



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q2 FY18 Result Update@ Dalal&Broacha

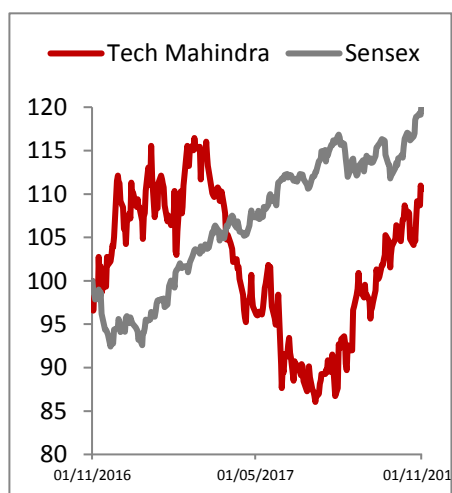
HOLD

Current Price	488
52 Week Range	358-515

Key Share Data

Market Cap (Rs.bn)	477.5
Market Cap (US\$ mn)	7,426
No of o/s shares (mn)	976
Face Value	5
Monthly Avg.	
Vol(BSE+NSE) Nos	1,623,916
BSE Code	532755
NSE Code	TECHM
Bloomberg	TECHM:IN

Price performance



% Shareholding	Sept-17	Jun-17
Promoters	36.14	36.16
Public	63.81	63.79
Others	0.05	0.05
Total	100.00	100.00

Q2 beats estimates on all fronts

- TechM reported its Q2FY18 numbers which were a beat on our estimates on all fronts. However, commentary for H2FY18 remains mixed and one should tread cautiously going ahead.

- USD revenues came in at \$1,179 Mn, up 3.6% qoq and above our estimate of \$1,165 Mn. Rupee revenue came in at INR 76,064 Mn, up 3.7% qoq and above our estimate of INR 74,896 Mn. The beat was largely driven by consolidation of HCI and tailwinds from cross currency benefit of 130 bps.

- EBIT stood at INR 8,404 Mn in Q2, up 22% qoq vs INR 6,879 Mn in Q1 due higher revenue growth and controlled Administrative & Operating expenses. Therefore, EBIT margins improved 167 bps qoq to 11% due to improvement in utilization (77% to 81%) and realization.

- PAT stood at INR 8,362 Mn, up 4.7% qoq and 29.7% yoy.

Manufacturing, Retail & CPG and Others drive growth

- Verticals wise 'Others' (9.9% of revenues) led the growth pack with a 23.6% qoq growth pack, followed by Retail (7.2% of rev) and Mfg (19% of rev) which grew 9.7% and 2% qoq in reported terms, respectively

- In line with peers, Europe and ROW outperformed with a 4.3% and 9.4% qoq growth respectively

- Headcount stood at 1,17,225 up by 1,245 overall, however, software professionals reduced by 3,409, a second consecutive quarter of reduction

Key Concall Takeaways

(i) Seasonality in VAS businesses led to higher number of active customers which increased by 31 in Q2 (ii) EBITDA margins bounced back to 14.5% from 12.7% in the previous quarter due to higher utilisation levels of 81% in the quarter and lower visa costs (iii) TechM signed IP alliances in the Virtualization and Cloud domains with a payment of \$35 Mn in the quarter while the balance \$105 Mn will be paid in equal monthly instalments beginning Q3. Company maintains that IP deals are in high growth segments and IRR is in mid-teens. Further clarity on IP deals will be issued in Q3 (iv) Integration of HCI boosted growth in Q2 (v) Contribution of HCI to the tune of \$13-14 Mn (vi) Reduction in Software professional headcount in line with optimization strategy, company plans to hire freshers in H2 which can replace high-cost experienced individuals (vii) Expect tech advancement in Telecom segment to drive growth through FY19E.

Valuation & Outlook:

Stock is currently trading at 14.8x and 12.8x FY18E and FY19E EPS. We have a HOLD rating on the stock with a target price of INR 534.

Consolidated Financials (In INR Mn)

Year	Net Sales	% Growth	EBIT	EBIT (%)	PAT	% Growth	EPS	PE (x)	ROE (%)	ROCE (%)
FY16	264,941	17.9%	35,716	13.5%	31,180	18.7%	32.4	15.0x	22.6%	20.1%
FY17	291,408	10.0%	32,062	11.0%	28,409	-8.9%	29.1	16.8x	17.5%	15.9%
FY18E	306,436	5.2%	32,526	10.6%	32,155	13.2%	32.9	14.8x	17.8%	16.4%
FY19E	333,939	9.0%	37,162	11.1%	37,203	15.7%	38.1	12.8x	18.1%	16.7%

