

Sonata Software

Challenges ahead, will emerge stronger

We maintain BUY on Sonata despite near term challenges. IT services (IITS) revenue was lower than est. but margin was inline. The impact on IITS will be material in 1HFY21 (-11.6% YoY for FY21E), due to issue in one large travel client and high Retail exposure (28% of rev). Sonata's IP-led strategy and strong Microsoft partnership (Dynamics 365) will support IITS revenue. DPS impact will be lower because of high recurring licence revenue. Growth in DPS will be led by sale of higher Microsoft cloud licences. Overall, we cut our EPS estimate by 4.5/4.0% for FY21/22E. Our TP of Rs 240 is based on 9x (~30% discount to 5Y avg.) FY22E EPS.

- **IITS revenue under pressure:** IITS revenue declined 5.1% QoQ (-3.9% QoQ CC) to USD 46.8mn vs. est. of USD 46.0mn. ~90 % of the decline was led by Travel (23% of rev, -12.7% QoQ) and Retail (28% of rev, -5.1% QoQ) verticals. Travel will decline in 1QFY21E due to steep decline in one large travel client (~75-80% drop), recovery is expected in 2H. DPS (65% of rev, -33.4/+13.1% QoQ/YoY) performed better than expectation.
- **Microsoft portfolio insulated.** Sonata has invested in strengthening the Microsoft relationship, which has yielded positive results (4Y CAGR of 19%). Dynamics D365 revenue has grown at an 8qtr COGR of 7.4%. This portfolio will have lower impact of Covid-19 and growth will come from expanding Microsoft D365 related offerings to others verticals. IP-led and Digital was down by 4.0/5.1% QoQ and stood at 25.4/38.0% of revenue. IP-led has been a revenue and margin driver, CQGR of +8.6% over eight quarters.
- **Margins inline:** Adjusted IITS/Consolidated margin stood at 21.3/10.3% - 389/+144bps QoQ, in line with est. of 21.0/10.2%. IITS margin will be impacted in 1H due to revenue decline. Measure such as salary cuts, lower travel expenses and higher offshoring will offset some of the impact. The normal IITS margin range is ~20-22% (FY22E est. at 20%).
- **BS insights:** Sonata OCF improved to Rs 3.70bn vs. Rs -62mn in FY19 led by better collections in DPS. OCF to EBITDA stood at healthy 99%. Net Cash stands at Rs 3.11bn (~15% of Mcap) vs. Rs 3.45bn in FY19.
- **Valuation and view:** Sonata's platformation strategy to provide IT services around IPs has yielded results in the past. Strong building blocks will result in gradual recovery in the post covid world. Growth in IP-led rev and employee productivity will lead to margin recovery. We like Sonata's IP-led business model, highest margin (IITS) in Tier-2 IT, focus on high growth Microsoft ecosystem, healthy RoE (~40%) and high dividend yield (~10%). The stock trades at a P/E of 9.2/7.5x FY21/22E, which is at steep discount to its 5Y avg. 1Y fwd multiple of 11.3x.

Financial Summary

YE Mar (Rs bn)	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY18	FY19	FY20	FY21E	FY22E
Net Revenues	9.29	8.36	11.1	12.37	-24.9	24.54	29.61	37.43	36.77	40.57
EBIT	0.74	0.84	-12.6	1.01	-26.6	2.19	3.23	3.36	2.73	3.37
APAT	0.74	0.64	15.6	0.76	-1.8	1.91	2.47	3.00	2.22	2.74
Diluted EPS (Rs)	7.2	6.2	15.6	7.3	-1.8	18.4	23.7	28.9	21.4	26.4
P/E (x)						10.7	8.3	6.8	9.2	7.5
EV / EBITDA (x)						7.1	5.5	4.4	5.0	3.9
RoE (%)						30.8	34.7	41.7	31.3	34.4

Source: Company, HSIE Research

BUY

CMP (as on 12 May 2020)	Rs 197
Target Price	Rs 240
NIFTY	9,197

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 250	Rs 240
	FY21E	FY22E
EPS %	-4.5%	-4.0%

KEY STOCK DATA

Bloomberg code	SSOF IN
No. of Shares (mn)	105
MCap (Rs bn) / (\$ mn)	21/276
6m avg traded value (Rs mn)	44
52 Week high / low	Rs 363/147

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(42.3)	(36.7)	(40.7)
Relative (%)	(17.8)	(14.5)	(24.4)

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	28.17	28.17
FIs & Local MFs	11.85	13.14
FPIs	12.25	11.66
Public & Others	47.73	47.03
Pledged Shares	0.00	0.00

Source : BSE

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Quarterly consolidated Financial Snapshot

Particulars (Rs mn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
IITS Net Revenues (USD mn)	44.4	43.5	2.1	46.8	-5.1
Net Revenues	9,287	8,356	11.1	12,369	-24.9
Inventory Costs	5,890	5,157	14.2	8,904	-33.9
Employee Costs	1,701	1,525	11.5	1,670	1.9
Other Operating Expenses	866	789	9.7	699	23.9
EBITDA	830	884	-6.1	1,097	-24.3
Depreciation	92	40	130.2	91	1.1
EBIT	738	844	-12.6	1,005	-26.6
Interest Cost	36	7	400.0	43	-17.4
Other Income	122	84	45.0	86	41.8
PBT	824	921	-10.5	1,048	-21.4
Tax	206	268	-22.8	290	-28.8
Minority Interest	0	0	NM	0	NM
RPAT	618	654	-5.4	759	-18.5
E/o (adj for tax)	-127	9	NM	0	NM
APAT	745	644	15.6	759	-1.8

