

Big miss on all counts; Recovery to be gradual

- TechM rev. decline by 2.4% in CC vs (DE: -1% CC). Decline was led by de-growth in CME at 4.9% QoQ while Enterprise rev declined by 1.6% QoQ. IT Services was down 2.5% in INR terms, while BPO biz. De-grew 0.7% QoQ.
- Reported OPM stood at 4.7%, (DE: 5.3%), down 210bps QoQ. Adjusting for one-time Goodwill impairment impact (120bps), it stood at 5.9%.
- Management attributed decline was led by continued portfolio rationalization of low yield areas and weak refill rate (TCV down 26% on TTM basis at \$2.4bn). It pointed that it will continue to rationalize in coming quarter and have proposed new organization structure effective 1st Jan'24.
- Overall performance remain sluggish. Macro risks, incl. spending cuts by key clients remains susceptible. Expect renewed strategy to pave way but that would be gradual. Assign REDUCE with TP of Rs. 1,180 at 18x of FY26E.

Muted Deal wins to drag overall growth; Key Verticals not active now

TCV in Q2FY24 stood at \$640mn (down 26% YoY on TTM basis), and is expected to pick momentum in H2. **Vertical wise commentary:** 1) **Manufacturing:** Tech spending remained robust across IT services, Engineering and Design side, 2) **BFSI:** Insurance doing good while traction in banking is limited, 3) **Telecom:** Don't expect significant uptick in 5g Spend in H2. New org structure – a combination of Geo + Vertical mix would potentially revive momentum across segments.

Margin to remain under pressure; Gradual recovery from FY25

Adj. OPM stood at 5.9% (around 120bps impact due to one-off) vs 6.8% in Q1FY24. Margin may continue to remain under pressure due to restructuring and severance impact continuing in Q3. Management expect key levers such as sub-con reduction, pyramid optimization, rationalizing low-yield biz. and offshoring to play out from next year onwards.

Strategic Reset to see benefits to play out in FY25 and beyond

Management has taken one-time impact by terminating contracts of non-focused geographies and service lines and will continue in Q3 as well. TechM expect to reset strategy and provide outlook in April'25 on 3 pillars: 1) Focusing on sustainable medium to long-term margins through automation, sub con & pyramid, 2) Focusing on Revenue growth from new verticals mix, large deal strategies & account mining and 3) Outlook on overall organization structure.

Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue	1,28,639	1,31,295	(2.0)	1,31,590	(2.2)
Total Expense	1,17,916	1,11,453	5.8	1,18,210	(0.2)
EBITDA	10,723	19,841	(46.0)	13,380	(19.9)
Depreciation	4,657	4,917	(5.3)	4,466	4.3
EBIT	6,066	14,924	(59.4)	8,914	(31.9)
Other Income	2,557	2,505	2.1	1,995	28.2
Interest	975	790	23.4	1,197	(18.5)
EBT	7,648	16,639	(54.0)	9,712	(21.3)
Tax	1,100	3,647	(69.8)	2,676	(58.9)
RPAT	6,434	12,854	(49.9)	6,925	(7.1)
APAT	4,939	12,854	(61.6)	6,925	(28.7)
			(bps)		(bps)
Gross Margin (%)	22.5	27.9	(548)	25.7	(322)
EBITDA Margin (%)	8.3	15.1	(678)	10.2	(183)
NPM (%)	5.0	9.8	(479)	5.3	(26)
Tax Rate (%)	14.4	21.9	(754)	27.6	(1317)
EBIT Margin (%)	4.7	11.4	(665)	6.8	(206)

CMP	Rs 1,142
Target / Upside	Rs 1,180 / 3%
NIFTY	19,122

Scrip Details

Equity / FV	Rs 4,434mn / Rs 5
Market Cap	Rs 1,009bn
	USD 12.3bn
52-week High/Low	Rs 1,320/ 981
Avg. Volume (no)	26,61,490
Bloom Code	TECHM IN

Price Performance	1M	3M	12M
Absolute (%)	(12)	(1)	6
Rel to NIFTY (%)	(13)	(1)	(6)

Shareholding Pattern

	Mar'23	Jun'23	Sep'23
Promoters	35.2	35.2	35.1
MF/Banks/FIs	25.9	27.0	27.1
FIs	26.9	25.7	26.2
Public / Others	12.1	12.2	11.5

Valuation (x)

	FY24E	FY25E	FY26E
P/E	40.3	24.3	17.4
EV/EBITDA	20.6	13.6	10.1
ROE (%)	9.0	14.7	20.1
RoACE (%)	10.1	15.3	20.3

Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	517.9	552.7	605.9
EBITDA	46.6	70.0	92.7
PAT	25.1	41.6	58.4
EPS (Rs.)	28.4	47.0	65.8

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Exhibit 1: Quarterly performance versus estimates

