

Zensar Technologies

BUY

Revenue visibility intact

We maintain BUY on Zensar post an in-line 1QFY20. Strong deal pipeline, ramp-up of large deals and improving win-ratio provides revenue visibility. Margins are not showing signs of improvement despite revenue up-tick. We cut multiple to 14x from 16x on slow margin recovery and rising on-site cost. Our TP of Rs 265 is based on 14x June-21E EPS.

HIGHLIGHTS OF THE QUARTER

- Revenue stood at USD 153.3mn (+3.1% QoQ, +3.6% CC) vs. est. of USD 153.7mn led by growth in core business (96% of rev, +3.5% QoQ). Non-core (4% of rev) declined 5.4% QoQ led by MVS. Ramp-up of large deal wins is driving growth in the core business.
- Digital (49% of rev, +7.8/31.4% QoQ/YoY) is the key focus area. Zensar's investment in its Return on Digital (RoD) platform is a key differentiator and is visible in improving win ratio (50%) in cloud deals.
- Hi-Tech (39%) and BFSI (24%) grew 5.5/11.0% QoQ. Retail (19%) was down 10.7% QoQ due to completion of large projects and delay in client decision making. Cynosure (Guidewire SI) is driving growth in Insurance.
- Focus on strategic account mining has led to healthy growth in Top-5/10 accounts, up 17.7/25.3% YoY.

Financial Summary

YE March (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	10.66	8.90	19.9	10.53	1.3	31.16	39.51	44.79	50.27	56.56
EBIT	1.14	1.07	6.2	1.13	0.6	3.08	4.11	4.78	5.52	6.48
APAT	0.79	0.84	(5.7)	0.87	(9.4)	2.41	3.19	3.45	4.13	4.87
Diluted EPS (Rs)	3.4	3.7	(6.2)	3.8	(9.4)	10.6	14.1	15.2	18.2	21.4
P/E (x)						20.4	15.4	14.3	11.9	10.1
EV / EBITDA (x)						11.7	9.3	7.4	6.4	5.4
RoE (%)						15.1	17.3	16.3	17.1	17.6

Source: Company, HDFC sec Inst Research # Consolidated

- Adjusted core EBITDA margin stood at 13.3%, down 80bps QoQ led by lower utilisation, investments and currency. Target is to improve core EBITDA margins to ~15% through off-shoring, pyramid rationalization and lower sub-con expenses. 2QFY20 will have a full quarter impact of the wage hike.

STANCE: Growth visibility, focus on margin expansion

Zensar's organic growth has improved led by robust deal wins but the margin recovery is lagging. Higher on-site revenue mix, slowdown in Retail, drop in utilisation (fresher's hiring) and investments in the business are impacting margins. We expect gradual recovery in EBIT margins (10.7/11.0% in FY20/21E). Deal pipe-line is healthy at USD 1bn, ~60% of the pipeline is large deals (TCV >USD 10mn). TCV for the quarter stood at USD 160mn (including renewals) and USD 750mn (~50% net new) for FY19. We maintain our positive view based on (1) Focus on POC led Digital sales, (2) Robust deal pipeline and (3) Growth visibility in the core business. We build 12/16/15% Revenue/EBIT/PAT CAGR over FY19-22E. Risks include delay in execution of large deals, onsite wage inflation and deterioration in US/Europe macros.

INDUSTRY	IT
CMP (as on 07 Aug 2019)	Rs 217
Target Price	Rs 265
Nifty	10,856
Sensex	36,691
KEY STOCK DATA	
Bloomberg	ZENT IN
No. of Shares (mn)	225
MCap (Rs bn) / (\$ mn)	49/689
6m avg traded value (Rs mn)	24
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 352/196
	3M 6M 12M
Absolute (%)	(10.6) (2.0) (10.3)
Relative (%)	(6.5) (1.3) (7.7)
SHAREHOLDING PATTERN (%)	
	Mar-19 June-19
Promoters	48.87 48.89
FIs & Local MFs	2.00 2.03
FPIs	39.84 39.84
Public & Others	9.29 9.24
Pledged Shares	0.00 0.00

Source : BSE

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Revenue came at USD 153.3mn up 3.6/18.8% QoQ/YoY CC. The reported revenue is ex-RoW business (non-core)

EBIT margin was flat QoQ but down 138bps YoY

Reported core EBITDA margin was 14.7% but adjusted for Ind AS 116 it is 13.7% down 80 bps QoQ

Subcontracting expenses is up 0.4/19.1% QoQ/YoY and stood at 15.1% of revenue

Depreciation and Interest cost was up due to Ind AS adjustments, net impact on EBITDA was +1.4%.

