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Tata Consultancy Services

1QFY18 Result: Est. (↓), PT (↑), Rating (↔) | **Regular Coverage**

Absolute : REDUCE
Relative : Benchmark
2% ATR in 15 months

Has its work cut out. Retain REDUCE

IT Services

Rating Information	
Price (Rs)	2,446
Target Price (Rs)	2,434
Target Date	30th Sep '18
Target Set On	14th July 17
Implied yrs of growth (DCF)	15
Fair Value (DCF)	2,630
Fair Value (DDM)	1,921
Ind Benchmark	BSE IT
Model Portfolio Position	NA

Stock Information	
Market Cap (Rs Mn)	4,820,455
Free Float (%)	26.69 %
52 Wk H/L (Rs)	2744.8/2051.9
Avg Daily Volume (1yr)	1,335,400
Avg Daily Value (Rs Mn)	3,167
Equity Cap (Rs Mn)	1,970
Face Value (Rs)	1
Bloomberg Code	TCS IN

Ownership	Recent	3M	12M
Promoters	73.3 %	0.0 %	0.0 %
DII	5.4 %	0.0 %	0.2 %
FII	16.9 %	0.0 %	-0.1 %
Public	4.4 %	0.0 %	-0.1 %

Price %	1M	3M	12M
Absolute	-1.0 %	5.1 %	-3.0 %
Vs Industry	-2.0 %	0.8 %	6.6 %
Infosys	1.9 %	4.9 %	-16.9 %
Wipro	3.1 %	6.6 %	-7.4 %

Consolidated Quarterly EPS forecast

Rs/Share	1Q	2Q	3Q	4Q
EPS (17A)	32.1	33.4	34.4	33.5
EPS (18E)	30.4	34.0	34.0	36.3

1QFY18 earnings were a mixed bag with in-line revenues but miss on the margins. CC revenues grew 2% qoq as healthy volume growth (3.5%) was offset by drop in price realisations (1.5%). Interestingly, despite a decent start to FY18E (2% CQGR in the rest of FY18E translates to 7.5% yoy growth), commentary was tepid driven by lack of visibility in BFSI and Retail. Management alluded that though BFSI grew 2.3% qoq-CC (better than 1QFY17) calling out secular demand trends is contingent on large deal pipeline build up, while retail spends are uneven as large clients continue to undergo restructuring. To reiterate, softness in ~45% (53% as per earlier metric) of the portfolio could outweigh acceleration in the rest while margin performance could be an uphill task. We are adjusting estimates & TP to Rs. 2,429 (17x Sep'18 TTM EPS of Rs. 143; earlier Jun'18 TP Rs. 2,380) & retain our REDUCE rating.

Good on revenue: $ revenues grew 3.1% qoq while CC revenues grew 2% qoq. Growth was primarily driven by LATAM (2.8% qoq-CC), Continental Europe (5.9%), Energy & Utilities (7.6%), Life Sciences & Healthcare (4.7%), Travel (7%) while the US (1.7%), UK (0.7%), BFSI (2.3%), retail (2%) were tepid. Regional Markets revenues declined 3.6% qoq. In-line 1Q leads to retaining of our FY18E $ revenue growth estimates.

..but lite on EBIT margins: At 23.4%, EBIT margins declined 236bps qoq and missed EE of 24%. Wage increases (-150 bps) and currency (-80bps) were the key headwinds leading to significant drop in margins. Though gains from Digital portfolio growth, Diligenta recovery, and productivity improvements are key levers to margin recovery, starting FY18E with the lowest EBIT margins since 1QFY09, has significantly raised the ask rate to achieve the aspirational target margin band (26-28%). We are modestly trimming our FY18E EBIT margin assumption to 24.8% vs. 25% earlier to account for 1Q weakness, proposed investments in the US and potential incremental headwinds from rupee appreciation. Share repurchase largely cushions change in EPS

Decent client metric and transition across buckets: TCS added 1/1/12 clients' qoq to the $ 100mn+/$ 50mn+/$ 10mn+ buckets. Customer contributing $ 20mn+ were flat at 190 while customers contributing $ 1mn+ in revenues increased by 8. Interestingly, there has been a decline of 1 client in the $ 100mn+ bucket on yoy basis.

Retain REDUCE on rich valuations: Valuations continue to appear rich on PEG basis (18x FY18E EPS for 8.8% FY18-FY20E EPS CAGR). We are trimming our FY18E/FY19E EPS estimates by 0.2%/0.2% to factor 1Q earnings and retain our target multiple of 17x to arrive at our revised TP.

	Revised Estimates		%Change	
	FY18E	FY19E	FY18E	FY19E
Sales($ Mn)	18,921	20,301	0.1%	0.1%
Sales	1,241,622	1,360,173	-0.5%	0.1%
EBITDA	328,021	360,394	-1.1%	-0.9%
EBIT	307,584	339,143	-1.2%	-1.0%
PAT	259,208	286,275	-2.9%	-2.3%
EPS	134.9	149.7	-0.7%	0.4%

