

March 20, 2019

## Event Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		BUY	
Target Price	887		1,140	
Sales (Rs. m)	78,563	88,258	82,634	94,306
% Chng.	(4.9)	(6.4)		
EBITDA (Rs. m)	12,237	13,724	13,346	16,012
% Chng.	(8.3)	(14.3)		
EPS (Rs.)	51.8	59.3	55.8	65.2
% Chng.	(7.2)	(9.2)		

### Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs.m)	54,628	70,340	78,563	88,258
EBITDA (Rs. m)	7,405	10,720	12,237	13,724
Margin (%)	13.6	15.2	15.6	15.5
PAT (Rs. m)	5,701	7,688	8,512	9,733
EPS (Rs.)	34.4	46.8	51.8	59.3
Gr. (%)	38.0	36.2	10.6	14.3
DPS (Rs.)	8.0	11.0	8.0	8.0
Yield (%)	0.8	1.2	0.8	0.8
RoE (%)	21.4	25.5	23.4	22.2
RoCE (%)	19.9	28.7	28.1	25.6
EV/Sales (x)	2.7	2.0	1.7	1.5
EV/EBITDA (x)	20.1	13.3	11.2	9.6
PE (x)	27.4	20.1	18.2	15.9
P/BV (x)	5.7	4.7	3.9	3.2

### Key Data

MINT.BO | MTCL IN

52-W High / Low	Rs.1,184 / Rs.741
Sensex / Nifty	38,363 / 11,532
Market Cap	Rs.155bn / \$ 2,246m
Shares Outstanding	164m
3M Avg. Daily Value	Rs.3241.67m

### Shareholding Pattern (%)

Promoter's	13.66
Foreign	40.18
Domestic Institution	10.39
Public & Others	35.77
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	6.3	(15.8)	21.0
Relative	(2.0)	(18.5)	3.9

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## Uncertainty to weigh on the multiples

We are downgrading Mindtree (MTCL) to Hold from Buy on hostile acquisition of MTCL by L&T. We believe such scenario can result in 1) Spike in attrition 2) slowdown in business momentum due to discord between L&T and Mindtree's current management 3) likely de-rating due to uncertainty during hostile takeover. We estimate USD revenue growth & EPS CAGR of 10.7% & 12.5% respectively from FY19E- FY21E. The deal values Mindtree at 16.6x FY21E (Rs. 980/share) which leaves little scope for near term re-rating given uncertainty on Mgt change and business momentum. We value Mindtree at 15x Mar-21E earnings and arrive at target price of Rs. 887. The announcement of a buyback at a significant premium (March 20, 2019) or an upward revision of the offer price (Rs980) is a near term risk to our call.

- Three-part deal to acquire majority stake in MTCL:** L&T seeks to buy a controlling stake in Mindtree after it entered into an agreement with Coffee Day Enterprises founder VG Siddhartha to buy his 20.3% stake Rs. 980 per share (valued at 21x FY19E & 18.7x FY20x multiple) totaling to INR 32.7bn & L&T also intends to purchase an additional stake upto 15% from the open market which will be around INR 24.3 bn. L&T has also announced an open offer to shareholders of Mindtree to acquire another 31% at Rs 980 per share. That could cost it up to Rs INR 50.3bn depending on the response to the offer. This three-step transaction will give L&T between 20.3% to 66.3 % of Mindtree at a total cost of up to INR 107.3 bn.
- Acquisition of LTI-Mindtree have synergies, managing people is critical:** LTI & Mindtree do have synergies & their business are complementary to each other. Mindtree's core strengths are in retail, CPG, travel and hospitality, technology and media & services verticals. Mindtree has always maintained low attrition which reflects its strong people's practices. LTI is strong in banking, insurance, manufacturing and energy. Only overlap can happen in the P&C segment of insurance. The geographic exposure of both the companies mirrors to each other. However, a merger of Mindtree-LTI is likely to be more complicated in terms of leaderships transitions & synergies.
- Attrition control will be the key:** Hostile bids are very uncommon in IT services industry as IT services is a people centric business. Managing people aspects & cultural integration is critical in any acquisition. Attrition of Mindtree (13% in Q3FY19) is low as compared to other mid-cap IT players, any disintegration of management can cause spike in attrition.
- Strong dependence on top clients & high exposure to discretionary spending:** Top 5 clients contributed to around 31% of the total revenues, any disintegration of client relationships will be of huge risk to MTCL. Mindtree have a higher exposure to discretionary spending which have short durations and which requires strong communication with the clients hence making people continuity more important.

## Key takeaway from Conference Call of L&T Management & MTCL Management

### L&T Management

*L&T cited no intent to merge these two business & each will be running as separated listed entity, possibilities of merger will be done after some years.*

*For acquisition of Mindtree, company is using L&T balance sheet (Not LTI).*

*L&T will have no take in buyback and buyback can happen, however they feel buyback won't increase much value to their transaction.*

- Business of LTI and Mindtree are complementary and there is no conflict in business.
- With acquisition of Mindtree, L&T is looking to scale up its digital offerings to Global clients. Client network of both the companies are different and overlap is limited.
- L&T management mentioned that they know they are unwanted in the mindtree now and mindtree management needs not to be cry wolf & act in a matured way.
- L&T group will retain confidence of employee and clients to create value by offering broad based services.
- Acquisition of Mindtree will help L&T group in scaling up presence in Hi-Tech Media, CPG & Retail and Travel verticals.
- L&T indicated that post acquisition of Mindtree, will run business independently as of now. But he also mentioned once this business becomes at \$5bn that time they will have to look for integration.
- L&T indicated that Retaining Talent could be issue and important to be addressed as there is uncertainty in minds of people. LT is planning to address the issue by interacting and catering to professional interest of employees.
- Deal will be completed in Cash Consideration and no intent to borrow for acquisition of this business.
- For acquisition of Mindtree, company is using L&T balance sheet (Not LTI).
- L&T is having 20% of revenues from Service business. Post-acquisition, L&T will focus on increasing it to 1/3rd of revenues.
- L&T will have no take in buyback and buyback can happen, however they feel buyback won't increase much value to their transaction.
- All the three businesses are complementary and will not compete with each other. L&T does not intend to merge the three companies as of now and will let them run as separately listed companies.

