

HCL Tech | BUY

IP partnerships – can 1+1 be >2?

Our in-depth analysis of the profitability curves of the IP partnerships that HCL has invested in over the last 6 quarters indicates that while their revenue impact could be low (c.3% over FY18-20), their superior profitability provides HCL with an incremental margin lever (up to c.50bps EBIT margin leverage in FY19-20). We believe the market has ignored this given a limited understanding of the economics of these partnerships. We see value in the stock after the c.6% correction since 2QFY18 results, ostensibly on a weak near-term outlook for the infrastructure services (IMS) business. We believe the slowdown in IMS is transient and at 12.6x FY19F EPS (9% discount to its 3-year median PER), we find the risk-reward attractive. We upgrade to BUY; our revised INR 1,030 (INR 980 earlier) PT implies a 20% upside.

- **IP partnerships –treasury management or strategic?** HCL has invested USD 0.8bn over the last six quarters in multiple IP partnerships (IPPs) with IBM. It has also restructured its joint-venture with DXC Technology into an IPP. The IPPs give HCL an exclusive right to support, enhance and develop derivative products/services on the licensed IPs for a defined time period (5-15 years). The licensed IPs are typically mid-cycle products with an existing client base but are not core to the owner's portfolio and hence may not have been adequately funded. HCL sees these IPPs as strategic; it intends to build additional revenue streams around software products and platforms over the medium term and sees these IPPs as an accelerated and commercially less riskier way of developing a portfolio (vs. organic).
- **Economics of the IPPs.** Our analysis of the structures and commercials of the IPPs indicate **a) limited revenue impact:** the standalone revenue trajectory in the IPPs could be muted even with incremental investments in enhancements/upgrades; growth will be driven by the derivative products/services (but these would have an incubation period); **b) material margin leverage:** Margins in the IP revenues are high; EBIT margin in licensed IPs could be c.30% initially and could go up to 40% (or higher) based on the extent of offshored costs and the revenue trajectory. We estimate the extant set of IPPs could provide up to 50bps EBIT margin leverage to HCL in FY19-20; **c) synergistic gains:** we see overlaps between the licensed IPs with HCL's existing service portfolio, especially in IMS, that could be explored to develop bundled solutions that are commercially more competitive than peers. Profitability curves under different scenarios are detailed in Exhibits 5-7. We have also separately discussed a specific IPP (Informix) in terms of potential investment areas (Exhibit 8) and the accounting for the IPPs, a relatively less understood topic (Exhibit 9).
- **The recent correction provides a good entry point to play the theme.** HCL has corrected c.6% since the 2QFY18 results and trades at 12.6x FY19F EPS, a 11-30% discount to peers. We see this as an overreaction; while concern on the continued softness in the IMS business is valid, but this could be transient. Note, moderation in the revenue growth in IMS adjusted for the pricing reset in Volvo and ramp-down in the India business is small (10% YoY in 1HFY18 vs. 12% CAGR over FY15-17). We also believe the view of the IPPs being more of a capital allocation ploy is misplaced, as our analysis also suggests. We expect the IPP to have a positive impact on both margins and RoEs over FY19-20. Hence our upgrade. Our revised price target is on 14x target PER (unchanged).



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	HOLD
Current Price Target (12M)	1,030
Upside/(Downside)	20.0%
Previous Price Target	980
Change	5.1%

Key Data – HCLT IN

Current Market Price	INR859
Market cap (bn)	INR1,225.2/US\$19.0
Free Float	40%
Shares in issue (mn)	1,411.5
Diluted share (mn)	1,404.0
3-mon avg daily val (mn)	INR1,424.2/US\$22.1
52-week range	944/771
Sensex/Nifty	32,597/10,044
INR/US\$	64.5

Price Performance

%	1M	6M	12M
Absolute	1.6	-3.5	10.0
Relative*	5.1	-7.6	-11.0

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	311,360	467,220	503,769	549,621	597,487
Sales Growth	-16.0%	50.1%	7.8%	9.1%	8.7%
EBITDA	68,150	103,090	113,887	125,568	136,498
EBITDA Margin	21.9%	22.1%	22.6%	22.8%	22.8%
Adjusted Net Profit	56,668	84,570	88,314	95,056	105,522
Diluted EPS (Symbole)	40.1	59.9	62.9	68.2	75.7
Diluted EPS Growth	-22.0%	49.2%	5.1%	8.5%	11.0%
ROIC	33.1%	40.3%	35.4%	36.4%	39.5%
ROE	21.5%	27.5%	25.1%	23.2%	21.3%
P/E (x)	21.1	14.2	13.5	12.4	11.2
P/B (x)	4.3	3.6	3.2	2.6	2.2
EV/EBITDA (x)	16.0	10.4	9.4	7.9	6.6
Dividend Yield	2.0%	2.8%	0.9%	0.9%	0.9%

