

Descending to low altitude

Cyient has lagged peers (ER&D) in most parameters, viz. growth, margins and top accounts performance. Co grew 8.6% in FY19 (vs. 24.6% for peer co LTTS), top-5/10 accounts were down 2.2/1.7% YoY and EBITDA margin stood flat at 14% (vs 18% for LTTS). Cyient's higher mix of mechanical engg services explains the slow growth and lower margin. According to Zinnov, Non-Digital ER&D services (mostly mechanical) are expected to grow at just ~3% over the next five years.

As much as 15% of US exports to China comprises aircraft. Hence, ongoing trade friction between US and China adds risk to Cyient's core vertical, Aerospace & Defense (34% of rev). Cyient's other key verticals like communications (-1.8% 4Qtr CQGR) can revive based on deal wins. Transportation will remain strong (2.2% 4-qtr CQGR; Cyient works for top-5 European rail cos).

Cyient is struggling with issues such as (1) Single digit growth in services business, (2) Challenges in top accounts (3) Issues in core vertical (Aerospace & Defense), (4) Higher growth from the low margin DLM business (~4.0% in FY19), (5) Reducing scope of margin expansion in services due to higher investments, and (6) Higher other income (~22% of PAT vs. 11% for LTTS). We expect USD revenue/EPS CAGR of 8.6/8.8% over FY19-21E. The stock trades at 11.7x FY20E which is at ~50% discount to LTTS. This steep valuation gap will persist, given LTTS' higher growth, better margin profile and superior return ratios. Downgrade to NEUTRAL. Our TP of Rs 595 is based on 11.5x FY21E EPS.

- **Shift from services to solutions:** Cyient aims to generate ~80% of its revenues from solutions (vs. ~10% currently) till 2030. Aspirations for 2030 include USD 12bn revenues (implied CAGR 30% over FY19-30E) and,

incredibly, annual FCF of ~USD 1bn! However, high single digit growth guidance in services business in FY20E reflects near term challenges.

- **New business accelerators (NBA):** Cyient is investing ~USD 10mn in FY20 in the NBA program. It will focus on developing IPs and solutions which will drive revenue from solutions. Shift from contract manufacturing to solutions based manufacturing in DLM will aid margin expansion. However, these investments may yield results only by FY21E.
- **Change in pricing model:** There is a shift to risk-reward/outcome based pricing models from fixed price & T&M. Currently ~10-15% of the project revenues are tied to outcomes. Rise in revenue contribution from the new pricing models is a margin lever, but it also adds opacity to future predictability. Cyient currently has ~6 projects running in pilot mode with its top-client.
- **FY20 Guidance:** High single digit CC growth for services (~88% of rev) and 15% CC growth for DLM (~12% of rev) for FY20 don't really inspire. Nor does the double digit growth in EBIT. Co guides for ETR of 22.5-23.5% with marginally higher other income.

Financial Summary

YE March (Rs bn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	36.07	39.18	46.18	49.82	54.47
EBITDA	4.85	5.49	6.44	6.97	7.74
APAT	3.70	4.33	4.90	5.31	5.80
Diluted EPS (Rs)	32.9	38.6	43.6	47.2	51.6
P/E (x)	18.0	15.3	12.9	11.7	10.7
EV / EBITDA (x)	11.0	9.6	8.5	7.7	6.7
RoE (%)	17.4	18.1	19.5	19.5	19.0

Source: Company, HDFC sec Inst Research # Consolidated

INDUSTRY	IT
CMP (as on 24 May 2019)	Rs 551
Target Price	Rs 595
Nifty	11,844
Sensex	39,435

KEY STOCK DATA	
Bloomberg	CYL IN
No. of Shares (mn)	111
MCap (Rs bn) / (\$ mn)	62/881
6m avg traded value (Rs mn)	173

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 821/530		
	3M	6M	12M
Absolute (%)	(8.8)	(12.4)	(29.3)
Relative (%)	(18.7)	(25.1)	(43.1)

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

Amit Chandra
 amit.chandra@hdfcsec.com
 +91-22-6171-7345

Apurva Prasad
 apurva.prasad@hdfcsec.com
 +91-22-6171-7327

Akshay Ramnani
 akshay.ramnani@hdfcsec.com
 +91-22-6171-7334

Developing scale in engineering outsourcing business is difficult given protectionist mind set of customers for their engineering capabilities

Outsourced ER&D spend is ~4.8% of Total ER&D spend

ER&D exports from India is ~30% of the total outsourced and has grown at 12% in 2018

India ER&D outsourcing growth is driven by rise of GCC (captives)

