

HCL Technologies (HCLTEC)

₹ 978

Healthy performance...

- HCL Tech reported good set of Q2FY19 numbers. The company reported healthy revenue growth mainly led by better performance in North America (geographically). Among verticals, retail & CPG (13% QoQ) and lifesciences & healthcare (3.2% QoQ) led the growth. The company has maintained its revenue guidance of 9.5-11.5% in constant currency and margin guidance of 19.5-20.5% for FY19E.
- US\$ revenues grew 2.1% QoQ to \$2,099 million (above our estimate of 1.3% growth).
- At 20.0%, EBIT margins increased 30 bps QoQ (vs our 19.5% estimate). Factors that played out in margin expansion were rupee depreciation (+90 bps), productivity in terms of increase in utilization and automation (+80 bps) offset by partial wage hike (-70 bps), SG&A (-50 bps) and seasonality (-30 bps).

Improving growth in IMS and large deal wins to drive growth...

HCL Tech reported revenue growth of 3% in constant currency terms with Actian acquisition consolidation supporting growth by 1% QoQ. Infrastructure services (36% of revenues) which has been a pressure point for the company grew 2.5% sequentially and expects it to perform better in H2FY19E than H1FY19. We expect Q3FY19E to be a strong quarter on the back of consolidation of acquisition of H&D International Group, strong seasonality in products & platforms & IP business and ramp up of deals. For FY19E, HCL Tech has maintained its revenue growth guidance of 9.5-11.5% in constant currency translating to 8.2%-10.2% in USD terms based on Sep 30, 2018 rates. This coupled with strong deal wins (44 transformational deals in H1FY19 vs 28 in H1FY18) and recovery in IMS (led by reduced legacy portfolio compression and lower renewals beyond FY19E) bodes well for revenue growth. Hence, we expect US\$ revenues to grow at a CAGR of 9.2% to US\$9351 million in FY18-20E.

Mode 2 & 3 revenue up-tick would enhance profitability...

Company describes its next gen and digital services through mode 1-2-3 strategy and expects it to drive efficiency in core business and expand to next-generation services. Mode 2 and Mode 3 which are into newer age technologies like Digital, Cloud, Security and IoT along with products and platforms together constituted 27.9% of revenues. Revenues from mode 2 grew 5.3% while mode 3 grew 10.4% QoQ. The management indicated that it is on track to increase its Mode 2 & 3 contribution to 40% of revenues over the next 2-3 years, which we believe would prove to be beneficial for HCL in terms of future deal wins and profitability.

Margin guidance band maintained for FY19E...

On the margin outlook for FY19E, the management retained its margin band at 19.5-20.5%. Taking into consideration H1FY19 margin performance and strong Q3 despite partial wage hike impact (~70 bps), we upgrade our EBIT margin estimates to 20% each in FY19E, FY20E.

Improving growth trajectory key positive; recommend BUY...

HCL Tech reported good set of numbers. We believe, healthy outlook for IMS (36% of revenues), deal signings and growth momentum in mode 2 and 3 are expected to bode well for the growth. In addition, HCL has lower onsite risk as 65% of its workforce in US is locals. Moreover, it is trading at an attractive valuation (12x FY20E EPS) and discount to its peers. Hence, revise our recommendation on the stock to **BUY** with a revised target price of ₹ 1090 (~14x FY20E EPS).

Rating matrix		
Rating	:	Buy
Target	:	₹ 1090
Target Period	:	12 months
Potential Upside	:	11%

What's Changed?	
Target	Changed from ₹ 1050 to ₹ 1090
EPS FY19E	Changed from ₹ 68.1 to ₹ 74.7
EPS FY20E	Changed from ₹ 75.1 to ₹ 80.5
Rating	Changed from Hold to Buy

Quarterly Performance					
	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	14,861	12,434	19.5	13,878	7.1
EBIT	2,966	2,451	21.0	2,730	8.6
EBIT (%)	20.0	19.7	25 bps	19.7	29 bps
PAT	2,540	2,188	16.1	2,403	5.7

Key Financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	46,723	50,570	60,648	66,856
EBITDA	9,474	9,987	12,130	13,371
Net Profit	8,457	8,780	10,131	10,909
EPS (₹)	60.0	62.6	74.7	80.5

