

EQUITY RESEARCH REPORT

**Tech
Mahindra**

TECH MAHINDRA (TECMAH)

BUY

COMPANY INTRODUCTION:

Tech Mahindra Ltd provides comprehensive range of IT services, including IT enabled service, application development and maintenance, consulting and enterprise business solutions, etc. to a diversified base of corporate customers in a wide range of industries.

The company offers a wide range of services e.g. infrastructure & cloud services, engineering services, application services, data analytics, network services, testing services, performance engineering, Security & risk management services, business process services, product engineering, consulting, etc.

The company has a global presence with 1,50,000+ employees across 90+ countries. It services 1,200+ clients including several fortune 500 companies.

KEY INSIGHTS:

Tech Mahindra in Q2FY25 reported a revenue of US\$1,589, up 1.9% QoQ/2.2% YoY. In CC terms the revenue was up 0.7% QoQ /1.2% YoY. The EBIT margins saw healthy expansion of 110 bps QoQ to 9.6%. The PAT stood at ₹1,250 crore, up 46% QoQ, also aided by higher other income.

Company believes H2FY25 is expected to be better as the foundation for a turnaround has been established. During Q2, EBIT margin improved (for 3rd consecutive quarter) by 110 bps QoQ to 9.6% aided by a 40-bps boost from forex gains and 70 bps from operational efficiencies under Project Fortius. Further, ~150 bps of margins would be invested for long-term investments which is a step in a right direct towards growth, amid the aspirational 15% EBIT margins by FY27.

The management stated that the demand environment remains unchanged and discretionary spending is constrained. Telecom grew 2.8% despite client focus on cost savings & budget constraints. BFSI grew 2.4% and saw opportunities in existing accounts and quality new logo additions. However, the manufacturing segment faced challenges from weakness in the automotive segment, particularly in the Americas and de-grew 4% QoQ.

CMP	₹1,783
Target	₹2,075
Target Period	12-18 months
Valuation	P/E ratio

Stock Information

Market Cap (₹)	1,50,356 Cr
Total Debt (₹)	1,531 Cr
Cash & Inv. (₹)	7,515 Cr
High/low(₹)	1800/1163
CMP(₹)	1783
Equity Capital(₹)	441 Cr
Face Value (₹)	5

Shareholding Pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	35	35	35	35
FII	25	24	23	24
DII	29	30	31	31
Public	11	11	11	10

Key Financials

(₹ crore)	FY22	FY23	FY24
Net sales	44,646	53,290	51,996
EBIT	6,500	6,072	3,147
EBIT Margin (%)	14.6	11.4	6.1
Net Profit	5,566	4,831	2,358
EPS (₹)	63.1	54.8	26.7
P/E	26.9	31.0	63.6

Performance Highlights and Outlook

- **Revenue Performance:** The company in Q2FY25 reported a revenue of US\$ 15,89, up 1.9% QoQ, 2.2% YoY. In CC terms the revenue was up 0.7% QoQ and 1.2% YoY. In rupee terms the revenue stood at ₹ 13,313 crore, up 2.4% QoQ and 3.5% YoY.
- **Other Income:** The company recorded other income of ₹521 crore, which included sale of land of approximately ~₹450 crore. Company also informed that a one-time revenue of €22 mn (~₹200 crore) recorded in Q3FY24 from their product specific revenues, won't repeat in Q3FY25.
- **Margin Performance:** EBIT margin of the company improved by 110 bps QoQ to 9.6% for the third consecutive quarter aided by a 40-bps boost from forex gains and 70 bps from operational efficiencies under Project Fortius.
- **Geography performance:** Geography wise barring America (51.1% of the mix) which de-grew by 0.7%, both Europe (24% of mix) and ROW (24.9% of mix) was up by 4.6% and 5% QoQ respectively. The America's region is seeing some pressure right now and is expected to see a turnaround in FY26.
- **Segment performance:** Segment wise on a QoQ basis all the segments grew barring Manufacturing (17.2% of the mix) and Healthcare & Lifesciences (7.4% of mix) which declined by 4% and 1.8% respectively. Others (4% of the mix), Hi-Tech & Media (14.3% of the mix), Retail transport & logistics (7.9% of the mix), Communications (33.4% of the mix) and BFSI (15.8% of the mix), grew by 7.8%, 5.7%, 5.6%, 2.7% and 2.4% respectively.
- **Headcount & Attrition:** The total headcount increased by 6,653 and stood at 1,54,273, with 25,000+ employees now enabled on AI-led pair programming, up from 15,000 in Q1. It also plans to onboard 6,000 freshers in FY25, with 2,000 onboarded so far. The attrition for the quarter stood at 10.6%, up 50 bps QoQ and down 80 bps YoY. The company is yet to decide on the wage hikes.
- **AI/GenAI:** With 1/3rd of the IT workforce using GitHub Co-pilot and utilizing AWS and Google as part of the organizational transformation the company now has 25,000+ employees enabled on AI-led pair programming, up from 15,000 in Q1. Moreover, percentage of GenAI infused deals is growing with every passing quarter.
- **Outlook:** The demand environment remains largely unchanged. Q3 will likely see furloughs, along with the usual trend of being a seasonally weak quarter. Moving forward the Fed rate cuts are expected to reduce debt loads for telecom players which is a positive sign for the company. The short-term margin levers include – reducing subcon costs and pricing focus while long term lever is investments made for infusion and training of fresh graduate trainees.
- **Dividend:** The company declared an interim dividend of ₹15 per share.

