

Bloomberg Code	TECHM
No of share O/S (in crs)	97.3
Market Cap (in Rs. crs)	1,04,298
Face Value (in Rs.)	5
Dividend Yield (%)	1.40
52 Wk High/Low	1169/957

Key Highlights:

- Tech Mahindra Ltd. reported a CC (Constant Currency) consolidated revenue growth of 0.3% on QoQ basis (USD 1,638 Mn in Q2FY23 against USD 1,633 Mn in Q1FY23).
- Consolidated Revenues in Q2FY23 stood at INR 13,130 Cr which grew by 20.7% on YoY basis and 3.3% on a QoQ basis. This was mainly driven by growth in Others vertical (QoQ growth of 48.7%) followed by Manufacturing (QoQ growth of 8.0%) and Technology (QoQ growth of 7.6%)
- EBIT Margins fell by 400 bps to 11.2% (YoY basis) and was flat sequentially due to increase in employee cost which grew by 27.3% (YoY basis) and Other Expenses which grew by 23.2% (YoY basis)
- PAT margins improved to 10.0% in Q2FY23 as against 9.0% in Q1FY23.
- Attrition for Q2FY23 slightly decreased to 20%. The attrition number during last quarter stood at 22.2%.
- Net addition of 5,877 associates during the quarter Q2FY23 as against 6,862 in Q1FY23.
- Closing headcount during Q2FY23 stood at 1,63,912. The closing headcount during Q1FY23 was 1,58,035.

Segmental Performance:

- Quarterly growth was led by Others vertical (QoQ growth of 48.7%) followed by Manufacturing (QoQ growth of 8.0%), Technology (QoQ growth of 7.6%), Retail, Transport & Logistics (QoQ growth of 5.9%), Communications, Media & Entertainment (CME) (QoQ growth of 1.5%) and BFSI (QoQ growth of 0.8%).
- The company added 13 clients in the USD 1 Million dollar + bucket (QoQ basis) , 8 clients in the USD 5 Million dollar + bucket (QoQ basis) , 4 clients in the USD 10 Million dollar + bucket (QoQ basis), 3 clients in the USD 20 Million dollar + bucket (QoQ basis).

**Key Observations:**

- Revenue to employee cost ratio dropped from 1.94 to 1.90 (QoQ basis) .There will be pressure from clients to maintain current billing rates considering recessionary pressures in US (currently clients in US and Europe are grappling with fear of recession and there will be drop in non-discretionary spending which can have impact on number/quantum of projects being allocated)
- EBIT margin improved slightly from 11.0% to 11.2% on QoQ basis. There will be pressure on company to retain/improve this margin in coming quarter considering recessionary pressures in US and Europe and increasing employee retention cost.
- Attrition rate of 20% in current quarter shows slight improvement. Last quarter attrition rate was 22.2%.
- Net addition of 5,877 employees in this quarter Q2FY23 (1,51,173 employees in Q4FY22 , 1,58,035 employees in Q1FY23 and 1,63,912 employees in Q2FY23) is lower than net addition of around 6,862 employees in previous quarter Q1FY23.
- Management quotes by Mr. CP Gurnani, CEO and MD, Tech Mahindra , mentioning to **While market conditions evolve and supply-side challenges continue** suggests clear sign of conservative approach in terms of hiring/spending/business from clients.

Valuation

Tech Mahindra is trading at FY24 P/E of 15.13x (with an estimated FY24 EPS of Rs. 70.80).

Financial Summary

Net sales grew by 20.7% YoY and 3.3% QoQ for Q2FY23.