PAT was down 9.4% QoQ impacted by lower other income (absence of Rs 0.19bn gain from sale of RoW business booked last quarter) offset by higher Fx gain (Fx gain of Rs 108mn vs. loss of Rs 18mn in 4Q)

Quarterly consolidated financial snapshot

Particulars (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
Net Sales USD mn	153.3	131.7	16.4	148.7	3.1
Net Sales	10.66	8.90	19.9	10.53	1.3
Cost of Revenue	7.52	6.08	23.7	7.45	1.0
SG&A	1.62	1.56	4.0	1.70	(4.4)
EBITDA	1.52	1.25	21.0	1.38	9.8
Depreciation	0.38	0.18	108.4	0.25	51.0
EBIT	1.14	1.07	6.2	1.13	0.6
Interest	0.17	0.06	182.9	0.11	50.9
Exchange Gain/(Loss)	0.11	0.12	(13.2)	-0.02	(700.0)
Other income	0.04	0.04	(15.2)	0.25	(84.6)
PBT	1.12	1.18	(5.5)	1.25	(10.5)
Tax	0.32	0.33	(3.7)	0.37	(15.3)
Minority Interest	0.01	0.02	(31.3)	0.00	200.0
RPAT	0.79	0.84	(5.7)	0.87	(9.4)
EO Items (Adj For Tax)	0.00	0.00	NM	0.00	NM
APAT	0.79	0.84	(5.7)	0.87	(9.4)

Source: Company, HDFC sec Inst Research

Margin analysis

MARGIN ANALYSIS %	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
Employee Expenses % Net Sales	70.6	68.4	218	70.8	(20)
SG&A Expenses % Net Sales	15.2	17.5	(232)	16.1	(90)
Gross Margin %	29.4	31.6	(218)	29.2	20
EBITDA margin (%)	14.2	14.1	13	13.1	110
EBIT Margin (%)	10.7	12.0	(138)	10.7	(7)
Tax Rate (%)	28.3	27.8	53	29.9	(160)
APAT Margin (%)	7.4	9.4	(200)	8.3	(87)

Source: Company, HDFC sec Inst Research

Digital (48.5% of rev), grew 7.8% QoQ and 7.2% QoQ CC, ~116% of the incremental revenue addition in the quarter was from Digital

Legacy business is stable at -0.9% QoQ and +5.1% YoY

Revenue was broad based across geographies, Africa recovered strong in the quarter led by BFSI

The company has exited the RoW business as it was a non-core business

Business Mix

(USD mn)	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
Digital	44	47	51	184	57	61	65	69	251	74
QoQ %	5.4%	8.7%	8.3%		10.1%	7.8%	5.8%	6.9%		7.8%
YoY %	35.3%	34.6%	34.7%	34.7%	36.6%	39.7%	36.0%	34.3%	36.5%	31.4%
% of Rev	36.8%	38.7%	40.6%	38.1%	43.0%	44.2%	44.9%	46.4%	44.7%	48.5%
Legacy (Non Digital)	75	75	75	298	75	77	79	80	311	79
QoQ %	2.8%	0.3%	0.1%		-0.1%	2.6%	2.7%	0.7%		-0.9%
YoY %	-10.5%	-8.6%	3.4%	-7.0%	3.1%	2.9%	5.4%	6.0%	4.3%	5.1%
% of Rev	63.2%	61.3%	59.4%	61.9%	57.0%	55.8%	55.1%	53.6%	55.3%	51.5%
Total Revenue	119	123	127	482	132	138	144	149	562	153
QoQ %	3.8%	3.4%	3.3%		4.0%	4.9%	4.1%	3.5%		3.1%
YoY %	2.2%	4.3%	14.2%	5.4%	15.2%	16.4%	17.2%	17.5%	16.6%	16.4%

Source: Company, HDFC Sec Inst Research

Geographical Mix

(USD mn)	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
US	85	90	91	351	98	103	109	113	423	117
QoQ %	0.4%	5.2%	1.7%		6.8%	5.1%	6.5%	3.8%		3.2%
YoY %	-1.9%	2.8%	11.7%	3.0%	14.8%	20.1%	21.5%	24.0%	20.5%	19.9%
% of Rev	72.0%	73.3%	72.2%	72.8%	74.1%	74.3%	76.0%	76.2%	75.2%	76.3%
Europe	17	17	18	67	18	20	21	22	80	23
QoQ %	6.8%	-1.7%	8.6%		0.4%	9.4%	4.1%	7.8%		3.8%
YoY %	46.6%	17.4%	17.5%	28.3%	14.4%	17.2%	24.2%	23.2%	19.1%	27.4%
% of Rev	14.2%	13.5%	14.2%	14.0%	13.7%	14.3%	14.3%	14.9%	14.3%	15.0%
Africa	12	12	13	48	13	13	12	12	49	13
QoQ %	8.1%	0.2%	11.9%		-2.0%	-2.2%	-5.6%	-0.3%		12.1%
YoY %	17.5%	7.7%	31.9%	20.0%	18.9%	7.6%	1.3%	-9.6%	3.7%	3.3%
% of Rev	9.9%	9.6%	10.4%	9.9%	9.8%	9.1%	8.3%	8.0%	8.8%	8.7%
Row	5	4	4	16	3	3	2	1	10	0
QoQ %	75.9%	-4.6%	-8.2%		-22.0%	0.3%	-36.6%	-33.5%		NM
YoY %	-37.8%	-12.6%	4.4%	-33.1%	20.2%	-31.4%	-54.4%	-67.0%	-39.9%	NM
% of Rev	3.9%	3.6%	3.2%	3.3%	2.4%	2.3%	1.4%	0.9%	1.7%	0.0%
Total Revenue	119	123	127	482	132	138	144	149	562	153
QoQ %	3.8%	3.4%	3.3%		4.0%	4.9%	4.1%	3.5%		3.1%
YoY %	NA	NA	NA	NA	15.2%	16.4%	17.2%	17.5%	16.6%	16.4%

