

Mindtree

18 April 2019

Reuters: MINT.BO; Bloomberg: MTCL IN

Sharp Growth Deceleration In FY20 Not Factored In The Price

Mindtree's (MTCL) has given guidance of a sharp deceleration in revenue growth from 18% in US dollar in FY19 to a low-teen level in FY20. This may lead to a downward revision by part of the street which was expecting a mid-teen kind of number (we had been in the high single-digit camp). MTCL also indicated a 100bps-120bps improvement in EBITDA margin driven by tightening of operations (delivery mix, employee utilisation, employee pyramid, better pricing in digital, etc). The margin uptick, we believe, is broadly expected by the street but would be under the scanner as sharp INR depreciation-related benefits seen in FY19 are likely to be absent in FY20. Despite having the largest exposure to digital (~50% of revenues), which supposedly has better pricing/margins, we see a big gap (~10 percentage points) in EBIT margin between MTCL and Tier-1 players like TCS and Infosys who have a lower exposure (~35%). This could mean either or both of the following: (1) MTCL's digital services margins, despite being higher than its legacy services, are significantly lower than those of Tier-1 peers. (2) Significantly lower margin in RTB services. Part of low margin situation can be explained by the short-term, project-based, low-ticket business in digital that it likely does which requires higher SG&A compared with the likely higher level of core transformation-related digital work being done by TCS/Infosys. This brings out the structural weakness in digital and automation skills that we had highlighted in the past ([Market Is Giving It The Benefit Of Doubt](#)). With a higher proportion of run-the-business work that it does in BFSI (this vertical accounts for ~22% of revenues) where it is facing pressure from clients to deliver annual efficiency improvement, we believe it has come up short on automation skills. In a potential subdued market environment that we foresee in FY21, we believe advanced automation skills are highly critical to hold on to the existing book of business profitably, let alone attracting a new one. This, in our view, places the company at a high risk of disappointing the street on growth going into FY21, which we expect to be a no-growth year for the industry. Post 4QFY19, our estimates remain broadly the same for FY20/FY21. We retain our Sell rating on the stock with a target price of Rs563 (at a target P/E of 9.9x FY21E EPS). The target P/E is at a 40% discount to TCS' target P/E multiple. The large discount is because of: (1) Lack of adequate differentiation. (2) Vendor consolidation risk. (3) Less-than-adequate digital and automation capabilities. (4) Unhealthy reliance on its top account for growth.

Decent 4QFY19 performance: MTCL's 3.9% constant-currency (CC) revenue growth QoQ in 4QFY19 was above our estimate of 2.6%. Growth was broad-based and was driven by Hitech-Media and BFSI verticals. EBIT margin stood at 12.9% (down 70bps QoQ) against our estimate of 14.2%. Part of this was because of higher sub-contractor costs (up 60bps QoQ at 8% of sales). All segments witnessed EBITDA margin weakness, while BFSI segment saw it improve from the low of 2.6% registered in 3QFY19.

The L&T hostile takeover bid has not had any impact on its business yet: On the unsolicited bid by L&T, management was of the view that it has neither affected customers, order inflow, business execution nor led to material increase in attrition at the employee level. MTCL was of the view that the management is entirely focused on executing its growth plan without being distracted by the events. MTCL, however, did not indicate what impact the takeover would have in the future and said any impact (either positive or negative) is not in the current guidance and stated that it would update investors on the same if there is anything material. Our take on L&T's bid to take over MTCL is in this note: [Puzzling One-sided Love](#).

Weak new deal inflow could mean trouble going forward: We had stated in the past, based on the data on order inflow and the mix between new and renewal deals, that growth could be weaker than what the street was anticipating – and it has turned out to be true. TTM new deal win number is lower than the peak and the TTM total order inflow has been flat for several quarters. Unless some large new deals are won, which convert quickly to revenues, expectation of the street of teen-level growth in FY20 and FY21 is at risk.

SELL

Sector: Information Technology

CMP: Rs972

Target price: Rs563

Downside: 42%

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Key Data

Current Shares O/S (mn)	164.2
Mkt Cap (Rsbn/US\$bn)	159.7/2.3
52 Wk H / L (Rs)	1184/752
Daily Vol. (3M NSE Avg.)	1911376

Price Performance (%)

	1 M	6 M	1 Yr
Mindtree	1.0	(0.6)	12.4
Nifty Index	3.2	12.8	11.7

Source: Bloomberg

Y/E March (Rsmn)	4QFY18	3QFY19	4QFY19	YoY (%)	QoQ (%)	4QFY19E	Deviation (%)
Net Sales (US\$mn)	226	252	262	15.8	4.2	258	1.5
Net Sales	14,640	17,872	18,394	25.6	2.9	18,202	1.1
Staff Cost	9,301	11,142	11,504	23.7	3.2	11,473	0.3
% of Sales	63.5	62.3	62.5	-	-	63.0	-
Other Expenses	2,984	3,897	4,087	37.0	4.9	3,731	9.5
% of Sales	20.4	21.8	22.2	-	-	20.5	-
EBIT	1,972	2,423	2,375	20.4	(2.0)	2,576	(7.8)
EBIT Margin (%)	13.5	13.6	12.9	-	-	14.2	-
Other Income, Net	591	(200)	290	(50.9)	(245.0)	349	(16.9)
Forex Gain/(Losses)	-	-	-	-	-	-	-
PBT	2,505	2,223	2,665	6.4	19.9	2,904	(8.2)
Provision for Tax	683	311	681	(0.3)	119.0	799	(14.7)
Effective Tax Rate	27.3	14.0	25.6	-	-	27.5	-
PAT (Reported)	1,822	1,912	1,984	8.9	3.8	2,105	(5.8)
NPM (%)	12.4	10.7	10.8	-	-	11.6	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Revenue (Rsmn)	52,364	54,628	70,215	79,371	80,803
YoY Growth (%)	11.8	4.3	28.5	13.0	1.8
EBIT (Rsmn)	5,327	5,692	9,004	11,114	11,172
as % of sales	10.2	10.4	12.8	14.0	13.8
Adj. PAT (Rsmn)	4,159	5,701	7,541	8,815	9,372
YoY Growth (%)	(29.5)	37.1	32.3	16.9	6.3
FDEPS (Rs)	25.3	34.6	45.8	53.5	56.9
RoE (%)	16.7	21.4	24.9	24.6	22.6
RoCE (%)	21.8	21.7	31.5	33.5	28.8
Pre Tax ROIC (%)	27.8	32.9	46.4	49.2	49.1
P/E(x)	39.1	28.3	21.2	18.2	17.1
P/BV (x)	6.2	5.8	4.8	4.2	3.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
INR/USD	69.9	72.0	74.5	70.0	72.0	74.5	(0.2)	-	-
USD Revenue (USD mn)	1,001	1,102	1,085	997	1,083	1,066	0.4	1.8	1.8
Revenue (Rsmn)	70,215	79,371	80,803	69,876	77,975	79,378	0.5	1.8	1.8
EBIT (Rsmn)	9,004	11,114	11,172	9,126	10,981	11,062	(1.3)	1.2	1.0
EBIT Margin (%)	12.8	14.0	13.8	13.1	14.1	13.9	-	-	-
PAT (Rsmn)	7,541	8,815	9,372	7,605	8,906	9,201	(0.8)	(1.0)	1.9
EPS (Rs)	45.8	53.5	56.9	46.2	54.2	56.0	(1.0)	(1.2)	1.7

