

Bad quarter, near bottom

We maintain NEU on Cyient post weak 1QFY20. Given the huge miss in revenue and margins, we cut EPE estimate by 11.4/10.7% for FY20/21E. Our TP of Rs 510 is based on 11x Jun-21E EPS.

HIGHLIGHTS OF THE QUARTER

- Revenue at USD 156.2mn was down 5.2/2.6% QoQ/YoY, -4.8% QoQ CC (vs. est. of USD 166mn). This is Cyient's worst QoQ performance in the past 10 years. Services (88% of rev, -5.7% QoQ CC) growth was lower than expectation. DLM (12% of rev) grew 2.7% QoQ.
- Aerospace & Defence (35% of rev, -2.9% QoQ) has been struggling to grow due to deferment of spend by Top-client. Almost all major verticals registered QoQ decline in revenue. Communication (22% of rev) was down 8.9% led by decreased work across two key clients. E&U & Industrial was down 11.8/9.7% QoQ.
- The company has not given any revenue guidance but expects double digit EBIT growth. Services revenue remains flat YoY for FY20E, even after taking 3.4% CQGR (vs. high single digit guidance earlier). Growth recovery will happen in 2Q led by new project ramp-ups in Comms and recovery in Aerospace. Cyient's

higher mix of mechanical engg (legacy) services explains the slow growth and lower margin structure.

- EBIT Margin at 9.2% (vs. our est. of 11.6%) is the lowest ever. Margin was impacted by revenue decline and wage hike (85bps). Margin will recover with growth and cost optimisation measures but double digit EBIT growth for FY20E appears an uphill task.

STANCE: Growth crumbles, recovery expected

Cyient is struggling with issues such as (1) Deteriorating growth in services business, (2) Challenges in top accounts (3) Issues in core vertical (Aerospace and Communication), (4) Focus on lower margin DLM business, (5) Declining services margin due to higher investments, and (6) Higher other income (~30% of PAT). There could be some recovery in performance (both revenue and margins) but concerns related to slowdown in decision making, accelerated trade war risks and higher mix of legacy services remain. We expect USD revenue growth of 1.5/7.8% and EBIT% of 11.3% for FY20/21E.

The stock trades at reasonable valuation of 11.9x FY21E which is ~31% discount to LTTS. Risk to our thesis includes improved US/Europe macro and INR depreciation.

Financial Summary

YE March (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	10.89	10.80	0.8	11.63	(6.4)	39.18	46.18	46.84	50.56	54.54
EBIT	1.00	1.03	(2.7)	1.49	(32.7)	4.44	5.33	5.31	5.74	6.07
APAT	0.90	0.83	9.6	1.88	(52.0)	4.33	4.90	4.80	5.14	5.44
Diluted adj. EPS (Rs)	8.0	7.3	9.6	16.7	(52.0)	38.6	43.6	42.7	45.8	48.4
P/E (x)						15.1	12.7	12.7	11.9	11.2
EV / EBITDA (x)						9.5	8.4	7.4	6.6	6.0
RoE (%)						18.1	19.5	17.7	17.2	16.4

Source: Company, HDFC sec Inst Research # Consolidated

INDUSTRY	IT
CMP (as on 18 Jul 2019)	Rs 544
Target Price	Rs 510
Nifty	11,597
Sensex	38,897
KEY STOCK DATA	
Bloomberg	CYL IN
No. of Shares (mn)	111
MCap (Rs bn) / (\$ mn)	60/876
6m avg traded value (Rs mn)	159
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 821/520
	3M 6M 12M
Absolute (%)	(7.5) (11.2) (22.1)
Relative (%)	(6.8) (18.1) (29.0)
SHAREHOLDING PATTERN (%)	
	Dec-18 Mar-19
Promoters	22.10 22.48
FIs & Local MFs	23.85 21.88
FPIs	43.13 44.50
Public & Others	10.92 11.14
Pledged Shares	0.00 0.00
Source : BSE	

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Quarterly Consolidated Financials Snapshot

Particulars (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
Net Revenues (USD mn)	156.6	160.8	(2.6)	165.2	(5.2)
Net Revenues	10.89	10.80	0.8	11.63	(6.4)
Cost of Revenue	7.14	7.10	0.6	7.52	(5.1)
Gross Profit	3.75	3.70	1.4	4.11	(8.7)
SG&A Expenses	2.30	2.38	(3.3)	2.35	(2.1)
EBITDA	1.45	1.32	9.8	1.75	(17.5)
Depreciation	0.44	0.29	55.1	0.26	69.3
EBIT	1.00	1.03	(2.7)	1.49	(32.7)
Interest Cost	0.13	0.08	63.4	0.09	54.0
Other Income	0.28	0.17	66.5	0.68	(58.2)
PBT	1.15	1.12	2.9	2.08	(44.6)
Minority Interest & Share of Ass. Profit	0.01	0.01	NM	0.01	NM
Tax	0.25	0.30	(16.4)	0.32	(20.1)
RPAT	0.90	0.83	9.6	1.77	(48.9)
E/o (adj for tax)	0.00	0.00	-	0.11	-
APAT	0.90	0.83	9.6	1.88	(52.0)

