

October 23, 2018

Q2FY19 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	1,255		1,255	
Sales (Rs. m)	594,905	672,142	594,905	672,142
% Chng.				
EBITDA (Rs. m)	139,008	153,018	139,008	153,018
% Chng.				
EPS (Rs.)	74.1	81.9	74.1	81.9
% Chng.				

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. bn)	468	506	595	672
EBITDA (Rs. bn)	103	114	139	153
Margin (%)	22.1	22.6	23.4	22.8
PAT (Rs. bn)	85	88	100	111
EPS (Rs.)	59.4	63.1	74.1	81.9
Gr. (%)	11.6	6.3	17.3	10.6
DPS (Rs.)	23.8	8.2	11.1	12.3
Yield (%)	2.5	0.9	1.2	1.3
RoE (%)	28.1	25.3	26.1	24.6
RoCE (%)	28.1	25.3	26.1	24.6
EV/Sales (x)	2.7	2.5	2.1	1.7
EV/EBITDA (x)	12.2	11.0	8.8	7.4
PE (x)	16.0	15.1	12.8	11.6
P/BV (x)	4.1	3.6	3.2	2.6

Key Data

HCLT.BO | HCLT IN

52-W High / Low	Rs.1,125 / Rs.825
Sensex / Nifty	33,847 / 10,147
Market Cap	Rs.1,325bn/ \$ 18,004m
Shares Outstanding	1,393m
3M Avg. Daily Value	Rs.4656.66m

Shareholding Pattern (%)

Promoter's	60.17
Foreign	28.01
Domestic Institution	8.16
Public & Others	3.66
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(12.3)	(12.5)	1.5
Relative	(4.5)	(11.0)	(2.5)

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Steady Quarter, Valuations remain cheap

■ **2QFY19 Result Snap shot:** HCL Tech 2QFY19 results were steady with beat on USD revenues and PAT. Revenues came at USD2099mn were up 2.1% QoQ and above our estimates (USD2090mn). Constant currency growth for the quarter stood at 3% QoQ (Ple: 3.2%). Organic constant currency revenue growth for the quarter would be ~1.8% and rest owing to Actian acquisition consolidation and revenues from new IP deal signed in 1QFY19. Infosys/TCS delivered 4.2/3.7% constant currency organic revenue growth for 2QFY19 respectively. Hence, HCL Tech's organic growth continued to lag select Tier 1 peers (Infosys/TCS). BFSI vertical revenues were up 0.1% in constant currency and remained weak. This is the second consecutive quarter of weakness in the BFSI vertical and management cited that softness in two European accounts lead to this tepid performance. While TCS/Infosys are showing strong acceleration in BFSI, HCL Tech continues to show tepid performance in BFSI owing to client specific issues. Retail and CPG (up 13% QoQ in constant currency), Public Services (up 5.3% QoQ in constant currency) drove growth on vertical front. IMS (up 2.5% QoQ in constant currency), Engineering and R&D Services (up 6.3% QoQ in constant currency) remained steady on service line front.

■ **Margins inline with estimates:** EBIT margin came at 19.9% up 20bps QoQ and inline our estimates (PLe: 19.9%). Headwinds with wage hikes and seasonal softness in IBM IP business were negated by tailwinds from INR depreciation and gains from productivity. PAT at Rs25.4bn was 4.5% above our estimates. For FY19, HCL Tech retained 9.5%-11.5% constant currency revenue growth. The guidance include inorganic elements and organic constant currency revenue growth guidance would be 4.25-6.25%. HCL Tech has lowered USD revenue growth guidance to 8.2-10.2% for FY19 (vs 8.4-10.4% earlier) owing to cross currency headwind. Management expects to achieve the midpoint of its revenue guidance band (implying ~9% USD revenue growth for FY19). We expect 3Q revenue growth to be aided by IBM seasonality and impact of acquisition of H&D. Hence, HCL Tech could comfortably reach its USD revenue guidance (~9% USD revenue growth)