Source: Company data, JM Financial. Note: Valuations as of 06/Dec/2017

Understanding the IP partnerships

We see investments in the IP partnerships as strategic for HCL

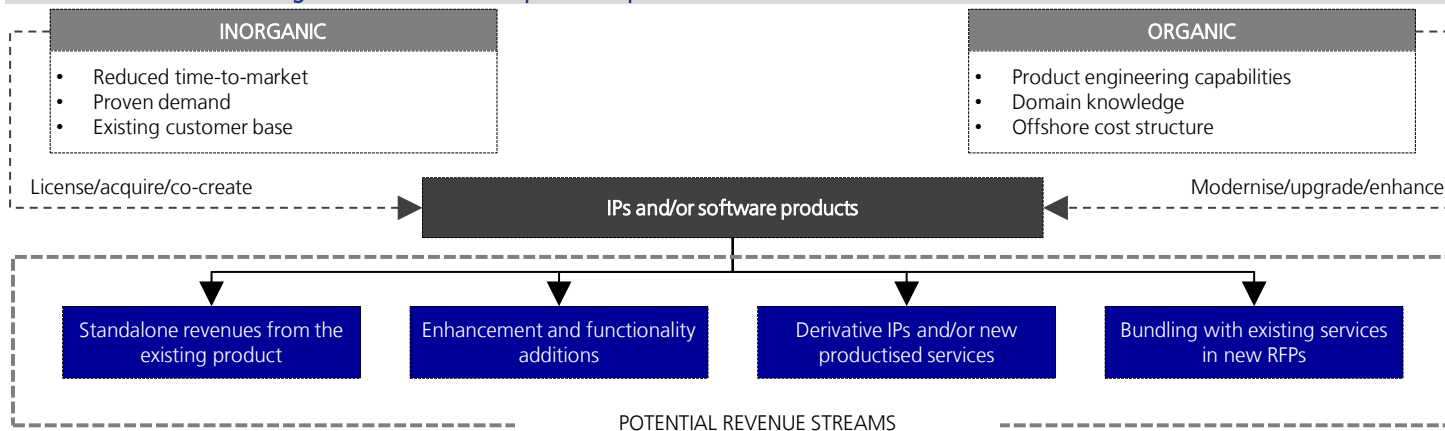
We believe the investments in IP partnerships (IPPs) are part of HCL's Mode-3 strategy that is centric on developing revenue streams around products and platforms, leveraging on its traditional strengths in ER&D services. (Mode 1 relates to the traditional services while Mode 2 is about emerging services such as digital, analytics, IoT and cloud).

IPPs are aimed at accelerating the process while concurrently reducing the commercial risks associated with organic development (such as long incubation period and risks of low market penetration). Similar to IPPs in products, HCL has also indicated its intention to acquire (or co-develop) sub-vertical/process specific platforms from mature enterprises. We believe this is prudent; note the relative success of Diligenta, the closed-books insurance management platform acquired by TCS (TCS IN; HOLD) from The Pearl Group in 2005 vs. organic attempts in the industry.

The licensed IPs are typically mature software products that have an existing client base but are not growing in-line with the product category due to lack of investments by the parent. Thus, investments into the product (in upgrade/enhancements) could help in retaining – and potentially expanding – the customer base. Incremental investments in developing derivative products or software-based services around the licensed IPs could be an additional revenue stream. Also, majority of the IPs licensed so far are typical components in an IT outsourcing deals. Thus, bundling the IPs could increase the competitiveness of HCL's proposed responses to an RFP (request for proposal).

IPPs are an attempt to fast-track the build of non-services revenue streams by HCL, in our view

Exhibit 1. What is the strategic rationale for the IP partnerships?



Source: Company, JM Financial

IPP are structured as license agreements and not as acquisitions

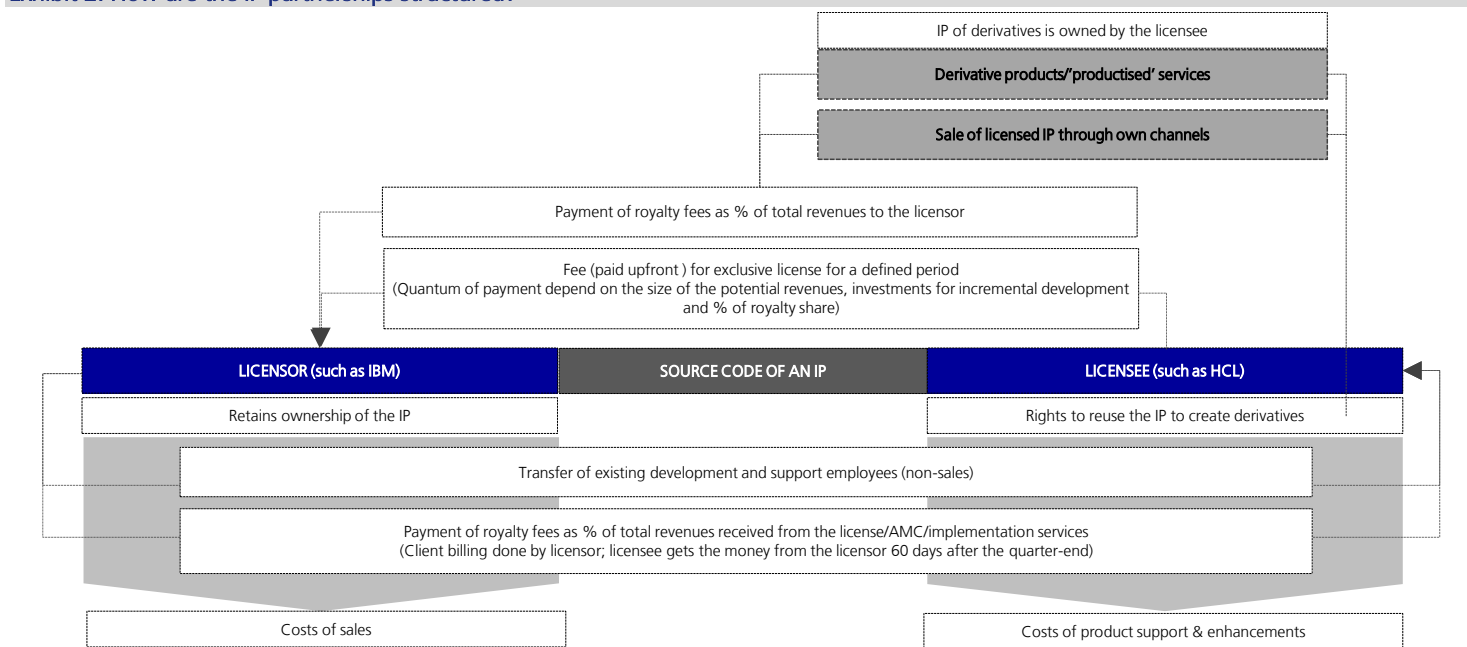
The IPP is essentially a long-term licensing arrangement that grants certain rights to the licensee (like HCL) such as exclusive rights to modify, enhance or exploit the IP for a defined time period in lieu of an upfront payment. The ownership of the IP remains with the licensor and as such these are not considered as acquisitions in their accounting treatment (detailed later).

