Sonata Software

BUY

INDUSTRY	IT
CMP *(as on 23 May 2018)*	Rs 338
Target Price	Rs 380
Nifty	10,430
Sensex	34,345
KEY STOCK DATA	
Bloomberg/Reuters	SSOF IN
No. of Shares (mn)	105
MCap (Rs bn) / ($ mn)	36/519
6m avg traded value (Rs mn)	157

STOCK PERFORMANCE (%)			
52 Week high / low			Rs 387 / 143
	3M	6M	12M
Absolute (%)	2.4	47.3	131.3
Relative (%)	1.8	45.0	118.2

SHAREHOLDING PATTERN (%)	
Promoters	30.95
FIs & Local MFs	4.82
FPIs	14.67
Public & Others	49.56

Source : BSE

Amit Chandra
amit.chandra@hdfcsec.com
+91-22-6171-7345

Apurva Prasad
apurva.prasad@hdfcsec.com
+91-22-6171-7327

IP-led & platform strategy on track

Sonata delivered soft 4QFY18 with slight miss on both revenue and IITS margin. International IT services (IITS) revenue was flat QoQ at USD 37.4mn, below our estimate of USD 38.9mn. Adjusting for one-time pass through revenue last quarter, QoQ IITS rev growth was 2.7%. IITS margin slipped to 19.8% (vs. our est. of 21.0%) despite higher off-shoring (+400bps QoQ). Travel (27% of rev, -3.6% QoQ) and Retail (25% of rev, -7.4% QoQ) were under pressure while OPD (28% of rev) was flat QoQ. Focus on IPs and Platforms is driving Digital revenue (33% of rev, +3.1% QoQ, +23% YoY for FY18). Total revenue stood at Rs 6.26bn, down 18.4% QoQ, led by drop in Domestic Product & Services' (DPS) rev (Rs 3.89bn, -26.7% QoQ).

IITS' business strategy to provide business solutions wrapped with IPs (Rezopia, Halosys, Brick & Click and RETINA) is on track. This is a major differentiator for Sonata, and is the base of its Platformation strategy. IP-led revenue (+2.6% QoQ, 15.6% of IITS rev) is growing faster than company average and is aiding margin expansion (+113bps for FY18). Management is targeting double digit revenue growth in IITS business, led by OPD, Retail (Brick & Click Platform) and Travel (SAP Hybrid and Rezopia) verticals. We expect IITS' USD revenue to grow 14/15% with margin of 20/21% in FY19/20E. We like Sonata IP-focussed business model, capability to scale up top-accounts, quality balance sheet (net cash of Rs 48/share, ~13% of Mcap), high RoE (~31%) and high dividend yield (~3.1%). Maintain BUY with a TP of Rs 380 based on 16x FY20 EPS.

Highlights of the quarter

- ADM/IMS grew 4.3/11.8% QoQ. Testing (18% of rev) was down 5.3% QoQ. Top5/10 client rev were down 1.6/2.8% QoQ.
- Consolidated EBITDA margin expanded 167bps QoQ to 10.2%, owing to higher margins in the DPS (4.1%, +116 bps QoQ) offset by IITS (-106bps QoQ to 19.8%).
- **Near-term outlook:** We expect IITS' revenue growth to revive in 1Q. IITS' margins will expand gradually led by higher IP revenue. The stock is available at ~13% discount to the mid-cap IT average P/E multiple.

Financial Summary

YE Mar (Rs bn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	6.26	6.86	*(8.7)*	7.67	*(18.4)*	19.41	23.71	24.54	26.78	29.53
EBITDA	0.64	0.41	*55.5*	0.65	*(2.3)*	1.92	1.92	2.31	2.72	3.16
APAT	0.54	0.37	*48.2*	0.49	*10.1*	1.59	1.56	1.93	2.16	2.48
Diluted EPS (Rs)	5.2	3.5	*48.2*	4.8	*10.1*	15.3	15.1	18.6	20.8	23.9
P/E (x)						22.2	22.5	18.3	16.3	14.2
EV / EBITDA (x)						16.8	17.0	13.4	11.3	9.5
RoE (%)						35.0	29.3	31.0	31.2	32.0

Source: Company, HDFC sec Inst Research # Consolidated

IITS' revenue grew 0.4% QoQ and DPS revenue registered drop of 26.7% in INR terms

For full year FY18 IIT/DPS revenue was up 13.0/-1.9%

In USD terms IITS rev was up 18.6% YoY for FY18

PAT stood at 0.54bn, up 10.5% QoQ led by margin expansion and higher other income

Other income was boosted by higher forex gain (Rs 70mn)

