

Recovery underway

We maintain BUY on Cyient based on in-line 4QFY19. Given the single digit growth in services business, we cut P/E multiple to 14x vs. 16x earlier. Our TP Rs 725 is based on 14x FY21E EPS.

HIGHLIGHTS OF THE QUARTER

- Revenue at USD 165.2mn was flat QoQ, -0.3% in CC (vs our est. of USD 164mn). Services (89% of rev, +1.4% QoQ CC) growth was in-line with expectation. Fall in DLM revenue (11% of rev, -11.4% QoQ) was lower than expected.
- Aerospace & Defence (34% of rev, +0.5% QoQ) has been struggling to grow due to deferment of spend by Top-client (A320neo engine issue). Communication (22% of rev) was down 3.1% led by re-negotiations of contract by one large client. Transportation & Semiconductor growth was strong in the quarter but is not sustainable.
- Guidance of high single digit growth in services factors in weak 1Q. Growth will pick-up from 2Q led by ramp-up in Communications and recovery in Aerospace. DLM is expected to grow at ~15% CC which is in-line with

our expectation. Growth for services business is at the lower end of the Tier-2 IT, which is a disappointment.

- EBITDA Margin at 15.1% (vs. our est of 14.4%) was at multi quarter high led by tight cost control (net reduction in headcount). Expansion was led by both Services (16.3%, +16bps QoQ) and DLM (4.1%). Margin expansion from here will be challenging considering wage hike and rising sub-con expenses (+18.4% QoQ).

STANCE: REASONABLE VALUATIONS BUT UNEXCITING

Cyient's growth engine is challenged given client specific issues. Large verticals, Aerospace and Communications are taking longer than expected to recover. Further margins expansion will be difficult considering investments required in the business and tight labour market. We expect USD revenue growth of 7.8/9.3% and EBITDA% of 14.0/14.2% for FY20/21E. The buyback of Rs 2bn is completed at an average price of Rs 640/share. Net Cash stands at Rs 7bn (~10% of Mcap).

The stock trades at reasonable valuation of 12.4x FY20E which is ~49% discount to LTTS. Risks to our thesis include prolonged issue with top clients and slowdown in DLM.

Financial Summary

YE March (Rs bn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	11.63	10.62	9.5	11.88	(2.1)	36.07	39.18	46.18	49.82	54.47
EBITDA	1.75	1.49	17.4	1.75	0.1	4.85	5.49	6.44	6.97	7.74
APAT	1.88	1.21	55.2	0.92	103.7	3.70	4.33	4.90	5.31	5.80
Diluted adj. EPS (Rs)	16.7	10.8	55.2	8.2	103.7	32.9	38.6	43.6	47.2	51.6
P/E (x)						19.1	16.2	13.7	12.4	11.3
EV / EBITDA (x)						11.8	10.3	9.1	8.2	7.1
RoE (%)						17.4	18.1	19.5	19.5	19.0

Source: Company, HDFC sec Inst Research # Consolidated

INDUSTRY	IT
CMP (as on 25 Apr 2019)	Rs 584
Target Price	Rs 725
Nifty	11,642
Sensex	38,731
KEY STOCK DATA	
Bloomberg	CYL IN
No. of Shares (mn)	111
MCap (Rs bn) / (\$ mn)	65/925
6m avg traded value (Rs mn)	173
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 887/570
	3M 6M 12M
Absolute (%)	(2.5) (5.3) (20.6)
Relative (%)	(10.1) (20.3) (32.9)
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)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
Net Revenues (USD mn)	165.2	164.6	0.4	165.1	0.1
Net Revenues	11.63	10.62	9.5	11.88	(2.1)
Cost of Revenue	7.52	6.92	8.7	7.72	(2.6)
Gross Profit	4.11	3.70	11.0	4.16	(1.2)
SG&A Expenses	2.35	2.21	6.7	2.41	(2.1)
EBITDA	1.75	1.49	17.4	1.75	0.1
Depreciation	0.26	0.26	1.6	0.28	(6.5)
EBIT	1.49	1.24	20.7	1.47	1.4
Interest Cost	0.09	0.07	29.9	0.10	(9.4)
Other Income	0.68	0.38	79.6	-0.19	NM
PBT	2.08	1.55	34.7	1.19	75.2
Minority Interest & Share of Ass. Profit	0.01	-0.03	NM	0.00	NM
Tax	0.32	0.34	(5.4)	0.27	19.5
RPAT	1.77	1.18	49.9	0.92	91.6
E/o (adj for tax)	0.11	0.03	-	0.00	NM
APAT	1.88	1.21	55.2	0.92	103.7

