

Tech Mahindra reported broadly in line operating performance. Revenue grew 1.9% QoQ to USD1.59bn (CC 0.7%), in-line with expectations. Growth was broad-based with 5 of the 7 verticals seeing QoQ increase. EBITM rose by 110bps QoQ to 9.6%, in sync with our estimate. Management indicated that demand environment and discretionary spends remained similar to previous quarter. Deal intake was steady at USD603mn (534mn QoQ). Management continues to prioritize margin over growth in the near term, and is therefore selectively participating in large deals. Although the demand environment remains soft, the company continues to focus on strengthening client relationships and expanding partner ecosystem, leading to steady progress on Vision 2027. We tweak FY25E EPS ~6% (factoring in one-off gain from sale of land in Q2) while largely retaining FY26E and FY27E EPS. After the strong rally (10%/42% in 3M/12M; 4%/10% outperformance over Nifty IT index), we expect the stock to consolidate; maintain ADD with TP of Rs1,700 at 22x Sep-26E EPS.

#### Tech Mahindra: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	532,902	519,956	535,007	591,466	655,229
EBITDA	80,288	49,645	72,977	99,146	115,545
Adj. PAT	48,313	23,578	44,392	62,225	74,552
Adj. EPS (Rs)	54.9	26.7	50.2	70.4	84.3
EBITDA margin (%)	15.1	9.5	13.6	16.8	17.6
EBITDA growth (%)	0.1	(38.2)	47.0	35.9	16.5
Adj. EPS growth (%)	(13.4)	(51.3)	87.9	40.2	19.8
RoE (%)	18.5	10.3	16.4	21.9	24.5
RoIC (%)	22.8	12.0	20.3	30.0	35.8
P/E (x)	30.7	63.2	33.6	24.0	20.0
EV/EBITDA (x)	17.7	28.7	19.5	14.2	12.0
P/B (x)	5.3	5.6	5.4	5.1	4.7
FCFF yield (%)	3.1	3.8	2.7	4.2	5.0

Source: Company, Emkay Research

#### Results Summary

Revenue grew 1.9% QoQ (0.7% in CC) to USD1.59bn, broadly in line with our estimates. Revenue for IT Services and BPS verticals grew 1.8% and 2.4% QoQ. Following five of the seven verticals saw sequential growth: Hi-Tech and Media (5.7% QoQ), Retail, Transportation and Logistics (5.6%), BFSI (2.4%), Communications (2.7%), and Others (7.8%); whereas Manufacturing and Healthcare & Lifesciences declined 4% and 1.8% QoQ, respectively. Among geographies, Europe and ROW grew 4.5% and 5% QoQ, respectively, while Americas declined 0.7%. EBITM expanded by 110bps QoQ to 9.6% (third quarter of margin expansion) on the back of operating efficiencies through Project Fortius (70bps) and currency benefits (40bps). Net-new deal wins improved sequentially to USD603mn. Total headcount grew 4.5% QoQ/2.4% YoY to 154,273, largely driven by addition in the BPO headcount. Attrition inched up to 10.6% (vs 10.1% in Q1). **What we liked:** Improved operating performance, steady deal intake. **What we did not like:** Softness in manufacturing, HLS, and Americas; continued weakness in Top-5 clients.

#### Earnings Call KTAs

i) Manufacturing reported weak performance in Q2 on the back of softness in Auto (exposure is skewed toward Americas) and weak discretionary spending. ii) Key telecom clients continue to prioritize cost savings, and spending on discretionary projects is constrained. Interest rate cut will provide some relief to telcos which may lead to some stability in spending. Management maintained that company has retained its wallet share; they also indicated that reduction in spending is due to budget cut and insourcing in some cases. It is seeing stabilization in APAC and Europe markets, while Americas is likely to turn around in sometime. iii) BFSI maintained momentum on the back of growing relationship with existing clients and addition of new logos. BFSI is also seeing some improvement in demand and spending particularly in insurance, asset management, and payments. However, it will face some impact of furloughs in Q3. iv) Q3 growth is likely to be impacted by seasonality (furlough and lower working days). v) The management believes levers are in place for margin improvement like subcon optimization, offshoring, automation-led efficiencies in fixed-price projects, pyramid correction, and pricing. Investment in Project Fortius is expected to be slightly higher in H2. vi) It added 2,000 freshers in Q2 and is on track to add 6,000 in FY25. vii) TechM and Google cloud platform partnered to boost GenAI adoption and lead digital transformation for various M&M group entities.

