

Hexaware Technologies (HEXW IN)

Rating: BUY | CMP: Rs375 | TP: Rs476

July 29, 2020

Q2CY20 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	CY21E	CY22E	CY21E	CY22E
Rating	BUY		REDUCE	
Target Price	476		282	
Sales (Rs. m)	71,381	79,796	60,865	70,862
% Chng.	17.3	12.6		
EBITDA (Rs. m)	11,421	12,767	9,130	10,629
% Chng.	25.1	20.1		
EPS (Rs.)	24.9	28.1	21.6	25.6
% Chng.	15.4	9.8		

Key Financials - Standalone

Y/e Dec	CY19	CY20E	CY21E	CY22E
Sales (Rs. m)	55,824	63,190	71,381	79,796
EBITDA (Rs. m)	8,805	10,345	11,421	12,767
Margin (%)	15.8	16.4	16.0	16.0
PAT (Rs. m)	6,578	6,329	7,399	8,353
EPS (Rs.)	22.1	21.3	24.9	28.1
Gr. (%)	12.8	(3.8)	16.9	12.9
DPS (Rs.)	7.5	7.4	8.7	9.8
Yield (%)	2.0	2.0	2.3	2.6
RoE (%)	25.5	21.5	22.1	22.0
RoCE (%)	30.2	28.5	28.3	28.3
EV/Sales (x)	1.8	1.5	1.2	1.0
EV/EBITDA (x)	11.2	9.0	7.7	6.4
PE (x)	17.0	17.6	15.1	13.4
P/BV (x)	4.0	3.6	3.1	2.8

Key Data

HEXW.BO | HEXW IN

52-W High / Low	Rs.399 / Rs.202
Sensex / Nifty	38,493 / 11,301
Market Cap	Rs.112bn / \$ 1,498m
Shares Outstanding	299m
3M Avg. Daily Value	Rs.749.11m

Shareholding Pattern (%)

Promoter's	60.11
Foreign	16.10
Domestic Institution	14.59
Public & Others	9.19
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	14.7	6.4	4.8
Relative	4.8	13.3	3.2

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Re-rating Vs De-listing

Quick Pointers:

- HEXW 2QCY20 results were beat on all front. It surprised us on just -0.9% QoQ CC revenue decline way above our estimates of -6.1% QoQ CC (cons: -7% CC). Margin also expanded by 140 bps to 13.2% (Ple:11%, Cons:10.5%) which led to 13% beat on EPS.
- Management stated that 2Q is the bottom and expects growth in 3Q/4Q. One of the Top 3 accounts, that has been a headwind over the past three quarters, returned to growth in 2Q and is expected to grow in the foreseeable future.
- HEXW announced NN deal wins with TCV of US\$46mn (+28% YoY). It has witnessed material "V-shaped" improvement in activity levels with clients from late May. It has also witnessed wallet share gains in existing customers and seen a material improvement in the deal pipeline.
- We believe that post last 4 quarters of decelerating growth HEXW is a strong re-rating candidate but ongoing de-listing process only will drive the stock price in near-medium term. HEXW trades at 15.1X CY21 below peers with renewed growth & margin profile. Due to strong beat on fundamentals, strong deal wins & better commentary We upgrade to Buy from Reduce. We value Hexaware on 17X CY22 earnings to arrive at a changed TP of Rs.476.

HEXW's 2QCY20 revenue stood at USD 208mn, declining 0.9% cc QoQ, well above our expectations of 6.1% cc QoQ decline. Supply side issues had an impact of ~60bps on US\$ revenues, mainly dragged by the BPS service line. HEXW delivered EBIT margins of 13.2% (+140bps QoQ), above PLE/consensus expectations of 11%/10.5%.

HEXW announced NN deal wins with TCV of US\$46mn (+28% YoY). It has witnessed material "V-shaped" improvement in activity levels with clients from late May. It has also witnessed wallet share gains in existing customers and seen a material improvement in the deal pipeline.

With strong beat on revenue & margin front & revised guidance now we expect growth of 6% USD in FY21E (earlier: -1.4% decline). With sustainable margin performance & confidence coming from Top client we upgrade our EPS by ~14% for CY21/22E. Due to strong beat on fundamentals, strong deal wins & better commentary with upgrade to Buy from Reduce. We value Hexaware on 17X (earlier 12x) CY22 earnings to arrive at a changed TP of Rs.476 (earlier: Rs.282).

- Strong Revenue Performance:** HEXW's 2QCY20 revenue stood at USD 208mn, declining 0.9% cc QoQ, well above our expectations of 6.1% cc QoQ decline. Supply side issues had an impact of ~60bps on US\$ revenues, mainly dragged by the BPS service line. Among verticals, BFS saw an uptick for a second consecutive quarter, growing 3.3% QoQ. One of HEXW's top-3 clients, which had been a key revenue drag in 2HCY19 returned to growth in 2Q and HEXW expects continued growth in this account for the foreseeable future.

