

Tech Mahindra Limited



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Muted deals win, growth momentum to began from H2FY24

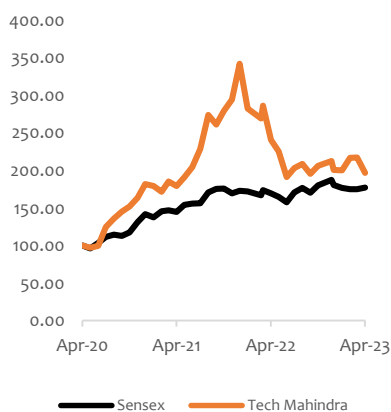
CMP INR 1024	Target INR 1207	Potential Upside 17.9%	Market Cap (INR Mn) INR 9,97,300	Recommendation BUY	Sector Internet Software & Services
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Synopsis

Tech Mahindra Ltd (TECHM) has received a net new deal win of USD 592 million and has a free cash flow for the quarter of USD 142 million. The revenue from operations has increased to INR 1,37,182 million in Q4FY23 from INR 1,21,163 million in Q4FY22, an increase of 13.22% YoY basis, and on QoQ basis it remained flat. The EBIT came at INR 13,178 million in Q4FY23 from INR 16,459 million in Q3FY23 showing a decline of 19.94% QoQ and a 13.42% decline on a YoY basis which was effected by higher SG&A expense. EBIT margins stood at 9.60%, declined by 238 bps QoQ/364 YoY. EPS for Q4FY23 stood at INR 12.62 versus INR 14.64 and INR 16.94 in Q3FY23 and Q4FY22 respectively. The concentration from the top 5 clients has declined to 17% in Q4FY23 from 22% in Q4FY22. The employee Attrition rate has significantly declined to 15% in Q4FY23 from 24% in Q4FY22 and 17% in Q3FY23. Utilization rate excluding trainees stood at 86% in Q4FY23 a marginal improvement from 84% in Q4FY22.

MARKET DATA

Shares outs (Mn)	974
Mkt Cap (INR Mn)	9,97,300
52 Wk H/L (INR)	1,297/944
Volume Avg (3m K)	3140.4
Face Value (INR)	5
Bloomberg Code	TECHM IN

SHARE PRICE PERFORMANCE

MARKET INFO

SENSEX	61,112
NIFTY	18,065

KEY FINANCIALS

(INR Mn)	Q4FY23A	Q3FY23A	Q4FY22A	QoQ	YoY
Revenue	1,37,182	137,346	121,163	-0.12%	13.22%
EBIT	13,178	16,459	16,042	-19.94%	-13.42%
PAT	11,250	12,853	15,453	-12.47%	-27.2%
EPS (Diluted)	12.62	14.64	16.94	-13.80%	-25.50%
OPM (%)	9.60%	11.98%	13.24%	-238 bps	-364 bps
NPM(%)	8.20%	9.44%	12.75%	-124 bps	-455 bps

Source: Company, KRChoksey Research

Technology segment witnesses moderate traction

TECHM has reported a revenue of USD 1,668 million in Q4FY23 from USD 1,608 million in Q4FY22, an increase of 3.7% on a YoY basis. The CC growth is 0.3% QoQ basis and 6.3% on a YoY basis. Manufacturing and technology recorded growth of 10.9% and 14.8% respectively on a YoY basis, while other segment showed single digit growth. BFSI declined by 5.1% on a YoY basis. Blockchain, metaverse and quantum computing are showing excellent response. Management guided to double up investment in technology and privatizing new geographies like Japan, Middle East etc. Moreover, TECHM has recently strengthened partnership with Microsoft to deliver telecom enterprise and operators to build LTE's and 5G networks. While digital transformation is being adopted across the globe, we expect higher demand from clients focusing on digitalisation to enhance their operational efficiency across the business segment.

Deal wins muted, improvement expected in H2:

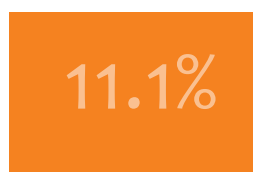
TECHM has received net new deal wins of USD 592 million in Q4FY23 against 795 in Q3FY23, a decline of 25.5% QoQ basis. For FY23, deals win stood at USD 3 billion. Deal closures this quarter were sparse as a result of clients deferring decisions. However, the company is certain that the client's project orders will start showing traction in H2FY24. In our view company has good opportunity in 5G implementation projects due to its skilled exposure in CME markets TECHM recently attained a USD 1 billion run rate in the 5G sector. The platform and product (P&P) currently generates \$450 million in annualised revenue, where the company anticipates a 30% CAGR over the next three years. Considering this, We expect greater deals will from H2FY24 onwards.