Source: Company, HDFC sec Inst Research

Margin Analysis

Particulars	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)
Cost of Revenue % Net Revenues	64.7	65.2	(47)	65.0	(32)
Gross Margin (%)	35.3	34.8	47	35.0	32
SG&A Expenses % Net Revenues	20.2	20.8	(54)	20.2	(1)
EBITDA Margin (%)	15.1	14.1	101	14.7	33
EBIT Margin (%)	12.8	11.6	119	12.4	44
Tax Rate (%)	15.3	21.7	(647)	22.4	(711)
APAT Margin (%)	16.2	11.4	476	7.8	840

Source: Company, HDFC sec Inst Research

Revenues were flat at USD 165.2mn (-0.3% QoQ CC), Services revenue grew 1.4% QoQ CC while DLM declined 11.9% QoQ CC

Services EBITDA margin expanded 16bps QoQ to 16.4%, tailwinds to margins were incremental bill days (+83bps) and lower SGA (+8bps) offset by forex (-46bps) and revenue mix (-29bps)

DLM margin came at 4.1% up ~13bps QoQ

Wage hike to impact blended margins in FY20 by ~200bps

Other income was higher on tax incentives of Rs 280mn for export of merchandise and forex gain of Rs 0.12bn vs loss of Rs 0.35bn

Normalised ETR was at 21.5%, ETR for FY20 guided at 23-24%

DLM revenue was down 11.4% QoQ, second consecutive sharp decline in DLM led by one large order deferment

Within services, Manufacturing & Industrial grew 3.2% QoQ while UGC was flat at 0.6% QoQ

UGC growth was impacted by drop in communications

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

Source: Company, HDFC sec Inst Research

Services Business Mix (ex DLM)

Business Mix (IT Services, USD mn)	1Q FY18	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19
Manufacturing & Industrial (MI)	76	79	82	82	320	85	87	86	89	348
QoQ %	4.2%	4.0%	4.1%	-0.1%		4.0%	2.1%	-1.2%	3.2%	
YoY %	4.4%	7.6%	16.8%	12.7%	10.3%	12.4%	10.3%	4.7%	8.3%	8.8%
% of Rev	58.9%	58.9%	58.8%	57.6%	58.5%	59.9%	59.7%	59.6%	60.5%	59.9%
Utilities, Geo & Comm (UGC)	53	55	58	60	226	57	59	58	58	232
QoQ %	2.0%	3.9%	4.3%	5.0%		-5.2%	2.6%	-0.7%	-0.6%	
YoY %	27.2%	11.4%	14.0%	16.2%	16.8%	7.9%	6.5%	1.4%	-4.1%	2.7%
% of Rev	41.1%	41.1%	41.2%	42.4%	41.5%	40.1%	40.3%	40.4%	39.5%	40.1%
Total Revenue (Services)	129	134	140	143	546	143	146	145	147	580
QoQ %	3.3%	4.0%	4.2%	2.0%		0.1%	2.3%	-1.0%	1.7%	
YoY %	12.7%	9.2%	15.6%	14.1%	12.9%	10.5%	8.7%	3.3%	3.1%	6.3%

Source: Company, HDFC sec Inst Research

Aerospace & Defense was flat QoQ, growth for FY20 guided at 'mid single digit'

Communications was weak with de-growth of 3.1% QoQ, communications to be 'better than Aerospace' in FY20. 5G, IoT to drive growth in communications

Transportation grew 4.2% QoQ. Outlook for transportation is tepid as there is limited scope for expansion