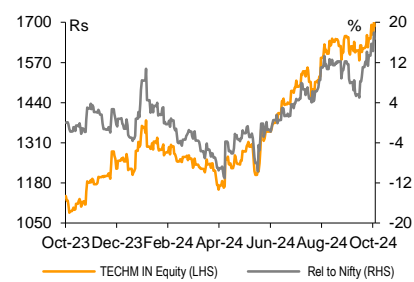
Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	0.7
CMP (18-Oct-24) (Rs)	1,687.9

Stock Data	Ticker
52-week High (Rs)	1,710
52-week Low (Rs)	1,089
Shares outstanding (mn)	978.3
Market-cap (Rs bn)	1,651
Market-cap (USD mn)	19,642
Net-debt, FY25E (Rs mn)	-69,469
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	3,662.8
ADTV-3M (USD mn)	43.6
Free float (%)	64.0
Nifty-50	24,854
INR/USD	84.1
<b>Shareholding, Jun-24</b>	
Promoters (%)	35.1
FPIs/MFs (%)	23.3/30.8

#### Price Performance

(%)	1M	3M	12M
Absolute	5.1	9.7	42.2
Rel. to Nifty	7.4	9.4	12.5

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



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**Exhibit 1: Quarterly snapshot**

(Rs mn)	Q2FY25	Q1FY25	QoQ (%)	Q2FY24	YoY (%)
Revenue (USD mn)	1,589	1,559	1.9	1,555	2.2
Net sales	133,132	130,055	2.4	128,639	3.5
Total Income	133,132	130,055	2.4	128,639	
Operating expenses	115,630	114,410		117,916	
EBITDA	17,502	15,645	11.9	10,723	63.2
Margin (%)	13.1	12.0	110	8.3	480
Depreciation	4,698	4,622		4,657	
EBIT	12,804	11,023	16.2	6,066	111.1
Margin (%)	9.6	8.5	110	4.7	490
Interest	(890)	(715)		(975)	
Other income	5,215	1,447		2,642	
Pre-tax profit	17,129	11,755	45.7	7,733	121.5
Tax provided	4,560	3,133		1,100	
Profit after tax	12,569	8,622	45.8	6,633	89.5
MI	(68)	(107)		(199)	
Reported Profit After tax	12,501	8,515	46.8	4,939	153.1
Emkay Net Profit	12,501	8,515	46.8	6,434	94.3
EPS (Rs)	14.1	9.6	46.7	7.3	93.7

Source: Company, Emkay Research

**Exhibit 2: Actuals vs estimates**

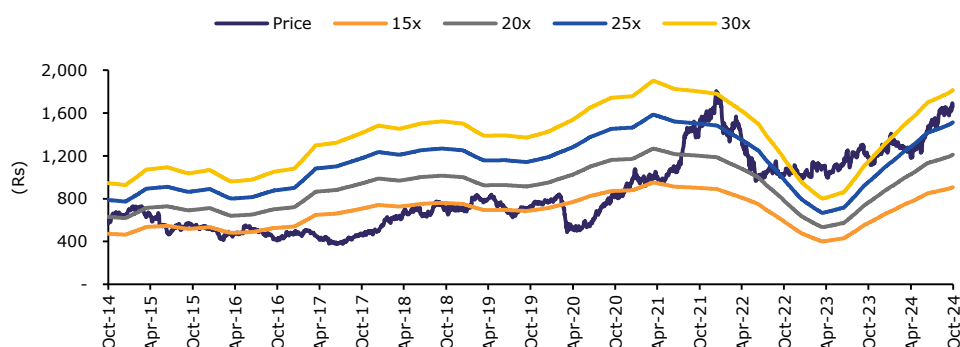
(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	1,589	1,582	1,577	0.4%	0.7%	Revenue growth was in line with expectations.
Sales	133,132	132,560	132,060	0.4%	0.8%	
EBIT	12,804	12,639	12,282	1.3%	4.3%	EBITM came in line with expectations.
EBIT margin	9.6%	9.5%	9.3%	10 bps	30 bps	
Profit	12,501	9,855	10,565	26.8%	18.3%	Profit beat expectations due to higher other income (sale of land and buildings to Mahindra University).

