

HCL Tech | BUY

Slow but steady

HCL reported organic revenue growth in 1QFY19 a tad below our estimates, likely on higher than expected pricing resets in some of the extant large contracts/renewals + delays in the start of new deals. However, a strong order booking ('highest-ever') should help the growth recover through 2Q-4QFY19. Management's stance was incrementally positive and improved disclosures, especially on the IP partnerships, should help increase investors' confidence, more so, given the stock's inexpensive valuations – at c.13x FY20F EPS, HCL trades at 27%/5% discount to INFO/TECHM. A 4% dividend + buyback yield also limits the downside risk. Maintain BUY with INR 1,190 PT (INR 1,180 earlier).

- **1QFY19 – a tad below estimates.** Consolidated revenues grew 0.8% QoQ to USD 2.05bn (2.7% in constant currency (CC) terms), vs. our/consensus estimates (1.2%/1.7%); organic constant currency revenue growth was 0.7% (JMFfe). Management attributed the softness to annual pricing resets in the Volvo deal as well as renewals; planned business attrition in India business (0.6% revenue impact) and delays in the start of new deals won over 2HFY18. Lower pricing + integration of lower margin C3i acquisition limited the EBIT margin to 19.6% (vs. our 20.1% estimates). However, PAT at INR 24.04bn (+8% QoQ) was marginally ahead of estimates due to lower tax rates.
- **But hopes remain.** HCL indicated a typical 4-6 months lag between the award and ramp-up in a large contract. A large deal won in 3QFY18 started ramping up in 2QFY19; the Nokia deal is likely to show in revenues in 3QFY19. This makes it hopeful of revenue growth accelerating through 2Q-3QFY19; 3Q should also see the seasonal uplift from IP deals. The drag from India business should decline in 2QFY19 (USD 5mn vs. USD 12mn in 1Q) before dissipating in 2HFY19. Constant currency growth guidance is unchanged at 9.5-11.5%; the revised USD revenue growth guidance implies 2.2-3.4% CQGR over 2Q-4QFY19. We forecast 9%/8% USD revenue growth in FY19/FY20.
- **A peek into the IPP strategy should help allay investors' concerns.** HCL has increased disclosures on its revenues from the IPP partnerships including an insight into the revenue/investment/margin trajectories in three of them. While a larger share of the licensed IPs is for legacy platforms, HCL has invested in adding functionalities and creating versions that can be bundled as parts of managed services deals. We believe that should help in accelerating long-term growth for HCL's core infra/application outsourcing services.
- **Currency flow into margins is unlikely.** HCL expects margin to improve sequentially albeit at a small scale; it plans to keep the EBIT margin in the 19.5-20.5% guided band and invest/pass potential currency gains into deal sourcing/renewals. We have accordingly cut our margin estimates. However, our FT19/FY20 EPS estimates are still higher by c.1% each on the lower tax rate assumptions.
- **Mid-range play.** HCL has U/Ped the BSE IT Index by 16% over the last 3 months on concerns about slow organic growth. While they may persist, a strong order booking in 1QFY19 could kindle hopes for a recovery and inexpensive valuations + the proposed c.USD 590mn buyback should keep them live. Our INR 1,190 PT is at 15x target PER.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,190
Upside/(Downside)	23.5%
Previous Price Target	1,170
Change	1.7%

Key Data – HCLT IN

Current Market Price	INR963
Market cap (bn)	INR1,341.5/US\$19.5
Free Float	38%
Shares in issue (mn)	1,401.4
Diluted share (mn)	1,393.2
3-mon avg daily val (mn)	INR2,408.6/US\$35.1
52-week range	1,108/825
Sensex/Nifty	37,337/11,278
INR/US\$	68.7

