

Hexaware Technologies

BUY

‘Mobi’lised for growth

We maintain BUY on Hexaware post its lower/inline rev/margin in 2QCY19. Mobiquity acquisition and cloud/automation led wins will support growth. Estimates and TP unchanged at Rs 445, at 16x Jun-21E EPS.

HIGHLIGHTS OF THE QUARTER

- Revenue in 2Q came tad below est. at USD 188.5mn, +5.0/13.0% QoQ/YoY CC (USD 190mn est). Revenue growth included 3.2% QoQ CC organic and ~1.8% inorganic (Mobiquity). Revenue growth guidance for CY20 lowered to 19% (vs. 20% earlier) which includes ~6.5% inorganic.
- Top-5 accounts (37.3% of rev) declined impacted by a large BFS account (mortgage segment) based on cut in outsourcing spend and is likely to impact 3Q-4Q too. Decline in IMS and APAC was linked to large project (cloud migration) completion and the service-line is expected to recover from 3Q.
- Net-new deal wins were flat QoQ at USD 36mn from 5 logos. Mgmt stated that pipeline and wins from existing clients is improving. Deal wins are driven by

strengthening partner ecosystem esp. Guidewire, Pega, Adobe. Attrition was flat sequentially at 18.2% with no spike in the newly acquired entity.

- EBIT margin came at 13.3%, -43bps QoQ (13.2% est). Negative impact from visa cost (-70bps impact), acquisition-related cost (-130bps) and INR (-20bps) was offset by bill rate, utilisation and offshore-mix. APAT came at Rs 1.51bn, 9.3% QoQ supported by forex gain of Rs 74mn (vs. loss of Rs 83mn in 1Q).

STANCE

Despite continued BFS headwinds, Hexaware’s low-double digit (organic) growth trajectory is sustainable supported by IMS/BPM (no legacy) and driven by Automation, Cloud and Digital offerings. We expect strong synergies/cross sell from Mobiquity acquisition with portfolio augmentation across BFS, Healthcare and Retail verticals backed by robust partner ecosystem (AWS, Backbase). We build USD rev/EPS of 16/15% CAGR over CY18-21E. Key risks include escalation in client specific challenges (BFS) and low NN wins.

Financial Summary

YE March (Rs bn)	2QCY19	2QCY18	YoY (%)	1QCY19	QoQ (%)	CY17	CY18	CY19E	CY20E	CY21E
Net Revenues	13.08	11.37	15.1	12.64	3.5	39.42	46.48	55.94	66.79	74.75
EBIT	1.74	1.59	9.6	1.74	0.3	5.92	6.69	7.26	9.17	10.47
APAT	1.51	1.54	(1.5)	1.38	9.3	4.99	5.83	6.09	7.71	8.83
Diluted EPS (Rs)	5.1	5.2	(1.5)	4.6	9.2	16.8	19.6	20.4	25.9	29.6
P/E (x)						21.9	18.8	18.0	14.2	12.4
EV / EBITDA (x)						15.9	13.8	13.5	10.5	8.8
RoE (%)						26.6	26.5	23.5	25.5	25.0

Source: Company, HDFC sec Inst Research

INDUSTRY	IT
CMP (as on 08 Aug 2019)	Rs 367
Target Price	Rs 445
Nifty	11,032
Sensex	37,327

KEY STOCK DATA

Bloomberg	HEXW IN
No. of Shares (mn)	298
MCap (Rs bn) / (\$ mn)	109/1,548
6m avg traded value (Rs mn)	389

STOCK PERFORMANCE (%)

52 Week high / low	Rs 502/294
	3M 6M 12M
Absolute (%)	7.6 3.1 (23.3)
Relative (%)	8.8 1.0 (21.8)

SHAREHOLDING PATTERN (%)

	Mar-19	Jun-19
Promoters	62.59	62.52
FIs & Local MFs	12.35	11.88
FPIs	16.06	16.76
Public & Others	9.00	8.84
Pledged Shares	0.00	0.00

Source : BSE

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Revenue was USD 188.5mn, +5.0/13.0% QoQ/YoY CC

Revenue growth included 3.2% CC organic and ~1.8% inorganic (Mobiquity 15-days)

