

INDUSTRY	IT		
CMP (as on 26 May 2017)	Rs 583		
Target Price	Rs 655		
Nifty	9,595		
Sensex	31,028		
<b>KEY STOCK DATA</b>			
Bloomberg	MPHL IN		
No. of Shares (mn)	210		
MCap (Rs bn) / (\$ mn)	123/1,905		
6m avg traded value (Rs mn)	76		
<b>STOCK PERFORMANCE (%)</b>			
52 Week high / low	Rs 624/425		
3M	6M	12M	
Absolute (%)	(0.8)	12.2	23.0
Relative (%)	(8.2)	(5.7)	5.3
<b>SHAREHOLDING PATTERN (%)</b>			
Promoters	60.41		
FIs & Local MFs	9.85		
FPIs	20.41		
Public & Others	9.33		
<i>Source : BSE</i>			

**Apurva Prasad**  
 apurva.prasad@hdfcsec.com  
 +91-22-6171-7327

**Amit Chandra**  
 amit.chandra@hdfcsec.com  
 +91-22-6171-7345

## Growth acceleration ahead

Mphasis' 4Q performance was driven by Direct Core (1.2% QoQ and 10.8% in FY17) and HP channel (0.6% QoQ and -11% in FY17), while Digital Risk was soft. Deal wins in Direct International were strong (20.5% growth in TCV in FY17), which provides growth visibility. Mgt indicated (1) Above-industry growth for Direct core, (2) Growth in HP-channel and (3) Flattish Digital Risk for FY18E. Op performance was steady (+23bps QoQ), and the co maintained its EBIT% guidance of 14-16% for FY18E.

Our positive thesis on Mphasis is validated by wins (four logos) from Blackstone portfolio, and the company is targeting a sub-segment of 20 cos within that portfolio. Our expectation of recovery in the HP-channel (now DXC Technologies) seems plausible, with opportunities in IMS and ADM services in the HP-CSC portfolio, supported by the solution partnership with DXC Technology. We maintain our positive outlook on Mphasis based on (1) Strategic accounts-led growth visibility in Direct

Core business (BFSI-heavy), (2) Steadying HP-channel and growth opportunity from HP-CSC (factored in 4.4/6.1% CAGR in FY18/19E), (3) Blackstone's portfolio opportunity, (4) Strong operational levers (high offshore, scalability in FP-contract). We have marginally increased earnings est. (~1.5% for FY19E), and expect USD revenue/EPS growth of 8/10% CAGR over FY17-19E, factoring EBIT% at 15.1/15.8% for FY18/19E. Maintain BUY with a TP of Rs 655, 14x FY19E.

### Highlights of the quarter

- Growth acceleration in Direct Core is expected to be back-ended in FY18 (stronger 2H outlook), also as recovery in a large account may take a couple of quarters. Deal volumes and offshoring strategy will support recovery in Digital Risk, going ahead.
- Near-term outlook:** Acceleration in Direct Core, supported by an increase in deal wins, can be a medium-term trigger.

### Financial Summary

YE March (Rs bn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	15.06	15.16	(0.7)	15.36	(2.0)	57.95	60.85	60.76	62.09	68.35
EBITDA	2.38	2.38	0.1	2.40	(0.5)	8.70	9.03	9.69	10.12	11.73
APAT	1.94	1.85	4.4	2.00	(3.4)	6.78	6.87	8.07	7.85	9.01
Diluted EPS (Rs)	9.2	8.8	4.3	9.5	(3.4)	32.3	34.0	38.8	40.7	46.7
P/E (x)						18.1	17.1	15.0	14.3	12.5
EV / EBITDA (x)						11.2	10.5	9.5	9.5	7.9
RoE (%)						12.7	12.1	13.4	13.6	16.0

Source: Company, HDFC sec Inst Research # Consolidated

HDFC securities Institutional Research is also available on Bloomberg HSLB <GO> & Thomson Reuters

**Revenue stood at USD 221.5mn, -0.9% QoQ with Direct international revenue growth (71.1% of revenue) and HP Channel revenue growth (+0.6% QoQ and 24.1% of revenue)**

