

HCL Technologies

BUY

Improving growth trajectory

We maintain BUY on HCL Tech following a slight beat in 4Q. Strong (inline) guidance offset by margin cut. Our TP is Rs 1,250, valued at 14x FY21E EPS.

HIGHLIGHTS OF THE QUARTER

- Revenue came at USD 2,278mn, 3.3/15.3% QoQ/YoY in CC. FY19 growth was 11.8% CC including 6.5% organic. FY20 guidance of 14-16% CC comprises organic guidance of 7-9%, an acceleration in organic growth trajectory supported by large deal wins, deal pipeline (10% YoY) and Mode-2 business. Inorganic contributions to include acquired IBM products (~6%) and other acquisitions (~1%) including Actian, H&D International and Strong-Bridge Envision.
- Strong growth in digital services (Mode-2) & legacy services (Mode-1) was offset by decline in products & platform (Mode-3) in 4Q. Within services, IMS (38.9% of rev) and Application services (24% of rev) were the drivers at 5.2% QoQ and 7.3% QoQ respectively, offset by decline in ER&D (IBM/Actian seasonality).
- EBIT% stood at 19%, -65bps QoQ impacted by INR appreciation, lower utilisation and higher SG&A

(-23bps impact). Within segments, Mode-3 margin (18.8%) declined steeply. FY20 EBIT% guidance lowered by 100bps to 18.5-19.5% band on account of investments to integrate/grow product portfolio, Mode-2 led growth (lower margin) and a tight labour market. Following a soft start to FY20, both revenue and margins are expected to pick up. APAT at Rs 25.68bn was supported by forex gain of Rs 0.23bn (vs. Rs 0.54bn forex loss in 3Q).

STANCE

HCLT's recovery in organic growth trajectory (converging with larger peers TCS/INFY) is impressive. With continuity in strong deal wins (78 transformational wins in FY19) and focus on integrated deals across Apps/IMS/ERS (40% of pipeline), the growth trajectory looks sustainable. Expect USD/rev CAGR of 14/9% CAGR over FY19-21. Favourable risk-reward with valuations at 12.8x FY21E (lowest in tier-1 IT trading at >20% discount to Wipro). Key risks include adverse visa regulation, escalating macro headwinds (trade war) and integration of product portfolio.

Financial Summary

YE March (Rs bn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY17	FY18	FY19P	FY20E	FY21E
Net Revenues	159.90	131.79	21.3	156.99	1.9	467.23	505.70	604.28	701.48	779.54
EBIT	30.39	25.83	17.7	30.86	(1.5)	94.74	99.88	118.21	131.10	151.27
APAT	25.68	22.27	15.3	26.11	(1.6)	81.54	87.80	101.22	104.82	120.85
Diluted EPS (Rs)	18.9	16.4	15.3	19.3	(1.6)	60.1	64.7	74.6	77.3	89.1
P/E (x)						18.9	17.6	15.2	14.7	12.8
EV / EBITDA (x)						14.0	12.9	10.6	9.7	8.2
RoE (%)						26.9	25.3	26.0	23.8	24.2

Source: Company, HDFC sec Inst Research # Consolidated

INDUSTRY	IT
CMP (as on 09 May 2019)	Rs 1,132
Target Price	Rs 1,250

Nifty	11,302
Sensex	37,559

KEY STOCK DATA

Bloomberg	HCLT IN
No. of Shares (mn)	1,356
MCap (Rs bn) / (\$ mn)	1,535/21,967
6m avg traded value (Rs mn)	2,168

STOCK PERFORMANCE (%)

52 Week high / low	Rs 1,190/880		
	3M	6M	12M
Absolute (%)	6.0	10.1	22.1
Relative (%)	3.2	3.3	15.7

SHAREHOLDING PATTERN (%)

	Dec-18	Mar-19
Promoters	60.00	60.00
FIs & Local MFs	8.21	7.67
FPIs	28.28	28.74
Public & Others	3.51	3.59
Pledged Shares	0.00	0.00

Source : BSE

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Revenue came at USD 2,278mn, 3.3/15.3% QoQ/YoY in CC

