

July 26, 2022

Q1FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	HOLD		HOLD	
Target Price	1,042		1,065	
Sales (Rs. m)	5,24,436	5,77,892	5,20,425	5,71,760
% Chng.	0.8	1.1		
EBITDA (Rs. m)	86,376	1,02,598	89,508	1,02,917
% Chng.	(3.5)	(0.3)		
EPS (Rs.)	58.9	69.4	61.9	71.0
% Chng.	(4.8)	(2.2)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. bn)	379	446	524	578
EBITDA (Rs. bn)	68	80	86	103
Margin (%)	18.1	18.0	16.5	17.8
PAT (Rs. bn)	44	56	52	61
EPS (Rs.)	50.7	63.4	58.9	69.4
Gr. (%)	4.0	25.1	(7.1)	17.9
DPS (Rs.)	45.4	45.3	10.0	10.0
Yield (%)	4.5	4.5	1.0	1.0
RoE (%)	18.5	21.5	17.9	18.2
RoCE (%)	20.9	23.3	21.8	22.7
EV/Sales (x)	2.1	1.8	1.6	1.4
EV/EBITDA (x)	11.5	10.3	9.6	7.8
PE (x)	20.1	16.0	17.3	14.7
P/BV (x)	3.6	3.3	2.9	2.5

Key Data

TEML.BO | TECHM IN

52-W High / Low	Rs.1,811 / Rs.930
Sensex / Nifty	55,766 / 16,631
Market Cap	Rs.990bn/ \$ 12,410m
Shares Outstanding	973m
3M Avg. Daily Value	Rs.3840.69m

Shareholding Pattern (%)

Promoter's	35.34
Foreign	30.43
Domestic Institution	20.73
Public & Others	13.50
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.2	(31.2)	(7.8)
Relative	(0.5)	(28.6)	(12.4)

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Weakening margin profile

Quick Pointers:

- Margin weaken further; EBIT at 11%, -220bps QoQ, -411bps YoY.
- Moderation in deal TCV at \$802mn, -1.6% YoY, -21% QoQ

TechM reported revenue of USD 1632mn, 1.5% QoQ USD (Ple: 1.2%, Cons: 1.1%) and 3.5% QoQ CC (Ple: 2.7%, Cons: 2.8%). Growth is healthy in CC terms, for both Communications (3.9% QoQ CC) and Enterprise (3.2% QoQ CC). Net new TCV was muted at USD 802mn (-1.6% YoY, -21% QoQ). In Communication- demand is driven by automation, data integration on cloud and network modernization. Deal pipeline is healthy with no signs of sector wide slowdown in tech spends. However, management indicated that there may be reprioritization of spends for specific customers.

EBIT margin declined further to 11%, -220bps QoQ, -411bps YoY. In Q2FY23, annual wage increment is expected to have 100bps impact on margins. Management expects margins to improve from Q2FY23 and targets to reach 14% margin by Q4FY23 led by tailwinds from utilization, offshore mix and operating efficiencies. Plus, seasonal and one-off costs in Q1 will not be there in Q2. Our EPS estimates decrease by 5%/2% for FY23/24, led by cut in margin estimates. We continue to value TechM on TM of 15x to arrive at TP of Rs.1042. TechM is currently trading at 17x/15x on FY23/24 EPS of INR 59/69 with Revenue/EPS CAGR of 10.4%/4.6% over FY22-24. Maintain Hold.

