Mindtree

27 April 2020

4QFY20 Result Update

Reuters: MINT.BO; Bloomberg: MTCL IN

Internals not comforting; Digital revenue mix likely a risk

Mindtree's (MTCL) 4QFY20 USD revenue growth at 1.2% QoQ (1.9% in constant currency – CC) was 3% higher than our estimate. We were estimating a decline of 1.9% (1.6% decline in CC). We were cautious due to its large exposure of ~17% to the travel, transportation and hospitality sector, which has been hit very badly in the current Covid-19 crisis. Unlike many peers which have reported results for the March 2020 quarter, MTCL has indicated that it did not experience any impact of Covid-19 in the quarter. That is likely because it was possibly ahead of the curve in implementing WFH (work from home) in the first week of March itself, which was significantly ahead of its peers and the negative impact in 4Q for most players came from the supply angle. The demand hit will be felt hereon. A look at internals shows a disturbing picture. Growth has not been broad based. Almost all of the growth in 2HFY20 and half of FY20 has come from its top client – which now brings in quarter of its revenue. Similarly, order inflow of US$1.2bn looks decent (14% up YoY), but a deeper analysis indicates that much of this has come from new orders (good) while renewals slipped (bad)- see Exhibit 12. The book/bill ratio has come off from the peak of 1.3x to about 1.1x. While MTCL indicated a good order pipeline and ramp ups it did say that there are problems with slower transition of some projects. While it seems to have done a reasonably good job in pivoting to WFH, we are not sure that by itself it would help retain clients in the days ahead. Its pre-Covid track record on the top 10 clients (ex-the top one) seems uninspiring. With all the large IT services firms talking about vendor consolidation, we believe MTCL could possibly be at the receiving end of it as it has a relatively un-differentiated capability mix. We are also intrigued by the Digital revenue mix which could be non-defensive in nature. 'Interactive' (which we think is discretionary) forms ~60% of its Digital business while 'Cloud services' (which we believe is more resilient and 'in demand' in the post Covid-19 world) forms only 10%. We have had a significantly negative away-from-consensus view on Mindtree (MTCL) through our report (Market Is Giving It The Benefit Of Doubt). We would strictly advise against investing in mid-caps in the Indian IT sector at this point as we see greater revenue and margin volatility in the likely negative growth scenario for industry in FY21 (see our sector view inside) as they suffer from high concentration risks at client and vertical levels. The endgame as far as investors in MTCL is to look for a merger with LTI (or a three-way one with LTTS included) at some point in time in the next 2-5 years as that would create a firm with more de-risked revenue profile and better margins. Post 4QFY20, we have lowered both revenue and margin estimates for FY21/FY22 though EPS cuts have been modest on lower depreciation and higher other income. We retain Sell rating with a target price of Rs532 (target P/E of 10.6x FY22E EPS, at a 30% discount to TCS'). We have lowered the discount from 40% about 6 months back, taking into consideration the focus of the new management on building an annuity focused business and on improving margins. The large discount is because of: (1) Lack of adequate differentiation (2) Vendor consolidation risk (3) Less-than-adequate digital and automation capabilities and (4) Unhealthy reliance on its top account for growth.

Margins will likely see improvement in FY21: Despite likely pressure on the pricing front, the senior management seemed convinced that FY21 EBIT margins would be better than those of FY20 (a very low base). We are not surprised as the 1HFY20 margins were unusually low on transition costs on some large projects. Margins will improve due to utilization, pyramid optimization, sub-contractor cost control and automation. While MTCL appears committed to honoring all offers - both fresher and lateral, it has not given specific comments on salary hike in FY21. We think it would drop it should pricing pressures escalate.

SELL

Sector: Information Technology

CMP: Rs780

Target price: Rs532

Downside: 32%

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

Key Data

Current Shares O/S (mn)	164.6
Mkt Cap (Rsbn/US$bn)	128.4/1.7
52 Wk H / L (Rs)	1,063/652
Daily Vol. (3M NSE Avg.)	911,764

Price Performance (%)

