

# Hexaware Technologies

**BUY**

## Steady state

We maintain BUY on Hexaware post its better operating performance (vs. est) in 3Q. Revenue cut (~3%) factoring slower organic growth (Mobiquity to support growth) is offset by margin increase. Our TP of Rs 445, valued at 16x Sep-21E EPS.

### HIGHLIGHTS of the QUARTER

- Hexaware posted revenue of USD 211mn, +12.3/24.4% QoQ/YoY CC and included Mobiquity full-qtr consolidation (9% QoQ est). Revenue growth guidance was lowered to 17-18% (USD terms) for CY19 (vs. 19% earlier), implying 4Q growth of 1.6-4.8% QoQ.
- Decline in large BFS account (within top-3 and impact from budget cut/in-sourcing) continued and impacted 3Q growth by -200bps QoQ. Guidance cut factors continued decline in the large BFS account, 4Q furloughs and softness in BFS vertical (including Mobiquity).
- Net-New deal wins were soft with TCV at USD 28mn, vs. USD 36mn in 2Q however management commentary of steady renewals. While large BFS account concerns persist, reduction in client concentration (T10 concentration reduced from 56.5%

to 44.4% in 2 yrs) is a positive supported by Mobiquity. >USD 10mn client bucket has expanded to 13 accounts (vs. 9 in 1QCY19) supported by Mobiquity.

- EBITDA margin stood at 16.1%, +116bps QoQ and -10bps QoQ (adj. for transaction cost in 2Q). Margin was impacted by wage increase (-50bps), utilisation dip (-90bps) and Mobiquity-led higher SG&A (-140bps) which was offset by absence of visa cost (+70bps) and higher realisation (+70bps). APAT came at Rs 1.84bn, 6.7% YoY.

### STANCE

Hexaware's 'low-double digit' organic growth trajectory is sustainable supported by (1) IMS/BPM and ADM service-lines, (2) Cross-sell opportunities from Mobiquity and (3) Strengthening Guidewire, Pega and Adobe partnership. While concerns around BFS (large account) persist, improved offerings in the vertical (Backbase, AWS) will support growth. We build USD rev/EPS of 15/13% CAGR over CY18-21E factoring USD rev growth at 17.1/15.7/12.1% and EBITDA% at 15.1/15.3/15.6% for CY19/20/21E, respectively. Key risks include escalation in client specific challenges (BFS) and low NN wins.

### Financial Summary

| YE Dec (Rs bn)   | 3QCY19 | 3QCY18 | YoY (%) | 2QCY19 | QoQ (%) | CY17  | CY18  | CY19E | CY20E | CY21E |
|------------------|--------|--------|---------|--------|---------|-------|-------|-------|-------|-------|
| Net Revenues     | 14.81  | 12.10  | 22.5    | 13.08  | 13.2    | 39.42 | 46.48 | 55.65 | 65.40 | 74.71 |
| EBIT             | 2.05   | 1.86   | 10.2    | 1.74   | 17.8    | 5.92  | 6.69  | 7.49  | 8.89  | 10.42 |
| APAT             | 1.84   | 1.72   | 6.7     | 1.51   | 21.4    | 4.99  | 5.83  | 6.37  | 7.32  | 8.53  |
| Diluted EPS (Rs) | 6.2    | 5.8    | 6.7     | 5.1    | 21.3    | 16.7  | 19.6  | 21.4  | 24.5  | 28.6  |
| P/E (x)          |        |        |         |        |         | 21.9  | 18.7  | 17.1  | 14.9  | 12.8  |
| EV / EBITDA (x)  |        |        |         |        |         | 15.8  | 13.8  | 13.1  | 10.8  | 8.9   |
| RoE (%)          |        |        |         |        |         | 26.6  | 26.5  | 24.5  | 24.2  | 24.3  |

Source: Company, HDFC sec Inst Research

| INDUSTRY                       | IT            |
|--------------------------------|---------------|
| <b>CMP (as on 23 Oct 2019)</b> | <b>Rs 366</b> |
| <b>Target Price</b>            | <b>Rs 445</b> |
| Nifty                          | 11,604        |
| Sensex                         | 39,059        |

| KEY STOCK DATA              |           |
|-----------------------------|-----------|
| Bloomberg                   | HEXW IN   |
| No. of Shares (mn)          | 298       |
| MCap (Rs bn) / (\$ mn)      | 109/1,541 |
| 6m avg traded value (Rs mn) | 376       |

| STOCK PERFORMANCE (%)     |                   |     |        |
|---------------------------|-------------------|-----|--------|
| <b>52 Week high / low</b> | <b>Rs 456/294</b> |     |        |
|                           | 3M                | 6M  | 12M    |
| Absolute (%)              | 3.6               | 5.8 | 3.0    |
| Relative (%)              | 0.8               | 4.5 | (12.4) |

| SHAREHOLDING PATTERN (%) |        |        |
|--------------------------|--------|--------|
|                          | Jun-19 | Sep-19 |
| Promoters                | 62.52  | 62.45  |
| FIs & Local MFs          | 11.88  | 11.58  |
| FPIs                     | 16.76  | 17.85  |
| Public & Others          | 8.84   | 8.12   |
| Pledged Shares           | 0.00   | 0.00   |

Source : BSE

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**Revenue was USD 210.5mn, +12.3/24.4% QoQ/YoY CC, revenue includes Mobiquity full quarter consolidation**

**Full year CY19 guidance lowered to 17-18% (19% earlier) with -50bps impact from cross currency and remaining on furloughs in 4Q & top client impact**

**EBITDA margin was up 116bps QoQ but on adjusted basis EBITDA margin was down 10bps QoQ, margin was impacted by wage increase (-50bps), Utilisation (-90bps) and SG&A (-140bps) which was offset by absence of Visa cost (+70bps) and higher realisation (+70bps)**

**Partial wage hike impact expected in next qtr (~40bps impact)**

**APAT increased to Rs 1.84bn supported by forex gain of Rs 198mn (vs. gain of Rs 74mn in 2Q), lower ETR (-47bps QoQ) also supported PAT**