Margins to improve subsequently

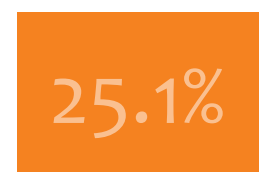
Management guided to expand margins by divesting non profitable business and improving revenue mix from new verticals. A rise in SG&A spend owing to higher than travel and amortisation costs in Q4FY23 caused a reduction in margins. This is expected to normalise in the coming quarters with SG&A expenses coming back in the range of 13%–13.5%. We anticipate further improvements in utilisation as the attrition rate declines sequentially.

SHARE HOLDING PATTERN (%)

Particulars	Mar-23	Dec-22	Sept-22
Promoters	35.2	35.2	35.2
FII's	26.9	28.0	28.2
DII's	25.8	23.9	23.8
Others	12.1	12.9	12.8
Total	100	100	100



Revenue CAGR between FY23 and FY25E



PAT CAGR between FY23 and FY25E

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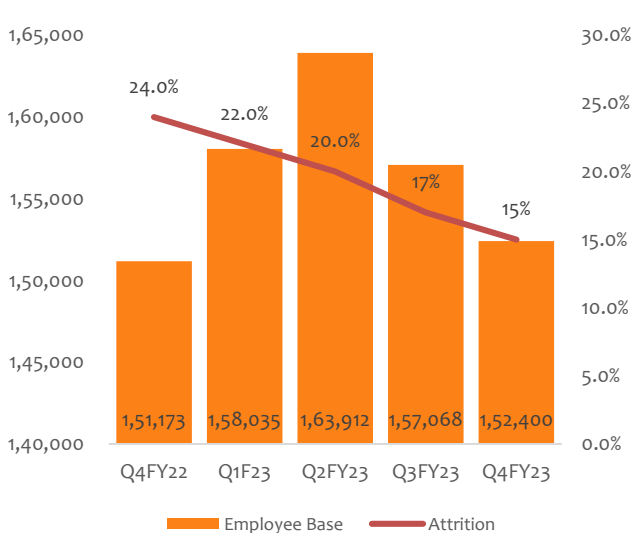
Key Concall Highlights:

(i) Despite the uncertainty, the CME segment continues to grow for consecutive 12 quarters in a row. (ii) FY23 witnessed double-digit revenue growth with deal wins standing at USD 3 billion. (iii) Enterprise segment surpassed the USD 1 billion revenue mark (iv) Faster digital transformation is most likely to continue without any hurdles (v) Management is quite optimistic about new deals wins will start to show momentum back in H2FY24. (vi) Company has a longstanding association with major telecom players across the globe operating in respective local markets, their experience and diversity can further help during 5G adaption. (vii) The company is planning to double up its investment in new technology and privatise new markets like Japan, the Middle East. (viii) The company seeks structural action to divest non-profitable business (ix) The long-term growth story in AI, cloud, CME and data analytics is intact for 3-4 years although it is in a nascent stage. (x) Management anticipates a cautious H1 but also guides a steady rebound from H2FY24, and that the margin will increase as a result of a better revenue mix

Valuation and view

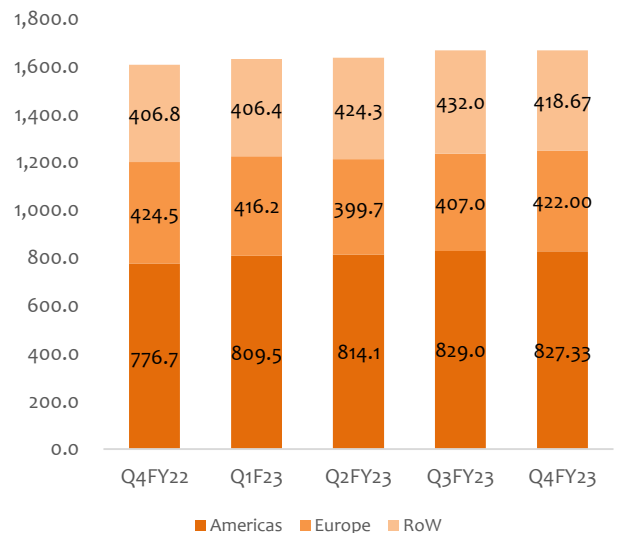
Tech Mahindra is currently trading at a valuation with a P/E multiple of 15.8x/11.9x on FY24E/FY25E earnings. The story is premised on pipeline commentary, improved services portfolio (design, engineering and consulting) & acquisition synergies, and 5G-related spending and reduction in the attrition rate and hence we are assigning a P/E multiple of 14.0x to the FY25E estimated EPS of INR 86.2 to arrive at a target price of INR 1,207 (earlier the target price was INR 1189), with an upside of around 17.9%. Accordingly, we kept our rating to a “BUY” for the stock.

