

Tech Mahindra

 BSE SENSEX
 37,397

 S&P CNX
 11,085

CMP: INR641 TP: INR770 (+20%)
Buy

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Bloomberg	TECHM IN
Equity Shares (m)	985
M.Cap.(INRb)/(USD\$b)	630.8 / 9.2
52-Week Range (INR)	846 / 633
1, 6, 12 Rel. Per (%)	-4/-16/-2
12M Avg Val (INR M)	2435
Free float (%)	64.1

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	347.4	363.5	399.6
EBITDA	63.4	60.5	68.4
PAT	43.0	41.5	48.6
EPS (INR)	48.2	47.1	55.1
Gr. (%)	12.8	-2.2	17.0
BV/Sh (INR)	228.7	253.2	279.3
RoE (%)	22.0	19.6	20.9
RoCE (%)	18.7	16.8	17.7
P/E (x)	13.3	13.6	11.6
P/BV (x)	2.8	2.5	2.3

Estimate change

TP change

Rating change



Significant margin miss drives 8-11% earnings cut

- Profit below est. due to plummeting margins:** 1QFY20 revenue grew 3.7% YoY CC (v/s est. of +3.8% YoY), EBIT declined 8% YoY (v/s est. of +10.5% YoY) and PAT increased 7% YoY (v/s est. of +17.9% YoY). **EBIT margin** declined 390bp QoQ to 11.4% (220bp miss to our est. of 13.6%). Margins were primarily impacted by a sharp decline in GPM, down 430bp QoQ to 28.8% (260bp below our est.). **PAT** at INR9.6b, was down 15% QoQ (9% miss to our est.), mainly due to operational miss; it was partially offset by higher other income at INR3.4b (v/s est. of INR2.6b).
- Subsidiaries and transition costs of large deals aid margin miss:** Apart from the ~200bp margin impact from wage hikes, visas, 1QFY20 Communications' seasonality and hiring, additional decline in margins was attributed to the impact on subsidiaries amid challenges in Manufacturing/Automotives currently. TECHM started the year with an EBIT margin of 11.5% and though it is confident of surpassing 13% going ahead, it is still well below our earlier EBIT margin est. of 15%.
- Revenue outlook remains positive:** Communications (42% of revenues) declined 3.2% QoQ, in line with our estimate. Enterprise segment (58% of revenues) was flat QoQ CC, dragged by 5.5% sequential decline in the Manufacturing segment (particularly China EV segment). TCV of deals worth USD475m for the quarter was dominated by Enterprise (USD375m); TCV of deals in Communications was ~USD100m. Continued traction in deal wins keeps our revenue growth estimate for FY20 intact.
- Valuation view:** We cut our EPS estimates for FY20/FY21 by 11% / 8%, which follows 200bp/160bp cut in EBIT margins. After a sluggish start to the year the earnings growth outlook for FY20 has muted, but revenue growth remains crucial to both recovery in margins and uptick in valuation multiple. Deal wins and a healthy pipeline drive our expectation of acceleration in revenue growth for the remainder of the year. Over FY19-21, we expect USD revenue CAGR of 6.4% and earnings CAGR of 7.1%. Our TP of INR770 (20% upside) discounts forward earnings by 14x, the average multiple over the last five years. Maintain **Buy**.

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Quarterly Performance (Consolidated)

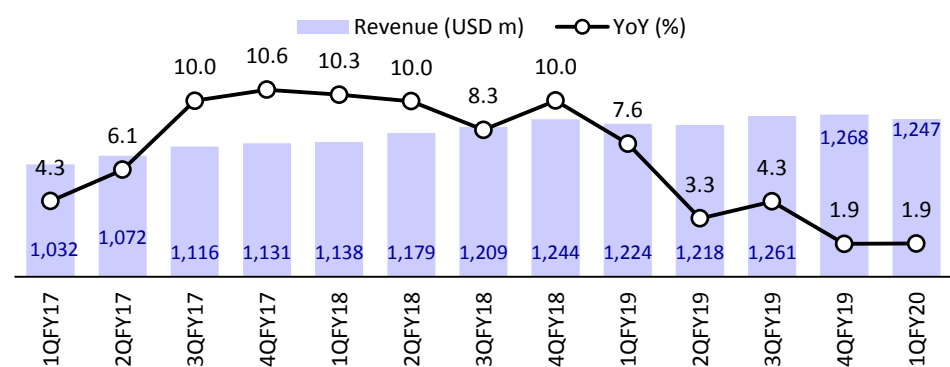
Y/E March	FY19				FY20E				FY19	FY20E	Est. 1QE	Var. (% / bp)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Revenue (USD m)	1,224	1,218	1,261	1,268	1,247	1,281	1,308	1,366	4,971	5,203	1,257	-0.7
QoQ (%)	-1.6	-0.5	3.5	0.5	-1.6	2.7	2.1	4.4	4.2	4.7	-86.6%	-74bp
Revenue (INR m)	82,763	86,298	89,437	88,923	86,530	89,681	91,590	95,654	3,47,421	3,63,454	87,404	-1.0
YoY (%)	12.8	13.5	15.0	10.4	4.6	3.9	2.4	7.6	12.9	4.6	5.6	-106bp
GPM (%)	30.7	34.0	33.1	33.1	28.8	30.4	30.6	31.9	32.8	30.5	31.4	-265bp
SGA (%)	14.3	15.3	13.8	14.7	13.6	14.0	13.9	13.8	14.5	13.8	14.5	-92bp
EBITDA	13,569	16,186	17,226	16,387	13,141	14,705	15,327	17,329	63,368	60,501	14,783	-11.1
EBITDA Margin (%)	16.4	18.8	19.3	18.4	15.2	16.4	16.7	18.1	18.2	16.6	16.9	-173bp
EBIT Margin (%)	13.0	15.3	16.1	15.4	11.5	13.1	13.5	15.0	15.0	13.3	13.6	-213bp
Other income	1,114	1,751	806	1,671	3,413	2,174	1,928	1,985	5,342	9,500	2,606	31.0
Interest expense	305	388	358	281	454	598	598	597	1,332	2,247	245	85.4
ETR (%)	21.2	26.8	17.8	23.5	25.7	25.0	25.0	25.0	22.4	25.2	25.0	
PAT excl. BT amort & EOI	8,979	10,642	12,029	11,325	9,593	9,942	10,224	11,761	42,975	41,520	10,582	-9.4
QoQ (%)	-26.5	18.5	13.0	-5.9	-15.3	3.6	2.8	15.0			-6.6	
YoY (%)	12.4	27.3	27.7	-7.3	6.8	-6.6	-15.0	3.8	13.1	-3.4	17.9	
EPS (INR)	10.1	11.9	13.5	12.6	10.9	11.3	11.6	13.4	48.2	47.1	12.0	
Headcount	1,13,552	1,18,391	1,21,842	1,21,082	1,25,773	1,25,974	1,29,635	1,33,512	1,21,082	1,33,512	1,19,888	4.9
Util excl. trainees (%)	81.0	81.0	82.0	82.0	80.0	85.3	83.9	86.3	81.5	83.9	84.1	-409bp
Attrition (%)	19.0	20.0	21.0	21.0	21.0							
Offshore rev. (%)	33.4	35.5	34.5	34.8	34.7	37.3	36.2	36.8	34.5	36.3	36.3	-158bp

