

BUY
 TP: Rs 1,949 | ▲ 17%

TECH MAHINDRA

| IT Services

| 18 January 2025

Looks a bit ahead of plan on margins. Steady progress...

- 3QFY25 was better than expected in terms of revenue and especially on margins. The latter despite large currency headwinds and investments
- The margin improvement is ahead of plan and gives TML the leeway to increase compensation in 4QFY25. Steady progress on deal wins
- We raise rating from Hold to Buy. Modest EPS upgrade and recent stock correction lead us to this action. It is our top pick in Tier-1 space

Girish Pai

research@bobcaps.in

Steady progress being made to achieve FY27 goals: The goals are of revenue growth being ahead of peer average and EBIT margin at 15% and with high deal of predictability:

Better than expected 3QFY25: On revenue growth and most specifically on EBIT margin. The latter improved 60bps QoQ despite a 260bps cross currency headwind and heightened investments. This means that the underlying margin improvement has been ahead of plan. We believe the margin improvement is due to higher level of automation and getting better pricing on the services sold.

Business quality is steadily improving: Tech Mahindra (TML) says that it onboarded 40 plus new clients from the must-have category so far in FY25, of which 12 were onboarded in 3Q itself. Over two dozen accounts from these now have a revenue run rate above a million dollars annually, and TML won six large deals from these accounts.

The steady improvement in net new deal wins is driven by two main factors: (1) Expanded the overall deal funnel by increasing the pipeline size. This has been achieved through strategic investments in ecosystem partnerships, strengthening relationships with advisory firms, and bringing in new talent that enables access a wider range of opportunities. (2) Improved Win Rates and Contracting Discipline

Raise rating to Buy: Modest EPS upgrade and recent stock correction lead us to this action. It is our top pick in Tier-1 space. We believe there are still many skeptics on TML. We believe consensus will start to believe in the narrative of TML management and that could lead to EPS upgrades. Especially after 3QFY25 margin performance in the face of significant headwinds. We value TML at 24.6x Dec '26 EPS. The target PE is the same as what we have ascribed to our industry benchmark – TCS. We believe that it deserves this as it will likely grow its earnings the fastest in the Tie-1 space with an EPS CAGR of 34% over FY25-FY27. We expect margins to expand beyond the 15% level too beyond FY27.

Key changes

	Target	Rating
	▲	▲

Ticker/Price	TECHM IN/Rs 1,660
Market cap	US\$ 17.0bn
Free float	65%
3M ADV	US\$ 38.3mn
52wk high/low	Rs 1,808/Rs 1,163
Promoter/FPI/DII	35%/24%/31%

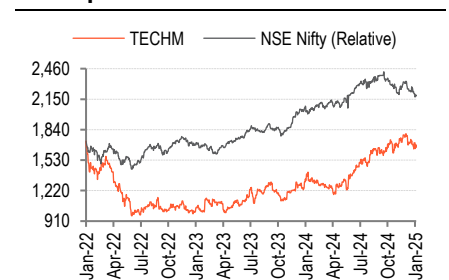
Source: NSE | Price as of 17 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	5,19,955	5,33,541	5,79,305
EBITDA (Rs mn)	49,646	70,149	92,867
Adj. net profit (Rs mn)	23,579	42,460	57,749
Adj. EPS (Rs)	26.5	47.0	64.4
Adj. ROAE (%)	8.6	16.2	22.0
Adj. P/E (x)	62.7	35.3	25.8
EV/EBITDA (x)	28.3	20.0	15.1
Adj. EPS growth (%)	(51.6)	77.4	37.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Other key points

- Tech Mahindra (TML) reported revenue of US\$1.567bn in 3QFY25, 1.3% constant currency (CC) growth YoY and a 1.2% growth QoQ. This was better than our expectation of flat CC QoQ growth.
- Currency headwinds impacted reported revenue which was down 1.3% QoQ and 0.4% YoY. The cross-currency headwind of 260bps was much higher than the 100bps that we anticipated.
- The growth in revenue was led by BFSI vertical at a 2.7% QoQ followed by Healthcare and Life sciences at 4.5% in CC terms. Communication business grew at 0.4%, Manufacturing declined by 2.5% due to pressures in the automotive segment including Pininfarina.
- The EBIT margin of 10.2 saw 60-bps expansion QoQ, despite steep currency headwinds and continued investments.
- TML says that it is committed to improving its growth capabilities and revenue mix to meet growth aspirations for FY27 and its aim for 15% EBIT margin by FY27. The margin improvement is driven by driving productivity gains, price optimization, and improving organizational efficiency
- Tech Mahindra secured US\$745mn in deal wins during 3QFY25, bringing its LTM (Last Twelve Months) deal wins to US\$2.4 bn. The TCV has been clocked due to several large and multi tower deals in telecom and the manufacturing sectors across regions. Besides winning new deals it stated that it saw healthy renewal rates.
- In 3Q it saw healthy revenue growth in communications, BFSI, healthcare, and life sciences business. In terms of regions, it saw demand across prioritized markets of North America, Europe, and APJ.
- The comms vertical presents varying dynamics across regions. In Asia Pacific, there is growing momentum in the communications business. In Europe, the sector remains highly competitive but is stable to improving. In North America, challenges persist, especially around discretionary spends from some large clients. It is not yet considered an inflection point but signs of limited deterioration and potential improvement are evident
- Client deal activity in Telecom is growing, though it remains primarily focused on consolidation and cost-saving initiatives rather than incremental discretionary spend at this time.
- TML has remained conservative in its demand commentary stating that demand has not drastically shifted compared to 3 to 6 months ago, with no major change in the macroeconomic environment.
- 2023 was viewed as the worst year, with 2024 showing improvement, and 2025 expected to continue this incremental improvement, though not a V-shaped recovery. This broadly gels with our thoughts too on revenue growth for the industry and unlike some of the more bullish sell side competitors.

- The company has committed to FY27 targets and is seeing positive momentum in terms of large deal wins. Despite consistent improvement over the past six quarters, it is still considered early days in the turnaround journey
- Wage hike for the current quarter (Jan-Mar) is expected to impact margins by 1%-1.5%. The company expects that its margin improvement efforts will aim to offset the wage hike impact and drive continuous margin expansion
- The steady improvement in net new deal wins is driven by two main factors:
 - Expanded the overall deal funnel by increasing the pipeline size. This has been achieved through strategic investments in ecosystem partnerships, strengthening relationships with advisory firms, and bringing in new talent that enables access a wider range of opportunities
 - Improved Win Rates and Contracting Discipline
- TML is of the view that large deals can be lumpy and volatile, with fluctuations in deal flow. The company has decent visibility for the next three to six months and believes it has developed the necessary capabilities to deliver consistently. Despite the inherent volatility of large deals, the company feels confident about its pipeline, win rates, and overall capabilities.
- TML stated that it wants to retain its leadership position in telecom and manufacturing verticals but also become a very credible challenger from a BFSI, healthcare, retail, energy, utilities verticals perspective. So, it has created a global vertical structure in its service line organization, and it has vertically focused geography teams. It has created a number of industry specific solutions.
- The weakness in manufacturing for this quarter, on a YoY comparison, is primarily due to the Pininfarina business, which is lumpy because of its manufacturing operations. Excluding Pininfarina, most of the company's auto exposure is in the US, which has been relatively shielded compared to the European auto sector
- While the auto sector is facing pressures, it remains a significant part of the company's manufacturing revenue. The company is diversifying its exposure across geographies, with limited exposure to European auto manufacturers, which should help mitigate risks in this space
- CEO Mohit Joshi stated that TML has covered significant ground in 2024 and is on track for achieving its long-term goals. He said that TML is particularly focused on improving its growth capabilities and revenue mix to meet its growth aspirations for FY'27.
- While he stated that the new deal wins will help TML scale priority verticals, it has made sure to chase quality over quantity.
- TML says that it onboarded 40 plus new clients from must-have category so far in FY25, of which 12 were onboarded in 3Q itself. Over two dozen accounts from these now have a revenue run rate above a million dollars annually, and TML won six large deals from these accounts.

