

|                                |                 |
|--------------------------------|-----------------|
| <b>INDUSTRY</b>                | <b>IT</b>       |
| <b>CMP (as on 23 Oct 2018)</b> | <b>Rs 952</b>   |
| <b>Target Price</b>            | <b>Rs 1,260</b> |

|        |        |
|--------|--------|
| Nifty  | 10,147 |
| Sensex | 33,847 |

**KEY STOCK DATA**

|                             |              |
|-----------------------------|--------------|
| Bloomberg                   | HCLT IN      |
| No. of Shares (mn)          | 1,393        |
| MCap (Rs bn) / (\$ mn)      | 1,325/18,010 |
| 6m avg traded value (Rs mn) | 2,402        |

**STOCK PERFORMANCE (%)**

|                           |                      |        |       |
|---------------------------|----------------------|--------|-------|
| <b>52 Week high / low</b> | <b>Rs 1,125/ 825</b> |        |       |
|                           | 3M                   | 6M     | 12M   |
| Absolute (%)              | (5.3)                | (12.5) | 1.5   |
| Relative (%)              | 2.5                  | (10.8) | (2.6) |

**SHAREHOLDING PATTERN (%)**

|                 |       |
|-----------------|-------|
| Promoters       | 60.17 |
| FIs & Local MFs | 8.16  |
| FPIs            | 28.01 |
| Public & Others | 3.66  |

Source : BSE

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## Steady growth across IMS/ER&D

HCL Tech (HCLT) posted in-line revenue (IMS recovered) with slightly better operating performance. Guidance/margin unchanged, however outlook (ex-2 BFSI accounts) stronger with improved pipeline, wins and renewal cycle. Revenue came at USD 2,099mn, 3.0/10.5% QoQ/YoY in CC terms. EBIT margin stood at 20%, +29bps QoQ with INR depreciation and productivity gains (automation, utilisation) offset by wage increase and product seasonality impact. Margin improvement was supported by operational improvement in Mode-1 business. APAT came at Rs 25.40bn, 5.7/16.1% QoQ/YoY.

We maintain our positive outlook on HCLT based on (1) Steady and sustainable recovery in IMS (ramp-up of recent large deals – across verticals) with strong pipeline and reduction in legacy portfolio compression beyond FY19E, (2) Strong Deal wins across services (44 transformational deal wins in 1HFY19 vs. 28 in 1HFY18) with 2Q TCV above the trailing-4qtr avg., (3) Continuity in robust growth across Mode-2 and Mode-3 business (28% of rev

combined) and target of 40% of rev over medium-to-long term, (4) Limited onsite risk (65% US workforce locals) and favourable risk-reward with attractive valuations (11.9x FY20E).

Our rev/EPS growth at 9.2/10.6% CAGR over FY18-21E assumes USD revenue growth at 8.6/9.8/9.1% for FY19/20/21E and EBIT% at 20.1/20.0/20.0%. We've factored 8.5/8.6% CAGR for software services (incl ER&D) and IMS, respectively. Maintain BUY with TP of Rs 1,260 (15x Sep-20E).

### Highlights of the quarter

- Mode-1 (72% of rev)/Mode-2 (16%)/Mode-3 (12%) grew 1.4/5.3/10.4% QoQ CC respectively. Revenue guidance was unchanged at 9.5 to 11.5% YoY in CC terms and EBIT% guidance at 19.5 to 20.5% for FY19E. Organic growth was ~2% QoQ and Action (ER&D) consolidation was 1% impact. Management witnessing increasing demand for Scale-Agile deals.
- Near-term outlook:** Growth to accelerate with strong deal pipeline and ramp-up of large deals.

### Financial Summary

| YE March (Rs bn)  | 2QFY19 | 2QFY18 | YoY (%) | 1QFY19 | QoQ (%) | FY17   | FY18   | FY19E  | FY20E  | FY21E  |
|-------------------|--------|--------|---------|--------|---------|--------|--------|--------|--------|--------|
| Net Sales         | 148.61 | 124.34 | 19.5    | 138.78 | 7.1     | 467.23 | 505.70 | 601.29 | 672.79 | 734.01 |
| EBIT              | 29.66  | 24.51  | 21.0    | 27.30  | 8.6     | 94.74  | 99.88  | 120.88 | 134.56 | 146.82 |
| APAT              | 25.40  | 21.88  | 16.1    | 24.03  | 5.7     | 81.54  | 87.80  | 101.45 | 108.74 | 118.65 |
| Diluted AEPS (Rs) | 18.7   | 16.1   | 16.1    | 17.7   | 5.7     | 60.1   | 64.8   | 74.8   | 80.2   | 87.5   |
| P/E (x)           |        |        |         |        |         | 15.8   | 14.7   | 12.7   | 11.9   | 10.9   |
| EV / EBITDA (x)   |        |        |         |        |         | 12.1   | 11.2   | 9.2    | 8.3    | 7.6    |
| RoE (%)           |        |        |         |        |         | 27.0   | 25.3   | 26.5   | 25.3   | 24.2   |

