Annual Report Analysis FY20

Tech Mahindra

Accumulate

DART
DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

Pain to cede over the quarters as clients recover from COVID rejig

TechM Management has acknowledged the near term pain in the Network side of the business but remains hopeful of recovery in H2 led by continued commitment by Telecos on 5G rollouts. In the Enterprise segment the near term worries remains in the Auto/Aviation clients and certain Geo (China/Italy subsidiaries) that may take longer time to revive. TCV signings in FY20 were pretty strong at 3.7bn$ up 120% but most of these are already in the run rate and thus would not provide support in H1. However, as per our recent survey of key clients' commentaries suggest commitment intact on Network/5G spends although may try to conserve cash for six months and reduce Capex for the year – but should normalize in H2. Commentary in the BFS has been in line with peers but in general is bit cautious on the discretionary side.

To deal with expected slide in revenues in H1; TechM has already initiated salary cuts for middle/Sr team members, deferment of Bonus/Variable pays to curb the cost. It also plans to leverage on travel cost and sub-contracting cost (19% of COR) to revive profitability going forward. Thus margin recovery cycle is likely to elongate for some more time and we expect it to see further 70bps decline in OPM at 10.9% for FY21. Company has return back to its acquisitive-growth strategy with announcement of two acquisitions (to be consolidated in Q1) which needs to be seen if could add any meaningful strength to its capabilities. TechM acquisition track record in the recent past has been terrible and has been one of the structural factor behind its lower than peer profitability/FCF profile (Exhibit 3). However, we believe its valuations at sub12x fairly captures the risk and thus any visible sign of business recovery to act as a trigger for the stock.

Key Takeaways from CEO letter

- It did a strategic collaboration with AT&T, to accelerate its network application, shared systems modernization and movement to cloud.
- It has signed the largest Enterprise deal in history in Insurance and Annuities space and announced net new deal wins of $3.71 Billion, significantly higher than $1.67 Billion in FY19.
- Company's digital offerings were strengthened with the acquisition of Born Group, Mad*Pow, Zen3 and Cerium. Company's focus on cash collections helped it to generate $523 Million of free cash flow, while it returned capital through the completion of its maiden buyback.
- AI for IT operations (AIOps). The need for cyber security and remote computing has increased multi-fold in the current environment. Industries such as manufacturing will see significant opportunities for reorganizing supply chains, while healthcare will see rise of remote health monitoring, facial recognition and thermal imaging.
- Consumer-facing industries such as travel, transport and banking will see the emergence of contact-less solutions such as drone-based delivery, autonomous vehicles, and contactless payments. The IT infrastructure will transform with more virtual call centers, cloud migrations or data centers in the cloud.

Growth to be back-ended; Valuations compelling

Taking cues from the global commentary in the Telecom vertical (hopes of revival in H2) and robust order book traction in FY20, and compelling valuations of 12x FY22E earnings we believe TechM offers attractive risk-reward ratio. We thus have ascribe Overweight view with TP of Rs 650 valued at 13.5x on FY22E EPS in line with its 3 year median less 1SD

CMP	Rs 582
Target / Upside	Rs 650 / 12%
BSE Sensex	36,514
NSE Nifty	10,764

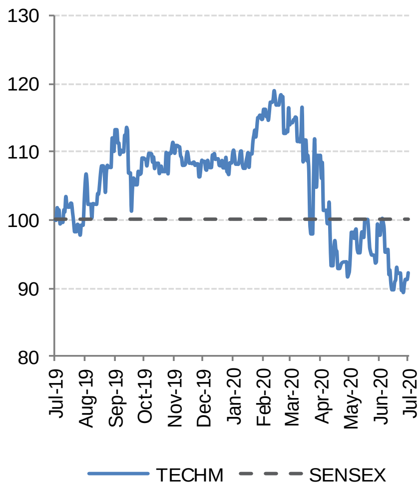
Scrip Details

Equity / FV	Rs 4,359mn / Rs 1
Market Cap	Rs 511bn
	USD 7bn
52-week High/Low	Rs 846/Rs 471
Avg. Volume (no)	4,811,990
NSE Symbol	TECHM
Bloomberg Code	TECHM IN

Shareholding Pattern Mar'20(%)

Promoters	35.9
MF/Banks/FIs	10.1
FIIs	37.3
Public / Others	16.7

TECHM Relative to Sensex



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DOLAT CAPITAL

3-4-3 Strategy

3 Mega trends: To provide immense opportunity

1. Explosion of intelligent devices – 20 billion connected IoT devices by 2023
2. Power of new technologies – 5G will enable an always connected experience
3. Exponentiality of content consumption – 75% of data would be consumed by video.