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 (USD mn)	6,374	6,384	0.2%	6,945	6,958	0.2%	7,608	7,619	0.1%
YoY growth	1.5%	1.7%		9.0%	9.0%		9.5%	9.5%	
Revenue	534,175	535,007	0.2%	590,345	591,466	0.2%	654,263	655,229	0.1%
EBIT	54,127	54,139	0.0%	79,614	79,784	0.2%	94,839	94,933	0.1%
EBITM (%)	10.1	10.1		13.5	13.5		14.5	14.5	
Net Profit	41,893	44,392	6.0%	62,212	62,225	0.0%	74,533	74,552	0.0%
EPS (Rs)	47.4	50.2	5.9%	70.4	70.4	0.0%	84.3	84.3	0.0%

Source: Company, Emkay Research

**Exhibit 4: TechM – One-year forward PER**

Source: Company, Emkay Research

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## Tech Mahindra: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>532,902</b>	<b>519,956</b>	<b>535,007</b>	<b>591,466</b>	<b>655,229</b>
Revenue growth (%)	19.4	(2.4)	2.9	10.6	10.8
<b>EBITDA</b>	<b>80,288</b>	<b>49,645</b>	<b>72,977</b>	<b>99,146</b>	<b>115,545</b>
EBITDA growth (%)	0.1	(38.2)	47.0	35.9	16.5
Depreciation & Amortization	19,567	18,171	18,837	19,363	20,613
<b>EBIT</b>	<b>60,721</b>	<b>31,474</b>	<b>54,139</b>	<b>79,784</b>	<b>94,933</b>
EBIT growth (%)	(6.6)	(48.2)	72.0	47.4	19.0
Other operating income	0	0	0	0	0
Other income	9,650	9,169	9,926	7,333	8,754
Financial expense	3,256	3,922	3,106	3,057	3,081
<b>PBT</b>	<b>67,115</b>	<b>36,721</b>	<b>60,960</b>	<b>84,060</b>	<b>100,606</b>
Extraordinary items	(2,370)	(4,582)	0	0	0
Taxes	15,885	8,276	16,193	21,435	25,655
Minority interest	(547)	(285)	(375)	(400)	(400)
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>48,313</b>	<b>23,578</b>	<b>44,392</b>	<b>62,225</b>	<b>74,552</b>
PAT growth (%)	(13.2)	(51.2)	88.3	40.2	19.8
<b>Adjusted PAT</b>	<b>48,313</b>	<b>23,578</b>	<b>44,392</b>	<b>62,225</b>	<b>74,552</b>
<b>Diluted EPS (Rs)</b>	<b>54.9</b>	<b>26.7</b>	<b>50.2</b>	<b>70.4</b>	<b>84.3</b>
Diluted EPS growth (%)	(13.4)	(51.3)	87.9	40.2	19.8
<b>DPS (Rs)</b>	<b>50.0</b>	<b>40.0</b>	<b>40.0</b>	<b>50.0</b>	<b>60.0</b>
<b>Dividend payout (%)</b>	<b>91.0</b>	<b>149.7</b>	<b>79.7</b>	<b>71.0</b>	<b>71.2</b>
EBITDA margin (%)	15.1	9.5	13.6	16.8	17.6
EBIT margin (%)	11.4	6.1	10.1	13.5	14.5
Effective tax rate (%)	23.7	22.5	26.6	25.5	25.5
<b>NOPLAT (pre-IndAS)</b>	<b>46,349</b>	<b>24,381</b>	<b>39,758</b>	<b>59,439</b>	<b>70,725</b>
Shares outstanding (mn)	879.9	882.5	884.1	884.1	884.1

