

| Rating matrix | | |
|------------------|---|-----------|
| Rating | : | Hold |
| Target | : | ₹ 640 |
| Target Period | : | 12 months |
| Potential Upside | : | 6% |

| What's changed? | |
|-----------------|-------------------------------|
| Target | Changed from ₹ 505 to ₹ 640 |
| EPS FY18E | Changed from ₹ 35.5 to ₹ 38.6 |
| EPS FY19E | Changed from ₹ 39 to ₹ 40.9 |
| EPS FY20E | Introduced at ₹ 46 |
| Rating | Unchanged |

| Quarterly performance | | | | | |
|-----------------------|--------|--------|---------|--------|---------|
| | Q3FY18 | Q3FY17 | YoY (%) | Q2FY18 | QoQ (%) |
| Revenue | 7,776 | 7,558 | 2.9 | 7,606 | 2.2 |
| EBITDA | 1,265 | 1,187 | 6.6 | 1,106 | 14.4 |
| EBITDA (%) | 16.3 | 15.7 | 57 bps | 14.5 | 181 bps |
| PAT | 943 | 855 | 10.4 | 836 | 12.8 |

| Key financials | | | | |
|----------------|--------|--------|--------|--------|
| ₹ Crore | FY17 | FY18E | FY19E | FY20E |
| Net Sales | 29,140 | 30,589 | 33,706 | 36,560 |
| EBITDA | 4,184 | 4,572 | 5,393 | 5,977 |
| Net Profit | 2,812 | 3,428 | 3,632 | 4,079 |
| EPS (₹) | 31.7 | 38.6 | 40.9 | 46.0 |

| Valuation summary | | | | |
|-------------------|------|-------|-------|-------|
| | FY17 | FY18E | FY19E | FY20E |
| P/E | 19.1 | 19.1 | 15.6 | 14.8 |
| Target P/E | 20.2 | 16.6 | 15.6 | 13.9 |
| EV / EBITDA | 12.9 | 13.2 | 11.5 | 9.2 |
| P/BV | 3.9 | 3.3 | 2.8 | 2.5 |
| RoNW (%) | 20.5 | 17.1 | 18.1 | 16.9 |
| RoCE (%) | 22.3 | 19.4 | 20.0 | 19.1 |

| Stock data | |
|---------------------------------|-----------|
| Particular | Amount |
| Market Capitalization (₹ Crore) | 59,355.3 |
| Total Debt (₹ Crore) | 1,219.5 |
| Cash and Investments (₹ Crore) | 5,614.1 |
| EV (₹ Crore) | 55,191.5 |
| 52 week H/L | 613 / 358 |
| Equity capital | 438.8 |
| Face value | ₹ 5 |

| Price performance | | | | |
|-------------------|------|------|-------|-------|
| | 1M | 3M | 6M | 12M |
| TechMahindra | 0.4 | 16.7 | 7.7 | 7.3 |
| MindTree | 9.7 | 5.2 | 13.2 | 11.7 |
| KPIT Tech | 9.6 | 2.9 | (1.1) | (8.8) |
| NIIT Tech | 17.3 | 12.1 | 43.5 | 42.4 |

| Research Analysts | |
|----------------------|-------------------------------------|
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| Deepti Tayal | deepti.tayal@icicisecurities.com |

Tech Mahindra (TECMAH)

₹ 604

Strong performance on profitability front...

- Tech Mahindra (TechM) reported its Q3FY18 earnings wherein revenue growth was marginally better than our estimates while EBITDA margins were way ahead of our expectations
- US\$ revenues grew 2.5% QoQ to \$1209 million and were above our expectation of 1.7% growth and \$1,199 million estimate
- Rupee revenues grew 2.2% QoQ to ₹ 7,776 crore and were broadly in line with our ₹ 7,761.4 crore estimate
- At 16.3%, EBITDA margins expanded 180 bps QoQ and were way above our estimate of 15.0% and 50 bps expansion
- Reported PAT of ₹ 943.2 crore was way above our ₹ 778.9 crore estimate led by better-than-expected margin and lower tax rate (21.8% in Q3FY18 vs. 25.3% in Q2FY18)
- Tech Mahindra has acquired 32.1% in Comviva Technologies for a total consideration of ₹ 361.7 crore. With this, TechM's stake in Comviva is at 99.2%

Consistent performance in Enterprise; Communication softness persists...

TechM's dollar revenues grew 2.5% QoQ to \$1209 million driven by strong 4.2% sequential growth in the Enterprise segment (57.3% of revenue) for an eleventh consecutive quarter in a row. The growth in the enterprise division was led by technology, media and entertainment (partly supported by IP deal) growing 13% QoQ followed by manufacturing (3.1% QoQ). On the other hand, retail (1.1%) & BFSI (down 3.3%) reported a subdued performance on account of furloughs and client specific ramp down. In the Communication segment (42.8% of revenue) was soft with 0.4% sequential growth. In terms of FY19E, the management expects double digit growth for the Enterprise division while Communication division is expected to perform better than FY18 possibly on the back of rollout of 5G in developed markets. Overall, we expect the company to grow at 8.7% CAGR to \$5625 million in FY18E-20E.

EBITDA margin surprises positively...

