

Results Inline Expectations; Outlook Improves

Est. Vs. Actual for Q2FY25: Revenue – **INLINE** ; EBITDA Margin – **INLINE** ; PAT – **BEAT**; Deal Wins – **INLINE**

Changes in Estimates post Q2FY25

FY25E/FY26E: Revenue 1%/1%; EBITDA Margins 1%/1%; PAT 1%/1%

Recommendation Rationale

- The outlook for Telecom and other verticals remains uncertain in the near term, though it remains positive in the long run.
- Total Contract Value (TCV) remained strong in Q1FY25, amounting to \$603 Mn, driven primarily by significant deal wins in the Communication and Enterprise segments.
- Management is confident of gaining medium-term demand momentum, supported by deals secured in previous quarters. Additionally, margin improvements are expected going forward.

Sector Outlook: Neutral

Company Outlook & Guidance: Margins have likely bottomed out and are expected to improve over the next couple of quarters. In terms of demand, some early signs of recovery are visible, indicating potential for a near-term pickup.

Current Valuation: 26x FY26E P/E; **Earlier Valuation:** 24x FY25E

Current TP: 1,850/share (Earlier TP: Rs 1,685/share)

Recommendation: We believe the new strategy will assist Tech M in achieving a better recovery in FY25 and demonstrate strong growth in FY26 and FY27. In light of this, we recommend a **BUY** rating on the stock.

Financial Performance

In Q2FY25, Tech Mahindra Ltd. (Tech M) reported revenue of Rs 13,313 Cr, reflecting a 2.4% growth QoQ, in line with expectations. The company reported a YoY revenue growth of 3.5%. It posted an operating profit of Rs 1,280 Cr, up 16% QoQ. Operating margins improved by 110bps, exceeding expectations, mainly driven by moderated SG&A expenses and a favourable currency mix. Net profit for Q2FY25 stood at Rs 1,250 Cr, registering a growth of 46.8% QoQ.

Outlook

From a long-term perspective, Tech Mahindra appears to be effectively addressing client-specific engagement issues across multiple verticals, while maintaining a strong deal pipeline. The company believes that its new strategy will support a quicker recovery, enhancing confidence in near-term growth.

Valuation & Recommendation

We assign a 26x P/E multiple to the company's FY26E earnings of Rs 71/share, arriving at a TP of Rs 1,850/share, implying an upside of 10% from the CMP. Therefore, **we recommend a BUY on the stock.**

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	13,313	2%	4%	13,270	0%
EBIT	1,280	16%	126%	1277	0%
EBIT Margin	10%	230 bps	(680) bps	9%	7%
Net Profit	1250	47%	155%	1050	19%
EPS (Rs)	14.1	47%	153%	11.9	18%

Source: Company, Axis Securities Research

(CMP as of 18th October 2024)

CMP (Rs)	1,688
Upside /Downside (%)	10%
High/Low (Rs)	1,709/1,089
Market cap (Cr)	1,65,145
Avg. daily vol. (6m)Shrs.	5,94,320
No. of shares (Cr)	22

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	35.1	35.1	35.0
FIIs	24.2	23.3	23.7
MFs / UTI	14.0	15.3	15.8
Banks / FIIs	0.0	0.0	0.1
Others	26.8	26.4	25.4

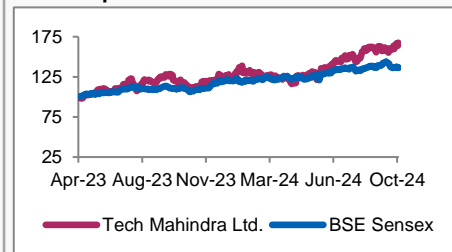
Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	51,996	55,777	60,375
EBITDA	4,506	9,482	10,264
Net Profit	2,386	5,857	6,316
EPS (Rs)	27	66	71
PER (x)	45.6	18.6	17.2
P/BV (x)	3.5	3.1	2.8
EV/EBITDA (x)	24.2	11.5	10.6
ROE (%)	18%	20%	20%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	1%	1%
EBITDA	1%	1%
PAT	1%	1%