Source: Company, HSIE Research

Margin Analysis

Particulars (% of Revenue)	4QFY20	4QFY19	YoY (bps)	3QFY20	QoQ (bps)
Inventory Cost	63.4	61.7	170	72.0	-857
Employee Cost	18.3	18.3	6	13.5	482
SG&A and Other Expenses	9.3	9.4	-12	5.6	368
EBITDA Margin (%)	8.9	10.6	-164	8.9	7
EBIT Margin (%)	7.9	10.1	-216	8.1	-18
Tax Rate (%)	25.0	29.0	-401	27.6	-260
APAT Margin (%)	8.0	7.7	31	6.1	189

Source: Company, HSIE Research

Consolidated revenue declined 24.9% QoQ at Rs 9.29bn but was higher than our estimate of Rs 8.75bn due lower than expected decline in DPS revenue

Adjusted Consolidated EBITDA margin expanded 144bps to 10.3% led by DPS

APAT stood at Rs 0.76bn down 1.8% QoQ aided by higher other income and lower tax rate

RPAT at Rs 0.62bn declined 18.5%/5.4% QoQ/YoY due to provisions

The company has made provisions for PF investment (IL&FS) of Rs 127mn/ Rs 232mn for Q4FY20/ FY20 respectively

*IITS revenue declined
1.3% QoQ impacted by
Travel & Retail vertical*

*DPS business declined
33.4% QoQ due to
deferment of license
revenue however stability
is much better*

*IITS EBITDA margin was
down 670bps QoQ at
18.5% due to revenue drop
and one time PF
provision.*

*DPS EBITDA margin was
up 86bps QoQ.*

*Adjusted
IITS/Consolidated margin
stood at 21.3/10.3% -
389/+144bps QoQ, inline
with est. of 21.0/10.2%.*

*Travel vertical declined
12.7% QoQ as one large
client which contributed
~15% of the revenue
ramped down 80-85%*

*Lifting of lockdown and
consumer confidence will
help recovery in travel
client by 30-40% in
H2FY21*

*Retail vertical impacted
due to decline in non
essential retailer like
fashion & Jewellery*

*OPD declined 1.3% QoQ
due to slowdown in
software; however
Infrastructure,
Collaboration and Cloud
remain revenue drivers*

Segmental Revenue & EBITDA Mix

Particulars (Rs mn)	4QFY20	4QFY19	YoY (%)	4QFY20	QoQ (%)	FY20	FY19	YoY (%)
IITS Net Revenues	3,255	3,041	7.0	3,298	-1.3	12,724	11,205	13.6
DPS Revenue	6,070	5,366	13.1	9,120	-33.4	24,922	18,628	33.8
Inter segment	-38	-52	NM	-49	NM	-213	-224	NM
Total Revenue	9,287	8,356	11.1	12,369	-24.9	37,433	29,609	26.4

EBITDA (Rs mn)	4QFY20	4QFY19	YoY (%)	4QFY20	QoQ (%)	FY20	FY19	YoY (%)
IITS *	601	683	-12.0	830	-27.6	2,794	2,629	6.3
DPS	232	212	9.4	270	-14.1	951	751	26.6
Inter segment	-3	-11	NM	-3	NM	-17	-24	NM
Total EBITDA	830	884	-6.1	1,097	-24.3	3,728	3,356	11.1

EBITDA Margin (%)	4QFY20	4QFY19	YoY bps	3QFY20	QoQ bps	FY20	FY19	YoY (bps)
IITS*	18.5	22.5	-399	25.2	-670	22.0	23.5	-150
DPS	3.8	4.0	-13	3.0	86	3.8	4.0	-22
Total EBITDA Margin (%)	8.9	10.6	-164	8.9	7	10.0	11.3	-137

Source: Company, HSIE Research, *IITS EBITDA excludes other income and income tax refunds

IITS Vertical Revenue Mix

(% Contribution)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
OPD	28.0%	27.0%	26.0%	27.0%	28.0%	25.0%	26.0%
TTL	29.0%	28.0%	28.0%	26.0%	27.0%	25.0%	23.0%
CPG & Retail	26.0%	26.0%	27.0%	28.0%	26.0%	28.0%	28.0%
Others	17.0%	19.0%	19.0%	19.0%	19.0%	22.0%	23.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company, HSIE Research

IITS Vertical-wise Revenue Growth

(Growth % QoQ; USD)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
OPD	3.4%	0.6%	2.7%	5.8%	6.0%	-7.8%	-1.3%
TTL	11.1%	0.7%	6.6%	-5.4%	6.2%	-4.3%	-12.7%
CPG & Retail	7.6%	4.3%	10.7%	5.6%	-5.0%	11.3%	-5.1%
Others	-12.1%	16.6%	6.6%	1.8%	2.3%	19.6%	-0.8%
Total	3.4%	4.3%	6.6%	1.8%	2.3%	3.3%	-5.1%

