

Tata Consultancy Services (TCS) ₹ 1840

Sharp margin miss; strong deal wins...

- TCS reported a weak Q3FY19 with a margin decline of 90 bps QoQ and constant currency (CC) revenue growth of 1.8% QoQ (vs. our estimate of 2.7% QoQ)
- In US\$ terms, revenues grew 0.7% QoQ to \$5,250 million mainly led by energy & utilities partly offset by a muted performance in BFSI and retail & CPG vertical
- There was disappointment at the margin level as EBIT margins declined 90 bps QoQ to 25.6% (vs. our 27% estimate). The margin decline was mainly on account of net cross currency headwind and increase in employee and sub-contractor cost (negative 60 bps)

Macro uncertainty clogs visibility of double digit growth beyond FY19E

TCS had a weak show in the quarter with a miss at revenue growth mainly on account of 2.1% QoQ decline in traditional business. Growth was a miss due to de-growth in BFSI (0.6% QoQ) and flat growth in retail & CPG. Strong growth of 7.8% QoQ (dollar terms) in digital services countered this decline. As per the management, banking & financial services demand is better in North America compared to Europe and UK while insurance is doing well in the latter two geographies. Demand in the retail vertical was on similar lines as in Q2FY19. On the positive side, contracts signed increased 20% QoQ to US\$5.9 billion (an increase of US\$1 billion from Q2FY19). Hence, we expect FY19E revenue to grow in double digit (in CC terms). However, macro uncertainty and absence of mega deal wins (as seen in FY19) casts a doubt on sustainability of double digit growth in FY20E and FY21E. Accordingly, we revise our dollar revenue growth in from FY20E downwards and expect FY21E dollar revenues to grow at 7.5%. Overall, we expect dollar revenues to grow at 8.7% CAGR to US\$24.5 billion in FY18-21E.

Strong Digital growth continues; grows at 50% average in three quarters

Digital services (30.1% in Q3FY19 vs 22.1% in Q3FY18) continued to drive growth for the company and posted 7.8% QoQ and 49% YoY growth. With digital moving towards core modernisation, we believe TCS would be the biggest beneficiary taking into consideration its strength in traditional areas and its acceleration in digital growth. Further, the company is witnessing improving growth in Ignio (10 new deal wins), TCS BaNCS (five new wins and 5 go live) and TCS iON (won US\$500 mn deal).

Higher sub-con cost, investing in demand to put pressure on margins

A sharp decline of 90 bps QoQ in EBIT margin was witnessed mainly on account of a 70 bps drag in gross margins. The management commentary on aggressively participating in demand and higher subcontracting expenses due to localisation would remain an overhang on margins. Hence, taking into consideration the above indicated factors along with assuming no major benefit from rupee depreciation, we lower our margin estimates. We expect EBIT margin estimates of 25.8%, 25.5% and 25.5% in FY19E, FY20E and FY21E, respectively.

Margin pressure, macro uncertainty prompts us to maintain HOLD...

TCS reported a weak quarter, especially on the margin front and the management commentary indicates pressure will remain, going ahead. Further, the absence of rupee benefit, caution in Europe and the UK from BFS vertical coupled with global macro uncertainty prompts us to cut our EPS estimates by ~3-7% for FY19E, FY20E. We roll over our valuation to FY21E and value the stock at ~18x FY21E EPS. We maintain our **HOLD** rating on the stock with a revised target price of ₹ 1750.

Rating matrix	
Rating	: Hold
Target	: ₹ 1750
Target Period	: 12 months
Potential Upside	: -5%

What's Changed?	
Target	Changed from ₹ 1880 to ₹ 1750
EPS FY19E	Changed from ₹ 85.6 to ₹ 83.0
EPS FY20E	Changed from ₹ 95.1 to ₹ 87.9
EPS FY21E	Introduced at ₹ 95.4
Rating	Unchanged

Quarterly Performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	37,338	30,904	20.8	36,854	1.3
EBIT	9,564	7,781	22.9	9,771	(2.1)
EBIT (%)	25.6	25.2	44 bps	26.5	-90 bps
PAT	8,105	6,531	24.1	7,901	2.6

Key Financials				
₹ Crore	FY18	FY19E	FY20E	FY21E
Net Sales	123,104	146,978	161,997	174,117
EBITDA	32,516	39,978	43,901	47,186
Net Profit	25,826	31,148	33,007	35,821
EPS (₹)	67.4	83.0	87.9	95.4

