



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: MayankBabla (022) 67141412

## Q4FY20 Result Update@ Dalal&Broacha

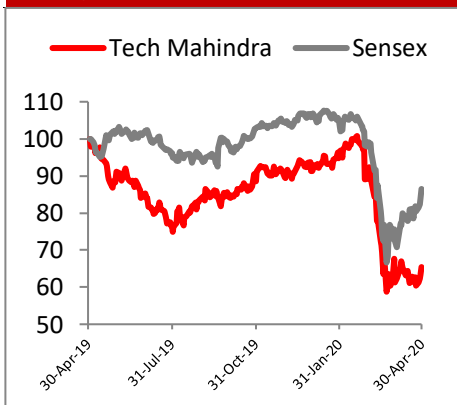
### BUY

Current Price	546
Target Price	616
Upside	13%
52 Week Range	470/846

### Key Share Data

Market Cap (Rs.Bn)	527.45
Market Cap (US\$ Bn)	6.99
No of o/s shares (Mn)	965.85
Face Value	5
Monthly Avg.	
Vol(BSE+NSE)'000	5499.07
BSE Code	532755
NSE Code	TECHM
Bloomberg	TECHM:IN

### Price performance



% Shareholding	Mar-20	Dec-19
Promoters	35.85	35.87
Public	64.15	64.13
Others	0.01	0.01
<b>Total</b>	<b>100</b>	<b>100</b>

### TechM's Q4FY20 performance was well below our estimated numbers

- Dollar revenue came in at \$1,294.6 Mn, -4.3% qoq / +2.1% yoy and 2.1% below our est. of -2.1% qoq de-growth
- INR revenue came in at INR 94,902 Mn, -1.7% qoq / +6.7% yoy and -0.9% vs our estimate
- EBIT stood at INR 9,496 Mn, -19.4% qoq / +30.6% yoy and -15.4% versus our estimate
- EBIT margins came in at 10%, -220 bps qoq / -540 bps yoy and 170 bps below our expectations
- EBITDA at 13,478 Mn, -13.8% qoq / -17.8% yoy and -10.6% versus our estimate
- EBITDA margins came in at 14.2%, -200 bps qoq / -420 bps yoy and 150 bps below our expectations
- APAT stood at INR 8,039 Mn, -11% qoq / -12% yoy and -3.3% vs our estimate
- EPS came in at INR 11.6 vs INR13 / 12.8 in Q3FY20 / Q4FY19 respectively

### Segment Analysis

- TechM reported de-growth across all its Industries except BFSI. Telecom (40.8% of rev) led the pack with an (8.4)% qoq drop, followed by Technology, Media and Entertainment (7.4% of rev) with (6.8)% qoq. Retail (7.3% of topline) and Manufacturing (17.7% of rev) reported degrowth of (3)% qoq and (2.1)% qoq respectively
- Geography-wise Europe (26.5% of rev) led the fall with a (6)% qoq drop followed by North America (47.7% of topline) at (5.7)% qoq drop
- A qoq decline was reported across the top clients

### Concall KTAs

- Sequential revenue decline of 3.3% in CC, ½ (160 bps) of which due to COVID Impact
  - Impact mainly due to BPS segment** (supplieside constraints in WFH and delay in approvals from clients), **de-growth in Network Services** part of Comms (due to deferral in client spend on 5G and network upgrades), **Retail Business witnessing a decline of 40-50 bps in Q4, decline in Comviva business** (even though Q4 is traditionally a strong quarter) and **100-120 bps decline in volumes**.
  - Volumes declined in Q4 due to ramp down in Transition revenue from AT&T deal (which reached steady state in Q3FY20) and lower execution of large deals signed in the previous quarter
  - Margin walk: EBIT down 220 bps qoq due to **a.** 100 bps impact due to higher provisioning for doubtful debts and donation to PM care fund **b.** higher cost due to AT&T deal transition **c.** COVID impact of 80 bps.
  - Enterprise business also impacted due to lower discretionary spend mainly in Mfg and Retail segment
  - Impairment taken in certain subsidiaries and therefore had an impact of INR 2175 Mn during the quarter
  - Cash and Cash Equivalents was reported at USD 1.16 Bn after declaring a Dividend of INR 10 during the quarter and INR 5 as special dividend. This brings the total dividend to INR 15.
- Headcount witnessed a reduction of 5600 people due to BPS