Source: Company, Nirmal Bang Institutional Equities Research

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 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 recalibrate 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 3: Vertical-based QoQ and YoY USD revenue growth in 4QFY19

Vertical	Contribution to Revenues (%)	Growth-QoQ(%)	Growth-YoY(%)
Hi-Tech & Media Services	39.6	4.7	22.0
BFSI	21.8	4.7	12.2
Retail, CPG & Manufacturing	22.2	3.7	7.1
Travel & Hospitality	16.4	2.3	19.5
Total	100.00	4.1	15.8

Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Geography-based QoQ and YoY USD revenue growth in 4QFY19

Geographies	Contribution to Revenues (%)	Growth-QoQ(%)	Growth-YoY(%)
US	73.6	4.5	20.1
Europe	18.5	3.1	1.6
India	3.7	7.1	33.9
ROW	4.2	4.2	3.5
Total	100.0	4.1	15.8

Source: Nirmal Bang Institutional Equities Research

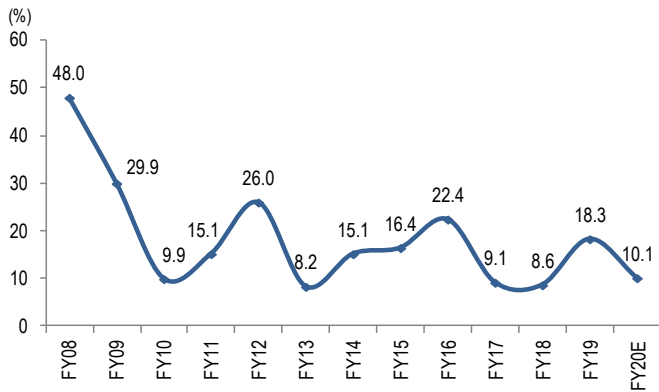
4QFY19 conference-call highlights

- Revenue growth analysis:** IT services USD revenue grew by 4.2% QoQ which was driven 5.6% expansion in volume and about 1.1% decline in realisation. As can be seen in Exhibits 3 & 4 above, growth was broad-based - both across verticals and geographies. Even BFSI growth picked up in 4Q. On YoY basis, in FY19, while the company grew 18.2% YoY in USD terms, Travel and Hospitality grew 28%, Hitech-Media vertical grew 24% (with partly driven by its top client) while BFSI underperformed with a growth of just 7.4%.
- Weak BFSI vertical reflects poor automation skills and client mix:** BFSI EBITDA margin, which improved a tad QoQ, is very low and optically forms a low hanging fruit for MTCL to drive up EBITDA margin going forward. The problems have arisen because of a top insurance client dropping out of the 'top-10' list and also run-the-business efficiency expectations from its remaining clients. MTCL is positive on FY20 as it says incremental work is coming from digital. We believe the BFSI vertical exposure for MTCL is more on the insurance side and in mid-tier banks and not necessarily the larger banking entities that Tier-1 Indian companies work with. This can be read as both positive and negative. That it is not in the consideration set of demanding BFS clients is a negative. However, the fact that it is insulated from competitive pressure of the incumbent vendors is a positive.
- Digital Break up from FY20 likely:** Digital services business which forms ~50% of MTCL's revenue grew by 32% in FY19. MTCL has indicated that it would give more granular information from 1QFY20 onwards and break up the digital services into three (1) Interactive (which involves front end facing services), (2) data sciences and (3) Cloud services.
- Although better, new client addition still less:** While the management has time and again stressed on its pursuit towards revenue diversification, the dependence on a top client has been a structural problem in the business model of MTCL. The company indicated that it occupies a small wallet share of its top account and there is plenty of head room for growth. The continued growth in the account will be driven by high-quality delivery and deep client relationships (which is reflected in the highest CSAT score from this account). The traction has not yet come from the top 2-5 and top 6-10 client buckets. The top client accounted for ~20% of revenues in FY19. There is no new addition in the top US\$25mn to US\$100mn client bucket. Most of the addition has been in the lower rung of US\$1mn.
- Sub-contracting may not be margin lever in the immediate term:** Just like other players in the market, MTCL has also been using sub-contractors to meet demand. However, it is of the view that this number (8% of revenues in 4QFY19) is unlikely to go down materially in the near term, although in the long term the intention is to replace these with employees of Mindtree.

Other key conference-call highlights

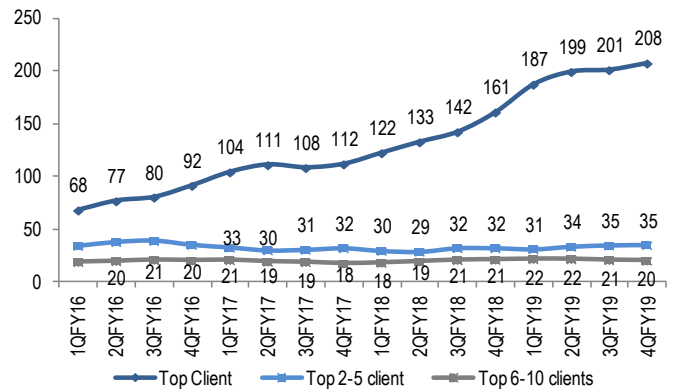
- **Deal win:** MTCL won deals worth US\$242mn, of which renewal deals stood at US\$158mn and new deals at US\$84mn. Digital accounted for US\$126mn of total deal value. The TTM deal value has been flat since several quarters and could impact growth going forward. The reduction in growth rate from 18% CC growth to low-teen growth in FY20 is likely one signal. But even the lowered growth looks difficult under the muted TTM deal TCX unless the company is able to grab enough time and material contracts which do not form a part of this TCX list.
- **Headcount addition:** The headcount addition in FY19 has been along expected lines and had been indicated at the beginning of the year. The difficulty in getting H1-B visas in the US and also the higher rejection rate even in extensions has forced Indian companies to go for higher level of sub-contractors. MTCL's financials also reflect the same with the sub-contractor costs moving up quite sharply in recent quarters.
- **Attrition and DSO data:** MTCL's LTM attrition rate increased to 14.2% in 4QFY19 from 13.4% in 3QFY19. The management does not believe that there is anything untoward and feels that it is broadly under control.
- **BOT addition:** MTCL has started to report the number of BOTs used in the company as a new metric since 1QFY19 and it seems the company is pursuing it quite aggressively. The number of BOTs used during the quarter stood at 576, ~11% increase from 3QFY19.
- **Changes in Lease accounting will have a positive impact on EBITDA margin but be neutral on EBIT margin:** Starting 1QFY20, MTCL indicated that it would change the way it accounted for leases of properties that is occupying. This would lead a positive impact on EBITDA margin by 150bps. However at the EBIT level it was indicated that the impact would be neutral and at the PAT level the impact could be tad negative by as much as 20-30bps.
- The effective tax rate for FY19 has landed up at 23%, mainly on account of the one-time benefit realised pursuant to the NCLT order on the merger of Magnet 360. It was indicated that ETR would be in the ~27%-28% band in FY20.
- The company's board has declared an interim dividend of 30% (Rs3 per equity share having a par value Rs10). It has also recommended a final dividend of 40% (Rs4) for the financial year ended 31 March 2019 and a special dividend of 200% (Rs20/share) to celebrate the twin achievements of exceeding US\$1bn annual revenue milestone and the 20th anniversary of the company. The final dividend and the special dividend are subject to the approval of shareholders which will happen at the AGM likely slated in June/July 2019.
- The company opened a reimagination center in Silicon Valley in San Jose and also an Innovation center for Salesforce in Minneapolis, US. These are to drive collaboration related work with clients and follows a number of such facilities that have been opened by its peers over the last 5 years.