Valuation summary				
	FY18	FY19E	FY20E	FY21E
P/E	27.2	22.1	20.9	19.2
Target P/E	25.9	21.0	19.9	18.3
EV / EBITDA	19.9	16.2	14.6	13.4
P/BV	8.1	7.6	6.8	6.1
RoNW (%)	29.6	34.3	32.4	31.7
RoCE (%)	37.6	44.0	41.7	40.8

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	690,701.0
Total Debt (₹ Crore)	247.0
Cash and equivalents (₹ Crore)	42,646.0
EV (₹ Crore)	648,302.0
52 week H/L	2273 / 1368
Equity capital (₹ Crore)	375
Face value	₹ 1

Price performance (%)				
	1M	3M	6M	12M
TCS	(6.2)	(9.6)	0.6	40.7
Infosys	(0.4)	(5.9)	5.2	34.6
Wipro	(1.5)	1.1	23.2	5.1
HCL Tech	(4.0)	(12.7)	0.1	3.6

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Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Revenue	37,338	38,402	30,904	20.8	36,854	1.3	Constant currency revenues grew 1.8% QoQ while cross currency headwind of 110 bps led to 0.7% QoQ growth in dollar terms
Employee expenses	21,320	21,505	17,461	22.1	20,795	2.5	
Gross Margin	16,018	16,897	13,443	19.2	16,059	-0.3	
Gross margin (%)	42.9	44.0	43.5	-60 bps	43.6	-67 bps	
SG&A expenses	5,935	5,991	5,155	15.1	5,781	2.7	
EBITDA	10,083	10,906	8,288	21.7	10,278	-1.9	
EBITDA Margin (%)	27.0	28.4	26.8	19 bps	27.9	-88 bps	
Depreciation	519	538	507	2.4	507	2.4	
EBIT	9,564	10,368	7,781	22.9	9,771	-2.1	
EBIT Margin (%)	25.6	27.0	25.2	44 bps	26.5	-90 bps	EBIT margins witnessed a decline due to net cross currency headwind (~50 bps) and higher employee & subcontracting expenses
Other income (less interest)	1,147	618	864	32.8	593	93.4	
PBT	10,711	10,986	8,645	23.9	10,364	3.3	
Tax paid	2,590	2,747	2,100	23.3	2,437	6.3	
PAT	8,105	8,214	6,531	24.1	7,901	2.6	Reported PAT was below our expectation due to lower-than-expected margin performance

Key Metrics

Closing employees	471,929	416,102	390,880	20.7	411,102	14.8	Strong net hiring of ~22930 employees in 9MFY19 vs. 7775 in FY18
Overall attrition (%)	11.2	11.2	11.1	10 bps	10.9	30 bps	Attrition increased 30 bps sequentially
Average \$/₹	71.1	72.1	64.6	10.2	70.7	0.6	

Source: Company, ICICI Direct Research

Change in estimates

₹ (Crore)	FY19E			FY20E			FY21E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	148,947	146,978	-1.3	163,895	161,997	-1.2	174,117	Introducing FY21E and minor change in rupee revenue due to change in exchange rate assumption
EBIT	39,471	37,920	-3.9	43,760	41,309	-5.6	44,400	
EBIT Margin (%)	26.5	25.8	-70 bps	26.7	25.5	-120 bps	25.5	Revising EBIT margin estimates due to supply led constraints prompting higher onsite and subcontracting expenses
PAT	32,151	31,148	-3.1	35,690	33,007	-7.5	35,821	
EPS (₹)	85.6	83.0	-3.1	95.1	87.9	-7.5	95.4	

Source: Company, ICICI Direct Research

Assumptions

	FY18	Current FY19E	Earlier FY19E	Current FY20E	Earlier FY20E	Introduced FY21E	
Closing employees	394,998	424,573	424,573	453,624	453,624	479,190	Growth of 6.7% CAGR in employees during FY18-21E
Overall attrition (%)	12.1	11.5	11.5	12.0	12.0	12.0	
Average \$/₹	64.3	70.2	71.1	71.0	71.5	71.0	Change in exchange rate assumption