Consolidated Financials

Rs. Mn YE Mar	FY17A	FY18E	FY19E	FY20E
Sales	1,179,660	1,241,622	1,360,173	1,455,753
EBITDA	323,120	328,021	360,394	386,153
Depreciation	19,880	20,437	21,251	22,344
Interest Expense	320	696	458	490
Other Income	42,210	35,768	38,914	46,651
Reported PAT	262,890	259,208	286,275	310,819
Recurring PAT	263,570	259,426	286,516	311,080
Total Equity	862,140	1,009,328	1,173,472	1,351,727
Gross Debt	2,710	2,446	2,446	2,446
Cash	457,850	391,656	504,870	636,101
Rs Per Share	**FY17A**	**FY18E**	**FY19E**	**FY20E**
Earnings	133.8	134.9	149.7	162.5
Book Value	450	527	613	706
Dividends	44.7	50.0	54.5	59.2
FCFF	84.5	120.7	123.1	138.0
P/E (x)	18.3	18.1	16.3	15.1
P/B (x)	5.4	4.6	4.0	3.5
EV/EBITDA (x)	13.6	13.6	12.0	10.9
ROE (%)	34 %	28 %	26 %	25 %
Core ROIC (%)	59 %	50 %	51 %	49 %
EBITDA Margin (%)	27 %	26 %	26 %	27 %
Net Margin (%)	22 %	21 %	21 %	21 %

Analysts: Abhishek Shindadkar (Abhishek.shindadkar@equirus.com, +91-9619137983, +91 22 4332 0643)

Before reading this report, you must refer to the disclaimer on the last page.

Exhibit 1: Continued recovery in financial services bodes well

Segment Growth qoq	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
BFSI	2.2%	2.4%	0.3%	0.3%	0.2%	3.1%
Communication & Media	0.6%	8.5%	1.2%	-6.7%	8.2%	4.6%
Manufacturing	4.5%	3.7%	3.2%	-0.6%	1.5%	4.5%
Retail & CPG	1.5%	2.9%	-4.0%	1.0%	-3.0%	2.3%
Travel & Hospitality	1.5%	9.3%	0.3%	-2.3%	4.2%	6.2%
Energy & Utilities	1.5%	6.2%	2.7%	5.0%	1.5%	11.5%
Life Science & Health Care	1.5%	3.7%	4.4%	-2.3%	4.2%	6.1%
Others	-4.0%	1.3%	-2.1%	11.2%	2.6%	0.4%

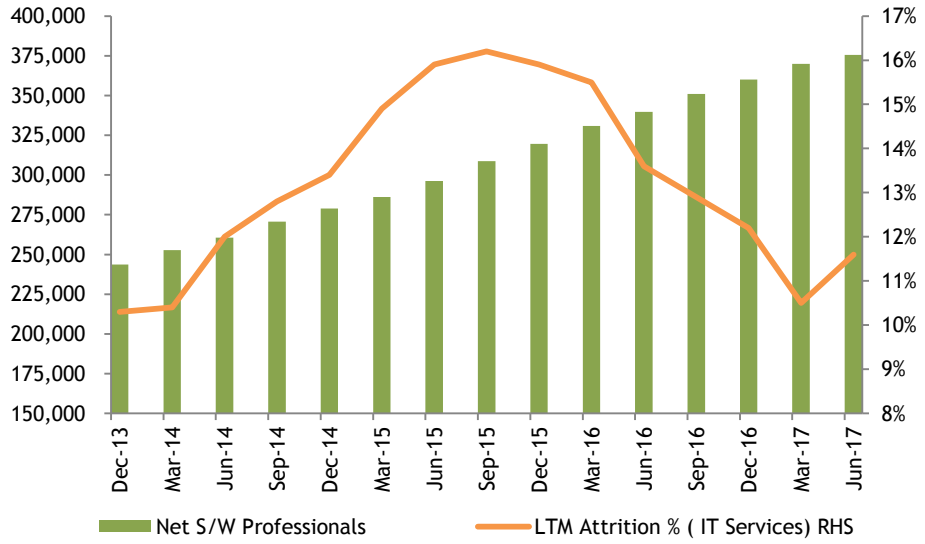
Source: Company, Equirus Research

Exhibit 2: Client transitions across buckets

$ 50 mn+ (Change In No)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
TCS	5	8	13	15	11	1
Infosys	5	3	4	3	4	NA
HCLT	2	3	2	5	6	NA
Wipro	2	3	2	1	1	NA
USD 100 mn+ (Change in No)	**Mar-16**	**Jun-16**	**Sep-16**	**Dec-16**	**Mar-17**	**Jun-17**
TCS	8	7	3	0	-2	1
Infosys	-1	3	4	5	5	NA
HCLT	1	0	1	1	0	NA
Wipro	2	-1	-2	0	0	NA

