

|                                |               |
|--------------------------------|---------------|
| <b>INDUSTRY</b>                | <b>IT</b>     |
| <b>CMP (as on 19 Jan 2017)</b> | <b>Rs 485</b> |
| <b>Target Price</b>            | <b>Rs 430</b> |
| Nifty                          | 8,435         |
| Sensex                         | 27,309        |

**KEY STOCK DATA**

|                             |          |
|-----------------------------|----------|
| Bloomberg                   | MTCL IN  |
| No. of Shares (mn)          | 168      |
| MCap (Rs bn) / (\$ mn)      | 81/1,196 |
| 6m avg traded value (Rs mn) | 384      |

**STOCK PERFORMANCE (%)**

|                           |                     |
|---------------------------|---------------------|
| <b>52 Week high / low</b> | <b>Rs 805 / 399</b> |
|                           | 3M 6M 12M           |
| Absolute (%)              | 1.7 (13.6) (32.8)   |
| Relative (%)              | 4.1 (11.9) (44.3)   |

**SHAREHOLDING PATTERN (%)**

|                 |       |
|-----------------|-------|
| Promoters       | 13.69 |
| FIs & Local MFs | 7.22  |
| FIIIs           | 39.01 |
| Public & Others | 40.08 |

Source : BSE

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## Challenges persist

Mindtree's muted (in-line) 3Q performance was highlighted by sharp decline in volumes and marginal recovery in operating margin, supported by sub-contracting gains. We believe that challenges for Mindtree persist, based on (1) pricing pressure in renewals (reflected in continued decline in offshore realization), (2) deceleration in digital revenue (from >30% YoY to 14% YoY), (3) lower profitability of digital (high onsite), (4) growth/ profitability hurdles in BlueFin, and (5) limited growth visibility within large accounts (top account/top6-10 accounts declined 2.4/3.4% in 3Q), translating into weak exit for FY17 and gradual improvement subsequently, on deal ramps.

**We lower FY18/19E earnings on growth re-set and expect FY17/18/19E revenue growth at 8.7/8.1/10% and EBITDA% at 13.8/15.3/15.7%, respectively. Maintain SELL on Mindtree with TP of Rs 430 on 12x Dec-18E, at CMP Mindtree at 14.7x FY18E.**

### Financial Summary

| YE March (Rs mn) | 3QFY17 | 3QFY16 | YoY (%) | 2QFY17 | QoQ (%) | FY15   | FY16   | FY17E  | FY18E  | FY19E  |
|------------------|--------|--------|---------|--------|---------|--------|--------|--------|--------|--------|
| Net Sales        | 12,953 | 12,145 | 6.7     | 12,954 | (0.0)   | 35,619 | 46,730 | 52,132 | 56,321 | 61,945 |
| EBITDA           | 1,740  | 2,147  | (18.9)  | 1,621  | 7.4     | 7,092  | 8,210  | 7,171  | 8,603  | 9,716  |
| APAT             | 1,031  | 1,509  | (31.7)  | 948    | 8.8     | 5,363  | 5,525  | 4,457  | 5,496  | 6,250  |
| Diluted EPS (Rs) | 6.1    | 9.0    | (31.7)  | 5.6    | 8.8     | 32.1   | 32.9   | 25.9   | 32.9   | 37.4   |
| P/E (x)          |        |        |         |        |         | 15.1   | 14.7   | 18.7   | 14.7   | 13.0   |
| EV / EBITDA (x)  |        |        |         |        |         | 10.2   | 9.4    | 10.5   | 8.7    | 7.6    |
| RoE (%)          |        |        |         |        |         | 29.4   | 25.0   | 17.7   | 20.1   | 20.9   |

Source: Company, HDFC sec Inst Research# Consolidated

### Highlights of the quarter

- US\$ revenue stood at 192mn, -0.4% QoQ (3% volume decline and 2% blended realisation gain – onsite driven). Onsite volume decline of 2.2% and offshore decline at 3.2% impacted partially by seasonality and by muted large account performance.
- Digital revenue decelerated to 13.7% YoY as compared to trailing six quarter average growth of 35% YoY. The limited positive was strong new order wins; 9MFY17 renewal TCV growth of 17.3% YoY. H1-B re-alignment continues to be a risk; currently local ratio at 35% with ~2,000 employees in US.
- EBITDA% at 13.4%, +90bps QoQ (13.1% est) was supported by +62bps impact from lower sub-contracting expenses and flat gross margin. APAT stood at Rs Rs1.03bn, 32% YoY decline (Rs 1.03bn est).
- Near-term outlook:** Outlook remains muted with flattish revenue growth and margin performance expected in 4Q.

