

July 27, 2018

Q1FY19 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	1,100		1,100	
Sales (Rs. m)	577,306	629,511	577,621	629,956
% Chng.			(0.1)	(0.1)
EBITDA (Rs. m)	131,580	142,607	130,463	141,922
% Chng.			0.9	0.5
EPS (Rs.)	70.6	77.2	68.0	74.5
% Chng.			4.1	3.0

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. bn)	468	506	577	630
EBITDA (Rs. bn)	103	114	132	143
Margin (%)	22.1	22.6	22.8	22.7
PAT (Rs. bn)	85	88	96	105
EPS (Rs.)	59.9	63.1	70.6	77.2
Gr. (%)	11.2	6.3	11.8	9.4
DPS (Rs.)	23.8	8.2	8.2	8.2
Yield (%)	2.5	0.9	0.9	0.9
RoE (%)	28.1	25.3	25.3	24.5
RoCE	27.0	24.7	24.5	23.1
EV/Sales (x)	2.7	2.5	2.2	1.9
EV/EBITDA (x)	12.4	11.2	9.6	8.3
PE (x)	16.2	15.3	13.7	12.5
P/BV (x)	4.2	3.7	3.3	2.8

Key Data

HCLT.BO | HCLT IN

52-W High / Low	Rs.1,108 / Rs.825
Sensex / Nifty	37,337 / 11,278
Market Cap	Rs.1,342bn/ \$ 19,524m
Shares Outstanding	1,392m
3M Avg. Daily Value	Rs.4533.68m

Shareholding Pattern (%)

Promoter's	60.17
Foreign	26.24
Domestic Institution	9.69
Public & Others	3.90
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.6	(4.5)	8.3
Relative	(1.3)	(7.8)	(6.1)

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Organic growth remains tepid

■ **1QFY19 Result Snap shot:** HCL Tech's results were below our estimates on topline but were above ours estimates on PAT. Revenues at USD2055mn were up 0.8% QoQ and below our estimates (Ple: USD2070mn). Constant Currency growth for the quarter stood at 2.7% QoQ which is marginally below our estimates (Ple: 3%). Organic cc growth for the quarter was 0.8% QoQ and rest on account of C3i acquisition (~1.9%). HCL Tech's organic cc growth in 1QFY19 is below peers (TCS/Infosys delivered 4.1/2.3% organic cc growth). Management cited that softness in ROW region (down 7% QoQ) led by continued pruning in System Integration business in India (USD12mn drop in 1Q) also led to the tepid revenue performance. Among verticals, BFSI (down 1.4% in cc), Manufacturing (down 1.3% in cc), Retail &CPG (down 1.6% in cc) remained weak. Softness in all the core verticals was a turn off. EBIT margin came at 19.7% up 10bps QoQ and above our estimates (PI ests: 19.4%). PAT at Rs24bn is 5% above our estimates (Ple: Rs22.8bn) led by margin beat.

■ **Guides for strong deal wins:** For FY19, HCL Tech retained 9.5%-11.5% constant currency revenue growth guidance. However, USD revenue growth guidance was downgraded to 8.4% to 10.4% (vs 10.5% to 12.5% earlier) owing to cross currency headwinds. Management cited that 1QFY19 has seen the strongest deal signings with 27 deals signed in the quarter (Majority Net new). Hence, HCL Tech remained confident on scope for pick up in organic growth over coming quarters.

■ **Valuation and View:** Led by soft 1Q organic performance and cross currency headwinds, we downgrade HCL Tech's USD revenue growth assumptions to 9.5/9.5% for FY19/FY20E (vs 11/10% modeled earlier). We build HCL Tech' organic growth at 4.5% for FY19E and rest is owing to acquisitions (C3I, Actain, H&D, full impact of Urban Fulfillment and IP deal). HCL Tech has deployed ~USD1.9bn over the past two years(FY17/FY18) for a slew of acquisitions (Large quantum went for IBM IP deals). Owing to slowing growth in IMS, our view is that HCL Tech aimed to strengthen alternate engines which include IP assets, Engineering Services (Geometric, Butler, H&D acquisitions) and BPO (C3i acquisition). However, IP asset acquisition created a large Intangible asset (Licensed IPR at USD1.2bn as on 1QFY19). Management's conservative amortization policy spread over 15 years has been a concern for the street (54% of the amortization of the USD1.2bn Intangible asset is beyond 2023).