Source: Company, ICICI Direct Research

Conference Call Highlights

- **Revenue Outlook-** TCS clocked 12.1% YoY growth in CC terms in Q3FY19 and maintains its stance of attaining double digit revenue growth in FY19E based on deal pipeline and digital growth
- **BFSI-** TCS indicated that its banking and financial services is seeing a healthy demand environment in North America while it sounded cautious on Europe and the UK. Insurance has relative better demand in latter geographies and is softer in North America
- **Retail & communication segments-** Commentary on demand in retail & CPG vertical (16.5% of revenue) was more or less on same lines as in Q2FY19 with more investments moving towards supply chain. Communication (6.9% of revenue) continues to be volatile and would be in wait and watch mode as it is too early to comment on 5G shaping up
- **Digital business-** The digital business continues to ride on an upward trajectory and constituted 30.1% of revenue (vs. 22.1% in Q3FY18), up 52.7% YoY (CC terms). Digital moving from point wise implementation to enterprise wise adoption, would act as an opportunity for TCS to take its scale and digital scaling up
- **Deal TCV-** Deal TCV increased 20% QoQ to US\$5.9 billion, post remaining constant sequentially in Q2FY19
- **Client metrics-** On the client mining front, the client count increased by one in \$100 million+ bucket taking count to 45. One client transitioned to US\$50 million+, five clients transitioned to US\$10 million+ category. Seven clients were added QoQ in US\$1 million+ revenue bucket taking the total to 996 (vs. 941 in Q3FY18)
- **Employee update-** Attrition in IT services increased 30 bps QoQ to 11.2% (LTM). Net addition saw an accelerated up-tick of 22,931 employees in 9MFY19 (compared to net addition of 7775 in FY18) leading to employee strength of 471,929 in Q3FY19. The company has trained 292,000 employees in digital technologies and 318,000 employees in agile methods
- **Subcontracting cost-** The company has increased its flex staff due to shortage in talent onsite. TCS is planning to rationalise this by higher onsite hiring, campus hiring and rationalising the pyramid

Company Analysis

Exhibit 1: Geography-wise break-up

	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Revenue by geography (%)						
North America	51.9	52.0	50.2	51.0	51.1	51.2
Latin America	2.2	2.2	2.0	1.9	2.0	2.0
UK	14.0	14.1	15.2	15.5	15.6	15.5
Continental Europe	13.4	13.5	14.2	14.0	14.0	14.1
India	6.3	6.3	6.2	5.8	5.6	5.7
Asia Pacific	9.8	9.5	9.7	9.6	9.6	9.4
MEA	2.4	2.4	2.5	2.2	2.1	2.1

Among Europe, Continental Europe saw good traction while UK was flat. BFSI is a struggling vertical in Europe

Growth QoQ (%)

North America	2.0	1.2	0.3	3.2	3.4	0.9
Latin America	8.1	1.0	-5.6	-3.5	8.7	0.7
UK	4.0	1.7	12.0	3.6	3.9	0.0
Continental Europe	10.7	1.8	9.3	0.2	3.2	1.4
India	-7.1	1.0	2.2	-5.0	-0.3	2.5
Asia Pacific	6.5	-2.1	6.1	0.5	3.2	-1.4
MEA	-0.9	1.0	8.2	-10.6	-1.4	0.7

Source: Company, ICICI Direct Research

Exhibit 2: Vertical-wise break-up

	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Revenue by verticals (%)						
BFSI	32.6	31.6	31.1	31.1	31.2	30.8
Retail & CPG	15.9	16.7	16.6	16.6	16.6	16.5
Communication and Media	7.1	7.1	7.1	7.1	6.9	6.9
Manufacturing	7.4	7.5	7.4	7.3	7.2	7.2
Life Sciences & Healthcare	7.2	7.3	7.2	7.3	7.5	7.6
Energy & Utilities	4.2	4.5	4.8	4.8	4.6	4.7
Technology & services	8.0	7.9	7.8	7.7	7.6	7.6
Regional markets & others	17.6	17.4	18.0	18.1	18.4	18.7

Energy & Utilities led the growth among verticals while BFSI & retail posted a soft show

Growth QoQ (%)

BFSI	3.5	-2.1	2.2	1.6	3.6	-0.6
Retail & CPG	2.6	6.1	3.2	1.6	3.2	0.1
Communication and Media	3.2	1.0	3.9	1.6	0.3	0.7
Manufacturing	3.2	2.4	2.5	0.2	1.8	0.7
Life Sciences & Healthcare	4.7	2.4	2.4	3.0	6.1	2.0
Energy & Utilities	8.4	8.2	10.8	1.6	-1.1	2.9
Technology & services	4.5	-0.2	2.5	0.3	1.9	0.7
Regional markets & others	0.9	-0.1	7.4	2.2	5.0	2.3

