NIRMAL BANG
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Institutional Equities

2QFY18 Result Update

Tata Consultancy Services

13 October 2017

Reuters: TCS.BO; Bloomberg: TCS IN

Tepid Quarter; Margin Surprise Utilisation-driven; Realisation Weak

While the 'incrementally better FY18' commentary was not repeated for the second successive quarter, we believe two quarters of cross-currency tailwinds will lead to better USD revenue growth for TCS than would have been the case otherwise. Management commentary indicates that seasonal weakness of 2H will repeat and therefore we are factoring in little growth QoQ over 3QFY18 and 4QFY18. While the macro is looking good, TCS is not willing to commit to more robust growth as it believes that clients are not ready to spend significantly on Wave 2 of Digital. The cautious commentary on the US BFS space continues though it has improved on the retail vertical. The lack of fear of fintechs (something we have been hearing from other players too over the past few quarters), in our view, will mean that BFSI players are going to spend in a measured manner rather than in panic. Also, insurance deal closures have not been as strong as were indicated earlier. For 2QFY18, TCS' QoQ constant currency (CC) revenue growth of 1.7% was below our estimate of 2.5% in what is a seasonally strong quarter and also at the lower end of street estimates. However, 150bps of cross-currency tailwind helped USD revenue growth reach 3.2% (our estimate was 3.8%). The CC revenue growth was driven by 3.2% increase in volume and 1.5% decline in realisation. TCS witnessed a second consecutive quarter of realisation decline of 1.5% (QoQ). With the share of typically better priced Digital (19.7% in 2QFY18 versus 18.9%/16.1% in 1QFY18/2QFY17, respectively) increasing, the decline in realisation is surprising. This could be because of TCS witnessing significant value compression in 80% of its business which is non-Digital and/or it is working on a large number of Digital pilot projects which are not commercially priced and/or significant shift to offshore delivery (again data has not been shared). EBIT margin increased 170bps QoQ to 25.1% versus 23.4% in 1QFY18 driven by: (1) 50bps from depreciation of INR against Euro and Pound. (2) 120bps because of operational efficiency. 90bps of the latter was because of reduction in SG&A expenses QoQ. Back-to-back quarters of strong volume growth (3.5% in 1QFY18 and 3.2% in 2QFY18) without much increase in headcount (leading to higher utilisation which it has stopped reporting) could have partly contributed to the decrease in SG&A expenses as bench expenses come under SG&A. But this is clearly not sustainable. We believe TCS will find it difficult to maintain margins within its stated band of 26%-28%, as that had been set when growth was in the teens and there was benefit of scale, but with growth now in mid single-digit it may have to be reset. In the near term margin may be impacted by: (1) Higher onsite salaries and sub-contractor costs. (2) Front-loaded investments that may be needed in ramp- up of the Diligenta deal won in 2QFY18. (3) Seasonal weakness in 2HFY18. (4) Sluggishness in the BFSI space in 2HFY18. Post 2QFY18, we have broadly kept our USD revenue and EPS estimates for FY18/FY19/FY20 constant. We continue to retain our Sell rating on TCS with a September 2018 target price of Rs1,913 (down 25% from CMP), which is based on 13.7x September 2019E EPS. The target P/E multiple is -1 SD below the 10-year mean.

Digital – TCS states it is not losing market share, but we believe otherwise: TCS delivered 5.9% QoQ (31% YoY) revenue growth in digital (CC terms), which contributed 19.7% to its overall revenues in 2QFY18. TCS stated that it is not losing market share in Digital. But the commentary of TCS is in contrast to that of Accenture and Cognizant which indicates that the latter two are gaining ground. Accenture indicates that 'new services', which constitute 50% of its total revenues (which means a piece that is as large as TCS itself), is growing at 30% plus. Also, neither Accenture not Cognizant indicated hesitancy on the part of customers to invest in Wave 2 of Digital unlike what TCS states.

SELL

Sector: Information Technology

CMP: Rs2,548

Target price: Rs1,913

Downside: 25%

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Key Data

Current Shares O/S (mn)	1,970.4
Mkt Cap (Rsbn/US$bn)	5,021/77.1
52 Wk H / L (Rs)	2,709/2,052
Daily Vol. (3M NSE Avg.)	972,893

Price Performance (%)

	1 M	6 M	1 Yr
TCS	2.4	6.5	7.1
Nifty Index	0.0	9.7	15.9

Source: Bloomberg

Y/E Mar (Rsmn)	2QFY17	1QFY18	2QFY18	YoY(%)	QoQ (%)	2QFY18E	Deviation (%)
Net Sales (USD mn)	**4,374**	**4,591**	**4,739**	**8.3**	**3.2**	4,763	(0.5)
Net Sales	**292,840**	**295,840**	**305,410**	**4.3**	**3.2**	305,797	(0.1)
Software Expenses	165,340	172,910	176,110	6.5	1.9	176,368	(0.1)
% of Sales	*56.5*	*58.4*	*57.7*	-	-	57.7	-
Gross Margin	127,500	122,930	129,300	1.4	5.2	129,428	(0.1)
% of Sales	*43.5*	*41.6*	*42.3*	-	-	42.3	-
Operating Expenses	51,330	53,790	52,700	2.7	(2.0)	54,866	(3.9)
% of Sales	*17.5*	*18.2*	*17.3*	-	-	17.9	-
EBIT	**76,170**	**69,140**	**76,600**	**0.6**	**10.8**	74,563	2.7
EBIT Margin (%)	***26.0***	***23.4***	***25.1***	-	-	24.4	-
Other Income	10,520	9,320	8,120	(22.8)	(12.9)	8,656	(6.2)
PBT	**86,690**	**78,460**	**84,720**	**(2.3)**	**8.0**	83,218	1.8
Provision for Tax	20,660	18,960	20,120	(2.6)	6.1	19,972	0.7
Effective Tax Rate	*23.8*	*24.2*	*23.7*	-	-	24.0	-
Minority share in Profit / Loss	170	50	140	(17.6)	180.0	50	180.0
PAT (Reported)	**65,860**	**59,450**	**64,460**	**(2.1)**	**8.4**	63,196	2.0
NPM (%)	***22.5***	***20.1***	***21.1***	-	-	20.7	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

