Accenture

28 June 2019

Bloomberg: ACN US

IT Sector Update

Stalling order inflow growth a harbinger? Federal business helps

Accenture revised its revenue growth guidance for FY19 (Y/E August) to 8%-9% from 6.5%-8.5% in local currency (LC) terms given earlier, of which 200bps will come from inorganic growth (vs 150bps indicated earlier). This is after posting growth in 3QFY19 that was at the upper end of its guided range – 8.4% LC. Accenture started FY19 with 5%-8% guidance in revenue growth (with 150bps contribution from inorganic means). While TTM order inflow seems to have turned down (Exhibit 7), Accenture indicated that the 3Q weak number was a blip and that it would close the year with a strong 4QFY19. Demand conditions were indicated to be strong. There was no discussion about the impact of macro environment – which has considerably deteriorated over the last three months - on its business while there was discussion (and caution) when FY19 year started – nine months back. Accenture indicated pricing power especially in newer services which has led to improvement in contract profitability and better gross margins. Takeaways for the Indian IT Industry - The strong growth on a revenue base that is twice that of TCS' is because of: (1) A reasonably strong corporate IT spending environment currently, especially in new areas like Cloud, Security Services and Digital marketing, (2) A revenue mix that has pivoted to 'new' services with more than 60% coming from it (unlike about half of that for India-based players, even if one disregards classification problems) and (3) Significant ahead-of-the-curve investments and consequent market share gains made in areas like 'digital marketing' and 'security services', which have become outsized businesses themselves – Accenture Interactive is a ~US$10bn business and Security Services is a ~US$2.5bn one in FY19. A lot of incremental growth for Accenture in recent years has come from these new areas, thereby avoiding a direct confrontation with price-competitive India-based players. A key monitorable – BFSI sector- saw some marginal recovery by breaking away from its weak trend since 4QFY18 and grew by 4% YoY LC. Within BFSI, Insurance grew in double digits while Banking and Capital Markets business grew modestly. BFS was driven by double-digit growth in the Growth Markets and strong growth in North America, partially offset by contraction in Europe. As per Accenture's commentary earlier in the year, in case of adverse turn of macro-economic events, digital-related spending will hold up while there will be significant amount of reallocation of budget away from legacy services. We believe its demand commentary is not surprising and is reflective of a still healthy 2019/FY20, which we believe the Indian stock market has more than adequately priced in. We still believe there will be pressure on overall spending in FY21, with discretionary spending likely to witness equal if not more pressure as per our no-growth-year-for-industry-in-FY21 call (see sector view inside). Hence, we remain cautious on the sector. We believe that the robust demand environment indicated by Accenture is likely true for itself and probably for a handful of other peers which have strong skills in the 'New' and because of end-to-end capabilities that a number of large customers want in vendors. Another point to note is that strong North America (46% of revenue) growth (9% YoY LC) has been driven by Federal government business which Indian companies do not address in a material way. In the constrained demand environment that we foresee in FY21, strong automation skills will be a key determinant of profitability and market share gains. This may mean vendor consolidation which may be detrimental to the fortunes of many midsized IT services companies and even some of the larger ones. We also believe that some of the extraordinary pricing power seen by Accenture in its Interactive and Cyber-Security services business is reflective of froth and would see correction in the softer demand environment that we foresee in 2020.

Strong quarter: Accenture met the upper end of guidance for 3QFY19 with revenue of US$11.1bn, a YoY increase of 8.4% in local currency (LC) terms and 4% in US dollar (USD) terms. In LC terms growth was broad-based across verticals and geographies driven by Resources (up 19% YoY, delivering seventh straight quarter of double digit growth), Products – consumer-related industries (up 8% YoY) and Communication Media and Telecom or CMT (up 7% YoY). Geography wise, Accenture saw good growth in Growth markets at 13% and US at 9% vs 8% in 2QFY19.

3QFY19 order booking soft: Accenture had order bookings worth US$10.6bn, down 9% YoY after eight consecutive quarters of growth. Bookings were driven by consulting (+2%) while outsourcing bookings were down 21% YoY. New services - digital, cloud and security-related services - represented ~65% of new bookings.

