

Sailing through tough times

We maintain BUY on Mastek following a weak 1Q on revenues but stable margin performance. US turnaround is faster than expected and order book growth is encouraging. We cut est. by ~4% factoring soft UK Pvt. Our SoTP of Rs 618 implies 11x FY21E EPS plus Rs 94/sh for 12% stake in Majesco US.

HIGHLIGHTS OF THE QUARTER

- Revenue was GBP 27.7mn (vs. est. GBP 29.8mn), +1.9/-5.5% YoY/QoQ CC. Softness was caused by the core geography UK (73% of rev, -9.4% QoQ in GBP terms) while US cushioned revenues (25% of rev, +8.7% in USD terms)
- UK public sector was impacted by closure of a large project, we expect growth in UK public sector to return given the strong order backlog (+14% QoQ).
- UK pvt. sector's revenue declined 8.4% QoQ in GBP terms as enterprises continue to follow a 'wait and watch' attitude wrt Brexit. We remain cautious on near term pressure on UK pvt. given the Brexit uncertainty.
- US revenues recovered, up 8.7% QoQ in USD terms. Recent management changes have set US on track for growth, 6 new logo wins and increased focus on the geography gives us growth visibility.

Financial Summary

YE March (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	2.48	2.44	1.4	2.67	(7.3)	5.60	8.17	10.33	10.84	12.52
EBIT	0.28	0.27	5.4	0.31	(8.0)	0.36	0.82	1.16	1.24	1.38
APAT	0.24	0.22	7.8	0.28	(13.3)	0.29	0.70	1.02	1.06	1.20
Diluted EPS (Rs)	9.58	8.88	7.8	11.05	(13.3)	11.5	27.7	40.4	42.1	47.6
P/E (x)						40.1	16.6	11.4	10.9	9.7
EV / EBITDA (x)						21.1	10.2	7.7	6.5	5.6
RoE (%)						6.1	13.7	16.1	14.1	14.3

Source: Company, HDFC sec Inst Research # Consolidated

- EBIT margin of 11.5% was stable despite soft revenues and wage hike (in the US), tight cost control anchored margins (employee exp -9.1%QoQ & other exp -6% QoQ). Revenue recovery in US also supported margins (US margin at 7.9% vs. 0.7% in 4Q).
- Near term outlook: (1) Growth in UK public sector to revive led by strong order backlog, (2) Wage hike (controlled) will impact margins in 2Q and (3) Divestment of stake in Majesco US (regulatory approvals in place) will throw up cash which can be used for acquisitions.

STANCE

Mastek has successfully ramped up UK Govt. digital business (+6.9% 4-QTR CQGR). Mastek is the only Indian IT company in UK Govt's top-10 vendors list. We also like its initial success in recovering the US business (+8.7% QoQ) led by increased focus and management changes. Mastek is blessed with low exposure to legacy (~16% of rev) and can deliver 11.4/8.6% GBP rev/EPS CAGR over FY19-21E. Its stake in Majesco US (Rs 94/sh) and net cash (~Rs 67/sh) provide additional comfort. Risks to our thesis include prolonged deferment of spend in UK private due to Brexit and GBP depreciation.

INDUSTRY	IT
CMP (as on 22 Jul 2019)	Rs 460
Target Price	Rs 618
Nifty	11,346
Sensex	38,031

KEY STOCK DATA

Bloomberg	MAST IN
No. of Shares (mn)	24
MCap (Rs bn) / (\$ mn)	11/162
6m avg traded value (Rs mn)	40

STOCK PERFORMANCE (%)

52 Week high / low	Rs 645/365		
	3M	6M	12M
Absolute (%)	(1.7)	11.1	(12.0)
Relative (%)	(0.1)	6.8	(16.2)

SHAREHOLDING PATTERN (%)

	Mar-19	Jun-19
Promoters	45.69	45.68
FIs & Local MFs	9.37	10.40
FPIs	8.16	7.37
Public & Others	36.78	36.55
Pledged Shares	0.00	0.00

Source : BSE

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Revenue came at GBP 27.7mn, -5.5/+1.9% QoQ/YoY in CC terms

EBIT margin was stable at 11.5% despite soft revenue, lower employee expense (-9.1% QoQ) and Other expenses (-6.0% QoQ) anchored margins

Quarterly Consolidated Financials Snapshot

Particulars (Rs bn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
Net Revenues (GBP mn)	27.7	26.9	2.9	29.1	-5.0
Net Revenues	2.48	2.44	1.4	2.67	-7.3
Employee Expenses	1.35	1.40	-3.3	1.49	-9.1
Other Operating Expenses	0.78	0.73	6.6	0.83	-6.0
EBITDA	0.34	0.31	10.6	0.35	-3.0
Depreciation	0.06	0.04	45.8	0.04	32.6
EBIT	0.28	0.27	5.4	0.31	-8.0
Other Income (Including EO Items)	0.04	0.03	21.5	0.07	-49.3
Interest Cost	0.01	0.01	-34.9	0.01	-25.5
PBT	0.31	0.29	8.9	0.37	-15.7
Tax	0.07	0.06	12.8	0.10	-27.2
RPAT	0.24	0.22	7.8	0.27	-11.6
EO (Loss) / Profit (Net Of Tax)	-	-	0.0	0.01	0.0
APAT	0.24	0.22	7.8	0.28	-13.3