**ETR for CY20 guided at ~18%**

### Quarterly Consolidated Financials Snapshot

| Particulars (Rs bn)               | 3QCY19       | 3QCY18       | YoY (%)     | 2QCY19       | QoQ (%)     |
|-----------------------------------|--------------|--------------|-------------|--------------|-------------|
| <b>Net Sales (USD mn)</b>         | <b>210.5</b> | <b>171.1</b> | <b>23.1</b> | <b>188.5</b> | <b>11.7</b> |
| <b>Net Sales</b>                  | <b>14.81</b> | <b>12.10</b> | <b>22.5</b> | <b>13.08</b> | <b>13.2</b> |
| Employee Expenses                 | 8.20         | 6.34         | 29.3        | 6.97         | 17.6        |
| SG&A and Other Operating Expenses | 4.18         | 3.64         | 14.8        | 4.12         | 1.3         |
| <b>EBITDA</b>                     | <b>2.38</b>  | <b>2.02</b>  | <b>17.5</b> | <b>1.95</b>  | <b>22.0</b> |
| Depreciation                      | 0.32         | 0.16         | 103.8       | 0.21         | 57.8        |
| <b>EBIT</b>                       | <b>2.05</b>  | <b>1.86</b>  | <b>10.2</b> | <b>1.74</b>  | <b>17.8</b> |
| Interest Costs                    | 0.03         | 0.00         | NM          | 0.01         | NM          |
| Other Income                      | 0.20         | 0.26         | (22.6)      | 0.11         | 87.8        |
| <b>PBT</b>                        | <b>2.22</b>  | <b>2.13</b>  | <b>4.5</b>  | <b>1.84</b>  | <b>20.7</b> |
| Tax                               | 0.39         | 0.41         | (4.6)       | 0.33         | 17.6        |
| RPAT                              | 1.84         | 1.72         | 6.7         | 1.51         | 21.4        |
| E/o (adj for tax)                 | -            | -            | -           | -            | -           |
| <b>APAT</b>                       | <b>1.84</b>  | <b>1.72</b>  | <b>6.7</b>  | <b>1.51</b>  | <b>21.4</b> |

Source: Company, HDFC sec Inst Research

### Margin Analysis

| Particulars                   | 3QCY19      | 3QCY18      | YoY (bps)    | 2QCY19      | QoQ (bps)  |
|-------------------------------|-------------|-------------|--------------|-------------|------------|
| Employee Expenses % Net Sales | 55.3        | 52.4        | 292          | 53.3        | 204        |
| Other Expenses % Net Sales    | 28.2        | 30.1        | (189)        | 31.5        | (331)      |
| <b>EBITDA Margin (%)</b>      | <b>16.1</b> | <b>16.7</b> | <b>(67)</b>  | <b>14.9</b> | <b>116</b> |
| EBIT Margin (%)               | 13.9        | 15.4        | (155)        | 13.3        | 54         |
| Tax Rate (%)                  | 17.4        | 19.1        | (167)        | 17.9        | (47)       |
| <b>APAT Margin (%)</b>        | <b>12.4</b> | <b>14.2</b> | <b>(183)</b> | <b>11.6</b> | <b>84</b>  |

Source: Company, HDFC sec Inst Research

**Growth was slightly higher at offshore (+12.6% QoQ) than at Onsite (+11.1% QoQ)**

**Within verticals, BFSI QoQ growth has been below company average growth for 7 consecutive qtrs, BFSI was impacted by stress in one large client**

**One large client (among Top 3 clients) in BFS vertical is witnessing stress impacted cut in outsourcing ratio to ~30% (from 50-65%), this account is expected to be weak in 4QCY19**

### Onsite-Offshore Revenue Break-up

| (% of revenue)   | 3QCY17       | 4QCY17       | 1QCY18       | 2QCY18       | 3QCY18       | 4QCY18       | 1QCY19       | 2QCY19       | 3QCY19       |
|------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Onsite Revenue   | 65.4         | 65.1         | 65.4         | 65.2         | 64.9         | 63.9         | 63.4         | 63.0         | 62.7         |
| Offshore Revenue | 34.6         | 34.9         | 34.6         | 34.8         | 35.1         | 36.1         | 36.6         | 37.0         | 37.3         |
| <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

### Onsite-Offshore Revenue Growth

| (QoQ, %)         | 3QCY17     | 4QCY17     | 1QCY18     | 2QCY18     | 3QCY18     | 4QCY18     | 1QCY19     | 2QCY19     | 3QCY19      |
|------------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| Onsite Revenue   | 2.0        | 0.9        | 4.4        | 3.4        | 1.2        | 1.4        | 1.4        | 4.1        | 11.1        |
| Offshore Revenue | (1.1)      | 2.2        | 3.0        | 4.4        | 2.5        | 5.9        | 3.6        | 5.9        | 12.6        |
| <b>Total</b>     | <b>0.9</b> | <b>1.3</b> | <b>3.9</b> | <b>3.8</b> | <b>1.6</b> | <b>3.0</b> | <b>2.2</b> | <b>4.7</b> | <b>11.7</b> |

