

Grinding back into the reckoning

We maintain BUY on L&T Infotech (LTI) following an in-line rev/margin performance and unchanged est. Large deal wins, deal ramps and reduction in client-specific challenges provide growth visibility (2H acceleration). Our TP of Rs 1,845 is based on 18x Sep-21E EPS.

HIGHLIGHTS OF THE QUARTER

- Revenue came at USD 364mn, +2.4/11.9% QoQ/YoY CC (in-line). Growth skew within verticals was visible with strong growth in E&U (12.1% of rev), Mfg (16.4% of rev), CPG, Retail & Pharma (11.5% of rev) and Insurance (18.6% of rev); flat BFS (27.1% of rev) performance and decline in Hi-tech, M&E vertical (10.8% of rev) dragged the show.
- Large deal wins were robust with net-new TCV of USD 100mn from three new logos (2 deals in E&U from US/APAC and 1 in Europe-BFS). 2H growth momentum is expected to accelerate supported by (1) Full ramp of large deals (Insurance, Mfg verticals) and (2) Recovery in top account (vs. flat trajectory over 1Q-2Q).
- T10 accounts' performance recovered to 3.2% QoQ (following 2-qtrs of QoQ decline), while top 11-20 declined 7.3% QoQ (large Hi-tech account impact). Net workforce additions were also robust at 1,632 taking

the headcount to 30,979 with flat attrition at 18.4% (decline on quarterly annualised basis).

- EBIT margin came at 15.5%, -43bps QoQ (in-line) impacted by wage increase (-170bps QoQ) and offset by lower SG&A (+96bps QoQ impact) on absence of visa cost. Mfg and E&U segmental margins increased sharply (oplev), offset by decline in BFSI and Hi-tech margins. APAT came at Rs 3.60bn (in-line) supported by lower ETR and mgmt maintained its PAT% outlook of 14-15% (current levels). Our estimates are lower at end.

STANCE

LTI's strong pedigree is reflected in its (1) Broad-based vertical presence (and sub-vertical strategy) with marquee accounts, (2) Strong client mining programs and large deal portfolio, and (3) Leading margin/return metrics vs. peers. Client specific challenges (in BFS and Hi-tech) have probably troughed and large deal trajectory is expected to improve growth momentum hereon. Our revenue/EPS CAGR over FY19-22E is ~10/8%. The stock is not inexpensive at 16.9x FY21E, but we believe LTI has the pedigree to command higher valuations as earnings growth becomes more visible.

Financial Summary

YE March (Rs bn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	25.71	23.31	10.3	24.85	3.5	73.06	94.46	104.70	117.99	132.77
EBIT	3.99	4.42	(9.7)	3.97	0.7	10.31	17.36	16.36	18.94	21.98
APAT	3.60	4.00	(10.0)	3.56	1.3	11.61	15.16	14.57	16.62	19.08
Diluted EPS (Rs)	20.7	23.0	(10.0)	20.5	1.3	66.9	87.3	83.7	95.5	109.7
P/E (x)						24.1	18.4	19.2	16.9	14.7
EV / EBITDA (x)						22.3	13.8	13.4	11.4	9.6
RoE (%)						33.2	34.6	27.5	27.1	26.9

Source: Company, HDFC sec Inst Research # Consolidated

INDUSTRY	IT
CMP (as on 18 Oct 2019)	Rs 1,610
Target Price	Rs 1,845
Nifty	11,662
Sensex	39,298

KEY STOCK DATA

Bloomberg	LTI IN
No. of Shares (mn)	174
MCap (Rs bn) / (\$ mn)	280/3,935
6m avg traded value (Rs mn)	263

STOCK PERFORMANCE (%)

52 Week high / low	Rs 1,897/1,436		
	3M	6M	12M
Absolute (%)	2.2	(2.4)	(12.1)
Relative (%)	1.1	(2.8)	(25.1)

SHAREHOLDING PATTERN (%)

	Jun-19	Sep-19
Promoters	74.79	74.62
FIs & Local MFs	6.87	8.16
FPIs	8.03	7.70
Public & Others	10.31	9.52
Pledged Shares	0.00	0.00

Source : BSE

Apurva Prasad

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

Amit Chandra

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

Akshay Ramnani

akshay.ramnani@hdfcsec.com
+91-22-6171-7334

Quarterly Financials Snapshot (Consolidated)

