

Estimate change



TP change



Rating change



Bloomberg	TECHM IN
Equity Shares (m)	978
M.Cap.(INRb)/(USDb)	1625.1 / 18.8
52-Week Range (INR)	1808 / 1163
1, 6, 12 Rel. Per (%)	-2/15/18
12M Avg Val (INR M)	3283

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	531	561	603
EBIT Margin (%)	9.4	12.4	13.6
Adj. PAT	40.1	56.1	65.6
Adj. EPS (INR)	45.2	63.2	74.0
PAT	40.1	56.1	65.6
EPS (INR)	45.2	63.2	74.0
EPS Gr. (%)	68.8	39.8	17.1
BV/Sh. (INR)	308.1	317.4	328.3

Ratios

RoE (%)	14.9	20.2	22.9
RoCE (%)	16.1	21.8	24.9
Payout (%)	85.0	85.0	85.0

Valuations

P/E (x)	36.7	26.2	22.4
P/BV (x)	5.4	5.2	5.1
EV/EBITDA (x)	21.1	16.6	14.2
Div Yield (%)	2.3	3.2	3.8

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	35.0	35.0	35.1
DII	31.2	30.9	27.3
FII	23.7	23.3	26.2
Others	10.1	10.8	11.3

FII Includes depository receipts

CMP: INR1,660

TP: INR1,850 (+11%)

Neutral

Another step in the right direction

Execution continues to be on track despite growth challenges

■ Tech Mahindra (TECHM) reported 3QFY25 revenue of USD1.5b, up 1.2% QoQ in constant currency (CC) vs. our estimate of flat CC growth. Healthcare/BFSI led the growth (+4.5%/2.7% QoQ CC), while Communications and Technology were muted on CC basis. EBIT margin was up 60bp QoQ at 10.2%, beating our estimate of 9.7%. Adj. PAT stood at INR9.8b (down 21.4% QoQ but up 36.8% YoY), in line with our estimate of INR10b. For 9MFY25, revenue/EBIT/PAT grew 1.2%/24.2%/16.3% vs. 9MFY24. We expect revenue/EBIT to grow by 5.2%/35.9%, but PAT to decline by 4.7% YoY in 4QFY25. Net new deal TCV was USD745m, up 23% QoQ/95% YoY. We value TECHM at 25x FY27E EPS with a TP of INR1,850 (11% upside). We reiterate our Neutral rating on the stock.

Our view: Disciplined execution continues

- **FY27 EBIT margin dreams looks more and more real:** We believe TECHM's Phase 1 transformation is progressing well, with EBIT margins likely to grow to 12.5% by FY26E. The period from FY26 to FY27 may bring renewed margin pressures across the industry, including rising attrition rates, high costs associated with backfilling roles, and increasing demand for specialized talent. While this implies some risk to management guidance for FY27, the market could continue to reward TECHM for staying on course and directionally progressing well.
- **We await further signs of recovery in Communications and Automotive:** Client spending recovery remains slightly muted in TECHM's two biggest verticals, Telecom and Automotive/Manufacturing (~50% of revenues). The margin expansion trajectory now looks quite reassuring, and we would turn constructive on the stock if we see improved spending patterns in Automotive and Communications.
- **Market's faith in the new management being vindicated:** We believe that despite the challenges, the new management has repaid the initial faith in its ability to engineer a turnaround. TECHM could be valued at a higher multiple to its historical average. Our target multiple of 25x FY27E EPS is at a 10% discount to Infosys, as we pencil in superior execution in an improving demand environment.

Valuation and change in estimates

- We adjusted our FY25 estimates to account for the impact of wage hikes in 4Q and raised our FY27 projections, reflecting steady directional progress. We expect FY25/FY26/FY27 EBIT margins at 9.4%/12.4%/13.6%, which will result in a 22% CAGR in INR PAT over FY24-27.

Beat on revenue and margins; Healthcare led growth; deal TCV up 23% QoQ

- Revenue stood at USD1.5b, up 1.2% CC (down 1.3% in USD terms), beating our estimates of flat CC growth.
- IT service /BPO declined 1.0%/3.3% QoQ.

