

6 February 2023

Q3-FY23 Result Update

- ❑ Revenue of the company for the quarter stood at ₹1,37,346 million, grew by 20% YoY on consolidated basis. In constant currency (CC) terms the revenue grew by 12.7% YoY. The company reported healthy revenue growth led by better performance across all regions - Americas, Europe & Rest of World.
- ❑ The company achieved a broad-based growth across the industries it serves. Communication Media and Entertainment (CME), Manufacturing, Technology, BFSI, Retail and others grew YoY by 5.8%, 7.8%, 32.2%, 12.0%, 8.2% & -0.8% respectively in constant currency.
- ❑ On profitability front, the EBITDA from operations for the quarter stood at ₹21,440 million with a margin of 15.61%, decrease of 238 basis points on YOY basis. The company achieved the reported PAT of ₹12,853 million with a net margin of 9.36%, a decrease of 268 basis points on YoY basis translating into EPS of ₹14.70 per share for the quarter.
- ❑ The company achieved net new large deals of US\$ 795 million in Q3-FY23. In both the Communication Media and Entertainment (CME) & technology business vertical the company has witnessed growth consistently over the last few quarters by winning large deals including significant wins in the 5G space, digital transformation and adoption of cloud.
- ❑ Employee attrition was at 17.0% and employee utilization was 86% during the quarter. The employee head count as on end of Q3-FY23 stood at 157,068 - higher by 8.3% compared to previous year. The number of active clients has increased from 1,191 to 1,290 YoY and percentage of repeat business is in the range of 92% to 95%.
- ❑ The concentration rate for the top 5 and top 10 clients have also decreased to 18% and 27% respectively in Q3 FY23 from 23% and 31% respectively. The utilization rate (excluding trainees) has also been significantly improving to 86% in Q3 FY23 from 85% in Q2 FY23 and from 84% in Q3 FY22. The IT onsite revenue split has been steadily increasing from 27.1% in Q3 FY22 to 27.3% in Q2 FY23 and similarly, the offshore revenue split has been declining from 72.9% in Q3 FY22 to 72.7% in Q2 FY23.
- ❑ The company continues to get positive demand across sectors; however, it is facing extended furloughs in few markets and performance of top 5 clients remained muted due to internal restructuring. We revised our rating to **HOLD** on the stock with a revised target price of **₹1,150 per share**.

Key takeaways from concall

- ❑ The deal pipeline remains strong with net new deal win of US\$795 million in Q3 FY23, large deals in telecom space. Average deal size has not changed but client remains cautious and are taking longer time to sign the deals.
- ❑ Management is seeing decision making to be slightly longer than the past, few clients hitting pause button for discretionary spending.
- ❑ Rest of World saw strong growth as the Middle East continued to perform well. The company is seeing good opportunities there, especially in Digital. The US and Europe have a higher risk of a macro slowdown compared to other regions.
- ❑ Management has started looking at their operations alignment on monthly basis instead of quarterly basis as they customers to remain aligned with their back operations.
- ❑ The BPS growth is lined up strongly and management sees a favorable opportunity for this set of segments and will be accretive to the overall portfolio.
- ❑ On the CME side, 5G continues to fuel the growth. Management has announced with Mahindra group 5G rollout at one of the largest and most modern auto factories. Management believes this will unlock opportunities for them and will improve productivity for clients.
- ❑ The macro environment remains wear, their top 5 clients remained muted due to internal restructuring for some clients, company is witnessing furloughs in few markets.

Financials:

| (In ₹ mn) | Q3-FY23 | Q2-FY23 | Q3-FY22 | Chg | 9M-FY23 | 9M-FY22 | Chg |
|--|---------------|---------------|---------------|--------------|---------------|---------------|--------------|
| Net Sales | 1,37,346 | 1,31,295 | 1,14,508 | 19.9% | 3,95,720 | 3,25,297 | 21.6% |
| Operating Expense | 1,15,906 | 1,11,698 | 93,908 | 23.4% | 3,35,882 | 2,65,981 | 26.3% |
| EBITDA | 21,440 | 19,597 | 20,600 | 4.1% | 59,838 | 59,316 | 0.9% |
| Other Income | 2,472 | 2,902 | 2,231 | | 6,595 | 7,925 | |
| Depreciation | 4,981 | 4,917 | 3,621 | | 14,665 | 10,362 | |
| EBIT | 18,931 | 17,852 | 19,210 | -1.5% | 51,768 | 56,879 | -9.0% |
| Interest | 1,129 | 790 | 339 | | 2,322 | 1,074 | |
| Profit before share in profit/(loss) in associate/JV | 17,802 | 16,792 | 18,871 | | 49,446 | 55,805 | |
| Share in profit/(loss) in associate/JV | (90) | (153) | (7) | | (240) | (17) | |
| PBT | 17,712 | 16,639 | 18,864 | -6.1% | 49,206 | 55,788 | -11.8% |
| Tax | 4,859 | 3,647 | 5,082 | | 11,886 | 14,940 | |
| PAT | 12,853 | 12,992 | 13,782 | -6.7% | 37,320 | 40,848 | -8.6% |
| Minority /Other Adj. | (113) | 138 | (97) | | (184) | (244) | |
| Consolidated PAT | 12,966 | 12,854 | 13,685 | -5.3% | 37,136 | 40,604 | -8.5% |

| Margins | Q3-FY23 | Q2-FY23 | Q3-FY22 | Chg BPS | 9M-FY23 | 9M-FY22 | Chg BPS |
|--------------------|---------|---------|---------|---------|---------|---------|---------|
| Operating Margin % | 15.6% | 14.9% | 18.0% | -238 | 15.1% | 18.2% | -311 |
| Net Margin % | 9.4% | 9.9% | 12.0% | -251 | 9.4% | 12.6% | -313 |

