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Information Technology Sector

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Sector Update

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TCS & Infosys FY20 Outlook – TCV, Value Compression and Margins Key

Both Tata Consultancy Services (TCS) and Infosys are slated to declare their 4QFY19 results on 12 April 2019 post Indian stock market trading hours. The focus would be on commentary regarding FY20 revenue growth and margins. While TCS does not give out explicit revenue guidance, it has been hinting at continuation of the double-digit growth momentum in constant currency (CC) terms in recent investor/analyst meetings. As regards margins, we expect TCS to stick to its aspirational 26%-28%, even though it may fall a tad short of it in both FY19 and FY20. Despite positively surprising markets with double-digit growth (YoY CC terms) in 3QFY19 and upward revision in revenue growth guidance, Infosys has been circumspect about commenting on FY20. Infosys, unlike TCS, gives out an explicit guidance - both on revenue and margins. We believe the current stock prices of Infosys and TCS broadly factor in a high single-digit/very low double-digit growth in revenues and a modest (~50bps) margin compression vis-à-vis FY19. Any guidance that is materially variant from this may deliver stock upside/downside. Our expectation is that revenue growth of Infosys will accelerate while that of TCS will decelerate – both modestly – going into FY20 and that growth of Infosys may just nose ahead of TCS's. A detailed preview on 4QFY19 for the entire sector is given here (Selective FY20 Acceleration In The Price, Margins And Cues For FY21 Are Key). Focus of the market would be on pockets of weakness and the potential for recovery in the same – large banks (especially those with a capital market focus), select manufacturing (automobile and hi-tech). We would be watching for any signals of any meaningful impact of the recent economic weakness witnessed in Europe and China on end-customer IT services spending. We have a Sell rating on both these stocks (and on almost our entire coverage universe), which is a result of our view that growth will decelerate in FY21 to a stall pace on the back of a soft-landing scenario of the US economy in 2020 (0%-1.5% real GDP growth). We believe this would lead to a P/E de-rating. While we expect absolute downside, on a relative basis, we are more positive on TCS, Infosys and HCL Technologies. In the very near term, we believe that Infosys has the potential to outperform if it delivers in line with our expectation and could bridge some of the valuation discount that it is currently trading at vis-à-vis TCS (see Exhibit 9)

TCV will be keenly watched for both TCS and Infosys - TCV converting into revenues would be key in a stressed macro situation: We would firstly caution that the total contract values (TCVs) indicated by TCS and Infosys are not strictly comparable to each other. Infosys' TCV is only for large deals (>US$50mn in value for new and renewals) whereas the TCV given by TCS is inclusive of deals of all sizes and is comparable to that of Accenture. We believe a TCV at least equal to that of 3QFY19 - ~US$1.5bn for Infosys would be required to keep the market happy (with a mix tilted towards new deals compared to renewals). This would be a growth of 66% plus on YoY basis and would cap a very strong year in terms of order inflow (9MFY19 YoY growth in large deal TCV of >100% with a good composition of new deals versus renewals). From our interactions with TCS, we sense that 4QFY18 was an extremely strong quarter from a TCV perspective (likely >US$7bn). We believe that only a similar such or a higher number would convince the street that TCS would be able to hit the double-digit CC growth that it aspires for. Around 200bps-250bps growth in FY19 has come from platform based large deals won in FY18 (see our recent note on TCS - Hints At Momentum For Double-digit Growth In FY20, But BFSI Is Flatlining) One of the key things to watch out for would be management commentary on ramp up of the large deals won. In the past stressed macro situations, customers had pulled back on execution of large contracts as they saw an impending pressure on their financials. Thus, having a healthy order book is good but a non-executable one is not helpful for vendors. So one should not draw a straight forward conclusion that a large TCV inflow will meaningful revenue growth pick up.

Compression in legacy contracts - largely undiscussed by the street – will have a bearing on growth: While there is a lot of emphasis on order inflow (TCV), the existing book of business is seeing attrition because of productivity gains in-built into contracts. These are required to be delivered by the vendor to the customers. On top of that, we have seen instances of vendors themselves cannibalising their revenue streams to keep a hold on their customers as new automation tools lead to significant efficiency gains. This is especially so in case of maintenance contracts in BPS, IMS, Testing and Application Maintenance. Growth for any particular year is a combination of growth of the existing book of business and addition of new business. The extent of compression in the existing book (which tends to be a larger component of revenues) would be a bigger determinant of growth than just TCV addition.