Particulars (Rs mn)	Estimates			% Variation		Comment
	Actual	Dolat	Consensus	Dolat	Consensus	
USD Revenue	1,555	1,581	1,585	(1.7)	(1.9)	USD Rev Miss was due to sharp decline across CME (down 4.9% QoQ)
INR Revenue	1,28,639	1,30,787	1,31,100	(1.6)	(1.9)	
EBIT	6,066	6,892	7,604	(12.0)	(20.2)	Higher employee costs and one-time Goodwill impairment led to OPM Miss.
EBIT, margin	4.7	5.3	5.8	(60 bps)	(110 bps)	
PAT	4,939	5,609	6,555	(12.0)	(24.7)	PAT Miss narrowed on higher OI

Source: Company, DART

Change in Estimates

Noting sluggish Q2 performance led by portfolio rationalization and restructuring of overall business, we lower USD Revenue estimates by 5.2%/7.4% for FY24E/FY25E. Management commentary on margin remain muted as it will continue to terminate low yield contracts and will come up with detailed outlook and guidance in April 2024 once it will post complete re-organization plan in place. We have taken margin contraction due to top-line moderation, slower than expected recovery and Lower OPM estimates by 365bps/217bps for FYFY24E/FY25E. Overall, we have cut our EPS estimates by 39%/22% for FY24E/FY25E respectively. Introduce FY26 rev growth 8.2% with OPM of 11.9% and EPS of Rs. 65.8 on account of gradual recovery from FY25 onwards.

Exhibit 2: Change in Estimates

Particulars (Rs. mn)	FY23A	FY24E			FY25E			FY26E
	Actual	Old	New	Chg.(%)	Old	New	Chg.(%)	Introduced
USD Revenue	6,607	6,606	6,261	(5.2)	7,156	6,630	(7.4)	7,171
YoY growth,	10.1	(0.0)	(5.2)	(523 bps)	8.3	5.9	(242 bps)	8.2
INR Revenue	5,32,902	5,43,516	5,17,912	(4.7)	5,90,373	5,52,670	(6.4)	6,05,936
YoY growth,	19.4	2.0	(2.8)	(480 bps)	8.3	5.9	(242 bps)	9.6
EBIT	60,721	49,768	28,541	(42.7)	67,455	51,136	(24.2)	72,107
EBIT Margin,	11.4	9.2	5.5	(365 bps)	11.4	9.3	(217 bps)	11.9
Net Profit	48,313	38,845	23,558	(39.4)	53,139	41,633	(21.7)	58,355
EPS (Rs)	54.5	43.9	26.6	(39.4)	60.0	47.0	(21.8)	65.8

Source: DART, Company

What to expect next Quarter

We expect revenue de-growth of about 0.7% QoQ in Q3FY24, reflecting management continued to restructure and rationalize not so profitable accounts and expect OPM to inch up by 10bps on QoQ due to normalization of certain one-time costs charges made in Q1/Q2.

Exhibit 3: What to expect next Quarter

Particulars (Rs. Mn)	Q3FY24E	Q2FY24	Q3FY23	QoQ (%)	YoY (%)
USD Revenue	1,543	1,555	1,668	(0.7)	(7.5)
INR Revenue	1,28,110	1,28,639	1,37,346	(0.4)	(6.7)
EBIT	6,175	6,066	16,459	1.8	(62.5)
PAT	5,483	4,939	12,966	11.0	(57.7)
EPS (Rs Abs.)	6.2	5.6	14.6	11.0	(57.8)
EBIT Margin (%)	4.8	4.7	12.0	10bps	(716bps)

Source: DART, Company

Valuations

TECHM's new strategy and structure to yield benefit in medium, but we believe that in light of weakening global macros, discretionary spending cut, growth as well as profitability would continue to remain impacted in FY24/FY25e. We currently value TECHM at 18x on FY26E Earnings of Rs. 65.8 with a TP of Rs. 1,180 per share and assign REDUCE Rating.