Source: Company, HDFC sec Inst Research # Consolidated

HDFC securities Institutional Research is also available on Bloomberg HSLB &lt;GO&gt; &amp; Thomson Reuters

**Revenue came at USD 2,099mn, up 3%/10.5% QoQ/YoY in CC terms**

**EBIT improved by 29bps QoQ with INR depreciation (+90bps impact) and productivity gains (+80bps) mitigated by SG&A increase and product & platform seasonality**

**Full year EBIT guidance of 19.5% to 20.5% maintained**

**APAT was Rs 25.40bn ETR at 21.1%, full year ETR guided at 22%-23%**

### Quarterly Consolidated Financials Snapshot

| Particulars (Rs bn)          | 2QFY19        | 2QFY18        | YoY (%)     | 1QFY19        | QoQ (%)     |
|------------------------------|---------------|---------------|-------------|---------------|-------------|
| <b>Net Revenues (USD mn)</b> | <b>2,099</b>  | <b>1,928</b>  | <b>8.9</b>  | <b>2,055</b>  | <b>2.1</b>  |
| <b>Net Revenues</b>          | <b>148.61</b> | <b>124.34</b> | <b>19.5</b> | <b>138.78</b> | <b>7.1</b>  |
| Direct Costs                 | 95.89         | 82.08         | 16.8        | 91.06         | 5.3         |
| <b>Gross Profit</b>          | <b>52.72</b>  | <b>42.26</b>  | <b>24.8</b> | <b>47.72</b>  | <b>10.5</b> |
| SG&A Expenses                | 17.73         | 14.67         | 20.9        | 15.46         | 14.7        |
| <b>EBITDA</b>                | <b>34.99</b>  | <b>27.59</b>  | <b>26.8</b> | <b>32.26</b>  | <b>8.5</b>  |
| Depreciation                 | 5.33          | 3.08          | 73.1        | 4.96          | 7.5         |
| <b>EBIT</b>                  | <b>29.66</b>  | <b>24.51</b>  | <b>21.0</b> | <b>27.30</b>  | <b>8.6</b>  |
| Other Income                 | 2.52          | 2.98          | (15.4)      | 2.95          | (14.6)      |
| <b>PBT</b>                   | <b>32.18</b>  | <b>27.49</b>  | <b>17.1</b> | <b>30.25</b>  | <b>6.4</b>  |
| Tax                          | 6.78          | 5.61          | 20.9        | 6.22          | 9.0         |
| <b>APAT</b>                  | <b>25.40</b>  | <b>21.88</b>  | <b>16.1</b> | <b>24.03</b>  | <b>5.7</b>  |
| E/o (adj for tax)            | -             | -             | -           | -             | -           |
| RPAT                         | 25.40         | 21.88         | 16.1        | 24.03         | 5.7         |

Source: Company, HDFC sec Inst Research

### Margin Analysis

|                              | 2QFY19      | 2QFY18      | YoY (bps) | 1QFY19      | QoQ (bps) |
|------------------------------|-------------|-------------|-----------|-------------|-----------|
| Direct Costs % Net Revenues  | 64.5        | 66.0        | (149)     | 65.6        | (109)     |
| Gross Profit Margin (%)      | 35.5        | 34.0        | 149       | 34.4        | 109       |
| SG&A Expenses % Net Revenues | 11.9        | 11.8        | 13        | 11.1        | 79        |
| EBITDA Margin (%)            | 23.5        | 22.2        | 136       | 23.2        | 30        |
| <b>EBIT Margin (%)</b>       | <b>20.0</b> | <b>19.7</b> | <b>25</b> | <b>19.7</b> | <b>29</b> |
| Tax Rate (%)                 | 21.1        | 20.4        | 66        | 20.6        | 51        |
| APAT Margin (%)              | 17.1        | 17.6        | (51)      | 17.3        | (22)      |