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- Healthcare/BFSI led the growth (+4.5%/2.7% QoQ CC), while Communications and Technology were muted on CC basis. Manufacturing fell 2.5% QoQ CC.
- EBIT margin was up 60bp QoQ at 10.2%, beating our estimate of 9.7%.
- Net employee addition: 3,785 (down 2.5% QoQ). Utilization (excl. trainees) was down by 70bp at 85.6%. LTM attrition was up by 60bp at 11.2%.
- Net new deal TCV was USD745m, up 23% QoQ/95% YoY.
- Adj. PAT stood at INR9.8b (down 21.4% QoQ but up 36.8% YoY), in line with our estimate of INR10b.
- FCF conversion to PAT stood at 172% vs. 106% in 2Q.

Key highlights from the management commentary

- TECHM is focused on enhancing its capabilities and optimizing its revenue mix to achieve better pricing outcomes.
- The company anticipates that CY25 will show better performance than CY24.
- There is substantial headroom for growth within the partner ecosystem, with much of the growth expected to come from partnerships with hyperscalers and independent software vendors (ISVs).
- The net new TCV was USD745m in 3Q, up 23% QoQ and 95% YoY. Many deals originate from prioritized verticals and regional markets, with a focus on securing qualitative, large-scale agreements.
- EBIT margins improved to 10.2%, up 60bp QoQ, driven by operational leverage and cost optimization under Project Fortius.
- Wage hikes planned for 4QFY25 could impact margins by 100-150bp.
- Despite adding freshers, the overall headcount decreased due to its focus on optimizing costs through fixed-price contracts.

Valuation and view

- We remain positive about the restructuring at TECHM under the new leadership and believe this quarter was another step in the right direction. But we expect the impact from these steps to be visible gradually. Further, TECHM's presence in the Communications segment, which remains under notable duress, makes the new management's job much harder. We remain on the sidelines, as we believe the current valuation fairly factors in the uncertainties around growth and margin. **We value TECHM at 25x FY27E EPS with a TP of INR1,850 (11% upside). We reiterate our Neutral rating on the stock.**

Quarterly Performance

(INR b)

Y/E March	FY24				FY25E				FY24	FY25E	Est. 3QFY25	Var. (% / bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Revenue (USD m)	1,601	1,555	1,573	1,548	1,559	1,589	1,567	1,574	6,277	6,289	1,565	0.1
QoQ (%)	-4.0	-2.8	1.1	-1.6	0.7	1.9	-1.4	0.5	-5.0	0.2	-1.5	13bp
Revenue (INR b)	132	129	131	129	130	133	133	135	520	531	132	0.7
YoY (%)	3.5	-2.0	-4.6	-6.2	-1.2	3.5	1.4	5.2	-2.4	2.2	0.7	69bp
GPM (%)	25.7	22.5	23.9	27.0	26.5	27.9	28.8	27.8	24.8	27.8	27.0	183bp
SGA (%)	13.5	11.5	13.6	16.1	14.5	14.8	15.2	15.0	13.7	14.9	14.0	121bp
EBITDA	16	14	14	14	16	18	18	17	58	69	17	5.5
EBITDA Margin (%)	12.2	10.9	10.3	10.9	12.0	13.1	13.6	12.8	11.1	12.9	13.0	62bp
EBIT	12	9	9	9	11	13	14	13	40	50	13	5.5
EBIT Margin (%)	8.8	7.3	7.0	7.4	8.5	9.6	10.2	9.5	7.6	9.4	9.7	46bp
Other income	1	2	0	3	1	4	-1	-1	5	4	1	-145.0
ETR (%)	21.8	9.9	17.6	23.4	26.7	26.6	23.9	25.0	18.5	25.6	26.6	-272bp
Adj. PAT	10	10	7	10	9	13	10	9	36	40	10	-4.4
QoQ (%)	-28.2	2.3	-26.5	34.9	-12.2	46.8	-21.4	-6.0			-17.7	-361bp
YoY (%)	-15.5	-25.3	-44.6	-27.1	-10.9	27.8	36.8	-4.7	-28.5	10.7	43.1	-628bp
Extra Ordinary Item	-2.6	-4.8	-2.1	-3.1	0.0	0.0	0.0	0.0	-12.6	0.0	0.0	
Reported PAT	7	5	5	7	9	13	10	9	24	40	10	-4.4
EPS (INR)	10.8	11.0	8.1	11.0	9.6	14.1	11.1	10.4	41.1	45.2	11.6	-4.5

