




Industry	TECHNOLOGY
Bloomberg	TECHM IN
BSE CODE	532755

Solid growth in revenue front, 2HFY20 to see margin pressure

RATING	NEUTRAL
CMP	775
Price Target	690
Potential Upside	-11%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	846/608
Mkt Capital (Rs Cr)	74885
Free float (%)	64%
Avg. Vol 1M (000)	84
No. of Shares (Cr)	96
Promoters Pledged (Cr)	0

Fig in Rs cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	34,742	36,685	41,223
EBITDA	6,337	6,087	7,080
EBIT	5,208	4,805	5,785
PAT	4,289	4,297	5,107
EPS (Rs)	44	45	53
EPS	13%	2%	19%
ROE (%)	22%	21%	23%
ROCE (%)	22%	19%	22%
BV	206	221	240
P/B (X)	4	4	3
P/E (x)	18	17	15

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2QFY20 Result update

- TECHM reported healthy set of numbers in 2QFY20 results. Revenue grew by 4.1%QoQ to USD1287 million (in line with our estimates) mainly driven by the better than expected performance in the enterprise segment while PAT grew 17% to Rs1111 crore (above estimates) due to one off in tax.
- EBIT margins expanded 130 bps to 12.8%; driven by SG&A optimization, lower visa costs and synergy benefits (HCI and Healthcare vertical).
- Tax came at 16.9% as compared to its normalize rate of 25% to 26% due to tax refund during the quarter.
- Employee utilization (including trainees) level increased to 82% as compared to 81% in 1QFY20 While Attrition rate in 2QFY20 remained flat (~ 21% in 2QFY20).
- Digital continued its traction in 2QFY20 by growing 11.8%QoQ and now contributes 39% to revenues. Digital remains the major foundation of the company.

Record High TCV wins

The company had its highest TCV wins during the quarter. TCV worth of USD1.49billion was won during the quarter (up 3.1times QoQ). Both Enterprise and communication vertical contributed to wins with USD 1billion coming from telecom and rest USD 490 million from enterprise segment. In addition, the deal pipeline remains strong as per management.

Enterprise bounced back in 2Q

TECHM Enterprise segment had remained soft since last 2 quarters owing to slowdown in Automobile and BFSI industries. However in 2QFY20, the company saw reversal in trend .Enterprise segment grew 5.6%QoQ mainly driven by broad based growth across segments .BFSI which posted a de-growth in 1QFY20, grew 4.8% QoQ during the quarter. Also solid growth came from verticals like TME (Technology, media and entertainment) and RTL (Retail, Transport & Logistics) that grew by 10%/16.5%, QoQ. However manufacturing continued to remain soft and declined 4.2% sequentially. Management expects to see recovery in manufacturing from 3QFY20.

Margin to remain under pressure

EBIT margins expanded 130 bps QoQ to 12.8% mainly driven by SG&A optimization. For FY20E, the company expects EBIT margins to dip 150-250 bps YoY from FY19 levels (15%) mainly on account of a sharp drag in margins in 1QFY20 and large deal transition costs. Thus , we expect transition cost to drag margins in next two or three quarters.

View and valuation

After a soft start to the year, TECHM reported a healthy growth in revenue front while PAT was benefited by one time tax refund (grew 17%sequentially) . The quarter saw a broad based growth across all fronts (record TCV wins~1.4billion, growth in digital revenues 11.8% QoQ and bounce back of enterprise segment).Enterprise grew 5.6%QoQ after few soft quarters while communication continued its growth momentum by growing 1%QoQ. Going forward, incremental revenue from the new AT&T deal and continued traction in enterprise segment will drive growth in H2FY20(a bit moderate than 2QFY20 level) while transition costs will drag margins in next two or three quarters , thus resulting in overall margin decline of 190 bps from FY19 margins. Also, Although the management has given guidance of pulling up margins to 15% level for FY21, we still feel it will challenging task as it has not been able to do that in the past.

Post result, we reduced our FY20 margin by 30bps and unchanged our margins for FY21 owing to margin pressure. Thus we largely maintain our Neutral stance on stock with the target price of Rs 690.

Key Risks to our rating and target

- Slower than expected growth in telecom .