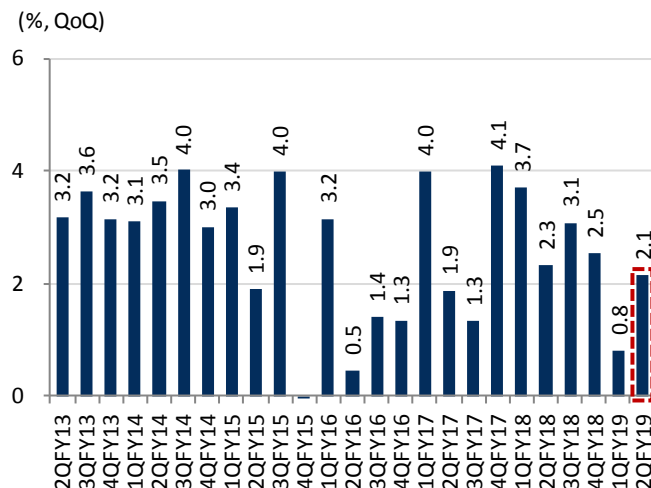
Source: Company, HDFC sec Inst Research

**EBIT margin for Mode-1/2/3 at 21.2%/10.8%/24.4%**

**Drop in Mode-2 (digital business) EBIT margin (-400bps QoQ) on higher SG&A, outlook remains strong**

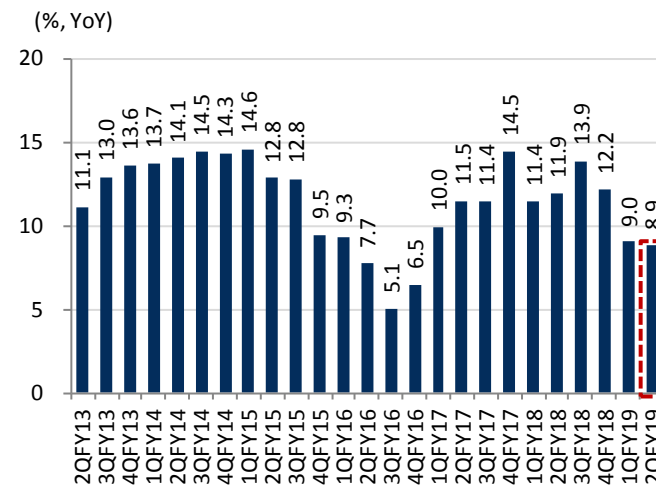
**Deal bookings in 2Q were higher than last 4 qtr average (1Q was highest-ever)**

## QoQ USD Revenue Growth Trajectory



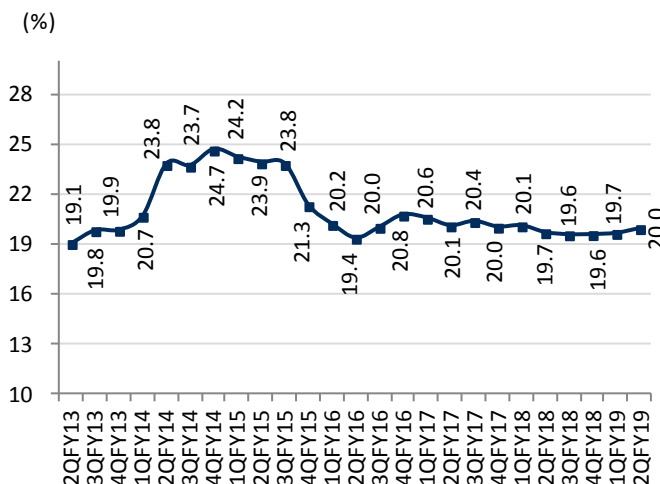
Source: Company, HDFC sec Inst Research, \*1QFY17 organic

## YoY USD Revenue Growth Trajectory



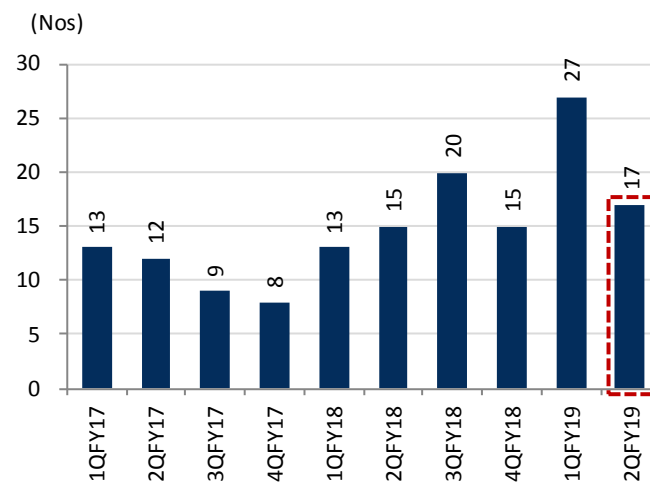
Source: Company, HDFC sec Inst Research

## EBIT Margin Trajectory



Source: Company, HDFC sec Inst Research

## Transformational Deals Trend



Source: Company, HDFC sec Inst Research,

**Financial services softened  
1.3% QoQ impacted by 2 BFSI  
accounts**

**Life-science & healthcare,  
Public services and Retail &  
CPG verticals grew 2.9%, 4.1%  
& 12.2% respectively**

**ER&D (25.5% of rev) grew  
6.3% QoQ CC supported by  
Actian integration**

### Vertical Revenue Break-up

| (% of rev)                                 | 4QFY17       | 1QFY18       | 2QFY18       | 3QFY18       | 4QFY18       | 1QFY19       | 2QFY19       |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Manufacturing                              | 34.6         | 34.9         | 35.4         | 36.5         | 36.0         | 36.5         | 36.2         |
| Financial Services                         | 24.2         | 24.9         | 25.0         | 24.6         | 25.0         | 23.8         | 23.0         |
| Life Sciences and Health Care              | 11.5         | 11.8         | 11.7         | 11.7         | 11.5         | 12.8         | 12.9         |
| Public Services                            | 11.7         | 11.1         | 10.6         | 10.2         | 10.5         | 10.5         | 10.7         |
| Telecom, Media, Publishing & Entertainment | 8.4          | 7.9          | 7.9          | 7.4          | 7.4          | 7.3          | 7.2          |
| Retail & CPG                               | 9.2          | 9.5          | 9.3          | 9.6          | 9.6          | 9.1          | 10.0         |
| Others                                     | 0.4          | 0.0          | 0.1          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Total</b>                               | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