- Weak margin performance** led by headwinds from 1) 100bps impact of intermittent salary increases, higher sub-con costs and large deal transition costs, 2) 80bps impact due to visa costs & seasonality in mobility business and 3) normalization of SG&A costs. In Q2FY23 annual wage increment cycle is expected to have an impact of 100bps on margins. Margin levers in Q2 are – absence of large deal transition costs, price improvements, lesser impact due to Visa costs and Mobility business. Utilization (excluding trainees) declined by 100bps QoQ to 83%, due to investments large fresher induction in H2FY22. Utilization and offshore mix are also expected to improve over next three quarters.
- Concall highlights:** 1) Within Enterprise segment, growth was led by Technology (6.4% QoQ CC), Manufacturing (5.7% QoQ CC), Retail, Transport and Logistics (6.8% QoQ CC). BFSI was flat QoQ CC on a high base in last quarter. 2) Demand is driven four broad themes – a) cloud, b) connectivity, c) engineering and d) experience. 3) Company has formed separate team to closely watch and analyse impact of macro on sub-verticals and each client, then accordingly re-align as per client needs, 5) Revenue growth in USD terms was soft due to higher cross-currency headwinds of 290bps QoQ in communication, 5) Net headcount addition of Software professionals low at 2,200 employees, 2.6% QoQ vs avg 4.3K addition per quarter in FY22. BPO headcount increased by 7.1% QoQ, 5) IT LTM attrition decreased to 22% by 200bps QoQ.

Exhibit 1: Q1FY23: Quick view on results

Y/e March (Rs mn)	1Q23	4Q22	QoQ gr.	1Q22	YoY gr.	Ple vs. Act	Ple
Net Sales (\$ m)	1,633	1,608	1.5%	1,384	18.0%	0.3%	1,627.9
Net Sales	1,27,079	1,21,163	4.9%	1,01,976	24.6%	1.0%	1,25,833
EBITDA	18,801	20,884	-10.0%	18,764	0.2%	-1.7%	19,127
EBITDA Margin	14.8%	17.2%	-244 bps	18.4%	-361 bps	-40 bps	15.2%
EBIT	14,034	16,042	-12.5%	15,453	-9.2%	-0.4%	14,093
EBIT margin	11.0%	13.2%	-220 bps	15.2%	-411 bps	-16 bps	11.2%
PAT	11,316	15,057	-24.8%	13,532	-16.4%	1.3%	11,175
EPS (diluted)	12.78	17.05	-25.0%	15.32	-16.6%	1.0%	12.65

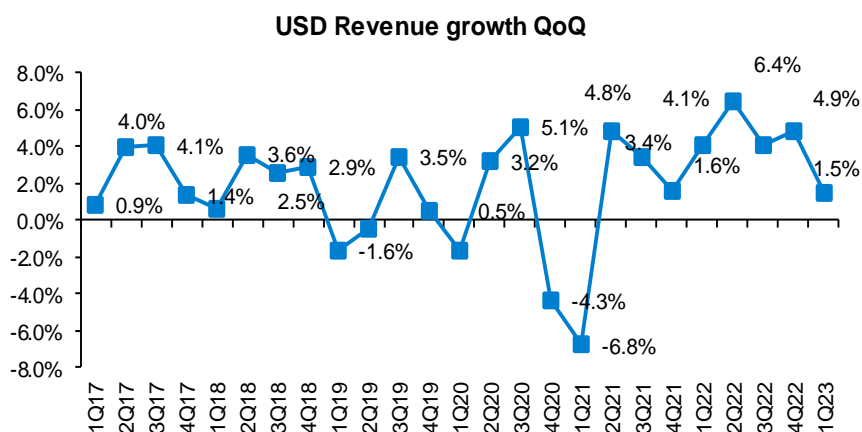
Source: Company, PL

Exhibit 2: Change in Estimates

Y/e March	FY23E	FY24E
USD revenues (US\$ m)		
- New	6,727	7,315
- Old	6,733	7,330
Change (%)	-0.1%	-0.2%
EBIT Margin		
- New	12.7%	13.8%
- Old	13.3%	14.0%
Change (%)	-67 bps	-25 bps
Recurring EPS		
- New	58.9	69.4
- Old	61.9	71.0
Change (%)	-4.8%	-2.2%

