

Industry
Bloomberg
BSE CODE

TECHNOLOGY
TECHM IN
532755

Weakest quarter, hard time ahead

RATING	NEUTRAL
CMP	546
Price Target	583
Potential Upside	7%

Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	846/470
Mkt Capital (Rs Cr)	52745
Free float (%)	64%
Avg. Vol 1M (,000)	179
No. of Shares (Crs)	97
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY18	FY19	FY20
Net Sales	30,773	34,742	36,868
EBITDA	4,710	6,337	5,509
EBIT	3,625	5,208	4,063
PAT	3,786	4,289	3,898
EPS (Rs)	39	44	40
EPS growth (%)	32%	13%	-7%
ROE (%)	21%	22%	19%
ROCE (%)	16%	22%	15%
BV	192	206	217
P/B (X)	3	4	3
P/E (x)	17	18	13

4QFY20 Result Update

- TECHM posted a disappointing performance in its 4QFY20 result. Both revenue and PAT posted a sharp decline which was way below our estimates. Revenue for the quarter came at USD1295million, a decline of 4.3% QoQ in USD term and 3.3% QoQ in CC.
- The sequential decline in revenue of 3.3% cc terms was mainly attributable to; 1) half came from Covid impact (impact in BPS due to supply side constraints and delay in approval from client); 2) deferral of IT spend from customer side in network and; 3) due to weakness in Comviva business (renewal & new sales were impacted).
- EBIT for the quarter came at Rs 950 crore, a de-growth of 19.4%QoQ. Margin came at 10% (excluding one off of Rs218crore), a decline of 220bps. The contraction was mainly attributable to provisioning & higher CSR expense which impacted 100bps, lower utilization (80bps) and transition cost (70bps) offset by currency tailwind (30bps).
- PAT for the quarter stood at Rs 726 crore, a decline of 34.6%QoQ primarily impacted by revenue miss and impairment of the company's subsidiaries (Rs217crore).
- Digital revenue stood at 44% of revenue, a growth 2.7/31.8% QoQ/YoY while legacy declined 9.2/13.2% QoQ/YoY.
- Net new TCV won during the quarter came at USD 502million vs. USD 1.23bn in 3Q (large insurance deal in 3Q). Total TCV won in FY20 stood at USD 3.7bn in FY20 vs. USD 1.67bn in FY19.

Softness seen across the board

The company saw softness across both its Telecom and enterprise revenue. Telecom revenue declined 8.3% QoQ owing to weakness in BPM (-15.6% QoQ), delay in Network roll out services and weak Comviva. Even Enterprise (59% of rev) posted a de-growth of 1.3% QoQ led by TME which declined -6.8%, Retail dropped 3.0% and Manufacturing declined -2.1%QoQ. However on other hand, BFSI grew 10.9% mainly led by ramp of insurance deal which supported growth.

Across service lines, BPM segment saw a very sharp decline of 15% QoQ in USD terms given the challenge of moving to WFH

View and valuation

After two quarters of steady growth recovery in major verticals, TECHM 4QFY20 result was a major disappointment. Both revenue and margin posted a sharp decline of 4.3%/19.4%QoQ due to Covid-19 uncertainty. Telecom registered a de-growth of 8.3%QoQ post a strong uptick in 3Q due to weak Comviva and lower BPM revenue (Covid19) while weakness in manufacturing, retail and TME dragged enterprise growth. Going forward, we expect TECHM to underperform among Tier 1 considering delay in 5G roll out (Telecom) and reduction in discretionary spend (enterprise) to impact the growth in FY21E. Enterprise vertical which has been weak for few quarter now will unlikely to get any major benefit from uptick in digital spends post Covid crisis. Also TECHM's higher client concentration (top 10 contributes 31%) will create more pricing pressure than peers.

Post result, seeing weak quarter and near term challenges in major verticals, we have reduced our revenue estimates by 10.8% for FY21. Thus we maintain our NEUTRAL rating to stock with revised target price of Rs583.

