

# Tech Mahindra

**BUY**

## Getting back on track

We upgrade Tech Mahindra to BUY from NEU based on strong show in 2QFY20. Growth engine has revived with large deal win in Telecom and strong Enterprise TCV. We increase earnings est. for FY21/22E by 3.9/4.3% based on better visibility and margin recovery. We increase our P/E multiple to 15x vs. 12x earlier. Our TP now stands at Rs 850 based on 15x Sep-21E earnings.

### HIGHLIGHTS OF THE QUARTER

- Revenue stood at USD 1,287mn (+3.2% QoQ, +4.1% CC), which was above our est. of USD 1,261mn. Growth was led by 5.6/2.0% QoQ CC growth in Enterprise and Telecom.
- Enterprise (59% of rev) was up 4.8% QoQ (highest in last eight qtrs) due to strong recovery in Hi-Tech (+10% QoQ), Retail (+14.7%) and Healthcare (+11.0%). Manufacturing (-4.2%, auto exposure) remains weak but will recover in 2H. Healthy Enterprise TCV of USD 490mn (highest ever) bolster confidence.
- Telecom growth was slightly lower than expectation but deal win and healthy pipeline provides growth visibility. Telecom registered the largest deal win (AT&T), TCV of USD 1bn, which will start contributing in 2HFY20. 5G also remains a potential growth driver.
- Digital (39% of rev, +39.7% YoY) remains the key strength while legacy was down 8.6% YoY in 2QFY20. The acquisition of Born group (Design agency) will further

### Financial Summary

YE March (Rs bn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	90.70	86.30	5.1	86.53	4.8	307.73	347.42	368.92	405.17	451.87
EBIT	11.59	13.24	(12.4)	9.93	16.8	36.25	52.08	46.04	55.00	63.60
APAT	9.39	10.64	(11.8)	9.54	(1.6)	38.00	42.98	41.83	46.56	52.97
Diluted EPS (Rs)	10.7	12.1	(11.8)	10.8	(1.6)	43.2	48.9	47.6	52.9	60.2
P/E (x)						17.9	15.8	16.3	14.6	12.8
EV / EBITDA (x)						13.4	9.5	10.2	8.5	7.2
RoE (%)						21.5	22.0	20.2	20.6	20.5

Source: Company, HDFC sec Inst Research # Consolidated, APAT and EPS has been adjusted for tax write back

enhance capabilities. It has revenue of USD 50mn (+28% YoY) with 1,100 employees. The deal was valued at 1.7x and has rev/emp of USD 50K.

- EBIT margin improved 131bps QoQ to 12.8% (vs est. of 12.3%) led by efficiencies, lower SG&A (+100bps) and higher utilisation offset by wage hike (-40bps). 2H margin will remain subdued due to transition cost. Margin trajectory will improve in FY21E. High attrition of 21%, one of highest in the industry, is a concern.
- Near-term outlook:** Revenue growth will revive for Telecom. Born acquisition will be integrated into Enterprise. Margin will improve gradually with growth.

### STANCE: Better outlook, TCV improving

**Revival in Enterprise coupled with Telecom traction (large deal win and healthy pipeline) is supporting growth. Healthcare and Hi-Tech growth is likely to sustain, BFSI will recover gradually. Manufacturing will stabilise, pain related to Auto sector is behind. Highest TCV wins both Enterprise and Telecom is encouraging. We expect USD revenue CAGR of 8.6% over FY20-22E led by Telecom/Enterprise CAGR of 8.0/8.9%. TechM has recovered sharply in the last 3M (+19%) and trades at a P/E of 14.6x FY21E. We upgrade to BUY based on improving business traction coupled with margin expansion. The risks to our thesis include deterioration in US/Europe macros, global trade war, Brexit uncertainties and delay in 5G spend.**

INDUSTRY	IT
<b>CMP (as on 05 Nov 2019)</b>	<b>Rs 773</b>
<b>Target Price</b>	<b>Rs 850</b>
Nifty	11,917
Sensex	40,248
KEY STOCK DATA	
Bloomberg	TECHM IN
No. of Shares (mn)	965
MCap (Rs bn) / (\$ mn)	746/10,551
6m avg traded value (Rs mn)	2,137
STOCK PERFORMANCE (%)	
<b>52 Week high / low</b>	<b>Rs 847/607</b>
	3M 6M 12M
Absolute (%)	19.3 (5.4) 11.0
Relative (%)	9.7 (8.7) (4.1)
SHAREHOLDING PATTERN (%)	
	Jun-19 Sep-19
Promoters	35.90 35.88
FIs & Local MFs	11.62 13.89
FPIs	38.62 37.63
Public & Others	13.86 12.60
Pledged Shares	0.00 0.00
Source : BSE	

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Revenue was USD 1,287mn  
+14.1/7.1% CC QoQ/YoY.