Price Performance

%	1M	6M	12M
Absolute	4.6	-4.6	8.2
Relative*	-1.3	-7.9	-6.1

* To the BSE Sensex

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Financial Summary

Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	4,67,220	5,05,700	5,86,010	6,38,373	6,87,586
Sales Growth	50.1%	8.2%	15.9%	8.9%	7.7%
EBITDA	1,03,090	1,14,400	1,35,758	1,45,458	1,55,315
EBITDA Margin	22.1%	22.6%	23.2%	22.8%	22.6%
Adjusted Net Profit	84,570	87,820	98,054	1,06,990	1,19,394
Diluted EPS (Symbole)	59.9	62.6	70.4	76.8	85.7
Diluted EPS Growth	49.2%	4.5%	12.5%	9.1%	11.6%
ROIC	40.3%	32.8%	32.7%	34.0%	36.5%
ROE	27.5%	25.0%	23.9%	21.4%	19.8%
P/E (x)	16.1	15.4	13.7	12.5	11.2
P/B (x)	4.1	3.7	3.0	2.4	2.0
EV/EBITDA (x)	11.9	10.9	8.7	7.5	6.3
Dividend Yield	2.5%	0.8%	0.8%	0.8%	0.8%

Source: Company data, JM Financial. Note: Valuations as of 27/Jul/2018

Exhibit 1. Key financials

INR mn	1QFY18	2QFY18	3QFY18	4QFY18	FY18	1QFY19	Comments
Cons revenues (USD mn)	1,884	1,928	1,988	2,038	7,838	2,055	
Change (QoQ/YoY)	3.7%	2.3%	3.1%	2.5%	12.4%	0.8%	▪ USD revenue witnessed a growth of 0.8%/9.0% QoQ/YoY
Cons. revenues (INR mn)	1,21,490	1,24,340	1,28,080	1,31,790	5,05,700	1,38,780	
Change (QoQ/YoY)	0.8%	2.3%	3.0%	2.9%	8.2%	5.3%	▪ In CC terms, revenue grew by 2.7%/8.5% QoQ/YoY
Direct Costs	80,570	82,080	84,120	85,600	3,32,370	91,060	
Gross profit	40,920	42,260	43,960	46,190	1,73,330	47,720	▪ Gross margin contracted by 66bps QoQ but EBITDA margin expanded marginally by 21bps QoQ because the SG&A expenses as a % revenue dropped 87bps QoQ to 11.1%
Gross margin	33.7%	34.0%	34.3%	35.0%	34.3%	34.4%	
Total operating expense	14,110	14,670	14,320	15,830	58,930	15,460	
Operating profit (EBITDA)	26,810	27,590	29,640	30,360	1,14,400	32,260	▪ The relatively lower gross margin was attributed to lower margin of C3i acquisition and ramping up of some of the deals requiring investments
EBITDA margin	22.1%	22.2%	23.1%	23.0%	22.6%	23.2%	
Depreciation & amortization	2,360	3,080	4,550	4,530	14,520	4,960	
EBIT	24,450	24,510	25,090	25,830	99,880	27,300	
EBIT margin	20.1%	19.7%	19.6%	19.6%	19.8%	19.7%	▪ Forex gains for the quarter stood at INR 1,430mn vs. INR 1,610 in 4QFY18
Total other income	2,690	2,980	2,640	2,800	11,110	2,960	
Profit before tax	27,140	27,490	27,730	28,630	1,10,990	30,260	▪ ETR for the quarter was down by 159bps QoQ to 20.6% vs. 22.1% in 4QFY18, however, it is expected to be in the range of 22%-23% for the full year, according to management
Provision for tax	5,430	5,610	5,790	6,340	23,170	6,220	
Net profit	21,710	21,880	21,940	22,290	87,820	24,040	
Change (QoQ/YoY)	-6.7%	0.8%	0.3%	1.6%	294.0%	-72.6%	▪ OCF/EBITDA stood at 76.0% in 1QFY19 vs. 90.1% in 4QFY18
Adjusted basic EPS	15.2	15.7	15.8	16.0	62.7	17.3	
Change (QoQ/YoY)	-6.8%	3.3%	0.3%	1.6%	4.9%	7.8%	

