

## Margin washout

We downgrade eClerx to SELL following margin washout and limited growth visibility. eClerx has lost the plot, we cut EPS est. by ~16% and P/E to 9x (vs. 11x) Jun-21E EPS to arrive at TP of Rs 505.

### HIGHLIGHTS OF THE QUARTER

- eClerx reported soft revenue of USD 50.9mn, -0.4/+4.5% QoQ/YoY in CC terms (vs. est. of USD 52.1mn). Europe (27% of rev) was down 6.1% QoQ on macro challenges in UK.
- Emerging clients (Non-Top 10) are driving growth (+4.2% 8-QTR CQGR). While it reduces client concentration, stagnant Top-10 clients (66% of rev, -1.0% 8-QTR CQGR) still set the revenue trend.
- EBIT margin hit fresh lows of 13.8%, -480bps QoQ primarily impacted by Employee cost (+513bps QoQ) on wage hike, campus hiring and ongoing onshore shift. Margins benefited from Ind AS 116 and adjusting for that tailwind, margin declined a whopping 599bps QoQ.
- Shift to onshore is expected to continue. Onshore headcount as a %-of-total headcount has increased from 3.9% to 7.3% in the past 6 qtrs, but onshore rev as a %-of-revenue has remained stable (at ~23%)

### Financial Summary

YE March (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	3.55	3.52	0.8	3.65	(2.8)	13.65	14.31	14.86	15.97	16.85
EBIT	0.49	0.68	(27.5)	0.68	(27.9)	3.20	2.62	2.25	2.47	2.54
APAT	0.40	0.60	(33.4)	0.59	(32.6)	2.74	2.28	1.91	2.07	2.13
Diluted EPS (Rs)	10.8	16.2	(33.4)	16.0	(32.6)	74.0	61.7	51.6	55.9	57.6
P/E (x)						7.8	9.4	11.3	10.4	10.1
EV / EBITDA (x)						4.2	4.6	5.0	4.3	3.8
RoE (%)						24.1	17.6	14.2	15.3	14.7

Source: Company, HDFC sec Inst Research # Consolidated

during the same period. Onshore shift and increase in minimum wages (impact uncertain) will act as near term headwinds to margins.

- PAT was lower at Rs 0.40bn impacted by non receipt of SEIS benefit (Rs 0.12bn), adjusting for that, PAT is Rs 0.52bn (vs. est. of 0.55bn).

### STANCE

eClerx has witnessed USD revenue stagnation (+0.1% 12-qtr-CQGR) coupled with a structural swing in operating model (shift to onshore) resulting in EBIT margin plummet from 33.5% to 13.8% in the past 12 qtrs. We reckon that the shift to onshore will continue given the on-site heavy digital projects coupled with low demand for traditional KPO services.

We remain cautious on high concentration and stagnation of T-10 accounts, shorter duration projects providing limited visibility and lower quality of revenue mix. We factor USD rev/EPS CAGR of 5.5/-2.3% over FY19-22E. High cash (~25% of Mcap) and dividend yield (4%) will provide some cushion. Company will maintain payout of ~50% of PAT but recent tax on buybacks has curbed the value arbitrage. Risks to our thesis include traction in digital portfolio and increased off shoring.

INDUSTRY	IT
<b>CMP (as on 02 Aug 2019)</b>	<b>Rs 581</b>
<b>Target Price</b>	<b>Rs 505</b>
Nifty	10,997
Sensex	37,118
KEY STOCK DATA	
Bloomberg	ECLX IN
No. of Shares (mn)	39
MCap (Rs bn) / (\$ mn)	22/323
6m avg traded value (Rs mn)	30
STOCK PERFORMANCE (%)	
<b>52 Week high / low</b>	<b>Rs 1,290/556</b>
	3M 6M 12M
Absolute (%)	(49.4) (44.1) (53.7)
Relative (%)	(44.6) (45.9) (53.5)
SHAREHOLDING PATTERN (%)	
	Mar-19 Jun-19
Promoters	50.53 50.76
FIs & Local MFs	16.79 16.43
FPIs	23.06 22.58
Public & Others	9.62 10.23
Pledged Shares	0.00 0.00

Source : BSE

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Revenue stood at USD 50.9mn, -0.4% QoQ and +4.5% YoY in CC terms

EBIT% was down 480bps QoQ primarily impacted by higher employee cost (-513bps impact), partially offset by lower SG&A (+167bps)

