

Tech Mahindra

BSE SENSEX	S&P CNX
36,617	10,934
Bloomberg	TECHM IN
Equity Shares (m)	985
M.Cap.(INRb)/(USDb)	736 / 10.3
52-Week Range (INR)	780 / 564
1, 6, 12 Rel. Per (%)	8/18/14
12M Avg Val (INR M)	2330
Free float (%)	64.1

Financials & Valuations (INR b)

Y/E Mar	2019E	2020E	2021E
Net Sales	352.5	389.4	422.5
EBITDA	64.9	71.4	77.4
PAT	44.1	47.9	53.6
EPS (INR)	48.9	53.0	59.3
Gr. (%)	14.4	8.4	12.0
BV/Sh (INR)	209.6	237.0	267.3
RoE (%)	23.5	24.2	23.9
RoCE (%)	19.3	20.0	20.3
P/E (x)	15.4	14.2	12.7
P/BV (x)	3.6	3.2	2.8

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR750 TP: INR860(+15%)
Buy

Building momentum in Communications

Margin expansion to take a breather

- **Revenue above estimate; PAT beat led by lower forex losses**
 - TECHM's revenue grew 4.2% YoY (our estimate: +2.7%) to USD1,261m, EBITDA increased 36% YoY (our estimate: +34%) to INR17.2b and PAT grew 28% YoY (our estimate of flat growth) to INR12.0b in 3QFY19.
 - CC revenue grew 4.3% QoQ (+6.4% YoY; our estimate: +2.6% QoQ, +4.7% YoY) in the quarter.
 - Gross margin shrank 100bp QoQ to 33%. However, EBITDA margin expanded 50bp QoQ to 19.3% (above our estimate of 18.9% by 40bp), driven by lower SGA (-150bp QoQ to 13.8%; our estimate: 15.3%).
 - PAT increased 27.7% YoY to INR12.0b, higher than our estimate of INR9.38b (28% beat), led by lower forex losses (INR0.8b v/s our estimate of INR1.9b) and lower ETR (17.8% v/s our estimate of 25%).
- **Broad-based growth, BPO skew continues:** Barring TME (-0.8% QoQ), revenue growth was broad based (2.5%-6.7% QoQ) across verticals. Growth continued to be led by BPO, which formed 28% of incremental revenue in the quarter and its revenue contribution inched up to 8.4% from 6.4% in 1QFY18. BPO skew of the recent quarters is also reflected in the headcount – since 4QFY17, software services professionals headcount is down by 10,618 (13%), while BPO headcount is up by 15,025 (53%).
- **Expect range-bound margins, continued momentum in Communications:** Towards end-FY17, TECHM articulated its 6-8 quarter journey for margin improvement. EBITDA margin since then has ramped up from 12% to 19.3% in seven quarters. Going forward, while there are levers such as subsidiary profitability, business mix and yield management, the pace of uptick is likely to be much slower than earlier. Revenue momentum in Communications should continue led by the recent deal wins.
- **Valuation view:** Led by above-estimate revenues and yet another quarter of healthy deal wins, our FY20/21 revenue estimates are up by 1%. We expect the margins to remain in the current range (18-18.5%), implying no material change to our earlier estimates (+10bp/20bp for FY20/21). TECHM trades at 14x/12.7x FY20E/21E earnings. The stock has nearly doubled over the past 18 months led by strong margin execution, and we believe that further upside will be a function of continued acceleration in Communications vertical revenue. Near-term upside will be limited, given that there is still time for impetus from 5G to play out, and earnings growth should settle down after the margins' run. Our TP of INR860 (15% upside) discounts forward earnings by 14.5x, the average multiple over the last five years. Maintain **Buy**.

Tech Mahindra Quarterly Performance

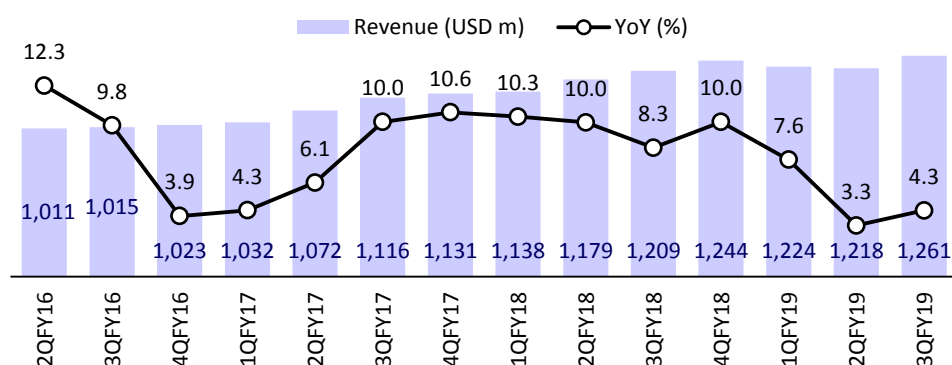
Y/E March	FY18				FY19E				FY18	FY19E	Est.	Var. (% /
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			3Q	
Revenue (USD m)	1,138	1,179	1,209	1,244	1,224	1,218	1,261	1,305	4,771	5,008	1,242	1.5
QoQ (%)	0.6	3.6	2.5	2.9	-1.6	-0.5	3.5	3.5	9.6	5.0	2.0	151bp
Revenue (INR m)	73,361	76,064	77,760	80,545	82,763	86,298	89,437	93,979	307,730	352,477	89,706	-0.3
YoY (%)	6.0	6.1	2.9	7.5	12.8	13.5	15.0	16.7	5.6	14.5	15.4	-35bp
GPM (%)	28.0	29.3	30.8	31.9	30.7	34.0	33.1	33.6	30.0	32.9	34.2	-109bp
SGA (%)	15.3	14.7	14.6	14.3	14.3	15.3	13.8	14.5	14.7	14.5	15.3	-147bp
EBITDA	9,347	11,057	12,638	14,119	13,569	16,186	17,226	17,917	47,161	64,898	16,936	1.7
EBITDA Margin (%)	12.7	14.5	16.3	17.5	16.4	18.8	19.3	19.1	15.3	18.4	18.9	38bp
EBIT Margin (%)	9.4	11.0	12.7	13.8	13.0	15.3	16.1	15.8	11.8	15.1	15.5	60bp
Other income	4,106	3,222	2,250	4,513	1,114	1,751	806	1,536	14,091	5,207	-979	-182.3
Interest expense	370	386	341	527	305	388	358	372	1,624	1,423	267	34.2
ETR (%)	25.4	25.3	21.8	18.6	21.2	26.8	17.8	25.0	22.4	22.8	25.0	
PAT excl. BT amort & EOI	7,985	8,362	9,422	12,221	8,979	10,642	12,029	11,914	37,990	44,079	9,388	28.1
QoQ (%)	35.8	4.7	12.7	29.7	-26.5	18.5	13.0	-1.0			-11.8	
YoY (%)	21.7	29.7	10.1	107.9	12.4	27.3	27.7	-2.5	38.3	16.0	-0.4	
EPS (INR)	9.0	9.4	10.6	13.7	10.1	11.9	13.5	13.3	42.6	48.7	10.5	
Headcount	115,990	117,225	115,241	112,807	113,552	118,391	121,842	128,781	112,807	128,781	120,755	0.9
Util excl. trainees (%)	77.0	81.0	83.0	84.0	81.0	81.0	82.0	84.0	81.1	82.1	82.8	-76bp
Attrition (%)	17.0	16.0	17.0	18.0	19.0	20.0						
Offshore rev. (%)	36.3	35.9	34.2	33.0	33.4	35.5	34.5	33.0	34.8	34.6	35.6	-113bp

