

View: Communication to aid profitability

Company won deals worth USD 440mn in the quarter. Of these, USD 240mn was in the communication vertical and USD 200mn in enterprise. Deal wins in the communication vertical are wide spread and all in upcoming transformation areas of 4G/5G network. We believe recovery in the communication vertical with a healthy deal inflow will aid margin and profitability in the near to medium term. We expect TECHM to report a USD revenue growth of 4.7%/10%/10.2% in FY19E/FY20E/FY21E. However, the management believes that margin expansion to be moderate helped by digital revenue and synergy between portfolio companies. The stock trades at an inexpensive valuation of 13.1x/11.1x FY20/FY21 earnings. We continue to prefer TechM within our large cap IT universe, and maintain BUY with a TP of ₹ 950 based on 15x one yr. fwd. PER.

Revenue and margin are above estimates

The USD revenue grew 3.5% QoQ to USD 1,261mn, more than our estimate (DCMe: USD 1,248mn) on account of a healthy growth in the communication and enterprise verticals. The INR revenue rose 3.6% QoQ to ₹ 89.4bn (DCMe: ₹ 89.9bn), due to rupee depreciation. The EBIT margin improved 80bps QoQ to 16.1% (DCMe: 15.6%), on account of operational efficiency (lower SG&A +40bps) and higher utilization (+40bps). The PAT rose 13% QoQ to ₹ 12bn (DCMe: ₹ 11.6bn), as a lower tax rate (18%) offset lower other income in the quarter. Tax in the quarter was lower, due to a tax reversal of 7.5%, and the company expects the normalized tax rate to be 24.5% going ahead.

Communication and manufacturing verticals outperform

Revenue from US rose 4.4% QoQ, while Europe grew 1% QoQ and ROW improved 4.8% QoQ (all in USD terms). Among verticals, communication/manufacturing/ BFSI/ Retail rose 2.5%/ 5.6%/ 2.7%/ 6.7%, QoQ, respectively. However, technology de-grew 0.8% QoQ (all in USD terms). Given deal wins, the management remained confident on the Telecom vertical and expects a healthy growth in Q4FY19.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	89,437	77,760	15.0	86,298	3.6
Total Expense	72,211	65,122	10.9	70,112	3.0
EBITDA	17,226	12,638	36.3	16,186	6.4
Depreciation	2,836	2,742	3.4	2,944	(3.7)
EBIT	14,390	9,896	45.4	13,242	8.7
Other Income	806	2,260	(64.3)	1,751	(54.0)
Interest	358	341	5.0	388	(7.7)
EBT	14,838	11,815	45.4	14,605	1.6
Tax	2,638	2,570	2.6	3,914	(32.6)
RPAT	12,030	9,432	27.5	10,644	13.0
APAT	12,030	9,432	27.5	10,644	13.0
			(bps)		(bps)
Gross Margin (%)	33.1	30.8	228	34.0	(95)
EBITDA Margin (%)	19.3	16.3	301	18.8	50
NPM (%)	13.5	12.1	132	12.3	112
Tax Rate (%)	17.8	21.8	(397)	26.8	(902)
EBIT Margin (%)	16.1	12.7	336	15.3	75

CMP	₹ 751
Target / Upside	₹ 950 / 26%
BSE Sensex	36,617
NSE Nifty	10,934

Scrip Details

Equity / FV	₹ 4,425mn / ₹ 5
Market Cap	₹ 631bn
	US\$ 9bn
52-week High/Low	₹ 781/₹ 564
Avg. Volume (no)	2,479,180
NSE Symbol	TECHM
Bloomberg Code	TECHM IN

Shareholding Pattern Dec'18(%)

Promoters	35.9
MF/Banks/FIs	12.6
FIIIs	37.9
Public / Others	13.6

Valuation (x)

	FY19E	FY20E	FY21E
P/E	14.8	13.1	11.1
EV/EBITDA	9.4	8.0	6.6
ROE (%)	22.0	22.5	23.2
RoACE (%)	20.4	21.1	21.9

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	348,582	406,999	459,700
EBITDA	62,922	71,628	81,265
PAT	42,643	47,989	57,085
EPS (₹)	50.8	57.1	68.0