E: MOFSL Estimates

Revenue in line, sharp decline in margins

- TECHM's **1QFY20 revenue** declines 1.6% QoQ to USD1247m, in-line with our estimates. In CC terms revenue declined 0.6% QoQ implying a YoY growth of 3.7% CC
- Communications** declined 3.2% QoQ, in-line with our estimates.
- Decline in Enterprise segment was marginal at 1% QoQ. This was dominated by 5.5% sequential decline in manufacturing segment.

Exhibit 1: Decline in revenue led by Telecom segment

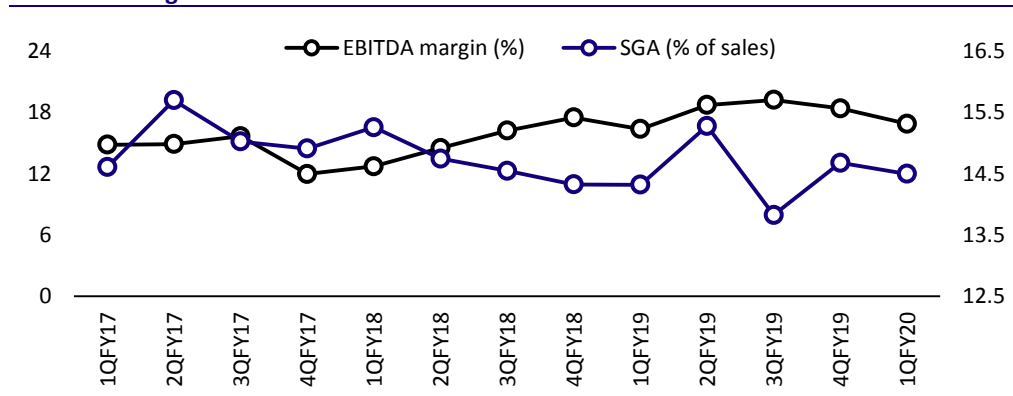


Source: MOFSL, Company

Gross margin declines 430bp sequentially, miss of 260bp

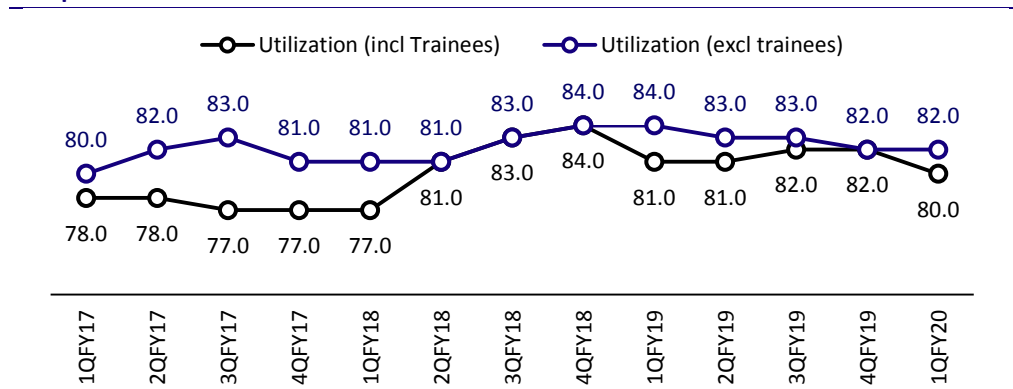
- EBIT margin** declined 390bp QoQ to 11.4%, 210bp miss to our estimate of 13.6%.
- EBIT margin was primarily impacted by a sharp decline in GPM, down 430bp QoQ to 28.8%, 260bp below our estimate
- PAT** was INR9.6b, down 15% QoQ, a 9% miss to our estimate, mainly due to operational miss partially offset by higher other income (INR 3.4b vs. est. of 2.6b)