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	67,115	36,721	60,960	84,060	100,606
Others (non-cash items)	29,647	31,002	18,462	18,963	20,213
Taxes paid	(19,931)	(12,469)	(16,193)	(21,435)	(25,655)
Change in NWC	(18,451)	12,987	(11,710)	(7,155)	(8,107)
<b>Operating cash flow</b>	<b>55,720</b>	<b>63,764</b>	<b>51,518</b>	<b>74,432</b>	<b>87,057</b>
Capital expenditure	(9,692)	(7,377)	(11,818)	(11,450)	(12,180)
Acquisition of business	(10,672)	(7,488)	0	0	0
Interest & dividend income	1,448	1,531	0	0	0
<b>Investing cash flow</b>	<b>(2,785)</b>	<b>(13,137)</b>	<b>(29,024)</b>	<b>(11,450)</b>	<b>(12,180)</b>
Equity raised/(repaid)	442	238	8	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)	(35,365)	(44,206)	(53,047)
Others	0	0	0	0	0
<b>Financing cash flow</b>	<b>(50,781)</b>	<b>(47,672)</b>	<b>(35,490)</b>	<b>(44,206)</b>	<b>(53,047)</b>
Net chg in Cash	2,154	2,955	(12,996)	18,776	21,831
OCF	55,720	63,764	51,518	74,432	87,057
Adj. OCF (w/o NWC chg.)	74,171	50,777	63,229	81,587	95,164
FCFF	46,028	56,387	39,700	62,982	74,877
FCFE	44,220	53,996	36,594	59,925	71,797
OCF/EBITDA (%)	69.4	128.4	70.6	75.1	75.3
FCFE/PAT (%)	91.5	229.0	82.4	96.3	96.3
<b>FCFF/NOPLAT (%)</b>	<b>99.3</b>	<b>231.3</b>	<b>99.9</b>	<b>106.0</b>	<b>105.9</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	4,400	4,413	4,421	4,421	4,421
Reserves & Surplus	274,845	262,281	271,308	289,327	310,832
<b>Net worth</b>	<b>279,245</b>	<b>266,694</b>	<b>275,729</b>	<b>293,748</b>	<b>315,252</b>
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)
<b>Total debt</b>	<b>14,858</b>	<b>14,606</b>	<b>14,473</b>	<b>14,473</b>	<b>14,473</b>
<b>Total liabilities &amp; equity</b>	<b>289,101</b>	<b>274,423</b>	<b>283,325</b>	<b>301,344</b>	<b>322,848</b>
Net tangible fixed assets	28,622	25,577	22,691	21,010	19,433
Net intangible assets	33,425	29,063	23,678	18,727	13,655
Net ROU assets	10,972	9,605	10,869	9,588	7,803
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
<b>Cash &amp; equivalents</b>	<b>76,428</b>	<b>79,732</b>	<b>83,942</b>	<b>102,719</b>	<b>124,549</b>
Current assets (ex-cash)	221,628	199,746	210,319	227,805	247,554
Current Liab. & Prov.	159,467	145,417	144,279	154,611	166,253
<b>NWC (ex-cash)</b>	<b>62,161</b>	<b>54,329</b>	<b>66,039</b>	<b>73,195</b>	<b>81,301</b>
<b>Total assets</b>	<b>289,101</b>	<b>274,423</b>	<b>283,325</b>	<b>301,344</b>	<b>322,848</b>
Net debt	(61,570)	(65,126)	(69,469)	(88,246)	(110,076)
Capital employed	289,101	274,423	283,325	301,344	322,848
<b>Invested capital</b>	<b>211,837</b>	<b>193,680</b>	<b>198,382</b>	<b>197,625</b>	<b>197,299</b>
BVPS (Rs)	317.4	302.2	311.9	332.3	356.6
Net Debt/Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Net Debt/EBITDA (x)	(0.8)	(1.3)	(1.0)	(0.9)	(1.0)
Interest coverage (x)	0.0	0.1	0.0	0.0	0.0
<b>RoCE (%)</b>	<b>24.5</b>	<b>14.4</b>	<b>23.0</b>	<b>29.8</b>	<b>33.2</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	30.7	63.2	33.6	24.0	20.0
P/CE(x)	21.1	32.2	23.6	18.3	15.7
P/B (x)	5.3	5.6	5.4	5.1	4.7
EV/Sales (x)	2.7	2.7	2.7	2.4	2.1
EV/EBITDA (x)	17.7	28.7	19.5	14.2	12.0
EV/EBIT(x)	23.4	45.3	26.3	17.6	14.6
EV/IC (x)	6.7	7.4	7.2	7.1	7.0
FCFF yield (%)	3.1	3.8	2.7	4.2	5.0
FCFE yield (%)	3.0	3.6	2.5	4.0	4.8
Dividend yield (%)	3.0	2.4	2.4	3.0	3.6
<b>DuPont-RoE split</b>					
Net profit margin (%)	9.5	5.4	8.3	10.5	11.4
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
<b>RoE (%)</b>	<b>18.5</b>	<b>10.3</b>	<b>16.4</b>	<b>21.9</b>	<b>24.5</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	8.7	4.7	7.4	10.0	10.8
IC turnover (x)	2.6	2.6	2.7	3.0	3.3
<b>RoIC (%)</b>	<b>22.8</b>	<b>12.0</b>	<b>20.3</b>	<b>30.0</b>	<b>35.8</b>
<b>Operating metrics</b>					
Core NWC days	42.6	38.1	45.1	45.2	45.3
<b>Total NWC days</b>	<b>42.6</b>	<b>38.1</b>	<b>45.1</b>	<b>45.2</b>	<b>45.3</b>
Fixed asset turnover	7.1	6.9	7.1	7.9	8.7
Opex-to-revenue (%)	84.9	90.5	86.4	83.2	82.4