Head of Equities: Amit Khurana, CFA

Tel: +91 22 40969745

E-mail: amit@dolatcapital.com

Associate: Vinesh Vala

Tel: +91 22 40969736

E-mail: vineshv@dolatcapital.com

Digital revenue aided margin improvement

Digital revenue contributed 33% of the total revenue and grew 10% QoQ in Q3FY19. Digital revenue rose QoQ, due to the TECHM NEXT platform. The company expects higher margins, given growth in digital revenues in near term.

Exhibit 1: Q3FY19 Performance

₹ mn	Q3FY19	DCMe	Diff (%)	Q2FY19	QoQ(%)	Q3FY18	YoY (%)
USD revenue	1,261	1,248	1.0	1,218	3.5	1,209	4.3
Revenue	89,437	89,913	(0.5)	86,298	3.6	77,760	15.0
EBIT	14,390	14,026	2.6	13,242	8.7	9,896	45.4
EBITDA	17,226	17,026	1.2	16,186	6.4	12,638	36.3
Pre-Tax Profit	14,838	15,226	(2.5)	14,605	1.6	11,815	25.6
Net Profit	12,029	11,572	3.9	10,643	13.0	9,431	27.5
Adj. EPS (₹)	14.3	13.8	3.9	12.7	13.0	11.2	27.5
Margins (%)							
Operating Margin	16.1	15.6		15.3		12.7	
EBITDA Margin	19.3	18.9		18.8		16.3	
Net Margin	13.4	12.9		12.3		12.1	

Source: DART, Company

Exhibit 2: Geographic Split

Revenue (USD mn)	Q3FY18	Q2FY19	Q3FY19	QoQ (%)	YoY (%)
America	567	573	598	4.4	5.4
Europe	360	361	364	1.0	1.1
ROW	282	285	299	4.8	6.1
(%) of Total Revenue					
America	46.9	47.0	47.4	40	50
Europe	29.8	29.6	28.9	(70)	(90)
ROW	23.3	23.4	23.7	30	40

Source: DART, Company

Exhibit 3: Vertical Split

Revenue (USD mn)	Q3FY18	Q2FY19	Q3FY19	QoQ (%)	YoY (%)
Communication	517	506	518	2.5	0.1
Manufacturing	231	245	258	5.6	11.9
Technology, Media & Entertainment	79	89	88	(0.8)	12.3
Banking, Fin.Services & Insurance	161	164	169	2.7	5.1
Retail, Transport & Logistics	86	79	84	6.7	(1.6)
Others	137	136	142	4.4	4.3
(%) of Total Revenue					
Communication	42.8	41.5	41.1	(40)	(170)
Manufacturing	19.1	20.1	20.5	40	140
Technology, Media & Entertainment	6.5	7.3	7.0	(30)	50
Banking, Fin.Services & Insurance	13.3	13.5	13.4	(10)	10
Retail, Transport & Logistics	7.1	6.5	6.7	20	(40)
Others	11.3	11.2	11.3	10	0

Source: DART, Company

Exhibit 4: Delivery Split

Revenue (USD mn)	Q3FY18	Q2FY19	Q3FY19	QoQ (%)	YoY (%)
Onsite	796	786	826	5.1	3.8
Offshore	414	432	435	0.6	5.2
(%) of Total Revenue					
Onsite	65.8	64.5	65.5	100	(30)
Offshore	34.2	35.5	34.5	(100)	30

Source: DART, Company

Exhibit 5: Client Contribution

Revenue (USD mn)	Q3FY18	Q2FY19	Q3FY19	QoQ (%)	YoY (%)
Top 5	281	284	285	0.4	1.6
Top 10	401	398	398	0.0	(0.7)
Top 20	544	555	555	(0.1)	2.0
(%) of Total Revenue					
Top 5	23.2	23.3	22.6	(70)	(60)
Top 10	33.2	32.7	31.6	(110)	(160)
Top 20	45.0	45.6	44.0	(160)	(100)