Quarterly Consolidated Financials Snapshot

Particulars	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
IITS Net Revenues (US $mn)	**37.4**	**30.7**	***21.8***	**37.4**	***0.0***
Net Revenues	**6,258**	**6,858**	***(8.7)***	**7,667**	***(18.4)***
Inventory Costs	3,740	4,663	*(19.8)*	5,171	*(27.7)*
Employee Costs	1,288	1,161	*10.9*	1,312	*(1.9)*
Other Operating Expenses	595	625	*(4.8)*	535	*11.3*
EBITDA	**635**	**409**	***55.5***	**651**	***(2.3)***
Depreciation	30	32	*(8.0)*	31	*(5.2)*
EBIT	**606**	**376**	***61.0***	**619**	***(2.2)***
Interest Cost	10	12	*(16.0)*	9	*8.2*
Other Income	119	150	*(21.0)*	65	*82.3*
PBT	**715**	**515**	***38.8***	**675**	***5.8***
Tax	172	148	*15.8*	182	*(5.6)*
Minority Interest	0	0	*NA*	0	*NA*
RPAT	**543**	**366**	***48.2***	**493**	***10.1***
E/o (adj for tax)	0	56	*NM*	2	*NM*
APAT	**543**	**310**	***75.1***	**491**	***10.5***

Source: Company, HDFC sec Inst Research

Margin Analysis

Particulars	4QFY18	4QFY17	YoY (bps)	3QFY18	QoQ (bps)
Inventory Cost % Net Revenue	59.8	68.0	*(823)*	67.4	*(767)*
Employee Cost % Net Revenue	20.6	16.9	*364*	17.1	*346*
SG&A and Other Expenses % Net Revenues	9.5	9.1	*40*	7.0	*254*
EBITDA Margin (%)	**10.2**	**6.0**	***420***	**8.5**	***167***
EBIT Margin (%)	9.7	5.5	*419*	8.1	*160*
Tax Rate (%)	24.0	28.8	*(478)*	27.0	*(292)*
APAT Margin (%)	8.7	4.5	*415*	6.4	*227*

Source: Company, HDFC sec Inst Research

DPS business is very lumpy in nature, due to signing of some large deal in a particular quarter. The best way to measure its performance is absolute EBITDA growth (was up 2.6% QoQ)

OPD, the largest vertical for Sonata, has recovered well in FY18, led by the Microsoft partnership. Revenue was up 13.4% YoY in FY18

Retail dip after two strong quarters

Travel dip after four quarter of strong growth, outlook remains positive

Segment Revenue

Particulars (Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY18	FY17	YoY (%)
IITS Net Revenues	2,418	2,071	*16.8*	2,408	*0.4*	9,285	8,218	*13.0*
DPS Revenue	3,887	4,861	*(20.0)*	5,303	*(26.7)*	15,468	15,774	*(1.9)*
Inter segment	(47)	(74)	*NM*	(44)	*NM*	(214)	(284)	*NM*
Total Revenue#	**6,258**	**6,858**	***(8.7)***	**7,667**	***(18.4)***	**24,539**	**23,708**	***3.5***
EBITDA								
IITS *	479	325	*47.4*	503	*(4.7)*	1,730	1,438	*20.3*
DPS	158	141	*12.1*	154	*2.6*	603	583	*3.4*
Inter segment	(2)	(58)	*NM*	(6)	*NM*	(23)	(105)	*NM*
Total EBITDA	**635**	**409**	***55.5***	**651**	***(2.3)***	**2,310**	**1,915**	***20.6***
EBITDA %								
IITS	*19.8*	*15.7*	*412*	*20.9*	*(106)*	*18.6*	*17.5*	*113*
DPS	*4.1*	*2.9*	*116*	*2.9*	*116*	*3.9*	*3.7*	*20*
Total EBITDA %	***10.2***	***6.0***	***420***	***8.5***	***167***	***9.4***	***8.1***	***133***

Source: Company, HDFC sec Inst Research, *IITS EBITDA excludes other income and income tax refunds*

IITS' Vertical Revenue Mix

(% Contribution)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
OPD	31.0%	30.0%	29.0%	30.0%	29.0%	28.0%	28.0%
TTL	28.0%	26.0%	27.0%	28.0%	27.0%	28.0%	27.0%
CPG & Retail	23.0%	27.0%	26.0%	24.0%	26.0%	27.0%	25.0%
Others	18.0%	17.0%	18.0%	18.0%	18.0%	17.0%	20.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company, HDFC Sec Inst Research

IITS' Vertical-wise Revenue Growth

(Change % QoQ; USD mn)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
OPD	10.4%	-6.0%	-2.1%	10.2%	7.7%	-0.9%	0.0%
TTL	3.2%	-9.8%	5.2%	10.5%	7.4%	6.5%	-3.6%
CPG & Retail	2.4%	14.0%	-2.4%	-1.7%	20.7%	6.6%	-7.4%
Others	13.1%	-8.3%	7.3%	6.5%	11.4%	-3.0%	17.6%
Total	**6.8%**	**-2.9%**	**1.3%**	**6.5%**	**11.4%**	**2.7%**	**0.0%**

