

Tech Mahindra (TechM) reported a broadly in-line operating performance. Revenue inched up 0.7% QoQ to US\$1.56bn, largely meeting our estimates. Growth was fairly broad-based, with 5 of the 7 verticals seeing QoQ growth (decline in Communications due to Comviva seasonality). EBITM of 8.5% was also in line with our estimate, with headwinds from Comviva seasonality and higher visa costs offset by benefits accrued from Project Fortius. The management highlighted that its 'speed at scale' strategy is being well received by clients, and reiterated that FY25 should be better than FY24. The demand environment has remained fairly similar to last quarter's, albeit seeing some improvement versus previous year. With the company's delivery execution to achieve its 'Vision 2027' strategy off to a solid start, we hike up our target multiple to 22x (from 19x). We tweak FY25-27E EPS by -2% to +2%, factoring in the Q1 performance and higher ETR assumptions. We maintain ADD and raise our TP to Rs1,650/sh (from Rs1,425 earlier) at 22x Jun-26E EPS.

Tech Mahindra: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	532,902	519,956	534,492	590,345	654,263
EBITDA	80,288	49,645	74,328	98,959	116,216
Adj. PAT	48,313	23,578	42,759	62,050	75,007
Adj. EPS (Rs)	54.9	26.7	48.4	70.2	84.9
EBITDA margin (%)	15.1	9.5	13.9	16.8	17.8
EBITDA growth (%)	0.1	(38.2)	49.7	33.1	17.4
Adj. EPS growth (%)	(13.4)	(51.3)	81.1	45.1	20.9
RoE (%)	18.5	10.3	15.8	21.9	24.8
RoIC (%)	22.8	12.0	20.8	30.1	36.0
P/E (x)	27.9	57.3	31.6	21.8	18.0
EV/EBITDA (x)	16.0	25.9	17.3	12.8	10.7
P/B (x)	4.8	5.1	4.9	4.6	4.3
FCFF yield (%)	3.4	4.2	2.9	4.6	5.5

Source: Company, Emkay Research

Results Summary

Revenue grew 0.7% QoQ (0.7% in CC) to US\$1.56bn, broadly in line with our estimates. Revenue for IT Services and BPS verticals grew 0.6% and 1.3% QoQ on like-to-like basis. Five of the 7 verticals saw sequential growth, with Manufacturing (2.4% QoQ), Hi-Tech and Media (0.5%), BFSI (0.7%), Retail, Transportation and Logistics (5.2%), and Healthcare and Lifesciences (7.9%) seeing growth. Communications and Others declined 1.9% and 5.2% QoQ, respectively. Among geographies, Americas grew 3.9% QoQ, while Europe and ROW declined 2.6% and 2.7%, respectively. Adj. EBITM expanded by 110bps to 8.5%, broadly in line with our estimate of 8.3%. Net new deal wins remained steady at US\$534mn. Total headcount grew 1.5% QoQ/-0.5% YoY to 147,620, with the inclusion of ~2,100 interns among BPO professionals resulting in QoQ growth. Attrition was stable at 10.1% (vs 10% in Q4FY24). **What we liked:** Steady operating performance and deal intake. **What we did not like:** Weak cash conversion (~64% OCF/ EBITDA).

