



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

Q4 FY19 Result Update@ Dalal&Broacha

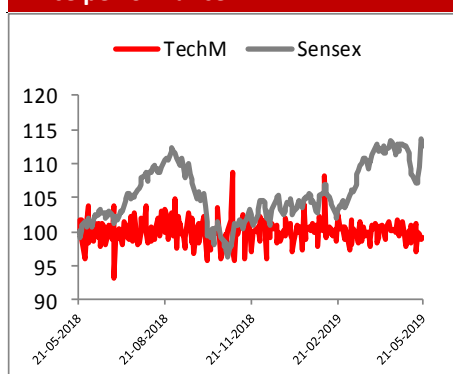
BUY

Current Price	750
Target Price	880
Upside	17%
52 Week Range	613/846

Key Share Data

Market Cap (Rs.Bn)	722.72
Market Cap (US\$ Mn)	10324.59
No of o/s shares (Mn)	983.36
Face Value	5
Monthly Avg.	
Vol(BSE+NSE) '000	2392.7
BSE Code	532755
NSE Code	TECHM
Bloomberg	TECHM:IN

Price performance



% Shareholding	Mar-19	Dec-18
Promoters	35.87	35.94
Public	64.12	64.02
Others	0.01	0.04
Total	100	100

TechM's Q4FY19 performance was marginally below our estimates across the board

- Revenue in dollar terms came in at \$1268 Mn, +0.5% qoq / +1.9% yoy; 0.8% below our estimate of \$1278 Mn
- In Rupee terms, revenue was reported at INR 88,923 Mn, -0.6% qoq / +10.4% yoy; 1.2% below our est. of INR 90,024 Mn
- EBITDA at INR 16,387 Mn, -4.9% qoq / +16.1% yoy; 3.5% below our est. of INR 16,976 Mn
- Reported margins came lower at 18.4% vs est. of 18.9%. However, adjusting for one-offs in SG&A, margins would have come in at 18.7-8%
- EBIT at INR 13,683 Mn, -4.9% qoq / +22.9% yoy; 4.3% below our estimate of INR 14,294 Mn
- EBIT margins stood at 15.4%, -70 bps qoq / +157 bps yoy and 49 bps lower than our est.
- PAT came in at INR 11,325 Mn, -5.9% qoq / -7.3% yoy; 2.6% below our est. of INR 11,622 Mn
- EPS for the quarter stood at INR 12.8 vs 13.6 / 13.8 in Q3FY19 / Q4FY18 respectively

Manufacturing, BFS, Retail and Enterprise business drag growth

- Manufacturing vertical (20.2% of revenue) was down 0.9% qoq, BFS (13.1% of revenue) was down 1.7% qoq and Retail (6.5% of revenue) was down 4% qoq
- Geography wise, North America was down 1.6% qoq and Europe was down 0.5% qoq in reported terms
- TechM added 2 clients in the \$50 Mn+ category and 4 clients in the \$20 Mn+ category

Key Takeaways from the Concall:

(i) TCV grew ~33% yoy in FY19 (ii) Signed deals worth \$418 Mn in Q4FY19 (iii) One-off charge under SG&A in Q4. Excluding this one-off EBITDA margins would have been in the range of 18.7 - 18.8% (iv) Q4FY19 performance marginally below expectations because ERP business down 2.2% qoq due to strong performance in Q3 (+4% qoq driven by Mfg) and deferral of certain business (to Q1 and Q2) in Healthcare and Retail segment. Healthcare should bounce-back by Q1 whereas retail should revive by H2 (v) Mfg vertical crossed \$1 Bn mark (vi) Digital grew 41% yoy (vii) TechM added 2 clients in the \$50 Mn bucket in Q4 (viii) Expect Q1 will be muted in terms of margins and revenue growth due to seasonality in Comviva and impending wage hike. H2 has been traditionally strong for TechM and will continue in FY20 (ix) Comms (42.7% of total revenue) will grow faster than Enterprise segment in FY20 on the back of 5G rollouts and capex by telecom operators. Expect good execution to reflect post H2FY20. (x) On concerns regarding Huawei issue: Not much concern for TechM as 1) Huawei is not in Top20 or 30 customers for TechM 2) All work for Huawei by TechM is in middle east and Europe and not in any sensitive region. Company doesn't see concerns for the next 12 months at least (xi) AltioStar loss in Share of Profit/Loss because they are investing heavily in products (TechM holds 20% stake in the company)

INR Mn	Net Sales	% Growth	EBITDA	EBITDA Margin (%)	PAT	PAT Margin (%)	EPS	% Growth	P/E (x)	ROE (%)	ROCE (%)
FY18	3,07,730	5.6%	47,170	15.3%	38,001	12.3%	43.0	33.8%	17.9x	20.7%	19.0%
FY19	3,47,421	12.9%	63,368	18.2%	43,630	12.6%	49.4	14.8%	15.6x	20.5%	18.9%
FY20e	3,81,445	9.8%	72,519	19.0%	50,249	13.2%	56.9	15.2%	13.5x	20.3%	18.9%
FY21e	4,17,011	9.3%	79,033	19.0%	55,473	13.3%	62.8	10.4%	12.3x	19.5%	18.3%