Source: DART, Company

Exhibit 6: Client Mix

(Nos.)	Q3FY18	Q2FY19	Q3FY19	QoQ (%)	YoY (%)
No. of Active Clients	903	930	935	0.5	3.5
% of Repeat Business	93	97	95	(280)	170

Source: DART, Company

Exhibit 7: Number of Mn USD Clients

No. of Mn \$ Clients	Q3FY18	Q2FY19	Q3FY19	QoQ (%)	YoY (%)
≥ \$1 million clients	389	407	416	2.2	6.9
≥ \$5 million clients	154	157	157	0.0	1.9
≥ \$10 million clients	83	86	88	2.3	6.0
≥ \$20 million clients	40	45	46	2.2	15.0
≥ \$50 million clients	16	17	18	5.9	12.5

Source: DART, Company

Exhibit 8: Headcount Metrics

Headcount Details	Q3FY18	Q2FY19	Q3FY19	QoQ (%)	YoY (%)
Software Professionals	73,460	72,534	71,785	(1.0)	(2.3)
BPO Professionals	35,496	39,407	43,439	10.2	22.4
Sales & Support	6,285	6,450	6,618	2.6	5.3
Total Employees	115,241	118,391	121,842	2.9	5.7
IT Attrition % (LTM)	17.0	20.0	21.0	100	400
IT Utilization %	83.0	81.0	82.0	100	(100)
IT Utilization % (Excl. Trainees)	83.0	83.0	83.0	0	0

Source: DART, Company

Exhibit 9: Estimate Revision

(₹ mn)	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	348,582	406,999	459,700	349,397	403,601	459,061	(0.2)	0.8	0.1
EBIT	51469	58341	66569	48028	56477	65617	7.2	3.3	1.5
Pre-Tax Profit	55,104	63,562	75,610	52,836	62174	74976	4.3	2.2	0.8
Net Profit	42,643	47,989	57,085	40,067	47252	56982	6.4	1.6	0.2
Adj EPS	50.3	57.1	67.9	47.5	56.3	67.8	6.0	1.6	0.2
Reported EPS	44.4	50.0	59.5	41.7	49.2	59.4	6.4	1.6	0.2
Margins (%)									
EBIT Margin	14.8	14.3	14.5	13.7	14.0	14.3			
Net margin	12.2	11.8	12.4	11.5	11.7	12.4			

Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	307,730	348,582	406,999	459,700
Total Expense	260,569	285,660	335,371	378,435
COGS	215,299	234,288	273,507	308,560
Employees Cost	0	0	0	0
Other expenses	45,270	51,372	61,864	69,874
EBIDTA	47,161	62,922	71,628	81,265
Depreciation	10,849	11,453	13,286	14,696
EBIT	36,312	51,469	58,341	66,569
Interest	1,624	1,409	1,432	1,432
Other Income	14,101	5,044	6,653	10,473
Exc. / E.O. items	0	0	0	0
EBT	48,789	55,104	63,562	75,610
Tax	10,925	12,461	15,573	18,524
RPAT	37,864	42,643	47,989	57,085
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	37,864	42,643	47,989	57,085

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	4,417	4,425	4,425	4,425
Minority Interest	0	0	0	0
Reserves & Surplus	184,011	194,352	222,584	259,903
Net Worth	188,428	198,777	227,009	264,328
Total Debt	23,322	21,153	21,153	21,153
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	211,750	219,930	248,162	285,481

Applications of Funds

Net Block	32,574	29,135	25,849	21,152
CWIP	1,541	1,541	1,541	1,541
Investments	12,458	15,779	15,779	15,779
Current Assets, Loans & Advances	257,799	271,067	316,648	370,776
Inventories	0	0	0	0
Receivables	64,979	76,923	89,989	101,671
Cash and Bank Balances	64,892	57,765	80,852	114,872
Loans and Advances	0	0	0	0
Other Current Assets	127,928	136,380	145,806	154,233
Less: Current Liabilities & Provisions	92,622	97,592	111,654	123,768
Payables	0	0	0	0
Other Current Liabilities	92,622	97,592	111,654	123,768
Net Current Assets	165,177	173,475	204,994	247,009
Total Assets	211,750	219,930	248,162	285,481