Tech M's EBITDA margin surprised positively by expanding 180 bps QoQ at 16.3% in Q3FY18 mainly on account of i) higher utilisation rate (up 200 bps QoQ at 83%), ii) turnaround in its subsidiaries like LCC and Comviva and iii) improved business mix. In Q4FY18E, EBITDA margin may improve further from current level on account of strong seasonality in its Comviva subsidiary. Secondly, TechM has deferred its wage hike for employees with > six year experience to H1FY19. Going ahead, we expect EBITDA margins to improve 150 bps to 16.4% in FY18-20E on the back of a turnaround in subsidiaries' performance & cost rationalisation.

Communication weakness; execution risk remains; maintain HOLD...

TechM surprised positively on the EBITDA margin front in Q3FY18. With further cost rationalisation, improvement in utilisation rate and turnaround in performance of subsidiaries, TechM could improve its EBITDA margin 150 bps to 16.4% in FY18-20E. However, weakness in the communication division continues to persist. Secondly, TechM may face execution risk in case of a demand improvement given a sharp pruning in the employee base in the IT service division (reduced ~9000 employees in 9MFY18 or ~10% of workforce). Hence, we maintain our **HOLD** recommendation on the stock. We roll over our valuation to FY20E and value the stock at ₹ 640 (14x FY20 EPS).

Variance analysis

| | Q3FY18 | Q3FY18E | Q3FY17 | YoY (%) | Q2FY18 | QoQ (%) | Comments |
|------------------------------|---------|---------|---------|---------|---------|---------|---|
| Revenue | 7,776.0 | 7,761.4 | 7,557.5 | 2.9 | 7,606.4 | 2.2 | TechM \$ revenues grew 2.5% to \$1209.1 million |
| Employee expenses | 5,380.7 | 5,456.3 | 5,235.2 | 2.8 | 5,378.9 | 0.0 | |
| Gross Margin | 2,395.3 | 2,305.1 | 2,322.3 | 3.1 | 2,227.5 | 7.5 | |
| Gross margin (%) | 30.8 | 29.7 | 30.7 | 8 bps | 29.3 | 152 bps | |
| SG&A expenses | 1,130.6 | 1,140.9 | 1,135.8 | -0.5 | 1,121.8 | 0.8 | |
| EBITDA | 1,264.7 | 1,164.2 | 1,186.5 | 6.6 | 1,105.7 | 14.4 | |
| EBITDA Margin (%) | 16.3 | 15.0 | 15.7 | 57 bps | 14.5 | 181 bps | EBITDA margin was way above our expectation due to reduction in employee cost |
| Depreciation & amortisation | 274.2 | 270.7 | 248.0 | 10.6 | 265.3 | 3.4 | |
| EBIT | 990.5 | 893.5 | 938.5 | 5.5 | 840.4 | 17.9 | |
| EBIT Margin (%) | 12.7 | 11.5 | 12.4 | 32 bps | 11.0 | 169 bps | |
| Other income (less interest) | 191.0 | 158.6 | 119.8 | 59.4 | 283.6 | -32.7 | |
| PBT | 1,181.5 | 1,052.2 | 1,058.3 | 11.6 | 1,124.0 | 5.1 | |
| Tax paid | 257.0 | 268.3 | 214.1 | 20.0 | 284.7 | -9.7 | |
| PAT | 943.2 | 778.9 | 854.5 | 10.4 | 836.2 | 12.8 | PAT was above our estimates due to better-than-expected margin and lower tax rate |

Key Metrics

| | | | | | | |
|-----------------------------|---------|---------|---------|----------|---------|---------|
| Closing employees | 115,241 | 117,500 | 117,095 | -1.6 | 117,225 | -1.7 |
| IT attrition (%) | 17.0 | 15.5 | 18.0 | -100 bps | 16.0 | 100 bps |
| Utilisation ex trainees (%) | 83.0 | 82.0 | 83.0 | 0 bps | 81.0 | 200 bps |
| Average \$/₹ | 64.3 | 64.7 | 67.7 | -5.0 | 64.5 | -0.3 |

Source: Company, ICICIdirect.com Research

Change in estimates

| ₹ Crore | FY18E | | | FY19E | | | FY20E | | Comments |
|-------------------|--------|--------|----------|--------|--------|----------|------------|---|----------|
| | Old | New | % Change | Old | New | % Change | Introduced | | |
| Revenue | 30,762 | 30,589 | -0.6 | 34,095 | 33,706 | -1.1 | 36,560 | | |
| EBITDA | 4,399 | 4,572 | 3.9 | 5,217 | 5,393 | 3.4 | 5,977 | | |
| EBITDA Margin (%) | 14.3 | 14.9 | 66 bps | 15.3 | 16.0 | 71 bps | 16.4 | We have now incorporated better-than-expected EBITDA margin | |
| PAT | 3,146 | 3,428 | 9.0 | 3,460 | 3,632 | 5.0 | 4,079 | | |
| EPS (₹) | 35.5 | 38.6 | 8.8 | 39.0 | 40.9 | 5.0 | 46.0 | Hence, we upgrade our EPS estimates by 5-9% | |

Source: Company, ICICIdirect.com Research

Assumptions

| | FY18E | | FY19E | | FY20E | | Comments |
|-----------------------------|---------|---------|---------|---------|---------|---------|---|
| | Current | Earlier | Current | Earlier | Current | Earlier | |
| Closing employees | 105,432 | 117,693 | 118,533 | 118,035 | 125,753 | 125,330 | 136,890 |
| IT attrition (%) | 20.0 | 18.8 | 16.8 | 16.0 | 15.0 | 15.0 | 15.0 |
| Utilisation ex trainees (%) | 78.5 | 81.5 | 81.0 | 81.0 | 82.0 | 82.0 | 82.0 |
| Average \$/₹ | 65.6 | 67.0 | 64.3 | 64.8 | 65.0 | 66.0 | 65.0 Tweaked our exchange rate assumption |

Source: Company, ICICIdirect.com Research

Company Analysis

Earnings call highlights...

