

Skin in the game

We believe the IT sector is at an inflection point, following a prolonged deceleration. Our view is based on (1) Up-scaling the value proposition (digital-at-scale, pipeline, partner eco-system), (2) Accelerating demand environment (improving macros, contract trends, rebid opportunity) and market-share gains (full-service portfolio, offshore leverage, large deals), (3) Strong operational metrics (new logo addition and midcap IT's large account scalability, favourable supply metrics), and (4) Strength in balance sheet and cash generation.

- Indian IT has gained >15% share of global IT services business over the trailing ten years. We expect the sector (tier-1 IT) to grow at 1.4x global IT services. NorthAm/Europe continue to be dominant markets for the sector at 61/30% of revenue, even as Europe has outperformed recently. Revenue-share of tier-1 IT (vs. large global peers) has increased from 11% to 27% over the past ten years. We expect further market share gains supported by (1) Global deal renewal opportunity (USD 221bn TCV in 2 years) with improving macros, (2) Offshore leverage, (3) Broad, full service portfolio, (4) Rising digital prowess, and (5) Large deal wins.
- 'Digital' scale-up is supported by (1) Strong deal flows, (2) Increase in size of digital (programs moving from POCs to core), (3) Investments in platforms and expanding partner eco-system, and (4) M&A and employee re-skilling. Growth trends resonate with the mix of ISVs (IBM/Oracle/SAP). Digital component in the business mix is now large enough (>23% of revs in our coverage universe) to drive growth at close to double-

digit in FY20E (9% YoY est.) with 33% CAGR in digital and 1.1% CAGR in legacy. We believe companies that achieve high absolute scale and/or share of digital in the business-mix will be the winners going ahead.

- Our survey (N=24) within tech leaders/experts indicates (1) Improvement in overall deal pipeline (73% seeing better pipeline), (2) Increasing size of digital deals (68% seeing increase), (3) Unchanged intensity of cloud, automation impact on legacy, and (4) Flat pricing. Indian IT has built-in significant operational efficiencies (utilisation improvement of 300 to 1,100 bps in last 2 years) to mitigate FX and onshore impact.
- The sector's growth has been led by new logo addition with stable rev/account (lower TCV, limited large account scalability for tier-1). Account hunting (new logo adds) is similar between tier-1 and midcap IT, while midcaps have done better at large account mining.
- Supply metrics for the sector continue to be favourable with (1) Availability of a large talent pool, (2) Increased non-linearity driven by cloud, automation and platforms, (3) Lower onsite delivery risk (lower H-1B) despite increase in onshore presence.
- IT sector valuations (at 3% disc. to benchmark vs 18% prem. historically) will be supported by its balance sheet strength (>25% RoIC, 10/33% Cash-MCap/Cash-Total Asset, steady working capital), strong cash generation (OCF/EBITDA% and FCF/PAT at 71% each) and efficient capital allocation (22/69% of OCF towards CAPEX/payout).

Top picks: INFY, HCLT, LTI, LTT, Zensar, Cyient

Company	CMP (Rs)	RECO	TP (Rs)
TCS	3,014	NEU	3,105
Infosys	1,124	BUY	1,335
Wipro	286	NEU	285
HCL Tech	967	BUY	1,140
TechM	633	BUY	750
LTI	1,397	BUY	1,690
Mphasis	899	BUY	1,000
Mindtree	830	BUY	940
LTT	1,198	BUY	1,500
Hexaware	409	BUY	450
Cyient	630	BUY	780
Persistent	663	BUY	840
eClerx	1,244	NEU	1,310
Zensar	947	BUY	1,200
Sonata	333	BUY	375
Intellect	169	BUY	240
Majesco	477	BUY	660

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Executive Summary of Coverage Universe

S.No	Name	Mcap (Rs bn)	Reco	TP (Upside %)	USD Rev CAGR 17-20E	Target P/E (x)	Investment Thesis
1	TCS	5,770	NEU	3105 (3%)	8	19	Large deal wins, expansion of digital, recovery in key verticals and stable operating performance to support growth (9/10% rev/EPS CAGR over FY18-20E). EPS upgraded by 3% and increased multiple to 19x FY20E (17x earlier), 12% premium to INFY target multiple (in-line with 3-yr avg. prem.) factoring higher growth visibility. NEUTRAL rating factors-in the positives with TP of Rs 3,105.
2	Infosys	2,444	BUY	1335 (19%)	8	17	Senior management stability, rapid acceleration in digital, recovery in NorthAm BFSI, momentum in large accounts (top 11-25), strong execution and geo-diversification of delivery will support rev/EPS CAGR of 9% each over FY18-20E. Increase earnings by ~1% and maintain BUY at 17x FY20E for TP of Rs 1,335.
3	Wipro	1,292	NEU	285 (0%)	6	13	Higher drag in legacy revenue vs peers, client specific issues in Communication, high exposure to Energy and issues around HPS acquisition dragged growth for Wipro (Top-line growth lagged peers since the last five years). Management expects growth to return to industry level from 1QFY19E led by Digital (25% of rev), strong BFSI & return of growth in Energy and stability in HPS. Re-rating will take place with revival in growth and margin expansion, currently elusive. Build Revenue/EPS CAGR of 6/8% over FY18-20E, Maintain NEUTRAL with TP of Rs 285 based on 13x FY20 earnings.
4	HCL Tech	1,346	BUY	1140 (18%)	12	15	IMS recovery (large deal wins), continuity in ER&D leadership and growth, Scaling of Mode-2/3 business, Active inorganic strategy will support 11/10% rev/EPS CAGR over FY18-20E. Increase earnings by ~2% and maintain BUY with TP of Rs 1,140, valued at 15x FY20E (>21% discount to TCS valuations vs. 25% discount historically).
5	TechM	563	BUY	750 (18%)	10	15	Stability in Telecom (LCC + Comviva), industry leading growth in Enterprise, and significant improvement in margins has led to re-rating in the last three months. Worst is behind and the company is back on growth track. Growth will be led by revival in Telecom, strong growth in Enterprise led by BFSI & Manufacturing. Build in Revenue/EPS CAGR of 10/13% for FY18/20E. Maintain BUY with TP of Rs 750 based on 15x FY20E earnings.
6	LTI	240	BUY	1690 (21%)	16	20	Increase in pipeline & deal wins, portfolio scalability & track record, greater focus in Europe geo and strong management bandwidth will support rev/EPS CAGR of 16/14% CAGR over FY18-20. Increase earnings by ~3% and maintain BUY with TP of Rs 1,690, at 20x FY20E (18x earlier), implying PEG of 1.4x supported by superior return metrics and FCF generation.
7	Mphasis	174	BUY	1000 (11%)	11	18	Direct core momentum on high share of digital, strong TCV wins, BFSI-led growth and continuity in Blackstone wins. HP-DXC channel growth supported by strategic partnership, AD and IMS driven growth in new wins and investments in S&M. Maintain BUY with TP of Rs 1,000, at 18x FY20E EPS, implying PEG of <1.5x with rev/EPS CAGR of 11/14% over FY18-20E.
8	Mindtree	139	BUY	940 (13%)	12	20	Higher deal pipeline and win-rate, Traction in large accounts, Digital-led growth (industry leading rev share) supported by increase in deal size and recovery in BlueFin/magnet360 to support 13/30% CAGR in rev/EPS over FY18-20E. Maintain BUY with TP of Rs 940, 20x FY20E (18x earlier) implying <1 PEG and at 1.3x 5-yr median P/E.
9	LTT	123	BUY	1500 (25%)	18	22	Strong deal wins and pipeline, large account mining and a strong account base, diversified vertical portfolio with limited competition in multiple verticals and recovery in plant engineering to support 18/25% CAGR in rev/EPS over FY18-20E. Maintain BUY with TP of Rs 1,500, 22x FY20E (18x earlier), implying PEG of <0.9x.

Executive Summary of Coverage Universe contd...

S.No	Name	Mcap (Rs bn)	Reco	TP (Upside %)	USD Rev CAGR 17-20E	Target P/E (x)	Investment Thesis
10	Hexaware *	121	BUY	450 (10%)	13	19	Growth leadership in IMS/BPM, strong deal win trends, geo diversification into Europe/APAC, stability in top accounts ahead will supplement 12/16% CAGR over CY17-20E. Maintain BUY with TP of Rs 450, 19x Mar-20E EPS (18x earlier), implying 1.3x 5-yr median P/E.
11	Cyient	71	BUY	780 (24%)	13	15	Growth revival in Aerospace & Defense (led by top-client), strengthening deal pipeline, strong growth in Communication & Transportation and growth revival in DLM will lead to double digit growth for the next two years. Margin will expand with off-shoring & recovery in DLM (currently break-even). Management also aims at double digit growth with gradual expansion in margins. Build in 14/18% revenue/EPS CAGR over FY18-20E. Maintain BUY with TP of Rs 780 based on 15x FY20E earnings.
12	Persistent	53	BUY	840 (27%)	11	16	Despite near/term growth/margin headwinds, PSYS' growth to be supported by market expansion in Europe, strong growth in digital, improvement in alliance business profitability ahead. Expect revenue/EPS CAGR of 12/16% and maintain BUY with TP of Rs 840, 16x FY20E EPS.
13	eClerx	48	NEU	1310 (5%)	7	14	Expect 10/14% rev/EPS CAGR over FY18-20E based on stability in top-10 accounts, pick up in deal pipeline (top 11-20 accounts), margins having bottomed-out with completion in onshore investments. Upgrade to NEUTRAL (SELL earlier) with 3-4% EPS upgrade and TP of Rs 1,310, 14x FY20E (13x earlier).
14	Zensar	43	BUY	1200 (27%)	8	15	Strong growth in Digital (39% of rev), focus on Top-50 strategic accounts, one large deal wins in IMS, acquisition of Cynosure (SI for US P&C insurers) and hiring of senior sales people in US & UK will lead to revival in growth for Zensar. Margin will recover gradually with automation, off-shoring, completion of IMS restructuring and return of growth. Build in 9/24% revenue/EPS CAGR over FY18-20E. Maintain BUY with TP of Rs 1,200 based on 15x FY20 earnings.
15	Sonata	35	BUY	375 (13%)	17	16	The stock has witnessed massive re-rating in the last six months led by strong growth in IITS business, robust margin expansion (+500bps in two quarters), and broad based growth across verticals. Sonata has developed a niche for itself by provide business solutions wrapped with IPs and this strategy is witnessing increased client acceptance. We expect growth to continue and have built in revenue/EPS CAGR of 16/18% over FY18-20E. Maintain BUY with TP of Rs 375 based on 16x FY20E earnings.
16	Intellect	21	BUY	240 (42%)	19	20^	Huge addressable market, Top-rated and digital ready product portfolio, improving deal wins, significant order book (Rs 9.51bn ~92% of TTM rev) reflects significant growth opportunity and non-linearity provided scope for margin expansion. Increased focus on execution, optimal usage of sales team and R&D, robust collections has led to significant reduction in cash burn in the last three quarters. Build in Revenue/EBITDA CAGR of 17/61% over FY18-20E. Maintain BUY with TP of 240 based on 2.0x EV/rev multiple.
17	Majesco	13	BUY	660 (38%)	12	31^	Rising adoption of third-party software by US P&C insurers, highly rated product platform, IBM-partnership and pick-up in deal wins bodes well for the company. Cloud is the main revenue driver and ~80% of the deal pipeline is cloud. IBM alliance is very strategic for Majesco and can drive significant growth ahead (chasing 3-4 large deals). Raised Rs 2.3bn through QIP recently (@Rs 520/share), which will be used to fund acquisition. Build Revenue CAGR of 18% over FY18-20E. Maintain BUY with TP of Rs 660 based on 2.0x EV/rev multiple.

Source: HDFC sec Inst Research, * Dec YE, ^ Implied P/E (valued at EV/Rev of 2x for Intellect, Majesco)

IT Sector Valuation Universe

Company	MCap (USD bn)	MCap (Rs bn)	CMP (Rs)	TP (Rs)	RECO	P/E (x)			EV/EBITDA (x)			RoE (%)			EPS CAGR% FY18-20
						FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	
TCS	88.4	5,770	3,014	3,105	NEU	22.4	20.4	18.4	16.5	14.6	12.9	30.3	31.3	29.8	10%
Infosys	37.5	2,444	1,124	1,335	BUY	17.1	15.8	14.3	11.6	10.5	9.3	25.6	26.1	26.6	9%
Wipro	19.8	1,292	286	285	NEU	15.5	14.3	13.0	10.6	9.0	7.6	17.3	18.0	17.6	9%
HCL Tech	20.6	1,346	967	1,140	BUY	15.3	14.1	12.8	11.4	10.2	9.2	26.5	26.5	25.9	10%
TECHM	8.6	563	633	750	BUY	16.2	14.5	12.6	11.0	9.0	7.6	19.8	19.3	19.5	13%
Tier-1 IT Median						16.2	14.5	13.0	11.4	10.2	9.2	25.6	26.1	25.9	10%
LTI	3.7	240	1,397	1,690	BUY	21.6	18.9	16.6	17.9	14.1	11.3	32.1	30.9	30.0	14%
Mphasis	2.7	174	899	1,000	BUY	21.1	18.3	16.1	14.1	11.9	10.1	14.2	16.7	17.3	14%
Mindtree	2.1	139	830	940	BUY	29.9	21.8	17.6	18.1	13.5	11.1	20.9	23.4	25.4	30%
LTT	1.9	123	1,198	1,500	BUY	27.3	21.8	17.5	20.8	15.8	12.0	28.2	27.3	27.7	25%
Hexaware *	1.9	121	409	450	BUY	24.3	20.3	17.8	17.6	14.6	12.3	26.9	27.2	26.3	17%
Cyient	1.1	71	630	780	BUY	16.9	14.5	12.1	11.1	9.1	7.3	19.6	19.4	20.9	18%
Tata Elxsi #	1.0	65	1,043	1,100	NR	28.0	24.2	20.8	17.9	14.9	12.7	37.1	34.6	32.5	16%
Persistent	0.8	53	663	840	BUY	16.9	15.3	12.6	10.0	8.3	6.7	15.6	15.5	16.9	16%
eClerx	0.7	48	1,244	1,310	NEU	17.5	15.1	13.3	10.7	9.3	8.1	24.3	24.9	26.2	15%
Zensar	0.7	43	947	1,200	BUY	18.1	14.4	11.8	9.4	7.4	6.2	14.9	16.6	17.6	24%
KPIT Tech	0.7	44	223	202	NEU	18.4	16.7	13.2	11.6	9.8	7.6	14.5	14.3	16.2	18%
Sonata	0.5	35	333	375	BUY	19.7	16.4	14.3	14.5	11.6	9.7	32.8	35.3	35.7	18%
Intellect	0.3	21	169	240	BUY	58.5	21.6	14.0	26.8	15.5	10.9	5.0	11.0	14.9	104%
HGS #	0.3	19	898	1,005	NR	10.1	10.2	8.9	4.8	4.4	1.2	13.0	11.6	12.1	6%
Majesco	0.2	13	477	660	BUY	NM	48.4	22.7	48.9	17.1	8.5	(2.4)	5.3	10.5	NM
Mid-cap IT Median^						19.7	16.7	14.3	14.1	11.6	9.7	20.9	23.4	25.4	17%
Global Peers Comparison															
Accenture	99.4	NA	NA	NA	NR	24.4	22.5	20.7	15.5	14.4	13.2	44.7	43.9	40.3	9%
Cognizant	47.0	NA	NA	NA	NR	18.7	16.5	15.0	11.8	10.5	9.8	20.3	20.5	25.6	12%
DXC Tech	29.3	NA	NA	NA	NR	13.2	11.5	10.6	7.3	6.9	6.7	29.1	17.7	17.2	12%
Capgemini	21.7	NA	NA	NA	NR	17.2	15.7	14.5	10.5	9.8	9.2	12.4	12.8	12.3	9%
Atos	14.6	NA	NA	NA	NR	12.9	11.9	11.4	7.2	6.8	6.4	16.8	16.5	15.2	6%
Global Peers Median						17.2	15.7	14.5	10.5	9.8	9.2	20.3	17.7	17.2	9%

Source: Bloomberg, HDFC sec Inst Research, * Dec YE, ^ ex-Intellect, Majesco # FV

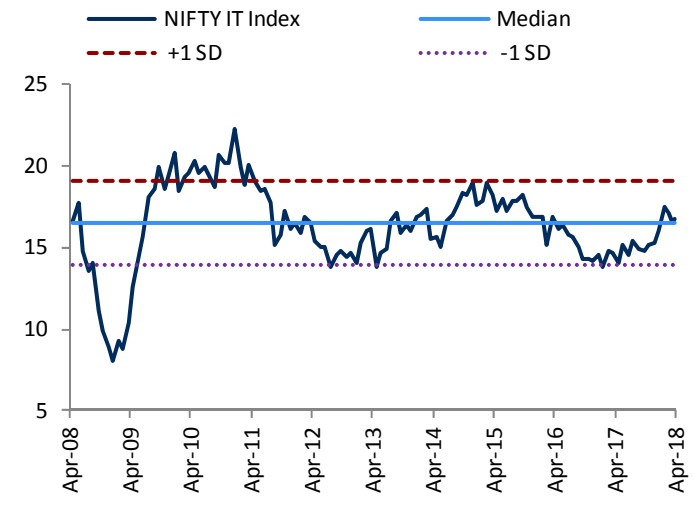
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Valuation Charts

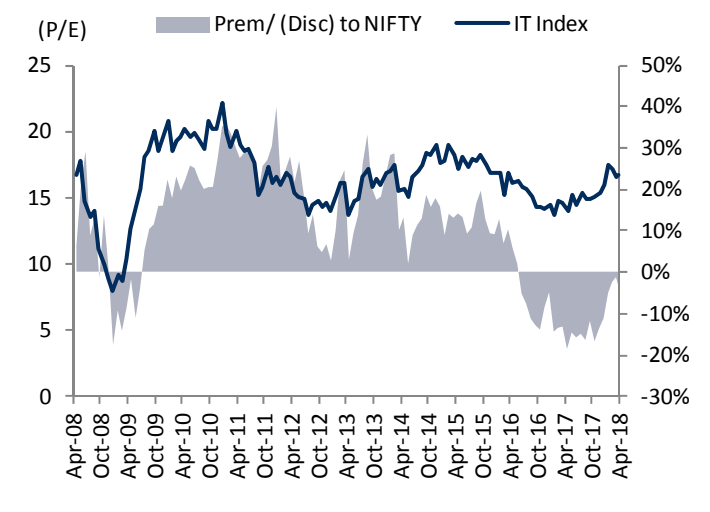
IT index at median P/E and at 3% discount to NIFTY as compared to 10-yr/5-yr average of 8/4% premium

NIFTY IT Index Valuation Trend (P/E 1-yr fwd)



Source: Bloomberg, HDFC sec Inst Research

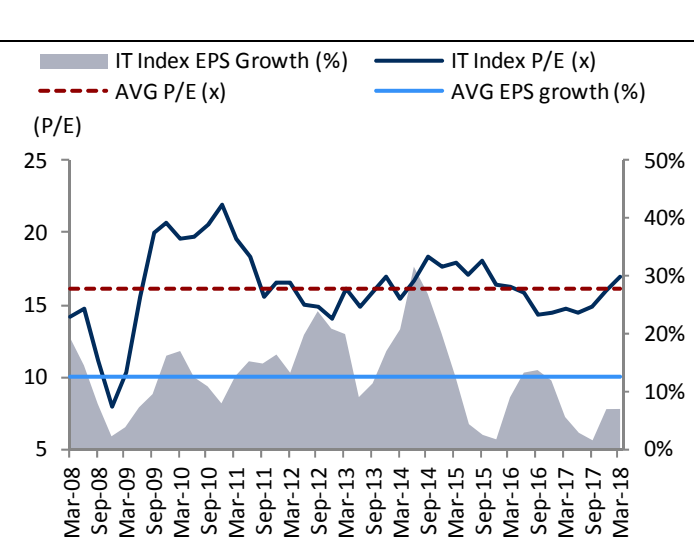
IT Index Valuation Trend vs NIFTY



Source: Bloomberg, HDFC sec Inst Research

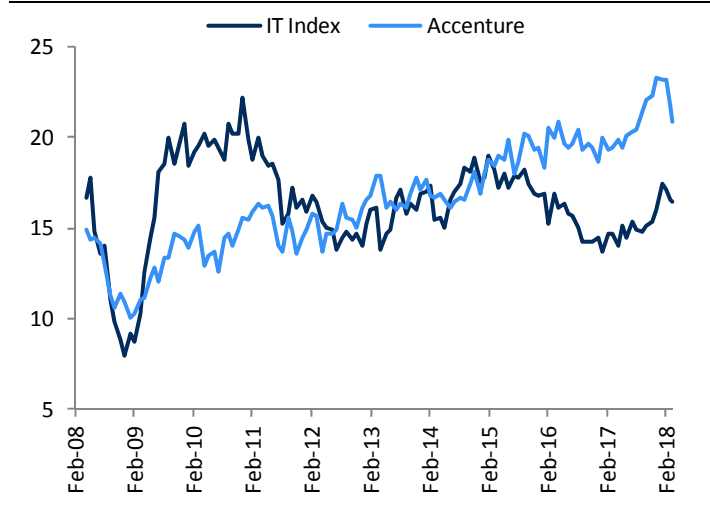
IT sector at ~20% discount to Accenture valuations as compared to historical avg. of par valuations

IT Index Valuation and Earnings Growth Trend



Source: Bloomberg, HDFC sec Inst Research

Indian IT At Peak Discount to Accenture Valuations (P/E 1-yr fwd)



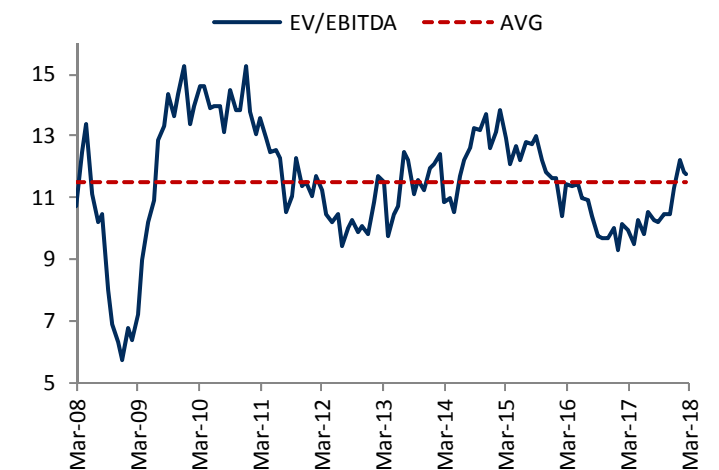
Source: Bloomberg, HDFC sec Inst Research

EPS Var (%) vs. Consensus

	FY19E	FY20E
TCS	-1%	1%
Infosys	1%	2%
Wipro	2%	3%
HCL Tech	2%	3%
TechM	6%	9%
LTI	1%	2%
Mphasis	1%	1%
Mindtree	3%	9%
LTT	1%	6%
Hexaware*	8%	9%
Cyient	4%	9%
Tata Elxsi	3%	2%
Persistent	-9%	-5%
eClerx	1%	1%
Zensar	0%	2%
KPIT Tech	-7%	-5%
Sonata	0%	0%

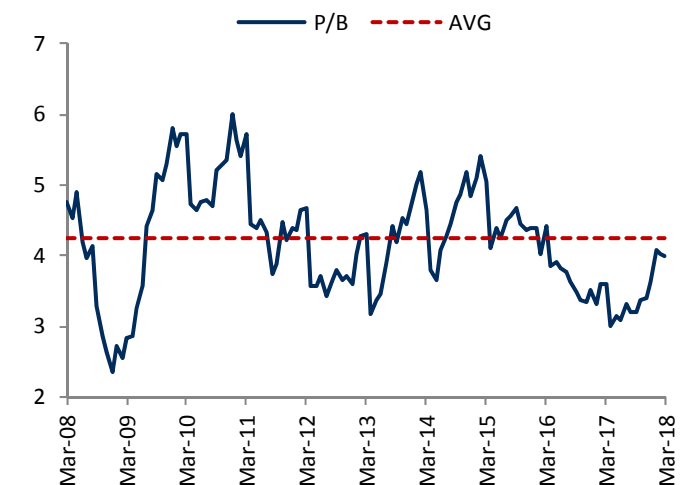
Earnings estimates ahead of consensus by upto 9% including TECHM, Mindtree, Hexaware, Cyient, LTT

IT Sector EV/EBITDA (x) Trend



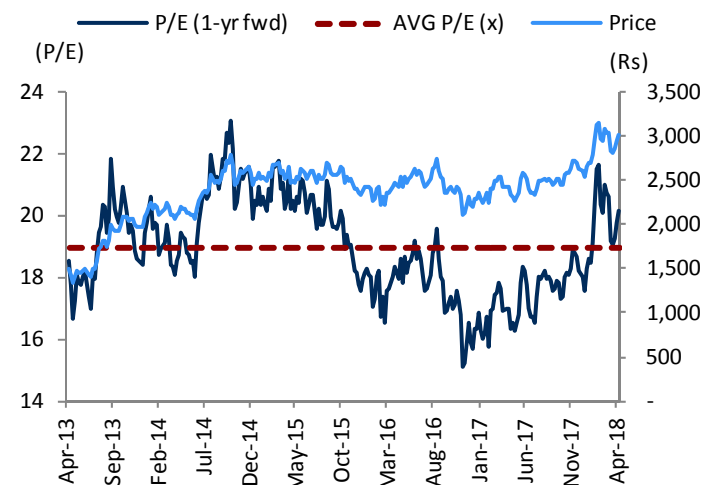
Source: Bloomberg, HDFC sec Inst Research

IT Sector P/B (x) Trend



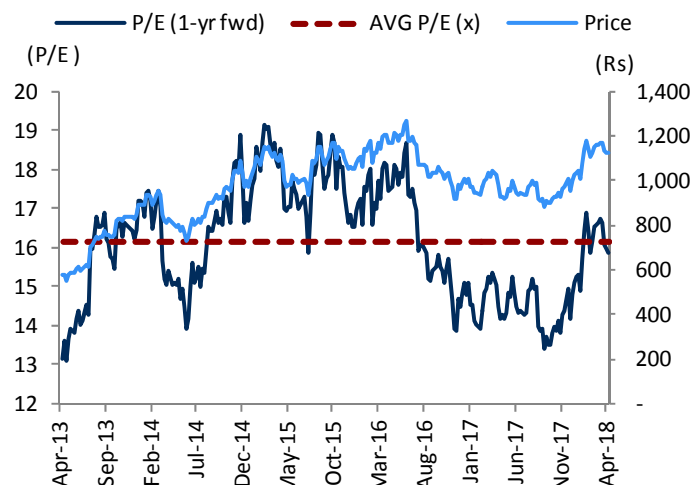
Source: Bloomberg, HDFC sec Inst Research

TCS P/E (1-yr fwd) Trend



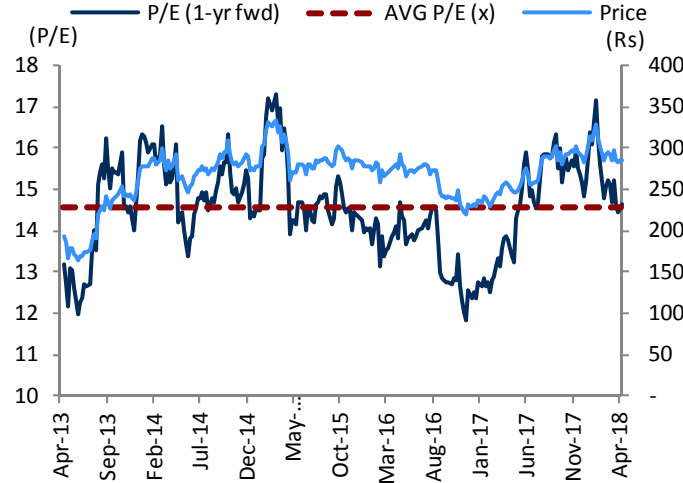
Source: Bloomberg, HDFC sec Inst Research

Infosys P/E (1-yr fwd) Trend



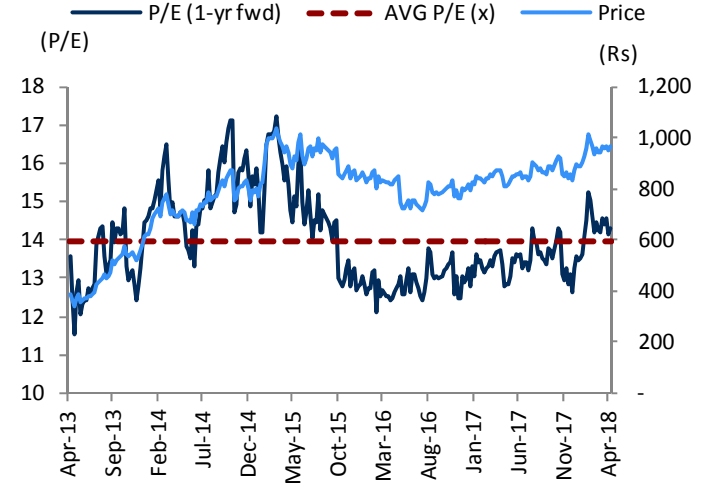
Source: Bloomberg, HDFC sec Inst Research

Wipro P/E (1-yr fwd) Trend



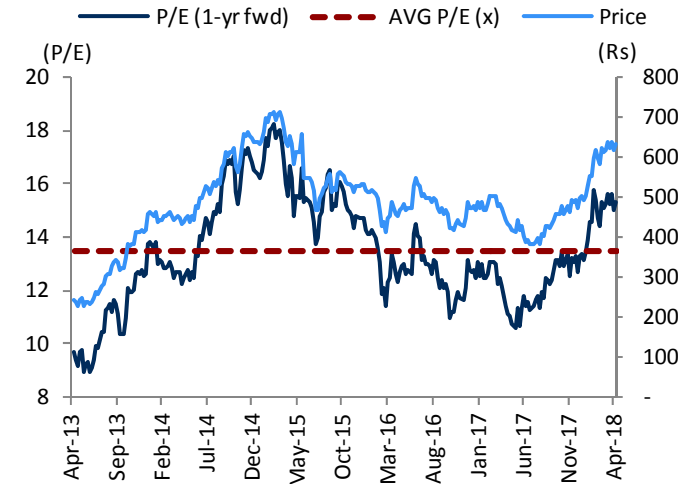
Source: Bloomberg, HDFC sec Inst Research

HCL Tech P/E (1-yr fwd) Trend



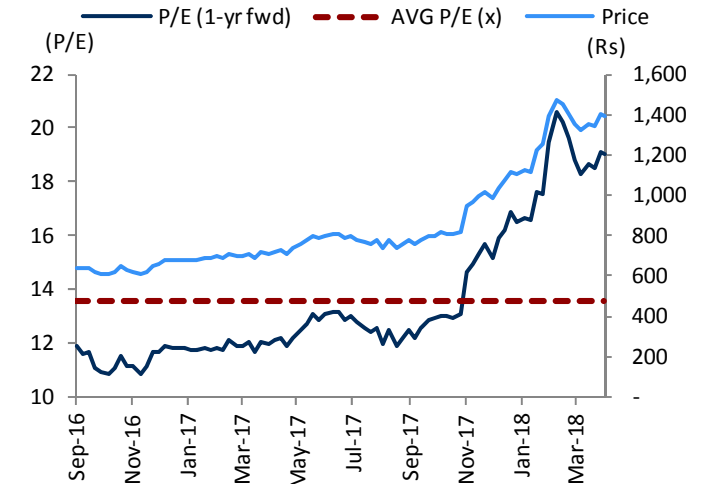
Source: Bloomberg, HDFC sec Inst Research

Tech Mahindra P/E (1-yr fwd) Trend



Source: Bloomberg, HDFC sec Inst Research

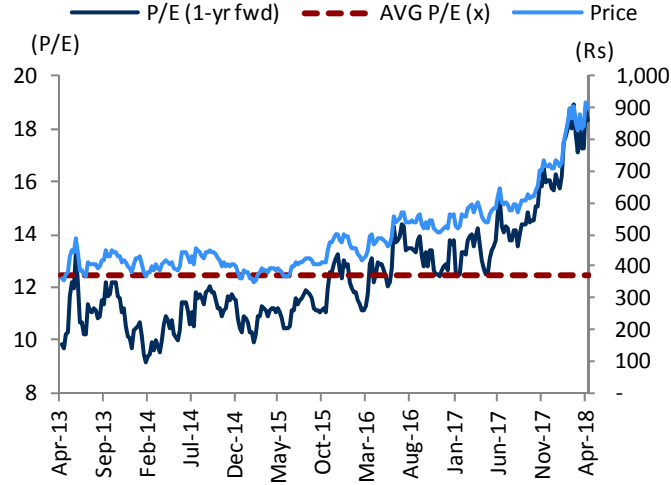
L&T Infotech P/E (1-yr fwd) Trend



Source: Bloomberg, HDFC sec Inst Research

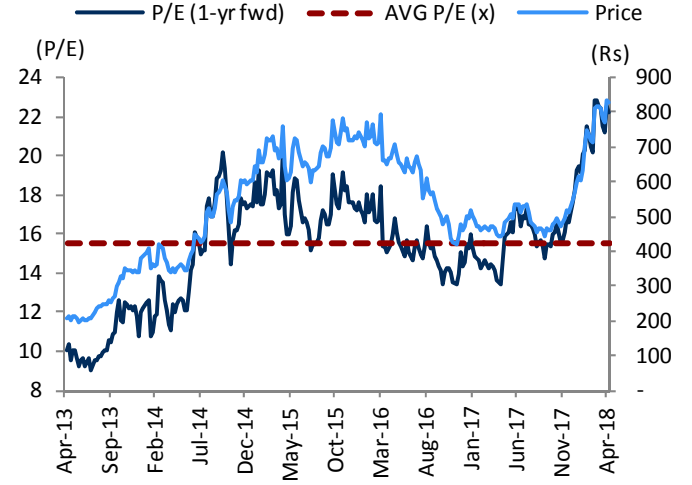
Sharp P/E re-rating of midcap IT (30% above 5-yr avg. P/E) as compared to tier-1 IT (at 5-yr avg. P/E)

Mphasis P/E (1-yr fwd) Trend



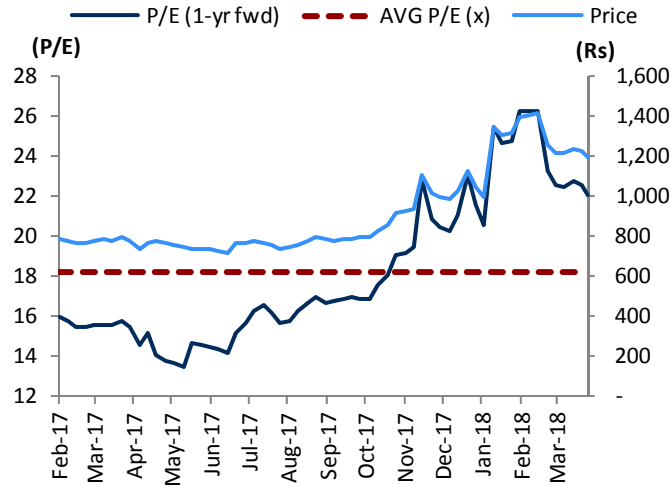
Source: Bloomberg, HDFC sec Inst Research

Mindtree P/E (1-yr fwd) Trend



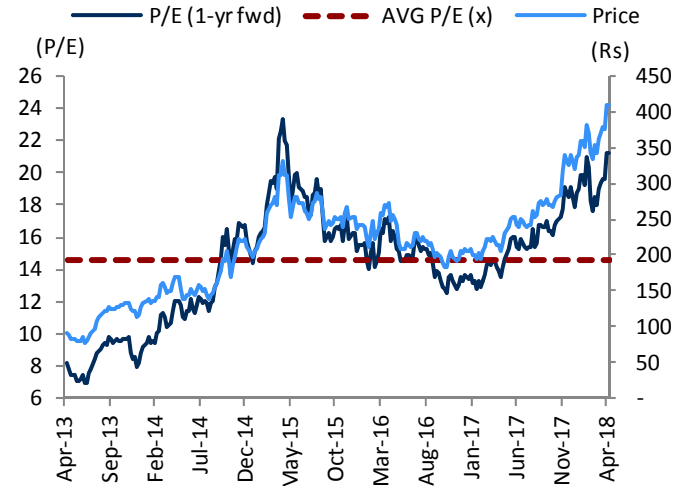
Source: Bloomberg, HDFC sec Inst Research

L&T Technology P/E (1-yr fwd) Trend



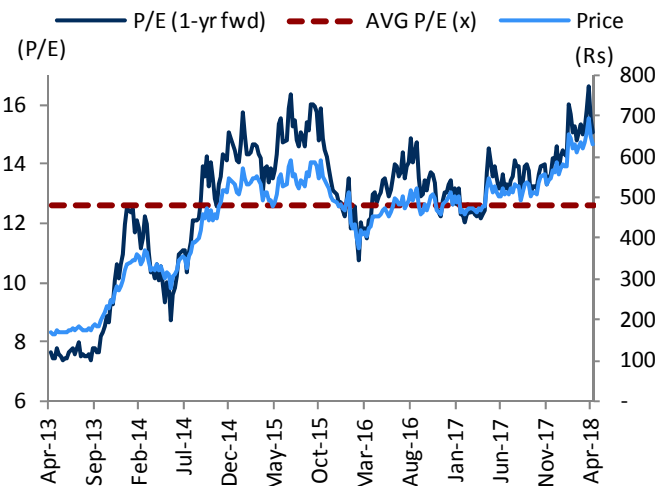
Source: Bloomberg, HDFC sec Inst Research

Hexaware P/E (1-yr fwd) Trend



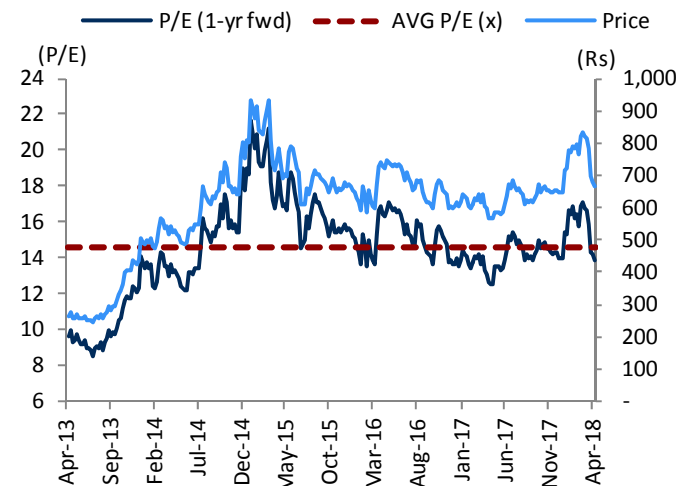
Source: Bloomberg, HDFC sec Inst Research

Cyient P/E (1-yr fwd) Trend



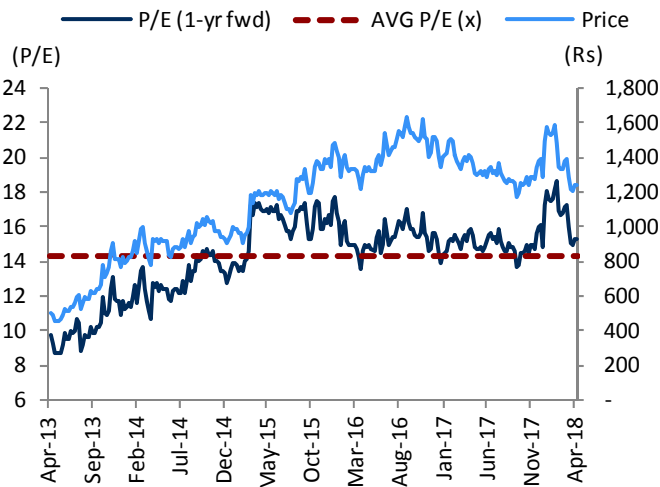
Source: Bloomberg, HDFC sec Inst Research

Persistent P/E (1-yr fwd) Trend



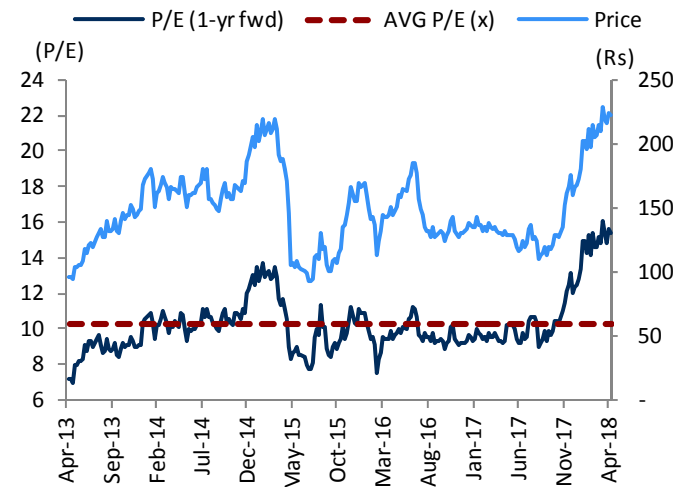
Source: Bloomberg, HDFC sec Inst Research

eClerx P/E (1-yr fwd) Trend



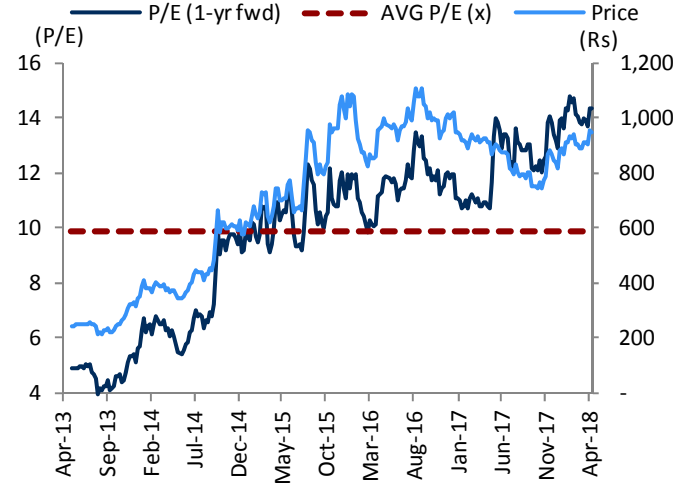
Source: Bloomberg, HDFC sec Inst Research

KPIT Tech P/E (1-yr fwd) Trend



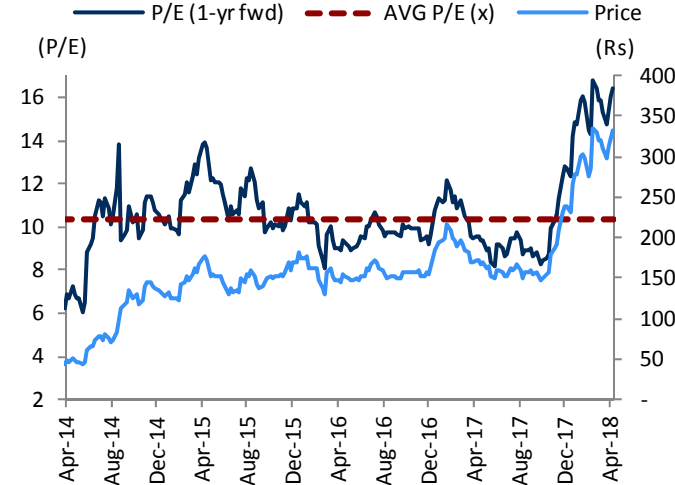
Source: Bloomberg, HDFC sec Inst Research

Zensar P/E (1-yr fwd) Trend



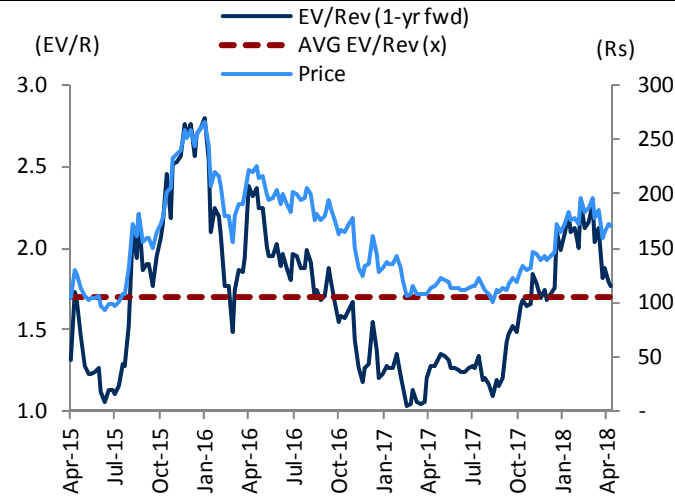
Source: Bloomberg, HDFC sec Inst Research

Sonata P/E (1-yr fwd) Trend



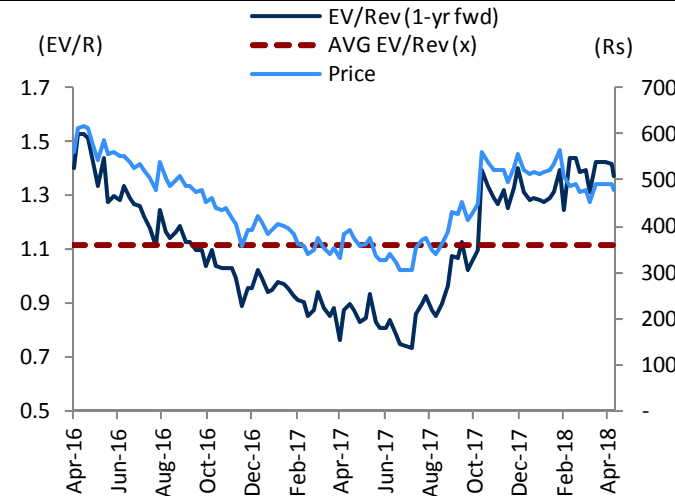
Source: Bloomberg, HDFC sec Inst Research

Intellect EV/Revenue (1-yr fwd) Trend



Source: Bloomberg, HDFC sec Inst Research

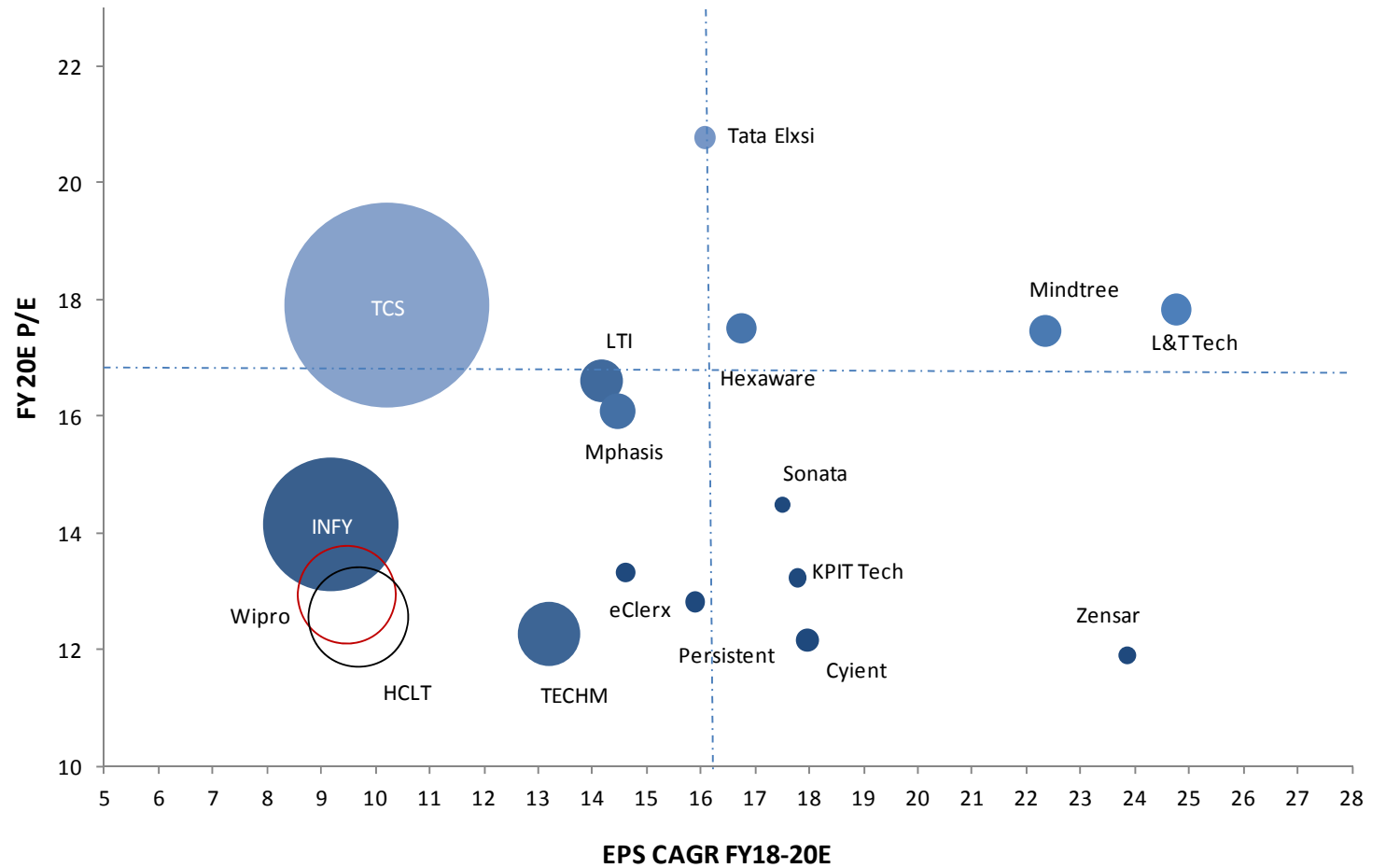
Majesco EV/Revenue (1-yr fwd) Trend



Source: Bloomberg, HDFC sec Inst Research

Tier-1 IT at 13x FY20E P/E with 10% EPS CAGR and Midcap IT at 14.3x FY20E with 17% EPS CAGR

IT Sector P/E and EPS Growth Matrix



Source: HDfC sec Inst Research, Note: Size of Bubble represents M-cap

**6M/1-Yr outperformance
following 3-Yr
underperformance**

Stock Performance (%)

Companies/ Indices	1M (%)	3M (%)	6M (%)	1-Y (%)	3-Y CAGR (%)	5-Y CAGR (%)
IT Index	(2.3)	7.3	19.4	16.9	1.2	11.6
NIFTY	(3.6)	4.0	3.3	10.3	6.0	12.2
HDFC Sec coverage universe						
TCS	(3.0)	8.8	21.2	25.3	6.9	16.8
INFY	(2.1)	4.2	24.2	16.1	3.7	12.0
Wipro	(1.0)	(10.1)	(0.6)	10.7	(1.9)	8.4
HCLT	2.1	4.7	5.4	13.1	3.0	22.6
TECHM	0.2	15.0	35.3	41.6	0.7	22.5
LTI	1.6	24.2	76.4	99.4	NA	NA
Mphasis	8.4	23.3	48.5	68.2	37.6	23.0
Mindtree	0.7	31.3	75.2	89.4	6.6	33.1
LTT	(6.6)	14.8	56.0	55.4	NA	NA
Hexaware	18.5	14.4	54.8	96.0	12.0	40.6
Cyient	4.2	9.8	29.2	36.6	10.5	33.0
PSYS	(18.4)	(14.2)	5.9	19.6	(2.7)	21.7
eClerx	(10.0)	(18.6)	0.4	(10.7)	1.8	23.3
KPIT	4.2	9.8	75.6	76.2	6.7	20.1
Zensar	7.5	4.8	28.7	4.9	12.7	33.4
Sonata	5.0	11.1	117.9	96.6	29.5	78.5
Intellect	(9.1)	(7.3)	31.1	52.7	18.3	NA
Majesco	7.1	(8.5)	9.7	26.5	NA	NA
Global Peers *						
Accenture	(6.7)	(6.5)	9.2	28.7	17.8	16.6
Cognizant	(4.8)	7.5	7.6	37.2	8.5	16.7
Capgemini	(1.3)	(2.3)	7.8	36.5	16.0	25.1

Source: Bloomberg, HDFC sec Inst Research, *USD terms as compared to INR terms for Indian IT

Global IT services growth estimate of 5.4% CAGR over CY17-21E

Indian IT growth expected at 1.4x Global IT services (18x Indian IT scale) over next two years

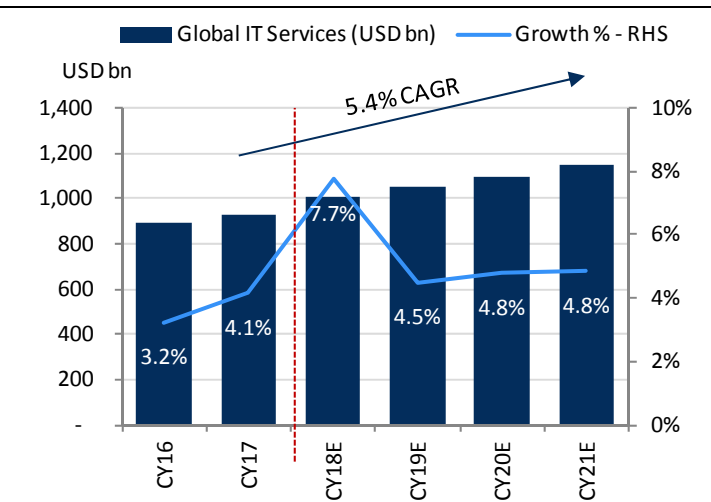
NASSCOM estimate of 7 to 9% growth for FY19 IT Exports as compared to 7.7% in FY18

Continuity in market-share gains

- Global IT services at USD 931bn is ~26% of total IT spend globally and has grown at 2.2% CAGR over past 10 years (in USD terms). Global IT services and enterprise software market at USD 1,285bn (37% of total global IT spend) has grown faster at 3.3% CAGR over the past 10 years.
- As per Gartner, global IT services market is expected to grow at 4.9% CAGR over CY17-21E. Indian IT exports at USD 126bn have grown at 13.1% CAGR over the past five years, however it has decelerated in the recent years.

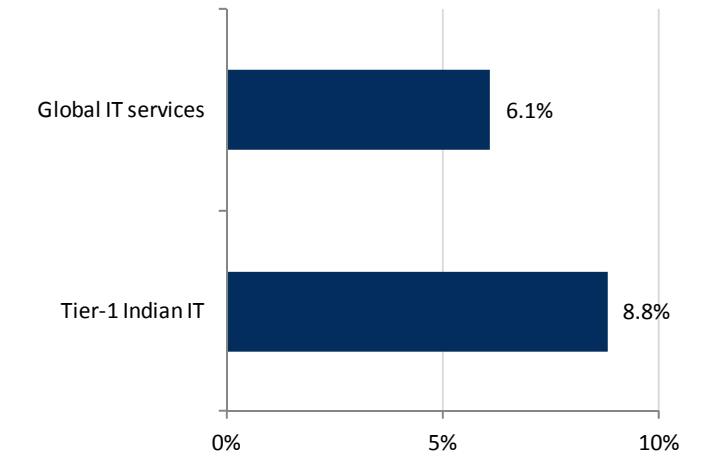
- Following deceleration in Indian IT exports from FY14 to FY18, from 14% YoY growth to 7.7% YoY growth, IT exports are expected to grow 7 to 9% in FY19E to USD 135 to 137bn, as guided by NASSCOM in Feb-18.
- Indian IT is expected to grow at 8.8% CAGR (Tier-1 Indian IT or aggregate of TCS, INFY, Wipro, HCLT, TECHM) over FY18-20E at 1.4x global IT services and will continue to increase its market-share. **Tier-1 Indian IT (5.4% of global IT services) has constituted >15% of the incremental growth in global IT services over the past ten years.**

Global IT Services Trend



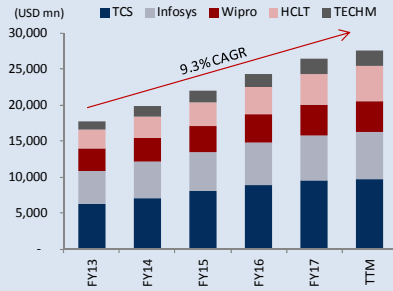
Source: Gartner, HDFC sec Inst Research

Indian IT Market-share Gains To Continue, FY18-20 revenue CAGR %

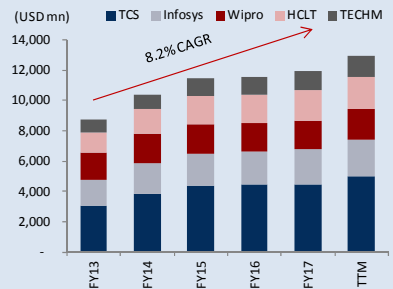


Source: Gartner (CY17-19E CAGR), HDFC sec Inst Research

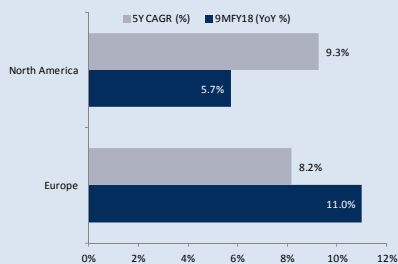
North America Growth Trend



Europe Growth Trend

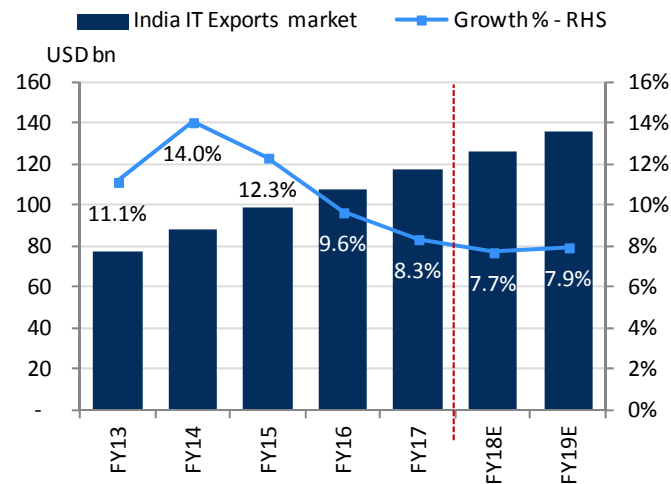


Recent Outperformance of Europe



- Within Indian IT exports, IT services and BPM contribute 55% and 22% respectively. ER&D services, the fastest growing (12.8% growth in FY18) contributed 22% to Indian IT exports, which also includes captives in India.
- Indian IT exports have been adding USD 9.8bn annually over the past five years and is expected to accelerate marginally ahead (USD 10bn addition expected in FY19E), as per NASSCOM estimates.
- As per NASSCOM data, Indian IT services and BPM constituted 55% of global IT-BPM outsourcing spend (USD 185 to 190bn). FY18 growth in Indian IT exports (USD 126bn) stood at 7.7% YoY and FY19E outlook is for 7.9% YoY growth (at guidance midpoint), a slight acceleration.

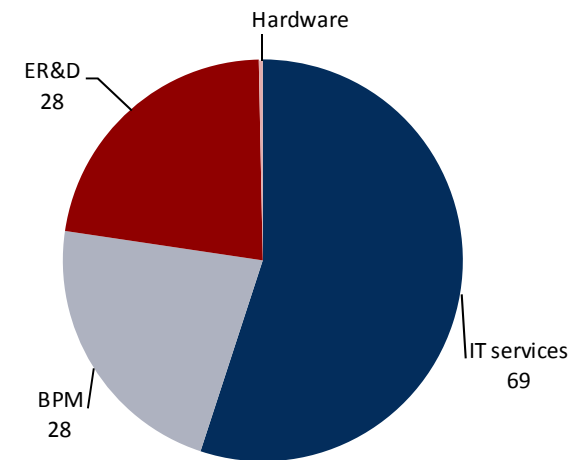
India IT Exports Trend



Source: NASSCOM, HDFC sec Inst Research

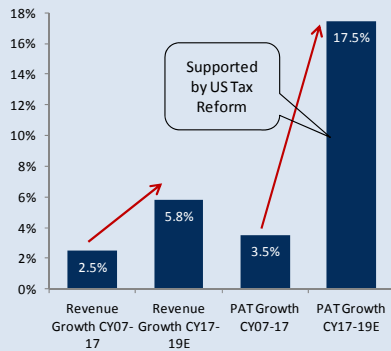
- Digital revenue stood at USD 25bn in FY18 (~20% of industry) and grew 30% YoY with growth in cloud at 43% YoY. Digital revenue has grown from 10% of revenue in FY16, to 14% of revenue in FY17 and to 20% in FY18. This is expected to reach 38% of revenue by 2025. TCS, INFY and Wipro's revenue from digital stands at 22/25/25% of revenue, respectively.
- ER&D has been the fastest growing segment in the service mix and grew 13% in FY18. ER&D services are exhibiting the least revenue compression from new technologies, out of all the services lines.
- Among geographies, North America and Europe continue to be largest markets with 61% and 30% of aggregate revenue for Indian IT (tier-1 aggregate). Europe has outpaced North America in recent times largely led by Continental Europe (9MFY18 growth in Europe at 11% YoY as compared to 5.7% for NorthAm).

Indian IT Export Service-Mix (USD bn)



Source: NASSCOM, HDFC sec Inst Research

Acceleration in S&P 500 Performance Ahead

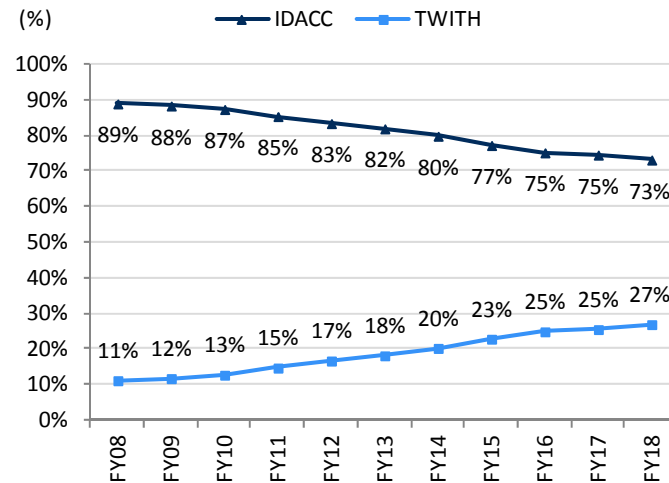


US Tax Reforms may further provide growth impetus

TWITH vs. IDACC

- Tier-1 Indian IT represented by ‘TWITH’ (TCS, Infosys, Wipro, HCLT, TECHM) has consistently gained share over larger global peer-set represented by ‘IDACC’ (IBM services, DXC Tech, Accenture, Capgemini and Cognizant).
- TWITH’s revenue share stood at 27% currently which has increased from 11% share ten years back and 18% share five years back.
- Over the past 10 years, TWITH (27% of total currently) has gained >80% incremental absolute revenue with <20% going to IDACC (largely led by Cognizant). Cognizant is the only one from the IDACC pack that has grown faster than TWITH over FY08-18

Revenue Market-share Gains By Indian IT (TWITH)

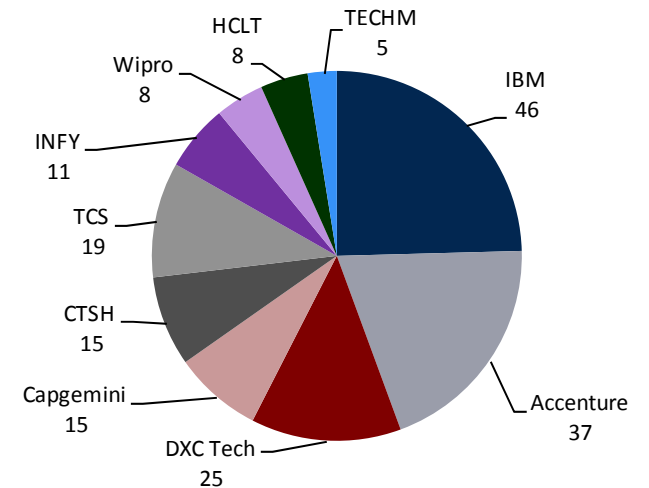


Source: Company, HDFC sec Inst Research, (IDACC – IBM, DXC, Accenture, Capgemini, Cognizant and TWITH – TCS, Wipro, Infosys, TECHM, HCLT)

at 21% CAGR with TWITH at 12% CAGR, followed by Accenture and Capgemini at 5/2% CAGR respectively.

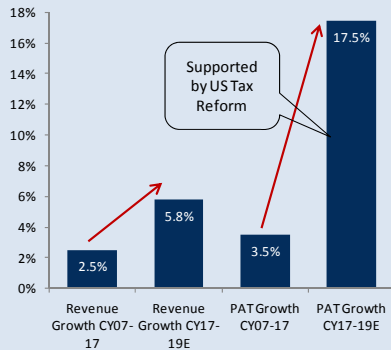
- Midcap IT (coverage universe) constitutes ~15% of TWITH and ~4% of overall (ADACC + TWITH) and has not been included in this empirical study, also because of shorter past timelines.
- We reckon that the rebid and landgrab opportunity from large global peers for Indian IT continues to be immense. Indian IT is well equipped to continue to gain share from competitions’ large legacy programs, with full portfolio of service and an improving partner ecosystem.