Commentary on BFSI- shifting across quarters, tending towards caution towards the end: We have been monitoring commentary on this sector across Accenture, TCS, Cognizant Technology Solutions and Infosys for the past several quarters as it constitutes a large portion of revenues for all four players. We believe some of the large banking and capital market-related players - who are likely among the top 10-20 clients of each of these companies - are likely seeing compression in outsourcing on a selective basis. Commentary on large banking and capital market clients by TCS and Infosys has shifted quite a bit across quarters. TCS, at the beginning of FY19, said that it had put weakness in the space behind while Infosys - despite a weak 1QFY19 - had given guidance of a better outlook for the rest of FY19. TCS, in recent interactions, has been indicating that there is uneven growth across this client base and attributed that to likely insourcing (the reason given by Infosys too at the beginning of FY19). Cognizant Technology Solutions has been the only player which has held out a uniformly cautious commentary on the space stating that select clients have not been growing and pulling down aggregate growth. It continues to maintain the commentary. Even the commentary of Accenture on this area has been tentative with indication that a pick-up could be delayed more than earlier anticipated. It is our view that flattening/inversion of the yield curve could exert pressure on net interest income for global banks and consequently put pressure on spending. This would be an important area to focus on.

Manufacturing - especially automobile and hi-tech - has been impacted and may see problems with trade wars and Chinese demand: Automobile sector globally has been facing a cyclical slowdown after multiple years of expansion exacerbated by rising interest rates, phenomenon of ride sharing, challenge to diesel vehicles, electrification, stress in European and Chinese economies, etc. Hi-tech manufacturing, especially of telecom equipment and semiconductors, in our view is likely facing pressure from the China slowdown. Manufacturing in the US (in general) is facing mild cost pressure because of the tariffs on Chinese goods imported into the US. It remains to be seen if any meaningful agreement can be achieved between the Chinese and the US governments. In recent days, there is discussion around a new tariff war between the EU and the US.

Margins would be key area of focus: Margins, in our view, would be determined by: **(1) Contract profitability** - We believe that large deals are extremely competitive and in many cases (unless they are sole sourced) are 'priced to win' with the vendors figuring out how to generate a margin in line with that of the company during the course of the contract. Some of the higher levels of profitability hinge on bringing in automation and process gains which the companies have to extract in future, and if they are not able to do so then contract profitability and overall margins may come under pressure. We believe that some of the strong order wins of Infosys in FY19 may fall in this category and therefore feel that it would give guidance of a 100bps dip in EBIT margin on YoY basis in the band of 21%-23%. We expect it to state that investments in sales and pivot to digital are largely behind it in FY19. (2) **Incremental infusion of automation and new software engineering tools** - With traditional levers of improving operating margin such as employee utilisation, onsite-offshore mix, employee pyramiding, etc largely exploited to the maximum, the key driver for margins going forward would be the employment of automation and software engineering tools to reduce human effort. These tools are both internal and external in nature. We would specifically stress on internal tools as they would be proprietary in nature and would be a source of competitive advantage. Machine First Delivery – a branded new delivery approach adopted by TCS indicates the lead that it has got in this respect. (3) **Sub-contracting costs** - While many companies have been working on higher level of localisation over the past few years and some like TCS have been focused on location-independent Agile delivery methodology, in the near term getting talent in developed markets is critical to fulfilling projects. This has been exacerbated by tougher H1-B visa norms in the US, not only for new visas but also in cases of extensions. That has forced companies like TCS, Infosys and others to lock in talent in customer markets by hiring local sub-contractors. This could be a source of some margin pressure going into FY20. (4) **potential compression in Digital services pricing:** Digital has been a source of firm pricing and better gross margins for most companies. This is due to lack of skilled resources and burgeoning demand. However in the kind of slowdown scenario we are anticipating and the significant ramp up in reskilling in newer technologies that companies embarked on in the last few years, we see pricing compression when demand growth slows and supply catches up. We have seen this situation multiple times in the past two decades.