Source: Company, HDFC sec Inst Research

Margin Analysis

Particulars	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Employee Expenses % Net Sales	54.5	57.2	-269	55.6	-106
Other Operating Expenses % Net Sales	31.6	30.1	155	31.2	44
EBITDA Margin (%)	13.8	12.7	114	13.2	62
EBIT Margin (%)	11.5	11.1	44	11.6	-8
Tax Rate (%)	23.0	22.2	78	26.6	-363
APAT Margin (%)	9.8	9.2	58	10.5	-68

Source: Company, HDFC sec Inst Research

First sequential in decline in the past three years

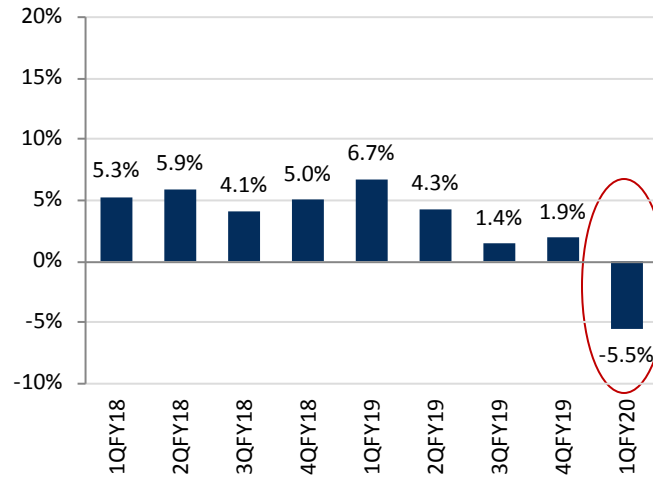
Slowdown in YoY growth impacted by UK private sector

We expect EBIT margin to remain stable between 11.5-11.0%

12M executable order book was at all time high (post demerger), up 14.3% QoQ

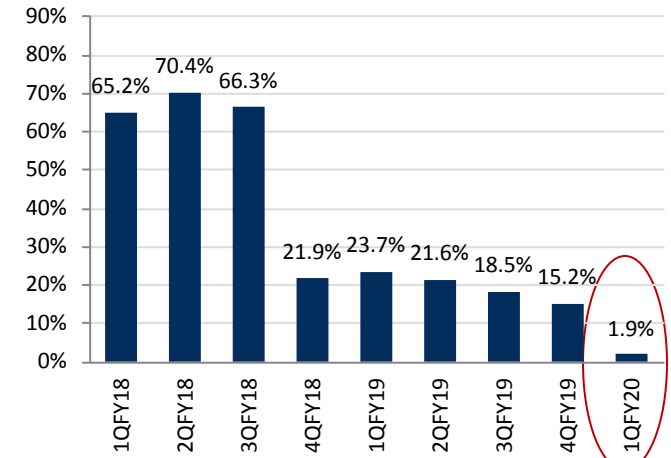
Order book to bill has been expanded to 0.61x of TTM revenues

QoQ CC Revenue Growth Trajectory (%)



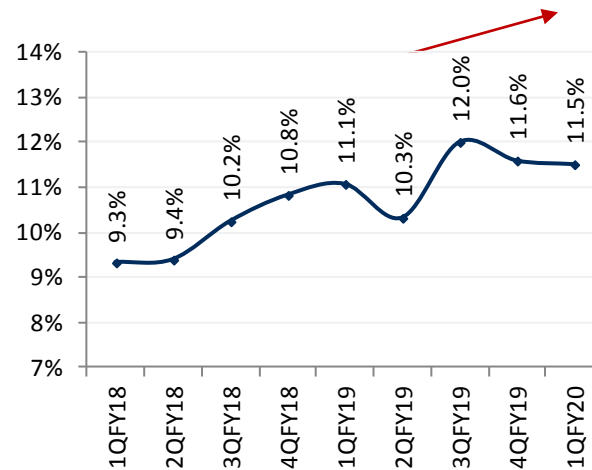
Source: Company, HDFC sec Inst Research

YoY CC Revenue Growth Trajectory (%)



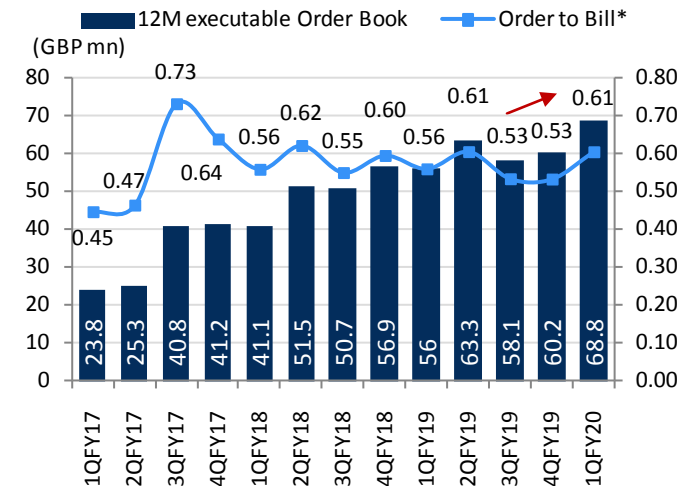
Source: Company, HDFC sec Inst Research, 1Q, 2Q, 3Q FY18 includes inorganic (TIAS Tech impact)