Source: Company, HDFC Sec Inst Research

ADM has registered growth for the third consecutive quarter

Testing was soft after six quarter of growth

Cloud migration is ~20-25% of Digital revenue and Platforms comprises of ~15% of Digital

IITS Service Line Break-up

(% Contribution)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
ADM	25.0%	24.0%	25.0%	23.0%	23.0%	23.0%	24.0%
Testing	16.0%	17.0%	17.0%	19.0%	18.0%	19.0%	18.0%
IMS	18.0%	19.0%	19.0%	18.0%	17.0%	17.0%	19.0%
AX	15.0%	15.0%	15.0%	17.0%	19.0%	20.0%	19.0%
BI	9.0%	9.0%	8.0%	8.0%	7.0%	8.0%	7.0%
E-commerce	6.0%	6.0%	6.0%	5.0%	6.0%	5.0%	5.0%
ERP	4.0%	5.0%	5.0%	5.0%	5.0%	4.0%	4.5%
Rezopia/Mobility/Cloud	7.0%	5.0%	5.0%	5.0%	5.0%	4.0%	3.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company, HDFC Sec Inst Research

IITS' Service Line Growth

(Growth %, QoQ; US$ mn)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
ADM	6.8%	-6.8%	5.5%	-2.0%	11.4%	2.7%	4.3%
Testing	14.0%	3.2%	1.3%	19.0%	5.5%	8.4%	-5.3%
IMS	20.2%	2.5%	1.3%	0.9%	5.2%	2.7%	11.8%
AX	0.2%	-2.9%	1.3%	20.7%	24.5%	8.1%	-5.0%
BI	6.8%	-2.9%	-9.9%	6.5%	-2.5%	17.3%	-12.5%
E-commerce	-8.4%	-2.9%	1.3%	-11.2%	33.7%	-14.4%	0.0%
ERP	6.8%	21.4%	1.3%	6.5%	11.4%	-17.9%	12.5%
Rezopia	-6.5%	-30.6%	1.3%	6.5%	11.4%	-17.9%	-12.5%
Total	**6.8%**	**-2.9%**	**1.3%**	**6.5%**	**11.4%**	**2.7%**	**0.0%**

Source: Company, HDFC Sec Inst Research

There was major shift of work to off-shore location which will be a major margin lever

IITS' Geographic Revenue Mix

(% Contribution)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
USA	59.0%	60.0%	60.0%	60.0%	59.0%	59.0%	58.0%
Europe	26.0%	24.0%	24.0%	26.0%	27.0%	27.0%	28.0%
RoW	15.0%	16.0%	16.0%	14.0%	14.0%	14.0%	14.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company, HDFC Sec Inst Research

IITS' Geographic Revenue Growth

(% QoQ)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
USA	3.3%	-1.2%	1.3%	6.5%	9.5%	2.7%	-1.7%
Europe	6.8%	-10.4%	1.3%	15.4%	15.7%	2.7%	3.7%
RoW	23.3%	3.6%	1.3%	-6.8%	11.4%	2.7%	0.0%
Total	**6.8%**	**-2.9%**	**1.3%**	**6.5%**	**11.4%**	**2.7%**	**0.0%**

Source: Company, HDFC Sec Inst Research

IITS' Onsite-Offshore Split

IT services revenue break-up (%)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Offshore	55.0%	60.0%	57.0%	57.0%	55.0%	55.0%	59.0%
Onsite	45.0%	40.0%	43.0%	43.0%	45.0%	45.0%	41.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company, HDFC Sec Inst Research

IITS' Onsite-Offshore Growth

IT services revenue growth (% QoQ)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Offshore	1.3%	5.9%	-3.7%	6.5%	7.5%	2.7%	7.3%
Onsite	14.5%	-13.7%	8.9%	6.5%	16.6%	2.7%	-8.9%
Total	**6.8%**	**-2.9%**	**1.3%**	**6.5%**	**11.4%**	**2.7%**	**0.0%**

Source: Company, HDFC Sec Inst Research

Top 5/10 clients growth was soft; added 12 new clients in the quarter

High client concentration is a reason for worry, but there is enough scope to grow within top accounts

IITS' Client Concentration

Client concentration (%)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Top 5	60.0%	59.0%	59.0%	61.0%	60.0%	62.0%	61.0%
Top-10	71.0%	70.0%	70.0%	70.0%	69.0%	71.0%	69.0%
Non-top 10	29.0%	30.0%	30.0%	30.0%	31.0%	29.0%	31.0%
Top 20	78.0%	80.0%	81.0%	79.0%	78.0%	79.0%	79.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