View on the Indian IT services sector: We reinitiated coverage on the Indian IT Services with UW stance through a report on 1 January, 2025 (**Slow is the (new/old) normal**).

Current valuations are disconnected with fundamentals. Since 1 June 2024, Nifty IT has outperformed Nifty significantly. However, consensus earnings for FY25 and FY26 have not moved much during this period. It has been an entirely PE expansion story. Tier-1 and Tier-2 Indian IT services stocks are trading at +1 SD and +2 SD above their five-year means respectively. The PE premium of Tier-2 to Tier-1 is at its historic peak.

Current high PE multiples imply sharp growth pickup in FY25-FY27E. We think it will be slower. We do not believe structurally Indian IT services industry will see the pandemic's 'compressed transformation' type of demand in the foreseeable future. We believe the industry's structural USD organic revenue growth from here on will be lower than the ~7% CAGR – seen during FY15-FY20.

10-year study of valuations and earnings growth indicates that Indian IT stocks are currently trading at +2.1 SD to +18.3 SD higher valuations compared to the mean multiples during the FY15-FY20 period. Yes, we would admit that certain companies have undergone a structural change for the better, but not to the extent that the bulls assume and not all of them.

Multiple speed breakers post FY25 drives our underweight stance

- Trump policies raise uncertainty. The tariffs, the conditional tax breaks, the immigration push back, DOGE, etc all point to uncertainty in the coming days which may delay decision making.
- Higher for longer interest rate environment: One of reasons for optimism around the Indian IT service sector in recent quarters has been the view that US would achieve a soft landing in 2025 (which we define as 0.5- 1.5% real GDP growth) and that Fed Funds rate would be gradually lowered from the recent peak of 5.25-5.5%, driven by lower inflation. This, the market felt, was the apt environment for a broader pick up in discretionary spending beyond that of North American BFSI sector, especially after two muted years when the constant refrain from vendors for the weak growth was of 'macro uncertainty'. However, recent inflation prints, stronger GDP growth, and a higher fiscal deficit have raised concerns. With US 10-year yields rising to 4.7% from a September 2024 low of 3.6%, there are fears that sustained high interest rates could reduce IT outsourcing demand, particularly in sectors like BFSI and Telecom, and dampen US consumption in areas like housing, autos and retail.
- Covid-induced pull forward of demand requires a multi-year unwind. We think there were excesses during the compressed transformation phase which are yet to be fully unwound.
- Gen AI – value compressive in the near term: Gen AI has significantly boosted revenue in semiconductors, data centers, and hyper scalers, but IT services have seen limited benefits. ROI remains a top concern arise due to heavy investment in surrounding services

- Massive hyper scaler AI capex should accentuate re-alignment in IT spend: Software players, including hyper scalers, are increasing capex on AI-related data centers. This will drive higher pricing, forcing enterprises to allocate more IT spend to cloud/SaaS
- Indian Tier-1 companies now face higher competition from Accenture, Tier-2 players, and Cognizant, likely slowing their growth compared to FY15-FY20. This is besides the fact that by FY25, Tier-1 revenue will reach \$85bn, double that in FY15. Due to the higher base now, growth may not be as rapid as it was when the base was lower
- The weak TCV for certain players in 1HFY25 and lack of any mega deal announcements in recent quarters points to a brewing growth problem for FY26

How we are valuing companies: We are using PE methodology and using TCS as our industry benchmark. The target PE multiple used for TCS is 24.6x (which is the average PE multiple of TCS over the last 5 years less 1SD). This is by no means pessimistic. 24.6x is higher than the 23.6x multiple which was the mean multiple of the FY15-FY20 time frame when revenue growth was ~150bps faster. During the Global Financial Crisis (GFC) downturn, the stock traded in the single digit PE multiple territory. We are using a 1SD discount to the five-year PE as we believe that industry and TCS will see a 'slower for longer' growth situation.

Why use a PE multiple that is 1SD lower than 5-year mean of TCS:

Through our choice of the benchmark Target PE multiple, we seek to capture the probability of downside risks to consensus growth expectations for FY26/FY27.

While the strong consensus estimates seem to imply a soft-landing macro scenario in the US, the higher probability event is a 'no landing, higher-for-longer interest rate' scenario which we believe has a 50-60% probability. The probability of a recession is also not insignificant (20% based on Bloomberg estimates).

Some of the speed breakers are industry/technology related, and some are related to the macro and policy environment especially in the US which is the key market for Indian IT services firms. Besides the US, we believe the European market macro looks quite bad (Europe – including UK – forms about 30-40% of revenue for Indian IT services firms) and corporate IT spending would be muted

Tier- 2 valuation reflects growth gap between it and Tier-1:

The Tier-2 set have been taking away market share from the Tier-1 set due to better execution and due to their smaller size. And unlike in the past cycles, they have performed better than the Tier-1 largely due to better management teams.

However, the current PE premium to the Tier-1s is excessive as we believe that to deliver on the high consensus revenue growth expectations, they may be taking on more cost take out projects which are likely to impact their margins adversely

Fig 1 – Quarterly results: Comparison of actuals with estimates

Y/E March (Rs mn)	3QFY24	2QFY25	3QFY25	YoY(%)	QoQ (%)	3QFY25E	Dev(%)
Net Sales (USD mn)	1,573	1,589	1,567	(0.4)	(1.3)	1,573	(0.3)
Net Sales	1,31,013	1,33,132	1,32,856	1.4	(0.2)	1,32,747	0.1
Direct Cost	99,648	95,957	94,559	(5.1)	(1.5)	95,957	(1.5)
Gross Margin	31,365	37,175	38,297	22.1	3.0	36,790	4.1
% of Sales	23.9	27.9	28.8			27.7	
SG&A	19,900	19,673	20,207	1.5	2.7	19,673	2.7
% of Sales	15.2	14.8	15.2			14.8	
EBITDA	11,465	17,502	18,090	57.8	3.4	17,117	5.7
EBITDA Margin (%)	8.8	13.1	13.6			12.9	
Depreciation & Amortisation	4,434	4,698	4,588	3.5	(2.3)	4,739	(3.2)
EBIT	7031	12,804	13502	92.0	5.4	12,379	9.1
EBIT Margin (%)	5.4	9.6	10.2			9.3	
Interest	1,165	890	759	(34.8)	(14.7)	890	(14.7)
Other Income	875	5,215	165	(81.1)	(96.8)	1,816	(90.9)
Amortisation of goodwill	0	0	0			0	
PBT	6,741	17,129	12,908	91.5	(24.6)	13,304	(3.0)
Exceptional Item (as Reported)	48	6	66			0	
Provision for Tax	1,551	4,560	3,086	99.0	(32.3)	3,540	(12.8)
Effective Tax Rate	23.0	26.6	23.9			26.6	
Minority share in Profit / Loss	(133)	(74)	(56)	(57.9)	(24.3)	(100)	(44.0)
PAT (Reported)	5,105	12,501	9,832	92.6	(21.4)	9,664	1.7
NPM (%)	3.9	9.4	7.4			7.3	

