

Tech Mahindra Limited



Tech Mahindra Limited.
Reported Soft quarter expect growth trajectory coming from H2FY24

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR1120	INR 1,207	~7.70%	INR 10,91,716	Accumulate	Internet Software & Services

Synopsis

- Tech Mahindra Ltd revenue for Q1FY24 stood at INR 1,31,590 mn, registering a growth of 3.55% on a YoY basis from INR 1,27,079 mn and on a sequential basis it declined by 4.08% from INR 1,37,182 mn.
- The EBIT for Q1FY24 stood at INR 8,914 mn, which showed a decline of 36.48% on a YoY basis from INR 14,034 mn and on a QoQ basis it declined by 32.36% from INR 13,178 mn. The operating margin for the quarter came at 6.77%, which shown a decline of 284 bps on a sequential basis and 427 bps on a YoY basis.
- PAT for Q1FY24 stood at INR 7,036 mn, which showed a decline of 38.81% on a YoY basis from INR 11,475 mn and on a sequential basis it declined by 37.46% from INR 11,250 mn. The PAT margin for the quarter stood at 5.35%, which declined by 285 bps on a sequential basis and 368 bps on a YoY basis.
- The EPS for the quarter stood at INR 7.82 as against INR 12.62 sequentially and INR 12.78 in a YoY basis.

MARKET DATA

Shares outs (Mn)	974
Mkt Cap (INR Mn)	10,91,716
52 Wk H/L (INR)	1,270/982
Volume Avg (3m K)	3140.4
Face Value (INR)	5
Bloomberg Code	TECHM IN

KEY FINANCIALS

(INR Mn)	Q1FY24A	Q4FY23A	Q1FY23A	QoQ	YoY
Revenue	1,31,590	1,37,182	1,27,079	-4.08%	3.55%
EBIT	8,914	13,178	14,034	-32.36%	-36.48%
PAT	7,036	11,250	11,475	-37.46%	-38.68%
EPS (Diluted)	7.82	12.62	12.78	-38.03%	-38.81%
OPM (%)	6.77%	9.61%	11.04%	-284 bps	-427 bps
NPM(%)	5.35%	8.20%	9.03%	-285 bps	-368 bps

Source: Company, KRChoksey Research

Revenue growth muted, expect gradual improvement going ahead

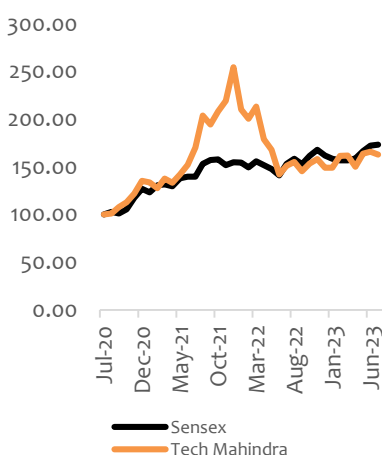
TECHM has reported a revenue of USD 1,601 mn, which showed a decline of 1.9% on a YoY basis and 4% on a sequential basis. The decline in revenue was mainly due to challenges in the CME sector, macro uncertainty, and the cyclical nature of 1-2 segments. The Manufacturing and Technology segments reported revenue growth of 8.6% and 8.0% YoY, respectively. The CME segment witnessed a decline of 8.2% on a YoY basis, mainly due to lower spending from telco companies and a reduction in OPEX. However, management remains positive that spending will improve gradually. On a geographical basis, the American market reported growth of 1.4% YoY in CC terms, whereas the European market declined by 5.4% YoY. Management expects that the Manufacturing, Life Science, and Services segments will witness healthy demand for FY24, whereas the CME and BFSI segments are expected to start recovering from H2FY24.

Margins to improve on a sequential basis

The EBIT margin for Q1FY24 stood at 6.77%, which showed a decline of 427 bps on a YoY basis and 284 bps on a sequential basis. The decline can be attributed to a drop in revenue, an increase in wages, and a one-time provision due to client bankruptcy. However, the reduction in subcontracting expenses, increase in offshoring activities, and improving pyramid structure are the levers that will improve margins going ahead. The FCF to PAT stood at 126.3% during the quarter. The utilization rate for Q1FY24 stood at 87%, and management expects that the utilization rate will see further improvement of 3%-4% going ahead. The attrition rate also declined to 13% in Q1FY24.

