

Persistent Systems

Industry	CMP	Recommendation	Buying Range	Target	Time Horizon
IT Consulting & Software	Rs. 667	BUY at CMP and add on Declines	Rs. 615-667	Rs. 780	3-4 Quarters

HDFC Scrip Code	PERSYS
BSE Code	533179
NSE Code	PERSISTENT
Bloomberg	PSYS
CMP as on 16 Jun - 17	667
Equity Capital (Rs Cr)	80
Face Value (Rs)	10
Equity O/S (Cr)	8
Market Cap (Rs cr)	5352
Book Value (Rs)	237
Avg. 52 Week Volumes	289013
52 Week High	719
52 Week Low	501

Company Background

Persistent Systems is a global software company specializing in product and technology services. It develops best-in-class solutions in key next-generation technology areas like Analytics, Big Data, Cloud Computing, Mobility and Social for the telecommunications, life sciences, Healthcare and Banking & Financial services verticals. It has presence in North America (~87% of revenues), Europe (5% of revenues) and Rest of the World (~8% of revenues).

The Company's segments include Infrastructure and Systems, Telecom and Wireless, Life science and Healthcare, and Financial Services. The Company's products include Connected Healthcare, which is an integrated healthcare ecosystem; Share Insights Platform, which allows organizations to analyze an overlay of enterprise data with public or cloud sources to derive insights; Digital Banking and Accelerite, which provides cloud solutions, endpoint management and mobility. The Company provides product engineering services, platform-based solutions and Internet protocol (IP)-based software products to its global customers. Persistent Systems is a technology services company which was incorporated on 16 May 1990 as Persistent Systems Private Limited. It was subsequently converted into a public Limited company on 17 September 2010 with the name Persistent Systems Limited. Persistent had come out with an IPO in Mar 2010 and it got listed on the Bourses in Apr 2010. Company had issued Bonus shares in the ratio of 1:1 in Mar 2015.

Investment Rationale

Niche offerings lead the way

Persistent systems identified digital transformation as a strategic area of future growth and have invested heavily behind it. It cleared differentiated between IT modernization compared to digital transformation and that has resulted in enviable position in the market. Over the last year or so it has built Platform and whole set of IT around Digital Transformation that allows it to get into the customer discussions very quickly and also deliver on a very short development cycle.

Identifying future opportunities in four buckets: social, mobile, analytics and cloud (SMAC) in early mover advantage, the company has established itself in this category before most other companies started waking up to it. Today, SMAC contributes significant to its total turnover. Along with SMAC, Internet-of-Things and gesture-based computing being the future of technology are the focused areas for the company.

Shareholding Pattern (%)	
Promoters	35.02
Institutions	35.05
Non Institutions	29.93

PCG Risk Rating*	Yellow
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* Refer to Rating explanation

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Persistent has hefty cash and equivalents of ~Rs 800cr (~15% of Mcap) as on Mar 2017. Company plans to hold the cash in the context of the acquisitions and other things that they are looking at for the growth. The digital IoT and some of the areas that company is working on are hot areas and it plans to use the money to acquire things that may be helping to fill gaps.

In Dec 2016, Promoter Mr. Suresh P. Deshpande had transferred his 5% shareholding in the company to 'Ram-Purushottam Foundation', a nonprofit making company. After the same, his shareholding in the company came down to 2.1% from 7.1%. Mr. Deshpande had decided to donate Rs 100cr through persistent share sale in Nov 2014. The trust Ram – Purushottam foundation had sold 8 Lakh equity shares at Rs 624 in Jun 2017 and one of the prominent insurance company was buyer in that deal. In the context of the same, Promoters' holding had come down from 38.5% in Mar 2016 to ~35% in Mar 2017. From here on further we don't expect that their holding will come down which may support the stock.