FY19 growth was 11.8% CC including 6.5% organic

FY20 guidance of 14 to 16% CC includes organic growth guidance of 7 to 9%

EBIT% stood at 19%, -65bps QoQ impacted by INR appreciation, lower utilisation and higher SG&A (-23bps impact)

Quarterly Consolidated Financials Snapshot

Particulars (Rs bn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)
Net Revenues (USD mn)	2,278	2,038	11.8	2,201	3.5
Net Revenues	159.90	131.79	21.3	156.99	1.9
Direct Costs	104.21	85.60	21.7	101.52	2.6
Gross Profit	55.69	46.19	20.6	55.47	0.4
SG&A Expenses	19.72	15.83	24.6	19.00	3.8
EBITDA	35.97	30.36	18.5	36.47	(1.4)
Depreciation	5.58	4.53	23.2	5.61	(0.5)
EBIT	30.39	25.83	17.7	30.86	(1.5)
Other Income	1.52	2.78	(45.3)	1.05	44.8
PBT	31.91	28.61	11.5	31.91	0.0
Tax	6.15	6.34	(3.0)	5.66	8.7
APAT	25.68	22.27	15.3	26.11	(1.6)
E/o (adj for tax)	-	-	-	-	-
RPAT	25.68	22.27	15.3	26.11	(1.6)

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)
Direct Costs % Net Revenues	65.2	65.0	22	64.7	51
Gross Profit Margin (%)	34.8	35.0	(22)	35.3	(51)
SG&A Expenses % Net Revenues	12.3	12.0	32	12.1	23
EBITDA Margin (%)	22.5	23.0	(54)	23.2	(74)
EBIT Margin (%)	19.0	19.6	(59)	19.7	(65)
Tax Rate (%)	19.3	22.2	(289)	17.7	154
APAT Margin (%)	16.1	16.9	(84)	16.6	(57)

Source: Company, HDFC sec Inst Research

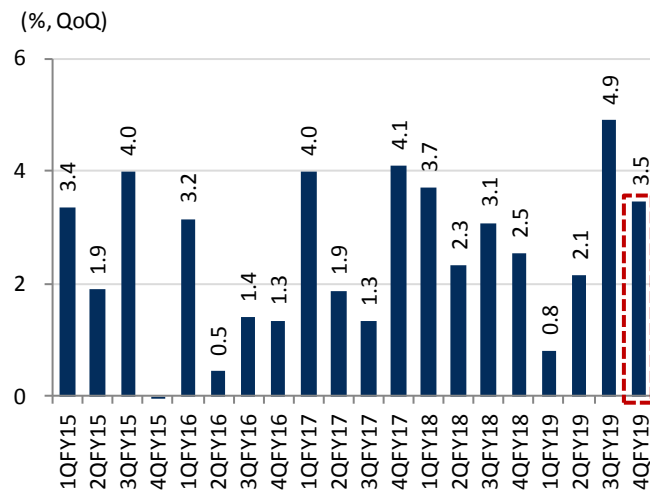
Qualified deal pipeline higher by 10% YoY

Within segments, Mode-3 margin (18.8%) had a steep decline impacting the fall in EBIT margin

1QFY20 margin expected to be below lower guidance band of 18.5-19.5%

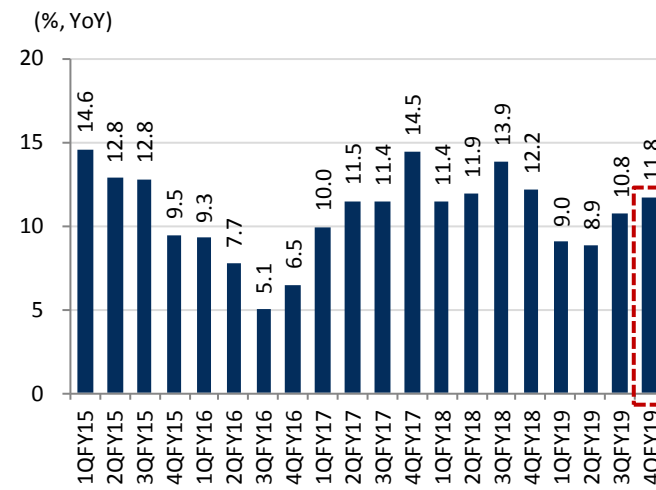
17 transformational deal wins in 4Q (78 in FY19)

