

Results Miss Expectations; Outlook Remains Weak

Est. Vs. Actual for Q4FY24: Revenue – **Miss** ; EBITDA Margin – **MISS**; PAT – **Miss** ; Deal Wins – **In-Line**

Changes in Estimates post Q4FY24

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, although it is expected to remain robust in the long run.
- Total Contract Value (TCV) remained robust in Q4FY24, amounting to \$500 Mn, primarily fueled by substantial deal wins in verticals like Communication and Enterprise segments.
- Management expresses confidence in gaining medium-term demand momentum, supported by the deals secured in preceding quarters. Additionally, improvements in margins are anticipated going forward.

Sector Outlook: Neutral

Company Outlook & Guidance: Margins have bottomed out and may gain in the next couple of quarters. However, the demand scenario remains uncertain and may lead to lower revenue growth momentum in the near term.

Current Valuation: 15x FY26E P/E; Earlier Valuation: 16x FY25E

Current TP: 1,100/share (Earlier TP: Rs 1,350/share)

Recommendation: Given the uncertainty from the world's largest economies, we expect delays in decision-making on IT budgets. Keeping this in view, we recommend a **SELL** on the stocks.

Financial Performance

In Q4FY24, Tech Mahindra Ltd. (Tech M) reported revenue of Rs 12,871 Cr, down 1.8% on a QoQ basis, which stood below expectations. The company reported revenue de-growth of 6.2% on a YoY basis, which stood below our expectations. It posted an operating profit of Rs 946 Cr, reporting a growth of 34.6% on a QoQ basis. The company's operating margins, too, stood below our expectations, despite improving by 200bps. The increase was largely led by moderated SG&A expenses and a favourable currency mix. The company's net profit for Q4FY24 stood at Rs 661Cr, registering a growth of 29.5% QoQ.

Outlook

From a long-term perspective, Tech Mahindra appears to be addressing client-specific engagement issues within various verticals, while maintaining a robust deal pipeline. However, escalating concerns regarding the outlook of major economies, coupled with ongoing supply-side constraints, introduce uncertainties regarding the company's short-term growth rates.

Valuation & Recommendation

We assign a 15x P/E multiple to the company's FY26E earnings of Rs 71/share to arrive at a TP of Rs 1,100/share, implying a downside of 7% from the CMP. Hence, we recommend a **SELL** on the stock.

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	12,871	-2%	-6%	13,190	-2%
EBIT	946	35%	-38%	889	6%
EBIT Margin	7%	230 bps	(680) bps	9%	-18%
Net Profit	661	30%	-41%	750	-12%
EPS (Rs)	7.5	30%	-41%	8.5	-12%

Source: Company, Axis Research

(CMP as of 25 April 2024)

CMP (Rs)	1,190
Upside /Downside (%)	(7%)
High/Low (Rs)	1416/983
Market cap (Cr)	1,16,244
Avg. daily vol. (6m)Shrs.	5,94,320
No. of shares (Cr)	22

Shareholding (%)

	Sep-23	Dec-23	March-24
Promoter	35.2	35.2	35.1
FIIs	26.2	24.6	24.2
MFs / UTI	12.4	14.2	14.0
Banks / FIIs	0.2	0.0	0.0
Others	26.1	26	26.8

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%

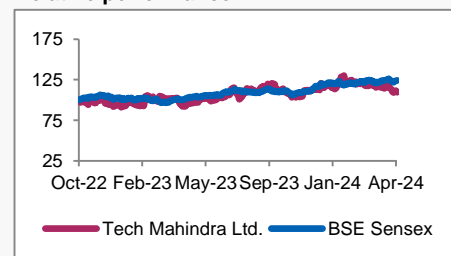
ESG disclosure Score**

Environmental Disclosure	70.8
Social Disclosure Score	48.5
Governance Disclosure Score	87.4
Total ESG Disclosure Score	68.9
Sector Average	46.0

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: ACE Equity, Axis Securities

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Key Highlights

- **Strength in the medium-term demand continues:** Both the US and Europe regions are experiencing uncertainties regarding automation expenditure. However, there is anticipation of increased demand in FY25 driven by enhanced engagement with clients. As the macroeconomic environment stabilizes, the company foresees a resurgence in decision-making among clients.
- **Broad-based vertical growth:** On the vertical front, the Communications, Media & Entertainment verticals delivered a de-growth of 2.8% QoQ. Manufacturing de-grew by 0.9% QoQ. Technology remained tepid at 0.2% growth QoQ while BFSI verticals reported a growth of 3.5% QoQ. Retail Transport & Logistics de-grew by 9.4% QoQ. The majority of verticals witnessed tepid growth but are likely to report sustainable long-term growth backed by a strong deal pipeline in the near term. The management is positive about a strong recovery in the majority of verticals and believes the company to expand its margins with growing volume in the second half of the year. However, the first half of the FY24 is likely to remain subdued.
- **Better geographical performance:** On the geographical front, while North America (53% of revenue) declined by 3.6% QoQ, Europe (24.0% of revenue) grew by 0.2% QoQ, and RoW (23% of revenue) business grew by 1% QoQ (in the CC 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	Q4FY24	Q3FY24	Q4FY23	% change (YoY)	% change (QoQ)
Total Revenue	12,871	13,101	13,718	-6%	-2%
Total Cost of Sales	9394.1	9965	9748		
Gross Profit	3,477	3,136	3,970	-12%	11%
Margin(%)	27%	24%	29%	-193	308
Selling and marketing Expenses	2069.4	1990	1949		
EBITDA	1,408	1,146	2,021	-30%	23%
Margin(%)	9%	9%	16%	-680	0
Depreciation	461.4	443	490.2		
Operating Income	946	703	1,531	-38%	35%
Margin(%)	7%	5%	12%	-465	199
Total Other Income/(Expense)	373.5	19	305.5		
Income Before Income Taxes	959.1	678.8	1524.9	-37%	41%
Total Taxes	294.9	155	399.9		
ETR (%)	31%	23%	26%	452	791
Net Profit After Taxes	664.2	523.8	1125	-41%	27%
Non Controlling Interest	3.2	0	7.3		
Net Income After Extraordinary Items	661	510.4	1117.7	-41%	30%
Margin(%)	5%	4%	7%	-186	124
EPS	7.5	5.77	12.7	-41%	30%

Source: Company, Axis Securities

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

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

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

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

Tech Mahindra Price Chart and Recommendation History



Date	Reco	TP	Research
01-Jul-22	BUY	1,700	Top Picks
25-Jul-22	BUY	1,200	Result Update
25-Jul-22	BUY	1,200	Result Update
30-Aug-22	BUY	1,350	Event Update
01-Sep-22	BUY	1,200	Top Picks
01-Oct-22	BUY	1,200	Top Picks
02-Nov-22	BUY	1,200	Result Update
01-Nov-22	BUY	1,200	Result Update
01-Dec-22	BUY	1,300	Top Picks
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

Source: Axis Securities

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