Exhibit 4: Quarterly and YTD Trend

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	H1FY23	H1FY24	YoY (%)
USD Revenue	1,638	1,668	1,668	1,601	1,555	(5.1)	(2.9)	3,271	3,156	(3.5)
INR Revenue	131,295	137,346	137,182	1,31,590	1,28,639	(2.0)	(2.2)	2,58,374	2,60,229	0.7
Operating Expenses	111,453	115,906	116,977	1,18,210	1,17,916	5.8	(0.2)	2,19,731	2,36,126	7.5
Cost of revenue	94,614	97,937	97,484	97,805	99,752	5.4	2.0	1,85,776	1,97,557	6.3
as % of sales	72.1	71.3	71.1	74.3	77.5	548 bps	322 bps	71.9	75.9	401 bps
SG&A expense	16,840	17,969	19,493	20,405	18,164	7.9	(11.0)	33,956	38,569	13.6
as % of sales	12.8	13.1	14.2	15.5	14.1	129 bps	(139 bps)	13.1	14.8	168 bps
EBITDA	19,841	21,440	20,205	13,380	10,723	(46.0)	(19.9)	38,643	24,103	(37.6)
Depreciation	4,917	4,981	4,902	4,466	4,657	(5.3)	4.3	9,684	9,123	(5.8)
EBIT	14,924	16,459	15,303	8,914	6,066	(59.4)	(31.9)	28,959	14,980	(48.3)
Finance Cost	790	1,129	934	1,197	975	23.4	(18.5)	1,193	2,172	82.1
Other Income	2,505	2,382	3,005	1,995	2,557	2.1	28.2	3,729	4,552	22.1
PBT	16,639	17,712	17,374	9,712	7,648	(54.0)	(21.3)	31,495	17,360	(44.9)
Total Tax	3,647	4,859	3,999	2,676	1,100	(69.8)	(58.9)	7,027	3,776	(46.3)
PAT Before MI	12,992	12,853	13,375	7,036	6,548	(49.6)	(6.9)	24,468	13,584	(44.5)
Minority Interest	(138)	113	(73)	(111)	(114)	(17.4)	2.7	(297)	(225)	(24.2)
Reported PAT	12,854	12,966	13,302	6,925	6,434	(49.9)	(7.1)	24,171	13,359	(44.7)
Reported EPS	14.5	14.6	12.6	7.8	5.6	(61.6)	(28.8)	27.3	13.4	(51.0)
Margins (%)						(bps)	(bps)			(bps)
EBIDTA	15.1	15.6	14.7	10.2	8.3	(678)	(183)	15.0	9.3	(569)
EBIT	11.4	12.0	11.2	6.8	4.7	(665)	(206)	11.2	5.8	(545)
EBT	12.7	12.9	12.7	7.4	5.9	(673)	(144)	12.2	6.7	(552)
PAT	9.8	9.4	9.7	5.3	5.0	(479)	(26)	9.4	5.1	(422)
Effective Tax rate	21.9	27.4	23.0	27.6	14.4	(754)	(1317)	22.3	21.8	(56)

Source: Company

Exhibit 5: Key Assumptions in our estimates

Particulars (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
CC revenue growth (%)	17.3	13.7	(5.0)	6.0	8.2
USD revenue growth (%)	17.3	10.1	(5.2)	5.9	8.2
USD/INR	74.4	80.7	82.7	83.4	84.5
INR revenue growth (%)	17.9	19.4	(2.8)	6.7	9.6
EBIT margins (%)	14.6	11.4	5.5	9.3	11.9
EPS growth (%)	24.7	(12.9)	(51.3)	76.7	40.2

Source: DART, Company

Exhibit 6: Key Revenue Growth Matrix

Particulars (%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
CC Growth YoY	15.5	17.5	22.6	21.2	16.8	12.7	7.0	(0.9)	(5.9)
USD Growth YoY	16.4	17.2	20.9	18.0	11.2	8.8	3.7	(1.9)	(5.1)
INR Growth YoY	16.1	18.7	24.5	24.6	20.7	19.9	13.2	3.5	(2.0)