E: MOSL Estimates

Revenue above expectations, skewed toward BPO

- TECHM's 3QFY19 constant currency revenue grew 4.3% QoQ, compared to our expectation of 2.6% QoQ CC. This implies YoY CC revenue growth of 6.4%, compared to our estimate of 4.7%
- In USD terms, revenue grew by 3.5% QoQ against an estimate of 2% growth. The cross-currency impact was 80bp.
- Barring TME (-08% QoQ), revenue growth was broad based across verticals, growing between 2.5%-6.7% QoQ. Communications grew 2.5% QoQ whereas Enterprise segment grew 4% QoQ.

Exhibit 1: Uptick in revenue led by consistent strength in BPS

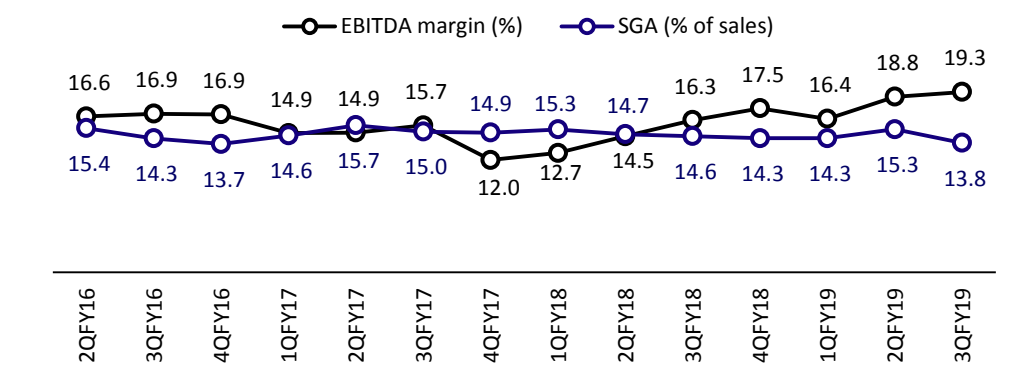


Source: MOSL, Company

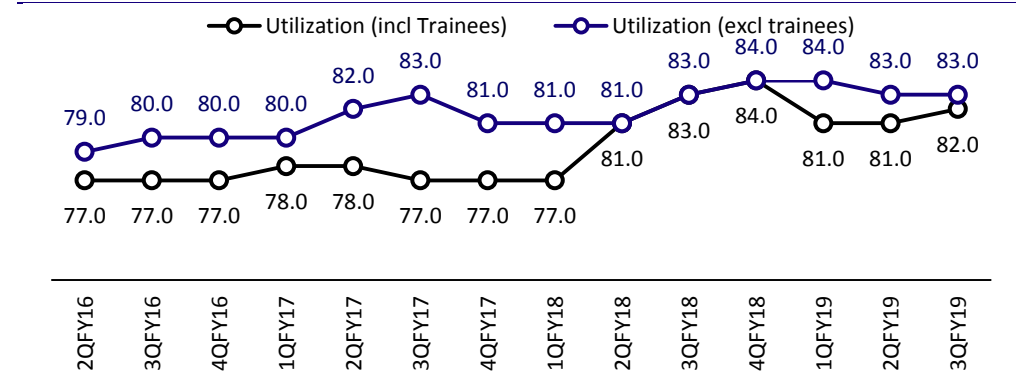
Margin performance led by SGA

- EBITDA margin was 19.3%, up 50bp QoQ, marginally above our estimate of 18.9%. The beat was majorly due to operational efficiency.
- However, this was driven by SGA, with gross margin at 33% (-100bp QoQ), while SGA at 13.8% declined 150bp sequentially (v/s our estimate of 15.3%).
- PBT at INR14.8B increased 25.6% YoY v/s our estimate of INR12.6b (17% beat). Lower forex losses drove this – at INR0.8b v/s estimated loss of INR1.9b.

- Consequently, PAT at INR12.0b grew 27.7% QoQ, higher than our estimate of INR9.38 (28% beat), compounded further by lower ETR (17.8% vs. 25%) led by tax reversal. Normalized tax rate stands at 24.5%.

