

## Direct driven growth

We maintain BUY on Mphasis following a nearly in-line 2Q. Growth drivers in Direct Core are intact, while DXC portfolio risk has increased. Our TP of Rs 1,140 values Mphasis at 16x Sep-21E EPS.

### HIGHLIGHTS OF THE QUARTER

- Revenue came at USD 305mn, +3.1/11.6% QoQ/YoY CC led by Direct Core (57.4% of rev) growth at 3.1/16.4% QoQ/YoY CC, DXC-HP (27.6% of rev) growth at +0.1/9.1% QoQ/YoY CC and Digital Risk (8.9% of rev) growth at 14% QoQ CC. We've factored Direct Growth at 14% for FY20E and 13.9% CAGR over FY19-22E; DXC-HP growth at 7.4% for FY20E and 6.9% CAGR over FY19-22E; Digital Risk growth at 2.8% for FY20E and 5.9% CAGR over FY19-22E.
- Deal wins in Direct International was strong at USD 174mn (vs. USD 151mn in 1Q) and T5 accounts grew at a robust 5.2% QoQ. Within verticals, growth was led by BFS at 5.3% QoQ supported by Digital Risk and diversified sub-verticals. Within the Emerging vertical (27% of rev) growth was led by Logistics &

Transportation (13.5% of rev and 6.6% QoQ), and Manufacturing (5% of rev and 3.3% QoQ).

- EBIT margin came at 16.1%, +60bps QoQ supported by higher gross margin (+44bps QoQ) on higher offshore effort/Fixed-price. EBIT% guidance of 15.5% to 17% maintained, we've factored EBIT% at 15.8% for FY20/21/22E. APAT stood at Rs 2.73bn, 3.2% QoQ.

### STANCE

Following the strong momentum in DXC over FY17-19 (22% CAGR), growth is now expected to be led by Direct Core supported by (1) Strong deal wins (15% QoQ), (2) Strategic accounts (double-digit growth & market share gains in BFS), (3) New logos (including F100 accounts) and (4) Blackstone channel (5% of Direct core). While we remain positive on Direct Core channel, we lower growth est for DXC-HP segment with increased risk around the new strategic roadmap for DXC (leadership change, business divestment, Virtual Clarity acquisition). Expect USD rev/EPS growth at 10% CAGR over FY19-22E.

### Financial Summary

YE March (Rs bn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	21.58	19.15	12.7	20.63	4.6	65.46	77.31	87.01	98.20	110.32
EBIT	3.47	3.15	10.3	3.19	8.7	9.92	12.48	13.72	15.51	17.42
APAT	2.73	2.71	0.9	2.65	3.2	8.46	10.73	11.05	12.57	14.29
Diluted EPS (Rs)	14.7	14.5	0.9	14.2	3.2	45.4	57.6	59.3	67.5	76.7
P/E (x)						19.7	15.5	15.1	13.2	11.6
EV / EBITDA (x)						14.1	11.8	9.5	8.1	6.8
RoE (%)						14.6	20.0	20.0	20.3	20.5

Source: Company, HDFC sec Inst Research # Consolidated

INDUSTRY	IT
<b>CMP (as on 15 Nov 2019)</b>	<b>Rs 907</b>
<b>Target Price</b>	<b>Rs 1,140</b>
Nifty	11,895
Sensex	40,357

### KEY STOCK DATA

Bloomberg	MPHL IN
No. of Shares (mn)	186
MCap (Rs bn) / (\$ mn)	169/2,353
6m avg traded value (Rs mn)	186

### STOCK PERFORMANCE (%)

52 Week high / low	Rs 1,063/830		
	3M	6M	12M
Absolute (%)	(6.2)	(5.4)	(4.3)
Relative (%)	(14.4)	(14.1)	(18.7)

### SHAREHOLDING PATTERN (%)

	Jun-19	Sep-19
Promoters	52.23	52.22
FIs & Local MFs	12.12	13.68
FPIs	29.91	29.91
Public & Others	5.74	6.90
Pledged Shares	0.00	0.00

Source : BSE

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**Revenue at USD 305mn, +3.1/11.6% QoQ/YoY CC supported by strong growth in Digital Risk and Direct Core, while DXC/HP channel was flat sequentially**

