

Brexit deal = Relief

We maintain BUY on Mastek despite slight miss on revenue and margins. Brexit deal announcement is positive but we do not build any optimism in our estimates and will wait for clarity. We cut our EPS est. by ~5% for FY21E. SoTP based TP of Rs 505 implies 9x Sep-21E EPS plus Rs 94/sh for 12% stake in Majesco US.

HIGHLIGHTS OF THE QUARTER

- Revenue was GBP 28.1mn (vs. est. GBP 28.5mn), in CC terms revenue was flat QoQ and de-grew 2.3% YoY. Softness was caused by the core geography UK (72% of rev, -0.6% QoQ in GBP terms) while US revenues stabilised (27% of rev, +1.4% QoQ CC).
- UK public sector was flat QoQ due to deferral of projects. Brexit uncertainty is impacting growth but strong order backlog (+4.4% QoQ) and completion of UK spending review can revive growth.
- UK private revenue declined 1.5% QoQ in GBP terms. UK private sector is facing client specific issues and recovery will be slow.
- US revenues grew 1.4% QoQ CC. Recent management changes and diversification of service offerings are strategic initiatives which are yielding results.

Financial Summary

| YE March (Rs bn) | 2QFY20 | 2QFY19 | YoY (%) | 1QFY20 | QoQ (%) | FY18 | FY19 | FY20E | FY21E | FY22E |
|------------------|--------|--------|---------|--------|---------|------|-------|-------|-------|-------|
| Net Revenues | 2.44 | 2.57 | (5.2) | 2.48 | (1.6) | 8.17 | 10.33 | 9.94 | 11.05 | 12.52 |
| EBIT | 0.23 | 0.27 | (12.3) | 0.28 | (18.4) | 0.82 | 1.16 | 1.07 | 1.21 | 1.40 |
| APAT | 0.25 | 0.25 | (1.8) | 0.24 | 1.7 | 0.70 | 1.02 | 0.97 | 1.08 | 1.19 |
| Diluted EPS (Rs) | 9.73 | 9.93 | (2.0) | 9.58 | 1.6 | 27.7 | 40.4 | 38.3 | 42.7 | 47.1 |
| P/E (x) | | | | | | 12.0 | 8.2 | 8.7 | 7.8 | 7.0 |
| EV / EBITDA (x) | | | | | | 7.0 | 5.3 | 5.0 | 4.1 | 3.3 |
| RoE (%) | | | | | | 13.7 | 16.1 | 12.9 | 13.0 | 13.0 |

Source: Company, HDFC sec Inst Research # Consolidated

- EBIT margin was 9.5% -196bps QoQ, margin was impacted by one-time employee separation expense (50bps impact) and wage hike.
- Mastek has managed to control costs in a challenging environment, employee expense is flat QoQ despite wage hike, attrition has increased to 24.1% (vs. 20.4% in 1Q), and large part of attrition is involuntary.

STANCE: Brexit clarity is critical for growth revival

Mastek has been strengthening its executive team, three new additions in past eight months. We believe these are strategic initiatives for driving growth. We like Mastek's initial success in recovering US business and managing the Brexit uncertainty. Mastek will benefit (margin lever) from the off-shoring opportunity (~USD 20mn) arising with UK public sector given its long term relationship with UK government and limited competition from Indian IT. Brexit deal is positive but we would wait for further clarity to bake in our estimates. We expect GBP growth for FY20/21/22E at 0.1/9.6/11.0% and 5.4% EPS CAGR for FY19-22E. Mastek's stake in Majesco US (Rs 94/sh) and net cash (~Rs 79/sh) protects downside.

| INDUSTRY | IT |
|--------------------------------|----------------------|
| CMP (as on 17 Oct 2019) | Rs 332 |
| Target Price | Rs 505 |
| Nifty | 11,586 |
| Sensex | 39,052 |
| KEY STOCK DATA | |
| Bloomberg | MAST IN |
| No. of Shares (mn) | 24 |
| MCap (Rs bn) / (\$ mn) | 8/112 |
| 6m avg traded value (Rs mn) | 24 |
| STOCK PERFORMANCE (%) | |
| 52 Week high / low | Rs 509/294 |
| | 3M 6M 12M |
| Absolute (%) | (27.6) (29.0) (28.1) |
| Relative (%) | (27.2) (28.5) (40.4) |
| 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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We have made Bull case scenario in case Brexit overhang is officially lifted

Our Bull case TP of Rs 638 implies 11x Sept-21E EPS and we expect 10.7/9.2% GBP revenue/EPS CAGR over FY19-22E

Base Scenario Assumptions

| Base Case Assumptions | FY20E | FY21E | FY22E |
|-----------------------|-------|-------|-------|
| GBP Revenue growth | 0.1% | 9.6% | 11.0% |
| EBIT Margins | 10.7% | 10.9% | 11.2% |
| EPS Growth | -5.2% | 11.7% | 10.3% |
| GBP-USD Rate | 1.25 | 1.25 | 1.25 |
| USD-INR Rate | 70.3 | 71.5 | 73.0 |

Source: HDFC sec Inst Research

Base Case Valuation Summary

| Particulars | Per Share (Rs) |
|--|----------------|
| EPS Sep 21 | 45.3 |
| Target P/E (x) | 9 |
| Value of Core Business (Rs) | 410 |
| Stake in Majesco US (Rs) | 118 |
| Discount (20%) | 24 |
| Value of Stake in Majesco US (Rs) | 94 |
| Target Price (Rs) | 505 |
| Upside (%) | 52% |

Source: HDFC sec Inst Research

Bull Scenario Assumptions

| Bull Case Assumptions | FY20E | FY21E | FY22E |
|-----------------------|-------|-------|-------|
| GBP Revenue growth | 0.9% | 13.3% | 14.5% |
| EBIT Margins | 11.5% | 12.0% | 12.1% |
| EPS Growth | -0.9% | 15.2% | 14.1% |
| GBP-USD Rate | 1.28 | 1.30 | 1.30 |
| USD-INR Rate | 70.3 | 71.5 | 73.0 |

Source: HDFC sec Inst Research

Bull Case Valuation Summary

| Particulars | Per Share (Rs) |
|--|----------------|
| EPS Sep 21 | 49.5 |
| Target P/E (x) | 11 |
| Value of Core Business (Rs) | 544 |
| Stake in Majesco US (Rs) | 118 |
| Discount (20%) | 24 |
| Value of Stake in Majesco US (Rs) | 94 |
| Target Price (Rs) | 638 |
| Upside (%) | 92% |

Source: HDFC sec Inst Research

Revenue came at GBP 28.1mn, in constant currency terms revenue was flat QoQ and de-grew 2.3% YoY.