Source: Company, HDFC Sec Inst Research

Hi-Tech growth has been robust for the last six quarters. The top client is also contributing in Hi-Tech growth

Growth in Retail was impacted by completion of projects and delay in start of new projects. Recovery will take few more quarters

BFSI (24% of rev) was up 11% QoQ led by Insurance (17.9 % of rev, +7.9% QoQ), deal wins in insurance are healthy (Guidewire space)

Emerging has been growing strongly on a low base led by ramp-up of deal won

Vertical Mix

(USD mn)	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
Manufacturing (A+B)	61	63	65	249	66	73	73	77	288	80
QoQ %	2.3%	3.1%	2.8%		1.4%	10.1%	0.9%	5.3%		3.9%
YoY %	2.0%	3.8%	10.9%	3.6%	10.0%	18.3%	15.8%	18.6%	15.7%	21.5%
% of Rev	51.7%	51.5%	51.3%	51.7%	50.0%	52.5%	50.9%	51.8%	51.3%	52.2%
Hi-Tech (A)	42	41	47	171	47	52	54	57	210	60
QoQ %	4.9%	-1.8%	12.3%		2.0%	9.8%	3.7%	4.9%		5.5%
YoY %	NA	NA	NA	NA	18.0%	23.4%	30.2%	21.6%	23.3%	25.9%
% of Rev	35.6%	33.8%	36.8%	35.4%	36.1%	37.7%	37.6%	38.1%	37.4%	39.0%
Core Manufacturing (B)	19	22	18	79	18	20	19	20	78	20
QoQ %	-3.0%	13.7%	-15.3%		0.1%	11.0%	-6.3%	6.6%		-0.7%
YoY %	NA	NA	NA	NA	-6.4%	7.0%	-11.8%	10.9%	-0.8%	10.1%
% of Rev	16.1%	17.7%	14.5%	16.3%	14.0%	14.8%	13.3%	13.7%	13.9%	13.2%
Retail (C)	32	33	34	130	33	30	30	32	125	29
QoQ %	5.7%	3.2%	4.2%		-5.6%	-8.0%	0.9%	6.4%		-10.7%
YoY %	7.6%	11.6%	17.6%	12.2%	7.4%	-6.6%	-8.7%	-6.7%	-3.8%	-11.9%
% of Rev	27.0%	27.0%	27.2%	26.9%	24.7%	21.7%	21.0%	21.6%	22.2%	18.7%
BFSI	24	25	26	98	31	32	35	33	130	37
QoQ %	5.9%	4.2%	1.6%		20.6%	3.0%	8.8%	-4.7%		11.0%
YoY %	15.4%	10.6%	32.7%	17.6%	35.3%	31.6%	37.4%	28.9%	33.3%	18.6%
% of Rev	20.4%	20.6%	20.2%	20.3%	23.5%	23.0%	24.1%	22.2%	23.2%	23.9%
Emerging (D)	1	1	2	5	2	4	6	7	19	8
QoQ %	-13.5%	6.4%	46.5%		39.1%	59.3%	49.7%	13.8%		19.5%
YoY %	NA	NA	NA	NA	87.6%	245.4%	385.7%	277.5%	257.7%	224.4%
% of Rev	0.9%	1.0%	1.4%	1.1%	1.8%	2.8%	4.0%	4.4%	3.3%	5.1%

Source: Company, HDFC Sec Inst Research

Digital services was strong at +3.8% QoQ while core application was down 2.1% QoQ (primarily Retail)

CIS revenue recovered strongly in 1Q led by ramp-up in next gen cloud deals. There are some pass through revenues, which are a part of the deal

MVS business continues to decline (-3.8% 4 Qtr CQGR) but has shown significant improvement in margins

