

Still in a funk?

We maintain NEU on Cyient post in-line revenue and margin miss in 2QFY20. Growth challenges remain in core verticals and margin recovery is slow. We have lowered EPS est. by 1.2/1.4% for FY20/21E and our TP of Rs 485 is based on 11x Sep-21E EPS.

HIGHLIGHTS OF THE QUARTER

- Revenue at USD 164.2mn was up 4.9% QoQ, +5.7% in CC (vs. est. of USD 162mn) led by strong recovery in DLM (14% of rev, +27% QoQ). Services (86% of rev) grew 1.8% QoQ (+2.6% CC) but posted negative YoY growth for the second consecutive quarter.
- Aerospace & Defence (34% of rev, -1.7% QoQ) has been struggling to grow due to challenges faced by Top-client. Communication (22%) was up 2.3% QoQ but work related to 5G and IoT is taking longer than expected to ramp-up. E&U (13%) and Transportation (13%) will continue to do well while Portfolio (11%) and Semiconductor (5%) will face challenges.
- Services has slowed down significantly in the last two quarters and even after taking recovery (+1.9% CQGR) in 2H there is 2.4% fall in revenue for FY20E. Cyient's higher mix of mechanical engineering (legacy) services explains the slow growth and lower margin structure.

Financial Summary

YE March (Rs bn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	11.59	11.87	(2.4)	10.89	6.4	39.18	46.18	46.23	50.28	55.17
EBIT	1.11	1.34	(17.0)	1.00	10.7	4.44	5.33	4.80	5.40	6.05
APAT	0.99	1.27	(22.4)	0.91	9.0	4.33	4.90	4.42	4.73	5.19
Diluted adj. EPS (Rs)	8.8	11.3	(22.4)	8.1	9.0	38.6	43.6	39.3	42.1	46.2
P/E (x)						12.4	10.5	11.4	10.6	9.7
EV / EBITDA (x)						7.5	6.7	6.3	5.5	4.8
RoE (%)						18.1	19.5	16.5	16.2	16.2

Source: Company, HDFC sec Inst Research # Consolidated

- EBIT Margin expanded 37bps QoQ to 9.6% but was lower than our est. of 10.4%. Margin was impacted by wage hike (107bps) and one time restructuring cost (85bps) offset by cost optimisation benefits. NBA investments are still going on and margin recovery is taking longer than expected.

STANCE: Services growth challenged

Cyient is struggling with issues such as (1) Stress in services business, (2) Challenges in top accounts (3) Issues in core vertical (Aerospace and Communication), (4) Focus on lower margin DLM business, (5) Margin stress due to higher investments, and (6) Higher other income (~30% of PAT). There could be some recovery in performance (both revenue and margins) but concerns related to slowdown in decision making, accelerated trade war risks and higher mix of legacy services remain. Cash generation and collections have improved. We expect USD revenue growth of -0.4/6.9% and EBIT% of 10.4/10.7% for FY20/21E.

The stock trades at reasonable valuation of 10.6x FY21E which is ~38% discount to LTTS. Risk to our thesis includes better US/Europe macro and INR depreciation.

INDUSTRY	IT
CMP (as on 17 Oct 2019)	Rs 448
Target Price	Rs 485
Nifty	11,586
Sensex	39,052
KEY STOCK DATA	
Bloomberg	CYL IN
No. of Shares (mn)	110
MCap (Rs bn) / (\$ mn)	49/691
6m avg traded value (Rs mn)	98
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 695/414
	3M 6M 12M
Absolute (%)	(17.2) (23.8) (33.1)
Relative (%)	(16.7) (23.2) (45.4)
SHAREHOLDING PATTERN (%)	
	Mar-19 Jun-19
Promoters	22.48 22.74
FIs & Local MFs	20.52 18.77
FPIs	47.20 48.34
Public & Others	9.80 10.15
Pledged Shares	0.00 0.00
Source : BSE	

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Revenue growth was 5.7% QoQ CC, Services revenue came at USD 140.4mn +2.6% QoQ CC while DLM revenue of USD 23.8mn grew 27.3% QoQ

Consolidated EBIT Margin came at 9.3% up 37bps QoQ, margins were supported by higher volumes (+73bps), operational efficiency (+55bps) and cost optimization (+129bps) offset by wage hike (-107bps) and onetime restructuring cost (-85bps)

Services EBIT margin came at 11.2% while DLM EBIT margin was 0.1% for the quarter. High growth in lower margin business impacted margins

Other income was lower due to lower treasury gains, tax incentive related gains will come in 2H