Margin improves a tad: Operating margin stood at 15.5%, up by 20bps YoY. Management attributed the superior margin performance to its strategy of rotating the business towards 'New' and better pricing power there in. This comes from its highly differentiated capabilities being a first mover in many services. Its high pricing power is evident from broad-based increase in vertical margins despite industry wide pressure on talent and likely realisation pressure on the non-New side of its revenues (~40% and which has been declining in single digits on a YoY basis).

NOT RATED

Sector: Information Technology

CMP: US$183

Girish Pai
Head of Research
girish.pai@nirmalbang.com
+91-22-6273 8017

View on Indian IT services sector: We downgraded the Indian IT sector (see our report: Street Is Not Factoring Even A Soft Landing; We Downgrade) on 27 December 2018 based on: (1) Consensus not factoring in significantly softer growth in FY21 as the best demand environment since 2008-09 is largely behind us with corporate capex in both the US and Europe likely to have peaked in 2018. (2) The US BFSI space could witness pressure on margins from a flattened/inverted yield curve and probably a more hostile regulatory environment because of a split Congress in the US. (3) Pressure on cost structure because of tariffs levied on imports from China impacting US manufacturers. (4) Front-office capabilities in digital still elusive for Indian IT services players, leading to inability to tap into the marketing budgets of customers in a material way. The focus has been on the technology intensive back-end of digital where we believe the field is relatively more crowded. (5) 'Automation at scale' in legacy services eating into growth coming in from new services. This is driven by explosive growth in both intelligent and robotic process automation software industry. (6) Factoring in lower Indian rupee or INR depreciation benefits than estimated earlier (Refer: Incorporating New INR Estimate). (7) Capital return to shareholders not being as potent a stock driver as it was earlier because the cash hoard is shrinking after two to three rounds of share buyback over the past three years. (8) Talent pressure in the US in new-age services because of a tighter H1-B visa regime. We were planning the downgrade a quarter or two down the road, but the global macro set-up has turned weaker far more quickly than we anticipated, hastening this move. While some of the 'relative' factors like investor positioning, valuation and earnings revision momentum - partly the reasons for turning 'tactically positive in March 2018 - still exist, we believe they are unlikely to carry as much importance with investors as deteriorating fundamentals would over FY19-FY21. While many of our competitors are expecting a better FY20 versus FY19, we believe that is unlikely. We probably had the best macro environment that the industry has seen in the past 10 years in 2018 and incrementally we only see a deterioration which should crimp spending by customers. More importantly, we reiterate our no-industry-growth-in-FY21 call initiated in March 2018. We base this scenario on an explicit expectation of a soft landing in the US (0%-1.5% real GDP growth) in 2020. We believe consensus is expecting mid-high single-digit revenue growth in FY21 for the industry, implicitly assuming continued robust growth in the US (2%-2.5%). It is our belief that the street will converge with our no-growth expectations over time. Until the market prices in this scenario, we believe technical factors are not likely to hold the sector up. A hard landing (recession) - not our current base case - could lead to single-digit negative growth for the sector. Just as outperformance of the sector in 2018 was driven largely by P/E multiple expansion in the belief that growth is going to accelerate, we believe the downside in 2019 will be driven by P/E multiple deflation as investors begin to re-calibrate growth expectations lower over FY19-FY21. We prefer large-caps over mid-caps. The faster growth shown by select mid-caps is a case of 'rising tide lifting all boats', a smaller base and lower exposure to legacy services. But as digital demand shifts from the front to back, we believe that traditional large Indian companies will be in a better position to capture the market. We would advise investors to focus on sustainability and not overpay for a riskier business model - some companies have seen client concentration rising over the past two years

Why bother about Accenture? Accenture is ~US$43bn behemoth in the consulting and IT services space which has done very well for itself unlike some of the other MNC players. It has been consistently gaining market share. Accenture works with 80% of Global 500 corporations. Following Accenture is critical to understanding the offshore IT/ITES industry business dynamics because ~75% of its ~480,000 workforce (as of 3QFY19) is based in the global delivery network (low-cost locations like India, Philippines, etc) with possibly 155,000 in India. Outsourcing accounts for a very large part of its revenues (~44%, the other being consulting), where we believe it is up directly in competition with India-centric players like TCS, Cognizant Technology Solutions or CTS, Infosys, Wipro, HCL Technologies, Tech Mahindra, etc.