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2QFY20 Results

Mixed performance

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	Fig in Rs cr
										YoY %
Net Sales	8,630	8,944	8,892	8,653	9,070	5.1%	4.8%	30772.9	34742.1	12.9%
Other Income	175	81	167	341	216	23.6%	-36.6%	1,417	534	-62.3%
Employee Exp	4,303	4,518	4,307	4,501	4,706	9.4%	4.6%	16,624	17,508	5.3%
Other Expenses	2,708	2,703	2,947	2,838	2,863	5.7%	0.9%	9,439	10,897	15.4%
EBITDA	1,619	1,723	1,639	1,314	1,501	-7.3%	14.2%	4710	6337	34.6%
Deprication	294	284	270	321	342	16.0%	6.3%	1,085	1,129	4.1%
EBIT	1,324	1,439	1,368	993	1,159	-12.4%	16.8%	3,625	5,208	43.7%
Interest	39	36	28	45	38	-1.2%	-15.6%	162	133	-18.0%
PBT	1,461	1,484	1,507	1,289	1,337	-8.4%	3.8%	4,879	5,609	15.0%
Tax	391	264	354	332	227	-42.1%	-31.7%	1,093	1,254	14.8%
PAT	1,056	1,207	1,127	949	1,111	5.2%	17.0%	3,786	4,289	13.3%

Concall Highlights

- **Record TCV wins:** The company had its highest TCV wins during the quarter. TCV worth of USD1.49 billion was won during the quarter. Both Enterprise and communication vertical contributed to wins with USD 1 billion coming from telecom and rest USD 490 million from enterprise segment.
- **Continued growth in digital:** It is now contributes 39% to revenues and grew 11.8% QoQ. Digital remains the major foundation of growth. Pipeline for digital transformation is strong.
- **Born acquisition :** The company acquired Born group which is largest independent , integrated agency for strategy , creative, content and commerce offering with strong technology capabilities .The acquisition was worth of USD95 million and it will enhance TECHM transformation consulting capabilities through addition of creative and design skills, technology and analytics platforms and commerce expertise.
- **Telecom :** The revenue from this vertical accounted for ~41% of total. It increased 4.6% YoY and 1% QoQ in USD terms. The large deal win from AT&T will propel the growth in this vertical in the next two quarters. The management is confident of the pipeline in this vertical. The deal wins in Communication vertical mostly centered on digital transformation and increasing operational efficiency of telecom companies. Management indicated that M&A among its clients will lead to more work for TML. Work is going to be mainly around migration, integration, business process rationalization, farming of network assets and providing inventory management support.
- **Enterprise:**
 - Strong revival seen in enterprise business due to broad based growth across verticals like BFSI, Retail and healthcare .While Manufacturing remained soft due to sluggishness in Auto segment.
 - Manufacturing which was sluggish in 2Q but hopefully expected to start to grow from 3Q. BFS, Retail, HLS which has shown solid growth in 2Q will even out in coming quarters as they increased due to fast ramp of deal won .Overall the pipeline remain good and management expects to grow from the current level (digital transformation will continue to drive growth).
 - HCI has now shown steady stream, the management expects in 3QFY20 seasonality impact to be much lower than last year. Retail will remain strong in 3QFY20.
 - Management expect to growth to moderate a bit but will have steady growth in enterprise segment in FY20
- **Margins**
 - Margin expanded 130 bps sequentially during the quarter. Margin (break-up): 1) operational efficiency including certain benefits in SG&A(100bps); 2) portfolio companies, 3) lack of visa cost benefited the margins, while partial salary hike impacted by margins by 20 to 30bps .
 - On SG&A the company believes normalize SG&A will be 13.5% to 13.8% for FY20.
 - Margin in next few quarters will under pressure due to transition cost .Thus management believe margin decline of 150 to 250 bps in FY20.
 - For FY21 management expects margins to be at 15%.
- **DSO days:** DSO for the quarter increased by 4 days .Most of the increase came due to unbilled DSO. Hopefully to get DSO number down in next two quarters.
- **Growth outlook:** The Company remains consistent with last outlook. Telecom is expected to grow industry level in cc terms .Enterprise will lag but it is picking up.