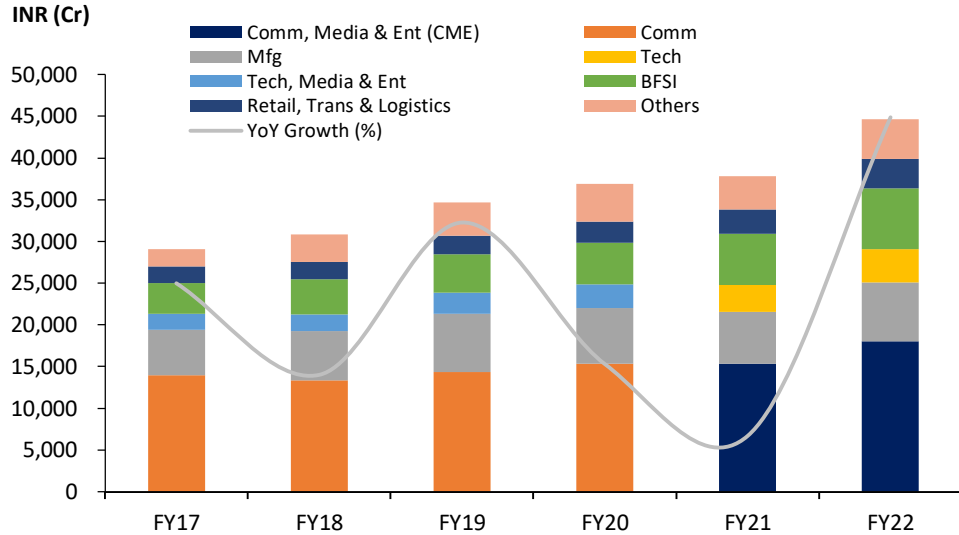
EBIT Margins fell by 400 bps to 11.2% (YoY basis) and was flat sequentially due to increase in employee cost which grew by 27.3% (YoY basis) and Other Expenses which grew by 23.2% (YoY basis) thus also leading to lower PAT margins.

PAT margins stood at 10.0% for Q2FY23 v/s 9.0% in Q1FY23 and 12.3% in Q2FY22.