Exhibit 2: Margins contracted on account of lower GPM



Source: MOFSL, Company

Sharp contraction in utilization

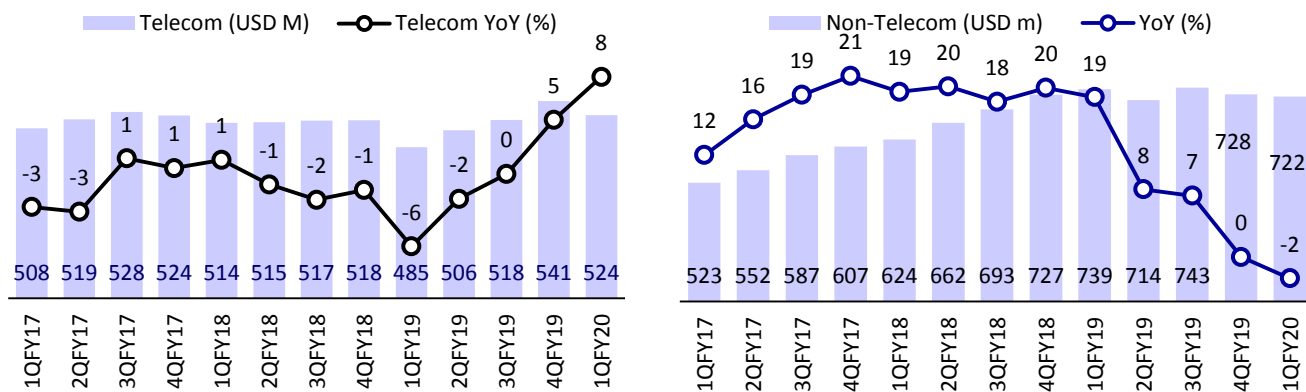


Source: Company, MOFSL

Continued growth in BPO

- In terms of verticals, Telecom declined by 3.2% QoQ – a blip again after a couple of quarters of improvement that was seen in the vertical post prolonged weakness.
- Enterprise was weak too as only ‘Others’ grew 14.8% QoQ, while rest of the segments declined.
- BPO continued to grow, where revenue contribution inched up to 9.2% from 7.4% in 1QFY19.
- Software professionals’ headcount increased, up 2616 QoQ to 74,093. BPO headcount increased by 1919 this quarter to 45,000. Overall headcount up by 4691 QoQ to 125,773. Consequently, Utilization including trainees declined 200bp QoQ to 80%.

Exhibit 4: Communication revenue declined QoQ, but improved YoY due to lower base



Source: MOFSL, Company

Exhibit 5: Broad-based decline QoQ except for Others (HCI) segment

Verticals	Contr to Rev. (%)	Growth - QoQ (%)	4Qtr CQGR (%)
Communication	42.0	-3.2	2.0
Manufacturing	19.4	-5.5	-0.4
Tech Media Entertainment	7.6	-0.3	1.8
BFSI	12.8	-3.9	-1.0
Retail Transport Logistics	6.2	-4.7	0.9
Others	11.9	14.8	-2.5
Total	100.0	-1.6	0.4

Source: Company, MOFSL

- On the geography front US grew by 0.9% QoQ while Europe and RoW declined by 5% and 2% respectively.

Exhibit 6: Growth from Americas offset by decline in Europe, RoW

Geographies	Contr to Rev. (%)	Growth - QoQ (%)	4Qtr CQGR (%)
Americas	47.6	0.9	0.2
Europe	27.6	-5.0	-1.6
ROW	24.8	-2.0	3.6
Total	100.0	-1.6	0.4

Source: Company, MOFSL

- Revenue contribution from top clients declined, with Top-5 contracting by 7.7% QoQ (-0.4% YoY), 6-10 clients declined by 0.5% QoQ (-10.6% YoY) and 11-20 declined by 3.1% QoQ (-4.1% YoY).
- Growth came from non-top accounts on account of higher digital penetration. Digital now accounts 36% of revenues.
- TECHM announced acquired 65% stake in Mad*Pow Media Solutions, a US based company specializing in digital transformation for USD17m. It will subsequently also acquire the remaining 35% stake from the management.

Exhibit 7: Weakness in top accounts

Client concentration (QoQ)	Contr to Rev. (%)	Growth - QoQ (%)	4Qtr CQGR (%)
Top 5 clients	22.8	-7.7	-0.1
Top 6-10 clients	9.2	-0.5	-2.8
Top 11-20 clients	13.1	-3.1	-1.0

Source: Company, MOFSL

Takeaways from management commentary**Growth outlook**

- For the full year FY20, revenue growth in Telecom is expected to be better than last year (high single-digits) based on visibility from strong deal wins in recent quarters. Enterprise is expected to grow marginally (mid-single-digits) due to concerns in Automobile and Manufacturing.
- Communications has an edge over Enterprise division in terms of share in the number of deals in the pipeline.

Communications:

- Softness/decline in revenue in this quarter was mainly due to expected seasonality in the mobility business; excluding this, Communications was flattish.
- Three quarters of growth, followed by a pause, but the conviction on growth has only increased.
- **5G rollout:**
 - Full-blown adoption of 5G is expected in FY21, while FY20 is considered a warm up year.
 - 2-3 Enterprise customers are in advanced talks for adopting 5G to bring differentiation into their businesses.
 - Offerings are of three types (a) 5G deployment and integration, (b) Enabling for 5G adoption, and (c) Displacement – as companies get ready for 5G, people will get ready to deploy capital to drive growth.
 - Funnel: Currently, a couple of large deals in Europe, one in APAC and a few more in the US are in the pipeline. TECHM is in a position to win at least some of these deals.

Enterprise:

- Marginal decline in revenue on a QoQ basis, mainly due to sluggishness with Automobile and BFSI customers.
- Slowdown in Auto and Europe buckets. Some stability has been seen in Auto in recent deal wins. BFSI is expected to do well going forward based on the pipeline.
- HCl/Healthcare saw healthy growth in 1QFY20; focus is to get long-term multi-year contracts from providers.

Margins:

- EBIT margin (break-up): (1) 100bp – portfolio companies; (2) 100bp – salary hikes; (3) 60bp – utilization; (4) 45bp – H-1B visas; (5) 40bp – currency ; (6) 30bp – deal transition.
- Part of the drop was due to 2-3 factors bundling up in 1QFY20 — 240-250bp from visas, wages and seasonality and 40bp from currency – taking the total to ~300b. The balance 80bp is due to drop in utilization and transition costs.
- Company is confident of taking EBIT margins beyond 13%.