*US\$ revenue at 192mn, -0.4% QoQ on 0.4% CC (US\$ 194mn est.) on volume decline*

*Blended pricing was up 2% QoQ despite decline on offshore realisation*

*EBITDA% at 13.4%, +92bps QoQ supported by lower sub-contracting expense impact of +62bps QoQ*

### Quarterly Consolidated Financials Snapshot

| Particulars                       | 3QFY17        | 3QFY16        | YoY (%)       | 2QFY17        | QoQ (%)      |
|-----------------------------------|---------------|---------------|---------------|---------------|--------------|
| <b>Net Revenues (US \$mn)</b>     | <b>192.2</b>  | <b>184.4</b>  | <b>4.3</b>    | <b>193.0</b>  | <b>(0.4)</b> |
| <b>Net Revenues</b>               | <b>12,953</b> | <b>12,145</b> | <b>6.7</b>    | <b>12,954</b> | <b>(0.0)</b> |
| Employee Costs                    | 8,533         | 7,249         | 17.7          | 8,526         | 0.1          |
| SG&A and Other Operating Expenses | 2,680         | 2,749         | (2.5)         | 2,807         | (4.5)        |
| <b>EBITDA</b>                     | <b>1,740</b>  | <b>2,147</b>  | <b>(18.9)</b> | <b>1,621</b>  | <b>7.4</b>   |
| Depreciation                      | 459           | 345           | 33.0          | 463           | (0.9)        |
| <b>EBIT</b>                       | <b>1,281</b>  | <b>1,802</b>  | <b>(28.9)</b> | <b>1,158</b>  | <b>10.6</b>  |
| Interest Cost                     | 46            | 0             | NA            | 47            | (2.1)        |
| Other Income                      | 144           | 147           | (2.0)         | 170           | (15.3)       |
| <b>PBT</b>                        | <b>1,379</b>  | <b>1,949</b>  | <b>(29.2)</b> | <b>1,281</b>  | <b>7.7</b>   |
| Tax                               | 348           | 440           | (20.9)        | 333           | 4.5          |
| <b>APAT</b>                       | <b>1,031</b>  | <b>1,509</b>  | <b>(31.7)</b> | <b>948</b>    | <b>8.8</b>   |
| E/o (adj for tax)                 | 0             | 0             | NA            | 0             | NA           |
| RPAT                              | 1,031         | 1,509         | (31.7)        | 948           | 8.8          |

Source: Company, HDFC sec Inst Research

### Margin Analysis

|  | 3QFY17      | 3QFY16      | YoY (bps)    | 2QFY17      | QoQ (bps) |
|--|-------------|-------------|--------------|-------------|-----------|
| Employee Cost % Net Revenues           | 65.9        | 59.7        | 619          | 65.8        | 6         |
| SG&A And Other Expenses % Net Revenues | 20.7        | 22.6        | (195)        | 21.7        | (98)      |
| <b>EBITDA Margin (%)</b>               | <b>13.4</b> | <b>17.7</b> | <b>(424)</b> | <b>12.5</b> | <b>92</b> |
| EBIT Margin (%)                        | 9.9         | 14.8        | (495)        | 8.9         | 95        |
| Tax Rate (%)                           | 25.2        | 22.6        | 265          | 26.0        | (77)      |
| <b>APAT Margin (%)</b>                 | <b>8.0</b>  | <b>12.4</b> | <b>(446)</b> | <b>7.3</b>  | <b>64</b> |

