

## Tech Mahindra (TECHM)

HOLD

Turnaround in progress

## Summary

Tech Mahindra (TechM) reported 1.6% QoQ de-growth in Q4FY24 and was below our estimates. Going forward the company believes that Q4 was the lowest growth on YoY terms and expects growth to improve over the coming quarters. The company has laid down strategy till FY27E wherein the company aims to have a turnaround in FY25E, stabilize in FY26E and grow in line with peers by FY27E. Further, the company aims to achieve 15% margins by FY27E from 6% in FY24. The company will achieve the same by US\$250 mn annual cost savings (~4% of revenues) offset by 1.5% of investments. While we have factored in most of the growth and margin expectation, we believe execution is the key. Hence, we maintain our Hold rating with a target price of Rs 1,265 (18x FY26E EPS).

## Key Highlights and Investment Rationale

- FY27E strategy of CEO:** The new CEO aims to achieve peer growth by FY27E. The CEO aims to achieve the same by creating SBU level focus on account mining, new accounts targeting and phasing of long tail accounts. Further, incentivizing sales team to achieve the same. The CEO also aims to tap large deals and focus on large accounts. The company has also created measures for tracking the progress like Growth in accounts > \$20M, Contribution from NA, Europe, prioritized pockets in APJ, Net new deal wins and Industry mix (where we believe focus will be higher on non telecom industries).
- 15% EBIT margin by FY27E:** The company aims to achieve 15% margins by FY27E vs 6% in FY24. The company aims to do the same by pyramid correction (consistent fresher hiring), synergy in portfolio companies, higher fixed price projects (as pyramid will help in driving efficiency) and pricing.

<b>TP</b>	<b>Rs1,265</b>
<b>CMP</b>	<b>Rs1,190</b>
Potential upside/downside	6%
Previous Rating	HOLD

## Price Performance (%)

	-1m	-3m	-12m
Absolute	(5.9)	(10.0)	19.4
Rel to Sensex	(8.0)	(15.1)	(4.2)

## V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	55	69
Consensus	53	69
% difference	4.2	0.3

## Key Stock Data

Bloomberg/Reuters	TECHM IN/TEML.BO
Sector	IT Services
Shares o/s (mn)	977
Market cap. (Rs mn)	1,162,492
3-m daily average value (Rs mn)	97.3
52-week high / low	Rs1,416 / 983
Sensex / Nifty	74,339 / 22,570

## Shareholding Pattern (%)

Promoters	35.1
FII	24.2
DII	27.7
Public	13.0

## Financial snapshot

(Rs mn)

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	4,46,460	5,32,902	5,19,955	5,28,046	5,70,135
Change (yoy, %)	18	19	(2)	2	8
EBITDA	80,200	80,286	49,646	71,154	91,516
Change (yoy, %)	17	0	(38)	43	29
EBITDA Margin(%)	18.0	15.1	9.5	13.5	16.1
Adj.PAT	55,661	50,681	26,666	48,296	60,726
EPS (Rs)	63	58	30	55	69
Change (yoy, %)	23.8	(9.2)	(47.4)	81	26
PE(x)	19	21	39	22	17
Dividend Yield (%)	3.8	4.2	3.4	4	5
EV/EBITDA (x)	12	12	20	14	11
RoE (%)	22	18	10	18	21
RoCE (%)	21	19	9	17	21

Source: IDBI Capital Research;

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### Con-call Highlights

Management stated FY25E growth to be volatile, however, on YoY basis the company will see improvement in coming quarters of FY25E (compare to Q4FY24 YoY growth). The company aspires that FY27E will be the year which will see growth in line with peers and have laid down the new strategies as follows:

- Focus on increasing visibility and clients in geos like Americas, Europe & prioritize more in ROW countries by prioritising sales investments and enhancing client services.
- Focusing on existing verticals:
  - Company aims to grow in Telco vertical by investing in non-terrestrial networks and 6G network, building an AI ecosystem and strengthening hyper-scalers & SaaS partnership.
  - In Manufacturing, growth would be driven by integration of service offerings (IT, engineering services and BPS) for innovation & efficiency, Next gen offerings (Gen AI, micro factories, localisation and cyber-security) and enhancing core domain capabilities.
  - Management aims to capitalise on their differentiation and drive growth on the back of new offerings (Market DaaS, Lending PaaS, Payments utility, ESG Offering, IaaS, Digital engineering ), building capability, targeting on high potential sub-verticals (wealth & asset management, core banking, payments) and focusing on tier1 & 2 client acquisitions.
  - Additionally, with the verticals, management has key focus on growing capabilities in AI by reskilling the employee base, infusion of AI & automation in all deals and building the start-up partner ecosystem.
- Focus on Service lines like Next gen services, Cloud & infrastructure services, engineering services and digital enterprise application.
- Company will be saving \$250mn average per year till FY27 and invest 1.5% margin in capability apart from the other investments. Management has guided EBIT margin to be at 15% by FY27 v/s 6.1% in FY24. To achieve this company has highlighted below points:
  - Focusing on pyramid rationalisation by reducing in average resource cost and hiring fresher's.

- Focus on high margin services.
- By optimising G&A cost and sub-con cost
- Revenue for the quarter stood at \$1,548 mn which de-grew by 1.6% QoQ & de-grew 7.2% YoY in reported terms. This was majorly led by decline in communication vertical. EBIT margin is at 7.4% which grew by 200bps v/s last quarter.
- In terms of geowise, Americas degrew by 3.6% QoQ) while Europe was flat and Row was up 1.0% QoQ. Among, verticals comms was down 2.8% QoQ, Retail was down 9.4% QoQ and others down 1.4% QoQ while BFSI was up 3.5% QoQ and Technology was flat QoQ.
- New deal win stood at US\$500 mn up 31% QoQ and down 15% YoY.

## Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
<b>Revenues (US\$ mn)</b>	<b>1,548</b>	<b>1,573</b>	<b>(1.6)</b>	<b>1,668</b>	<b>(7.2)</b>
<b>Revenues</b>	<b>1,28,713</b>	<b>1,31,013</b>	<b>(1.8)</b>	<b>1,37,182</b>	<b>(6.2)</b>
COGS	93,941	99,648	(5.7)	97,484	(3.6)
Gross profit	34,772	31,365	10.9	39,698	(12.4)
SG&A	20,694	19,900	4.0	19,493	6.2
<b>EBITDA</b>	<b>14,078</b>	<b>11,465</b>	<b>22.8</b>	<b>20,205</b>	<b>(30.3)</b>
Depreciation & amortization	4,614	4,434	4.1	4,902	(5.9)
<b>EBIT</b>	<b>9,464</b>	<b>7,031</b>	<b>34.6</b>	<b>15,303</b>	<b>(38.2)</b>
Other income	3,150	-290	(1,186.2)	2,121	48.5
PBT	12,614	6,741	87.1	17,424	(27.6)
Tax	2,949	1,551	90.1	3,999	(26.3)
Minority interest	32	-85	n.m.	-123	n.m.
<b>Adjusted net profit</b>	<b>9,697</b>	<b>5,105</b>	<b>90.0</b>	<b>13,302</b>	<b>(27.1)</b>
Exceptional items	3,087	0	n.m.	2,126	n.m.
<b>Reported net profit</b>	<b>6,610</b>	<b>5,105</b>	<b>29.5</b>	<b>11,176</b>	<b>(40.9)</b>
<b>Reported EPS (Rs.)</b>	<b>7.5</b>	<b>5.8</b>	<b>29.9</b>	<b>12.6</b>	<b>(40.7)</b>
<b>Diluted EPS (Rs)</b>	<b>11.0</b>	<b>5.8</b>	<b>90.6</b>	<b>15.0</b>	<b>(26.9)</b>
<b>As % of net revenue</b>					
Gross profit	27.0	23.9		28.9	
SG&A	16.1	15.2		14.2	
EBITDA	10.9	8.8		14.7	
EBIT	7.4	5.4		11.2	
Reported net profit	5.1	3.9		8.1	
Tax rate	23.4	23.0		23.0	

Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. estimates**

Year to March	Q4FY24	Q4FY24E	Variance (%)
Revenue (US\$ mn)	1,548	1,561	-0.8%
Revenue (Rs mn)	1,28,713	1,29,600	-0.7%
EBIT (Rs mn)	9,464	9,122	3.8%
EBIT margin (%)	7.4%	7.0%	31 bps
Recurring PAT (Rs mn)	9,697	7,590	27.8%
Recurring PAT margin (%)	7.53%	5.86%	168bps
Recurring EPS (Rs)	11.0	8.6	28.2%