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	16.3	15.6	13.1	12.2
Target P/E	18.2	17.4	14.6	13.5
EV / EBITDA	13.2	11.8	9.3	8.1
P/BV	4.1	3.7	3.5	3.0
RoNW (%)	25.3	23.8	26.5	24.8
RoCE (%)	29.0	27.4	32.0	31.0

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	138,064.2
Total Debt (₹ Crore)	437.1
Cash (₹ Crore)	4,051.1
EV (₹ Crore)	134,450.2
52 week H/L	1124 / 825
Equity capital	278.4
Face value	₹ 2

Price performance (%)				
	1M	3M	6M	12M
TCS	(15.4)	(6.2)	9.3	43.7
Infosys	(9.0)	(0.8)	11.8	40.2
Wipro	(8.3)	6.7	2.3	2.7
HCL Tech	(10.9)	(0.5)	(8.0)	4.2

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Variance analysis

	Q2FY19	Q2FY19E	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	Comments
Revenue	14,861	14,580	12,434	19.5	13,878	7.1	Revenues in constant currency grew 3% sequentially led by retail & CPG (13% QoQ) & lifesciences & healthcare (3.2% QoQ)
Cost of sales (including employee expenses)	9,589	9,564	8,208	16.8	9,106	5.3	
Gross Margin	5,272	5,016	4,226	24.8	4,772	10.5	
Gross margin (%)	35.5	34.4	34.0	149 bps	34.4	109 bps	
Selling & marketing costs	1,773	1,662	1,467	20.9	1,546	14.7	
EBITDA	3,499	3,353	2,759	26.8	3,226	8.5	
EBITDA Margin (%)	23.5	23.0	22.2	136 bps	23.2	30 bps	
Depreciation	533	510	308	73.1	496	7.5	
EBIT	2,966	2,843	2,451	21.0	2,730	8.6	
EBIT Margin (%)	20.0	19.5	19.7	25 bps	19.7	29 bps	EBIT margins was above our expectation due to rupee depreciation (+90 bps), productivity in terms of increase in utilization and automation (+80 bps) offset by partial wage hike (-70 bps), SG&A (-50 bps) and seasonality (-30 bps)
Other income	252	171	298	-15.4	296	-14.9	
PBT	3,218	3,014	2,749	17.1	3,026	6.3	
Tax paid	678	663	561	20.9	622	9.0	
PAT	2,540	2,351	2,188	16.1	2,403	5.7	PAT was above our estimate led by better than expected margin performance and higher other income
Key Metrics							
Closing employees	127,875	125,200	119,040	7.4	124,121	3.0	Gross hiring of 11,683 employees in the quarter
Attrition - IT Services (%)	17.1	16.0	15.7	140 bps	16.3	80 bps	
Blended Utilisation (%)	86.7	85.5	86.0	70 bps	85.5	120 bps	
Average \$/₹	70.8	70.1	64.5	9.8	67.5	4.8	

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	Old	FY19E New	% Change	Old	FY20E New	% Change	
Revenue	59,100	60,648	2.6	65,537	66,856	2.0	
EBIT	11,504	12,130	5.4	12,896	13,371	3.7	
EBIT Margin (%)	19.5	20.0	53 bps	19.7	20.0	32 bps	Upgrade our estimates on H1FY19 performance, strong Q3 and healthy outlook
PAT	9,476	10,131	6.9	10,453	10,909	4.4	
EPS (₹)	68.1	74.7	9.7	75.1	80.5	7.2	Upgrade in EPS estimates through revision in margin estimates and buyback effect

Source: Company, ICICI Direct Research

Conference call highlights...