**EBIT% at 16.1%, +60bps QoQ supported by higher GM% (+44bps QoQ impact) and lower SG&A**

**Management maintained the 15.5 to 17.0% EBIT margin guidance**

**Direct International TCV of USD 174mn, vs. USD 151mn in 1Q and 77% of TCV comprised New gen services**

### Quarterly Financials Snapshot (Consolidated)

Particulars (Rs bn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)
<b>Sales USD mn</b>	<b>304.7</b>	<b>275.6</b>	<b>10.6</b>	<b>296.9</b>	<b>2.6</b>
<b>Net Sales</b>	<b>21.58</b>	<b>19.15</b>	<b>12.7</b>	<b>20.63</b>	<b>4.6</b>
Employee Expenses	13.20	11.36	16.3	12.71	3.9
SG&A Expenses	4.33	4.47	(3.1)	4.17	3.6
<b>EBITDA</b>	<b>4.05</b>	<b>3.33</b>	<b>21.7</b>	<b>3.74</b>	<b>8.3</b>
Depreciation	0.58	0.18	216.3	0.55	5.8
<b>EBIT</b>	<b>3.47</b>	<b>3.15</b>	<b>10.3</b>	<b>3.19</b>	<b>8.7</b>
Other Income	0.35	0.47	(24.8)	0.54	(35.1)
Interest Cost	0.22	0.03	734.6	0.20	9.0
<b>PBT</b>	<b>3.60</b>	<b>3.59</b>	<b>0.5</b>	<b>3.54</b>	<b>2.0</b>
Tax	0.87	0.88	(0.7)	0.89	(1.9)
<b>RPAT</b>	<b>2.73</b>	<b>2.71</b>	<b>0.9</b>	<b>2.65</b>	<b>3.2</b>
EO Items (Adj For Tax)	-	-	NA	-	NA
<b>APAT</b>	<b>2.73</b>	<b>2.71</b>	<b>0.9</b>	<b>2.65</b>	<b>3.2</b>

Source: Company, HDFC Sec Inst Research

### Margin Analysis (%)

	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)
Employee Expenses % Net Sales	61.2	59.3	188	61.6	(44)
Gross Margin %	38.8	40.7	(188)	38.4	44
EBITDA Margin (%)	18.8	17.4	139	18.1	63
<b>EBIT Margin (%)</b>	<b>16.1</b>	<b>16.4</b>	<b>(34)</b>	<b>15.5</b>	<b>60</b>
Tax Rate (%)	24.2	24.5	(29)	25.1	(95)
APAT Margin (%)	12.7	14.1	(148)	12.8	(17)

Source: Company, HDFC Sec Inst Research

**Growth in Knowledge Process service-line on account of Digital Risk uptick**

**Strong growth in IMS as well as BPM segment (Transaction Processing) with growth at 5.3% QoQ and 7.9% QoQ respectively**

### Service-Line Revenue Split

(% of revenue)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Application Development	24.0	26.3	26.2	27.5	27.7	29.8	31.4	33.2	33.4
Application Maintenance & Other Services	34.6	33.1	31.2	30.2	34.4	35.8	33.5	32.1	30.3
Infrastructure Management Services	13.4	13.2	15.2	14.8	14.2	12.7	12.7	12.2	12.6
Service / Technical Help Desk	7.2	7.6	7.4	8.2	6.5	6.7	7.1	7.5	7.2
Knowledge Processes	12.2	10.8	11.7	11.4	9.8	7.4	7.7	7.5	8.5
Transaction Processing Service	6.8	7.0	6.9	6.6	6.3	6.2	6.3	6.3	6.6
Customer Service	1.7	1.4	1.3	1.2	1.0	1.1	1.1	1.1	1.1
License Income	0.1	0.6	0.1	0.1	0.1	0.2	0.2	0.1	0.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Revenue Growth By Service-Line

(QoQ, %)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Application Development	2.1	13.8	4.4	6.9	3.4	10.4	8.7	7.5	3.3
Application Maintenance & Other Services	2.0	(0.7)	(0.9)	(1.8)	17.1	6.8	(3.5)	(2.5)	(3.1)
Infrastructure Management Services	2.5	1.7	21.1	(0.6)	(2.1)	(8.4)	3.5	(1.9)	5.3
Service / Technical Help Desk	40.2	9.8	2.8	12.5	(19.3)	7.0	9.1	6.5	(0.8)
Knowledge Processes	6.4	(7.7)	13.1	(0.9)	(11.5)	(22.7)	6.7	(0.6)	17.3
Transaction Processing Service	2.0	7.3	2.6	(2.2)	(2.4)	1.6	3.9	2.6	7.9
Customer Service	17.7	(11.3)	(1.8)	(7.8)	(13.6)	11.3	5.9	1.6	(4.0)
License Income	33.0	376.0	(82.1)	6.3	21.2	95.4	(14.1)	(26.7)	144.6
<b>Total</b>	<b>4.9</b>	<b>3.8</b>	<b>5.0</b>	<b>1.7</b>	<b>2.6</b>	<b>2.6</b>	<b>3.2</b>	<b>1.8</b>	<b>2.6</b>