Source: Company, JM Financial

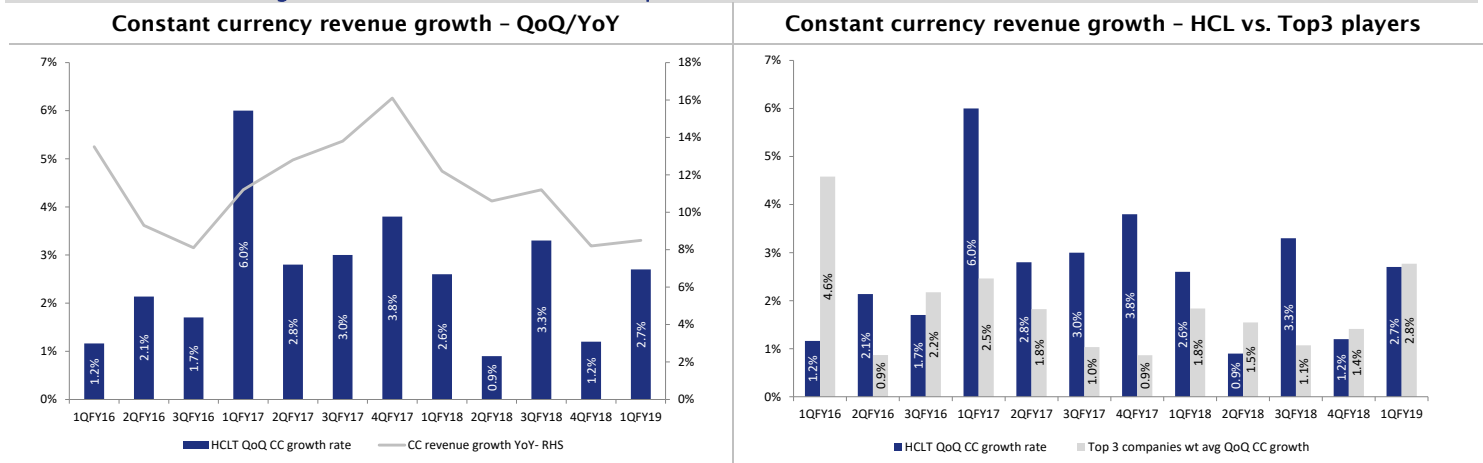
Management commentary: Key takeaways

- **FY19 guidance:** The FY19 constant currency revenue growth guidance was unchanged at 9.5-11.5%. In USD terms the guidance was revised to 8.4-10.4% (from 10.5-12.5% earlier). FY19 EBIT margin band was also left unchanged at 19.5-20.5%; while this is at INR 66/USD rate, HCL plans to invest the currency gains into more competitive pricing for new deals/renewals. That said, HCL indicated a good deal pipeline and was hopeful of getting an inflexion point for organic growth if the order conversion remains high for a couple of quarters. Note, order booking was indicated to be highest ever in 1QFY19.
- **Business segments:** **Mode1** – 73.3% of 1QFY19 revenues; grew +0.5% QoQ in constant currency at EBIT margin of 19.9%. HCL indicated the large share of deal wins in 1QFY19 were in this space. HCL indicated a demand resurgence for next-generation IMS including service lines such as the digital workplace, network and cyber security. **Mode2** – 15.6% of 1QFY19 revenues; grew +8.2% QoQ in constant currency. EBIT margin at 14.8% was below company average due to investment in capability/capacity building. **Mode3** – 11% of 1QFY19 revenues; grew +11.7% QoQ in constant currency at EBIT margin of 25.2%. 60% of revenues are from legacy technologies that are an enabler of Mode1 services and growing at low single digits; the balance 40% is in the newer technology areas growing at double digits.
- **IP partnership strategy:** HCL gave insight for the first time into its investments in the IP partnership through three case studies of products that are at different growth trajectories. In all these cases, HCL has been able to improve on the growth rate by investing in product releases/functionality additions. It has also launched or is in the process of launching HCL branded versions of these products and is bundling them into integrated outsourcing deals.