Quarterly Consolidated Financials Snapshot

Particulars (Rs bn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)
Net Revenues (USD mn)	164.2	168.9	(2.8)	156.6	4.9
Net Revenues	11.59	11.87	(2.4)	10.89	6.4
Cost of Revenue	7.60	7.78	(2.3)	7.14	6.4
Gross Profit	3.99	4.09	(2.5)	3.75	6.4
SG&A Expenses	2.39	2.46	(3.0)	2.30	3.7
EBITDA	1.60	1.63	(1.7)	1.45	10.6
Depreciation	0.49	0.29	69.4	0.44	10.4
EBIT	1.11	1.34	(17.0)	1.00	10.7
Interest Cost	0.12	0.10	23.7	0.13	(10.4)
Other Income	0.26	0.57	(53.5)	0.28	(6.7)
PBT	1.26	1.81	(30.6)	1.15	8.8
Minority Interest & Share of Ass. Profit	0.01	0.00	NM	0.01	NM
Tax	0.28	0.54	(47.9)	0.25	10.6
RPAT	0.99	1.27	(22.4)	0.91	9.0
E/o (adj for tax)	0.00	0.00	-	0.00	-
APAT	0.99	1.27	(22.4)	0.91	9.0

Source: Company, HDFC sec Inst Research

Margin Analysis

Particulars	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)
Cost of Revenue % Net Revenues	65.6	65.5	4	65.6	1
Gross Margin (%)	34.4	34.5	(4)	34.4	(1)
SG&A Expenses % Net Revenues	20.6	20.8	(14)	21.2	(53)
EBITDA Margin (%)	13.8	13.7	10	13.3	52
EBIT Margin (%)	9.6	11.3	(169)	9.2	37
Tax Rate (%)	22.4	29.8	(741)	22.0	36
APAT Margin (%)	8.5	10.7	(220)	8.3	20

Source: Company, HDFC sec Inst Research

Services revenue recovered in the quarter but YoY fall continues

DLM revenue recovered sharply but will normalize next quarter

Two consecutive quarter of negative YoY growth led by weak services revenue

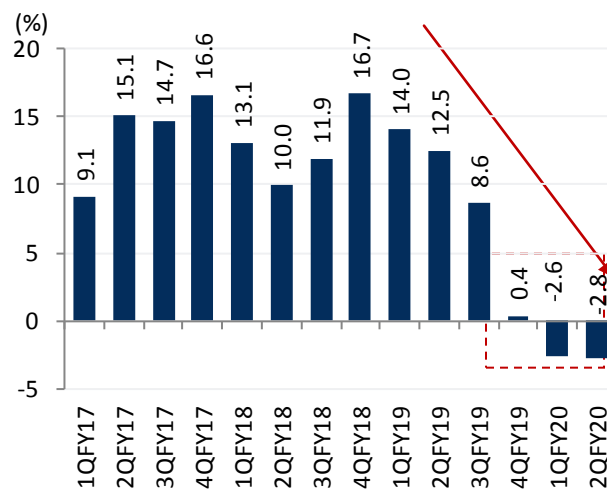
EBIT Margin recovered slightly to 9.6% QoQ, will recover gradually with growth and cost optimisation measures

Total Revenue Mix (Services + DLM)

Revenue Mix (USD mn)	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20	2Q FY20
Services revenue	134	140	143	546	143	146	145	147	580	138	140
QoQ %	4.0%	4.2%	2.0%		0.1%	2.3%	-1.0%	1.7%		-6.2%	1.8%
YoY %	9.2%	15.6%	14.1%	12.9%	10.5%	8.7%	3.3%	3.1%	6.3%	-3.4%	-3.8%
% of Rev	89.5%	92.0%	86.7%	89.8%	88.8%	86.4%	87.5%	89.0%	87.9%	88.1%	85.5%
DLM Revenue	16	12	22	62	18	23	21	18	80	19	24
QoQ %	33.3%	-23.3%	81.0%		-17.8%	27.0%	-10.3%	-11.4%		2.7%	27.3%
YoY %	17.4%	-18.2%	37.1%	13.5%	52.1%	44.9%	69.4%	-17.1%	29.1%	3.6%	3.9%
% of Rev	10.5%	8.0%	13.3%	10.2%	11.2%	13.6%	12.5%	11.0%	12.1%	11.9%	14.5%
Total revenue	150	152	165	608	161	169	165	165	660	157	164
QoQ %	6.5%	1.3%	8.3%		-2.3%	5.0%	-2.2%	0.1%		-5.2%	4.9%
YoY %	10.0%	11.9%	16.7%	13.0%	14.0%	12.5%	8.6%	0.4%	8.6%	-2.6%	-2.8%