EBIT margin came at 9.5% down 196bps QoQ, margin was impacted by one time employee separation expense (50bps impact) and wage hike

ETR was lower by 179bps which aided APAT to grow 1.7% QoQ

Quarterly Consolidated Financials Snapshot

| Particulars (Rs bn) | 2QFY20 | 2QFY19 | YoY (%) | 1QFY20 | QoQ (%) |
|-----------------------------------|-------------|-------------|--------------|-------------|--------------|
| Net Revenues (GBP mn) | 28.1 | 28.1 | -0.3 | 27.7 | 1.4 |
| Net Revenues | 2.44 | 2.57 | -5.2 | 2.48 | -1.6 |
| Employee Expenses | 1.35 | 1.50 | -9.8 | 1.35 | 0.0 |
| Other Operating Expenses | 0.80 | 0.76 | 4.8 | 0.78 | 1.7 |
| EBITDA | 0.29 | 0.31 | -7.8 | 0.34 | -15.6 |
| Depreciation | 0.06 | 0.05 | 17.5 | 0.06 | -1.7 |
| EBIT | 0.23 | 0.27 | -12.3 | 0.28 | -18.4 |
| Other Income (Including EO Items) | 0.09 | 0.09 | 2.1 | 0.04 | 134.3 |
| Interest Cost | 0.01 | 0.02 | -64.5 | 0.01 | 4.9 |
| PBT | 0.31 | 0.33 | -4.7 | 0.31 | -0.6 |
| Tax | 0.07 | 0.08 | -13.9 | 0.07 | -8.3 |
| RPAT | 0.25 | 0.25 | -1.8 | 0.24 | 1.7 |
| EO (Loss) / Profit (Net Of Tax) | - | - | 0.0 | - | 0.0 |
| APAT | 0.25 | 0.25 | -1.8 | 0.24 | 1.7 |

Source: Company, HDFC sec Inst Research

Margin Analysis

| Particulars | 2QFY20 | 2QFY19 | YoY (bps) | 1QFY20 | QoQ (bps) |
|--------------------------------------|-------------|-------------|------------|-------------|-------------|
| Employee Expenses % Net Sales | 55.4 | 58.2 | -280 | 54.5 | 89 |
| Other Operating Expenses % Net Sales | 32.7 | 29.6 | 312 | 31.6 | 107 |
| EBITDA Margin (%) | 11.9 | 12.2 | -32 | 13.8 | -196 |
| EBIT Margin (%) | 9.5 | 10.3 | -77 | 11.5 | -196 |
| Tax Rate (%) | 21.2 | 23.5 | -227 | 23.0 | -179 |
| APAT Margin (%) | 10.1 | 9.8 | 35 | 9.8 | 33 |

Source: Company, HDFC sec Inst Research

Mastek managed flat growth in CC terms despite challenging macro environment

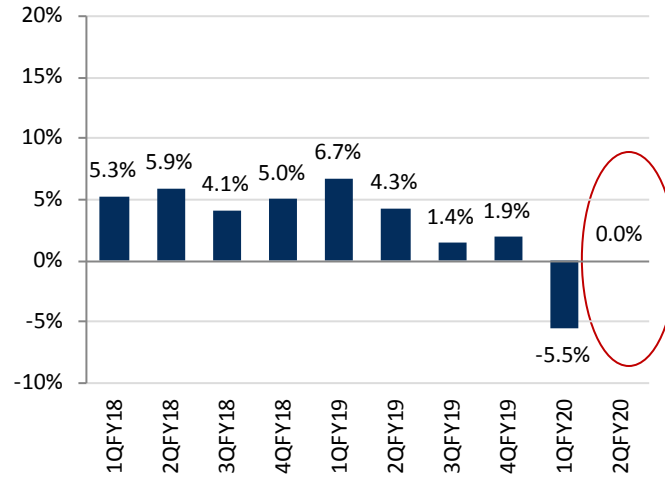
Slowdown in YoY growth impacted by UK geography

EBIT margin stumbled to 8-qtr low, we expect gradual recovery

12M executable order book was at all time high (post demerger), up 4.4% QoQ

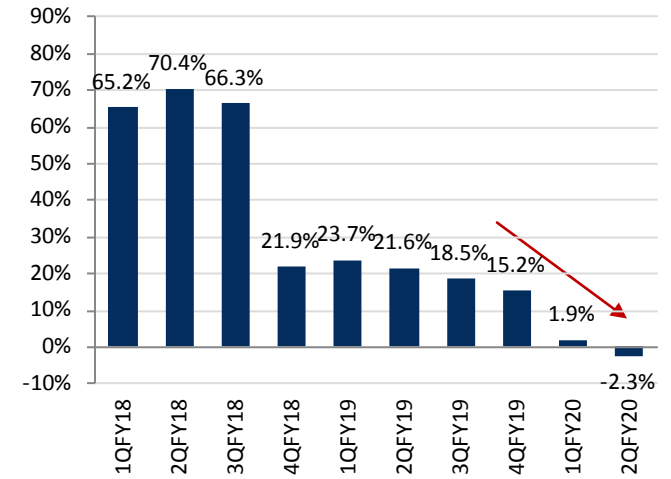
Order book to bill has expanded to 0.63x of TTM revenues

QoQ CC Revenue Growth Trajectory (%)



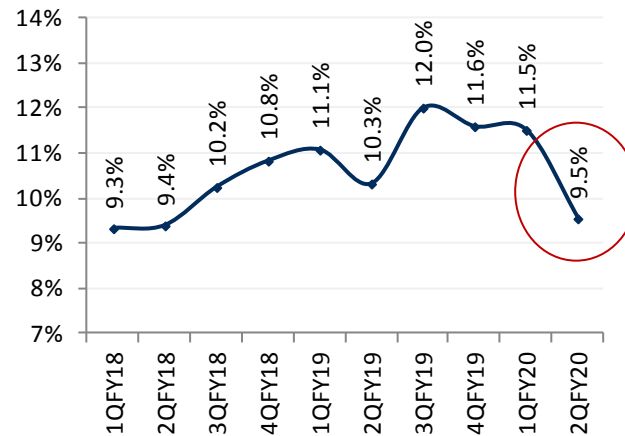
Source: Company, HDFC sec Inst Research

YoY CC Revenue Growth Trajectory (%)



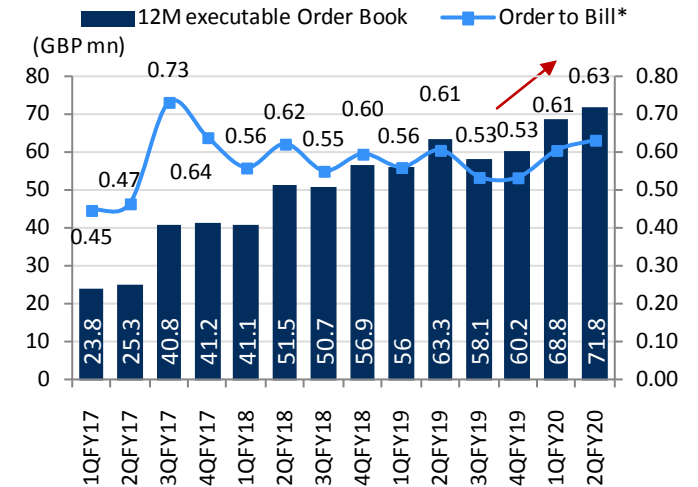
Source: Company, HDFC sec Inst Research, 1Q, 2Q, 3Q FY18 includes inorganic (TIAS Tech impact)