Revenue growth guidance lowered to 19% for CY20 (vs. 20% earlier) which includes ~6.5% inorganic

EBITDA margin was flat QoQ while EBIT margin was down 43bps QoQ, margins were impacted by acquisition related cost (-130bps), excluding the acquisition cost EBIT margin was 14.6%

Partial wage hike impact expected in next qtr

APAT increased to Rs 1.51bn supported by forex gain of Rs 74mn (vs. forex loss of Rs 83mn in 1Q), lower ETR (-54bps QoQ) also supported PAT

ETR for FY20 guided at 18.5%

Quarterly Consolidated Financials Snapshot

Particulars (Rs bn)	2QCY19	2QCY18	YoY (%)	1QCY19	QoQ (%)
Net Sales (USD mn)	188.5	168.3	12.0	180.0	4.7
Net Sales	13.08	11.37	15.1	12.64	3.5
Employee Expenses	6.97	6.08	14.7	6.66	4.7
SG&A and Other Operating Expenses	4.16	3.42	21.7	4.05	2.8
EBITDA	1.95	1.77	9.9	1.89	3.3
Depreciation	0.21	0.18	13.0	0.15	38.6
EBIT	1.74	1.59	9.6	1.74	0.3
Interest Costs	0.01	0.00	NM	0.00	NM
Other Income	0.11	0.33	(67.0)	(0.04)	(359.5)
PBT	1.84	1.92	(4.1)	1.70	8.6
Tax	0.33	0.38	(14.3)	0.31	5.4
RPAT	1.51	1.54	(1.5)	1.38	9.3
E/o (adj for tax)	-	-	-	-	-
APAT	1.51	1.54	(1.5)	1.38	9.3

Source: Company, HDFC sec Inst Research

Margin Analysis

Particulars	2QCY19	2QCY18	YoY (bps)	1QCY19	QoQ (bps)
Employee Expenses % Net Sales	53.3	53.5	(17)	52.7	60
Other Expenses % Net Sales	31.8	30.1	172	32.0	(23)
EBITDA Margin (%)	14.9	15.6	(70)	14.9	(3)
EBIT Margin (%)	13.3	14.0	(67)	13.8	(43)
Tax Rate (%)	17.9	20.0	(213)	18.4	(54)
APAT Margin (%)	11.6	13.5	(195)	11.0	61

Source: Company, HDFC sec Inst Research

Growth was distributed between offshore (+5.9 QoQ) and onsite (+ 4.1% QoQ)

Within verticals, BFSI growth of 2.3% QoQ was supported by Mobiquity integration, ex Mobiquity BFSI growth is soft

One large client in BFS vertical is witnessing stress impacted cut in outsourcing ratio to ~30% (from 50-65%), this account is expected to bottom out in 4QCY19

Wins and pipeline in BFS (ex client specific issues) is healthy

Onsite-Offshore Revenue Break-up

(% of revenue)	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19
Onsite Revenue	64.7	65.4	65.1	65.4	65.2	64.9	63.9	63.4	63.0
Offshore Revenue	35.3	34.6	34.9	34.6	34.8	35.1	36.1	36.6	37.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Onsite-Offshore Revenue Growth

(QoQ, %)	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19
Onsite Revenue	5.8	2.0	0.9	4.4	3.4	1.2	1.4	1.4	4.1
Offshore Revenue	4.8	(1.1)	2.2	3.0	4.4	2.5	5.9	3.6	5.9
Total	5.4	0.9	1.3	3.9	3.8	1.6	3.0	2.2	4.7

Source: Company, HDFC Sec Inst Research

Vertical Revenue Break-up

(% of revenue)	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19
Banking and Financial Services	43.3	43.4	44.4	43.7	42.8	42.5	42.1	40.8	39.8
Manufacturing, Consumer and Others	27.7	26.8	26.9	27.2	29.0	28.2	29.0	31.5	30.9
Insurance and Healthcare	15.6	16.6	16.7	16.0	17.1	18.8	19.1	18.3	19.2
Travel & Transportation	13.4	13.2	12.0	13.1	11.1	10.5	9.9	9.5	10.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Vertical-wise Revenue Growth