View & Valuations

We build in 10.4% USD revenue growth for FY17-19E with traction in Digital, IoT negated by softer growth in legacy business (OPD). We have estimated 9.5% revenue and 17% PAT cagr over Investments for Sales to drive Digital business, onsite shift in effort owing to traction in Digital, IBM Watson deal have weighed on margin trajectory (FY17E EBITDA margin at 15.8% (vs. 18/20.7% in FY16/FY15). We believe that margin trajectory is key from here on and turnaround in IBM IoT deal margins would be crucial. Pursuing strategic acquisitions can help shift the revenue mix in favour of growth segments. We rate persistent as a BUY at CMP of Rs 667 and add on dips to Rs 615 with TP of Rs 780 (~15x FY19E EPS).

Alliance with IBM (~29% of Revenues)

IBM has been the largest client of Persistent and service offerings include product engineering services and support. Persistent derives almost one third of revenues from IBM for delivering services and the remaining two third from maintaining and managing IBM products (TNPM, IBM connectors, MDM, Rational suite). Persistent strengthened the existing relationship with IBM by signing-up to support and extend the IBM Continuous Lifecycle Management and Continuous Engineering product suite (Rationale suite of Products and Infosphere MDM). Continuous Engineering products are crucial to deploy, upgrade and monitor the billions of software-driven devices that are expected to be deployed in the fast evolving world of internet of things. Persistent has also signed up to be a partner with IBM's Watson IoT team to widely deploy IoT solutions in the market.

As per our expectation, IBM IoT deal has fetched USD 40-50mn revenues for FY17 and we expect revenues from this deal to post strong growth over FY17-19E. Persistent would also be developing connectors for IoT for IBM Watson IoT platform. Revenues from these initiatives would flow in from FY18E. The deal involved rebadging IBM employees (~350 employees across USA and UK). Persistent has added another 150 employees and hence ~500 people working on the IBM CLM/CE product suite. The deal has impacted company's FY17 EBITDA margins by 200-220bps.

Persistent derives the highest proportion of revenues from the top client (~29%). This is much higher as compared to other midcap peers. Mindtree derives ~14% of total revenues from its top account (Microsoft). L&T Infotech derives ~15% of revenues from its top account (Citi Group). However, management has indicated that Persistent is well-diversified within IBM. Company has relationship with multiple line managers within IBM. The company cited that its revenues from IBM are derived from multiple business units. IBM is a large conglomerate with annual revenues of ~US\$ 81bn for CY15 and business spread across multiple services and Products. Persistent derives an annual revenues of ~USD 130mn from IBM and sees no major risk. Management also guided that IBM has large annual budget and Persistent has room for further scalability within IBM.

Persistent well placed to handle visa challenges

Persistent has 47-48% of US headcount as locals. Hence, it is well placed to manage the regulatory risks. Considering that Persistent Systems is in product engineering and Enterprise Digital, its onsite wages are relatively higher compared to traditional Indian IT companies.

Digital business revenue is consistently growing at > 30% year on year. Company is seeing good traction in the partnership driven digital business as well as direct deal wins. Persistent has been securing multi-year multi-million dollar deals. Business is currently in investment mode and has margins lower than company average. Currently this business contributes ~17% of company revenue. In FY17, company secured more than 10 notable digital deals.

Continuous effort to reskill/retain employees

Persistent is continuously looking at re-skilling its employees. Few years back it started the Persistent University and the online courses are designed to keep employees abreast with the latest technologies. Other initiatives include a continuous appraisal process and appraisal depending on the number of training courses completed. We believe this will help with fungibility of employees across technologies thereby improving employee productivity and faster delivery in contracts. This will help Persistent create a pool of employees across new technologies that can be put on contracts rather than have to wait for employees with the right skills for new technology contracts.

Q4 FY17 Highlights

Persistent Systems posted muted Q4 revenue, while operating performance was encouraging. Revenue was impacted by sequential decline in the IBM alliance business on seasonality, while Digital & Accelerite (IP portfolio) grew 10.7% QoQ. Margins improved on SG&A efficiencies, and the trajectory continues to look healthy (direct cost% lower by 150bps post IBM IoT integration).

Going ahead, growth will be led by Digital (19% of revenue), Accelerite (10%) and the IBM alliance (~29%), based on new IP partnerships (USA, Partners HealthCare), new large logo wins in Digital and growth in solution development for enterprises (IoT).