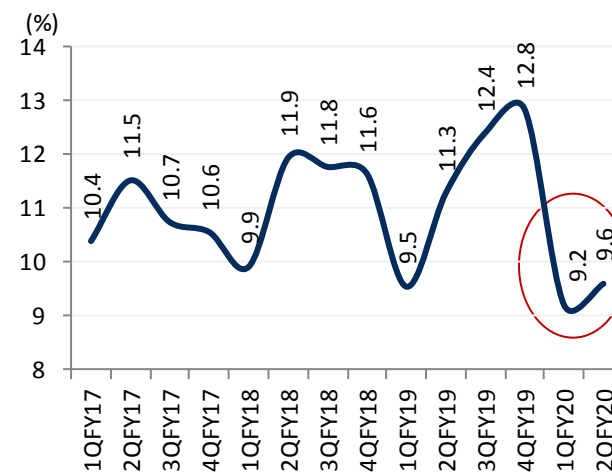
Source: Company, HDFC sec Inst Research

Revenue Growth Trend (YoY %)



Source: Company, HDFC sec Inst Research

EBIT Margin Trend (%)



Source: Company, HDFC sec Inst Research

Aerospace & Defense growth has been soft for the past many qtrs, 1Q/2Q softness in Aerospace & Defense is driven by slowdown in two key clients

Communication recovered in the quarter but growth pick-up is slow

E&U and Portfolio, newly recast verticals reported sharp recovery of 9.3% and 6.7% respectively, E&U is expected to perform well in 2H but challenges in Portfolio vertical will continue through FY20

Semiconductor de-grew 9.3% QoQ impacted by downturn in the industry

Medical is witnessing traction, significant pick-up in the last two quarters

Verticals Break-up (Services ex DLM)

Verticals Split (USD mn) (Services)	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20	2Q FY20
Aerospace and Defense	47	49	48	188	49	49	50	50	198	48	48
QoQ %	2.5%	4.2%	-1.8%		2.5%	1.1%	0.5%	0.5%		-2.9%	-1.7%
YoY %	2.9%	12.7%	6.8%	6.2%	7.4%	5.9%	2.2%	4.6%	5.0%	-0.9%	-3.5%
% of Rev	34.7%	34.7%	33.4%	34.5%	34.2%	33.8%	34.3%	33.9%	34.0%	35.1%	33.9%
Communications	31	32	35	128	34	35	34	33	136	30	30
QoQ %	6.7%	1.5%	11.0%		-3.2%	2.3%	-3.1%	-3.1%		-9.1%	2.3%
YoY %	16.7%	15.6%	31.7%	24.2%	16.4%	11.5%	6.5%	-7.0%	6.3%	-12.7%	-12.7%
% of Rev	23.3%	22.7%	24.7%	23.4%	23.9%	23.9%	23.4%	22.3%	23.4%	21.6%	21.7%
Transportation	15	16	17	62	17	17	17	18	70	18	18
QoQ %	10.9%	8.8%	1.1%		4.4%	-0.3%	0.7%	4.2%		-2.4%	3.4%
YoY %	30.1%	43.9%	36.5%	NA	27.4%	14.5%	6.0%	9.3%	13.7%	2.2%	6.0%
% of Rev	11.2%	11.7%	11.6%	11.3%	12.1%	11.8%	12.0%	12.3%	12.1%	12.8%	13.0%
Energy & Utilities	21	23	23	89	16	17	22	19	74	17	19
QoQ %	NA	NA	NA		NA	NA	NA	NA		-11.9%	9.3%
YoY %	NA	NA	NA	NA	NA	NA	NA	NA	NA	4.2%	10.4%
% of Rev	15.9%	16.6%	16.2%	16.3%	11.4%	11.5%	15.0%	13.1%	12.8%	12.3%	13.2%
Portfolio	12	12	12	46	16	16	12	16	61	14	15
QoQ %	NA	NA	NA		NA	NA	NA	NA		-9.7%	6.7%
YoY %	NA	NA	NA	NA	NA	NA	NA	NA	NA	-10.3%	-7.2%
% of Rev	8.6%	8.6%	8.3%	8.5%	11.2%	11.3%	8.6%	10.8%	10.5%	10.4%	10.9%
Semiconductor	6	5	6	22	8	8	7	8	42	8	7
QoQ %	-5.3%	-6.0%	7.5%		41.1%	7.8%	-19.8%	21.2%		-7.9%	-9.3%
YoY %	9.2%	9.7%	6.0%	10.6%	35.1%	53.8%	31.3%	48.0%	91.9%	-3.4%	-18.8%
% of Rev	4.1%	3.7%	3.9%	4.0%	5.5%	5.8%	4.7%	5.6%	7.3%	5.5%	4.9%
Medical and Consumer	3	3	3	11	3	3	3	3	11	3	3
QoQ %	14.4%	-5.3%	-3.1%		-5.2%	7.9%	4.2%	1.7%		7.9%	6.2%
YoY %	26.4%	21.7%	14.1%	20.2%	-0.5%	-6.1%	3.3%	8.5%	1.2%	23.4%	21.5%
% of Rev	2.2%	2.0%	1.9%	2.0%	1.8%	1.9%	2.0%	2.0%	1.9%	2.3%	2.4%
Total Revenue (IT Services)	134	140	143	546	143	146	145	147	591	138	140
QoQ %	4.0%	4.2%	2.0%		0.2%	2.2%	-1.0%	1.7%		-6.2%	1.8%
YoY %	9.2%	15.6%	14.0%	12.9%	10.7%	8.7%	3.3%	3.1%	8.3%	-3.5%	-3.8%