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 and public sector, UK public sector's recovery would be earlier than private sector

Revenue was anchored by US, (+1.4% QoQ CC)

UK Government growth slowed down to 2.2% vs. its earlier growth of >30%

Geography Wise Revenues

| GBP mn | 2QFY18 | 3QFY18 | 4QFY18 | FY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | FY19 | 1QFY20 | 2QFY20 |
|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|
| UK | 16.2 | 16.6 | 18.0 | 66.4 | 19.2 | 20.4 | 21.5 | 22.3 | 83.3 | 20.2 | 20.1 |
| QoQ % | 4.0% | 2.2% | 8.8% | | 6.3% | 6.4% | 5.2% | 3.8% | | -9.4% | -0.6% |
| YoY % | 28.4% | 26.6% | 26.3% | 25.9% | 22.9% | 25.7% | 29.5% | 23.5% | 25.4% | 5.2% | -1.7% |
| % of rev | 69% | 68% | 72% | 70% | 71% | 72% | 75% | 77% | 74% | 73% | 72% |
| US | 6.9 | 7.2 | 6.7 | 27.0 | 7.2 | 7.3 | 6.7 | 6.4 | 27.6 | 7.0 | 7.5 |
| QoQ % | 13.3% | 4.6% | -7.4% | | 6.8% | 1.9% | -7.8% | -4.8% | | 10.0% | 5.9% |
| YoY % | 1260.2% | 584.3% | 1.2% | 229.4% | 17.2% | 5.3% | -7.1% | -4.5% | 2.2% | -1.6% | 2.3% |
| % of rev | 29% | 30% | 27% | 28% | 27% | 26% | 24% | 22% | 24% | 25% | 27% |
| Others | 0.5 | 0.5 | 0.3 | 2.0 | 0.5 | 0.5 | 0.4 | 0.4 | 1.8 | 0.4 | 0.5 |
| QoQ % | -41.1% | 13.7% | -46.4% | | 98.6% | -16.4% | -13.8% | 10.9% | | 0.6% | 21.4% |
| YoY % | -61.0% | -42.7% | -57.5% | -40.8% | -28.7% | 1.1% | -23.3% | 58.7% | -9.2% | -19.7% | 16.7% |
| % of rev | 2% | 2% | 1% | 2% | 2% | 2% | 1% | 2% | 2% | 2% | 2% |
| Total | 23.6 | 24.3 | 25.0 | 95.4 | 26.9 | 28.1 | 28.6 | 29.1 | 112.7 | 27.7 | 28.1 |
| QoQ % | 5.0% | 3.1% | 2.8% | | 7.4% | 4.7% | 1.5% | 1.9% | | -5.0% | 1.4% |
| YoY % | 65.0% | 61.7% | 16.1% | 48.3% | 19.6% | 19.3% | 17.4% | 16.4% | 18.1% | 2.9% | -0.3% |

Source: Company, HDFC Sec Inst Research

Industry Wise Revenues

| GBP mn | 2QFY18 | 3QFY18 | 4QFY18 | FY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | FY19 | 1QFY20 | 2QFY20 |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|
| Government | 8.1 | 8.1 | 8.0 | 32.0 | 8.5 | 10.9 | 10.9 | 12.3 | 42.5 | 11.1 | 11.1 |
| QoQ % | 4.4% | -0.2% | -1.7% | | 6.1% | 28.3% | -0.1% | 13.6% | | -10.2% | 0.2% |
| YoY % | 33.5% | 12.3% | 3.0% | 16.6% | 8.7% | 33.7% | 33.8% | 54.7% | 32.9% | 30.8% | 2.2% |
| % of rev | 34% | 33% | 32% | 34% | 32% | 39% | 38% | 42% | 38% | 40% | 40% |
| Financial Services | 4.1 | 5.2 | 5.7 | 19.4 | 5.9 | 5.4 | 5.4 | 5.2 | 21.8 | 4.6 | 4.9 |
| QoQ % | -5.9% | 28.5% | 9.3% | | 3.0% | -9.2% | 0.0% | -2.7% | | -12.7% | 8.5% |
| YoY % | -2.3% | 30.7% | 64.9% | 26.9% | 36.2% | 31.4% | 2.2% | -9.0% | 12.6% | -22.9% | -7.7% |
| % of rev | 17% | 22% | 23% | 20% | 22% | 19% | 19% | 18% | 19% | 16% | 18% |
| Retail Services | 9.2 | 9.0 | 8.9 | 35.6 | 9.9 | 10.2 | 9.9 | 10.0 | 40.1 | 10.4 | 10.5 |
| QoQ % | 8.7% | -1.9% | -1.2% | | 11.3% | 3.0% | -2.7% | 0.4% | | 4.5% | 0.8% |
| YoY % | 367.4% | 776.3% | 5.0% | 172.8% | 17.4% | 11.2% | 10.3% | 12.1% | 12.7% | 5.3% | 3.0% |
| % of rev | 39% | 37% | 36% | 37% | 37% | 36% | 35% | 34% | 36% | 38% | 38% |
| Others | 2.2 | 2.0 | 2.4 | 8.5 | 2.6 | 1.7 | 2.4 | 1.6 | 8.3 | 1.6 | 1.5 |
| QoQ % | 15.2% | -10.6% | 22.3% | | 7.5% | -33.3% | 40.3% | -35.0% | | 0.8% | -6.1% |
| YoY % | 6.0% | -29.8% | 27.9% | -1.8% | 35.4% | -21.6% | 23.1% | -34.5% | -2.1% | -38.7% | -13.4% |
| % of rev | 9% | 8% | 10% | 9% | 10% | 6% | 8% | 5% | 7% | 6% | 5% |
| Total | 23.6 | 24.3 | 25.0 | 95.4 | 26.9 | 28.2 | 28.6 | 29.1 | 112.7 | 27.7 | 28.1 |
| QoQ % | 5.0% | 3.1% | 2.8% | | 7.4% | 4.7% | 1.5% | 1.9% | | -5.0% | 1.4% |
| YoY % | 65.0% | 61.7% | 16.1% | 48.3% | 19.6% | 19.3% | 17.4% | 16.4% | 18.1% | 2.9% | -0.3% |