The client connectivity is managed by the licensor who shares a pre-defined percentage of the revenues with the licensee as royalty; however, there are no committed revenues. The licensee can also sell the licensed IP through its own sales channel – create and sell derivative products around the licensed IP – but would need to share a pre-defined percentage of such revenues with the licensor as royalty. The IP of any product developed by the licensee on top of the licensed IP is owned by the licensee.

The transaction involves transfer of licensors' employees and any hardware/software infrastructure associated with the IP to the licensee who may also deploy additional resources for incremental development. Thus, the costs of product support and development is borne by the licensee while the sales and related costs are borne by the licensor. The transferred headcount is typically with standard clauses such as embargo on lay-off for a defined period.

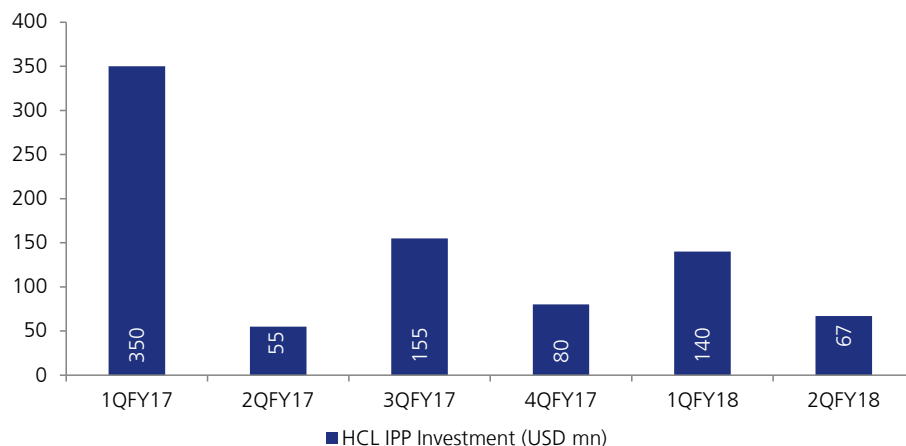
IPPs are basically an exclusive license to commercially exploit an IP for a defined time period

Exhibit 2. How are the IP partnerships structured?



Source: JM Financial

Exhibit 3. HCL has invested in IPPs with IBM so far but plans to expand to other companies



Source: Company, JM Financial

HCL has invested USD 850mn over the last 6 quarters in IPPs with IBM

Of this, USD 660mn has been paid; the balance to be paid over the next 3-4 quarters

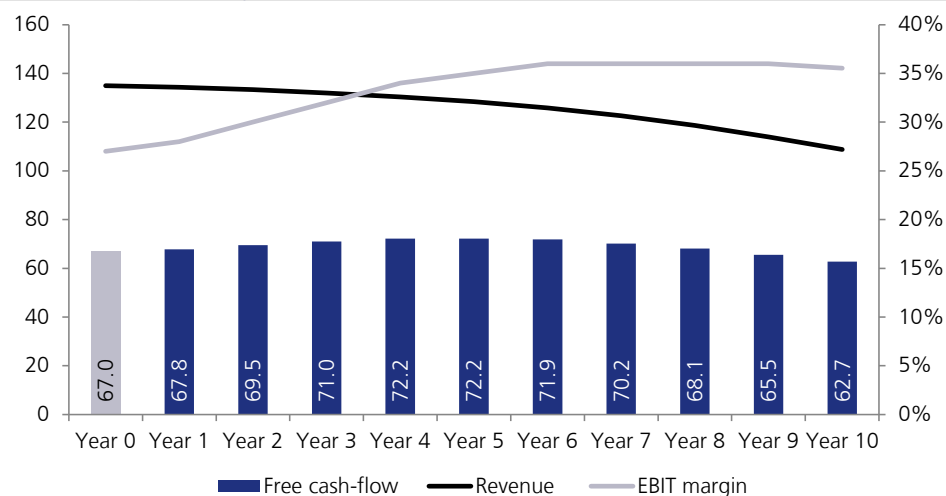
In 2QFY18, it also restructured its JV with DXC Technology into an IPP

The JV was formed in 2014 with a focus on Hogan, the core banking software of the erstwhile CSC (now part of DXC)

Exhibit 4. Majority of IPPs formed by HCL with IBM are in its core infrastructure management services space

Period	Licensed IP	Technology areas	Relevant services
1QFY17	Tivoli Workload Scheduler (TWS)	Automated workload management and monitoring	Infrastructure management services
	Parts of Rational product suite (such as ClearCase/BuildForge)	DevOps and service virtualization	Application development on new technology platforms
2QFY17	Parts of Rational product suite (such as HATS/REST)	Web service enablement for mainframes; APIs	Infrastructure management services; application development
3QFY17	Appscan	Tools to test Web applications for security vulnerabilities during the development stage	Application development on new technology platforms
	IBM Transformation Extender	Tools to automate complex transformation and validation of data between a range of different formats and standards	Application management services
4QFY17	Informix product suite	Relational database management systems	Infrastructure management services; application management services
1QFY18	Not specified	Marketing automation tools	Application development on new technology platforms
2QFY18	Domino	Business collaboration software	Infrastructure management services
	Notes	Enterprise email client	Infrastructure management services
	Sametime	Client-server application and middleware platform for real-time, unified communications and collaboration in enterprises	Infrastructure management services
	Verse	Analytics-based communications and collaboration platform	Infrastructure management services