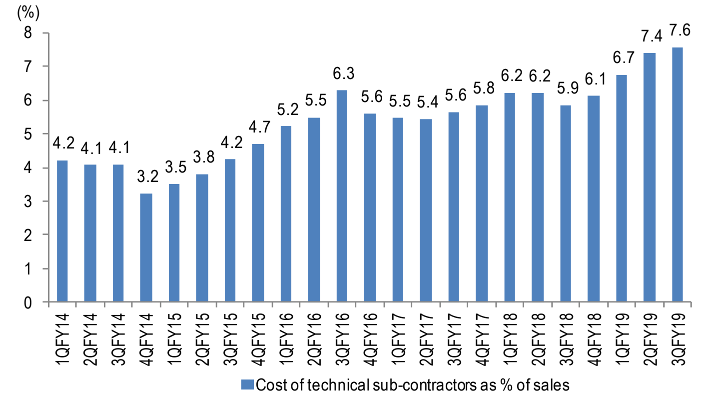
Indian rupee or INR depreciation helped a bit in 1HFY19 but is too tricky to call going forward: Ms.Teresa John, our economist, estimates that for the five-year period of FY14-FY19, Consumer Price Index inflation in India was just ~4.3% on an annual basis and that led to a modest INR depreciation of just ~2.8% on an annual basis during this period. The five-year period prior to that of the United Progressive Alliance 2 or UPA2, witnessed a CPI CAGR of ~10% and INR deprecation of ~5.5%. If the market's view that the National Democratic Alliance or NDA government comes back to power comes true, we see a low inflation and low INR depreciation environment over the next five-year timeframe - pretty similar to what one has seen in FY14-FY19. One of the reasons for the poor financial and market performance of the sector during the past five years - in our view – has been the lower help from INR depreciation. This situation can very well continue into the future, putting a lid on INR EPS growth.

Higher level of hiring (YoY), in our view, is a misleading data point: The YoY strong growth in hiring is basically a base-effect phenomenon. As can be seen in Exhibit 3 and 4, the net hiring through FY18 was one of the slowest in recent history as most companies focused on pushing up utilisation to protect margins. We believe that the companies had reached a point where they would be in no position to execute orders without a fresh bout of hiring, especially for companies like Infosys which has seen a heightened level of attrition.

Risks to our cautious view: The upside risks to our stock target prices include: (1) An economic cycle upturn than lasts longer than we currently anticipate. While we currently see a deceleration in growth in the US in 2019 vs. 2018, it remains to be seen if the US Federal Reserve and the US government can stimulate the economy to remain at ~2%-2.5% real GDP growth in 2020. (2) A higher-than-currently expected depreciation of the INR. (3) A sustained flight away from financials as inflation/interest rates move higher and stressed asset cycle elongates.

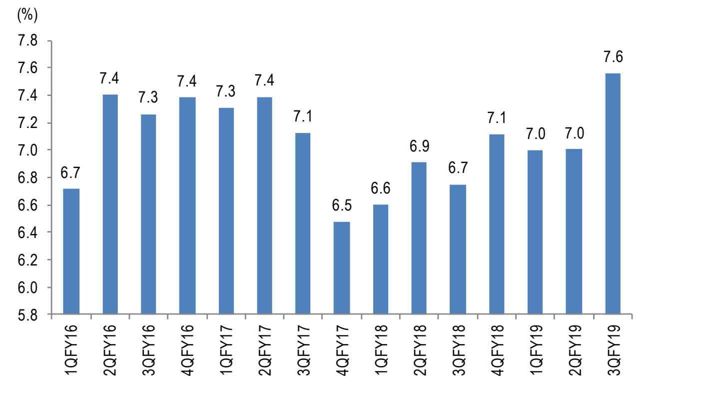
View on Indian IT services sector: We downgraded the Indian IT sector (see our report: Street Is Not Factoring Even A Soft Landing; We Downgrade) on 27 December 2018 based on: (1) Consensus not factoring in significantly softer growth in FY21 as the best demand environment since 2008-09 is largely behind 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 in 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 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 as the cash hoard is shrinking after two to three rounds of 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.

Exhibit 1: Sub-contractor charges pick up sharply in 3QFY19- Infosys



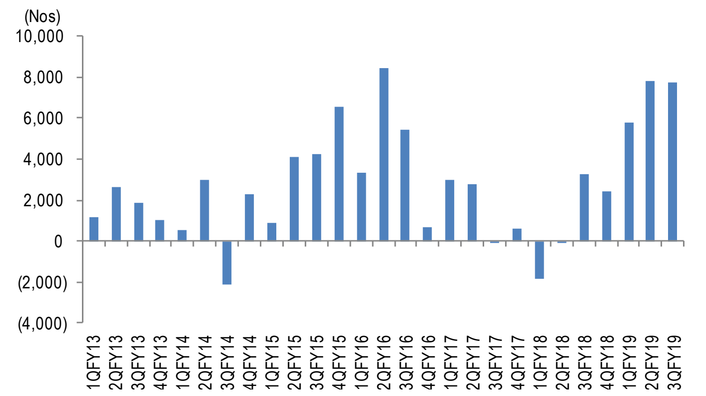
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Sub-contractor charges pick up sharply in 3QFY19- TCS



