MIRAE ASSET Sharekhan

Tech Mahindra

Good Quarter

IT & ITeS	Sharekhan code: TECHM
Reco/View: Buy ⇔	CMP: Rs. 1,659	Price Target: Rs. 1,950 ⇔

↑ Upgrade ⇔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		⇔	
RQ		⇔	
RV		⇔	

Company details

Market cap:	Rs. 1,62,294 cr
52-week high/low:	Rs. 1,807/1,164
NSE volume: (No of shares)	20.7 lakh
BSE code:	532755
NSE code:	TECHM
Free float: (No of shares)	63.57 cr

Shareholding (%)

Promoters	35.0
FII	23.7
DII	30.9
Others	10.4

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-6.3	-2.4	9.4	25.0
Relative to Sensex	-1.2	3.0	14.5	17.9

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Reported revenue stood at $1,568 million, up 1.2% q-o-q/ 1.3% y-o-y in CC terms, beating our modest estimates of 0.3% q-o-q growth in CC terms.
- EBIT margin expanded by ~60 bps q-o-q to 10.2%, beating our estimate of 9.8%. New deal win TCVs stood at $745 million, up 24% q-o-q/96% y-o-y.
- Management expects CY25 to be better than CY24. Wage hike is anticipated for Q4 and is expected to impact margins by 100-150 bps.
- We maintain BUY with an unchanged PT of Rs. 1,950. At CMP, the stock trades at 32.9/25.8/20.5x its FY25/26/27E EPS.

For Q3FY25, Tech Mahindra's (Tech M) reported revenue stood at $1,568 million, up 1.2% q-o-q/1.3% y-o-y, in constant currency (CC) terms, beating our modest estimate of 0.3% q-o-q growth in CC terms, led by healthy revenue growth in Communications, BFSI, and Healthcare & Life sciences. Reported revenue was impacted by steep currency movements. Revenue in rupee terms stood at Rs. 13,286 crore, down 0.2% q-o-q/up 1.4% y-o-y. EBIT margin expanded by ~60 bps q-o-q to 10.2%, beating our estimate of 9.8%. Adjusted net profit stood at Rs. 983 crore, down 21% q-o-q/up 93% y-o-y. Net new deal TCV improved to $745 million, up 24% q-o-q/96% y-o-y on account of several large and multi-tower deals in the Telecom and Manufacturing verticals. Net headcount declined by 3,785, taking the total headcount to 150,488. Management is optimistic about meeting its long-term objectives on the back positive deal trends and margin improvements along with investments in generative AI and strategic partnerships. The improved rate of deal wins with consistent expansion in margins keeps it on track to achieve longer term goals. We maintain BUY with an unchanged price target (PT) of Rs. 1,950. At CMP, the stock trades at 32.9/25.8/20.5x its FY25/F26/FY27E EPS.

Key positives

- New deal wins TCVs stood at $745 million, up 24% q-o-q/96% y-o-y.
- EBIT margin expanded by ~60 bps q-o-q to 10.2%.
- Europe grew 3.3% q-o-q in CC.

Key negatives

- Net headcount declined by 3,785 q-o-q, taking the total to 150,488.
- LTM attrition was up 60bps q-o-q to 11.2%.
- Utilisation (including trainees) declined 70 bps q-o-q.

Management commentary

- Management expects CY25 to be better than CY24 and is focusing on sustainable growth through AI, talent, and service investments.
- Management is focused on improving its growth capabilities and revenue mix to meet the growth aspirations by FY27.
- Wage hike is anticipated for Q4 and is expected to impact margins by 100-150 bps.
- The automotive segment, particularly with Pininfarina, faces pressures, affecting the manufacturing vertical negatively.
- The Communications vertical is stable to improving in North America, with some of their largest clients continuing to see challenges from a discretionary perspective.
- Onboarded 40 plus new clients from the must-have accounts in FY25, of which 12 were onboarded in the December quarter.

Revision in estimates: We have revised our estimates to factor in Q3FY25 performance.

Our Call

Valuation – Maintain BUY with an unchanged PT of Rs. 1,950: Tech M reported good quarter with beat on revenue and margin front, while steep currency movements impacted reported numbers. Management is optimistic about meeting its long-term objectives on account of positive deal trends and margin improvements along with investments in generative AI and strategic partnerships. Margin trajectory continues to witness steady recovery under Project Fortius. The improved rate of deal wins with consistent expansion in margins keeps it on track to achieve longer term goals. We maintain BUY with an unchanged PT of Rs. 1,950. At CMP, the stock trades at 32.9/25.8/20.5x its FY25/26/27E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements. The contagion effect of banking crisis, macro headwinds and recession in the US can moderate the pace of technology spending.