Digital ER&D spend is ~24% of the total ER&D spend and is expected to grow at ~17% CAGR over five years

Within the total Digital ER&D spend of USD 293bn only USD 2bn is from Aerospace

Industry trends and outlook

- Global ER&D outsourcing market is of ~USD 93bn which is expected to grow at ~6% CAGR driven by IP based solutions vs. manpower based engineering services earlier.
- Aerospace & Defense** (34% of services rev) has an addressable market of ~419bn which grew 4% driven by commercial aircraft order backlog and defense spending (Cyient's A&D grew 5.4%). For Cyient, ~70% of A&D is Commercial and balance in Defense. Cyient is witnessing client specific issues in A&D, FY20 growth in A&D (mid single digit) will be driven by business from new customers.
- Communication** (23% of services rev) industry growth is 2-3% driven by broadband rollout and 5G deployment (Cyient's communication grew 6%). Communications growth will be better than A&D

growth in FY20 supported by ramp up of new deal wins from 2QFY20.

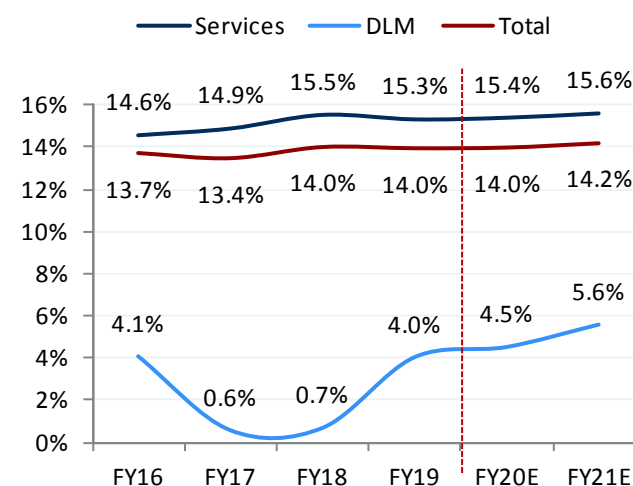
- Transportation** (12% of services rev) industry growth is 2.5% driven by investment in rail road and infrastructure (Cyient's Transportation grew 13.7% YoY), positive outlook for FY20 driven by growth in key segments and healthy pipeline.
- Semiconductor** (5% of services rev) industry de-grew 3% on downturn in memory chip market, Cyient's semiconductor grew 42% YoY supported by new client addition. Positive outlook for FY20 with identified key clients.
- Medical & Healthcare** (2% of rev) grew 5% driven by RPA, IoT, Robotics & AI (Cyient's Medical grew 1.2%), strong outlook for FY20 driven by order intake and pipeline.

Cyient's Revenue Mix (Services + DLM)

Revenue	FY16	FY17	FY18	FY19	FY20E	FY21E
Services	432.8	483.6	545.9	580.3	619.7	670.6
YoY %	-1.1%	11.7%	12.9%	6.3%	6.8%	8.2%
% of Rev	92%	90%	90%	88%	87%	86%
DLM	39.5	54.4	61.8	79.7	92.0	107.5
YoY %	NA	37.7%	13.5%	29.1%	15.4%	16.9%
% of Rev	8%	10%	10%	12%	13%	14%
Total rev	472.3	538.0	607.7	660.0	711.7	778.1
YoY %	NA	13.9%	13.0%	8.6%	7.8%	9.3%

Source: Company, HDFC sec Inst Research

EBITDA Margin Trend (%)



Source: Company, HDFC sec Inst Research

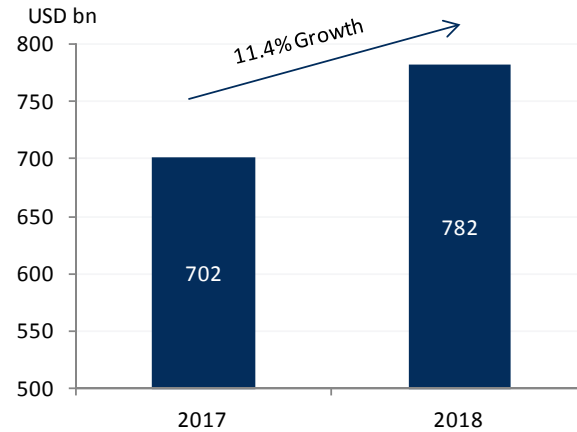
Entry into DLM business by Cyient was to mark an entry into the component supply chain of Aerospace ecosystem and to develop scale in the Aerospace vertical

DLM is expected to grow faster than company average

Current DLM EBITDA margin is 4.0%, DLM margin can expand to high single digit because of Design led/IP driven manufacturing

