

Low margin guidance dents profitability; maintain SELL

USD revenue grew 1.8% QoQ tad below our estimates; 0.6% QoQ in CC terms. EBIT margin remained flat QoQ at 24.2% despite negative impact of wage hike offset by operational efficiencies. INFO slashes its revenue guidance to 6%-8% (CC terms) which translates into a CAGR of 1.6%-2.3% over four quarters. The management has lowered its EBIT margin guidance in the range of 22%-24% for FY19 as compared to 23%-25% for FY18 due to investment in digital services. We upgrade our earnings estimates by 4% for FY19/FY20; maintain our SELL rating and rollover to Jun'19 TP of ₹ 1,150. (14.5x target PER)

Revenue below estimate; margin remains stable

USD revenue grew 1.8% QoQ (0.6 % QoQ CC terms) to USD 2.805mn (DCMe: USD 2,810mn) led by 1.1% growth in volume. ₹ revenue grew 1.6% QoQ at ₹ 180.8bn (DCMe: ₹ 180.9bn). EBIT margin improved by 40bps QoQ at 24.7% (DCMe: 24%) led by operational efficiencies (+70bps) offset by negative impact of wage hike and variable pay (-30bps). PAT declined by 28.4% QoQ to ₹ 36.8bn (DCMe: ₹ 38.7bn) on back of lower other income and Q3FY18 had tax reversal of USD 225mn positive impact.

Europe & India underperforms amongst goes; muted growth in retail

US remained flat QoQ and Europe/India declined by 0.2%/4.9% QoQ respectively while ROW improved by 6.3% QoQ in CC terms. Revenue from ECS (Energy and Comm.) vertical grew 1.8% QoQ followed by Manufacturing with 1.5% QoQ growth while FSI (Financial Services) remained flat and RCL (Retail & Life Sciences) declined 0.7% QoQ (CC terms).

Acquisition along with shutdown

The company has decided to dispose the two companies (Skava & Panaya) which were acquired during the tenure of Dr. Sikka and to acquire WongDoody, a US-based digital creative and consumer insights agency for total consideration upto USD 75mn.

View

INFO has guided for growth rate below industry averages (7%-9%YoY) in line with our expectation, as the company undergoes a transition phase under the new CEO. We believe INFO may underperform vs peers over the next two quarters, however H2FY19 will be relatively better due to a low base (0.7% CQGR in H2FY18). EBIT margin challenges persist for large cap IT names and this is clearly visible in the EBIT margin guidance cut to 22%-24% (23%-25% earlier) primarily due to investment in digital offerings, ramp up in hiring in US and increased investment in sales. This further increases the EBIT margin gap vs TCS and hence we believe INFO will continue to trade at a discount vs TCS (10%). INFO is trading at fair valuations of 15.8x/14.6x based on FY19/FY20 earnings given its muted earnings CAGR of 5%(FY18-21E). We maintain our SELL rating with Jun'19 TP of ₹ 1,150 based on 14.5x FY20 earnings.

Q4FY18 Result (₹ Mn)

| Particulars | Q4FY18 | Q3FY18 | Q4FY17 | QoQ (%) | YoY (%) |
|--------------------|---------|---------|---------|---------|---------|
| USD revenue | 2,805 | 2,755 | 2,569 | 1.8 | 9.2 |
| Revenue | 180,754 | 177,945 | 171,429 | 1.6 | 5.4 |
| EBIT | 44,657 | 43,211 | 42,307 | 3.3 | 5.6 |
| Pre-Tax Profit | 49,941 | 52,835 | 49,781 | (5.5) | 0.3 |
| Net Profit | 36,795 | 51,414 | 36,234 | (28.4) | 1.5 |
| EPS (₹) | 17.9 | 25.0 | 16.7 | (28.4) | 7.1 |
| Margins (%) | | | | | |
| EBIT Margin | 24.7 | 24.3 | 24.7 | 42 | 3 |
| PBT Margin | 27.6 | 29.7 | 29.0 | (206) | (141) |
| Net Margin | 20.4 | 28.9 | 21.1 | (854) | (78) |

| | |
|-------------------|------------|
| CMP | ₹ 1,171 |
| Target / Downside | ₹ 1,150/2% |
| BSE Sensex | 34,192 |
| NSE Nifty | 10,481 |

