

# Persistent Systems

**BUY**

<b>INDUSTRY</b>	<b>IT</b>		
<b>CMP (as on 28 Jan 2019)</b>	<b>Rs 565</b>		
<b>Target Price</b>	<b>Rs 815</b>		
Nifty	10,662		
Sensex	35,657		
<b>KEY STOCK DATA</b>			
Bloomberg	PSYS IN		
No. of Shares (mn)	80		
MCap (Rs bn) / (\$ mn)	45/635		
6m avg traded value (Rs mn)	173		
<b>STOCK PERFORMANCE (%)</b>			
<b>52 Week high / low</b>	<b>Rs 915/532</b>		
	3M	6M	12M
Absolute (%)	1.5	(32.3)	(28.5)
Relative (%)	(5.4)	(27.8)	(27.5)
<b>SHAREHOLDING PATTERN (%)</b>			
Promoters	30.47		
FIs & Local MFs	19.55		
FPIs	23.52		
Public & Others	26.46		
Source : BSE			

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## Operational resilience, benign valuations

Persistent (PSYS) posted in-line revenue and an operational beat in 3Q. While the revenue growth was muted (despite seasonality tailwind), operational improvement seems sustainable supported by (1) Higher offshoring (in large accounts), (2) Better mix (higher Salesforce, Appian channel contribution) and (3) Utilisation increase. Revenue came at USD 120.8mn, +2.2% QoQ led by Digital (+6.4% QoQ) and Accelerite (+7.8% QoQ), offset by Services (-0.4% QoQ) and Alliance (+1.9% QoQ). EBITDA% stood at 19.7%, +252bps QoQ supported by gross margin expansion of +290bps (IP rev growth, bill-rate & higher utilisation). APAT came in-line at Rs 0.92bn, impacted by forex loss of Rs 0.24bn.

PSYS is at the cusp of new MD/CEO announcement and positive changes can drive growth in the sales engine (lacking earlier). We maintain positive outlook on PSYS based on (1) Strong pipeline and sales & delivery re-organisation (merged Digital and services) directed

towards better account mining and higher efficiencies, (2) Strong partner network (Salesforce, Appian) and new partnerships like 'Blueprism', 'OutSystems' accelerating growth in Digital (23% of rev), (3) Scalability of Accelerite portfolio (6% of rev) and accelerated hiring indicative of demand uptick.

Expect rev/EPS CAGR of 10/15% over FY19-21E factoring USD rev growth at 8.6/11.5% and EBITDA% at 18.3% each for FY20/21E. Maintain BUY with TP of Rs 815, 14x Dec-20E EPS.

### Highlights of the quarter

- Some re-seller component may support Alliance revenue in 4Q. Strong uptick in Alliance and Accelerite segment margin in 3Q. Management expects Digital to accelerate to 25-30% YoY growth over medium term.
- Near-term outlook:** Buyback announced under 'open market route' of Rs 2.25bn upto Rs 750 per share (3.7% of equity at maximum price), expected to support benign valuations (<11x FY20E).

### Financial Summary

YE March (Rs bn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	8.64	7.92	9.1	8.36	3.4	28.78	30.34	34.17	37.94	42.29
EBITDA	1.70	1.38	23.9	1.44	18.6	4.54	4.69	6.20	6.95	7.72
APAT	0.92	0.92	0.1	0.88	4.0	2.93	3.23	3.59	4.14	4.78
Diluted EPS (Rs)	11.5	11.5	0.1	11.0	4.1	36.6	40.4	44.9	51.8	59.8
P/E (x)						15.4	14.0	12.6	10.9	9.5
EV / EBITDA (x)						9.3	9.0	6.5	5.5	4.8
RoE (%)						17.0	16.0	16.0	16.8	17.0