Source: Company, HDFC sec Inst Research

Margin Analysis

Particulars	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Cost of Revenue % Net Revenues	65.6	65.8	(18)	64.7	88
Gross Margin (%)	34.4	34.3	18	35.3	(88)
SG&A Expenses % Net Revenues	21.2	22.1	(91)	20.2	91
EBITDA Margin (%)	13.3	12.2	108	15.1	(180)
EBIT Margin (%)	9.2	9.5	(34)	12.8	(361)
Tax Rate (%)	22.0	27.2	(512)	15.3	677
APAT Margin (%)	8.3	7.6	66	16.2	(788)

Source: Company, HDFC sec Inst Research

Revenue de-grew 4.8% QoQ CC, Services revenue came at USD 137.9mn down 5.7% QoQ CC while DLM revenue of USD 18.7mn grew 2.7% QoQ

Consolidated EBIT Margin came at 9.2% down 361bps QoQ, margins were impacted by lower volumes (-360bps), wage hike (-85bps) and FX impact (-35bps) offset by lease accounting change (+40bps) and efficiency program (+130bps)

Services EBIT margin came at 10.5% while DLM was EBIT negative (-0.3% EBIT%)

Services revenue was down 5.7% QoQ in CC terms, steepest sequential decline in the past 10 years

DLM revenue stabilized after two consecutive qtrs of sharp decline

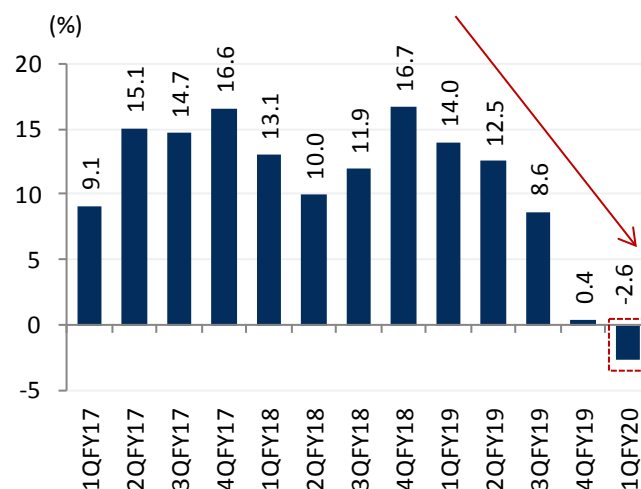
EBIT Margin cracked to all time low of 9.2% impacted by revenue de-growth

Total Revenue Mix (Services + DLM)

Revenue Mix (USD mn)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
Services revenue	129	134	140	143	546	143	146	145	147	580	138
QoQ %	3.3%	4.0%	4.2%	2.0%		0.1%	2.3%	-1.0%	1.7%		-6.2%
YoY %	12.7%	9.2%	15.6%	14.1%	12.9%	10.5%	8.7%	3.3%	3.1%	6.3%	-3.4%
% of Rev	91.6%	89.5%	92.0%	86.7%	89.8%	88.8%	86.4%	87.5%	89.0%	87.9%	88.1%
DLM Revenue	12	16	12	22	62	18	23	21	18	80	19
QoQ %	-26.0%	33.3%	-23.3%	81.0%		-17.8%	27.0%	-10.3%	-11.4%		2.7%
YoY %	17.5%	17.4%	-18.2%	37.1%	13.5%	52.1%	44.9%	69.4%	-17.1%	29.1%	3.6%
% of Rev	8.4%	10.5%	8.0%	13.3%	10.2%	11.2%	13.6%	12.5%	11.0%	12.1%	11.9%
Total revenue	141	150	152	165	608	161	169	165	165	660	157
QoQ %	0.0%	6.5%	1.3%	8.3%		-2.3%	5.0%	-2.2%	0.1%		-5.2%
YoY %	13.1%	10.0%	11.9%	16.7%	13.0%	14.0%	12.5%	8.6%	0.4%	8.6%	-2.6%