Source: Company, ICICI Direct Research

Exhibit 3: Client & human resource matrix

	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Client metrics						
USD 1 mn+ clients	933	941	963	978	989	996
USD 5 mn+ clients	470	485	495	508	513	519
USD 10 mn+ clients	328	337	350	355	365	370
USD 20 mn+ clients	196	203	207	206	213	211
USD 50 mn+ clients	91	94	97	97	98	99
USD 100 mn+ clients	37	37	38	40	44	45

One client added in US\$100 mn+ category taking the count to 45

Headcount, Attrition

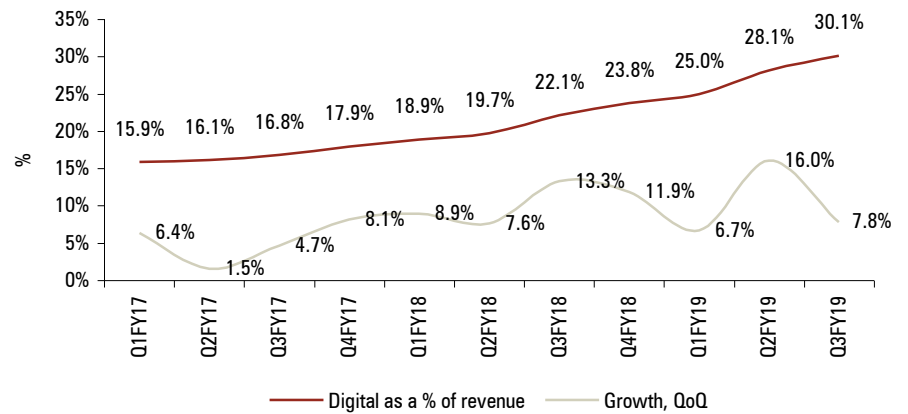
Total Employees	389213	390880	394998	400875	411102	471929
Attrition (including BPS)	12.1	11.9	11.8	11.7	0.0	0.0

Source: Company, ICICI Direct Research

Financial story in charts

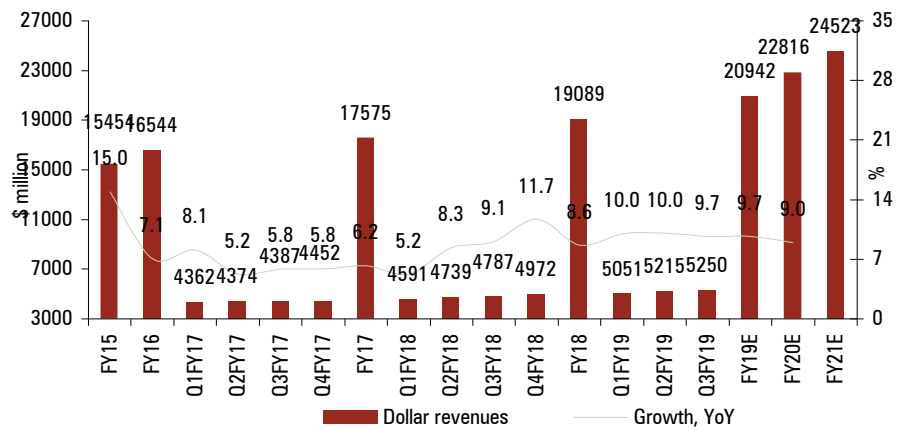
Exhibit 4: Digital grows strong at 49% YoY in Q3FY19

Digital business continues to ride on an upward trajectory and comprised 30.1% of revenue (vs. 22.1% in Q3FY18), and grew at an average of 50% YoY in last three quarters