- **Revenue outlook-** Management expects Q3FY19 to be a healthy quarter on account of strong seasonality in products business and IP business. Further, acquisition of H&D International Group which got completed on Oct 2, 2018 would get consolidated in Q3FY19 (US\$21 million contribution from this acquisition in Q3FY19E). For FY19E, HCL Tech has maintained its revenue growth guidance of 9.5-11.5% in constant currency with growth equally split between organic and inorganic with little inclination more towards organic
- **Retains EBIT margin guidance-** For FY19E, HCL has maintained its stance of EBIT margin 19.5-20.5% band for FY19E
- **Growth driven by ER&D services-** Engineering and R&D services (25.5% of revenue) led the growth for the quarter with 6.3% QoQ and 26.3% YoY growth in CC terms. Growth is supported by acquisitions and IP partnerships. The management reiterated its positive outlook on the ER&D space
- **IMS to continue growth-** IMS (36.0% of revenue), the largest contributor to revenue by service mix posted 2.5% sequential growth. Management stated that the vertical would perform better in H2FY19 compared to H1FY19
- **Financial Services-** Constituting 23% of revenues, revenues from the vertical were flat sequentially (+0.1% QoQ in cc terms). It declined 1.4% QoQ in Q1FY19. The vertical saw softness on account of client specific headwinds in two clients
- **Good deal signings-** Company signed 17 transformational deals during the quarter after strong Q1FY19 wherein HCL signed 27 transformational deals. Although booking metrics was not stated, management cited that bookings in Q2FY19 was above the average of last four quarters. Further, qualified deal pipeline has increased 10% YoY which is healthy
- **Mode 2 and 3 witness healthy growth-** Mode 2 and mode 3 which are into newer age technologies together constituted 27.9% of revenues. Mode 2 growth (5.3% QoQ in cc terms) was led by cloud, digital and analytics offerings wherein financial services, retail & CPG and lifesciences & healthcare is driving the growth. Mode 3 witnessed a growth of 10.4% QoQ and is on accelerated growth mode among services. EBIT margin in Mode 2 stood at 10.8% while for mode 3 stood at 24.4%. Management expects margins in mode 3 to remain in 24-25% range on annual basis
- **Employee update-** The employee count stood at 127,875, with net addition of 4000 people in the quarter. On the attrition front, IT services attrition increased by 80 bps QoQ to 17.1% (LTM). Blended utilisation (including trainees) increased 120 bps sequentially to 86.7%. In terms of visa concerns, HCL has limited onsite risk as 65% of its workforce in US are locals
- **Cash position-** Cash and cash equivalents were at US\$1,594 million at the end of Q2FY19. DSO days excluding unbilled revenues stood at 64 days

Company Analysis

Exhibit 1: Geography wise break-up

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
<u>Revenue by geography (%)</u>						
Americas	62.8	62.4	63.5	61.6	64.5	65.8
Europe	27.4	29.1	28.7	30.0	28.1	26.8
RoW	9.7	8.5	7.9	8.5	7.5	7.4

Growth QoQ (%) - Constant Currency

Americas	3.8	1.5	4.9	-0.7	5.9	4.4
Europe	-0.4	4.4	1.9	3.6	-1.0	-0.9
RoW	3.1	-12.0	-3.9	8.1	-7.1	4.9

Source: Company, ICICI Direct Research

Exhibit 2: Vertical wise break-up

	% contribution to revenues Q2FY19	% contribution to revenues Q1FY19	CC Growth QoQ (%)
<u>Revenue by verticals (%)</u>			
Financial Services	23.0	23.8	0.1
Manufacturing	18.0	18.3	1.7
Technology & Services	18.2	18.2	2.2
Lifesciences & Healthcare	12.9	12.8	3.2
Public Services	10.7	10.5	5.3
Retail & CPG	10.0	9.1	13.0
Telecommunications, Media, Publishing & Entertainment	7.2	7.3	1.1

*Vertical re-classification in Q1FY19, Source: Company, ICICI Direct Research

Exhibit 3: Service line wise break-up

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
<u>Revenue by services (%)</u>						
Application Services	36.3	35.9	35.3	34.7	34.0	33.1
Infrastructure Services	38.6	38.5	36.7	37.3	36.2	36.0
Business Services	3.6	3.6	3.7	3.9	5.2	5.4
Engineering and R&D Services	21.5	22.0	24.2	24.1	24.5	25.5

Growth QoQ (%) - Constant currency

Application Services	1.6	0.0	1.6	-0.9	0.8	0.4
Infrastructure Services	1.7	-0.2	-1.2	2.5	0.6	2.5
Business Services	-6.7	2.9	5.0	5.3	38.8	7.3
Engineering and R&D Services	7.9	4.4	13.6	1.7	3.1	6.3

Source: Company, ICICI Direct Research

Exhibit 4: Client & Human resource metrics

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
<u>Client metrics</u>						
US\$1-5 million	259	277	291	297	304	306
US\$10-20 million	68	73	71	73	75	75
US\$50-100 million	17	16	16	20	23	22
US\$100 million+	8	9	9	8	9	9