Accenture gains market share through its balance sheet: In our earlier reports: Secret Sauce of Accenture-Part I and Part II), we focused on the superior working capital (ex-cash) cycle of Accenture in the past and how it contributed in taking away market share from Indian companies. While the working capital situation has been deteriorating since many years, in recent times the bigger issue as to why RoIC contracted substantially is the large goodwill sitting on its balance sheet and the additions to it. Accenture has already invested ~US$6bn to acquire ~100 companies since FY14 to beef up its capabilities in new areas like digital, cloud & security services. While this has likely helped it gain market share, it has definitely been at the expense of lower RoIC (see Exhibit 4).

Other highlights

- **Resources vertical's growth run continues:** The Resources vertical grew 19% YoY vis-à-vis 22% in 2QFY19, 3QFY19 being its seventh consecutive quarter of double digit growth. Communications, Media and Technology grew 7%, reflecting continued strong double-digit growth in Software and Platforms, which was the primary contributor to overall strong growth in North America and the Growth Markets and strong growth in Europe. This may have to do with the outsourced software product engineering work that Accenture is likely doing for software majors and probably represents a shift from some of the India heritage vendors (as evidenced by commentary of Persistent, a medium sized player in the space). Products, the largest operating group delivered a growth of 8%. Healthcare and Public Services grew by 6% while Financial Services recovered to show a 4% YoY growth.
- **Strong momentum in Growth Markets and North America:** North America growth of 9% YoY LC was driven by strong Federal government business in the US. The Growth Markets continued to grow in double digits (13%) in 3QFY19, the highest among all geographies. Management indicated strong double-digit digital growth coming from Japan, Brazil and China. As mentioned previously also, most of the work in Japan is in 'New' and not from the legacy business. In Europe, Accenture experienced double digit growth in Italy and Ireland and a mid-single digit growth in the UK. Management is optimistic about growth in these markets as it feels that Accenture is well positioned to gain market share in these geographies.
- **Strong platform orientation**: Accenture indicated very strong demand for its services across software platforms around SAP, Microsoft, Oracle, Workday and Salesforce.com. Accenture has entered into partnerships for Artificial Intelligence (AI) with Amazon, Google and Microsoft. Also, the management sees substantial demand for Digital, Security and Cloud which are experiencing double-digit growth. In Cloud, hybrid public cloud immigration and SAAS are seeing a significant uptick in demand. This should also mean that package implementation practices of Indian companies focused on these areas will also witness significant traction.
- **Custom application development making a comeback?:** Unlike the widely held perception that custom application services demand is slowing down, Accenture is of the view that it is seeing a new lease of life to exploit all the advantages of the broader landscape of new technology and new platforms. Custom application services delivery is seeing an increased demand, particularly in agile software development. This helps to exploit the power of data, artificial intelligence and machine learning. They require customization for individual companies. In 3QFY19, it has bagged a large deal from a leading Swiss Telecom company in this domain.
- **Strong execution of 'Three-Pillared' Strategy:** Digging deeper into the 3 pillared strategy which forms the foundation of Accenture's growth and differentiation, the interim CEO talked about: (1) Driving strong growth in Digital, Cloud and Security. Leveraging Accenture Interactive to deliver digital marketing services, (2) Sharpened focus on Accenture Technology which according to it represents the strongest technology capability in the industry with Intelligent Software Engineering Services, Intelligent Platform Services and Intelligent Cloud and Infrastructure Services and (3) Through Accenture Operations. Out of these three, the Technology vertical is the engine for its strong leadership in 'New'. In 3QFY19, Technology Services posted strong high-single digit growth, Strategy and Consulting services grew in mid single-digit and operations continued its trend of double-digit growth. Accenture achieved double-digit growth in Intelligent Platform services in 3QFY19, owing to deals in large scale enterprise wide transformation. Accenture has created a loyal client base as it has worked on more than 25,000 cloud computing projects for clients, including 80% of the Fortune Global 100 and has more than 77,000 people trained in cloud technology.
- **Acquisitions:** Though the focus will still be primarily on organic growth, management indicated that US$1.3bn will be totally spent on acquisitions in FY19. Inorganic revenue contribution will be 2% compared to 1.5% indicated earlier. RoI and profitability have been the prime criteria for choosing any target. The recent acquisitions are mostly in the high priority verticals like BFSI and in 'New' (80% of the acquisitions in 'New'). This is in keeping with the recent market scenario of scaling up capabilities and diversifying by acquiring IPs/companies. Among the verticals, Products and Financial Services are management's top picks for acquisitions. Some deals are vertical specific; particularly in BFS and especially in Capital Markets– which incidentally has been a soft spot for a number of India heritage players in recent years. Accenture acquired Droga5, an iconic media agency in the US, during the quarter to strengthen its digital marketing capabilities.
- **CEO succession:** Management said that the Board continues to execute a very rigorous and comprehensive process, which by the end of FY19 will name a permanent CEO. Mr. David P Rowland continues to be the interim CEO.