**EBITDA% came in at 15.8%, +23bps QoQ, supported by SG&A efficiencies. APAT came at Rs1.94bn, -3.4% QoQ and 4.4% YoY**

### Quarterly Financials Snapshot (Consolidated)

Particulars (Rs bn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
<b>Revenue USD mn</b>	<b>221.5</b>	<b>225.1</b>	<b>(1.6)</b>	<b>223.5</b>	<b>(0.9)</b>
<b>Net Revenue</b>	<b>15.06</b>	<b>15.16</b>	<b>(0.7)</b>	<b>15.36</b>	<b>(2.0)</b>
Employee Benefit Expenses	8.88	8.67	2.4	9.01	(1.5)
Other Operating Expenses	3.80	4.11	(7.6)	3.95	(3.9)
<b>EBITDA</b>	<b>2.38</b>	<b>2.38</b>	<b>0.1</b>	<b>2.40</b>	<b>(0.5)</b>
Depreciation	0.18	0.25	(25.5)	0.20	(6.6)
<b>EBIT</b>	<b>2.20</b>	<b>2.13</b>	<b>3.1</b>	<b>2.20</b>	<b>0.0</b>
Other Income	0.49	0.49	(1.0)	0.62	(21.4)
Interest Cost	0.02	0.05	(63.8)	0.02	(26.1)
<b>PBT</b>	<b>2.67</b>	<b>2.58</b>	<b>3.5</b>	<b>2.79</b>	<b>(4.5)</b>
Tax	0.73	0.72	1.4	0.79	(7.1)
<b>RPAT</b>	<b>1.84</b>	<b>1.54</b>	<b>19.8</b>	<b>2.00</b>	<b>(8.1)</b>
EO Items (Adj For Tax)	(0.09)	(0.32)	NA	-	NA
<b>APAT</b>	<b>1.94</b>	<b>1.85</b>	<b>4.4</b>	<b>2.00</b>	<b>(3.4)</b>

Source: Company, HDFC Sec Inst Research

### Margin Analysis (%)

	3QFY17	3QFY16	YoY (bps)	2QFY17	QoQ (bps)
Employee Benefit Expenses % Net Sales	58.9	57.2	176	58.7	27
<b>EBITDA Margin (%)</b>	<b>15.8</b>	<b>15.7</b>	<b>13</b>	<b>15.6</b>	<b>23</b>
EBIT Margin (%)	14.6	14.1	53	14.3	29
Tax Rate (%)	27.5	28.1	(58)	28.2	(78)
APAT Margin (%)	12.8	12.2	62	13.0	(20)

Source: Company, HDFC Sec Inst Research

**Deal bookings in Direct international were strong at USD 90mn in 4Q (USD 365mn in FY17 and 20.5% higher than FY16)**

**BFSI (63.4% of revenue) softness was linked to decline in Digital Risk**

### Service-Line Revenue Split

(% of revenue)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Application Maintenance & Other Services	30.3	32.8	34.1	35.8	35.4	37.0	36.9
Application Development	24.0	22.7	24.5	23.2	23.9	23.1	24.5
Customer Service	4.3	2.3	2.0	1.9	1.8	1.9	1.8
Service / Technical Help Desk	1.8	1.7	2.3	2.1	2.4	2.3	2.2
Transaction Processing Service	6.7	7.0	7.1	7.0	7.0	6.2	6.5
Infrastructure Management Services	15.0	14.9	13.6	13.6	13.6	14.2	13.8
Knowledge Processes	17.7	17.9	16.3	16.2	15.7	15.0	13.8
License Income	0.1	0.8	0.1	0.2	0.3	0.4	0.6
<b>Total</b>	<b>100.0</b>						