Source: Company, HDFC Sec Inst Research

**Within geos, growth was led by Americas at 3.2% QoQ and India 8.3% QoQ**

**Direct International grew 4% QoQ driven by growth in Direct Core as well as Digital Risk**

**DXC/HP channel was flat QoQ and management guided for 'at industry growth' in the near term**

**Leadership change at DXC, business sale (limited exposure of Mphasis) and acquisition of Virtual Clarity have increased the risk to Mphasis' DXC portfolio**

**Management currently expects status quo in DXC portfolio and continues to drive growth from its strategic partnership and geo-diversification opportunities (beyond US)**

### Revenue-Split By Geography

(% of revenue)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Americas	80.1	80.2	79.1	79.7	80.1	78.3	77.6	78.8	79.2
EMEA	9.5	9.8	11.0	10.0	10.8	11.2	11.4	10.7	10.1
RoW	4.0	3.6	3.6	3.8	3.2	4.9	5.8	5.5	5.4
India	6.4	6.4	6.4	6.4	5.8	5.6	5.2	5.0	5.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Revenue Growth By Geography

(QoQ, %)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Americas	5.7	4.0	3.5	1.8	3.9	0.2	2.2	3.4	3.2
EMEA	1.5	7.2	18.0	6.0	(3.4)	6.8	5.0	(4.9)	(2.6)
RoW	(0.6)	(6.2)	3.0	(11.3)	7.2	54.4	23.5	(3.8)	(0.2)
India	4.1	2.7	5.0	1.3	(5.6)	(1.9)	(4.7)	(1.4)	8.3
<b>Total</b>	<b>4.9</b>	<b>3.8</b>	<b>5.0</b>	<b>1.7</b>	<b>2.6</b>	<b>2.6</b>	<b>3.2</b>	<b>1.8</b>	<b>2.6</b>

Source: Company, HDFC Sec Inst Research

### Revenue Segment By Channel

(% of revenue)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Direct International	70.3	70.3	69.0	69.4	68.0	67.3	68.2	68.4	69.3
DXC/HP channel	26.2	26.0	27.0	27.4	28.3	29.1	28.4	28.4	27.6
Others	3.6	3.7	4.0	3.2	3.7	3.6	3.4	3.2	3.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Revenue Growth By Channel Segment

(QoQ, %)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Direct International	5.3	3.8	3.0	2.3	0.5	1.7	4.4	2.0	4.0
DXC/HP channel	6.4	3.3	9.0	2.9	6.0	5.6	0.6	1.9	(0.5)
Others	(9.2)	7.6	12.6	(17.0)	18.1	(1.5)	(1.0)	(4.5)	1.2
<b>Total</b>	<b>5.0</b>	<b>3.8</b>	<b>4.9</b>	<b>1.7</b>	<b>2.6</b>	<b>2.7</b>	<b>3.1</b>	<b>1.8</b>	<b>2.6</b>

Source: Company, HDFC Sec Inst Research

**Banking & Capital Market segment posted robust growth of 5.3% QoQ supported by Digital Risk as well as momentum in top accounts**

**Digital Risk growth of 14% QoQ CC driven by volume recovery and new client additions, strong pipeline**

**Within Banking & Capital market segment, Consumer Banking is 30.1% of its rev, Corp. Banking is 14.1% of rev, Investment Banking is 8% of rev, Mortgage is 23.1% of rev and Wealth management & brokerage 24.8% of rev**

### Revenue-Split By Vertical

(% of revenue)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Banking and Capital Market	48.6	47.7	47.3	47.0	46.0	44.1	44.3	44.7	45.8
Emerging Industries	24.4	25.1	24.2	24.5	25.7	27.3	26.4	27.1	26.8
Tech, Communication & Ent.	14.1	14.4	16.9	17.2	17.0	16.8	17.3	16.6	16.1
Insurance	12.9	12.8	11.6	11.3	11.3	11.8	12.0	11.7	11.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Revenue Growth By Vertical