We lower earnings (~2.5%) on growth moderation, to factor in higher seasonality and expect USD revenue/EPS CAGR of 9.5/17% CAGR over FY17-19E. Our rationale of (1) Digital and IP-led growth with embedded non-linearity, (2) Strong partner framework driving enterprise growth and (3) IBM alliance opportunity remains unchanged. We Recommend BUY with TP of Rs 780, ~15x FY19E.

Company posted revenues at USD 109mn that was impacted by USD 3.5mn sequential decline in the alliance business. Management indicated double-digit growth for the alliance business going ahead, based on a robust pipeline. EBITDA came in at 17.9%, adjusted for a one-time settlement expense (Rs 114mn) from litigation on rCloud IP. Margin expansion of 200bps QoQ (adj. for exceptional) was driven by (1) Recovery of doubtful debt (+130bps impact), (2) Lower S&M exp. (+50bps impact). We believe that the recovery in margins is sustainable, based on higher growth in Digital (high-margin) and IP revenues (non-linearity).

Steady Transformation; Recommend BUY with TP of Rs 780

We build in 10.4% USD revenue growth for FY17-19E with traction in Digital, IoT negated by softer growth in legacy business (OPD). We have estimated 9.5% revenue and 17% PAT cagr over Investments for Sales to drive Digital business, onsite shift in effort owing to traction in Digital, IBM Watson deal have weighed on margin trajectory (FY17E EBITDA margin at 15.8% (vs. 18/20.7% in FY16/FY15). We believe that margin trajectory is key from here on and turnaround in IBM IoT deal margins would be crucial. Pursuing strategic acquisitions can help shift the revenue mix in favour of growth segments. Persistent has corrected by 35% from the peak of Rs 960 as on Jan 2015 and is currently trading at Rs 667. We note that correction in the stock was led by P/E de-rating and softer margin trajectory over the past several quarters which had weighed on earnings. Persistent trades at 12.8x FY19E earnings as compared to ~22x traded in 2015. We believe valuations have moderated from the peak and risk return remains favourable at the current price. We rate persistent as a BUY at CMP of Rs 667 and add on dips to Rs 615 with TP of Rs 780 (~15x FY19E EPS).

Risks

- 1) USD-INR appreciation may remain downward risk to our estimates.
- 2) Ramp-down of top clients is a downward risk to revenue growth with high proportion of revenue from Persistent top accounts and any variability in spend may induce volatility in revenue.
- 3) Slowdown in US geography is downward risk based on disproportionate revenue exposure from North America as well as it being source.

Quarterly Financials Snapshot (Consolidated)

Particulars (Rs bn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Revenue US\$ mn	109.0	100.4	8.6	110.0	(0.9)
Net Revenue	7.27	6.77	7.4	7.46	(2.5)
Employee Expenses	4.64	4.35	6.7	4.75	(2.3)
Other Operating Expenses	1.44	1.34	7.1	1.52	(5.2)
EBITDA	1.19	1.07	10.6	1.19	0.1
Depreciation	0.39	0.26	54.0	0.39	2.0
EBIT	0.79	0.82	(3.0)	0.80	(0.8)
Other Income	0.14	0.21	(31.8)	0.32	(54.9)
Interest Cost	0.00	0.00	(15.0)	0.00	(5.6)
PBT	0.94	1.03	(8.9)	1.12	(16.2)
Tax	0.21	0.22	(5.1)	0.30	(30.2)
RPAT	0.73	0.81	(9.9)	0.82	(11.1)
EO Items (Adj. For Tax)	0.09	-	NA	-	NA
APAT	0.82	0.81	1.1	0.82	(0.3)

Source: Company, HDFC Sec Research

Service-Line Revenue Break-up

(% of revenue)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
ISV	57.2	51.3	45.8	45.4	44.4	42.5	41.9
Enterprise	26.6	28.6	26.0	26.4	27.8	29.1	30.5
IP	16.2	20.1	28.2	28.2	27.8	28.4	27.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Research

Revenue-segment (Re-organised Structure)

