

Tech Mahindra Ltd.

Q2FY25



Tech Mahindra Ltd.

Profit growth fueled by margin levers

CMP* INR 1,701	Target INR 1,801	Potential Upside 5.9%	Market Cap (INR Mn) INR 16,58,498	Recommendation ACCUMULATE	Sector Internet Software & Services
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Result Highlights

- Tech Mahindra's Q2FY25 revenue met our estimates while earnings surpassed expectations. Revenue stood at INR 133,132 Mn, up 3.5% YoY (+2.4% QoQ). New deal wins stood at USD 603 Mn, down 5.8% YoY (+12.9% QoQ).
- EBIT stood at INR 12,804 Mn, up 111.1% YoY (+16.2% QoQ), exceeding our expectations by 4.5% due to lower than anticipated other expenses and reduced contracting expenses, resulting in margin expansion by 490bps YoY (+114bps QoQ) to 9.6%.
- PAT stood at INR 12,501 Mn, up 153.1% YoY (+46.8% QoQ), exceeded expectations driven by better operating performance and higher than anticipated other income, resulting in margin expansion by 555bps YoY (+284bps QoQ) to 9.4%.
- We project FY26E EPS of INR 66.7 and assign a P/E multiple of 27.0x, reflecting recent deal wins, margin enhancement initiatives, and a positive outlook for discretionary spending, bolstered by recent interest rate cuts. As a result, we increase our target price to INR 1,801 and retain our "ACCUMULATE" rating on the shares of Tech Mahindra Ltd.**

MARKET DATA

Shares outs (Mn)	977
Mkt Cap (INR Mn)	16,58,498
52 Wk H/L (INR)	1,710/1,098
Volume Avg (3m K)	2,235
Face Value (INR)	2
Bloomberg Code	TECHM IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	81,151
NIFTY	24,781

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	532,902	519,955	538,740	584,708	643,627
EBIT	58,351	26,892	54,655	75,927	91,748
PAT	48,313	23,578	44,373	58,854	70,401
OPM (%)	10.9%	5.2%	10.1%	13.0%	14.3%
NPM (%)	9.1%	4.5%	8.2%	10.1%	10.9%

Source: Company, KRChoksey Research

Margin growth is driven by operational efficiencies and strategic cost management

- Tech Mahindra's Q2FY25 revenue grew by 1.2% YoY CC (+0.7% QoQ CC).
- EBIT margin for Q2FY25 stood at 9.6%, up 490bps YoY (+114bps QoQ), demonstrating margin improvement for the third sequential quarter.
- The QoQ margin expansion was attributable to a 70bps positive contribution, led by improved operating efficiencies and cost savings driven by Project Fortius and 40bps from forex movements.
- The company is actively working to improve margins, aiming to reduce subcontractor costs to a single-digit percentage of overall revenue.
- The company is implementing both short-term and long-term strategies to enhance margins. In the short term, there is a reduction in Cost of Non-Billable (CNB) expenses, including subcontractor costs as a percentage of revenue.
- For the long term, the company is investing in employee training and incorporating new graduate trainees to further improve margins.

Strong QoQ growth in Communications, HiTech, BFSI, and Retail verticals

- In terms of verticals, Communications down by 1.7% YoY (+2.7% QoQ), as key telecom clients continue to prioritize cost savings and their spending on discretionary projects is constrained.
- HiTech and Media grew by 2.4% YoY (+5.7% QoQ), Healthcare & Life Sciences grew by 4.5% YoY (-1.8% QoQ), and Retail, Transport & Logistics grew by 4.7% YoY (+5.6% QoQ).
- BFSI grew by 4.5% YoY (+2.4% QoQ), led by increased spending in the sector.
- Manufacturing grew by 0.6% YoY (-4.0% QoQ) as the outlook for discretionary spending in this vertical continues to be conservative with a slight softness in demand, seen particularly for auto in Europe and the US.
- In terms of region, Europe and RoW saw strong sequential growth of 4.6% and 5.0%, respectively, however, Americas declined 0.7% QoQ.