Big Bets: 4 Tech bet to define future strategy

1. Experience.Nxt - Orchestrate the interplay of design, digital and convergent technologies to deliver connected customer experiences.
2. Business.Nxt - Proven technology transformative solutions that help customers adopt to business and operative changes.
3. Platforms.Nxt - Creating scalable non-linear technology propositions to help customers grow their business faster and efficiently.
4. Infra.Nxt - To drive transformation of next-generation infrastructure and connectivity in a connected world.

Objectives: 3 Key customer objectives

1. Run Better - We aspire to pioneer a digital journey for our customers, while ensuring their existing businesses run better.
2. Change Faster - We intend to enable faster customer transformation as their chosen technology partner.
3. Grow Greater - We want to facilitate our customers' growth through risk sharing and technology as a service and multiple business models.

Digital themes driving transformation and solutions

Strategy and Design

- **Process adopted:** Tech Mahindra help clients define and manage outcomes: from creating the right business cases to implementing and managing change across people, process, technology and partners. Tech Mahindra uses its consulting models and frameworks to assess Digital Maturity, Supply Chain Risk, Industry 4.0 Maturity, etc.
- **Benefits:** Among others, it has worked with a North American logistics major to create their digital strategy for 4x growth, and have created a full blueprint to achieve Industry 4.0 for a global automotive manufacturer. Both these clients are using Tech Mahindra services to implement the strategy.

Digital Customer

- **Process adopted**: With its investments in Pininfarina, the BIO agency, Dynacommerce, Mad*Pow, and BORN, it has brought in the best design minds from across the globe to create a compelling blend of physical and digital experience. Whether it is creative, content, campaigns or commerce, Tech Mahindra has the skills and IP to design and execute.

- **Client Served:** Last year, the company enabled a leading bank in North America to provide a completely reimagined, easy-to-use, fully online, mortgage experience to their customers, enabling them to borrow upto $2 Million in 30 minutes.

Intelligent operations

- **Process adopted:** Tech Mahindra uses its proven strengths in business process consulting, engineering, automation and IP in vertical platforms such as WarrantEaze (managing the warranty process for manufacturing clients), Connect Sense (Patient engagement suite), FEEDS (Farm to Fork supply chain management).
- **Client served:** Its intelligent operation solutions have helped a large telco in the US achieve savings of over $ 150 Million in inventory costs and a leading bank to realise a return of $ 3.75 for every $ 1 invested in automation.

Future Enterprise

- **Process adopted:** Company's network of innovation labs (termed Makers Labs) allows clients to quickly create proofs-of-concept for various business needs, and then decide where to make their investments for the future. They are able to leverage our investments in what we call RADIQAL (Mixed Reality, Artificial Intelligence, Distributed Ledger, IoT, Quantum Computing, All powered by 5G), along with an ecosystem of 80+ startups, industry partners, and academic institutions, to get a curated set of skills and IP in one place.
- **Client Served:** Some of its recent engagements have been preventing unsolicited communication across 300 Million subscribers using blockchain for a leading Indian Telco, and creating the world's first cloud-native lab for 5G roll out for a Japanese conglomerate.

Digital Insights

- **Process Adopted:** Company has leveraged multiple platforms and frameworks, such as PRISM (predictive analytics), GAIA (platform for hosting AI models), iDecisions (industry-focused, highly-customisable packaged analytics solutions) to drive the right insights for their business.
- **Client Served:** A leading bank in India has used these services to improve cross-sell revenue by 40%. We have helped a telco market leader in ANZ to reduce operational cost by preventing truck rolls for customer service, using AI and ML.

Digital Foundation

- **Process Adopted:** Clients are moved to a product-based agile organisation, automate IT using DevSecOps, implement microservices, cloud and low-code/no-code app tools, all using company's investment in platforms and IP.
- **Client Served:** Using Tech Mahindra's New Age Delivery platform, a European Telco achieved 17% increase in productivity and 50% decrease in defects.

Macro economic trend

The year saw the revival of IT-modernisation spends in the market, subdued in the past few years. Company saw resurgence of multi-year large outsourcing contracts as clients crystalized their transformation roadmaps. COVID-19 pandemic, however has hampered the growth prospects as IMF has predicted that the pandemic will wipe out $12 trillion over two years, with worldwide business shutdowns destroying hundreds of millions of jobs. While it expect the global growth to contract by 4.9% in calendar year 2020, China is expected to grow at 1 per cent in 2020, despite sharp contraction in the first quarter, supported in part by policy stimulus. IMF projects India's economy to decline by 4.5 % in 2020. International Data Organisation (IDC) expects worldwide IT spending to decline 2.7% in constant currency terms this year due to COVID-19 Impact.

