YES SECURITIES
INSTITUTIONAL EQUITIES

July 26, 2023

RESULT REPORT Q1 FY24 | Information Technology

Tech Mahindra Ltd

Subdued financial performance; muted deal booking for the quarter

Reco	:	**NEUTRAL**
CMP	:	Rs 1,143
Target Price	:	Rs 1,199
Potential Return	:	+ 4.9%

Result Synopsis

Tech Mahindra (TECHM) reported weak financial performance for the quarter. The sequential revenue growth and EBIT margin were below expectation. Revenue declined by 4.2% QoQ in cc terms. (down 4.1% QoQ in INR terms, down 4.0% QoQ in USD terms), led by CME segment (down 9.5% QoQ). There was sequential decline in EBIT margin(down 438bps QoQ) on lower revenue, impact of wage hike and higher SG&A expense. Employee attrition continues to moderate as LTM attrition was down 2 percentage points QoQ to 13%.

We believe that the multiyear technology adoption cycle broadly remains intact. However, the clients remain cautious regarding the evolving macroeconomic situation and that is reflected in slowdown in discretionary spending and it continues to impact near term revenue performance. The continued weakness in Telecom vertical is expected to result in muted revenue growth for FY24. Falling employee attrition, improving employee pyramid and focus on better revenue mix should support operating margin going ahead. We estimate revenue CAGR of 9.5% over FY23-25E with average EBIT margin of 12.4% over the period. We revise our Rating on the stock from ADD to NEUTRAL with target price of Rs 1,199/share at 15.0x on FY25E EPS. The stock trades at PER of 19.5x/14.3x on FY24E/FY25E EPS.

Result Highlights

- Reported revenue of Rs 131.6bn (down 4.1% QoQ in INR terms, down 4.0% QoQ in USD terms). The muted performance of various verticals include Manufacturing (up 1.9% QoQ); other vertical (down 0.2% QoQ), CME (down 9.5% QoQ), and BFSI (down 3.1% QoQ). TME (up 0.2%QoQ) and Retail & Transport (flat 0.0% QoQ). Overall, the revenue decreased by 4.2% QoQ in cc terms.
- EBIT margin decreased by 438 bps QoQ to 6.8%, led by lower revenue, Comviva seasonality and increase in SG&A expenses (up 4.7% QoQ).
- Signed net new deals of $359mn vs $592mn in Q4FY23 and $802mn in Q1FY23.
- Offshore effort mix was up 40 bps QoQ to 73.1%. Total number of Active clients decreased by 42 QoQ to 1255.
- Total headcount decreased by around 4,103 QoQ to 148,297. LTM attrition was down 2.0 percent points QoQ to 13%. Utilization excluding trainees was up 50 bps QoQ to 87.0%.

Exhibit 1: Actual vs estimates

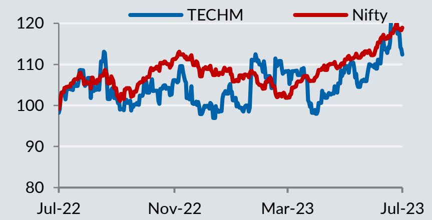
Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	131,590	135,075	135,510	-2.6%	-2.9%
EBITDA	13,380	19,046	19,770	-29.7%	-32.3%
EBITDA Margin (%)	*10.17%*	*14.10%*	*14.59%*	*-393 bps*	*-442 bps*
Adjusted PAT	6,925	10,822	11,470	-36.0%	-39.6%

Source: Company, YES Sec

Stock data (as on July 26, 2023)

Nifty	19,778
52 Week h/l (Rs)	1271 / 968
Market cap (Rs/USD mn)	1127295 / 13747
Outstanding Shares (mn)	975
6m Avg t/o (Rs mn):	2,746
Div yield (%):	4.0
Bloomberg code:	TECHM IN
NSE code:	TECHM

Stock performance



	1M	3M	1Y
Absolute return	2.8%	14.7%	14.4%

Shareholding pattern (As of Mar'23 end)