Semiconductor growth was strong at 21.2% QoQ but outlook remains weak

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
Aerospace and Defense	45	47	49	48	188	49	49	50	50	198
QoQ %	1.9%	2.5%	4.2%	-1.8%		2.5%	1.1%	0.5%	0.5%	
YoY %	2.5%	2.9%	12.7%	6.8%	6.2%	7.4%	5.9%	2.2%	4.6%	5.0%
% of Rev	35.2%	34.7%	34.7%	33.4%	34.5%	34.2%	33.8%	34.3%	33.9%	34.0%
Communications	29	31	32	35	128	34	35	34	33	135
QoQ %	9.6%	6.7%	1.5%	11.0%		-3.6%	2.3%	-2.7%	-3.1%	
YoY %	35.3%	16.7%	15.6%	31.7%	24.2%	15.9%	11.0%	6.5%	-7.0%	6.1%
% of Rev	22.7%	23.3%	22.7%	24.7%	23.4%	23.8%	23.8%	23.4%	22.3%	23.3%
Utilities & Geospatial	21	21	23	23	89	20	21	22	22	85
QoQ %	-7.3%	-0.4%	8.7%	-0.5%		-12.3%	3.0%	3.9%	3.7%	
YoY %	18.4%	3.9%	11.6%	-0.1%	7.9%	-5.4%	-2.2%	-6.6%	-2.7%	-4.3%
% of Rev	16.6%	15.9%	16.6%	16.2%	16.3%	14.2%	14.3%	15.0%	15.3%	14.7%
Transportation	14	15	16	17	62	17	17	17	18	70
QoQ %	11.8%	10.9%	8.8%	1.1%		4.4%	-0.3%	0.7%	4.2%	
YoY %	14.9%	30.1%	43.9%	36.5%	31.3%	27.4%	14.5%	6.0%	9.3%	13.7%
% of Rev	10.5%	11.2%	11.7%	11.6%	11.3%	12.1%	11.8%	12.0%	12.3%	12.1%
Industrial, ENU	11	12	12	12	46	12	13	12	12	49
QoQ %	1.0%	5.2%	4.2%	-1.6%		1.3%	4.7%	-1.0%	0.5%	
YoY %	-4.2%	0.9%	6.9%	8.9%	3.0%	9.2%	8.7%	3.3%	5.5%	6.6%
% of Rev	8.5%	8.6%	8.6%	8.3%	8.5%	8.4%	8.6%	8.6%	8.5%	8.5%
Semiconductor	6	6	5	6	22	8	8	7	8	31
QoQ %	10.7%	-5.3%	-6.0%	7.5%		41.1%	7.8%	-19.8%	21.2%	
YoY %	17.9%	9.2%	9.7%	6.0%	10.6%	35.1%	53.8%	31.3%	48.0%	42.1%
% of Rev	4.5%	4.1%	3.7%	3.9%	4.0%	5.5%	5.8%	4.7%	5.6%	5.4%
Medical and Consumer	3	3	3	3	11	3	3	3	3	11
QoQ %	8.8%	14.4%	-5.3%	-3.1%		-5.2%	7.9%	4.2%	1.7%	
YoY %	18.6%	26.4%	21.7%	14.1%	20.2%	-0.5%	-6.1%	3.3%	8.5%	1.2%
% of Rev	2.0%	2.2%	2.0%	1.9%	2.0%	1.8%	1.9%	2.0%	2.0%	1.9%
Total Revenue (IT Services)	129	134	140	143	546	143	146	145	147	580
QoQ %	3.2%	4.0%	4.2%	2.0%		0.1%	2.3%	-1.0%	1.6%	
YoY %	12.8%	9.2%	15.6%	14.0%	12.9%	10.5%	8.7%	3.3%	2.9%	6.3%

Source: Company, HDFC sec Inst Research

North America de-grew 9.1% QoQ impacted by challenges in top accounts

Asia Pacific growth was strong at 37.9/25.5% 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
North America	72	73	77	76	298	79	82	84	76	322
QoQ %	1.0%	1.0%	5.9%	-1.4%		3.8%	3.9%	2.5%	-9.1%	
YoY %	4.8%	0.1%	9.8%	6.5%	5.3%	9.6%	12.7%	9.2%	0.5%	7.9%
% of Rev	55.8%	54.2%	55.1%	53.3%	54.6%	55.3%	56.2%	58.2%	52.0%	55.4%
Europe, ME, Africa and India	33	36	39	39	146	38	39	35	35	146
QoQ %	6.2%	7.6%	8.1%	-0.6%		-2.5%	2.7%	-9.6%	1.3%	
YoY %	18.2%	21.4%	33.5%	22.8%	24.0%	12.7%	7.5%	-10.1%	-8.4%	-0.2%
% of Rev	25.8%	26.7%	27.7%	27.0%	26.8%	26.3%	26.4%	24.1%	24.0%	25.2%
Asia Pacific	24	26	24	28	102	26	25	26	35	113
QoQ %	6.8%	7.9%	-6.2%	16.8%		-6.5%	-3.3%	0.7%	37.9%	
YoY %	34.6%	23.4%	10.5%	26.3%	23.2%	10.5%	-1.0%	6.3%	25.5%	10.8%
% of Rev	18.4%	19.1%	17.2%	19.7%	18.6%	18.4%	17.4%	17.7%	24.0%	19.4%
Total Revenue (IT Services)	129	134	140	143	546	143	146	145	147	580
QoQ %	3.3%	4.0%	4.2%	2.0%		0.1%	2.3%	-1.0%	1.7%	
YoY %	12.7%	9.2%	15.6%	14.1%	12.9%	10.5%	8.7%	3.3%	3.1%	6.3%

