

# Tech Mahindra Ltd

## Q3FY24



**Tech Mahindra Limited**

Marginal growth in revenue, margins witness sequential growth

CMP INR 1,322	Target INR 1,357	Potential Upside 2.6%	Market Cap (INR Mn) INR 12,93,437	Recommendation <b>HOLD</b>	Sector <b>Internet Software &amp; Services</b>
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**Key Highlights:**

- TECHM saw a decline of 4.6% YoY and a growth of 1.8% QoQ, registering revenue of INR 131,013 Mn for Q3FY24. This was 1.9% higher than our estimate. Revenue for 9MFY24 reduced by 1.1% YoY to INR 3,91,242 Mn.
- EBIT for the quarter was INR 7,030 Mn, a decline of 57.3% YoY and growth of 15.9% QoQ. EBIT margin was 5.4%, lower by 662 bps YoY and higher by 65 bps QoQ. The EBIT was 25.8% below our estimate due to higher employee benefit expenses and other expenses.
- EBIT for 9MFY24 contracted 51.5% YoY while EBIT margin reduced by 585 bps YoY, respectively.
- PAT for the quarter contracted 59.3% YoY and expanded by 3.6% QoQ to INR 5,237 Mn, missing our expectations by 35.4% due to lower EBIT and other income. For 9MFY24, PAT contracted by 53.6% YoY and PAT margin declined by 500 bps, respectively.

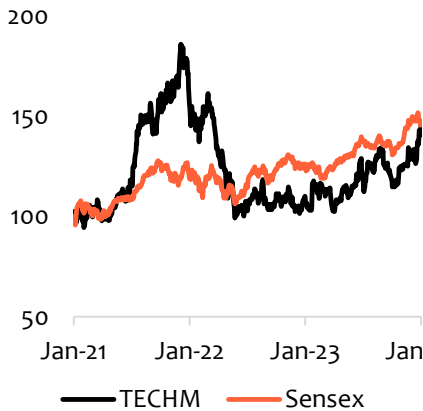
**MARKET DATA**

Shares outs (Mn)	976
Mkt Cap (INR Mn)	12,93,437
52 Wk H/L (INR)	1,416/ 981
Volume Avg (3m K)	2,190
Face Value (INR)	5.0
Bloomberg Code	TECHM IN

**KEY FINANCIALS**

(INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	3,78,551	4,46,460	5,32,902	5,20,203	5,46,305	6,02,777
Reported EBITDA	68,470	80,200	80,288	50,091	79,401	1,01,679
Adj. EBITDA	67,963	80,200	77,918	48,596	79,401	1,01,679
PAT	43,518	56,273	48,860	24,691	49,054	65,335
Adj. PAT	44,280	55,661	48,313	25,961	49,054	65,335
EPS (INR)	50	63	55	31	56	74
Adj. EBITDA Margin	18.0%	18.0%	14.6%	9.3%	14.5%	16.9%
PAT Margin	11.5%	12.6%	9.2%	4.7%	9.0%	10.8%

Source: Company, KRChoksey Research

**SHARE PRICE PERFORMANCE**

**Marginal increase in revenue sequentially, Telecom remains stressed**

For Q3FY24, Tech Mahindra generated revenue of INR 1,31,013 Mn, showcasing a decline of 4.6% YoY and growth of 1.8% QoQ. This growth was led by one-time revenues in retail and the seasonality effect of Comviva. Segment wise, the growth was driven by Retail, transport and logistics, which grew by 6.4% QoQ due to the festive season, Manufacturing grew by 2.9% QoQ as the Company continued to leverage its strengths in Automobile and ER&D related services. BFSI, technology and communications saw negative growth due to higher furloughs. Management believes that the telecom sector hasn't bottomed out yet and volatility is expected in the coming few quarters. Geographically, Americas, which accounted for 51.9% saw a decline of 1.5% QoQ, Europe which accounted for 23.8% saw a growth of 2.0% QoQ while RoW which accounted for 24.3% witnessed a growth of 6.3% QoQ. The onsite mix saw a marginal decline of 50 bps from Q2FY24 to 26.1%.

