

Company update

Technology

Target price: Rs971

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	35.2	35.2	35.2
Institutional investors	51.1	50.5	50.5
MFs and others	12.8	12.9	12.0
FIs/Bank	0.2	0.1	0.2
Insurance Cos.	7.7	9.3	10.3
FII	30.4	28.2	28.0
Others	13.7	14.3	14.3

Source: www.nseindia.com

ESG disclosure score

Year	2021	2022	Chg
ESG score	68.8	67.9	(0.9)
Environment	67.3	67.6	0.3
Social	51.6	48.5	(3.1)
Governance	87.4	87.4	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-Sec research

INDIA

REDUCE
Maintain

Tech Mahindra

New CEO has good credentials; no significant change in earnings fundamentals in medium term **Rs1,061**

Tech Mahindra (TechM) has announced appointment of Mohit Joshi as MD & CEO: Mr. Mohit Joshi will take over after the existing CEO and MD, Mr. CP Gurnani, retires on December 19, 2023. Mohit Joshi will join well before that date to allow sufficient transition time, as per TechM. He may join in June 2023 given Infosys has announced his resignation effective March 11, 2023 and that he will be on leave from this date and his last day would be June 9, 2023 at Infosys.

New CEO Mr. Mohit Joshi held key leadership position at Infosys: Mohit Joshi will join Tech Mahindra from Infosys, where he was the **head of Global Financial Services & Healthcare and Software businesses**, which included Finacle (the banking platform) and AI / Automation portfolio. He has over two decades of experience in enterprise technology software and consulting space and has worked with the largest corporations in the world in driving digital transformation and building thriving businesses. Mohit also led sales, operations and transformation for Infosys and held **executive responsibility for all large deals across the company**. He was also responsible for the company's internal CIO function and Infosys Knowledge Institute. Mohit Joshi has lived and worked in Asia, America and Europe, and currently lives in London.

We continue to maintain REDUCE rating on TechM because we believe the company has room for improving its digital capabilities (Table 1) and in order to revive growth it will have to invest in building digital capabilities. Therefore, we assume modest US\$ revenue CAGR of 8.3% and believe EBIT margins may remain range-bound, around 12-13%, over FY23E-FY26E (consensus: 13-14%) vs management's aspiration of improving margins to 14-14.5% in the medium term. Additionally, TechM's wallet share in top-5 clients has been reducing for the past four quarters and we believe this is likely to continue over the next two quarters as well due to increased level of automation and cost-reduction programmes undertaken by these clients.

We continue to value TechM at 14x FY26E EPS of Rs76 (discounted back 1-year with WACC of 12%) to arrive at our 12-month target price of Rs971 (unchanged), implying 9% potential downside. The stock is currently trading at 16x/14x on FY25E/FY26EPS, respectively. **Market may react positively in anticipation of new strategy roll-out by the new CEO to revive the performance of TechM. However, we do not believe that the leadership change can materially change the earnings fundamentals of the company in the medium term (2-3 years) and reviving growth fundamentals is likely to be a gradual process.**

What will change our view: If Mr. Mohit Joshi focuses on making significant investments in building superior digital capabilities, we could see margins remaining subdued in the medium term (2-3 years). However, these investments could materially increase the topline estimates in our view. Additionally, given Mohit Joshi's large deal leadership at Infosys, if he is able to revive TechM's large deals engine (increase in number of >US\$500mn deals) then that would lead to an increase in topline estimates.

Risks due to leadership change: Appointment of external CEO at TechM might lead to a churn at the top management level which could cause subdued performance in the near term. Similarly, Infosys is also subject to a churn at the top management level given two key leaders – Mohit Joshi and Ravi Kumar (joined as CEO of Cognizant) have exited the company in the last three months.

