

TechM reported an improved revenue performance in Q3, with 1.1% QoQ in cc, aided by 140bps in a one-off product revenue and Comviva/Retail seasonality. Reported EBITM expanded by 70bps QoQ to 5.4% (adj. EBITM: 7%), as TechM continued with its portfolio rationalization. Management highlighted that while the overall demand environment is slightly more positive compared with the last six months, it is too early for any green shoots. The new CEO is currently in the process of defining his long-term strategy. Company is now focused on 3 tracks—revenue, margin improvement, and organization building. As part of the overall turnaround plan, Management will undertake higher than usual investments to improve the company's positioning. After the recent rally in the stock price (up 10%/22% in the last 1M/3M), we see limited near-term upside and opt to wait for the new CEO's detailed strategy before taking a more constructive view. We revise FY24-26E EPS by -12% to 2%, factoring-in the Q3 performance, slower progress on margin recovery, and the lower ETR. We maintain ADD, with TP of Rs1,450/sh at 19x Dec-25E EPS.

### Tech Mahindra: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	446,460	532,902	523,047	557,245	617,401
EBITDA	80,200	80,288	50,725	85,824	106,107
Adj. PAT	55,660	48,313	25,028	53,153	69,186
Adj. EPS (Rs)	63.4	54.9	28.4	60.3	78.4
EBITDA margin (%)	18.0	15.1	9.7	15.4	17.2
EBITDA growth (%)	17.1	0.1	(36.8)	69.2	23.6
Adj. EPS growth (%)	25.2	(13.4)	(48.3)	112.4	30.2
RoE (%)	21.5	18.5	9.4	18.2	21.9
RoIC (%)	30.3	22.8	12.1	25.6	33.4
P/E (x)	22.2	25.6	49.6	23.4	17.9
EV/EBITDA (x)	14.5	14.7	23.0	13.3	10.5
P/B (x)	4.6	4.4	4.4	4.1	3.8
FCFF yield (%)	3.6	3.7	3.0	4.6	5.5

Source: Company, Emkay Research

### Results Summary

Revenue grew 1.1% QoQ (1.1% QoQ/-5.4% YoY in cc terms) to USD1.57bn, above our estimate of Rs1.54bn. The Enterprise segment grew 2% QoQ, while CME declined 0.3%. In the Enterprise segment, growth was led by Manufacturing (2.9% QoQ), and Retail, Transportation & Logistics (6.4%), and Others (8.4%), while Technology and BFSI declined 2.9% and 2% QoQ, respectively. Americas revenue fell (1.5% QoQ), while Europe (2%) and ROW (6.3%) registered growth. Reported EBITM expanded by 70bps QoQ to 5.4%, in line with our estimates. Adjusted EBIT margin was 7%, down by 30bps QoQ. Net new-deal wins fell to USD381mn compared with the USD640mn in Q2. Utilization improved to 88%, from 86% QoQ. Total headcount declined 2.9% QoQ to 146,250. **What we liked:** Overall revenue performance, healthy cash conversion (OCF/EBITDA of 181%). **What we did not like:** Weak deal wins, softness in North America (declined 1.5% QoQ), and slow progress on adjusted EBITM recovery.

### Earnings Call KTAs

i) Company is embarking on a 3-pronged strategy to unlock value from operations. The first track is focused on sales improvement by simplifying the organizational structure to 6 SBUs from 12 earlier. This will bring more attention on and investment into top accounts, while revamping efforts towards engaging with smaller accounts. The second track pivots around margin improvement by creating a centralized delivery structure that will result in innovation and domain expertise. The third track centers around building the organization by changing some of the internal policies. ii) Revenue growth in Q3 was led by Manufacturing, wherein the company continues to leverage its strength in Automotive and related ER&D services. iii) Telecom, BFSI, and Hi-tech were impacted by furloughs. iv) Company launched the Vision Amplifier, a solution that infuses GenAI in computer vision and provides end-to-end workbench to substantiate computer vision use cases. v) Active client conversations related to GenAI are currently ongoing, and Company is witnessing early stage experiments, with POCS starting to move into production pilots. vi) Pyramid rationalization, subcon optimization, offshore/onsite mix, better utilization, and value-based pricing remain the margin levers in the near-to-medium term. vii) Company has built a range of capabilities in the BFSI segment through acquisitions. Acquisition of CTC provided digital engineering capabilities, of Citisoft granted high-end, buy-side and custodian consulting capability, and of Target gave transaction processing capability, along with capabilities grown organically. viii) It added over 2,000 freshers in 9MFY24 and trained 10k associates on Gen AI.