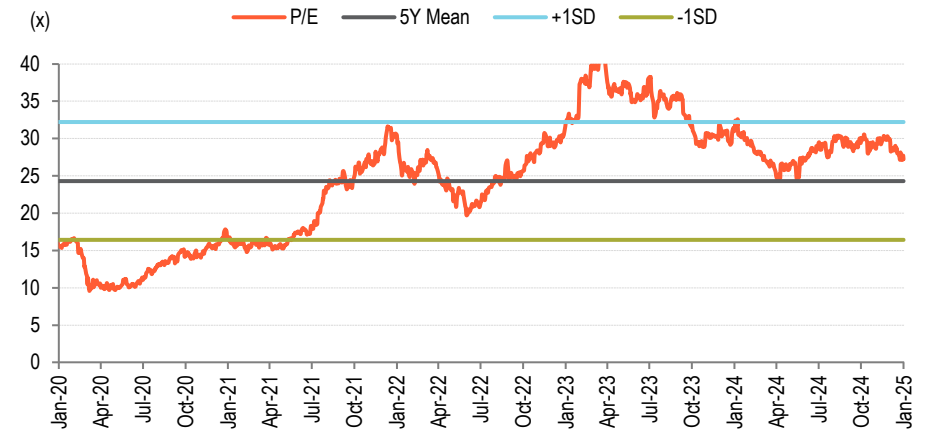
Source: Company, BOBCAPS Research

Fig 2 – Change in Estimates

	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
INR/USD	84.5	87.3	89.3	84.1	85.4	86.6	0.5	2.1	3.1
USD Revenue (USD mn)	6,314	6,639	7,133	6,341	6,729	7,230	(0.4)	(1.3)	(1.3)
USD Revenue Growth (%)	0.6	5.1	7.4	1.0	6.1	7.4			
Revenue (Rs mn)	533.5	579.3	636.7	533.4	574.8	626.2	0.0	0.8	1.7
EBIT (Rs mn)	51.5	73.3	95.6	51.3	71.2	94.0	0.3	3.0	1.7
EBIT Margin (%)	9.6	12.7	15.0	9.6	12.4	15.0			
PAT (Rs mn)	41.7	57.1	74.7	42.5	56.4	73.9	(2.0)	1.3	1.0
EPS (Rs)	47.0	64.4	84.2	47.9	63.6	83.3	(2.0)	1.3	1.0