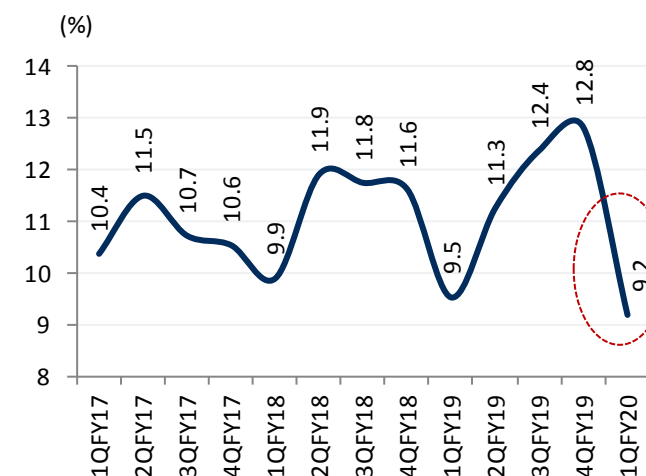
Source: Company, HDFC sec Inst Research

Revenue Growth Trend (YoY %)



Source: Company, HDFC sec Inst Research

EBIT Margin Trend (%)



Source: Company, HDFC sec Inst Research

Aerospace & Defense growth has been soft for the past 4 qtrs, 1Q softness in Aerospace & Defense was driven by slowdown in two key clients which is expected to normalize towards end of 2Q

Communication has been sluggish for the past 5 qtrs led by challenges in large accounts

E&U and Portfolio, newly recast verticals reported sharp decline of 11.9% and 9.7% respectively, E&U is expected to recover in 2H but challenges in Portfolio vertical will continue through FY20

Semiconductor de-grew 7.9% QoQ impacted by downturn in the industry and project putouts

Verticals Break-up (Services ex DLM)

Verticals Split (USD mn) (Services)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
Aerospace and Defense	45	47	49	48	188	49	49	50	50	198	48
QoQ %	1.9%	2.5%	4.2%	-1.8%		2.5%	1.1%	0.5%	0.5%		-2.9%
YoY %	2.5%	2.9%	12.7%	6.8%	6.2%	7.4%	5.9%	2.2%	4.6%	5.0%	-0.9%
% of Rev	35.2%	34.7%	34.7%	33.4%	34.5%	34.2%	33.8%	34.3%	33.9%	34.0%	35.1%
Communications	29	31	32	35	128	34	35	34	33	135	30
QoQ %	9.6%	6.7%	1.5%	11.0%		-3.2%	1.8%	-2.7%	-3.1%		-9.1%
YoY %	35.3%	16.7%	15.6%	31.7%	24.2%	16.4%	11.0%	6.5%	-7.0%	6.2%	-12.7%
% of Rev	22.7%	23.3%	22.7%	24.7%	23.4%	23.9%	23.8%	23.4%	22.3%	23.3%	21.6%
Transportation	14	15	16	17	62	17	17	17	18	70	18
QoQ %	11.8%	10.9%	8.8%	1.1%		4.4%	-0.3%	0.7%	4.2%		-2.4%
YoY %	14.9%	30.1%	43.9%	36.5%	NA	27.4%	14.5%	6.0%	9.3%	13.7%	2.2%
% of Rev	10.5%	11.2%	11.7%	11.6%	11.3%	12.1%	11.8%	12.0%	12.3%	12.1%	12.8%
Energy & Utilities	NA	NA	NA	NA	NA	16	NA	NA	19	NA	17
QoQ %	NA	NA	NA	NA		NA	NA	NA	NA		-11.9%
YoY %	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	4.2%
% of Rev	NA	NA	NA	NA	NA	11.4%	NA	NA	13.1%	NA	12.3%
Portfolio	NA	NA	NA	NA	NA	16	NA	NA	16	NA	14
QoQ %	NA	NA	NA	NA		NA	NA	NA	NA		-9.7%
YoY %	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-10.3%
% of Rev	NA	NA	NA	NA	NA	11.2%	NA	NA	10.8%	NA	10.4%
Semiconductor	6	6	5	6	22	8	8	7	8	42	8
QoQ %	10.7%	-5.3%	-6.0%	7.5%		41.1%	7.8%	-19.8%	21.2%		-7.9%
YoY %	17.9%	9.2%	9.7%	6.0%	10.6%	35.1%	53.8%	31.3%	48.0%	91.9%	-3.4%
% of Rev	4.5%	4.1%	3.7%	3.9%	4.0%	5.5%	5.8%	4.7%	5.6%	7.3%	5.5%
Medical and Consumer	3	3	3	3	11	3	3	3	3	11	3
QoQ %	8.8%	14.4%	-5.3%	-3.1%		-5.2%	7.9%	4.2%	1.7%		7.9%
YoY %	18.6%	26.4%	21.7%	14.1%	20.2%	-0.5%	-6.1%	3.3%	8.5%	1.2%	23.4%
% of Rev	2.0%	2.2%	2.0%	1.9%	2.0%	1.8%	1.9%	2.0%	2.0%	1.9%	2.3%
Total Revenue (IT Services)	129	134	140	143	546	143	146	145	147	580	138
QoQ %	3.3%	4.0%	4.2%	2.0%		0.1%	2.3%	-1.0%	1.7%		-6.2%
YoY %	12.7%	9.2%	15.6%	14.1%	12.9%	10.5%	8.7%	3.3%	3.1%	6.3%	-3.4%

