

Tech Mahindra

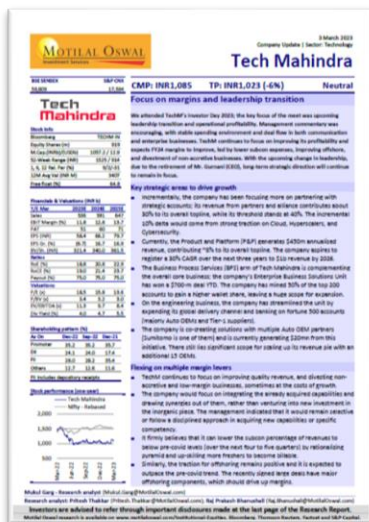
Stock Info

| | |
|-----------------------|---------------|
| Bloomberg | TECHM IN |
| Equity Shares (m) | 919 |
| M.Cap.(INRb)/(USDb) | 1033.5 / 12.6 |
| 52-Week Range (INR) | 1525 / 914 |
| 1, 6, 12 Rel. Per (%) | 7/-3/-33 |
| 12M Avg Val (INR M) | 3389 |

Financials & Valuations (INR b)

| Y/E Mar | 2023E | 2024E | 2025E |
|-----------------|-------|-------|-------|
| Sales | 536 | 591 | 647 |
| EBIT Margin (%) | 11.8 | 12.8 | 13.7 |
| PAT | 51 | 60 | 71 |
| EPS (INR) | 58.4 | 68.2 | 79.7 |
| EPS Gr. (%) | (6.7) | 16.7 | 16.9 |
| BV/Sh. (INR) | 321.4 | 340.0 | 361.5 |
| Ratios | | | |
| RoE (%) | 18.8 | 20.8 | 22.9 |
| RoCE (%) | 19.0 | 21.4 | 23.7 |
| Payout (%) | 75.0 | 75.0 | 75.0 |
| Valuations | | | |
| P/E (x) | 18.0 | 15.5 | 13.2 |
| P/BV (x) | 3.3 | 3.1 | 2.9 |
| EV/EBITDA (x) | 11.1 | 9.5 | 8.2 |
| Div Yield (%) | 4.1 | 4.8 | 5.6 |

TechM investor day report



Leadership clarity positive for TECHM; awaiting growth turnaround

Long-term prospects outweigh near-term risks for INFO

In an exchange filing, TECHM announced the appointment of INFO President Mr. Mohit Joshi as the new MD and CEO of the company. Mohit will take charge after Mr. CP Gurnani retires on 19th Dec'23; and will be MD & CEO designate once he joins TECHM after finishing his tenure at INFO on 9th Jun'23. At INFO, Mohit was among the key leaders and was heading the BFSI vertical (~30% of 3QFY23 revenue), the largest industry unit at INFO. With the departure of both Mohit and Ravi (moved earlier as Cognizant's CEO), INFO has lost both its Presidents – the senior most operational roles after the CEO. While clarity on new leadership is positive for TECHM, we see this as a near-term negative for INFO.

New CEO brings strong pedigree but operational challenges remain high

- TECHM announced the appointment of Mr. Mohit Joshi as its new MD and CEO, who will replace Mr. CP Gurnani.
 - At TECHM's recent Investor Day, Mr. Gurnani communicated that he will continue to work along with the new CEO until the transition gets completed. Mohit will take over as the MD & CEO after Mr. Gurnani retires on 19th Dec'23. TECHM has not indicated whether Mr. Gurnani will continue on the Board or not.
 - Mohit comes from INFO after a very long stint of more than two decades. At INFO, he was the President and was heading the BFSI vertical. During his stint, he has also meaningfully contributed to the Healthcare and Software verticals as well along with assuming Sales (large deals) and Transformation initiatives.
 - We believe that this is a positive for TECHM as it will help the company scale up its BFSI vertical, which has lagged peers in recent years. Moreover, Mohit is generally regarded well in the industry and can help refresh the company's go-to-market approach, which has lagged its peers too.
 - The stock should react positively as the uncertainty on leadership ceases.
 - On the other hand, we will keenly monitor any leadership attrition at the company, which can have a near-term adverse impact on its business.
- Moreover, we expect growth and margins to remain under pressure in the near term at TECHM. We would watch for clarity on a turnaround. **We reiterate our NEUTRAL rating on the stock.**

Near-term risk for INFO; maintain BUY on long-term opportunities

- Under Mohit, INFO's BFSI vertical has performed well, reporting 9% CAGR over FY16-22.
- We view the resignation as a near-term risk for INFO, given his responsibility as the head of the largest industry unit.
- Apart from heading various verticals during his stint, Mohit was also responsible for large deals and transformation initiatives.