Revenue Mix

Broad based growth across segments barring Manufacturing

VERTICAL (USD mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Communication	518	485	506	518	541	525	529	0.8%	4.6%
Manufacturing	240	246	245	258	256	242	232	-4.2%	-5.4%
Technology,media	91	88	89	88	95	95	104	10.0%	17.2%
BFSI	162	166	164	169	166	160	167	4.8%	1.8%
Retail,transport	77	75	79	84	81	77	90	16.5%	13.8%
Others	157	164	136	142	129	148	165	11.0%	20.8%

Revenue by Geography

Strong growth in US while Europe remained soft

GEOGRAPHY (USD mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Americas	581	590	573	598	589	594	624	5.2%	8.93%
Europe	371	367	361	364	363	344	344	-0.1%	-4.78%
RoW	287	268	285	299	316	309	321	3.6%	12.33%

Revenue by Clients

Solid growth across clients

Client (USD Mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Top 5 clients	289	268	284	285	289	267	278	4.2%	-2.14%
Top 6-10 clients	407	398	399	398	406	383	405	6%	1.68%
Top 11-20 clients	569	566	556	555	572	544	561	3%	0.93%

Exhibit: Revenue trend

Bounce back in enterprise drove the overall growth.

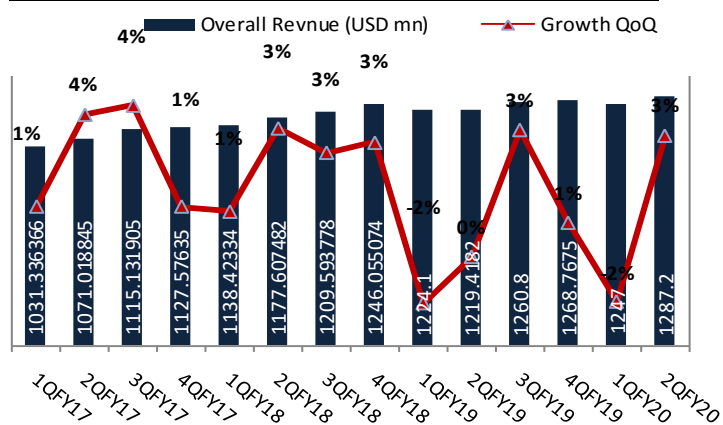


Exhibit: TCV wins

TCV of large deals increases QoQ.