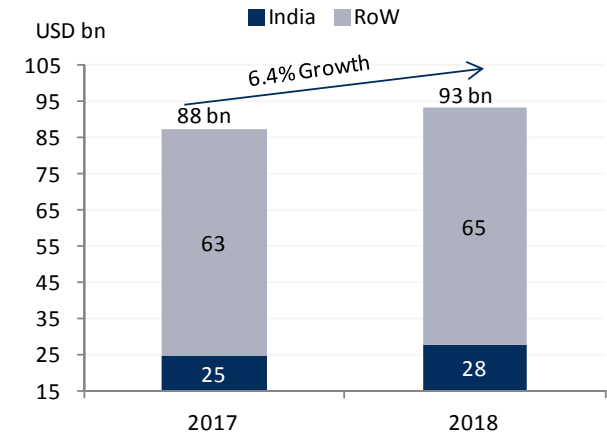
Given lower margin structure of DLM, we reckon that it will be difficult for Cyient to expand consolidated margins

ER&D Spend By Global 1000 (USD bn)



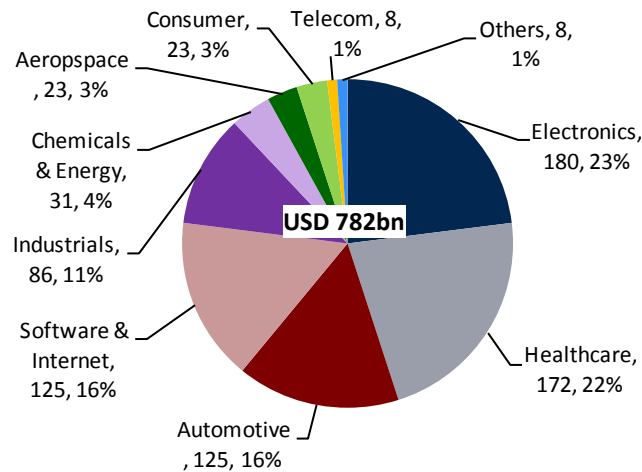
Source: NASSCOM, HDFC sec Inst Research

Outsourced ER&D Spend Globally (USD bn)



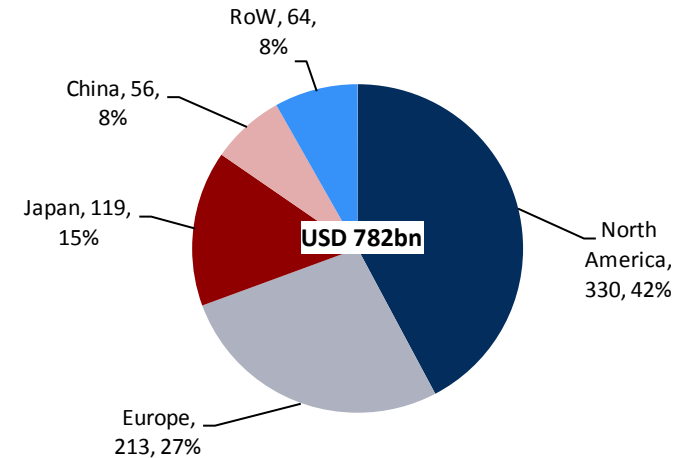
Source: NASSCOM, HDFC sec Inst Research

Vertical Composition of Global 1000 ER&D Spend (USD bn, %)



Source: NASSCOM, HDFC sec Inst Research

Geographical Composition of Global 1000 ER&D Spend (USD bn,%)



Source: NASSCOM, HDFC sec Inst Research

Cyient is the largest engineering service provider for its top client but not the largest solutions provider.

Cyient's team strength at its top account is >1,000 spread across engineering (52%), Manufacturing/tooling (23%), Aftermarket (18%), Avionics (4%) and Digital (3%)

For Cyient, revenue from UTC is ~USD 120-125mn, out of which revenues from Pratt & Whitney is ~USD 95mn

Aerospace & defense: Slow moving

- Cyient has a long standing relationship with its top client which has evolved from services to systems to solutions. Over 10mn hours of engineering work has resulted in ~USD 41mn in cost savings.
- Currently Cyient is facing challenges in its top account, who's R&D outsourcing has evolved from ~30% outsourcing with ~160 vendors some years ago to ~25% outsourcing with ~10 vendors currently.
- FY20 growth in Aerospace & Defense is expected to be driven by new client additions with flat existing accounts.

