



India

ADD (previously HOLD)

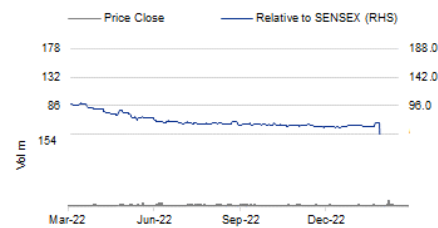
Consensus ratings*: Buy 20 Hold 15 Sell 9

Current price:	Rs1,061
Target price: ▲	Rs1,216
Previous target:	Rs1,122
Up/downside:	14.6%
InCred Research / Consensus:	7.9%

Reuters:	
Bloomberg:	TECHM IN
Market cap:	US\$14,235m
	Rs1,033,663m
Average daily turnover:	US\$39.6m
	Rs2877.5m
Current shares o/s:	885.5m
Free float:	64.0%
*Source: Bloomberg	

Key changes in this note

- No change in revenue estimate.
- No change in EBIT and PAT estimates.
- Change in PE/G multiple and target price.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.3	2.8	(26.3)
Relative (%)	6.6	8.7	(30.8)

Major shareholders	% held
LIC	7.4
SBI-ETF Nifty 50	3.2
ICICI Prudential Bluechip Fund	2.2

Analyst(s)



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Tech Mahindra

Turning constructive

- New MD & CEO Mr. Mohit Joshi's FSI expertise provides a great vantage point.
- Historical anecdotes point to a good value creation recipe.
- Upgrade our rating to ADD from HOLD with a higher target price of Rs1,216.

Tech Mahindra appoints Infosys veteran as its MD & CEO

Tech Mahindra has appointed Mr. Mohit Joshi as its managing director (MD) & chief executive officer (CEO) for a period of five years with effect from 20 Dec 2023, subject to shareholders' approval, and as MD designate up to 19 Dec 2023 effective from his date of joining. Mr. Joshi, who served as president at Infosys since Apr 2016, resigned effective 11 Mar 2023 with 9 Jun 2023 as his last working day. At Infosys, he was the head of global financial services (30.2% of 9MFY23 revenue), healthcare (6.8%) and software businesses (6.3%), which includes Finacle (the banking platform) and the AI/automation portfolio. He also led sales operations and transformation with executive responsibility for all large deals across the company. He was also responsible for the internal CIO function and the Infosys Knowledge Institute. Mr. Joshi, an Infosys veteran, joined on 7 Dec 2000, and has previously worked with ABN Amro Bank (1999-2000) & ANZ Grindlays Bank (1996-1999).

Historical anecdotes point to a good value creation recipe

India heritage IT services players have seen a multitude of ownership and management reorganizations in the past few years. Generally, restructuring includes management transition, investment in sales (including alignment of incentive structures), senior delivery leadership, advisory deal ecosystems, building niche capabilities and partnership ecosystems, and a better incentivization structure (employee stock option plans or ESOPs) to attract talent. While the markers of success such as 1) consistent go-to-market, 2) better operating metrics (sales efficacy, order-booking, client mining & pyramid, etc.), and 3) improved financial performance (revenue, margin), and cash generation leading to higher shareholder payouts decide the structural nature of P/E re-rating, we believe a stable leadership-led consistent strategy execution could narrow the P/E discount gap to HCL Technologies or HCLT (13.8x based on FY25F consensus estimate vs. 16.2x for HCLT).