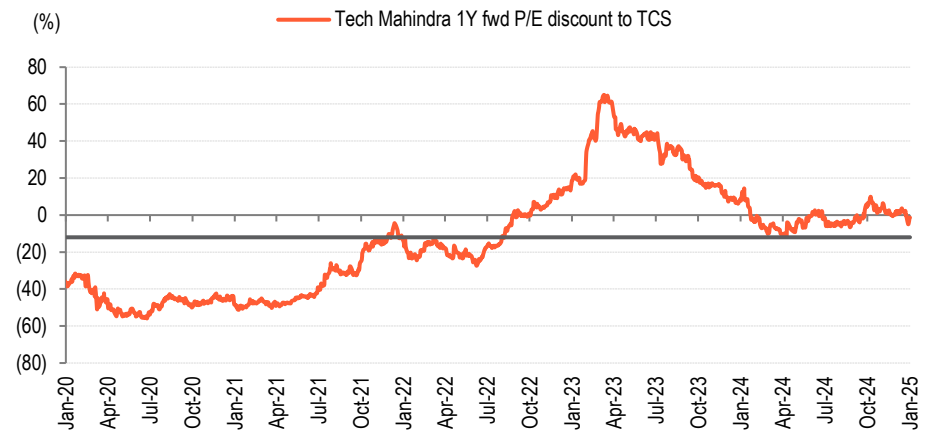
Source: Company, BOBCAPS Research

Fig 3 – 5 Year PE trend



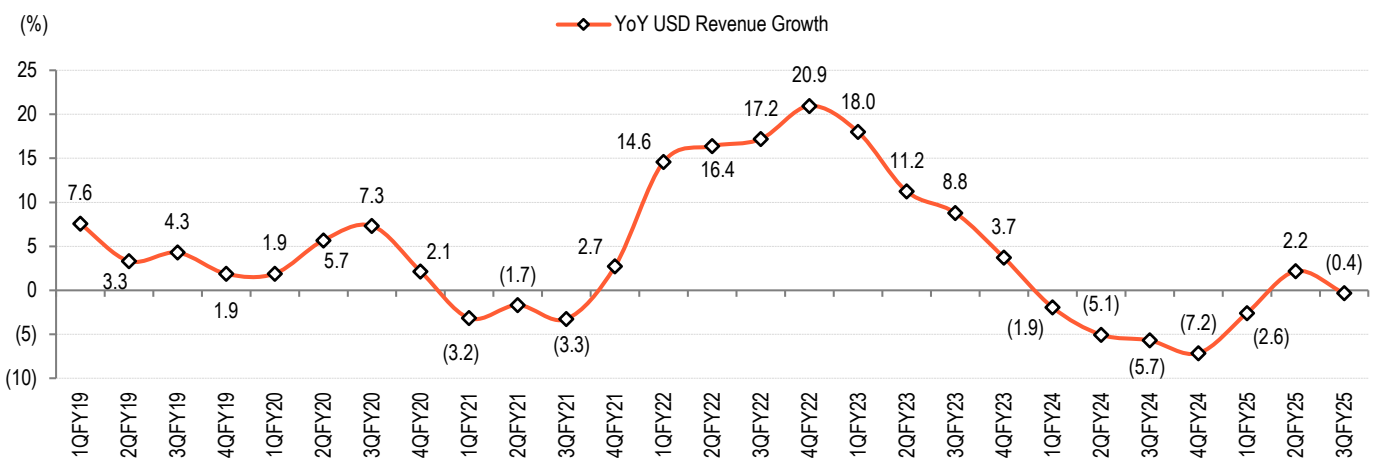
Source: Company, BOBCAPS Research

Fig 4 – Premium/ Discount to TCS



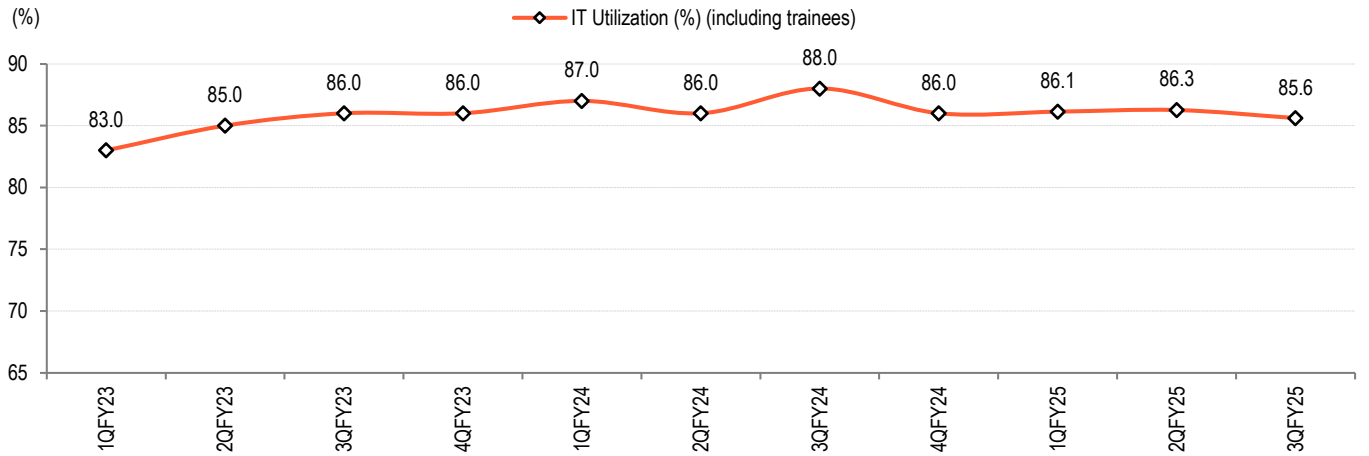
Source: Company, BOBCAPS Research

Fig 5 – YoY USD Revenue growth



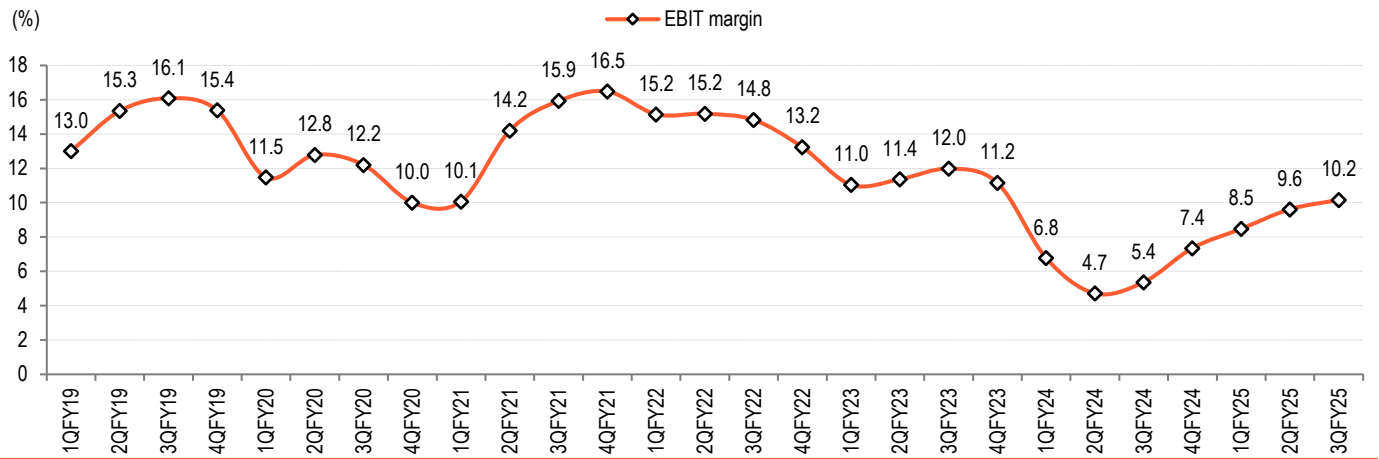
Source: Company, BOBCAPS Research

Fig 6 – Utilization trend



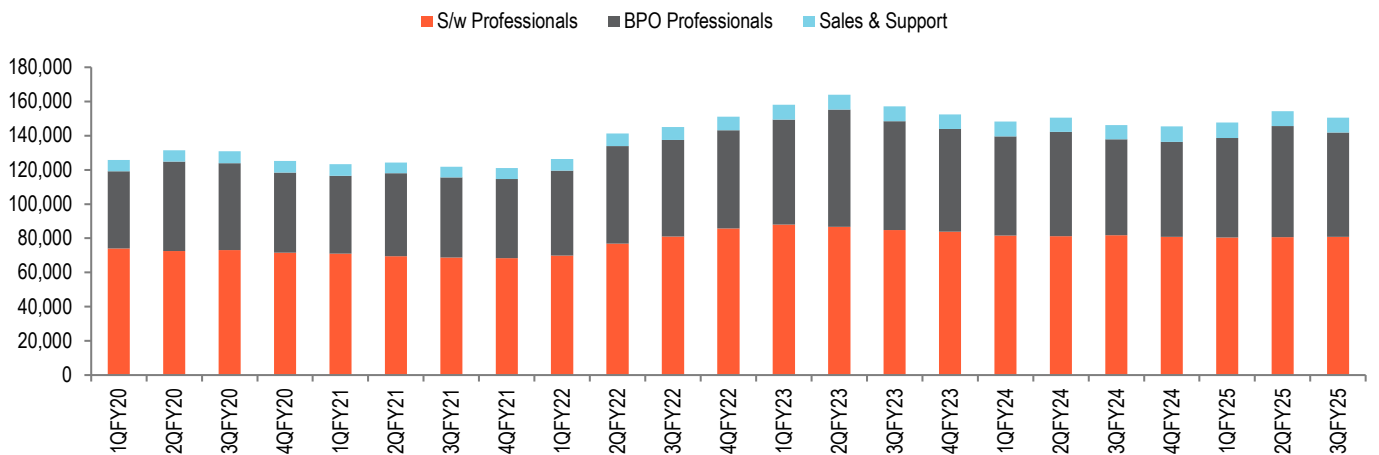
Source: Company, BOBCAPS Research

Fig 7 – EBIT Margin trend



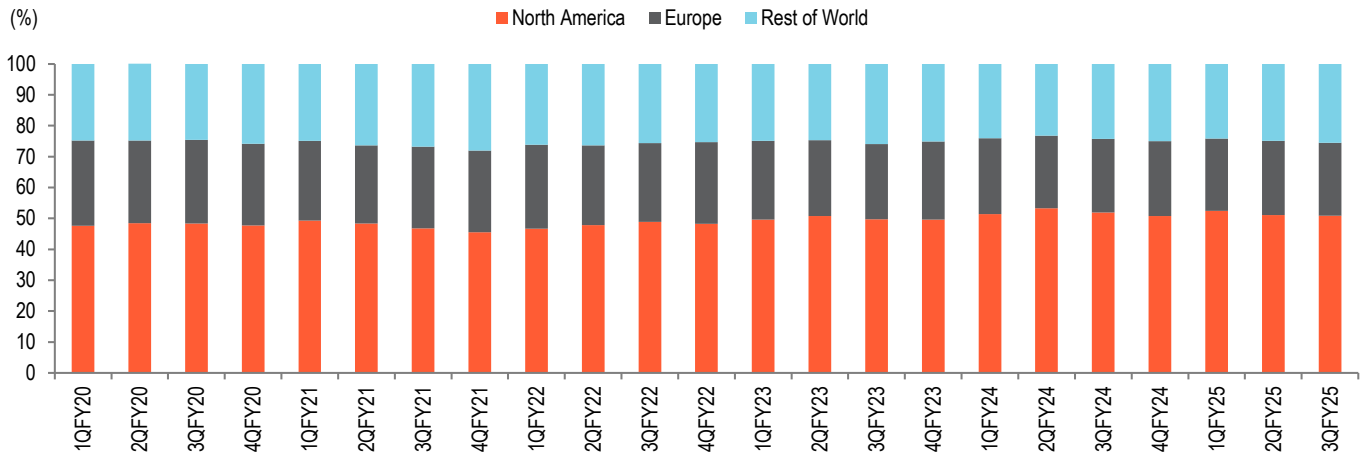
Source: Company, BOBCAPS Research

Fig 8 – Total Headcount trend QoQ



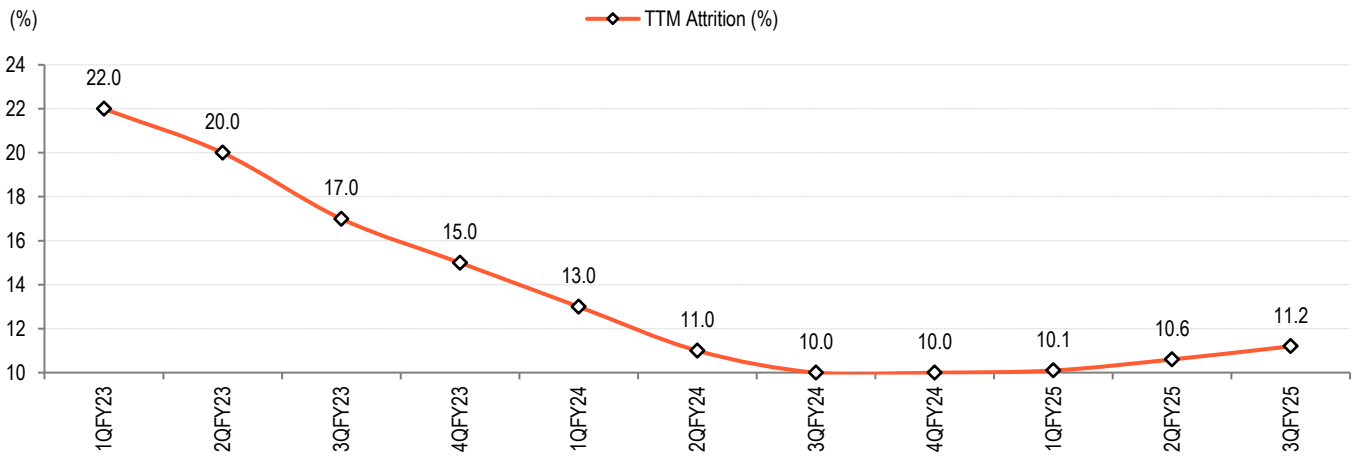
Source: Company, BOBCAPS Research

Fig 9 – Revenue contribution in terms of Geographies



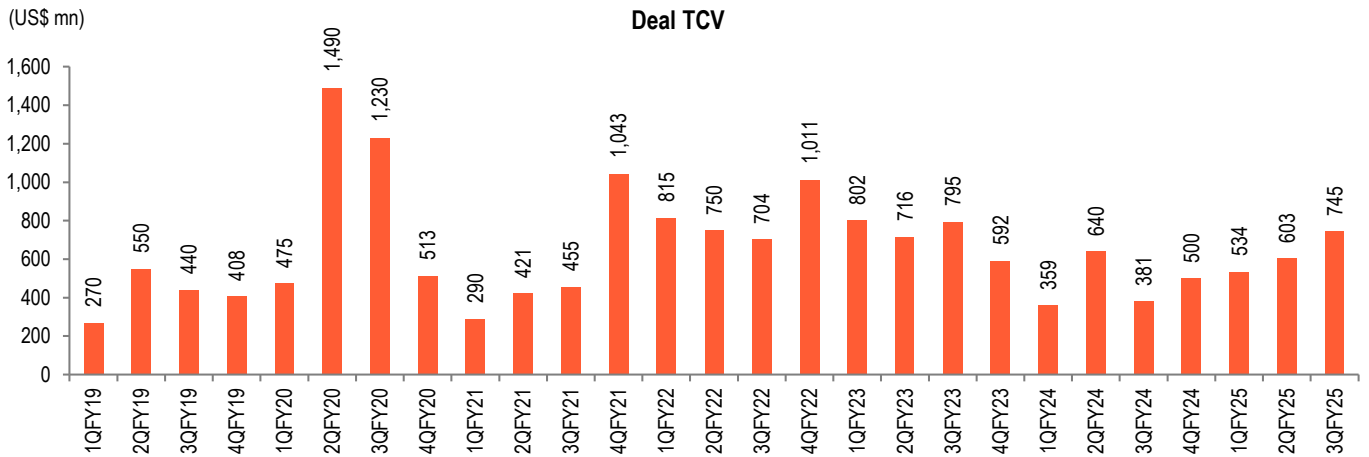
Source: Company, BOBCAPS Research

Fig 10 – Attrition Rate trend QoQ



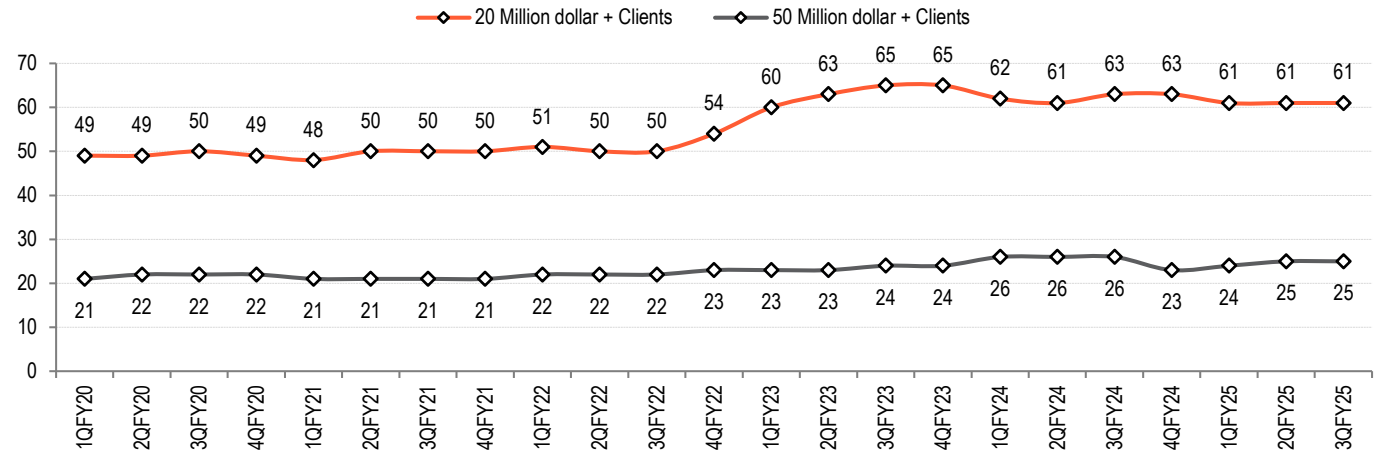
Source: Company, BOBCAPS Research

Fig 11 – TCV trend QoQ



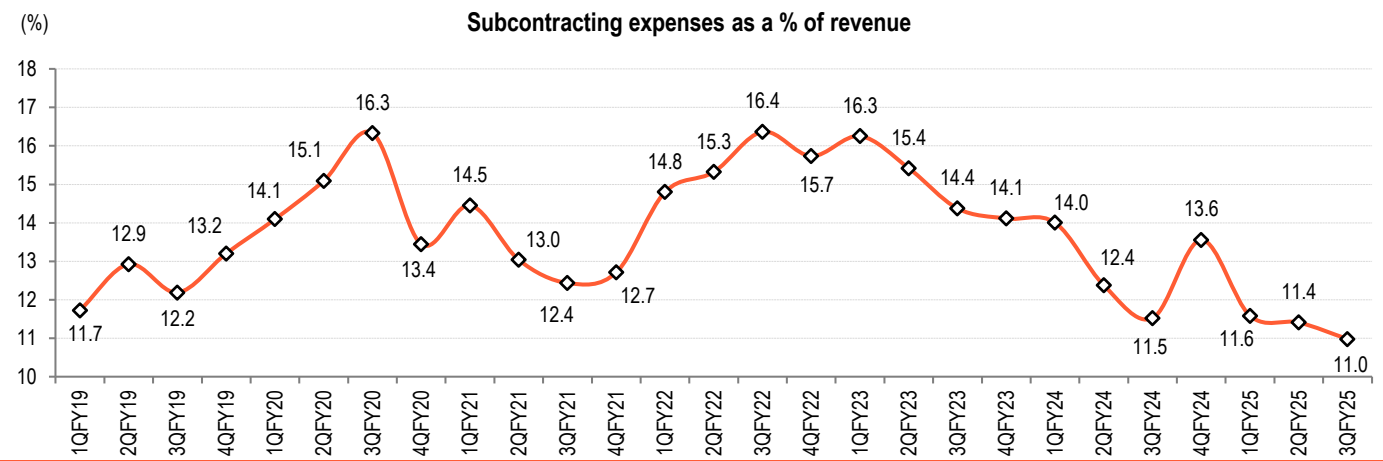
Source: Company, BOBCAPS Research

Fig 12 – Number of clients: >US\$20mn and >US\$50mn bucket



Source: Company, BOBCAPS Research

Fig 13 – Subcontracting costs as % of revenue



