

# L&T Technology Services

**BUY**

## Blip, but not a slip

We maintain **BUY** on LTTs following an in-line 1Q performance. We lower est. by ~3% to factor near-term weakness in Telecom/Hi-tech vertical, however broad-based wins/pipeline provide growth visibility (continues to be industry leading). Our TP is Rs 1,955, at 20x Jun-21E EPS.

### HIGHLIGHTS OF THE QUARTER

- LTTs' 1Q revenue was in-line at USD 194mn, 1.3/15.2% QoQ/YoY CC. Growth (ex-Telecom & Hi-tech vertical) was a robust 6.7% QoQ. Telecom & Hi-tech vertical declined (USD 7mn QoQ) impacted by large Hi-tech account. Increased macro concerns in Telecom & Hi-tech vertical (22.3% of rev) led to lowering of FY20 growth guidance to 12 to 14% (14 to 16% earlier).
- Deal wins (7 multi-million deals in 1Q vs. 9 in 4Q) were across verticals. Transportation vertical (34.9% of rev) delivered stellar performance, a standout vs. peers. Top 6-10 accounts' growth accelerated to 7.6% QoQ (highest in 4 qtrs), while growth outside T20 moderated.
- Within geographies, growth was led by US as Europe/India/RoW was impacted by Telecom & Hi-tech

### Financial Summary

YE March (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenue	13.48	11.52	17.0	13.43	0.3	37.47	50.78	57.04	66.61	76.43
EBIT	2.30	1.70	35.2	2.21	4.1	5.76	9.15	11.13	13.73	16.04
APAT	2.04	1.39	46.3	1.92	6.5	4.73	7.07	7.62	9.70	11.56
Adjusted EPS (Rs)	19.6	13.4	46.3	18.4	6.5	45.5	68.0	73.2	93.3	111.2
P/E (x)						35.3	23.6	21.9	17.2	14.4
EV / EBITDA (x)						28.5	17.5	14.0	11.2	9.2
RoE (%)						27.7	32.0	28.1	30.0	29.4

Source: Company, HDFC sec Inst Research

vertical. Commentary on deal pipeline was strong and was pan-geo. Management expects sequential decline (lower than 1Q decline) in Telecom & Hi-tech vertical in 2Q and stability from 3Q (based on deal pipeline in the vertical).

- EBIT margin stood at 17.1%, +62bps QoQ supported by lower operating expenses (adjusted for Ind AS 116 benefit), better business-mix (decline in low margin Telecom & Hi-tech) and higher offshore. This was offset by visa cost (-70bps) and currency (-30bps). 2Q margin to be impacted by wage increase (-160bps). APAT came at Rs 2.04bn, 6.5% QoQ.

### STANCE

**Despite emerging challenges in Telecom & Hi-tech vertical, LTTs is the strongest play in ER&D based on (1) Business resilience supported by vertical diversification and low client concentration (vs. peers), (2) Broad-based deal wins & deal pipeline, (3) Growth outperformance in largest vertical (Transportation) vs. peers and (4) Shift in business-mix to support margins. Expect USD rev/EPS growth of 15/17% CAGR over FY19-22E. Key risks include adverse macros (trade war) and INR appreciation.**

INDUSTRY	IT
<b>CMP (as on 19 Jul 2019)</b>	<b>Rs 1,605</b>
<b>Target Price</b>	<b>Rs 1,955</b>
Nifty	11,419
Sensex	38,337

### KEY STOCK DATA

Bloomberg	LTTs IN
No. of Shares (mn)	104
MCap (Rs bn) / (\$ mn)	167/2,426
6m avg traded value (Rs mn)	210

### STOCK PERFORMANCE (%)

	52 Week high / low		
	3M	6M	12M
Absolute (%)	(4.5)	(2.2)	26.3
Relative (%)	(2.4)	(7.5)	20.8

### SHAREHOLDING PATTERN (%)

	Mar-19	Jun-19
Promoters	78.88	74.97
FIs & Local MFs	4.43	4.75
FPIs	5.09	8.50
Public & Others	11.60	11.78
Pledged Shares	0.00	0.00

Source : BSE

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**Quarterly Financials Snapshot (Consolidated)**