Accelerating investment in New age platform and Generative AI

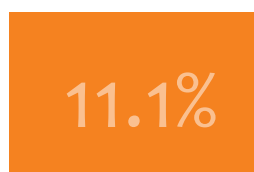
TECHM continues to invest in building up its talent base and has trained over 8000 employees in the New Age AI platform and Generative AI. The company sees a huge opportunity in AI, 5G, Quantum computing, and cybersecurity. While the transformation is being adopted globally, we expect demand to remain robust, owing to clients focusing on digitalization to improve their efficiency. Despite the short-term uncertainty, management remains optimistic about long-term growth and anticipates deal wins to rebound going ahead.

SHARE PRICE PERFORMANCE

MARKET INFO

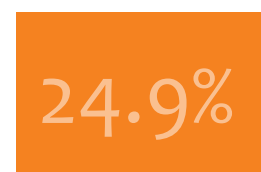
SENSEX	66,415
NIFTY	19,072

SHARE HOLDING PATTERN (%)

Particulars	Jun-23	Mar-23	Dec-22
Promoters	35.2	35.2	35.2
FIIIs	25.7	26.9	28
DIIIs	27.0	25.8	23.9
Others	12.1	12.1	12.9
Total	100	100	100



Revenue CAGR between FY23 and FY25E



PAT CAGR between FY23 and FY25E

Tech Mahindra Limited.

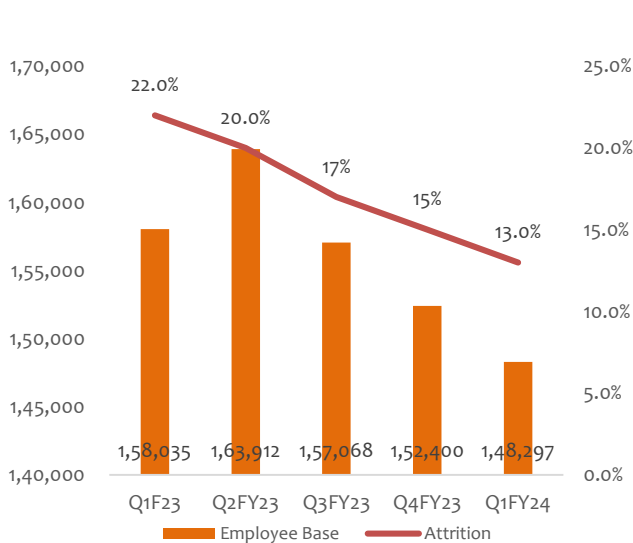
Key Concall Highlights:

(i) Q1FY24 was a challenging quarter for the company owing to a slowdown in the CME segment, macro uncertainty, cyclical nature in 1-2 segments, and the conclusion of some transformation projects.(ii) Management expects an upside from hereon, led by investments in talent, strong customer relationships, investment in the AI platform, and Generative AI.(iii) Tech Mahindra has a robust pipeline across all geographies and segments.(iv) EBIT margin mainly declined due to a drop in revenue and a one-time provision of client owing to bankruptcy.(v) Management anticipates that the headwinds are behind us and expects a gradual recovery from the next quarter.(vi) There is a lot of reprioritization going on in digital transformation from customers.(vii) Management expects that the utilization rate can increase by 3%-4% from current levels.(viii) The company expects to increase its presence in manufacturing, life sciences, and services, apart from the CME segment.(ix) During the quarter, the company trained 8000 employees in the new age AI platform and Generative AI.(x) Management remains committed to the long-term growth of the company and expects a strong rebound from H2FY24 onwards.