Source: Company, HDFC Sec Inst Research

ADM growth was strong (+10.8% QoQ) after two soft qtrs

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

BI & Analytics fumbled after three consecutive qtrs of strong growth

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

Service-line Wise Revenues

| GBP mn | 2QFY18 | 3QFY18 | 4QFY18 | FY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | FY19 | 1QFY20 | 2QFY20 |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|
| ADM | 11.4 | 12.5 | 11.9 | 45.5 | 12.9 | 13.6 | 14.5 | 12.3 | 53.4 | 11.1 | 12.3 |
| QoQ % | 18.7% | 9.9% | -5.1% | | 8.0% | 5.9% | 6.7% | -15.2% | | -9.7% | 10.8% |
| YoY % | NA | NA | 27.9% | NA | 33.7% | 19.3% | 15.9% | 3.6% | 17.2% | -13.4% | -9.4% |
| % of rev | 48% | 52% | 48% | 48% | 48% | 48% | 51% | 42% | 47% | 40% | 44% |
| Digital Commerce | 5.7 | 6.2 | 6.0 | 24.0 | 6.6 | 6.9 | 6.3 | 6.3 | 26.1 | 7.0 | 7.3 |
| QoQ % | -6.0% | 7.9% | -3.9% | | 11.6% | 3.1% | -8.0% | -0.2% | | 10.7% | 5.2% |
| YoY % | NA | NA | -3.9% | NA | 8.7% | 19.3% | 1.7% | 5.6% | 8.8% | 4.7% | 6.9% |
| % of rev | 24% | 25% | 24% | 25% | 25% | 24% | 22% | 22% | 23% | 25% | 26% |
| Application Support | 2.9 | 2.1 | 2.6 | 10.0 | 3.0 | 3.4 | 3.3 | 5.9 | 15.7 | 5.0 | 4.6 |
| QoQ % | 22.9% | -26.4% | 23.5% | | 12.7% | 16.5% | -3.3% | 78.0% | | -15.7% | -8.1% |
| YoY % | NA | NA | 9.8% | NA | 25.9% | 19.3% | 56.9% | 126.1% | 57.1% | 69.1% | 33.4% |
| % of rev | 12% | 9% | 11% | 10% | 11% | 12% | 12% | 20% | 14% | 18% | 16% |
| BI & Analytics | 1.8 | 1.6 | 2.7 | 8.1 | 2.4 | 2.2 | 2.4 | 2.7 | 9.7 | 3.1 | 2.5 |
| QoQ % | -8.9% | -10.4% | 61.9% | | -11.1% | -7.5% | 10.0% | 14.0% | | 11.5% | -19.1% |
| YoY % | NA | NA | 137.1% | NA | 17.5% | 19.3% | 46.5% | 3.2% | 18.8% | 29.4% | 13.1% |
| % of rev | 8% | 7% | 11% | 9% | 9% | 8% | 8% | 9% | 9% | 11% | 9% |
| Agile Consulting | 0.7 | 1.1 | 1.1 | 4.7 | 1.1 | 0.8 | 0.8 | 0.7 | 3.4 | 0.5 | 0.3 |
| QoQ % | -62.9% | 56.8% | -2.2% | | -0.3% | -22.0% | -2.5% | -17.9% | | -29.8% | -40.3% |
| YoY % | NA | NA | -44.1% | NA | -43.2% | 19.3% | -25.8% | -37.8% | -28.3% | -56.2% | -66.5% |
| % of rev | 3% | 5% | 4% | 5% | 4% | 3% | 3% | 2% | 3% | 2% | 1% |
| Assurance & Testing | 1.0 | 0.7 | 0.8 | 3.0 | 1.0 | 1.2 | 1.2 | 1.1 | 4.5 | 1.0 | 1.0 |
| QoQ % | 101.2% | -28.1% | 10.8% | | 20.6% | 24.3% | -1.9% | -3.5% | | -9.7% | 1.2% |
| YoY % | NA | NA | 26.3% | NA | 93.2% | 19.3% | 62.8% | 41.8% | 47.7% | 6.2% | -13.5% |
| % of rev | 4% | 3% | 3% | 3% | 4% | 4% | 4% | 4% | 4% | 4% | 4% |
| Total | 23.6 | 24.3 | 25.0 | 95.4 | 26.9 | 28.1 | 28.6 | 29.1 | 112.7 | 27.7 | 28.1 |
| QoQ % | 4.9% | 3.1% | 2.8% | | 7.4% | 4.8% | 1.5% | 1.9% | | -5.0% | 1.4% |
| YoY % | NA | NA | 16.0% | 48.2% | 19.5% | 19.3% | 17.4% | 16.4% | 18.1% | 2.9% | -0.3% |

Source: Company, HDFC Sec Inst Research

Fixed price has been soft for two qtrs impacted by sluggishness in UK private sector

Active clients have been falling for four straight quarters

Top 5 Clients stabilized after fumbling 8.1% QoQ in 1QFY20

Top 6-10 clients were sequentially soft for two consecutive qtrs

Project Type Wise Revenues

| GBP mn | 2QFY18 | 3QFY18 | 4QFY18 | FY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | FY19 | 1QFY20 | 2QFY20 |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|
| Fixed Price | 4.4 | 5.5 | 6.1 | 20.4 | 5.7 | 6.2 | 7.8 | 7.9 | 27.6 | 7.0 | 5.3 |
| QoQ % | 0.7% | 27.0% | 10.7% | | -7.3% | 9.7% | 25.5% | 0.8% | | -10.8% | -24.7% |
| YoY % | 17.6% | 46.2% | 12.7% | 21.7% | 31.2% | 43.0% | 41.3% | 28.7% | 35.7% | 23.8% | -15.0% |
| % of rev | 18% | 23% | 25% | 21% | 21% | 22% | 27% | 27% | 25% | 25% | 19% |
| Time & Material | 19.2 | 18.8 | 18.9 | 75.1 | 21.2 | 21.9 | 20.7 | 21.2 | 85.1 | 20.6 | 22.8 |
| QoQ % | 5.9% | -2.3% | 0.5% | | 12.2% | 3.4% | -5.3% | 2.3% | | -2.8% | 10.4% |
| YoY % | 81.5% | 66.9% | 17.0% | 57.5% | 16.7% | 14.0% | 10.4% | 12.4% | 13.3% | -2.7% | 3.8% |
| % of rev | 82% | 77% | 76% | 79% | 79% | 78% | 73% | 73% | 75% | 75% | 81% |
| Total | 23.6 | 24.3 | 25.0 | 95.4 | 26.9 | 28.1 | 28.6 | 29.1 | 112.7 | 27.7 | 28.1 |
| QoQ % | 4.9% | 3.1% | 2.8% | | 7.4% | 4.8% | 1.5% | 1.9% | | -5.0% | 1.4% |
| YoY % | 64.9% | 61.7% | 16.0% | 48.2% | 19.5% | 19.3% | 17.4% | 16.4% | 18.1% | 2.9% | -0.3% |