Particulars (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
<b>Net Sales USD mn</b>	<b>193.9</b>	<b>168.9</b>	<b>14.8</b>	<b>191.3</b>	<b>1.4</b>
<b>Net Sales</b>	<b>13.48</b>	<b>11.52</b>	<b>17.0</b>	<b>13.43</b>	<b>0.3</b>
Employee expenses	8.35	7.38	13.2	8.19	2.1
Operating Expenses	2.39	2.18	9.8	2.77	(13.4)
<b>EBITDA</b>	<b>2.73</b>	<b>1.96</b>	<b>39.1</b>	<b>2.48</b>	<b>9.9</b>
Depreciation	0.43	0.26	64.6	0.27	56.8
<b>EBIT</b>	<b>2.30</b>	<b>1.70</b>	<b>35.2</b>	<b>2.21</b>	<b>4.1</b>
Other Income (incl forex)	0.57	0.98	(42.5)	0.34	67.7
Interest Cost	0.09	0.00	2175.0	0.01	1720.0
<b>PBT</b>	<b>2.77</b>	<b>2.68</b>	<b>3.5</b>	<b>2.54</b>	<b>9.2</b>
Tax	0.73	0.70	4.9	0.62	18.8
<b>RPAT</b>	<b>2.04</b>	<b>1.98</b>	<b>3.2</b>	<b>1.92</b>	<b>6.5</b>
EO Items (Adj For Tax)	-	-	NA	-	NA
<b>APAT</b>	<b>2.04</b>	<b>1.39</b>	<b>46.3</b>	<b>1.92</b>	<b>6.5</b>

Source: Company, HDFC Sec Inst Research

**Margin Analysis (%)**

	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Direct cost % Net Sales	62.0	64.1	(206)	60.9	106
Operating Expenses % Net Sales	17.8	18.9	(115)	20.6	(282)
Gross Margin %	38.0	35.9	206	39.1	(106)
EBITDA Margin (%)	20.2	17.0	322	18.5	177
<b>EBIT Margin (%)</b>	<b>17.1</b>	<b>14.8</b>	<b>230</b>	<b>16.4</b>	<b>62</b>
Tax Rate (%)	26.4	26.1	34	24.3	215
APAT Margin (%)	15.1	12.1	303	14.3	87

Source: Company, HDFC Sec Inst Research

Revenue stood at USD 193.9mn, up 1.3/15.2% QoQ/YoY CC

EBIT% was 17.1%, +62bps QoQ supported by better revenue mix, efficiencies, off shoring and SGA leverage offset by visa cost (-70bps) and rupee appreciation (-30bps)

2QFY20 margins to be impacted by wage hike (-160bps) which would partly be offset by absence of visa expenses

**Transportation (34.9% of rev) grew 7.5% QoQ despite challenges witnessed by peers in Auto (Tata Elxsi) and in Aerospace (Cyient)**

**Transportation growth was strong for two consecutive qtrs.**

**Process Industry has grown higher than company average growth for the past 5 qtrs**

**De-growing Telecom and Hi-Tech vertical has the lowest margin, this vertical will be soft in 2QFY20**

**Continued robust growth in Medical devices (highest margin) for the past nine quarters**

### Revenue Mix By Vertical

(% of revenue)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Transportation	33.6	32.3	30.9	30.8	30.9	32.0	31.7	32.9	34.9
Telecom & Hi-tech	20.1	24.3	27.9	29.5	28.7	26.7	27.0	26.2	22.3
Industrial Products	25.5	23.6	21.8	20.9	20.4	20.6	20.2	19.3	19.6
Process Industry	13.9	12.8	12.7	12.3	13.5	14.2	14.4	14.7	15.3
Medical Devices	6.9	7.0	6.7	6.5	6.5	6.5	6.7	7.0	8.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Vertical Revenue Growth

(QoQ, %)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Transportation	5.9	4.9	3.7	7.2	4.3	8.6	3.8	6.8	7.5
Telecom & Hi-tech	11.4	32.0	24.4	13.8	1.2	(2.4)	6.0	(0.2)	(13.8)
Industrial Products	(0.2)	1.0	0.1	3.1	1.5	5.9	2.8	(1.6)	2.9
Process Industry	3.8	0.5	7.5	4.2	14.1	10.3	6.3	5.2	5.5
Medical Devices	10.0	10.7	3.7	4.4	4.0	4.9	8.0	7.6	15.8
<b>Total</b>	<b>5.3</b>	<b>9.2</b>	<b>8.4</b>	<b>7.6</b>	<b>4.0</b>	<b>4.9</b>	<b>4.8</b>	<b>3.0</b>	<b>1.4</b>

