

Tech Mahindra Ltd.

BUY

Choice

Scale at Speed progressing well

Tech Mahindra Ltd. reported Q2FY25 revenues at \$1,589mn, growth of 0.7% QoQ and 1.2% YoY in cc terms. In USD terms, revenue was up 1.9% QoQ and 2.2% YoY. In INR terms, revenue stood at INR133bn, up 2.4% QoQ and 3.5% YoY. Growth was broad based across verticals except for Communications industry, where there is weakness. PAT for the quarter came strong at INR12,501mn (+153.1% YoY) driven by high other income (one-off). EPS for the quarter stood at INR14.1. The reported net new deals stood at \$603mn for the quarter.

- Progress around Phase-I of strategy:** Despite the overall softness in the IT services industry, the company remains committed to advancing its strategic improvement initiatives, focusing on strengthening client relationships and expanding its partner ecosystem. The Communications vertical experienced a 1.7% YoY decline as key telecom clients prioritize cost savings, resulting in constrained budgets for discretionary projects. Similarly, the Manufacturing vertical saw modest growth of 0.6% YoY, reflecting a conservative outlook on discretionary spending and softness in auto segment. In contrast, the BFSI vertical reported a robust 4.5% YoY growth, driven by strong partnerships and the acquisition of new clients, while the company is optimizing its capabilities to support long-term growth in areas like insurance, asset management, and payments. Other verticals also demonstrated positive momentum, with Technology, Media and Entertainment growing by 2.4% YoY, Healthcare and Lifesciences by 4.5% YoY and Retail by 4.7% YoY, showcasing the company's adaptability and positioning for future success.
- Priority segments:** The company has identified key areas for above-normal investments aimed at achieving its FY27 targets and will provide annual progress updates on these initiatives. Efforts are being made to enhance capabilities in focused service lines by broadening leadership and investing in technical specializations. The company is also strengthening its fresh graduate hiring program to foster the right mindset and future skills. By prioritizing AI-first and cloud-first skill sets, a Next-Gen skill framework has been established for IT associates, promoting career mobility within the workforce. Additionally, the company is committed to creating and sustaining an outcome-driven learning organization while cultivating a high-performance culture grounded in the principles of simplification, clarification, innovation, and performance orientation.
- EBIT Margins to expand:** Operating (EBIT) margins for Q2FY25 rose to 9.6%, up 113bps QoQ due to cost saving efforts under project Fortius, continued focus on operational efficiencies and forex movement. The company has initiated targeted programs aimed at enhancing the efficiency of its operations, including pyramid optimization, utilization improvement, sub-contracting expenses reduction and value-based pricing.

Valuation: The H2, based on the foundational inputs provided regarding margins, there is a strong confidence in maintaining the positive trajectory established in the H1. The company is on a path to sustainable long-term transformation, bolstered by the intrinsic strengths of Tech Mahindra. We have introduced FY27E and expect Revenue/EBIT/PAT to grow at a CAGR of 8.1%/32.6%/37.2% respectively over FY24-FY27E. We upgrade our rating to **BUY** to arrive at a target price of INR1,834 implying a P/E of 28.5x on Sep-FY27E EPS of INR64.

Financial Snapshot

Year end: March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR Mn.)	5,32,902	5,19,955	5,38,905	5,91,337	6,57,721
Gross Profit (INR Mn.)	1,51,705	1,28,808	1,44,510	1,60,622	1,82,216
Gross Profit Margin (%)	28.5	24.8	26.8	27.2	27.7
EBIT (INR Mn.)	60,720	31,579	48,281	62,764	73,692
EBIT Margin (%)	11.4	6.1	9.0	10.6	11.2
EPS (INR)	54.8	26.7	46.7	58.3	68.7