Source: Company, HDFC Sec Inst Research

### Revenue Growth By Service-Line

(QoQ, %)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Application Maintenance & Other Services	4.9	4.6	2.4	4.7	(1.5)	4.3	(1.1)
Application Development	(2.2)	(8.9)	6.2	(5.6)	3.0	(3.5)	4.8
Customer Service	(18.1)	(48.5)	(13.3)	(8.2)	(4.2)	6.4	(6.2)
Service / Technical Help Desk	(5.2)	(9.9)	30.9	(8.4)	14.8	(5.9)	(3.4)
Transaction Processing Service	4.0	(0.3)	0.6	(2.0)	(0.2)	(11.7)	4.1
Infrastructure Management Services	1.2	(3.9)	(10.4)	0.3	(0.4)	3.9	(3.7)
Knowledge Processes	7.2	(2.3)	(10.9)	(0.6)	(3.6)	(4.6)	(8.9)
License Income	(75.7)	536.8	(83.1)	62.3	30.0	30.1	49.4
<b>Total</b>	<b>1.1</b>	<b>(3.4)</b>	<b>(1.7)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(0.9)</b>

Source: Company, HDFC Sec Inst Research

**Revenue-Split By Geography**

(% of revenue)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Americas	75.1	76.3	76.8	77.1	77.6	78.0	79.1
EMEA	9.3	10.3	10.7	10.7	10.5	9.6	9.5
India	9.5	7.4	6.7	6.5	6.4	7.3	6.3
RoW	6.0	6.0	5.8	5.8	5.6	5.1	5.1
<b>Total</b>	<b>100.0</b>						

Source: Company, HDFC Sec Inst Research

**Revenue Growth By Geography**

(QoQ, %)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Americas	2.8	(1.9)	(1.0)	0.0	0.5	0.3	0.6
EMEA		(4.4)	6.8	2.3	(0.1)	(2.3)	(8.4)
India		(1.2)	(25.0)	(11.4)	(3.5)	(1.6)	(14.0)
RoW		(7.0)	(3.7)	(5.6)	(0.4)	(3.4)	(8.2)
<b>Total</b>	<b>1.1</b>	<b>(3.4)</b>	<b>(1.7)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(0.9)</b>

Source: Company, HDFC Sec Inst Research

**Within Direct International, Direct Core (55% of revenue and 76% of Direct International) grew 1.2% QoQ (10.8% n FY17)**

**Revenue Segment By Channel**

(% of revenue)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
HP channel	26.5	24.2	24.3	23.4	23.9	24.0	24.4
Direct International	66.5	70.4	70.3	72.5	72.2	71.3	72.0
Others	7.0	5.4	5.3	4.1	3.9	4.6	3.6
<b>Total</b>	<b>100.0</b>						

Source: Company, HDFC Sec Inst Research

**Revenue Growth By Channel Segment**

(QoQ, %)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
HP channel	(6.8)	(11.8)	(1.2)	(4.2)	1.9	0.5	0.6
Direct International	4.9	2.3	(1.8)	2.8	(0.6)	(1.4)	(0.0)
Others	(1.5)	(25.0)	(3.2)	(23.1)	(3.9)	16.7	(21.8)
<b>Total</b>	<b>1.1</b>	<b>(3.4)</b>	<b>(1.7)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(0.9)</b>

Source: Company, HDFC Sec Inst Research

**FP revenue grew 15.5% in FY17 while T&M revenue declined by 7% in FY17**

**Top-5 and top-10 accounts grew 6.3/9.8% in FY17 as compared to 3.5% decline in overall revenue**

#### Revenue Segment By Onsite-Offshore Mix

(% of revenue)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Onsite	49.3	50.8	51.4	51.4	52.4	51.2	51.2
Offshore	50.7	49.2	48.6	48.6	47.6	48.8	48.8
<b>Total</b>	<b>100.0</b>						

Source: Company, HDFC Sec Inst Research

#### Revenue Growth By Onsite-Offshore Mix

(% of revenue)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Onsite	0.8	(0.4)	(0.5)	(0.4)	1.9	(2.6)	(0.9)
Offshore	1.3	(6.2)	(2.8)	(0.3)	(2.4)	2.3	(0.9)
<b>Total</b>	<b>1.1</b>	<b>(3.4)</b>	<b>(1.6)</b>	<b>(0.3)</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(0.9)</b>

Source: Company, HDFC Sec Inst Research

#### Billing Rate

(USD/hr)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Onsite	62.6	61.1	64.4	65.1	66.4	68.4	67.7
Offshore	15.2	14.1	15.0	14.3	14.3	14.8	14.8