Script Details

| | |
|------------------|-------------------|
| Equity / FV | ₹ 12,384mn/ ₹ 5/- |
| Market Cap | ₹ 2,538bn |
| | USD 39bn |
| 52 week High/Low | ₹ 1,221/ 860 |
| Avg. Volume (no) | 4,432,908 |
| NSE Symbol | INFY |
| Bloomberg Code | INFO IN |

Shareholding Pattern Dec'17(%)

| | |
|-----------------|------|
| Promoters | 12.9 |
| MF/Banks/FIs | 21.6 |
| FIIIs | 34.9 |
| Public / Others | 30.6 |

Valuation (x)

| | FY19E | FY20E | FY21E |
|-----------|-------|-------|-------|
| P/E | 15.8 | 14.6 | 13.2 |
| EV/EBITDA | 11.5 | 10.4 | 9.2 |
| ROE (%) | 22.5 | 22.3 | 22.3 |
| ROCE (%) | 22.7 | 22.4 | 22.3 |

Estimates (₹ bn)

| | FY19E | FY20E | FY21E |
|-----------|-------|-------|-------|
| Net Sales | 755 | 816 | 891 |
| EBIT | 175 | 188 | 207 |
| PAT | 152 | 165 | 183 |
| EPS | 74.2 | 80.5 | 89.0 |

Sr. Analyst: Karan Taurani

Tel: +91 22 40969754

E-mail: karant@dolatcapital.com

Associate: Vinesh Vala

Tel: +91 22 40969736

E-mail: vineshv@dolatcapital.com

Strategy of new CEO (Salil Parekh)

- Scale Agile digital with focus on focus on digital services which the company already has 2.8bn in current portfolio and is growing at faster pace.
- Energies company by applying intact automation and Artificial Intelligence through applying market leader NIA platform across delivery.
- Reskill its employees to fulfill each and every technical requirement of the clients.
- Expand localisation in the market especially US and also in Europe & Asia.

Capital Allocation Policy

Exhibit 1: Capital Allocation

| (₹ Crs) | FY18 | FY19 |
|-----------------------------|--------|--------|
| Buyback | 13,000 | - |
| Special dividend | - | 2,600 |
| Other way (to be announced) | - | 10,400 |
| Total | 13,000 | 13,000 |

Source: Company, DART

Exhibit 2: Q4FY18 performance

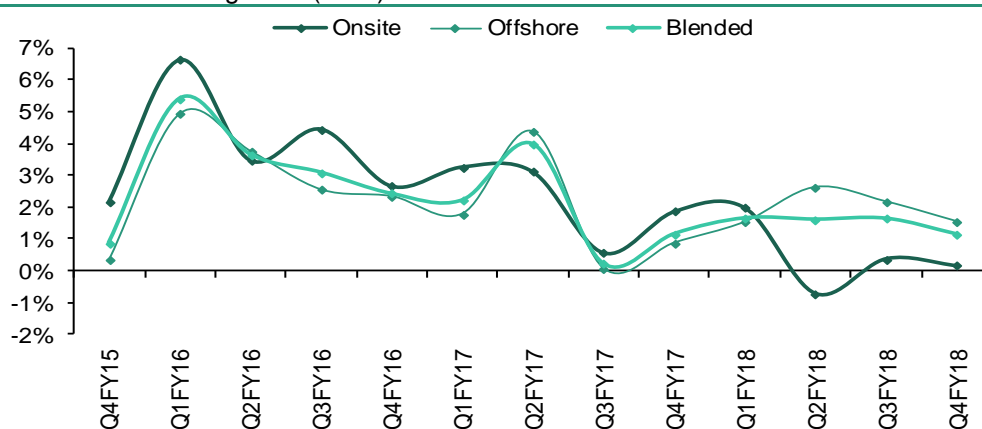
| (₹ mn) | Q4FY18 | DCMe | % Diff | Q3FY18 | Q4FY17 | QoQ(%) | YoY (%) |
|-------------------|---------|---------|--------|---------|---------|--------|---------|
| USD revenue | 2805 | 2,810 | (0.2) | 2755 | 2569 | 1.8 | 9.2 |
| Sales | 180,754 | 180,886 | (0.1) | 177,945 | 171,429 | 1.6 | 5.4 |
| EBIT | 44,657 | 43,413 | 2.9 | 43,211 | 42,307 | 3.3 | 5.6 |
| PAT | 36,795 | 38,739 | (5.0) | 51,414 | 36,234 | (28.4) | 1.5 |
| EPS | 17.9 | 18.9 | (5.0) | 25.0 | 16.7 | (28.4) | 7.1 |
| Margin (%) | | | | | | | |
| EBIT margin | 24.7 | 24.0 | | 24.3 | 24.7 | 42 | 3 |
| PAT margin | 20.4 | 21.4 | | 28.9 | 21.1 | (854) | (78) |