ETR was higher at 24.7%, ETR for FY20 guided at ~25-27%

### Quarterly Consolidated Financials Snapshot

Particulars (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
<b>Net Revenues (USD mn)</b>	<b>50.9</b>	<b>49.2</b>	<b>3.5</b>	<b>51.2</b>	<b>(0.6)</b>
Net Revenues	3.55	3.52	0.8	3.65	(2.8)
Employee Costs	1.91	1.73	10.6	1.78	7.4
SG&A and Other Operating Expenses	0.98	1.03	(4.7)	1.07	(8.4)
<b>EBITDA</b>	<b>0.66</b>	<b>0.77</b>	<b>(14.0)</b>	<b>0.81</b>	<b>(18.0)</b>
Depreciation	0.17	0.09	83.6	0.13	34.6
<b>EBIT</b>	<b>0.49</b>	<b>0.68</b>	<b>(27.5)</b>	<b>0.68</b>	<b>(27.9)</b>
Interest Cost	0.04	0.00		0.00	
Other Income	0.08	0.20	(58.3)	0.10	(13.9)
<b>PBT</b>	<b>0.53</b>	<b>0.87</b>	<b>(39.3)</b>	<b>0.78</b>	<b>(31.6)</b>
Tax	0.13	0.27	(52.2)	0.18	(28.3)
<b>RPAT</b>	<b>0.40</b>	<b>0.60</b>	<b>(33.4)</b>	<b>0.59</b>	<b>(32.6)</b>
E/o (adj for tax)	-	-		-	
<b>APAT</b>	<b>0.40</b>	<b>0.60</b>	<b>(33.4)</b>	<b>0.59</b>	<b>(32.6)</b>

Source: Company, HDFC sec Inst Research

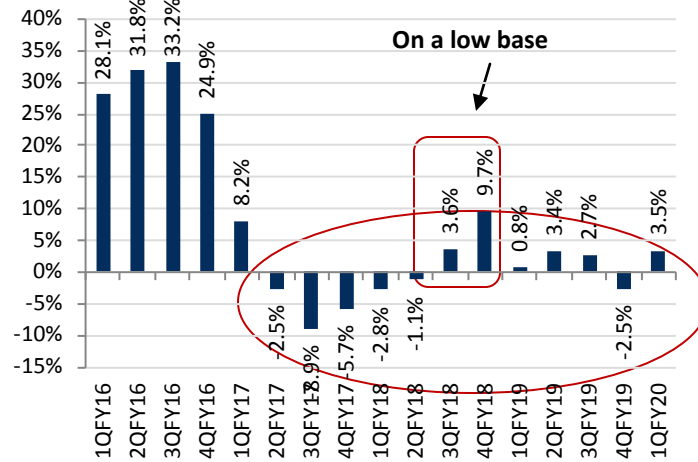
### Margin Analysis

Particulars	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Employee Cost % Net Revenues	53.8	49.0	478	48.7	513
SG&A and Other Expenses % Net Revenues	27.6	29.1	(158)	29.2	(167)
EBITDA Margin (%)	18.6	21.8	(320)	22.1	(346)
<b>EBIT Margin (%)</b>	<b>13.8</b>	<b>19.2</b>	<b>(538)</b>	<b>18.6</b>	<b>(480)</b>
Tax Rate (%)	24.7	31.4	(666)	23.6	113
APAT Margin (%)	11.2	17.0	(577)	16.2	(497)

Source: Company, HDFC sec Inst Research

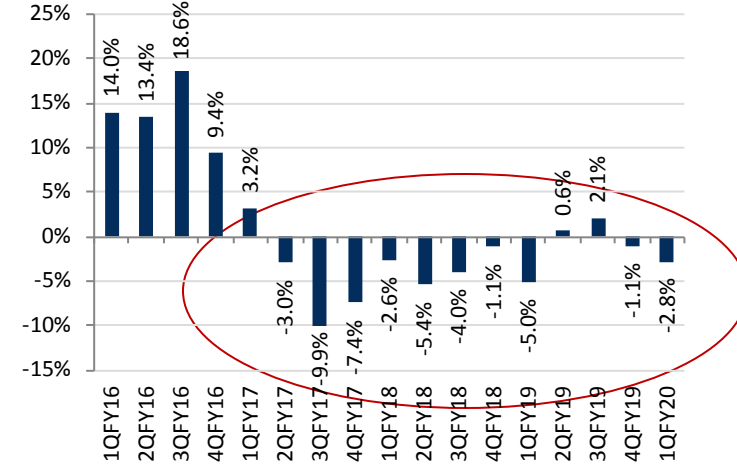
*USD revenue growth has been muted impacted by sluggishness in Top-10 clients*