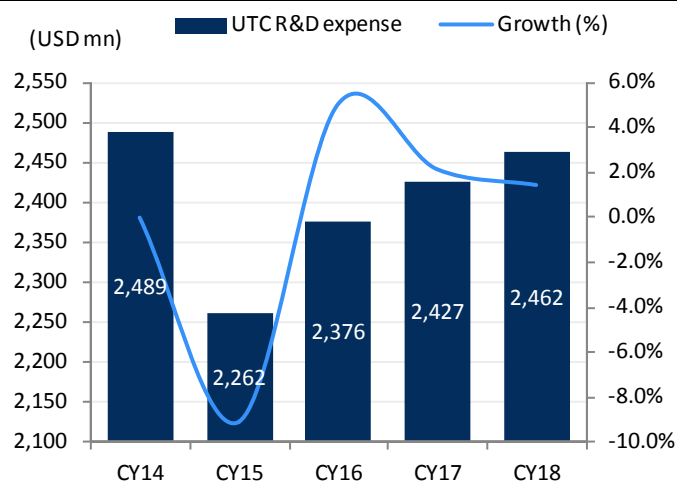
US-China trade negotiations: Potential risk

- The ongoing trade negotiations between US and China has seen some escalations with US raising tariffs on ~USD 200bn worth Chinese imports and

China retaliating with tariff hikes on ~USD 60bn US imports.

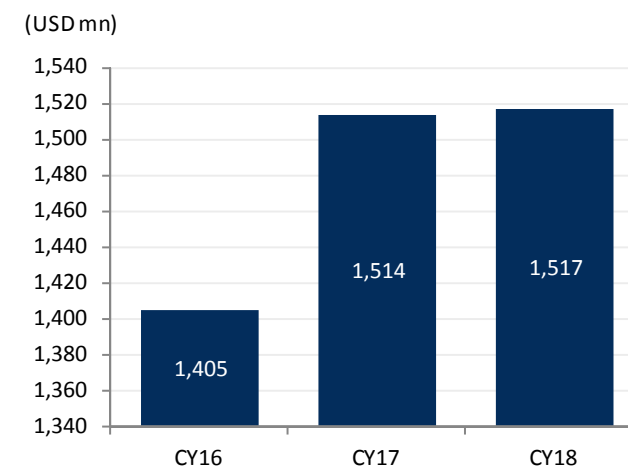
- As per the Office of United States Trade Representative, US exported goods worth USD 120.3bn in CY18. Top US export categories included Aircrafts (USD 18bn), Machinery (USD 14bn), electrical machinery (USD 13bn), optical and medical instruments (USD 9.8bn) and Vehicles (USD 9.4bn).
- In an event of further escalation of trade negotiations between US and China, above US exports items face a risk of increased tariffs. Further, top export categories are heavy engineering categories with Aircrafts leading in the mix. Given Cyient's high exposure to Aerospace & Defense sector (34% of rev), it is exposed to a greater risk.

UTC: Company Funded R&D Expense (USD mn)



Source: UTC AR, HDFC sec Inst Research

UTC: Customer Funded R&D Expense (USD mn)



Source: UTC AR, HDFC sec Inst Research

Flat trend in R&D expense for US based Aerospace companies

As per Zinnov, Aerospace & Defense R&D spending has grown 0-1% YoY in CY18

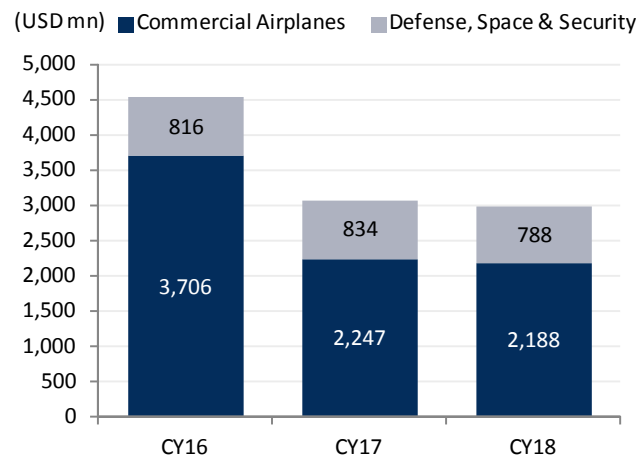
Boeing A&D R&D spend down 3% YoY in CY18

Rolls Royce A&D R&D down 20% YoY in CY18 led by fall in Civil Aerospace spend (-27% YoY) which was offset by increase in Defense spend (+12% YoY)