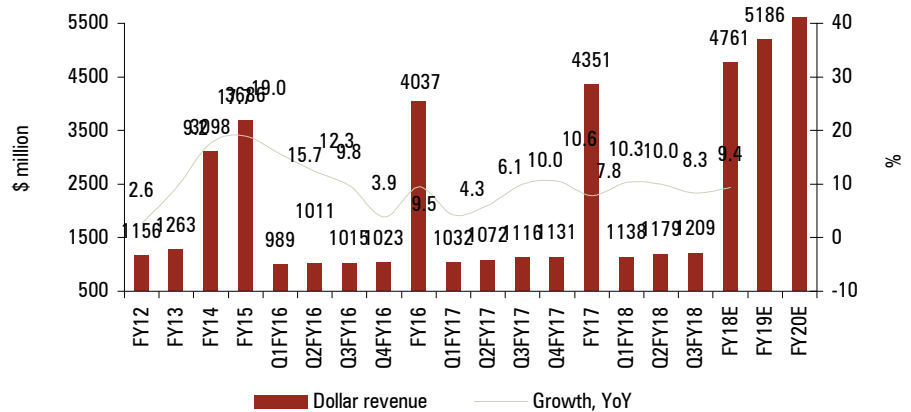
- **Outlook:** TechM expects double digit growth for the Enterprise division in FY19E while the communication division is expected to perform better than FY18 possibly on the back of a rollout of 5G in developed markets. Overall, we expect TechM revenues to grow 8.9% to \$5185 million in FY19E
- **Margin snapshot:** TechM EBITDA margin surprised positively by expanding 180 bps QoQ at 16.3% in Q3FY18 mainly on account of i) higher utilisation rate (up 200 bps QoQ at 83%), ii) turnaround in its subsidiaries such as LCC and Comviva and iii) an improved business mix. In Q4FY18E, the EBITDA margin could improve further from current levels on account of strong seasonality in its Comviva subsidiary. Secondly, TechM has deferred its wage hike for employees with > six years' experience to H1FY19
- **Tax rate:** The effective tax rate for Q3FY18 was lower at 21.8% on the back of a write-down of deferred tax assets in the US. The effective tax rate is expected to remain similar at FY18 levels (24-25%), going ahead
- **IP partnership:** TechM has entered into an IP partnership in the area of virtualisation and cloud domain in Q2FY18. Total consideration for the partnership is US\$140 million. Of this, \$35 million has been paid in Q2FY18 while the remaining amount would be paid in 12 equal quarterly instalments of \$8.75 million from Q3FY18 onwards
- **Employee update:** Employee headcount was at 115,241, which declined by 1984 employees sequentially. There was continuous reduction of employees in software professionals for three consecutive quarters (82,403 employees in FY17 to 73,460 in Q3FY18). IT attrition (LTM) increased 100 bps to 17% QoQ while utilisation (excluding trainees) improved 200 bps QoQ at 83%
- **Capex and cash position:** Capex for the quarter was at ₹ 164.7 crore vs. ₹ 454.8 crore in Q2. DSO days were at 106 days. Cash & cash equivalent was at ₹ 6068.4 crore (vs. ₹ 5961.3 crore in Q2FY18)

Enterprise witnesses strong growth supported by technology & media...

TechM's \$ revenues grew 2.5% QoQ to \$1209 million driven by strong 4.2% sequential growth in the enterprise segment (57.3% of revenue) for the eleventh consecutive quarter in a row. The communication segment (42.8% of revenue) was soft with 0.4% sequential growth.

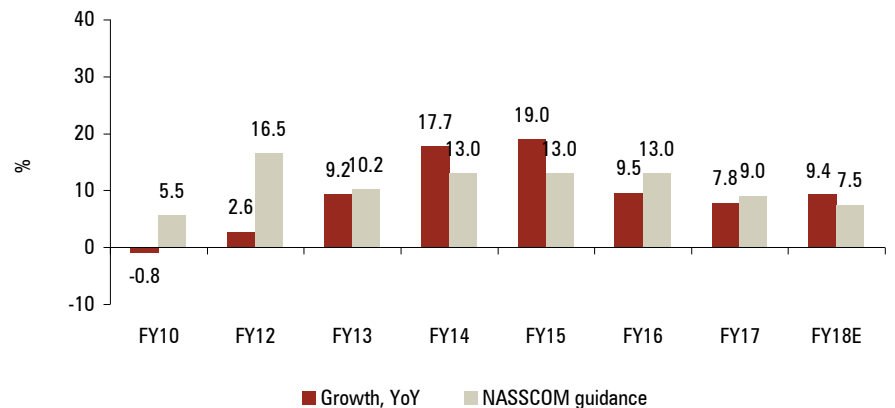
The growth in the enterprise division was led by technology, media and entertainment (partly supported by the IP deal) growing 13% sequentially followed by manufacturing (3.1% QoQ). On the other hand, retail (1.1%) & BFSI (-3.3%) reported a subdued performance on account of furloughs and client specific ramp down. Overall, we expect the company to grow at 8.7% CAGR to \$ 5625 million in FY18E-20E.