Promoter	35.2%
FII+DII	52.9%
Others	11.9%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	ADD
Target Price	1,199	1,193

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	58.5	79.9
EPS (Old)	68.3	79.6
%Change	-14.4%	0.4%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	530,537	561,829	635,126
YoY Growth	18.7%	5.9%	13.0%
EBIDTA	77,922	82,743	108,606
YoY Growth	-3.3%	6.2%	31.3%
PAT	45,947	51,636	70,592
YoY Growth	-18.1%	12.4%	36.7%
ROE	16.8%	18.1%	23.0%
EPS	52	58	80
P/E	22.0	19.5	14.3
BV	316	330	365
P/BV	3.6	3.5	3.1

PIYUSH PANDEY
Lead Analyst
piyush.pandey@ysil.in
+91 22 68850521

PARTH GHIYA, Associate

Exhibit 2: Quarterly snapshot Console: Witnessed sequential dip in margin during the quarter

Particulars(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	yoy%	qoq%
Sales ($ mn)	1,632	1,638	1,668	1,668	1,601	-1.9	-4.0
Sales	127,079	131,295	137,346	137,182	131,590	3.5	-4.1
EBITDA	18,801	19,841	21,440	20,205	13,380	-28.8	-33.8
EBITDA %	14.8	15.1	15.6	14.7	10.2	-463 bps	-456 bps
Depreciation	4,767	4,917	4,981	4,902	4,466	-6.3	-8.9
EBIT	14,034	14,924	16,459	15,303	8,914	-36.5	-41.7
EBIT Margin %	11.0	11.4	12.0	11.2	6.8	-427 bps	-438 bps
Other income	1,224	2,505	2,382	3,005	1,995	63.0	-33.6
Interest	403	790	1,129	3,060	1,197	197.0	-60.9
PBT	14,855	16,639	17,712	15,248	9,712	-34.6	-36.3
Tax	3,380	3,647	4,859	3,999	2,676	-20.8	-33.1
Reported PAT	11,316	12,854	12,966	11,176	6,925	-38.8	-38.0
Adjusted PAT	11,316	12,854	12,966	11,176	6,925	-38.8	-38.0
NPM (%)	8.9	9.8	9.4	8.1	5.3	-364 bps	-288 bps

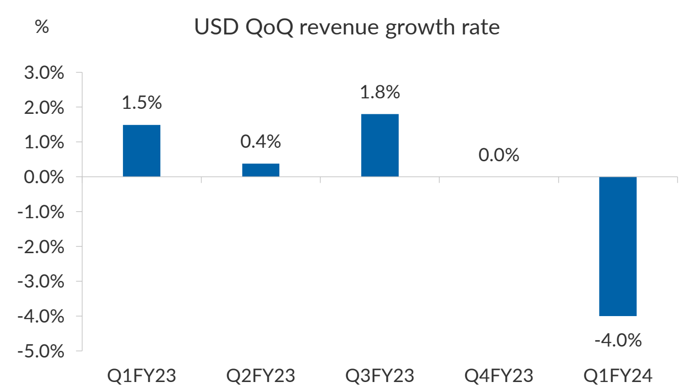
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Weak revenue performance was witnessed due to seasonality with Comviva (Tech Mahindra company), Slowdown in discretionary spending and one of the clients declaring bankruptcy.
- Q2FY24 is expected to be better due to few of the large deals in pipeline which are on the verge of getting signing.
- Trained 8,000 employees during the quarter in new generative AI platform across various hyperscalers.
- Investments are being made by TECHM in various emerging segments like Quantum Computing, Generative AI, 5G implementation and Cyber Security.
- Effective tax rate for the quarter stood at 27.6%. DSO up by 2 days QoQ to 98 days.
- Working on margin levers such as lower subcon cost, improving employee pyramid and increase in offshoring
- Subcon cost decreased from 16% in Q4FY23 to 14% in Q1FY24; aspires to maintain it below 10% by the end of FY24.
- Offshore Revenue mix has a headroom of 4% to 5% improvement from current levels.
- Most of the wage hike impact is being reflected in Q1FY24 results.
- Ramp up in 5G implementation is taking time due to postponement of discretionary spend in telecom vertical.
- Manufacturing and Transport (Automobiles and Aero) segments are expected to drive growth in Q2FY24.