**Muted USD Rev. Growth Trajectory (% YoY)**



Source: Company, HDFC sec Inst Research

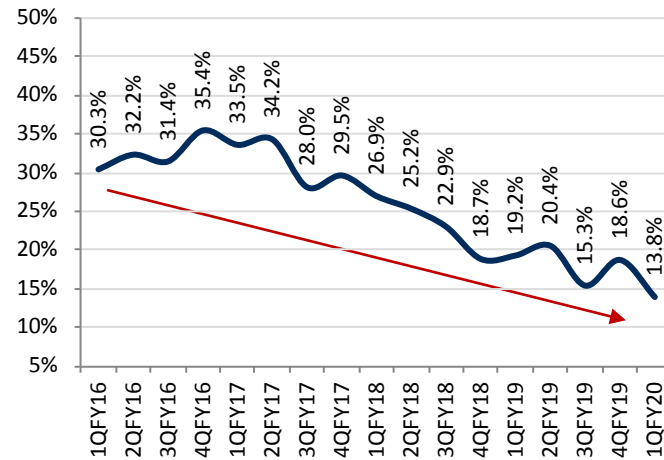
**Sluggishness in Top 10 Clients (% YoY, USD terms)**



Source: Company, HDFC sec Inst Research

*Downward pressure on EBIT margin impacted by shift to onsite*

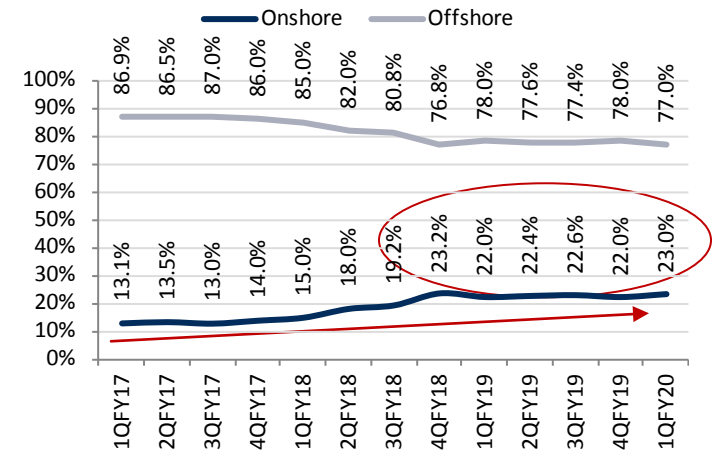
**EBIT Margin Trajectory (%) In A Freefall**



Source: Company, HDFC sec Inst Research

*Onshore as a % of rev has been stable for the past 6 qtrs but we expect onshore% to increase with onshore growth which may come at a lag to investments (employee costs up 14.3% YoY in FY19)*

**Shift to Onshore (% of Revenue)**



Source: Company, HDFC sec Inst Research

*NorthAm (67.0% of rev) led growth, up 2.2% QoQ, NorthAm grew above company average for three consecutive qtrs*

*Europe was impacted by macro challenges particularly in UK, down 6.1% QoQ*

*Top account's growth was soft with Top 5 clients down 2.7% QoQ and Top 6-10 clients down 7.2% QoQ*

### Revenue Trend

Particulars	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Revenue (USD mn)	48.8	48.4	48.9	52.5	49.2	50.0	50.2	51.2	50.9
Revenue growth (USD QoQ%)	1.9	(0.9)	1.2	7.4	(6.3)	1.6	0.3	2.0	(0.6)
<b>Revenue growth (CC QoQ%)</b>	<b>1.4</b>	<b>(1.8)</b>	<b>1.1</b>	<b>6.5</b>	<b>(5.7)</b>	<b>2.2</b>	<b>0.7</b>	<b>1.9</b>	<b>(0.4)</b>

Source: Company, HDFC Sec Inst Research

### Geographic Revenue Split

(% of revenue)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
North America	69.0	64.6	64.7	59.0	64.4	63.6	64.3	65.1	67.0
Europe	26.3	28.6	27.9	35.0	28.2	29.3	28.9	28.6	27.0
Rest of the World	4.8	6.8	7.4	6.0	7.4	7.0	6.8	6.3	6.0
<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