GE Aviation R&D spend up 1% YoY in CY18

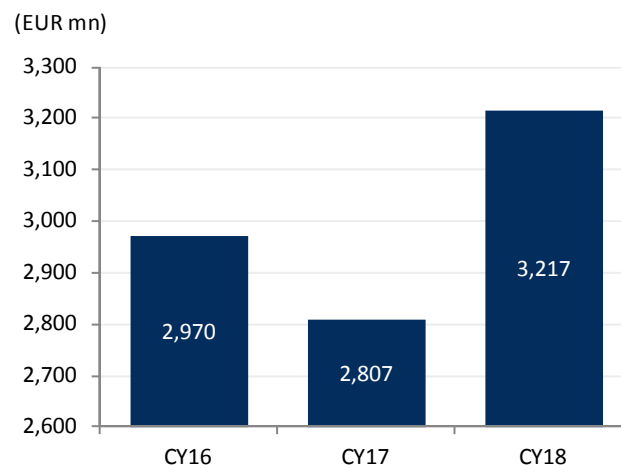
Airbus registered 14.6% YoY growth in R&D spend largely due to development cost A320neo (New Engine Option)

Boeing: R&D Expense (USD mn)



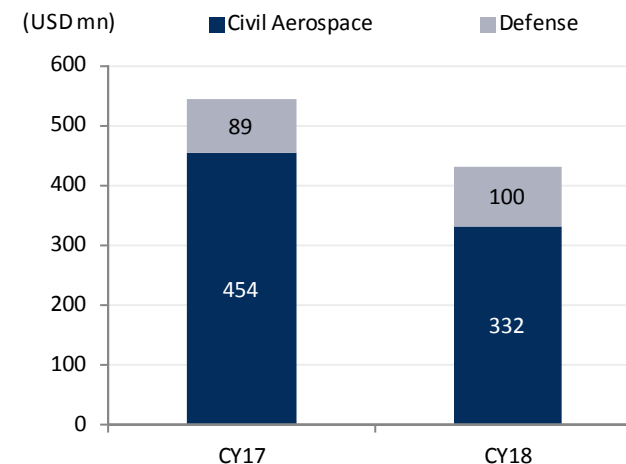
Source: Boeing AR, HDFC sec Inst Research

Airbus: R&D Expense (EUR mn)



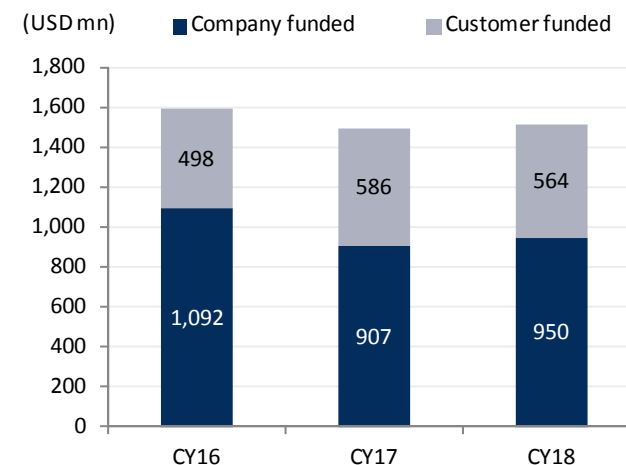
Source: Airbus AR, HDFC sec Inst Research

Rolls Royce: R&D Expense (Aerospace & Defense)



Source: Rolls Royce AR, HDFC sec Inst Research

GE: R&D Expense (USD mn)



Source: GE AR, HDFC sec Inst Research

Aerospace & Defense growth for FY20 guided at 'mid single digit'

Communications grew 6.1% YoY in FY19, communications growth in FY20 to be 'better than Aerospace'

Transportation growth in FY19 was strong at 13.7% YoY but outlook for transportation is tepid as there is limited scope for expansion

Semiconductor growth was strong at 42.1% YoY in FY19 but outlook remains weak

Verticals Break-up (Services ex-DLM)

Verticals Split (USD mn)	FY16	FY17	FY18	FY19	4Qtr CQGR
Aerospace and Defense	161	177	188	198	1.1%
YoY %	10.7%	10.3%	6.2%	5.0%	
% of Rev	37.4%	36.7%	34.5%	34.1%	
Communications	77	103	128	135	-1.8%
YoY %	9.7%	32.6%	24.2%	6.1%	
% of Rev	18.0%	21.2%	23.4%	23.3%	
Utilities & Geospatial	72	83	89	85	-0.7%
YoY %	-18.4%	15.3%	7.9%	-4.3%	
% of Rev	16.7%	17.1%	16.3%	14.7%	
Transportation	45	47	62	70	2.2%
YoY %	-3.1%	5.2%	31.3%	13.7%	
% of Rev	10.4%	9.7%	11.3%	12.1%	
Industrial, ENU	48	45	46	49	1.4%
YoY %	-8.0%	-6.0%	3.0%	6.6%	
% of Rev	11.1%	9.3%	8.5%	8.5%	
Semiconductor	21	20	22	31*	10.3%*
YoY %	-17.2%	-6.0%	10.6%	42.1%	
% of Rev	4.9%	4.1%	4.0%	5.4%	
Medical and Healthcare	7	9	11	11	2.1%
YoY %	6.3%	39.2%	20.2%	1.2%	
% of Rev	1.5%	1.9%	2.0%	1.9%	
Total Revenue (IT Services)	430	484	546	580	0.7%
YoY %	-0.8%	12.4%	12.9%	6.3%	

