

Estimate change



TP change



Rating change



**CMP: INR939**

**TP: INR1,240 (+32%)**

**Buy**

## Guidance increase may help drive stock rerating

### Strong margin recovery to drive earnings outperformance

|                       | HCLT IN     |
|-----------------------|-------------|
| Bloomberg             |             |
| Equity Shares (m)     | 2,714       |
| M.Cap.(INRb)/(USDb)   | 2547 / 30.9 |
| 52-Week Range (INR)   | 1359 / 876  |
| 1, 6, 12 Rel. Per (%) | 3/-14/-23   |
| 12M Avg Val (INR M)   | 4461        |

### Financials & Valuations (INR b)

| Y/E Mar         | 2022 | 2023E | 2024E |
|-----------------|------|-------|-------|
| Sales           | 857  | 1,016 | 1,148 |
| EBIT Margin (%) | 18.9 | 18.0  | 18.7  |
| PAT             | 135  | 147   | 167   |
| EPS (INR)       | 49.8 | 54.3  | 61.8  |
| EPS Gr. (%)     | 13.8 | 8.9   | 13.8  |
| BV/Sh. (INR)    | 229  | 226   | 223   |

### Ratios

|            |      |      |      |
|------------|------|------|------|
| RoE (%)    | 21.9 | 23.9 | 27.5 |
| RoCE (%)   | 19.6 | 21.2 | 25.1 |
| Payout (%) | 88.3 | 90.0 | 90.0 |

### Valuations

|               |      |      |      |
|---------------|------|------|------|
| P/E (x)       | 19.1 | 17.5 | 15.4 |
| P/BV (x)      | 4.2  | 4.2  | 4.3  |
| EV/EBITDA (x) | 12.5 | 11.3 | 9.9  |
| Div Yield (%) | 4.6  | 5.1  | 5.8  |

### Shareholding pattern (%)

| As On    | Jun-22 | Mar-22 | Jun-21 |
|----------|--------|--------|--------|
| Promoter | 60.7   | 60.7   | 60.3   |
| DII      | 15.6   | 14.7   | 11.4   |
| FII      | 18.1   | 19.2   | 23.2   |
| Others   | 5.6    | 5.4    | 5.1    |

FII Includes depository receipts

- HCLT delivered a strong revenue growth of 3.8% QoQ CC in 2QFY23 (100bp above our estimates), led by IT services & ER&D verticals. Overall services grew 5.3% in CC terms and it reported robust new deal TCV of USD2.4b (+16% QoQ/+6% YoY). The company increased its revenue guidance to 13.5-14.5% in CC terms from 12-14% earlier, which was a surprise, given the weakening macro environment.
- Further, it delivered a strong beat in EBIT margin at 18.0% (+100 bp QoQ, 70bp above MOFSLe) with IT services up 100bp QoQ, ER&D up 270bp QoQ, while P&P down 220bp QoQ. HCLT revised its EBIT margin guidance to 18-19% from 18-20%.
- Despite the tough demand environment, HCLT maintained its momentum by beating our expectations in both IT services and ER&D verticals. Moreover, the continued strong deal TCV (book to bill of 0.8x), pipeline commentary and revenue growth guidance of 16-17% YoY in CC terms for the vertical should reassure investor concerns on the company's growth.
- The P&P vertical declined 7.8% QoQ on seasonality and the company expects it to remain flat for FY23 (we estimate mid-single digit CC decline). Though growth visibility remains low, we continue to see a good potential for it in the long run after flattish growth over FY22-24E.
- HCLT delivered an exceptional margin improvement in 2Q, delivering a large beat to broad expectation of miss to FY23 margin guidance. We expect HCLT to deliver FY23 margin at the lower end of its margin guidance, and further improve to 18.7% in FY24.
- This strong growth guidance and margin performance (despite wage hikes) in an environment, where the demand for IT services is expected to be incrementally weaker, should help improve investor confidence on its business and lower the valuation gap with larger Tier 1 IT services peers. We continue to see HCLT's defensive business as a positive in a demand constrained environment.
- On a combined basis, HCLT is expected to deliver a USD revenue growth of 10% and corresponding PAT CAGR of 11.3% over FY22-24. HCLT is currently trading at an inexpensive 15x FY24.
- We increased our estimates for FY23 and FY24 by 4%-6%. We reiterate our **Buy** rating with a TP of INR1,240/share (20x FY24E EPS).

### Strong Q2 beat, unexpected FY23 guidance increase

- Revenue grew at 3.8% QoQ CC, 100bps above our estimates. Q2 new deal TCV was at USD 2.4bn (+16% QoQ/+6% YoY). ACV was up 10% QoQ/24% YoY.
- For 1HFY23, USD Revenue/INR EBIT/INR PAT grew at 10.8/7.3/4.5% YoY, respectively.
- Revenue growth guidance for FY23 increased 100bp to 13.5-14.5% YoY CC. IT services is expected to grow by 16-17% YoY in CC terms.