Investments in platforms to use Technologies to drive growth

- **Blockchain Technology -** Tech Mahindra has sustained its leadership position in the Global Blockchain industry did Blockchain implementations especially across the BFSI, Manufacturing, Retail, Oil & Gas and Telecom verticals over the course of last 12 months. UCC is one of the largest Blockchain implementations in the world till date impacting 500Mn Telecom subscribers in India.
- Projects undertaken in blockchain - Land registry and lease management for a leading regulatory body of Urban Development, UAE Government, Vehicle Lifecycle Management for one of the top digitized states in India and facilitated trade finance transactions on the Marco Polo network and thereby becoming the first Indian corporate to leverage the Marco Polo Network and Platform for international trade finance. We have incubated 20+ Blockchain platforms over the course of last twelve months.
- **AI and Automation –** strengthened our competencies with in-house platforms, partnerships with top providers and start-ups to enhance company's portfolio addressing Intelligent Process Automation, Conversational AI, Text Analytics and NLP, Computer Vision and Advanced Analytics solution areas. It has developed 100+ use-cases and solutions across our key vertical and domain areas, to solve business issues through Automation, Analytics and AI technologies. Enterprise version of Acumos called GAIA provides an e2e life-cycle management for AI and serve as a market place for monetization and re-use of industry solutions and us cases. Adoption of company's Intelligent Automation Framework (AQT) for our ongoing engagements had crossed 200+ customers and continue to accelerate.
- **5G -** 5G is driving a new wave of digitalization of the Telco and other industries that includes IT, Network and more importantly operating model, which is key to bring speed and agility of software and scale of cloud. To enable such as continued transformation, company have invested in building accelerator platforms such as netOps.ai and Blue Marble. netOps.ai is a Network Automation and Managed Services framework that automates the lifecycle of network function on a harmonious hybrid private & public cloud. The Blue Marble platform is a complete Digital BSS stack that provides the micro-services based flexible solution to monetize 5G investments. We launched a CI.NXT offering that transforms us from a traditional SI (System Integrator) to a CI (Continuous Integrator) and help our customers shift operating model from traditional waterfall to DevOps.

Our take on 5G – 'gains are too far-fetched'

Dolat Capital believe gains from 5G opportunity are bit far-fetched at the moment to be factored in to our estimates for Tech Mahindra. The major reasons for our anti-consensus view on 5G opportunity are

1) *5G is not a Telecom play but across the business vertical play (Industrial);*
2) *infrastructure and eco-system situation suggests nothing material on cards for next couple of years (the leader in space Huawei is banned in many advanced markets such as the US, UK and Australia due to security concerns); and*
3) *it lacks big trigger for consumer moment to make it a mass movement that may help adoption. Example: iPhone launch drove the 3G network success. Also, given the ongoing troubles of Apple and Qualcomm, it is highly unlikely that it would be able to launch a handset before H2CY20. While Tech M has indicated increase in its Telecom pipeline (up 20-25% yoy) due to the convergence of Telcos, OTT and Media players, it has maintained its near-term outlook of mid-single digit growth, and has said led opportunity would be big but gradual*.

Market trends

- AI has dramatically penetrated every industry vertical and its adoption has tripled in the last 12 months. The estimated value created by AI is projected to be over $ 13 Trillion by 2030.
- IT spending on hardware, software and IT services is likely to decline by more than real GDP, as commercial IT buyers and consumers cut capital spending to adjust with declining revenues, profits, market valuations and employee headcount.
- Software will post growth of just under 2% overall, largely due to cloud investments along with some resilient demand for specific categories.
- Airlines, Transportation, Tourism, Hospitality sectors, followed by Retail may hold their IT projects but can expect an aggressive push for cost reduction from vendors, but increased demand for cyber security and contact centres in the near term.
- A recent analysis shows that the overall average daily fixed broadband consumption per user in the US increased approximately 3GB from January. Telcos across markets faced challenges upgrading network infrastructure and were bidding large sums to acquire spectrum licences, even before theCOVID-19 pandemic. These trends will significantly boost IT spends.
- IT vendors to expect delays in new technology initiatives, cuts in discretionary spending and delayed off-take of scheduled projects, due to sluggish economic growth.

Creating collaborative disruption

Tech Mahindra not only designs, integrates and operates customer solutions specific to partners' technology, but also develops high-end technologies, products and indigenous IPs that bring unique additional value in performance and security.