Exhibit 5: YoY revenue growth (USD terms)



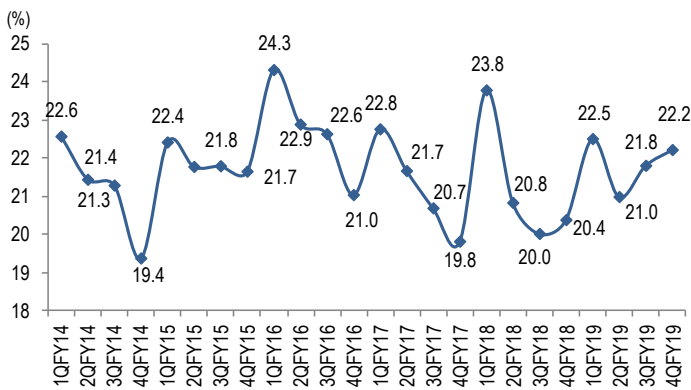
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Top client continues to be a big driver of growth (annualised revenue run-rate in US\$mn)



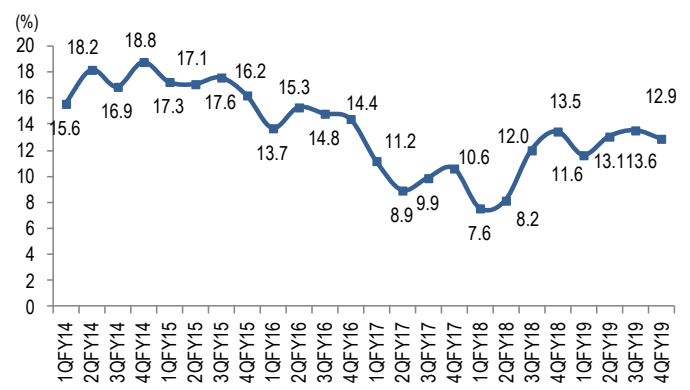
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: SG&A expenses increase in 4QFY19 (% of sales)



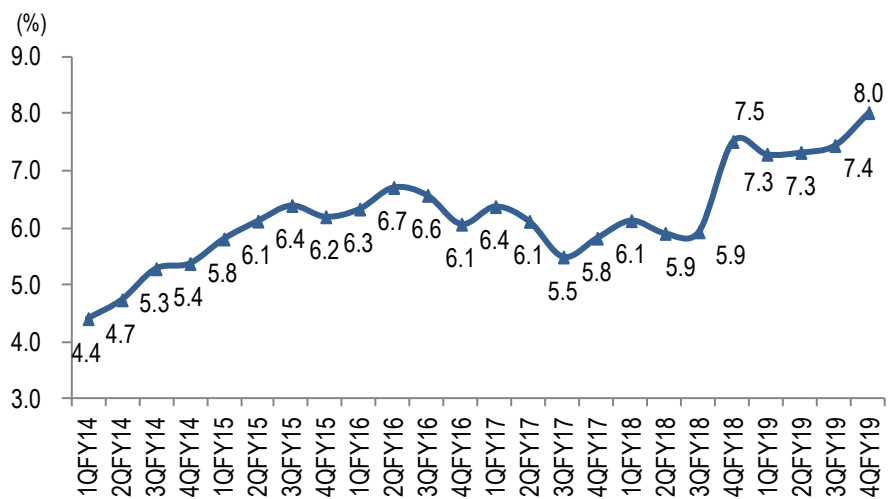
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: EBIT margin had dipped on the back of higher sub-contractor costs and higher SG&A expenses



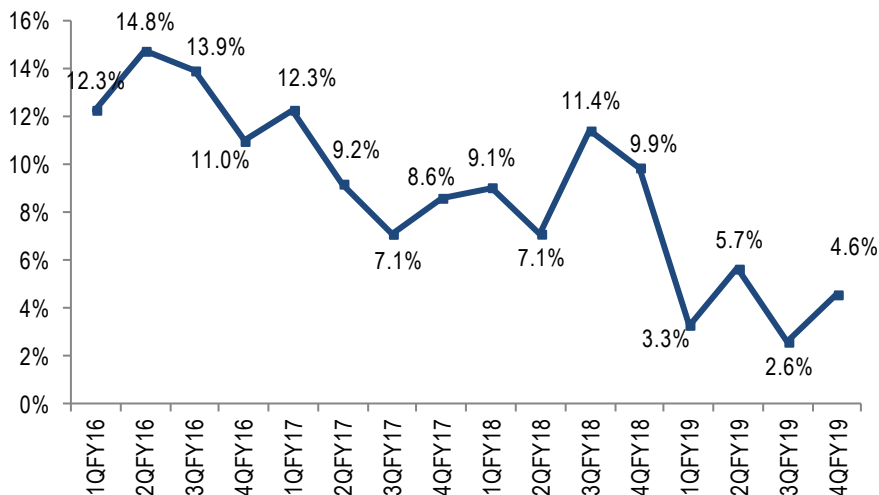
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Sub-contractor expenses (as % a percentage of sales) at all-time peak



