

Tech Mahindra Q3 FY2024 Risk Analysis

Executive Summary

This risk analysis is based on the Q3 FY2024 financial results of Tech Mahindra Limited. The analysis identifies potential risks and areas of concern derived from the financial statements and accompanying notes.

Financial Performance Overview

- Revenue from Operations: ₹131,013 million (Q3 FY2024)
- Profit after tax: ₹5,237 million (Q3 FY2024)
- Year-over-year revenue decline: 4.6% (compared to Q3 FY2023)
- Year-over-year profit decline: 59.3% (compared to Q3 FY2023)

Identified Risks

1. Revenue Decline

- **Risk Level: High**
- **Description:** The company experienced a 4.6% year-over-year decline in revenue, indicating potential challenges in maintaining growth.
- **Potential Impact:** Reduced market share, decreased investor confidence, and potential pressure on profit margins.

2. Profit Margin Compression

- **Risk Level: High**
- **Description:** Significant decline in profit after tax (59.3% year-over-year) suggests substantial pressure on profit margins.
- **Potential Impact:** Reduced profitability, potential impact on dividend payouts, and decreased ability to invest in growth initiatives.

3. Goodwill Impairment

- **Risk Level: Medium**
- **Description:** The company recognized an impairment of ₹1,495 million in the nine months ended December 31, 2023, related to goodwill and investments in associates.
- **Potential Impact:** Further write-downs may be necessary if performance of subsidiaries or economic conditions worsen, potentially impacting financial statements and investor perception.

4. Legal and Regulatory Risks

- **Risk Level: Medium**
- **Description:** Ongoing legal matters related to the erstwhile Satyam Computer Services Limited, including appeals against the merger and claims for alleged advances.
- **Potential Impact:** Potential financial liabilities, legal costs, and reputational damage if

claims are upheld.

5. Tax-Related Uncertainties

- **Risk Level: Low to Medium**
- **Description:** Tax expense includes significant reversals relating to earlier periods, indicating potential complexities in tax assessments.
- **Potential Impact:** Volatility in effective tax rate, potential for future tax liabilities or benefits based on final assessments.

6. Segment Performance Variability

- **Risk Level: Medium**
- **Description:** IT segment showing weaker performance compared to BPO segment, with a more significant decline in profit.
- **Potential Impact:** Potential need for strategic realignment, investment in underperforming segments, or consideration of segment restructuring.

7. Corporate Governance Concerns

- **Risk Level: Low**
- **Description:** Pending approval from the Central Government for the appointment of the Managing Director.
- **Potential Impact:** Potential regulatory non-compliance risks, uncertainty in leadership if approval is delayed or denied.

Mitigating Factors

1. Strong cash position and reserves
2. Diversified business model with IT and BPO segments
3. Ongoing cost optimization efforts
4. Established market presence and brand reputation

Recommendations

1. Implement aggressive growth strategies to counter revenue decline
2. Focus on improving operational efficiency to address margin pressure
3. Regularly assess goodwill and investment valuations
4. Maintain strong legal counsel for ongoing Satyam-related matters
5. Enhance tax planning and compliance processes
6. Consider strategic initiatives to improve IT segment performance
7. Expedite necessary approvals for corporate governance compliance

Conclusion

While Tech Mahindra faces significant challenges, particularly in revenue growth and profitability, the company's established market position and diversified business model provide a foundation for potential recovery. Close monitoring of identified risks and implementation of strategic initiatives will be crucial for improving performance and mitigating risks in the coming quarters.