Source: Company, HDFC sec Inst Research

NorthAm has been soft for two consecutive qtrs, down 3.2% QoQ

Europe declined 4.4% QoQ after posting strong growth in 4QFY19

Post two consecutive qtrs of steep fall, APAC returned to 2QFY17 revenue run rate

De-growth was higher Onsite (-7.5/6.0% QoQ/YoY) than Offshore (-4.4/+0.3% QoQ/YoY)

Geographic Revenue Break-up (Services ex DLM)

Geography Split (USD mn)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
North America	72	73	77	76	298	79	82	84	84	329	81
QoQ %	1.0%	1.0%	5.9%	-1.4%		3.8%	3.9%	2.5%	-0.4%		-3.2%
YoY %	4.8%	0.1%	9.8%	6.5%	5.3%	9.6%	12.7%	9.2%	10.2%	10.4%	2.7%
% of Rev	55.8%	54.2%	55.1%	53.3%	54.6%	55.3%	56.2%	58.2%	57.0%	56.7%	58.8%
Europe, ME, Africa and India	33	36	39	39	146	38	39	35	39	150	37
QoQ %	6.2%	7.6%	8.1%	-0.6%		-2.5%	2.7%	-9.6%	11.4%		-4.4%
YoY %	18.2%	21.4%	33.5%	22.8%	24.0%	12.7%	7.5%	-10.1%	0.8%	2.3%	-1.2%
% of Rev	25.8%	26.7%	27.7%	27.0%	26.8%	26.3%	26.4%	24.1%	26.4%	25.8%	26.9%
Asia Pacific	24	26	24	28	102	26	25	26	25	102	20
QoQ %	6.8%	7.9%	-6.2%	16.8%		-6.5%	-3.3%	0.7%	-4.1%		-19.7%
YoY %	34.6%	23.4%	10.5%	26.3%	23.2%	10.5%	-1.0%	6.3%	-12.6%	0.2%	-24.9%
% of Rev	18.4%	19.1%	17.2%	19.7%	18.6%	18.4%	17.4%	17.7%	16.7%	17.5%	14.3%
Total Revenue (IT Services)	129	134	140	143	546	143	146	145	147	580	138
QoQ %	3.3%	4.0%	4.2%	2.0%		0.1%	2.3%	-1.0%	1.8%		-6.2%
YoY %	12.7%	9.2%	15.6%	14.1%	12.9%	10.5%	8.7%	3.3%	3.2%	6.3%	-3.4%

Source: Company, HDFC sec Inst Research

Onsite-offshore Split (Services ex DLM)

Onsite Offshore Split (USD mn)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
Onsite	77	79	80	80	316	83	84	83	84	334	78
QoQ %	1.3%	2.6%	1.3%	-0.2%		3.8%	0.7%	-0.3%	1.2%		-7.5%
YoY %	13.3%	7.1%	11.0%	5.1%	9.0%	7.8%	5.8%	4.1%	5.4%	5.7%	-6.0%
% of Rev	59.6%	58.8%	57.2%	56.0%	57.8%	58.1%	57.2%	57.6%	57.3%	57.5%	56.5%
Offshore	52	55	60	63	230	60	62	61	63	246	60
QoQ %	6.5%	6.0%	8.2%	4.8%		-4.7%	4.5%	-1.9%	2.4%		-4.4%
YoY %	11.9%	12.1%	22.5%	28.1%	18.7%	14.6%	12.9%	2.4%	0.0%	7.1%	0.3%
% of Rev	40.4%	41.2%	42.8%	44.0%	42.2%	41.9%	42.8%	42.4%	42.7%	42.5%	43.5%
Total Revenue (IT Services)	129	134	140	143	546	143	146	145	147	580	138
QoQ %	3.3%	4.0%	4.2%	2.0%		0.1%	2.3%	-1.0%	1.7%		-6.1%
YoY %	12.7%	9.2%	15.6%	14.1%	12.9%	10.5%	8.7%	3.3%	3.1%	6.3%	-3.4%