Market Cap	Rs1033bn/US\$12.6bn	Year to March	FY22	FY23E	FY24E	FY25E
Reuters/Bloomberg	TEM.L BO / TECHM IN	Revenue (Rs mn)	4,46,460	5,36,705	5,88,327	6,41,896
		Net Income (Rs mn)	55,662	50,444	54,551	60,295
Shares Outstanding (mn)	974.0	EPS (Rs)	62.9	57.0	61.6	68.1
52-week Range (Rs)	1575/944	% Chg YoY	25.0	(9.4)	8.1	10.5
Free Float (%)	64.8	P/E (x)	17.3	19.1	17.6	15.9
FII (%)	28.0	CEPS (Rs)	80.7	79.4	84.9	93.6
Daily Volume (US\$'000)	35,332	EV/E (x)	11.1	10.7	9.6	8.7
Absolute Return 3m (%)	2.5	Dividend Yield	4.1	4.4	3.7	4.6
Absolute Return 12m (%)	(26.2)	RoCE (%)	15.9	15.4	17.5	18.7
Sensex Return 3m (%)	(4.7)	RoE (%)	21.2	19.1	21.0	22.4
Sensex Return 12m (%)	8.0					

Please refer to important disclosures at the end of this report

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Table 1: Digital capability ranking: TechM ranks low across most digital capabilities

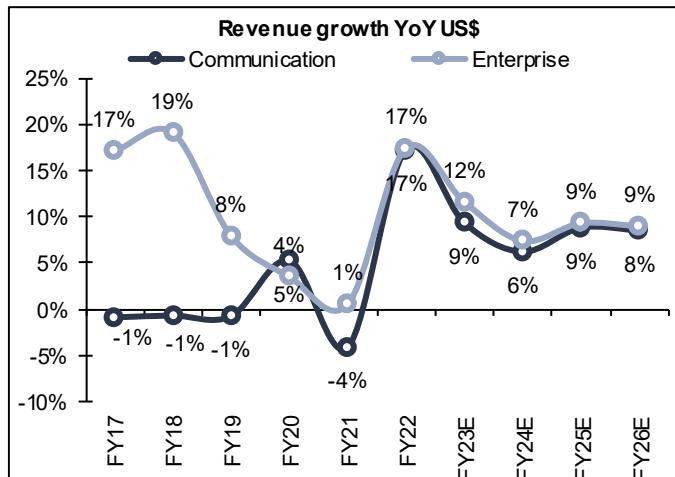
Digital Capability ranking	TCS	Infosys	HCLT	Wipro	TechM	LTI	Mindtree	Mphasis	Coforge	Persistent	Accenture	Cognizant	Capgemini
AWS	6	3	11	2	9	3	10	12	6	1	1	6	3
Microsoft Azure and other services	1	4	2	5	9	7	10	NA	11	8	5	5	3
Google Cloud	1	3	2	3	10	9	10	NA	6	5	8	8	7
Salesforce	4	3	6	NA	NA	5	8	NA	7	1	2	NA	NA
Servicenow	7	3	6	5	9	8	NA	10	NA	1	2	4	4
SAP	5	2	3	4	9	6	10	NA	NA	7	8	8	1
Adobe	1	3	9	5	8	10	10	7	NA	6	4	2	2

Source: I-Sec Research, Company website (AWS, Microsoft, Google cloud, Salesforce, Servicenow, SAP, Adobe)

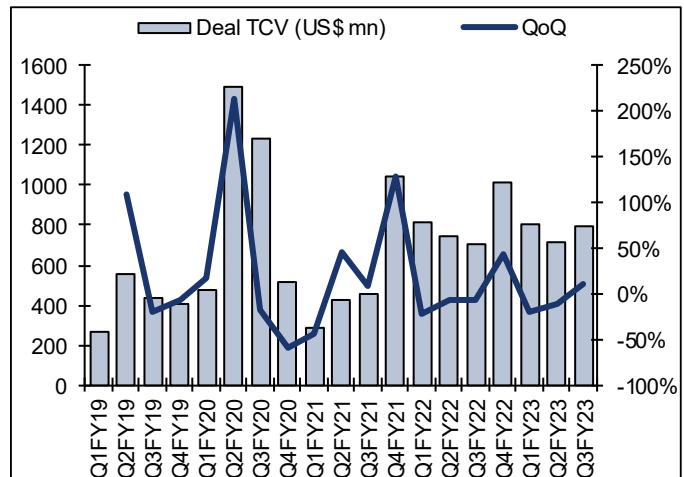
Table 2: New CEO Mr. Mohit Joshi's profile summary

Year / Tenure	Roles / Responsibilities
2000 – 2023	Head of Global Financial Services & Healthcare and Software businesses at Infosys. He has two decades of experience in enterprise technology software, consulting, sales, operations and transformation
Since 2020	Non-Executive Director at Aviva Plc and is a member of its Risk & Governance and Nomination committees
Since 2014	Mohit Joshi joined the prestigious Young Global Leader programme at the World Economic Forum, Davos and is also a member of Young Presidents Organization (YPO). Previously, he has also held the office of the Vice Chair of the Economic Growth Board of the CBI (Confederation of British Industry).
Prior to 2000	Prior to joining Infosys in 2000, Mohit Joshi worked with ABN AMRO and ANZ Grindlays in their corporate and investment bank vertical.

