

## Tech Mahindra (TECHM)

HOLD

New laid strategies showing its way to growth

## Summary

Tech Mahindra (TechM) reported above estimate numbers in Q1FY25 with 0.7% growth QoQ. Going forward the company believes that Q2 would show improved results on the back of laid down strategies such as Investing in verticals (Manufacturing & BFSI) & markets(US, UK & APJ), client mining and building competencies (AI & Gen AI, trained 25000 employees) . Further, the company also emphasizes on building service line capabilities and partnership with hyper-scalers and ISVS. We believe, the company has put-forth the way for growth via these operational & growth led strategies. However, we expect turnaround period to get increased due to upcoming softness due to seasonality. Also, we believe execution is the key, hence, we maintain our Hold rating with revising our target price to Rs. 1,512 (24x FY26E EPS) v/s Rs 1,265.

## 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.

TP	Rs1,512
<b>CMP</b>	<b>Rs1,530</b>
Potential upside/downside	-1%
Previous Rating	HOLD

## Price Performance (%)

	-1m	-3m	-12m
Absolute	7.1	28.6	32.6
Rel to Sensex	4.6	20.9	12.0

## V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	49	63
Consensus	48	65
% difference	3.1	(3.1)

## Key Stock Data

Bloomberg/Reuters	TECHM IN/TEML.BO
Sector	IT Services
Shares o/s (mn)	978
Market cap. (Rs mn)	1,496,672
3-m daily average value (Rs mn)	137.1
52-week high / low	Rs1,547 / 1,083
Sensex / Nifty	80,040 / 24,406

## Shareholding Pattern (%)

Promoters	35.1
FII	23.3
DII	29.3
Public	12.3

## Financial snapshot

(Rs mn)

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	4,46,460	5,32,902	5,19,955	5,19,632	5,55,081
Change (yoy, %)	18	19	(2)	(0)	7
EBITDA	80,200	80,286	49,646	66,781	85,933
Change (yoy, %)	17	0	(38)	35	29
EBITDA Margin(%)	18.0	15.1	9.5	12.9	15.5
Adj.PAT	55,661	50,681	26,666	42,841	55,516
EPS (Rs)	63	58	30	49	63
Change (yoy, %)	23.8	(9.2)	(47.5)	61	30
PE(x)	24	27	51	32	24
Dividend Yield (%)	2.9	3.3	2.6	3	4
EV/EBITDA (x)	16	16	26	19	15
RoE (%)	21.5	18.5	9.8	16	20
RoCE (%)	21.3	18.7	9	16	21

Source: IDBI Capital Research;

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### Con-call Highlights

- Revenue for the quarter stood at \$1,559 mn up by 0.7% QoQ & down 2.6% YoY in reported terms; in CC terms up by 0.7% QoQ & 1.2% YoY. The growth was broad based across the verticals except Communication which de-grew by 1.9%/9.9% QoQ/YoY due to seasonally weak quarter & Others down by 5.2%/5.5% QoQ/YoY.
- Growth during the quarter was led by Healthcare & life-science (up 7.9% QoQ), Retail & logistics (up by 5.2% QoQ) and manufacturing (up by 2.4%) while, BFSI & Technology remained flattish to slightly positive. Geo-wise, growth was majorly driven by Americas (up 3.9% QoQ) while, Europe was down by 2.6% and Row was down 2.7% QoQ.
- On the margins front, EBIT margin for the quarter was 8.5%, expansion of 110bps QoQ. This positive expansion was led by operational efficiency and project fortius panning out which was offset by impact on comm-viva revenue & margins and visa costs.
- During the quarter, New deal wins stood at US\$534 mn up 7% QoQ & 49% YoY. These wins were broad based across markets of US, Europe & APJ.
- **Demand Environment:** Company expects demand environment to continue to remain at the same levels at Q4FY24 (improved slightly). For BFSI, expects to remain stable; Telecom vertical to improve in the long run, Transport (Aerospace) to remain challenging. Management expects good growth in North America
- Company launched TechM VerifyAI which is a comprehensive Gen AI validation solution for enterprises globally. This AI framework would be helpful for assessing, auditing, and certifying AI solutions across various domains and use cases.
- **Guidance:** Company has envisaged FY25 to be better than FY24 on revenue growth and margins front. Also, re-iterated margin to improve over the quarters by leveraging utilization, cost optimization, lowering sub-con costs and maintain the offshore rate.
- Headcount stood at at 147,620 up 1.5% QoQ, with attrition at 10% and utilization at 86%. Company has trained around 25000 employees on AI led pair programming skills.