Source: Company, HDFC sec Inst Research

Revenue de-growth was secular across client buckets with Top 5/10 clients down 4.1/3.5% QoQ while Non Top 10 clients were down 8.7% QoQ

There have been challenges in Top 5 accounts for the past 3 qtrs

Contribution from Top 5 accounts has come down to 36.5% of rev vs. 41.0% in 1QFY18, impacted by sluggishness

Services headcount witnessed net-reduction of 25, some hiring expected to kick in 2QFY20

Voluntary attrition reduced 250bps QoQ but is still elevated at 17.4%

Involuntary attrition was high for two consecutive qtrs at 4.3% and 4.6% in 1QFY20 and 4QFY19 respectively

Client Performance (Services ex DLM)

Clients Split (USD mn)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
Top 5	53	56	56	55	220	54	55	55	52	217	50
QoQ %	-1.2%	5.5%	0.1%	-0.8%		-2.5%	2.3%	-0.7%	-4.5%		-4.1%
YoY %	14.9%	6.3%	6.3%	3.5%	7.5%	2.2%	-1.0%	-1.8%	-5.4%	-1.5%	-7.0%
% of Rev	41.0%	41.6%	40.0%	38.9%	40.3%	37.9%	37.9%	38.0%	35.7%	37.4%	36.5%
Top 6-10	18	18	20	19	75	20	19	17	19	75	18
QoQ %	1.9%	1.0%	8.8%	-1.7%		3.1%	-3.6%	-8.6%	6.7%		-1.8%
YoY %	0.3%	2.3%	11.6%	10.0%	6.0%	11.3%	6.3%	-10.7%	-3.1%	0.6%	-7.6%
% of Rev	13.8%	13.4%	14.0%	13.5%	13.7%	13.9%	13.1%	12.1%	12.7%	12.9%	13.3%
Top 10	71	74	76	75	295	74	74	72	71	292	69
QoQ %	-0.5%	4.4%	2.3%	-1.0%		-1.1%	0.7%	-2.7%	-1.8%		-3.5%
YoY %	10.9%	5.3%	7.7%	5.1%	7.1%	4.5%	0.8%	-4.1%	-4.8%	-1.0%	-7.1%
% of Rev	54.8%	55.0%	54.0%	52.4%	54.0%	51.8%	51.0%	50.1%	48.4%	50.3%	49.8%
Non Top 10	58	60	64	68	251	69	72	72	76	288	69
QoQ %	8.4%	3.5%	6.5%	5.5%		1.3%	4.0%	0.8%	5.2%		-8.7%
YoY %	15.0%	14.2%	26.6%	26.0%	20.5%	17.9%	18.4%	12.1%	11.7%	14.9%	0.6%
% of Rev	45.2%	45.0%	46.0%	47.6%	46.0%	48.2%	49.0%	49.9%	51.6%	49.7%	50.2%

Headcount and Utilisation Data

(Nos.)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
Headcount (Services)	13,835	14,197	14,457	14,762	14,762	14,411	14,385	14,532	14,423	14,423	14,398
Technical Employees	13,045	13,391	13,654	13,962	13,962	13,625	13,611	13,754	13,648	13,648	13,646
Support Employees	790	806	803	800	800	786	774	778	775	775	752
Net additions	103	362	260	305	1,030	(351)	(26)	147	(109)	(339)	(25)
DLM Employees	629	629	628	637	637	645	655	661	661	661	645
Utilisation (%)	74.1	75.9	78.6	76.7	76.3	75.0	78.0	78.1	78.1	77.3	NA

Source: Company, HDFC sec Inst Research

Key Assumptions

Particulars	FY17	FY18	FY19	FY20E	FY21E	FY22E
Services Growth (%)	11.7	12.9	6.3	0.3	6.8	6.6
DLM Growth (%)	37.7	13.5	29.1	10.3	14.2	15.4
Total USD revenue growth (%)	13.9	13.0	8.6	1.5	7.8	7.9
USD/INR rate	67.0	64.5	70.0	69.9	70.0	70.0
EBIT margin (%)	10.8	11.3	11.5	11.3	11.3	11.1

Source: Company, HDFC Sec Inst Research

Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
FY20E			
Revenue (USD bn)	0.706	0.670	(5.1)
Revenue (Rs bn)	49.35	46.84	(5.1)
EBITDA (Rs bn)	5.87	5.31	(9.5)
EBITDA margin (%)	11.9	11.3	(56)bps
EPS (Rs)	48.2	42.7	(11.4)
FY21E			
Revenue (USD bn)	0.772	0.722	(6.5)
Revenue (Rs bn)	54.06	50.56	(6.5)
EBITDA (Rs bn)	6.34	5.74	(9.6)
EBITDA margin (%)	11.7	11.3	(39)bps
EPS (Rs)	51.2	45.8	(10.7)