Source: Company, HDFC Sec Inst Research

### Vertical Revenue Break-up

| (% of revenue)                     | 3QCY17       | 4QCY17       | 1QCY18       | 2QCY18       | 3QCY18       | 4QCY18       | 1QCY19       | 2QCY19       | 3QCY19       |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Banking and Financial Services     | 43.4         | 44.4         | 43.7         | 42.8         | 42.5         | 42.1         | 40.8         | 39.8         | 38.6         |
| Manufacturing, Consumer and Others | 26.8         | 26.9         | 27.2         | 29.0         | 28.2         | 29.0         | 31.5         | 30.9         | 32.0         |
| Insurance and Healthcare           | 16.6         | 16.7         | 16.0         | 17.1         | 18.8         | 19.1         | 18.3         | 19.2         | 19.3         |
| Travel & Transportation            | 13.2         | 12.0         | 13.1         | 11.1         | 10.5         | 9.9          | 9.5          | 10.1         | 10.1         |
| <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-wise Revenue Growth

| (QoQ, %)                           | 3QCY17     | 4QCY17     | 1QCY18     | 2QCY18     | 3QCY18     | 4QCY18     | 1QCY19     | 2QCY19     | 3QCY19      |
|------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| Banking and Financial Services     | 1.2        | 3.7        | 2.3        | 1.6        | 0.9        | 1.9        | (1.0)      | 2.3        | 8.3         |
| Manufacturing, Consumer and Others | (2.4)      | 1.7        | 5.1        | 10.6       | (1.2)      | 5.7        | 11.0       | 2.9        | 15.6        |
| Insurance And Healthcare           | 7.4        | 2.0        | (0.4)      | 10.9       | 11.8       | 4.6        | (2.1)      | 9.9        | 12.3        |
| Travel & Transportation            | (0.6)      | (7.9)      | 13.4       | (12.1)     | (3.8)      | (2.9)      | (1.9)      | 11.4       | 11.7        |
| <b>Total</b>                       | <b>0.9</b> | <b>1.3</b> | <b>3.9</b> | <b>3.8</b> | <b>1.6</b> | <b>3.0</b> | <b>2.2</b> | <b>4.7</b> | <b>11.7</b> |

Source: Company, HDFC Sec Inst Research

**ADM led growth among service-lines up 26.2% QoQ, ADM growth for past two qtrs is aided by Mobiquity**

**IMS growth has slowed down to 1.6% QoQ, this service line is impacted by project closure**

**BPM growth has been strong and above company average for three consecutive qtrs**

**Net new deal wins were soft at TCV USD 28mn (vs. USD 36mn in 2Q), EN bookings are expected to drive growth in CY20**

**Top-5 accounts (35.2% of rev) grew 5.4% QoQ on change in mix of clients, one large client in Top-3 clients is witnessing stress (2% QoQ impact on overall revenue growth)**

### Service Line Break-up

| (% of revenue)                         | 3QCY17       | 4QCY17       | 1QCY18       | 2QCY18       | 3QCY18       | 4QCY18       | 1QCY19       | 2QCY19       | 3QCY19       |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| ADM                                    | 36.3         | 37.2         | 35.9         | 36.6         | 36.0         | 35.1         | 34.5         | 37.0         | 41.8         |
| Quality Assurance and Testing Services | 20.0         | 19.5         | 19.1         | 18.4         | 17.7         | 17.5         | 17.5         | 17.7         | 15.7         |
| Business Intelligence & Analytics      | 13.8         | 13.8         | 14.2         | 13.5         | 14.5         | 13.1         | 13.1         | 12.3         | 10.9         |
| Enterprise Solutions                   | 11.3         | 10.8         | 10.9         | 10.5         | 9.7          | 9.5          | 9.5          | 9.4          | 9.2          |
| IMS                                    | 11.3         | 11.7         | 13.0         | 13.8         | 14.7         | 17.5         | 17.8         | 15.6         | 14.2         |
| BPM                                    | 7.3          | 7.0          | 6.9          | 7.2          | 7.4          | 7.3          | 7.6          | 8.0          | 8.2          |
| <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

### Service Line Growth

| (QoQ, %)                               | 3QCY17     | 4QCY17     | 1QCY18     | 2QCY18     | 3QCY18     | 4QCY18     | 1QCY19     | 2QCY19     | 3QCY19      |
|--|------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| ADM                                    | 0.4        | 3.9        | 0.3        | 5.8        | (0.0)      | 0.4        | 0.4        | 12.3       | 26.2        |
| Quality Assurance and Testing Services | 2.5        | (1.2)      | 1.8        | (0.1)      | (2.2)      | 1.8        | 2.2        | 5.9        | (0.9)       |
| Business Intelligence & Analytics      | (0.5)      | 1.3        | 6.9        | (1.4)      | 9.2        | (7.0)      | 2.2        | (1.7)      | (1.0)       |
| Enterprise Solutions                   | (1.7)      | (3.1)      | 4.9        | (0.1)      | (6.1)      | 0.8        | 2.2        | 3.6        | 9.3         |
| IMS                                    | 3.7        | 4.9        | 15.5       | 10.1       | 8.3        | 22.6       | 3.9        | (8.2)      | 1.6         |
| BPM                                    | 2.3        | (2.8)      | 2.4        | 8.3        | 4.5        | 1.6        | 6.4        | 10.3       | 14.5        |
| <b>Total</b>                           | <b>0.9</b> | <b>1.3</b> | <b>3.9</b> | <b>3.8</b> | <b>1.6</b> | <b>3.0</b> | <b>2.2</b> | <b>4.7</b> | <b>11.7</b> |

Source: Company, HDFC Sec Inst Research

### Client Metrics

|  | 3QCY17 | 4QCY17 | 1QCY18 | 2QCY18 | 3QCY18 | 4QCY18 | 1QCY19 | 2QCY19 | 3QCY19 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Client Concentration (% of revenue)</b> |        |        |        |        |        |        |        |        |        |
| Top-5                                      | 43.5   | 42.8   | 42.1   | 42.4   | 42.1   | 42.0   | 41.7   | 37.3   | 35.2   |
| Top-10                                     | 54.8   | 52.9   | 52.8   | 52.8   | 52.2   | 51.6   | 51.1   | 46.4   | 44.4   |
| <b>Clients (Nos)</b>                       |        |        |        |        |        |        |        |        |        |
| >USD 1mn                                   | 82     | 88     | 89     | 93     | 95     | 99     | 99     | 120    | 124    |
| >USD 20mn                                  | 5      | 4      | 4      | 4      | 4      | 5      | 5      | 5      | 6      |
| <b>Growth (QoQ %)</b>                      |        |        |        |        |        |        |        |        |        |
| Top-5                                      | (4.8)  | (0.3)  | 2.2    | 4.5    | 0.9    | 2.7    | 1.5    | (6.3)  | 5.4    |
| Top-10                                     | (2.1)  | (2.2)  | 3.7    | 3.8    | 0.5    | 1.8    | 1.2    | (4.9)  | 6.9    |