(QoQ, %)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Banking and Capital Market	3.9	1.9	4.0	1.3	0.4	(1.8)	3.8	2.6	5.3
Emerging Industries	2.6	6.9	1.0	3.0	7.6	9.0	(0.0)	4.3	1.6
Tech, Communication & Ent.	18.6	6.0	23.4	3.6	1.3	1.4	5.8	(2.3)	(0.1)
Insurance	0.5	2.9	(4.6)	(1.6)	2.8	7.5	4.5	(0.8)	(1.1)
<b>Total</b>	<b>4.9</b>	<b>3.8</b>	<b>5.0</b>	<b>1.7</b>	<b>2.6</b>	<b>2.6</b>	<b>3.2</b>	<b>1.8</b>	<b>2.6</b>

Source: Company, HDFC Sec Inst Research

**Revenue growth was balanced across onsite-offshore, but onshore volume growth was offset by lower bill rates**

**Lower offshore bill rate based on business mix shift with higher BPM services in 2Q**

### Revenue Segment By Onsite-Offshore Mix

(% of revenue)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	55.2	55.6	55.8	57.5	58.0	57.1	58.2	58.2	58.2
Offshore	44.8	44.4	44.2	42.5	42.0	42.9	41.8	41.8	41.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Revenue Growth By Onsite-Offshore Mix

(QoQ, %)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	7.3	4.6	5.3	4.8	3.5	1.1	5.1	1.9	2.6
Offshore	2.1	2.9	4.6	(2.1)	1.4	4.6	0.6	1.7	2.6
<b>Total</b>	<b>4.9</b>	<b>3.8</b>	<b>5.0</b>	<b>1.7</b>	<b>2.6</b>	<b>2.6</b>	<b>3.2</b>	<b>1.8</b>	<b>2.6</b>

Source: Company, HDFC Sec Inst Research

### Billing Rate

(USD/hr)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	71.9	68.5	68.7	72.2	65.9	60.8	65.7	64.6	64.3
Offshore	15.3	16.1	16.2	15.5	15.6	16.2	15.8	15.6	14.9

Source: Company, HDFC Sec Inst Research

### Billing Rate Growth

(QoQ, %)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	(2.7)	(4.7)	0.2	5.0	(8.7)	(7.6)	8.0	(1.6)	(0.5)
Offshore	2.4	5.2	0.7	(4.2)	1.0	3.8	(2.5)	(1.3)	(4.4)

Source: Company, HDFC Sec Inst Research

**Highest-ever headcount additions and strong net additions of 2,479 in 1HFY20 including 1,971 additions in offshore delivery**

### Geographical Revenue Break-up

(% of revenue)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
<b>Onsite headcount</b>	<b>4,037</b>	<b>4,479</b>	<b>4,526</b>	<b>4,551</b>	<b>5,217</b>	<b>5,633</b>	<b>5,421</b>	<b>5,719</b>	<b>5,936</b>
- Application Services	2,363	2,392	2,456	2,550	2,991	3,539	3,277	3,246	3,309
- ITO Services	676	1,106	1,120	1,087	1,312	1,210	1,293	1,522	1,547
- BPO Services	998	981	950	914	914	884	851	951	1,080
<b>Offshore headcount</b>	<b>16,857</b>	<b>16,594</b>	<b>16,541</b>	<b>16,847</b>	<b>17,096</b>	<b>17,365</b>	<b>17,849</b>	<b>18,575</b>	<b>19,820</b>
- Application Services	8,486	8,228	8,281	8,680	8,962	9,286	9,742	10,312	10,995
- ITO Services	3,011	3,062	3,121	3,075	2,994	2,843	2,723	2,789	2,867
- BPO Services	5,360	5,304	5,139	5,092	5,140	5,236	5,384	5,474	5,958
Sales and Marketing	330	300	278	270	270	292	293	282	280
General and Administration	932	897	894	898	895	925	921	923	927
<b>Total Headcount</b>	<b>22,156</b>	<b>22,270</b>	<b>22,239</b>	<b>22,566</b>	<b>23,478</b>	<b>24,215</b>	<b>24,484</b>	<b>25,499</b>	<b>26,963</b>
Net additions	259	114	(31)	327	912	737	269	1,015	1,464
<b>Utilisation (%)</b>									
- Application Services	83	82	86	85	85	85	87	85	84
- ITO Services	89	89	94	93	93	91	93	96	96
- BPO Services	90	90	92	94	91	93	91	87	89

