

India

HOLD (no change)

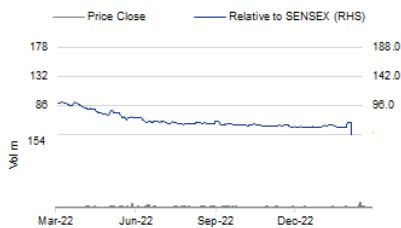
Consensus ratings*: Buy 21 Hold 15 Sell 8

Current price:	Rs1,085
Target price:	Rs1,122
Previous target:	Rs1,122
Up/downside:	3.4%
InCred Research / Consensus:	0.4%
Reuters:	
Bloomberg:	TECHM IN
Market cap:	US\$14,555m
	Rs1,056,941m
Average daily turnover:	US\$40.0m
	Rs2905.6m
Current shares o/s:	885.5m
Free float:	64.0%

*Source: Bloomberg

Key changes in this note

- No change in revenue assumptions.
- No change in margin assumptions.
- No change in PAT assumptions.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.3	(2.7)	(22.9)
Relative (%)	8.6	1.9	(30.0)

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

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Analyst(s)



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Tech Mahindra

Analyst meet takeaways

- Extraordinary focus on productivity and execution.
- Lays technology roadmap for its platform strategy. Aims to scale its Products & Platforms business by 2x in three years vs. ~7% of revenue currently.
- Focusing on integrating acquired businesses to unlock scale and value creation.

Extraordinary focus on productivity and execution

Tech Mahindra's CEO articulated four pillars of the company's strategy to participate in the future trend of IT services and achieve execution excellence. These include a) growth levers – client focus, large deals (investment yielding early results with quarterly average TCV of US\$830m over the last eight quarters vs. US\$448m over FY16-20 and US\$0.7-1bn run-rate per quarter is sustainable based on the pipeline), alliances, portfolio synergy and business transformation, b) technology bets – connected experience, cloud, engineering, sustainability, product & platforms and co-creation with partners, c) operational rigour – value through synergy, customer satisfaction, engineering excellence and EBITDA improvement and automation, and d) catalyzing talent development – people transformation, employee experience, skilling and branding. Momentum in the BPS business, modernization and cost efficiency deals coupled with traction in 1) CME vertical led by 5G-led spending, and 2) enterprise business led by cloud could help offset macro-economic headwinds, decision-making delay, softness in the Hi-tech vertical and exit from non-strategic segments. Finally, management commentary suggests a sharper near-term focus on improving productivity and execution, investments in capabilities (Products & Platforms and technology bets), and M&A integration to unlock scale.

EBIT margin in FY24F likely to be higher than in FY23F

Tech Mahindra retained its commentary on improving the EBIT margin trajectory driven by synergies from portfolio companies, higher offshoring, optimization of sub-contractor cost, higher billability of freshers, business & geography mix changes, tailwinds from moderating attrition rate and the receding impact of large-deal investments. Investments in products & platforms and co-creation with customers could be key margin headwinds in FY24F.

Retain HOLD rating with an unchanged target price of Rs1,122

We retain our 7.9% US\$ revenue CAGR over FY23F-25F, 12.7% PAT (Rs.) CAGR, HOLD rating, implied PE/G multiple of 1.2x, and target price of Rs1,122. Strong cash conversion (OCF/EBITDA was ~82.5% over FY19-22), rising payout ratio trend, net cash of ~Rs 47bn (Rs53 per share) and inexpensive relative valuation among Ter-1 players provides cushion to the share price. Acceleration in deal velocity, lower attrition rate and operational efficiency are upside risks to our revenue/EBIT margin assumptions, while weak execution remains the key downside risk.

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)	21.50	17.22	18.77	15.72	14.77
DPS (Rs)	45.0	45.0	38.0	45.0	50.0
Dividend Yield	4.11%	4.12%	3.49%	4.15%	4.60%
EV/EBITDA (x)	12.49	11.25	10.78	8.88	8.08
P/FCFE (x)	12.82	22.15	23.46	18.10	16.10
Net Gearing	(39.7%)	(22.3%)	(26.1%)	(31.3%)	(36.9%)
P/BV (x)	3.85	3.57	3.35	3.12	2.92
ROE	19.2%	21.5%	18.5%	20.6%	20.4%

% Change In Core EPS Estimates
 InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Momentum in BPS business likely to continue

Business process services (BPS) business (average ~13% of revenue over last four quarters) witnessed a healthy growth (average ~35% yoy US\$ growth over the last eight quarters) and above company-average margin driven by the demand for customer experience (CX; ~50%+ of BPS revenue) and consulting & CX tech implementation (~10% of BPS revenue) services. Management commentary suggests 1) three verticals within BPS are above the US\$100m run rate with two in close vicinity, and 2) the business unit or BU added US\$700m in TCv on a YTD basis with a significant headroom for growth, given that services are sold to ~50% of the top 200 accounts.