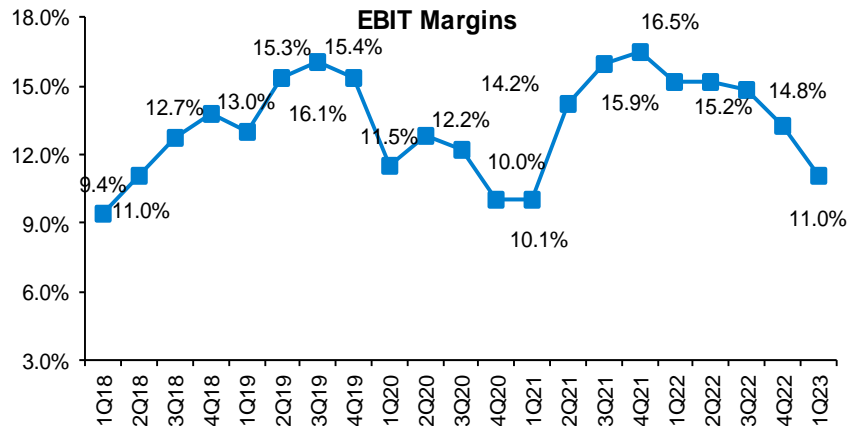
Source: PL

Exhibit 3: Soft QoQ growth in USD due to cross-currency headwinds



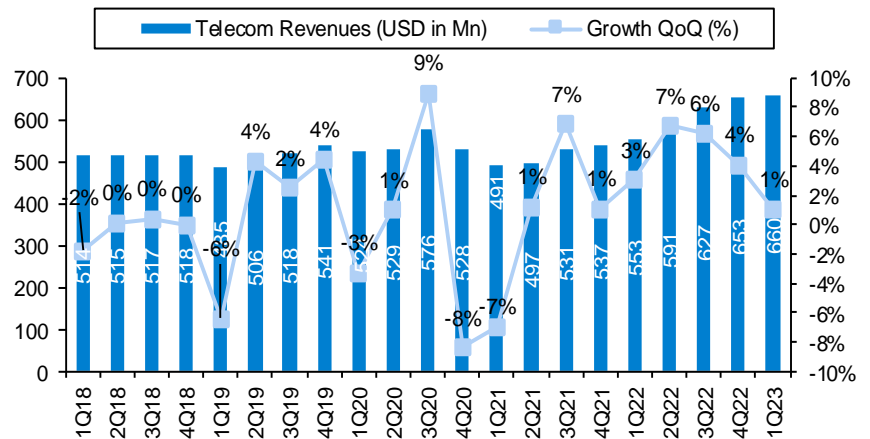
Source: Company, PL

Exhibit 4: Margins weaken further



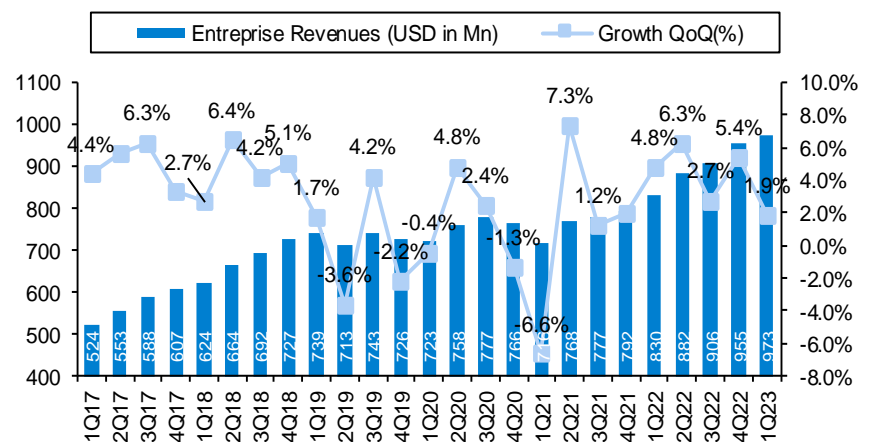
Source: Company, PL

Exhibit 5: Moderation in growth in Communications vertical



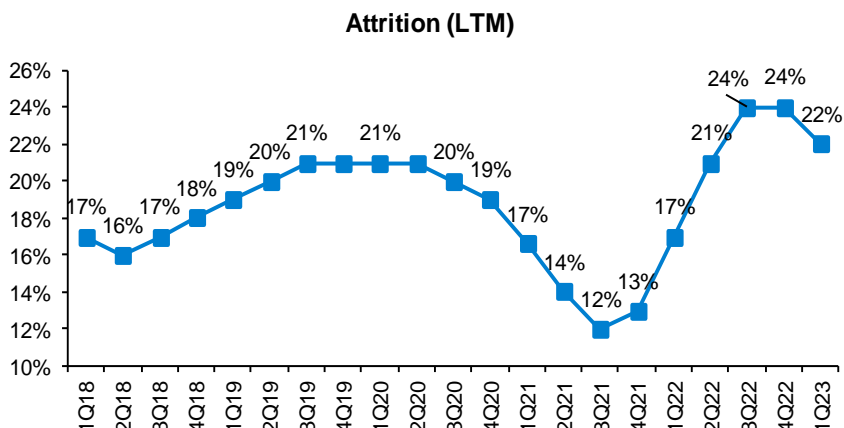
Source: Company, PL

Exhibit 6: Soft growth in Enterprise vertical



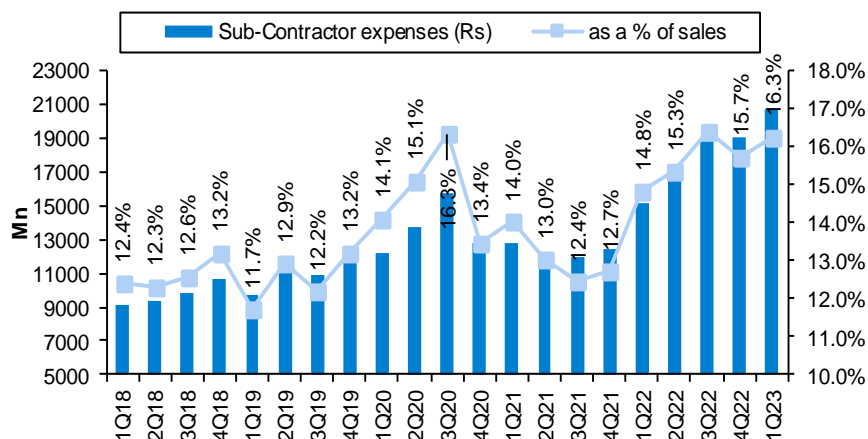
Source: Company, PL

Exhibit 7: LTM Attrition trended down QoQ



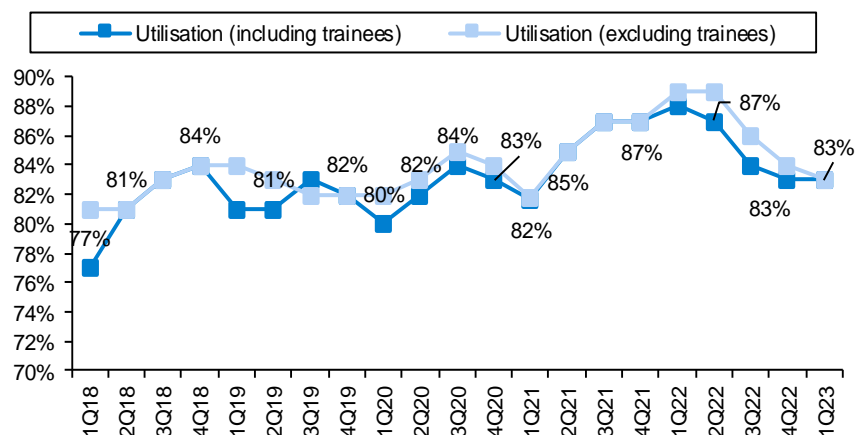
Source: Company, PL

Exhibit 8: Subcontracting cost inched up further



Source: Company, PL

Exhibit 9: Utilization further dropped by 100bps



Source: Company, PL

Exhibit 10: Deal Wins (USD Mn)

	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Communications	208	110	518	352	255	226	645	NA
Enterprise	214	345	525	463	495	478	366	NA
Total	421	455	1,043	815	750	704	1011	802

Source: Company, PL

Exhibit 11: Geography-wise revenues

(US\$ m)	1Q23	4Q22	QoQ gr.	1Q22	YoY gr.
North America	809.4	776.7	4.2%	646.1	25.3%
Europe	415.8	424.5	-2.1%	376.3	10.5%
RoW	405.7	406.8	-0.3%	361.1	12.3%
% of Total					
North America	49.6%	48.3%	128 bps	46.7%	288 bps
Europe	25.5%	26.4%	-93 bps	27.2%	-173 bps
RoW	24.9%	25.3%	-45 bps	26.1%	-125 bps