### Consolidated Financials (In INR Mn)

INR Mn	Net Sales	% Growth	EBITDA	EBITDA Margin (%)	PAT	PAT Margin (%)	EPS	% Growth	P/E (x)	ROE (%)	ROCE (%)
FY18	307,730	5.6%	47,170	15.3%	38,001	12.3%	43.0	33.8%	12.7x	20.7%	18.0%
FY19	347,421	12.9%	63,368	18.2%	43,630	12.6%	49.4	14.8%	11.1x	20.5%	18.2%
FY20e	368,677	6.1%	57,261	15.5%	44,735	12.1%	48.2	-2.5%	10.8x	17.5%	16.2%
FY21e	377,130	2.3%	55,022	14.6%	42,051	11.2%	47.6	-1.2%	11.5x	15.4%	14.4%
FY22e	417,948	10.8%	62,941	14.4%	45,314	7.8%	51.3	7.8%	10.6x	14.9%	14.0%

Source: Company, Dalal&Broacha Research



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(vi) Headcount witnessed a reduction of 5600 people mainly in the BPS business

(vii) Q1FY21 impact will be greater

(viii) Cost management initiatives include pay cuts taken by senior management, lower subcon costs (reduced 3% qoq in Q4FY20), reduction in travel expenses (2-3% of operating costs) and focus on reducing 3<sup>rd</sup> party costs

### Quarterly Deviation Analysis

YE March (Rs. mn)	Q4 FY20	Q3 FY20	Q-o-Q change %	Q4 FY19	Y-o-Y change %	Q4 FY20 Estimates	Deviation %
<b>Net Sales (USD Mn)</b>	<b>1,295</b>	<b>1,353</b>	<b>(4.3%)</b>	<b>1,268</b>	<b>2.1%</b>	<b>1,323</b>	<b>(2.1%)</b>
<b>Net Sales (INR Mn)</b>	<b>94,902</b>	<b>96,546</b>	<b>(1.7%)</b>	<b>88,923</b>	<b>6.7%</b>	<b>95,752</b>	<b>(0.9%)</b>
<b>Less:</b>							
Employees Remuneration & Benefits	66,896	67,312	(0.6%)	59,482	12.5%	67,752	(1.3%)
Administrative & Other Expenses	14,528	13,601	6.8%	13,054	11.3%	12,927	12.4%
<b>Total Operating Expenditure</b>	<b>81,424</b>	<b>80,913</b>	<b>0.6%</b>	<b>72,536</b>	<b>12.3%</b>	<b>80,678</b>	<b>0.9%</b>
<b>EBITDA</b>	<b>13,478</b>	<b>15,633</b>	<b>(13.8%)</b>	<b>16,387</b>	<b>(17.8%)</b>	<b>15,074</b>	<b>(10.6%)</b>
Less: Depreciation	3,982	3,848	3.5%	2,704	47.3%	3,848	3.5%
<b>EBIT</b>	<b>9,496</b>	<b>11,785</b>	<b>(19.4%)</b>	<b>13,683</b>	<b>(30.6%)</b>	<b>11,226</b>	<b>(15.4%)</b>
Less: Interest	532	550	(3.3%)	281	89.3%	547	(2.8%)
Add: Other income	2,852	3,496	(18.4%)	1,671	70.7%	3,473	(17.9%)
<b>Profit Before Tax</b>	<b>13,991</b>	<b>14,731</b>	<b>(5.0%)</b>	<b>15,073</b>	<b>(7.2%)</b>	<b>14,151</b>	<b>(1.1%)</b>
<b>Adjusted Profit Before Tax</b>	<b>11,816</b>	<b>14,731</b>	<b>(19.8%)</b>	<b>15,073</b>	<b>(21.6%)</b>	<b>14,151</b>	<b>(16.5%)</b>
Less: Total Tax	2,392	3,629	(34.1%)	3,535	(32.3%)	3,538	(32.4%)
Minority Interest	775	352		59		(48)	
<b>Reported PAT</b>	<b>8,039</b>	<b>11,459</b>	<b>(29.8%)</b>	<b>11,325</b>	<b>(29.0%)</b>	<b>10,566</b>	<b>(23.9%)</b>
<b>Adjusted PAT</b>	<b>10,214</b>	<b>11,454</b>	<b>(10.8%)</b>	<b>11,597</b>	<b>(11.9%)</b>	<b>10,566</b>	<b>(3.3%)</b>
Reported Diluted EPS (Rs.)	9.1	13.0	(29.8%)	12.8	(29.0%)	12.0	(23.9%)
<b>Adjusted Diluted EPS (Rs.)</b>	<b>11.6</b>	<b>13.0</b>	<b>(10.8%)</b>	<b>13.1</b>	<b>(11.9%)</b>	<b>12.0</b>	<b>(3.3%)</b>
No of Shared Diluted (mn)	<b>883.0</b>	<b>883.0</b>		<b>883.0</b>		<b>883.0</b>	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>		<b>Change in bps</b>
EBIT Margin	10.0%	12.2%	(220)	15.4%	(538)	11.7%	(172)
EBITDA Margin	14.2%	16.2%	(199)	18.4%	(423)	15.7%	(154)
NPM	8.5%	11.9%	(340)	12.7%	(426)	11.0%	(256)
Adjusted NPM	10.8%	11.9%	(110)	13.0%	(228)	11.0%	(27)
Effective Tax Rate %	17.1%	24.6%	(754)	23.5%	(636)	25.0%	(790)
<b>Cost Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>		<b>Change in bps</b>
Employee Cost/Net Sales	70.5%	69.7%	77	66.9%	360	70.8%	(27)
SG&A/Net sales	15.3%	14.1%	122	14.7%	63	13.5%	181