- **Attrition rate:** Attrition increased by 300bps QoQ and stood at 18% in 3QFY19 vs 15% in 2QFY19 which is a number that Accenture is comfortable with. As per guidance, management indicated a significant shift to onshore hiring keeping in mind the requirements in digital opportunities. It also indicated that Accenture is able to retain talent despite growing utilisation because it is the market leader. Its brand equity and company culture attracts the best of talent.
- **Capital return to shareholders. Quarterly dividends to start from FY20:** For the full fiscal 2019, Accenture is expecting the operating cash flow to be in the range of US$5.85bn to US$6.25bn and free cash flow to be in the range of US$5.2bn to US$5.6bn. For 3QFY19, ~US$1.4bn out of the US$1.98bn in FCF has been returned to shareholders via dividends and share repurchases. Starting FY20, Accenture indicated that it intends to issues quarterly dividends instead of semi-annual dividends that it has been doing thus far.
- **4QFY19 outlook**: Accenture expects revenue for 4QFY19 to be in the range of US$10.8bn-US$11.15bn, 5%-8% growth in local currency, reflecting the company's assumption of a negative 3% foreign-exchange impact compared to 3Q of FY18. For the full FY19, revenue growth is expected in the range of 8%-9% in local currency terms over FY18. Operating margin is expected to be in the range of 14.6% with 20bps expansion over FY18 results. EPS for FY19 is expected at US$7.28-US$7.35, or 8% to 9% growth over adjusted FY18 results. Free cash flow to net income ratio is expected to be 1.1 to 1.2. In 4QFY19, Consulting and Outsourcing are both going to grow in mid to high single-digits.