Source: Company, Equirus Research

Exhibit 3: Rise in attrition leads to drop in net headcount



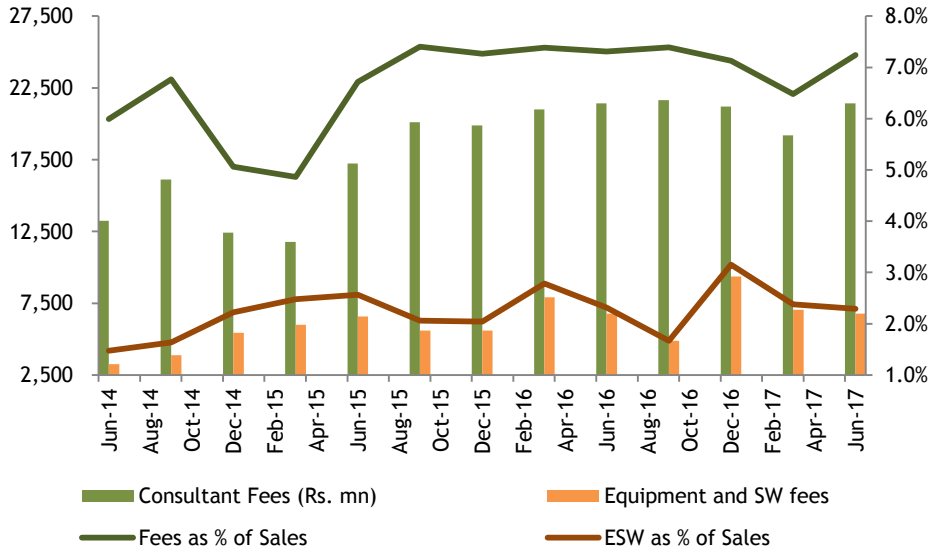
Source: Company, Equirus Securities

Exhibit 4: Trends in receivable days

Particulars (Rs. mn)	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18
Accounts Receivable (net)	240,728	247,410	250,610	242,120	226,840	226,950
Unbilled Revenue	39,917	43,850	47,120	45,370	53,510	60,950
Total	**280,645**	**291,260**	**297,730**	**287,490**	**280,350**	**287,900**
Revenues	284,486	293,050	292,840	297,350	296,420	295,840
TTM Revenues (Rs. bn)	1,087	1,123	1,144	1,168	1,180	1,182
Account receivable days	94.3	94.7	95.0	89.9	86.7	88.9

Source: Company, Equirus Research

Exhibit 5 a): External consultant/ESWfees trends



Source: Company, Equirus Research

Exhibit 5 b): Trends in consultant and ESW fees

Rs. mn	2013	2014	2015	2016	2017
Consultant Fees (Rs. mn)	34,398	48,382	53,548	78,228	83,450
Fees as % of Sales	5.5%	5.9%	5.7%	7.2%	7.1%
Equipment and SW fees	17,561	14,701	18,601	25,711	28,080
ESW as % of Sales	2.8%	1.8%	2.0%	2.4%	2.4%
Total as % of Sales	8.2%	7.7%	7.6%	9.6%	9.5%

Source: Company, Equirus Research

Exhibit 6: Quarterly Results Table (Consolidated)

RsMn	1QFY18	1QFY18E	4QFY17	1QFY17	% Change			Comments
					1QFY18E	4QFY17	1QFY17	
Net Sales ($ Mn)	4,591	4,595	4,452	4,362	-0.1%	3.1%	5.2%	
Net Sales (RsMn)	295,840	296,352	296,420	293,050	-0.2%	-0.2%	1.0%	
COGS (Excluding Depreciation)	167,920	169,902	161,680	163,110	-1.2%	3.9%	2.9%	
SG&A	53,790	50,380	53,420	51,560	6.8%	0.7%	4.3%	
Total Expenditures	**221,710**	**220,282**	**215,100**	**214,670**	**0.6%**	**3.1%**	**3.3%**	
EBITDA	**74,130**	**76,070**	**81,320**	**78,380**	**-2.6%**	**-8.8%**	**-5.4%**	
Depreciation	4,990	5,038	5,050	4,910	-1.0%	-1.2%	1.6%	
EBIT	**69,140**	**71,032**	**76,270**	**73,470**	**-2.7%**	**-9.3%**	**-5.9%**	
Other Income	9,590	9,633	9,970	9,750	-0.4%	-3.8%	-1.6%	
PBT	**78,460**	**80,579**	**86,160**	**83,100**	**-2.6%**	**-8.9%**	**-5.6%**	
Tax	18,960	19,339	19,940	19,920	-2.0%	-4.9%	-4.8%	
Recurring PAT	**59,500**	**61,240**	**66,220**	**63,180**	**-2.8%**	**-10.1%**	**-5.8%**	
Extraordinaries	50	141	140	10				
Reported PAT	**59,450**	**61,100**	**66,080**	**63,170**	**-2.7%**	**-10.0%**	**-5.9%**	
EPS (Rs)	30.4	31.0	33.5	32.1	-2.1%	-9.5%	-5.3%	
EBITDA Margin	25.1%	25.7%	27.4%	26.7%	-61 bps	-238 bps	-169 bps	
EBIT Margin	23.4%	24.0%	25.7%	25.1%	-60 bps	-236 bps	-170 bps	
PBT Margin	26.5%	27.2%	29.1%	28.4%	-67 bps	-255 bps	-184 bps	
PAT Margin	20.1%	20.6%	22.3%	21.6%	-52 bps	-220 bps	-146 bps	
Tax Rate	24.2%	24.0%	23.1%	24.0%	17 bps	102 bps	19 bps	

Exhibit 7: Key metrics over last 9 quarters:

	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Comments
Net Sales ($ Mn)	4,036	4,156	4,145	4,207	4,362	4,374	4,387	4,452	4,591	
Growth QoQ (%)	3.5%	3.0%	-0.3%	1.5%	3.7%	0.3%	0.3%	1.5%	3.1%	
Net Sales (Rs. Mn)	256,681	271,655	273,640	284,486	293,050	292,840	297,350	296,420	295,840	
Growth (%)	6.0%	5.8%	0.7%	4.0%	3.0%	-0.1%	1.5%	-0.3%	-0.2%	
EBIT Margin	26.3%	27.1%	26.6%	26.1%	25.1%	26.0%	26.0%	25.7%	23.4%	
USD-INR realized rate	63.6	65.4	66.0	67.6	67.2	67.0	67.8	66.6	64.4	
Volume growth	4.8%	4.9%	0.4%	3.2%	3.4%	1.3%	1.0%	1.7%	3.5%	
Total Headcount for Group	324,935	335,620	344,691	353,843	362,079	371,519	378,497	387,223	385,809	
Utilization (%)	**Jun-15**	**Sep-15**	**Dec-15**	**Mar-16**	**Jun-16**	**Sep-16**	**Dec-16**	**Mar-17**	**Jun-17**	**Comments**
Including Trainees	82.9%	82.3%	80.9%	80.0%	NR	NR	NR	NR	NR	
Excluding Trainees	86.3%	86.0%	84.9%	84.0%	NR	NR	NR	NR	NR	