Source: Company, BOBCAPS Research

Fig 14 – Quarterly Snapshot

Year to 31 March	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Rs mn											
INR/USD	77.7	80.0	82.3	82.3	82.2	82.7	83.3	83.1	83.4	83.8	84.7
USD Revenue (USD mn)	1633	1638	1668	1668	1601	1555	1573	1548	1559	1589	1567
INR Revenue	1,27,079	1,31,295	1,37,346	1,37,182	1,31,590	1,28,639	1,31,013	1,28,713	1,30,055	1,33,132	1,32,856
Gross Margin	35,917	36,681	39,409	39,698	33,785	28,887	31,365	34,772	34,523	37,175	38,297
SGA	17,116	16,840	17,969	19,493	20,405	18,164	19,900	20,694	18,878	19,673	20,207
EBITDA	18,801	19,841	21,440	20,205	13,380	10,723	11,465	14,078	15,645	17,502	18,090
Depreciation	4,767	4,917	4,981	4,902	4,466	4,657	4,434	4,614	4,622	4,698	4,588
EBIT	14,034	14,924	16,459	15,303	8,914	6,066	7,031	9,464	11,023	12,804	13,502
Other income (net)	1,221	2,902	2,472	3,055	1,917	2,642	875	3,735	1,447	5,215	165
PBT	14,855	16,639	17,712	15,248	9,712	6,153	6,789	9,591	11,781	17,135	12,974
Tax	3,380	3,647	4,859	3,999	2,676	1,100	1,551	2,949	3,133	4,560	3,086
Minority Share in profit/Loss	(159)	(138)	113	(73)	(111)	(114)	(133)	(32)	(133)	(74)	(56)
Exceptional Item	3	(153)	(90)	(50)	78	(85)	48	64	26	6	66