QoQ USD Revenue Growth Trajectory



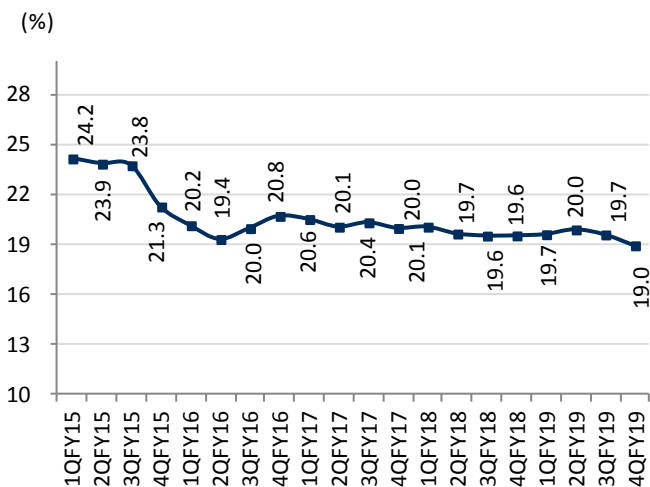
Source: Company, HDFC sec Inst Research

YoY USD Revenue Growth Trajectory



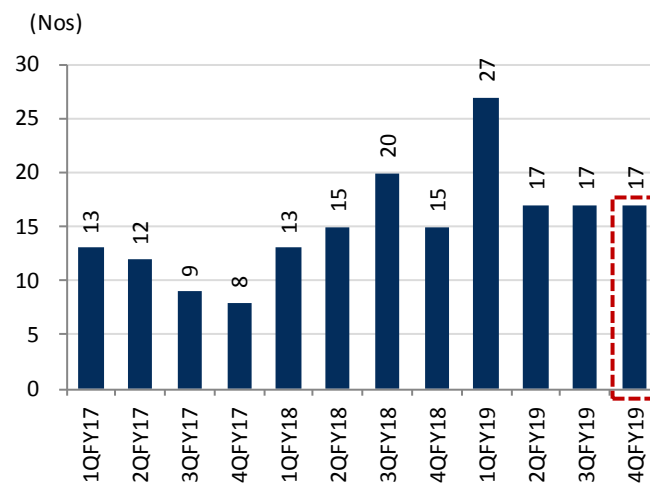
Source: Company, HDFC sec Inst Research

EBIT Margin Trajectory



Source: Company, HDFC sec Inst Research

Transformational Deals Trend



Source: Company, HDFC sec Inst Research

Deal wins largely in Retail & CPG (10% of rev), Manufacturing (36.2% of rev), Public services (11.1% of rev) & BFSI (21.1% of rev) verticals

BFSI ex-2 large banking a/c grew at company average with growth driven by digital and analytics

4Q growth led by Public services and Life-science & Healthcare

IoT driving growth in Manufacturing vertical

Vertical Revenue Break-up

(% of rev)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Manufacturing	35.4	36.5	36.0	36.5	36.2	36.3	36.2
Financial Services	25.0	24.6	25.0	23.8	23.0	21.6	21.1
Life Sciences and Health Care	11.7	11.7	11.5	12.8	12.9	13.0	13.0
Public Services	10.6	10.2	10.5	10.5	10.7	9.7	11.1
Telecom, Media, Publishing & Entertainment	7.9	7.4	7.4	7.3	7.2	9.2	8.6
Retail & CPG	9.3	9.6	9.6	9.1	10.0	10.2	10.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Vertical-wise Revenue Growth

(QoQ, % CC)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Manufacturing	2.4	6.6	0.2	(1.3)	1.7	3.9	2.5
Financial Services	1.2	1.4	2.0	(1.4)	0.1	(0.6)	0.9
Life Sciences and Health Care	1.8	2.4	(0.2)	13.4	3.2	5.8	3.5
Public Services	(4.6)	0.2	4.1	3.5	5.3	(4.4)	17.7
Telecom, Media, Publishing & Entertainment	1.7	(3.8)	1.8	0.2	1.1	35.4	(3.8)
Retail & CPG	(0.5)	6.6	1.1	(1.6)	13.0	8.4	1.4
Total	0.9	3.3	1.2	2.7	3.0	5.6	3.3