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

Source: Company, HDFC sec Inst Research

Top 5 clients de-grew 7.2% QoQ while performance of Top 6-10 and Non Top 10 was better at 3.7% and 2.1% QoQ respectively

Growth excluding largest customer in communications was ~25% in FY19

Aerospace growth ex largest customer was 15-20% in FY19

FY19 headcount witnessed net-reduction of 339

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
Top 5	53	56	56	55	220	54	55	55	51	215
QoQ %	-1.2%	5.5%	0.1%	-0.8%		-2.5%	2.3%	-0.7%	-7.2%	
YoY %	14.9%	6.3%	6.3%	3.5%	7.5%	2.2%	-1.0%	-1.8%	-8.1%	-2.2%
% of Rev	41.0%	41.6%	40.0%	38.9%	40.3%	37.9%	37.9%	38.0%	34.7%	37.1%
Top 6-10	18	18	20	19	75	20	19	17	18	75
QoQ %	1.9%	1.0%	8.8%	-1.7%		3.1%	-3.6%	-8.6%	3.7%	
YoY %	0.3%	2.3%	11.6%	10.0%	6.0%	11.3%	6.3%	-10.7%	-5.8%	-0.1%
% of Rev	13.8%	13.4%	14.0%	13.5%	13.7%	13.9%	13.1%	12.1%	12.3%	12.9%
Top 10	71	74	76	75	295	74	74	72	69	290
QoQ %	-0.5%	4.4%	2.3%	-1.0%		-1.1%	0.7%	-2.7%	-4.6%	
YoY %	10.9%	5.3%	7.7%	5.1%	7.1%	4.5%	0.8%	-4.1%	-7.6%	-1.7%
% of Rev	54.8%	55.0%	54.0%	52.4%	54.0%	51.8%	51.0%	50.1%	47.0%	50.0%
Non Top 10	58	60	64	68	251	69	72	72	74	286
QoQ %	8.4%	3.5%	6.5%	5.5%		1.3%	4.0%	0.8%	2.1%	
YoY %	15.0%	14.2%	26.6%	26.0%	20.5%	17.9%	18.4%	12.1%	8.5%	14.0%
% of Rev	45.2%	45.0%	46.0%	47.6%	46.0%	48.2%	49.0%	49.9%	50.1%	49.3%

Headcount and Utilisation Data

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

Source: Company, HDFC sec Inst Research

Key Assumptions

Particulars	FY17	FY18	FY19E	FY20E	FY21E
Services Growth (%)	11.7	12.9	6.3	6.8	8.2
DLM Growth (%)	37.7	13.5	29.1	15.4	16.9
Total USD revenue growth (%)	13.9	13.0	8.6	7.8	9.3
USD/INR rate	67.0	64.5	70.0	70.0	70.0
EBITDA margin (%)	13.4	14.0	14.0	14.0	14.2

Source: Company, HDFC Sec Inst Research

Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
FY20E			
Revenue (USD bn)	0.719	0.712	(1.0)
Revenue (Rs bn)	50.30	49.82	(1.0)
EBITDA (Rs bn)	6.84	6.97	1.9
EBITDA margin (%)	13.6	14.0	40bps
EPS (Rs)	41.8	47.2	13.1
FY21E			
Revenue (USD bn)	0.790	0.778	(1.6)
Revenue (Rs bn)	55.33	54.47	(1.6)
EBITDA (Rs bn)	7.60	7.74	1.9
EBITDA margin (%)	13.7	14.2	48bps
EPS (Rs)	46.0	51.6	12.3