Upgrade to ADD from HOLD with a higher target price of Rs1,216

Though we retain our estimates of a 7.9% US\$ revenue CAGR over FY23F-25F and a 12.7% PAT (Rs.) CAGR as we await year 1/2/3 strategic direction and execution, we upgrade our rating on Tech Mahindra to ADD (from HOLD) as we narrow the PE/G multiple discount to TCS to 35% vs. 40% to arrive at our target PE/G multiple of 1.3x vs. 1.2x earlier. This raises our target price to Rs1,216 (from Rs1,122 earlier). Strong cash conversion (OCF/EBITDA was ~82.5% over FY19-22), rising payout ratio trend, net cash of ~Rs47bn (Rs53/share) and inexpensive relative valuation among Tier-1 players provide cushion to the share price. Inability to improve deal velocity, higher attrition rate, and weak execution leading to no acceleration in revenue/EBIT margin assumptions are downside risks.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	378,551	446,460	534,411	589,320	647,713
Operating EBITDA (Rsm)	68,471	80,201	82,550	97,745	104,282
Net Profit (Rsm)	44,281	55,662	51,187	61,124	65,049
Core EPS (Rs)	51.1	63.0	58.1	69.0	73.5
Core EPS Growth	6.2%	23.4%	(7.8%)	18.8%	6.4%
FD Core P/E (x)	21.03	16.84	18.36	15.37	14.45
DPS (Rs)	45.0	45.0	38.0	45.0	50.0
Dividend Yield	4.21%	4.21%	3.57%	4.24%	4.71%
EV/EBITDA (x)	12.19	10.99	10.52	8.66	7.88
P/FCFE (x)	12.53	21.66	22.95	17.70	15.75
Net Gearing	(39.7%)	(22.3%)	(26.1%)	(31.3%)	(36.9%)
P/BV (x)	3.76	3.49	3.28	3.05	2.86
ROE	19.2%	21.5%	18.5%	20.6%	20.4%
% Change In Core EPS Estimates			(6.56%)	(6.87%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

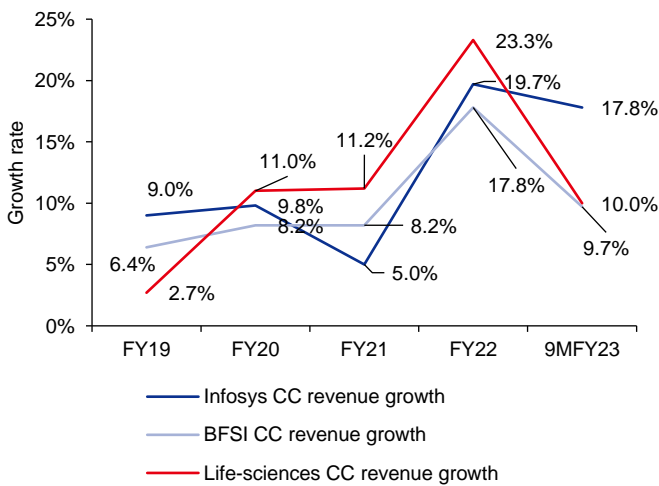
Mr. Joshi’s FSI vertical expertise provides a great vantage point...

During his tenure at Infosys, Mr. Joshi spent a significant number of years scaling financial services and insurance (FSI) practice across both the UK and the US. European BFSI business grew at a CAGR of 24% during his tenure (Jan 2011-Dec 2013) and included 7 of the top 10 large European banks while the US portfolio, after him assuming additional responsibility from Sep 2013, saw marquee contracts such as DNB Bank, Commerzbank, etc. We believe Mr. Joshi’s decadal experience of managing P&L responsibility for the FSI portfolio coupled with global sales operations (leading and transforming 2,000+ sales teams across the globe) and oversight of the Finacle business (chairman of Edgeverve Systems) provides a great vantage point to augment Tech Mahindra’s BFSI portfolio capabilities from the strength in implementation (to managed services) and wealth management & payments to other sub-segments.

...and could assist Tech Mahindra’s platform strategy as well

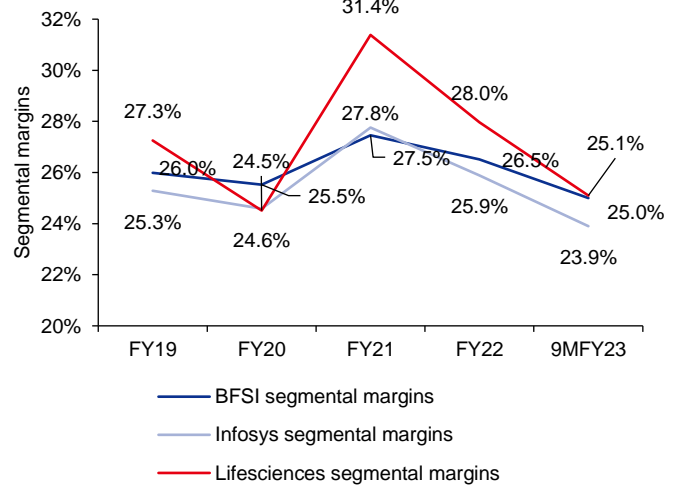
Mr. Joshi managed the software business portfolio of Infosys and was the chairman of Edgeverve Systems Limited (which houses software assets) and this could support Tech Mahindra’s ambition of scaling its products and platform business by 2x in three years vs. ~7% of revenue currently. This, in turn, may aid company-average EBIT margin through an improved annuity mix, despite near-term headwinds from investments. As a reminder, Tech Mahindra, at the recent analyst day on 3 Mar 2023, highlighted its products and platform strategy, problem solutions (which include existing products, strengthened innovation hub via continuous investments, scale, and technology partnership) and has clubbed its existing products to solve clients’ problems of simplification, modernization and monetization.