Source: Company, HDFC sec Inst Research, NA is for restated verticals for which comparison is not valid

EMEA has been soft for two consecutive qtrs, down 4.2% YoY

NorthAm grew 4.2% QoQ after posting de growth in 1QFY20

Asia Pacific continues its downward trajectory

One-site revenue is down in YoY terms since the last two quarters

Offshoring (+4.6% QoQ) helped in margin recovery

Geographic Revenue Break-up (Services ex DLM)

Geography Split (USD mn)	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20	2Q FY20
North America	73	77	76	298	79	82	84	84	329	81	85
QoQ %	1.0%	5.9%	-1.4%		3.8%	3.9%	2.5%	-0.4%		-3.2%	4.2%
YoY %	0.1%	9.8%	6.5%	5.3%	9.6%	12.7%	9.2%	10.2%	10.4%	2.7%	3.0%
% of Rev	54.2%	55.1%	53.3%	54.6%	55.3%	56.2%	58.2%	57.0%	56.7%	58.8%	60.2%
Europe, ME & Africa	36	39	39	146	38	39	35	39	150	37	37
QoQ %	7.6%	8.1%	-0.6%		-2.5%	2.7%	-9.6%	11.4%		-4.4%	-0.5%
YoY %	21.4%	33.5%	22.8%	24.0%	12.7%	7.5%	-10.1%	0.8%	2.3%	-1.2%	-4.2%
% of Rev	26.7%	27.7%	27.0%	26.8%	26.3%	26.4%	24.1%	26.4%	25.8%	26.9%	26.3%
Asia Pacific	26	24	28	102	26	25	26	25	102	20	19
QoQ %	7.9%	-6.2%	16.8%		-6.5%	-3.3%	0.7%	-4.1%		-19.7%	-3.9%
YoY %	23.4%	10.5%	26.3%	23.2%	10.5%	-1.0%	6.3%	-12.6%	0.2%	-24.9%	-25.4%
% of Rev	19.1%	17.2%	19.7%	18.6%	18.4%	17.4%	17.7%	16.7%	17.5%	14.3%	13.5%
Total Rev (IT Services)	134	140	143	546	143	146	145	147	580	138	140
QoQ %	4.0%	4.2%	2.0%		0.1%	2.3%	-1.0%	1.8%		-6.3%	1.8%
YoY %	9.2%	15.6%	14.1%	12.9%	10.5%	8.7%	3.3%	3.2%	6.3%	-3.4%	-3.8%

Source: Company, HDFC sec Inst Research

Onsite-offshore Split (Services ex DLM)

Onsite Offshore Split (USD mn)	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20	2Q FY20
Onsite	79	80	80	316	83	84	83	84	334	78	78
QoQ %	2.6%	1.3%	-0.2%		3.8%	0.7%	-0.3%	1.2%		-7.5%	-0.4%
YoY %	7.1%	11.0%	5.1%	9.0%	7.8%	5.8%	4.1%	5.4%	5.7%	-6.0%	-7.0%
% of Rev	58.8%	57.2%	56.0%	57.8%	58.1%	57.2%	57.6%	57.3%	57.5%	56.5%	55.3%
Offshore	55	60	63	230	60	62	61	63	246	60	63
QoQ %	6.0%	8.2%	4.8%		-4.7%	4.5%	-1.9%	2.4%		-4.4%	4.6%
YoY %	12.1%	22.5%	28.1%	18.7%	14.6%	12.9%	2.4%	0.0%	7.1%	0.3%	0.4%
% of Rev	41.2%	42.8%	44.0%	42.2%	41.9%	42.8%	42.4%	42.7%	42.5%	43.5%	44.7%
Total Rev (IT Services)	134	140	143	546	143	146	145	147	580	138	140.4
QoQ %	4.0%	4.2%	2.0%		0.1%	2.3%	-1.0%	1.7%		-6.1%	1.8%
YoY %	9.2%	15.6%	14.1%	12.9%	10.5%	8.7%	3.3%	3.1%	6.3%	-3.4%	-3.8%