(% of revenue)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Services	NA	47.6	46.6	43.9	43.9
Digital	NA	14.2	15.2	16.9	18.9
Alliance	NA	30.0	29.4	30.6	27.6
Accelerite	NA	8.2	8.8	8.6	9.6
Total	NA	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Research

Revenue-segment (Re-organised Structure) Growth

(QoQ, %)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Services	NA	NA	(1.7)	(1.5)	(0.9)
Digital	NA	NA	7.5	16.3	10.8
Alliance	NA	NA	(1.6)	8.9	(10.6)
Accelerite	NA	NA	7.7	2.2	10.6
Total	NA	NA	0.4	4.6	(0.9)

Source: Company, HDFC Sec Research

Onsite-Offshore Revenue Break-up

(% of revenue)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Onsite	29.5	29.8	26.3	26.3	26.3	26.7	27.8
Offshore	54.3	50.1	45.5	45.5	45.9	44.9	44.6
IP-led	16.2	20.1	28.2	28.2	27.8	28.4	27.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Research

Onsite-Offshore Revenue Growth

(QoQ, %)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Onsite	16.2	9.2	(1.1)	4.3	0.4	6.2	3.2
Offshore	4.6	(0.3)	1.7	4.3	1.3	2.3	(1.6)
IP-led	(7.1)	34.1	57.2	4.3	(1.0)	6.9	(3.7)
Total	5.5	8.1	12.0	4.3	0.4	4.6	(0.9)

Source: Company, HDFC Sec Research

Volumes: IT Services And IP-led

Person Months	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Onsite	1,621	1,817	1,811	1,786	1,720	1,867	1,907
Offshore	10,605	10,640	10,693	11,030	11,246	11,610	11,459
Total Volumes	12,226	12,457	12,504	12,816	12,966	13,477	13,366
IP-led	3,021	3,526	4,082	5,235	5,015	4,893	4,893

Source: Company, HDFC Sec Research

Volumes: IT Services And IP-led Growth

(QoQ, %)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Onsite	18.0	12.1	(0.3)	(1.4)	(3.7)	8.5	2.1
Offshore	2.1	0.3	0.5	3.2	2.0	3.2	(1.3)
Total Volumes	3.9	1.9	0.4	2.5	1.2	3.9	(0.8)
IP-Led	4.9	16.7	15.8	28.2	(4.2)	(2.4)	0.0

Source: Company, HDFC Sec Research

Geographical Revenue Break-up

(% of revenue)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
North Americas	86.2	85.3	86.1	87.0	85.4	86.6	86.5
Europe	6.8	6.3	6.7	5.2	6.1	5.3	5.3
RoW	7.0	8.4	7.2	7.8	8.5	8.1	8.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Research

Geographical Revenue Growth

(QoQ, %)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
North Americas	7.8	6.9	13.1	5.4	(1.4)	6.1	(1.0)
Europe	13.9	0.1	19.1	(19.0)	17.8	(9.1)	(0.9)
RoW	(20.6)	29.7	(4.0)	13.0	9.4	(0.3)	0.3
Total	5.5	8.1	12.0	4.3	0.4	4.6	(0.9)

Source: Company, HDFC Sec Research

Client-wise Revenue Break-up

(% of revenue)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Top Client	17.6	17.4	25.4	29.0	28.4	29.5	26.5
Top-5 Clients	35.4	34.3	40.8	44.7	44.3	46.0	43.3
Top-10 Clients	44.7	44.1	49.6	52.7	52.8	54.6	52.4

Source: Company, HDFC Sec Research

Headcount, Utilisation Data

(Nos.)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Total headcount	8,545	8,966	9,264	9,389	9,305	9,229	9,460
<i>Software Professionals</i>	7,905	8,334	8,618	8,698	8,612	8,562	8,808
<i>Sales</i>	208	203	201	204	207	200	193
<i>Support</i>	432	429	445	487	486	467	459
Net Additions	91	421	298	125	(84)	(76)	231
Attrition Rate (%)	17.1	17.1	16.4	16.7	15.9	15.8	15.7
Utilisation (%)	76.1	74.5	75.2	75.3	74.2	78.9	77.8