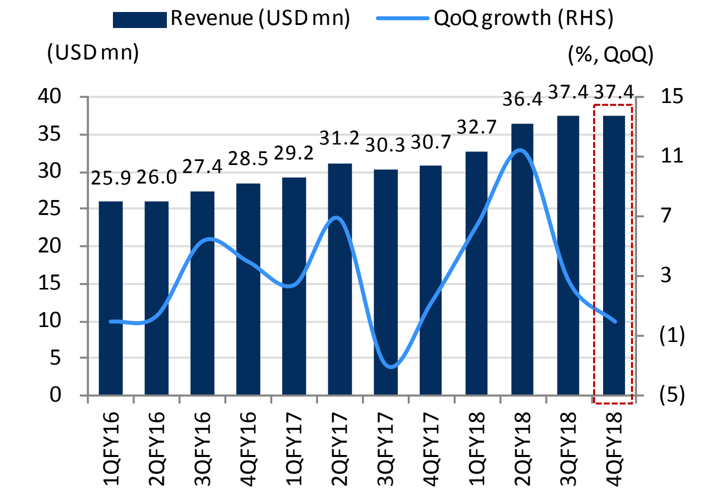
Source: Company, HDFC Sec Inst Research

IITS' Client Concentration Growth

Client concentration (% growth)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Top 5	10.5%	-4.5%	1.3%	10.1%	9.6%	6.1%	-1.6%
Top-10	8.4%	-4.3%	1.3%	6.5%	9.8%	5.6%	-2.8%
Non-top 10	3.3%	0.5%	1.3%	6.5%	15.1%	-4.0%	6.9%
Top 20	9.7%	-0.4%	2.6%	3.9%	10.0%	4.0%	0.0%
Total	**6.8%**	**-2.9%**	**1.3%**	**6.5%**	**11.4%**	**2.7%**	**0.0%**