Mukul Garg – Research analyst (Mukul.Garg@MotilalOswal.com)

Raj Prakash Bhanushali – Research analyst (Raj.Bhanushali@MotilalOswal.com)

**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

- PAT of INR 34.9b, up 6.9% QoQ, have beaten our estimates by 2.8%
- On LTM basis, OCF to Net Income stood at 114%. Cash and Cash equivalents at USD 1.76b
- LTM Attrition was flat QoQ at 23.8%. It added 10k freshers in 2QFY23; net adds strong at 8.4k employees.
- HCLT declared a dividend of INR 10/share.

### Key highlights from the management commentary

- The management said that the macro uncertainty is weighing on a number of clients, and that clients are re-assigning spends and projects.
- A lot of clients are lagging behind in consuming Cloud capacity and need to accelerate spends to consume the same.
- HCLT is seeing some stabilization in the P&P vertical. The same is expected to remain flat in FY23, though the management is seeing very strong recognition and adoption for some products.
- It earlier expected margin at 18% (lower-end of its previous guidance). It now expects margin to be in the 18-19% range on the back of success in its margin improvement initiatives.

### Valuations offer a margin of safety

- Higher exposure to Cloud, which comprises a larger share of non-discretionary spends, offers a better resilience to its portfolio in the current context, with higher demand for Cloud, Network, Security, and Digital workplace services.
- Strong sequential growth within Services, robust headcount addition, healthy deal wins, and a solid pipeline indicate an improved outlook.
- Given its capabilities in the IMS and Digital space and strategic partnerships, investments in Cloud, we expect HCLT to emerge stronger on the back of an expected increase in enterprise demand for these services. The stock is trading ~15x FY24E EPS, which offers a margin of safety. Our TP is based on 20x FY24E EPS. We reiterate our **Buy** rating.

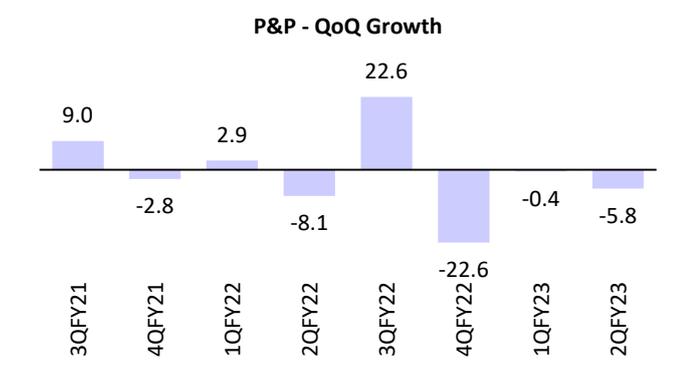
### Quarterly performance

| Y/E March         | FY22  |       |       |       | FY23E |       |       |       | FY22   |        | FY23E |       | (INR b) |  |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|-------|-------|---------|--|
|                   | 1Q    | 2Q    | 3Q    | 4Q    | 1Q    | 2Q    | 3QE   | 4QE   | FY22   | FY23E  | FY23  | Var.  |         |  |
| Revenue (USD m)   | 2,720 | 2,791 | 2,978 | 2,993 | 3,025 | 3,082 | 3,218 | 3,259 | 11,481 | 12,583 | 3,065 | 0.5   |         |  |
| QoQ (%)           | 0.9   | 2.6   | 6.7   | 0.5   | 1.1   | 1.9   | 4.4   | 1.3   | 12.8   | 9.6    | 1.3   | 56bp  |         |  |
| Revenue (INR b)   | 201   | 207   | 223   | 226   | 235   | 247   | 265   | 269   | 857    | 1,016  | 244   | 1.0   |         |  |
| YoY (%)           | 12.5  | 11.1  | 15.7  | 15.0  | 16.9  | 19.5  | 18.9  | 19.0  | 13.6   | 18.6   | 18.3  | 124bp |         |  |
| GPM (%)           | 39.2  | 38.2  | 38.2  | 36.8  | 35.8  | 35.8  | 36.5  | 36.4  | 38.1   | 36.1   | 35.6  | 20bp  |         |  |
| SGA (%)           | 12.8  | 13.0  | 12.4  | 12.7  | 12.9  | 12.2  | 12.3  | 12.5  | 12.7   | 12.5   | 12.5  | -25bp |         |  |
| EBITDA            | 49    | 50    | 54    | 52    | 49    | 54    | 60    | 60    | 202    | 224    | 53    | 3.3   |         |  |
| EBITDA margin (%) | 24.5  | 24.0  | 24.1  | 23.1  | 21.1  | 22.0  | 22.7  | 22.4  | 23.6   | 22.1   | 21.5  | 47bp  |         |  |
| EBIT              | 39    | 39    | 43    | 41    | 40    | 44    | 50    | 49    | 162    | 183    | 42    | 5.0   |         |  |
| EBIT margin (%)   | 19.6  | 19.0  | 19.1  | 18.0  | 17.0  | 17.9  | 18.6  | 18.4  | 18.9   | 18.0   | 17.3  | 67bp  |         |  |
| Other income      | 2     | 2     | 2     | 3     | 3     | 2     | 3     | 3     | 8      | 10     | 2     | -36.1 |         |  |
| ETR (%)           | 21.7  | 20.5  | 22.2  | 16.7  | 24.3  | 23.9  | 24.0  | 24.0  | 20.3   | 24.1   | 24.0  | -9bp  |         |  |
| Adjusted PAT      | 32    | 33    | 34    | 36    | 33    | 35    | 40    | 40    | 135    | 147    | 34    | 2.8   |         |  |
| QoQ (%)           | 34.7  | 1.5   | 5.5   | 4.4   | -8.7  | 6.3   | 13.7  | -0.1  |        |        | 3.4   | 288bp |         |  |
| YoY (%)           | 10.0  | 3.9   | 0.3   | 50.6  | 2.1   | 6.9   | 15.2  | 10.3  | 13.7   | 8.8    | 4.0   | 290bp |         |  |
| EPS               | 11.8  | 12.0  | 12.7  | 13.3  | 12.1  | 12.9  | 14.6  | 14.6  | 49.8   | 54.3   | 12.5  | 2.8   |         |  |