Source: Company, HDFC Sec Inst Research

**Americas and Europe growth included some component attributable to Mobiquity US to Europe revenue mix of Mobiquity is ~55:45%**

**Attrition improved 90bps QoQ to 17.3% but supply side constraints continue**

**Utilisation dipped 170bps QoQ, utilization is expected to be soft next qtr on furloughs**

### Geographic Revenue Break-up

| (% of revenue) | 3QCY17       | 4QCY17       | 1QCY18       | 2QCY18       | 3QCY18       | 4QCY18       | 1QCY19       | 2QCY19       | 3QCY19       |
|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Americas       | 79.1         | 77.7         | 75.3         | 77.0         | 77.4         | 76.9         | 76.1         | 76.8         | 75.4         |
| Europe         | 11.3         | 12.1         | 12.5         | 12.7         | 13.3         | 13.0         | 12.6         | 14.0         | 16.6         |
| Asia-Pacific   | 9.6          | 10.2         | 12.2         | 10.3         | 9.3          | 10.1         | 11.3         | 9.2          | 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

### Geographic Revenue Growth

| (QoQ, %)     | 3QCY17     | 4QCY17     | 1QCY18     | 2QCY18     | 3QCY18     | 4QCY18     | 1QCY19     | 2QCY19     | 3QCY19      |
|--------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| Americas     | (1.2)      | (0.4)      | 0.7        | 6.1        | 2.2        | 2.3        | 1.1        | 5.7        | 9.6         |
| Europe       | 1.8        | 8.5        | 7.3        | 5.4        | 6.5        | 0.6        | (1.0)      | 16.4       | 32.4        |
| Asia-Pacific | 21.1       | 7.7        | 24.3       | (12.4)     | (8.2)      | 11.8       | 14.3       | (14.7)     | (2.9)       |
| <b>Total</b> | <b>0.9</b> | <b>1.3</b> | <b>3.9</b> | <b>3.8</b> | <b>1.6</b> | <b>3.0</b> | <b>2.2</b> | <b>4.7</b> | <b>11.7</b> |

Source: Company, HDFC Sec Inst Research

### Headcount, Utilisation Data

| (Nos.)                                    | 3QCY17        | 4QCY17        | 1QCY18        | 2QCY18        | 3QCY18        | 4QCY18        | 1QCY19        | 2QCY19        | 3QCY19        |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total headcount</b>                    | <b>13,488</b> | <b>13,705</b> | <b>14,619</b> | <b>15,357</b> | <b>16,050</b> | <b>16,205</b> | <b>16,509</b> | <b>18,294</b> | <b>19,062</b> |
| Technical Employees                       | 12,409        | 12,636        | 13,493        | 14,205        | 14,862        | 15,006        | 15,206        | 16,006        | 16,406        |
| Sales & Marketing                         | 445           | 452           | 468           | 461           | 482           | 486           | 479           | 549           | 553           |
| General Management/Support                | 634           | 617           | 658           | 691           | 706           | 713           | 824           | 1,739         | 2,103         |
| Net Employee Addition                     | 390           | 217           | 914           | 738           | 693           | 155           | 304           | 1,785         | 768           |
| Attrition (%)                             | 13.7          | 13.1          | 13.4          | 14.4          | 15.7          | 17.0          | 18.2          | 18.2          | 17.3          |
| <b>Utilisation including trainees (%)</b> | <b>79.7</b>   | <b>80.9</b>   | <b>81.3</b>   | <b>78.2</b>   | <b>79.0</b>   | <b>78.7</b>   | <b>79.0</b>   | <b>80.7</b>   | <b>79.0</b>   |

Source: Company, HDFC Sec Inst Research

### Key Assumptions

| Particulars                         | CY16        | CY17        | CY18        | CY19E       | CY20E       | CY21E       |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Onsite USD Revenue Growth (%)       | 11.0        | 20.3        | 11.4        | 13.9        | 16.7        | 13.9        |
| Offshore USD Revenue Growth (%)     | 4.0         | 7.8         | 11.9        | 23.0        | 14.0        | 8.9         |
| <b>Total USD Revenue Growth (%)</b> | <b>8.3</b>  | <b>15.6</b> | <b>11.6</b> | <b>17.1</b> | <b>15.7</b> | <b>12.1</b> |
| USD/INR Rate                        | 67.3        | 64.9        | 68.5        | 70.2        | 71.3        | 72.6        |
| <b>EBITDA Margin (%)</b>            | <b>16.4</b> | <b>16.6</b> | <b>15.8</b> | <b>15.1</b> | <b>15.3</b> | <b>15.6</b> |

Source: Company, HDFC Sec Inst Research

### Change In Estimates

| Particulars      | OLD   | NEW   | % change |
|------------------|-------|-------|----------|
| <b>CY19E</b>     |       |       |          |
| Revenue (USD mn) | 800   | 793   | (0.8)    |
| Revenue (Rs bn)  | 56.16 | 55.65 | (0.9)    |
| EBIT (Rs bn)     | 7.32  | 7.49  | 2.2      |
| EBIT margin (%)  | 13.0  | 13.5  | 41bps    |
| EPS (Rs)         | 20.4  | 21.4  | 4.7      |
| <b>CY20E</b>     |       |       |          |
| Revenue (USD mn) | 954   | 918   | (3.8)    |
| Revenue (Rs bn)  | 68.00 | 65.40 | (3.8)    |
| EBIT (Rs bn)     | 8.94  | 8.89  | (0.6)    |
| EBIT margin (%)  | 13.2  | 13.6  | 44bps    |
| EPS (Rs)         | 24.6  | 24.5  | (0.1)    |
| <b>CY21E</b>     |       |       |          |
| Revenue (USD mn) | 1,068 | 1,028 | (3.7)    |
| Revenue (Rs bn)  | 77.57 | 74.71 | (3.7)    |
| EBIT (Rs bn)     | 10.81 | 10.42 | (3.6)    |
| EBIT margin (%)  | 13.9  | 14.0  | 1bps     |
| EPS (Rs)         | 29.6  | 28.6  | (3.5)    |