Source: Company, HDFC Sec Inst Research

Peer Set Comparison

Company	MCap (Rs bn)	CMP (Rs)	TP (Rs)	RECO	EPS (Rs)				P/E (x)				RoE (%)			
					FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
TCS	7,752	2,066	2,420	BUY	68.8	83.9	87.9	98.4	30.0	24.6	23.5	21.0	30.1	36.1	36.1	38.5
Infosys	3,449	793	770	NEU	34.2	36.7	36.9	41.5	23.2	21.6	21.5	19.1	22.0	24.4	24.8	27.2
Wipro	1,534	269	255	SELL	14.0	15.8	16.6	17.7	19.2	17.0	16.2	15.2	16.5	17.3	16.9	16.9
HCL Tech	1,418	1,019	1,305	BUY	64.7	74.6	78.2	89.9	15.7	13.6	13.0	11.3	25.3	26.0	24.0	24.3
TechM	604	687	650	SELL	43.2	48.9	48.1	53.1	15.9	14.1	14.3	13.0	21.5	22.0	20.4	20.7
Tier-1 IT Median									19.2	17.0	16.2	15.2	22.0	24.4	24.0	24.3
LTI	273	1,576	2,171	BUY	66.9	87.3	88.5	105.6	23.6	18.0	17.8	14.9	33.2	34.6	28.8	29.1
Mphasis	174	934	1,360	BUY	45.4	57.7	60.5	73.0	20.6	16.2	15.4	12.8	14.6	20.0	20.3	21.7
LTTS	173	1,660	2,020	BUY	45.5	68.0	74.8	96.7	36.5	24.4	22.2	17.2	27.7	32.0	28.6	30.7
Mindtree	113	691	930	NEU	32.3	44.2	36.5	48.1	21.4	15.6	18.9	14.4	21.4	24.9	17.3	23.0
Hexaware *	107	361	440	BUY	16.8	19.6	20.9	26.0	21.5	18.4	17.3	13.9	26.6	26.5	24.3	26.1
Cyient	61	544	510	NEU	38.6	43.6	42.7	45.8	14.1	12.5	12.7	11.9	18.1	19.5	17.7	17.2
Zensar	55	244	315	BUY	10.6	13.8	15.8	19.1	23.0	17.7	15.5	12.8	15.1	17.0	16.9	17.8
Tata Elxsi	46	732	635	NR	38.5	46.6	33.0	39.5	19.0	15.7	22.2	18.5	37.0	34.5	20.4	21.4
Persistent	48	608	655	NEU	40.6	45.9	44.9	48.5	15.0	13.2	13.5	12.5	16.0	15.7	14.5	14.3
Sonata	36	351	495	BUY	18.6	24.0	27.0	30.2	18.9	14.6	13.0	11.6	31.0	35.1	34.3	34.0
Intellect	33	267	325	BUY	3.7	8.1	10.6	15.0	NM	33.0	25.1	17.8	6.7	11.1	12.3	15.0
eClerx	26	668	750	NEU	74.1	61.7	60.9	67.3	9.0	10.8	11.0	9.9	24.1	17.6	16.5	18.3
Majesco	15	531	730	BUY	(1.5)	18.3	26.3	34.4	NM	28.9	20.2	15.5	NM	8.4	10.4	12.2
HGS	13	633	900	NR	96.5	84.6	106.2	120.7	6.6	7.5	6.0	5.2	14.3	11.3	12.7	13.0
Mastek	11	455	635	BUY	27.8	40.6	43.8	49.8	16.4	11.2	10.4	9.1	13.7	16.1	14.6	14.8
Tier-2 IT Median									19.0	15.7	15.5	12.8	19.8	19.5	17.3	18.3

Company	MCap (USD bn)	CMP USD	TP	RECO	EPS (USD)				P/E (x)				RoE (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Accenture	131	195	NA	NR	5.6	6.5	7.3	8.0	35.0	30.2	26.7	24.5	41.7	42.0	41.5	40.1
Cognizant	37	66	NA	NR	2.5	3.6	3.8	4.3	25.9	18.2	17.5	15.4	14.1	19.0	16.7	19.3
Capgemini^	21	112	NA	NR	4.9	4.4	6.5	7.1	23.0	25.7	17.3	15.7	11.5	10.1	13.3	13.4
Global IT Median									25.9	25.7	17.5	15.7	14.1	19.0	16.7	19.3