Source: Company, HDFC sec Inst Research

### Vertical-wise Revenue Growth

| (QoQ, %)                                   | 4QFY17     | 1QFY18     | 2QFY18     | 3QFY18     | 4QFY18     | 1QFY19     | 2QFY19     |
|--|------------|------------|------------|------------|------------|------------|------------|
| Manufacturing                              | 6.2        | 4.5        | 3.9        | 6.3        | 1.1        | 2.2        | 1.3        |
| Financial Services                         | 3.7        | 6.5        | 2.9        | 1.4        | 4.2        | (4.0)      | (1.3)      |
| Life Sciences and Health Care              | (0.2)      | 6.4        | 1.5        | 3.1        | 0.8        | 12.2       | 2.9        |
| Public Services                            | 8.7        | (1.6)      | (2.3)      | (0.8)      | 5.6        | 0.8        | 4.1        |
| Telecom, Media, Publishing & Entertainment | (1.8)      | (2.5)      | 2.3        | (3.4)      | 2.5        | (0.5)      | 0.7        |
| Retail & CPG                               | 1.9        | 7.1        | 0.2        | 6.4        | 2.5        | (4.4)      | 12.2       |
| <b>Total</b>                               | <b>4.1</b> | <b>3.7</b> | <b>2.3</b> | <b>3.1</b> | <b>2.5</b> | <b>0.8</b> | <b>2.1</b> |

Source: Company, HDFC sec Inst Research

*Among services, IMS and Application services grew 2.5% and 0.4% QoQ in CC terms*

*Growth was led by NorthAm & RoW at 4.4% & 4.9% QoQ respectively while decline in Europe (-0.9% QoQ CC) was impacted by 2 BFSI client, Europe outlook strong in 2H*

*Mode-3 EBIT margins expected to remain stable in the medium-term*

### Service Line Break-up

| (% of rev)                      | 4QFY17       | 1QFY18       | 2QFY18       | 3QFY18       | 4QFY18       | 1QFY19       | 2QFY19       |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Software Services (Apps + Engg) | 57.3         | 57.8         | 57.9         | 59.6         | 58.8         | 58.5         | 58.6         |
| Infrastructure Services         | 38.8         | 38.6         | 38.5         | 36.7         | 37.3         | 36.2         | 36.0         |
| Business Services               | 3.9          | 3.6          | 3.6          | 3.7          | 3.9          | 5.2          | 5.4          |
| <b>Total</b>                    | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

Source: Company, HDFC sec Inst Research

### Service Line Growth

| (QoQ, %)                        | 4QFY17     | 1QFY18     | 2QFY18     | 3QFY18     | 4QFY18     | 1QFY19     | 2QFY19     |
|---------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Software Services (Apps + Engg) | 6.2        | 4.7        | 2.4        | 6.1        | 1.2        | 0.4        | 2.2        |
| Infrastructure Services         | 1.5        | 3.2        | 2.0        | (1.6)      | 4.2        | (2.1)      | 1.4        |
| Business Services               | 0.5        | (5.7)      | 4.5        | 5.2        | 6.8        | 36.4       | 6.3        |
| <b>Total</b>                    | <b>4.1</b> | <b>3.7</b> | <b>2.3</b> | <b>3.1</b> | <b>2.5</b> | <b>0.8</b> | <b>2.1</b> |

Source: Company, HDFC sec Inst Research

### Geographic Revenue Break-up

| (% of rev)        | 4QFY17       | 1QFY18       | 2QFY18       | 3QFY18       | 4QFY18       | 1QFY19       | 2QFY19       |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Americas          | 62.6         | 62.8         | 62.4         | 63.5         | 61.5         | 64.5         | 65.8         |
| Europe            | 27.7         | 27.4         | 29.1         | 28.7         | 30.0         | 28.1         | 26.8         |
| Rest of the World | 9.7          | 9.8          | 8.5          | 7.9          | 8.5          | 7.5          | 7.4          |
| <b>Total</b>      | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

Source: Company, HDFC sec Inst Research

### Geographic Revenue Growth

| (QoQ, % CC)       | 4QFY17     | 1QFY18     | 2QFY18     | 3QFY18     | 4QFY18     | 1QFY19     | 2QFY19     |
|-------------------|------------|------------|------------|------------|------------|------------|------------|
| Americas          | 5.3        | 3.8        | 1.5        | 4.9        | (0.7)      | 5.9        | 4.4        |
| Europe            | (3.0)      | (0.4)      | 4.4        | 1.9        | 3.6        | (1.0)      | (0.9)      |
| Rest of the World | 15.8       | 3.1        | (12.0)     | (3.9)      | 8.1        | (7.1)      | 4.9        |
| <b>Total</b>      | <b>3.8</b> | <b>2.6</b> | <b>0.9</b> | <b>3.3</b> | <b>1.2</b> | <b>2.7</b> | <b>3.0</b> |