*MTCL management expressed their disapproval of L&T's intent to buy a controlling stake & cited that deal is value destructive for all stakeholders.*

*Management mentioned that Nalanda who holds (~10% stake) & Management is also in touch with large institutional investors and they stand by management in this tragic juncture.*

*Management mentioned that MTCL deserves to be valued much higher. The stock is down 20% from the highs, in part due to the distraction from the sale of the largest shareholder.*

## Mindtree Management Call key takeaways

- The deal according to the founders is being opposed primarily on two counts. One because L&T already has a company (LTI) that competes with Mindtree for business and second the cultural difference of the organizations.
- The company said that it was continuously in touch with the largest external investor Nalanda capital (holds 10.6%) who stand by the management indicating that there was no likelihood of their participation in the open offer.
- Management mentioned that based on the legal advice that they got, in case there's an open offer and a buyback is announced at the same time, 75 % shareholder approval is required to launch the buyback & board is going to decide on Wednesday. The board meets on Wednesday to take up the buyback proposal.
- Mindtree founders however said they saw no strategic advantage in the transaction and believed that it would be “value destructive for all shareholders”.
- Mindtree clearly indicated that this is hostile takeover by L&T and they oppose it and will take every possible step to stop it.
- Mindtree cited that it is currently having support from all clients across globe and will back mindtree to core.
- On buyback management cited that it is to return excess cash to shareholders
- Management mentioned that Nalanda who holds (~10% stake) & Management is also in touch with large institutional investors and they stand by management in this tragic juncture.
- The cultural uniqueness of MTCL means that under a different ownership, misalignment will potentially drive out both employees and customers, helping no one in the process, according to the promoters.
- Management mentioned that MTCL deserves to be valued much higher. The stock is down 20% from the highs, in part due to the distraction from the sale of the largest shareholder.

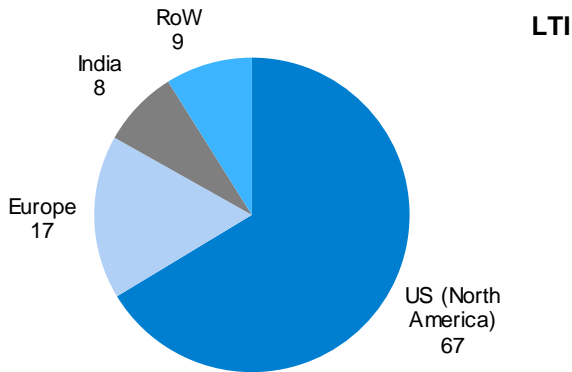
### Exhibit 1: Quick View of estimates of MTCL

	FY18	FY19E	FY20E	FY21E	CAGR FY19E-21E
INR/Dollar	64.5	71.0	71.0	72.0	
USD Revenues	847	1,000	1,107	1,226	10.7%
% change (YoY)	8.6%	18.1%	10.6%	10.8%	
EBITDA Margins	13.6%	15.2%	15.6%	15.5%	
bps change (YoY)	28bp	169bp	34bp	-3bp	
EBIT Margins	10.4%	12.9%	13.0%	12.7%	
bps change (YoY)	69bp	250bp	8bp	-28bp	
EPS	34.3	46.7	51.7	59.1	12.5%
% change (YoY)	37.9%	36.3%	10.7%	14.3%	

Source: Company, PL

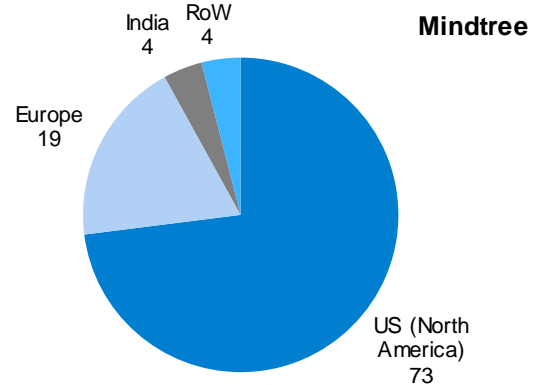
**Both companies mirror on geographies**

**Exhibit 2: Geography-wise revenues of LTI (%)**



Source: Company, PL

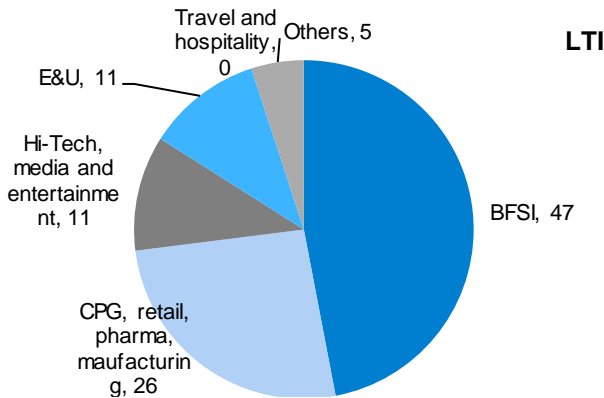
**Exhibit 3: Geography-wise revenues of Mindtree (%)**



Source: Company, PL

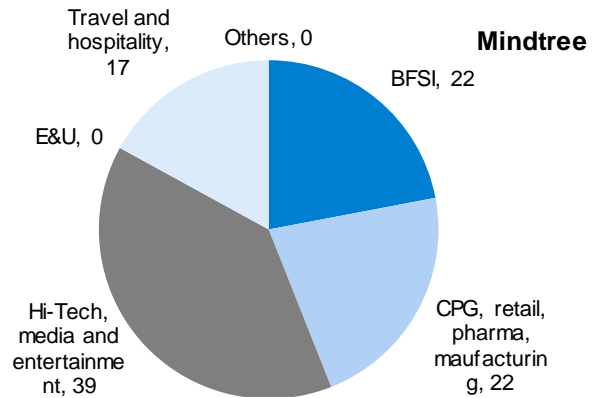
**LTI is strong in BFSI & MTCL is strong on Hi-Tech & Media**