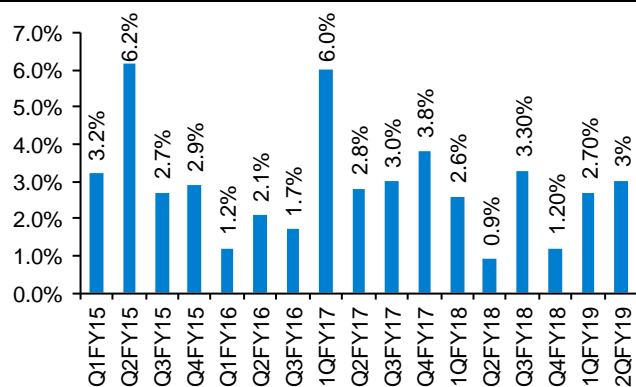
■ **Valuation and View:** Post 2QFY19, we model HCL Tech's USD revenue growth assumptions to 9.1/9.6% for FY19/FY20E (vs8.7/9.5% modeled earlier). We build HCL Tech' organic growth at 4.1% for FY19E and rest is owing to acquisitions (C3I, Actian , H&D, full impact of Urban Fulfillment and IP deal). Hence, FY19 would continue to remain a year of transition for the company. Slowdown in IMS owing to technology shifts has led HCL to explore a slew of inorganic initiatives over the past two and half years. HCL Tech has deployed ~USD1.9bn over the past two years for a slew of acquisitions (Large quantum went for IBM IP deals). Hence, these inorganic initiatives have weighed on medium term FCF trajectory and constraining P/E multiple expansion. However, potential for turnaround in organic growth from 2HFY19 and cheap valuations leads us to retain positive stance. We retain our EPS estimates at Rs74/82/sh for FY19/FY20E. Stock trades at 11.7x FY20E EPS (TCS/ Infosys trading at 19.1/15.6x FY20E EPS. Retain BUY with TP retained at Rs1255/sh (14.5x Sep20E EPS).

Exhibit 1: 2QFY19: Consolidated P&L

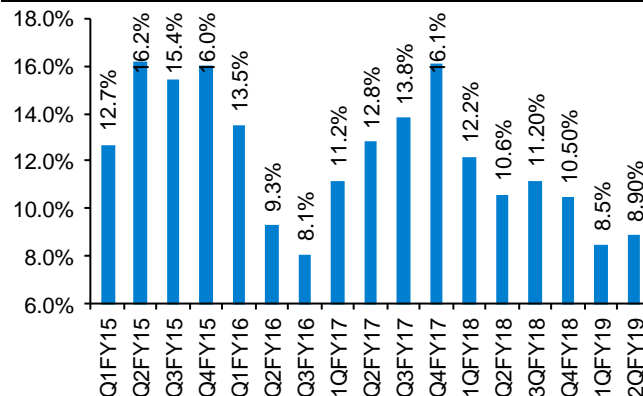
Rs mn	Q2FY19	Q1FY19	QoQ	Q2FY18	YoY	Ple	Variance (Actual vs Est)
Sales (\$ m)	2098.6	2055.0	2.1%	1928.0	8.8%	2090.0	0.4%
Sales	148,610	138,780	7.1%	124,340	19.5%	147,752	0.6%
EBITDA	34,843	32,263	8.0%	27,590	26.3%	34,574	0.8%
EBITDA Margin	23.4%	23.2%		22.2%		22.4%	
PAT	25,253	24,043	5.0%	21,880	15.4%	24,313	3.9%

Source: Company, PL

- Revenues at USD2099mn were up 2.1% QoQ and above our estimates (USD2090mn). Constant Currency growth for the quarter stood at 3% QoQ which is inline with our estimates (Ple : 3.1%).
- HCL indicated that it has signed 17 transformational deals during the quarter lead by strong momentum in Telecom, Financial Services, Retail - CPG and Energy & Utilities verticals.
- For FY19, HCL Tech retained 9.5%-11.5% constant currency revenue growth. The guidance include inorganic elements and organic constant currency revenue growth guidance would be 4.25-6.25% (Inorganic component is full impact of Urban fulfillment acquisition, C3i acquisition, Actian acquisition).
- IMS (up 2.5% QoQ in cc), Engineering Design (up 6.3% QoQ in cc) remained steady on service line front.

