346)</td>
</tr>
<tr>
<td>Net change in cash</td>
<td>(3,890)</td>
<td>(756)</td>
<td>27,525</td>
<td>27,630</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>21,056</td>
<td>14,490</td>
<td>35,711</td>
<td>41,276</td>
</tr>
</tbody>
</table>

Source: Company Data, PL Research

### Key Financial Metrics

<table>
<thead>
<tr>
<th>Y/e Mar</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19E</th>
<th>FY20E</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/CEPS</td>
<td>43.2</td>
<td>55.3</td>
<td>61.2</td>
<td>70.3</td>
</tr>
<tr>
<td>BVPS</td>
<td>187.3</td>
<td>213.3</td>
<td>244.4</td>
<td>280.9</td>
</tr>
<tr>
<td>FCF</td>
<td>24.0</td>
<td>16.4</td>
<td>40.4</td>
<td>46.7</td>
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<tr>
<td>DPS</td>
<td>9.0</td>
<td>12.9</td>
<td>14.6</td>
<td>17.1</td>
</tr>
<tr>
<td>Return Ratio(%)</td>
<td>17.5</td>
<td>20.5</td>
<td>20.0</td>
<td>20.5</td>
</tr>
<tr>
<td>RoCE</td>
<td>19.3</td>
<td>20.0</td>
<td>27.8</td>
<td>31.9</td>
</tr>
<tr>
<td>RoE</td>
<td>18.1</td>
<td>21.5</td>
<td>21.0</td>
<td>21.7</td>
</tr>
<tr>
<td>Net Debt : Equity (x)</td>
<td>(0.3)</td>
<td>(0.3)</td>
<td>(0.4)</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Debitors (Days)</td>
<td>67</td>
<td>77</td>
<td>77</td>
<td>77</td>
</tr>
<tr>
<td>PER</td>
<td>21.4</td>
<td>16.0</td>
<td>14.3</td>
<td>12.1</td>
</tr>
<tr>
<td>P/E</td>
<td>3.7</td>
<td>3.2</td>
<td>2.8</td>
<td>2.4</td>
</tr>
<tr>
<td>P/CEPS</td>
<td>42.8</td>
<td>54.8</td>
<td>60.7</td>
<td>69.6</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>14.8</td>
<td>13.1</td>
<td>9.3</td>
<td>7.8</td>
</tr>
<tr>
<td>EV/Sales</td>
<td>1.9</td>
<td>1.8</td>
<td>1.5</td>
<td>1.3</td>
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<tr>
<td>Dividend Yield (%)</td>
<td>1.3</td>
<td>1.9</td>
<td>2.1</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

<table>
<thead>
<tr>
<th>Y/e Mar</th>
<th>Q3FY18</th>
<th>Q4FY18</th>
<th>Q1FY19</th>
<th>Q2FY19</th>
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<tr>
<td>Net Revenue</td>
<td>77,760</td>
<td>80,545</td>
<td>82,763</td>
<td>86,298</td>
</tr>
<tr>
<td>YoY gr. (%)</td>
<td>2.9</td>
<td>7.5</td>
<td>12.8</td>
<td>13.5</td>
</tr>
<tr>
<td>Employee Expenses</td>
<td>53,807</td>
<td>54,885</td>
<td>57,340</td>
<td>56,923</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>23,953</td>
<td>25,660</td>
<td>25,423</td>
<td>29,375</td>
</tr>
<tr>
<td>Margin (%)</td>
<td>30.8</td>
<td>31.9</td>
<td>30.7</td>
<td>34.0</td>
</tr>
<tr>
<td>EBITDA</td>
<td>12,638</td>
<td>14,119</td>
<td>13,569</td>
<td>16,186</td>
</tr>
<tr>
<td>YoY gr. (%)</td>
<td>14.3</td>
<td>11.7</td>
<td>(3.9)</td>
<td>19.3</td>
</tr>
<tr>
<td>Margin (%)</td>
<td>16.3</td>
<td>17.5</td>
<td>16.4</td>
<td>18.8</td>
</tr>
<tr>
<td>Depreciation / Depletion</td>
<td>2,742</td>
<td>2,986</td>
<td>2,808</td>
<td>2,944</td>
</tr>
<tr>
<td>EBIT</td>
<td>9,896</td>
<td>11,133</td>
<td>10,761</td>
<td>13,242</td>
</tr>
<tr>
<td>Margin (%)</td>
<td>12.7</td>
<td>13.8</td>
<td>13.0</td>
<td>15.3</td>
</tr>
<tr>
<td>Net Interest</td>
<td>341</td>
<td>527</td>
<td>305</td>
<td>388</td>
</tr>
<tr>
<td>Other Income</td>
<td>2,260</td>
<td>4,513</td>
<td>1,114</td>
<td>1,751</td>
</tr>
<tr>
<td>Profit before Tax</td>
<td>11,815</td>
<td>15,118</td>
<td>11,570</td>
<td>14,605</td>
</tr>
<tr>
<td>Margin (%)</td>
<td>15.2</td>
<td>18.8</td>
<td>14.0</td>
<td>16.9</td>
</tr>
<tr>
<td>Total Tax</td>
<td>2,570</td>
<td>2,810</td>
<td>2,457</td>
<td>3,915</td>
</tr>
<tr>
<td>Effective tax rate (%)</td>
<td>21.8</td>
<td>18.6</td>
<td>21.2</td>
<td>26.8</td>
</tr>
<tr>
<td>Profit after Tax</td>
<td>9,245</td>
<td>12,308</td>
<td>9,113</td>
<td>10,690</td>
</tr>
<tr>
<td>Minority interest</td>
<td>(187)</td>
<td>88</td>
<td>16</td>
<td>(84)</td>
</tr>
<tr>
<td>Share Profit from Associates</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Adjusted PAT</td>
<td>9,432</td>
<td>12,220</td>
<td>9,097</td>
<td>10,774</td>
</tr>
<tr>
<td>YoY gr. (%)</td>
<td>10.2</td>
<td>107.9</td>
<td>13.9</td>
<td>28.8</td>
</tr>
<tr>
<td>Margin (%)</td>
<td>12.1</td>
<td>15.2</td>
<td>11.0</td>
<td>12.5</td>
</tr>
<tr>
<td>Extra Ord. Income / (Exp)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Reported PAT</td>
<td>9,432</td>
<td>12,220</td>
<td>9,097</td>
<td>10,774</td>
</tr>
<tr>
<td>YoY gr. (%)</td>
<td>10.2</td>
<td>107.9</td>
<td>13.9</td>
<td>28.8</td>
</tr>
<tr>
<td>Margin (%)</td>
<td>12.1</td>
<td>15.2</td>
<td>11.0</td>
<td>12.5</td>
</tr>
<tr>
<td>Other Comprehensive Income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Comprehensive Income</td>
<td>9,432</td>
<td>12,220</td>
<td>9,097</td>
<td>10,774</td>
</tr>
<tr>
<td>Avg. Shares O/s (m)</td>
<td>889</td>
<td>891</td>
<td>891</td>
<td>891</td>
</tr>
<tr>
<td>EPS (Rs)</td>
<td>10.6</td>
<td>13.7</td>
<td>10.2</td>
<td>12.1</td>
</tr>
</tbody>
</table>