### Geographic Revenue Growth

(QoQ, %)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
North America	4.7	(7.1)	1.3	(2.1)	2.2	0.4	1.4	3.4	2.2
Europe	(5.7)	7.9	(1.5)	35.0	(24.6)	5.7	(0.9)	0.8	(6.1)
Rest of the World	7.3	40.4	11.0	(13.0)	15.3	(3.2)	(3.2)	(5.6)	(4.9)
<b>Total</b>	<b>1.9</b>	<b>(0.9)</b>	<b>1.1</b>	<b>7.4</b>	<b>(6.4)</b>	<b>1.6</b>	<b>0.4</b>	<b>2.0</b>	<b>(0.6)</b>

Source: Company, HDFC Sec Inst Research

### Client Data

(% of revenue)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
<b>Top-10 clients</b>	<b>74.6</b>	<b>71.5</b>	<b>70.7</b>	<b>67.0</b>	<b>70.2</b>	<b>69.5</b>	<b>70.3</b>	<b>68.0</b>	<b>66.0</b>
Non-top 10 clients	25.4	28.5	29.3	33.0	29.8	30.5	29.7	32.0	34.0
<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

### Client Growth

(QoQ, %)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
<b>Top-10 clients</b>	<b>2.2</b>	<b>(5.0)</b>	<b>0.0</b>	<b>1.8</b>	<b>(1.8)</b>	<b>0.6</b>	<b>1.5</b>	<b>(1.3)</b>	<b>(3.5)</b>
Non-top 10 clients	1.0	11.1	3.9	21.0	(15.5)	4.1	(2.2)	9.9	5.6
<b>Total</b>	<b>1.9</b>	<b>(0.9)</b>	<b>1.1</b>	<b>7.4</b>	<b>(6.4)</b>	<b>1.6</b>	<b>0.4</b>	<b>2.0</b>	<b>(0.6)</b>

Source: Company, HDFC Sec Inst Research

**2 clients added in USD 1mn+ client bucket taking the count to 27**

**Onshore headcount continued to rise to 697 (vs. 558 in 4Q), reflecting shift to onshore**

**Onshore headcount as a % of total headcount has increased from 3.9% to 7.3% in the past 6 qtrs but onshore as a % revenue has remained stable (at ~23%) in the same period, we expect these two metrics to converge**

**Headcount has rationalized as bulk intake of campus hires offset attrition, this would provide some lever to margins**

**Utilisation was flat amid campus hiring**

### Client Metrics

(No.s)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
US\$0.5mn-US\$1mn Clients	NA	NA	NA	20	20	17	16	20	20
US\$1mn-US\$3mn Clients	NA	NA	NA	12	12	16	17	16	17
US\$3mn-US\$5mn Clients	NA	NA	NA	4	4	2	2	2	4
US\$ 5mm-10mm Clients	NA	NA	NA	2	2	2	2	2	1
US\$ 10mm+ Clients	NA	NA	NA	5	5	5	5	5	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>9,164</b>	<b>9,223</b>	<b>9,091</b>	<b>9,429</b>	<b>9,363</b>	<b>9,583</b>	<b>9,520</b>	<b>9,509</b>	<b>9,495</b>
- Operations headcount	7,762	7,740	7,592	7,825	7,746	7,907	7,788	7,747	7,596
- Onshore headcount	240	259	284	367	366	453	520	558	697
- Support Services headcount	601	615	613	618	638	640	641	635	639
- Tech services	423	463	431	460	444	406	393	388	376
- R&D	60	64	86	81	91	91	91	90	90
Selling & Distribution Staff	78	82	85	78	78	86	87	91	97
<b>Net additions</b>	<b>349</b>	<b>59</b>	<b>(132)</b>	<b>338</b>	<b>(66)</b>	<b>220</b>	<b>(63)</b>	<b>(11)</b>	<b>(14)</b>
Seat count	8,941	8,926	8,904	8,919	8,900	8,914	8,908	8,910	9,605
Utilisation (%)	76.8	73.8	72.9	72.4	72.4	72.5	71.9	74.3	73.4