Revenue-share Across IDACC and TWITH (USD bn)



Source: Company, HDFC sec Inst Research

Acceleration in S&P 500 Performance Ahead

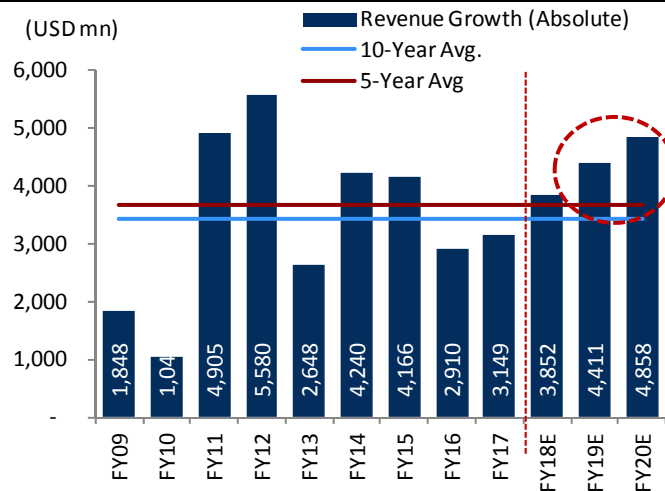


US Tax Reforms may further provide growth impetus

IT sector to cross its long-term growth avg, supported by large rebid opportunity

- Indian IT (tier-1 IT) revenue is higher by 1.6x and 3.1x over the past 5 years and 10 years respectively, translating into 9.3% and 12% CAGR over past five/ten years.
- Indian IT is expected to cross its long-term average of incremental annual growth over the next two years. We expect USD 4.4bn and USD 4.8bn incremental revenue in FY19-20E, as compared to its 5-yr/10-yr average of USD 3.6/3.4bn, respectively.
- The growth in >USD 100mn accounts and >USD 10mn accounts replicates the overall growth of the sector. >USD 100mn accounts and >USD 10mn accounts are higher by 1.7x (44 to 75 currently) and 1.5x (621 to 941 currently) over the past five years.
- As per IDC, the deal renewal opportunity globally is USD 221bn over the next two years. BFSI and manufacturing verticals are expected to have 117

Revenue Growth (incremental) To Exceed Long-term Average

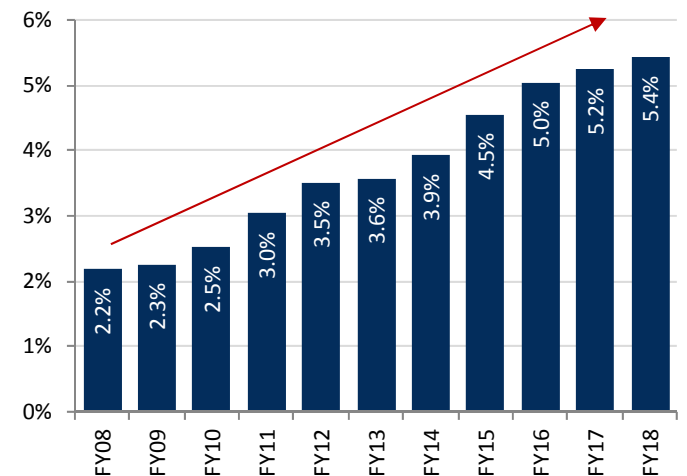


Source: Company, HDFC sec Inst Research

>USD 100mn deals for renewal. Americas and EMEA have renewals of 241 and 195 >USD 100mn deals over the next two years, respectively.

- Large deal renewals are expected to be led by NorthAm and Continental Europe geographies. S&P 500 is expected to accelerate supported by US Tax Reforms and improvement in macros. Citigroup stated that CY17 was the first year since the crisis that growth exceeded its expectations. BofA has also highlighted optimism within its clients.
- Indian IT will reflect the lag effect of increase in investments, as F-500 companies make progress in their investment plans. Exxon Mobil announced USD 50bn spend over five years supported by Tax Reforms with more short-cycle investment (L&T Tech a key vendor). 5G launch by large operators (AT&T, Verizon) is expected to accelerate growth in the vertical.

Share of Tier-1 Indian IT Revenue to Global IT Services... Continues To Rise



Source: Gartner, HDFC sec Inst Research

Recent Indian IT Acquisitions

Wipro

Cooper	Design consultancy, UX
InfoServer	BFSI ADM

HCLT

IP assets	ER&D, platform
ETL Factory/ Datawave	Automation platform
Alpha Insights	FinTech

Urban Fulfillment	Mortgage BPO
C3i Solutions	Lifescience Apps, BPM

TECHM

CJS Solutions	Healthcare consulting
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LTI

Syncordis	BFS services
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LTT

Esencia	Design services (Hi-tech)
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Cyient

B&F Design	ER&D (aerospace & defence)
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Zensar

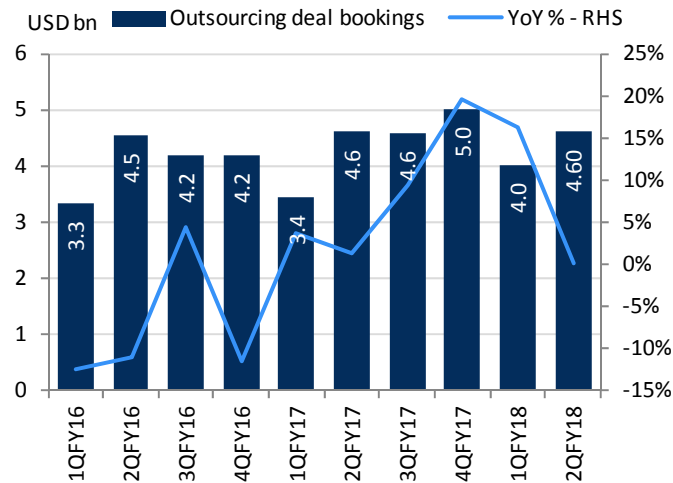
Cynosure	P&C services (Insurance)
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Keystone Logic	Retail & SCM services
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Accenture’s acquisition-led growth template to scale digital

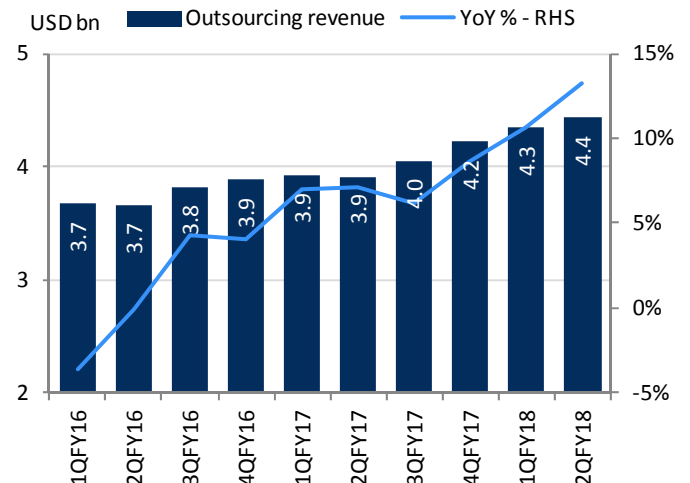
- Accenture’s outsourcing revenue (46.2% of its rev) has been accelerating and posted its fastest growth in past 14 quarters. Also, acceleration in Accenture’s deal bookings is visible with strong improvement in outsourcing book-to-bill (1.04x in 2Q).
- Accenture’s outsourcing bookings stood at USD 18.2bn (45% of total deal bookings) in trailing four quarters with book-to-bill of 1.07x. Cloud, digital and security service contributed >60% of Accenture’s deal bookings.
- Large part of Accenture’s growth has been acquisition-led and we reckon that inorganic growth to scale digital can be a template for Indian IT.
- Over the past three years, Accenture has spent USD 3.4bn for 70 acquisitions (USD 1.7bn for 37 acquisitions in FY17 Aug-YE with 2% revenue contribution).
- Accenture plans to spend USD 1.1 to USD 1.4bn towards acquisitions and acquisitions are expected to contribute ~2.5% of its growth in FY18.
- Large number of acquisitions by Accenture includes design agencies with revenue ranging from USD 2mn (dGroup, Germany) to USD 56mn (Rothco, Ireland).
- In comparison, Indian IT’s acquisition strategy has been rather conservative with <USD 1bn in acquisitions (largely including HCLT’s IP investments) in the past year.

Accenture Outsourcing Deal Bookings Trend



Source: Company, HDFC sec Inst Research, Aug YE

Accenture Outsourcing Revenue Trend

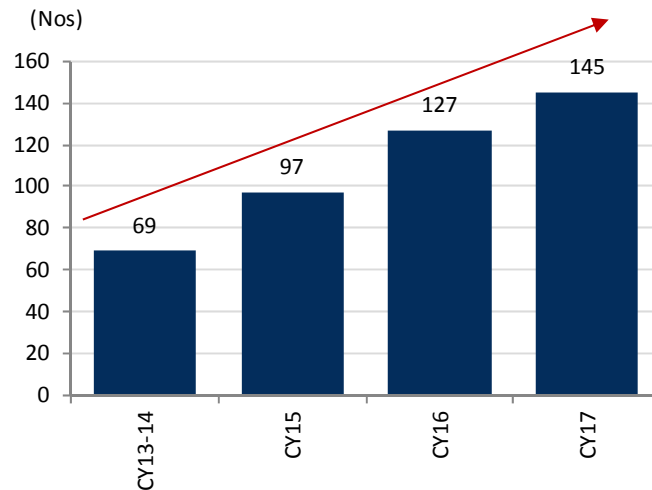


Source: Company, HDFC sec Inst Research, Aug YE

Offshoring and GICs continue to be on the rise

- Competition from offshore-nearshore captives/GICs (global in-house centers) is on the rise. As per Everest, there is strong increase in the number of GICs being setup every year.
- In CY17, 145 GICs were setup globally and annual new GICs have been growing at 28% CAGR. A large part of the growth is led by small to mid-segment technology buyers (<USD 10bn revenue) as penetration of GICs within larger corporations is high.
- GIC revenue in Indian IT stood at USD 23bn with 1,450 GICs currently (>20% of global GICs). ER&D segment is the largest in GICs at 52% followed by BPM and IT services at 25% and 23% respectively. BFSI had the highest captive presence in India and the additions continue.

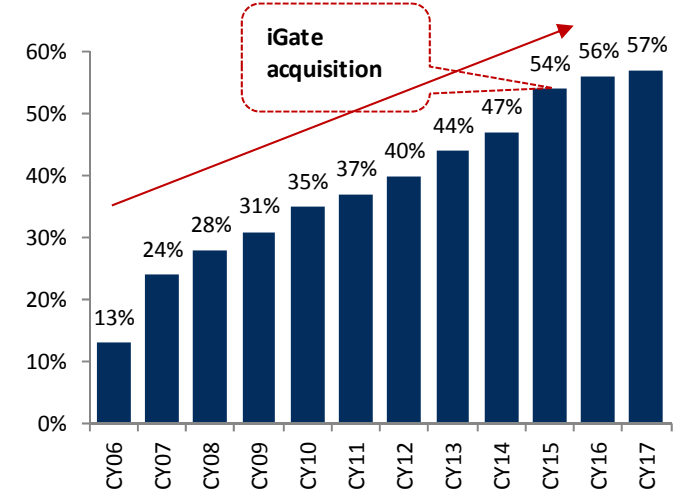
Increasing Competition From GICs, New GICs Setup (Nos)



Source: Everest, HDFC sec Inst Research

- As per NASSCOM, 40 GICs were added in India in 2017 which was ~1/4th the global additions.
- Offshoring trend continues to be on the rise as a combination of increase in GICs as well as increased outsourcing to third-party vendors. Offshoring benefits will continue to accrue ahead with large talent pool and price competitiveness.
- Global IT companies have significantly increased their offshore delivery presence over the years to improve delivery efficiencies and reflects the continuity in offshoring. Capgemini's offshore headcount is 57% of its total headcount as compared to 24% and 40% ten years and five years ago, respectively. Accenture's global delivery workforce has increased from 66% of its total workforce three years back to >75% currently.

Offshoring Trend Continues, Capgemini's Offshore employees % of total



Source: Company, HDFC sec Inst Research

Highest captive competition in BFSI vertical

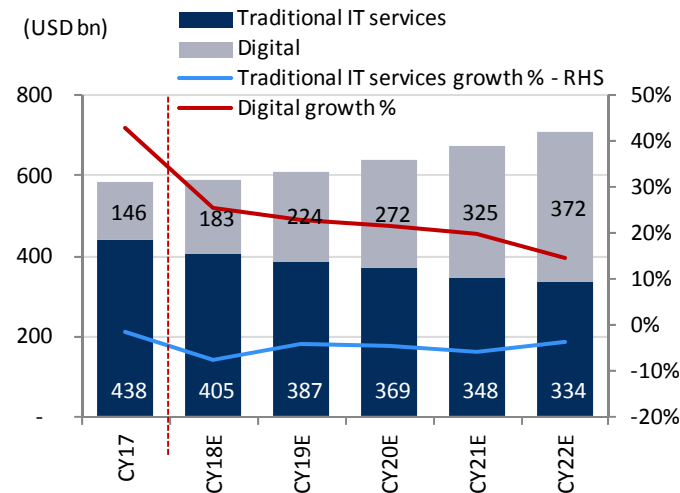
Global contracting data reflecting the divergence of flattish legacy and high growth in digital

Sizeable and growing Digital portfolio

- Digital is a broad spectrum of technologies that covers analytics, cloud, IoT, cybersecurity, AI/ML. Globally, digital has become all-pervasive and is expected to drive nearly the entire incremental growth in the foreseeable future.
- IT services is saddled with twin forces of high growing digital and downward spiral in legacy business. Digital is bringing technology to the core across industries and offers opportunity for Indian IT to address the 'new'.
- As per HFS Research, global IT services (ADM, IMS aggregate) is expected to grow at 4% CAGR over CY17-22E with share of digital increasing from 25% currently to 53% in CY22E. Digital growth is forecasted at 21% CAGR over the same period.

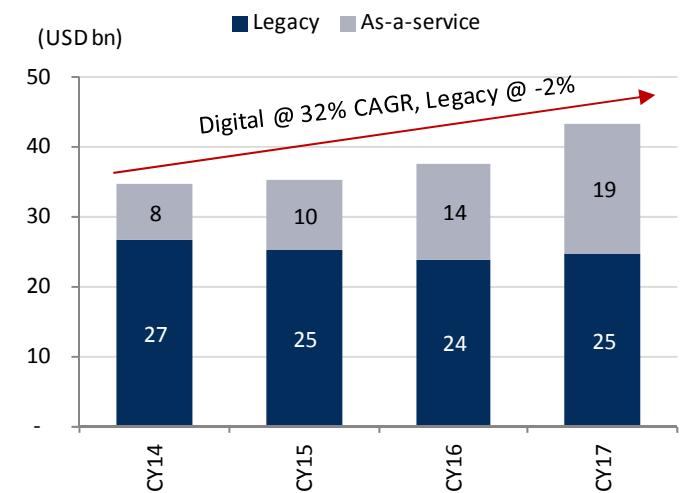
- Increase in digital is also driven by bundled digital deals such as IoT deal bundled with cloud, analytics. Digital deals are driven by cloud with IoT and cybersecurity being fastest area of growth.
- Global contracting data are also clearly reflecting this divergence of flattish legacy and high growth in digital. As per ISG, global contracts by ACV (annual contract value) have grown at 7.8% CAGR over the past three years.
- Contracting or deal wins in digital/As-a-service (44% of total contracting in CY17) has grown at 32% CAGR while legacy has been flattish at -2.4% CAGR over the past three years.

Global IT Services (ADM, IMS) Trend



Source: HFS, HDFC sec Inst Research

Global Contract Trends (ACV USD bn)



Source: ISG, HDFC sec Inst Research

Recent Large Deal Wins

TCS

Transamerica

Nielsen

M&G Prudential

Virgin Atlantic

Infosys

AS Watson

Allison Transmission

UCAS

HCL Tech

Statkraft

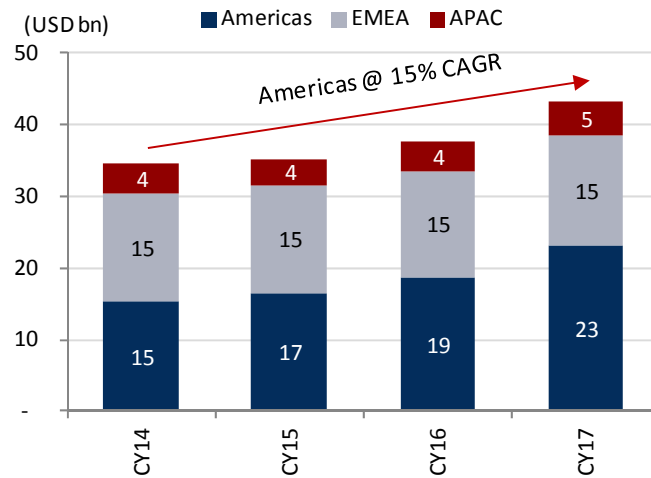
Cadent

Highest deal win growth in BFSI and Travel & transportation verticals

- Digital has been the biggest driver and has been accelerating across geographies. Contracting growth has been fastest in Americas (53% of total global contracting) followed by APAC and EMEA. Americas ACV has grown at 14.7% CAGR over the past three years and 24% YoY in CY17 which is indicative of accelerated deal awards.
- In Americas, ACV of legacy has grown an 4.3% CAGR over past three years (13.5% YoY in CY17). Digital (49% of total ACV) has grown at 32% CAGR in Americas (36% YoY in CY17). In EMEA, legacy ACV has declined at 6.9% CAGR, however digital has grown at 32.6% CAGR (40% YoY in CY17).

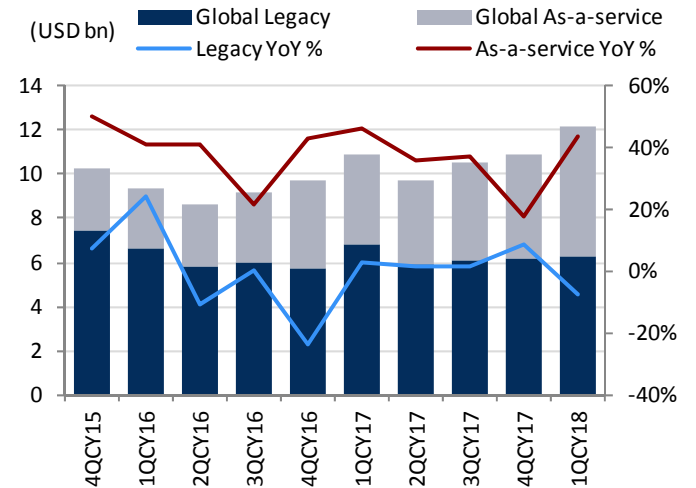
- Within legacy business, global contracting declined in BPM while ITO has been flattish in recent years. Among verticals/ industries, financial services (24% of total global ACV in CY17) and travel & transportation (9% of total global ACV in CY17) verticals have grown the fastest at 28% and 34% respectively.
- Quarterly trajectory in contracting activity is also suggesting an uptrend. As compared to 9% YoY average growth over the past eight quarters, ACV growth in the prior two quarters have averaged 12% YoY growth, with growth in digital at 31% and legacy contract growth of 1% in the same period.

Global Contract Trends by Geography (ACV USD bn)



Source: ISG, HDFC sec Inst Research

Quarterly Contract Trend (ACV USD bn)



Source: ISG, HDFC sec Inst Research

IT sector has bottomed-out and can hit double-digit growth in FY20E with 33% growth in digital and 1.1% growth in legacy

Digital at-scale driving growth

- We believe that the sector (tier-1 IT) has bottomed out and can revert to double-digit growth rate. Current scale of digital business and strong growth opportunity is likely to accelerate the growth metrics for the sector.
- The exhibit of IT sector’s growth sensitivity to its growth in digital and legacy reflects high probability of acceleration ahead. The digital portfolio of tier-1 IT has been used as a template for growth sensitivity to digital and legacy performance. **With >1.1% CAGR in legacy and >33% CAGR in Digital, the sector can hit double-digit growth mark in FY20E.**
- Digital ‘at-scale’ is evident across the sector with increase in size of deals as compared to growth in digital earlier being only volume-led. Full-service portfolio offering is complementing the rapid increase in Indian IT’s digital capabilities. Also, projects moving from ‘proof-of-concept’ to programs are resulting in increasing size of digital.
- TCS is witnessing steady increase in size of digital deals and in 3Q it booked its largest digital deal at USD 50mn TCv. This is supported by greater enterprise penetration of digital as compared to TCS’ digital growth being driven by increasing volume across clients.
- TCS has become strategic digital vendor for increasing number of its clients. The company won 10 IoT deals in 3Q including Rolls Royce deal.
- Infosys’ growth in digital is being driven across verticals and by increasing engagement size in engineering services. Majority of deal wins for HCL Tech has a digital component (Mode-2 and 3). In the previous quarter, cloud, automation and AI contributed a large chunk of deal wins for the company which included large IMS deal (CPG vertical).

IT Sector Growth Sensitivity To Legacy & Digital Growth, FY18-20E Revenue CAGR (%)

Digital Growth CAGR (%)	20%	25%	30%	35%	40%
Legacy Growth CAGR (%)					
0%	4.9%	6.2%	7.5%	8.9%	10.3%
1%	5.6%	6.9%	8.2%	9.6%	11.0%
2%	6.3%	7.6%	9.0%	10.3%	11.7%
3%	7.1%	8.4%	9.7%	11.1%	12.4%
4%	7.8%	9.1%	10.4%	11.8%	13.2%

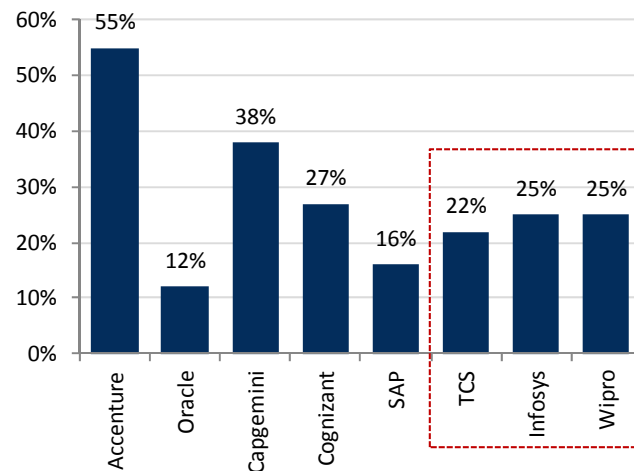
Source: HDFC sec Inst Research

- We believe that the companies that achieve high absolute scale and relative scale (to its own business-mix) in digital will be the winners ahead.
- Scalability of digital will require a mix of (1) Acquisitions, (2) Investments in platforms, (3) Employee re-skilling and (4) Broadening and deepening the partner ecosystem. Indian IT sector is making rapid progress (largely organic vs global peers) in growing its digital portfolio that is spread across verticals.
- Wipro has scaled its digital business from 17.5% in 1QFY17 to 25% in 3QFY18 and TCS' digital has grown from 15.9% to 22.1% over the same period. Despite the rapid scaling of digital business by Indian IT, it lags its global peers with TCS/INFY/Wipro at 22/25/25% as

compared to Accenture/Capgemini/Cognizant at 55/38/27% respectively. The higher share in digital by global peers is also on account of more acquisitions by global peers. Accenture has spent USD 3.4bn in 70 acquisitions over the past three years to scale its digital portfolio.

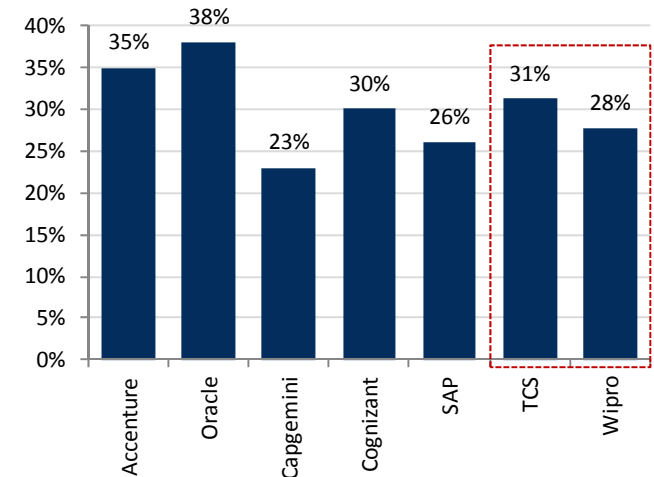
- Digital business of Accenture/Cognizant/Capgemini is growing at 35/30/23% respectively and the digital landscape continues to look promising with Oracle/SAP cloud business growing at 38/26% respectively. Atos (EUR 13bn revenue) has targeted its digital revenue to contribute 40% of its revenue from 23% currently and TCS expects its digital business to grow to 1/3rd of its revenue as compared to 22% currently.

Digital % Of Revenue



Source: Company, HDFC sec Inst Research

Growth In Digital



Source: Company, HDFC sec Inst Research

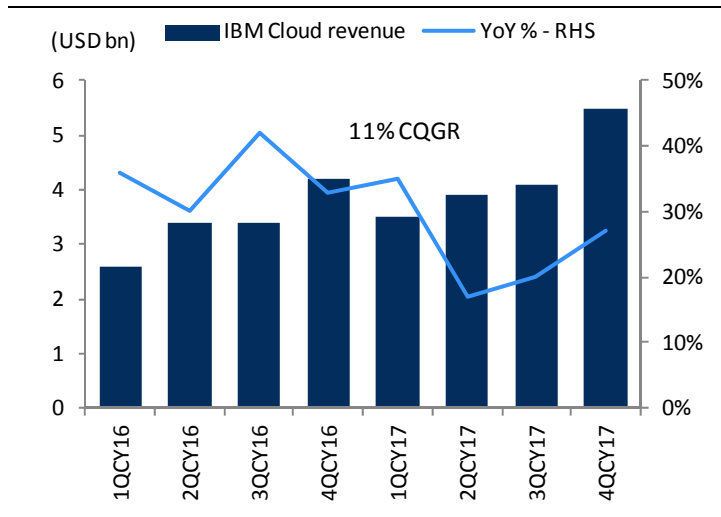
SAP's outlook of 30% CAGR for its cloud subscription business over CY17-20E

- IBM's cloud revenue is up 67% in the past two years from USD 10bn in CY15 to USD 17bn in CY17. IBM's share of revenue from cloud continues to increase rapidly. It is up from 14% of revenue in 1QCY16 to 24% of revenue in the last quarter. While the company's overall order backlog remains static at USD 121bn, the strategic imperatives of the company that include cloud, analytics, mobile, security and social (49% of total rev) are scaling.
- The company has spent USD 10bn over the past three years to build competencies in AI/cognitive, platform and data. IBM's focus in scaling its analytics is supported by larger acquisitions such as The Weather Company (weather analytics) and Truven Health (healthcare analytics).
- SAP's cloud subscription and support revenue (16% of rev) grew 28% CC in CY17 with order backlog growth

of 38%. SAP has an outlook of 29 to 31% CAGR in its cloud subscription business over CY17-20E to EUR 8 to 8.5bn from EUR 3.8bn currently.

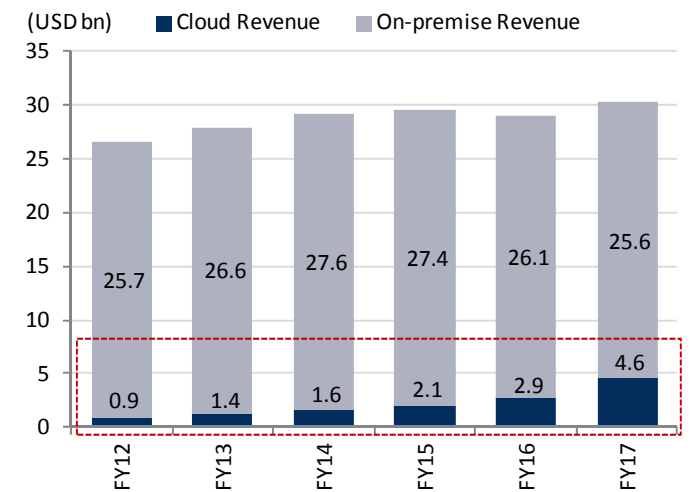
- The growth trends in Oracle's portfolio resonates with Indian IT, with a flattish on-premise software growth while cloud (12% of rev) registering strong growth of 38.4% CAGR over past five years from USD 899mn to USD 4.6bn in FY17. Oracle cloud growth has further accelerated to 48% YoY over the past two quarters. Strong growth trend in Oracle cloud that includes Oracle HCM, ERP, SCM cloud and flattish on-premise software revenue (includes PeopleSoft, JD Edwards) is reflected in Indian IT's growth trajectory.
- IDC's report of top-10 challengers in digital (<USD 2bn revenue) to larger companies which includes LTI, Virtusa, Syntel, Mphasis, Hexaware, EPAM, NIIT Tech, Luxoft, Mindtree and Zensar.

IBM Cloud Revenue Trend



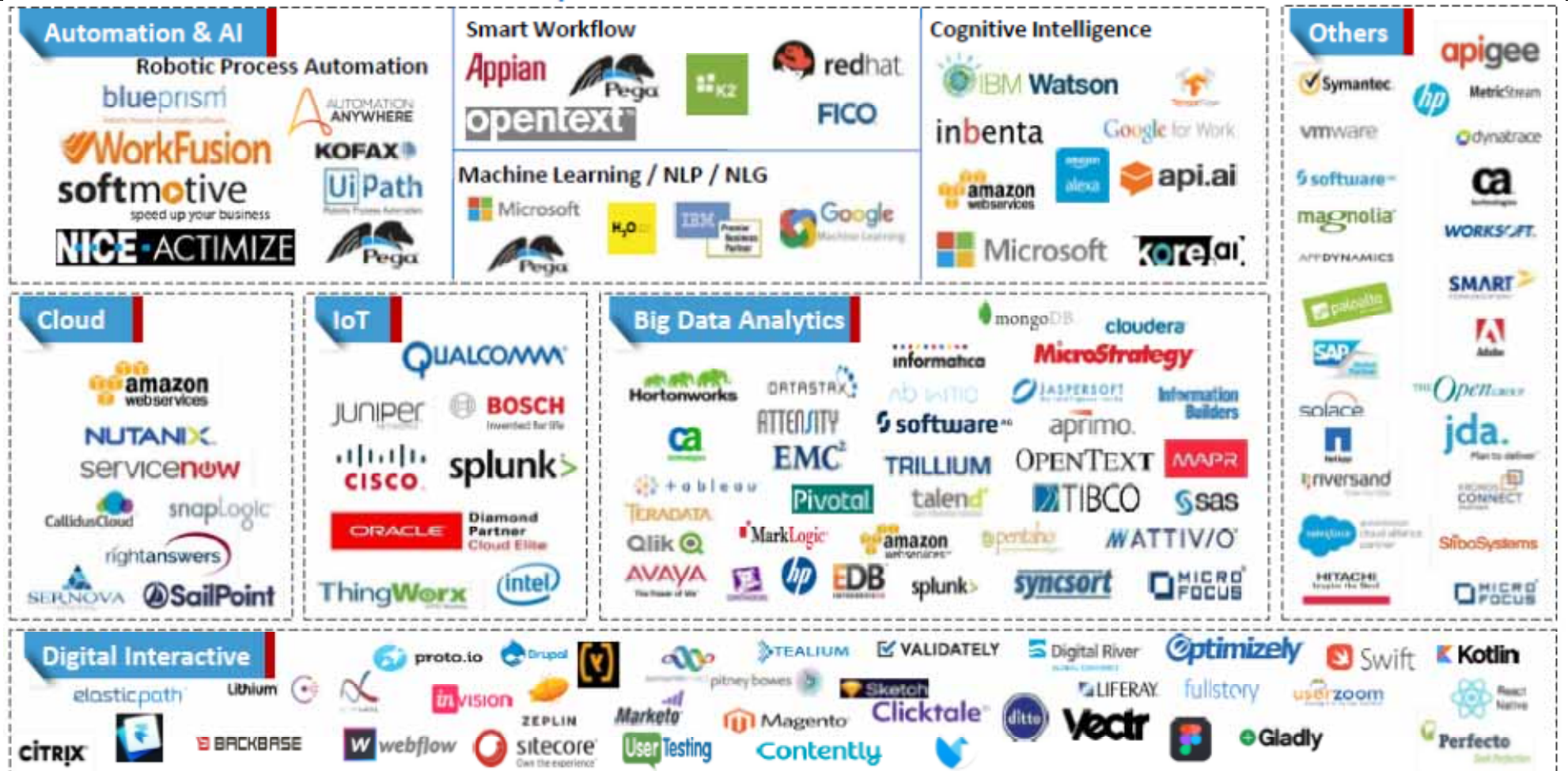
Source: Company, HDFC sec Inst Research

Oracle Cloud Revenue and On-Premise Revenue Trend



Source: Company, HDFC sec Inst Research

Expanding Digital Eco-system – TCS' Alliance/Partner Network



Source: Company

73% seeing increase in deal pipeline

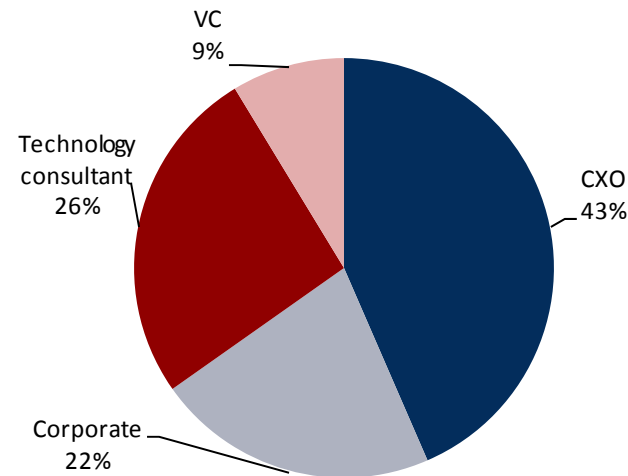
Tech Trends : Survey Results

- We conducted a survey across an array of technology professionals (N=24) including corporate & senior management, technology consultants and VCs to determine key market trends in contracting, digital and the broader business dynamics.
- The survey was conducted to determine trends in overall deal pipeline, win-rate, pricing environment, impact of cloud/ automation on legacy services, competitive intensity from captives, size of digital deals, vendor strategy of large accounts and impact of US tax reforms.
- The poll indicates optimism in the sector with 54% respondents seeing stronger pipeline and improvement in win-rate. 65% respondents stated

unchanged pricing environment and 42% respondents stated similar impact of cloud/automation on legacy as compared to last year.

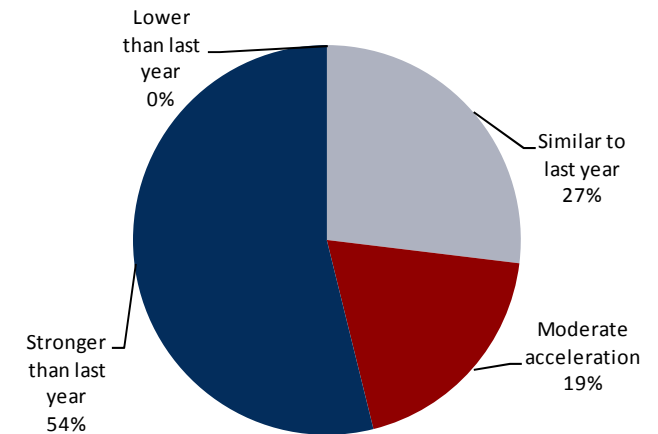
- Competitive intensity from captives is similar to last year as per 52% of respondents while 32% stating moderate increase. Size of digital deals is moderately higher as per 40% and 28% seeing meaningful increase. Growth in digital is being led almost equally by both existing logos as well as new logos.
- There's split verdict on vendor strategy with 33% seeing no change while 45/22% witnessing vendor consolidation/expansion, respectively. Also, demand impact of US Tax Reforms is seen as premature by 48% of respondents.

Respondent Category



Source: HDFC sec Inst Research

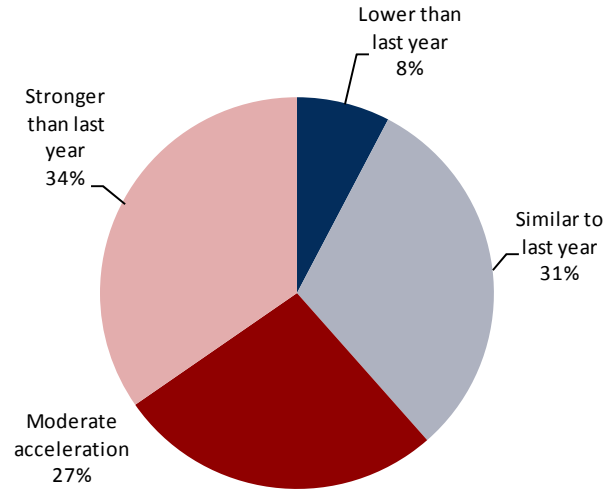
Overall Deal Pipeline



Source: HDFC sec Inst Research

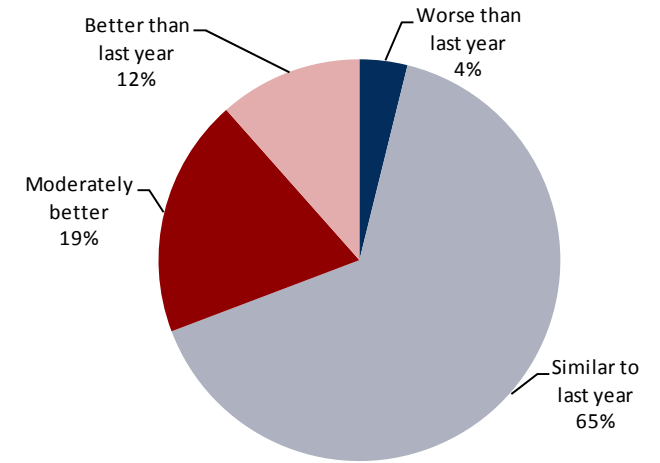
Steady pricing seen by 65% of respondents

Win-rate In New Contract



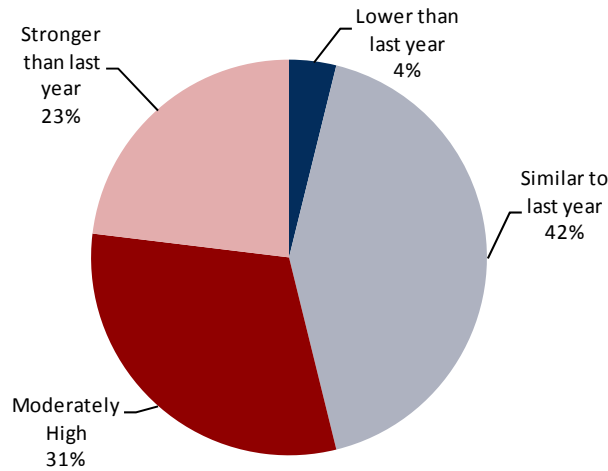
Source: HDFC sec Inst Research

Pricing Environment



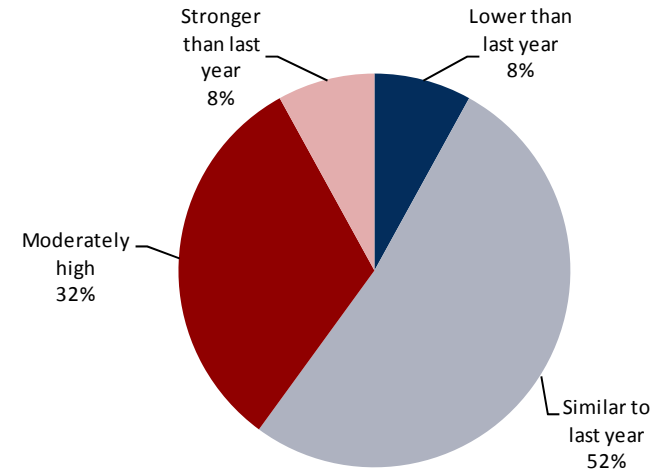
Source: HDFC sec Inst Research

Impact Of Enterprise-wide Adoption Of Automation, Cloud On Legacy Business



Source: HDFC sec Inst Research

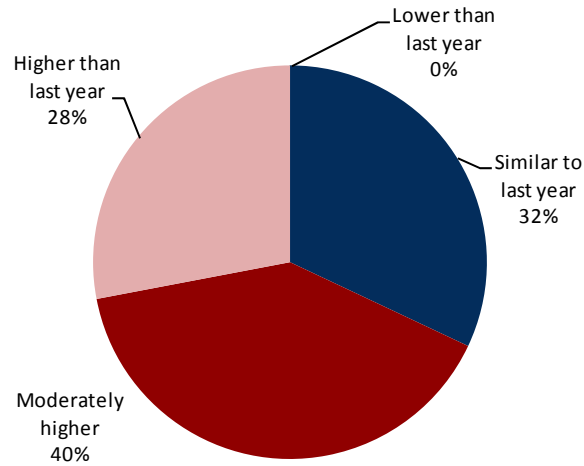
Competitive Intensity From Captives



Source: HDFC sec Inst Research

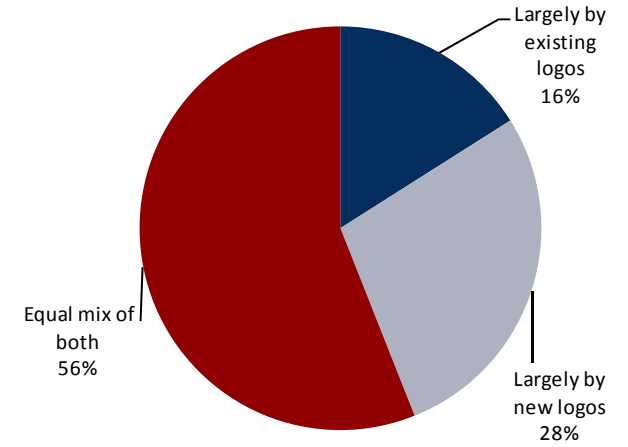
68% are seeing increase in deal digital deal size

Size Of Digital Deals



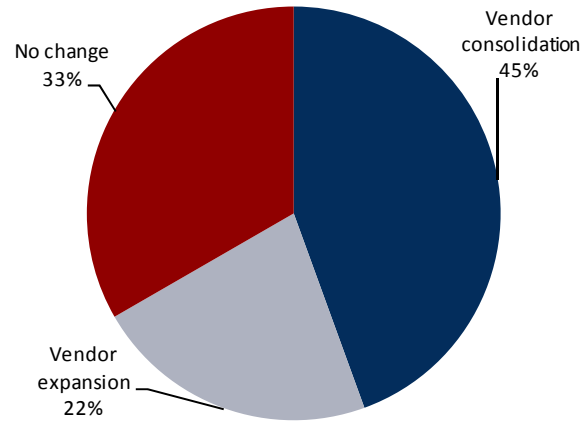
Source: HDFC sec Inst Research

Growth In Digital Driven By...



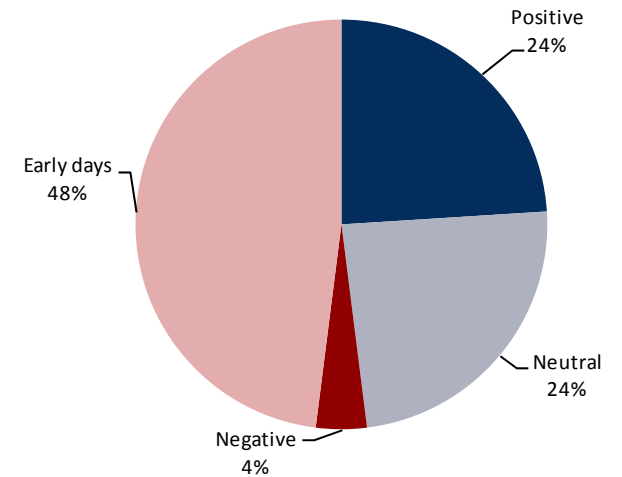
Source: HDFC sec Inst Research

Vendor Strategy Of Larger Accounts



Source: HDFC sec Inst Research

Impact Of US Tax Reforms On Client Spend



Source: HDFC sec Inst Research

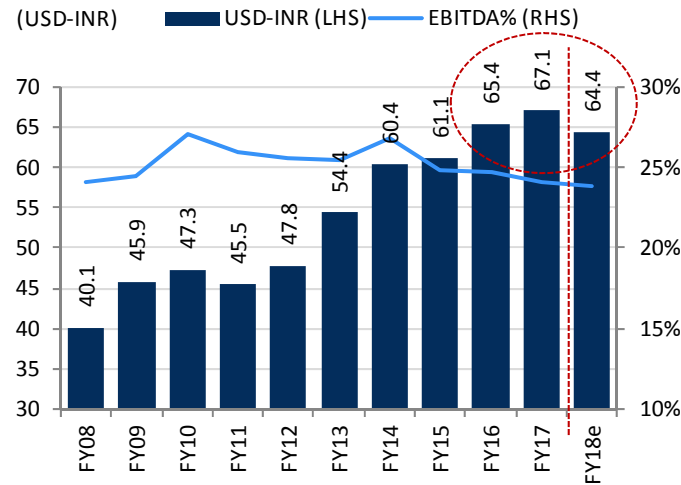
Operating efficiencies built-in

- The steady depreciation of USD-INR over the years had supported Indian IT with 5% CAGR depreciation over the past ten years and 3.5% CAGR over the past five years.
- However, the last two years USD-INR has appreciated from 67.5 in 3QFY17 to 65 currently. Despite the absence of currency tailwind in recent years, Indian IT (tier-1) has maintained its margin profile.
- The sector also absorbed adverse swings in EUR-USD and GBP-USD that cracked 20/30% respectively in FY17 from the highs in FY15. The impact of currency was significant especially as the geography contributes 24-30% to the total revenue, however

the sector has countered the adversity with improvement in its operational efficiencies.

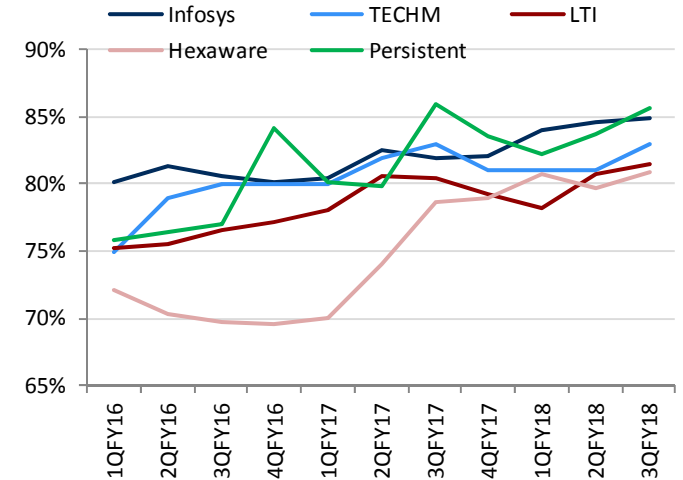
- Utilisations have increased by 300 to 1,100bps in the past two years for the sector as utilisation levels have risen from late-70s to early 80s. Tier-1 IT have improved utilisation by 300 to 430bps with Infosys at 84.9% (its highest all-time).
- Midcap IT has had a steeper increase in utilisation with LTI/Persistent/Hexaware utilisation increasing by 500/860/1,120bps respectively. Lower headcount addition in FY18 also led to sharp surge in utilisation as the companies held back expanding capacities. We believe that utilisations are near high levels and may moderate with slight increase in hiring metrics ahead.

Operational Resilience To Fluctuating Forex



Source: Bloomberg, Company, HDFC sec Inst Research

Improvement In Efficiencies (Utilisation Trend %)



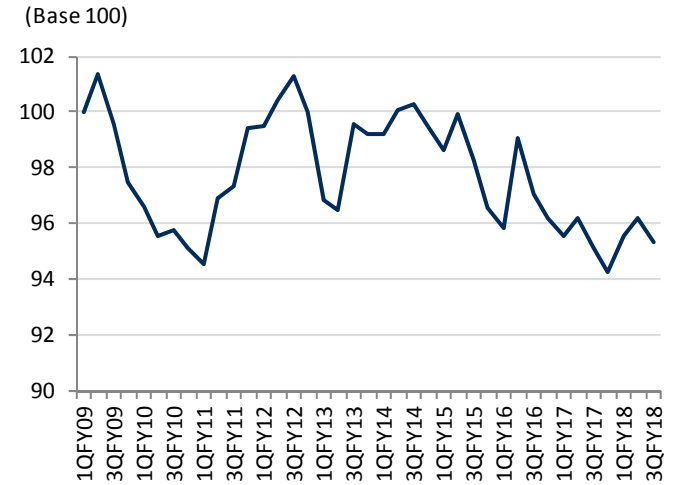
Source: Company, HDFC sec Inst Research

Tier-1 IT has exhibited relative stability in delivery mix

Within midcap IT, Tata Elxsi, LTI and LTT have most favourable delivery mix

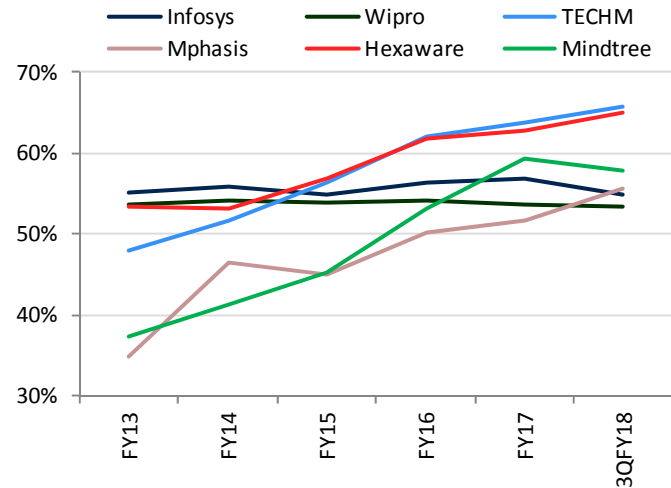
- Within the sector, tier-1 IT has exhibited relative stability in delivery mix as compared to midcap IT, where onsite component has increased significantly. Faster growth and higher digital mix in the portfolio for midcap IT has also contributed to higher onsite revenue mix as compared to tier-1 IT.
- Tata Elxsi, LTT and LTI have the most favourable (lowest) onsite share of revenue at 39/46/51% respectively. Hexaware and Tech Mahindra are at the higher-band of onsite revenue mix at 65% and 66% respectively.
- Offshore pricing/realisation has been flattish for the sector. Infosys' blended realisation is flat since the past year and lower by 4% over the past five years in cc terms. Mphasis' offshore pricing has also remained stable while onsite pricing has trended higher over the past five years (offshore pricing currently at USD 22/hr).

Flat Pricing Trend: Infosys' Blended Realisation



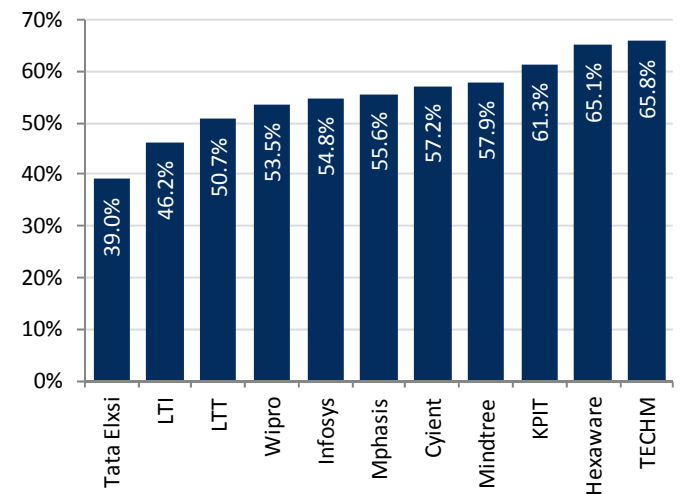
Source: Company, HDFC sec Inst Research

Onsite Share Of Revenue



Source: Company, HDFC sec Inst Research

Onsite Revenue Mix



Source: Company, HDFC sec Inst Research

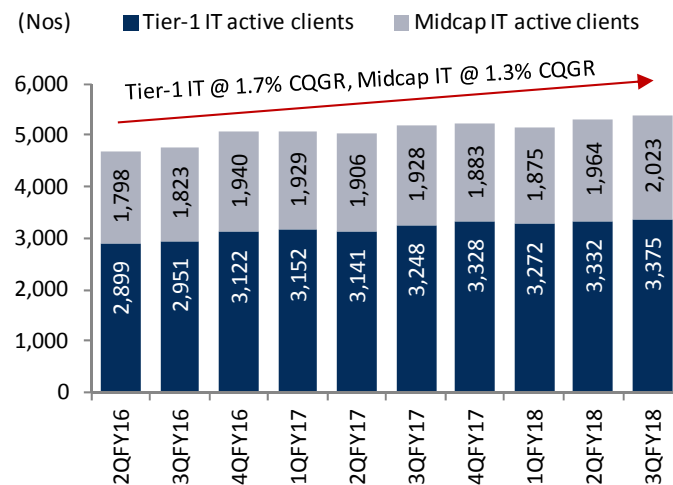
Active client base has grown at 1.7/1.3% CQGR over past 8-qtr for tier-1/midcap IT

Top-10 accounts have grown at 0.9/3% CQGR over past 8-qtr for tier-1 /midcap IT

Divergent large account trends, but similar account hunting trends between tier-1 and midcaps

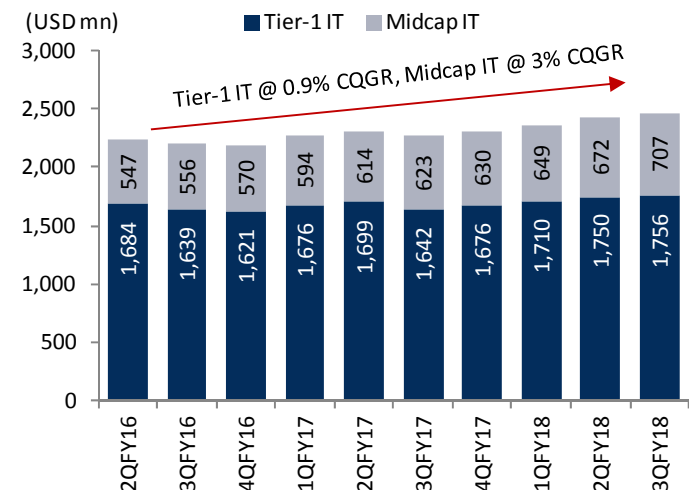
- The increase of active client base or net addition of accounts reflects similar growth for both tier-1 (INFY, Wipro, TECHM aggregate and 63% of overall client base) and midcap IT (LTI, Mindtree, Hexaware, LTT, KPIT, Persistent aggregate). Overall active client base has grown at 1.5% CQGR with tier-1 growing at 1.7% CQGR and midcap growing at 1.3% CQGR over the past eight quarters. Over the past four quarters, tier-1 active accounts have grown at 1% CQGR and midcap IT at 1.2% CQGR.
- While we observe similar success in account hunting between tier-1 IT and midcap IT, account mining trend between tier-1 and midcaps are divergent. While top-10 revenue growth for tier-1 IT (INFY, Wipro, HCLT, TECHM) stood at 0.9% CQGR, top-10 account growth of midcap IT (includes LTI, Mphasis, Mindtree, LTT, Hexaware, Cyient, Persistent, eClerx aggregate) grew by 3% CQGR over the past eight quarters.
- In the trailing four quarters top-10 of tier-1 IT has grown by 1.7% CQGR and midcap IT at 3.2% CQGR. Average size of a top-10 account is USD 170mn for tier-1 IT (5x average top account size of midcap IT) and USD 33mn for midcap IT.
- Midcap IT's historical volatility has been on account of higher client concentration. Tier-1 IT's share of revenue from top-10 ranges from 19 to 33% with Wipro/INFY/HCLT/TECHM at 18/19/23/33%.
- Midcap IT's top-10 concentration is higher between 40 to 70% of revenue. LTT and Mindtree are at the lower-end of top account concentration, while eClerx and Sonata have higher concentration. Large anchor accounts for midcap IT have driven growth such as Microsoft (Mindtree, Sonata), Cisco (Zensar) and the outlook continues to be healthy.

Active Client Base Trends



Source: Company, HDFC sec Inst Research

Top-10 Accounts' Revenue Growth Trend



Source: Company, HDFC sec Inst Research

Growth in the Tier-1 IT led by new logo addition, while rev/account static

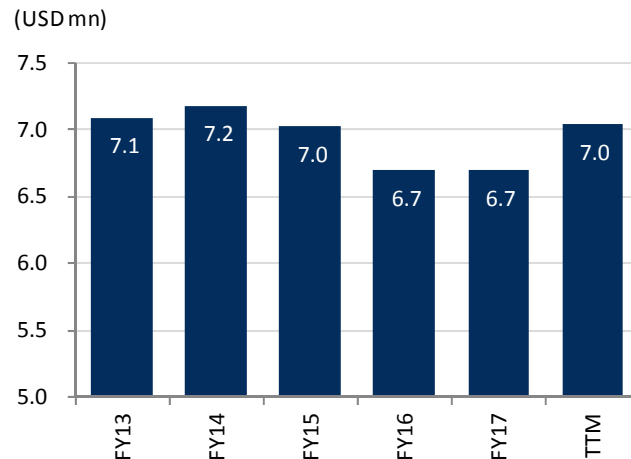
- Growth in Indian IT (tier-1) has been supported by new logo additions, especially as overall TCV has been declining and based on limited scalability of the top accounts. Tier-1 IT's (aggregate of INFY, Wipro, TECHM) revenue per account has been in USD 7mn band over the past five years.
- New logo additions have been growing at 8% CAGR over the past five years for tier-1 IT, resulting in aggregate revenue growth of 7.5% CAGR. Aggregate data of tier-1 IT's (TCS, INFY, Wipro, HCLT, TECHM) >USD 1mn accounts (proxy for total account base) reflect a similar trend of account-led growth as compared to revenue per account, with 7.4% CAGR over the past years.
- Within the tier-1 IT, TECHM, TCS and INFY have grown their USD 1mn client base fastest at 13.7/8.1/7.1% CAGR. Revenue per USD 1mn+ account (proxy for total account base) has grown at 1.4% CAGR contributing to 8.9% total revenue CAGR for tier 1 IT over the past five years. Revenue per USD 1mn + account has been the highest for HCLT at 5.1% CAGR over the same period.
- We reckon that significant headwinds of contraction in legacy business due to automation and cloud in the existing account profile have led to growth supported by new logos. This is reflected in incremental growth trend as incremental revenue/account stood at USD 6.5mn (lower than the USD 7mn/ account).

Client (net) Additions (Nos) In Last 2 Years

Infosys	146
Wipro	176
TECHM	102
Mindtree	50
LTI	40
LTT	22

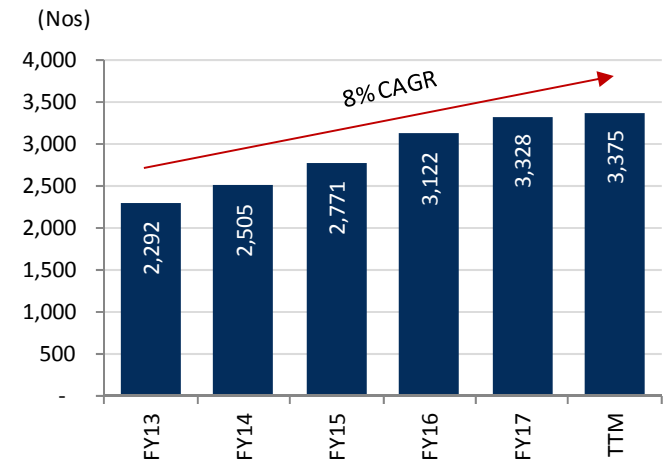
7.4% 5-yr CAGR of >USD 1mn accounts corresponding with 8.9% revenue CAGR

Revenue/ Client Trend (USD mn)

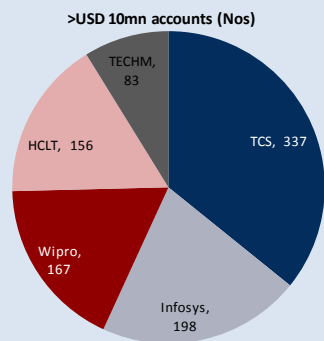
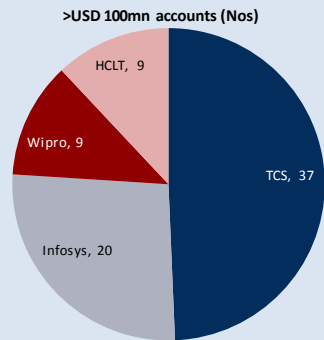


Source: Company, HDFC sec Inst Research, Note: Aggregate of INFY, Wipro, TECHM

Active Client Base Progression (Nos)



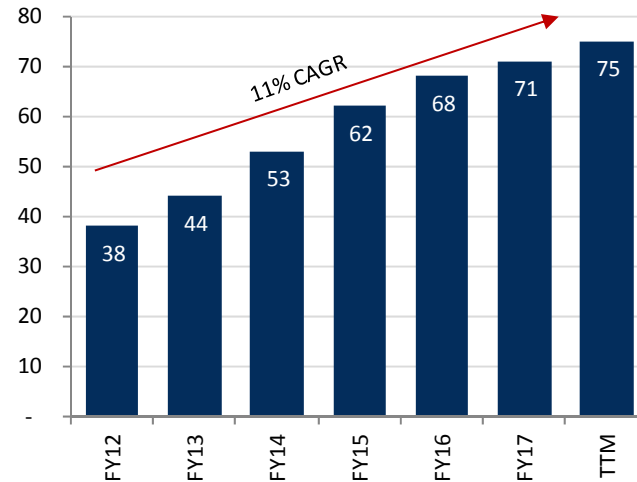
Source: Company, HDFC sec Inst Research, Note: Aggregate of INFY, Wipro, TECHM



- Tier-1 IT (TCS, INFY, Wipro, HCLT aggregate) has shown similar growth in increasing its tally of large accounts (largely with growing the accounts to higher revenue band) to its overall revenue growth. Large accounts have grown 1.7x (11% CAGR) as compared to revenue increase of 1.5x (9% CAGR) over the past five years.

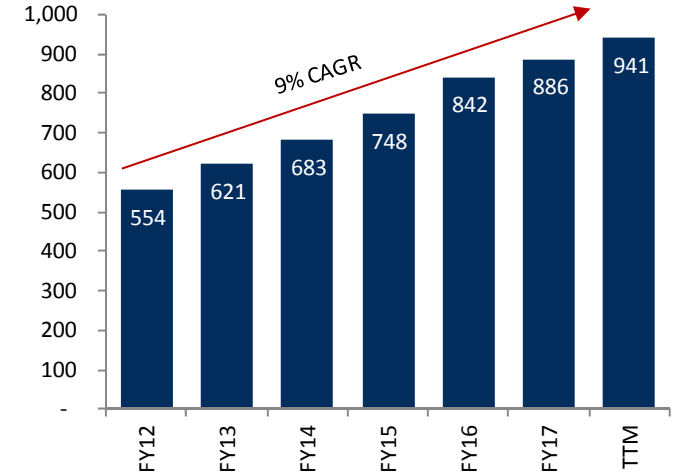
- Highest growth in the >USD 100mn category was in TCS, in which the count more than doubled between FY13-16. Since then, INFY's relative share in >USD 100mn category has increased. Recent large deal renewals and new scope such as Transamerica deal (USD 2bn+ 15-year new deal) with TCS as well as the Nielsen (USD 2.25bn renewal), M&G Prudential (USD 690mn 10 yrs) are expect to drive growth. Other key wins include Infosys – AS Watson, Allison Transmission, UCAS and HCLT – Statkraft, Cadent.

Large Logo Trend (>USD 100mn accounts) (Nos)



Source: Company, HDFC sec Inst Research, Note: Aggregate of TCS, INFY, Wipro, HCLT

Growth In >USD 10mn Accounts (Nos)



Source: Company, HDFC sec Inst Research, Note: Aggregate of TCS, INFY, Wipro, HCLT and TECHM

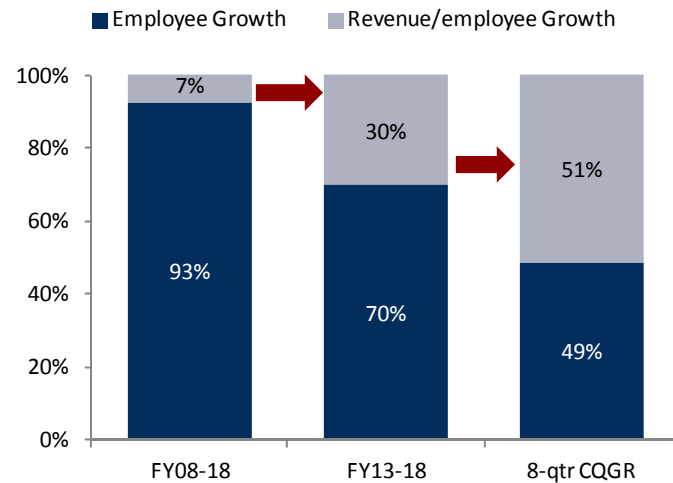
Favourable Supply metrics

- Indian IT's non-linearity is increasing fuelled by digital, automation and increase in platform. The lower dependency on headcount addition for growth is reflected by acceleration in revenue productivity. Over the past 10 years, 93% of the growth was attributable to headcount growth while 7% was attributable to productivity gains.
- These metrics have been changing which is reflected in 70-30 contribution of headcount and revenue productivity to the overall growth over the past five years. The metrics have balanced further with 49-51 contribution of headcount increase and revenue productivity growth in the last eight quarters. We

expect 70-30 split over FY18-20E between headcount and productivity increase.