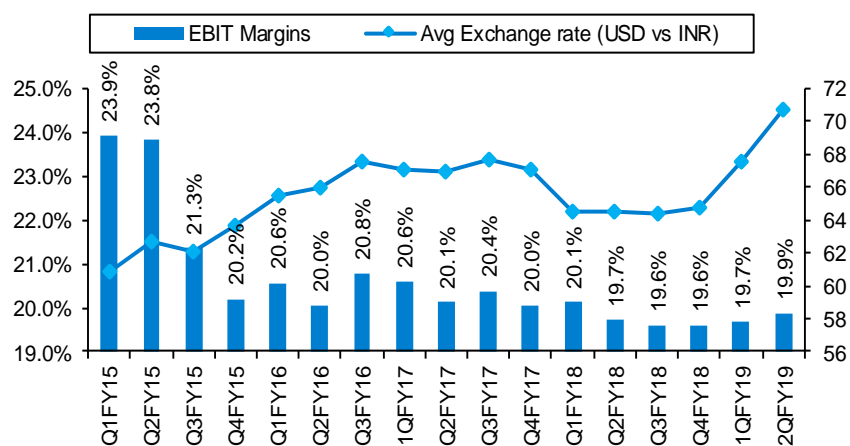
Exhibit 2: Constant Currency Revenue growth QoQ (%)


Source: Company, PL * Includes acquisition

Exhibit 3: Constant Currency Revenue Growth YoY (%)


Source: Company, PL * Includes acquisition

- **Margins inline with expectations:** EBITDA margins at 23.4% for 2QFY19 up 20bps QoQ and above our ests (Our ests :23.2%). EBIT margin which came at 19.9% up 20bps QoQ and inline with our estimates (our ests: 19.9%). HCL Tech retained EBIT margin guidance band of 19.5%-20.5% for FY19. HCL Tech would aim to focus in investing gains from currency tailwinds to scaling Mode 2 and Mode 3 services

Exhibit 4: EBIT Margin vs. Average Exchange Rate


Source: Company, PL

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 2QFY19.. We note higher investments in IP's as well as acquisitions is weighing on free cash flow trajectory. **For 2QFY19, company has also shown moderation in Operating cash flow generation.**

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

Fig in USD mn	14-Jun	15-Jun	9M FY16	FY17	FY18	1QFY19	2QFY19
Net income	1,037	1,164	840	1,262	1360	355.8	356.7
Depreciation and Amortization	119	72	67	125	225.2	73.5	75.0
Others	(30)	(91)	(53)	17	(10)	(29.6)	(20.3)
Changes in assets and liabilities, net	-	-					
Accounts Receivable	(241)	(287)	(166)	(33)	(179)	(34.2)	(56.3)
Other Assets	(10)	(101)	(82)	9	19	(52.6)	(85.3)
Current Liabilities	220	217	27	28	(71)	50	7.8
Net cash provided by operating activities	1,087	974	632	1,407	1345.1	362.9	277.6
Purchase of Property and Equipment (net)	(118)	(195)	(139)	(197)	(203)	(65.2)	(62.1)
Payment for acquisitions			(178)	(459)	(646)	(96.3)	(65.1)
Free Cash Flow (Post acquisitions)	969	780	315	751	496	201	150
OCF/EBIDTA (%)	77	69.7	61.5	91.4	76.0	76.0	56.0
FCF/EBIDTA (%)	68.7	55.8	48	42.4	28.0	42.1	30.5

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	2QFY19
Mode 1	5678	6004	1507	1512
Mode 2	893	1152	321	336
Mode 3	405	682	227	251

Source: Company, PL

Exhibit 7: As a percentage of total revenues

	FY17	FY18	1QFY19	2QFY19
Mode 1	81.4%	76.6%	73.3%	72.0%
Mode 2	12.8%	14.7%	15.6%	16.0%
Mode 3	5.8%	8.7%	11.0%	12.0%

Source: Company, PL

Exhibit 8: EBIT margins of each SBU's

EBIT margins (%)	1QFY19	2QFY19
Mode 1	19.9%	21.2%
Mode 2	14.8%	10.8%
Mode 3	25.2%	24.4%