Source: Company, HDFC Sec Inst Research

Vertical-wise Revenue Growth

(YoY, % CC)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Manufacturing	21.9	21.0	13.8	(3.9)	(3.9)	1.5	6.7
Financial Services	14.2	10.6	9.4	2.9	2.3	0.1	(1.4)
Life Sciences and Health Care	3.8	9.7	9.0	18.1	19.8	23.4	28.2
Public Services	6.2	1.0	(3.1)	3.4	13.3	8.1	21.8
Telecom, Media, Publishing & Entertainment	(6.3)	(6.8)	(3.2)	(0.1)	(0.8)	40.3	33.4
Retail & CPG	(1.0)	13.1	11.8	5.3	19.2	21.5	20.9
Total	10.6	11.2	8.2	8.5	10.5	13.0	15.3

Source: Company, HDFC Sec Inst Research

IMS (38.9% of rev) and Application services (24% of rev) were the drivers at 5.2% QoQ and 7.3% QoQ respectively, offset by decline in ER&D (IBM/Actian seasonality impact)

New product/version launches (Informix, Workload automation, DRYiCE) in 4Q can support growth ahead

60-70% of IMS deals in digital workplace

ER&D services supported doubling of IoT revenue in FY19

Service Line Break-up

(% of rev)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Infrastructure Services	38.5	36.7	37.3	36.2	36.0	37.5	38.9
Application Services	35.9	35.4	34.7	34.1	33.1	32.1	32.6
ER&D Services	22.0	24.2	24.1	24.5	25.5	25.5	24.0
Business Services	3.6	3.7	3.9	5.2	5.4	5.0	4.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Service Line Growth

(QoQ, % CC)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Infrastructure Services	(0.2)	(1.2)	2.5	0.6	2.5	10.4	7.3
Application Services	0.0	1.6	(0.9)	0.8	0.4	2.3	5.2
ER&D Services	4.4	13.6	1.7	3.1	6.3	5.1	(3.0)
Business Services	2.9	5.0	5.3	38.8	7.3	(3.7)	(5.8)
Total	0.9	3.3	1.2	2.7	3.0	5.6	3.3

Source: Company, HDFC Sec Inst Research

Service Line Growth

(YoY, % CC)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Infrastructure Services	4.8	1.6	2.9	2.0	4.4	16.5	21.9
Application Services	5.0	4.4	1.6	1.2	1.8	2.5	8.4
ER&D Services	38.4	47.7	30.4	24.2	26.3	17.4	12.1
Business Services	(1.3)	1.2	6.0	59.6	64.8	50.1	33.5
Total	10.6	11.2	8.2	8.5	10.5	13.0	15.3

Source: Company, HDFC Sec Inst Research

Mgmt cautioned for near term impact of unfavourable geo-political factors (trade barrier) in select accounts

Europe led the growth among geos at 8.4% QoQ CC

HCLT has acquired Strong-Bridge Envision, US-based digital/analytics consulting services for USD 45mn

Geographic Revenue Break-up

(% of rev)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Americas	62.4	63.5	61.5	64.5	65.8	64.5	62.9
Europe	29.1	28.7	30.0	28.1	26.8	28.3	29.7
Rest of the World	8.5	7.9	8.5	7.5	7.4	7.3	7.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Geographic Revenue Growth

(QoQ, % CC)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Americas	1.5	4.9	(0.7)	5.9	4.4	2.7	1.1
Europe	4.4	1.9	3.6	(1.0)	(0.9)	12.9	8.4
Rest of the World	(12.0)	(3.9)	8.1	(7.1)	4.9	4.5	3.6
Total	0.9	3.3	1.2	2.7	3.0	5.6	3.3