Key Risks to our rating and target

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

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4QFY20 Results

Weak quarter

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	8,892	8,653	9,070	9,655	9,490	6.7%	-1.7%	34742	36868	6.1%
Other Income	167	341	216	350	285	70.7%	-18.4%	534	1,193	123.3%
Employee Exp	4,307	4,501	4,706	4,791	4,813	11.7%	0.5%	17,508	18,810	7.4%
Other Expenses	2,947	2,838	2,863	3,301	3,330	13.0%	0.9%	10,897	12,332	13.2%
EBITDA	1,639	1,314	1,501	1,563	1,130	-31.0%	-27.7%	6337	5509	-13.1%
Depreciation	270	321	342	385	398	47.3%	3.5%	1,129	1,446	28.0%
EBIT	1,368	993	1,159	1,179	732	-46.5%	-37.9%	5,208	4,063	-22.0%
Interest	28	45	38	55	53	89.3%	-3.3%	133	192	44.1%
PBT	1,507	1,289	1,337	1,473	964	-36.0%	-34.6%	5,609	5,064	-9.7%
Tax	354	332	226	363	239	-32.3%	-34.1%	1,254	1,160	-7.5%
PAT	1,127	949	1,112	1,111	726	-35.5%	-34.6%	4,289	3,898	-9.1%

Concall Highlights

WFH update:

- 93% of offshore associates now working from home for TECHM. 100% of onsite working in IT business.
- For BPS, on international sites, it is close to 70% and the domestic side is lower. The company expects to take the BPS up by 10 odd % (total BPS to be 85%).

4QFY20 performance:

- Quarter had momentum in the first two month and last month saw Covid 19 impact.
- The sequential decline in revenue of 3.3% cc terms was mainly attributable to; 1) half came from Covid impact (impact in BPS due to supply side constraints and delay in approval from client); 2) deferral of IT spend from customer side in network and; 3) due to weakness in Comviva business (renewal & new sales were impacted). Other ways, the decline from 3Q to 4Q revenue was seen due to decline in retail which was approx. 40 to 50 bps. 100 and 150 bps is basically reduction in volume at Net level.
- Many deal wins which started during the course have seen impact. Execution start slowed down during 4Q.

Margin performance:

- EBIT margin declined 220bps included the credit loss margin evaluated every quarter.
- The company has a higher risk for potential future problems, which impacted margins by 100 bps (including CSR). Transition cost for new deal impacted the margins. And then Covid related revenue and utilization impacted margin by further 80 bps. Currency was positive for the company which benefited 30 bps.

Demand environment

- The company is seeing a broader view from the major service providers. Broadly, there is no communication of dilution of focus from strengthening the network, expanding the network and 5G rollout. The Company is seeing temporary setup in these areas but for long term most of operators have confirmed it to happen in next few quarters from opex standpoint.
- The company is seeing a shift in new work space more towards home which the larger telcos are discussing in this direction.
- The company will see short term impact in its BPS business.
- In the enterprise part, the company is seeing discretionary spending is slowing and also the focus on change in growth strategy has got an impact because of focus moving towards digital. The company sees the situation as temporary setup and will continue to become stronger post Covid.
- No major exposure to travel, transport and oil & segment will be a positive part for the company.

Outlook

- The company still feels that most of the impact of Covid is expected to be coming in 1Q.
- 1Q will see more demand led impact.
- For communication the company sees optimism for the mid to long term time frame.
- Overall margins, revenue impact will pressure the margins however the company focusing on ; 1) reducing the subcontracting cost; 2) increased focus all third party cost; 3) saving coming through travel (@5 to 3% cost); 4) Rationalization of the facilities (tighter synergy of subsidiaries; 5) measure various bonus pay and hikes which already the company has taken. will support margins.
- Goal is get back to margin to teens by a year.

