

Estimate change	↓
TP change	↓
Rating change	↔

CMP: INR1,004 TP: INR1,080 (+8%) Neutral

Expect FY24 growth to remain muted

Margin improvement likely to be hit by slower growth

Bloomberg	TECHM IN
Equity Shares (m)	919
M.Cap.(INRb)/(USD\$b)	978.3 / 12
52-Week Range (INR)	1256 / 914
1, 6, 12 Rel. Per (%)	-14/-8/-26
12M Avg Val (INR M)	3249

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	533	571	630
EBIT Margin (%)	11.4	11.7	12.9
Adj. PAT	51	53	64
EPS (INR)	57.3	59.8	72.1
EPS Gr. (%)	(8.6)	4.5	20.4
BV/Sh. (INR)	317.3	327.2	339.0

Ratios

RoE (%)	18.5	18.7	21.8
RoCE (%)	18.6	20.1	23.5
Payout (%)	87.3	85.0	85.0

Valuations

P/E (x)	17.4	16.7	13.9
P/BV (x)	3.2	3.1	3.0
EV/EBITDA (x)	10.7	9.9	8.5
Div Yield (%)	5.0	5.1	6.1

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	35.2	35.2	35.3
DII	26.0	24.1	18.2
FII	26.9	28.0	34.3
Others	11.9	12.7	12.3

FII Includes depository receipts

- Tech Mahindra (TECHM)'s 4QFY23 revenue of USD1.67b rose 0.3% QoQ in CC, a tad ahead of our estimates of 0.7% decline. Retail (-10% QoQ) dragged 4QFY23 growth. EBIT margin was down 80bp QoQ to 11.2% (v/s estimate of 11.9%). The company delivered weak TCV of USD593m, down 25% QoQ.
- Weak macro environment, delayed decision making and cuts in discretionary spends hit 4QFY23 growth. Management indicated that the situation is likely to remain so in 1HFY24 before picking up in 2HFY24E.
- We see muted growth (4.7% CC) for FY24E given the low deal wins, poor exit to FY23 and likely weakness in 1HFY24. With macro stabilizing over 2HFY24E and pick up in 5G spends, we are factoring in FY25E USD CC growth of 10.1%. Overall, we expect TECHM to deliver 7.8% USD CAGR over FY23-25.
- On margins front, poor 4Q exit and slow growth to limit margin pick up in FY24E despite continued efforts from the company to revert closer to 14%. We see FY24E/FY25E margins at 11.7%/12.9% led by 4QFY23 miss and continued macro pressure. This should result in FY23-25E PAT CAGR of 12% despite the low FY23 base (PAT decline of 8.9%).
- While we expect a potential for performance improvement post the leadership refresh of TECHM in Jun'23, we believe this will take time given the macro headwinds and limited flexibility to invest in growth because of weak current profitability.
- We remain on the sidelines as we feel the current valuation fairly factors in the uncertainties around growth and margin. We cut our FY24/FY25 EPS estimates on weaker margin and muted outlook. **We remain Neutral on the stock with a TP of INR1,080. Our TP implies 15x FY25E EPS.**

Miss on margins, further decline in headcount

- TECHM's revenue grew 0.3% QoQ in CC to USD1.67b v/s our estimate of 0.7% QoQ CC decline.
- For FY23, USD revenue grew 10% YoY, while INR EBIT and INR PAT declined 7% and 9% YoY, respectively.
- FY23 FCF-to-PAT conversion was at 84%. Cash and investments stood at USD905m.
- EBIT margin was down 80bp QoQ/200bp YoY to 11.2% (v/s est. of 11.9%).
- Adjusted PAT rose 2.6% QoQ to INR13.3b, above our estimate of INR13.0b.

Key highlights from the management commentary

- The macro environment remains weak; TECHM is seeing slower decision-making for projects, and cuts in discretionary spending.
- TECHM expects macro environment to remain weak and clients to maintain caution in 1HFY24 before recovering in 2HFY24.
- Some of the discretionary spends and transformation projects are going through additional lenses before getting released.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- Margin levers include normalizing sub-contractor expenses, offshoring, divesting non-strategic assets, automation, pyramid optimization and large deals maturing.