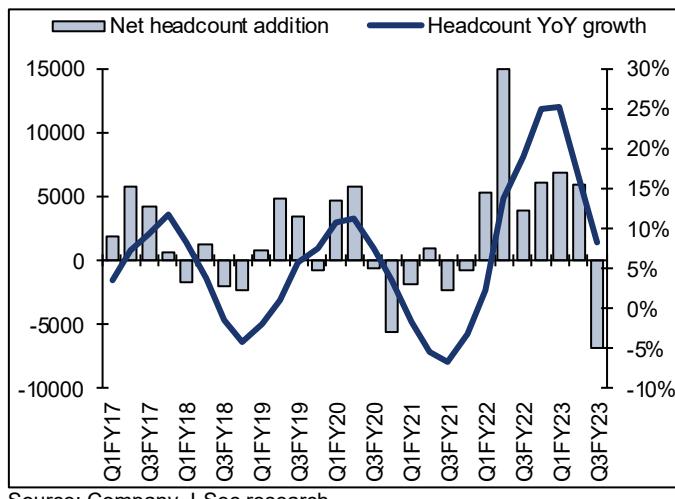
Source: Bloomberg, I-Sec research

Chart 1: Growth in communications vertical to be driven by 5G in next 2-3 years

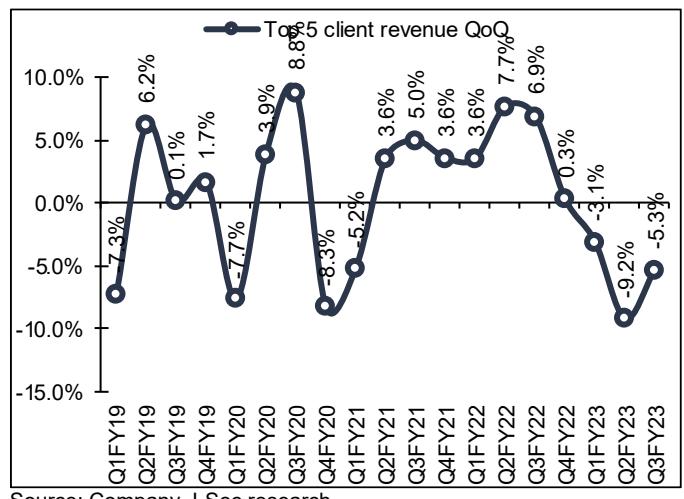
Source: Company, I-Sec research

Chart 2: Healthy deal TCV growth despite macro weakness

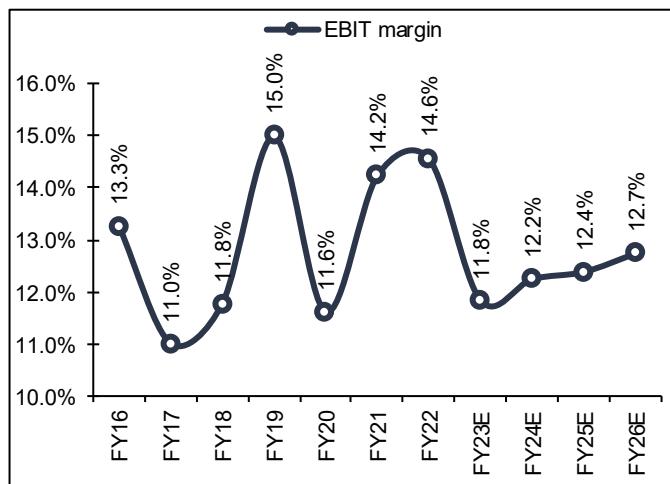
Source: Company, I-Sec research

Chart 3: Sharp decline in headcount in Q3FY23 indicates muted demand in near term