Source: Company, Dalal&Broacha Research



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YE March (Rs. mn)	Q2 FY18	Q1 FY18	Q-o-Q change %	Q2 FY17	Y-o-Y change %	Q2 FY18 Estimates	Deviation %
Net Sales (USD Mn)	1,179	1,138	3.6%	1,072	10.0%	1,165	1.2%
Net Sales (INR Mn)	76,064	73,361	3.7%	71,674	6.1%	74,896	1.6%
Less:							
Employees Remuneration & Benefits	53,789	52,818	1.8%	49,717	8.2%	53,752	0.1%
Administrative & Other Expenses	11,218	11,196	0.2%	11,256	(0.3%)	11,384	(1.5%)
Total Operating Expenditure	65,007	64,014	1.6%	60,973	6.6%	65,136	(0.2%)
EBITDA	11,057	9,347	18.3%	10,701	3.3%	9,761	13.3%
Less: Depreciation	2,653	2,468	7.5%	2,447	8.4%	2,909	(8.8%)
EBIT	8,404	6,879	22.2%	8,254	1.8%	6,852	22.7%
Less: Interest	386	370	4.3%	345	11.9%	474	(18.6%)
Add: Other income	3,222	4,107	(21.5%)	1,387	132.3%	2,217	45.3%
Profit Before Tax	11,240	10,616	5.9%	9,296	20.9%	8,595	30.8%
Adjusted Profit Before Tax	11,240	10,616	5.9%	9,296	20.9%	8,595	30.8%
Less: Total Tax	2,847	2,698	5.5%	2,860	(0.5%)	2,184	30.3%
Minority Interest	(31)	69		13		(75)	
Reported PAT	8,362	7,987	4.7%	6,447	29.7%	6,335	32.0%
Adjusted PAT	8,362	7,987	4.7%	6,449	29.7%	6,335	32.0%
Reported Diluted EPS (Rs.)	8.6	8.2	4.7%	6.6	29.7%	7.2	18.5%
Adjusted Diluted EPS (Rs.)	8.6	8.2	4.7%	6.6	29.7%	7.2	18.5%
No of Shared Diluted (mn)	976.0	976.0		976.0		876.5	
Margin Analysis %			Change in bps		Change in bps		Change in bps
EBIT Margin	11.0%	9.4%	167	11.5%	(47)	9.1%	190
EBIDTA Margin	14.5%	12.7%	180	18.3%	(381)	13.0%	150
NPM	11.0%	10.9%	11	9.0%	200	8.5%	253
Adjusted NPM	11.0%	10.9%	11	9.0%	200	8.5%	253
Effective Tax Rate %	25.3%	25.4%	(9)	30.8%	(544)	25.4%	(9)
Cost Analysis %			Change in bps		Change in bps		Change in bps
Employee Cost/Net Sales	70.7%	72.0%	(128)	69.4%	135	71.8%	(105)
SG&A/Net sales	14.7%	15.3%	(51)	15.7%	(96)	15.2%	(45)



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Profit & Loss Statement

YE March (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	224,779	264,941	291,408	306,436	333,939
Growth %	19.4%	17.9%	10.0%	5.2%	9.0%
Total Revenue	224,779	264,941	291,408	306,436	333,939
Less:					
Software development expenses	150,734	183,316	205,661	217,006	236,418
Selling, marketing & General expenses	32,901	38,289	43,904	45,966	50,091
Total Operating Expenditure	183,635	221,605	249,565	262,971	286,509
EBIDTA	41,144	43,336	41,843	43,464	47,430
Growth %	-1.7%	5.3%	-3.4%	3.9%	9.1%
Less: Depreciation	6,079	7,620	9,781	10,939	10,268
EBIT	35,065	35,716	32,062	32,526	37,162
Growth %	-4.2%	1.9%	-10.2%	1.4%	14.3%
Non-operating Income	1,006	5,322	7,775	11,917	14,362
Extraordinary Income	285	14	0	0	0
Extraordinary Expense	0	0	0	0	0
Profit Before tax	36,059	40,181	38,551	42,939	50,049
Tax	9,471	8,600	9,785	10,885	12,512
Minority Interest	(310)	(401)	(357)	102	(334)
Net Profit	26,278	31,180	28,409	32,155	37,203
Adjusted Profit	25,993	31,166	28,409	32,155	37,203
Reported Diluted EPS Rs	27.4	32.5	29.1	32.9	38.1
Growth %	-13.2%	18.7%	-10.3%	13.2%	15.7%
Adjusted Diluted EPS Rs	27.1	32.4	29.1	32.9	38.1
Growth %	-10.6%	19.9%	-10.3%	13.2%	15.7%