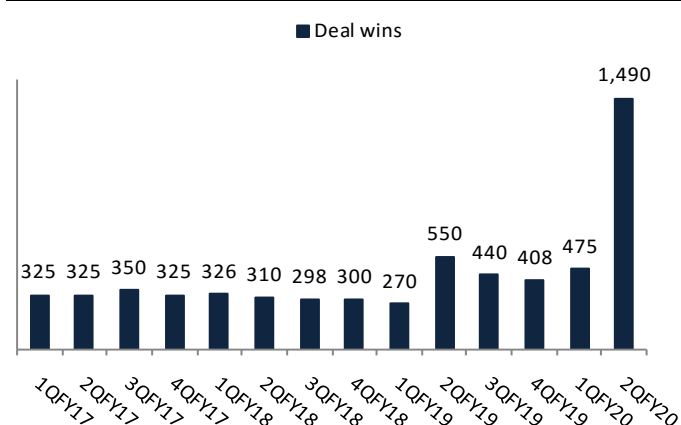


Exhibit: Telecom Segment

Traction continued in telecom segment

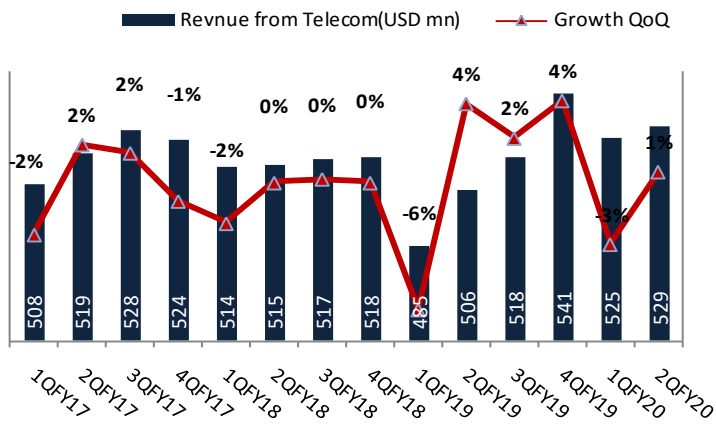


Exhibit: Enterprise Segment

Faster than ramp up of deal led to recovery in enterprise

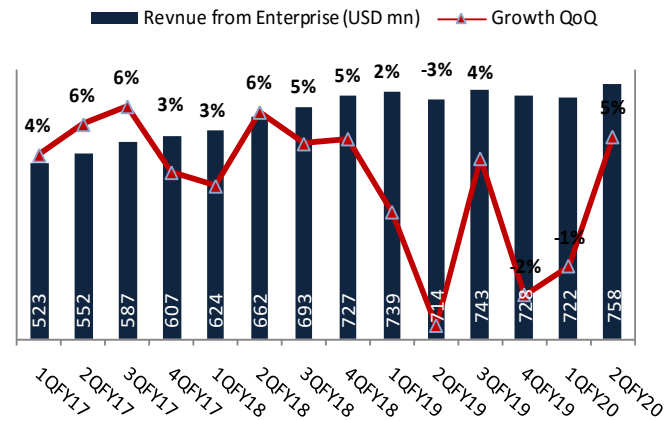


Exhibit: Margin Trend

Strong margin execution in 2Q, 2H to see margin pressure.

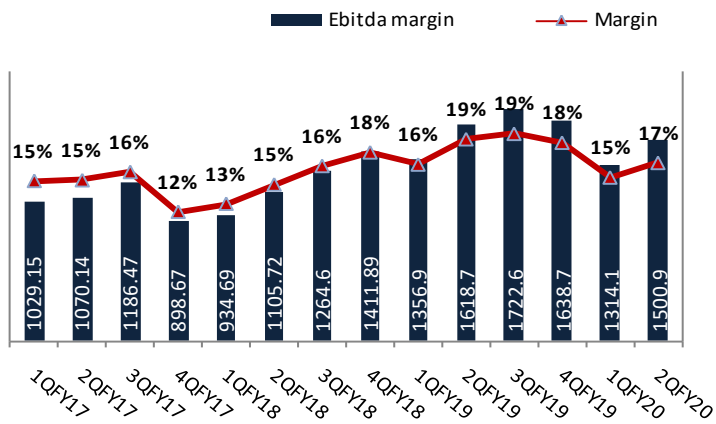


Exhibit: Utilization trend

Utilization inched up after dip in 1QFY20.

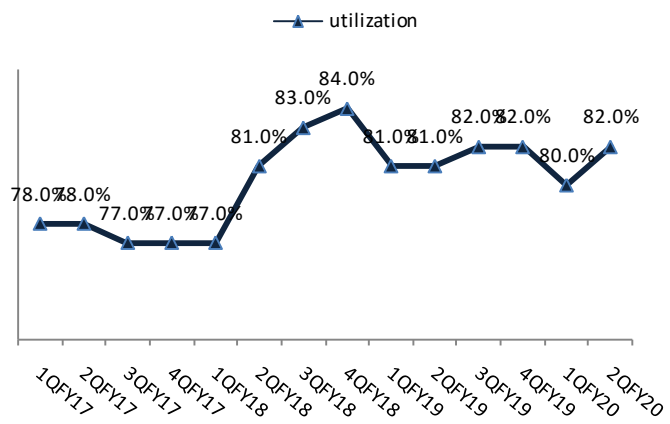
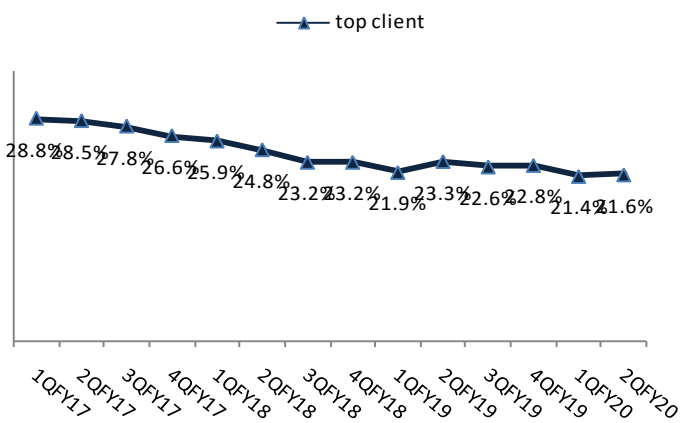


Exhibit: Top Client contribution

Remained strong during the quarter



Operational Details

Total Headcount	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Software professionals	73460	72437	72462	72534	71785	71477	74093	72597
BPO professionals	35496	34190	34700	39407	43439	43081	45000	52193
Sales & support	6285	6180	6390	6450	6618	6524	6680	6732
IT Attrition % (LTM)	17.0%	18.0%	19.0%	20.0%	21.0%	21.0%	21.0%	21.0%
IT Utilization %	83.0%	84.0%	81.0%	81.0%	82.0%	82.0%	80.0%	82.0%
IT Utilization % (Excluding Trair	83.0%	84.0%	84.0%	83.0%	83.0%	82.0%	82.0%	83.0%

