

Industry
Bloomberg
BSE CODE

TECHNOLOGY
TECHM IN
532755

Impressive deal win, business improving

RATING	ACCUMULATE
CMP	795
Price Target	883
Potential Upside	11%

Rating Change	↑
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	846/608
Mkt Capital (Rs Cr)	78007
Free float (%)	64%
Avg. Vol 1M (,000)	40
No. of Shares (Crs)	96
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	34,742	37,396	42,488
EBITDA	6,337	6,031	7,101
EBIT	5,208	4,713	5,768
PAT	4,289	4,371	5,000
EPS (Rs)	44	45	52
EPS growth (%)	13%	4%	14%
ROE (%)	22%	21%	23%
ROCE (%)	22%	19%	22%
BV	206	222	240
P/B (X)	4	4	3
P/E (x)	18	18	16

3QFY20 Result Update

- TECHM reported solid growth on revenue front. Revenue for the quarter stood at USD1353 million, a growth of 5.1%QoQ which is above our estimates of USD1317million.
- EBIT for the quarter came at Rs1179crore, a growth of 1.7% QoQ. EBIT Margin contracted 58bps to 12.2% vs 12.8% last quarter. The reason for decline was mainly attributable to large deal transition cost and higher SG&A/Sub-con (15.4/15.2% QoQ)which was partially offset by better Utilization (+200bps QoQ) and currency.
- Pat for the quarter stood at Rs 1111 crore, a flat growth owing to higher other income offset by lower margins.
- Digital continued its traction in 3QFY20 by growing 10.5% QoQ and now contributes 41% to revenues. Digital remains the major foundation of the company.
- The Company announced the acquisition of a 70% stake in Bangalore headquartered Cerium Systems.

Impressive deal win

The company reported a impressive TCV wins during the quarter. TCV worth of USD1.3billion were won during the quarter. It is second consecutive quarter where the company has announced above USD1 billion TCV wins. Out of USD1.3billion deal, USD900million has come from BFSI client(Enterprise segment) and USD150 million from telecom segment.

Broad based growth across verticals

Telecom segment reported a strong growth of 8.9%QoQ as the transition was faster than company's expectation. Even Enterprise segment also showed an all-round growth in most of geographies and verticals(grew 2.4%QoQ).The 2.4%QoQ growth in enterprise mainly came from BFSI which grew 6.7% QoQ, Retail posted a strong quarter of 8.1%QoQwhile Manufacturing/Technology remained soft and grew 1.0%/-1.4%QoQ.

View and valuation

After a soft start to the year, TECHM reported a highest growth of 5.1%QoQ in 3QFY20 among peers. The quarter saw a broad based growth across all fronts (second quarter of record TCV wins~1.3billion, growth in digital revenues 10.5% QoQ and bounce back of enterprise segment). Going forward, we expect incremental revenue from the new AT&T deal to continue TO boost telecom segment while multiyear multi services Insurance deal of USD900million won in 3Q will drive growth for enterprise in coming quarter. Also the overhang from Manufacturing will stabilize as pain in auto industry is behind. However 4Q will see margin pressure as some addition cost will come into play as large BFSI deal ramps up. But we expect Margin trajectory will improve from 1QFY21E.

Post result , we have revised our revenue and PAT estimates by +2/+5% and +2.6%/+4.5% for FY20/FY21. Seeing the robust TCV wins and better revenue visibility we are positive on the stock with revised target price of Rs 883(17x FY21E EPS) and recommend Accumulate .

Key Risks to our rating and target

- Slower than expected growth in telecom .
- Further deceleration in margins.

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3QFY20 Results

Solid quarter

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	8,944	8,892	8,653	9,070	9,655	7.9%	6.4%	30773	34742	12.9%
Other Income	81	167	341	216	350	333.7%	61.6%	1,417	534	-62.3%
Employee Exp	4,518	4,307	4,501	4,706	4,791	6.0%	1.8%	16,624	17,508	5.3%
Other Expenses	2,703	2,947	2,838	2,863	3,301	22.1%	15.3%	9,439	10,897	15.4%
EBITDA	1,723	1,639	1,314	1,501	1,563	-9.2%	4.2%	4710	6337	34.6%
Depreciation	284	270	321	342	385	35.7%	12.7%	1,085	1,129	4.1%
EBIT	1,439	1,368	993	1,159	1,179	-18.1%	1.6%	3,625	5,208	43.7%
Interest	36	28	45	38	55	53.6%	43.6%	162	133	-18.0%
PBT	1,484	1,507	1,289	1,337	1,473	-0.7%	10.1%	4,879	5,609	15.0%
Tax	264	354	332	226	363	37.6%	60.6%	1,093	1,254	14.8%
PAT	1,207	1,127	949	1,112	1,111	-8.0%	-0.1%	3,786	4,289	13.3%