Source: Company, HDFC Sec Inst Research

Client Metrics

| Nos | 2QFY18 | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | 2QFY20 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Active Clients (TTM) | 167 | 173 | 170 | 166 | 162 | 165 | 157 | 154 | 144 |
| Active Clients (during the qtr) | 137 | 134 | 124 | 117 | 116 | 114 | 110 | 109 | 110 |
| Clients > USD 1mn | 27 | 27 | 28 | 28 | 32 | 32 | 29 | 26 | 25 |

Source: Company, HDFC Sec Inst Research

Client Contribution Metrics

| GBP mn | 2QFY18 | 3QFY18 | 4QFY18 | FY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | FY19 | 1QFY20 | 2QFY20 |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Top 5 Clients | 9.5 | 9.2 | 10.1 | 38.0 | 10.7 | 11.7 | 12.2 | 12.1 | 46.7 | 11.2 | 11.2 |
| QoQ % | 1.9% | -2.7% | 9.5% | | 6.1% | 9.3% | 4.1% | -0.1% | | -8.1% | 0.6% |
| YoY % | 26.6% | 16.2% | 22.3% | 23.9% | 15.2% | 23.5% | 32.1% | 20.5% | 22.8% | 4.3% | -4.0% |
| % of rev | 40% | 38% | 40% | 40% | 40% | 42% | 43% | 42% | 41% | 40% | 40% |
| Top 6-10 Clients | 3.5 | 4.7 | 4.2 | 15.3 | 4.2 | 4.2 | 4.2 | 5.0 | 17.6 | 4.8 | 4.8 |
| QoQ % | 26.3% | 31.8% | -9.6% | | 0.0% | 0.2% | -1.6% | 19.3% | | -3.2% | -0.9% |
| YoY % | 19.1% | 65.2% | 31.5% | 31.7% | 50.4% | 19.3% | -11.0% | 17.5% | 15.2% | 13.8% | 12.7% |
| % of rev | 15% | 19% | 17% | 16% | 16% | 15% | 15% | 17% | 16% | 17% | 17% |
| Top 10 Clients | 13.0 | 13.9 | 14.3 | 53.3 | 14.9 | 15.9 | 16.3 | 17.1 | 64.3 | 16.0 | 16.0 |
| QoQ % | 7.6% | 6.7% | 3.1% | | 4.3% | 6.7% | 2.6% | 4.8% | | -6.7% | 0.1% |
| YoY % | 24.4% | 29.1% | 24.9% | 26.0% | 23.4% | 22.4% | 17.6% | 19.6% | 20.6% | 7.0% | 0.5% |
| % of rev | 55% | 57% | 57% | 56% | 56% | 57% | 57% | 59% | 57% | 58% | 57% |
| Non Top 10 Clients | 10.6 | 10.4 | 10.7 | 42.1 | 11.9 | 12.2 | 12.3 | 12.0 | 48.4 | 11.7 | 12.1 |
| QoQ % | 1.9% | -1.2% | 2.5% | | 11.6% | 2.4% | 0.2% | -2.1% | | -2.6% | 3.2% |
| YoY % | 175.1% | 143.2% | 5.8% | 90.7% | 15.0% | 15.6% | 17.2% | 12.0% | 15.0% | -2.2% | -1.4% |
| % of rev | 45% | 43% | 43% | 44% | 44% | 43% | 43% | 41% | 43% | 42% | 43% |

Source: Company, HDFC Sec Inst Research

Revenue Trend & Assumptions

| GBP Mn | FY17 | FY18 | FY19 | FY20E | FY21E | FY22E | CAGR 17-19 | CAGR 19-22E | CAGR 20-22E |
|--|-------------|-------------|--------------|--------------|--------------|--------------|---------------|----------------|----------------|
| Total Revenue | 64.4 | 95.4 | 112.7 | 112.8 | 123.6 | 137.2 | 32.3% | 6.8% | 10.3% |
| <i>Growth YoY%</i> | 20.7% | 48.2% | 18.1% | 0.1% | 9.6% | 11.0% | | | |
| Geography Mix | | | | | | | | | |
| UK | 52.8 | 66.4 | 83.3 | 81.2 | 88.2 | 98.1 | 25.6% | 5.6% | 10.0% |
| <i>Growth YoY%</i> | 3.4% | 25.9% | 25.4% | -2.6% | 8.7% | 11.3% | | | |
| <i>% of Rev</i> | 82.0% | 69.6% | 73.9% | 71.9% | 71.4% | 71.5% | | | |
| US | 8.2 | 27.0 | 27.6 | 29.7 | 33.0 | 36.7 | 83.5% | 10.0% | 11.1% |
| <i>Growth YoY%</i> | NA | 229.4% | 2.2% | 7.8% | 11.0% | 11.3% | | | |
| <i>% of Rev</i> | 12.7% | 28.3% | 24.5% | 26.4% | 26.7% | 26.8% | | | |
| Others | 3.4 | 2.0 | 1.8 | 1.9 | 2.4 | 2.4 | -26.7% | 9.2% | 10.9% |
| <i>Growth YoY%</i> | 45.5% | -40.8% | -9.2% | 5.8% | 23.6% | -0.5% | | | |
| <i>% of Rev</i> | 5.3% | 2.1% | 1.6% | 1.7% | 1.9% | 1.7% | | | |
| Vertical Mix | | | | | | | | | |
| Government | 27.5 | 32.0 | 42.5 | 44.9 | 49.1 | 54.7 | 24.4% | 8.7% | 10.4% |
| <i>Growth YoY%</i> | -7.2% | 16.6% | 32.9% | 5.4% | 9.4% | 11.5% | | | |
| <i>% of Rev</i> | 42.7% | 33.6% | 37.7% | 39.8% | 39.7% | 39.9% | | | |
| Financial Services | 15.3 | 19.4 | 21.8 | 19.4 | 21.0 | 23.1 | 19.5% | 2.0% | 9.3% |
| <i>Growth YoY%</i> | 50.4% | 26.9% | 12.6% | -11.2% | 8.5% | 10.1% | | | |
| <i>% of Rev</i> | 23.7% | 20.3% | 19.4% | 17.2% | 17.0% | 16.9% | | | |
| Retail Services | 13.0 | 35.6 | 40.1 | 42.4 | 46.1 | 50.9 | 75.3% | 8.3% | 9.6% |
| <i>Growth YoY%</i> | 80.2% | 172.8% | 12.7% | 5.9% | 8.7% | 10.4% | | | |
| <i>% of Rev</i> | 20.2% | 37.3% | 35.5% | 37.6% | 37.3% | 37.1% | | | |
| Others | 8.6 | 8.5 | 8.3 | 6.2 | 7.4 | 8.5 | -2.0% | 0.8% | 17.3% |
| <i>Growth YoY%</i> | 35.3% | -1.8% | -2.1% | -25.6% | 19.6% | 15.1% | | | |
| <i>% of Rev</i> | 13.4% | 8.9% | 7.4% | 5.5% | 6.0% | 6.2% | | | |
| UK Private sector (ex Govt, computed) | 25.3 | 34.4 | 40.8 | 36.3 | 39.2 | 43.5 | 26.9% | 2.2% | 9.4% |
| <i>Growth YoY%</i> | 18.1% | 36.0% | 18.4% | -11.0% | 7.9% | 11.0% | | | |
| <i>% of Rev</i> | 39.3% | 36.1% | 36.2% | 32.2% | 31.7% | 31.7% | | | |