PAT	11,316	12,854	12,966	11,176	6,925	4,939	5,105	6,610	8,515	12,501	9,832
YoY Growth (%)											
USD Revenue	18.0	11.2	8.8	3.7	(1.9)	(5.1)	(5.7)	(7.2)	(2.6)	2.2	(0.4)
INR Revenue	24.6	20.7	19.9	13.2	3.5	(2.0)	(4.6)	(6.2)	(1.2)	3.5	1.4
Gross Profit	11.2	6.4	14.5	11.6	(5.9)	(21.2)	(20.4)	(12.4)	2.2	28.7	22.1
EBITDA	0.2	(0.6)	4.1	(3.3)	(28.8)	(46.0)	(46.5)	(30.3)	16.9	63.2	57.8
EBIT	(9.2)	(9.7)	(3.1)	(4.6)	(36.5)	(59.4)	(57.3)	(38.2)	23.7	111.1	92.0
Net Profit	(16.4)	(4.0)	(5.3)	(25.8)	(38.8)	(61.6)	(60.6)	(40.9)	23.0	153.1	92.6
QoQ Growth (%)											
USD Revenue	1.5	0.3	1.8	0.0	(4.0)	(2.8)	1.1	(1.6)	0.7	1.9	(1.3)
INR Revenue	4.9	3.3	4.6	(0.1)	(4.1)	(2.2)	1.8	(1.8)	1.0	2.4	(0.2)
EBITDA	(10.0)	5.5	8.1	(5.8)	(33.8)	(19.9)	6.9	22.8	11.1	11.9	3.4
EBIT	(12.5)	6.3	10.3	(7.0)	(41.7)	(31.9)	15.9	34.6	16.5	16.2	5.4
Net Profit	(24.8)	13.6	0.9	(13.8)	(38.0)	(28.7)	3.4	29.5	28.8	46.8	(21.4)
Margins (%)											
Gross Margin	28.3	27.9	28.7	28.9	25.7	22.5	23.9	27.0	26.5	27.9	28.8
EBITDA	14.8	15.1	15.6	14.7	10.2	8.3	8.8	10.9	12.0	13.1	13.6
EBIT	11.0	11.4	12.0	11.2	6.8	4.7	5.4	7.4	8.5	9.6	10.2
PAT	8.9	9.8	9.4	8.1	5.3	3.8	3.9	5.1	6.5	9.4	7.4
SGA	13.5	12.8	13.1	14.2	15.5	14.1	15.2	16.1	14.5	14.8	15.2