Relative performance



Source: ACE Equity, Axis Securities Research

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Key Highlights

- **Strength in the medium-term demand continues:** Both the US and Europe regions are currently facing uncertainties related to automation expenditure. However, there is anticipation of increased demand in FY25, driven by enhanced client engagement. As the macroeconomic environment stabilizes, the company expects a resurgence in client decision-making.
- **Broad-based vertical growth:** In terms of vertical performance, the Communications, Media & Entertainment verticals experienced a de-growth of 1.9% QoQ. Manufacturing grew by 2.4% QoQ, while Technology grew by 0.5% QoQ. The BFSI verticals reported a growth of 0.7% QoQ, and Retail, Transport & Logistics saw a notable increase of 5.2% QoQ. Although most verticals exhibited tepid growth, they are expected to achieve sustainable long-term growth, supported by a strong deal pipeline. The management remains optimistic about a robust recovery in the majority of verticals and anticipates margin expansion with increased volume in the latter half of the year. However, a broad-based recovery is expected to materialize in the first half of FY25.
- **Better geographical performance:** On the geographical front, North America, which accounts for 53% of revenue, improved by 3.9% QoQ. In contrast, Europe, representing 24.0% of revenue, experienced a de-growth of 2.6% QoQ, while the Rest of the World (RoW), which constitutes 23% of revenue, de-grew by 2.7% QoQ in constant currency terms.

Key Risks to Our Estimates and TP

- The demand environment is uncertain because of the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact the company's operating margins negatively.

Results Review
(Rs Cr)

In Cr	Q2FY25	Q1FY25	Q2FY24	% change (YoY)	% change (QoQ)
Total Revenue	13,313	13,006	12,824	4%	2%
Total Cost of Sales	9,596	9,553	9975		
Gross Profit	3,717	3,452	2,849	30%	8%
Margin(%)	28%	27%	22%	570	138
Selling and marketing Expenses	1,967	1,888	1,816		
EBITDA	1,750	1,564	1,033	69%	12%
Margin(%)	9%	9%	16%	-680	0
Depreciation	470	462	466		
Operating Income	1,280	1,102	567	126%	16%
Margin(%)	10%	8%	4%	519	114
Total Other Income/(Expense)	522	145	262		
Income Before Income Taxes	17,135	1,178	615	2686%	1354%
Total Taxes	456	313	110		
ETR (%)	3%	27%	18%	-1522	-2393
Net Profit After Taxes	1,258	865	494	155%	45%
Non Controlling Interest	7	13	11		
Net Income After Extraordinary Items	1,250	852	494	153%	47%
Margin(%)	9%	7%	4%	554	284
EPS	14.1	9.62	5.57	153%	47%

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Net revenues	44,646	53,290	51,996	55,777	60,375
Operating Expenses					
Employee benefit expenses	22,286	27,692	29,128	29,562	31,999
Subcontracting expenses	6,957	8,000	6,689	7,251	7,849
Impairment of goodwill and Non-current cost	-	237	458	-	-
Other Costs	7,383	9,569	11,214	9,482	10,264
Total Cost	36,626	45,498	47,489	46,295	50,111
EBITDA	8,020	7,792	4,506	9,482	10,264
Other income	1,112	965	917	837	906
PBIDT	9,132	8,757	5,423	10,319	11,169
Depreciation	1,520	1,957	1,817	2,231	2,415
Interest & Fin Chg.	163	326	392	279	326
Pre-tax profit	7,447	6,445	3,214	7,809	8,429
Tax provision	1,822	1,589	828	1,952	2,113
(-) Minority Interests	5	-	-	-	-
Associates	(3)	(29)	-	-	-
Profit after Tax	5,635	4,857	2,386	5,857	6,316
Other Comprehensive Income	5	-	-	-	-
PAT after Comprehensive Income	5,640	4,857	2,386	5,857	6,316

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Total assets	31,711	31,618	49,552	39,880	28,787
Net Block	14,704	14,857	14,704	14,857	-
CWIP	613	689	3,050	4,048	5,433
Investments	4,444	4,963	7,470	8,622	10,169
Wkg. cap. (excl cash)	17	(1,770)	24,329	12,355	13,186
Cash / Bank balance	11,933	12,882	13,546	13,679	14,234
Misc. Assets	(1)	(1)	(1)	(1)	(1)
	-	-	-	-	-
Capital employed	31,711	31,618	49,552	39,880	28,787
Equity capital	439	440	440	440	440
Reserves	27,239	28,275	30,404	34,547	39,016
Minority Interests	495	470	470	470	470
Borrowings	2,418	1,952	1,965	1,965	1,965
Def Tax Liabilities	(364)	(970)	(970)	(970)	(970)