**Key performance indicators**

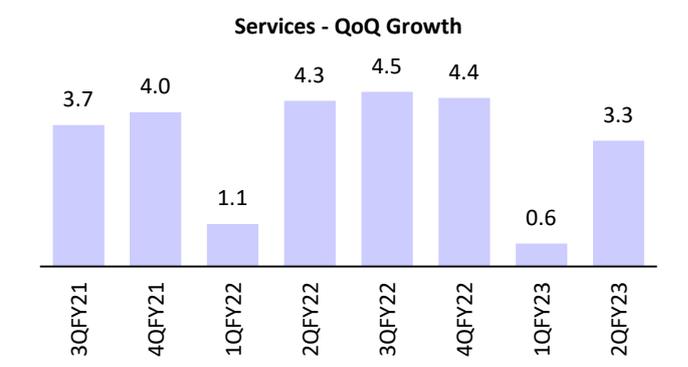
| Y/E March                                 | FY22 |      |      |      | FY23E |      |      |      | FY22 | FY23E |
|---|------|------|------|------|-------|------|------|------|------|-------|
|   | 1Q   | 2Q   | 3Q   | 4Q   | 1Q    | 2Q   | 3QE  | 4QE  |      |       |
| Revenue (QoQ CC %)                        | 0.7  | 3.5  | 7.6  | 1.1  | 2.7   | 3.8  |      |      | 12.7 |       |
| <b>Costs (as a percentage of revenue)</b> |      |      |      |      |       |      |      |      |      |       |
| COGS                                      | 60.8 | 61.8 | 61.8 | 63.2 | 64.2  | 64.2 | 63.5 | 63.6 | 61.9 | 63.9  |
| SGA                                       | 12.8 | 13.0 | 12.4 | 12.7 | 12.9  | 12.2 | 12.3 | 12.5 | 12.7 | 12.5  |
| <b>Margins</b>                            |      |      |      |      |       |      |      |      |      |       |
| Gross margin                              | 39.2 | 38.2 | 38.2 | 36.8 | 35.8  | 35.8 | 36.5 | 36.4 | 38.1 | 36.1  |
| EBIT margin                               | 19.6 | 19.0 | 19.1 | 18.0 | 17.0  | 17.9 | 18.6 | 18.4 | 18.9 | 18.0  |
| Net margin                                | 16.0 | 15.8 | 15.4 | 15.9 | 14.0  | 14.1 | 14.9 | 14.7 | 15.8 | 14.5  |
| <b>Operating metrics</b>                  |      |      |      |      |       |      |      |      |      |       |
| Headcount (k)                             | 176  | 188  | 198  | 209  | 211   | 219  |      |      | 209  |       |
| Attrition (%)                             | 11.8 | 15.7 | 19.8 | 21.9 | 23.8  | 23.8 |      |      | 21.9 |       |
| <b>Key verticals (YoY CC %)</b>           |      |      |      |      |       |      |      |      |      |       |
| BFSI                                      | 8.8  | 6.3  | 13.5 | 10.2 | 16.4  | 15.4 |      |      | 9.6  |       |
| Manufacturing                             | 5.3  | 11.9 | 12.2 | 16.6 | 19.1  | 21.8 |      |      | 10.8 |       |
| <b>Key geographies (YoY CC %)</b>         |      |      |      |      |       |      |      |      |      |       |
| North America                             | 13.5 | 10.7 | 15.0 | 13.0 | 17.5  | 18.2 |      |      | 13.0 |       |
| Europe                                    | 5.1  | 9.0  | 12.0 | 13.6 | 22.5  | 21.8 |      |      | 10.1 |       |

**Exhibit 1: QoQ growth in the P&P segment**



Source: MOSL, Company

**Exhibit 2: QoQ growth in the Services (%)**



Source: MOSL, Company



**Key highlights from the management commentary**

**Demand and industry outlook**

- In IT Services, growth was led by Europe at 6.9% QoQ, followed by the US at 4.7% in CC terms. Among verticals, growth was led by Manufacturing, which grew at 10.9% in CC terms.
- Clients are accelerating their Digital transformation journey, which is providing business benefits, while reducing operating cost.
- The management said that the macro uncertainty is weighing on a number of clients, and that clients are re-assigning spends and projects.
- A lot of clients are lagging behind in consuming Cloud capacity and need to accelerate spends to consume the same.
- HCLT is seeing some stabilization in the P&P vertical. The same is expected to remain flat in FY23, though the management is seeing very strong recognition and adoption for some products.
- Though the US is better placed than Europe in terms of the macro-environment, it is confident of a strong growth in Europe.