Source: HDFC sec Inst Research, Bloomberg, *Dec YE, ^CMP and EPS in EUR terms

Consolidated Income Statement

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues (US \$mn)	607.7	660.0	670.2	722.4	779.1
Growth (%)	13.0	8.6	1.5	7.8	7.9
Net Revenues	39.18	46.18	46.84	50.56	54.54
Growth (%)	8.6	17.9	1.4	8.0	7.9
Cost of Revenue	25.39	30.13	29.94	32.45	35.28
SG&A Expenses	8.30	9.61	9.80	10.49	11.18
EBITDA	5.49	6.44	7.10	7.62	8.08
Depreciation	1.05	1.11	1.79	1.89	2.00
EBIT	4.44	5.33	5.31	5.74	6.07
EBIT (%)	11.3	11.5	11.3	11.3	11.1
EBIT Growth (%)	14.0	20.0	(0.4)	8.0	5.9
Other Income	1.15	1.23	1.49	1.58	1.65
Interest	0.23	0.36	0.55	0.58	0.62
PBT	5.36	6.20	6.25	6.73	7.11
Tax (incl deferred)	1.38	1.43	1.48	1.62	1.71
Minority Interest and associate profit	0.07	0.02	0.02	0.03	0.03
RPAT	4.05	4.79	4.80	5.14	5.44
EO (Loss) / Profit (Net Of Tax)	-0.29	-0.11	0.00	0.00	0.00
APAT	4.33	4.90	4.80	5.14	5.44
APAT Growth (%)	17.2	13.1	(2.1)	7.3	5.7
EPS	38.6	43.6	42.7	45.8	48.4
EPS Growth (%)	17.2	13.1	(2.1)	7.3	5.7

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital - Equity	0.56	0.55	0.55	0.55	0.55
Reserves	22.88	25.09	27.92	30.96	34.17
Total Shareholders' Funds	23.44	25.64	28.47	31.51	34.72
Minority Interest	0.00	-0.02	-0.02	-0.02	-0.02
Total Debt	2.41	3.25	3.25	3.25	3.25
Net Deferred Taxes	0.04	0.11	0.11	0.11	0.11
Long Term Provisions & Others	1.28	1.85	1.92	2.07	2.24
TOTAL SOURCES OF FUNDS	27.16	30.84	33.74	36.93	40.30
APPLICATION OF FUNDS					
Net Block	4.43	4.52	4.84	4.98	5.15
CWIP	0.52	1.04	1.04	1.04	1.04
Goodwill & Other Intangible Assets	3.55	5.26	5.26	5.26	5.26
Investments	0.00	0.00	0.00	0.00	0.00
LT Loans & Advances, Others	1.76	1.66	1.73	1.86	2.01
Total Non Current Assets	10.25	12.48	12.86	13.14	13.46
Cash & Equivalents	11.24	10.25	11.67	13.52	15.50
Debtors	6.91	8.14	8.60	9.28	10.01
Inventories	1.31	1.83	1.92	2.08	2.24
Other Current Assets	4.29	5.90	6.56	7.08	7.64
Total Current Assets	12.52	15.87	17.08	18.44	19.89
Creditors	3.81	3.71	3.85	4.02	4.18
Other Current Liabilities & Provns	3.03	4.05	4.03	4.15	4.36
Total Current Liabilities	6.84	7.76	7.88	8.16	8.55
Net Current Assets	5.68	8.11	9.20	10.27	11.34
TOTAL APPLICATION OF FUNDS	27.16	30.84	33.74	36.93	40.30

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	5.36	6.20	6.25	6.73	7.11
Non-operating & EO items	(0.34)	(0.81)	(1.46)	(1.55)	(1.62)
Interest expenses	0.20	0.33	0.55	0.58	0.62
Depreciation	1.05	1.11	1.79	1.89	2.00
Working Capital Change	(1.66)	(1.71)	(1.09)	(1.06)	(1.05)
Tax paid	(1.65)	(1.42)	(1.48)	(1.62)	(1.71)
OPERATING CASH FLOW (a)	2.96	3.70	4.56	4.98	5.35
Capex	(1.69)	(1.53)	(2.11)	(2.02)	(2.18)
Free cash flow (FCF)	1.28	2.17	2.45	2.95	3.17
Investments	0.00	0.00	0.00	0.00	0.00
Non-operating income	1.04	(1.17)	1.49	1.58	1.65
INVESTING CASH FLOW (b)	(0.65)	(2.70)	(0.62)	(0.44)	(0.53)
Debt Issuance	0.72	0.85	0.00	0.00	0.00
Interest expenses	(0.19)	(0.30)	(0.55)	(0.58)	(0.62)
FCFE	1.80	2.72	1.90	2.37	2.55
Share capital Issuance	0.01	0.02	0.00	0.00	0.00
Dividend/Buyback	(1.89)	(2.89)	(1.96)	(2.11)	(2.23)
FINANCING CASH FLOW (c)	(1.36)	(2.32)	(2.51)	(2.69)	(2.84)
NET CASH FLOW (a+b+c)	0.95	(1.32)	1.42	1.85	1.98
Non-operating and EO items	(0.46)	0.34	0.00	0.00	0.00
Closing Cash & Equivalents	11.24	10.25	11.67	13.52	15.50