Service Mix

Services Split (USD mn)	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
Digital & Application Services (DAS) (A+B)	98	102	109	402	112	117	119	126	474	127
QoQ %	5.5%	3.4%	7.0%		3.0%	4.6%	1.7%	5.7%		0.8%
YoY %	NA	NA	NA	NA	20.2%	19.2%	17.2%	15.9%	17.9%	13.4%
% of Rev	82.9%	82.9%	85.9%	83.4%	85.0%	84.8%	82.9%	84.7%	84.3%	82.8%
Digital Services (A)	40	43	46	168	50	54	57	61	223	63
QoQ %	4.0%	7.2%	6.6%		9.7%	7.5%	5.4%	7.1%		3.8%
YoY %	NA	NA	NA	NA	30.4%	34.8%	32.5%	33.2%	32.8%	26.1%
% of Rev	33.8%	35.1%	36.2%	34.8%	38.2%	39.2%	39.7%	41.1%	39.6%	41.4%
Core Applications (B)	58	59	63	234	62	63	62	65	251	63
QoQ %	6.5%	0.7%	7.2%		-1.8%	2.2%	-1.5%	4.4%		-2.1%
YoY %	NA	NA	NA	NA	12.9%	8.4%	6.0%	3.2%	7.2%	2.9%
% of Rev	49.0%	47.8%	49.6%	48.6%	46.8%	45.6%	43.2%	43.6%	44.7%	41.4%
Cloud and Infrastructure Services (CIS) (MVS+IMS)	20	21	18	80	20	21	25	23	88	26
QoQ %	-3.8%	3.6%	-14.5%		9.9%	6.6%	16.9%	-7.4%		15.9%
YoY %	NA	NA	NA	NA	-6.4%	3.6%	17.0%	26.7%	10.1%	33.7%
% of Rev	17.1%	17.1%	14.2%	16.6%	15.0%	15.2%	17.1%	15.3%	15.7%	17.2%
Multi Vendor Support (MVS)	7	7	6	26	7	7	6	6	27	6
QoQ %	-7.8%	-0.3%	-6.3%		12.5%	4.7%	-11.5%	-3.4%		-4.3%
YoY %	NA	NA	NA	NA	-3.1%	10.1%	-2.3%	0.7%	3.7%	-14.3%
% of Rev	5.6%	5.4%	4.9%	5.4%	5.3%	5.3%	4.5%	4.2%	4.8%	3.9%
IMS (Next Gen Cloud & Services)	14	14	12	54	13	14	18	17	61	20
QoQ %	-1.7%	5.5%	-18.3%		8.5%	7.6%	32.1%	-8.8%		23.5%
YoY %	NA	NA	NA	NA	-8.2%	0.5%	25.9%	40.5%	13.2%	60.0%
% of Rev	11.5%	11.7%	9.3%	11.2%	9.7%	9.9%	12.6%	11.1%	10.9%	13.3%
Total Revenue (DAS + CIS)	119	123	127	482	132	138	144	149	562	153
QoQ %	3.7%	3.4%	3.3%		4.0%	4.9%	4.0%	3.5%		3.1%
YoY %	2.2%	4.3%	14.2%	5.4%	15.2%	16.5%	17.2%	17.4%	16.6%	16.4%

Source: Company, HDFC Sec Inst Research

Growth is onsite and digital led, Onsite revenue is up 22.7% YoY while Digital is up 31.4% YoY

Growth was driven by fixed price projects, 57.0% of rev up 7.6% QoQ. This can be a margin lever as fixed price projects have higher margin

Onsite-offshore Mix

Revenue (USD Mn)	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
Onsite	74	77	79	303	85	92	97	100	374	104
QoQ %	3.8%	4.2%	2.8%		7.2%	7.8%	5.6%	3.5%		4.2%
YoY %	-3.5%	-1.2%	9.3%	-0.7%	19.1%	23.8%	25.4%	26.3%	23.3%	22.7%
% of Rev	62.5%	63.0%	62.7%	62.9%	64.6%	66.4%	67.4%	67.4%	66.5%	68.1%
Offshore	44	45	47	179	47	46	47	48	188	49
QoQ %	3.8%	2.0%	4.1%		-1.3%	-0.5%	1.0%	3.5%		0.9%
YoY %	13.6%	15.2%	23.4%	17.7%	8.8%	4.3%	3.3%	2.7%	5.3%	4.9%
% of Rev	37.5%	37.0%	37.3%	37.1%	35.4%	33.6%	32.6%	32.6%	33.5%	31.9%
Total Revenue	119	123	127	482	132	138	144	149	562	153
QoQ %	3.8%	3.4%	3.3%		4.0%	4.9%	4.1%	3.5%		3.1%
YoY %	2.2%	4.3%	14.2%	5.4%	15.2%	16.4%	17.2%	17.5%	16.6%	16.4%