Source: Company, Equirus Research

Exhibit 8: Incremental Revenue Analysis by Quarter

Incremental Revenue by Geography (US$Mn)	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Americas (NA +LatAm)	$82.2	$57.5	$39.4	$51.3	$65.0	$28.5	$59.9	-$43.0	$40.3
Europe	$11.1	$4.9	$2.9	$19.4	$30.4	$14.5	-$29.2	$38.4	$48.5
UK	$29.7	$31.9	-$22.6	-$32.2	$18.7	-$42.0	-$20.1	$26.5	$28.2
APAC	$5.3	$3.2	-$1.1	$14.2	$14.9	$27.4	-$25.0	$10.7	$4.3
India	$0.9	$11.9	-$21.5	-$0.5	$22.2	-$16.8	$22.7	$26.4	$18.6
Rest of the world	$6.9	$11.0	-$8.6	$9.8	$3.7	$0.3	$4.7	$6.1	-$1.0
Total incremental revenue (US$Mn)	**$136.0**	**$120.4**	**-$11.4**	**$62.0**	**$155.0**	**$12.0**	**$13.0**	**$65.0**	$139.0
Incremental Revenue by Vertical (US$Mn)	**Jun-15**	**Sep-15**	**Dec-15**	**Mar-16**	**Jun-16****	**Sep-16**	**Dec-16**	**Mar-17**	**Jun-17**
BFSI	$55.2	$44.7	-$4.6	$37.8	-$268.1	$17.1	$17.5	-$22.5	$45.7
Communication & Media	$31.2	$2.0	-$1.0	$1.0	-$149.0	$9.6	-$21.0	$26.6	$14.6
Manufacturing	$1.8	$7.8	$3.0	$18.9	-$119.1	$0.9	$5.3	$4.8	$14.9
Retail & CPG	$26.6	$16.6	-$1.6	$8.7	-$4.3	-$20.3	$1.7	-$22.7	$12.5
Travel & Hospitality	$8.7	$8.4	-$0.4	$2.3	-$16.1	$4.8	-$3.1	$10.1	$9.3
Energy & Utilities	$9.3	$4.8	$3.7	$2.5	-$15.5	$4.8	-$3.9	$6.8	$18.9
Life Science & Health Care	$17.2	$12.5	$11.6	$4.5	-$10.5	$9.6	-$3.5	$4.5	$18.8
Others*	-$13.9	$23.6	-$22.2	-$13.8	$737.6	-$14.5	$20.8	$56.5	$4.3
Total incremental revenue (US $Mn)	**$136.0**	**$120.4**	**-$11.4**	**$62.0**	$155.0	$12.0	$13.9	$64.1	$139.0

***Includes Technology services, Regional markets from June-16.**

**** Change in reporting structure**

Source: Company, Equirus Research

Key Con-call Highlights:

- Effective tax rate for the quarter was 24%. Accounts receivable was at 72 days DSO; in dollar terms, down by 1 day on qoq basis.
- Except for BFSI, Retail & CPG, Technology Services and Regional Markets & Others, all the segments had given double digit yoy growth in CC terms.
- Retail, CPG sector growth recovered driven by demand for digital services.
- Energy Resources & Utilities grew 7.6%, Travel, Transportation & Hospitality grew 7%, and the Life Sciences and Healthcare business grew 4.7% sequentially qoq.
- Of the 11 key wins in 1QFY18 TCS had, two each in Manufacturing, Hi-Tech and the E&U and one in Life Sciences, and another four in the BFSI sector.
- Under Digital interactive services, there were multi -million $ deals wins, 2 for insurance clients and an energy client.
- Revenues from Digital now contribute 18.9% of overall revenue and grew 26% yoy.
- Reorganization of the service lines is nearing completion and expected to close in 2Q. Some new service lines are maturing and will stabilize over the next few quarters. All the service lines are seeing good market traction, robust pipeline and secular growth.
- Attrition in IT services rose to 11.6% qoq due to the seasonality (people leaving for higher studies). Overall attrition of 12.4% for 1QFY18 is lower than the same quarter last year.
- Net cash flow from operations was Rs. 61.7bn, which is 20.9% of the revenue and 103.8% of net income. Free cash flow was Rs. 55.8bn.
- TCS returned Rs. 160bn through buyback process and another Rs. 60.7bn as dividends in FY17.
- Invested funds as of June 30 stood at Rs. 322.7bn. The board has recommended an interim dividend of Rs. 7 per share.
- Ignio automation lab in Chennai and analytics lab in Mumbai were among the key investments in Digital Transformation Services during the quarter.