In constant currency terms  
Telecom and Enterprise were  
up 5.6/2.0% QoQ

EBIT margin improved 131bps  
QoQ to 12.8% led by  
Efficiencies and portfolio  
companies (+100bps),  
Utilisation (+100bps) offset by  
wage hike (-40bps) and large  
deal transition cost

Other income was lower led  
by lower forex gain (forex  
gain of Rs 0.50bn vs gain of Rs  
1.02bn)

Tax include provisions write  
back of Rs 1,848mn, adjusted  
for that the tax rate stands at  
30.8%. ETR will be in the  
range of 25-26%

Adjusted PAT was Rs 9.39bn  
in-line with our est. of Rs  
9.34bn

### Quarterly Consolidated Financials Snapshot

Particulars (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)
Net Revenues (USD mn)	1,287	1,218	5.7	1,247	3.2
<b>Net Revenues</b>	<b>90,699</b>	<b>86,298</b>	<b>5.1</b>	<b>86,530</b>	<b>4.8</b>
Employee expenses	47,057	43,031	9.4	45,009	4.6
Sub-con expenses	13,687	11,154	22.7	12,197	12.2
SG&A and Other Operating Expenses	14,946	15,927	(6.2)	16,183	(7.6)
<b>EBITDA</b>	<b>15,009</b>	<b>16,186</b>	<b>(7.3)</b>	<b>13,141</b>	<b>14.2</b>
Depreciation	3,415	2,944	16.0	3,213	6.3
<b>EBIT</b>	<b>11,594</b>	<b>13,242</b>	<b>(12.4)</b>	<b>9,928</b>	<b>16.8</b>
Interest Cost	383	388	(1.2)	454	(15.6)
Other Income	2,163	1,751	23.5	3,413	(36.6)
<b>PBT</b>	<b>13,374</b>	<b>14,605</b>	<b>(8.4)</b>	<b>12,887</b>	<b>3.8</b>
Tax	4,113	3,914	5.1	3,367	22.2
Minority Interest and associate profits	-130	49	(365.3)	-24	441.7
<b>RPAT</b>	<b>11,239</b>	<b>10,642</b>	<b>5.6</b>	<b>9,593</b>	<b>17.2</b>
E/o (adj for tax)	1,848	0	NM	49	NM
<b>APAT</b>	<b>9,391</b>	<b>10,642</b>	<b>(11.8)</b>	<b>9,544</b>	<b>(1.6)</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

MARGIN ANALYSIS	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)
Employee Cost % Net Revenues	67.0	62.8	418	66.1	86
SG&A and Other Expenses % Net Revenues	16.5	18.5	-198	18.7	-222
Gross Margin (%)	33.0	37.2	-418	33.9	-86
EBITDA Margin (%)	16.5	18.8	-221	15.2	136
<b>EBIT Margin (%)</b>	<b>12.8</b>	<b>15.3</b>	<b>-256</b>	<b>11.5</b>	<b>131</b>
Tax Rate (%)	30.8	26.8	395	26.1	463
APAT Margin (%)	10.4	12.3	-198	11.0	-68

Source: Company, HDFC sec Inst Research

**YoY growth trend is improving and returning to industry growth level**

**Digital Stood at 39% of revenue, up 40%YoY**

**TCV in 1Q stood at USD 1,490mn vs.USD 500mn in 1Q**

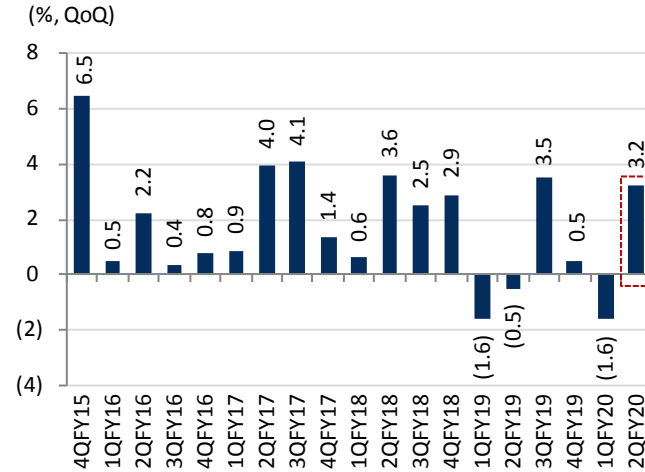
**Deal pipeline is at all time high across Telecom and Enterprise**

**Telecom has higher share of Deal pipeline (good traction in 5G, network services being sold to Enterprise clients)**

**EBIT margin has recovered from bottom but will remain subdued in 2HFY20. Full year FY20E EBIT impact will be ~250bps but will recover gradually with AT&T hitting steady state and growth in Enterprise segment**