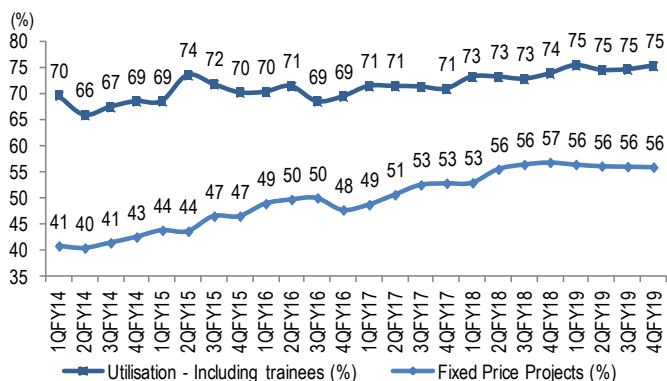
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: BFSI segment EBITDA margin improves a tad but still remains low



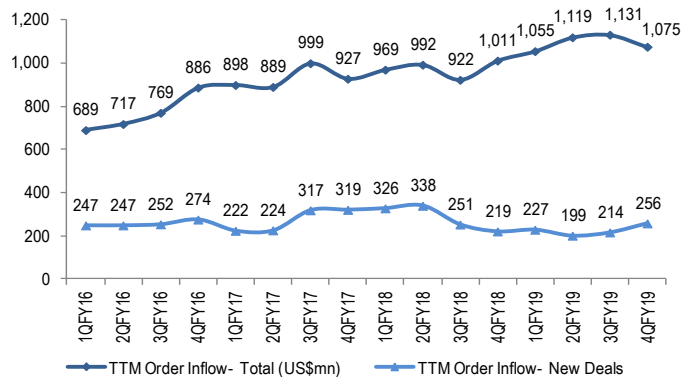
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Employee utilisation rate remains flat



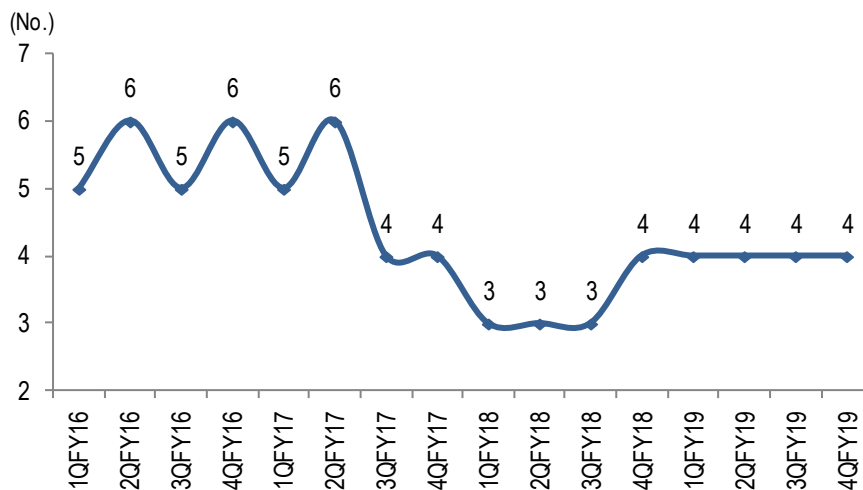
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: TTM Order inflow remains flat which could impact growth in FY20



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Clients topping US\$25mn in revenues increased in 4QFY18 but remain flat in 4QFY19



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Quarterly snapshot

Year to 31 March (Rsmn)	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
INR/USD	62.1	63.5	64.9	65.9	67.7	66.7	67.1	67.4	67.4	64.4	64.6	64.3	64.7	67.9	70.6	71.1	70.2
USD Revenue (USD mn)	147.8	154.9	179.7	184.4	195.6	199.0	193.0	192.2	195.6	200.1	206.2	214.3	226.2	241.5	246.4	251.5	262.0
INR Revenue	9,181	9,775	11,657	12,145	13,242	13,276	12,954	12,953	13,181	12,895	13,316	13,777	14,640	16,395	17,554	17,872	18,394
Gross Margin	3,774	4,052	4,863	4,896	5,045	4,977	4,428	4,420	4,481	4,502	4,315	4,831	5,339	6,000	6,383	6,730	6,890
EBITDA	1,786	1,675	2,195	2,147	2,259	1,955	1,621	1,740	1,869	1,435	1,541	2,073	2,355	2,310	2,699	2,833	2,803
Depreciation	295	334	409	345	348	468	463	459	468	459	454	416	383	400	403	410	428
Other Expenses	1,988	2,377	2,668	2,749	2,786	3,022	2,807	2,680	2,612	3,067	2,774	2,758	2,984	3,690	3,684	3,897	4,087
EBIT	1,491	1,341	1,786	1,802	1,911	1,487	1,158	1,281	1,401	976	1,087	1,657	1,972	1,910	2,296	2,423	2,375
Other income (net)	174	384	232	147	94	194	170	144	(95)	654	598	57	591	279	524	(200)	290
Interest expense	-	9	45	-	1	51	47	46	47	40	25	46	58	28	1	-	-
PBT	1,665	1,716	1,973	1,949	2,004	1,630	1,281	1,379	1,259	1,590	1,660	1,668	2,505	2,161	2,819	2,223	2,665
Tax	378	394	465	440	444	422	333	348	287	373	413	253	683	579	756	311	681
PAT	1,287	1,322	1,508	1,509	1,560	1,208	948	1,031	972	1,217	1,247	1,415	1,822	1,582	2,063	1,912	1,984
YoY Growth (%)																	
USD Revenue	11.3	9.6	22.2	24.8	32.3	28.5	7.4	4.2	-	0.6	6.8	11.5	15.6	20.7	19.5	17.4	15.8
INR Revenue	11.5	15.9	31.2	33.2	44.2	35.8	11.1	6.7	(0.5)	(2.9)	2.8	6.4	11.1	27.1	31.8	29.7	25.6
Gross Profit	12.1	13.3	31.8	27.1	33.7	22.8	(8.9)	(9.7)	(11.2)	(9.5)	(2.6)	9.3	19.1	33.3	47.9	39.3	29.1
EBIT	(3.7)	(8.0)	17.5	12.2	28.2	10.9	(35.2)	(28.9)	(26.7)	(34.4)	(6.1)	29.4	40.8	95.7	111.2	46.2	20.4
Net Profit	30.8	2.2	9.8	7.2	21.2	(8.6)	(37.1)	(31.7)	(37.7)	0.7	31.5	37.2	87.4	30.0	65.4	35.1	8.9
QoQ growth (%)																	
USD Revenue	0.1	4.8	16.0	2.6	6.1	1.7	(3.0)	(0.4)	1.8	2.3	3.0	3.9	5.6	6.8	2.0	2.1	4.2
INR Revenue	0.7	6.5	19.3	4.2	9.0	0.3	(2.4)	-	1.8	(2.2)	3.3	3.5	6.3	12.0	7.1	1.8	2.9
EBIT	(7.2)	(10.1)	33.2	0.9	6.0	(22.2)	(22.1)	10.6	9.4	(30.3)	11.4	52.4	19.0	(3.1)	20.2	5.5	(2.0)
Net Profit	(8.6)	2.7	14.1	0.1	3.4	(22.6)	(21.5)	8.8	(5.7)	25.2	2.5	13.5	28.8	(13.2)	30.4	(7.3)	3.8
Margins (%)																	
Gross Margin	41.1	41.5	41.7	40.3	38.1	37.5	34.2	34.1	34.0	34.9	32.4	35.1	36.5	36.6	36.4	37.7	37.5
EBITDA Margin	19.5	17.1	18.8	17.7	17.1	14.7	12.5	13.4	14.2	11.1	11.6	15.0	16.1	14.1	15.4	15.9	15.2
EBIT	16.2	13.7	15.3	14.8	14.4	11.2	8.9	9.9	10.6	7.6	8.2	12.0	13.5	11.6	13.1	13.6	12.9
PAT	14.0	13.5	12.9	12.4	11.8	9.1	7.3	8.0	7.4	9.4	9.4	10.3	12.4	9.6	11.8	10.7	10.8
SGA	21.7	24.3	22.9	22.6	21.0	22.8	21.7	20.7	19.8	23.8	20.8	20.0	20.4	22.5	21.0	21.8	22.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Key metrics