Source: Company, HDFC Sec Inst Research

Geographic Revenue Growth

(YoY, % CC)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Americas	12.7	16.6	9.6	11.9	15.1	12.9	15.1
Europe	7.4	2.5	9.7	9.3	3.5	14.5	18.7
Rest of the World	6.3	2.5	(5.2)	(15.5)	0.7	8.4	4.7
Total	10.6	11.2	8.2	8.5	10.5	13.0	15.3

Source: Company, HDFC Sec Inst Research

**Attrition was steady at 17.7%
(vs. 17.8% in 3Q)**

**Utilisation dipped 120bps to
85.4% in 4Q**

**Low single-digit growth
expected in Mode-1 business**

**Factored rev at top-end of
guidance and margin at
bottom-end for FY20**

Headcount, Attrition And Utilisation Data

(Nos.)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Total headcount	119,040	119,291	120,081	124,121	127,875	132,328	137,965
Technical	108,351	108,831	109,565	113,404	116,910	121,273	126,717
Support	10,689	10,460	10,516	10,717	10,965	11,055	11,248
Gross Additions	8,645	7,113	8,476	12,558	11,683	11,055	11,248
Net Additions	1,259	251	790	4,040	3,754	4,453	5,637
Voluntary LTM Attrition (%)	15.7	15.2	15.5	16.3	17.1	17.8	17.7
Utilisation Excluding Trainees (%)	86.0	85.8	85.9	85.5	86.7	86.6	85.4

Source: Company, HDFC Sec Inst Research

Business Lines

(% of rev)	FY17	FY18	1QFY19	2QFY19	3QFY19	4QFY19
Mode 1	84.1	81.4	76.6	73.4	72.0	71.0
Mode 2	12.3	12.8	14.7	15.7	16.0	17.2
Mode 3	3.6	5.8	8.7	11.0	12.0	11.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Key Assumptions

Particulars	FY15	FY16	FY17	FY18	FY19P	FY20E	FY21E
Software Services USD Rev. Growth (%)	9.1	4.8	6.4	16.9	8.7	18.1	12.6
IMS USD Rev. Growth (%)	16.6	10.3	25.0	6.9	8.5	14.9	8.8
BPO USD Rev. Growth (%)	27.5	13.0	(14.8)	2.7	50.1	1.2	10.6
Total USD Revenue Growth (%)	12.4	7.1	11.9	12.4	10.1	16.1	11.1
USD/INR Rate	61.5	65.6	67.0	64.5	70.0	70.0	70.0
EBIT Margin (%)	23.3	20.1	20.3	19.8	19.6	18.7	19.4

Source: Company, HDFC Sec Inst Research

Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
	FY20E		
Revenue (USD mn)	10,002	10,021	0.2
Revenue (Rs bn)	700.17	701.48	0.2
EBIT (Rs bn)	136.48	131.10	(3.9)
EBIT margin (%)	19.5	18.7	(80)bps
EPS (Rs)	78.7	77.3	(1.9)
Particulars	FY21E		
Revenue (USD mn)	11,012	11,136	1.1
Revenue (Rs bn)	770.82	779.54	1.1
EBIT (Rs bn)	150.10	151.27	0.8
EBIT margin (%)	19.5	19.4	(7)bps
EPS (Rs)	86.5	89.1	3.0