Exhibit 1: Key metrics

(US$mn) Y/E August	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Revenue	8,397	8,969	8,966	9,006	8,762	9,357	9,641	10,054	10,068	10,839	10,642	10,606	10,454	11,100
Gross Margin	2,370	2,690	2,656	2,730	2,504	2,910	2,887	3,052	2,848	3,319	3,223	3,297	3,054	3,528
EBIT	1,088	1,306	1,195	1,332	1,139	865	1,297	1,486	1,283	1,620	1,453	1,629	1,387	1,718
PAT	773	897	774	1,004	851	669	932	1,124	864	1,043	1,030	1,275	1,124	1,250
Margins (%)														
Gross Margin	28.2	30.0	29.6	30.3	28.6	31.1	29.9	30.4	28.3	30.6	30.3	31.1	29.2	31.8
EBIT Margin	13.0	14.6	13.3	14.8	13.0	9.2	13.4	14.8	12.7	14.9	13.7	15.4	13.3	15.5
Verticals (%)														
Communications & High Tech	20.2	20.2	20.0	19.8	19.5	19.8	19.9	19.6	20.2	20.7	20.6	20.1	20.5	20.3
Financial Services	21.2	21.4	21.2	21.3	21.3	21.0	21.3	21.6	21.1	20.8	19.8	20.0	19.6	19.8
Health & Public Service	18.7	18.3	18.2	17.6	18.2	17.5	17.6	17.2	17.1	16.5	16.8	16.5	16.3	16.4
Products	25.1	25.6	26.5	27.2	27.2	27.4	27.2	27.1	27.5	27.6	27.6	27.6	27.8	27.7
Resources	14.8	14.5	14.1	14.0	13.8	14.1	13.8	14.0	14.0	14.2	15.0	15.6	15.7	15.7
Other	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.5	0.2	0.22	0.24	0.15	-0.01	0.05
Geography (%)														
Americas	47.7	47.6	48.1	46.8	47.6	46.5	46.2	45.0	44.6	44.4	46.4	45.8	45.5	46.4
EMEA	35.0	34.9	33.4	34.5	34.0	34.3	34.1	36.2	36.4	36.2	33.9	35.0	34.7	34.0
Asia Pacific	17.2	17.4	18.5	18.7	18.5	19.2	19.6	18.8	19.0	19.4	19.7	19.2	19.8	19.7
Services (%)														
Consulting	54.0	54.8	54.3	53.9	53.0	54.4	53.9	54.4	53.8	55.1	54.6	56.3	55.4	56.2
Outsourcing	46.0	45.2	45.7	46.1	47.0	45.6	46.1	45.6	46.2	44.9	45.4	43.7	44.6	43.8
Order Inflow (US$bn)														
Consulting	5.0	4.9	4.8	4.9	4.6	5.2	5.1	5.9	5.7	5.9	6.1	5.9	6.7	6.0
Outsourcing	4.5	4.2	4.2	3.4	4.6	4.6	5.0	4.1	4.6	5.8	4.7	4.3	5.1	4.6
Total	9.5	9.1	9.0	8.3	9.2	9.8	10.1	10.0	10.3	11.7	10.8	10.2	11.8	10.6

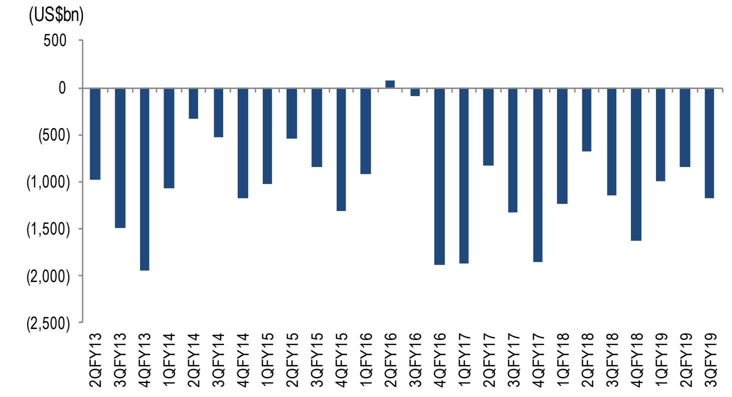
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: QoQ & YoY growth of various parameters (USD)