Source: Company, HDFC sec Inst Research

**Utilisation improved 120bps QoQ to 86.7% and attrition increased to 17.1%**

**65% of total US workforce (~15,000) are locals**

### Headcount, Attrition And Utilisation Data

| (Nos.)                             | 4QFY17         | 1QFY18         | 2QFY18         | 3QFY18         | 4QFY18         | 1QFY19         | 2QFY19         |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Total headcount</b>             | <b>115,973</b> | <b>117,781</b> | <b>119,040</b> | <b>119,291</b> | <b>120,081</b> | <b>124,121</b> | <b>127,875</b> |
| Technical                          | 105,547        | 107,029        | 108,351        | 108,831        | 109,565        | 113,404        | 116,910        |
| Support                            | 10,426         | 10,752         | 10,689         | 10,460         | 10,516         | 10,717         | 10,965         |
| Gross Additions                    | 10,605         | 9,462          | 8,645          | 7,113          | 8,476          | 12,558         | 11,683         |
| Net Additions                      | 4,881          | 1,808          | 1,259          | 251            | 790            | 4,040          | 3,754          |
| Voluntary LTM Attrition (%)        | 16.9           | 16.2           | 15.7           | 15.2           | 15.5           | 16.3           | 17.1           |
| Utilisation Excluding Trainees (%) | 85.7           | 86.0           | 86.0           | 85.8           | 85.9           | 85.5           | 86.7           |

Source: Company, HDFC sec Inst Research

### Key Assumptions

| Particulars                           | FY15        | FY16        | FY17        | FY18        | FY19E       | FY20E       | FY21E       |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Software Services USD Rev. Growth (%) | 9.1         | 4.8         | 6.4         | 16.9        | 8.5         | 8.9         | 8.0         |
| IMS USD Rev. Growth (%)               | 16.6        | 10.3        | 25.0        | 6.9         | 4.2         | 11.2        | 10.6        |
| BPO USD Rev. Growth (%)               | 27.5        | 13.0        | (14.8)      | 2.7         | 55.4        | 9.6         | 10.6        |
| <b>Total USD Revenue Growth (%)</b>   | <b>12.4</b> | <b>7.1</b>  | <b>11.9</b> | <b>12.4</b> | <b>8.6</b>  | <b>9.8</b>  | <b>9.1</b>  |
| USD/INR Rate                          | 61.5        | 65.6        | 67.0        | 64.5        | 70.6        | 72.0        | 72.0        |
| EBIT Margin (%)                       | <b>23.3</b> | <b>20.1</b> | <b>20.3</b> | <b>19.8</b> | <b>20.1</b> | <b>20.0</b> | <b>20.0</b> |

Source: Company, HDFC sec Inst Research

### Change In Estimates

| Particulars      | Earlier estimates | Revised estimates | % change |
|------------------|-------------------|-------------------|----------|
|                  | FY19E             |                   |          |
| Revenue (USD mn) | 8,537             | 8,513             | (0.3)    |
| Revenue (Rs bn)  | 601.33            | 601.29            | (0.0)    |
| EBIT (Rs bn)     | 120.91            | 120.88            | (0.0)    |
| EBIT margin (%)  | 20.1              | 20.1              |          |
| EPS (Rs)         | 75.0              | 74.8              | (0.2)    |
|                  | FY20E             |                   |          |
|                  |                   |                   |          |
| Revenue (USD mn) | 9,410             | 9,344             | (0.7)    |
| Revenue (Rs bn)  | 677.55            | 672.79            | (0.7)    |
| EBIT (Rs bn)     | 139.45            | 134.56            | (3.5)    |
| EBIT margin (%)  | 20.6              | 20.0              | (58)bps  |
| EPS (Rs)         | 84.1              | 80.2              | (4.6)    |

### Peer Set Comparison

| Company         | Mcap<br>(Rs bn) | CMP<br>(Rs) | Reco.      | TP<br>(Rs)   | EPS (Rs)    |             |             |             | P/E (x)     |             |             |             | RoE (%)     |             |             |             |
|-----------------|-----------------|-------------|------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                 |                 |             |            |              | FY17        | FY18        | FY19E       | FY20E       | FY17        | FY18        | FY19E       | FY20E       | FY17        | FY18        | FY19E       | FY20E       |
| TCS             | 6,920           | 1,844       | BUY        | 2,400        | 70.1        | 68.8        | 85.9        | 95.2        | 26.3        | 26.8        | 21.5        | 19.4        | 33.4        | 30.1        | 37.6        | 39.8        |
| Infosys         | 2,861           | 658         | BUY        | 800          | 33.0        | 33.9        | 38.0        | 42.0        | 19.9        | 19.4        | 17.3        | 15.7        | 22.0        | 24.5        | 24.6        | 25.9        |
| Wipro           | 1,398           | 309         | NEU        | 300          | 18.8        | 17.7        | 20.3        | 22.2        | 16.5        | 17.5        | 15.3        | 13.9        | 16.4        | 16.5        | 17.5        | 17.5        |
| <b>HCL Tech</b> | <b>1,325</b>    | <b>952</b>  | <b>BUY</b> | <b>1,260</b> | <b>60.1</b> | <b>64.8</b> | <b>74.8</b> | <b>80.2</b> | <b>15.8</b> | <b>14.7</b> | <b>12.7</b> | <b>11.9</b> | <b>27.0</b> | <b>25.3</b> | <b>26.5</b> | <b>25.3</b> |
| TechM           | 595             | 668         | BUY        | 800          | 31.6        | 42.7        | 47.4        | 52.9        | 21.1        | 15.7        | 14.1        | 12.6        | 18.1        | 21.5        | 20.9        | 20.5        |