Geography	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
America	46.9%	46.6%	48.2%	47.0%	47.4%	46.4%	47.6%	48.5%
Europe	29.8%	29.8%	30.0%	29.6%	28.9%	28.6%	27.6%	26.7%
Rest of world	23.3%	23.0%	21.9%	23.4%	23.7%	24.9%	24.8%	24.9%

No. of Active	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
No. of Active Clients	903	913	926	930	935	938	941	946
% of Repeat Business	92.9%	88.4%	98.5%	97.4%	94.6%	88.7%	97.7%	94.8%

No. of Million \$	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
≥ \$1 million clients	389	392	396	407	416	425	429	437
≥ \$5 million clients	154	156	154	157	157	156	160	155
≥ \$10 million clients	83	85	86	86	88	83	81	80
≥ \$20 million clients	40	44	47	45	46	50	49	49
≥ \$50 million clients	16	16	16	16	18	20	21	22

Client Contribution	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Top 5	23.2%	23.2%	21.9%	23.3%	22.6%	22.8%	21.4%	21.6%
Top 10	33.2%	32.7%	32.5%	32.7%	31.6%	32.0%	30.7%	31.4%
Top 20	45.0%	45.7%	46.2%	45.6%	44.0%	45.1%	43.6%	43.6%

On/Off Break-up	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	65.8%	67.0%	66.6%	64.5%	65.5%	65.2%	65.3%	65.4%
Offshore	34.2%	33.0%	33.4%	35.5%	34.5%	34.8%	34.7%	34.6%

Hedge book	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
GBP IN MN	241	229	213	190	171	233	275	299
STRIKE RATE(INR)	94.2	94.4	95.1	97	98.5	99.7	99.1	98.6
USD IN MN	577	598	894	1069	1084	934	961	1191
STRIKE RATE(INR)	72.2	71	70.7	71.9	72.8	72.9	73.5	74.4
EURO IN MN	236	244	228	220	202	293	361	385
STRIKE RATE(INR)	82.1	85.4	85.9	87.4	88.6	88.8	88.2	88.4

VERTICAL	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Communication	42.8%	41.6%	39.6%	41.5%	41.1%	42.7%	42.1%	41.1%
Manufacturing	19.1%	19.3%	20.1%	20.1%	20.5%	20.2%	19.4%	18.0%
Technology,media	6.5%	7.3%	7.2%	7.3%	7.0%	7.5%	7.6%	8.1%
BFSI	13.3%	13.0%	13.6%	13.5%	13.4%	13.1%	12.8%	13.0%
Retail,transport	7.1%	6.2%	6.1%	6.5%	6.7%	6.4%	6.2%	7.0%
Others	11.3%	12.6%	13.4%	11.2%	11.3%	10.2%	11.9%	12.8%

Financial Details

Balance Sheet

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	234	480	436	439	442	444	433	433
Reserves	8,947	11,768	14,155	15,998	18,401	19,841	20,845	22,658
Networth	9,181	12,249	14,591	16,437	18,843	20,284	21,278	23,092
Debt	52	675	1,002	1,220	1,726	1,405	1,405	1,405
Other Non Current Liab	790	454	678	1,157	1,167	914	914	914
Total Capital Employed	11,398	14,768	17,695	20,508	23,475	24,311	25,305	27,118
Net Fixed Assets (incl CWIP)	2,297	2,872	3,106	4,104	4,899	4,350	3,646	2,998
Non Current Investments	1,219	1,299	118	231	1,246	716	716	716
Other Non Cur Asst	21	31	537	646	602	554	554	554
Non Current Assets	4,157	6,266	6,884	8,863	10,482	10,612	9,907	9,260
Debtors	4,349	5,206	5,771	5,338	6,498	6,959	7,348	8,257
Cash & Bank	3,315	2,405	4,018	3,219	3,044	2,359	1,977	2,823
Other Curr Assets& loan	2,616	3,813	2,446	3,361	2,112	2,387	2,701	2,701
Current investments	253	804	1,125	2,165	3,445	6,590	8,386	9,339
current financial asset	-	-	1,587	2,157	2,942	2,906	2,906	2,906
Inventories	10	25	40	61	66	75	79	89
Current Assets	10,542	12,253	14,986	16,300	18,107	21,276	23,397	26,116
Creditors	1,472	2,059	2,276	2,312	2,037	2,489	2,629	2,954
Provisions	1,267	1,799	355	387	403	396	417	469
Other Curr Liab	1,802	1,223	1,238	1,612	1,707	1,761	1,859	2,089
Other financial liability	-	-	270	423	1,877	3,473	3,473	3,473
Employee benefit obligations	-	-	692	825	938	1,018	1,018	1,018
Curr Liabilities	4,542	5,080	4,830	5,559	6,962	9,136	9,395	10,002
Net Current Assets	6,000	7,173	10,156	10,768	11,145	12,430	14,128	16,589
Total Assets	15,940	19,848	22,525	26,067	30,437	33,447	34,700	37,120