Source: Company, Dalal&Broacha Research



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Q4FY19 Performance Highlights:

YE March (Rs. mn)	Q4 FY19	Q3 FY19	Q-o-Q change %	Q4 FY18	Y-o-Y change %	Q4 FY19 Estiamates	Deviation %
Net Sales (USD Mn)	1,268	1,261	0.5%	1,244	1.9%	1,278	(0.8%)
Net Sales (INR Mn)	88,923	89,437	(0.6%)	80,545	10.4%	90,024	(1.2%)
Less:							
Employees Remuneration & Benefits	59,482	59,845	(0.6%)	54,885	8.4%	60,220	(1.2%)
Administrative & Other Expenses	13,054	12,366	5.6%	11,541	13.1%	12,828	1.8%
Total Operating Expenditure	72,536	72,211	0.5%	66,426	9.2%	73,049	(0.7%)
EBITDA	16,387	17,226	(4.9%)	14,119	16.1%	16,976	(3.5%)
Less: Depreciation	2,704	2,836	(4.7%)	2,986	(9.4%)	2,682	0.8%
EBIT	13,683	14,390	(4.9%)	11,133	22.9%	14,294	(4.3%)
Less: Interest	281	358	(21.5%)	527	(46.7%)	357	(21.2%)
Add: Other income	1,671	806	107.3%	4,513	(63.0%)	1,575	6.1%
Profit Before Tax	15,073	14,838	1.6%	15,119	(0.3%)	15,512	(2.8%)
Adjusted Profit Before Tax	15,073	14,838	1.6%	15,119	(0.3%)	15,512	(2.8%)
Less: Total Tax	3,535	2,638	34.0%	2,810	25.8%	3,801	(7.0%)
Minority Interest	59	-39		-88		-90	
Reported PAT	11,325	12,029	(5.9%)	12,221	(7.3%)	11,622	(2.6%)
Adjusted PAT	11,597	12,029	(3.6%)	12,221	(5.1%)	11,622	(0.2%)
Reported Diluted EPS (Rs.)	12.8	13.6	(5.9%)	13.8	(7.3%)	13.2	(2.6%)
Adjusted Diluted EPS (Rs.)	13.1	13.6	(3.6%)	13.8	(5.1%)	13.2	(0.2%)
No of Shared Diluted (mn)	883.0	883.0		883.0		883.0	
Margin Analysis %			Change in bps	Change in bps	Change in bps		
EBIT Margin	15.4%	16.1%	(70)	13.8%	157	15.9%	(49)
EBIDTA Margin	18.4%	19.3%	(83)	21.2%	(281)	18.9%	(43)
NPM	12.7%	13.4%	(71)	15.2%	(244)	12.9%	(17)
Adjusted NPM	13.0%	13.4%	(41)	15.2%	(213)	12.9%	13
Effective Tax Rate %	23.5%	17.8%	567	18.6%	487	24.5%	(105)
Cost Analysis %			Change in bps	Change in bps	Change in bps		
Employee Cost/Net Sales	66.9%	66.9%	(2)	68.1%	(125)	66.9%	(0)
SG&A/Net sales	14.7%	13.8%	85	14.3%	35	14.3%	43

EBITDA margins stood at 18.4% in Q4FY19, below our estimate of 18.9%. However, management stated that excluding one-offs in SG&A, margins would be at 18.7-18.8%.

Margins may be under pressure in Q1FY20 due to wage hike, however, have scope of improvement on the back of off-shoring going ahead.

Valuation

The stock is trading at 13.5x and 12.3x FY20e / FY21e estimates. Stock price may witness some pressure as margins came in below estimates and that Q1FY20 would be soft due to muted performance of Comviva and wage hike. However, adjusting for one-offs, Q4FY19 EBITDA margins were largely in-line with our estimates of 18.9%. Additionally, reported deal wins have grown by a healthy 33% in FY19 and H2FY20 is expected to witness strong execution. **We maintain our BUY recommendation on the stock with a target price of INR 880 based on 14x FY21e EPS of INR 62.8.**



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Profit & Loss Statement

YE March (Rs. mn)	FY18	FY19	FY20E	FY21E
Net Sales	3,07,730	3,47,421	3,81,445	4,17,011
Growth %	5.6%	12.9%	9.8%	9.3%
Total Revenue	3,07,730	3,47,421	3,81,445	4,17,011
Less:				
Software development expenses	2,15,299	2,33,590	2,54,569	2,78,554
Selling, Mktg & General expenses	45,261	50,463	54,356	59,424
Total Operating Expenditure	2,60,560	2,84,053	3,08,925	3,37,978
EBIDTA	47,170	63,368	72,519	79,033
Growth %	12.7%	34.3%	14.4%	9.0%
Less: Depreciation	10,849	11,292	10,816	10,816
EBIT	36,321	52,076	61,703	68,217
Growth %	13.3%	43.4%	15.5%	10.6%
Non-operating Income	14,092	5,342	5,145	5,421
Extraordinary Income	0	0	0	0
Extraordinary Expense	0	0	0	0
Profit Before tax	48,789	56,086	65,587	72,402
Tax	10,925	12,544	15,085	16,653
Minority Interest	137	88	-253	-277
Net Profit	38,001	43,630	50,249	55,473
Adjusted Profit	38,001	43,630	50,249	55,473
Reported Diluted EPS Rs	43.0	49.4	56.9	62.8
Growth %	33.8%	14.8%	15.2%	10.4%
Adjusted Diluted EPS Rs	43.0	49.4	56.9	62.8
Growth %	33.8%	14.8%	15.2%	10.4%