Source: Company, HDFC Sec Inst Research

### Geography Revenue Break-up

(% of revenue)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
North America	64.5	60.8	58.7	57.6	56.3	57.7	57.8	58.9	60.9
Europe	16.6	16.5	17.2	18.6	18.5	17.2	16.2	16.0	15.6
India	9.3	10.5	11.5	11.7	12.4	12.5	14.4	13.9	12.8
Rest of the World	9.6	12.2	12.6	12.1	12.8	12.6	11.6	11.2	10.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

**Growth in 1Q was powered by NorthAm (60.9% of rev) up 4.8% QoQ**

**Europe was soft at -1.2 QoQ, partly impacted by cross currency headwinds and partly by challenges in Hi-Tech vertical**

**Client specific challenges in Hi-Tech Vertical also caused the de-growth in India and RoW (Israel)**

**Offshore revenues powered revenue growth, up 2.3% QoQ vs. flat onsite revenues**

**Offshore has grown strongly for the past 7 qtrs**

**Top 5 clients' growth was impacted by client specific issue, Top 6-10 clients grew at a strong 7.6% QoQ**

**Growth in Top 11-20 and Non-Top 20 client buckets moderated to 1.4% and 3.5% QoQ respectively**

### Geography Revenue Growth

(QoQ, %)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
North America	7.3	2.9	4.6	5.6	1.7	7.5	5.0	5.0	4.8
Europe	1.0	8.5	13.0	16.3	3.4	(2.5)	(1.3)	1.8	(1.2)
India	6.4	23.2	18.7	9.5	10.2	5.7	20.8	(0.6)	(6.7)
Rest of the World	(0.9)	38.7	11.9	3.3	10.0	3.2	(3.5)	(0.5)	(3.2)
<b>Total</b>	<b>5.3</b>	<b>9.2</b>	<b>8.4</b>	<b>7.6</b>	<b>4.0</b>	<b>4.9</b>	<b>4.8</b>	<b>3.0</b>	<b>1.4</b>

Source: Company, HDFC Sec Inst Research

### Revenue Mix By Delivery

(% of revenue)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Onsite	49.2	50.8	50.7	50.0	49.4	47.1	47.4	44.8	44.3
Offshore	50.8	49.2	49.3	50.0	50.6	52.9	52.6	55.2	55.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Revenue Growth By Delivery

(QoQ, %)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Onsite	5.3	12.7	8.1	6.1	2.7	(0.0)	5.5	(2.6)	0.2
Offshore	5.3	5.7	8.6	9.1	5.2	9.6	4.2	8.1	2.3
<b>Total</b>	<b>5.3</b>	<b>9.2</b>	<b>8.4</b>	<b>7.6</b>	<b>4.0</b>	<b>4.9</b>	<b>4.8</b>	<b>3.0</b>	<b>1.4</b>

Source: Company, HDFC Sec Inst Research

### Client-wise Revenue Break-up

(% of revenue TTM)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Top 5 clients	23.8	26.8	28.8	28.6	28.3	28.2	27.4	26.4	24.7
Top 10 clients	37.0	39.8	41.2	41.4	40.5	39.9	38.9	37.7	36.7
Top 20 clients	52.6	54.9	56.4	56.7	55.6	55.1	54.4	53.5	52.5

Source: Company, HDFC Sec Inst Research

### Client-wise Revenue Growth

(% of revenue TTM)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Top 5 clients	8.0	22.9	16.4	6.8	2.9	4.5	1.8	(0.7)	(5.2)
Top 10 clients	9.4	17.4	12.2	8.1	1.7	3.3	2.2	(0.2)	(1.3)
Top 20 clients	7.5	13.9	11.3	8.2	2.0	3.9	3.5	1.3	(0.5)

Source: Company, HDFC Sec Inst Research

### Headcount, Utilisation Data

(Nos.)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
<b>Total Headcount</b>	<b>10,805</b>	<b>11,532</b>	<b>11,941</b>	<b>12,307</b>	<b>13,081</b>	<b>13,585</b>	<b>14,777</b>	<b>15,140</b>	<b>15,913</b>
Billable headcount	9,886	10,573	11,009	11,360	12,147	12,604	13,711	14,034	14,755
Sales & support	919	959	932	947	934	981	1,066	1,106	1,158
<b>Employee net additions</b>	<b>342</b>	<b>727</b>	<b>409</b>	<b>366</b>	<b>774</b>	<b>504</b>	<b>1,192</b>	<b>363</b>	<b>773</b>
Attrition rate (%)	13.4	13.4	13.2	13.5	15.4	15.0	14.9	14.8	15.8
Utilisation (incl. trainees) (%)	75.1	76.1	78.8	80.7	78.6	80.3	81.3	80.2	79.6