Valuation and view

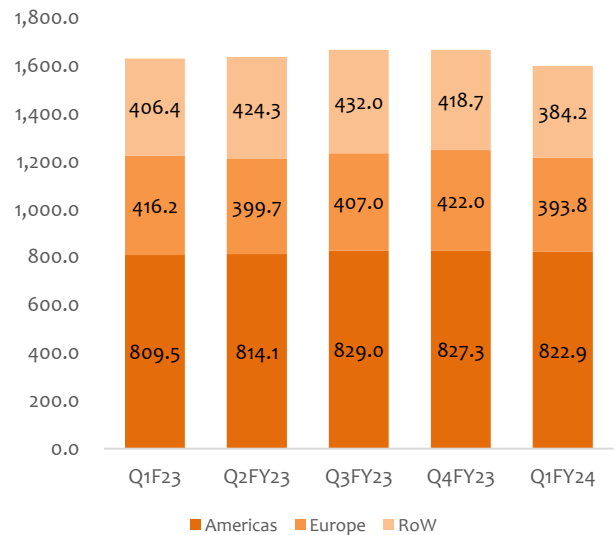
Tech Mahindra is currently trading at a valuation with a P/E multiple of 17.7x/13.0x on FY24E/FY25E earnings. The story is premised on pipeline commentary, improved services portfolio (design, engineering and consulting) & acquisition synergies, and 5G-related spending and reduction in the attrition rate and hence we are assigning a P/E multiple of 14x to the FY25E estimated EPS of INR 86.2 to arrive at a target price of INR 1,207, with an upside of around 7.7%. Accordingly, we kept our rating to a “Accumulate” for the stock.

Total employee base & attrition



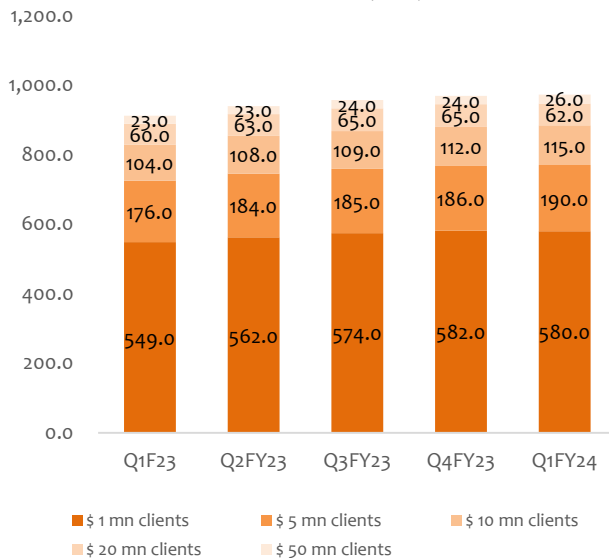
Source: Company, KRChoksey Research

Geographical break-up (USD mn)