Source: Company, DART

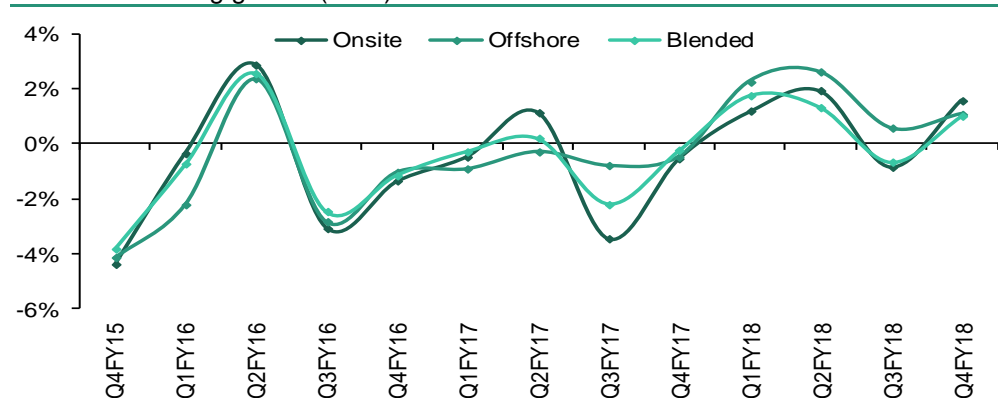
Exhibit 3: CC Revenue guidance implies a growth of 1.6 to 2.3% quarterly

| CC (USD mn) | Q1FY19E | Q2FY19E | Q3FY19E | Q4FY19E | FY19E | % Chg YoY |
|------------------|---------|---------|---------|---------|--------|-----------|
| Lower end | | | | | | |
| Revenue | 2,813 | 2,857 | 2,902 | 2,947 | 11,519 | 6.0 |
| QoQ growth (%) | 1.6 | 1.6 | 1.6 | 1.6 | | |
| Upper end | | | | | | |
| CC (USD mn) | Q1FY19E | Q2FY19E | Q3FY19E | Q4FY19E | FY19E | % Chg YoY |
| Revenue | 2,834 | 2,899 | 2,966 | 3,034 | 11,732 | 8.0 |
| QoQ growth (%) | 2.3 | 2.3 | 2.3 | 2.3 | | |

Source: Company, DART

Exhibit 4: Volume growth (QoQ)


Source: Company, DART

Exhibit 5: Pricing growth (QoQ)


Source: Company, DART

Exhibit 6: Constant Currency Growth - Revenue

| Constant Currency Growth | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 | 4QFY17 | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue (USD mn) | 2,452 | 2,489 | 2,599 | 2,579 | 2,552 | 2,628 | 2,702 | 2,762 | 2,770 |
| Growth % (QoQ) | 1.9 | 1.7 | 3.9 | (0.3) | 0.0 | 2.7 | 2.2 | 0.8 | 0.6 |

Source: Company, DART

Exhibit 7: Constant Currency Growth - Geography

| Geography CC Growth (QoQ) | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 | 4QFY17 | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| North America | 0.6 | 2.5 | 2.7 | (0.6) | 1.2 | 1.3 | 1.9 | 0.7 | 0.1 |
| Europe | 3.6 | 0.6 | 3.7 | 1.0 | (1.6) | 3.1 | 4.1 | 4.7 | (0.2) |
| India | 11.1 | (7.6) | 28.7 | (0.1) | (6.9) | 11.2 | (5.1) | (5.9) | (4.9) |
| ROW | 3.2 | 6.9 | 5.2 | (1.5) | (1.3) | 6.9 | 2.3 | (4.0) | 6.3 |

Source: Company, DART

Exhibit 8: Constant Currency Growth - Segment

| Segment CC Growth (QoQ) | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 | 4QFY17 | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| FSI | 0.2 | 2.2 | 5.2 | 0.2 | 0.5 | 2.0 | 2.6 | 0.1 | 0.1 |
| MFG | 0.8 | 2.9 | 2.1 | (0.5) | 0.0 | 1.5 | 1.2 | (0.1) | 1.5 |
| RCL | 2.7 | 1.0 | 1.2 | (0.4) | (3.1) | 2.6 | 1.7 | 1.2 | (0.7) |
| ECS | 4.9 | 3.1 | 7.3 | (0.8) | 2.8 | 4.9 | 3.0 | 2.5 | 1.8 |