Exhibit 1: Dollar revenue may grow at 8.7% CAGR in FY18-20E



Source: Company, ICICIdirect.com Research

Exhibit 2: TechM vs. Nasscom guidance

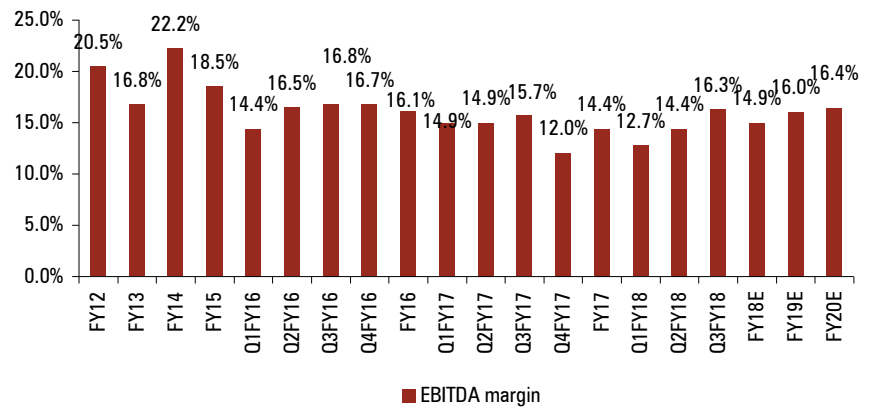


Source: Company, ICICIdirect.com Research

EBITDA margin way above expectations...

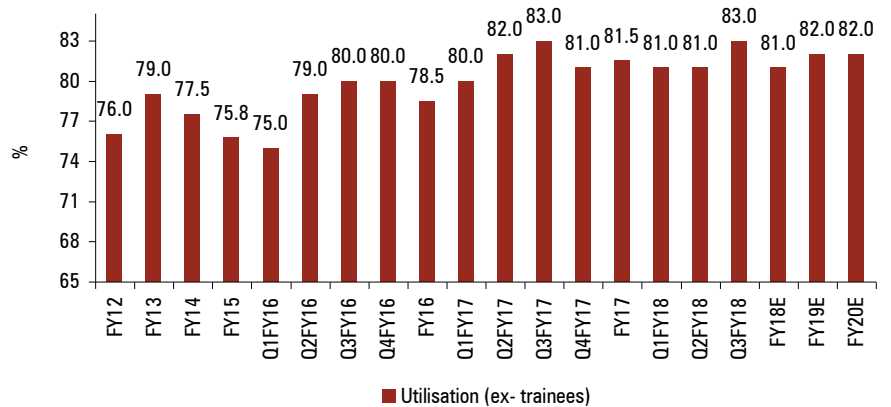
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Exhibit 3: EBITDA margins expand 180 bps QoQ to 16.3%



Source: Company, ICICIdirect.com Research

Exhibit 4: Utilisation ex-trainees increase 200 bps QoQ at 83%



Source: Company, ICICIdirect.com Research

US posts multi quarter high growth sequentially...

Among geographies, US (46.9% of revenue) led the growth and posted a multi quarter high sequential growth of 6.2% QoQ. It was followed by Europe (29.8% of revenue), which grew 1.9% QoQ while RoW (23.3% of revenue) declined 3.3% sequentially.

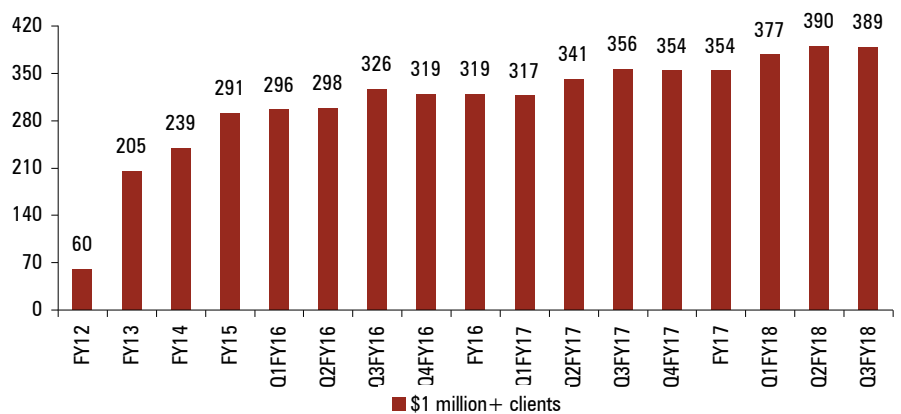
Weakness sustains in top five customers, non top 11-20 posts good growth...

Weakness across top five customer (23.2% of revenue) continued for a straight fourth quarter and declined 4.1% QoQ. However, the sequential decline was mainly on account of quarter furloughs. Top six to 10 customer's revenues declined 0.5% while top 11-20 customer posted healthy growth of 9% in Q3. Non-top 20 accounts grew 4.8% sequentially. As indicated by the management in the previous quarter's earnings call, growth of top five clients was slower than the company average while weakness could persist in the next quarter as well while non top five could offset the modest growth in top 5.

Healthy client metrics...

Client metrics were healthy during the quarter with active clients increasing by 18 sequentially to 903. Across categories, clients contributing >\$50 million in revenues increased by two QoQ to 16, after remaining constant for a ninth consecutive quarter at 14. Clients contributing >\$10 million and >\$5 million increased by two and seven, respectively, on a QoQ basis. Clients contributing >\$1 million are now at 389 vs. 356 in Q3FY17. New business contribution (7.1%) was at a multi-quarter high and registered healthy growth of 45.6% to US\$85.85 million while repeat business posted growth of 0.3% QoQ to US\$1123.3 million.