QoQ Growth	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Vertical Wise (%)															
Communications & High Tech	(2)	0	6	(1)	(1)	(4)	8	4	3	3	10	(2)	2	1	5
Financial Services	3	(3)	7	(0)	1	(2)	5	5	6	(2)	6	(6)	5	(3)	7
Health & Public Service	2	4	4	0	(3)	1	3	4	1	1	4	0	3	(3)	6
Products	3	0	8	4	3	(2)	7	2	4	2	8	(2)	5	(1)	6
Resources	1	(6)	4	(2)	(0)	(4)	9	1	6	0	10	3	9	(1)	7
Other	2	(21)	14	(3)	1	66	188	2	136	(66)	52	7	(33)	(105)	(745)
Geography Wise (%)															
Americas	1	1	6	2	(2)	(1)	4	3	1	(0)	7	3	3	(2)	8
EMEA	6	(3)	6	(4)	4	(4)	8	3	11	1	7	(8)	8	(2)	4
Asia Pacific	(7)	0	7	7	1	(4)	11	6	(0)	2	10	(0)	2	1	5
Services Wise (%)															
Consulting	4	(1)	8	(0)	(0)	(4)	9	2	5	(0)	10	(3)	8	(3)	8
Outsourcing	(2)	(0)	4	2	1	(0)	3	4	3	2	5	(1)	1	1	4
Growth Rate in Bookings (QOQ) (%)															
New	(13)	23	(4)	(1)	(8)	11	6	3	(1)	3	14	(7)	(6)	16	(10)
Consulting	7	14	(2)	(2)	2	(6)	12	(2)	17	(5)	4	4	(4)	14	(10)
Outsourcing	(30)	36	(7)	0	(19)	34	0	9	(19)	14	26	(19)	(8)	19	(10)
YoY Growth															
Vertical Wise (%)															
Communications & High Tech	1	6	6	4	5	1	3	7	11	19	22	15	14	11	6
Financial Services	2	6	10	6	4	5	3	9	14	14	15	3	3	1	3
Health & Public Service	4	12	11	11	5	2	1	5	9	9	10	6	7	4	7
Products	3	8	15	17	17	14	13	10	11	16	17	12	13	10	8
Resources	(4)	(3)	(2)	(3)	(4)	(2)	2	5	12	17	18	20	24	23	19
Other	6	(22)	(3)	(11)	(11)	86	370	395	1,052	137	25	31	(63)	(105)	(78)
Geography Wise (%)															
Americas	9	11	10	10	6	4	3	4	8	8	11	11	13	11	12
EMEA	(1)	5	11	4	2	2	3	10	17	23	23	10	7	4	1
Asia Pacific	(12)	(4)	(0)	8	17	12	16	14	12	19	18	11	14	13	9
Services Wise (%)															
Consulting	6	12	12	11	6	3	4	7	13	17	18	12	15	12	10
Outsourcing	(4)	(0)	4	4	7	7	6	9	11	13	14	9	7	5	5
Growth Rate in Bookings (YoY) (%)															
Total	1	1	7	2	8	(3)	7	12	20	12	20	7	2	15	(9)
Consulting	14	19	9	17	11	(7)	6	6	21	22	14	21	(1)	19	2
Outsourcing	(13)	(12)	5	(11)	3	1	9	19	19	1	27	(6)	6	11	(21)

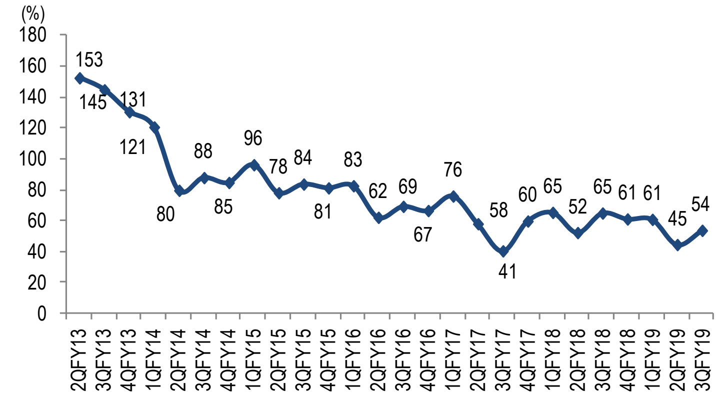
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Quarterly working capital requirement continues to be negative



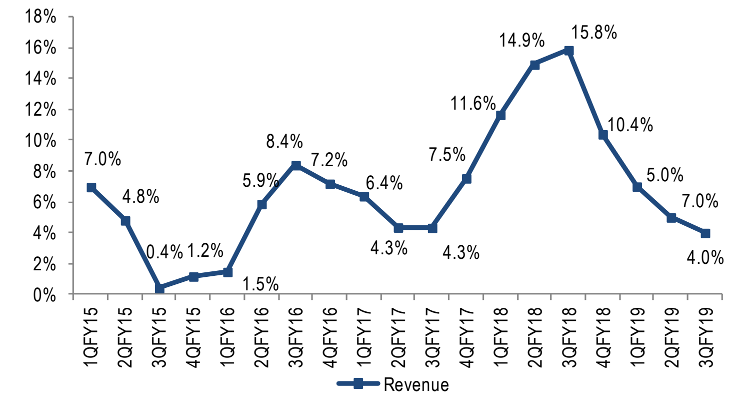
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: RoIC moves up in 3QFY19