Source: Company, CEBPL

Oct 21, 2024

CMP (Rs.)	1,688
Target Price (Rs.)	1,834
Potential Upside (%)	8.7

*CMP as 18th Oct 2024

Company Info

BB Code	TECHM IN EQUITY
ISIN	INE669C01036
Face Value (Rs.)	5.0
52 Week High (Rs.)	1,709
52 Week Low (Rs.)	1,089
Mkt Cap (Rs bn.)	1,651.5
Mkt Cap (\$ bn.)	19.6
Shares o/s/Float (Mn.)	978.3/65
FY24 EPS (Rs.)	26.7
FY27E EPS (Rs.)	68.7

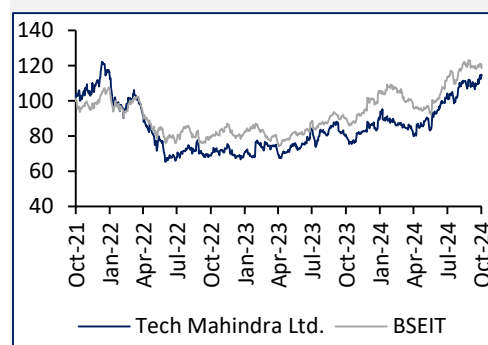
Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	35.03	35.04	35.08
FII's	23.66	23.27	24.15
DII's	31.00	30.67	29.43
Public	10.31	11.02	11.34

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE IT	18.6	48.5	32.1
Tech Mahindra Ltd.	14.2	65.6	42.3

Rebased Price Performance



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Sequential Operating Performance

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Income Statement						
Revenues (INR Mn.)	1,31,590	1,28,639	1,31,013	1,28,713	1,30,055	1,33,132
Gross Profit (INR mn.)	33,785	28,887	31,364	34,772	34,523	37,175
Gross Margin (%)	25.7	22.5	23.9	27.0	26.5	27.9
EBIT (INR mn.)	8,992	5,981	7,078	9,528	11,049	12,810
EBIT Margin (%)	6.8	4.6	5.4	7.4	8.5	9.6
PAT (INR mn.)	6,925	4,939	5,104	6,610	8,515	12,501
Basic EPS (INR)	7.8	5.6	5.8	7.5	9.6	14.1
Operating Metrics						
Revenue – Geography (%)						
North America	51.4	53.3	51.9	50.8	52.4	51.1
Europe	24.6	23.6	23.8	24.2	23.4	24.0
Rest of the world	24.0	23.1	24.3	25.0	24.2	24.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue - Industry (%)						
Comm., Media & Ent.	35.8	37.0	36.5	34.0	33.1	33.4
Manufacturing	16.7	17.8	18.1	18.0	18.3	17.2
Technology	13.9	11.0	10.5	13.8	13.8	14.3
BFSI	15.5	16.1	15.5	15.7	15.7	15.8
Retail, Transport & Logistics	7.1	8.1	8.6	7.3	7.7	7.9
Healthcare & Lifesciences	7.0	-	-	7.2	7.7	7.4
Others	4.0	10.0	10.8	4.0	3.7	4.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Client Metrics						
No. of Active Clients	1,255	1,252	1,228	1,172	1,165	1,178
Repeat Business (%)	98	96	95	94	99	-
Deal Wins (USD Mn)	359	640	381	500	534	603
IT Headcount						
Onsite (%)	26.9	26.6	26.1	25.2	24.6	23.7
Offshore (%)	73.1	73.4	73.9	74.8	75.4	76.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Employee Metrics						
Software	81,521	81,200	81,705	80,925	80,417	80,618
BPO	58,079	60,985	56,206	55,492	58,177	64,940
Sales & support	8,697	8,419	8,339	9,038	9,026	8,715
Total Headcount	1,48,297	1,50,604	1,46,250	1,45,455	1,47,620	1,54,273
Utilization (%)	87.0	86.0	88.0	86.0	86.0	86.0
Utilization (%) (Excl. Trainees)	87.0	86.0	88.0	86.0	86.0	86.0
Attrition Rate LTM (%)	13.0	11.0	10.0	10.0	10.0	11.0