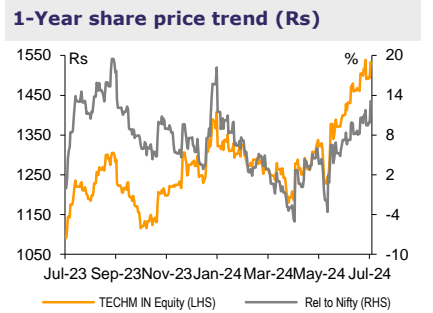
Earnings Call KTAs

i) Performance was led by broad-based growth across verticals except Communications, which remains subdued. The management indicated that Comviva seasonality impacted revenue and margin by 50bps. TechM continues to focus on execution and is on track to achieve its stated goals for FY27. ii) BFSI demand trend has been stable, with improvement in US spending across asset and wealth management, cards, and payments, while investment banking and lending remain soft. The management sees new opportunities in existing accounts and addition of new logos; however, it expects some volatility in performance in the near term, considering the smaller footprint. iii) Telecom continues to face challenges, but the decline has reduced to a single digit and the company expects YoY improvement in coming quarters. iv) The management believes levers are in place for margin improvement, with building the employee pyramid as the major driver over the medium term. It added ~1,000 freshers in Q1. Project Fortius aids ~120bps margin improvement during the quarter. v) The management has no plans of wage hikes in FY25 for now, and will re-evaluate this stance in H2. vi) TechM launched TECHM Verify during the quarter, focusing on the validation and assurance framework for AI systems, thus addressing the missing link in wide-scale AI adoption. vii) The management shared that over 25,000 associates have been trained with AI skills and the company now offers over 100 AI-based solutions. viii) The management indicated that contact-center dependency is <5% of revenue at the company level.

Target Price – 12M	Jun-25
Change in TP (%)	15.8
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	7.8
CMP (25-Jul-24) (Rs)	1,530.0

Stock Data	Ticker
52-week High (Rs)	1,548
52-week Low (Rs)	1,082
Shares outstanding (mn)	977.9
Market-cap (Rs bn)	1,496
Market-cap (USD mn)	17,875
Net-debt, FY25E (Rs mn)	-69,162
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	3,440.4
ADTV-3M (USD mn)	41.1
Free float (%)	64.0
Nifty-50	24,406
INR/USD	83.7
Shareholding, Jun-24	
Promoters (%)	35.1
FPIs/MFs (%)	23.3/30.8

Price Performance			
(%)	1M	3M	12M
Absolute	7.2	28.5	32.3
Rel. to Nifty	4.2	18.9	6.7



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Exhibit 1: Quarterly snapshot

(Rs mn)	Q1FY25	Q4FY24	QoQ(%)	Q1FY24	YoY (%)
Revenue (US\$ mn)	1,559	1,548	0.7	1,601	-2.6
Net sales	130,055	128,713	1.0	131,590	-1.2
Total Income	130,055	128,713	1.0	131,590	
Operating expenses	114,410	114,635		118,210	
EBITDA	15,645	14,078	11.1	13,380	16.9
Margin (%)	12.0	10.9	110	10.2	190
Depreciation	4,622	4,614		4,466	
EBIT	11,023	9,464	16.5	8,914	23.7
Margin (%)	8.5	7.4	110	6.8	170
Interest	(715)	(585)		(1,197)	
Other income	1,447	3,735		1,917	
Pre-tax profit	11,755	12,614	-6.8	9,634	22.0
Tax provided	3,133	2,949		2,676	
Profit after tax	8,622	9,665	-10.8	6,958	23.9
MI	(107)	32		(33)	
Reported Profit After tax	8,515	6,610	28.8	6,925	23.0
Emkay Net Profit	8,515	9,697	-12.2	6,925	23.0
EPS (Rs)	9.6	11.0	-12.3	7.9	22.5

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimate		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (US\$ mn)	1,559	1,557	1,552	0.1%	0.4%	Revenue growth was in line with expectations.
Sales	130,055	129,867	129,493	0.1%	0.4%	
EBIT	11,023	10,813	10,359	1.9%	6.4%	EBITM came a tad better than expectations.
EBIT margin	8.5%	8.3%	8.0%	10 bps	50 bps	
Profit	8,515	8,636	8,676	-1.4%	-1.9%	Profit missed expectations due to higher ETR.