Exhibit 1: Products IP created by TechM during the year

IP Product	Functionality
Entellio	Supervised, self-learning NLP/AI/MLbased enterprise chatbot
X-Retail	Next generation retail transformation platform
Storicool	A story or content creator, which creates animation stories using natural language conversation
Vetturino	Indigenous smart On-Board Diagnostics (OBD) controller by an all-women team
Darpan	Application made for farmers by Makers Lab in their bet for Agritech within the country to enable farmers to keep a record of their expenses

Source: Company, DART

Markers lab focuses on six different radical technologies

Maker's Lab is Tech Mahindra's unique R&D division with nine centres across the world to co-innovate by applying design thinking and disruptive technologies (AI/ML, XR etc.) to solve customer needs. Markers lab is now present across 10 locations globally and 4 locations in India.

Exhibit 2: Six-tech areas of focus for TechM

Technologies	Functionality
ML and AI	Build smart and revolutionary machines to combine. Emotional Quotient (EQ) with Intelligent Quotient (IQ) ~ EQ+ IQ = EI (Extended Intelligence)
Extended reality	Perceive, visualize, and extend reality via enterprise gamification.
IoT and Robotics	Interpret and analyse the world around us.
Blockchain	Secure reality via distributed ledgers
Quantum Computing	Extend through research the physical to the quantum world, where company try and solve the unsolved. The Tech Mahindra is the first SI to implement a quantum encryption use case.
Design	Consider the 'why', before the 'what' and the 'how' to deconstruct the complex

Source: Company, DART

#NewAgeDELIVERY and #Fit4Future a platform for upskilling employees

The Upskilling-as-a-service platform of #NewAgeDELIVERY is enabling our teams to stay relevant and develop a culture of continuous learning. The AI based platform provides interactive, on-demand, contextual and personalised #upskilling to associates in self-service mode. 1,000+ skill knowledge units using world class content and assessments empower the associates to become full stack ready. In the past year, the engine led a large-scale upskilling transformation directly impacting more than 70,000+ of our IT associates.

As part of our TechMNxt charter, we introduced the initiative —#Fit4Future, that creates a future-ready workforce through upskilling and right-skilling. The programme is designed by pre-empting customers' evolving and dynamic needs. We focus on technology innovation within AI, Blockchain, cyber security and AI-infused IoT solutions. 60000+ associates undergoing upskilling in technology, domain and leadershipskills 21000+ Associates are proactively becoming ready for future.

Acquisitions have given scale but have been drag on profitability/return ratios

After a pause of nearly three years, TechM is slowly returning back to its acquisition-led growth strategy, as it announced two more transactions in Q4FY20 – Zen3 Infosolutions (Product Engg play acquired for US$64mn – partly through earnouts) and Cerium Systems (Embedded software play wherein it has acquired 51% stake at EV of Rs2.5bn, rest through earn-outs). Both these acquisitions are going to be consolidated in Q1FY21 but are unlikely to contribute much synergies in current environment.

The recent past track record of TechM acquisitions has not been very fruitful and classic example is that of LCC which it acquired for US$240mn in FY15 but has eventually exited many of its markets as it was not turning-around over last few years. The following exhibit indicates that although acquisitions have provided scale/capabilities to TechM however, it has not been able to turn them around and as a results the investments have come as a significant dent to its financials (profitability and FCF). We believe failed acquisitions have been one of the most structural reasons behind lower-than-peer margins and FCF profile, and thus has been consistent drag on its valuations.

Exhibit 3: Acquisition track record for TechM (Return rations and Profitability)

		Cost of	Date of	FY20				Cumulative
Name	Stake%	Acquisition	Acquisition	Turnover	Assets	PAT	RoA (%)	PAT since acquired
Comviva Technologies	100	2,600	Dec'12	14,346	16,302	1003	6	4,203
Fixstream Networks	73	604	Apr'14	(188)	0	(2156)		(4,103)
Lightbridge Comm Corp	100	10,773	Feb'15	(21)	14,049	(84)	(1)	(2,439)
Sofgen holding ltd	100	895	Mar'15	2,120	2,875	(1484)	(52)	(2,059)
The BIO Agency	100	2,265	Jan'16	400	875	(258)	(30)	(152)
Pininfarina	46	1,895	May'16	7,625	14,586	(1389)	(10)	608
CJS Solutions Group, LLC (HCI)	93	6,252	Apr'17	10,906	9,222	(137)	(1)	(357)
Inter Informatics Group (IIG)	100		May'18	553	337	(11)	(3)	(295)
Dynacommerce	100	168	Sep'19	730	593	(83)	(14)	(83)