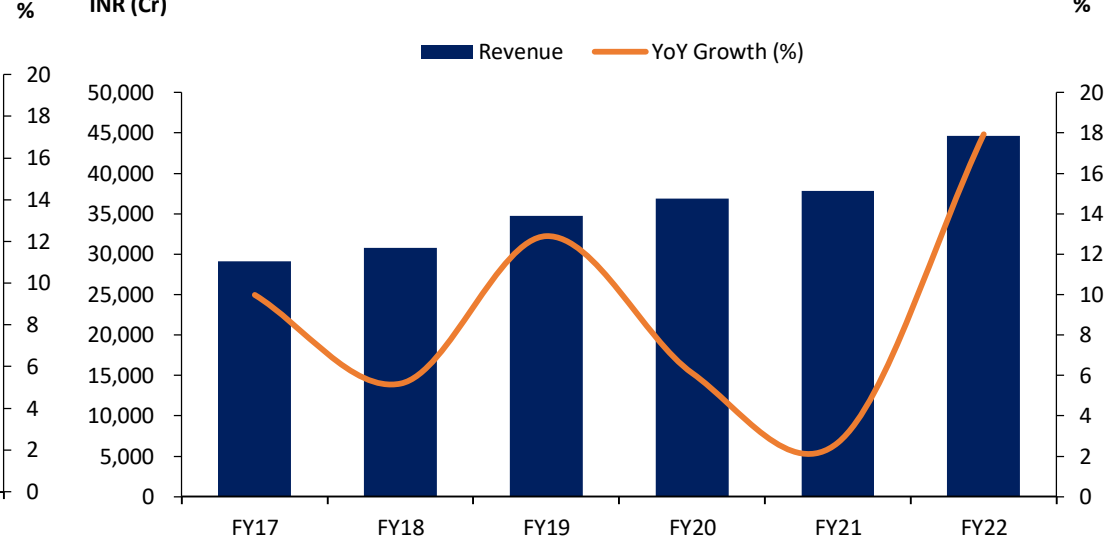
Figures are in Rs Cr	Q2FY23	Q1FY23	QoQ (%)	Q2FY22	YoY (%)	FY22	FY21	YoY (%)
Net Sales	13,130	12,708	3.3	10,881	20.7	44,646	37,855	17.9
Employee Cost	6,895	6,550	5.3	5,417	27.3	22,286	19,297	15.5
<i>Employee Cost to Sales</i>	<i>52.5</i>	<i>51.5</i>		<i>49.8</i>		<i>49.9</i>	<i>51.0</i>	
Other Expenses	4,275	4,278	-0.1	3,470	23.2	14,370	11,762	22.2
<i>Other Expenses to Sales</i>	<i>32.6</i>	<i>33.7</i>		<i>31.9</i>		<i>32.2</i>	<i>31.1</i>	
EBIDTA	1,960	1,880	4.2	1,995	-1.8	7,990	6,796	17.6
<i>EBIDTA Margin (%)</i>	<i>14.9</i>	<i>14.8</i>		<i>18.3</i>		<i>17.9</i>	<i>18.0</i>	
Depreciation	492	477	3.1	343	43.4	1,520	1,458	4.3
<i>Depreciation to Sales</i>	<i>3.7</i>	<i>3.8</i>		<i>3.2</i>		<i>3.4</i>	<i>3.9</i>	
EBIT	1,468	1,403	4.6	1,652	-11.1	6,470	5,339	21.2
<i>EBIT Margin (%)</i>	<i>11.2</i>	<i>11.0</i>		<i>15.2</i>		<i>14.5</i>	<i>14.1</i>	
Other Income	290	122	137.7	282	2.9	1,142	787	45.1
Interest	79	40	96.0	35	123.2	163	174	-6.6
<i>Interest Coverage Ratio</i>	<i>19</i>	<i>35</i>		<i>47</i>		<i>40</i>	<i>31</i>	
<i>Interest Cost to Sales (%)</i>	<i>0.6</i>	<i>0.3</i>		<i>0.3</i>		<i>0.4</i>	<i>0.5</i>	
Profit Before Tax	1,679	1,485	13.1	1,899	-11.6	7,449	5,952	25.2
<i>Profit Before Tax Margin (%)</i>	<i>12.8</i>	<i>11.7</i>		<i>17.5</i>		<i>16.7</i>	<i>15.7</i>	
Tax	365	338	7.9	557	-34.5	1,822	1,600	13.9
<i>Tax Rate (%)</i>	<i>21.7</i>	<i>22.8</i>		<i>29.3</i>		<i>24.5</i>	<i>26.9</i>	
Profit After Tax	1,315	1,147	14.6	1,342	27.7	5,627	4,352	29.3
<i>Profit After Tax Margin (%)</i>	<i>10.0</i>	<i>9.0</i>		<i>12.3</i>		<i>12.6</i>	<i>11.5</i>	
Min. Int./Sh.of Assoc.	-29	-16		-3		-61	76	
Cons. Net Profit	1,285	1,132	13.6	1,339	-4.0	5,566	4,428	25.7
<i>Cons. Net Profit Margin (%)</i>	<i>9.8</i>	<i>8.9</i>		<i>12.3</i>		<i>12.5</i>	<i>11.7</i>	
Adjusted EPS	13.2	11.6	13.6	15.3	-13.7	63.4	50.7	25.2