Among verticals, BFS saw an uptick for a second consecutive quarter, growing 3.3% QoQ. One of HEXW's top-3 clients, which had been a key revenue drag in 2HCY19 returned to growth in 2Q and HEXW expects continued growth in this account for the foreseeable future.

Management guided for 2H margins to be in the same range as 1H as some of the savings may not be sustainable. **Management expects near term sustainable EBITDA margins in the range of 1HCY20 actuals (16.2%) +/- 30bps.**

It has witnessed material "V-shaped" improvement in activity levels with clients from late May.

Management stated that 2Q is the bottom and expects growth in 3Q/4Q. One of the Top 3 accounts, that has been a headwind over the past three quarters, returned to growth in 2Q and is expected to grow in the foreseeable future.

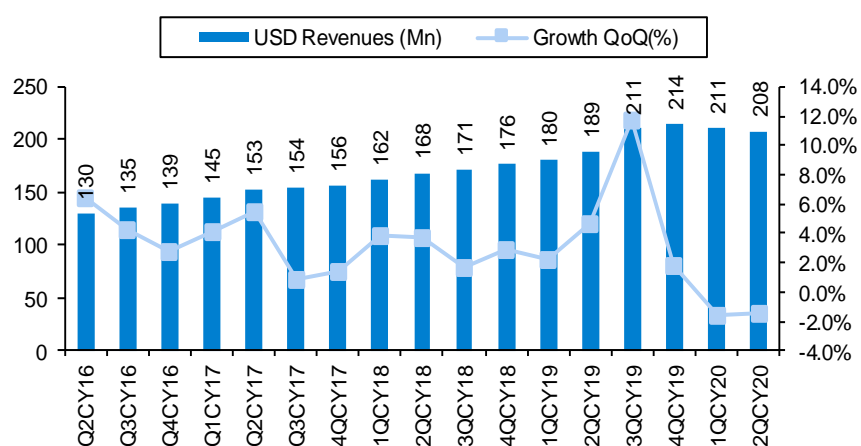
Healthcare/Insurance and Professional services also clocked growth of 3.7%/1.9% QoQ while Travel & Transportation saw a sharp decline of 27.2% QoQ, with management indicating that the vertical might continue to remain subdued for the next few quarters. Management indicated that the manufacturing vertical was on the path to recovery. Top Clients: Top 5: +7.7% QoQ, +10.7% YoY; Top 10: +4.1% QoQ, +13.0% YoY, Non top 10: -5.5% QoQ, +8.1% YoY.

- **Strong Margin performance:** HEXW delivered EBIT margins of 13.2% (+140bps QoQ), above PLE/consensus expectations of 11%/10.5%. Key margin tailwinds were utilization (170bps), highest in four quarters, INR depreciation (80bps) and cost optimization initiatives (60bps). These were partly offset by headwinds from visa costs (70bps) and lower bill rates (50bps). Management guided for 2H margins to be in the same range as 1H as some of the savings may not be sustainable. **Management expects near term sustainable EBITDA margins in the range of 1HCY20 actuals (16.2%) +/- 30bps.** HEXW paused all non-essential hiring and onboarding this quarter, management indicated that it would resume 3Q onwards. Management have started many structural and sustainable cost improvement measures which will come in play in next coming quarters.
- **Strong New deal wins:** HEXW announced NN deal wins with TCV of US\$46mn (+28% YoY). It has witnessed material "V-shaped" improvement in activity levels with clients from late May. It has also witnessed wallet share gains in existing customers and seen a material improvement in the deal pipeline.
- **Better Outlook:** Management feels comfortable on growing sequentially in 3Q/4Q on strong deal wins and pick-up in growth in top clients. Growth in BFS (+3.3% QoQ) was a positive surprise as one of its top clients continued strong growth after declining for 6 months in CY19. Travel saw a sharp decline in 2Q (- 27.2% QoQ) and is expected to remain under pressure through next year. But, healthcare/insurance (+3.7% QoQ) rebounded from 1Q. Management stated that 2Q is the bottom and expects growth in 3Q/4Q. One of the Top 3 accounts, that has been a headwind over the past three quarters, returned to growth in 2Q and is expected to grow in the foreseeable future.