EBIT Margin Trajectory (%)



Source: Company, HDFC sec Inst Research

12M Executable Order Book



Source: Company, HDFC sec Inst Research, *Order book to Bill calculated to TTM revenues

UK slowed down in YoY growth impacted by UK private sector, UK private sector is expected to remain stable hearon

Revenue was anchored by US, (+8.7% QoQ in USD terms) after posting three consecutive qtrs of sequential decline

UK Government witnessed 10.2% QoQ decline but on a YoY basis Government was up 30.8% in GBP terms

Geography Wise Revenues

GBP mn	1QFY18	2QFY18	3QFY18	4QFY18	FY18	1QFY19	2QFY19	3QFY19	4QFY19	FY19	1QFY20
UK	15.6	16.2	16.6	18.0	66.4	19.2	20.4	21.5	22.3	83.3	20.2
QoQ %	9.2%	4.0%	2.2%	8.8%		6.3%	6.4%	5.2%	3.8%		-9.4%
YoY %	22.2%	28.4%	26.6%	26.3%	25.9%	22.9%	25.7%	29.5%	23.5%	25.4%	5.2%
% of rev	69%	69%	68%	72%	70%	71%	72%	75%	77%	74%	73%
US	6.1	6.9	7.2	6.7	27.0	7.2	7.3	6.7	6.4	27.6	7.0
QoQ %	-7.7%	13.3%	4.6%	-7.4%		6.8%	1.9%	-7.8%	-4.8%		10.0%
YoY %	NA	1260.2%	584.3%	1.2%	229.4%	17.2%	5.3%	-7.1%	-4.5%	2.2%	-1.6%
% of rev	27%	29%	30%	27%	28%	27%	26%	24%	22%	24%	25%
Others	0.8	0.5	0.5	0.3	2.0	0.5	0.5	0.4	0.4	1.8	0.4
QoQ %	18.5%	-41.1%	13.7%	-46.4%		98.6%	-16.4%	-13.8%	10.9%		0.6%
YoY %	11.2%	-61.0%	-42.7%	-57.5%	-40.8%	-28.7%	1.1%	-23.3%	58.7%	-9.2%	-19.7%
% of rev	3%	2%	2%	1%	2%	2%	2%	1%	2%	2%	2%
Total	22.5	23.6	24.3	25.0	95.4	26.9	28.1	28.6	29.1	112.7	27.7
QoQ %	4.3%	5.0%	3.1%	2.8%		7.4%	4.7%	1.5%	1.9%		-5.0%
YoY %	67.1%	65.0%	61.7%	16.1%	48.3%	19.6%	19.3%	17.4%	16.4%	18.1%	2.9%

Source: Company, HDFC Sec Inst Research

Industry Wise Revenues

GBP mn	1QFY18	2QFY18	3QFY18	4QFY18	FY18	1QFY19	2QFY19	3QFY19	4QFY19	FY19	1QFY20
Government	7.8	8.1	8.1	8.0	32.0	8.5	10.9	10.9	12.3	42.5	11.1
QoQ %	0.6%	4.4%	-0.2%	-1.7%		6.1%	28.3%	-0.1%	13.6%		-10.2%
YoY %	21.6%	33.5%	12.3%	3.0%	16.6%	8.7%	33.7%	33.8%	54.7%	32.9%	30.8%
% of rev	35%	34%	33%	32%	34%	32%	39%	38%	42%	38%	40%
Financial Services	4.3	4.1	5.2	5.7	19.4	5.9	5.4	5.4	5.2	21.8	4.6
QoQ %	24.7%	-5.9%	28.5%	9.3%		3.0%	-9.2%	0.0%	-2.7%		-12.7%
YoY %	20.1%	-2.3%	30.7%	64.9%	26.9%	36.2%	31.4%	2.2%	-9.0%	12.6%	-22.9%
% of rev	19%	17%	22%	23%	20%	22%	19%	19%	18%	19%	16%
Retail Services	8.5	9.2	9.0	8.9	35.6	9.9	10.2	9.9	10.0	40.1	10.4
QoQ %	-0.3%	8.7%	-1.9%	-1.2%		11.3%	3.0%	-2.7%	0.4%		4.5%
YoY %	441.2%	367.4%	776.3%	5.0%	172.8%	17.4%	11.2%	10.3%	12.1%	12.7%	5.3%
% of rev	38%	39%	37%	36%	37%	37%	36%	35%	34%	36%	38%
Others	1.9	2.2	2.0	2.4	8.5	2.6	1.7	2.4	1.6	8.3	1.6
QoQ %	1.6%	15.2%	-10.6%	22.3%		7.5%	-33.3%	40.3%	-35.0%		0.8%
YoY %	1.4%	6.0%	-29.8%	27.9%	-1.8%	35.4%	-21.6%	23.1%	-34.5%	-2.1%	-38.7%
% of rev	8%	9%	8%	10%	9%	10%	6%	8%	5%	7%	6%
Total	22.5	23.6	24.3	25.0	95.4	26.9	28.2	28.6	29.1	112.7	27.7
QoQ %	4.3%	5.0%	3.1%	2.8%		7.4%	4.7%	1.5%	1.9%		-5.0%
YoY %	67.1%	65.0%	61.7%	16.1%	48.3%	19.6%	19.3%	17.4%	16.4%	18.1%	2.9%