Source: Company, HSIE Research

IITS Service Line Break-up

(% Contribution)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
ADM	25.0%	25.0%	24.0%	24.0%	27.0%	26.0%	24.3%
Testing	17.0%	17.0%	17.0%	16.0%	15.0%	15.0%	14.3%
IMS	16.0%	16.0%	16.0%	14.0%	12.0%	12.0%	14.3%
AX	20.0%	20.0%	22.0%	26.0%	26.0%	28.0%	28.3%
BI	8.0%	8.0%	8.0%	9.0%	9.0%	8.0%	8.0%
E-commerce	7.0%	6.0%	6.0%	5.0%	5.0%	5.0%	5.0%
ERP	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Rezopia/Mobility/Cloud	3.0%	4.0%	3.0%	2.0%	2.0%	2.0%	2.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company, HSIE Research

ADM revenue declined for the second consecutive qtr in 4Q

IMS outperformed among the verticals with a growth of 12.7% QoQ in 4QFY20

Out of the total 124 customers 54/14/14 are in Retail/OPD/Travel respectively

Client contraction was sharp in Retail with 54 customer's vs 91 in 3QFY20

Top 10/20 clients de-grew 8/7.7% QoQ, Non Top 10 client grew 0.5% QoQ and 14.8% YoY

Top 5 clients dependence reduced to 58% in FY20 vs 61% in FY19

IITS Service Line Growth

(Growth %, QoQ)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
ADM	-0.5%	4.3%	2.4%	1.8%	15.0%	-0.5%	-11.5%
Testing	3.4%	4.3%	6.6%	-4.2%	-4.1%	3.3%	-9.9%
IMS	-2.6%	4.3%	6.6%	-10.9%	-12.4%	3.3%	12.7%
AX	14.9%	4.3%	17.3%	20.4%	2.3%	11.3%	-4.3%
BI	3.4%	4.3%	6.6%	14.6%	2.3%	-8.2%	-5.1%
E-commerce	20.7%	-10.6%	6.6%	-15.1%	2.3%	3.3%	-5.1%
ERP	3.4%	4.3%	6.6%	1.8%	2.3%	3.3%	-5.1%
Rezopia/Mobility/Cloud	-22.4%	39.1%	-20.0%	-32.1%	2.3%	3.3%	-5.1%
Total	3.4%	4.3%	6.6%	1.8%	2.3%	3.3%	-5.1%

Source: Company, HSIE Research

IITS Onsite-Offshore Split

IT services revenue break-up (%)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Offshore	58.0%	58.0%	57.0%	56.0%	56.0%	58.0%	59.0%
Onsite	42.0%	42.0%	43.0%	44.0%	44.0%	42.0%	41.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company, HSIE Research

IITS Onsite-Offshore Growth

IT services revenue growth (%) QoQ	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Offshore	7.1%	4.3%	4.8%	0.1%	2.3%	7.0%	-3.5%
Onsite	-1.3%	4.3%	9.2%	4.2%	2.3%	-1.4%	-7.4%
Total	3.4%	4.3%	6.6%	1.8%	2.3%	3.3%	-5.1%

Source: Company, HSIE Research

IITS Client Concentration

Client concentration (%)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Top 5	61.0%	61.0%	61.0%	59.0%	59.0%	57.0%	57.0%
Top-10	69.0%	69.0%	68.0%	66.0%	65.0%	66.0%	64.0%
Non-top 10	31.0%	31.0%	32.0%	34.0%	35.0%	34.0%	36.0%
Top 20	77.0%	78.0%	76.0%	75.0%	73.0%	75.0%	73.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company, HSIE Research

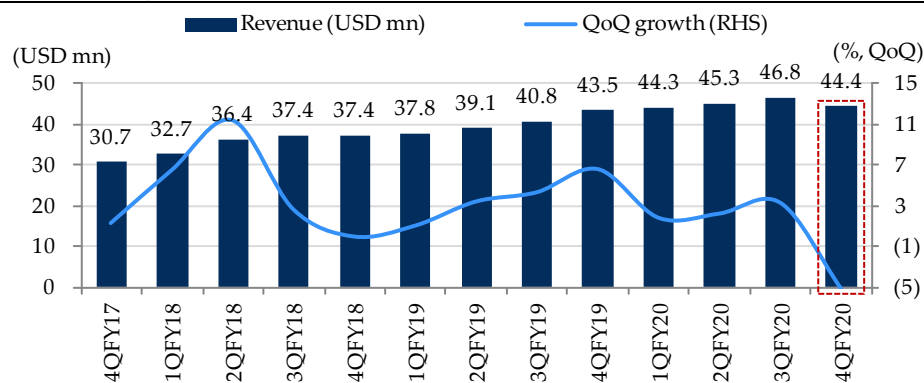
IITS Client Concentration Growth

Client concentration (% growth)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Top 5	3.4%	4.3%	6.6%	-1.5%	2.3%	-0.2%	-5.1%
Top-10	2.0%	4.3%	5.1%	-1.2%	0.7%	4.9%	-8.0%
Non-top 10	6.9%	4.3%	10.1%	8.2%	5.3%	0.4%	0.5%
Top 20	-0.4%	5.7%	3.9%	0.5%	-0.5%	6.1%	-7.7%
Total	3.4%	4.3%	6.6%	1.8%	2.3%	3.3%	-5.1%