Consolidated Financials:

| (In ₹ mn) | FY-21 | FY-22 | FY-23E | FY-24E |
|-------------------|----------|----------|----------|----------|
| Net Sales | 3,78,551 | 4,46,460 | 5,27,627 | 5,90,942 |
| Operating Expense | 3,10,588 | 3,66,557 | 4,47,584 | 5,01,294 |
| EBITDA | 67,963 | 79,903 | 80,043 | 89,648 |
| Other Income | 7,871 | 11,420 | 13,496 | 15,116 |
| Depreciation | 14,577 | 15,204 | 20,457 | 22,912 |
| EBIT | 61,257 | 76,119 | 73,082 | 81,852 |
| Interest | 1,740 | 1,626 | 1,732 | 1,814 |
| PBT | 59,517 | 74,493 | 71,350 | 80,037 |
| Tax | 15,999 | 18,220 | 17,451 | 19,576 |
| Minority Interest | 762 | (612) | - | - |
| PAT | 44,280 | 55,661 | 53,899 | 60,461 |

| Margins | FY-21 | FY-22 | FY-23E | FY-24E |
|--------------------|-------|-------|--------|--------|
| Sales Growth % | 2.7% | 17.9% | 18.2% | 12.0% |
| Operating Margin % | 18.0% | 17.9% | 15.2% | 15.2% |
| Net Margin % | 11.7% | 12.5% | 10.2% | 10.2% |

| (In ₹ mn) | FY-21 | FY-22 | FY-23E | FY-24E |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|
| Liabilities | | | | |
| Equity Share Capital | 21,381 | 20,780 | 20,780 | 20,780 |
| Reserves & Surplus | 2,39,573 | 2,60,381 | 3,14,280 | 3,74,741 |
| Total Shareholder's Funds | 2,60,954 | 2,81,161 | 3,35,060 | 3,95,521 |
| Minority Interest | 3,795 | 4,954 | 4,954 | 4,954 |
| Long-Term Liabilities | 1,658 | 1,420 | 1,420 | 1,420 |
| Other Long-term Liabilities | 26,837 | 31,572 | 31,572 | 31,572 |
| Deferred Tax Liability | (8,372) | (3,639) | (3,639) | (3,639) |
| Short-term Liabilities | 1,02,775 | 1,25,048 | 1,47,782 | 1,65,516 |
| Total | 3,87,647 | 4,40,516 | 5,17,149 | 5,95,345 |
| Assets | | | | |
| Net Fixed Assets | 90,477 | 1,48,690 | 1,33,557 | 1,42,218 |
| Long-Term L&A | 24,421 | 29,468 | 29,468 | 29,468 |
| Non Current Investments | 6,648 | 5,276 | 5,276 | 5,276 |
| Other Non-Current Assets | 13,502 | 12,525 | 12,525 | 12,525 |
| Current Asset | 2,52,599 | 2,44,557 | 3,36,323 | 4,05,858 |
| Total | 3,87,647 | 4,40,516 | 5,17,149 | 5,95,345 |

| Key Ratios | FY-21 | FY-22 | FY-23E | FY-24E |
|------------|-------|-------|--------|--------|
| EPS (₹) | 45.5 | 57.2 | 55.4 | 62.1 |
| P/E (x) | 23.4 | 18.7 | 18.1 | 16.2 |
| P/B (x) | 4.0 | 3.7 | 2.9 | 2.5 |
| ROE | 17.0% | 19.8% | 16.1% | 15.3% |

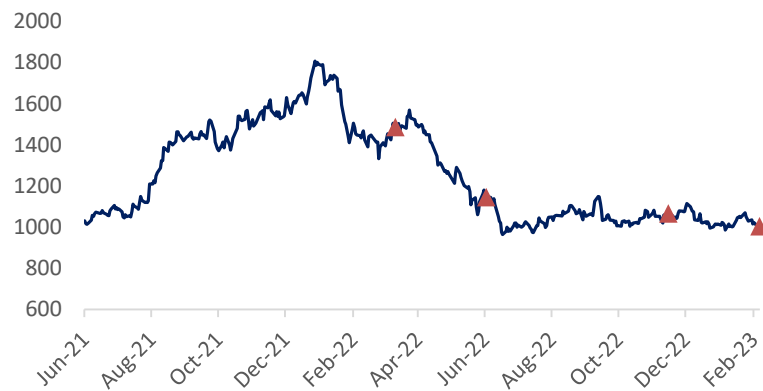
Source: Company, Anand Rathi Research

Key Risks:

- ☐ US H1-B Visa Regulations.
- ☐ Foreign Currency Fluctuations.
- ☐ Furloughs
- ☐ Employee Attrition.

Rating and Target Price history:

TECHM's rating history & price chart



TECHM's rating details

| Date | Rating | Target Price (₹) | Share Price (₹) |
|-----------|--------|------------------|-----------------|
| 11-Mar-22 | Buy | 1,750 | 1,487 |
| 02-Jun-22 | Buy | 1,650 | 1,146 |
| 15-Nov-22 | Buy | 1,400 | 1,067 |
| 06-Feb-23 | HOLD | 1,150 | 1,005 |

Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 6 February 2023 close.

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| Ratings Guide (12 months) | Buy | Hold | Sell |
|----------------------------|-----|---------|-----------|
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