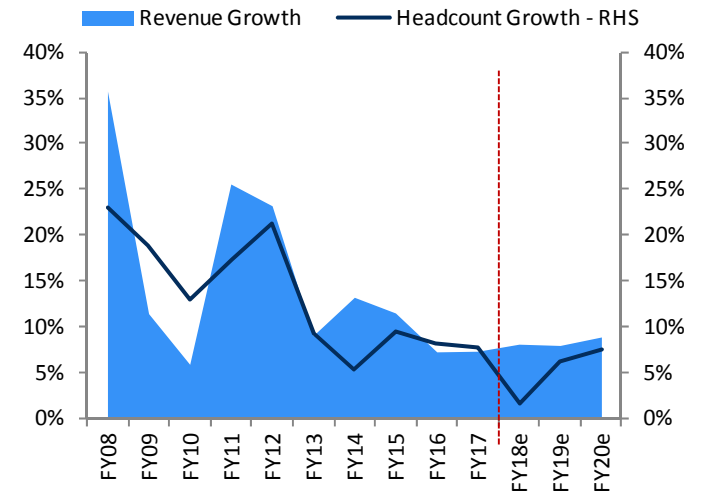
- Increase in automation is also reflected in improving productivity of Indian IT. The incremental revenue/employee for tier-1 IT is accelerating with USD 62k over the prior three years (incremental addition) as compared to USD 50k currently (total base).
- Within tier-1 IT, Wipro's revenue productivity has grown at the fastest pace over the past eight quarters at 1.8% CQGR. Within midcap IT, revenue productivity gains have been fastest in LTI and Persistent at 2/3.8% CQGR respectively.

Split Of Revenue Growth by Headcount Increase and Productivity Increase



Source: Company, HDFC sec Inst Research

Revenue and Headcount Growth Trend

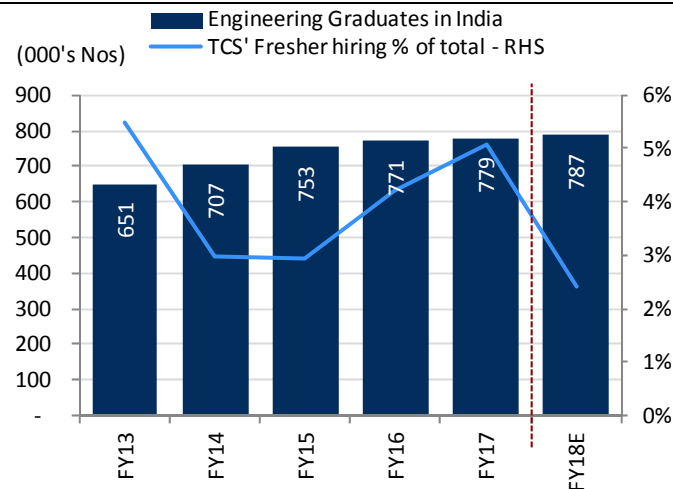


Source: Company, HDFC sec Inst Research

- Supply metrics on fresher availability remain favourable for the sector with continuity in large talent pool. While the annual engineering graduate count has increased by 4% CAGR over the past five years, fresher intake has remained flattish over the same period.
- Engineering graduates in India have increased from 0.65mn to 0.79 million from FY13 to FY18E, however TCS' fresher hires have reduced from 35,769 in FY13 to 39,428 in FY17 and 19,0850 in FY18 (9M annualized). While the fresher count also includes non-engineers, the overall hiring to the graduate count is reducing.
- The changing hiring trends and the relative attraction of companies within the sector can also be gauged by employee perception of the companies. We've evaluated the ratings of IT companies on job portals (Glassdoor, Indeed) which have a large share of reviewers within its employee base.

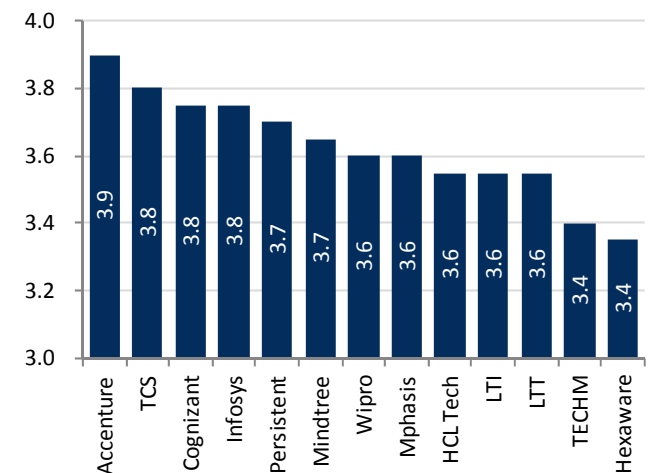
- The ratings (50% equal weight assigned to both Glassdoor and Indeed) reflect relative perception of the employers (IT companies) and help us determine the ability of companies to retain its talent along with other metrics such as attrition levels.
- TCS' attrition is lower by 450bps from peak attrition levels and INFY's attrition is also lower by >700bps from peak. These also partially reflect the relative slowdown in the sector and the mismatch in demand-supply.
- IT companies are extensively using online training, educational tools, platforms and social media for training their employees. Wipro had trained 60,000 of its employees in digital skills, TCS had trained over 200,000 employees in digital. Infosys had extended design training to >135,000 employees.
- Infosys had trained over 50% of its project managers in Agile and DevOps technologies. Recruitment, training & development expense constituted 0.4% of HCLT's revenue.

Fresher Hiring Trend, Supply Metrics



Source: Company, Everest, AICTE, HDFC sec Inst Research

Rating By Job Portals Reviewers (Scale 0-5)



Source: Glassdoor, Indeed, HDFC sec Inst Research

Global RPA market to grow 33% CAGR over CY17-21E

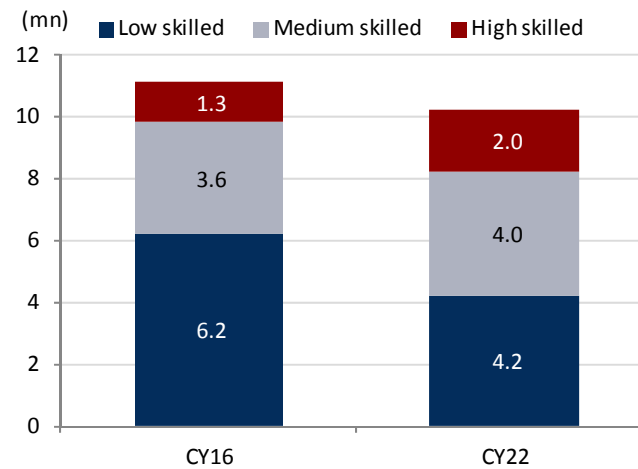
Automation impacting workforce trends

- The proposition of Robotic Process Automation (RPA) includes faster ROI, lower cost and higher employee productivity gains. The software robot (bot) mimics human interaction with software application to perform routine-rule based processes. Global RPA market is expected to grow at 33% CAGR over CY17-21E as per HFS.
- Higher automation is expected to impact the labour force with shift in jobs from low skilled to high skilled. As per HFS, high-skilled workforce (12% of current IT workforce) is expected to expand by 50% in 5 years, medium-skilled workforce (32% of current IT

workforce) is expected to be higher by 10% and low-skilled workforce (56% of current workforce) expected to decline by 30%. This is expected to cumulatively result in 8% aggregate workforce in 5 years.

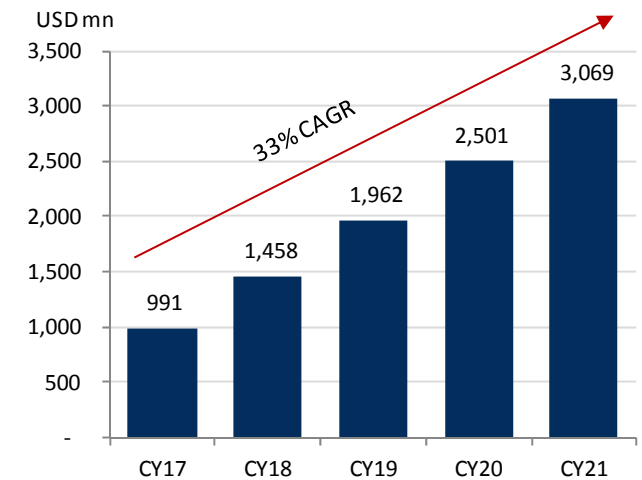
- Enterprise-wide adoption in IT will continue to shrink the legacy IT business. Rapid adoption of automation is reflected in hyper growth of automation tools such as Automation Anywhere (Automation Anywhere’s revenue grew 146% in CY17). Blueprism secured 609 deals in FY17 (over 3x the prior year) and also increased its customers at a similar rate.

Global IT & BPO workforce Trends



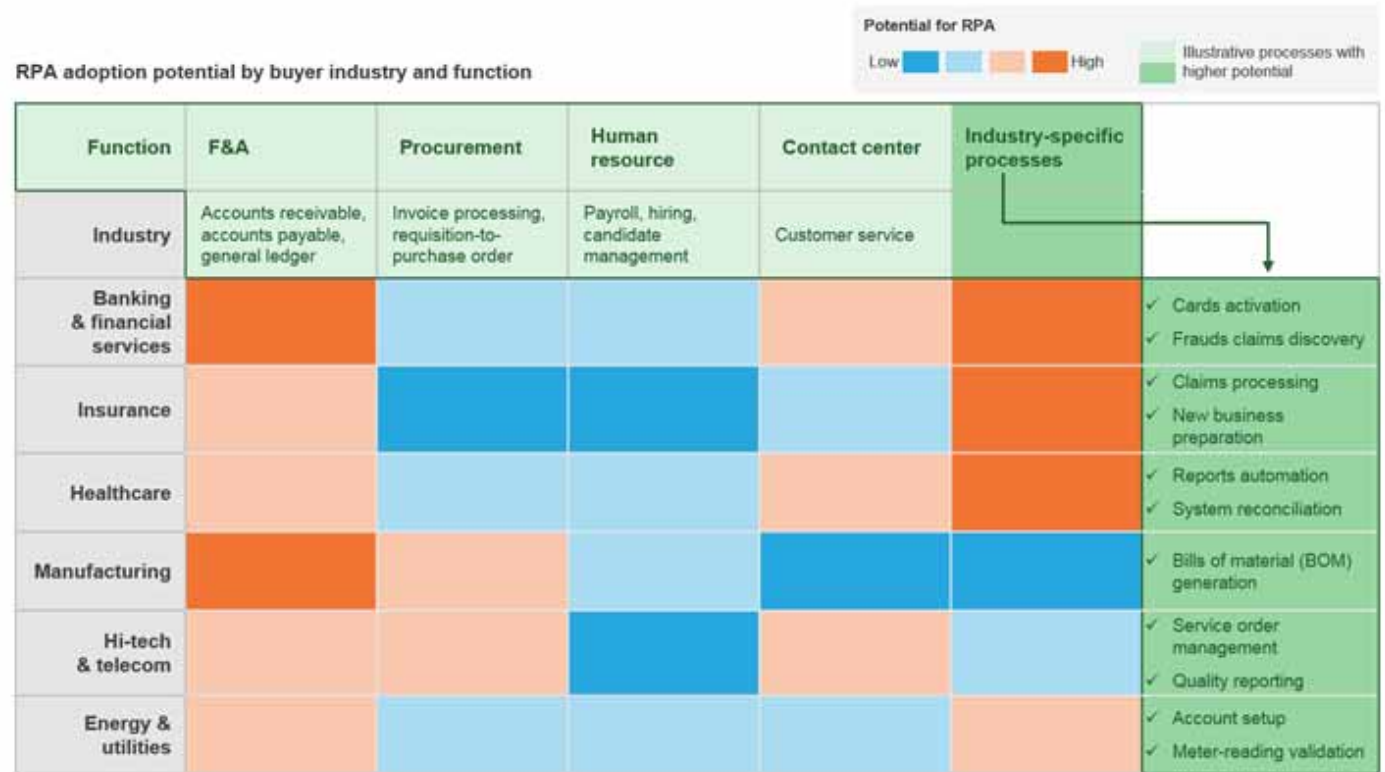
Source: HFS

Worldwide RPA market



Source: HFS

RPA Impact Across Industries



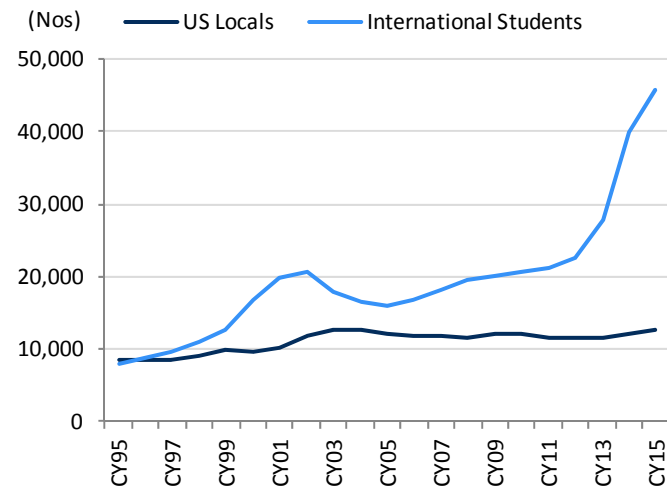
Source: Everest

Onsite delivery risk lower

- We believe that the mismatch between local tech talent and high dependence on international student pool is unlikely to result in extreme restrictions. International students comprise 79% of the total graduate students in US for Computer Science. This has increased from 48% twenty years ago to 57% ten years ago.
- The restrictive provisions for non-immigrant visa category had started pre-Trump with hike in the H-1B visa fees. Other legislative bills that were introduced in early CY17 such as ‘High-Skilled Integrity and Fairness Act’ (minimum wage 60k to 130k), Protect and Grow American Jobs Act (minimum wage 60k to 100k), H-1B and L-1 Visa Reform Act of 2017 (priority to US STEM grads) continue to be risk.

- However, Indian IT’s risk mitigation over the years have been in the form of increasing US local headcount (especially fresher addition), investments in training in new technologies (to optimise offshore for digital) and developing near-shore delivery centers.
- This is also reflected in lower H-1B applications for Indian IT, which have reduced considerably. Top seven Indian IT companies constituted 17% of the approved H-1B petitions in FY15 which reduced further to 11% of H-1B petitions in FY16. Approved H-1B petitions were lower by 36% and have been on a downward trend. Visa filings continue to be lower ([link](#)).

High Composition Of International Students In Computer Science In US



Source: NFAP, HDFC sec Inst Research

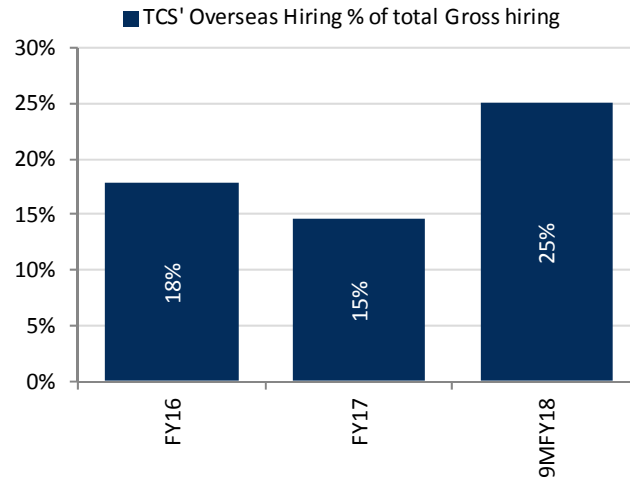
Reducing Dependency On H-1B, Approved H-1B Petitions (Nos)

Employer/Company	FY15	FY16	% Change
Infosys	2,830	2,376	-16%
TCS	4,674	2,040	-56%
Wipro	3,079	1,474	-52%
Tech Mahindra	1,576	1,228	-22%
HCL America	1,339	1,041	-22%
Larsen & Toubro	649	870	34%
Mindtree	464	327	-30%
Total Indian IT in Top-25 approved visa petitions	14,611	9,356	-36%
Top-25 approved petitions (ex- Indian IT)	18,937	18,535	-2%
Total Top-25 approved petitions	33,548	27,891	-17%

Source: NFAP, USCIS, HDFC sec Inst Research

- The increased overseas hiring is reflected in TCS' total overseas hiring. TCS' overseas hiring has increased from 18% of total gross hiring as overseas hiring in FY16 to 25% of total gross hiring as overseas hiring.

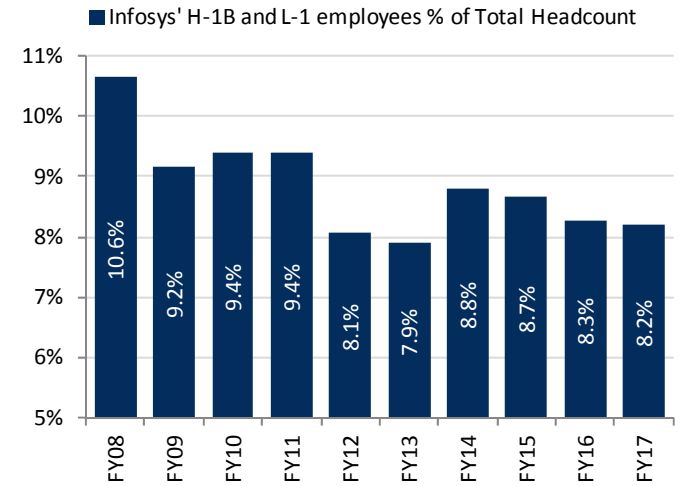
Increase In Overseas Hiring Trend



Source: Company, HDFC sec Inst Research

Infosys' H-1B and L-1 headcount has reduced from 11% of its total count in FY08 to 8% of its total count in FY17, and further expected to reduce with lower applications.

Reduction In H-1B/L-1 Dependency



Source: Company, HDFC sec Inst Research

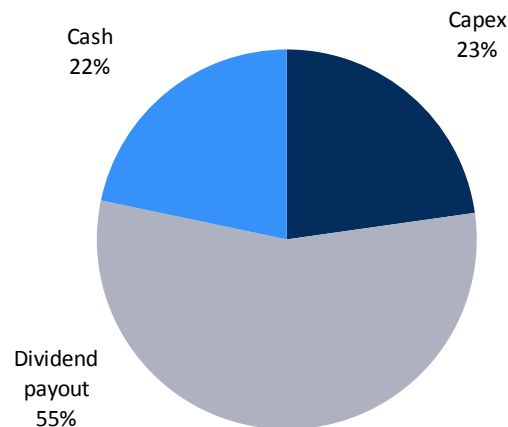
Strong balance sheet, capital allocation and cash generation

- IT sector's balance sheet strength and cash generation has remained strong despite the growth deceleration. Tier-1 aggregate measures of cash generation, return ratios, capital allocation, working capital situation, investment intensity continues to be robust.
- EBITDA% average over past 10/5 years has been 25.3/24.8% and we expect EBITDA% at 24.3% over FY18-20E, despite growth decelerating from above-teens to mid single-digit. OCF/EBITDA and FCF/EBITDA are at ~71% each, slightly better than their long-term average. Receivable days are also slightly better than long-term average of 72 days for the sector.
- Payout has increased over the past few years with 69% of OCF over the past three years in the form of dividend, as compared to 55% of OCF as dividend payout over the past ten years. Strong cash generation has supported investments for the sector (23% of OCF and <4% of revenue as CAPEX), resulting in RoIC of 26% for the sector.
- IT sector RoE% are expected to be 2x NIFTY over FY18-20E and historically RoE% has been at 30% vs 16% for NIFTY (trailing ten years). We re-iterate our constructive view on the sector with valuations supported by 3.6% FCF yield, RoIC at 26% and Cash/MCap at 10%.

Recent Buybacks (Rs bn)

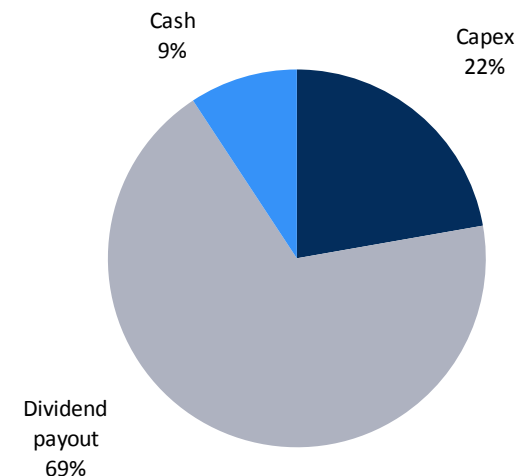
TCS	160.00
Infosys	130.00
Wipro	110.00
HCLT	35.00
Mphasis	11.03
Mindtree	2.70
eClerx	2.58
Hexaware	1.37

Strong OCF Generation Supporting Investments and Payout (10-year Trend)



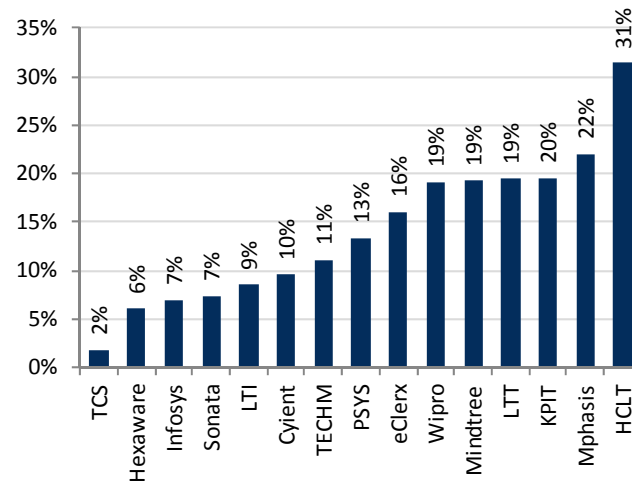
Source: Company, HDFC sec Inst Research, Note: Aggregate of TCS, INFY, Wipro, HCLT, TECHM

3-year Trend



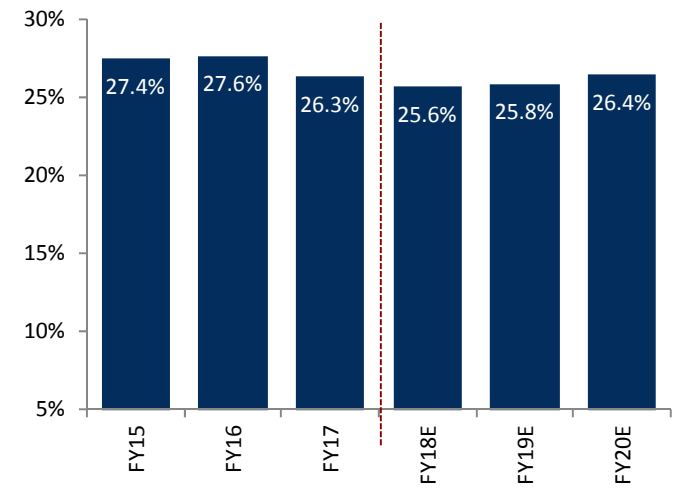
Source: Company, HDFC sec Inst Research, Note: Aggregate of TCS, INFY, Wipro, HCLT, TECHM

Intangible Assets and Goodwill % of Total Assets



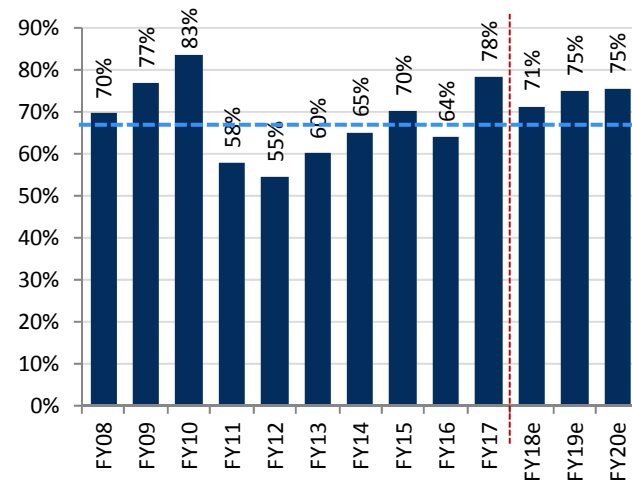
Source: Company, HDFC sec Inst Research

Steady RoIC (%) to Support Valuations of IT Sector



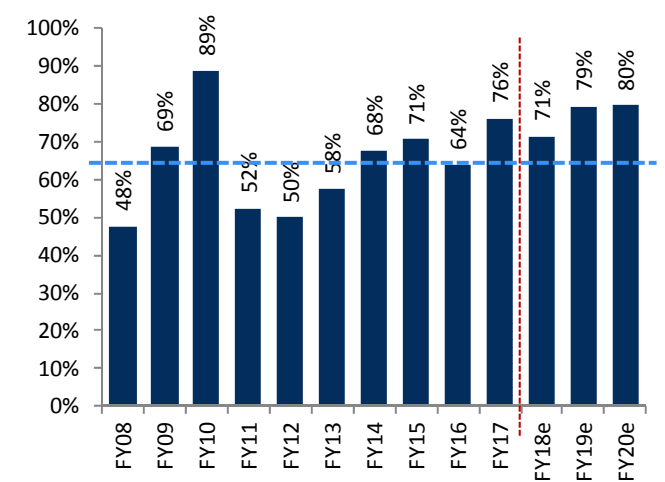
Source: Company, HDFC sec Inst Research

Improving OCF Metrics (OCF/EBITDA% Trend)



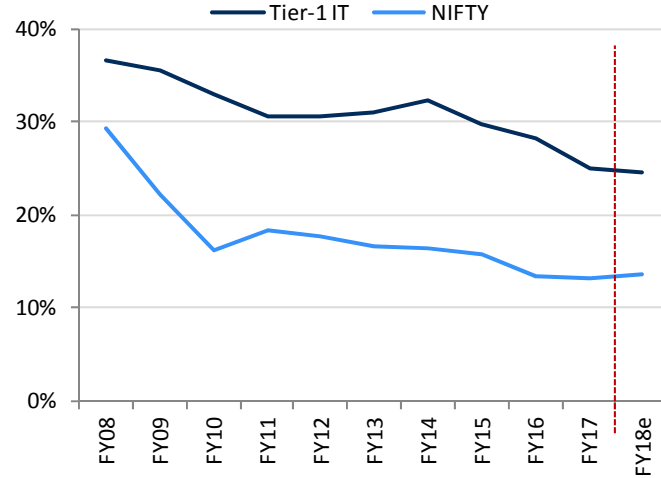
Source: Company, HDFC sec Inst Research, Note: Aggregate of TCS, INFY, Wipro, HCLT, TECHM

Steady Improvement In FCF Generation



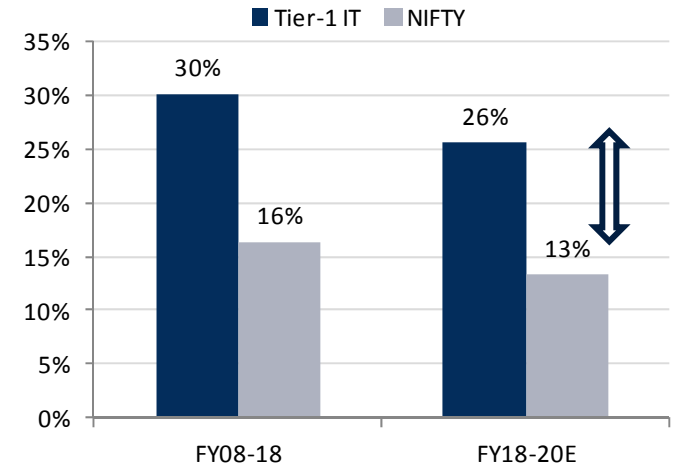
Source: Company, HDFC sec Inst Research, Note: Aggregate of TCS, INFY, Wipro, HCLT, TECHM

Superior RoE (%) To NIFTY



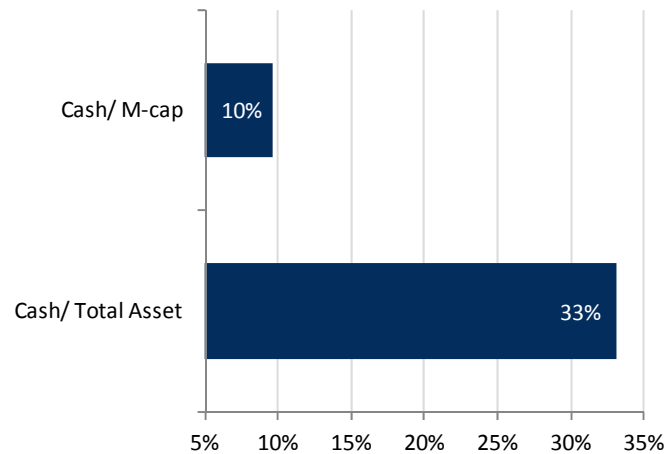
Source: Bloomberg, HDFC sec Inst Research

Average RoE Trend



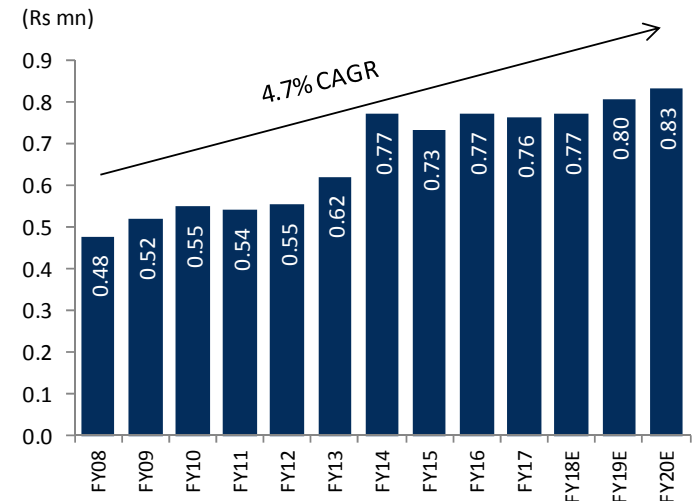
Source: Bloomberg, HDFC sec Inst Research

Strong Cash Position



Source: Company, HDFC sec Inst Research

Revival In Operational Efficiency (EBITDA/employee Trend)



Source: Company, HDFC sec Inst Research

IT, Staffing & Exchanges 4QFY18E Earnings Preview Table

Company	NET SALES (USD mn)			NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs)		
	4Q FY18E	QoQ (%)	YoY (%)	4Q FY18E	QoQ (%)	YoY (%)	4Q FY18E	QoQ (%)	YoY (%)	4Q FY18E	3Q FY18	4Q FY17	4Q FY18E	QoQ (%)	YoY (%)	4Q FY18E	3Q FY18	4Q FY17
TCS	4,925	2.9	10.6	316.65	2.5	6.8	86.86	4.8	6.8	27.4	26.8	27.4	68.44	4.6	3.3	35.7	34.1	33.5
Infosys	2,802	1.7	9.1	180.19	1.3	5.3	48.60	0.9	4.3	27.0	27.1	27.2	37.30	0.9	3.5	17.2	17.0	15.8
Wipro	2,059	2.3	5.4	137.91	0.9	(1.4)	27.53	10.4	(2.3)	20.0	18.2	20.1	21.06	(3.6)	13.7	4.7	4.8	4.1
HCLT	2,054	3.3	13.0	132.06	3.1	9.6	29.67	0.1	12.0	22.5	23.1	22.0	22.73	3.6	(2.2)	16.3	15.8	14.2
Tech M.	1,250	3.4	10.5	80.51	3.5	7.4	13.43	6.2	49.4	16.7	16.3	12.0	9.51	0.8	61.7	10.7	10.6	6.6
LTI	303	3.4	19.4	19.51	3.6	16.3	3.39	5.5	6.4	17.4	17.1	19.0	2.99	5.7	17.5	17.4	16.5	14.9
Mphasis	258	2.5	16.4	16.87	1.6	12.0	2.90	5.8	21.7	17.2	16.5	15.8	2.26	7.7	16.9	11.7	10.9	9.2
Mindtree	223	4.0	13.9	14.33	4.0	8.7	2.29	10.4	22.5	16.0	15.1	14.2	1.51	26.4	55.5	9.0	7.1	5.8
L&T Tech	157	3.9	29.4	10.09	4.1	24.2	1.56	5.2	16.7	15.5	15.3	16.5	1.24	6.3	28.3	12.1	11.4	9.5
Hexaware	160	2.6	10.6	10.30	2.5	7.2	1.68	5.3	3.8	16.4	15.9	16.9	1.37	13.0	20.0	4.6	4.1	3.9
Cyient	163	7.4	15.8	10.51	6.9	11.8	1.57	9.5	25.5	14.9	14.5	13.3	1.13	4.5	7.7	10.0	9.6	9.3
Tata Elxsi	55	3.9	13.6	3.56	3.1	9.0	0.93	(1.0)	22.6	26.0	27.1	23.1	0.62	(1.1)	42.8	10.0	10.1	7.1
Persistent	117	(4.4)	7.4	7.61	(3.9)	4.7	1.02	(26.0)	(14.3)	13.4	17.4	16.3	0.64	(30.2)	(12.1)	8.0	11.5	10.2
eClerx	50	1.5	3.6	3.42	0.5	3.0	0.96	6.1	(14.0)	28.1	26.6	33.7	0.72	25.3	(3.7)	18.6	14.4	18.8
Zensar	126	3.0	13.9	8.16	2.6	9.7	1.15	7.3	94.5	14.1	13.4	7.9	0.69	16.7	560.7	15.1	13.0	2.3
KPIT Tech.	143	1.3	11.5	9.20	0.8	7.2	0.93	(6.2)	6.5	10.1	10.8	10.1	0.64	3.1	18.8	3.2	3.1	2.7
Sonata	39	4.0	26.7	7.88	2.8	11.2	0.69	5.6	55.8	8.7	8.5	6.2	0.53	8.6	53.3	5.1	4.7	3.3
Intellect	44	4.3	16.7	2.81	3.7	12.2	0.23	40.4	44.2	8.0	5.9	6.3	0.15	24.1	2.1	1.2	1.0	1.2
HGS	154	2.0	8.5	9.89	1.3	5.2	0.99	0.8	(3.1)	10.0	10.1	10.9	0.40	(0.9)	(5.5)	19.4	23.6	20.7
Majesco	33	5.4	18.9	2.16	4.0	13.0	0.15	58.0	175.4	6.9	4.5	2.8	0.07	NM	NM	2.4	(4.6)	0.7
Aggregate	14,929	2.7	10.5	971.57	2.2	6.2	225.37	3.9	8.2	23.0	22.6	22.6	173.53	2.7	7.4			

Exchanges & Staffing Preview

BSE	NA	NA	NA	1.26	0.6	0.0	0.31	(6.8)	0.0	24.8	26.8	24.8	0.66	10.3	0.0	12.2	11.0	12.2
MCX	NA	NA	NA	0.72	17.4	14.4	0.24	76.9	82.2	33.4	22.2	21.0	0.31	64.8	41.3	6.1	3.7	4.3
CDSL	NA	NA	NA	0.52	1.3	35.1	0.31	0.7	64.7	60.8	61.1	49.9	0.28	8.9	18.2	2.6	2.4	2.2
TeamLease	NA	NA	NA	9.68	5.4	18.5	0.20	10.4	33.8	2.0	1.9	1.8	0.20	10.8	(47.0)	11.9	10.8	22.5
BLS	NA	NA	NA	2.10	3.3	7.8	0.37	(2.4)	8.1	17.7	18.7	17.7	0.22	7.3	29.6	2.2	2.1	1.7

Source: Company, HDFC sec Inst Research

COMPANY SECTION

"It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change." - Charles Darwin

Tata Consultancy Services

NEUTRAL
INDUSTRY IT

CMP (as on 11 Apr 2018) Rs 3,014

Target Price Rs 3,105

Nifty 10,417

Sensex 33,940

KEY STOCK DATA

Bloomberg TCS IN

No. of Shares (mn) 1,914

MCap (Rs bn) / (\$ mn) 5,770/88,340

6m avg traded value (Rs mn) 4,543

STOCK PERFORMANCE (%)
52 Week high / low Rs 3,259/2,253

3M 6M 12M

Absolute (%) 8.0 20.5 24.6

Relative (%) 9.6 13.9 10.6

SHAREHOLDING PATTERN (%)

Promoters 73.57

FIs & Local MFs 6.07

FPIs 16.26

Public & Others 4.10

Source : BSE

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Digital scale

TCS' growth trajectory is expected to accelerate based on (1) Expansion of digital business (22% of rev), (2) Recovery in key vertical ahead (Retail & CPG), (3) Large deal wins (Transamerica, M&G Prudential, Nielsen) providing growth visibility, and (4) Stability in operational performance (despite investments in large deals). Revise earnings higher by ~3% and expect revenue/EPS growth at 9/10% CAGR over FY18-20E. While growth acceleration is expected, current valuations limit the upside. Maintain **NEUTRAL** with TP of Rs 3,105, 19x FY20E EPS (17x earlier) supported by higher growth visibility. Our Target multiple implies 12% premium over INFY target valuations (in-line with 3-year historical avg. premium).

- TCS' digital penetration is within 55% of its overall clients and digital revenue has grown at 40% CAGR over the past two years to 22.1% of revenue in 3QFY18. TCS signed its largest digital deal of TCV USD 50mn in 3Q and is increasing its strategic positioning within its accounts, especially in areas of IoT and big

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Revenue (USD mn)	4,036	4,156	4,145	4,207	4,362	4,374	4,387	4,452	4,591	4,739	4,787	4,925
Growth QoQ %	3.5%	3.0%	-0.3%	1.5%	3.7%	0.3%	0.3%	1.5%	3.1%	3.2%	1.0%	2.9%
Growth YoY%	9.3%	5.8%	5.4%	7.9%	8.1%	5.2%	5.8%	5.8%	5.2%	8.3%	9.1%	10.6%
EBITDA %	28.1%	28.8%	28.3%	27.8%	26.7%	27.7%	27.7%	27.4%	25.1%	26.7%	26.8%	27.4%
EBIT %	26.3%	27.1%	26.6%	26.1%	25.1%	26.0%	26.0%	25.7%	23.4%	25.1%	25.2%	25.7%
Revenue (Rs bn)	256.68	271.65	273.64	284.49	293.05	292.84	297.35	296.42	295.84	305.41	309.04	316.65
EBITDA (Rs bn)	72.01	78.22	77.47	79.07	78.37	81.13	82.29	81.32	74.13	81.64	82.87	86.86
PAT (Rs bn)	57.47	60.73	61.09	63.41	63.17	65.86	67.78	66.08	59.45	64.46	65.31	68.29

Source: Company, HDFC sec Inst Research

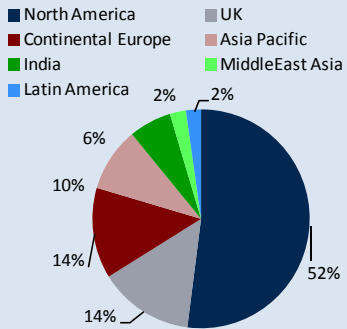
data & analytics (USD 2bn annual rate of analytics). TCS has signed 22 large deals in the last two quarters.

- TCS had re-organised its service-lines nearly a year back to improve delivery agility by bringing multiple service-lines together. The new segments include Consulting & Service integration, Digital Transformation services and Cognitive business operations (BPM, IMS), have resulted in recent deal win success.

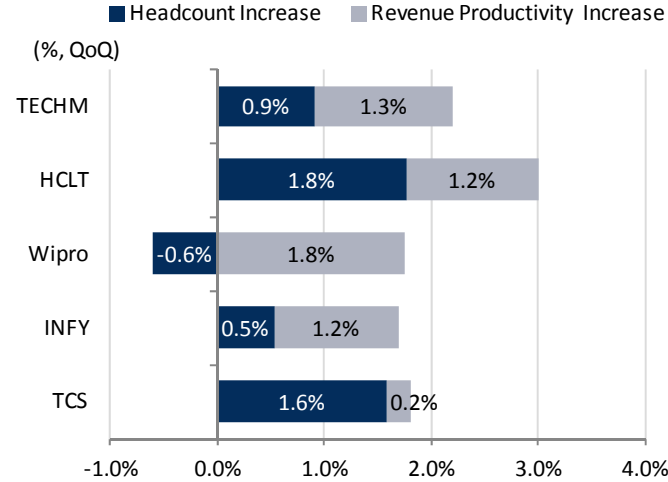
Financial Summary

(Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	1,086.46	1,179.66	1,226.94	1,343.58	1,455.86
EBITDA	287.89	303.24	304.94	338.20	371.44
APAT	242.69	262.89	257.51	282.50	312.77
Diluted EPS (Rs)	123.5	133.4	134.5	147.6	163.4
P/E (x)	24.4	22.6	22.4	20.4	18.4
EV / EBITDA (x)	17.9	16.4	16.5	14.6	12.9
RoE (%)	39.9	33.4	30.3	31.3	29.8

Source: Company, HDFC sec Inst Research

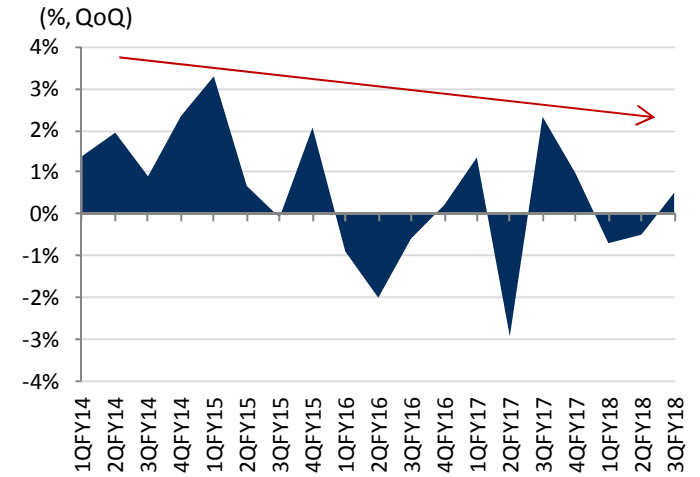


Revenue Growth Split (8-qtr CQGR)



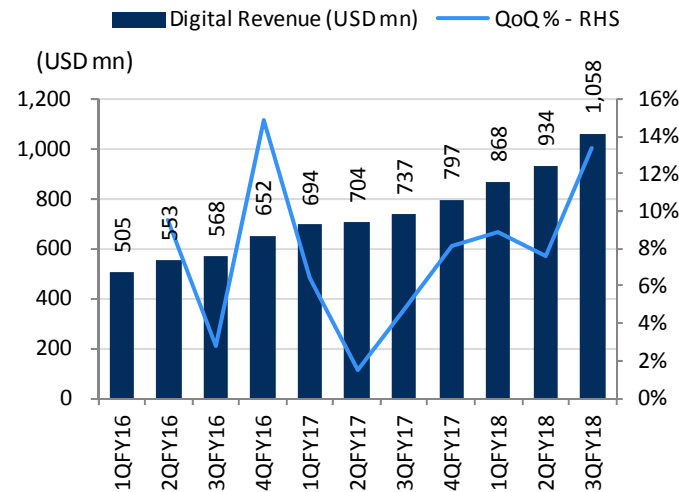
Source: Company, HDFC sec Inst Research

TCS' Growth Premium Over Infosys



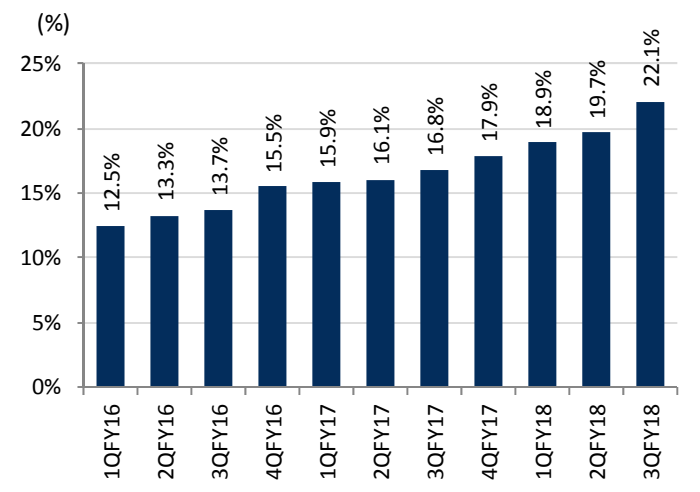
Source: Company, HDFC sec Inst Research

Digital Revenue And Growth Rate

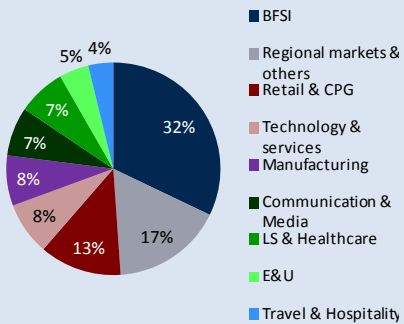


Source: Company, HDFC sec Inst Research

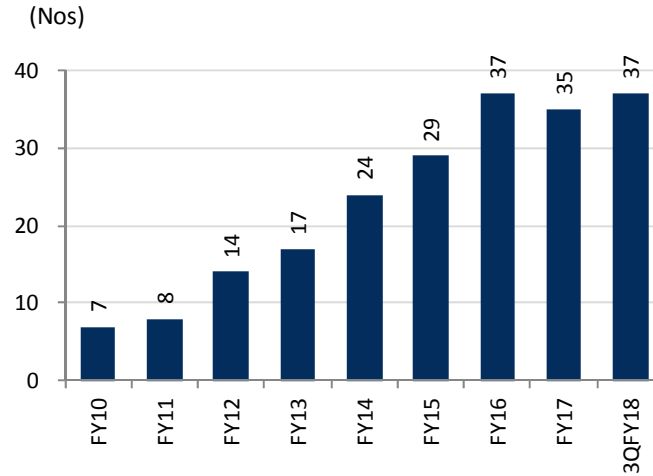
Digital % Of Revenue



Source: Company, HDFC sec Inst Research

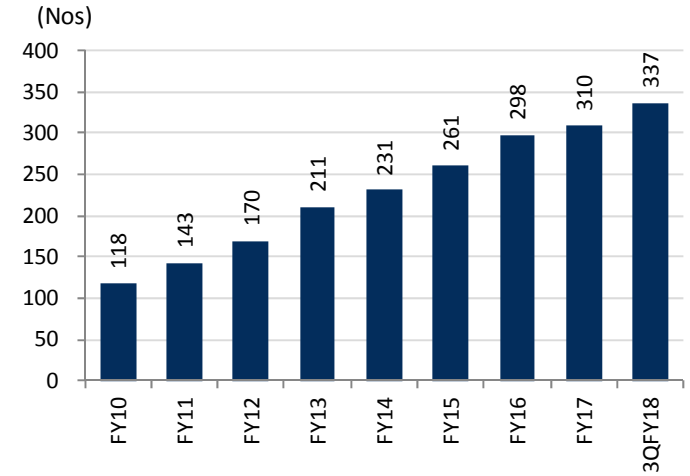


Growth In >USD 100mn Accounts



Source: Company, HDFC sec Inst Research

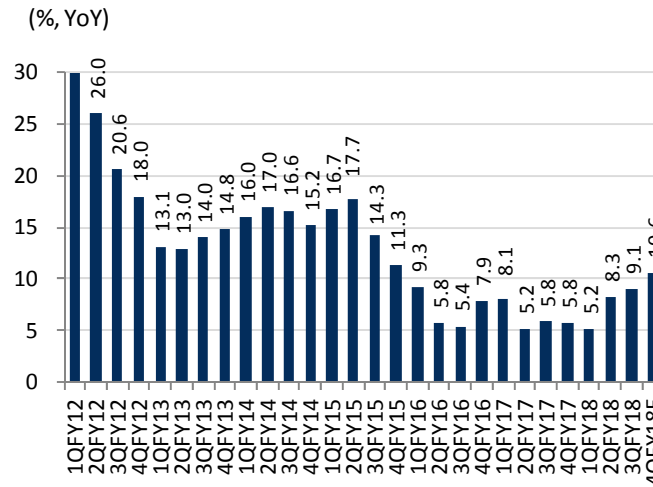
Growth In >USD 10mn Accounts



Source: Company, HDFC sec Inst Research

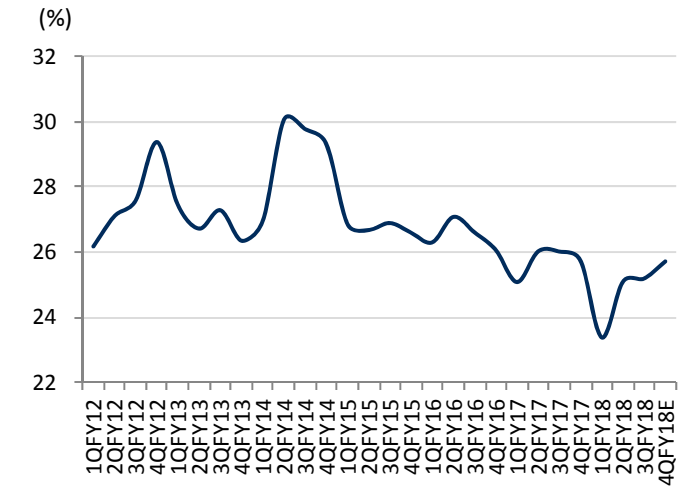
Particulars	Earlier estimates	Revised estimates	% change
FY19E			
Revenue (US\$ mn)	20,321	20,670	1.7
Revenue (Rs bn)	1,320.86	1,343.58	1.7
EBIT (Rs bn)	333.24	338.20	1.5
EBIT margin (%)	25.2	25.2	(6)bps
EPS (Rs)	145.6	147.6	1.4
FY20E			
Revenue (US\$ mn)	22,024	22,398	1.7
Revenue (Rs bn)	1,431.56	1,455.86	1.7
EBIT (Rs bn)	360.52	371.44	3.0
EBIT margin (%)	25.2	25.5	33bps
EPS (Rs)	159.2	163.4	2.6

Revenue Growth Trend



Source: Company, HDFC sec Inst Research

EBIT Margin Trend



Source: Company, HDFC sec Inst Research

Consolidated Income Statement

Year ending March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales (USD mn)	16,544	17,575	19,042	20,670	22,398
<i>Growth (%)</i>	<i>7.1</i>	<i>6.2</i>	<i>8.3</i>	<i>8.6</i>	<i>8.4</i>
Net Sales	1,086.46	1,179.66	1,226.94	1,343.58	1,455.86
<i>Growth (%)</i>	<i>14.8</i>	<i>8.6</i>	<i>4.0</i>	<i>9.5</i>	<i>8.4</i>
Employee Expenses	553.48	616.21	660.18	722.10	780.83
SG&A and Other Op Exp.	226.21	240.34	241.27	259.65	276.61
EBIDTA	306.77	323.11	325.50	361.83	398.42
<i>EBIDTA (%)</i>	<i>28.2</i>	<i>27.4</i>	<i>26.5</i>	<i>26.9</i>	<i>27.4</i>
<i>EBIDTA Growth (%)</i>	<i>25.3</i>	<i>5.3</i>	<i>0.7</i>	<i>11.2</i>	<i>10.1</i>
Depreciation	18.88	19.87	20.55	23.62	26.98
EBIT	287.89	303.24	304.94	338.20	371.44
Other Income	30.74	42.21	35.19	39.59	46.79
Interest	0.23	0.32	0.45	0.30	0.30
PBT	318.40	345.13	339.68	377.49	417.93
Tax (incl deferred)	75.02	81.56	81.69	94.37	104.48
RPAT	242.69	262.89	257.51	282.50	312.77
APAT	242.69	262.89	257.51	282.50	312.77
<i>APAT Growth (%)</i>	<i>22.2</i>	<i>8.3</i>	<i>(2.0)</i>	<i>9.7</i>	<i>10.7</i>
EPS (Rs)	123.5	133.4	134.5	147.6	163.4
<i>EPS Growth (%)</i>	<i>21.9</i>	<i>8.0</i>	<i>0.8</i>	<i>9.7</i>	<i>10.7</i>

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

Year ending March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	1.97	1.97	1.91	1.91	1.91
Reserves	708.75	860.17	834.93	966.07	1,128.45
Total Shareholders' Funds	710.72	862.14	836.84	967.99	1,130.36
Minority Interest	3.55	3.66	3.81	4.42	5.10
Total Debt	1.96	2.71	3.79	3.74	4.03
Net Deferred Taxes	(21.03)	(19.09)	(19.10)	(19.10)	(19.10)
Long-term Provisions & Others	12.12	11.70	15.52	10.35	12.04
TOTAL SOURCES OF FUNDS	707.32	861.12	840.86	967.40	1,132.43
APPLICATION OF FUNDS					
Net Block	99.71	100.57	94.77	99.48	108.79
CWIP	16.70	15.41	16.71	16.71	16.71
Goodwill & Other Intangible Assets	18.03	16.44	17.76	18.93	20.46
Investments	16.68	11.69	11.69	11.69	11.69
LT Loans & Advances, Others	78.63	54.87	57.63	62.61	68.33
Total Non Current Assets	229.75	198.98	198.56	209.43	225.98
Debtors	240.73	226.84	242.03	268.72	291.17
Cash & Equivalents	292.67	457.85	401.20	494.40	618.91
Other Current Assets	98.73	120.57	137.07	148.95	162.55
Total Current Assets	632.13	805.26	780.29	912.07	1,072.63
Creditors	75.41	62.79	62.96	68.49	74.04
Other Current Liabilities & Provns	79.15	80.33	75.04	85.61	92.15
Total Current Liabilities	154.56	143.12	138.00	154.10	166.19
Net Current Assets	477.57	662.14	642.30	757.97	906.45
TOTAL APPLICATION OF FUNDS	707.32	861.12	840.86	967.40	1,132.43

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

Year ending March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	318.40	345.13	339.68	377.49	417.93
Non-operating & EO items	(48.24)	(18.90)	(38.69)	(22.69)	(24.22)
Interest expenses	0.23	0.32	0.45	0.30	0.30
Depreciation	18.88	19.87	20.55	23.62	26.98
Working Capital Change	(48.24)	(18.90)	(38.69)	(22.69)	(24.22)
Tax paid	(75.02)	(81.56)	(81.69)	(94.37)	(104.48)
OPERATING CASH FLOW (a)	166.01	245.96	201.62	261.67	292.28
Capex	(20.47)	(18.57)	(16.47)	(29.51)	(37.81)
Free cash flow (FCF)	145.54	227.39	185.16	232.17	254.46
Investments	3.18	28.75	(2.76)	(4.98)	(5.72)
Non-operating income	-	-	-	-	-
INVESTING CASH FLOW (b)	(17.28)	10.18	(19.23)	(34.49)	(43.53)
Debt Issuance	(1.04)	0.75	1.08	(0.05)	0.29
Interest expenses	(0.23)	(0.32)	(0.45)	(0.30)	(0.30)
FCFE	144.28	227.82	185.78	231.81	254.46
Share capital Issuance	0.01	-	(0.06)	-	-
Dividend	(102.25)	(109.47)	(276.47)	(150.06)	(150.06)
FINANCING CASH FLOW (c)	(103.50)	(109.04)	(275.90)	(150.41)	(150.07)
NET CASH FLOW (a+b+c)	45.23	147.10	(93.50)	76.77	98.68
Closing Cash & Equivalents	292.67	457.85	401.20	494.40	618.91

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
EBITDA Margin	28.2	27.4	26.5	26.9	27.4
APAT Margin	22.3	22.3	21.0	21.0	21.5
RoE	39.9	33.4	30.3	31.3	29.8
RoIC or Core RoCE	59.2	56.6	55.0	55.6	56.5
RoCE	39.3	33.6	30.3	31.3	29.8
EFFICIENCY					
Tax Rate (%)	23.6	23.6	24.0	25.0	25.0
Fixed Asset Turnover (x)	5.6	5.6	5.5	5.3	5.1
Debtors (days)	81	70	72	73	73
Payables (days)	25	19	19	19	19
Cash Conversion Cycle (days)	56	51	53	54	55
Net Debt/EBITDA (x)	(0.9)	(1.4)	(1.2)	(1.4)	(1.5)
Net Debt/Equity (x)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
Interest Coverage (x)	1,278	948	671	1,116	1,243
PER SHARE DATA					
EPS (Rs/sh)	123.5	133.4	134.5	147.6	163.4
CEPS (Rs/sh)	132.7	143.5	145.3	159.9	177.5
DPS (Rs/sh)	43.5	47.0	52.0	70.0	70.0
BV (Rs/sh)	361	438	437	506	590
VALUATION					
P/E	24.4	22.6	22.4	20.4	18.4
P/BV	8.4	6.9	6.9	6.0	5.1
EV/EBITDA	17.9	16.4	16.5	14.6	12.9
OCF/EV (%)	3.0	4.6	3.8	5.0	5.7
FCF/EV (%)	2.7	4.3	3.4	4.4	4.9
FCFE/mkt cap (%)	2.5	3.9	3.2	4.0	4.4
Dividend Yield (%)	1.4	1.6	1.7	2.3	2.3

Source: Company, HDFC sec Inst Research

INDUSTRY		IT	
CMP (as on 11 Apr 2018)	Rs 1,124		
Target Price	Rs 1,335		
Nifty	10,417		
Sensex	33,940		
KEY STOCK DATA			
Bloomberg	INFO IN		
No. of Shares (mn)	2,184		
MCap (Rs bn) / (\$ mn)	2,455/37,595		
6m avg traded value (Rs mn)	5,159		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 1,221/860		
	3M	6M	12M
Absolute (%)	4.5	20.8	16.2
Relative (%)	6.1	14.2	2.3
SHAREHOLDING PATTERN (%)			
Promoters	12.90		
FIs & Local MFs	21.76		
FPIs	35.00		
Public & Others	30.34		
<i>Source : BSE</i>			

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All set for revival

Infosys (INFY) has navigated the turbulent internal phase and a challenging business environment, while maintaining its revenue market share vs. peers. We re-iterate that INFY's trajectory has bottomed-out and we see an uptick ahead, based on (1) BFSI acceleration (NorthAm recovery), (2) Scalability and momentum in large accounts, (3) Increasing share of digital (currently 25% of rev) with rapid acceleration, and (4) Strong operational performance. Expect revenue/EPS CAGR at 9% each over FY18-20E and maintain BUY with TP of Rs1,335, 17x FY20E EPS.

- Management is expected to provide guidance of 'growth acceleration' in FY19E as compared to 5.5 to 6.5% guidance for FY18. We've factored modest acceleration with CQGR of 2% and 2.1% for FY19/20E, as compared to 1.8% CQGR over TTM. EBIT margin band of the company is unlikely to change at 23 to 25% with utilisation at peak levels.
- BFSI is expected to accelerate supported by recovery in NorthAm accounts. Decline in legacy portion of Retail & CPG vertical (14.1% of rev) is offsetting the

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Revenue (USD mn)	2,256	2,392	2,407	2,446	2,501	2,587	2,551	2,569	2,651	2,728	2,755	2,802
Growth QoQ %	4.5%	6.0%	0.6%	1.6%	2.2%	3.4%	-1.4%	0.7%	3.2%	2.9%	1.0%	1.7%
Growth YoY%	5.8%	8.7%	8.5%	13.3%	10.9%	8.2%	6.0%	5.0%	6.0%	5.5%	8.0%	9.1%
EBITDA %	26.2%	27.8%	27.2%	28.0%	26.5%	27.3%	27.6%	27.2%	26.7%	26.8%	27.1%	27.0%
EBIT %	24.0%	25.5%	24.9%	25.5%	24.1%	24.9%	25.1%	24.6%	24.1%	24.2%	24.3%	24.4%
Revenue (Rs bn)	143.54	156.35	159.02	165.50	167.82	173.10	172.73	171.20	170.78	175.67	177.94	180.19
EBITDA (Rs bn)	37.60	43.51	43.28	46.39	44.47	47.33	47.67	46.58	45.61	47.02	48.17	48.60
APAT (Rs bn)	30.30	33.98	34.65	35.97	34.36	36.06	37.08	36.03	35.34	37.26	36.97	37.30

Source: Company, HDFC sec Inst Research

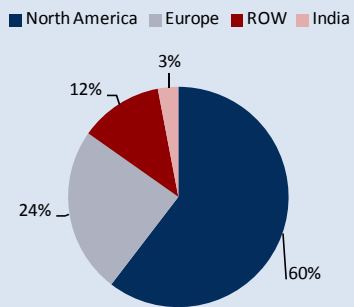
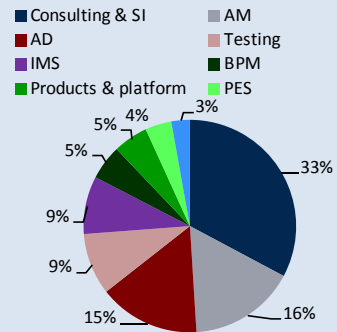
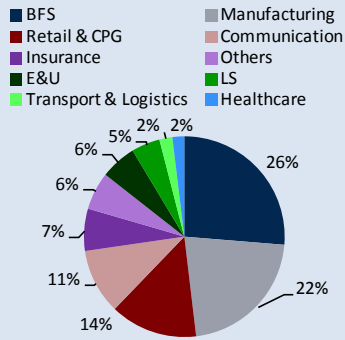
growth in digital (higher digital share than company avg. in Retail & CPG vertical) with soft outlook in the vertical.

- Opening of innovation hubs (such as Connecticut and Indiana) will further strengthen onshore support for its clients such as Cummins, Cigna. INFY's US hiring plans of 10,000 over two years is on track (2,500 hired over in the past year) and is expected to provide better geo-cluster composition (acceptance rates in US colleges have improved with limited competition).