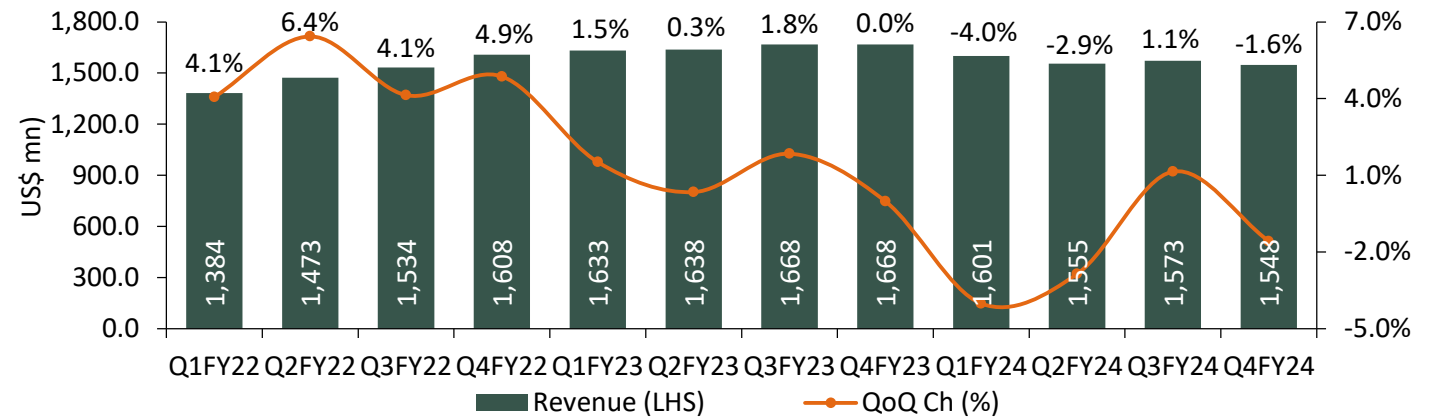
Source: Company, IDBI Capital Research

**Exhibit 3: Earnings Revision**

Year-end: March	FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	6,362	6600	-3.6%	6,869	7264	-5.4%
Revenue (Rs bn)	528.0	548	-3.6%	570.1	602.9	-5.4%
EBIT margin (%)	10.0%	12.0%	(195) bps	12.5%	13.40%	(94) bps
EPS (Rs/sh)	54.7	60	-8.8%	68.8	73.2	-6.0%