Source: Company, DART

Exhibit 4: Key changes during the year

	Additions: The following person was appointed as additional director of the company.
	Anish Shah has been Executive Chairman of the group since 2016 will be stepping down to a non-executive role in the company from September 10, 2019. Anish Shah joined as Non – Executive Director on September 10, 2019.
	Haigreve Khaitan, the Khaitan & Co Managing Partner and and Shikha Sharma, Axis Bank CEO has been appointed as Independent Director for term of five years from August 1, 2019.
	Exits
	Vineet Nayyar – Vice Chairman and Non – Executive director have resigned due to retirement from Jul 31, 2018.
	Anupam Puri and Ravindra Kulkarni serving as Independent Directors have resigned on July31, 2019. Ulhas Yargop ceased as Non-Executive Director of the Company with effect from July 31, 2019.
Auditors	No Change. B S R & Co. LLP Chartered Accountants continues to be the Auditors of the company.
Credit Ratings	Long Term Bank Facilities Issuer Rating are 'CARE AAA+' with a stable outlook by CARE Rating.
	Short Term Bank Facilities with A1+ rating by CARE Rating. There has been no revision in above rating
Pledged Shares	No Change

Source: Company, DART

Exhibit 5: Shareholding pattern

	Category of Shareholder (%)	FY2019	FY2020
Key Holders	Promoters	35.84	35.82
	i) Foreign		
	Public Shareholding	0.02	0.03
	i) Mutual Funds	8.53	8.39
	ii) Banks/Financial Institutions	0.17	0.18
	iii) Central Govt. State Govt	0.17	0.17
	iv) Alternative Investment Funds	0.22	0.26
	v) FPI	38.11	39.68
	Vi) FIIs	0.7	0.0
	vi) Insurance Companies	2.74	4.36
	vi)Non-Institutions	13.49	11.11
	Shares held by custodians for GDRs and ADRs	0	0
	Total	100	100

Source: Company, DART

Financial Performance

Profit and Loss Analysis

- **Revenue metrics:** Tech Mahindra reported 4.3% YoY growth for FY20 in $ terms largely due to weak performance across large clients buckets with Top 20 of its clients (de-grew -0.4% YoY – 43.2% of rev). Its Top 11-19 clients saw severe cut (de-grew -2.7% YoY – 12.2% of rev) while top 10 clients were broadly flattish (de-grew 0.6% YoY – 31.1% of rev). Top 5 clients (de-grew -0.2% YoY – 21.7% of rev).
- **Geographic Growth:** North America (48% of rev) grew 6% YoY in USD terms. Europe (26.9% of rev) degrew -4% YoY USD terms, India (25% of rev) grew 11.1% YoY in USD terms.
- **Vertical Growth:** Communication vertical led the growth at 5.3% YoY (41.6% of revenue) driven by modernization spend and pre-5G work which was negated by Manufacturing vertical as it de-grew by -6.8% YoY (18.1% of Revenue). Technology, Media and Entertainment grew at 10.3% YoY (7.7% of Rev). During the year it has signed the largest Enterprise deal in history of the company in the Insurance and Annuities space with Jackson Life (about US$800mn). BFSI segment revenues grew at 5.7% YoY (13.6% of Revenue). Retail, Transport and Logistics grew at 12.5% YoY (6.9% of Revenue).
- **EBIT Margin** declined by 340bps at 11.6% for FY20 owing to weaker growth, sustained investments in large deals and poor profitability in the subsidiaries. Margins are expected to remain under pressure in FY21E as well. Going into the fiscal'21, TechM has initiated salary cuts for middle/Sr team members, deferment of Bonus/Variable pays to curb the cost. It also plans to leverage on travel cost and sub-contracting cost (19% of COR) to revive profitability going forward.
- **Net profit** declined by 6% to INR 40.3Bn. Net Profit margin declined by 143bps YoY to 10.9%. EPS declined by 6% to INR 45.9 per share.
- **Attrition rate** has decreased 200 bps on YoY basis, and total headcount has increased to 125,236 (up 3.4% YoY).
- **Utilization rate** increased 80bps on YoY basis including trainees at 83% and 50 bps excluding trainees, closing at 84% in Q4. Revenue per employee remained similar to last year at US$ 41.4K.