Key Performance Indicators

Y/E March	FY24				FY25			FY24
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	
Revenue (QoQ CC %)	-4.2	-2.4	1.1	-0.8	0.7	0.7	1.2	
Margins (%)								
Gross Margin	25.7	22.5	23.9	27.0	26.5	27.9	28.8	24.8
EBITDA margin	12.2	10.9	10.3	10.9	12.0	13.1	13.6	11.1
EBIT Margin	8.8	7.3	7.0	7.4	8.5	9.6	10.2	7.6
Net Margin	7.3	7.6	5.5	7.5	6.5	9.4	7.4	7.0
Operating Metrics								
Headcount (k)	148	151	146	145	148	154	150	145
Util excl. trainees (%)	87.2	86.0	88.0	86.0	86.0	86.0	86.0	86.8
Attrition (%)	12.8	11.4	10.0	10.0	10.0	10.6	11.2	10.0
Deal TCV (USD m)	359	640	381	500	534	603	745	1,880
Key Verticals (QoQ %)								
Communication	-14.3	-5.8	6.4	-8.3	-2.0	2.8	-4.0	-16.2
Enterprise	2.9	-1.0	-1.8	2.3	2.1	1.4	0.0	2.6
Key Geographies (QoQ%)								
North America	-0.5	0.7	-1.5	-3.7	3.9	-0.6	-1.9	-1.3
Europe	-6.7	-6.8	2.0	0.1	-2.6	4.5	-3.0	-8.3



Highlights from the management commentary

Demand and industry outlook

- TECHM is focused on enhancing its capabilities and optimizing its revenue mix to achieve better pricing outcomes.
- The company anticipates that CY25 will show better performance than CY24.
- There is substantial headroom for growth within the partner ecosystem, with much of the growth expected to come from partnerships with hyperscalers and ISVs.
- 3Q revenue stood at USD1.5b, up 1.2% QoQ CC but down 1.3% on a reported basis due to unfavorable currency movements.
- The net new TCV was USD745m, up 23% QoQ and 95% YoY. Many deals originate from prioritized verticals and regional markets, with a focus on securing qualitative, large-scale agreements.
- **The rate of deal wins has improved in key verticals such as Telecom and Hi-Tech.**
- The nature of deals varies by industry: Telecom saw deals in consolidation and cost reduction, while SAP S4HANA and data analytics deals were seen in Retail and Healthcare.
- **Renewal deals have demonstrated healthy renewal rates, though there are challenges in passing on productivity benefits.**
- The company has expanded its deal pipeline by strengthening its relationships with advisory firms and hiring new talent.
- TECHM has made significant investments in its generative AI suite, TechM AgentX, with ongoing R&D efforts.
- **Telecom – The APAC region is witnessing growing momentum, while Europe remains competitive but is stable and improving. In Europe, TECHM secured a new Telecom logo in consolidation.** The US segment faces challenges in discretionary spending by large clients.
- **Manufacturing:** Declined due to pressures in the automotive segment, including Pininfarina. Most of the company's automotive exposure is in the US, which remains more resilient than Europe.
- The net employee addition was 3,785, down 2.5% QoQ. **Despite adding freshers, the overall headcount decreased due to a focus on optimizing costs through fixed-price contracts.**
- The organizational structure is aligning with the company's strategic plan.
- TECHM has established a Center of Excellence (CoE) with Nvidia to advance large language models (LLMs), agentic AI, and physical AI.
- Launched **TechM AgentX**, a comprehensive suite of generative AI-powered solutions designed to drive intelligent automation globally.
- The company is focused on creating horizontal and vertical AI solutions, in collaboration with partners such as hyperscalers and chip manufacturers.