Source: Company, HDFC Sec Inst Research

### Key Assumptions

Particulars	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
DXC/HP channel Revenue growth (%)	(26.1)	(11.0)	21.6	21.8	7.4	6.6	6.9
Direct International Revenue growth (%)	13.5	2.6	7.4	10.4	12.1	13.7	11.8
<b>Total USD revenue growth (%)</b>	<b>(2.0)</b>	<b>(3.4)</b>	<b>10.7</b>	<b>13.1</b>	<b>10.3</b>	<b>11.3</b>	<b>10.0</b>
USD/INR rate	65.6	67.1	64.5	69.9	70.2	71.5	73.0
<b>EBIT margin (%)</b>	<b>12.8</b>	<b>14.6</b>	<b>15.1</b>	<b>16.1</b>	<b>15.8</b>	<b>15.8</b>	<b>15.8</b>

Source: Company, HDFC Sec Inst Research

### Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
<b>FY20E</b>			
Revenue (USD mn)	1,242	1,234	(0.7)
Revenue (Rs bn)	87.32	87.01	(0.4)
EBIT (Rs bn)	13.61	13.72	0.8
EBIT margin (%)	15.6%	15.8%	18bps
EPS (Rs)	58.3	59.3	1.8
<b>FY21E</b>			
Revenue (USD mn)	1,399	1,373	(1.9)
Revenue (Rs bn)	100.05	98.20	(1.9)
EBIT (Rs bn)	16.04	15.51	(3.3)
EBIT margin (%)	16.0%	15.8%	(24)bps
EPS (Rs)	69.1	67.5	(2.3)

Source: HDFC sec Inst Research



**Peer Set Comparison**

Company	MCap (Rs bn)	CMP (Rs)	TP (Rs)	RECO	EPS (Rs)				P/E (x)				RoE (%)			
					FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
TCS	8,239	2,196	1,975	NEU	68.8	83.9	85.5	92.9	31.9	26.2	25.7	23.6	30.1	36.1	35.3	37.1
Infosys	3,002	705	835	NEU	34.6	37.2	37.9	43.7	20.4	19.0	18.6	16.1	22.0	24.4	25.4	28.5
Wipro	1,503	253	230	NEU	13.5	15.1	16.8	18.0	18.8	16.7	15.0	14.0	16.5	17.3	17.8	17.7
HCL Tech	1,557	1,148	1,250	BUY	64.7	74.6	74.0	83.0	17.7	15.4	15.5	13.8	25.3	26.0	22.2	21.7
TechM	743	758	850	BUY	43.2	48.9	47.6	52.9	17.6	15.5	15.9	14.3	21.5	22.0	20.2	20.6
<b>Tier-1 IT Median</b>									<b>18.8</b>	<b>16.7</b>	<b>15.9</b>	<b>14.3</b>	<b>22.0</b>	<b>24.4</b>	<b>22.2</b>	<b>21.7</b>
LTI	284	1,630	1,845	BUY	66.9	87.3	83.7	95.5	24.4	18.7	19.5	17.1	33.2	34.6	27.5	27.1
<b>Mphasis</b>	<b>169</b>	<b>907</b>	<b>1,140</b>	<b>BUY</b>	<b>45.4</b>	<b>57.6</b>	<b>59.3</b>	<b>67.5</b>	<b>19.6</b>	<b>15.5</b>	<b>15.0</b>	<b>13.2</b>	<b>14.6</b>	<b>20.0</b>	<b>20.0</b>	<b>20.3</b>
LTTS	147	1,413	1,705	BUY	45.5	68.0	74.0	88.4	31.1	20.8	19.1	16.0	27.7	32.0	28.4	28.5
Mindtree	113	690	760	NEU	32.3	44.1	36.4	47.9	21.3	15.7	19.0	14.4	21.4	24.9	17.3	22.9
Hexaware *	99	334	445	BUY	16.7	19.6	21.4	24.5	19.9	17.1	15.6	13.6	26.6	26.5	24.5	24.2
Cyient	45	400	485	NEU	38.6	43.6	39.3	42.1	10.4	9.2	10.2	9.5	18.1	19.5	16.5	16.2
Zensar	43	188	240	BUY	10.6	14.3	15.5	18.1	17.7	13.2	12.1	10.4	15.1	17.6	16.6	17.0
Persistent	51	665	670	BUY	42.3	47.8	44.6	48.2	15.7	13.9	14.9	13.8	16.0	15.7	14.1	14.7
Tata Elxsi	49	792	680	NR	38.5	46.6	38.6	45.1	20.5	17.0	20.5	17.6	37.0	34.5	23.7	24.0
Sonata	32	306	395	BUY	18.6	24.0	27.0	30.7	16.5	12.8	11.4	10.0	31.0	35.1	34.3	34.5
Intellect	19	146	288	BUY	3.5	7.7	4.6	8.7	41.1	19.0	31.3	16.8	6.7	11.1	5.8	10.0
eClerx	16	443	495	NR	74.0	61.7	53.6	54.6	6.0	7.2	8.3	8.1	24.1	17.6	14.4	14.9
Majesco	11	406	677	BUY	(1.5)	18.3	19.6	28.8	NM	22.1	20.7	14.1	NM	8.4	7.8	10.6
HGS	13	624	760	NR	96.5	84.6	85.3	101.2	6.5	7.4	7.3	6.2	10.5	8.5	11.2	11.8
Mastek	8	315	505	BUY	27.7	40.4	38.3	42.7	11.4	7.8	8.2	7.4	13.7	16.1	12.9	13.0
<b>Tier-2 IT Median</b>									<b>18.7</b>	<b>14.5</b>	<b>15.5</b>	<b>12.5</b>	<b>21.1</b>	<b>21.5</b>	<b>18.3</b>	<b>19.3</b>