Source: Company, HDFC Sec Research

Key Assumptions

Particulars	FY14	FY15	FY16	FY17	FY18E	FY19E
Services Revenue Growth (%)	14.2	11.0	11.2	11.4	9.8	9.5
Services Volume Growth (%)	6.9	4.7	6.2	7.5	7.8	6.4
IP Revenue Growth (%)	20.4	19.6	25.8	61.7	10.5	14.0
IP-led Volume Growth (%)	1.9	11.6	32.4	48.3	1.3	7.3
Total USD Revenue Growth (%)	15.2	12.6	14.0	22.0	10.0	10.8
USD/INR Rate	60.9	61.3	65.8	67.1	65.0	66.0
EBITDA Margin (%)	25.8	20.7	18.0	15.8	17.3	18.2

Source: Company, HDFC Sec Research

Peer Valuation

Company	Mcap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			RoE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Mphasis	118	603	NEU	645	39.1	41.0	46.1	15.4	14.7	13.1	12.7	12.7	13.5
Cyient	57	507	NEU	540	32.3	37.7	42.7	15.7	13.4	11.9	17.9	18.9	19.2
Persistent	53	667	BUY	780	38.8	42.1	51.4	17.2	15.8	13.0	17.0	16.5	17.4
Zensar	39	870	BUY	1,209	69.6	82.3	93.0	12.4	10.8	9.5	19.6	19.2	19.3
Sonata	17	158	BUY	243	15.0	17.3	20.2	10.7	9.1	7.8	30.7	30.1	29.0

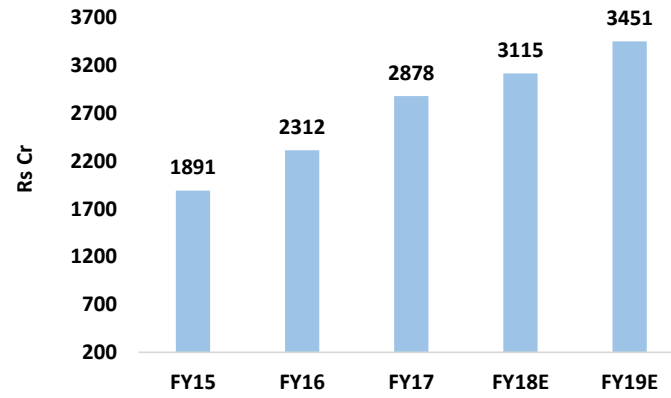
Source: HDFC sec Research

Financial Summary

YE March (Rs bn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	7.27	6.77	7.4	7.46	(2.5)	18.91	23.12	28.78	31.15	34.51
EBITDA	1.19	1.07	10.6	1.19	0.1	3.91	4.17	4.54	5.38	6.28
APAT	0.82	0.81	1.1	0.82	(0.3)	2.91	2.97	3.01	3.37	4.11
Diluted EPS (Rs)	10.2	10.1	1.1	10.2	(0.3)	36.3	37.2	38.8	42.1	51.4
P/E (x)						15.6	15.3	14.6	13.5	11.1
EV / EBITDA (x)						11.3	10.6	9.8	7.6	6.2
RoE (%)						22.1	19.5	17.0	16.5	17.4

