Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

November 30, 2018

Company Report

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	885		885	
Sales (Rs. m)	3,49,582	3,85,573	3,49,582	3,85,573
% Chng.			-	-
EBITDA (Rs. m)	63,151	71,831	63,151	71,831
% Chng.			-	-
EPS (Rs.)	48.1	56.9	48.1	56.9
% Chng.			-	-

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. bn)	291	308	350	386
EBITDA (Rs. bn)	42	47	63	72
Margin (%)	*14.4*	*15.3*	*18.1*	*18.6*
PAT (Rs. bn)	28	38	42	50
EPS (Rs.)	32.1	43.0	48.1	56.9
Gr. (%)	*(10.5)*	*34.2*	*11.8*	*18.3*
DPS (Rs.)	9.0	12.9	14.6	17.1
Yield (%)	*1.3*	*1.9*	*2.1*	*2.5*
RoE (%)	*18.1*	*21.5*	*21.0*	*21.7*
RoCE (%)	*17.5*	*20.5*	*20.0*	*20.5*
EV/Sales (x)	1.9	1.8	1.5	1.3
EV/EBITDA (x)	14.8	13.1	9.3	7.8
PE (x)	21.4	16.0	14.3	12.1
P/BV (x)	3.7	3.2	2.8	2.4

Key Data	**TEML.BO | TECHM IN**
52-W High / Low	Rs.781 / Rs.463
Sensex / Nifty	36,170 / 10,859
Market Cap	Rs.677bn/ $ 9,691m
Shares Outstanding	981m
3M Avg. Daily Value	Rs.5171.24m

Shareholding Pattern (%)

Promoter's	35.96
Foreign	38.51
Domestic Institution	13.09
Public & Others	12.44
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.8	1.7	38.9
Relative	(2.2)	(1.7)	29.0

Madhu Babu
madhubabu@plindia.com | 91-22-66322300

Rajat Gandhi
rajatgandhi@plindia.com | 91-22-66322246

Tech Mahindra (TECHM IN)

Rating: BUY | CMP: Rs688 | TP: Rs885

Telecom turnaround to revive momentum

We believe Tech M is poised for turnaround in revenue growth trajectory post three years of tepid performance led by a) Turnaround in Telecom vertical b) expansion in portfolio in Enterprise vertical through acquisitions which has broadened the service offerings. We believe margins have also reached a stable state (2QFY19 EBIDTA margin at 18.8%). Improving margin profile of subsidiaries and revival in growth should aid margin stability from hereon. Valuations remain cheap (12x FY20E EPS) and risk return remains favorable. Retain TP at Rs885/sh (15x Sep20E EPS). In this report, we analyze the key opportunities for Tech M in 5G which could drive growth revival.

- **Turnaround in Telecom vertical:** We believe Tech M' s organic revenue growth momentum could pivot in FY20E led by turnaround in Telecom vertical (41% of total revenues). Tech M's Telecom vertical has shown three consecutive years of tepid performance over FY15-FY18 led by ramp down in LCC (Acquired entity), Pricing pressure in Top client (AT&T), softness in Comviva and client specific weakness (KPN deal ramp down). Communication vertical organic USD revenues (ex-LCC) remained tepid for three consecutive years (up 0.5% CAGR over FY15-FY18). We believe that worst is behind for Communication vertical and recent large deal wins in 1HFY19 should render stability for this vertical performance. While Telecom pickup has already been visible in 2QFY19, we expect turnaround in this segment performance in 2HFY19 and FY20E as well. Spends in Telecom tend to cyclical and we believe 5G led uptick should revive growth momentum in FY20E. Select vendors like T- Mobile, Verizon and AT&T have started 5G trails and we see Tech M to benefit from 5G led spends from 2HFY20E and beyond. While initial uptick from 5G would be seen with Equipment vendors, Service providers will benefit with a lag impact. We model Communication vertical revenues to grow at 5.5% CAGR over FY18-FY21E.

- **Acquisition broaden offerings in Enterprise portfolio:** Tech M has done a slew of acquisition over the past three years to strengthen its Enterprise vertical. Enterprise (accounts to 59% of revenues) has grown at 15.6% CAGR over FY15-FY18 and growth was also aided by acquisitions. Enterprise business USD revenues have shown an organic growth of 9.8/9% for FY18/FY17. Most the of the Incremental revenue growth in FY18 for the Enterprise vertical was led by HCI (an acquired entity in Healthcare). Tech M 's revenues from "Others vertical (HCI business is represented in this vertical) have grown by 60% YoY in FY18. However, we see scope for performance in HCI to taper off in FY19 which can weigh on Enterprise vertical growth. We see Enterprise vertical to deliver 8% USD revenue growth in FY19E. We model Enterprise vertical USD revenues to grow at 8% CAGR over FY18-FY21E.

- **View:** We see scope for cyclical upturn in Telecom vertical (41% of Tech M's total revenues) in FY20E which could swing consolidated revenue growth trajectory in FY20E. We model Tech M USD revenues to grow by 4.5/7.5/9.3% for FY19/FY20E/FY21E. Our EPS estimates are Rs48/57/63sh for FY19/FY20E/FY21E. Stock trades at 12.1x FY20E EPS which is cheap Our TP is retained at Rs885sh (15x Sep20E EPS). Retain BUY.

Telecom Vertical could swing back in FY19

Tech Mahindra's Telecom vertical has seen three consecutive years of tepid performance (FY16-FY18). LCC acquisition, tepid performance of Comviva, Price cuts in its large account (AT&T) as well as loss of business in select accounts (KPN) have been the key culprits for the weak performance in the Telecom vertical. A soft start in 1QFY19 and cross currency headwind will restrict Tech M 's Telecom vertical growth in FY19 as well.