Source: Company, HDFC sec Inst Research

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

Top 6-10 accounts were also impacted in the quarter

Contribution from Top 5 accounts has come down to 36.2% of rev vs.37.9% in 2QFY19, impacted by sluggishness

Services headcount witnessed net-reduction of 183, some hiring expected to kick in FY21

Voluntary attrition increased 60bps QoQ to 18.0%, still at elevated levels

Involuntary attrition was at four quarter high of 5.8%. Spike in involuntary attrition is a part of restructuring exercise

Client Performance (Services ex DLM)

Clients Split (USD mn)	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20	2Q FY20
Top 5	56	56	55	220	54	55	55	52	217	50	51
QoQ %	5.5%	0.1%	-0.8%		-2.5%	2.3%	-0.7%	-4.5%		-4.1%	1.0%
YoY %	6.3%	6.3%	3.5%	7.5%	2.2%	-1.0%	-1.8%	-5.4%	-1.5%	-7.0%	-8.1%
% of Rev	41.6%	40.0%	38.9%	40.3%	37.9%	37.9%	38.0%	35.7%	37.4%	36.5%	36.2%
Top 6-10	18	20	19	75	20	19	17	19	75	18	16
QoQ %	1.0%	8.8%	-1.7%		3.1%	-3.6%	-8.6%	6.7%		-1.8%	-15.0%
YoY %	2.3%	11.6%	10.0%	6.0%	11.3%	6.3%	-10.7%	-3.1%	0.6%	-7.6%	-18.5%
% of Rev	13.4%	14.0%	13.5%	13.7%	13.9%	13.1%	12.1%	12.7%	12.9%	13.3%	11.1%
Top 10	74	76	75	295	74	74	72	71	292	69	66
QoQ %	4.4%	2.3%	-1.0%		-1.1%	0.7%	-2.7%	-1.8%		-3.5%	-3.3%
YoY %	5.3%	7.7%	5.1%	7.1%	4.5%	0.8%	-4.1%	-4.8%	-1.0%	-7.1%	-10.8%
% of Rev	55.0%	54.0%	52.4%	54.0%	51.8%	51.0%	50.1%	48.4%	50.3%	49.8%	47.3%
Non Top 10	60	64	68	251	69	72	72	76	288	69	74
QoQ %	3.5%	6.5%	5.5%		1.3%	4.0%	0.8%	5.2%		-8.7%	6.9%
YoY %	14.2%	26.6%	26.0%	20.5%	17.9%	18.4%	12.1%	11.7%	14.9%	0.6%	3.4%
% of Rev	45.0%	46.0%	47.6%	46.0%	48.2%	49.0%	49.9%	51.6%	49.7%	50.2%	52.7%

Headcount and Utilisation Data

(Nos.)	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20	2Q FY20
Headcount (Services)	14,197	14,457	14,762	14,762	14,411	14,385	14,532	14,423	14,423	14,398	14,215
Technical Employees	13,391	13,654	13,962	13,962	13,625	13,611	13,754	13,648	13,648	13,646	13,577
Support Employees	806	803	800	800	786	774	778	775	775	752	638
Net additions	362	260	305	1,030	(351)	(26)	147	(109)	(339)	(25)	(183)
DLM Employees	629	628	637	637	645	655	661	661	661	645	654
Utilisation (%)	75.9	78.6	76.7	76.3	75.0	78.0	78.1	78.1	77.3	NA	NA

Source: Company, HDFC sec Inst Research

Key Assumptions

Particulars	FY17	FY18	FY19	FY20E	FY21E	FY22E
Services Growth (%)	11.7	12.9	6.3	(2.4)	5.8	6.6
DLM Growth (%)	37.7	13.5	29.1	14.3	14.2	12.6
Total USD revenue growth (%)	13.9	13.0	8.6	(0.4)	6.9	7.5
USD/INR rate	67.0	64.5	70.0	70.3	71.5	73.0
EBIT margin (%)	10.8	11.3	11.5	10.4	10.7	11.0

Source: Company, HDFC Sec Inst Research

Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
FY20E			
Revenue (USD bn)	0.660	0.658	(0.4)
Revenue (Rs bn)	46.40	46.23	(0.4)
EBITDA (Rs bn)	4.89	4.80	(1.9)
EBITDA margin (%)	10.5	10.4	(16)bps
EPS (Rs)	39.8	39.3	(1.2)
FY21E			
Revenue (USD bn)	0.707	0.703	(0.6)
Revenue (Rs bn)	50.57	50.28	(0.6)
EBITDA (Rs bn)	5.35	5.40	0.9
EBITDA margin (%)	10.6	10.7	15bps
EPS (Rs)	42.7	42.1	(1.4)
FY22E			
Revenue (USD bn)	0.764	0.756	(1.0)
Revenue (Rs bn)	55.74	55.17	(1.0)
EBITDA (Rs bn)	5.99	6.05	1.0
EBITDA margin (%)	10.8	11.0	22bps
EPS (Rs)	46.3	46.2	(0.3)

