

CMP: ₹ 1,415

Target: ₹ 1640 (16%)

Target Period: 12 months

June 25, 2024

BUY

Focussing on Turnaround strategy roadmap...

About the stock: Tech Mahindra (TechM) has over 1.45 lakh+ employees across 90 countries serving 1000+ clients with higher exposure in telecom sector (35% of revenues). Apart from telecom, the company caters to BFSI, manufacturing & retail sectors.

Analyst Meet Key Takeaways

- **Vision 2027:** The MD & CEO Mohit Joshi reiterated the company's three-year roadmap for topline & bottom-line growth. As per its vision 2027, the company is expected to achieve the followings goals: i) Topline growth higher than industry peer group, ii) improve EBIT margin to 15% (with incremental savings of ~US\$ 250mn/year from Project Fortius), iii) achieve RoCE >30% & iv) return >85% FCF via dividends & buybacks. Management remains confident of delivering its ambitious FY27 goals on the back of Project Fortius and Turbocharge Program.
- **Turnaround Goals:** The key goals of TechM turnaround strategy include:
 - Growth surpassing peer average
 - Improvement in EBIT Margins to 15% (vision to be among Top 3 companies for EBIT margin among its peers)
 - Augmentation of deep tech capabilities
 - Driving synergy from portfolio companies

We highlight that some of the growth vision warrants heavy lifting in revenue trajectory as well as structural changes in costs. The management's confidence in meeting ambitious targets and the strategic emphasis on technology and innovation, however, positions TechM for strong earnings growth trajectory.

- **Focus Areas Highlighted by Management:** The management detailed the strategic focus areas such as – scaling/mining large accounts, focusing on higher margin service lines like engineering and digital enterprise applications, securing multi-tower deals, leveraging synergies from past acquisitions, improving cost structure, commitment to ESG targets, achieving profitable and predictable growth, developing new-age offerings, ensuring a balanced geographical presence and expanding footprint in Manufacturing, BFSI, and Healthcare sectors.

Rating and Target Price

- TECHM is well placed among the large peers in terms of earnings growth momentum driven by turnaround strategy. **We believe that the company's dollar revenue will grow at CAGR of 6.5% between FY24-26E but the operating profit growth is likely to outpace with EBIT margin to improve from 6.1% in FY24 to 12.8% in FY26E. Consequently, PAT to grow at CAGR of 56.8% over FY24-26E.**
- We retain our **BUY** rating on the stock. We value it at **target price of ₹ 1,640; at 25x P/E on FY26E EPS.**

Tech Mahindra

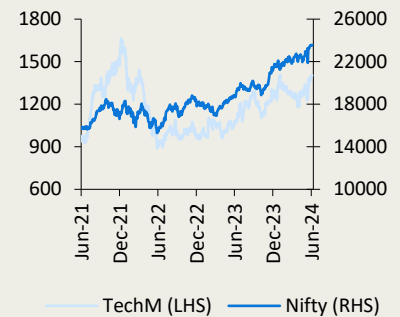
Particulars

| Particular | Amount |
|-----------------------|------------|
| Market Cap (₹ Crore) | 1,25,519 |
| Total Debt (₹ Crore) | 1,531 |
| Cash & Inv. (₹ Crore) | 7,515 |
| EV (₹ Crore) | 1,19,535 |
| 52 week H/L | 1440/ 1082 |
| Equity capital | 441 |
| Face value (₹) | 5 |

Shareholding pattern

| | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|-----------|--------|--------|--------|--------|
| Promoters | 35 | 35 | 35 | 35 |
| FII | 26 | 26 | 25 | 24 |
| DII | 27 | 27 | 29 | 30 |
| Public | 12 | 12 | 11 | 11 |

Price Chart



Key risks

- Lower than expected fructification of goals in terms of margins
- Lower than anticipated synergies from portfolio companies

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Anjini Sharma, CA
anjini.sharma@icicisecurities.com