Margin performance

- EBIT margins improved to 10.2%, up 60bp QoQ, driven by operational leverage and cost optimization under Project Fortius.
- Wage hikes planned for 4QFY25 could impact margins by 100-150bp.
- **Levers for margin improvement:** better pricing, improved performance in fixed-price contracts, reduced seasonality in the Comviva business, and lean automation in fixed-price contracts to enhance cost efficiency.

Exhibit 1: Healthcare led growth in 3QFY25

Verticals	Contribution to revenue (%)	Growth (QoQ %)
Comm., Media, and Ent.	32.5	-4.0
Manufacturing	16.8	-3.7
Technology	14.3	-1.4
BFSI	16.1	0.5
Retail, Transport, and Logistics	8.1	-0.3
Others	12.2	5.6

Exhibit 2: America and Europe declined sequentially

Geographies	Contribution to revenue (%)	Growth (QoQ %)
Americas	50.8	-1.9
Europe	23.6	-3.0
Rest of the World	25.6	1.4

Valuation and view

We remain positive about the restructuring at TECHM under the new leadership and believe this quarter was another step in the right direction. But we expect the impact from these steps to be visible gradually. Further, TECHM's presence in the Communications segment, which remains under notable duress, makes the new management's job much harder. We remain on the sidelines, as we believe the current valuation fairly factors in the uncertainties around growth and margin. **We value TECHM at 25x FY27E EPS with a TP of INR1,850 (11% upside). We reiterate our Neutral rating on the stock.**

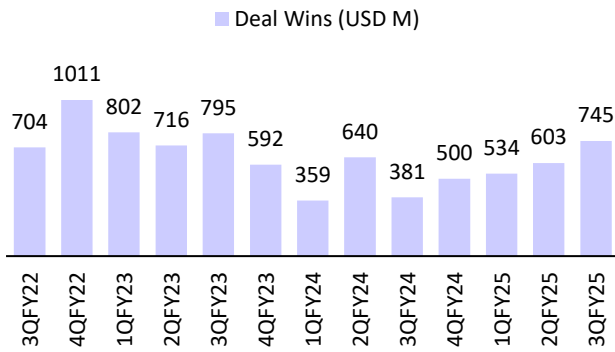
Exhibit 3: Changes to our estimates

	Revised			Earlier			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
INR/USD	84.7	86.0	86.0	84.1	84.9	84.9	0.7%	1.3%	1.3%
USD Revenue (m)	6,289	6,529	7,006	6,284	6,544	7,064	0.1%	-0.2%	-0.8%
Growth (%)	0.2	3.8	7.3	0.1	4.1	8.0	10bps	-30bps	-60bps
EBIT margin (%)	9.4	12.4	13.6	9.6	12.6	13.1	-10bps	-20bps	50bps
PAT (INR b)	40	56	66	42	55	62	-5.4%	1.8%	6.4%
EPS	45.2	63.2	74.0	47.8	62.1	69.6	-5.5%	1.7%	6.3%