Particulars	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Dollar Revenue (\$ in Mn)	1,208	1,265	1,309	1,330	1,384	1,473	1,534	1,608	1,633	1,638
Geographical Revenue Breakup (%)										
Americas	49.3	48.4	46.8	45.5	46.7	47.8	48.9	48.3	49.6	50.8
Europe	25.8	25.2	26.4	26.5	27.2	25.9	25.5	26.4	25.5	24.5
Rest of the world	24.9	26.4	26.8	28.0	26.1	26.3	25.6	25.3	24.9	24.7
Vertical wise Breakup (%)										
Comm,Media & Ent (CME)	40.7	40.2	40.6	40.4	40.0	40.1	40.9	40.6	40.4	39.7
Manufacturing	16.9	16.3	16.4	16.4	16.5	16.0	15.8	14.9	15.3	16.0
Technology	8.2	8.9	8.5	8.5	8.8	9.0	8.4	9.3	9.7	10.1
BFSI	15.7	16.4	16.0	16.4	16.4	16.3	15.4	17.4	16.7	16.3
Retail, Transport & Logistics	7.6	7.7	8.1	7.7	7.7	7.8	8.5	7.6	7.9	8.1
Others	10.9	10.5	10.6	10.6	10.6	10.8	10.9	10.2	10.0	9.8
Clientwise Break up (Nos.)										
1 Million dollar +	451	460	454	451	466	488	502	524	549	562
5 Million dollar +	161	165	162	169	168	169	173	174	176	184
10 Million dollar +	81	82	83	85	86	90	96	97	104	108
20 Million dollar +	48	50	50	50	51	50	50	54	60	63
50 Million dollar +	21	21	21	21	22	22	22	23	23	23

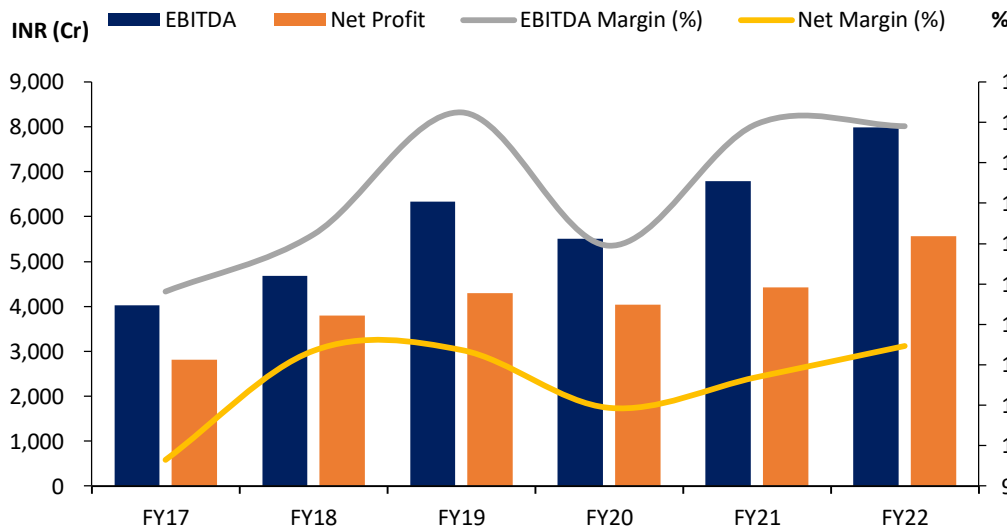
Well diversified vertical segmentation with strong focus on CME



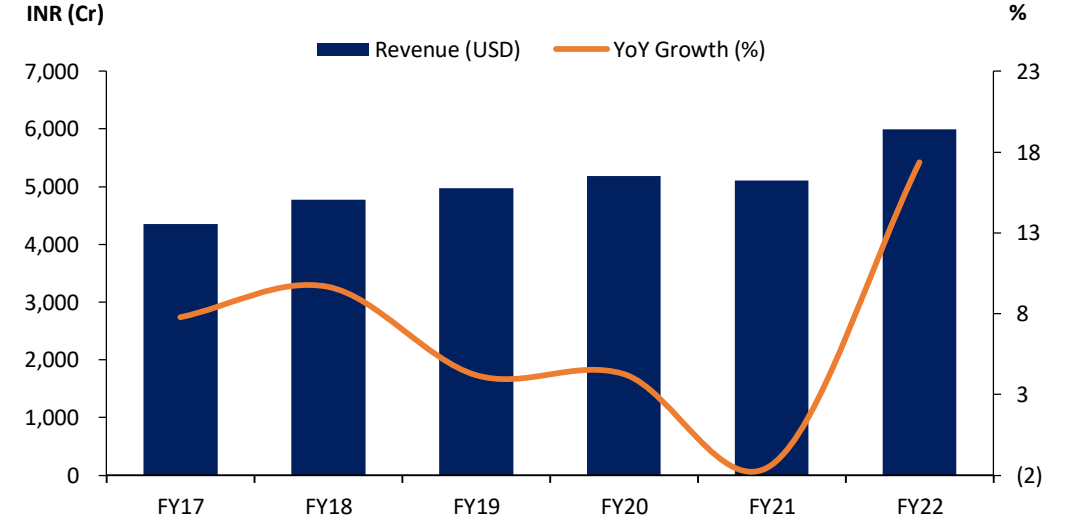
Stable revenue aided by recent appreciation of USD