## Exhibit 1: Financial snapshot

(Rs mn)

Year-end: March	Q1FY25	Q4FY24	QoQ (%)	Q1FY24	YoY (%)
<b>Revenues (US\$ mn)</b>	<b>1,559</b>	<b>1,548</b>	<b>0.7</b>	<b>1,601</b>	<b>(2.6)</b>
<b>Revenues</b>	<b>1,30,055</b>	<b>1,28,713</b>	<b>1.0</b>	<b>1,31,590</b>	<b>(1.2)</b>
COGS	95,532	93,941	1.7	97,805	(2.3)
Gross profit	34,523	34,772	(0.7)	33,785	2.2
SG&A	18,878	20,694	(8.8)	20,405	(7.5)
<b>EBITDA</b>	<b>15,645</b>	<b>14,078</b>	<b>11.1</b>	<b>13,380</b>	<b>16.9</b>
Depreciation & amortization	4,622	4,614	0.2	4,466	3.5
<b>EBIT</b>	<b>11,023</b>	<b>9,464</b>	<b>16.5</b>	<b>8,914</b>	<b>23.7</b>
Other income	732	3,150	(76.8)	720	1.7
PBT	11,781	12,614	(6.6)	9,634	22.3
Tax	3,133	2,949	6.2	2,676	17.1
Minority interest	-133	32	n.m.	-33	n.m.
<b>Adjusted net profit</b>	<b>8,515</b>	<b>9,697</b>	<b>(12.2)</b>	<b>6,925</b>	<b>23.0</b>
Exceptional items	0	3,087	n.m.	0	n.m.
<b>Reported net profit</b>	<b>8,515</b>	<b>6,610</b>	<b>28.8</b>	<b>6,925</b>	<b>23.0</b>
<b>Reported EPS (Rs.)</b>	<b>9.6</b>	<b>7.5</b>	<b>28.8</b>	<b>7.8</b>	<b>23.4</b>
<b>As % of net revenue</b>					
Gross profit	26.5	27.0		25.7	
SG&A	14.5	16.1		15.5	
EBITDA	12.0	10.9		10.2	
EBIT	8.5	7.4		6.8	
Reported net profit	6.5	5.1		5.3	
Tax rate	26.6	23.4		27.8	

Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. estimates**

Year to March	Q1FY25	Q1FY25E	Variance (%)
Revenue (US\$ mn)	1,559	1,540	1.2%
Revenue (Rs mn)	1,30,055	1,28,413	1.3%
EBIT (Rs mn)	11,023	13,106	-15.9%
EBIT margin (%)	8.5%	10.2%	(173) bps
Recurring PAT (Rs mn)	8,515	11,953	-28.8%
Recurring PAT margin (%)	6.55%	9.31%	(276) bps
Recurring EPS (Rs)	9.6	13.5	-28.5%