Source: Company, HDFC sec Inst Research # Consolidated

**Quarterly Financials Snapshot (Consolidated)**

Particulars (Rs bn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)
<b>Revenue (USD mn)</b>	<b>120.8</b>	<b>122.5</b>	<b>(1.4)</b>	<b>118.2</b>	<b>2.2</b>
<b>Net Revenue</b>	<b>8.64</b>	<b>7.92</b>	<b>9.1</b>	<b>8.36</b>	<b>3.4</b>
Employee Expenses	5.34	5.01	6.6	5.41	(1.3)
Other Operating Expenses	1.60	1.53	4.1	1.51	5.9
<b>EBITDA</b>	<b>1.70</b>	<b>1.38</b>	<b>23.9</b>	<b>1.44</b>	<b>18.6</b>
Depreciation	0.40	0.39	0.9	0.40	(0.6)
<b>EBIT</b>	<b>1.31</b>	<b>0.98</b>	<b>33.0</b>	<b>1.04</b>	<b>25.9</b>
Other Income	(0.01)	0.19	(105.7)	0.23	(104.7)
Interest Cost	0.00	0.00	378.6	0.00	(37.4)
<b>PBT</b>	<b>1.30</b>	<b>1.18</b>	<b>10.3</b>	<b>1.27</b>	<b>2.0</b>
Tax	0.38	0.26	46.3	0.39	(2.4)
<b>RPAT</b>	<b>0.92</b>	<b>0.92</b>	<b>0.1</b>	<b>0.88</b>	<b>4.0</b>
EO Items (Adj For Tax)	-	-	NA	-	NA
<b>APAT</b>	<b>0.92</b>	<b>0.92</b>	<b>0.1</b>	<b>0.88</b>	<b>4.0</b>

Source: Company, HDFC Sec Inst Research

**Margin Analysis (%)**

	3QFY19	3QFY18	YoY (bps)	2QFY19	QoQ (bps)
Employee Expenses % Net Sales	61.8	63.3	(145)	64.7	-294
SG&A Expenses % Net Sales	18.5	19.4	(89)	18.1	42
Gross Margin %	38.2	36.7	145	35.3	294
<b>EBITDA Margin (%)</b>	<b>19.7</b>	<b>17.4</b>	<b>234</b>	<b>17.2</b>	<b>252</b>
EBIT Margin (%)	15.1	12.4	271	12.4	270
Tax Rate (%)	29.2	22.0	718	30.5	-133
APAT Margin (%)	10.6	11.6	(96)	10.6	6

Source: Company, HDFC Sec Inst Research

Revenue came at USD 120.8mn, 2.2% QoQ and -1.4% YoY; 9MFY19 revenue increase of 2.6% YoY

EBITDA% of 19.7%, +252bps QoQ supported by gross margin expansion of 294bps QoQ; 9MFY19 EBITDA% at 17.9%, +224bps YoY

Margins recovered to pre-IBM Alliance levels and at the highest level since FY15

APAT at Rs 0.92bn impacted by forex loss of Rs 0.24bn; 9MFY19 APAT growth of 7.2% YoY

*Growth in ISV segment was supported by IBM growth*

*Growth led by Digital and Accelerite at 6.4% QoQ and 7.8% QoQ*

### Service Line Revenue Break-up

(% of revenue)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
ISV	40.8	39.9	38.5	40.6	38.8	39.5	39.8
Enterprise	32.0	34.1	34.7	37.1	33.8	34.9	35.2
IP	27.2	26.0	26.8	22.3	27.4	25.6	25.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Service Line Revenue Growth

(QoQ, %)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
ISV	0.9	2.2	0.1	0.7	1.0	(2.6)	3.0
Enterprise	8.7	11.4	5.6	2.0	(3.7)	(1.2)	3.1
IP	2.4	0.0	6.8	(20.6)	29.6	(10.4)	(0.3)
<b>Total</b>	<b>3.6</b>	<b>4.5</b>	<b>3.8</b>	<b>(4.6)</b>	<b>5.7</b>	<b>(4.3)</b>	<b>2.2</b>

Source: Company, HDFC Sec Inst Research

### Revenue Segment (Re-organised structure)

(% of revenue)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Services	44.5	43.7	41.9	45.5	41.5	43.0	41.9
Digital	18.0	20.9	22.0	24.0	21.4	22.0	22.9
Alliance	29.2	27.3	29.6	24.3	32.1	29.5	29.4
Accelerite	8.3	8.1	6.5	6.2	5.0	5.5	5.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Revenue-Segment (Re-organised Structure) Growth

(QoQ, %)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Services	5.0	2.7	(0.5)	3.6	(3.6)	(0.9)	(0.4)
Digital	(1.3)	21.4	9.2	4.1	(5.8)	(1.7)	6.4
Alliance	9.6	(2.3)	12.5	(21.6)	39.6	(12.1)	1.9
Accelerite	(10.4)	2.0	(16.7)	(9.0)	(14.8)	5.2	7.8
<b>Total</b>	<b>3.6</b>	<b>4.5</b>	<b>3.8</b>	<b>(4.6)</b>	<b>5.7</b>	<b>(4.3)</b>	<b>2.2</b>