Source: Company, media reports, JM Financial

Exhibit 5. IPP profitability curve - Scenario 1

Source: JM Financial

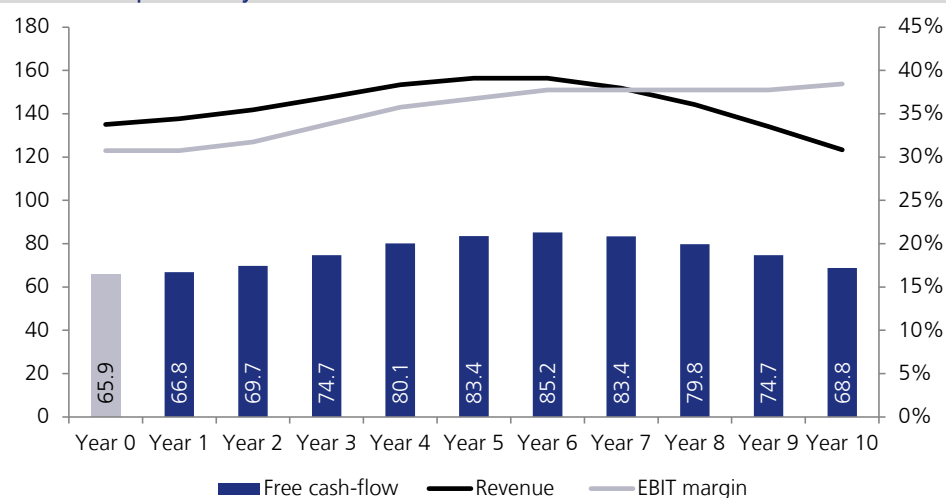
Scenario 1: standalone revenues from the existing IP with a declining revenue trajectory

IRR:15%

Focus will be on optimising the cost structure (onsite to offshore shift); margins should expand in the initial period stabilise post that

Key assumptions:

Amortisation of investment over 10 years in proportion to revenues; Initial EBITDA margin of 55%; DSOs of 60 days

Exhibit 6. IPP profitability curve - Scenario 2

Source: JM Financial

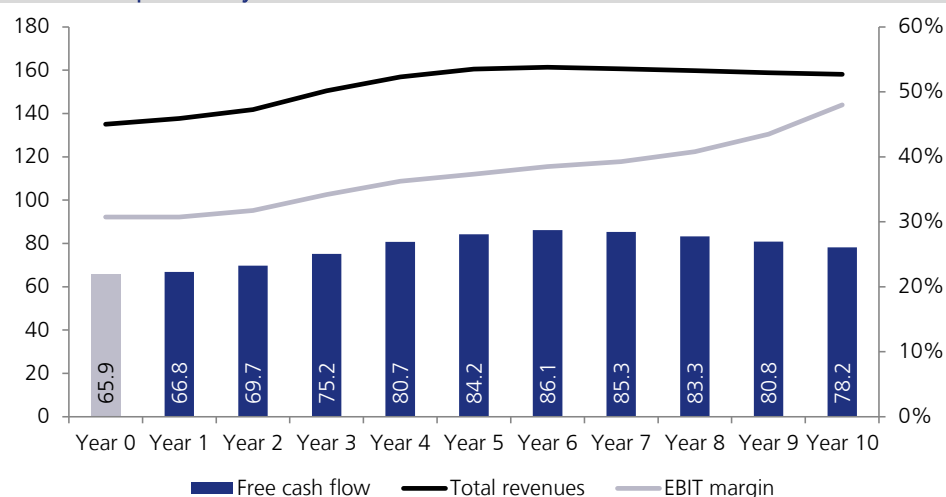
Scenario 2: standalone revenues from the existing IP with upgrade and enhancements driving growth in the initial period but decline in the later period

IRR:17%

Upgrade + enhancements should lead to improved revenues initially; concurrent margins expansion to have a stable trajectory

Key assumptions:

Amortisation of investment over 10 years in proportion to revenues; initial EBITDA margin of 55%; DSOs of 60 days

Exhibit 7. IPP profitability curve - Scenario 3

Source: JM Financial

Scenario 3: standalone revenues from the existing IP with upgrade and enhancements + derivative revenues from Year 4

IRR:18%

Derivative revenues to offset the decline in the existing IPs and also drive a steeper margin curve in the later years

Key assumptions:

Amortisation of investment over 10 years in proportion to revenues; initial EBITDA margin of 55%; derivative revenues at EBITDA margin of 22%; DSOs of 60 days

Exhibit 8. What is the upgrade potential in the IPPs? A case study on Informix

	Informix	SQL Server	Oracle
Developer	IBM, HCL Technologies	Microsoft	Oracle
Initial release	1984	1989	1980
Current release	Jun-16	Oct-17	Mar-17
Supported prog. languages	.Net; C; C++; Java; PHP; Ruby	C++; Delphi; Go; Java; JavaScript; PHP; Python; Ruby; VB	C; C#; C++; Clojure; Cobol; Delphi; Eiffel; Erlang; Tcl; Fortran; Groovy; Haskell; Java; JavaScript; Lisp; Perl; Objective C; Ocaml; PHP; Python; Ruby; Scala; VB
In-memory capabilities	No	Yes	Yes
Score ¹	27.45	1172.48	1341.54
Ranking (overall) ¹	#25	#3	#1
Ranking (among RDBMS) ¹	#14	#3	#1

¹Score/Ranking by DB-Engines, a database focus online industry forum. The rankings are based on popularity
Source: Industry, JM Financial

We believe the Informix IPP could be a typical play out of Scenario 2 discussed above (Exhibit 6)