Source: Company, HDFC Sec Inst Research

Currency Assumptions

| GBP Mn | FY17 | FY18 | FY19 | FY20E | FY21E | FY22E |
|--------------|------|------|------|-------|-------|-------|
| GBP-USD Rate | 1.30 | 1.33 | 1.31 | 1.25 | 1.25 | 1.25 |
| USD-INR Rate | 67.0 | 64.4 | 69.9 | 70.3 | 71.5 | 73.0 |

Source: HDFC sec Inst Research

Change In Estimates

| Particulars | Earlier estimates | Revised estimates | % change |
|------------------|-------------------|-------------------|----------|
| FY20E | | | |
| Revenue (GBP mn) | 115.7 | 112.8 | -2.5 |
| Revenue (Rs bn) | 10.1 | 9.9 | -1.7 |
| EBIT (Rs bn) | 1.1 | 1.1 | -2.9 |
| EBIT margin (%) | 10.9 | 10.7 | -13bps |
| EPS (Rs) | 39.2 | 38.3 | -2.4 |
| FY21E | | | |
| Revenue (GBP mn) | 129.1 | 123.6 | -4.3 |
| Revenue (Rs bn) | 11.4 | 11.0 | -3.5 |
| EBIT (Rs bn) | 1.3 | 1.2 | -4.4 |
| EBIT margin (%) | 11.0 | 10.9 | -10bps |
| EPS (Rs) | 45.2 | 42.7 | -5.5 |
| FY22E | | | |
| Revenue (GBP mn) | 144.7 | 137.2 | -5.1 |
| Revenue (Rs bn) | 13.1 | 12.5 | -4.4 |
| EBIT (Rs bn) | 1.5 | 1.4 | -4.4 |
| EBIT margin (%) | 11.2 | 11.2 | 0bps |
| EPS (Rs) | 49.9 | 47.1 | -5.6 |

Source: HDFC sec Inst Research

Valuation

| Particulars | Per Share (Rs) |
|--|----------------|
| EPS Sep 21 | 45.3 |
| Target P/E (x) | 9 |
| Value of Core Business (Rs) | 410 |
| Stake in Majesco US (Rs) | 118 |
| Discount (20%) | 24 |
| Value of Stake in Majesco US (Rs) | 94 |
| Target Price (Rs) | 505 |
| Upside (%) | 52% |

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 | 7,620 | 2,031 | 1,975 | NEU | 68.8 | 83.9 | 85.5 | 92.9 | 29.5 | 24.2 | 23.7 | 21.9 | 30.1 | 36.1 | 35.3 | 37.1 |
| Infosys | 3,275 | 770 | 835 | NEU | 34.6 | 37.2 | 37.9 | 43.7 | 22.2 | 20.7 | 20.3 | 17.6 | 22.0 | 24.4 | 25.4 | 28.5 |
| Wipro | 1,474 | 248 | 230 | NEU | 13.5 | 15.1 | 16.8 | 18.0 | 18.4 | 16.4 | 14.7 | 13.8 | 16.5 | 17.3 | 17.8 | 17.7 |
| HCL Tech | 1,482 | 1,093 | 1,275 | BUY | 64.7 | 74.6 | 73.1 | 83.7 | 16.9 | 14.6 | 14.9 | 13.1 | 25.3 | 26.0 | 22.6 | 23.2 |
| TechM | 639 | 726 | 650 | NEU | 43.2 | 48.9 | 45.4 | 51.0 | 16.8 | 14.9 | 16.0 | 14.3 | 21.5 | 22.0 | 19.4 | 20.0 |
| Tier-1 IT Median | | | | | | | | | 18.4 | 16.4 | 16.0 | 14.3 | 22.0 | 24.4 | 22.6 | 23.2 |
| LTI | 260 | 1,499 | 1,835 | BUY | 66.9 | 87.3 | 83.6 | 95.1 | 22.4 | 17.2 | 17.9 | 15.8 | 33.2 | 34.6 | 27.4 | 26.9 |
| Mphasis | 172 | 923 | 1,180 | BUY | 45.4 | 57.6 | 58.3 | 69.1 | 20.3 | 16.0 | 15.8 | 13.4 | 14.6 | 20.0 | 19.7 | 20.9 |
| LTTS | 166 | 1,593 | 1,960 | BUY | 45.5 | 68.0 | 78.4 | 92.9 | 35.0 | 23.4 | 20.3 | 17.1 | 27.7 | 32.0 | 29.8 | 29.4 |
| Mindtree | 120 | 729 | 760 | NEU | 32.3 | 44.1 | 36.4 | 47.9 | 22.6 | 16.6 | 20.1 | 15.2 | 21.4 | 24.9 | 17.3 | 22.9 |
| Hexaware * | 110 | 370 | 450 | BUY | 16.8 | 19.6 | 20.4 | 24.6 | 22.1 | 18.9 | 18.1 | 15.1 | 26.6 | 26.5 | 23.5 | 24.4 |
| Cyient | 50 | 448 | 485 | NEU | 38.6 | 43.6 | 39.3 | 42.1 | 12.4 | 10.5 | 11.4 | 10.6 | 18.1 | 19.5 | 16.5 | 16.2 |
| Zensar | 48 | 210 | 295 | BUY | 10.6 | 14.1 | 15.5 | 19.1 | 19.8 | 15.0 | 13.5 | 11.0 | 15.1 | 17.3 | 16.7 | 17.8 |
| Persistent | 47 | 607 | 655 | BUY | 42.0 | 47.5 | 43.3 | 47.5 | 14.5 | 12.8 | 14.0 | 12.8 | 16.0 | 15.7 | 13.8 | 14.7 |
| Tata Elxsi | 44 | 709 | 645 | NR | 38.5 | 46.6 | 33.1 | 41.3 | 18.4 | 15.2 | 21.4 | 17.2 | 37.0 | 34.5 | 20.5 | 22.2 |
| Sonata | 31 | 296 | 448 | BUY | 18.6 | 24.0 | 26.5 | 29.9 | 15.9 | 12.3 | 11.2 | 9.9 | 31.0 | 35.1 | 33.7 | 33.8 |
| Intellect | 25 | 188 | 315 | BUY | 3.5 | 7.7 | 7.6 | 11.7 | NM | 24.5 | 24.8 | 16.1 | 6.7 | 11.1 | 9.3 | 12.8 |
| eClerx | 15 | 414 | 460 | NEU | 74.0 | 61.7 | 50.1 | 51.2 | 5.6 | 6.7 | 8.3 | 8.1 | 24.1 | 17.6 | 13.8 | 14.1 |
| Majesco | 12 | 420 | 700 | BUY | (1.5) | 18.3 | 20.9 | 31.1 | NM | 22.9 | 20.1 | 13.5 | NM | 8.4 | 8.3 | 11.4 |
| HGS | 12 | 567 | 760 | NR | 96.5 | 84.6 | 85.3 | 101.2 | 5.9 | 6.7 | 6.6 | 5.6 | 10.5 | 8.5 | 11.2 | 11.8 |
| Mastek | 8 | 332 | 505 | BUY | 27.7 | 40.4 | 38.3 | 42.7 | 12.0 | 8.2 | 8.7 | 7.8 | 13.7 | 16.1 | 12.9 | 13.0 |
| Tier-2 IT Median | | | | | | | | | 18.4 | 15.2 | 15.8 | 13.4 | 19.8 | 19.5 | 16.7 | 17.8 |