SHARE HOLDING PATTERN (%)

Particulars (%)	Sep-24	Jun-24	Mar-24
Promoters	35.0	35.0	35.1
FIIIs	23.7	23.3	24.2
DIIIs	30.9	30.7	29.5
Others	10.4	11.0	11.2
Total	100	100	100

*Based on the Today's closing
Note: All the market data is as of previous closing

6.0%

Revenue CAGR between FY24 and FY26E

58.0%

Adj. PAT CAGR between FY24 and FY26E

Tech Mahindra Ltd.

Key Concall Highlights:

Strategic evolution in BPO business

- The BPO business which represents 16.0% of total revenue, is undergoing a strategic transformation.
- Over the years, the portfolio has evolved significantly—previously dominated by contact center operations, it now includes a substantial amount of analytics work, particularly with high-tech clients.
- Additionally, vertical-specific solutions and crowdsourcing platforms have been developed, reflecting the company's strategic shift.
- Despite recent portfolio adjustments impacting margins, the company maintains a positive outlook on margin expansion and growth potential, particularly within the high-tech sector, financial services, and healthcare.

Demand environment update

- The demand landscape remains relatively stable, with a modest increase in spending and customer sentiment observed in the BFSI sector.
- However, both the BFSI and manufacturing verticals are anticipated to experience furloughs in Q3FY25E, while discretionary spending is expected to remain cautious.

Workforce Expansion and Strategic Investments

- Total headcount rose by 3,669 YoY (+6,653 QoQ) to 154,273, including net additions of 201 software professionals and 6,763 BPS professionals, offset by a reduction of 311 sales staff. Attrition increased by 50 basis points to 10.6%.
- The company has bolstered its fresh graduate hiring program, onboarding over 2,000 freshers this quarter and aiming to hire over 6,000 for the year.
- A next-generation skill framework has been established to enhance career mobility among IT associates, along with modernized learning and upskilling infrastructure for advanced skill development.
- Additionally, the company is considering wage increases and plans to discuss expectations and affordability with its leadership team in the coming months.

BFSI sector partnerships and other developments

- In the BFSI vertical, the company continues to strengthen partnerships with existing clients while attracting new logos. Enhanced utilization of existing capabilities, including those from portfolio companies, is laying the groundwork for long-term growth in insurance, asset management, and payments.
- Recent wins include a collaboration with a major U.S. card and payment services provider for AI ops-based production management and a tech modernization program. Additionally, a European bank has engaged the company for a Temenos T24 implementation to upgrade its core banking platform.
- The company has also partnered with a leading European communication services provider to implement an autonomous operations program aimed at enhancing customer experience. In Australia, a major telecommunications firm selected the company for customer experience services to elevate its digital service offerings.
- New collaborations include a partnership with Microsoft to modernize workplaces with Copilot for Microsoft 365 and a partnership with Temenos for a core banking solution on their SaaS platform tailored for electronic money institutions in Europe. Furthermore, the company has teamed up with Google Cloud to drive GenAI adoption and digital transformation within the Mahindra Group.

Other Highlights

- Tech Mahindra reported higher other income amounting to INR 5,215 Mn, of which INR 4,542 Mn is attributable to gains realized from the sale of land.
- The company has declared an interim dividend of INR 15.0 per share.
- The free cash flow generated during the quarter was USD 157 Mn, excluding the land sale, representing 105.4% of PAT. Cash and cash equivalents at the end of the quarter totaled USD 784 Mn, equivalent to INR 65,660 Mn.

Valuation and view:

Tech Mahindra has outlined a comprehensive three-year revival plan aimed at achieving an EBIT margin exceeding 15.0% by FY27E through targeted cost-cutting measures. In Q2FY25, the company demonstrated significant progress, with margins improving by 490 bps YoY (+114bps QoQ) to 9.6%. Management has reaffirmed its commitment to crossing the 15.0% EBIT margin threshold by FY27E, supported by a series of short and long-term initiatives designed to enhance margin levers.

Additionally, Tech Mahindra has forged multiple collaborations and partnerships to strengthen its deal pipeline and enhance revenue visibility. These efforts are expected to drive growth, particularly as discretionary spending shows signs of recovery influenced by recent interest rate cuts. We project an FY26E EPS of INR 66.7 and assign a P/E multiple of 27.0x, reflecting optimism from recent deal wins and margin improvement initiatives. This analysis leads us to a revised Target Price of INR 1,801 (previously: INR 1,684). Accordingly, we maintain our "ACCUMULATE" rating on Tech Mahindra shares.