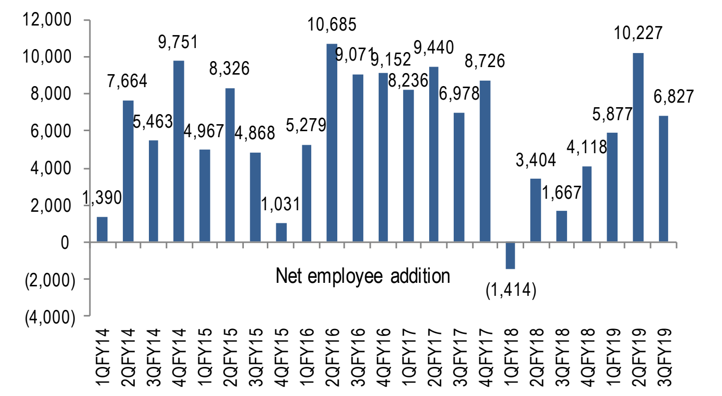
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3 Net employee addition has been strong in 3QFY19- Infosys



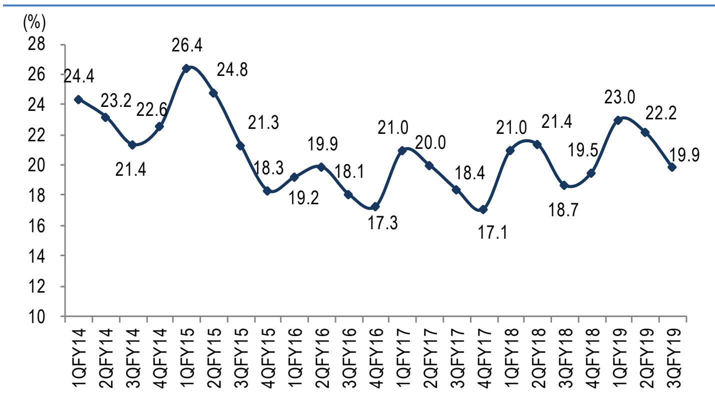
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Employee addition picks up on YoY basis-TCS



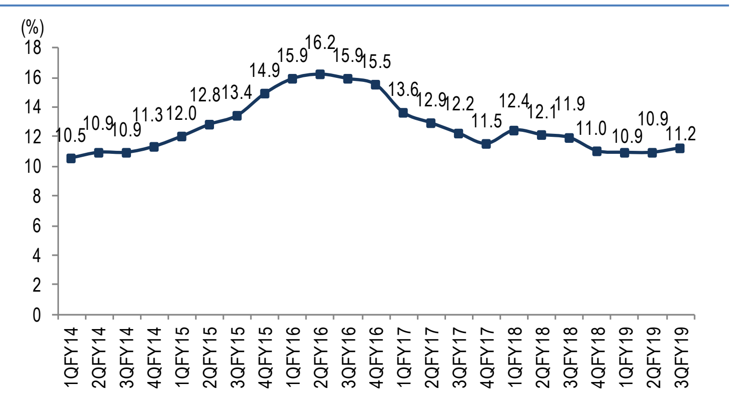
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Attrition rate declined by 2pps- Infosys



Source: Company, Nirmal Bang Institutional Equities Research

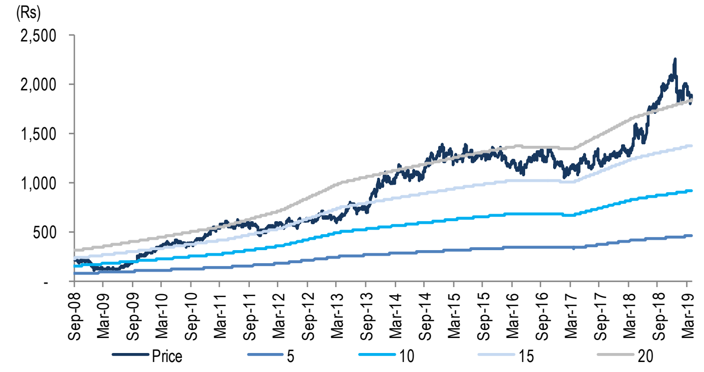
Exhibit 6: Attrition rate increasing, but still under control (%)- TCS