Source: Company Data, PL Research

November 30, 2018
**Tech Mahindra**

### Price Chart

### Recommendation History

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>Rating</th>
<th>TP (Rs.)</th>
<th>Share Price (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10-Jan-18</td>
<td>BUY</td>
<td>570</td>
<td>531</td>
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<tr>
<td>2</td>
<td>30-Jan-18</td>
<td>BUY</td>
<td>675</td>
<td>605</td>
</tr>
<tr>
<td>3</td>
<td>13-Apr-18</td>
<td>BUY</td>
<td>680</td>
<td>669</td>
</tr>
<tr>
<td>4</td>
<td>26-May-18</td>
<td>BUY</td>
<td>760</td>
<td>702</td>
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<tr>
<td>5</td>
<td>10-Jul-18</td>
<td>BUY</td>
<td>760</td>
<td>661</td>
</tr>
<tr>
<td>6</td>
<td>30-Jul-18</td>
<td>BUY</td>
<td>760</td>
<td>655</td>
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<tr>
<td>7</td>
<td>05-Oct-18</td>
<td>BUY</td>
<td>885</td>
<td>721</td>
</tr>
<tr>
<td>8</td>
<td>30-Oct-18</td>
<td>BUY</td>
<td>885</td>
<td>685</td>
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### Analyst Coverage Universe

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Company Name</th>
<th>Rating</th>
<th>TP (Rs.)</th>
<th>Share Price (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cyient</td>
<td>BUY</td>
<td>810</td>
<td>669</td>
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<tr>
<td>2</td>
<td>HCL Technologies</td>
<td>BUY</td>
<td>1,255</td>
<td>952</td>
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<td>3</td>
<td>Hexaware Technologies</td>
<td>Accumulate</td>
<td>430</td>
<td>351</td>
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<td>4</td>
<td>Infosys</td>
<td>BUY</td>
<td>790</td>
<td>695</td>
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<td>5</td>
<td>L&amp;T Technology Services</td>
<td>Accumulate</td>
<td>1,780</td>
<td>1,455</td>
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<td>6</td>
<td>Mindtree</td>
<td>BUY</td>
<td>1,140</td>
<td>978</td>
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<tr>
<td>7</td>
<td>Mphasis</td>
<td>Accumulate</td>
<td>1,220</td>
<td>1,068</td>
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<td>8</td>
<td>NIIT Technologies</td>
<td>BUY</td>
<td>1,460</td>
<td>1,192</td>
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<tr>
<td>9</td>
<td>Persistent Systems</td>
<td>Accumulate</td>
<td>725</td>
<td>560</td>
</tr>
<tr>
<td>10</td>
<td>Redington (India)</td>
<td>BUY</td>
<td>140</td>
<td>92</td>
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<tr>
<td>11</td>
<td>Sonata Software</td>
<td>BUY</td>
<td>410</td>
<td>313</td>
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<td>12</td>
<td>Tata Consultancy Services</td>
<td>Accumulate</td>
<td>2,300</td>
<td>1,980</td>
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<td>13</td>
<td>TeamLease Services</td>
<td>Hold</td>
<td>2,740</td>
<td>2,219</td>
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<td>14</td>
<td>Tech Mahindra</td>
<td>BUY</td>
<td>885</td>
<td>685</td>
</tr>
<tr>
<td>15</td>
<td>Wipro</td>
<td>Accumulate</td>
<td>350</td>
<td>309</td>
</tr>
<tr>
<td>16</td>
<td>Zensar Technologies</td>
<td>BUY</td>
<td>290</td>
<td>235</td>
</tr>
</tbody>
</table>

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- **Buy**: > 15%
- **Accumulate**: 5% to 15%
- **Hold**: +5% to -5%
- **Reduce**: -5% to -15%
- **Sell**: < -15%
- **Not Rated (NR)**: No specific call on the stock
- **Under Review (UR)**: Rating likely to change shortly
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