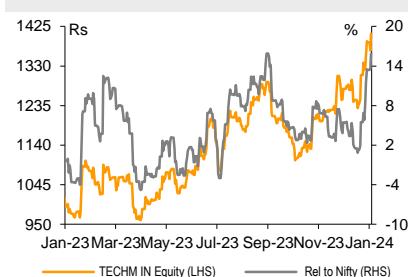
Target Price – 12M	Dec-24
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	3.0
CMP (24-Jan-24) (Rs)	1,408.0

Stock Data	Ticker
52-week High (Rs)	1,416
52-week Low (Rs)	981
Shares outstanding (mn)	976.2
Market-cap (Rs bn)	1,374
Market-cap (USD mn)	16,533
Net-debt, FY24E (Rs mn)	-77,109
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	2,741.5
ADTV-3M (USD mn)	33.0
Free float (%)	64.0
Nifty-50	21,454
INR/USD	83.1
<b>Shareholding, Dec-23</b>	
Promoters (%)	35.1
FPIs/MFs (%)	24.6/29.0

### Price Performance

(%)	1M	3M	12M
Absolute	10.4	21.8	31.5
Rel. to Nifty	9.9	9.5	11.1

### 1-Year share price trend (Rs)



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## Exhibit 1: Quarterly snapshot

(Rs mn)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
Revenue (USD mn)	1,573	1,555	1.1	1,668	-5.7
Net sales	131,013	128,639	1.8	137,346	-4.6
Total Income	131,013	128,639	1.8	137,346	
Operating expenses	119,549	117,916		115,906	
EBITDA	11,464	10,723	6.9	21,440	-46.5
Margins (%)	8.8	8.3	40	15.6	-690
Depreciation	4,434	4,657		4,981	
EBIT	7,030	6,066	15.9	16,459	-57.3
Margins (%)	5.4	4.7	70	12.0	-660
Interest	(1,165)	(975)		(1,129)	
Other income	875	2,642		2,472	
Pre-tax profit	6,740	7,733	-12.8	17,802	-62.1
Tax provided	1,551	1,100		4,859	
Profit after tax	5,189	6,633	-21.8	12,943	-59.9
MI	(85)	(199)		23	
Reported Profit After tax	5,104	4,939	3.3	12,966	-60.6
Emkay Net Profit	5,104	6,434	-20.7	12,966	-60.6
EPS (Rs)	5.8	7.3	-20.7	14.7	-60.7

Source: Company, Emkay Research

## Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues(US\$ mn)	1,573	1,537	1,540	2.3%	2.1%	Revenue growth was above our expectations.
Sales	131,013	128,028	128,017	2.3%	2.3%	
EBIT	7,030	6,846	7,041	2.7%	-0.2%	Adjusted EBITM came in line with expectations.
EBIT margins	5.4%	5.3%	5.5%	0 bps	-10 bps	
Profit	5,104	5,547	6,145	-8.0%	-16.9%	Profit missed expectations due to lower other income.

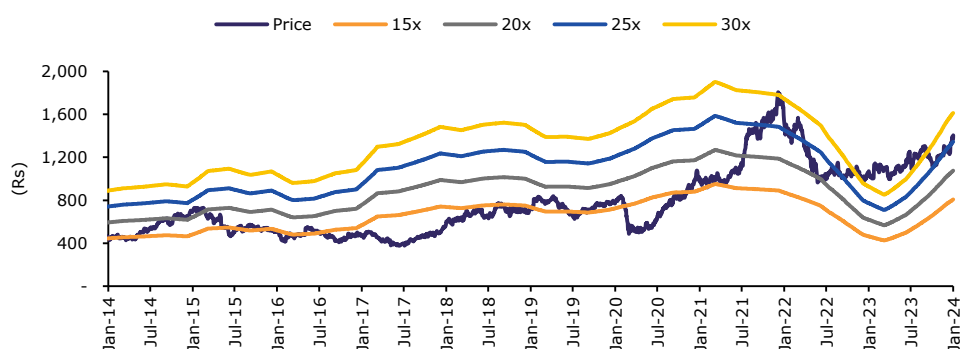
Source: Company, Bloomberg, Emkay Research