Source: Company, HDFC sec Inst Research

**Digital revenue at US\$ 76mn (39.4% of 3Q revenue) declined 1.8% QoQ**

**TCV of deals booked in 3Q was US\$314mn (renewals US\$170mn and new US\$144mn) and digital TCV was US\$103mn**

**Margins expected to be flat in 4Q and gradual improvement subsequently; factored FY17/18/19E at 13.8/15.3/15.7%**

### Service Line Break-up

| (% of revenue)          | 1QFY16       | 2QFY16       | 3QFY16       | 4QFY16       | 1QFY17       | 2QFY17       | 3QFY17       |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| ADM                     | 46.0         | 44.2         | 43.5         | 41.1         | 40.0         | 39.8         | 39.9         |
| Application Development | 24.3         | 23.2         | 23.7         | 23.0         | 22.7         | 22.0         | 22.3         |
| Application Maintenance | 21.7         | 21.0         | 19.8         | 18.0         | 17.3         | 17.8         | 17.6         |
| IMS & Tech Support      | 17.7         | 17.0         | 18.1         | 17.4         | 18.4         | 19.9         | 20.3         |
| Package Implementation  | 7.3          | 13.3         | 12.9         | 13.7         | 13.9         | 13.1         | 12.4         |
| Independent Testing     | 14.9         | 12.8         | 12.8         | 12.7         | 12.8         | 12.4         | 12.6         |
| Engineering             | 9.0          | 8.6          | 8.3          | 9.8          | 9.8          | 9.8          | 9.5          |
| Consulting              | 3.7          | 2.8          | 2.6          | 4.0          | 4.1          | 3.8          | 3.9          |
| IP Licensing            | 1.4          | 1.3          | 1.8          | 1.3          | 1.0          | 1.2          | 1.4          |
| <b>Total</b>            | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |
| <b>Digital/SMAC</b>     | <b>34.7</b>  | <b>36.6</b>  | <b>36.1</b>  | <b>38.6</b>  | <b>39.9</b>  | <b>40.0</b>  | <b>39.4</b>  |

Source: Company, HDFC Sec Inst Research

### Service Line Growth

| (QoQ, %)                | 1QFY16      | 2QFY16      | 3QFY16     | 4QFY16      | 1QFY17     | 2QFY17       | 3QFY17       |
|-------------------------|-------------|-------------|------------|-------------|------------|--------------|--------------|
| ADM                     | 9.6         | 11.8        | 0.6        | 0.2         | (0.9)      | (3.5)        | (0.2)        |
| Application Development | 9.8         | 11.1        | 4.3        | 3.3         | 0.3        | (6.0)        | 1.2          |
| Application Maintenance | 9.3         | 12.6        | (3.5)      | (3.4)       | (2.4)      | (0.1)        | (1.8)        |
| IMS & Tech Support      | 6.0         | 11.5        | 9.4        | 1.8         | 7.6        | 4.9          | 1.5          |
| Package Implementation  | 2.0         | 112.5       | (0.8)      | 12.5        | 3.2        | (8.6)        | (5.5)        |
| Independent Testing     | 1.4         | 0.3         | 1.8        | 5.4         | 2.5        | (6.1)        | 0.9          |
| Engineering             | (5.7)       | 10.8        | (0.6)      | 24.8        | 1.7        | (3.0)        | (3.1)        |
| Consulting              | (0.6)       | (11.3)      | (6.6)      | 65.0        | 4.1        | (10.9)       | 3.8          |
| IP Licensing            | (13.7)      | 9.0         | 38.9       | (22.2)      | (22.1)     | 19.3         | 9.7          |
| <b>Total</b>            | <b>4.8</b>  | <b>16.4</b> | <b>2.3</b> | <b>6.1</b>  | <b>1.8</b> | <b>(3.0)</b> | <b>(0.4)</b> |
| <b>Digital/SMAC</b>     | <b>12.9</b> | <b>22.9</b> | <b>0.8</b> | <b>13.3</b> | <b>5.3</b> | <b>(2.9)</b> | <b>(1.8)</b> |

Source: Company, HDFC Sec Inst Research

*IMS, Testing, Consulting and IP grew while other services declined sequentially*

*Gross addition in 3Q stood at 470 and 1,424 in 9MFY17*

*Utilization declined by 80bps to 72.3%*

### Geographic Revenue Break-up

| (% of revenue)    | 1QFY16       | 2QFY16       | 3QFY16       | 4QFY16       | 1QFY17       | 2QFY17       | 3QFY17       |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| US                | 67.3         | 63.2         | 63.5         | 65.7         | 66.7         | 67.6         | 68.7         |
| Europe            | 22.0         | 26.6         | 26.4         | 24.6         | 23.1         | 21.4         | 20.8         |
| India             | 3.4          | 3.2          | 2.7          | 2.8          | 3.1          | 3.5          | 3.1          |
| Rest of the World | 7.3          | 7.0          | 7.4          | 6.9          | 7.1          | 7.5          | 7.4          |
| <b>Total</b>      | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

