

IT Services | Q1FY24 Result Update

Big miss on all count; Recovery may take longer than expected

- TechM rev. decline by 4.2% in CC terms vs (DE: -1.9% CC). Decline was led by degrowth in CME at 9.5% QoQ, while Enterprise segment rev declined by 0.3% QoQ. IT Services was down 5%, while BPO biz. Grew 1.3% QoQ (INR).
- OPM stood at 6.8%, (DE: 10.2%), down 440bps QoQ led by unexpected headwinds from revenue decline (200bps), one-time provision impact from client's bankruptcy (200bps) and adverse seasonality in Comviva (50bps).
- TechM attributed decline was led by completion of multiple transformation programs and weak refill rate (TCV down 25% on TTM basis at \$2.5bn), exit of a Telco client due to bankruptcy and deals pushed out in digital. It pointed worst is behind, and tight focus on execution would lead to revival.
- Overall performance remain sluggish. Macro risks, incl. spending cuts by telecoms is more susceptible to TECHM. Expect leadership strategy as only medium term catalyst. Maintain SELL with TP of Rs. 1,080 at 18x of FY25E.

Muted TCV wins past few quarters to drag overall growth momentum

Management highlighted some of the decisions in terms of digital transformation and cost takeout deals have been pushed out to H2 as clients continue to focus on reprioritization while weak Net New TCV signings at \$359mn, impacted the refill rate.

Margin improvement to take longer than expected

SG&A exp. rose 4.7% QoQ to Rs. 20.4Bn, which was attributed to leadership program hiring, and also, impact from provisioning toward client bankruptcies (~\$22mn). Majority of wage hike impact (130bps on OPM) happened in Q1 while senior employees hike to happen in Q2. Benefits from operating levers:- Sub-con cost (aspire to be at 10%; from 14%), Higher Offshoring (300bps), Juniorisation, and non-strategic divestments will be slow and gradual in medium term.

Focus on New Leadership strategy and 'EXECUTION' is the key

TechM's new strategy focus on solid EXECUTION (single point aim) by expanding to new Geos, grow faster in Insurance, BFS, manufacturing & healthcare services and monetizing by reselling some of services offering as platforms.

Q1FY24 Result (Rs Mn)

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	131,590	127,079	3.5	137,182	(4.1)
Total Expense	118,210	108,278	9.2	116,977	1.1
EBITDA	13,380	18,801	(28.8)	20,205	(33.8)
Depreciation	4,466	4,767	(6.3)	4,902	(8.9)
EBIT	8,914	14,034	(36.5)	15,303	(41.8)
Other Income	1,995	1,224	63.0	3,005	(33.6)
Interest	1,197	403	197.0	934	28.2
EBT	9,712	14,855	(34.6)	17,374	(44.1)
Tax	2,676	3,380	(20.8)	3,999	(33.1)
RPAT	6,925	11,316	(38.8)	13,302	(47.9)
APAT	6,925	11,316	(38.8)	11,176	(38.0)
			(bps)		(bps)
Gross Margin (%)	25.7	28.3	(259)	28.9	(326)
EBITDA Margin (%)	10.2	14.8	(463)	14.7	(456)
NPM (%)	5.3	8.9	(364)	9.7	(443)
Tax Rate (%)	27.6	22.8	480	23.0	454
EBIT Margin (%)	6.8	11.0	(427)	11.2	(438)

CMP	Rs 1,143
Target / Downside	Rs 1,080 / 6%
NIFTY	19,778

Scrip Details

Equity / FV	Rs 4,359mn / Rs 5
Market Cap	Rs 998bn
	USD 12.1bn
52-week High/Low	Rs 1,271/ 981
Avg. Volume (no)	2,535,850
Bloom Code	TECHM IN

Price Performance	1M	3M	12M
Absolute (%)	2	14	13
Rel to NIFTY (%)	(3)	4	(6)

Shareholding Pattern

	Dec'22	Mar'23	Jun'23
Promoters	35.2	35.2	35.2
MF/Banks/FIs	23.9	25.9	27.0
FIs	28.0	26.9	25.7
Public / Others	12.9	12.1	12.2

Valuation (x)

	FY23A	FY24E	FY25E
P/E	20.9	26.0	19.1
EV/EBITDA	12.1	14.7	11.5
ROE (%)	18.5	14.2	19.9
RoACE (%)	18.8	15.3	20.5

Estimates (Rs bn)

	FY23A	FY24E	FY25E
Revenue	532.9	543.5	590.4
EBITDA	80.3	68.4	87.6
PAT	48.3	38.8	53.1
EPS (Rs.)	54.8	44.0	60.0

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Exhibit 1: Quarterly performance versus estimates