Source: Company, HDFC Sec Inst Research

### Key Assumptions

Particulars	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Volume growth (%)	17.4	3.9	(8.8)	2.5	8.0	2.5	2.7
Pricing change (%)	10.3	(6.1)	12.1	(1.4)	(3.5)	4.3	2.7
<b>USD revenue growth (%)</b>	<b>29.5</b>	<b>(2.5)</b>	<b>2.3</b>	<b>1.0</b>	<b>4.3</b>	<b>6.8</b>	<b>5.5</b>
<b>EBIT margin (%)</b>	<b>32.4</b>	<b>31.4</b>	<b>23.5</b>	<b>18.3</b>	<b>15.1</b>	<b>15.4</b>	<b>15.1</b>

Source: Company, HDFC Sec Inst Research

***DSO including unbilled increased to 87 days (vs. 84 days in 4QFY19 and 93 days in 1QFY19)***

***Cash & Cash equivalents at end of 1QFY20 stood at ~Rs 5.29bn (24.6% of market cap)***

***Management continues to see challenges on growth partially offset by onshore growth and traction in Analytics, revenue growth to be slightly above recent past***

***Company is actively focusing on increasing tenure of contracts and has witnessed success in select pockets***

### Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
<b>FY20E</b>			
Revenue (USD mn)	214.7	209.2	(2.6)
Revenue (Rs bn)	15.25	14.86	(2.5)
EBIT (Rs bn)	2.62	2.25	(14.2)
EBIT margin (%)	17.2	15.1	(234)bps
APAT (Rs bn)	2.25	1.91	(15.3)
<b>FY21E</b>			
Revenue (USD mn)	233.8	223.5	(4.4)
Revenue (Rs bn)	16.59	15.97	(3.7)
EBIT (Rs bn)	2.95	2.47	(16.4)
EBIT margin (%)	17.8	15.4	(234)bps
APAT (Rs bn)	2.49	2.07	(16.9)

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	8,275	2,205	2,420	BUY	68.8	83.9	87.9	98.4	32.0	26.3	25.1	22.4	30.1	36.1	36.1	38.5
Infosys	3,374	776	770	NEU	34.2	36.7	36.9	41.5	22.7	21.1	21.0	18.7	22.0	24.4	24.8	27.2
Wipro	1,503	264	220	SELL	14.0	15.8	16.6	17.7	18.8	16.7	15.9	14.9	16.5	17.3	16.9	16.9
HCL Tech	1,407	1,011	1,305	BUY	64.7	74.6	78.2	89.9	15.6	13.5	12.9	11.2	25.3	26.0	24.0	24.3
TechM	560	636	595	SELL	43.2	48.9	45.7	48.5	14.7	13.0	13.9	13.1	21.5	22.0	19.5	19.1
<b>Tier-1 IT Median</b>									<b>18.8</b>	<b>16.7</b>	<b>15.9</b>	<b>14.9</b>	<b>22.0</b>	<b>24.4</b>	<b>24.0</b>	<b>24.3</b>
LTI	263	1,515	2,115	BUY	66.9	87.3	85.8	101.2	22.6	17.3	17.6	15.0	33.2	34.6	28.0	28.2
Mphasis	173	927	1,310	BUY	45.4	57.6	59.4	70.2	20.4	16.1	15.6	13.2	14.6	20.0	20.0	21.1
LTTTS	154	1,482	1,955	BUY	45.5	68.0	73.2	93.3	32.6	21.8	20.2	15.9	27.7	32.0	28.1	30.0
Mindtree	116	705	705	NEU	32.3	44.2	36.5	48.1	21.8	16.0	19.3	14.7	21.4	24.9	17.3	23.0
Hexaware *	106	357	440	BUY	16.8	19.6	20.9	26.0	21.3	18.2	17.1	13.7	26.6	26.5	24.3	26.1
Cyient	49	438	510	NEU	38.6	43.6	42.7	45.8	11.4	10.0	10.3	9.6	18.1	19.5	17.7	17.2
Zensar	48	213	315	BUY	10.6	13.8	15.8	19.1	20.0	15.4	13.5	11.1	15.1	17.0	16.9	17.8
Persistent	42	529	615	NEU	42.0	47.5	42.5	45.7	12.6	11.1	12.5	11.6	16.0	15.7	13.6	14.2
Tata Elxsi	39	622	990	NR	38.5	46.6	33.0	39.5	16.1	13.4	18.9	15.7	37.0	34.5	20.4	21.4
Sonata	33	316	495	BUY	18.6	24.0	27.0	30.2	17.1	13.2	11.7	10.5	31.0	35.1	34.3	34.0
Intellect	29	221	300	BUY	3.5	7.7	8.0	11.7	NM	28.9	27.8	18.9	6.7	11.1	9.8	12.8
<b>eClerx</b>	<b>22</b>	<b>581</b>	<b>505</b>	<b>SELL</b>	<b>74.0</b>	<b>61.7</b>	<b>51.6</b>	<b>55.9</b>	<b>7.8</b>	<b>9.4</b>	<b>11.3</b>	<b>10.4</b>	<b>24.1</b>	<b>17.6</b>	<b>14.2</b>	<b>15.3</b>
Majesco	13	452	730	BUY	(1.5)	18.3	26.3	34.4	NM	24.7	17.2	13.2	NM	8.4	10.4	12.2
HGS	12	592	900	NR	96.5	84.6	106.2	120.7	6.1	7.0	5.6	4.9	14.3	11.3	12.7	13.0
Mastek	9	370	618	BUY	27.7	40.4	42.1	47.6	13.4	9.2	8.8	7.8	13.7	16.1	14.1	14.3
<b>Tier-2 IT Median</b>									<b>21.2</b>	<b>17.8</b>	<b>15.3</b>	<b>12.9</b>	<b>18.1</b>	<b>19.5</b>	<b>19.5</b>	<b>19.6</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	129	192	NA	NR	5.4	6.3	7.3	8.0	35.3	30.3	26.2	24.1	41.8	42.0	42.0	41.9
Cognizant	36	63	NA	NR	3.6	4.5	3.9	4.3	17.5	14.0	16.1	14.7	14.1	19.0	18.9	20.2
Capgemini^	19	112	NA	NR	4.8	4.3	6.5	70.2	23.5	26.4	17.2	1.6	11.5	10.1	13.4	13.7
<b>Global IT Median</b>									<b>23.5</b>	<b>26.4</b>	<b>17.2</b>	<b>14.7</b>	<b>14.1</b>	<b>19.0</b>	<b>18.9</b>	<b>20.2</b>