Source: Company, PL

Intangible Asset on Balance sheet owing to Licensed IP

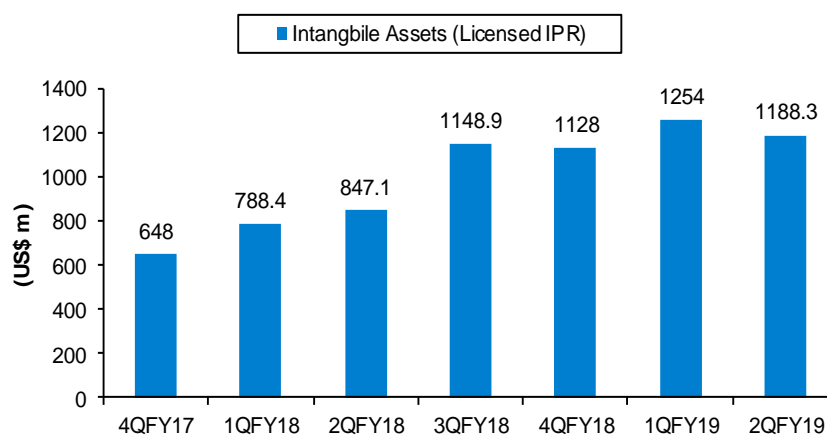
A slew of investments in IBM IP partnerships over the past eight quarters have enabled HCL Tech expand its portfolio in the non-linear opportunities. This has also led to steady increase in Intangible assets on the balance sheet. As on 2QFY19, Licensed IPR (Intangible asset) stood at USD1188mn. We also present the schedule of amortization of the intangible asset. **We note that 56% of the amortization schedule of the intangible asset is beyond 2023.**

Exhibit 9: 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 10: Licensed IP (Gross) in USD mn



Source: Company, PL

Exhibit 11: Amortization Schedule (USD mn)

Year	New Amortization (Post 2QFY19)
2019	69.9
2020	125.4
2021	120.4
2022	114.4
2023	105.2
Beyond 2023	693.4

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 12: 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	107,372	120,132
Capex + Acquisitions	(6,301)	(7,101)	(12,380)	(20,999)	(42,568)	(55,375)	(55,000)	(17,000)
Free cash flows	43,242	58,308	49,622	20,869	48,715	32,292	52,372	103,132

Source: Company, PL

Key Metrics:

Exhibit 13: Geography Mix (%)

% Of revenues	2QFY16	3QFY16	1QFY17	2QFY17	3QFY17	4QFY17	4QFY18	1QFY19	2QFY19
America	61.0	62.5	59.9	61.9	61.9	62.6	61.6	64.5	65.8
Europe	29.9	28.4	31.4	29.3	29.6	27.7	30.0	28.1	26.8
Asia Pacific	9.1	9.1	8.7	8.8	8.5	9.7	8.5	7.5	7.4

Source: Company, PL

Exhibit 14: Geography-wise revenues and growth (QoQ & YoY)

USD mn	Q2FY19	Q1FY19	QoQ	Q2FY18	YoY
America	1380.9	1325.5	4.2%	1203.1	14.8%
Europe	562.4	577.5	-2.6%	561.0	0.2%
Asia Pacific	155.3	154.1	0.8%	163.9	-5.2%

Source: Company, PL

Exhibit 15: Vertical Mix (%)

% of revenues	3QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Financial Services	25.0	23.6	24.1	24.3	24.2	24.9	25.0	24.6	25.0	23.8	23.0
Manufacturing	31.4	33.2	32.2	33.9	34.6	34.9	35.4	36.5	36.0	36.5	36.2
Life science and Healthcare	12.8	11.9	12.6	12.0	11.5	11.8	11.7	11.7	11.5	12.8	12.9
Public services	11.1	11.7	10.9	11.2	11.7	11.1	10.6	10.2	10.6	10.5	10.7
Retail and CPG	9.2	10.0	10.4	9.4	9.2	9.5	9.3	9.6	9.6	9.1	10.0
Telecommunication, Media, Publishing Entertainment	9.9	9.1	9.4	8.9	8.4	7.9	7.9	7.4	7.4	7.3	7.2
Others	0.5	0.5	0.4	0.4	0.3	NA	NA	NA	NA	NA	NA

Source: Company, PL

Exhibit 16: Service Mix (%)

% of revenues	3QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Engineering and R&D services	18.7	17.7	17.8	18.6	20.5	21.5	22.0	24.2	24.1	24.5	25.5
Custom Application Development	39.9	38.3	37.8	37.5	36.8	36.3	35.9	35.3	34.7	34.0	33.1
Infrastructure services	36.2	39.8	40.3	39.8	38.8	38.6	38.5	36.7	37.3	36.2	36.0
BPO services	5.2	4.1	4.1	4.0	3.9	3.6	3.6	3.7	3.9	5.2	5.4

Source: Company, PL

Exhibit 17: Revenue growth across verticals in CC (QoQ & YoY)