**TCV witnesses decline given lumpiness and strategy shift**

The Company saw its Total Contract Value (TCV) decline by 40.4% to USD 381 Mn from USD 640 Mn in Q2FY24. This decline was attributed to lumpiness in large deals within the quarter and the management performing degrowth in non-core deals and focusing more on deals in the core business. During the quarter, the number of active clients declined by 24 to 1,228. The number of clients in the USD >10 Mn bracket increased by 4 to 118, clients in USD >20 Mn bracket increased by 2 to reach 63, while the number of clients in the USD >50 Mn bracket remained constant at 26.

**Turnaround from restructuring efforts could be further away**

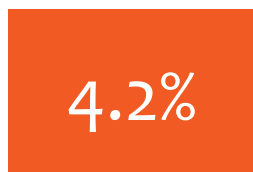
The Company's restructuring efforts are focused on 3 main tracks: 1) Revenue growth by focus on top accounts and core business. 2) Margin improvement through centralized delivery structure and implementation of cost reduction activities. 3) Improving organization structure to be more agile and focus on customer centricity. Tech Mahindra has also implemented the 6x6 metric with 6 verticalized application development, maintenance and support teams which specialize in verticals such as communications, manufacturing, BFSI, high tech, healthcare & life sciences and diversified industry group. For Q3FY24, EBIT was INR 7,031 Mn, up 15.9% QoQ but down 57.3% YoY. The EBIT margin was impacted by a one-off impact from terminating contracts of non-core businesses (-160 bps), impact of salary hikes implemented at the start of the year, lower other income and higher finance costs. We reckon that there is still uncertainty with respect to the successful implementation of strategies by the new management and the timing of the corresponding benefits flowing through. Although management maintained that the margin has bottomed out, we opine that there is a likelihood that the margin pressure could persist much longer than expected.

**MARKET INFO**

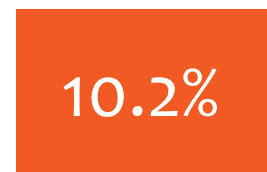
SENSEX	70,701
NIFTY	21,353

**SHARE HOLDING PATTERN (%)**

Particulars	Dec-23	Sep-23	Jun-23
Promoters	35.1	35.1	35.2
FIIIs	24.6	26.2	25.7
DIIs	28.9	27.0	26.9
Others	11.4	11.6	12.2
Total	100	100	100



Revenue CAGR between FY23 and FY26E



Adj. PAT CAGR between FY23 and FY26E

## Tech Mahindra Limited

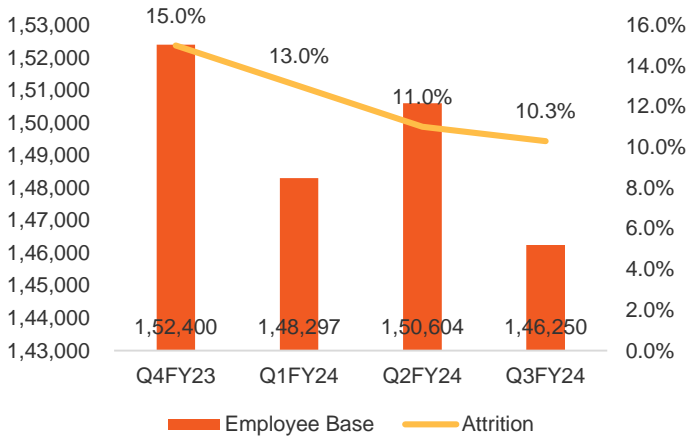
### Key Concall Highlights:

- Tech Mahindra is working to unlock value from its operations by focusing on 3 paths, first one is focusing on revenue improvement, second is margin improvement and third is creating a more agile structure.
- For Q3FY24, the Company reported a revenue of USD 1.6 Bn, registering a decline of 7.5% YoY and a growth of 1.1% sequentially. The EBIT margin was 5.4%, an expansion of 65 bps. Adjusted for one-time expenses, the margin stands at 7.0%.
- Other income for Q3FY24 stood at USD 11 Mn. Forex losses stood at USD 5 Mn due to FX currency movements against marginal USD 0.3 Mn in Q2FY24. The effective tax rate was 22.8% and PAT was USD 61 Mn, showcasing a profit margin of 3.9%.
- The free cash flow for the quarter was USD 228 Mn, DSO days improved by a healthy 6 days to 91 days. The Company expects the cash conversion to stabilize in Q4FY24E due to certain advanced collections in the quarter. The cash and cash equivalents was at USD 843 Mn or INR 70,120 Mn.
- The Company is focusing on AI and has launched Vision amplifAler, a solution which provides end-to-end workbench to substantiate Computer Vision use cases. This is the third offering by the Company in the amplifier category. Work is also being carried out in conversational AI and document AI. Not only is Gen AI an integral part of large deals but standalone deals for Gen AI in enterprise knowledge search, customer engagement and business processes were also seen. With specific interest in areas like drug discovery, EMR and medico-audio scripts, Healthcare and Life Sciences is an early adopter of Gen AI.
- With respect to the telecom sector, management stated that the sector is stressed, and that client spends remain tight. The Company expects to observe significant volatility at least for a few more quarters in the sector. The performance in Europe was healthy, given weak performance in Q2FY24 and a one-time revenue, and hence should not be taken as a sign of recovery.
- The headcount saw a decline of 4,354 resources to 146,250 in Q3FY24. The attrition rate was down 110 bps to 10.3%. The utilization rate (including trainees) was up 140 bps QoQ to 87.6%.

### Valuation and View

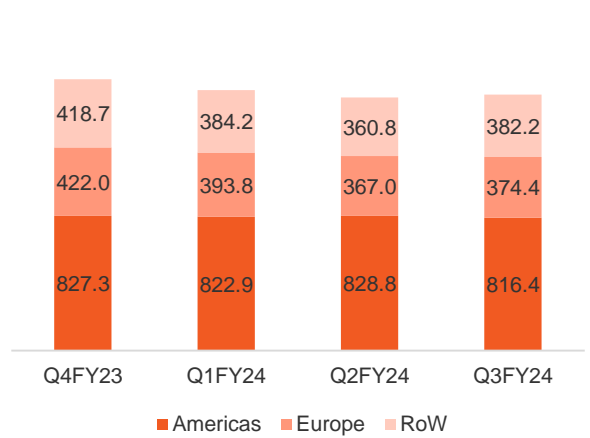
Although Tech Mahindra has delivered poor revenue growth over the past few quarters, the sequential improvement in revenue and margins in Q3FY24 was a positive. However, high exposure to the telecom sector, where growth has been a major challenge, will continue to adversely impact the Company's turnaround efforts, in our view. Tech Mahindra currently trades at a PE multiple of 41.2x on FY24E/ 22.8x on FY25E EPS. We believe the new management and its ability to turnaround the business is yet to be tested. We introduce FY26E earnings of INR 74 and assign a relatively modest PE multiple of 18.3x to arrive at a slightly raised target price of INR 1,357 per share (previously: INR 1,278). Given the 2.6% upside from current levels, we downgrade the stock to "HOLD" from "ACCUMULATE".

Total Employee Base & Attrition



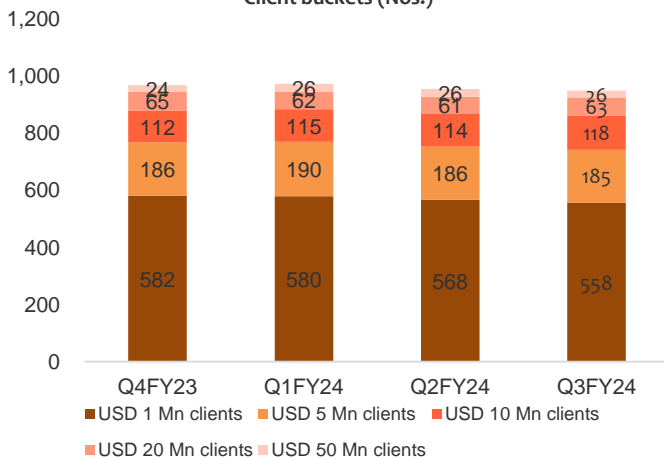
Source: Company, KRChoksey Research

GEOGRAPHICAL BREAK-UP (USD Mn)