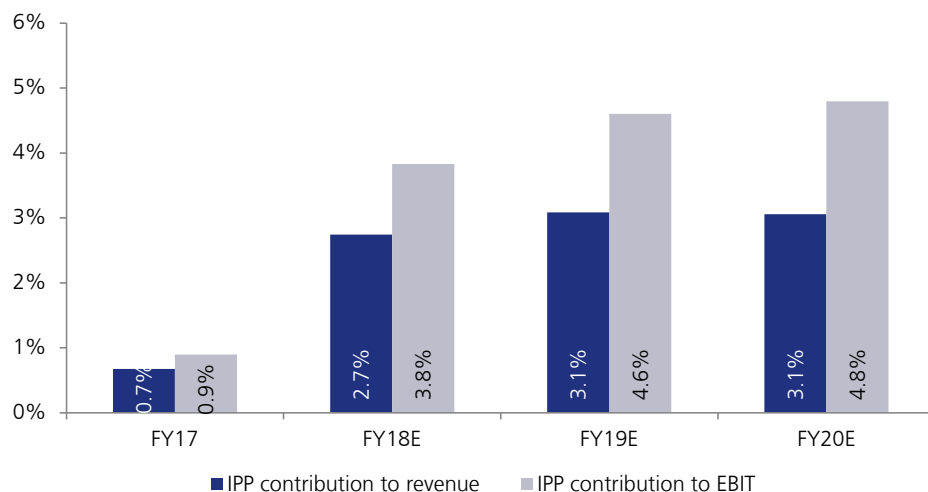
The Informix database has lagged peers in upgrade frequency

Visible areas of enhancements that HCL could work on are support for additional programming languages and adding in-memory capabilities

Exhibit 9. What is the accounting treatment for the IPPs?

Transaction	Recognition	Accounting treatment
License fee	Paid upfront over a defined time period linked to certain contractual milestones	- Amortised over the contract duration in proportion to the revenues (instead of straight-line amortisation) - Note there is no transfer of ownership of IP; rather, it's a license to use the IP for a defined time period hence the applied treatment
Royalty revenues	Share of total revenues collected by the licensor from the clients for new license sales, implementation and AMC services	- Client billing done by licensor; licensee gets the money from the licensor after a defined billing cycle (up to c.60 days after the quarter-end according to our industry checks) - Given the revenue are recognised against a single entity (licensor) for which the fees were paid up-front, HCL reports the revenue net of the amortisation
Direct revenues	License sales, implementation and AMC services on the licensed IP and/or derivative IP developed by the licensor executed directly by the licensee, net of royalty paid to the licensor	Direct billing done by the licensee; follows the typical receivable cycle
Manpower costs – acquired and incremental	Costs of support headcount acquired from the licensor and additional organic headcount allocated for product enhancement, functionality additions and development of derivatives	Manpower costs including those for development of derivative IPs and product enhancements are expensed as per the standard practice
Other direct costs – acquired and incremental	Software/hardware and/or physical infrastructure used for support and incremental works	Acquired costs related to support that were being capitalised by the licensor continue to get capitalised; treatment of incremental costs are as per the accounting policies of the licensee
Sales and marketing costs	Sales costs related to the licensed IP are borne by the licensor; sales costs related to direct sales channel are borne by the licensee as the direct sales kick in	Direct sales costs are expensed as per the accounting policies of the licensee

Source: JM Financial

Exhibit 10. What could be the impact of the IPPs on HCL's financials?

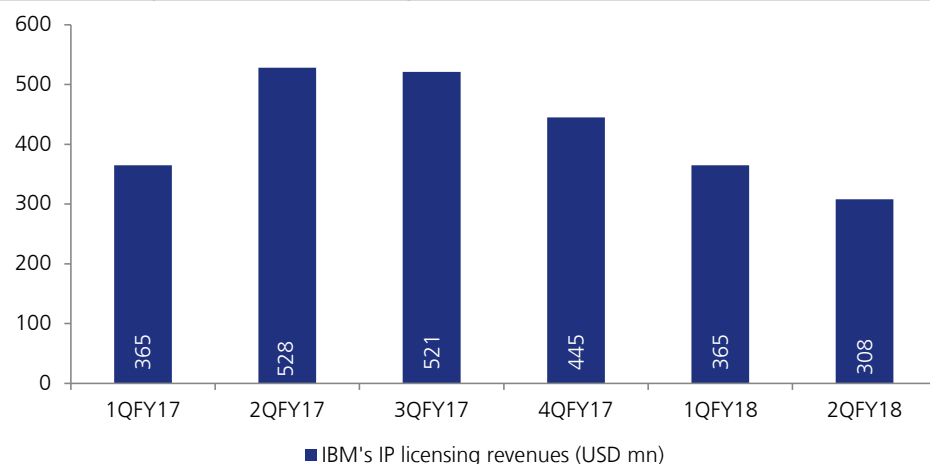
Source: JM Financial

We estimate the extant IPP portfolio could account for c.3%/c.5% of HCL's consolidated revenues/EBIT in FY19-20

The profitability curves of each IPP would be different; some of which we have detailed in Exhibits 5-7

However, as a portfolio, we believe IPPs could give up to 50bps upside to HCL's EBIT margin in FY19-20

IPPs should also be RoE accretive; we estimate a c1ppt contribution to RoEs in FY19-20 from the current set of IPPs assuming a blended margin curve

Exhibit 11. Why and how IBM is forming the IPPs?