Source: Company, PL

Exhibit 12: Vertical-wise revenues

(US\$ m)	1Q23	4Q22	QoQ gr.	1Q22	YoY gr.
Telecom	659.5	652.9	1.0%	553.4	19.2%
Enterprise	973.0	955.2	1.9%	830.2	17.2%
- Manufacturing	249.8	239.6	4.2%	228.3	9.4%
- Technology, media & entertainment	158.4	149.6	5.9%	121.8	30.1%
- BFSI	272.6	279.8	-2.6%	226.9	20.1%
- Retail, Transport & Logistics	129.0	122.2	5.5%	106.5	21.1%
- Others	163.3	164.0	-0.5%	146.7	11.3%
% of Total					
Telecom	40.4%	40.6%	-20 bps	40.0%	40 bps
Enterprise	59.6%	59.4%	20 bps	60.0%	-40 bps
- Manufacturing	15.3%	14.9%	40 bps	16.5%	-120 bps
- Technology, media & entertainment	9.7%	9.3%	40 bps	8.8%	90 bps
- BFSI	16.7%	17.4%	-70 bps	16.4%	30 bps
- Retail, Transport & Logistics	7.9%	7.6%	30 bps	7.7%	20 bps
- Others	10.0%	10.2%	-20 bps	10.6%	-60 bps

Source: Company, PL

Exhibit 13: Client Metrics

	1Q23	4Q22	QoQ gr.	1Q22	YoY gr.
≥ \$1 million clients	549	524	25	466	83
≥ \$5 million clients	176	174	2	168	8
≥ \$10 million clients	104	97	7	86	18
≥ \$20 million clients	60	54	6	51	9
≥ \$50 million clients	23	23	-	22	1
Number Of active clients	1,262	1,224	38	1,058	204

Source: Company, PL

Exhibit 14: Client concentration

(US\$ m)	1Q23	4Q22	QoQ gr.	1Q22	YoY gr.
Top 5 Client	335	354	-5.3%	306	9.3%
Top 6-10 Clients	154	145	6.2%	123	25.3%
Top 10 Clients	489	499	-2.0%	429	13.9%
Top 10-20 Clients	185	193	-4.2%	169	9.2%
Top 20 Clients	673	691	-2.6%	598	12.6%
Non Top 20 Clients	959	917	4.6%	785	22.1%
% of Total					
Top 5 Clients	20.5%	22.0%	-148 bps	22.1%	-162 bps
Top 10 Clients	29.9%	31.0%	-106 bps	31.0%	-107 bps
Top 20 Clients	41.3%	43.0%	-174 bps	43.2%	-198 bps
Non Top 20 Clients	58.7%	57.0%	174 bps	56.8%	198 bps

Source: Company, PL

Exhibit 15: Headcount Metrics

	1Q23	4Q22	QoQ gr.	1Q22	YoY gr.
Software Professional	88,030	85,830	2.6%	69,877	26.0%
BPO Professionals	61,392	57,315	7.1%	49,668	23.6%
Sales & Support	8,613	8,028	7.3%	6,718	28.2%
Total Employees	1,58,035	1,51,173	4.5%	1,26,263	25.2%
Attrition					
IT Utilization(excl. trainees)	83.0%	84.0%	-100 bps	89.0%	-600 bps
IT Utilization(incl. trainees)	83.0%	83.0%	0 bps	88.0%	-500 bps