Particulars (Rs bn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)
Revenue USD mn	364	329	10.7	357	2.0
Revenue	25.71	23.31	10.3	24.85	3.5
Direct cost	17.53	15.12	15.9	16.63	5.4
SG&A Expenses	3.52	3.40	3.7	3.65	(3.3)
EBITDA	4.66	4.79	(2.8)	4.58	1.7
Depreciation	0.66	0.37	80.9	0.61	8.7
EBIT	3.99	4.42	(9.7)	3.97	0.7
Other Income	0.05	0.23	(79.3)	0.13	(64.2)
Interest Cost	0.20	0.03	684.0	0.20	(0.5)
FX Gains / (Loss)	0.69	0.71	(2.7)	0.68	1.8
PBT	4.73	5.37	(11.8)	4.78	(1.0)
Tax	1.13	1.36	(17.1)	1.23	(7.8)
RPAT	3.60	4.00	(10.0)	3.56	1.3
EO Items (Adj For Tax)	-	-	NA	-	NA
APAT	3.60	4.00	(10.0)	3.56	1.3

Source: Company, HDFC sec Inst Research

Margin Analysis (%)

	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)
Direct cost % Net Sales	68.2	64.9	330	66.9	127
SG&A Expenses % Net Sales	13.7	14.6	(87)	14.7	(96)
Gross Margin %	31.8	35.1	(330)	33.1	(127)
EBITDA Margin (%)	18.1	20.5	(243)	18.4	(31)
EBIT Margin (%)	15.5	19.0	(344)	16.0	(43)
Tax Rate (%)	23.9	25.4	(153)	25.6	(175)
APAT Margin (%)	14.0	17.2	(315)	14.3	(29)

Source: Company, HDFC sec Inst Research

Revenue grew 2.4/11.9% QoQ/YoY in CC terms

EBIT margin came at 15.5% down 43bps QoQ, margin was impacted by wage hike (-170bps) offset by absence of visa cost and operational efficiency (offshore)

Mfg and E&U segmental margins increased sharply, offset by decline in BFSI and Hi-tech margins

PAT margin guidance of 14-15% maintained, we've factored 14.1/14.4% APAT margin in FY21/22E

YoY CC growth of 11.9% off peak levels, growth expected to recover from 2H

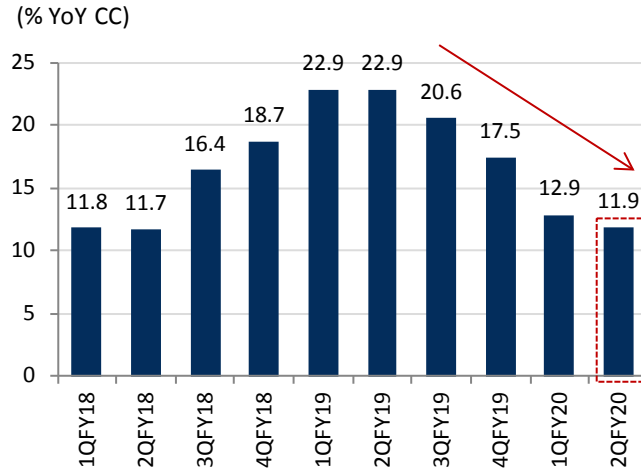
EBIT margin stabilized at 15.5% despite wage hike impact of ~170bps

3 new logo large deals won in 2QFY20 with TCV of ~USD 100mn with 4-5 yrs duration

Citigroup's Tech/communication expense witnessed 3.1% QoQ growth in 3QCY19

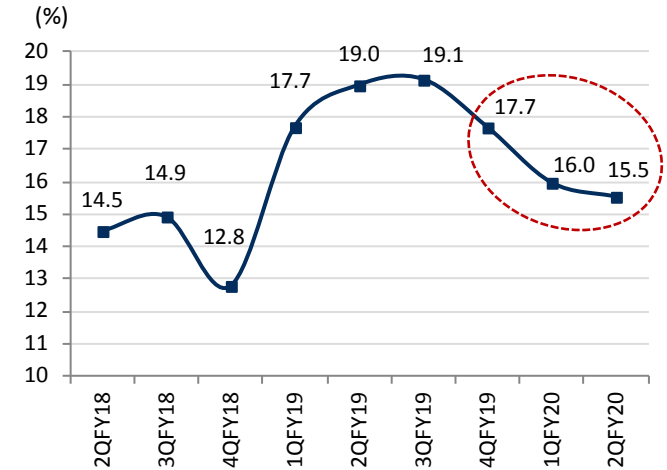
Healthy surge in Nordea Bank's IT expense both in absolute terms and as a % of NII

YoY CC Revenue Growth Trajectory (%)