Company	MCap (USD bn)	CMP (USD)	TP	RECO	EPS (USD)				P/E (x)				RoE (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Accenture	132	196	NA	NR	5.6	6.5	7.8	8.6	35.3	30.4	25.1	22.9	41.7	42.0	34.9	35.0
Cognizant	35	63	NA	NR	2.5	3.6	4.0	4.3	24.8	17.5	15.9	14.7	14.1	19.0	19.0	20.4
Capgemini^	18	106	NA	NR	4.9	4.4	6.5	7.2	21.6	24.2	16.1	14.8	11.5	10.1	13.4	13.6
<b>Global IT Median</b>									<b>27.3</b>	<b>24.0</b>	<b>19.1</b>	<b>17.4</b>	<b>22.4</b>	<b>23.7</b>	<b>22.4</b>	<b>23.0</b>

Source: HDFC sec Inst Research, Bloomberg, \*Dec YE, ^CMP and EPS in EUR terms, NR is Not Rated

**Income Statement (Consolidated)**

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Revenues (US\$ mn)</b>	<b>989</b>	<b>1,119</b>	<b>1,234</b>	<b>1,373</b>	<b>1,511</b>
<b>Growth (%)</b>	<b>10.7%</b>	<b>13.1%</b>	<b>10.3%</b>	<b>11.3%</b>	<b>10.0%</b>
Net Revenues	65.46	77.31	87.01	98.20	110.32
<b>Growth (%)</b>	<b>7.7%</b>	<b>18.1%</b>	<b>12.5%</b>	<b>12.9%</b>	<b>12.3%</b>
Employee Expenses	39.00	46.31	53.53	60.30	66.34
SG&A Expenses	15.84	17.76	17.45	19.76	23.55
<b>EBITDA</b>	<b>10.63</b>	<b>13.24</b>	<b>16.03</b>	<b>18.13</b>	<b>20.43</b>
<b>EBITDA Margin (%)</b>	<b>16.2%</b>	<b>17.1%</b>	<b>18.4%</b>	<b>18.5%</b>	<b>18.5%</b>
<b>EBITDA Growth (%)</b>	<b>9.7%</b>	<b>24.6%</b>	<b>21.1%</b>	<b>13.1%</b>	<b>12.7%</b>
Depreciation	0.71	0.76	2.31	2.62	3.00
<b>EBIT</b>	<b>9.92</b>	<b>12.48</b>	<b>13.72</b>	<b>15.51</b>	<b>17.42</b>
<b>EBIT Margin (%)</b>	<b>15.1%</b>	<b>16.1%</b>	<b>15.8%</b>	<b>15.8%</b>	<b>15.8%</b>
Other Income (Including EO Items)	1.62	1.77	1.52	1.79	2.18
Interest	0.13	0.17	0.54	0.54	0.54
<b>PBT</b>	<b>11.41</b>	<b>14.07</b>	<b>14.70</b>	<b>16.76</b>	<b>19.06</b>
Tax (Incl Deferred)	2.90	3.34	3.65	4.19	4.76
RPAT	8.38	10.74	11.05	12.57	14.29
<b>APAT</b>	<b>8.46</b>	<b>10.73</b>	<b>11.05</b>	<b>12.57</b>	<b>14.29</b>
<b>APAT Growth (%)</b>	<b>4.8%</b>	<b>26.9%</b>	<b>2.9%</b>	<b>13.8%</b>	<b>13.7%</b>
<b>Adjusted EPS (Rs)</b>	<b>45.4</b>	<b>57.6</b>	<b>59.3</b>	<b>67.5</b>	<b>76.7</b>
<b>EPS Growth (%)</b>	<b>4.8%</b>	<b>26.9%</b>	<b>2.9%</b>	<b>13.8%</b>	<b>13.7%</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet (Consolidated)**