Verticals	QoQ	YoY
Financial Services	0.1%	2.3%
Manufacturing	1.7%	-3.9%
Technology & Services	2.2%	36.3%
Retail & CPG	13.0%	19.2%
Telecommunications, Media, Publishing & Entertainment	1.1%	-0.8%
Lifesciences & Healthcare	3.2%	19.8%
Public Services	5.3%	13.3%

Source: Company, PL

Exhibit 18: Service-wise Revenues and growth (QoQ & YoY)

USD mn	Q2FY19	Q1FY19	QoQ	Q2FY18	YoY
Engineering and R&D services	535.1	503.5	6.3%	424.2	26.2%
Custom Application Development	694.6	698.7	-0.6%	692.2	0.4%
Infrastructure services	755.5	743.9	1.6%	743.1	1.7%
BPO services	113.3	106.9	6.0%	69.4	63.3%

Source: Company, PL

Exhibit 19: Client Concentration

Client Concentration	3QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Top 5 clients	13.6	13.9	13.8	14.2	14.7	14.4	15.1	15.8	16.3	17.0	17.3
Top 10 clients	21.8	21.8	21.6	21.7	22.1	22.4	22.9	23.5	23.8	24.6	24.8
Top 20 clients	32.2	31.7	31.8	31.9	32.9	33.0	33.2	33.5	33.7	34.2	34.2

Source: Company, PL

Exhibit 20: Headcount Details

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Total employee count	107,968	109,795	111,092	115,973	117,781	119,040	119,291	120,281	124,121	127,875
% Growth	2.9%	1.7%	1.2%	4.4%	1.6%	1.1%	0.2%	0.8%	3.2%	3.0%
Gross additions	10,515	9,083	8,467	10,605	9,462	8,645	7,113	8,476	12,558	11,683
Net additions	3,072	1,827	1,297	4,881	1,808	1,259	251	990	3,840	3,754
Employees Leaving	7,443	7,256	7,170	5,724	7,654	7,386	6,862	7,486	8,718	7,929
Quarterly Annualized Attrition	17.8%	18.6%	17.9%	16.9%	16.2%	15.7%	15.2%	15.5%	16.3%	17.1%

Source: Company, PL

Exhibit 21: Consolidated Model of HCL Tech

	Jun-14	Jun-15	FY16	FY17	FY18P	FY19E	FY20E	FY21E
Revenues- USD mn	5,360	5,952	6,236	6,975	7,838	8,550	9,374	10,334
Growth (%)	14.4%	11.1%	7.1%	11.9%	12.4%	9.1%	9.6%	10.2%
Average exchange rate (USD vs INR)	61.5	62.3	66.5	67.2	64.5	69.8	72.0	70.0
Consolidated revenues (Rs mn)	329,440	370,880	416,521	468,365	505,676	596,801	674,948	723,394
Growth (%)	28.1%	12.6%	12%	49.9%	8.0%	18.0%	13.1%	7.2%
EBITDA (Rs mn)	86,733	86,984	91,114	103,330	114,375	139,544	153,657	165,754
EBIT (Rs mn)	79,407	82,485	85,164	94,957	99,845	118,438	132,408	144,052
PAT (Rs mn)	63,751	72,490	75,766	84,750	87,754	100,865	111,422	123,827
EBITDA Margins (%)	26.3%	23.5%	21.9%	22.1%	22.6%	23.4%	22.8%	22.9%
EBIT Margins (%)	24.1%	22.2%	20.4%	20.3%	19.7%	19.8%	19.6%	19.9%
NPM (%)	19.4%	19.5%	18.2%	18.1%	17.4%	16.9%	16.5%	17.1%
EPS	45.1	51.4	53.7	59.9	63.0	74.3	82.1	91.3
Growth (%)	55.3%	13.9%	4.5%	11.7%	5.1%	18.0%	10.5%	11.1%
P/E	21.09	18.5	17.7	15.9	15.1	12.8	11.6	10.4
EV/EBITDA	14.3	14.1	13.5	11.8	10.7	8.7	7.3	7.8
Consolidated balance sheet (Rs mn)								
Net cash on balance sheet (Rs mn)	99,998	117,890	118,524	126,818	102,735	68,186	158,319	261,849
Net cash per share	66.2	80.6	77.1	85.9	70.7	47.5	114.0	190.3
Net cash per share/ Stock price	6.9%	8.4%	8.0%	8.9%	7.3%	5.0%	12.0%	20.0%
Consolidated cash flows (Rs mn)								
Cash flow from operations	65,409	62,001	41,868	91,283	87,667	108,142	119,116	130,693
Capex + Acquisitions	(7,101)	(12,380)	(20,999)	(42,568)	(55,375)	(55,000)	(14,000)	(14,000)
Free cash flows	58,308	49,622	20,869	48,715	32,292	53,142	105,116	116,693