Headcount, Utilization & Attrition

Total Employees	117,781	119,040	119,291	120,081	124,121	127,875
Blended Utilization (In- trainees)	86.0	86.0	85.8	85.9	85.5	86.7
Attrition - IT Services (LTM)	16.2	15.7	15.2	15.5	16.3	17.1

Source: Company, ICICI Direct Research

Growth led by Americas and RoW. Management indicates Europe to witness growth in H2FY19

Retail and Lifesciences & healthcare led the growth among verticals. Financial services was flat marginally due to client specific issues in two accounts

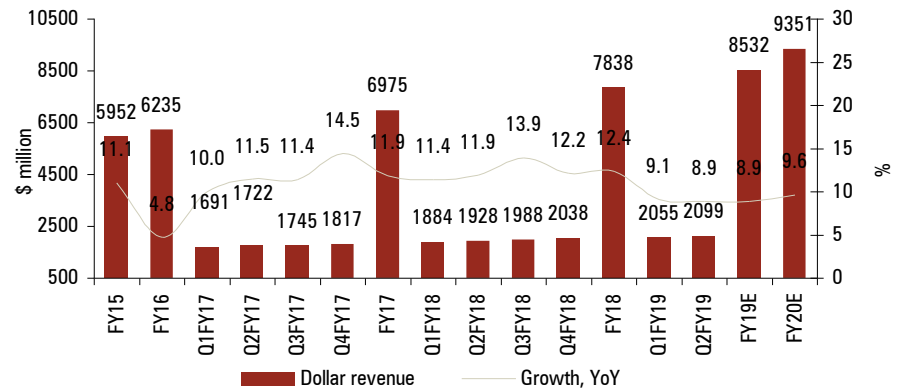
IMS posted a growth of 2.5% sequentially. Constant weakness in Application services from last many quarters is due to pressure in traditional areas in the business and client specific issues

ER&D grew 6.3% QoQ. It registered a strong growth of 26.3% YoY (CC terms) in Q2FY19 supported by acquisitions and IP partnerships

Three clients added in US\$20 million+ category. Attrition (LTM) in IT services increased 80 bps QoQ to 17.1%