Key Metrics	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
P and L (Rsmn)													
Revenue	13,242	13,276	12,954	12,953	13,181	12,895	13,316	13,777	14,640	16,395	17,554	17,872	18,394
EBITDA	2,259	1,955	1,621	1,740	1,869	1,435	1,541	2,073	2,355	2,310	2,699	2,833	2,803
PAT	1,560	1,208	948	1,031	972	1,217	1,247	1,415	1,822	1,582	2,063	1,912	1,984
Vertical Mix (%)													
Hi-Tech & Media Services	31.4	36.1	36.7	36.7	37.5	37.9	37.8	36.6	37.6	38.9	39.3	39.4	39.6
BFSI	23.2	24.9	24.7	24.1	24.7	25.1	24.8	24.8	22.5	22.3	22.4	21.7	21.8
Retail, CPG & Manufacturing	18.2	24.1	24.2	24.1	23.0	22.7	22.9	23.3	24.0	23.1	21.7	22.3	22.2
Travel & Hospitality	16.1	15.0	14.4	15.1	14.9	14.3	14.5	15.3	15.9	15.8	16.7	16.7	16.4
Others	11.1	NA	NA	NA	NA	NA	0.0	0.0	0.0	0.0	-	0.0	0.0
Horizontal Mix (%)													
Development	23.0	22.7	22.0	22.3	21.4	22.6	23.1	24.5	25.5	50.7	0.0	0.0	0.0
Engineering	9.8	9.8	9.8	9.5	9.5	9.6	9.2	9.1	9.1	0.0	0.0	0.0	0.0
Maintenance	18.0	17.3	17.8	17.6	18.3	19.0	17.7	16.6	15.7	-	50.8	50.7	51.9
Consulting	4.0	4.1	3.8	3.9	4.0	3.4	4.0	4.0	3.9	3.4	3.1	3.2	3.3
Package Implementation	13.7	13.9	13.1	12.4	12.6	11.5	11.2	11.3	11.2	10.6	8.8	9.0	8.1
IP Led Revenue	1.3	1.0	1.2	1.4	1.3	1.1	1.0	0.9	0.9	0.6	0.8	0.8	1.1
Independent Testing	12.7	12.8	12.4	12.6	12.5	11.8	12.1	12.6	12.7	13.1	13.1	12.8	12.3
Infrastructure Management & Tech Support	17.4	18.4	19.9	20.3	20.4	21.0	21.8	21.1	21.0	21.6	23.4	23.4	23.3
Geography Mix (%)													
US	65.9	66.7	67.6	68.7	69.8	69.6	67.5	69.7	71.0	72.7	73.6	73.4	73.6
Europe	24.5	23.1	21.4	20.8	20.8	21.1	22.8	20.9	21.1	20.1	18.7	18.7	18.5
India	2.8	3.1	3.5	3.1	2.8	3.0	3.4	3.2	3.2	3.1	3.3	3.6	3.7
RoW	6.8	7.1	7.5	7.4	6.6	6.3	6.3	6.2	4.7	4.1	4.4	4.2	4.2
Utilization (%) (including Trainees)	69.4	71.4	71.4	71.3	70.9	73.2	73.2	72.8	73.8	75.4	74.5	74.6	75.3
Utilization (%) (Excluding Trainees)	70.6	72	73.1	72.3	72.7	73.8	74.6	74.3	75.2	76.3	76.5	76.4	77.1
Revenue mix-Onsite	57.6	59.5	59.2	60.2	60.5	58.0	57.6	57.9	58.9	0.0	0.0	0.0	0.0
Revenue mix-Offshore	42.4	40.5	40.8	39.8	39.5	42.0	42.4	42.1	41.1	0.0	0.0	0.0	0.0
Clients Concentration (%)													
Top client	11.7	13.1	14.4	14.1	14.3	15.3	16.1	16.6	17.8	19.4	20.2	20.0	19.8
Top 5 clients	29.7	29.6	30.0	30.1	30.7	30.1	30.1	31.6	32.0	32.3	33.8	33.8	33.2
Top 10 clients	42.7	42.6	42.5	42.3	41.9	41.5	41.9	43.7	43.7	43.5	44.8	44.1	42.9
Number of Client													
1 mn USD +	101	98	107	106	111	113	114	114	118	117	111	116	120
5 mn USD +	31	31	30	30	30	33	38	37	38	39	44	44	45
10 mn USD +	15	16	16	17	16	16	16	15	17	19	21	21	23
25 mn USD +	0	0	6	4	4	3	3	3	4	4	4	4	4
30 mn USD +	0	0											
50 mn USD +	2	2	2	1	1	1	1	1	1	1	1	1	1
100 mn USD +				1	1	1	1	1	1	1	1	1	1
Employees	16,623	16,110	16,219	16,099	16,470	16,561	16,910	17,200	17,723	18,990	19,402	19,908	20,204
Attrition (%)	16%	18%	16%	16%	15%	14%	13%	13%	13%	12%	13%	13%	14%
P&L (USD mn)													
Revenue	196	199	193	192	196	200	206	214	226	242	246	252	262
EBIT	28	22	17	19	21	15	17	26	30	28	33	34	34
PAT	23	18.1	14.1	15.3	14.4	18.9	19.3	22.0	28.1	23.3	29.2	26.9	28.3
Per Capita (Annualised) - USD													
Revenue	47,067	49,410	47,598	47,755	47,505	48,330	48,776	49,837	51,052	50,869	50,799	50,532	51,871
EBIT	6,789	5,534	4,255	4,722	5,050	3,659	3,982	5,993	6,876	5,926	6,709	6,851	6,696
PAT	5,542	4,495	3,483	3,801	3,503	4,562	4,568	5,118	6,353	4,908	6,028	5,406	5,594
Total Contract Value signed (USD mn)													
Renewals													
New	72	36	65	144	74	43	77	57	42	51	49	72	84
Total	281	220	184	314	209	262	207	244	298	306	271	256	242
Expiring within 1 year	247	209	152	234	182	198	166	206	237	259	198	212	218
Expiring > 1 year	34	11	31	80	27	64	41	38	61	47	73	44	23
Digital	82	93	64	103	50	108	84	132	102	139	162	136	126