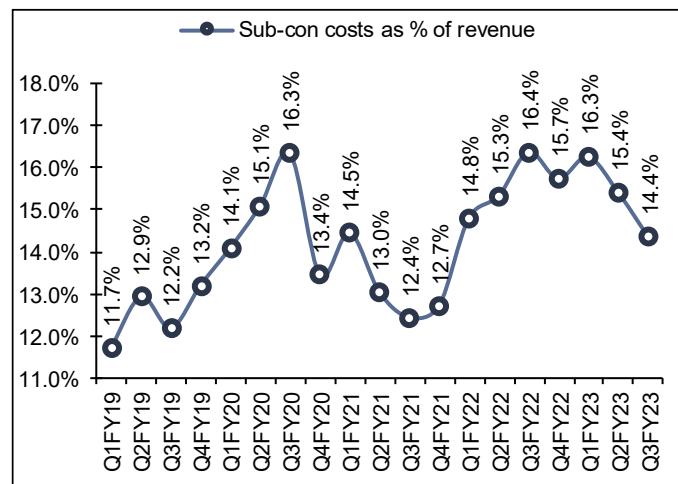
Source: Company, I-Sec research

Chart 4: Decline in top-5 clients revenues over the past 3 quarters is likely due to weak execution

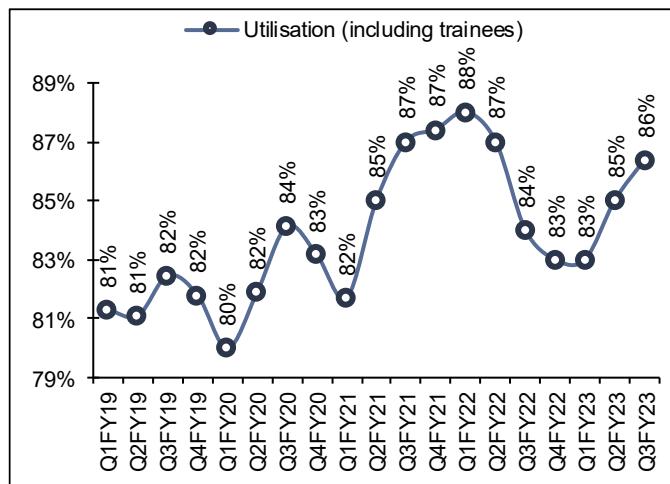
Source: Company, I-Sec research

Chart 5: EBIT margin likely to remain range-bound

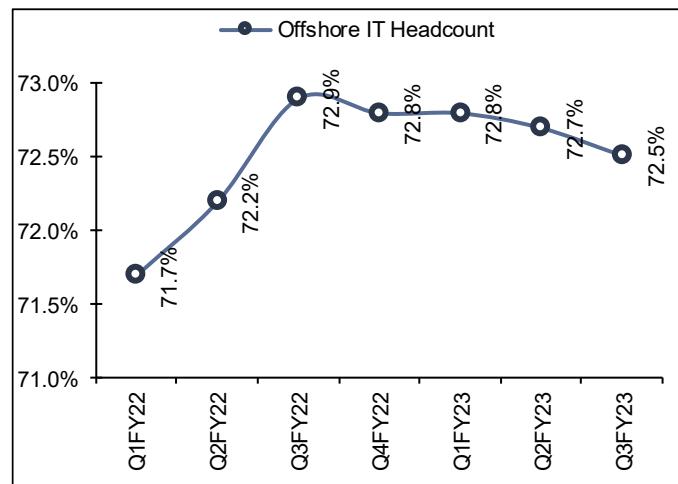
Source: Company, I-Sec research

Chart 6: Subcontracting costs can reduce further

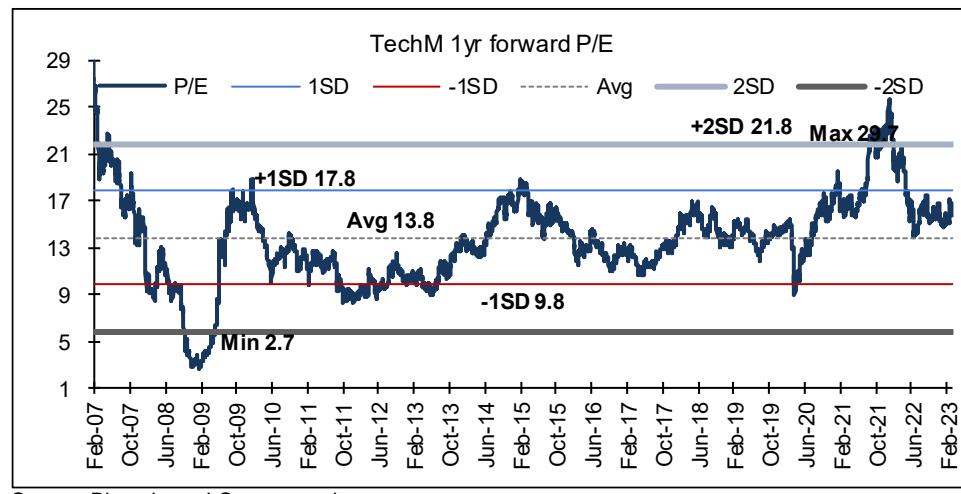
Source: Company, I-Sec research