Source: Company, HDFC Sec Inst Research

#### Billing Rate Growth

(QoQ, %)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Onsite	(0.7)	(2.4)	5.5	1.0	2.0	3.1	(1.1)
Offshore	51.1	(7.0)	5.9	(4.3)	0.1	3.5	(0.1)

Source: Company, HDFC Sec Inst Research

**Geographical Revenue Break-up**

(% of revenue)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
<b>Onsite headcount</b>	<b>4,212</b>	<b>4,070</b>	<b>3,893</b>	<b>3,791</b>	<b>3,827</b>	<b>3,677</b>	<b>3,667</b>
- Application Services	2,370	2,311	2,322	2,340	2,357	2,299	2,353
- ITO Services	167	195	212	215	281	251	274
- BPO Services	1,675	1,564	1,359	1,236	1,189	1,127	1,040
<b>Offshore headcount</b>	<b>18,600</b>	<b>18,172</b>	<b>17,161</b>	<b>17,335</b>	<b>17,225</b>	<b>17,102</b>	<b>17,057</b>
- Application Services	8,488	8,423	8,441	8,495	8,468	8,615	8,807
- ITO Services	3,953	3,730	3,209	3,158	3,196	3,136	3,074
- BPO Services	6,159	6,019	5,511	5,682	5,561	5,351	5,176
Sales and Marketing	327	313	300	289	300	315	325
General and Administration	994	957	948	943	939	940	945
<b>Total Headcount</b>	<b>24,133</b>	<b>23,512</b>	<b>22,302</b>	<b>22,358</b>	<b>22,291</b>	<b>22,034</b>	<b>21,994</b>
<b>Utilisation (%)</b>							
- Application Services	87	83	84	85	82	82	82
- ITO Services	93	95	91	94	94	93	90
- BPO Services	80	94	89	94	93	93	93

Source: Company, HDFC Sec Inst Research

**Key Assumptions**

Particulars	FY14	FY15	FY16	FY17	FY18E	FY19E
HP channel Revenue growth (%)	(28.1)	(12.1)	(26.1)	(11.0)	4.4	6.1
Direct International Revenue growth (%)	40.2	3.8	13.5	2.6	6.3	12.8
Onsite Revenue growth (%)	26.7	(3.7)	9.3	(0.8)	7.5	12.8
Offshore Revenue growth (%)	(21.6)	1.7	(11.1)	(6.1)	2.9	7.0
<b>Total USD revenue growth (%)</b>	<b>(4.8)</b>	<b>(0.8)</b>	<b>(2.0)</b>	<b>(3.4)</b>	<b>5.3</b>	<b>10.1</b>
USD/INR rate	61.3	61.2	65.6	67.1	66.0	66.0
<b>EBITDA margin (%)</b>	<b>17.4</b>	<b>15.0</b>	<b>14.8</b>	<b>15.9</b>	<b>16.3</b>	<b>17.2</b>

Source: Company, HDFC Sec Inst Research

**Change In Estimates**

Particulars	Earlier estimates	Revised estimates	% change
<b>FY18E</b>			
Revenue (USD mn)	968	941	(2.8)
Revenue (Rs bn)	63.89	62.09	(2.8)
EBITDA (Rs bn)	10.61	10.12	(4.6)
EBITDA Margin (%)	16.6%	16.3%	(31bps)
EPS (Rs)	41.0	40.7	(0.6)
<b>FY19E</b>			
Revenue (USD mn)	1,062	1,036	(2.5)
Revenue (Rs bn)	70.12	68.35	(2.5)
EBITDA (Rs bn)	12.16	11.73	(3.5)
EBITDA Margin (%)	17.3%	17.2%	(18bps)
EPS (Rs)	46.1	46.7	1.3