Source: DART, Company

Earning call KTAs

- **Revenue:** Revenue stood at \$1,555mn, down by 2.4% QoQ in CC terms and down 2.9% in USD terms, reflecting a cross currency loss of 50bps. Weak performance was mainly due to macro uncertainties; cut in discretionary spends by clients and ongoing efforts to streamline/ rationalization of non-core (read non-profitable) areas of the business.
- **Vertical-wise:** Communication, Media and Entertainment (CME) Vertical revenue decline by 5% QoQ in \$ terms, while Enterprise Vertical declined by 1.6% QoQ. Within Enterprise, Growth was led by Manufacturing at 2.2% QoQ, followed by Retail, Transport and Logistics vertical at 0.8% QoQ. Technology at -0.2%, BFSI at -3.1% QoQ and Others at -8.6% QoQ. The IT business declined 3.1% QoQ and BPO business too declined 1.4% QoQ in \$ terms. For Telecom, Management expects H2FY24 also to be softer based on ongoing conversation with clients.
- **Top-5 Client Outlook (17% of Rev):** Top-5 clients' revenues declined 7.2% QoQ led by rationalizing of one of the customer that was non-strategic (impact of \$15mn per quarter on pass-through revenues) and downward spend trend in one of the large customer from comm. space.
- **EBIT Margins:** EBIT Margin declined by 206bps QoQ to 4.7%. Operating Margin faced headwinds in form: a) Goodwill Impairment impact of 120bps; b) Exceptional impact of 260bps (LQ – 200bps) on conscious exit from some client revenues. Sub-con costs reduction gains of 160bps (% to Sales) on QoQ basis. Management shared that Employee costs in H1 were higher (up 8%) due to wage hike, which was earlier carried out in H2FY23 and partially in Q1FY23. Going forward, the company expects margin to remain under pressure.
- **Deals:** In Q2FY24, Tech Mahindra added 3 large deals worth \$640mn in Net New Deal Wins. Management is witnessing improved momentum on large deal wins (One large Fintech deal in pipeline) and expects H2 to remain healthy. Additionally, TECHM also highlighted that the challenging market conditions might elongate deal conversion timelines.
- **New structure effective 1st Jan, 2024:** Mgmt has proposed new organization structure to simplify and streamline 6 strategic business units to foster client relationship. America Geography has been divided into three vertical based units i.e. 1) Americas Communications, 2) Americas Tech & Media and 3) America Diverse while other segments are classified as all business in the respective geographies these being 4) EMEA, 5) APJ and 6) India. From delivery perspective, it has total of 8 service lines. Consolidating in new centralized structure will help bring efficiencies and superior customer experience. Overall, it will help bring synergies: 1) double down focus in top client accounts, 2) Develop deeper domain expertise in key verticals and 3) focus on emerging verticals like BFSI, healthcare, retail and logistics.
- **Outlook:** The Company outlined significant changes, including a new organizational structure, KPI redefinition, and policy revisions, all aimed at achieving future objectives. They anticipate presenting three plans in April: 1) Focusing on sustainable medium to long-term margins through automation, sub con & pyramid, 2) Focusing on Revenue growth from new verticals mix, large deal strategies & account mining and 3) Outlook on overall organization structure. Management expect margin uptick from FY25 onwards.
- **ETR:** Q2FY24 ETR stood at 17.9%, (Q1FY24: 27.6%). Dip in Tax rate was attributed to lower taxes in US due to some benefit in refunds.
- **Talent & Attrition:** LTM attrition declined to 11% from 13% in Q1FY24, a 200bps reduction. Headcount stood at 151k employees, a net reduction of 2.3k over Q1.

Exhibit 7: Vertical Trend for Q2FY24

Vertical	Amount (\$ mn)	Mix (%)	QoQ (%)	YoY (%)	Incremental Revenue (\$ mn)	% Contribution of Incremental Revenue
CME	575	37	(5.0)	(11.7)	(30)	66
Manufacturing	276	18	2.2	5.6	6	(13)
Tech	171	11	(0.2)	3.3	0	1
BFSI	250	16	(3.1)	(6.2)	(8)	17
Retail, Transport & Logistics	128	8	0.8	(4.2)	1	(2)
Others	155	10	(8.6)	(3.1)	(15)	32
Total	1,555	100	(2.9)	(5.1)	(46)	100

Source: DART, Company

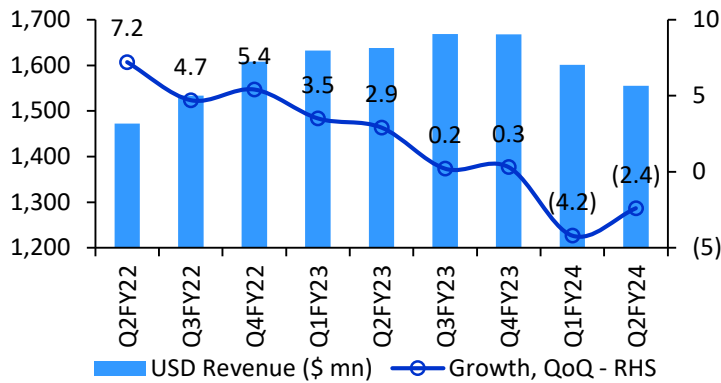
Exhibit 8: Geography Trend for Q2FY24

Geography	Amount (\$ mn)	Mix (%)	QoQ (%)	YoY (%)	Incremental Revenue (\$ mn)	% Contribution of Incremental Revenue
Americas	828	53	0.6	(0.5)	5	(11)
Europe	367	24	(6.9)	(8.7)	(27)	59
Rest of world	360	23	(6.2)	(11.0)	(24)	52
Total	1,555	100	(2.9)	(5.1)	(46)	100