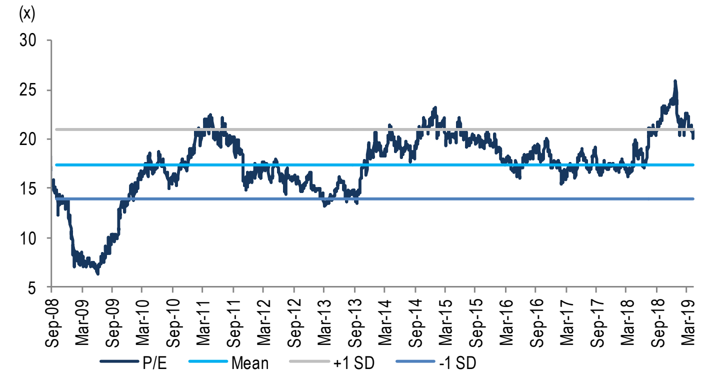


Source: Company, Nirmal Bang Institutional Equities Research

Valuation Chart

Exhibit 7: TCS P/E chart

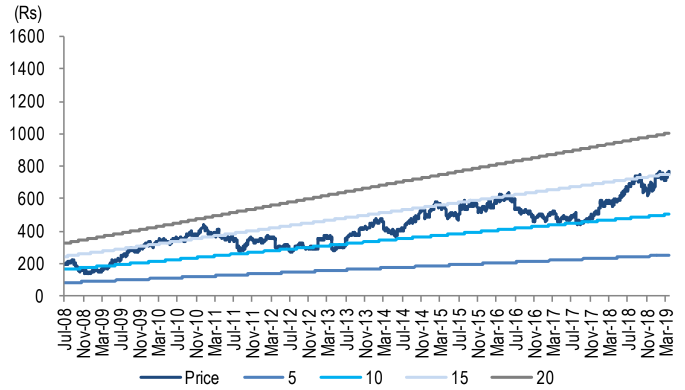


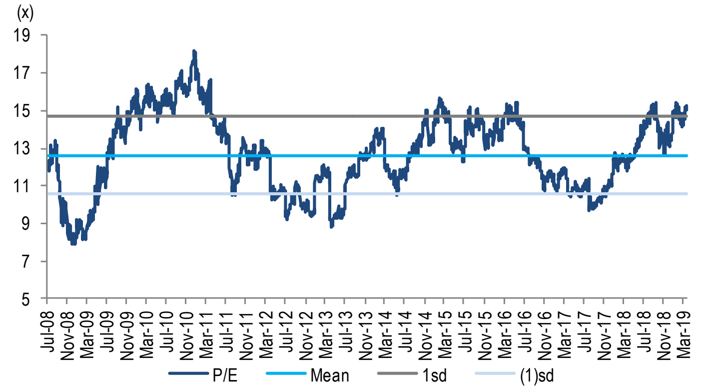


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Source: Bloomberg, Nirmal Bang Institutional Equities Research

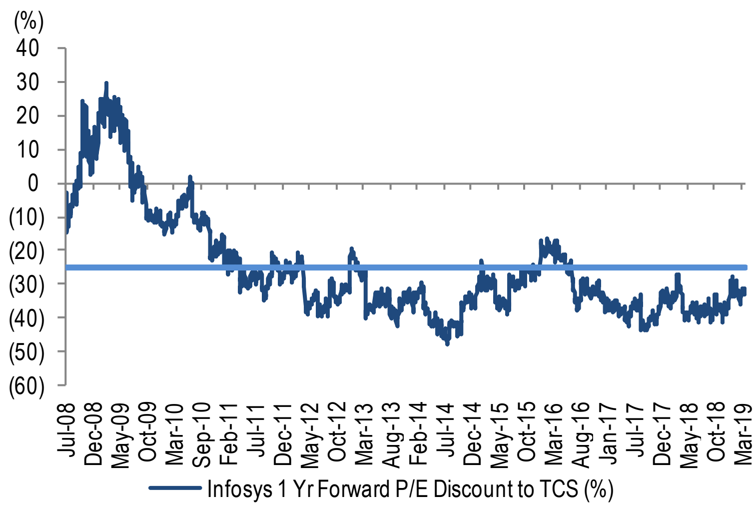
Exhibit 8: Infosys P/E chart





Source: Company,Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 9: TCS versus Infosys discount/premium



Source:,Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 10: Comparative valuations