- **Levers:** Salary hikes will be recovered over the coming quarters (100bp). Utilization should correct itself with revenue growth from 2QFY20 (60bp). Visa costs will be absent (40bp).
- **Sub-contracting costs** increased due to HCl. Some of the resources are short-term employees and others are sub-contractors. Also, revenue increase in TME vertical drove uptick in sub-contractor costs.
- Some portfolio companies impacted by the indicated slowdown.

Deal wins v/s revenue growth:

- The pipeline remains strong with 1QFY20 deal win TCV at USD475m. Confident of delivering higher growth for the company. Deal wins should remain healthy in 2QFY20 as well. While part conversion to revenues will happen in 2QFY20, 2HFY20 is definitely expected to be much stronger - base case assumed in company's outlook.
- While new deals have ramped up, the traditional business is not growing.
- Further, the Auto vertical has not done well. Hence, the 28% YoY growth in large deal TCV of FY19 is not reflecting commensurately on revenue growth.

Mad*Pow Acquisition:

- TECHM announced acquisition of 65% stake in Mad*Pow, a US-based digital transformation agency for USD17m. The transaction is expected to close on 31st Jul'19. TECHM will acquire the remaining 35% stake as well over the next three years based on its financial performance.
- Mad*Pow with its 70-member team had USD14.7m (CY18) in revenues with margins in mid-teens.

Digital: It now contributes 36% to revenues and grew at 3.9% QoQ. Digital remains the major foundation of growth. Pipeline for digital transformation is strong.

BPO Services: Momentum in BPS has been good – it grew 2.7% QoQ and 25.9% YoY; it continues to expand global footprint.

Cash flow: 61% of EBITDA was OCF. This was lower due to DSO going up by eight days. Most of this was unbilled revenues, which should correct over a period of time. Cash balance stands at ~USD1.2b. Dividend of ~USD230m will be paid out in 2QFY20.

Change in estimates

- The quarter was dragged by anticipated decline in Telecom and enterprise segment. Going ahead we expect ~4% growth in enterprise segment and ~8% growth in telecom segment for the full year. This marks our CC revenue growth at 5.5% YoY and therefore dollar revenue growth at 4.7%. We have reduced our growth estimates for FY21 by 80 bp on anticipation of slower execution. Our FY20/21 revenue growth estimates stand at 4.7%/8.2%.
- Leading by the miss of 210bp during the quarter we have cut our margins by 200bp and 160bp for FY20/21.
- Consequently we have reduced our EPS estimate for FY20/21 by 11%/8.3% and it now stands at 47.1/55.1 for FY20/21

Exhibit 8: Change in estimates

	Revised			Earlier			Change		
	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
INR/USD	69.9	69.9	71.0	69.9	69.9	71.0	0.0%	-0.1%	0.0%
USD Revenue - m	4,971	5,203	5,628	4,971	5,220	5,687	0.0%	-0.3%	-1.0%
USD rev Gr.(%)	4.2	4.7	8.2	4.2	5.0	8.9	0bp	-34bp	-79bp
EBIDTA Margin (%)	18.2	16.6	17.1	18.2	18.5	18.6	0bp	-182bp	-153bp
EBIT Margin (%)	15.0	13.3	14.0	15.0	15.3	15.6	0bp	-194bp	-158bp
EPS - INR	48.2	47.1	55.1	48.2	53.0	60.2	0.0%	-11.0%	-8.3%

Source: Company, MOFSL

Valuation view

A foreword on the long-term industry view: Growth for Indian IT has gradually picked up from levels of 6-7% 18 months ago, as Digital services proliferate, which today have breached 30% of revenues for most prominent companies in the sector. 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 Communications:** TECHM has strong capabilities in Communications (~43% 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 the next cycle of spending for service providers across the globe, 2019 looks like the year that will see higher spends in the industry – benefitting TECHM directly, albeit with a couple of quarters' lag.
- **Sustained industry-level growth in Enterprise:** TECHM has been able to see sustained growth 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. Industry-average growth has been maintained with the advantage of base and limited legacy in all verticals. Sustenance of the same will bode well for overall growth.

Basis the above, we expect TECHM to grow revenues marginally below 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 earnings CAGR over the next two years is 12% for TECHM, in line with industry, but with the potential of being higher.

Valuation and view

- Restructuring of LCC and sluggish off-take 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 industry-average growth in the Enterprise segment is an encouraging indicator of execution and business traction.
 2. Network management services have potentially expanded the addressable market for TECHM, with directly addressable spend standing at ~USD40b. 5G will help drive the same.
 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 had taken a hit for TECHM over FY14-18, with a cumulative decline in EBITDA margin of 780bp over FY14-17, improving by 90bp in FY18. This has been reversed significantly as the company squeezed some of its operational

levers and underwent cost optimization, with FY19 EBITDA margin at 18.2%. However, further improvement in margins would be a function of a material pick-up in revenue from the Communications vertical and from better performance in portfolio companies.

- We cut our EPS estimates for FY20/21 by 11% / 8%, which follows 200bp / 160bp cut in EBIT margins. While the outlook for earnings growth in FY20 has muted after a sluggish start to the year, revenue growth remains crucial to both – the recovery in margins and uptick of valuation multiple. Deal wins and a healthy pipeline drive our expectation of acceleration in revenue growth for the remainder of the year. Over FY19-21, we expect USD revenue CAGR of 6.4% and earnings CAGR of 7.1%. Our TP of INR770 (20% upside) discounts forward earnings by 14x, the average multiple over the last five years. Maintain **Buy**.