Source: Company, HSIE Research

IITS Revenue growth Trend

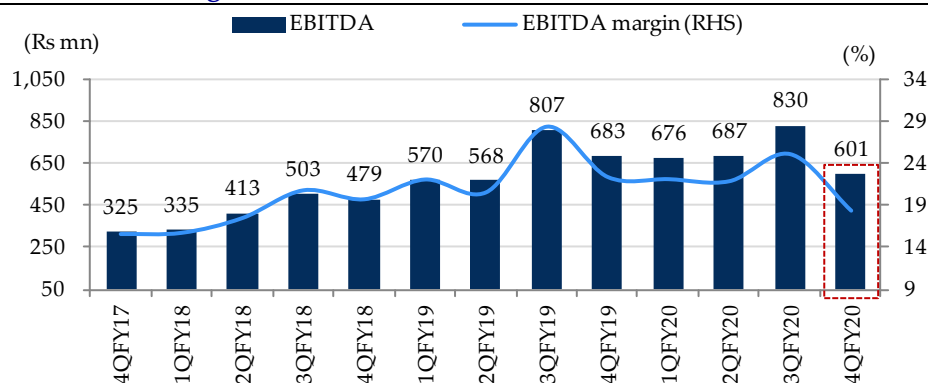
IITS revenue/EBITDA has grown at 12.2/6.3% YoY in FY20



Source: Company, HSIE Research

IITS EBITDA, Margin Trend

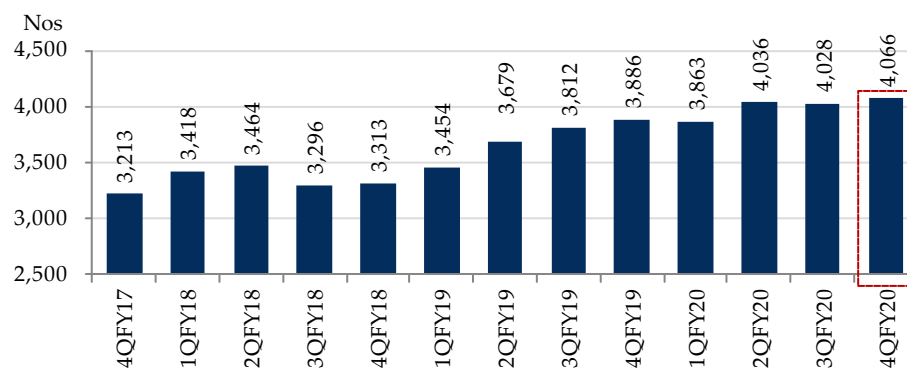
Avg. revenue per employee in 4Q was USD 43,884, - 5.5/-2.9% QoQ/YoY.



Source: Company, HSIE Research

IITS Employee Productivity

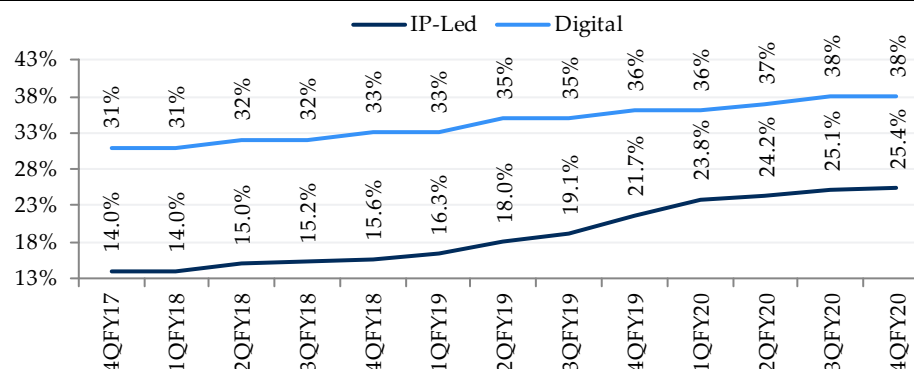
Digital revenue contributed 38% of the revenue at USD 16.9mn, - 5.1%/+7.7% QoQ/YoY



Source: Company, HSIE Research

IP-Led & Digital Revenue %

IP Led revenue contributed 25.4% of the revenue at USD 11.3mn, - 4%/+19.5% QoQ/YoY