Source: Company, DART

Exhibit 9: Revenue per FTE

| Revenue per FTE (USD '000) | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 | 4QFY17 | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue per FTE - Conso | 50.7 | 50.9 | 51.0 | 51.2 | 51.4 | 51.9 | 52.7 | 53.7 | 54.6 |
| Growth % (QoQ) | 0.4 | 0.4 | 0.2 | 0.4 | 0.4 | 1.0 | 1.5 | 1.9 | 1.7 |

Source: Company, DART

Exhibit 10: Geographic split

| Revenue (USD mn) | Q4FY17 | Q3FY18 | Q4FY18 | QoQ (%) | YoY (%) |
|----------------------|--------|--------|--------|-----------|-----------|
| North America | 1,600 | 1,664 | 1,666 | 0.1 | 4.1 |
| Europe | 568 | 672 | 696 | 3.5 | 22.5 |
| India | 82 | 83 | 79 | (5.0) | (4.5) |
| Rest of World | 319 | 336 | 365 | 8.5 | 14.5 |
| as % of Total | | | | | |
| North America | 62.3 | 60.4 | 59.4 | (100 bps) | (290 bps) |
| Europe | 22.1 | 24.4 | 24.8 | 40 bps | 270 bps |
| India | 3.2 | 3.0 | 2.8 | (20 bps) | (40 bps) |
| Rest of World | 12.4 | 12.2 | 13.0 | 80 bps | 60 bps |

Source: Company, DART

Exhibit 11: Vertical split

| Revenue (USD mn) | Q4FY17 | Q3FY18 | Q4FY18 | QoQ (%) | YoY (%) |
|------------------------------|--------|--------|--------|---------|---------|
| BFSI | 861 | 912 | 926 | 1.5 | 7.6 |
| Insurance | 157 | 187 | 191 | 1.8 | 21.7 |
| Financial services & Banking | 704 | 725 | 735 | 1.4 | 4.4 |
| Manufacturing | 575 | 601 | 614 | 2.3 | 6.7 |
| Retail | 362 | 388 | 373 | (4.0) | 3.0 |
| Telecom | 254 | 289 | 303 | 4.7 | 19.1 |
| Energy & Utilities | 128 | 160 | 165 | 3.6 | 28.8 |
| Transport & Logistics | 51 | 58 | 70 | 21.2 | 36.5 |
| Life sciences / healthcare | 170 | 179 | 185 | 3.4 | 9.2 |
| Others | 167 | 168 | 168 | 0.1 | 0.8 |

as % of Total

| | | | | | |
|------------------------------|------|------|------|----------|-----------|
| BFSI | 33.5 | 33.1 | 33.0 | (10 bps) | (50 bps) |
| Insurance | 6.1 | 6.8 | 6.8 | 0 bps | 70 bps |
| Financial services & Banking | 27.4 | 26.3 | 26.2 | (10 bps) | (120 bps) |
| Manufacturing | 22.4 | 21.8 | 21.9 | 10 bps | (50 bps) |
| Retail | 14.1 | 14.1 | 13.3 | (80 bps) | (80 bps) |
| Telecom | 9.9 | 10.5 | 10.8 | 30 bps | 90 bps |
| Energy & Utilities | 5.0 | 5.8 | 5.9 | 10 bps | 90 bps |
| Transport & Logistics | 2.0 | 2.1 | 2.5 | 40 bps | 50 bps |
| Life sciences / healthcare | 6.6 | 6.5 | 6.6 | 10 bps | 0 bps |
| Others | 6.5 | 6.1 | 6.0 | (10 bps) | (50 bps) |