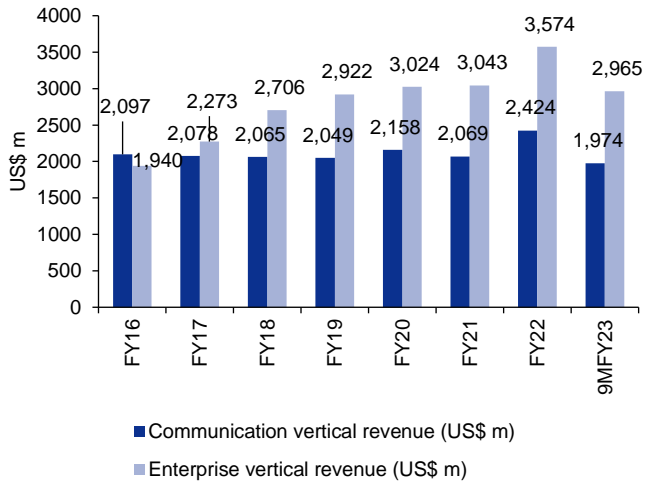
Focusing on integration to unlock scale

Tech Mahindra stated that M&A commitments amounting to US\$1.18b+ since 2019 till date resulted in faster growth (4.3% CQGR from acquisitions till 3QFY23 vs. 1.7% company average during 1QFY19-3QFY23), operating EBITDA margin expansion (90bp over same period) and acted as growth catalyst (US\$1.2bn+ synergy deal wins, robust US\$1bn+ synergy pipeline and US\$130m+ synergy revenue per annum). The M&A strategy's focus continues on acquiring capabilities, gaining access and scale-up through strategic alignment, integrating the organization structure with acquired company leaders in integral roles in a pan-org leadership, driving revenue synergy at the core and improving back-office integration & governance. Tech Mahindra highlighted that the focus remains on driving business integration of acquired companies to unlock scale with senior leaders driving synergy growth, integrated solutioning, cross-selling & up-selling, leadership development, talent management & retention and investments to augment acquired capabilities. Finally, although the prudent capital allocation strategy continues, the company may explore select M&A deals.

Lays out technology roadmap for its platform strategy

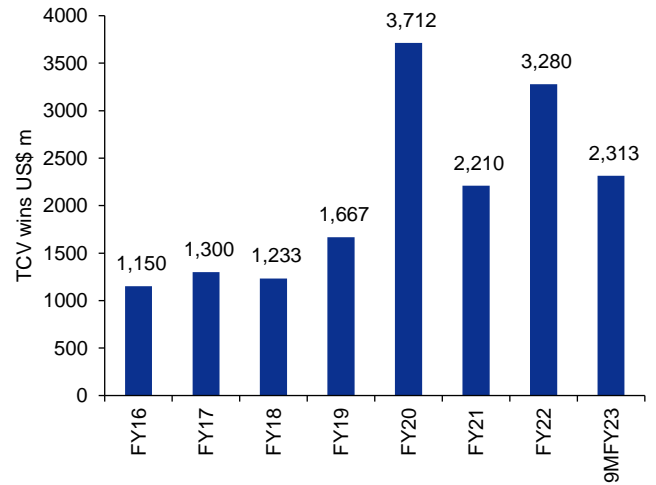
Tech Mahindra highlighted that its Products and Platform strategy is centered around C-suite empowerment to solve three fundamental problems such as 1) simplification of operations through cost optimization/automation, 2) modernize digital stack and build it faster, and 3) monetize assets or participate in the revenue cycle. Problem solutions include existing products, strengthened innovation hub via continuous investments, scale, and technology partnership. Accordingly, the company has clubbed its existing products under Simplify (netOps.ai – Intelligent platform to integrate & manage autonomous networks, BlueMarble – SaaS-based BSS, i.Sustain – Intelligent ESG platform), Modernize (Yantr.ai – cognitive platform for field operations, Cloud Blaze Tech- Integrated cloud platform and Aftaze – aftermarket platform for manufacturing) and Monetize (Mobilytix – customer value management, YABX – cloud lending & savings platform and Mobyquity – digital payment gateway). Scaling of products & platforms business over time may aid company-average EBIT margin through an improved annuity mix, despite near-term headwinds from investments.

Figure 1: 5G to drive growth in the Communications segment; Cloud adoption & digital mix for the Enterprise segment



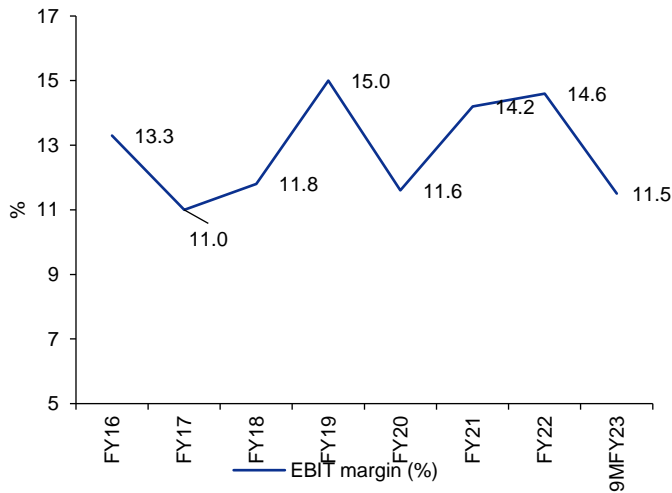
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Large-deal TCV likely to sustain at US\$0.7-1bn per quarter