**Exhibit 4: Vertical-wise revenues of LTI (%)**



Source: Company, PL

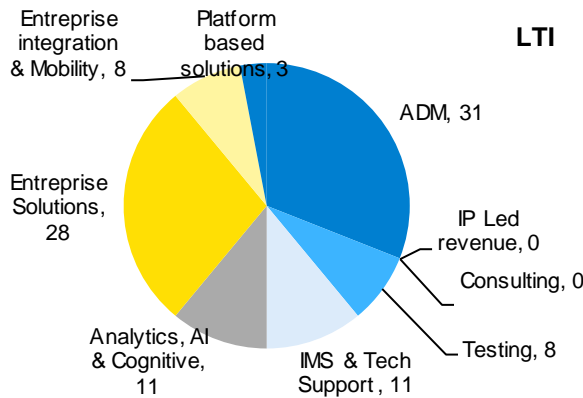
**Exhibit 5: Vertical-wise revenues of Mindtree (%)**



Source: Company, PL

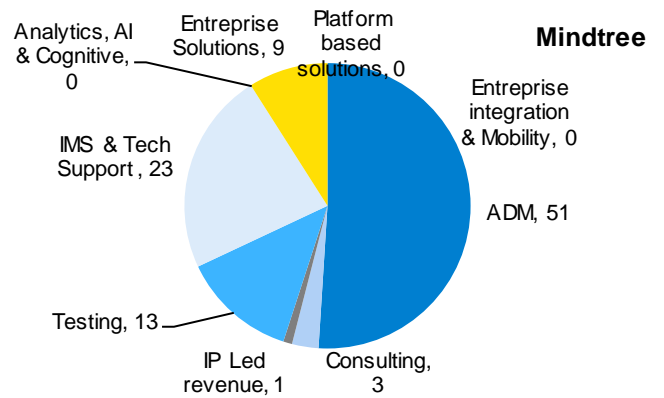
**LTI strength id more towards core transformation, enterprise solutions where as MTCL in cloud & digital.**