Figure 1: Revenue growth trend in constant currency terms...



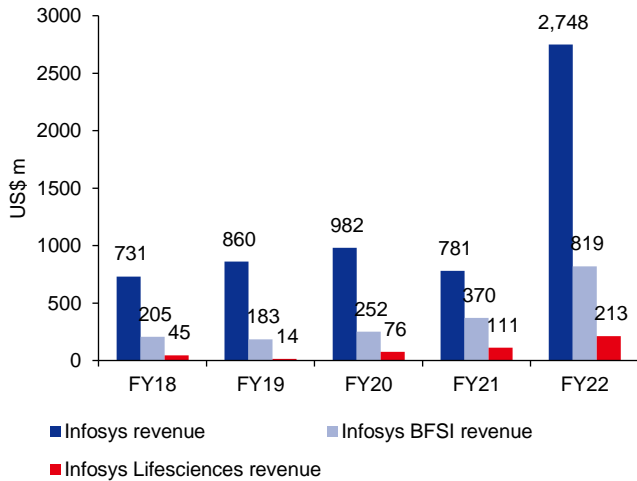
SOURCE: COMPANY REPORTS, INCRED RESEARCH, CC IS CONSTANT CURRENCY

Figure 2: ...and segmental margin trend



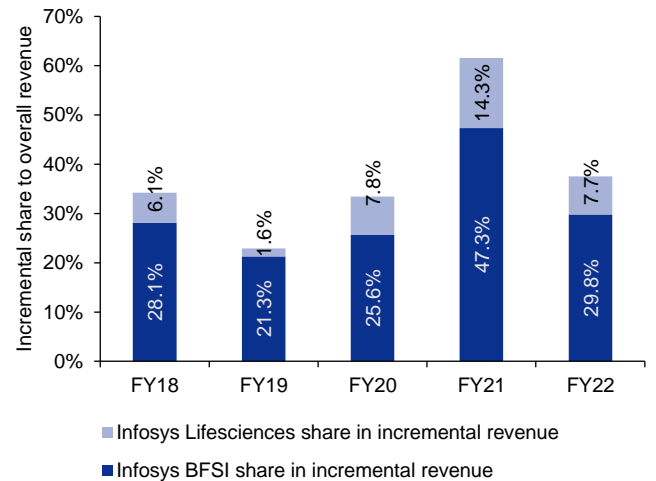
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 3: Incremental US\$ revenue addition trend for BFSI and healthcare vertical...



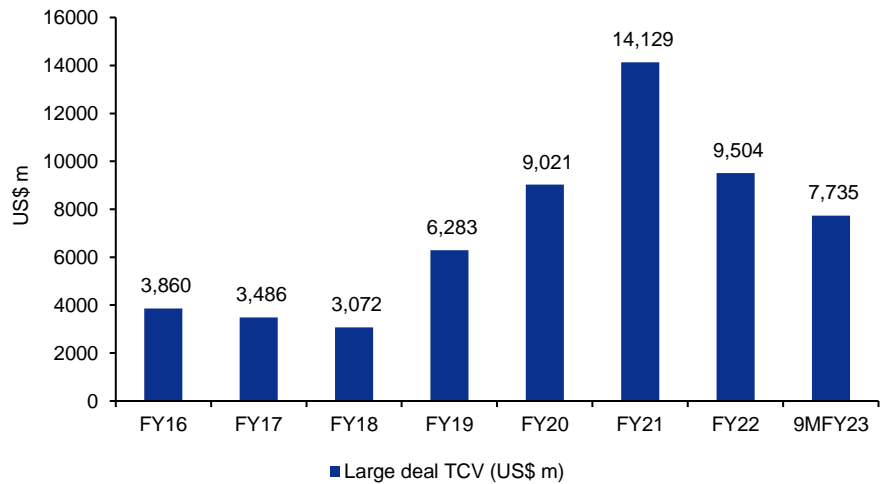
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: ...and the share in overall revenue