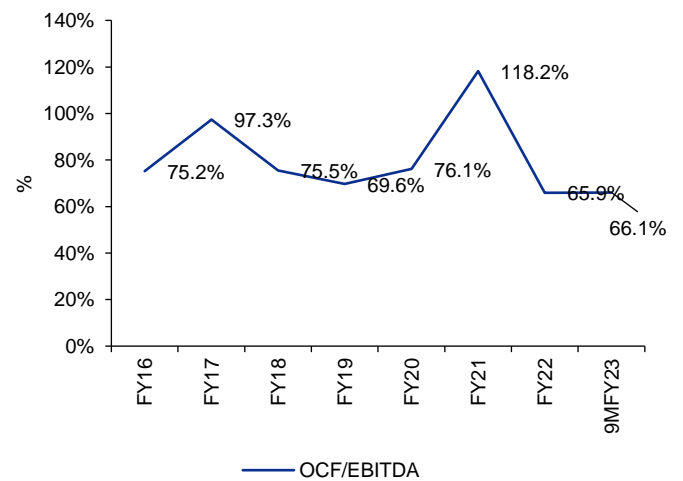
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: EBIT margin trend



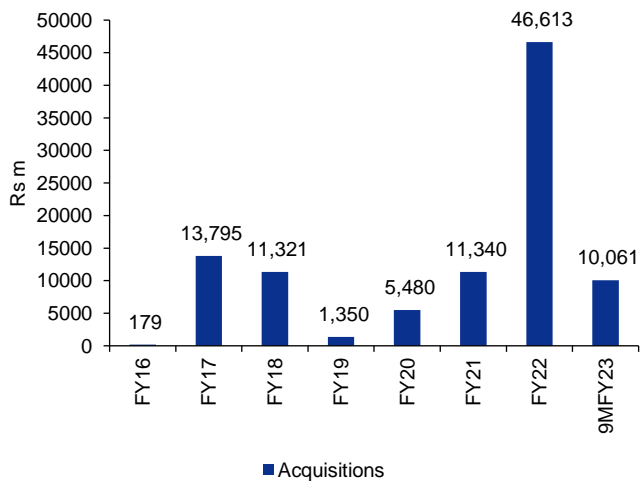
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Cash conversion trend



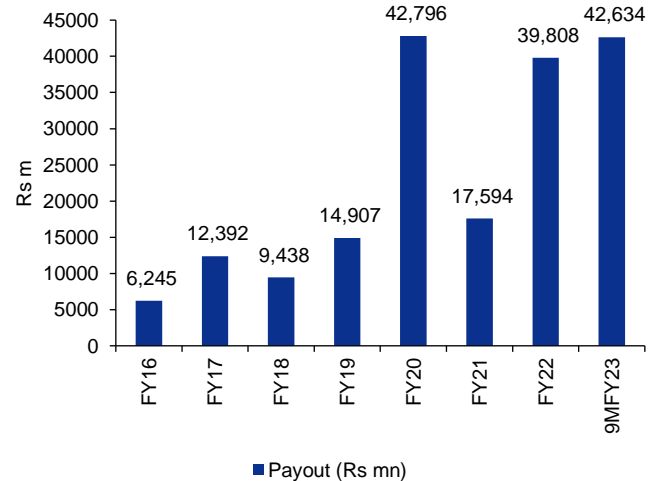
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Acquisition trend



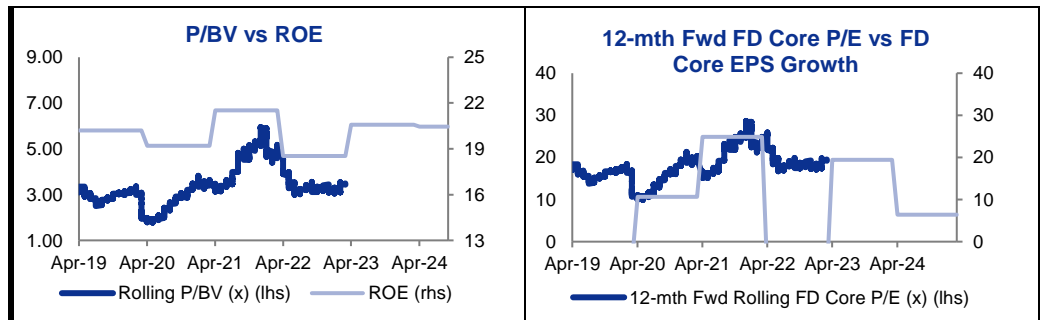
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Payout trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	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 mn)	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 mn)	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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