Particulars (Rs mn)	Estimates		% Variation		Comment
	Actual	Dolat Consensus	Dolat Consensus		
USD Revenue	1,601	1,641 1,638	(2.4) (2.3)		USD Rev Miss was due to decline in CME segment (down 9.5% QoQ)
INR Revenue	1,31,590	1,34,884 1,34,657	(2.4) (2.3)		
EBIT	8,914	13,758 14,200	(35.2) (37.2)		Higher SG&A exp and employee costs led to OPM Miss.
EBIT, margin	6.8	10.2 10.5	(340 bps) (380 bps)		
PAT	6,925	10,270 11,311	(32.6) (38.8)		PAT Miss narrowed on better OI

Source: Company, DART

Change in Estimates

Noting sluggish Q1 performance, and deals being pushed out to H2 in digital transformation space, we lower USD Revenue estimates by 4.9%/4.3% for FY24E/FY25E. Despite management commentary on margin revival in medium term, we have taken margin contraction due to top-line moderation, slower than expected recovery and on-going investments to support growth. Lower OPM estimates by 241bps/50bps for FYFY24E/FY25E. Overall, we have cut our EPS estimates by 26.1%/10.4% for FY24E/FY25E respectively.

Exhibit 2: Change in Estimates

Particulars (Rs. mn)	FY22A	FY23A	FY24E			FY25E		
	Actual	Actual	Old	New	% chg	Old	New	% chg
USD Revenue	5,998	6,607	6,945	6,606	(4.9)	7,478	7,156	(4.3)
YoY growth,	17.3	10.1	5.1	(0.0)	(514 bps)	7.7	8.3	65 bps
INR Revenue	446,460	5,32,902	5,72,494	5,43,516	(5.1)	6,18,442	5,90,373	(4.5)
YoY growth,	17.3	19.4	7.4	2.0	(544 bps)	7.7	8.3	65 bps
EBIT	64,995	60,721	66,222	49,768	(24.8)	73,779	67,455	(8.6)
EBIT Margin,	14.6	11.4	11.6	9.2	(241 bps)	11.9	11.4	(50 bps)
Net Profit	55,660	48,313	52,603	38,845	(26.2)	59,306	53,139	(10.4)
EPS (Rs)	62.6	54.5	59.4	43.9	(26.1)	67.0	60.0	(10.4)

Source: DART, Company

What to expect next Quarter

We expect revenue growth of about 1.2% QoQ in Q2FY24, reflecting management pessimism on macro challenges to continue till H1FY24 and due to absence of one-off bankruptcy led provisioning we expect OPM to revive sharply by 225bps led by operating leverage.

Exhibit 3: What to expect next Quarter

Particulars (Rs. Mn)	Q2FY24E	Q1FY24	Q2FY23	QoQ (%)	YoY (%)
USD Revenue	1,621	1,601	1,638	1.2	(1.1)
INR Revenue	1,33,401	1,31,590	1,31,295	1.4	1.6
EBIT	12,033	8,914	14,924	35.0	(19.4)
PAT	9,470	6,925	12,854	36.8	(26.3)
EPS (Rs Abs.)	10.7	7.8	14.5	36.8	(26.4)
EBIT Margin (%)	9.0	6.8	11.4	225bps	(235bps)

Source: DART, Company

Valuations

While we remain positive on TECHM's ability and carved out niche in CME, as well as improved Enterprise business, but we believe that in light of weakening global macros, discretionary spending cut in CME segment, growth as well as profitability would be impacted. We currently value TECHM at 18x on FY25E Earnings of Rs. 60 with a TP of Rs.1,080 per share and assign SELL Rating.