- Revenue was largely impacted due to current COVID situation

- EBITDA impacted by 220 bps qoq due to higher provisioning for doubtful debts, lower utilization and higher costs due to transition of AT&T deal

- An impairment of subsidiaries to the tune of INR 2175 Mn was accounted during the quarter

### Valuation & Outlook

TechM is trading at 11.5x and 10.6x FY21e and FY22e EPS. COVID impact on TechM's performance was more severe than we initially estimated and is expected to deepen in Q1FY21. We believe that client spend in services and industries specific to TechM such as Network Services, Enterprise and BPS and Telecom, BFS, Manufacturing and Retail will be severely impacted due to supply side as well as demand side constraints, which should impact the H1 of FY21 if not the entire FY21. Furthermore, impairment of subsidiaries indicates earnings pressure in acquisitions as well. **In this light, we cut our EPS estimates by 9% / 10% from 52.4 / 57.1 earlier to 47.6 / 51.3 for FY21e / FY22e respectively and believe that the stock will be under severe pressure in the near term. However, current valuations are extremely compelling and the long term prospect of the company w.r.t 5G story, network upgradation and digital revenues is intact. Therefore, we retain a BUY rating on the stock but with a reduced target price of INR 616 (earlier INR 798).**



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YE March (Rs. mn)	Profit & Loss A/c				
	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	307,730	347,421	368,677	377,130	417,948
Growth %	5.6%	12.9%	6.1%	2.3%	10.8%
Total Revenue	307,730	347,421	368,677	377,130	417,948
Less:					
Employee Expenses	215,299	233,590	259,743	273,081	296,494
Selling, Mktg & General expenses	45,261	50,463	51,673	49,027	58,513
Total Operating Expenditure	260,560	284,053	311,416	322,108	355,007
EBIDTA	47,170	63,368	57,261	55,022	62,941
Growth %	12.7%	34.3%	-9.6%	-3.9%	14.4%
Less: Depreciation	10,849	11,292	14,458	12,927	12,927
EBIT	36,321	52,076	42,803	42,096	50,014
Growth %	13.3%	43.4%	-17.8%	-1.7%	18.8%
EBIT Margin (%)	11.8%	15.0%	11.6%	11.2%	12.0%
Non-operating Income	14,092	5,342	11,924	10,371	11,494
Profit Before tax	48,789	56,086	54,983	50,360	59,435
Tax	10,925	12,544	11,604	10,195	12,032
Minority Interest	137	88	1,356	1,886	(2,090)
Net Profit	38,001	43,630	44,735	42,051	45,314
Adjusted Profit	38,001	43,630	42,560	42,051	45,314
Reported Diluted EPS Rs	43.0	49.4	50.7	47.6	51.3
Growth %	33.8%	14.8%	2.5%	-6.0%	7.8%
Adjusted Diluted EPS Rs	43.0	49.4	48.2	47.6	51.3
Growth %	33.8%	14.8%	-2.5%	-1.2%	7.8%

Key Ratios					
EBIDTA (%)	15.3%	18.2%	15.5%	14.6%	15.1%
NPM (%)	12.3%	12.6%	12.1%	11.2%	10.8%
RoE (%)	20.7%	20.5%	17.5%	15.4%	14.9%
RoCE (%)	18.0%	18.2%	16.2%	14.4%	14.0%
Book Value Per share (Rs.)	216.3	250.9	286.3	319.7	355.6
Valuation Ratios					
P/E (x)	12.7x	11.1x	10.8x	11.5x	10.6x
EV/EBITDA	9.1x	6.5x	6.8x	6.8x	5.8x
P/BV (x)	2.5x	2.2x	1.9x	1.7x	1.5x
Market Cap. / Sales (x)	1.6x	1.4x	1.3x	1.3x	1.2x