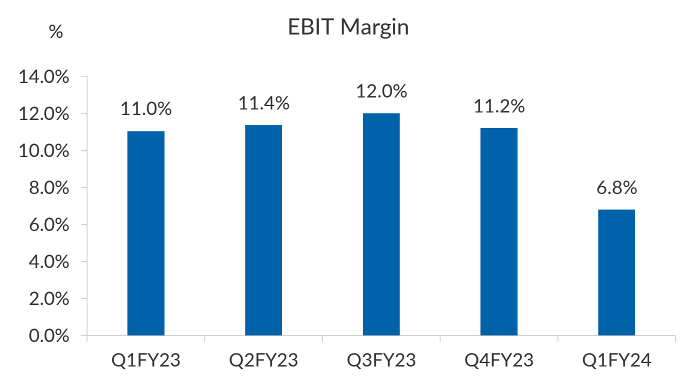
STORY IN CHARTS

Exhibit 3: Sequential growth in USD terms decreased due to near term demand concerns



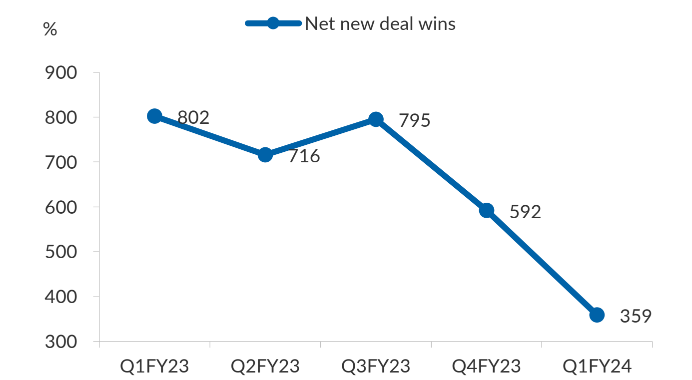
Source: Company, YES Sec

Exhibit 4: EBIT Margins declined sequentially due to higher SG&A Expenses



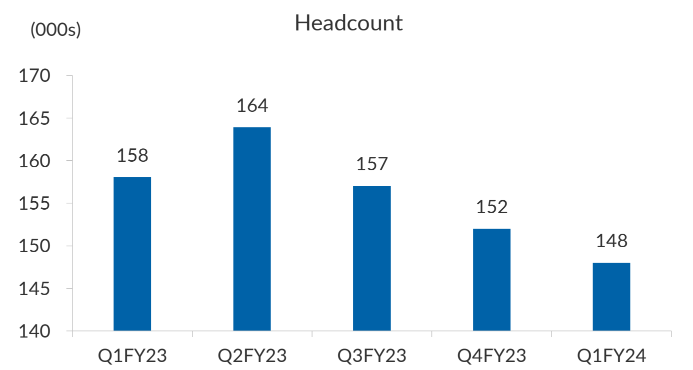
Source: Company, YES Sec

Exhibit 5: Net new deal wins were impacted due to cuts in discretionary spend



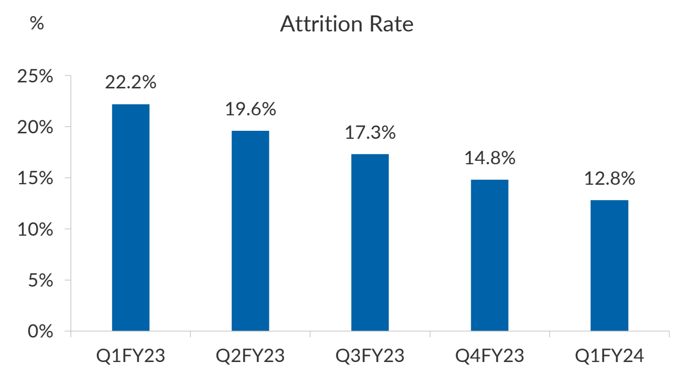
Source: Company, YES Sec

Exhibit 6: Total employee count declined during the quarter



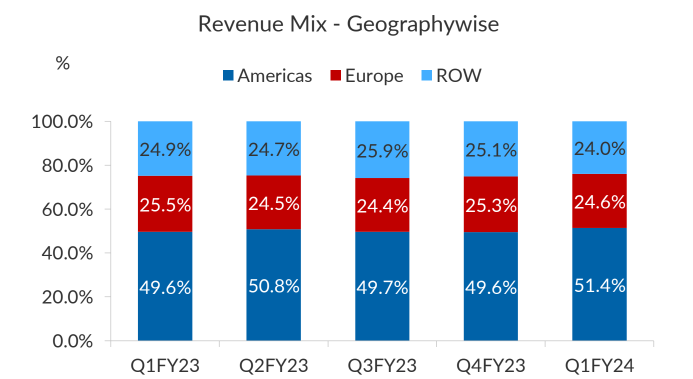
Source: Company, YES Sec

Exhibit 7: LTM Attrition rate declined during the quarter



Source: Company, YES Sec

Exhibit 8: Europe geography saw softness due to macro-economic uncertainties



Source: Company, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	4,359	4,370	4,388	4,400	4,400	4,400
Reserves & surplus	213,772	244,280	264,469	274,845	286,745	317,601
Shareholders' funds	218,131	248,650	268,857	279,245	291,145	322,001
Non-current liablities	29,910	29,256	37,544	32,072	32,379	32,742
Long-term borrowings	10,326	9,735	8,620	9,191	8,731	8,295
Other non-current liabilities	19,584	19,521	28,924	22,881	23,648	24,447
Current liabilities	121,561	115,079	137,352	145,514	153,076	163,198
ST borrowings, Curr maturity	25,954	18,963	17,564	18,211	18,757	19,320