Valuation and view

- Although its current performance remains muted, TECHM's high exposure to the Communications vertical offers a potential opportunity, as a broader 5G rollout can result in a new spending cycle in this space.
- Near-term growth remains weak and we await greater comfort on margins. We value the stock at 15x FY25E EPS. **We maintain our Neutral rating on the stock.**

Quarterly performance

Y/E March	FY22				FY23				FY22	FY23	FY23	(INR b)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4Q	Var. (%/bp)
Revenue (USD m)	1,384	1,473	1,534	1,608	1,633	1,638	1,668	1,668	5,998	6,607	1,673	-0.3
QoQ (%)	4.1	6.4	4.1	4.9	1.5	0.3	1.8	0.0	17.4	10.1	0.3	-35bp
Revenue (INR b)	102	109	115	121	127	131	137	137	446	533	138	-0.3
YoY (%)	12.0	16.1	18.7	24.5	24.6	20.7	19.9	13.2	17.9	19.4	13.6	-33bp
GPM (%)	31.7	31.7	30.1	29.3	28.3	27.9	28.7	28.9	30.6	28.5	28.5	49bp
SGA (%)	13.3	13.3	12.1	12.1	13.5	12.8	13.1	14.2	12.7	13.4	13.0	121bp
EBITDA	19	20	21	21	19	20	21	20	80	80	21	-4.9
EBITDA Margin (%)	18.4	18.3	18.0	17.2	14.8	15.1	15.6	14.7	18.0	15.1	15.5	-72bp
EBIT	15	17	17	16	14	15	16	15	65	61	16	-6.1
EBIT Margin (%)	15.2	15.2	14.8	13.2	11.0	11.4	12.0	11.2	14.6	11.4	11.9	-69bp
Other income	2	2	2	3	1	2	1	2	10	6	2	18.6
ETR (%)	23.9	29.4	26.9	17.5	22.8	21.4	27.3	22.9	24.4	23.7	26.5	-355bp
Adj. PAT	14	13	14	15	11	13	13	13	56	51	13	2.0
QoQ (%)	11.7	-1.1	2.2	10.0	-24.9	15.8	-1.0	2.6			0.7	197bp
YoY (%)	39.2	25.7	4.5	24.3	-16.4	-2.2	-5.3	-11.6	22.1	-8.9	-13.3	169bp
Extra-Ordinary Item	0.0	0.0	0.0	0.0	0.0	-0.2	0.0	-2.1	0.0	-2.4	0.0	
Reported PAT	14	13	14	15	11	13	13	11	56	48	13	-14.3
EPS (INR)	15.3	15.1	15.5	16.9	12.8	14.8	14.7	15.0	62.6	57.3	14.7	2.0

E: MOFSL estimates

Key performance indicators

Y/E March	FY22				FY23				FY22	FY23
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue (QoQ CC %)	3.9	7.2	4.7	5.4	3.5	2.9	0.2	0.3		
Margins (%)										
Gross Margin	31.7	31.7	30.1	29.3	28.3	27.9	28.7	28.9	30.6	28.5
EBITDA margin	18.4	18.3	18.0	17.2	14.8	15.1	15.6	14.7	18.0	15.1
EBIT Margin	15.2	15.2	14.8	13.2	11.0	11.4	12.0	11.2	14.6	11.4
Net Margin	13.3	12.3	12.0	12.4	8.9	10.0	9.4	9.7	12.5	9.5
Operating Metrics										
Headcount (k)	126	141	145	151	158	164	157	152	151	152
Utilization excl. trainees (%)	89.0	89.0	86.0	84.0	83.0	85.0	86.0	86.0	87.0	85.0
Attrition (%)	17.0	21.0	24.0	24.0	22.0	20.0	17.0	15.0	24.0	15.0
Deal TCW (USD m)	815	750	704	1011	802	716	795	592	3,280	2,905
Key Verticals (QoQ %)										
Communication	3.1	6.7	6.2	4.1	1.0	-1.4	2.1	0.7	17.2	9.0
Enterprise	4.7	6.3	2.7	5.4	1.8	1.5	1.7	-0.5	17.5	10.9
Key Geographies (QoQ %)										
North America	6.8	8.9	6.5	3.6	4.2	2.8	-0.4	-0.2	18.6	14.6
Europe	6.8	1.3	2.5	8.6	-2.0	-3.6	1.4	3.6	18.5	4.7