Source: MOFSL, Company

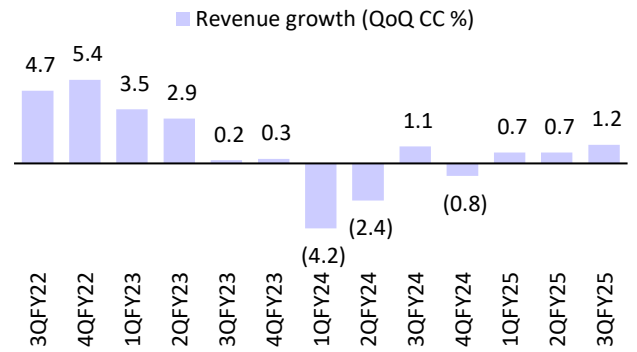
Story in charts

Exhibit 4: Net new deals grew 95% YoY



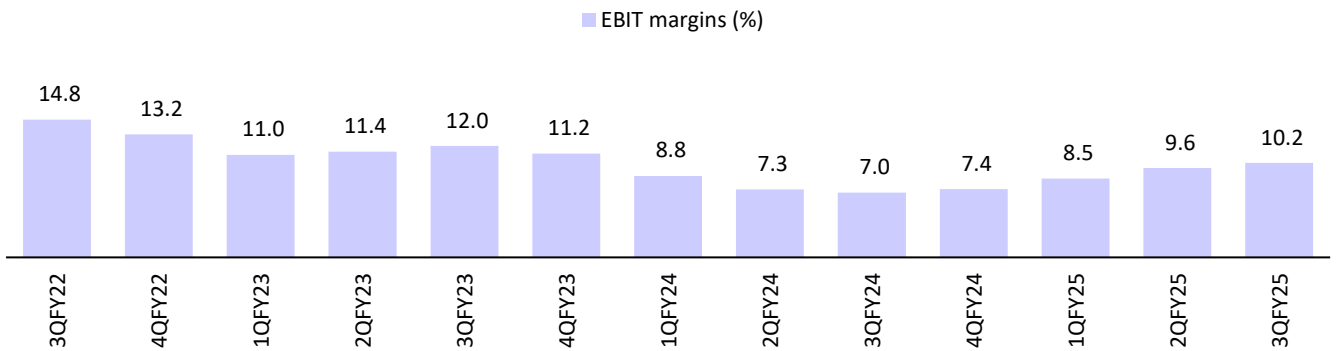
Source: Company, MOFSL

Exhibit 5: Revenue grew 1.2% CC in 3Q



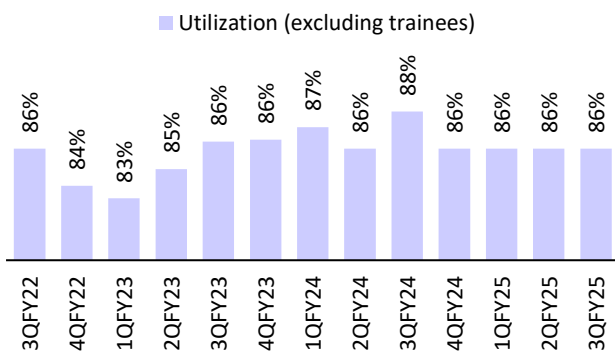
Source: Company, MOFSL

Exhibit 6: EBIT margin expanded by 60bp QoQ in 3QFY25 to reach the double-digit level