Source: Company, HDFC Sec Inst Research

### Geographic Revenue Growth

| (QoQ, %)          | 1QFY16     | 2QFY16      | 3QFY16     | 4QFY16     | 1QFY17     | 2QFY17       | 3QFY17       |
|-------------------|------------|-------------|------------|------------|------------|--------------|--------------|
| US                | 8.7        | 9.4         | 2.6        | 10.0       | 3.1        | (1.7)        | 1.2          |
| Europe            | (2.7)      | 40.5        | 1.7        | (1.2)      | (4.5)      | (10.0)       | (3.6)        |
| India             | (1.0)      | 9.2         | (12.0)     | 7.6        | 13.3       | 8.8          | (11.0)       |
| Rest of the World | (1.9)      | 11.7        | 7.8        | (0.9)      | 4.7        | 2.0          | (0.7)        |
| <b>Total</b>      | <b>4.8</b> | <b>16.4</b> | <b>2.3</b> | <b>6.2</b> | <b>1.7</b> | <b>(3.0)</b> | <b>(0.4)</b> |

Source: Company, HDFC Sec Inst Research

### Headcount, Utilisation Data

| (Nos.)                 | 1QFY16        | 2QFY16        | 3QFY16        | 4QFY16        | 1QFY17        | 2QFY17        | 3QFY17        |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total headcount</b> | <b>14,427</b> | <b>15,582</b> | <b>16,243</b> | <b>16,623</b> | <b>16,110</b> | <b>16,219</b> | <b>16,099</b> |
| Software Professionals | 13,560        | 14,655        | 15,296        | 15,623        | 15,092        | 15,189        | 15,068        |
| Sales                  | 197           | 211           | 216           | 265           | 247           | 254           | 253           |
| Support                | 670           | 716           | 731           | 735           | 771           | 776           | 778           |
| <b>Net additions</b>   | <b>225</b>    | <b>1,155</b>  | <b>661</b>    | <b>380</b>    | <b>(513)</b>  | <b>109</b>    | <b>(120)</b>  |

|                                    |      |      |      |      |      |      |      |
|------------------------------------|------|------|------|------|------|------|------|
| Utilisation Including Trainees (%) | 70.3 | 71.4 | 68.5 | 69.4 | 71.4 | 71.4 | 71.3 |
| Utilisation Excluding Trainees (%) | 71.9 | 73.3 | 69.9 | 70.6 | 72.0 | 73.1 | 72.3 |

Source: Company, HDFC Sec Inst Research

**Board likely to consider change in dividend policy such as increase in payout or share buyback**

### Key Assumptions

| Particulars            | FY14        | FY15        | FY16        | FY17E       | FY18E       | FY19E       |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Volume Growth (%)      | 13.3        | 13.4        | 16.5        | 4.8         | 7.9         | 9.9         |
| Pricing Change (%)     | 1.3         | 3.0         | 5.2         | 3.8         | 0.6         | 0.0         |
| USD Revenue Growth (%) | <b>15.1</b> | <b>16.4</b> | <b>22.5</b> | <b>8.7</b>  | <b>8.1</b>  | <b>10.0</b> |
| USD/INR Rate           | 60.44       | 61.01       | 65.57       | 67.05       | 67.00       | 67.00       |
| EBITDA Margin (%)      | <b>20.1</b> | <b>19.9</b> | <b>17.6</b> | <b>13.8</b> | <b>15.3</b> | <b>15.7</b> |