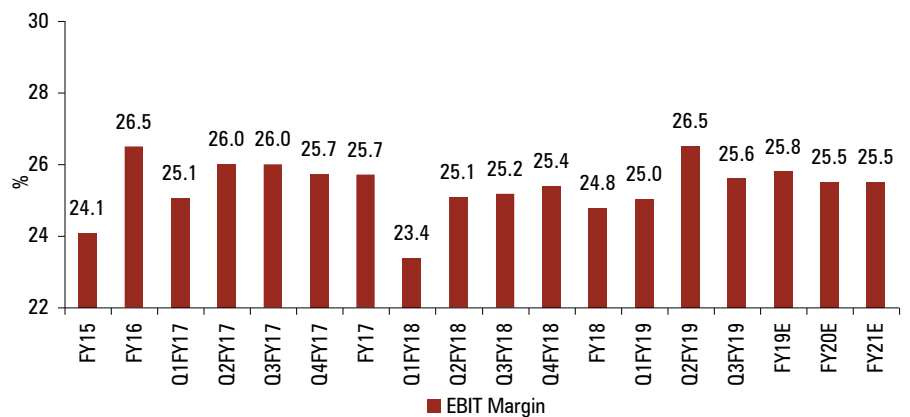
Source: Company, ICICI Direct Research

Exhibit 5: Dollar revenues may grow at 8.7% CAGR in FY18-21E



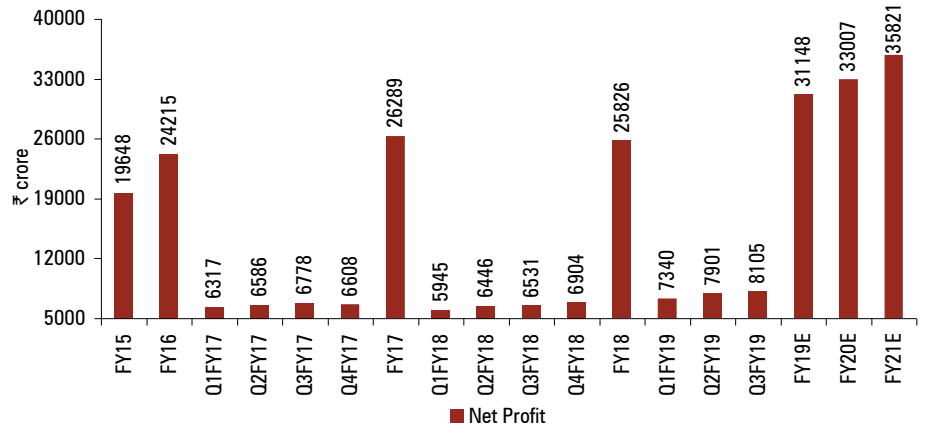
Source: Company, ICICI Direct Research

Exhibit 6: Revise our margin estimates to 25.8%, 25.5% for FY19E, FY20E



Source: Company, ICICI Direct Research

Exhibit 7: PAT may grow at 11.5% CAGR in FY18-21E



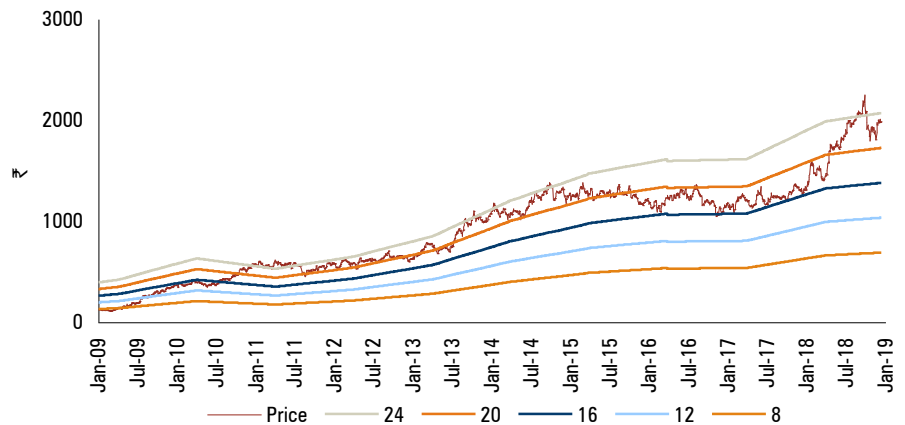
Source: Company, ICICI Direct Research

Outlook and valuation

Tata Consultancy Services (TCS) reported a lower-than-expected performance on all fronts, specifically at the margin level. On the positive side, digital revenue is now contributing 30.1% to revenues (vs. 22.1% in Q3FY18) growing strong at 49.4% YoY and 7.8% sequentially in dollar terms. TCV of order closure increased 20% QoQ to US\$5.9 billion. In terms of geography, North America grew 0.9% QoQ, Continental Europe grew 1.4% QoQ in dollar terms while UK was flat and Asia Pacific fell 1.4% QoQ. Among verticals, energy & utilities led growth (2.9% QoQ in dollar terms) while retail & CPG was flat and BFSI declined 0.6% QoQ.