Source: Company, HDFC Sec Inst Research

### Key Assumptions

Particulars	FY17	FY18	FY19	FY20E	FY21E	FY22E
Headcount (Nos)	10,463	12,307	15,140	17,100	18,778	20,189
Utilisation (%)	75.9	77.7	80.1	79.9	80.7	81.5
<b>USD revenue growth (%)</b>	<b>3.4</b>	<b>19.8</b>	<b>24.6</b>	<b>12.9</b>	<b>16.6</b>	<b>14.7</b>
USD/INR rate	67.1	64.6	70.2	69.9	70.0	70.0
<b>EBIT margin (%)</b>	<b>16.1</b>	<b>13.0</b>	<b>16.0</b>	<b>16.6</b>	<b>17.7</b>	<b>18.1</b>

Source: Company, HDFC Sec Inst Research

*Attrition expanded 100bps to settle at 16-qtr high of 15.8%*

*Utilisation dipped 60bps QoQ, utilisation fell for two straight quarters*

### Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
<b>FY20E</b>			
Revenue (USD mn)	831	816	(1.8)
Revenue (Rs bn)	58.08	57.04	(1.8)
EBITDA (Rs bn)	9.28	9.48	2.1
<i>EBITDA Margin (%)</i>	16.0%	16.6%	63bps
EPS (Rs)	74.8	73.2	(2.0)
<b>FY21E</b>			
Revenue (USD mn)	984	952	(3.3)
Revenue (Rs bn)	68.90	66.61	(3.3)
EBITDA (Rs bn)	11.95	11.80	(1.3)
<i>EBITDA Margin (%)</i>	17.3%	17.7%	36bps
EPS (Rs)	96.7	93.3	(3.5)

Source: 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	7,794	2,077	2,420	BUY	68.8	83.9	87.9	98.4	30.2	24.8	23.6	21.1	30.1	36.1	36.1	38.5
Infosys	3,417	785	770	NEU	34.2	36.7	36.9	41.5	23.0	21.4	21.3	18.9	22.0	24.4	24.8	27.2
Wipro	1,509	265	220	SELL	14.0	15.8	16.6	17.7	18.8	16.8	16.0	15.0	16.5	17.3	16.9	16.9
HCL Tech	1,414	1,016	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	594	675	650	SELL	43.2	48.9	48.1	53.1	15.6	13.8	14.0	12.7	21.5	22.0	20.4	20.7
<b>Tier-1 IT Median</b>									<b>18.8</b>	<b>16.8</b>	<b>16.0</b>	<b>15.0</b>	<b>22.0</b>	<b>24.4</b>	<b>24.0</b>	<b>24.3</b>
LTI	263	1,516	2,115	BUY	66.9	87.3	85.8	101.2	22.7	17.4	17.7	15.0	33.2	34.6	28.0	28.2
Mphasis	173	932	1,360	BUY	45.4	57.7	60.5	73.0	20.5	16.2	15.4	12.8	14.6	20.0	20.3	21.7
<b>LTTS</b>	<b>167</b>	<b>1,605</b>	<b>1,955</b>	<b>BUY</b>	<b>45.5</b>	<b>68.0</b>	<b>73.2</b>	<b>93.3</b>	<b>35.3</b>	<b>23.6</b>	<b>21.9</b>	<b>17.2</b>	<b>27.7</b>	<b>32.0</b>	<b>28.1</b>	<b>30.0</b>
Mindtree	109	668	705	NEU	32.3	44.2	36.5	48.1	20.6	15.1	18.3	13.9	21.4	24.9	17.3	23.0
Hexaware *	105	355	440	BUY	16.8	19.6	20.9	26.0	21.2	18.1	17.0	13.6	26.6	26.5	24.3	26.1
Cyient	54	483	510	NEU	38.6	43.6	42.7	45.8	12.5	11.1	11.3	10.6	18.1	19.5	17.7	17.2
Zensar	54	238	315	BUY	10.6	13.8	15.8	19.1	22.5	17.3	15.1	12.5	15.1	17.0	16.9	17.8
Tata Elxsi	44	701	635	NR	38.5	46.6	33.0	39.5	18.2	15.1	21.3	17.7	37.0	34.5	20.4	21.4
Persistent	46	577	655	NEU	40.6	45.9	44.9	48.5	14.2	12.6	12.9	11.9	16.0	15.7	14.5	14.3
Sonata	36	342	495	BUY	18.6	24.0	27.0	30.2	18.4	14.3	12.7	11.3	31.0	35.1	34.3	34.0
Intellect	33	263	325	BUY	3.7	8.1	10.6	15.0	NM	32.6	24.7	17.5	6.7	11.1	12.3	15.0
eClerx	25	634	750	NEU	74.1	61.7	60.9	67.3	8.6	10.3	10.4	9.4	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	639	900	NR	96.5	84.6	106.2	120.7	6.6	7.5	6.0	5.3	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
<b>Tier-2 IT Median</b>									<b>18.4</b>	<b>15.1</b>	<b>15.4</b>	<b>12.8</b>	<b>19.8</b>	<b>19.5</b>	<b>17.3</b>	<b>18.3</b>