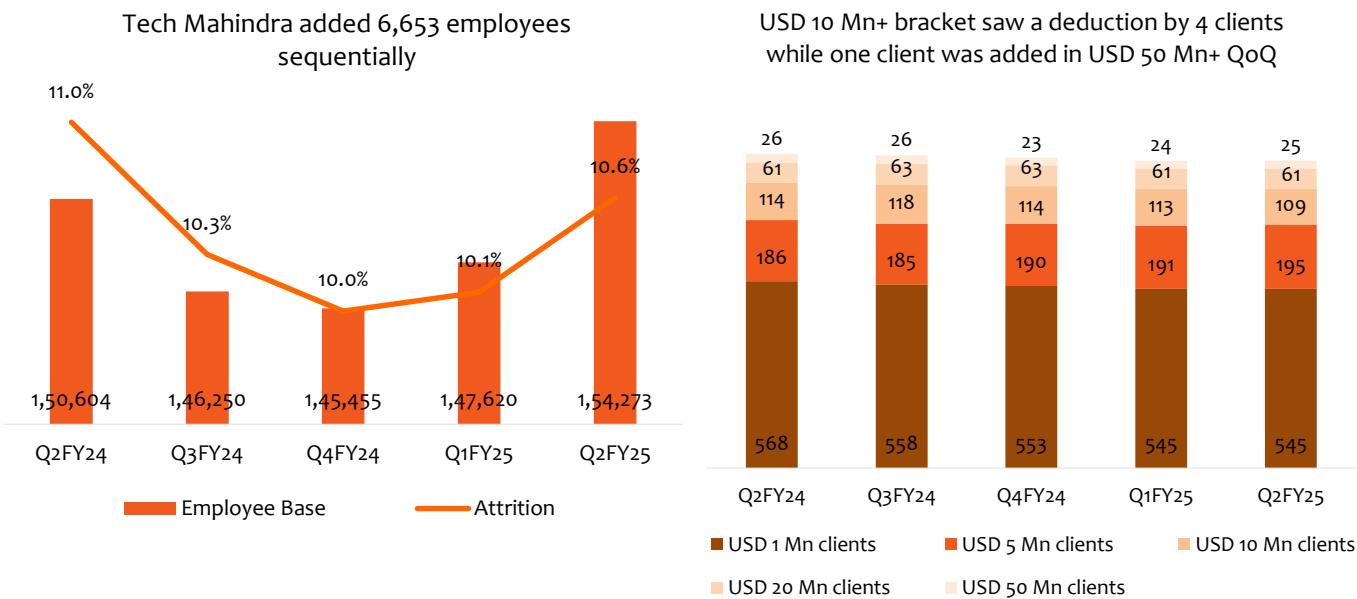
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RESULT SNAPSHOT

Particulars (Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Revenues	133,132	130,055	128,639	2.4%	3.5%
Employee benefits expense	75,054	73,315	73,022		
Subcontracting expense	15,188	15,065	15,921		
Other expenses	25,388	26,030	28,973		
Total Expenses	115,630	114,410	117,916		
EBITDA	17,502	15,645	10,723		
EBITDA margin (%)	13.1%	12.0%	8.3%		
Depreciation and amortisation expenses	4,698	4,622	4,657		
EBIT	12,804	11,023	6,066	16.2%	111.1%
EBIT margin (%)	9.6%	8.5%	4.7%	114bps	490bps
Finance cost	890	715	975		
Other Income	5,215	1,447	2,642		
Exceptional Items			1,495		
Share of associates/ joint venture	6	26	-85		
Profit before tax	17,135	11,781	6,153		
Tax expense	4,560	3,133	1,100		
Minority Interest	74	133	114		
Net profit	12,501	8,515	4,939	46.8%	153.1%
Net profit (%)	9.4%	6.5%	3.8%	284bps	555bps
Diluted EPS (INR)	14.1	9.6	5.6		