	1 M	6 M	1 Yr
Mindtree	(5.1)	8.6	(19.3)
Nifty Index	5.7	(21.3)	(22.1)

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	*YoY (%)*	*QoQ (%)*	4QFY20E	*Deviation (%)*
Net Sales (USD mn)	**262**	**275**	**278.4**	***6.3***	***1.2***	**270.0**	***3.1***
Net Sales	**18,394**	**19,653**	**20,505**	***11.5***	***4.3***	**19,511**	***5.1***
Staff Cost	11,504	12,535	12,933	*12.4*	*3.2*	12,705	*1.8*
% of Sales	*62.5*	*63.8*	*63.1*	-	-	*65.1*	-
-Other Expenses	4,087	4,055	4,335	*6.1*	*6.9*	3,707	*16.9*
% of Sales	*22.2*	*20.6*	*21.1*	-	-	*19.0*	-
EBIT	**2,375**	**2,364**	**2,558**	*7.7*	*8.2*	**2,404**	*6.4*
EBIT Margin (%)	***12.9***	***12.0***	***12.5***	-	-	***12.3***	-
Other Income, Net	290	348	183	*(36.9)*	*(47.4)*	268	*(31.7)*
Forex Gain/(Losses)	0	0	0	-	-	0	-
PBT	**2,665**	**2,579**	**2,613**	***(2.0)***	***1.3***	**2,539**	*2.9*
Provision for Tax	681	609	551	*(19.1)*	*(9.5)*	673	*(18.1)*
Effective Tax Rate	*25.6*	*23.6*	*21.1*	-	-	*26.5*	-
PAT (Reported)	**1,984**	**1,970**	**2,062**	***3.9***	***4.7***	**1,866**	***10.5***
NPM (%)	***10.8***	***10.0***	***10.1***	-	-	***9.6***	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Revenue (Rsmn)	54,628	70,215	77,643	77,038	82,526
YoY Growth (%)	*4.3*	*28.5*	*10.6*	*(0.8)*	*7.1*
EBIT (Rsmn)	5,692	9,004	7,869	8,454	9,745
as % of sales	*10.4*	*12.8*	*10.1*	*11.0*	*11.8*
Adj. PAT (Rsmn)	5,701	7,541	6,309	6,799	8,284
YoY Growth (%)	*37.1*	*32.3*	*(16.3)*	*7.8*	*21.8*
FDEPS (Rs)	34.6	45.8	38.3	41.3	50.3
RoE (%)	*21.4*	*24.9*	*19.5*	*20.2*	*21.5*
RoCE (%)	*21.7*	*31.5*	*23.8*	*22.2*	*22.8*
Pre Tax ROIC (%)	*32.9*	*45.5*	*33.2*	*33.6*	*40.5*
P/E(x)	22.7	17.0	20.4	18.9	15.5
P/BV (x)	4.7	3.9	4.1	3.6	3.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

	New		Old		*Change (%)*	
Change in estimates	**FY21E**	**FY22E**	**FY21E**	**FY22E**	***FY21E***	***FY22E***
INR/USD	74.0	75.2	74.0	75.2	-	-
USD Revenue (USD mn)	1,041	1,098	1,076	1,151	*(3.2)*	*(4.6)*
Revenue (Rsmn)	77,038	82,526	79,597	86,549	*(3.2)*	*(4.6)*
EBIT (Rsmn)	8,454	9,745	9,340	10,541	*(9.5)*	*(7.5)*
EBIT Margin (%)	*11.0*	*11.8*	*11.7*	*12.2*	-	-
PAT (Rsmn)	6,799	8,284	7,141	8,140	*(4.8)*	*1.8*
EPS (Rs)	41.3	50.3	43.4	49.4	*(4.8)*	*1.8*