Source: Company, HDFC Sec Inst Research

### Change In Estimates

| Particulars       | Earlier estimates<br>FY17E | Revised estimates<br>FY17E | % change |
|-------------------|----------------------------|----------------------------|----------|
| Revenue (US\$m)   | 786                        | 777                        | (1.0)    |
| Revenue (Rsmn)    | 52,702                     | 52,132                     | (1.1)    |
| EBITDA (Rsmn)     | 7,211                      | 7,171                      | (0.6)    |
| EBITDA margin (%) | 13.7                       | 13.8                       | 7bps     |
| EPS (Rs)          | 26.3                       | 25.9                       | (1.7)    |

|                   | FY18E  | FY18E  | % change |
|-------------------|--------|--------|----------|
| Revenue (US\$m)   | 869    | 841    | (3.3)    |
| Revenue (Rsmn)    | 58,221 | 56,321 | (3.3)    |
| EBITDA (Rsmn)     | 8,925  | 8,603  | (3.6)    |
| EBITDA margin (%) | 15.3   | 15.3   | (6bps)   |
| EPS (Rs)          | 34.3   | 32.9   | (4.0)    |

Source: HDFC sec Inst Research

### Peer Valuations

| Company             | Mcap<br>(Rs bn) | CMP<br>(Rs) | Reco        | TP<br>(Rs) | EPS (Rs)    |             |             | P/E (x)     |             |             | RoE (%)     |             |             |
|---------------------|-----------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                     |                 |             |             |            | FY17E       | FY18E       | FY19E       | FY17E       | FY18E       | FY19E       | FY17E       | FY18E       | FY19E       |
| <b>Mindtree</b>     | <b>82</b>       | <b>485</b>  | <b>SELL</b> | <b>430</b> | <b>25.9</b> | <b>32.9</b> | <b>37.4</b> | <b>18.7</b> | <b>14.7</b> | <b>13.0</b> | <b>17.7</b> | <b>20.1</b> | <b>20.9</b> |
| Hexaware *          | 60              | 199         | NEU         | 220        | 13.6        | 15.4        | 17.8        | 14.6        | 12.9        | 11.2        | 25.6        | 24.5        | 24.6        |
| eClerx              | 62              | 1,481       | NEU         | 1,430      | 95.7        | 102.0       | 117.6       | 15.5        | 14.5        | 12.6        | 31.2        | 28.3        | 28.5        |
| Cyient              | 54              | 478         | NEU         | 510        | 33.4        | 40.1        | 46.3        | 14.3        | 11.9        | 10.3        | 18.5        | 19.9        | 20.4        |
| Persistent          | 51              | 634         | BUY         | 770        | 37.9        | 45.5        | 57.4        | 16.7        | 13.9        | 11.0        | 17.1        | 17.7        | 19.0        |
| Zensar Technologies | 41              | 914         | BUY         | 1,185      | 69.3        | 84.4        | 97.9        | 13.2        | 10.8        | 9.3         | 19.6        | 20.3        | 20.1        |
| KPIT Technologies   | 27              | 139         | NEU         | 130        | 12.1        | 13.4        | 16.1        | 11.4        | 10.3        | 8.6         | 16.3        | 15.9        | 16.9        |
| Sonata Software     | 23              | 223         | BUY         | 231        | 15.2        | 17.7        | 20.8        | 14.7        | 12.6        | 10.7        | 31.1        | 30.8        | 30.7        |