Exhibit 5: \$1 million+ clients now at 389, increase of 33 clients YoY



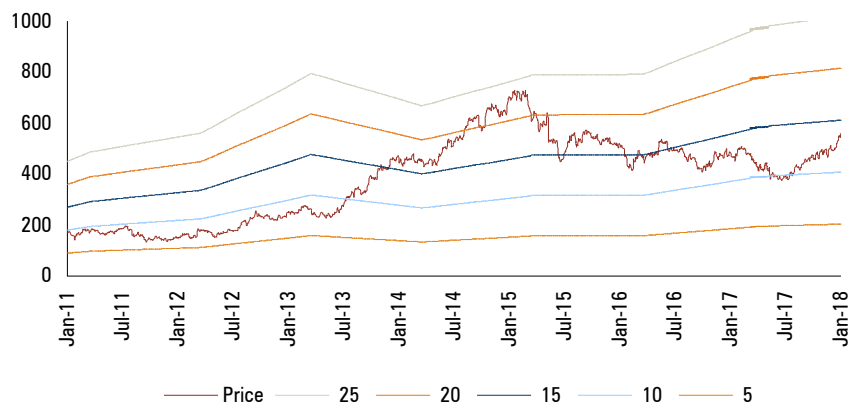
Source: Company, ICICIdirect.com Research

Outlook and valuation

Tech Mahindra (TechM) reported its Q3FY18 earnings wherein revenue growth was marginally better than our estimates while EBITDA margins were way ahead of our expectations. Among geographies, growth was led by the US (6.2% QoQ), followed by Europe (1.9% QoQ) while RoW was soft (-3.3%). Vertical wise, the enterprise segment grew 4.2% QoQ while telecom was flattish (up 0.4% QoQ).

TechM surprised positively on the EBITDA margin front in Q3FY18. With further cost rationalisation, improvement in utilisation rate and turnaround in subsidiaries performance, Tech Mahindra could improve its EBITDA margin 150 bps to 16.4% in FY18-20E. However, weakness in the communication division continues to persist. Secondly, TechM could face execution risk in case of demand improvement given a sharp pruning in employee base in IT service division (reduced ~9000 employees in 9MFY18 or ~10% of workforce). Hence, we maintain our HOLD recommendation on the stock. We roll over our valuation to FY20E and value the stock at ₹ 640 (14x FY20 EPS).

Exhibit 6: One year forward rolling PE



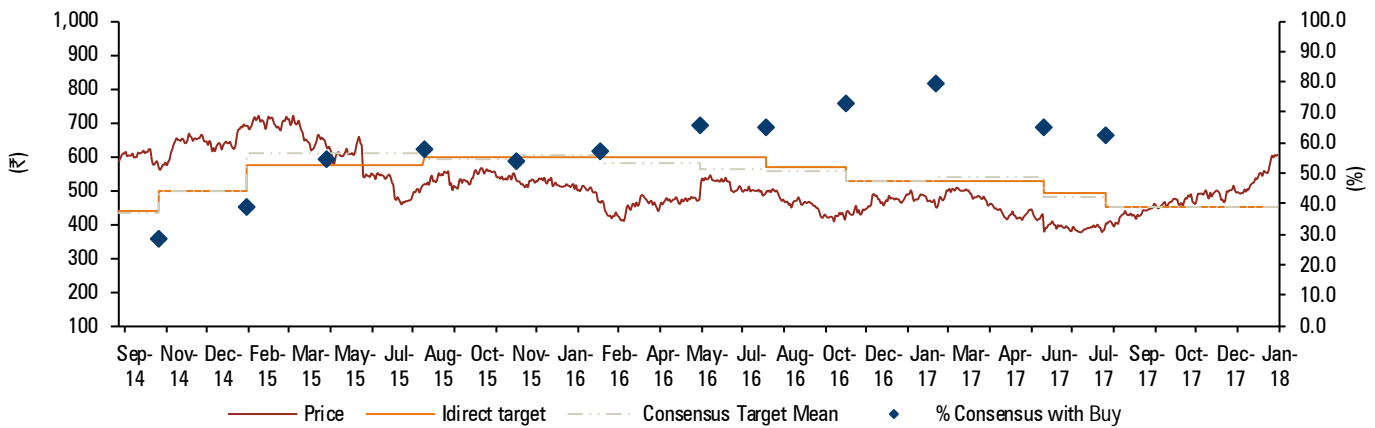
Source: Company, ICICIdirect.com Research

Exhibit 7: Valuations

| | Sales (₹ cr) | Growth (%) | EPS (₹) | Growth (%) | PE (x) | EV/EBITDA (x) | RoNW (%) | RoCE (%) |
|-------|-----------------|---------------|------------|---------------|-----------|------------------|-------------|-------------|
| FY16 | 26,494 | 17.1 | 31.7 | 18.4 | 22.6 | 13.6 | 21.5 | 25.0 |
| FY17 | 29,140 | 10.0 | 31.7 | 0.1 | 19.1 | 12.9 | 20.5 | 22.3 |
| FY18E | 30,589 | 5.0 | 38.6 | 21.9 | 19.1 | 13.2 | 17.1 | 19.4 |
| FY19E | 33,706 | 10.2 | 40.9 | 5.9 | 15.6 | 11.5 | 18.1 | 20.0 |
| FY20E | 36,560 | 8.5 | 46.0 | 12.3 | 14.8 | 9.2 | 16.9 | 19.1 |