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	51,995.5	53,338.7	58,612.6	64,564.1
OPM (%)	9.5	13.2	15.2	17.2
Adjusted PAT	2,816.0	4,430.9	5,655.4	7,110.8
YoY growth (%)	-44.4	57.3	27.6	25.7
Adjusted EPS (Rs.)	32.0	50.4	64.3	80.8
P/E (x)	51.8	32.9	25.8	20.5
P/B (x)	5.4	5.0	4.6	4.1
EV/EBITDA (x)	31.0	21.1	16.3	12.7
RoNW (%)	8.6	16.0	18.7	21.2
RoCE (%)	12.1	18.3	21.7	24.9

Source: Company; Mirae Asset Sharekhan estimates

Key result highlights

- **Revenue growth:** Tech M reported revenue stood at $1,568 million, up 1.2 q-o-q/1.3% y-o-y in CC, beating our modest estimate of 0.3% q-o-q in CC led by BFSI, retail, healthcare and lifesciences, and others vertical. Revenue in rupee terms stood at Rs. 13,286crore, down 0.2% q-o-q/up 1.4% y-o-y. IT services revenue up 1.6% q-o-q in CC terms, while the BPO segment revenue declined 1.2% q-o-q in CC terms.
- **Margins:** EBIT margin expanded by ~60 bps q-o-q to 10.2%, beating our estimate of 9.8%. Margin expansion was on account of efficient delivery, pricing excellence, and cost optimisation under Project Fortius.
- **Vertical-wise performance:** Communications, BFSI, Retail, Healthcare and Lifesciences, and Others grew 0.4%, 2.7%, 1.1%, 4.5%, and 19.5% q-o-q in CC, respectively. Technology and Manufacturing declined 0.9% and 2.5% q-o-q in CC.
- **Geography-wise performance:** Europe and RoW grew 3.3%/4.2% q-o-q in CC terms, respectively. While Americas declined 1.3 % q-o-q in CC.
- **Deal wins:** Net new deal TCV for the quarter stood at $745 million, up 24% q-o-q/96% y-o-y.
- Attrition and utilisation: Net headcount declined by 3,785 q-o-q, taking the total headcount to 1,50,488. LTM attrition was up 60 bps q-o-q to 11.2%. Utilisation (including trainees) declined 70 bps q-o-q.
- **Client metrics:** Revenue from the Top 5, Top 10, and Top 20 clients declined 1.3%, 5.3%, and 3.9% q-o-q, respectively. On a sequential basis, the company lost five clients in $10 million+ category, 4 clients in $ 5 million+ category and 5 clients in $1 million+ category. Number of active clients declined by 3 q-o-q to 1175.
- **Cash generation:** Free cash flow (FCF) stood at $199 million, up 27% q-o-q with FCF to net income ratio at 172%. Cash and cash equivalent stood at Rs. 6,841 crore vs. Rs. 6,566 crore versus in Q2FY25.

Results (Consolidated) Rs cr

Particulars	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Revenue in USD (mn)	**1,567.5**	**1,573.0**	**-0.3**	**1,588.7**	**-1.3**
Revenue In Rs.	**13,285.6**	**13,101.3**	**1.4**	**13,313.2**	**-0.2**
Cost of Services	9,455.9	9,964.9	-5.1	9,595.7	-1.5
Gross profit	3,829.7	3,136.4	22.1	3,717.5	3.0
SG&A	2,020.7	1,990.0	1.5	1,967.3	2.7
EBITDA	**1,809.0**	**1,146.4**	**57.8**	**1,750.2**	**3.4**
Depreciation	458.8	443.4	3.5	469.8	-2.3
EBIT	**1,350.2**	**703.0**	**92.1**	**1,280.4**	**5.5**
Other Income	16.5	87.5	-81.1	521.5	-96.8
PBT	**1,290.8**	**674.0**	**91.5**	**1,712.9**	**-24.6**
Provision for taxes	308.6	155.1	99.0	456.0	-32.3
Adjusted net profit	**983.2**	**510.4**	**92.6**	**1,250.1**	**-21.4**
Non-Recurring / Exceptional Items	0.0	0.0	-	0.0	-
Reported net profit	983.2	510.4	92.6	1,250.1	-21.4
EPS (Rs.) Excl. Treasury Shares	11.1	5.8	91.0	14.1	-21.4
Margin (%)			**BPS**		**BPS**
EBITDA Margin	13.6	8.8	487	13.1	47
EBIT Margin	10.2	5.4	480	9.6	55
PAT Margin	7.4	3.9	350	9.4	-199
Tax rate	23.9	23.0	90	26.6	-271