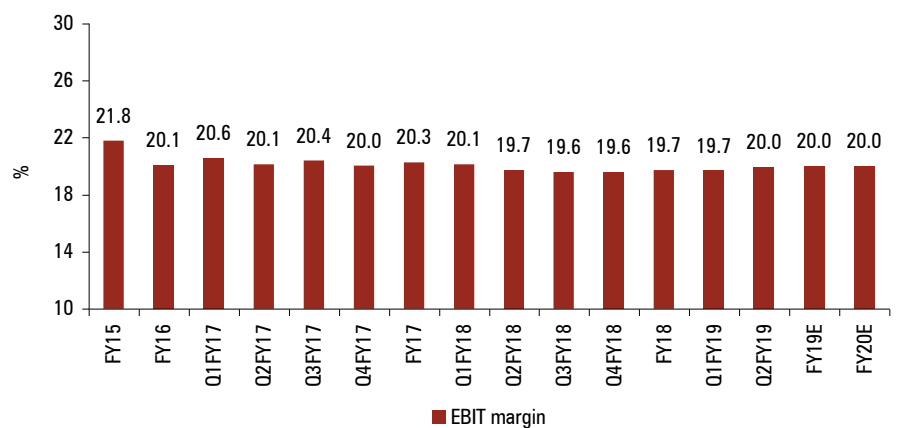
Financial story in charts

Exhibit 5: Dollar revenues may grow at 9.2% CAGR during FY18-20E



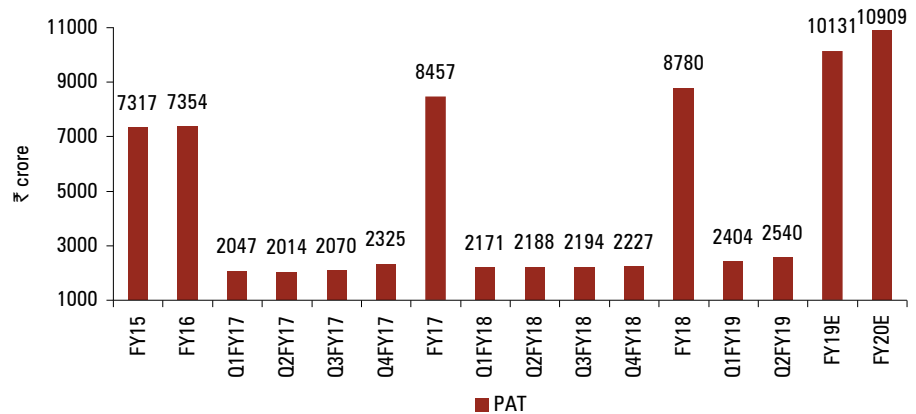
Source: Company, ICICI Direct Research

Exhibit 6: EBIT margins expands QoQ, maintained at 19.5-20.5% for FY19E



Source: Company, ICICI Direct Research

Exhibit 7: PAT trend



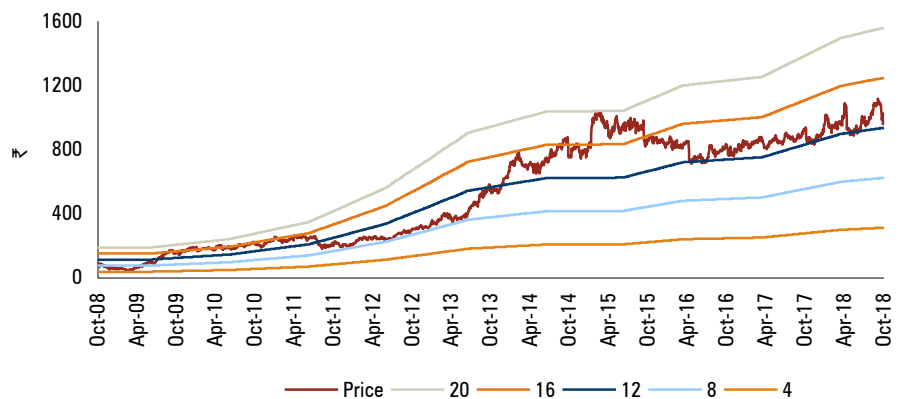
Source: Company, ICICI Direct Research

Outlook and valuation

HCL Tech Q2FY19 results were above our estimates on all fronts. For FY19E, HCL Tech has retained its revenue guidance of 9.5-11.5% in constant currency and margin guidance of 19.5-20.5%. Among geographies, revenue growth in constant currency was driven by America & RoW which grew by 4.4% and 4.9% QoQ respectively. Among verticals, retail & CPG and lifesciences & healthcare led the growth with 13% and 3.2% QoQ respectively. While financial services was flat sequentially. Engg & R&D grew at 6.3% QoQ while infrastructure services grew 2.5% in cc terms among services.

HCL Tech reported good set of numbers. We believe, healthy outlook for IMS (36% of revenues), deal signings and growth momentum in mode 2 and 3 are expected to bode well for the growth. Moreover, it is trading at an attractive valuation (12x FY20E EPS) and discount to its peers. Hence, revise our recommendation on the stock to **BUY** with a revised target price of ₹ 1090 (~14x FY20E EPS).

Exhibit 8: One year forward rolling PE



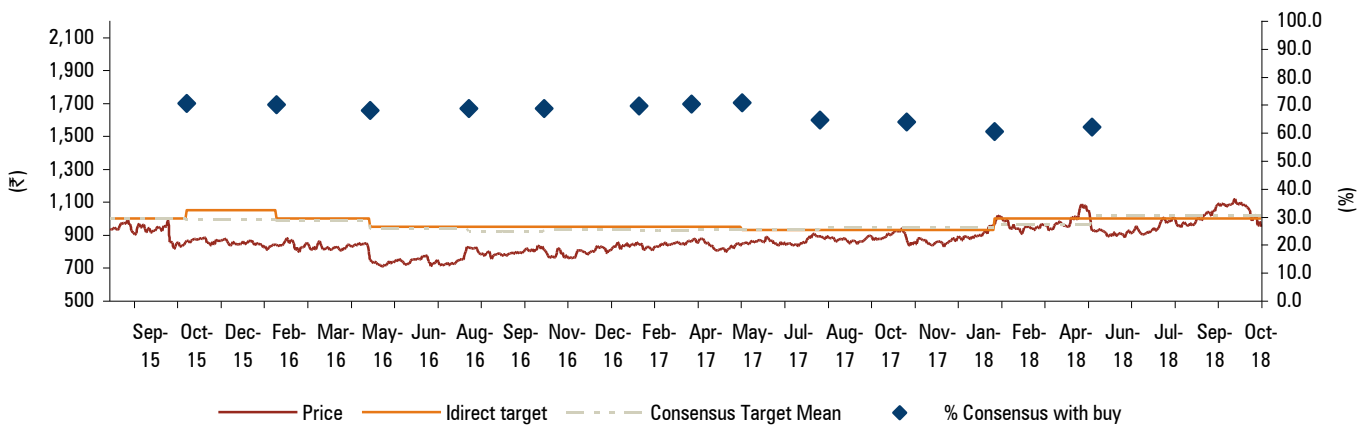
Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	40,913	10.4	52.1	0.5	18.6	15.5	26.2	30.3
FY17	46,723	14.2	60.0	15.2	16.1	13.1	25.3	29.0
FY18	50,570	8.2	62.6	4.3	15.5	11.6	23.8	27.4
FY19E	60,648	19.9	74.7	19.4	13.0	9.2	26.5	32.0
FY20E	66,856	10.2	80.5	7.7	12.0	8.0	24.8	31.0