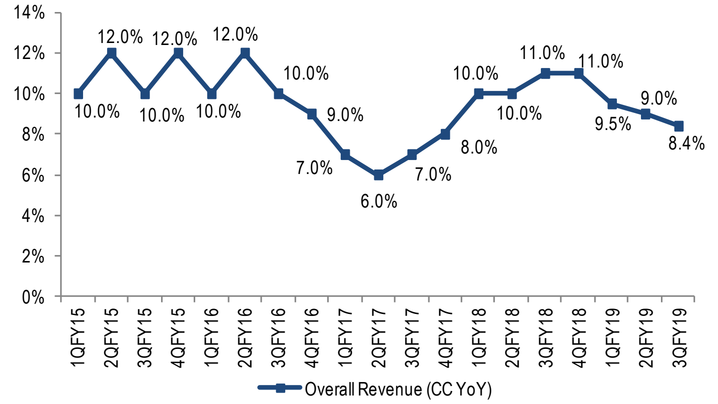
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: USD YoY growth rate (%)



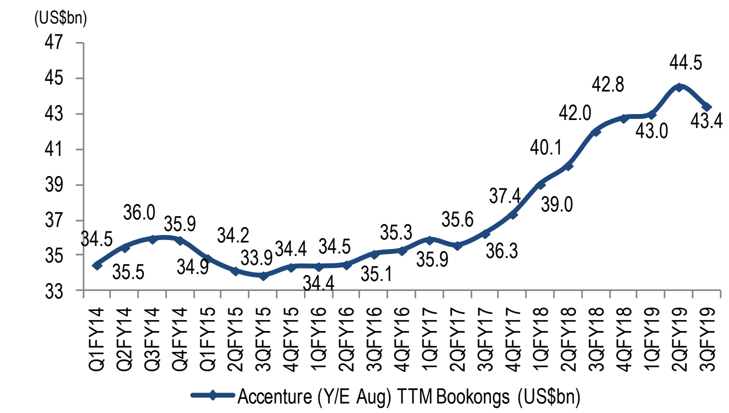
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Local currency YoY growth rate (%)



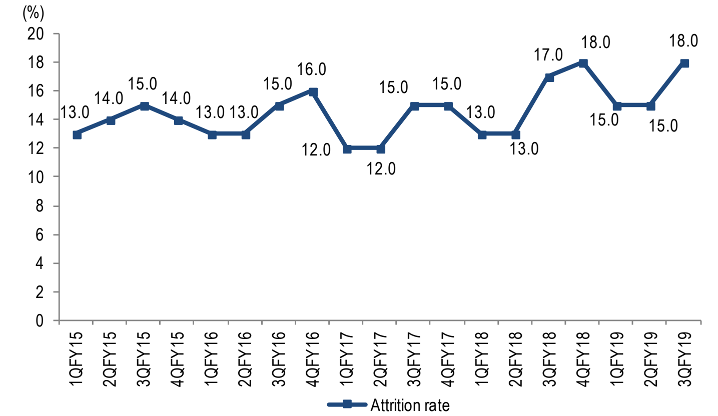
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: TTM order inflow growth seems to be stalling. A temporary blip or a shift in trend?



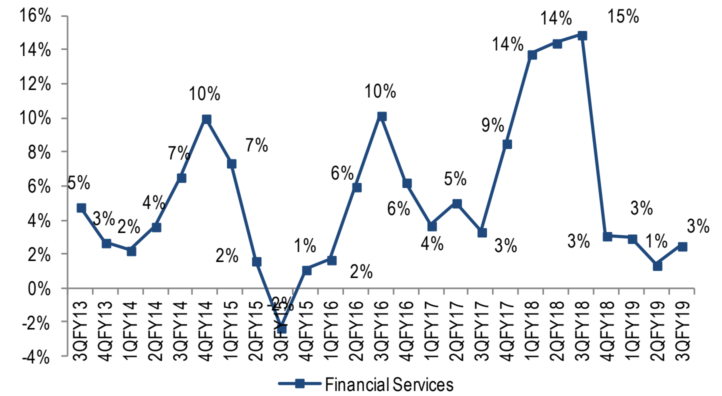
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Attrition rate picks up in 3QFY19