Y/E March (Rsbn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue (Rsbn)	1,086	1,180	1,232	1,331	1,450
YoY Growth (%)	*14.8*	*8.6*	*4.5*	*8.0*	*9.0*
EBIT (Rsbn)	288	303	305	301	328
% of sales	*26.5*	*25.7*	*24.8*	*22.6*	*22.6*
PAT (Rsbn)	242	263	258	256	278
YoY Growth (%)	*11.6*	*8.6*	*(1.7)*	*-0.8*	*8.6*
FDEPS (Rs)	123.2	133.4	134.1	133.9	145.4
RoE (%)	*36.7*	*32.4*	*30.5*	*29.3*	*27.6*
RoCE (%)	*39.1*	*33.7*	*32.1*	*30.3*	*29.0*
RoIC (%)	*63.1*	*60.8*	*57.7*	*53.6*	*55.4*
P/E (x)	20.7	19.1	19.0	19.0	17.5
P/BV (x)	6.8	5.7	6.2	5.3	4.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in estimates

	New			Old			*Change (%)*		
Change in estimates	**FY18E**	**FY19E**	**FY20E**	**FY18E**	**FY19E**	**FY20E**	***FY18E***	***FY19E***	***FY20E***
INR/USD	65.5	67.0	69.0	65.4	67.0	69.0	*0.1*	*-*	*-*
USD Revenue (USD mn)	18,808	19,862	21,016	18,731	19,820	20,971	*0.4*	*0.2*	*0.2*
Revenue (Rsbn)	1,232	1,331	1,450	1,226	1,328	1,447	*0.5*	*0.2*	*0.2*
EBIT (Rsbn)	305	301	328	293	298	325	*4.1*	*0.8*	*0.8*
EBIT Margin (%)	*24.8*	*22.6*	*22.6*	*23.9*	*22.5*	*22.5*	*-*	*-*	*-*
PAT (Rsbn)	258	256	278	251	257	277	*3.1*	*(0.1)*	*0.6*
EPS (Rs)	134.1	133.9	145.4	130.1	134.1	144.5	*3.1*	*(0.1)*	*0.6*

Source: Company, Nirmal Bang Institutional Equities Research

We have a negative view on Indian IT services sector: We have been cautious on the Indian IT services sector for two-and-half years now and have advocated an underweight stance. We expect the sector to post 3%-6% USD revenue growth in FY18 (likely lowest on the street, organic). In our sector reports Structural And Cyclical Speed-breakers Ahead and Downside Risks Open Up - It Is That Time Of The Cycle! , we had indicated the reasons for being bearish on the sector: These include: (1) The probability of below-trend growth in the US over the next 12-24 months is high as the economic cycle is maturing. This, in our view, will have a deleterious impact on Global 2000 corporations' sales growth - key driver of Indian IT sector's revenue growth. (2) We believe volume growth, pricing and margins are all likely to disappoint current consensus expectations amid intense competition because of convergence of capabilities and strategies among Tier-1 Indian players. (3) We see revenue cannibalisation from automation to accelerate as the entire industry is in a challenger-defender paradigm and some players have already factored in aggressive assumptions on gains from it and therefore have to deliver unless they want to witness material margin downside. (4) We do not believe digital business is material enough to offset the pressure one expects in traditional business. Besides we believe Indian industry is not getting a fair share of this business because of lower capabilities in consulting and design. (5) We see P/E multiple remaining compressed for the sector as revenue and earnings growth will be anaemic. We also expect return ratios to move down materially over FY17-FY19. (6) In the near term, we believe the changes to H1-B visa rules are likely to have a negative impact on the margins of the companies under our coverage over FY17-FY19 (H1-B Related Minimum Wage Increase – Material Damage Likely To Margins). Even if the minimum wage rule does not kick in, higher onsite hiring, higher onsite wage inflation, lower onsite utilisation and higher use of sub-contractors will damage margins. We expect RoIC to also move down in tandem.

Analyst call highlights

2QFY18 revenue growth below expectations

- TCS delivered sequential revenue growth of 1.7% in CC terms and 3.2% in USD terms which was below our expectations of 2.5% in CC terms and 3.8% in USD terms. The CC growth can be broken down into 3.2% increase in volume and 1.5% decline in realisation. This was the second consecutive quarter where TCS reported a realisation decline of 1.5%. With the share of better-priced Digital (19.7% in 2QFY18 versus 18.9%/16.1% in 1QFY18/2QFY17, respectively) increasing, both on QoQ and YoY basis, the continuous decline in the pricing is surprising. The possible scenarios which arise for pricing decline are the company witnessing significant value compression in the rest 80% of its business or it is still working on a large number of small-value pilots which are undergoing promotional pricing or a big shift to offshore delivery (we do not have data here as company has stopped providing this).