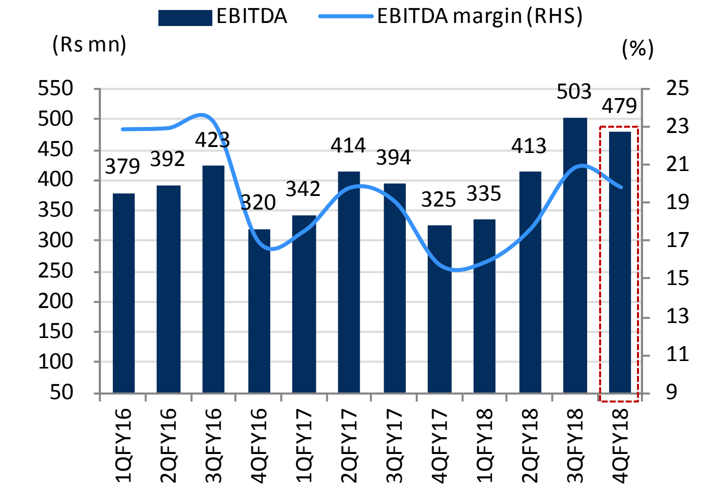
Source: Company, HDFC Sec Inst Research

IITS' Rev Growth Trend



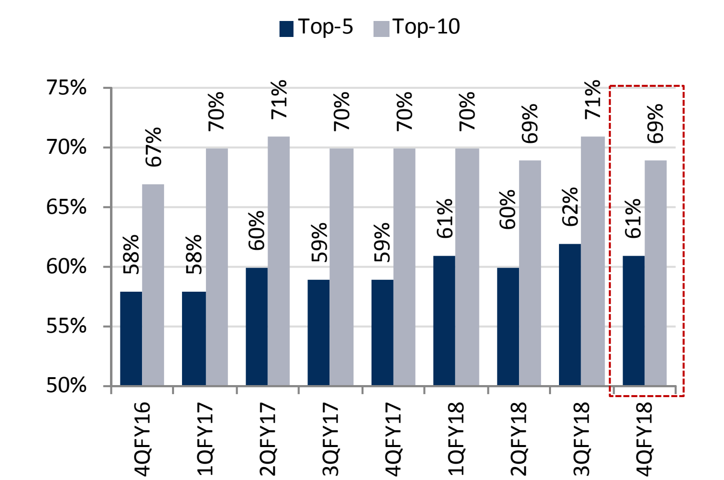
Source: Company, HDFC sec Inst Research

IITS' EBITDA, Margin Trend



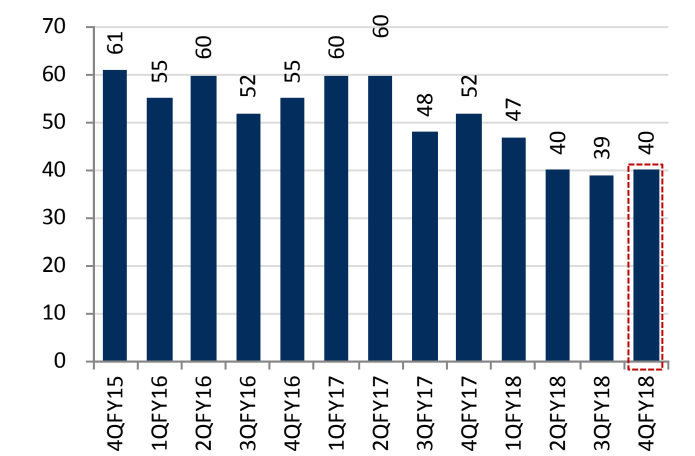
Source: Company, HDFC sec Inst Research

IITS' Clients' Contribution



Source: Company, HDFC sec Inst Research

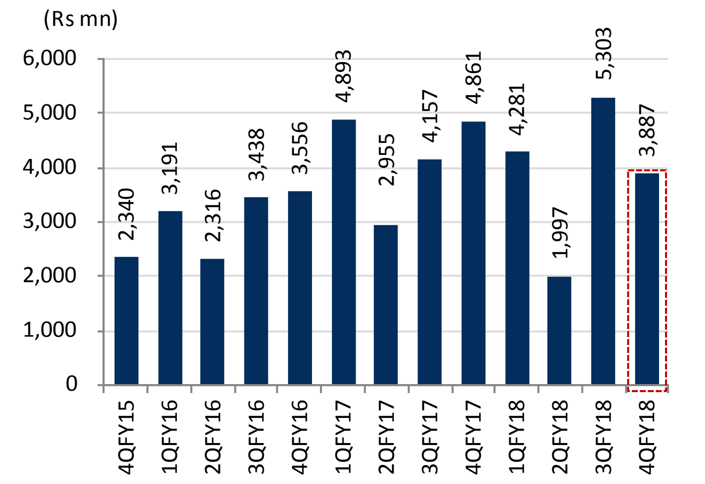
IITS' Debtor Days



Source: Company, HDFC sec Inst Research

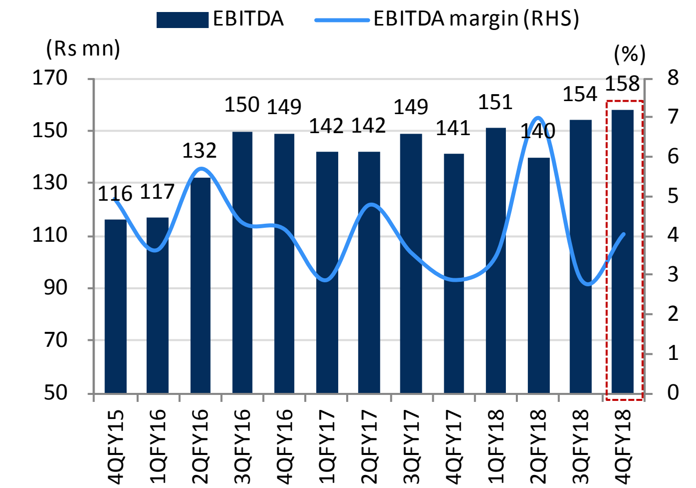
DPS' debtors days normalized in the quarter, will remain in the 60-70 day range