Source: Company, DART

Exhibit 12: Service split

| Revenue (USD mn) | Q4FY17 | Q3FY18 | Q4FY18 | QoQ (%) | YoY (%) |
|-------------------------|--------|--------|--------|---------|---------|
| Application Development | 393 | 424 | 435 | 2.5 | 10.6 |
| Application Maintenance | 432 | 446 | 438 | (2.0) | 1.4 |
| IMS | 218 | 242 | 261 | 7.6 | 19.5 |
| Testing Services | 231 | 259 | 275 | 6.1 | 18.9 |
| BPM | 131 | 146 | 151 | 3.7 | 15.6 |
| Consulting & PI | 837 | 904 | 909 | 0.6 | 8.5 |
| Products | 141 | 146 | 137 | (5.9) | (2.7) |
| Product engineering | 103 | 110 | 112 | 1.8 | 9.2 |
| Others | 95 | 77 | 87 | 12.7 | (8.5) |

as % of Total

| | | | | | |
|-------------------------|------|------|------|----------|-----------|
| Application Development | 15.3 | 15.4 | 15.5 | 10 bps | 20 bps |
| Application Maintenance | 16.8 | 16.2 | 15.6 | (60 bps) | (120 bps) |
| IMS | 8.5 | 8.8 | 9.3 | 50 bps | 80 bps |
| Testing Services | 9.0 | 9.4 | 9.8 | 40 bps | 80 bps |
| BPM | 5.1 | 5.3 | 5.4 | 10 bps | 30 bps |
| Consulting & PI | 32.6 | 32.8 | 32.4 | (40 bps) | (20 bps) |
| Products | 5.5 | 5.3 | 4.9 | (40 bps) | (60 bps) |
| Product engineering | 4.0 | 4.0 | 4.0 | 0 bps | 0 bps |
| Others | 3.7 | 2.8 | 3.1 | 30 bps | (60 bps) |

Source: Company, DART

Exhibit 13: Client concentration

| Client Concentration | Q4FY17 | Q3FY18 | Q4FY18 | QoQ (%) | YoY (%) |
|----------------------|--------|--------|--------|----------|-----------|
| USD 50mn + | 56 | 56 | 57 | 1.8 | 1.8 |
| USD 100mn + | 19 | 20 | 20 | 0.0 | 5.3 |
| (USD mn) | | | | | |
| Top client | 85 | 94 | 101 | 7.8 | 19.1 |
| Top 10 clients | 519 | 529 | 539 | 1.8 | 3.8 |
| Non-Top 10 | 2,050 | 2,226 | 2,266 | 1.8 | 10.6 |
| (%) | | | | | |
| Top client | 3.3 | 3.4 | 3.6 | 20 bps | 30 bps |
| Top 10 clients | 20.2 | 19.2 | 19.2 | 0 bps | (100 bps) |
| Repeat business | 96.2 | 98.3 | 97.6 | (70 bps) | 140 bps |
| New client addition | 71 | 79 | 73 | (7.6) | 2.8 |
| Active clients | 1162 | 1191 | 1204 | 1.1 | 3.6 |

Source: Company, DART

Exhibit 14: Contract split

| Revenue (USD mn) | Q4FY17 | Q3FY18 | Q4FY18 | QoQ (%) | YoY (%) |
|---------------------------|--------|--------|--------|----------|-----------|
| Fixed Price | 1,269 | 1,416 | 1,431 | 1.0 | 12.7 |
| Time & Material | 1,300 | 1,339 | 1,374 | 2.7 | 5.7 |
| % of Total Revenue | | | | | |
| Fixed Price | 49.4 | 51.4 | 51.0 | (40 bps) | 160 bps |
| Time & Material | 50.6 | 48.6 | 49.0 | 40 bps | (160 bps) |

Source: Company, DART

Exhibit 15: Employee metrics

| Employee metrics | Q4FY17 | Q3FY18 | Q4FY18 | QoQ (%) | YoY (%) |
|-------------------------|---------|---------|---------|----------|---------|
| Total employees | 200,364 | 201,691 | 204,107 | 1.2 | 1.9 |
| S/W professionals | 157,407 | 158,527 | 160,393 | 1.2 | 1.9 |
| - Billable | 147,372 | 149,518 | 151,081 | 1.0 | 2.5 |
| - Banking product group | 4,753 | 4,367 | 4,308 | (1.4) | (9.4) |
| - Trainees | 5,282 | 4,642 | 5,004 | 7.8 | (5.3) |
| Sales & support | 9,818 | 9,738 | 9,968 | 2.4 | 1.5 |
| Gross addition | 9,130 | 12,622 | 12,329 | (2.3) | 35.0 |
| Net addition | 601 | 3,251 | 2,416 | (25.7) | 302.0 |
| Attrition (%) | 17.1 | 18.7 | 19.5 | 80 bps | 240 bps |
| Utilization (%) | | | | | |
| Include Trainees | 78.2 | 82.1 | 82.1 | 0 bps | 390 bps |
| Exclude Trainees | 82.0 | 84.9 | 84.7 | (28 bps) | 263 bps |