Source: Company, HDFC Sec Inst Research

Application support was soft sequentially but posted strong growth on a YoY basis

Digital Commerce growth was strong given the recovery in the US geography

Good traction for BI & Analytics for three consecutive qtrs

Ramp down in Agile consulting (Indigoblue) impacted by ramp down of 'consulting only' engagements and sluggishness in UK private sector

Service-line Wise Revenues

GBP mn	1QFY18	2QFY18	3QFY18	4QFY18	FY18	1QFY19	2QFY19	3QFY19	4QFY19	FY19	1QFY20
ADM	9.6	11.4	12.5	11.9	45.5	12.9	13.6	14.5	12.3	53.4	11.1
QoQ %	3.4%	18.7%	9.9%	-5.1%		8.0%	5.9%	6.7%	-15.2%		-9.7%
YoY %	NA	NA	NA	27.9%	NA	33.7%	19.3%	15.9%	3.6%	17.2%	-13.4%
% of rev	43%	48%	52%	48%	48%	48%	48%	51%	42%	47%	40%
Digital Commerce	6.1	5.7	6.2	6.0	24.0	6.6	6.9	6.3	6.3	26.1	7.0
QoQ %	-1.3%	-6.0%	7.9%	-3.9%		11.6%	3.1%	-8.0%	-0.2%		10.7%
YoY %	NA	NA	NA	-3.9%	NA	8.7%	19.3%	1.7%	5.6%	8.8%	4.7%
% of rev	27%	24%	25%	24%	25%	25%	24%	22%	22%	23%	25%
Application Support	2.4	2.9	2.1	2.6	10.0	3.0	3.4	3.3	5.9	15.7	5.0
QoQ %	-1.7%	22.9%	-26.4%	23.5%		12.7%	16.5%	-3.3%	78.0%		-15.7%
YoY %	NA	NA	NA	9.8%	NA	25.9%	19.3%	56.9%	126.1%	57.1%	69.1%
% of rev	10%	12%	9%	11%	10%	11%	12%	12%	20%	14%	18%
BI & Analytics	2.0	1.8	1.6	2.7	8.1	2.4	2.2	2.4	2.7	9.7	3.1
QoQ %	79.5%	-8.9%	-10.4%	61.9%		-11.1%	-7.5%	10.0%	14.0%		11.5%
YoY %	NA	NA	NA	137.1%	NA	17.5%	19.3%	46.5%	3.2%	18.8%	29.4%
% of rev	9%	8%	7%	11%	9%	9%	8%	8%	9%	9%	11%
Agile Consulting	1.9	0.7	1.1	1.1	4.7	1.1	0.8	0.8	0.7	3.4	0.5
QoQ %	-2.0%	-62.9%	56.8%	-2.2%		-0.3%	-22.0%	-2.5%	-17.9%		-29.8%
YoY %	NA	NA	NA	-44.1%	NA	-43.2%	19.3%	-25.8%	-37.8%	-28.3%	-56.2%
% of rev	8%	3%	5%	4%	5%	4%	3%	3%	2%	3%	2%
Assurance & Testing	0.5	1.0	0.7	0.8	3.0	1.0	1.2	1.2	1.1	4.5	1.0
QoQ %	-21.2%	101.2%	-28.1%	10.8%		20.6%	24.3%	-1.9%	-3.5%		-9.7%
YoY %	NA	NA	NA	26.3%	NA	93.2%	19.3%	62.8%	41.8%	47.7%	6.2%
% of rev	2%	4%	3%	3%	3%	4%	4%	4%	4%	4%	4%
Total	22.5	23.6	24.3	25.0	95.4	26.9	28.1	28.6	29.1	112.7	27.7
QoQ %	4.2%	4.9%	3.1%	2.8%		7.4%	4.8%	1.5%	1.9%		-5.0%
YoY %	NA	NA	NA	16.0%	48.2%	19.5%	19.3%	17.4%	16.4%	18.1%	2.9%

Source: Company, HDFC Sec Inst Research

Performance was soft on client metrics with USD 1mn clients dropping by 3, for second consecutive qtr

QoQ decline was largely impacted by Top-5 clients

Top 6-10 clients were sequentially soft after a robust QoQ growth in 4QFY19

Project Type Wise Revenues

GBP mn	1QFY18	2QFY18	3QFY18	4QFY18	FY18	1QFY19	2QFY19	3QFY19	4QFY19	FY19	1QFY20
Fixed Price	4.3	4.4	5.5	6.1	20.4	5.7	6.2	7.8	7.9	27.6	7.0
QoQ %	-20.3%	0.7%	27.0%	10.7%		-7.3%	9.7%	25.5%	0.8%		-10.8%
YoY %	14.1%	17.6%	46.2%	12.7%	21.7%	31.2%	43.0%	41.3%	28.7%	35.7%	23.8%
% of rev	19%	18%	23%	25%	21%	21%	22%	27%	27%	25%	25%
Time & Material	18.2	19.2	18.8	18.9	75.1	21.2	21.9	20.7	21.2	85.1	20.6
QoQ %	12.5%	5.9%	-2.3%	0.5%		12.2%	3.4%	-5.3%	2.3%		-2.8%
YoY %	87.8%	81.5%	66.9%	17.0%	57.5%	16.7%	14.0%	10.4%	12.4%	13.3%	-2.7%
% of rev	81%	82%	77%	76%	79%	79%	78%	73%	73%	75%	75%
Total	22.5	23.6	24.3	25.0	95.4	26.9	28.1	28.6	29.1	112.7	27.7
QoQ %	4.2%	4.9%	3.1%	2.8%		7.4%	4.8%	1.5%	1.9%		-5.0%
YoY %	67.1%	64.9%	61.7%	16.0%	48.2%	19.5%	19.3%	17.4%	16.4%	18.1%	2.9%