Source: Company, ICICI Direct Research

Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Sep-17	HCL Tech announces two acquisitions. It acquires UK-based ETL Factory Ltd, doing business as Datawave. Total cash consideration for the acquisition is up to £7 million. ETL's revenue grows from £1.04 million in FY15 to £6.2 million in FY17. In another acquisition, HCL acquires the assets of UK based Alpha Insight. Cash
Jan-18	HCL Technologies has mutually terminated its joint venture with US- based Great American Insurance Company (GAIC) to reduce financial/ operational overheads. HCL Tech had entered into a JV agreement with GAIC in September, 2011 with setting up of HCL Eagle Ltd
Feb-18	HCL Technologies collaborates with Xilinx, a leading silicon provider for wireless infrastructure, to deliver next-generation mobile backhaul solution on 5G wireless networks. The solution targets 5G access and mobile backhaul markets and will enable telecom OEMs to meet the stringent requirements of next-generation networks
Mar-18	HCL Technologies signs a deal with Norway-based energy company, Statkraft. As part of the five-and-a-half-year deal, HCL would provide end-to-end integrated infrastructure services, including data centre, service desk, workplace, network and security services, application operations and cross functional services. No
Jun-18	HCL Tech signs an end-to-end IT infrastructure services deal with Falck, an international leader in the ambulance and healthcare markets. Through this deal, HCL would support Falck's business transformation by consolidating, simplifying and standardizing Falck's IT infrastructure operations
Sep-18	HCL Tech has announced the appointment of Prateek Aggarwal as its new Chief Financial Officer. Mr Aggarwal will take over from October 1, 2018 from Anil Chanana, who would retire from the company on December 31, 2018
Oct-18	According to media sources, HCL Tech would invest ₹ 750 crore to set up two facilities in Andhra Pradesh and would create 7,500 jobs in 10 years. The operation would set up in two phases wherein, in the first phase HCL would invest ₹ 400 crore to build an R&D centre for ~4000 professionals. While, the second phase would incur an investment of ₹ 350 crore and would include about 3,500 IT professionals

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Vamasundari Investments (Delhi) Pvt. Ltd.	9-Oct-18	42.8%	580.7	-14.4
2	HCL Holdings Pvt. Ltd.	9-Oct-18	16.5%	223.3	-10.6
3	Artisan Partners Limited Partnership	30-Jun-18	1.5%	20.2	-0.4
4	The Vanguard Group, Inc.	30-Sep-18	1.4%	19.0	-0.1
5	Life Insurance Corporation of India	30-Jun-18	1.4%	18.5	3.9
6	BlackRock Institutional Trust Company, N.A.	30-Sep-18	1.4%	18.5	0.3
7	ICICI Prudential Asset Management Co. Ltd.	30-Jun-18	1.1%	15.2	-3.8
8	Aditya Birla Sun Life AMC Limited	30-Sep-18	0.9%	12.6	-0.3
9	SBI Funds Management Pvt. Ltd.	30-Sep-18	0.9%	12.1	0.4
10	Vontobel Asset Management, Inc.	31-Aug-18	0.8%	11.1	-0.4