**Exhibit 6: Revenues by service-line (%)**



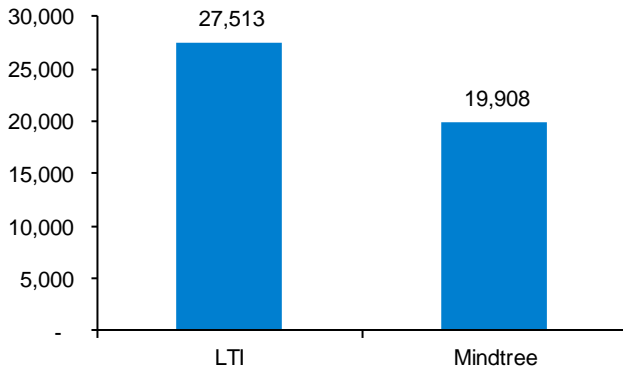
Source: Company, PL

**Exhibit 7: Revenues by service-lines (%)**



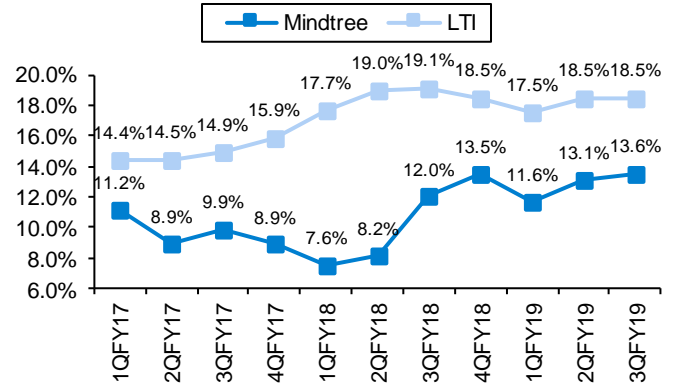
Source: Company, PL

**Exhibit 8: Headcount of LTI & Mindtree**



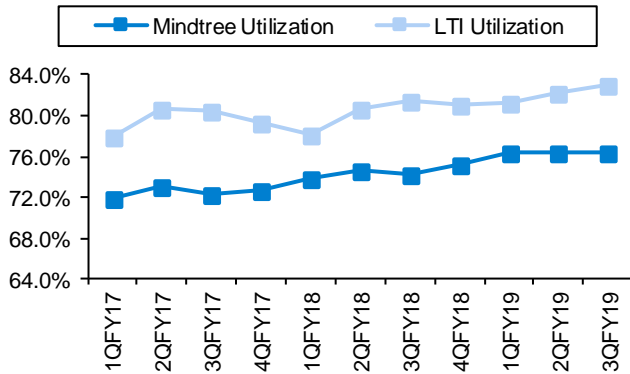
Source: Company, PL

**Exhibit 9: EBIT Margin Comparison on LTI & Mindtree**



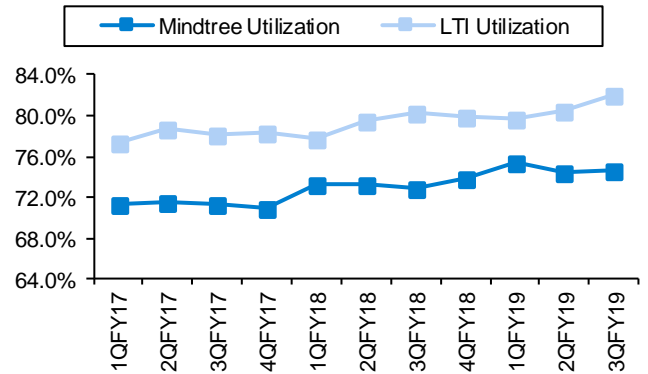
Source: Company, PL

**Exhibit 10: Utilization Level (Excluding Trainees) of MTCL**



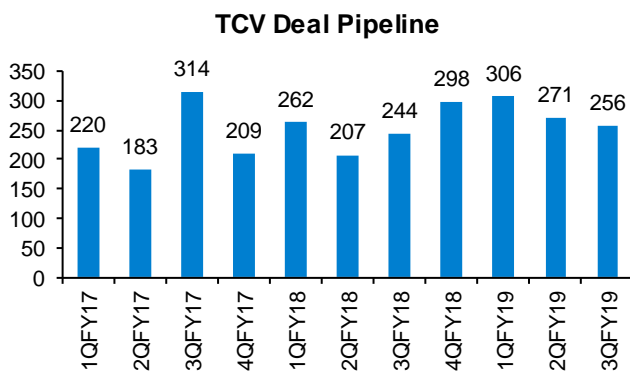
Source: Company, PL

**Exhibit 11: Utilization Level (Including Trainees) of MTCL**



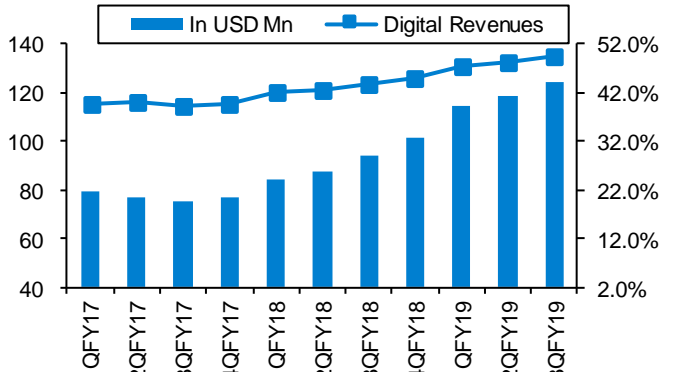
Source: Company, PL

**Exhibit 12: Strong TCV of MTCL (USD mn)**



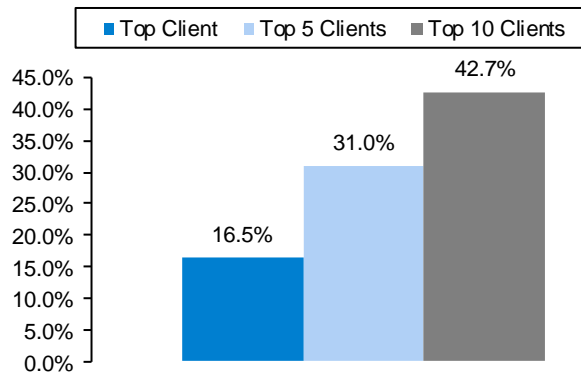
Source: Company, PL

**Exhibit 13: MTCL has scaled itself in digital**



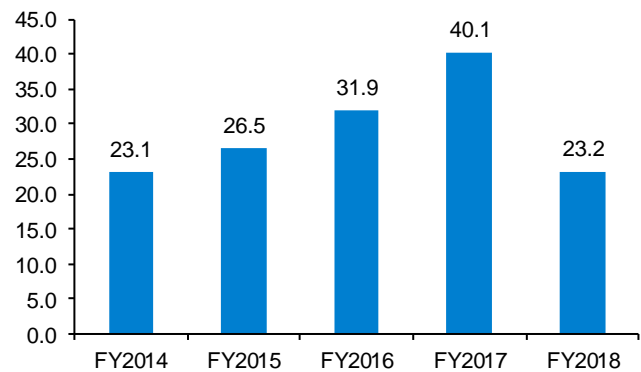
Source: Company, PL

**Exhibit 14: High client concentration is a huge risk in MTCL**



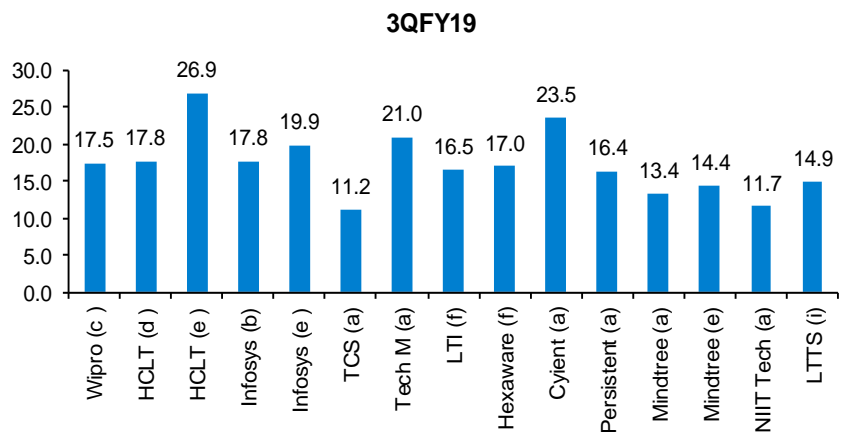
Source: Company, PL

**Exhibit 15: Dividend Payout Ratio of Mindtree (%)**



Source: Company, PL

**Exhibit 16: Attrition rates (%)**

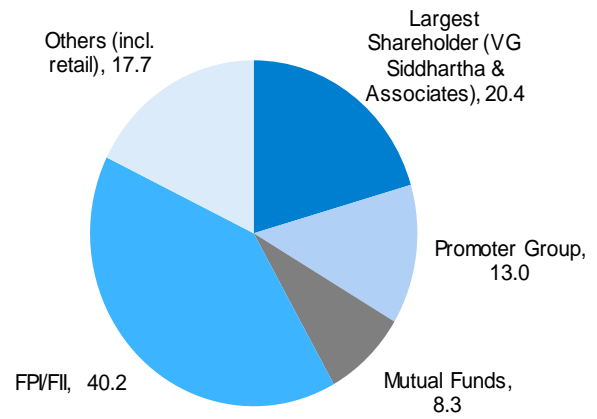


Source: Company, PL

**Notes:**

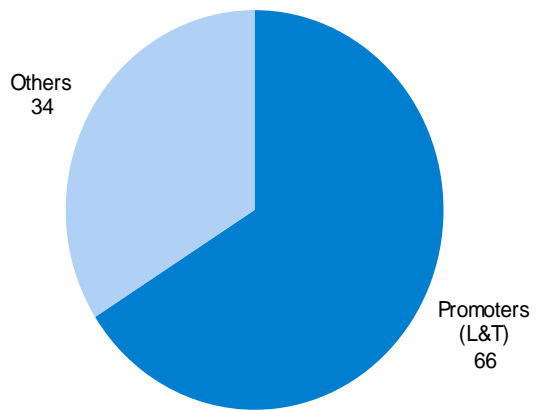
- (a) LTM attrition for IT services.
- (b) Standalone attrition numbers for last twelve months, ex BPO/subsidiaries.