Source: Company, DART

Exhibit 16: Delivery split

| Revenue (USD mn) | Q4FY17 | Q3FY18 | Q4FY18 | QoQ (%) | YoY (%) |
|---------------------------|--------|--------|--------|----------|-----------|
| Onsite | 1,457 | 1,510 | 1,532 | 1.4 | 5.1 |
| Offshore | 1,112 | 1,245 | 1,273 | 2.3 | 14.5 |
| % of Total Revenue | | | | | |
| Onsite | 56.7 | 54.8 | 54.6 | (20 bps) | (210 bps) |
| Offshore | 43.3 | 45.2 | 45.4 | 20 bps | 210 bps |

Source: Company, DART

Exhibit 17: Estimate Revision

| (₹ mn) | New | | Earlier | | Change (%) | |
|-------------------|---------|---------|---------|---------|------------|-------|
| | FY19E | FY20E | FY19E | FY20E | FY19E | FY20E |
| Sales | 754,527 | 815,924 | 737,800 | 788,932 | 2.3 | 3.4 |
| EBIT | 174,547 | 188,085 | 173,197 | 187,754 | 0.8 | 0.2 |
| EBIT Margin (%) | 23.1 | 23.1 | 23.5 | 23.8 | | |
| EBITDA | 195,261 | 210,730 | 194,357 | 211,286 | 0.5 | (0.3) |
| EBITDA Margin (%) | 25.9 | 25.8 | 26.3 | 26.8 | | |
| PBT | 206,973 | 224,298 | 200,885 | 217,338 | 3.0 | 3.2 |
| Tax | 54,481 | 59,041 | 54,239 | 58,681 | | |
| Net profit | 152,492 | 165,257 | 146,646 | 158,657 | 4.0 | 4.2 |
| Net margin (%) | 20.2 | 20.3 | 19.9 | 20.1 | | |
| EPS (₹) | 74.2 | 80.5 | 71.4 | 77.2 | 4.0 | 4.2 |
| Re/US\$ | 65.2 | 65.2 | 63.9 | 63.9 | 2.0 | 2.0 |

Source: Company, DART

Income Statement (₹ mn)

| Particulars | Mar18 | Mar19E | Mar20E | Mar21E |
|-------------------------|----------------|----------------|----------------|----------------|
| Net Sales | 705,106 | 754,527 | 815,924 | 890,788 |
| Total Income | 705,106 | 754,527 | 815,924 | 890,788 |
| Total Expenditure | 515,083 | 559,267 | 605,195 | 659,291 |
| Cost of Goods Sold (-) | 432,643 | 466,608 | 504,836 | 549,724 |
| Other Operating Exp (-) | 82,440 | 92,658 | 100,359 | 109,567 |
| Gross Profit | 272,463 | 287,919 | 311,088 | 341,064 |
| EBIDTA | 190,023 | 195,261 | 210,730 | 231,497 |
| Depreciation | 18,629 | 20,713 | 22,645 | 24,577 |
| EBIT | 171,394 | 174,547 | 188,085 | 206,920 |
| Other Income | 31,201 | 32,425 | 36,214 | 41,101 |
| Profit Before Tax | 202,595 | 206,973 | 224,298 | 248,021 |
| Tax | 42,323 | 54,481 | 59,041 | 65,286 |
| Net Profit | 160,272 | 152,492 | 165,257 | 182,736 |

Balance Sheet (₹ mn)

| Particulars | Mar18 | Mar19E | Mar20E | Mar21E |
|---|----------------|----------------|----------------|----------------|
| Sources of Funds | | | | |
| Equity Capital | 12,384 | 12,384 | 12,384 | 12,384 |
| Share Premium | (134,923) | (134,923) | (134,923) | (134,923) |
| Reserves | 771,731 | 828,096 | 897,226 | 983,835 |
| Net Worth | 649,193 | 705,558 | 774,688 | 861,296 |
| Total Capital Employed | 649,193 | 705,558 | 774,688 | 861,296 |
| Applications of Funds | | | | |
| Gross Block | 256,265 | 281,034 | 305,802 | 330,570 |
| Less: Acc. Depreciation | 134,835 | 155,548 | 178,193 | 202,770 |
| Net Block | 121,430 | 125,486 | 127,609 | 127,800 |
| Other LT Assets (+) | 197,821 | 197,821 | 197,821 | 197,821 |
| Current Assets, Loans & Advances | | | | |
| Sundry Debtors | 131,403 | 146,113 | 157,137 | 171,329 |
| Cash and Bank Balance | 262,219 | 295,782 | 346,315 | 412,606 |
| Loans and Advances | 85,907 | 90,794 | 99,080 | 108,028 |
| <i>sub total</i> | 479,529 | 532,689 | 602,532 | 691,963 |
| Less: Current Liabilities & Provisions | | | | |
| Current Liabilities | 149,588 | 150,438 | 153,274 | 156,288 |
| <i>sub total</i> | 149,588 | 150,438 | 153,274 | 156,288 |
| Net Current Assets | 329,941 | 382,251 | 449,258 | 535,675 |
| Total Assets | 649,193 | 705,558 | 774,688 | 861,296 |