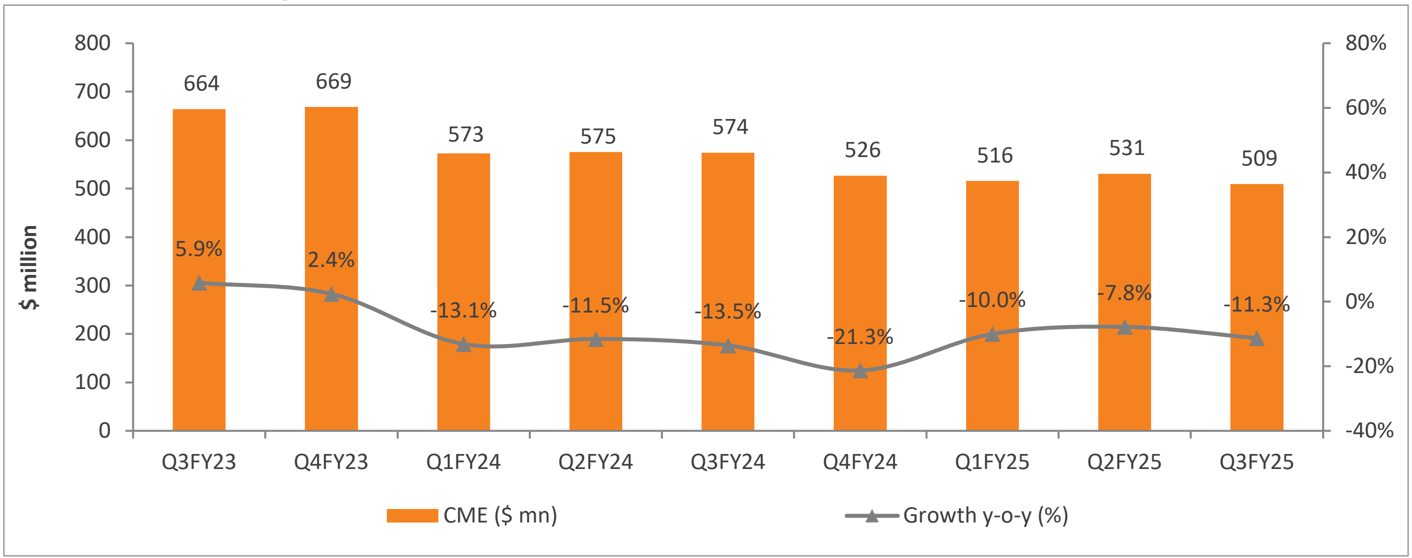
Source: Company; Mirae Asset Sharekhan Research

Revenue mix: Geographies, industry verticals, and other operating metrics

Particulars	Revenues	Contribution	USD Growth (%)	
	(USD mn)	(%)	Q-o-Q	Y-o-Y
Revenues (USD mn)	1,568	100	-1.3	-0.3
Geographic mix				
America	796	50.8	-1.9	-2.5
Europe	370	23.6	-3.0	-1.2
RoW	401	25.6	1.4	5.0
Industry verticals				
CME	509	32.5	-4.0	-11.3
Manufacturing	263	16.8	-3.6	-7.5
Technology	224	14.3	-1.3	35.7
BFSI	252	16.1	0.5	3.5
Retail, transport, and logistics	127	8.1	1.2	-6.1
Healthcare and lifesciences	121	7.7	2.7	2.3
Others	71	4.5	11.0	-58.5
Clients' contribution				
Top 5	235	15.0	-1.3	-6.6
Top 10	376	24.0	-5.3	-8.0
Top 20	596	38.0	-3.9	-2.9
Revenue by services		**(%)**	**q-o-q**	**y-o-y**
IT	1,316	83.9	-0.9	-2.0
BPO	252	16.1	-3.3	9.6