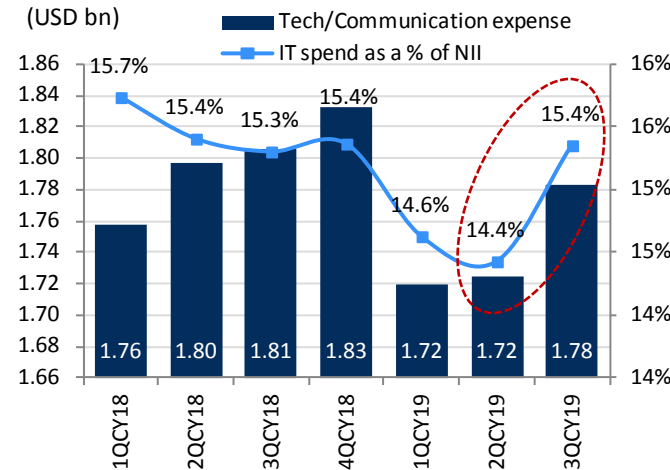
Source: Company, HDFC sec Inst Research

EBIT Margin Trajectory (%)



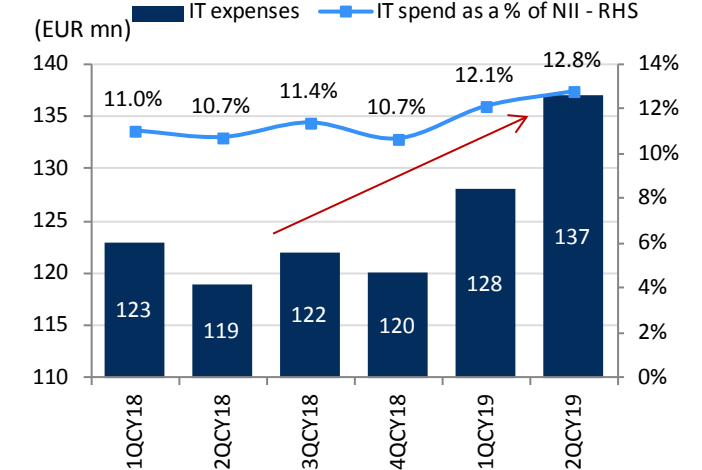
Source: Company, HDFC sec Inst Research

Citigroup Tech/Communication Expense Trend (%)



Source: Company, HDFC sec Inst Research

Nordea Bank IT Expense Trend (%)



Source: Company, HDFC sec Inst Research

BFS was flat QoQ in CC terms, BFS has been soft for past three qtrs impacted by 2 large accounts (Citi and Absa), 1 large deal win in BFSI

Insurance posted healthy 5.8% QoQ CC growth on large deal (Global re-insurer) ramp-up, improving QoQ growth trajectory for Insurance for the past three qtrs

Manufacturing recovered (large deal ramp) with strong growth at 10.6/19.4% QoQ/YoY CC

CPG, Retail & Pharma has posted strong growth for the past 6 qtrs, up 6.1% QoQ CC in 2QFY20 on strong life-sciences

E&U vertical was strong at 15.1% QoQ CC, growth momentum in this vertical will be strong (2 large deal wins in 2Q)

Revenue Mix By Vertical

(% of revenue)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
BFS	27.3	27.1	28.7	31.0	29.9	29.2	27.7	27.8	27.1
Insurance	20.6	19.5	18.3	18.3	17.9	17.9	17.8	18.2	18.7
Manufacturing	16.0	17.3	17.3	15.8	15.4	15.7	16.6	15.2	16.4
High-Tech, Media & Entertainment	11.1	10.6	10.6	11.4	11.2	11.3	12.4	12.5	10.8
CPG, Retail & Pharma	9.0	9.2	9.0	9.1	10.2	10.6	10.6	11.1	11.5
Energy & Utilities	12.0	11.9	11.5	10.1	10.7	10.9	11.0	10.7	12.1
Others	4.0	4.6	4.6	4.5	4.7	4.6	3.9	4.6	3.5
Total	100.0	100.0	100.0	100.0	100.0	100.00	100.00	100.00	100.00

Source: Company, HDFC sec Inst Research

Vertical Revenue Growth

(QoQ, %)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
BFS	6.3	7.5	11.7	11.6	(0.8)	3.0	(3.1)	0.9	(0.5)
Insurance	4.4	2.4	(0.9)	3.2	0.7	5.3	1.7	2.7	4.9
Manufacturing	0.6	16.9	5.6	(5.7)	0.4	7.3	8.2	(7.7)	10.1
High-Tech, Media & Entertainment	10.4	3.6	5.3	10.9	1.3	6.5	11.9	1.6	(11.8)
CPG, Retail & Pharma	10.5	10.9	3.0	4.7	15.1	9.7	2.0	5.5	5.7
Energy & Utilities	7.1	7.1	2.2	(9.1)	8.8	7.1	3.4	(2.0)	15.4
Others	(21.2)	24.7	5.3	1.3	7.3	3.4	(13.5)	18.8	(22.4)
Total	4.4	8.5	5.3	3.5	2.7	5.6	2.0	0.8	2.0