DPS' Quarterly Revenue Trend



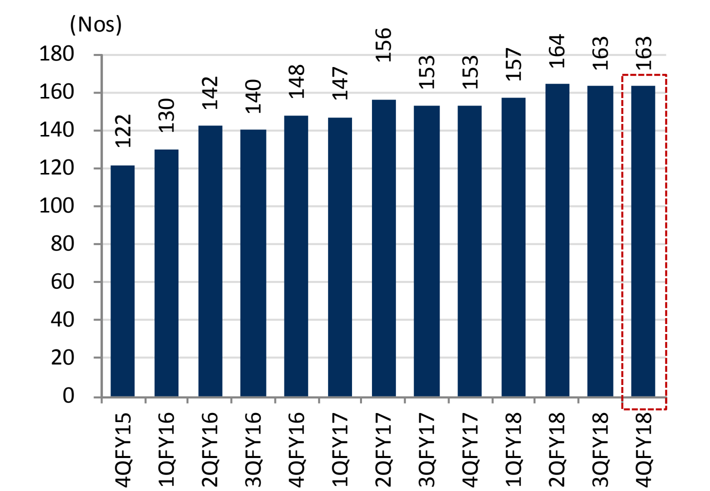
Source: Company, HDFC sec Inst Research

DPS' EBITDA Margin Trend



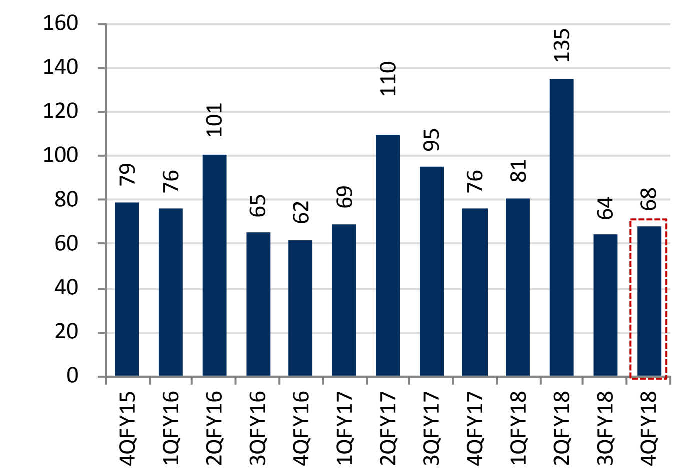
Source: Company, HDFC sec Inst Research

DPS' Headcount



Source: Company, HDFC sec Inst Research

DPS' Debtor Days



Source: Company, HDFC sec Inst Research

IITS' Segment Estimates

IITS (Rs million)	FY16	FY17	FY18	FY19E	FY20E
Revenue (US$ million)	107.8	121.4	143.9	164.3	189.5
% Growth	*9.7*	*12.6*	*18.6*	*14.2*	*15.3*
Revenue	7,068	8,218	9,285	10,682	12,316
% Growth	*16.4*	*16.3*	*13.0*	*15.0*	*15.3*
EBITDA	1,514	1,438	1,730	2,177	2,580
EBITDA Margin (%)	*21.4*	*17.5*	*18.6*	*20.4*	*21.0*

Source: Company, HDFC sec Inst Research

DPS' Segment Estimates

DPS (Rs million)	FY16	FY17	FY18	FY19E	FY20E
Revenue	12,501	15,774	15,468	16,423	17,564
% Growth	*14.4*	*26.2*	*(1.9)*	*6.2*	*7.0*
EBITDA	548	583	603	694	756
EBITDA Margin (%)	*4.4*	*3.7*	*3.9*	*4.2*	*4.3*

Source: Company, HDFC sec Inst Research

Change In Estimates

Particulars	Earlier estimates	Revised estimates	*% change*
FY18E			
Revenue (Rs mn)	28,549	26,783	*(6.2)*
EBITDA (Rs mn)	2,707	2,721	*0.5*
EBITDA margin (%)	*9.5*	*10.2*	68
APAT	2,139	2,160	*1.0*
FY19E			
Revenue (Rs mn)	31,237	29,526	*(5.5)*
EBITDA (Rs mn)	3,156	3,162	*0.2*
EBITDA margin (%)	*10.1*	*10.7*	61
APAT	2,451	2,479	*1.1*

Source: Company, HDFC sec Inst Research

Peer Valuation

Company	Mcap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	EPS (Rs)				P/E (x)				RoE (%)			
					FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
LTT	274	1,594	BUY	1,690	56.9	64.7	74.0	84.3	28.0	24.6	21.5	18.9	36.9	32.1	30.9	30.0
Mphasis	209	1,081	BUY	1,060	38.8	43.8	50.3	59.0	27.9	24.7	21.5	18.3	13.4	14.6	17.0	18.3
Mindtree	169	1,034	BUY	970	24.9	29.4	39.6	48.6	41.6	35.2	26.1	21.3	16.8	21.4	22.3	24.2
LTTS	134	1,311	BUY	1,500	41.8	46.4	55.1	68.0	31.4	28.2	23.8	19.3	33.3	27.7	26.1	26.2
Hexaware *	126	424	BUY	490	13.9	16.9	19.7	23.5	30.5	25.2	21.6	18.0	26.7	26.9	27.1	28.0
Cyient	88	786	BUY	755	30.6	36.0	42.8	50.4	25.7	21.8	18.4	15.6	17.4	18.1	19.4	20.5
Tata Elxsi	75	1,201	NR	1,100	27.8	38.5	50.1	58.3	43.2	31.2	24.0	20.6	37.0	37.0	37.2	34.5
Persistent	66	827	BUY	840	37.7	40.4	43.6	52.3	22.0	20.5	19.0	15.8	17.0	16.0	15.5	16.7
Zensar	58	1,271	BUY	1,350	51.6	53.1	69.3	84.3	23.9	23.2	17.8	15.1	16.7	15.1	17.2	18.2
eClerx	51	1,325	NEU	1,310	87.8	71.2	82.5	93.6	15.1	18.6	16.1	14.2	30.8	24.3	24.9	26.2
KPIT	51	258	NEU	202	11.1	12.1	13.3	16.8	23.3	21.3	19.4	15.3	14.8	14.5	14.3	16.2
Sonata	**36**	**338**	**BUY**	**380**	**15.1**	**18.6**	**20.8**	**23.9**	**22.5**	**18.3**	**16.3**	**14.2**	**29.3**	**31.0**	**31.2**	**32.0**