Concall Highlights

- Broad based growth:** Communication segment reported a strong growth of 8.9%QoQ as the transition was faster than company's expectation, Enterprise segment also showed an all-round growth in most of geographies and verticals. Particularly manufacturing grew and stabilized despite of headwind in aerospace and automobile sector. BFSI got back into grow territory. Healthcare is seeing continuous deal wins. The company initiatives of 25 by25 in the verticals completely from the digital transformation play rather than trying to compete on same grounds with peers are now starting to show results across verticals.
- Acquisition:** The Company announced the acquisition of a 70% stake in Bangalore headquartered Cerium Systems. Cerium will boost the company's Engineering Services practice in VLSI (Very Large Scale Integration) and Embedded Software. This acquisition is in continuation with strategy of the company to fill white spaces.70% of the shares will be acquired upfront for an enterprise value not exceeding Rs 245 crore.
- Deal Wins:** Deal wins during the quarter remained robust. It is second consecutive quarter where the company is announcing USD1.3billion of deal wins, Out of which USD900million has come from BFSI client(Enterprise segment) and USD150 million from telecom segment. The company expects to mitigate some volatility of 1Q as the deal won in 3Q will start to ramp up.
- Investment continued:** The Company is continuing to invest in R&D, whether it is 5G, blockchain, AI or on cloud .
- Margin performance:** EBITDA margin dipped 30bps during the quarter. Company's effects towards automation and AI has resulted in utilization reaching all time high to 84%, that is increase of 200bps which has contributed positively to the margins. Even currency supported the margins while normalized level of SG&A and transition cost offset the margins .Overall the margins was slightly below the company's expectation for the quarter.
- Reduction in headcount:** The quarter saw marginal reduction headcount from 131522 to 130839 on account of normal business operation .Most of the reduction was in BPS side.
- BFSI Outlook:** The Company feels the growth approach for BFSI space is bit different from large peers. So the company sees BFSI to be the growth vertical for the company in Fy21.
- Margin outlook:** The deal signed in 3Q will see some addition cost impact in 4Q .But with faster transition on communication large deal, the company expects to start to see cost reduction coming through in the latter part of 4Q and going in 1QFY21.
- Outlook:** With every passing quarter, The Company is more firm with an ambition of providing above industry level growth in enterprise and in telecom segment to be steady in FY21.

Revenue Mix

BROAD BASED GROWTH ACROSS SEGMENTS BARRING TECHNOLOGY VERTICAL

VERTICALS (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ %	YoY %
Communication	485	506	518	541	525	529	576	8.9%	11.2%
Manufacturing	246	245	258	256	242	232	234	1.0%	-9.4%
Technology,media	88	89	88	95	95	104	103	-1.4%	16.5%
BFSI	166	164	169	166	160	167	179	6.7%	5.7%
Retail,transport	75	79	84	81	77	90	97	8.1%	15.3%
Others	164	136	142	129	148	165	165	0.2%	15.9%

Revenue by Geography

STRONG GROWTH IN US & EUROPE

GEOGRAPHY (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ %	YoY %
Americas	590	573	598	589	594	624	655	4.9%	9.58%
Europe	367	361	364	363	344	344	365	6.3%	0.26%
RoW	268	285	299	316	309	321	333	3.8%	11.39%

Revenue by Clients

SOLID GROWTH ACROSS CLIENTS

CLIENT (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ %	YoY %
Top 5 clients	268	284	285	289	267	278	302	8.5%	5.89%
Top 6-10 clients	398	399	398	406	383	405	419	3%	5.28%
Top 11-20 clients	566	556	555	572	544	561	570	1%	2.68%

Exhibit: Revenue trend

Bounce back in Enterprise drove the overall growth .

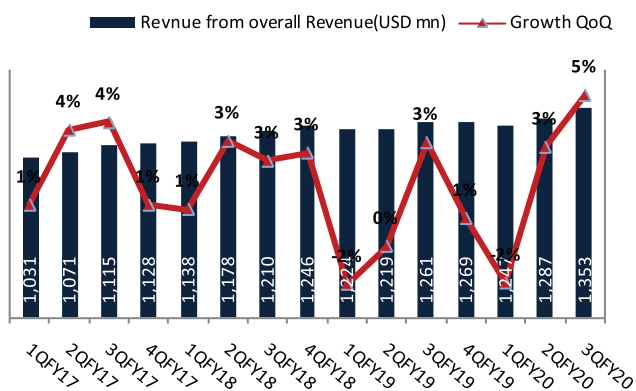


Exhibit: TCV wins

TCV of large deals increases QoQ.