Source: Company, Nirmal Bang Institutional Equities Research

Our view on the IT services sector: We have a cautious view on the sector (Report). The Covid-19 crisis, we believe seems to be worse than the 2008-2009 global financial crisis in its severity. With economic recession a given in 2020 in US and Europe (75-90% of revenue of Indian players) we expect Global 2000 revenues to be under pressure, leading to cut back in IT spending – a first since 2009. We estimate the Indian IT services industry revenue in US dollar terms to decline (a first in its history) by 3-4% in FY21 with risks to the downside if the Covid-19 crisis lasts beyond the June quarter or if there is a second eruption in the winter of 2020. Industry grew by ~5% during the GFC years but on a base that was ~1/3rd of the current one. Unless a vaccine is found (seems at least 12 months away according to health experts) we believe this uncertainty could linger and could impact spending by both, corporations and individuals, and hence could smother pent up demand. We believe consumption (which has been the driving force across various economies in the last decade) to be subdued in 2H2020 even if the peak on the health scare is behind us by June 2020. We especially worry about sectors like BFSI, Energy, Retail, Manufacturing (auto and aerospace) and Travel & Hospitality. For BFSI a likely low interest rate environment in the US (akin to that of Europe through much of the last decade) could be detrimental to spending growth (BFSI malaise deepens). In the US, there could be additional worries around an adverse election outcome in November 2020. While fundamentals are likely to be weak with downside risks, what is harder to predict is PE multiples that stocks would trade at. On the one hand, we have a massive monetary and fiscal stimulus that has been unleashed by both US and Europe that should drive 'risk on', on the other hand there would be lingering worries around the virus, which could keep risk appetite suppressed. In the next 6 months, we see PE of stocks testing levels significantly below -2SD of mean multiple, as they did in 2008-2009. Relative valuation is tricky as domestic growth is also under pressure within India. Along with decline in revenue growth we have also factored in some margin pressure (despite a depreciated INR/USD, no salary increases, lower travel costs), which is going to come from lower pricing, lower utilization and higher costs of delivery due to WFH. We see new development projects cut/pushed back while run-the-business spending will likely see significant pricing pressure. Just as we have seen in past industry downturns, we see commoditisation and loss of pricing power of 'hot' skills – in today's case, Digital. In terms of PE multiples, we continue to work with TCS as the sector benchmark. However, using the stock behavior of 2008-2009, we have lowered the target PE multiple for it to 1.5SD below its 10 year mean to 15.1x (versus the previous 1SD below the 5 year mean at 16.5x). We have benchmarked all other companies with respect to TCS. If we go by past precedents of market shocks, our methodology to derive target prices will be tested on the downside for our coverage universe - ex-TCS and ex-Infosys. On an aggregate basis, we expect mid-tier companies to struggle significantly. Client, geographic and vertical concentration risks will manifest in slowdown in revenue, resulting in significant PE multiple contractions. Most of them are exposed to short-term discretionary projects, which may be cut/pushed back or consolidated with bigger vendors.

Exhibit 3: Vertical-based QoQ and YoY USD revenue growth in 4QFY20

Vertical	Contribution to Revenue (%)	Growth-QoQ(%)	Growth-YoY(%)
Hi-Tech & Media Services	43.1	5.1	15.7
BFSI	20.4	-3.1	-0.6
Retail, CPG & Manufacturing	20.3	-0.3	-2.8
Travel & Hospitality	16.2	-1.3	5.0
Total	**100.00**	**1.2**	**6.3**

Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Geography-based QoQ and YoY USD revenue growth in 4QFY20

Geographies	Contribution to Revenue (%)	Growth-QoQ(%)	Growth-YoY(%)
US	76.8	4.1	10.9
Europe	15.3	(9.0)	(12.1)
India	3.9	(1.4)	12.0
ROW	4.0	(8.0)	1.2
Total	**100.0**	**1.2**	**6.3**

Source: Nirmal Bang Institutional Equities Research

4QFY20 conference-call highlights

- **Revenue growth analysis:** IT Services USD revenue grew by 1.2% QoQ and 6.3% YoY, which was mainly driven by the Hi-Tech Media vertical (largely the top client – Microsoft), which grew 15.7% YoY. MTCL witnessed some weakness in revenue growth in the BFSI and Retail-CPG vertical. Geography - US saw decent growth at 4.1% QoQ and 10.9% YoY. Europe declined 9% QoQ and 12.1% YoY. Among services, for the quarter, digital business grew 1.8%, infrastructure management and tech support grew 4.9% and testing grew 4.3%. For the full year, MTCL had a strong growth in infrastructure management and tech support at 15.9% and digital at 15.3%. While there was no impact on 4Q numbers due to the unprecedented Covid-19 pandemic, the management indicated that it foresees softness in demand and near-term challenges going forward in FY21.

- **Margin picture:** MTCL recorded a 17.1% EBITDA margin i.e. an increase of 1.5% QoQ and 1.9% YoY. MTCL's focus on cost efficiencies and standardization has helped it to reach a desired band of 17% to 18%. The management stated that a one-time donation to the PM Cares Fund caused a 1% decline in the margin, which would otherwise have been higher at 18.1%. Improvement in margin was led by operational efficiencies (170bps) and favorable INR movement (80bps).

- **BFSI EBITDA margin improves:** The segmental margin on the BFSI front has improved materially. The EBITDA margin improved 210bps QoQ and 1250bps YoY, currently standing at 17.1%. This margin improvement has been achieved through better operating efficiencies and also bill rate improvement from its clients. It remains to be seen how the pricing behaves in FY21 though the management seemed confident that the current margin could be sustained.

- **Sector outlook:** The management believes that as major economies have virtually come to a halt, clients in travel, manufacturing and retail verticals are more prone to immediate impact due to drop in demand, disruption in supply chain etc. Clients in BFSI vertical would reprioritize their discretionary spend in the immediate future to conserve cash. The management stated that it continues to see traction in Hi-tech and CPG verticals due to high demand in collaborative tools, adoption of cloud, data, SAP, IT modernization and workplace automation, and the company is working closely with its clients in helping them deal with current pandemic and have launched several co-innovation initiatives.