- New deal TCV rose 16% QoQ and 6% YoY to USD2.4b. It also bagged a mega deal in 2QFY23, with an ACV of USD125m for five years beginning FY24. The management said the mega deal was a result of synergies from the P&P business.
- The pipeline remains well-diversified, with a good mix of large and medium sized deals. It aspires to achieve USD2-2.5b in TCV every quarter.
- In CC terms, the management raised its revenue growth guidance to 13.5-14.5% from 12-14% earlier. It also guided at 16-17% revenue growth (in CC terms) for the Services business. It remains positive on near-term growth, given its strong pipeline.
- The management said it has baked in some slowdown in 2H v/s 1HFY23, due to macro volatility and the impact of furloughs on the latter half of the fiscal in its guidance.

### Margin performance

- Though margin was impacted by 93bp on competitive salary increases, it was able to improve margin by 100bp, with no compromise on variable pay. On a gross basis, margin rose 226bp in the Services business. HCLT benefited by 100bp from realizations from existing and new deals, utilization to the extent of 15bp, operating leverage from SG&A contributed 45bp, and a favorable forex contributed 55bp.
- It earlier expected margin at 18% (lower-end of its previous guidance). It now expects margin to be in the 18-19% range on the back of success in its margin improvement initiatives.
- It expects margin improvement to continue.

### Other highlights

- HCLT hired ~10k freshers in 2Q and plans to hire an additional ~30k in FY23.
- Attrition was flat QoQ at 23.8%. The management said the same has peaked and should fall going forward.

### Exhibit 3: Broad-based growth within geographies

| Geographies | Contribution to revenue (%) | CC QoQ growth (%) | CC YoY growth (%) |
|-------------|-----------------------------|-------------------|-------------------|
| Americas    | 64.8                        | 4.7               | 18.2              |
| Europe      | 27.5                        | 6.9               | 21.8              |
| RoW         | 7.7                         | 3.7               | 13.7              |

Source: Company, MOFSL

**Exhibit 4: Manufacturing led the growth in 2QFY23**

| Verticals                    | Contribution to revenue (%) | CC QoQ growth (%) | CC YoY growth (%) |
|------------------------------|-----------------------------|-------------------|-------------------|
| Financial Services           | 20.6                        | 3.7               | 15.4              |
| Manufacturing                | 19.2                        | 10.9              | 21.8              |
| Technology                   | 15.1                        | 2.4               | 26.6              |
| Life Sciences and Healthcare | 16.5                        | 5.1               | 14.4              |
| Telecom MP&E                 | 9.2                         | 4.1               | 27.1              |
| Retail and CPG               | 9.2                         | 3.0               | 11.9              |
| Public Services              | 10.2                        | 6.0               | 17.6              |

Source: Company, MOFSL

**Exhibit 5: IT and Business Services led the growth in 2QFY23**

| Segments                     | Contribution to revenue (%) | CC QoQ growth (%) | CC YoY growth (%) |
|------------------------------|-----------------------------|-------------------|-------------------|
| IT and Business Services     | 73.6                        | 5.3               | 18.2              |
| Engineering and R&D Services | 17.0                        | 5.0               | 22.3              |
| Products and Platforms       | 9.8                         | -7.8              | -7.2              |

Source: Company, MOFSL

**Valuations offer a margin of safety**

- Higher exposure to Cloud, which comprises a larger share of non-discretionary spend, offers a better resilience to its portfolio in the current context, with higher demand for Cloud, Network, Security, and Digital workplace services.
- Strong sequential growth within Services, robust headcount additions, healthy deal wins, and a solid pipeline indicate an improved outlook.
- Given its capabilities in the IMS and Digital space and strategic partnerships, investments in Cloud, we expect HCLT to emerge stronger on the back of an expected increase in enterprise demand for these services. The stock is trading ~15x FY24E EPS, which offers a margin of safety. Our TP is based on 20x FY24E EPS and we reiterate our **Buy** rating.