## Exhibit 3: Changes in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (USD mn)	6,255	6,317	1.0%	6,632	6,634	0.0%	7,265	7,264	0.0%
YoY growth	-5.3%	-4.4%		6.0%	5.0%		9.5%	9.5%	
Revenue	517,906	523,047	1.0%	557,083	557,245	0.0%	617,508	617,401	0.0%
EBIT (Rs mn)	36,010	32,180	-10.6%	75,702	66,687	-11.9%	86,301	86,286	0.0%
EBITM (%)	7.0	6.2		13.6	12.0		14.0	14.0	
Net Profit	28,424	25,028	-11.9%	58,850	53,153	-9.7%	67,909	69,186	1.9%
EPS (Rs)	32.3	28.4	-12.0%	66.8	60.3	-9.7%	77.1	78.4	1.8%

Source: Company, Emkay Research

## Exhibit 4: TechM's one year forward P/E



Source: Company, Emkay Research

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## Tech Mahindra: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>446,460</b>	<b>532,902</b>	<b>523,047</b>	<b>557,245</b>	<b>617,401</b>
Revenue growth (%)	17.9	19.4	(1.8)	6.5	10.8
<b>EBITDA</b>	<b>80,200</b>	<b>80,288</b>	<b>50,725</b>	<b>85,824</b>	<b>106,107</b>
EBITDA growth (%)	17.1	0.1	(36.8)	69.2	23.6
Depreciation & Amortization	15,204	19,567	18,545	19,137	19,821
<b>EBIT</b>	<b>64,996</b>	<b>60,721</b>	<b>32,180</b>	<b>66,687</b>	<b>86,286</b>
EBIT growth (%)	21.7	(6.6)	(47.0)	107.2	29.4
Other operating income	0	0	0	0	0
Other income	11,123	9,650	6,798	6,979	8,476
Financial expense	1,626	3,256	4,134	3,201	3,201
<b>PBT</b>	<b>74,493</b>	<b>67,115</b>	<b>34,844</b>	<b>70,465</b>	<b>91,561</b>
Extraordinary items	0	(2,370)	(1,495)	0	0
Taxes	18,220	15,885	7,904	16,912	21,975
Minority interest	(613)	(547)	(417)	(400)	(400)
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>55,660</b>	<b>48,313</b>	<b>25,028</b>	<b>53,153</b>	<b>69,186</b>
PAT growth (%)	25.7	(13.2)	(48.2)	112.4	30.2
<b>Adjusted PAT</b>	<b>55,660</b>	<b>48,313</b>	<b>25,028</b>	<b>53,153</b>	<b>69,186</b>
<b>Diluted EPS (Rs)</b>	<b>63.4</b>	<b>54.9</b>	<b>28.4</b>	<b>60.3</b>	<b>78.4</b>
Diluted EPS growth (%)	25.2	(13.4)	(48.3)	112.4	30.2
<b>DPS (Rs)</b>	<b>45.0</b>	<b>50.0</b>	<b>24.5</b>	<b>40.0</b>	<b>45.0</b>
<b>Dividend payout (%)</b>	<b>70.9</b>	<b>91.0</b>	<b>86.3</b>	<b>66.4</b>	<b>57.4</b>
EBITDA margin (%)	18.0	15.1	9.7	15.4	17.2
EBIT margin (%)	14.6	11.4	6.2	12.0	14.0
Effective tax rate (%)	24.5	23.7	22.7	24.0	24.0
<b>NOPLAT (pre-IndAS)</b>	<b>49,098</b>	<b>46,349</b>	<b>24,881</b>	<b>50,682</b>	<b>65,577</b>
Shares outstanding (mn)	877.6	879.9	881.9	881.9	881.9