- **Broad based segmental QoQ margin recovery across verticals:** 4QFY20 saw an improvement in segmental margins due to likely ramp up of orders. The margins of Retail-CPG and BFSI recovered the most standing at 20.8%/17.1%, respectively in 4QFY20 vs 18.3%/14.9%, respectively in 3QFY20. Margins of Hi-Tech Media and Travel & Hospitality verticals also increased by 120bps/50bps QoQ, respectively. On a YoY basis, segmental margins were up by 12.5%/4.2% for BFSI and Retail-CPG, respectively, while the other two verticals saw a decline.

- **Digital growth tepid:** Digital services form ~38.5% (same as in 3QFY20) of MTCL's revenue instead of ~50% that was indicated earlier. Digital grew 3.3% YoY in 4QFY20, which is a very tepid number considering the fact that much larger companies like TCS and Infosys have been growing their Digital revenues by upwards of 25% in the recent past. The TCV for digital deals stood at US$190mn vs US$127mn in 3QFY20.

- **New client addition remains poor:** While management has time and again stressed on its pursuit of revenue diversification, the dependence on top client has been a structural problem in the business model of MTCL. The top client account was ~24.8% of revenue in 4QFY20 vs 23.1% in 3QFY20 and ~19.8% of revenue in 4QFY19. MTCL has 307 active clients with the addition of 5 new clients in 4Q. There was no new addition in the top US$25mn to US$100mn client buckets during the quarter. There was one client addition in the US$10mn bucket during the quarter, taking the count to 23. The management mentioned that MTCL is focusing on rationalizing its tail accounts so that it can focus more on a limited set of clients and on closing multi-year annuity deals in the coming year.

Other key conference-call highlights

- **TTM New Deal order at an all-time high:** MTCL won record value of deals worth US$393mn in 4QFY20; US$1.2bn for FY20, of which renewal deals stood at US$206mn and new deals at US$187mn. Digital accounted for US$190mn of total deal value. Contracts to be executed within 1 year stood at US$286mn and greater than 1 year stood at US$107mn. The TTM new deal value has picked up materially in the last couple of quarters and though we think 14% in total deal value is not a great source of comfort in FY21, especially with renewal deals coming off from their highs, MTCL's approach to carve-out a strategic engagement team has begun to yield results. The management stated that the annual client satisfaction survey results received in this quarter had all-time high ratings and the overall relationship index is better than that of previous years, reflecting increased trust and confidence of their clients.

  Among new deals, (1) MTCL has been chosen as a strategic partner in a multiyear deal to enhance client experience through digital transformation services for their clients for one of the leading providers of supplemental and life insurance products in North America. (2) MTCL won the strategic annuity deal with an existing leading real estate services company to implement end-to-end digitally enabled technology services. This deal is strategic not only from a size perspective, but also encompasses multi-service offerings, cutting across IT life cycle. (3) For a travel technology leader, MTCL has been chosen to manage the outsourced product development, covering the large portfolio of airlines, hotels, travel agencies and airports. (4) For a leading manufacturer in outdoor maintenance and gardening equipment, MTCL has been awarded a multiyear application development and maintenance services contract as part of their transformational journey. As part of the deal, the company would also help the client to migrate a data center from a third-party provider to clients' own data center.

- **Headcount addition:** The headcount addition in 4QFY20 was higher and stood at 430 vs 296 in 4QFY19 and ~1,800 for the full year. MTCL's sub-contracting costs have increased marginally on a QoQ basis. It was 7.9% in 4QFY20 vs 7.6% in 3QFY20 and 8% in 4QFY19. The management indicated that MTCL would honor all offers that had been extended during the year and will continue to attract, qualify, acquire and onboard talent via its digital on-boarding platform. The management stated that hiring volume continues to be healthy and for FY21, campus on-boarding will continue as planned. In terms of lateral hiring, MTCL will continue to attract quality specialized talent in emerging technologies.

- **Attrition:** MTCL has an employee base of ~21,991 employees as at the end of 4QFY20. MTCL's LTM attrition rate increased to 17.4% in 4QFY20 from 14.2% in 4QFY19. MTCL reported an improvement in utilization, including trainees, at 76.5% compared to 75.9% in 3Q. Utilization, excluding trainees was at 78.8% compared to 78% in 3Q. Amid the Covid-19 pandemic, the management stated that it was well prepared and had already moved 98% of its workforce to a work from home model before the lockdown was announced and hence it did not experience loss in productivity on this front.