(QoQ, %)	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19
Banking and Financial Services	6.9	1.2	3.7	2.3	1.6	0.9	1.9	(1.0)	2.3
Manufacturing, Consumer and Others	4.3	(2.4)	1.7	5.1	10.6	(1.2)	5.7	11.0	2.9
Insurance And Healthcare	4.8	7.4	2.0	(0.4)	10.9	11.8	4.6	(2.1)	9.9
Travel & Transportation	3.9	(0.6)	(7.9)	13.4	(12.1)	(3.8)	(2.9)	(1.9)	11.4
Total	5.4	0.9	1.3	3.9	3.8	1.6	3.0	2.2	4.7

Source: Company, HDFC Sec Inst Research

ADM led growth among service-lines up 12.3% QoQ, 2Q is a strong qtr for ADM

IMS de-grew 8.2% QoQ impacted by one project closure, IMS is expected to recover in 3Q

BPM growth has been strong for second consecutive qtr

Net new deal wins of TCV USD 36mn was flat QoQ, ramp up of deals won in CY18 and orders in hand provide growth visibility for CY19

Top-5 accounts (37.3% of rev) declined impacted by a large BFS account

Service Line Break-up

(% of revenue)	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19
ADM	36.5	36.3	37.2	35.9	36.6	36.0	35.1	34.5	37.0
Quality Assurance and Testing Services	19.7	20.0	19.5	19.1	18.4	17.7	17.5	17.5	17.7
Business Intelligence & Analytics	14.0	13.8	13.8	14.2	13.5	14.5	13.1	13.1	12.3
Enterprise Solutions	11.6	11.3	10.8	10.9	10.5	9.7	9.5	9.5	9.4
IMS	11.0	11.3	11.7	13.0	13.8	14.7	17.5	17.8	15.6
BPM	7.2	7.3	7.0	6.9	7.2	7.4	7.3	7.6	8.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Service Line Growth

(QoQ, %)	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19
ADM	6.6	0.4	3.9	0.3	5.8	(0.0)	0.4	0.4	12.3
Quality Assurance and Testing Services	(0.6)	2.5	(1.2)	1.8	(0.1)	(2.2)	1.8	2.2	5.9
Business Intelligence & Analytics	7.0	(0.5)	1.3	6.9	(1.4)	9.2	(7.0)	2.2	(1.7)
Enterprise Solutions	1.1	(1.7)	(3.1)	4.9	(0.1)	(6.1)	0.8	2.2	3.6
IMS	8.4	3.7	4.9	15.5	10.1	8.3	22.6	3.9	(8.2)
BPM	18.6	2.3	(2.8)	2.4	8.3	4.5	1.6	6.4	10.3
Total	5.4	0.9	1.3	3.9	3.8	1.6	3.0	2.2	4.7

Source: Company, HDFC Sec Inst Research

Client Metrics

	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19
Client Concentration (% of revenue)									
Top-5	46.1	43.5	42.8	42.1	42.4	42.1	42.0	41.7	37.3
Top-10	56.5	54.8	52.9	52.8	52.8	52.2	51.6	51.1	46.4
Clients (Nos)									
>USD 1mn	81	82	88	89	93	95	99	99	120
>USD 20mn	5	5	4	4	4	4	5	5	5
Growth (QoQ %)									
Top-5	6.6	(4.8)	(0.3)	2.2	4.5	0.9	2.7	1.5	(6.3)
Top-10	5.1	(2.1)	(2.2)	3.7	3.8	0.5	1.8	1.2	(4.9)

Source: Company, HDFC Sec Inst Research

Americas and Europe growth included some component attributable to Mobiquity US to Europe revenue mix of Mobiquity is ~55:45%

Even ex-Mobiquity Americas and Europe growth was strong

APAC was soft after two qtrs of strong growth, APAC was impacted by one project closure

Attrition stabilised at 18.2% but is still elevated given the tight labour market in US

Utilisation improved 170bps QoQ which supported margins; utilisation is peaking and is expected to slightly reduce next qtr

Geographic Revenue Break-up

(% of revenue)	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19
Americas	80.8	79.1	77.7	75.3	77.0	77.4	76.9	76.1	76.8
Europe	11.2	11.3	12.1	12.5	12.7	13.3	13.0	12.6	14.0
Asia-Pacific	8.0	9.6	10.2	12.2	10.3	9.3	10.1	11.3	9.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Geographic Revenue Growth