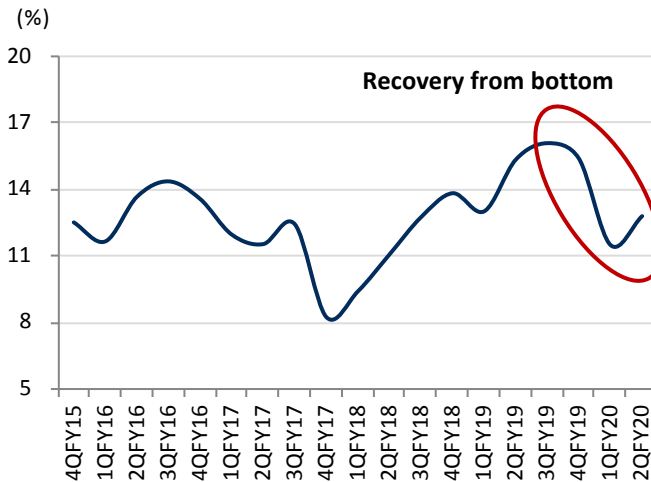
**Telecom growth will revive strongly in 2H led by AT&T contribution**

**QoQ USD Revenue Growth Trajectory**



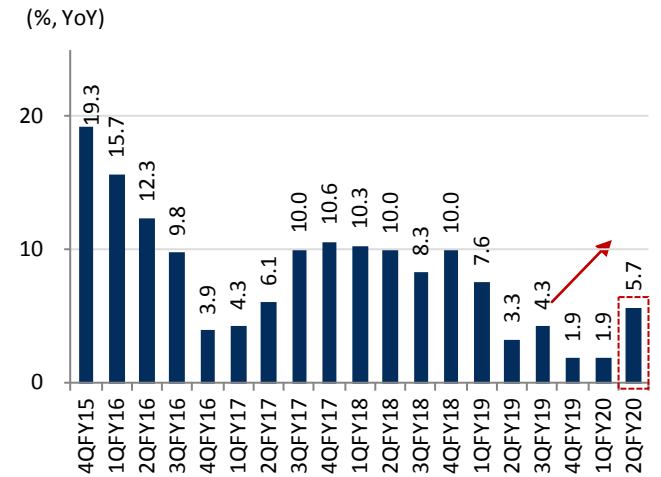
Source: Company, HDFC sec Inst Research

**EBIT Margin Trajectory**



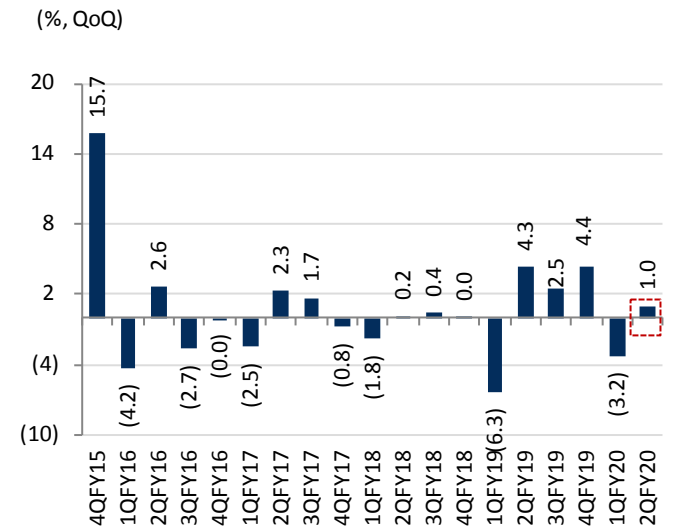
Source: Company, HDFC sec Inst Research

**YoY USD Revenue Growth Trajectory**



Source: Company, HDFC sec Inst Research

**Telecom Segment QoQ Growth Trajectory**



Source: Company, HDFC sec Inst Research

**Telecom (largest vertical) was up 1.0/4.6% QoQ/YoY. 2H will be much stronger in terms of growth**

**Strong growth in enterprise growth was led by 10/4.8/14.7% QoQ growth in Hi-Tech/BFSI/Retail**

**Others growth was led by growth in HCl (Healthcare business)**

**Manufacturing is impacted by slowdown in Auto sector and Chinese EV related projects**

**Currently exposure to Chinese EV sector is down to nil**

### Vertical Revenue Break-up

(% of revenue)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Telecom	43.7	42.8	41.6	39.6	41.5	41.1	42.7	42.0	41.1
Manufacturing	19.0	19.1	19.3	20.1	20.1	20.5	20.2	19.4	18.0
BFSI	14.1	13.3	13.0	13.6	13.5	13.4	13.1	12.8	13.0
Others	10.1	11.2	12.6	13.4	11.1	11.3	10.1	11.9	12.8
Technology, Media & Ent	5.9	6.5	7.3	7.2	7.3	7.0	7.5	7.6	8.1
Retail, Transport & Logistics	7.2	7.1	6.2	6.1	6.5	6.7	6.4	6.3	7.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC sec Inst Research