Source: Company, HSIE Research

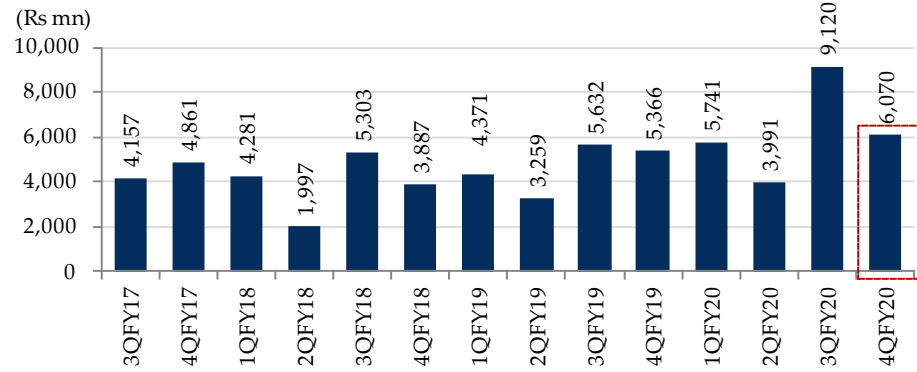
DPS revenue/EBITDA has grown at 33.8/26.6% YoY in FY20

DPS revenue is expected to be stable as it is depended on license business

Working capital challenges is not faced in DPS business despite revenue shrinkage

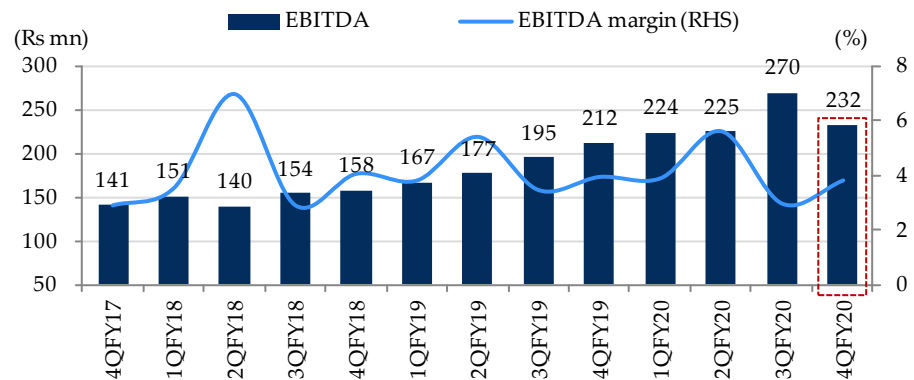
DPS Receivable days increased to 52 days vs 47 days in 3QFY20

DPS Revenue growth Trend



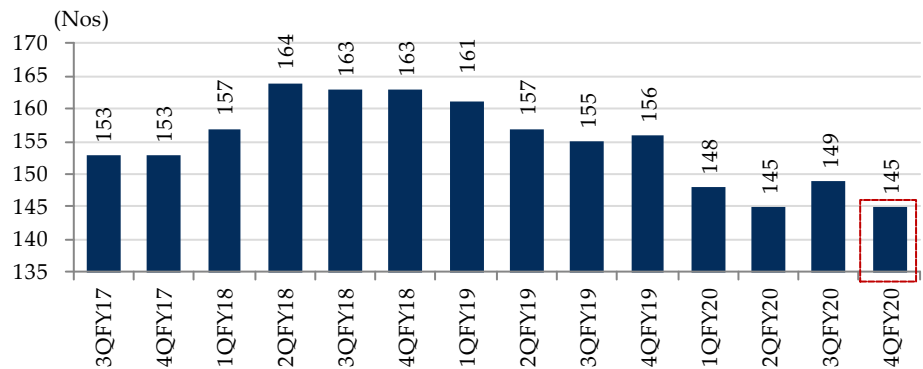
Source: Company, HSIE Research

DPS EBITDA, Margin Trend



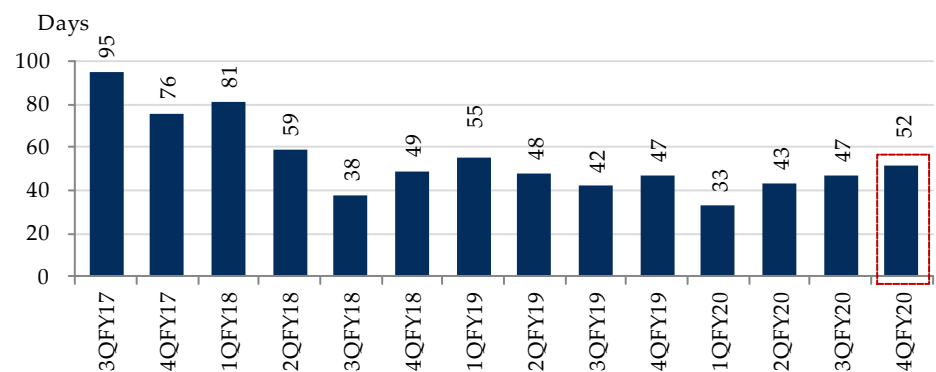
Source: Company, HSIE Research

DPS' Headcount



Source: Company, HSIE Research

DPS' Debtor Days



Source: Company, HSIE Research

Management expects revenue reduction of 15-18% in H1FY21

Voluntary pay reduction is taken by the senior mgmt team and no wage hike in FY21

OCF improved to Rs 3.70bn vs -62mn in FY19 led by better collections in DPS business