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	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
TCS	8,193	2,192	2,410	BUY	68.8	83.9	90.4	100.5	31.8	26.1	24.2	21.8	30.1	36.1	37.1	39.1
Infosys	3,204	729	755	NEU	33.8	36.4	37.5	41.9	21.5	20.0	19.4	17.4	24.5	23.7	23.2	23.6
Wipro	1,671	295	250	SELL	14.0	15.8	16.5	17.9	21.0	18.7	17.9	16.5	16.5	17.3	16.9	17.0
HCL Tech	1,586	1,131	1,210	BUY	64.7	73.9	78.7	86.5	17.5	15.3	14.4	13.1	25.3	26.0	24.5	23.8
TechM	732	815	850	BUY	42.5	48.5	51.6	56.6	19.2	16.8	15.8	14.4	21.5	21.4	20.0	19.4
Tier-1 IT Median									21.0	18.7	17.9	16.5	24.5	23.7	23.2	23.6
LTI	292	1,711	2,145	BUY	67.0	88.8	95.0	107.3	25.6	19.3	18.0	15.9	33.2	35.8	31.5	29.8
Mphasis	187	953	1,370	BUY	45.4	56.9	64.9	76.2	21.0	16.7	14.7	12.5	14.6	20.1	22.4	23.0
LTTS	176	1,706	1,845	BUY	45.7	65.6	70.5	92.1	37.3	26.0	24.2	18.5	27.7	31.6	28.3	30.8
Mindtree	161	989	1,040	NEU	32.3	44.2	51.6	57.8	30.6	22.4	19.2	17.1	21.4	24.9	24.9	25.0
Hexaware *	99	342	430	BUY	16.8	19.6	21.4	26.1	20.4	17.5	16.0	13.1	26.6	26.5	25.0	26.6
Cyient	65	584	725	BUY	38.6	43.6	47.2	51.6	16.2	13.7	12.4	11.3	18.1	19.5	19.5	19.0
Tata Elxsi	58	927	875	NR	38.5	45.6	46.8	54.6	24.1	20.3	19.8	17.0	37.0	34.2	28.8	28.0
Zensar	53	233	294	BUY	10.6	13.4	15.8	18.4	21.9	17.4	14.7	12.7	15.1	16.7	17.3	17.5
Persistent	51	640	605	NEU	40.4	42.5	40.6	46.6	15.9	15.1	15.8	13.7	16.0	15.2	13.5	14.1
eClerx	44	1,133	1,005	SELL	70.8	57.7	67.2	77.3	16.0	19.6	16.9	14.7	24.1	18.0	19.9	21.6
Sonata	34	332	465	BUY	18.6	23.8	26.0	29.0	17.9	13.9	12.8	11.4	31.0	35.5	34.2	33.9
Intellect	28	224	310	BUY	3.7	7.1	10.2	15.0	NM	31.5	21.9	14.9	6.5	9.8	12.4	15.8
Majesco	14	516	720	BUY	(1.5)	22.1	28.2	33.5	NM	23.4	18.3	15.4	(1.1)	11.2	14.0	17.2
HGS	13	642	770	NR	96.5	72.5	86.4	96.4	6.7	8.9	7.4	6.7	14.3	9.8	10.7	10.9
Mastek	11	466	657	BUY	27.8	40.6	44.7	52.2	16.8	11.5	10.4	8.9	13.7	16.1	14.8	15.4
Tier-2 IT Median									20.4	17.5	16.0	13.7	18.1	19.5	19.9	21.6

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	115	180	NA	NR	5.6	6.5	7.3	8.0	32.3	27.8	24.6	22.6	41.7	42.0	39.9	36.7
Cognizant	41	73	NA	NR	2.5	3.6	4.4	4.9	28.6	20.1	16.4	14.8	14.1	19.0	20.9	20.6
Capgemini^	21	114	NA	NR	4.9	4.4	6.5	7.1	23.4	26.1	17.5	16.0	11.5	10.1	13.1	13.3
Global IT Median									28.6	26.1	17.5	16.0	14.1	19.0	20.9	20.6