Source: x, Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	468,365	505,676	594,905	672,142
YoY gr. (%)	49.9	8.0	17.6	13.0
Employee Cost	309,662	332,362	387,543	440,182
Gross Profit	158,702	173,314	207,362	231,960
Margin (%)	33.9	34.3	34.9	34.5
SG&A Expenses	55,372	58,939	68,354	78,941
Other Expenses	-	-	-	-
EBITDA	103,330	114,375	139,008	153,018
YoY gr. (%)	51.2	10.7	21.5	10.1
Margin (%)	22.1	22.6	23.4	22.8
Depreciation and Amortization	8,374	14,530	20,166	21,160
EBIT	94,957	99,845	118,842	131,858
Margin (%)	20.3	19.7	20.0	19.6
Net Interest	-	-	-	-
Other Income	9,367	11,085	9,269	10,440
Profit Before Tax	104,324	110,929	128,111	142,298
Margin (%)	22.3	21.9	21.5	21.2
Total Tax	19,574	23,176	27,736	31,306
Effective tax rate (%)	18.8	20.9	21.6	22.0
Profit after tax	84,750	87,754	100,375	110,992
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	84,750	87,754	100,375	110,992
YoY gr. (%)	49.1	3.5	14.4	10.6
Margin (%)	18.1	17.4	16.9	16.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	84,750	87,754	100,375	110,992
YoY gr. (%)	49.1	3.5	14.4	10.6
Margin (%)	18.1	17.4	16.9	16.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	84,750	87,754	100,375	110,992
Equity Shares O/s (m)	1,427	1,390	1,355	1,355
EPS (Rs)	59.4	63.1	74.1	81.9

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	82,346	103,506
Tangibles	37,668	46,348	58,388	72,073
Intangibles	9,983	15,833	23,958	31,433
Net fixed assets	87,316	119,540	154,374	147,214
Tangibles	39,983	45,600	44,559	33,674
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	113,399	128,121
Cash & Bank Balance	90,438	40,180	40,321	130,000
Other Current Assets	17,680	15,060	16,060	17,060
Total Assets	457,694	480,230	536,184	639,124
Equity				
Equity Share Capital	2,854	2,780	2,710	2,710
Other Equity	326,645	361,080	403,328	494,275
Total Network	329,499	363,860	406,038	496,985
Non-Current Liabilities				
Long Term borrowings	3,826	3,380	3,380	3,380
Provisions	6,961	7,000	7,000	7,000
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	621	420	420	420
Trade payables	8,006	9,180	10,800	12,202
Other current liabilities	104,790	91,470	103,627	114,217
Total Equity & Liabilities	457,694	480,230	536,184	639,124

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	105,428	110,929	128,111	142,298
Add. Depreciation	8,281	14,530	20,166	21,160
Add. Interest	185	-	-	-
Add. Other	(7,080)	(5,697)	(5,696)	(5,040)
Op. profit before WC changes	106,814	119,762	142,581	158,418
Net Changes-WC	3,207	4,078	(7,202)	(8,429)
Direct tax	(20,070)	(23,176)	(27,736)	(31,306)
Net cash from Op. activities	89,951	100,664	107,644	118,684
Capital expenditures	(16,558)	(55,375)	(55,000)	(14,000)
Interest / Dividend Income	8,539	5,697	5,696	5,040
Others	(30,148)	-	-	-
Net Cash from Inv. activities	(38,166)	(49,678)	(49,304)	(8,960)
Issue of share cap. / premium	2	(35,000)	(40,000)	-
Debt changes	(3,959)	(446)	-	-
Dividend paid	(40,678)	(13,735)	(18,128)	(20,045)
Interest paid	(185)	-	-	-
Others	(510)	-	-	-
Net cash from Fin. activities	(45,331)	(49,182)	(58,128)	(20,045)
Net change in cash	6,455	1,805	211	89,678
Free Cash Flow	77,167	45,289	52,644	104,684