(QoQ, %)	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19
Americas	4.4	(1.2)	(0.4)	0.7	6.1	2.2	2.3	1.1	5.7
Europe	7.3	1.8	8.5	7.3	5.4	6.5	0.6	(1.0)	16.4
Asia-Pacific	14.0	21.1	7.7	24.3	(12.4)	(8.2)	11.8	14.3	(14.7)
Total	5.4	0.9	1.3	3.9	3.8	1.6	3.0	2.2	4.7

Source: Company, HDFC Sec Inst Research

Headcount, Utilisation Data

(Nos.)	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19
Total headcount	13,098	13,488	13,705	14,619	15,357	16,050	16,205	16,509	18,294
Technical Employees	12,063	12,409	12,636	13,493	14,205	14,862	15,006	15,206	16,006
Sales & Marketing	432	445	452	468	461	482	486	479	549
General Management/Support	603	634	617	658	691	706	713	824	1,739
Net Employee Addition	364	390	217	914	738	693	155	304	1,785
Attrition (%)	13.8	13.7	13.1	13.4	14.4	15.7	17.0	18.2	18.2
Utilisation including trainees (%)	80.8	79.7	80.9	81.3	78.2	79.0	78.7	79.0	80.7

Source: Company, HDFC Sec Inst Research

Key Assumptions

Particulars	CY16	CY17	CY18	CY19E	CY20E	CY21E
Onsite USD Revenue Growth (%)	11.0	20.3	11.4	15.7	21.1	13.7
Offshore USD Revenue Growth (%)	4.0	7.8	11.9	22.5	16.1	8.7
Total USD Revenue Growth (%)	8.3	15.6	11.6	18.1	19.3	11.9
USD/INR Rate	67.3	64.9	68.5	69.9	70.0	70.0
EBITDA Margin (%)	16.4	16.6	15.8	14.6	15.4	15.6

Source: Company, HDFC Sec Inst Research

Change In Estimates

Particulars	OLD	NEW	% change
CY19E			
Revenue (USD mn)	806	800	(0.8)
Revenue (Rs bn)	56.40	55.94	(0.8)
EBITDA (Rs bn)	8.43	8.18	(3.0)
EBITDA margin (%)	14.9	14.6	(32)bps
EPS (Rs)	20.9	20.4	(2.2)
CY20E			
Revenue (USD mn)	954	954	0.0
Revenue (Rs bn)	66.78	66.79	0.0
EBITDA (Rs bn)	10.30	10.28	(0.2)
EBITDA margin (%)	15.4	15.4	(3)bps
EPS (Rs)	26.0	25.9	(0.7)
CY21E			
Revenue (USD mn)	1,070	1,068	(0.2)
Revenue (Rs bn)	74.89	74.75	(0.2)
EBITDA (Rs bn)	11.62	11.67	0.4
EBITDA margin (%)	15.5	15.6	10bps
EPS (Rs)	29.5	29.6	0.5