Source: DART, Company

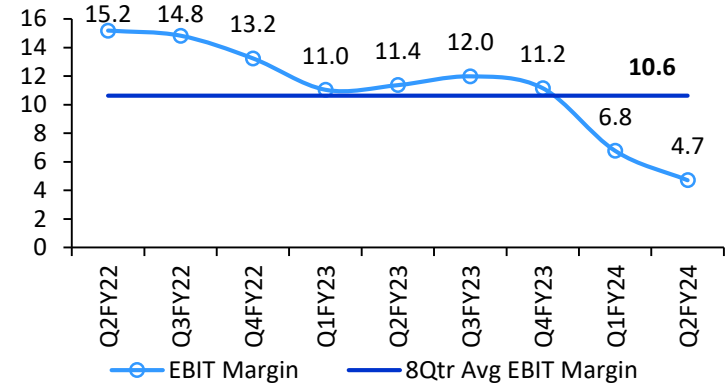
Story in Charts

Exhibit 9: Rev de-grew by 2.4% CC QoQ



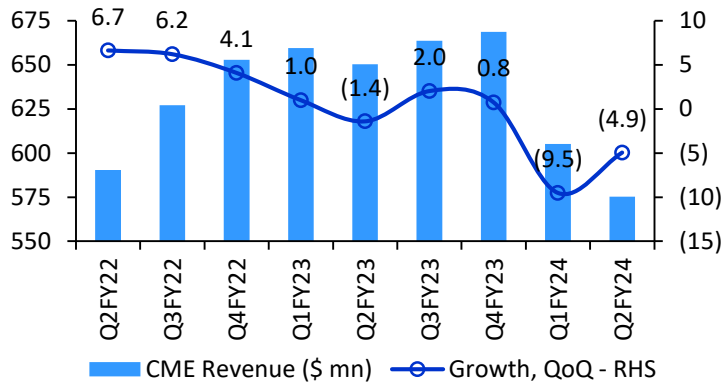
Source: Company, DART

Exhibit 10: OPM declined by 210bps QoQ



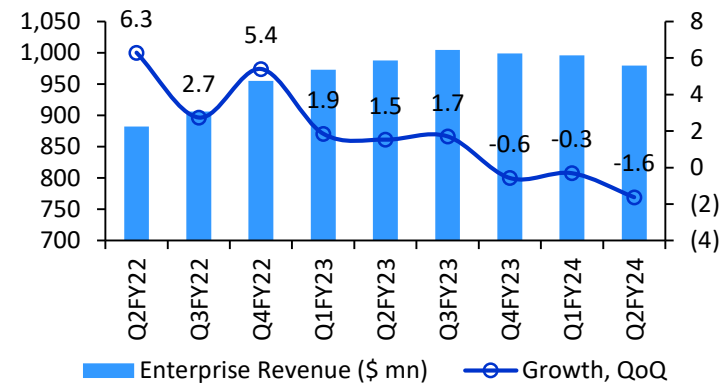
Source: Company, DART

Exhibit 11: CME declined by 4.9% QoQ in USD terms



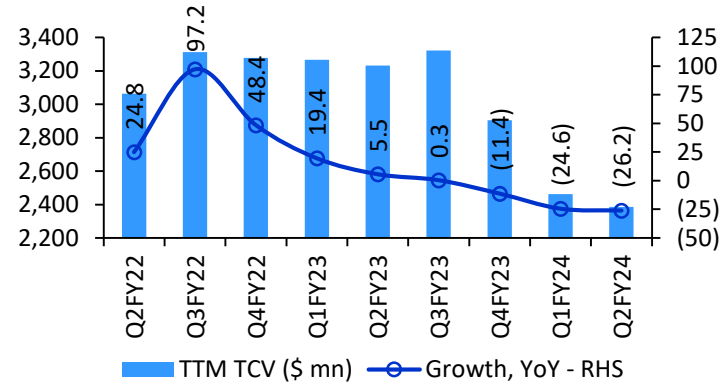
Source: Company, DART

Exhibit 12: Enterprise Revenue Declined by 1.6% QoQ



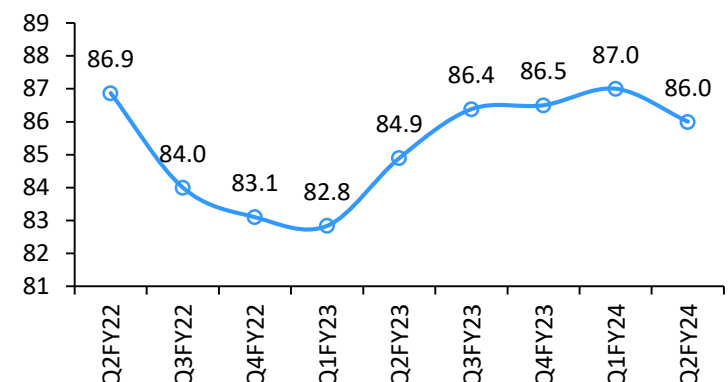
Source: Company, DART

Exhibit 13: TTM TCV Slipped below \$2.4bn mark



Source: Company, DART

Exhibit 14: Utilization Saw declined by 100bps



Source: Company, DART

Exhibit 15: Operating Metrics 1

Particulars	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Growth CC									
Revenue (QoQ)	7.2	4.7	5.4	3.5	2.9	0.2	0.3	(4.2)	(2.4)
Revenue (YoY)	15.5	17.5	22.6	21.2	16.8	12.7	7.0	(0.9)	(5.9)
CMT / Telecom (QoQ)	7.7	6.9	4.8	3.9	(1.3)	N.A	N.A	N.A	N.A
CMT / Telecom (YoY)	15.0	18.3	23.7	N.A	14.9	N.A	N.A	N.A	N.A
Enterprise (QoQ)	7.0	3.2	5.8	3.2	2.8	N.A	N.A	N.A	N.A
Enterprise (YoY)	15.9	17.0	21.9	N.A	N.A	N.A	N.A	N.A	N.A
TCV Data (\$mn)									
Communication	255	226	366	N.A	N.A	N.A	N.A	N.A	N.A
Enterprise	495	478	645	N.A	N.A	N.A	N.A	N.A	N.A
Total	750	704	1,011	802	716	795	592	359	640
TCV Growth YoY									
Communication	22.9	105.1	(29.3)	N.A	N.A	N.A	N.A	N.A	N.A
Enterprise	131.6	38.4	22.8	N.A	N.A	N.A	N.A	N.A	N.A
Total	78.1	54.6	(3.2)	(1.6)	(4.5)	12.9	(41.4)	(55.2)	(10.6)
TTM TCV (\$mn)									