Exhibit 2: Margins improved on account of lower SGA

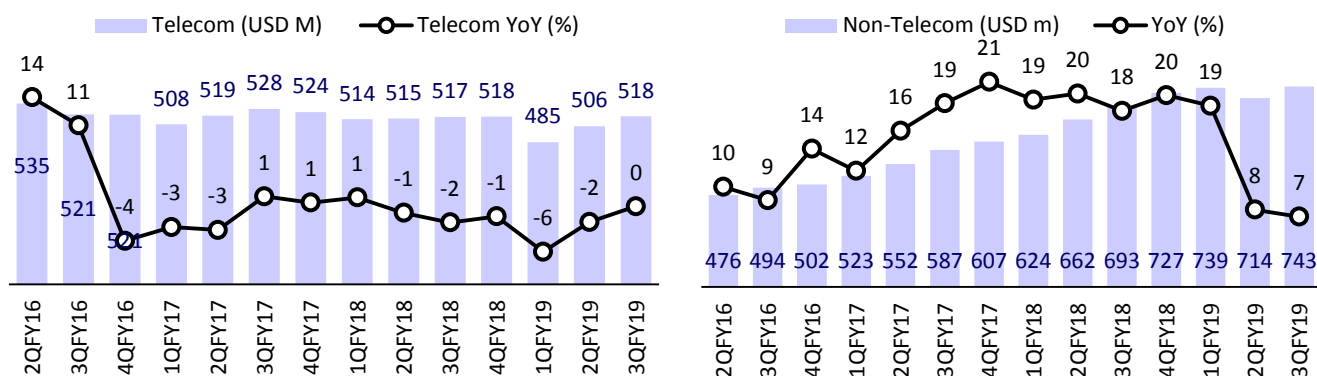
Source: MOSL, Company

Exhibit 3: Utilization lever well played out

Source: Company, MOSL

Robust performance in Enterprise; Gradual improvement in Telecom

- In terms of verticals, Telecom grew by 2.5% QoQ – gradual improvement seen in the vertical after prolonged weakness.
- Enterprise inched up 4.0% QoQ. Strength was seen in Manufacturing (+5.6% QoQ) and Retail (+6.7% QoQ).
- Growth continued to be led by BPO, which formed 28% of incremental revenues during the quarter, where revenue contribution has inched up to 8.4% from 6.4% in 1QFY18.
- BPO skew also reflected in headcount, with software professionals headcount down by 749 and BPO headcount up by 4,032 (8,739 in the last two quarters). Since 4QFY17, Software services professionals headcount is down by 10,618 employees (13%), while BPO headcount is up by 15,025 employees (53%).

Exhibit 4: Communication revenue seen getting better

Source: MOSL, Company

Exhibit 5: Enterprise going strong

Verticals	Contr to Rev. (%)	Growth - QoQ (%)	4Qtr CQGR (%)
Communication	41.1	2.5	0.0
Manufacturing	20.5	5.6	2.9
Tech Media Entertainment	7.0	-0.8	2.9
BFSI	13.4	2.7	1.2
Retail Transport Logistics	6.7	6.7	-0.4
Others	11.3	4.4	1.1
Total	100.0	3.5	1.1

Source: Company, MOSL

- Amongst geographies, strength was seen in ROW (+4.8% QoQ) on account of Comviva seasonality. Americas was up +4.4% QoQ, while Europe remained flat at +1% sequential growth.

Exhibit 6: Strength in Americas and ROW; Partially led by seasonality in Comviva

Geographies	Contr to Rev. (%)	Growth - QoQ (%)	4Qtr CQGR (%)
Americas	47.4	4.4	1.3
Europe	28.9	1.0	0.3
ROW	23.7	4.8	1.5
Total	100.0	3.5	1.1

Source: Company, MOSL

- While Top clients remained flat during the quarter, growth came from non-top accounts on account of higher digital penetration. Digital now account 33% of total revenues.

Exhibit 7: Top accounts flattish QoQ

Client concentration (QoQ)	Contr to Rev. (%)	Growth - QoQ (%)	4Qtr CQGR (%)
Top 5 clients	22.6	0.4	0.4
Top 6-10 clients	9.0	-0.9	-1.6
Top 11-20 clients	12.4	-0.5	2.3

Source: Company, MOSL

Takeaways from management commentary

Communications – expect momentum to continue

- Momentum due to the deal wins will be there going into the fourth quarter as well. Deals in the vertical have two characteristics – [1] widespread across Digital network and s/w transformation footprint, [2] cutting across upcoming transformation that will be brought about by 5G. Still have to wait for some more time for that to play out.
- **Networks:** Starting to get engaged in several conversations. Being selective about where to play, what terms are picked up. But suffice to say that there is a fair amount of activity.
- **M&A-related** integrated activities will pan out. Type of work will be around migration, integration, business process rationalization.

Margins – expect slower, sluggish ramp up hereon

- SGA and utilization (40 bp) drove margin uptick in 3Q. Large deal transition impacted gross margin, and also business mix changes. Business mix, yield management, Digital revenues, and Portfolio companies' synergy remain levers to combat any pressures.
- Pace for margin expansion might be a lot slower and much more muted hereon.
- As far as talent crunch in US goes, increased cost will come first, but offset from realization will come with a lag. For now it is not a very severe impact for TECHM.
- The entire bucket of subsidiaries was mid-single digit, and wanted to take it to double digit. Nearing that, and the next objective would be to take it to company average. Have covered 50% ground there and remaining 50% is left.

Enterprise traction is broad-based

- **Manufacturing** – seeing a lot of work and growth from smart products, autonomous, shrinking of product development cycle – all these require investments by customer. Pininfarina and Bio are helping in driving these for clients.
- **HCI** – came back to growth this quarter. Nothing fundamentally wrong with the business. Volatility was due to some projects completing their life cycle. Notwithstanding the volatility, long-term trend should be positive.