Source: HDFC sec Inst Research

Peer Set Comparison

Company	MCap (Rs bn)	CMP (Rs)	TP (Rs)	RECO	EPS (Rs)				P/E (x)				RoE (%)			
					FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
TCS	8,473	2,258	2,420	BUY	68.8	83.9	87.9	98.4	32.8	26.9	25.7	22.9	30.1	36.1	36.1	38.5
Infosys	3,432	789	770	NEU	34.2	36.7	36.9	41.5	23.1	21.5	21.4	19.0	22.0	24.4	24.8	27.2
Wipro	1,515	266	220	SELL	14.0	15.8	16.6	17.7	18.9	16.8	16.0	15.0	16.5	17.3	16.9	16.9
HCL Tech	1,515	1,088	1,250	BUY	64.7	74.6	74.7	86.0	16.8	14.6	14.6	12.6	25.3	26.0	23.1	23.6
TechM	598	680	595	SELL	43.2	48.9	45.7	48.5	15.7	13.9	14.9	14.0	21.5	22.0	19.5	19.1
Tier-1 IT Median									18.9	16.8	16.0	15.0	22.0	24.4	23.1	23.6
LTI	282	1,623	2,115	BUY	66.9	87.3	85.8	101.2	24.3	18.6	18.9	16.0	33.2	34.6	28.0	28.2
Mphasis	179	962	1,310	BUY	45.4	57.6	59.4	70.2	21.2	16.7	16.2	13.7	14.6	20.0	20.0	21.1
LTTS	162	1,557	1,955	BUY	45.5	68.0	73.2	93.3	34.2	22.9	21.3	16.7	27.7	32.0	28.1	30.0
Mindtree	123	748	705	NEU	32.3	44.2	36.5	48.1	23.1	16.9	20.5	15.6	21.4	24.9	17.3	23.0
Hexaware *	109	367	445	BUY	16.8	19.6	20.4	25.9	21.9	18.8	18.0	14.2	26.6	26.5	23.5	25.5
Cyient	50	444	510	NEU	38.6	43.6	42.7	45.8	11.5	10.2	10.4	9.7	18.1	19.5	17.7	17.2
Zensar	49	216	265	BUY	10.6	14.1	15.2	18.2	20.4	15.4	14.2	11.9	15.1	17.3	16.3	17.1
Persistent	43	536	615	NEU	42.0	47.5	42.5	45.7	12.8	11.3	12.6	11.7	16.0	15.7	13.6	14.2
Tata Elxsi	39	631	990	NR	38.5	46.6	33.0	39.5	16.4	13.6	19.2	16.0	37.0	34.5	20.4	21.4
Sonata	34	325	421	BUY	18.6	24.0	25.9	29.1	17.5	13.6	12.6	11.2	31.0	35.1	33.0	33.0
Intellect	29	218	300	BUY	3.5	7.7	8.0	11.7	NM	28.5	27.4	18.6	6.7	11.1	9.8	12.8
eClerx	20	529	505	SELL	74.0	61.7	51.6	55.9	7.1	8.6	10.3	9.5	24.1	17.6	14.2	15.3
Majesco	13	470	730	BUY	(1.5)	18.3	26.3	34.4	NM	25.6	17.8	13.7	NM	8.4	10.4	12.2
HGS	12	566	900	NR	96.5	84.6	84.1	101.4	5.9	6.7	6.7	5.6	10.5	8.5	11.5	12.1
Mastek	8	356	618	BUY	27.7	40.4	42.1	47.6	12.8	8.8	8.4	7.5	13.7	16.1	14.1	14.3
Tier-2 IT Median									17.5	15.4	16.2	13.7	19.8	19.5	17.3	17.2

Company	MCap (USD bn)	CMP USD	TP	RECO	EPS (USD)				P/E (x)				RoE (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Accenture	130	194	NA	NR	5.4	6.3	7.3	8.0	35.7	30.6	26.5	24.3	41.8	42.0	42.0	41.9
Cognizant	35	37	NA	NR	3.6	4.5	3.9	4.3	10.3	8.2	9.4	8.6	14.1	19.0	18.9	20.2
Capgemini^	20	112	NA	NR	4.8	4.3	6.5	70.2	23.5	26.4	17.2	1.6	11.5	10.1	13.4	13.7
Global IT Median									23.5	26.4	17.2	8.6	14.1	19.0	18.9	20.2

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

Consolidated Income Statement

YE December (Rs bn)	CY17	CY18	CY19E	CY20E	CY21E
Net Sales (US\$ mn)	607	678	800	954	1,068
Growth (%)	15.6	11.6	18.1	19.3	11.9
Net Sales	39.42	46.48	55.94	66.79	74.75
Growth (%)	11.5	17.9	20.4	19.4	11.9
Employee Expenses	21.43	24.80	29.46	34.14	38.04
SG&A and Other Operating Expenses	11.44	14.34	18.30	22.38	25.04
EBITDA	6.55	7.34	8.18	10.28	11.67
EBITDA (%)	16.6	15.8	14.6	15.4	15.6
Depreciation	0.63	0.65	0.92	1.11	1.20
EBIT	5.92	6.69	7.26	9.17	10.47
EBIT (%)	15.0	14.4	13.0	13.7	14.0
EBIT Growth (%)	13.3	13.0	8.6	26.2	14.2
Other Income	0.49	0.58	0.27	0.51	0.62
Interest	0.00	0.00	0.07	0.13	0.13
PBT	6.40	7.27	7.47	9.55	10.96
Tax (incl deferred)	1.41	1.43	1.38	1.84	2.14
RPAT	4.99	5.83	6.09	7.71	8.83
APAT	4.99	5.83	6.09	7.71	8.83
APAT Growth (%)	18.9	16.9	4.4	26.6	14.5
EPS	16.8	19.6	20.4	25.9	29.6
EPS Growth (%)	18.9	16.9	4.4	26.6	14.5