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	3,78,551	4,46,460	5,24,436	5,77,892
YoY gr. (%)	2.7	17.9	17.5	10.2
Employee Cost	2,58,555	3,09,719	3,71,274	3,94,389
Gross Profit	1,19,997	1,36,741	1,53,162	1,83,503
Margin (%)	31.7	30.6	29.2	31.8
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	68,471	80,201	86,376	1,02,598
YoY gr. (%)	19.6	17.1	7.7	18.8
Margin (%)	18.1	18.0	16.5	17.8
Depreciation and Amortization	14,577	15,204	19,988	23,116
EBIT	53,894	64,997	66,389	79,482
Margin (%)	14.2	14.6	12.7	13.8
Net Interest	1,740	1,626	1,603	1,600
Other Income	7,364	11,123	5,221	5,000
Profit Before Tax	59,518	74,494	70,007	82,882
Margin (%)	15.7	16.7	13.3	14.3
Total Tax	15,999	18,220	17,409	21,013
Effective tax rate (%)	26.9	24.5	24.9	25.4
Profit after tax	43,519	56,274	52,597	61,869
Minority interest	(750)	640	674	674
Share Profit from Associate	-	-	-	-
Adjusted PAT	44,269	55,634	51,923	61,195
YoY gr. (%)	4.0	25.7	(6.7)	17.9
Margin (%)	11.7	12.5	9.9	10.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	44,269	55,634	51,923	61,195
YoY gr. (%)	4.0	25.7	(6.7)	17.9
Margin (%)	11.7	12.5	9.9	10.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	44,269	55,634	51,923	61,195
Equity Shares O/s (m)	873	877	881	881
EPS (Rs)	50.7	63.4	58.9	69.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	64,430	1,12,663	1,04,887	1,15,578
Tangibles	64,430	1,12,663	1,04,887	1,15,578
Intangibles	-	-	-	-
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	64,430	1,12,663	1,04,887	1,15,578
Tangibles	64,430	1,12,663	1,04,887	1,15,578
Intangibles	-	-	-	-
Capital Work In Progress	-	1,651	-	-
Goodwill	40,082	74,258	75,848	77,438
Non-Current Investments	10,294	7,251	7,251	7,251
Net Deferred tax assets	9,133	8,191	8,191	8,191
Other Non-Current Assets	20,288	136	52	58
Current Assets				
Investments	-	-	-	-
Inventories	-	-	-	-
Trade receivables	64,728	74,676	1,00,577	1,10,829
Cash & Bank Balance	1,24,971	82,248	82,576	1,13,789
Other Current Assets	62,612	87,633	86,532	95,352
Total Assets	3,96,780	4,48,707	4,75,354	5,38,888
Equity				
Equity Share Capital	4,370	4,388	4,388	4,388
Other Equity	2,44,280	2,64,469	3,06,035	3,56,871
Total Networth	2,48,650	2,68,857	3,10,423	3,61,259
Non-Current Liabilities				
Long Term borrowings	9,735	1,420	1,420	1,420
Provisions	-	-	-	-
Other non current liabilities	31,825	48,428	33,281	35,420
Current Liabilities				
ST Debt / Current of LT Debt	14,960	14,397	12,897	11,397
Trade payables	27,850	40,947	44,577	49,121
Other current liabilities	59,965	69,704	67,128	73,970
Total Equity & Liabilities	3,96,780	4,48,707	4,75,354	5,38,888

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	59,518	74,494	70,007	82,882
Add. Depreciation	14,577	15,204	19,988	23,116
Add. Interest	1,740	1,626	1,603	1,600
Less Financial Other Income	7,364	11,123	5,221	5,000
Add. Other	-	-	-	-
Op. profit before WC changes	75,835	91,324	91,597	1,07,598
Net Changes-WC	25,798	24,864	(48,249)	(6,515)
Direct tax	(15,999)	(18,220)	(17,409)	(21,013)
Net cash from Op. activities	85,634	97,968	25,939	80,070
Capital expenditures	(31,781)	(98,322)	(12,151)	(35,397)
Interest / Dividend Income	-	-	-	-
Others	7,611	3,043	-	-
Net Cash from Invt. activities	(24,170)	(95,279)	(12,151)	(35,397)
Issue of share cap. / premium	(67)	18	-	-
Debt changes	12,148	(8,878)	(1,500)	(1,500)
Dividend paid	(46,387)	(46,505)	(10,360)	(10,360)
Interest paid	(1,740)	(1,626)	(1,603)	(1,600)
Others	22,052	11,579	3	-
Net cash from Fin. activities	(13,994)	(45,412)	(13,460)	(13,460)
Net change in cash	47,470	(42,723)	328	31,213
Free Cash Flow	56,895	355	12,138	44,673