- (c) Wipro Technologies only, quarterly annualized attrition, excludes involuntary attrition.
- (d) For IT services only, excludes involuntary attrition.
- (e) Quarterly annualized attrition computed (includes BPO).
- (f) LTM attrition
- (g) For organic business only
- (h) LTM voluntary attrition for IT services
- (i) Voluntary Attrition

**Exhibit 17: Shareholding Pattern of MTCL (as of Dec-2018)**



Source: Company, PL

**Exhibit 18: Shareholding pattern if L&T successfully completes the transaction (%)**



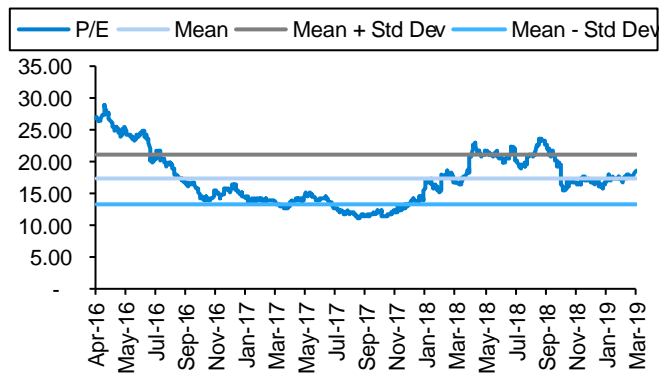
Source: Company, PL

**Exhibit 19: Public Holding of more than 1% (As of Dec-2018)**

S No.	Name of the Shareholder	Shares as % of Total No. of Shares
1	V G Siddhartha & Group	20.41
2	Bodies Corporate	19.53
3	Nalanda Group	11.00
4	UTI - Equity Fund	2.90
5	Amansa Holdings Private Limited	2.77
6	VANGUARD	2.51
7	Rekha N Shah	1.67
8	WGI Emerging Markets Smaller Companies Fund, LLC	1.65
9	S Janakiraman	1.52
10	Ontario Teachers' Pension Plan Board Managed By Arohi Asset Management Pte Ltd--Np9q	1.22
11	Arohi Emerging Asia Master Fund	1.18
12	L And T Mutual Fund Trustee Ltd-L and T India Value Fund	1.08
13	STICHTING DEPOSITARY APG EMERGING MARKETS EQUITY POOL	1.04
14	Non-Resident Indian (NRI)	0.86
15	Foreign Nationals	0.41
16	Trusts	0.16
17	HUF	0.16
18	Clearing Members	0.08
19	Unclaimed or Suspense or Escrow Account	0.03
20	IEPF	0.01