Source: HDFC sec Inst Research

## Consolidated Income Statement

| YE March (Rs bn)             | FY17          | FY18          | FY19E         | FY20E         | FY21E         |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net Revenues (USD mn)</b> | <b>6,975</b>  | <b>7,838</b>  | <b>8,513</b>  | <b>9,344</b>  | <b>10,195</b> |
| <b>Growth (%)</b>            | <b>11.9</b>   | <b>12.4</b>   | <b>8.6</b>    | <b>9.8</b>    | <b>9.1</b>    |
| <b>Net Sales</b>             | <b>467.23</b> | <b>505.70</b> | <b>601.29</b> | <b>672.79</b> | <b>734.01</b> |
| <b>Growth (%)</b>            | <b>14.2</b>   | <b>8.2</b>    | <b>18.9</b>   | <b>11.9</b>   | <b>9.1</b>    |
| Cost of Revenue              | 308.90        | 332.37        | 391.04        | 438.58        | 481.10        |
| SG&A Expenses                | 55.24         | 58.93         | 69.29         | 78.04         | 83.68         |
| <b>EBITDA</b>                | <b>103.09</b> | <b>114.40</b> | <b>140.96</b> | <b>156.16</b> | <b>169.24</b> |
| <b>EBITDA (%)</b>            | <b>22.1</b>   | <b>22.6</b>   | <b>23.4</b>   | <b>23.2</b>   | <b>23.1</b>   |
| <b>EBITDA Growth (%)</b>     | <b>17.2</b>   | <b>11.0</b>   | <b>23.2</b>   | <b>10.8</b>   | <b>8.4</b>    |
| Depreciation                 | 8.35          | 14.52         | 20.08         | 21.60         | 22.42         |
| <b>EBIT</b>                  | <b>94.74</b>  | <b>99.88</b>  | <b>120.88</b> | <b>134.56</b> | <b>146.82</b> |
| Other Income                 | 10.24         | 11.78         | 9.16          | 5.96          | 6.59          |
| Interest                     | 0.89          | 0.69          | 0.93          | 1.11          | 1.30          |
| <b>PBT</b>                   | <b>104.09</b> | <b>110.97</b> | <b>129.12</b> | <b>139.41</b> | <b>152.11</b> |
| Tax (incl deferred)          | 19.52         | 23.17         | 27.67         | 30.67         | 33.46         |
| <b>RPAT</b>                  | <b>84.57</b>  | <b>87.80</b>  | <b>101.45</b> | <b>108.74</b> | <b>118.65</b> |
| <b>APAT</b>                  | <b>81.54</b>  | <b>87.80</b>  | <b>101.45</b> | <b>108.74</b> | <b>118.65</b> |
| <b>APAT Growth (%)</b>       | <b>10.9</b>   | <b>7.7</b>    | <b>15.5</b>   | <b>7.2</b>    | <b>9.1</b>    |
| <b>AEPS (Rs)</b>             | <b>60.1</b>   | <b>64.8</b>   | <b>74.8</b>   | <b>80.2</b>   | <b>87.5</b>   |
| <b>EPS Growth (%)</b>        | <b>10.9</b>   | <b>7.7</b>    | <b>15.5</b>   | <b>7.2</b>    | <b>9.1</b>    |