Peer Set Comparison

Company	MCap (Rs bn)	CMP (Rs)	TP (Rs)	RECO	EPS (Rs)				P/E (x)				RoE (%)			
					FY18	FY19P	FY20E	FY21E	FY18	FY19P	FY20E	FY21E	FY18	FY19P	FY20E	FY21E
TCS	8,152	2,173	2,410	BUY	68.8	83.9	90.4	100.5	31.6	25.9	24.0	21.6	30.1	36.1	37.1	39.1
Infosys	3,137	721	755	NEU	33.8	36.4	37.5	41.9	21.3	19.8	19.2	17.2	24.5	23.7	23.2	23.6
Wipro	1,659	291	250	SELL	14.0	15.8	16.5	17.9	20.7	18.4	17.6	16.3	16.5	17.3	16.9	17.0
HCL Tech	1,535	1,132	1,250	BUY	64.7	73.9	78.7	86.5	17.5	15.3	14.4	13.1	25.3	26.0	24.5	23.8
TechM	724	810	850	BUY	42.5	48.5	51.6	56.6	19.1	16.7	15.7	14.3	21.5	21.4	20.0	19.4
Tier-1 IT Median									20.7	18.4	17.6	16.3	24.5	23.7	23.2	23.6
LTI	292	1,682	2,095	BUY	66.9	87.3	93.0	104.6	25.1	19.3	18.1	16.1	33.2	34.6	30.1	28.6
Mphasis	183	946	1,370	BUY	45.4	56.9	64.9	76.2	20.8	16.6	14.6	12.4	14.6	20.1	22.4	23.0
LTTS	176	1,695	1,860	BUY	45.5	68.0	71.4	93.0	37.2	24.9	23.7	18.2	27.7	32.0	27.5	30.0
Mindtree	161	980	1,040	NEU	32.3	44.2	51.6	57.8	30.3	22.2	19.0	17.0	21.4	24.9	24.9	25.0
Hexaware *	103	346	430	BUY	16.8	19.6	21.4	26.1	20.6	17.6	16.2	13.3	26.6	26.5	25.0	26.6
Cyient	65	576	725	BUY	38.6	43.6	47.2	51.6	14.9	13.2	12.2	11.2	18.1	19.5	19.5	19.0
Tata Elxsi	54	863	850	NR	38.5	46.6	46.0	52.4	22.4	18.5	18.8	16.5	37.0	34.5	27.7	26.5
Zensar	56	246	305	BUY	10.6	13.8	16.0	19.1	23.2	17.8	15.4	12.9	15.1	17.0	17.1	17.8
Persistent	49	613	645	NEU	40.6	45.9	44.1	49.5	15.1	13.3	13.9	12.4	16.0	15.7	14.2	14.7
eClerx	39	998	1,005	SELL	70.8	57.7	67.2	77.3	14.1	17.3	14.9	12.9	24.1	18.0	19.9	21.6
Sonata	35	333	465	BUY	18.6	23.8	26.0	29.0	17.9	14.0	12.8	11.5	31.0	35.5	34.2	33.9
Intellect	28	225	313	BUY	3.7	8.1	11.0	15.9	NM	27.9	20.5	14.1	6.7	11.1	12.6	15.9
Majesco	15	530	720	BUY	(1.5)	22.1	28.2	33.5	NM	24.0	18.8	15.8	(1.1)	11.2	14.0	17.2
HGS	13	640	770	NR	96.5	72.5	86.4	96.4	6.6	8.8	7.4	6.6	14.3	9.8	10.7	10.9
Mastek	11	459	657	BUY	27.8	40.6	44.7	52.2	16.5	11.3	10.3	8.8	13.7	16.1	14.8	15.4
Tier-2 IT Median									20.6	17.6	15.4	12.9	18.1	19.5	19.9	21.6

Company	MCap (USD bn)	CMP USD	TP	RECO	EPS (USD)				P/E (x)				RoE (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Accenture	111	179	NA	NR	5.6	6.5	7.3	8.0	32.3	27.8	24.5	22.5	41.7	42.0	39.9	36.7
Cognizant	34	67	NA	NR	2.5	3.6	4.0	4.4	26.2	18.5	16.8	15.1	14.1	19.0	18.2	19.1
Capgemini^	19	107	NA	NR	4.9	4.4	6.5	7.2	22.0	24.6	16.4	15.0	11.5	10.1	13.3	13.5
Global IT Median									26.2	24.6	16.8	15.1	14.1	19.0	18.2	19.1