TCS reported a weak quarter, especially on the margin front and the management commentary indicates pressure to remain, going ahead. Further, absence of rupee benefit, caution in Europe and the UK from BFS vertical coupled with global macro uncertainty prompts us to cut our EPS estimates by ~3-7% for FY19E, FY20E. We roll over our valuation to FY21E and value the stock at ~18x FY21E EPS. We maintain our **HOLD** rating on the stock with a revised target price of ₹ 1750.

Exhibit 8: One year forward rolling PE



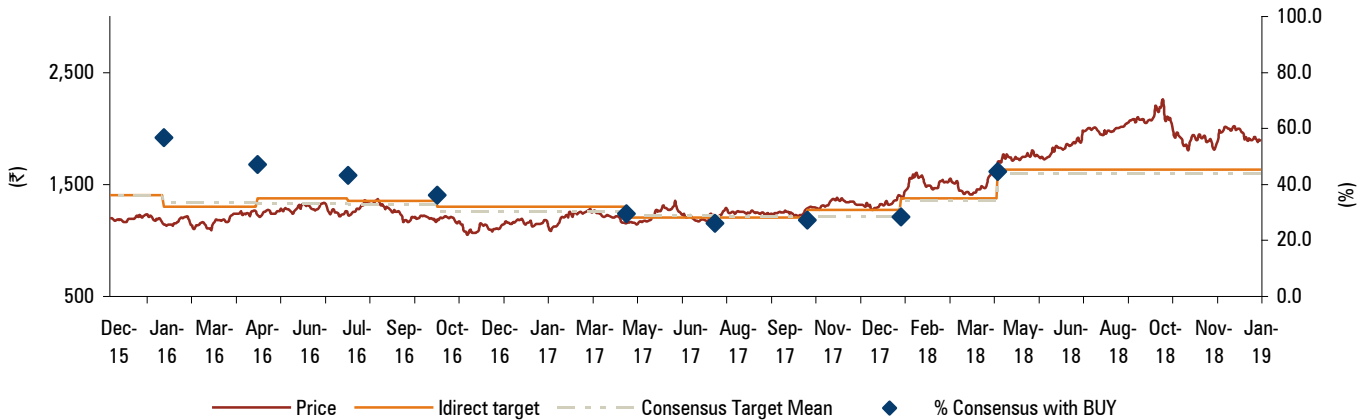
Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	117,966	8.6	66.7	8.5	27.6	20.0	29.8	37.9
FY18	123,104	4.4	67.4	1.1	27.2	19.9	29.6	37.6
FY19E	146,978	19.4	83.0	23.1	22.1	16.2	34.3	44.0
FY20E	161,997	10.2	87.9	6.0	20.9	14.6	32.4	41.7
FY20E	174,117	7.5	95.4	8.5	19.2	13.4	31.7	40.8

Source: Company, ICICI Direct Research

Recommendation History vs. Consensus



Source: Company, ICICI Direct Research

Key events

Date	Event
Jun-18	TCS expands its partnership with M&G Prudential, the UK and European savings and investments business of Prudential plc. The 10 year partnership, announced in January 2018, aimed to digitally transform M&G Prudential's business and deliver an enhanced service for its UK savings and retirement customers. The extended partnership is worth an additional US\$668 million taking the total deal value to US\$ ~1.4 billion over 10 years
Sep-18	According to media sources, Tata Consultancy Services (TCS) wins ₹ 500 crore contract from Thomson Reuters for infrastructure management, and application development
Sep-18	TCS financial solutions TCS BaNCS selected by Kuwait Clearing Company (KCC) for Central Counter Party (CCP) Services. As part of this, TCS BaNCS for market infrastructure would provide KCC with a proven, unified clearing solution for the cash and derivatives markets
Nov-18	Tata Consultancy Services (TCS) wins the US lawsuit over alleged staff discrimination. A California jury unanimously sided with TCS, citing the Indian company did not discriminate against non-south Asian workers in the US as alleged in a lawsuit
Nov-18	TCS expands its ongoing 12-year old partnership with the Phoenix Group, Europe's largest life and pensions consolidator. As part of the expanded relationship, TCS would deliver digital transformation to move additional policies onto the TCS BFSI Digital Platform
Jan-19	TCS awarded a contract from Emirates NBD, the Middle East's leading financial services group, for payments to standardise and streamline payments operations across multiple geographies

