

# Retail Equity Research

## Tech Mahindra Limited

IT

BSE CODE: 532755

NSE CODE: TECHM

Bloomberg CODE: TECHM:IN

SENSEX: 78,593

**BUY**

12 Months Investment Period Rating as per Large Cap  
CMP Rs. 1,483 TARGET Rs. 1,645 RETURN 11%   
(Closing: 06-07-24)

**KEY CHANGES:**

**TARGET** 

**RATING** 

**EARNINGS** 

### Operational efficiencies bode profitability

Tech Mahindra Ltd develops and markets computer software for telecommunications equipment manufacturers, telecom service providers, software vendors and systems integrators.

- In Q1FY25, Tech Mahindra reported a revenue decline of 1.2% YoY to Rs.13,006cr, owing to muted performance across certain segments.
- EBITDA reached Rs.1,565cr, up by 16.9% YoY, with margins improving by 180bps YoY to 12.0% due to reduced subcontracting costs and other expenses.
- The company expects improvements in telecom and manufacturing segments and stable demand in banking vertical. Strategic initiatives such as adding new clients, new deal wins, AI investments and cost-saving programmes such as Project Fortius and Turbocharge, are expected to improve margins and performance. Therefore, we, upgrade our rating to BUY on the stock with a revised target price of Rs. 1,645 based on 25x FY25E adjusted earnings per share (EPS).

### Topline growth held back by segments

In Q1FY25, the company's revenue stood at Rs. 13,006cr, showing a slight 1.2% YoY contraction. The communications segment, contributing 33.1% to total revenue, declined 9.9% YoY, partly due to lower Comviva revenue. In contrast, the manufacturing segment grew 6.4% YoY, and the healthcare and life sciences vertical expanded 6.1% YoY, driven by robust growth momentum. In addition, the retail, transport, and logistics segments increased 4.9% YoY. However, a decline was witnessed in high-tech and media segments (-3.5% YoY), banking, financial services, and insurance (BFSI) (-1.2% YoY), and other segments (-5.5% YoY).

### PAT grew on cost-saving efforts and operational efficiency

The company reported a substantial 16.9% YoY increase in EBITDA, totalling Rs. 1,565cr, driven by margin expansion of 180bps YoY to reach 12.0%. This improvement was largely due to effective cost management, achieved through Project Fortius initiatives and operational efficiencies, resulting in reduced subcontracting costs and other expenses. As a result, the company's reported profit after tax (PAT) grew by 22.9% YoY to Rs. 865cr, benefiting from lower interest expenses.

### Key concall highlights

- The company's total contract value surged by 48.7% YoY to USD 534mn, showcasing a well-diversified portfolio spanning across all segments and strategic regions.
- The company's workforce expanded by 2,165 employees in the quarter, reaching a total of 147,620. The attrition rate was 10% and utilisation rate reached 86%.
- The company has introduced TechM VerifAI, a comprehensive framework for validating and assuring the quality of AI systems. In addition, it has developed over 100 AI and Generative AI solutions, enabling more than 25,000 employees to engage in AI-driven pair programming.

### Valuation

The company's earnings performance was satisfactory, and the margin recovery was an encouraging sign of progress. The telecom segment is also expected to improve. In addition, the BFSI segment is leveraging new opportunities within its existing client base, with demand anticipated to remain stable. The manufacturing segment is also poised for growth owing to investments in technology. The management is focused on key strategic areas, including scaling up large accounts, adding new clients, developing cutting-edge solutions, and winning substantial deals. Coupled with Project Fortius and Turbocharge initiatives, these efforts are expected to yield enhanced margins and improved performance. Therefore, we upgrade our rating to BUY on the stock with a revised target price of Rs. 1,645 based on 25x FY26E adjusted EPS.

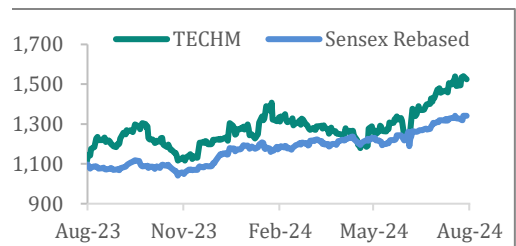
### Company Data

Market Cap (cr)	Rs. 144,443
Enterprise Value (cr)	Rs. 142,187
Outstanding Shares (cr)	97.8
Free Float	65.0%
Dividend Yield	3.8%
52 week high	Rs. 1,569
52 week low	Rs. 1,089
6m average volume (lacs)	23
Beta	1.11
Face value	Rs. 5

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	35.1	35.1	35.1
FII's	24.6	24.2	23.3
MFs/Insti	29.2	29.7	30.9
Public	10.9	10.8	10.5
Others	0.2	0.3	0.3
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	18.4%	16.0%	39.8%
Absolute Sensex	8.9%	13.1%	22.9%
Relative Return*	9.4%	3.0%	16.9%

