

ERP biz drives result beat; HRP partnerships to provide acceleration

- RMCS reported strong results with Revenue growth of 11% QoQ at \$22mn (DE at \$20mn) as the strong bookings in Licence-based deals in ERP segment (up 18% QoQ) boosted revenue recognition in Q2.
- Company won new orders worth US\$26.5mn in Q2FY21 up 24% on QoQ basis, coming back to its pre-Covid run rate. Unexecuted order book stood at US\$164mn (2x revenue), providing good revenue visibility. Qualified pipeline stands at \$211mn while ARR at \$28mn (37% of rev).
- EBIDTA margins declined 355bps QoQ on account on increased sub-contracting in Q2 as well as unfavorable Fx swing of almost 1mn\$. Adjusted for Fx EBIDTA margins improved by 170bps QoQ at 28.6%.
- Factoring in confident commentary across business segment, signing of marque partnership with Oracle/Workday, improved profitability and cash generation profile reinforces our positive stance on the business. We have built in revenue/EBIT CAGR of about 13%/62% over FY20-23E and retain our Buy rating on the stock with a DCF-based TP of Rs555 (implies 17x on FY23 earnings).

Strong deal wins in ERP drives growth/profitability performance

RMCS booked new deals worth \$13mn in ERP segment up 84% QoQ, which resulted in improved deal/revenue conversion given Licence-based revenue deal pricing in the segment. In all company won 2 deals in Logistics (1 of it was \$5mn+ in size with a Malaysian port Co.) and 1 in generic ERP. Overall Licence revenues were up 36% QoQ at \$5.3mn, while Recurring revenues grew by 9% QoQ at \$5.5mn, supporting the profitability up move. Total cost (ex Fx) were up by just 4% QoQ for the quarter (even including one-time special bonus incentives of about \$0.3mn). ERP revenues were up 18% QoQ and accounted for 39% of revenues.

HRP witnessed breakthrough partnership with Global leaders

RMCS signed partnership with two largest HCM providers viz. Oracle and Workday, wherein it would provide interface with these leaders to provide its multi-country payroll to latter's MNC client base. The move will boost the pipeline of the business significantly (currently at \$300mn) and may improve its win ratios materially given the hyper growth these vendors are clocking in cloud-based HCM. Company has clocked 20% revenue CAGR over FY15-20 in this segment which we expect to continue over FY20-25E.

Q2FY21 Result (Rs Mn)

| Particulars | Q2FY21 | Q2FY20 | YoY (%) | Q1FY21 | QoQ (%) |
|-------------------|--------|--------|---------|--------|---------|
| Revenue | 1,598 | 1,493 | 7.1 | 1,452 | 10.0 |
| Total Expense | 1,160 | 1,182 | (1.8) | 1,003 | 15.7 |
| EBITDA | 438 | 311 | 40.9 | 450 | (2.6) |
| Depreciation | 174 | 164 | 5.9 | 174 | 0.0 |
| EBIT | 264 | 147 | 80.1 | 276 | (4.2) |
| Other Income | 53 | 22 | 143.6 | 34 | 55.8 |
| Interest | 27 | 32 | (14.6) | 29 | (5.9) |
| EBT | 290 | 137 | 112.1 | 281 | 3.2 |
| Tax | 121 | 62 | 95.1 | 139 | (13.2) |
| RPAT | 167 | 74 | 125.9 | 138 | 21.0 |
| APAT | 167 | 74 | 125.9 | 138 | 21.0 |
| | | | (bps) | | (bps) |
| Gross Margin (%) | 58.0 | 56.0 | 198 | 55.2 | 276 |
| EBITDA Margin (%) | 27.4 | 20.8 | 658 | 31.0 | (355) |
| NPM (%) | 10.5 | 5.0 | 550 | 9.5 | 95 |
| Tax Rate (%) | 41.6 | 45.2 | (361) | 49.5 | (789) |
| EBIT Margin (%) | 16.5 | 9.8 | 670 | 19.0 | (245) |

| | |
|-----------------|--------------|
| CMP | Rs 428 |
| Target / Upside | Rs 555 / 30% |
| NIFTY | 11,814 |

Scrip Details

| | |
|--------------------------|--------------------------------|
| Equity / FV | Rs 312mn / Rs 10 |
| Market Cap | Rs 13bn |
| | USD 180mn |
| 52-week High/Low | Rs 542/ 64 |
| Avg. Volume (no) | 459,775 |
| Bloom Code | RMCS IN |
| Price Performance | 1M 3M 12M |
| Absolute (%) | (8) 215 171 |
| Rel to NIFTY (%) | (8) 214 177 |

Shareholding Pattern

| | Mar'20 | Jun'20 | Sep'20 |
|-----------------|--------|--------|--------|
| Promoters | 54.7 | 54.7 | 54.7 |
| MF/Banks/FIs | 13.3 | 13.3 | 8.9 |
| FIIIs | 5.4 | 5.4 | 0.7 |
| Public / Others | 26.7 | 26.7 | 35.7 |

Valuation (x)

| | FY21E | FY22E | FY23E |
|-----------|-------|-------|-------|
| P/E | 25.4 | 19.2 | 13.5 |
| EV/EBITDA | 8.5 | 7.4 | 5.6 |
| ROE (%) | 8.2 | 9.9 | 12.6 |
| RoACE (%) | 9.1 | 10.7 | 13.6 |