Total employee base & attrition



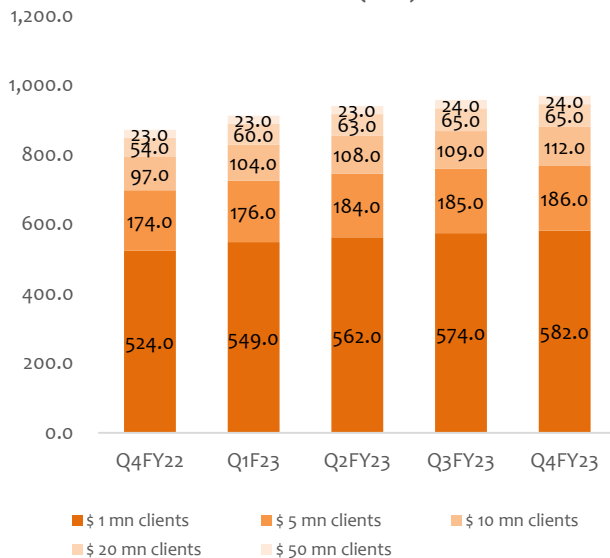
Source: Company, KRChoksey Research

Geographical break-up (USD mn)



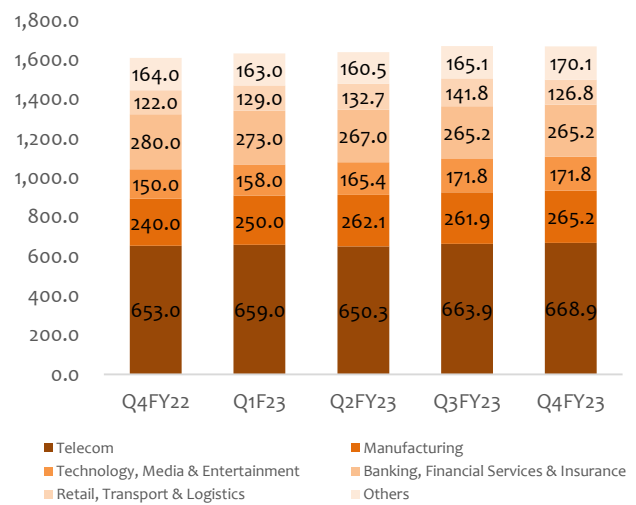
Source: Company, KRChoksey Research

Client buckets (nos.)



Source: Company, KRChoksey Research

Vertical break-up (USD mn)



Source: Company, KRChoksey Research

Tech Mahindra Limited.

KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Property, plant and equipment	26,229	26,609	24,632	22,992	28,622	32,071	37,617
Right-of-use asset	-	11730	10072	10072	10972	11,630	12,328
CWIP	2,763	501	1,183	1,183	2,940	3,263	3,682
Goodwill	28,163	33,877	40,082	40,082	76,657	76,657	76,657
Intangible assets	14,512	15,060	14,508	14,508	32,316	34,255	36,310
Investments	7,520	2,360	5,757	5,757	4,320	4,666	5,039
Loans	43	45	47	47	116	123	130
Other non current assets	33,490	43,187	38,813	44,054	28,066	30,311	33,342
Total non current assets	1,12,720	1,33,369	1,35,094	1,38,695	184,009	192,976	205,106
Inventories	752	358	242	242	236	253	273
Investments	65,899	56,123	96,619	96,619	27,832	32,007	36,808
Trade receivables	69,586	75,772	64,728	79,754	128,816	138,108	144,276
Cash & equivalent	20,427	30,167	26,904	39,173	40,563	49,380	73,643
Other current assets	58,994	69,303	64,060	67,444	81,329	88,215	93,951
Deferred tax assets	6091	8443	9133	9133	12965	12,965	12,965
Total current assets	2,21,749	2,40,166	2,61,686	2,92,365	291,741	320,927	361,915
Total assets	3,34,469	3,73,535	3,96,780	4,31,060	475,750	513,903	567,021
Equity share capital	4,437	4,359	4,370	4,370	4,388	4,388	4,388
Other equity	1,98,407	2,13,772	2,44,280	2,73,814	274,845	304,655	349,832
Equity attributable to owners of the company	2,02,844	2,18,131	2,48,650	2,78,184	279,233	309,043	354,220
Non controlling interest	4,777	3,933	3,795	3,795	4,702	4,702	4,702
Total equity	2,07,621	2,22,064	2,52,445	2,81,979	283,935	313,745	358,922
Loan fund	2,086	1,787	1,658	1,326	1,288	1,161	1,078
Long term provisions	8,821	19,370	17,796	17,796	22,632	24,443	26,398
Lease liabilities	0	8,539	8,077	8,077	7,903	8,298	8,713
Other long term liabilities	325	214	1725	1725	249	266	285
Amount pending investigation	12304	12304	12304	12304	12304	12,304	12,304
Total non current liabilities	23,536	42,214	41,560	41,228	44,376	46,472	48,778
Sundry creditors	24,893	32,566	27,850	29,892	43,846	48,451	52,294
Short term borrowings	11,961	22,495	14,960	17,996	14,494	15,509	16,594
Other liabilities	62,506	46,373	50,651	50,651	79,069	79,069	79,069
Provision	3,952	4,364	5,311	5,311	6,313	6,755	7,228
Lease liabilities	0	3,459	4,003	4,003	3,717	3,903	4,137
Total current liabilities	1,03,312	1,09,257	1,02,775	1,07,853	147,439	153,686	159,322
Total liabilities	3,34,469	3,73,535	3,96,780	4,31,060	475,750	513,903	567,022