Source: HDFC sec Inst Research

## Peer Set Comparison

| Company                 | MCap<br>(Rs bn) | CMP<br>(Rs) | TP<br>(Rs) | RECO       | EPS (Rs)    |             |             |             | P/E (x)     |             |             |             | RoE (%)     |             |             |             |
|-------------------------|-----------------|-------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                         |                 |             |            |            | FY18        | FY19        | FY20E       | FY21E       | FY18        | FY19        | FY20E       | FY21E       | FY18        | FY19        | FY20E       | FY21E       |
| TCS                     | 7,768           | 2,070       | 1,975      | NEU        | 68.8        | 83.9        | 85.5        | 92.9        | 30.1        | 24.7        | 24.2        | 22.3        | 30.1        | 36.1        | 35.3        | 37.1        |
| Infosys                 | 2,769           | 651         | 835        | NEU        | 34.6        | 37.2        | 37.9        | 43.7        | 18.8        | 17.5        | 17.2        | 14.9        | 22.0        | 24.4        | 25.4        | 28.5        |
| Wipro                   | 1,513           | 254         | 230        | NEU        | 13.5        | 15.1        | 16.8        | 18.0        | 18.9        | 16.8        | 15.1        | 14.1        | 16.5        | 17.3        | 17.8        | 17.7        |
| HCL Tech                | 1,485           | 1,095       | 1,250      | BUY        | 64.7        | 74.6        | 74.0        | 83.0        | 16.9        | 14.7        | 14.8        | 13.2        | 25.3        | 26.0        | 22.2        | 21.7        |
| TechM                   | 639             | 727         | 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        |
| <b>Tier-1 IT Median</b> |                 |             |            |            |             |             |             |             | <b>18.8</b> | <b>16.8</b> | <b>16.0</b> | <b>14.3</b> | <b>22.0</b> | <b>24.4</b> | <b>22.6</b> | <b>23.2</b> |
| LTI                     | 286             | 1,645       | 1,845      | BUY        | 66.9        | 87.3        | 83.7        | 95.5        | 24.6        | 18.8        | 19.6        | 17.2        | 33.2        | 34.6        | 27.5        | 27.1        |
| Mphasis                 | 173             | 927         | 1,180      | BUY        | 45.4        | 57.6        | 58.3        | 69.1        | 20.4        | 16.1        | 15.9        | 13.4        | 14.6        | 20.0        | 19.7        | 20.9        |
| LTTS                    | 156             | 1,502       | 1,705      | BUY        | 45.5        | 68.0        | 74.0        | 88.4        | 33.0        | 22.1        | 20.3        | 17.0        | 27.7        | 32.0        | 28.4        | 28.5        |
| Mindtree                | 118             | 718         | 760        | NEU        | 32.3        | 44.1        | 36.4        | 47.9        | 22.2        | 16.3        | 19.8        | 15.0        | 21.4        | 24.9        | 17.3        | 22.9        |
| <b>Hexaware *</b>       | <b>109</b>      | <b>366</b>  | <b>445</b> | <b>BUY</b> | <b>16.7</b> | <b>19.6</b> | <b>21.4</b> | <b>24.5</b> | <b>21.9</b> | <b>18.7</b> | <b>17.1</b> | <b>14.9</b> | <b>26.6</b> | <b>26.5</b> | <b>24.5</b> | <b>24.2</b> |
| Cyient                  | 48              | 423         | 485        | NEU        | 38.6        | 43.6        | 39.8        | 42.7        | 11.0        | 9.7         | 10.6        | 9.9         | 18.1        | 19.5        | 16.6        | 16.2        |
| Zensar                  | 42              | 186         | 240        | BUY        | 10.6        | 14.3        | 15.5        | 18.1        | 17.6        | 13.1        | 12.0        | 10.3        | 15.1        | 17.6        | 16.6        | 17.0        |
| Persistent              | 46              | 603         | 655        | BUY        | 42.0        | 47.5        | 43.3        | 47.5        | 14.4        | 12.7        | 13.9        | 12.7        | 16.0        | 15.7        | 13.8        | 14.7        |
| Tata Elxsi              | 45              | 716         | 680        | NR         | 38.5        | 46.6        | 38.6        | 45.1        | 18.6        | 15.4        | 18.6        | 15.9        | 37.0        | 34.5        | 23.7        | 24.0        |
| Sonata                  | 32              | 312         | 448        | BUY        | 18.6        | 24.0        | 26.5        | 29.9        | 16.8        | 13.0        | 11.8        | 10.4        | 31.0        | 35.1        | 33.7        | 33.8        |
| Intellect               | 24              | 185         | 315        | BUY        | 3.5         | 7.7         | 7.6         | 11.7        | NM          | 24.2        | 24.5        | 15.9        | 6.7         | 11.1        | 9.3         | 12.8        |
| eClerx                  | 16              | 425         | 460        | NEU        | 74.0        | 61.7        | 50.1        | 51.2        | 5.7         | 6.9         | 8.5         | 8.3         | 24.1        | 17.6        | 13.8        | 14.1        |
| Majesco                 | 12              | 417         | 700        | BUY        | (1.5)       | 18.3        | 20.9        | 31.1        | NM          | 22.7        | 20.0        | 13.4        | NM          | 8.4         | 8.3         | 11.4        |
| HGS                     | 12              | 562         | 760        | NR         | 96.5        | 84.6        | 85.3        | 101.2       | 5.8         | 6.6         | 6.6         | 5.5         | 10.5        | 8.5         | 11.2        | 11.8        |
| Mastek                  | 8               | 352         | 505        | BUY        | 27.7        | 40.4        | 38.3        | 42.7        | 12.7        | 8.7         | 9.2         | 8.2         | 13.7        | 16.1        | 12.9        | 13.0        |
| <b>Tier-2 IT Median</b> |                 |             |            |            |             |             |             |             | <b>17.6</b> | <b>15.4</b> | <b>15.9</b> | <b>13.4</b> | <b>19.8</b> | <b>19.5</b> | <b>16.6</b> | <b>17.0</b> |