Chart 7: Utilisation is near its peak at 86%

Source: Company, I-Sec research

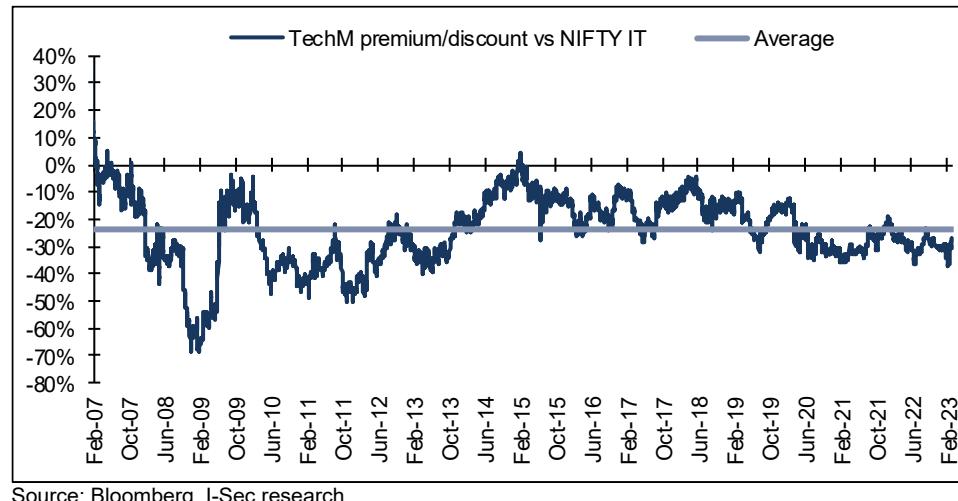
Chart 8: Offshore mix has little scope to improve

Source: Company, I-Sec research

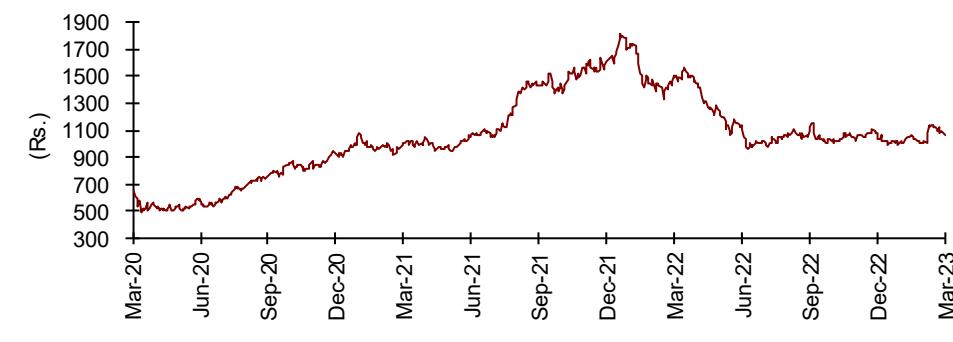
Chart 9: TechM is currently trading at ~16x (1-year forward P/E) – near its historical long-term average multiple of ~14x

Source: Bloomberg, I-Sec research

Chart 10: TechM is trading at 30% discount to NIFTY IT vs historical average discount of 24%