### Vertical-wise Revenue Growth

(QoQ, %)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Telecom	0.2	0.4	0.0	(6.3)	4.3	2.5	4.4	(3.2)	1.0
Manufacturing	2.0	3.1	4.0	2.5	(0.5)	5.6	(0.9)	(5.5)	(4.2)
BFSI	1.5	(3.3)	0.6	2.9	(1.2)	2.7	(1.7)	(3.9)	4.8
Others	26.1	13.7	15.8	4.6	(17.6)	5.4	(10.1)	15.9	11.0
Technology, Media & Ent	1.9	13.0	15.6	(2.9)	0.9	(0.8)	7.7	(0.3)	10.0
Retail, Transport & Logistics	9.7	1.1	(10.1)	(3.2)	6.0	6.7	(4.0)	(3.1)	14.7
<b>Total</b>	<b>3.6</b>	<b>2.5</b>	<b>2.9</b>	<b>(1.6)</b>	<b>(0.5)</b>	<b>3.5</b>	<b>0.5</b>	<b>(1.6)</b>	<b>3.2</b>

Source: Company, HDFC sec Inst Research

*Americas (48.5% of rev) is driving growth, +5.2% QoQ, strongest in the last seven quarters*

*Europe growth was impacted by muted manufacturing vertical and cross currency headwinds*

*IT services grew 3.1% QoQ, recovery in both onsite and offshore growth rate*

*Margin expansion is mainly attributable to IT services (services margin +170bps QoQ)*

*Top-5/Top 10 client revenue grew +4.2/5.9% QoQ while drag was from Top 10-20 clients (-3.2% QoQ).*

### Geographic Revenue Break-up

(% of revenue)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Americas	45.3	46.9	47.4	48.2	47.0	47.4	46.5	47.6	48.5
Europe	30.0	29.8	29.6	30.0	29.6	28.9	28.6	27.6	26.7
Rest of the World	24.7	23.3	23.0	21.8	23.4	23.7	24.9	24.8	24.8
<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

### Geographic Revenue Growth

(QoQ, %)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Americas	0.3	6.1	4.0	0.1	(3.0)	4.4	(1.4)	0.7	5.2
Europe	4.3	1.8	2.2	(0.3)	(1.8)	1.0	(0.5)	(5.0)	(0.2)
Rest of the World	9.4	(3.3)	1.6	(6.7)	6.8	4.8	5.6	(2.0)	3.2
<b>Total</b>	<b>3.6</b>	<b>2.5</b>	<b>2.9</b>	<b>(1.6)</b>	<b>(0.5)</b>	<b>3.5</b>	<b>0.5</b>	<b>(1.6)</b>	<b>3.2</b>

Source: Company, HDFC sec Inst Research

### Onsite-Offshore Split (IT Services)

(% of revenue)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	64.1	65.8	67.0	66.6	64.5	65.5	65.2	65.3	65.4
Offshore	35.9	34.2	33.0	33.4	35.5	34.5	34.8	34.7	34.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Onsite-Offshore Growth (IT Services)

(QoQ, %)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	3.8	4.0	5.5	(2.3)	(3.9)	4.4	(0.5)	(1.9)	3.2
Offshore	2.1	(3.5)	(0.0)	(0.5)	5.5	(0.1)	0.9	(2.3)	2.8
<b>Total</b>	<b>3.2</b>	<b>1.3</b>	<b>3.6</b>	<b>(1.7)</b>	<b>(0.8)</b>	<b>2.8</b>	<b>(0.0)</b>	<b>(2.0)</b>	<b>3.1</b>