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	35.1	30.2	26.8	24.5	41.7	42.0	41.5	40.1
Cognizant	37	66	NA	NR	2.5	3.6	3.8	4.3	26.0	18.3	17.6	15.5	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
<b>Global IT Median</b>									<b>26.0</b>	<b>25.7</b>	<b>17.6</b>	<b>15.7</b>	<b>14.1</b>	<b>19.0</b>	<b>16.7</b>	<b>19.3</b>

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

**Income Statement (Consolidated)**

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues (US\$ mn)</b>	<b>580</b>	<b>723</b>	<b>816</b>	<b>952</b>	<b>1,092</b>
<b>Growth (%)</b>	<b>19.8%</b>	<b>24.6%</b>	<b>12.9%</b>	<b>16.6%</b>	<b>14.7%</b>
<b>Net Revenues</b>	<b>37.47</b>	<b>50.78</b>	<b>57.04</b>	<b>66.61</b>	<b>76.43</b>
<b>Growth (%)</b>	<b>15.4%</b>	<b>35.5%</b>	<b>12.3%</b>	<b>16.8%</b>	<b>14.7%</b>
Employee Expenses	24.60	31.79	35.60	40.73	46.25
SG&A expenses	7.12	9.85	10.31	12.15	14.14
<b>EBITDA</b>	<b>5.76</b>	<b>9.15</b>	<b>11.13</b>	<b>13.73</b>	<b>16.04</b>
Depreciation	0.89	1.04	1.65	1.93	2.22
<b>EBIT</b>	<b>4.87</b>	<b>8.11</b>	<b>9.48</b>	<b>11.80</b>	<b>13.83</b>
<b>EBIT Margin (%)</b>	<b>13.0%</b>	<b>16.0%</b>	<b>16.6%</b>	<b>17.7%</b>	<b>18.1%</b>
<b>EBIT Growth (%)</b>	<b>-6.8%</b>	<b>66.5%</b>	<b>16.9%</b>	<b>24.5%</b>	<b>17.2%</b>
Other Income (Including EO Items)	1.93	2.23	1.21	1.69	2.17
Interest	0.02	0.02	0.36	0.36	0.36
<b>PBT</b>	<b>6.78</b>	<b>10.31</b>	<b>10.32</b>	<b>13.12</b>	<b>15.64</b>
Tax	1.71	2.63	2.69	3.41	4.07
<b>RPAT</b>	<b>5.06</b>	<b>7.66</b>	<b>7.62</b>	<b>9.70</b>	<b>11.56</b>
E/o (net of tax)	0.33	0.58	-	-	-
<b>APAT</b>	<b>4.73</b>	<b>7.07</b>	<b>7.62</b>	<b>9.70</b>	<b>11.56</b>
<b>APAT Growth (%)</b>	<b>11.4%</b>	<b>49.5%</b>	<b>7.7%</b>	<b>27.3%</b>	<b>19.2%</b>
<b>Adjusted EPS (Rs)</b>	<b>45.5</b>	<b>68.0</b>	<b>73.2</b>	<b>93.3</b>	<b>111.2</b>
<b>EPS Growth (%)</b>	<b>11.4%</b>	<b>49.5%</b>	<b>7.7%</b>	<b>27.3%</b>	<b>19.2%</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet (Consolidated)**