Highlights from the management commentary

Demand and industry outlook

- TECHM posted a muted revenue growth of 0.3% QoQ in CC terms in 4QFY23 due to weak macro and cuts in discretionary spending.
- TECHM saw net new deal wins of USD593m (TCV) in 4QFY23. The clients remained cautious on spending.
- The macro environment remains weak; TECHM is seeing slower decision-making for projects, and cuts in discretionary spending.
- The Communications vertical continues to benefit from 5G rollout. There are good opportunities in this space.
- TECHM expects macro environment to remain weak and clients to maintain caution in 1HFY24 before recovering in 2HFY24E.
- Some of the discretionary spends and transformation projects are going through additional lenses before getting released.
- TECHM is seeing positive conversations around modernization, transformation and cost take-out projects. Though there will be some delays, it is confident of conversions.
- 5G penetration is still low, clients will continue to spend. TECHM continues to see opportunity in this space.
- Based on client conversations, the company expects deal momentum for FY24 to be similar to FY23.

Margin performance

- Margin dropped 80bp in 4QFY23. Headwinds included Forex (60bp) and higher SG&A spends (90bp) partly offset by tailwind from the reduction in subcontractor expenses (70bp).
- Margin levers include normalizing sub-contractor expenses, offshoring, divesting non-strategic assets, automation, pyramid optimization and large deals maturing.
- Expect SG&A expenses to be around 13.5% of revenue for FY24. Offshoring has got a good headroom to improve margins.
- The company sees limited opportunity on pricing for FY24. Pricing realized in FY23 will flow through in FY24.
- TECHM will stagger wage hikes over FY24E as suitable.

Others

- TECHM is seeing good internal fulfillment rates and the attrition remains low.
- DSO reduced by two days sequentially to 96 days in 4QFY23.
- Cash and investments stood at USD905m in 4QFY23.
- The FCF-to-PAT conversion for full year FY23 was at 84%.

Exhibit 1: Retail dragged the growth in 4QFY23

Verticals	Contribution to revenue (%)	Growth (QoQ %)
Comm., Media, and Ent.	40.1	0.7
Manufacturing	15.9	1.2
Technology	10.3	0.0
BFSI	15.9	0.0
Retail, Transport, and Logistics	7.6	-10.6
Others	10.2	4.0

Exhibit 2: Europe was strong in 4QFY23

Geographies	Contribution to revenue (%)	Growth (QoQ %)
Americas	49.6	-0.2
Europe	25.3	3.6
Rest of the World	25.1	-3.1

Valuation and view

- Although its current performance remains muted, TECHM's high exposure to the Communications vertical offers a potential opportunity, as a broader 5G rollout can result in a new spending cycle in this space.
- Near-term growth remains weak and we await greater comfort on margins. We value the stock at 15x FY25E EPS. **We maintain our Neutral rating on the stock.**

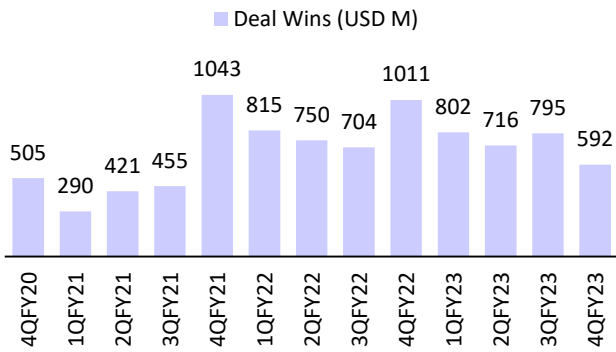
Exhibit 3: Revisions to our estimates

	Revised estimate		Earlier estimate		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
USD:INR	82.0	82.0	82.5	82.5	-0.6%	-0.6%
Revenue (USD m)	6,963	7,681	6,995	7,649	-0.5%	0.4%
Growth (%)	5.4	10.3	5.8	9.3	-40bps	100bps
EBIT margin (%)	11.7	12.9	12.1	13.3	-40bps	-40bps
PAT (INR b)	53	64	56	67	-5.3%	-4.5%
EPS	59.8	72.1	63.2	75.5	-5.3%	-4.5%