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

### Consolidated Income Statement

Year ending March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues (USD mn)</b>	<b>198.6</b>	<b>200.6</b>	<b>209.2</b>	<b>223.5</b>	<b>235.8</b>
<b>Growth (%)</b>	<b>2.3</b>	<b>1.0</b>	<b>4.3</b>	<b>6.8</b>	<b>5.5</b>
<b>Net Revenues</b>	<b>13.65</b>	<b>14.31</b>	<b>14.86</b>	<b>15.97</b>	<b>16.85</b>
<b>Growth (%)</b>	<b>2.6</b>	<b>4.8</b>	<b>3.9</b>	<b>7.5</b>	<b>5.5</b>
Employee Costs	6.18	7.06	7.87	8.55	9.13
SG&A and Other Operating Expenses	3.80	4.17	4.05	4.25	4.44
<b>EBITDA</b>	<b>3.67</b>	<b>3.08</b>	<b>2.94</b>	<b>3.17</b>	<b>3.28</b>
Depreciation	0.46	0.46	0.70	0.70	0.74
<b>EBIT</b>	<b>3.20</b>	<b>2.62</b>	<b>2.25</b>	<b>2.47</b>	<b>2.54</b>
<b>EBIT (%)</b>	<b>23.5</b>	<b>18.3</b>	<b>15.1</b>	<b>15.4</b>	<b>15.1</b>
<b>EBIT Growth (%)</b>	<b>(23.2)</b>	<b>(18.2)</b>	<b>(14.3)</b>	<b>9.8</b>	<b>3.1</b>
Other Income	0.61	0.49	0.49	0.50	0.51
Interest	0.00	0.00	0.17	0.17	0.18
<b>PBT</b>	<b>3.81</b>	<b>3.11</b>	<b>2.57</b>	<b>2.79</b>	<b>2.88</b>
Tax (incl deferred)	0.90	0.83	0.66	0.73	0.75
RPAT	2.92	2.27	1.91	2.07	2.13
<b>APAT</b>	<b>2.74</b>	<b>2.28</b>	<b>1.91</b>	<b>2.07</b>	<b>2.13</b>
<b>APAT Growth (%)</b>	<b>(22.7)</b>	<b>(16.6)</b>	<b>(16.5)</b>	<b>8.5</b>	<b>3.0</b>
<b>EPS</b>	<b>74.0</b>	<b>61.7</b>	<b>51.6</b>	<b>55.9</b>	<b>57.6</b>
<b>EPS Growth (%)</b>	<b>(19.0)</b>	<b>(16.6)</b>	<b>(16.5)</b>	<b>8.5</b>	<b>3.0</b>