BPS – higher offshore helps margins

- Realization per employee in India is lower than that overseas. Also, deal prices bake committed transformation benefits into the overall proposition. But due to greater offshore, deals are EBITDA accretive despite lower realization.
- Within IT Services, a lot of subsidiary companies come in. That is one reason why BPS margins are higher than IT Services
- Within BPS – automation is only one part of the lever as well. The proposition of bringing together pure-play technologies is resonating with the clients, which yield healthy pricing.
- Demand in BPS is broad-based across verticals – BFS, Manufacturing, Communications, TME. Also some business from Digitally born companies.
- **Attrition – high, but low in top-performers' bracket:** Attrition of high performers is much lower and that is a healthy sign. Wage cycle for TECHM is in the June quarter. Don't see an unusual phenomenon just yet. Quantum will be decided in May taking into account the industry trends.

Change in estimates

- The quarter was marked by strong growth in Enterprise with gradual improvement in Communications. Along with this TechM saw a robust deal wins during the quarter. Factoring these assumptions, we have increased our revenue expectations for FY20/21 by 1%. This marks our revenue growth for FY20/21 as 8/8.5%.
- With margin improvement in this quarter, we feel that there is little room left for further improvement given operational levers are now played out. Hence there is only a little change in our margin guidance. Margin for FY20/21 stands at 18.3.
- Taking these factors and adjusting yield on cash with current momentum, we have changed our EPS estimate by 4%/3% for FY20/21.

Exhibit 8: Change in estimates

	Revised			Earlier			Change		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
INR/USD	70.4	72.0	72.0	70.7	72.0	72.0	-0.4%	0.0%	0.0%
USD Revenue - m	5,008	5,409	5,869	4,971	5,349	5,813	0.7%	1.1%	1.0%
USD rev Gr.(%)	5.0	8.0	8.5	4.2	7.6	8.7	78bp	39bp	-17bp
EBIDTA Margin (%)	18.4	18.3	18.3	18.4	18.2	18.1	4bp	10bp	19bp
EPS - INR	48.9	53.0	59.3	46.3	50.9	57.6	5.4%	4.0%	3.0%

Source: Company, MOSL

Valuation view

A foreword on the long term industry view: Growth for Indian IT should gradually pick-up from current 6-7% as Digital services proliferate, which today are still small to move the needle on overall performance. India will continue to remain the hotbed for talent supply en masse, making a case for increasing shift of Digital business from onsite. That said, with Automation the top priority of every Board, without exceptions, delineation of revenue growth with headcount growth appears obvious – and the only lever to stem the decline in profitability witnessed in recent years.

TECHM in that industry backdrop

- **Prowess in Telecom:** TECHM has strong capabilities in Communications (nearly half of current revenue) and works with most of the major global service providers. It has historically benefitted out of upswings in capital expenditure triggered by adoption of new technology. With 5G implementation being spoken of by most providers, 2019 looks like the year that will see higher spends in the industry – benefitting TECHM directly.
- **Sustained outperformance in Enterprise:** TECHM has been able to see sustained outperformance in Enterprise, because of [1] success in large deal wins [2] less baggage of traditional services, [3] small scale in most verticals and [4] sizeable Engineering revenue. Above-industry growth has been an indicator of competitive prowess, a sustenance of which will bode well for overall growth.

Basis the above (mid-single digit growth in Telecom and 10-12% in Enterprise), we expect TECHM to grow revenues in line with the industry as of today. However, any uptick in spend in Telecom would be reflected in better performance for the

company. Assuming a pick-up in spend in Telecom towards FY20/21E, our roll forward earnings CAGR over the next three years at 10% for TECHM is in line with industry, but with the potential of being higher.

Valuation and view

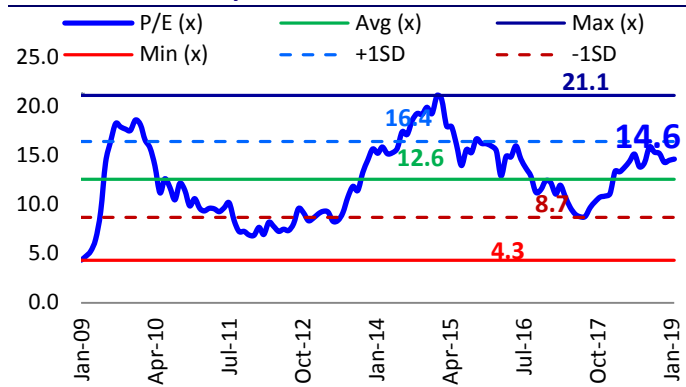
- Restructuring of LCC and sluggish offtake in the large deals signings in Communications have dragged TECHM's revenue growth performance, and more so the margins.
- While Telecom recovery may be gradual, there are some structural strengths in TECHM's business to drive much improved growth over the medium-to-long term:
 1. Success in large deal wins and above-industry growth in the Enterprise segment is an encouraging indicator of improving competitive prowess.
 2. Network management services have potentially expanded the addressable market for TECHM, with directly addressable spend standing at ~USD40b. That may not start playing out until TECHM brings the LCC house in order (revenue has been pruned down to ~USD300-310m annualized in run rate USD430m during acquisition 1 year ago).
 3. TECHM also has a sizeable scale in Engineering services, and the opportunity in the same can be leveraged, especially after the acquisition of Mahindra Engineering Services (MES)
- Profitability has taken a hit for TECHM over the last three years, with a cumulative decline in EBITDA margin of 780bp over FY14-17. This has shown improvement intermittently as the company squeezed some of its operational levers and underwent cost optimization. However, further improvement in margins would be a function of a serious pick-up in revenue from the Communications vertical and from better performance in portfolio companies.
- We expect TECHM to grow its revenues/EPS at a CAGR of 7/12% over FY18-21. At 14.2/12.7x FY20/21E, TECHM's valuations are attractive considering the recovery demonstrated in margins, which may now be followed by strong traction in Telecom.
- **Change in Estimates and Valuation view:** On the back of above-estimate revenues and yet another quarter of healthy deal wins, our FY20E/21E revenue estimates are up by 1%. We expect the margins to remain in current range (18-18.5%), implying no material change to our earlier estimates (10bp/20bp for FY20/21E). TECHM currently trades at 13x/12x FY20E/21E earnings. The stock has nearly doubled in the past 18 months on the back of strong margin execution, and we believe that further upside will be a function of continued acceleration in Communications vertical growth. Near term upside will be limited given that there is still time for impetus from 5G to play out, and earnings growth should settle down after the margins' run. Our price target of INR860 (15% upside) discounts forward earnings by 14.5x, the average multiple over last five years. Maintain **Buy**.