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	50.7	63.4	58.9	69.4
CEPS	67.4	80.8	81.6	95.7
BVPS	284.9	306.5	352.2	409.9
FCF	65.2	0.4	13.8	50.7
DPS	45.4	45.3	10.0	10.0
Return Ratio(%)				
RoCE	20.9	23.3	21.8	22.7
ROIC	19.1	20.6	19.2	19.9
RoE	18.5	21.5	17.9	18.2
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.2)	(0.2)	(0.3)
Debtor (Days)	62	61	70	70
Valuation(x)				
PER	20.1	16.0	17.3	14.7
P/B	3.6	3.3	2.9	2.5
P/CEPS	15.1	12.6	12.5	10.6
EV/EBITDA	11.5	10.3	9.6	7.8
EV/Sales	2.1	1.8	1.6	1.4
Dividend Yield (%)	4.5	4.5	1.0	1.0

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	1,08,813	1,14,508	1,21,163	1,27,079
YoY gr. (%)	16.1	18.7	24.5	16.8
Raw Material Expenses	74,346	80,088	85,603	91,162
Gross Profit	34,467	34,420	35,560	35,918
Margin (%)	31.7	30.1	29.3	28.3
EBITDA	19,952	20,601	20,884	18,801
YoY gr. (%)	17.2	8.7	7.2	(5.8)
Margin (%)	18.3	18.0	17.2	14.8
Depreciation / Depletion	3,430	3,621	4,842	4,767
EBIT	16,522	16,980	16,042	14,034
Margin (%)	15.2	14.8	13.2	11.0
Net Interest	354	339	552	403
Other Income	2,821	2,231	3,198	1,221
Profit before Tax	18,989	18,872	18,688	14,852
Margin (%)	17.5	16.5	15.4	11.7
Total Tax	5,572	5,082	3,280	3,380
Effective tax rate (%)	29.3	26.9	17.6	22.8
Profit after Tax	13,417	13,790	15,408	11,472
Minority interest	22	97	396	159
Share Profit from Associates	(8)	(7)	45	3
Adjusted PAT	13,387	13,686	15,057	11,316
YoY gr. (%)	25.7	4.5	39.2	(15.5)
Margin (%)	12.3	12.0	12.4	8.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	13,387	13,686	15,057	11,316
YoY gr. (%)	25.7	4.5	39.2	(15.5)
Margin (%)	12.3	12.0	12.4	8.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,387	13,686	15,057	11,316
Avg. Shares O/s (m)	883	883	883	885
EPS (Rs)	15.2	15.5	17.0	12.8

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-22	Hold	1,065	1,011
2	14-May-22	BUY	1,426	1,203
3	05-Apr-22	BUY	1,837	1,499
4	02-Feb-22	BUY	1,942	1,506
5	18-Jan-22	BUY	1,945	1,722
6	04-Jan-22	BUY	1,908	1,785
7	12-Nov-21	BUY	1,862	1,522
8	26-Oct-21	BUY	1,862	1,524
9	05-Oct-21	BUY	1,551	1,399
10	06-Aug-21	BUY	1,509	1,265

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,342	1,009
2	Coforge	BUY	4,031	3,726
3	Cyient	Hold	776	799
4	HCL Technologies	Hold	982	928
5	Infosys	Accumulate	1,630	1,506
6	L&T Technology Services	Hold	3,184	3,093
7	Larsen & Toubro Infotech	Accumulate	4,280	3,874
8	Mindtree	Accumulate	3,131	2,901
9	Mphasis	Hold	2,382	2,276
10	Persistent Systems	Hold	3,500	3,633
11	Redington (India)	BUY	162	127
12	Sonata Software	Accumulate	694	655
13	Tata Consultancy Services	Accumulate	3,607	3,265
14	TeamLease Services	Accumulate	3,642	3,300
15	Tech Mahindra	Hold	1,065	1,011
16	Wipro	Hold	418	412
17	Zensar Technologies	Hold	279	270

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

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