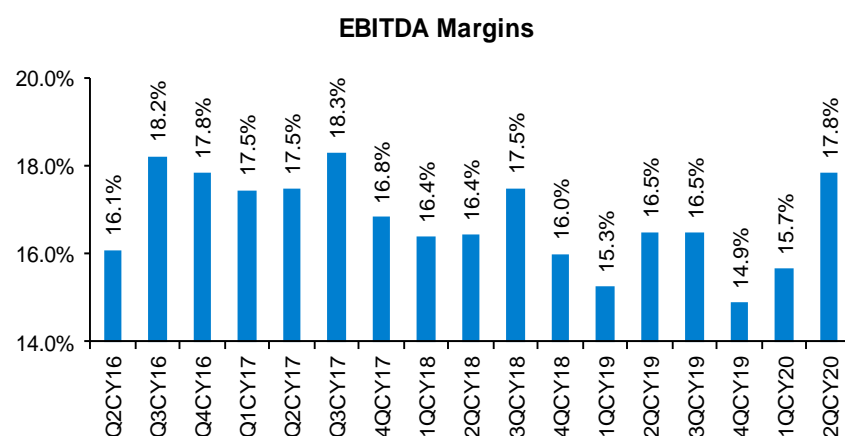
Exhibit 1: Q2CY20: Quick view on results

Y/e March (Rs mn)	2QCY20	1QCY20	QoQ gr.	2QCY19	YoY gr.	PL Estimates	Variance (Actual vs Pls)
Revenues (USD mn)	208.0	211	-1.4%	189	10.3%	197.0	5.6%
Revenues (INR mn)	15,691	15,417	1.8%	13,083	19.9%	14,934	5.1%
EBITDA	2,800	2,415	15.9%	2,158	29.7%	1,941	44.2%
EBITDA Margins	17.8%	15.7%	218 bps	16.5%	135 bps	13.0%	484 bps
EBIT	2,076	1,818	14.2%	1,912	8.6%	1,647	26.0%
EBIT Margins	13.2%	11.8%	144 bps	14.6%	-138 bps	11.0%	220 bps
PAT	1,525	1,749	-12.8%	1,513	0.8%	1,342	13.6%
EPS	5.1	5.8	-12.8%	5.0	0.8%	4.4	13.6%

Source: Company, PL

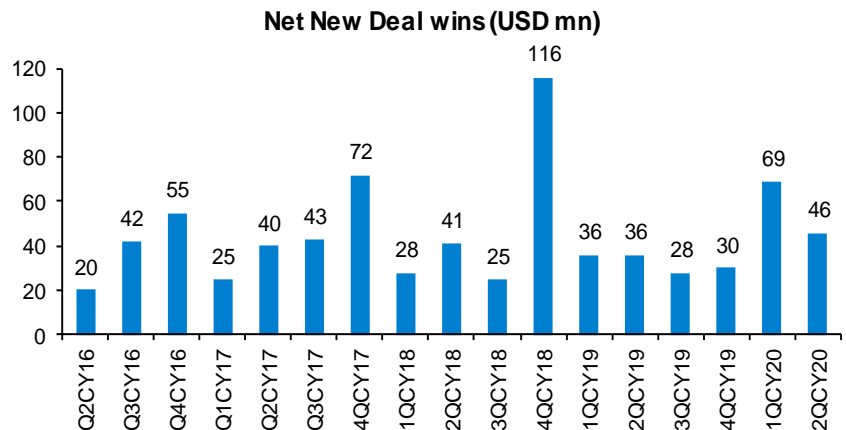
Exhibit 2: Revenue growth to improve further