Income Statement

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	18831.4	22621.3	26494.2	29140.8	30772.9	34742.1	36685.49	41223.42
Change (%)	174%	20%	17%	10%	6%	13%	6%	12%
EBITDA	4,184	4,153	4,271	4,184	4,710	6,337	6,087	7,080
Change (%)	194%	-1%	3%	-2%	13%	35%	-4%	16%
Margin (%)	22%	18%	16%	14%	15%	18%	17%	17%
Depr & Amor.	522	611	759	978	1,085	1,129	1,282	1,295
EBIT	3,662	3,542	3,512	3,206	3,625	5,208	4,805	5,785
Int. & other fin. Cost	80	30	97	129	162	133	160	153
Other Income	113	107	439	778	1,417	534	985	1,218
EBT	3,662	3,542	3,512	3,206	3,625	5,208	4,805	5,785
Exp Item	(120)	-	-	-	-	-	-	-
Tax	752	960	830	1,002	1,093	1,254	1,309	1,713
Minority Int & P/L share of Ass.	(34)	(31)	-	-	-	-	-	-
Reported PAT	3,062	2,659	3,024	2,853	3,786	4,354	4,321	5,138
Adjusted PAT	3,029	2,628	3,027	2,851	3,786	4,289	4,297	5,107
Change (%)	283%	-13%	15%	-6%	33%	13%	0%	19%
Margin(%)	16%	12%	11%	10%	12%	12%	12%	12%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	41%	25%	23%	18%	21%	22%	21%	23%
ROCE	40%	27%	22%	17%	16%	22%	19%	22%
Asset Turnover	12	9	9	8	7	8	9	12
Current Ratio	2	2	3.1	2.9	2.6	2.4	2.5	2.7
Debtor Days	84	84	79	67	77	73	73	73
Book Value Per Share	197	127	151	169	192	206	221	240
Payable Days	29	33	31	29	24	26	26	26
Earnings Per Share	65	27	31	29	39	44	45	53
P/E	14	23	15	16	17	18	17	15
Price / Book Value	5	5	3	3	3	4	4	3
EV/EBITDA	9	14	10	11	13	12	12	10
EV/Sales	2	3	2	2	2	2	2	2

Cash Flow Statement

Fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	3695	3618	3857	3853	4879	5543	5630	6850
(inc)/Dec in Working Capital	-1615	-850	-461	544	-783	-1057	-284	-662
Non Cash Op Exp	610	713	1057	754	984	1607	1282	1295
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-1094	-1073	-1315	-1080	-1526	-1661	-1309	-1713
others	0	0	0	0	0	0	0	0
CF from Op. Activities	1596	2409	3137	4071	3554	4432	5318	5771
(inc)/Dec in FA & CWIP	-914	-1113	-871	-760	-790	-779	-577	-647
Free Cashflow	682	1296	2266	3311	2763	3653	4741	5124
(Pur)/Sale of Inv	-62	-447	-278	-912	0	0	-1796	-953
CF from Inv. Activities	-190	-2092	-1460	-3051	-3360	-2116	-2373	-1600
inc/(dec) in NW	50	58	36	35	25	36	-10	0
inc/(dec) in Debt	852	802	138	-14	960	215	0	0
Int. Paid	-97	-64	-93	-111	-160	-135	0	0
Div Paid (inc tax)	-136	-550	-555	-1239	-944	-1491	-1348	-1348
others	-1738	-1101	-115	-352	-311	-801	0	0
CF from Fin. Activities	-972	-790	-496	-1571	-269	-2251	-3327	-3324
Inc(Dec) in Cash	434	-473	1181	-550	-76	64	-381	847
Add: Opening Balance	1018	1679	1213	2555	2042	1966	2043	1661
Closing Balance	1452	1206	2394	2005	1966	2043	1661	2508

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