Source: Company, HDFC Sec Inst Research

*Offshore shift expected to continue ahead; 3.1% QoQ in offshore revenue as compared to 2.9% QoQ onsite*

*Bill-rate led growth at onsite while volume-led growth at offshore in 3Q*

### Onsite-Offshore Revenue Break-up

(% of revenue)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Onsite	29.9	31.9	32.1	34.1	31.1	29.7	29.9
Offshore	42.9	42.1	41.1	43.6	41.5	44.7	45.1
IP-led	27.2	26.0	26.8	22.3	27.4	25.6	25.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Onsite-Offshore Revenue Growth

(QoQ, %)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Onsite	11.4	11.5	4.4	1.4	(3.6)	(8.7)	2.9
Offshore	(0.3)	2.6	1.3	1.3	0.6	3.0	3.1
IP-led	2.1	(0.1)	6.9	(20.6)	29.9	(10.6)	(0.2)
<b>Total</b>	<b>3.6</b>	<b>4.5</b>	<b>3.8</b>	<b>(4.6)</b>	<b>5.7</b>	<b>(4.3)</b>	<b>2.2</b>

Source: Company, HDFC Sec Inst Research

### IT Services: Billing Rates Growth

(QoQ, %)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Onsite	0.8	(0.1)	1.8	2.1	(1.8)	(3.5)	2.6
Offshore	(0.8)	(1.5)	1.7	3.1	(0.4)	0.9	0.5

Source: Company, HDFC Sec Inst Research

### Volumes: IT Services And IP-led Growth

(QoQ, %)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Onsite	10.3	11.5	2.9	(0.9)	(1.8)	(5.4)	0.5
Offshore	0.4	4.2	(0.6)	(1.6)	1.1	2.0	2.5
<b>Total Volumes</b>	<b>1.8</b>	<b>5.4</b>	<b>(0.0)</b>	<b>(1.5)</b>	<b>0.6</b>	<b>0.8</b>	<b>2.2</b>
IP-Led	4.7	(3.6)	0.1	1.4	(2.2)	(3.8)	(1.9)

Source: Company, HDFC Sec Inst Research

*Among geos, growth was led by NorthAm at 3.6% QoQ and Europe (lower rev share vs. peers) at 3.6% QoQ*

*Top accounts posted strong growth in 3Q*

*Added 25 new customers in digital business*

### Geographical Revenue Break-up

(% of revenue)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
North Americas	85.5	83.4	84.4	80.9	79.7	82.6	83.7
Europe	5.9	8.5	7.3	8.2	12.0	7.5	7.6
RoW	8.6	8.1	8.3	10.9	8.3	9.9	8.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, HDFC Sec Inst Research

### Geographical Revenue Growth

(QoQ, %)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
North Americas	2.4	2.0	5.0	(8.5)	4.1	(0.9)	3.6
Europe	15.3	50.6	(10.9)	7.2	54.7	(40.2)	3.6
RoW	8.7	(1.5)	6.3	25.3	(19.5)	14.1	(10.2)
<b>Total</b>	<b>3.6</b>	<b>4.5</b>	<b>3.8</b>	<b>(4.6)</b>	<b>5.7</b>	<b>(4.3)</b>	<b>2.2</b>

Source: Company, HDFC Sec Inst Research

### Client-wise Revenue Break-up

(% of revenue)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Top Client	27.9	25.9	28.0	21.7	23.8	25.7	26.3
Top-5 Clients	45.7	43.8	46.3	40.9	43.8	43.3	45.0
Top-10 Clients	55.2	53.5	55.3	49.9	53.7	52.4	54.6

Source: Company, HDFC Sec Inst Research

### Client-wise Revenue Growth

(QoQ, %)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Top Client	9.1	(3.0)	12.2	(26.0)	15.9	3.3	4.6
Top-5 Clients	9.4	0.2	9.7	(15.7)	13.2	(5.4)	6.2
Top-10 Clients	9.2	1.3	7.2	(13.9)	13.7	(6.7)	6.5