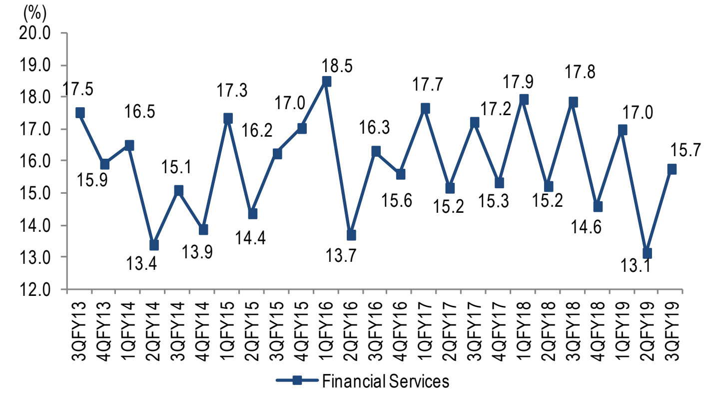
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: FS (USD YoY) growth has recovered marginally



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Financial services EBIT margins have improved



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Comparative Valuation Table

	TCS	Infosys	Wipro	HCL Tech	TechMahindra	Mindtree	Persistent
Year Ending	**March**	**March**	**March**	**March**	**March**	**March**	**March**
Prices as on 27-Jun-19	**2,253**	**731**	**282**	**1,063**	**702**	**946**	**615**
Currency	**INR**	**INR**	**INR**	**INR**	**INR**	**INR**	**INR**
Market Value (Rs Bn)	8,624	3,175	1,393	1,441	619	156	49
(US$mn)	119,779	44,102	19,347	20,015	8,596	2,173	683
March 2020 Target Price	1,614	601	219	1,090	562	563	604
Upside/(downside)	-28.4%	-17.8%	-22.4%	2.5%	-19.9%	-40.4%	-1.7%
Recommendation	Sell	Sell	Sell	Accumulate	Sell	Sell	Accumulate
FDEPS (Rs)							
FY18	67.0	32.5	16.8	62.9	42.8	34.6	40.4
FY19E	83.1	36.0	18.6	73.5	48.1	45.8	44.1
FY20E	93.4	38.9	18.4	83.6	52.6	53.5	54.4
FY21E	97.8	40.4	19.0	88.0	56.8	56.9	56.4
PE (x)							
FY18	33.6	22.5	16.8	16.9	16.4	27.3	15.2
FY19E	27.1	20.3	15.2	14.5	14.6	20.7	14.0
FY20E	24.1	18.8	15.4	12.7	13.3	17.7	11.3
FY21E	23.0	18.1	14.9	12.1	12.4	16.6	10.9
EV/EBITDA (x)							
FY18	23.6	16.1	14.3	12.7	12.8	20.2	10.1
FY19E	19.1	14.6	11.5	10.5	9.0	14.0	7.3
FY20E	18.0	13.5	9.7	9.1	8.2	11.3	6.2
FY21E	17.3	12.9	9.2	8.5	7.5	10.6	5.5
EV/Sales (x)							
FY18	6.2	4.3	2.7	2.9	2.0	2.7	1.6
FY19E	5.2	3.7	2.3	2.4	1.6	2.1	1.3
FY20E	4.7	3.4	2.0	2.2	1.5	1.8	1.1
FY21E	4.5	3.2	1.9	2.0	1.3	1.7	0.9
Pre Tax ROIC (%)							
FY18	57.3	44.9	24.5	38.9	25.8	32.9	29.7
FY19E	61.8	47.5	30.4	36.3	37.9	46.4	44.2
FY20E	59.4	49.4	37.0	32.4	41.1	49.2	52.5
FY21E	58.9	48.2	36.8	29.7	41.6	49.1	54.0

Source: Company, Nirmal Bang Institutional Equities Research

DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, Mr. Girish Pai, research analyst, is the author of this report, hereby certifies that the views expressed in this research report accurately reflects my personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:

Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address
B-2, 301/302, Marathon Innova,
Nr. Peninsula Corporate Park,
Lower Parel (W), Mumbai-400013.
Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010