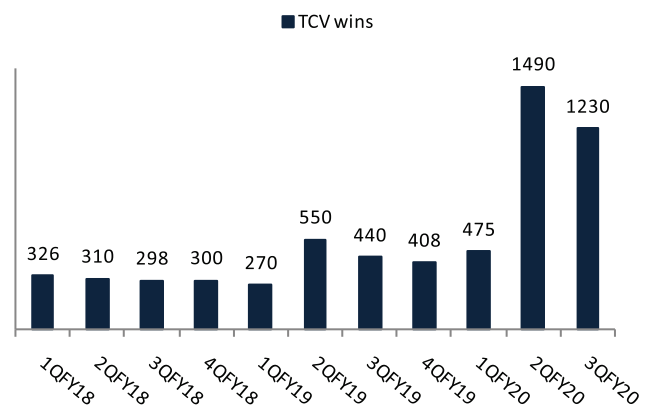


Exhibit: Telecom Segment

Traction continued in telecom segment

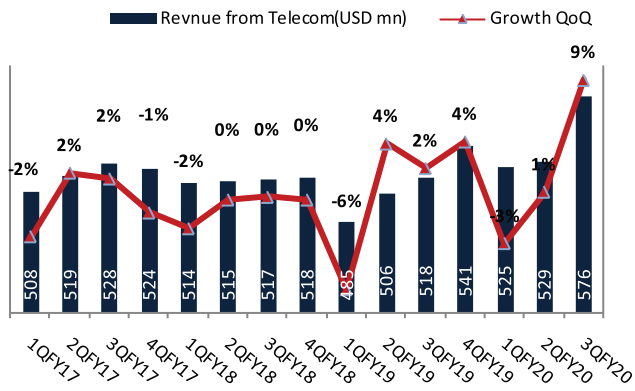


Exhibit: Enterprise Segment

Large deal wins led to recovery in enterprise

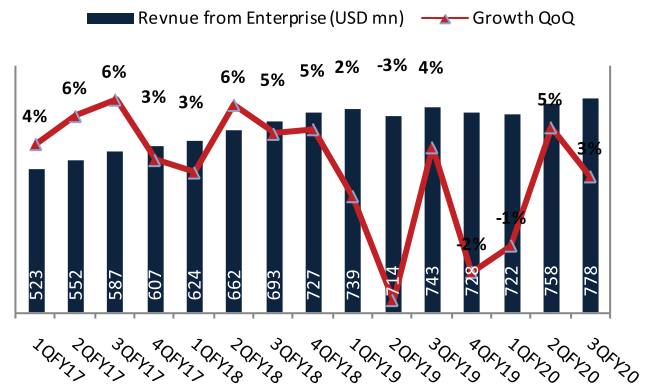


Exhibit: Margin Trend

Margin remained soft, 2H to see margin pressure.

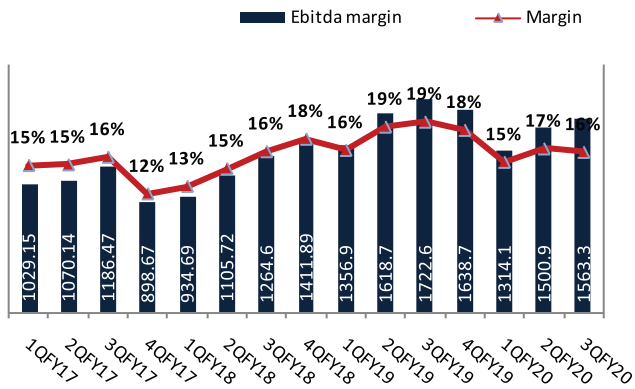


Exhibit: Utilization trend

Utilization inched up after dip in 1QFY20.