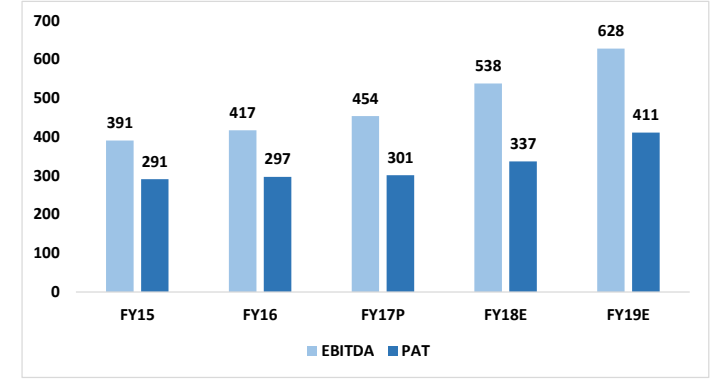
Source: HDFC sec Research

Revenues to see ~10% cagr over FY17-19E



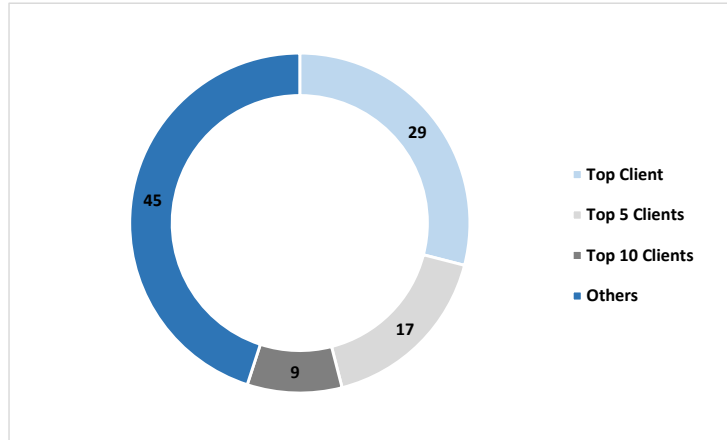
Source: Company, HDFC sec Research

EBITDA and PAT to witness strong growth momentum



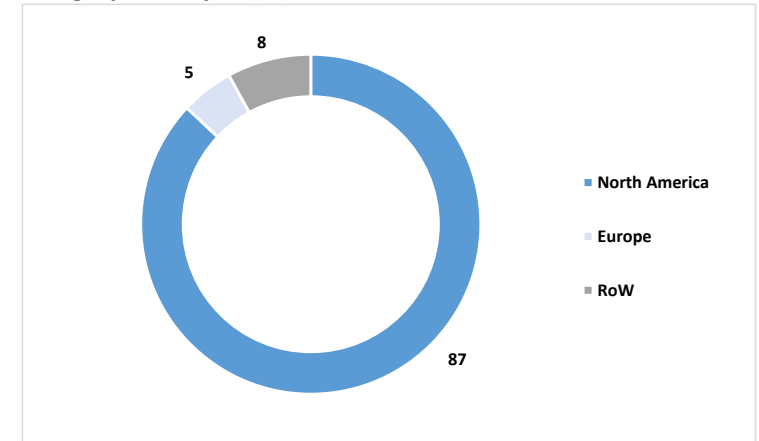
Source: Company, HDFC sec Research

Clients Mix (%)



Source: Company, HDFC sec Research

Geographical Split (%)



Source: Company, HDFC sec Research

Income Statement (Consolidated)

Year ending March (Rs bn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues (US\$ mn)	309	352	429	472	523
Growth (%)	12.6%	14.0%	22.0%	10.0%	10.8%
Net Revenues	18.91	23.12	28.78	31.15	34.51
Growth (%)	13.3%	22.3%	24.5%	8.2%	10.8%
Personal Expenses	11.32	14.30	18.52	19.79	21.60
SG&A Expenses	3.69	4.65	5.73	5.99	6.63
EBITDA	3.91	4.17	4.54	5.38	6.28
EBITDA Margin (%)	20.7%	18.0%	15.8%	17.3%	18.2%
EBITDA Growth (%)	-9.2%	6.8%	8.8%	18.5%	16.7%
Depreciation	0.94	0.97	1.49	1.67	1.73
EBIT	2.97	3.21	3.05	3.71	4.55
Other Income (Including EO Items)	0.94	0.75	0.96	0.75	0.90
Interest	0.00	0.00	0.00	0.00	0.00
PBT	3.90	3.96	4.01	4.46	5.45
Tax (Incl Deferred)	0.99	0.98	0.99	1.09	1.33
RPAT	2.91	2.97	3.01	3.37	4.11
APAT Growth (%)	16.6%	2.3%	4.4%	8.5%	22.1%
Adjusted EPS (Rs)	36.3	37.2	38.8	42.1	51.4
EPS Growth (%)	16.6%	2.3%	4.4%	8.5%	22.1%

Source: Company, HDFC sec Research

Balance Sheet (Consolidated)