Exhibit 2. HCL has been licensing IP assets to build its Mode 3 services

Period	Area/technology platforms	Investment (USD mn)	Annual revenues (USD mn) (Est.)	Comments
1QFY17	Automation and DevOps solutions	350	100	
2QFY17	API/web service enablement for mainframes	55	12-15	
3QFY17	Application security + legacy systems modernization	155	45-50	▪ New IP deals was signed during the quarter which entailed an investment of USD 177mn
4QFY17	Information and database management systems	80	23	
1QFY18	Mainframe and marketing automation	140	40	
2QFY18	Collaboration software/platform & email client	67	19	
3QFY18	Remote management, application release automation & governance	250	71	
1QFY19	On-premises digital experience software	177	50	

Source: Company, JM Financial

Exhibit 3. HCL cc revenue growth in 1QFY19 is in-line with its peers

Source: Company, JM Financial

Exhibit 4. Vertical portfolio

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	Comments
Distribution						
Financial Services (BFSI)	24.9%	25.0%	24.6%	25.0%	23.8%	▪ HCL signed 27 transformational deals this quarter which were in the fields of Telecom (Nokia deal), Financial services (4 large deals), Retail & CPG and Energy & utilities
Manufacturing (including Hitech)	34.9%	35.4%	36.5%	36.0%	36.5%	
- Manufacturing	20.7%	n.a.	n.a.	19.2%	18.3%	
- Technology & Services	14.2%	n.a.	n.a.	16.8%	18.2%	
Telecom, Media, Publishing & Entertainment	7.9%	7.9%	7.4%	7.4%	7.3%	
Retail & CPG	9.5%	9.3%	9.6%	9.6%	9.1%	▪ In cc terms, growth was led by Lifesciences & Healthcare (+13.4% QoQ) followed by Technology & Services (+9.3% QoQ), Public Services (+3.5% QoQ) and TME (+0.2% QoQ) while Manufacturing (-1.3% QoQ), Financial Services (-1.4% QoQ) and Retail & CPG (-1.6% QoQ) witnessed a decline
Healthcare	11.8%	11.7%	11.7%	11.5%	12.8%	
Public Services	11.1%	10.6%	10.2%	10.6%	10.5%	
Revenue (USD mn and QoQ growth)						
Financial Services (BFSI)	469	482	489	510	489	▪ Management sees strong momentum across Financial Services, telecom, Retail, CPG and Utilities
Change	6.7%	2.7%	1.4%	4.2%	-4.0%	
Manufacturing (including Hitech)	658	683	725	734	750	
Change	4.6%	3.8%	6.3%	1.1%	2.2%	
- Manufacturing	390	n.a.	n.a.	391	376	
Change	n.a.	n.a.	n.a.	n.a.	-3.9%	▪ HCL has been reducing exposure to India SI business (USD 12mn reduction) which was planned and now it contributes 0.5% of the total revenues; expected to further reduce to 0.25% of total revenues by next quarter, according to the management
- Technology & Services	268	n.a.	n.a.	342	374	
Change	n.a.	n.a.	n.a.	n.a.	9.2%	
Telecom, Media, Publishing & Entertainment	149	152	147	151	150	
Change	-2.5%	2.3%	-3.4%	2.5%	-0.6%	
Retail & CPG	179	179	191	196	187	
Change	7.1%	0.2%	6.4%	2.5%	-4.4%	
Healthcare	222	226	233	234	263	
Change	6.4%	1.5%	3.1%	0.8%	12.2%	
Public Services	209	204	203	216	216	
Change	-1.6%	-2.3%	-0.8%	6.6%	-0.1%	

Source: Company, JM Financial

Exhibit 5. Service portfolio

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	Comments
Distribution						
Core Software services	57.8%	57.9%	59.5%	58.8%	58.5%	<ul style="list-style-type: none"> Mode 1 (73.3% of revenues) grew 0.5% QoQ in cc terms with an EBIT margin of 19.9%
Application Services	36.3%	35.9%	35.3%	34.7%	34.0%	
Engineering and R&D Services	21.5%	22.0%	24.2%	24.1%	24.5%	
BPO Services	3.6%	3.6%	3.7%	3.9%	5.2%	<ul style="list-style-type: none"> Mode 2 (15.6% of revenues) grew 8.2% QoQ in cc terms and had an EBIT margin lower than company's average at 14.8% which was attributed to continued investments in infrastructure, technology and talent building; expected to see slight uptick in the margins
Infrastructure Services	38.6%	38.5%	36.7%	37.3%	36.2%	
Revenue (USD mn and QoQ growth)						
Core Software services	1,089	1,116	1,183	1,198	1,202	<ul style="list-style-type: none"> Mode 3 (11.0% of revenues) grew 11.7% QoQ in cc terms and had an EBIT margin of 25.2% as the products and IPs sit in this particular segment
Change	4.6%	2.5%	5.9%	1.3%	0.3%	
BPO Services	68	69	74	79	107	
Change	-4.3%	2.3%	5.9%	8.1%	34.4%	
Infrastructure Services	727	742	729	760	744	
Change	3.2%	2.1%	-1.7%	4.2%	-2.2%	
Total	1,884	1,928	1,986	2,038	2,052	
Change	3.7%	2.3%	3.0%	2.6%	0.7%	