Source: Company, HDFC sec Inst Research

**Attrition is at high level of 21%+ for four consecutive qtrs, sub-con cost has grown at 5.2% 4-QTR CQGR**

**Net additions were strong at 5,749 driven by BPO. Net additions have been stronger in the last two quarters**

**BPO additions was 7.2K while software headcount was down by 1.5K QoQ**

**Utilisation ex-trainees was up 100bps QoQ led by Enterprise**

**We expect Telecom to recover in FY20E followed by Enterprise in FY21E**

### Headcount, Attrition And Utilisation Data

(Nos.)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
<b>Total Headcount</b>	<b>117,225</b>	<b>115,241</b>	<b>112,807</b>	<b>113,552</b>	<b>118,400</b>	<b>121,842</b>	<b>121,082</b>	<b>125,773</b>	<b>131,522</b>
Software Employees	75,587	73,460	72,437	72,462	72,543	71,785	71,477	74,093	72,597
BPO Employees	35,287	35,496	34,190	34,700	39,407	43,439	43,081	45,000	52,193
Sales & Support	6,351	6,285	6,180	6,390	6,450	6,618	6,524	6,680	6,732
<b>Net Additions</b>	<b>1,245</b>	<b>-1,984</b>	<b>-2,434</b>	<b>745</b>	<b>4,848</b>	<b>3,442</b>	<b>-760</b>	<b>4,691</b>	<b>5,749</b>
<b>IT Attrition (%)</b>	<b>16.0</b>	<b>17.0</b>	<b>18.0</b>	<b>19.0</b>	<b>20.0</b>	<b>21.0</b>	<b>21.0</b>	<b>21.0</b>	<b>21.0</b>
Utilisation Including Trainees (%)	81.0	83.0	84.0	81.0	81.0	82.0	82.0	80.0	82.0
<b>Utilisation Excluding Trainees (%)</b>	<b>81.0</b>	<b>83.0</b>	<b>84.0</b>	<b>84.0</b>	<b>83.0</b>	<b>83.0</b>	<b>82.0</b>	<b>82.0</b>	<b>83.0</b>

Source: Company, HDFC sec Inst Research

### Key Assumptions

Particulars	FY17	FY18	FY19	FY20E	FY21E	FY22E
Telecom growth (%)	(0.9)	(0.7)	(0.7)	7.5	8.1	8.0
Enterprise growth (%)	17.1	19.0	8.0	4.4	8.7	9.1
Total USD revenue growth (%)	7.8	9.6	4.2	5.7	8.5	8.6
USD/INR rate	67.0	64.5	69.9	70.2	71.1	73.0
EBIT margin (%)	11.0	11.8	15.0	12.5	13.6	14.1

Source: Company, HDFC sec Inst Research

**We increase FY21/22E USD revenue estimate by 1.9/2.7% based on Enterprise revival**

**Margin impact for FY20E will be ~250bps which will recover in FY21/22E led by growth**

**Increase EPS estimate by 3.9/4.3% to bake in revenue and margin expansion**

### Change in Estimates

Particulars	Earlier estimates	Revised estimates	% change
<b>FY20E</b>			
Revenue (USD bn)	5.177	5.253	1.5
Revenue (Rs bn)	363.57	368.92	1.5
EBIT (Rs bn)	45.42	46.04	1.4
EBIT margin (%)	12.5	12.5	(1) bps
EPS (Rs)	45.4	47.6	4.7
<b>FY21E</b>			
Revenue (USD bn)	5.593	5.698	1.9
Revenue (Rs bn)	397.76	405.17	1.9
EBIT (Rs bn)	53.06	55.00	3.7
EBIT margin (%)	13.3	13.6	23 bps
EPS (Rs)	51.0	52.9	3.9
<b>FY22E</b>			
Revenue (USD bn)	6.025	6.190	2.7
Revenue (Rs bn)	439.82	451.87	2.7
EBIT (Rs bn)	61.36	63.60	3.6
EBIT margin (%)	14.0	14.1	12 bps
EPS (Rs)	57.7	60.2	4.3

