

CMP: ₹ 1,280

Target: ₹ 1540 (20%)

Target Period: 12 months

BUY

April 26, 2024

Charts out turnaround roadmap...

About the stock: Tech Mahindra (TechM) has over 1.4 lakh+ employees across 90 countries serving 1000+ clients with higher exposure to telecom (35% of revenues).

- Apart from telecom, the company caters to BFSI, manufacturing & retail

Q4FY24 Performance: TechM reported a mixed performance in Q4FY24. TechM's revenue declined by 1.6% QoQ while in CC terms it declined by 0.8%. In Rupee terms the company's revenue came at ₹ 12,871 crore, down 1.8% QoQ. TechM reported EBIT margin improvement of 40bps QoQ compared to adjusted margins in Q3. TechM won TCV of US\$ 500 mn, up 31.2% QoQ and includes 2 large deals.

For FY24 the company reported revenue of US\$ 6.3 bn, down 5% while in CC terms the revenue declined by 4.7%. In rupee terms it reported revenue of ₹ 51,996 crore, down 2.4%. The company reported an EBIT margin of 6.1% in FY24 compared to 11.4% in FY23. PAT for FY24 came at ₹ 2,358 crore with PAT margin of 4.5%.

Investment Rationale:

- 3 year strategy for sustainable & profitable growth:** The CEO announced a 3 year strategy for the company to return to sustainable revenue growth along with margin improvement for the company. As per its vision 2027, it expects the company to achieve the followings goals: **i) Topline growth higher than industry peer group, ii) improve EBIT margin to 15% (with incremental savings of ~US\$ 250mn/ year to fund investments for improving growth and margins), iii) achieve RoCE >30% & iv) return >85% FCF via dividends & buybacks**
- Top line & Bottom line to improve going ahead:** The company's performance in last few quarters was impacted by the business mix & macros headwinds across the sector. However, we believe that the company is well poised for a turnaround with the strategic plan laid by the new CEO. **We believe that the company's dollar revenue will grow at CAGR of 6.5% between FY24-26E but the margins will grow at higher pace. We believe that EBIT margin of the company will improve from 6.1% in FY24 to 12.6% in FY26E. We also expect PAT of the company to grow at CAGR of 55.1% between FY24-26E.**

Rating and Target Price

- TECHM is well placed among the large peers to sustain its medium and long-term growth momentum driven by turnaround strategy.
- We assign **BUY**, and value it at target price of ₹ 1,540; at 24x P/E on FY26E EPS.

Tech Mahindra

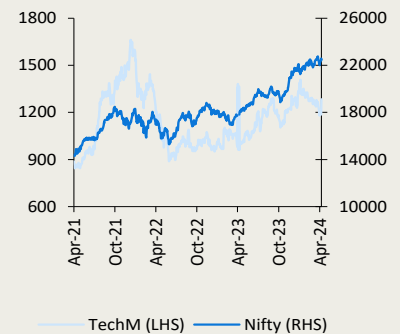
Particulars

Particular	Amount
Market Cap (₹ Crore)	1,24,691
Total Debt (₹ Crore)	1,531
Cash and Invest (₹ Crore)	7,515
EV (₹ Crore)	1,18,707
52 week H/L	1416/ 981
Equity capital	441
Face value (₹)	5.0

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	35	35	35	35
FII	26	26	25	24
DII	27	27	29	30
Public	12	12	11	11