Revenue Mix

BROAD BASED WEAKNESS ACROSS SEGMENTS BARRING BFSI									
VERTICALS (USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ %	YoY %
Communication	506	518	541	525	529	576	528	-8.4%	-2.4%
Manufacturing	245	258	256	242	232	234	229	-2.1%	-10.5%
Technology,media	89	88	95	95	104	103	96	-6.8%	0.8%
BFSI	164	169	166	160	167	179	198	10.9%	19.3%
Retail,transport	79	84	81	77	90	97	95	-3.0%	16.5%
Others	136	142	129	148	165	165	149	-9.8%	15.2%

Revenue by Geography

WEAKNESS ACROSS MAJOR GEOGRAPHIES									
GEOGRAPHY (USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ %	YoY %
Americas	573	598	589	594	624	655	618	-5.7%	4.9%
Europe	361	364	363	344	344	365	343	-6.1%	-5.5%
RoW	285	299	316	309	321	333	334	0.4%	5.7%

Revenue by Clients

WEAKNESS ACROSS CLIENTS									
CLIENT (USD MN)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ %	YoY %
Top 5 clients	284	285	289	267	278	302	277	-8.2%	-4.23%
Top 6-10 clients	399	398	406	383	405	419	401	-4%	-1.15%
Top 11-20 clients	556	555	572	544	561	570	564	-1%	-1.36%

Exhibit: Revenue trend

Multi quarter low, impacted by COVID 19.

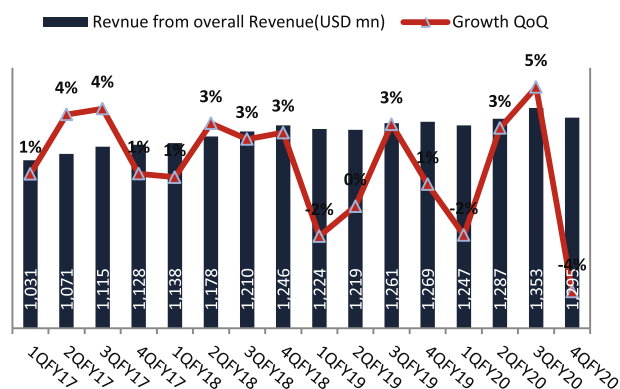


Exhibit: TCV wins

Downtrend in deal wins.

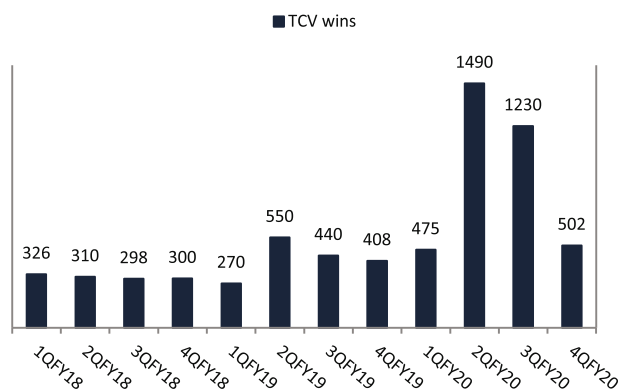


Exhibit: Telecom Segment

Weakness in comviva and reduction in volume impacted telecom.

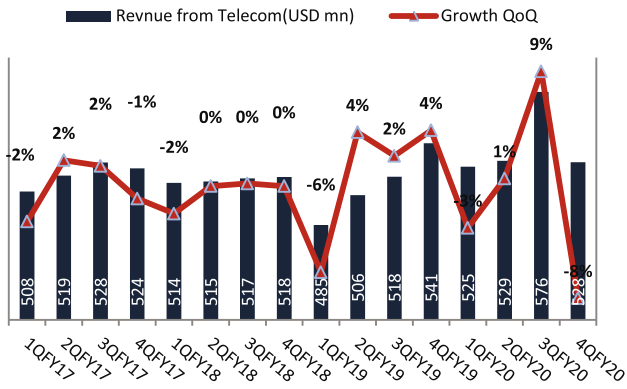


Exhibit: Enterprise Segment

Barring BFSI, all verticals declined.