Source: HDFC sec Inst 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
L&T Infotech	136	796	BUY	880	56.9	58.8	67.7	14.0	13.6	11.8	36.9	29.2	28.7
<b>Mphasis</b>	<b>123</b>	<b>584</b>	<b>BUY</b>	<b>655</b>	<b>38.8</b>	<b>40.7</b>	<b>46.7</b>	<b>14.8</b>	<b>14.1</b>	<b>12.3</b>	<b>13.4</b>	<b>13.6</b>	<b>16.0</b>
Mindtree	90	535	NEU	425	24.9	30.6	35.7	21.5	17.5	15.0	16.8	19.1	20.3
eClerx	53	1,324	SELL	1,275	91.9	84.5	98.0	14.4	15.7	13.5	30.1	24.2	25.7
Hexaware *	75	252	NEU	215	13.8	14.9	16.6	18.3	16.9	15.2	26.5	23.9	23.2
Cyient	57	503	NEU	540	33.3	39.5	45.7	15.1	12.8	11.0	18.5	19.7	20.2
Persistent	47	585	BUY	720	38.8	42.1	51.4	15.1	13.9	11.4	17.0	16.5	17.4
Zensar	39	879	BUY	1,023	55.5	69.9	78.7	15.6	12.4	11.0	16.7	19.1	18.6
KPIT Tech	23	119	NEU	130	11.1	10.9	14.6	10.7	10.9	8.2	14.8	13.0	15.7
Sonata	16	150	BUY	243	15.0	17.3	20.2	10.0	8.7	7.4	30.7	30.1	30.1

Source: HDFC sec Inst Research, \* Dec Y-E

**Income Statement (Consolidated)**

YE March (Rs bn)	FY15	FY16	FY17	FY18E	FY19E
<b>Net Revenues (US\$ mn)</b>	<b>944</b>	<b>925</b>	<b>894</b>	<b>941</b>	<b>1,0</b>
<b>Growth (%)</b>	<b>-0.8%</b>	<b>-2.0%</b>	<b>-3.4%</b>	<b>5.3%</b>	<b>10.1</b>
<b>Net Revenues</b>	<b>57.95</b>	<b>60.85</b>	<b>60.76</b>	<b>62.09</b>	<b>68.</b>
<b>Growth (%)</b>	<b>1.2%</b>	<b>5.0%</b>	<b>-0.1%</b>	<b>2.2%</b>	<b>10.1</b>
Employee Expenses	34.69	35.36	35.56	37.12	39.
SG&A Expenses	14.55	16.46	15.52	14.84	16.
<b>EBITDA</b>	<b>8.70</b>	<b>9.03</b>	<b>9.69</b>	<b>10.12</b>	<b>11.</b>
<b>EBITDA Margin (%)</b>	<b>15.0%</b>	<b>14.8%</b>	<b>15.9%</b>	<b>16.3%</b>	<b>17.2</b>
<b>EBITDA Growth (%)</b>	<b>-12.9%</b>	<b>3.8%</b>	<b>7.2%</b>	<b>4.5%</b>	<b>15.8</b>
Depreciation	0.98	1.21	0.79	0.77	0.
<b>EBIT</b>	<b>7.72</b>	<b>7.82</b>	<b>8.90</b>	<b>9.36</b>	<b>10.</b>
<b>EBIT Margin (%)</b>	<b>13.3%</b>	<b>12.9%</b>	<b>14.6%</b>	<b>15.1%</b>	<b>15.8</b>
Other Income (Including EO Items)	1.97	1.91	2.39	1.67	1.
Interest	0.28	0.24	0.14	0.12	0.
<b>PBT</b>	<b>9.41</b>	<b>9.49</b>	<b>11.14</b>	<b>10.90</b>	<b>12.</b>
Tax (Incl Deferred)	2.63	2.58	3.08	3.05	3.
<b>RPAT</b>	<b>6.75</b>	<b>6.33</b>	<b>7.91</b>	<b>7.85</b>	<b>9.</b>
<b>APAT</b>	<b>6.78</b>	<b>6.87</b>	<b>8.07</b>	<b>7.85</b>	<b>9.</b>
<b>APAT Growth (%)</b>	<b>-2.0%</b>	<b>1.3%</b>	<b>17.5%</b>	<b>-2.7%</b>	<b>14.8</b>
<b>Adjusted EPS (Rs)</b>	<b>32.3</b>	<b>34.0</b>	<b>38.8</b>	<b>40.7</b>	<b>46</b>
<b>EPS Growth (%)</b>	<b>-2.0%</b>	<b>5.4%</b>	<b>14.0%</b>	<b>5.0%</b>	<b>14.8</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet (Consolidated)**