Source: Company, HDFC sec Inst Research, *includes acquisition of Ansem in 1QFY19

Broad based growth for LTTS vs. cornered growth by Cyient dragged down by Top-10 accounts

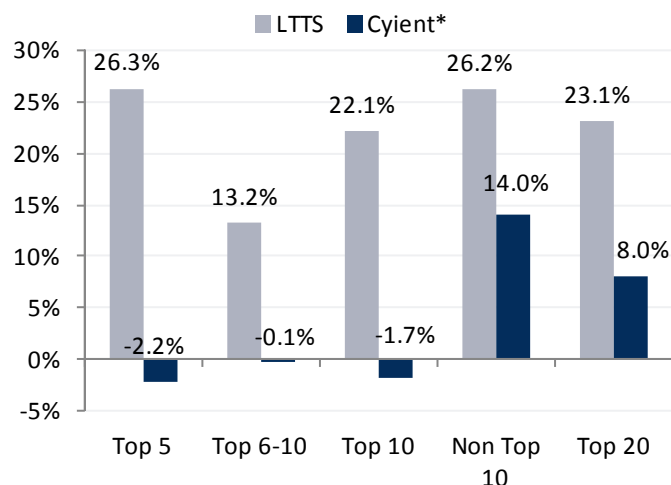
Excluding largest customer in communications growth for Cyient was ~25% in FY19

Excluding largest customer in Aerospace growth for Cyient was 15-20% in FY19

FY19 headcount witnessed net-reduction of 339 for Cyient impacted by voluntary attrition (19.6%, +350bps YoY) and involuntary attrition (3.1%, +110bps YoY)

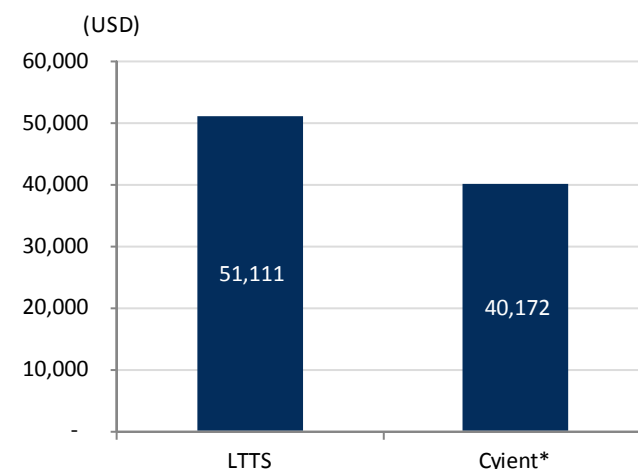
Cyient delivered a better growth in revenue per employee vs. LTTS in FY19 aided by efficiencies, yet its revenue per employee remained ~20% lower than LTTS

Top Accounts Performance (%)



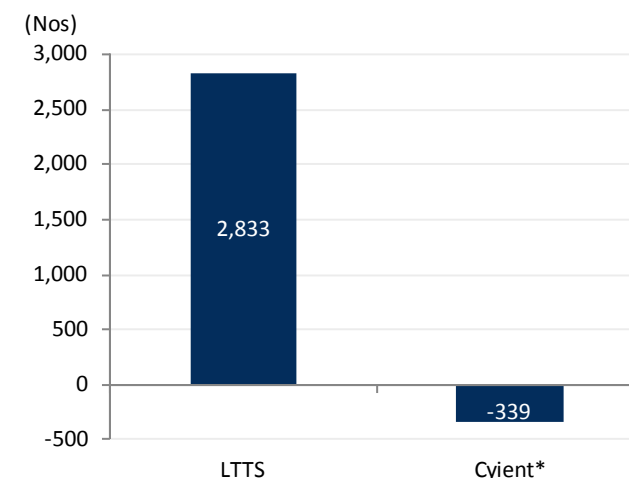
Source: Company, HDFC sec Inst Research, * ex-DLM (only services)

Revenue Per Employee (USD)