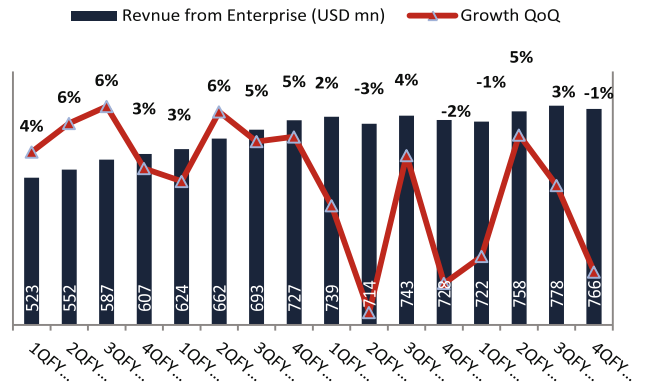


Exhibit: Margin Trend

Slow WFH impacted margins.

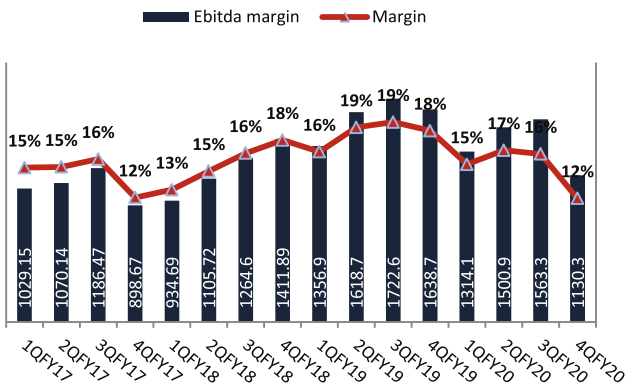


Exhibit: Utilization trend

Decline in Utilization.

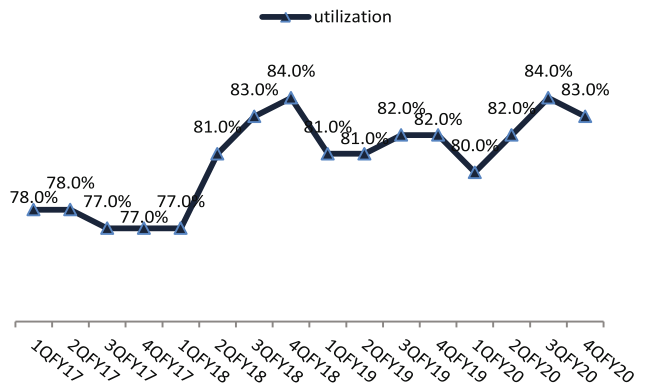
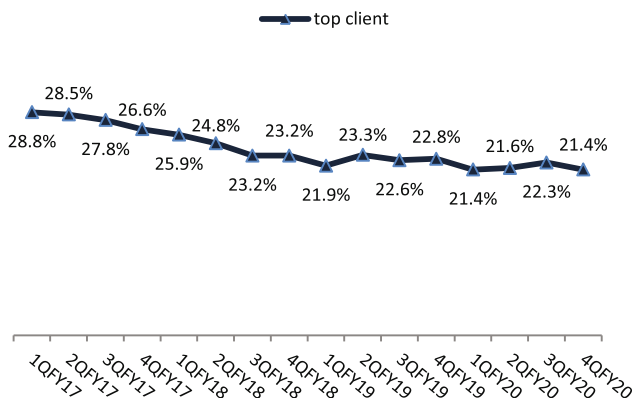


Exhibit: Top Client contribution

Weakness in top client.



Operational Details

TOTAL HEADCOUNT	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Software professionals	72462	72534	71785	71477	74093	72597	73079	71515
BPO professionals	34700	39407	43439	43081	45000	52193	51096	46816
Sales & support	6390	6450	6618	6524	6680	6732	6664	6905
IT Attrition % (LTM)	19.0%	20.0%	21.0%	21.0%	21.0%	21.0%	20.0%	19.0%
IT Utilization %	81.0%	81.0%	82.0%	82.0%	80.0%	82.0%	84.0%	83.0%
IT Utilization % (Excluding Trainees)	84.0%	83.0%	83.0%	82.0%	82.0%	83.0%	85.0%	84.0%