Exhibit 4: Quarterly and YTD Trend

Particulars (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)	FY22	FY23	YoY (%)
USD Revenue	1,632	1,638	1,668	1,668	1,601	(1.9)	(4.0)	5,998	6,607	10.1
INR Revenue	127,079	131,295	137,346	137,182	1,31,590	3.5	(4.1)	446,460	532,902	19.4
Operating Expenses	108,278	111,453	115,906	116,977	1,18,210	9.2	1.1	366,260	452,614	23.6
Cost of revenue	91,162	94,614	97,937	97,484	97,805	7.3	0.3	309,720	381,197	23.1
as % of sales	71.7	72.1	71.3	71.1	74.3	259 bps	326 bps	69.4	71.5	216 bps
SG&A expense	17,116	16,840	17,969	19,493	20,405	19.2	4.7	56,540	71,417	26.3
as % of sales	13.5	12.8	13.1	14.2	15.5	204 bps	130 bps	12.7	13.4	74 bps
EBITDA	18,801	19,841	21,440	20,205	13,380	(28.8)	(33.8)	80,200	80,288	0.1
Depreciation	4,767	4,917	4,981	4,902	4,466	(6.3)	(8.9)	15,204	19,567	28.7
EBIT	14,034	14,924	16,459	15,303	8,914	(36.5)	(41.8)	64,995	60,721	(6.6)
Finance Cost	403	790	1,129	934	1,197	197.0	28.2	1,626	3,256	100.2
Other Income	1,224	2,505	2,382	3,005	1,995	63.0	(33.6)	11,151	9,116	(18.2)
PBT	14,855	16,639	17,712	17,374	9,712	(34.6)	(44.1)	74,520	66,581	(10.7)
Total Tax	3,380	3,647	4,859	3,999	2,676	(20.8)	(33.1)	18,220	15,885	(12.8)
PAT Before MI	11,475	12,992	12,853	13,375	7,036	(38.7)	(47.4)	56,300	50,696	(10.0)
Minority Interest	(159)	(138)	113	(73)	(111)	(30.2)	52.1	(640)	(257)	(59.8)
Reported PAT	11,316	12,854	12,966	13,302	6,925	(38.8)	(47.9)	55,660	50,439	(9.4)
Reported EPS	12.8	14.5	14.6	12.6	7.8	(38.8)	(38.0)	62.9	54.6	(13.2)
Margins (%)						(bps)	(bps)			(bps)
EBIDTA	14.8	15.1	15.6	14.7	10.2	(463 bps)	(456 bps)	18.0	15.1	(290 bps)
EBIT	11.0	11.4	12.0	11.2	6.8	(427 bps)	(438 bps)	14.6	11.4	(316 bps)
EBT	11.7	12.7	12.9	12.7	7.4	(431 bps)	(528 bps)	16.7	12.5	(420 bps)
PAT	8.9	9.8	9.4	9.7	5.3	(364 bps)	(443 bps)	12.5	9.5	(300 bps)
Effective Tax rate	22.8	21.9	27.4	23.0	27.6	480 bps	454 bps	24.4	23.9	(59 bps)

Source: Company

Exhibit 5: Key Assumptions in our estimates

Particulars (Rs mn)	FY22A	FY23A	FY24E	FY25E
CC revenue growth (%)	17.3	13.7	(0.1)	8.3
USD revenue growth (%)	17.3	10.1	(0.0)	8.3
USD/INR	74.4	80.7	82.3	82.5
INR revenue growth (%)	17.9	19.4	2.0	8.6
EBIT margins (%)	14.6	11.4	9.2	11.4
EPS growth (%)	24.7	(12.9)	(19.6)	36.8

Source: DART, Company

Exhibit 6: Key Revenue Growth Matrix

Particulars (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
CC Growth YoY	10.8	15.5	17.5	22.6	21.2	16.8	12.7	7.0	(0.9)
USD Growth YoY	14.6	16.4	17.2	20.9	18.0	11.2	8.8	3.7	(1.9)
INR Growth YoY	12.0	16.1	18.7	24.5	24.6	20.7	19.9	13.2	3.5

Source: DART, Company

Earning call KTAs

- **Revenue:** Revenue stood at \$1601mn, down by 4.2% sequentially in CC terms and 4% in USD terms, reflecting a cross currency loss of 20bps. Weak performance was mainly due to poor back-fill after closure of several large transformation deal and also impact of bankruptcy with one large client (\$6-\$7mn).
- **Vertical-wise:** Communication, Media and Entertainment (CME) Vertical revenue decline by 9.5% QoQ in \$ terms, while Enterprise Vertical declined by 0.3% QoQ. Within Enterprise, Growth was led by Manufacturing at 2% QoQ, followed Retail, Transport and Logistics vertical at -0.2% QoQ. Technology at -0.3% and Others at -0.2% QoQ. BFSI growth declined by 2.8% QoQ. The IT business declined 5% QoQ while BPO business remained strong and grew 1.3% QoQ in INR terms. Management is seeing significant pushback in IT digital domain and network services areas due to client's reprioritizations.
- **Top-5 Client Outlook (17% of Rev):** Top-5 clients declined 2.9% QoQ. In Q3, management had mentioned that it expects soft performance in Top-5 client bucket in near future.
- **Cost Overheads:** TechM SG&A as a percentage of sales inched up to 15.5% (Q4FY23:14.2%, FY23:13.4%), led by large provisioning done towards doubtful debts (about \$22mn). Management expect some of these challenges would diminish going into Q2 and H2 and thus expect that margin improvement would be a priority irrespective of macro environment.
- **EBIT Margins:** EBIT Margin declined by 440bps QoQ to 6.8%. **Margin walk:** Margin faced headwinds in form: a) Revenue decline impact of 200bps; b) One-time provision as client filed for bankruptcy impact of 200bps and c) seasonality impact of 50bps. Management believes there are enough levers to improve margins that include: a) Reducing sub-con costs to under 10% of revenue, b) Offshoring: 4-5% improvement (Last shared in FY22, Onsite Rev. mix was ~62%), c) Pyramid rationalization, and d) Divesting non-strategic accounts.
- **Deals:** Tech Mahindra added \$359mn in Net New Deal Wins in Q1FY24. Additionally, TECHM shared that client conversations remain strong in the quarter and there is spending cut from telecom clients.
- **Outlook:** Management highlighted that pushed out of deals in transformation projects, one-time impact from client bankruptcy filing and spending cuts by TeleCo will keep recovery slightly back-ended (from H2 onwards). Management highlighted three factors to drive growth moment ahead: 1) Accelerating Tech investments (through re-skilling, improving Sub-con and offshoring), 2) Focus on closing deal wins and prioritizing key clients and 3) Increasing account penetration by engaging with Top 200 clients. Management is confident on its strength on 1) better customer focus, 2) investment in talent (upskilled over 8k resources in Gen-AI solutions during the Q1 and 3) Investment in new Tech such as Cybersecurity, Quant Computing and AI.
- **ETR:** Q1FY24 ETR stood at 27.6%, (Q4FY23: 26.2%). Normalized ETR is expected to be around 25-26% going forward.
- **Talent & Attrition:** LTM attrition declined to 13% from 15% in Q4FY23, a 200bps reduction. Headcount stood at 148.3k employees, a net reduction of 4.1K over Q4. Sub-con costs reduced further, declining 5% QoQ (Q4: 2% decline QoQ). Management shared that optimizing sub-con cost and keeping it under 10% of Revenue (from 14% in 1FY24) will be an important margin lever.