Balance Sheet Analysis

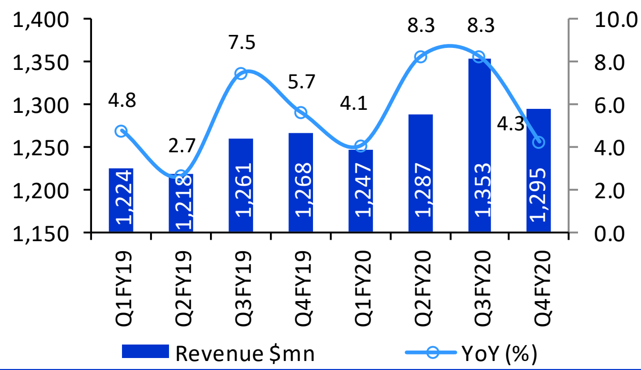
- Other Non - Current assets stood at INR 13.2bn an increase of 140% in FY20 due to increase in deferred finance cost from 0.67bn in FY19 to 9.7bn in FY20.
- Investment in financial assets decreased to INR 2.1bn in FY20 as compared to INR 7.1bn in FY19 due to absence of non-convertible debentures in FY20. Cash and cash equivalents stood at INR 30.2bn up from INR 20.4bn YoY.
- Short term borrowings in current financial liabilities increased to INR 22.4bn in FY20 compared to INR 11.9bn in FY19 due to increase in unsecured borrowings from banks and financial institution from INR 8.08bn in FY9 to INR 17.1bn in FY20.
- DSO largely remained stable at 75 days' v/s 73 days (FY19).

Cash Flow Analysis

- Net cash flow from Operating Activities de-grew by -2% to INR 43.5bn in FY20. Operating cash flows were 108% (v/s 103% in FY19) and free cash flow at 76% (v/s 85% in FY19) as a % of net Income.
- Capex stood at INR 12.9n (v/s INR 7.7bn in FY19) due to addition of Right of use assets.
- The Company bought back 20,585,000 equity shares for an aggregate amount of INR 19.5bn at 950 per equity share.
- The company have proposed a final dividend of Rs 5 per share, the dividend would result in cash outflow of INR 4.8bn in FY20.

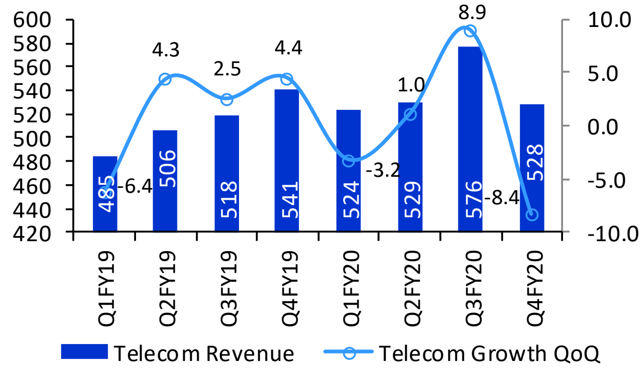
Story in Charts

Exhibit 6: Revenue grew 4.3% YoY in CC Terms



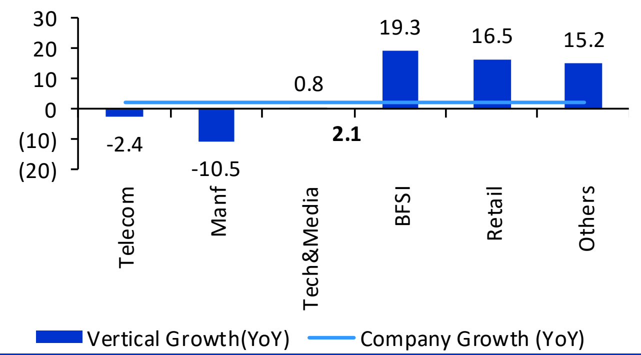
Source: Company, DART

Exhibit 7: Telecomm remains flat ex AT&T ramp-up



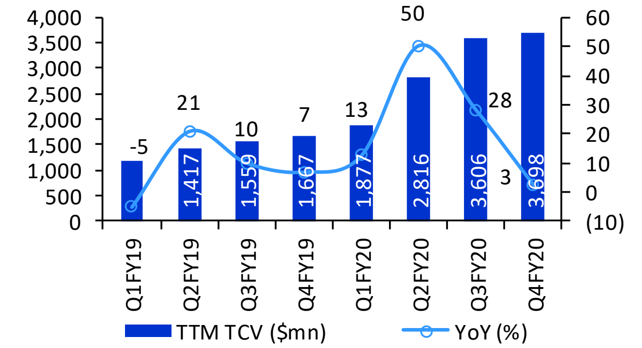
Source: Company, DART

Exhibit 8: Company and each Vertical YoY CC growth



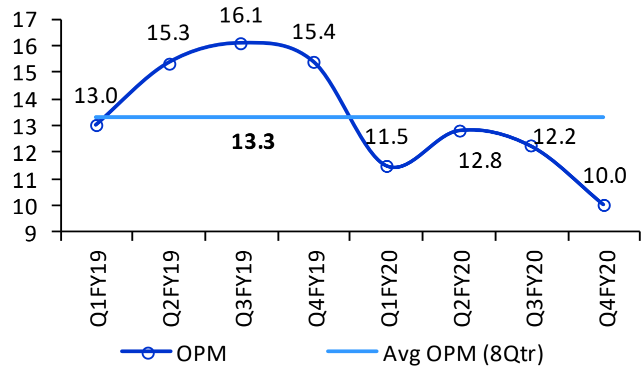
Source: Company, DART

Exhibit 9: TTM TCV grew only 2.6% QoQ led by modest Q4 wins.