Source: Company, ICICIdirect.com Research

Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

| Date | Event |
|--------|---|
| Aug-16 | Tech Mahindra got the approval by FCA for the acquisition of UK based Target group, the financial services outsourcing and software provider. As per the media sources, the value of the acquisition is GBP 112 million (₹ 1,100 crore) |
| Jun-16 | Tech Mahindra acquires leading Digital company "The BIO Agency", UK company. |
| Oct-16 | Government of Jharkhand inks strategic MoU with Tech Mahindra for its Digital Jharkhand program |
| Jan-17 | Tech Mahindra forms JV with Saudi Arabia based Midad holdings |
| Jan-17 | Tech Mahindra refreshes its brand philosophy to align with the changing needs of increasing connected and digital world. From 'Connected World, Connected |
| Mar-17 | Signs a definitive agreement to acquire US-based healthcare provider CJS Solutions Group for an enterprise value of \$110 million |
| Jun-17 | Tech Mahindra one of step down subsidiary LCC Middle East FZ LLC agrees to sell 100% shareholding in LCC Pakistan Pvt Ltd for a consideration worth \$5.2 million. |
| Jun-17 | Tech Mahindra gets a high court notice for illegal layoffs amid taped conversation between its human resource management staff and an employee who was handed a pink slip |
| Oct-17 | According to media sources, Tech Mahindra bags a multi-year, multi-million contract from Finnish (Finland) firm Ahlstrom-Munksjö, fibre-based materials maker. The Tech Mahindra files three cases against Reliance Communications and two of its subsidiaries in NCLT under the Insolvency and Bankruptcy Code. Reliance Communications owes ₹ 3.6 crore while Reliance Telecom owes ₹ 3 crore and Reliance Big TV owes ₹ 1.5 crore to TechM. The petitions are yet to be admitted while the cases were scheduled to be heard on October 9, 2017 |
| Nov-17 | Tech Mahindra withdraws its case against Reliance Communications (RCom) from the National Company Law Tribunal (NCLT). It is still in discussions on how much the telecom company would pay. TechM had filed three cases against Reliance |

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

| Rank | Name | Latest Filing Date | % O/S | Position (m) | Change (m) |
|------|---|--------------------|-------|--------------|------------|
| 1 | Mahindra Group | 30-Sep-17 | 26.2% | 256.2 | 0.0 |
| 2 | Yargop (Ulhas Narayan) | 30-Sep-17 | 9.8% | 96.0 | 95.8 |
| 3 | First State Investments (U.K.) Ltd | 30-Sep-17 | 4.9% | 47.8 | 34.0 |
| 4 | Life Insurance Corporation of India | 30-Sep-17 | 3.6% | 35.3 | 0.0 |
| 5 | ICICI Prudential Asset Management Co. Ltd. | 31-Dec-17 | 2.0% | 19.2 | -0.1 |
| 6 | The Vanguard Group, Inc. | 31-Dec-17 | 1.7% | 16.4 | -0.2 |
| 7 | BlackRock Institutional Trust Company, N.A. | 31-Dec-17 | 1.7% | 16.1 | 0.0 |
| 8 | Aditya Birla Sun Life AMC Limited | 31-Dec-17 | 1.5% | 14.9 | 0.9 |
| 9 | Norges Bank Investment Management (NBIM) | 30-Sep-17 | 1.4% | 13.7 | 1.4 |
| 10 | First State Investments (Singapore) | 31-Dec-17 | 1.3% | 12.5 | 0.0 |

Shareholding Pattern

| (in %) | Jun-17 | Sep-17 | Dec-17 |
|----------|--------|--------|--------|
| Promoter | 36.16 | 36.14 | 36.01 |
| Public | 63.79 | 63.81 | 63.94 |
| Others | 0.05 | 0.05 | 0.05 |
| Total | 100.00 | 100.00 | 100.00 |

Source: Reuters, ICICIdirect.com Research

Recent Activity

| Buys | | | Sells | | |
|------------------------------------|-------------|--------|---|-------------|--------|
| Investor name | Value (\$m) | Shares | Investor name | Value (\$m) | Shares |
| Yargop (Ulhas Narayan) | 671.34m | 95.76m | Brandes Investment Partners, L.P. | -11.44m | -1.45m |
| First State Investments (U.K.) Ltd | 238.10m | 33.96m | Skagen AS | -10.05m | -1.32m |
| Investec Asset Management Ltd. | 47.12m | 5.97m | Janus Henderson Investors | -4.74m | -0.79m |
| Hermes Investment Management Ltd. | 16.82m | 2.40m | Reliance Nippon Life Asset Management Limited | -2.93m | -0.37m |
| First State Investments (HK) Ltd. | 16.58m | 2.23m | BNP Paribas Asset Management Asia Limited | -2.42m | -0.32m |