Source: MOFSL, Company

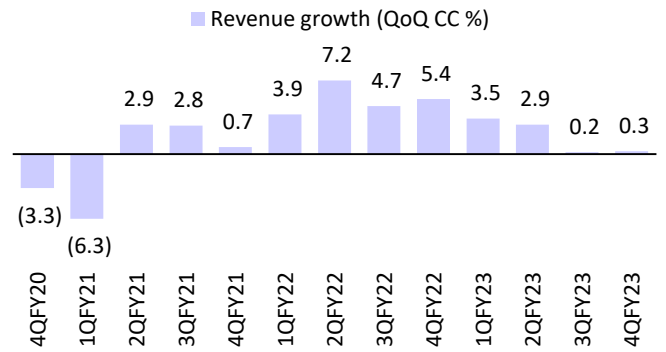
Story in charts

Exhibit 4: Deal wins remained soft in 4QFY23



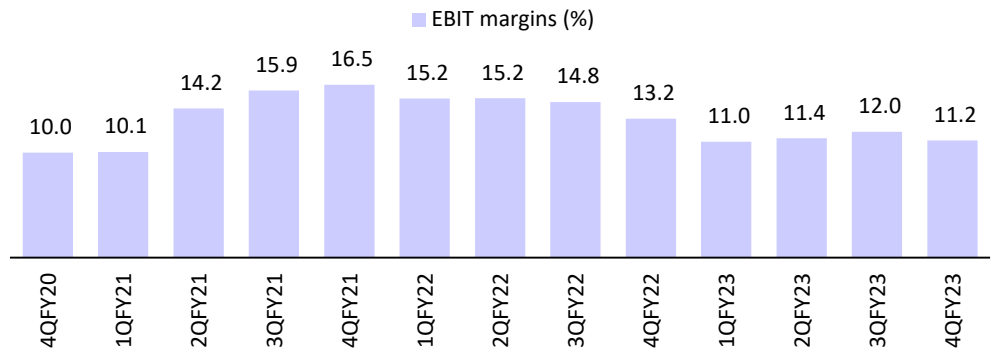
Source: Company, MOFSL

Exhibit 5: Revenue was largely flat QoQ CC in 4QFY23



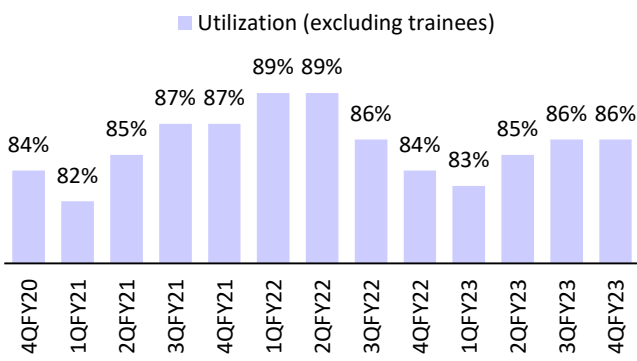
Source: Company, MOFSL

Exhibit 6: EBIT margin slipped to 11.2% in 4QFY23



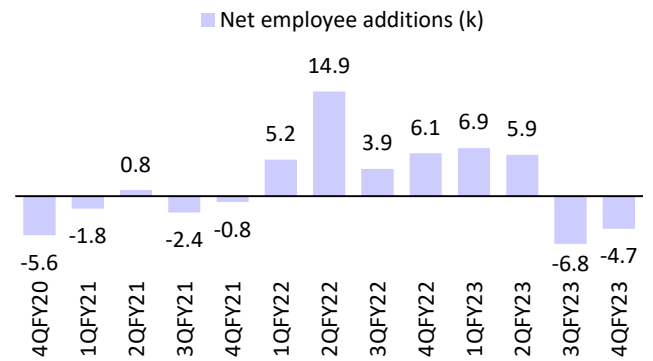
Source: Company, MOFSL

Exhibit 7: Utilization remained flat in 4QFY23



Source: Company, MOFSL

Exhibit 8: Headcount continued to decline



Source: Company, MOFSL

Exhibit 9: Operating metrics

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Revenue by Geography (%)									
Americas	45.5	46.7	47.8	48.9	48.3	49.6	50.8	49.7	49.6
Europe	26.5	27.2	25.9	25.5	26.4	25.5	24.5	24.4	25.3
Rest of the World	28.0	26.1	26.3	25.6	25.3	24.9	24.7	25.9	25.1
Client Metrics									
No. of active clients	1,007	1,058	1,123	1,191	1,224	1,262	1,279	1,290	1,297
As a percentage of repeat business	92.0	96.0	93.0	92.0	87.0	98.0	95.0	93.0	92.0
Number of clients (USD m)									
Over USD1m	451	466	488	502	524	549	562	574	582
Over USD5m	169	168	169	173	174	176	184	185	186
Over USD10m	85	86	90	96	97	104	108	109	112
Over USD20m	50	51	50	50	54	60	63	65	65
Over USD50m	21	22	22	22	23	23	23	24	24
Client concentration (%)									
Top five Clients	22.0	22.0	22.0	23.0	22.0	21.0	19.0	18.0	17.0
Top six to 10	9.0	9.0	9.0	8.0	9.0	9.0	9.0	9.0	9.0
Top 11-20	12.0	12.0	12.0	11.0	12.0	11.0	12.0	13.0	14.0
Headcount									
Software professionals	68,427	69,877	76,800	81,115	85,830	88,030	86,776	84,874	83,789