Source: Company, PL

Exhibit 3: Strong margin performance


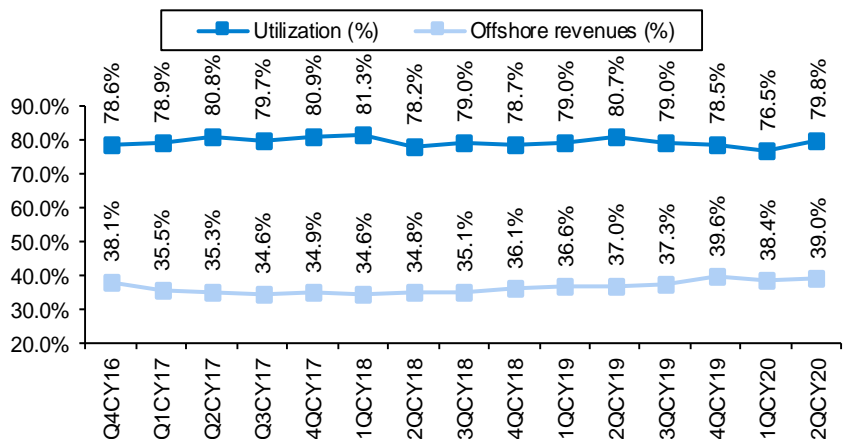
Source: Company, PL

Exhibit 4: NN surprised



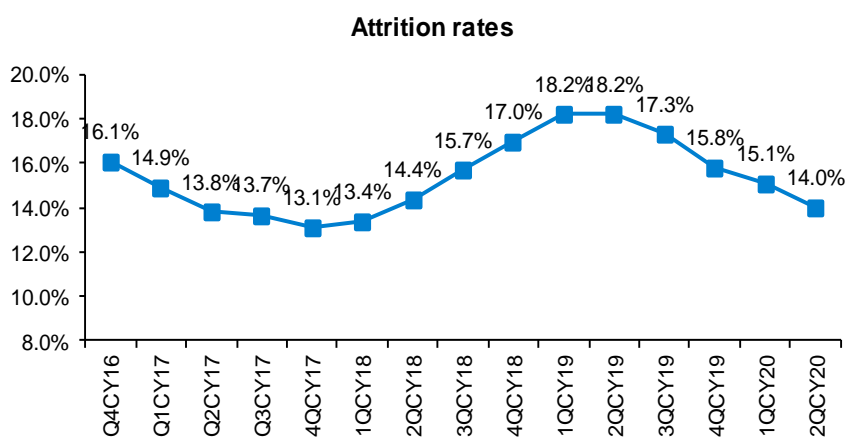
Source: Company, PL

Exhibit 5: Utilization REBOUNDED!!