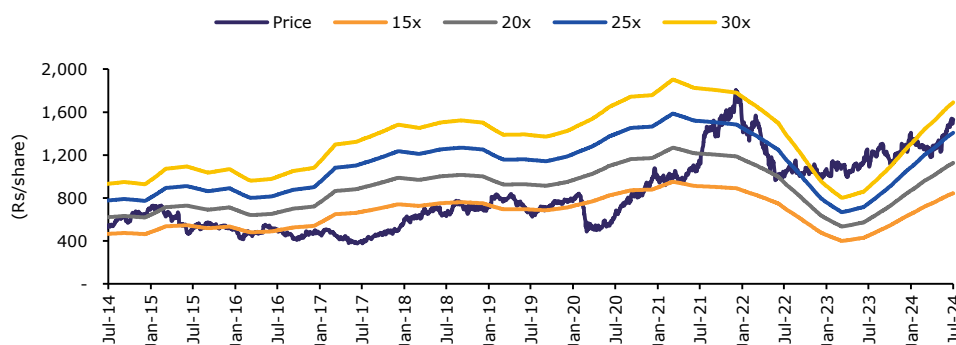
Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenues (US\$ mn)	6,360	6,374	0.2%	6,934	6,945	0.2%	7,559	7,608	0.6%
YoY growth	1.3%	1.5%		9.0%	9.0%		9.0%	9.5%	
Revenue	533,344	534,492	0.2%	589,428	590,345	0.2%	650,091	654,263	0.6%
EBIT	55,058	55,385	0.6%	79,459	79,614	0.2%	94,934	95,680	0.8%
EBITM (%)	10.3	10.4		13.5	13.5		14.6	14.6	
Net Profit	43,517	42,759	-1.7%	62,472	62,050	-0.7%	74,029	75,007	1.3%
EPS (Rs)	49.3	48.4	-1.9%	70.8	70.2	-0.8%	83.9	84.9	1.2%

Source: Company, Emkay Research

Exhibit 4: TechM – One-year forward PER



Source: Company, Emkay Research

Tech Mahindra: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	532,902	519,956	534,492	590,345	654,263
Revenue growth (%)	19.4	(2.4)	2.8	10.4	10.8
EBITDA	80,288	49,645	74,328	98,959	116,216
EBITDA growth (%)	0.1	(38.2)	49.7	33.1	17.4
Depreciation & Amortization	19,567	18,171	18,944	19,345	20,536
EBIT	60,721	31,474	55,385	79,614	95,680
EBIT growth (%)	(6.6)	(48.2)	76.0	43.7	20.2
Other operating income	0	0	0	0	0
Other income	9,650	9,169	6,335	7,268	8,618
Financial expense	3,256	3,922	2,967	3,057	3,081
PBT	67,115	36,721	58,754	83,826	101,218
Extraordinary items	(2,370)	(4,582)	0	0	0
Taxes	15,885	8,276	15,588	21,376	25,811
Minority interest	(547)	(285)	(407)	(400)	(400)
Income from JV/Associates	0	0	0	0	0
Reported PAT	48,313	23,578	42,759	62,050	75,007
PAT growth (%)	(13.2)	(51.2)	81.4	45.1	20.9
Adjusted PAT	48,313	23,578	42,759	62,050	75,007
Diluted EPS (Rs)	54.9	26.7	48.4	70.2	84.9
Diluted EPS growth (%)	(13.4)	(51.3)	81.1	45.1	20.9
DPS (Rs)	50.0	40.0	40.0	50.0	60.0
Dividend payout (%)	91.0	149.7	82.7	71.2	70.7
EBITDA margin (%)	15.1	9.5	13.9	16.8	17.8
EBIT margin (%)	11.4	6.1	10.4	13.5	14.6
Effective tax rate (%)	23.7	22.5	26.5	25.5	25.5
NOPLAT (pre-IndAS)	46,349	24,381	40,691	59,313	71,282
Shares outstanding (mn)	879.9	882.5	883.6	883.6	883.6