Source: Company, HDFC sec Inst Research

### Consolidated Balance Sheet

As at March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	0.38	0.38	0.37	0.37	0.37
Reserves	11.67	13.44	12.69	13.65	14.67
<b>Total Shareholders' Funds</b>	<b>12.05</b>	<b>13.81</b>	<b>13.06</b>	<b>14.02</b>	<b>15.04</b>
Net Deferred Taxes	(0.04)	(0.16)	(0.16)	(0.16)	(0.16)
Long Term Provisions & Others	0.47	0.53	0.55	0.60	0.63
<b>TOTAL SOURCES OF FUNDS</b>	<b>12.54</b>	<b>14.21</b>	<b>13.48</b>	<b>14.48</b>	<b>15.53</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	1.21	1.30	1.20	0.99	0.77
CWIP	0.00	0.00	0.00	0.00	0.00
Goodwill	2.22	2.18	2.18	2.18	2.18
Investments	0.00	0.00	0.00	0.00	0.00
Other non-current assets	0.30	0.56	0.51	0.42	0.33
<b>Total Non Current Assets</b>	<b>3.74</b>	<b>4.04</b>	<b>3.89</b>	<b>3.60</b>	<b>3.29</b>
<b>Cash &amp; Equivalents</b>	<b>6.05</b>	<b>7.38</b>	<b>6.72</b>	<b>7.80</b>	<b>8.99</b>
Debtors	2.33	2.43	2.52	2.71	2.86
Other Current Assets	1.99	1.84	1.91	2.05	2.16
<b>Total Current Assets</b>	<b>4.32</b>	<b>4.26</b>	<b>4.43</b>	<b>4.76</b>	<b>5.02</b>
Creditors	0.20	0.12	0.15	0.17	0.17
Other Current Liabilities & Provns	1.37	1.35	1.41	1.51	1.60
<b>Total Current Liabilities</b>	<b>1.57</b>	<b>1.47</b>	<b>1.56</b>	<b>1.68</b>	<b>1.77</b>
<b>Net Current Assets</b>	<b>2.75</b>	<b>2.79</b>	<b>2.87</b>	<b>3.08</b>	<b>3.25</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>12.54</b>	<b>14.21</b>	<b>13.48</b>	<b>14.48</b>	<b>15.53</b>

Source: Company, HDFC sec Inst Research



## Consolidated Cash Flow

Year ending March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	3.81	3.11	2.57	2.79	2.88
Non-operating & EO items	-0.26	-0.36	-0.36	-0.37	-0.38
Interest expenses	0.00	0.00	0.17	0.17	0.18
Depreciation	0.46	0.46	0.70	0.70	0.74
Working Capital Change	-0.03	0.04	-0.10	-0.27	-0.21
Tax paid	-0.95	-0.83	-0.66	-0.73	-0.75
<b>OPERATING CASH FLOW ( a )</b>	<b>3.05</b>	<b>2.41</b>	<b>2.31</b>	<b>2.30</b>	<b>2.46</b>
Capex	-0.41	-0.51	-0.62	-0.50	-0.52
<i>Free cash flow (FCF)</i>	<i>2.64</i>	<i>1.90</i>	<i>1.68</i>	<i>1.81</i>	<i>1.93</i>
<b>INVESTING CASH FLOW ( b )</b>	<b>-0.16</b>	<b>-0.15</b>	<b>-0.26</b>	<b>-0.13</b>	<b>-0.15</b>
Debt Issuance	0.05	-0.05	0.00	0.00	0.00
Interest expenses	-0.00	-0.00	-0.17	-0.17	-0.18
<i>FCFE</i>	<i>2.69</i>	<i>1.86</i>	<i>1.51</i>	<i>1.64</i>	<i>1.76</i>
Share capital Issuance	0.09	0.00	0.00	0.00	0.00
Dividend	-2.65	-0.05	-2.66	-1.11	-1.11
<b>FINANCING CASH FLOW ( c )</b>	<b>-2.51</b>	<b>-0.09</b>	<b>-2.83</b>	<b>-1.28</b>	<b>-1.29</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>0.38</b>	<b>2.17</b>	<b>-0.79</b>	<b>0.90</b>	<b>1.02</b>
Closing Cash & Equivalents	6.05	7.38	6.72	7.80	8.99