Estimates (Rs mn)

| | FY21E | FY22E | FY23E |
|-----------|-------|-------|-------|
| Revenue | 6,189 | 7,072 | 8,208 |
| EBITDA | 1,644 | 1,821 | 2,329 |
| PAT | 519 | 684 | 977 |
| EPS (Rs.) | 16.9 | 22.3 | 31.9 |

VP - Research: Rahul Jain

Tel: +9122 40969771

E-mail: rahulj@dolatcapital.com

Associate: Divyesh Mehta

Tel: +91 22 40969768

E-mail: divyesh.mehta@dolatcapital.com

Exhibit 1: Quarterly performance versus estimates

| (in Rs mn) | Estimates | | | % Variation | | Comment |
|-----------------------|-----------|-------|-----------|-------------|-----------|---|
| | Actual | Dolat | Consensus | Dolat | Consensus | |
| Revenues (in US\$ mn) | 22 | 20 | NA | 9.4% | NA | Revenue beat was led by high licence based deals in Q2 |
| Sales | 1,598 | 1,465 | NA | 9.1% | NA | |
| EBIT | 264 | 184 | NA | 43.5% | NA | Profitability beat maintained on sustained tight cost controls. |
| EBIT, margin | 16.5% | 12.6% | NA | 400 bps | NA | |
| PAT | 169 | 106 | NA | 60.4% | NA | Beat extended by lower ETR |

Source: DART, Company

Change in Estimates

Accounting for result beat, confident commentary, sustained cost control, increased acceptance of remote implementation/sales and recent partnership with Oracle/Workday for its Payroll business has led to significant jump in its growth and profitability assumptions. We have scaled up our growth estimates for FY21/FY22 by 5%/7% respectively; and large swing in profitability (253bps/573bps respectively for FY21/22E). The confidence in big improvement is emanating from strong operating leverage, improved order booking traction and sustained tight leash on cost. We have also introduced our FY23E financial estimates for the company that factors in revenue growth of 14.5% and further uptick in EBIT margins to 19.4% (up 410bps).

Exhibit 2: Change in Estimates

| | FY20A | FY21E | | | FY22E | | | FY23E |
|------------------------|--------|-------|-------|--------|-------|-------|--------|-------|
| (in Rs mn, except EPS) | Actual | Old | New | change | Old | New | change | New |
| Revenue (\$ mn) | 81 | 80 | 84 | 5.1 | 88 | 94 | 7.2 | 108 |
| YoY growth (%) | 3.5 | (1.8) | 3.3 | | 10.5 | 12.7 | | 14.5 |
| INR Revenue | 5,689 | 5,914 | 6,189 | 4.6 | 6,600 | 7,073 | 7.2 | 8,208 |
| EBIT | 365 | 754 | 946 | 25.4 | 659 | 1,111 | 68.7 | 1,589 |
| EBIT margin (%) | 6.4 | 12.8 | 15.3 | 253 | 10.0 | 15.7 | 573 | 19.4 |
| PAT | 102 | 389 | 519 | 33.3 | 400 | 684 | 71.1 | 977 |
| EPS (Rs) | 3.3 | 12.7 | 16.9 | 33.2 | 13.1 | 22.3 | 70.8 | 31.9 |

Source: DART, Company

Exhibit 3: Key Assumptions in our estimates

| Key assumptions | FY20A | FY21E | FY22E | FY23E |
|--|-------|-------|-------|-------|
| Growth in Revenues (US\$ terms) | 3.5 | 3.3 | 12.7 | 14.5 |
| Growth in HCM business (US\$ terms) | (0.9) | 3.7 | 20.5 | 20.4 |
| Growth in ERP business (US\$ terms) | 13.5 | (3.8) | 15.1 | 15.5 |
| Growth in Aviation business (US\$ terms) | (4.0) | 14.6 | (2.2) | 2.4 |
| INR/US\$ realised rate | 70.2 | 73.9 | 75.0 | 76.0 |

