

Tech Mahindra Q4 and FY2024 Risk Analysis

Executive Summary

This risk analysis is based on the Q4 and full-year 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: ₹128,713 million (Q4 FY2024), ₹519,955 million (FY2024)
- Profit after tax: ₹6,642 million (Q4 FY2024), ₹23,968 million (FY2024)
- Year-over-year revenue decline: 6.2% (Q4), 2.4% (Full Year)
- Year-over-year profit decline: 41.0% (Q4), 50.7% (Full Year)

Identified Risks

1. Revenue Decline

- **Risk Level: High**
- **Description:** The company experienced a 6.2% year-over-year decline in Q4 revenue and a 2.4% decline for the full year, indicating persistent 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 (41.0% year-over-year for Q4, 50.7% for full year) suggests substantial and ongoing pressure on profit margins.
- **Potential Impact:** Reduced profitability, potential impact on dividend payouts, and decreased ability to invest in growth initiatives.

3. Goodwill and Non-Current Asset Impairment

- **Risk Level: High**
- **Description:** The company recognized an impairment of ₹4,582 million in FY2024 (₹3,087 million in Q4 alone) related to goodwill and other non-current assets.
- **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. Operational Efficiency Concerns

- **Risk Level: Medium**
- **Description:** Increase in subcontracting expenses and other expenses as a percentage of revenue, potentially indicating operational inefficiencies.
- **Potential Impact:** Reduced profitability, need for cost optimization measures, and potential restructuring.

8. Foreign Exchange Risk

- **Risk Level: Medium**
- **Description:** Significant international operations expose the company to foreign exchange fluctuations.
- **Potential Impact:** Volatility in reported earnings, potential hedging costs, and impact on competitiveness in international markets.

Mitigating Factors

1. Strong cash position (₹43,471 million as of March 31, 2024)
2. Diversified business model with IT and BPO segments
3. Consistent dividend payout (₹28 per share recommended for FY2024)
4. Continued investment in employee stock options, potentially aiding retention

Recommendations

1. Implement aggressive growth strategies to counter revenue decline, particularly in the IT segment
2. Focus on improving operational efficiency to address margin pressure
3. Regularly assess goodwill and investment valuations to preempt future impairments
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. Implement robust foreign exchange management strategies
8. Focus on innovation and digital transformation services to drive growth

Conclusion

Tech Mahindra faces significant challenges, particularly in revenue growth and profitability. The substantial impairments and ongoing margin pressure indicate a need for strategic realignment and operational improvements. While 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 fiscal year.