Key Triggers

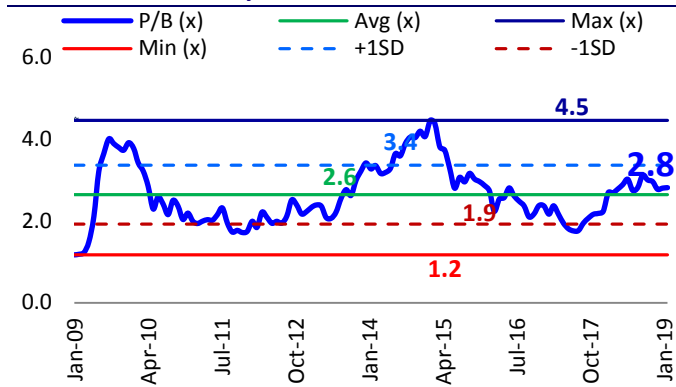
- Large deal announcements in Enterprise segment
- Continued momentum in Telecom
- Sustained margin improvement on account of measures taken

Key Risks

- Adverse visa related regulations as TECHM's proportion of local resources at onsite is lower than peers
- Currency fluctuations given higher sensitivity to earnings v/s peers
- More adversity in integration of acquisitions

Exhibit 9: TECHM 1-year forward PE chart

Source: Company, MOSL

Exhibit 10: TECHM 1-year forward PB chart

Source: Company, MOSL

Story in charts

Exhibit 11: Communications vertical >40% of revenue

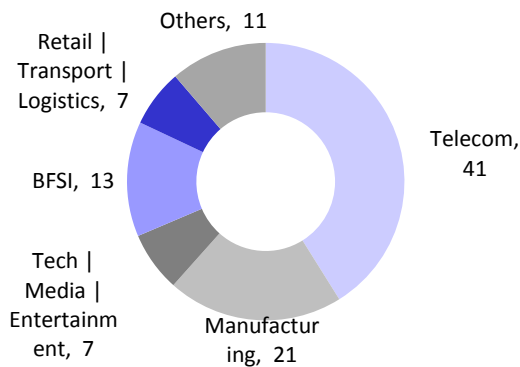
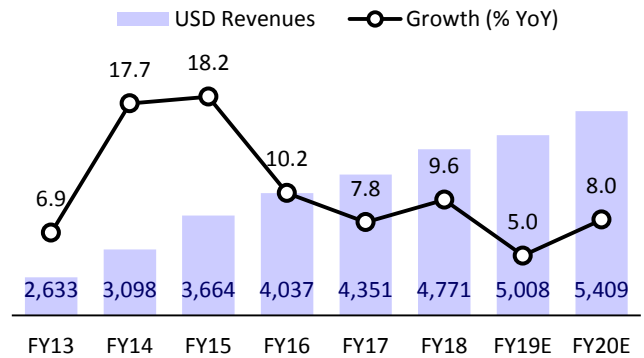


Exhibit 12: Growth expected to turn around



Source: Company, MOSL

Exhibit 13: As the fate of Communication vertical gets better

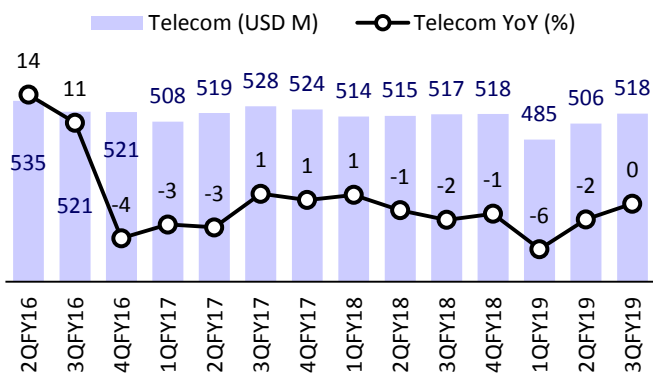
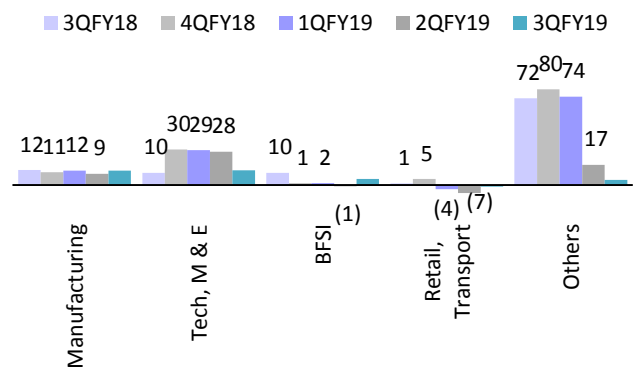