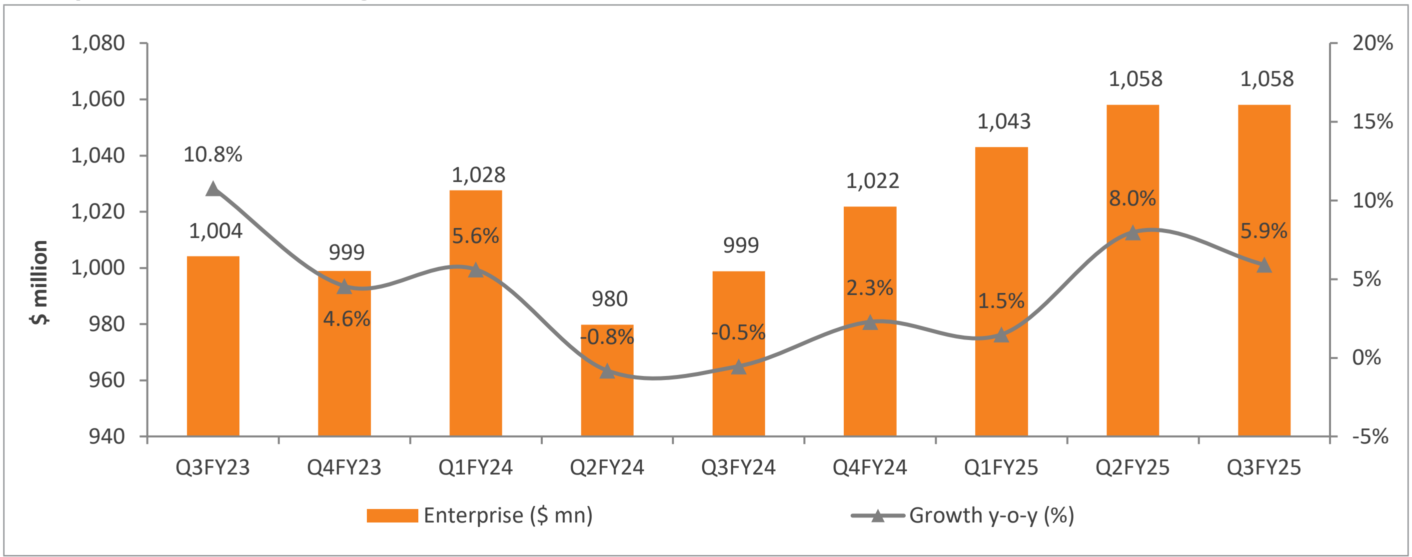
Source: Company; Mirae Asset Sharekhan Research

CME vertical's revenue growth trend



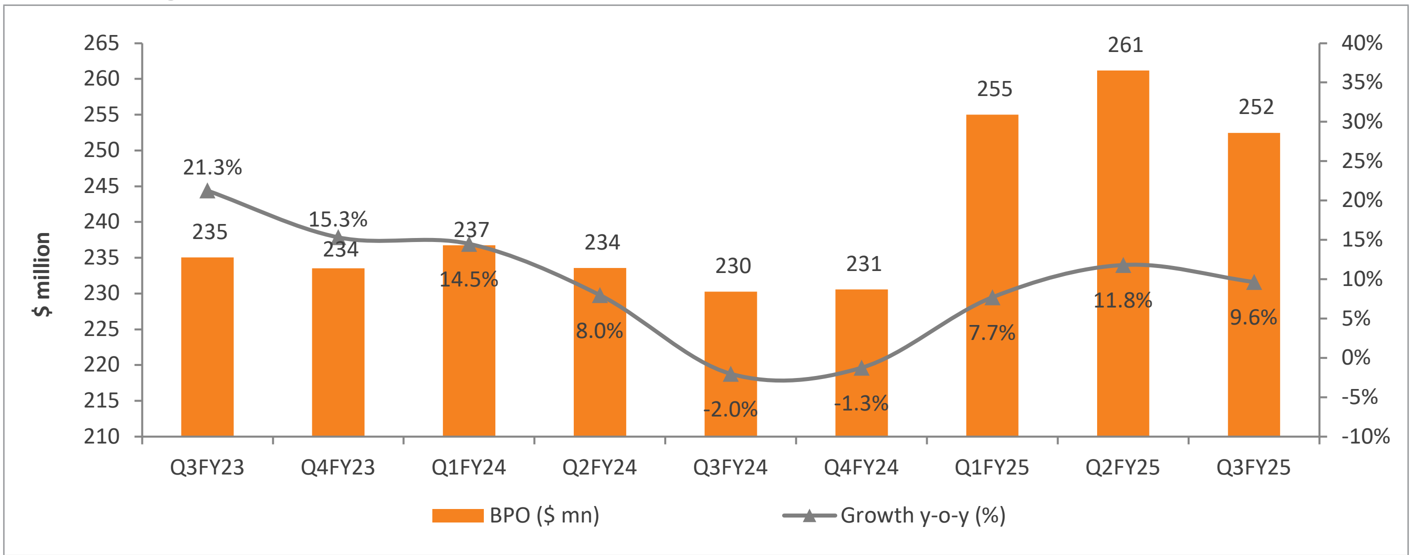
Source: Company; Mirae Asset Sharekhan Research