Source: Company, Emkay Research

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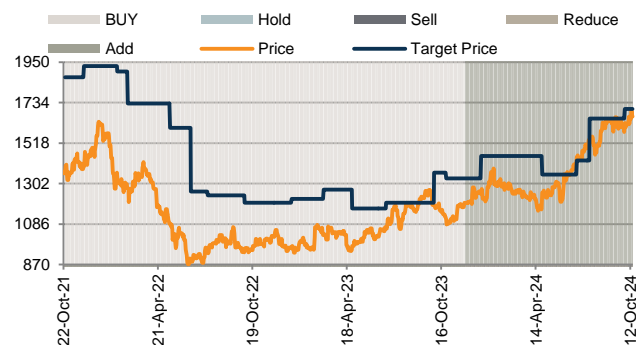
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Oct-24	1,625	1,700	Add	Dipeshkumar Mehta
26-Jul-24	1,541	1,650	Add	Dipeshkumar Mehta
01-Jul-24	1,445	1,425	Add	Dipeshkumar Mehta
10-Jun-24	1,316	1,350	Add	Dipeshkumar Mehta
09-Jun-24	1,353	1,350	Add	Dipeshkumar Mehta
03-Jun-24	1,223	1,350	Add	Dipeshkumar Mehta
27-May-24	1,306	1,350	Add	Dipeshkumar Mehta
26-Apr-24	1,255	1,350	Add	Dipeshkumar Mehta
31-Mar-24	1,225	1,450	Add	Dipeshkumar Mehta
01-Mar-24	1,249	1,450	Add	Dipeshkumar Mehta
25-Jan-24	1,298	1,450	Add	Dipeshkumar Mehta
31-Dec-23	1,250	1,450	Add	Dipeshkumar Mehta
30-Nov-23	1,199	1,330	Add	Dipeshkumar Mehta
25-Oct-23	1,109	1,330	Buy	Dipeshkumar Mehta
02-Oct-23	1,188	1,360	Buy	Dipeshkumar Mehta
26-Jul-23	1,110	1,200	Buy	Dipeshkumar Mehta
02-Jul-23	1,070	1,200	Buy	Dipeshkumar Mehta
28-Apr-23	969	1,170	Buy	Dipeshkumar Mehta
01-Apr-23	1,043	1,270	Buy	Dipeshkumar Mehta
11-Mar-23	1,005	1,270	Buy	Dipeshkumar Mehta
04-Mar-23	1,027	1,270	Buy	Dipeshkumar Mehta
30-Jan-23	981	1,220	Buy	Dipeshkumar Mehta
02-Jan-23	956	1,220	Buy	Dipeshkumar Mehta
02-Dec-22	1,055	1,200	Buy	Dipeshkumar Mehta
04-Oct-22	957	1,200	Buy	Dipeshkumar Mehta
25-Jul-22	946	1,240	Buy	Dipeshkumar Mehta
23-Jun-22	896	1,260	Buy	Dipeshkumar Mehta
14-May-22	1,087	1,600	Buy	Dipeshkumar Mehta
01-Apr-22	1,344	1,730	Buy	Dipeshkumar Mehta
22-Feb-22	1,276	1,730	Buy	Dipeshkumar Mehta
02-Feb-22	1,340	1,900	Buy	Dipeshkumar Mehta
18-Jan-22	1,501	1,930	Buy	Dipeshkumar Mehta
01-Jan-22	1,618	1,930	Buy	Dipeshkumar Mehta
30-Nov-21	1,393	1,930	Buy	Dipeshkumar Mehta
11-Nov-21	1,375	1,870	Buy	Dipeshkumar Mehta
25-Oct-21	1,364	1,870	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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