Growth in geographies

- Among geographies, leaving apart India where it declined 6.9% on QoQ basis in CC terms, TCS witnessed growth in all its others led by Latin America which grew 5.7% QoQ in CC terms followed by Continental Europe (5.3%), Asia Pacific (3.0%), UK (2.5%), North America (1.4%) and MEA (1.0%). The company reported lower-than-expected CC growth in North America, contributing ~52% to its revenues in 2QFY18, which is disappointing. The management attributed this sluggishness to continued weakness in BFS and Retail.

Growth in verticals

- All verticals witnessed growth except for the newly categorised ‘Regional Market and Others’ and Retail verticals which declined 0.6% and 0.9% QoQ, respectively, in CC terms. The QoQ growth in CC terms was led by Travel and Hospitality (8.0%), Energy & Utilities (7.2%), LS & HC (4.7%), Hi-Tech (3.4%), Manufacturing (1.9%), Communication and Media (1.4%) and BFSI (1.9%). We believe the growth in BFSI was mostly led by Europe where clients are still exploring the global delivery model and Wave 1 of Digital (in TCS’ words).
- For US BFS, the management highlighted that the first wave of Digital adoption by its clients in this space is over and indicated that clients are now going for digital transformation of their businesses which can provide a good experience to its customers, but stated that clients are not able to narrow down on the best set of technologies (among a number of available new technologies) because of which they are holding back spending. The management did not provide an expected timeline of this phase to end. We, however, believe that investments on the Digital side are reaching scale (as reported by Accenture) and market players like Accenture and CTS are gaining market share because of their ahead-of-time capabilities in these areas.
- As regards Retail, the management expects growth to return in this vertical and stated that its big brick and mortar clients are investing in technologies which can: (1) Improve their supply chain management. (2) Improve the end-user shopping experience which cannot be easily replicated by e-commerce players. However, given the seasonality of 3QFY18, we believe it is going to be difficult to grow significantly in this segment.

Growth in service lines

Digital revenues grow faster at 30% YoY

- TCS delivered strong 5.9% QoQ (31% YoY) revenue growth in digital (CC terms), which contributed 19.7% to its overall revenues in 2QFY18 (versus 17.9% in 4QFY17). The management sounded positive on the prospects for Digital and expects it to be the future growth driver and a big margin lever which will help it to reach the margin band of 26%-28%. We believe it is too early to key in margin benefits arising out of increasing Digital revenues as the management did not attribute any of the incremental margin benefits to it in 1QFY18 and 2QFY18, despite strong growth of this part of the business since its segregation in 2QFY16. The management stated that deal sizes are now larger than what they were in the past, but still not very significant. We believe that players like Accenture are in a far better position as their Digital revenues now not only constitute ~50% of revenues (US$35bn) but are also growing at ~30% YoY.

- The company did not provide service-wise classification of its revenues. It however, indicated that all its service lines are witnessing good market traction, robust pipeline and secular growth. For Consulting and Service Integration, TCS stated that it witnessed more than 10 major wins in 2QFY18 across Enterprise Agility, M&A, Global Shared Services, Supply Chain and Front Office Customer Experience Transformations. In Cognitive Business Operations, TCS stated that it is gaining strong traction and it won two large deals which powered sales momentum in 2QFY18. For Enterprise Application Services, TCS stated that it experienced robust growth in 2QFY18, driven by transformational wins around newer cloud platforms from SAP, Oracle, Salesforce, Microsoft & others and also stated that it has also expanded partner footprint in specialised areas.

FY18 revenue outlook – More cautious

- TCS stopped providing guidance since FY16 (both in quantitative and qualitative terms). However, based on the reading of its commentary, we believe that FY18 growth will be driven largely by Digital services in Life Sciences & Healthcare, Energy and Utilities, Travel & Hospitality and Hi-Tech verticals. While these verticals are growing at a healthy rate, they account for only ~30% of the business and the rest 70% of the business is growing at a slow pace.TCS highlighted that its strategy will be focused on three themes i.e. (1) Agile (2) Cloud, and (3) Automation.

Location-independent Agile at scale

- TCS indicated that it has built up considerable skills in location-independent Agile delivery. The general understanding is that Agile requires collaborative co-located teams. TCS indicated that it is able to deliver Agile at scale projects with people located in multiple delivery centres. TCS stated that it has created thought leadership, patents etc in this area and this is witnessing considerable traction within clients.

Margin performance and guidance

- TCS reported QoQ improvement of ~170bps in its EBIT margin (25.1% in 2QFY18 versus 23.4% in 1QFY18), but the margin was still lower than the guided range of 26%-28% for FY18. As regards levers to keep the margins in the stated bracket, TCS stated that its rising share of Digital revenues, bounce-back in growth of Diligenta and Japan geography, higher use of automation and continuous cost optimisation will help it to get back to that bracket. TCS attributed the improvement in margins to: (1) Depreciation of INR against Euro and Pound which helped the margins by 50bps. (2) Improvement in operational efficiency which helped the margins by 120bps. 90bps of this was achieved because of reduction in SG&A expenses. SG&A expenses stood at 17.3% of sales in 2QFY18 against 18.2% in 1QFY18, which we believe should not be treated as a margin improvement lever. We are also surprised by the fact that with back-to-back quarters of strong volume growth (3.5% in 1QFY18 and 3.2% in 2QFY18) without much increase in the headcount has helped cut down on bench costs which come under the SG&A expense line in TCS.