Key Financial Summary

| Key Financials | FY22 | FY23 | FY24 | 5 Years CAGR (FY19-24) | FY25E | FY26E | 2 years CAGR (FY24-26E) |
|-------------------|--------|--------|--------|------------------------|--------|--------|-------------------------|
| Net sales | 44,646 | 53,290 | 51,996 | 8.4 | 53,810 | 59,821 | 7.3 |
| EBITDA | 8,020 | 8,029 | 4,965 | -4.8 | 6,896 | 9,550 | 38.7 |
| EBITDA Margin (%) | 18.0 | 11.4 | 6.1 | | 9.3 | 12.8 | |
| Net Profit | 5,566 | 4,831 | 2,358 | -11.3 | 3,733 | 5,795 | 56.8 |
| EPS (₹) | 63.1 | 54.8 | 26.7 | | 42.2 | 65.5 | |
| P/E | 22.3 | 25.7 | 52.7 | | 33.3 | 21.4 | |
| RoNW (%) | 20.7 | 17.3 | 8.8 | | 13.7 | 20.6 | |
| RoCE (%) | 22.5 | 20.5 | 12.6 | | 16.7 | 24.4 | |

Source: Company, ICICI Direct Research

Key Highlights of Annual Investor Conference

- **Scale at Speed:** Management emphasised that the current era is about “Scale at Speed”. Clients are looking at AI to scale business. Furthermore, organisations are facing risks that come from not being able to scale up large programs. TechM, believes it has a rich heritage of Mahindra group, better understanding across industries, full set of partnerships which gives the company scale and promise of speed.
- **3-year roadmap for sustainable & profitable growth:** The CEO emphasised on the 3-year strategy for the company to return to sustainable revenue growth along with margin improvement for the company. *Project Fortius* (refer Exhibit 4) and *Turbocharge program* (refer Exhibit 6) are the key drivers for achieving the growth targets part of the company’s Vision 2027.
- **M&M group synergy:** The group itself is driving a tech transformation to unlock its full potential. TechM is the system integrator (SI) partner for transformation of the Mahindra group. Intention is to create a co-innovation ecosystem using multi-industry presence with partners, hyperscalers, tech partners and chip manufacturing companies.
- **Top line & Bottom line to improve going ahead:** The company reached its lowest point in Q4FY24 but is expected to meet growth expectations by H2FY25 on the back of the strategic plan laid by the new CEO, indicating a positive topline growth trajectory ahead. Improved performance and enhanced synergy with portfolio companies would lead to better margins and growth opportunities.
- **Focused Verticals:** Management wants to retain leadership in Telecom and Manufacturing and aims to be a strong credible challenger in BFSI, Healthcare & Lifesciences and Retail sector.
- **Project Fortius:** This program is on track to give TechM average annual savings of US\$ 250mn. The company is investing heavily in internal trainings and has put in place a weekly monitoring system of margin parameters to ensure targets are met.
- **Focused Geos:** Management intends to grow faster in Americas where it is underweight compared to its peer group, continue its focus on Europe where it holds a strong position with deep long-term clients and CXO connects, and focus on prioritized countries like New Zealand, Japan, Singapore and Indonesia in APAC region.
- **GenAI Initiatives:** AI is a key growth lever for the company. The management highlighted that TechM is the only SI in India to have built a Large Language Model (LLM) from scratch—*Project Indus (Manav)* in Hindi and Bahasa (Indonesia). It is expected that *Project Indus* would be deployed for delivering agricultural solutions tailored to diverse local languages and dialects. Moreover, GenAI is anticipated to be a significant tailwind for the company and the industry, with TechM having a strong grasp of cross-industry use cases.
- **Cloud Computing Initiatives:** TechM has developed a cloud computing engine for Software Defined Vehicles (SDVs), offering flexible pay-per-use subscription models. They have developed a new app store specifically for SDVs, allowing users to install and trial on-demand applications.