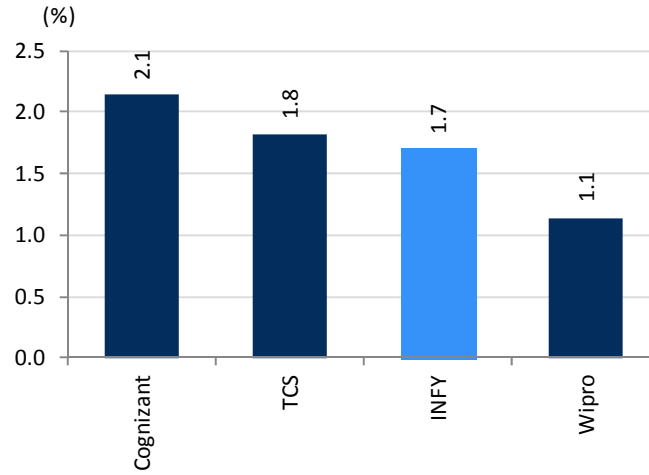
Financial Summary

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	624.41	684.85	704.58	768.77	839.91
EBITDA	156.20	169.02	170.65	186.75	207.21
APAT	134.90	143.53	146.87	155.13	170.77
Diluted EPS (Rs)	59.0	62.8	65.9	71.4	78.6
P/E (x)	19.0	17.9	17.1	15.8	14.3
EV / EBITDA (x)	12.4	11.9	12.0	10.9	9.7
RoE (%)	23.2	22.0	25.6	26.1	26.6

Source: Company, HDFC sec Inst Research

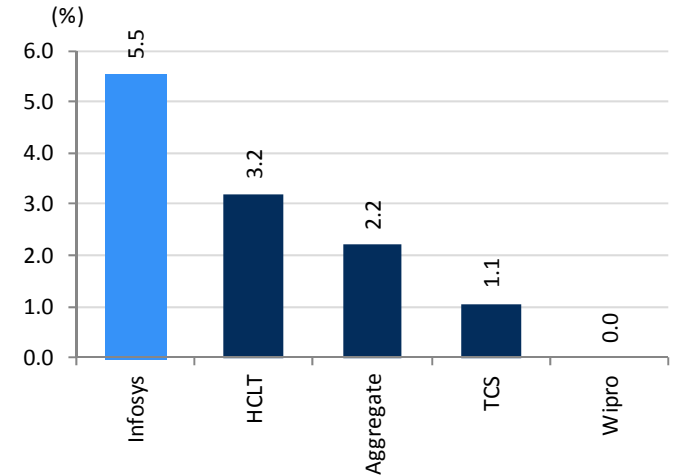


Revenue Trend vs Peers (8-qtr CQGR %)



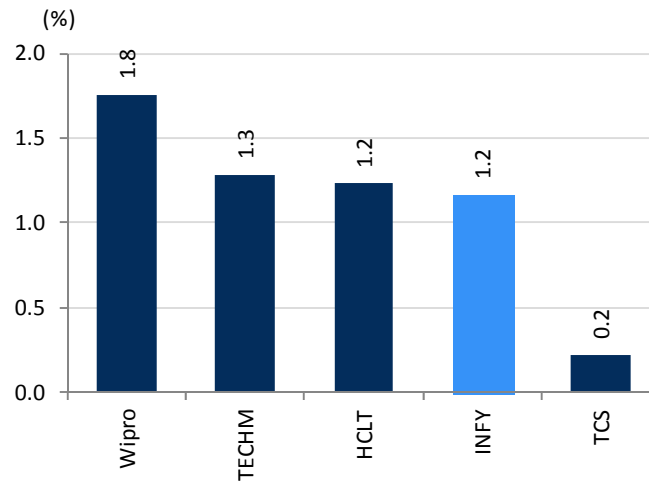
Source: Company, HDFC sec Inst Research

Growth In >USD 100mn Accounts (8-qtr CQGR %)



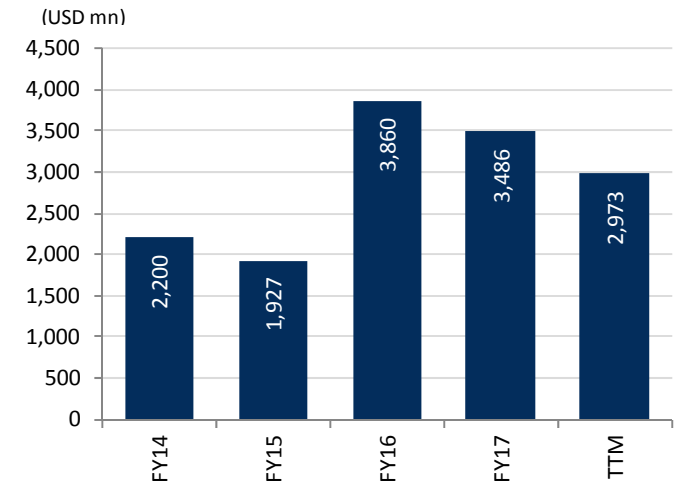
Source: Company, HDFC sec Inst Research

Growth In Revenue Productivity (8-qtr CQGR %)



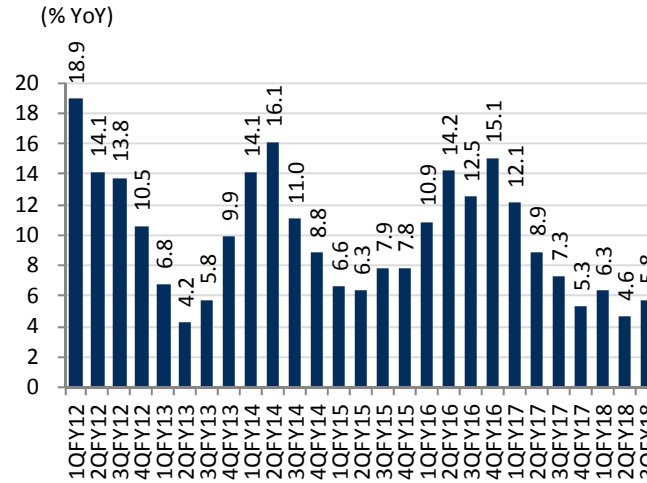
Source: Company, HDFC sec Inst Research

INFY's Large Deal TCV Trend



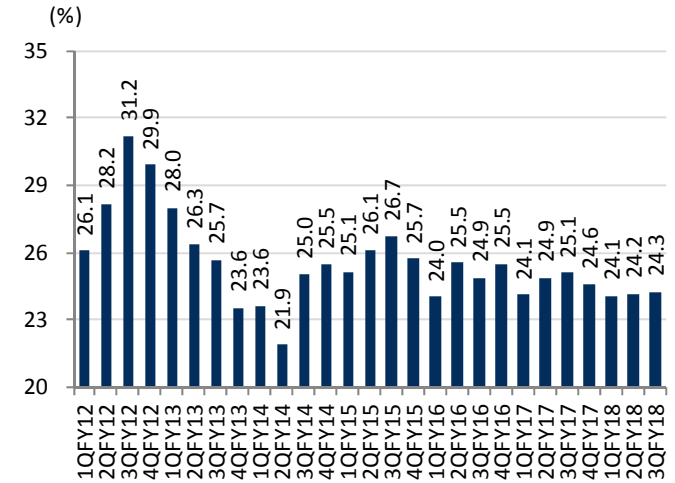
Source: Company, HDFC sec Inst Research

Revenue Trend (YoY CC%)



Source: Company, HDFC sec Inst Research

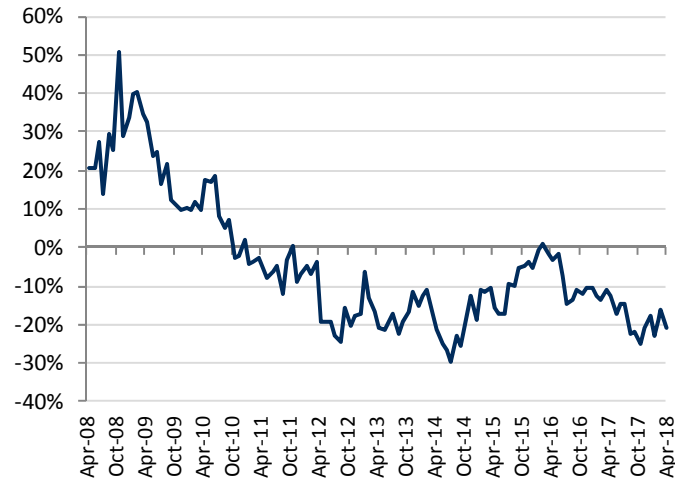
EBIT Margin Trend



Source: Company, HDFC sec Inst Research

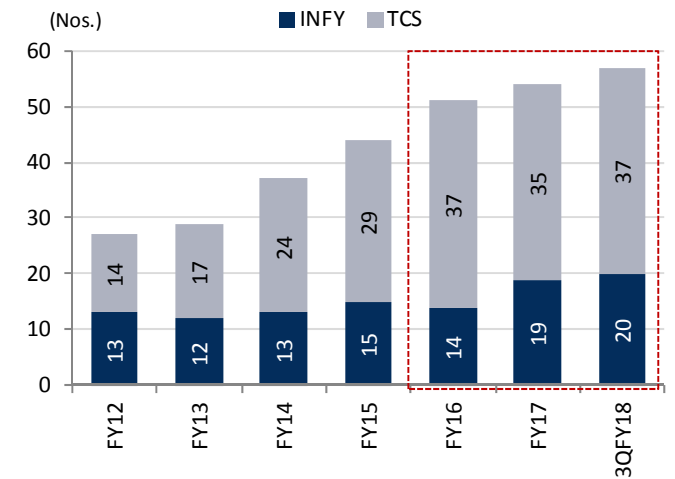
Particulars	Earlier estimates	Revised estimates	% change
FY19E			
Revenue (US\$ mn)	11,815	11,827	0.1
Revenue (Rs bn)	767.99	768.77	0.1
EBIT (Rs bn)	185.71	186.75	0.6
EBIT margin (%)	24.2	24.3	11bps
EPS (Rs)	71.1	71.4	0.4
FY20E			
Revenue (US\$ mn)	12,885	12,922	0.3
Revenue (Rs bn)	837.50	839.91	0.3
EBIT (Rs bn)	205.33	207.21	0.9
EBIT margin (%)	24.5	24.7	15bps
EPS (Rs)	78.0	78.6	0.7

INFY's Valuation Discount to TCS



Source: Company, HDFC sec Inst Research

Large Account (>USD 100mn) Trend (Nos)



Source: Company, HDFC sec Inst Research

Consolidated Income Statement

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues (USD mn)	9,501	10,208	10,936	11,827	12,922
Growth (%)	9.1	7.4	7.1	8.1	9.3
Net Revenues	624.41	684.85	704.58	768.77	839.91
Growth (%)	17.1	9.7	2.9	9.1	9.3
Employee Expenses	376.39	415.50	432.02	471.42	513.93
SG&A and Other Operating Exp	77.23	83.30	83.16	90.37	95.37
EBIDTA	170.79	186.05	189.40	206.98	230.60
EBIDTA (%)	27.4	27.2	26.9	26.9	27.5
EBIDTA Growth (%)	14.6	8.9	1.8	9.3	11.4
Depreciation	14.59	17.03	18.75	20.23	23.39
EBIT	156.20	169.02	170.65	186.75	207.21
Other Income	31.22	30.49	34.78	28.71	29.97
PBT	187.42	199.51	205.43	215.46	237.18
Tax (incl deferred)	52.51	55.98	43.77	60.33	66.41
RPAT	134.91	143.53	161.66	155.13	170.77
APAT	134.90	143.53	146.87	155.13	170.77
APAT Growth (%)	9.4	6.4	2.3	5.6	10.1
EPS	59.0	62.8	65.9	71.4	78.6
EPS Growth (%)	9.4	6.4	5.0	8.3	10.1

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	11.44	11.44	10.88	10.88	10.88
Reserves	606.35	678.38	560.04	606.73	656.45
Total Shareholders' Funds	617.79	689.82	570.92	617.61	667.33
Net Deferred Taxes	(2.80)	(3.33)	(5.39)	(5.39)	(5.39)
Long Term Provisions & Others	1.15	1.53	2.83	2.83	2.83
TOTAL SOURCES OF FUNDS	616.14	688.02	568.36	615.05	664.77
APPLICATION OF FUNDS					
Net Block	86.37	97.51	92.47	96.14	103.26
CWIP	18.93	19.65	21.48	23.91	27.03
Goodwill & Other Intangible Assets	47.49	44.28	48.66	49.28	50.30
LT Loans & Advances, Others	59.65	65.84	62.93	63.32	63.73
Total Non Current Assets	212.44	227.28	225.54	232.65	244.32
Debtors	113.30	123.22	133.98	148.26	164.69
Cash & Equivalents	346.86	389.77	250.42	279.71	307.50
Other Current Assets	75.93	87.88	88.55	95.20	102.21
Total Current Assets	536.09	600.87	472.95	523.16	574.40
Creditors	3.86	3.67	6.71	7.35	8.05
Other Current Liabilities & Provns	128.53	136.46	123.42	133.41	145.90
Total Current Liabilities	132.39	140.13	130.13	140.76	153.95
Net Current Assets	403.70	460.74	342.82	382.40	420.45
TOTAL APPLICATION OF FUNDS	616.14	688.02	568.36	615.05	664.77

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	187.42	199.51	205.43	215.46	237.18
Non-operating & EO items	(14.72)	(6.34)	2.15	(0.39)	(0.41)
Interest expenses	-	-	-	-	-
Depreciation	14.59	17.03	18.75	20.23	23.39
Working Capital Change	(11.12)	(14.13)	(21.42)	(10.30)	(10.26)
Tax paid	(52.51)	(55.98)	(43.77)	(60.33)	(66.41)
OPERATING CASH FLOW (a)	123.66	140.09	161.14	164.67	183.49
Capex	(32.11)	(26.80)	(19.17)	(26.95)	(34.65)
Free cash flow (FCF)	91.55	113.29	141.97	137.72	148.84
Investments	(6.73)	1.12	(0.75)	-	-
Non-operating income	-	-	-	-	-
INVESTING CASH FLOW (b)	(38.84)	(25.68)	(19.92)	(26.95)	(34.65)
FCFE	91.55	113.29	141.97	137.72	148.84
Share capital Issuance	0.00	-	(0.56)	-	-
Dividend	(72.25)	(68.95)	(224.97)	(108.44)	(121.05)
FINANCING CASH FLOW (c)	(72.25)	(68.95)	(225.53)	(108.44)	(121.05)
NET CASH FLOW (a+b+c)	12.57	45.46	(84.31)	29.28	27.79
Closing Cash & Equivalents	346.86	389.77	250.42	279.71	307.50

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
EBIT Margin	25.0	24.7	24.2	24.3	24.7
APAT Margin	21.6	21.0	22.9	20.2	20.3
RoE	23.2	22.0	25.6	26.1	26.6
RoIc or Core RoCE	43.2	37.9	36.2	34.5	36.2
RoCE	23.3	22.0	25.7	26.2	26.7
EFFICIENCY					
Tax Rate (%)	28.0	28.1	21.3	28.0	28.0
Fixed Asset Turnover (x)	3.6	3.4	3.2	3.2	3.0
Debtors (days)	66	66	69	70	72
Payables (days)	2	2	3	3	3
Cash Conversion Cycle (days)	31	36	44	45	46
Net Debt/EBITDA (x)	(1.9)	(1.2)	(0.9)	(0.9)	(0.9)
Net Debt/Equity (x)	(0.5)	(0.3)	(0.3)	(0.3)	(0.3)
Interest Coverage (x)	N.A.	N.A.	N.A.	N.A.	N.A.
PER SHARE DATA					
EPS (Rs/sh)	59.0	62.8	65.9	71.4	78.6
CEPS (Rs/sh)	65.4	70.2	78.9	76.7	84.9
DPS (Rs/sh)	24.3	25.8	37.0	43.0	48.0
BV (Rs/sh)	270.3	301.7	262.6	284.1	307.0
VALUATION					
P/E	19.0	17.9	17.1	15.8	14.3
P/BV	4.2	3.7	4.3	4.0	3.7
EV/EBITDA	12.4	11.9	12.0	10.9	9.7
OCF/EV (%)	5.8	6.3	7.1	7.3	8.2
FCF/EV (%)	4.3	5.1	6.2	6.1	6.7
FCFE/mkt cap (%)	3.7	4.6	5.8	5.6	6.1
Dividend Yield (%)	2.2	2.3	3.3	3.8	4.3

Source: Company, HDFC sec Inst Research

INDUSTRY		IT
CMP (as on 11 Apr 2018)	Rs 286	
Target Price	Rs 285	
Nifty	10,417	
Sensex	33,940	
KEY STOCK DATA		
Bloomberg	WPRO IN	
No. of Shares (mn)	4,524	
MCap (Rs bn) / (\$ mn)	1,292/19,792	
6m avg traded value (Rs mn)	884	
STOCK PERFORMANCE (%)		
52 Week high / low	Rs 335/242	
	3M	6M
Absolute (%)	(11.0)	(1.7)
Relative (%)	(9.4)	(8.3)
		12M
		12.0
		(1.9)
SHAREHOLDING PATTERN (%)		
Promoters	74.33	
FIs & Local MFs	5.40	
FPIs	10.61	
Public & Others	9.66	
Source : BSE		

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Recovery still awaited

We are neutral on Wipro based on (1) Growth lagging peers since the last five years (revenue CAGR of 5.5% vs 11.1% for Tier-1 IT), (2) Drag in Legacy higher than peers (six quarter rev CQGR of -0.9%), (3) Client specific issues in the Communication vertical (eight quarter rev CQGR of -1.2%), (4) High exposure to Energy (~13% of rev), which has underperformed, (5) Problems in HPS acquisition (healthcare rev down 6.3% in 9MFY18), and (6) Poor margin performance (3QFY18 IT services EBIT margin of 17.2% is at a multi-year low).

- Wipro has done some decent acquisitions like Appirio (cloud services) and DesignIT (design services) to boost its digital offerings but deal wins remain patchy. Wipro's focus on Digital (25% of rev, six quarter revenue CQGR of 6.9%) and Automation (Holmes Platform) is driving growth. BFSI (29% of rev, +2.2% eight quarter rev CQGR) is encouraging but is unable to backfill loss from legacy. We believe company's growth for FY19-20E will still lag peers and management guidance of reaching industry level growth rate in 1QFY19E seems difficult. EBIT margins

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Total Rev (USD mn)	1,794	1,832	1,838	1,882	1,931	1,916	1,903	1,955	1,972	2,014	2,013	2,059
Growth QoQ %	1.1%	2.1%	0.3%	2.4%	2.6%	-0.8%	-0.7%	2.7%	0.9%	2.1%	0.0%	2.3%
Growth YoY%	3.1%	3.4%	2.4%	6.1%	7.6%	4.6%	3.5%	3.9%	2.1%	5.1%	5.8%	5.4%
IT Services EBIT %	21.0%	20.7%	20.2%	20.1%	17.8%	17.8%	18.3%	18.3%	16.8%	17.3%	14.8%	16.4%
IT Products EBIT %	1.7%	-3.8%	-7.8%	-3.0%	-6.2%	-3.9%	-10.3%	-6.5%	0.5%	2.9%	4.3%	3.5%
Revenue (Rs bn)	122.38	125.14	128.61	136.32	135.99	137.66	136.88	139.88	136.26	134.23	136.69	137.91
EBITDA (Rs bn)	26.02	27.29	26.69	28.05	26.53	26.54	27.88	28.18	26.68	27.79	24.93	27.53
PAT (Rs bn)	21.92	22.35	22.37	22.35	20.52	20.67	21.09	18.53	20.77	21.92	21.86	21.06

Source: Company, HDFC sec Inst Research

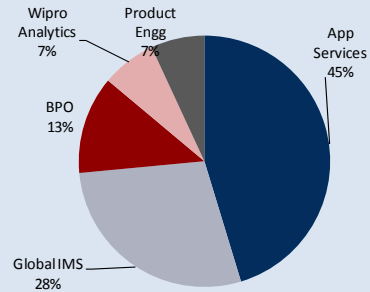
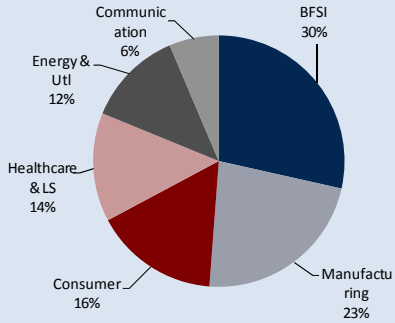
have bottomed out but recovery will be gradual. We've factored in USD revenue growth of 4.5/6.1/6.8% for FY18/19/20E, implying revenue CQGR of 1.3/1.8% for FY19/20E and factored IT services EBIT% at 16.4/17.1/17.7%.

- The stock currently trades at a P/E of 14.3/13.0x FY19/20E earnings. Wipro has underperformed in the last three months (stock down 10% vs NSE IT up 7%) and valuations are at ~9% discount to Tier-1 IT FY20E P/E multiples, re-rating will take place with revival in growth. We maintain NEUTRAL rating with a TP of Rs 285 based on 13x FY20E EPS.

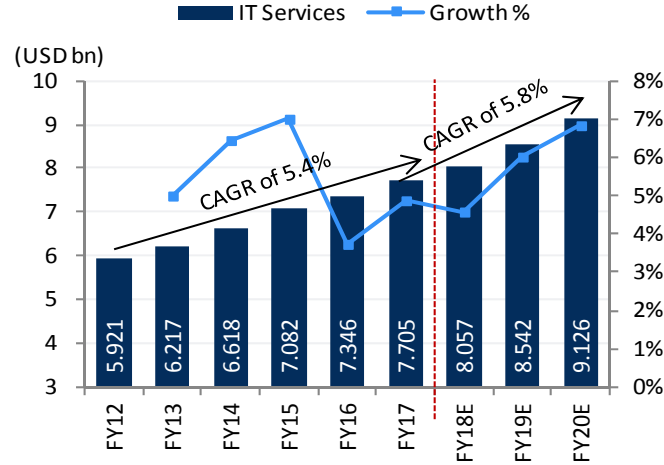
Financial Summary

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	512.44	550.40	545.09	580.02	618.90
EBIT	93.07	86.02	86.15	97.09	107.76
APAT	88.99	80.81	85.60	90.42	99.60
Diluted EPS (Rs)	19.7	17.9	18.9	20.0	22.0
P/E (x)	14.5	15.2	15.5	14.3	13.0
EV / EBITDA (x)	10.3	10.0	10.6	9.0	7.6
RoE (%)	20.4	16.4	17.3	18.0	17.6

Source: Company, HDFC sec Inst Research

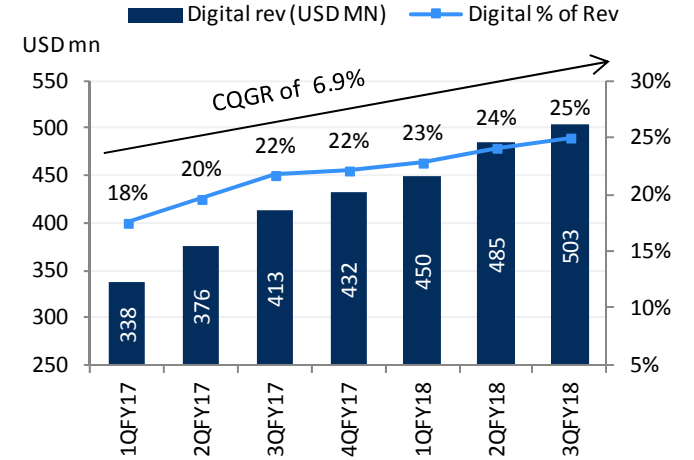


IT Services Revenue Trajectory



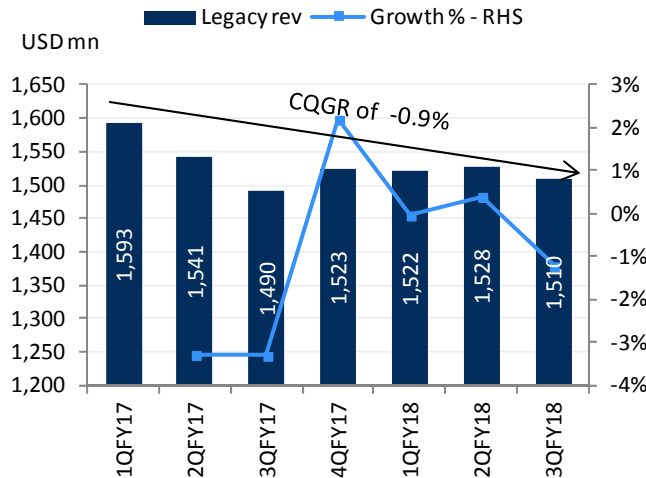
Source: Company, HDFC sec Inst Research

Digital Driving Growth, up +27.7% in 9MFY18



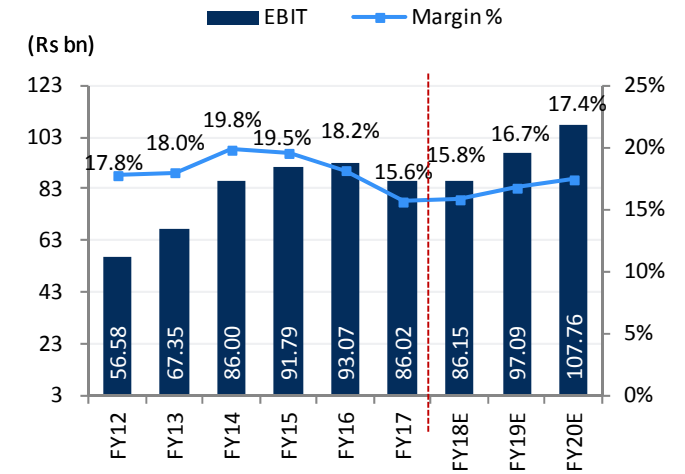
Source: Company, HDFC sec Inst Research

Fall In Legacy Dragging Revenue Growth, Down 1.4% YoY in 9MFY18

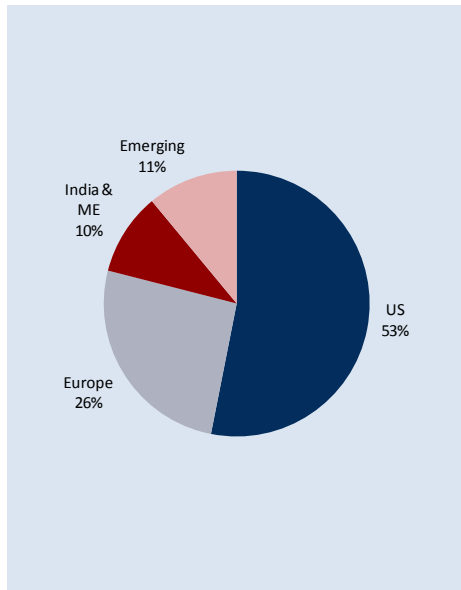


Source: Company, HDFC sec Inst Research

EBIT & EBIT Margin Trend, Will Recover Gradually With Automation And Off-shoring Benefits

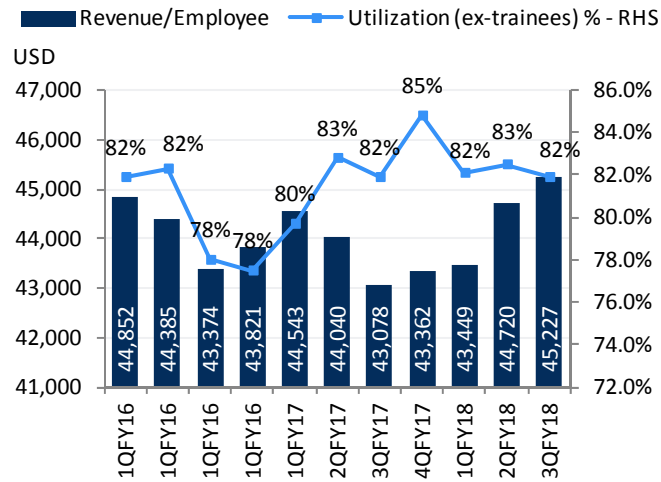


Source: Company, HDFC sec Inst Research



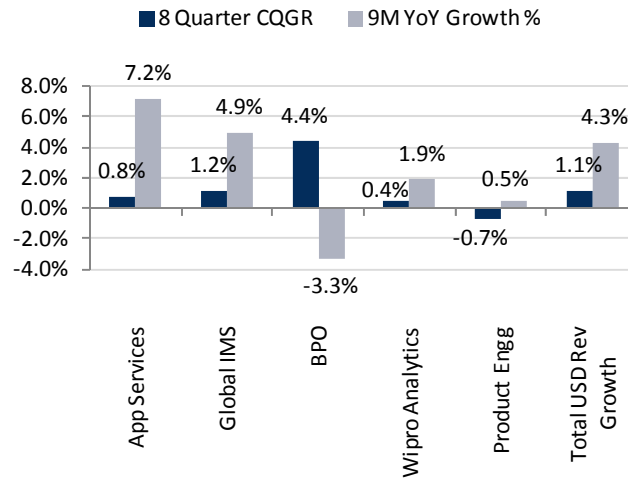
Particulars	Earlier est	Revised est	% change
FY19E			
IT revenue (USD bn)	8.51	8.54	0.4
Cons revenue (Rs bn)	578.00	580.02	0.4
Cons. EBIT (Rs bn)	99.44	97.09	(2.4)
EBIT margin (%)	17.2	16.7	(46)bps
EPS (Rs)	20.8	20.0	(4.1)
FY20E			
IT revenue (USD bn)	9.09	9.13	0.4
Cons revenue (Rs bn)	616.78	618.90	0.3
Cons. EBIT (Rs bn)	113.35	107.76	(4.9)
EBIT margin (%)	18.4	17.4	(97)bps
EPS (Rs)	23.4	22.0	(5.8)

Employee Productivity Has Improved With Automation



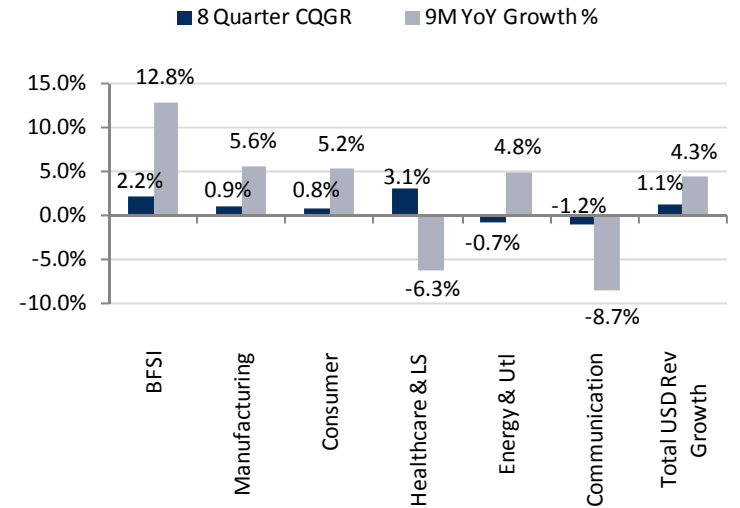
Source: Company, HDFC sec Inst Research

Application Services & IMS Are Growth Drivers While BPO & Product Engineering Dragging Growth



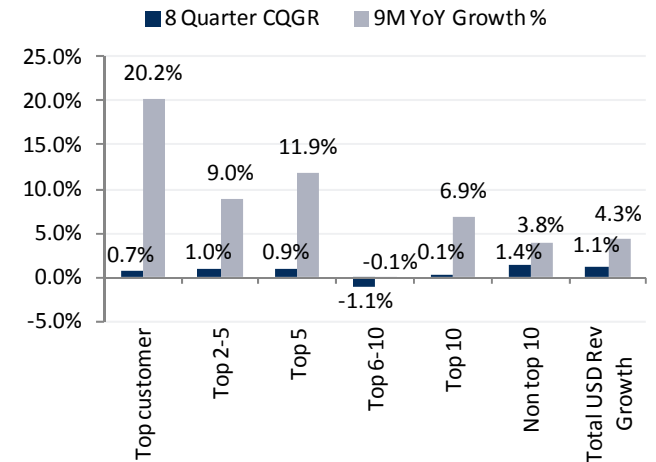
Source: Company, HDFC sec Inst Research

Verticals Wise 8-quarter CQGR, Communication & Healthcare Dragging Growth while BFSI Is The Strongest



Source: Company, HDFC sec Inst Research

Top Customer Driving Growth While Issue Lies in Top 6-10 Customer Bucket



Source: Company, HDFC sec Inst Research

Consolidated Income Statement

YE March (RS bn)	FY16	FY17	FY18E	FY19E	FY20E
IT Services Rev (USD bn)	7.35	7.70	8.06	8.54	9.13
Growth (%)	3.7	4.9	4.6	6.0	6.8
Total Consol Revenues	512.44	550.40	545.09	580.02	618.90
Growth (%)	9.1	7.4	(1.0)	6.4	6.7
Operating Expenses	404.40	441.28	438.16	461.44	488.16
EBITDA	108.04	109.13	106.93	118.58	130.73
EBITDA (%)	21.1	19.8	19.6	20.4	21.1
EBITDA Growth (%)	3.3	1.0	(2.0)	10.9	10.2
Depreciation	14.97	23.11	20.78	21.49	22.97
EBIT	93.07	86.02	86.15	97.09	107.76
Other Income	23.44	21.66	25.17	23.99	24.82
Interest	5.58	5.18	5.34	5.27	4.98
Forex gains/(losses)	3.87	3.78	1.12	1.15	1.25
PBT	114.80	106.27	107.10	116.97	128.84
Tax (incl deferred)	25.32	25.21	23.91	26.32	28.99
Minority Interest and associate profit	(0.49)	(0.25)	(0.08)	(0.23)	(0.25)
RPAT	88.99	84.90	83.11	90.42	99.60
EO (Loss) / Profit (Net Of Tax)	0.00	4.08	(2.49)	0.00	0.00
APAT	88.99	80.81	85.60	90.42	99.60
APAT Growth (%)	2.8	(9.2)	5.9	5.6	10.2
EPS	19.7	17.9	18.9	20.0	22.0
EPS Growth (%)	2.8	(9.2)	5.9	5.6	10.2

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	4.94	4.86	9.05	9.05	9.05
Reserves	460.23	515.44	461.67	522.85	590.57
Total Shareholders' Funds	465.17	520.30	470.72	531.90	599.62
Minority Interest	2.21	2.39	2.47	2.70	2.95
Total Debt	125.22	142.41	142.41	142.41	142.41
Net Deferred Taxes	0.82	3.52	3.52	3.52	3.52
Long Term Provisions & Others	15.59	15.05	15.05	15.05	15.05
TOTAL SOURCES OF FUNDS	609.02	683.68	634.17	695.59	763.55
APPLICATION OF FUNDS					
Net Block	58.74	60.84	50.96	41.08	30.49
CWIP	6.21	8.95	8.95	8.95	8.95
Goodwill & Other Intangible Assets	117.83	141.72	141.72	141.72	141.72
LT Loans & Advances, Others	32.75	36.01	36.01	36.01	36.01
Total Non Current Assets	215.53	247.52	237.64	227.76	217.17
Inventories	5.39	3.92	3.82	4.06	4.33
Debtors	100.98	98.84	104.54	111.24	118.69
Cash & Equivalents	303.29	344.74	301.18	369.48	441.50
Other Current Assets	94.53	95.40	95.39	98.60	105.21
Total Current Assets	504.19	542.90	504.93	583.38	669.74
Creditors	68.19	65.49	68.54	72.16	76.03
Other Current Liabilities & Provns	42.51	41.26	39.86	43.40	47.32
Total Current Liabilities	110.70	106.74	108.40	115.56	123.36
Net Current Assets	393.49	436.15	396.53	467.83	546.38
TOTAL APPLICATION OF FUNDS	609.02	683.68	634.17	695.59	763.55

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	114.80	106.27	107.10	116.97	128.84
Non-operating & EO items	(18.10)	(19.76)	(25.17)	(23.99)	(24.82)
Interest expenses	5.58	5.18	5.34	5.27	4.98
Depreciation	14.97	23.11	20.78	21.49	22.97
Working Capital Change	(5.99)	4.54	(3.93)	(3.00)	(6.54)
Tax paid	(26.94)	(25.48)	(23.91)	(26.32)	(28.99)
OPERATING CASH FLOW (a)	84.32	93.87	80.22	90.42	96.46
Capex	(13.17)	(19.65)	(10.90)	(11.60)	(12.38)
<i>Free cash flow (FCF)</i>	<i>71.15</i>	<i>74.23</i>	<i>69.32</i>	<i>78.82</i>	<i>84.08</i>
Investments	(39.11)	(33.83)	0.00	0.00	0.00
Non-operating income	18.43	17.38	25.17	23.99	24.82
INVESTING CASH FLOW (b)	(33.85)	(36.10)	14.26	12.39	12.44
Debt Issuance	35.25	12.98	0.00	0.00	0.00
Interest expenses	(5.58)	(5.18)	(5.34)	(5.27)	(4.98)
<i>FCFE</i>	<i>100.82</i>	<i>82.03</i>	<i>63.98</i>	<i>73.55</i>	<i>79.09</i>
Share capital Issuance/Buyback	0.00	0.00	(106.13)	0.00	0.00
Dividend	(35.49)	(8.73)	(26.58)	(29.23)	(31.89)
FINANCING CASH FLOW (c)	(5.82)	(0.94)	(138.04)	(34.50)	(36.88)
NET CASH FLOW (a+b+c)	44.65	56.84	(43.56)	68.30	72.02
Non-operating and EO items	45.79	(15.39)	0.00	0.00	0.00
Closing Cash & Equivalents	303.29	344.74	301.18	369.48	441.50

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
EBITDA Margin	21.1	19.8	19.6	20.4	21.1
APAT Margin	17.4	14.7	15.7	15.6	16.1
RoE	20.4	16.4	17.3	18.0	17.6
RoIC or Core RoCE	23.7	19.6	20.1	23.1	25.9
RoCE	14.1	11.2	11.7	12.1	12.1
EFFICIENCY					
Tax Rate (%)	22.0	22.1	22.8	22.3	22.5
Fixed Asset Turnover (x)	3.6	3.5	3.3	3.2	3.2
Debtors (days)	71	72	66	70	70
Payables (days)	57	59	51	55	55
Cash Conversion Cycle (days)	14	13	14	15	15
Net Debt/EBITDA (x)	(1.6)	(1.9)	(1.5)	(1.9)	(2.3)
Net Debt/Equity (x)	(0.4)	(0.4)	(0.3)	(0.4)	(0.5)
Interest Coverage (x)	16.7	16.6	16.1	18.4	21.6
PER SHARE DATA					
EPS (Rs/sh)	19.7	17.9	18.9	20.0	22.0
CEPS (Rs/sh)	23.0	23.9	23.0	24.7	27.1
DPS (Rs/sh)	7.8	1.9	5.9	6.5	7.1
BV (Rs/sh)	102.8	115.0	104.1	117.6	132.6
VALUATION					
P/E	14.5	15.2	15.5	14.3	13.0
P/BV	2.8	2.5	2.7	2.4	2.2
EV/EBITDA	10.3	10.0	10.6	9.0	7.6
OCF/EV (%)	7.6	8.6	7.1	8.5	9.7
FCF/EV (%)	6.4	6.8	6.1	7.4	8.5
FCFE/mkt cap (%)	7.8	6.3	5.0	5.7	6.1
Dividend Yield (%)	2.3	0.6	1.8	1.9	2.1

Source: Company, HDFC sec Inst Research

INDUSTRY	IT		
CMP (as on 11 Apr 2018)	Rs 967		
Target Price	Rs 1,140		
Nifty	10,417		
Sensex	33,940		
KEY STOCK DATA			
Bloomberg	HCLT IN		
No. of Shares (mn)	1,392		
MCap (Rs bn) / (\$ mn)	1,347/20,624		
6m avg traded value (Rs mn)	1,658		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 1,042/796		
	3M	6M	12M
Absolute (%)	5.5	6.4	16.0
Relative (%)	7.1	(0.2)	2.1
SHAREHOLDING PATTERN (%)			
Promoters	60.19		
FIs & Local MFs	10.51		
FPIs	25.62		
Public & Others	3.68		
Source : BSE			

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IMS recovery ahead

HCL Tech's (HCLT) growth prospects are based on (1) Recovery in IMS ahead, supported by large wins (US CPG major) and multiple mid-sized deals, (2) Scale dominance and IP partnerships driving ER&D services, (3) Increasing deal size (in digital) and strong deal wins (strongest quarterly bookings in the past three years with 20 transformational wins). Expect revenue/EPS growth at 11/10% CAGR over FY18-20E. Maintain BUY with TP of Rs1,140, 15x FY20E EPS.

- HCLT has invested USD 1.2bn over the past 2 years in IP assets of IBM, DXC to scale its ER&D business with annuity revenue streams. The IPs include Rationale and Tivoli products, Database management system (Informix), Notes and others with an amortisation schedule of upto 15 years.
- HCLT plans to invest USD ~500mn annually for acquisitions including IP investments. Acquisitions ahead will be to increase geographical footprint in Germany, France and Australia.

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Revenue (USD mn)	1,538	1,545	1,566	1,587	1,691	1,722	1,745	1,817	1,884	1,928	1,988	2,054
Growth QoQ %	3.2%	0.5%	1.4%	1.3%	6.5%	1.9%	1.3%	4.1%	3.7%	2.3%	3.1%	3.3%
Growth YoY%	9.3%	7.7%	5.1%	6.5%	10.0%	11.5%	11.4%	14.5%	11.4%	11.9%	13.9%	13.0%
EBITDA %	21.5%	20.7%	21.5%	22.2%	22.2%	21.8%	22.2%	22.0%	22.1%	22.2%	23.1%	22.5%
EBIT %	20.2%	19.4%	20.0%	20.8%	20.6%	20.1%	20.4%	20.0%	20.1%	19.7%	19.6%	20.0%
Revenue (Rs bn)	97.77	100.97	103.41	106.98	113.36	115.19	118.14	120.53	121.49	124.34	128.08	132.06
EBITDA (Rs bn)	21.00	20.92	22.25	23.79	25.21	25.11	26.28	26.49	26.81	27.59	29.64	29.67
PAT (Rs bn)	17.83	17.26	19.19	19.25	20.47	20.14	20.71	23.25	21.71	21.88	21.94	22.73

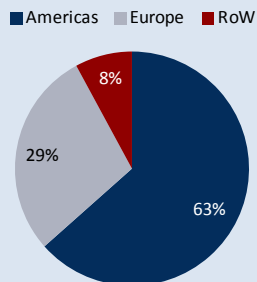
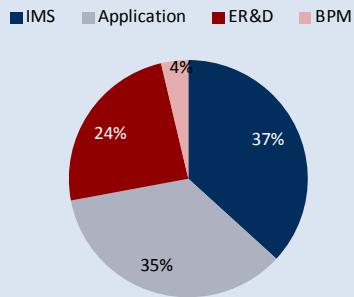
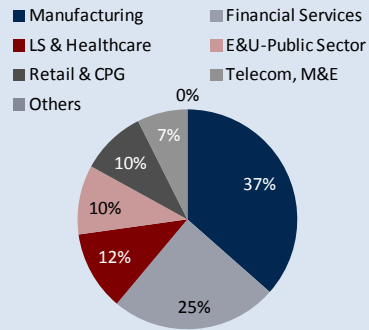
Source: Company, HDFC sec Inst Research

- Mode 2 and 3 services contributed 25% of revenue in 3QFY18 for HCLT which has increased from 18.6% of revenue in FY17. HCLT is targeting growing Mode-2 and Mode-3 to 33% of revenue by FY21.
- HCLT has added verticals of automotive and industrial with PLM acquisition, which is providing cross-sell opportunities to the company. IMS is expected to recover from 1QFY19 supported by large deal wins (Cadent, UK – IMS and AMS).

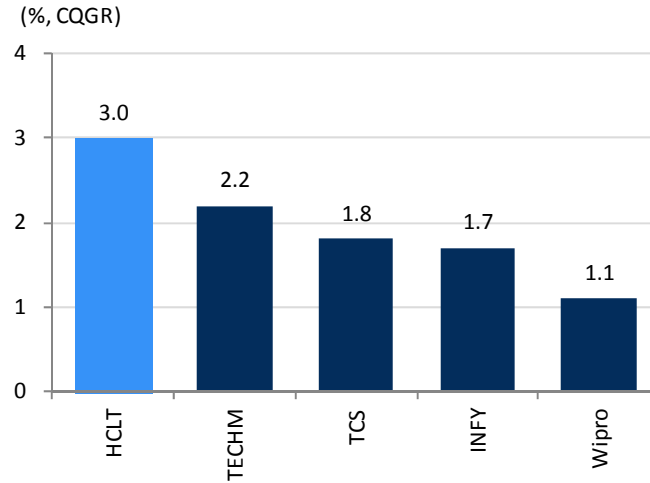
Financial Summary

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	409.13	467.23	505.97	570.59	630.18
EBITDA	82.27	94.74	100.80	111.46	122.97
APAT	73.52	81.54	88.57	95.52	105.19
Diluted EPS (Rs)	52.2	57.6	63.0	68.6	75.8
P/E (x)	18.6	16.9	15.2	14.1	12.8
EV / EBITDA (x)	14.5	12.3	11.5	10.3	9.3
RoE (%)	28.4	27.0	26.5	26.5	25.9

Source: Company, HDFC sec Inst Research

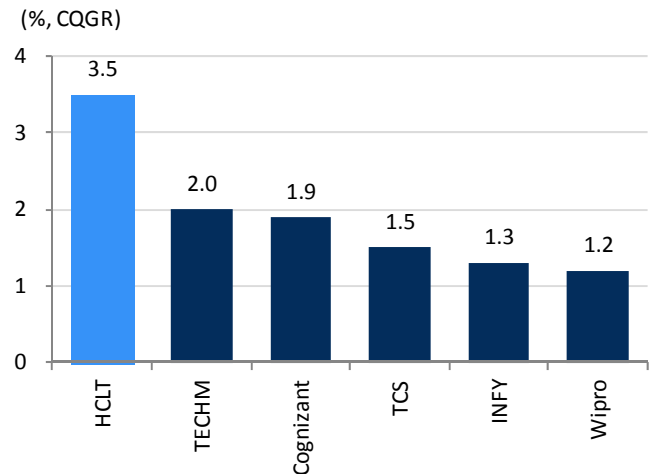


Revenue Growth vs Peers (8-qtr CQGR)



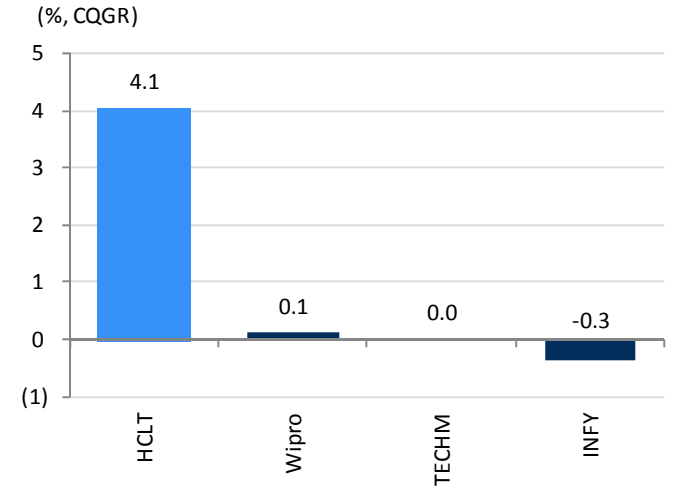
Source: Company, HDFC sec Inst Research

NorthAm Revenue Growth vs Peers (8-qtr CQGR)



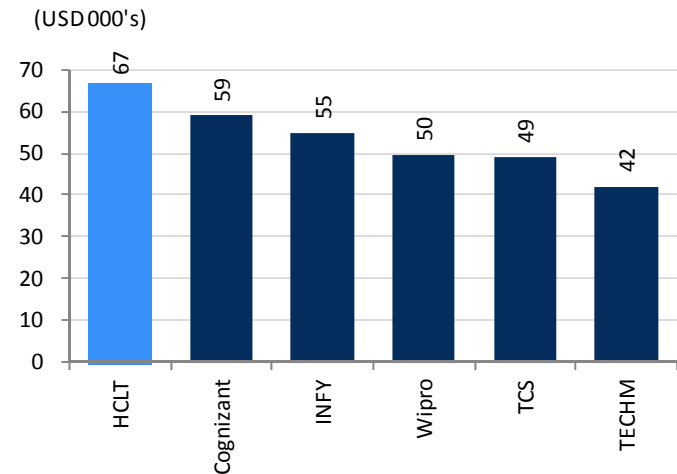
Source: Company, HDFC sec Inst Research

Top-10 Accounts Growth (8-qtr CQGR)



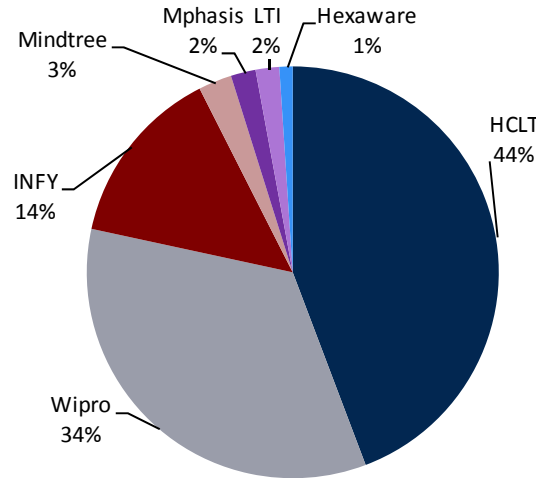
Source: Company, HDFC sec Inst Research

Revenue Productivity vs Peers



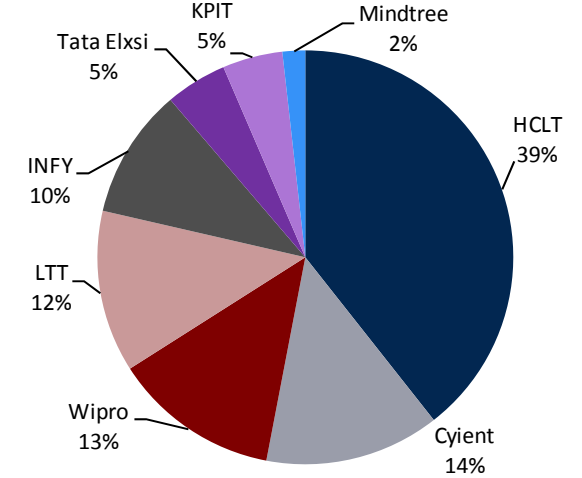
Source: Company, HDFC sec Inst Research

IMS Scale vs Peers



Source: Company, HDFC sec Inst Research

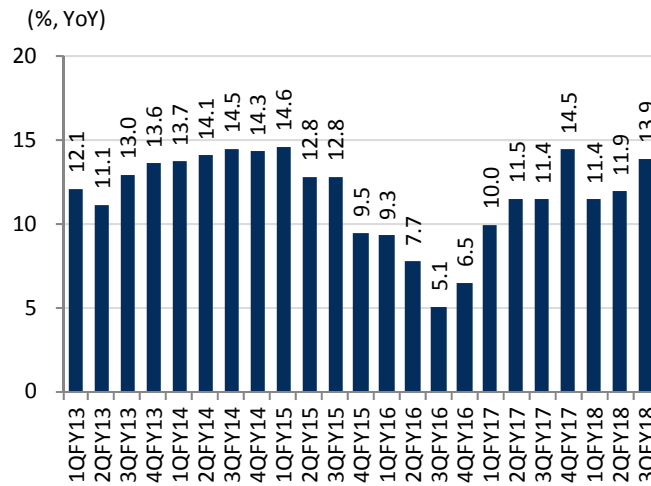
ER&D Scale vs Peers



Source: Company, HDFC sec Inst Research

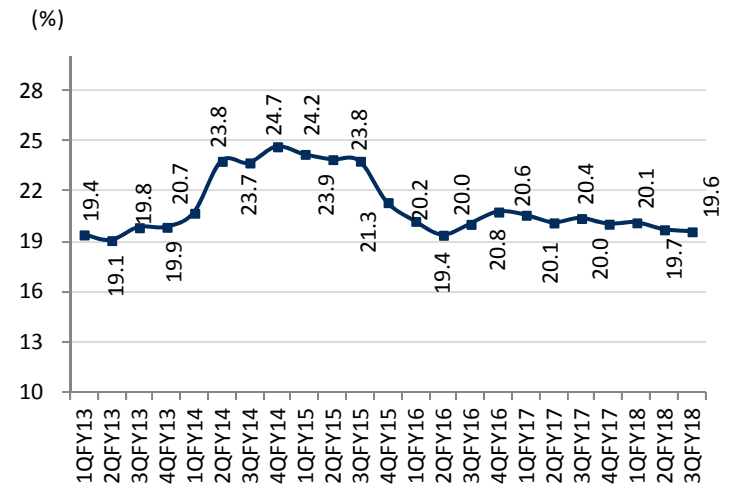
Particulars	Earlier estimates	Revised estimates	% change
FY19E			
Revenue (US\$ mn)	8,656	8,778	1.4
Revenue (Rs bn)	562.64	570.59	1.4
EBIT (Rs bn)	108.21	111.46	3.0
EBIT margin (%)	19.2	19.5	30bps
EPS (Rs)	66.8	68.6	2.7
FY20E			
Revenue (US\$ mn)	9,578	9,695	1.2
Revenue (Rs bn)	622.56	630.18	1.2
EBIT (Rs bn)	120.70	122.97	1.9
EBIT margin (%)	19.4	19.5	13bps
EPS (Rs)	74.6	75.8	1.7

HCLT Revenue Trend



Source: Company, HDFC sec Inst Research

EBIT Margin Trend



Source: Company, HDFC sec Inst Research

Consolidated Income Statement

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues (US\$mn)	6,235	6,975	7,854	8,778	9,695
Growth (%)	7.1	11.9	12.6	11.8	10.4
Net Sales	409.13	467.23	505.97	570.59	630.18
Growth (%)	14.6	14.2	8.3	12.8	10.4
Cost of Revenue	269.00	308.90	333.85	377.86	419.09
SG&A Expenses	52.17	55.24	58.42	66.19	71.51
EBITDA	87.96	103.09	113.71	126.54	139.57
EBITDA (%)	21.5	22.1	22.5	22.2	22.1
EBITDA Growth (%)	(0.3)	17.2	10.3	11.3	10.3
Depreciation	5.69	8.35	12.91	15.08	16.60
EBIT	82.27	94.74	100.80	111.46	122.97
Other Income	11.03	10.24	12.06	13.37	14.63
Interest	0.95	0.89	0.66	0.78	0.88
PBT	92.35	104.09	112.19	124.06	136.72
Tax (incl deferred)	18.83	19.52	23.62	28.53	31.53
Minority Interest and associate profit	-	-	-	-	-
RPAT	73.52	84.57	88.57	95.52	105.19
APAT	73.52	81.54	88.57	95.52	105.19
APAT Growth (%)	0.6	10.9	8.6	7.8	10.1
EPS	52.2	57.6	63.0	68.6	75.8
EPS Growth (%)	0.5	10.4	9.4	8.9	10.5

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	2.82	2.85	2.78	2.78	2.78
Reserves	271.09	326.64	335.19	380.60	427.32
Total Shareholders' Funds	273.91	329.50	337.97	383.38	430.11
Total Debt	9.52	4.45	5.88	6.63	7.32
Long-term Provisions & Others	(4.27)	(5.57)	(4.80)	(3.49)	(2.28)
TOTAL SOURCES OF FUNDS	279.16	328.38	339.05	386.52	435.16
APPLICATION OF FUNDS					
Net Block	35.95	39.98	44.37	51.81	59.76
CWIP	6.11	4.48	5.55	6.51	7.44
Goodwill & Other Intangible Assets	61.21	112.38	144.44	169.60	193.35
Investments	1.62	1.60	1.60	1.60	1.60
LT Loans & Advances, Others	20.59	18.04	19.53	22.03	24.33
Total Non Current Assets	125.48	176.48	215.50	251.55	286.48
Debtors	77.21	83.01	94.26	106.30	117.40
Cash & Equivalents	98.71	101.90	60.01	63.32	69.78
Other Current Assets	73.89	79.79	89.86	101.35	111.94
Total Current Assets	249.82	264.70	244.14	270.97	299.12
Creditors	7.03	8.01	7.52	8.52	9.41
Other Current Liabilities & Provns	89.11	104.79	113.07	127.48	141.04
Total Current Liabilities	96.14	112.80	120.59	136.00	150.45
Net Current Assets	153.68	151.90	123.55	134.97	148.67
TOTAL APPLICATION OF FUNDS	279.16	328.38	339.05	386.52	435.16

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	92.35	104.09	112.19	124.06	136.72
Non-operating & EO items	(1.26)	2.20	0.58	0.99	0.93
Interest expenses	0.95	0.89	0.66	0.78	0.88
Depreciation	5.69	8.35	12.91	15.08	16.60
Working Capital Change	(23.16)	4.96	(13.53)	(8.12)	(7.24)
Tax paid	(18.83)	(19.52)	(23.62)	(28.53)	(31.53)
OPERATING CASH FLOW (a)	55.75	100.97	89.19	104.25	116.36
Capex	(18.06)	(58.52)	(58.36)	(42.67)	(40.30)
Free cash flow (FCF)	37.70	42.45	30.83	61.58	76.06
Investments	(7.49)	(0.83)	6.43	(8.45)	(11.23)
INVESTING CASH FLOW (b)	(25.54)	(59.35)	(51.93)	(51.13)	(51.53)
Debt Issuance	4.28	(5.07)	1.43	0.75	0.69
Interest expenses	(0.95)	(0.89)	(0.66)	(0.78)	(0.88)
FCFE	41.02	36.49	31.60	61.55	75.87
Share capital Issuance	0.00	0.02	(0.04)	-	-
Dividend	(34.66)	(41.10)	(45.10)	(50.11)	(58.46)
FINANCING CASH FLOW (c)	(31.33)	(47.04)	(79.36)	(50.14)	(58.65)
NET CASH FLOW (a+b+c)	(1.12)	(5.42)	(42.10)	2.99	6.17
Closing Cash & Equivalents	98.71	101.90	60.01	63.32	69.78

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
EBITDA Margin	21.5	22.1	22.5	22.2	22.1
APAT Margin	18.0	17.5	17.5	16.7	16.7
RoE	28.4	27.0	26.5	26.5	25.9
RoIC or Core RoCE	41.1	37.8	31.5	28.5	27.5
RoCE	28.2	26.9	26.6	26.4	25.7
EFFICIENCY					
Tax Rate (%)	20.4	18.8	21.1	23.0	23.1
Fixed Asset Turnover (x)	5.7	6.0	6.0	5.8	5.6
Debtors (days)	69	65	68	68	68
Payables (days)	6	6	5	5	5
Cash Conversion Cycle (days)	51	41	48	48	48
Net Debt/EBITDA (x)	(1.0)	(0.9)	(0.5)	(0.4)	(0.4)
Net Debt/Equity (x)	(0.3)	(0.3)	(0.2)	(0.1)	(0.1)
Interest Coverage (x)	86.2	106.3	152.5	143.6	139.3
PER SHARE DATA					
EPS (Rs/sh)	52.2	57.6	63.0	68.6	75.8
CEPS (Rs/sh)	56.1	63.0	72.9	79.5	87.5
DPS (Rs/sh)	21.0	24.0	27.0	30.0	35.0
BV (Rs/sh)	195.6	232.1	244.0	276.7	310.2
VALUATION					
P/E	18.6	16.9	15.2	14.1	12.8
P/BV	4.9	4.2	4.0	3.5	3.1
EV/EBITDA	14.5	12.3	11.5	10.3	9.3
OCF/EV (%)	4.4	8.0	6.8	8.0	8.9
FCF/EV (%)	3.0	3.4	2.4	4.7	5.8
FCFE/mkt cap (%)	3.0	2.7	2.3	4.5	5.6
Dividend Yield (%)	2.2	2.5	2.8	3.1	3.6

Source: Company, HDFC sec Inst Research

INDUSTRY	IT		
CMP (as on 11 Apr 2018)	Rs 633		
Target Price	Rs 750		
Nifty	10,417		
Sensex	33,940		
KEY STOCK DATA			
Bloomberg	TECHM IN		
No. of Shares (mn)	980		
MCap (Rs bn) / (\$ mn)	621/9,500		
6m avg traded value (Rs mn)	1,583		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 652/357		
	3M	6M	12M
Absolute (%)	14.8	35.5	42.3
Relative (%)	16.4	28.9	28.3
SHAREHOLDING PATTERN (%)			
Promoters	36.01		
FIs & Local MFs	13.23		
FPIs	37.63		
Public & Others	13.13		
Source : BSE			

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Enterprise-led growth

We are positive on Tech Mahindra (TechM) based on (1) Likely acceleration in Telecom spend on newer technology (2) Stability in LCC & Comviva (3) Industry leading growth in Enterprise business (+4.3% CQGR over last 8 quarters) and (4) Significant improvement in margin in the last three quarters (+427bps to 16.3%). We feel the worst is behind and the company has returned on growth path with a better margin profile.

- Telecom industry is going through a transformation wherein CSP are spending on building network of the future (5G), Digital Technology, investing in platforms, IoT network backbone and improving customer experiences. These initiatives will spur Telecom IT spends and TechM will be the biggest beneficiary. Manufacturing (+4% CQGR) & BFSI (+6% CQGR) Verticals are witnessing increased traction led by increased IT spend and adoption of Digital technologies. We believe Enterprise business will continue its strong growth momentum (+16% CAGR over FY18-20E) led by Manufacturing & BFSI verticals.
- EBITDA margin has bottomed and recovery from here will be gradual, led by (1) LCC turnaround (2) higher

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Total Rev (USD mn)	989	1,011	1,015	1,023	1,032	1,072	1,116	1,131	1,138	1,179	1,209	1,250
Growth QoQ %	0.5%	2.2%	0.4%	0.8%	0.9%	4.0%	4.1%	1.4%	0.6%	3.6%	2.5%	3.4%
Growth YoY%	15.7%	12.3%	9.8%	3.9%	4.3%	6.1%	10.0%	10.6%	10.3%	10.0%	8.3%	10.5%
Telecom (USD mn)	521	535	521	521	507	519	528	524	514	515	517	523
EBITDA %	14.4%	16.6%	16.9%	16.7%	14.9%	14.9%	15.7%	12.0%	12.7%	14.5%	16.3%	16.7%
Revenue (Rs bn)	62.94	66.16	67.01	68.84	69.21	71.67	75.58	74.95	73.36	76.06	77.76	80.51
EBITDA (Rs bn)	9.05	11.01	11.36	11.51	10.29	10.70	11.87	8.99	9.35	11.06	12.65	13.43
PAT (Rs bn)	6.22	7.86	7.59	8.54	7.49	6.21	8.55	5.88	7.98	8.36	9.43	9.51

Source: Company, HDFC sec Inst Research

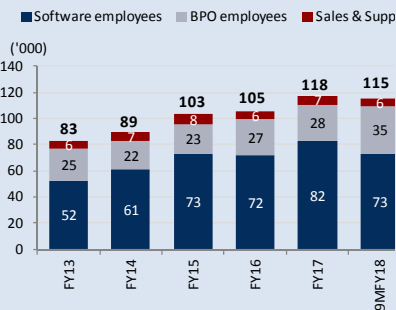
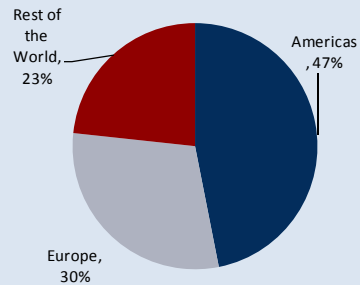
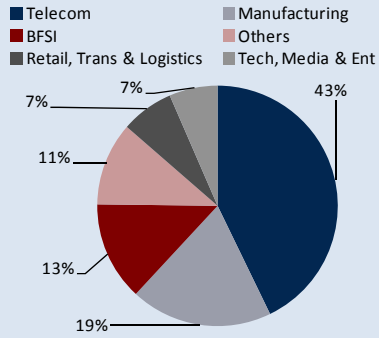
utilisation & off-shoring and (3) Automation benefits. We've factored in USD revenue growth of 9.8/10.1/10.2% for FY18/19/20E, implying revenue CQGR of 2.1/2.5% for FY19/20E and factored EBITDA% at 15.1/16.3/16.9%.

- The stock currently trades at a P/E of 14.5/12.6x FY19/20 earnings. We maintain BUY rating with a TP of Rs 750 based on 15x FY20E EPS. Tech Mahindra valuations are still at ~11% discount to Tier-1 average P/E multiple of 14x for FY20E. We believe TechM is a play on Telecom revival, robust enterprise growth and margin expansion.