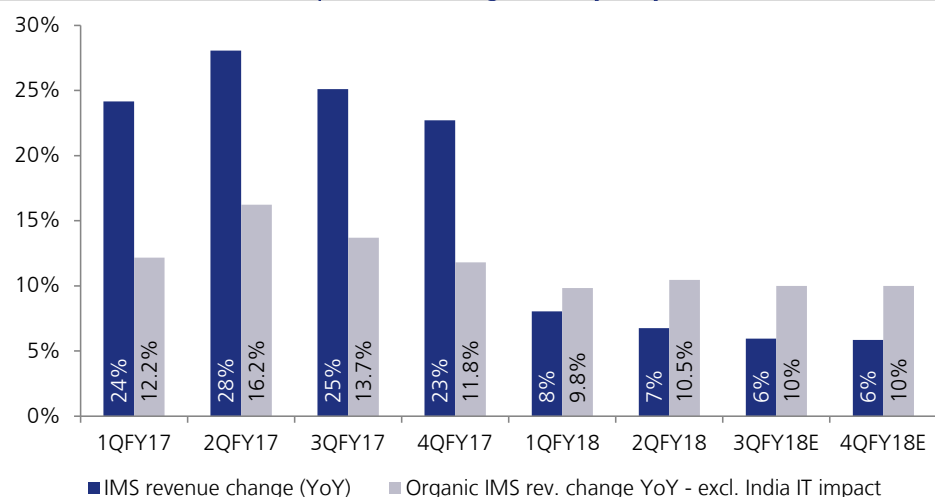
Source: Company, JM Financial

IBM has been monetising its IP portfolio over years but the pace has accelerated since 2016

Our industry checks suggest the curated IPs are highlighted to prospective partners directly by IBM periodically and based on interest, commercials are negotiated

There could be competitive bids for an IP. Typically, the sale process takes c2 quarters to close

Near-term concerns could be over amplified, in our view

Exhibit 12. We believe the sharp decline in IMS growth trajectory is due to transient factors

Source: Company, JM Financial

We believe a large part of optical slowdown in the IMS business (c40% of revenues) in 1HFY18 is due to client specific factors

Annual reset in the 5-year deal from Volvo (won in 2016) could have affected 1HFY18 revenues by USD 4-5mn on our estimates

In addition, planned exits from SI contracts in India due for renewals could have a USD 50mn impact (JMFe) over 2Q-4QFY18

Ex-these, we estimate the growth contraction in IMS is modest -10% YoY growth in 1HFY18 vs. 12% CAGR over FY15-17

Exhibit 13. There is a marked slowdown in the OCF growth over the last 2 quarters

Source: Company, JM Financial

We believe acquisition integration could have affected the cash-flow generation for HCL in recent quarters

1QFY18 OCF is optically depressed YoY due to the spike in 1QFY17 from the absorption of employee related liabilities in the Volvo IT acquisition

2QFY18 OCF was lower YoY due to increase in Accounts Receivables and Unbilled Revenues

That said, we believe recovery in cash generation would be important for potential re-rating

Upgrade to BUY; target price revised to INR 1,030

Changes in our key assumptions

- Our consolidated revenue assumptions are broadly unchanged. We forecast 8.5% USD revenue CAGR over FY17-20 that builds in a slower 6.5% growth in the organic business (excluding Geometric, Butler, UFS and IPPs). Note we have conservatively assumed our FY18 USD revenue growth at 11.4%, below the lower-end of the guidance (12.1%) despite the management's confidence in achieving it.
- We have modelled revenues from the licensed IPs at 3% YoY growth after one year of revenue recognition (that itself is assumed to be with a one quarter lag from the announced investment).
- Our EBIT margin estimates are broadly unchanged; while we have not explicitly modelled for margins on the IP revenue stream given the diverse profitability curve, we factor 80bps YoY increase as overall productivity gains including that in the services business.
- Our EPS estimates are adjusted for the revised hedge gains curve leading to a marginal 2%/1% change to FY18/FY19F EPS.

Changes in our valuations and price target

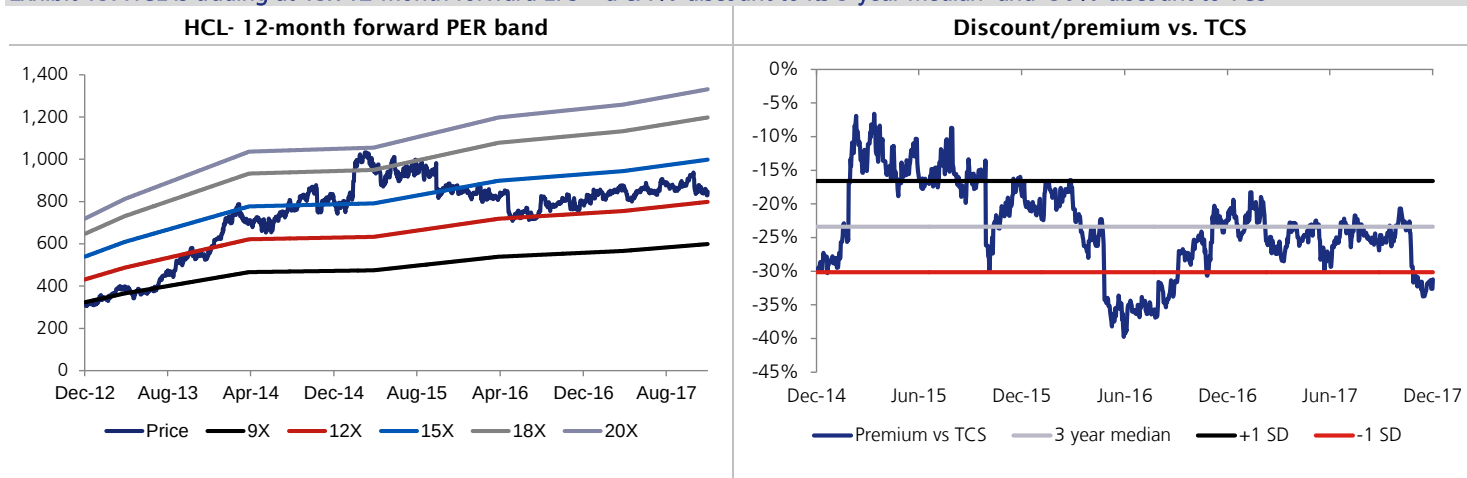
- Our target PER is unchanged at 14x 12-month forward EPS and implies 1.7x PEG.
- Our target price is revised to INR 1,030 from INR 980 earlier on the EPS revision and roll-forward.