Source: Company, JM Financial

Exhibit 6. Manpower metrics

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	Comments
Manpower Base						
Total manpower	1,17,781	1,19,040	1,19,291	1,20,081	1,24,121	<ul style="list-style-type: none"> HCL had the highest gross addition (+12,558) while attrition too went up to 16.3% which is higher by 80bps QoQ
Net addition	1,808	1,259	251	790	4,040	
As % of total base	1.6%	1.1%	0.2%	0.7%	3.4%	
Technical	1,07,029	1,08,351	1,08,831	1,09,565	1,13,404	<ul style="list-style-type: none"> Blended utilisation saw a dip of 40bps QoQ to 85.5%
Support	10,752	10,689	10,460	10,516	10,717	
Operating metrics						
Attrition- IT Services (LTM)	16.2%	15.7%	15.2%	15.5%	16.3%	
Attrition- Business Services (Quarterly)	6.7%	6.3%	5.5%	5.4%	7.0%	
Blended Utilization (Including trainees)	86.0%	86.0%	85.8%	85.9%	85.5%	

Source: Company, JM Financial

Exhibit 7. Key client metrics

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	Comments
LTM Revenue concentration						
Top 5 Clients	14.4%	15.1%	15.8%	16.3%	17.0%	<ul style="list-style-type: none"> Client pyramid improved with 1/4/2/3/10 additions to the USD 100mn+/50mn+/10mn+/ 5mn+/1mn+ client bucket
Top 10 Clients	22.4%	22.9%	23.5%	23.8%	24.6%	
Top 20 Clients	33.0%	33.2%	33.5%	33.7%	34.2%	
Non-Top 20 clients	67.0%	66.8%	66.5%	66.3%	65.8%	
Repeat business	97.6%	97.4%	96.9%	96.5%	96.9%	
LTM Revenue growth						
Top 5 Clients	1.6%	7.3%	7.9%	5.8%	5.1%	<ul style="list-style-type: none"> Growth in clients was secular led by 5.1% growth in Top 5 clients followed by Top 6-10 clients (+2.2% QoQ) while Top 11-20 clients de-grew by 2.2%
Top-6 to 10 clients	12.1%	-0.2%	1.8%	-0.1%	2.2%	
Top 10 Clients	5.1%	4.6%	5.8%	3.8%	4.2%	
Top-11 to 20 clients	1.8%	-0.6%	0.1%	1.5%	-2.2%	
Top 20 Clients	4.0%	2.9%	4.0%	3.2%	2.3%	
Non-Top 20	3.6%	2.0%	2.6%	2.2%	0.0%	<ul style="list-style-type: none"> The 27 transformative deals were either additional deals from existing clients of net-new customers
Repeat business	10.0%	2.1%	2.6%	2.1%	1.2%	
Relationship distribution						
USD 1mn+ Clients	508	536	552	561	571	<ul style="list-style-type: none"> Amongst the largest deals was with Nokia in the area of transforming and modernising its IT infrastructure and applications landscape
USD 5mn+ Clients	249	259	261	264	267	
USD 10mn+ Clients	154	157	156	160	162	
USD 20mn+ Clients	86	84	85	87	87	
USD 30mn+ Clients	52	52	56	58	56	
USD 40mn+ Clients	35	37	40	40	40	
USD 50mn+ Clients	25	25	25	28	32	
USD 100mn+ Clients	8	9	9	8	9	

Source: Company, JM Financial

Maintain BUY; target price revised to INR 1,190

Exhibit 8. What has changed in our forecasts and assumptions?