Price Chart



Key risks

- Lower than expected revenue growth;
- Lower than expected margin growth

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Key Financial Summary

Key Financials	FY22	FY23	FY24	5 Years CAGR (FY19-24)	FY25E	FY26E	2 years CAGR (FY24-26E)
Net sales	44,646	53,290	51,996	8.4	53,810	59,821	7.3
EBITDA	8,020	8,029	4,965	-4.8	6,896	9,321	37.0
EBITDA Margin (%)	18.0	15.1	9.5		12.8	15.6	
Net Profit	5,566	4,831	2,358	-11.3	3,708	5,674	55.1
EPS (₹)	63.1	54.8	26.7		41.9	64.2	
P/E	20.3	23.4	48.0		30.5	20.0	
RoNW (%)	20.7	17.3	8.8		13.6	20.2	
RoCE (%)	22.5	20.5	12.6		16.6	23.9	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Revenue Performance:** Tech M in Q4FY24 reported revenue of US\$ 1,548 mn, down 1.6% QoQ (0.8% QoQ in CC terms). In rupee terms the revenue came at INR 12,871 crore, down 1.8% QoQ. For FY24 the company reported revenue of US\$ 6.3 bn, down 5% (4.7% in CC terms) and in rupee terms the revenue declined by 2.4%.
- **Geography & Segment performance:** Geography wise Rest of the World (25% of mix) grew by 1.2% QoQ while America (50.8% of mix) declined by 3.7% QoQ and Europe (24.2% of mix) was flat QoQ. Segment wise BFSI (16.3% of mix) and Technology (10.7% of mix) grew by 3.5% and 0.3% QoQ while Communications Media & Entertainment (36.1% of mix), Manufacturing (18.2% of mix), Retail transport & logistics (7.9% of mix) and Others (10.8% of mix) declined by 2.7%, 1%, 9.6% and 1.6% QoQ respectively.
- **Margin performance:** EBIT margin of the company increased by 200 bps QoQ to 7.4%, (grew 40 bps compared to adjusted margins of Q3) and the PAT margin came at 5.1%, up 120 bps QoQ. For FY24 EBIT margin came at 6.1%, down 530 bps while PAT margin came at 4.5%, down 460 bps.
- **Deal Wins:** The company during the quarter won TCV of US\$ 500 mn, up 31.2% QoQ. The company signed two large deals in Q4, each over \$100 million in TCV. In FY24 the company won TCV deals of US\$ 1.9 bn, down 35.3% due to selective deal participation.
- **Vision 2027:** The new CEO Mohit Joshi informed the roadmap for topline & bottom line growth. The company informed Vision 2027 and the steps it will take to achieve the following goals: i) **Topline growth higher than industry peer group**, ii) **improve EBIT margin to 15% (with incremental savings of ~US\$ 250mn/ year to fund investments for improving growth and margins)**, iii) **achieve RoCE >30% & iv) return >85% FCF via dividends & buybacks**
 - **Scale Revenue:** The company has envisaged to not only scale the revenue growth but also aims for a sustainable revenue growth. The company aims to achieve this by scaling top accounts, winning multi tower deals & drive synergies from acquired companies. The company mentioned that it will focus to grow faster in the Americas region and prioritize the regions of New Zealand, Japan, Singapore and Indonesia in APAC region. Vertical wise the company mentioned that it aims to scale its BFSI vertical and it will focus to add tier 1 & tier 2 banks as its clients. The company mentioned that it sees potential in sub verticals of wealth management, asset management, core banking & payments.
 - **Project Fortius:** The company announced Project Fortius to save an average of US\$ 250 mn every year for the next 3 years. The company indicated that it would achieve the same by levers of pyramid utilization, reduce subcon costs, increased offshoring, automation led cost savings, increase in pricing & reducing margin dilutive projects. The company mentioned that the savings will be utilized to improve delivery capability & scalability of the company. The company mentioned that the investments will have an impact of 1.5% in FY25 & 0.75% in FY26. The company with the above efforts aims to improve its EBIT margins from ~6% in FY24 to 15% in FY27. The company also mentioned that it has a vision to be among Top 3 companies for EBIT margin among its peers.
- **Gen AI:** The company mentioned that it is witnessing traction in Gen AI and it is infusing AI in all parts of its offerings. The company also mentioned that it has launched 2 foundational LLM's one in Hindi & another in Bahasa, Indonesia.
- **M&A:** The company mentioned that it is not looking for acquiring any company in near term. It also mentioned that it will focus to increase synergies between the acquired companies and it not currently planning to divest any of them as of now