Source: Company, KRChoksey Research

Tech Mahindra Limited.

KEY FINANCIALS

Exhibit 2: Profit & loss statement

Particulars (INR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	3,47,421	3,68,677	3,78,551	4,46,460	5,32,902	5,93,051	6,58,259
Total operating cost	2,84,052	3,11,416	3,10,081	3,66,260	4,54,740	5,05,273	5,45,350
EBITDA	63,369	57,261	68,470	80,200	78,162	87,778	1,12,909
Depreciation	11,292	14,458	14,577	15,204	19,811	20,273	20,785
EBIT	52,077	42,803	53,893	64,996	58,351	67,504	92,124
Other income, net	5,342	11,924	7,871	11,123	9,650	12,806	13,977
Finance costs	1,332	1,919	1,740	1,626	3,256	3,830	4,086
Pre-tax income	56,087	52,808	60,024	74,493	64,745	76,480	102,014
Income tax expense	12,544	11,604	15,999	18,220	15,885	19,120	25,759
Net profit	43,543	41,204	44,025	56,273	48,860	57,360	76,256
MI, EI & share of profit from associates	567	874	-255	640	290	200	200
Net profit after MI, EI & profit from associates	42,976	40,330	44,280	55,633	48,570	57,160	76,056
Diluted EPS (INR)	47.7	45.9	50.2	63.1	55.1	64.8	86.2
Shares in million	901	880	882	882	882	882	882

Source: Company, KRChoksey Research

Exhibit 3: Free cash flow analysis

Particulars (INR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net cash generated from operations	50,197	45,836	56,178	69,164	75,651	79,171	1,07,393
Net cash flow from/(used in) investing activities	-3,137	-7,416	-16,679	-13,034	-2,785	-24,068	-26,704
Net cash flow from financing activities	-3,193	10,157	-7,653	2,704	-8,148	887	1,003
Others	-43,101	-38,837	-35,109	-46,565	-62,631	-46,587	-57,429
Net inc/dec in cash equivalents	766	9,740	-3,263	12,269	2,087	9,404	24,263
Opening balance	19,661	20,427	30,167	26,904	37,889	39,976	49,380
Closing balance cash and cash equivalents	20,427	30,167	26,904	39,173	39,976	49,380	73,643

Source: Company, KRChoksey Research

Exhibit 4: Ratio analysis

Key Ratio	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EBIT margin (%)	15.0%	11.6%	14.2%	14.6%	10.9%	11.4%	14.0%
Tax rate (%)	22.4%	22.0%	26.7%	24.5%	24.5%	25.0%	25.3%
Net profit margin (%)	12.4%	10.9%	11.7%	12.5%	9.1%	9.6%	11.6%
RoE (%)	22.0%	19.2%	19.0%	20.7%	17.7%	19.4%	22.9%
RoCE (%)	19.1%	14.5%	15.6%	17.2%	15.2%	16.3%	19.7%
Current ratio (x)	2.1	2.1	2.5	2.6	1.9	2.0	2.2
EPS (INR per share)	47.7	45.9	50.2	63.1	55.1	64.8	86.2

Source: Company, KRChoksey Research

Tech Mahindra Limited.

Tech Mahindra Limited				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
28-Apr-23	1,024	1,207	BUY	Buy	More than 15%
31-Jan-23	1,015	1,181	BUY	Accumulate	5% – 15%
02-Nov-22	1,071	1,181	ACCUMULATE	Hold	0 – 5%
16-May-22	1,190	1,447	BUY	Reduce	-5% – 0
				Sell	Less than – 5%

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