	Old			New			Change		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Exchange rate (INR/USD)	67.68	68.35	69.00	68.53	69.00	69.00	1.2%	1.0%	0.0%
Consolidated revenue (USD mn)	8,637	9,320	10,044	8,551	9,252	9,965	-1.0%	-0.7%	-0.8%
Growth in USD revenues (YoY)	10.2%	7.9%	7.8%	9.1%	8.2%	7.7%	-109bp	29bp	-6bp
Consolidated revenue (INR mn)	5,84,589	6,36,994	6,93,035	5,86,010	6,38,373	6,87,586	0.2%	0.2%	-0.8%
EBITDA margin	23.3%	23.1%	23.0%	23.2%	22.8%	22.6%	-15bp	-31bp	-39bp
EBIT margin	20.1%	20.1%	20.1%	19.8%	19.6%	19.6%	-33bp	-45bp	-49bp
PAT (INR mn)	97,174	1,07,116	1,19,773	98,633	1,08,065	1,20,543	1.5%	0.9%	0.6%
EPS	69.7	76.9	86.0	70.8	77.6	86.5	1.5%	0.9%	0.6%

Source: JM Financial

Exhibit 9. How we differ from consensus

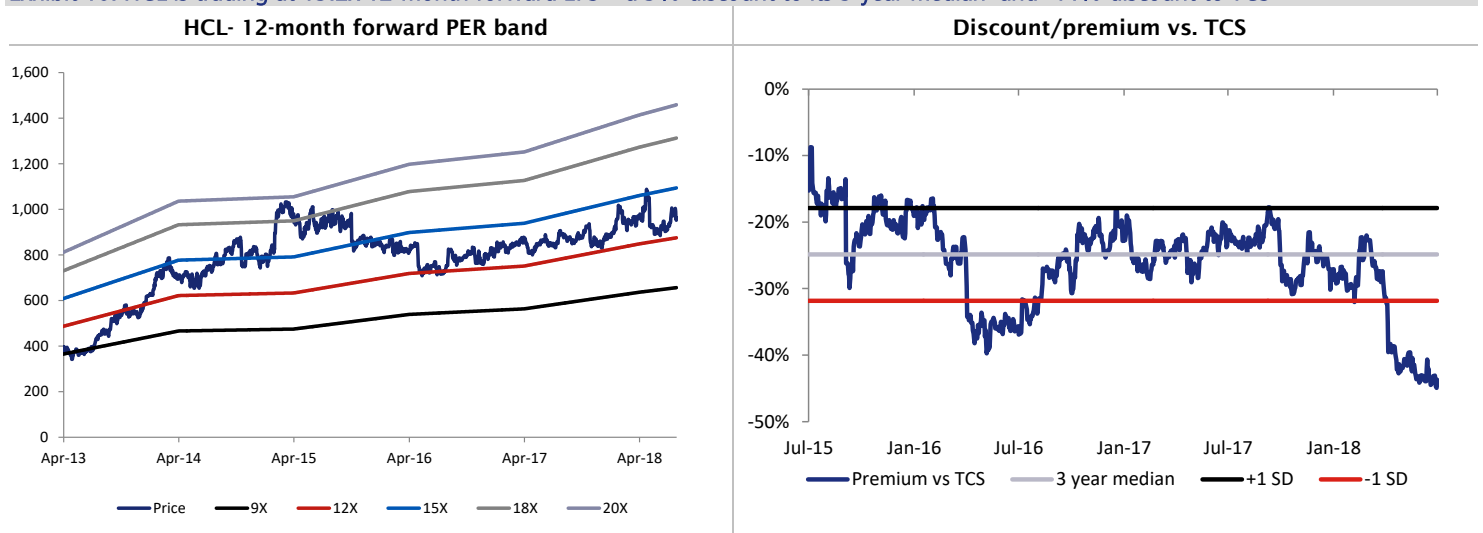
	Consensus			JMFe			Difference		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Sales (INR mn)	5,77,409	6,33,414	6,91,598	5,86,010	6,38,373	6,87,586	1.5%	0.8%	-0.6%
EBITDA (INR mn)	1,31,502	1,43,487	1,55,725	1,35,758	1,45,458	1,55,315	3.2%	1.4%	-0.3%
EBITDA margin (%)	22.8%	22.7%	22.5%	23.2%	22.8%	22.6%	39bps	13bps	7bps
Net Income (INR mn)	95,380	1,04,338	1,14,854	98,633	1,08,065	1,20,543	3.4%	3.6%	5.0%
EPS (INR)	68.6	73.7	81.1	70.8	77.6	86.5	3.3%	5.2%	6.7%