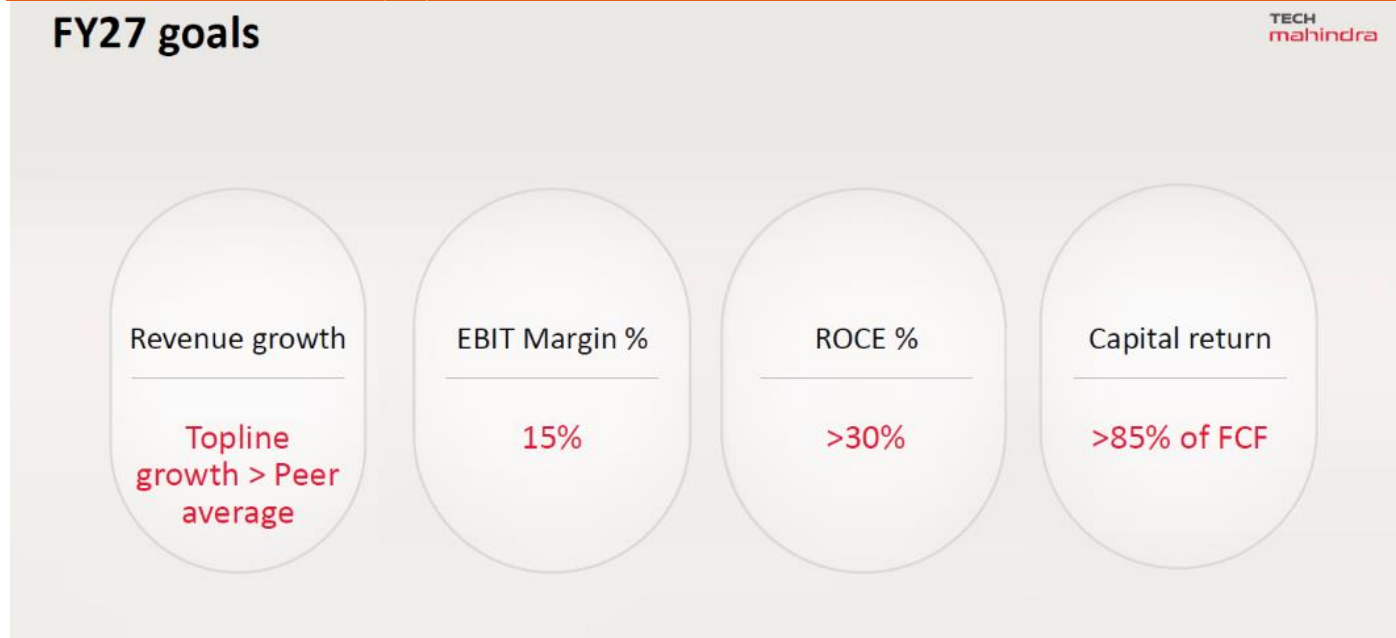
- **Attrition & Employee addition:** The company's attrition rate during the quarter further declined by 30 bps QoQ and 480 bps YoY to 10%. The company's net employee declined by 795 bringing the total employee strength to 1,45,455. The company has 15,000+ talent enabled on AI led pair programming.
- **Dividend:** The company declared a final dividend of ₹28 per share, bringing the total dividend for FY24 to ₹40 per share.

Exhibit 1: Quarter Performance

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments	FY24	FY23	YoY (%)
Revenue (₹ crore)	12,871	13,718	(6.2)	13,101	(1.8)	Revenue grew by 0.8% QoQ in CC terms	51,996	53,290	(2.4)
Employee expenses	9,394	9,748	(3.6)	9,965	(5.7)		39,115	38,120	2.6
Gross Margin	3,477	3,970	(12.4)	3,136	10.9		12,881	15,170	(15.1)
Gross margin (%)	27.0	28.9	-192 bps	23.9	308 bps		24.8	28.5	-369 bps
SG&A expenses	2,069	1,949	6.2	1,990	4.0		7,916	7,142	10.8
EBITDA	1,408	2,021	(30.3)	1,146	22.8		4,965	8,029	(38.2)
EBITDA Margin (%)	10.9	15	-378 bps	8.8	219 bps		9.5	15	-551 bps
Dep. & amort.	461.4	490.2	(5.9)	443.4	4.1		1,817	1,957	(7.1)
EBIT	946	1,530	(38.2)	703	34.6		3,147	6,072	(48.2)
EBIT Margin (%)	7.4	11	-380 bps	5.4	199 bps	EBIT margin increased by 40 bps as compared to Q3 adjusted margins	6.1	11	-534 bps
Other income (less int.)	315	212	48.5	(29)	NA		525	639	(17.9)
PBT	1,261	1,742	(27.6)	674	87.2		3,672	6,711	(45.3)
Tax paid	295	400	(26.3)	155	90.1		828	1,589	(47.9)
PAT	661	1,118	(40.9)	510	29.5		2,358	4,831	(51.2)
Adjusted PAT	661	1,118	(40.9)	510	29.5		2,358	4,831	(51.2)