Source: Company, HDFC sec Inst Research

Revenue Mix By Service-Lines

(% of revenue)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
ADM & Testing	43.5	41.8	41.2	42.2	39.9	38.7	38.0	38.2	36.1
Enterprise Solutions	24.1	26.4	27.0	26.4	25.2	27.9	29.2	28.5	29.5
Infrastructure Management Services	10.9	10.8	11.7	11.6	11.7	11.4	11.0	10.9	11.1
Analytics, AI & Cognitive	10.9	10.8	10.7	10.4	12.2	11.3	10.6	11.2	11.3
Enterprise Integration & Mobility	6.8	6.7	6.5	6.5	8.0	7.6	8.0	8.2	9.0
Platform Based Solutions	3.8	3.5	3.1	3.1	3.0	3.2	3.2	3.1	3.0
Total	100.0	100.0	100.0	100.0	100.0	100.00	100.00	100.00	100.00

Source: Company, HDFC sec Inst Research, ADM & Testing combined (reclassified) from 1QFY20

Analytics, AI & Cognitive grew 3.0% QoQ, softness in Top account has impacted this service line

Among geographies Europe led revenue growth (+6.8% QoQ CC)

Europe growth was on one large deal ramp up in BFSI and a large deal net new win in BFSI

NorthAm grew 1.9% QoQ CC, one new large Utilities deal won in NorthAm

India revenue declined for 2 consecutive qtrs on 2 large programs moving to maintenance phase, strong 2H seasonality expected to continue

Service-Line Revenue Growth

(QoQ, %)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
ADM & Testing	0.6	4.2	3.6	6.0	(2.8)	2.3	0.3	1.2	(3.4)
Enterprise Solutions	10.1	18.8	7.5	1.2	(1.8)	16.7	6.9	(1.8)	5.8
Infrastructure Management Services	(7.5)	7.5	13.6	2.6	4.0	2.9	(1.6)	(0.2)	3.9
Analytics, AI & Cognitive	17.3	7.5	3.8	0.6	21.0	(2.2)	(4.3)	6.5	3.0
Enterprise Integration & Mobility	10.9	6.9	2.1	3.5	26.4	0.3	7.4	3.3	12.0
Platform Based Solutions	10.2	(0.1)	(6.8)	3.5	(0.6)	12.6	2.0	(2.4)	(1.2)
Total	4.4	8.5	5.3	3.5	2.7	5.6	2.0	0.8	2.0

Source: Company, HDFC sec Inst Research, ADM & Testing combined (reclassified) from 1QFY20

Revenue Mix By Geography

(% of revenue)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
North America	70.4	67.3	66.0	66.6	67.4	66.8	66.4	68.7	68.7
Europe	17.5	18.0	18.6	17.9	17.1	16.7	16.4	16.0	16.4
RoW	6.7	6.4	7.4	9.1	9.2	8.8	9.1	8.5	8.9
India	5.5	8.4	8.0	6.4	6.4	7.8	8.2	6.9	6.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC sec Inst Research

Geography Revenue Growth

(QoQ, %)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
North America	6.8	3.7	3.3	4.5	3.8	4.7	1.4	4.3	2.1
Europe	2.1	11.6	9.1	(0.4)	(2.2)	3.1	0.2	(1.7)	4.9
RoW	11.0	3.6	21.7	27.3	3.8	1.0	5.5	(5.9)	6.8
India	(19.1)	65.7	0.3	(17.2)	2.7	28.7	7.2	(15.2)	(11.3)
Total	4.4	8.5	5.3	3.5	2.7	5.6	2.0	0.8	2.0

Source: Company, HDFC sec Inst Research

Growth was offshore-led (+3.9% QoQ) with flat onsite revenues, higher offshore aided margins

Top 5 and 6-10 accounts recovered, Top 5 clients grew 3.4% QoQ after three qtrs of muted performance

Top 11-20 clients were soft after three consecutive qtrs of strong growth, impacted by large Hi-tech account

Revenue Mix By Delivery

(% of revenue)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	46.6	46.2	45.7	46.8	47.6	47.8	47.8	49.5	48.6
Offshore	53.4	53.8	54.3	53.2	52.4	52.2	52.2	50.5	51.4