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	0.21	0.21	0.21	0.21	0.21
Reserves	19.16	24.61	29.17	35.18	43.05
<b>Total Shareholders Funds</b>	<b>19.37</b>	<b>24.82</b>	<b>29.37</b>	<b>35.39</b>	<b>43.26</b>
Long Term Debt	-	-	-	-	-
Short Term Debt	0.70	0.70	0.70	0.70	0.70
Total Debt	0.70	0.70	0.70	0.70	0.70
Net Deferred Taxes	(0.07)	0.06	0.06	0.06	0.06
Long Term Provisions & Others	-	-	-	-	-
<b>TOTAL SOURCES OF FUNDS</b>	<b>20.00</b>	<b>25.59</b>	<b>30.14</b>	<b>36.15</b>	<b>44.03</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	1.25	1.44	2.08	2.82	3.67
Goodwill & intangibles	5.84	6.33	6.37	6.42	6.48
LT Loans & Advances	1.08	2.00	1.08	1.08	1.08
<b>Total Non-current Assets</b>	<b>8.17</b>	<b>9.76</b>	<b>9.52</b>	<b>10.32</b>	<b>11.23</b>
<b>Cash &amp; Equivalents</b>	<b>3.75</b>	<b>7.83</b>	<b>11.32</b>	<b>14.54</b>	<b>19.45</b>
Other Current Assets	5.24	5.27	5.73	6.44	7.16
Debtors	9.62	10.64	11.95	13.96	16.02
<b>Total Current Assets</b>	<b>14.86</b>	<b>15.92</b>	<b>17.69</b>	<b>20.40</b>	<b>23.18</b>
Creditors	1.81	1.88	2.11	2.46	2.83
Other Current Liabilities & Prov.	4.97	6.05	6.28	6.64	7.00
<b>Total Current Liabilities</b>	<b>6.78</b>	<b>7.92</b>	<b>8.39</b>	<b>9.10</b>	<b>9.83</b>
<b>Net Current Assets</b>	<b>8.08</b>	<b>7.99</b>	<b>9.30</b>	<b>11.29</b>	<b>13.34</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>20.00</b>	<b>25.59</b>	<b>30.14</b>	<b>36.15</b>	<b>44.03</b>

Source: Company, HDFC sec Inst Research



**Cash Flow Statement (Consolidated)**

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	6.78	10.31	10.32	13.12	15.64
Non-operating & EO items	(0.13)	0.23	(0.89)	(1.25)	(1.61)
Interest expenses	0.02	0.02	0.36	0.36	0.36
Depreciation	0.89	1.04	1.65	1.93	2.22
Working Capital Change	(1.70)	(0.74)	(1.31)	(2.00)	(2.05)
Tax Paid	(1.72)	(2.81)	(2.69)	(3.41)	(4.07)
<b>OPERATING CASH FLOW ( a )</b>	<b>4.14</b>	<b>8.06</b>	<b>7.45</b>	<b>8.76</b>	<b>10.49</b>
Capex	(0.87)	(0.89)	(1.25)	(1.47)	(1.68)
Free cash flow (FCF)	3.27	7.18	6.19	7.29	8.81
Investments	-	-	-	-	-
Non-operating Income	0.13	(0.23)	0.89	1.25	1.61
<b>INVESTING CASH FLOW ( b )</b>	<b>(0.87)</b>	<b>(0.89)</b>	<b>(1.25)</b>	<b>(1.47)</b>	<b>(1.68)</b>
Debt Issuance/(Repaid)	(0.32)	-	-	-	-
Interest Expenses	(0.02)	(0.02)	(0.36)	(0.36)	(0.36)
FCFE	2.93	7.16	5.83	6.93	8.45
Share Capital Issuance	0.00	0.00	-	-	-
Dividend	(0.98)	(2.44)	(3.07)	(3.69)	(3.69)
<b>FINANCING CASH FLOW ( c )</b>	<b>(1.32)</b>	<b>(2.46)</b>	<b>(3.43)</b>	<b>(4.05)</b>	<b>(4.05)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>1.95</b>	<b>4.72</b>	<b>2.76</b>	<b>3.24</b>	<b>4.76</b>
<b>Closing Cash &amp; Equivalents</b>	<b>3.75</b>	<b>7.83</b>	<b>11.32</b>	<b>14.54</b>	<b>19.45</b>