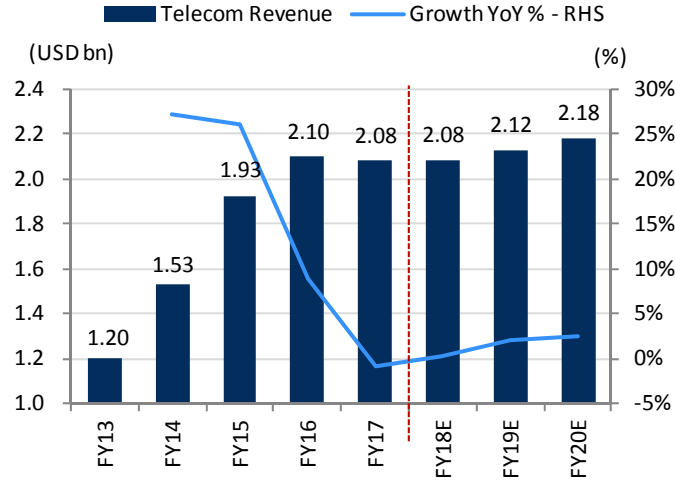
Financial Summary

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	264.94	291.41	307.70	341.76	376.57
EBITDA	42.71	41.84	46.48	55.76	63.69
APAT	29.93	28.13	34.77	38.82	44.56
Diluted EPS (Rs)	33.7	31.6	39.1	43.7	50.1
P/E (x)	18.8	20.0	16.2	14.5	12.6
EV / EBITDA (x)	12.2	12.5	11.0	9.0	7.6
RoE (%)	22.8	18.1	19.8	19.3	19.5

Source: Company, HDFC sec Inst Research

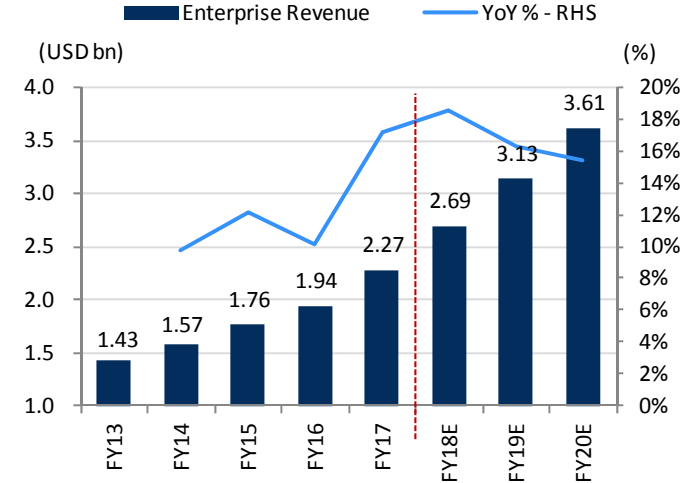


Telecom Revenue Growth Trajectory



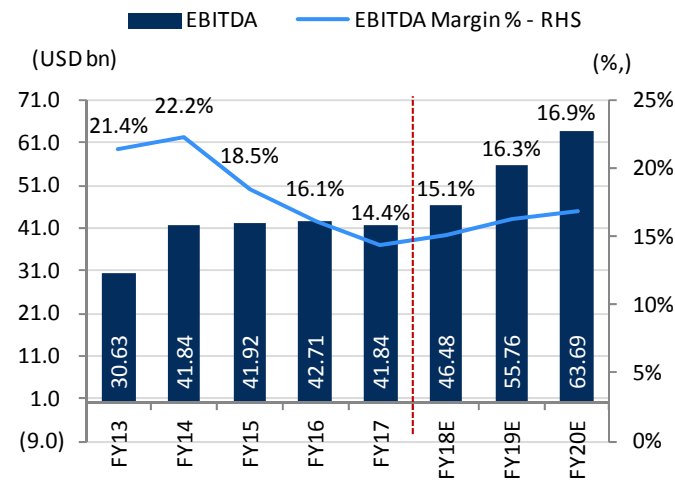
Source: Company, HDFC sec Inst Research

Enterprise Business Driving Growth



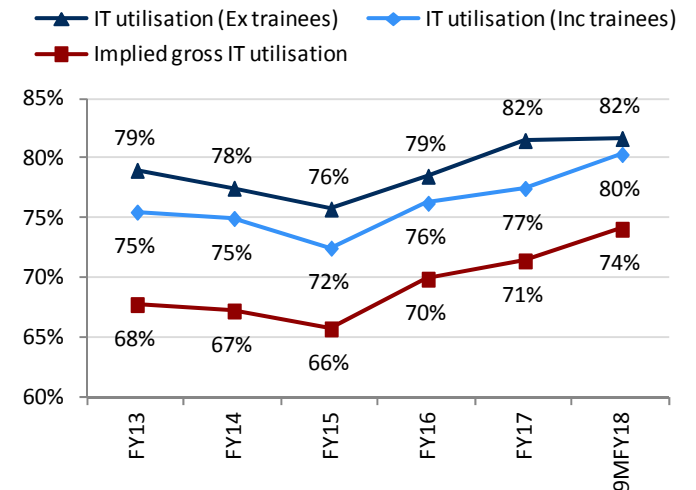
Source: Company, HDFC sec Inst Research

EBITDA & EBITDA Margin



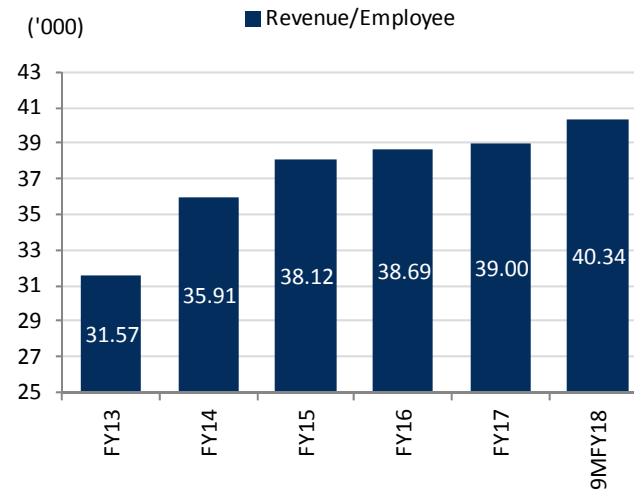
Source: Company, HDFC sec Inst Research

Significant Improvement In Utilisation Supported Margins



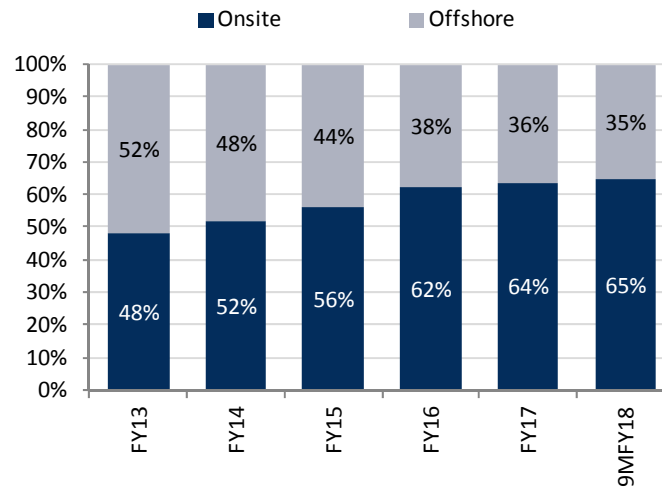
Source: Company, HDFC sec Inst Research

Employee Productivity Has Improved With Automation



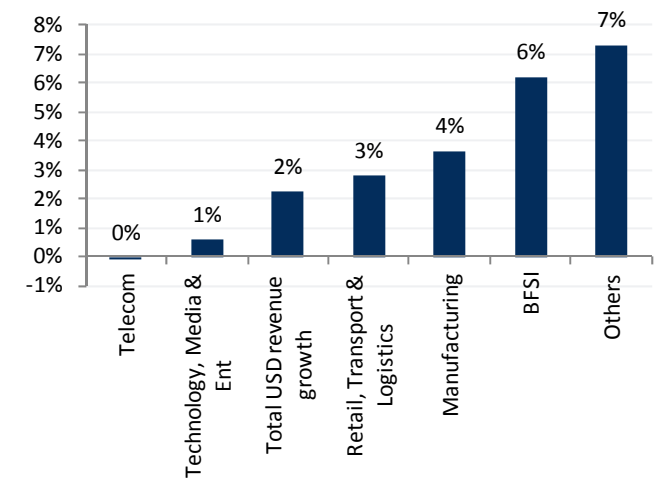
Source: Company, HDFC sec Inst Research

Increase In Onsite Revenue Led by Digital Projects



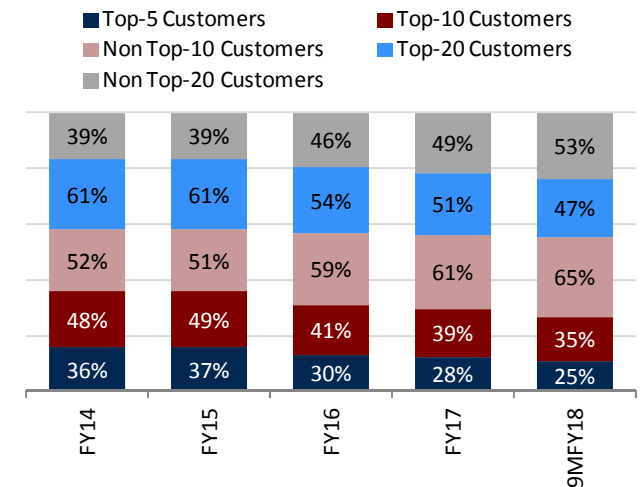
Source: Company, HDFC sec Inst Research

Verticals-Wise 8-quarter CQGR, Telecom Dragging Growth while BFSI Is The Strongest



Source: Company, HDFC sec Inst Research

Client Profile



Source: Company, HDFC sec Inst Research

Particulars	Earlier est	Revised est	% change
FY19E			
Revenue (USD bn)	5.21	5.26	0.9
Revenue (Rs bn)	338.65	341.76	0.9
EBITDA (Rs bn)	54.42	55.76	2.5
EBITDA margin (%)	16.1	16.3	25bps
EPS (Rs)	42.5	43.7	2.6
FY20E			
Revenue (USD bn)	5.71	5.79	1.4
Revenue (Rs bn)	371.45	376.57	1.4
EBITDA (Rs bn)	61.13	63.69	4.2
EBITDA margin (%)	16.5	16.9	46bps
EPS (Rs)	48.0	50.1	4.4

Consolidated Income Statement

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues (USD bn)	4.04	4.35	4.78	5.26	5.79
Growth (%)	9.5	7.8	9.8	10.1	10.2
Net Revenues	264.94	291.41	307.70	341.76	376.57
Growth (%)	17.1	10.0	5.6	11.1	10.2
Employee Costs	139.47	154.54	167.39	184.49	201.96
SG&A & Other Expenses	82.76	95.02	93.82	101.50	110.92
EBITDA	42.71	41.84	46.48	55.76	63.69
EBITDA (%)	16.1	14.4	15.1	16.3	16.9
EBITDA Growth (%)	1.9	(2.0)	11.1	20.0	14.2
Depreciation	7.59	9.78	10.60	11.72	12.87
EBIT	35.12	32.06	35.88	44.04	50.82
Other Income	4.39	7.78	11.94	9.57	10.42
Interest	0.97	1.29	1.34	1.30	1.26
PBT	38.54	38.55	46.48	52.31	59.98
Tax (incl deferred)	8.30	10.02	11.32	13.08	15.00
Minority Interest and associate profit	0.34	0.38	0.39	0.41	0.43
RPAT	29.90	28.15	34.77	38.82	44.56
Extraordinary item	0.00	0.00	0.00	0.00	0.00
APAT	29.90	28.15	34.77	38.82	44.56
APAT Growth (%)	13.8	(5.9)	23.5	11.6	14.8
EPS	33.7	31.6	39.1	43.7	50.1
EPS Growth (%)	13.9	(6.0)	23.6	11.6	14.8

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	4.36	4.39	4.39	4.39	4.39
Reserves	141.55	159.98	183.37	209.47	239.43
Total Shareholders' Funds	145.91	164.37	187.75	213.86	243.82
Minority Interest	1.93	4.64	4.64	4.64	4.64
Total Debt	10.02	12.19	12.19	12.19	12.19
Net Deferred Taxes	-5.32	-2.67	-2.67	-2.67	-2.67
Long Term Provisions & Others	19.09	23.87	25.03	26.30	27.70
TOTAL SOURCES OF FUNDS	171.62	202.40	226.94	254.32	285.68
APPLICATION OF FUNDS					
Net Block	25.31	38.32	43.10	48.47	54.43
CWIP	6.29	3.73	3.73	3.73	3.73
Goodwill & Other Intangible Assets	21.23	30.76	30.76	30.76	30.76
Investments	1.18	2.31	2.31	2.31	2.31
LT Loans & Advances	10.68	13.14	14.20	15.19	16.25
Total Non Current Assets	64.70	88.27	94.10	100.46	107.49
Inventories	0.40	0.61	0.61	0.61	0.61
Debtors	57.70	53.38	59.01	65.54	72.22
Cash & Equivalent	51.43	53.83	63.91	74.90	89.02
Other Current Assets	40.32	55.44	60.25	66.05	72.11
Total Current Assets	149.86	163.27	183.77	207.10	233.96
Creditors	22.76	23.12	25.05	27.42	30.00
Other Current Liabilities & Provs	25.54	32.47	32.86	33.28	33.75
Total Current Liabilities	48.30	55.59	57.91	60.71	63.75
Net Current Assets	101.56	107.68	125.87	146.39	170.21
Misc & Others	5.36	6.46	6.98	7.46	7.99
TOTAL APPLICATION OF FUNDS	171.62	202.40	226.94	254.32	285.68

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

Year ending March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	38.54	38.55	46.48	52.31	59.98
Non-operating & EO items	(4.39)	(8.16)	(12.33)	(9.97)	(10.85)
Interest expenses	0.97	1.29	1.34	1.30	1.26
Depreciation	7.59	9.78	10.60	11.72	12.87
Working Capital Change	(5.36)	(13.82)	(8.53)	(9.74)	(9.88)
Tax paid	(8.30)	(10.02)	(11.32)	(13.08)	(15.00)
OPERATING CASH FLOW (a)	29.05	17.62	26.25	32.53	38.39
Capex	(11.43)	(20.22)	(15.38)	(17.09)	(18.83)
<i>Free cash flow (FCF)</i>	<i>17.62</i>	<i>(2.61)</i>	<i>10.86</i>	<i>15.45</i>	<i>19.56</i>
Investments	(0.03)	(1.13)	0.00	0.00	0.00
Non-operating income	4.39	7.78	11.94	9.57	10.42
INVESTING CASH FLOW (b)	(7.07)	(13.58)	(3.44)	(7.52)	(8.40)
Debt Issuance	1.51	1.89	0.00	0.00	0.00
Interest expenses	(0.97)	(1.29)	(1.34)	(1.30)	(1.26)
<i>FCFE</i>	<i>18.15</i>	<i>(2.00)</i>	<i>9.52</i>	<i>14.14</i>	<i>18.30</i>
Share capital Issuance	0.04	0.03	0.00	0.00	0.00
Dividend	(6.25)	(12.39)	(11.39)	(12.72)	(14.60)
FINANCING CASH FLOW (c)	(5.67)	(11.76)	(12.73)	(14.02)	(15.86)
NET CASH FLOW (a+b+c)	16.30	(7.72)	10.07	10.99	14.12
Non-operating and EO items	3.39	10.12	0.00	0.00	0.00
Closing Cash & Equivalents	51.43	53.83	63.91	74.90	89.02

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
EBITDA Margin	16.1	14.4	15.1	16.3	16.9
APAT Margin	11.4	9.8	11.4	11.5	11.9
RoE	22.8	18.1	19.8	19.3	19.5
RoIC or Core RoCE	23.2	16.2	16.9	18.7	19.6
RoCE	19.7	14.3	14.4	15.5	15.8
EFFICIENCY					
Tax Rate (%)	21.5	26.0	24.3	25.0	25.0
Fixed Asset Turnover (x)	4.6	3.6	3.2	3.0	2.9
Debtors (days)	79	67	70	70	70
Payables (days)	37	34	35	35	35
Cash Conversion Cycle (days)	43	34	36	36	36
Net Debt/EBITDA (x)	(1.2)	(1.3)	(1.4)	(1.4)	(1.5)
Net Debt/Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Interest Coverage (x)	36.2	24.9	26.7	33.8	40.2
PER SHARE DATA					
EPS (Rs/sh)	33.7	31.6	39.1	43.7	50.1
CEPS (Rs/sh)	42.2	42.6	51.0	56.8	64.6
DPS (Rs/sh)	6.0	6.5	11.0	12.2	14.0
BV (Rs/sh)	164.1	184.9	211.2	240.5	274.2
VALUATION					
P/E	18.8	20.0	16.2	14.5	12.6
P/BV	3.9	3.4	3.0	2.6	2.3
EV/EBITDA	12.2	12.5	11.0	9.0	7.6
OCF/EV (%)	5.6	3.4	5.1	6.5	7.9
FCF/EV (%)	3.4	(0.5)	2.1	3.1	4.0
FCFE/mkt cap (%)	3.2	(0.4)	1.7	2.5	3.2
Dividend Yield (%)	0.9	1.0	1.7	1.9	2.2

Source: Company, HDFC sec Inst Research

INDUSTRY	IT		
CMP (as on 11 Apr 2018)	Rs 1,397		
Target Price	Rs 1,690		
Nifty	10,417		
Sensex	33,940		
KEY STOCK DATA			
Bloomberg	LTI IN		
No. of Shares (mn)	172		
MCap (Rs bn) / (\$ mn)	240/3,679		
6m avg traded value (Rs mn)	209		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 1,549/694		
	3M	6M	12M
Absolute (%)	24.9	73.6	94.4
Relative (%)	26.5	67.0	80.5
SHAREHOLDING PATTERN (%)			
Promoters	83.68		
FIs & Local MFs	2.24		
FPIs	6.08		
Public & Others	8.00		
Source : BSE			

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Strong growth momentum

We are positive on L&T Infotech (LTI) based on (1) Scalability of strong portfolio, large addressability (58 F-500 accounts) and proven success in large account mining, (2) Increase in deal pipeline and wins (net-new wins of USD 300mn over past six quarters), acceleration in new logo wins, (3) Robust growth and client penetration of digital revenue (33% of rev), (4) Growth in Enterprise Solutions and Europe geography to be supplemented by Syncordis acquisition and S&M investments, and (5) Strong leadership bandwidth. Expect revenue/EPS growth at 16/14% CAGR over FY18-20E. Revise earnings higher by ~3% and maintain BUY with TP of Rs1,690, 20x FY20E EPS (18x earlier).

- Incremental growth in digital is from a combination of existing logos as well as new logos and supplemented by LTI's strategy of 'ADEA'. Large portion of incremental growth in the top account is from analytics and the outlook in that segment continues to be strong.

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Revenue (USD mn)	209	224	225	230	231	240	245	254	259	271	294	303
Growth QoQ %	NA	7.3%	0.5%	2.1%	0.6%	3.7%	2.3%	3.7%	2.0%	4.4%	8.5%	3.4%
Growth YoY%	NA	NA	NA	NA	10.8%	7.1%	8.9%	10.6%	12.2%	12.9%	19.7%	19.4%
EBITDA %	15.5%	16.6%	19.6%	18.1%	19.6%	19.0%	18.1%	19.0%	16.8%	16.8%	17.1%	17.4%
EBIT %	12.2%	13.6%	16.7%	15.3%	16.9%	16.1%	15.3%	16.5%	14.4%	14.5%	14.9%	15.0%
Revenue (Rs bn)	13.33	14.68	14.87	15.58	15.55	16.02	16.67	16.77	16.71	17.51	18.84	19.51
EBITDA (Rs bn)	2.07	2.43	2.91	2.82	3.05	3.04	3.02	3.19	2.80	2.94	3.22	3.39
PAT (Rs bn)	1.75	2.09	2.25	2.29	2.36	2.33	2.48	2.55	2.67	2.73	2.83	2.99

Source: Company, HDFC sec Inst Research

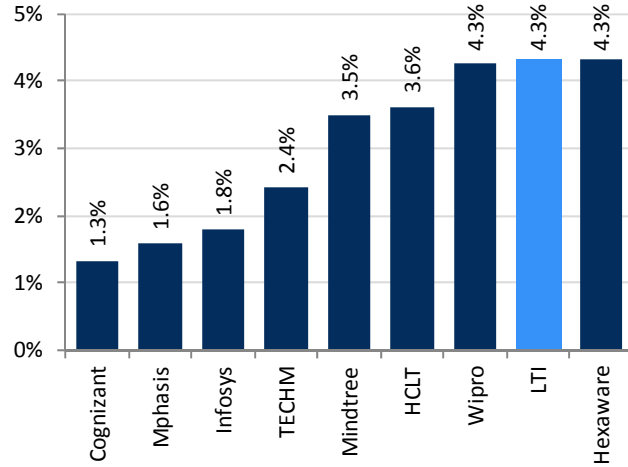
- LTI's net-new deal pipeline stood at USD 800mn and is expected to improve with acceleration in client decision making. The growing pipeline provides a large opportunity and LTI's win-rate has historically been at 30%.
- Large BFS deal (USD 120mn 5 yrs) and European CPG deal (USD 50mn 5 yrs with win against large global MNC) is expected to ramp-up from 2QFY19. LTI's 'Minecraft' program is tracking well to grow its top-50 accounts. Transition cost of large deals and S&M acceleration is expected to keep margins flattish in the near term.

Financial Summary

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	58.46	65.01	72.56	86.18	98.23
EBITDA	10.25	12.30	12.35	15.36	18.56
APAT	8.37	9.71	11.11	12.72	14.49
Diluted EPS (Rs)	49.3	56.9	64.7	74.0	84.3
P/E (x)	28.4	24.5	21.6	18.9	16.6
EV / EBITDA (x)	23.1	18.2	17.9	14.1	11.3
RoE (%)	40.8	36.9	32.1	30.9	30.0

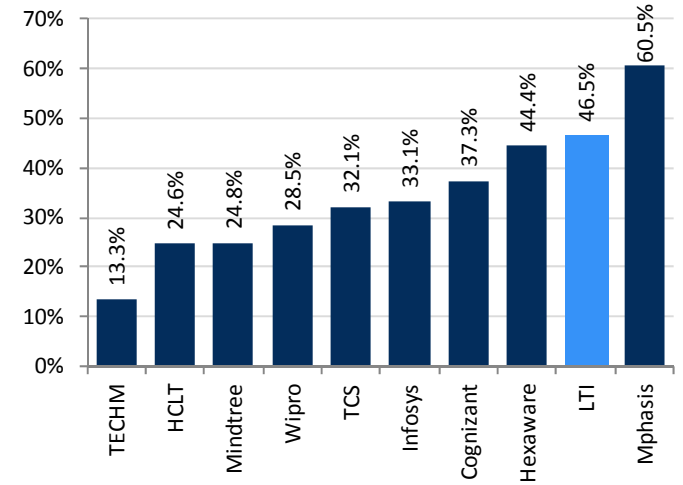
Source: Company, HDFC sec Inst Research

BFSI Performance (4-qtr CQGR %)



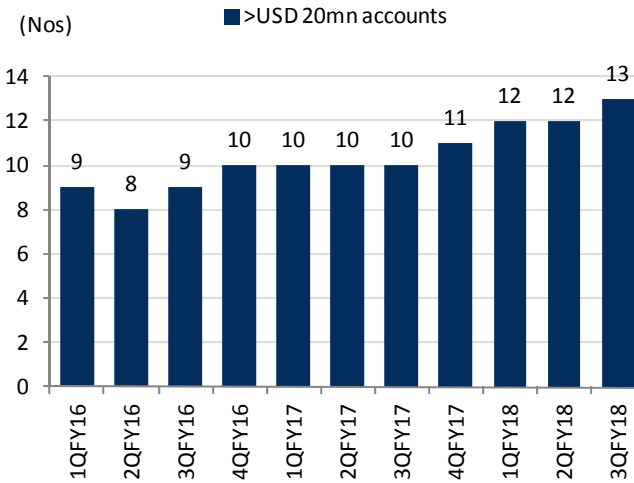
Source: Company, HDFC sec Inst Research

BFSI % Of Revenue



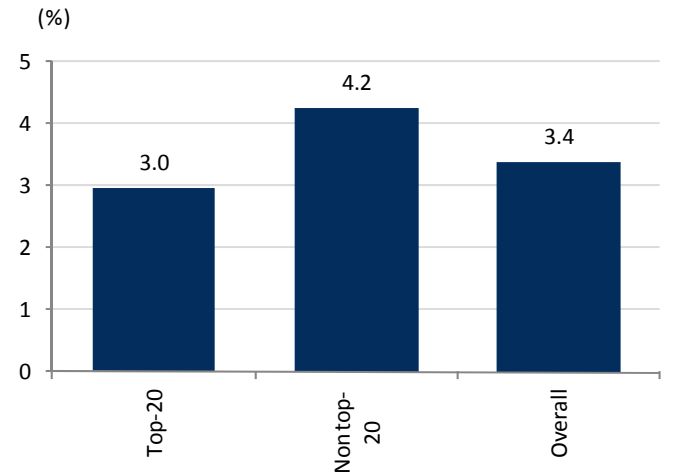
Source: Company, HDFC sec Inst Research

Growth In Large accounts

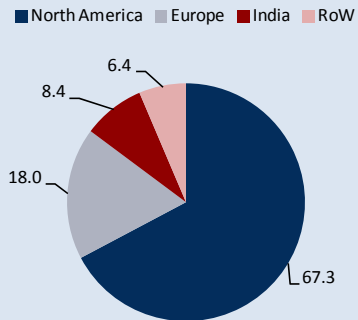
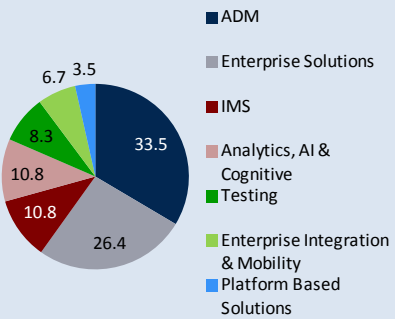
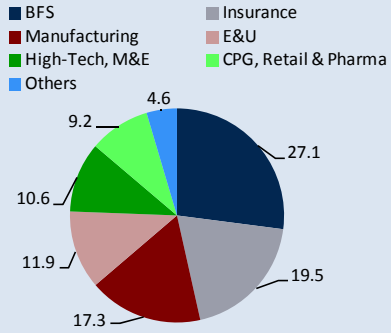


Source: Company, HDFC sec Inst Research

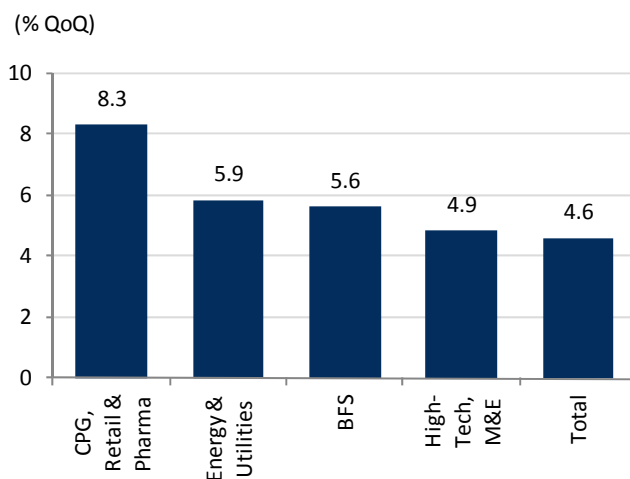
Growth Across Client Bands (8-qtr CQGR)



Source: Company, HDFC sec Inst Research

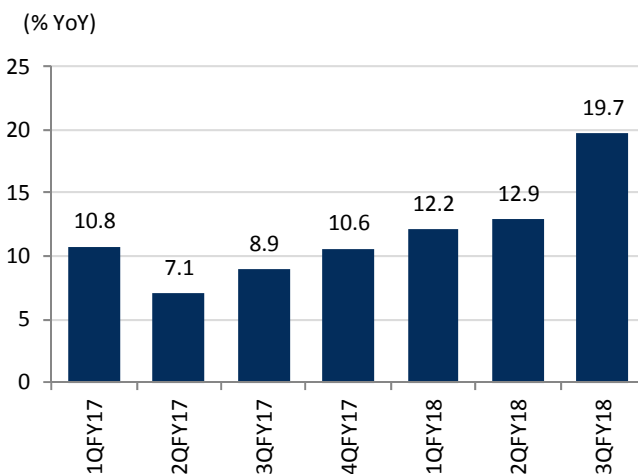


Verticals Growing Faster Than Company Avg. (4-qtr CQGR)



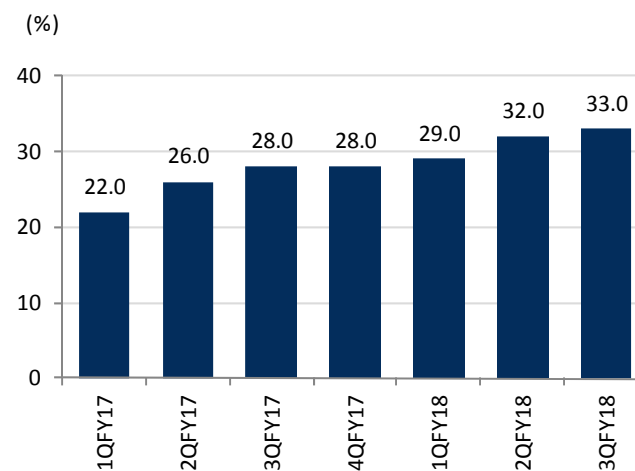
Source: Company, HDFC sec Inst Research

Revenue Growth Trajectory



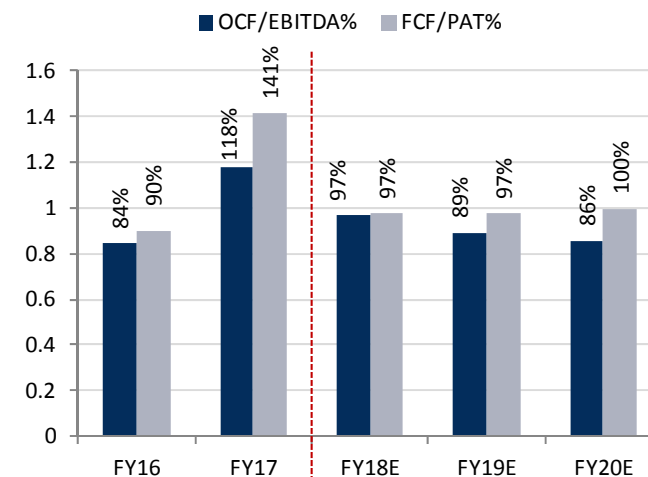
Source: Company, HDFC sec Inst Research

Digital % Of Revenue



Source: Company, HDFC sec Inst Research

Strong Cash Generation



Source: Company, HDFC sec Inst Research

Particulars	Earlier estimates	Revised estimates	% change
FY19E			
Revenue (US\$ mn)	1,309	1,326	1.3
Revenue (Rs bn)	85.06	86.18	1.3
EBITDA (Rs bn)	15.16	15.36	1.3
EBITDA margin (%)	17.8%	17.8%	
EPS (Rs)	73.3	74.0	1.0
FY20E			
Revenue (US\$ mn)	1,461	1,511	3.5
Revenue (Rs bn)	94.94	98.23	3.5
EBITDA (Rs bn)	17.94	18.56	3.5
EBITDA margin (%)	18.9%	18.9%	
EPS (Rs)	81.9	84.3	2.9

Income Statement(Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues (USD mn)	887	970	1,127	1,326	1,511
Growth (%)	9.5%	9.3%	16.2%	17.7%	14.0%
Net Revenues	58.46	65.01	72.56	86.18	98.23
Growth (%)	17.4%	11.2%	11.6%	18.8%	14.0%
Employee Expenses	35.27	37.76	42.93	50.13	56.73
Other operating expenses	12.95	14.95	17.28	20.68	22.93
EBITDA	10.25	12.30	12.35	15.36	18.56
EBITDA Margin (%)	17.5%	18.9%	17.0%	17.8%	18.9%
EBITDA Growth (%)	2.0%	20.0%	0.4%	24.4%	20.8%
Depreciation	1.74	1.78	1.67	2.15	2.46
EBIT	8.51	10.52	10.68	13.21	16.11
Other Income (Including EO Items)	1.90	1.87	3.79	3.31	2.96
Interest	0.06	0.03	0.03	-	-
PBT	10.35	12.36	14.43	16.52	19.06
Tax (Incl Deferred)	1.98	2.65	3.32	3.80	4.58
RPAT	8.37	9.71	11.11	12.72	14.49
APAT	8.37	9.71	11.11	12.72	14.49
APAT Growth (%)	10.1%	16.1%	14.5%	14.4%	13.9%
Adjusted EPS (Rs)	49.3	56.9	64.7	74.0	84.3
EPS Growth (%)	4.6%	15.6%	13.7%	14.4%	13.9%

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	0.17	0.17	0.17	0.17	0.17
Reserves	21.08	31.27	37.72	44.33	51.86
Total Shareholders' Funds	21.25	31.44	37.89	44.50	52.04
Total Debt	0.55	-	-	-	-
Net Deferred Taxes	(1.97)	(1.26)	(1.26)	(1.26)	(1.26)
Long Term Provisions & Others	0.24	0.29	0.32	0.38	0.43
TOTAL SOURCES OF FUNDS	20.07	30.47	36.95	43.62	51.21
APPLICATION OF FUNDS					
Net Block	2.79	2.58	3.38	3.68	3.98
Goodwill & intangibles	3.77	2.85	4.35	4.77	5.21
Investments	1.75	3.47	3.47	3.47	3.47
LT Loans & Advances	0.89	0.72	0.81	0.96	1.09
Total Non-current Assets	9.21	9.62	12.01	12.88	13.76
Debtors	11.66	11.70	13.32	15.82	18.03
Other Current Assets	4.67	5.71	6.38	7.57	8.63
Cash & Equivalents	3.87	15.88	19.13	23.84	29.58
Total Current Assets	20.20	33.29	38.82	47.24	56.24
Creditors	3.41	3.37	3.76	4.46	5.09
Other Current Liabilities & Prov.	5.94	9.07	10.12	12.03	13.71
Total Current Liabilities	9.34	12.44	13.88	16.49	18.79
Net Current Assets	10.86	20.85	24.94	30.75	37.45
TOTAL APPLICATION OF FUNDS	20.07	30.47	36.95	43.62	51.21

Source: Company, HDFC sec Inst Research

Cash Flow(Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	10.35	12.36	14.43	16.52	19.06
Interest expenses	0.06	0.03	0.03	-	-
Depreciation	1.74	1.78	1.67	2.15	2.46
Working Capital Change	(0.94)	2.02	(0.84)	(1.09)	(0.97)
Tax Paid	(1.98)	(2.65)	(3.32)	(3.80)	(4.58)
OPERATING CASH FLOW (a)	8.63	14.46	11.92	13.69	15.90
Capex	(1.14)	(0.75)	(1.09)	(1.29)	(1.47)
<i>Free cash flow (FCF)</i>	<i>7.49</i>	<i>13.70</i>	<i>10.83</i>	<i>12.40</i>	<i>14.42</i>
Investments	0.57	(0.58)	(2.31)	(0.71)	(0.75)
INVESTING CASH FLOW (b)	(0.57)	(1.34)	(3.39)	(2.00)	(2.23)
Debt Issuance/(Repaid)	(1.64)	(0.40)	-	-	-
Interest Expenses	(0.06)	(0.03)	(0.03)	-	-
<i>FCFE</i>	<i>5.79</i>	<i>13.27</i>	<i>10.80</i>	<i>12.40</i>	<i>14.42</i>
Share Capital Issuance	0.01	0.00	-	-	-
Dividend	(5.47)	(3.38)	(4.67)	(6.10)	(6.95)
FINANCING CASH FLOW (c)	(7.16)	(3.81)	(4.70)	(6.10)	(6.95)
NET CASH FLOW (a+b+c)	0.91	9.31	3.83	5.58	6.72
Closing Cash & Equivalents	3.87	15.88	19.13	23.84	29.58

Source: Company, HDFC sec Inst Research

Key Ratios(Consolidated)

YE March	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	39.7	41.9	40.8	41.8	42.2
EBITDA Margin	17.5	18.9	17.0	17.8	18.9
APAT Margin	14.3	14.9	15.3	14.8	14.7
RoE	40.8	36.9	32.1	30.9	30.0
RoIC (or Core RoCE)	42.3	53.7	50.7	54.1	59.1
RoCE	40.7	38.5	33.0	31.6	30.6
EFFICIENCY					
Tax Rate (%)	19.2	21.4	23.0	23.0	24.0
<i>Fixed Asset Turnover (x)</i>	<i>4.1</i>	<i>4.3</i>	<i>4.1</i>	<i>4.5</i>	<i>4.6</i>
<i>Debtors (days)</i>	<i>73</i>	<i>66</i>	<i>67</i>	<i>67</i>	<i>67</i>
<i>Payables (days)</i>	<i>21</i>	<i>19</i>	<i>19</i>	<i>19</i>	<i>19</i>
Cash Conversion Cycle (days)	44	28	29	29	29
Debt/EBITDA (x)	0.1	-	-	-	-
Net D/E (x)	(0.2)	(0.5)	(0.5)	(0.5)	(0.6)
Interest Coverage (x)	147	329	334	NA	NA
PER SHARE DATA (Rs)					
EPS	49.3	56.9	64.7	74.0	84.3
CEPS	59.5	67.6	75.3	87.6	99.8
Dividend	33	17	23	30	34
Book Value	125	185	223	262	306
VALUATION					
P/E (x)	28.4	24.5	21.6	18.9	16.6
P/BV (x)	11.2	7.5	6.3	5.3	4.6
EV/EBITDA (x)	23.1	18.2	17.9	14.1	11.3
OCF/EV (%)	3.6	6.5	5.4	6.3	7.6
FCF/EV (%)	3.2	6.1	4.9	5.7	6.9
FCFE/Mkt Cap (%)	2.4	5.5	4.5	5.2	6.0
Dividend Yield (%)	2.3	1.2	1.6	2.1	2.4

Source: Company, HDFC sec Inst Research

INDUSTRY		IT	
CMP (as on 11 Apr 2018)	Rs 899		
Target Price	Rs 1,000		
Nifty	10,417		
Sensex	33,940		
KEY STOCK DATA			
Bloomberg	MPHL IN		
No. of Shares (mn)	193		
MCap (Rs bn) / (\$ mn)	174/2,660		
6m avg traded value (Rs mn)	222		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 995/522		
	3M	6M	12M
Absolute (%)	25.5	44.2	63.3
Relative (%)	27.1	37.6	49.3
SHAREHOLDING PATTERN (%)			
Promoters	60.40		
FIs & Local MFs	12.56		
FPIs	21.80		
Public & Others	5.24		
Source : BSE			

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Secular growth

Mphasis' growth in HP-DXC channel will be based on (1) Strategic partnership with DXC, (2) Investments in S&M, (3) Acceleration in client mining and new wins, and (4) AD and IMS services driving growth. Direct Core is expected to continue its growth momentum supported by (1) High share of digital (43% of direct core), (2) Strong TCV wins (largely in digital and GRC), (3) Strong outlook in Mphasis' BFSI portfolio, (4) Continuity in wins from Blackstone portfolio. Expect revenue/EPS growth at 11%/14% CAGR over FY18-20E, factoring HP/Direct core growth at 10.7%/12.2% CAGR. Maintain BUY with TP of 1,000, 18x FY20E EPS.

- While Mphasis' win-rate has been steady, there's an uptick in the overall pipeline over the past three quarters. Growth in Direct core is led by AD, IMS and BPM services and outlook in BFSI portfolio remains strong (75% of Direct core is BFSI). 9MFY18 TCV at USD 436mn (net new deals) provides strong growth visibility.
- Digital has grown to 43% of revenue and the growth is volume-driven supported by new logo wins.

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Revenue (USD mn)	234	237	229	225	224	224	224	222	231	242	252	258
Growth QoQ %	2.6%	1.2%	-3.4%	-1.7%	-0.3%	-0.2%	-0.3%	-0.9%	4.3%	4.9%	3.8%	2.5%
Growth YoY%	-6.3%	-1.0%	1.1%	-1.4%	-4.1%	-5.4%	-2.4%	-1.6%	2.9%	8.1%	12.6%	16.4%
EBITDA %	14.1%	15.1%	14.3%	15.7%	16.1%	16.2%	15.6%	15.8%	14.9%	15.5%	16.5%	17.2%
EBIT %	12.7%	13.9%	13.2%	14.1%	15.2%	15.3%	14.3%	14.6%	13.8%	14.4%	15.5%	15.6%
Revenue (Rs bn)	14.95	15.58	15.17	15.16	15.17	15.18	15.36	15.06	15.36	16.05	16.61	16.87
EBITDA (Rs bn)	2.11	2.35	2.17	2.38	2.45	2.46	2.40	2.38	2.30	2.49	2.74	2.90
PAT (Rs bn)	1.66	1.90	1.74	1.85	2.04	2.17	2.00	1.94	1.87	1.98	2.10	2.26

Source: Company, HDFC sec Inst Research

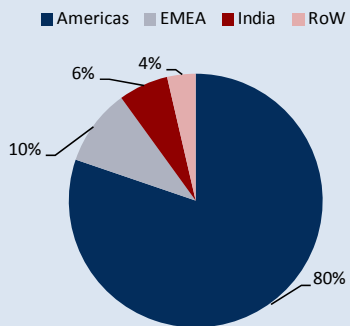
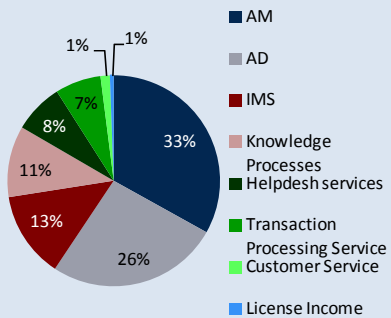
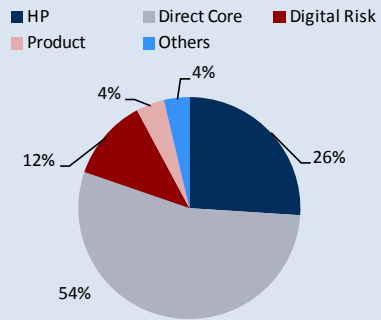
Addressable opportunity from Blackstone portfolio continues to be large (~USD 1.5bn) and it is tracking well.

- Within the HP-DXC channel, Mphasis' competition largely is with tier-1 IT providers and the company's strategic partnership with DXC is supporting growth. Healthcare, transportation and logistics verticals driving growth in HP-DXC channel supplemented by new wins (9 wins in 9MFY18 as compared to 9 wins cumulative in FY16-17).

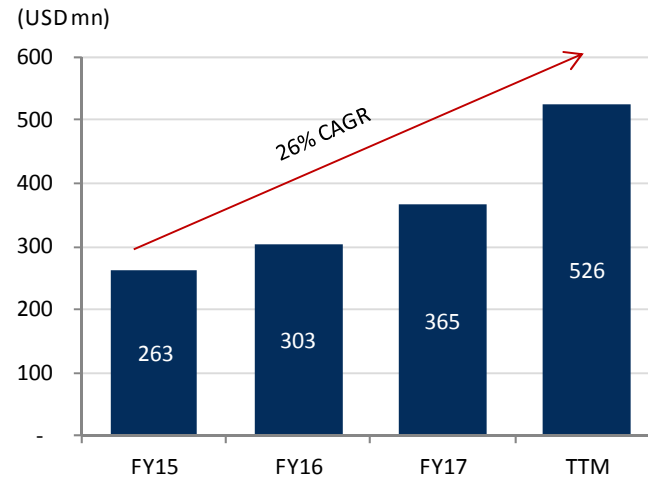
Financial Summary

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	60.85	60.76	64.88	72.03	79.22
EBITDA	9.03	9.69	10.43	12.09	13.74
APAT	6.87	8.07	8.26	9.50	10.77
Diluted EPS (Rs)	34.0	38.8	42.5	49.2	55.7
P/E (x)	26.4	23.2	21.1	18.3	16.1
EV / EBITDA (x)	16.2	14.8	14.1	11.9	10.1
RoE (%)	12.1	13.4	14.2	16.7	17.3

Source: Company, HDFC sec Inst Research

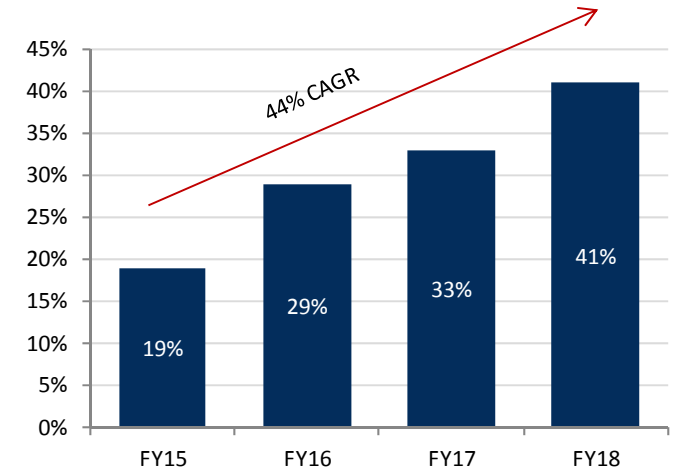


Direct International Deal TCV Trend



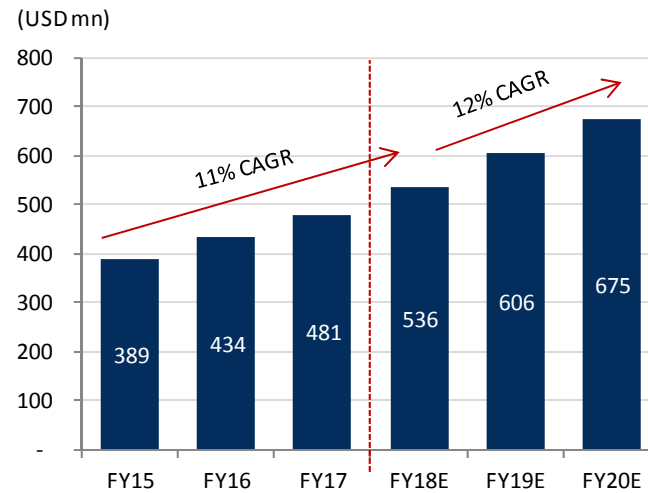
Source: Company, HDFC sec Inst Research

Share Of New-Gen Services In Direct Core Revenue



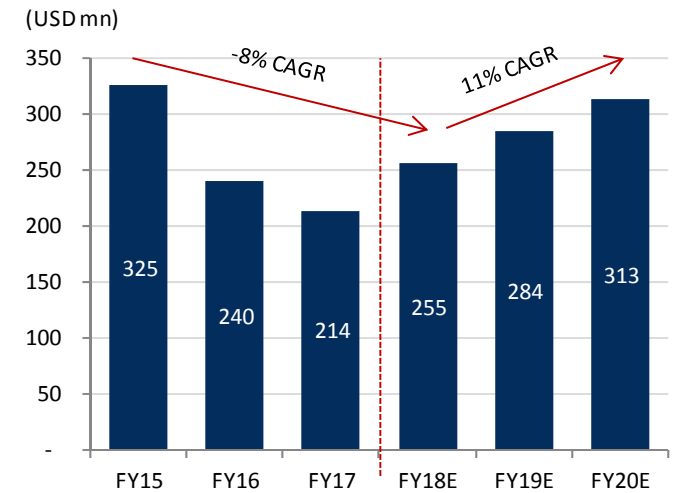
Source: Company, HDFC sec Inst Research

Direct Core Revenue Trend



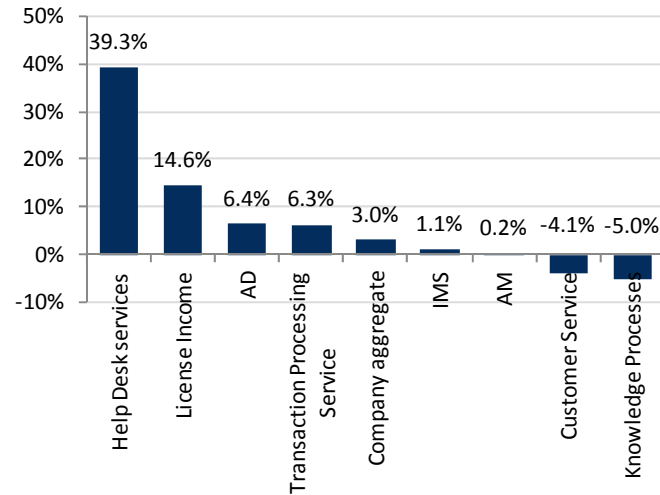
Source: Company, HDFC sec Inst Research

HP-DXC Channel Revenue Trend



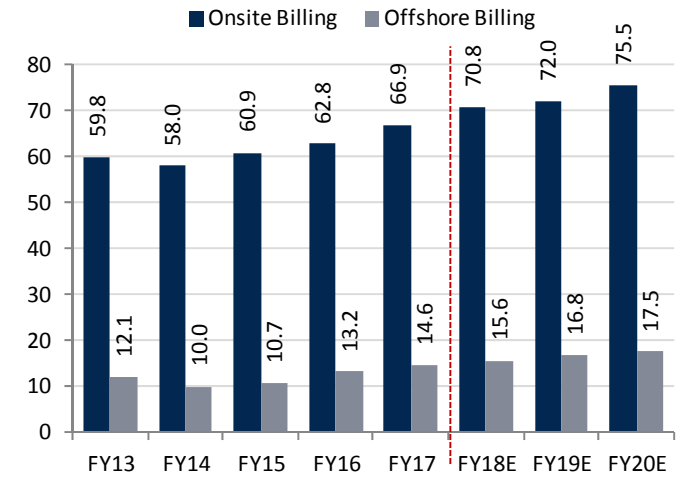
Source: Company, HDFC sec Inst Research

Growth Across Service-lines (4-qtr CQGR)



Source: Company, HDFC sec Inst Research

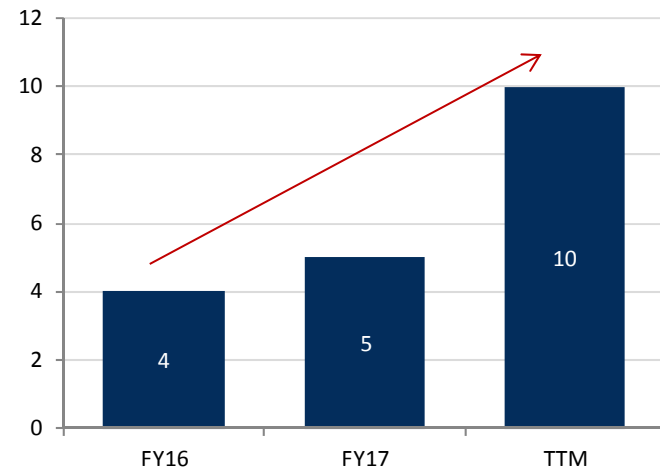
Billing Trend (USD/hr)



Source: Company, HDFC sec Inst Research

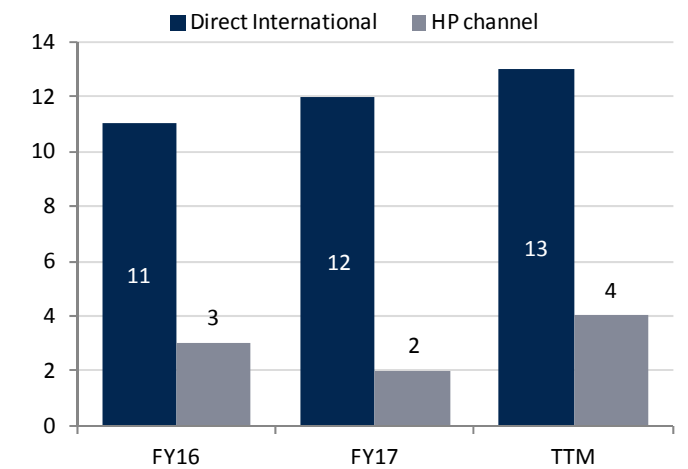
Particulars	Earlier estimates	Revised estimates	% change
FY19E			
Revenue (US\$ mn)	1,099	1,099	0.0
Revenue (Rs bn)	72.03	72.03	0.0
EBITDA (Rs bn)	12.09	12.09	0.0
EBITDA margin (%)	16.8%	16.8%	
EPS (Rs)	49.2	49.2	0.0
FY20E			
Revenue (US\$ mn)	1,217	1,210	(0.6)
Revenue (Rs bn)	79.67	79.22	(0.6)
EBITDA (Rs bn)	14.12	13.74	(2.6)
EBITDA margin (%)	17.7%	17.3%	(37)bps
EPS (Rs)	57.1	55.7	(2.5)

New Client Additions HP-DXC Channel (Nos)



Source: Company, HDFC sec Inst Research

>USD 10mn Clients (Nos)



Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues (USD mn)	925	894	983	1,099	1,210
Growth (%)	-2.0%	-3.4%	10.0%	11.9%	10.1%
Net Revenues	60.85	60.76	64.88	72.03	79.22
Growth (%)	5.0%	-0.1%	6.8%	11.0%	10.0%
Employee Expenses	35.36	35.56	38.65	42.69	46.50
SG&A Expenses	16.46	15.52	15.80	17.26	18.98
EBITDA	9.03	9.69	10.43	12.09	13.74
EBITDA Margin (%)	14.8%	15.9%	16.1%	16.8%	17.3%
EBITDA Growth (%)	3.8%	7.2%	7.7%	15.9%	13.7%
Depreciation	1.21	0.79	0.80	0.92	1.07
EBIT	7.82	8.90	9.63	11.17	12.68
EBIT Margin (%)	12.9%	14.6%	14.8%	15.5%	16.0%
Other Income (Including EO Items)	1.91	2.39	1.70	1.96	2.20
Interest	0.24	0.14	0.12	0.12	0.13
PBT	9.49	11.14	11.20	13.01	14.75
Tax (Incl Deferred)	2.58	3.08	2.94	3.51	3.98
RPAT	6.33	7.91	8.26	9.50	10.77
APAT	6.87	8.07	8.26	9.50	10.77
APAT Growth (%)	1.3%	17.5%	2.4%	15.0%	13.4%
Adjusted EPS (Rs)	34.0	38.8	42.5	49.2	55.7
EPS Growth (%)	5.4%	14.0%	9.7%	15.6%	13.4%

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	2.10	2.10	1.93	1.93	1.93
Reserves	56.45	59.42	52.65	57.51	63.18
Total Shareholders' Funds	58.55	61.52	54.58	59.44	65.11
Total Debt	4.61	4.17	3.70	4.03	4.41
Net Deferred Taxes	(4.25)	(3.37)	(3.37)	(3.37)	(3.37)
Long Term Provisions & Others	0.80	0.60	0.64	0.71	0.79
TOTAL SOURCES OF FUNDS	59.71	62.93	55.56	60.82	66.94
APPLICATION OF FUNDS					
Net Block	0.89	1.04	1.47	1.67	1.78
Goodwill & intangibles	15.63	15.27	14.41	14.45	14.49
Investments	3.96	1.37	1.46	1.62	1.78
LT Loans & Advances	7.09	7.47	2.33	2.58	2.84
Total Non-current Assets	27.58	25.15	19.68	20.33	20.90
Inventories	0.04	0	0	0	0
Debtors	6.49	6.28	6.70	7.44	8.19
Other Current Assets	3.40	3.40	8.63	10.09	11.10
Cash & Equivalents	32.32	34.81	30.31	33.78	38.67
Total Current Assets	42.26	44.49	45.64	51.32	57.95
Creditors	4.48	3.88	4.14	4.60	5.06
Other Current Liabilities & Prov.	5.64	2.84	5.61	6.23	6.86
Total Current Liabilities	10.12	6.71	9.76	10.83	11.91
Net Current Assets	32.14	37.78	35.88	40.49	46.04
TOTAL APPLICATION OF FUNDS	59.71	62.93	55.56	60.82	66.94

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	8.91	10.99	11.20	13.01	14.75
Interest expenses	0.24	0.14	0.12	0.12	0.13
Depreciation	1.21	0.79	0.80	0.92	1.07
Working Capital Change	0.28	(3.36)	(2.79)	(1.00)	(0.53)
Tax Paid	(2.58)	(3.08)	(2.94)	(3.51)	(3.98)
OPERATING CASH FLOW (a)	7.32	6.16	6.43	9.59	11.49
Capex	(1.27)	(0.88)	(1.00)	(1.16)	(1.21)
<i>Free cash flow (FCF)</i>	<i>6.04</i>	<i>5.28</i>	<i>5.43</i>	<i>8.43</i>	<i>10.28</i>
Investments	(0.31)	2.52	5.68	(0.41)	(0.41)
Non-operating Income	-	-	-	-	-
INVESTING CASH FLOW (b)	(1.59)	1.63	4.68	(1.56)	(1.62)
Debt Issuance/(Repaid)	(1.23)	(0.51)	(0.29)	0.21	0.24
Interest Expenses	(0.24)	(0.14)	(0.12)	(0.12)	(0.13)
<i>FCFE</i>	<i>4.57</i>	<i>4.63</i>	<i>5.02</i>	<i>8.52</i>	<i>10.40</i>
Share Capital Issuance	0.00	0.00	(0.17)	-	-
Dividend	(4.05)	(4.29)	(4.17)	(4.64)	(5.10)
FINANCING CASH FLOW (c)	(5.52)	(4.94)	(15.79)	(4.55)	(4.99)
NET CASH FLOW (a+b+c)	0.21	2.86	(4.68)	3.48	4.89
Closing Cash & Equivalents	32.32	34.81	30.31	33.78	38.67

Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

YE March	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	41.9	41.5	40.4	40.7	41.3
EBITDA Margin	14.8	15.9	16.1	16.8	17.3
APAT Margin	11.3	13.3	12.7	13.2	13.6
RoE	12.1	13.4	14.2	16.7	17.3
RoIC (or Core RoCE)	19.4	22.7	27.0	31.6	34.3
RoCE	11.7	13.2	14.2	16.6	17.2
EFFICIENCY					
Tax Rate (%)	29.0%	28.0%	26.3%	27.0%	27.0%
Fixed Asset Turnover (x)	6.3	6.2	6.1	6.1	6.1
<i>Debtors (days)</i>	<i>74</i>	<i>65</i>	<i>65</i>	<i>68</i>	<i>68</i>
<i>Payables (days)</i>	<i>27</i>	<i>23</i>	<i>23</i>	<i>23</i>	<i>23</i>
Cash Conversion Cycle (days)	47	42	42	44	44
Debt/EBITDA (x)	0.5	0.4	0.4	0.3	0.3
Net D/E (x)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Interest Coverage (x)	32	64	79	95	99
PER SHARE DATA (Rs)					
EPS	34.0	38.8	42.5	49.2	55.7
CEPS	38	42	47	54	61
Dividend	20	17	18	20	22
Book Value	279	293	283	308	337
VALUATION					
P/E (x)	26.4	23.2	21.1	18.3	16.1
P/BV (x)	3.2	3.1	3.2	2.9	2.7
EV/EBITDA (x)	16.2	14.8	14.1	11.9	10.1
OCF/EV (%)	5.0%	4.3%	4.4%	6.7%	8.2%
FCF/EV (%)	4.1%	3.7%	3.7%	5.9%	7.4%
FCFE/Mkt Cap (%)	2.6%	2.7%	2.9%	4.9%	6.0%
Dividend Yield (%)	2.2%	1.9%	2.0%	2.2%	2.4%

Source: Company, HDFC sec Inst Research

INDUSTRY	IT		
CMP (as on 11 Apr 2018)	Rs 830		
Target Price	Rs 940		
Nifty	10,417		
Sensex	33,940		
KEY STOCK DATA			
Bloomberg	MTCL IN		
No. of Shares (mn)	164		
MCap (Rs bn) / (\$ mn)	136/2,083		
6m avg traded value (Rs mn)	1,002		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 873/433		
	3M	6M	12M
Absolute (%)	33.6	71.4	84.9
Relative (%)	35.2	64.8	70.9
SHAREHOLDING PATTERN (%)			
Promoters	13.64		
FIs & Local MFs	8.29		
FPIs	40.56		
Public & Others	37.51		
<i>Source : BSE</i>			

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Digital driver

We are positive on Mindtree based on (1) Improving deal pipeline, deal wins (highest ever digital deal TCV in 3Q and ~50% higher than the trailing quarterly rate), (2) Strong traction in large accounts (positive outlook in top account) and stable pricing environment, (3) Continued traction in digital (industry leading digital-mix) supplemented by increasing deal size, and (4) Recovery in BlueFin and magnet360 ahead. Expect revenue/EPS growth at 13/30% CAGR over FY18-20E. Revise earnings higher by 5% and maintain BUY with TP of Rs940, 20x FY20E EPS (18x earlier).

- Mindtree's deal pipeline increased by ~70% from 2Q to 3QFY18 and deal wins on referenceability is improving with wins in CPG (beauty care). The company has increased its intensity to chase RTB rebid opportunities. Mindtree is winning larger digital deals in new logos, whereas growth in existing logo's digital portfolio is largely volume driven.
- Top-account has been the growth driver for Mindtree (7.5% CQGR over past 8-qtr) and growth prospects

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Revenue (USD mn)	154.3	179.7	183.6	195.0	199.0	193.0	192.2	195.6	200.1	206.2	214.3	222.8
Growth QoQ %	4.4%	16.5%	2.2%	6.2%	2.0%	-3.0%	-0.4%	1.8%	2.3%	3.0%	3.9%	4.0%
Growth YoY%	9.2%	22.2%	24.3%	32.0%	29.0%	7.4%	4.7%	0.3%	0.6%	6.8%	11.5%	13.9%
EBITDA %	17.6%	18.5%	17.7%	17.1%	14.7%	12.5%	13.4%	14.2%	11.1%	11.6%	15.1%	16.0%
EBIT %	14.3%	15.8%	14.8%	14.4%	11.2%	8.9%	9.9%	10.6%	7.6%	8.2%	12.0%	12.7%
Revenue (Rs bn)	9.82	11.69	12.15	13.24	13.28	12.95	12.95	13.18	12.90	13.32	13.78	14.33
EBITDA (Rs bn)	1.73	2.16	2.15	2.26	1.95	1.62	1.74	1.87	1.44	1.54	2.07	2.29
PAT (Rs bn)	1.38	1.58	1.51	1.56	1.23	0.95	1.03	0.97	0.93	1.02	1.20	1.51

Source: Company, HDFC sec Inst Research

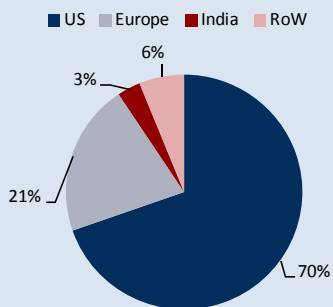
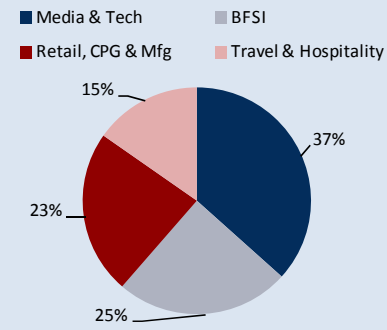
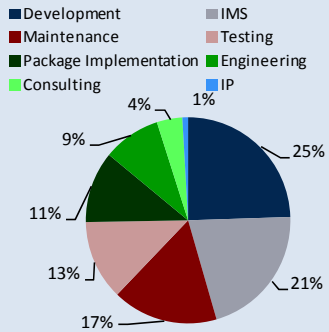
remain strong. Mindtree has expanded its portfolio by increasing business adjacencies such as engineering services in Azure, testing and maintenance in Skype, Office 365. Mindtree continues to be strategic vendor for its top account.

- BlueFin and magnet360 performance is expected to improve ahead supported by SAP's S4 HANA migration roadmap, integration of BlueFin with Mindtree's package implementation and integration of Mindtree's Salesforce practice with magnet360.