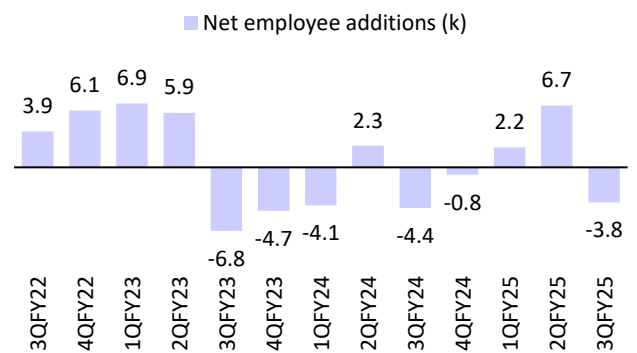
Source: Company, MOFSL

Exhibit 7: Utilization remained flat at 86%



Source: Company, MOFSL

Exhibit 8: Headcount declined in 3QFY25



Source: Company, MOFSL

Exhibit 9: Operating metrics

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Revenue by Geography (%)									
Americas	49.7	49.6	51.4	53.3	51.9	50.8	52.4	51.1	50.8
Europe	24.4	25.3	24.6	23.6	23.8	24.2	23.4	24.0	23.6
Rest of World	25.9	25.1	24.0	23.2	24.3	25.0	24.2	24.9	25.6
Vertical Split (%)									
Telecom	39.8	40.1	35.8	34.7	36.5	34.0	33.1	33.4	32.5
Manufacturing	15.7	15.9	16.7	17.5	18.1	18.0	18.3	17.2	16.8
Tech Media Entertainment	10.3	10.3	13.9	14.3	10.5	13.8	13.8	14.3	14.3
BFSI	15.9	15.9	15.5	15.4	15.5	15.7	15.7	15.8	16.1
Retail Transport Logistics	8.5	7.6	7.1	7.7	8.6	7.3	7.7	7.9	8.1
Others	9.8	10.2	11.0	10.4	10.8	11.2	11.4	11.4	12.2
Client Metrics									
No. of active clients	1,290	1,297	1,255	1252	1228	1172	1165	1178	1175
% of repeat business	93.0	92.0	98.0	96	95	94	94	94	95
No. of Million \$ clients									
USD1m+	574	582	580	568	558	553	545	545	540
USD5m+	185	186	190	186	185	190	191	195	191
USD10m+	109	112	115	114	118	114	113	109	104
USD20m+	65	65	62	61	63	63	61	61	61
USD50m+	24	24	26	26	26	23	24	25	25
Client concentration (%)									
Top 5 Clients	18.0	18.0	17.0	17	16	16	15	15	15
Top 6-10	9.0	9.0	9.9	10.5	10.2	10.0	10.0	10.0	9.0
Top 11-20	13.0	13.0	12.0	12.4	12.4	13.0	13.0	14.0	14.0
Headcount									
Software professionals	84,874	83,789	81,521	81,200	81,705	80,925	80,417	80,618	80,865
BPO	63,568	60,102	58,079	60,985	56,206	55,492	58,177	64,940	61,053
Sales and support	8,626	8,509	8,697	8,419	8,339	9,038	9,026	8,715	8,570
Total	1,57,068	1,52,400	1,48,297	1,50,604	1,46,250	1,45,455	1,47,620	1,54,273	1,50,488
IT Attrition (LTM %)	17	15	13	11	10	10	10	11	11
IT Utilization (%)	86	86	87	86	88	86	86	86	86
IT Utilization (excl. trainees)	86	86	87	86	88	86	86	86	86
DSO - incl. unbilled	98	96	98	97	91	92	93	94	88
Borrowings (USD m)	212.0	192.0	185.0	187	181	184	127	116	109
Cash and Cash Equivalent (USD m)	780.0	905.0	939.0	784	843	949	966	784	799
Capital Expenditure (USD m)	31.0	32.0	25.0	26	21	24	13	16	20

Source: Company, MOFSL

Financials and valuations

Income Statement

(INR b)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sales	369	379	446	533	520	531	561	603
Change (%)	6.1	2.7	17.9	19.4	-2.4	2.2	5.7	7.3
COGS	260	259	310	381	391	384	397	422
Gross Profit	109	120	137	152	129	148	164	180
SGA expenses	52	52	57	71	71	79	77	78
EBITDA	57	68	80	80	58	69	87	102
% of Net Sales	15.5	18.1	18.0	15.1	11.1	12.9	15.5	16.9
Depreciation	14	15	15	20	18	18	18	20
EBIT	43	54	65	61	40	50	69	82
% of Net Sales	11.6	14.2	14.6	11.4	7.6	9.4	12.4	13.6
Other Income	10	6	10	6	5	4	6	6
PBT	53	60	75	67	45	54	75	88
Tax	12	15	18	16	8	14	19	22
Rate (%)	22.0	25.3	24.4	23.7	18.5	25.6	25.6	25.6
Minority interest	-1	-1	1	1	0	0	0	0
Share from associates	0	0	0	0	0	0	0	0
Extraordinary Items (EO)	-2	-1	0	-2	-13	0	0	0
Adjusted PAT	43	46	56	51	36	40	56	66
Change (%)	-1.1	7.2	22.1	-8.9	-28.5	10.7	39.8	17.1