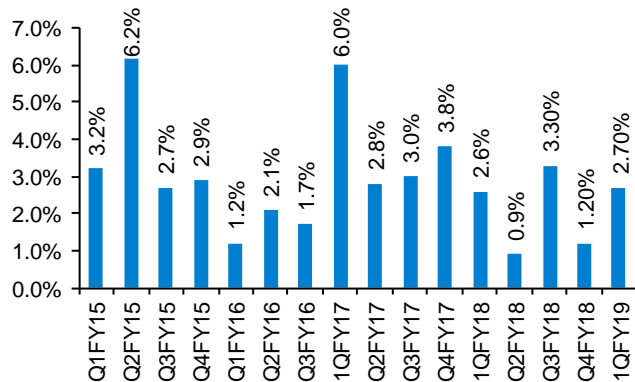
■ Currency reset to lower levels (USD vs INR at 67/67 vs 66/66 earlier) negates USD revenue downgrade. We upgrade EPS estimates by 4/3% led by 1Q PAT beat, currency reset and also factoring the Buyback in our assumptions. Our EPS estimates at Rs70.5/77 for FY19/FY20E. Stock trades at 12.5x FY20E EPS (TCS/ Infosys trading at 23/17.5x FY20E EPS. Valuations remain favorable. Pending buyback (Rs40bn to buy 2.6% equity at Rs1100/sh) could also offer support. Retain BUY with TP retained at Rs1100/sh (14.5x FY20E EPS). Scope for uptick in organic growth from 2HFY19 is the key trigger.

Exhibit 1: 1QFY19: Consolidated P&L

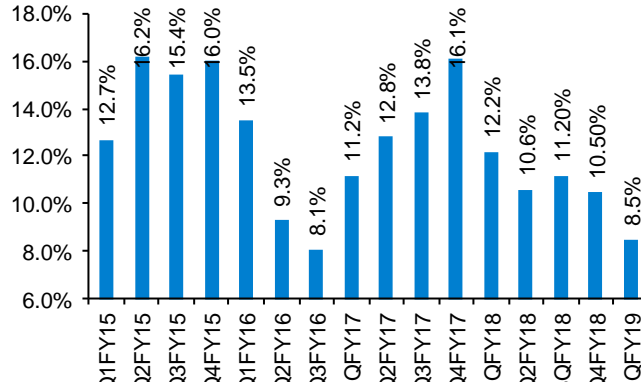
Rs mn	Q1FY19	Q4FY18	QoQ	Q1FY18	YoY	Ple	Variance (Actual vs Est)
Sales (\$ m)	2055.0	2038.0	0.8%	1884.0	9.1%	2070.2	-0.7%
Sales	138,713	131,790	5.3%	121,490	14.2%	139,736	-0.7%
EBITDA	32,265	30,360	6.3%	26,810	20.3%	31,301	3.1%
EBITDA Margin	23.3%	23.0%		22.1%		22.4%	
PAT	24,037	22,270	7.9%	21,710	10.7%	22,879	5.1%

Source: Company, PL

- Revenues at USD2055mn were up 0.8% QoQ and below our estimates (USD2070mn). Constant Currency growth for the quarter stood at 2.7% QoQ which is marginally below our ests (Ple : 3%).
- Organic cc growth for the quarter was 0.8% and rest could be from C3i acquisition (1.9%). Strong BPO revenue growth in quarter is on account of C3i acquisition.
- Among Geographies, America/Europe delivered cc growth of 5.9%/(1%) QoQ
- HCL indicated that it has signed 27 transformational deals during the quarter lead by strong momentum in Telecom, Financial Services, Retail - CPG and Energy & Utilities verticals.

Exhibit 2: Constant Currency Revenue growth QoQ (%)


Source: Company, PL * Includes acquisition

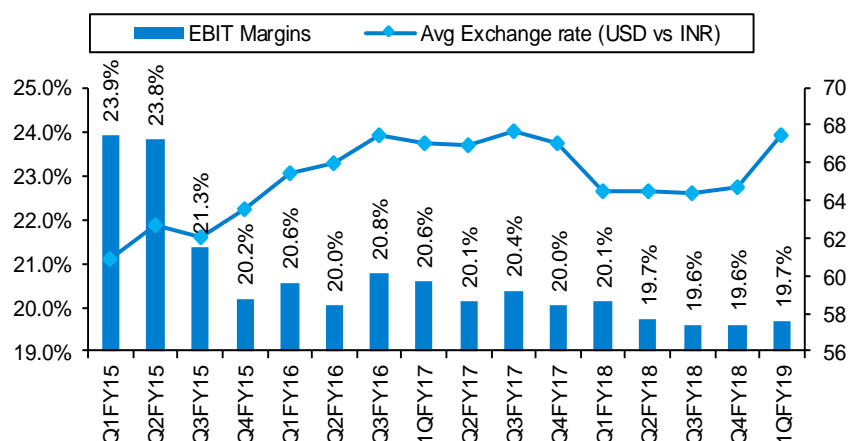
Exhibit 3: Constant Currency Revenue Growth YoY (%)