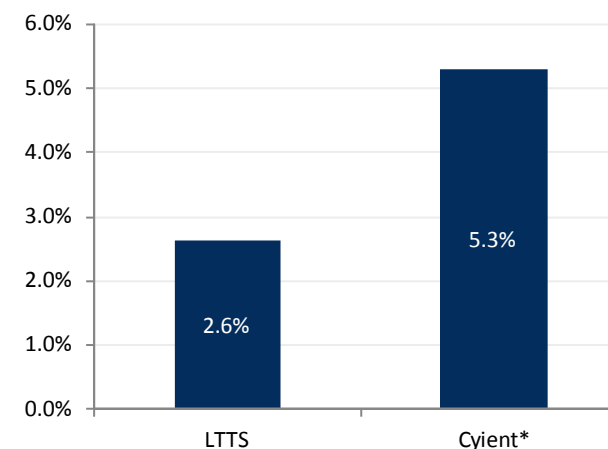
Source: Company, HDFC sec Inst Research, revenue/avg. employees, * ex-DLM (only services)

Net-additions In FY19 (Nos)



Source: Company, HDFC sec Inst Research, * ex-DLM (only services)

Growth In Revenue Per Employee (% YoY)



Source: Company, HDFC sec Inst Research, FY19 over FY18, * ex-DLM (only services)

Key Assumptions

Particulars	FY17	FY18	FY19	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

Services Growth by Verticals

Particulars (%)	FY17	FY18	FY19	FY20E	FY21E
Aerospace and Defense	10.3	6.2	5.0	5.5	6.0
Communications	32.6	24.2	6.1	9.0	12.0
Utilities & Geospatial	15.3	7.9	-4.3	3.0	4.0
Transportation	5.2	31.3	13.7	9.0	9.5
Industrial, Energy & Natural Resources	-6.0	3.0	6.6	8.0	8.0
Semiconductor	-6.0	10.6	42.1	8.0	12.0
Medical and Consumer Electronics	39.2	20.2	1.2	11.0	13.2
Total	12.4	12.9	6.3	6.8	8.2

Source: Company, HDFC Sec Inst Research

Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
FY20E			
Revenue (USD bn)	0.712	0.712	0.0
Revenue (Rs bn)	49.82	49.82	0.0
EBITDA (Rs bn)	6.97	6.97	0.0
EBITDA margin (%)	14.0	14.0	0 bps
EPS (Rs)	47.2	47.2	0.0
FY21E			
Revenue (USD bn)	0.778	0.778	0.0
Revenue (Rs bn)	54.47	54.47	0.0
EBITDA (Rs bn)	7.74	7.74	0.0
EBITDA margin (%)	14.2	14.2	0 bps
EPS (Rs)	51.6	51.6	0.0

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	7,685	2,048	2,410	BUY	68.8	83.9	90.4	100.5	29.8	24.4	22.7	20.4	30.1	36.1	37.1	39.1
Infosys	3,086	709	755	NEU	33.8	36.4	37.5	41.9	21.0	19.5	18.9	16.9	24.5	23.7	23.2	23.6
Wipro	1,613	283	250	SELL	14.0	15.8	16.5	17.9	20.1	17.9	17.1	15.8	16.5	17.3	16.9	17.0
HCL Tech	1,484	1,066	1,250	BUY	64.7	73.9	78.7	86.5	16.5	14.4	13.5	12.3	25.3	26.0	24.5	23.8
TechM	647	736	652	SELL	43.2	48.9	49.6	54.3	17.0	15.1	14.8	13.6	21.5	22.0	21.1	21.0
Tier-1 IT Median									20.1	17.9	17.1	15.8	24.5	23.7	23.2	23.6
LTI	305	1,755	2,095	BUY	66.9	87.3	93.0	104.6	26.2	20.1	18.9	16.8	33.2	34.6	30.1	28.6
Mphasis	177	950	1,370	BUY	45.4	56.9	64.9	76.2	20.9	16.7	14.6	12.5	14.6	20.1	22.4	23.0
LTTS	180	1,729	1,860	BUY	45.5	68.0	71.4	93.0	38.0	25.4	24.2	18.6	27.7	32.0	27.5	30.0
Mindtree	161	980	1,040	NEU	32.3	44.2	51.6	57.8	30.3	22.2	19.0	17.0	21.4	24.9	24.9	25.0
Hexaware *	104	351	430	BUY	16.8	19.6	21.4	26.1	20.9	17.9	16.4	13.5	26.6	26.5	25.0	26.6
Cyient	62	551	595	NEU	38.6	43.6	47.2	51.6	14.3	12.6	11.7	10.7	18.1	19.5	19.5	19.0
Tata Elxsi	54	862	945	NR	38.5	46.6	46.0	52.4	22.4	18.5	18.7	16.4	37.0	34.5	27.7	26.5
Zensar	56	247	305	BUY	10.6	13.8	16.0	19.1	23.3	17.9	15.4	12.9	15.1	17.0	17.1	17.8
Persistent	48	600	645	NEU	40.6	45.9	44.1	49.5	14.8	13.1	13.6	12.1	16.0	15.7	14.2	14.7
eClerx	36	925	815	SELL	74.1	61.7	67.8	74.1	12.5	15.0	13.7	12.5	24.1	18.1	18.2	19.6
Sonata	35	337	465	BUY	18.6	23.8	26.0	29.0	18.1	14.1	12.9	11.6	31.0	35.5	34.2	33.9
Intellect	31	251	313	BUY	3.7	8.1	11.0	15.9	NM	31.1	22.8	15.8	6.7	11.1	12.6	15.9
Majesco	14	515	715	BUY	(1.5)	22.1	28.2	33.5	NM	23.3	18.2	15.4	NM	11.2	14.0	17.2
HGS	13	629	770	NR	96.5	72.5	86.4	96.4	6.5	8.7	7.3	6.5	14.3	9.8	10.7	10.9
Mastek	11	477	657	BUY	27.8	40.6	44.7	52.2	17.2	11.8	10.7	9.1	13.7	16.1	14.8	15.4
Tier-2 IT Median									20.9	17.9	15.4	12.9	18.1	19.5	19.5	19.6