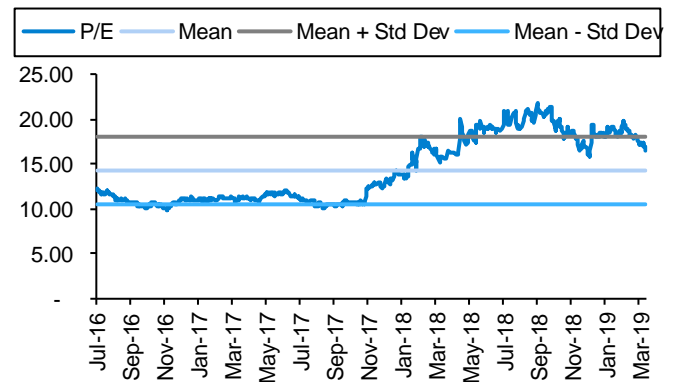
Source: Company, PL

**Exhibit 20: Mindtree One year forward P/E chart**



Source: Company, PL

**Exhibit 21: LTI one year forward P/E chart**



Source: Company, PL

**Exhibit 22: Comparison of Financials of LTI and MTCL**

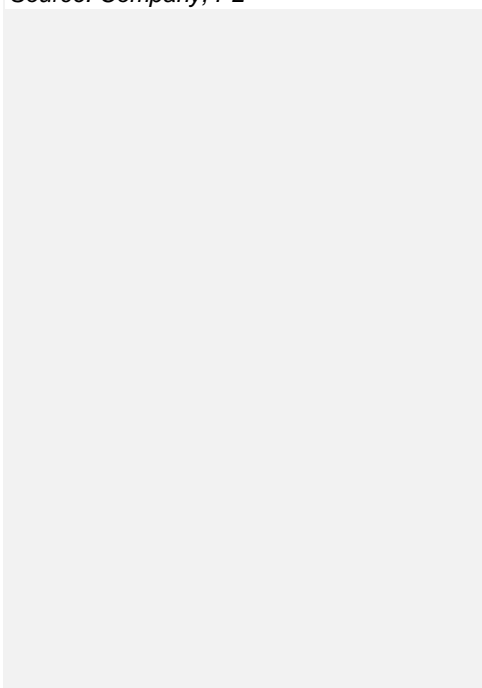
	Combined (LTI+Mindtree)				Q3FY19		
	2016	2017	2018	TTM Dec-18	LTI	Mindtree	Combined
<b>USD Revenues (USD in Mn)</b>	1,602	1,750	1,979	2,270	347	252	599
<b>Geography-wise Revenues (USD in Mn)</b>							
US (North America)	1077	1199	1358	1572	232	185	416
Europe	332	344	386	418	58	47	105
India	72	90	110	125	27	9	36
RoW	120	115	125	155	31	11	41
<b>Geography-wise Revenues (%)</b>							
US (North America)	67	69	69	69	67	73	70
Europe	21	20	19	18	17	19	18
India	5	5	6	6	8	4	6
RoW	7	7	6	7	9	4	7
<b>Vertical-wise revenues (US\$ mn)</b>							
BFSI	598	650	740	836	163	55	217
CPG, retail, pharma, manufacturing	412	441	488	555	91	56	147
Hi-Tech, media and entertainment	344	390	438	520	39	99	138
E&U	112	108	133	140	37	0	37
Travel and hospitality	111	116	127	157	0	42	42
Others	25	47	52	60	16	0	16
<b>Vertical-wise revenues (%)</b>							
BFSI	37	37	37	37	47	22	36
CPG, retail, pharma, manufacturing	26	25	25	24	26	22	25
Hi-Tech, media and entertainment	21	22	22	23	11	39	23
E&U	7	6	7	6	11	0	6
Travel and hospitality	7	7	6	7	0	17	7
Others	2	3	3	3	5	0	3
<b>Revenues by service-lines (USD in Mn)</b>							
ADM	727	748	814	911	107	128	234
Consulting	23	31	32	33	0	8	8
IP Led revenue	10	9	8	7	0	2	2
Testing	181	189	202	230	27	32	59
IMS & Tech Support	211	260	309	367	40	59	98
Analytics, AI & Cognitive	66	85	119	145	39	0	39
Enterprise Solutions	303	329	381	442	96	23	119
Enterprise integration & Mobility	46	59	75	94	26	0	26
Platform based solutions	35	39	39	40	11	0	11
<b>Revenues by service-lines (%)</b>							
ADM	45	43	41	40	31	51	39
Consulting	1	2	2	1	0	3	1
IP Led revenue	1	1	0	0	0	1	0
Testing	11	11	10	10	8	13	10
IMS & Tech Support	13	15	16	16	11	23	16
Analytics, AI & Cognitive	4	5	6	6	11	0	7
Enterprise Solutions	19	19	19	19	28	9	20
Enterprise integration & Mobility	3	3	4	4	8	0	4
Platform based solutions	2	2	2	2	3	0	2
<b>Headcount</b>							
Total Headcount	36,695	37,673	41,862	47,421	27,513	19,908	47,421

Source: Company, PL

**Exhibit 23: About the Mindtree Management**

<b>Mr Subroto Bagchi (Non-Executive Director)</b>	Mr. Subroto Bagchi co-founded Mindtree in 1999. Prior to being a Non- Executive Director, Bagchi served as the Executive Chairman of Mindtree from 2012- 2016. He also held various leadership roles including COO, for the first 8 years of Mindtree's journey. Bagchi was chief executive of Wipro's global research and development, and set up Wipro's US operations, converting R&D from being a cost center to a profit center. Following Wipro, he moved to Lucent Technologies where he started their Bell Development Center in Bangalore, India.
<b>Mr. Rostow Ramanan (CEO, Managing Director)</b>	Mr. Rostow Ramanan has played a pivotal role in the growth and success of Mindtree since inception. As CEO and Managing Director, Rostow is responsible for providing strategic direction and achieving industry-leading growth for Mindtree. Prior to Mindtree, Rostow worked with Lucent Technologies as Business Value Manager, responsible for long term strategic planning at Bell Laboratories' product realization center in India. He started his professional career at KPMG Corporate Finance and specialized in strategy consulting, mergers and acquisitions etc., across various industries. Rostow is an alumni of Harvard Business School and is a member of the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India.
<b>Mr. Parthasarathy N.S. (Executive Vice Chairman and COO)</b>	Mr. Parthasarathy N. S. (Partha) oversees the People Function, Kalinga – our global learning centre, Mergers & Acquisition Administration, Facilities, CIS, Risk Management, Investor Relations and the CTO organization. He also leads Mindtree's business in the APAC region. Prior to co-founding Mindtree, Partha was the General Manager of Wipro's technology solutions division, where he led Wipro's development center for some of its large customers. Partha received a Master's (Honors) degree from BITS Pilani and an M.Tech. in Computer Science from IIT, Kharagpur, India. He is an alumnus of Harvard Business School.
<b>Mr. Milind Sarwate (Independent Director)</b>	Mr. Milind Sarwate is the Founder and CEO of Increate Value Advisors LLP. Milind is a Chartered Accountant, Cost Accountant & Company Secretary with a B. Com.(Honors) from the University of Bombay. He is also a CII-Fulbright Fellow (1996 Carnegie Mellon University, Pittsburgh, PA, U S A.)
<b>Mr. Krishnakumar Natarajan (Executive Chairman)</b>	Mr. Krishnakumar Natarajan co-founded Mindtree in 1999 and has played key roles in building the company's innovative approach to delivering IT services and solutions to global 2000 enterprises. Natarajan was instrumental in setting up Mindtree's U.S. operations, driving expansion in Europe and Asia Pacific regions, and transforming Mindtree's IT services business. He has a bachelor's degree in mechanical engineering from the College of Engineering, Chennai, India, and a master's degree in Business Administration from the Xavier Institute, Jamshedpur, India.
<b>Mr. Bijou Kurien (Independent Director)</b>	Mr. Bijou Kurien, has been associated with marquee brands in the fast-moving consumer products, consumer durables and retail industry in India for over 34 years. His association with the development of Indian retail is over 25 years. Mr. Bijou Kurien is a science graduate and also did PG Diploma in Business Management from XLRI, Jamshedpur.
<b>Apurva Purohit (Independent Director)</b>	Apurva Purohit is the CEO of Music Broadcast Private Limited, which operates Radio City 91.1 FM, India's first and leading FM radio brand. She is a specialist in the media business and has been managing media organizations for a large part of her career. Apurva was the first President of the Association of Radio Operators for India (AROI). She is a member of the Ministry of Information and Broadcasting's Sectoral Council on Innovation.
<b>Mr. Akshay Bhargava (Independent Director)</b>	Mr. Akshaya Bhargava aged about 60 years, is the Chief Executive of the Wealth, Entrepreneurs and Business Banking division of Barclays. Mr. Akshaya Bhargava joined Barclays in October 2014 as CEO of Wealth and Investment Management. Prior to this, he founded Infra Hedge with the vision of creating an investor centric hedge fund managed account platform for institutional investors.