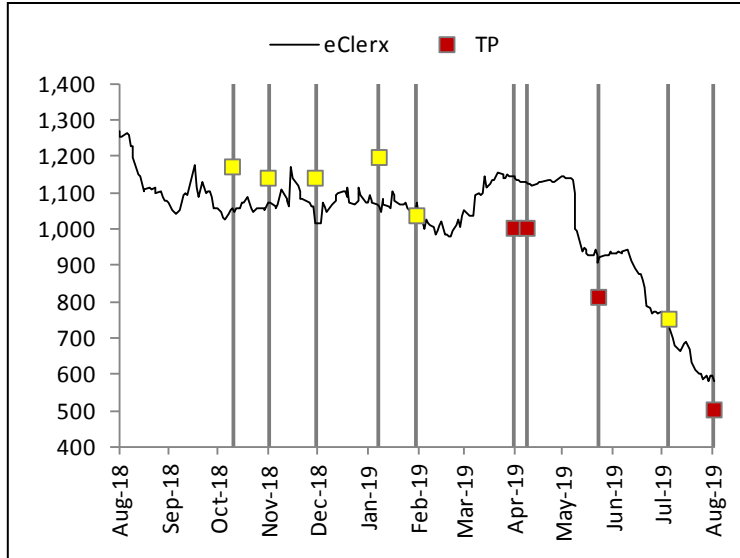
Source: Company, HDFC sec Inst Research

## Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>					
EBIT Margin	23.5	18.3	15.1	15.4	15.1
APAT Margin	21.4	15.9	12.8	12.9	12.6
RoE	24.1	17.6	14.2	15.3	14.7
RoIc or Core RoCE	37.6	28.8	24.5	27.2	28.5
RoCE	23.2	17.0	14.1	15.1	14.5
<b>EFFICIENCY</b>					
Tax Rate (%)	23.5	26.8	25.7	26.0	26.0
Fixed Asset Turnover (x)	5.1	4.5	3.9	3.7	3.5
<i>Debtors (days)</i>	<i>62</i>	<i>62</i>	<i>62</i>	<i>62</i>	<i>62</i>
<i>Other current assets (days)</i>	<i>53</i>	<i>47</i>	<i>47</i>	<i>47</i>	<i>47</i>
<i>Payables (days)</i>	<i>5</i>	<i>3</i>	<i>4</i>	<i>4</i>	<i>4</i>
<i>Other current liab &amp; prov (days)</i>	<i>37</i>	<i>35</i>	<i>35</i>	<i>35</i>	<i>35</i>
Cash Conversion Cycle (days)	73	71	70	70	70
Net Debt/EBITDA (x)	(1.6)	(2.4)	(2.3)	(2.5)	(2.7)
Net Debt/Equity (x)	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)
Interest Coverage (x)	NA	NA	NA	NA	NA
<b>PER SHARE DATA</b>					
EPS (Rs/sh)	74.0	61.7	51.6	55.9	57.6
CEPS (Rs/sh)	86.6	74.0	70.4	75.0	77.6
DPS (Rs/sh)	1.0	1.0	1.0	25.0	25.0
BV (Rs/sh)	311.6	356.8	353.3	379.2	406.8
<b>VALUATION</b>					
P/E	7.8	9.4	11.3	10.4	10.1
P/BV	1.9	1.6	1.6	1.5	1.4
EV/EBITDA	4.2	4.6	5.0	4.3	3.8
OCF/EV (%)	21.3	19.6	18.1	19.5	22.7
FCF/EV (%)	18.7	16.0	13.9	15.9	18.5
FCFE/mkt cap (%)	13.7	10.3	8.7	9.4	9.9
Dividend Yield (%)	0.2	0.2	0.2	4.3	4.3

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
6-Jul-18	1,300	NEU	1,290
10-Oct-18	1,059	NEU	1,170
1-Nov-18	1,072	NEU	1,140
30-Nov-18	1,061	NEU	1,140
8-Jan-19	1,060	NEU	1,195
1-Feb-19	1,074	NEU	1,035
1-Apr-19	1,148	SELL	1,005
9-Apr-19	1,129	SELL	1,005
24-May-19	907	SELL	815
5-Jul-19	730	NEU	750
3-Aug-19	581	SELL	505

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**INSTITUTIONAL RESEARCH**
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