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

Consolidated Income Statement

YE March (Rs bn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues (USD mn)	538.0	607.7	660.0	711.7	778.1
Growth (%)	13.9	13.0	8.6	7.8	9.3
Net Revenues	36.07	39.18	46.18	49.82	54.47
Growth (%)	16.3	8.6	17.9	7.9	9.3
Cost of Revenue	23.65	25.39	30.13	32.39	35.34
SG&A Expenses	7.57	8.30	9.61	10.46	11.38
EBITDA	4.85	5.49	6.44	6.97	7.74
EBITDA (%)	13.4	14.0	14.0	14.0	14.2
EBITDA Growth (%)	15.7	13.3	17.3	8.2	11.1
Depreciation	0.95	1.05	1.11	1.22	1.34
EBIT	3.89	4.44	5.33	5.75	6.40
Other Income	0.61	1.15	1.23	1.55	1.57
Interest	0.19	0.23	0.36	0.36	0.38
PBT	4.32	5.36	6.20	6.94	7.59
Tax (incl deferred)	1.05	1.38	1.43	1.67	1.82
Minority Interest and associate profit	0.17	0.07	0.02	0.03	0.04
RPAT	3.44	4.05	4.79	5.31	5.80
EO (Loss) / Profit (Net Of Tax)	-0.26	-0.29	-0.11	0.00	0.00
APAT	3.70	4.33	4.90	5.31	5.80
APAT Growth (%)	10.6	17.2	13.1	8.3	9.3
EPS	32.9	38.6	43.6	47.2	51.6
EPS Growth (%)	10.6	17.2	13.1	8.3	9.3

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY17	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	0.56	0.56	0.55	0.55	0.55
Reserves	20.61	22.88	25.09	28.22	31.65
Total Shareholders' Funds	21.17	23.44	25.64	28.78	32.20
Minority Interest	0.03	0.00	-0.02	-0.02	-0.02
Total Debt	1.65	2.41	3.25	3.25	3.25
Net Deferred Taxes	0.20	0.04	0.11	0.11	0.11
Long-term Provisions & Others	1.08	1.28	1.85	2.04	2.23
TOTAL SOURCES OF FUNDS	24.13	27.16	30.84	34.16	37.78
APPLICATION OF FUNDS					
Net Block	4.23	4.43	4.52	5.05	5.61
CWIP	0.27	0.52	1.04	1.04	1.04
Goodwill & Other Intangible Assets	3.28	3.55	5.26	5.26	5.26
Investments	0.00	0.00	0.00	0.00	0.00
LT Loans & Advances, Others	1.77	1.76	1.66	1.84	2.01
Total Non Current Assets	9.54	10.25	12.48	13.18	13.92
Inventories	0.94	1.31	1.83	2.05	2.24
Debtors	6.50	6.91	8.14	9.01	9.85
Cash & Equivalents	10.74	11.24	10.25	11.33	13.31
Other Current Assets	3.55	4.29	5.90	6.97	7.63
Total Current Assets	21.72	23.75	26.12	29.36	33.02
Creditors	3.92	3.81	3.71	4.09	4.48
Other Current Liabilities & Provns	3.21	3.03	4.05	4.28	4.68
Total Current Liabilities	7.13	6.84	7.76	8.38	9.16
Net Current Assets	14.59	16.91	18.36	20.98	23.86
TOTAL APPLICATION OF FUNDS	24.13	27.16	30.84	34.16	37.78

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY17	FY18	FY19	FY20E	FY21E
Reported PBT	4.32	5.36	6.20	6.94	7.59
Non-operating & EO items	(0.62)	(0.34)	(1.10)	(1.52)	(1.53)
Interest expenses	0.17	0.20	0.36	0.36	0.38
Depreciation	0.95	1.05	1.11	1.22	1.34
Working Capital Change	0.37	(1.66)	(1.70)	(1.53)	(0.88)
Tax paid	(1.00)	(1.65)	(1.43)	(1.67)	(1.82)
OPERATING CASH FLOW (a)	4.20	2.96	3.45	3.81	5.08
Capex	(1.85)	(1.69)	(1.21)	(1.74)	(1.91)
Free cash flow (FCF)	2.35	1.28	2.24	2.06	3.17
Investments	0.00	0.00	0.00	0.00	0.00
Non-operating income	0.28	1.04	1.23	1.55	1.57
INVESTING CASH FLOW (b)	(1.57)	(0.65)	0.02	(0.20)	(0.34)
Debt Issuance	(0.03)	0.72	0.84	0.00	0.00
Interest expenses	(0.17)	(0.19)	(0.36)	(0.36)	(0.38)
FCFE	2.15	1.80	2.72	1.70	2.79
Share capital Issuance	0.02	0.01	(0.01)	0.00	0.00
Dividend	(0.75)	(1.89)	(1.96)	(2.17)	(2.38)
FINANCING CASH FLOW (c)	(0.93)	(1.36)	(1.49)	(2.53)	(2.76)
NET CASH FLOW (a+b+c)	1.70	0.95	1.98	1.08	1.98
Non-operating and EO items	0.49	(0.46)	(2.96)	0.00	0.00
Closing Cash & Equivalents	10.74	11.24	10.25	11.33	13.31