Enterprise vertical's revenue growth trend



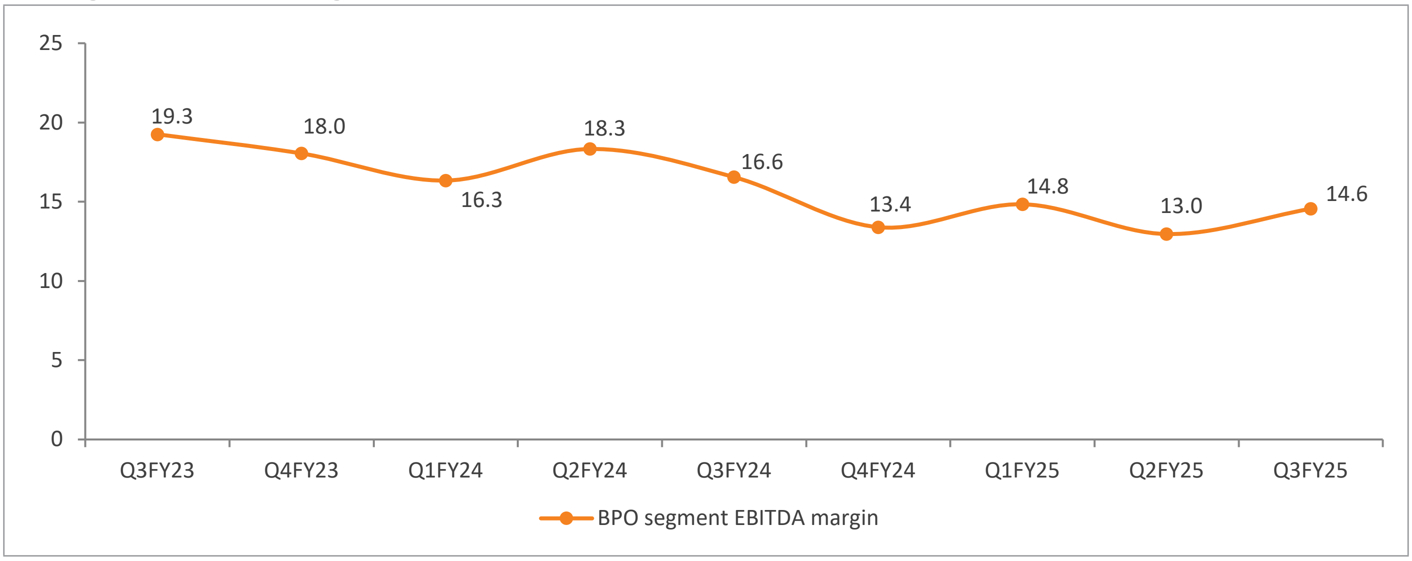
Source: Company; Mirae Asset Sharekhan Research

BPO revenue growth trend



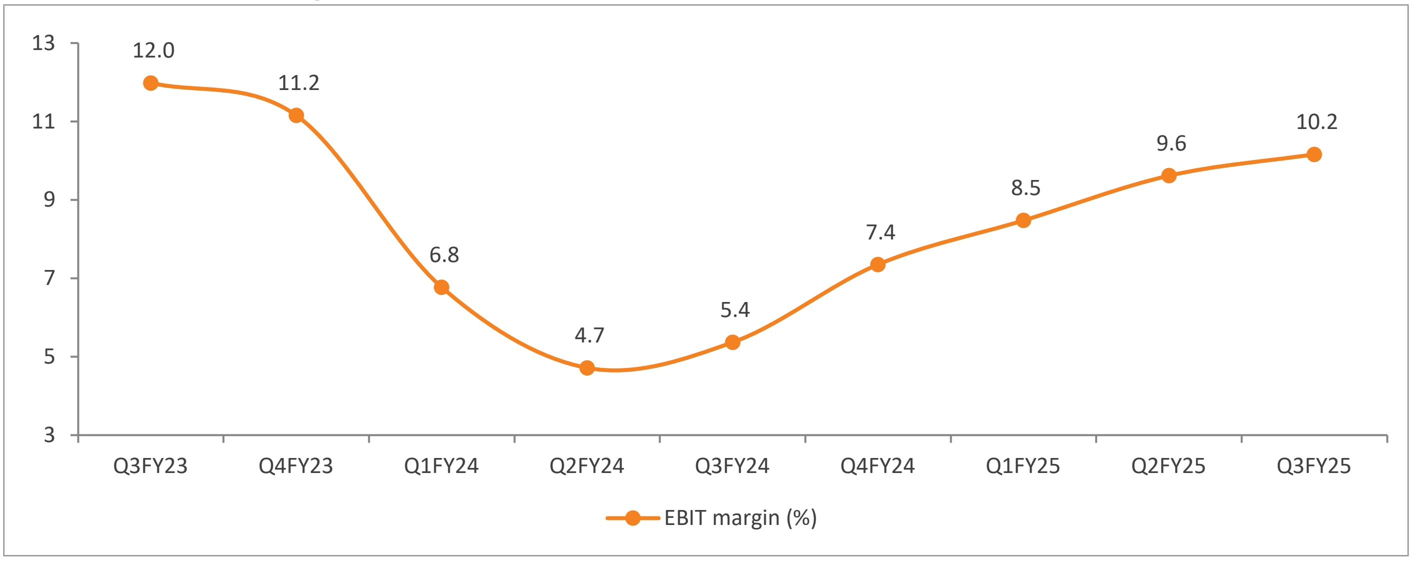
Source: Company; Mirae Asset Sharekhan Research

