

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

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
Reuters/Bloomberg	TEML.BO / TECHM IN
Shares Outstanding (mn)	974.0
52-week Range (Rs)	1575/944
Free Float (%)	64.8
FII (%)	28.0
Daily Volume (US\$'000)	35,332
Absolute Return 3m (%)	2.5
Absolute Return 12m (%)	(26.2)
Sensex Return 3m (%)	(4.7)
Sensex Return 12m (%)	8.0

Year to March	FY22	FY23E	FY24E	FY25E
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
EPS (Rs)	62.9	57.0	61.6	68.1
% Chg YoY	25.0	(9.4)	8.1	10.5
P/E (x)	17.3	19.1	17.6	15.9
CEPS (Rs)	80.7	79.4	84.9	93.6
EV/E (x)	11.1	10.7	9.6	8.7
Dividend Yield	4.1	4.4	3.7	4.6
RoCE (%)	15.9	15.4	17.5	18.7
RoE (%)	21.2	19.1	21.0	22.4

Research Analysts:

Sumeet Jain

sumeet.jain@icicisecurities.com
+91 22 6807 7573

Aditi Patil

aditi.patil@icicisecurities.com
+91 22 6807 7452

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

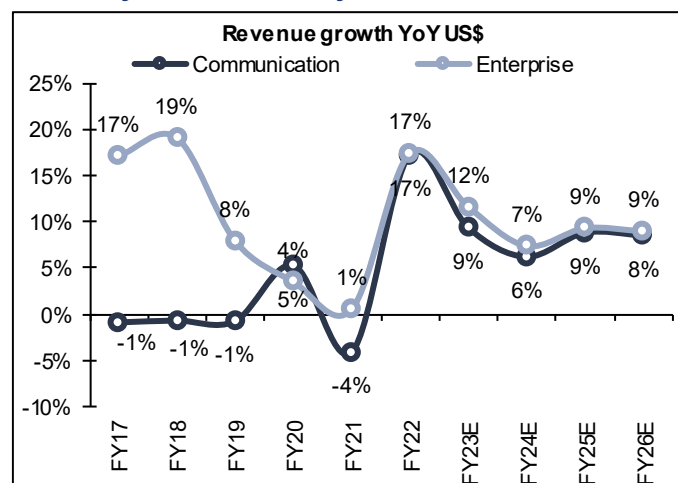
Digital Capability ranking	TCS	Infosys	HCLT	Wipro	TechM	LTIMindtree	Mphasis	Coforge	Persistent	Accenture	Cognizant	Capgemini
AWS	6	3	11	2	9	3	10	12	6	1	6	3
Microsoft Azure and other services	1	4	2	5	9	7	10	NA	11	8	5	3
Google Cloud	1	3	2	3	10	9	10	NA	6	5	8	7
Salesforce	4	3	6	NA	NA	5	8	NA	7	1	2	NA
Servicenow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

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

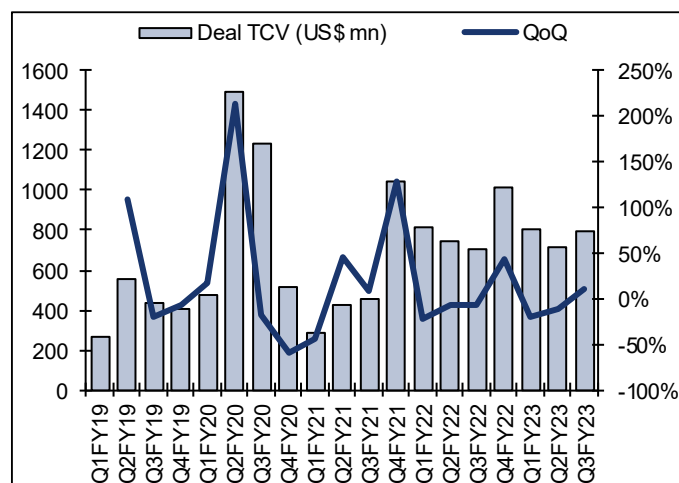
Table 2: New CEO Mr. Mohit Joshi's profile summary

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.