IITS' Segment Estimates

IITS (Rs bn)	FY18	FY19	FY20	FY21E	FY22E
Revenue (USD million)	143.9	161.2	180.8	159.9	176.1
% Growth	18.6	12.0	12.2	-11.6	10.1
Revenue	9.29	11.21	12.72	11.67	13.03
% Growth	13.0	20.7	13.6	-8.3	11.6
EBITDA	1.73	2.63	2.79	2.14	2.61
EBITDA Margin (%)	18.6	23.5	22.0	18.3	20.0

Source: Company, HSIE Research

DPS' Segment Estimates

DPS (Rs bn)	FY18	FY19	FY20	FY21E	FY22E
Revenue	15.47	18.63	24.92	25.10	27.54
% Growth	-1.9	20.4	33.8	0.7	9.7
EBITDA	0.60	0.75	0.95	0.99	1.20
EBITDA Margin (%)	3.9	4.0	3.8	3.9	4.4

Source: Company, HSIE Research

Change in Estimates

(Rs bn)	FY21E			FY22E		
	Earlier	New	% Change	Earlier	New	% Change
Revenue	37.38	36.77	-1.6	40.95	40.57	-0.9
EBIT	2.89	2.73	-5.5	3.56	3.37	-5.3
EBIT Margin (%)	7.7	7.4	-31bps	8.7	8.3	-38bps
APAT	2.32	2.22	-4.5	2.86	2.74	-4.0

Source: HSIE Research

Peer Set Comparison

Company	MCAp (Rs bn)	CMP (Rs)	TP (Rs)	RECO	EPS (Rs)				P/E (x)				RoE (%)			
					FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
TCS*	7,310	1,948	1,680	REDUCE	83.9	86.2	78.9	88.3	23.2	22.6	24.7	22.1	36.1	37.3	35.1	38.9
Infosys*	2,917	687	680	BUY	37.1	38.6	36.7	42.4	18.5	17.8	18.7	16.2	24.3	25.2	23.2	25.3
HCL Tech*	1,430	527	565	BUY	37.3	40.8	38.8	46.9	14.1	12.9	13.6	11.2	26.0	23.8	19.0	19.9
Wipro*	1,064	187	185	REDUCE	15.8	17.0	15.6	17.0	11.8	10.9	11.9	11.0	17.3	17.3	14.9	14.2
TechM*	514	532	625	BUY	48.9	48.3	42.4	48.0	10.9	11.0	12.6	11.1	22.0	20.2	16.5	17.4
Tier-1 IT Median									14.1	12.9	13.6	11.2	24.3	23.8	19.0	19.9
LTI	286	1,646	1,650	ADD	87.1	86.2	93.1	109.9	18.9	19.1	17.7	15.0	34.6	28.2	26.3	27.0
Mphasis	151	810	800	ADD	57.6	60.4	59.6	66.9	14.1	13.4	13.6	12.1	20.0	20.5	18.6	19.3
L&T Tech	118	1,129	1,215	ADD	67.8	77.2	72.9	86.7	16.6	14.6	15.5	13.0	32.0	29.8	24.4	25.2
Mindtree*	146	885	830	ADD	44.1	40.5	43.7	55.1	20.1	21.9	20.2	16.1	24.9	19.5	21.6	24.0
Hexaware#*	77	259	300	ADD	19.6	21.5	19.8	22.9	13.2	12.0	13.1	11.3	26.5	24.9	20.2	20.9
Persistent*	40	522	525	REDUCE	47.8	47.0	37.1	43.9	10.9	11.1	14.1	11.9	15.7	14.4	11.5	12.6
Cyient*	23	208	240	REDUCE	44.4	33.9	23.2	26.8	4.7	6.1	8.9	7.7	20.0	14.5	9.8	10.8
Zensar	18	80	95	ADD	14.2	10.3	9.2	11.8	5.6	7.7	8.7	6.8	17.6	11.5	9.4	11.2
Sonata*	20	197	240	BUY	23.7	28.9	21.4	26.4	8.3	6.8	9.2	7.5	34.7	41.7	31.3	34.4
Majesco	8	278	360	BUY	18.3	18.0	20.5	24.8	15.2	15.4	13.6	11.2	8.4	7.3	7.8	8.8
Mastek	7	260	333	BUY	39.9	39.8	39.6	43.2	6.5	6.5	6.6	6.0	15.9	15.0	13.3	12.8
Tier-2 IT AVG									12.2	12.3	12.8	10.8	22.8	20.7	17.6	18.8
Tier-2 IT Median									13.2	12.0	13.6	11.3	20.0	19.5	18.6	19.3