Source: DART, Company

Exhibit 4: Quarterly and YTD Trends

| Rs mn | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | YoY (%) | QoQ (%) | YTD FY20 | YTD FY21 | YoY (%) |
|-----------------------|------------|------------|------------|--------------|------------|------------|--------------|--------------|------------|-------------|--------------|
| Revenue (\$ mn) | 20 | 22 | 21 | 19 | 19 | 22 | 0.3 | 10.9 | 42 | 41 | (1.6) |
| Revenue | 1,397 | 1,493 | 1,471 | 1,329 | 1,452 | 1,598 | 7.1 | 10.0 | 2,889 | 3,051 | 5.6 |
| Operating Expenditure | 1,157 | 1,182 | 1,179 | 1,141 | 1,003 | 1,160 | (1.8) | 15.7 | 2,339 | 2,163 | (7.5) |
| Cost of revenues | 619 | 657 | 688 | 599 | 650 | 671 | 2.2 | 3.2 | 1,276 | 1,321 | 3.6 |
| as % of sales | 44.3 | 44.0 | 46.7 | 45.1 | 44.8 | 42.0 | | | 44.2 | 43.3 | |
| SG&A expenses | 538 | 525 | 491 | 543 | 353 | 489 | (6.9) | 38.6 | 1,063 | 842 | (20.8) |
| as % of sales | 38.5 | 35.2 | 33.4 | 40.9 | 24.3 | 30.6 | | | 36.8 | 27.6 | |
| EBITDA | 240 | 311 | 292 | 187 | 450 | 438 | 40.9 | (2.6) | 551 | 888 | 61.1 |
| Depreciation | 165 | 164 | 169 | 167 | 174 | 174 | 5.9 | (0.0) | 329 | 348 | 5.9 |
| EBIT | 76 | 147 | 123 | 21 | 276 | 264 | 80.1 | (4.2) | 222 | 540 | 143.0 |
| Other Income | (7) | (10) | (11) | (3) | 5 | 26 | (359.9) | 393.9 | (17) | 31 | (280.3) |
| PBT | 68 | 137 | 112 | 18 | 281 | 290 | 112.1 | 3.2 | 205 | 571 | 178.5 |
| Total Tax | 39 | 62 | 53 | 75 | 139 | 121 | 95.1 | (13.2) | 101 | 259 | 158.0 |
| Adjusted PAT | 29 | 75 | 59 | (57) | 142 | 169 | 126.1 | 19.4 | 104 | 311 | 198.1 |
| Minority Interest | (1) | (1) | (2) | (2) | (4) | (2) | 137.4 | (41.1) | (2) | (6) | 208.5 |
| Reported PAT | 28 | 74 | 58 | (59) | 138 | 167 | 125.9 | 21.0 | 102 | 305 | 198.0 |
| Reported EPS | 0.9 | 2.4 | 1.9 | (1.9) | 4.5 | 5.4 | 125.6 | 20.8 | 3.3 | 10.0 | 197.7 |
| Margins (%) | | | | | | | (bps) | (bps) | | | |
| EBIDTA | 17.2 | 20.8 | 19.8 | 14.1 | 31.0 | 27.4 | 658 | (355) | 19.1 | 29.1 | 1,003 |
| EBIT | 5.4 | 9.8 | 8.3 | 1.6 | 19.0 | 16.5 | 670 | (245) | 7.7 | 17.7 | 1,000 |
| EBT | 4.9 | 9.2 | 7.6 | 1.4 | 19.3 | 18.1 | 898 | (120) | 7.1 | 18.7 | 1,161 |
| PAT | 2.0 | 5.0 | 3.9 | (4.4) | 9.5 | 10.5 | 550 | 95 | 3.5 | 10.0 | 646 |
| Effective Tax rate | 56.8 | 45.2 | 47.0 | 411.8 | 49.5 | 41.6 | (361) | (789) | 49.1 | 45.5 | (360) |

Source: Company, DART

What to expect Next Quarter

We expect revenue decline of 4% QoQ in Q3 as lower Licence based deal booking may translate into lower revenue recognition in Q3. We expect profitability to also declined by ~600bps QoQ to 10.5% on weak revenue momentum and wage hike effective in the quarter.

HRP likely to see better momentum in Q3 as more employees return to offices/plants which in turn will drive momentum in the segment and may see some boost to its deal pipeline/conversion from its new channels of Workday/Oracle.

Exhibit 5: What to expect next Quarter

| Particulars (Rs. Mn) | Q3FY21E | Q2FY21 | Q3FY20 | QoQ (%) | YoY (%) |
|----------------------|---------|--------|--------|----------|---------|
| Sales (US\$ mn) | 20.7 | 21.6 | 20.8 | (4.0) | (0.5) |
| Sales | 1,521 | 1,598 | 1,471 | (4.8) | 3.4 |
| EBIT | 160 | 264 | 123 | (39.2) | 30.8 |
| PAT | 93 | 167 | 58 | (44.2) | 61.5 |
| EPS (Rs) | 3.0 | 5.4 | 1.9 | (44.2) | 61.2 |
| EBIT Margin (%) | 10.5 | 16.5 | 8.3 | -598 bps | 221 bps |