Source: Company, HDFC sec Inst Research

Revenue Growth By Delivery

(QoQ, %)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Onsite	4.0	7.5	4.1	6.0	4.4	6.0	2.0	4.3	0.2
Offshore	4.8	9.3	6.3	1.4	1.1	5.2	2.0	(2.5)	3.9
Total	4.4	8.5	5.3	3.5	2.7	5.6	2.0	0.8	2.0

Source: Company, HDFC sec Inst Research

Client-wise Revenue Mix

(% of revenue)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Top 5 clients	38.0	36.4	35.2	36.6	36.2	34.5	32.2	31.3	31.7
Top 6-10 clients	12.9	14.4	14.4	13.7	13.7	13.9	14.8	13.7	13.8
Top 10 clients	50.9	50.8	49.6	50.3	49.9	48.4	47.0	45.0	45.5
Top 11-20 clients	15.1	15.3	15.5	15.7	15.6	15.9	16.4	17.5	15.9
Top 20 clients	66.0	66.1	65.1	66.0	65.5	64.3	63.4	62.5	61.4

Source: Company, HDFC sec Inst Research

Client-wise Revenue Growth

(QoQ, %)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Top 5 clients	4.1	3.9	1.8	7.6	1.6	0.6	(4.8)	(2.1)	3.4
Top 6-10 clients	5.2	21.1	5.3	(1.5)	2.7	7.1	8.6	(6.7)	2.8
Top 10 clients	4.4	8.2	2.8	5.0	1.9	2.4	(1.0)	(3.5)	3.2
Top 11-20 clients	2.4	9.9	6.7	4.9	2.0	7.6	5.2	7.5	(7.3)
Top 20 clients	3.9	8.6	3.7	5.0	1.9	3.7	0.6	(0.7)	0.3

Source: Company, HDFC sec Inst Research

Headcount, Utilisation Data

(Nos.)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Total headcount	22,554	23,394	24,139	25,150	26,414	27,513	28,169	29,347	30,979
Development	21,147	21,979	22,655	23,656	24,923	25,985	26,572	27,665	29,266
Sales & support	1,407	1,415	1,484	1,494	1,491	1,528	1,597	1,682	1,713
Net additions	233	840	745	1,011	1,264	1,099	656	1,178	1,632
Attrition rate (%)	15.0	14.6	14.8	15.1	15.3	16.5	17.5	18.3	18.4
Utilisation - incl trainees (%)	79.6	80.3	79.9	79.7	80.4	82.1	80.1	80.5	78.9
Utilisation - excl trainees (%)	80.7	81.5	81.1	81.2	82.3	83.0	81.1	81.3	80.6

Source: Company, HDFC sec Inst Research

Key Assumptions

Particulars	FY17	FY18	FY19	FY20E	FY21E	FY22E
Onsite Revenue growth (%)	9.3	11.8	22.3	13.5	11.5	11.3
Offshore Revenue growth (%)	9.4	21.3	16.4	7.4	10.3	9.1
Total USD Revenue growth (%)	9.3	16.7	19.1	10.3	10.9	10.2
USD/INR Rate	67.0	64.5	70.0	70.3	71.5	73.0
EBIT Margin (%)	16.2	14.1	18.4	15.6	16.1	16.6
APAT Margin (%)	14.9	15.9	16.0	13.9	14.1	14.4

Source: Company, HDFC sec Inst Research

Attrition has stabilized at 18.4%, attrition is still trending at 12-qtr high although quarterly annualized attrition lower at 17.5%

Fresher adds are not a major proportion of net-adds in 2Q, higher fresher adds are expected in 2H (vs. 1H)

Utilisation fell 70bps QoQ on strong hiring; utilisation is off peak levels and is at 8-qtr low (margin lever)

LTI acquired Powerup Cloud Technologies for USD 15mn (at 4.2x EV/rev), cloud services provider across AWS, Azure, GCP (largely in BFSI) with revenue of USD 3.5mn (0.3% of rev) with the objective to strengthen its cloud portfolio by cross-sell to existing accounts

Change In Estimates

Particulars	Earlier estimates	Revised estimates	% change
FY20E			
Revenue (USD mn)	1,476	1,488	0.8
Revenue (Rs bn)	103.77	104.70	0.9
EBIT (Rs bn)	16.26	16.36	0.6
EBIT Margin (%)	15.7%	15.6%	-4bps
EPS (Rs)	83.5	83.7	0.3
FY21E			
Revenue (USD mn)	1,630	1,650	1.3
Revenue (Rs bn)	116.51	117.99	1.3
EBIT (Rs bn)	18.76	18.94	0.9
EBIT Margin (%)	16.1%	16.1%	-5bps
EPS (Rs)	94.9	95.5	0.7
FY22E			
Revenue (USD mn)	1,795	1,819	1.3
Revenue (Rs bn)	131.06	132.77	1.3
EBIT (Rs bn)	21.66	21.98	1.5
EBIT Margin (%)	16.5%	16.6%	3bps
EPS (Rs)	108.4	109.7	1.2