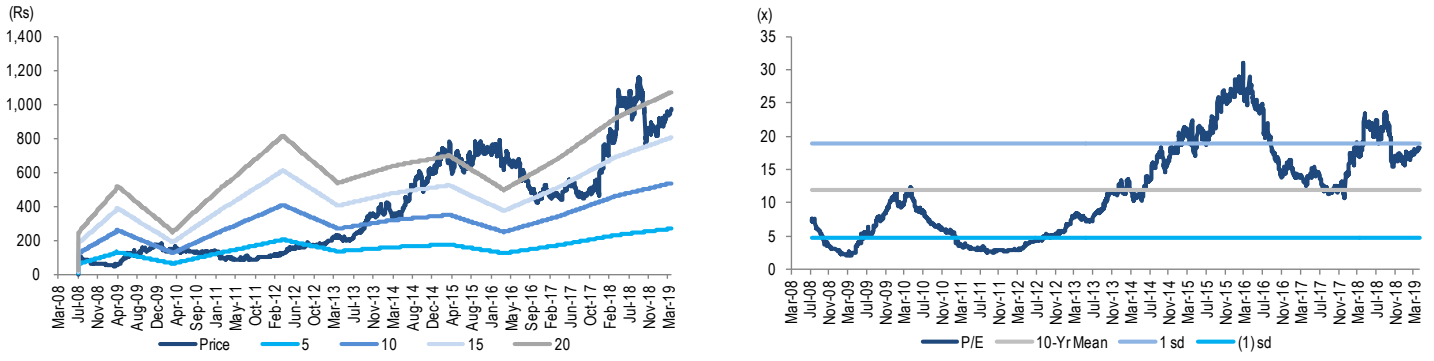
** Re-classified Revenue Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: QoQ and YoY growth of various parameters

QoQ Growth (%)	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Client Wise																		
Top Client	6.0	5.3	14.1	12.8	4.5	13.9	13.9	6.6	(2.5)	3.2	9.5	8.4	7.2	13.2	16.4	6.4	0.9	3.1
Top 5 clients	0.8	(0.5)	7.7	11.1	3.6	(1.9)	1.4	(1.7)	(0.1)	3.8	0.3	3.0	9.1	6.9	7.8	6.9	1.9	2.3
Top 10 clients	(1.0)	(1.6)	7.5	8.8	4.2	(2.0)	1.5	(3.2)	(0.9)	0.8	1.3	4.0	8.4	5.6	6.3	5.0	0.5	1.3
Service Line Wise																		
Development	(0.8)	(2.0)	10.2	10.3	4.8	3.1	0.5	(6.2)	0.9	(2.3)	8.0	5.3	10.2	9.9	112.3	2.2	1.9	6.6
Engineering	10.1	(2.8)	(5.7)	10.9	(1.0)	25.6	1.8	(3.4)	(3.5)	1.8	3.4	(1.2)	2.8	5.6	-	-	-	-
Maintenance	1.4	(2.7)	9.3	12.3	(3.2)	(3.4)	(2.3)	(0.3)	(1.5)	5.8	6.2	(4.0)	(2.5)	(0.2)	-	-	-	-
Consulting	(1.9)	(4.8)	(0.6)	(12.2)	(4.7)	63.9	3.8	(10.1)	2.2	4.4	(13.0)	21.2	3.9	2.9	(6.9)	(7.1)	5.5	7.4
Package Implementation	7.9	29.4	0.6	114.3	(0.5)	12.4	3.3	(8.5)	(5.7)	3.4	(6.6)	0.4	4.9	4.6	1.0	(15.0)	4.1	(6.2)
IP Led Revenue	0.4	6.3	(13.7)	7.7	42.1	(22.8)	(24.7)	20.0	16.2	(5.5)	(13.4)	(6.3)	(6.5)	5.6	(28.8)	32.4	4.9	43.2
Independent Testing	(0.2)	0.1	1.4	(0.3)	2.6	5.0	2.6	(5.9)	1.2	1.0	(3.4)	5.7	8.2	6.4	10.1	2.1	(0.3)	0.1
Infrastructure Management & Tech Support	(5.5)	(0.5)	6.0	11.4	9.3	2.2	7.2	5.1	1.6	2.3	5.3	7.0	0.6	5.1	9.8	10.6	2.0	3.7
Vertical Wise																		
Hi-Tech & Media Services	0.4	(0.2)	1.9	11.3	1.9	10.3	17.0	(1.4)	(0.4)	4.0	3.4	2.8	0.6	8.4	10.5	3.0	2.4	4.7
BFSI	3.5	6.5	10.7	8.5	4.3	(2.0)	9.2	(3.8)	(2.8)	4.3	4.0	1.8	3.9	(4.2)	5.8	2.3	(0.9)	4.7
Retail, CPG & Manufacturing	3.2	(2.2)	6.3	8.6	1.1	(4.9)	34.7	(2.6)	(0.8)	(2.9)	1.0	4.0	5.7	8.7	2.8	(4.1)	4.8	3.7
Travel & Hospitality	(4.8)	(1.2)	1.5	4.0	15.2	9.5	(5.2)	(6.9)	4.4	0.4	(1.8)	4.5	9.7	9.7	6.1	7.5	2.3	2.3
Geography wise																		
US	4.9	2.9	9.0	8.6	3.1	10.1	3.0	(1.7)	1.2	3.4	2.0	(0.1)	7.3	7.5	9.3	3.3	1.8	4.5
Europe	(6.9)	(2.0)	(3.2)	40.9	1.8	(1.6)	(4.1)	(10.2)	(3.2)	1.8	3.8	11.4	(4.7)	6.6	1.7	(5.2)	2.2	3.1
India	3.0	(12.1)	(1.0)	9.2	(13.4)	10.0	12.6	9.5	(11.8)	(8.1)	9.6	16.8	(2.2)	5.6	3.4	8.0	12.0	7.1
RoW	(10.0)	(9.2)	(3.3)	12.8	8.5	(2.5)	6.2	2.4	(1.7)	(9.2)	(2.3)	3.0	2.3	(20.0)	(6.9)	10.2	(3.2)	4.2
YoY Growth (%)																		
Client Wise																		
Top Client	43.0	37.1	38.6	43.7	41.8	53.3	53.0	44.5	34.8	22.2	17.4	19.5	31.3	43.9	53.0	50.2	41.4	28.8
Top 5 clients	16.9	8.6	12.7	19.9	23.3	21.7	14.5	1.3	(2.3)	3.4	2.3	7.2	17.1	20.5	29.5	34.4	25.5	20.2
Top 10 clients	14.3	7.0	8.5	13.9	19.9	19.5	12.8	0.3	(4.6)	(1.9)	(2.0)	5.3	15.2	20.6	26.5	27.7	18.4	13.7
Service Line Wise																		
Development	8.9	10.8	10.5	18.1	24.8	31.3	19.8	1.8	(1.9)	(7.1)	(0.1)	12.2	22.5	37.8	170.8	162.6	142.9	135.7
Engineering	18.5	13.6	1.7	11.8	0.6	30.1	40.4	22.4	19.3	(3.3)	(1.9)	0.3	6.8	10.8	-	-	-	-
Maintenance	4.9	2.4	15.5	21.1	15.5	14.8	2.5	(9.0)	(7.4)	1.5	10.3	6.2	5.2	(0.8)	-	-	-	-
Consulting	44.4	14.2	6.7	(18.5)	(20.8)	36.3	42.3	45.8	56.3	(0.4)	(16.6)	12.5	14.4	12.8	20.7	(7.5)	(6.1)	(2.0)
Package Implementation	180.8	103.6	46.2	201.0	177.7	141.2	147.7	5.8	0.2	(7.8)	(16.7)	(8.7)	1.6	2.8	11.2	(5.8)	(6.5)	(16.2)
IP Led Revenue	165.6	72.0	(9.7)	(0.7)	40.5	2.0	(11.0)	(0.9)	(18.9)	(0.8)	14.0	(11.0)	(28.3)	(19.9)	(34.2)	(7.0)	4.3	41.6
Independent Testing	7.8	2.6	4.0	0.9	3.8	8.9	10.2	4.0	2.6	(1.4)	(7.2)	4.3	11.5	17.5	34.0	29.5	19.2	12.2
Infrastructure Management & Tech Support	14.9	4.7	2.7	11.1	28.4	31.9	33.3	25.7	16.9	17.0	15.0	17.0	15.9	19.0	24.1	28.4	30.2	28.5
Vertical Wise																		
Hi-Tech & Media Services	40.7	14.1	6.3	13.6	15.3	27.5	46.3	29.7	26.7	19.4	5.6	10.0	11.2	16.0	23.9	24.2	26.3	22.0
BFSI	17.2	19.4	27.5	32.4	33.3	22.8	21.2	7.4	0.1	6.5	1.4	7.3	14.7	5.3	7.2	7.7	2.7	12.2
Retail, CPG & Manufacturing	20.0	9.3	13.8	16.5	14.2	11.0	40.7	26.2	23.7	26.4	(5.3)	1.1	7.8	20.7	22.8	13.3	12.3	7.1
Travel & Hospitality	(8.6)	15.6	3.6	(0.7)	20.2	33.2	24.3	11.3	0.9	(7.5)	(4.1)	7.6	13.0	23.4	33.3	37.3	28.1	19.5
Geography wise																		
US	27.3	22.8	25.0	27.9	25.6	34.4	26.9	14.9	12.8	5.9	4.9	6.7	13.1	17.6	26.1	30.3	23.6	20.1
Europe	(0.6)	(5.8)	(10.4)	24.5	36.2	36.8	35.5	(13.6)	(17.9)	(15.1)	(8.2)	13.8	12.0	17.3	15.0	(2.2)	5.0	1.6
India	1.4	8.3	6.5	(2.2)	(17.8)	2.9	17.1	17.5	19.7	-	(2.7)	3.8	15.1	32.2	24.7	15.3	32.0	33.9
RoW	7.5	(7.6)	(24.8)	(10.9)	7.4	15.4	26.7	15.1	4.2	(2.9)	(10.8)	(10.3)	(6.6)	(17.6)	(21.5)	(16.0)	(20.5)	3.5