Source: HDFC sec Inst Research \* YE Dec

## Consolidated Income Statement

| YE March (Rs mn)                       | FY15          | FY16          | FY17E         | FY18E         | FY19E         |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>Net Revenues (US \$mn)</b>          | <b>583.9</b>  | <b>715.2</b>  | <b>777.5</b>  | <b>840.6</b>  | <b>924.5</b>  |
| <b>Growth (%)</b>                      | <b>16.4</b>   | <b>22.5</b>   | <b>8.7</b>    | <b>8.1</b>    | <b>10.0</b>   |
| <b>Net Revenues</b>                    | <b>35,619</b> | <b>46,730</b> | <b>52,132</b> | <b>56,321</b> | <b>61,945</b> |
| <b>Growth (%)</b>                      | <b>17.5</b>   | <b>31.2</b>   | <b>11.6</b>   | <b>8.0</b>    | <b>10.0</b>   |
| Employee Costs                         | 20,741        | 27,991        | 33,899        | 36,511        | 39,716        |
| SG&A and Other Operating Expenses      | 7,786         | 10,529        | 11,062        | 11,208        | 12,513        |
| <b>EBITDA</b>                          | <b>7,092</b>  | <b>8,210</b>  | <b>7,171</b>  | <b>8,603</b>  | <b>9,716</b>  |
| <b>EBITDA (%)</b>                      | <b>19.9</b>   | <b>17.6</b>   | <b>13.8</b>   | <b>15.3</b>   | <b>15.7</b>   |
| <b>EBITDA Growth (%)</b>               | <b>16.3</b>   | <b>15.8</b>   | <b>(12.7)</b> | <b>20.0</b>   | <b>12.9</b>   |
| Depreciation                           | 1,018         | 1,658         | 1,852         | 2,141         | 2,426         |
| <b>EBIT</b>                            | <b>6,074</b>  | <b>6,552</b>  | <b>5,319</b>  | <b>6,461</b>  | <b>7,290</b>  |
| Other Income                           | 835           | 839           | 608           | 910           | 1,092         |
| Interest                               | 1             | 160           | 37            | 32            | 37            |
| <b>PBT</b>                             | <b>6,908</b>  | <b>7,231</b>  | <b>5,891</b>  | <b>7,339</b>  | <b>8,345</b>  |
| Tax (incl deferred)                    | 1,545         | 1,706         | 1,434         | 1,843         | 2,095         |
| Minority Interest and associate profit | 0             | 0             | 0             | 0             | 0             |
| <b>RPAT</b>                            | <b>5,363</b>  | <b>5,525</b>  | <b>4,457</b>  | <b>5,496</b>  | <b>6,250</b>  |
| <b>APAT</b>                            | <b>5,363</b>  | <b>5,525</b>  | <b>4,457</b>  | <b>5,496</b>  | <b>6,250</b>  |
| <b>APAT Growth (%)</b>                 | <b>19.0</b>   | <b>3.0</b>    | <b>(19.3)</b> | <b>23.3</b>   | <b>13.7</b>   |
| <b>EPS</b>                             | <b>32.1</b>   | <b>32.9</b>   | <b>25.9</b>   | <b>32.9</b>   | <b>37.4</b>   |
| <b>EPS Growth (%)</b>                  | <b>18.3</b>   | <b>2.7</b>    | <b>(21.3)</b> | <b>27.1</b>   | <b>13.7</b>   |

Source: Company, HDFC sec Inst Research

## Consolidated Balance Sheet

| YE March (Rs mn)                   | FY15          | FY16          | FY17E         | FY18E         | FY19E         |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>SOURCES OF FUNDS</b>            |               |               |               |               |               |
| Share Capital - Equity             | 837           | 1,678         | 1,678         | 1,678         | 1,678         |
| Reserves                           | 19,287        | 22,471        | 24,549        | 26,875        | 29,557        |
| <b>Total Shareholders' Funds</b>   | <b>20,124</b> | <b>24,149</b> | <b>26,227</b> | <b>28,553</b> | <b>31,235</b> |
| <b>Total Debt</b>                  | <b>23</b>     | <b>433</b>    | <b>285</b>    | <b>314</b>    | <b>345</b>    |
| Net Deferred Taxes                 | (449)         | (406)         | (406)         | (406)         | (406)         |
| Long-term Provisions & Others      | 338           | 838           | 843           | 848           | 853           |
| <b>TOTAL SOURCES OF FUNDS</b>      | <b>20,036</b> | <b>25,014</b> | <b>26,950</b> | <b>29,308</b> | <b>32,027</b> |
| <b>APPLICATION OF FUNDS</b>        |               |               |               |               |               |
| Net Block                          | 5,555         | 6,805         | 6,495         | 7,315         | 7,917         |
| CWIP                               | 354           | 232           | 342           | 385           | 417           |
| Investments                        | 8             | 62            | 68            | 77            | 83            |
| LT Loans & Advances, Others        | 1,657         | 6,990         | 7,584         | 7,934         | 8,190         |
| <b>Total Non Current Assets</b>    | <b>7,574</b>  | <b>14,089</b> | <b>14,490</b> | <b>15,711</b> | <b>16,607</b> |
| Debtors                            | 6,963         | 9,728         | 10,852        | 11,725        | 12,895        |
| Cash & Equivalents                 | 3,763         | 2,332         | 3,242         | 3,549         | 4,406         |
| Other Current Assets               | 7,800         | 6,214         | 7,418         | 8,096         | 8,844         |
| <b>Total Current Assets</b>        | <b>18,526</b> | <b>18,274</b> | <b>21,512</b> | <b>23,370</b> | <b>26,145</b> |
| Creditors                          | 536           | 1,890         | 1,857         | 2,001         | 2,176         |
| Other Current Liabilities & Provns | 5,528         | 5,459         | 7,194         | 7,772         | 8,548         |
| <b>Total Current Liabilities</b>   | <b>6,064</b>  | <b>7,349</b>  | <b>9,052</b>  | <b>9,773</b>  | <b>10,725</b> |
| <b>Net Current Assets</b>          | <b>12,462</b> | <b>10,925</b> | <b>12,460</b> | <b>13,597</b> | <b>15,421</b> |
| <b>TOTAL APPLICATION OF FUNDS</b>  | <b>20,036</b> | <b>25,014</b> | <b>26,950</b> | <b>29,308</b> | <b>32,027</b> |