Source: Company, BOBCAPS Research

Fig 15 – Key Metrics

Key Metrics	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
P and L (Rs mn)											
Revenue	1,27,079	1,31,295	1,37,346	1,37,182	1,31,590	1,28,639	1,31,013	1,28,713	1,30,055	1,33,132	1,32,856
EBITDA	18,801	19,841	21,440	20,205	13,380	10,723	11,465	14,078	15,645	17,502	18,090
PAT	11,316	12,854	12,966	11,176	6,925	4,939	5,105	6,610	8,515	12,501	9,832
Vertical Mix (%)											
Communication (Telecom)	40.4	39.7	39.8	40.1	37.8	37.0	36.5	36.1	33.1	33.4	32.5
Manufacturing	15.3	16.0	15.7	15.9	16.9	17.8	18.1	18.2	18.3	17.2	16.8
Technology, media & entertainment	9.7	10.1	10.3	10.3	10.7	11.0	10.5	10.7	13.8	14.3	14.3
Banking, financial services & insurance	16.7	16.3	15.9	15.9	16.1	16.1	15.5	16.3	15.7	15.8	16.1
Retail, transport & logistics	7.9	8.1	8.5	7.6	7.1	8.2	8.6	7.3	7.7	7.9	8.1
Healthcare and Life sciences								7.2	7.7	7.4	7.7
Others	10.0	9.8	9.9	10.2	4.0	10.0	10.8	4.0	3.8	4.0	4.6
Geographical Mix (%)											
North America	49.6	50.8	49.7	49.6	51.4	53.3	51.9	50.8	52.4	51.1	50.8
Europe	25.5	24.5	24.4	25.3	24.6	23.6	23.8	24.2	23.4	24.0	23.6
Rest of World	24.9	24.7	25.9	25.1	24.0	23.2	24.3	25.0	24.2	24.9	25.6
IT Headcount Mix (%)											
Onsite	27.2	27.3	27.5	27.3	26.9	26.6	26.1	25.2	24.6	23.7	22.7
Offshore	72.8	72.7	72.5	72.7	73.1	73.4	73.9	74.8	75.4	76.3	77.3
IT Utilization (%) (including trainees)	83.0	85.0	86.0	86.0	87.0	86.0	88.0	86.0	86.1	86.3	85.6
Clients Concentration (%)											
Top 5 Clients	21.0	19.0	18.0	17.0	17.0	17.0	16.0	16.0	15.5	15.1	14.8
Top 10 Clients	30.0	28.0	27.0	26.0	27.0	27.0	26.0	26.0	25.1	24.9	24.2
Top 20 Clients	41.0	40.0	40.0	40.0	39.0	39.0	39.0	39.0	38.4	38.6	38.0
Number of Client											
1 USD mn +	549	562	574	582	580	568	558	553	545	545	540
5 USD mn +	176	184	185	186	190	186	185	190	191	195	191
10 USD mn +	104	108	109	112	115	114	118	114	113	109	104
20 USD mn +	60	63	65	65	62	61	63	63	61	61	61
50 USD mn +	23	23	24	24	26	26	26	23	24	25	25
Employees	1,58,035	1,63,912	1,57,068	1,52,400	1,48,297	1,50,604	1,46,250	1,45,455	1,47,620	1,54,273	1,50,488
Net employee added	6,862	5,877	(6,844)	(4,668)	(4,103)	2,307	(4,354)	(795)	2,165	6,653	(3,785)
TTM Attrition (%)	22	20	17	15	13	11	10	10	10	11	11
Financial Metrics (USD mn)											
Revenue	1,633	1,638	1,668	1,668	1,601	1,555	1,573	1,548	1,559	1,589	1,567
EBITDA	239	246	260	245	163	129	138	169	188	209	213
EBIT	177	184	200	186	108	73	84	114	132	153	159
PAT	145	162	157	137	85	62	62	79	103	150	115
Per Capita (Annualised) - USD											
Revenue	41,320	39,975	42,486	43,769	43,176	41,306	43,022	42,575	42,241	41,192	41,664
EBITDA	6,042	5,991	6,626	6,441	4,388	3,437	3,766	4,653	5,082	5,414	5,661
EBIT	4,488	4,493	5,086	4,877	2,924	1,942	2,311	3,127	3,581	3,961	4,221
PAT	3,665	3,963	3,998	3,601	2,279	1,644	1,707	2,172	2,800	3,888	3,070
Per capita operating cost	36,832	35,482	37,400	38,892	40,252	39,364	40,711	39,449	38,661	37,232	37,442

Source: Company, BOBCAPS Research

Fig 16 – QoQ and YoY growth of various parameters (USD terms)

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
QoQ Growth											
Total Company	1.5	0.3	1.9	(0.1)	(11.1)	4.9	1.1	(1.8)	0.9	1.9	(1.3)
By Geography(%)											
North America	4.2	2.8	(0.4)	(0.2)	(0.5)	0.7	(1.4)	(3.7)	3.9	(0.7)	(1.9)
Europe	(1.9)	(3.6)	1.4	3.6	(6.7)	(7.0)	2.2	0.1	(2.6)	4.5	(3.0)
Rest of World	(0.1)	(0.5)	6.8	(3.1)	(8.2)	(6.1)	5.9	1.3	(2.7)	5.0	1.4
By Industry (%)											
Communications, Media and Entertainment	1.0	(1.4)	2.1	0.7	(9.5)	(4.9)	(0.2)	(2.7)	(7.6)	2.7	(4.0)
Manufacturing	4.2	4.9	(0.1)	1.2	2.0	2.0	3.1	(1.0)	1.1	(4.0)	(3.7)
Technology	5.9	4.5	3.9	(0.0)	(0.3)	(0.1)	(3.5)	0.3	29.7	5.7	(1.6)
Banking, financial services & insurance	(2.6)	(2.1)	(0.7)	(0.0)	(2.8)	(3.1)	(2.3)	3.5	(3.0)	2.4	0.4
Retail, transport & logistics	5.5	2.9	6.9	(10.6)	(10.3)	12.2	6.1	(16.5)	5.5	5.6	0.9
Healthcare and Life sciences									7.3	(1.8)	2.1
Others	(0.5)	(1.7)	2.9	3.0	(62.4)	142.9	9.2	(63.5)	(4.6)	7.8	14.2
By Client classification (%)											
Top 5 Clients	(3.1)	(9.2)	(3.5)	(5.6)	(4.0)	(2.8)	(4.8)	(1.6)	(2.5)	(0.4)	(3.9)
Top 10 Clients	(1.8)	(6.3)	(1.8)	(3.7)	(0.3)	(2.8)	(2.6)	(1.6)	(2.8)	1.0	(4.1)
Top 20 Clients	(3.2)	(2.1)	1.8	(0.0)	(6.4)	(2.8)	1.1	(1.6)	(0.9)	2.5	(2.9)
YoY Growth											
Total Company	18.0	11.2	8.8	3.7	(1.9)	(5.1)	(5.7)	(7.2)	(2.6)	2.2	(0.3)
By Geography(%)											
North America	25.3	18.2	10.6	6.5	1.6	(0.5)	(1.5)	(4.9)	(0.7)	(2.0)	(2.4)
Europe	10.6	5.2	4.1	(0.6)	(5.4)	(8.7)	(8.0)	(11.2)	(7.3)	4.2	(1.1)
Rest of World	12.6	4.5	10.1	2.9	(5.5)	(10.8)	(11.5)	(7.5)	(2.0)	9.6	4.9
By Industry (%)											
Communications, Media and Entertainment	19.2	10.1	5.9	2.4	(8.3)	(11.5)	(13.5)	(16.4)	(14.7)	(7.8)	(11.3)
Manufacturing	9.4	11.2	8.0	10.7	8.3	5.3	8.7	6.3	5.3	(0.9)	(7.5)
Technology	30.1	24.8	32.8	14.9	8.2	3.4	(3.9)	(3.6)	25.4	32.7	35.2
Banking, financial services & insurance	20.1	11.2	12.1	(5.2)	(5.5)	(6.5)	(8.1)	(4.8)	(5.0)	0.5	3.3
Retail, transport & logistics	21.1	15.5	8.5	3.7	(11.9)	(3.9)	(4.6)	(10.8)	4.9	(1.2)	(6.0)
Healthcare and Life sciences									NA	NA	NA
Others	11.3	0.9	(1.1)	3.7	(60.8)	(3.1)	2.9	(63.6)	(7.7)	(59.0)	(57.2)
By Client Classification (%)											
Top 5 Clients	12.1	(3.9)	(13.6)	(19.9)	(20.6)	(15.1)	(16.2)	(12.6)	(11.3)	(9.0)	(8.1)
Top 10 Clients	14.2	0.5	(6.5)	(13.0)	(11.8)	(8.5)	(9.2)	(7.2)	(9.5)	(5.9)	(7.3)
Top 20 Clients	12.0	3.5	2.7	(3.5)	(6.7)	(7.4)	(8.1)	(9.5)	(4.1)	1.2	(2.9)