Balance Sheet

YE March (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Equity Capital	4,804	4,839	4,839	4,839	4,839
Reserves & Surplus	117,682	143,055	159,934	182,443	208,485
Equity	122,486	147,894	164,773	187,282	213,324
Net Worth	122,486	147,894	164,773	187,282	213,324
Minority Interest	1,604	2,034	2,034	2,034	2,034
Net Deferred tax liability/(Asset)	440	231	254	280	307
Total Loans	460	1,967	1,967	1,767	1,567
Long term Provisions	4,101	5,311	5,842	6,426	7,069
Capital Employed	141,395	169,741	187,175	210,093	236,606
Assets					
Net Block	22,044	25,178	29,089	29,089	32,089
Capital WIP	5,677	6,294	6,294	6,294	6,294
Investments	12,987	13,244	13,244	13,244	13,244
Intangible Assets	1,002	911	911	911	911
Others - A	16,962	22,635	24,899	27,388	30,127
Current Assets					
Sundry Debtors	52,059	57,705	63,476	69,823	76,805
Cash and Bank Balance	41,332	61,726	67,946	82,807	97,431
Loans and Advances	18,728	17,084	18,792	20,672	22,739
Other Current Assets	27,445	34,110	37,073	40,296	43,802
Total Current Assets	139,809	171,039	187,700	214,012	241,192
Less: Current Liabilities & Provisions					
Sundry Creditors	20,587	22,755	24,575	26,541	28,665
Provisions	17,987	24,093	26,502	29,153	32,068
Other Current Liabilities	18,512	22,712	23,885	25,151	26,519
Total Current Liabilities & Provisions	57,086	69,560	74,962	80,845	87,251
Capital Applied	141,395	169,741	187,175	210,093	236,606



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Key Ratios

YE March (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E
Key Operating Ratios					
EBITDA Margin (%)	18.3%	16.4%	14.4%	14.2%	14.2%
Tax / PBT (%)	26.3%	21.4%	25.4%	25.4%	25.0%
Net Profit Margin (%)	11.7%	11.8%	9.7%	10.5%	11.1%
RoE (%)	23.6%	22.6%	17.5%	17.8%	18.1%
RoCE (%)	20.1%	20.1%	15.9%	16.4%	16.7%
Current Ratio (x)	2.4x	2.5x	2.5x	2.6x	2.8x
Dividend Payout (%)	21.9%	18.6%	40.6%	30.0%	30.0%
Book Value Per Share (Rs.)	127.5	153.9	168.8	191.9	218.6
Financial Leverage Ratios					
Debt/ Equity (x)	0.0x	0.0x	0.0x	0.0x	0.0x
Interest Coverage (x)	138.5x	49.8x	32.5x	28.9x	32.2x
Interest / Debt (%)	91.3%	71.8%	65.4%	80.6%	88.5%
Growth Indicators %					
Growth in Gross Block (%)					
Sales Growth (%)	19.4%	17.9%	10.0%	5.2%	9.0%
EBITDA Growth (%)	(1.7%)	5.3%	(3.4%)	3.9%	9.1%
Net Profit Growth (%)	(13.2%)	18.7%	(8.9%)	13.2%	15.7%
Diluted EPS Growth (%)	(13.2%)	18.7%	(10.3%)	13.2%	15.7%
Turnover Ratios					
Debtors (Days of net sales)	85	79	80	83	84
Creditors (Days of Raw Materials)	41	37	36	37	37
Inventory (Days of Optq. Costs)	0.5	0.7	0.6	0.6	0.5

Free Cash Flow Statement

YE March (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E
EBITA	35,065	35,716	32,062	32,526	37,162
Less: Adjusted Taxes	9,210	7,644	8,138	8,245	9,290
NOPLAT	25,855	28,072	23,924	24,280	27,871
Plus: Depreciation	6,079	7,620	9,781	10,939	10,268
Less: Increase in Working Capital	15,600	(835)	5,569	5,868	6,700
Operating Cashflow	16,334	36,526	28,136	29,351	31,440
Less: Net Capex	11,679	11,371	13,692	10,939	13,268
Less: Increase in Net Other Assets	1,468	5,361	2,240	2,464	2,711
Total FCF	3,397	19,805	12,204	15,948	15,461

Valuation Ratios

YE March (Rs. mn)	FY15	FY16	FY17	FY18E	FY19E
P/E (x)	17.8x	15.0x	16.8x	14.8x	12.8x
P/BV (x)	3.8x	3.2x	2.9x	2.5x	2.2x
EV/EBIDTA (x)	10.4x	9.4x	9.6x	9.1x	8.0x
EV/Sales	1.9x	1.5x	1.4x	1.3x	1.1x
Market Cap./ Sales (x)	2.1x	1.8x	1.6x	1.6x	1.4x
Dividend Yield (%)	1.2%	1.2%	2.5%	2.0%	2.3%



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