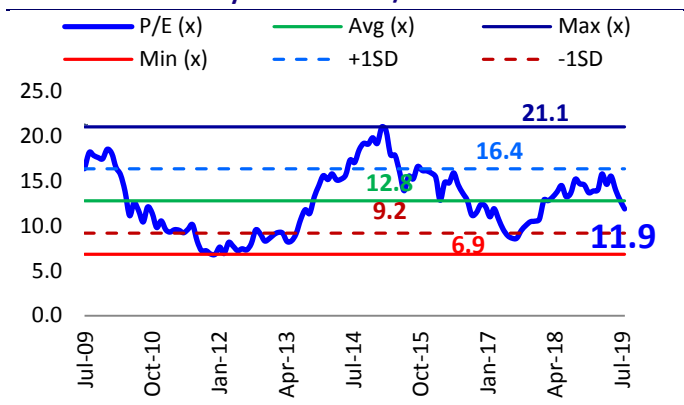
Key Triggers

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

Key Risks

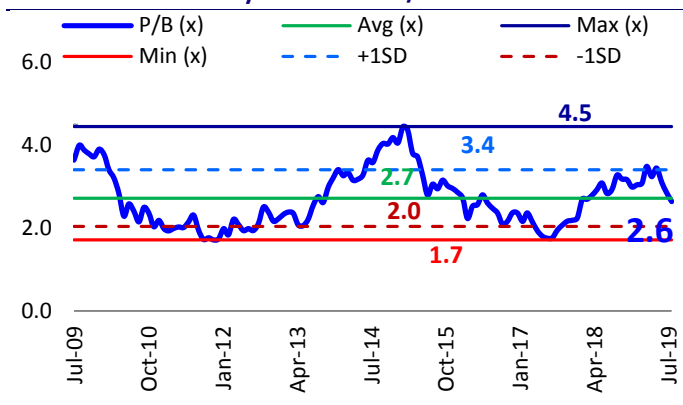
- Adverse visa-related regulations as TECHM’s proportion of local resources at onsite is lower than peers.
- Currency fluctuations given higher sensitivity to earnings v/s peers.
- Further loss of Enterprise momentum.

Exhibit 9: TECHM 1-year forward P/E



Source: Company, MOFSL

Exhibit 10: TECHM 1-year forward P/B



Source: Company, MOFSL

Story in charts

Exhibit 11: Communications vertical contributes 40% to revenues

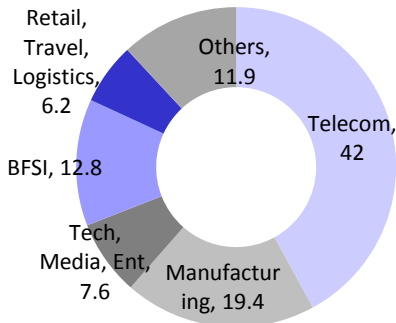
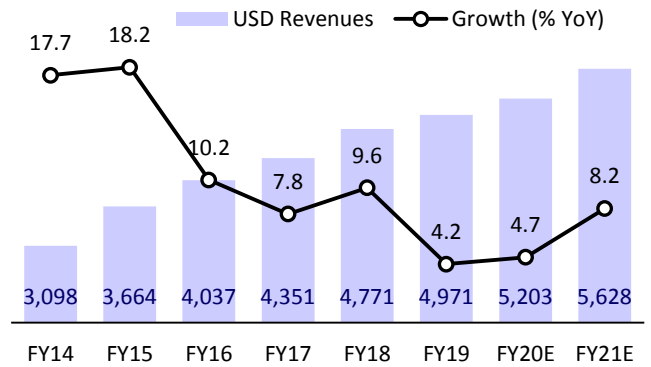


Exhibit 12: Growth expected to turnaround



Source: Company, MOFSL

Exhibit 13: While the fate of telecom vertical is reviving...

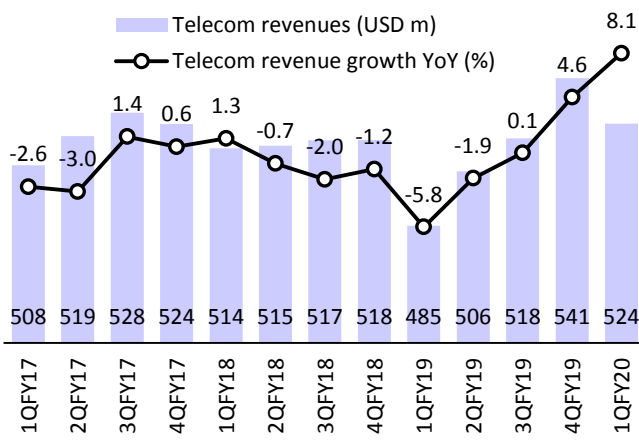
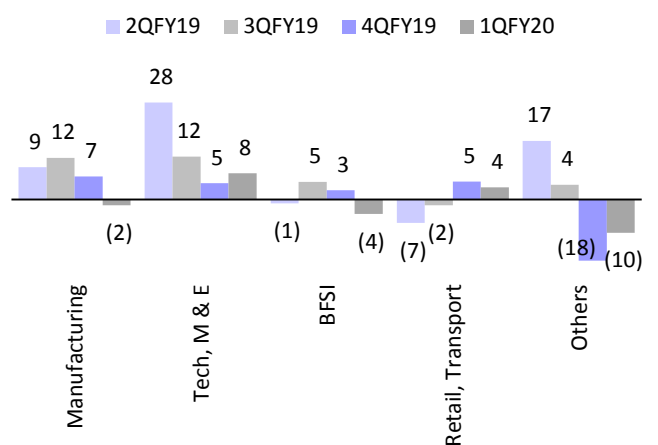