Exhibit 1: Tech M' s Telecom vertical revenues

Fig in USD mn	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Telecom vertical revenues	1206.2	1527.4	1916.5	2097.2	2078.2	2064.8	2058.4	2203	2423
Growth (%)	4.3%	26.6%	25.5%	9.4%	-0.9%	-0.6%	-0.3%	7.0%	10.0%
Organic Growth(%)	(5)%	18%*	19%*	-3%	-0.9%	-0.6%	-0.3%	7.0%	10.0%
As a % of Total Revenues	45.8%	49.3%	52.3%	51.9%	47.8%	43.3%	41.3%	41.2%	41.5%

*Source: Company, PL * LCC acquisition done in 4QFY15, For FY13 and FY14, the inorganic components are Hutchison Global Services and Comviva acquisitions*

- When Tech M acquired LCC in 4QFY15, it has an annual revenue run rate of USD430mn. However, Tech M has gradually pruned this business owing to the lower margin in the entity owing to the nature of contracts. As on FY19, has annual revenue run rate of USD220mn which implies a shrinkage of the half of the LCC initial revenues. This itself contributed to a 10% leakage for Tech M 's revenue from Telecom vertical. LCC ramp down is complete and has reached a stable state from hereon.

- Tech M has given a price cut to AT&T in 4QFY17 for the legacy business of AT&T and this amounted a leakage of USD60mn on an annual basis for FY18 revenues.

- Apart from that, softer performance in Comviva and loss of business in KPN account have weighed on Telecom vertical performance in FY17/FY18.

We believe that worst is behind and see a possibility of swing in Telecom vertical. This is led by large deal wins in the vertical as well as scope for 5G led uptick in FY20E. Management cited that it has won USD430mn worth TCV of deals in Telecom vertical in 1HFY19.

Tech M believes that 5G adaption would remain gradual rather than any pent up demand and expects 5G led demand uptick only from 2HFY20 onwards. Telecom spends tend be cyclical and Tech M has fared well in the earlier cycle (Telecom vertical revenues grew by 18/19% organically in FY14/15 which was the earlier upcycle). Hence, we believe that 5G led upcycle could augur well for Tech Mahindra from FY20 onwards.

"The rollout deployment and the implementation of the technology on the 5G is going to be very non-uniform, in the sense it is not just about network, it is about the entire infrastructure process, systems, digital and services that will all come along to justify and to make the power of 5G really work. The reason I am highlighting that one more time is so that all of us recognize that one thing that we have always architected our communication practice is around what we call as the diversity and comprehensity will be of service offers.

So, the good news is that we remain very focused on that strategy and the initial feedback that we are getting from the market is indeed in the direction that we will benefit from across digital to network to upstream services as the 5G rollout happen and I am hoping that over maybe a quarter or so, we will be able to share more specific deals that we will be doing, whether it is in the video space, whether it is in the digital transformation from a customer experience standpoint, where companies are looking to get ready for 5G and beyond or from deploying some new core network assets for 5G " Tech M CEO in 1QFY19 concall

5G trails by select communication players in USA: We note that Verizon and T Mobile are already test launching 5G Trials in select cities in USA. T mobile has signed a USD3.5bn contract with Nokia for 5G equipment. Please read : https://www.theverge.com/2018/7/30/17630042/t-mobile-nokia-5g-deal-three-billion-dollars-hardware-software-networking. Media reports also suggest that AT&T is also test launching 5G services in select cities in USA. https://www.zdnet.com/article/at-t-to-launch-5g-across-19-cities/

Key Global Trials in 5G

Exhibit 2: Key Trails by Global Operators

Operator	5G trails expected in 2019
Verizon	Launched a fixed wireless 5G service in four markets this year with plans to offer mobile in 2019
AT&T	AT&T is looking to offer mobile 5G services in a dozen markets by 2019 year-end.
KDDI (Japanese's Telco)	Limited Launch in 2019
Optus (Australian Carrier)	Launch fixed wireless services in the cities of Canberra and Brisbane in January 2019
EE (UK Telecom Operator , part of BT)	Announced that nine 5G trial sites are now live across East London.
SK Telecom (South Korea)	Has selected Samsung Electronics, Nokia and Ericsson as preferred bidders for its 5G network equipment ahead of the launch of commercial services in March.
Sprint (US carrier)	5G launch plan

Source: PL

5G Ecosystem: Much Beyond Mobile Communication

Unlike previous standards, 5G standards include performance metrics for the number of simultaneously connected devices and a specification for latency in addition to specifications for the traditional mobile broadband use cases. This increased device connectivity will help to enable the Internet of Things (IoT) and the Industrial Internet of Things (IIoT) on a scale that cannot be realized by today's LTE capabilities alone. While each of these three areas of specification enables new and expanded use cases, it's the combination of all three together that is creating a rich ecosystem of applications around 5G. The below chart shows how different applications will take advantage of different performance aspects of 5G is shown below. Right now, IoT products include stand-alone devices such as fitness monitors, smart thermostats, programmable door locks and lightbulbs, connected appliances, and other gadgets.