Price chart



Financial summary

Table 3: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Revenues (US\$ mn)	5,998	6,640	7,100	7,746
Operating Revenues (Sales)	4,46,460	5,36,705	5,88,327	6,41,896
Operating Expenses	3,66,259	4,53,471	4,95,718	5,39,953
EBITDA	80,201	83,234	92,609	1,01,943
% margins	18.0	15.5	15.7	15.9
Depreciation & Amortisation	15,204	19,740	20,591	22,466
EBIT	64,997	63,493	72,018	79,477
% margins	14.6	11.8	12.2	12.4
Net other income	9,525	3,788	1,090	1,393
Recurring PBT	74,522	67,281	73,107	80,869
Less: Taxes	18,220	16,522	19,008	21,026
Add: Extraordinaries				
Inc/(Exp)	-	(244)	-	-
Less: Minority				
Interest/Income from				
Associates	(640)	(71)	452	452
Net Income (Reported)	55,662	50,444	54,551	60,295

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
LIABILITIES				
Shareholders' funds	2,68,857	2,48,613	2,60,835	2,68,219
Minority Interest	4,954	4,769	4,769	4,769
Non-current liabilities	37,544	32,808	32,808	32,808
Current Liabilities	1,25,048	1,37,833	1,40,949	1,45,945
Amounts pending investigation	12,304	12,304	12,304	12,304
Total Liabilities	4,48,707	4,36,327	4,51,665	4,64,045
ASSETS				
Fixed Assets	1,51,456	1,55,599	1,55,799	1,55,999
Other non-current assets	52,694	60,358	60,358	60,358
Total non-current assets	2,04,150	2,15,957	2,16,157	2,16,357
Current Assets	2,44,557	2,20,371	2,35,509	2,47,688
Total Assets	4,48,707	4,36,327	4,51,665	4,64,045

Source: Company data, I-Sec Research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Operating Cashflow before W Cap changes	55,466	62,682	69,442	76,758
Working Capital Inflow / (Outflow)	(2,613)	65,979	(5,954)	(9,546)
Capex	(9,584)	(23,883)	(20,791)	(22,666)
Free Cashflow	43,269	1,04,777	42,697	44,546
Cashflow from other Invst Act (Ex Capex)	14,399	(161)	5,701	6,004
Change in equity	868	(20,089)	-	-
Change in debt	(6,802)	(3,506)	-	-
Dividend paid	(39,808)	(50,783)	(42,330)	(52,912)
Others	(924)	(1,230)	-	-
Increase/(Decrease) in Cash	11,002	29,007	6,068	(2,362)

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Per Share Data (Rs)				
Earnings per share (Basic Reported)	62.9	57.0	61.6	68.1
Cash earnings per share	80.7	79.4	84.9	93.6
Dividend per share	45.0	48.0	40.0	50.0
Book Value per share	311.8	286.8	300.3	308.6
Growth Ratios (%)				
Operating Income (Sales) - US\$	17.4	10.7	6.9	9.1
Operating Income (Sales)	17.9	20.2	9.6	9.1
EBITDA	17.1	3.8	11.3	10.1
Reported Net Income	25.7	(9.4)	8.1	10.5
Earnings per share (Basic Reported)	25.0	(9.4)	8.1	10.5
Cash earnings per share	19.8	(1.6)	6.9	10.1
Valuation Ratios (x)				
P/E	17.3	19.1	17.6	15.9
P/CEPS	13.5	13.7	12.8	11.6
P/BV	3.5	3.8	3.6	3.5
EV / EBITDA	11.1	10.7	9.6	8.7
EV / Sales	2.0	1.7	1.5	1.4
Operating Ratio				
Other Income / PBT (%)	12.8	5.3	1.5	1.7
Effective Tax Rate (%)	24.4	24.6	26.0	26.0
Receivables (days) on average	62	61	60	59
D/E Ratio (x)	0.1	0.1	0.1	0.1
Return/Profitability Ratio (%)				
Net Income Margins	12.5	9.4	9.3	9.4
RoCE	15.9	15.4	17.5	18.7
RoNW	21.2	19.1	21.0	22.4
Dividend Payout Ratio	71.6	84.3	64.9	73.4
Dividend Yield	4.1	4.4	3.7	4.6
EBITDA Margin	18.0	15.5	15.7	15.9

Source: Company data, I-Sec research

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