| 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 | 125 | 186 | NA | NR | 5.6 | 6.5 | 7.8 | 8.6 | 33.5 | 28.8 | 23.8 | 21.7 | 41.7 | 42.0 | 34.9 | 35.0 |
| Cognizant | 34 | 61 | NA | NR | 2.5 | 3.6 | 4.0 | 4.3 | 24.1 | 17.0 | 15.5 | 14.2 | 14.1 | 19.0 | 19.0 | 20.4 |
| Capgemini^ | 20 | 109 | NA | NR | 4.9 | 4.4 | 6.5 | 7.2 | 22.3 | 24.9 | 16.6 | 15.2 | 11.5 | 10.1 | 13.4 | 13.6 |
| Global IT Median | | | | | | | | | 24.1 | 24.9 | 16.6 | 15.2 | 14.1 | 19.0 | 19.0 | 20.4 |

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

Income Statement (Consolidated)

| Year ending March (Rs bn) | FY18 | FY19 | FY20E | FY21E | FY22E |
|-----------------------------------|---------------|--------------|---------------|--------------|--------------|
| Net Revenues (GBP mn) | 95.4 | 112.7 | 112.8 | 123.6 | 137.2 |
| Growth (%) | 48.2% | 18.1% | 0.1% | 9.6% | 11.0% |
| Net Revenues | 8.17 | 10.33 | 9.94 | 11.05 | 12.52 |
| Growth (%) | 45.9% | 26.4% | -3.8% | 11.1% | 13.4% |
| Employee Expenses | 4.81 | 5.87 | 5.46 | 6.13 | 6.94 |
| Other Operating Expenses | 2.36 | 3.12 | 3.19 | 3.48 | 3.94 |
| EBITDA | 1.00 | 1.34 | 1.29 | 1.44 | 1.64 |
| Depreciation | 0.19 | 0.17 | 0.23 | 0.23 | 0.24 |
| EBIT | 0.82 | 1.16 | 1.07 | 1.21 | 1.40 |
| EBIT Margin (%) | 10.0% | 11.3% | 10.7% | 10.9% | 11.2% |
| EBIT Growth (%) | 126.7% | 42.5% | -8.2% | 13.1% | 15.8% |
| Other Income (Including EO Items) | 0.20 | 0.23 | 0.24 | 0.26 | 0.21 |
| Interest | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 |
| PBT | 0.96 | 1.33 | 1.25 | 1.41 | 1.55 |
| Tax (Incl Deferred) | 0.26 | 0.32 | 0.28 | 0.32 | 0.36 |
| RPAT | 0.70 | 1.01 | 0.97 | 1.08 | 1.19 |
| EO (Loss) / Profit (Net Of Tax) | - | 0.01 | - | - | - |
| APAT | 0.70 | 1.02 | 0.97 | 1.08 | 1.19 |
| APAT Growth (%) | 141.4% | 45.8% | -5.03% | 11.7% | 10.3% |
| Adjusted EPS (Rs) | 27.7 | 40.4 | 38.3 | 42.7 | 47.1 |
| EPS Growth (%) | 141.4% | 45.8% | -5.2% | 11.7% | 10.3% |

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

| As at March (Rs bn) | FY18 | FY19 | FY20E | FY21E | FY22E |
|--|---------------|---------------|---------------|---------------|---------------|
| SOURCES OF FUNDS | | | | | |
| Share Capital - Equity | 0.12 | 0.12 | 0.12 | 0.12 | 0.12 |
| Reserves | 5.37 | 7.04 | 7.77 | 8.58 | 9.48 |
| Total Shareholders' Funds | 5.49 | 7.16 | 7.89 | 8.70 | 9.60 |
| Long Term Debt | 0.50 | 0.69 | 0.70 | 0.70 | 0.71 |
| Short Term Debt | 0.20 | 0.01 | 0.01 | 0.01 | 0.01 |
| Total Debt | 0.70 | 0.70 | 0.71 | 0.71 | 0.72 |
| Net Deferred Taxes | (0.34) | (0.16) | (0.16) | (0.16) | (0.16) |
| Other Non-current Liabilities & Provns | 0.33 | 0.12 | 0.12 | 0.12 | 0.12 |
| TOTAL SOURCES OF FUNDS | 6.18 | 7.83 | 8.56 | 9.37 | 10.27 |
| APPLICATION OF FUNDS | | | | | |
| Net Block | 0.71 | 0.70 | 0.68 | 0.69 | 0.74 |
| CWIP | 0.02 | 0.01 | 0.01 | 0.01 | 0.01 |
| Goodwill | 1.08 | 0.98 | 0.98 | 0.98 | 0.98 |
| Investments | 1.66 | 2.82 | 2.82 | 2.82 | 2.82 |
| Other Non-current Assets | 0.11 | 0.15 | 0.15 | 0.15 | 0.15 |
| Total Non-current Assets | 3.59 | 4.66 | 4.64 | 4.65 | 4.70 |
| Cash & Equivalents | 2.06 | 2.07 | 2.70 | 3.23 | 3.79 |
| Debtors | 1.74 | 2.08 | 2.07 | 2.30 | 2.61 |
| Other Current Assets | 0.49 | 0.69 | 0.75 | 0.85 | 0.97 |
| Total Current Assets | 2.23 | 2.77 | 2.82 | 3.15 | 3.58 |
| Creditors | 0.19 | 0.09 | 0.10 | 0.11 | 0.12 |
| Other Current Liabilities & Provns | 1.50 | 1.58 | 1.52 | 1.55 | 1.67 |
| Total Current Liabilities | 1.69 | 1.68 | 1.61 | 1.66 | 1.79 |
| Net Current Assets | 0.54 | 1.09 | 1.21 | 1.49 | 1.79 |
| TOTAL APPLICATION OF FUNDS | 6.18 | 7.83 | 8.56 | 9.37 | 10.27 |