Source: Company, PL



## Financials

### Income Statement (Rs m)

	FY18	FY19E	FY20E	FY21E
<b>Net Revenues</b>	<b>54,628</b>	<b>70,340</b>	<b>78,563</b>	<b>88,258</b>
YoY gr. (%)	4.3	28.8	11.7	12.3
Employee Cost	35,641	44,872	50,117	55,932
Gross Profit	18,987	25,468	28,446	32,326
Margin (%)	34.8	36.2	36.2	36.6
SG&A Expenses	-	-	-	-
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>7,405</b>	<b>10,720</b>	<b>12,237</b>	<b>13,724</b>
YoY gr. (%)	6.5	44.8	14.1	12.2
Margin (%)	13.6	15.2	15.6	15.5
Depreciation and Amortization	1,715	1,635	2,025	2,497
<b>EBIT</b>	<b>5,690</b>	<b>9,085</b>	<b>10,212</b>	<b>11,227</b>
Margin (%)	10.4	12.9	13.0	12.7
Net Interest	169	84	180	180
Other Income	1,902	1,199	1,252	1,922
<b>Profit Before Tax</b>	<b>7,423</b>	<b>10,201</b>	<b>11,284</b>	<b>12,969</b>
Margin (%)	13.6	14.5	14.4	14.7
Total Tax	1,722	2,513	2,772	3,237
Effective tax rate (%)	23.2	24.6	24.6	25.0
<b>Profit after tax</b>	<b>5,701</b>	<b>7,688</b>	<b>8,512</b>	<b>9,733</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>5,701</b>	<b>7,688</b>	<b>8,512</b>	<b>9,733</b>
YoY gr. (%)	36.2	34.8	10.7	14.3
Margin (%)	10.4	10.9	10.8	11.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>5,701</b>	<b>7,688</b>	<b>8,512</b>	<b>9,733</b>
YoY gr. (%)	36.2	34.8	10.7	14.3
Margin (%)	10.4	10.9	10.8	11.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,701	7,688	8,512	9,733
<b>Equity Shares O/s (m)</b>	<b>166</b>	<b>164</b>	<b>164</b>	<b>164</b>
<b>EPS (Rs)</b>	<b>34.4</b>	<b>46.8</b>	<b>51.8</b>	<b>59.3</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>15,068</b>	<b>17,791</b>	<b>20,364</b>	<b>23,507</b>
Tangibles	15,068	17,791	20,364	23,507
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>11,467</b>	<b>13,102</b>	<b>15,127</b>	<b>17,623</b>
Tangibles	11,467	13,102	15,127	17,623
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>3,601</b>	<b>4,689</b>	<b>5,238</b>	<b>5,884</b>
Tangibles	3,601	4,689	5,238	5,884
Intangibles	-	-	-	-
Capital Work In Progress	-	-	-	-
Goodwill	6,059	4,732	4,732	4,732
Non-Current Investments	58	310	310	310
Net Deferred tax assets	318	357	357	357
Other Non-Current Assets	2,298	2,735	2,842	2,968
<b>Current Assets</b>				
Investments	7,206	8,110	8,110	8,110
Inventories	-	-	-	-
Trade receivables	10,155	11,948	13,345	14,992
Cash & Bank Balance	3,289	4,233	9,434	15,498
Other Current Assets	4,364	4,572	5,107	5,737
<b>Total Assets</b>	<b>37,365</b>	<b>41,701</b>	<b>49,490</b>	<b>58,605</b>
<b>Equity</b>				
Equity Share Capital	1,639	1,642	1,642	1,642
Other Equity	25,775	31,190	38,182	46,395
<b>Total Networkth</b>	<b>27,414</b>	<b>32,832</b>	<b>39,824</b>	<b>48,037</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	9	5	5	5
Provisions	-	-	-	-
Other non current liabilities	85	101	101	101
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	3,000	-	-	-
Trade payables	1,710	2,134	2,134	2,134
Other current liabilities	5,147	6,630	7,426	8,329
<b>Total Equity &amp; Liabilities</b>	<b>37,365</b>	<b>41,701</b>	<b>49,490</b>	<b>58,605</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	7,423	10,201	11,284	12,969
Add. Depreciation	1,715	1,635	2,025	2,497
Add. Interest	169	84	180	180
Less Financial Other Income	1,902	1,199	1,252	1,922
Add. Other	-	-	-	-
Op. profit before WC changes	9,307	11,920	13,489	15,646
Net Changes-WC	(2,601)	(513)	(1,244)	(1,502)
Direct tax	(1,722)	(2,513)	(2,772)	(3,237)
<b>Net cash from Op. activities</b>	<b>4,984</b>	<b>8,894</b>	<b>9,473</b>	<b>10,907</b>
Capital expenditures	(963)	(1,396)	(2,573)	(3,143)
Interest / Dividend Income	-	-	-	-
Others	(1,337)	(1,156)	-	-
<b>Net Cash from Inv. activities</b>	<b>(2,300)</b>	<b>(2,552)</b>	<b>(2,573)</b>	<b>(3,143)</b>
Issue of share cap. / premium	(41)	3	-	-
Debt changes	2,018	(3,004)	-	-
Dividend paid	(1,589)	(2,132)	(1,520)	(1,520)
Interest paid	(169)	(84)	(180)	(180)
Others	(2,122)	(180)	-	-
<b>Net cash from Fin. activities</b>	<b>(1,903)</b>	<b>(5,397)</b>	<b>(1,700)</b>	<b>(1,700)</b>
<b>Net change in cash</b>	<b>781</b>	<b>944</b>	<b>5,200</b>	<b>6,064</b>
Free Cash Flow	4,021	7,497	6,900	7,764