Company Snapshot

How we differ from Consensus

	-	Equirus	Consensus	% Diff	Comment
EPS	FY18E	134.9	137.4	-2 %	Consensus numbers are before the earnings.
	FY19E	149.7	149.7	0 %	
Sales	FY18E	1,241,622	1,244,443	0 %	
	FY19E	1,360,173	1,367,056	-1 %	
PAT	FY18E	259,426	266,947	-3 %	
	FY19E	286,516	290,966	-2 %	

Our Key Investment arguments:

- Uncertainty on H1-B visa, spending delays in key verticals (BFSI), retail and geographies (US).
- Challenging macro environment, seasonal softness
- Appreciating rupee.

Risk to Our View:

- Sharper recovery in financial services in the US
- Productivity, price realization improvements, and
- Simpler visa regime

Key parameters	FY17A	FY18E	FY19E	FY20E
Revenue (US$Mn)	17,575	18,921	20,301	21,728
Revenue (Rs.Mn)	1,179,660	1,241,622	1,360,173	1,455,753
EBIT Margin(%)	25.7%	24.8%	24.9%	25.0%
PBT Margin(%)	29.3%	27.6%	27.8%	28.2%
PAT Margin(%)	22.3%	20.9%	21.0%	21.4%
USD-INR rate	67.12	65.61	67.00	67.00
Headcount	387,223	436,819	454,303	469,197
Utilization onsite (%)	96.5%	96.5%	96.5%	96.5%
Utilization offshore (%)	81.4%	81.7%	83.1%	83.1%
Volume growth (%)	13.9%	9.8%	5.9%	3.7%
SG&A spending as % of revenue	17.6%	17.6%	17.5%	17.4%

Key Triggers

- Rupee depreciation, stronger recovery in key verticals like BFSI, deal wins, client mining, favorable onsite mix, better SG&A control

Sensitivity to Key Variables	% Change	% Impact on EPS
Rupee Appreciation	1 %	-35 bps
Utilization	1 %	+40 bps
-	-	-

DCF Valuations & Assumptions

Rf	Beta	Ke	Term. Growth	Debt/IC in Term. Yr
6.9 %	0.6	10.3 %	4.0 %	0.4 %

-	FY18E	FY19E	FY20-27E	FY28-32E	FY33-37E
Sales Growth	5 %	10 %	6 %	5 %	6 %
NOPAT Margin	19 %	19 %	19 %	19 %	19 %
IC Turnover	2.58	2.54	2.49	2.49	2.49
RoIC	50.0 %	50.7 %	47.8 %	48.7 %	49.0 %

Years of strong growth	1	2	10	15	20
Valuation as on date (Rs)	1,908	1,999	2,242	2,335	2,467
Valuation as on 30th Sep '18	2,150	2,252	2,525	2,630	2,779

Based on DCF, assuming 15 years of 6% Sales CAGR and 49% average ROIC, we derive current fair value of Rs. 2,335 and Sep'18 fair value of Rs. 2,630.

Company Description:

TCS is the largest Indian IT services provider, one of the best managed and admired companies in India.

Comparable valuation						EPS				P/E			BPS	P/B		RoE			Div Yield	
Company	Reco.	CMP	Mkt Cap Rs. Mn.	Price Target	Target Date	FY17A	FY18E	FY19E	FY17A /E	FY18E	FY19E	FY17A /E	FY18E	FY17A /E	FY18E	FY19E	FY17A /E	FY18E
TCS	REDUCE	2,446	4,820,455	2,434	30th Sep '18	133.8	134.9	149.7	18.3	18.1	16.3	450.4	4.6	34 %	28 %	26 %	1.9 %	2.0 %
Infosys	LONG	980	2,247,041	1,113	30th Jun'18	62.7	63.6	68.8	15.6	15.4	14.3	301.5	2.9	22 %	20 %	20 %	2.7 %	2.8 %
Wipro	REDUCE	263	1,278,639	237	30th Jun'18	34.9	17.8	19.3	7.5	14.7	13.6	160.1	2.2	17 %	16 %	16 %	1.0 %	2.5 %