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	30.0	32.8	32.8	32.9
EBIDTA Margin	15.3	18.1	17.6	17.7
EBIT Margin	11.8	14.8	14.3	14.5
Tax rate	22.4	22.6	24.5	24.5
Net Profit Margin	12.3	12.2	11.8	12.4
(B) As Percentage of Net Sales (%)				
COGS	70.0	67.2	67.2	67.1
Employee	0.0	0.0	0.0	0.0
Other	14.7	14.7	15.2	15.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	22.4	36.5	40.7	46.5
Inventory days	0	0	0	0
Debtors days	77	81	81	81
Average Cost of Debt	8.0	6.3	6.8	6.8
Payable days	0	0	0	0
Working Capital days	196	182	184	196
FA T/O	9.4	12.0	15.7	21.7
(D) Measures of Investment				
AEPS (₹)	45.1	50.8	57.1	68.0
CEPS (₹)	58.0	64.4	72.9	85.5
DPS (₹)	14.0	20.0	20.0	20.0
Dividend Payout (%)	31.0	39.4	35.0	29.4
BVPS (₹)	224.3	236.6	270.2	314.7
RoANW (%)	21.5	22.0	22.5	23.2
RoACE (%)	20.1	20.4	21.1	21.9
RoAIC (%)	26.5	33.3	35.4	39.4
(E) Valuation Ratios				
CMP (₹)	751	751	751	751
P/E	16.7	14.8	13.1	11.1
Mcap (₹ Mn)	630,840	630,840	630,840	630,840
MCap/ Sales	2.0	1.8	1.5	1.4
EV	589,270	594,228	571,141	537,121
EV/Sales	1.9	1.7	1.4	1.2
EV/EBITDA	12.5	9.4	8.0	6.6
P/BV	3.3	3.2	2.8	2.4
Dividend Yield (%)	1.9	2.7	2.7	2.7
(F) Growth Rate (%)				
Revenue	5.6	13.3	16.8	12.9
EBITDA	12.7	33.4	13.8	13.5
EBIT	13.3	41.7	13.4	14.1
PBT	26.6	12.9	15.3	19.0
APAT	31.7	12.6	12.5	19.0
EPS	31.7	12.6	12.5	19.0

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	55,191	42,828	52,844	63,786
CFI	(36,491)	(15,493)	(10,000)	(10,000)
CFF	(7,641)	(34,463)	(19,757)	(19,767)
FCFF	28,850	30,656	42,844	53,786
Opening Cash	53,833	64,892	57,765	80,852
Closing Cash	64,892	57,765	80,852	114,872

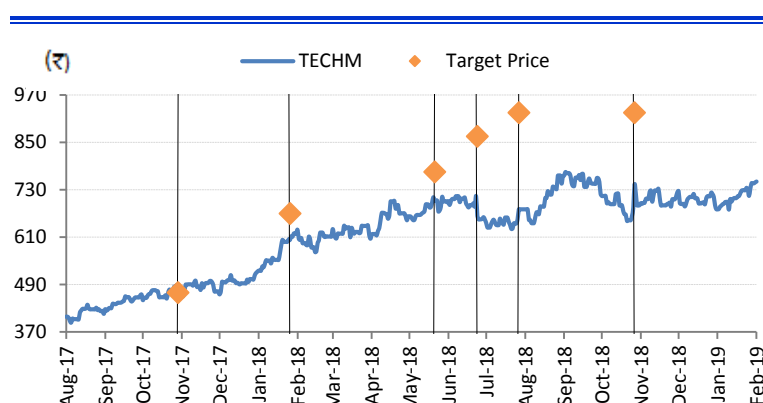
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Nov-17	Reduce	470	468
Jan-18	Accumulate	670	603
May-18	Accumulate	775	703
Jun-18	Buy	865	664
Jul-18	Buy	925	681
Oct-18	Buy	925	744

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