YE March (Rs. mn)	Free Cash Flow Statement				
	FY18	FY19	FY20E	FY21E	FY22E
EBIDTA	36,321	52,076	42,803	42,096	50,014
Less: Adjusted Taxes	8,133	11,647	9,033	8,522	10,125
NOPLAT	28,188	40,429	33,770	33,574	39,889
Plus: Depreciation	10,849	11,292	14,458	12,927	12,927
Less: Increase in Working Capital	4,636	18,093	11,635	12,596	14,591
Operating Cashflow	34,400	33,628	36,593	33,904	38,225
Less: Net Capex	8,612	8,075	5,000	15,000	20,000
Less: Increase in Net Other Assets	14,441	6,515	3,457	3,803	4,183
Total FCF	11,347	19,038	29,852	15,102	14,042

YE March (Rs. mn)	Balance Sheet				
	FY18	FY19	FY20E	FY21E	FY22E
<b>Liabilities</b>					
Equity Capital	4,417	4,437	4,437	4,437	4,437
Reserves & Surplus	186,535	217,076	248,391	277,826	309,546
<b>Equity</b>	<b>190,952</b>	<b>221,513</b>	<b>252,828</b>	<b>282,263</b>	<b>313,983</b>
Net Worth	190,952	221,513	252,828	282,263	313,983
Total Loans	7,711	2,086	1,886	1,686	1,486
Long term Provisions	5,551	5,801	6,381	7,019	7,721
Amount Pending Investigation	12,304	12,304	12,304	12,304	12,304
<b>Capital Employed</b>	<b>227,729</b>	<b>249,826</b>	<b>281,855</b>	<b>312,097</b>	<b>344,723</b>
<b>Assets</b>					
Net Block	29,810	26,229	16,771	18,844	25,917
Capital WIP	2,399	2,763	2,763	2,763	2,763
<b>Investments</b>	<b>14,364</b>	<b>9,228</b>	<b>9,228</b>	<b>9,228</b>	<b>9,228</b>
Intangible Assets	16,781	14,512	14,512	14,512	14,512
<b>Current Assets</b>					
Sundry Debtors	64,979	69,586	76,545	84,199	92,619
Cash and Bank Balance	60,694	70,419	96,905	108,476	115,666
<b>Total Current Assets</b>	<b>211,321</b>	<b>262,490</b>	<b>307,573</b>	<b>339,557</b>	<b>369,156</b>
<b>Less: Current Liabilities &amp; Provisions</b>					
Sundry Creditors	20,368	24,893	26,884	29,035	31,358
<b>Total Current Liabilities &amp; Provisions</b>	<b>79,167</b>	<b>103,312</b>	<b>110,699</b>	<b>118,685</b>	<b>127,319</b>
<b>Capital Applied</b>	<b>227,729</b>	<b>249,826</b>	<b>281,855</b>	<b>312,097</b>	<b>344,723</b>

YE March (Rs. mn)	Key Ratios				
	FY18	FY19	FY20E	FY21E	FY22E
<b>Key Operating Ratios</b>					
EBITDA Margin (%)	15.3%	18.2%	15.5%	14.6%	15.1%
Tax / PBT (%)	22.4%	22.4%	21.1%	20.2%	20.2%
Net Profit Margin (%)	12.3%	12.6%	12.1%	11.2%	10.8%
RoE (%)	20.7%	20.5%	17.5%	15.4%	14.9%
RoCE (%)	18.0%	18.2%	16.2%	14.4%	14.0%
Current Ratio (x)	2.7x	2.5x	2.8x	2.9x	2.9x
Dividend Payout (%)	30.0%	30.0%	30.0%	30.0%	30.0%
Book Value Per Share (Rs.)	216.3	250.9	286.3	319.7	355.6
<b>Growth Indicators %</b>					
Growth in Gross Block (%)					
Sales Growth (%)	5.6%	12.9%	6.1%	2.3%	10.8%
EBITDA Growth (%)	12.7%	34.3%	(9.6%)	(3.9%)	14.4%
Net Profit Growth (%)	33.8%	14.8%	2.5%	(6.0%)	7.8%
Diluted EPS Growth (%)	33.8%	14.8%	2.5%	(6.0%)	7.8%
<b>Turnover Ratios</b>					
Debtors (Days of net sales)	77	73	76	81	81



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