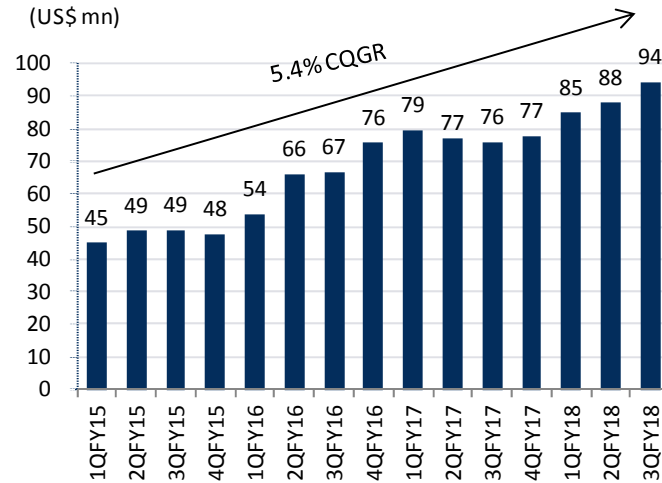
Financial Summary

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	46.73	52.36	54.32	62.00	70.34
EBITDA	8.21	7.18	7.34	9.69	11.62
APAT	5.53	4.19	4.66	6.41	7.92
Diluted EPS (Rs)	32.9	24.9	27.7	38.1	47.1
P/E (x)	25.2	33.4	29.9	21.8	17.6
EV / EBITDA (x)	16.5	18.4	18.1	13.5	11.1
RoE (%)	25.0	16.8	20.9	23.4	25.4

Source: Company, HDFC sec Inst Research

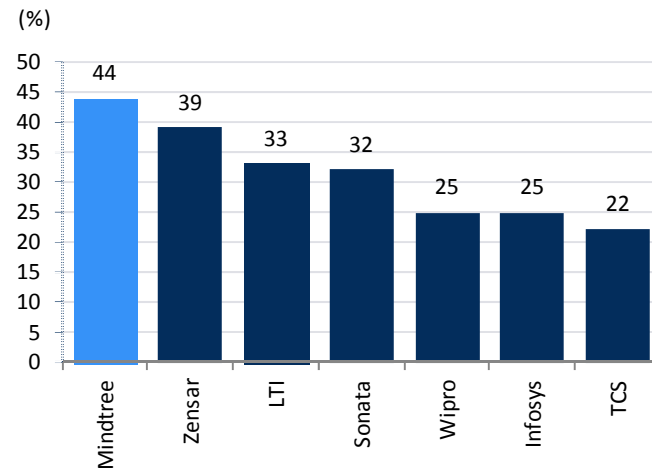


Digital Revenue Trend



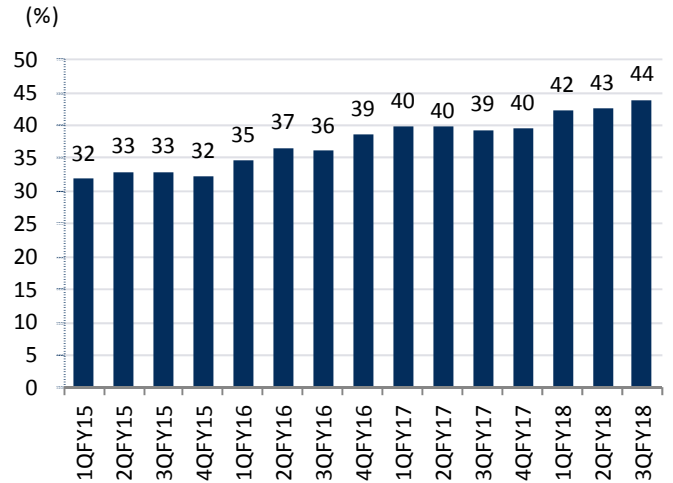
Source: Company, HDFC sec Inst Research

Digital % of Revenue - Industry Leading



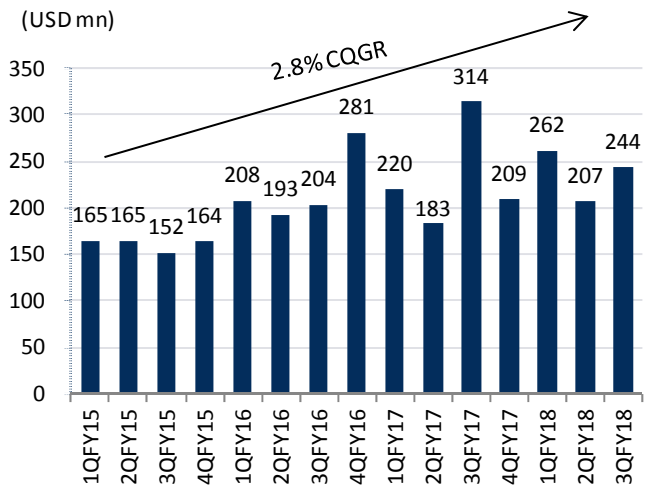
Source: Company, HDFC sec Inst Research

Digital As % Of Revenue



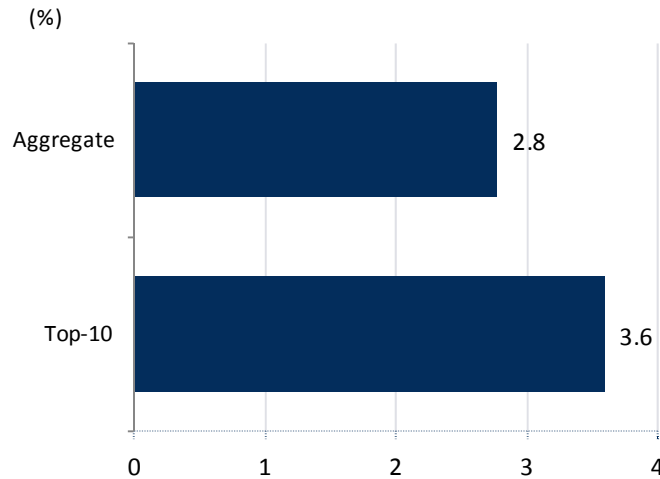
Source: Company, HDFC sec Inst Research

Deal TCV Trend



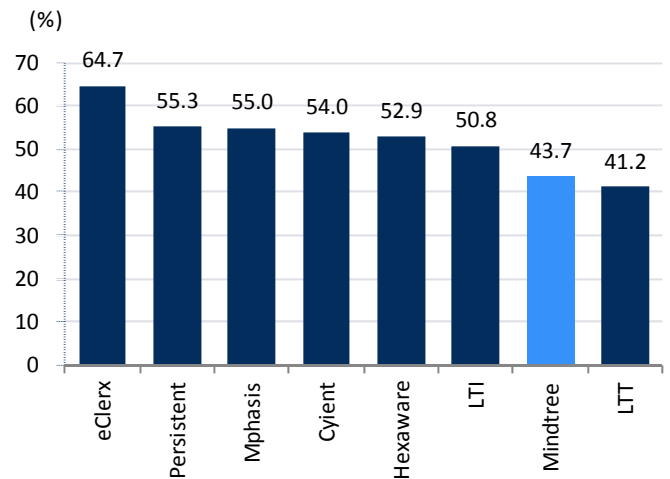
Source: Company, HDFC sec Inst Research

Recovery In Top-10 Accounts (4-qtr revenue CQGR %)



Source: Company, HDFC sec Inst Research

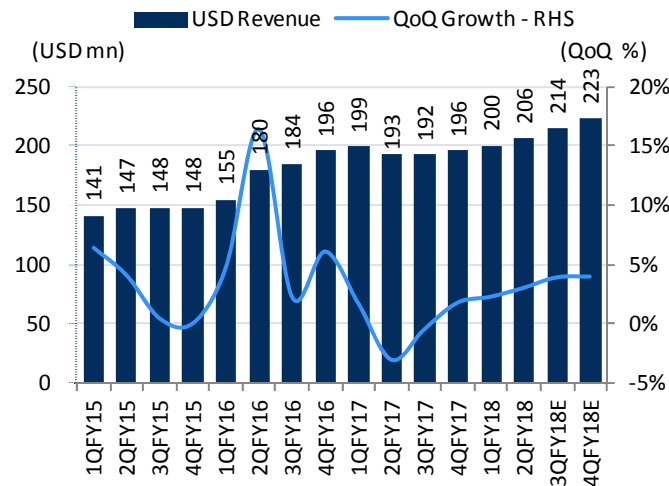
Top-10 Account Concentration At Lower-end



Source: Company, HDFC sec Inst Research

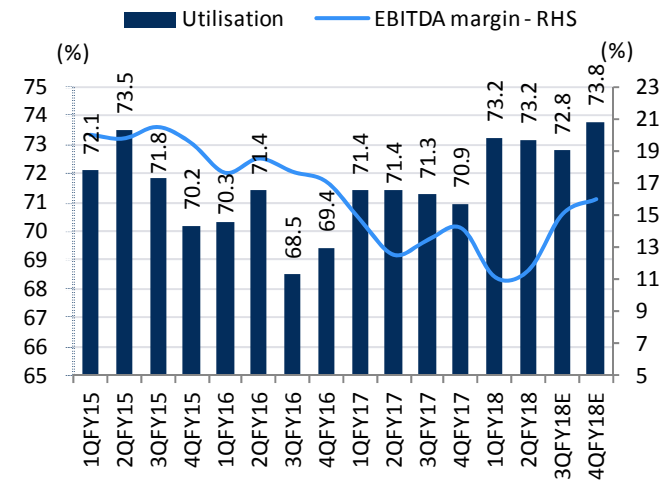
Particulars	Earlier estimates	Revised estimates	% change
FY19E			
Revenue (US\$ mn)	956	954	(0.2)
Revenue (Rs bn)	62.13	62.00	(0.2)
EBITDA (Rs bn)	9.61	9.69	0.8
EBITDA margin (%)	15.5	15.6	16bps
EPS (Rs)	37.7	38.1	1.1
FY20E			
Revenue (US\$ mn)	1,074	1,082	0.8
Revenue (Rs bn)	69.81	70.34	0.8
EBITDA (Rs bn)	11.13	11.62	4.4
EBITDA margin (%)	15.9	16.5	58bps
EPS (Rs)	44.9	47.1	5.0

Revenue Trend



Source: Company, HDFC sec Inst Research

Margin And Utilisation Trend



Source: Company, HDFC sec Inst Research

Consolidated Income Statement

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues (USD mn)	713	780	843	954	1,082
Growth (%)	22.1	9.4	8.2	13.1	13.5
Net Revenues	46.73	52.36	54.32	62.00	70.34
Growth (%)	31.2	12.1	3.7	14.1	13.5
Employee Costs	27.99	34.13	35.46	39.30	44.54
SG&A and Other Operating Exp.	10.53	11.06	11.52	13.01	14.18
EBITDA	8.21	7.18	7.34	9.69	11.62
EBITDA (%)	17.6	13.7	13.5	15.6	16.5
EBITDA Growth (%)	15.8	(12.5)	2.2	32.0	19.9
Depreciation	1.66	1.86	1.81	1.98	2.02
EBIT	6.55	5.32	5.53	7.71	9.60
Other Income	0.84	0.42	1.50	0.95	1.08
Interest	0.16	0.19	0.10	0.11	0.13
PBT	7.23	5.55	6.93	8.54	10.56
Tax (incl deferred)	1.71	1.36	1.54	2.14	2.64
RPAT	5.53	4.19	5.39	6.41	7.92
APAT	5.53	4.19	4.66	6.41	7.92
APAT Growth (%)	3.0	(24.2)	11.3	37.6	23.6
EPS	32.9	24.9	27.7	38.1	47.1
EPS Growth (%)	2.7	(24.5)	11.4	37.6	23.6

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	1.68	1.68	1.64	1.64	1.64
Reserves	22.47	24.09	24.07	27.30	31.65
Total Shareholders' Funds	24.15	25.77	25.71	28.94	33.29
Total Debt	0.43	0.99	0.99	1.11	1.28
Net Deferred Taxes	(0.41)	(0.62)	(0.62)	(0.62)	(0.62)
Long-term Provisions & Others	0.84	0.30	0.30	0.30	0.30
TOTAL SOURCES OF FUNDS	25.01	26.44	26.37	29.73	34.24
APPLICATION OF FUNDS					
Net Block	6.81	5.75	6.11	6.50	7.27
CWIP	0.23	0.19	0.20	0.22	0.24
Investments	0.06	0.06	0.06	0.07	0.07
LT Loans & Advances, Others	6.99	6.67	6.79	6.91	7.16
Total Non Current Assets	14.09	12.67	13.17	13.70	14.75
Debtors	9.73	8.96	9.30	10.61	12.04
Cash & Equivalents	4.60	8.38	7.62	9.60	12.19
Other Current Assets	3.95	3.27	3.39	3.87	4.39
Total Current Assets	18.27	20.61	20.31	24.08	28.62
Creditors	1.89	1.65	1.72	1.90	2.15
Other Current Liabilities & Provns	5.46	5.19	5.39	6.15	6.97
Total Current Liabilities	7.35	6.84	7.10	8.05	9.13
Net Current Assets	10.93	13.77	13.21	16.03	19.49
TOTAL APPLICATION OF FUNDS	25.01	26.44	26.37	29.73	34.24

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	7.23	5.55	6.93	8.54	10.56
Non-operating & EO items	0.29	(0.60)	(0.08)	0.03	(0.08)
Interest expenses	0.16	0.19	0.10	0.11	0.13
Depreciation	1.66	1.86	1.81	1.98	2.02
Working Capital Change	(3.00)	1.10	(0.24)	(1.01)	(1.04)
Tax paid	(1.71)	(1.36)	(1.54)	(2.14)	(2.64)
OPERATING CASH FLOW (a)	4.48	6.54	6.88	7.41	8.82
Capex	(1.58)	(0.87)	(2.18)	(2.38)	(2.82)
Free cash flow (FCF)	2.90	5.67	4.70	5.03	6.00
Investments	(2.75)	(3.49)	(0.00)	(0.00)	(0.01)
Non-operating income	-	-	-	-	-
INVESTING CASH FLOW (b)	(4.33)	(4.36)	(2.18)	(2.38)	(2.83)
Debt Issuance	0.41	0.56	(0.00)	0.12	0.17
Interest expenses	(0.16)	(0.19)	(0.10)	(0.11)	(0.13)
FCFE	3.15	6.04	4.60	5.04	6.04
Share capital Issuance	0.84	0.00	(0.04)	-	-
Dividend	(2.08)	(2.18)	(2.78)	(3.17)	(3.57)
FINANCING CASH FLOW (c)	(1.72)	(2.01)	(5.45)	(3.05)	(3.40)
NET CASH FLOW (a+b+c)	(1.57)	0.18	(0.76)	1.98	2.59
Closing Cash & Equivalents	4.60	8.38	7.62	9.60	12.19

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
EBITDA Margin	17.6	13.7	13.5	15.6	16.5
APAT Margin	11.8	8.0	8.6	10.3	11.3
RoE	25.0	16.8	20.9	23.4	25.4
RoIC or Core RoCE	31.5	21.1	23.8	30.4	35.1
RoCE	21.1	15.1	18.5	20.4	21.8
EFFICIENCY					
Tax Rate (%)	23.6	24.6	22.3	25.0	25.0
Fixed Asset Turnover (x)	4.5	4.7	4.3	4.2	4.0
Debtors (days)	76	62	62	62	62
Payables (days)	15	12	12	11	11
Cash Conversion Cycle (days)	49	38	38	38	38
Net Debt/EBITDA (x)	(0.5)	(1.0)	(0.9)	(0.9)	(0.9)
Net Debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
Interest Coverage (x)	41	28	54	68	76
PER SHARE DATA					
EPS (Rs/sh)	32.9	24.9	27.7	38.1	47.1
CEPS (Rs/sh)	42.8	36.0	42.9	50.0	59.2
DPS (Rs/sh)	10.5	11.0	14.0	16.0	18.0
BV (Rs/sh)	143.9	153.4	153.0	172.3	198.1
VALUATION					
P/E	25.2	33.4	29.9	21.8	17.6
P/BV	5.8	5.4	5.4	4.8	4.2
EV/EBITDA	16.5	18.4	18.1	13.5	11.1
OCF/EV (%)	3.3	5.0	5.2	5.7	6.9
FCF/EV (%)	2.1	4.3	3.5	3.8	4.7
FCFE/mkt cap (%)	2.3	4.6	3.5	3.8	4.7
Dividend Yield (%)	1.3	1.3	1.7	1.9	2.2

Source: Company, HDFC sec Inst Research

L&T Technology Services

BUY

Growth 'engineered'

L&T Technology Services' (LTT) positive outlook is based on (1) Large client mining opportunity with strong client base (48 of top-100 global R&D spenders), (2) Limited competition in LTT's Industrial products, Process industry/ plant engineering and Transportation (commercial & off-highway) verticals (>40% of aggregate rev), (3) Strong deal pipeline and deal wins across verticals with secular growth ahead, (4) Recovery in Plant engineering supported by deal wins (including Covestro). Expect revenue/EPS growth of 18/25% CAGR over FY18-20E with earnings upgrade of 2%. Maintain BUY with TP of Rs 1,500, 22x FY20E (18x earlier) on strong growth visibility.

- ER&D growth is expected to remain robust with increase in R&D spend across industries and outsourcing penetration. Transportation and Telecom & Hi-tech verticals expected to grow above company avg., however growth is expected to be secular across verticals in FY19E. LTT's diversified sectoral presence within its top-10 accounts will also mitigate the volatility.

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Revenue (USD mn)	112	119	118	119	120	123	120	121	128	139	151	157
Growth QoQ %	NA	5.7%	-0.3%	0.4%	1.1%	2.3%	-2.2%	0.9%	5.3%	9.2%	8.4%	3.9%
Growth YoY%	NA	NA	NA	NA	6.9%	3.5%	1.5%	2.0%	6.3%	13.4%	25.6%	29.4%
EBITDA %	13.7%	15.9%	19.7%	18.1%	18.6%	19.0%	18.0%	16.5%	15.3%	15.3%	15.3%	15.5%
EBIT %	11.9%	14.0%	17.9%	15.9%	16.3%	17.2%	16.1%	14.7%	13.5%	13.6%	13.8%	13.9%
Revenue (Rs bn)	7.13	7.72	7.80	8.01	8.03	8.23	8.10	8.12	8.23	9.01	9.69	10.09
EBITDA (Rs bn)	0.98	1.23	1.54	1.45	1.49	1.56	1.46	1.34	1.26	1.37	1.49	1.56
PAT (Rs bn)	0.85	0.94	1.31	1.09	1.08	1.12	1.09	0.97	0.98	1.10	1.16	1.24

Source: Company, HDFC sec Inst Research

- LTT's global MSA's with multiple large accounts are supporting growth in new projects (~30-40% of rev project-based). Bill-rate increase in Industrial product and Telecom & hi-tech vertical is also expected to supplement growth. Acquisition of Esencia is supplementing deal wins and growth in Telecom & Hitech vertical with access to new-age tech accounts.
- Margin levers are in the form of pyramid structuring, offshore-mix, bill-rate increase, IP revenue (increased team size for IP business and higher referenceability).

Financial Summary

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	30.66	32.48	37.01	44.80	51.89
EBITDA	5.19	5.85	5.68	7.39	9.41
APAT	4.19	4.25	4.71	5.62	6.99
Diluted EPS (Rs)	41.2	41.8	43.9	54.9	68.4
P/E (x)	29.1	28.7	27.3	21.8	17.5
EV / EBITDA (x)	23.7	20.7	20.8	15.8	12.0
RoE (%)	40.0	33.3	28.2	27.3	27.7

Source: Company, HDFC sec Inst Research

INDUSTRY IT

CMP (as on 11 Apr 2018) Rs 1,198
Target Price Rs 1,500

Nifty	10,417
Sensex	33,940

KEY STOCK DATA

Bloomberg	LTT5 IN
No. of Shares (mn)	102
MCap (Rs bn) / (\$ mn)	123/1,880
6m avg traded value (Rs mn)	112

STOCK PERFORMANCE (%)

52 Week high / low	Rs 1,547/671		
	3M	6M	12M
Absolute (%)	13.6	52.7	51.8
Relative (%)	15.2	46.1	37.8

SHAREHOLDING PATTERN (%)

Promoters	89.28
FIs & Local MFs	2.29
FPIs	3.17
Public & Others	5.26

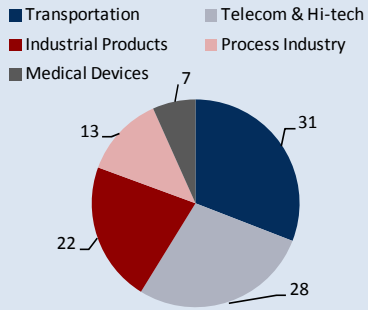
Source : BSE

Apurva Prasad

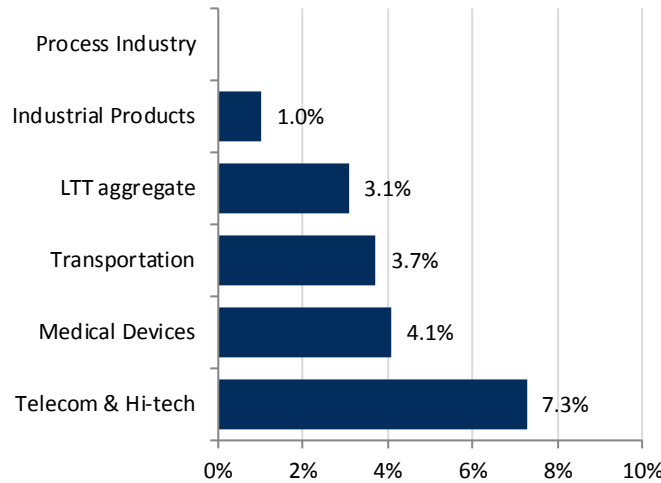
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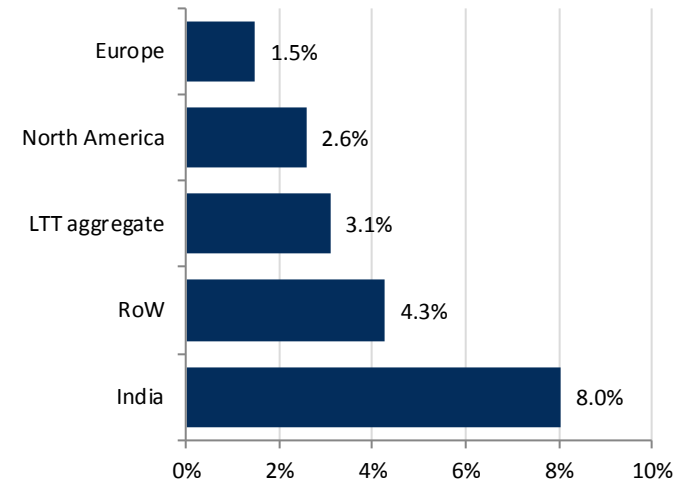


Telecom & Hi-tech Vertical-led Growth (8-qtr CQGR %)

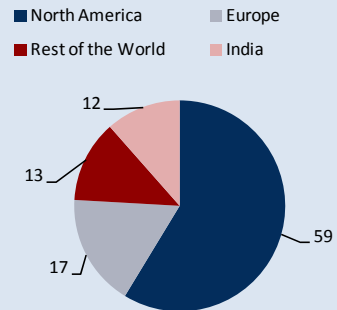


Source: Company, HDFC sec Inst Research

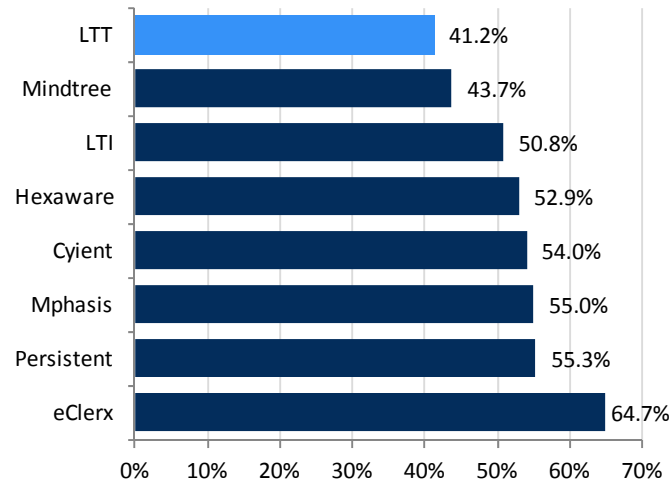
Growth By Geographies (8-qtr CQGR)



Source: Company, HDFC sec Inst Research

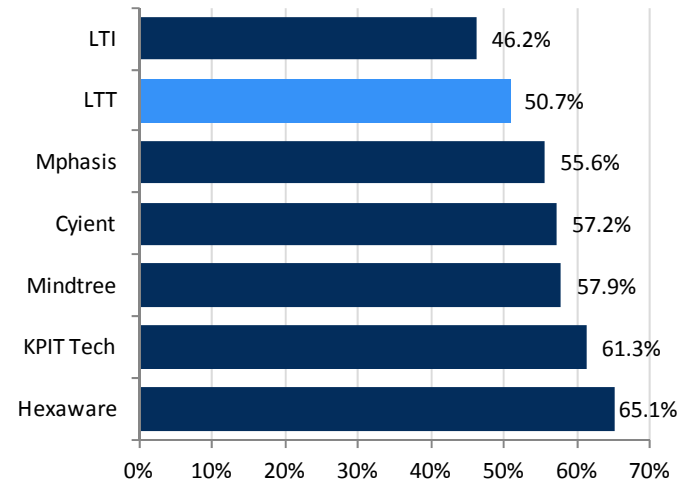


Top-10 Client Concentration Lowest vs Peers



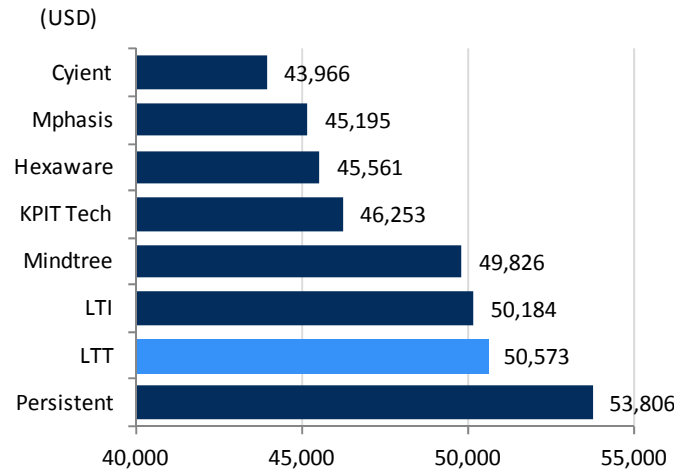
Source: Company, HDFC sec Inst Research

Onsite Revenue Mix vs Peers



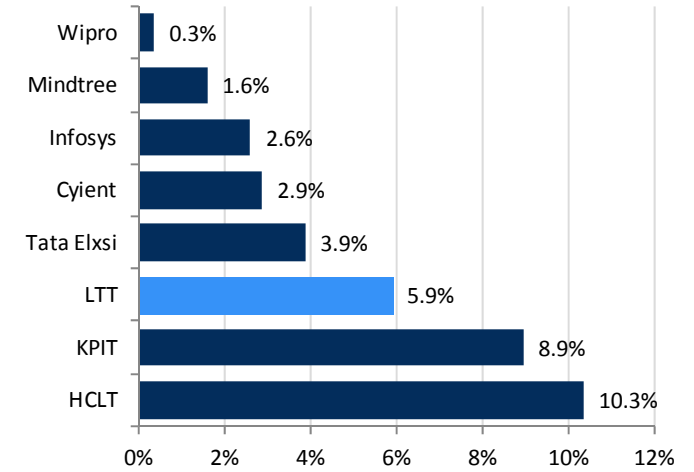
Source: Company, HDFC sec Inst Research

Revenue Productivity vs Peers (Revenue/employee)



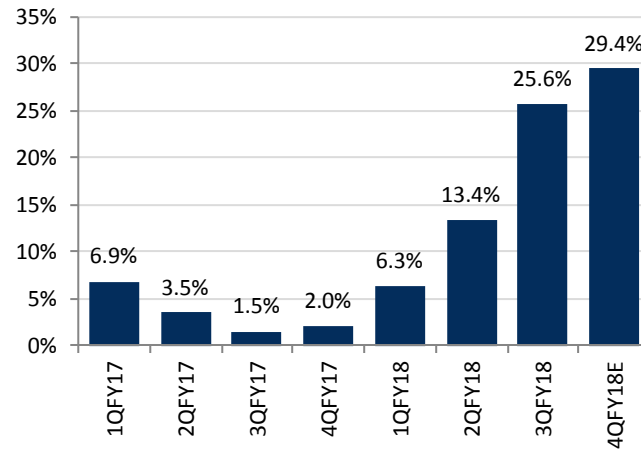
Source: Company, HDFC sec Inst Research

ER&D Growth Trend vs Peers (4-qtr CQGR)



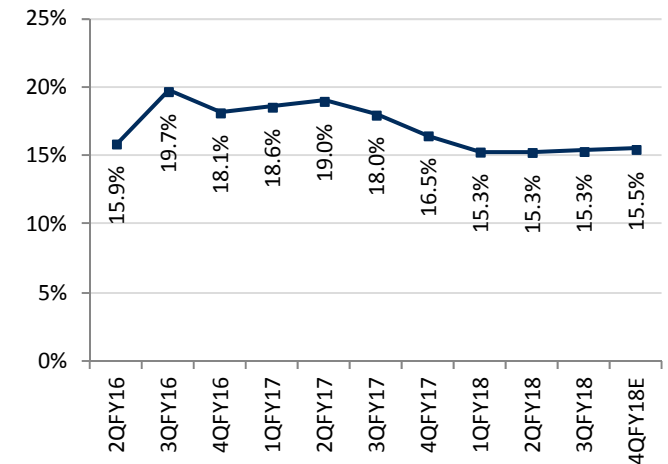
Source: Company, HDFC sec Inst Research

Revenue Growth Trend (YoY %)



Source: Company, HDFC sec Inst Research

EBITDA Margin Trend



Source: Company, HDFC sec Inst Research

Particulars	Earlier estimates	Revised estimates	% change
FY19E			
Revenue (US\$ mn)	677	689	1.8
Revenue (Rs bn)	44.00	44.80	1.8
EBITDA (Rs bn)	7.42	7.39	(0.5)
EBITDA margin (%)	16.9%	16.5%	(38)bps
EPS (Rs)	55.3	54.9	(0.6)
FY20E			
Revenue (US\$ mn)	786	798	1.6
Revenue (Rs bn)	51.06	51.89	1.6
EBITDA (Rs bn)	9.19	9.41	2.4
EBITDA margin (%)	18.0%	18.1%	14bps
EPS (Rs)	66.9	68.4	2.2

Income Statement(Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues (USD mn)	468	484	575	689	798
Growth (%)	9.4%	3.4%	18.7%	19.9%	15.8%
Net Revenues	30.66	32.48	37.01	44.80	51.89
Growth (%)	17.1%	5.9%	13.9%	21.0%	15.8%
Employee Expenses	19.68	20.96	24.34	28.98	33.22
SG&A expenses	5.79	5.68	6.99	8.43	9.26
EBITDA	5.19	5.85	5.68	7.39	9.41
EBITDA Margin (%)	16.9%	18.0%	15.3%	16.5%	18.1%
EBITDA Growth (%)	30.3%	12.6%	-2.9%	30.1%	27.4%
Depreciation	0.59	0.63	0.59	0.76	0.88
EBIT	4.61	5.22	5.09	6.63	8.53
Other Income (Including EO Items)	0.85	0.59	1.49	1.18	1.18
Interest	0.03	0.02	0.03	0.06	0.07
PBT	5.43	5.79	6.54	7.75	9.64
Tax	1.24	1.54	1.83	2.13	2.65
RPAT	4.19	4.25	4.96	5.62	6.99
Minority Interest	-	-	-	-	-
APAT	4.19	4.25	4.71	5.62	6.99
APAT Growth (%)	34.6%	1.5%	10.9%	19.2%	24.4%
Adjusted EPS (Rs)	41.2	41.8	43.9	54.9	68.4
EPS Growth (%)	35.4%	1.5%	5.1%	25.1%	24.4%

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	3.00	0.20	0.20	0.20	0.20
Reserves	7.66	14.65	18.39	22.42	27.57
Total Shareholders Funds	10.66	14.85	18.60	22.62	27.77
Long Term Debt	-	-	-	-	-
Short Term Debt	1.96	1.02	1.28	1.55	1.91
Total Debt	1.96	1.02	1.28	1.55	1.91
Net Deferred Taxes	(1.03)	(0.32)	(0.32)	(0.32)	(0.32)
Long Term Provisions & Others	-	-	-	-	-
TOTAL SOURCES OF FUNDS	11.58	15.55	19.55	23.85	29.36
APPLICATION OF FUNDS					
Net Block	1.07	1.19	1.29	1.61	1.96
Goodwill & intangibles	5.14	4.95	5.05	5.25	5.48
Investments	0.25	0.23	0.26	0.31	0.36
LT Loans & Advances	0.11	0.10	0.11	0.13	0.15
Total Non-current Assets	6.71	6.48	6.73	7.32	7.98
Debtors	7.26	7.11	8.10	9.80	11.35
Other Current Assets	3.00	4.99	5.67	6.84	7.90
Cash & Equivalents	1.39	2.62	5.49	7.69	11.16
Total Current Assets	11.65	14.72	19.26	24.33	30.41
Creditors	2.14	1.85	2.10	2.55	2.95
Other Current Liabilities & Prov.	4.64	3.81	4.34	5.25	6.08
Total Current Liabilities	6.78	5.65	6.44	7.80	9.03
Net Current Assets	4.87	9.06	12.82	16.53	21.38
TOTAL APPLICATION OF FUNDS	11.58	15.55	19.55	23.85	29.36

Source: Company, HDFC sec Inst Research

CashFlow(Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	5.43	5.79	6.54	7.75	9.64
Interest expenses	0.03	0.02	0.03	0.06	0.07
Depreciation	0.59	0.63	0.59	0.76	0.88
Working Capital Change	(0.05)	(1.51)	(1.13)	(1.94)	(1.77)
Tax Paid	(1.24)	(1.54)	(1.83)	(2.13)	(2.65)
OPERATING CASH FLOW (a)	5.34	3.45	4.63	5.21	6.83
Capex	(0.83)	(0.74)	(0.59)	(0.76)	(0.88)
<i>Free cash flow (FCF)</i>	<i>4.52</i>	<i>2.70</i>	<i>4.04</i>	<i>4.45</i>	<i>5.94</i>
Investments	(0.48)	(0.58)	(0.41)	(0.89)	(0.92)
INVESTING CASH FLOW (b)	(1.31)	(1.32)	(1.01)	(1.65)	(1.80)
Debt Issuance/(Repaid)	(0.23)	(0.94)	0.26	0.28	0.35
Interest Expenses	(0.03)	(0.02)	(0.03)	(0.06)	(0.07)
<i>FCFE</i>	<i>4.26</i>	<i>1.74</i>	<i>4.26</i>	<i>4.67</i>	<i>6.23</i>
Share Capital Issuance	-	(2.80)	-	-	-
Dividend	-	(0.85)	(1.22)	(1.59)	(1.84)
FINANCING CASH FLOW (c)	(0.26)	(4.61)	(1.00)	(1.37)	(1.55)
NET CASH FLOW (a+b+c)	3.78	(2.49)	2.62	2.19	3.47
Closing Cash & Equivalents	1.39	2.62	5.49	7.69	11.16

Source: Company, HDFC sec Inst Research

Key Ratios(Consolidated)

YE March	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	35.8	35.5	34.2	35.3	36.0
EBITDA Margin	16.9	18.0	15.3	16.5	18.1
APAT Margin	13.7	13.1	12.7	12.5	13.5
RoE	40.0	33.3	28.2	27.3	27.7
RoIC (or Core RoCE)	27.6	29.4	19.2	26.2	31.0
RoCE	35.6	31.4	27.0	26.1	26.5
EFFICIENCY					
Tax Rate (%)	22.8	26.6	27.9	27.5	27.5
Fixed Asset Turnover (x)	4.8	5.3	5.8	6.5	7.0
<i>Debtors (days)</i>	<i>86</i>	<i>80</i>	<i>80</i>	<i>80</i>	<i>80</i>
<i>Payables (days)</i>	<i>25</i>	<i>21</i>	<i>21</i>	<i>21</i>	<i>21</i>
Cash Conversion Cycle (days)	41	72	72	72	72
Debt/EBITDA (x)	0.4	0.2	0.2	0.2	0.2
Net D/E (x)	0.1	(0.1)	(0.2)	(0.3)	(0.3)
Interest Coverage (x)	184	249	150	120	129
PER SHARE DATA (Rs)					
EPS	41.2	41.8	43.9	54.9	68.4
CEPS	46.7	47.7	51.9	62.4	77.0
Dividend	30	7	10	13	15
Book Value	104	145	182	221	272
VALUATION					
P/E (x)	29.1	28.7	27.3	21.8	17.5
P/BV (x)	11.5	8.3	6.6	5.4	4.4
EV/EBITDA (x)	23.7	20.7	20.8	15.8	12.0
OCF/EV (%)	4.3	2.8	3.9	4.5	6.0
FCF/EV (%)	3.7	2.2	3.4	3.8	5.2
FCFE/Mkt Cap (%)	3.5	1.4	3.5	3.8	5.1
Dividend Yield (%)	2.5	0.6	0.8	1.1	1.3

Source: Company, HDFC sec Inst Research

Hexaware Technologies

BUY

INDUSTRY	IT		
CMP (as on 11 Apr 2018)	Rs 409		
Target Price	Rs 450		
Nifty	10,417		
Sensex	33,940		
KEY STOCK DATA			
Bloomberg	HEXW IN		
No. of Shares (mn)	297		
MCap (Rs bn) / (\$ mn)	122/1,861		
6m avg traded value (Rs mn)	503		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 423/199		
	3M	6M	12M
Absolute (%)	13.4	53.0	93.8
Relative (%)	15.0	46.4	79.9
SHAREHOLDING PATTERN (%)			
Promoters	71.23		
FIs & Local MFs	7.49		
FPIs	13.25		
Public & Others	8.03		
Source : BSE			

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Geo diversification underway

We are positive on Hexaware based on (1) Strong deal wins TTM TCV of USD 178mn (16% YoY) and strong deal pipeline, (2) Growth leadership in IMS/BPM (automation-led and large deal pipeline), (3) Revival in Enterprise Solutions with product diversification and leadership addition (>50% digital in ES), (4) Geographical diversification with increased focus in Europe/ APAC, and (5) Stable outlook of top accounts and growth lead in BFS (44% of rev). Expect revenue/EPS growth of 12/16% CAGR over CY17-20E and maintain BUY with TP of Rs450, 19x Mar-20E EPS (18x earlier).

- Revenue guidance of 10-12% growth in CY18E factors the impact of large account ramp-down in 2HCY17 (2.5 to 3% growth impact in CY18 growth). Secular growth across client bands is expected, top 6 to 10 expected to drive the top-10 account growth.
- APAC and Europe geographies are expected to grow faster than company average ahead and are expected to contribute 30% of revenue in three years, as

Quarterly Summary

YE Dec	2QCY15	3QCY15	4QCY15	1QCY16	2QCY16	3QCY16	4QCY16	1QCY17	2QCY17	3QCY17	4QCY17	1QCY18E
Revenue (USD mn)	121	125	124	122	130	135	139	145	153	154	156	160
Growth QoQ %	5.6%	3.1%	-0.8%	-1.9%	6.6%	4.3%	2.7%	4.2%	5.4%	0.9%	1.3%	2.6%
Growth YoY%	19.0%	13.7%	8.4%	5.9%	6.9%	8.1%	12.0%	19.0%	17.7%	13.9%	12.3%	10.6%
EBITDA %	17.1%	17.9%	15.9%	14.6%	15.6%	17.8%	17.2%	16.9%	16.2%	17.4%	15.9%	16.4%
EBIT %	15.6%	16.4%	14.3%	12.9%	14.0%	16.3%	15.8%	15.3%	14.7%	15.8%	14.3%	14.7%
Revenue (Rs bn)	7.72	8.18	8.20	8.20	8.70	9.04	9.41	9.61	9.84	9.93	10.05	10.30
EBITDA (Rs bn)	1.32	1.46	1.30	1.19	1.35	1.61	1.62	1.62	1.60	1.73	1.60	1.68
PAT (Rs bn)	0.99	1.12	0.99	0.84	1.00	1.14	1.21	1.14	1.22	1.42	1.21	1.37

Source: Company, HDFC sec Inst Research

compared to 22% of revenue currently. Focus regions in Europe includes Germany and Nordics while APAC region growth focus includes Australia, Singapore, HK, Saudi Arabia and Japan.

- Outlook for Hexaware's BFS vertical is strong supported largely by capital market segment. Hexaware has also entered in banking vertical supplemented by cross-sell opportunity from automation, which will diversify its BFS stream.

Financial Summary

YE March (Rs bn)	CY16	CY17	CY18E	CY19E	CY20E
Net Sales	35.35	39.42	44.14	49.81	55.68
EBITDA	5.78	6.55	7.61	8.80	9.99
APAT	4.20	4.99	6.00	6.82	7.78
Diluted EPS (Rs)	13.9	16.9	20.2	23.0	26.2
P/E (x)	29.4	24.3	20.3	17.8	15.6
EV / EBITDA (x)	20.3	17.7	14.6	12.3	10.5
RoE (%)	26.7	26.9	27.2	26.3	25.9

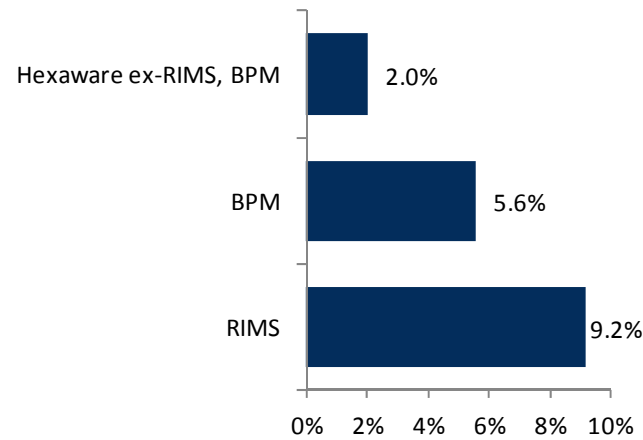
Source: Company, HDFC sec Inst Research

Senior Leadership Addition in CY17

SVP & Global Head - Manufacturing & Consumer
Global Delivery Head - Manufacturing & Consumer, Travel & Transportation
EVP & Global Head Professional services
Global Delivery Head - Professional services
SVP & Global Head - Enterprise Solutions
SVP & Global Head - BFS
CTO
SVP - Sales
VP - Europe Sales
VP & Global Head - Digital Consumer

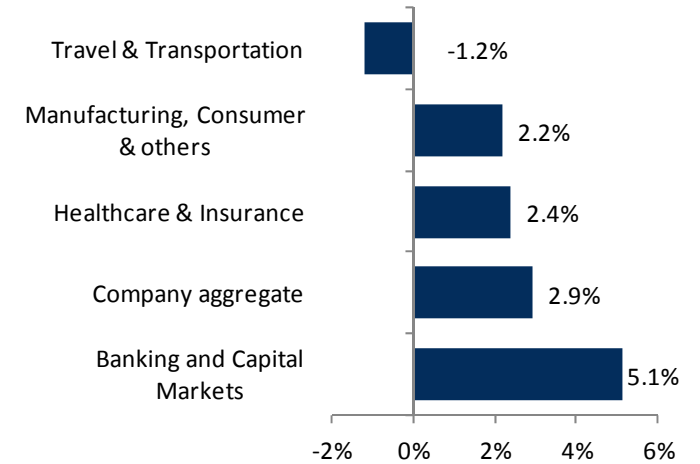
Source: Company, HDFC sec Inst Research

RIMS And BPM led Growth (8-qtr CQGR)



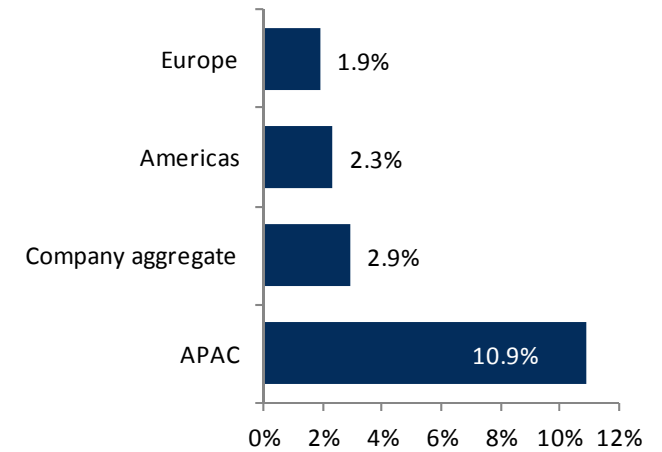
Source: Company, HDFC sec Inst Research

BFS-led Growth (8-qtr CQGR)

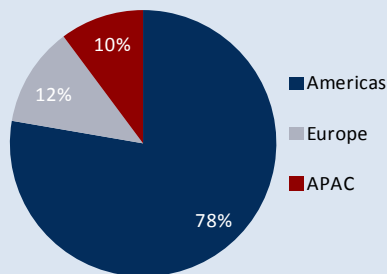
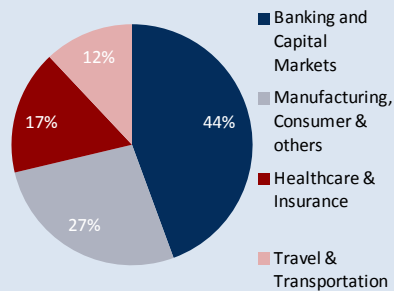
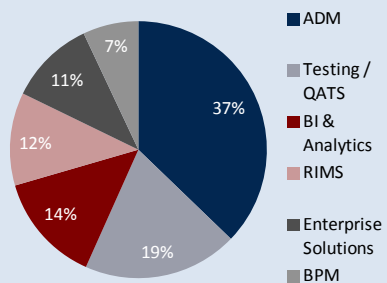


Source: Company, HDFC sec Inst Research

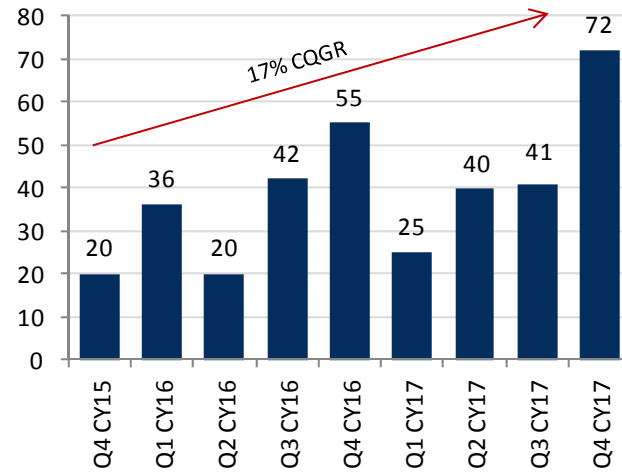
APAC-led Growth (8-qtr CQGR)



Source: Company, HDFC sec Inst Research

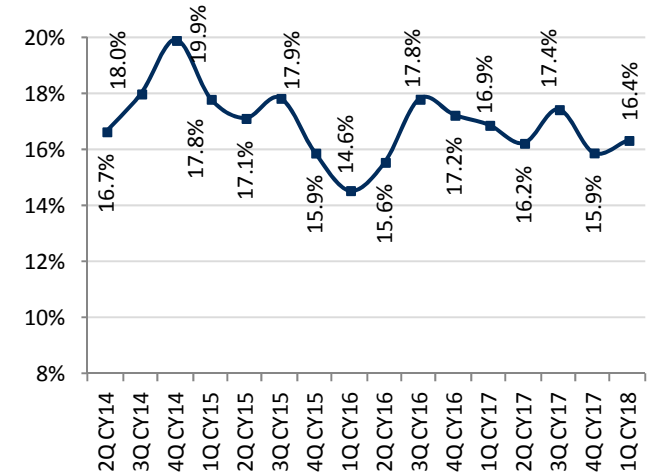


Deal TCV Trend (USD mn)



Source: Company, HDFC sec Inst Research

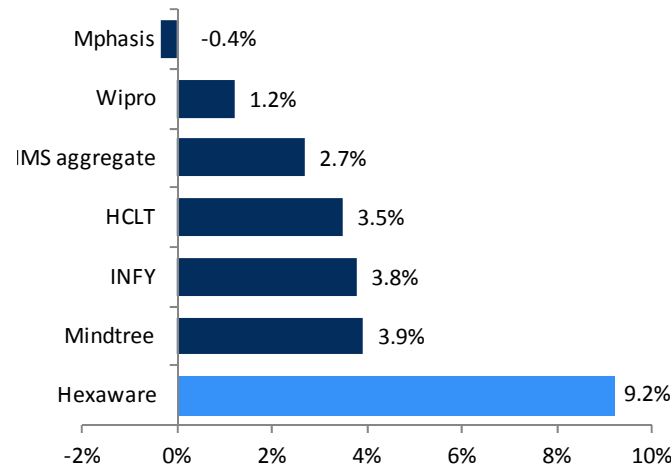
EBITDA Margin Trend



Source: Company, HDFC sec Inst Research

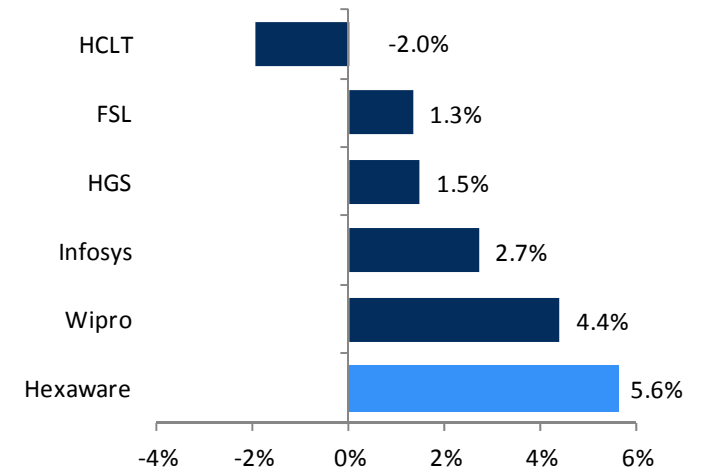
Particulars	Earlier estimates	Revised estimates	% change
CY18E			
Revenue (US\$ mn)	681	681	(0.1)
Revenue (Rs bn)	44.29	44.14	(0.3)
EBITDA (Rs bn)	7.67	7.61	(0.8)
EBITDA margin (%)	17.3	17.2	(8)bps
EPS (Rs)	20.4	20.2	(1.0)
CY19E			
Revenue (US\$ mn)	767	766	(0.2)
Revenue (Rs bn)	49.89	49.81	(0.2)
EBITDA (Rs bn)	8.88	8.80	(0.9)
EBITDA margin (%)	17.8	17.7	(13)bps
EPS (Rs)	23.3	23.0	(1.5)

IMS Growth Leadership vs Peers (8-qtr CQGR)



Source: Company, HDFC sec Inst Research

BPM Growth Leadership vs Peers (8-qtr CQGR)



Source: Company, HDFC sec Inst Research

Consolidated Income Statement

YE December (Rs bn)	CY16	CY17	CY18E	CY19E	CY20E
Net Sales (USD mn)	526	607	681	766	857
Growth (%)	8.3	15.6	12.1	12.6	11.8
Net Sales	35.35	39.42	44.14	49.81	55.68
Growth (%)	13.2	11.5	12.0	12.8	11.8
Employee Expenses	19.67	21.43	23.67	26.54	29.74
SG&A and Other Operating Expenses	9.90	11.44	12.86	14.47	15.95
EBITDA	5.78	6.55	7.61	8.80	9.99
EBITDA (%)	16.4	16.6	17.2	17.7	17.9
EBITDA Growth (%)	7.9	13.3	16.1	15.7	13.4
Depreciation	0.56	0.63	0.67	0.72	0.78
EBIT	5.23	5.92	6.94	8.08	9.20
Other Income	0.39	0.49	0.65	0.66	0.78
Interest	0.00	0.00	-	-	-
PBT	5.62	6.40	7.59	8.74	9.98
Tax (incl deferred)	1.42	1.41	1.59	1.92	2.20
RPAT	4.20	4.99	6.00	6.82	7.78
APAT	4.20	4.99	6.00	6.82	7.78
APAT Growth (%)	6.8	18.9	20.1	13.7	14.2
EPS	13.9	16.9	20.2	23.0	26.2
EPS Growth (%)	6.6	21.2	19.9	13.7	14.2

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE December (Rs bn)	CY16	CY17	CY18E	CY19E	CY20E
SOURCES OF FUNDS					
Share Capital - Equity	0.60	0.59	0.59	0.59	0.59
Reserves	16.51	19.48	23.49	27.19	31.69
Total Shareholders' Funds	17.11	20.07	24.08	27.79	32.28
Net Deferred Taxes	(0.38)	(0.38)	(0.38)	(0.38)	(0.38)
Long-term Provisions & Others	0.47	0.70	0.77	0.87	0.97
TOTAL SOURCES OF FUNDS	17.21	20.40	24.48	28.28	32.88
APPLICATION OF FUNDS					
Net Block	3.33	4.31	4.35	4.36	4.45
CWIP	3.23	2.56	1.57	1.69	1.84
Goodwill and Other Intangibles	2.00	1.88	1.89	1.89	1.90
Investments	0.02	0.02	0.02	0.02	0.02
LT Loans & Advances	2.05	2.26	2.46	2.74	3.04
Total Non Current Assets	10.63	11.04	10.29	10.71	11.26
Debtors	4.38	5.36	6.00	6.77	7.57
Cash & Equivalents	4.31	5.92	10.55	13.42	16.95
Other Current Assets	3.69	4.11	4.61	5.20	5.81
Total Current Assets	12.38	15.39	21.16	25.39	30.33
Creditors	1.29	2.20	1.30	1.46	1.63
Other Current Liabilities & Provns	4.51	3.83	5.66	6.36	7.08
Total Current Liabilities	5.80	6.03	6.96	7.82	8.71
Net Current Assets	6.58	9.36	14.20	17.57	21.62
TOTAL APPLICATION OF FUNDS	17.21	20.40	24.48	28.28	32.88

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE December (Rs bn)	CY16	CY17	CY18E	CY19E	CY20E
Reported PBT	5.62	6.40	7.59	8.74	9.98
Non-operating & EO items	(0.33)	(0.43)	1.45	0.23	0.25
Interest expenses	0.00	0.00	-	-	-
Depreciation	0.56	0.63	0.67	0.72	0.78
Working Capital Change	(0.28)	(0.52)	(1.58)	(0.65)	(0.66)
Tax paid	(1.42)	(1.41)	(1.59)	(1.92)	(2.20)
OPERATING CASH FLOW (a)	4.14	4.68	6.54	7.13	8.15
Capex	(2.22)	(1.11)	(1.10)	(1.13)	(1.37)
Free cash flow (FCF)	1.92	3.57	5.44	5.99	6.78
Investments	(0.24)	0.07	1.37	(0.01)	0.03
Non-operating income	-	-	-	-	-
INVESTING CASH FLOW (b)	(2.46)	(1.05)	0.27	(1.14)	(1.34)
Debt Issuance	-	-	-	-	-
Interest expenses	(0.00)	(0.00)	-	-	-
FCFE	1.92	3.56	5.44	5.99	6.78
Share capital Issuance	0.00	(0.01)	-	-	-
Dividend	(2.42)	(1.39)	(2.77)	(3.12)	(3.29)
FINANCING CASH FLOW (c)	(2.42)	(1.40)	(2.77)	(3.12)	(3.29)
NET CASH FLOW (a+b+c)	(0.74)	2.24	4.04	2.87	3.53
Closing Cash & Equivalents	4.31	5.92	10.55	13.42	16.95

Source: Company, HDFC sec Inst Research

Key Ratios

	CY16	CY17	CY18E	CY19E	CY20E
PROFITABILITY (%)					
EBITDA Margin	16.4	16.6	17.2	17.7	17.9
APAT Margin	11.9	12.7	13.6	13.7	14.0
RoE	26.7	26.9	27.2	26.3	25.9
RoIC or Core RoCE	33.9	33.7	38.6	43.8	46.6
RoCE	26.6	26.6	26.7	25.8	25.5
EFFICIENCY					
Tax Rate (%)	25.2	22.0	21.0	22.0	22.0
Fixed Asset Turnover (x)	5.5	5.0	5.2	5.4	5.5
Debtors (days)	45	50	50	50	50
Payables (days)	13	20	11	11	11
Cash Conversion Cycle (days)	32	29	39	39	39
Net Debt/EBITDA (x)	(0.7)	(0.9)	(1.4)	(1.5)	(1.7)
Net Debt/Equity (x)	(0.3)	(0.3)	(0.4)	(0.5)	(0.5)
Interest Coverage (x)	3,709	5,016	NA	NA	NA
PER SHARE DATA					
EPS (Rs/sh)	13.9	16.9	20.2	23.0	26.2
CEPS (Rs/sh)	15.7	19.0	22.5	25.4	28.9
DPS (Rs/sh)	7.0	4.0	8.0	9.0	9.5
BV (Rs/sh)	56.7	67.7	81.2	93.7	108.8
VALUATION					
P/E	29.4	24.3	20.3	17.8	15.6
P/BV	7.2	6.1	5.0	4.4	3.8
EV/EBITDA	20.3	17.7	14.6	12.3	10.5
OCF/EV (%)	3.5	4.0	5.9	6.6	7.8
FCF/EV (%)	1.6	3.1	4.9	5.5	6.5
FCFE/mkt cap (%)	1.6	2.9	4.5	4.9	5.6
Dividend Yield (%)	1.7	1.0	2.0	2.2	2.3

Source: Company, HDFC sec Inst Research

INDUSTRY		IT	
CMP (as on 11 Apr 2018)	Rs 630		
Target Price	Rs 780		
Nifty	10,417		
Sensex	33,940		
KEY STOCK DATA			
Bloomberg	CYL IN		
No. of Shares (mn)	113		
MCap (Rs bn) / (\$ mn)	71/1,086		
6m avg traded value (Rs mn)	283		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 699/466		
	3M	6M	12M
Absolute (%)	8.1	21.4	33.4
Relative (%)	9.7	14.8	19.5
SHAREHOLDING PATTERN (%)			
Promoters	22.18		
FIs & Local MFs	18.93		
FPIs	42.75		
Public & Others	16.14		
Source : BSE			

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Engineered for growth

Cyient is well poised to post double digit growth based on (1) Recovery in Top account growth from 1QFY19 (2) Ramp-up in DLM business (3) Continued growth in Communication & Transportation verticals (4) Recovery in Aerospace & Defense (5) Rising ER&D deal sizes and (5) Strengthening deal pipeline and strong order-book growth. Management has also guided for double digits growth in IT Services, 20% YoY growth in DLM and 50bps margin expansion.

Cyient top-line is expected to grow at a CAGR of 13.4% over FY17-20E. EBITDA margin is expected to expand gradually to 14.9/15.8% in FY19/20E led by DLM ramp-up and off-shoring. We main our positive view on the company based on strong growth in the core business, expected pick-up in DLM growth, margin expansion, and reiteration of double-digit growth guidance. Maintain BUY with a TP of Rs 780 based on 15x FY20 earnings.

- UTC portfolio rebalancing exercise is almost over, growth will resume from 1HFY19.

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Total Rev (USD mn)	114.4	118.6	118.4	120.9	124.7	136.5	135.8	141.0	141.0	150.1	152.0	163.3
Growth QoQ %	-2.6%	3.7%	-0.2%	2.1%	3.1%	9.5%	-0.5%	3.8%	0.0%	6.5%	1.3%	7.4%
Growth YoY%	10.0%	7.0%	3.2%	3.0%	9.0%	15.1%	14.7%	16.6%	13.1%	10.0%	11.9%	15.8%
DLM Rev (USD mn)	6.0	10.4	10.9	12.1	10.1	13.5	14.8	16.0	11.9	15.8	12.1	20.0
EBITDA %	12.7%	15.0%	13.5%	13.0%	13.1%	14.0%	13.4%	13.3%	12.8%	14.6%	14.5%	14.9%
Revenue (Rs bn)	7.26	7.73	7.83	8.16	8.35	9.14	9.17	9.41	9.07	9.65	9.83	10.51
EBITDA (Rs bn)	0.92	1.16	1.06	1.06	1.09	1.28	1.23	1.25	1.16	1.41	1.43	1.57
PAT (Rs bn)	0.76	0.98	0.83	0.75	0.74	0.97	0.94	1.05	0.88	1.12	1.08	1.13

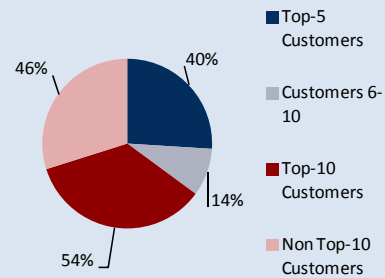
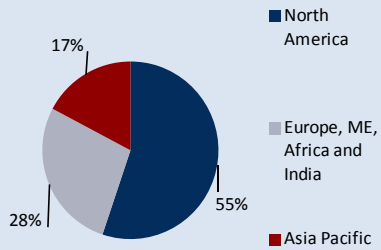
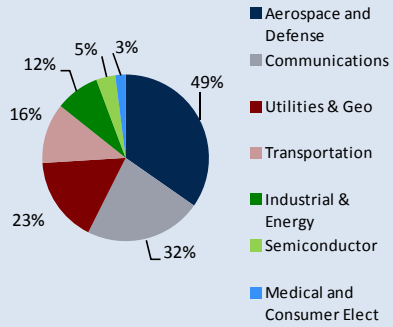
Source: Company, HDFC sec Inst Research

- Liberty Global contract (FTTP, broadband rollout) will start contributing from 1QFY19.
- Significant potential in the Pratt & Whitney account, and can be 2x in the next four years.
- ER&D outsourcing is increasing, sizes of deal are getting bigger (USD5-10mn) and wallet share will increase with better penetration within top-clients.
- Bombardier has an order backlog of three years and there is no risk from captives and in-sourcing.