Source: Company, HDFC Sec Inst Research

*Utilisation improved to 82.1%*

*Rs 0.43bn exposure (deposit) to ILFS maturing in Jan-19 to Jun-19, factored provisioning of Rs 0.21bn in FY20E*

### Headcount, Utilisation Data

(Nos.)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
<b>Total headcount</b>	<b>9,401</b>	<b>9,246</b>	<b>9,109</b>	<b>8,976</b>	<b>8,902</b>	<b>9,302</b>	<b>9,530</b>
Software Professionals	8,744	8,599	8,460	8,329	8,196	8,566	8,761
Sales	210	208	206	211	237	247	266
Support	447	439	443	436	469	489	503
<b>Net Additions</b>	<b>(59)</b>	<b>(155)</b>	<b>(137)</b>	<b>(133)</b>	<b>(74)</b>	<b>400</b>	<b>228</b>
Attrition Rate (%)	15.5	15.5	14.7	14.7	14.8	15.4	16.4
Utilisation (%)	77.2	78.6	79.9	81.2	80.7	81.9	82.1

Source: Company, HDFC Sec Inst Research

### Key Assumptions

Particulars	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Services Revenue Growth (%)	11.0	11.2	11.4	13.3	3.1	10.5	12.2
Services Volume Growth (%)	4.7	6.2	7.5	7.2	2.9	8.7	9.3
IP Revenue Growth (%)	19.6	25.8	61.7	0.3	3.2	2.9	9.3
IP-led Volume Growth (%)	11.6	32.4	47.9	0.0	(5.5)	2.9	5.1
<b>Total USD Revenue Growth (%)</b>	<b>12.6</b>	<b>14.0</b>	<b>22.0</b>	<b>9.7</b>	<b>3.1</b>	<b>8.6</b>	<b>11.5</b>
USD/INR Rate	61.3	65.8	67.1	64.5	70.4	72.0	72.0
<b>EBITDA Margin (%)</b>	<b>20.7</b>	<b>18.0</b>	<b>15.8</b>	<b>15.4</b>	<b>18.1</b>	<b>18.3</b>	<b>18.3</b>

Source: Company, HDFC Sec Inst Research

### Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
<b>FY20E</b>			
Revenue (USD mn)	527	527	(0.1)
Revenue (Rs bn)	37.98	37.94	(0.1)
EBITDA (Rs bn)	6.55	6.95	6.0
EBITDA Margin (%)	17.3%	18.3%	105bps
EPS (Rs)	51.0	51.8	1.4
<b>FY21E</b>			
Revenue (USD mn)	596	587	(1.4)
Revenue (Rs bn)	42.91	42.29	(1.4)
EBITDA (Rs bn)	7.54	7.72	2.5
EBITDA Margin (%)	17.6%	18.3%	70bps
EPS (Rs)	59.5	59.8	0.4