Exhibit 7: Vertical Trend for Q1FY24

Vertical	Amount (\$ mn)	Mix (%)	QoQ (%)	YoY (%)	Incremental Revenue (\$ mn)	% Contribution of Incremental Revenue
CME	605	38	(9.5)	(8.2)	(64)	95
Manufacturing	271	17	2.0	8.7	5	(8)
Tech	171	11	(0.3)	8.0	0	1
BFSI	258	16	(2.8)	(5.2)	(7)	11
Retail, Transport & Logistics	126	8	(0.2)	(1.8)	0	0
Others	170	11	(0.2)	4.2	0	1
Total	1,601	100	(4.0)	(1.8)	(67)	100

Source: DART, Company

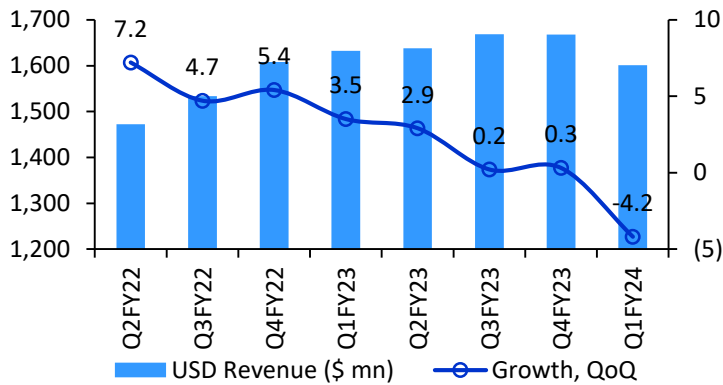
Exhibit 8: Geography Trend for Q1FY24

Geography	Amount (\$ mn)	Mix (%)	QoQ (%)	YoY (%)	Incremental Revenue (\$ mn)	% Contribution of Incremental Revenue
Americas	823	51	(0.5)	1.7	(4)	6
Europe	394	25	(6.7)	(5.3)	(28)	42
Rest of world	384	24	(8.2)	(5.3)	(34)	52
Total	1,601	100	(4.0)	(1.8)	(67)	100