	TCS	Infosys	Wipro	HCL Tech	Tech Mahindra	Mindtree	Persistent
Year ending	**March**	**March**	**March**	**March**	**March**	**March**	**March**
Prices as on 10 April 2019	**2,044**	**753**	**281**	**1,099**	**790**	**973**	**625**
Currency	**INR**	**INR**	**INR**	**INR**	**INR**	**INR**	**INR**
Market value (Rsbn)	7,824	3,272	1,389	1,494	697	161	50
(US$mn)	108,670	45,449	19,289	20,754	9,675	2,236	694
March 2020 target price (Rs)	1,607	620	209	1,076	587	554	489
Upside/(downside)	(21.4%)	(17.7%)	(25.7%)	(2.1%)	(25.7%)	(43.1%)	(21.7%)
Recommendation	Sell	Sell	Sell	Accumulate	Sell	Sell	Sell
FDEPS (Rs)							
FY18	67.0	32.5	16.8	62.9	42.8	34.7	40.4
FY19E	82.9	35.7	18.5	74.4	50.1	46.2	44.2
FY20E	92.0	39.5	17.8	83.4	56.2	54.2	57.2
FY21E	97.4	41.7	18.1	87.0	59.3	56.0	59.3
P/E (x)							
FY18	30.5	23.2	16.7	17.5	18.5	28.1	15.5
FY19E	24.6	21.1	15.2	14.8	15.8	21.0	14.1
FY20E	22.2	19.1	15.8	13.2	14.1	18.0	10.9
FY21E	21.0	18.0	15.5	12.6	13.3	17.4	10.5
EV/EBITDA (x)							
FY18	23.7	15.2	13.8	11.2	13.8	19.5	10.7
FY19E	19.2	14.4	11.2	9.2	9.8	13.6	8.7
FY20E	17.4	12.7	9.2	8.2	8.8	11.0	6.8
FY21E	16.8	12.0	8.8	7.7	8.3	10.3	6.1
EV/Sales (x)							
FY18	6.3	4.1	2.6	2.5	2.1	2.6	1.7
FY19E	5.3	3.7	2.2	2.1	1.8	2.1	1.5
FY20E	4.7	3.3	1.9	1.9	1.6	1.8	1.2
FY21E	4.5	3.1	1.8	1.8	1.5	1.7	1.1
Pre Tax ROIC (%)							
FY18	57.3	44.9	24.5	38.9	25.8	32.9	29.7
FY19E	61.7	47.9	29.2	37.3	36.3	47.6	41.4
FY20E	61.5	51.3	35.4	34.1	38.1	51.3	49.9
FY21E	61.1	50.2	35.8	30.1	38.7	53.2	53.5

Source: Company, Nirmal Bang Institutional Equities Research

Financials - Infosys

Exhibit 11: Income statement

Y/E March (Rsbn)	FY17	FY18	FY19E	FY20E	FY21E
Average INR/USD	**67.1**	**64.5**	**69.9**	**72.0**	**74.5**
Net Sales (USD mn)	**10,206**	**10,940**	**11,787**	**12,858**	**12,819**
-Growth (%)	***7.4***	***7.2***	***7.7***	***9.1***	***(0.3)***
Net Sales	**685**	**705**	**825**	**926**	**955**
-Growth (%)	*9.7*	*3.0*	*16.9*	*12.3*	*3.1*
Direct Costs	433	451	535	601	619
Gross Margin	252	254	289	325	336
% of sales	*36.8*	*36.0*	*35.1*	*35.1*	*35.2*
SG& A	83	82	99	111	115
% of sales	*12.2*	*11.7*	*11.9*	*12.0*	*12.0*
EBIT	169	171	191	214	222
% of sales	***24.7***	***24.3***	***23.2***	***23.1***	***23.2***
Other income (net)	31	32	30	19	25
PBT	200	204	216	233	246
-PBT margin (%)	*29.1*	*28.9*	*26.2*	*25.2*	*25.8*
Provision for tax	56	57	61	65	69
Effective tax rate (%)	*28.1*	*28.0*	*28.2*	*28.0*	*28.0*
Net profit (adjusted)	**144**	**147**	**155**	**168**	**177**
-Growth (%)	*6.4*	*2.3*	*5.8*	*8.1*	*5.6*
-Net profit margin (%)	*21.0*	*20.8*	*18.8*	*18.1*	*18.6*
Shares Outstanding (Basic)	4,594	4,347	4,348	4,244	4,244