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE December (Rs bn)	CY17	CY18	CY19E	CY20E	CY21E
SOURCES OF FUNDS					
Share Capital - Equity	0.59	0.59	0.60	0.60	0.60
Reserves	19.48	23.32	27.26	31.93	37.53
Total Shareholders' Funds	20.07	23.92	27.86	32.52	38.13
Total Debt	-	-	2.10	2.10	2.10
Net Deferred Taxes	(1.34)	(1.78)	(1.78)	(1.78)	(1.78)
Long Term Provisions & Others	0.21	0.31	0.31	0.31	0.31
TOTAL SOURCES OF FUNDS	18.95	22.44	28.48	33.15	38.75
APPLICATION OF FUNDS					
Net Block	3.76	3.93	6.24	6.16	5.89
CWIP	2.56	2.24	2.24	2.24	2.24
Goodwill	1.66	1.81	11.59	11.59	11.59
Investments	0.02	0.03	0.03	0.03	0.03
Other non-current assets	1.58	1.67	1.67	1.67	1.67
Total Non Current Assets	9.58	9.68	21.76	21.68	21.42
Cash & Equivalents	5.49	8.31	1.46	3.73	8.57
Debtors	5.36	8.03	9.81	11.89	13.31
Other Current Assets	3.69	3.53	4.01	5.30	5.93
Total Current Assets	9.05	11.56	13.82	17.20	19.24
Creditors	2.20	3.30	3.98	4.57	5.12
Other Current Liabilities & Provns	2.97	3.81	4.57	4.89	5.37
Total Current Liabilities	5.17	7.11	8.56	9.46	10.49
Net Current Assets	3.88	4.45	5.27	7.73	8.76
TOTAL APPLICATION OF FUNDS	18.95	22.44	28.48	33.15	38.75

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE December (Rs bn)	CY17	CY18	CY19E	CY20E	CY21E
Reported PBT	6.40	7.27	7.47	9.55	10.96
Non-operating & EO items	0.37	0.33	(0.22)	(0.41)	(0.50)
Interest expenses	0.00	0.00	0.07	0.13	0.13
Depreciation	0.63	0.65	0.92	1.11	1.20
Working Capital Change	(0.90)	(1.17)	(0.81)	(2.47)	(1.02)
Tax paid	(1.75)	(1.59)	(1.38)	(1.84)	(2.14)
OPERATING CASH FLOW (a)	4.76	5.49	6.04	6.07	8.63
Capex	(0.95)	(0.61)	(12.99)	(1.03)	(0.94)
<i>Free cash flow (FCF)</i>	<i>3.81</i>	<i>4.88</i>	<i>(6.96)</i>	<i>5.03</i>	<i>7.69</i>
Non-operating income	0.02	0.07	0.22	0.41	0.50
INVESTING CASH FLOW (b)	(0.94)	(0.54)	(12.77)	(0.62)	(0.44)
Debt Issuance	-	-	2.10	-	-
Interest expenses	(0.00)	(0.00)	(0.07)	(0.13)	(0.13)
<i>FCFE</i>	<i>3.81</i>	<i>4.88</i>	<i>(4.92)</i>	<i>4.91</i>	<i>7.57</i>
Share capital Issuance	0.01	0.00	0.00	-	-
Dividend/ Buyback	(2.81)	(2.51)	(2.15)	(3.05)	(3.23)
FINANCING CASH FLOW (c)	(2.80)	(2.50)	(0.12)	(3.17)	(3.35)
NET CASH FLOW (a+b+c)	1.03	2.44	(6.85)	2.27	4.84
Closing Cash & Equivalents	5.49	8.31	1.46	3.73	8.57