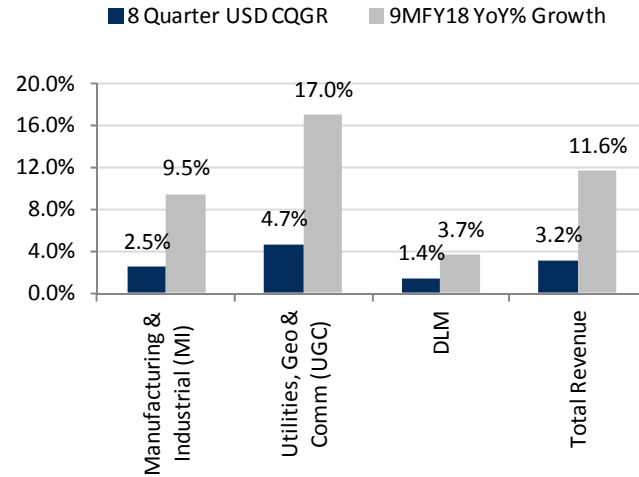
Financial Summary

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	31.02	36.07	39.07	44.86	50.96
EBITDA	4.19	4.85	5.57	6.67	8.05
APAT	3.34	3.70	4.20	4.87	5.84
Diluted EPS (Rs)	29.8	32.9	37.4	43.4	52.0
P/E (x)	21.7	20.6	16.1	14.5	12.1
EV / EBITDA (x)	15.5	12.9	11.0	9.0	7.2
RoE (%)	17.4	17.4	19.6	19.4	20.9

Source: Company, HDFC sec Inst Research

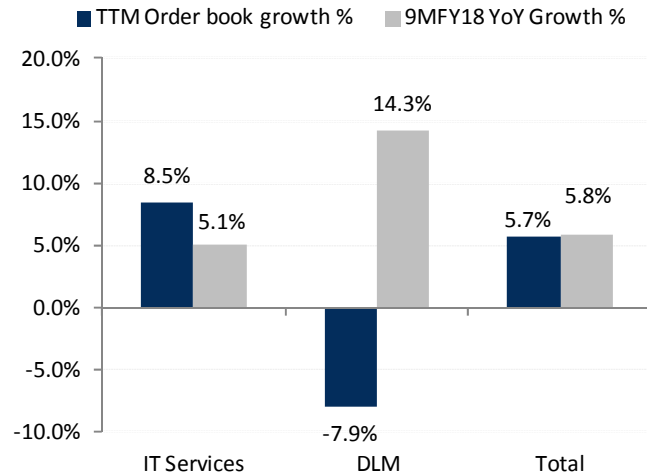


Communication & Transportation Driving Growth While Aerospace & Defense Picking Up



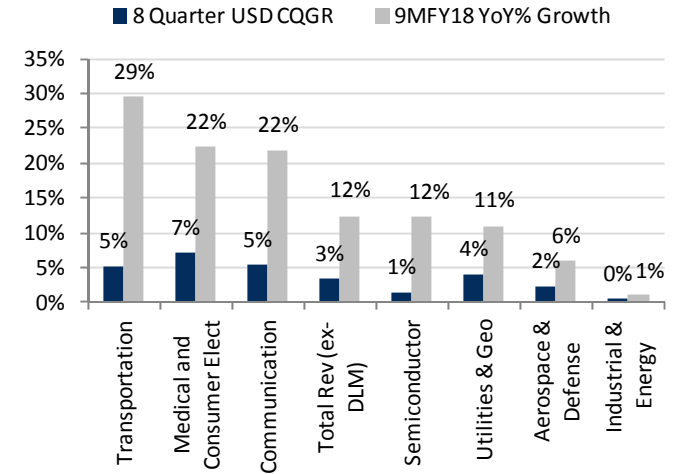
Source: Company, HDFC sec Inst Research

Order Book Growth for IT Services & DLM,



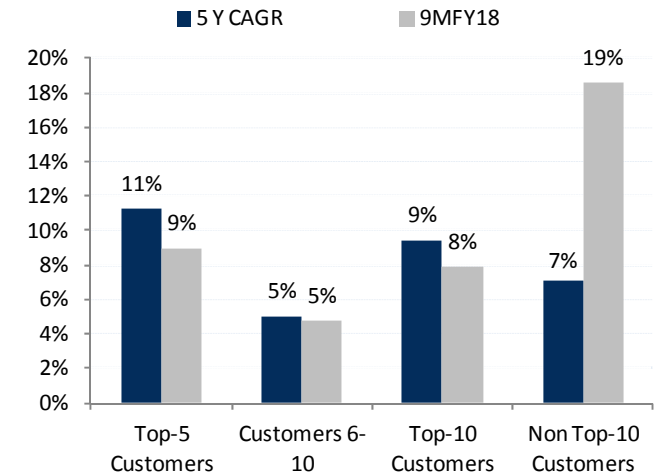
Source: Company, HDFC sec Inst Research

Vertical-Wise Revenue Growth Trend For Last Eight Quarters And 9MFY18

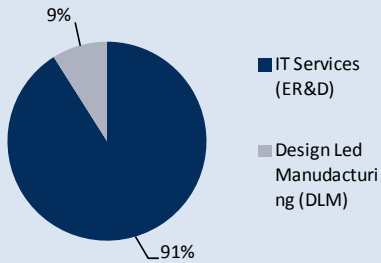


Source: Company, HDFC sec Inst Research

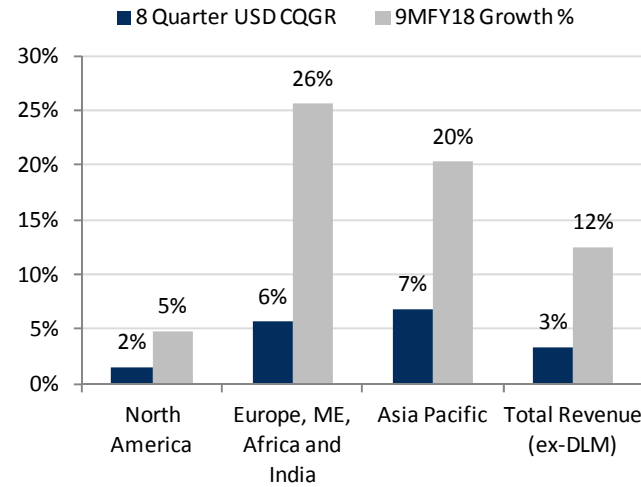
Client Wise FY12-17 Revenue CAGR and 9MFY18 Growth



Source: Company, HDFC sec Inst Research

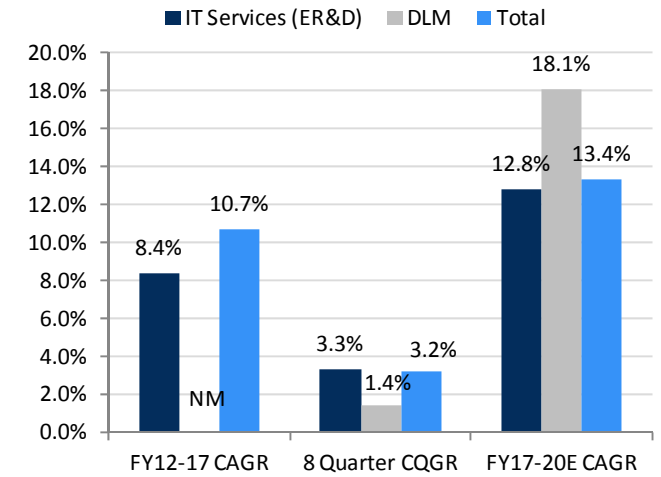


Europe & Asia Pacific Driving Growth



Source: Company, HDFC sec Inst Research

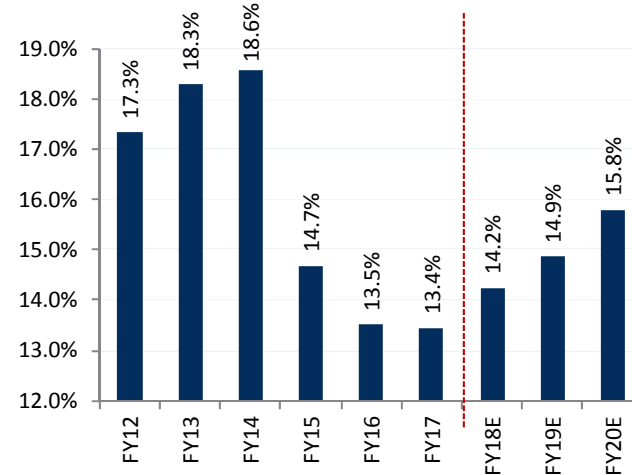
IT Services & DLM Various Growth Parameters



Source: Company, HDFC sec Inst Research, DLM was acquired in 4QFY15 thus DLM FY12-17 CAGR is NM

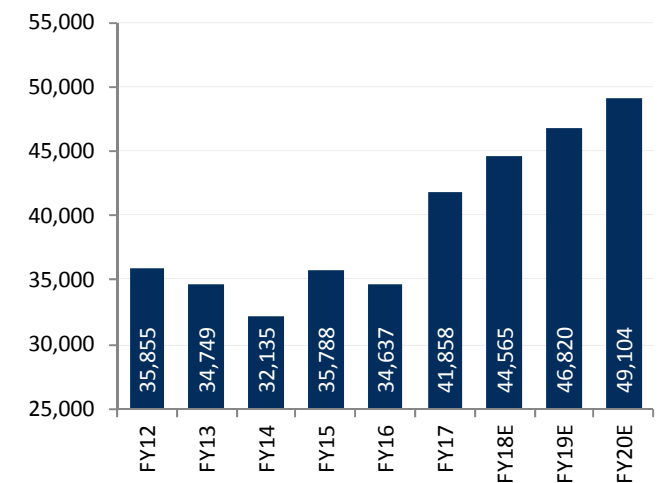
Particulars	Earlier est	Revised est	% change
FY19E			
Revenue (USD bn)	0.689	0.690	0.2
Revenue (Rs bn)	44.79	44.86	0.2
EBITDA (Rs bn)	6.62	6.67	0.7
EBITDA margin (%)	14.8	14.9	7bps
EPS (Rs)	43.1	43.4	0.7
FY20E			
Revenue (USD bn)	0.774	0.784	1.3
Revenue (Rs bn)	50.30	50.96	1.3
EBITDA (Rs bn)	7.65	8.05	5.2
EBITDA margin (%)	15.2	15.8	59bps
EPS (Rs)	49.4	52.0	5.2

EBITDA Margin To Expand to Expand With Productivity Improvement & Off shoring



Source: Company, HDFC sec Inst Research

Significant Improvement in Employee Productivity (USD)



Source: Company, HDFC sec Inst Research

Consolidated Income Statement

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues (USD mn)	472.3	538.0	606.4	690.2	784.0
Growth (%)	5.7	13.9	12.7	13.8	13.6
Net Revenues	31.02	36.07	39.07	44.86	50.96
Growth (%)	13.4	16.3	8.3	14.8	13.6
Cost of Revenue	20.16	23.65	25.20	28.91	32.61
SG&A Expenses	6.67	7.57	8.31	9.29	10.30
EBITDA	4.19	4.85	5.57	6.67	8.05
EBITDA (%)	13.5	13.4	14.2	14.9	15.8
EBITDA Growth (%)	4.4	15.7	14.8	19.8	20.7
Depreciation	0.89	0.95	1.03	1.10	1.24
EBIT	3.30	3.89	4.54	5.56	6.81
Other Income	0.98	0.61	1.45	1.29	1.35
Interest	0.19	0.19	0.22	0.21	0.19
PBT	4.09	4.32	5.77	6.64	7.97
Tax (incl deferred)	1.01	1.05	1.46	1.79	2.15
Minority Interest and associate pft	0.18	0.17	0.10	0.03	0.03
RPAT	3.26	3.44	4.41	4.87	5.84
EO (Loss) / Profit (Net Of Tax)	-0.09	-0.26	0.21	0.00	0.00
APAT	3.34	3.70	4.20	4.87	5.84
APAT Growth (%)	(5.4)	10.6	13.5	16.1	19.9
EPS	29.8	32.9	37.4	43.4	52.0

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	0.56	0.56	0.56	0.56	0.56
Reserves	17.81	20.64	23.24	25.83	28.94
Total Shareholders' Funds	18.37	21.20	23.80	26.39	29.50
Minority Interest	0.00	0.00	0.00	0.00	0.00
Total Debt	2.52	1.92	1.92	1.92	1.92
Net Deferred Taxes	0.00	0.20	0.20	0.20	0.20
Long-term Provisions & Others	0.72	0.81	0.81	0.81	0.81
TOTAL SOURCES OF FUNDS	21.61	24.13	26.73	29.33	32.44
APPLICATION OF FUNDS					
Net Block	3.90	4.44	5.05	5.83	6.37
CWIP	0.06	0.06	0.06	0.06	0.06
Goodwill & Other Intangible Assets	2.71	3.28	3.28	3.28	3.28
Investments	0.81	1.03	1.03	1.03	1.03
LT Loans & Advances, Others	1.74	1.74	1.74	1.74	1.74
Total Non Current Assets	9.22	10.55	11.16	11.94	12.49
Inventories	0.98	0.94	1.07	1.23	1.40
Debtors	6.15	6.50	7.15	8.21	9.33
Cash & Equivalent	7.74	9.71	11.10	12.36	14.33
Other Current Assets	3.05	3.58	3.86	4.21	4.59
Total Current Assets	17.91	20.71	23.19	26.01	29.64
Creditors	3.10	4.02	4.12	4.70	5.28
Other Current Liabilities & Provsns	2.42	3.11	3.50	3.93	4.42
Total Current Liabilities	5.52	7.13	7.62	8.62	9.69
Net Current Assets	12.39	13.58	15.57	17.39	19.95
TOTAL APPLICATION OF FUNDS	21.61	24.13	26.73	29.33	32.44

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	4.09	4.32	5.77	6.64	7.97
Non-operating & EO items	(0.94)	(0.75)	(1.14)	(1.26)	(1.32)
Interest expenses	0.19	0.19	0.22	0.21	0.19
Depreciation	0.89	0.95	1.03	1.10	1.24
Working Capital Change	1.07	1.30	(0.59)	(0.56)	(0.60)
Tax paid	(1.01)	(1.05)	(1.46)	(1.79)	(2.15)
OPERATING CASH FLOW (a)	4.29	4.97	3.82	4.34	5.33
Capex	(1.13)	(1.49)	(1.64)	(1.88)	(1.78)
Free cash flow (FCF)	3.16	3.48	2.18	2.46	3.55
Investments	(0.59)	(0.36)	0.00	0.00	0.00
Non-operating income	1.06	0.88	1.24	1.29	1.35
INVESTING CASH FLOW (b)	(0.66)	(0.97)	(0.40)	(0.60)	(0.44)
Debt Issuance	1.24	(0.60)	0.00	0.00	0.00
Interest expenses	(0.19)	(0.19)	(0.22)	(0.21)	(0.19)
FCFE	4.20	2.69	1.96	2.25	3.35
Share capital Issuance	0.00	0.00	0.00	0.00	0.00
Dividend	(1.31)	(1.18)	(1.81)	(2.28)	(2.73)
FINANCING CASH FLOW (c)	(0.26)	(1.97)	(2.03)	(2.49)	(2.93)
NET CASH FLOW (a+b+c)	3.37	2.03	1.40	1.26	1.97
Non-operating and EO items	(2.20)	(0.06)	0.00	0.00	0.00
Closing Cash & Equivalents	7.74	9.71	11.10	12.36	14.33

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
EBITDA Margin	13.5	13.4	14.2	14.9	15.8
APAT Margin	10.5	9.5	11.3	10.9	11.5
RoE	17.4	17.4	19.6	19.4	20.9
RoIC or Core RoCE	18.5	22.3	24.2	26.6	30.1
RoCE	16.3	16.8	17.2	17.9	19.4
EFFICIENCY					
Tax Rate (%)	24.7	24.2	25.3	27.0	27.0
Fixed Asset Turnover (x)	3.7	3.7	3.4	3.4	3.4
Inventory (days)	12	9	10	10	10
Debtors (days)	86	78	78	77	75
Payables (days)	42	47	45	45	45
Cash Conversion Cycle (days)	56	40	43	42	40
Net Debt/EBITDA (x)	(1.2)	(1.6)	(1.6)	(1.6)	(1.5)
Net Debt/Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Interest Coverage (x)	17.2	20.6	20.6	26.4	35.5
PER SHARE DATA					
EPS (Rs/sh)	29.8	32.9	37.4	43.4	52.0
CEPS (Rs/sh)	37.1	39.3	48.7	53.5	63.4
DPS (Rs/sh)	10	9	14	17	21
BV (Rs/sh)	163.7	188.9	212.1	235.2	262.9
VALUATION					
P/E	21.7	20.6	16.1	14.5	12.1
P/BV	3.8	3.3	3.0	2.7	2.4
EV/EBITDA	15.5	12.9	11.0	9.0	7.2
OCF/EV (%)	6.6	8.0	6.3	7.3	9.2
FCF/EV (%)	4.9	5.6	3.6	4.1	6.1
FCFE/mkt cap (%)	6.0	3.8	2.8	3.2	4.8
Dividend Yield (%)	1.6	1.4	2.2	2.8	3.3

Source: Company, HDFC sec Inst Research

Persistent Systems

BUY

INDUSTRY	IT		
CMP (as on 11 Apr 2018)	Rs 663		
Target Price	Rs 840		
Nifty	10,417		
Sensex	33,940		
KEY STOCK DATA			
Bloomberg	PSYS IN		
No. of Shares (mn)	80		
MCap (Rs bn) / (\$ mn)	53/812		
6m avg traded value (Rs mn)	151		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 878/558		
	3M	6M	12M
Absolute (%)	(11.8)	0.7	17.5
Relative (%)	(10.2)	(5.9)	3.5
SHAREHOLDING PATTERN (%)			
Promoters	30.62		
FIs & Local MFs	18.41		
FPIs	23.99		
Public & Others	26.98		
Source : BSE			

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Recovery beyond near term volatility

We re-iterate our positive outlook on Persistent, despite the near-term growth/margin headwinds (expected to recover from 1Q), supported by (1) Strong growth in digital (22% of rev) supplemented by Healthcare and Financial verticals, (2) Market expansion in Europe supported by Parx Werk acquisition, (3) Structural improvement in profitability ahead with shift to calibrated nearshore delivery, (4) IP-led business to provide non-linearity benefits, despite the quarterly volatility. Revise earnings lower by 7% and expect revenue/EPS growth at 12/16% CAGR, respectively. We've factored revenue growth at 9.5/13.7% for FY19/20E translating to 3.6/3.3% CQGR and 100bps margin expansion each in FY19/20E. Maintain BUY with TP of Rs 840, 16x FY20E EPS.

- Digital business is expected to grow at 30% CAGR with Salesforce partnership supplementing healthcare vertical and Appian partnership supplementing financial services vertical. Growth in

digital also to be supported by Partner Healthcare and USAA partnerships.

- Profitability of alliance business is expected to improve ahead with shift to nearshore centres. Among regions, DACH in Europe and Australia are witnessing strong business traction.
- 4Q's volatility (USD 8mn decline in IP-revenue and -400bps QoQ margin erosion) on IBM alliance business is expected to recover from 1Q. Management has guided above industry growth for FY19E with growth in both services and IP business.

Financial Summary

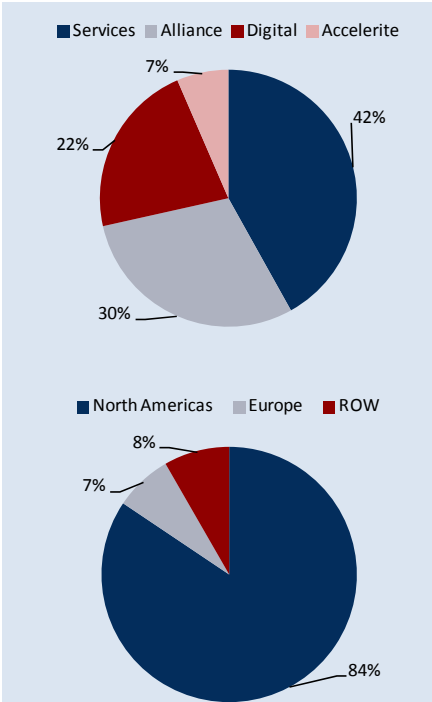
YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	23.12	28.78	30.42	33.51	38.09
EBITDA	4.17	4.54	4.59	5.39	6.57
APAT	2.97	3.10	3.13	3.46	4.21
Diluted EPS (Rs)	37.2	38.8	39.2	43.3	52.6
P/E (x)	17.8	17.1	16.9	15.3	12.6
EV / EBITDA (x)	12.4	11.4	11.0	9.3	7.6
RoE (%)	19.5	17.0	15.6	15.5	16.9

Source: Company, HDFC sec Inst Research

Quarterly Summary

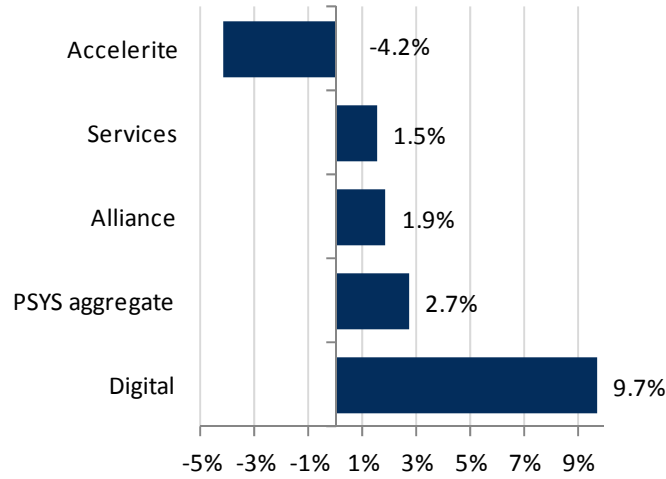
YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Revenue (USD mn)	78.6	83.0	89.7	100.4	104.8	105	110	109	113	118	122.5	117.1
Growth QoQ %	-1.8%	5.5%	8.1%	12.0%	4.3%	0.4%	4.6%	-0.9%	3.6%	4.5%	3.8%	-4.4%
Growth YoY%	8.2%	8.7%	12.7%	25.5%	33.3%	26.8%	22.7%	8.6%	7.8%	12.3%	11.4%	7.4%
EBITDA %	19.4%	18.7%	18.8%	15.9%	15.1%	15.7%	15.9%	16.3%	14.3%	15.2%	17.4%	13.4%
EBIT %	14.8%	14.4%	14.6%	12.1%	10.2%	10.5%	10.7%	10.9%	9.0%	10.2%	12.4%	8.4%
Revenue (Rs bn)	5.00	5.43	5.92	6.77	7.02	7.04	7.46	7.27	7.28	7.61	7.92	7.61
EBITDA (Rs bn)	0.97	1.02	1.11	1.07	1.06	1.11	1.19	1.19	1.04	1.16	1.38	1.02
PAT (Rs bn)	0.67	0.72	0.77	0.81	0.73	0.73	0.82	0.73	0.75	0.83	0.92	0.64

Source: Company, HDFC sec Inst Research



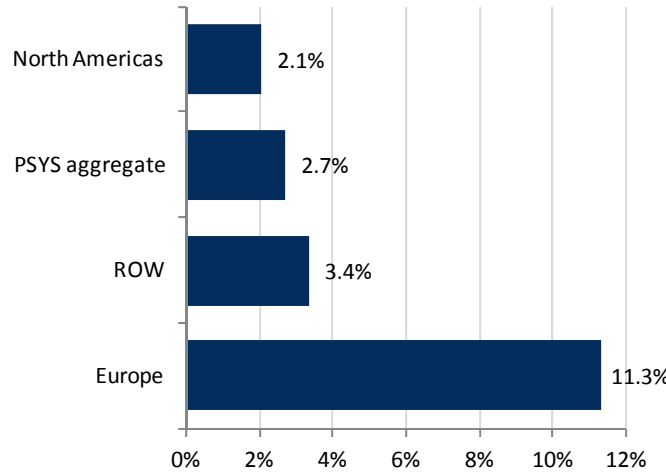
Particulars	Earlier estimates	Revised estimates	% change
FY19E			
Revenue (US\$ mn)	533	516	(3.4)
Revenue (Rs bn)	34.67	33.51	(3.4)
EBITDA (Rs bn)	5.93	5.39	(9.1)
EBITDA margin (%)	17.1%	16.1%	(102)bps
EPS (Rs)	48.2	43.3	(10.3)
FY20E			
Revenue (US\$ mn)	601	586	(2.5)
Revenue (Rs bn)	39.06	38.09	(2.5)
EBITDA (Rs bn)	7.05	6.57	(6.8)
EBITDA margin (%)	18.0%	17.2%	(80)bps
EPS (Rs)	56.9	52.6	(7.6)

Growth Mix By Segments (4-qtr CQGR %)



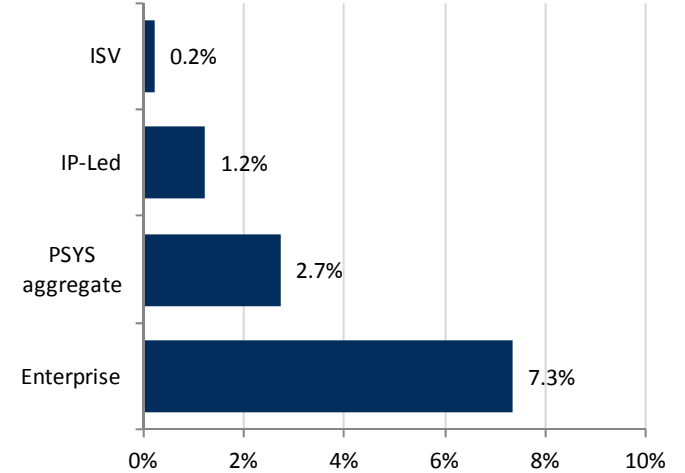
Source: Company, HDFC sec Inst Research

Growth By Geographies (4-qtr CQGR %)



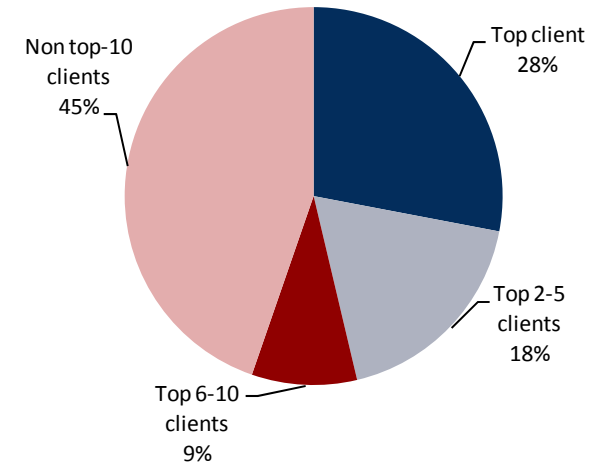
Source: Company, HDFC sec Inst Research

Growth By Business Segments (4-qtr CQGR)



Source: Company, HDFC sec Inst Research

Revenue Mix By Top Accounts



Source: Company, HDFC sec Inst Research

Income Statement(Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues (USD mn)	352	429	471	516	586
Growth (%)	14.0%	22.0%	9.7%	9.5%	13.7%
Net Revenues	23.12	28.78	30.42	33.51	38.09
Growth (%)	22.3%	24.5%	5.7%	10.1%	13.7%
Personal Expenses	14.30	18.52	19.95	21.80	24.55
SG&A Expenses	4.65	5.73	5.88	6.32	6.97
EBITDA	4.17	4.54	4.59	5.39	6.57
EBITDA Margin (%)	18.0%	15.8%	15.1%	16.1%	17.2%
EBITDA Growth (%)	6.8%	8.8%	1.2%	17.4%	21.8%
Depreciation	0.97	1.49	1.54	1.73	1.97
EBIT	3.21	3.05	3.05	3.67	4.60
Other Income (Including EO Items)	0.75	0.96	1.10	0.92	1.01
Interest	0.00	0.00	0.00	0.00	0.00
PBT	3.96	4.01	4.16	4.59	5.61
Tax (Incl Deferred)	0.98	0.99	1.02	1.12	1.40
RPAT	2.97	3.01	3.13	3.46	4.21
APAT	2.97	3.10	3.13	3.46	4.21
APAT Growth (%)	2.3%	4.4%	1.0%	10.5%	21.5%
Adjusted EPS (Rs)	37.2	38.8	39.2	43.3	52.6
EPS Growth (%)	2.3%	4.4%	1.0%	10.5%	21.5%

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	0.80	0.80	0.80	0.80	0.80
Reserves	15.59	18.19	20.38	22.71	25.60
Total Shareholders' Funds	16.39	18.99	21.18	23.51	26.40
Total Debt	0.03	0.02	0.02	0.03	0.03
Net Deferred Taxes	(0.23)	(0.20)	(0.20)	(0.20)	(0.20)
Long-term Provisions & Others	0.13	0.17	0.18	0.19	0.22
TOTAL SOURCES OF FUNDS	16.31	18.98	21.19	23.54	26.45
APPLICATION OF FUNDS					
Net Block	3.01	2.77	2.63	2.42	2.17
CWIP	0.02	0.05	0.05	0.05	0.05
Goodwill & intangibles	1.60	2.83	3.41	4.20	5.09
Investments	1.35	2.34	2.47	2.72	3.10
LT Loans & Advances	1.72	1.13	1.21	1.33	1.46
Total Non-current Assets	7.70	9.11	9.77	10.72	11.87
Debtors	4.28	4.75	5.17	5.69	6.47
Other Current Assets	2.60	3.28	3.47	3.82	4.34
Cash & Equivalents	6.26	6.01	7.19	8.17	9.29
Total Current Assets	13.14	14.04	15.82	17.68	20.10
Creditors	1.65	1.21	1.28	1.41	1.60
Other Current Liabilities & Prov.	2.87	2.96	3.13	3.45	3.92
Total Current Liabilities	4.52	4.17	4.41	4.86	5.52
Net Current Assets	8.61	9.87	11.41	12.82	14.58
TOTAL APPLICATION OF FUNDS	16.31	18.98	21.19	23.54	26.45

Source: Company, HDFC sec Inst Research

CashFlow(Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	3.96	4.01	4.16	4.59	5.61
Non-operating & EO items	(2.03)	0.84	0.00	0.05	0.12
Interest expenses	0.00	0.00	0.00	0.00	0.00
Depreciation	0.97	1.49	1.54	1.73	1.97
Working Capital Change	(0.84)	(1.67)	(0.44)	(0.58)	(0.86)
Tax Paid	(0.98)	(0.99)	(1.02)	(1.12)	(1.40)
OPERATING CASH FLOW (a)	1.07	3.67	4.23	4.66	5.44
Capex	(1.66)	(2.18)	(1.58)	(1.84)	(2.09)
Free cash flow (FCF)	(0.59)	1.50	2.65	2.82	3.34
Investments	0.50	0.44	1.01	0.27	0.35
Non-operating Income	-	-	-	-	-
INVESTING CASH FLOW (b)	(1.16)	(1.73)	(0.57)	(1.58)	(1.74)
Debt Issuance/(Repaid)	0.00	(0.00)	0.00	0.00	0.00
Interest Expenses	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
FCFE	(0.59)	1.49	2.65	2.82	3.34
Share Capital Issuance	-	-	-	-	-
Dividend	(0.76)	(0.85)	(0.94)	(1.13)	(1.32)
FINANCING CASH FLOW (c)	(0.76)	(0.85)	(0.94)	(1.13)	(1.32)
NET CASH FLOW (a+b+c)	(0.85)	1.08	2.72	1.96	2.37
Closing Cash & Equivalents	6.26	6.01	7.19	8.17	9.29

Source: Company, HDFC sec Inst Research

Key Ratios(Consolidated)

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	38.1	35.7	34.4	34.9	35.5
EBITDA Margin	18.0	15.8	15.1	16.1	17.2
APAT Margin	12.9	10.5	10.3	10.3	11.0
RoE	19.5	17.0	15.6	15.5	16.9
RoIC (or Core RoCE)	26.9	19.9	17.1	18.8	21.2
RoCE	19.7	17.1	15.6	15.5	16.8
EFFICIENCY					
Tax Rate (%)	24.8	24.8	24.6	24.5	25.0
Fixed Asset Turnover (x)	3.4	4.1	4.1	4.2	4.4
Debtors (days)	67	60	62	62	62
Payables (days)	26	15	15	15	15
Cash Conversion Cycle (days)	41	45	47	47	47
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (x)	(0.4)	(0.3)	(0.3)	(0.3)	(0.4)
Interest Coverage (x)	3,485	3,351	3,748	2,391	2,687
PER SHARE DATA (Rs)					
EPS	37.2	38.8	39.2	43.3	52.6
CEPS	49	56	58	65	77
Dividend	8	9	10	12	14
Book Value	205	237	265	294	330
VALUATION					
P/E (x)	17.8	17.1	16.9	15.3	12.6
P/BV (x)	3.2	2.8	2.5	2.3	2.0
EV/EBITDA (x)	12.4	11.4	11.0	9.3	7.6
OCF/EV (%)	2.1	7.1	8.4	9.3	10.9
FCF/EV (%)	-1.1	2.9	5.3	5.6	6.7
FCFE/Mkt Cap (%)	-1.1	2.8	5.0	5.3	6.3
Dividend Yield (%)	1.2	1.4	1.5	1.8	2.1

Source: Company, HDFC sec Inst Research

INDUSTRY	IT
CMP (as on 11 Apr 2018)	Rs 1,244
Target Price	Rs 1,310
Nifty	10,417
Sensex	33,940
KEY STOCK DATA	
Bloomberg	ECLX IN
No. of Shares (mn)	39
MCap (Rs bn) / (\$ mn)	48/736
6m avg traded value (Rs mn)	97
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 1,609/1,142
	3M 6M 12M
Absolute (%)	(19.0) 0.7 (11.0)
Relative (%)	(17.4) (5.9) (24.9)
SHAREHOLDING PATTERN (%)	
Promoters	50.31
FIs & Local MFs	16.39
FPIs	24.88
Public & Others	8.42
Source : BSE	

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Turning the corner

eClerx' growth challenges such as automation and in-sourcing impact on large account ramp-down has abated, with (1) Pick up in deal pipeline and deal wins, (2) Growth in financial services vertical, (3) Margins have troughed with onsite investments nearly complete, (4) Stable outlook in Top-10 while emerging accounts (especially top 11-to-20 accounts) are expected to accelerate ahead. We upgrade eClerx to **NEUTRAL (SELL earlier)** as the worst (no top-line growth and margin compression over past two years) seems to be behind. Increase FY19/20E EPS by 4/3%, respectively and expect revenue/EPS growth of 10/14% CAGR over FY18-20E. TP of Rs 1,310 implies 14x FY20E (13x earlier).

- Financial, Digital and Customer operations segment contributed 40/40/20% to the revenue with an unchanged mix over the past year. Secular demand growth is expected in Financial vertical led by regulatory, compliance and data while derivative trade support segment is expected to remain soft.

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Revenue (USD mn)	46.4	50.2	51.8	50.8	50.2	48.9	47.2	47.9	48.8	48.4	48.9	49.6
Growth QoQ %	14.2%	8.1%	3.2%	-1.9%	-1.2%	-2.6%	-3.5%	1.5%	1.9%	-0.9%	1.1%	1.5%
Growth YoY%	28.1%	31.8%	33.2%	24.9%	8.2%	-2.5%	-8.9%	-5.7%	-2.8%	-1.1%	3.6%	3.6%
EBITDA %	34.1%	36.6%	35.9%	39.8%	37.0%	38.1%	32.1%	33.7%	30.1%	28.8%	26.6%	28.1%
EBIT %	30.3%	32.2%	31.4%	35.4%	33.5%	34.2%	28.0%	29.5%	26.9%	25.2%	22.9%	23.7%
Revenue (Rs bn)	2.98	3.29	3.44	3.43	3.40	3.34	3.25	3.32	3.33	3.31	3.40	3.42
EBITDA (Rs bn)	1.02	1.20	1.23	1.37	1.26	1.27	1.04	1.12	1.00	0.95	0.90	0.96
PAT (Rs bn)	0.73	0.80	0.86	1.01	0.96	0.97	0.86	0.75	0.79	0.73	0.57	0.72

Source: Company, HDFC sec Inst Research

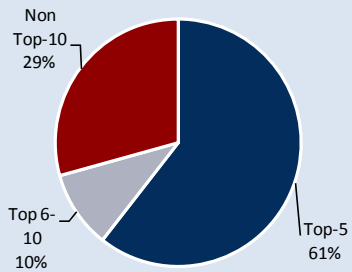
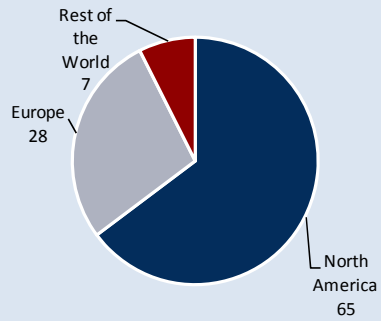
- eClerx' deal pipeline is improving with majority of its pipeline build-up in its top-20 accounts. Growth in customer operations segment is expected to be driven by the North Carolina centre.
- eClerx' strategy of shifting from FTE-based pricing to managed services and its plans to focus on cross-sell across verticals may support growth ahead.

Financial Summary

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	13.14	13.30	13.45	14.59	15.99
EBITDA	4.26	4.17	3.32	3.81	4.29
APAT	3.41	3.54	2.82	3.19	3.62
Diluted EPS (Rs)	83.7	87.8	71.2	82.5	93.6
P/E (x)	14.9	13.9	16.2	15.1	13.3
EV / EBITDA (x)	9.4	9.3	11.4	9.9	8.6
RoE (%)	37.9	30.8	24.3	24.9	26.2

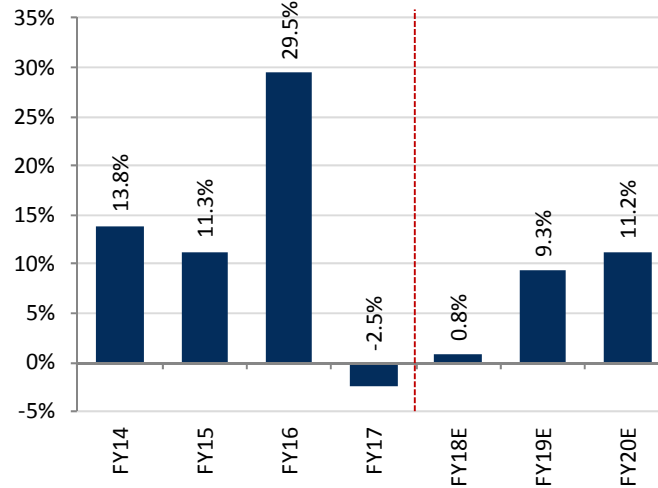
Source: Company, HDFC sec Inst Research

INSTITUTIONAL RESEARCH



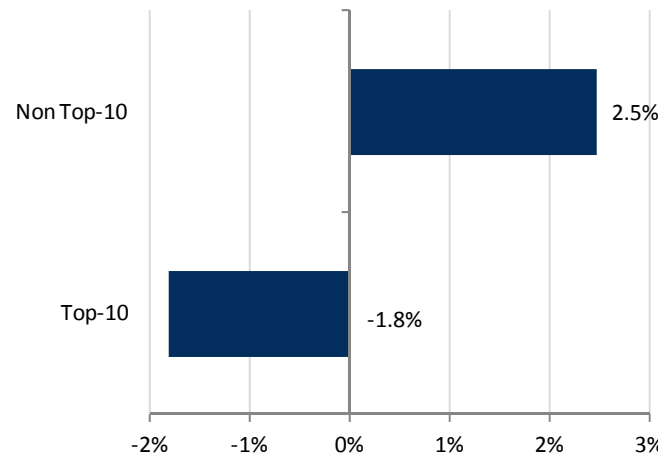
Particulars	Earlier estimates	Revised estimates	% change
FY19E			
Revenue (US\$ mn)	213.8	213.8	0.0
Revenue (Rs bn)	14.32	14.59	1.9
EBITDA (Rs bn)	4.11	4.30	4.7
EBITDA margin (%)	28.7	29.5	78bps
EPS (Rs)	3.05	3.19	4.4
FY20E			
Revenue (US\$ mn)	237.7	237.7	0.0
Revenue (Rs bn)	15.76	15.99	1.5
EBITDA (Rs bn)	4.67	4.82	3.0
EBITDA margin (%)	29.7	30.1	46bps
EPS (Rs)	3.51	3.62	2.9

eClerx' Revenue Growth Trend



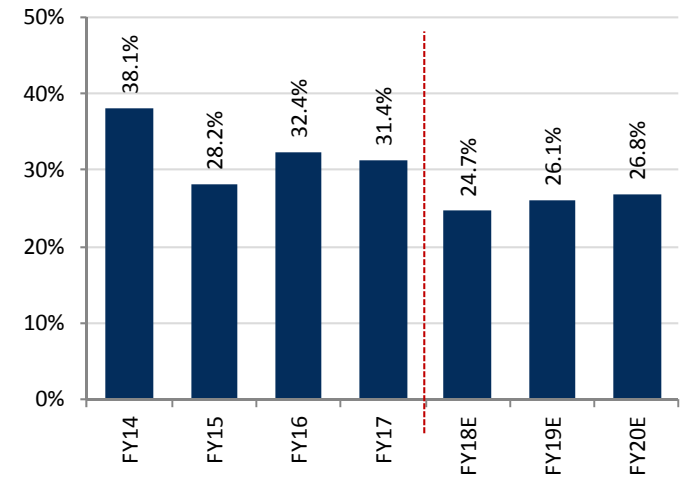
Source: Company, HDFC sec Inst Research

Growth by Client Categories (8-qtr CQGR %)



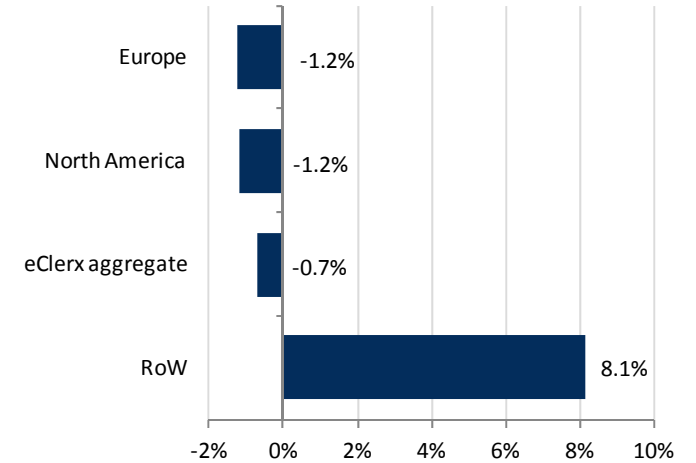
Source: Company, HDFC sec Inst Research

EBIT Margin Trend



Source: Company, HDFC sec Inst Research

Growth by Geographies



Source: Company, HDFC sec Inst Research

Consolidated Income Statement

Year ending March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues (USD mn)	199.2	194.2	195.7	213.8	237.7
Growth (%)	29.5	(2.5)	0.8	9.3	11.2
Net Revenues	13.14	13.30	13.45	14.59	15.99
Growth (%)	39.5	1.2	1.2	8.5	9.6
Employee Costs	5.03	5.25	6.02	6.58	7.16
SG&A and Other Operating Expenses	3.29	3.37	3.61	3.71	4.01
EBITDA	4.82	4.69	3.82	4.30	4.82
EBITDA (%)	36.7	35.2	28.4	29.5	30.1
EBITDA Growth (%)	52.8	(2.8)	(18.5)	12.6	11.9
Depreciation	0.57	0.52	0.50	0.50	0.53
EBIT	4.26	4.17	3.32	3.81	4.29
Other Income	0.34	0.19	0.38	0.44	0.53
Interest	0.00	0.00	0.00	-	-
PBT	4.60	4.36	3.70	4.25	4.82
Tax (incl deferred)	1.18	0.82	0.93	1.06	1.21
APAT	3.41	3.54	2.82	3.19	3.62
APAT Growth (%)	48.6	3.7	(20.4)	13.1	13.5
EPS	83.7	87.8	71.2	82.5	93.6
EPS Growth (%)	47.5	4.9	(18.8)	15.8	13.5

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

As at March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	0.41	0.40	0.39	0.39	0.39
Reserves	10.46	11.76	11.95	12.86	13.96
Total Shareholders' Funds	10.86	12.15	12.33	13.24	14.35
Net Deferred Taxes	0.01	0.17	0.17	0.17	0.17
Long Term Provisions & Others	0.27	0.29	0.29	0.31	0.34
TOTAL SOURCES OF FUNDS	11.18	12.62	12.80	13.73	14.87
APPLICATION OF FUNDS					
Net Block	0.87	0.93	0.99	1.07	1.14
CWIP	0.00	0.02	0.01	0.01	0.02
Goodwill & Other Intangibles	2.53	2.45	2.28	2.15	2.03
Investments	0.00	0.21	0.21	0.21	0.21
LT Loans & Advances, Others	0.56	0.38	0.37	0.36	0.36
Total Non Current Assets	3.96	3.99	3.87	3.80	3.75
Debtors	1.86	2.14	2.21	2.40	2.63
Cash & Equivalents	5.46	6.94	7.21	8.07	9.08
Other Current Assets	1.36	0.91	0.95	1.03	1.12
Total Current Assets	8.68	10.00	10.37	11.49	12.83
Creditors	0.14	0.13	0.20	0.22	0.24
Other Current Liabilities & Provns	1.32	1.23	1.24	1.35	1.48
Total Current Liabilities	1.46	1.36	1.44	1.57	1.72
Net Current Assets	7.22	8.64	8.93	9.93	11.11
TOTAL APPLICATION OF FUNDS	11.18	12.62	12.80	13.73	14.87

Source: Company, HDFC sec Inst Research

INSTITUTIONAL RESEARCH

Consolidated Cash Flow

Year ending March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	4.60	4.36	3.90	4.25	4.82
Non-operating & EO items	0.00	0.00	0.00	0.00	0.00
Interest expenses	0.00	0.00	0.00	0.00	0.00
Depreciation	0.57	0.52	0.50	0.50	0.53
Working Capital Change	0.17	(0.08)	(0.03)	(0.21)	(0.25)
Tax paid	(1.18)	(0.82)	(0.93)	(1.06)	(1.21)
OPERATING CASH FLOW (a)	4.15	3.97	3.45	3.48	3.89
Capex	(0.53)	(0.30)	(0.40)	(0.44)	(0.48)
Free cash flow (FCF)	3.62	3.68	3.04	3.04	3.41
Investments	(1.19)	(1.75)	1.33	(0.00)	(0.00)
Non-operating income	0.00	0.00	0.00	0.00	0.00
INVESTING CASH FLOW (b)	(1.72)	(2.04)	0.92	(0.44)	(0.48)
Debt Issuance	0.04	(0.02)	(0.01)	0.00	0.00
Interest expenses	(0.00)	(0.00)	(0.00)	0.00	0.00
FCFE	3.66	3.65	3.03	3.04	3.41
Share capital Issuance	0.10	(0.01)	(0.01)	0.00	0.00
Dividend	(2.25)	(2.39)	(2.63)	(2.28)	(2.51)
FINANCING CASH FLOW (c)	(2.11)	(2.42)	(2.65)	(2.28)	(2.51)
NET CASH FLOW (a+b+c)	0.33	(0.49)	1.72	0.76	0.90
Closing Cash & Equivalents	5.46	6.94	7.21	8.07	9.08

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
EBITDA Margin	36.7	35.2	28.4	29.5	30.1
APAT Margin	26.0	26.6	22.1	21.8	22.6
RoE	37.9	30.8	24.3	24.9	26.2
RoIC or Core RoCE	65.4	56.1	38.2	42.9	46.9
RoCE	36.9	29.7	23.4	24.0	25.3
EFFICIENCY					
Tax Rate (%)	25.8	18.8	23.9	25.0	25.0
Fixed Asset Turnover (x)	5.8	5.6	5.3	5.3	5.4
Debtors (days)	52	59	60	60	60
Payables (days)	4	4	5	5	5
Cash Conversion Cycle (days)	49	46	46	46	46
Net Debt/EBITDA (x)	(1.1)	(1.5)	(1.9)	(1.9)	(1.9)
Net Debt/Equity (x)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Interest Coverage (x)	10,459	17,021	10,707	NA	NA
PER SHARE DATA					
EPS (Rs/sh)	83.7	89.2	76.9	82.5	93.6
CEPS (Rs/sh)	97.5	102.2	89.9	95.4	107.2
DPS (Rs/sh)	46.7	1.0	1.0	50.0	55.0
BV (Rs/sh)	266.3	306.1	319.3	342.8	371.5
VALUATION					
P/E	14.9	13.9	16.2	15.1	13.3
P/BV	4.7	4.1	3.9	3.6	3.3
EV/EBITDA	9.4	9.3	11.4	9.9	8.6
OCF/EV (%)	9.2	9.1	7.9	8.2	9.3
FCF/EV (%)	8.0	8.4	7.0	7.1	8.2
FCFE/mkt cap (%)	7.2	7.2	6.0	6.0	6.7
Dividend Yield (%)	3.8	0.1	0.1	4.0	4.4

Source: Company, HDFC sec Inst Research

Zensar Technologies

BUY

INDUSTRY		IT	
CMP (as on 11 Apr 2018)	Rs 947		
Target Price	Rs 1,200		
Nifty	10,417		
Sensex	33,940		
KEY STOCK DATA			
Bloomberg	ZENT IN		
No. of Shares (mn)	45		
MCap (Rs bn) / (\$ mn)	43/652		
6m avg traded value (Rs mn)	17		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 1,000/730		
	3M	6M	12M
Absolute (%)	3.8	28.0	1.9
Relative (%)	5.4	21.3	(12.0)
SHAREHOLDING PATTERN (%)			
Promoters	48.89		
FIs & Local MFs	2.45		
FPIs	15.02		
Public & Others	33.64		
Source : BSE			

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Digital traction

Zensar's growth has lagged peers (~5% YoY growth in FY18E vs mid-cap IT average growth of ~12%). This under performance has been due to (1) Ongoing IMS restructuring (2) Client pruning exercise and (3) Issue related to Oracle ATG (impacting P.A) (4) Drag in legacy business (-5% CAGR). These issues have been largely addressed, Oracle ATG (bottomed out), IMS restructuring will be completed in FY18E and focus will be on Digital penetration in Top-50 strategic accounts. We believe worst is behind us and revenue growth will revive in FY19/20E (8.4/10.4% YoY growth in FY19/20E), and EBITDA margin will recover gradually to 13.8/14.8% in FY19/20E.

Digital (38.8% of rev, +35% YoY) remains Zensar's key strength. The deal sizes in Digital (BFSI and Retail) are increasing, and more than ~50% of new deal wins are in the Digital. We maintain our positive view owing to Zensar's Digital/SMAC capabilities (well-penetrated within the Top-20 clients), and a robust Digital deal pipeline. We build 8.0/16.0% revenue/EPS CAGR over FY17-20E. **Maintain BUY with a TP of Rs 1,200 based on 15x FY20 EPS.**

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Revenue (USD mn)	111.1	116.4	114.8	110.5	112.9	116.0	117.5	110.9	114.3	118.6	122.6	126.3
Growth QoQ %	4.8%	4.8%	-1.4%	-3.8%	2.2%	2.7%	1.3%	-5.6%	3.1%	3.8%	3.4%	3.0%
Growth YoY%	9.7%	8.9%	-0.9%	4.2%	1.6%	-0.4%	2.3%	0.4%	1.2%	2.2%	4.3%	13.9%
EBITDA %	15.5%	15.8%	15.0%	12.9%	13.9%	14.3%	13.9%	7.9%	10.3%	11.8%	13.4%	14.1%
EBIT %	13.9%	14.3%	13.5%	11.3%	12.4%	12.8%	12.5%	6.2%	7.8%	9.6%	11.4%	12.0%
Revenue (Rs bn)	7.06	7.59	7.62	7.51	7.57	7.79	7.93	7.44	7.38	7.64	7.95	8.16
EBITDA (Rs bn)	1.09	1.20	1.14	0.97	1.05	1.11	1.10	0.59	0.76	0.90	1.07	1.15
PAT (Rs bn)	0.76	0.91	0.72	0.70	0.74	0.69	0.81	0.10	0.47	0.63	0.59	0.69

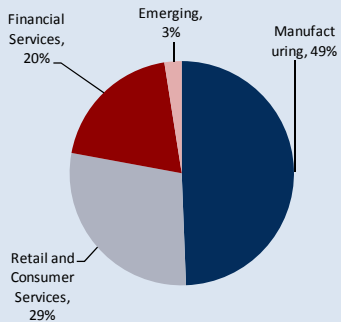
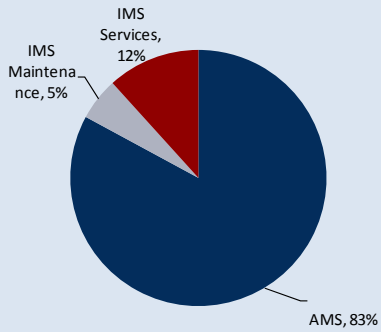
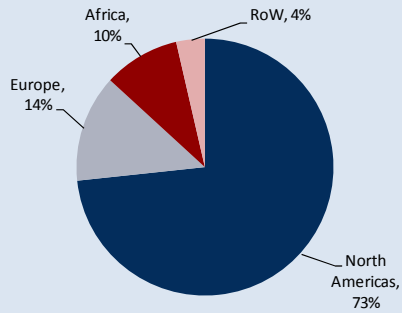
Source: Company, HDFC sec Inst Research

- Zensar acquired Cynosure for a sum of USD 31mn (~1.6x P/S). Cynosure has revenue of USD 20mn for CY17 which is 4.1% of Zensar FY18E revenue. This acquisition will boost BFSI offerings of Zensar (19.6% or rev, Insurance is ~15%).
- Harjott Atrii (ex-NTT Data) has joined recently as the IMS head and will accelerate the IMS services business. IMS growth is expected to return in FY19E with large deal wins (City of San Diego).

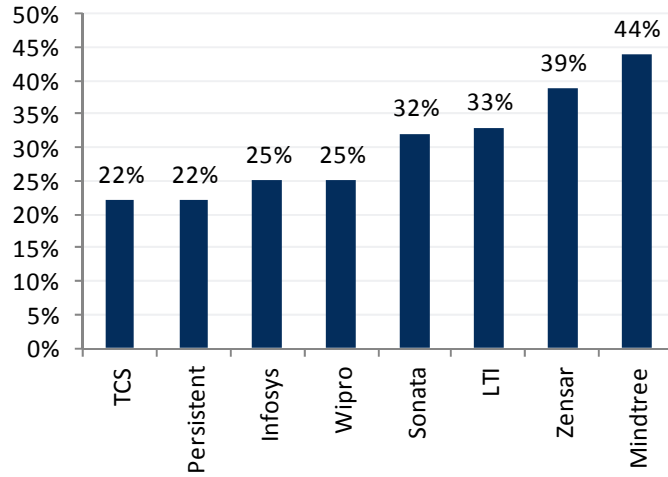
Financial Summary

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	29.78	30.73	31.13	34.04	37.59
EBITDA	4.40	3.85	3.88	4.70	5.57
APAT	3.06	2.31	2.33	2.95	3.60
Diluted EPS (Rs)	68.1	51.6	52.2	66.0	80.2
P/E (x)	13.9	18.4	18.1	14.4	11.8
EV / EBITDA (x)	9.1	10.1	9.7	7.7	6.1
RoE (%)	24.9	16.7	14.9	16.6	17.6

Source: Company, HDFC sec Inst Research

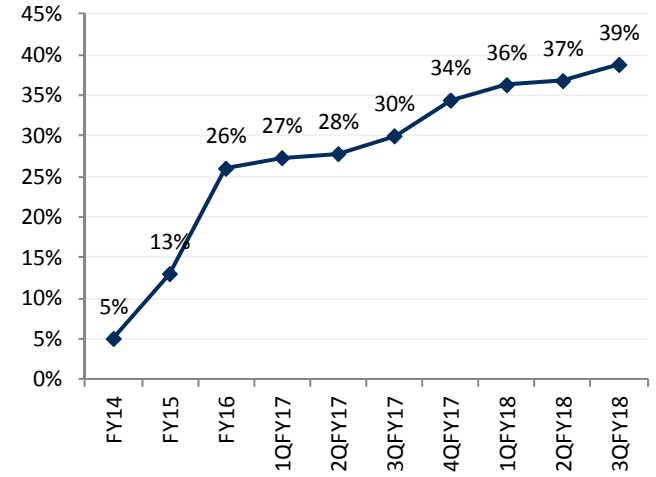


Zensar Has The Second Largest Digital Contribution



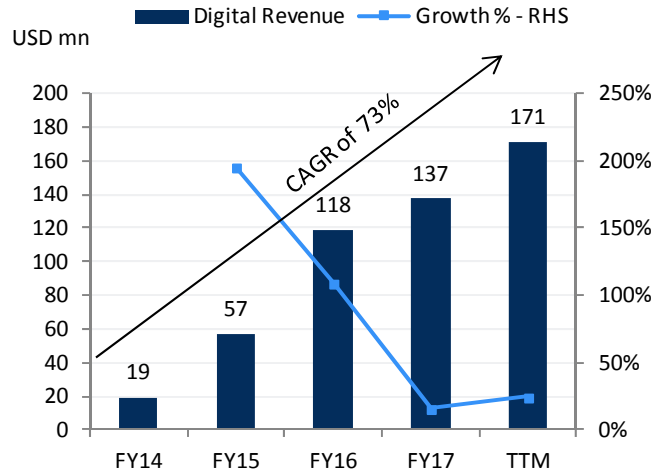
Source: Company, HDFC sec Inst Research

Digital % of Revenue Trend



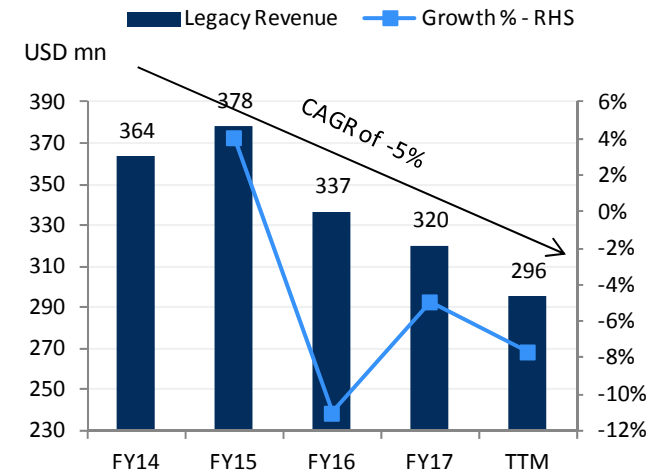
Source: Company, HDFC sec Inst Research

Digital Revenue Growth Rate

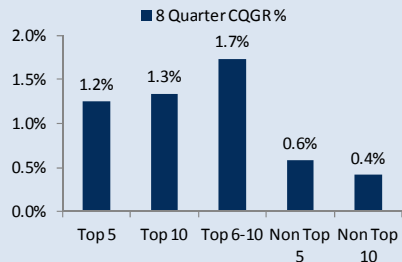


Source: Company, HDFC sec Inst Research

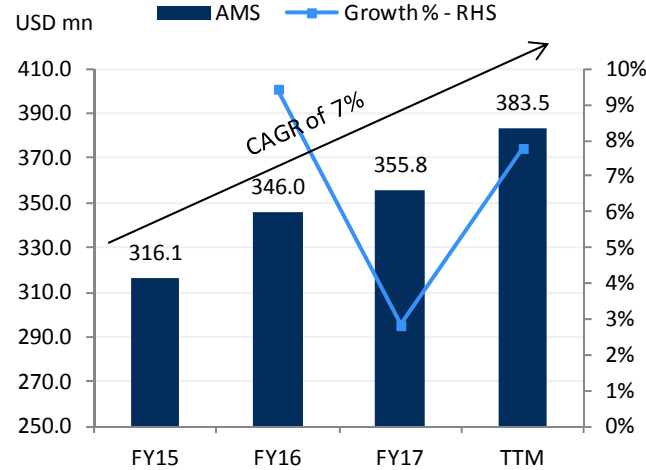
Legacy Revenue Growth Rate



Source: Company, HDFC sec Inst Research

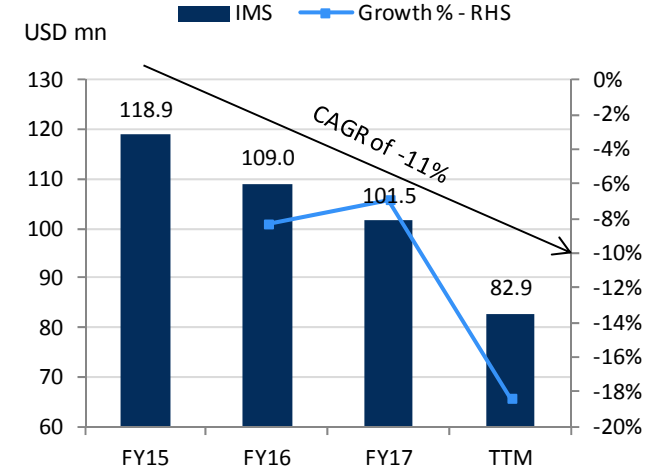


AMS IS Driving Growth



Source: Company, HDFC sec Inst Research

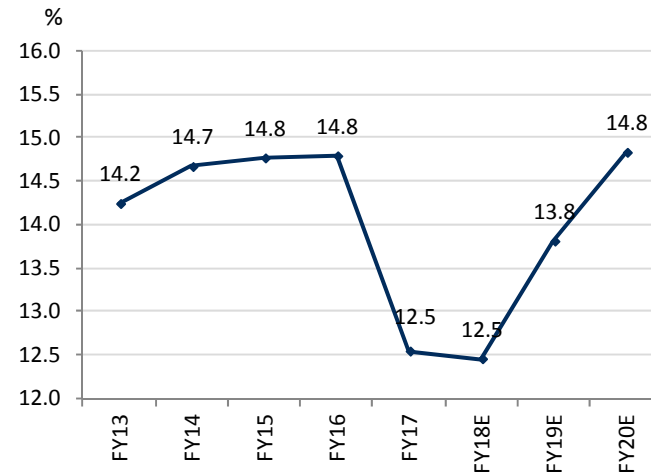
IMS Is Dragging Growth



Source: Company, HDFC sec Inst Research

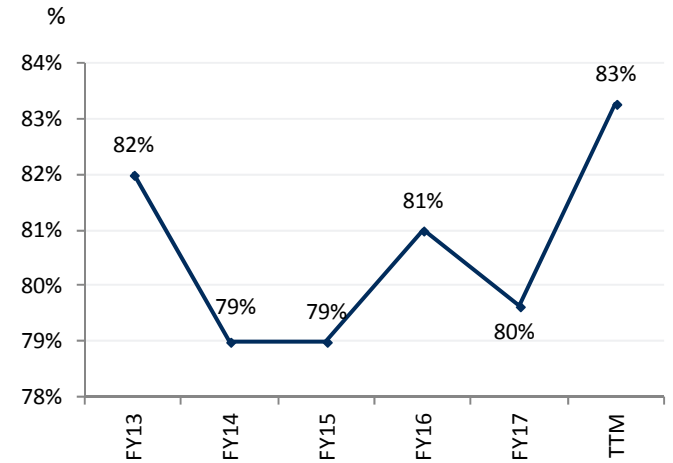
Particulars	Earlier estimates	Revised estimates	% change
FY19E			
Revenue (USD bn)	0.52	0.52	0.4
Revenue (Rs bn)	33.91	34.04	0.4
EBITDA (Rs bn)	4.68	4.70	0.5
EBITDA margin (%)	13.8%	13.8%	2bps
EPS (Rs)	65.6	66.0	0.6
FY20E			
Revenue (USD bn)	0.57	0.58	1.3
Revenue (Rs bn)	37.12	37.59	1.3
EBITDA (Rs bn)	5.43	5.57	2.6
EBITDA margin (%)	14.6%	14.8%	20bps
EPS (Rs)	77.9	80.2	2.9

EBITDA Margin To Improve With IMS Recovery



Source: Company, HDFC sec Inst Research

Utilization Levels Improved Significantly



Source: Company, HDFC sec Inst Research

Income Statement (Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues (US \$mn)	455	457	482	522	577
Growth (%)	4.6	0.5	5.4	8.4	10.4
Net Revenues (Rs mn)	29.78	30.73	31.13	34.04	37.59
Growth (%)	12.1	3.2	1.3	9.4	10.4
Personnel expenses	20.37	21.74	21.94	23.79	25.98
SG&A	5.01	5.13	5.31	5.56	6.03
EBITDA	4.40	3.85	3.88	4.70	5.57
EBITDA Margin (%)	14.8	12.5	12.5	13.8	14.8
EBITDA Growth (%)	12.3	(12.5)	0.6	21.3	18.6
Depreciation	0.46	0.46	0.68	0.68	0.74
EBIT	3.95	3.39	3.20	4.02	4.84
Other Income (Including EO Items)	0.45	0.14	0.48	0.48	0.54
Interest	0.11	0.09	0.23	0.21	0.19
PBT	4.29	3.44	3.44	4.28	5.19
Tax (Incl Deferred)	1.17	1.06	1.02	1.24	1.50
Minority Interest	0.03	0.04	0.05	0.04	0.04
RPAT	3.09	2.34	2.37	3.00	3.64
EO (Loss) / Profit (Net Of Tax)	0.00	0.00	0.00	0.00	0.00
APAT	3.06	2.31	2.33	2.95	3.60
APAT Growth (%)	15.8	(24.7)	0.8	26.9	21.8
Adjusted EPS (Rs)	68.1	51.6	52.2	66.0	80.2
EPS Growth (%)	16.9	(24.2)	1.3	26.3	21.5

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	0.45	0.45	0.45	0.45	0.45
Reserves	12.18	14.31	16.12	18.42	21.21
Total Shareholders' Funds	12.63	14.76	16.57	18.87	21.66
Minority Interest	0.04	0.07	0.12	0.16	0.21
Total Debt	1.48	1.32	1.32	1.32	1.32
Net Deferred Taxes	-0.22	-0.17	-0.17	-0.17	-0.17
Long Term Provisions & Others	0.49	0.74	0.79	0.86	0.95
TOTAL SOURCES OF FUNDS	14.42	16.72	18.63	21.04	23.96
APPLICATION OF FUNDS					
Net Block	3.84	4.51	4.45	4.45	4.47
CWIP	0.00	0.01	0.01	0.01	0.01
Investments	0.38	1.11	1.11	1.11	1.11
LT Loans & Advances	0.37	0.44	0.48	0.53	0.58
Total Non-current Assets	4.59	6.07	6.06	6.10	6.17
Inventories	1.26	1.13	1.25	1.36	1.50
Debtors	5.40	5.33	5.54	6.06	6.69
Other Current Assets	3.35	3.61	3.74	4.09	4.51
Cash & Equivalents	3.85	4.76	6.10	7.84	9.92
Total Current Assets	13.86	14.82	16.63	19.35	22.63
Creditors	1.66	1.75	1.72	1.85	2.02
Other Current Liabilities & Provns	2.37	2.41	2.33	2.55	2.82
Total Current Liabilities	4.03	4.16	4.05	4.40	4.84
Net Current Assets	9.83	10.66	12.57	14.94	17.80
TOTAL APPLICATION OF FUNDS	14.42	16.72	18.63	21.04	23.96

Source: Company, HDFC sec Inst Research

Cash Flow Statement (Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	4.29	3.44	3.44	4.28	5.19
Non-operating & EO items	0.00	-0.12	-0.21	-0.22	-0.25
Interest expenses	0.11	0.09	0.23	0.21	0.19
Depreciation	0.45	0.46	0.68	0.68	0.74
Working Capital Change	-1.22	0.27	-0.58	-0.61	-0.73
Tax Paid	-1.05	-1.06	-1.02	-1.24	-1.50
OPERATING CASH FLOW (a)	2.59	3.08	2.55	3.11	3.63
Capex	-0.42	-1.15	-0.62	-0.68	-0.75
Free cash flow (FCF)	2.16	1.94	1.92	2.43	2.88
Investments	0.01	-0.73	0.00	0.00	0.00
Non-operating Income	0.05	-0.27	0.21	0.22	0.25
INVESTING CASH FLOW (b)	-0.37	-2.14	-0.42	-0.46	-0.50
Debt Issuance/(Repaid)	-0.27	-0.16	0.00	0.00	0.00
Interest Expenses	-0.11	-0.09	-0.23	-0.21	-0.19
FCFE	1.79	1.69	1.69	2.22	2.69
Share Capital Issuance	0.04	0.00	0.00	0.00	0.00
Dividend	-0.97	-0.63	-0.56	-0.70	-0.85
FINANCING CASH FLOW (c)	-1.30	-0.88	-0.79	-0.91	-1.04
NET CASH FLOW (a+b+c)	0.92	0.06	1.34	1.74	2.09
EO Items, Others	0.03	0.85	0.00	0.00	0.00
Closing Cash & Equivalents	3.85	4.76	6.10	7.84	9.92

Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	31.6	29.2	29.5	30.1	30.9
EBITDA Margin	14.8	12.5	12.5	13.8	14.8
APAT Margin	10.3	7.5	7.5	8.7	9.6
RoE	24.9	16.7	14.9	16.6	17.6
RoIC (or Core RoCE)	22.4	18.1	16.2	19.7	22.3
RoCE	17.6	12.0	11.4	12.9	13.7
EFFICIENCY					
Tax Rate (%)	27.3	30.9	29.7	29.0	29.0
Fixed Asset Turnover (x)	4.2	3.8	3.5	3.6	3.7
Debtors (days)	66	63	65	65	65
Payables (days)	24	24	23	23	23
Cash Conversion Cycle (days)	43	40	42	42	42
Debt/EBITDA (x)	0.3	0.3	0.3	0.3	0.2
Net D/E (x)	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)
Interest Coverage (x)	41	44	17	22	30
PER SHARE DATA (Rs)					
EPS	68.1	51.6	52.2	66.0	80.2
CEPS	78.1	61.8	67.2	81.0	96.4
Dividend	14	14	12	15	19
Book Value	278	325	365	415	477
VALUATION					
P/E(x)	13.9	18.4	18.1	14.4	11.8
P/BV(x)	3.4	2.9	2.6	2.3	2.0
EV/EBITDA(x)	9.1	10.1	9.7	7.7	6.1
EV/Revenues(x)	1.4	1.3	1.2	1.1	0.9
OCF/EV (%)	6.4	7.9	6.8	8.6	10.7
FCF/EV(%)	5.4	5.0	5.1	6.8	8.5
FCFE/MktCap (%)	4.2	4.0	4.0	5.2	6.3
Dividend Yield (%)	1.5	1.5	1.3	1.6	2.0

Source: Company, HDFC sec Inst Research

INDUSTRY		IT	
CMP (as on 11 Apr 2018)	Rs 333		
Target Price	Rs 375		
Nifty	10,417		
Sensex	33,940		
KEY STOCK DATA			
Bloomberg	SSOF IN		
No. of Shares (mn)	105		
MCap (Rs bn) / (\$ mn)	35/536		
6m avg traded value (Rs mn)	156		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 366/143		
	3M	6M	12M
Absolute (%)	13.4	118.1	92.1
Relative (%)	15.0	111.4	78.1
SHAREHOLDING PATTERN (%)			
Promoters	30.95		
FIs & Local MFs	4.32		
FPIs	13.17		
Public & Others	51.56		
<i>Source : BSE</i>			

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Platformation & IP-led growth

Sonata Software is one of the fastest growing (+17.5% YoY growth in 9MFY18) midcaps and has witnessed healthy margin expansion in the last three quarters (+500bps expansion in IITS margins, 20.9% in 3QFY18). This has resulted in substantial re-rating in the last six months and the stock has almost doubled during this period. The prime reasons for re-rating was (1) Strong growth in IITS business, 4 quarter CQGR of 6.1% (2) robust margin expansion, four quarter EBITDA CQGR of 11.9% (3) Strong growth from top clients and broad based growth across verticals (4) Platformation strategy yielding results, IP-led revenue four quarter CQGR of 9.6%.