| Company                 | MCap<br>(USD bn) | CMP<br>USD | TP | RECO | EPS (USD) |       |       |       | P/E (x)     |             |             |             | RoE (%)     |             |             |             |
|-------------------------|------------------|------------|----|------|-----------|-------|-------|-------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                         |                  |            |    |      | FY18      | FY19E | FY20E | FY21E | FY18        | FY19E       | FY20E       | FY21E       | FY18        | FY19E       | FY20E       | FY21E       |
| Accenture               | 124              | 184        | NA | NR   | 5.6       | 6.5   | 7.8   | 8.6   | 33.1        | 28.5        | 23.6        | 21.5        | 41.7        | 42.0        | 34.9        | 35.0        |
| Cognizant               | 33               | 60         | NA | NR   | 2.5       | 3.6   | 4.0   | 4.3   | 23.5        | 16.6        | 15.1        | 13.9        | 14.1        | 19.0        | 19.0        | 20.4        |
| Capgemini^              | 19               | 105        | NA | NR   | 4.9       | 4.4   | 6.5   | 7.2   | 21.6        | 24.1        | 16.1        | 14.7        | 11.5        | 10.1        | 13.4        | 13.6        |
| <b>Global IT Median</b> |                  |            |    |      |           |       |       |       | <b>23.5</b> | <b>24.1</b> | <b>16.1</b> | <b>14.7</b> | <b>14.1</b> | <b>19.0</b> | <b>19.0</b> | <b>20.4</b> |

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

## Consolidated Income Statement

| YE December (Rs bn)               | CY17         | CY18         | CY19E        | CY20E        | CY21E        |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net Sales (US\$ mn)</b>        | <b>607</b>   | <b>678</b>   | <b>793</b>   | <b>918</b>   | <b>1,028</b> |
| <b>Growth (%)</b>                 | <b>15.6</b>  | <b>11.6</b>  | <b>17.1</b>  | <b>15.7</b>  | <b>12.1</b>  |
| <b>Net Sales</b>                  | <b>39.42</b> | <b>46.48</b> | <b>55.65</b> | <b>65.40</b> | <b>74.71</b> |
| <b>Growth (%)</b>                 | <b>11.5</b>  | <b>17.9</b>  | <b>19.7</b>  | <b>17.5</b>  | <b>14.2</b>  |
| Employee Expenses                 | 21.43        | 24.80        | 30.36        | 35.60        | 39.06        |
| SG&A and Other Operating Expenses | 11.44        | 14.34        | 16.88        | 19.78        | 24.00        |
| <b>EBITDA</b>                     | <b>6.55</b>  | <b>7.34</b>  | <b>8.41</b>  | <b>10.02</b> | <b>11.65</b> |
| <b>EBITDA (%)</b>                 | <b>16.6</b>  | <b>15.8</b>  | <b>15.1</b>  | <b>15.3</b>  | <b>15.6</b>  |
| Depreciation                      | 0.63         | 0.65         | 0.93         | 1.13         | 1.22         |
| <b>EBIT</b>                       | <b>5.92</b>  | <b>6.69</b>  | <b>7.49</b>  | <b>8.89</b>  | <b>10.42</b> |
| <b>EBIT (%)</b>                   | <b>15.0</b>  | <b>14.4</b>  | <b>13.5</b>  | <b>13.6</b>  | <b>14.0</b>  |
| <b>EBIT Growth (%)</b>            | <b>13.3</b>  | <b>13.0</b>  | <b>11.9</b>  | <b>18.7</b>  | <b>17.3</b>  |
| Other Income                      | 0.49         | 0.58         | 0.36         | 0.31         | 0.29         |
| Interest                          | 0.00         | 0.00         | 0.07         | 0.13         | 0.13         |
| <b>PBT</b>                        | <b>6.40</b>  | <b>7.27</b>  | <b>7.77</b>  | <b>9.07</b>  | <b>10.59</b> |
| Tax (incl deferred)               | 1.41         | 1.43         | 1.40         | 1.75         | 2.07         |
| <b>RPAT</b>                       | <b>4.99</b>  | <b>5.83</b>  | <b>6.37</b>  | <b>7.32</b>  | <b>8.53</b>  |
| <b>APAT</b>                       | <b>4.99</b>  | <b>5.83</b>  | <b>6.37</b>  | <b>7.32</b>  | <b>8.53</b>  |
| <b>APAT Growth (%)</b>            | <b>18.9</b>  | <b>16.9</b>  | <b>9.2</b>   | <b>14.9</b>  | <b>16.5</b>  |
| <b>EPS</b>                        | <b>16.7</b>  | <b>19.6</b>  | <b>21.4</b>  | <b>24.5</b>  | <b>28.6</b>  |
| <b>EPS Growth (%)</b>             | <b>18.9</b>  | <b>16.9</b>  | <b>9.2</b>   | <b>14.9</b>  | <b>16.5</b>  |