Source: DART, Company

Key Highlights from Earning Call

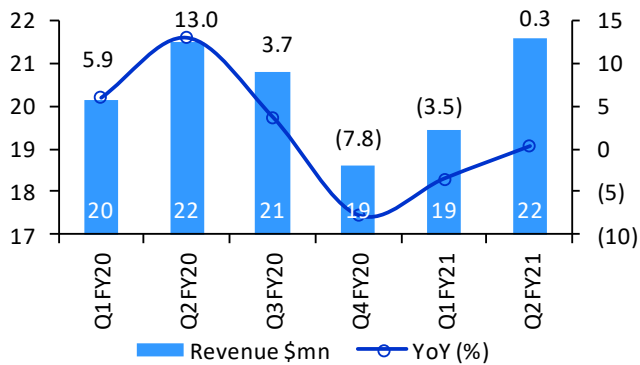
- **Revenue** stood at \$21.6mn grew 10.9% QoQ and 0.3% YoY. Revenue growth was led by strong deal signings and revenue traction in ERP/HRP business that clocked revenue growth of 18%/22% QoQ respectively. The revenue traction should improve on YoY basis hereon although can be bit volatile based on the revenue mix (On-premise versus cloud deals).
- **Visibility:** ARR for the company stands at about 37% of the revenues however the visibility is more than that as it derives about 75% of its revenue from the existing customer. The total unexecuted order book stood at \$165mn (down 2% on YoY basis). The order signings for the quarter have reached the pre-COVID kind of run rate at \$26.5mn.
- **Pipeline:** total pipeline of the business has crossed \$500mn mark, of which the qualified pipeline stands at about \$211mn (these are deals where Ramco has reached stage 4/5 (last 2 vendor) and has high probability to win these deals). The company has also been able to reduce its overall implementation cycle to about 3 months on single location basis (higher for clients in multiple-geos) and are charged at 3M equivalent of subscription fees. Most deals are priced on PEPM model which is Per-employee-per-month-basis.
- **Aviation (25% of rev)** segment witnessed revenue decline by 10% QoQ at \$5.4mn. This was bit surprising given the fact that the company announced 5 deals in the segment during the quarter but still saw its deal bookings declined by 30% QoQ at \$5.4mn. However, commentary in the segment has improved in general as it expects more momentum from the US Defence segment as well as see some improved business prospects as Aviation OEMs are focusing to boost after-sales service revenues (new fleet sales are impacted in current environment) and also led by lower competitiveness (with just only 2 players globally as a competitors).
- **ERP (40% of revenues):** segment reported strong revenue growth of 18% QoQ at \$8.5mn, led by robust bookings of about \$13mn for the quarter (up 84% QoQ). The steady recovery in the business is quite encouraging as Company has witnessed weakness in the segment in FY18/FY19 due to some troubled implementation that brought down conscious effort to market its Logistic offerings temporarily. However now bookings have improved significantly over the last four quarters from \$2.6mn in Q3FY20 to \$13mn in Q2FY21. The deal wins in the quarter also a large 5mn\$ deal with a Malaysian port (6 ports in total) who signed a large transformational deal wherein the client would replace about 85 of its existing application with one unified solution from Ramco System that will have Enterprise Asset Management, Logistics as well Payroll components. Apart from this it has added two more deals in the quarter. The pipeline is healthy as demand for last-mile logistics has improved significantly.
- **HRP (35% of rev)** has grown at 30% CAGR since inception and generates strong recurring revenues (cloud based SaaS revenue model) with huge addressable market potential of over \$20bn. Ramco provides customer with the flexibility to use payroll software for processing internally or outsource it in a managed services or a BPO contract. In the segment company has Big 4 companies as its System Integrator as well as partners that leverage RMCS platform to offer payroll services to their customers (on white label basis).
- **Elite referral client roster in HRP:** The company continues to leverage the strong customer validations to get into newer market and create new logo wins in that markets. During the quarter company added 5 new Fortune 500 logos as it is emerging as most sought-out solution in the Asian markets. The company has managed to scale up in many accounts over the years such as GE (19 countries), Standard Chartered (18 countries), Johnson Controls (15

countries) and so on. The company's proven capabilities have resulted into improved deal wins' ratio with many more global names (client name includes Coca-Cola, Accenture, Adecco, Schneider, Americana, Arla, DB Schenker and so on). As a result, the company has been able to scale up on its average deal sizes (Greater than 1mn\$ deals moved from 11% to 68% in 2013). Also at the same time it has now defocused completely from deal size in sub-0.25mn\$ category as compared to 35% contribution from such deals couple of year back.

- **Partnership with HCM giants:** In a major breakthrough, the company signed two partnerships with Cloud based HCM software giants: Oracle and Workday. As part of this partnership the huge client base of these software can choose Ramco System as their provider of unified-payroll solution along with HCM suite from these company. The company has won couple of deals on these solutions and as of today has total pipeline from this two partners in the range of \$50mn. This exercise was facilitated by its restructuring initiative wherein it has discontinued its Performance Management and Recruitment pieces from its erstwhile HCM business and repositioned itself as pure-play Payroll player (this also includes Expense management, Overtime computation and Time & Attendance module).
- **Geographic expansion:** HRP segment has strong hold in the Asia Pacific and Middle East Africa region, while it expanded its presence in newer markets such as Turkey, Cyprus and Macau during the quarter and will add another 6 new countries in Africa/Europe in H2FY21 bringing the total country count to 60+ for its unified payroll solution. The company launched its US payroll during the quarter which opens up huge market opportunity for the company wherein it can further leverage its partnership with the product vendors and Big Four consulting firms (act as both SI as well as offers payroll-as-a-service to its clients leveraging Ramco's Platform). Adding US and Europe will increase the market share by 2.5 times as Ramco can address \$12bn to \$15bn market size.
- **EBITDA** stood at 27.4% down 255bps on reported basis but up 170bps adjusted for Fx (the company booked Fx loss of Rs.19mn in Q2FY21 v/s a gain of Rs.59mn last quarter). EBITDA margins improved on account of operational efficiencies, favourable revenue mix (Licence led) and sustained cost control. The wage hikes are effective Q3 and thus is a headwind going into Q3. Within SG&A; Company do not expect travel expense to increase until March and saved about \$0.35mn to \$0.36mn per month (1mn\$ savings per quarter) and expects only 50% of the travel cost to return eventually as the clients are getting use to the WFH model. The factor that resulted in higher SG&A in Q2 was on account of higher cloud hosting charge and higher sub-contacting (Implementation of Indian deals are sourced to fellow group company - RITL).
- **Profitability** improvement was supported by strong growth in Licence revenues (ERP business) that grew by 36% QoQ at \$5.3mn and Recurring revenues that grew 9% QoQ at \$5.5mn. PAT for the quarter stood at Rs. 167mn up 21.7% QoQ well ahead of our estm of Rs 104mn. The PAT beat was extended by higher Other income of Rs.53mn and lower than expected ETR of 42.0% v/s expectation of 45.0%.
- **Collection:** Increase in collection was on account of faster delivery, improved client satisfaction and 40% higher billing in Q2 vs Q1 (Collected \$3mn in October). At current business profitability the company expect to generate FCF of about Rs150mn per quarter.