Exhibit 14: ...growth is declining in Enterprise



Source: Company, MOFSL

Exhibit 15: Significant margin improvement lately was temporary

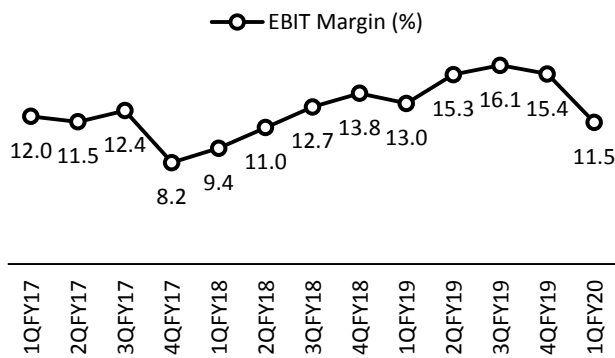
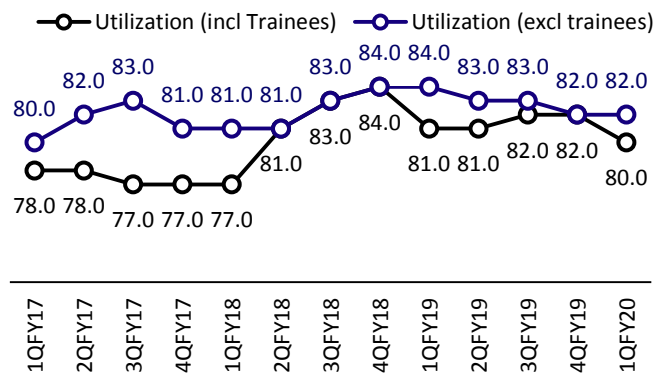


Exhibit 16: Lever of utilization used well so far



Source: Company, MOFSL

Exhibit 17: Operating metrics

Operating metrics	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Revenue by geography (%)										
Americas	45.1	46.8	45.3	46.9	47.4	48.2	47.0	47.4	46.4	47.6
Europe	29.6	29.8	30	29.8	29.6	30	29.6	28.9	28.6	27.6
Rest of World	25.3	23.4	24.7	23.3	23.0	21.9	23.4	23.7	24.9	24.8
Vertical Split (%)										
Telecom	46.3	45.2	43.7	42.8	41.6	39.6	41.5	41.1	42.7	42
Manufacturing	19.2	19.3	19	19.1	19.3	20.1	20.1	20.5	20.2	19.4
Tech Media Entertainment	6.2	6	5.9	6.5	7.3	7.2	7.3	7	7.5	7.6
BFSI	14.1	14.4	14.1	13.3	13.0	13.6	13.5	13.4	13.1	12.8
Retail Transport Logistics	6.5	6.8	7.2	7.1	6.2	6.1	6.5	6.7	6.4	6.2
Others	7.7	8.3	9.9	11.3	12.6	13.4	11.2	11.3	10.2	11.9
Onsite-offshore mix (%)										
Onsite	64.3	63.7	64.1	65.8	67.0	66.6	64.5	65.5	65.2	65.3
Offshore	35.7	36.3	35.9	34.2	33.0	33.4	35.5	34.5	34.8	34.7
Client metrics										
No. of active clients	843	864	885	903	913	926	930	935	938	941
% of repeat business	93.5	97.2	95	92.9	88.4	98.5	97.4	94.6	88.7	97.7
No. of Million \$ clients										
USD1m+	354	377	390	389	392	396	407	416	425	429
USD5m+	134	139	147	154	156	154	157	157	156	160
USD10m+	71	74	81	83	85	86	86	88	83	81
USD20m+	36	41	40	40	44	47	45	46	50	49
USD50m+	14	14	14	16	16	16	17	18	20	21
Client concentration (%)										
Top client										
Top 5 Clients	26.6	25.9	24.8	23.2	23.2	21.9	23.3	22.6	22.8	21.4
Top 6-10	11	10.4	10.3	10	9.5	10.6	9.4	9	9.2	9.3
Top 11-20	11.4	12.2	11.1	11.8	13	13.7	12.9	12.4	13.1	12.9
Headcount (end of period)										
Software professionals	82,403	78,996	75,587	73,460	72,437	72,462	72,534	71,785	71,477	74,093
BPO	28,414	30,332	35,287	35,496	34,190	34,700	39,407	43,439	43,081	45,000
Sales and Support	6,876	6,662	6,351	6,285	6,180	6,390	6,450	6,618	6,524	6,680
Total	1,17,693	1,15,990	1,17,225	1,15,241	1,12,807	1,13,552	1,18,391	1,21,842	1,21,082	1,25,773
IT Attrition (LTM) (%)	17	17	16	17	18	19	20	21	21	21
IT Utilization (%)	77	77	81	83	84	81	81	82	82	80
IT Utilization (excluding trainees) (%)	81	81	81	83	84	84	83	83	82	82
Receivable Days (DSO)-Including Unbilled	95	104	106	105	102	108	112	107	102	110
Borrowings (USD m)	210.7	320.7	320.7	341.5	367.7	363.2	353.3	316	288.5	296.1
Cash and Cash Equivalent (USD m)	830.2	931.8	913.2	950.1	1192.9	1228.7	1089.8	1251.8	1401.4	1216
Capital Expenditure (USD m)	42.8	22.5	70.6	25.6	32.4	27.7	21.3	31.6	29.2	29.4