Exhibit 1: 3 Year Goals of the company

FY27 goals



Source: Company, ICICI Direct Research

Exhibit 2: Roadmap to achieve the goals

3-year roadmap



Q4 FY24

The beginning

Structure and strategy definition

FY25

Turnaround phase

Anchor the new org
Investment in accounts, key markets, service lines
Front end integration of portfolio companies
Turbocharge program for key account growth
Project Fortius for cost optimization

FY26

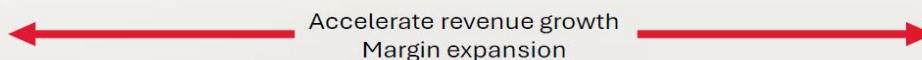
Stabilization phase

Continue above normal investments
Full integration of portfolio companies
Project Fortius – further progress on cost savings

FY27

Reaping returns

Improved long term structural mix
Continuous improvement in pyramid



Source: Company, ICICI Direct Research

Exhibit 3: Project Fortius to save cost each year

Project Fortius



Average **\$250mn** Benefit/year

Source: Company, ICICI Direct Research

Exhibit 4: EBIT improvement roadmap

EBIT expansion roadmap

TECH mahindra



Source: Company, ICICI Direct Research

Exhibit 5: Turbocharge Program to fuel growth

Turbocharge program fueling growth

TECH mahindra



Laser-sharp focus on Top 80 accounts

Developing account-centric strategy to drive healthy growth along with improvement in profitability

Achieving high growth and infusing pipeline by rigorous account planning, 360-degree account health-check, people capability development, and marketing led growth

Run by a dedicated internal strategy team, supported by M&M group, and specialist external advisors

Program enabled by rigorous governance structure and C-level attention

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement ₹ crore

| (Year-end March) | FY23 | FY24 | FY25E | FY26E |
|----------------------|---------------|---------------|---------------|---------------|
| Net sales | 53,290 | 51,996 | 53,810 | 59,821 |
| Growth (%) | 19 | (2) | 3 | 11 |
| COGS (empl. exp.) | 38,120 | 39,115 | 39,919 | 42,913 |
| Gross profit | 15,170 | 12,881 | 13,891 | 16,908 |
| S,G&A expenses | 7,142 | 7,916 | 6,995 | 7,358 |
| Total Operating Exp. | 45,261 | 47,031 | 46,915 | 50,271 |
| EBITDA | 8,029 | 4,965 | 6,896 | 9,550 |
| Growth (%) | 0 | (38) | 39 | 38 |
| Depreciation | 1,957 | 1,817 | 1,883 | 1,914 |
| Interest | 326 | 392 | 400 | 360 |
| Other Income | 965 | 917 | 478 | 594 |
| PBT | 6,711 | 3,672 | 5,091 | 7,869 |
| Total Tax | 1,589 | 828 | 1,313 | 2,030 |
| Exceptional item | - | - | - | - |
| PAT | 4,831 | 2,358 | 3,733 | 5,795 |
| Growth (%) | (13) | (51) | 58 | 55 |
| EPS (₹) | 54.8 | 26.7 | 42.2 | 65.5 |

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement ₹ crore

| (Year-end March) | FY23 | FY24 | FY25E | FY26E |
|----------------------------|----------------|----------------|----------------|----------------|
| Profit before Tax | 6,711 | 3,672 | 5,091 | 7,869 |
| Add: Depreciation | 1,957 | 1,817 | 1,883 | 1,914 |
| (Inc)/dec in Current | (2,158) | 1,596 | (550) | (1,836) |
| Inc/(dec) in CL and | 312 | (297) | 391 | 1,293 |
| Taxes paid | (1,993) | (1,247) | (1,313) | (2,030) |
| CF from operating | 5,572 | 6,376 | 5,423 | 6,977 |
| (Inc)/dec in Investments | 530 | (599) | - | - |
| (Inc)/dec in Fixed Assets | (969) | (738) | (819) | (910) |
| Others | 145 | 153 | 478 | 594 |
| CF from investing | (279) | (1,314) | (340) | (317) |
| Issue/(Buy back) of | 44 | 24 | - | - |
| Inc/(dec) in loan funds | (159) | (69) | - | - |
| Dividend paid & | (4,263) | (3,917) | (3,173) | (4,926) |
| Inc/(dec) in debentures | - | - | - | - |
| Finance charges | (257) | (351) | (400) | (360) |
| CF from financing | (5,078) | (4,767) | (3,923) | (5,636) |
| Net Cash flow | 215 | 296 | 1,159 | 1,025 |
| Cash by acquisition | - | - | - | - |
| Opening Cash | 3,975 | 4,255 | 4,736 | 5,895 |
| Cash carried to B/S | 4,255 | 4,736 | 5,895 | 6,920 |