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	1.93	1.86	1.86	1.86	1.86
Reserves	52.89	50.64	56.32	63.52	72.45
<b>Total Shareholders' Funds</b>	<b>54.82</b>	<b>52.50</b>	<b>58.18</b>	<b>65.38</b>	<b>74.31</b>
Total Debt	3.90	5.43	5.43	5.43	5.43
Net Deferred Taxes	(1.01)	(0.79)	(0.79)	(0.79)	(0.79)
Long Term Provisions & Others	0.97	1.25	1.40	1.58	1.78
<b>TOTAL SOURCES OF FUNDS</b>	<b>58.68</b>	<b>58.39</b>	<b>64.22</b>	<b>71.61</b>	<b>80.73</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	1.83	2.13	2.57	3.06	3.55
Goodwill	17.01	19.58	19.58	19.58	19.58
Other Non-current Assets	7.23	6.91	6.91	6.92	6.92
<b>Total Non-current Assets</b>	<b>26.09</b>	<b>28.64</b>	<b>29.09</b>	<b>29.58</b>	<b>30.06</b>
<b>Cash &amp; Equivalents</b>	<b>24.96</b>	<b>20.34</b>	<b>24.55</b>	<b>30.09</b>	<b>37.25</b>
Debtors	8.12	9.55	10.75	12.13	13.63
Other Current Assets	9.63	14.36	16.16	18.24	20.49
<b>Total Current Assets</b>	<b>17.74</b>	<b>23.91</b>	<b>26.91</b>	<b>30.37</b>	<b>34.12</b>
Creditors	5.02	7.85	8.84	9.97	11.20
Other Current Liabilities & Prov.	5.10	6.66	7.50	8.46	9.51
<b>Total Current Liabilities</b>	<b>10.12</b>	<b>14.51</b>	<b>16.33</b>	<b>18.43</b>	<b>20.71</b>
<b>Net Current Assets</b>	<b>7.62</b>	<b>9.40</b>	<b>10.58</b>	<b>11.94</b>	<b>13.42</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>58.68</b>	<b>58.39</b>	<b>64.22</b>	<b>71.61</b>	<b>80.73</b>

Source: Company, HDFC sec Inst Research

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**Cash Flow (Consolidated)**

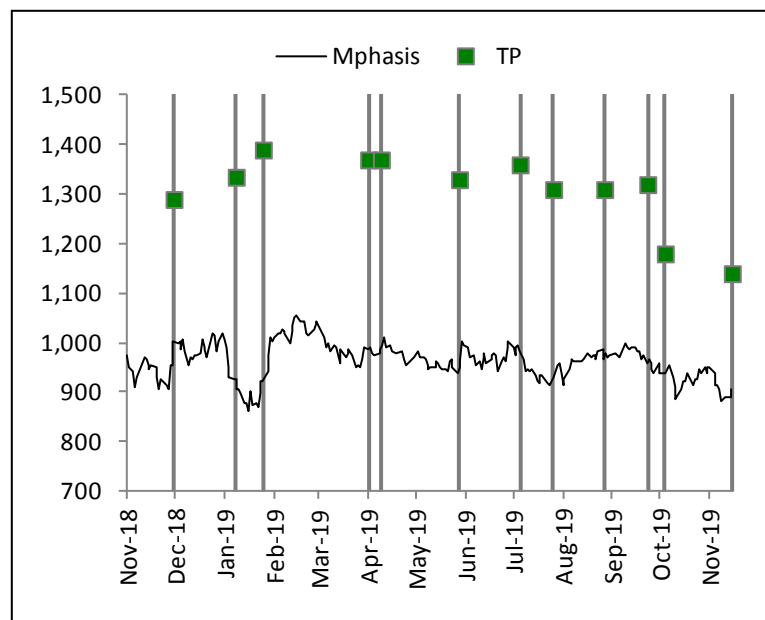
YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Reported PBT</b>	<b>11.28</b>	<b>14.07</b>	<b>14.70</b>	<b>16.76</b>	<b>19.06</b>
Interest expenses	0.13	0.17	0.54	0.54	0.54
Depreciation	0.71	0.76	2.31	2.62	3.00
Working Capital Change	(1.50)	(1.42)	(1.18)	(1.36)	(1.47)
Tax Paid	(2.78)	(3.43)	(3.65)	(4.19)	(4.76)
<b>OPERATING CASH FLOW ( a )</b>	<b>7.23</b>	<b>9.50</b>	<b>11.58</b>	<b>13.03</b>	<b>14.73</b>
Capex	(0.33)	(2.55)	(1.46)	(1.31)	(1.29)
<i>Free cash flow (FCF)</i>	<i>6.90</i>	<i>6.95</i>	<i>10.13</i>	<i>11.72</i>	<i>13.45</i>
Investments	-	-	-	-	-
Non-operating Income	1.20	1.35	1.14	1.34	1.63
<b>INVESTING CASH FLOW ( b )</b>	<b>0.88</b>	<b>(1.20)</b>	<b>(0.32)</b>	<b>0.03</b>	<b>0.35</b>
Debt Issuance/(Repaid)	1.30	1.53	-	-	-
Interest Expenses	(0.13)	(0.17)	(0.54)	(0.54)	(0.54)
<i>FCFE</i>	<i>8.07</i>	<i>8.31</i>	<i>9.58</i>	<i>11.18</i>	<i>12.90</i>
Share Capital Issuance	0.03	0.10	-	-	-
Dividend/ Buyback	(15.01)	(14.60)	(5.37)	(5.37)	(5.37)
<b>FINANCING CASH FLOW ( c )</b>	<b>(13.81)</b>	<b>(13.15)</b>	<b>(5.91)</b>	<b>(5.91)</b>	<b>(5.91)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(5.71)</b>	<b>(4.85)</b>	<b>5.36</b>	<b>7.15</b>	<b>9.17</b>
<b>Closing Cash &amp; Equivalents</b>	<b>24.96</b>	<b>20.34</b>	<b>24.55</b>	<b>30.09</b>	<b>37.25</b>