IITS' strategy is to provide business solutions wrapped with IPs (Rezopia, Halosys, Brick & Click and RETINA) which is a major differentiator for Sonata, and is the base of its Platformation strategy. Focus on IPs and Platforms is driving Digital revenue (32% of rev, +20% YoY). We believe growth will continue led by traction in OPD and Travel vertical while Retail growth continues to remain robust. We expect IITS' USD

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
IITS Rev (USD mn)	25.9	26.0	27.4	28.5	29.2	31.2	30.3	30.7	32.7	36.4	37.4	38.9
Growth QoQ %	0.0%	0.4%	5.4%	4.0%	2.5%	6.8%	-2.9%	1.3%	6.5%	11.4%	2.7%	4.0%
Growth YoY%	12.1%	7.0%	9.6%	10.0%	12.7%	20.0%	10.6%	7.7%	12.0%	16.8%	23.4%	26.7%
IT Services EBITDA %	22.9%	23.0%	23.3%	16.9%	17.5%	19.8%	19.1%	18.0%	15.8%	17.6%	20.9%	21.0%
DPS EBITDA %	3.7%	5.7%	4.4%	4.2%	2.9%	4.8%	3.6%	2.7%	3.5%	7.0%	2.9%	3.0%
Revenue (Rs bn)	4.85	3.98	5.22	5.41	6.78	5.01	6.13	7.08	6.35	4.27	7.67	7.88
EBITDA (Rs bn)	1.09	0.48	0.57	0.46	0.44	0.51	0.54	0.44	0.48	0.55	0.65	0.69
PAT (Rs bn)	0.76	0.39	0.40	0.41	0.33	0.38	0.39	0.35	0.42	0.45	0.49	0.53

Source: Company, HDFC sec Inst Research

revenue to grow 16/17% in FY19/20E, and margin will be in the range of 20-21%.

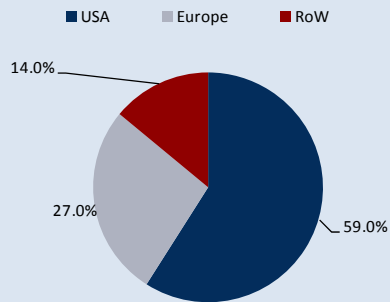
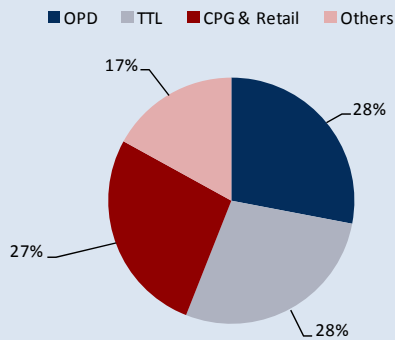
We like Sonata's IP-focussed business model, capability to scale up top accounts, quality balance sheet (net cash of Rs 37/share, ~11% of Mcap), high RoE (~31%), healthy dividend yield (~3%). The stock has doubled in the last six months and current valuations are at par mid-cap IT avg vs ~50% discount earlier. We maintain BUY with a TP of Rs 375 based on 16x FY20E earnings.

- Vikas Gurugunti (ex-DXE) has joined recently as the COO and will accelerate IP-led and platformation strategy for Sonata.

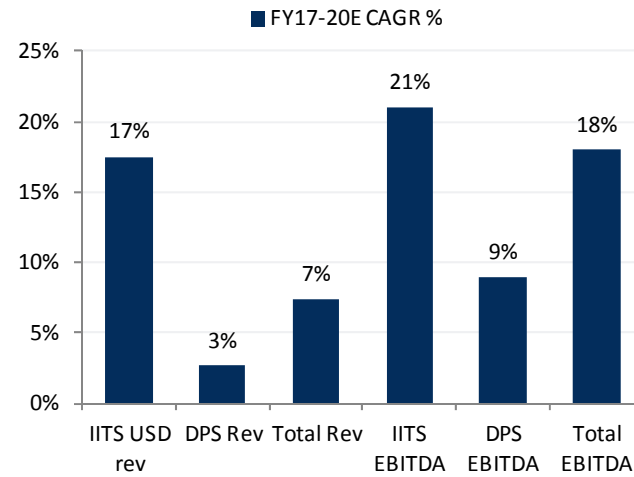
Financial Summary

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	19.41	25.21	26.26	28.55	31.24
EBITDA	1.92	1.92	2.19	2.71	3.16
APAT	1.59	1.54	1.78	2.14	2.45
Diluted EPS (Rs)	15.1	14.6	16.9	20.3	23.3
P/E (x)	22.1	22.7	19.7	16.4	14.3
EV / EBITDA (x)	16.7	16.9	14.8	11.9	10.0
RoE (%)	35.3	31.2	32.8	35.3	35.7

Source: Company, HDFC sec Inst Research

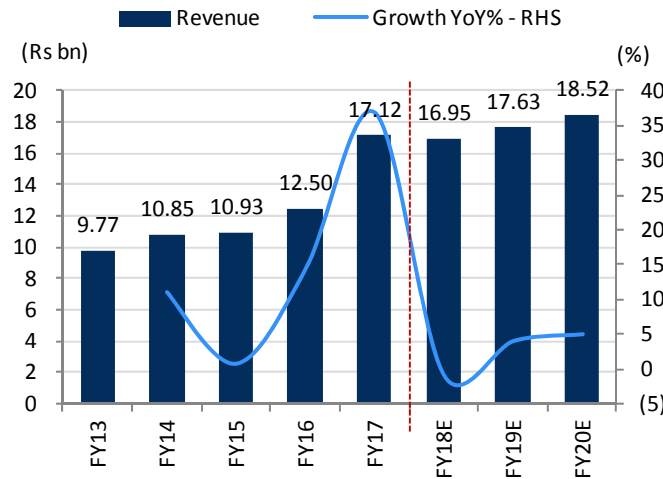


Segment Growth Trends, IITS To Witness Robust Growth, Albeit On A Lower Base



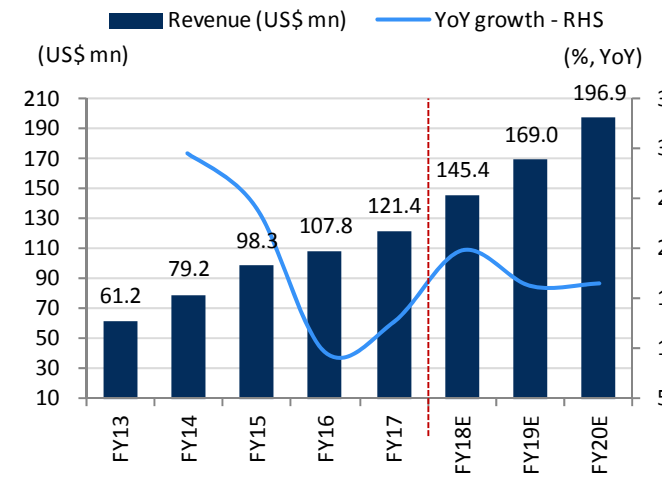
Source: Company, HDFC sec Inst Research

DPS Revenue Trend, Performance Measured on Absolute EBITDA



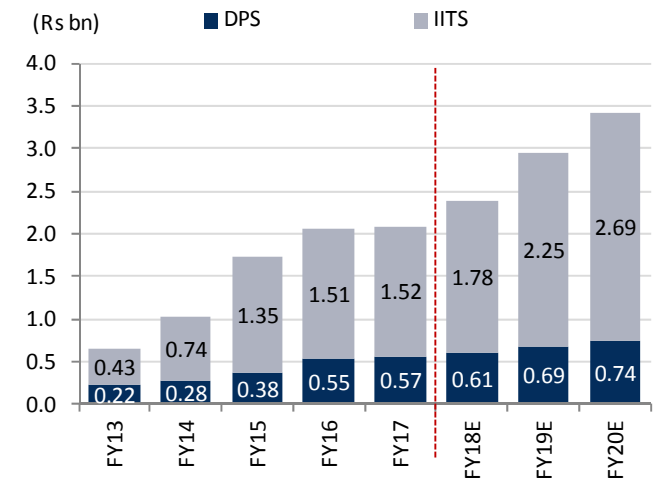
Source: Company, HDFC sec Inst Research

IITS Revenue Trend, FY13-17 CAGR of 19%



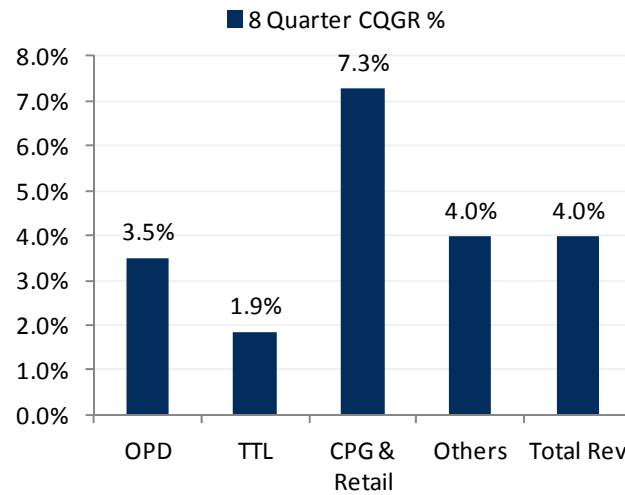
Source: Company, HDFC sec Inst Research

IITS & DPS EBITDA Contribution



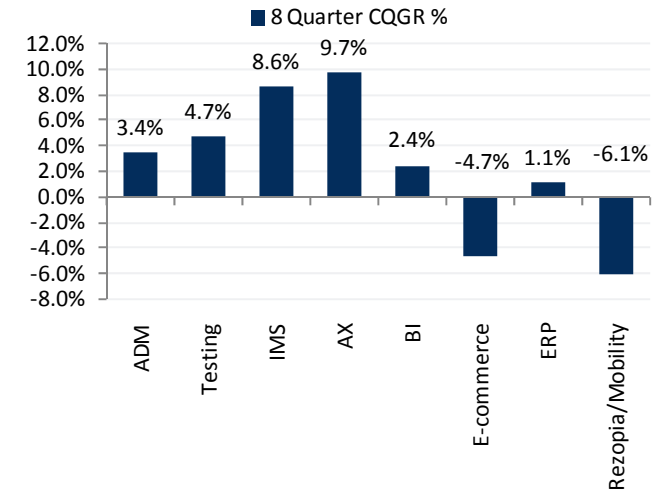
Source: Company, HDFC sec Inst Research

Retail Vertical Is Driving Growth, Future Growth Will be Broad Based

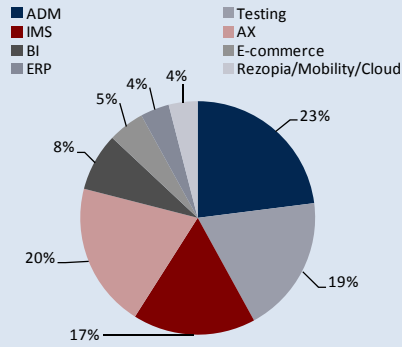


Source: Company, HDFC sec Inst Research

Among Service Lines, Microsoft AX & IMS Are Driving Growth

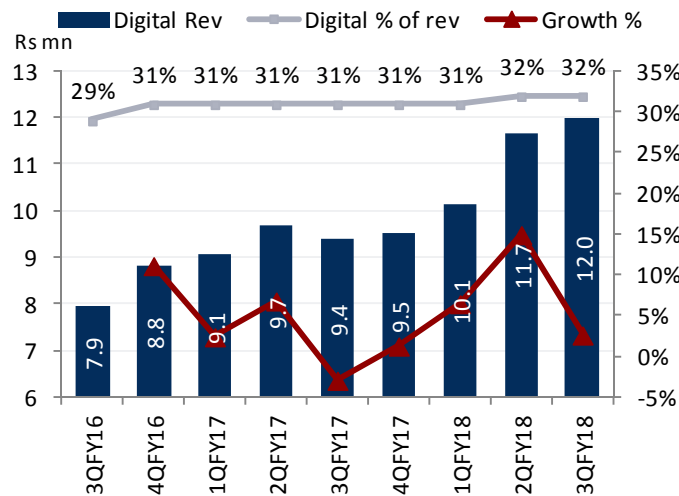


Source: Company, HDFC sec Inst Research



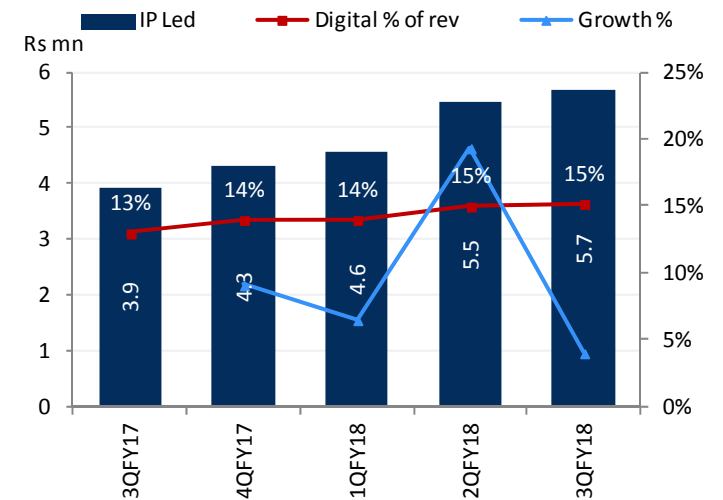
Particulars	Earlier est.	Revised est.	% change
FY19E			
Revenue (Rs bn)	28.46	28.55	0.3
EBITDA (Rs bn)	2.66	2.71	1.9
EBITDA margin (%)	9.3	9.5	15 bps
APAT (Rs bn)	2.10	2.14	1.7
FY20E			
Revenue (Rs bn)	31.14	31.24	0.3
EBITDA (Rs bn)	3.14	3.16	0.6
EBITDA margin (%)	10.1	10.1	3 bps
APAT (Rs bn)	2.44	2.45	0.5

Digital Revenue Growing At 5.3% CQGR Over Eight Quarters



Source: Company, HDFC sec Inst Research

IP-Led Revenue Driving Growth, 4 Qtr CQGR of 9.6%



Source: Company, HDFC sec Inst Research

Consolidated Income Statement

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
IITS USD Revenue (mn)	107.8	121.4	145.4	169.0	196.9
<i>Growth (%)</i>	9.7	12.6	19.8	16.2	16.5
Net Revenues	19.41	25.21	26.26	28.55	31.24
<i>Growth (%)</i>	15.4	29.9	4.2	8.7	9.4
Total Operating Expenses	17.49	23.29	24.07	25.84	28.08
EBITDA	1.92	1.92	2.19	2.71	3.16
<i>EBITDA (%)</i>	9.9	7.6	8.4	9.5	10.1
<i>EBITDA Growth (%)</i>	14.5	0.2	14.1	23.4	16.6
Depreciation	0.06	0.09	0.12	0.14	0.17
EBIT	1.86	1.83	2.07	2.56	2.98
Other Income	0.47	0.48	0.48	0.50	0.51
Interest	0.08	0.09	0.05	0.05	0.04
PBT	2.25	2.22	2.50	3.01	3.45
Tax (incl deferred)	0.67	0.68	0.73	0.87	1.00
RPAT	1.55	1.46	1.78	2.14	2.45
Minority Int. and associate profit	0.00	0.00	0.00	0.00	0.00
EO (Loss) / Profit (Net Of Tax)	0.04	0.08	0.00	0.00	0.00
APAT	1.59	1.54	1.78	2.14	2.45
<i>APAT Growth (%)</i>	18.6	(3.1)	15.5	20.5	14.6
EPS	15.1	14.6	16.9	20.3	23.3
<i>EPS Growth (%)</i>	18.6	(3.1)	15.5	20.5	14.6

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	0.11	0.11	0.11	0.11	0.11
Reserves	4.60	5.04	5.57	6.33	7.20
Total Shareholders' Funds	4.71	5.15	5.67	6.43	7.30
Minority Interest	0.00	0.00	0.00	0.00	0.00
Total Debt	1.71	0.34	0.34	0.34	0.34
Net Deferred Taxes	-0.13	-0.13	-0.13	-0.13	-0.13
Long-term Provisions & Others	0.16	0.19	0.19	0.19	0.19
TOTAL SOURCES OF FUNDS	6.46	5.55	6.08	6.84	7.70
APPLICATION OF FUNDS					
Net Block	0.29	0.29	0.43	0.57	0.71
CWIP	0.00	0.00	0.00	0.00	0.00
Goodwill & Other Intangible Assets	0.91	0.91	0.91	0.91	0.91
Investments	0.00	0.00	0.00	0.00	0.00
LT Loans & Advances, Others	0.66	0.80	0.88	0.97	1.06
Total Non Current Assets	1.86	2.00	2.22	2.44	2.68
Inventories	0.10	0.00	0.00	0.00	0.00
Debtors	3.54	5.23	5.40	5.87	6.42
Cash & Equivalents	3.47	3.66	3.62	4.05	4.61
Other Current Assets	0.81	0.94	1.04	1.14	1.25
Total Current Assets	7.93	9.83	10.05	11.06	12.28
Creditors	2.65	4.48	4.29	4.60	5.00
Other Current Liabilities & Provns	0.68	1.79	1.90	2.06	2.25
Total Current Liabilities	3.33	6.27	6.19	6.66	7.25
Net Current Assets	4.60	3.56	3.86	4.39	5.02
TOTAL APPLICATION OF FUNDS	6.46	5.55	6.08	6.84	7.70

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	2.25	2.22	2.50	3.01	3.45
Non-operating & EO items	(0.44)	(0.40)	(0.48)	(0.50)	(0.51)
Interest expenses	0.08	0.09	0.05	0.05	0.04
Depreciation	0.06	0.09	0.12	0.14	0.17
Working Capital Change	0.51	(0.05)	(0.42)	(0.18)	(0.17)
Tax paid	(0.67)	(0.68)	(0.73)	(0.87)	(1.00)
OPERATING CASH FLOW (a)	1.80	1.27	1.04	1.65	1.98
Capex	(0.10)	(0.09)	(0.26)	(0.29)	(0.31)
Free cash flow (FCF)	1.70	1.18	0.78	1.37	1.67
Investments	0.00	0.00	0.00	0.00	0.00
Non-operating income	0.44	0.40	0.48	0.50	0.51
INVESTING CASH FLOW (b)	0.34	0.32	0.22	0.21	0.20
Debt Issuance	1.47	(1.37)	0.00	0.00	0.00
Interest expenses	(0.08)	(0.09)	(0.05)	(0.05)	(0.04)
FCFE	3.09	(0.28)	0.73	1.32	1.63
Share capital Issuance	0.00	0.00	0.00	0.00	0.00
Dividend	(0.87)	(1.11)	(1.25)	(1.38)	(1.58)
FINANCING CASH FLOW (c)	0.52	(2.57)	(1.30)	(1.43)	(1.63)
NET CASH FLOW (a+b+c)	2.66	(0.99)	(0.04)	0.43	0.56
Non-operating and EO items	(1.83)	1.17	0.00	0.00	0.00
Closing Cash & Equivalents	3.47	3.66	3.62	4.05	4.61

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
EBITDA Margin	9.9	7.6	8.4	9.5	10.1
APAT Margin	8.2	6.1	6.8	7.5	7.8
RoE	35.3	31.2	32.8	35.3	35.7
RoIc or Core RoCE	43.6	65.7	59.8	65.3	68.4
RoCE	23.8	20.8	25.3	28.2	29.1
EFFICIENCY					
Tax Rate (%)	30.1	31.8	29.0	29.0	29.0
Fixed Asset Turnover (x)	18.2	21.8	18.5	16.8	15.5
Inventory (days)	2	0	0	0	0
Debtors (days)	67	76	75	75	75
Other Current Assets (days)	15	14	14	15	15
Payables (days)	55	70	65	65	65
Other Current Liab & Provns (days)	13	26	26	26	26
Inventory (days)	16	(7)	(2)	(2)	(2)
Net Debt/EBITDA (x)	(0.9)	(1.7)	(1.5)	(1.4)	(1.4)
Net Debt/Equity (x)	(0.4)	(0.6)	(0.6)	(0.6)	(0.6)
Interest Coverage (x)	23.4	20.2	40.3	53.3	66.9
PER SHARE DATA					
EPS (Rs/sh)	15.1	14.6	16.9	20.3	23.3
CEPS (Rs/sh)	15.7	15.5	18.0	21.7	24.9
DPS (Rs/sh)	7.0	9.0	10.1	11.2	12.8
BV (Rs/sh)	44.8	49.0	54.0	61.2	69.4
VALUATION					
P/E	22.1	22.7	19.7	16.4	14.3
P/BV	7.4	6.8	6.2	5.4	4.8
EV/EBITDA	16.7	16.9	14.8	11.9	10.0
OCF/EV (%)	5.6	3.9	3.2	5.1	6.3
FCF/EV (%)	5.3	3.6	2.4	4.3	5.3
FCFE/mkt cap (%)	8.8	(0.8)	2.1	3.8	4.6
Dividend Yield (%)	2.1	2.7	3.0	3.4	3.9

Source: Company, HDFC sec Inst Research

Intellect Design Arena

BUY

INDUSTRY	IT
CMP (as on 11 Apr 2018)	Rs 169
Target Price	Rs 240
Nifty	10,417
Sensex	33,940

KEY STOCK DATA

Bloomberg	INDA IN
No. of Shares (mn)	126
MCap (Rs bn) / (\$ mn)	21/326
6m avg traded value (Rs mn)	130

STOCK PERFORMANCE (%)

52 Week high / low	Rs 205/97		
	3M	6M	12M
Absolute (%)	(5.9)	32.7	51.8
Relative (%)	(4.3)	26.1	37.8

SHAREHOLDING PATTERN (%)

Promoters	31.14
FIs & Local MFs	7.32
FPIs	13.25
Public & Others	48.29

Source : BSE

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Deal traction & improved execution

We maintain our positive outlook on the company based on (1) Huge addressable market opportunity of ~USD 9-10bn (2) Highly-rated and digital ready product portfolio covering the whole financial domain, (3) Robust deal funnel (4) increased traction in Digital deal wins (5) Huge scope for monetisation of existing product portfolio (6) Significant improvement in order book (Rs 9.51bn ~92% of TTM revenue) and (6) Increased focus on improving margins and reducing cash burn.

Deal wins have improved significantly in the last three quarters, which signifies better acceptance of the Intellect product suite. The deal funnel remains impressive at USD 440mn (~USD 200mn is licence component), with 215 opportunities and 28 active pursuits. The digital deal size is increasing and the win ratio is at ~25-30%. We expect Revenue CAGR of 19% over FY17-20E and EBITDA margin will expand with operating leverage. Our EBITDA margin estimate for FY18/19/20E stands at 7.2/10.8/13.4% respectively. We value the company based on 2.0x FY20E EV/rev

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Total Rev (USD mn)	30.4	31.9	29.4	32.1	30.7	34.5	33.6	37.4	37.4	41.8	41.8	43.6
Growth QoQ %	17.4%	5.1%	-8.0%	9.2%	-4.2%	12.2%	-2.7%	11.3%	0.1%	11.6%	0.2%	4.3%
Growth YoY%	26.4%	34.5%	13.8%	24.0%	1.2%	8.0%	14.2%	16.5%	21.7%	21.0%	24.6%	16.7%
Gross Margin %	51.6%	52.9%	51.3%	51.2%	50.8%	50.0%	46.1%	50.2%	49.2%	49.7%	49.3%	49.0%
EBITDA %	-5.0%	-3.0%	-7.5%	1.5%	-6.0%	-4.3%	-8.2%	6.3%	6.7%	8.1%	5.9%	8.0%
Revenue (Rs bn)	1.93	2.07	1.94	2.17	2.06	2.31	2.26	2.50	2.41	2.68	2.71	2.81
EBITDA (Rs bn)	-0.10	-0.06	-0.15	0.03	-0.12	-0.10	-0.18	0.16	0.16	0.22	0.16	0.23
PAT (Rs bn)	-0.11	-0.08	-0.12	0.14	-0.06	-0.14	-0.16	0.15	0.01	0.08	0.12	0.15

Source: Company, HDFC sec Inst Research

multiple (~70% discount to Temenos multiple, global competitor) to arrive at a TP of Rs 240.

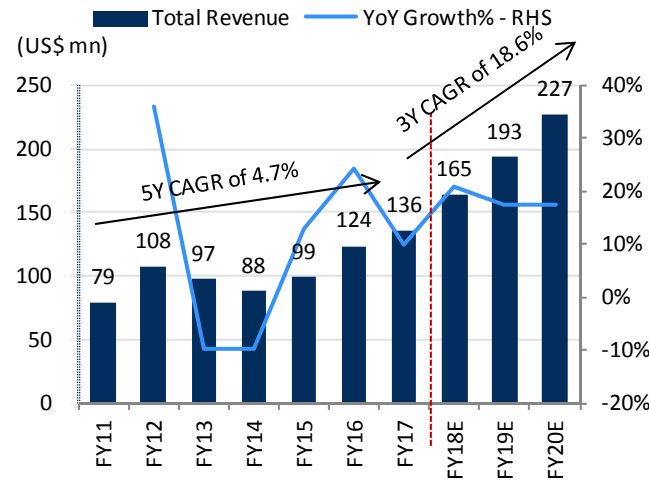
- The company has become very selective in the deals they chase; this has reduced the pre-sales expenses and resulted in lower SG&A.
- There is no major risk from shift to cloud as most of Intellect products are Digital and cloud ready and can be shifted as per client specification.
- Competition has reduced in smaller deal sizes due to consolidation in the industry and cash collection cycle has improved significantly in the last two quarters (DSO days stood 148 days vs 188 days a year back).

Financial Summary

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	8.11	9.14	10.61	12.57	14.76
EBITDA	(0.27)	(0.25)	0.77	1.36	1.97
APAT	(0.17)	(0.21)	0.36	0.97	1.50
Adjusted EPS (Rs)	(1.4)	(1.7)	2.9	7.8	12.1
P/E (x)	NM	NM	58.5	21.6	14.0
EV / Revenue (x)	2.6	2.4	2.0	1.7	1.5
RoE (%)	(2.7)	(3.4)	5.0	11.0	14.9

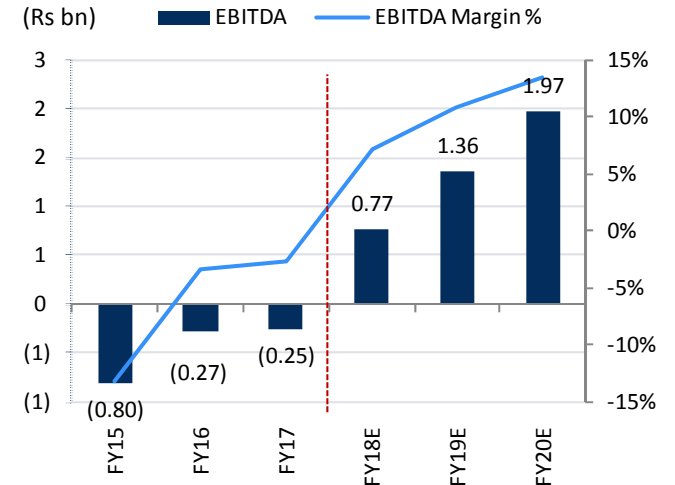
Source: Company, HDFC sec Inst Research

Revenue Growth To Accelerate Led By Improving Demand Environment & Product Acceptance



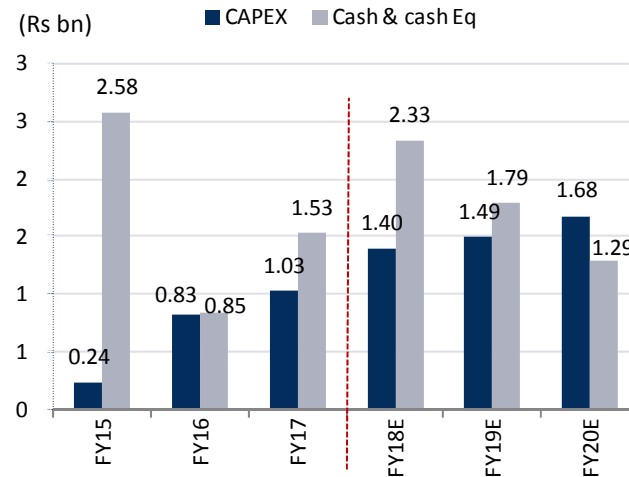
Source: Company, HDFC sec Inst Research

EBITDA & EBITDA Margin To Improve Due to Non-linearity



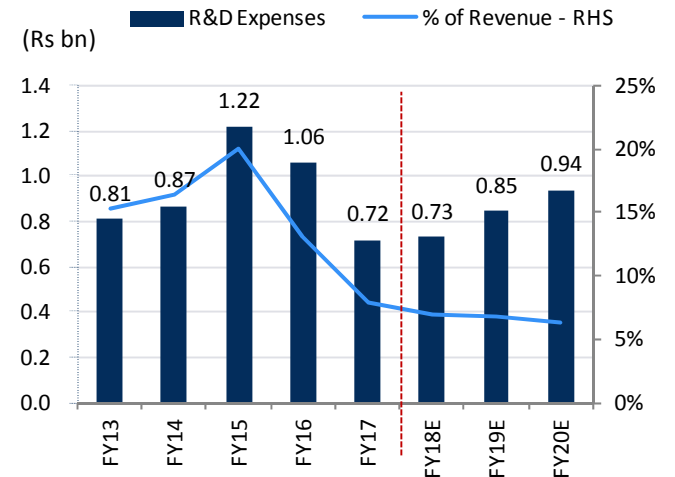
Source: Company, HDFC sec Inst Research

Part Of R&D Expenses are Capitalisation Leading to High Capex And Cash Burn



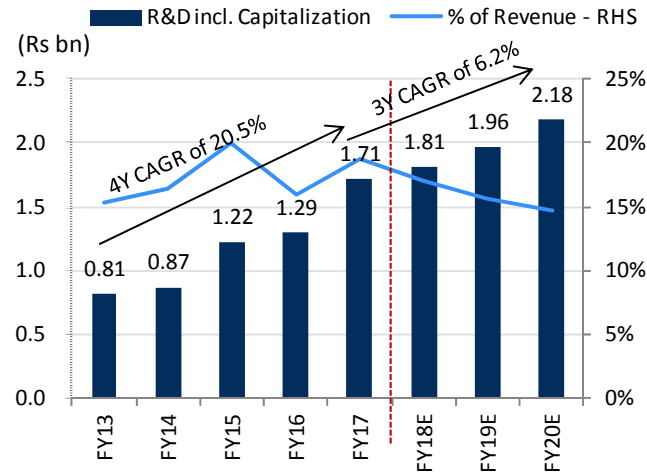
Source: Company, HDFC sec Inst Research

R&D Expenses Excluding Capitalised Expenses



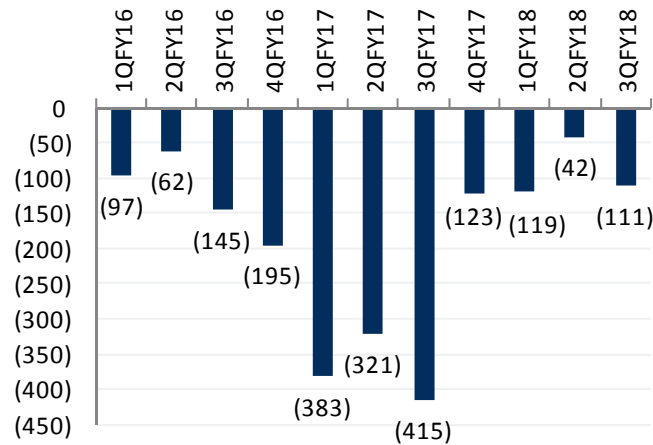
Source: Company, HDFC sec Inst Research

R&D Expenses Including Capitalisation



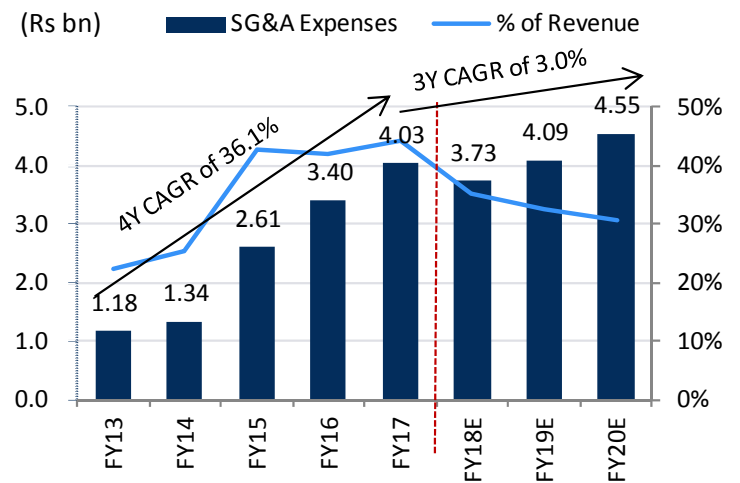
Source: Company, HDFC sec Inst Research

Cash Burn Improved Significantly



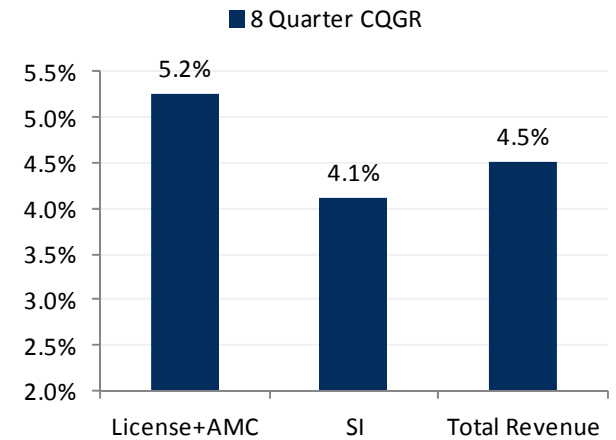
Source: Company, HDFC sec Inst Research

SG&A Expenses To Be Under Check



Source: Company, HDFC sec Inst Research

License Growth Has Been Robust Led By Deal Wins



Source: Company, HDFC sec Inst Research

Particulars	Earlier est	Revised est	% change
FY19E			
Revenue (US\$m)	191	193	1.1
Revenue (Rsbn)	12.43	12.57	1.1
EBITDA (Rsbn)	1.43	1.36	(5.0)
EBITDA margin (%)	11.5	10.8	(69)bps
EPS (Rs)	8.3	7.8	(5.4)
FY20E			
Revenue (US\$m)	224	227	1.2
Revenue (Rsbn)	14.59	14.76	1.2
EBITDA (Rsbn)	2.06	1.97	(4.3)
EBITDA margin (%)	14.1	13.4	(77)bps
EPS (Rs)	12.6	12.1	(4.4)

Income Statement (Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues (USD mn)	124	136	165	193	227
Growth (%)	24.5%	10.0%	20.9%	17.5%	17.4%
Net Revenues	8.11	9.14	10.61	12.57	14.76
Growth (%)	33.2%	12.7%	16.2%	18.5%	17.4%
Software development expenses (SDE)	3.91	4.63	5.38	6.27	7.30
SG&A	3.40	4.03	3.73	4.09	4.55
R&D	1.06	0.72	0.73	0.85	0.94
EBITDA	(0.27)	(0.25)	0.77	1.36	1.97
EBITDA Margin (%)	-3.4%	-2.7%	7.2%	10.8%	13.4%
EBITDA Growth (%)	NM	NM	NM	49.8%	23.6%
Depreciation	0.21	0.24	0.25	0.26	0.25
EBIT	(0.48)	(0.49)	0.52	1.10	1.72
Other Income (Including EO Items)	0.23	0.36	0.15	0.15	0.18
Interest	0.01	0.11	0.15	0.13	0.12
PBT	(0.26)	(0.25)	0.52	1.12	1.78
Tax (Incl Deferred)	(0.09)	0.03	0.10	0.22	0.36
Minority Interest	(0.01)	(0.07)	0.06	(0.08)	(0.08)
RPAT	(0.17)	(0.21)	0.36	0.97	1.50
EO (Loss) / Profit (Net Of Tax)	0.00	0.00	0.00	0.00	0.00
APAT	(0.17)	(0.21)	0.36	0.97	1.50
APAT Growth (%)	NM	NM	NM	170.4%	54.4%
Adjusted EPS (Rs)	(1.4)	(1.7)	2.9	7.8	12.1
EPS Growth (%)	NM	NM	NM	170.4%	54.4%

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	0.50	0.51	0.51	0.51	0.51
Reserves	5.69	5.47	7.82	8.80	10.30
Total Shareholders Funds	6.19	5.98	8.33	9.30	10.81
Total Debt	0.23	2.32	1.82	1.82	1.82
Net Deferred Taxes	-0.07	-0.11	-0.11	-0.11	-0.11
Long Term Provisions & Others	0.03	0.00	0.00	0.00	0.00
TOTAL SOURCES OF FUNDS	6.39	8.20	10.11	11.00	12.43
APPLICATION OF FUNDS					
Net Block	1.95	2.00	2.08	2.19	2.38
CWIP	0.66	1.38	2.46	3.58	4.81
Goodwill	0.78	0.77	0.77	0.77	0.77
Investments	0.31	0.22	0.22	0.22	0.22
LT Loans & Advances	0.89	0.98	1.11	1.32	1.55
Total Non-current Assets	4.58	5.36	6.65	8.08	9.74
Debtors	1.60	2.05	2.27	2.58	3.03
Other Current Assets	2.53	2.79	2.81	3.16	3.71
Cash & Equivalents	0.85	1.53	2.33	1.79	1.29
Total Current Assets	4.98	6.37	7.41	7.53	8.04
Creditors	1.82	1.44	1.62	1.84	2.10
Other Current Liabilities & Provns	1.35	2.09	2.33	2.77	3.25
Total Current Liabilities	3.17	3.53	3.95	4.61	5.35
Net Current Assets	1.81	2.84	3.46	2.92	2.69
TOTAL APPLICATION OF FUNDS	6.39	8.20	10.11	11.00	12.43

Source: Company, HDFC sec Inst Research

Cash Flow Statement (Consolidated)

YE March (Rs bn)	FY16	FY17E	FY18E	FY19E	FY19E
Reported PBT	(0.26)	(0.25)	0.52	1.12	1.78
Non-operating & EO items	0.03	(0.36)	(0.15)	(0.15)	(0.18)
Interest expenses	0.01	0.11	0.15	0.13	0.12
Depreciation	0.21	0.24	0.25	0.26	0.25
Working Capital Change	(0.88)	(0.46)	0.04	(0.21)	(0.49)
Tax Paid	(0.20)	(0.03)	(0.10)	(0.22)	(0.36)
OPERATING CASH FLOW (a)	(1.10)	(0.74)	0.70	0.92	1.13
Capex	(0.83)	(1.03)	(1.40)	(1.49)	(1.68)
Free cash flow (FCF)	(1.93)	(1.77)	(0.69)	(0.57)	(0.55)
Investments	(0.05)	(0.08)	0.00	0.00	0.00
Non-operating Income	0.08	0.36	0.15	0.15	0.18
INVESTING CASH FLOW (b)	(0.80)	(0.75)	(1.25)	(1.34)	(1.50)
Debt Issuance/(Repaid)	0.15	2.09	(0.50)	0.00	0.00
Interest Expenses	(0.01)	(0.11)	(0.15)	(0.13)	(0.12)
FCFE	(1.79)	0.21	(1.34)	(0.70)	(0.67)
Share Capital Issuance/Rights Issue	0.04	0.00	1.99	0.00	0.00
Dividend	0.00	0.00	0.00	0.00	0.00
FINANCING CASH FLOW (c)	0.18	1.99	1.34	(0.13)	(0.12)
NET CASH FLOW (a+b+c)	(1.72)	0.50	0.80	(0.55)	(0.50)
EO Items, Others	(0.01)	(0.19)	0.00	0.00	0.00
Closing Cash & Equivalents	0.85	1.53	2.33	1.79	1.29

Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY16	FY17E	FY18E	FY19E	FY19E
PROFITABILITY (%)					
GPM	51.7	49.3	49.3	50.1	50.6
EBITDA Margin	(3.4)	(2.7)	7.2	10.8	13.4
APAT Margin	(2.1)	(2.3)	3.4	7.7	10.2
RoE	(2.7)	(3.4)	5.0	11.0	14.9
RoIC (or Core RoCE)	(3.8)	(5.7)	3.7	6.7	8.9
RoCE	(1.7)	(0.8)	3.7	7.2	9.6
EFFICIENCY					
Tax Rate (%)	34.3	(11.5)	19.0	20.0	20.0
Fixed Asset Turnover (x)	1.9	2.0	2.2	2.4	2.6
Debtors (days)	72.2	81.8	78.0	75.0	75.0
Other Current Assets (days)	113.8	111.5	96.8	91.8	91.8
Payables (days)	79.3	56.0	60.0	60.0	60.0
Other Current Liab & Provns (days)	60.7	83.7	80.3	80.3	80.3
Cash Conversion Cycle (days)	46.0	53.6	34.5	26.5	26.5
Debt/EBITDA (x)	(0.8)	(9.3)	2.4	1.3	0.9
Net D/E (x)	(0.1)	0.2	(0.0)	0.0	0.1
Interest Coverage (x)	(22.8)	(2.2)	5.3	10.7	16.0
PER SHARE DATA (Rs)					
EPS	(1.4)	(1.7)	2.9	7.8	12.1
CEPS	0.3	0.3	4.9	9.9	14.1
Dividend	0.0	0.0	0.0	0.0	0.0
Book Value	49.8	48.2	67.1	74.9	87.0
VALUATION					
P/E (x)	NM	NM	58.5	21.6	14.0
P/BV (x)	3.4	3.5	2.5	2.3	1.9
EV/EBITDA (x)	(76.2)	(89.0)	27.3	15.8	11.1
EV/Revenues (x)	2.6	2.4	2.0	1.7	1.5
OCF/EV (%)	(5.3)	(3.3)	3.4	4.3	5.1
FCF/EV (%)	(9.3)	(8.0)	(3.3)	(2.7)	(2.5)
FCFE/Mkt Cap (%)	(8.5)	1.0	(6.4)	(3.3)	(3.2)
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, HDFC sec Inst Research; N.A – Not Applicable, NM – Not Meaningful

INDUSTRY	IT		
CMP (as on 11 Apr 2018)	Rs 477		
Target Price	Rs 660		
Nifty	10,417		
Sensex	33,940		
KEY STOCK DATA			
Bloomberg	MJCO IN		
No. of Shares (mn)	28		
MCap (Rs bn) / (\$ mn)	13/205		
6m avg traded value (Rs mn)	113		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 604/299		
	3M	6M	12M
Absolute (%)	(11.3)	(4.1)	21.0
Relative (%)	(9.6)	(10.7)	7.0
SHAREHOLDING PATTERN (%)			
Promoters	47.94		
FIs & Local MFs	9.62		
FPIs	0.76		
Public & Others	41.68		
<i>Source : BSE</i>			

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Strong deal momentum

We have a positive view on Majesco based on (1) Rising adoption of third-party software by US P&C and L&A insurance majors, (2) First deal win (Metlife) from the IBM partnership is gaining traction (3) Traction in cloud revenue (~30% of rev, +46% YoY), (4) Improving deal traction from the non-IBM channel (10 wins in 3Q), and (5) Expected ramp-up in cloud subscription revenue (~10% of rev) which is annuity in nature and have gross margin of ~80%.

Cloud is the main revenue driver, growing at a CQGR of 7.6% for the last quarters and ~80% of the deal pipeline is cloud. Revenue ex-cloud is down at a CQGR of 1.2%, reflecting a clear shift from on-premise to cloud model. The IBM alliance is strategically very crucial for Majesco, and can drive significant growth ahead (chasing 3-4 large deals). The total opportunity size of the partnership is ~USD 300-400mn over a five-year period. Majesco has successfully raised Rs 2.3bn from QIP (at Rs 520/share, ~19% dilution) and will use this money to fund growth and acquire capabilities.

Quarterly Summary

YE March	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18E
Total Rev (USD mn)	23.2	28.2	29.6	32.3	32.6	31.0	30.0	28.2	27.9	30.3	31.8	33.5
Growth QoQ %	NA	21.8%	5.0%	9.0%	0.8%	-4.6%	-3.3%	-6.2%	-0.8%	8.7%	4.7%	5.4%
Growth YoY%	NA	NA	NA	NA	40.5%	10.1%	1.3%	-12.8%	-14.2%	-2.3%	5.9%	18.9%
Cloud Rev (USD mn)	4.1	4.1	5.5	6.2	5.9	6.3	5.9	5.3	7.2	9.3	9.8	11.2
EBITDA %	5.7%	0.7%	-1.4%	1.2%	1.2%	5.9%	5.7%	2.8%	-2.9%	1.1%	4.5%	6.9%
Revenue (Rs bn)	1.50	1.87	1.98	2.22	2.21	2.11	2.05	1.91	1.83	1.99	2.07	2.16
EBITDA (Rs bn)	0.09	0.01	(0.03)	0.03	0.03	0.12	0.12	0.05	(0.05)	0.02	0.09	0.15
PAT (Rs bn)	0.04	0.01	0.09	(0.02)	(0.01)	0.05	0.05	0.02	(0.03)	0.00	(0.13)	0.07

Source: Company, HDFC sec Inst Research

We expect revenue to grow at a CAGR of 18% over FY18-20E driven by 50% CAGR in cloud revenue. EBITDA margin will expand with growth and is expected at 6.5/10.5% for FY19/20E. We maintain BUY with a TP of Rs 660 (upside of 40%) based on EV/rev multiple of 2.0x (~70% discount to Guidewire).

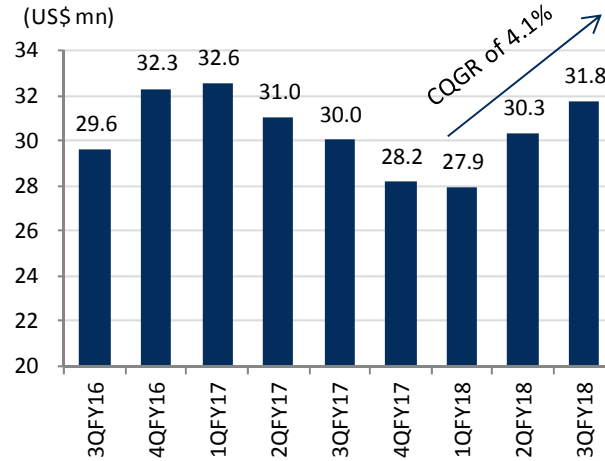
- On-premise revenue decline has stabilized in fact there has been one on-premise deal win in 3Q.
- Margin to reach double digit when quarterly run-rate will reached ~USD 40-41mn.

Financial Summary

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	7.57	8.28	8.05	9.42	11.13
EBITDA	0.10	0.32	0.21	0.61	1.17
APAT	0.12	0.12	-0.10	0.28	0.59
Diluted EPS (Rs)	4.1	4.1	(3.4)	9.9	21.0
P/E (x)	115.3	114.9	NM	48.4	22.7
EV / Revenue (x)	1.7	1.5	1.3	1.1	0.9
RoE (%)	4.2%	4.1%	-2.4%	5.3%	10.5%

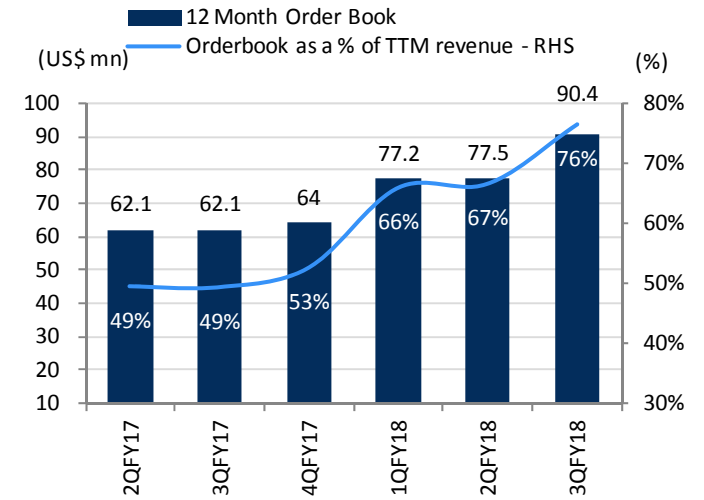
Source: Company, HDFC sec Inst Research

USD Revenue Growth Trajectory



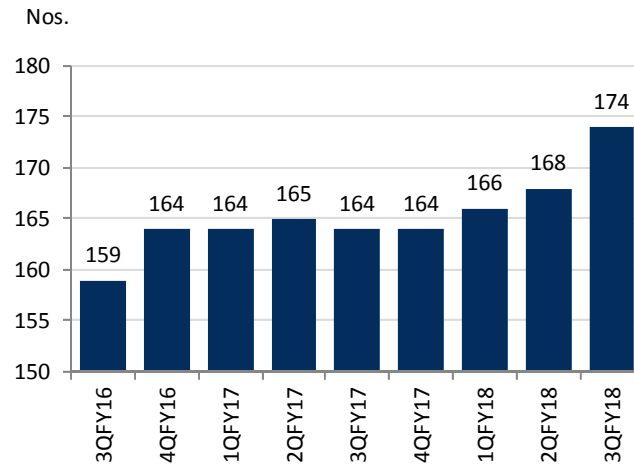
Source: Company, HDFC sec Inst Research

Order Book Remains Healthy



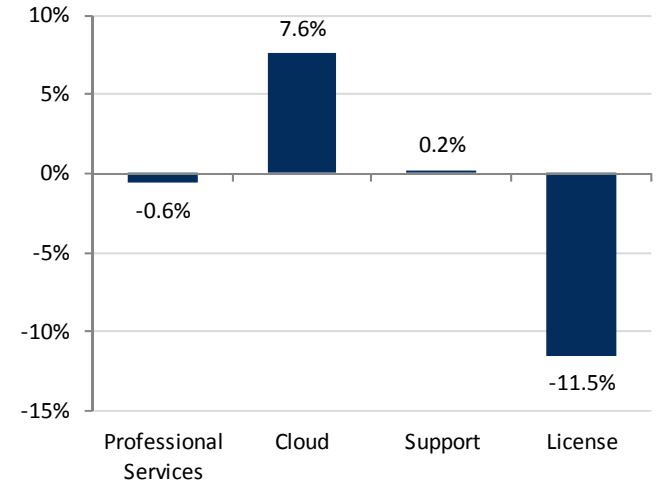
Source: Company, HDFC sec Inst Research

Robust Deal Wins In the Last Two Quarters

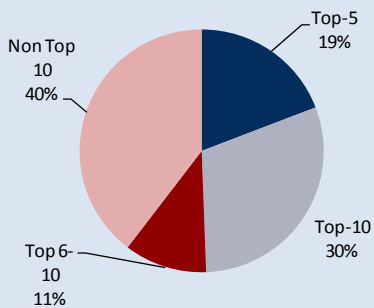
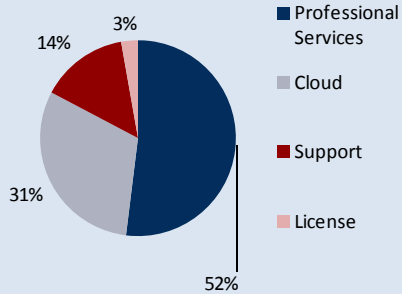
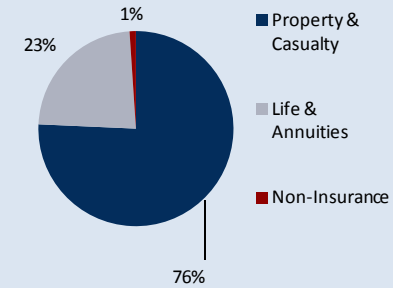


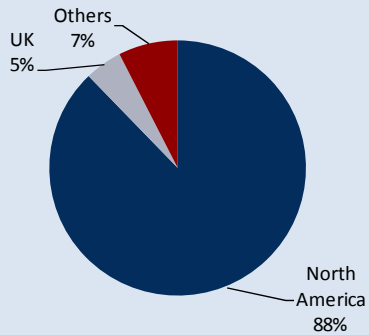
Source: Company, HDFC sec Inst Research

Cloud Is Driving Growth (Eight Quarter CQGR)

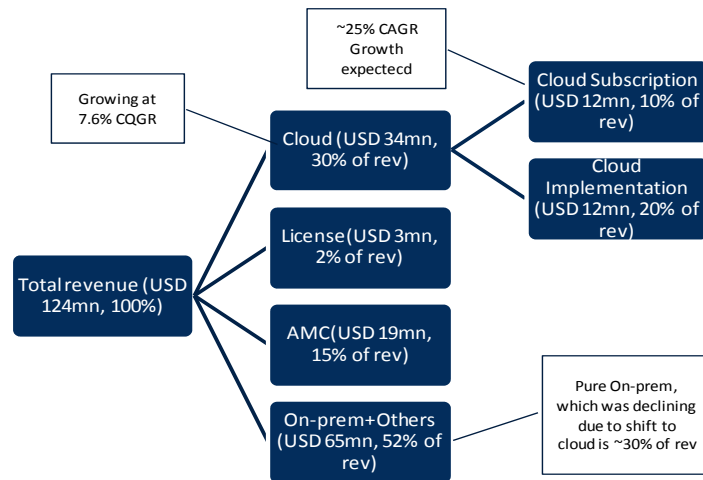


Source: Company, HDFC sec Inst Research



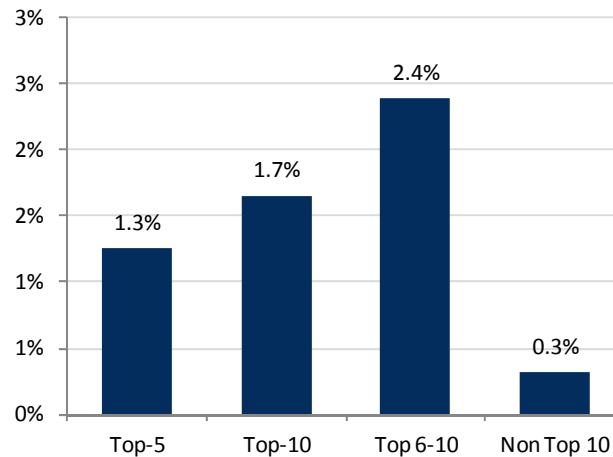


Revenue Split for FY18 (Approx)



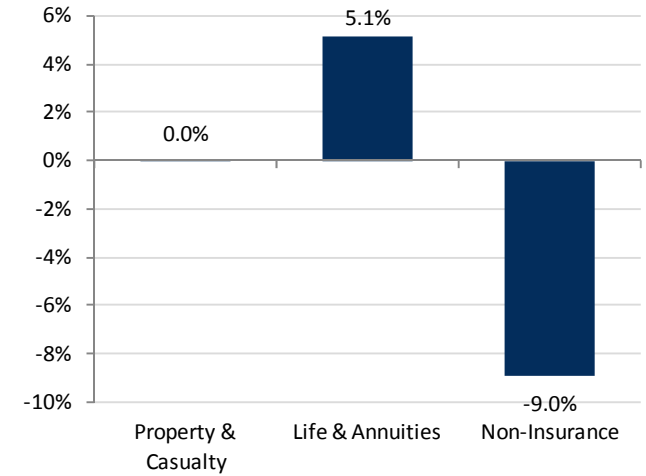
Source: Company, HDFC sec Inst Research

Client Bucket Growth Performance (Eight Quarter CQGR)



Source: Company, HDFC sec Inst Research

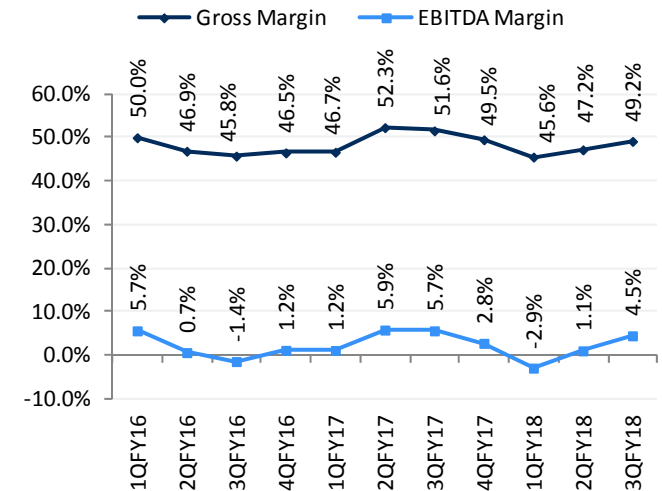
L&A is Driving Growth Led by Metlife while P&C Has Potential To Grow (Eight Quarter CQGR)



Source: Company, HDFC sec Inst Research

Particulars	Earlier est	Revised est	% change
FY19E			
Revenue (USD mn)	145	145	0.0
Revenue (Rs bn)	9.42	9.42	0.0
EBITDA (Rs bn)	0.61	0.61	0.0
EBITDA margin (%)	6.5	6.5	0bps
EPS (Rs)	9.5	9.9	4.0
FY20E			
Revenue (USD mn)	175	171	(2.3)
Revenue (Rs bn)	11.40	11.13	(2.3)
EBITDA (Rs bn)	1.18	1.17	(1.1)
EBITDA margin (%)	10.4	10.5	13 bps
EPS (Rs)	20.8	21.0	1.1

Gross & EBITDA Margin Trend



Source: Company, HDFC sec Inst Research

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Income Statement (Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues USD (mn)	113	122	124	145	171
Growth (%)	42.9%	7.5%	1.4%	17.3%	18.2%
Net Revenues	7.57	8.28	8.05	9.42	11.13
Growth (%)	56.0%	9.4%	-2.8%	17.0%	18.2%
Employee Cost	4.00	4.14	4.16	4.77	5.56
Research and development expenses	1.04	1.12	1.09	1.24	1.30
Selling, general and administrative	2.43	2.69	2.58	2.80	3.10
EBIDTA	0.10	0.32	0.21	0.61	1.17
EBIDTA (%)	1.3%	3.9%	2.6%	6.5%	10.5%
EBIDTA Growth (%)	2.0%	225.3%	-33.9%	187.0%	91.1%
Depreciation	0.18	0.22	0.18	0.20	0.22
EBIT	-0.08	0.11	0.03	0.41	0.95
Other Income	0.09	0.09	0.08	0.11	0.13
Interest	0.04	0.07	0.04	0.03	0.03
PBT	-0.03	0.13	0.07	0.49	1.05
Tax (Incl deffered)	-0.15	-0.01	0.16	0.10	0.21
Minority Interest and associate profit	0.00	0.03	0.01	0.12	0.25
RPAT	0.07	0.09	0.01	0.28	0.59
EO items	0.05	0.03	-0.11	0.00	0.00
APAT	0.12	0.12	-0.10	0.28	0.59
APAT Growth (%)	316.4%	0.4%	NM	NM	113.4%
EPS	4.1	4.1	-3.4	9.9	21.0
EPS Growth (%)	316.4%	0.4%	NM	NM	113.4%

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	0.12	0.12	0.14	0.14	0.14
Reserves	2.64	2.73	5.00	5.22	5.75
Total Shareholders' Funds	2.76	2.85	5.14	5.36	5.89
Minority Interest	0.72	0.75	0.76	0.88	1.13
Total Debt	0.92	0.72	1.02	1.02	1.02
Net Deferred Taxes	(0.38)	(0.40)	(0.40)	(0.40)	(0.40)
Long Term Provisions & Others	0.52	0.49	0.51	0.54	0.56
TOTAL SOURCES OF FUNDS	4.54	4.41	7.03	7.39	8.20
APPLICATION OF FUNDS					
Net Block	0.67	0.64	0.71	0.81	0.89
Goodwill	1.92	1.88	1.88	1.88	1.88
Investments	0.02	0.02	0.02	0.02	0.02
LT Loans & Advances	0.11	0.13	0.14	0.16	0.17
Total Non-current Assets	2.72	2.68	2.75	2.87	2.97
Inventories	0.00	0.00	0.00	0.00	0.00
Debtors	1.52	0.83	1.21	1.42	1.68
Other Current Assets	0.84	0.79	0.77	0.90	1.06
Cash & Equivalents	1.27	1.72	3.95	3.94	4.44
Total Current Assets	3.63	3.34	5.93	6.26	7.18
Creditors	0.18	0.14	0.15	0.15	0.17
Other Current Liabilities & Provns	1.64	1.46	1.51	1.58	1.77
Total Current Liabilities	1.82	1.60	1.65	1.74	1.95
Net Current Assets	1.82	1.74	4.28	4.52	5.23
TOTAL APPLICATION OF FUNDS	4.54	4.41	7.03	7.39	8.20

Source: Company, HDFC sec Inst Research

Cash Flow Statement (Consolidated)

YE March (Rs bn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	(0.08)	0.11	0.18	0.49	1.05
Non-operating & EO items	(0.14)	(0.12)	0.02	(0.11)	(0.13)
Interest expenses	0.04	0.07	0.04	0.03	0.03
Depreciation	0.18	0.22	0.18	0.20	0.22
Working Capital Change	(0.48)	0.50	(0.29)	(0.23)	(0.18)
Tax Paid	0.15	0.01	(0.16)	(0.10)	(0.21)
OPERATING CASH FLOW (a)	(0.32)	0.78	(0.02)	0.28	0.77
Capex	(0.33)	(0.19)	(0.25)	(0.30)	(0.30)
Free cash flow (FCF)	(0.65)	0.59	(0.27)	(0.02)	0.47
Investments	0.00	0.00	0.00	0.00	0.00
Non Operating Income	0.04	0.12	0.07	0.10	0.12
INVESTING CASH FLOW (b)	(0.29)	(0.07)	(0.18)	(0.20)	(0.18)
Debt issuance/(repayment)	0.11	(0.20)	0.30	0.00	0.00
Interest expenses	(0.04)	(0.07)	(0.04)	(0.03)	(0.03)
FCFE	(0.81)	0.72	(0.61)	(0.05)	0.44
Share capital Issuance/QIP	0.00	0.00	2.31	0.00	0.00
Dividend	0.00	0.00	(0.03)	(0.06)	(0.06)
FINANCING CASH FLOW (c)	0.07	(0.26)	2.54	(0.09)	(0.09)
NET CASH FLOW (a+b+c)	(0.54)	0.45	2.34	(0.01)	0.50
Non-operating and EO items	0.28	0.00	(0.11)	(0.00)	(0.00)
Closing Cash & Equivalents	1.27	1.72	3.95	3.94	4.44

Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	47.1%	50.0%	48.3%	49.4%	50.0%
EBITDA Margin	1.3%	3.9%	2.6%	6.5%	10.5%
APAT Margin	1.5%	1.4%	-1.2%	2.9%	5.3%
RoE	4.2%	4.1%	-2.4%	5.3%	10.5%
RoIC or Core RoCE	2.6%	4.0%	0.1%	10.1%	21.1%
RoCE	-1.9%	1.7%	-0.2%	4.6%	9.8%
EFFICIENCY					
Tax Rate (%)	N.M.	-12.6%	88.0%	20.0%	20.0%
Fixed Asset Turnover (x)	7.6	7.0	5.6	5.4	5.5
Debtors (days)	73	37	55	55	55
Other Current Assets (days)	41	35	35	35	35
Payables (days)	9	6	7	6	6
Other Current Liab & Provns (days)	79	64	68	61	58
Cash Conversion Cycle (days)	26	1	15	22	26
Net Debt/EBITDA (x)	(3.6)	(3.1)	(13.8)	(4.8)	(2.9)
Net D/E	(0.1)	(0.4)	(0.6)	(0.5)	(0.6)
Interest Coverage	2.3	4.8	5.2	18.4	35.2
PER SHARE DATA					
EPS (Rs/sh)	4.1	4.1	(3.4)	9.9	21.0
CEPS (Rs/sh)	10.5	11.9	3.1	16.9	28.8
DPS (Rs/sh)	0.0	0.0	1.2	2.1	2.1
BV (Rs/sh)	98.6	101.9	183.8	191.5	210.4
VALUATION					
P/E	115.3	114.9	(140.2)	48.4	22.7
P/BV	4.8	4.7	2.6	2.5	2.3
EV/Revenue	1.7	1.5	1.3	1.1	0.9
EV/EBITDA	131.2	38.3	48.9	17.1	8.5
OCF/EV (%)	N.A.	6.3%	-0.2%	2.7%	7.8%
FCF/EV (%)	N.A.	4.8%	-2.6%	-0.2%	4.8%
FCFE/mkt cap (%)	N.A.	5.4%	-4.6%	-0.4%	3.3%
Dividend Yield (%)	0.0%	0.0%	0.2%	0.4%	0.4%

Source: Company, HDFC sec Inst Research; N.M – Not Meaningful

INSTITUTIONAL RESEARCH
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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