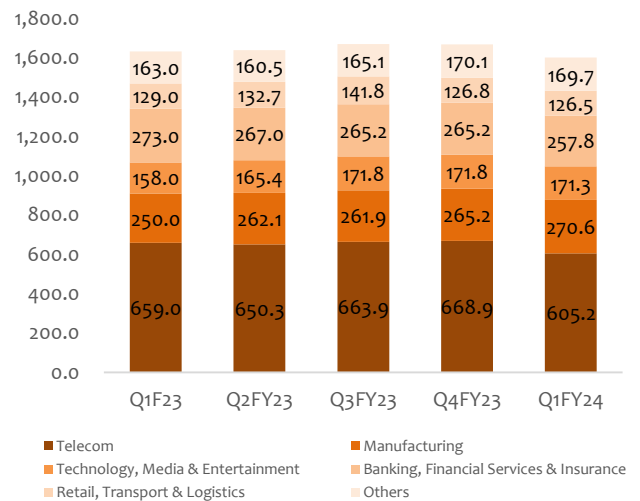
Source: Company, KRChoksey Research

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)	FY21	FY22	FY23	FY24E	FY25E
Property, Plant and Equipment	24,632	26,823	28,622	34,189	41,461
Right-of-use Asset	10072	9372	10972	11,630	12,328
CWIP	1,183	1,651	2,937	3,263	3,682
Goodwill	40082	74258	76657	76,657	76,657
Intangible Assets	14,508	36,586	32,316	34,255	36,310
Investments	5757	2510	4320	4,666	5,039
Loans	47	136	116	123	130
Other non current assets	38813	42654	28066	30,311	33,342
Total non current assets	1,35,094	1,93,990	1,84,006	1,95,094	2,08,950
Inventories	242	242	236	253	273
Investments	96,619	44,359	27,832	32,007	36,808
Trade receivables	64728	119334	128816	1,37,983	1,44,276
Cash & equivalent	26,904	37,889	40,563	48,546	69,053
Other current assets	64,060	54,463	81,329	84,950	93,425
Deffered Tax Assets	9133	9133	12965	12,965	12,965
Total current assets	2,61,686	2,65,420	2,91,741	3,16,704	3,56,800
Total Assets	3,96,780	4,59,410	4,75,747	5,11,799	5,65,751
Equity Share Capital	4,370	4,388	4,388	4,388	4,388
Other Equity	2,44,280	2,64,469	2,74,845	3,03,296	3,48,475
Equity Attributable to Owners	2,48,650	2,68,857	2,79,233	3,07,684	3,52,863
Non controlling Interest	3,795	4,954	4,702	4,702	4,702
Total Equity	2,52,445	2,73,811	2,83,935	3,12,386	3,57,565
Loan Fund	1,658	1,420	1,288	1,161	1,078
Long term Provisions	17,796	28,143	22,632	24,443	26,398
Lease Liabilities	8,077	7,200	7,903	8,298	8,713
Other Long term Liabilities	1725	781	249	266	285
Amount Pending Investigation	12304	12304	12304	12,304	12,304
Total non current liabilities	41,560	49,848	44,376	46,472	48,778
Sundry Creditors	27,850	40,947	43,846	47,705	52,380
Short Term Borrowings	14,960	14,397	14,494	15,509	16,594
Other Liabilities	50,651	70,524	79,069	79,069	79,069
Provision	5,311	6,716	6,313	6,755	7,228
Lease Liabilities	4,003	3,167	3,717	3,903	4,137
Total Current Liabilities	1,02,775	1,35,751	1,47,439	1,52,940	1,59,408
Total liabilities	3,96,780	4,59,410	4,75,750	5,11,798	5,65,751

Source: Company, KRChoksey Research

Tech Mahindra Limited.

KEY FINANCIALS

Exhibit 2: Profit & loss statement

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	3,78,551	4,46,460	5,32,902	5,92,517	6,58,259
Total operating cost	3,10,081	3,66,260	4,54,740	4,97,496	5,46,247
EBITDA	68,470	80,200	78,162	95,020	1,12,012
Depreciation	14,577	15,204	19,811	18,134	19,059
EBIT	53,893	64,996	58,351	65,692	92,953
Other income, net	7,871	11,123	9,650	12,806	13,977
Finance costs	1,740	1,626	3,256	3,830	4,086
Pre-tax income	60,024	74,493	64,745	74,668	1,02,844
Income tax expense	15,999	18,220	15,885	18,667	26,586
Net profit	44,025	56,273	48,860	56,001	76,258
MI, EI & share of profit from associates	-255	640	290	200	200
Net profit after MI, EI & profit from associates	44,280	55,633	48,570	55,801	76,058
Diluted EPS (INR)	50.2	63.1	55.1	63.2	86.2
Shares in million	882	882	882	882	882

Source: Company, KRChoksey Research

Exhibit 3: Free cash flow analysis

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Net cash generated from operations	56,178	1,26,034	75,651	77,863	1,04,464
Net cash flow from/(used in) investing activities	-16,679	-10,147	-2,785	-24,046	-26,704
Net cash flow from financing activities	-7,653	-783	-8,148	887	1,003
Others	-35,109	-45,254	-62,631	-46,134	-58,256
Net inc/dec in cash equivalents	-3,263	69,850	2,087	8,571	20,507
Opening balance	30,167	26,904	37,889	39,976	48,546
Closing balance cash and cash equivalents	26,904	37,889	39,976	48,546	69,053

Source: Company, KRChoksey Research

Exhibit 4: Ratio analysis

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
EBIT margin (%)	14.2%	14.6%	10.9%	11.1%	14.1%
Tax rate (%)	26.7%	24.5%	24.5%	25.0%	25.9%
Net profit margin (%)	11.7%	12.5%	9.1%	9.4%	11.6%
RoE (%)	19.0%	21.5%	17.7%	19.0%	23.0%
RoCE (%)	15.6%	17.9%	15.2%	15.9%	19.8%
Current ratio (x)	2.5	1.9	1.9	2.0	2.2
EPS (INR per share)	50.2	63.1	55.1	63.2	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-Jul-23	1120	1207	Accumulate	Buy	More than 15%
28-Apr-23	1024	1207	BUY	Accumulate	5% – 15%
31-Jan-23	1,015	1,181	BUY	Hold	0 – 5%
02-Nov-22	1,071	1,181	ACCUMULATE	Reduce	-5% – 0
16-May-22	1,190	1,447	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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