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	74,493	67,115	34,844	70,465	91,561
Others (non-cash items)	15,812	29,647	18,128	18,737	19,421
Taxes paid	(23,137)	(19,931)	(7,904)	(16,912)	(21,975)
Change in NWC	(14,343)	(18,451)	(10)	(4,778)	(8,405)
<b>Operating cash flow</b>	<b>52,853</b>	<b>55,720</b>	<b>45,057</b>	<b>67,512</b>	<b>80,602</b>
Capital expenditure	(8,353)	(9,692)	(7,928)	(10,430)	(12,830)
Acquisition of business	(45,888)	(10,672)	0	0	0
Interest & dividend income	1,084	1,448	0	0	0
<b>Investing cash flow</b>	<b>4,815</b>	<b>(2,785)</b>	<b>(25,096)</b>	<b>(10,430)</b>	<b>(12,830)</b>
Equity raised/(repaid)	1,175	442	10	0	0
Debt raised/(repaid)	(1,625)	(1,594)	117	0	0
Payment of lease liabilities	(5,177)	(4,426)	0	0	0
Interest paid	(1,231)	(2,570)	0	0	0
Dividend paid (incl tax)	(39,808)	(42,633)	(21,599)	(35,277)	(39,687)
Others	0	0	0	0	0
<b>Financing cash flow</b>	<b>(46,666)</b>	<b>(50,781)</b>	<b>(21,473)</b>	<b>(35,277)</b>	<b>(39,687)</b>
Net chg in Cash	11,002	2,154	(1,512)	21,805	28,085
OCF	52,853	55,720	45,057	67,512	80,602
Adj. OCF (w/o NWC chg.)	67,196	74,171	45,067	72,291	89,007
FCFF	44,500	46,028	37,129	57,082	67,772
FCFE	43,958	44,220	32,995	53,881	64,571
OCF/EBITDA (%)	65.9	69.4	88.8	78.7	76.0
FCFE/PAT (%)	79.0	91.5	131.8	101.4	93.3
<b>FCFF/NOPLAT (%)</b>	<b>90.6</b>	<b>99.3</b>	<b>149.2</b>	<b>112.6</b>	<b>103.3</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	4,388	4,400	4,410	4,410	4,410
Reserves & Surplus	264,469	274,845	278,273	296,149	325,649
<b>Net worth</b>	<b>268,857</b>	<b>279,245</b>	<b>282,683</b>	<b>300,559</b>	<b>330,058</b>
Minority interests	4,954	4,702	4,702	4,702	4,702
Deferred tax liability (net)	(3,639)	(9,704)	(9,704)	(9,704)	(9,704)
<b>Total debt</b>	<b>14,901</b>	<b>14,858</b>	<b>14,975</b>	<b>14,975</b>	<b>14,975</b>
<b>Total liabilities &amp; equity</b>	<b>285,073</b>	<b>289,101</b>	<b>292,656</b>	<b>310,532</b>	<b>340,031</b>
Net tangible fixed assets	26,823	28,622	26,081	25,853	25,661
Net intangible assets	37,383	33,425	25,994	19,065	12,283
Net ROU assets	9,372	10,972	8,668	7,119	7,101
Capital WIP	1,651	836	1,000	1,000	1,000
Goodwill	74,258	76,657	76,657	76,657	76,657
Investments [JV/Associates]	0	0	0	0	0
<b>Cash &amp; equivalents</b>	<b>88,583</b>	<b>76,428</b>	<b>92,084</b>	<b>113,890</b>	<b>141,975</b>
Current assets (ex-cash)	202,446	221,628	220,291	231,627	251,570
Current Liab. & Prov.	155,443	159,467	158,119	164,678	176,215
<b>NWC (ex-cash)</b>	<b>47,003</b>	<b>62,161</b>	<b>62,171</b>	<b>66,950</b>	<b>75,355</b>
<b>Total assets</b>	<b>285,073</b>	<b>289,101</b>	<b>292,656</b>	<b>310,532</b>	<b>340,031</b>
Net debt	(73,682)	(61,570)	(77,109)	(98,915)	(127,000)
Capital employed	285,073	289,101	292,656	310,532	340,031
<b>Invested capital</b>	<b>194,839</b>	<b>211,837</b>	<b>199,572</b>	<b>195,643</b>	<b>197,057</b>
BVPS (Rs)	306.4	317.4	320.5	340.8	374.2
Net Debt/Equity (x)	(0.3)	(0.2)	(0.3)	(0.3)	(0.4)
Net Debt/EBITDA (x)	(0.9)	(0.8)	(1.5)	(1.2)	(1.2)
Interest coverage (x)	0.0	0.0	0.1	0.0	0.0
<b>RoCE (%)</b>	<b>27.9</b>	<b>24.5</b>	<b>13.4</b>	<b>24.4</b>	<b>29.1</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	22.2	25.6	49.6	23.4	17.9
P/CE(x)	17.4	17.6	27.6	17.2	14.0
P/B (x)	4.6	4.4	4.4	4.1	3.8
EV/Sales (x)	2.6	2.2	2.2	2.1	1.8
EV/EBITDA (x)	14.5	14.7	23.0	13.3	10.5
EV/EBIT(x)	17.9	19.4	36.2	17.1	12.9
EV/IC (x)	6.0	5.6	5.8	5.8	5.7
FCFF yield (%)	3.6	3.7	3.0	4.6	5.5
FCFE yield (%)	3.6	3.6	2.7	4.3	5.2
Dividend yield (%)	3.2	3.5	1.7	2.8	3.2
<b>DuPont-RoE split</b>					
Net profit margin (%)	12.5	9.5	5.1	9.5	11.2
Total asset turnover (x)	1.6	1.9	1.8	1.8	1.9
Assets/Equity (x)	1.1	1.0	1.0	1.0	1.0
<b>RoE (%)</b>	<b>21.5</b>	<b>18.5</b>	<b>9.4</b>	<b>18.2</b>	<b>21.9</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	11.0	8.7	4.8	9.1	10.6
IC turnover (x)	2.8	2.6	2.5	2.8	3.1
<b>RoIC (%)</b>	<b>30.3</b>	<b>22.8</b>	<b>12.1</b>	<b>25.6</b>	<b>33.4</b>
<b>Operating metrics</b>					
Core NWC days	38.4	42.6	43.4	43.9	44.5
<b>Total NWC days</b>	<b>38.4</b>	<b>42.6</b>	<b>43.4</b>	<b>43.9</b>	<b>44.5</b>
Fixed asset turnover	7.8	7.1	6.8	7.3	8.1
Opex-to-revenue (%)	82.0	84.9	90.3	84.6	82.8