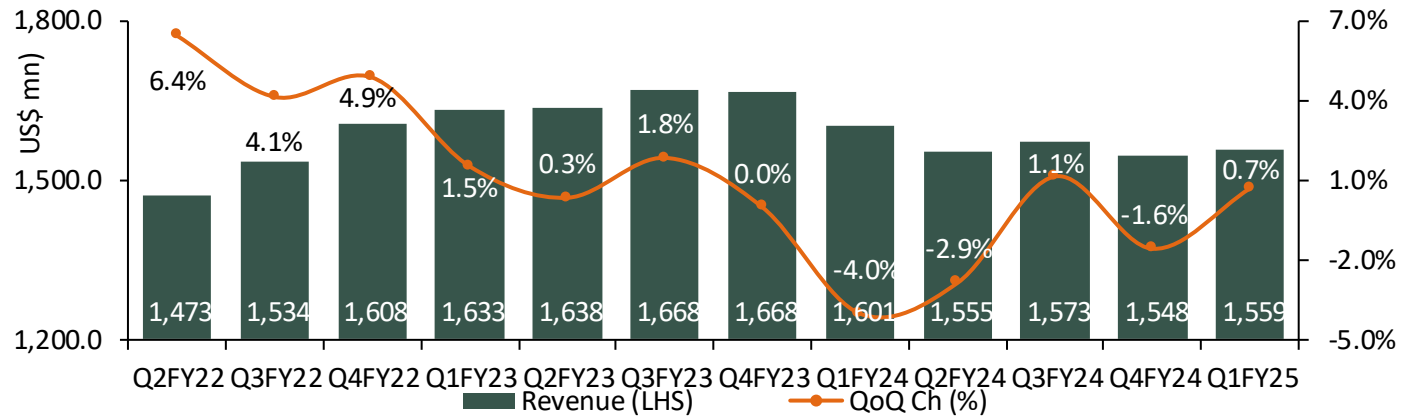
Source: Company, IDBI Capital Research

**Exhibit 3: Earnings Revision**

Year-end: March	FY25E			FY26E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue (US\$ mn)	6,245	6362	-1.8%	6,688	6869	-2.6%
Revenue (Rs bn)	519.6	528	-1.6%	555.1	570.1	-2.6%
EBIT margin (%)	9.4%	10.0%	(62) bps	11.8%	12.50%	(67) bps
EPS (Rs/sh)	48.8	55	-10.8%	63.3	68.8	-8.1%