Source: Company, PL

Exhibit 6: Attrition rate now at new normal level



Source: Company, PL

Exhibit 7: Metrics

	1QFY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19	3QCY19	4QCY19	1QCY20	2QCY20
Quarterly revenues	162	168	171	176	180	189	211	214	211	208
<i>QoQ Growth</i>	<i>3.9%</i>	<i>3.8%</i>	<i>1.7%</i>	<i>2.9%</i>	<i>2.2%</i>	<i>4.7%</i>	<i>11.7%</i>	<i>1.8%</i>	<i>-1.5%</i>	<i>-1.4%</i>
Vertical Wise (%)										
BFSI	43.7	42.8	42.5	42.1	40.8	39.8	38.6	35.5	36.8	38.5
Travel & Transportation	13.1	11.1	10.5	9.9	9.5	10.1	10.1	10.3	9.9	7.3
Healthcare & Insurance	16	17.1	18.8	19.1	18.3	19.2	19.3	21	20.1	21.1
Manufacturing, Consumer & Others	15.1	16.1	14.9	15.2	17.2	16.0	17.1	18.2	17.5	16.9
Professional Services	12.1	12.9	13.3	13.8	14.3	14.9	14.9	15	15.7	16.2
Vertical Wise QoQ Growth \$ terms										
BFSI	70.9	72.0	72.7	74.1	73.4	75.0	81.3	76.1	77.6	80.1
<i>Growth(%)</i>	<i>2.3%</i>	<i>1.6%</i>	<i>1.0%</i>	<i>2.0%</i>	<i>-0.9%</i>	<i>2.2%</i>	<i>8.3%</i>	<i>-6.4%</i>	<i>2.1%</i>	<i>3.1%</i>
Travel & Transportation	21.2	18.7	18.0	17.4	17.1	19.0	21.3	22.1	20.9	15.2
<i>Growth (%)</i>	<i>13.4%</i>	<i>-12.1%</i>	<i>-3.8%</i>	<i>-3.0%</i>	<i>-1.9%</i>	<i>11.3%</i>	<i>11.7%</i>	<i>3.8%</i>	<i>-5.4%</i>	<i>-27.3%</i>
Healthcare & Insurance	26.0	28.8	32.2	33.6	32.9	36.2	40.6	45.0	42.4	43.9
<i>Growth (%)</i>	<i>-0.4%</i>	<i>10.9%</i>	<i>11.8%</i>	<i>4.6%</i>	<i>-2.1%</i>	<i>9.9%</i>	<i>12.3%</i>	<i>10.8%</i>	<i>-5.8%</i>	<i>3.5%</i>
Manufacturing, Consumer & Others	24.5	27.1	25.5	26.8	31.0	30.2	36.0	39.0	36.9	35.2
<i>Growth (%)</i>	<i>12.9%</i>	<i>10.6%</i>	<i>-5.9%</i>	<i>5.0%</i>	<i>15.7%</i>	<i>-2.6%</i>	<i>19.3%</i>	<i>8.4%</i>	<i>-5.3%</i>	<i>-4.8%</i>
Professional Services	19.6	21.7	22.8	24.3	25.7	28.1	31.4	32.1	33.1	33.7
<i>Growth (%)</i>	<i>-3.3%</i>	<i>10.6%</i>	<i>4.8%</i>	<i>6.8%</i>	<i>5.9%</i>	<i>9.1%</i>	<i>11.7%</i>	<i>2.5%</i>	<i>3.1%</i>	<i>1.7%</i>
Service Line Growth (%)										
ADM	35.9	36.6	36	35.1	34.5	37	41.8	40.4	42.5	40.6
Enterprise Solutions	10.9	10.5	9.7	9.5	9.5	9.4	9.2	9.2	8.3	8.7
Testing / QATS (Quality	19.1	18.4	17.7	17.5	17.5	17.7	15.7	15.6	15.9	16.4
BI and Analytics	14.2	13.5	14.5	13.1	13.1	12.3	10.9	10.6	11.4	12.6
Business Process Services	6.9	7.2	7.4	7.3	7.6	8	8.2	8.4	8.5	7.7
IMS	13	13.8	14.7	17.5	17.8	15.6	14.2	15.8	13.4	14
Total	100	100	100	100	100	100	100	100	100	100
Service Line Growth QoQ \$ terms										
ADM	58.2	61.6	61.6	61.8	62.1	69.7	88.0	86.6	89.7	84.4
<i>Growth(%)</i>	<i>0.3%</i>	<i>5.8%</i>	<i>0.0%</i>	<i>0.3%</i>	<i>0.5%</i>	<i>12.3%</i>	<i>26.2%</i>	<i>-1.6%</i>	<i>3.6%</i>	<i>-5.8%</i>
Enterprise Solutions	17.7	17.7	16.6	16.7	17.1	17.7	19.4	19.7	17.5	18.1
<i>Growth(%)</i>	<i>4.9%</i>	<i>0.0%</i>	<i>-6.1%</i>	<i>0.8%</i>	<i>2.2%</i>	<i>3.6%</i>	<i>9.3%</i>	<i>1.8%</i>	<i>-11.2%</i>	<i>3.3%</i>
Testing / QATS (Quality	31.0	31.0	30.3	30.8	31.5	33.4	33.0	33.4	33.5	34.1
<i>Growth(%)</i>	<i>1.8%</i>	<i>0.0%</i>	<i>-2.2%</i>	<i>1.8%</i>	<i>2.2%</i>	<i>5.9%</i>	<i>-0.9%</i>	<i>1.2%</i>	<i>0.4%</i>	<i>1.7%</i>
BI and Analytics	23.0	22.7	24.8	23.1	23.6	23.2	22.9	22.7	24.1	26.2
<i>Growth(%)</i>	<i>6.9%</i>	<i>-1.4%</i>	<i>9.2%</i>	<i>-7.0%</i>	<i>2.2%</i>	<i>-1.7%</i>	<i>-1.0%</i>	<i>-1.0%</i>	<i>5.9%</i>	<i>9.0%</i>
Business Process Services	11.2	12.1	12.7	12.9	13.7	15.1	17.3	18.0	17.9	16.0
<i>Growth(%)</i>	<i>2.4%</i>	<i>8.3%</i>	<i>4.5%</i>	<i>1.5%</i>	<i>6.4%</i>	<i>10.2%</i>	<i>14.5%</i>	<i>4.3%</i>	<i>-0.4%</i>	<i>-10.7%</i>
IMS	21.1	23.2	25.2	30.8	32.0	29.4	29.9	33.9	28.3	29.1
<i>Growth(%)</i>	<i>15.5%</i>	<i>10.1%</i>	<i>8.3%</i>	<i>22.5%</i>	<i>4.0%</i>	<i>-8.2%</i>	<i>1.6%</i>	<i>13.3%</i>	<i>-16.5%</i>	<i>3.0%</i>
Geography Wise (%)										
Americas	75.3	77	77.4	76.9	76.1	76.8	75.4	74.4	74.2	75.3
Europe	12.5	12.7	13.3	13	12.6	14	16.6	17.5	17.8	17.4
Asia Pacific	12.2	10.3	9.3	10.1	11.3	9.2	8	8.1	8	7.3
Total	100	100	100	100	100	100	100	100	100	100
Geo wise growth QoQ \$ terms										
Americas	122.1	129.6	132.4	135.4	137.0	144.8	158.7	159.4	156.6	156.6
<i>Growth (%)</i>	<i>0.7%</i>	<i>6.1%</i>	<i>2.2%</i>	<i>2.3%</i>	<i>1.2%</i>	<i>5.7%</i>	<i>9.6%</i>	<i>0.5%</i>	<i>-1.8%</i>	<i>0.0%</i>
Europe	20.3	21.4	22.8	22.9	22.7	26.4	34.9	37.5	37.6	36.2
<i>Growth (%)</i>	<i>7.3%</i>	<i>5.4%</i>	<i>6.5%</i>	<i>0.6%</i>	<i>-0.9%</i>	<i>16.4%</i>	<i>32.4%</i>	<i>7.3%</i>	<i>0.1%</i>	<i>-3.6%</i>
Asia Pacific	19.8	17.3	15.9	17.8	20.3	17.3	16.8	17.4	16.9	15.2
<i>Growth (%)</i>	<i>24.3%</i>	<i>-12.4%</i>	<i>-8.2%</i>	<i>11.8%</i>	<i>14.4%</i>	<i>-14.7%</i>	<i>-2.9%</i>	<i>3.1%</i>	<i>-2.8%</i>	<i>-10.0%</i>