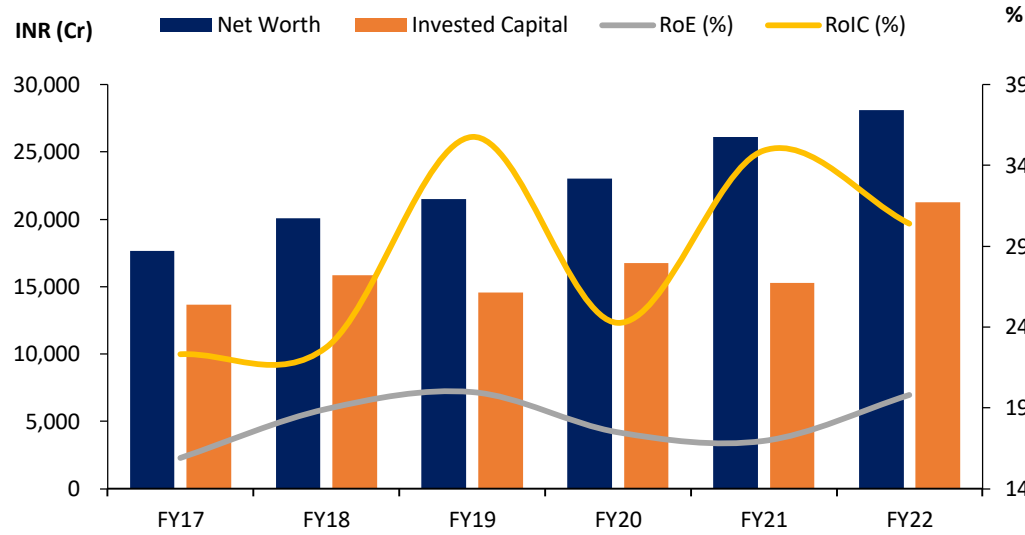
Pressure on margins considering macro conditions