Exhibit 14: Multi-faceted growth in Enterprise



Source: Company, MOSL

Exhibit 15: Significant margin improvement lately

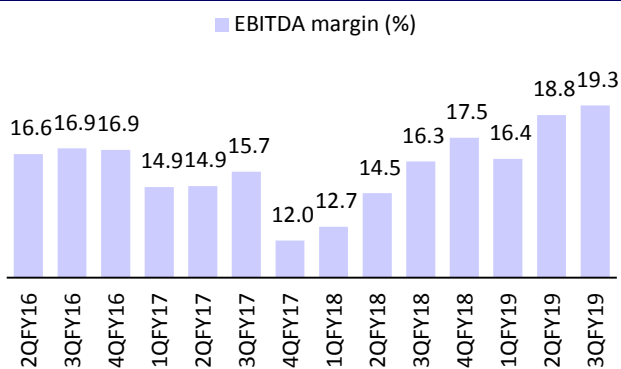
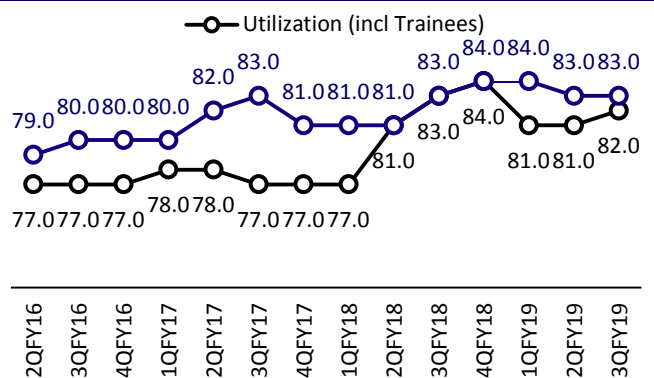


Exhibit 16: Lever of utilization utilized well so far



Source: Company, MOSL

Exhibit 17: Operating metrics

Operating metrics	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Revenue by geography (%)										
Americas	48.3	46.7	45.1	46.8	45.3	46.9	47.4	48.2	47.0	47.4
Europe	29.7	29.4	29.6	29.8	30.0	29.8	29.6	30.0	29.6	28.9
Rest of World	22	23.9	25.3	23.4	24.7	23.3	23.0	21.9	23.4	23.7
Vertical Split (%)										
Telecom	48.4	47.3	46.3	45.2	43.7	42.8	41.6	39.6	41.5	41.1
Manufacturing	19.2	18.4	19.2	19.3	19	19.1	19.3	20.1	20.1	20.5
Tech Media Entertainment	7.2	6.4	6.2	6.0	5.9	6.5	7.3	7.2	7.3	7
BFSI	11.5	13.1	14.1	14.4	14.1	13.3	13.0	13.6	13.5	13.4
Retail Transport Logistics	6.8	7.6	6.5	6.8	7.2	7.1	6.2	6.1	6.5	6.7
Others	6.8	7.1	7.7	8.3	9.9	11.3	12.6	13.4	11.2	11.3
Onsite-offshore mix (%)										
Onsite	63.5	63.9	64.3	63.7	64.1	65.8	67.0	66.6	64.5	65.5
Offshore	36.5	36.1	35.7	36.3	35.9	34.2	33.0	33.4	35.5	34.5
Client metrics										
No. of active clients	825	837	843	864	885	903	913	926	930	935
% of repeat business	95.6	93.4	93.5	97.2	95	92.9	88.4	98.5	97.4	94.6
No. of Million \$ clients										
USD1m+	341	356	354	377	390	389	392	396	407	416
USD5m+	120	128	134	139	147	154	156	154	157	157
USD10m+	66	65	71	74	81	83	85	86	86	88
USD20m+	40	38	36	41	40	40	44	47	45	46
USD50m+	14	14	14	14	14	16	16	16	17	18
Client concentration (%)										
Top client										
Top 5 Clients	28.5	27.8	26.6	25.9	24.8	23.2	23.2	21.9	23.3	22.6
Top 6-10	11.4	10.6	11	10.4	10.3	10	9.5	10.6	9.4	9
Top 11-20	11.8	12.1	11.4	12.2	11.1	11.8	13	13.7	12.9	12.4
Headcount (end of period)										
Software professionals	78,404	80,858	82,403	78,996	75,587	73,460	72,437	72,462	72,534	71,785
BPO	27,669	29,372	28,414	30,332	35,287	35,496	34,190	34,700	39,407	43,439
Sales and Support	5,670	6,865	6,876	6,662	6,351	6,285	6,180	6,390	6,450	6,618
Total	111,743	117,095	117,693	115,990	117,225	115,241	112,807	1,13,552	118,391	1,21,842
IT Attrition (LTM) (%)	19	18	17	17	16	17	18	19	20	21
IT Utilization (%)	78	77	77	77	81	83	84	81	81	82
IT Utilization (excluding trainees) (%)	82	83	81	81	81	83	84	84	83	83
Receivable Days (DSO)-Including Unbilled	107	102	95	104	106	105	102	108	112	107
Borrowings (USD m)	206.3	211	210.7	320.7	210.7	341.5	367.7	363.2	353.3	316
Cash and Cash Equivalent (USD m)	600.7	728.9	830.2	931.8	913.2	950.1	1192.9	1228.7	1089.8	1251.8
Capital Expenditure (USD m)	50.4	28.1	42.8	22.5	70.6	25.6	32.4	27.7	21.3	31.6