Source: Company, KRChoksey Research

QUARTERLY TRENDS



Source: Company, KRChoksey Research

Tech Mahindra Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	532,902	519,955	538,740	584,708	643,627
Total Operating Cost	454,984	474,892	465,085	488,564	530,366
Adj. EBITDA	77,918	45,063	73,655	96,144	113,261
Depreciation	19,567	18,171	19,000	20,217	21,513
EBIT	58,351	26,892	54,655	75,927	91,748
Other income, net	9,650	9,169	9,556	7,000	6,600
Finance costs	3,256	3,922	3,521	3,925	3,925
Pre-tax Income	64,745	32,139	60,691	79,002	94,423
Income tax expense	15,885	8,276	15,963	19,852	23,726
PAT	48,860	23,863	44,728	59,150	70,697
MI, EI & Share of Profit from Associates	547	285	355	296	296
Adj. PAT	48,313	23,578	44,373	58,854	70,401
EPS	54.8	26.7	50.3	66.7	79.8

Exhibit 3: Cash Flow Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
FFFO	55,720	63,764	52,591	62,753	73,353
CFFI	-2,785	-13,137	-26,360	-22,994	-28,717
CFFF	-50,781	-47,672	-29,588	-29,553	-29,460
Forex Adjustment	520	-47	0	0	0
Net Inc/Dec	2,674	2,908	-3,356	10,206	15,177
Opening Balance	37,889	40,563	43,471	40,115	50,321
Closing Balance	40,563	43,471	40,115	50,321	65,498

Exhibit 4: Key Ratios

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	10.9%	5.2%	10.1%	13.0%	14.3%
Tax rate (%)	24.5%	25.8%	26.3%	25.1%	25.1%
Net Profit Margin (%)	9.1%	4.5%	8.2%	10.1%	10.9%
RoE (%)	17.6%	8.6%	16.2%	20.0%	21.5%
RoCE (%)	15.2%	6.9%	13.9%	18.3%	19.9%
EPS (INR)	54.8	26.7	50.3	66.7	79.8

Source: Company, KRChoksey Research

Exhibit 2: Balance Sheet

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	4,400	4,413	4,413	4,413	4,413
Other Equity	274,845	262,281	275,766	303,731	343,244
Non controlling interest	4,702	4,774	4,774	4,774	4,774
Total Equity	283,947	271,468	284,953	312,918	352,431
Non-Current Liabilities					
Lease Liabilities	7,903	6,709	7,044	7,397	7,767
Amount Pending Investigation	12,304	12,304	12,304	12,304	12,304
Other Liability	24,169	17,589	18,931	20,322	21,821
Total Non-Current Liabilities	44,376	36,602	38,280	40,022	41,891
Current Liabilities					
Short Term Borrowings	14,494	14,285	15,285	16,355	17,500
Trade Payables	43,846	37,853	37,071	38,943	42,275
Lease Liabilities	3,717	3,348	3,549	3,762	3,988
Other current liabilities	71,153	70,680	71,476	72,328	73,239
Total Current Liabilities	133,210	126,166	127,381	131,387	137,001
Total Liabilities	461,533	434,236	450,614	484,328	531,324
Non-Current Assets					
Property Plants and Equipments	28,622	25,577	29,980	33,151	37,383
Right of use of Assets	10,972	9,605	10,181	10,792	11,440
Goodwill	76,657	75,106	75,106	75,106	75,106
Intangible Assets	32,316	28,029	29,711	31,493	33,383
Other current assets	55,674	47,270	53,980	55,764	61,229
Total Non-Current Assets	204,241	185,587	198,957	206,307	218,541
Current Assets					
Investments	27,832	27,794	31,963	36,758	42,271
Trade Receivables	128,816	114,011	118,080	128,155	141,069
Cash and Bank	42,547	47,355	42,146	52,352	67,529
Other current assets	58,097	59,489	59,467	60,757	61,914
Total Current Assets	257,292	248,649	251,656	278,021	312,783
Total Assets	461,533	434,236	450,614	484,328	531,324

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Tech Mahindra Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
21-Oct-24	1,701	1,801	ACCUMULATE
31-Jul-24	1,538	1,684	ACCUMULATE
26-Apr-24	1,279	1,385	ACCUMULATE
25-Jan-24	1,322	1,357	HOLD
22-Nov-23	1,204	1,278	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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