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Sources	6,170	2,618	5,612	8,439	8,947
Cash profit	7,308	7,139	4,596	8,367	9,056
(-) Dividends	1,648	1,421	698	1,713	1,847
Retained earnings	5,659	5,718	3,898	6,653	7,209
Issue of equity	2	1	-	-	-
Change in Oth. Reserves	3,519	2,964	2,093	2,064	2,064
Borrowings	350	(466)	13	-	-
Others	(3,360)	(5,600)	(392)	(279)	(326)
0	-	-	-	-	-
Applications	6,170	2,618	5,612	8,439	8,947
Capital expenditure	7,567	2,632	992	6,418	6,418
Investments	(128)	157	30	32	33
Net current assets	(4,171)	(1,119)	(1,662)	825	891
Change in cash	2,902	948	6,252	6,336	6,276
Closing cash	11,933	12,882	13,546	13,679	14,234

Source: Company, Axis Securities Research

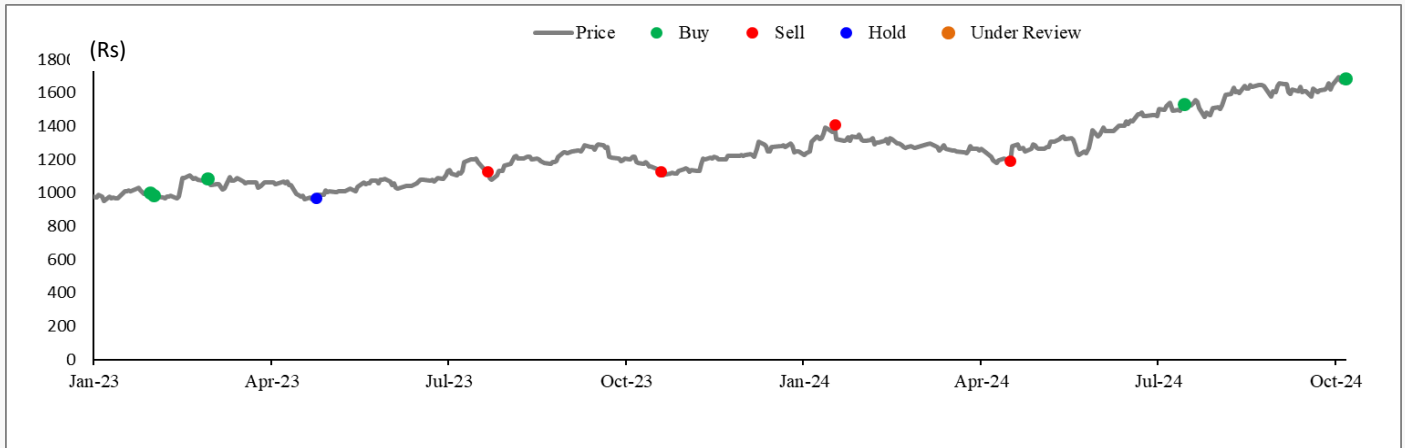
Ratio Analysis

(%)

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Sales growth	18	19	(2)	7	8
OPM	18	15	9	17	17
Oper. profit growth	18	(3)	(42)	110	8
COGS / Net sales	-	-	-	-	-
Depreciation / G. block	26	1,036	(1,189)	1,460	(16)
Net wkg.cap / Net sales	0	(0)	0	0	0
Net sales / Gr block (x)	2	2	2	2	2
RoCE	25%	22%	11%	23%	22%
Debt/equity (x)	(0)	(0)	(0)	(0)	(0)
Effective tax rate	24	25	26	25	25
RoE	20%	17%	18%	20%	20%
Payout ratio (Div/NP)	25	25	25	25	25
EPS (Rs.)	63	55	27	66	71
EPS Growth	25	(13)	(51)	145	8
CEPS (Rs.)	80	77	47	91	98
DPS (Rs.)	16	14	7	16	18

Source: Company, Axis Securities Research

Tech Mahindra Price Chart and Recommendation History



Date	Reco	TP	Research
01-Jan-23	BUY	1,300	Top Picks
31-Jan-23	BUY	1,200	Result Update
01-Feb-23	BUY	1,200	Top Picks
01-Mar-23	BUY	1,300	Top Picks
01-Apr-23	BUY	1,300	Top Picks
28-Apr-23	HOLD	1,050	Result Update
27-Jul-23	SELL	995	Result Update
26-Oct-23	SELL	995	Result Update
25-Jan-24	SELL	1,265	Result Update
26-Apr-24	SELL	1,100	Result Update
26-Jul-24	BUY	1,685	Result Update
21-Oct-24	BUY	1,850	Result Update

Source: Axis Securities Research

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