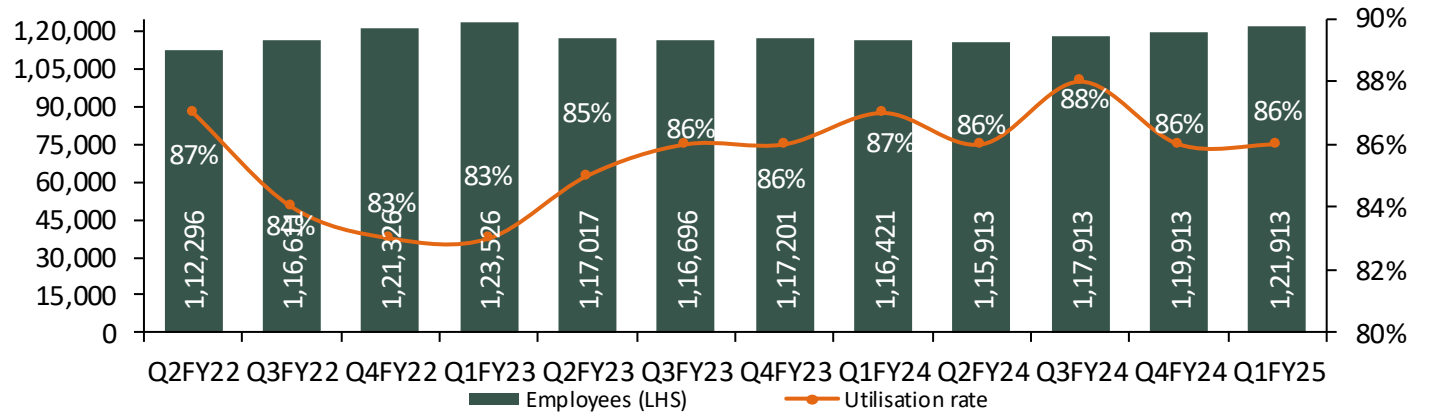
Source: Company; IDBI Capital Research

**Exhibit 4: Q1FY25 revenue growth was above our estimates**



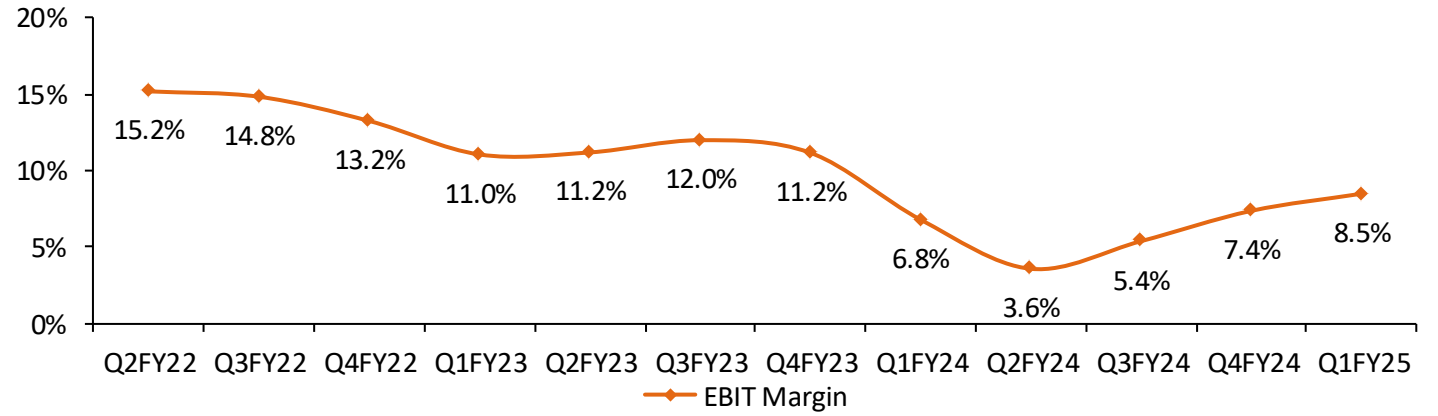
Source: Company; IDBI Capital Research

**Exhibit 5: Utilisation rate at 86%**



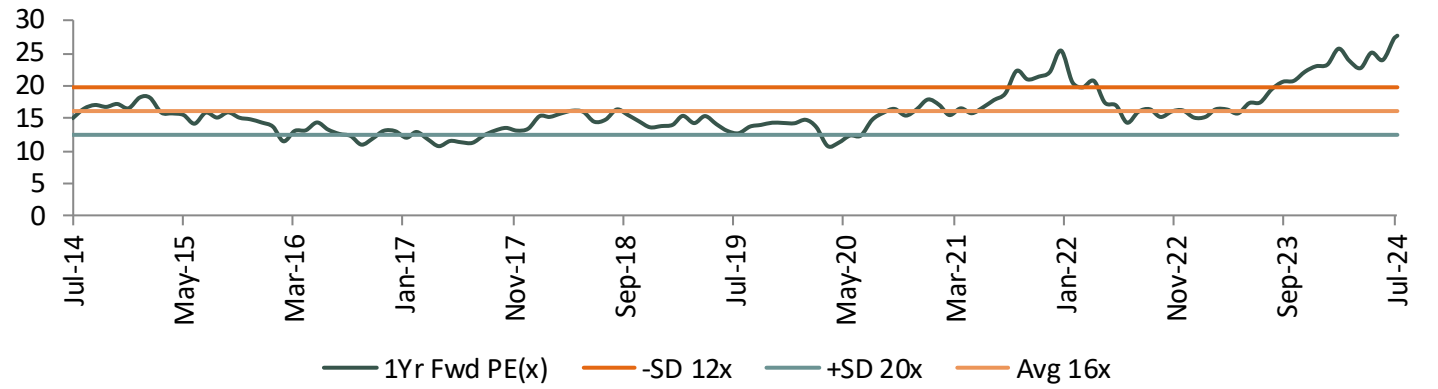
Source: Company; IDBI Capital Research

**Exhibit 6: EBIT Margin improved QoQ by 110bps**



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	FY24	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>5,19,632</b>	<b>5,55,081</b>
<i>Change (yoy, %)</i>	2.7	18	19	(2)	(0)	7
Operating expenses	(3,10,080)	(3,66,261)	(4,52,616)	(4,70,309)	(4,52,852)	(4,69,147)
<b>EBITDA</b>	<b>68,471</b>	<b>80,200</b>	<b>80,286</b>	<b>49,646</b>	<b>66,781</b>	<b>85,933</b>
<i>Change (yoy, %)</i>	19.6	17	0	(38)	35	29
<i>Margin (%)</i>	18.1	18.0	15.1	9.5	12.9	15.5
Depreciation	(14,577)	(15,204)	(19,567)	(19,666)	(18,032)	(20,273)
<b>EBIT</b>	<b>53,894</b>	<b>64,996</b>	<b>60,719</b>	<b>29,980</b>	<b>48,748</b>	<b>65,660</b>
Interest paid	(1,740)	(1,626)	(3,256)	(3,922)	(2,860)	(2,860)
Other income	7,871	11,123	9,650	9,169	11,347	11,600
<b>Pre-tax profit</b>	<b>60,025</b>	<b>74,493</b>	<b>64,743</b>	<b>35,227</b>	<b>57,235</b>	<b>74,400</b>
Tax	(15,999)	(18,220)	(15,885)	(8,276)	(14,048)	(18,600)
<i>Effective tax rate (%)</i>	26.7	24.5	24.5	23.5	24.5	25.0
Minority Interest	255.0	(612.0)	(547.0)	(285.0)	(346.0)	(284.0)
<b>Net profit</b>	<b>43,774</b>	<b>55,661</b>	<b>48,311</b>	<b>26,666</b>	<b>42,841</b>	<b>55,516</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>42,841</b>	<b>55,516</b>
<i>Change (yoy, %)</i>	5.4	24	(9)	(47)	61	30
EPS	51.2	63.4	57.6	30.2	48.5	62.9