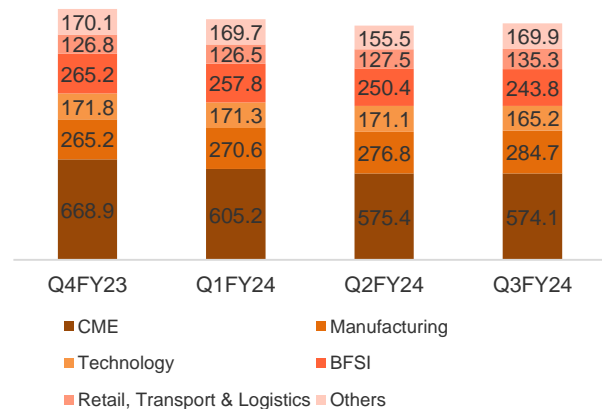
Source: Company, KRChoksey Research

Client buckets (Nos.)



Source: Company, KRChoksey Research

VERTICAL BREAK-UP (USD Mn)



Source: Company, KRChoksey Research

## Tech Mahindra Limited

### KEY FINANCIALS

#### Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	3,78,551	4,46,460	5,32,902	5,20,203	5,46,305	6,02,777
Total Operating Cost	3,10,588	3,66,260	4,54,984	4,71,607	4,66,905	5,01,099
Reported EBITDA	68,470	80,200	80,288	50,091	79,401	1,01,679
Adj. EBITDA	67,963	80,200	77,918	48,596	79,401	1,01,679
Depreciation	14,577	15,204	19,567	18,080	19,238	20,471
EBIT	53,386	64,996	58,351	32,985	60,162	81,208
Other income, net	7,871	11,123	9,650	6,327	11,096	11,651
Finance costs	1,740	1,626	3,256	4,490	4,970	5,594
Pre-tax Income	59,517	74,493	64,745	34,821	66,289	87,265
Income tax expense	15,999	18,220	15,885	8,501	17,235	21,930
PAT	43,518	56,273	48,860	24,691	49,054	65,335
MI, EI & Share of Profit from Associates	-762	612	547	-1,270	0	0
Adj. PAT	44,280	55,661	48,313	25,961	49,054	65,335
EPS (INR)	50	63	55	31	56	74

Source: Company, KRChoksey Research

#### Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Cash Generated From Operations	80,938	52,853	55,720	48,140	60,808	66,577
Net Cash Flow from/(used in) Investing Activities	-54,501	4,815	-2,785	-25,764	-22,423	-27,597
Net Cash Flow from Financing Activities	-29,869	-46,666	-50,781	1,839	2,021	2,251
Net Inc/Dec in cash equivalents	-3,432	11,002	2,154	24,214	40,406	41,230
Opening Balance	30,167	26,904	37,889	40,563	37,454	47,011
Others	169	-17	520	0	0	0
Closing Balance Cash and Cash Equivalents	26,904	37,889	40,563	64,777	77,860	88,242

Source: Company, KRChoksey Research

#### Exhibit 4: Ratio Analysis

Key Ratio	FY21	FY22	FY23	FY24E	FY25E	FY26E
EBIT Margin (%)	14.1%	14.6%	10.9%	6.3%	11.0%	13.5%
Tax rate (%)	26.9%	24.5%	24.5%	24.4%	26.0%	25.1%
Net Profit Margin (%)	11.7%	12.5%	9.1%	5.0%	9.0%	10.8%
RoE (%)	19.0%	21.5%	17.6%	9.9%	17.0%	20.7%
RoCE (%)	15.4%	17.9%	15.2%	8.4%	14.6%	18.2%
Current Ratio (x)	2.5	2.0	1.8	1.7	1.8	2.0
EPS (INR per share)	50.2	63.3	54.5	31.3	55.7	74.1