Communication	1,235	1,351	1,199	N.A	N.A	N.A	N.A	N.A	N.A
Enterprise	1,828	1,961	2,081	N.A	N.A	N.A	N.A	N.A	N.A
Total	3,063	3,312	3,279	3,266	3,232	3,323	2,905	2,462	2,386
TTM TCV Growth YoY									
Communication	93.8	126.1	27.4	N.A	N.A	N.A	N.A	N.A	N.A
Enterprise	0.5	81.1	64.0	N.A	N.A	N.A	N.A	N.A	N.A
Total	24.8	97.2	48.4	19.4	5.5	0.3	(11.4)	(24.6)	(26.2)
Vertical Amount (\$mn)									
CMT	591	627	653	660	651	664	669	605	575
Manufacturing	236	243	240	249	262	262	265	271	276
Tech	133	129	150	159	166	172	172	171	171
BFSI	240	237	280	272	267	265	265	258	250
Retail, Transp. & Logistics	115	131	122	129	133	141	127	126	128
Others	159	167	164	163	160	165	170	170	155
Vertical Amount (YoY)									
CMT	16.1	18.0	21.7	19.1	10.2	5.8	2.4	(8.2)	(11.7)
Manufacturing	14.1	13.3	9.6	8.9	11.1	7.8	10.7	8.7	5.6
Tech	17.1	17.0	32.9	30.3	25.0	32.5	14.9	8.0	3.3
BFSI	15.8	13.3	28.0	20.0	11.0	12.1	(5.2)	(5.2)	(6.2)
Retail, Transp. & Logistics	18.1	23.9	18.8	21.2	15.9	8.3	3.7	(1.8)	(4.2)
Others	19.7	20.9	16.5	11.0	0.7	(1.1)	3.7	4.2	(3.1)
Geography Amount (\$mn)									
North America	704	750	777	809	832	829	827	823	828
Europe	381	392	425	416	401	407	422	394	367
Rest of the World	387	392	407	406	405	432	419	384	360
Geography Amount (YoY)									
North America	14.9	22.4	28.4	25.3	18.2	10.6	6.5	1.7	(0.5)
Europe	19.6	13.4	20.5	10.7	5.2	3.9	(0.6)	(5.3)	(8.7)
Rest of the World	15.9	11.9	9.2	12.4	4.5	10.1	2.9	(5.3)	(11.0)
New/Old Revenue									
New Business (\$mn)	110	127	203	33	85	115	133	32	62
Repeat Business (\$mn)	1,363	1,406	1,405	1,599	1,553	1,553	1,534	1,569	1,493