BPO	46,125	49,668	57,058	56,297	57,315	61,392	68,388	63,568	60,102
Sales and support	6,502	6,718	7,335	7,655	8,028	8,613	8,748	8,626	8,509
Total	1,21,054	1,26,263	1,41,193	1,45,067	1,51,173	1,58,035	1,63,912	1,57,068	1,52,400
IT Attrition (LTM %)	13	17	21	24	24	22	20	17	15
IT Utilization (%)	87	88	87	84	83	83	85	86	86
IT Utilization (excluding trainees)	87	89	89	86	84	83	85	86	86
DSO including unbilled	92	93	92	101	97	101	98	98	96
Borrowings (USD m)	232.0	218.0	206.0	210.0	209.0	220.0	207.0	212.0	192.0
Cash and Cash Equivalent (USD m)	1,781.0	1,818.0	1,626.0	1,346.0	1,140.7	1,114.0	947.0	780.0	905.0
Capital Expenditure (USD m)	20.0	22.0	23.0	26.0	46.0	20.0	19.0	31.0	32.0

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR b)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Sales	308	347	369	379	446	533	571	630
Change (%)	5.6	12.9	6.1	2.7	17.9	19.4	7.1	10.3
COGS	215	234	260	259	310	381	406	441
SGA expenses	45	50	52	52	57	71	77	85
Total Expenses	261	284	311	310	366	453	483	526
EBITDA	47	63	57	68	80	80	88	104
As a percentage of Net Sales	15.3	18.2	15.5	18.1	18.0	15.1	15.3	16.5
Depreciation	11	11	14	15	15	20	21	23
Other Income	12	3	10	6	10	6	6	6
PBT	49	55	53	60	75	67	73	87
Tax	11	13	12	15	18	16	19	23
Rate (%)	22.4	22.6	22.0	25.3	24.4	23.7	26.5	26.5
PAT	38	43	41	45	56	51	53	64
Minority interest	0	0	-1	-1	1	1	0	0
Share from associates	0	0	0	0	0	0	0	0
PAT before EO	38	43	43	46	56	51	53	64
Change (%)	33.9	13.1	-1.1	7.2	22.1	-8.9	4.5	20.4
Extraordinary Items (EO)	0	0	-2	-1	0	-2	0	0
Reported PAT	38	43	40	44	56	48	53	64
Change (%)	33.9	13.1	-6.2	9.8	25.7	-13.2	9.6	20.4