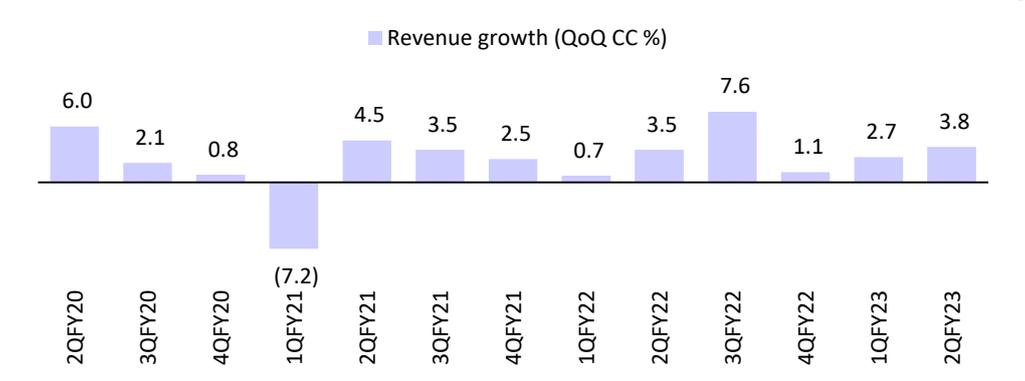
**Exhibit 6: Revisions to our estimates**

|                 | Revised |        | Earlier |        | Change (%) |        |
|-----------------|---------|--------|---------|--------|------------|--------|
|                 | FY23E   | FY24E  | FY23E   | FY24E  | FY23E      | FY24E  |
| USD:INR         | 80.7    | 82.5   | 80.2    | 81.8   | 0.5        | 0.9    |
| Revenue (USD m) | 12,583  | 13,917 | 12,425  | 13,285 | 1.3        | 4.8    |
| Growth (%)      | 9.6     | 10.6   | 8.2     | 6.9    | 140bps     | 370bps |
| EBIT margin (%) | 18.0    | 18.7   | 17.6    | 18.1   | 40bps      | 60bps  |
| PAT (INR b)     | 147     | 167    | 142     | 158    | 3.7        | 6.0    |
| EPS             | 54.3    | 61.8   | 52.3    | 58.3   | 3.7        | 6.0    |

Source: MOFSL

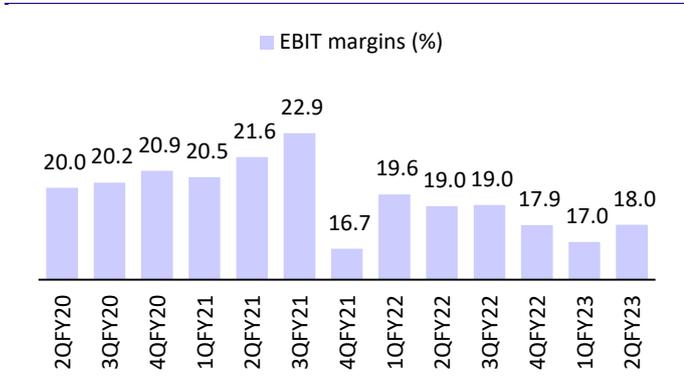
Story in charts

Exhibit 7: HCLT reports strong 3.8% sequential growth



Source: Company, MOFSL

Exhibit 8: Margin improved 100bp QoQ in 2QFY23



Source: Company, MOFSL

Exhibit 9: Gross margin flat QoQ

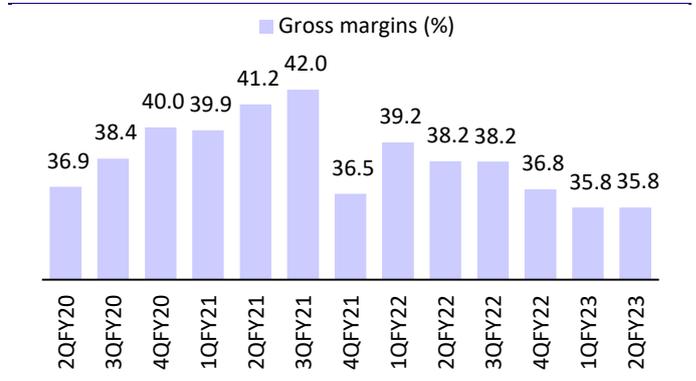
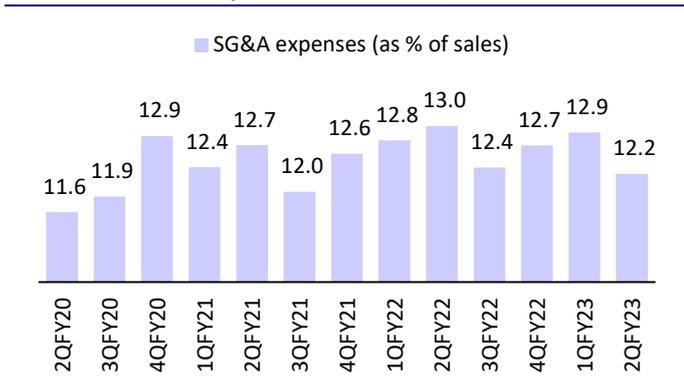
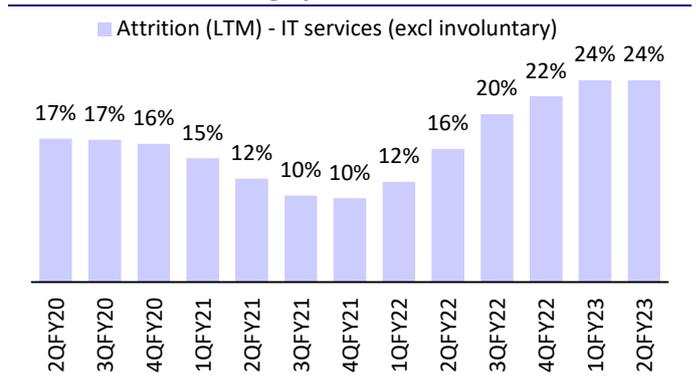


