

Tech Mahindra



Current Price : 1728.80(as of 08/05/2014)

52 Week High/ Low: 1936.9/909.10

Target Price : 2031

Industry Overview

India's IT-business process outsourcing (BPO) industry revenue is expected to cross US\$ 225 billion mark by 2020. India is expected to become world's second-largest online community after China with 213 million internet users by December 2013 and 243 million by June 2014. India's total IT industry's (including hardware) share in the global market stands at 7 per cent; in the IT segment the share is 4 per cent while in the ITeS space the share is 2 per cent. India's IT and BPO sector exports are expected to grow by 12-14 per cent in FY14 to touch US\$ 84 billion - US\$ 87 billion. Moreover, India plans to spend around US\$ 3.9 billion on cloud services during 2013-2017, of which US\$ 1.7 billion will be spent on software-as-a-service (SaaS). Globalization has a profound impact in shaping the Indian IT industry over the years with India capturing a sizeable chunk of the global market for technology sourcing and business services. Over the years the growth drivers for this sector have been the verticals of manufacturing, telecommunication, insurance, banking, finance and of late the fledgling retail revolution

Company Overview

The company surprises us positively for the third consecutive quarter at revenue front i.e. revenue grew by 4.3% QoQ (in USD terms) versus our projection of 2.7% growth. Higher than expected revenue was led by Telecom vertical which grew by 9% QoQ; supported by ramp up of BASE network deal in second half of Q4 FY14. EBITDA margin declined by 201 bps (versus our expectation of dip in margins by 135 bps QoQ) to 21.9% in Q4 FY14 pressurized by wage hike (impact ~200 bps QoQ); ending of \$6 mn deferred revenue booking in Q4 FY14 (impact ~70 bps QoQ) and dip in utilization including trainees by 100 bps QoQ to 74% (against our expectation of improvement by 50 bps QoQ to 75.5%). The company reported forex loss of \$27.6 mn in Q4 FY14 (in-line with our estimates). Going forward, we expect, forex loss to come down drastically supported by better hedging rate i.e. o/s USD hedge stood at \$784 mn at average rate of Rs60.6/USD.

Key Ratio's

	FY13	FY14	FY15(e)
EPS	101.90	128.60	139.40
P/E	18.00	14.30	13.20
ROE (%)	31.0%	29.0%	26.0%
ROA (%)	15.6%	17.6%	17.8%
P/BV	6.20	4.70	3.80

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Peer Comparison

Name	Market Cap (Rs. Cr.)	Sales Turnover	Net Profit	Total Assets	P/E	D/E	EPS	Market Cap/ Sales Turnover
TCS	415,269.92	64,672.93	18,474.92	32,725.37	22.70	0.55	93.48	8.58
Infosys	178,317.56	44,341.00	10,194.00	42,092.00	17.51	0.00	177.52	4.03
Wipro	121,327.52	39,133.30	7,387.40	28,275.50	16.57	8.21	29.69	3.65
HCL Tech	93,634.32	12,517.82	3,704.72	10,852.88	17.15	4.41	77.87	7.47
Tech Mahindra	41,594.60	16,295.13	2,685.47	5,287.30	15.50	8.62	114.99	6.93

Conclusion: Buy With target price of Rs. 2031

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