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Tata Group of Companies	30-Sep-18	72.0%	2,702.5	-49.8
2	Life Insurance Corporation of India	30-Sep-18	4.1%	152.5	1.7
3	Stewart Investors	30-Sep-18	1.2%	44.5	-2.4
4	The Vanguard Group, Inc.	30-Nov-18	0.9%	32.7	0.1
5	BlackRock Institutional Trust Company, N.A.	31-Dec-18	0.8%	28.3	0.1
6	SBI Funds Management Pvt. Ltd.	30-Nov-18	0.6%	20.7	1.1
7	OppenheimerFunds, Inc.	30-Nov-18	0.4%	15.7	0.0
8	JPMorgan Asset Management U.K. Limited	30-Nov-18	0.4%	14.6	-0.3
9	Vontobel Asset Management, Inc.	30-Nov-18	0.4%	14.5	0.0
10	Aberdeen Standard Investments (Asia) Limited	30-Nov-18	0.4%	13.8	-0.3

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18
Promoter	71.92	71.92	72.05
Public	28.08	28.08	27.95
Others	--	--	--
Total	100.00	100.00	100.00

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Life Insurance Corporation of India	51.9m	1.7m	Tata Group of Companies	-1,498.3m	-49.8m
Causeway Capital Management LLC	50.4m	1.7m	Stewart Investors	-71.9m	-2.4m
APG Asset Management	44.2m	1.6m	Nomura Asset Management Co., Ltd.	-42.6m	-1.5m
SBI Funds Management Pvt. Ltd.	31.4m	1.1m	Eastspring Investments (Singapore) Limited	-30.1m	-1.1m
American Century Investment Management, Inc.	26.5m	0.9m	Matthews International Capital Management, L.L.C.	-30.2m	-1.0m

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Total operating Income	123,104	146,978	161,997	174,117	
Growth (%)	4.4	19.4	10.2	7.5	
COGS (employee expenses)	69,274	83,778	92,500	99,421	
S,G&A expenses	21,314	23,223	25,595	27,510	
Total Operating Expenditure	90,588	107,000	118,096	126,931	
EBITDA	32,516	39,978	43,901	47,186	
Growth (%)	0.6	22.9	9.8	7.5	
Depreciation	2,014	2,058	2,592	2,786	
Other Income less interest	3,590	3,689	2,788	3,458	
PBT	34,092	41,609	44,097	47,857	
Total Tax	8,212	10,402	11,024	11,964	
Minority Interest	54	59	65	72	
Exceptional Item	0	0	0	0	
PAT before exceptional item	25,826	31,148	33,007	35,821	
Growth (%)	-1.8	20.6	6.0	8.5	
EPS (₹)	67.4	83.0	87.9	95.4	
PAT after exceptional item	25,826	31,148	33,007	35,821	
EPS - Reported (₹)	67.4	83.0	87.9	95.4	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Profit before Tax	34,092	41,609	44,097	47,857	
Add: Depreciation	2,014	2,058	2,592	2,786	
(Inc)/dec in Current Assets	(3,172)	(5,584)	(4,675)	(3,678)	
Inc/(dec) in CL and Provisions	3,141	3,598	2,004	1,777	
Taxes paid	(7,609)	(10,402)	(11,024)	(11,964)	
CF from operating activities	28,166	28,471	30,021	33,134	
(Inc)/dec in Investments	1,646	(2,398)	287	(667)	
(Inc)/dec in Fixed Assets	(1,804)	(2,205)	(2,430)	(2,612)	
Others	0	2,808	2,974	3,644	
CF from investing activities	(253)	(1,795)	830	365	
Inc/(dec) in loan funds	(19)	0	0	0	
Dividend paid & dividend tax	(10,726)	(11,557)	(22,072)	(24,418)	
Others	(16,076)	(16,000)	0	0	
CF from financing activities	(26,845)	(27,557)	(22,072)	(24,418)	
Net Cash flow	1,068	(881)	8,778	9,082	
Exchange difference	218	0	0	0	
Opening Cash	4,027	6,939	6,058	14,836	
Closing Cash	6,939	6,058	14,836	23,918	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Liabilities					
Equity Capital	191	375	375	375	
Reserve and Surplus	84,254	87,661	98,596	109,999	
Share Premium	2,796	2,796	2,796	2,796	
Total Shareholders funds	87,241	90,832	101,767	113,170	
Total debt	247	284	308	327	
Other liabilities & Provisions	1,714	1,825	1,869	1,904	
Deferred tax liability(net)	1,170	1,170	1,170	1,170	
Minority Interest / Others	402	461	527	599	
Total Liabilities	90,774	94,573	105,641	117,170	
Assets					
Net assets & CWIP	11,612	11,759	11,597	11,423	
Goodwill	3,884	3,884	3,884	3,884	
Other non current assets	11,368	13,766	13,480	14,146	
Debtors	25,037	29,837	32,885	35,346	
Loans and Advances	4,339	5,180	5,710	6,137	
Other Current Assets	9,523	9,466	10,562	11,352	
Current Investments	35,707	35,707	35,707	35,707	
Cash	6,939	6,058	14,836	23,918	
Trade Payable	7,731	9,260	10,206	10,969	
OCL & Provisions	9,904	11,825	12,816	13,774	
Application of Funds	90,774	94,573	105,641	117,170	