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	93	87

**Balance Sheet**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Shareholders' funds</b>	<b>2,48,650</b>	<b>2,68,857</b>	<b>2,79,245</b>	<b>2,66,694</b>	<b>2,69,818</b>	<b>2,76,791</b>
Share capital	4,370	4,388	4,400	4,413	4,413	4,413
Reserves & surplus	2,44,280	2,64,469	2,74,845	2,62,281	2,65,405	2,72,378
<b>Total Debt</b>	<b>16,928</b>	<b>15,817</b>	<b>15,782</b>	<b>15,310</b>	<b>13,310</b>	<b>11,310</b>
Other liabilities	19,027	31,572	27,523	20,528	20,528	20,528
<b>Curr Liab &amp; prov</b>	<b>1,07,619</b>	<b>1,22,955</b>	<b>1,31,020</b>	<b>1,24,185</b>	<b>1,48,560</b>	<b>1,57,706</b>
Current liabilities	71,051	93,494	96,998	87,615	98,733	1,04,479
Provisions	36,568	29,461	34,022	36,570	49,828	53,227
<b>Total liabilities</b>	<b>1,43,574</b>	<b>1,70,344</b>	<b>1,74,325</b>	<b>1,60,023</b>	<b>1,82,398</b>	<b>1,89,544</b>
<b>Total equity &amp; liabilities</b>	<b>3,96,019</b>	<b>4,44,155</b>	<b>4,58,272</b>	<b>4,31,491</b>	<b>4,57,336</b>	<b>4,71,739</b>
Net fixed assets	80,405	1,39,318	1,38,792	1,30,044	1,27,012	1,21,738
Investments	6,648	5,276	6,797	5,296	5,296	5,296
Other non-curr assets	56,367	55,004	68,356	61,898	61,898	61,898
<b>Current assets</b>	<b>2,52,599</b>	<b>2,44,557</b>	<b>2,44,327</b>	<b>2,34,253</b>	<b>2,63,131</b>	<b>2,82,807</b>
Inventories	242	405	236	375	375	400
Sundry Debtors	90,317	1,19,334	1,28,816	1,14,011	1,39,518	1,49,035
Cash and Bank	1,24,971	84,104	70,379	75,149	79,060	86,179
Loans and advances	29,331	33,964	39,897	40,399	39,862	42,582
<b>Total assets</b>	<b>3,96,019</b>	<b>4,44,155</b>	<b>4,58,272</b>	<b>4,31,491</b>	<b>4,57,336</b>	<b>4,71,739</b>