YE March (Rs bn)	FY15	FY16	FY17	FY18E	FY19E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	2.10	2.10	2.10	1.93	1.93
Reserves	53.09	56.45	59.42	52.25	56.63
<b>Total Shareholders' Funds</b>	<b>55.20</b>	<b>58.55</b>	<b>61.52</b>	<b>54.18</b>	<b>58.56</b>
Total Debt	5.75	4.61	4.17	3.67	3.97
Net Deferred Taxes					
Long Term Provisions & Others	0.61	0.80	0.60	0.62	0.68
<b>TOTAL SOURCES OF FUNDS</b>	<b>57.04</b>	<b>59.71</b>	<b>62.93</b>	<b>55.10</b>	<b>59.84</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	1.17	0.89	1.04	1.46	1.61
Goodwill & intangibles	15.03	15.63	15.27	14.41	14.45
Investments	2.61	3.96	1.37	1.40	1.54
LT Loans & Advances	6.49	7.09	7.47	2.23	2.45
<b>Total Non-current Assets</b>	<b>25.29</b>	<b>27.58</b>	<b>25.15</b>	<b>19.51</b>	<b>20.05</b>
Inventories	-	0.04	-	-	-
Debtors	6.25	6.49	6.28	6.42	7.06
Other Current Assets	3.14	3.40	3.40	8.26	9.58
Cash & Equivalents	30.80	32.32	34.81	30.26	33.42
<b>Total Current Assets</b>	<b>40.20</b>	<b>42.26</b>	<b>44.49</b>	<b>44.93</b>	<b>50.06</b>
Creditors	4.02	4.48	3.88	3.96	4.36
Other Current Liabilities &	4.43	5.64	2.84	5.37	5.91
<b>Total Current Liabilities</b>	<b>8.44</b>	<b>10.12</b>	<b>6.71</b>	<b>9.34</b>	<b>10.28</b>
<b>Net Current Assets</b>	<b>31.75</b>	<b>32.14</b>	<b>37.78</b>	<b>35.59</b>	<b>39.79</b>
<b>TOTAL APPLICATION OF</b>	<b>57.04</b>	<b>59.71</b>	<b>62.93</b>	<b>55.10</b>	<b>59.84</b>

Source: Company, HDFC sec Inst Research

**Cash Flow (Consolidated)**

YE March (Rs bn)	FY15	FY16	FY17	FY18E	FY19E
Reported PBT	9.38	8.91	10.99	10.90	12.52
Interest expenses	0.28	0.24	0.14	0.12	0.12
Depreciation	0.98	1.21	0.79	0.77	0.95
Working Capital Change	(0.20)	0.28	(3.36)	(2.56)	(0.91)
Tax Paid	(2.63)	(2.58)	(3.08)	(3.05)	(3.50)
<b>OPERATING CASH FLOW ( a )</b>	<b>6.16</b>	<b>7.32</b>	<b>6.16</b>	<b>6.19</b>	<b>9.22</b>
Capex	(0.72)	(1.27)	(0.88)	(0.96)	(1.13)
<i>Free cash flow (FCF)</i>	5.44	6.04	5.28	5.23	8.09
Investments	(2.94)	(0.31)	2.52	5.84	(0.36)
Non-operating Income	-	-	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(3.66)</b>	<b>(1.59)</b>	<b>1.63</b>	<b>4.88</b>	<b>(1.49)</b>
Debt Issuance/(Repaid)	0.03	(1.23)	(0.51)	(0.31)	0.19
Interest Expenses	(0.28)	(0.24)	(0.14)	(0.12)	(0.12)
<i>FCFE</i>	5.19	4.57	4.63	4.80	8.15
Share Capital Issuance	0.00	0.00	0.00	(0.17)	-
Dividend	(1.72)	(4.05)	(4.29)	(4.17)	(4.63)
<b>FINANCING CASH FLOW ( c )</b>	<b>(1.97)</b>	<b>(5.52)</b>	<b>(4.94)</b>	<b>(4.77)</b>	<b>(4.56)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>0.53</b>	<b>0.21</b>	<b>2.86</b>	<b>6.30</b>	<b>3.17</b>
<b>Closing Cash &amp; Equivalents</b>	<b>30.80</b>	<b>32.32</b>	<b>34.81</b>	<b>30.26</b>	<b>33.42</b>