Source: Company, PL * Includes acquisition

- Tepid IMS weighing on Organic growth:** For 1QFY19, IMS revenues grew by 0.6% QoQ and 2% YoY. For FY18, IMS revenues were up a modest 4.5% YoY in constant currency which is substantial moderation from its earlier phases of high growth (HCL Tech's IMS revenues grew by 33/36% in FY14/FY13 which was phase of high growth). Our view is cloud migration and Automation is weighing on deal sizes in IMS. Recent results of Amazon Web Services have seen AWS revenues from Infrastructure as a Service at USD6.1bn for 2QCY18 up 49% YoY. Hence, growth in Infrastructure management is shifting IaaS players like AWS, Microsoft Azure etc. In 3QFY18, HCL tech cited that half of the IMS business in Data center related which is seeing pressure from cloud adoption. The remaining half of IMS business would be in Digital Work based Services, Network Management and Security which offer potential for traction.

- **Margins above our expectations:** EBITDA margins at 23.2% for 1QFY19 up 20bps QoQ and above our ests (Our ests :22.6%). EBIT margin which came at 19.7% up 10bps QoQ and above our estimates (our ests: 19.4%). HCL Tech retained EBIT margin guidance band of 19.5%-20.5% for FY19.

Exhibit 4: EBIT Margin vs. Average Exchange Rate



Source: Company, PL

Key Concall Takeaways:

- Deal signings in 1QFY19 have remained at the strongest among the past few quarters. Hence, HCL Tech expects organic growth momentum to pick up over coming quarters. Management cited that it has won a USD500mn deal from Nokia to build Next Gen Infrastructure and modernizing IT estate. Company won this deal in the process of vendor consolidation from four existing vendors.
- Company has substantially trimmed the India SI business. As on 1QFY19, India SI business accounted to 0.5% of total revenues.
- Company has disclosed the growth and margin profile of Mode 1, Mode 2 and Mode 3 services. Mode 1 (traditional business) accounts to 73.3% of total revenues and is on a slow growth pace (1Q Mode 1 Revenues grew by 0.5% YoY). EBIT margins of Mode 1 Services stood at 19.9% for 1QFY19.
- Mode 2 Services (Include Cloud Native and Digital offerings) accounted to 15.6% of total revenues and grew by 8.2% YoY. EBIT margins in this segment stood at 14.8% as company continues to invest in Design studios as well as skill set etc.
- Mode 3 Services (IP and Platforms) account for 11% of total revenues. EBIT margins in this business are at ~25.2% for 1QFY19. Management cited that ~60% of the IP asset are Mature Products (Stable to declining Revenues) and 40% of Revenues (New Products). Management cited that New IP Products are growing at double digit growth rates.

Continued Investments in acquisition of IP assets

- HCL Tech has done a slew of partnerships with IBM over the past eight quarters. Company has a total USD1.2bn in Licensed IPR asset as on 1QFY19. Company indicated of additional IP asset investment spending ~USD177mn. We note higher investments in IP's as well as acquisitions is weighing on free cash flow trajectory.

Exhibit 5: Consolidated Cash flows of HCL Tech (USD mn)

Fig in USD mn	13-Jun	14-Jun	15-Jun	9M FY16	FY17	FY18	1QFY19
Net income	746	1,037	1,164	840	1,262	1360	355.8
Depreciation and Amortization	123	119	72	67	125	225.2	73.5
Others	1	(30)	(91)	(53)	17	(10)	(29.6)
Changes in assets and liabilities, net	-	-	-	-	-	-	-
Accounts Receivable	(143)	(241)	(287)	(166)	(33)	(179)	(34.2)
Other Assets	(98)	(10)	(101)	(82)	9	19	(52.6)
Current Liabilities	206	220	217	27	28	(71)	50
Net cash provided by operating activities	834	1,087	974	632	1,407	1345.1	362.9
Purchase of Property and Equipment (net)	(106)	(118)	(195)	(139)	(197)	(203)	(65.2)
Payment for acquisitions				(178)	(459)	(646)	(96.3)
Free Cash Flow (Post acquisitions)	728	969	780	315	751	496	201
OCF/EBIDTA (%)	78.5	77	69.7	61.5	91.4	76	76%
FCF/EBIDTA (%)	68.5	68.7	55.8	48	42.4	28.0	42.1%