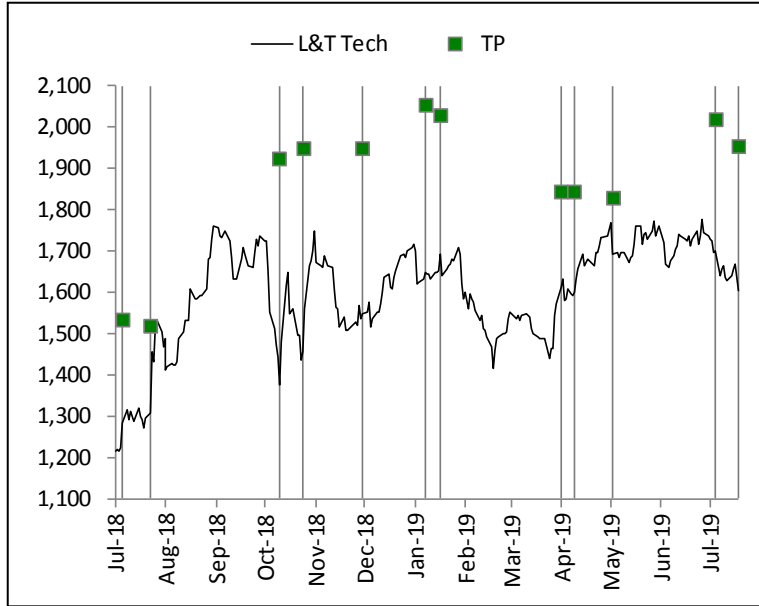
Source: Company, HDFC sec Inst Research

**Key Ratios (Consolidated)**

YE March	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>					
GPM	34.3	37.4	37.6	38.9	39.5
EBIT Margin	13.0	16.0	16.6	17.7	18.1
APAT Margin	12.6	13.9	13.4	14.6	15.1
RoE	27.7	32.0	28.1	30.0	29.4
RoIC (or Core RoCE)	24.9	35.5	38.3	43.2	44.3
RoCE	26.7	31.1	28.3	30.1	29.5
<b>EFFICIENCY</b>					
Tax Rate (%)	25.3	25.5	26.1	26.0	26.0
Fixed Asset Turnover (x)	5.3	6.5	6.8	7.2	7.5
Debtors (days)	94	76	76	76	76
Other Current Assets (days)	51	38	37	35	34
Payables (days)	18	14	14	14	14
Other Current Liab & Provns (days)	48	43	40	36	33
Cash Conversion Cycle (days)	79	57	59	62	64
Debt/EBITDA (x)	0.1	0.1	0.1	0.1	0.0
Net D/E (x)	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)
Interest Coverage (x)	203	427	26	32	38
<b>PER SHARE DATA (Rs)</b>					
EPS	45.5	68.0	73.2	93.3	111.2
CEPS	54.0	78.0	89.2	111.8	132.5
Dividend	12	21	25	30	30
Book Value	186	239	282	340	416
<b>VALUATION</b>					
P/E (x)	35.3	23.6	21.9	17.2	14.4
P/BV (x)	8.6	6.7	5.7	4.7	3.9
EV/EBITDA (x)	28.5	17.5	14.0	11.2	9.2
OCF/EV (%)	2.5	5.0	4.8	5.7	7.1
FCF/EV (%)	2.0	4.5	4.0	4.8	5.9
FCFE/Mkt Cap (%)	1.8	4.3	3.5	4.1	5.1
Dividend Yield (%)	0.7	1.3	1.6	1.9	1.9

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
6-Jul-18	1,282	BUY	1,535
24-Jul-18	1,308	BUY	1,520
10-Oct-18	1,445	BUY	1,925
26-Oct-18	1,455	BUY	1,950
30-Nov-18	1,524	BUY	1,950
8-Jan-19	1,650	BUY	2,055
18-Jan-19	1,693	BUY	2,030
1-Apr-19	1,572	BUY	1,845
9-Apr-19	1,595	BUY	1,845
4-May-19	1,691	BUY	1,830
5-Jul-19	1,703	BUY	2,020
20-Jul-19	1,605	BUY	1,955

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- 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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