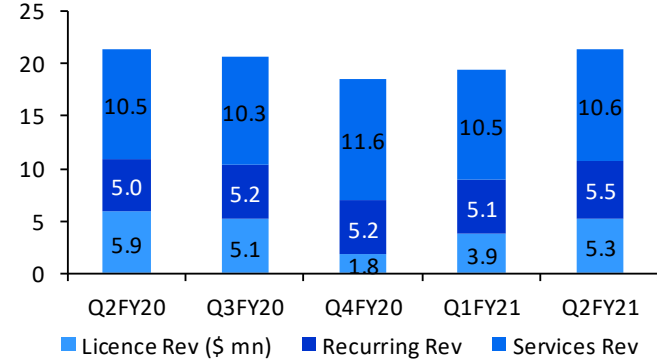
Story in Charts

Exhibit 6: Revenues now back to pre-Covid levels now



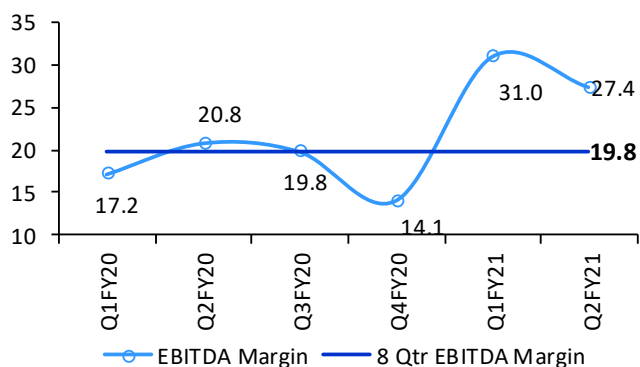
Source: DART, Company

Exhibit 7: Higher On – premise deals drive better license revenues for the quarter



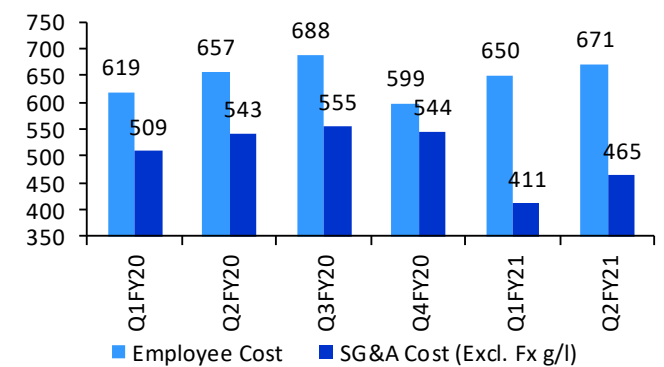
Source: DART, Company

Exhibit 8: Adj EBITDA Margin at all-time high levels of 28.6%



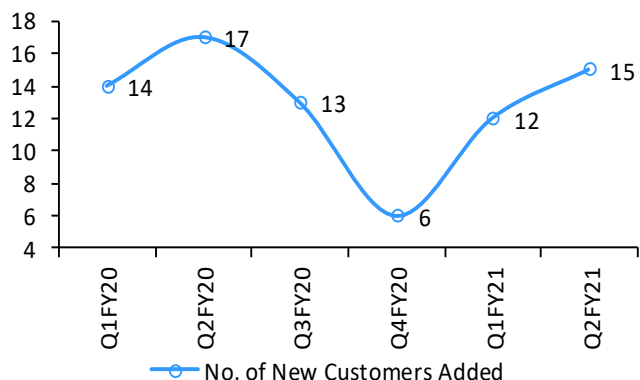
Source: DART, Company

Exhibit 9: Absolute Cost stability continues; small gains in SG&A led to implementation outsourcing.



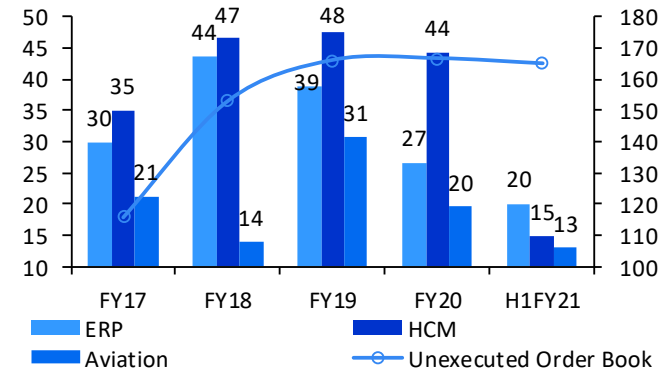
Source: DART, Company

Exhibit 10: New customer addition back on track, with order signings now flat YoY basis at \$26mn



Source: DART, Company

Exhibit 11: Bookings returning to normalcy even remotely. Unexecuted Order Book encouraging.