Exhibit 14. What has changed in our forecasts and assumptions?

	Old			New			Change		
	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F
Exchange rate (INR/USD)	65.01	66.00	67.00	64.81	66.00	67.00	-0.3%	0.0%	0.0%
Consolidated revenue (USD mn)	7,776	8,330	8,914	7,773	8,328	8,918	0.0%	0.0%	0.0%
Growth in USD revenues (YoY)	11.5%	7.1%	7.0%	11.4%	7.1%	7.1%	-4bp	1bp	7bp
Consolidated revenue (INR mn)	505,472	549,762	597,254	503,769	549,621	597,487	-0.3%	0.0%	0.0%
EBITDA margin	22.1%	22.4%	22.7%	22.6%	22.8%	22.8%	47bp	47bp	19bp
EBIT margin	20.2%	20.3%	20.6%	20.0%	20.1%	20.4%	-12bp	-22bp	-22bp
PAT (INR mn)	87,592	95,234	105,806	88,314	95,056	105,522	0.8%	-0.2%	-0.3%
EPS	61.8	67.8	75.3	62.9	68.2	75.7	1.7%	0.6%	0.6%

Source: JM Financial

Exhibit 15. HCL is trading at 13x 12-month forward EPS – a c.4% discount to its 5-year median and 30% discount to TCS



Source: JM Financial, Bloomberg

Company background

Founded in 1991, HCL is the fourth largest Indian IT services player with LTM USD revenue of 7.3bn+. HCL provides technology services to its clients spread across verticals such as Financial Services, Manufacturing, Healthcare, Retail, Telecommunications, Media, Publishing and Entertainment. HCL's client base is spread across Americas, Europe and Asia Pacific and includes prominent names like Deutsche Bank, Volvo, Boeing, Microsoft, Xerox, Cisco, Glaxo SmithKline, and Merck among others. HCL has over 119,000 employees based out of its 32 global offices.

Investment Rationale

- **Stable and consistent execution.** EBIT margin has declined by just 106bps over the last 6 quarters despite acquisitions accounting for 46% (JMFe) of the incremental revenues and a 3.8% INR appreciation over this period. Comparatively, the decline has been 100-250bps for peers.
- **The financial impact of IP partnerships is not well understood and hence is getting discounted.** We believe the IP partnerships that HCL is has been forming over the last 6 quarters have built out a revenue stream that may have only modest organic growth but will have margins that could be at least twice the current company average. Thus, their growing contribution could be a strong margin driver for HCL, not billed in the current consensus estimates.
- **The recent correction provides a good entry point.** The stock has corrected by c.6% since the 2QFY18 results and trades at 12.6x FY19F EPS, at a discount to peers (TECHM) and larger players (INFO/TCS). We believe this has been due to a) management indicating FY18 growth likely at the lower end of the guidance and b) continued softness in the IMS business. This could be an overreaction; for example, the slowdown in the IMS business is partially due to a ramp-down in its India business.

Key Risks

- Key downside risks to our price target are: (1) INR appreciation beyond the levels we currently assume and/or adverse cross-currency movements; (2) a further economic slowdown in key markets, affecting the corporate IT spending pattern and volumes; (3) higher-than-expected pricing pressures;
- Upside could come from: (1) INR depreciation more than the level we assume; (2) faster-than-anticipated recovery in project awards/ramp-ups or large deal wins ahead of numbers or contract value factored into our estimates; and (3) acquisitions/large deal wins not currently built into our model.

Exhibit 16. How we differ from consensus

	Consensus			JMFe			Difference		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Sales (INR mn)	505,898	559,180	608,573	503,769	549,621	597,487	-0.4%	-1.7%	-1.8%
EBITDA (INR mn)	111,913	123,120	132,566	113,887	125,568	136,498	1.8%	2.0%	3.0%
EBITDA margin (%)	22.1%	22.0%	21.8%	22.6%	22.8%	22.8%	49bps	83bps	106bps
Net Income (INR mn)	87,617	94,150	101,506	88,314	95,056	105,522	0.8%	1.0%	4.0%
EPS (INR)	62.5	67.4	72.4	62.9	68.2	75.7	0.6%	1.3%	4.6%

Source: JM Financial, Bloomberg

Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	311,360	467,220	503,769	549,621	597,487
Sales Growth	-16.0%	50.1%	7.8%	9.1%	8.7%
Other Operating Income	0	0	0	0	0
Total Revenue	311,360	467,220	503,769	549,621	597,487
Cost of Goods Sold/Op. Exp	203,520	308,890	331,313	360,846	392,576
Personnel Cost	0	0	0	0	0
Other Expenses	39,690	55,240	58,569	63,206	68,412
EBITDA	68,150	103,090	113,887	125,568	136,498
EBITDA Margin	21.9%	22.1%	22.6%	22.8%	22.8%
EBITDA Growth	-21.7%	51.3%	10.5%	10.3%	8.7%
Depn. & Amort.	4,450	8,340	12,912	14,955	14,690
EBIT	63,700	94,750	100,975	110,613	121,808
Other Income	7,960	9,340	10,180	9,711	13,477
Finance Cost	0	0	0	0	0
PBT before Excep. & Forex	71,660	104,090	111,155	120,324	135,285
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	71,660	104,090	111,155	120,324	135,285
Taxes	14,990	19,520	22,841	25,268	29,763
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	2	0	0	0	0
Reported Net Profit	56,668	84,570	88,314	95,056	105,522
Adjusted Net Profit	56,668	84,570	88,314	95,056	105,522
Net Margin	18.2%	18.1%	17.5%	17.3%	17.7%
Diluted Share Cap. (mn)	1,412.4	1,412.8	1,404.0	1,393.2	1,393.2
Diluted EPS (Symbole)	40.1	59.9	62.9	68.2	75.7
Diluted EPS Growth	-22.0%	49.2%	5.1%	8.5%	11.0%
Total Dividend + Tax	28,093	40,811	13,519	13,415	13,415
Dividend Per Share (₹)	17.1	24.0	8.0	8.0	8.0