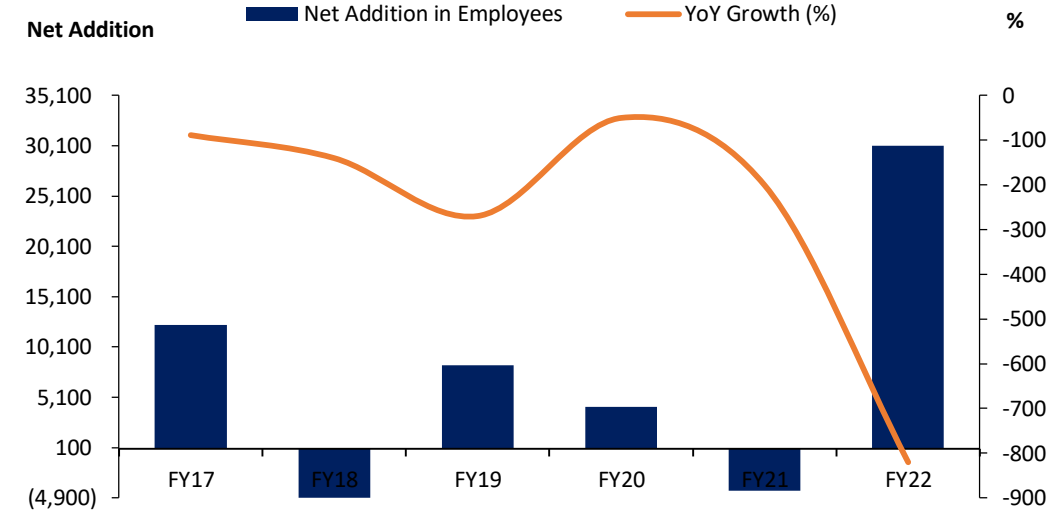
Stable USD revenue



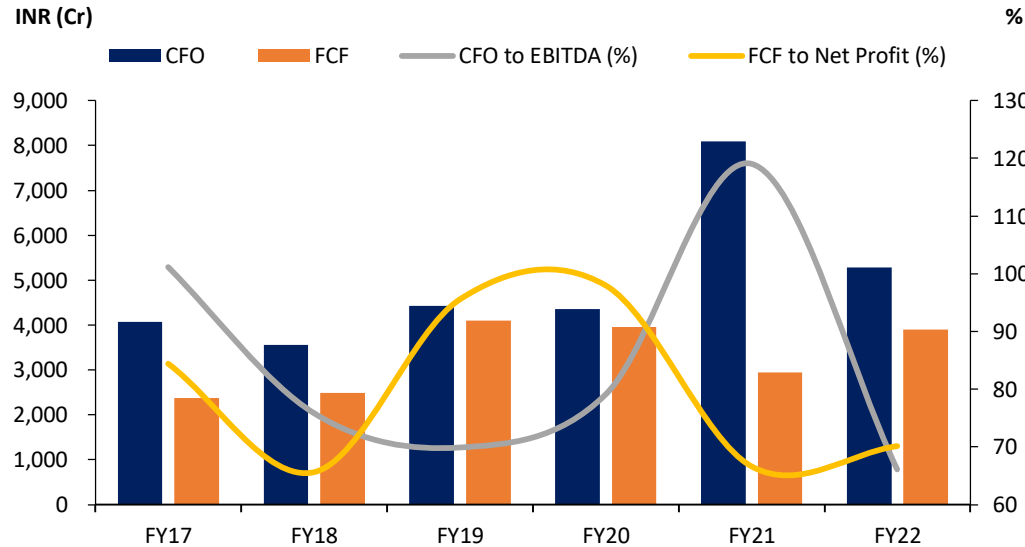
Stable and improving RoE



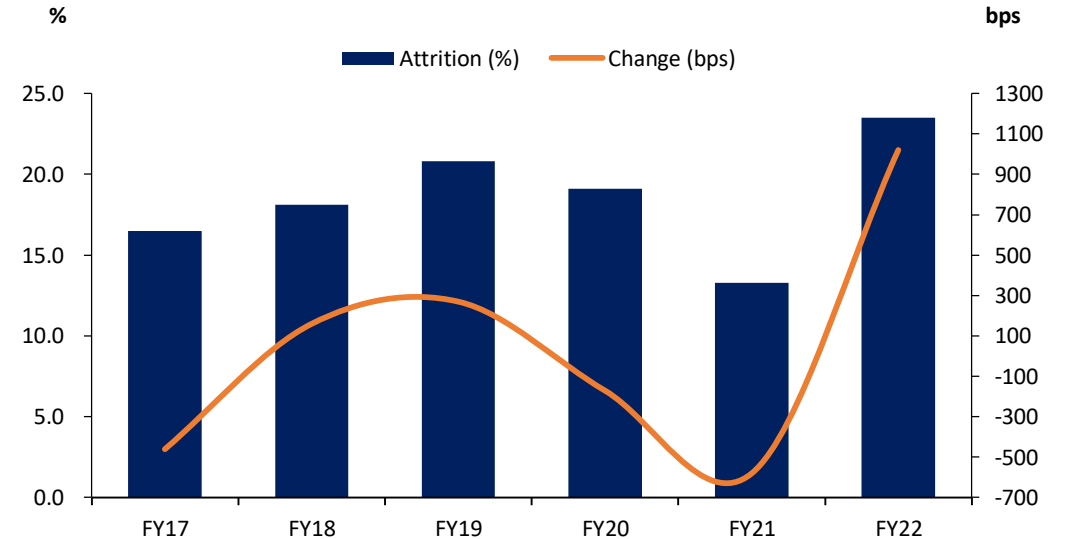
Macroeconomic conditions dictating company to add employees at higher rate