BPO segment's EBITDA margin trend



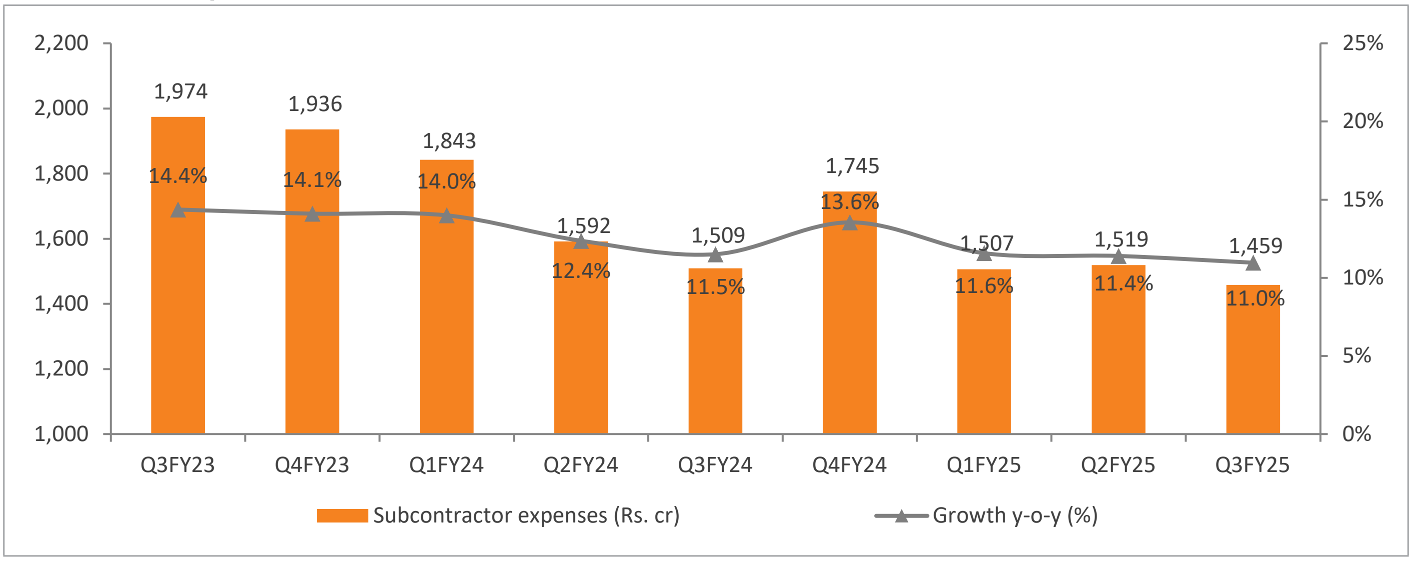
Source: Company; Mirae Asset Sharekhan Research