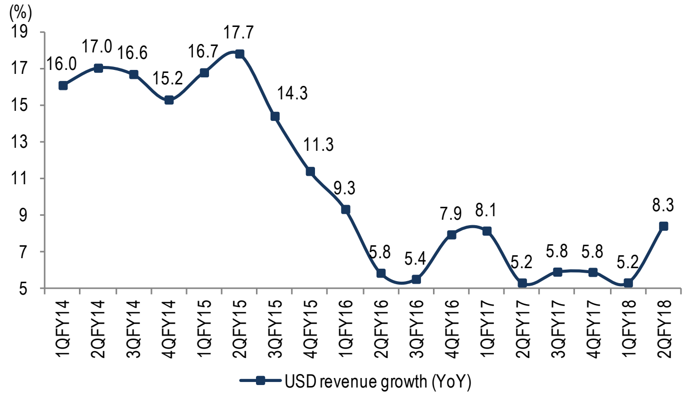
Deal wins continue to be good

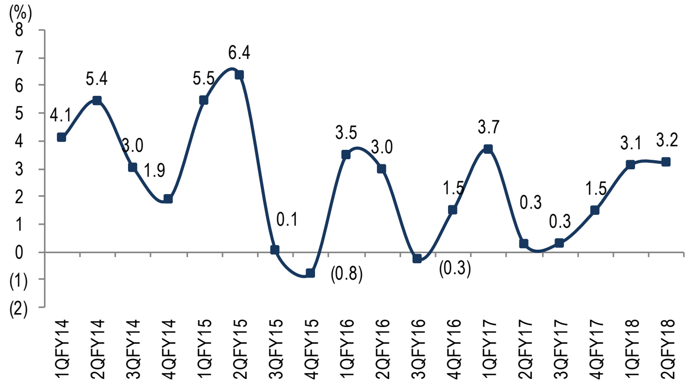
- As regards its 11 large deal wins in 1QFY18, TCS highlighted that three each have been won in BFSI and Communication and Media verticals, two in Energy & Utilities and one each in Manufacturing, Hi-Tech and Life Sciences verticals.
- As regards Dilligenta, TCS stated that it has won a 15-year large deal in 2QFY18 and indicated that it has a strong pipeline of large deals which may materialise in the coming quarters. Starting 1QFY18, the company has reclassified revenues from Diligenta and geographies like Japan and India into a new vertical viz. ‘Regional Market and Others’ because of the volatile nature of revenues from these segments.

Miscellaneous

- TCS reported LTM attrition rate (including BPS) of 12.1% versus 12.4% in 1QFY18, while IT services’ attrition rate was 11.3%.
- TCS added 15,868 (gross) employees and 3,404 net employees during the quarter. Total employee count for the company stood at 3,89,213. The management indicated hiring at the trainee level to be low and similar to what it had been in FY17.
- One client was added in the US$100mn+ bucket, 6 each in the US$50mn+/20 mn+/10 mn+/5mn+ bucket and 28 in US$1mn+ bucket in 2QFY18. We believe much of the client addition is a result of shifting of clients from one bucket to other because of cross-currency tailwinds witnessed in 2QFY18.
- TCS board has declared an interim dividend of Rs7/share.

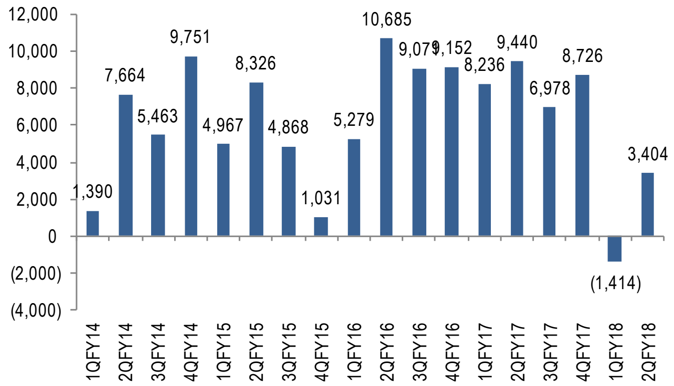
Exhibit 3: USD revenue growth picked up during the quarter both QoQ and YoY





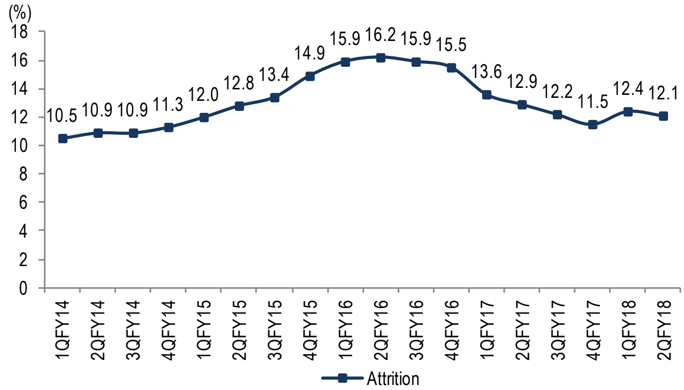
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Employee addition is very tepid