Source: Company, HDFC Sec Inst Research

NO major change in revenue estimate. We slightly improve our margin estimate for FY21/22E

EPS is cut due to lower other income assumption (tax benefits)

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	7,620	2,031	1,975	NEU	68.8	83.9	85.5	92.9	29.5	24.2	23.7	21.9	30.1	36.1	35.3	37.1
Infosys	3,275	770	835	NEU	34.6	37.2	37.9	43.7	22.2	20.7	20.3	17.6	22.0	24.4	25.4	28.5
Wipro	1,474	248	230	NEU	13.5	15.1	16.8	18.0	18.4	16.4	14.7	13.8	16.5	17.3	17.8	17.7
HCL Tech	1,482	1,093	1,275	BUY	64.7	74.6	73.1	83.7	16.9	14.6	14.9	13.1	25.3	26.0	22.6	23.2
TechM	639	726	650	NEU	43.2	48.9	45.4	51.0	16.8	14.9	16.0	14.3	21.5	22.0	19.4	20.0
Tier-1 IT Median									18.4	16.4	16.0	14.3	22.0	24.4	22.6	23.2
LTI	260	1,499	1,835	BUY	66.9	87.3	83.6	95.1	22.4	17.2	17.9	15.8	33.2	34.6	27.4	26.9
Mphasis	172	923	1,180	BUY	45.4	57.6	58.3	69.1	20.3	16.0	15.8	13.4	14.6	20.0	19.7	20.9
LTTTS	166	1,593	1,960	BUY	45.5	68.0	78.4	92.9	35.0	23.4	20.3	17.1	27.7	32.0	29.8	29.4
Mindtree	120	729	760	NEU	32.3	44.1	36.4	47.9	22.6	16.6	20.1	15.2	21.4	24.9	17.3	22.9
Hexaware *	110	370	450	BUY	16.8	19.6	20.4	24.6	22.1	18.9	18.1	15.1	26.6	26.5	23.5	24.4
Cyient	50	448	485	NEU	38.6	43.6	39.3	42.1	12.4	10.5	11.4	10.6	18.1	19.5	16.5	16.2
Zensar	48	210	295	BUY	10.6	14.1	15.5	19.1	19.8	15.0	13.5	11.0	15.1	17.3	16.7	17.8
Persistent	47	607	655	BUY	42.0	47.5	43.3	47.5	14.5	12.8	14.0	12.8	16.0	15.7	13.8	14.7
Tata Elxsi	44	709	645	NR	38.5	46.6	33.1	41.3	18.4	15.2	21.4	17.2	37.0	34.5	20.5	22.2
Sonata	31	296	448	BUY	18.6	24.0	26.5	29.9	15.9	12.3	11.2	9.9	31.0	35.1	33.7	33.8
Intellect	25	188	315	BUY	3.5	7.7	7.6	11.7	NM	24.5	24.8	16.1	6.7	11.1	9.3	12.8
eClerx	15	414	460	NEU	74.0	61.7	50.1	51.2	5.6	6.7	8.3	8.1	24.1	17.6	13.8	14.1
Majesco	12	420	700	BUY	(1.5)	18.3	20.9	31.1	NM	22.9	20.1	13.5	NM	8.4	8.3	11.4
HGS	12	567	760	NR	96.5	84.6	85.3	101.2	5.9	6.7	6.6	5.6	10.5	8.5	11.2	11.8
Mastek	8	332	505	BUY	27.7	40.4	38.3	42.7	12.0	8.2	8.7	7.8	13.7	16.1	12.9	13.0
Tier-2 IT Median									18.4	15.2	15.8	13.4	19.8	19.5	16.7	17.8

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	125	186	NA	NR	5.6	6.5	7.8	8.6	33.5	28.8	23.8	21.7	41.7	42.0	34.9	35.0
Cognizant	34	61	NA	NR	2.5	3.6	4.0	4.3	24.1	17.0	15.5	14.2	14.1	19.0	19.0	20.4
Capgemini^	20	109	NA	NR	4.9	4.4	6.5	7.2	22.3	24.9	16.6	15.2	11.5	10.1	13.4	13.6
Global IT Median									24.1	24.9	16.6	15.2	14.1	19.0	19.0	20.4