Consolidated Quarterly Earnings Forecast and Key Drivers

Rs in Mn	1Q17A	2Q17A	3Q16A	4Q17A	1Q18A	2Q18E	3Q18E	4Q18E	1Q19E	2Q19E	3Q17E	4Q19E	FY17A	FY18E	FY19E	FY20E
Revenue	293,050	292,840	297,350	296,420	295,840	311,670	313,911	320,201	331,168	340,163	341,438	347,404	1,179,660	1,241,622	1,360,173	1,455,753
COGS (Excluding Depreciation)	163,110	160,380	163,820	161,680	167,920	174,478	175,992	176,853	186,948	190,285	191,093	193,779	648,990	695,243	762,104	815,579
SG&A	51,560	51,330	51,240	53,420	53,790	53,919	54,934	55,715	58,286	59,188	59,752	60,448	207,550	218,358	237,674	254,021
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA	78,380	81,130	82,290	81,320	74,130	83,273	82,985	87,633	85,934	90,690	90,593	93,177	323,120	328,021	360,394	386,153
Depreciation	4,910	4,960	4,960	5,050	4,990	5,111	5,148	5,187	5,232	5,273	5,326	5,420	19,880	20,437	21,251	22,344
EBIT	73,470	76,170	77,330	76,270	69,140	78,161	77,836	82,446	80,702	85,417	85,267	87,757	303,240	307,584	339,143	363,809
Interest	120	50	70	80	270	160	133	133	107	112	117	122	320	696	458	490
Other Income	9,750	10,570	11,920	9,970	9,590	8,279	8,694	9,205	8,904	9,451	10,022	10,537	42,210	35,768	38,914	46,651
PBT	83,100	86,690	89,180	86,160	78,460	86,280	86,398	91,518	89,499	94,757	95,171	98,172	345,130	342,656	377,599	409,970
Tax	19,920	20,660	21,040	19,940	18,960	21,139	21,167	21,964	21,704	23,215	22,603	23,561	81,560	83,230	91,083	98,890
PAT bef. MI & Assoc.	63,180	66,030	68,140	66,220	59,500	65,142	65,230	69,554	67,796	71,541	72,568	74,611	263,570	259,426	286,516	311,080
Minority Interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Profit from Assoc.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Recurring PAT	63,180	66,030	68,140	66,220	59,500	65,142	65,230	69,554	67,796	71,541	72,568	74,611	263,570	259,426	286,516	311,080
Extraordinaries	10	170	360	140	50	55	55	58	57	60	61	63	680	218	241	261
Reported PAT	63,170	65,860	67,780	66,080	59,450	65,087	65,175	69,495	67,739	71,481	72,507	74,548	262,890	259,208	286,275	310,819
EPS (Rs)	32.06	33.42	34.40	33.54	30.40	34.00	34.05	36.30	35.39	37.34	37.88	38.94	133.76	134.86	149.67	162.51
Key Drivers																
$ revenue growth (sequential)	3.7%	0.3%	0.3%	1.5%	3.1%	2.9%	0.7%	2.0%	1.9%	2.7%	0.4%	1.7%	6.2%	7.7%	7.3%	7.0%
$-Rs exchange rate(avg.)	67.2	67.0	67.8	66.6	64.4	66.0	66.0	66.0	67.0	67.0	67.0	67.0	67.1	65.6	67.0	67.0
$ revenue (in mn)	4,362	4,374	4,387	4,452	4,591	4,722	4,756	4,852	4,943	5,077	5,096	5,185	17,575	18,921	20,301	21,728
Sequential Growth (%)																
Revenue	3 %	0 %	2 %	0 %	0 %	5 %	1 %	2 %	3 %	3 %	0 %	2 %	-	-	-	-
COGS (Excluding Depreciation)	5 %	-2 %	2 %	-1 %	4 %	4 %	1 %	0 %	6 %	2 %	0 %	1 %	-	-	-	-
EBITDA	-1 %	4 %	1 %	-1 %	-9 %	12 %	0 %	6 %	-2 %	6 %	0 %	3 %	-	-	-	-
EBIT	-1 %	4 %	2 %	-1 %	-9 %	13 %	0 %	6 %	-2 %	6 %	0 %	3 %	-	-	-	-
Recurring PAT	0 %	5 %	3 %	-3 %	-10 %	9 %	0 %	7 %	-3 %	6 %	1 %	3 %	-	-	-	-
EPS	0 %	4 %	3 %	-3 %	-9 %	12 %	0 %	7 %	-3 %	6 %	1 %	3 %	-	-	-	-
Yearly Growth (%)																
Revenue	14 %	8 %	9 %	4 %	1 %	6 %	6 %	8 %	12 %	9 %	9 %	8 %	9 %	5 %	10 %	7 %
EBITDA	9 %	4 %	6 %	3 %	-5 %	3 %	1 %	8 %	16 %	9 %	9 %	6 %	5 %	2 %	10 %	7 %
EBIT	9 %	4 %	6 %	3 %	-6 %	3 %	1 %	8 %	17 %	9 %	10 %	6 %	5 %	1 %	10 %	7 %
Recurring PAT	9 %	8 %	11 %	4 %	-6 %	-1 %	-4 %	5 %	14 %	10 %	11 %	7 %	8 %	-2 %	10 %	9 %
EPS	10 %	8 %	11 %	4 %	-5 %	2 %	-1 %	8 %	16 %	10 %	11 %	7 %	8 %	1 %	11 %	9 %
Margin (%)																
EBITDA	27 %	28 %	28 %	27 %	25 %	27 %	26 %	27 %	26 %	27 %	27 %	27 %	27 %	26 %	26 %	27 %
EBIT	25 %	26 %	26 %	26 %	23 %	25 %	25 %	26 %	24 %	25 %	25 %	25 %	26 %	25 %	25 %	25 %
PBT	28 %	30 %	30 %	29 %	27 %	28 %	28 %	29 %	27 %	28 %	28 %	28 %	29 %	28 %	28 %	28 %
PAT	22 %	23 %	23 %	22 %	20 %	21 %	21 %	22 %	20 %	21 %	21 %	21 %	22 %	21 %	21 %	21 %