Exhibit 3: 5G ecosystem to drive transformation in multiple industries

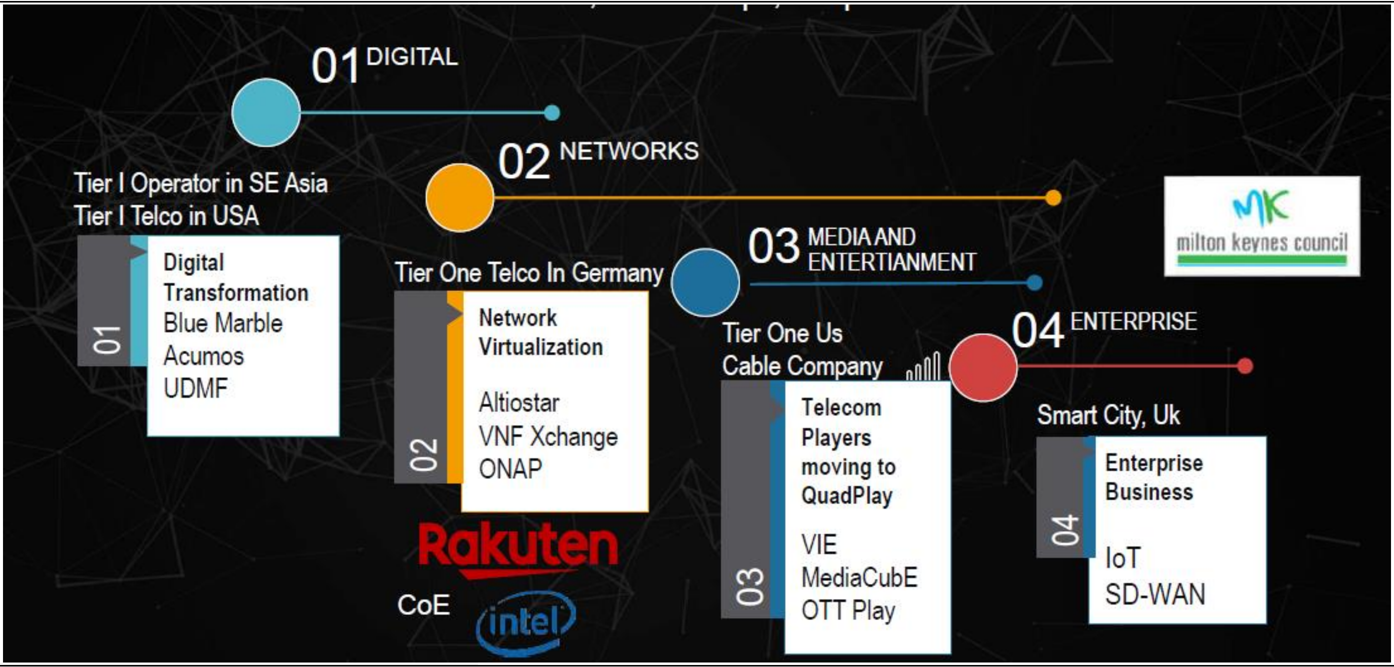
Source: Company, PL

Tech M is well positioned to tap opportunities in the 5G value chain. Company has entered into multiple partnerships as well as developed own platforms to drive growth in the 5G ecosystem.

Tech M would be able to tap the 5G ecosystem evolution through multiple phases

- Upgradation of existing IT systems (Operational Support Systems and Business Support Systems) to enable 5G. The Peripheral existing IT Infrastructure might also have to be upgraded to be 5G ready.
- Network Planning: Tech M' acquired entity (LCC) has strong competency in Network rollouts and Network Services and could get additional uptick led by 5G.
- Go to market with Network Equipment vendors: As 5G Network Deployment would offer large deals for equipment vendors (Nokia, Ericsson), they could subcontract some work to third party players. Hence, Tech M could win go to market deals along with Equipment companies.
- Bundled Deals in emerging markets: Multiple Hardware equipment vendors are building products for 5G. Tech M could win complex System Integration deals which include deploying products of different vendors.

Exhibit 4: Tech M aims to tap multiple opportunities emanating from 5G

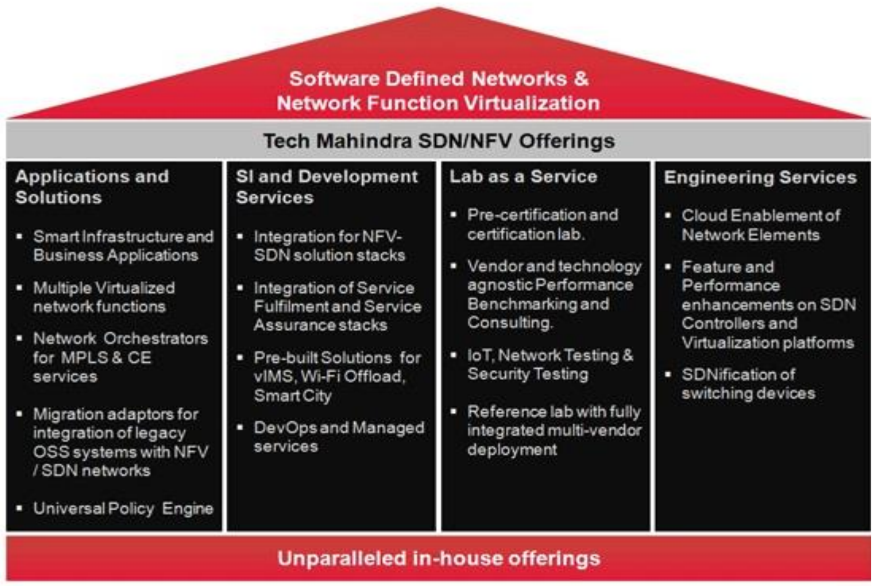


Source: Company, PL

The Rising prominence of Software in Networks

In the recent analyst meet, Tech M expects USD30bn Capex to shift from Hardware to Software by 2022 which indicates the relatively increasing importance of Software in Communication Networks. Tech M has invested and partnered with startups engaging in these space (Software Defined Networks).

Exhibit 5: Tech M's offerings in Software defined Networks



Source: Company, PL

We believe 5G led uptick could end the draught faced by Tech M in the Telecom vertical. Telecom vertical spends tend be cyclic and an uptick in spend from FY20 could pivot Tech M consolidated revenue growth momentum. Tech M's annual revenues in Telecom vertical stands at USD2.06bn for FY19E. Tech M would need USD200mn of Incremental revenues to deliver 10% growth in the Telecom vertical. Considering the huge scope for spends in the 5G network upgradation across the globe, we believe company could see a multiyear upcycle in the vertical. Tech M 's well balanced positioning across the globe in Communication vertical can help it tap opportunities in multiple regions.

We model Telecom vertical revenues to grow by 0/7/10% for FY19/FY20/FY21E. Hence, FY20 could be the start of recovery in organic growth.

Enterprise Vertical Revenues: Acquisitions broaden portfolio in Enterprise segment

Within, Enterprise vertical, Tech M' s key verticals are Manufacturing, BFSI and Retail verticals. Tech M has done a slew of acquisitions over the past three years to strengthen the portfolio in Enterprise vertical. This include Pininfarina (Strengthen Automotive Design), Target Group (BpaaS catering to Banking vertical), Bio Agency (Design Agency), HCI (Healthcare Platform implementation). However, Tech M continued to show steady performance even on organic growth front in the Enterprise vertical. We expect Enterprise vertical growth to show YoY softness in FY19 owing to softness in HCI business owing to project centric nature of the business. We believe Enterprise vertical would grow by only 8% YoY in FY19E. We also build conservative growth of 7.5/8.8% USD revenue growth in Enterprise vertical in FY20/FY21E.