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Cash flow

Y/E March (Rsbn)	FY17	FY18	FY19E	FY20E	FY21E
EBIT	169	171	191	214	222
(Inc.)/dec. in working capital	(19)	(46)	12	(18)	(3)
Cash flow from operations	150	126	203	196	219
Other Income	31	32	30	19	25
Depreciation & Amortisation	17	19	20	24	25
Financial Expenses	0	0	0	0	0
Tax Paid	(56)	(57)	(61)	(65)	(69)
Dividends Paid	(143)	(179)	(106)	(103)	(109)
Net Cash from Operations	**(1)**	**(59)**	**87**	**71**	**91**
Capital Expenditure	(26)	(3)	(49)	(38)	(41)
Net Cash after Capex	(26)	(63)	38	33	50
Inc./(Dec.) in Debt	-	-	-	-	-
(Inc.)/Dec. in Investments	(145)	43	(22)	0	0
Share Issue/(Share Buyback)		(130)	(83)	0	0
Cash from Financial Activities	(145)	(87)	(105)	0	0
Others	71	122	(88)	(1)	
Opening Cash	327	226	198	43	75
Closing Cash	226	198	43	75	125
Change in Cash	(101)	(28)	(155)	32	50

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Balance sheet

Y/E March (Rsbn)	FY17	FY18	FY19E	FY20E	FY21E
Equity capital	11.4	10.9	21.8	21.2	21.2
Reserves & surplus	678	638	511	575	644
Net worth	690	649	532	596	665
Deferred tax liability	2	5	5	5	5
Other liabilities	2	3	4	4	4
Total loans					
Total liabilities and Equity	**693**	**658**	**542**	**606**	**675**
Goodwill	37	22	36	36	36
Other intangible assets	8	2	8	8	8
Net block	117	121	131	145	161
Investments	164	122	144	144	144
Deferred tax asset - net	5	13	12	12	12
Other non-current assets	65	82	81	88	89
Unbilled revenue	36	43	48	53	54
Derivative financial instrument	3	0	4	4	4
Other current assets	49	64	55	62	62
Income tax assets-current	-	-	-	-	-
Debtors	123	131	148	164	166
Cash & bank balance	226	198	43	75	125
Total current assets	437	436	298	358	412
Total current liabilities	140	141	167	184	187
Net current assets	297	295	131	174	225
Total assets	**693**	**658**	**542**	**606**	**675**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Key ratios

Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Per Share (Rs)					
EPS	31.2	32.5	35.7	39.6	41.8
FDEPS	31.2	32.5	35.7	39.5	41.7
Dividend Per Share	25.8	33.5	20.2	20.2	21.3
Dividend Yield (%)	3.4	4.5	2.7	2.7	2.8
Book Value	150	149	122	141	157
Dividend Payout Ratio (excl DT)	99.3	122.1	68.1	61.5	61.5
Return ratios (%)					
RoE	22.0	21.9	26.3	29.7	28.1
RoCE	30.5	30.5	36.6	41.3	39.1
ROIC	51.1	44.9	47.9	51.3	50.2
Tunover Ratios					
Asset Turnover Ratio	0.8	0.9	1.2	1.2	1.1
Debtor Days (incl. unbilled Rev)	84	89	85	84	83
Working Capital Cycle Days	37	49	38	38	38
Valuation ratios (x)					
PER	24.1	23.2	21.1	19.1	18.0
P/BV	5.0	5.0	6.1	5.4	4.8
EV/EBTDA	16.4	16.2	15.3	13.4	12.8
EV/Sales	4.4	4.4	3.9	3.5	3.3
M-cap/Sales	4.8	4.6	4.0	3.5	3.4

Source: Company, Nirmal Bang Institutional Equities Research

Financials - TCS

Exhibit 15: Income statement

(YE March)	FY17	FY18	FY19E	FY20E	FY21E
Average INR/USD	**67.1**	**64.5**	**70.0**	**72.0**	**74.5**
Net Sales (USD mn)	**17,575**	**19,089**	**20,871**	**22,673**	**22,847**
-Growth (%)	***6.2***	***8.6***	***9.3***	***8.6***	***0.8***
Net Sales	**1,180**	**1,231**	**1,459**	**1,633**	**1,702**
-Growth (%)	*8.6*	*4.4*	*18.5*	*11.9*	*4.3*
Cost of Sales & Services	669	713	848	950	998
Gross Margin	511	518	612	682	704
% of sales	*43.3*	*42.1*	*41.9*	*41.8*	*41.3*
SG& A	208	213	236	260	265
% of sales	*17.6*	*17.3*	*16.1*	*15.9*	*15.6*
EBIT	303	305	376	423	438
EBIT Margin (%)	***25.7***	***24.8***	***25.8***	***25.9***	***25.7***
Other income (net)	42	36	39	35	47
PBT	345	341	416	458	485
-PBT margin (%)	29.3	27.7	28.5	28.1	28.5
Provision for tax	82	82	101	112	119
Effective tax rate (%)	*23.6*	*24.1*	*24.2*	*24.5*	*24.5*
Minority Interest	1	1	1	1	1
Net profit	**263**	**258**	**314**	**345**	**365**
-Growth (%)	***8.6***	***-1.8***	***21.6***	***9.9***	***5.9***
-Net profit margin (%)	***22.3***	***21.0***	***21.5***	***21.1***	***21.5***
Average Shares outstanding- Basic	3,941	3,829	3,790	3,752	3,752