Source: Company, ICICI Direct Research

Key ratios		₹ Crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E	
Per share data (₹)					
Adjusted EPS (Diluted)	67.4	83.0	87.9	95.4	
BV per share	227.8	242.0	271.1	301.5	
DPS	50.0	25.6	48.8	54.0	
Cash Per Share	18.1	16.1	39.5	63.7	
Operating Ratios (%)					
EBIT margins	24.8	25.8	25.5	25.5	
PBT Margins	27.7	28.3	27.2	27.5	
PAT Margin	21.0	21.2	20.4	20.6	
Debtor days	74	74	74	74	
Creditor days	23	23	23	23	
Return Ratios (%)					
RoE	29.6	34.3	32.4	31.7	
RoCE	37.6	44.0	41.7	40.8	
RolC	63.4	71.8	75.0	77.2	
Valuation Ratios (x)					
P/E	27.2	22.1	20.9	19.2	
EV / Net Sales	5.3	4.4	4.0	3.6	
Market Cap / Sales	5.6	4.7	4.3	4.0	
Solvency Ratios					
Debt / EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.2	2.1	2.1	2.1	
Quick Ratio	2.2	2.1	2.1	2.1	

Source: Company, ICICI Direct Research

ICICI Direct 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)	593	720	Hold	6,958	36.0	42.7	46.5	17.2	14.5	13.3	11.1	8.7	7.9	21.4	21.6	20.9	17.3	18.2	17.6
Eclerx (ECLSER)	1,063	1,010	Hold	4,477	72.9	71.1	78.0	14.9	15.3	13.9	10.6	10.7	9.1	28.2	27.9	28.1	24.1	20.5	20.6
Firstsource (FIRSOU)	49	75	Buy	3,438	4.8	5.2	5.8	10.3	9.5	8.5	8.7	7.3	6.4	13.0	14.9	16.5	13.9	13.7	14.1
HCL Tech (HCLTEC)	935	1,045	Hold	134,817	62.6	74.7	80.5	15.3	12.8	11.9	11.5	9.1	7.9	27.4	32.0	31.0	23.8	26.5	24.8
Infosys (INFTEC)	674	800	Buy	282,290	32.3	38.2	44.2	20.1	17.0	14.7	13.5	11.4	9.9	30.9	31.6	33.2	22.5	23.1	24.5
KPIT Tech (KPISYS)	205	230	Hold	4,477	12.7	17.2	18.0	17.4	12.7	12.2	10.9	6.9	6.3	15.5	19.5	18.5	13.9	16.4	15.1
MindTree (MINCON)	800	880	Hold	14,274	34.3	44.6	51.9	24.8	19.1	16.4	18.3	12.2	10.4	24.9	29.5	30.5	20.8	23.3	23.8
NIIT Technologies (NIITEC)	1,140	1,365	Buy	6,787	45.6	67.1	75.9	24.5	16.6	14.7	12.0	9.1	7.4	19.4	24.5	24.5	15.8	20.3	20.1
Persistent (PSYS)	546	605	Hold	4,903	40.5	45.5	48.7	15.1	13.5	12.6	8.7	6.6	5.9	19.8	20.8	20.0	15.2	15.3	14.7
TCS (TCS)	1,840	1,750	Hold	690,701	67.4	83.0	87.9	27.2	22.1	20.9	19.9	16.2	14.6	37.6	44.0	41.7	29.6	34.3	32.4
Tech Mahindra (TECMAH)	691	820	Buy	68,494	42.7	48.5	54.4	16.3	14.4	12.8	13.5	9.3	7.8	21.5	22.1	21.2	20.2	19.7	18.3
Wipro (WIPRO)	325	360	Buy	145,465	16.8	20.1	23.8	19.2	16.0	13.6	12.3	10.1	8.4	16.9	16.9	17.5	16.6	16.2	16.6

Source: Company, ICICI Direct Research

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