Source: DART, Company

Exhibit 12: Operating metrics

| Metrics | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 |
|--|--------|---------|--------|--------|--------|--------|--------|--------|--------|--------|
| USD Growth QoQ | 2.5 | 0.1 | 5.5 | 0.5 | (0.1) | 6.7 | (3.2) | (10.6) | 4.5 | 10.9 |
| USD Growth YoY | 10.8 | 5.6 | 3.5 | 8.7 | 5.9 | 13.0 | 3.7 | (7.8) | (3.5) | 0.3 |
| LTM Revenues rolling | 75.0 | 76.0 | 76.7 | 78.3 | 79.4 | 81.9 | 82.6 | 81.1 | 80.4 | 80.4 |
| Growth YoY | 10.4 | 10.0 | 7.0 | 7.0 | 5.9 | 7.7 | 7.8 | 3.5 | 1.2 | (1.8) |
| Bookings - Business (\$mn) | | | | | | | | | | |
| ERP | 15.2 | 5.8 | 6.7 | 11.1 | 5.1 | 14.9 | 2.6 | 4.1 | 7.1 | 13.0 |
| HCM | 4.6 | 14.6 | 15.8 | 12.5 | 14.5 | 9.4 | 15.6 | 4.8 | 6.7 | 8.2 |
| Aviation | 5.8 | 9.1 | 6.7 | 9.0 | 1.9 | 1.8 | 11.6 | 4.3 | 7.6 | 5.4 |
| Total | 25.6 | 29.6 | 29.2 | 32.6 | 21.5 | 26.0 | 29.8 | 13.1 | 21.4 | 26.5 |
| Unexecuted Order Book | 150.5 | 161.0 | 168.0 | 166.0 | 168.0 | 168.2 | 176.9 | 166.6 | 164.0 | 164.9 |
| YoY | 19.1 | 19.9 | 20.1 | 8.5 | 11.6 | 4.5 | 5.3 | 0.3 | (2.4) | (2.0) |
| Revenue segments (\$mn) | | | | | | | | | | |
| Products - Core | 10.8 | 11.3 | 12.1 | 11.8 | 9.1 | 10.9 | 10.4 | 7.0 | 8.9 | 10.8 |
| - Licence revenues | 6.4 | 6.8 | 7.6 | 7.1 | 4.3 | 5.9 | 5.1 | 1.8 | 3.9 | 5.3 |
| - Recurring | 4.4 | 4.4 | 4.6 | 4.7 | 4.8 | 5.0 | 5.2 | 5.2 | 5.1 | 5.5 |
| Services | 7.9 | 7.5 | 7.9 | 8.4 | 10.9 | 10.5 | 10.3 | 11.6 | 10.5 | 10.6 |
| - BPO | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 | 1.0 | 1.1 | 1.4 | 1.4 | 1.4 |
| - Implementation | 7.2 | 6.8 | 7.2 | 7.6 | 10.1 | 9.6 | 9.2 | 10.2 | 9.2 | 9.2 |
| Resale of Material | 0.4 | 0.3 | 0.1 | 0.0 | 0.2 | 0.1 | 0.2 | 0.1 | 0.0 | 0.2 |
| Segment Growth (YoY) | | | | | | | | | | |
| Products - Core | 50.1 | 19.3 | 7.4 | 17.6 | (15.9) | (3.1) | (14.5) | (40.7) | (1.8) | (1.1) |
| - Licence revenues | 82.2 | 24.5 | 7.9 | 26.9 | (33.0) | (13.2) | (31.9) | (74.3) | (10.4) | (11.3) |
| - Recurring | 18.9 | 12.4 | 6.5 | 6.1 | 9.2 | 12.4 | 14.3 | 9.8 | 6.3 | 10.8 |
| Services | (20.9) | (12.2) | (2.6) | (1.9) | 39.2 | 39.6 | 30.5 | 38.3 | (3.8) | 0.6 |
| - BPO | 0.0 | 0.0 | 1.4 | 11.6 | 14.3 | 32.9 | 52.1 | 81.8 | 70.0 | 41.2 |
| - Implementation | (22.5) | (13.4) | (3.0) | (3.1) | 41.5 | 40.4 | 28.3 | 34.0 | (9.5) | (3.7) |
| Resale of Material | 550.0 | 2,400.0 | 500.0 | 33.3 | (59.0) | (68.0) | 150.0 | 50.0 | (87.5) | 162.5 |
| Revenue by Industry Practice (\$mn) | | | | | | | | | | |
| ERP | 9.0 | 6.0 | 5.8 | 7.4 | 8.1 | 10.5 | 6.4 | 7.0 | 7.2 | 8.5 |
| HCM | 5.0 | 8.2 | 9.8 | 7.6 | 7.8 | 7.0 | 8.3 | 7.1 | 6.2 | 7.6 |
| Aviation | 5.0 | 4.8 | 4.5 | 5.3 | 4.2 | 3.9 | 6.1 | 4.5 | 6.0 | 5.4 |
| Industry Practice Growth (YoY) | | | | | | | | | | |
| ERP | 0.1 | (0.3) | (0.2) | 0.0 | (0.1) | 0.7 | 0.1 | (0.1) | (0.1) | (0.2) |
| HCM | 0.1 | 0.6 | 0.5 | 0.0 | 0.6 | (0.1) | (0.2) | (0.1) | (0.2) | 0.1 |
| Aviation | 0.1 | 0.1 | (0.2) | 0.4 | (0.2) | (0.2) | 0.4 | (0.1) | 0.4 | 0.4 |
| Geography segments (\$mn) | | | | | | | | | | |
| America | 3.5 | 4.7 | 4.1 | 4.9 | 3.6 | 3.6 | 3.9 | 3.4 | 5.6 | 4.4 |
| Europe | 0.5 | 0.6 | 0.4 | 0.6 | 0.8 | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 |
| APAC | 8.6 | 7.5 | 8.2 | 8.0 | 7.4 | 10.5 | 9.3 | 7.9 | 6.9 | 9.7 |
| India | 4.4 | 4.0 | 3.9 | 3.9 | 6.5 | 5.1 | 4.2 | 4.4 | 4.3 | 4.4 |
| Middle East and North Africa | 2.1 | 2.3 | 3.4 | 2.9 | 1.8 | 1.8 | 2.8 | 2.3 | 2.2 | 2.5 |
| Customer Metrics | | | | | | | | | | |
| No. of New Customers Added | 24 | 15 | 25 | 16 | 14 | 17 | 13 | 6 | 12 | 15 |
| % Rev from New Customers | 30 | 27 | 38 | 36 | 17 | 24 | 21 | 14 | 18 | 20 |
| Bookings carried over | 17.9 | 21.6 | 18.1 | 20.8 | 17.9 | 19.8 | 23.5 | 11.3 | 17.5 | 21.2 |
| Revenues from existing customers | 13.3 | 13.9 | 12.4 | 12.9 | 16.7 | 16.3 | 16.4 | 16.0 | 15.9 | 17.2 |