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Cash flow

Y/E March (Rsbn)	FY17	FY18	FY19E	FY20E	FY21E
EBIT	**303**	**305**	**376**	**423**	**438**
(Inc.)/dec. in working capital	6	(20)	(77)	(36)	(10)
Cash flow from operations	**309**	**285**	**299**	**387**	**429**
Other income	42	36	39	35	
Depreciation & amortisation	20	20	25	20	20
Financial expenses	-	-	-	-	-
Tax paid	(82)	(82)	(101)	(112)	(119)
Dividends paid	(112)	(116)	(133)	(150)	(158)
Net cash from operations	**178**	**143**	**130**	**180**	**172**
Capital expenditure	(19)	(19)	(23)	(21)	(21)
Net cash after capex	159	124	107	160	151
Inc./(dec.) in debt	0	(0)	(2)	-	-
(Inc.)/dec. in investments	(192)	60	59	-	-
Equity issue/(Share Buyback)	-	(160)	(160)	-	-
Cash from financial activities	**(191)**	**(101)**	**(103)**	**-**	**-**
Others	5	5	(39)	(1)	46
Opening cash	67	40	69	35	194
Closing cash	40	69	35	194	391
Change in cash	(28)	29	(35)	159	197

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Balance sheet

Y/E March (Rsbn)	FY17	FY18	FY19E	FY20E	FY21E
Equity capital	2.0	1.9	3.8	3.8	3.8
Reserves & surplus	885	875	857	1,052	1,260
Net worth	887	876	860	1,056	1,264
Minority Interest	-	-	-	-	-
Other liabilities	21	29	30	34	34
Total loans	3	2	1	1	1
Total liabilities	**911**	**908**	**891**	**1,090**	**1,299**
Goodwill	38	39	40	40	40
Net block (incl. CWIP)	117	116	114	115	116
Investments	3	3	6	6	6
Deferred tax asset - net	28	34	30	34	34
Other non-current assets	62	76	65	70	71
Other current assets	485	427	465	472	474
Debtors	280	320	349	390	401
Cash & bank balance	36	49	52	52	52
Bank deposits	4	21	(18)	141	339
Total current assets	805	815	849	1,056	1,266
Total current liabilities	143	176	212	229	234
Net current assets	662	639	637	827	1,033
Total assets	**911**	**908**	**891**	**1,090**	**1,299**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Key ratios

Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Per Share (Rs)					
EPS	66.7	67.0	82.9	92.0	97.4
FDEPS	66.7	67.0	82.9	92.0	97.4
Dividend Per Share	23.5	25.1	29.1	33.1	34.9
Dividend Yield (%)	1.2	1.2	1.4	1.6	1.7
Book Value	231.6	228.9	224.7	275.8	330.1
Dividend Payout Ratio (excl DT)	42.4	37.2	35.1	36.0	35.8
Return ratios (%)					
RoE	32.4	29.3	36.2	36.0	31.5
RoCE	33.7	30.7	37.2	37.9	33.1
Pre Tax ROIC (%)	60.8	57.3	61.7	61.5	61.1
Tunover Ratios					
Asset Turnover Ratio	1.1	1.1	1.3	1.2	1.1
Debtor Days (incl. unbilled Rev)	87	95	87	87	86
Working Capital Cycle Days	64	63	77	75	74
Valuation ratios (x)					
PER	30.6	30.4	24.6	22.2	21.0
P/BV	8.8	8.9	9.1	7.4	6.2
EV/EBTDA	24.1	23.9	19.3	17.5	16.9
EV/Sales	6.6	6.3	5.3	4.8	4.6
M-cap/Sales	6.6	6.3	5.4	4.8	4.6

Source: Company, Nirmal Bang Institutional Equities Research

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