Exhibit 6: Tech M's Enterprise vertical performance

Fig in USD mn	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Enterprise	1426.4	1572.8	1749.5	1941.4	2273	2705.7	2925.8	3144.0	3421.4
Growth (%)	9.0%	10.3%	11.2%	11.0%	17.1%	19.0%	8.1%	7.5%	8.8%
Organic Growth (%)	9%	10.30%	10%	7.70%	9%	9.80%	7%	7.5%	8.8%
As a % of Total Revenues	54.2%	50.8%	47.7%	48.1%	52.2%	56.7%	58.7%	58.8%	58.5%

Source: Company, PL

Exhibit 7: Major Acquisitions done by Tech M

Company Bought	Amount Paid	Year of acquisition	Revenues
Pininfarina	Upfront USD27.5 mn for 76% in the company	Dec-15	USD90mn
Target Group	USD164 mn	May-16	USD76.5mn
Bio Agency	USD67.5 mn	Jun-16	USD18.7mn
CNS (HCI acquisition)	USD89.5 mn	Mar-17	USD114mn
IBM IP	USD140mn	Sep-17	USD40mn
Altiostar	USD15mn for 17.5% stakes	Jan-18	Minority stake
Inter Informatics	USD7mn	Aug-18	USD11mn

Source: Company, PL

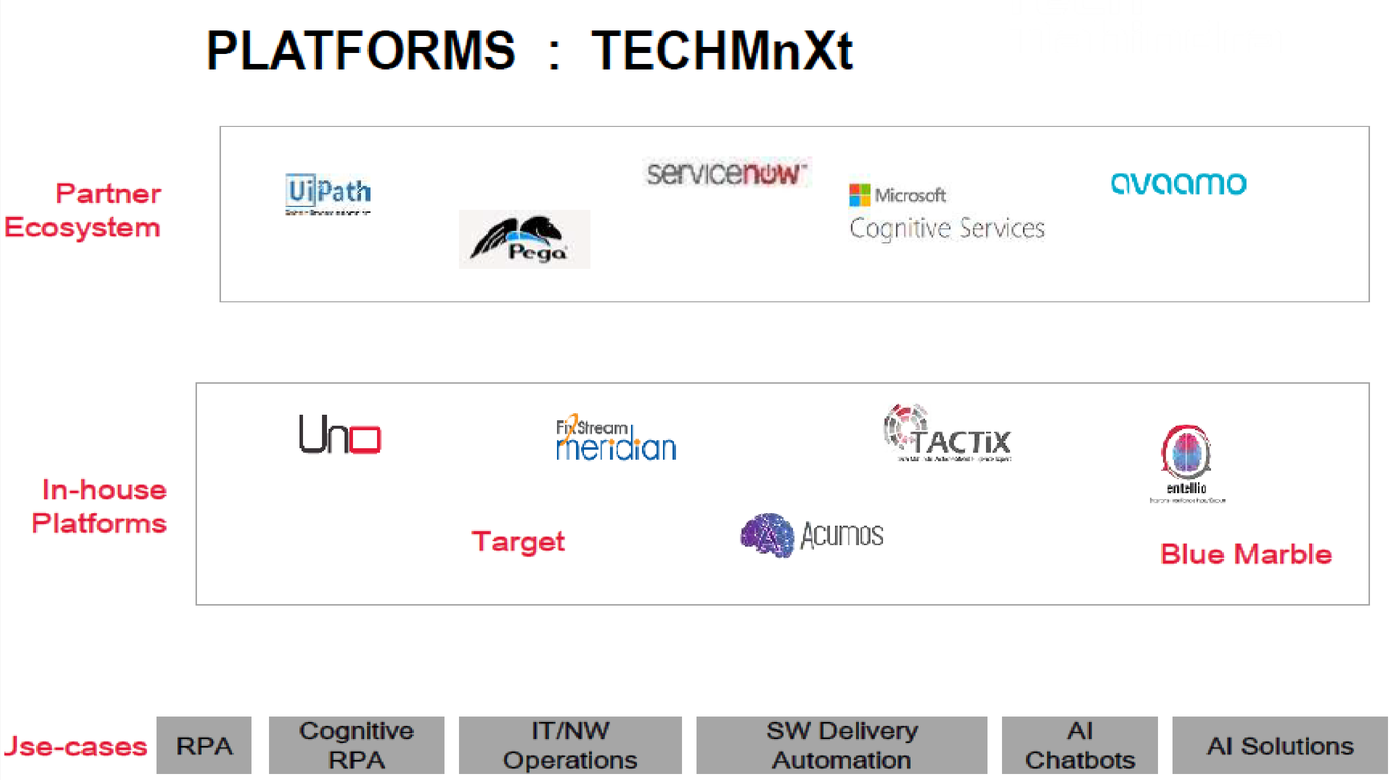
Exhibit 8: Tech M 's Sub verticals in Enterprise vertical

Fig in %	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	2QFY19
Manufacturing	17.1	17.1	18.1	19.2	18.4	19.2	19.3	19	19.1	19.3	20.1	20.1
Technology ,media and Entertainment	7.4	7.5	7.5	7.2	6.4	6.2	6.0	5.9	6.5	7.3	7.2	7.3
BFSI	9.8	10.6	11.3	11.5	13.1	14.1	14.4	14.1	13.3	13	13.6	13.5
Retail, Transport and logistics	6.8	6.2	6.5	6.8	7.6	6.5	6.8	7.2	7.1	6.2	6.1	6.5
Others	7.6	7.7	7.3	6.8	7.1	7.7	8.3	9.9	11.3	12.6	13.4	11.2

Source: Company, PL

Tech M has cited expanding Partnerships with Platform Providers as well as building In-house Platforms. Tech M also enhanced its delivery by implementing third party RPA platforms like UIPath to drive operational efficiencies as well as using in house Automation platforms (UNO) to drive operational execution.

Exhibit 9: Platform Partnerships of Tech Mahindra



Source: Company, PL

Revival visible from 2HFY19 onwards: 1Q is a seasonally weak quarter for Tech M owing to seasonality in Comviva business. This coupled with cross currency headwinds have led to Tech M report weak 1Q USD revenues (On Constant currency, 1Q revenues grew by 0.4% QoQ for 1QFY19). Tech M 's consolidated performance in 2QFY19 was also soft owing to weakness in HCI business.