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

Consolidated Income Statement

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues (US \$mn)	607.7	660.0	657.7	703.3	755.7
Growth (%)	13.0	8.6	(0.4)	6.9	7.5
Net Revenues	39.18	46.18	46.23	50.28	55.17
Growth (%)	8.6	17.9	0.1	8.8	9.7
Cost of Revenue	25.39	30.13	29.97	32.61	35.80
SG&A Expenses	8.30	9.61	9.56	10.31	11.31
EBITDA	5.49	6.44	6.69	7.36	8.06
Depreciation	1.05	1.11	1.90	1.96	2.01
EBIT	4.44	5.33	4.80	5.40	6.05
EBIT (%)	11.3	11.5	10.4	10.7	11.0
EBIT Growth (%)	14.0	20.0	(10.0)	12.5	12.1
Other Income	1.15	1.23	1.40	1.27	1.25
Interest	0.23	0.36	0.50	0.52	0.55
PBT	5.36	6.20	5.70	6.16	6.75
Tax (incl deferred)	1.38	1.43	1.32	1.48	1.62
Minority Interest and associate profit	0.07	0.02	0.04	0.05	0.06
RPAT	4.05	4.79	4.42	4.73	5.19
EO (Loss) / Profit (Net Of Tax)	-0.29	-0.11	0.00	0.00	0.00
APAT	4.33	4.90	4.42	4.73	5.19
APAT Growth (%)	17.2	13.1	(9.9)	7.2	9.7
EPS	38.6	43.6	39.3	42.1	46.2
EPS Growth (%)	17.2	13.1	(9.9)	7.2	9.7

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital - Equity	0.56	0.55	0.55	0.55	0.55
Reserves	22.88	25.09	27.24	30.04	33.11
Total Shareholders' Funds	23.44	25.64	27.79	30.59	33.66
Minority Interest	0.00	-0.02	-0.02	-0.02	-0.02
Total Debt	2.41	3.25	3.25	3.25	3.25
Net Deferred Taxes	0.04	0.11	0.11	0.11	0.11
Long Term Provisions & Others	1.28	1.85	1.90	2.06	2.26
TOTAL SOURCES OF FUNDS	27.16	30.84	33.04	36.00	39.26
APPLICATION OF FUNDS					
Net Block	4.43	4.52	4.75	4.80	5.00
CWIP	0.52	1.04	1.04	1.04	1.04
Goodwill & Other Intangible Assets	3.55	5.26	5.26	5.26	5.26
Investments	0.00	0.00	0.00	0.00	0.00
LT Loans & Advances, Others	1.76	1.66	1.70	1.85	2.03
Total Non Current Assets	10.25	12.48	12.76	12.95	13.33
Cash & Equivalents	11.24	10.25	11.20	12.82	14.46
Debtors	6.91	8.14	8.49	9.23	10.13
Inventories	1.31	1.83	1.90	2.07	2.27
Other Current Assets	4.29	5.90	6.47	7.04	7.72
Total Current Assets (ex cash)	12.52	15.87	16.86	18.34	20.12
Creditors	3.81	3.71	3.80	4.00	4.23
Other Current Liabilities & Provns	3.03	4.05	3.98	4.12	4.41
Total Current Liabilities	6.84	7.76	7.78	8.12	8.65
Net Current Assets	5.68	8.11	9.08	10.22	11.47
TOTAL APPLICATION OF FUNDS	27.16	30.84	33.04	36.00	39.26

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	5.36	6.20	5.70	6.16	6.75
Non-operating & EO items	(0.34)	(0.81)	(1.36)	(1.22)	(1.18)
Interest expenses	0.20	0.33	0.50	0.52	0.55
Depreciation	1.05	1.11	1.90	1.96	2.01
Working Capital Change	(1.66)	(1.71)	(0.98)	(1.12)	(1.23)
Tax paid	(1.65)	(1.42)	(1.32)	(1.48)	(1.62)
OPERATING CASH FLOW (a)	2.96	3.70	4.44	4.82	5.27
Capex	(1.69)	(1.53)	(2.13)	(2.01)	(2.21)
Free cash flow (FCF)	1.28	2.17	2.31	2.81	3.06
Investments	0.00	0.00	0.00	0.00	0.00
Non-operating income	1.04	(1.17)	1.40	1.27	1.25
INVESTING CASH FLOW (b)	(0.65)	(2.70)	(0.73)	(0.74)	(0.96)
Debt Issuance	0.72	0.85	0.00	0.00	0.00
Interest expenses	(0.19)	(0.30)	(0.50)	(0.52)	(0.55)
FCFE	1.80	2.72	1.81	2.29	2.52
Share capital Issuance	0.01	0.02	(0.00)	0.00	0.00
Dividend/Buyback	(1.89)	(2.89)	(2.26)	(1.94)	(2.13)
FINANCING CASH FLOW (c)	(1.36)	(2.32)	(2.76)	(2.46)	(2.67)
NET CASH FLOW (a+b+c)	0.95	(1.32)	0.95	1.63	1.64
Non-operating and EO items	(0.46)	0.34	0.00	0.00	0.00
Closing Cash & Equivalents	11.24	10.25	11.20	12.82	14.46