## 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	8,259	2,201	1,975	NEU	68.8	83.9	85.5	92.9	32.0	26.2	25.7	23.7	30.1	36.1	35.3	37.1
Infosys	2,962	696	835	NEU	34.6	37.2	37.9	43.7	20.1	18.7	18.4	15.9	22.0	24.4	25.4	28.5
Wipro	1,538	259	230	NEU	13.5	15.1	16.8	18.0	19.2	17.1	15.3	14.3	16.5	17.3	17.8	17.7
HCL Tech	1,572	1,159	1,250	BUY	64.7	74.6	74.0	83.0	17.9	15.5	15.7	14.0	25.3	26.0	22.2	21.7
<b>TechM</b>	<b>746</b>	<b>773</b>	<b>850</b>	<b>BUY</b>	<b>43.2</b>	<b>48.9</b>	<b>47.6</b>	<b>52.9</b>	<b>17.9</b>	<b>15.8</b>	<b>16.3</b>	<b>14.6</b>	<b>21.5</b>	<b>22.0</b>	<b>20.2</b>	<b>20.6</b>
<b>Tier-1 IT Median</b>									<b>19.2</b>	<b>17.1</b>	<b>16.3</b>	<b>14.6</b>	<b>22.0</b>	<b>24.4</b>	<b>22.2</b>	<b>21.7</b>
LTI	290	1,667	1,845	BUY	66.9	87.3	83.7	95.5	24.9	19.1	19.9	17.5	33.2	34.6	27.5	27.1
Mphasis	170	915	1,180	BUY	45.4	57.6	58.3	69.1	20.1	15.9	15.7	13.2	14.6	20.0	19.7	20.9
LTTS	156	1,501	1,705	BUY	45.5	68.0	74.0	88.4	33.0	22.1	20.3	17.0	27.7	32.0	28.4	28.5
Mindtree	117	710	760	NEU	32.3	44.1	36.4	47.9	22.0	16.1	19.5	14.8	21.4	24.9	17.3	22.9
Hexaware *	101	340	445	BUY	16.7	19.6	21.4	24.5	20.3	17.4	15.9	13.9	26.6	26.5	24.5	24.2
Cyient	45	401	485	NEU	38.6	43.6	39.8	42.7	10.4	9.2	10.1	9.4	18.1	19.5	16.6	16.2
Zensar	43	191	240	BUY	10.6	14.3	15.5	18.1	18.0	13.4	12.3	10.6	15.1	17.6	16.6	17.0
Persistent	46	599	655	BUY	42.0	47.5	43.3	47.5	14.3	12.6	13.8	12.6	16.0	15.7	13.8	14.7
Tata Elxsi	50	810	680	NR	38.5	46.6	38.6	45.1	21.0	17.4	21.0	18.0	37.0	34.5	23.7	24.0
Sonata	33	314	395	BUY	18.6	24.0	27.0	30.7	16.9	13.1	11.6	10.2	31.0	35.1	34.3	34.5
Intellect	20	150	288	BUY	3.5	7.7	4.6	8.7	42.5	19.7	32.4	17.3	6.7	11.1	5.8	10.0
eClerx	16	441	460	NEU	74.0	61.7	50.1	51.2	6.0	7.1	8.8	8.6	24.1	17.6	13.8	14.1
Majesco	12	422	700	BUY	(1.5)	18.3	20.9	31.1	NM	23.0	20.2	13.6	NM	8.4	8.3	11.4
HGS	12	594	760	NR	96.5	84.6	85.3	101.2	6.2	7.0	7.0	5.9	10.5	8.5	11.2	11.8
Mastek	9	336	505	BUY	27.7	40.4	38.3	42.7	12.2	8.3	8.8	7.9	13.7	16.1	12.9	13.0
<b>Tier-2 IT Median</b>									<b>19.1</b>	<b>15.9</b>	<b>15.7</b>	<b>13.2</b>	<b>19.8</b>	<b>19.5</b>	<b>16.6</b>	<b>17.0</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	123	187	NA	NR	5.6	6.5	7.8	8.6	33.6	28.9	23.9	21.8	41.7	42.0	34.9	35.0
Cognizant	34	62	NA	NR	2.5	3.6	4.0	4.3	24.4	17.2	15.6	14.4	14.1	19.0	19.0	20.4
Capgemini^	19	104	NA	NR	4.9	4.4	6.5	7.2	21.2	23.7	15.8	14.5	11.5	10.1	13.4	13.6
<b>Global IT Median</b>									<b>24.4</b>	<b>23.7</b>	<b>15.8</b>	<b>14.5</b>	<b>14.1</b>	<b>19.0</b>	<b>19.0</b>	<b>20.4</b>

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



**Consolidated Income Statement**

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Net Revenues (USD bn)</b>	<b>4.770</b>	<b>4.971</b>	<b>5.253</b>	<b>5.698</b>	<b>6.190</b>
<b>Growth (%)</b>	<b>9.6</b>	<b>4.2</b>	<b>5.7</b>	<b>8.5</b>	<b>8.6</b>
<b>Net Revenues</b>	<b>307.73</b>	<b>347.42</b>	<b>368.92</b>	<b>405.17</b>	<b>451.87</b>
<b>Growth (%)</b>	<b>5.6</b>	<b>12.9</b>	<b>6.2</b>	<b>9.8</b>	<b>11.5</b>
Employee Costs	166.24	175.08	189.07	208.15	228.75
SG&A & Other Expenses	94.39	108.97	120.76	128.13	144.60
<b>EBITDA</b>	<b>47.10</b>	<b>63.37</b>	<b>59.09</b>	<b>68.90</b>	<b>78.52</b>
Depreciation	10.85	11.29	13.05	13.90	14.93
<b>EBIT</b>	<b>36.25</b>	<b>52.08</b>	<b>46.04</b>	<b>55.00</b>	<b>63.60</b>
<b>EBIT (%)</b>	<b>11.8</b>	<b>15.0</b>	<b>12.5</b>	<b>13.6</b>	<b>14.1</b>
<b>EBIT Growth (%)</b>	<b>13.0</b>	<b>43.7</b>	<b>(11.6)</b>	<b>19.5</b>	<b>15.6</b>
Other Income	14.17	5.34	9.68	8.47	8.54
Interest	1.62	1.33	1.63	1.68	1.77
<b>PBT</b>	<b>48.79</b>	<b>56.09</b>	<b>54.10</b>	<b>61.80</b>	<b>70.37</b>
Tax (incl deferred)	10.93	12.54	12.68	15.76	17.94
Minority Interest and associate profit	-0.14	0.57	-0.41	-0.52	-0.55
<b>RPAT</b>	<b>38.00</b>	<b>42.98</b>	<b>41.83</b>	<b>46.56</b>	<b>52.97</b>
Extraordinary item	0.00	0.00	0.00	0.00	0.00
<b>APAT</b>	<b>38.00</b>	<b>42.98</b>	<b>41.83</b>	<b>46.56</b>	<b>52.97</b>
<b>APAT Growth (%)</b>	<b>35.1</b>	<b>13.1</b>	<b>(2.7)</b>	<b>11.3</b>	<b>13.8</b>
<b>EPS</b>	<b>43.2</b>	<b>48.9</b>	<b>47.6</b>	<b>52.9</b>	<b>60.2</b>
<b>EPS Growth (%)</b>	<b>35.1</b>	<b>13.1</b>	<b>(2.7)</b>	<b>11.3</b>	<b>13.8</b>