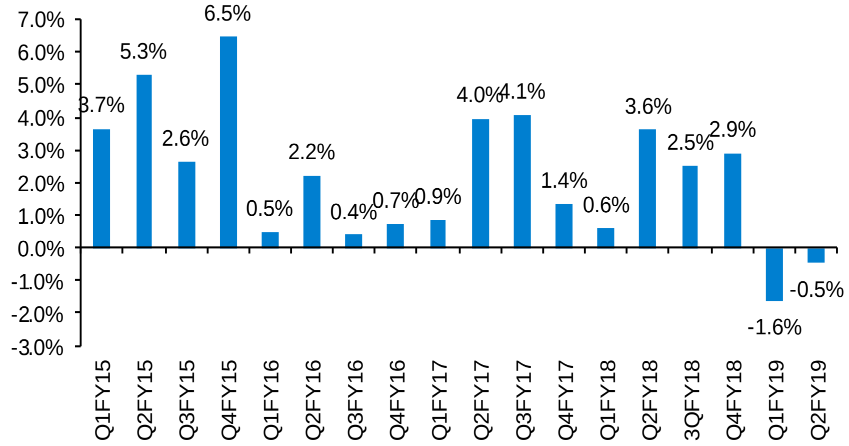
We note that HCI which was acquired by Tech M in March 2017 has seen a sharp 40% YoY revenue growth in FY18. HCI revenues stood at ~USD174mn for FY18 (vs USD118mn as on FY17). This growth is represented in the Healthcare vertical which is reported in the "Others" vertical. Please see Table above. Revenues from "Others vertical "accounted to 11.2% of total revenues for 1QFY19 (vs 7.7% as on 4QFY17). This sharp momentum was led by growth in HCI business. However, a drag in HCI business weighed on Tech M's overall growth in 2QFY19.

Exhibit 10: Tech M's consolidated Quarterly USD revenues

Fig in USD mn	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	Q3FY18	4QFY18	1QFY19	2QFY19
Enterprise Vertical Revenues	523.0	552.3	587.1	607.5	623.6	661.5	692.8	726.7	739.4	713.9
QoQ growth (%)	4.10%*	5.6%*	6.3%	3.5%	2.7%*	6.1%*	4.7%	4.9%	1.7%	-3.4%
Telecom Vertical	507	519	528	524	514	515	517	518	485	505.6
QoQ growth (%)	-2.5%	2.3%	1.7%	-0.8%	-1.8%	0.2%	0.4%	0.0%	-6.4%	4.3%
Total Revenues	1030.5	1071.3	1115.0	1131.2	1138.0	1176.8	1210.2	1244.3	1224.1	1200
QoQ growth (%)	0.9%	4.0%	4.1%	1.5%	0.6%	3.4%	2.8%	2.8%	-1.6%	-0.4%

*Source: Company, PL * A slew of acquisitions have also been aiding higher growth in Enterprise vertical*

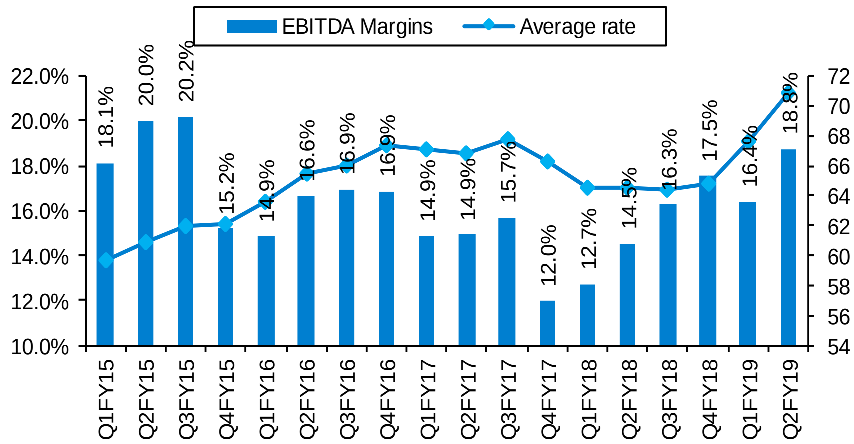
Exhibit 11: USD Revenue Growth (QoQ)



*Source: Company, PL *Growth includes acquisitions*

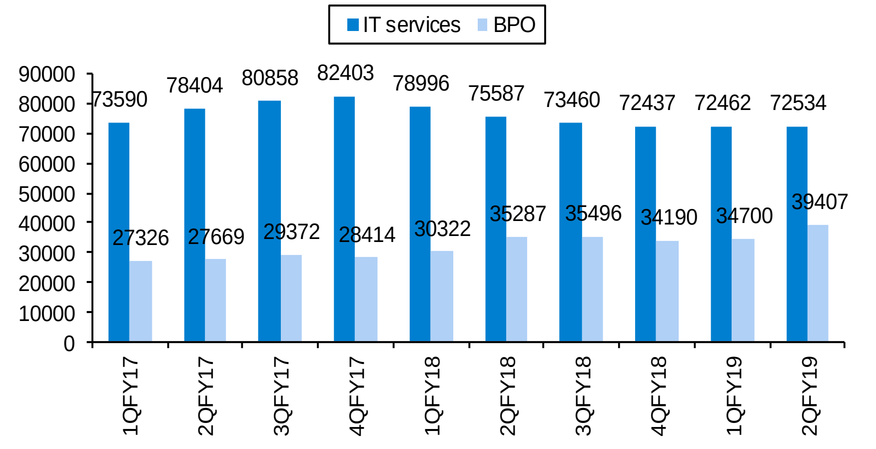
Margin upswing led by INR depreciation could swing earnings: Tech M has seen steep margin erosion in 4QFY15 led by LCC acquisition. A slew of other factors also led by margins hit a new low in 4QFY17. Company has gradually improved margins over the past few quarters through headcount reduction and operational efficiencies. We believe recent INR drop has also aided in swing in margin trajectory. We model consolidated EBIDTA margin at 18.1/18.6% for FY19/FY20E (vs 15.3% for FY18). We expect gradual improvement in margin performance from hereon.