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Attrition is controlled



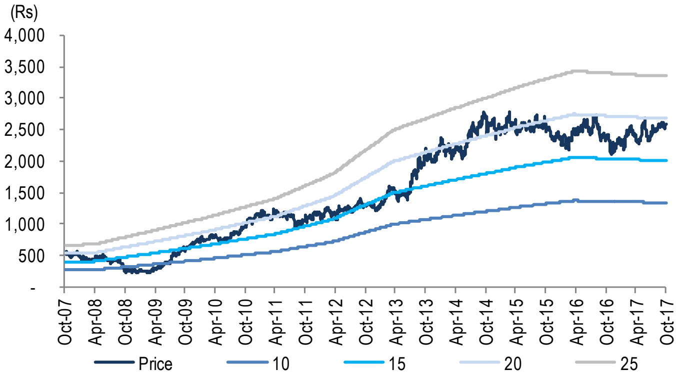
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: QoQ and YoY growth on various parameters for TCS

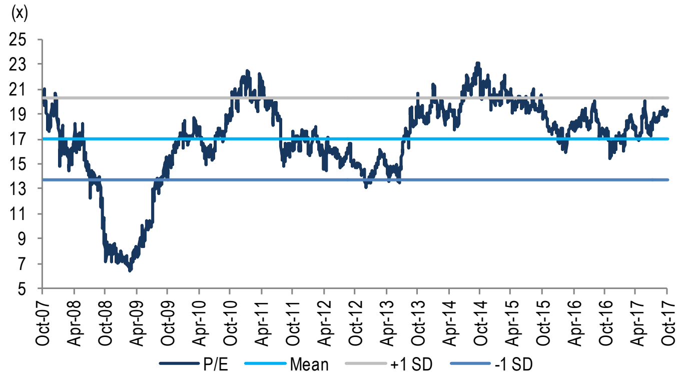
	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
QoQ Growth (%)																		
Geographical Data																		
Americas	6	4	2	1	5	4	2	0	4	3	1	2	3	1	2	(2)	2	2
UK	5	7	4	4	5	3	(6)	(2)	5	5	(3)	(5)	3	(7)	(3)	5	5	4
Europe	10	19	7	6	5	2	2	(6)	3	1	1	4	6	3	(6)	8	9	11
India	(10)	(4)	(6)	0	7	10	0	1	0	5	(8)	(0)	9	(6)	9	10	6	(7)
APAC	(2)	8	7	2	8	41	(4)	0	1	1	(0)	4	4	7	(6)	3	1	6
Ibero America	4	1	3	(3)	5	(8)	11	(1)	(6)	(2)	16	(3)	4	0	10	(3)	3	8
MEA	4	0	13	(3)	0	1	5	4	8	12	(9)	11	4	0	4	6	(1)	(1)
Verticals																		
BFSI														1	1	(2)	3	4
Manufacturing														0	2	1	5	3
Communication and Media														3	(7)	9	5	3
Life Science & Healthcare	For better visibility of trends in its core markets, the company has recast its vertical break-up of revenues by extracting out volatile, project-centric businesses such as India, MEA, APAC ex-Australia and products and platforms into a separate line item													3	(1)	1	6	5
Retail and distribution														(3)	0	(4)	2	1
Hi-Tech														(1)	2	1	4	6
Travel and hospitality														3	(3)	8	6	12
Energy and Utilities														3	(2)	4	11	8
Regional Market & Others														(1)	2	7	(1)	(0)
Services																		
Application Development & Maintenance	4	4	2	1	5	6	(2)	1	4	2	(1)	1	1	0	(3)	3	In the process of changing its service lines	In the process of changing its service lines
Enterprise Solutions	1	8	5	2	7	4	(1)	(1)	1	2	16	(0)	7	1	(1)	0		
Assurance Services	8	11	3	1	8	4	1	(2)	5	5	(1)	4	4	3	0	1		
Engineering and Industrial Services	6	5	1	6	(1)	9	(2)	(1)	3	3	(0)	6	6	0	2	4		
Infrastructure Services	2	5	5	2	11	16	4	1	5	3	3	1	6	2	7	(2)		
Global Consulting	18	(1)	6	2	(1)	6	16	(14)	(6)	(11)	0	0	0	0	0	0		
Asset Leveraged solutions	4	14	(12)	15	1	(2)	4	(5)	12	32	(13)	16	4	(19)	16	(2)		
Business Process Outsourcing	3	5	5	2	4	4	1	(2)	3	2	3	(0)	3	2	(1)	4		
YoY Growth (%)																		
Geographical Data																		
Americas	15	16	17	13	13	13	13	12	11	9	9	11	10	8	9	4	3	4
UK	16	18	17	22	22	16	5	(1)	(1)	1	4	1	(1)	(11)	(11)	(3)	(1)	10
Europe	16	35	44	48	41	21	15	2	0	(1)	(2)	9	13	15	8	11	14	23
India	24	8	(3)	(19)	(3)	11	18	19	11	6	(3)	(4)	5	(6)	11	22	19	18
APAC	8	9	15	17	29	67	50	47	38	(2)	2	6	8	14	8	7	4	4
Ibero America	39	22	(19)	6	7	(3)	4	6	(6)	0	5	3	14	17	11	11	11	19
MEA	16	11	22	15	11	12	4	11	20	34	16	23	18	5	20	15	10	8
Verticals																		
BFSI																	4	6
Manufacturing																	8	11
Communication and Media																	10	10
Life Science & Healthcare																	10	11
Retail and distribution	For better visibility of trends in its core markets, the company has recast its vertical break-up of revenues by extracting out volatile, project-centric businesses such as India, MEA, APAC ex-Australia and products and platforms into a separate line item																(5)	(1)
Hi-Tech																	7	14
Travel and hospitality																	15	25
Energy and Utilities																	17	23
Regional Market & Others																	6	7
Services																		
Application Development & Maintenance	13	13	14	11	13	14	9	9	8	4	6	6	3	1	(1)	1	In the process of changing its service lines	In the process of changing its service lines
Enterprise Solutions	15	21	21	17	23	19	12	9	4	2	19	20	27	25	6	7		
Assurance Services	24	29	29	24	24	16	14	11	8	10	7	13	12	9	11	8		
Engineering and Industrial Services	19	20	14	20	12	15	12	4	9	3	5	13	15	12	15	13		
Infrastructure Services	30	21	20	14	24	38	36	35	27	13	12	13	14	12	17	13		
Global Consulting	45	29	24	26	7	14	24	5	(1)	(17)	0	0	0	0	0	0		
Asset Leveraged solutions	4	17	(4)	20	17	0	19	(2)	9	47	23	50	38	(14)	13	(4)		
Business Process Outsourcing	6	10	14	16	17	15	11	7	6	4	6	8	8	8	4	9		