Source: HSIE Research, Bloomberg, #Dec YE, * FY20 Actual numbers

Financials

Consolidated Income Statement

YE March (Rs bn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
IITS USD Revenue (mn)	107.8	121.4	143.9	161.2	180.8	159.9	176.1
<i>Growth (%)</i>	9.7	12.6	18.6	12.0	12.2	-11.6	10.1
Net Revenues	19.41	23.71	24.54	29.61	37.43	36.77	40.57
<i>Growth (%)</i>	15.4	22.2	3.5	20.7	26.4	-1.8	10.3
Total Operating Expenses	17.49	21.79	22.23	26.25	33.70	33.65	36.76
EBITDA	1.92	1.92	2.31	3.36	3.73	3.13	3.81
<i>EBITDA (%)</i>	9.9	8.1	9.4	11.3	10.0	8.5	9.4
<i>EBITDA Growth (%)</i>	14.5	-0.2	20.6	45.3	11.1	-16.1	21.8
Depreciation	0.06	0.11	0.12	0.13	0.37	0.40	0.44
EBIT	1.86	1.81	2.19	3.23	3.36	2.73	3.37
<i>EBITDA (%)</i>	9.6	7.6	8.9	10.9	9.0	7.4	8.3
<i>EBITDA Growth (%)</i>	15.0	-2.7	21.0	47.7	4.2	-18.8	23.6
Other Income	0.47	0.55	0.47	0.30	0.58	0.41	0.48
Interest	0.08	0.09	0.05	0.03	0.15	0.16	0.17
PBT	2.25	2.26	2.60	3.49	3.80	2.98	3.68
Tax (incl deferred)	0.67	0.69	0.68	1.01	1.03	0.76	0.94
Minority Int. and associate profit	0.00	-0.01	0.00	0.00	0.00	0.00	0.00
RPAT	1.59	1.56	1.93	2.49	2.77	2.22	2.74
EO (Loss) / Profit (Net Of Tax)	0.04	0.08	0.01	0.03	-0.23	0.00	0.00
APAT	1.55	1.49	1.91	2.47	3.00	2.22	2.74
<i>APAT Growth (%)</i>	15.9	-4.1	28.8	28.8	21.8	-26.1	23.7
EPS	14.9	14.3	18.4	23.7	28.9	21.4	26.4
<i>EPS Growth (%)</i>	18.7	-4.1	28.8	28.8	21.8	-26.1	23.7

Source: Company, HSIE Research

Consolidated Balance Sheet

YE March (Rs bn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS							
Share Capital - Equity	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserves	4.66	5.80	6.43	7.58	6.59	7.38	8.35
Total Shareholders' Funds	4.77	5.90	6.53	7.68	6.70	7.48	8.46
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Debt	1.71	0.35	0.41	0.52	2.58	2.58	2.58
Net Deferred Taxes	-0.05	-0.05	-0.12	-0.12	-0.24	-0.24	-0.24
Long Term Provisions & Others	0.12	0.14	0.10	0.11	0.00	0.00	0.00
TOTAL SOURCES OF FUNDS	6.55	6.36	6.93	8.19	9.03	9.82	10.79
APPLICATION OF FUNDS							
Net Block	0.40	0.38	0.33	0.54	1.42	1.43	1.32
CWIP	0.00	0.00	0.00	0.01	0.00	0.00	0.00
Goodwill & Other Intangible Assets	0.82	0.80	0.81	1.45	1.56	1.56	1.56
Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LT Loans & Advances, Others	0.65	0.80	0.85	0.63	0.96	1.08	1.22
Total Non Current Assets	1.88	1.99	1.99	2.63	3.94	4.07	4.10
Inventories	0.10	0.00	0.00	0.00	0.00	0.00	0.00
Debtors	3.51	5.20	3.96	8.11	7.00	7.56	8.34
Cash & Equivalents	3.59	3.81	5.46	3.46	4.10	4.91	5.57
Other Current Assets	0.80	0.93	0.80	0.96	0.88	1.02	1.17
Total Current Assets	8.00	9.94	10.22	12.53	11.98	13.48	15.08
Creditors	2.65	4.48	4.32	5.87	5.62	6.45	7.05
Other Current Liabilities & Provns	0.68	1.09	0.96	1.09	1.27	1.28	1.34
Total Current Liabilities	3.33	5.58	5.29	6.97	6.89	7.73	8.39
Net Current Assets	4.67	4.37	4.94	5.56	5.09	5.75	6.69
TOTAL APPLICATION OF FUNDS	6.55	6.36	6.93	8.19	9.03	9.82	10.79