Balance Sheet

(INR b)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	4	4	4	4	4	4	4	4
Reserves	214	244	264	275	262	268	277	286
Net Worth	218	249	269	279	267	273	281	291
Minority Interest	4	4	5	5	5	5	5	5
Loans	24	17	16	16	15	15	15	15
Other LT liabilities	28	28	36	31	23	23	24	25
Amount pending invest.	12	12	12	12	12	12	12	12
Capital Employed	287	309	338	343	322	329	338	348
Assets	89	91	149	149	139	138	138	138
Investments	2	6	4	6	5	5	5	5
Other non-current assets	50	47	50	62	56	57	61	65
Curr. Assets	232	253	245	244	234	241	251	264
Debtors	76	65	75	81	71	73	78	84
Cash & Bank Balance	30	27	38	41	43	42	39	38
Investments	57	98	46	30	32	47	62	77
Other Current Assets	68	63	86	93	88	79	72	66
Current Liab. & Prov	87	88	111	119	112	112	117	123
Net Current Assets	145	165	134	126	122	129	134	141
Application of Funds	287	309	338	343	322	329	338	348

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	48.7	52.1	63.2	57.6	41.1	45.3	63.3	74.1
Diluted EPS	48.3	51.7	62.6	57.3	41.1	45.2	63.2	74.0
Cash EPS	62.3	66.7	79.7	76.7	47.4	65.9	83.1	96.4
Book Value	249.9	284.4	305.2	317.3	302.6	308.1	317.4	328.3
DPS	15.0	45.0	45.0	50.0	40.0	38.4	53.7	62.9
Payout (%)	31.0	87.1	71.9	87.3	97.3	85.0	85.0	85.0
Valuation (x)								
P/E ratio	34.1	31.8	26.3	28.8	40.4	36.7	26.2	22.4
Cash P/E ratio	26.6	24.9	20.8	21.6	35.0	25.2	20.0	17.2
EV/EBITDA ratio	25.2	21.0	18.0	17.9	24.9	21.1	16.6	14.2
EV/Sales ratio	3.9	3.8	3.2	2.7	2.8	2.7	2.6	2.4
Price/Book Value	6.6	5.8	5.4	5.2	5.5	5.4	5.2	5.1
Dividend Yield (%)	0.9	2.7	2.7	3.0	2.4	2.3	3.2	3.8
Profitability Ratios (%)								
RoE	20.2	19.5	21.5	18.5	13.3	14.9	20.2	22.9
RoCE	17.3	19.3	21.0	18.6	12.4	16.1	21.8	24.9
Turnover Ratios								
Debtors (Days)	75	62	61	56	50	50	51	51
Fixed Asset Turnover (x)	4.1	4.1	3.0	3.6	3.7	3.9	4.1	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

(INR b)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
CF from Operations	49	65	67	74	51	59	73	85
Change in Working Capital	-5	16	-14	-18	13	6	4	4
Net Operating CF	44	81	53	56	64	65	77	89
Net Purchase of FA	-8	-6	-8	-10	-7	-17	-18	-19
Free Cash Flow	35	75	45	46	56	48	59	70
Net Purchase of Invest.	19	-49	13	7	-6	-15	-15	-15
Net Cash from Invest.	10	-55	5	-3	-13	-32	-33	-34
Inc./(Dec.) in Equity	0	1	1	0	0	0	0	0
Proceeds from LTB/STB	-20	-13	-8	-9	-9	0	0	0
Dividend Payments	-25	-18	-40	-43	-39	-34	-48	-56
Cash Flow from Fin.	-45	-30	-47	-51	-48	-34	-48	-56
Other adjustments	1	0	0	1	0	0	0	0
Net Cash Flow	10	-3	11	3	3	-2	-3	-1
Opening Cash Balance	20	30	27	38	41	43	42	39
Add: Net Cash	10	-3	11	3	3	-2	-3	-1
Closing Cash Balance	30	27	38	41	43	42	39	38

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NOTES

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

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