Source: Company, PL

“So as you know through the IP partnerships, we believe that its first compelling financial model. One it is built off a lot of the underlying strengths and capabilities of HCL from a services point of you. But that isn't the endpoint of the strategy. Our aspiration is to build a large scale software business. Really with the capabilities from engineering and capabilities around the IP partners, but then also developing organic IP deal and really building had a complete value chain. From the development of the products, all the way through selling it successfully.” HCL Tech CEO in 3QFY18 concall.

Exhibit 6: Break up of Revenues by services

Fig in USD mn	FY17	FY18	1QFY19
Mode 1	5678	6004	1507
Mode 2	893	1152	321
Mode 3	405	682	227

Source: Company, PL

Exhibit 7: As a percentage of total revenues

	FY17	FY18	1QFY19
Mode 1	81.4%	76.6%	73.3%
Mode 2	12.8%	14.7%	15.6%
Mode 3	5.8%	8.7%	11.0%

Source: Company, PL

Intangible Asset on Balance sheet owing to Licensed IP

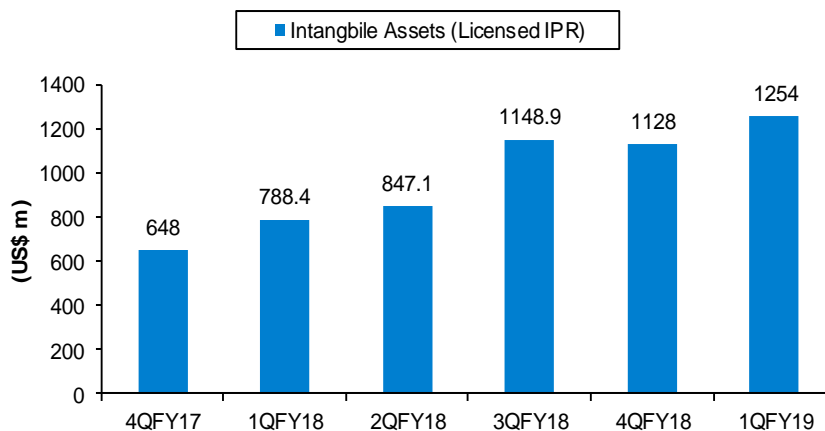
A slew of investments in IBM IP partnerships over the past eight quarters have enabled HCL Tech expand its portfolio in the non-linear opportunities. This has also led to steady increase in Intangible assets on the balance sheet. As on 1QFY19, Licensed IPR (Intangible asset) stood at USD1254mn. We also present the schedule of amortization of the intangible asset. **We note that 54% of the amortization schedule of the intangible asset is beyond 2023.**

Exhibit 8: HCL Tech's IP deals with IBM

	Amount paid	IP Partnership with IBM
IBM IP Asset 1	USD350mn	Tivoli , Rational Suite
IBM IP Asset 2	USD55mn	API and Web enablement Service
IBM IP asset 3	USD155mn	Application security, B2B data transformation, Testing automation and Mainframe management tools.
IBM IP asset 4	USD80mn	Information management and data base management system
IBM IP asset 5	USD140mn	Marketing Automation, zSystems Software Portfolio & Operating Tools and Application Modernization
IBM IP asset 6	USD58mn	Notes, Domino, Smart Cloud Notes, Verse and Same time
IBM IP asset 7	USD302mn	remote management and provisioning software, accelerating innovation and extending these solutions to hybrid cloud.
		application release automation & governance, endpoint lifecycle management and forms development applications for web and mobile.
IP asset 8	USD177mn	personalized and adaptive digital experience

Source: Company, PL

Exhibit 9: Licensed IP (Gross) in USD mn



Source: Company, PL

Exhibit 10: Amortization Schedule (USD mn)

Year	New Amortization (Post 1QFY19)
2019	104.8
2020	127.1
2021	119.3
2022	113.1
2023	96.1
Beyond 2023	661.3

Source: Company, PL

Moderating free cash flow could limit scope for a larger Buyback

HCL Tech free cash flow post capex and IP asset acquisition stood at modest Rs32bn for FY18(28% of EBIDTA). We note that HCL Tech's net cash on balance sheet stood at Rs103.8bn as on 1QFY19 (7.6% of Mcap). HCL Tech would continue to have higher outgo for acquisitions and remaining payouts for IBM (We model Rs27.5bn outgo for acquisitions and IBM IP payouts for FY19). This is apart from regular capital expenditure of Rs13bn. Company would also be spending Rs40bn for buyback.