Source: Company, HDFC sec Inst Research

**Key Ratios (Consolidated)**

YE March	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>					
GPM	40.4	40.1	38.5	38.6	39.9
EBITDA Margin	16.2	17.1	18.4	18.5	18.5
APAT Margin	12.9	13.9	12.7	12.8	13.0
RoE	14.6	20.0	20.0	20.3	20.5
RoIC (or Core RoCE)	23.4	29.6	30.1	32.3	34.5
RoCE	14.5	19.8	20.2	20.5	20.5
<b>EFFICIENCY</b>					
Tax Rate (%)	25.7%	23.7%	24.8%	25.0%	25.0%
Fixed Asset Turnover (x)	3.1	3.1	3.3	3.5	3.8
Debtors (days)	76	87	87	87	87
Other Current Assets (days)	54	68	68	68	68
Payables (days)	28	37	37	37	37
Other Current Liab & Provns (days)	28	31	31	31	31
Cash Conversion Cycle (days)	73	87	87	87	87
Debt/EBITDA (x)	0.5	0.5	0.4	0.4	0.4
Net D/E (x)	(0.3)	(0.2)	(0.2)	(0.3)	(0.4)
Interest Coverage (x)	76	72	25	29	32
<b>PER SHARE DATA (Rs)</b>					
EPS	45.4	57.6	59.3	67.5	76.7
CEPS	47	62	72	82	93
Dividend	20	22	24	24	24
Book Value	284	282	312	351	399
<b>VALUATION</b>					
P/E (x)	19.7	15.5	15.1	13.2	11.6
P/BV (x)	3.1	3.2	2.9	2.5	2.2
EV/EBITDA (x)	14.1	11.8	9.5	8.1	6.8
OCF/EV (%)	11.0%	9.1%	8.4%	9.9%	11.8%
FCF/EV (%)	10.8%	7.5%	7.5%	9.0%	10.9%
FCFE/Mkt Cap (%)	10.4%	7.9%	6.5%	7.6%	8.8%
Dividend Yield (%)	2.2%	2.5%	2.7%	2.7%	2.7%

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**


Date	CMP	Reco	Target
30-Nov-18	950	BUY	1,290
8-Jan-19	925	BUY	1,335
25-Jan-19	921	BUY	1,390
1-Apr-19	991	BUY	1,370
9-Apr-19	977	BUY	1,370
28-May-19	952	BUY	1,330
5-Jul-19	982	BUY	1,360
27-Jul-19	930	BUY	1,310
27-Aug-19	985	BUY	1,310
22-Sep-19	973	BUY	1,320
4-Oct-19	937	BUY	1,180
15-Nov-19	907	BUY	1,140

**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

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