Source: Company, KRChoksey Research

## Tech Mahindra Limited

### KEY FINANCIALS

#### Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Property, Plant and Equipment	24,632	26,823	28,622	31,350	33,964	37,604
Right-of-use Asset	10,072	9,372	10,972	11,630	12,328	13,068
CWIP	1,183	1,651	836	2,708	0	0
Goodwill	40,082	74,258	76,657	76,657	76,657	76,657
Intangible Assets	14,508	36,586	32,316	34,255	36,310	38,489
Investments	5,757	4,479	6,049	6,533	7,056	7,620
Loans	47	136	49	52	55	58
Other non current assets	38,813	42,654	48,740	52,639	57,903	63,693
<b>Total non current assets</b>	<b>1,35,094</b>	<b>1,95,959</b>	<b>2,04,241</b>	<b>2,15,825</b>	<b>2,24,273</b>	<b>2,37,190</b>
Inventories	242	405	236	253	273	295
Investments	96,619	44,359	27,832	32,007	36,808	42,329
Trade receivables	64,728	1,19,334	1,28,816	1,21,143	1,19,738	1,32,116
Cash & equivalent	28,352	39,745	42,547	39,438	48,995	59,377
Other current assets	62,612	40,714	44,896	45,150	45,427	46,282
Deffered Tax Assets	9133	8191	12965	12,965	12,965	12,965
<b>Total current assets</b>	<b>2,61,686</b>	<b>2,52,748</b>	<b>2,57,292</b>	<b>2,50,956</b>	<b>2,64,206</b>	<b>2,93,362</b>
<b>Total Assets</b>	<b>3,96,780</b>	<b>4,48,707</b>	<b>4,61,533</b>	<b>4,66,781</b>	<b>4,88,480</b>	<b>5,30,552</b>
Equity Share Capital	4,370	4,388	4,400	4,400	4,400	4,400
Other Equity	2,44,280	2,64,469	2,74,845	2,75,111	2,93,316	3,27,802
Equity Attributable to Owners of the Company	2,48,650	2,68,857	2,79,245	2,79,511	2,97,716	3,32,202
Non controlling Interest	3,795	4,954	4,702	4,702	4,702	4,702
<b>Total Equity</b>	<b>2,52,445</b>	<b>2,73,811</b>	<b>2,83,947</b>	<b>2,84,213</b>	<b>3,02,418</b>	<b>3,36,904</b>
Loan Fund	1,658	1,420	1,288	1,161	1,078	1,078
Long term Provisions	7,810	8,811	9,288	10,031	10,834	11,700
Lease Liabilities	8,077	7,200	7,903	8,298	8,713	9,149
Other Long term Liabilities	11,711	20,113	13,593	14,545	15,563	16,652
Amount Pending Investigation	12,304	12,304	12,304	12,304	12,304	12,304
<b>Total non current liabilities</b>	<b>41,560</b>	<b>49,848</b>	<b>44,376</b>	<b>46,338</b>	<b>48,491</b>	<b>50,883</b>
Sundry Creditors	27,850	40,947	43,846	45,223	44,772	48,051
Short Term Borrowings	14,960	14,397	14,494	15,509	16,594	17,756
Other Liabilities	50,651	59,821	64,840	64,840	64,840	64,840
Provision	5,311	6,716	6,313	6,755	7,228	7,734
Lease Liabilities	4,003	3,167	3,717	3,903	4,137	4,385
<b>Total Current Liabilities</b>	<b>1,02,775</b>	<b>1,25,048</b>	<b>1,33,210</b>	<b>1,36,229</b>	<b>1,37,571</b>	<b>1,42,765</b>
<b>Total Equity and Liabilities</b>	<b>3,96,780</b>	<b>4,48,707</b>	<b>4,61,533</b>	<b>4,66,781</b>	<b>4,88,480</b>	<b>5,30,552</b>

Source: Company, KRChoksey Research

## Tech Mahindra Limited

Tech Mahindra Limited			
Date	CMP (INR)	TP(INR)	Recommendation
25-Jan-24	1,322	1,357	HOLD
22-Nov-23	1,204	1,278	ACCUMULATE
28-Jul-23	1,120	1,207	ACCUMULATE
28-Apr-23	1,024	1,207	BUY
31-Jan-23	1,015	1,181	BUY
02-Nov-22	1,071	1,181	ACCUMULATE
16-May-22	1,190	1,447	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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