Source: Company, HDFC Sec Inst Research

Project Mix

Particulars (USD mn)	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
Fixed Price	60	65	69	251	69	74	77	81	302	87
QoQ %	10.3%	8.0%	5.2%		1.2%	6.8%	4.1%	5.2%		7.6%
YoY %	4.6%	17.6%	31.4%	13.0%	26.8%	22.8%	18.3%	18.3%	20.4%	25.9%
% of Rev	50.9%	53.2%	54.2%	52.0%	52.7%	53.7%	53.7%	54.6%	53.7%	57.0%
T&M	58	57	58	231	62	64	67	68	260	66
QoQ %	-2.2%	-1.5%	1.1%		7.4%	2.7%	4.0%	1.5%		-2.4%
YoY %	-0.1%	-7.5%	-1.2%	-1.7%	4.6%	9.8%	16.0%	16.4%	12.5%	5.9%
% of Rev	49.1%	46.8%	45.8%	48.0%	47.3%	46.3%	46.3%	45.4%	46.3%	43.0%
Total Revenue	119	123	127	482	132	138	144	149	562	153
QoQ %	3.8%	3.4%	3.3%		4.0%	4.9%	4.1%	3.5%		3.1%
YoY %	2.2%	4.3%	14.2%	5.4%	15.2%	16.4%	17.2%	17.5%	16.6%	16.4%

Source: Company, HDFC Sec Inst Research

Growth was led by Top 6-10 clients up 6.9% QoQ

Non Top 10 clients only grew 1.5% QoQ, reflecting focus on large account mining

The company is hiring freshers to broaden the pyramid and rationalise the cost structure

Utilisation contracted ~100bps QoQ due to freshers on boarding

Attrition inched up higher to 16.7 up 110bps QoQ. Salary hike is planned in 2QFY19

Client Mix

(USD mn)	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
Top 5	42	44	49	175	49	53	56	56	211	58
QoQ %	5.0%	6.0%	10.1%		1.3%	6.7%	6.4%	-0.5%		4.2%
YoY %	-7.3%	0.7%	14.8%	1.2%	24.0%	26.2%	26.6%	14.4%	20.8%	17.7%
% of Rev	35.3%	36.2%	38.6%	36.3%	37.6%	38.2%	39.1%	37.6%	37.6%	38.0%
Top 10	52	55	60	216	60	64	71	72	261	75
QoQ %	5.0%	6.2%	9.9%		-0.3%	7.1%	10.3%	1.2%		4.8%
YoY %	-8.4%	3.9%	18.1%	3.1%	22.2%	24.7%	29.5%	19.2%	21.0%	25.3%
% of Rev	43.6%	44.8%	47.7%	44.8%	45.7%	46.7%	49.5%	48.4%	46.5%	49.2%
Top 6-10	10	11	12	41	11	12	15	16	50	17
QoQ %	5.0%	7.1%	9.3%		-7.0%	8.7%	28.3%	7.5%		6.9%
YoY %	-12.6%	19.6%	34.9%	12.0%	14.3%	18.4%	41.7%	39.4%	22.1%	60.2%
% of Rev	8.3%	8.6%	9.1%	8.5%	8.1%	8.4%	10.4%	10.8%	8.9%	11.2%
Non Top 5	77	78	78	307	82	85	88	93	351	95
QoQ %	3.1%	1.9%	-0.6%		5.8%	3.7%	2.6%	6.0%		2.4%
YoY %	8.3%	6.5%	13.8%	8.0%	10.5%	11.1%	11.9%	19.4%	14.2%	15.6%
% of Rev	64.7%	63.8%	61.4%	63.7%	62.4%	61.8%	60.9%	62.4%	62.4%	62.0%
Non Top 10	67	68	66	266	72	74	73	77	301	78
QoQ %	2.9%	1.2%	-2.2%		8.0%	3.0%	-1.4%	5.7%		1.5%
YoY %	12.3%	4.7%	10.8%	7.4%	9.9%	10.1%	7.2%	15.9%	13.0%	8.9%
% of Rev	56.4%	55.2%	52.3%	55.2%	54.3%	53.3%	50.5%	51.6%	53.5%	50.8%

Source: Company, HDFC Sec Inst Research

Headcount, Attrition And Utilisation Data

(Nos.)	2Q FY18	3Q FY18	4Q FY18	FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	FY19	1Q FY20
Total headcount	8,414	8,597	8,905	8,905	9,122	9,482	9,813	10,073	10,073	10,166
Net additions	(153)	183	308	381	217	360	331	260	1,168	93
Onsite	1,806	1,847	1,866	1,866	2,019	2,274	2,360	2,420	2,420	2,579
Offshore	5,674	5,713	5,868	5,868	6,077	6,044	6,259	6,501	6,501	6,213
BPO/Others	247	243	248	248	253	284	283	275	275	213
Marketing	78	70	68	68	64	80	76	79	79	80
Support	609	724	855	855	709	800	835	798	798	1,081
Attrition (%)	15.4%	15.0%	14.9%	14.9%	18.8%	17.0%	15.8%	15.6%	15.6%	16.7%
Utilisation (%)	85.9%	84.8%	83.8%	84.4%	85.8%	82.6%	81.7%	83.4%	83.4%	82.4%