Source: Nirmal Bang Institutional Equities Research

Exhibit 7: P/E multiple charts

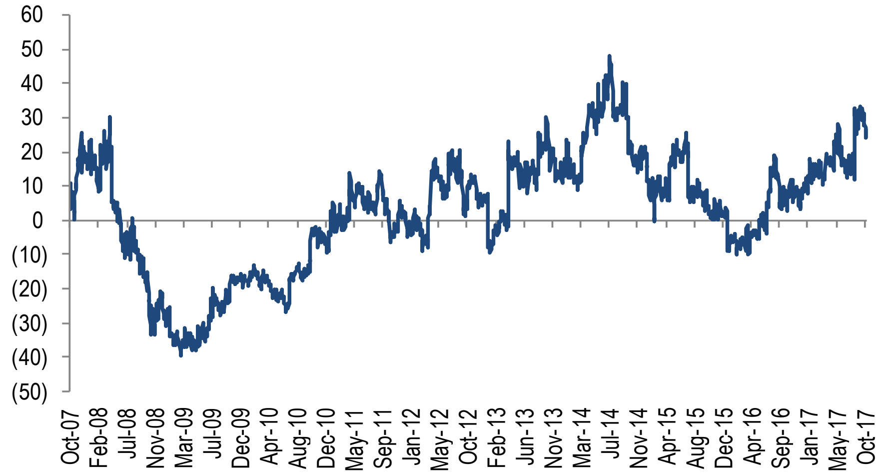


Source: Bloomberg, Nirmal Bang Institutional Equities Research



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: TCS 1 Yr Forward P/E Premium to Infosys