Source: DART, Company

Profit and Loss Account

| (Rs Mn) | FY20A | FY21E | FY22E | FY23E |
|--|--------------|--------------|--------------|--------------|
| Revenue | 5,689 | 6,189 | 7,072 | 8,208 |
| Total Expense | 4,659 | 4,545 | 5,251 | 5,879 |
| COGS | 2,562 | 2,726 | 2,975 | 3,257 |
| Employees Cost | 0 | 0 | 0 | 0 |
| Other expenses | 2,097 | 1,819 | 2,276 | 2,622 |
| EBIDTA | 1,030 | 1,644 | 1,821 | 2,329 |
| Depreciation | 665 | 698 | 710 | 740 |
| EBIT | 365 | 946 | 1,111 | 1,589 |
| Interest | 122 | 99 | 84 | 88 |
| Other Income | 92 | 149 | 152 | 184 |
| Exc. / E.O. items | 0 | 0 | 0 | 0 |
| EBT | 335 | 996 | 1,179 | 1,685 |
| Tax | 228 | 472 | 495 | 708 |
| RPAT | 102 | 519 | 684 | 977 |
| Minority Interest | 7 | 6 | 0 | 0 |
| Profit/Loss share of associates | 2 | 0 | 0 | 0 |
| APAT | 102 | 519 | 684 | 977 |

Balance Sheet

| (Rs Mn) | FY20A | FY21E | FY22E | FY23E |
|-------------------------------|--------------|--------------|--------------|--------------|
| Sources of Funds | | | | |
| Equity Capital | 306 | 312 | 312 | 312 |
| Minority Interest | 21 | 15 | 15 | 15 |
| Reserves & Surplus | 5,752 | 6,282 | 6,966 | 7,944 |
| Net Worth | 6,058 | 6,595 | 7,279 | 8,256 |
| Total Debt | 929 | 569 | 409 | 299 |
| Net Deferred Tax Liability | (278) | (278) | (278) | (278) |
| Total Capital Employed | 6,730 | 6,901 | 7,425 | 8,292 |

Applications of Funds

| | | | | |
|---|--------------|--------------|--------------|--------------|
| Net Block | 3,394 | 3,361 | 3,376 | 3,386 |
| CWIP | 0 | 0 | 0 | 0 |
| Investments | 15 | 15 | 15 | 15 |
| Current Assets, Loans & Advances | 6,094 | 6,291 | 6,915 | 7,876 |
| Inventories | 0 | 0 | 0 | 0 |
| Receivables | 1,938 | 2,069 | 2,325 | 2,654 |
| Cash and Bank Balances | 152 | 94 | 290 | 701 |
| Loans and Advances | 1,035 | 1,093 | 1,205 | 1,347 |
| Other Current Assets | 2,969 | 3,035 | 3,095 | 3,175 |
| Less: Current Liabilities & Provisions | 2,772 | 2,765 | 2,881 | 2,985 |
| Payables | 597 | 548 | 619 | 676 |
| Other Current Liabilities | 2,175 | 2,218 | 2,262 | 2,308 |
| <i>sub total</i> | | | | |
| Net Current Assets | 3,321 | 3,525 | 4,035 | 4,892 |
| Total Assets | 6,730 | 6,901 | 7,425 | 8,292 |

E – Estimates

Important Ratios

| Particulars | FY20A | FY21E | FY22E | FY23E |
|---|--------|--------|--------|--------|
| (A) Margins (%) | | | | |
| Gross Profit Margin | 55.0 | 55.9 | 57.9 | 60.3 |
| EBIDTA Margin | 18.1 | 26.6 | 25.8 | 28.4 |
| EBIT Margin | 6.4 | 15.3 | 15.7 | 19.4 |
| Tax rate | 68.0 | 47.4 | 42.0 | 42.0 |
| Net Profit Margin | 1.8 | 8.4 | 9.7 | 11.9 |
| (B) As Percentage of Net Sales (%) | | | | |
| COGS | 45.0 | 44.1 | 42.1 | 39.7 |
| Employee | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 36.9 | 29.4 | 32.2 | 31.9 |
| (C) Measure of Financial Status | | | | |
| Gross Debt / Equity | 0.2 | 0.1 | 0.1 | 0.0 |
| Interest Coverage | 3.0 | 9.6 | 13.2 | 18.1 |
| Inventory days | 0 | 0 | 0 | 0 |
| Debtors days | 124 | 122 | 120 | 118 |
| Average Cost of Debt | 14.0 | 13.2 | 17.2 | 24.8 |
| Payable days | 38 | 32 | 32 | 30 |
| Working Capital days | 213 | 208 | 208 | 218 |
| FA T/O | 1.7 | 1.8 | 2.1 | 2.4 |
| (D) Measures of Investment | | | | |
| AEPS (Rs) | 3.3 | 16.9 | 22.3 | 31.9 |
| CEPS (Rs) | 25.0 | 39.7 | 45.4 | 56.0 |
| DPS (Rs) | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend Payout (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| BVPS (Rs) | 197.8 | 214.9 | 237.2 | 269.1 |
| RoANW (%) | 1.7 | 8.2 | 9.9 | 12.6 |
| RoACE (%) | 3.5 | 9.1 | 10.7 | 13.6 |
| RoAIC (%) | 5.8 | 14.1 | 15.9 | 21.6 |
| (E) Valuation Ratios | | | | |
| CMP (Rs) | 428 | 428 | 428 | 428 |
| P/E | 129.0 | 25.4 | 19.2 | 13.5 |
| Mcap (Rs Mn) | 13,432 | 13,432 | 13,432 | 13,432 |
| MCap/ Sales | 2.4 | 2.2 | 1.9 | 1.6 |
| EV | 14,209 | 13,907 | 13,551 | 13,030 |
| EV/Sales | 2.5 | 2.2 | 1.9 | 1.6 |
| EV/EBITDA | 13.8 | 8.5 | 7.4 | 5.6 |
| P/BV | 2.2 | 2.0 | 1.8 | 1.6 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| (F) Growth Rate (%) | | | | |
| Revenue | 4.9 | 8.8 | 14.3 | 16.1 |
| EBITDA | 17.1 | 59.6 | 10.8 | 27.9 |
| EBIT | (0.9) | 158.9 | 17.5 | 43.0 |
| PBT | (20.8) | 197.2 | 18.4 | 42.9 |
| APAT | (39.8) | 409.7 | 31.9 | 42.9 |
| EPS | (89.3) | 408.9 | 31.9 | 42.9 |