E – Estimates

Cash Flow (₹ mn)

| Particulars | Mar18 | Mar19E | Mar20E | Mar21E |
|-------------------------------|------------------|-----------------|-----------------|-----------------|
| Reported Net Profit | 160,272 | 152,492 | 165,257 | 182,736 |
| Depreciation & w.o. | 18,629 | 20,713 | 22,645 | 24,577 |
| (Inc)/ Dec in WC | (5,315) | (18,747) | (16,474) | (20,126) |
| (A) CF from Oper Act | 173,586 | 154,458 | 171,428 | 187,187 |
| Capex | (22,875) | (24,768) | (24,768) | (24,768) |
| Free Cash Flow to Eq. | 150,711 | 129,690 | 146,660 | 162,419 |
| Other | (18,511) | 0 | 0 | 0 |
| (B) CF from Invest Act | (41,387) | (24,768) | (24,768) | (24,768) |
| Dividend Paid (Incl. Tax) | (89,394) | (82,160) | (82,160) | (82,160) |
| Other | (106,588) | (13,967) | (13,967) | (13,967) |
| (C) CF from Financing | (195,982) | (96,127) | (96,127) | (96,127) |
| Net Change in Cash | (63,782) | 33,563 | 50,533 | 66,292 |
| Opening Cash balances | 326,001 | 262,219 | 295,782 | 346,315 |
| Closing Cash balances | 262,219 | 295,782 | 346,315 | 412,606 |

Important Ratios

| Particulars | Mar18 | Mar19E | Mar20E | Mar21E |
|---|-----------|-----------|-----------|-----------|
| (A) Measures of Performance (%) | | | | |
| EBIDTA Margin | 26.9 | 25.9 | 25.8 | 26.0 |
| EBIT Margin | 24.3 | 23.1 | 23.1 | 23.2 |
| Gross Profit Margin | 38.6 | 38.2 | 38.1 | 38.3 |
| Tax/PBT | 20.9 | 26.3 | 26.3 | 26.3 |
| Net Profit Margin | 22.7 | 20.2 | 20.3 | 20.5 |
| (B) As Percentage of Net Sales | | | | |
| Employee expenses | 61.4 | 61.8 | 61.9 | 61.7 |
| Other Expenses | 11.7 | 12.3 | 12.3 | 12.3 |
| (C) Measures of Financial Status | | | | |
| Debtors Period (days) | 68 | 71 | 70 | 70 |
| Fixed Assets Turn. (x) | 2.8 | 2.7 | 2.7 | 2.7 |
| WC Turnover (x) | 2.1 | 2.0 | 1.8 | 1.7 |
| Non-Cash WC (₹ Mn) | 67,722 | 86,469 | 102,943 | 123,069 |
| (D) Measures of Investment | | | | |
| EPS (₹) (excl EO) | 77.1 | 74.2 | 80.5 | 89.0 |
| EPS (₹) | 77.1 | 74.2 | 80.5 | 89.0 |
| CEPS (₹) | 78.2 | 75.4 | 81.8 | 90.2 |
| DPS (₹) | 43.5 | 40.0 | 40.0 | 40.0 |
| Dividend Payout (%) | 56.4 | 53.9 | 49.7 | 45.0 |
| Profit Ploughback (%) | 43.6 | 46.1 | 50.3 | 55.0 |
| Book Value (₹) | 316.1 | 343.5 | 377.2 | 419.3 |
| RoANW (%) | 23.9 | 22.5 | 22.3 | 22.3 |
| RoACE (%) | 22.8 | 22.7 | 22.4 | 22.3 |
| (E) Valuation Ratios | | | | |
| CMP (₹) | 1,171 | 1,171 | 1,171 | 1,171 |
| P/E (x) | 15.2 | 15.8 | 14.6 | 13.2 |
| Market Cap. (₹ Mn) | 2,537,557 | 2,537,557 | 2,537,557 | 2,537,557 |
| MCap/ Sales (x) | 3.6 | 3.4 | 3.1 | 2.8 |
| EV (₹ Mn) | 2,275,338 | 2,241,775 | 2,191,242 | 2,124,951 |
| EV/Sales (x) | 3.2 | 3.0 | 2.7 | 2.4 |
| EV/EBDITA (x) | 12.0 | 11.5 | 10.4 | 9.2 |
| P/BV (x) | 3.7 | 3.4 | 3.1 | 2.8 |
| Dividend Yield (%) | 3.7 | 3.4 | 3.4 | 3.4 |