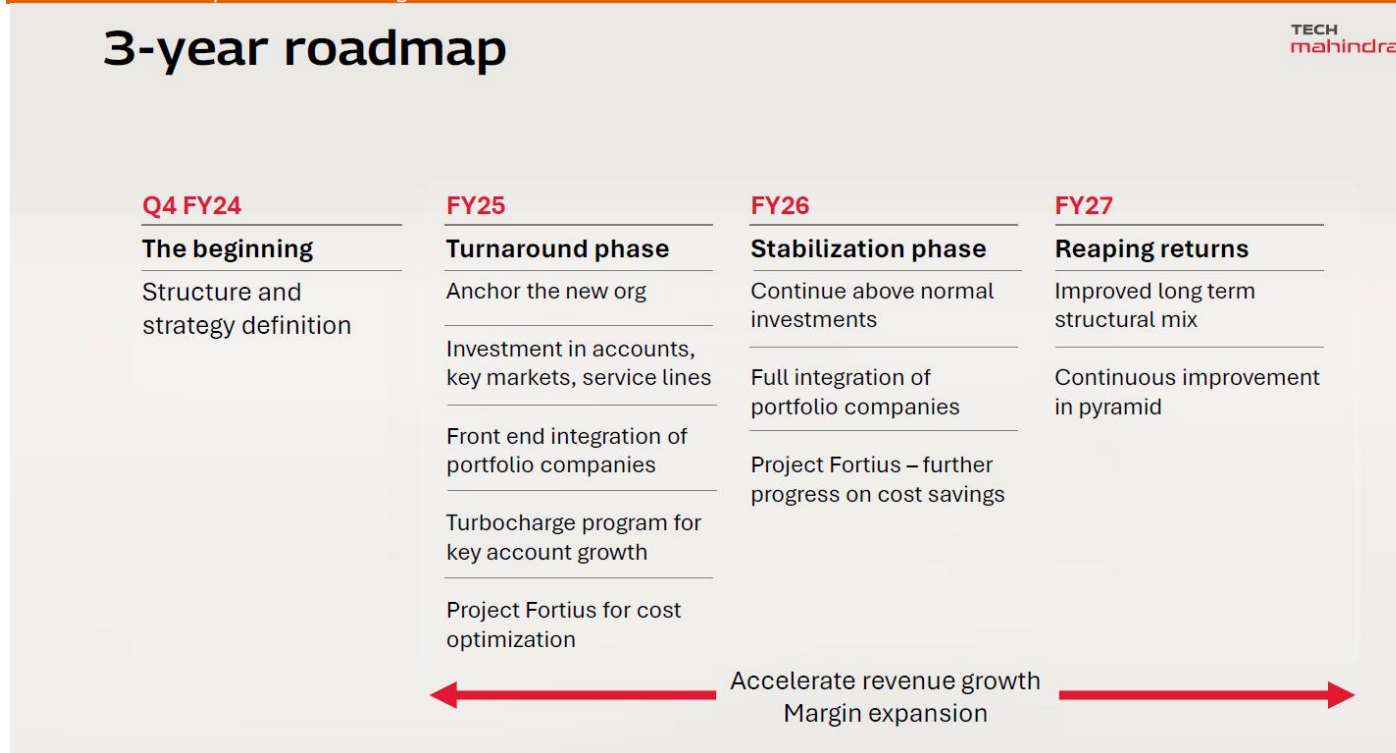
Source: Company, ICICI Direct Research

Exhibit 2: 3 Year Goals of the company



Source: Company, ICICI Direct Research

Exhibit 3: Roadmap to achieve the goals



Source: Company, ICICI Direct Research

Exhibit 4: Project Fortius to save cost each year

Project Fortius



Average **\$250mn** Benefit/year

Source: Company, ICICI Direct Research

Exhibit 5: EBIT improvement roadmap

EBIT expansion roadmap



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Net sales	53,290	51,996	53,810	59,821
Growth (%)	19	(2)	3	11
COGS (empl. exp.)	38,120	39,115	39,919	42,913
Gross profit	15,170	12,881	13,891	16,908
S,G&A expenses	7,142	7,916	6,995	7,587
Total Operating Exp.	45,261	47,031	46,915	50,500
EBITDA	8,029	4,965	6,896	9,321
Growth (%)	0	(38)	39	35
Depreciation	1,957	1,817	1,910	1,795
Interest	326	392	400	360
Other Income	965	917	478	549
PBT	6,711	3,672	5,064	7,716
Total Tax	1,589	828	1,312	1,998
Exceptional item	-	-	-	-
PAT	4,831	2,358	3,708	5,674
Growth (%)	(13)	(51)	57	53
EPS (₹)	54.8	26.7	41.9	64.2