Cash Flow

| (Rs Mn) | FY20A | FY21E | FY22E | FY23E |
|--------------|-------|-------|-------|-------|
| CFO | 505 | 1,060 | 1,164 | 1,359 |
| CFI | (573) | (665) | (725) | (750) |
| CF | (20) | (452) | (244) | (198) |
| FCFF | (80) | 395 | 439 | 609 |
| Opening Cash | 94 | 116 | 59 | 254 |
| Closing Cash | 116 | 59 | 254 | 665 |

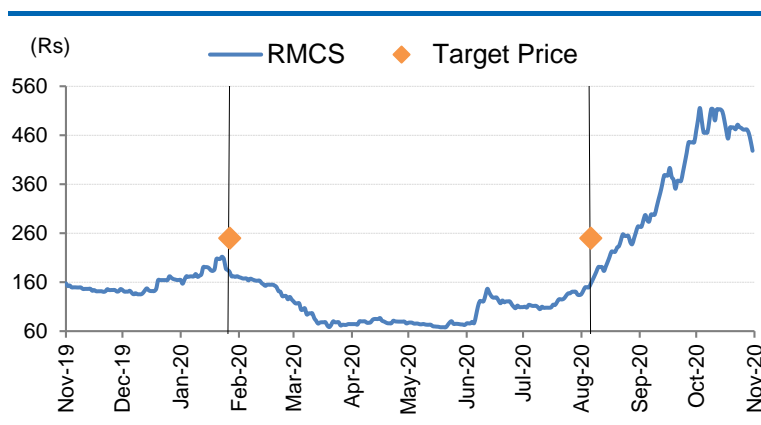
E – Estimates

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.) |
|--------|--------|----------|-------------|
| Jan-20 | Buy | 250 | 181 |
| Aug-20 | Buy | 250 | 157 |

*Price as on recommendation date

DART Team

| | | | |
|--------------------|--------------------------|--------------------------------|------------------------|
| Purvag Shah | Managing Director | purvag@dolatcapital.com | +9122 4096 9747 |
|--------------------|--------------------------|--------------------------------|------------------------|

| | | | |
|--------------------------|-------------------------|------------------------------|------------------------|
| Amit Khurana, CFA | Head of Equities | amit@dolatcapital.com | +9122 4096 9745 |
|--------------------------|-------------------------|------------------------------|------------------------|

CONTACT DETAILS

| Equity Sales | Designation | E-mail | Direct Lines |
|------------------|--|-------------------------------|-----------------|
| Dinesh Bajaj | VP - Equity Sales | dineshb@dolatcapital.com | +9122 4096 9709 |
| Kapil Yadav | VP - Equity Sales | kapil@dolatcapital.com | +9122 4096 9735 |
| Yomika Agarwal | VP - Equity Sales | yomika@dolatcapital.com | +9122 4096 9772 |
| Jubbin Shah | VP - Derivatives Sales | jubbins@dolatcapital.com | +9122 4096 9779 |
| Ashwani Kandoi | AVP - Equity Sales | ashwanik@dolatcapital.com | +9122 4096 9725 |
| Lekha Nahar | AVP - Equity Sales | lekhan@dolatcapital.com | +9122 4096 9740 |
| Equity Trading | Designation | E-mail | |
| P. Sridhar | SVP and Head of Sales Trading | sridhar@dolatcapital.com | +9122 4096 9728 |
| Chandrakant Ware | VP - Sales Trading | chandrakant@dolatcapital.com | +9122 4096 9707 |
| Shirish Thakkar | VP - Head Domestic Derivatives Sales Trading | shirisht@dolatcapital.com | +9122 4096 9702 |
| Kartik Mehta | Asia Head Derivatives | kartikm@dolatcapital.com | +9122 4096 9715 |
| Dinesh Mehta | Co- Head Asia Derivatives | dinesh.mehta@dolatcapital.com | +9122 4096 9765 |
| Bhavin Mehta | VP - Derivatives Strategist | bhavinm@dolatcapital.com | +9122 4096 9705 |

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