**Stock Info**

| | |
|-----------------------|---------------|
| Bloomberg | INFO IN |
| Equity Shares (m) | 4572 |
| M.Cap.(INRb)/(USDb) | 6102.7 / 74.4 |
| 52-Week Range (INR) | 1924 / 1356 |
| 1, 6, 12 Rel. Per (%) | -6/0/-24 |
| 12M Avg Val (INR M) | 10449 |

Financials & Valuations (INR b)

| Y/E Mar | 2023E | 2024E | 2025E |
|-----------------|-------|-------|-------|
| Sales | 1,489 | 1,662 | 1,841 |
| EBIT Margin (%) | 21.2 | 21.5 | 22.0 |
| PAT | 248 | 285 | 323 |
| EPS (INR) | 59.0 | 67.9 | 76.9 |
| EPS Gr. (%) | 12.6 | 14.9 | 13.3 |
| BV/Sh. (INR) | 173 | 178 | 178 |

Ratios

| | | | |
|------------|------|------|------|
| RoE (%) | 33.5 | 38.7 | 43.3 |
| RoCE (%) | 27.4 | 31.0 | 34.2 |
| Payout (%) | 95.0 | 80.0 | 85.0 |

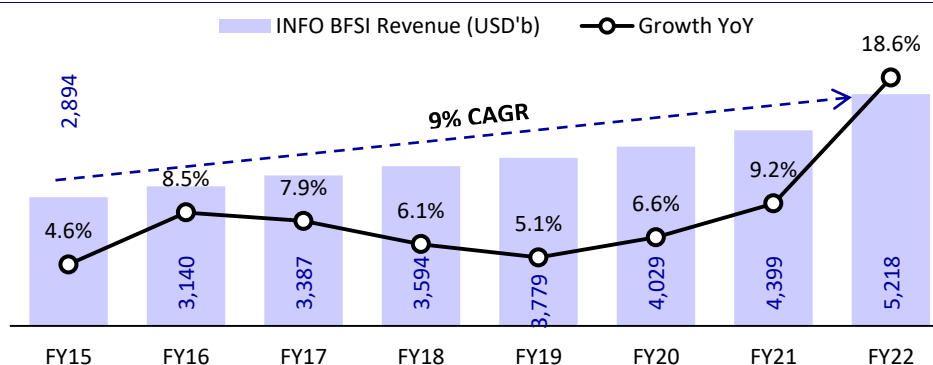
Valuations

| | | | |
|---------------|------|------|------|
| P/E (x) | 24.9 | 21.7 | 19.1 |
| P/BV (x) | 8.5 | 8.3 | 8.3 |
| EV/EBITDA (x) | 16.9 | 15.0 | 13.3 |
| Div Yield (%) | 3.8 | 3.7 | 4.4 |

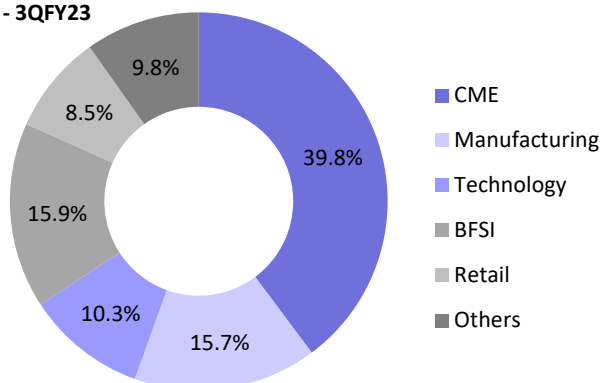
- Together with the recent departure of Ravi Kumar (President and COO), this exit has now put two top leaders of INFO at the helm of two of its large competitors, which we view as concerning. Moreover, this elevates the risk of attrition at the mid to senior level over the next few quarters to both of its competitors.
- However, we do not expect this issue to adversely impact the long-term business opportunity of INFO as the company continues to have deep leadership bench and has shown an ability to bounce back smartly after a leadership churn.
- We remain positive on INFO though there might be some adverse impact of the resignation in the near term on its share price. **Reiterate BUY.**

Valuations

- We expect INFO to be a key beneficiary of the acceleration in IT spends. The company's recent operational performance revalidates its continued strong execution capabilities. Though Mohit's resignation creates uncertainty in the near term, we remain positive on its long-term prospects. **Reiterate BUY.**
- Though the appointment of Mohit is positive for TECHM as it brings clarity on the new leadership, we **remain NEUTRAL** on the stock as its near-term growth remains weak and we await greater comfort on margins.