Source: Company, HDFC sec Inst Research

## Consolidated Balance Sheet

| YE December (Rs bn)                | CY17         | CY18         | CY19E        | CY20E        | CY21E        |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>SOURCES OF FUNDS</b>            |              |              |              |              |              |
| Share Capital - Equity             | 0.59         | 0.59         | 0.60         | 0.60         | 0.60         |
| Reserves                           | 19.48        | 23.32        | 27.54        | 31.82        | 37.12        |
| <b>Total Shareholders' Funds</b>   | <b>20.07</b> | <b>23.92</b> | <b>28.14</b> | <b>32.42</b> | <b>37.72</b> |
| Total Debt                         | -            | -            | 2.10         | 2.10         | 2.10         |
| Net Deferred Taxes                 | (1.34)       | (1.78)       | (1.78)       | (1.78)       | (1.78)       |
| Long Term Provisions & Others      | 0.21         | 0.31         | 0.31         | 0.31         | 0.31         |
| <b>TOTAL SOURCES OF FUNDS</b>      | <b>18.95</b> | <b>22.44</b> | <b>28.76</b> | <b>33.04</b> | <b>38.34</b> |
| <b>APPLICATION OF FUNDS</b>        |              |              |              |              |              |
| Net Block                          | 3.76         | 3.93         | 6.44         | 6.35         | 6.07         |
| CWIP                               | 2.56         | 2.24         | 2.24         | 2.24         | 2.24         |
| Goodwill                           | 1.66         | 1.81         | 11.59        | 11.59        | 11.59        |
| Investments                        | 0.02         | 0.03         | 0.03         | 0.03         | 0.03         |
| Other non-current assets           | 1.58         | 1.67         | 1.67         | 1.67         | 1.67         |
| <b>Total Non Current Assets</b>    | <b>9.58</b>  | <b>9.68</b>  | <b>21.96</b> | <b>21.87</b> | <b>21.59</b> |
| <b>Cash &amp; Equivalents</b>      | <b>5.49</b>  | <b>8.31</b>  | <b>1.56</b>  | <b>3.61</b>  | <b>8.00</b>  |
| Debtors                            | 5.36         | 8.03         | 9.76         | 11.65        | 13.30        |
| Other Current Assets               | 3.69         | 3.53         | 3.99         | 5.19         | 5.93         |
| <b>Total Current Assets</b>        | <b>9.05</b>  | <b>11.56</b> | <b>13.75</b> | <b>16.84</b> | <b>19.23</b> |
| Creditors                          | 2.20         | 3.30         | 3.96         | 4.48         | 5.12         |
| Other Current Liabilities & Provns | 2.97         | 3.81         | 4.55         | 4.80         | 5.36         |
| <b>Total Current Liabilities</b>   | <b>5.17</b>  | <b>7.11</b>  | <b>8.52</b>  | <b>9.28</b>  | <b>10.48</b> |
| <b>Net Current Assets</b>          | <b>3.88</b>  | <b>4.45</b>  | <b>5.23</b>  | <b>7.56</b>  | <b>8.75</b>  |
| <b>TOTAL APPLICATION OF FUNDS</b>  | <b>18.95</b> | <b>22.44</b> | <b>28.76</b> | <b>33.04</b> | <b>38.34</b> |

Source: Company, HDFC sec Inst Research

## Consolidated Cash Flow

| YE December (Rs bn)              | CY17          | CY18          | CY19E          | CY20E         | CY21E         |
|----------------------------------|---------------|---------------|----------------|---------------|---------------|
| Reported PBT                     | 6.40          | 7.27          | 7.77           | 9.07          | 10.59         |
| Non-operating & EO items         | 0.37          | 0.33          | (0.29)         | (0.25)        | (0.24)        |
| Interest expenses                | 0.00          | 0.00          | 0.07           | 0.13          | 0.13          |
| Depreciation                     | 0.63          | 0.65          | 0.93           | 1.13          | 1.22          |
| Working Capital Change           | (0.90)        | (1.17)        | (0.78)         | (2.32)        | (1.20)        |
| Tax paid                         | (1.75)        | (1.59)        | (1.40)         | (1.75)        | (2.07)        |
| <b>OPERATING CASH FLOW ( a )</b> | <b>4.76</b>   | <b>5.49</b>   | <b>6.29</b>    | <b>6.01</b>   | <b>8.44</b>   |
| Capex                            | (0.95)        | (0.61)        | (13.21)        | (1.04)        | (0.94)        |
| <i>Free cash flow (FCF)</i>      | <i>3.81</i>   | <i>4.88</i>   | <i>(6.92)</i>  | <i>4.97</i>   | <i>7.50</i>   |
| Non-operating income             | 0.02          | 0.07          | 0.29           | 0.25          | 0.24          |
| <b>INVESTING CASH FLOW ( b )</b> | <b>(0.94)</b> | <b>(0.54)</b> | <b>(12.92)</b> | <b>(0.79)</b> | <b>(0.71)</b> |
| Debt Issuance                    | -             | -             | 2.10           | -             | -             |
| Interest expenses                | (0.00)        | (0.00)        | (0.07)         | (0.13)        | (0.13)        |
| <i>FCFE</i>                      | <i>3.81</i>   | <i>4.88</i>   | <i>(4.89)</i>  | <i>4.85</i>   | <i>7.37</i>   |
| Share capital Issuance           | 0.01          | 0.00          | 0.00           | -             | -             |
| Dividend/ Buyback                | (2.81)        | (2.51)        | (2.15)         | (3.05)        | (3.23)        |
| <b>FINANCING CASH FLOW ( c )</b> | <b>(2.80)</b> | <b>(2.50)</b> | <b>(0.12)</b>  | <b>(3.17)</b> | <b>(3.35)</b> |
| <b>NET CASH FLOW (a+b+c)</b>     | <b>1.03</b>   | <b>2.44</b>   | <b>(6.74)</b>  | <b>2.05</b>   | <b>4.38</b>   |
| Closing Cash & Equivalents       | 5.49          | 8.31          | 1.56           | 3.61          | 8.00          |