GEOGRAPHY	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
America	48.2%	47.0%	47.4%	46.4%	47.6%	48.5%	48.4%	47.7%
Europe	30.0%	29.6%	28.9%	28.6%	27.6%	26.7%	27.0%	26.5%
Rest of world	21.9%	23.4%	23.7%	24.9%	24.8%	24.9%	24.6%	25.8%

NO. OF ACTIVE CLIENTS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
No. of Active Clients	926	930	935	938	941	946	964	973
% of Repeat Business	98.5%	97.4%	94.6%	88.7%	97.7%	94.8%	91.3%	86.1%

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

CLIENT CONTRIBUTION TO REVENUE %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Top 5	21.9%	23.3%	22.6%	22.8%	21.4%	21.6%	22.3%	21.4%
Top 10	32.5%	32.7%	31.6%	32.0%	30.7%	31.5%	31.0%	31.0%
Top 20	46.2%	45.6%	44.0%	45.1%	43.6%	43.6%	42.1%	43.6%

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

HEDGE BOOK	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
GBP IN MN	213	190	171	233	275	299	313	304
STRIKE RATE(INR)	95.1	97	98.5	99.7	99.1	98.6	99.1	100.1
USD IN MN	894	1069	1084	934	961	1191	1071	1611
STRIKE RATE(INR)	70.7	71.9	72.8	72.9	73.5	74.4	75	76.8
EURO IN MN	228	220	202	293	361	385	392	378
STRIKE RATE(INR)	85.9	87.4	88.6	88.8	88.2	88.4	88.7	89.7

VERTICAL	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Communication	39.6%	41.5%	41.1%	42.7%	42.1%	41.1%	42.6%	40.8%
Manufacturing	20.1%	20.1%	20.5%	20.2%	19.4%	18.0%	17.3%	17.7%
Technology,media	7.2%	7.3%	7.0%	7.5%	7.6%	8.1%	7.6%	7.4%
BFSI	13.6%	13.5%	13.4%	13.1%	12.8%	13.0%	13.2%	15.3%
Retail,transport	6.1%	6.5%	6.7%	6.4%	6.2%	7.0%	7.2%	7.3%
Others	13.4%	11.2%	11.3%	10.2%	11.9%	12.8%	12.2%	11.5%

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	128	234	480	436	439	442	444	436
Reserves	5,297	8,947	11,768	14,155	15,998	18,401	19,841	21,377
Networth	5,425	9,181	12,249	14,591	16,437	18,843	20,284	21,813
Debt	1,080	52	675	1,002	1,220	1,726	1,405	2,428
Other Non Current Liab	432	790	454	678	1,157	1,167	914	2,812
Total Capital Employed	7,047	11,398	14,768	17,695	20,508	23,475	24,311	28,677
Net Fixed Assets (incl CWIP)	938	2,297	2,872	3,106	4,104	4,899	4,350	4,217
Non Current Investments	3,924	1,219	1,299	118	231	1,246	716	216
Other Non Cur Asst	-	21	31	537	646	602	554	1,327
Non Current Assets	1,969	4,157	6,266	6,884	8,863	10,482	10,612	12,638
Debtors	1,704	4,349	5,206	5,771	5,338	6,498	6,959	7,577
Cash & Bank	536	3,315	2,405	4,018	3,219	3,044	2,359	3,148
Other Curr Assets & loan	666	2,616	3,813	2,446	3,361	2,112	2,387	2,701
Current investments	175	253	804	1,125	2,165	3,445	6,590	5,612
current financial asset	-	-	-	1,587	2,157	2,942	2,906	3,736
Inventories	11	10	25	40	61	66	75	36
Current Assets	3,091	10,542	12,253	14,986	16,300	18,107	21,276	22,810
Creditors	640	1,472	2,059	2,276	2,312	2,037	2,489	3,257
Provisions	317	1,267	1,799	355	387	403	396	436
Other Curr Liab	981	1,802	1,223	1,238	1,612	1,707	1,761	1,827
Other financial liability	-	-	-	270	423	1,877	3,473	1,790
Employee benefit obligations	-	-	-	692	825	938	1,018	1,021
Curr Liabilities	1,938	4,542	5,080	4,830	5,559	6,962	9,136	8,676
Net Current Assets	1,154	6,000	7,173	10,156	10,768	11,145	12,430	14,496
Total Assets	8,984	15,940	19,848	22,525	26,067	30,437	33,447	37,354