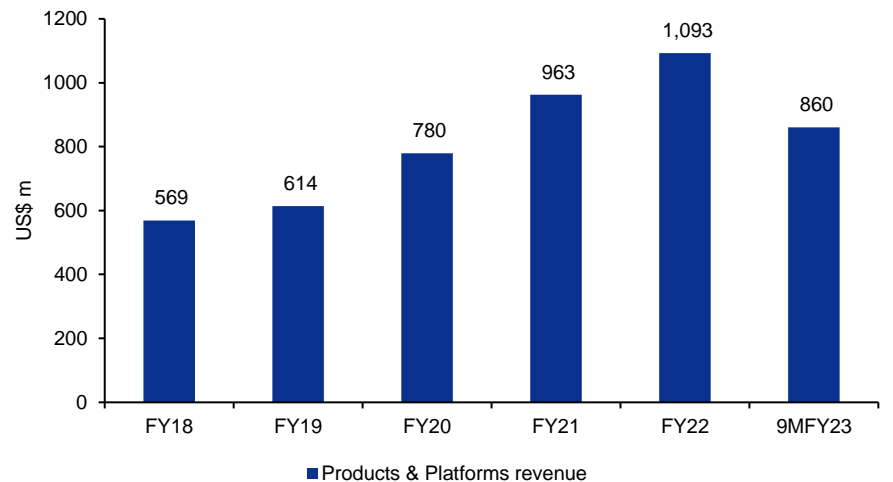
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Infosys' large deal trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Products & platforms business grew at a 17% CAGR over FY18-22



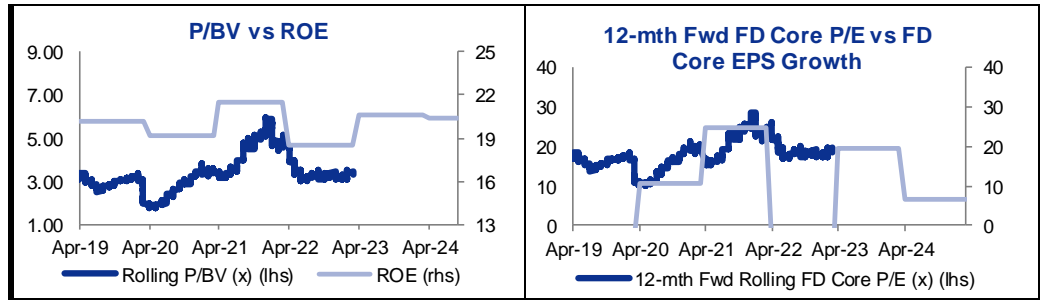
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Scope to improve client productivity exists

Client metrics as at end-3QFY23	TCS	Infosys	Wipro	HCLT	TechM
US\$10 m+ clients	456	294	202	221	109
US\$50 m+ clients	130	79	52	45	24
Revenue per active client on TTM basis - US\$ m	NA	9.7	7.5	NA	5.1
Revenue per Top 5 clients on TTM basis - US\$ m	NA	453	289	270	262
Revenue per Top 6-10 clients on TTM basis - US\$ m	NA	273	174	200	118
Revenue per Top 11-20 clients on TTM basis - US\$ m	NA	NA	NA	120	78

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenue	378,551	446,460	534,411	589,320	647,713
Gross Profit	119,996	136,741	152,089	170,903	184,598
Operating EBITDA	68,471	80,201	82,550	97,745	104,282
Depreciation And Amortisation	(14,577)	(15,204)	(19,658)	(21,216)	(23,318)
Operating EBIT	53,894	64,997	62,892	76,530	80,964
Financial Income/(Expense)	147	3,855	1,338	788	1,767
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,984	5,642	4,164	4,715	4,534
Profit Before Tax (pre-EI)	60,025	74,494	68,394	82,032	87,265
Exceptional Items					
Pre-tax Profit	60,025	74,494	68,394	82,032	87,265
Taxation	(15,999)	(18,220)	(16,562)	(20,508)	(21,816)
Exceptional Income - post-tax	(507)		(244)		
Profit After Tax	43,519	56,274	51,588	61,524	65,449
Minority Interests	762	(612)	(401)	(400)	(400)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	44,281	55,662	51,187	61,124	65,049
Recurring Net Profit	44,788	55,662	51,431	61,124	65,049
Fully Diluted Recurring Net Profit	44,788	55,662	51,431	61,124	65,049