Exhibit 11: HCL Tech Free Cash Flow

Consolidated cash flows (R mn)	Jun-13	Jun-14	Jun-15	FY16	FY17	FY18P	FY19E	FY20E
Cash flow from operations	49,543	65,409	62,001	41,868	91,283	87,667	103,327	110,244
Capex + Acquisitions	(6,301)	(7,101)	(12,380)	(20,999)	(42,568)	(55,375)	(55,000)	(14,000)
Free cash flows	43,242	58,308	49,622	20,869	48,715	32,292	48,327	96,244

Source: Company, PL

Key Metrics:

Exhibit 12: Geography Mix (%)

% Of revenues	1QFY16	2QFY16	3QFY16	1QFY17	2QFY17	3QFY17	4QFY17	4QFY18	1QFY19
America	58.7	61.0	62.5	59.9	61.9	61.9	62.6	61.6	64.5
Europe	31.7	29.9	28.4	31.4	29.3	29.6	27.7	30.0	28.1
Asia Pacific	9.6	9.1	9.1	8.7	8.8	8.5	9.7	8.5	7.5

Source: Company, PL

Exhibit 13: Geography-wise revenues and growth (QoQ & YoY)

USD mn	Q1FY19	Q4FY18	QoQ	Q1FY18	YoY
America	1325.5	1255.4	5.6%	1183.2	12.0%
Europe	577.5	611.4	-5.6%	516.2	11.9%
Asia Pacific	154.1	173.2	-11.0%	184.6	-16.5%

Source: Company, PL

Exhibit 14: Vertical Mix (%)

% of revenues	1QFY16	2QFY16	3QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Financial Services	26.1	25.9	25.0	23.6	24.1	24.3	24.2	24.9	25.0	24.6	25.0	23.8
Manufacturing	32.5	31.5	31.4	33.2	32.2	33.9	34.6	34.9	35.4	36.5	36.0	36.5
Lifescience and Healthcare	12.4	12.2	12.8	11.9	12.6	12.0	11.5	11.8	11.7	11.7	11.5	12.8
Public services	10.0	10.6	11.1	11.7	10.9	11.2	11.7	11.1	10.6	10.2	10.6	10.5
Retail and CPG	8.8	9.5	9.2	10.0	10.4	9.4	9.2	9.5	9.3	9.6	9.6	9.1
Telecommunication, Media, Publishing Entertainment	9.6	9.7	9.9	9.1	9.4	8.9	8.4	7.9	7.9	7.4	7.4	7.3
Others	0.6	0.6	0.5	0.5	0.4	0.4	0.3	NA	NA	NA	NA	NA

Source: Company, PL

Exhibit 15: Service Mix (%)

% of revenues	1QFY16	2QFY16	3QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Engineering and R&D services	19.2	18.6	18.7	17.7	17.8	18.6	20.5	21.5	22.0	24.2	24.1	24.5
Custom Application Development	40.4	40.4	39.9	38.3	37.8	37.5	36.8	36.3	35.9	35.3	34.7	34.0
Infrastructure services	35.1	35.5	36.2	39.8	40.3	39.8	38.8	38.6	38.5	36.7	37.3	36.2
BPO services	5.3	5.5	5.2	4.1	4.1	4.0	3.9	3.6	3.6	3.7	3.9	5.2

Source: Company, PL

Exhibit 16: Revenue growth across verticals in CC (QoQ & YoY)

Verticals	QoQ	YoY
Financial Services	-1.4%	2.9%
Manufacturing	-1.3%	-3.9%
Technology & Services	9.3%	39.5%
Retail & CPG	-1.6%	5.3%
Telecommunications, Media, Publishing & Entertainment	0.2%	-0.1%
Lifesciences & Healthcare	13.4%	18.1%
Public Services	3.5%	3.4%

Source: Company, PL

Exhibit 17: Service-wise Revenues and growth (QoQ & YoY)

USD mn	Q1FY19	Q4FY18	QoQ	Q1FY18	YoY
Engineering and R&D services	503.5	491.2	2.5%	405.1	24.3%
Custom Application Development	698.7	707.2	-1.2%	683.9	2.2%
Infrastructure services	743.9	760.2	-2.1%	727.2	2.3%
BPO services	106.9	79.5	34.4%	67.8	57.6%