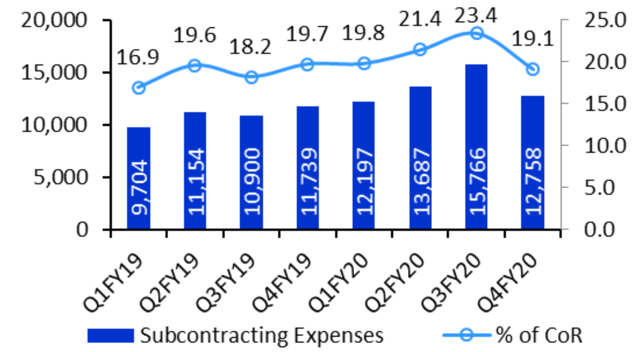
Source: Company, DART

Exhibit 10: Operating Margin now below average



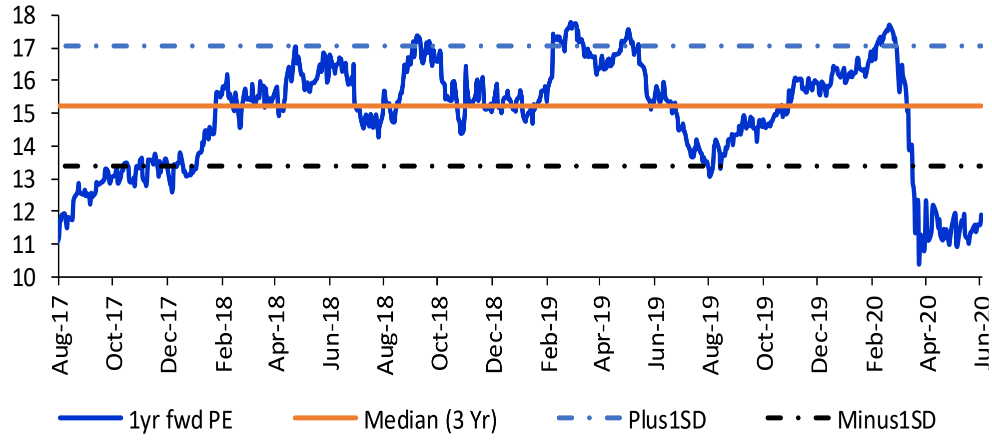
Source: Company, DART

Exhibit 11: Sub-Contracting expenses used as a lever for margin control



Source: Company, DART

Exhibit 12: PE Chart



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	**347,421**	**368,677**	**375,666**	**414,156**
Total Expense	**284,053**	**311,416**	**319,886**	**348,081**
COGS	233,590	259,743	264,621	290,308
Employees Cost	0	0	0	0
Other expenses	50,463	51,673	55,265	57,773
EBIDTA	**63,368**	**57,261**	**55,780**	**66,075**
Depreciation	11,292	14,458	15,015	16,358
EBIT	**52,076**	**42,803**	**40,765**	**49,717**
Interest	1,332	1,919	2,153	2,230
Other Income	4,687	9,694	7,328	7,921
Exc. / E.O. items	0	0	0	0
EBT	**55,431**	**50,578**	**45,940**	**55,408**
Tax	12,544	11,604	11,255	13,852
RPAT	42,975	40,330	35,622	42,356
Minority Interest	(88)	(1,356)	(937)	(801)
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**42,975**	**40,330**	**35,622**	**42,356**

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	4,437	4,359	4,359	4,359
Minority Interest	4,777	3,933	4,870	5,670
Reserves & Surplus	198,407	213,772	236,303	262,829
Net Worth	**202,844**	**218,131**	**240,662**	**267,188**
Total Debt	17,381	48,603	53,112	58,236
Net Deferred Tax Liability	(6,080)	(8,087)	(8,087)	(8,087)
Total Capital Employed	**218,922**	**262,580**	**290,556**	**323,008**
Applications of Funds				
Net Block	**70,973**	**87,276**	**89,576**	**90,076**
CWIP	2,763	501	281	81
Investments	12,050	3,804	3,804	3,804
Current Assets, Loans & Advances	**242,592**	**273,511**	**303,085**	**341,233**
Inventories	752	358	365	400
Receivables	69,586	75,772	80,279	87,370
Cash and Bank Balances	20,427	30,167	46,696	66,109
Loans and Advances	26,934	24,152	24,152	24,152
Other Current Assets	58,994	86,939	88,471	90,079
Less: Current Liabilities & Provisions	**109,456**	**102,512**	**106,190**	**112,186**
Payables	24,893	32,566	33,452	36,400
Other Current Liabilities	84,563	69,946	72,738	75,786
sub total				
Net Current Assets	133,136	170,999	196,895	229,047
Total Assets	**218,922**	**262,580**	**290,556**	**323,008**