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet ₹ crore

| (Year-end March) | FY23 | FY24 | FY25E | FY26E |
|-----------------------------|---------------|---------------|---------------|---------------|
| Liabilities | | | | |
| Equity Capital | 440 | 441 | 441 | 441 |
| Reserve and Surplus | 27,485 | 26,228 | 26,788 | 27,657 |
| Total Shareholders fund | 27,925 | 26,669 | 27,229 | 28,099 |
| Minority Interest | 470 | 477 | 521 | 565 |
| Total Debt | 1,578 | 1,531 | 1,531 | 1,531 |
| Other long term liabilities | 4,309 | 3,558 | 3,558 | 3,558 |
| Total Liabilities | 34,282 | 32,236 | 32,840 | 33,753 |
| Assets | | | | |
| Net Block | 3,959 | 3,518 | 2,804 | 2,149 |
| Capital WIP | 84 | 101 | 101 | 101 |
| Investments | 3,388 | 3,238 | 3,238 | 3,238 |
| Deferred tax assets | 1,297 | 1,440 | 1,440 | 1,440 |
| Goodwill on consolidation | 7,666 | 7,511 | 7,511 | 7,511 |
| Debtors | 12,883 | 11,402 | 11,800 | 13,118 |
| Loans and Advances | - | - | - | - |
| Other non-current assets | 4,767 | 4,064 | 4,060 | 4,060 |
| Cash | 4,255 | 4,736 | 5,895 | 6,920 |
| Other current assets | 4,490 | 4,472 | 4,628 | 5,145 |
| Total Current Assets | 24,434 | 23,426 | 25,139 | 27,999 |
| Trade payables | 4,385 | 3,785 | 3,917 | 4,355 |
| Current liabilities | 6,856 | 6,266 | 6,484 | 7,209 |
| Provisions | 631 | 1,137 | 1,177 | 1,308 |
| Total Current Liabilities | 11,872 | 11,188 | 11,579 | 12,872 |
| Net Current Assets | 12,562 | 12,238 | 13,560 | 15,127 |
| Application of Funds | 34,282 | 32,236 | 32,840 | 33,753 |

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios

| (Year-end March) | FY23 | FY24 | FY25E | FY26E |
|-----------------------------|-------|-------|-------|-------|
| Per share data (₹) | | | | |
| EPS | 54.8 | 26.7 | 42.2 | 65.5 |
| BV | 286.7 | 300.7 | 307.0 | 316.8 |
| DPS | 50 | 40 | 36 | 56 |
| Cash Per Share | 43.7 | 53.4 | 66.5 | 78.0 |
| Operating Ratios (%) | | | | |
| EBIT Margin | 11.4 | 6.1 | 9.3 | 12.8 |
| PAT Margin | 9.1 | 4.5 | 6.9 | 9.7 |
| Return Ratios (%) | | | | |
| RoE | 17.3 | 8.8 | 13.7 | 20.6 |
| RoCE | 20.5 | 12.6 | 16.7 | 24.4 |
| RoIC | 22.4 | 12.8 | 20.8 | 31.9 |
| Valuation Ratios (x) | | | | |
| P/E | 25.7 | 52.7 | 33.3 | 21.4 |
| EV / EBITDA | 14.8 | 23.9 | 17.0 | 12.2 |
| EV / Net Sales | 2.2 | 2.3 | 2.2 | 1.9 |
| Market Cap / Sales | 2.3 | 2.4 | 2.3 | 2.1 |
| Price to Book Value | 4.9 | 4.7 | 4.6 | 4.4 |
| Solvency Ratios | | | | |
| Debt/EBITDA | 0.2 | 0.3 | 0.2 | 0.2 |
| Debt / Equity | 0.1 | 0.1 | 0.1 | 0.1 |
| Current Ratio | 1.5 | 1.4 | 1.4 | 1.4 |
| Quick Ratio | 1.5 | 1.4 | 1.4 | 1.4 |

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Bhupendra Tiwary, CFA, MBA (Finance), Anjini Sharma, CA, Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

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

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.