Source: Company, HDFC sec Inst Research

## Consolidated Cash Flow

| YE March (Rs mn)                 | FY15           | FY16           | FY17E          | FY18E          | FY19E          |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Reported PBT                     | 6,908          | 7,231          | 5,891          | 7,339          | 8,345          |
| Non-operating & EO items         | (726)          | 294            | (916)          | (212)          | (146)          |
| Interest expenses                | 1              | 160            | 37             | 32             | 37             |
| Depreciation                     | 1,018          | 1,658          | 1,852          | 2,141          | 2,426          |
| Working Capital Change           | 328            | (2,995)        | 512            | (574)          | (787)          |
| Tax paid                         | (1,545)        | (1,706)        | (1,434)        | (1,843)        | (2,095)        |
| <b>OPERATING CASH FLOW ( a )</b> | <b>5,983</b>   | <b>4,482</b>   | <b>5,904</b>   | <b>6,852</b>   | <b>7,744</b>   |
| Capex                            | (1,995)        | (1,584)        | (1,636)        | (3,005)        | (3,059)        |
| <i>Free cash flow (FCF)</i>      | <i>3,988</i>   | <i>2,898</i>   | <i>4,268</i>   | <i>3,847</i>   | <i>4,684</i>   |
| Investments                      | (103)          | (2,749)        | (833)          | (397)          | (291)          |
| Non-operating income             | 0              | 0              | 0              | 0              | 0              |
| <b>INVESTING CASH FLOW ( b )</b> | <b>(2,098)</b> | <b>(4,333)</b> | <b>(2,469)</b> | <b>(3,402)</b> | <b>(3,350)</b> |
| Debt Issuance                    | (4)            | 410            | (148)          | 28             | 32             |
| Interest expenses                | (1)            | (160)          | (37)           | (32)           | (37)           |
| <i>FCFE</i>                      | <i>3,983</i>   | <i>3,148</i>   | <i>4,084</i>   | <i>3,843</i>   | <i>4,680</i>   |
| Share capital Issuance           | 420            | 841            | 0              | 0              | 0              |
| Dividend                         | (1,680)        | (2,079)        | (2,378)        | (3,171)        | (3,567)        |
| <b>FINANCING CASH FLOW ( c )</b> | <b>(1,376)</b> | <b>(1,720)</b> | <b>(2,526)</b> | <b>(3,143)</b> | <b>(3,536)</b> |
| <b>NET CASH FLOW (a+b+c)</b>     | <b>2,509</b>   | <b>(1,571)</b> | <b>910</b>     | <b>307</b>     | <b>858</b>     |
| Non-operating and EO items       | 70             | 140            | 0              | 0              | 0              |
| Closing Cash & Equivalents       | 3,763          | 2,332          | 3,242          | 3,549          | 4,406          |