Exhibit 12: EBITDA Margin vs. Average exchange Rate (USD vs. INR)



Source: Company, PL

Exhibit 13: Tech M's Headcount in IT services and BPO services



Source: Company, PL

See turnaround in growth and margins in FY20E: We believe FY19E would be the year of transition with moderate growth coupled with margin expansion. We expect Tech M USD revenue growth to pivot in FY20E onwards. We see continued EBIDTA margin expansion for the company in FY20E as well led by recovery in growth, G&A leverage and improvement in margins of subsidiaries.

Exhibit 14: Tech M 's consolidated Revenue growth and margins:

Fig in USD mn	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
USD Revenues (USD mn)	2632	3098	3664	4038	4351	4771	4985	5355	5854
Growth (%)	6.8%	17.7%	18.3%	10.2%	7.8%	9.6%	4.5%	7.4%	9.3%
Organic Growth (%)	6.8%	12.7%	14.4%	1.5%	3.9%	5.7%	3.8%	7.4%	9.3%
Average Rate (USD vs INR)	54.46	60.72	61.20	65.60	66.97	64.50	70.11	72.00	70.00
EBIDTA Margin(%)	21.4%	22.2%	18.4%	16.3%	14.4%	15.3%	18.1%	18.6%	19.0%

Source: Company, PL

Key Takeaways from Analyst Day held on November 21, 2018

Strategy: Tech M continues to focus on 3-4-3 strategy as cited earlier. The focus on 3 mega trends (Connected Devices, High speed Networks, Video on all devices), 4 big bets (Digital CX, Software Transformation, IoT, Networks of the Future) to achieve 3 objectives (Run Better, Change Faster and Grow Better). Company has focused on Partnerships with major Platform providers and Startups. Tech M also invested in building its own Platforms (CareXa, UNO etc).

Communication vertical (41% of total revenues): Tech M cited that Communication Industry is seeing a strong tectonic shift with explosion of Data Consumption. Tech M expects USD30bn Capex to shift from Hardware to Software by 2022 which indicates the relatively increasing importance of Software in Communication Networks. Tech M has invested and partnered with startups engaging in these space (Software Defined Networks).

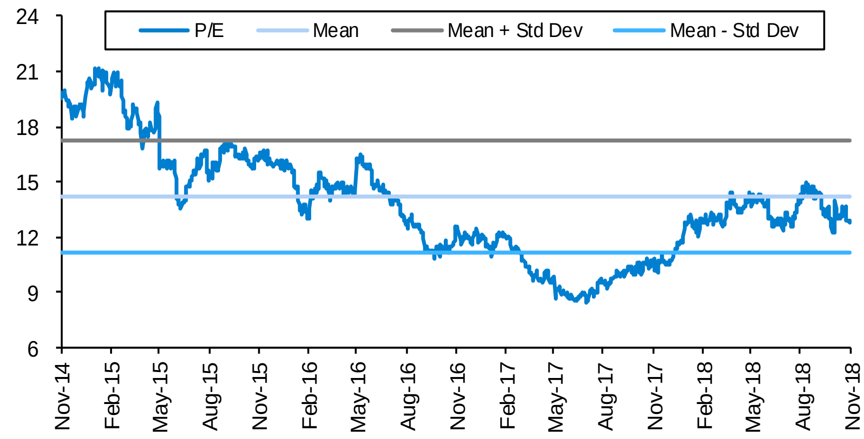
5G demand: Tech M expects 5G traction to have different characteristics and give multiple opportunities a) Overhaul of existing Back office process (Upgrading existing OSS/BSS). b) 5G would be a Platform for Innovation across Industries (As 5G is much more than Mobile Communication, it would provide new applications in Automotive, Industrial, Healthcare etc) driving new opportunities. Overall Tech M expects 5G adoption to remain gradual and non-uniform based on evolution of the Technology. Overall, Tech M expects Telecom vertical to grow mid-single digit in FY20E.

Enterprise Solutions (59% of total revenues): Key verticals here include Manufacturing, BFSI and Healthcare. Within Manufacturing, Tech M enjoys strength in Automotive, Aerospace, Process Industry. Management indicated focus on Core Banking, Mortgage, Insurance sub segments to drive growth. Overall, Tech M expects Enterprise vertical to grow 8-10% in FY20E.

Valuation and View

At CMP of Rs690/share, Tech M is currently trading at 12x FY20E EPS (TCS' trading at 20.5x FY20E EPS). Valuations and risk return remains favorable. Tech M trades at 41% discount to TCS. We retain TP to R885/sh valuing Tech M at 15x Sep20E EPS.