Source: Company, HDFC Sec Inst Research

Deal TCV in 1Q was USD 160mn vs USD 250 in 4Q

Overall deal pipeline healthy with ~USD 1bn TCV in bid stage

~60% deal pipeline is into large deals (>USD 10mn)

We maintain USD revenue estimate but cut EPS by 4.7% in FY21 due to slower than expected margin expansion

Key Assumptions

Particulars	FY18	FY19	FY20E	FY21E	FY22E
Digital Growth (%)	34.7	36.5	27.6	23.9	25.3
Legacy Growth (%)	(7.0)	4.3	2.2	(0.2)	(3.5)
Total USD revenue growth (%)	5.4	16.6	13.6	11.9	12.5
USD/INR rate	64.5	69.9	69.9	70.0	70.0
EBITDA margin (%)	9.9	10.4	10.7	11.0	11.5

Source: Company, HDFC Sec Inst Research

Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
FY20E			
Revenue (USD bn)	0.634	0.638	0.8
Revenue (Rs bn)	44.50	44.79	0.7
EBIT (Rs bn)	4.51	4.78	5.8
EBIT margin (%)	10.1%	10.7%	52 bps
EPS (Rs)	15.8	15.2	(3.8)
FY21E			
Revenue (USD bn)	0.715	0.715	(0.1)
Revenue (Rs bn)	50.33	50.27	(0.1)
EBIT (Rs bn)	5.44	5.52	1.5
EBIT margin (%)	10.8%	11.0%	18 bps
EPS (Rs)	19.1	18.2	(4.7)

Source: Company, 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	8,306	2,213	2,420	BUY	68.8	83.9	87.9	98.4	32.2	26.4	25.2	22.5	30.1	36.1	36.1	38.5
Infosys	3,377	776	770	NEU	34.2	36.7	36.9	41.5	22.7	21.1	21.0	18.7	22.0	24.4	24.8	27.2
Wipro	1,497	263	220	SELL	14.0	15.8	16.6	17.7	18.7	16.6	15.8	14.9	16.5	17.3	16.9	16.9
HCL Tech	1,424	1,023	1,250	BUY	64.7	74.6	74.7	86.0	15.8	13.7	13.7	11.9	25.3	26.0	23.1	23.6
TechM	593	674	595	SELL	43.2	48.9	45.7	48.5	15.6	13.8	14.7	13.9	21.5	22.0	19.5	19.1
Tier-1 IT Median									18.7	16.6	15.8	14.9	22.0	24.4	23.1	23.6
LTI	278	1,600	2,115	BUY	66.9	87.3	85.8	101.2	23.9	18.3	18.6	15.8	33.2	34.6	28.0	28.2
Mphasis	180	965	1,310	BUY	45.4	57.6	59.4	70.2	21.3	16.8	16.3	13.7	14.6	20.0	20.0	21.1
LTTTS	160	1,535	1,955	BUY	45.5	68.0	73.2	93.3	33.7	22.6	21.0	16.5	27.7	32.0	28.1	30.0
Mindtree	122	745	705	NEU	32.3	44.2	36.5	48.1	23.1	16.9	20.4	15.5	21.4	24.9	17.3	23.0
Hexaware *	106	357	440	BUY	16.8	19.6	20.9	26.0	21.3	18.2	17.1	13.7	26.6	26.5	24.3	26.1
Cyient	50	447	510	NEU	38.6	43.6	42.7	45.8	11.6	10.2	10.5	9.8	18.1	19.5	17.7	17.2
Zensar	49	217	265	BUY	10.6	14.1	15.2	18.2	20.4	15.4	14.3	11.9	15.1	17.3	16.3	17.1
Persistent	42	528	615	NEU	42.0	47.5	42.5	45.7	12.6	11.1	12.4	11.6	16.0	15.7	13.6	14.2
Tata Elxsi	39	619	990	NR	38.5	46.6	33.0	39.5	16.1	13.3	18.8	15.7	37.0	34.5	20.4	21.4
Sonata	33	315	495	BUY	18.6	24.0	27.0	30.2	17.0	13.1	11.7	10.4	31.0	35.1	34.3	34.0
Intellect	28	215	300	BUY	3.5	7.7	8.0	11.7	NM	28.1	27.0	18.3	6.7	11.1	9.8	12.8
eClerx	20	521	505	SELL	74.0	61.7	51.6	55.9	7.0	8.4	10.1	9.3	24.1	17.6	14.2	15.3
Majesco	14	488	730	BUY	(1.5)	18.3	26.3	34.4	NM	26.6	18.5	14.2	NM	8.4	10.4	12.2
HGS	12	591	755	NR	96.5	84.6	84.1	101.4	6.1	7.0	7.0	5.8	10.5	8.5	11.5	12.1
Mastek	8	356	618	BUY	27.7	40.4	42.1	47.6	12.9	8.8	8.4	7.5	13.7	16.1	14.1	14.3
Tier-2 IT Median									20.4	16.8	17.1	13.7	19.8	19.5	17.3	17.2