Source: Reuters, ICICIdirect.com Research

Financial summary

| Profit and loss statement | | ₹ Crore | | | |
|-----------------------------|--------|---------|--------|--------|--|
| | FY17 | FY18E | FY19E | FY20E | |
| Net sales | 29,140 | 30,589 | 33,706 | 36,560 | |
| Growth (%) | 10 | 5 | 10 | 8 | |
| COGS (employee expenses) | 20,566 | 21,520 | 23,459 | 25,317 | |
| Gross profit | 8,574 | 9,069 | 10,247 | 11,242 | |
| S,G&A expenses | 4,390 | 4,497 | 4,854 | 5,265 | |
| Total Operating Expenditure | 24,957 | 26,017 | 28,313 | 30,582 | |
| EBITDA | 4,184 | 4,572 | 5,393 | 5,977 | |
| Growth (%) | (2) | 9 | 18 | 11 | |
| Depreciation | 978 | 1,071 | 1,180 | 1,280 | |
| Interest | 129 | 145 | 145 | 145 | |
| Other Income | 777 | 1,086 | 666 | 769 | |
| PBT | 3,854 | 4,443 | 4,735 | 5,323 | |
| Total Tax | 1,002 | 1,049 | 1,136 | 1,277 | |
| Exceptional item | - | - | 1 | 1 | |
| PAT | 2,812 | 3,428 | 3,632 | 4,079 | |
| Growth (%) | (6) | 22 | 6 | 12 | |
| EPS (₹) | 31.7 | 38.6 | 40.9 | 46.0 | |

Source: Company, ICICIdirect.com Research

| Balance sheet | | ₹ Crore | | | |
|-----------------------------|--------|---------|--------|--------|--|
| (Year-end March) | FY17 | FY18E | FY19E | FY20E | |
| Liabilities | | | | | |
| Equity Capital | 439 | 439 | 439 | 439 | |
| Share application money | - | - | - | - | |
| Reserve and Surplus | 15,998 | 18,451 | 21,107 | 24,742 | |
| Total Shareholders funds | 16,437 | 18,890 | 21,546 | 25,181 | |
| Minority Interest | 464 | 431 | 397 | 363 | |
| Total Debt | 1,220 | 1,220 | 1,220 | 1,220 | |
| Other long term liabilities | 2,387 | 2,387 | 2,387 | 2,387 | |
| Total Liabilities | 20,508 | 22,927 | 25,549 | 29,150 | |
| Assets | | | | | |
| Net Block | 3,072 | 2,807 | 2,516 | 2,201 | |
| Capital WIP | 373 | 373 | 373 | 373 | |
| Investments | 2,396 | 2,396 | 2,396 | 2,396 | |
| Deferred tax assets | 267 | 267 | 267 | 267 | |
| Goodwill on consolidation | 2,628 | 2,628 | 2,628 | 2,628 | |
| Debtors | 5,353 | 5,619 | 6,192 | 6,716 | |
| Loans and Advances (short) | 429 | 450 | 496 | 538 | |
| Other non-current assets | 2,392 | 2,392 | 2,392 | 2,392 | |
| Cash | 3,219 | 5,891 | 8,780 | 12,675 | |
| Other current assets | 5,116 | 5,116 | 5,116 | 5,116 | |
| Total Current Assets | 16,342 | 19,302 | 22,809 | 27,271 | |
| Trade payables | 2,312 | 2,427 | 2,674 | 2,900 | |
| Current liabilities | 2,860 | 3,002 | 3,308 | 3,588 | |
| Provisions | 387 | 406 | 448 | 486 | |
| Total Current Liabilities | 5,559 | 5,835 | 6,430 | 6,974 | |
| Application of Funds | 20,508 | 22,927 | 25,549 | 29,150 | |

Source: Company, ICICIdirect.com Research

| Cash flow statement | | ₹ Crore | | | |
|--------------------------------|---------|---------|---------|---------|--|
| (Year-end March) | FY17 | FY18E | FY19E | FY20E | |
| Profit before Tax | 3,854 | 4,443 | 4,735 | 5,323 | |
| Add: Depreciation | 978 | 1,071 | 1,180 | 1,280 | |
| (Inc)/dec in Current Assets | (84) | (287) | (619) | (566) | |
| Inc/(dec) in CL and Provisions | 628 | 276 | 595 | 544 | |
| Taxes paid | (1,080) | (1,049) | (1,136) | (1,277) | |
| CF from operating activities | 4,073 | 5,086 | 5,564 | 6,217 | |
| (Inc)/dec in Investments | (1,063) | - | - | - | |
| (Inc)/dec in Fixed Assets | (760) | (1,695) | (1,852) | (964) | |
| Others | 117 | (486) | (666) | (769) | |
| CF from investing activities | (3,051) | (1,292) | (1,555) | (1,733) | |
| Issue/(Buy back) of Equity | 35 | - | - | - | |
| Inc/(dec) in loan funds | (255) | - | - | - | |
| Dividend paid & dividend tax | (1,239) | (976) | (976) | (444) | |
| Inc/(dec) in debentures | - | - | 1 | 1 | |
| Finance charges | (111) | (145) | (145) | (145) | |
| CF from financing activities | (1,571) | (1,121) | (1,121) | (588) | |
| Net Cash flow | (549) | 2,673 | 2,889 | 3,895 | |
| Cash by acquisition | 161 | - | - | - | |
| Opening Cash | 4,018 | 3,219 | 5,891 | 8,780 | |
| Cash carried to B/S | 3,219 | 5,891 | 8,780 | 12,675 | |