Source: Company, HDFC Sec Inst Research

Client Metrics

Nos	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Active Clients (TTM)	161	167	173	170	166	162	165	157	154
Active Clients (during the qtr)	136	137	134	124	117	116	114	110	109
Clients > USD 1mn	27	27	27	28	28	32	32	29	26

Source: Company, HDFC Sec Inst Research

Client Contribution Metrics

GBP mn	1QFY18	2QFY18	3QFY18	4QFY18	FY18	1QFY19	2QFY19	3QFY19	4QFY19	FY19	1QFY20
Top 5 Clients	9.3	9.5	9.2	10.1	38.0	10.7	11.7	12.2	12.1	46.7	11.2
QoQ %	12.7%	1.9%	-2.7%	9.5%		6.1%	9.3%	4.1%	-0.1%		-8.1%
YoY %	31.4%	26.6%	16.2%	22.3%	23.9%	15.2%	23.5%	32.1%	20.5%	22.8%	4.3%
% of rev	41%	40%	38%	40%	40%	40%	42%	43%	42%	41%	40%
Top 6-10 Clients	2.8	3.5	4.7	4.2	15.3	4.2	4.2	4.2	5.0	17.6	4.8
QoQ %	-12.6%	26.3%	31.8%	-9.6%		0.0%	0.2%	-1.6%	19.3%		-3.2%
YoY %	9.7%	19.1%	65.2%	31.5%	31.7%	50.4%	19.3%	-11.0%	17.5%	15.2%	13.8%
% of rev	13%	15%	19%	17%	16%	16%	15%	15%	17%	16%	17%
Top 10 Clients	12.1	13.0	13.9	14.3	53.3	14.9	15.9	16.3	17.1	64.3	16.0
QoQ %	5.6%	7.6%	6.7%	3.1%		4.3%	6.7%	2.6%	4.8%		-6.7%
YoY %	25.6%	24.4%	29.1%	24.9%	26.0%	23.4%	22.4%	17.6%	19.6%	20.6%	7.0%
% of rev	54%	55%	57%	57%	56%	56%	57%	57%	59%	57%	58%
Non Top 10 Clients	10.4	10.6	10.4	10.7	42.1	11.9	12.2	12.3	12.0	48.4	11.7
QoQ %	2.6%	1.9%	-1.2%	2.5%		11.6%	2.4%	0.2%	-2.1%		-2.6%
YoY %	171.2%	175.1%	143.2%	5.8%	90.7%	15.0%	15.6%	17.2%	12.0%	15.0%	-2.2%
% of rev	46%	45%	43%	43%	44%	44%	43%	43%	41%	43%	42%

Source: Company, HDFC Sec Inst Research

We expect growth to be led by US (24% of rev), recent management changes, increased focus and 6 new logo wins gives us confidence for growth in the geography

UK government revenues to grow at 20% CAGR over FY19-21E, as government navigates through their digital transformation journey where Mastek is among top-10 vendors

We have cut our estimates for UK private sector growth to -2.3% CAGR over FY19-21E

Revenue Trend & Assumptions

GBP Mn	FY16	FY17	FY18	FY19	FY20E	FY21E	CAGR 16-18	CAGR 18-21E	CAGR 19-21E
Total Revenue	53.4	64.4	95.4	112.7	121.7	139.8	28.3%	13.6%	11.4%
Growth YoY%		20.7%	48.2%	18.1%	8.0%	14.9%			
Geography Mix									
UK	51.0	52.8	66.4	83.3	88.2	100.7	17.7%	14.9%	9.9%
Growth YoY%		3.4%	25.9%	25.4%	5.9%	14.1%			
% of Rev	95.6%	82.0%	69.6%	73.9%	72.5%	72.0%			
US	0.0	8.2	27.0	27.6	31.0	36.0	NA	10.1%	14.2%
Growth YoY%		NA	229.4%	2.2%	12.3%	16.2%			
% of Rev	0.0%	12.7%	28.3%	24.5%	25.5%	25.8%			
Others	2.3	3.4	2.0	1.8	2.5	3.1	-7.9%	15.5%	30.3%
Growth YoY%		45.5%	-40.8%	-9.2%	37.3%	23.7%			
% of Rev	4.4%	5.3%	2.1%	1.6%	2.1%	2.2%			
Vertical Mix									
Government	29.6	27.5	32.0	42.5	50.7	61.8	12.9%	24.5%	20.5%
Growth YoY%		-7.2%	16.6%	32.9%	19.2%	21.8%			
% of Rev	55.5%	42.7%	33.6%	37.7%	41.7%	44.2%			
Financial Services	10.1	15.3	19.4	21.8	18.2	19.2	29.1%	-0.4%	-6.3%
Growth YoY%		50.4%	26.9%	12.6%	-16.6%	5.3%			
% of Rev	19.0%	23.7%	20.3%	19.4%	15.0%	13.7%			
Retail Services	7.2	13.0	35.6	40.1	45.0	51.7	NA	13.3%	13.6%
Growth YoY%		80.2%	172.8%	12.7%	12.3%	14.9%			
% of Rev	13.6%	20.2%	37.3%	35.5%	37.0%	37.0%			
Others	6.4	8.6	8.5	8.3	7.8	7.1	9.1%	-5.5%	-7.2%
Growth YoY%		35.3%	-1.8%	-2.1%	-6.3%	-8.1%			
% of Rev	11.9%	13.4%	8.9%	7.4%	6.4%	5.1%			
UK Private sector (ex Govt, computed)	21.4	25.3	34.4	40.8	37.5	38.9	23.9%	4.2%	-2.3%
Growth YoY%		18.1%	36.0%	18.4%	-8.0%	3.8%			
% of Rev	40.2%	39.3%	36.1%	36.2%	30.8%	27.8%			