Financial Summary

Exhibit - 11 A: Financial Statement Analysis: Analysis of Quarterly results

Ratio	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Sales growth ((sales (t)/sales (t-1))-1)		3.32%	4.61%	-0.12%	-4.07%	-2.24%	1.84%	-1.76%
OPM % (operating profit/sales)	14.79%	14.81%	15.54%	13.14%	10.17%	7.11%	8.75%	8.54%
Net profit margin (Net profit/sales)	9.03%	9.89%	9.36%	8.20%	5.35%	3.93%	4.00%	5.16%
EPS in Rs (Net profit/number of shares)	13.05	14.76	14.60	12.78	7.98	5.73	5.94	7.53
Share Price (MPS)	1,000.00	1,008.60	1,016.40	1,101.85	1,130.85	1,222.80	1,272.65	1,248.10
TTM EPS				55.19	50.13	41.09	32.43	27.18
PE (Price/TTM EPS)				19.96	22.56	29.76	39.24	45.93

Exhibit - 11 B: Financial Statement Analysis: Analysis of Annual results

Particulars	(Rs. Crores)				
	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Sales	36,868	37,855	44,646	53,290	51,996
Growth in Sales [((sales (t)/sales (t-1))-1)]		2.68%	17.94%	19.36%	-2.43%
Cost of Goods Sold (CGS)	18842	19318	22307	27727	29104
Operating Profit (EBIT)	5,503	6,796	8,020	7,763	4,506
EBITDA	6949	8254	9540	9720	6323
Depreciation (D & A)	1,446	1,458	1,520	1,957	1,817
Profit Before Tax (PBT)	5,058	5,953	7,452	6,446	3,224
Tax (%)	23%	27%	24%	25%	26%
Net Profit (PAT)	3,897	4,353	5,630	4,857	2,397
Shareholders' Funds (Equity)	21,813	24,865	26,886	27,924	26,669
Number of Shares (in Crores)	87	87	88	88	88
EPS in Rs (Net Profit/No. of shares)	44.69	49.81	64.12	55.19	27.18
Total Assets (TA)	37,318	39,602	44,416	45,827	43,149
Current Assets (CA)	22,548	20,228	24,583	27,388	25,875
Current Liabilities (CL)	11,834	11,836	14,911	15,162	13,943
CapEx	830	572	835	969	738
CapEx as % Revenue from Operations	2.25%	1.51%	1.87%	1.82%	1.42%
Dividend Payout Ratio (DPR)	32.00%	89.00%	47.00%	91.00%	150.00%
DPS (in Rs)	14.30	44.33	30.14	50.23	40.77
Share Price (MPS)	565.50	991.45	1,499.45	1,101.85	1,248.10
Book Value per Share (BV)	250.15	284.50	306.22	317.32	302.37
(A) Profitability Ratios					
EBITDA Margin (%)	18.85%	21.80%	21.37%	18.24%	12.16%
Operating Profit (EBIT) Margin (%)	14.93%	17.95%	17.96%	14.57%	8.67%
Net Profit Margin (%)	10.57%	11.50%	12.61%	9.11%	4.61%
ROE (Net Profit/Networth)	17.87%	17.51%	20.94%	17.39%	8.99%
(B) Efficiency (Asset Utilisation) Analysis					
Total Assets Turnover (Net Sales/TA)	0.99	0.96	1.01	1.16	1.21
Trade Receivables (T/R) Efficiency (Net Sales/TR)	4.87	4.19	3.74	4.14	4.56
Trade Receivables (T/R) Collection Days (365/DTR)	75	87	98	88	80
Trade Payable Days (TP/Inventory Cost)*365	63	53	67	58	47
(C) Liquidity Analysis					
Current Ratio (CA/CL)	1.91	1.71	1.65	1.81	1.86
Quick Ratio (QA/CL)	1.90	1.71	1.65	1.80	1.85
(D) Solvency Analysis					
Debt to Equity Ratio (Total Debt/Equity)	0.11	0.07	0.06	0.06	0.06
Debt to Equity Ratio (LT Debt/Equity)	0.01	0.01	0.01	0.00	0.00
Interest Coverage Ratio (EBIT/Finance Cost)	28.66	39.06	49.20	23.81	11.49
(E) Valuation Ratios					
P/E Ratio (MPS/EPS)	12.65	19.91	23.38	19.96	45.93
Price to Book Value Ratio (P/BV)	2.26	3.48	4.90	3.47	4.13

Disclaimer: This equity research report is prepared solely for academic purposes and does not constitute investment advice.