Tech Mahindra's EBIT margin trend



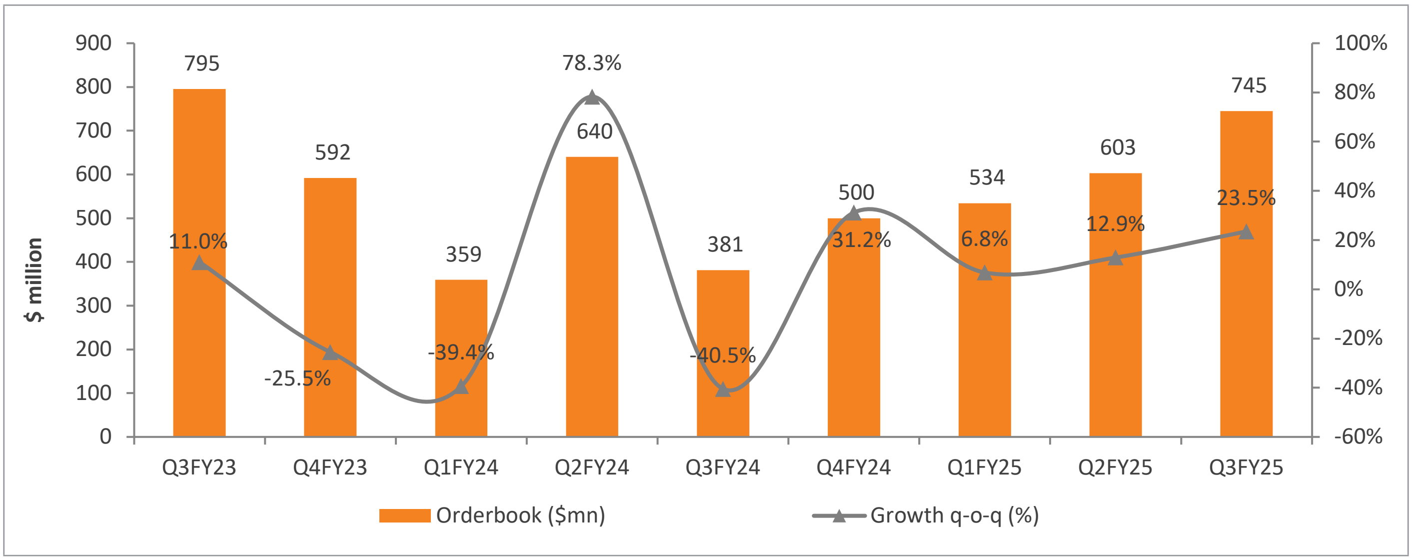
Source: Company; Mirae Asset Sharekhan Research

Subcontractor expense (Rs. crore) and as a % of revenue



Source: Company; Mirae Asset Sharekhan Research

New deal win TCV trend



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Macro headwinds bottoming out coupled with better earnings visibility

We anticipate growth momentum to return in FY2025, aided by a lower base and easing sectoral headwinds. Though the IT sector has already outperformed Nifty last year, we expect overall outperformance in CY25 as well, driven by receding headwinds and better earnings visibility.

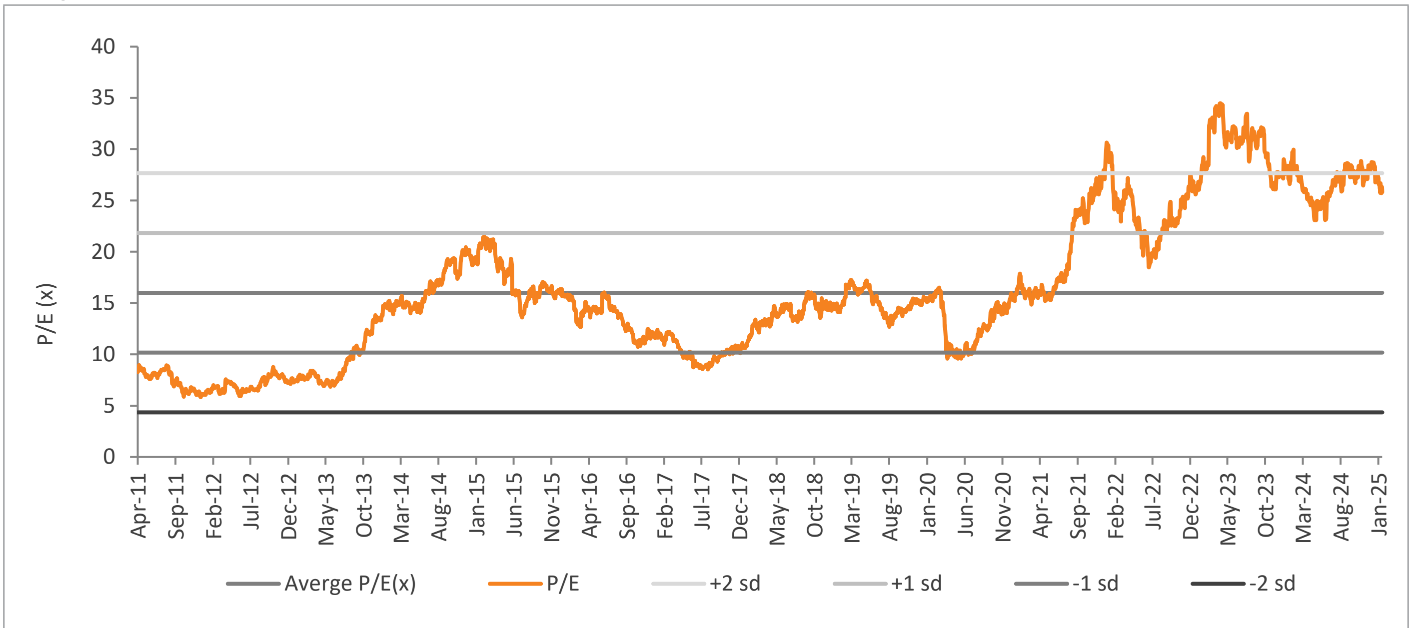
■ Company Outlook – Turnaround plan promising