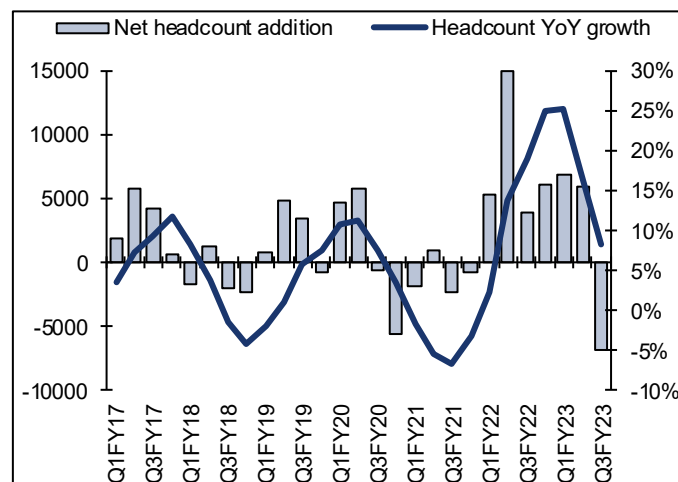
Source: Bloomberg, I-Sec research

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

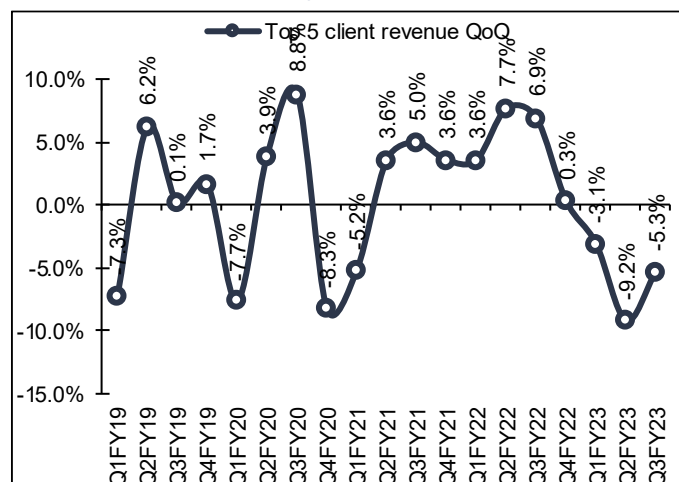
Source: Company, I-Sec research

Chart 2: Healthy deal TCV growth despite macro weakness

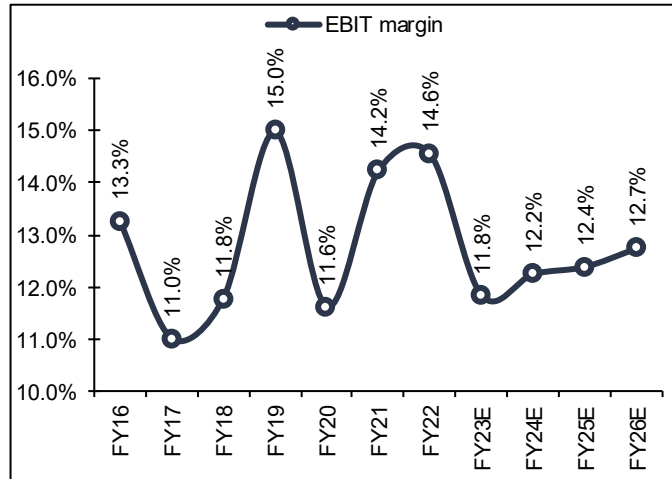
Source: Company, I-Sec research

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

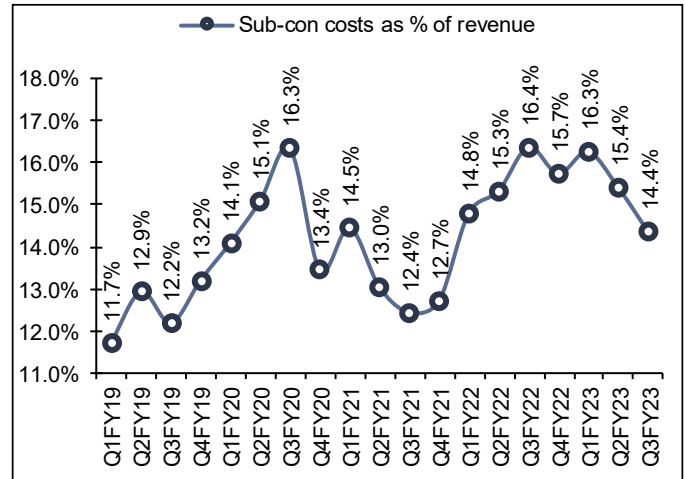
Source: Company, I-Sec research

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

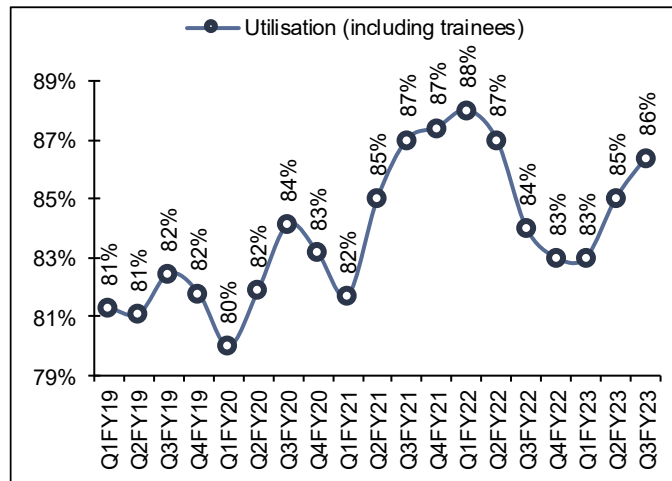
Source: Company, I-Sec research

Chart 5: EBIT margin likely to remain range-bound