Source: DART, Company

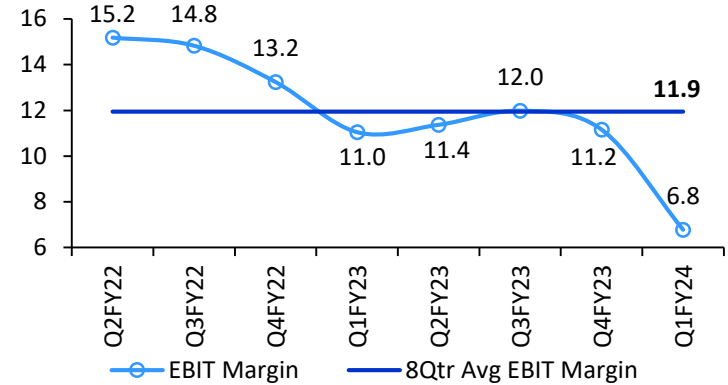
Story in Charts

Exhibit 9: Rev de-grew by 4.2% CC QoQ



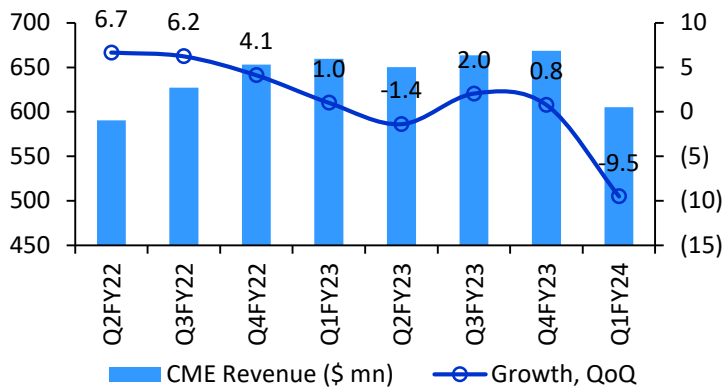
Source: Company, DART

Exhibit 10: OPM declined by 420bps QoQ



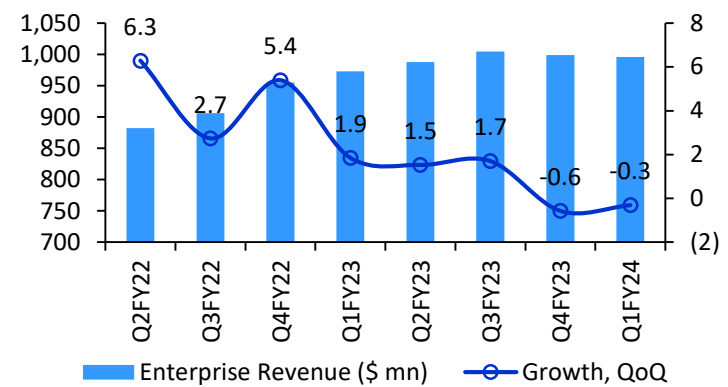
Source: Company, DART

Exhibit 11: CME declined by 9.5% QoQ in USD terms



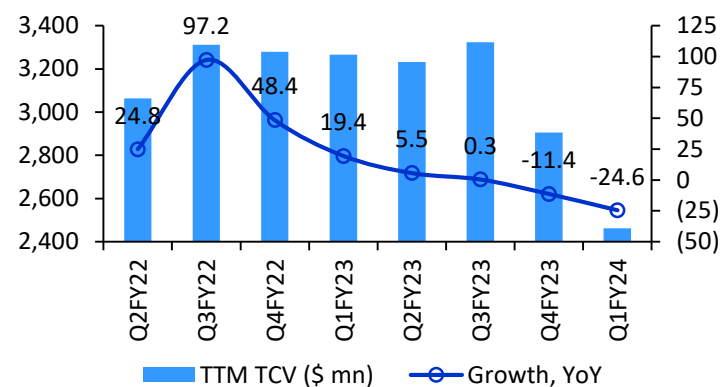
Source: Company, DART

Exhibit 12: Enterprise Revenue Declined by 0.3% QoQ



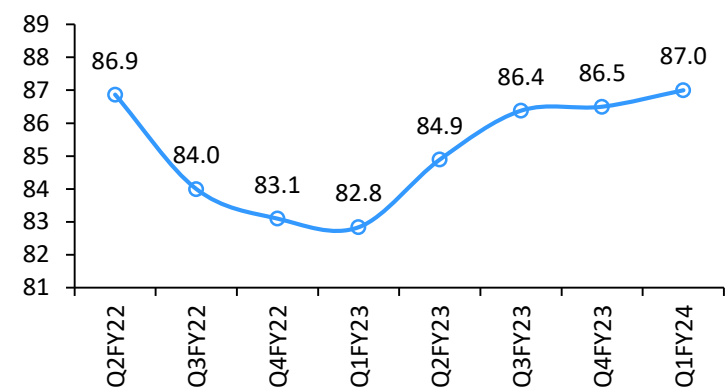
Source: Company, DART

Exhibit 13: TTM TCV Slipped below \$2.5bn mark



Source: Company, DART

Exhibit 14: Utilization Saw Mild Improvement



Source: Company, DART

Exhibit 15: Operating Metrics 1

Particulars	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Growth CC									
Revenue (QoQ)	3.9	7.2	4.7	5.4	3.5	2.9	0.2	0.3	(4.2)
Revenue (YoY)	10.8	15.5	17.5	22.6	21.2	16.8	12.7	7.0	(0.9)
CMT / Telecom (QoQ)	2.9	7.7	6.9	4.8	3.9	(1.3)	N.A	N.A	N.A
CMT / Telecom (YoY)	7.8	15.0	18.3	23.7	N.A	14.9	N.A	N.A	N.A
Enterprise (QoQ)	4.5	7.0	3.2	5.8	3.2	2.8	N.A	N.A	N.A
Enterprise (YoY)	12.9	15.9	17.0	21.9	N.A	N.A	N.A	N.A	N.A
TCV Data (\$mn)									
Communication	352	255	226	366	N.A	N.A	N.A	N.A	N.A
Enterprise	463	495	478	645	N.A	N.A	N.A	N.A	N.A
Total	815	750	704	1,011	802	716	795	592	359
TCV Growth YoY									
Communication	233.0	22.9	105.1	(29.3)	N.A	N.A	N.A	N.A	N.A
Enterprise	150.7	131.6	38.4	22.8	N.A	N.A	N.A	N.A	N.A
Total	181.0	78.1	54.6	(3.2)	(1.6)	(4.5)	12.9	(41.4)	(55.2)
TTM TCV (\$mn)									