Source: Company, CEBPL

CEBPL Estimates vs Actual for Q2FY25

Tech Mahindra (INR Mn.)	Q2FY25	Q2FY24	YoY(%)	Q1FY25	QoQ (%)	CEBPL Est.	Dev. (%)
Revenues (\$ mn.)	1,589	1,555	2.2	1,559	1.9	1,573	1.0
Revenues (INR)	1,33,132	1,28,639	3.5	1,30,055	2.4	1,31,333	1.4
Cost of Sales	95,957	99,752	(3.8)	95,532	0.4		
Gross Profit (INR mn.)	37,175	28,887	28.7	34,523	7.7	34,409	8.0
Gross Margin (%)	27.9	22.5	547 bps	26.5	138 bps	26.2	172 bps
Depreciation	4,698	4,657	0.9	4,622	1.6		
EBIT (INR mn.)	12,810	5,981	114.2	11,049	15.9	11,295	13.4
EBIT Margin (%)	9.6	4.6	497 bps	8.5	113 bps	8.6	102 bps
Other Income	5,215	2,642	97.4	1,447	260.4		
Interest	890	975	(8.7)	715	24.5		
PBT (INR mn.)	17,135	6,153	178.5	11,781	45.4		
Tax	4,560	1,100	314.5	3,133	45.5		
Adj. PAT (INR mn.)	12,501	4,939	153.1	8,515	46.8	9,427	32.6
Basic EPS (INR)	14.1	5.6	152.6	9.6	46.8	10.7	32.6

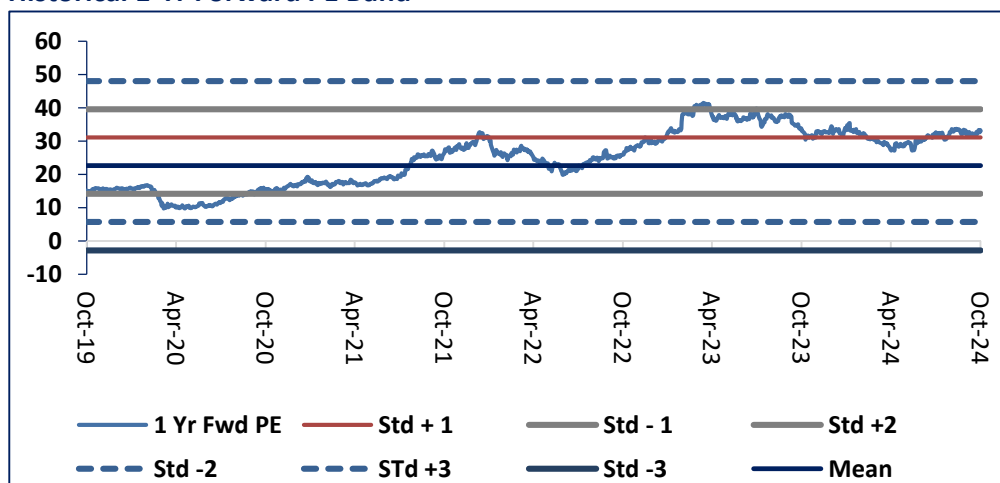
Source: Company, CEBPL

Change in estimates

Income Statement (INR Mn.)	FY25E			FY26E			FY26E
	Old	New	Dev. (%)	Old	New	Dev. (%)	New
Revenues	5,33,265	5,38,905	1.1	5,82,588	5,91,337	1.5	6,57,721
Gross Profit Margin (%)	26.4	26.8	43 bps	27.2	27.2	0 bps	27.7
EBIT	46,291	48,281	4.3	61,832	62,764	1.5	73,692
EBIT Margin (%)	8.7	9.0	28 bps	10.6	10.6	0 bps	11.2
EPS	42.8	46.7	9.2	57.8	58.3	0.9	68.7