Source: DART, Company

Exhibit 16: Operating Metrics 2

Particulars	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Revenue Metrics (\$mn)									
Onsite Revenue	898	938	991	N.A	N.A	N.A	N.A	N.A	N.A
Offshore Revenue	574	596	618	N.A	N.A	N.A	N.A	N.A	N.A
Revenue Metrics (YoY)									
Onsite Revenue	12.7	13.7	18.6	N.A	N.A	N.A	N.A	N.A	N.A
Offshore Revenue	22.7	23.1	24.8	N.A	N.A	N.A	N.A	N.A	N.A
Employee Data									
S/W professionals	76,800	81,115	85,830	88,030	86,776	84,874	83,789	81,521	81,200
Support and sales	7,335	7,655	8,028	8,613	8,748	8,626	8,509	8,697	8,419
BPO	57,058	56,297	57,315	61,392	68,388	63,568	60,102	58,079	60,985
Total Employees	1,41,193	1,45,067	1,51,173	1,58,035	1,63,912	1,57,068	1,52,400	1,48,297	1,50,604
Net Addition	14,930	3,874	6,106	6,862	5,877	(6,844)	(4,668)	(4,103)	2,307
Utilization (%) incl. Trainee	86.9	84.0	83.1	82.8	84.9	86.4	86.5	87.0	86.0
Attrition (IT Services)	21.2	23.5	23.5	22.2	19.6	17.3	14.8	13.0	11.0
Client Metrics (\$mn)									
Top 5 client	324	348	355	335	310	295	280	272	264
Top 6-10 client	133	134	146	153	149	157	162	160	156
Top 11-19 client	177	168	185	186	195	212	225	192	187
Non Top 20 client	839	884	921	958	985	1004	1001	977	949
Client Metrics (YoY)									
Top 5 client	19.1	21.7	20.1	9.2	(4.4)	(15.0)	(21.2)	(18.7)	(14.6)
Top 6-10 client	17.9	17.1	25.7	25.1	12.5	16.8	10.5	4.3	4.3
Top 11-19 client	13.0	8.1	13.7	10.0	10.3	26.2	21.7	3.2	(4.3)
Non Top 20 client	15.9	17.4	22.1	22.0	17.3	13.6	8.6	1.9	(3.7)
Revenue by Type									
IT	1,296	1,339	1,406	1,426	1,422	1,433	1,434	1,364	1,322
BPO	177	194	202	206	216	235	233	237	234
Revenue by Type (YoY)									
IT	14.0	14.9	18.6	16.6	9.7	7.0	2.0	(4.3)	(7.1)
BPO	37.4	35.5	40.0	28.7	22.2	21.0	15.5	14.7	8.1
EBITDA Margin									
IT	18.4	17.6	16.9	14.5	15.0	15.0	14.2	9.1	6.6
BPO	18.2	20.8	19.3	17.1	15.5	19.3	18.0	16.3	18.2
Client Data									
>US\$1 million	488	502	524	549	562	574	582	580	568
>US\$5 million	169	173	174	176	184	185	186	190	186
>US\$10 million	90	96	97	104	108	109	112	115	114
>US\$20 million	50	50	54	60	63	65	65	62	61
>US\$50 million	22	22	23	23	23	24	24	26	26
Number of active clients	1123	1191	1224	1262	1279	1290	1297	1255	1252
DSO	92	101	97	100	98	98	96	98	97

Source: DART, Company

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Revenue	5,32,902	5,17,912	5,52,670	6,05,936
Total Expense	4,52,614	4,71,320	4,82,683	5,13,227
COGS	3,81,197	3,95,838	4,06,321	4,33,186
Employees Cost	0	0	0	0
Other expenses	71,417	75,482	76,361	80,041
EBIDTA	80,288	46,593	69,987	92,709
Depreciation	19,567	18,052	18,851	20,602
EBIT	60,721	28,541	51,136	72,107
Interest	3,256	4,073	3,404	2,918
Other Income	9,360	8,658	8,099	8,857
Exc. / E.O. items	0	0	0	0
EBT	66,825	33,126	55,831	78,047
Tax	15,885	7,717	13,958	19,512
RPAT	50,683	25,053	41,633	58,355
Minority Interest	257	355	240	180
Profit/Loss share of associates	0	0	0	0
APAT	48,313	25,053	41,633	58,355

Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	4,400	4,434	4,434	4,434
Minority Interest	4,702	5,057	5,297	5,477
Reserves & Surplus	2,74,845	2,75,431	2,81,596	2,90,295
Net Worth	2,79,245	2,79,865	2,86,029	2,94,728
Total Debt	15,782	15,730	15,006	14,317
Net Deferred Tax Liability	(9,704)	(8,707)	(7,710)	(6,710)
Total Capital Employed	2,90,025	2,91,945	2,98,622	3,07,813

Applications of Funds

Net Block	1,48,928	1,45,791	1,43,790	1,43,588
CWIP	836	836	836	836
Investments	34,629	32,629	30,629	28,629
Current Assets, Loans & Advances	2,64,175	2,80,212	2,93,748	3,14,305
Inventories	236	518	531	566
Receivables	1,28,827	1,20,621	1,24,172	1,29,499
Cash and Bank Balances	42,547	63,294	74,678	88,426
Loans and Advances	49	50	52	52
Other Current Assets	92,516	95,729	94,314	95,762
Less: Current Liabilities & Provisions	1,58,543	1,67,523	1,70,381	1,79,545
Payables	43,846	47,778	46,285	50,620
Other Current Liabilities	1,14,697	1,19,745	1,24,096	1,28,926
<i>sub total</i>				
Net Current Assets	1,05,632	1,12,689	1,23,367	1,34,759
Total Assets	2,90,025	2,91,945	2,98,622	3,07,813