Source: Company, HDFC sec Inst Research

**Consolidated Balance Sheet**

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	4.42	4.44	4.33	4.33	4.33
Reserves	184.01	198.41	206.10	236.32	270.70
<b>Total Shareholders' Funds</b>	<b>188.43</b>	<b>202.84</b>	<b>210.44</b>	<b>240.65</b>	<b>275.03</b>
Minority Interest	5.09	4.78	4.78	4.78	4.78
<b>Total Debt</b>	<b>17.26</b>	<b>14.05</b>	<b>14.05</b>	<b>14.05</b>	<b>14.05</b>
Net Deferred Taxes	-5.77	-6.09	-6.09	-6.09	-6.09
Long Term Provisions & Others	23.98	21.45	22.18	22.97	23.83
<b>TOTAL SOURCES OF FUNDS</b>	<b>228.99</b>	<b>237.03</b>	<b>245.35</b>	<b>276.36</b>	<b>311.59</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	48.50	42.45	40.47	38.73	37.35
CWIP	2.40	2.76	2.76	2.76	2.76
Goodwill & Other Intangible Assets	30.33	33.01	33.50	34.03	34.62
Investments	0.00	0.00	0.00	0.00	0.00
LT Loans & Advances	17.83	21.44	23.26	25.47	27.89
<b>Total Non Current Assets</b>	<b>99.06</b>	<b>99.66</b>	<b>99.99</b>	<b>100.99</b>	<b>102.62</b>
Inventories	0.66	0.75	0.75	0.75	0.75
Debtors	64.98	69.59	75.80	82.14	91.61
Cash & Equivalents	77.35	97.01	97.16	116.50	137.84
Other Current Assets	50.54	55.83	62.80	72.72	82.27
<b>Total Current Assets</b>	<b>116.18</b>	<b>126.17</b>	<b>139.36</b>	<b>155.61</b>	<b>174.64</b>
Creditors	20.37	24.89	29.71	32.25	35.80
Other Current Liabilities & Provns	49.25	66.46	67.48	71.07	74.86
<b>Total Current Liabilities</b>	<b>69.62</b>	<b>91.35</b>	<b>97.19</b>	<b>103.31</b>	<b>110.66</b>
<b>Net Current Assets</b>	<b>46.56</b>	<b>34.82</b>	<b>42.17</b>	<b>52.30</b>	<b>63.98</b>
Misc Expenses & Others	6.02	5.54	6.03	6.57	7.16
<b>TOTAL APPLICATION OF FUNDS</b>	<b>228.99</b>	<b>237.03</b>	<b>245.35</b>	<b>276.36</b>	<b>311.59</b>