Source: HDFC sec Inst Research, Bloomberg, *Dec YE, ^CMP and EPS in EUR terms

Consolidated Income Statement

YE March (Rs bn)	FY17	FY18	FY19P	FY20E	FY21E
Net Revenues (USD mn)	6,975	7,838	8,632	10,021	11,136
Growth (%)	11.9	12.4	10.1	16.1	11.1
Net Sales	467.23	505.70	604.28	701.48	779.54
Growth (%)	14.2	8.2	19.5	16.1	11.1
Cost of Revenue	308.90	332.37	392.68	462.51	510.68
SG&A Expenses	55.24	58.93	71.91	82.91	89.63
EBITDA	103.09	114.40	139.69	156.06	179.22
EBITDA (%)	22.1	22.6	23.1	22.2	23.0
EBITDA Growth (%)	17.2	11.0	22.1	11.7	14.8
Depreciation	8.35	14.52	21.48	24.96	27.95
EBIT	94.74	99.88	118.21	131.10	151.27
Other Income	10.24	11.78	9.78	4.63	5.01
Interest	0.89	0.69	1.74	3.05	3.30
PBT	104.09	110.97	126.25	132.68	152.97
Tax (incl deferred)	19.52	23.17	24.81	27.86	32.12
RPAT	84.57	87.80	101.22	104.82	120.85
APAT	81.54	87.80	101.22	104.82	120.85
APAT Growth (%)	10.9	7.7	15.3	3.6	15.3
AEPS (Rs)	60.1	64.7	74.6	77.3	89.1
EPS Growth (%)	10.9	7.7	15.3	3.6	15.3

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	2.85	2.78	2.71	2.71	2.71
Reserves	326.64	361.08	410.95	463.70	527.61
Total Shareholders' Funds	329.49	363.86	413.66	466.41	530.32
Total Debt	4.38	3.80	37.01	37.01	37.01
Long-term Provisions & Others (Net)	9.22	11.92	18.30	18.30	18.30
TOTAL SOURCES OF FUNDS	344.82	379.58	470.00	522.75	586.66
APPLICATION OF FUNDS					
Net Block	87.31	119.54	138.27	195.49	186.51
CWIP	4.48	3.20	2.35	2.35	2.35
Goodwill	65.04	67.99	90.61	112.72	112.72
Investments	1.60	0.43	0.43	0.43	0.43
Other non-current assets	34.56	40.89	56.45	56.45	56.45
Total Non Current Assets	192.99	232.05	288.11	367.44	358.46
Debtors	83.01	96.39	117.06	136.36	151.85
Cash & Equivalents	101.90	66.35	101.34	57.45	116.40
Other Current Assets	79.72	85.44	79.24	79.41	79.52
Total Current Assets	264.63	248.18	297.64	273.21	347.78
Creditors	8.01	9.18	13.05	15.20	16.88
Other Current Liabilities & Provns	104.79	91.47	102.70	102.70	102.70
Total Current Liabilities	112.80	100.65	115.75	117.90	119.58
Net Current Assets	151.83	147.53	181.89	155.31	228.20
TOTAL APPLICATION OF FUNDS	344.82	379.58	470.00	522.75	586.66

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY17	FY18	FY19P	FY20E	FY21E
Reported PBT	104.09	110.97	126.25	132.68	152.97
Non-operating & EO items	(7.08)	(5.11)	(7.86)	(3.66)	(3.96)
Interest expenses	0.19	0.22	1.74	3.05	3.30
Depreciation	8.35	14.52	21.48	24.96	27.95
Working Capital Change	3.21	(12.34)	(15.04)	(17.29)	(13.93)
Tax paid	(20.07)	(23.56)	(24.81)	(27.86)	(32.12)
OPERATING CASH FLOW (a)	88.69	84.70	101.76	111.88	134.22
Capex	(44.08)	(54.51)	(64.57)	(107.50)	(36.16)
Free cash flow (FCF)	44.61	30.19	37.19	4.37	98.06
Investments	(0.14)	1.17	-	-	-
INVESTING CASH FLOW (b)	(37.14)	(48.23)	(56.71)	(103.84)	(32.21)
Debt Issuance	(5.14)	(0.58)	33.21	-	-
Interest expenses	(0.19)	(0.22)	(1.74)	(3.05)	(3.30)
FCFE	39.28	29.39	68.66	1.33	94.76
Share capital Issuance	0.03	(0.07)	(0.07)	-	-
Dividend/ Buyback	(41.10)	(56.05)	(51.12)	(52.07)	(56.95)
FINANCING CASH FLOW (c)	(46.40)	(56.92)	(19.72)	(55.11)	(60.25)
NET CASH FLOW (a+b+c)	5.16	(20.45)	25.33	(47.08)	41.77
Closing Cash & Equivalents	101.90	66.35	101.34	57.45	116.40