Source: Company Data, PL Research

**Key Financial Metrics**

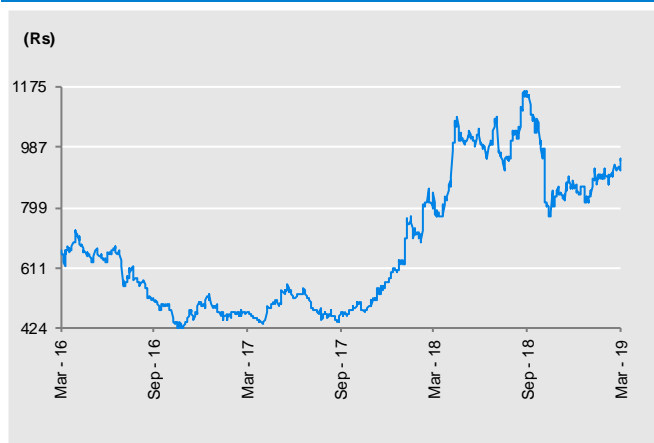
Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	34.4	46.8	51.8	59.3
CEPS	44.7	56.8	64.1	74.5
BVPS	165.4	200.0	242.4	292.4
FCF	24.3	45.7	42.0	47.3
DPS	8.0	11.0	8.0	8.0
<b>Return Ratio(%)</b>				
RoCE	19.9	28.7	28.1	25.6
ROIC	22.1	29.4	27.3	23.6
RoE	21.4	25.5	23.4	22.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.4)	(0.5)
Debtor (Days)	68	62	62	62
<b>Valuation(x)</b>				
PER	27.4	20.1	18.2	15.9
P/B	5.7	4.7	3.9	3.2
P/CEPS	44.7	56.8	64.1	74.5
EV/EBITDA	20.1	13.3	11.2	9.6
EV/Sales	2.7	2.0	1.7	1.5
Dividend Yield (%)	0.8	1.2	0.8	0.8

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
<b>Net Revenue</b>	<b>14,640</b>	<b>16,395</b>	<b>17,554</b>	<b>17,872</b>
YoY gr. (%)	11.1	27.1	31.8	29.7
Raw Material Expenses	9,301	10,395	11,171	11,142
Gross Profit	5,339	6,000	6,383	6,730
Margin (%)	36.5	36.6	36.4	37.7
<b>EBITDA</b>	<b>2,355</b>	<b>2,310</b>	<b>2,699</b>	<b>2,833</b>
YoY gr. (%)	13.5	(1.9)	16.8	5.0
Margin (%)	16.1	14.1	15.4	15.9
Depreciation / Depletion	383	400	403	410
<b>EBIT</b>	<b>1,972</b>	<b>1,910</b>	<b>2,296</b>	<b>2,423</b>
Margin (%)	13.5	11.6	13.1	13.6
Net Interest	58	28	1	-
Other Income	591	279	524	(200)
<b>Profit before Tax</b>	<b>2,505</b>	<b>2,161</b>	<b>2,819</b>	<b>2,223</b>
Margin (%)	17.1	13.2	16.1	12.4
Total Tax	683	579	757	311
Effective tax rate (%)	27.3	26.8	26.8	14.0
<b>Profit after Tax</b>	<b>1,822</b>	<b>1,582</b>	<b>2,062</b>	<b>1,912</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,822</b>	<b>1,582</b>	<b>2,062</b>	<b>1,912</b>
YoY gr. (%)	87.4	30.0	65.4	35.1
Margin (%)	12.4	9.6	11.7	10.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,822</b>	<b>1,582</b>	<b>2,062</b>	<b>1,912</b>
YoY gr. (%)	87.4	30.0	65.4	35.1
Margin (%)	12.4	9.6	11.7	10.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,822</b>	<b>1,582</b>	<b>2,062</b>	<b>1,912</b>
Avg. Shares O/s (m)	164	164	164	165
<b>EPS (Rs)</b>	<b>11.1</b>	<b>9.6</b>	<b>12.6</b>	<b>11.6</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Apr-18	Accumulate	685	852
2	18-Apr-18	Accumulate	930	866
3	10-Jul-18	Accumulate	1,060	1,005
4	18-Jul-18	Accumulate	1,200	1,062
5	05-Oct-18	Accumulate	1,270	1,063
6	18-Oct-18	BUY	1,140	978
7	07-Jan-19	BUY	1,140	835
8	16-Jan-19	BUY	1,140	841

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	BUY	810	609
2	HCL Technologies	Accumulate	1,170	988
3	Hexaware Technologies	Accumulate	384	323
4	Infosys	BUY	810	684
5	L&T Technology Services	Accumulate	1,780	1,693
6	Mindtree	BUY	1,140	841
7	Mphasis	Accumulate	1,260	921
8	NIIT Technologies	BUY	1,460	1,141
9	Persistent Systems	Accumulate	725	565
10	Redington (India)	BUY	140	86
11	Sonata Software	BUY	410	296
12	Tata Consultancy Services	Accumulate	2,275	1,889
13	TeamLease Services	Hold	2,740	2,884
14	Tech Mahindra	BUY	915	751
15	Wipro	Accumulate	375	346
16	Zensar Technologies	BUY	278	222

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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