Source: HDFC sec Inst Research

### Peer Set Comparison

Company	Mcap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)				P/E (x)				RoE (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
L&T Infotech	293	1,703	BUY	2,240	67.0	87.4	92.2	105.9	25.4	19.5	18.5	16.1	33.2	35.3	30.7	29.6
Mphasis	182	941	BUY	1,390	45.4	58.1	68.2	81.5	20.7	16.2	13.8	11.5	14.6	20.5	23.3	24.1
L&T Tech	177	1,709	BUY	2,030	45.7	66.5	75.3	97.7	37.4	25.7	22.7	17.5	27.7	31.9	29.8	31.8
Mindtree	142	869	BUY	1,140	30.5	44.3	52.5	59.0	28.4	19.6	16.5	14.7	20.5	25.5	25.1	24.3
Hexaware *	95	320	BUY	475	16.9	20.9	23.2	26.4	19.0	15.3	13.7	12.1	26.9	28.6	27.3	26.8
Cyient	66	590	BUY	790	38.6	39.2	45.5	50.7	15.3	15.1	13.0	11.6	18.1	17.9	18.9	19.0
Tata Elxsi	54	875	NR	1,050	38.5	46.9	51.3	61.1	22.7	18.6	17.1	14.3	37.0	35.1	31.1	30.4
Zensar	50	221	BUY	300	10.6	13.4	16.7	19.5	20.8	16.5	13.3	11.3	15.1	16.8	18.1	18.3
<b>Persistent</b>	<b>45</b>	<b>565</b>	<b>BUY</b>	<b>815</b>	<b>40.4</b>	<b>44.9</b>	<b>51.8</b>	<b>59.8</b>	<b>14.0</b>	<b>12.6</b>	<b>10.9</b>	<b>9.5</b>	<b>16.0</b>	<b>16.0</b>	<b>16.8</b>	<b>17.0</b>
eClerx	40	1,045	NEU	1,195	70.8	70.9	79.0	96.7	14.8	14.7	13.2	10.8	23.9	22.3	23.9	23.8
Sonata	33	316	BUY	440	18.6	22.3	25.3	28.1	17.0	14.2	12.5	11.3	31.0	33.4	33.5	33.1
Intellect	24	193	BUY	310	3.7	7.4	10.0	16.0	51.8	26.1	19.3	12.0	6.5	10.2	12.1	16.8
Majesco	13	449	BUY	755	(2.1)	27.9	39.2	48.0	NA	16.1	11.5	9.4	NA	14.2	17.2	17.9
HGS	13	620	NR	725	93.3	82.7	86.4	92.1	6.6	7.5	7.2	6.7	13.8	11.1	10.6	10.4
<b>TIER-2 IT AVG.</b>									<b>22.6</b>	<b>17.0</b>	<b>14.5</b>	<b>12.1</b>	<b>21.9</b>	<b>22.8</b>	<b>22.7</b>	<b>23.1</b>

Source: HDFC sec Inst Research, \* Dec Y/E, TP implies Fair Value for Not Rated stocks

**Income Statement (Consolidated)**

Year ending March (Rs bn)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues (USD mn)	429	471	485	527	587
<b>Growth (%)</b>	<b>22.0%</b>	<b>9.7%</b>	<b>3.1%</b>	<b>8.6%</b>	<b>11.5%</b>
Net Revenues	28.78	30.34	34.17	37.94	42.29
<b>Growth (%)</b>	<b>24.5%</b>	<b>5.4%</b>	<b>12.6%</b>	<b>11.0%</b>	<b>11.5%</b>
Employee Expenses	18.52	19.70	21.58	23.62	26.56
SG&A Expenses	5.73	5.95	6.40	7.38	8.01
<b>EBITDA</b>	<b>4.54</b>	<b>4.69</b>	<b>6.20</b>	<b>6.95</b>	<b>7.72</b>
<b>EBITDA Margin (%)</b>	<b>15.8%</b>	<b>15.4%</b>	<b>18.1%</b>	<b>18.3%</b>	<b>18.3%</b>
<b>EBITDA Growth (%)</b>	<b>8.8%</b>	<b>3.2%</b>	<b>32.2%</b>	<b>12.1%</b>	<b>11.2%</b>
Depreciation	1.49	1.58	1.75	1.91	2.06
<b>EBIT</b>	<b>3.05</b>	<b>3.10</b>	<b>4.45</b>	<b>5.03</b>	<b>5.66</b>
Other Income (Including EO Items)	0.96	1.19	0.59	0.76	0.93
Interest	0.00	0.00	0.00	0.00	0.00
<b>PBT</b>	<b>4.01</b>	<b>4.29</b>	<b>5.03</b>	<b>5.79</b>	<b>6.59</b>
Tax (Incl Deferred)	0.99	1.06	1.44	1.59	1.81
<b>RPAT</b>	<b>3.01</b>	<b>3.23</b>	<b>3.59</b>	<b>3.99</b>	<b>4.78</b>
<b>APAT</b>	<b>2.93</b>	<b>3.23</b>	<b>3.59</b>	<b>4.14</b>	<b>4.78</b>
<b>APAT Growth (%)</b>	<b>-1.5%</b>	<b>10.3%</b>	<b>11.3%</b>	<b>15.2%</b>	<b>15.4%</b>
<b>Adjusted EPS (Rs)</b>	<b>36.6</b>	<b>40.4</b>	<b>44.9</b>	<b>51.8</b>	<b>59.8</b>
<b>EPS Growth (%)</b>	<b>-1.5%</b>	<b>10.3%</b>	<b>11.3%</b>	<b>15.2%</b>	<b>15.4%</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet (Consolidated)**