Source: Company, PL

Exhibit 18: Client Concentration

Client Concentration	1QFY16	2QFY16	3QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Top 5 clients	13.6	13.6	13.6	13.9	13.8	14.2	14.7	14.4	15.1	15.8	16.3	17.0
Top 10 clients	21.9	21.7	21.8	21.8	21.6	21.7	22.1	22.4	22.9	23.5	23.8	24.6
Top 20 clients	32.4	32.4	32.2	31.7	31.8	31.9	32.9	33.0	33.2	33.5	33.7	34.2

Source: Company, PL

Exhibit 19: Headcount Details

	1QFY16	2QFY16	3QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Total employee count	105,571	103,696	104,896	107,968	109,795	111,092	115,973	117,781	119,040	119,291	120,281	124,121
% Growth	-0.5%	-1.8%	1.2%	2.9%	1.7%	1.2%	4.4%	1.6%	1.1%	0.2%	0.8%	3.2%
Gross additions	7,889	6,234	9,280	10,515	9,083	8,467	10,605	9,462	8,645	7,113	8,476	12,558
Net additions	-536	-1,875	1,200	3,072	1,827	1,297	4,881	1,808	1,259	251	990	3,840
Employees Leaving	8,425	8,109	8,080	7,443	7,256	7,170	5,724	7,654	7,386	6,862	7,486	8,718
Quarterly Annualized Attrition	16.6%	16.7%	17.3%	17.8%	18.6%	17.9%	16.9%	16.2%	15.7%	15.2%	15.5%	16.3%

Source: Company, PL

Exhibit 20: Consolidated Model of HCL Tech

	Jun-13	Jun-14	Jun-15	FY16	FY17	FY18P	FY19E	FY20E
Revenues- USD mn	4,687	5,360	5,952	6,236	6,975	7,838	8,584	9,396
Growth (%)	12.9%	14.4%	11.1%	7.1%	11.9%	12.4%	9.5%	9.4%
Average exchange rate (USD vs INR)	54.9	61.5	62.3	66.5	67.2	64.5	67.3	67.0
Consolidated revenues (Rs mn)	257,183	329,440	370,880	416,521	468,365	505,676	577,306	629,511
Growth (%)	22.7%	28.1%	12.6%	12%	49.9%	8.0%	14.2%	9.0%
EBITDA (Rs mn)	58,316	86,733	86,984	91,114	103,330	114,375	131,580	140,246
EBIT (Rs mn)	51,588	79,407	82,485	85,164	94,957	99,845	112,582	120,744
PAT (Rs mn)	40,942	63,751	72,490	75,766	84,750	87,754	95,842	103,796
EBITDA Margins (%)	22.7%	26.3%	23.5%	21.9%	22.1%	22.6%	22.8%	22.3%
EBIT Margins (%)	20.1%	24.1%	22.2%	20.4%	20.3%	19.7%	19.5%	19.2%
NPM (%)	15.9%	19.4%	19.5%	18.2%	18.1%	17.4%	16.6%	16.5%
EPS	29.0	45.1	51.4	53.7	59.9	63.0	70.6	76.5
Growth (%)	62.8%	55.3%	13.9%	4.5%	11.7%	5.1%	12.1%	8.3%
P/E	33.16	21.35	18.75	17.95	16.07	15.3	13.6	12.6
EV/EBITDA	22.2	14.4	14.3	13.7	12.0	10.9	9.5	8.4
Consolidated balance sheet (Rs mn)								
Net cash on balance sheet (Rs mn)	49,810	99,998	117,890	118,524	126,818	102,735	62,571	136,659
Net cash per share	30.8	66.2	80.6	77.1	85.9	70.7	42.9	97.6
Net cash per share/ Stock price	3.2%	6.9%	8.4%	8.0%	8.9%	7.3%	4.5%	10.1%
Consolidated cash flows (R mn)	Jun-13	Jun-14	Jun-15	FY16	FY17	FY18P	FY19E	FY20E
Cash flow from operations	49,543	65,409	62,001	41,868	91,283	87,667	103,327	110,244
Capex + Acquisitions	(6,301)	(7,101)	(12,380)	(20,999)	(42,568)	(55,375)	(55,000)	(14,000)
Free cash flows	43,242	58,308	49,622	20,869	48,715	32,292	48,327	96,244