Income Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue from Operation	6873	18831	22621	26494	29141	30773	34742	36868
Change (%)	25%	174%	20%	17%	10%	6%	13%	6%
EBITDA	1,424	4,184	4,153	4,271	4,184	4,710	6,337	5,509
Change (%)	55%	194%	-1%	3%	-2%	13%	35%	-13%
Margin (%)	21%	22%	18%	16%	14%	15%	18%	15%
Depr & Amor.	200	522	611	759	978	1,085	1,129	1,446
EBIT	1,224	3,662	3,542	3,512	3,206	3,625	5,208	4,063
Int. & other fin. Cost	103	80	30	97	129	162	133	192
Other Income	(75)	113	107	439	778	1,417	534	1,193
EBT	1,224	3,662	3,542	3,512	3,206	3,625	5,208	4,063
Exp Item	-	(120)	-	-	-	-	-	-
Tax	236	752	960	830	1,002	1,093	1,254	1,160
Minority Int & P/L share of Ass.	(20)	(34)	(31)	-	-	-	-	-
Reported PAT	811	3,062	2,659	3,024	2,853	3,786	4,354	3,903
Adjusted PAT	791	3,029	2,628	3,027	2,851	3,786	4,289	3,898
Change (%)	47%	283%	-13%	15%	-6%	33%	13%	-9%
Margin(%)	12%	16%	12%	11%	10%	12%	12%	11%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	17%	41%	25%	23%	18%	21%	22%	19%
ROCE	19%	40%	27%	22%	17%	16%	22%	15%
Asset Turnover	8	12	9	9	8	7	8	9
Current Ratio	2	2	2	3.1	2.9	2.6	2.4	2.7
Debtor Days	90	84	84	79	67	77	73	75
Book Value Per Share	212	197	127	151	169	192	206	217
Payable Days	34	29	33	31	29	24	26	32
Earnings Per Share	31	65	27	31	29	39	44	40
P/E	17	14	23	15	16	17	18	13
Price / Book Value	3	5	5	3	3	3	4	3
EV/EBITDA	10	9	14	10	11	13	12	9
EV/Sales	2	2	3	2	2	2	2	1

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
PBT	1047	3695	3618	3857	3853	4879	5543	5064
(inc)/Dec in Working Capital	-31	-1615	-850	-461	544	-783	-1057	-3913
Non Cash Op Exp	181	610	713	1057	754	984	1607	1446
Int Paid (+)	0	0	0	0	0	0	0	0
Tax Paid	-341	-1094	-1073	-1315	-1080	-1526	-1661	-1160
others	0	0	0	0	0	0	0	-84
CF from Op. Activities	855	1596	2409	3137	4071	3554	4432	3092
(inc)/Dec in FA & CWIP	-175	-914	-1113	-871	-760	-790	-779	-1312
Free Cashflow	681	682	1296	2266	3311	2763	3653	1779
(Pur)/Sale of Inv	0	-62	-447	-278	-912	0	0	1477
CF from Inv. Activities	-783	-190	-2092	-1460	-3051	-3360	-2116	165
inc/(dec) in NW	7	50	58	36	35	25	36	-8
inc/(dec) in Debt	219	852	802	138	-14	960	215	1053
Int. Paid	-102	-97	-64	-93	-111	-160	-135	0
Div Paid (inc tax)	-59	-136	-550	-555	-1239	-944	-1491	-1348
others	-102	-1738	-1101	-115	-352	-311	-801	-30
CF from Fin. Activities	65	-972	-790	-496	-1571	-269	-2251	-2283
Inc(Dec) in Cash	138	434	-473	1181	-550	-76	64	974
Add: Opening Balance	400	1018	1679	1213	2555	2042	1966	2043
Closing Balance	538	1452	1206	2394	2005	1966	2043	3017

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