Source: Company, HDFC Sec Inst Research

Currency Assumptions

GBP Mn	FY16	FY17	FY18	FY19	FY20E	FY21E
GBP-USD Rate	1.51	1.30	1.33	1.31	1.27	1.28
USD-INR Rate	65.4	67.0	64.4	69.9	69.9	70.0

Source: HDFC sec Inst Research

Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
FY20E			
Revenue (GBP mn)	124.9	121.7	-2.6
Revenue (Rs bn)	11.3	10.8	-3.7
EBIT (Rs bn)	1.2	1.2	-0.3
<i>EBIT margin (%)</i>	<i>11.1</i>	<i>11.5</i>	<i>40bps</i>
EPS (Rs)	43.8	42.1	-4.0
FY21E			
Revenue (GBP mn)	142.6	139.8	-2.0
Revenue (Rs bn)	12.9	12.5	-2.8
EBIT (Rs bn)	1.4	1.4	-4.7
<i>EBIT margin (%)</i>	<i>11.2</i>	<i>11.0</i>	<i>-22bps</i>
EPS (Rs)	49.8	47.6	-4.4

Source: HDFC sec Inst Research

Valuation

Particulars	Per Share (Rs)
EPS (FY21E)	47.6
Target P/E (x)	11
Value of Core Business (Rs)	524
Stake in Majesco US (Rs)	118
Discount (20%)	24
Value of Stake in Majesco US (Rs)	94
Target Price (Rs)	618
Upside (%)	34%

Source: Company, HDFC Sec Inst Research

Peer Set Comparison

Company	MCap (Rs bn)	CMP (Rs)	TP (Rs)	RECO	EPS (Rs)				P/E (x)				RoE (%)			
					FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
TCS	7,917	2,110	2,420	BUY	68.8	83.9	87.9	98.4	30.7	25.2	24.0	21.4	30.1	36.1	36.1	38.5
Infosys	3,413	784	770	NEU	34.2	36.7	36.9	41.5	22.9	21.4	21.3	18.9	22.0	24.4	24.8	27.2
Wipro	1,510	265	220	SELL	14.0	15.8	16.6	17.7	18.9	16.8	16.0	15.0	16.5	17.3	16.9	16.9
HCL Tech	1,419	1,019	1,305	BUY	64.7	74.6	78.2	89.9	15.7	13.7	13.0	11.3	25.3	26.0	24.0	24.3
TechM	591	672	650	SELL	43.2	48.9	48.1	53.1	15.6	13.8	14.0	12.7	21.5	22.0	20.4	20.7
Tier-1 IT Median									18.9	16.8	16.0	15.0	22.0	24.4	24.0	24.3
LTI	257	1,479	2,115	BUY	66.9	87.3	85.8	101.2	22.1	16.9	17.2	14.6	33.2	34.6	28.0	28.2
Mphasis	171	919	1,360	BUY	45.4	57.7	60.5	73.0	20.2	15.9	15.2	12.6	14.6	20.0	20.3	21.7
LTTS	154	1,481	1,955	BUY	45.5	68.0	73.2	93.3	32.5	21.8	20.2	15.9	27.7	32.0	28.1	30.0
Mindtree	112	682	705	NEU	32.3	44.2	36.5	48.1	21.1	15.4	18.7	14.2	21.4	24.9	17.3	23.0
Hexaware *	106	358	440	BUY	16.8	19.6	20.9	26.0	21.3	18.3	17.1	13.7	26.6	26.5	24.3	26.1
Cyient	52	461	510	NEU	38.6	43.6	42.7	45.8	11.9	10.6	10.8	10.1	18.1	19.5	17.7	17.2
Zensar	51	223	315	BUY	10.6	13.8	15.8	19.1	21.0	16.2	14.1	11.7	15.1	17.0	16.9	17.8
Tata Elxsi	42	680	635	NR	38.5	46.6	33.0	39.5	17.6	14.6	20.6	17.2	37.0	34.5	20.4	21.4
Persistent	46	575	655	NEU	40.6	45.9	44.9	48.5	14.2	12.5	12.8	11.9	16.0	15.7	14.5	14.3
Sonata	35	337	495	BUY	18.6	24.0	27.0	30.2	18.2	14.0	12.5	11.2	31.0	35.1	34.3	34.0
Intellect	32	256	325	BUY	3.7	8.1	10.6	15.0	NM	31.7	24.1	17.1	6.7	11.1	12.3	15.0
eClerx	24	612	750	NEU	74.1	61.7	60.9	67.3	8.3	9.9	10.1	9.1	24.1	17.6	16.5	18.3
Majesco	14	507	730	BUY	(1.5)	18.3	26.3	34.4	NM	27.7	19.3	14.8	NM	8.4	10.4	12.2
HGS	13	624	900	NR	96.5	84.6	106.2	120.7	6.5	7.4	5.9	5.2	14.3	11.3	12.7	13.0
Mastek	11	460	618	BUY	27.7	40.4	42.1	47.6	16.6	11.4	10.9	9.7	13.7	16.1	14.1	14.3
Tier-2 IT Median									18.2	15.4	15.2	12.6	19.8	19.5	17.3	18.3