Source: Company, HDFC sec Inst Research

## Consolidated Balance Sheet

| YE March (Rs bn)                    | FY17          | FY18          | FY19E         | FY20E         | FY21E         |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>SOURCES OF FUNDS</b>             |               |               |               |               |               |
| Share Capital - Equity              | 2.85          | 2.78          | 2.71          | 2.71          | 2.71          |
| Reserves                            | 326.64        | 361.08        | 398.16        | 454.83        | 521.41        |
| <b>Total Shareholders' Funds</b>    | <b>329.50</b> | <b>363.86</b> | <b>400.87</b> | <b>457.54</b> | <b>524.12</b> |
| <b>Total Debt</b>                   | <b>4.45</b>   | <b>3.80</b>   | <b>8.11</b>   | <b>9.08</b>   | <b>9.90</b>   |
| Long-term Provisions & Others (Net) | (5.57)        | (6.45)        | (5.07)        | (3.47)        | (2.07)        |
| <b>TOTAL SOURCES OF FUNDS</b>       | <b>328.38</b> | <b>361.21</b> | <b>403.91</b> | <b>463.14</b> | <b>531.96</b> |
| <b>APPLICATION OF FUNDS</b>         |               |               |               |               |               |
| Net Block                           | 39.98         | 44.37         | 51.81         | 59.76         | 69.57         |
| CWIP                                | 4.48          | 5.55          | 6.51          | 7.44          | 8.54          |
| Goodwill & Other Intangible Assets  | 112.38        | 144.44        | 169.60        | 193.35        | 220.96        |
| Investments                         | 1.60          | 3.03          | 3.03          | 3.03          | 3.03          |
| LT Loans & Advances, Others         | 18.04         | 22.52         | 26.74         | 29.98         | 32.89         |
| <b>Total Non Current Assets</b>     | <b>176.48</b> | <b>219.92</b> | <b>257.69</b> | <b>293.57</b> | <b>335.00</b> |
| Debtors                             | 83.01         | 96.39         | 114.61        | 130.87        | 144.79        |
| Cash & Equivalents                  | 101.90        | 60.11         | 47.29         | 57.12         | 71.23         |
| Other Current Assets                | 79.79         | 85.44         | 101.57        | 114.58        | 125.73        |
| <b>Total Current Assets</b>         | <b>264.70</b> | <b>241.94</b> | <b>263.47</b> | <b>302.57</b> | <b>341.75</b> |
| Creditors                           | 8.01          | 9.18          | 10.80         | 12.12         | 13.25         |
| Other Current Liabilities & Provns  | 104.79        | 91.47         | 106.45        | 120.88        | 131.55        |
| <b>Total Current Liabilities</b>    | <b>112.80</b> | <b>100.65</b> | <b>117.25</b> | <b>133.00</b> | <b>144.80</b> |
| <b>Net Current Assets</b>           | <b>151.90</b> | <b>141.29</b> | <b>146.22</b> | <b>169.58</b> | <b>196.95</b> |
| <b>TOTAL APPLICATION OF FUNDS</b>   | <b>328.38</b> | <b>361.21</b> | <b>403.91</b> | <b>463.14</b> | <b>531.96</b> |

Source: Company, HDFC sec Inst Research



## Consolidated Cash Flow

| YE March (Rs bn)                 | FY17           | FY18           | FY19E          | FY20E          | FY21E          |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Reported PBT                     | 104.09         | 110.97         | 129.12         | 139.41         | 152.11         |
| Non-operating & EO items         | 2.20           | (3.54)         | 0.45           | 0.90           | 0.81           |
| Interest expenses                | 0.89           | 0.69           | 0.93           | 1.11           | 1.30           |
| Depreciation                     | 8.35           | 14.52          | 20.08          | 21.60          | 22.42          |
| Working Capital Change           | 4.96           | (31.17)        | (17.75)        | (13.53)        | (13.26)        |
| Tax paid                         | (19.52)        | (23.17)        | (27.67)        | (30.67)        | (33.46)        |
| <b>OPERATING CASH FLOW ( a )</b> | <b>100.97</b>  | <b>68.30</b>   | <b>105.15</b>  | <b>118.82</b>  | <b>129.91</b>  |
| Capex                            | (58.52)        | (58.36)        | (42.67)        | (40.30)        | (46.85)        |
| <i>Free cash flow (FCF)</i>      | <i>42.45</i>   | <i>9.94</i>    | <i>62.47</i>   | <i>78.52</i>   | <i>83.06</i>   |
| Investments                      | (0.83)         | 0.41           | (15.18)        | (17.18)        | (17.01)        |
| <b>INVESTING CASH FLOW ( b )</b> | <b>(59.35)</b> | <b>(57.96)</b> | <b>(57.85)</b> | <b>(57.48)</b> | <b>(63.85)</b> |
| Debt Issuance                    | (5.07)         | (0.65)         | 4.31           | 0.96           | 0.83           |
| Interest expenses                | (0.89)         | (0.69)         | (0.93)         | (1.11)         | (1.30)         |
| <i>FCFE</i>                      | <i>36.49</i>   | <i>8.60</i>    | <i>65.86</i>   | <i>78.38</i>   | <i>82.59</i>   |
| Share capital Issuance           | 0.03           | (0.07)         | (0.07)         | -              | -              |
| Dividend/ Buyback                | (41.10)        | (55.05)        | (64.41)        | (52.07)        | (52.07)        |
| <b>FINANCING CASH FLOW ( c )</b> | <b>(47.03)</b> | <b>(56.46)</b> | <b>(61.09)</b> | <b>(52.21)</b> | <b>(52.54)</b> |
| <b>NET CASH FLOW (a+b+c)</b>     | <b>(5.40)</b>  | <b>(46.12)</b> | <b>(13.79)</b> | <b>9.13</b>    | <b>13.52</b>   |
| Closing Cash & Equivalents       | 101.90         | 60.11          | 47.29          | 57.12          | 71.23          |