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	67,115	36,721	58,754	83,826	101,218
Others (non-cash items)	29,647	31,002	18,537	18,945	20,136
Taxes paid	(19,931)	(12,469)	(15,588)	(21,376)	(25,811)
Change in NWC	(18,451)	12,987	(13,108)	(7,229)	(8,302)
Operating cash flow	55,720	63,764	48,595	74,165	87,241
Capital expenditure	(9,692)	(7,377)	(9,218)	(12,450)	(13,180)
Acquisition of business	(10,672)	(7,488)	0	0	0
Interest & dividend income	1,448	1,531	0	0	0
Investing cash flow	(2,785)	(13,137)	(26,424)	(12,450)	(13,180)
Equity raised/(repaid)	442	238	5	0	0
Debt raised/(repaid)	(1,594)	(688)	(133)	0	0
Payment of lease liabilities	(4,426)	(4,545)	0	0	0
Interest paid	(2,570)	(3,507)	0	0	0
Dividend paid (incl tax)	(42,633)	(39,170)	(35,346)	(44,182)	(53,019)
Others	0	0	0	0	0
Financing cash flow	(50,781)	(47,672)	(35,474)	(44,182)	(53,019)
Net chg in Cash	2,154	2,955	(13,303)	17,533	21,043
OCF	55,720	63,764	48,595	74,165	87,241
Adj. OCF (w/o NWC chg.)	74,171	50,777	61,702	81,395	95,543
FCFF	46,028	56,387	39,377	61,715	74,061
FCFE	44,220	53,996	36,410	58,658	70,981
OCF/EBITDA (%)	69.4	128.4	65.4	74.9	75.1
FCFE/PAT (%)	91.5	229.0	85.2	94.5	94.6
FCFF/NOPLAT (%)	99.3	231.3	96.8	104.1	103.9

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	4,400	4,413	4,418	4,418	4,418
Reserves & Surplus	274,845	262,281	269,694	287,562	309,550
Net worth	279,245	266,694	274,112	291,980	313,969
Minority interests	4,702	4,774	4,774	4,774	4,774
Deferred tax liability (net)	(9,704)	(11,651)	(11,651)	(11,651)	(11,651)
Total debt	14,858	14,606	14,473	14,473	14,473
Total liabilities & equity	289,101	274,423	281,708	299,576	321,565
Net tangible fixed assets	28,622	25,577	23,065	22,276	21,471
Net intangible assets	33,425	29,063	23,568	18,507	13,534
Net ROU assets	10,972	9,605	7,897	6,853	5,274
Capital WIP	836	1,011	1,000	1,000	1,000
Goodwill	76,657	75,106	75,106	75,106	75,106
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	76,428	79,732	83,635	101,168	122,211
Current assets (ex-cash)	221,628	199,746	211,623	229,076	249,048
Current Liab. & Prov.	159,467	145,417	144,187	154,410	166,080
NWC (ex-cash)	62,161	54,329	67,437	74,666	82,968
Total assets	289,101	274,423	281,708	299,576	321,565
Net debt	(61,570)	(65,126)	(69,162)	(86,695)	(107,738)
Capital employed	289,101	274,423	281,708	299,576	321,565
Invested capital	211,837	193,680	197,073	197,408	198,354
BVPS (Rs)	317.4	302.2	310.2	330.4	355.3
Net Debt/Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Net Debt/EBITDA (x)	(0.8)	(1.3)	(0.9)	(0.9)	(0.9)
Interest coverage (x)	0.0	0.1	0.0	0.0	0.0
RoCE (%)	24.5	14.4	22.2	29.9	33.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	27.9	57.3	31.6	21.8	18.0
P/CE(x)	19.2	29.1	21.9	16.6	14.2
P/B (x)	4.8	5.1	4.9	4.6	4.3
EV/Sales (x)	2.4	2.5	2.4	2.1	1.9
EV/EBITDA (x)	16.0	25.9	17.3	12.8	10.7
EV/EBIT(x)	21.2	40.8	23.2	15.9	13.0
EV/IC (x)	6.1	6.6	6.5	6.4	6.3
FCFF yield (%)	3.4	4.2	2.9	4.6	5.5
FCFE yield (%)	3.3	4.0	2.7	4.3	5.3
Dividend yield (%)	3.3	2.6	2.6	3.3	3.9
DuPont-RoE split					
Net profit margin (%)	9.5	5.4	8.0	10.5	11.5
Total asset turnover (x)	1.9	1.8	1.9	2.0	2.1
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	18.5	10.3	15.8	21.9	24.8
DuPont-RoIC					
NOPLAT margin (%)	8.7	4.7	7.6	10.0	10.9
IC turnover (x)	2.6	2.6	2.7	3.0	3.3
RoIC (%)	22.8	12.0	20.8	30.1	36.0
Operating metrics					
Core NWC days	42.6	38.1	46.1	46.2	46.3
Total NWC days	42.6	38.1	46.1	46.2	46.3
Fixed asset turnover	7.1	6.9	7.1	7.9	8.7
Opex-to-revenue (%)	84.9	90.5	86.1	83.2	82.2