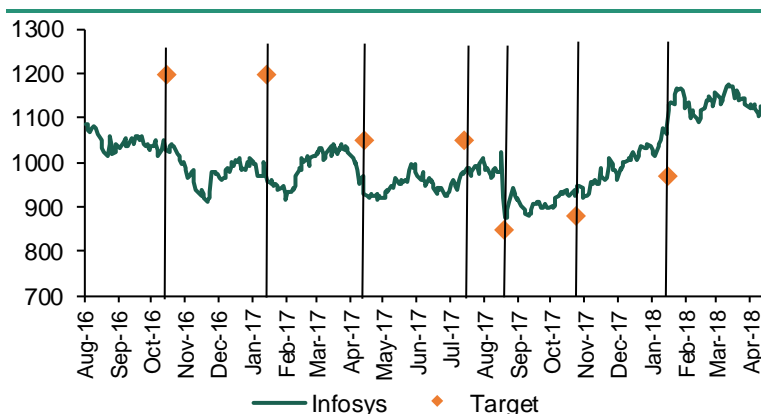
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

| | |
|------------|-----------|
| Buy | > 20% |
| Accumulate | 10 to 20% |
| Reduce | 0 to 10% |
| Sell | < 0% |

Rating and Target Price History



| Month | Rating | TP (₹) | Price (₹)* |
|--------|------------|--------|------------|
| Jul'16 | Buy | 1,300 | 1,072 |
| Oct'16 | Buy | 1,200 | 1,027 |
| Jan'17 | Buy | 1,200 | 980 |
| Apr'17 | Accumulate | 1,050 | 931 |
| Aug'17 | Sell | 850 | 920 |
| Oct'17 | Sell | 880 | 927 |
| Jan'18 | Sell | 970 | 1,081 |

* As on Recommended Date

DART Team

| | | | |
|-------------------|-------------------|-------------------------|-----------------|
| Purvag Shah | Managing Director | purvag@dolatcapital.com | +9122 4096 9747 |
| Amit Khurana, CFA | Head of Equities | amit@dolatcapital.com | +9122 4096 9745 |

CONTACT DETAILS

| Equity Sales | Designation | E-mail | Direct Lines |
|------------------------|------------------------------|------------------------------|-----------------|
| Dinesh Bajaj | VP - Equity Sales | dineshb@dolatcapital.com | +9122 4096 9709 |
| Kartik Sadagopan | VP - Equity Sales | kartiks@dolatcapital.com | +9122 4096 9762 |
| Kapil Yadav | VP - Equity Sales | kapil@dolatcapital.com | +9122 4096 9735 |
| Derivatives Strategist | Designation | E-mail | |
| Bhavin Mehta | VP - Derivatives Strategist | bhavinm@dolatcapital.com | +9122 4096 9705 |
| Equity Trading | Designation | E-mail | |
| P. Sridhar | VP and Head of Sales Trading | sridhar@dolatcapital.com | +9122 4096 9728 |
| Chandrakant Ware | AVP - Equity Sales Trading | chandrakant@dolatcapital.com | +9122 4096 9707 |
| Derivatives Trading | Designation | E-mail | |
| Shirish Thakkar | AVP - Derivatives | shirisht@dolatcapital.com | +9122 4096 9702 |
| Hardik Mehta | Sales Trader | hardikm@dolatcapital.com | +9122 4096 9748 |

Dolat Capital Market Private Limited.

20, Rajabhadur Mansion, 1st Floor, Ambalal Doshi Marg, Fort, Mumbai - 400 001

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797
Member: BSE Limited and National Stock Exchange of India Limited.
SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685
Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu
Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatcapital.com