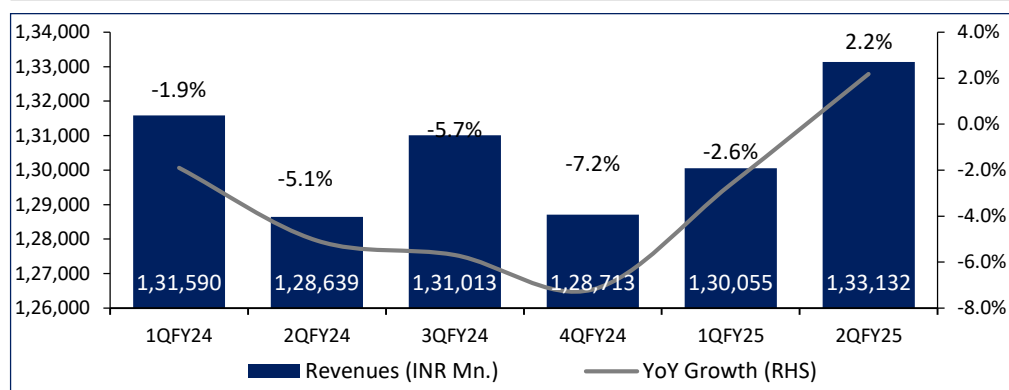
Source: Company, CEBPL

Historical 1-Yr Forward PE Band



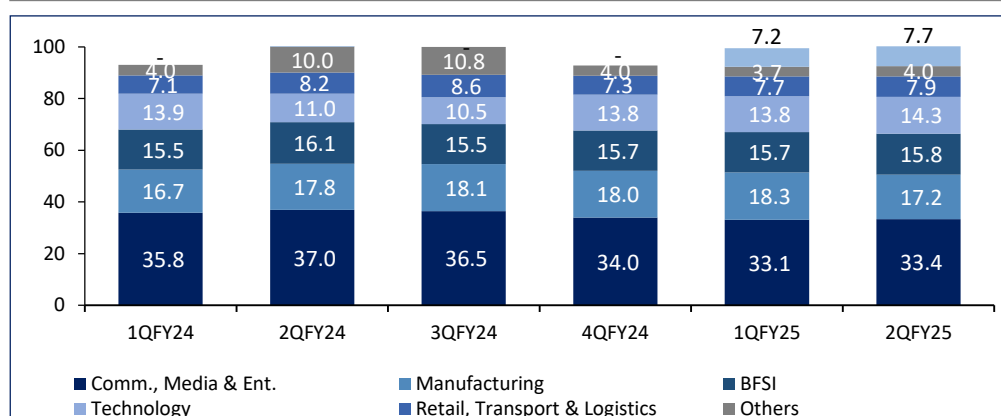
Source: Company, CEBPL

Decent revenue growth



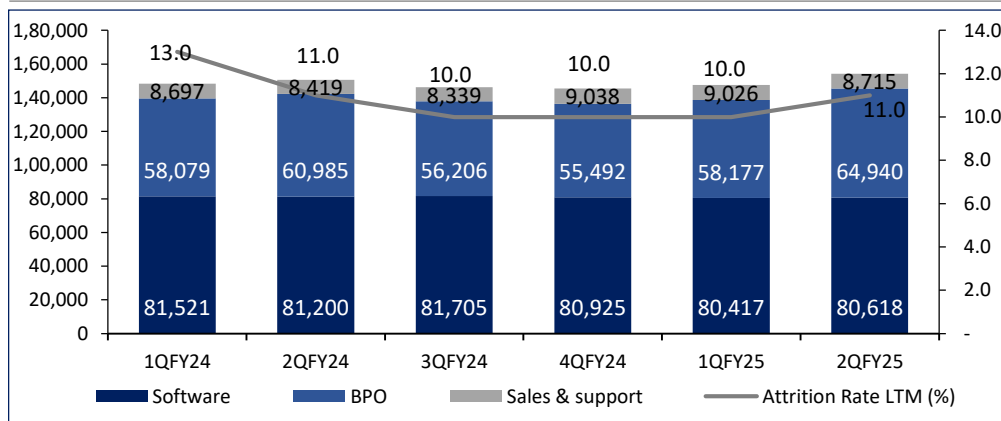
Source: Company, CEBPL

Vertical wise split



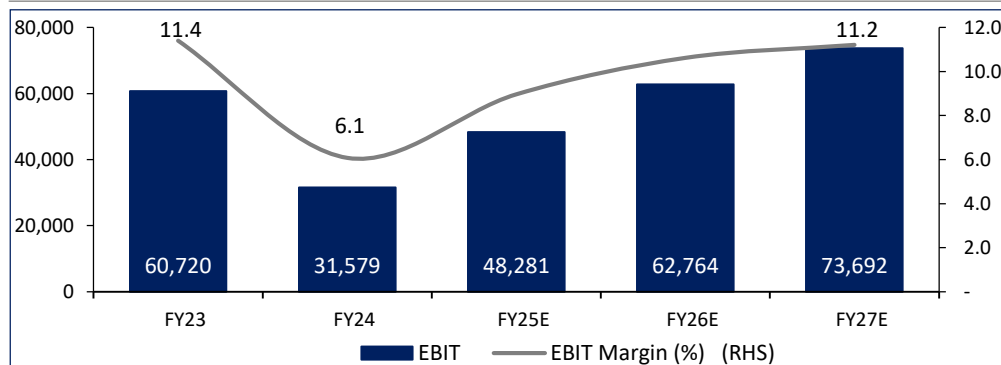
Source: Company, CEBPL

Uptick in Attrition Rate



Source: Company, CEBPL

EBITM to expand to industry standards



Source: Company, CEBPL

Management Call - Highlights

- The total headcount at the end of the quarter reached 154,273, reflecting an increase of 6,653 QoQ and 3,669 YoY. The LTM IT attrition stood at 10.6%. Utilization, including trainees, was 86.3% for the quarter, compared to 86.1% in the previous quarter.
- DSO for the quarter stood at 94 days, increasing by 1 day from the previous quarter but improving by 3 days compared to Q2FY24.
- The number of active clients for the quarter was 1,178, up from 1,165 in the previous quarter. The top 10 clients contributed 24.9% of revenue, slightly down from 25.1% in Q1FY25. The number of \$50mn+ clients stood at 25.
- Cash and cash equivalents stood at INR 65.7bn at the end of the quarter. The hedge book totalled \$2,326mn, and the tax rate for the quarter was 26.6%.
- The company has declared an interim dividend of INR15 per share. The record date for determining the eligibility of shareholders to receive the interim dividend is set for Friday, November 1, 2024.

Deal Wins-

- Tech Mahindra secured a new partnership with one of the largest U.S.-based cards and payments service providers. The engagement includes AI-Ops-based production management for the bank's applications, along with a technology modernization program spanning ADMS, data, cloud, and infrastructure engineering. This collaboration establishes Tech Mahindra as the client's "Change the Bank" partner.
- Tech Mahindra was chosen by a leading European CSP for an Autonomous Operations Program aimed at enhancing customer experience (CX) and transforming the operator into a highly digital and innovative enterprise. The program leverages Tech Mahindra's expertise in network services, ADMS, and AI to drive business, IT, and workforce transformation.

Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	5,32,902	5,19,955	5,38,905	5,91,337	6,57,721
Gross profit	1,51,705	1,28,808	1,44,510	1,60,622	1,82,216
EBITDA	80,287	49,750	67,390	83,748	96,712
Depreciation	19,567	18,171	19,110	20,985	23,020
EBIT	60,720	31,579	48,281	62,764	73,692
Other income	9,650	9,169	11,625	10,948	12,497
Interest expense	3,256	3,922	3,259	3,394	3,289
Exceptional items	-	-	-	-	-
PAT	48,312	23,578	41,367	51,604	60,838
EPS (Rs.)	54.8	26.7	46.7	58.3	68.7

Balance Sheet (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Fixed Assets	41,178	36,906	39,478	41,104	42,829
Goodwill & Intangible Assets	1,09,334	1,03,456	1,03,135	1,03,135	1,03,135
Cash and Cash Equivalent	40,563	43,471	42,137	48,243	62,656
Investments	32,152	31,916	35,932	40,597	46,050
Other non-current assets	62,374	55,499	61,610	67,596	74,779
Other current assets	1,75,932	1,62,988	2,00,484	2,11,018	2,22,387
Total Assets	4,61,533	4,34,236	4,82,776	5,11,693	5,51,835
Net Worth	2,79,245	2,66,694	3,08,061	3,28,702	3,53,019
Bank Borrowings	15,785	15,310	15,392	15,112	14,838
Non Controlling Interest	4702	4774	4619	4619	4619
Deferred Tax Liability	11,620	10,057	10,463	10,671	10,884
Other Liabilities	22,881	16,564	17,512	18,531	19,630
Future Acquisition Liability	1,27,300	1,20,837	1,26,729	1,34,058	1,48,845
Total Liabilities	4,61,533	4,34,236	4,82,776	5,11,693	5,51,835

Cash Flows (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Cash flows from Operations	55,720	63,764	43,917	58,832	67,555
Cash flows from Investing	(2,785)	(13,137)	(15,256)	(16,328)	(17,701)
Cash flows from Financing	(50,781)	(47,672)	(35,864)	(42,170)	(48,996)

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)					
Revenues	10.1	(5.0)	2.5	9.3	10.9
Gross Profit	7.2	(15.1)	12.2	11.1	13.4
EBITDA	0.1	(38.0)	35.5	24.3	15.5
EBIT	(6.6)	(48.0)	52.9	30.0	17.4
Margin Ratios (%)					
Gross Profit Margin	28.5	24.8	26.8	27.2	27.7
EBITDA Margin	15.1	9.6	12.5	14.2	14.7
EBIT Margin	11.4	6.1	9.0	10.6	11.2
Profitability (%)					
Return on equity	17.3	8.8	13.4	15.7	17.2
Return on invested capital	15.5	8.3	11.0	13.4	16.5
Return on capital employed	14.9	8.0	10.6	13.0	11.0
Valuation					
OCF / Net profit (%)	115.3	270.4	106.2	114.0	111.0
EV / EBITDA (x)	21.3	34.3	25.3	20.3	17.4
Book Value per share (x)	316.5	301.6	348.0	371.3	398.7
Free Cash flow Yield (%)	3.8	3.9	2.3	6.0	6.8

Source: Company, CEBPL

Historical recommendations and target price: Tech Mahindra Ltd.



Tech Mahindra Ltd.

1.	31-12-2021	Reduce,	Target Price 1,800
2.	27-03-2022	Neutral,	Target Price 1,480
3.	16-05-2022	Add,	Target Price 1,309
4.	26-07-2022	Outperform,	Target Price 1,200
5.	02-11-2022	Outperform	Target Price. 1321
6.	30-01-2023	Outperform,	Target Price 1,196
7.	28-04-2023	Add,	Target Price 1,088
8.	27-07-2023	Underperform,	Target Price 870
9.	25-09-2023	Underperform,	Target Price 990
10.	26-10-2023	Underperform,	Target Price 810
11.	25-01-2024	Reduce,	Target Price 1,235
12.	18-03-2024	Sell,	Target Price 1,235
13.	26-04-2024	Buy,	Target Price 1,273
14.	26-07-2024	Reduce,	Target Price 1,570
15.	21-10-2024	Buy,	Target Price 1,834

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BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
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SELL	The security expected to show Below 0% next 12 months

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