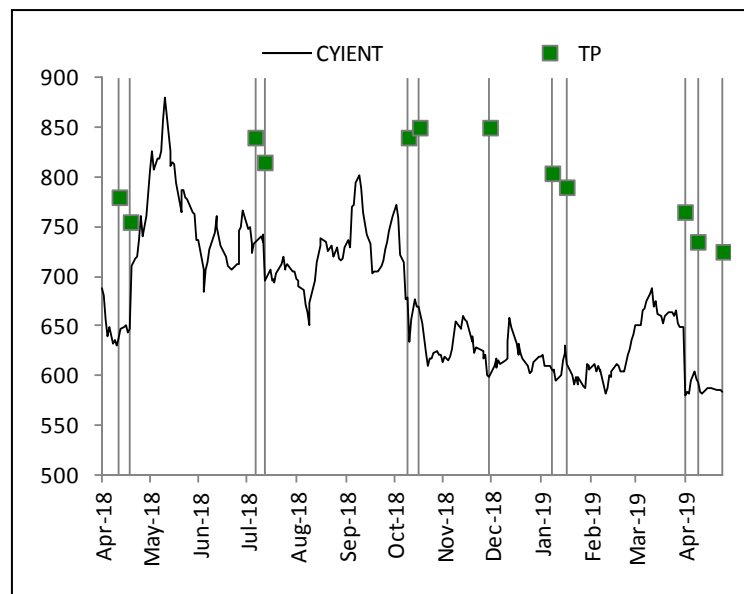
Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18	FY19	FY20E	FY21E
PROFITABILITY (%)					
EBITDA Margin	13.4	14.0	14.0	14.0	14.2
APAT Margin	9.5	10.3	10.4	10.7	10.7
RoE	17.4	18.1	19.5	19.5	19.0
RoIC or Core RoCE	22.3	22.5	22.5	20.1	20.6
RoCE	16.8	17.6	17.9	17.2	16.9
EFFICIENCY					
Tax Rate (%)	24.2	25.8	23.0	24.0	24.0
Fixed Asset Turnover (x)	3.2	3.2	3.4	3.3	3.2
Inventory (days)	9	12	14	15	15
Debtors (days)	78	75	74	75	74
Other Current Assets (days)	36	40	47	51	51
Payables (days)	46	41	34	35	35
Other Current Liab & Provns (days)	32	28	32	31	31
Cash Conversion Cycle (days)	45	58	69	74	74
Net Debt/EBITDA (x)	(1.7)	(1.6)	(1.0)	(1.1)	(1.3)
Net Debt/Equity (x)	(0.4)	(0.4)	(0.3)	(0.3)	(0.3)
Interest Coverage (x)	20.6	19.1	14.7	16.0	16.8
PER SHARE DATA					
EPS (Rs/sh)	32.9	38.6	43.6	47.2	51.6
CEPS (Rs/sh)	39.3	45.6	52.8	58.4	63.9
DPS (Rs/sh)	9	14	15	17	18
BV (Rs/sh)	188.7	208.9	228.5	256.4	286.9
VALUATION					
P/E	19.1	16.2	13.7	12.4	11.3
P/BV	3.1	2.8	2.6	2.3	2.0
EV/EBITDA	11.8	10.3	9.1	8.2	7.1
OCF/EV (%)	7.4	5.2	5.9	6.6	9.2
FCF/EV (%)	4.1	2.3	3.8	3.6	5.7
FCFE/mkt cap (%)	3.3	2.8	4.2	2.6	4.3
Dividend Yield (%)	1.5	2.4	2.6	2.8	3.1

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
12-Apr-18	630	BUY	780
20-Apr-18	647	BUY	755
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

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

Disclosure:

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