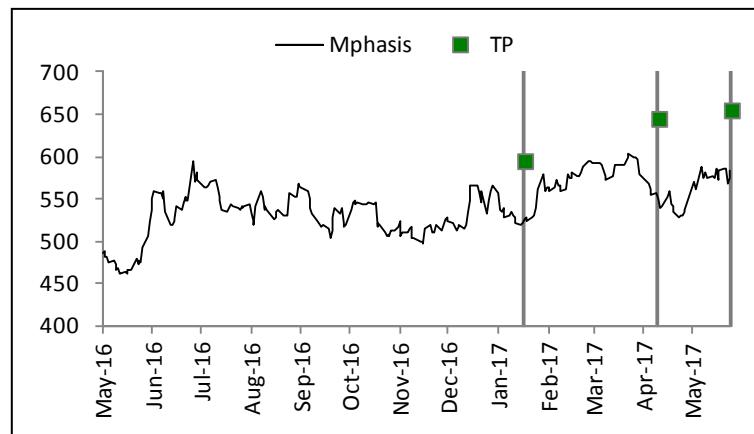
Source: Company, HDFC sec Inst Research

**Key Ratios (Consolidated)**

YE March	FY15	FY16	FY17	FY18E	FY19E
<b>PROFITABILITY (%)</b>					
GPM	40.1	41.9	41.5	40.2	41.6
EBITDA Margin	15.0	14.8	15.9	16.3	17.2
APAT Margin	11.7	11.3	13.3	12.6	13.2
RoE	12.7	12.1	13.4	13.6	16.0
RoIC (or Core RoCE)	16.6	19.4	22.7	25.8	30.6
RoCE	12.1	11.7	13.2	13.5	15.9
<b>EFFICIENCY</b>					
Tax Rate (%)	28.1%	29.0%	28.0%	28.0%	28.0%
Fixed Asset Turnover (x)	5.5	6.3	6.2	5.8	5.8
Debtors (days)	71	74	65	65	68
Payables (days)	25	27	23	23	23
Cash Conversion Cycle (days)	46	47	42	42	44
Debt/EBITDA (x)	0.7	0.5	0.4	0.4	0.3
Net D/E (x)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Interest Coverage (x)	28	32	64	76	90
<b>PER SHARE DATA (Rs)</b>					
EPS	32.3	34.0	38.8	40.7	46.7
CEPS	37	38	42	45	52
Dividend	16	20	17	18	20
Book Value	263	279	293	281	304
<b>VALUATION</b>					
P/E (x)	18.1	17.1	15.0	14.3	12.5
P/BV (x)	2.2	2.1	2.0	2.1	1.9
EV/EBITDA (x)	11.2	10.5	9.5	9.5	7.9
OCF/EV (%)	6.3%	7.7%	6.7%	6.5%	9.9%
FCF/EV (%)	5.6%	6.4%	5.7%	5.5%	8.7%
FCFE/Mkt Cap (%)	4.2%	3.7%	3.8%	3.9%	6.7%
Dividend Yield (%)	2.7%	3.4%	2.9%	3.1%	3.4%

Source: Company, HDFC sec Inst Research

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
25-Jan-17	538	BUY	640
11-Apr-17	556	BUY	645
28-May-17	583	BUY	655

## 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

**Disclosure:**

We, **Apurva Prasad, MBA & Amit Chandra, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

**Any holding in stock –No**

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

**Disclaimer:**

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently send or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

**HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near KanjurMarg Station, Opp. Crompton Greaves, KanjurMarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066**

**Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600**

**HDFC Securities Limited, SEBI Reg. No.: NSE-INB/F/E 231109431, BSE-INB/F 011109437, AMFI Reg. No. ARN: 13549, PFRDA Reg. No. POP: 04102015, IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657, SEBI Research Analyst Reg. No.: INH000002475, CIN - U67120MH2000PLC152193**

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