Source: Company, MOFSL

Exhibit 18: Operating metrics

Operating metrics	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Rupee USD Rate										
Period closing rate	64.85	64.57	65.28	63.87	65.17	68.47	72.49	69.77	69.16	69.02
Period average Rate	66.47	64.44	64.45	64.35	64.64	67.51	70.68	71.11	70.32	69.42
Proportion of Revenues From Major Currencies										
USD	45.9	48.6	46.9	47.4	49.4	49.3	48.0	47.7	47.8	48.3
GBP	12.3	12.1	12	11.4	12.1	11.6	11.2	11.1	12.3	11.5
EURO	11.4	11	11.2	11.9	11.7	11.4	11.4	11	10.2	9.9
AUD	4.6	4.8	4.9	4.9	4.6	4.8	4.9	5.1	4.8	5.3
Others	25.8	23.4	24.9	24.5	22.2	22.9	24.5	25.1	26.9	25
Consolidated Hedge Position										
GBP In Mn	201	247	260	241	229	213	190	171	233	275
Strike rate (INR)	99.8	97	95.4	94.2	94.4	95.1	97	98.5	99.7	99.1
USD In Mn	1030.2	878	646	577	598	894	1069	1084	934	961
Strike rate (INR)	72.9	72.6	72.2	72.2	71	70.7	71.9	72.8	72.9	73.5
Verticals (QoQ)										
Telecom	-0.8	-1.8	0.2	0.4	0.0	-6.4	4.3	2.5	4.4	-3.2
Manufacturing	5.8	1.1	2.0	3.1	4.0	2.5	-0.5	5.6	-0.9	-5.5
Tech Media Entertainment	-1.8	-2.6	1.9	13.0	15.6	-3.0	0.9	-0.8	7.7	-0.3
BFSI	9.1	2.8	1.5	-3.3	0.6	2.9	-1.2	2.7	-1.7	-3.9
Retail Transport Logistics	-13.3	5.3	9.7	1.1	-10.1	-3.2	6.0	6.7	-4.0	-4.7
Others	9.9	8.4	23.6	17.0	14.8	4.6	-16.8	4.4	-9.3	14.8
Total	1.5	0.6	3.4	2.8	2.8	-1.6	-0.4	3.4	0.6	-1.8
Revenue by geography (QoQ)										
Americas	-2.1	4.4	0.3	6.2	4.0	0.0	-3.0	4.4	-1.6	0.9
Europe	2.0	1.3	4.3	1.9	2.2	-0.3	-1.8	1.0	-0.5	-5.0
Rest of World	7.3	-6.9	9.4	-3.3	1.6	-6.3	6.3	4.8	5.6	-2.0
Total	1.4	0.6	3.6	2.5	2.9	-1.5	-0.6	3.5	0.4	-1.5
Client concentration (QoQ)										
Top 5	-3.0	-2.0	-0.8	-4.1	2.9	-7.1	5.9	0.4	1.4	-7.7
Top 6-10	5.2	-4.9	2.6	-0.5	-2.2	9.8	-11.7	-0.9	2.8	-0.5
Top 11-20	-4.5	7.7	-5.7	9.0	13.4	3.7	-6.3	-0.5	6.2	-3.1
Net additions										
Software professionals	1,545	-3,407	-3,409	-2,127	-1,023	25	72	-749	-308	2,616
BPO	-958	1,918	4,955	209	-1,306	510	4,707	4,032	-358	1,919
Sales and Support	11	-214	-311	-66	-105	210	60	168	-94	156
Total	598	-1,703	1,235	-1,984	-2,434	745	4,839	3,451	-760	4,691

Source: Company, MOFSL

Financials and valuations

Key Assumptions

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
INR/USD Rate	60.8	61.4	65.6	67.0	64.5	69.9	69.9	71.0
Revenues (USD m)	3,098	3,664	4,037	4,351	4,771	4,971	5,203	5,628
Total Headcount	89,441	1,03,281	1,05,432	1,17,693	1,12,807	1,21,082	1,33,512	1,43,916
Net Addition	6,332	13,840	2,151	12,261	-4,886	8,275	12,430	10,404
Per Capita Productivity (USD)	34,638	35,471	38,294	36,971	42,291	41,052	38,971	39,105
Utilization incl. Trainees (%)	73.1	69.9	74.0	73.4	80.1	80.0	81.9	82.2
IT Services (%)	90.3	91.7	92.6	93.1	92.8	91.9	91.0	91.0

Income Statement

(INR Million)

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
Sales	1,88,313	2,24,779	2,64,941	2,91,408	3,07,730	3,47,421	3,63,454	3,99,573
Change (%)	31.4	19.4	17.9	10.0	5.6	12.9	4.6	9.9
Employee Cost	1,17,001	1,50,342	1,83,226	2,05,661	2,15,299	2,33,590	2,52,720	2,76,298
Other Expenses	29,476	32,901	38,289	43,904	45,270	50,463	50,234	54,925
Total Expenses	1,46,477	1,83,243	2,21,515	2,49,565	2,60,569	2,84,053	3,02,953	3,31,222
EBITDA	41,836	41,536	43,426	41,843	47,161	63,368	60,501	68,351
% of Net Sales	22.2	18.5	16.4	14.4	15.3	18.2	16.6	17.1
Depreciation	5,221	6,079	7,620	9,781	10,849	11,292	12,113	12,285
Interest	673	689	961	1,286	1,624	1,332	2,247	1,748
Other Income	1,129	1,006	5,322	6,836	14,091	5,342	9,500	10,648
PBT	37,071	35,774	40,167	37,612	48,779	56,086	55,642	64,966
Tax	9,790	9,472	8,600	9,785	10,925	12,544	14,007	16,241
Rate (%)	26.4	26.5	21.4	26.0	22.4	22.4	25.2	25.0
PAT	27,281	26,302	31,567	27,827	37,854	43,542	41,635	48,724
MI & EO items	336	310	412	357	-136	567	116	143
PAT before EO	26,945	25,992	31,155	27,470	37,990	42,975	41,520	48,581
Change (%)	37.8	-3.5	19.9	-11.8	38.3	13.1	-3.4	17.0
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	42,975	41,520	48,581
Change (%)	41.8	0.6	19.9	-11.8	38.3	13.1	-3.4	17.0

Balance Sheet

(INR M)