Source: x, Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	468,365	505,676	577,306	629,511
YoY gr. (%)	49.9	8.0	14.2	9.0
Employee Cost	309,662	332,362	379,389	412,970
Gross Profit	158,702	173,314	197,917	216,541
Margin (%)	33.9	34.3	34.3	34.4
SG&A Expenses	55,372	58,939	66,337	73,935
Other Expenses	-	-	-	-
EBITDA	103,330	114,375	131,580	142,607
YoY gr. (%)	51.2	10.7	15.0	8.4
Margin (%)	22.1	22.6	22.8	22.7
Depreciation and Amortization	8,374	14,530	19,283	19,818
EBIT	94,957	99,845	112,297	122,788
Margin (%)	20.3	19.7	19.5	19.5
Net Interest	-	-	-	-
Other Income	9,367	11,085	9,738	11,323
Profit Before Tax	104,324	110,929	122,035	134,111
Margin (%)	22.3	21.9	21.1	21.3
Total Tax	19,574	23,176	26,416	29,505
Effective tax rate (%)	18.8	20.9	21.6	22.0
Profit after tax	84,750	87,754	95,619	104,607
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	84,750	87,754	95,619	104,607
YoY gr. (%)	49.1	3.5	9.0	9.4
Margin (%)	18.1	17.4	16.6	16.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	84,750	87,754	95,619	104,607
YoY gr. (%)	49.1	3.5	9.0	9.4
Margin (%)	18.1	17.4	16.6	16.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	84,750	87,754	95,619	104,607
Equity Shares O/s (m)	1,427	1,390	1,355	1,355
EPS (Rs)	59.4	63.1	70.6	77.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	134,966	181,720	236,720	250,720
Tangibles	77,651	91,948	102,948	105,748
Intangibles	57,316	89,773	133,773	144,973
Acc: Dep / Amortization	47,650	62,180	81,463	101,282
Tangibles	37,668	46,348	57,506	69,849
Intangibles	9,983	15,833	23,958	31,433
Net fixed assets	87,316	119,540	155,257	149,439
Tangibles	39,983	45,600	45,442	35,899
Intangibles	47,333	73,940	109,815	113,540
Capital Work In Progress	4,479	3,200	3,200	3,200
Goodwill	65,044	67,990	67,990	67,990
Non-Current Investments	8,697	13,950	11,800	12,000
Net Deferred tax assets	16,519	18,030	18,030	18,030
Other Non-Current Assets	10,942	11,600	11,600	11,600
Current Assets				
Investments	11,457	23,570	23,570	23,570
Inventories	2,756	1,720	1,720	1,720
Trade receivables	83,013	96,390	110,044	119,995
Cash & Bank Balance	90,438	40,180	25,677	98,529
Other Current Assets	17,680	15,060	16,060	17,060
Total Assets	457,694	480,230	518,156	599,544
Equity				
Equity Share Capital	2,854	2,780	2,710	2,710
Other Equity	326,645	361,080	387,918	461,038
Total Network	329,499	363,860	390,628	463,748
Non-Current Liabilities				
Long Term borrowings	3,826	3,380	3,380	3,380
Provisions	6,961	7,000	7,000	7,000
Other noncurrent liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	621	420	420	420
Trade payables	8,006	9,180	10,480	11,428
Other current liabilities	104,790	91,470	101,328	108,648
Total Equity & Liabilities	457,694	480,230	518,156	599,544

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	105,428	110,929	122,035	134,111
Add. Depreciation	8,281	14,530	19,283	19,818
Add. Interest	185	-	-	-
Less Financial Other Income	9,367	11,085	9,738	11,323
Add. Other	(7,080)	(5,697)	(5,958)	(6,298)
Op. profit before WC changes	106,814	119,762	135,360	147,632
Net Changes-WC	3,207	4,078	(5,554)	(6,086)
Direct tax	(20,070)	(23,176)	(26,416)	(29,505)
Net cash from Op. activities	89,951	100,664	103,390	112,041
Capital expenditures	(44,096)	(55,375)	(55,000)	(14,000)
Interest / Dividend Income	8,539	5,697	5,958	6,298
Others	(1165)	-	-	-
Net Cash from Inv. activities	(38,166)	(49,678)	(49,042)	(7,702)
Issue of share cap. / premium	2	(35,000)	(40,000)	-
Debt changes	(3,959)	(446)	-	-
Dividend paid	(40,678)	(13,735)	(28,781)	(31,487)
Interest paid	(185)	-	-	-
Others	(510)	-	-	-
Net cash from Fin. activities	(45,331)	(49,182)	(68,781)	(31,487)
Net change in cash	6,455	1,805	(14,433)	72,852
Free Cash Flow	45,856	45,289	48,390	98,041