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	126	187	NA	NR	5.4	6.3	7.3	8.0	34.4	29.6	25.6	23.5	41.8	42.0	42.0	41.9
Cognizant	34	62	NA	NR	3.6	4.5	3.9	4.3	17.2	13.7	15.7	14.4	14.1	19.0	18.9	20.2
Capgemini^	20	109	NA	NR	4.8	4.3	6.5	70.2	23.0	25.7	16.7	1.6	11.5	10.1	13.4	13.7
Global IT Median									28.5	25.1	16.9	15.4	14.1	19.0	20.9	20.6

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

Income statement (consolidated)

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues (US \$mn)	482	562	638	715	804
Growth (%)	5.4	16.6	13.6	11.9	12.5
Net Revenues (Rs mn)	31.16	39.51	44.79	50.27	56.56
Growth (%)	1.4	26.8	13.4	12.2	12.5
Personnel expenses	22.07	27.99	31.63	35.41	39.67
SG&A	5.36	6.51	6.89	7.75	8.72
EBITDA	3.73	5.01	6.27	7.11	8.17
Depreciation	0.65	0.89	1.50	1.59	1.69
EBIT	3.08	4.11	4.78	5.52	6.48
EBIT Margin (%)	9.9	10.4	10.7	11.0	11.5
EBIT Growth (%)	(9.2)	33.7	16.1	15.6	17.3
Other Income (Including EO Items)	0.67	0.79	0.78	1.00	1.09
Interest	0.23	0.37	0.67	0.68	0.69
PBT	3.51	4.53	4.89	5.85	6.87
Tax (Incl Deferred)	1.05	1.29	1.39	1.67	1.96
Minority Interest	0.05	0.05	0.05	0.05	0.05
RPAT	2.41	3.19	3.45	4.13	4.87
EO (Loss) / Profit (Net Of Tax)	0.00	0.00	0.00	0.00	0.00
APAT	2.41	3.19	3.45	4.13	4.87
APAT Growth (%)	2.9	32.4	8.0	19.8	17.8
Adjusted EPS (Rs)	10.6	14.1	15.2	18.2	21.4
EPS Growth (%)	2.9	32.4	8.0	19.8	17.8

Source: Company, HDFC sec Inst Research

Balance sheet (consolidated)

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital – Equity	0.45	0.45	0.45	0.45	0.45
Reserves	16.24	18.97	21.61	24.78	28.51
Total Shareholders' Funds	16.69	19.42	22.07	25.23	28.96
Minority Interest	0.14	0.17	0.22	0.27	0.31
Total Debt	0.06	2.58	2.58	2.58	2.58
Net Deferred Taxes	(0.31)	(0.45)	(0.45)	(0.45)	(0.45)
Long Term Provisions & Others	0.78	0.78	0.92	1.03	1.15
TOTAL SOURCES OF FUNDS	17.35	22.50	25.33	28.65	32.56
APPLICATION OF FUNDS					
Net Block	1.69	3.47	3.76	3.99	4.28
CWIP	0.06	0.12	0.12	0.12	0.12
Goodwill	4.22	6.03	6.03	6.03	6.03
Investments	0.00	0.00	0.00	0.00	0.00
LT Loans & Advances	0.37	0.43	0.43	0.46	0.51
Total Non-current Assets	6.34	10.04	10.34	10.60	10.94
Inventories	1.06	0.98	1.43	1.61	1.81
Debtors	6.42	8.76	9.82	11.02	12.55
Other Current Assets	3.78	5.92	6.72	8.04	9.05
Cash & Equivalents	5.05	4.74	4.77	5.57	6.96
Total Current Assets (ex Cash)	11.26	15.67	17.97	20.67	23.41
Creditors	1.84	3.01	3.27	3.67	4.11
Other Current Liabilities & Provns	3.46	4.94	4.48	4.52	4.64
Total Current Liabilities	5.30	7.95	7.75	8.19	8.75
Net Current Assets	5.96	7.72	10.22	12.48	14.66
TOTAL APPLICATION OF FUNDS	17.35	22.50	25.33	28.65	32.56

Source: Company, HDFC sec Inst Research

Cash flow statement (consolidated)