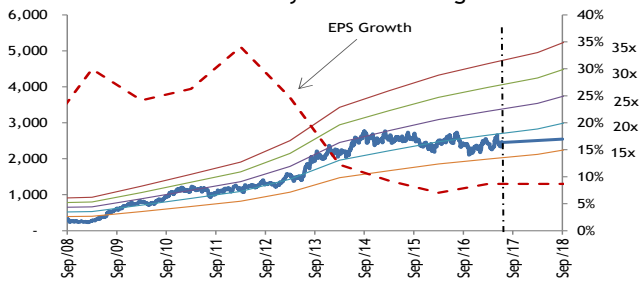
Consolidated Financials

P&L (Rs Mn)	FY17A	FY18E	FY19E	FY20E
Revenue	1,179,660	1,241,622	1,360,173	1,455,753
Op. Expenditure	856,540	913,601	999,778	1,069,600
EBITDA	323,120	328,021	360,394	386,153
Depreciation	19,880	20,437	21,251	22,344
EBIT	303,240	307,584	339,143	363,809
Interest Expense	320	696	458	490
Other Income	42,210	35,768	38,914	46,651
PBT	345,130	342,656	377,599	409,970
Tax	81,560	83,230	91,083	98,890
PAT bef. MI & Assoc.	263,570	259,426	286,516	311,080
Minority Interest	0	0	0	0
Profit from Assoc.	0	0	0	0
Recurring PAT	263,570	259,426	286,516	311,080
Extraordinaires	680	218	241	261
Reported PAT	262,890	259,208	286,275	310,819
FDEPS (Rs)	133.8	134.9	149.7	162.5
DPS (Rs)	44.7	50.0	54.5	59.2
CEPS (Rs)	143.5	146.1	160.7	174.0
FCFPS (Rs)	84.5	120.7	123.1	138.0
BVPS (Rs)	450.4	527.3	613.0	706.1
EBITDAM (%)	27 %	26 %	26 %	27 %
PATM (%)	22 %	21 %	21 %	21 %
Tax Rate (%)	24 %	24 %	24 %	24 %
Sales Growth (%)	9 %	5 %	10 %	7 %
FDEPS Growth (%)	8 %	1 %	11 %	9 %

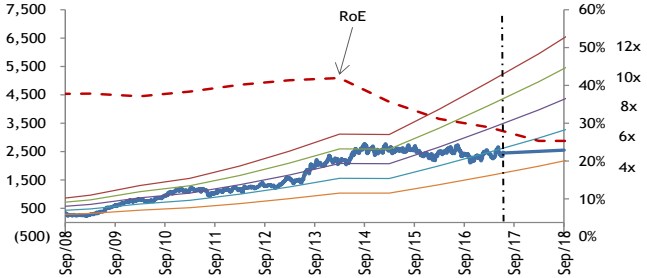
Balance Sheet (Rs Mn)	FY17A	FY18E	FY19E	FY20E
Equity Capital	1,970	1,914	1,914	1,914
Reserve	860,170	825,068	989,212	1,167,466
Networth	862,140	826,982	991,126	1,169,381
Long Term Debt	2,710	2,446	2,446	2,446
Def Tax Liability	20,890	18,854	18,854	18,854
Minority Interest	3,660	3,660	3,660	3,660
Account Payables	0	0	0	0
Other Curr Liabi	143,120	248,324	272,035	291,151
Total Liabilities & Equity	1,032,520	1,100,266	1,288,121	1,485,491
Net Fixed Assets	132,420	154,170	173,503	174,573
Capital WIP	0	0	0	0
Others	94,840	21,494	28,909	53,496
Inventory	0	0	0	0
Account Receivables	280,350	323,162	354,018	378,895
Other Current Assets	67,060	209,786	226,821	242,427
Cash	457,850	391,656	504,870	636,101
Total Assets	1,032,520	1,100,266	1,288,121	1,485,491
Non-cash Working Capital	204,290	284,623	308,804	330,171
Cash Conv Cycle	63.2	83.7	82.9	82.8
WC Turnover	5.8	4.4	4.4	4.4
FA Turnover	8.9	8.1	7.8	8.3
Net D/E	-0.5	-0.5	-0.5	-0.5
Revenue/Capital Employed	1.9	1.5	1.4	1.3
Capital Employed/Equity	1.0	1.0	1.0	1.0

Cash Flow (Rs Mn)	FY17A	FY18E	FY19E	FY20E
PBT	345,130	342,656	377,599	409,970
Depreciation	19,880	20,437	21,251	22,344
Others	77,000	-218	-241	-261
Taxes Paid	79,460	83,230	91,083	98,890
Change in WC	-11,060	-80,333	-24,180	-21,368
Operating C/F	351,490	199,311	283,346	311,795
Capex	-19,530	31,160	-48,000	-48,000
Change in Invest	-186,250	0	0	0
Others	20,570	0	0	0
Investing C/F	-185,210	31,160	-48,000	-48,000
Change in Debt	870	-264	0	0
Change in Equity	0	-56	0	0
Others	-110,930	-114,000	-122,131	-132,564
Financing C/F	-110,060	-114,320	-122,131	-132,564
Net change in cash	56,220	116,151	113,215	131,231
RoE (%)	34 %	28 %	26 %	25 %
RoIC (%)	32 %	27 %	26 %	24 %
Core RoIC (%)	59 %	50 %	51 %	49 %
Div Payout (%)	39 %	43 %	43 %	43 %
P/E	18.3	18.1	16.3	15.1
P/B	5.4	4.6	4.0	3.5
P/FCFF	28.9	20.3	19.9	17.7
EV/EBITDA	13.6	13.6	12.0	10.9
EV/Sales	3.7	3.6	3.2	2.9
Dividend Yield (%)	1.9 %	2.0 %	2.2 %	2.4 %