Source: JM Financial, Bloomberg

Key Risks

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

Exhibit 10. HCL is trading at 13.2x 12-month forward EPS – a 3% discount to its 5-year median and 44% discount to TCS



Source: JM Financial, Bloomberg

Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	4,67,220	5,05,700	5,86,010	6,38,373	6,87,586
Sales Growth	50.1%	8.2%	15.9%	8.9%	7.7%
Other Operating Income	0	0	0	0	0
Total Revenue	4,67,220	5,05,700	5,86,010	6,38,373	6,87,586
Cost of Goods Sold/Op. Exp	3,08,890	3,32,370	3,84,247	4,21,098	4,54,917
Personnel Cost	0	0	0	0	0
Other Expenses	55,240	58,930	66,005	71,817	77,353
EBITDA	1,03,090	1,14,400	1,35,758	1,45,458	1,55,315
EBITDA Margin	22.1%	22.6%	23.2%	22.8%	22.6%
EBITDA Growth	51.3%	11.0%	18.7%	7.1%	6.8%
Depn. & Amort.	8,340	14,520	19,973	20,239	20,677
EBIT	94,750	99,880	1,15,785	1,25,219	1,34,638
Other Income	9,340	11,110	9,736	13,527	20,159
Finance Cost	0	0	0	0	0
PBT before Excep. & Forex	1,04,090	1,10,990	1,25,521	1,38,745	1,54,798
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,04,090	1,10,990	1,25,521	1,38,745	1,54,798
Taxes	19,520	23,170	27,177	31,218	34,829
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	290	538	574
Reported Net Profit	84,570	87,820	98,054	1,06,990	1,19,394
Adjusted Net Profit	84,570	87,820	98,054	1,06,990	1,19,394
Net Margin	18.1%	17.4%	16.7%	16.8%	17.4%
Diluted Share Cap. (mn)	1,412.8	1,403.9	1,393.2	1,393.2	1,393.2
Diluted EPS (Symbole)	59.9	62.6	70.4	76.8	85.7
Diluted EPS Growth	49.2%	4.5%	12.5%	9.1%	11.6%
Total Dividend + Tax	40,811	13,518	13,415	13,415	13,415
Dividend Per Share (₹)	24.0	8.0	8.0	8.0	8.0

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before Tax	84,543	87,778	98,633	1,08,065	1,20,543
Depn. & Amort.	8,348	14,529	19,973	20,239	20,677
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCap.	289	-14,862	-11,268	-4,488	-4,570
Others	1,127	-639	0	0	0
Taxes Paid	0	0	0	0	0
Operating Cash Flow	94,308	86,806	1,07,339	1,23,816	1,36,649
Capex	-39,162	-53,703	-20,135	-7,385	-7,714
Free Cash Flow	55,146	33,103	87,204	1,16,431	1,28,936
Inc (-) / Dec in Investments	4,516	40,819	0	0	0
Others	-8,689	-13,714	0	0	0
Investing Cash Flow	-43,336	-26,598	-20,135	-7,385	-7,714
Inc / Dec (-) in Capital	2	1	0	0	0
Dividend + Tax thereon	-40,678	-20,310	0	0	0
Inc / Dec (-) in Loans	-3,755	-1,475	0	0	0
Others	-101	-35,136	0	0	0
Financing Cash Flow	-44,532	-56,920	0	0	0
Inc / Dec (-) in Cash	6,440	3,288	87,204	1,16,431	1,28,936
Opening Cash Balance	1,18,529	1,26,818	1,02,731	1,70,929	2,64,103
Closing Cash Balance	1,24,969	1,30,106	1,89,935	2,87,360	3,93,039