Year ending March (Rs bn)	FY15	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital - Equity	0.80	0.80	0.80	0.80	0.80
Reserves	13.26	15.59	18.19	21.09	24.63
Total Shareholders' Funds	14.06	16.39	18.99	21.89	25.43
Total Debt	0.02	0.03	0.02	0.03	0.03
Net Deferred Taxes	(0.31)	(0.23)	(0.20)	(0.31)	(0.31)
Long-term Provisions & Others	0.12	0.13	0.17	0.18	0.20
TOTAL SOURCES OF FUNDS	13.88	16.31	18.98	21.79	25.35
APPLICATION OF FUNDS					
Net Block	3.06	3.01	2.82	3.18	3.57
CWIP	0.04	0.02	0.40	0.30	0.33
Goodwill & intangibles	1.02	1.60	2.81	1.15	1.15
Investments	2.12	1.35	2.34	2.53	2.80
LT Loans & Advances	0.13	1.72	1.13	0.86	0.94
Total Non-current Assets	6.36	7.70	9.49	8.04	8.80
Debtors	3.59	4.28	4.75	5.29	5.86
Other Current Assets	1.45	2.60	3.28	3.55	3.93
Cash & Equivalents	6.04	6.26	5.63	9.42	11.76
Total Current Assets	11.07	13.14	13.67	18.27	21.56
Creditors	0.53	1.65	1.21	1.31	1.45
Other Current Liabilities & Prov.	3.02	2.87	2.96	3.21	3.55
Total Current Liabilities	3.55	4.52	4.17	4.51	5.00
Net Current Assets	7.53	8.61	9.49	13.75	16.55
TOTAL APPLICATION OF FUNDS	13.88	16.31	18.98	21.79	25.35

Source: Company, HDFC sec Research

Cash Flow Statement (Consolidated)

Year ending March (Rs bn)	FY15	FY16	FY17	FY18E	FY19E
Reported PBT	3.90	3.96	4.01	4.46	5.45
Non-operating & EO items	0.68	(2.03)	0.84	0.28	0.10
Depreciation	0.94	0.97	1.49	1.67	1.73
Working Capital Change	(0.28)	(0.84)	(1.67)	(0.58)	(0.63)
Tax Paid	(0.99)	(0.98)	(0.99)	(1.09)	(1.33)
OPERATING CASH FLOW (a)	4.25	1.07	3.67	4.73	5.32
Capex	(0.96)	(1.66)	(2.18)	(2.02)	(2.24)
<i>Free cash flow (FCF)</i>	<i>3.30</i>	<i>(0.59)</i>	<i>1.50</i>	<i>2.71</i>	<i>3.07</i>
Investments	(1.36)	0.50	0.07	2.84	1.03
INVESTING CASH FLOW (b)	(2.32)	(1.16)	(2.11)	0.82	(1.22)
Debt Issuance/(Repaid)	(0.01)	0.00	(0.00)	0.00	0.00
Interest Expenses	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
FCFE	3.29	(0.59)	1.49	2.71	3.08
Share Capital Issuance	-	-	-	-	-
Dividend	(0.47)	(0.38)	(0.42)	(0.47)	(0.57)
FINANCING CASH FLOW (c)	(0.48)	(0.38)	(0.43)	(0.47)	(0.56)
NET CASH FLOW (a+b+c)	1.46	(0.47)	1.13	5.08	3.53
Closing Cash & Equivalents	6.04	6.26	5.63	9.42	11.76