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Profit before Tax	6,711	3,672	5,064	7,716
Add: Depreciation	1,957	1,817	1,910	1,795
(Inc)/dec in Current Assets	(2,158)	1,596	(550)	(1,836)
Inc/(dec) in CL and Provisions	312	(297)	391	1,293
Taxes paid	(1,993)	(1,247)	(1,312)	(1,998)
CF from operating activities	5,572	6,376	5,425	6,781
(Inc)/dec in Investments	530	(599)	-	-
(Inc)/dec in Fixed Assets	(969)	(738)	(819)	(910)
Others	145	153	478	549
CF from investing activities	(279)	(1,314)	(340)	(361)
Issue/(Buy back) of Equity	44	24	-	-
Inc/(dec) in loan funds	(159)	(69)	-	-
Dividend paid & dividend tax	(4,263)	(3,917)	(3,152)	(4,823)
Inc/(dec) in debentures	-	-	-	-
Finance charges	(257)	(351)	(400)	(360)
CF from financing activities	(5,078)	(4,767)	(3,902)	(5,533)
Net Cash flow	215	296	1,182	887
Cash by acquisition	-	-	-	-
Opening Cash	3,975	4,255	4,736	5,918
Cash carried to B/S	4,255	4,736	5,918	6,805

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Liabilities				
Equity Capital	440	441	441	441
Share application money	-	-	-	-
Reserve and Surplus	27,485	26,228	26,784	27,635
Total Shareholders funds	27,925	26,669	27,226	28,077
Minority Interest	470	477	521	565
Total Debt	1,578	1,531	1,531	1,531
Other long term liabilities	4,309	3,558	3,558	3,558
Total Liabilities	34,282	32,236	32,836	33,731
Assets				
Net Block	3,959	3,518	2,777	2,242
Capital WIP	84	101	101	101
Investments	3,388	3,238	3,238	3,238
Deferred tax assets	1,297	1,440	1,440	1,440
Goodwill on consolidation	7,666	7,511	7,511	7,511
Debtors	12,883	11,402	11,800	13,118
Loans and Advances (sho)	-	-	-	-
Other non-current assets	4,767	4,064	4,060	4,060
Cash	4,255	4,736	5,918	6,805
Other current assets	4,490	4,472	4,628	5,145
Total Current Assets	24,434	23,426	25,162	27,884
Trade payables	4,385	3,785	3,917	4,355
Current liabilities	6,856	6,266	6,484	7,209
Provisions	631	1,137	1,177	1,308
Total Current Liabilities	11,872	11,188	11,579	12,872
Application of Funds	34,282	32,236	32,836	33,731

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
EPS	54.8	26.7	41.9	64.2
Cash EPS	69.7	47.1	63.3	84.2
BV	286.7	300.7	306.9	316.5
DPS	50	40	36	54
Cash Per Share	43.7	53.4	66.7	76.7
Operating Ratios (%)				
EBITDA Margin	15.1	9.5	12.8	15.6
PAT Margin	9.1	4.5	6.9	9.5
Return Ratios (%)				
RoE	17.3	8.8	13.6	20.2
RoCE	20.5	12.6	16.6	23.9
RoIC	22.4	12.8	20.7	31.3
Valuation Ratios (x)				
P/E	23.4	48.0	30.5	20.0
EV / EBITDA	14.9	23.9	17.0	12.5
EV / Net Sales	2.2	2.3	2.2	1.9
Market Cap / Sales	2.3	2.4	2.3	2.1
Price to Book Value	4.5	4.3	4.2	4.0
Solvency Ratios				
Debt/EBITDA	0.2	0.3	0.2	0.2
Debt/Equity	0.1	0.1	0.1	0.1
Current Ratio	1.5	1.4	1.4	1.4
Quick Ratio	1.5	1.4	1.4	1.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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