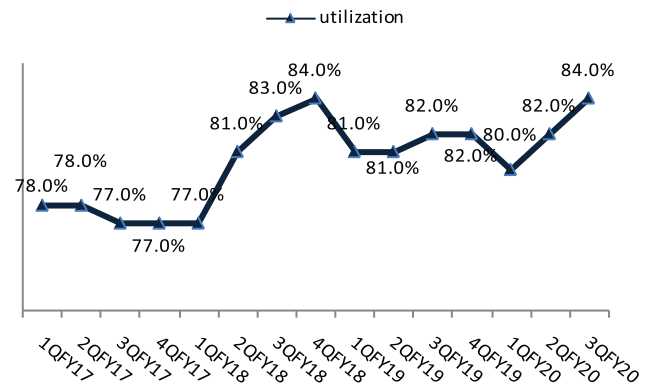
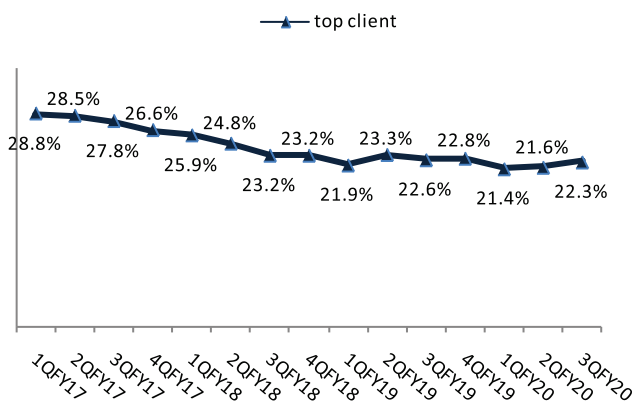


Exhibit: Top Client contribution

Remained strong during the quarter



Operational Details

TOTAL HEADCOUNT	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Software professionals	72437	72462	72534	71785	71477	74093	72597	73079
BPO professionals	34190	34700	39407	43439	43081	45000	52193	51096
Sales & support	6180	6390	6450	6618	6524	6680	6732	6664
IT Attrition % (LTM)	18.0%	19.0%	20.0%	21.0%	21.0%	21.0%	21.0%	20.0%
IT Utilization %	84.0%	81.0%	81.0%	82.0%	82.0%	80.0%	82.0%	84.0%
IT Utilization % (Excluding Trainees)	84.0%	84.0%	83.0%	83.0%	82.0%	82.0%	83.0%	85.0%

GEOGRAPHY	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
America	46.6%	48.2%	47.0%	47.4%	46.4%	47.6%	48.5%	48.4%
Europe	29.8%	30.0%	29.6%	28.9%	28.6%	27.6%	26.7%	27.0%
Rest of world	23.0%	21.9%	23.4%	23.7%	24.9%	24.8%	24.9%	24.6%

NO. OF ACTIVE CLIENTS	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
No. of Active Clients	913	926	930	935	938	941	946	964
% of Repeat Business	88.4%	98.5%	97.4%	94.6%	88.7%	97.7%	94.8%	91.3%

NO. OF MILLION \$ CLIENTS	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
≥ \$1 million clients	392	396	407	416	425	429	437	446
≥ \$5 million clients	156	154	157	157	156	160	155	164
≥ \$10 million clients	85	86	86	88	83	81	80	83
≥ \$20 million clients	44	47	45	46	50	49	49	50
≥ \$50 million clients	16	16	16	18	20	21	22	22

CLIENT CONTRIBUTION TO REVENUE %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Top 5	23.2%	21.9%	23.3%	22.6%	22.8%	21.4%	21.6%	22.3%
Top 10	32.7%	32.5%	32.7%	31.6%	32.0%	30.7%	31.4%	31.0%
Top 20	45.7%	46.2%	45.6%	44.0%	45.1%	43.6%	43.6%	42.1%

ON/OFF BREAK-UP	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Onsite	67.0%	66.6%	64.5%	65.5%	65.2%	65.3%	65.4%	65.3%
Offshore	33.0%	33.4%	35.5%	34.5%	34.8%	34.7%	34.6%	34.7%

HEDGE BOOK	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
GBP IN MN	229	213	190	171	233	275	299	313
STRIKE RATE(INR)	94.4	95.1	97	98.5	99.7	99.1	98.6	99.1
USD IN MN	598	894	1069	1084	934	961	1191	1071
STRIKE RATE(INR)	71	70.7	71.9	72.8	72.9	73.5	74.4	75
EURO IN MN	244	228	220	202	293	361	385	392
STRIKE RATE(INR)	85.4	85.9	87.4	88.6	88.8	88.2	88.4	88.7