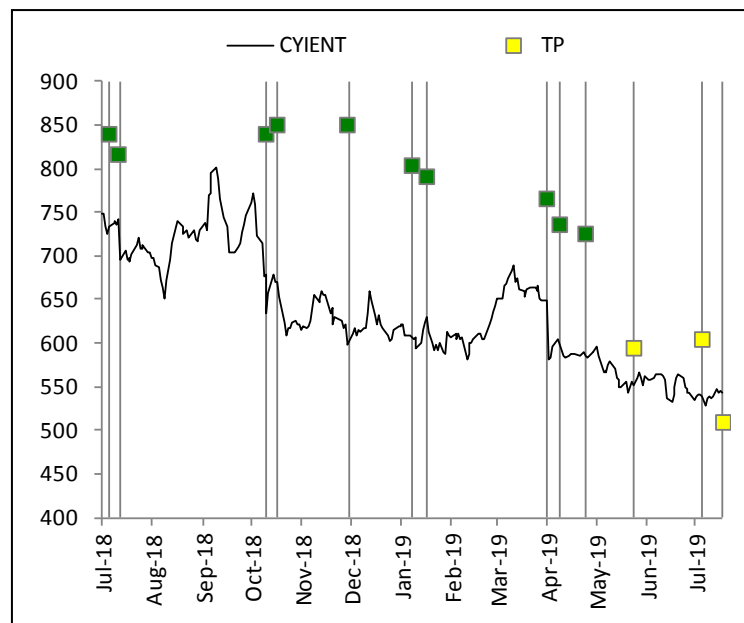
Source: Company, HDFC sec Inst Research

Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
EBITDA Margin	14.0	14.0	15.2	15.1	14.8
APAT Margin	10.3	10.4	10.2	10.2	10.0
RoE	18.1	19.5	17.7	17.2	16.4
RoIC or Core RoCE	22.5	22.5	19.0	19.2	19.1
RoCE	17.6	17.9	16.1	15.8	15.3
EFFICIENCY					
Tax Rate (%)	25.8	23.0	23.6	24.0	24.0
Fixed Asset Turnover (x)	3.2	3.4	3.0	2.9	2.8
Inventory (days)	12	14	15	15	15
Debtors (days)	75	74	76	76	75
Other Current Assets (days)	40	47	51	51	51
Payables (days)	41	34	35	34	33
Other Current Liab & Provns (days)	28	32	31	30	29
Cash Conversion Cycle (days)	58	69	76	78	79
Net Debt/EBITDA (x)	(1.6)	(1.0)	(1.1)	(1.3)	(1.5)
Net Debt/Equity (x)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Interest Coverage (x)	19.1	14.7	9.7	9.9	9.9
PER SHARE DATA					
EPS (Rs/sh)	38.6	43.6	42.7	45.8	48.4
CEPS (Rs/sh)	45.6	52.8	58.9	62.9	66.6
DPS (Rs/sh)	14	15	15	16	17
BV (Rs/sh)	208.9	228.5	253.7	280.8	309.4
VALUATION					
P/E	15.1	12.7	12.7	11.9	11.2
P/BV	2.6	2.4	2.1	1.9	1.8
EV/EBITDA	9.5	8.4	7.4	6.6	6.0
OCF/EV (%)	5.7	6.9	8.7	9.8	11.0
FCF/EV (%)	2.5	4.0	4.7	5.8	6.5
FCFE/mkt cap (%)	3.0	4.5	3.1	3.9	4.2
Dividend Yield (%)	2.6	2.8	2.8	3.0	3.1

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
6-Jul-18	732	BUY	840
13-Jul-18	742	BUY	815
10-Oct-18	681	BUY	840
18-Oct-18	670	BUY	850
30-Nov-18	600	BUY	850
8-Jan-19	606	BUY	804
18-Jan-19	629	BUY	790
1-Apr-19	648	BUY	765
9-Apr-19	604	BUY	735
26-Apr-19	584	BUY	725
27-May-19	551	NEU	595
5-Jul-19	535	NEU	605
19-Jul-19	544	NEU	510

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

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