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
Share Capital	2,335	4,804	4,839	4,388	4,417	4,437	4,350	4,350
Reserves	89,469	1,17,682	1,38,824	1,59,984	1,84,011	1,98,407	2,16,839	2,39,682
Net Worth	91,804	1,22,486	1,43,663	1,64,372	1,88,428	2,02,844	2,21,189	2,44,032
Minority Interest	1,453	1,604	2,034	4,641	5,091	4,777	4,708	4,708
Loans	8,420	11,287	15,564	23,761	28,931	23,193	33,134	33,042
Amount pending invest.	12,304	12,304	12,304	12,304	12,304	12,304	12,304	12,304
Capital Employed	1,13,981	1,47,681	1,73,565	2,05,078	2,34,754	2,43,118	2,71,335	2,94,086
Assets	28,606	40,329	43,446	63,590	74,318	68,904	71,684	75,399
CWIP	0	5,677	6,294	3,729	2,399	2,763	878	878
Investments	12,194	12,987	13,244	3,319	14,364	14,076	13,085	16,585
Long term loans and adv	9,137	12,755	16,766	9	52	43	43	43
Deferred Tax Assets	3,830	3,901	5,575	2,674	5,766	6,091	6,436	6,436
Other non-current assets	157	306	294	24,079	26,403	26,934	35,808	35,808
Curr. Assets	1,05,472	1,22,526	1,49,451	1,63,265	1,81,070	2,15,658	2,33,891	2,60,259
Debtors	43,486	52,059	57,705	53,377	64,979	69,586	78,619	90,127
Cash & Bank Balance	33,202	24,049	12,056	20,013	19,661	20,427	25,977	35,705
Loans & Advances	14,544	18,728	17,084	26,122	21,123	29,930	31,995	34,385
Current Investments	2,525	8,041	39,772	33,820	45,231	65,899	59,782	59,782
Other Current Assets	11,715	19,649	22,834	29,933	30,076	29,816	37,518	40,259
Current Liab. & Prov	45,415	50,800	61,505	55,587	69,618	91,351	90,490	1,01,321
Net Current Assets	60,057	71,726	87,946	1,07,678	1,11,452	1,24,307	1,43,401	1,58,937
Application of Funds	1,13,981	1,47,680	1,73,565	2,05,078	2,34,754	2,43,118	2,71,335	2,94,086

Financials and valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
Basic (INR)								
EPS	31.6	30.2	35.9	31.4	43.0	48.5	47.5	55.6
Diluted EPS	28.7	29.6	35.1	32.0	42.7	48.2	47.1	55.1
Cash EPS	38.2	36.1	43.6	41.9	54.8	60.3	60.9	69.1
Book Value	112.3	142.2	165.6	187.9	213.4	228.7	253.2	279.3
DPS	5.0	6.0	12.0	9.0	14.0	14.0	22.0	25.0
Payout %	17.4	20.3	34.2	28.2	32.8	29.0	46.7	45.3
Valuation (x)								
P/E	22.3	21.6	18.3	20.0	15.0	13.3	13.6	11.6
Cash P/E	16.8	17.7	14.7	15.3	11.7	10.6	10.5	9.3
EV/EBITDA	11.6	12.7	12.6	13.4	11.9	8.8	9.1	7.9
EV/Sales	2.6	2.3	2.1	1.9	1.8	1.6	1.5	1.4
Price/Book Value	5.7	4.5	3.9	3.4	3.0	2.8	2.5	2.3
Dividend Yield (%)	0.8	0.9	1.9	1.4	2.2	2.2	3.4	3.9
Profitability Ratios (%)								
RoE	36.4	24.5	23.4	18.4	21.5	22.0	19.6	20.9
RoCE	26.3	20.5	20.1	15.2	17.8	18.7	16.8	17.7
ROIC	46.5	30.0	22.8	14.8	15.0	20.0	16.6	17.8
Turnover Ratios								
Debtors (Days)	75	78	76	70	70	71	74	77
Fixed Asset Turnover (x)	7.0	6.0	5.5	5.0	4.3	4.7	5.0	5.4
Leverage Ratio								
Debt/Equity Ratio(x)	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1

Cash Flow Statement

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
(INR M)								
CF from Operations	33,935	32,040	34,439	32,617	58,631	71,506	46,379	51,967
Change in Working Capital	-12,302	-8,874	5,456	-17,243	-7,832	-10,574	-15,484	-5,808
Other adjustments				15,910	-14,860	-16,490	22,484	
Net Operating CF	21,634	23,167	39,895	31,284	35,939	44,442	53,379	46,159
Net Purchase of FA	-7,854	-21,365	-45,439	-9,694	-10,166	-8,046	-11,042	-12,500
Free Cash Flow	13,780	1,802	-5,544	21,590	25,773	36,396	42,337	33,659
Net Purchase of Invest.	-8,539	-9,050	10,611	5,293	-23,431	-13,118	-5,963	4,964
Net Cash from Invest.	-16,393	-30,415	-34,828	-4,401	-33,597	-21,164	-17,004	-7,536
Inc./ (Dec) in Equity	19	2,469	35	-451	251	359	-87	0
Proceeds from LTB/STB	-1,305	2,396	-3,469	-9,196	6,493	-7,964	-8,088	-1,656
Dividend Payments	-5,381	-6,771	-13,626	-9,278	-9,438	-14,907	-22,650	-27,238
Cash Flow from Fin.	-6,668	-1,905	-17,060	-18,925	-2,694	-22,512	-30,824	-28,894
Net Cash Flow	-1,427	-9,154	-11,993	7,958	-352	766	5,550	9,728
Opening Cash Balance	34,629	33,202	24,048	12,056	20,013	19,661	20,427	25,977
Add: Net Cash	-1,427	-9,154	-11,993	7,958	-352	766	5,550	9,728
Closing Cash Balance	33,202	24,048	12,056	20,013	19,661	20,427	25,977	35,705

E: MOSL Estimates

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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