TTM P/E vs. 2 yr forward EPS growth



TTM P/B vs. 2 yr forward RoE



Historical Consolidated Financials

P&L (Rs Mn)	FY14A	FY15A	FY16A	FY17A
Revenue	818,094	946,484	1,086,462	1,179,660
Op. Expenditure	566,772	674,593	779,477	856,540
EBITDA	251,322	271,891	306,985	323,120
Depreciation	13,243	17,648	19,085	19,880
EBIT	238,079	254,243	287,901	303,240
Interest Expense	722	1,135	331	320
Other Income	16,531	32,532	30,833	42,210
PBT	253,888	285,640	318,402	345,130
Tax	60,712	66,565	75,027	81,560
PAT bef. MI & Assoc.	193,176	219,075	243,375	263,570
Minority Interest	0	0	0	0
Profit from Assoc.	0	0	0	0
Recurring PAT	193,176	219,075	243,375	263,570
Extraordinaires	2,089	22,591	1,229	680
Reported PAT	191,087	196,484	242,146	262,890
EPS (Rs)	98.6	111.8	123.5	133.8
DPS (Rs)	32.0	79.0	44.7	44.7
CEPS (Rs)	104.3	109.3	132.6	143.5
FCFPS (Rs)	57.0	134.4	111.1	84.5
BVPS (Rs)	267.1	266.1	372.4	450.4
EBITDAM (%)	31 %	29 %	28 %	27 %
PATM (%)	23 %	21 %	22 %	22 %
Tax Rate (%)	24 %	23 %	24 %	24 %
Sales growth (%)	30 %	16 %	15 %	9 %
FDEPS growth (%)	37 %	13 %	10 %	8 %

Balance Sheet (Rs Mn)	FY14A	FY15A	FY16A	FY17A
Equity Capital	1,959	1,959	1,970	1,970
Reserve	551,393	504,389	708,750	860,170
Networth	553,352	506,348	710,720	862,140
Long Term Debt	2,969	2,998	1,960	2,710
Def Tax Liability	16,845	14,659	20,170	20,890
Minority Interest	6,905	11,278	3,550	3,660
Account Payables	0	0	0	0
Other Curr Liabi	109,056	201,327	154,560	143,120
Total Liabilities & Equity	689,125	736,609	890,960	1,032,520
Net Fixed Assets	103,644	144,045	134,440	132,420
Capital WIP	0	0	0	0
Others	155,778	104,433	124,390	94,840
Inventory	0	0	0	0
Account Receivables	222,360	242,650	280,650	280,350
Other Current Assets	50,848	44,993	58,810	67,060
Cash	156,495	200,486	292,670	457,850
Total Assets	689,125	736,609	890,960	1,032,520
Non-cash Working Capital	164,152	86,317	184,900	204,290
Cash Conv Cycle	73.2	33.3	62.1	63.2
WC Turnover	5.0	11.0	5.9	5.8
FA Turnover	7.9	6.6	8.1	8.9
Net D/E	-0.3	-0.4	-0.4	-0.5
Revenue/Capital Employed	2.1	1.9	1.9	1.9
Capital Employed/Equity	1.1	1.1	1.1	1.0

Cash Flow (Rs Mn)	FY14A	FY15A	FY16A	FY17A
PBT	253,888	285,640	318,402	345,130
Depreciation	13,243	17,648	19,085	19,880
Others	59,130	60,497	71,397	77,000
Taxes Paid	70,487	75,239	75,781	79,460
Change in WC	-35,927	9,566	-48,707	-11,060
Operating C/F	219,846	298,112	284,396	351,490
Capex	-47,186	-11,355	-32,974	-19,530
Change in Invest	-62,084	-22,722	-35,242	-186,250
Others	540	-1,702	2,449	20,570
Investing C/F	-108,729	-35,778	-65,766	-185,210
Change in Debt	1,249	429	-731	870
Change in Equity	-1,000	0	0	0
Others	-54,479	-172,772	-94,336	-110,930
Financing C/F	-54,230	-172,343	-95,067	-110,060
Net change in cash	56,887	89,991	123,563	56,220
RoE (%)	40 %	41 %	40 %	34 %
RoIC (%)	38 %	39 %	38 %	32 %
Core RoIC (%)	49 %	51 %	59 %	59 %
Div Payout (%)	38 %	92 %	43 %	39 %
P/E	24.8	21.9	19.8	18.3
P/B	9.2	9.2	6.6	5.4
P/FCFF	42.9	18.2	22.0	28.9
EV/EBITDA	18.7	17.1	14.9	13.6
EV/Sales	5.7	4.9	4.2	3.7
Dividend Yield (%)	1.3 %	3.2 %	1.7 %	1.9 %

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• LONG : Over the investment horizon, ATR >= Ke for companies with Free Float market cap >Rs 5 billion and ATR >= 20% for rest of the companies
• ADD: ATR >= 5% but less than Ke over investment horizon
• REDUCE: ATR >= negative 10% but <5% over investment horizon
• SHORT: ATR < negative 10% over investment horizon
Relative Rating
• OVERWEIGHT: Likely to outperform the benchmark by at least 5% over investment horizon
• BENCHMARK: likely to perform in line with the benchmark
• UNDERWEIGHT: likely to under-perform the benchmark by at least 5% over investment horizon
Investment Horizon
Investment Horizon is set at a minimum 3 months to maximum 18 months with target date falling on last day of a calendar quarter.
Lite vs. Regular Coverage vs. Spot Coverage
We aim to keep our rating and estimates updated at least once a quarter for Regular Coverage stocks. Generally, we would have access to the company and we would maintain detailed financial model for Regular coverage companies. We intend to publish updates on Lite coverage stocks only an opportunistic basis and subject to our ability to contact the management. Our rating and estimates for Lite coverage stocks may not be current. Spot coverage is meant for one-off coverage of a specific company and in such cases, earnings forecast and target price are optional. Spot coverage is meant to stimulate discussion rather than provide a research opinion.

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Disclosure of Interest statement for the subject Company	Yes/No	If Yes, nature of such interest
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