Other current liabilities	95,607	96,116	119,788	127,303	134,319	143,878
Total (Equity and Liablities)	373,535	396,780	448,707	461,533	481,302	522,643
Non-current assets	141,812	144,227	204,150	217,206	215,515	214,347
Fixed assets (Net block)	55,344	51,286	75,229	73,855	75,529	77,510
Non-current Investments	2,360	5,757	4,479	6,049	6,351	6,669
Other non-current assets	59,874	66,824	99,160	106,705	103,038	99,571
Current assets	231,723	252,553	244,557	244,327	265,787	308,296
Cash & current investment	87,606	124,971	84,104	70,379	68,619	88,399
Other current assets	144,117	127,582	160,453	173,948	197,168	219,897
Total (Assets)	373,535	396,780	448,707	461,533	481,302	522,643

Source: Company, YES Sec

Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	368,677	379,350	446,867	530,537	561,829	635,126
Operating expenses	(311,416)	(310,080)	(366,259)	(452,615)	(479,086)	(526,519)
EBITDA	57,261	69,270	80,608	77,922	82,743	108,606
Depreciation	(14,458)	(14,577)	(15,204)	(19,567)	(19,522)	(22,229)
EBIT	42,803	54,693	65,404	58,355	63,221	86,377
Other income	11,924	7,883	11,151	9,116	11,085	12,550
Finance cost	(1,919)	(1,740)	(1,626)	(5,382)	(4,646)	(4,286)
Profit before tax	52,808	60,836	74,929	62,089	69,660	94,642
Tax (current + deferred)	(11,604)	(15,999)	(18,220)	(15,885)	(17,763)	(23,850)
Reported Profit / (Loss)	42,505	45,587	56,069	45,947	51,636	70,592
Adjusted net profit	42,505	45,587	56,069	45,947	51,636	70,592