Year ending March (Rs bn)	FY17	FY18	FY19E	FY20E	FY21E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	0.80	0.80	0.80	0.80	0.80
Reserves	18.19	20.47	22.92	25.58	29.03
<b>Total Shareholders' Funds</b>	<b>18.99</b>	<b>21.27</b>	<b>23.72</b>	<b>26.38</b>	<b>29.83</b>
Total Debt	0.02	0.02	0.02	0.02	0.02
Net Deferred Taxes	(0.20)	(0.37)	(0.37)	(0.37)	(0.37)
Long-term Provisions & Others	0.17	0.16	0.18	0.20	0.22
<b>TOTAL SOURCES OF FUNDS</b>	<b>18.98</b>	<b>21.08</b>	<b>23.55</b>	<b>26.23</b>	<b>29.70</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	5.52	5.09	4.00	3.43	3.40
CWIP	0.05	0.01	0.01	0.01	0.01
Goodwill	0.08	0.08	0.08	0.08	0.08
Other Non-current assets	1.77	1.50	1.59	1.71	1.89
<b>Total Non-current Assets</b>	<b>7.42</b>	<b>6.67</b>	<b>5.68</b>	<b>5.23</b>	<b>5.37</b>
Debtors	4.75	4.85	5.43	6.03	6.72
Other Current Assets	3.28	4.44	5.00	5.56	6.19
Cash & Equivalents	7.70	9.99	12.93	15.50	18.21
<b>Total Current Assets</b>	<b>15.74</b>	<b>19.28</b>	<b>23.36</b>	<b>27.09</b>	<b>31.12</b>
Creditors	1.21	1.67	1.88	2.09	2.33
Other Current Liabilities & Prov.	2.96	3.20	3.60	4.00	4.46
<b>Total Current Liabilities</b>	<b>4.17</b>	<b>4.87</b>	<b>5.49</b>	<b>6.09</b>	<b>6.79</b>
Net Current Assets	11.56	14.41	17.87	21.00	24.33
<b>TOTAL APPLICATION OF FUNDS</b>	<b>18.98</b>	<b>21.08</b>	<b>23.55</b>	<b>26.23</b>	<b>29.70</b>

Source: Company, HDFC sec Inst Research



**Cash Flow (Consolidated)**

Year ending March (Rs bn)	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	4.01	4.29	5.03	5.79	6.59
Non-operating & EO items	0.84	0.88	0.28	0.25	0.25
Interest expenses	0.00	0.00	0.00	0.00	0.00
Depreciation	1.49	1.58	1.75	1.91	2.06
Working Capital Change	(1.67)	(0.77)	(0.73)	(0.74)	(0.86)
Tax Paid	(0.99)	(1.06)	(1.44)	(1.59)	(1.81)
<b>OPERATING CASH FLOW ( a )</b>	<b>3.67</b>	<b>4.93</b>	<b>4.89</b>	<b>5.62</b>	<b>6.24</b>
Capex	(2.18)	(1.33)	(1.88)	(2.09)	(2.33)
<i>Free cash flow (FCF)</i>	<i>1.50</i>	<i>3.60</i>	<i>3.01</i>	<i>3.53</i>	<i>3.91</i>
<b>INVESTING CASH FLOW ( b )</b>	<b>(2.18)</b>	<b>(1.33)</b>	<b>(1.88)</b>	<b>(2.09)</b>	<b>(2.33)</b>
Debt Issuance/(Repaid)	(0.00)	(0.01)	0.00	0.00	0.00
Interest Expenses	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
<i>FCFE</i>	<i>1.49</i>	<i>3.60</i>	<i>3.01</i>	<i>3.53</i>	<i>3.91</i>
Share Capital Issuance	-	-	-	-	-
Dividend	(0.85)	(0.95)	(1.14)	(1.33)	(1.33)
<b>FINANCING CASH FLOW ( c )</b>	<b>(0.85)</b>	<b>(0.96)</b>	<b>(1.14)</b>	<b>(1.33)</b>	<b>(1.33)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>0.64</b>	<b>2.64</b>	<b>1.87</b>	<b>2.20</b>	<b>2.58</b>
<b>Closing Cash &amp; Equivalents</b>	<b>7.70</b>	<b>9.99</b>	<b>12.93</b>	<b>15.50</b>	<b>18.21</b>