Exhibit 10: SG&A expenses lower in 2QFY23



Source: Company, MOFSL

Exhibit 11: Attrition largely flat in 2QFY23



Source: Company, MOFSL

## Operating metrics

Exhibit 12: Operating metrics

|                              | 2QFY21 | 3QFY21 | 4QFY21 | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 | 1QFY23 | 2QFY23 |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Service-wise (%)</b>      |        |        |        |        |        |        |        |        |        |
| IT and Business Services     | 70.8   | 70.4   | 71.9   | 71.6   | 72.6   | 70.6   | 73.4   | 72.8   | 73.6   |
| Engineering and R&D Services | 15.7   | 15.5   | 14.8   | 15.3   | 15.7   | 15.9   | 16.4   | 16.6   | 17.0   |
| Products and Platform        | 13.5   | 14.1   | 13.3   | 13.1   | 11.7   | 13.5   | 10.2   | 11.0   | 9.8    |
| <b>Vertical-wise (%)</b>     |        |        |        |        |        |        |        |        |        |
| BFSI                         | 22.1   | 21.4   | 21.6   | 22.1   | 21.3   | 21.1   | 20.9   | 21.1   | 20.6   |
| Manufacturing                | 17.7   | 18.1   | 17.7   | 17.2   | 17.9   | 17.5   | 18.0   | 18.3   | 18.3   |
| Technology and Services      | 17.3   | 17.8   | 17.2   | 17.3   | 17.2   | 18.4   | 17.5   | 15.4   | 15.4   |
| Retail and CPG               | 10.4   | 10.5   | 10.1   | 10.0   | 9.8    | 10.1   | 9.4    | 9.4    | 9.2    |
| Telecom MP&E                 | 7.7    | 8.3    | 8.1    | 7.9    | 7.9    | 8.1    | 8.6    | 9.2    | 9.2    |
| Life Sciences                | 14.1   | 13.6   | 14.1   | 14.7   | 15.3   | 14.4   | 14.9   | 16.4   | 16.5   |
| Public Services              | 10.7   | 10.4   | 11.2   | 10.8   | 10.6   | 10.4   | 10.7   | 10.2   | 10.2   |
| <b>Geography-wise (%)</b>    |        |        |        |        |        |        |        |        |        |
| US                           | 63.1   | 62.5   | 62.0   | 63.1   | 62.8   | 63.1   | 62.8   | 64.2   | 64.8   |
| Europe                       | 28.4   | 29.5   | 29.1   | 27.9   | 28.3   | 28.3   | 28.3   | 27.8   | 27.5   |
| RoW                          | 8.5    | 8.0    | 8.9    | 9.0    | 8.9    | 8.7    | 8.9    | 8.0    | 7.7    |
| <b>Client-wise (%)</b>       |        |        |        |        |        |        |        |        |        |
| Top five clients             | 13.7   | 13.5   | 13.2   | 13.0   | 12.7   | 12.2   | 11.6   | 11.2   | 10.7   |
| Top 10 clients               | 20.9   | 21.0   | 20.9   | 20.8   | 20.7   | 20.3   | 19.8   | 19.4   | 18.8   |
| Top 20 clients               | 30.6   | 30.9   | 30.8   | 30.4   | 29.9   | 29.4   | 29.1   | 28.9   | 28.6   |

Source: Company, MOFSL:

## Financials and valuations

| Income Statement             |            |            |            |            |            |            | (INR b)      |              |
|------------------------------|------------|------------|------------|------------|------------|------------|--------------|--------------|
| Y/E March                    | FY17       | FY18       | FY19       | FY20       | FY21       | FY22       | FY23E        | FY24E        |
| <b>Sales</b>                 | <b>467</b> | <b>506</b> | <b>604</b> | <b>707</b> | <b>754</b> | <b>857</b> | <b>1,016</b> | <b>1,148</b> |
| Change (%)                   | 14.2       | 8.2        | 19.5       | 17.0       | 6.7        | 13.6       | 18.6         | 13.0         |
| Cost of Goods Sold           | 309        | 332        | 393        | 453        | 467        | 546        | 665          | 744          |
| <b>Gross Profit</b>          | <b>158</b> | <b>173</b> | <b>212</b> | <b>254</b> | <b>287</b> | <b>311</b> | <b>351</b>   | <b>404</b>   |
| Selling and Admin Exp.       | 55         | 59         | 72         | 87         | 93         | 109        | 127          | 144          |
| <b>EBITDA</b>                | <b>103</b> | <b>114</b> | <b>140</b> | <b>167</b> | <b>193</b> | <b>202</b> | <b>224</b>   | <b>260</b>   |
| As a percentage of Net Sales | 22.1       | 22.6       | 23.1       | 23.6       | 25.6       | 23.6       | 22.1         | 22.7         |
| Depreciation                 | 8          | 15         | 21         | 28         | 40         | 40         | 41           | 46           |
| <b>EBIT</b>                  | <b>95</b>  | <b>100</b> | <b>118</b> | <b>139</b> | <b>153</b> | <b>162</b> | <b>183</b>   | <b>214</b>   |
| As a percentage of Net Sales | 20.3       | 19.8       | 19.6       | 19.6       | 20.4       | 18.9       | 18.0         | 18.7         |
| Other Income                 | 9          | 11         | 8          | 2          | 7          | 8          | 10           | 6            |
| <b>PBT</b>                   | <b>104</b> | <b>111</b> | <b>126</b> | <b>140</b> | <b>160</b> | <b>170</b> | <b>193</b>   | <b>220</b>   |
| Tax                          | 23         | 23         | 25         | 29         | 41         | 34         | 47           | 53           |
| Rate (%)                     | 21.7       | 20.9       | 19.6       | 20.9       | 25.4       | 20.3       | 24.1         | 24.0         |
| <b>PAT</b>                   | <b>82</b>  | <b>88</b>  | <b>101</b> | <b>111</b> | <b>119</b> | <b>136</b> | <b>147</b>   | <b>167</b>   |
| <b>Net Income</b>            | <b>85</b>  | <b>88</b>  | <b>101</b> | <b>111</b> | <b>119</b> | <b>135</b> | <b>147</b>   | <b>167</b>   |
| Change (%)                   | 13.5       | 3.8        | 15.3       | 9.3        | 7.4        | 13.7       | 8.8          | 13.8         |

| Balance Sheet                  |            |            |            |            |            |            | (INR b)    |            |
|--------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Y/E March                      | FY17       | FY18       | FY19       | FY20       | FY21       | FY22       | FY23E      | FY24E      |
| Reserves                       | 335        | 368        | 422        | 517        | 615        | 620        | 612        | 604        |
| <b>Net Worth</b>               | <b>335</b> | <b>368</b> | <b>422</b> | <b>517</b> | <b>615</b> | <b>620</b> | <b>612</b> | <b>604</b> |
| Loans                          | 5          | 4          | 40         | 51         | 39         | 39         | 39         | 39         |
| Other liabilities              | 13         | 13         | 15         | 55         | 55         | 43         | 71         | 77         |
| <b>Capital Employed</b>        | <b>353</b> | <b>385</b> | <b>477</b> | <b>623</b> | <b>709</b> | <b>703</b> | <b>722</b> | <b>720</b> |
| Gross Block                    | 225        | 274        | 335        | 511        | 546        | 560        | 601        | 647        |
| Less: Depreciation             | 64         | 78         | 100        | 128        | 168        | 208        | 249        | 295        |
| <b>Net Block</b>               | <b>161</b> | <b>196</b> | <b>235</b> | <b>383</b> | <b>378</b> | <b>352</b> | <b>352</b> | <b>352</b> |
| Other assets                   | 39         | 40         | 57         | 65         | 69         | 57         | 86         | 94         |
| Investments                    | 114        | 83         | 55         | 105        | 140        | 85         | 85         | 85         |
| <b>Curr. Assets</b>            | <b>151</b> | <b>165</b> | <b>243</b> | <b>279</b> | <b>291</b> | <b>397</b> | <b>396</b> | <b>395</b> |
| Debtors                        | 108        | 123        | 146        | 178        | 175        | 207        | 246        | 276        |
| Cash and Bank Balance          | 13         | 17         | 59         | 38         | 65         | 105        | 82         | 42         |
| Other Current Assets           | 30         | 25         | 37         | 64         | 50         | 85         | 68         | 77         |
| <b>Current Liab. and Prov.</b> | <b>111</b> | <b>99</b>  | <b>111</b> | <b>209</b> | <b>168</b> | <b>188</b> | <b>195</b> | <b>204</b> |
| <b>Net Current Assets</b>      | <b>40</b>  | <b>66</b>  | <b>131</b> | <b>70</b>  | <b>123</b> | <b>209</b> | <b>200</b> | <b>191</b> |
| <b>Application of Funds</b>    | <b>353</b> | <b>385</b> | <b>477</b> | <b>623</b> | <b>709</b> | <b>703</b> | <b>723</b> | <b>721</b> |