Company	MCap (USD bn)	CMP USD	TP	RECO	EPS (USD)				P/E (x)				RoE (%)			
					FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
EPAM	9.1	166	NA	NR	1.3	4.2	4.7	5.5	126.1	39.2	35.6	30.3	19.2	20.8	21.2	20.9
Alten^	3.6	93	NA	NR	4.4	4.7	5.5	6.0	21.4	20.1	17.0	15.6	16.3	17.3	17.0	16.2
Altran^	3.1	11	NA	NR	0.7	0.3	0.7	0.8	14.7	33.5	16.2	12.9	15.1	9.0	11.3	12.9
Global IT Median									21.4	33.5	17.0	15.6	16.3	17.3	17.0	16.2

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

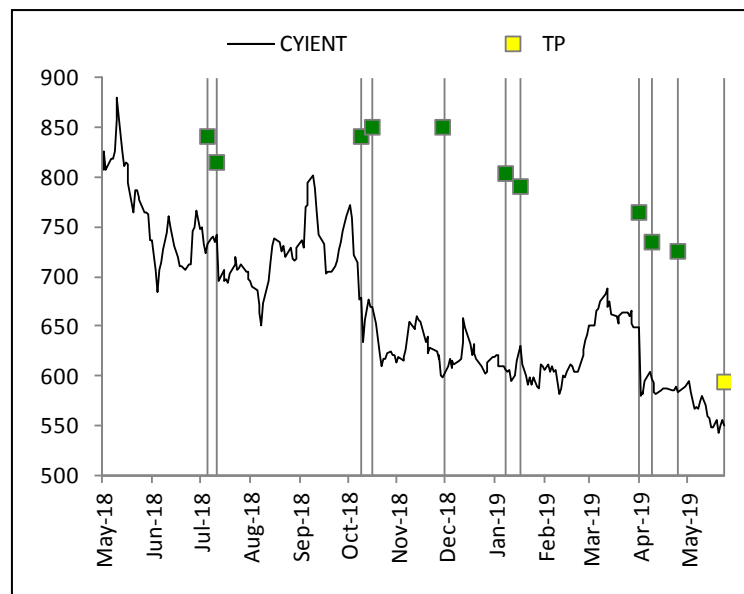
Source: Company, HDFC sec Inst Research

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	18.1	15.3	13.0	11.7	10.7
P/BV	2.9	2.6	2.4	2.2	1.9
EV/EBITDA	11.0	9.7	8.5	7.7	6.7
OCF/EV (%)	7.8	5.6	6.3	7.1	9.8
FCF/EV (%)	4.4	2.4	4.1	3.8	6.1
FCFE/mkt cap (%)	3.5	2.9	4.4	2.8	4.5
Dividend Yield (%)	1.6	2.5	2.7	3.0	3.3

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

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

Disclosure:

We, **Amit Chandra, MBA, Apurva Prasad, MBA & Akshay Ramnani, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE-INB/F/E 231109431, BSE-INB/F 011109437, AMFI Reg. No. ARN: 13549, PFRDA Reg. No. POP: 04102015, IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657, SEBI Research Analyst Reg. No.: INH000002475, CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