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

| Year ending March (Rs bn) | FY18 | FY19 | FY20E | FY21E | FY22E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Reported PBT | 0.96 | 1.33 | 1.25 | 1.41 | 1.55 |
| Non-operating & EO Items | (0.03) | (0.03) | (0.24) | (0.26) | (0.21) |
| Interest Expenses | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 |
| Depreciation | 0.19 | 0.17 | 0.23 | 0.23 | 0.24 |
| Working Capital Change | (0.45) | (0.51) | (0.12) | (0.28) | (0.30) |
| Tax Paid | (0.09) | (0.31) | (0.28) | (0.32) | (0.36) |
| OPERATING CASH FLOW (a) | 0.64 | 0.73 | 0.89 | 0.84 | 0.99 |
| Capex | (0.21) | (0.32) | (0.21) | (0.24) | (0.29) |
| <i>Free Cash Flow (FCF)</i> | <i>0.43</i> | <i>0.41</i> | <i>0.68</i> | <i>0.59</i> | <i>0.70</i> |
| Non-operating Income | 0.04 | 0.02 | 0.24 | 0.26 | 0.21 |
| INVESTING CASH FLOW (b) | (0.17) | (0.30) | 0.04 | 0.02 | (0.07) |
| Debt Issuance/(Repaid) | 0.04 | 0.01 | 0.01 | 0.01 | 0.01 |
| Interest Expenses | (0.03) | (0.02) | (0.06) | (0.06) | (0.06) |
| <i>FCFE</i> | <i>0.45</i> | <i>0.39</i> | <i>0.63</i> | <i>0.54</i> | <i>0.64</i> |
| Share Capital Issuance | 0.02 | 0.03 | - | - | - |
| Dividend | (0.11) | (0.18) | (0.24) | (0.27) | (0.30) |
| FINANCING CASH FLOW (c) | (0.07) | (0.16) | (0.30) | (0.33) | (0.36) |
| NET CASH FLOW (a+b+c) | 0.40 | 0.27 | 0.63 | 0.53 | 0.56 |
| EO Items, Others | (0.13) | 0.25 | - | - | - |
| Closing Cash & Equivalents | 2.06 | 2.07 | 2.70 | 3.23 | 3.79 |

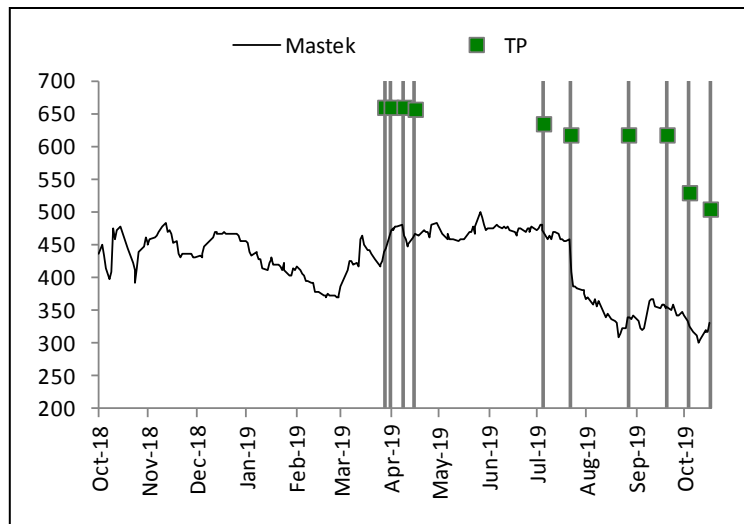
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

| | FY18 | FY19 | FY20E | FY21E | FY22E |
|---|-----------|-----------|-----------|-----------|-----------|
| PROFITABILITY (%) | | | | | |
| EBITDA Margin | 12.3 | 12.9 | 13.0 | 13.0 | 13.1 |
| APAT Margin | 8.6 | 9.9 | 9.7 | 9.8 | 9.5 |
| RoE | 13.7 | 16.1 | 12.9 | 13.0 | 13.0 |
| RoIC (or Core RoCE) | 23.9 | 32.8 | 27.8 | 29.3 | 30.8 |
| RoCE | 12.5 | 15.2 | 12.4 | 12.6 | 12.6 |
| EFFICIENCY | | | | | |
| Tax Rate (%) | 27.1 | 23.9 | 22.6 | 23.0 | 23.0 |
| Fixed Asset Turnover (x) | 11.5 | 14.8 | 14.6 | 15.9 | 16.9 |
| <i>Debtors (days)</i> | <i>78</i> | <i>74</i> | <i>76</i> | <i>76</i> | <i>76</i> |
| <i>Other Current Assets (days)</i> | <i>22</i> | <i>24</i> | <i>28</i> | <i>28</i> | <i>28</i> |
| <i>Payables (days)</i> | <i>8</i> | <i>3</i> | <i>4</i> | <i>4</i> | <i>4</i> |
| <i>Other Current Liab & Provns (days)</i> | <i>67</i> | <i>56</i> | <i>56</i> | <i>51</i> | <i>49</i> |
| <i>Cash Conversion Cycle (days)</i> | <i>24</i> | <i>39</i> | <i>44</i> | <i>49</i> | <i>52</i> |
| Debt/EBITDA (x) | 0.7 | 0.5 | 0.5 | 0.5 | 0.4 |
| Net D/E (x) | -0.2 | -0.2 | -0.3 | -0.3 | -0.3 |
| Interest Coverage (x) | 13.9 | 19.0 | 17.3 | 19.2 | 22.1 |
| PER SHARE DATA (Rs) | | | | | |
| EPS | 27.7 | 40.4 | 38.3 | 42.7 | 47.1 |
| CEPS | 35.1 | 47.2 | 47.2 | 51.8 | 56.6 |
| Dividend | 6.0 | 8.5 | 8.4 | 9.4 | 10.3 |
| Book Value | 217 | 283 | 312 | 344 | 379 |
| VALUATION | | | | | |
| P/E (x) | 12.0 | 8.2 | 8.7 | 7.8 | 7.0 |
| P/BV (x) | 1.5 | 1.2 | 1.1 | 1.0 | 0.9 |
| EV/EBITDA (x) | 7.0 | 5.3 | 5.0 | 4.1 | 3.3 |
| EV/Revenues (x) | 0.9 | 0.7 | 0.6 | 0.5 | 0.4 |
| OCF/EV (%) | 9.1 | 10.3 | 13.9 | 14.2 | 18.5 |
| FCF/EV (%) | 6.1 | 5.8 | 10.7 | 10.1 | 13.1 |
| FCFE/Mkt Cap (%) | 5.3 | 4.7 | 7.5 | 6.4 | 7.6 |
| Dividend Yield (%) | 1.8 | 2.6 | 2.5 | 2.8 | 3.1 |

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 |
| 27-Aug-19 | 322 | BUY | 618 |
| 22-Sep-19 | 357 | BUY | 618 |
| 4-Oct-19 | 334 | BUY | 530 |
| 18-Oct-19 | 332 | BUY | 505 |

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:

We, **Akshay Ramnani, CA, Amit Chandra, MBA & Apurva Prasad, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –No

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