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	5,32,902	5,19,955	5,33,541	5,79,305	6,36,731
EBITDA	80,287	49,646	70,149	92,867	1,15,801
Depreciation	19,567	18,171	18,687	19,523	20,173
EBIT	60,720	31,475	51,462	73,344	95,628
Net interest inc./(exp.)	(3,256)	(3,922)	(3,123)	(1,828)	(1,828)
Other inc./(exp.)	9,650	9,169	7,900	3,863	4,612
Exceptional items	(2,370)	(4,582)	0	0	0
EBT	64,744	32,140	56,239	75,379	98,412
Income taxes	15,885	8,276	14,215	17,930	23,408
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(547)	(285)	(436)	(300)	(300)
Reported net profit	48,312	23,579	42,460	57,749	75,304
Adjustments	0	0	0	0	0
Adjusted net profit	48,312	23,579	42,460	57,749	75,304

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	0	0	0	0	0
Other current liabilities	1,33,210	1,26,166	1,25,922	1,36,751	1,50,631
Provisions	0	0	0	0	0
Debt funds	11,371	1,570	1,828	1,828	1,828
Other liabilities	37,707	39,806	40,055	40,055	40,055
Equity capital	4,400	4,413	4,421	4,421	4,421
Reserves & surplus	2,74,845	2,62,281	2,54,184	2,62,616	2,70,888
Shareholders' fund	2,79,245	2,66,694	2,58,605	2,67,037	2,75,309
Total liab. and equities	4,61,533	4,34,236	4,26,410	4,45,671	4,67,822
Cash and cash eq.	70,379	75,149	57,585	66,791	74,503
Accounts receivables	1,28,816	1,14,011	1,23,857	1,34,508	1,48,160
Inventories	236	375	390	390	390
Other current assets	46,625	45,179	44,970	48,838	53,795
Investments	7,698	7,092	9,502	9,502	9,502
Net fixed assets	62,047	54,640	47,658	39,851	31,394
CWIP	836	1,011	109	109	109
Intangible assets	76,657	75,106	76,494	76,494	76,494
Deferred tax assets, net	12,965	14,396	16,486	16,486	16,486
Other assets	55,274	47,277	49,359	52,703	56,989
Total assets	4,61,533	4,34,236	4,26,410	4,45,671	4,67,822

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	68,959	59,607	53,938	75,111	92,275
Capital expenditures	(13,254)	(7,600)	(7,615)	(8,377)	(8,377)
Change in investments	(12,271)	5,805	(5,712)	(3,344)	(4,286)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(25,525)	(1,795)	(13,327)	(11,721)	(12,663)
Equities issued/Others	12	13	8	0	0
Debt raised/repaid	(5,472)	(7,774)	763	0	0
Interest expenses	(3,256)	(3,922)	(3,123)	(1,828)	(1,828)
Dividends paid	(44,336)	(35,264)	(39,853)	(48,717)	(66,432)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(53,052)	(46,947)	(42,205)	(50,545)	(68,260)
Chg in cash & cash eq.	(13,725)	4,770	(17,564)	9,206	7,713
Closing cash & cash eq.	70,379	75,149	57,585	66,791	74,503

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	54.8	26.9	47.1	64.5	84.3
Adjusted EPS	54.7	26.5	47.0	64.4	84.2
Dividend per share	50.1	40.3	45.0	55.0	75.0
Book value per share	315.5	304.6	292.0	301.5	310.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.6	2.7	2.6	2.4	2.2
EV/EBITDA	17.2	28.3	20.0	15.1	12.2
Adjusted P/E	30.4	62.7	35.3	25.8	19.7
P/BV	5.3	5.4	5.7	5.5	5.3

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.6	73.4	75.5	76.6	76.5
Interest burden (PBT/EBIT)	106.6	102.1	109.3	102.8	102.9
EBIT margin (EBIT/Revenue)	11.4	6.1	9.6	12.7	15.0
Asset turnover (Rev./Avg TA)	163.5	163.4	175.3	190.1	203.4
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.2	1.2
Adjusted ROAE	17.6	8.6	16.2	22.0	27.8

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	19.4	(2.4)	2.6	8.6	9.9
EBITDA	0.1	(38.2)	41.3	32.4	24.7
Adjusted EPS	(12.8)	(51.6)	77.4	37.0	30.7
Profitability & Return ratios (%)					
EBITDA margin	15.1	9.5	13.1	16.0	18.2
EBIT margin	11.4	6.1	9.6	12.7	15.0
Adjusted profit margin	9.1	4.5	8.0	10.0	11.8
Adjusted ROAE	17.6	8.6	16.2	22.0	27.8
ROCE	14.1	7.3	12.6	18.3	23.3
Working capital days (days)					
Receivables	88	80	85	85	85
Inventory	NA	NA	NA	NA	NA
Payables	NA	NA	NA	NA	NA
Ratios (x)					
Gross asset turnover	8.6	9.5	11.2	14.5	20.3
Current ratio	1.8	1.9	1.8	1.8	1.8
Net interest coverage ratio	NA	NA	NA	NA	NA
Adjusted debt/equity	(0.2)	(0.3)	(0.2)	(0.2)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

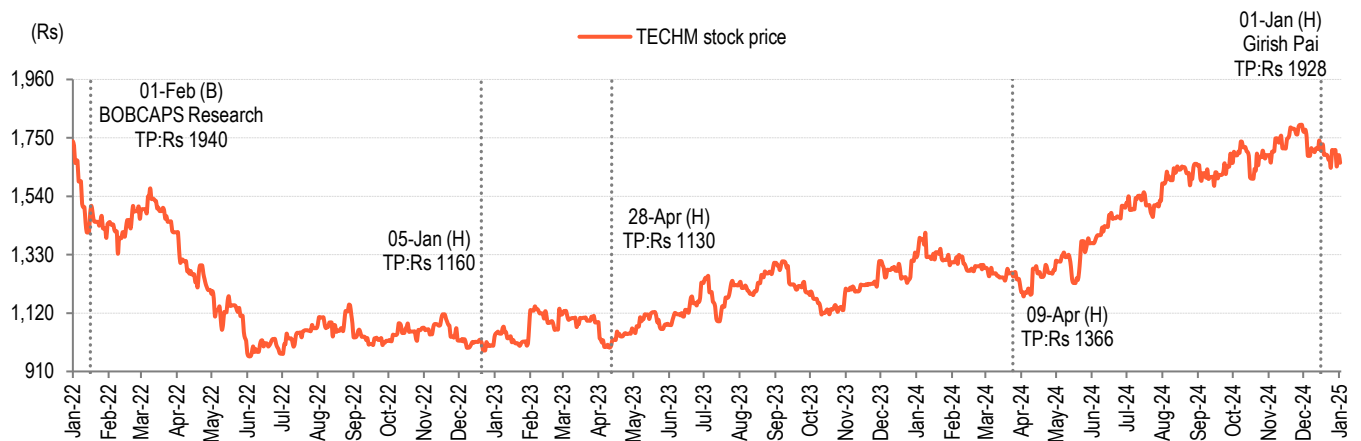
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): TECH MAHINDRA (TECHM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her 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 BOB Capital Markets Limited (BOBCAPS).

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an “as is” basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the “Losses”) which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom (“UK”):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd (“MSL”) who is authorised and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom (MSL and its affiliates are collectively referred to as “MAYBANK”). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the “Order”), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as “relevant persons”).

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.