Source: Company, HDFC sec Inst Research

## Consolidated Cash Flow

Year ending March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	48.79	56.09	54.10	61.80	70.37
Non-operating & EO items	(2.63)	3.45	(9.27)	(7.95)	(7.99)
Interest expenses	1.62	1.33	1.63	1.68	1.77
Depreciation	10.85	11.29	13.05	13.90	14.93
Working Capital Change	(7.83)	(10.57)	(9.42)	(12.62)	(14.42)
Tax paid	(15.26)	(16.61)	(12.68)	(15.76)	(17.94)
<b>OPERATING CASH FLOW ( a )</b>	<b>35.53</b>	<b>44.97</b>	<b>37.41</b>	<b>41.04</b>	<b>46.71</b>
Capex	(19.22)	(9.14)	(11.07)	(12.16)	(13.56)
Free cash flow (FCF)	16.31	35.83	26.34	28.89	33.15
Investments	-	-	-	-	-
Non-operating income	2.63	(3.45)	9.68	8.47	8.54
<b>INVESTING CASH FLOW ( b )</b>	<b>(16.59)</b>	<b>(12.59)</b>	<b>(1.39)</b>	<b>(3.69)</b>	<b>(5.01)</b>
Debt Issuance	7.49	(4.50)	-	-	-
Interest expenses	(1.62)	(1.33)	(1.63)	(1.68)	(1.77)
FCFE	22.17	30.00	24.71	27.21	31.38
Share capital Issuance/Buyback	0.25	0.36	(19.56)	-	-
Dividend	(9.44)	(14.91)	(14.68)	(16.34)	(18.59)
<b>FINANCING CASH FLOW ( c )</b>	<b>(3.33)</b>	<b>(20.38)</b>	<b>(35.86)</b>	<b>(18.02)</b>	<b>(20.36)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>15.62</b>	<b>12.00</b>	<b>0.16</b>	<b>19.34</b>	<b>21.33</b>
Non-operating and EO items	5.59	7.66	-	-	-
Closing Cash & Equivalents	77.35	97.01	97.16	116.50	137.84

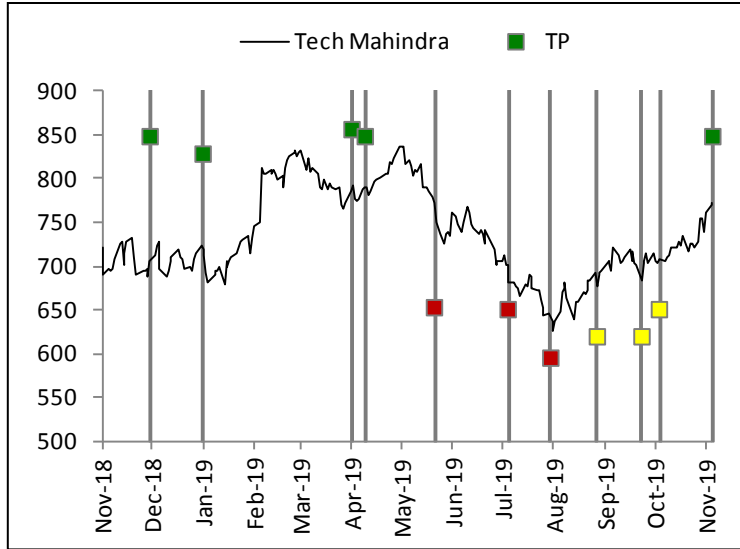
Source: Company, HDFC sec Inst Research

## Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY (%)</b>					
EBIT Margin	11.8	15.0	12.5	13.6	14.1
APAT Margin	12.3	12.5	11.2	11.4	11.6
RoE	21.5	22.0	20.2	20.6	20.5
RoIC or Core RoCE	18.6	28.9	23.8	25.6	27.3
RoCE	14.7	19.1	16.0	17.1	17.4
<b>EFFICIENCY</b>					
Tax Rate (%)	22.4	22.4	23.4	25.5	25.5
Fixed Asset Turnover (x)	3.0	3.2	3.1	3.1	3.1
Debtors (days)	77	73	75	74	74
Other current assets (days)	60	59	62	66	66
Payables (days)	35	35	35	35	35
Other current liabilities (days)	58	70	67	64	60
Cash Conversion Cycle (days)	44	28	36	41	46
Net Debt/EBITDA (x)	(1.3)	(1.4)	(1.6)	(1.7)	(1.8)
Net Debt/Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Interest Coverage (x)	22.3	39.1	28.3	32.8	36.0
<b>PER SHARE DATA</b>					
EPS (Rs/sh)	43.2	48.9	47.6	52.9	60.2
CEPS (Rs/sh)	56	62	62	69	77
DPS (Rs/sh)	14	14	14	16	18
BV (Rs/sh)	214	231	239	274	313
<b>VALUATION</b>					
P/E	17.9	15.8	16.3	14.6	12.8
P/BV	3.6	3.4	3.2	2.8	2.5
EV/EBITDA	13.4	9.5	10.2	8.5	7.2
OCF/EV (%)	5.6	7.4	6.2	7.0	8.3
FCF/EV (%)	2.6	5.9	4.4	4.9	5.9
FCFE/mkt cap (%)	3.3	4.4	3.6	4.0	4.6
Dividend Yield (%)	1.8	1.9	1.8	2.1	2.3

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
30-Nov-18	690	BUY	850
9-Jan-19	690	BUY	830
1-Apr-19	776	BUY	858
9-Apr-19	787	BUY	850
22-May-19	773	SELL	652
5-Jul-19	681	SELL	650
31-Jul-19	640	SELL	595
27-Aug-19	691	NEU	620
22-Sep-19	701	NEU	620
4-Oct-19	703	NEU	650
6-Nov-19	773	BUY	850

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

**INSTITUTIONAL RESEARCH**
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