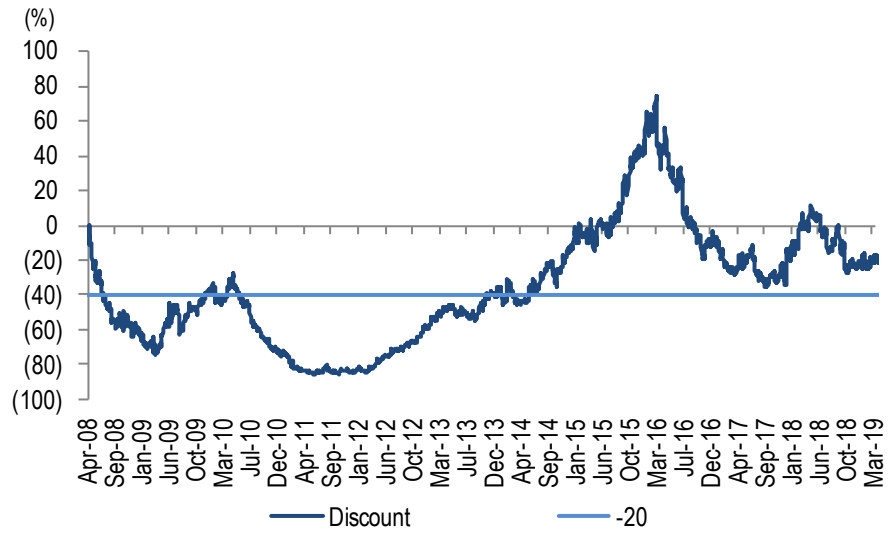
** Re-classified Revenues; Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: P/E multiple charts



Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 18: P/E multiple premium/(discount) to TCS



Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 19: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Average INR/USD	67.2	64.5	69.9	72.0	74.5
Net Sales (USD mn)	780	847	1,001	1,102	1,085
YoY Growth (%)	9.1	8.6	18.3	10.1	(1.6)
Net Sales	52,364	54,628	70,215	79,371	80,803
YoY Growth (%)	11.8	4.3	28.5	13.0	1.8
Employee benefits expense	34,058	35,641	44,212	50,223	51,199
% of sales	65.0	65.2	63.0	63.3	63.4
Gross Margin	18306	18987	26003	29148	29604
% of sales	35.0	34.8	37.0	36.7	36.6
Other expenses	11,121	11,583	15,358	16,271	16,565
% of sales	21.2	21.2	21.9	20.5	20.5
EBITDA	7,185	7,404	10,645	12,877	13,040
% of sales	13.7	13.6	15.2	16.2	16.1
Depreciation & Amortisation	1,858	1,712	1,641	1,763	1,868
EBIT	5,327	5,692	9,004	11,114	11,172
% of sales	10.2	10.4	12.8	14.0	13.8
Interest expenses	191	169	29	36	36
Other income (net)	413	1,900	893	1,080	1,791
PBT	5,549	7,423	9,868	12,158	12,927
-PBT margin (%)	10.6	13.6	14.1	15.3	16.0
Provision for tax	1,390	1,722	2,327	3,343	3,555
Effective tax rate (%)	25.0	23.2	23.6	27.5	27.5
Net profit	4,159	5,701	7,541	8,815	9,372
-Growth (%)	(29.5)	37.1	32.3	16.9	6.3
-Net profit margin (%)	7.9	10.4	10.7	11.1	11.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Equity capital	1,680	1,639	1,642	1,642	1,642
Reserves & surplus	24,095	25,779	31,419	36,870	42,878
Net worth	25,775	27,418	33,061	38,512	44,520
Other liabilities	301	85	173	173	173
Total loans	13	9	6	6	6
Total liabilities	26,089	27,512	33,240	38,691	44,699
Net block	5,932	5,121	4,937	4,271	3,203
Goodwill	4,470	4,539	4,730	4,730	4,730
Investments	5,927	7,264	8,936	12,936	16,936
Deferred tax asset - net	624	318	357	357	357
Other non-current assets	2,202	2,298	2,499	2,499	2,499
Unbilled revenue	1,885	2,791	3,256	3,609	3,572
Other current assets	1,386	1,590	1,839	2,039	2,018
Debtors	8,962	10,155	13,796	15,294	15,137
Cash & bank balance	2,508	3,289	2,464	2,388	5,598
Total current assets	14,741	17,825	21,354	23,331	26,325
Total current liabilities	7,807	9,853	9,573	9,433	9,351
Net current assets	6,934	7,972	11,781	13,898	16,974
Total assets	26,089	27,512	33,240	38,691	44,699

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
EBIT	5,327	5,692	9,004	11,114	11,172
(Inc./dec. in working capital	1,781	(257)	(4,634)	(2,193)	134
Cash flow from operations	7,108	5,435	4,370	8,922	11,305
Other income	413	1,900	893	1,080	1,791
Depreciation & amortisation	1,858	1,712	1,641	1,763	1,868
Financial expenses	(191)	(169)	(29)	(36)	(36)
Tax paid	(1,390)	(1,722)	(2,327)	(3,343)	(3,555)
Dividends paid	(1,934)	(2,188)	(5,342)	(3,364)	(3,364)
Net cash from operations	5,864	4,968	(795)	5,021	8,010
Capital expenditure	371	629	1,407	1,200	1,200
Net cash after capex	5,493	4,339	(2,202)	3,821	6,810
Inc./(dec.) in debt	(532)	(220)	85	-	-
(Inc./dec. in investments	(4,097)	(1,127)	(1,912)	(4,000)	(4,000)
Equity issue/(buyback)	2	(41)	3	-	-
Cash from financial activities	(4,627)	(1,388)	(1,824)	(4,000)	(4,000)
Others	(690)	(2,170)	3,200	103	400
Opening cash	2,332	2,508	3,289	2,464	2,388
Closing cash	2,508	3,289	2,464	2,388	5,598
Change in cash	176	781	(825)	(76)	3,210

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Key ratios

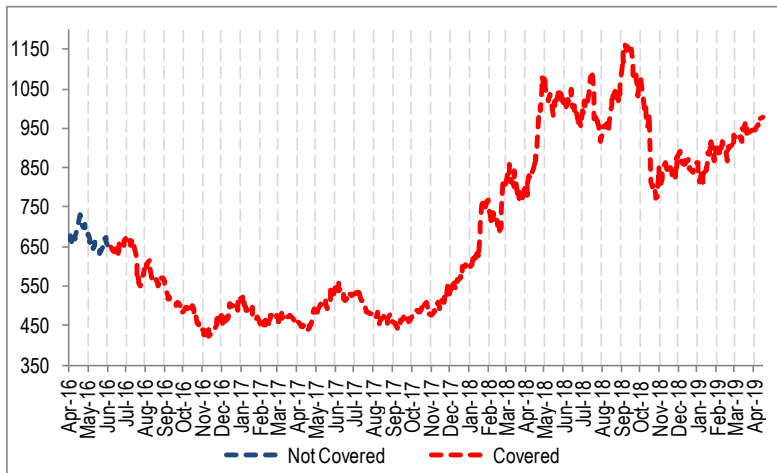
Y/E March	FY17	FY18	FY19	FY20E	FY21E
Per Share (Rs)					
EPS	25.3	34.7	45.9	53.7	57.1
FDEPS	25.3	34.6	45.8	53.5	56.9
Dividend Per Share	9.8	11.1	27.0	17.0	17.0
Book Value	156	166	201	234	270
Dividend Payout Ratio (incl DDT)	47	38	71	38	36
Return ratios (%)					
RoE	16.7	21.4	24.9	24.6	22.6
RoCE	21.8	21.7	31.5	33.5	28.8
RoIC	27.8	32.9	46.4	49.2	49.1
Turnover Ratios					
Asset Turnover	1.5	1.5	1.6	1.6	1.5
Debtor Days (incl. unbilled Rev.)	76	86	89	87	85
Working Capital Cycle Days	37	30	36	48	52
Valuation ratios (x)					
P/E	39.1	28.3	21.2	18.2	17.1
P/BV	6.2	5.8	4.8	4.2	3.6
EV/EBITDA	21.2	20.2	14.0	11.3	10.6
EV/Sales	2.9	2.7	2.1	1.8	1.7
M-cap/Sales	3.1	2.9	2.3	2.0	2.0
Dividend Yield (%)	1.0	1.1	2.8	1.7	1.7

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
7 June 2017	Sell	547	424
21 June 2017	Sell	519	382
20 July 2017	Sell	506	382
22 August 2017	Sell	461	382
28 September 2017	Sell	471	396
26 October 2017	Sell	507	426
26 December 2017	Under Review	600	-
18 January 2018	Under Review	622	-
17 March 2018	Sell	812	574
26 October 2017	Sell	867	-
26 December 2017	Under Review	600	-
18 January 2018	Under Review	622	-
17 March 2018	Sell	812	574
19 April 2018	Sell	867	577
3 July 2018	Sell	986	716
19 July 2018	Sell	1,062	803
4 September 2018	Sell	1,100	803
5 October 2018	Sell	1,063	986
19 October 2018	Sell	978	778
27 December 2018	Sell	855	631
7 January 2019	Sell	815	552
17 January 2019	Sell	835	553
19 March 2019	Sell	963	554
20 March 2019	Sell	943	554
18 April 2019	Sell	972	563

Rating track graph



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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