Exhibit 15: Tech M one-year forward P/E Chart



Source: Company, PL, Bloomberg

Exhibit 16: Consolidated Model Sheet of Tech M

	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
USD Revenues (USD mn)	3664	4038	4351	4771	4985	5355	5854
Growth (%)	18.3%	10.2%	7.8%	9.6%	4.5%	7.4%	9.3%
Organic Growth (%)	14.4%	1.5%	3.9%	5.7%	3.8%	7.4%	9.3%
Average Rate (USD vs INR)	61.20	65.60	66.97	64.50	70.11	72.00	70.00
Revenues (Rs mn)	226,213	264,942	291,408	307,730	349,582	385,573	409,758
Growth (%)	20.1%	17.1%	10.0%	5.6%	13.6%	10.3%	6.3%
EBIDTA	41,529	43,184	41,844	47,161	63,151	71,831	77,894
EBIT	35,415	35,564	32,063	36,312	51,532	59,979	65,812
APAT	26,277	31,180	28,129	38,001	42,879	50,466	56,001
EBIDTA Margin(%)	18.4%	16.3%	14.4%	15.3%	18.1%	18.6%	19.0%
EBIT Margin(%)	15.7%	13.4%	11.0%	11.8%	14.7%	15.6%	16.1%
NPM(%)	11.6%	11.8%	9.7%	12.3%	12.3%	13.1%	13.7%
Adjusted Diluted EPS(ex-Treasury)	30.58	35.08	31.63	42.7	48.2	56.7	63.0
Growth (%)	-2.0%	14.7%	-9.9%	35.1%	12.8%	17.7%	11.0%
P/E(Ex - Treasury Share EPS)	21.5	18.7	20.7	15.4	14.4	12.2	11.0
EV/EBIDTA	15	14	14	12	9	8	7
ROE(%)	24.5%	23.4%	18.1%	21.5%	21.2%	21.8%	21.0%
Consolidated Balance sheet (Rs mn)							
Net Cash on Balance Sheet	24904	41407	41638	47632	76457	105388	139619
Net Cash per Share on balance sheet	26.0	42.0	46.8	53.6	86.0	118.5	157.0
Net cash per share as a % of stock price	4.0%	6.4%	7.1%	8.2%	12.4%	17.1%	22.7%
Consolidated Cash Flows (Rs mn)							
Cash flow from Operating Activities	23974	32132	40714	35535	43711	49276	55130
Capex+ Acquisitions	(24,873)	(9,046)	(19,658)	(21,045)	(8,000)	(8,000)	(8,000)
Free Cash Flow	(899)	23,086	21,056	14,490	35,711	41,276	47,130
FCF/EBIDTA	-2.2%	53.5%	50.3%	30.7%	56.5%	57.5%	60.5%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	**2,91,408**	**3,07,730**	**3,49,582**	**3,85,573**
YoY gr. (%)	*10.0*	*5.6*	*13.6*	*10.3*
Employee Cost	1,90,651	2,05,120	2,36,115	2,60,750
Gross Profit	1,00,757	1,02,610	1,13,467	1,24,822
Margin (%)	*34.6*	*33.3*	*32.5*	*32.4*
SG&A Expenses	58,913	55,513	50,316	52,991
Other Expenses	-	-	-	-
EBITDA	**41,844**	**47,097**	**63,151**	**71,831**
YoY gr. (%)	*(3.1)*	*12.6*	*34.1*	*13.7*
Margin (%)	*14.4*	*15.3*	*18.1*	*18.6*
Depreciation and Amortization	9,781	10,849	11,619	11,853
EBIT	**32,063**	**36,248**	**51,532**	**59,979**
Margin (%)	*11.0*	*11.8*	*14.7*	*15.6*
Net Interest	1,286	1,624	1,293	1,000
Other Income	7,776	14,165	6,065	7,000
Profit Before Tax	**38,553**	**48,789**	**56,304**	**65,979**
Margin (%)	*13.2*	*15.9*	*16.1*	*17.1*
Total Tax	10,021	10,926	13,904	15,835
Effective tax rate (%)	*26.0*	*22.4*	*24.7*	*24.0*
Profit after tax	**28,532**	**37,863**	**42,400**	**50,144**
Minority interest	380	(137)	(78)	(122)
Share Profit from Associate	(23)	-	-	-
Adjusted PAT	**28,129**	**38,000**	**42,478**	**50,266**
YoY gr. (%)	*(9.8)*	*35.1*	*11.8*	*18.3*
Margin (%)	*9.7*	*12.3*	*12.2*	*13.0*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**28,129**	**38,000**	**42,478**	**50,266**
YoY gr. (%)	*(9.8)*	*35.1*	*11.8*	*18.3*
Margin (%)	*9.7*	*12.3*	*12.2*	*13.0*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	28,129	38,000	42,478	50,266
Equity Shares O/s (m)	**878**	**883**	**883**	**883**
EPS (Rs)	**32.1**	**43.0**	**48.1**	**56.9**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	**99,002**	**1,19,695**	**1,27,695**	**1,35,695**
Tangibles	84,361	91,313	99,313	1,07,313
Intangibles	14,641	28,382	28,382	28,382
Acc: Dep / Amortization	**60,680**	**71,198**	**82,817**	**94,669**
Tangibles	52,633	59,597	71,216	83,068
Intangibles	8,047	11,601	11,601	11,601
Net fixed assets	**38,322**	**48,497**	**44,878**	**41,025**
Tangibles	31,728	31,716	28,097	24,244
Intangibles	6,594	16,781	16,781	16,781
Capital Work In Progress	3,729	2,399	2,399	2,399
Goodwill	26,279	27,727	27,727	27,727
Non-Current Investments	6,802	15,117	15,417	15,717
Net Deferred tax assets	2,579	5,708	5,708	5,708
Other Non-Current Assets	19,594	23,798	23,798	23,798
Current Assets				
Investments	21,647	34,449	35,449	36,449
Inventories	611	659	659	659
Trade receivables	53,377	64,979	73,816	81,416
Cash & Bank Balance	32,186	30,443	58,968	87,598
Other Current Assets	21,571	19,623	19,623	19,623
Total Assets	**2,60,665**	**3,04,373**	**3,39,416**	**3,73,094**
Equity				
Equity Share Capital	4,388	4,417	4,417	4,417
Other Equity	1,59,984	1,84,011	2,11,454	2,43,752
Total Networth	**1,64,372**	**1,88,428**	**2,15,871**	**2,48,169**
Non-Current Liabilities				
Long Term borrowings	3,853	7,711	8,411	9,111
Provisions	6,201	5,551	5,551	5,551
Other noncurrent liabilities	305	333	333	333
Current Liabilities				
ST Debt / Current of LT Debt	8,342	9,549	9,549	9,549
Trade payables	23,117	20,368	29,691	32,747
Other current liabilities	44,774	61,554	59,054	56,555
Total Equity & Liabilities	**2,60,665**	**3,04,373**	**3,39,416**	**3,73,094**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	38,530	48,788	56,705	66,179
Add. Depreciation	9,781	10,850	11,619	11,853
Add. Interest	1,286	1,624	1,293	1,000
Less Financial Other Income	7,776	14,165	6,065	7,000
Add. Other	(3,969)	(2,631)	(9,987)	(6,878)
Op. profit before WC changes	45,628	58,631	59,630	72,153
Net Changes-WC	5,881	(7,832)	(2,015)	(7,043)
Direct tax	(10,795)	(15,264)	(13,904)	(15,835)
Net cash from Op. activities	**40,714**	**35,535**	**43,711**	**49,276**
Capital expenditures	(19,579)	(18,781)	(8,000)	(8,000)
Interest / Dividend Income	5,513	2,645	10,065	7,000
Others	(14,829)	(17,461)	(2,300)	(2,300)
Net Cash from Invt. activities	**(28,895)**	**(33,597)**	**(235)**	**(3,300)**
Issue of share cap. / premium	345	857	78	122
Debt changes	(2,551)	7,486	700	700
Dividend paid	(12,392)	(9,438)	(15,436)	(18,168)
Interest paid	(1,111)	(1,599)	(1,293)	(1,000)
Others	-	-	-	-
Net cash from Fin. activities	**(15,709)**	**(2,694)**	**(15,951)**	**(18,346)**
Net change in cash	**(3,890)**	**(756)**	**27,525**	**27,630**
Free Cash Flow	21,056	14,490	35,711	41,276