## Financials and valuations

### Ratios

| Y/E March                       | FY17        | FY18        | FY19        | FY20        | FY21        | FY22        | FY23E       | FY24E       |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Diluted (INR)</b>            |             |             |             |             |             |             |             |             |
| <b>EPS</b>                      | <b>28.9</b> | <b>31.3</b> | <b>36.8</b> | <b>40.7</b> | <b>43.8</b> | <b>49.8</b> | <b>54.3</b> | <b>61.8</b> |
| Cash EPS                        | 32.9        | 36.4        | 44.6        | 51.2        | 58.5        | 64.6        | 69.5        | 78.7        |
| Book Value                      | 118.6       | 131.4       | 153.5       | 190.4       | 226.7       | 228.6       | 226.2       | 222.9       |
| DPS                             | 12.0        | 6.0         | 4.0         | 8.0         | 26.0        | 44.0        | 48.8        | 55.6        |
| Payout (%)                      | 41.6        | 23.1        | 50.4        | 19.6        | 59.4        | 88.3        | 90.0        | 90.0        |
| <b>Valuation (x)</b>            |             |             |             |             |             |             |             |             |
| P/E                             | 33.0        | 30.4        | 25.9        | 23.4        | 21.7        | 19.1        | 17.5        | 15.4        |
| Cash P/E                        | 28.9        | 26.1        | 21.4        | 18.6        | 16.3        | 14.7        | 13.7        | 12.1        |
| EV/EBITDA                       | 26.0        | 23.2        | 18.6        | 15.6        | 13.2        | 12.5        | 11.3        | 9.9         |
| EV/Sales                        | 5.7         | 5.2         | 4.3         | 3.7         | 3.4         | 2.9         | 2.5         | 2.2         |
| Price/Book Value                | 8.0         | 7.2         | 6.2         | 5.0         | 4.2         | 4.2         | 4.2         | 4.3         |
| Dividend Yield (%)              | 1.3         | 0.6         | 0.4         | 0.8         | 2.7         | 4.6         | 5.1         | 5.8         |
| <b>Profitability Ratios (%)</b> |             |             |             |             |             |             |             |             |
| RoE                             | 26.5        | 25.0        | 25.6        | 23.6        | 21.0        | 21.9        | 23.9        | 27.5        |
| RoCE                            | 23.6        | 22.2        | 22.8        | 21.3        | 18.7        | 19.6        | 21.2        | 25.1        |
| <b>Turnover Ratios</b>          |             |             |             |             |             |             |             |             |
| Debtors (Days)                  | 84          | 88          | 88          | 92          | 85          | 88          | 88          | 88          |
| Asset Turnover (x)              | 2.9         | 2.6         | 2.6         | 1.8         | 2.0         | 2.4         | 2.9         | 3.3         |

### Cash Flow Statement

(INR b)

| Y/E March                   | FY17       | FY18       | FY19       | FY20        | FY21        | FY22        | FY23E       | FY24E       |
|-----------------------------|------------|------------|------------|-------------|-------------|-------------|-------------|-------------|
| CF from Operations          | 90         | 102        | 123        | 149         | 166         | 174         | 188         | 213         |
| Chg. in Working Capital     | 5          | -35        | -34        | -16         | 30          | -5          | -17         | -31         |
| <b>Net Operating CF</b>     | <b>95</b>  | <b>68</b>  | <b>88</b>  | <b>134</b>  | <b>196</b>  | <b>169</b>  | <b>172</b>  | <b>182</b>  |
| Net Purchase of FA          | -62        | -49        | -61        | -18         | -18         | -16         | -41         | -46         |
| Net Purchase of Invest.     | -2         | 30         | 29         | -105        | -40         | 30          | 0           | 0           |
| <b>Net Cash from Inv.</b>   | <b>-64</b> | <b>-19</b> | <b>-32</b> | <b>-124</b> | <b>-57</b>  | <b>15</b>   | <b>-40</b>  | <b>-46</b>  |
| Issue of shares/other adj.  | 0          | 0          | 0          | 0           | 0           | 0           | 0           | 0           |
| Proceeds from LTB/STB       | 9          | -1         | 35         | -15         | -79         | -31         | 0           | 0           |
| Dividend Payments           | -34        | -20        | -51        | -16         | -33         | -114        | -155        | -176        |
| <b>Net CF from Finan.</b>   | <b>-25</b> | <b>-21</b> | <b>-16</b> | <b>-32</b>  | <b>-112</b> | <b>-145</b> | <b>-155</b> | <b>-176</b> |
| Free Cash Flow              | 33         | 18         | 28         | 115         | 179         | 153         | 131         | 136         |
| <b>Net Cash Flow</b>        | <b>6</b>   | <b>27</b>  | <b>41</b>  | <b>-22</b>  | <b>27</b>   | <b>39</b>   | <b>-23</b>  | <b>-40</b>  |
| Forex difference            | 0          | -27        | 5          | 0           | 1           | 1           | 0           | 0           |
| <b>Opening Cash Balance</b> | <b>7</b>   | <b>13</b>  | <b>13</b>  | <b>60</b>   | <b>38</b>   | <b>66</b>   | <b>106</b>  | <b>82</b>   |
| <b>Closing Cash Balance</b> | <b>13</b>  | <b>13</b>  | <b>60</b>  | <b>38</b>   | <b>66</b>   | <b>106</b>  | <b>82</b>   | <b>43</b>   |

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|----------------------------------|--|
| Investment Rating                | Expected return (over 12-month)  |
| BUY                              | >=15%  |
| SELL                             | < - 10%  |
| NEUTRAL                          | < - 10 % to 15%  |
| UNDER REVIEW                     | Rating may undergo a change  |
| NOT RATED                        | We have forward looking estimates for the stock but we refrain from assigning recommendation |

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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