Positive cash flows good for future growth



Attrition cause of concern



Tech Mahindra Vs Wipro

Figures in INR (Cr)	Tech Mahindra												
	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Sales	9,070	9,655	9,490	9,106	9,372	9,647	9,730	10,198	10,881	11,451	12,116	12,708	13,130
Expenses	7,569	8,091	8,360	7,806	7,669	7,752	7,832	8,321	8,887	9,392	10,028	10,828	11,185
Operating Profit	1,501	1,563	1,130	1,300	1,703	1,896	1,897	1,876	1,994	2,059	2,088	1,880	1,944
OPM %	17%	16%	12%	14%	18%	20%	20%	18%	18%	18%	17%	15%	15%
Other Income	217	350	287	416	118	221	33	287	282	223	324	122	290
Interest	38	55	53	50	40	42	42	38	35	34	55	40	79
Depreciation	342	385	398	383	372	358	344	331	343	362	484	477	492
Profit before tax	1,338	1,474	966	1,283	1,409	1,716	1,544	1,794	1,898	1,886	1,873	1,486	1,664
Tax %	17%	25%	25%	26%	25%	25%	32%	24%	29%	27%	18%	23%	22%
Net Profit	1,124	1,146	804	972	1,065	1,310	1,081	1,353	1,339	1,368	1,506	1,132	1,299
EPS in Rs	11.65	11.87	8.32	10.06	11.01	13.54	11.17	13.97	13.81	14.1	15.49	11.64	13.21

Figures in INR (Cr)	Wipro												
	Sep-22	Dec-22	Mar-22	Jun-22	Sep-22	Dec-22	Mar-22	Jun-22	Sep-22	Dec-22	Mar-22	Jun-22	Sep-22
Sales	15,131	15,470	15,750	14,923	15,097	15,670	16,245	18,467	19,669	20,315	20,861	21,529	22,540
Expenses	12,035	12,290	12,631	11,734	11,660	11,553	12,218	14,272	15,500	16,134	16,724	17,671	18,605
Operating Profit	3,096	3,180	3,119	3,189	3,437	4,117	4,028	4,195	4,169	4,181	4,136	3,858	3,934
OPM %	20%	21%	20%	21%	23%	26%	25%	23%	21%	21%	20%	18%	17%
Other Income	745	613	591	652	555	664	534	579	505	484	502	472	510
Interest	225	184	165	130	127	140	112	75	146	140	172	204	227
Depreciation	481	529	580	615	658	791	699	826	772	746	734	774	797
Profit before tax	3,134	3,079	2,966	3,095	3,207	3,850	3,750	3,873	3,756	3,779	3,732	3,352	3,420
Tax %	18%	20%	21%	22%	23%	22%	21%	16%	22%	21%	17%	24%	23%
Net Profit	2,561	2,463	2,345	2,412	2,484	2,998	2,974	3,248	2,931	2,972	3,092	2,559	2,649
EPS in Rs	4.47	4.3	4.07	4.18	4.31	5.19	5.42	5.92	5.35	5.42	5.63	4.68	4.85

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