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 9: Key metrics

	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
P and L (Rsmn)													
Revenue	238,165	245,011	242,198	256,681	271,655	273,640	284,486	293,050	292,840	297,350	296,420	295,840	305,410
EBITDA	63,942	66,242	65,911	67,484	73,535	72,762	74,119	73,470	76,170	77,330	76,270	69,140	76,600
PAT	52,884	54,441	59,059	57,089	60,552	61,095	63,412	63,170	65,860	67,780	66,080	59,450	64,460
Vertical Mix (%)													
BFSI	40.4	40.5	40.6	40.6	40.5	40.5	40.9	33.3	33.6	33.9	32.9	32.9	33.0
Manufacturing	10.1	10.1	10.2	9.9	9.8	9.9	10.4	7.3	7.3	7.4	7.4	7.5	7.5
Communication and Media	11.6	11.6	10.8	11.1	10.8	10.9	10.8	7.0	7.2	6.7	7.2	7.3	7.3
Life Sciences	6.3	6.4	6.7	6.9	7.0	7.3	7.3	6.8	7.0	6.9	6.9	7.1	7.2
Retail & Distribution	13.5	13.4	13.6	13.8	13.8	13.8	14.1	13.5	13.0	13.0	12.3	12.2	11.9
Hi-Tech	5.7	5.9	6.0	5.8	5.9	6.0	5.6	7.8	7.7	7.8	7.8	7.9	8.1
Travel and hospitality	3.5	3.5	3.4	3.5	3.6	3.6	3.7	3.2	3.3	3.2	3.4	3.5	3.8
Energy And Utility	4.3	4.2	3.9	4.0	4.0	4.1	4.1	3.6	3.7	3.6	3.7	4.0	4.2
Others	4.6	4.4	4.8	4.4	4.6	3.9	3.1	17.5	17.2	17.5	18.4	17.6	17.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Horizontal Mix (%)													
Application Development & Maintenance	40.5	39.5	40.1	40.3	40	39.7	39.4	38.5	38.4	37.2	37.7	In the process of changing its service lines	In the process of changing its service lines
Business Intelligence	0	0	0	0	0	0	0	0	0	0	0		
Enterprise Solutions	15.6	15.4	15.4	15.1	15	17.4	17.1	17.7	17.8	17.5	17.3		
Assurance Services	8.4	8.5	8.4	8.5	8.7	8.6	8.8	8.8	9	9	9		
Product Engineering Services	4.6	4.5	4.5	4.5	4.5	4.5	4.7	4.8	4.8	4.9	5		
Infrastructure Management	13.8	14.3	14.5	14.7	14.7	15.2	15.2	15.5	15.7	16.8	16.2		
Global Consulting	3.2	3.7	3.2	2.9	2.5	0	0	0	0	0	0		
Asset Leveraged solutions	2.3	2.4	2.3	2.5	3.2	2.8	3.2	3.2	2.6	3	2.9		
Business Process Outsourcing	11.6	11.7	11.6	11.5	11.4	11.8	11.6	11.5	11.7	11.6	11.9	-	-
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-	-
Geographic Mix (%)													
North America	51.0	51.9	52.4	52.8	52.7	53.5	54.0	53.5	54.0	55.0	53.3	52.5	51.9
UK	17.1	16.1	15.9	16.1	16.4	15.9	14.9	14.8	13.8	13.3	13.7	13.9	14.0
Europe	11.5	11.7	11.1	11.0	10.8	10.9	11.2	11.5	11.8	11.1	11.8	12.5	13.4
India	6.5	6.5	6.6	6.4	6.5	6.0	5.9	6.2	5.8	6.3	6.8	7.0	6.3
APAC	10.1	9.7	9.8	9.6	9.4	9.4	9.6	9.6	10.2	9.6	9.7	9.5	9.8
Ibero America	1.9	2.1	2.1	1.9	1.8	2.1	2.0	2.0	2.0	2.2	2.1	2.1	2.2
MEA	1.9	2.0	2.1	2.2	2.4	2.2	2.4	2.4	2.4	2.5	2.6	2.5	2.4
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Delivery (%)													
Offshore	*45.7*	*46*	*46*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Onsite	*48.9*	*48.2*	*48.5*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Project Type													
T&M	48.7	48.3	47.4	0	0	0	0	0	0	0	0	0	0
Fixed Price	51.3	51.7	52.6	0	0	0	0	0	0	0	0	0	0
Utilization (%) (including Trainees)	81.3	82.1	81.5	82.9	82.3	80.9	82	82	82	82	82	82	82
Number of Client													
$100mn +	24	25	29	30	33	34	37	37	36	34	35	36	37
$50mn +	62	65	68	69	65	65	73	77	78	80	84	85	91
Employee Number	313,757	318,625	319,656	324,935	335,620	344,691	353,843	362,079	371,519	378,497	387,223	385,809	389,213
Attrition (%)	12.8	13.4	14.9	15.9	16.2	15.9	15.5	13.6	12.9	12.2	11.5	12.4	12.1

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 10: Income statement

Y/E March (Rsbn)	FY16	FY17	FY18E	FY19E	FY20E
Average INR/USD	**65.6**	**67.1**	**65.5**	**67.0**	**69.0**
Net Sales (USD mn)	**16,544**	**17,575**	**18,808**	**19,862**	**21,016**
-Growth (%)	***7.1***	***6.2***	***7.0***	***5.6***	***5.8***
Net Sales	**1,086**	**1,180**	**1,232**	**1,331**	**1,450**
-Growth (%)	*14.8*	*8.6*	*4.5*	*8.0*	*9.0*
Cost of Sales & Services	609	669	713	799	869
Gross Margin	477	511	519	532	581
% of sales	*43.9*	*43.3*	*42.1*	*40.0*	*40.1*
SG& A	190	208	214	231	253
% of sales	*17.4*	*17.6*	*17.4*	*17.4*	*17.5*
EBIT	288	303	305	301	328
EBIT Margin (%)	*26.5*	*25.7*	*24.8*	*22.6*	*22.6*
Other income (net)	31	42	35	39	41
PBT	318	345	340	340	369
-PBT margin (%)	*29.3*	*29.3*	*27.6*	*25.6*	*25.5*
Provision for tax	75	82	82	83	90
Effective tax rate (%)	*23.6*	*23.6*	*24.0*	*24.5*	*24.5*
Minority Interest	1	1	0	1	1
Net profit	242	263	258	256	278
-Growth (%)	*11.6*	*8.6*	*(1.7)*	*(0.8)*	*8.6*
-Net profit margin (%)	*22.3*	*22.3*	*21.0*	*19.3*	*19.2*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Cash flow

Y/E March (Rsbn)	FY16	FY17	FY18E	FY19E	FY20E
EBIT	**288**	**303**	**305**	**301**	**328**
(Inc.)/dec. in working capital	(53)	6	(8)	(16)	(27)
Cash flow from operations	**235**	**309**	**298**	**285**	**301**
Other income	31	42	35	39	41
Depreciation & amortisation	19	20	20	21	21
Financial expenses	-	-	-	-	-
Tax paid	(75)	(82)	(82)	(83)	(90)
Dividends paid	(103)	(112)	(133)	(127)	(141)
Net cash from operations	**106**	**178**	**139**	**135**	**133**
Capital expenditure	(21)	(19)	(23)	(25)	(25)
Net cash after capex	85	159	116	110	107
Inc./(dec.) in debt	(1)	0	(2)	-	-
(Inc.)/dec. in investments	(211)	(192)	125	-	-
Equity issue/(Share Buyback)	0	-	(160)	-	-
Cash from financial activities	**(212)**	**(191)**	**(37)**	**-**	**-**
Others	12	5	(43)		
Opening cash	182	67	40	74	184
Closing cash	67	40	76	184	291
Change in cash	(115)	(28)	35	110	107