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	68,471	80,201	82,550	97,745	104,282
Cash Flow from Invt. & Assoc.					
Change In Working Capital	15,635	(14,343)	(12,390)	(10,941)	(10,079)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	12,718	11,758	802	800	800
Other Operating Cashflow					
Net Interest (Paid)/Received	(1,740)	(1,626)	(3,451)	(4,516)	(4,516)
Tax Paid	(14,146)	(23,137)	(16,562)	(20,508)	(21,816)
Cashflow From Operations	80,938	52,853	50,949	62,580	68,671
Capex	(6,660)	(9,584)	(10,000)	(9,500)	(9,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(47,841)	14,399	8,953	10,018	10,817
Cash Flow From Investing	(54,501)	4,815	(1,047)	518	1,817
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(17,594)	(39,808)	(33,582)	(39,855)	(44,233)
Preferred Dividends					
Other Financing Cashflow	(12,275)	(6,858)	(3,451)	(4,516)	(4,516)
Cash Flow From Financing	(29,869)	(46,666)	(37,033)	(44,371)	(48,749)
Total Cash Generated	(3,432)	11,002	12,869	18,728	21,738
Free Cashflow To Equity	74,278	43,269	40,949	53,080	59,671
Free Cashflow To Firm	28,177	59,294	53,353	67,614	75,004

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	124,971	84,104	98,977	121,021	146,075
Total Debtors	90,317	119,334	134,701	150,155	165,034
Inventories	242	405	405	405	405
Total Other Current Assets	37,069	40,714	40,714	40,714	40,714
Total Current Assets	252,599	244,557	274,797	312,295	352,228
Fixed Assets	35,887	37,846	28,188	16,473	2,155
Total Investments	11,418	10,153	10,153	10,153	10,153
Intangible Assets	54,590	110,844	110,844	110,844	110,844
Total Other Non-Current Assets	42,286	45,307	45,307	45,307	45,307
Total Non-current Assets	144,181	204,150	194,492	182,777	168,459
Short-term Debt	14,960	14,397	14,397	14,397	14,397
Current Portion of Long-Term Debt					
Total Creditors	27,850	40,947	43,924	48,437	53,237
Other Current Liabilities	72,269	82,008	82,008	82,008	82,008
Total Current Liabilities	115,079	137,352	140,329	144,842	149,642
Total Long-term Debt	1,658	1,420	1,420	1,420	1,420
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	27,598	36,124	36,124	36,124	36,124
Total Non-current Liabilities	29,256	37,544	37,544	37,544	37,544
Total Provisions					
Total Liabilities	144,335	174,896	177,873	182,386	187,186
Shareholders' Equity	248,650	268,857	286,462	307,731	328,547
Minority Interests	3,795	4,954	4,954	4,954	4,954
Total Equity	252,445	273,811	291,416	312,685	333,501

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	2.7%	17.9%	19.7%	10.3%	9.9%
Operating EBITDA Growth	19.6%	17.1%	2.9%	18.4%	6.7%
Operating EBITDA Margin	18.1%	18.0%	15.4%	16.6%	16.1%
Net Cash Per Share (Rs)	113.81	68.99	85.78	110.68	138.97
BVPS (Rs)	282.21	303.66	323.50	347.52	371.03
Gross Interest Cover	30.97	39.97	18.22	16.95	17.93
Effective Tax Rate	26.7%	24.5%	24.2%	25.0%	25.0%
Net Dividend Payout Ratio	87.8%	71.1%	65.3%	65.2%	68.0%
Accounts Receivables Days	95.61	85.70	86.75	88.21	88.81
Inventory Days	0.42	0.38	0.39	0.35	0.32
Accounts Payables Days	42.64	40.54	40.51	40.29	40.07
ROIC (%)	22.1%	30.6%	20.6%	24.5%	26.0%
ROCE (%)	14.9%	17.1%	15.6%	17.7%	17.5%
Return On Average Assets	11.4%	12.6%	11.1%	12.6%	12.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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