Communication	1,187	1,235	1,351	1,199	N.A	N.A	N.A	N.A	N.A
Enterprise	1,547	1,828	1,961	2,081	N.A	N.A	N.A	N.A	N.A
Total	2,735	3,063	3,312	3,279	3,266	3,232	3,323	2,905	2,462
TTM TCV Growth YoY									
Communication	(21.3)	93.8	126.1	27.4	N.A	N.A	N.A	N.A	N.A
Enterprise	(23.4)	0.5	81.1	64.0	N.A	N.A	N.A	N.A	N.A
Total	(22.4)	24.8	97.2	48.4	19.4	5.5	0.3	(11.4)	(24.6)
Vertical Amount (\$mn)									
CMT	554	591	627	653	660	651	664	669	605
Manufacturing	229	236	243	240	249	262	262	265	271
Tech	122	133	129	150	159	166	172	172	171
BFSI	227	240	237	280	272	267	265	265	258
Retail, Transp. & Logistics	106	115	131	122	129	133	141	127	126
Others	147	159	167	164	163	160	165	170	170
Vertical Amount (YoY)									
CMT	12.6	16.1	18.0	21.7	19.1	10.2	5.8	2.4	(8.2)
Manufacturing	12.2	14.1	13.3	9.6	8.9	11.1	7.8	10.7	8.7
Tech	22.7	17.1	17.0	32.9	30.3	25.0	32.5	14.9	8.0
BFSI	19.7	15.8	13.3	28.0	20.0	11.0	12.1	(5.2)	(5.2)
Retail, Transp. & Logistics	16.4	18.1	23.9	18.8	21.2	15.9	8.3	3.7	(1.8)
Others	11.1	19.7	20.9	16.5	11.0	0.7	(1.1)	3.7	4.2
Geography Amount (\$mn)									
North America	646	704	750	777	809	832	829	827	823
Europe	376	381	392	425	416	401	407	422	394
Rest of the World	361	387	392	407	406	405	432	419	384
Geography Amount (YoY)									
North America	8.5	14.9	22.4	28.4	25.3	18.2	10.6	6.5	1.7
Europe	20.6	19.6	13.4	20.5	10.7	5.2	3.9	(0.6)	(5.3)
Rest of the World	20.0	15.9	11.9	9.2	12.4	4.5	10.1	2.9	(5.3)
New/Old Revenue									
New Business (\$mn)	49	110	127	203	33	85	115	133	32
Repeat Business (\$mn)	1,334	1,363	1,406	1,405	1,599	1,553	1,553	1,534	1,569