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

Y/E March (Rsbn)	FY16	FY17	FY18E	FY19E	FY20E
Equity capital	53	53	2	2	2
Reserves & surplus	683	834	808	937	1,074
Net worth	735	887	810	939	1,076
Minority Interest	-	-	-	-	-
Other liabilities	20	21	22	24	26
Total loans	2	3	1	1	1
Total liabilities	**758**	**911**	**833**	**963**	**1,102**
Goodwill	39	38	39	39	39
Net block (incl. CWIP)	118	117	120	124	128
Investments	4	3	3	3	3
Deferred tax asset - net	29	28	34	36	39
Other non-current assets	90	62	63	65	70
Other current assets	284	485	350	351	353
Debtors	281	280	324	342	372
Cash & bank balance	67	36	43	43	43
Bank deposits	1	4	32	141	248
Total current assets	632	805	748	877	1,016
Total current liabilities	154	143	173	180	192
Net current assets	478	662	575	697	824
Total assets	**758**	**911**	**833**	**963**	**1,102**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Key ratios

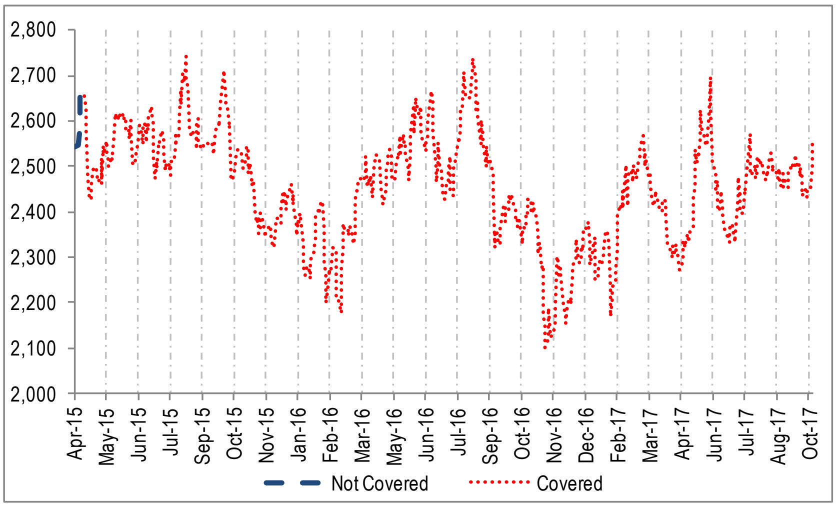
Y/E March	FY15	FY16	FY17	FY18E	FY19E
Per share (Rs)					
EPS	123.2	133.4	134.1	133.9	145.4
FDEPS	123.2	133.4	134.1	133.9	145.4
Dividend Per Share	43.4	47.0	57.6	55.1	61.1
Dividend Yield (%)	1.7	1.8	2.3	2.2	2.4
Book Value	373.3	450.2	411.0	476.5	545.9
Dividend Payout Ratio (excl DT)	42.6	42.4	42.7	41.2	42.0
Return ratios (%)					
RoE	36.7	32.4	30.5	29.3	27.6
RoCE	39.1	33.7	32.1	30.3	29.0
ROIC	63.1	60.8	57.7	53.6	55.4
Tunover Ratios					
Asset Turnover Ratio	1.2	1.1	1.2	1.2	1.1
Debtor Days (incl. unbilled Rev)	94	87	96	94	94
Working Capital Cycle Days	62	64	62	60	61
Valuation ratios (x)					
PER	20.7	19.1	19.0	19.0	17.5
P/BV	6.8	5.7	6.2	5.3	4.7
EV/EBTDA	15.7	15.0	14.9	15.0	13.8
EV/Sales	4.4	4.1	3.9	3.6	3.3
M-cap/Sales	4.5	4.1	4.0	3.7	3.4

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 April 2015	Sell	2,619	2,314
17 April 2015	Sell	2,574	2,325
10 July 2015	Sell	2,529	2,173
9 September 2015	Sell	2,540	2,173
5 October 2015	Sell	2,641	2,217
14 October 2015	Sell	2,599	2,248
8 January 2016	Under Review	2,398	-
13 January 2016	Under Review	2,327	-
14 March 2016	Sell	2,360	2,055
20 April 2016	Sell	2,520	2,089
15 July 2016	Sell	2,521	2,075
14 September 2016	Sell	2,359	2,041
14 October 2016	Sell	2,329	2,073
10 January 2017	Sell	2,304	1,952
13 January 2017	Sell	2,344	1,956
14 February 2017	Sell	2,414	1,983
21 February 2017	Sell	2,502	1,983
2 March 2017	Sell	2,477	1,983
19 April 2017	Sell	2,309	1,996
21 June 2017	Sell	2,443	1,923
14 July 2017	Sell	2,446	1,930
28 September 2017	Sell	2,475	1,908
13 October 2017	Sell	2,548	1,913

Rating track graph



Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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