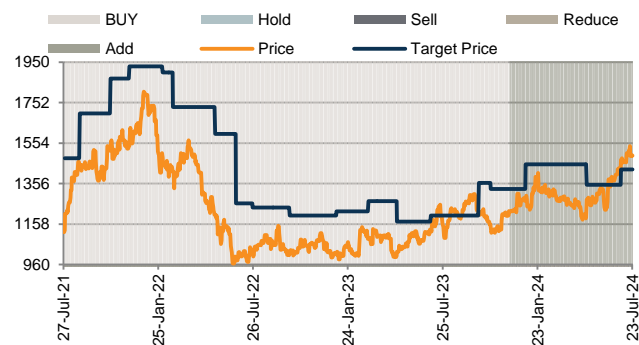
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jul-24	1,472	1,425	Add	Dipeshkumar Mehta
10-Jun-24	1,340	1,350	Add	Dipeshkumar Mehta
09-Jun-24	1,378	1,350	Add	Dipeshkumar Mehta
03-Jun-24	1,245	1,350	Add	Dipeshkumar Mehta
27-May-24	1,330	1,350	Add	Dipeshkumar Mehta
26-Apr-24	1,279	1,350	Add	Dipeshkumar Mehta
31-Mar-24	1,248	1,450	Add	Dipeshkumar Mehta
01-Mar-24	1,272	1,450	Add	Dipeshkumar Mehta
25-Jan-24	1,322	1,450	Add	Dipeshkumar Mehta
31-Dec-23	1,273	1,450	Add	Dipeshkumar Mehta
30-Nov-23	1,221	1,330	Add	Dipeshkumar Mehta
25-Oct-23	1,142	1,330	Buy	Dipeshkumar Mehta
02-Oct-23	1,223	1,360	Buy	Dipeshkumar Mehta
26-Jul-23	1,143	1,200	Buy	Dipeshkumar Mehta
02-Jul-23	1,131	1,200	Buy	Dipeshkumar Mehta
28-Apr-23	1,024	1,170	Buy	Dipeshkumar Mehta
01-Apr-23	1,102	1,270	Buy	Dipeshkumar Mehta
11-Mar-23	1,061	1,270	Buy	Dipeshkumar Mehta
04-Mar-23	1,085	1,270	Buy	Dipeshkumar Mehta
30-Jan-23	1,036	1,220	Buy	Dipeshkumar Mehta
02-Jan-23	1,010	1,220	Buy	Dipeshkumar Mehta
02-Dec-22	1,115	1,200	Buy	Dipeshkumar Mehta
04-Oct-22	1,028	1,200	Buy	Dipeshkumar Mehta
25-Jul-22	1,017	1,240	Buy	Dipeshkumar Mehta
23-Jun-22	991	1,260	Buy	Dipeshkumar Mehta
14-May-22	1,203	1,600	Buy	Dipeshkumar Mehta
01-Apr-22	1,487	1,730	Buy	Dipeshkumar Mehta
22-Feb-22	1,413	1,730	Buy	Dipeshkumar Mehta
02-Feb-22	1,483	1,900	Buy	Dipeshkumar Mehta
18-Jan-22	1,661	1,930	Buy	Dipeshkumar Mehta
01-Jan-22	1,791	1,930	Buy	Dipeshkumar Mehta
30-Nov-21	1,541	1,930	Buy	Dipeshkumar Mehta
11-Nov-21	1,522	1,870	Buy	Dipeshkumar Mehta
25-Oct-21	1,524	1,870	Buy	Dipeshkumar Mehta
02-Oct-21	1,371	1,700	Buy	Dipeshkumar Mehta
27-Aug-21	1,445	1,700	Buy	Dipeshkumar Mehta
29-Jul-21	1,128	1,480	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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