Source: HDFC sec Inst Research * YE Dec

Consolidated Income Statement

YE March (Rs bn)	FY16	FY17	FY18	FY19E	FY20E
IITS USD Revenue (mn)	**107.8**	**121.4**	**143.9**	**164.3**	**189.5**
Growth (%)	***9.7***	***12.6***	***18.6***	***14.2***	***15.3***
Net Revenues	**19.41**	**23.71**	**24.54**	**26.78**	**29.53**
Growth (%)	***15.4***	***22.2***	***3.5***	***9.1***	***10.2***
Total Operating Expenses	17.49	21.79	22.23	24.06	26.36
EBITDA	**1.92**	**1.92**	**2.31**	**2.72**	**3.16**
EBITDA (%)	***9.9***	***8.1***	***9.4***	***10.2***	***10.7***
EBITDA Growth (%)	***14.5***	***(0.2)***	***20.6***	***17.8***	***16.2***
Depreciation	0.06	0.11	0.12	0.14	0.15
EBIT	**1.86**	**1.81**	**2.19**	**2.58**	**3.01**
Other Income	0.47	0.55	0.47	0.44	0.45
Interest	0.08	0.09	0.05	0.03	0.02
PBT	**2.25**	**2.26**	**2.60**	**2.99**	**3.44**
Tax (incl deferred)	0.67	0.69	0.68	0.84	0.96
Minority Int. and associate profit	0.00	-0.01	0.00	0.00	0.00
RPAT	**1.59**	**1.56**	**1.93**	**2.16**	**2.48**
EO (Loss) / Profit (Net Of Tax)	0.04	0.08	0.01	0.00	0.00
APAT	**1.55**	**1.49**	**1.91**	**2.16**	**2.48**
APAT Growth (%)	***15.9***	***(4.1)***	***28.8***	***12.8***	***14.8***
EPS	**15.3**	**15.1**	**18.6**	**20.8**	**23.9**
EPS Growth (%)	***18.6***	***(1.4)***	***23.2***	***12.2***	***14.8***

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	0.10	0.10	0.10	0.10	0.10
Reserves	4.66	5.80	6.43	7.19	8.07
Total Shareholders' Funds	**4.77**	**5.90**	**6.53**	**7.30**	**8.18**
Minority Interest	0.00	0.00	0.00	0.00	0.00
Total Debt	**1.71**	**0.35**	**0.19**	**0.19**	**0.19**
Net Deferred Taxes	**-0.05**	**-0.05**	**-0.12**	**-0.12**	**-0.12**
Long-term Provisions & Others	0.12	0.14	0.13	0.13	0.13
TOTAL SOURCES OF FUNDS	**6.55**	**6.36**	**6.72**	**7.49**	**8.37**
APPLICATION OF FUNDS					
Net Block	0.40	0.38	0.33	0.36	0.38
CWIP	0.00	0.00	0.00	0.00	0.00
Goodwill & Other Intangible Assets	0.82	0.80	0.81	0.81	0.81
Investments	0.00	0.00	0.00	0.00	0.00
LT Loans & Advances, Others	0.65	0.80	0.85	0.96	1.10
Total Non Current Assets	**1.88**	**1.99**	**1.99**	**2.13**	**2.29**
Inventories	0.10	0.00	0.00	0.00	0.00
Debtors	3.51	5.20	3.96	4.77	5.26
Cash & Equivalents	3.59	3.81	5.46	5.68	6.31
Other Current Assets	0.80	0.93	0.80	0.88	0.97
Total Current Assets	**8.00**	**9.94**	**10.22**	**11.33**	**12.53**
Creditors	2.65	4.48	4.32	4.75	5.20
Other Current Liabilities & Provns	0.68	1.09	1.17	1.23	1.26
Total Current Liabilities	**3.33**	**5.58**	**5.49**	**5.98**	**6.46**
Net Current Assets	**4.67**	**4.37**	**4.73**	**5.36**	**6.08**
TOTAL APPLICATION OF FUNDS	**6.55**	**6.36**	**6.72**	**7.49**	**8.37**