Source: Company, PL

Exhibit 8: Revenue growth from Top-5 clients

As a % of total Revenues	Q2CY17	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18	Q1CY19	Q2CY19	Q3CY19	Q4CY19	1QCY20	2QCY20
Top 5 client	46.1	43.5	42.8	42.1	42.4	42.1	42.0	41.7	37.3	35.2	33.4	34.3	37.4
Top 10 clients	56.5	54.8	52.9	52.8	52.8	52.2	51.6	51.1	46.4	44.4	43.4	45.1	47.5

Source: Company, PL

Exhibit 9: Client growth QoQ

Fig in USD mn	Q1CY18	Q2CY18	Q3CY18	Q4CY18	Q1CY19	Q2CY19	Q3CY19	Q4CY19	1QCY20	2QCY20
Top 5 client	68	71	72	74	75	70	74	72	72	78
QoQ gr. (%)	2.2	4.5	0.9	2.7	1.5	-6.3	5.4	-3.4	1.1	7.5
Top 10 clients	86	89	89	91	92	87	93	93	95	99
QoQ gr. (%)	3.7	3.8	0.5	1.7	1.2	-4.9	6.9	-0.5	2.3	3.8

Source: Company, PL

Exhibit 10: Client Metrics

	Q2CY17	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18	Q1CY19	Q2CY19	Q3CY19	Q4CY19	1QCY20	2QCY20
1 mn	81	82	88	89	93	95	99	99	120	124	129	126	119
1 mn - 5 mn	66	64	71	69	71	70	72	71	85	89	95	91	88
5 mn - 10 mn	7	9	7	10	12	15	18	19	24	22	20	21	18
10mn -20mn	3	4	6	6	6	6	4	4	6	7	8	8	7
> USD 20 mn	5	5	4	4	4	4	5	5	5	6	6	6	6

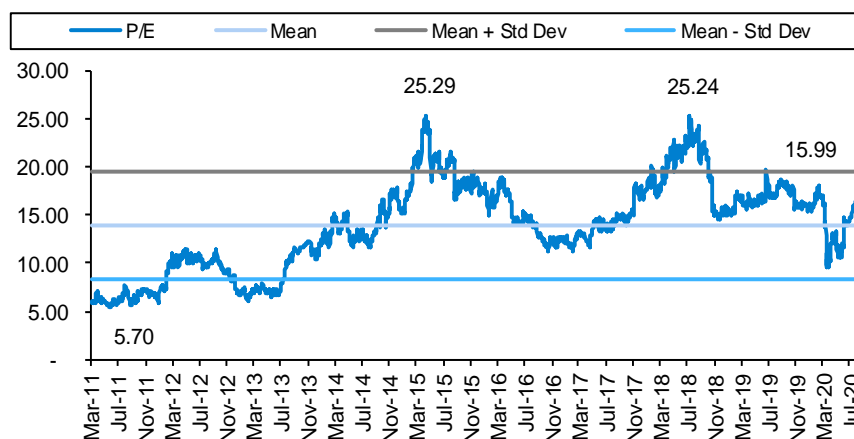
Source: Company, PL

Exhibit 11: Headcount Metrics

Billable Personnel (IT Services +BPS)	4QCY17	1QCY18	2QFY18	3QCY18	4QCY18	1QCY19	2QCY19	3QCY19	4QCY19	1QCY20	2QCY20
Onsite	19.7%	19.0%	18.8%	18.4%	19.0%	19.1%	19.2%	18.3%	18.0%	18.0%	18.6%
Offshore	72.5%	73.3%	73.7%	74.2%	73.6%	73.5%	73.2%	74.2%	74.5%	73.8%	72.8%
Total	92.2%	92.3%	92.5%	92.6%	92.6%	92.6%	92.4%	92.5%	92.5%	91.8%	91.4%
Marketing (incl. Sales Support)	3.3%	3.2%	3.0%	3.0%	3.0%	3.0%	3.0%	2.9%	2.9%	3.1%	3.2%
Others (incl. tech Support)	4.5%	4.5%	4.5%	4.4%	4.4%	4.5%	4.6%	4.6%	4.6%	5.1%	5.4%
Grand Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.1%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Company, PL