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18
Promoter	60.18	60.17	60.17
Public	39.82	39.83	39.83
Others	0.00	0.00	0.00
Total	100.00	100.00	100.00

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Life Insurance Corporation of India	52.39m	3.87m	Vamasundari Investments (Delhi) Pvt. Ltd.	-188.35m	-14.42m
Causeway Capital Management LLC	15.03m	1.11m	HCL Holdings Pvt. Ltd.	-137.91m	-10.56m
DSP Investment Managers Pvt. Ltd.	10.74m	0.73m	ICICI Prudential Asset Management Co. Ltd.	-50.91m	-3.76m
TT International	9.31m	0.69m	Amundi Hong Kong Limited	-23.88m	-1.69m
Grantham Mayo Van Otterloo & Co LLC	7.85m	0.58m	Franklin Advisers, Inc.	-24.22m	-1.62m

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
	FY17	FY18	FY19E	FY20E	
Total operating Income	46,723	50,570	60,648	66,856	
Growth (%)	14.2	8.2	19.9	10.2	
Direct costs	30,890	33,237	39,239	43,256	
S,G&A expenses	5,524	5,894	7,096	7,822	
Total Operating Expenditure	36,414	39,131	46,335	51,078	
EBITDA	10,309	11,440	14,313	15,778	
Growth (%)	17.2	11.0	25.1	10.2	
Depreciation	771	1,453	2,183	2,407	
Amortisation	64	-	-	-	
Other Income	746	570	647	797	
PBT	10,220	10,557	12,776	14,168	
Forex adjustments	-	-	-	-	
Total Tax	1,952	2,316	2,857	3,259	
PAT	8,457	8,780	10,131	10,909	
Growth (%)	15.0	3.8	15.4	7.7	
EPS (₹)	60.0	62.6	74.7	80.5	
Growth (%)	15.2	4.3	19.4	7.7	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
	FY17	FY18	FY19E	FY20E	
Liabilities					
Equity Capital	283	278	271	271	
Reserve and Surplus	33,208	36,538	37,935	43,739	
Total Shareholders funds	33,490	36,817	38,206	44,010	
Total Debt	542	437	437	437	
Other liabilities + Provisions	1,253	1,267	1,267	1,267	
Minority Interest / Others	-	-	-	-	
Total Liabilities	35,285	38,521	39,910	45,714	
Assets					
Net Block + CWIP	4,681	5,185	4,518	3,782	
Intangible assets	11,426	14,406	14,406	14,406	
Investments	10,366	6,249	6,249	6,249	
Liquid investments	1,146	2,357	2,357	2,357	
Inventory	-	-	-	-	
Debtors	10,803	12,258	14,556	16,046	
Loans and Advances	-	-	-	-	
Other Current Assets	2,983	2,520	3,022	3,331	
Cash	1,317	1,694	2,926	8,883	
Total Current Assets	16,248	18,828	22,861	30,617	
Total Current Liabilities	11,148	9,914	11,890	13,107	
Net Current Assets	5,100	8,914	10,971	17,510	
Other non current assets	3,712	3,768	3,768	3,768	
Application of Funds	35,285	38,521	39,910	45,714	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
	FY17	FY18	FY19E	FY20E	
PBT	10,220	10,557	12,776	14,168	
Depreciation & Amortisation	835	1,453	2,183	2,407	
(Inc)/dec in Current Assets	(653)	(992)	(2,800)	(1,799)	
Inc/(dec) in CL and Provisions	1,639	(1,233)	1,976	1,217	
Taxes paid	(1,952)	(2,316)	(2,857)	(3,259)	
CF from operating activities	9,532	7,440	10,843	11,937	
(Inc)/dec in Investments	746	570	647	797	
(Inc)/dec in Fixed Assets	(1,168)	(1,264)	(1,516)	(1,671)	
CF from investing activities	(422)	(694)	(870)	(875)	
Issue/(Buy back) of Equity	-	(3,500)	(4,000)	-	
Inc/(dec) in loan funds	(69)	-	-	-	
Dividend paid & dividend tax	(3,972)	(1,955)	(4,741)	(5,106)	
Inc/(dec) in debentures	-	-	-	-	
Others	-	-	-	-	
CF from financing activities	(4,040)	(5,455)	(8,741)	(5,106)	
Net Cash flow	5,069	1,291	1,232	5,957	
Exchange difference	-	-	-	-	
Opening Cash	729	1,317	1,694	2,926	
Bank bal + unclaimed dvd.	(4,482)	-	-	-	
Cash c/f to balance sheet	1,317	1,694	2,926	8,883	