Source: Company, MOSL

Exhibit 18: Operating metrics

Operating metrics	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Rupee USD Rate										
Period closing rate	66.61	67.92	64.85	64.57	65.28	63.87	65.17	68.47	72.49	69.77
Period average Rate	66.86	67.7	66.47	64.44	64.45	64.35	64.64	67.51	70.68	71.11
Proportion of Revenues From Major Currencies										
USD	48.9	48.6	45.9	48.6	46.9	47.4	49.4	49.3	48.0	47.7
GBP	11	12	12.3	12.1	12	11.4	12.1	11.6	11.2	11.1
EURO	12.7	11.5	11.4	11.0	11.2	11.9	11.7	11.4	11.4	11
AUD	4.6	4.4	4.6	4.8	4.9	4.9	4.6	4.8	4.9	5.1
Others	22.7	23.5	25.8	23.4	24.9	24.5	22.2	22.9	24.5	25.1
Consolidated Hedge Position										
GBP In Mn	192.6	226.7	201	247	260	241	229	213	190	171
Strike rate (INR)	104.8	100.2	99.8	97.0	95.4	94.2	94.4	95.1	97	98.5
USD In Mn	1087.9	1123.2	1030.2	878	646	577	598	894	1069	1084
Strike rate (INR)	72.4	72.5	72.9	72.6	72.2	72.2	71	70.7	71.9	72.8
Verticals (QoQ)										
Telecom	2.2	1.7	-0.8	-1.8	0.2	0.4	0.0	-6.4	4.3	2.5
Manufacturing	10.0	-0.3	5.8	1.1	2.0	3.1	4.0	2.5	-0.5	5.6
Tech Media Entertainment	-0.2	-7.5	-1.8	-2.6	1.9	13.0	15.6	-3.0	0.9	-0.8
BFSI	5.8	18.6	9.1	2.8	1.5	-3.3	0.6	2.9	-1.2	2.7
Retail Transport Logistics	8.8	16.3	-13.3	5.3	9.7	1.1	-10.1	-3.2	6.0	6.7
Others	-3.2	8.7	9.9	8.4	23.6	17.0	14.8	4.6	-16.8	4.4
Total	3.9	4.1	1.5	0.6	3.4	2.8	2.8	-1.6	-0.4	3.4
Revenue by geography (QoQ)										
Americas	2.5	0.6	-2.1	4.4	0.3	6.2	4.0	0.0	-3.0	4.4
Europe	9.2	3.0	2.0	1.3	4.3	1.9	2.2	-0.3	-1.8	1.0
Rest of World	0.4	13.1	7.3	-6.9	9.4	-3.3	1.6	-6.3	6.3	4.8
Total	3.9	4.1	1.4	0.6	3.6	2.5	2.9	-1.5	-0.6	3.5
Client concentration (QoQ)										
Top 5	2.9	1.5	-3.0	-2.0	-0.8	-4.1	2.9	-7.1	5.9	0.4
Top 6-10	5.8	-3.2	5.2	-4.9	2.6	-0.5	-2.2	9.8	-11.7	-0.9
Top 11-20	-2.6	6.7	-4.5	7.7	-5.7	9.0	13.4	3.7	-6.3	-0.5
Net additions										
Software professionals	4,814	2,454	1,545	-3,407	-3,409	-2,127	-1,023	25	72	-749
BPO	343	1,703	-958	1,918	4,955	209	-1,306	510	4,707	4,032
Sales and Support	-630	1,195	11	-214	-311	-66	-105	210	60	168
Total	4,527	5,352	598	-1,703	1,235	-1,984	-2,434	745	4,839	3,451

Source: Company, MOSL

Financials and Valuations

Key Assumptions

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
INR/USD Rate	60.8	61.4	65.6	67.0	64.5	70.4	72.0	72.0
Revenues (USD m)	3,098	3,664	4,037	4,351	4,771	5,008	5,409	5,869
Total Headcount	89,441	1,03,281	1,05,432	1,17,693	1,12,807	1,28,781	1,36,124	1,48,321
Net Addition	6,332	13,840	2,151	12,261	-4,886	15,974	7,343	12,197
Per Capita Productivity (USD)	34,638	35,471	38,294	36,971	42,291	38,891	39,733	39,567
Utilization incl. Trainees (%)	73.1	69.9	74.0	73.4	80.1	80.4	83.2	83.6
IT Services (%)	90.3	91.7	92.6	93.1	92.8	92.0	91.7	91.9

Income Statement

(INR Million)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	188,313	224,779	264,941	291,408	307,730	352,477	389,417	422,544
Change (%)	31.4	19.4	17.9	10.0	5.6	14.5	10.5	8.5
Employee Cost	117,001	150,342	183,226	205,661	215,299	236,543	262,516	284,707
Other Expenses	29,476	32,901	38,289	43,904	45,270	51,036	55,492	60,467
Total Expenses	146,477	183,243	221,515	249,565	260,569	287,579	318,008	345,174
EBITDA	41,836	41,536	43,426	41,843	47,161	64,898	71,409	77,370
% of Net Sales	22.2	18.5	16.4	14.4	15.3	18.4	18.3	18.3
Depreciation	5,221	6,079	7,620	9,781	10,849	11,628	12,625	12,965
Interest	673	689	961	1,286	1,624	1,423	1,485	1,479
Other Income	1,129	1,006	5,322	6,836	14,091	5,207	6,494	8,492
PBT	37,071	35,774	40,167	37,612	48,779	57,053	63,792	71,418
Tax	9,790	9,472	8,600	9,785	10,925	13,019	15,948	17,855
Rate (%)	26.4	26.5	21.4	26.0	22.4	22.8	25.0	25.0
PAT	27,281	26,302	31,567	27,827	37,854	44,034	47,844	53,564
Minority Interest & EO items	336	310	412	357	-136	-45	-47	-34
PAT before EO	26,945	25,992	31,155	27,470	37,990	44,079	47,892	53,598
Change (%)	37.8	-3.5	19.9	-11.8	38.3	16.0	8.6	11.9
Effect of restructuring fees	-1,117	0	0	0	0	0	0	0
PAT after RF before EO	25,828	25,992	31,155	27,470	37,990	44,079	47,892	53,598
Change (%)	41.8	0.6	19.9	-11.8	38.3	16.0	8.6	11.9