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	131	195	NA	NR	5.6	6.5	7.3	8.0	35.1	30.2	26.8	24.5	41.7	42.0	41.5	40.1
Cognizant	37	66	NA	NR	2.5	3.6	3.8	4.3	26.0	18.3	17.6	15.5	14.1	19.0	16.7	19.3
Capgemini^	21	112	NA	NR	4.9	4.4	6.5	7.1	23.0	25.7	17.3	15.7	11.5	10.1	13.3	13.4
Global IT Median									26.0	25.7	17.6	15.7	14.1	19.0	16.7	19.3

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

Income Statement (Consolidated)

Year ending March (Rs bn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues (GBP mn)	64.4	95.4	112.7	121.7	139.8
Growth (%)	20.7%	48.2%	18.1%	8.0%	14.9%
Net Revenues	5.60	8.17	10.33	10.84	12.52
Growth (%)	6.3%	45.9%	26.4%	4.9%	15.6%
Employee Expenses	3.23	4.81	5.87	5.91	6.97
Other Operating Expenses	1.86	2.36	3.12	3.44	3.95
EBITDA	0.51	1.00	1.34	1.49	1.61
Depreciation	0.15	0.19	0.17	0.24	0.24
EBIT	0.36	0.82	1.16	1.24	1.38
EBIT Margin (%)	6.4%	10.0%	11.3%	11.5%	11.0%
EBIT Growth (%)	1214.2%	126.7%	42.5%	6.8%	10.9%
Other Income (Including EO Items)	0.07	0.20	0.23	0.20	0.25
Interest	0.04	0.06	0.06	0.06	0.06
PBT	0.39	0.96	1.33	1.38	1.57
Tax (Incl Deferred)	0.07	0.26	0.32	0.32	0.36
RPAT	0.32	0.70	1.01	1.06	1.20
EO (Loss) / Profit (Net Of Tax)	(0.03)	-	0.01	-	-
APAT	0.29	0.70	1.02	1.06	1.20
APAT Growth (%)	0.0%	141.4%	45.8%	4.36%	13.0%
Adjusted EPS (Rs)	11.5	27.7	40.4	42.1	47.6
EPS Growth (%)	158.8%	141.4%	45.8%	4.4%	13.0%

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

As at March (Rs bn)	FY17	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	0.12	0.12	0.12	0.12	0.12
Reserves	4.57	5.37	7.04	7.84	8.75
Total Shareholders' Funds	4.69	5.49	7.16	7.96	8.87
Long Term Debt	0.65	0.50	0.69	0.70	0.70
Short Term Debt	0.00	0.20	0.01	0.01	0.01
Total Debt	0.66	0.70	0.70	0.71	0.71
Net Deferred Taxes	(0.10)	(0.34)	(0.16)	(0.16)	(0.16)
Other Non-current Liabilities & Provns	0.48	0.33	0.12	0.12	0.12
TOTAL SOURCES OF FUNDS	5.73	6.18	7.83	8.63	9.54
APPLICATION OF FUNDS					
Net Block	0.74	0.71	0.70	0.63	0.61
CWIP	0.00	0.02	0.01	0.01	0.01
Goodwill	1.05	1.08	0.98	0.98	0.98
Investments	1.69	1.66	2.82	2.82	2.82
Other Non-current Assets	0.26	0.11	0.15	0.15	0.15
Total Non-current Assets	3.75	3.59	4.66	4.59	4.56
Cash & Equivalents	1.53	2.06	2.07	2.69	3.24
Debtors	0.85	1.74	2.08	2.26	2.61
Other Current Assets	0.82	0.49	0.69	0.79	0.92
Total Current Assets	1.67	2.23	2.77	3.05	3.52
Creditors	0.20	0.19	0.09	0.10	0.12
Other Current Liabilities & Provns	1.02	1.50	1.58	1.59	1.67
Total Current Liabilities	1.22	1.69	1.68	1.70	1.79
Net Current Assets	0.45	0.54	1.09	1.35	1.73
TOTAL APPLICATION OF FUNDS	5.73	6.18	7.83	8.63	9.54