Exhibit 12: Valuation to remain subdued (1year forward PE)



Source: Company, Bloomberg, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY19	CY20E	CY21E	CY22E
Net Revenues	55,824	63,190	71,381	79,796
YoY gr. (%)	20.1	13.2	13.0	11.8
Employee Cost	37,572	42,010	47,825	53,463
Gross Profit	18,252	21,180	23,556	26,333
Margin (%)	32.7	33.5	33.0	33.0
SG&A Expenses	9,447	10,835	12,135	13,565
Other Expenses	-	-	-	-
EBITDA	8,805	10,345	11,421	12,767
YoY gr. (%)	14.2	17.5	10.4	11.8
Margin (%)	15.8	16.4	16.0	16.0
Depreciation and Amortization	1,033	1,955	1,972	2,020
EBIT	7,772	8,390	9,449	10,748
Margin (%)	13.9	13.3	13.2	13.5
Net Interest	-	-	-	-
Other Income	184	(475)	(200)	(200)
Profit Before Tax	7,956	7,915	9,249	10,548
Margin (%)	14.3	12.5	13.0	13.2
Total Tax	1,379	1,586	1,850	2,194
Effective tax rate (%)	17.3	20.0	20.0	20.8
Profit after tax	6,578	6,329	7,399	8,353
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,578	6,329	7,399	8,353
YoY gr. (%)	12.8	(3.8)	16.9	12.9
Margin (%)	11.8	10.0	10.4	10.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,578	6,329	7,399	8,353
YoY gr. (%)	12.8	(3.8)	16.9	12.9
Margin (%)	11.8	10.0	10.4	10.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,578	6,329	7,399	8,353
Equity Shares O/s (m)	297	297	297	297
EPS (Rs)	22.1	21.3	24.9	28.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY19	CY20E	CY21E	CY22E
Non-Current Assets				
Gross Block	8,383	8,433	8,483	8,533
Tangibles	7,704	7,744	7,784	7,824
Intangibles	679	689	699	709
Acc: Dep / Amortization	5,484	7,438	9,411	11,430
Tangibles	4,806	6,761	8,733	10,752
Intangibles	678	678	678	678
Net fixed assets	2,900	995	(927)	(2,897)
Tangibles	2,898	983	(949)	(2,928)
Intangibles	1	11	21	31
Capital Work In Progress	2,244	2,244	2,244	2,244
Goodwill	1,809	1,809	1,809	1,809
Non-Current Investments	412	412	412	412
Net Deferred tax assets	1,784	1,784	1,784	1,784
Other Non-Current Assets	1,383	1,483	1,583	1,683
Current Assets				
Investments	101	101	101	101
Inventories	-	-	-	-
Trade receivables	7,647	8,656	9,778	10,931
Cash & Bank Balance	12,950	17,888	23,347	29,374
Other Current Assets	736	836	936	1,036
Total Assets	35,412	40,087	45,427	51,331
Equity				
Equity Share Capital	595	595	595	595
Other Equity	27,032	30,694	34,975	39,808
Total Network	27,627	31,289	35,570	40,403
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	240	250	260	270
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,059	3,462	3,911	4,372
Other current liabilities	4,410	5,010	5,610	6,210
Total Equity & Liabilities	35,412	40,087	45,427	51,331

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Dec	CY19	CY20E	CY21E	CY22E
PBT	7,788	7,915	9,249	10,548
Add. Depreciation	1,033	1,955	1,972	2,020
Add. Interest	-	-	-	-
Less Financial Other Income	184	(475)	(200)	(200)
Add. Other	-	-	-	-
Op. profit before WC changes	8,820	9,870	11,221	12,567
Net Changes-WC	104	(528)	(644)	(676)
Direct tax	(1,379)	(1,586)	(1,850)	(2,194)
Net cash from Op. activities	7,545	7,756	8,727	9,697
Capital expenditures	-	(50)	(50)	(50)
Interest / Dividend Income	-	-	-	-
Others	(100)	(100)	(100)	(100)
Net Cash from Invt. activities	(100)	(150)	(150)	(150)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(2,701)	(2,667)	(3,118)	(3,520)
Interest paid	-	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(2,701)	(2,667)	(3,118)	(3,520)
Net change in cash	4,745	4,939	5,459	6,027
Free Cash Flow	7,545	7,706	8,677	9,647