Source: DART, Company

Exhibit 16: Operating Metrics 2

Particulars	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenue Metrics (\$mn)									
Onsite Revenue	863	898	938	991	N.A	N.A	N.A	N.A	N.A
Offshore Revenue	521	574	596	618	N.A	N.A	N.A	N.A	N.A
Revenue Metrics (YoY)									
Onsite Revenue	11.5	12.7	13.7	18.6	N.A	N.A	N.A	N.A	N.A
Offshore Revenue	20.2	22.7	23.1	24.8	N.A	N.A	N.A	N.A	N.A
Employee Data									
S/W professionals	69,877	76,800	81,115	85,830	88,030	86,776	84,874	83,789	81,521
Support and sales	6,718	7,335	7,655	8,028	8,613	8,748	8,626	8,509	8,697
BPO	49,668	57,058	56,297	57,315	61,392	68,388	63,568	60,102	58,079
Total Employees	1,26,263	1,41,193	1,45,067	1,51,173	1,58,035	1,63,912	1,57,068	1,52,400	1,48,297
Net Addition	5,209	14,930	3,874	6,106	6,862	5,877	(6,844)	(4,668)	(4,103)
Utilization (%) incl. Trainee	88.0	86.9	84.0	83.1	82.8	84.9	86.4	86.5	87.0
Attrition (IT Services)	17.2	21.2	23.5	23.5	22.2	19.6	17.3	14.8	13.0
Client Metrics (\$mn)									
Top 5 client	306	324	348	355	335	310	295	280	272
Top 6-10 client	123	133	134	146	153	149	157	162	160
Top 11-19 client	169	177	168	185	186	195	212	225	192
Non Top 20 client	785	839	884	921	958	985	1004	1001	977
Client Metrics (YoY)									
Top 5 client	16.6	19.1	21.7	20.1	9.2	(4.4)	(15.0)	(21.2)	(18.7)
Top 6-10 client	9.3	17.9	17.1	25.7	25.1	12.5	16.8	10.5	4.3
Top 11-19 client	12.8	13.0	8.1	13.7	10.0	10.3	26.2	21.7	3.2
Non Top 20 client	15.1	15.9	17.4	22.1	22.0	17.3	13.6	8.6	1.9
Revenue by Type									
IT	1,223	1,296	1,339	1,406	1,426	1,422	1,433	1,434	1,385
BPO	160	177	194	202	206	216	235	233	216
Revenue by Type (YoY)									
IT	10.3	14.0	14.9	18.6	16.6	9.7	7.0	2.0	(2.9)
BPO	63.5	37.4	35.5	40.0	28.7	22.2	21.0	15.5	4.7
EBITDA Margin									
IT	18.0	18.4	17.6	16.9	14.5	15.0	15.0	14.2	15.0
BPO	21.3	18.2	20.8	19.3	17.1	15.5	19.3	18.0	15.1
Client Data									
>US\$1 million	466	488	502	524	549	562	574	582	580
>US\$5 million	168	169	173	174	176	184	185	186	190
>US\$10 million	86	90	96	97	104	108	109	112	115
>US\$20 million	51	50	50	54	60	63	65	65	62
>US\$50 million	22	22	22	23	23	23	24	24	26
Number of active clients	1058	1123	1191	1224	1262	1279	1290	1297	1255
DSO	93	92	101	97	100	98	98	96	98

Source: DART, Company

Financial Performance

Profit and Loss Account

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
Revenue	446,460	532,902	543,516	590,373
Total Expense	366,260	452,614	475,120	502,783
COGS	309,720	381,197	395,544	420,745
Employees Cost	0	0	0	0
Other expenses	56,540	71,417	79,576	82,038
EBIDTA	80,200	80,288	68,396	87,590
Depreciation	15,204	19,567	18,628	20,135
EBIT	64,995	60,721	49,768	67,455
Interest	1,626	3,256	4,441	3,693
Other Income	11,151	9,360	7,185	7,056
Exc. / E.O. items	0	0	0	0
EBT	74,520	66,825	52,513	70,818
Tax	18,220	15,885	13,527	17,705
RPAT	55,660	50,683	38,845	53,139
Minority Interest	640	257	141	(25)
Profit/Loss share of associates	0	0	0	0
APAT	55,660	48,313	38,845	53,139

Balance Sheet

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
Sources of Funds				
Equity Capital	4,388	4,400	4,359	4,359
Minority Interest	4,954	4,702	4,843	4,818
Reserves & Surplus	264,469	274,845	265,109	261,572
Net Worth	268,857	279,245	269,468	265,931
Total Debt	15,817	15,782	15,006	14,317
Net Deferred Tax Liability	(3,639)	(9,704)	(9,957)	(10,210)
Total Capital Employed	285,989	290,025	279,360	274,857

Applications of Funds

Net Block	147,039	148,928	145,215	142,931
CWIP	1,651	836	836	836
Investments	49,635	34,629	32,629	30,629
Current Assets, Loans & Advances	242,191	264,175	265,312	269,936
Inventories	405	236	517	550
Receivables	119,343	128,827	126,583	132,643
Cash and Bank Balances	39,745	42,547	9,800	4,428
Loans and Advances	136	49	50	52
Other Current Assets	82,562	92,516	128,360	132,263
Less: Current Liabilities & Provisions	154,527	158,543	164,633	169,475
Payables	40,947	43,846	46,861	48,212
Other Current Liabilities	113,580	114,697	117,771	121,263
<i>sub total</i>				
Net Current Assets	87,664	105,632	100,679	100,461
Total Assets	285,989	290,025	279,360	274,857