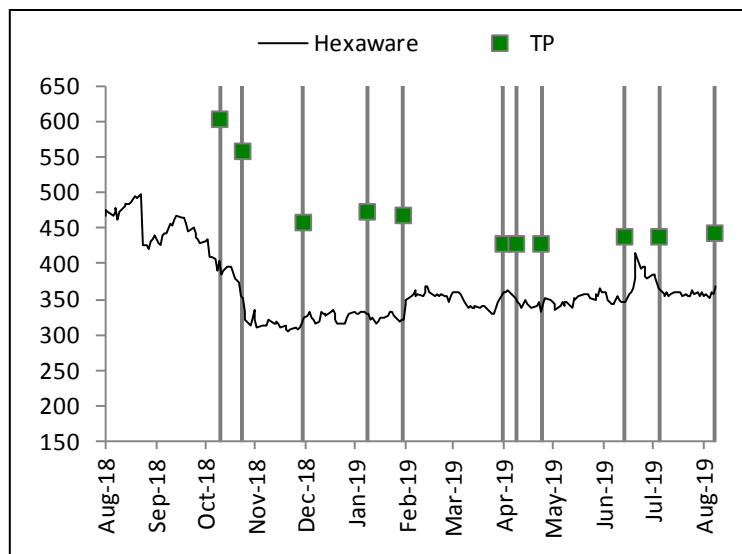
Source: Company, HDFC sec Inst Research

Key Ratios

	CY17	CY18	CY19E	CY20E	CY21E
PROFITABILITY (%)					
EBITDA Margin	16.6	15.8	14.6	15.4	15.6
APAT Margin	12.7	12.6	10.9	11.5	11.8
RoE	26.6	26.5	23.5	25.5	25.0
RoIC or Core RoCE	36.2	38.9	28.8	26.2	28.3
RoCE	28.2	28.2	24.1	25.4	24.8
EFFICIENCY					
Tax Rate (%)	22.0	19.7	18.5	19.3	19.5
Fixed Asset Turnover (x)	3.3	3.7	3.3	3.6	3.7
<i>Debtors (days)</i>	<i>50</i>	<i>63</i>	<i>64</i>	<i>65</i>	<i>65</i>
<i>Other current assets (x)</i>	<i>34</i>	<i>28</i>	<i>26</i>	<i>29</i>	<i>29</i>
<i>Payables (days)</i>	<i>20</i>	<i>26</i>	<i>26</i>	<i>25</i>	<i>25</i>
<i>Other current liab & provn (x)</i>	<i>27</i>	<i>30</i>	<i>30</i>	<i>27</i>	<i>26</i>
Cash Conversion Cycle (days)	36	35	34	42	43
Net Debt/EBITDA (x)	(0.8)	(1.1)	0.1	(0.2)	(0.6)
Net Debt/Equity (x)	(0.3)	(0.3)	0.0	(0.1)	(0.2)
Interest Coverage (x)	5,016	15,923	107	73	83
PER SHARE DATA					
EPS (Rs/sh)	16.8	19.6	20.4	25.9	29.6
CEPS (Rs/sh)	18.9	21.8	23.5	29.6	33.6
DPS (Rs/sh)	4.0	8.5	6.0	8.5	9.0
BV (Rs/sh)	67.4	80.3	93.5	109.1	127.9
VALUATION					
P/E	21.9	18.8	18.0	14.2	12.4
P/BV	5.5	4.6	3.9	3.4	2.9
EV/EBITDA	15.9	13.8	13.5	10.5	8.8
OCF/EV (%)	4.6	5.4	5.5	5.6	8.4
FCF/EV (%)	3.7	4.8	(6.3)	4.7	7.5
FCFE/mkt cap (%)	3.5	4.5	(4.5)	4.5	6.9
Dividend Yield (%)	1.1	2.3	1.6	2.3	2.4

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Oct-18	404	BUY	605
25-Oct-18	351	BUY	560
30-Nov-18	315	BUY	460
8-Jan-19	329	BUY	475
31-Jan-19	323	BUY	470
1-Apr-19	345	BUY	430
9-Apr-19	351	BUY	430
25-Apr-19	333	BUY	430
17-Jun-19	345	BUY	440
5-Jul-19	365	BUY	440
9-Aug-19	367	BUY	445

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BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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