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	52,808	60,836	74,929	62,089	69,660	94,642
Depreciation	14,458	14,577	15,204	19,567	19,522	22,229
Change in working capital	(21,956)	21,099	(12,418)	(15,782)	(15,740)	(12,682)
Total tax paid	(13,581)	(15,346)	(14,189)	(16,986)	(17,763)	(23,850)
Others	(10,005)	(6,143)	(9,525)	(3,734)	(6,439)	(8,265)
Cash flow from operations (a)	21,724	75,023	54,001	45,154	49,239	72,075
Capital expenditure	(24,590)	(10,519)	(39,147)	(18,193)	(21,195)	(24,211)
Change in investments	14,936	(43,893)	53,538	14,957	(2,251)	(2,402)
Others	4,692	7,828	12,049	8,744	10,919	12,376
Cash flow from investing (b)	(4,962)	(46,584)	26,440	5,508	(12,527)	(14,237)
Free cash flow (a+b)	16,762	28,439	80,441	50,662	36,713	57,838
Equity raised/(repaid)	(78)	11	18	12	0	0
Debt raised/(repaid)	16,325	(7,582)	(2,514)	1,218	87	126
Dividend (incl. tax)	(24,917)	(17,594)	(39,813)	(42,633)	(39,736)	(39,736)
Others	(196)	(6,405)	(26,739)	(6,457)	(772)	(533)
Cash flow from financing (c)	(8,866)	(31,570)	(69,048)	(47,860)	(40,421)	(40,143)
Net change in cash (a+b+c)	7,896	(3,131)	11,393	2,802	(3,708)	17,696

Source: Company, YES Sec

Exhibit 12: Ratio Analysis

Y/e March 31	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth(%)						
Revenue Growth	6.1	2.9	17.8	18.7	5.9	13.0
EBITDA Growth	(9.6)	21.0	16.4	(3.3)	6.2	31.3
EBIT Growth	(17.8)	27.8	19.6	(10.8)	8.3	36.6
Net Profit Growth	(1.1)	7.3	23.0	(18.1)	12.4	36.7
Profitability Ratios(%)						
EBITDA Margin	15.5	18.3	18.0	14.7	14.7	17.1
EBIT margin	11.6	14.4	14.6	11.0	11.3	13.6
Net Profit margin	11.5	12.0	12.5	8.7	9.2	11.1
RoA	12.1	14.2	15.5	12.8	13.4	17.2
RoE	20.2	19.5	21.7	16.8	18.1	23.0
RoCE	16.6	18.9	20.8	17.6	18.6	23.8
Liquidity Ratios						
Net debt/Equity (x)	(0.2)	(0.4)	(0.2)	(0.2)	(0.1)	(0.2)
Current ratio (x)	1.9	2.2	1.8	1.7	1.7	1.9
Quick ratio (x)	1.9	2.2	1.8	1.7	1.7	1.9
Valuation Ratios						
PER(x)	NA	NA	16.4	22.0	19.5	14.3
PCE(x)	NA	NA	12.9	15.4	14.2	10.9
Price/Book(x)	NA	NA	3.4	3.6	3.5	3.1
EV/EBITDA(x)	NA	NA	10.7	12.4	11.7	8.7