Source: Company Data, PL Research

Key Financial Metrics

Y/e Dec	CY19	CY20E	CY21E	CY22E
Per Share(Rs)				
EPS	22.1	21.3	24.9	28.1
CEPS	25.6	27.9	31.5	34.9
BVPS	92.9	105.2	119.6	135.9
FCF	25.4	25.9	29.2	32.4
DPS	7.5	7.4	8.7	9.8
Return Ratio(%)				
RoCE	30.2	28.5	28.3	28.3
ROIC	44.1	50.4	62.4	77.9
RoE	25.5	21.5	22.1	22.0
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.6)	(0.7)	(0.7)
Debtor (Days)	50	50	50	50
Valuation(x)				
PER	17.0	17.6	15.1	13.4
P/B	4.0	3.6	3.1	2.8
P/CEPS	14.7	13.5	11.9	10.8
EV/EBITDA	11.2	9.0	7.7	6.4
EV/Sales	1.8	1.5	1.2	1.0
Dividend Yield (%)	2.0	2.0	2.3	2.6

Source: Company Data, PL Research

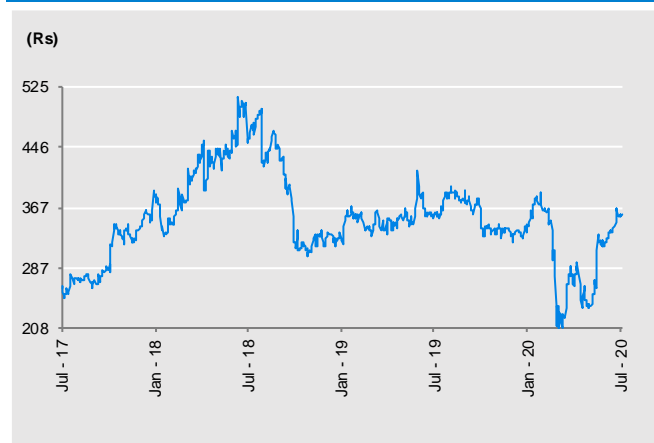
Quarterly Financials (Rs m)

Y/e Dec	Q3CY19	Q4CY19	Q1CY20	Q2CY20
Net Revenue	14,813	15,288	15,417	15,691
YoY gr. (%)	22.5	22.1	22.0	19.9
Raw Material Expenses	9,750	10,234	10,415	10,259
Gross Profit	5,063	5,055	5,002	5,432
Margin (%)	34.2	33.1	32.4	34.6
EBITDA	2,377	2,397	2,335	2,713
YoY gr. (%)	17.5	25.3	23.8	28.1
Margin (%)	16.0	15.7	15.1	17.3
Depreciation / Depletion	324	356	518	637
EBIT	2,052	2,041	1,818	2,076
Margin (%)	13.9	13.4	11.8	13.2
Net Interest	-	-	-	-
Other Income	171	(16)	328	(193)
Profit before Tax	2,223	2,026	2,146	1,883
Margin (%)	15.0	13.2	13.9	12.0
Total Tax	387	351	397	361
Effective tax rate (%)	17.4	17.3	18.5	19.2
Profit after Tax	1,836	1,675	1,749	1,522
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,836	1,678	1,749	1,524
YoY gr. (%)	6.6	36.0	26.3	(9.4)
Margin (%)	12.4	11.0	11.3	9.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,836	1,678	1,749	1,524
YoY gr. (%)	6.6	36.0	26.3	(9.4)
Margin (%)	12.4	11.0	11.3	9.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,836	1,678	1,749	1,524
Avg. Shares O/s (m)	302	302	302	302
EPS (Rs)	6.1	5.6	5.8	5.1

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-20	Reduce	282	334
2	30-Apr-20	Reduce	219	296
3	12-Apr-20	Reduce	231	265
4	12-Feb-20	Hold	343	375
5	03-Jan-20	Hold	349	336
6	24-Oct-19	Hold	321	366
7	03-Oct-19	Hold	347	369
8	08-Aug-19	Hold	347	371

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	Hold	450	437
2	HCL Technologies	BUY	751	623
3	Hexaware Technologies	Reduce	282	334
4	Infosys	BUY	1,037	831
5	L&T Technology Services	Hold	1,362	1,442
6	Larsen & Toubro Infotech	BUY	2,421	2,291
7	Mindtree	Reduce	888	978
8	Mphasis	BUY	1,302	1,118
9	NIIT Technologies	BUY	1,533	1,420
10	Persistent Systems	Reduce	447	514
11	Redington (India)	BUY	114	117
12	Sonata Software	Accumulate	400	313
13	Tata Consultancy Services	Hold	2,116	2,204
14	TeamLease Services	Hold	3,203	2,487
15	Tech Mahindra	Accumulate	716	665
16	Wipro	BUY	257	225
17	Zensar Technologies	Accumulate	246	191

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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