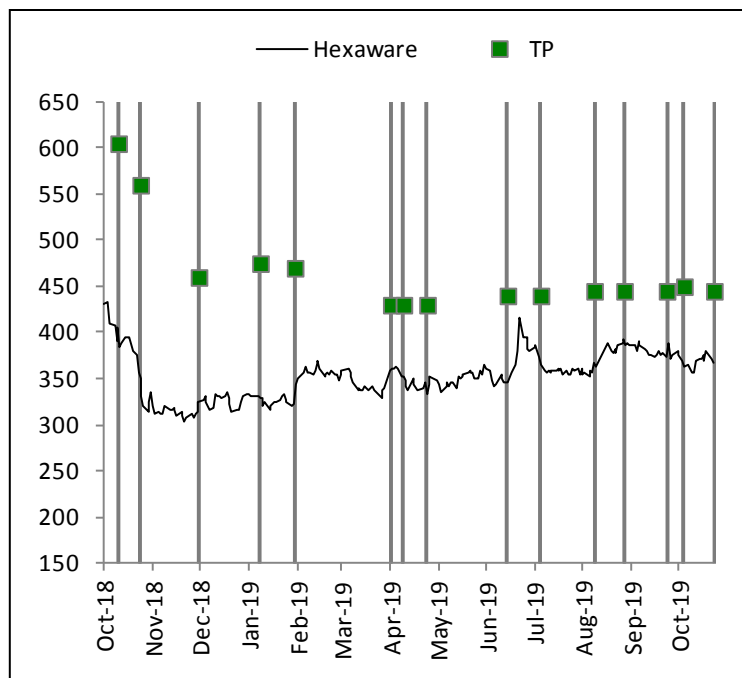
Source: Company, HDFC sec Inst Research

## Key Ratios

|   | CY17      | CY18      | CY19E     | CY20E     | CY21E     |
|---|-----------|-----------|-----------|-----------|-----------|
| <b>PROFITABILITY (%)</b>                  |           |           |           |           |           |
| EBITDA Margin                             | 16.6      | 15.8      | 15.1      | 15.3      | 15.6      |
| APAT Margin                               | 12.7      | 12.6      | 11.4      | 11.2      | 11.4      |
| RoE                                       | 26.6      | 26.5      | 24.5      | 24.2      | 24.3      |
| RoIC or Core RoCE                         | 36.2      | 38.9      | 29.7      | 25.3      | 28.1      |
| RoCE                                      | 28.2      | 28.2      | 25.1      | 24.0      | 24.2      |
| <b>EFFICIENCY</b>                         |           |           |           |           |           |
| Tax Rate (%)                              | 22.0      | 19.7      | 18.1      | 19.3      | 19.5      |
| Fixed Asset Turnover (x)                  | 3.3       | 3.7       | 3.2       | 3.4       | 3.7       |
| <i>Debtors (days)</i>                     | <i>50</i> | <i>63</i> | <i>64</i> | <i>65</i> | <i>65</i> |
| <i>Other current assets (x)</i>           | <i>34</i> | <i>28</i> | <i>26</i> | <i>29</i> | <i>29</i> |
| <i>Payables (days)</i>                    | <i>20</i> | <i>26</i> | <i>26</i> | <i>25</i> | <i>25</i> |
| <i>Other current liab &amp; provn (x)</i> | <i>27</i> | <i>30</i> | <i>30</i> | <i>27</i> | <i>26</i> |
| Cash Conversion Cycle (days)              | 36        | 35        | 34        | 42        | 43        |
| Net Debt/EBITDA (x)                       | (0.8)     | (1.1)     | 0.1       | (0.2)     | (0.5)     |
| Net Debt/Equity (x)                       | (0.3)     | (0.3)     | 0.0       | (0.0)     | (0.2)     |
| Interest Coverage (x)                     | 5,016     | 15,923    | 110       | 71        | 83        |
| <b>PER SHARE DATA</b>                     |           |           |           |           |           |
| EPS (Rs/sh)                               | 16.7      | 19.6      | 21.4      | 24.5      | 28.6      |
| CEPS (Rs/sh)                              | 18.9      | 21.7      | 24.5      | 28.3      | 32.7      |
| DPS (Rs/sh)                               | 4.0       | 8.5       | 6.0       | 8.5       | 9.0       |
| BV (Rs/sh)                                | 67.3      | 80.2      | 94.3      | 108.7     | 126.4     |
| <b>VALUATION</b>                          |           |           |           |           |           |
| P/E                                       | 21.9      | 18.7      | 17.1      | 14.9      | 12.8      |
| P/BV                                      | 5.4       | 4.6       | 3.9       | 3.4       | 2.9       |
| EV/EBITDA                                 | 15.8      | 13.8      | 13.1      | 10.8      | 8.9       |
| OCF/EV (%)                                | 4.6       | 5.4       | 5.7       | 5.6       | 8.2       |
| FCF/EV (%)                                | 3.7       | 4.8       | (6.3)     | 4.6       | 7.3       |
| FCFE/mkt cap (%)                          | 3.5       | 4.5       | (4.5)     | 4.4       | 6.7       |
| Dividend Yield (%)                        | 1.1       | 2.3       | 1.6       | 2.3       | 2.5       |

Source: Company, HDFC sec Inst Research

## RECOMMENDATION HISTORY



| Date      | CMP | Reco | Target |
|-----------|-----|------|--------|
| 10-Oct-18 | 404 | BUY  | 605    |
| 25-Oct-18 | 351 | BUY  | 560    |
| 30-Nov-18 | 315 | BUY  | 460    |
| 8-Jan-19  | 329 | BUY  | 475    |
| 31-Jan-19 | 323 | BUY  | 470    |
| 1-Apr-19  | 345 | BUY  | 430    |
| 9-Apr-19  | 351 | BUY  | 430    |
| 25-Apr-19 | 333 | BUY  | 430    |
| 17-Jun-19 | 345 | BUY  | 440    |
| 5-Jul-19  | 365 | BUY  | 440    |
| 9-Aug-19  | 367 | BUY  | 445    |
| 27-Aug-19 | 388 | BUY  | 445    |
| 22-Sep-19 | 377 | BUY  | 445    |
| 4-Oct-19  | 369 | BUY  | 450    |
| 24-Oct-19 | 366 | BUY  | 445    |

## Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period  
 NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period  
 SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

**Disclosure:**

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