**Cash Flow Statement**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	60,025	74,493	64,743	35,227	57,235	74,400
Depreciation	14,577	15,204	19,567	19,666	18,032	20,273
Tax paid	(16,284)	(13,487)	(21,950)	(10,223)	(14,048)	(18,600)
Chg in working capital	(11,266)	(18,477)	(7,181)	7,329	(594)	(3,117)
Other operating activities	58,648	14,183	(3,520)	97	(236)	(518)
<b>Cash flow from operations (a)</b>	<b>1,05,700</b>	<b>71,916</b>	<b>51,659</b>	<b>52,096</b>	<b>60,389</b>	<b>72,439</b>
Capital expenditure	(18,935)	(74,117)	(19,041)	(10,918)	(15,000)	(15,000)
Chg in investments	(2,844)	1,372	(1,521)	1,501	-	-
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(21,779)</b>	<b>(72,745)</b>	<b>(20,562)</b>	<b>(9,417)</b>	<b>(15,000)</b>	<b>(15,000)</b>
Equity raised/(repaid)	11	18	12	13	-	-
Debt raised/(repaid)	(7,354)	(1,111)	(35)	(472)	(2,000)	(2,000)
Dividend (incl. tax)	(39,330)	(39,492)	(44,000)	(35,304)	(39,717)	(48,543)
Chg in minorities	117	547	(799)	(213)	-	-
Other financing activities	-	-	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(46,556)</b>	<b>(40,038)</b>	<b>(44,822)</b>	<b>(35,976)</b>	<b>(41,717)</b>	<b>(50,543)</b>
<b>Net chg in cash (a+b+c)</b>	<b>37,365</b>	<b>(40,867)</b>	<b>(13,725)</b>	<b>6,703</b>	<b>3,672</b>	<b>6,896</b>

### Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	284.5	306	317	302	306	314
Adj EPS (Rs)	51.2	63.4	57.6	30.2	48.5	62.9
Adj EPS growth (%)	5.1	24	-9	-48	61	30
EBITDA margin (%)	18.1	18.0	15.1	9.5	12.9	15.5
Pre-tax margin (%)	15.9	16.7	12.1	6.8	11.0	13.4
Net Debt/Equity (x)	-0.4	-0.3	-0.2	-0.2	-0.2	-0.3
ROCE (%)	19.4	21	19	9	16	21
ROE (%)	19.2	22	18	10	16	20
<b>DuPont Analysis</b>						
Asset turnover (x)	1.0	1.1	1.2	1.2	1.2	1.2
Leverage factor (x)	1.6	1.6	1.6	1.6	1.7	1.7
Net margin (%)	11.8	12.5	9.5	5.1	8.2	10.0
<b>Working Capital &amp; Liquidity ratio</b>						
Inventory days	0	0	0	0	0	0
Receivable days	87	98	88	80	98	98
Payable days	33	41	35	29	33	34

### Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	30	24	27	51	32	24
Price/Book value (x)	5.4	5.0	4.8	5.1	5.0	4.9
EV/Net sales (x)	3	3	2	2	2	2
EV/EBITDA (x)	18	16	16	26	19	15
Dividend Yield (%)	2.9	2.9	3.3	2.6	2.9	3.6

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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