Balance Sheet							(INR b)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	4	4	4	4	4	4	4	4
Reserves	184	198	214	244	264	275	284	294
Net Worth	188	203	218	249	269	279	288	298
Minority Interest	5	5	4	4	5	5	5	5
Loans	17	14	24	17	16	16	16	16
Other long-term liabilities	12	9	28	28	36	31	32	35
Amount pending invest.	12	12	12	12	12	12	12	12
Capital Employed	235	243	287	309	338	343	353	366
Applications								
Assets	79	73	89	91	149	149	145	142
Investments	15	12	2	6	4	6	6	6
Other non-current assets	30	33	50	47	50	62	66	73
Curr. Assets	181	216	232	253	245	244	261	281
Debtors	65	70	76	65	75	81	88	97
Cash and Bank Balance	20	20	30	27	38	41	31	19
Investments	75	98	57	98	46	30	55	80
Other Current Assets	22	28	68	63	86	93	88	84
Current Liab. and Prov.	70	91	87	88	111	119	125	136
Net Current Assets	111	124	145	165	134	126	136	145
Application of Funds	235	243	287	309	338	343	353	366

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	43.0	48.5	48.7	52.1	63.2	57.6	60.2	72.5
Diluted EPS	42.7	47.7	48.3	51.7	62.6	57.3	59.8	72.1
Cash EPS	54.8	60.3	62.3	66.7	79.7	76.7	83.1	97.7
Book Value	213.4	228.7	249.9	284.4	305.2	317.3	327.2	339.0
DPS	14.0	14.0	15.0	45.0	45.0	50.0	50.9	61.3
Payout (%)	32.8	29.3	31.0	87.1	71.9	87.3	85.0	85.0
Valuation (x)								
P/E ratio	23.3	20.7	20.6	19.3	15.9	17.4	16.7	13.9
Cash P/E ratio	18.3	16.7	16.1	15.0	12.6	13.1	12.1	10.3
EV/EBITDA ratio	18.7	14.0	15.2	12.7	10.8	10.7	9.9	8.5
EV/Sales ratio	2.9	2.5	2.4	2.3	1.9	1.6	1.5	1.4
Price/Book Value	4.7	4.4	4.0	3.5	3.3	3.2	3.1	3.0
Dividend Yield (%)	1.4	1.4	1.5	4.5	4.5	5.0	5.1	6.1
Profitability Ratios (%)								
RoE	21.5	22.0	20.2	19.5	21.5	18.5	18.7	21.8
RoCE	17.2	22.8	17.3	19.3	21.0	18.6	20.1	23.5
Turnover Ratios								
Debtors (Days)	77	73	75	62	61	56	56	56
Fixed Asset Turnover (x)	3.9	4.7	4.1	4.1	3.0	3.6	3.9	4.4
Leverage Ratio								
Debt/Equity Ratio (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR b)								
CF from Operations	43	55	49	65	67	74	74	87
Change in Working Capital	-8	-11	-5	16	-14	-18	2	0
Net Operating CF	36	44	44	81	53	56	76	87
Net Purchase of FA	-8	-8	-8	-6	-8	-10	-16	-20
Free Cash Flow	28	37	35	75	45	46	60	67
Net Purchase of Invest.	-26	-13	19	-49	13	7	-25	-25
Net Cash from Invest.	-34	-21	10	-55	5	-3	-41	-45
Inc./ (Dec.) in Equity	0	0	0	1	1	0	0	0
Proceeds from LTB/STB	6	-6	-20	-13	-8	-9	0	0
Dividend Payments	-9	-17	-25	-18	-40	-43	-45	-54
Cash Flow from Fin.	-3	-23	-45	-30	-47	-51	-45	-54
Other adjustments	0	0	1	0	0	1	0	0
Net Cash Flow	0	1	10	-3	11	3	-10	-12
Opening Cash Balance	20	20	20	30	27	38	41	31
Add: Net Cash	0	1	10	-3	11	3	-10	-12
Closing Cash Balance	20	20	30	27	38	41	31	19

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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