Source: Company, ICICI Direct Research

Key ratios		FY17	FY18	FY19E	FY20E
Per share data (₹)					
EPS		60.0	62.6	74.7	80.5
Cash EPS		65.9	73.0	90.8	98.2
BV		237.6	262.5	281.8	324.6
DPS		24.0	12.0	35.0	37.7
Cash Per Share		9.3	12.1	21.6	65.5
Operating Ratios (%)					
EBIT Margin		20.3	19.7	20.0	20.0
PBT Margin		21.9	20.9	21.1	21.2
PAT Margin		18.1	17.4	16.7	16.3
Debtor days		84	88	88	88
Creditor days		-	-	-	-
Return Ratios (%)					
RoE		25.3	23.8	26.5	24.8
RoCE		29.0	27.4	32.0	31.0
RoIC		28.9	29.0	35.0	38.8
Valuation Ratios (x)					
P/E		16.1	15.5	13.0	12.0
EV / EBITDA		13.1	11.6	9.2	8.0
EV / Net Sales		2.9	2.6	2.2	1.9
Market Cap / Sales		2.9	2.7	2.3	2.0
Price to Book Value		4.1	3.7	3.4	3.0
Solvency Ratios					
Debt/EBITDA		0.1	0.0	0.0	0.0
Debt / Equity		0.0	0.0	0.0	0.0
Current Ratio		1.2	1.5	1.5	1.5
Quick Ratio		1.2	1.5	1.5	1.5

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (IT)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE(%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Cyient (INFENT)	616	720	Hold	7,532	36.0	42.7	46.5	18.6	15.7	14.4	12.2	9.5	8.7	21.4	21.6	20.9	17.3	18.2	17.6
Eclerx (ECLSER)	1,048	1,120	Hold	4,522	72.9	72.2	80.3	15.1	15.2	13.7	10.7	9.8	8.6	28.2	28.4	28.9	24.1	20.9	21.2
Firstsource (FIRSOU)	58	87	Buy	5,332	4.8	5.1	6.1	16.0	14.8	12.4	12.9	11.1	9.2	13.0	16.4	17.5	13.9	13.7	14.9
HCL Tech (HCLTEC)	978	1,090	Buy	138,064	62.6	74.7	80.5	15.6	13.1	12.2	11.8	9.3	8.1	27.4	32.0	31.0	23.8	26.5	24.8
Infosys (INFTEC)	651	800	Buy	307,518	32.3	38.2	44.2	21.9	18.5	16.0	14.8	12.6	10.9	30.9	31.6	33.2	22.5	23.1	24.5
KPIT Tech (KPISYS)	205	300	Hold	6,168	12.9	17.8	21.1	24.1	17.4	14.7	15.4	11.3	9.4	15.5	19.4	20.2	13.9	16.7	16.8
MindTree (MINCON)	802	880	Hold	13,552	34.3	44.6	51.9	23.5	18.1	15.5	17.3	11.6	9.9	24.9	29.5	30.5	20.8	23.3	23.8
NIIT Technologies (NIITEC)	1,212	1,365	Buy	7,237	45.6	67.1	75.9	26.1	17.7	15.7	12.9	9.8	8.0	19.4	24.5	24.5	15.8	20.3	20.1
Persistent (PSYS)	567	605	Hold	4,455	40.5	45.5	48.7	13.8	12.3	11.4	7.7	5.8	5.2	19.8	20.8	20.0	15.2	15.3	14.7
TCS (TCS)	1,856	1,880	Hold	720,731	67.4	85.6	95.1	14.2	22.4	20.2	20.9	16.2	14.2	37.6	45.1	40.4	29.6	35.1	31.3
Tech Mahindra (TECMAH)	663	770	Buy	75,079	42.7	44.7	51.3	17.9	17.1	14.9	14.9	11.2	9.3	21.5	20.3	20.1	20.2	18.3	17.7
Wipro (WIPRO)	306	325	Buy	142,756	16.8	16.3	21.3	18.8	19.5	14.9	12.1	12.7	9.5	16.9	14.1	16.2	16.6	13.5	15.5

Company, ICICI Direct Research

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