Free Cash Flow Statement

YE March (Rs. mn)	FY18	FY19	FY20E	FY21E
EBIDTA	36,321	52,076	61,703	68,217
Less: Adjusted Taxes	8,133	11,647	14,192	15,690
NOPLAT	28,188	40,429	47,512	52,527
Plus: Depreciation	10,849	11,292	10,816	10,816
Less: Increase in Working Capital	5,894	6,944	7,473	8,214
Operating Cashflow	33,143	44,777	50,854	55,129
Less: Net Capex	14,341	12,962	13,816	13,816
Less: Increase in Net Other Assets	2,464	2,711	2,982	3,280
Total FCF	16,338	29,104	34,056	38,033

Key Ratios

YE March (Rs. mn)	FY18	FY19	FY20E	FY21E
Key Operating Ratios				
EBITDA Margin (%)	15.3%	18.2%	19.0%	19.0%
Tax/ PBT (%)	22.4%	22.4%	23.0%	23.0%
Net Profit Margin (%)	12.3%	12.6%	13.2%	13.3%
RoE (%)	20.7%	20.5%	20.3%	19.5%
RoCE (%)	19.0%	18.9%	18.9%	18.3%
Current Ratio (x)	2.0x	2.2x	2.4x	2.7x
Dividend Payout (%)	30.0%	30.0%	30.0%	30.0%
Book Value Per Share (Rs.)	216.7	251.3	291.2	335.1
Financial Leverage Ratios				
Debt/ Equity (x)	0.0x	0.0x	0.0x	0.0x
Interest Coverage (x)	29.0x	47.6x	57.5x	64.0x
Interest / Debt (%)	87.0%	79.9%	86.0%	97.5%
Growth Indicators %				
Growth in Gross Block (%)				
Sales Growth (%)	5.6%	12.9%	9.8%	9.3%
EBITDA Growth (%)	12.7%	34.3%	14.4%	9.0%
Net Profit Growth (%)	33.8%	14.8%	15.2%	10.4%
Diluted EPS Growth (%)	33.8%	14.8%	15.2%	10.4%
Turnover Ratios				
Debtors (Days of net sales)	83	81	81	81
Creditors (Days of Raw Materials)	37	37	37	36
Inventory (Days of Optg. Costs)	1	1	0	0

Balance Sheet

YE March (Rs. mn)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	4,839	4,839	4,839	4,839
Reserves & Surplus	186,535	2,17,076	2,52,250	2,91,082
Equity	1,91,374	2,21,915	2,57,089	2,95,921
Preference Share Capital	0	0	0	0
Net Worth	1,91,374	2,21,915	2,57,089	2,95,921
Minority Interest	2,034	2,034	2,034	2,034
Net Deferred tax liability/(Asset)	280	307	338	372
Total Loans	1,767	1,567	1,367	1,167
Long term Provisions	6,426	7,069	7,776	8,553
Amount Pending Investigation	12,304	12,304	12,304	12,304
Capital Employed	2,14,185	2,45,197	2,80,909	3,20,351
Assets				
Net Block	89,407	92,407	95,407	98,407
Capital WIP	3,729	2,399	2,399	2,399
Investments	13,244	13,244	13,244	13,244
Intangible Assets	911	911	911	911
Others - A	27,388	30,127	33,140	36,454
Current Assets				
Inventories	414	414	414	414
Sundry Debtors	69,823	76,805	84,486	92,934
Cash and Bank Balance	29,146	49,599	72,506	98,132
Loans and Advances	20,672	22,739	25,013	27,514
Other Current Assets	40,296	43,802	47,617	51,769
Total Current Assets	1,60,350	1,93,359	2,30,036	2,70,764
Less: Current Liabilities & Provisions				
Sundry Creditors	26,541	28,665	30,958	33,435
Provisions	29,153	32,068	35,275	38,802
Other Current Liabilities	25,151	26,519	27,996	29,591
Total Current Liabilities & Provisions	80,845	87,251	94,228	1,01,828
Capital Applied	2,14,185	2,45,197	2,80,909	3,20,351

Valuation Ratios

YE March (Rs. mn)	FY18	FY19	FY20E	FY21E
P/E (x)	17.4x	15.2x	13.2x	11.9x
P/BV (x)	3.5x	3.0x	2.6x	2.2x
EV/EBIDTA (x)	13.5x	9.7x	8.2x	7.2x
EV/Sales	2.1x	1.8x	1.5x	1.4x
Market Cap./ Sales (x)	2.2x	1.9x	1.7x	1.6x
Dividend Yield (%)	1.7%	2.0%	2.3%	2.5%



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