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	59.4	63.1	70.6	77.2
CEPS	65.3	73.6	84.8	91.8
BVPS	230.9	261.8	288.3	342.2
FCF	32.1	32.6	35.7	72.4
DPS	23.8	8.2	17.6	19.3
Return Ratio(%)				
RoCE	27.0%	24.7%	24.5%	23.1%
ROIC	37.6	31.1	27.9	27.5
RoE	28.1	25.3	25.3	24.5
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.1)	(0.3)
Debtor (Days)	65	70	70	70
Valuation(x)				
PER	16.2	15.3	13.7	12.5
P/B	4.2	3.7	3.3	2.8
P/CEPS	67.1	75.6	87.1	94.4
EV/EBITDA	12.4	11.2	9.6	8.3
EV/Sales	2.7	2.5	2.2	1.9
Dividend Yield (%)	2.5	0.9	1.8	2.0

Source: Company Data, PL Research

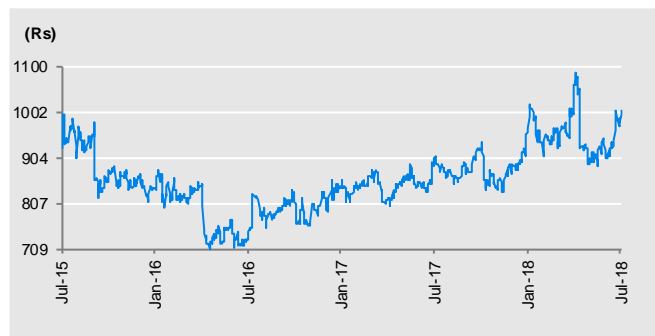
Quarterly Financials (Rs m)

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Net Revenue	124,340	128,080	131,790	138,780
YoY gr. (%)	7.9	8.4	9.3	14.2
Employee Expenses	82,080	84,120	85,600	91,060
Gross Profit	42,260	43,960	46,190	47,720
Margin (%)	34.0	34.3	35.0	34.4
EBITDA	27,590	29,640	30,360	32,260
YoY gr. (%)	2.9	7.4	2.4	6.3
Margin (%)	22.2	23.1	23.0	23.2
Depreciation / Depletion	3,080	4,550	4,530	4,960
EBIT	24,510	25,090	25,830	27,300
Margin (%)	19.7	19.6	19.6	19.7
Net Interest	-	-	-	-
Other Income	2,980	2,640	2,800	2,960
Profit before Tax	27,490	27,730	28,630	30,260
Margin (%)	22.1	21.7	21.7	21.8
Total Tax	5,610	5,790	6,340	6,220
Effective tax rate (%)	20.4	20.9	22.1	20.6
Profit after Tax	21,880	21,940	22,290	24,040
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	21,880	21,940	22,290	24,040
YoY gr. (%)	8.6	5.9	(4.3)	10.7
Margin (%)	17.6	17.1	16.9	17.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	21,880	21,940	22,290	24,040
YoY gr. (%)	8.6	5.9	(4.3)	10.7
Margin (%)	17.6	17.1	16.9	17.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	21,880	21,940	22,290	24,040
Avg. Shares O/s (m)	1,395	1,395	1,393	1,393
EPS (Rs)	15.7	15.7	16.0	17.3

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	9-Oct-17	BUY	970	904
2	25-Oct-17	BUY	970	907
3	10-Jan-18	BUY	970	896
4	20-Jan-18	BUY	1,020	958
5	13-Apr-18	BUY	1,020	991
6	2-May-18	Accumulate	1,100	1,001
7	21-Jun-18	Accumulate	1,100	904
8	10-Jul-18	BUY	1,100	938

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	BUY	860	742
2	HCL Technologies	BUY	1,100	938
3	Hexaware Technologies	BUY	460	496
4	Infosys	BUY	1,430	1,317
5	Mphasis	Accumulate	1,150	1,100
6	NIIT Technologies	BUY	1,300	1,120
7	Redington (India)	BUY	175	113
8	Sonata Software	BUY	350	300
9	Tata Consultancy Services	Accumulate	2,080	1,875
10	TeamLease Services	Hold	2,740	2,672
11	Tech Mahindra	BUY	760	661
12	Wipro	Hold	300	283
13	Zensar Technologies	BUY	1,280	1,276

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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