Source: Company, HDFC sec Inst Research

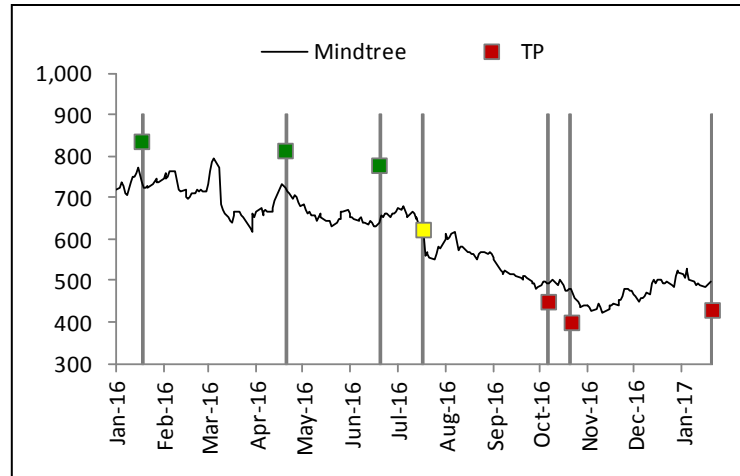
## Key Ratios

|                              | FY15  | FY16  | FY17  | FY18E | FY19E |
|------------------------------|-------|-------|-------|-------|-------|
| <b>PROFITABILITY (%)</b>     |       |       |       |       |       |
| EBITDA Margin                | 19.9  | 17.6  | 13.8  | 15.3  | 15.7  |
| APAT Margin                  | 15.1  | 11.8  | 8.5   | 9.8   | 10.1  |
| RoE                          | 29.4  | 25.0  | 17.7  | 20.1  | 20.9  |
| RoIC or Core RoCE            | 43.6  | 31.5  | 19.5  | 22.4  | 23.5  |
| RoCE                         | 23.0  | 21.1  | 15.1  | 16.7  | 17.2  |
| <b>EFFICIENCY</b>            |       |       |       |       |       |
| Tax Rate (%)                 | 22.4  | 23.6  | 24.3  | 25.1  | 25.1  |
| Fixed Asset Turnover (x)     | 4.0   | 4.5   | 4.5   | 4.1   | 3.7   |
| Debtors (days)               | 71    | 76    | 76    | 76    | 76    |
| Payables (days)              | 5     | 15    | 13    | 13    | 13    |
| Cash Conversion Cycle (days) | 66    | 61    | 63    | 63    | 63    |
| Net Debt/EBITDA (x)          | (1.3) | (0.5) | (0.8) | (0.8) | (0.8) |
| Net Debt/Equity (x)          | (0.5) | (0.2) | (0.2) | (0.2) | (0.3) |
| Interest Coverage (x)        | 6,074 | 41    | 146   | 202   | 200   |
| <b>PER SHARE DATA</b>        |       |       |       |       |       |
| EPS (Rs/sh)                  | 32.1  | 32.9  | 25.9  | 32.9  | 37.4  |
| CEPS (Rs/sh)                 | 38.0  | 42.8  | 37.6  | 45.5  | 51.7  |
| DPS (Rs/sh)                  | 8.5   | 10.5  | 12.0  | 16.0  | 18.0  |
| BV (Rs/sh)                   | 119.9 | 143.9 | 156.2 | 170.0 | 186.0 |
| <b>VALUATION</b>             |       |       |       |       |       |
| P/E                          | 15.1  | 14.7  | 18.7  | 14.7  | 13.0  |
| P/BV                         | 4.0   | 3.4   | 3.1   | 2.9   | 2.6   |
| EV/EBITDA                    | 10.2  | 9.4   | 10.5  | 8.7   | 7.6   |
| OCF/EV (%)                   | 8.3   | 5.8   | 7.8   | 9.2   | 10.5  |
| FCF/EV (%)                   | 5.5   | 3.8   | 5.7   | 5.2   | 6.4   |
| FCFE/mkt cap (%)             | 5.5   | 4.1   | 5.4   | 5.1   | 6.4   |
| Dividend Yield (%)           | 1.8   | 2.2   | 2.5   | 3.3   | 3.7   |

Source: Company, HDFC sec Inst Research



## RECOMMENDATION HISTORY



| Date      | CMP | Reco | Target |
|-----------|-----|------|--------|
| 18-Jan-16 | 735 | BUY  | 833    |
| 21-Apr-16 | 724 | BUY  | 813    |
| 20-Jun-16 | 640 | BUY  | 775    |
| 19-Jul-16 | 614 | NEU  | 620    |
| 6-Oct-16  | 498 | SELL | 450    |
| 24-Oct-16 | 479 | SELL | 400    |
| 9-Jan-17  | 496 | SELL | 430    |

### Rating Definitions

**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

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