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	32.8	29.5	29.6	29.9
EBIDTA Margin	18.2	15.5	14.8	16.0
EBIT Margin	15.0	11.6	10.9	12.0
Tax rate	22.6	22.9	24.5	25.0
Net Profit Margin	12.4	10.9	9.5	10.2
(B) As Percentage of Net Sales (%)				
COGS	67.2	70.5	70.4	70.1
Employee	0.0	0.0	0.0	0.0
Other	14.5	14.0	14.7	13.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.2	0.2	0.2
Interest Coverage	39.1	22.3	18.9	22.3
Inventory days	1	0	0	0
Debtors days	73	75	78	77
Average Cost of Debt	6.5	5.8	4.2	4.0
Payable days	26	32	33	32
Working Capital days	140	169	191	202
FA T/O	4.9	4.2	4.2	4.6
(D) Measures of Investment				
AEPS (Rs)	47.7	45.9	40.5	48.2
CEPS (Rs)	60.3	62.3	57.6	66.8
DPS (Rs)	13.8	14.6	14.9	18.0
Dividend Payout (%)	28.9	31.9	36.8	37.4
BVPS (Rs)	225.3	248.0	273.7	303.8
RoANW (%)	22.0	19.2	15.5	16.7
RoACE (%)	20.6	17.0	13.3	14.3
RoAIC (%)	26.7	19.9	17.1	19.9
(E) Valuation Ratios				
CMP (Rs)	582	582	582	582
P/E	12.2	12.7	14.4	12.1
Mcap (Rs Mn)	511,434	511,434	511,434	511,434
MCap/ Sales	1.5	1.4	1.4	1.2
EV	442,489	473,747	454,727	430,438
EV/Sales	1.3	1.3	1.2	1.0
EV/EBITDA	7.0	8.3	8.2	6.5
P/BV	2.6	2.3	2.1	1.9
Dividend Yield (%)	2.4	2.5	2.6	3.1
(F) Growth Rate (%)				
Revenue	12.9	6.1	1.9	10.2
EBITDA	34.3	(9.6)	(2.6)	18.5
EBIT	43.4	(17.8)	(4.8)	22.0
PBT	13.6	(8.8)	(9.2)	20.6
APAT	13.1	(6.2)	(11.7)	18.9
EPS	11.9	(3.9)	(11.7)	18.9

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	44,320	43,581	50,379	57,496
CFI	(21,042)	10,286	(22,500)	(24,500)
CFF	(22,512)	(44,127)	(11,351)	(13,583)
FCFF	36,527	30,610	34,879	42,996
Opening Cash	19,661	20,427	30,167	46,696
Closing Cash	20,427	30,167	46,696	66,109

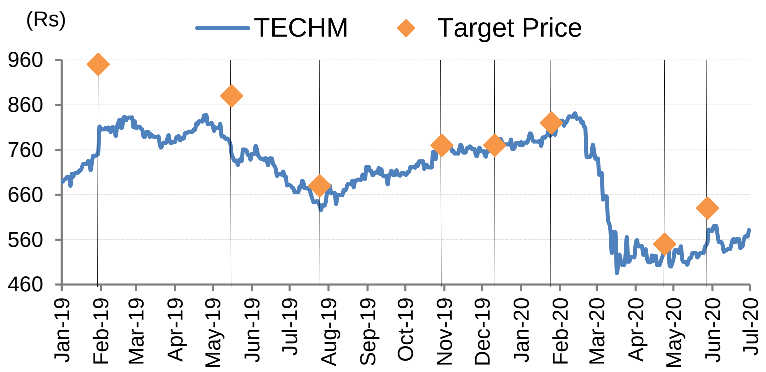
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-19	Buy	950	751
May-19	Accumulate	880	750
Jul-19	Reduce	680	636
Nov-19	Reduce	770	773
Dec-19	Reduce	770	777
Jan-20	Reduce	820	797
Apr-20	Reduce	550	546
Jun-20	Accumulate	630	553

*Price as on recommendation date

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