Source: Company, HSIE Research

Consolidated Cash Flow

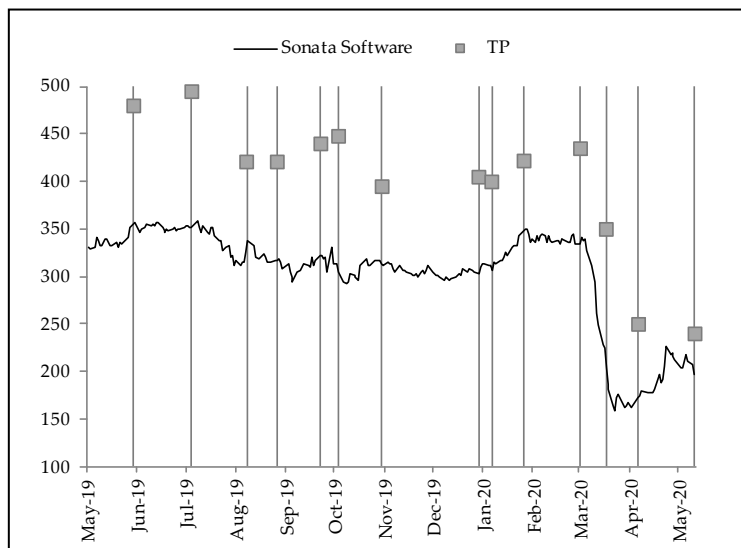
YE March (Rs bn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Reported PBT	2.25	2.26	2.60	3.49	3.79	2.98	3.68
Non-operating & EO items	-0.44	-0.37	-0.15	-0.50	-0.33	-0.41	-0.48
Interest expenses	0.08	0.08	0.04	0.03	0.15	0.16	0.17
Depreciation	0.06	0.11	0.12	0.13	0.37	0.40	0.44
Working Capital Change	0.10	0.41	0.90	-2.35	1.00	0.03	-0.42
Tax paid	-0.67	-0.65	-0.55	-0.87	-1.29	-0.76	-0.94
OPERATING CASH FLOW (a)	1.39	1.85	2.98	-0.06	3.70	2.39	2.45
Capex	-0.32	-0.10	-0.06	-0.46	-0.08	-0.40	-0.32
Free cash flow (FCF)	1.07	1.75	2.91	-0.52	3.61	1.99	2.13
Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-operating income	0.44	0.17	0.10	0.05	0.09	0.41	0.48
INVESTING CASH FLOW (b)	0.12	0.07	0.03	-0.41	0.00	0.01	0.16
Debt Issuance	1.47	-1.21	-0.21	-0.20	0.47	0.00	0.00
Interest expenses	-0.08	-0.08	-0.04	-0.03	-0.03	-0.16	-0.17
FCFE	2.46	0.46	2.66	-0.75	4.04	1.83	1.96
Share capital Issuance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend	-0.87	-0.44	-1.15	-1.43	-3.54	-1.43	-1.77
FINANCING CASH FLOW (c)	0.52	-1.73	-1.40	-1.66	-3.11	-1.60	-1.94
NET CASH FLOW (a+b+c)	2.03	0.19	1.61	-2.14	0.59	0.81	0.67
Non-operating and EO items	-0.07	-1.32	0.04	0.14	0.05	0.00	0.00
Closing Cash & Equivalents	4.93	3.81	5.46	3.46	4.10	4.91	5.57

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PROFITABILITY (%)							
EBITDA Margin	9.9	8.1	9.4	11.3	10.0	8.5	9.4
APAT Margin	8.2	6.6	7.8	8.4	7.4	6.0	6.8
RoE	34.2	27.9	30.8	34.7	41.7	31.3	34.4
RoIC or Core RoCE	43.9	48.4	109.6	48.4	49.8	41.4	48.2
RoCE	23.6	19.1	24.3	30.3	28.5	21.6	24.4
EFFICIENCY							
Tax Rate (%)	30.1	31.7	26.3	29.0	27.0	25.5	25.5
Fixed Asset Turnover (x)	15.1	17.3	17.0	16.6	12.4	10.7	10.8
Inventory (days)	2	0	0	0	0	0	0
Debtors (days)	66	80	59	100	68	75	75
Other Current Assets (days)	15	14	12	12	9	10	11
Payables (days)	55	75	71	82	61	70	70
Other Current Liab & Provs (days)	13	17	14	13	12	13	12
Cash Conversion Cycle (days)	15	3	-14	17	4	2	3
Net Debt/EBITDA (x)	-1.0	-1.8	-2.2	-0.9	-0.4	-0.7	-0.8
Net Debt/Equity (x)	-0.4	-0.6	-0.8	-0.4	-0.2	-0.3	-0.4
Interest Coverage (x)	23.4	19.5	45.5	95.2	22.1	16.8	19.5
PER SHARE DATA							
EPS (Rs/sh)	14.9	14.3	18.4	23.7	28.9	21.4	26.4
CEPS (Rs/sh)	15.9	16.1	19.7	25.2	30.2	25.2	30.6
DPS (Rs/sh)	7.1	9.3	10.5	12.8	20.3	11.7	14.5
BV (Rs/sh)	45.9	56.8	62.9	73.9	64.5	72.0	81.4
VALUATION							
P/E	13.2	13.8	10.7	8.3	6.8	9.2	7.5
P/BV	4.3	3.5	3.1	2.7	3.1	2.7	2.4
EV/EBITDA	9.1	9.4	7.1	5.5	4.4	5.0	3.9
OCF/EV (%)	8.0	10.3	18.2	-0.3	22.5	15.3	16.4
FCF/EV (%)	6.1	9.7	17.8	-2.8	22.0	12.7	14.2
FCFE/mkt cap (%)	12.0	2.2	13.0	-3.7	19.7	8.9	9.6
Dividend Yield (%)	3.6	4.7	5.3	6.5	10.3	6.0	7.4

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
31-May-19	357	BUY	480
5-Jul-19	353	BUY	495
9-Aug-19	325	BUY	421
27-Aug-19	316	BUY	421
22-Sep-19	316	BUY	440
4-Oct-19	313	BUY	448
31-Oct-19	313	BUY	395
30-Dec-19	305	BUY	405
7-Jan-20	311	BUY	400
27-Jan-20	347	BUY	422
2-Mar-20	335	BUY	435
18-Mar-20	224	BUY	350
6-Apr-20	163	BUY	250
13-May-20	197	BUY	240

From 2nd March 2020, we have moved to new rating system

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: >10% Downside return potential

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