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	280,221	334,904	368,042	449,695	541,814
Share Capital	0	0	0	0	0
Reserves & Surplus	280,221	334,904	368,042	449,695	541,814
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	9,732	5,417	5,936	5,262	3,903
Def. Tax Liab. / Assets (-)	0	0	0	0	0
Total - Equity & Liab.	289,953	340,321	373,978	454,957	545,717
Net Fixed Assets	107,425	161,062	176,965	174,279	172,884
Gross Fixed Assets	43,231	46,806	52,557	56,371	60,659
Intangible Assets	64,194	114,256	124,408	117,908	112,226
Less: Depn. & Amort.	0	0	0	0	0
Capital WIP	0	0	0	0	0
Investments	1,601	1,466	240	240	240
Current Assets	288,647	301,794	322,421	418,205	521,371
Inventories	0	0	0	0	0
Sundry Debtors	107,228	108,026	123,034	133,331	144,943
Cash & Bank Balances	118,529	126,818	132,688	215,505	304,046
Loans & Advances	0	0	0	0	0
Other Current Assets	62,890	66,950	66,698	69,370	72,382
Current Liab. & Prov.	107,720	124,002	125,647	137,768	148,778
Current Liabilities	107,720	124,002	125,647	137,768	148,778
Provisions & Others	0	0	0	0	0
Net Current Assets	180,927	177,792	196,773	280,437	372,593
Total - Assets	289,953	340,320	373,978	454,957	545,717

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	71,660	104,090	111,155	120,324	135,285
Depn. & Amort.	4,450	8,340	12,912	14,955	14,690
Net Interest Exp. / Inc. (-)	-7,960	-9,340	-10,180	-9,711	-13,477
Inc (-) / Dec in WCap.	-10,325	9,864	-14,275	-847	-3,614
Others	0	0	0	0	0
Taxes Paid	-14,990	-19,520	-22,841	-25,268	-29,763
Operating Cash Flow	42,835	93,434	76,771	99,453	103,121
Capex	-21,635	-61,977	-28,815	-12,270	-13,295
Free Cash Flow	21,200	31,457	47,956	87,183	89,826
Inc (-) / Dec in Investments	-1,521	135	1,226	0	0
Others	-123	10,900	11,343	9,711	13,477
Investing Cash Flow	-23,279	-50,942	-16,246	-2,559	182
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-23,957	-29,887	-55,176	-13,403	-13,403
Inc / Dec (-) in Loans	5,042	-4,315	519	-674	-1,358
Others	-2	0	0	0	0
Financing Cash Flow	-18,917	-34,202	-54,657	-14,078	-14,762
Inc / Dec (-) in Cash	639	8,290	5,869	82,817	88,541
Opening Cash Balance	117,890	118,529	126,818	132,688	215,505
Closing Cash Balance	118,529	126,819	132,687	215,505	304,046

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	18.2%	18.1%	17.5%	17.3%	17.7%
Asset Turnover (x)	1.1	1.4	1.4	1.3	1.2
Leverage Factor (x)	1.1	1.1	1.1	1.0	1.0
RoE	21.5%	27.5%	25.1%	23.2%	21.3%

Key Ratios

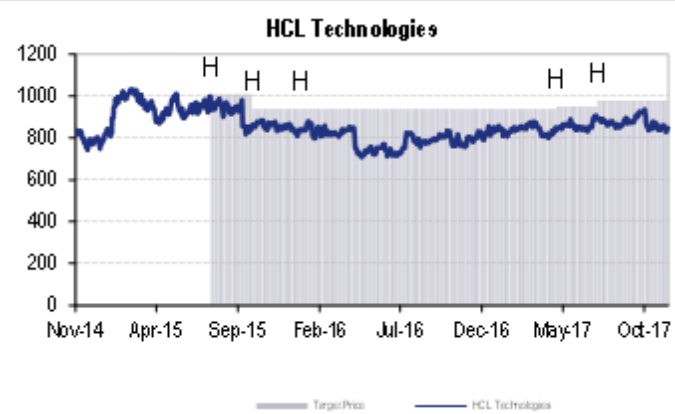
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (₹)	199.0	237.3	262.6	323.1	389.2
ROIC	33.1%	40.3%	35.4%	36.4%	39.5%
ROE	21.5%	27.5%	25.1%	23.2%	21.3%
Net Debt/Equity (x)	-0.4	-0.4	-0.3	-0.5	-0.6
P/E (x)	21.1	14.2	13.5	12.4	11.2
P/B (x)	4.3	3.6	3.2	2.6	2.2
EV/EBITDA (x)	16.0	10.4	9.4	7.9	6.6
EV/Sales (x)	3.5	2.3	2.1	1.8	1.5
Debtor days	126	84	89	89	89
Inventory days	0	0	0	0	0
Creditor days	143	112	107	109	109

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (INR)	% Chg.	FY19E EPS (INR)	% Chg.	Target Price	% Chg.
3-Aug-15	72.2				1,010	
19-Oct-15	69.1	-4.3			940	-6.9
19-Jan-16	67.8	-1.9			940	0.0
11-May-17	61.2	-9.7	66.7		950	1.1
27-Jul-17	61.5	0.5	67.4	1.0	980	3.2

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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