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Shareholders' Fund	3,34,904	3,68,168	4,53,328	5,47,987	6,55,122
Share Capital	0	0	0	0	0
Reserves & Surplus	3,34,904	3,68,168	4,53,328	5,47,987	6,55,122
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	-538	-1,112
Total Loans	5,417	4,371	3,093	2,554	1,869
Def. Tax Liab. / Assets (-)	0	0	0	0	0
Total - Equity & Liab.	3,40,321	3,72,539	4,56,421	5,50,003	6,55,879
Net Fixed Assets	1,61,062	1,95,904	2,05,671	2,01,591	1,96,862
Gross Fixed Assets	46,806	51,847	57,286	61,978	65,484
Intangible Assets	1,14,256	1,44,057	1,48,386	1,39,613	1,31,378
Less: Depn. & Amort.	0	0	0	0	0
Capital WIP	0	0	0	0	0
Investments	1,466	268	320	320	320
Current Assets	3,01,794	2,88,179	3,83,433	4,90,686	6,11,056
Inventories	0	0	0	0	0
Sundry Debtors	1,08,026	1,22,575	1,39,740	1,51,186	1,62,842
Cash & Bank Balances	1,26,818	1,02,731	1,70,929	2,64,103	3,70,138
Loans & Advances	0	0	0	0	0
Other Current Assets	66,950	62,873	72,764	75,397	78,077
Current Liab. & Prov.	1,24,002	1,11,812	1,33,004	1,42,594	1,52,359
Current Liabilities	12,525	12,669	14,870	14,870	14,870
Provisions & Others	1,11,477	99,143	1,18,134	1,27,724	1,37,489
Net Current Assets	1,77,792	1,76,367	2,50,429	3,48,092	4,58,697
Total - Assets	3,40,320	3,72,539	4,56,421	5,50,003	6,55,879

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Margin	18.1%	17.4%	16.7%	16.8%	17.4%
Asset Turnover (x)	1.4	1.4	1.4	1.2	1.1
Leverage Factor (x)	1.1	1.0	1.0	1.0	1.0
RoE	27.5%	25.0%	23.9%	21.4%	19.8%

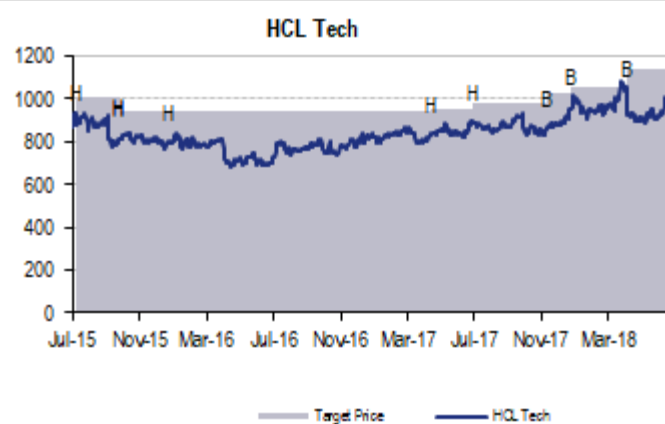
Key Ratios					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
BV/Share (₹)	237.3	262.7	325.6	393.6	470.5
ROIC	40.3%	32.8%	32.7%	34.0%	36.5%
ROE	27.5%	25.0%	23.9%	21.4%	19.8%
Net Debt/Equity (x)	-0.4	-0.3	-0.4	-0.5	-0.6
P/E (x)	16.1	15.4	13.7	12.5	11.2
P/B (x)	4.1	3.7	3.0	2.4	2.0
EV/EBITDA (x)	11.9	10.9	8.7	7.5	6.3
EV/Sales (x)	2.6	2.5	2.0	1.7	1.4
Debtor days	84	88	87	86	86
Inventory days	0	0	0	0	0
Creditor days	0	0	0	0	0

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
3-Aug-15	Hold	1,010	
19-Oct-15	Hold	940	-6.9
20-Oct-15	Hold	940	0.0
19-Jan-16	Hold	940	0.0
11-May-17	Hold	950	1.1
27-Jul-17	Hold	980	3.2
6-Dec-17	Buy	1,030	5.1
19-Jan-18	Buy	1,050	1.9
20-Mar-18	Buy	1,140	8.6
2-May-18	Buy	1,140	8.6
18-Jun-18	Buy	1,170	2.6

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081**Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.****SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610****Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.****Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com****Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com**

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

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