Source: Company, ICICIdirect.com Research

| Key ratios | | ₹ Crore | | | |
|-----------------------------|-------|---------|-------|-------|--|
| (Year-end March) | FY17 | FY18E | FY19E | FY20E | |
| Per share data (₹) | | | | | |
| EPS | 31.7 | 38.6 | 40.9 | 46.0 | |
| Cash EPS | 42.7 | 50.7 | 54.2 | 60.4 | |
| BV | 185.2 | 212.9 | 242.8 | 283.8 | |
| DPS | 9.0 | 11.0 | 11.0 | 13.0 | |
| Cash Per Share | 36.3 | 66.4 | 98.9 | 142.8 | |
| Operating Ratios (%) | | | | | |
| EBITDA Margin | 14.4 | 14.9 | 16.0 | 16.4 | |
| PAT Margin | 9.6 | 11.2 | 10.8 | 11.2 | |
| Return Ratios (%) | | | | | |
| RoE | 17.1 | 18.1 | 16.9 | 16.2 | |
| RoCE | 19.4 | 20.0 | 19.1 | 18.8 | |
| RoIC | 22.8 | 21.2 | 22.0 | 20.7 | |
| Valuation Ratios (x) | | | | | |
| P/E | 19.1 | 15.6 | 14.8 | 13.1 | |
| EV / EBITDA | 13.2 | 11.5 | 9.2 | 7.7 | |
| EV / Net Sales | 1.9 | 1.7 | 1.5 | 1.3 | |
| Market Cap / Sales | 2.0 | 1.9 | 1.8 | 1.6 | |
| Price to Book Value | 3.3 | 2.8 | 2.5 | 2.1 | |
| Solvency Ratios | | | | | |
| Debt/EBITDA | 0.3 | 0.3 | 0.2 | 0.2 | |
| Current Ratio | 2.9 | 3.3 | 3.5 | 3.9 | |
| Quick Ratio | 2.9 | 3.3 | 3.5 | 3.9 | |

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (IT)

| Sector / Company | CMP | | | M Cap (₹ Cr) | EPS (₹) | | | P/E (x) | | | EV/EBITDA (x) | | | RoCE (%) | | | RoE(%) | | |
|----------------------------|-------|-------|--------|-----------------|---------|-------|-------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|--------|-------|-------|
| | (₹) | TP(₹) | Rating | | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E |
| Cyient (INFENT) | 650 | 600 | Hold | 7,318 | 30.5 | 35.7 | 37.5 | 21.3 | 18.2 | 17.4 | 13.4 | 10.8 | 9.4 | 19.7 | 20.6 | 20.3 | 16.2 | 17.0 | 16.2 |
| Eclerx (ECLSER) | 1,600 | 1,125 | Sell | 6,596 | 86.4 | 74.8 | 88.4 | 18.5 | 21.4 | 18.1 | 12.8 | 14.7 | 12.9 | 34.5 | 28.1 | 28.9 | 29.1 | 22.4 | 23.9 |
| Firstsource (FIRSOU) | 43 | 47 | Buy | 2,854 | 4.1 | 4.3 | 4.7 | 10.4 | 10.0 | 9.1 | 8.2 | 7.4 | 6.2 | 11.7 | 11.9 | 12.7 | 13.8 | 12.5 | 12.2 |
| HCL Tech (HCLTEC) | 1,016 | 1,000 | Hold | 143,429 | 60.0 | 61.9 | 65.7 | 16.9 | 16.4 | 15.5 | 13.7 | 12.2 | 10.4 | 29.0 | 28.9 | 28.2 | 25.3 | 25.0 | 23.3 |
| Infosys (INFTEC) | 1,192 | 1,110 | Hold | 272,434 | 62.8 | 66.1 | 68.2 | 19.0 | 18.0 | 17.5 | 13.1 | 13.5 | 12.1 | 28.8 | 31.6 | 29.4 | 20.8 | 22.7 | 20.9 |
| KPIT Tech (KPISYS) | 213 | 160 | Hold | 4,238 | 14.7 | 10.6 | 11.7 | 14.5 | 20.0 | 18.3 | 9.4 | 11.7 | 11.4 | 23.6 | 14.5 | 15.3 | 20.2 | 15.1 | 13.2 |
| Mindtree (MINCON) | 770 | 600 | Hold | 12,930 | 24.9 | 32.0 | 33.9 | 30.9 | 24.1 | 22.7 | 17.3 | 16.9 | 13.4 | 21.2 | 24.9 | 24.3 | 16.2 | 20.0 | 18.9 |
| NIIT Technologies (NIITEC) | 907 | 775 | Hold | 3,250 | 40.8 | 44.8 | 52.2 | 20.3 | 20.2 | 17.4 | 5.2 | 4.7 | 3.7 | 29.8 | 31.5 | 36.4 | 14.8 | 14.6 | 15.0 |
| Persistent (PSYS) | 790 | 875 | Buy | 6,319 | 37.6 | 47.9 | 38.8 | 16.9 | 16.4 | 13.7 | 9.9 | 9.0 | 7.1 | 20.7 | 19.4 | 21.4 | 15.9 | 14.6 | 16.0 |
| TCS (TCS) | 3,200 | 2,750 | Hold | 626,784 | 133.4 | 132.5 | 144.4 | 24.0 | 24.1 | 22.1 | 18.0 | 18.1 | 15.8 | 38.0 | 37.9 | 34.9 | 29.8 | 29.5 | 27.1 |
| Tech Mahindra (TECMAH) | 604 | 640 | Hold | 59,355 | 31.7 | 38.6 | 40.9 | 19.1 | 15.6 | 14.8 | 13.2 | 11.5 | 9.2 | 19.4 | 20.0 | 19.1 | 17.1 | 18.1 | 16.9 |
| Wipro (WIPRO) | 313 | 360 | Buy | 154,528 | 17.5 | 18.6 | 20.6 | 17.9 | 16.8 | 15.2 | 11.6 | 12.9 | 10.8 | 16.8 | 17.4 | 17.1 | 16.3 | 17.4 | 16.5 |

Source: Company, ICICIdirect.com Research

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