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY16	FY17	FY18	FY19E	FY20E
Reported PBT	2.25	2.26	2.60	2.99	3.44
Non-operating & EO items	(0.44)	(0.48)	(0.45)	(0.43)	(0.45)
Interest expenses	0.08	0.09	0.05	0.03	0.02
Depreciation	0.06	0.11	0.12	0.14	0.15
Working Capital Change	0.10	(0.78)	1.13	(0.51)	(0.23)
Tax paid	(0.67)	(0.69)	(0.68)	(0.84)	(0.96)
OPERATING CASH FLOW (a)	**1.39**	**0.52**	**2.78**	**1.37**	**1.97**
Capex	(0.32)	(0.09)	(0.08)	(0.16)	(0.18)
Free cash flow (FCF)	*1.07*	*0.43*	*2.70*	*1.21*	*1.80*
Investments	0.00	0.00	0.00	0.00	0.00
Non-operating income	0.44	0.47	0.45	0.44	0.45
INVESTING CASH FLOW (b)	**0.12**	**0.38**	**0.38**	**0.28**	**0.27**
Debt Issuance	1.47	(1.36)	(0.17)	0.00	0.00
Interest expenses	(0.08)	(0.09)	(0.05)	(0.03)	(0.02)
FCFE	*2.46*	*(1.02)*	*2.49*	*1.18*	*1.77*
Share capital Issuance	0.00	(0.00)	0.00	0.00	0.00
Dividend	(0.87)	(1.13)	(1.28)	(1.39)	(1.60)
FINANCING CASH FLOW (c)	**0.52**	**(2.58)**	**(1.49)**	**(1.42)**	**(1.63)**
NET CASH FLOW (a+b+c)	**2.03**	**(1.68)**	**1.66**	**0.23**	**0.62**
Non-operating and EO items	(0.07)	0.60	0.01	(0.07)	0.00
Closing Cash & Equivalents	4.94	3.86	5.53	5.68	6.31

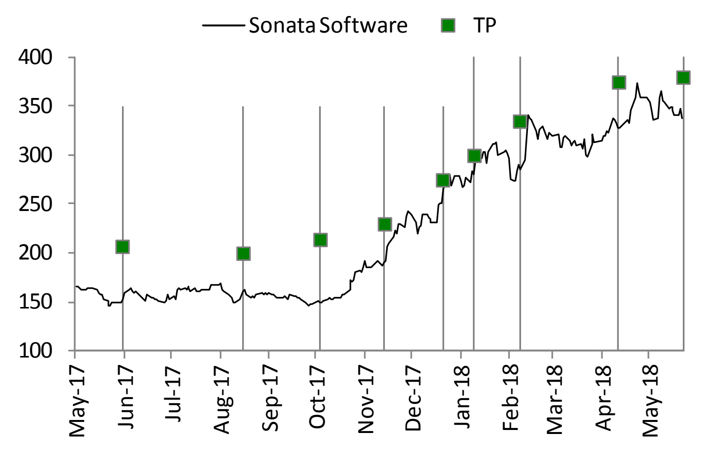
Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
EBITDA Margin	9.9	8.1	9.4	10.2	10.7
APAT Margin	8.2	6.6	7.8	8.1	8.4
RoE	35.0	29.3	31.0	31.2	32.0
RoIC or Core RoCE	43.9	48.4	127.2	103.1	105.2
RoCE	23.6	19.1	24.6	26.2	27.3
EFFICIENCY					
Tax Rate (%)	30.1	31.7	26.3	28.0	28.0
Fixed Asset Turnover (x)	15.1	17.3	17.0	16.7	16.6
Inventory (days)	*2*	*0*	*0*	*0*	*0*
Debtors (days)	*66*	*80*	*59*	*65*	*65*
Other Current Assets (days)	*15*	*14*	*12*	*12*	*12*
Payables (days)	*55*	*75*	*71*	*72*	*72*
Other Current Liab & Provns (days)	*13*	*17*	*17*	*17*	*16*
Inventory (days)	*15*	*3*	*(17)*	*(12)*	*(11)*
Net Debt/EBITDA (x)	(1.0)	(1.8)	(2.3)	(2.0)	(1.9)
Net Debt/Equity (x)	(0.4)	(0.6)	(0.8)	(0.8)	(0.7)
Interest Coverage (x)	23.4	19.5	45.5	98.8	124.0
PER SHARE DATA					
EPS (Rs/sh)	15.3	15.1	18.6	20.8	23.9
CEPS (Rs/sh)	15.9	16.1	19.7	22.1	25.4
DPS (Rs/sh)	7.1	9.3	10.5	11.4	13.1
BV (Rs/sh)	45.9	56.9	63.0	70.3	78.8
VALUATION					
P/E	22.2	22.5	18.3	16.3	14.2
P/BV	7.4	6.0	5.4	4.8	4.3
EV/EBITDA	16.8	17.0	13.4	11.3	9.5
OCF/EV (%)	4.3	1.6	9.0	4.5	6.5
FCF/EV (%)	3.3	1.3	8.7	3.9	6.0
FCFE/mkt cap (%)	7.0	(2.9)	7.1	3.4	5.0
Dividend Yield (%)	2.1	2.7	3.1	3.4	3.9

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
1-Jun-17	149	BUY	207
16-Aug-17	160	BUY	200
4-Oct-17	150	BUY	214
15-Nov-17	190	BUY	230
21-Dec-17	251	BUY	275
10-Jan-18	284	BUY	300
8-Feb-18	291	BUY	335
12-Apr-18	333	BUY	375
23-May-18	338	BUY	380

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

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com **Phone: (022) 3045 3600**

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HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel,Mumbai - 400 013
Board : +91-22-6171-7330 www.hdfcsec.com