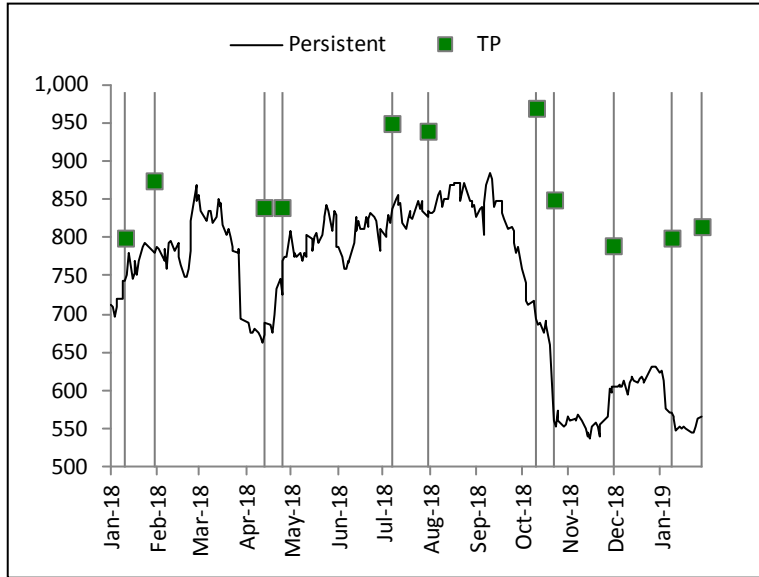
Source: Company, HDFC sec Inst Research

**Key Ratios (Consolidated)**

	FY17	FY18	FY19E	FY20E	FY21E
<b>PROFITABILITY (%)</b>					
GPM	35.7	35.0	36.8	37.7	37.2
EBITDA Margin	15.8	15.4	18.1	18.3	18.3
APAT Margin	10.5	10.6	10.5	11.1	11.3
RoE	17.0	16.0	16.0	16.8	17.0
RoIC (or Core RoCE)	21.5	20.9	29.3	34.2	36.9
RoCE	17.1	16.1	16.1	16.9	17.1
<b>EFFICIENCY</b>					
Tax Rate (%)	24.8	24.7	28.6	27.5	27.5
Fixed Asset Turnover (x)	4.1	4.1	4.5	4.9	5.2
<i>Debtors (days)</i>	<i>60</i>	<i>58</i>	<i>58</i>	<i>58</i>	<i>58</i>
<i>Other Current Assets (days)</i>	<i>42</i>	<i>53</i>	<i>53</i>	<i>53</i>	<i>53</i>
<i>Payables (days)</i>	<i>15</i>	<i>20</i>	<i>20</i>	<i>20</i>	<i>20</i>
<i>Other Current Liab &amp; Provn (days)</i>	<i>38</i>	<i>38</i>	<i>38</i>	<i>38</i>	<i>38</i>
Cash Conversion Cycle (days)	49	53	53	53	53
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (x)	(0.4)	(0.5)	(0.5)	(0.6)	(0.6)
Interest Coverage (x)	3,351	3,926	1,949	4,304	4,316
<b>PER SHARE DATA (Rs)</b>					
EPS	36.6	40.4	44.9	51.8	59.8
CEPS	56.3	60.2	66.8	76.4	85.5
Dividend	9	10	12	14	14
Book Value	237	266	297	330	373
<b>VALUATION</b>					
P/E (x)	15.4	14.0	12.6	10.9	9.5
P/BV (x)	2.4	2.1	1.9	1.7	1.5
EV/EBITDA (x)	9.3	9.0	6.5	5.5	4.8
OCF/EV (%)	8.7	11.7	12.2	14.6	17.0
FCF/EV (%)	3.6	8.5	7.5	9.2	10.6
FCFE/Mkt Cap (%)	3.3	8.0	6.7	7.8	8.7
Dividend Yield (%)	1.6	1.8	2.1	2.5	2.5

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
10-Jan-18	743	BUY	800
29-Jan-18	782	BUY	875
12-Apr-18	663	BUY	840
25-Apr-18	726	BUY	840
6-Jul-18	837	BUY	950
31-Jul-18	826	BUY	940
10-Oct-18	695	BUY	970
22-Oct-18	565	BUY	850
30-Nov-18	596	BUY	790
8-Jan-19	570	BUY	800
29-Jan-19	565	BUY	815

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- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

**INSTITUTIONAL RESEARCH**
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