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	3.51	4.53	4.89	5.85	6.87
Non-operating & EO items	(0.83)	(0.15)	(0.21)	(0.40)	(0.40)
Interest expenses	0.23	0.30	0.67	0.68	0.69
Depreciation	0.65	0.89	1.50	1.59	1.69
Working Capital Change	(0.11)	(2.62)	(2.36)	(2.19)	(2.10)
Tax Paid	(1.04)	(1.39)	(1.39)	(1.67)	(1.96)
OPERATING CASH FLOW (a)	2.42	1.56	3.09	3.85	4.79
Capex	(1.45)	(4.17)	(1.79)	(1.81)	(1.98)
Free cash flow (FCF)	0.97	(2.61)	1.30	2.04	2.81
Investments	0.00	0.00	0.00	0.00	0.00
Non-operating Income	0.06	0.04	0.21	0.40	0.40
INVESTING CASH FLOW (b)	(1.38)	(4.13)	(1.58)	(1.41)	(1.58)
Debt Issuance/(Repaid)	(1.34)	2.76	0.00	0.00	0.00
Interest Expenses	(0.10)	(0.13)	(0.67)	(0.68)	(0.69)
FCFE	(0.47)	0.02	0.63	1.36	2.12
Share Capital Issuance	0.03	0.01	0.00	0.00	0.00
Dividend	(0.63)	(0.63)	(0.81)	(0.97)	(1.14)
FINANCING CASH FLOW (c)	(2.04)	2.01	(1.47)	(1.65)	(1.83)
NET CASH FLOW (a+b+c)	(1.00)	(0.56)	0.04	0.80	1.38
EO Items, Others	0.15	0.25	0.00	0.00	0.00
Closing Cash & Equivalents	5.05	4.74	4.77	5.57	6.96

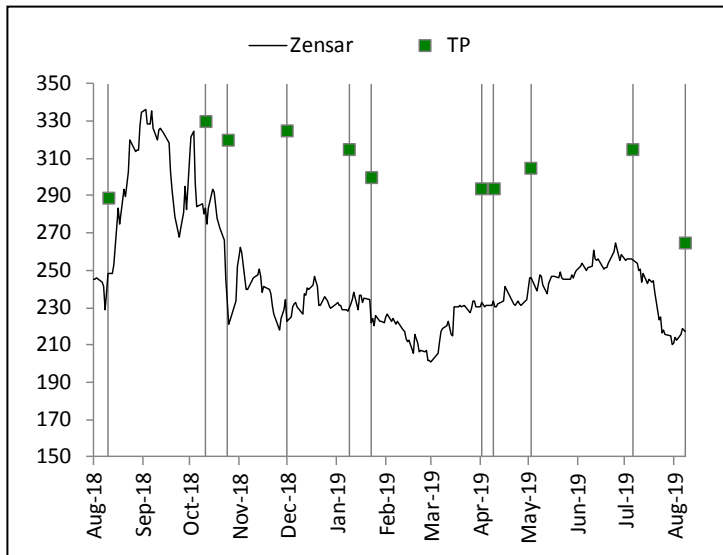
Source: Company, HDFC sec Inst Research

Key ratios (consolidated)

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
GPM	29.2	29.1	29.4	29.6	29.9
EBITDA Margin	9.9	10.4	10.7	11.0	11.5
APAT Margin	7.7	8.1	7.7	8.2	8.6
RoE	15.1	17.3	16.3	17.1	17.6
RoIC (or Core RoCE)	18.9	19.6	17.8	18.1	19.0
RoCE	11.8	13.0	12.4	13.2	13.7
EFFICIENCY					
Tax Rate (%)	29.9	28.5	28.5	28.5	28.5
Fixed Asset Turnover (x)	8.6	6.3	5.5	5.1	4.8
Inventory (days)	14	10	14	14	14
Debtors (days)	75	81	80	80	81
Other Current Assets (days)	44	55	55	58	58
Payables (days)	24	32	31	31	31
Other current liabilities (days)	41	46	37	33	30
Cash Conversion Cycle (days)	54	58	67	75	78
Debt/EBITDA (x)	0.0	0.5	0.4	0.4	0.3
Net D/E (x)	(0.3)	(0.1)	(0.1)	(0.1)	(0.2)
Interest Coverage (x)	16	13	9	10	12
PER SHARE DATA (Rs)					
EPS	10.6	14.1	15.2	18.2	21.4
CEPS	13.5	18.0	21.8	25.2	28.9
Dividend	3	3	4	4	5
Book Value	73	85	97	111	127
VALUATION					
P/E(x)	20.4	15.4	14.3	11.9	10.1
P/BV(x)	3.0	2.5	2.2	2.0	1.7
EV/EBITDA(x)	11.7	9.3	7.4	6.4	5.4
EV/Revenues (x)	1.4	1.2	1.0	0.9	0.8
OCF/EV (%)	5.5	3.4	6.6	8.4	10.8
FCF/EV(%)	2.2	-5.6	2.8	4.5	6.3
FCFE/MktCap (%)	-1.0	0.0	1.3	2.8	4.3
Dividend Yield (%)	1.1	1.3	1.4	1.7	2.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
11-Aug-18	248	BUY	289
10-Oct-18	283	BUY	330
25-Oct-18	234	BUY	320
30-Nov-18	234	BUY	325
8-Jan-19	229	BUY	315
22-Jan-19	222	BUY	300
1-Apr-19	230	BUY	294
9-Apr-19	230	BUY	294
2-May-19	246	BUY	305
5-Jul-19	256	BUY	315
8-Aug-19	217	BUY	265

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

INSTITUTIONAL RESEARCH

Disclosure:

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Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.