VERTICAL	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Communication	41.6%	39.6%	41.5%	41.1%	42.7%	42.1%	41.1%	42.6%
Manufacturing	19.3%	20.1%	20.1%	20.5%	20.2%	19.4%	18.0%	17.3%
Technology,media	7.3%	7.2%	7.3%	7.0%	7.5%	7.6%	8.1%	7.6%
BFSI	13.0%	13.6%	13.5%	13.4%	13.1%	12.8%	13.0%	13.2%
Retail,transport	6.2%	6.1%	6.5%	6.7%	6.4%	6.2%	7.0%	7.2%
Others	12.6%	13.4%	11.2%	11.3%	10.2%	11.9%	12.8%	12.2%

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	20,919	22,625
Networth	9,181	12,249	14,591	16,437	18,843	20,284	21,352	23,059
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	25,379	27,085
Net Fixed Assets (incl CWIP)	2,297	2,872	3,106	4,104	4,899	4,350	3,621	2,954
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	9,882	9,215
Debtors	4,349	5,206	5,771	5,338	6,498	6,959	7,490	8,510
Cash & Bank	3,315	2,405	4,018	3,219	3,044	2,359	1,973	2,650
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	81	92
Current Assets	10,542	12,253	14,986	16,300	18,107	21,276	23,537	26,199
Creditors	1,472	2,059	2,276	2,312	2,037	2,489	2,679	3,044
Provisions	1,267	1,799	355	387	403	396	425	483
Other Curr Liab	1,802	1,223	1,238	1,612	1,707	1,761	1,895	2,153
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	9,490	10,171
Net Current Assets	6,000	7,173	10,156	10,768	11,145	12,430	14,227	16,601
Total Assets	15,940	19,848	22,525	26,067	30,437	33,447	34,868	37,256

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	18831	22621	26494	29141	30773	34742	37396	42488
Change (%)	174%	20%	17%	10%	6%	13%	8%	14%
EBITDA	4,184	4,153	4,271	4,184	4,710	6,337	6,031	7,101
Change (%)	194%	-1%	3%	-2%	13%	35%	-5%	18%
Margin (%)	22%	18%	16%	14%	15%	18%	16%	17%
Depr & Amor.	522	611	759	978	1,085	1,129	1,318	1,334
EBIT	3,662	3,542	3,512	3,206	3,625	5,208	4,713	5,768
Int. & other fin. Cost	80	30	97	129	162	133	194	220
Other Income	113	107	439	778	1,417	534	1,158	1,116
EBT	3,662	3,542	3,512	3,206	3,625	5,208	4,713	5,768
Exp Item	(120)	-	-	-	-	-	-	-
Tax	752	960	830	1,002	1,093	1,254	1,299	1,666
Minority Int & P/L share of Ass.	(34)	(31)	-	-	-	-	-	-
Reported PAT	3,062	2,659	3,024	2,853	3,786	4,354	4,377	4,998
Adjusted PAT	3,029	2,628	3,027	2,851	3,786	4,289	4,371	5,000
Change (%)	283%	-13%	15%	-6%	33%	13%	2%	14%
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	13
Current Ratio	2	2	3.1	2.9	2.6	2.4	2.5	2.6
Debtor Days	84	84	79	67	77	73	73	73
Book Value Per Share	197	127	151	169	192	206	222	240
Payable Days	29	33	31	29	24	26	26	26
Earnings Per Share	65	27	31	29	39	44	45	52
P/E	14	23	15	16	17	18	18	16
Price / Book Value	5	5	3	3	3	4	4	3
EV/EBITDA	9	14	10	11	13	12	13	11
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	5677	6663
(inc)/Dec in Working Capital	-1615	-850	-461	544	-783	-1057	-387	-743
Non Cash Op Exp	610	713	1057	754	984	1607	1318	1334
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-1094	-1073	-1315	-1080	-1526	-1661	-1299	-1666
others	0	0	0	0	0	0	0	0
CF from Op. Activities	1596	2409	3137	4071	3554	4432	5308	5589
(inc)/Dec in FA & CWIP	-914	-1113	-871	-760	-790	-779	-589	-667
Free Cashflow	682	1296	2266	3311	2763	3653	4719	4922
(Pur)/Sale of Inv	-62	-447	-278	-912	0	0	-1796	-953
CF from Inv. Activities	-190	-2092	-1460	-3051	-3360	-2116	-2384	-1620
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	-3310	-3291
Inc(Dec) in Cash	434	-473	1181	-550	-76	64	-386	678
Add: Opening Balance	1018	1679	1213	2555	2042	1966	2043	1657
Closing Balance	1452	1206	2394	2005	1966	2043	1657	2335

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