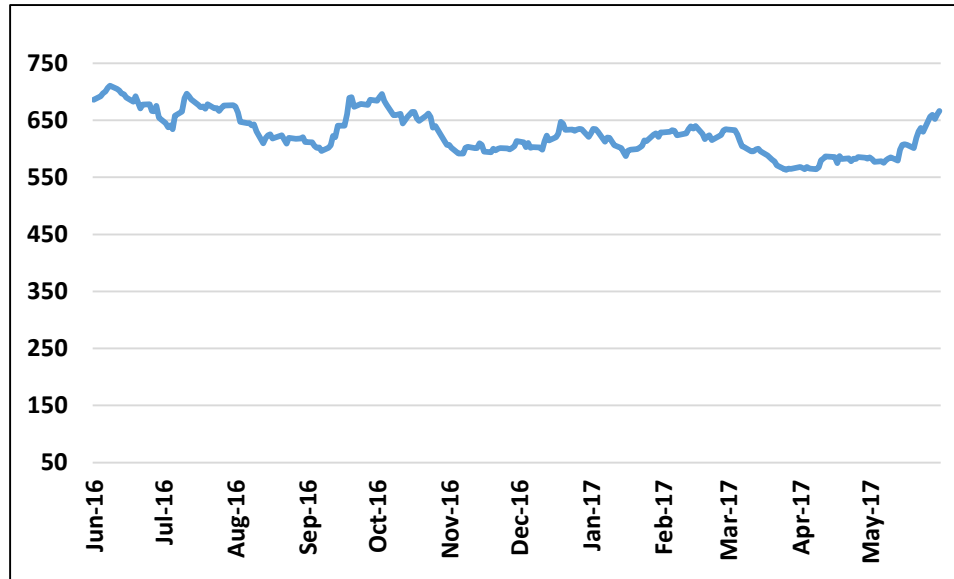
Source: Company, HDFC sec Research

Key Ratio (Consolidated)

	FY15	FY16	FY17	FY18E	FY19E
PROFITABILITY (%)					
GPM	40.2	38.1	35.7	36.5	37.4
EBITDA Margin	20.7	18.0	15.8	17.3	18.2
APAT Margin	15.4	12.9	10.5	10.8	11.9
RoE	22.1	19.5	17.0	16.5	17.4
RoIC (or Core RoCE)	29.1	26.9	19.6	21.8	26.5
RoCE	22.1	19.7	17.1	16.5	17.4
EFFICIENCY					
Tax Rate (%)	25.5	24.8	24.8	24.5	24.5
Fixed Asset Turnover (x)	3.3	3.4	4.1	3.8	3.7
<i>Debtors (days)</i>	<i>69</i>	<i>67</i>	<i>60</i>	<i>62</i>	<i>62</i>
<i>Payables (days)</i>	<i>10</i>	<i>26</i>	<i>15</i>	<i>15</i>	<i>15</i>
Cash Conversion Cycle (days)	59	41	45	47	47
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (x)	(0.4)	(0.4)	(0.3)	(0.4)	(0.5)
Interest Coverage (x)	880	3,485	3,351	2,648	2,803
PER SHARE DATA (Rs)					
EPS	36.3	37.2	38.8	42.1	51.4
CEPS	48.1	49.2	56.3	62.9	73.0
Dividend	10	8	9	10	12
Book Value	177	205	237	275	321
VALUATION					
P/E (x)	18.4	17.9	17.2	15.8	13.0
P/BV (x)	3.8	3.3	2.8	2.4	2.1
EV/EBITDA (x)	13.3	12.5	11.5	9.0	7.4
OCF/EV (%)	8.2	2.1	7.0	9.7	11.3
Dividend Yield (%)	1.8	1.4	1.6	1.8	2.1

Source: Company, HDFC sec Research

Price Chart



Rating Definition:

Buy: Stock is expected to gain by 10% or more in the next 1 Year.

Sell: Stock is expected to decline by 10% or more in the next 1 Year.

Rating Chart

R E T U R N	HIGH			
	MEDIUM			
	LOW			
		LOW	MEDIUM	HIGH
		RISK		

Ratings Explanation:

RATING	Risk - Return	BEAR CASE	BASE CASE	BULL CASE
BLUE	LOW RISK - LOW RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 20% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 15% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 15%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 20% OR MORE
YELLOW	MEDIUM RISK - HIGH RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 35% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 20% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 30%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 35% OR MORE
RED	HIGH RISK - HIGH RETURN STOCKS	IF RISKS MANIFEST PRICE CAN FALL 50% OR MORE	IF RISKS MANIFEST PRICE CAN FALL 30% & IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 30%	IF INVESTMENT RATIONALE FRUCTFIES PRICE CAN RISE BY 50% OR MORE

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