Source: HDFC sec Inst Research

Peer Set Comparison

Company	MCap (Rs bn)	CMP (Rs)	TP (Rs)	RECO	EPS (Rs)				P/E (x)				RoE (%)			
					FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
TCS	7,720	2,057	1,975	NEU	68.8	83.9	85.5	92.9	29.9	24.5	24.1	22.1	30.1	36.1	35.3	37.1
Infosys	3,267	768	835	NEU	34.6	37.2	37.9	43.7	22.2	20.6	20.3	17.6	22.0	24.4	25.4	28.5
Wipro	1,480	249	230	NEU	13.5	15.1	16.8	18.0	18.5	16.4	14.8	13.8	16.5	17.3	17.8	17.7
HCL Tech	1,486	1,096	1,275	BUY	64.7	74.6	73.1	83.7	16.9	14.7	15.0	13.1	25.3	26.0	22.6	23.2
TechM	646	734	650	NEU	43.2	48.9	45.4	51.0	17.0	15.0	16.2	14.4	21.5	22.0	19.4	20.0
Tier-1 IT Median									18.5	16.4	16.2	14.4	22.0	24.4	22.6	23.2
LTI	280	1,611	1,845	BUY	66.9	87.3	83.7	95.5	24.1	18.4	19.2	16.9	33.2	34.6	27.5	27.1
Mphasis	174	936	1,180	BUY	45.4	57.6	58.3	69.1	20.6	16.2	16.1	13.5	14.6	20.0	19.7	20.9
LTTS	171	1,639	1,705	BUY	45.5	68.0	74.0	88.4	36.0	24.1	22.1	18.5	27.7	32.0	28.4	28.5
Mindtree	121	736	760	NEU	32.3	44.1	36.4	47.9	22.8	16.7	20.2	15.4	21.4	24.9	17.3	22.9
Hexaware *	113	379	450	BUY	16.8	19.6	20.4	24.6	22.7	19.4	18.6	15.5	26.6	26.5	23.5	24.4
Cyient	50	448	485	NEU	38.6	43.6	39.8	42.7	11.6	10.3	11.3	10.5	18.1	19.5	16.6	16.2
Zensar	48	211	295	BUY	10.6	14.1	15.5	19.1	19.9	15.0	13.6	11.1	15.1	17.3	16.7	17.8
Persistent	48	623	655	BUY	42.0	47.5	43.3	47.5	14.8	13.1	14.4	13.1	16.0	15.7	13.8	14.7
Tata Elxsi	44	708	645	NR	38.5	46.6	33.1	41.3	18.4	15.2	21.4	17.1	37.0	34.5	20.5	22.2
Sonata	32	312	448	BUY	18.6	24.0	26.5	29.9	16.8	13.0	11.8	10.4	31.0	35.1	33.7	33.8
Intellect	25	190	315	BUY	3.5	7.7	7.6	11.7	NM	24.9	25.2	16.3	6.7	11.1	9.3	12.8
eClerx	16	428	460	NEU	74.0	61.7	50.1	51.2	5.8	6.9	8.5	8.4	24.1	17.6	13.8	14.1
Majesco	12	416	700	BUY	(1.5)	18.3	20.9	31.1	NM	22.7	19.9	13.4	NM	8.4	8.3	11.4
HGS	12	579	760	NR	96.5	84.6	85.3	101.2	6.0	6.8	6.8	5.7	10.5	8.5	11.2	11.8
Mastek	8	342	505	BUY	27.7	40.4	38.3	42.7	12.4	8.5	8.9	8.0	13.7	16.1	12.9	13.0
Tier-2 IT Median									18.4	15.2	16.1	13.4	19.8	19.5	16.7	17.8

Company	MCap (USD bn)	CMP USD	TP	RECO	EPS (USD)				P/E (x)				RoE (%)			
					FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Accenture	126	188	NA	NR	5.6	6.5	7.8	8.6	33.8	29.1	24.1	21.9	41.7	42.0	34.9	35.0
Cognizant	34	61	NA	NR	2.5	3.6	4.0	4.3	23.9	16.9	15.4	14.1	14.1	19.0	19.0	20.4
Capgemini^	20	109	NA	NR	4.9	4.4	6.5	7.2	22.3	24.9	16.7	15.2	11.5	10.1	13.4	13.6
Global IT Median									23.9	24.9	16.7	15.2	14.1	19.0	19.0	20.4