E – Estimates

Important Ratios

Particulars	FY22A	FY23A	FY24E	FY25E
(A) Margins (%)				
Gross Profit Margin	30.6	28.5	27.2	28.7
EBIDTA Margin	18.0	15.1	12.6	14.8
EBIT Margin	14.6	11.4	9.2	11.4
Tax rate	24.4	23.8	25.8	25.0
Net Profit Margin	12.5	9.5	7.1	9.0
(B) As Percentage of Net Sales (%)				
COGS	69.4	71.5	72.8	71.3
Employee	0.0	0.0	0.0	0.0
Other	12.7	13.4	14.6	13.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	40.0	18.6	11.2	18.3
Inventory days	0	0	0	0
Debtors days	98	88	85	82
Average Cost of Debt	10.0	20.6	28.8	25.2
Payable days	33	30	31	30
Working Capital days	72	72	68	62
FA T/O	3.0	3.6	3.7	4.1
(D) Measures of Investment				
AEPS (Rs)	63.2	54.8	44.0	60.0
CEPS (Rs)	80.5	76.9	65.1	82.7
DPS (Rs)	45.0	50.0	55.0	64.0
Dividend Payout (%)	71.2	91.3	125.1	106.7
BVPS (Rs)	305.3	316.5	305.1	300.3
RoANW (%)	21.5	18.5	14.2	19.9
RoACE (%)	21.2	18.8	15.3	20.5
RoAIC (%)	27.2	24.6	19.3	25.0
(E) Valuation Ratios				
CMP (Rs)	1143	1143	1143	1143
P/E	18.1	20.9	26.0	19.1
Mcap (Rs Mn)	997,713	997,713	997,713	997,713
MCap/ Sales	2.2	1.9	1.8	1.7
EV	973,786	970,948	1,002,919	1,007,602
EV/Sales	2.2	1.8	1.8	1.7
EV/EBITDA	12.1	12.1	14.7	11.5
P/BV	3.7	3.6	3.7	3.8
Dividend Yield (%)	3.9	4.4	4.8	5.6
(F) Growth Rate (%)				
Revenue	17.9	19.4	2.0	8.6
EBITDA	17.1	0.1	(14.8)	28.1
EBIT	20.6	(6.6)	(18.0)	35.5
PBT	25.2	(10.3)	(21.4)	34.9
APAT	25.7	(13.2)	(19.6)	36.8
EPS	24.8	(13.3)	(19.7)	36.4

E – Estimates

Cash Flow

Particulars	FY22A	FY23A	FY24E	FY25E
Profit before tax	74,521	64,455	52,513	70,818
Depreciation & w.o.	15,204	19,567	18,628	20,135
Net Interest Exp	722	2,206	(1,626)	(2,793)
Direct taxes paid	(23,137)	(19,931)	(13,527)	(17,705)
Change in Working Capital	(14,343)	(18,451)	(28,098)	(5,407)
Non Cash	(114)	7,874	0	0
(A) CF from Operating Activities	52,853	55,720	27,889	65,048
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(54,966)	(20,364)	(14,915)	(17,850)
Free Cash Flow	44,500	46,028	12,974	47,198
(Inc.)/ Dec. in Investments	57,243	15,896	2,000	2,000
Other	2,538	1,683	6,067	6,486
(B) CF from Investing Activities	4,815	(2,785)	(6,848)	(9,364)
Issue of Equity/ Preference	868	442	(41)	0
Inc./(Dec.) in Debt	(1,625)	(1,594)	(725)	(688)
Interest exp net	(1,231)	(2,570)	(4,441)	(3,693)
Dividend Paid (Incl. Tax)	(39,808)	(42,633)	(48,581)	(56,675)
Other	(4,870)	(4,426)	0	0
(C) CF from Financing	(46,666)	(50,781)	(53,787)	(61,057)
Net Change in Cash	10,985	2,674	(32,747)	(5,372)
Opening Cash balances	26,904	37,889	40,562	7,816
Closing Cash balances	37,889	40,562	7,816	2,443

E – Estimates

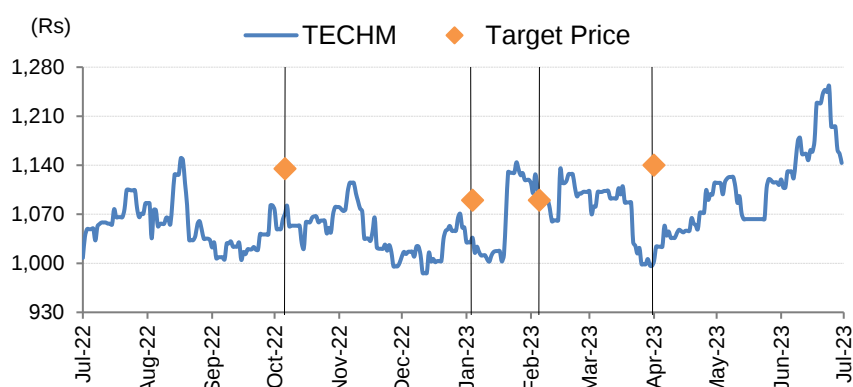
Notes

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 (Rs.)	Price (Rs.)
Nov-22	Reduce	1,135	1,071
Jan-23	Reduce	1,090	1,036
Mar-23	Reduce	1,090	1,085
Apr-23	Accumulate	1,140	1,003

*Price as on recommendation date

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

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000000685

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