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

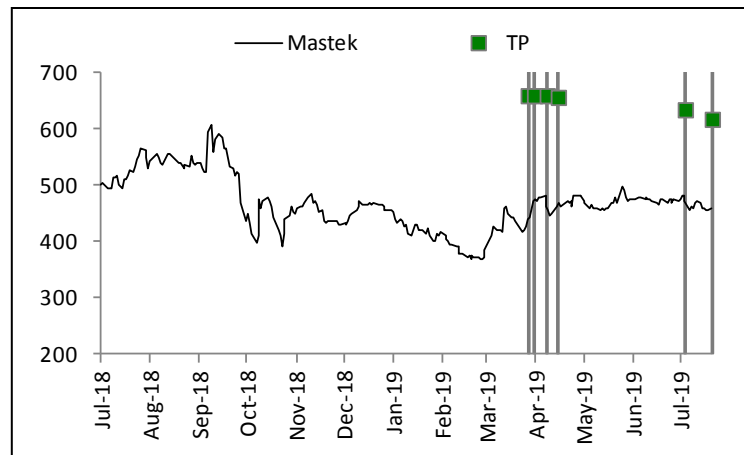
Year ending March (Rs bn)	FY17	FY18	FY19	FY20E	FY21E
Reported PBT	0.39	0.96	1.33	1.38	1.57
Non-operating & EO Items	(0.04)	(0.03)	(0.03)	(0.20)	(0.25)
Interest Expenses	0.04	0.06	0.06	0.06	0.06
Depreciation	0.15	0.19	0.17	0.24	0.24
Working Capital Change	(0.07)	(0.45)	(0.51)	(0.26)	(0.38)
Tax Paid	(0.04)	(0.09)	(0.31)	(0.32)	(0.36)
OPERATING CASH FLOW (a)	0.43	0.64	0.73	0.91	0.87
Capex	(0.79)	(0.21)	(0.32)	(0.17)	(0.21)
<i>Free Cash Flow (FCF)</i>	<i>(0.36)</i>	<i>0.43</i>	<i>0.41</i>	<i>0.73</i>	<i>0.66</i>
Non-operating Income	0.06	0.04	0.02	0.20	0.25
INVESTING CASH FLOW (b)	(0.73)	(0.17)	(0.30)	0.03	0.04
Debt Issuance/(Repaid)	0.67	0.04	0.01	0.01	0.01
Interest Expenses	(0.03)	(0.03)	(0.02)	(0.06)	(0.06)
<i>FCFE</i>	<i>0.29</i>	<i>0.45</i>	<i>0.39</i>	<i>0.68</i>	<i>0.60</i>
Share Capital Issuance	0.02	0.02	0.03	-	-
Dividend	(0.02)	(0.11)	(0.18)	(0.27)	(0.30)
FINANCING CASH FLOW (c)	0.65	(0.07)	(0.16)	(0.32)	(0.36)
NET CASH FLOW (a+b+c)	0.35	0.40	0.27	0.61	0.55
EO Items, Others	0.02	(0.13)	0.25	-	-
Closing Cash & Equivalents	1.53	2.06	2.07	2.69	3.24

Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY17	FY18	FY19	FY20E	FY21E
PROFITABILITY (%)					
EBITDA Margin	9.1	12.3	12.9	13.7	12.9
APAT Margin	5.2	8.6	9.9	9.8	9.6
RoE	6.1	13.7	16.1	14.1	14.3
RoIC (or Core RoCE)	15.1	23.9	32.8	31.6	32.1
RoCE	6.2	12.5	15.2	13.5	13.8
EFFICIENCY					
Tax Rate (%)	17.1	27.1	23.9	23.1	23.2
Fixed Asset Turnover (x)	7.5	11.5	14.8	17.3	20.7
<i>Debtors (days)</i>	<i>55</i>	<i>78</i>	<i>74</i>	<i>76</i>	<i>76</i>
<i>Other Current Assets (days)</i>	<i>53</i>	<i>22</i>	<i>24</i>	<i>27</i>	<i>27</i>
<i>Payables (days)</i>	<i>13</i>	<i>8</i>	<i>3</i>	<i>4</i>	<i>4</i>
<i>Other Current Liab & Provns (days)</i>	<i>67</i>	<i>67</i>	<i>56</i>	<i>54</i>	<i>49</i>
<i>Cash Conversion Cycle (days)</i>	<i>29</i>	<i>24</i>	<i>39</i>	<i>46</i>	<i>51</i>
Debt/EBITDA (x)	1.3	0.7	0.5	0.5	0.4
Net D/E (x)	-0.2	-0.2	-0.2	-0.2	-0.3
Interest Coverage (x)	9.6	13.9	19.0	20.1	21.9
PER SHARE DATA (Rs)					
EPS	11.5	27.7	40.4	42.1	47.6
CEPS	17.4	35.1	47.2	51.8	56.9
Dividend	3.5	6.0	8.5	9.2	10.4
Book Value	186	217	283	315	351
VALUATION					
P/E (x)	40.1	16.6	11.4	10.9	9.7
P/BV (x)	2.5	2.1	1.6	1.5	1.3
EV/EBITDA (x)	21.1	10.2	7.7	6.5	5.6
EV/Revenues (x)	1.9	1.3	1.0	0.9	0.7
OCF/EV (%)	4.0	6.2	7.1	9.4	9.6
FCF/EV (%)	-3.4	4.2	4.0	7.6	7.2
FCFE/Mkt Cap (%)	2.5	3.8	3.4	5.8	5.1
Dividend Yield (%)	0.8	1.3	1.8	2.0	2.3

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
29-Mar-19	439	BUY	660
1-Apr-19	443	BUY	660
9-Apr-19	480	BUY	660
17-Apr-19	463	BUY	657
5-Jul-19	472	BUY	635
23-Jul-19	460	BUY	618

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

INSTITUTIONAL RESEARCH

Disclosure:

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