Source: Company, YES Sec

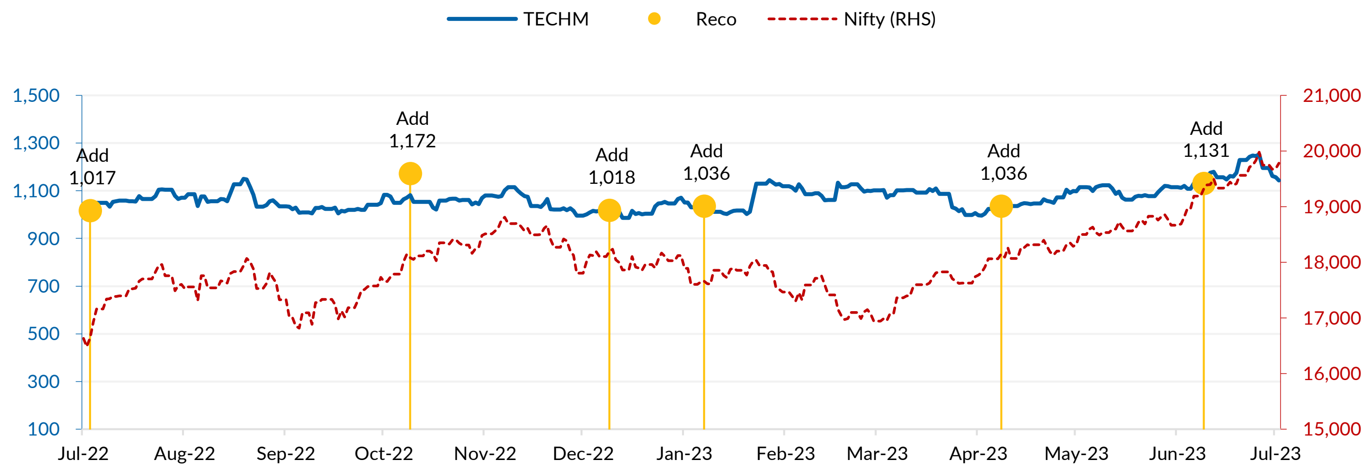
Tech Mahindra Ltd

Exhibit 13: Dupont Analysis

Dupont Analysis	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	11.5	12.0	12.5	8.7	9.2	11.1
Asset turnover (x)	1.0	1.0	1.1	1.2	1.2	1.3
Leverage factor (x)	1.7	1.7	1.6	1.7	1.7	1.6
Return on Equity(%)	20.2	19.5	21.7	16.8	18.1	23.0

Source: Company, YES Sec

Recommendation Tracker



DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

YES Securities (India) Limited distributes research and engages in other approved or allowable activities with respect to U.S. Institutional Investors through SEC 15a-6 rules and regulations under an exclusive chaperone arrangement with Brasil Plural Securities LLC. The views and sentiments expressed in this research report and any findings thereof accurately reflect YES Securities (India) Limited analyst's truthful views about the subject securities and or issuers discussed herein. YES Securities (India) Limited is not registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is not a member of the Securities Investor Protection Corporation ("SIPC"). Brasil Plural Securities LLC is registered as a broker-dealer under the Exchange Act and is a member of SIPC. For questions or additional information, please contact Gil Aikins (gil.aikins@brasilplural.com) or call +1 212 388 5600.

This Research Report is the product of YES Securities (India) Limited. YES Securities (India) Limited is the employer of the research analyst(s) who has prepared the research report. YES Securities (India) Limited is the employer of the YES Securities (India) Limited Representative who is responsible for the report, are responsible for the content of the YES Securities (India) Limited Research Report; any material conflicts of interest of YES Securities (India) Limited in relation to the issuer(s) or securities discussed in the YES Securities (India) Limited Research Report. This YES Securities (India) Limited Research Report is distributed in the United States through Brasil Plural Securities LLC (BPS). The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and is/ are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by YES Securities (India) Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity. Transactions in securities discussed in this research report should be effected through Brasil Plural Securities LLC (BPS) or another U.S. registered broker dealer/Entity as informed by YES Securities (India) Limited from time to time.

YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House,
Lok Bharti Complex, Marol Maroshi Road, Andheri East,
Mumbai - 400059, Maharashtra, India.

✆ +91 22 68850521 | ✉ research@ysil.in
Website: www.yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL & NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code – 94338.

Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

Grievances Redressal Cell: customer.service@ysil.in/igc@ysil.in

Tech Mahindra Ltd

DISCLOSURE OF INTEREST

Name of the Research Analyst : Piyush Pandey, Parth Ghiya

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

PIYUSH KUMAR Digitally signed by PIYUSH KUMAR Date: 2023.07.26 22:50:25 +05'30'

PARTH MANISH GHIYA Digitally signed by PARTH MANISH GHIYA Date: 2023.07.26 23:05:42 +05'30'

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.