\*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	51,996	54,589	59,244
Growth (%)	(2.4)	5.0	8.5
EBITDA	4,965	7,392	9,744
EBITDA Margin (%)	9.5	13.5	16.4
Adj. PAT	2,816	4,216	5,841
Growth (%)	(44.0)	50.1	38.5
Adj. EPS	31.7	47.5	65.8
Growth (%)	(44.0)	50.1	38.5
P/E	39.4	32.1	23.2
P/B	4.2	4.9	4.7
EV/EBITDA	24.0	19.6	14.8
ROE (%)	9.0	15.6	20.7
D/E	0.1	0.1	0.1

## Quarterly Financials (Consolidated)

### Profit & Loss Account

Rs. cr	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Revenue	13,006	13,159	(1.2)	12,871	1.0
<b>EBITDA</b>	<b>1,565</b>	<b>1,338</b>	<b>16.9</b>	<b>1,408</b>	<b>11.1</b>
EBITDA margins	12.0	10.2	180bps	10.9	100bps
Depreciation	462	447	3.5	770	(40)
<b>EBIT</b>	<b>1,102</b>	<b>891</b>	<b>23.7</b>	<b>638</b>	<b>72.9</b>
Interest	72	120	(40.3)	59	22.2
Other Income	145	192	(24.5)	374	(61.3)
Exceptional Items	-	-	-	-	-
Share of profit from Associate	3	8	(66.7)	6	(59.4)
<b>PBT</b>	<b>1,178</b>	<b>971</b>	<b>21.3</b>	<b>959</b>	<b>22.8</b>
Tax	313	268	17.1	295	6.2
<b>Reported PAT</b>	<b>865</b>	<b>704</b>	<b>22.9</b>	<b>664</b>	<b>30.2</b>
Minority Interest	13	11	19.8	3	315.6
<b>PAT att. to shareholders</b>	<b>852</b>	<b>693</b>	<b>23.0</b>	<b>661</b>	<b>28.8</b>
Adjustments	-	-	-	309	n.m.
<b>Adj. PAT</b>	<b>852</b>	<b>693</b>	<b>23.0</b>	<b>970</b>	<b>(13.9)</b>
No. of shares	88.7	88.6	0.2	88.7	(0.0)
<b>Adj. EPS (Rs.)</b>	<b>9.6</b>	<b>7.8</b>	<b>22.8</b>	<b>10.9</b>	<b>(13.8)</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	56,159	60,780	54,589	59,244	(2.8)	(2.5)
EBITDA	8,069	9,630	7,392	9,744	(8.4)	1.2
Margins (%)	14.4	15.8	13.5	16.4	(90bps)	60bps
Adj. PAT	5,026	6,351	4,216	5,841	(16.1)	(8)
Adj. EPS	56.7	71.7	47.5	65.8	(16.2)	(8.2)

## PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Revenue</b>	<b>44,646</b>	<b>53,290</b>	<b>51,996</b>	<b>54,589</b>	<b>59,244</b>
% change	17.9	19.4	(2.4)	5.0	8.5
<b>EBITDA</b>	<b>8,020</b>	<b>8,029</b>	<b>4,965</b>	<b>7,392</b>	<b>9,744</b>
% change	14.9	4.7	(32.1)	42.8	25.2
Depreciation	1,520	2,194	2,275	2,289	2,378
<b>EBIT</b>	<b>6,500</b>	<b>5,835</b>	<b>2,689</b>	<b>5,103</b>	<b>7,366</b>
Interest	163	326	392	440	556
Other Income	1,115	936	927	943	957
<b>PBT</b>	<b>7,452</b>	<b>6,446</b>	<b>3,224</b>	<b>5,607</b>	<b>7,768</b>
% change	25.2	(13.5)	(50.0)	73.9	38.5
Tax	1,822	1,589	828	1,321	1,830
Tax Rate (%)	24.4	24.6	25.7	23.6	23.6
<b>Reported PAT</b>	<b>5,630</b>	<b>4,857</b>	<b>2,397</b>	<b>4,285</b>	<b>5,937</b>
<b>PAT att. to common shareholders</b>	<b>5,566</b>	<b>4,831</b>	<b>2,358</b>	<b>4,216</b>	<b>5,841</b>
Adjustments	-	237	458	-	-
<b>Adj PAT</b>	<b>5,566</b>	<b>5,068</b>	<b>2,816</b>	<b>4,216</b>	<b>5,841</b>
% change	27.8	(9.5)	(44.0)	50.1	38.5
No. of shares (cr)	88.6	88.6	88.7	88.7	88.7
<b>Adj EPS (Rs.)</b>	<b>62.8</b>	<b>57.2</b>	<b>31.7</b>	<b>47.5</b>	<b>65.8</b>
% change	27.3	(9.5)	(44.0)	50.1	38.5
DPS (Rs.)	30.0	50.0	40.0	39.0	54.0

## CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Net inc. + Depn.</b>	<b>7,151</b>	<b>6,814</b>	<b>4,214</b>	<b>6,575</b>	<b>8,315</b>
Non-cash adj.	519	661	1,179	(0)	(0)
Changes in W.C	(2,384)	(1,902)	984	(237)	(215)
<b>C.F. Operation</b>	<b>5,285</b>	<b>5,572</b>	<b>6,376</b>	<b>6,338</b>	<b>8,100</b>
Capital exp.	(835)	(969)	(738)	(819)	(948)
Change in inv.	5,777	1,597	150	201	(443)
Other invest.CF	(4,460)	(907)	(726)	(1,252)	(1,601)
<b>C.F - Investment</b>	<b>482</b>	<b>(279)</b>	<b>(1,314)</b>	<b>(1,870)</b>	<b>(2,992)</b>
Issue of equity	87	44	24	24	24
Issue/repay debt	(680)	(602)	(523)	106	112
Dividends paid	(3,981)	(4,263)	(3,917)	(3,406)	(4,719)
Other finance.CF	(92)	(257)	(351)	189	194
<b>C.F - Finance</b>	<b>(4,667)</b>	<b>(5,078)</b>	<b>(4,767)</b>	<b>(3,088)</b>	<b>(4,389)</b>
Chg. in cash	1,100	215	296	1,380	719
Closing cash	3,975	4,255	4,736	6,115	6,835

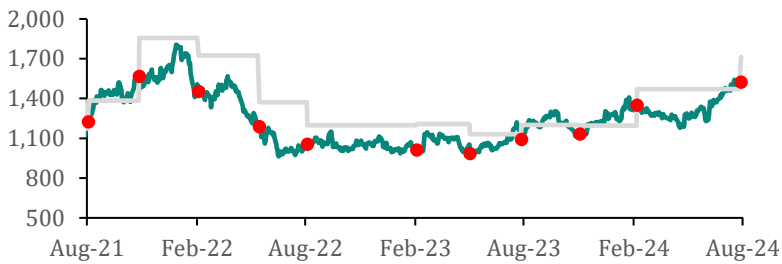
## BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	3,975	4,255	4,736	6,115	6,835
Accounts Receivable	7,468	8,142	7,126	7,588	8,413
Inventories	41	24	38	38	36
Other Cur. Assets	12,973	12,012	11,527	11,384	11,885
Investments	528	680	530	553	577
Gross Fixed Assets	12,050	13,369	13,441	14,259	15,207
Net Fixed Assets	2,682	2,862	2,558	1,084	(349)
CWIP	165	84	101	104	107
Intangible Assets	12,022	12,031	11,306	11,382	11,459
Def. Tax (Net)	3,333	4,350	4,439	5,615	7,139
Other Assets	1,686	1,714	1,065	1,065	1,065
<b>Total Assets</b>	<b>44,871</b>	<b>46,153</b>	<b>43,424</b>	<b>44,928</b>	<b>47,166</b>
Current Liabilities	11,979	12,730	12,084	12,390	13,080
Provisions	881	929	1,302	1,327	1,352
Debt Funds	2,618	2,740	2,537	2,642	2,755
Other Liabilities	2,011	1,359	354	518	687
Equity Capital	439	440	441	465	489
Reserves & Surplus	26,447	27,485	26,228	27,038	28,160
Shareholder's Fund	26,886	27,925	26,669	27,503	28,649
Minority Interest	495	470	477	547	644
<b>Total Liabilities</b>	<b>44,871</b>	<b>46,153</b>	<b>43,424</b>	<b>44,928</b>	<b>47,166</b>
<b>BVPS (Rs.)</b>	<b>303</b>	<b>315</b>	<b>301</b>	<b>310</b>	<b>323</b>

## RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	18.0	15.1	9.5	13.5	16.4
EBIT margin (%)	14.6	10.9	5.2	9.3	12.4
Net profit mgn.(%)	12.5	9.1	4.5	7.7	9.9
ROE (%)	20.9	17.4	9.0	15.6	20.7
ROCE (%)	21.7	18.7	9.1	16.6	23.0
<b>W.C &amp; Liquidity</b>					
Receivables (days)	61.1	55.9	50.2	50.9	52.0
Inventory (days)	2.1	1.1	2.1	2.2	1.8
Payables (days)	214.8	200.6	207.1	208.6	209.4
Current ratio (x)	1.8	1.7	1.7	1.8	1.8
Quick ratio (x)	1.2	1.0	1.1	1.1	1.2
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	3.8	4.2	3.9	3.9	4.0
Total asset T.O (x)	1.1	1.2	1.2	1.2	1.3
Int. coverage ratio (x)	40.0	17.9	6.9	11.6	13.3
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
<b>Valuation</b>					
EV/Sales (x)	3.2	2.0	2.3	2.7	2.4
EV/EBITDA (x)	18.0	13.2	24.0	19.6	14.8
P/E (x)	23.9	19.3	39.4	32.1	23.2
P/BV (x)	4.9	3.5	4.2	4.9	4.7

## Recommendation Summary (Last 3 Years)



Dates	Rating	Target
16-May-22	BUY	1,372
4-Aug-22	BUY	1,199
3-Feb-23	BUY	1,207
3-May-23	HOLD	1,131
28-Jul-23	HOLD	1,200
3-Nov-23	HOLD	1,196
6-Feb-24	HOLD	1,470
07-Aug-24	BUY	1,645

Source: Bloomberg, Geojit research

### Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

#### Not rated/Neutral

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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