Source: HDFC sec Inst Research, Bloomberg, *Dec YE, ^CMP and EPS in EUR terms

Income Statement (Consolidated)

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues (US\$ mn)	1,132	1,349	1,488	1,650	1,819
Growth (%)	16.7%	19.1%	10.3%	10.9%	10.2%
Net Revenues	73.06	94.46	104.70	117.99	132.77
Growth (%)	12.4%	29.3%	10.8%	12.7%	12.5%
Employee Expenses	43.29	54.67	63.65	71.18	79.43
Other operating expenses	17.90	20.96	22.07	24.92	28.04
EBITDA	11.87	18.83	18.98	21.89	25.30
Depreciation	1.56	1.47	2.62	2.95	3.32
EBIT	10.31	17.36	16.36	18.94	21.98
EBIT Margin (%)	14.1%	18.4%	15.6%	16.1%	16.6%
EBIT Growth (%)	-2.0%	68.4%	-5.8%	15.8%	16.0%
Other Income (Including EO Items)	4.26	3.02	3.85	4.00	4.25
Interest	0.16	0.11	0.79	0.78	0.78
PBT	14.42	20.28	19.42	22.16	25.44
Tax (Incl Deferred)	3.29	5.12	4.86	5.54	6.36
RPAT	11.12	15.16	14.57	16.62	19.08
APAT	11.61	15.16	14.57	16.62	19.08
APAT Growth (%)	19.6%	30.5%	-3.9%	14.1%	14.8%
Adjusted EPS (Rs)	66.9	87.3	83.7	95.5	109.7
EPS Growth (%)	19.6%	30.5%	-4.1%	14.1%	14.8%

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital - Equity	0.17	0.17	0.17	0.17	0.17
Reserves	38.43	48.76	56.86	65.55	75.86
Total Shareholders' Funds	38.60	48.94	57.03	65.72	76.04
Total Debt	1.04	0.94	0.94	0.94	0.94
Net Deferred Taxes	(1.79)	(1.49)	(1.49)	(1.49)	(1.49)
Long Term Provisions & Others	0.28	0.29	0.32	0.36	0.41
TOTAL SOURCES OF FUNDS	38.14	48.68	56.81	65.54	75.90
APPLICATION OF FUNDS					
Net Block	4.10	4.44	4.91	5.38	5.91
Goodwill	2.76	4.95	4.95	4.95	4.95
Investments	-	-	-	-	-
Other Non-current assets	3.06	4.03	4.03	4.03	4.03
Total Non-current Assets	9.93	13.45	13.92	14.39	14.92
Cash & Equivalents	16.28	21.55	26.95	32.28	38.86
Other Current Assets	11.41	11.89	13.17	14.85	16.71
Debtors	13.96	18.26	20.24	22.81	25.67
Total Current Assets	25.37	30.15	33.42	37.66	42.38
Creditors	3.79	4.67	5.18	5.83	6.56
Other Current Liabilities & Prov.	9.64	11.79	12.30	12.96	13.70
Total Current Liabilities	13.43	16.46	17.48	18.79	20.26
Net Current Assets	11.94	13.69	15.94	18.87	22.12
TOTAL APPLICATION OF FUNDS	38.14	48.68	56.81	65.54	75.90

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

YE March (Rs bn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	14.42	20.28	19.42	22.16	25.44
Non-operating & EO items	(0.36)	(0.09)	(2.89)	(3.00)	(3.19)
Interest expenses	0.16	0.11	0.79	0.78	0.78
Depreciation	1.56	1.47	2.62	2.95	3.32
Working Capital Change	(3.76)	(3.06)	(2.25)	(2.93)	(3.25)
Tax Paid	(3.58)	(4.75)	(4.86)	(5.54)	(6.36)
OPERATING CASH FLOW (a)	8.44	13.95	12.83	14.42	16.75
Capex	(2.17)	(1.63)	(2.86)	(3.42)	(3.85)
Free cash flow (FCF)	6.27	12.32	9.97	11.01	12.90
Investments	-	-	-	-	-
INVESTING CASH FLOW (b)	(1.81)	(1.54)	0.02	(0.41)	(0.66)
Debt Issuance/(Repaid)	1.04	(0.11)	-	-	-
Interest Expenses	(0.16)	(0.11)	(0.79)	(0.78)	(0.78)
FCFE	7.16	12.11	9.18	10.23	12.11
Share Capital Issuance	0.00	0.00	-	-	-
Dividend	(3.53)	(5.34)	(6.47)	(7.93)	(8.77)
FINANCING CASH FLOW (c)	(2.65)	(5.55)	(7.26)	(8.72)	(9.55)
NET CASH FLOW (a+b+c)	3.98	6.86	5.60	5.29	6.53
Closing Cash & Equivalents	16.28	21.55	26.95	32.28	38.86