Tech Mahindra is well placed to capture 5G-related spending from TSPs and OEMs, given its early investments in network capabilities through LCC, investments in IPs, platforms, and investments/ partnerships to develop an ecosystem. We remain positive on the company, considering strong demand in the telecom vertical, a strategic focus on digital acquisitions, steady pace of deal intake, and a continuous focus on diversifying the business. Improvement in execution led by efficient capital allocation is expected to augur well for the company. Management expects CY25 to be better than CY24. The company aims at achieving topline growth above peers in FY2027 with EBIT margin exceeding 15%. We believe the strategic initiatives would lead from turnaround to steady incremental gains for Tech Mahindra over FY25-FY27E.

■ Valuation – Maintain BUY with unchanged PT of Rs. 1,950

Tech M reported good quarter with beat on revenue and margin front, while steep currency movements impacted reported numbers. Management is optimistic about meeting its long-term objectives on account of positive deal trends and margin improvements along with investments in generative AI and strategic partnerships. Margin trajectory continues to witness steady recovery under Project Fortius. The improved rate of deal wins with consistent expansion in margins keeps it on track to achieve longer term goals. We maintain BUY with an unchanged PT of Rs. 1,950. At CMP, the stock trades at 32.9/25.8/20.5x its FY25/26/27E EPS.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About the company

Tech Mahindra has been providing end-to-end services to telecom OEMs and service providers. Over the years, the company has acquired Comviva Technologies, LCC, and Hutchison Global Services to fill gaps in its service offerings in the telecom space. Notably, post the acquisition of Satyam, Tech Mahindra entered the enterprise solutions space and became the fifth-largest Indian IT player. The company has now diversified its exposure to other verticals such as BFSI and manufacturing. Tech Mahindra offers a bouquet of services, including IT outsourcing services, consulting, next-generation solutions, application outsourcing, network services, infrastructure management services, integrated engineering solutions, business process outsourcing, platform solutions, and mobile value-added services.

Investment theme

Tech Mahindra is one of the leading players in providing end-to-end services and solutions to telecom OEMs and major global service providers in the communication space (contributes ~ 34% to its total revenue). Historically, this has helped the company whenever there is any uptick in technology spends, led by the adoption of new technology. As the pace of spending from the roll-out of 5G network is likely to accelerate across the globe, Tech Mahindra is well positioned to capitalise on the 5G opportunity across networks and IT services, given its investments in network capabilities, IPs, platforms, and partnerships. This has enabled the company to compete with large peers by striving for large deals in the enterprise segment.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements. 2) The contagion effect of banking crisis, macro headwinds and recession can moderate the pace of technology spending.

Additional Data

Key management personnel

Anand Mahindra	Chairman
Mohit Joshi	Managing Director and Chief Executive Officer
Rohit Anand	Chief Financial Officer
Manish Vyas	President, Communications, Media, and Entertainment Business
Vivek Agarwal	President – BFSI, HLS and Corporate Development

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	10.63
2	TML BENEFIT TRUST	9.63
3	SBI Funds Management Ltd	3.95
4	Vanguard Group Inc/The	2.65
5	Blackrock Inc	2.44
6	Mitsubishi UFJ Financial Group Inc	2.04
7	Kotak Mahindra Asset Management Co	1.95
8	ICICI Prudential Asset Management	1.91
9	First Sentier Investors ICVC	1.77
10	Norges Bank	1.62

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

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