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Net Revenue	**77,760**	**80,545**	**82,763**	**86,298**
YoY gr. (%)	*2.9*	*7.5*	*12.8*	*13.5*
Employee Expenses	53,807	54,885	57,340	56,923
Gross Profit	23,953	25,660	25,423	29,375
Margin (%)	*30.8*	*31.9*	*30.7*	*34.0*
EBITDA	**12,638**	**14,119**	**13,569**	**16,186**
YoY gr. (%)	*14.3*	*11.7*	*(3.9)*	*19.3*
Margin (%)	*16.3*	*17.5*	*16.4*	*18.8*
Depreciation / Depletion	2,742	2,986	2,808	2,944
EBIT	**9,896**	**11,133**	**10,761**	**13,242**
Margin (%)	*12.7*	*13.8*	*13.0*	*15.3*
Net Interest	341	527	305	388
Other Income	2,260	4,513	1,114	1,751
Profit before Tax	**11,815**	**15,118**	**11,570**	**14,605**
Margin (%)	*15.2*	*18.8*	*14.0*	*16.9*
Total Tax	2,570	2,810	2,457	3,915
Effective tax rate (%)	*21.8*	*18.6*	*21.2*	*26.8*
Profit after Tax	**9,245**	**12,308**	**9,113**	**10,690**
Minority interest	(187)	88	16	(84)
Share Profit from Associates	-	-	-	-
Adjusted PAT	**9,432**	**12,220**	**9,097**	**10,774**
YoY gr. (%)	*10.2*	*107.9*	*13.9*	*28.8*
Margin (%)	*12.1*	*15.2*	*11.0*	*12.5*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**9,432**	**12,220**	**9,097**	**10,774**
YoY gr. (%)	*10.2*	*107.9*	*13.9*	*28.8*
Margin (%)	*12.1*	*15.2*	*11.0*	*12.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**9,432**	**12,220**	**9,097**	**10,774**
Avg. Shares O/s (m)	889	891	891	891
EPS (Rs)	**10.6**	**13.7**	**10.2**	**12.1**

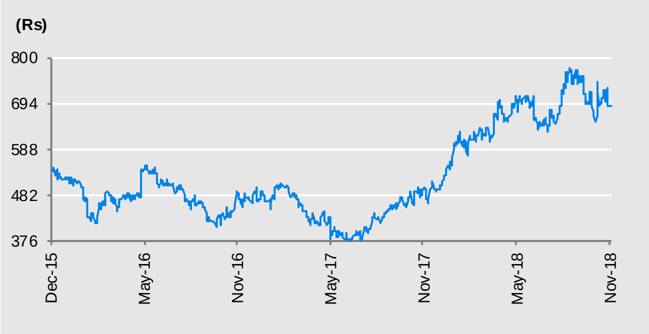
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	32.1	43.0	48.1	56.9
CEPS	43.2	55.3	61.2	70.3
BVPS	187.3	213.3	244.4	280.9
FCF	24.0	16.4	40.4	46.7
DPS	9.0	12.9	14.6	17.1
Return Ratio(%)				
RoCE	17.5	20.5	20.0	20.5
ROIC	19.3	20.0	27.8	31.9
RoE	18.1	21.5	21.0	21.7
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.4)	(0.4)
Debtor (Days)	67	77	77	77
Valuation(x)				
PER	21.4	16.0	14.3	12.1
P/B	3.7	3.2	2.8	2.4
P/CEPS	42.8	54.8	60.7	69.6
EV/EBITDA	14.8	13.1	9.3	7.8
EV/Sales	1.9	1.8	1.5	1.3
Dividend Yield (%)	1.3	1.9	2.1	2.5

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jan-18	BUY	570	531
2	30-Jan-18	BUY	675	605
3	13-Apr-18	BUY	680	669
4	26-May-18	BUY	760	702
5	10-Jul-18	BUY	760	661
6	30-Jul-18	BUY	760	655
7	05-Oct-18	BUY	885	721
8	30-Oct-18	BUY	885	685

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	BUY	810	669
2	HCL Technologies	BUY	1,255	952
3	Hexaware Technologies	Accumulate	430	351
4	Infosys	BUY	790	695
5	L&T Technology Services	Accumulate	1,780	1,455
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	410	313
12	Tata Consultancy Services	Accumulate	2,300	1,980
13	TeamLease Services	Hold	2,740	2,219
14	Tech Mahindra	BUY	885	685
15	Wipro	Accumulate	350	309
16	Zensar Technologies	BUY	290	235

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

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Madhu Babu- BTech & PG MBA, Mr. Rajat Gandhi- MBA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Madhu Babu- BTech & PG MBA, Mr. Rajat Gandhi- MBA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all o the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com | Bloomberg Research Page: PRLD <GO>

AMNISH AGGARWAL

Digitally signed by AMNISH AGGARWAL
DN: c=IN, o=Prabhudas Lilladher Private Limited, ou=organisation, cn=AMNISH AGGARWAL, serialNumber=7a6f13691881d5a8af6353865a61b48b7040e72f4a1bf53182e368b3ca14a5e4, postalCode=400015, 2.5.4.20=c9b37ca6a8c78a11d6c42a4b6014e984fdf135dc1449611df0dc682d08443fc6, st=Maharashtra
Date: 2018.11.30 10:21:48 +05'30'