Balance Sheet

(INR Million)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	2,335	4,804	4,839	4,388	4,417	4,422	4,422	4,422
Reserves	89,469	117,682	138,824	159,984	184,011	181,631	205,980	232,897
Net Worth	91,804	122,486	143,663	164,372	188,428	186,053	210,402	237,319
Minority Interest	1,453	1,604	2,034	4,641	5,091	5,249	5,249	5,249
Loans	8,420	11,287	15,564	23,761	28,931	28,500	28,408	28,316
Deferred Revenue	0	0	0	0	0	0	0	0
Amount pending invest.	12,304	12,304	12,304	12,304	12,304	12,304	12,304	12,304
Capital Employed	113,981	147,681	173,565	205,078	234,754	232,106	256,363	283,188
Assets	28,606	40,329	43,446	63,590	74,318	74,618	75,992	79,027
CWIP	0	5,677	6,294	3,729	2,399	2,608	2,608	2,608
Investments	12,194	12,987	13,244	3,319	14,364	12,490	15,990	19,490
Long term loans and adv	9,137	12,755	16,766	9	52	55	55	55
Deferred Tax Assets	3,830	3,901	5,575	2,674	5,766	8,025	8,025	8,025
Other non-current assets	157	306	294	24,079	26,403	30,746	30,746	30,746
Curr. Assets	105,472	122,526	149,451	163,265	181,070	190,674	223,694	259,780
Debtors	43,486	52,059	57,705	53,377	64,979	77,243	82,715	90,553
Cash & Bank Balance	33,202	24,049	40,138	32,186	30,443	12,080	35,048	56,739
Loans & Advances	14,544	18,728	17,084	26,122	21,123	28,589	30,614	33,515
Current Investments	2,525	8,041	11,690	21,647	34,449	35,871	35,871	35,871
Other Current Assets	11,715	19,649	22,834	29,933	30,076	36,892	39,445	43,103
Current Liab. & Prov	45,415	50,800	61,505	55,587	69,618	87,110	100,747	116,544
Net Current Assets	60,057	71,726	87,946	107,678	111,452	103,564	122,947	143,237
Application of Funds	113,981	147,680	173,565	205,078	234,754	232,106	256,363	283,188

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)								
EPS	31.6	30.2	35.9	31.4	43.0	49.7	53.9	60.4
Diluted EPS	28.7	29.6	35.1	32.0	42.7	48.9	53.0	59.3
Cash EPS	38.2	36.1	43.6	41.9	54.8	61.7	67.1	73.8
Book Value	112.3	142.2	165.6	187.9	213.4	209.6	237.0	267.3
DPS	5.0	6.0	12.0	9.0	14.0	18.0	22.0	25.0
Payout %	17.4	20.3	34.2	28.2	32.8	36.8	41.5	42.1
Valuation (x)								
P/E	26.1	25.3	21.4	23.5	17.6	15.4	14.2	12.6
Cash P/E	19.6	20.8	17.2	17.9	13.7	12.2	11.2	10.2
EV/EBITDA	13.8	14.9	14.1	15.4	13.7	10.3	9.0	8.0
EV/Sales	3.1	2.8	2.3	2.2	2.1	1.9	1.7	1.5
Price/Book Value	6.7	5.3	4.5	4.0	3.5	3.6	3.2	2.8
Dividend Yield (%)	0.7	0.8	1.6	1.2	1.9	2.4	2.9	3.3
Profitability Ratios (%)								
RoE	36.4	24.5	23.4	18.4	21.5	23.5	24.2	23.9
RoCE	26.3	20.5	20.1	15.2	17.8	19.3	20.0	20.3
ROIC	46.5	30.0	25.7	17.0	15.9	21.0	21.6	23.7
Turnover Ratios								
Debtors (Days)	75	78	76	70	70	74	75	75
Fixed Asset Turnover (x)	7.0	6.0	5.5	5.0	4.3	4.6	5.0	5.3
Leverage Ratio								
Debt/Equity Ratio(x)	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1

Cash Flow Statement

(INR Million)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
CF from Operations	33,935	32,040	34,439	32,617	36,372	51,409	54,980	59,022
Change in Working Capital	-12,302	-8,874	5,456	-17,243	8,540	-7,245	3,586	1,401
Net Operating CF	21,634	23,167	39,895	15,374	44,912	44,164	58,566	60,423
Net Purchase of FA	-7,854	-21,365	-17,357	-9,694	-9,735	-8,620	-12,000	-12,500
Free Cash Flow	13,780	1,802	22,538	5,680	35,177	35,544	46,566	47,923
Net Purchase of Invest.	-8,539	-9,050	10,611	5,293	-16,794	-23,637	810	2,808
Net Cash from Invest.	-16,393	-30,415	-6,746	-4,401	-26,529	-32,257	-11,190	-9,692
Inc./ (Dec) in Equity	19	2,469	35	-451	29	5	0	0
Proceeds from LTB/STB	-1,305	2,396	-3,469	-9,196	-5,587	630	-1,393	-1,387
Dividend Payments	-5,381	-6,771	-13,626	-9,278	-14,568	-30,904	-23,015	-27,653
Cash Flow from Fin.	-6,668	-1,905	-17,060	-18,925	-20,126	-30,269	-24,408	-29,040
Net Cash Flow	-1,427	-9,154	16,089	-7,952	-1,743	-18,363	22,968	21,690
Opening Cash Balance	34,629	33,202	24,048	40,138	32,185	30,443	12,080	35,048
Add: Net Cash	-1,427	-9,154	16,089	-7,952	-1,743	-18,363	22,968	21,690
Closing Cash Balance	33,202	24,048	40,138	32,185	30,443	12,080	35,048	56,738

E: MOSL Estimates

Explanation of Investment Rating

Investment Rating

BUY

SELL

NEUTRAL

UNDER REVIEW

NOT RATED

Expected return (over 12-month)

>=15%

< - 10%

> - 10 % to 15%

Rating may undergo a change

We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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