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	28.5	23.6	26.5	28.5
EBIDTA Margin	15.1	9.0	12.7	15.3
EBIT Margin	11.4	5.5	9.3	11.9
Tax rate	23.8	23.3	25.0	25.0
Net Profit Margin	9.5	4.8	7.5	9.6
(B) As Percentage of Net Sales (%)				
COGS	71.5	76.4	73.5	71.5
Employee	0.0	0.0	0.0	0.0
Other	13.4	14.6	13.8	13.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.0
Interest Coverage	18.6	7.0	15.0	24.7
Inventory days	0	0	0	0
Debtors days	88	85	82	78
Average Cost of Debt	20.6	25.9	22.2	19.9
Payable days	30	34	31	30
Working Capital days	72	79	81	81
FA T/O	3.6	3.6	3.8	4.2
(D) Measures of Investment				
AEPS (Rs)	54.8	28.4	47.0	65.8
CEPS (Rs)	76.9	48.8	68.2	89.0
DPS (Rs)	50.0	26.0	40.0	56.0
Dividend Payout (%)	91.3	91.7	85.2	85.1
BVPS (Rs)	316.5	316.8	322.6	332.4
RoANW (%)	18.5	9.0	14.7	20.1
RoACE (%)	18.8	10.1	15.3	20.3
RoAIC (%)	24.6	12.0	22.6	32.5
(E) Valuation Ratios				
CMP (Rs)	1142	1142	1142	1142
P/E	20.9	40.3	24.3	17.4
Mcap (Rs Mn)	10,09,138	10,09,138	10,09,138	10,09,138
MCap/ Sales	1.9	1.9	1.8	1.7
EV	9,82,373	9,61,574	9,49,465	9,35,029
EV/Sales	1.8	1.9	1.7	1.5
EV/EBITDA	12.2	20.6	13.6	10.1
P/BV	3.6	3.6	3.5	3.4
Dividend Yield (%)	4.4	2.3	3.5	4.9
(F) Growth Rate (%)				
Revenue	19.4	(2.8)	6.7	9.6
EBITDA	0.1	(42.0)	50.2	32.5
EBIT	(6.6)	(53.0)	79.2	41.0
PBT	(10.3)	(50.4)	68.5	39.8
APAT	(13.2)	(48.1)	66.2	40.2
EPS	(13.3)	(48.2)	65.5	40.2

E – Estimates

Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
Profit before tax	64,455	31,631	55,831	78,047
Depreciation & w.o.	19,567	18,052	18,851	20,602
Net Interest Exp	2,206	(4,132)	(4,270)	(5,269)
Direct taxes paid	(19,931)	(7,717)	(13,958)	(19,512)
Change in Working Capital	(18,451)	14,635	1,703	3,355
Non Cash	7,874	0	0	0
(A) CF from Operating Activities	55,720	52,469	58,157	77,222
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(20,364)	(14,915)	(16,850)	(20,400)
Free Cash Flow	46,028	37,554	41,307	56,822
(Inc.)/ Dec. in Investments	15,896	2,000	2,000	2,000
Other	1,683	8,205	7,674	8,187
(B) CF from Investing Activities	(2,785)	(4,710)	(7,176)	(10,213)
Issue of Equity/ Preference	442	34	0	0
Inc./(Dec.) in Debt	(1,594)	0	(725)	(688)
Interest exp net	(2,570)	(4,073)	(3,404)	(2,918)
Dividend Paid (Incl. Tax)	(42,633)	(22,972)	(35,469)	(49,656)
Other	(4,426)	0	0	0
(C) CF from Financing	(50,781)	(27,012)	(39,597)	(53,262)
Net Change in Cash	2,674	20,747	11,384	13,747
Opening Cash balances	37,889	40,562	61,310	72,694
Closing Cash balances	40,562	61,310	72,694	86,441

E – Estimates

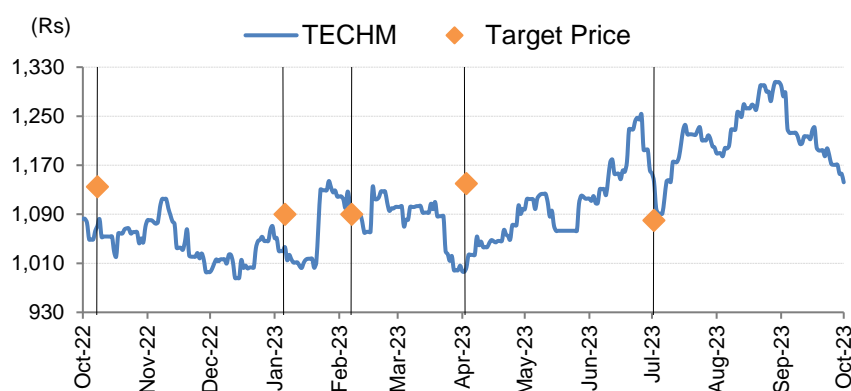
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-22	Reduce	1,135	1,071
Jan-23	Reduce	1,090	1,036
Mar-23	Reduce	1,090	1,085
Apr-23	Accumulate	1,140	1,003
Jul-23	SELL	1,080	1,143

*Price as on recommendation date

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