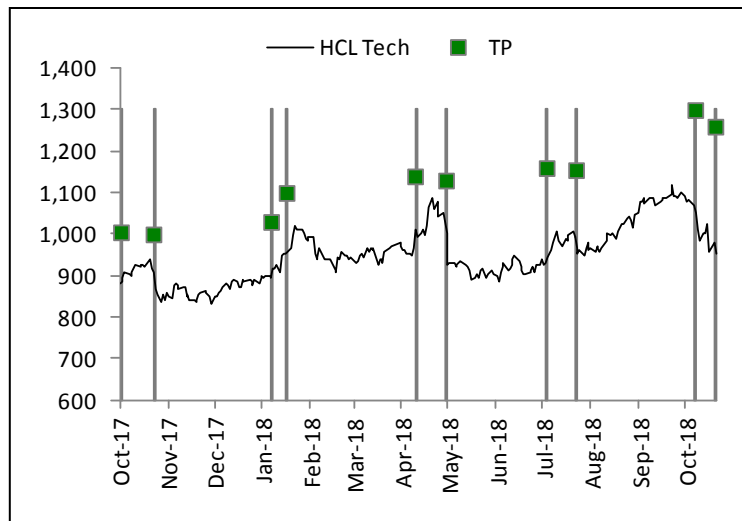
Source: Company, HDFC sec Inst Research

## Key Ratios

|                                  | FY17  | FY18  | FY19E | FY20E | FY21E |
|----------------------------------|-------|-------|-------|-------|-------|
| <b>PROFITABILITY (%)</b>         |       |       |       |       |       |
| EBITDA Margin                    | 22.1  | 22.6  | 23.4  | 23.2  | 23.1  |
| APAT Margin                      | 17.5  | 17.4  | 16.9  | 16.2  | 16.2  |
| RoE                              | 27.0  | 25.3  | 26.5  | 25.3  | 24.2  |
| RoIC or Core RoCE                | 37.8  | 30.0  | 28.9  | 27.5  | 26.4  |
| RoCE                             | 26.9  | 25.5  | 26.6  | 25.1  | 23.9  |
| <b>EFFICIENCY</b>                |       |       |       |       |       |
| Tax Rate (%)                     | 18.8  | 20.9  | 21.4  | 22.0  | 22.0  |
| Fixed Asset Turnover (x)         | 6.0   | 6.0   | 6.1   | 5.9   | 5.7   |
| Debtors (days)                   | 65    | 70    | 70    | 71    | 72    |
| Other current assets (days)      | 62    | 62    | 62    | 62    | 63    |
| Payables (days)                  | 6     | 7     | 7     | 7     | 7     |
| Other current liab & prov (days) | 82    | 66    | 65    | 66    | 65    |
| Cash Conversion Cycle (days)     | 41    | 60    | 61    | 62    | 64    |
| Net Debt/EBITDA (x)              | (0.9) | (0.5) | (0.3) | (0.3) | (0.4) |
| Net Debt/Equity (x)              | (0.3) | (0.2) | (0.1) | (0.1) | (0.1) |
| Interest Coverage (x)            | 106.3 | 144.8 | 130.6 | 121.5 | 113.3 |
| <b>PER SHARE DATA</b>            |       |       |       |       |       |
| EPS (Rs/sh)                      | 60.1  | 64.8  | 74.8  | 80.2  | 87.5  |
| CEPS (Rs/sh)                     | 63.0  | 73.5  | 89.6  | 96.1  | 104.0 |
| DPS (Rs/sh)                      | 24.0  | 12.0  | 15.0  | 32.0  | 32.0  |
| BV (Rs/sh)                       | 232.1 | 261.3 | 295.7 | 337.4 | 386.6 |
| <b>VALUATION</b>                 |       |       |       |       |       |
| P/E                              | 15.8  | 14.7  | 12.7  | 11.9  | 10.9  |
| P/BV                             | 4.1   | 3.6   | 3.2   | 2.8   | 2.5   |
| EV/EBITDA                        | 12.1  | 11.2  | 9.2   | 8.3   | 7.6   |
| OCF/EV (%)                       | 8.1   | 5.3   | 8.1   | 9.2   | 10.1  |
| FCF/EV (%)                       | 3.4   | 0.8   | 4.8   | 6.1   | 6.5   |
| FCFE/mkt cap (%)                 | 2.7   | 0.6   | 4.9   | 5.8   | 6.2   |
| Dividend Yield (%)               | 2.5   | 1.3   | 1.6   | 3.4   | 3.4   |

Source: Company, HDFC sec Inst Research

## RECOMMENDATION HISTORY



| Date      | CMP   | Reco | Target |
|-----------|-------|------|--------|
| 4-Oct-17  | 883   | BUY  | 1,005  |
| 26-Oct-17 | 907   | BUY  | 1,000  |
| 10-Jan-18 | 894   | BUY  | 1,030  |
| 19-Jan-18 | 958   | BUY  | 1,100  |
| 12-Apr-18 | 967   | BUY  | 1,140  |
| 2-May-18  | 1,101 | BUY  | 1,130  |
| 6-Jul-18  | 944   | BUY  | 1,160  |
| 28-Jul-18 | 964   | BUY  | 1,155  |
| 10-Oct-18 | 1,050 | BUY  | 1,300  |
| 24-Oct-18 | 952   | BUY  | 1,260  |

### Rating Definitions

**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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