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	59.4	63.1	74.1	81.9
CEPS	65.3	73.6	89.0	97.5
BVPS	230.9	261.8	299.7	366.8
FCF	54.1	32.6	38.9	77.3
DPS	23.8	8.2	11.1	12.3
Return Ratio(%)				
RoCE	28.1	25.3	26.1	24.6
ROIC	37.3	29.7	28.8	29.7
RoE	28.1	25.3	26.1	24.6
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.1)	(0.3)
Debtor (Days)	65	70	70	70
Valuation(x)				
PER	16.0	15.1	12.8	11.6
P/B	4.1	3.6	3.2	2.6
P/CEPS	56.9	64.2	77.6	85.0
EV/EBITDA	12.2	11.0	8.8	7.4
EV/Sales	2.7	2.5	2.1	1.7
Dividend Yield (%)	2.5	0.9	1.2	1.3

Source: Company Data, PL Research

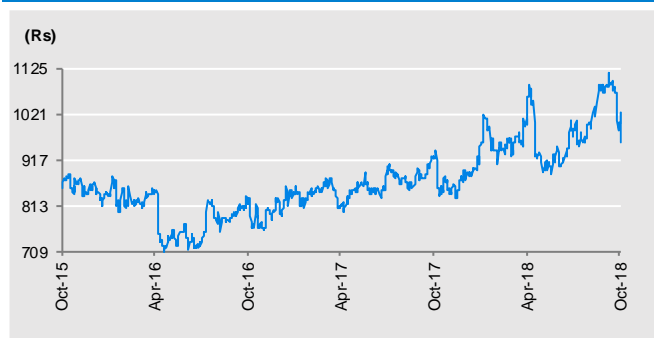
Quarterly Financials (Rs m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Net Revenue	128,080	131,790	138,780	147,752
YoY gr. (%)	8.4	9.3	14.2	18.8
Employee Expenses	84,120	85,600	91,060	96,039
Gross Profit	43,960	46,190	47,720	51,713
Margin (%)	34.3	35.0	34.4	35.0
EBITDA	29,640	30,360	32,260	34,574
YoY gr. (%)	7.4	2.4	6.3	7.2
Margin (%)	23.1	23.0	23.2	23.4
Depreciation / Depletion	4,550	4,530	4,960	5,171
EBIT	25,090	25,830	27,300	29,403
Margin (%)	19.6	19.6	19.7	19.9
Net Interest	-	-	-	-
Other Income	2,640	2,800	2,960	1,768
Profit before Tax	27,730	28,630	30,260	31,170
Margin (%)	21.7	21.7	21.8	21.1
Total Tax	5,790	6,340	6,220	6,857
Effective tax rate (%)	20.9	22.1	20.6	22.0
Profit after Tax	21,940	22,290	24,040	24,313
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	21,940	22,290	24,040	24,313
YoY gr. (%)	5.9	(4.3)	10.7	11.1
Margin (%)	17.1	16.9	17.3	16.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	21,940	22,290	24,040	24,313
YoY gr. (%)	5.9	(4.3)	10.7	11.1
Margin (%)	17.1	16.9	17.3	16.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	21,940	22,290	24,040	24,313
Avg. Shares O/s (m)	1,395	1,393	1,393	1,357
EPS (Rs)	15.7	16.0	17.3	17.9

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	25-Oct-17	BUY	970	907
2	10-Jan-18	BUY	970	896
3	20-Jan-18	BUY	1,020	958
4	13-Apr-18	BUY	1,020	991
5	2-May-18	Accumulate	1,100	1,001
6	21-Jun-18	Accumulate	1,100	904
7	10-Jul-18	BUY	1,100	938
8	28-Jul-18	BUY	1,100	963
9	5-Oct-18	BUY	1,255	1,077

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	BUY	810	669
2	HCL Technologies	BUY	1,255	1,077
3	Hexaware Technologies	Hold	475	409
4	Infosys	BUY	790	695
5	L&T Technology Services	Accumulate	1,780	1,651
6	Mindtree	BUY	1,140	978
7	Mphasis	Accumulate	1,220	1,068
8	NIIT Technologies	BUY	1,460	1,192
9	Persistent Systems	Accumulate	725	560
10	Redington (India)	BUY	140	92
11	Sonata Software	BUY	420	330
12	Tata Consultancy Services	Accumulate	2,300	1,980
13	TeamLease Services	Hold	2,740	2,219
14	Tech Mahindra	BUY	885	721
15	Wipro	Hold	350	325
16	Zensar Technologies	BUY	330	297

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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