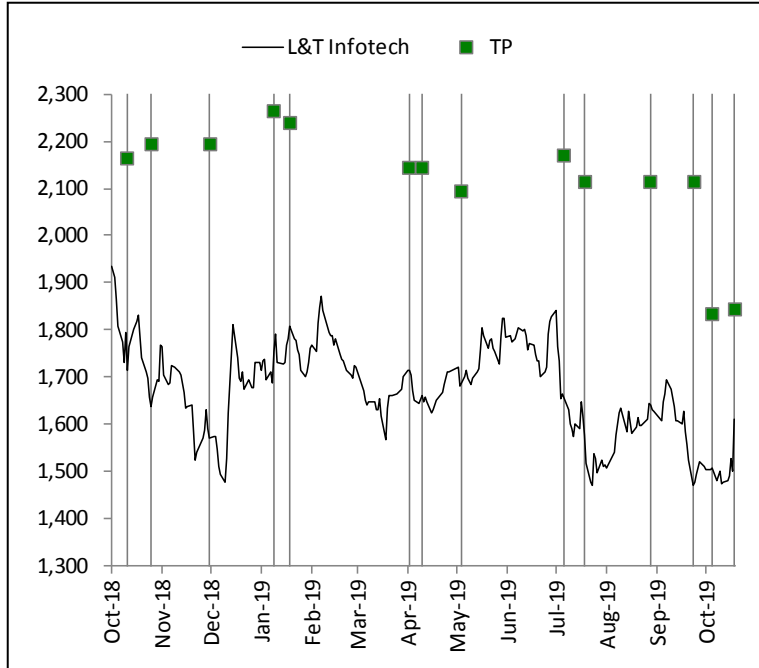
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

YE March	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
GPM	40.8	42.1	39.2	39.7	40.2
EBITDA Margin	16.3	19.9	18.1	18.6	19.1
APAT Margin	15.9	16.0	13.9	14.1	14.4
RoE	33.2	34.6	27.5	27.1	26.9
RoIC (or Core RoCE)	40.7	53.0	43.1	45.0	46.9
RoCE	34.2	35.1	28.7	28.1	27.8
EFFICIENCY					
Tax Rate (%)	22.8	25.3	25.0	25.0	25.0
Fixed Asset Turnover (x)	5.1	5.2	5.1	5.4	5.7
Debtors (days)	70	71	71	71	71
Other Current Assets (days)	57	46	46	46	46
Payables (days)	19	18	18	18	18
Other Current Liab & Provns (days)	48	46	43	40	38
Cash Conversion Cycle (days)	60	53	56	58	61
Debt/EBITDA (x)	0.1	0.0	0.0	0.0	0.0
Net D/E (x)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)
Interest Coverage (x)	66	164	21	24	28
PER SHARE DATA (Rs)					
EPS	66.9	87.3	83.7	95.5	109.7
CEPS	77.6	97.9	101.2	115.2	131.9
Dividend	22	28	31	38	42
Book Value	227	288	336	387	448
VALUATION					
P/E (x)	24.1	18.4	19.2	16.9	14.7
P/BV (x)	7.1	5.6	4.8	4.2	3.6
EV/EBITDA (x)	22.3	13.8	13.4	11.4	9.6
OCF/EV (%)	3.2	5.4	5.0	5.8	6.9
FCF/EV (%)	2.4	4.7	3.9	4.4	5.3
FCFE/Mkt Cap (%)	2.6	4.3	3.3	3.7	4.3
Dividend Yield (%)	1.3	1.7	1.9	2.4	2.6

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Oct-18	1,795	BUY	2,165
25-Oct-18	1,639	BUY	2,195
30-Nov-18	1,590	BUY	2,195
8-Jan-19	1,688	BUY	2,265
19-Jan-19	1,801	BUY	2,240
1-Apr-19	1,703	BUY	2,145
9-Apr-19	1,647	BUY	2,145
3-May-19	1,678	BUY	2,095
5-Jul-19	1,666	BUY	2,171
20-Jul-19	1,516	BUY	2,115
27-Aug-19	1,611	BUY	2,115
22-Sep-19	1,525	BUY	2,115
4-Oct-19	1,507	BUY	1,835
18-Oct-19	1,610	BUY	1,845

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- 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

INSTITUTIONAL RESEARCH
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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 Phone: (022) 3045 3600

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