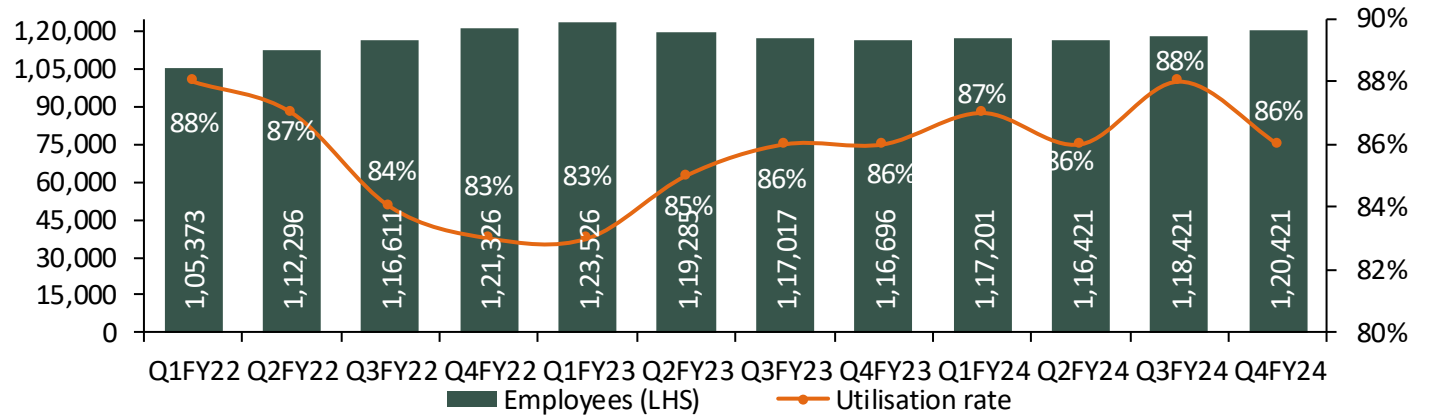
Source: Company; IDBI Capital Research

**Exhibit 4: Q4FY24 revenue growth was below our estimates**



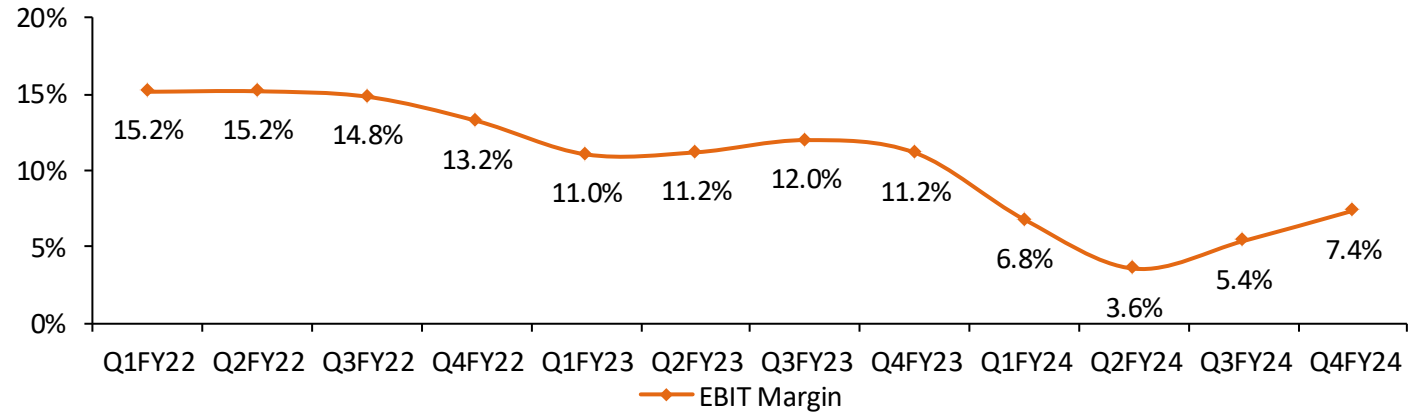
Source: Company; IDBI Capital Research

**Exhibit 5: Utilisation rate decreased to 86%**



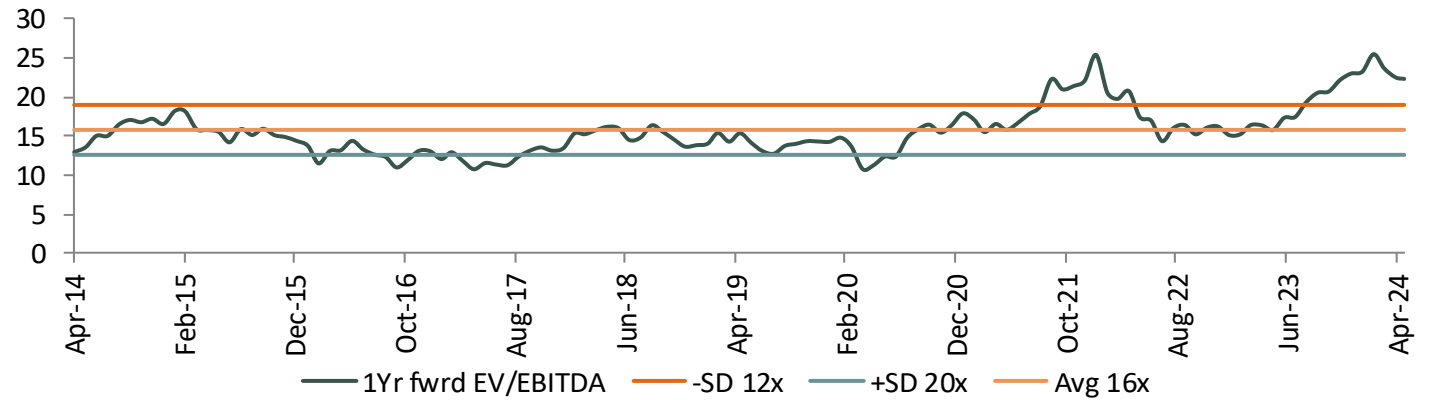
Source: Company; IDBI Capital Research

**Exhibit 6: EBIT Margin improved QoQ by 200bps**



Source: Company; IDBI Capital Research

**Exhibit 7: One-year forward PER trend**



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net sales</b>	<b>3,78,551</b>	<b>4,46,460</b>	<b>5,32,902</b>	<b>5,19,955</b>	<b>5,28,046</b>	<b>5,70,135</b>
<i>Change (yoy, %)</i>	2.7	18	19	(2)	2	8
Operating expenses	(3,10,080)	(3,66,261)	(4,52,616)	(4,70,309)	(4,56,892)	(4,78,619)
<b>EBITDA</b>	<b>68,471</b>	<b>80,200</b>	<b>80,286</b>	<b>49,646</b>	<b>71,154</b>	<b>91,516</b>
<i>Change (yoy, %)</i>	19.6	17	0	(38)	43	29
<i>Margin (%)</i>	18.1	18.0	15.1	9.5	13.5	16.1
Depreciation	(14,577)	(15,204)	(19,567)	(19,666)	(18,094)	(20,500)
<b>EBIT</b>	<b>53,894</b>	<b>64,996</b>	<b>60,719</b>	<b>29,980</b>	<b>53,060</b>	<b>71,017</b>
Interest paid	(1,740)	(1,626)	(3,256)	(3,922)	(2,340)	(2,340)
Other income	7,871	11,123	9,650	9,169	13,200	11,600
<b>Pre-tax profit</b>	<b>60,025</b>	<b>74,493</b>	<b>64,743</b>	<b>35,227</b>	<b>63,920</b>	<b>80,277</b>
Tax	(15,999)	(18,220)	(15,885)	(8,276)	(15,341)	(19,266)
<i>Effective tax rate (%)</i>	26.7	24.5	24.5	23.5	24.0	24.0
Minority Interest	255.0	(612.0)	(547.0)	(285.0)	(284.0)	(284.0)
<b>Net profit</b>	<b>43,774</b>	<b>55,661</b>	<b>48,311</b>	<b>26,666</b>	<b>48,296</b>	<b>60,726</b>
Exceptional items	-	-	(2,370)	-	-	-
<b>Adjusted net profit</b>	<b>44,788</b>	<b>55,661</b>	<b>50,681</b>	<b>26,666</b>	<b>48,296</b>	<b>60,726</b>