Source: Company, Emkay Research

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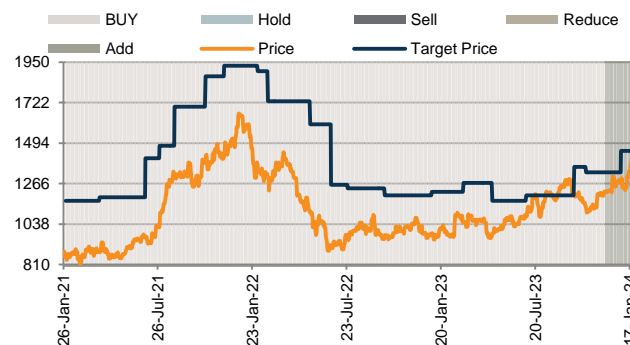
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
31-Dec-23	1,273	1,450	Add	Dipeshkumar Mehta
30-Nov-23	1,221	1,330	Add	Dipeshkumar Mehta
25-Oct-23	1,130	1,330	Buy	Dipeshkumar Mehta
02-Oct-23	1,210	1,360	Buy	Dipeshkumar Mehta
26-Jul-23	1,131	1,200	Buy	Dipeshkumar Mehta
02-Jul-23	1,090	1,200	Buy	Dipeshkumar Mehta
28-Apr-23	987	1,170	Buy	Dipeshkumar Mehta
01-Apr-23	1,062	1,270	Buy	Dipeshkumar Mehta
11-Mar-23	1,023	1,270	Buy	Dipeshkumar Mehta
04-Mar-23	1,046	1,270	Buy	Dipeshkumar Mehta
30-Jan-23	999	1,220	Buy	Dipeshkumar Mehta
02-Jan-23	973	1,220	Buy	Dipeshkumar Mehta
02-Dec-22	1,075	1,200	Buy	Dipeshkumar Mehta
04-Oct-22	974	1,200	Buy	Dipeshkumar Mehta
25-Jul-22	964	1,240	Buy	Dipeshkumar Mehta
23-Jun-22	912	1,260	Buy	Dipeshkumar Mehta
14-May-22	1,107	1,600	Buy	Dipeshkumar Mehta
01-Apr-22	1,369	1,730	Buy	Dipeshkumar Mehta
22-Feb-22	1,300	1,730	Buy	Dipeshkumar Mehta
02-Feb-22	1,365	1,900	Buy	Dipeshkumar Mehta
18-Jan-22	1,529	1,930	Buy	Dipeshkumar Mehta
01-Jan-22	1,648	1,930	Buy	Dipeshkumar Mehta
30-Nov-21	1,419	1,930	Buy	Dipeshkumar Mehta
11-Nov-21	1,401	1,870	Buy	Dipeshkumar Mehta
25-Oct-21	1,389	1,870	Buy	Dipeshkumar Mehta
02-Oct-21	1,250	1,700	Buy	Dipeshkumar Mehta
27-Aug-21	1,317	1,700	Buy	Dipeshkumar Mehta
29-Jul-21	1,028	1,480	Buy	Dipeshkumar Mehta
02-Jul-21	967	1,410	Buy	Dipeshkumar Mehta
27-Apr-21	860	1,190	Buy	Dipeshkumar Mehta
05-Apr-21	885	1,190	Buy	Dipeshkumar Mehta
18-Mar-21	884	1,170	Buy	Dipeshkumar Mehta
15-Mar-21	911	1,170	Buy	Dipeshkumar Mehta
30-Jan-21	853	1,170	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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<b>SELL</b>	<15% downside

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