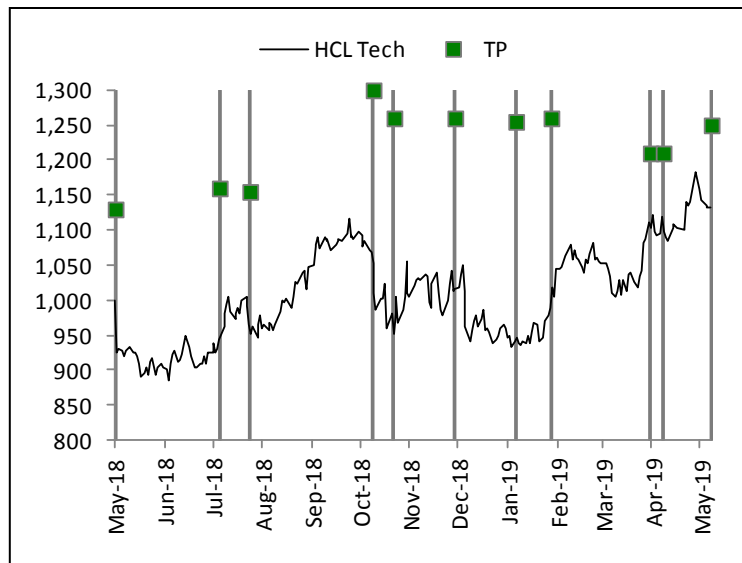
Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY (%)					
EBITDA Margin	20.3	19.8	19.6	18.7	19.4
APAT Margin	17.5	17.4	16.8	14.9	15.5
RoE	26.9	25.3	26.0	23.8	24.2
RoIC or Core RoCE	34.9	28.4	27.9	24.8	25.5
RoCE	25.6	24.4	24.2	21.6	22.3
EFFICIENCY					
Tax Rate (%)	18.8	20.9	19.7	21.0	21.0
Fixed Asset Turnover (x)	1.0	1.1	1.0	1.1	1.1
Debtors (days)	65	70	71	71	71
Other current assets (days)	62	62	48	41	37
Payables (days)	6	7	8	8	8
Other current liab & prov (days)	82	66	62	53	48
Cash Conversion Cycle (days)	41	60	49	51	53
Net Debt/EBITDA (x)	(0.9)	(0.5)	(0.5)	(0.1)	(0.4)
Net Debt/Equity (x)	(0.3)	(0.2)	(0.2)	(0.0)	(0.1)
Interest Coverage (x)	106	145	68	43	46
PER SHARE DATA					
EPS (Rs/sh)	60.1	64.7	74.6	77.3	89.1
CEPS (Rs/sh)	68.5	75.5	90.5	95.7	109.7
DPS (Rs/sh)	24.0	12.0	10.0	32.0	35.0
BV (Rs/sh)	244.3	268.4	305.8	344.8	391.9
VALUATION					
P/E	18.9	17.6	15.2	14.7	12.8
P/BV	4.7	4.2	3.7	3.3	2.9
EV/EBITDA	14.0	12.9	10.6	9.7	8.2
OCF/EV (%)	6.1	5.7	6.9	7.4	9.2
FCF/EV (%)	3.1	2.0	2.5	0.3	6.7
FCFE/mkt cap (%)	2.7	2.0	4.6	0.1	6.5
Dividend Yield (%)	2.1	1.1	0.9	2.8	3.1

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
2-May-18	1,101	BUY	1,130
6-Jul-18	944	BUY	1,160
28-Jul-18	964	BUY	1,155
10-Oct-18	1,050	BUY	1,300
24-Oct-18	952	BUY	1,260
30-Nov-18	1,013	BUY	1,260
8-Jan-19	945	BUY	1,255
30-Jan-19	988	BUY	1,260
1-Apr-19	1,087	BUY	1,210
9-Apr-19	1,096	BUY	1,210
10-May-19	1,132	BUY	1,250

Rating Definitions

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

Disclosure:

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