Exhibit 1: INFO has delivered strong performance in BFSI under the leadership of Mohit

Source: MOFSL, Company

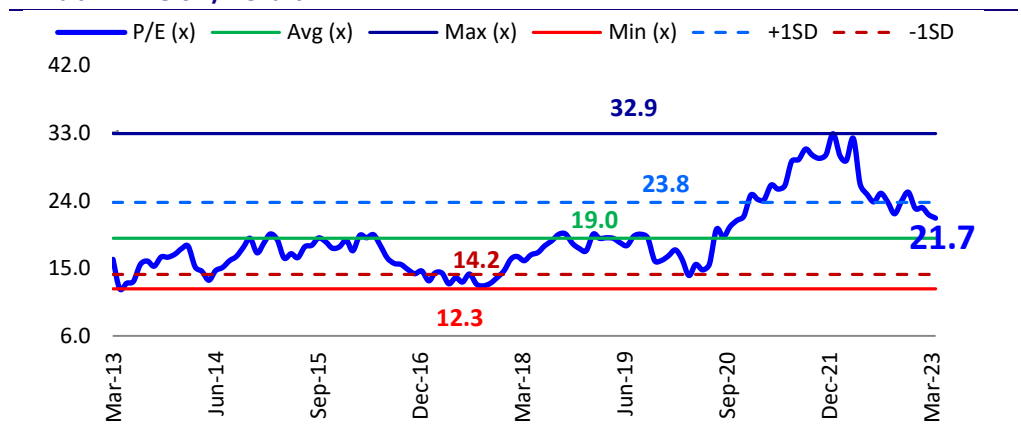
Exhibit 2: TECHM's vertical mix**TECHM Vertical Mix - 3QFY23**

Source: MOFSL, Company

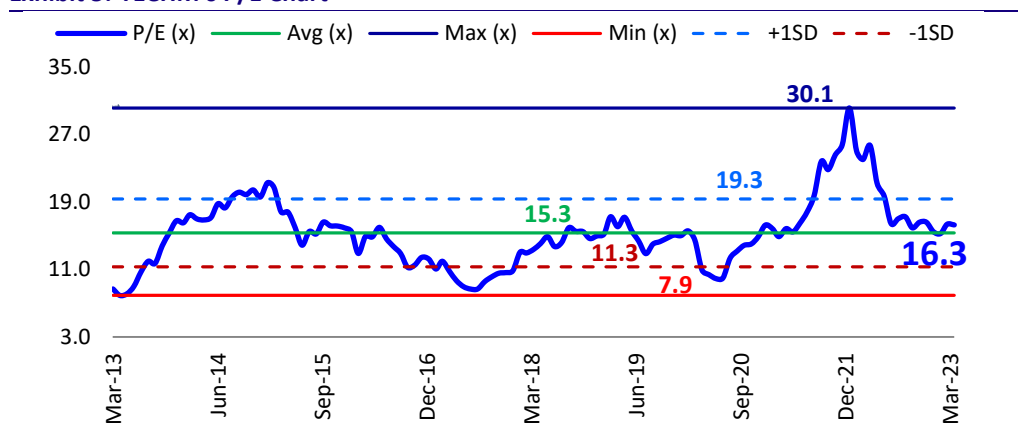
Exhibit 3: Valuation table – peers

| Company | Market Cap (USD'b) | Rating | Price (INR) | TP (INR) | Upside/downside | EPS | | | P/E ratio (x) | | |
|---------|--------------------|---------|-------------|----------|-----------------|-------|-------|-------|---------------|-------|-------|
| | | | | | | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| TCS | 148.6 | Buy | 3,331 | 3,950 | 19% | 116.3 | 136.1 | 156.4 | 28.7 | 24.5 | 21.3 |
| INFO | 74.4 | Buy | 1,471 | 1,760 | 20% | 58.9 | 67.9 | 76.9 | 25.0 | 21.7 | 19.1 |
| WPRO | 26.0 | Neutral | 389 | 380 | -2% | 20.9 | 23.9 | 27.0 | 18.6 | 16.3 | 14.4 |
| HCLT | 37.0 | Buy | 1,117 | 1,270 | 14% | 54.6 | 63.4 | 72.2 | 20.5 | 17.6 | 15.5 |
| TECHM | 12.6 | Neutral | 1,061 | 1,020 | -4% | 58.4 | 68.2 | 79.7 | 18.2 | 15.6 | 13.3 |
| LTIM | 16.7 | Neutral | 4,640 | 4,590 | -1% | 155.6 | 183.6 | 220.3 | 29.8 | 25.3 | 21.1 |

Source: MOFSL, Company

Exhibit 4: INFO's P/E Chart

Source: MOFSL, Company

Exhibit 5: TECHM's P/E Chart

Source: MOFSL, Company

NOTES

| Explanation of Investment Rating | |
|----------------------------------|--|
| Investment Rating | Expected return (over 12-month) |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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