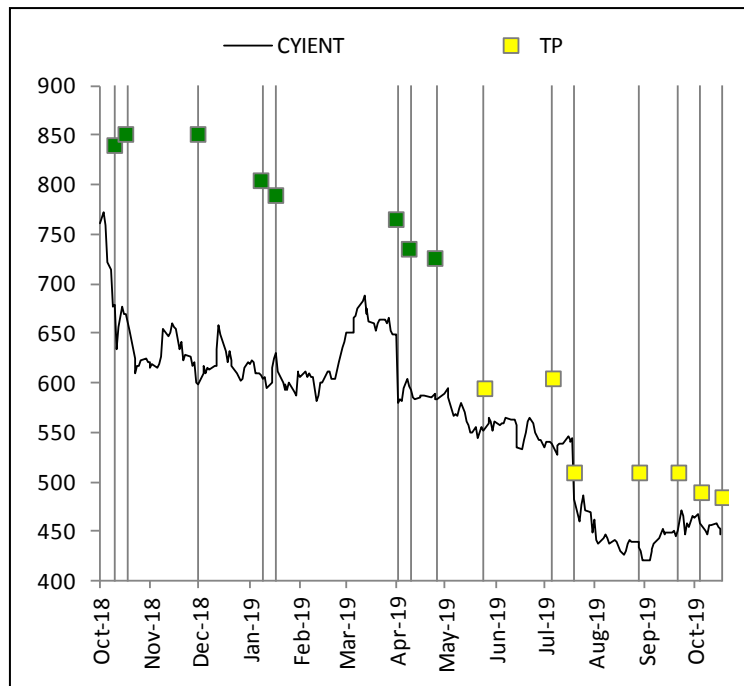
Source: Company, HDFC sec Inst Research

Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
EBITDA Margin	14.0	14.0	14.5	14.6	14.6
APAT Margin	10.3	10.4	9.6	9.4	9.4
RoE	18.1	19.5	16.5	16.2	16.2
RoIC or Core RoCE	22.5	22.5	17.4	18.2	19.2
RoCE	17.6	17.9	15.0	14.9	14.9
EFFICIENCY					
Tax Rate (%)	25.8	23.0	23.2	24.0	24.0
Fixed Asset Turnover (x)	3.2	3.4	3.0	2.9	2.8
Inventory (days)	12	14	15	15	15
Debtors (days)	75	74	76	76	75
Other Current Assets (days)	40	47	51	51	51
Payables (days)	41	34	35	34	33
Other Current Liab & Provns (days)	28	32	31	30	29
Cash Conversion Cycle (days)	58	69	76	78	79
Net Debt/EBITDA (x)	(1.6)	(1.0)	(1.1)	(1.3)	(1.4)
Net Debt/Equity (x)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Interest Coverage (x)	19.1	14.7	9.6	10.4	11.1
PER SHARE DATA					
EPS (Rs/sh)	38.6	43.6	39.3	42.1	46.2
CEPS (Rs/sh)	45.6	52.8	56.5	59.9	64.5
DPS (Rs/sh)	14	15	17	15	16
BV (Rs/sh)	208.9	228.5	247.7	272.6	299.9
VALUATION					
P/E	12.4	10.5	11.4	10.6	9.7
P/BV	2.1	2.0	1.8	1.6	1.5
EV/EBITDA	7.5	6.7	6.3	5.5	4.8
OCF/EV (%)	7.2	8.6	10.5	11.9	13.5
FCF/EV (%)	3.1	5.0	5.5	6.9	7.9
FCFE/mkt cap (%)	3.6	5.4	3.6	4.6	5.1
Dividend Yield (%)	3.1	3.4	3.9	3.3	3.6

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Oct-18	681	BUY	840
18-Oct-18	670	BUY	850
30-Nov-18	600	BUY	850
8-Jan-19	606	BUY	804
18-Jan-19	629	BUY	790
1-Apr-19	648	BUY	765
9-Apr-19	604	BUY	735
26-Apr-19	584	BUY	725
27-May-19	551	NEU	595
5-Jul-19	535	NEU	605
19-Jul-19	544	NEU	510
27-Aug-19	439	NEU	510
22-Sep-19	451	NEU	510
4-Oct-19	466	NEU	490
18-Oct-19	448	NEU	485

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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

Disclosure:

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