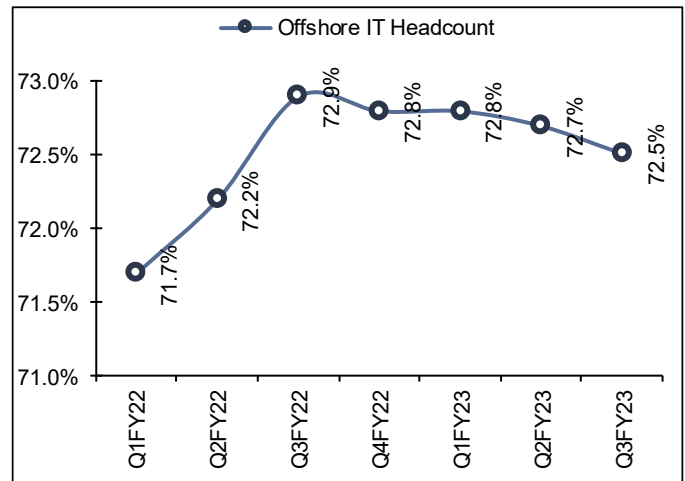
Source: Company, I-Sec research

Chart 6: Subcontracting costs can reduce further

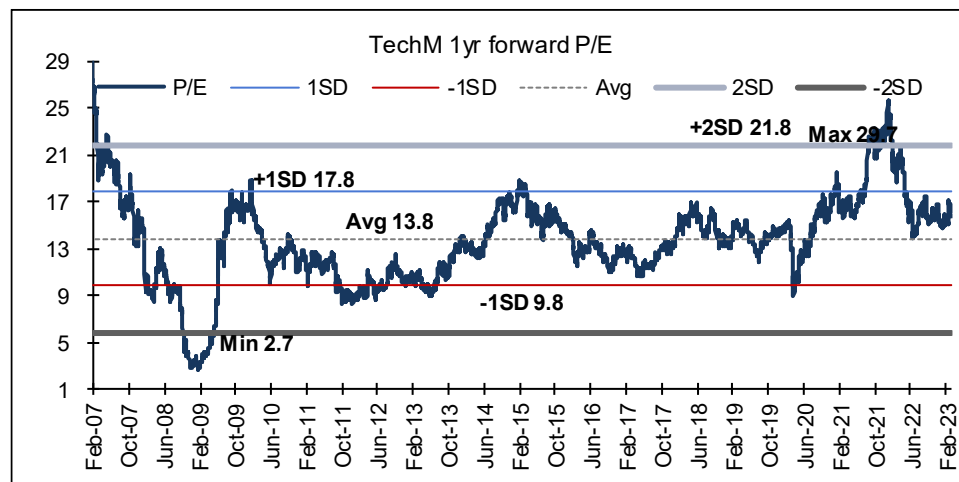
Source: Company, I-Sec research

Chart 7: Utilisation is near its peak at 86%

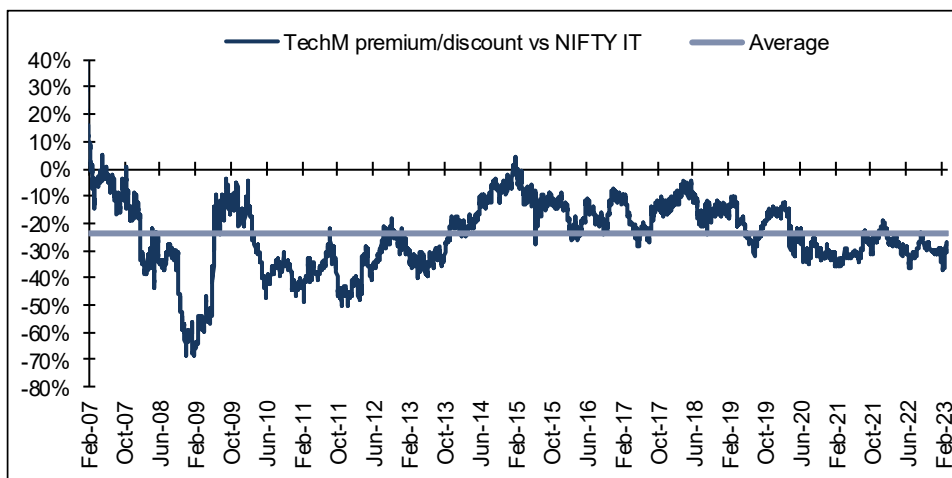
Source: Company, I-Sec research

Chart 8: Offshore mix has little scope to improve

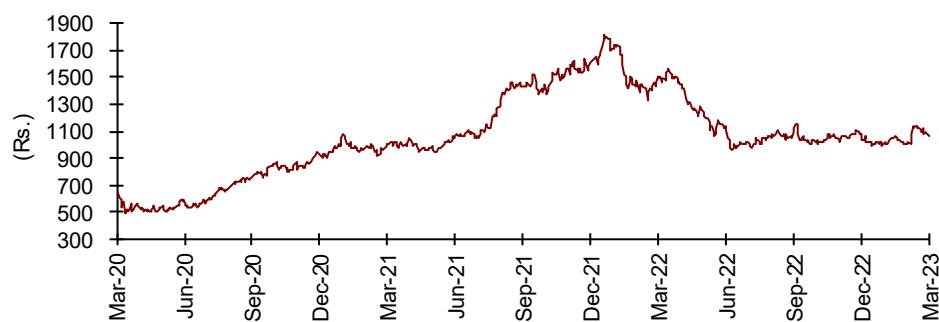
Source: Company, I-Sec research

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%

Source: Bloomberg, I-Sec research

Price chart

Source: Bloomberg

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

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Sumeet Jain, MBA; Aditi Patil, MBA (Finance); 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. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. 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. 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.

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 Institutional 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 Retail 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 an 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 in 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.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.