<i>Change (yoy, %)</i>	5.4	24	(9)	(47)	81	26
EPS	51.2	63.4	57.6	30.3	54.9	69.0
Dividend per sh	45.0	45.0	50.0	40.0	45.0	55.0
<i>Dividend Payout %</i>	87.8	71.0	86.8	132	82	80



**Balance Sheet**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E*	FY25E	FY26E
<b>Shareholders' funds</b>	<b>2,48,650</b>	<b>2,68,857</b>	<b>2,79,245</b>	<b>2,70,711</b>	<b>2,79,407</b>	<b>2,91,733</b>
Share capital	4,370	4,388	4,400	4,400	4,400	4,400
Reserves & surplus	2,44,280	2,64,469	2,74,845	2,66,311	2,75,007	2,87,333
<b>Total Debt</b>	<b>16,928</b>	<b>15,817</b>	<b>15,782</b>	<b>13,782</b>	<b>11,782</b>	<b>9,782</b>
Other liabilities	19,027	31,572	27,523	27,523	27,523	27,523
<b>Curr Liab &amp; prov</b>	<b>1,07,619</b>	<b>1,22,955</b>	<b>1,31,020</b>	<b>1,51,869</b>	<b>1,51,280</b>	<b>1,62,261</b>
Current liabilities	71,051	93,494	96,998	1,02,010	1,00,646	1,07,591
Provisions	36,568	29,461	34,022	49,859	50,635	54,670
<b>Total liabilities</b>	<b>1,43,574</b>	<b>1,70,344</b>	<b>1,74,325</b>	<b>1,93,174</b>	<b>1,90,585</b>	<b>1,99,566</b>
<b>Total equity &amp; liabilities</b>	<b>3,96,019</b>	<b>4,44,155</b>	<b>4,58,272</b>	<b>4,68,872</b>	<b>4,75,263</b>	<b>4,96,854</b>
Net fixed assets	80,405	1,39,318	1,38,792	1,34,126	1,31,032	1,25,532
Investments	6,648	5,276	6,797	6,797	6,797	6,797
Other non-curr assets	56,367	55,004	68,356	68,356	68,356	68,356
<b>Current assets</b>	<b>2,52,599</b>	<b>2,44,557</b>	<b>2,44,327</b>	<b>2,59,593</b>	<b>2,69,078</b>	<b>2,96,169</b>
Inventories	242	405	236	230	234	252
Sundry Debtors	90,317	1,19,334	1,28,816	1,39,604	1,41,777	1,53,077
Cash and Bank	1,24,971	84,104	70,379	74,993	81,606	93,754
Loans and advances	29,331	33,964	39,897	39,887	40,508	43,736
<b>Total assets</b>	<b>3,96,019</b>	<b>4,44,155</b>	<b>4,58,272</b>	<b>4,68,872</b>	<b>4,75,263</b>	<b>4,96,854</b>

\*Figures are estimated, awaiting annual report

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E*	FY25E	FY26E
Pre-tax profit	60,025	74,493	64,743	35,227	63,920	80,277
Depreciation	14,577	15,204	19,567	19,666	18,094	20,500
Tax paid	(16,284)	(13,487)	(21,950)	(8,276)	(15,341)	(19,266)
Chg in working capital	(11,266)	(18,477)	(7,181)	10,076	(3,385)	(3,567)
Other operating activities	58,648	14,183	(3,520)	121	(76)	(395)
<b>Cash flow from operations (a)</b>	<b>1,05,700</b>	<b>71,916</b>	<b>51,659</b>	<b>56,814</b>	<b>63,213</b>	<b>77,548</b>
Capital expenditure	(18,935)	(74,117)	(19,041)	(15,000)	(15,000)	(15,000)
Chg in investments	(2,844)	1,372	(1,521)	-	-	-
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(21,779)</b>	<b>(72,745)</b>	<b>(20,562)</b>	<b>(15,000)</b>	<b>(15,000)</b>	<b>(15,000)</b>
Equity raised/(repaid)	11	18	12	-	-	-
Debt raised/(repaid)	(7,354)	(1,111)	(35)	(2,000)	(2,000)	(2,000)
Dividend (incl. tax)	(39,330)	(39,492)	(44,000)	(35,200)	(39,600)	(48,400)
Chg in minorities	117	547	(799)	-	-	-
Other financing activities	-	-	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(46,556)</b>	<b>(40,038)</b>	<b>(44,822)</b>	<b>(37,200)</b>	<b>(41,600)</b>	<b>(50,400)</b>
<b>Net chg in cash (a+b+c)</b>	<b>37,365</b>	<b>(40,867)</b>	<b>(13,725)</b>	<b>4,614</b>	<b>6,613</b>	<b>12,148</b>

\*Figures are estimated, awaiting annual report

### Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	284.5	306	317	308	318	332
Adj EPS (Rs)	51.2	63.4	57.6	30.3	54.9	69.0
Adj EPS growth (%)	5.1	24	-9	-47	81	26
EBITDA margin (%)	18.1	18.0	15.1	9.5	13.5	16.1
Pre-tax margin (%)	15.9	16.7	12.1	6.8	12.1	14.1
Net Debt/Equity (x)	-0.4	-0.3	-0.2	-0.2	-0.2	-0.3
ROCE (%)	19.4	21	19	9	17	21
ROE (%)	19.2	22	18	10	18	21
<b>DuPont Analysis</b>						
Asset turnover (x)	1.0	1.1	1.2	1.1	1.1	1.1
Leverage factor (x)	1.6	1.6	1.6	1.7	1.7	1.7
Net margin (%)	11.8	12.5	9.5	5.1	9.1	10.7
<b>Working Capital &amp; Liquidity ratio</b>						
Inventory days	0	0	0	0	0	0
Receivable days	87	98	88	98	98	98
Payable days	33	41	35	34	34	34

### Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	23	19	21	39	22	17
Price/Book value (x)	4.2	3.9	3.8	3.9	3.7	3.6
EV/Net sales (x)	2	2	2	2	2	2
EV/EBITDA (x)	14	12	12	20	14	11
Dividend Yield (%)	3.8	3.8	4.2	3.4	3.8	4.6

Source: Company; IDBI Capital Research



# Notes

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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