- **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 764, ~7% increase from 3QFY20.

- **Strong collections, pricing pressures ahead:** EBITDA to operating cash flow conversion for the year was at 75.7% and EBITDA to free cash flow conversion was at 64.3%. DSO (constant for 4 consecutive quarters) stood at 66 days vs. 70 days in 4QFY19. MTCL's fee revenue for the quarter grew by 1.1%. Volumes increased by 4.1% and pricing realization declined by 2.9%. The management indicated that drop in price realization is due to higher number of days as compared to 3Q and negative impact from cross currency. Overall, contract pricing was stable. However, the management indicated that it expects to see some pricing pressure in 1QFY21 and clients may also ask for payment deferrals going forward.

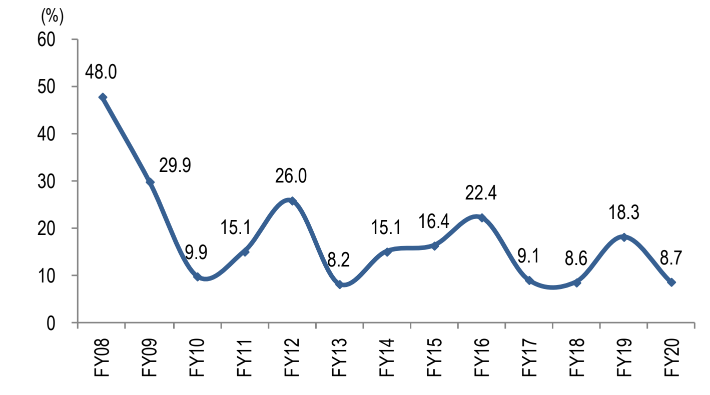
- **Dividend payout:** MTCL has announced a dividend payout of Rs10 per share, taking the total dividend for FY20 to Rs13 per share.

- **Effective tax rate:** MTCL's ETR for 4QFY20 stood at 21% against 23.6% QoQ and 25.6% YoY. It indicated tax rate of 26% in FY21.

- **Changes in reporting:** The management mentioned that there would be a few changes in reporting from next quarter as a part of strategy refresh road map. Hi-tech and Media vertical will be repositioned to communications, media and technology and considering the convergence of IndAS and IFRS, financial results will be published under IFRS on annual basis only from FY21.

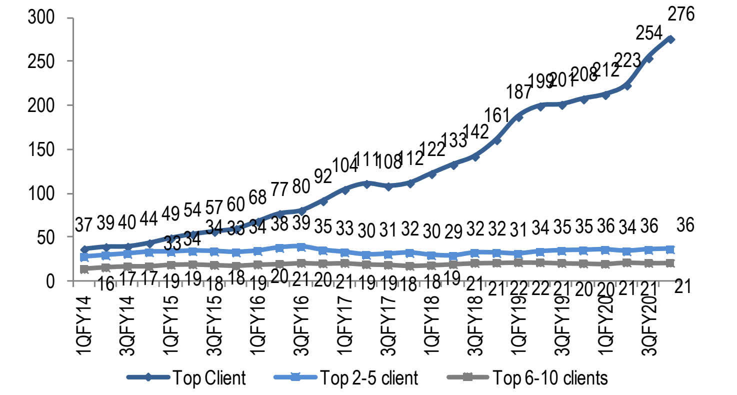
- **Capex**: The management indicated that it will be cautious on capex in the coming quarters. However, it is open to investment if it adds to the topline.

Exhibit 5: YoY revenue growth declines (USD terms)



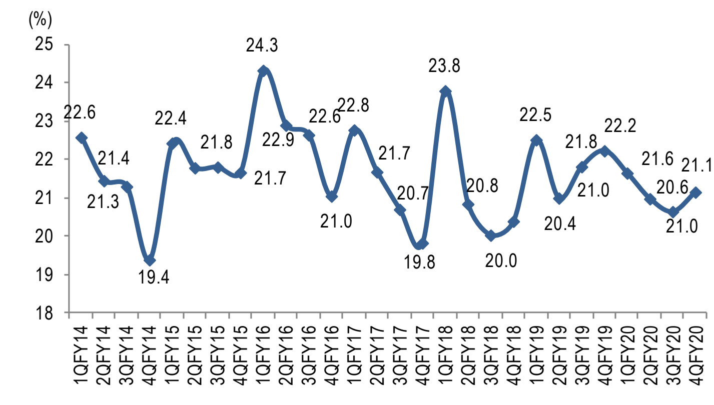
Source: Company, Nirmal Bang Institutional Equities Research

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



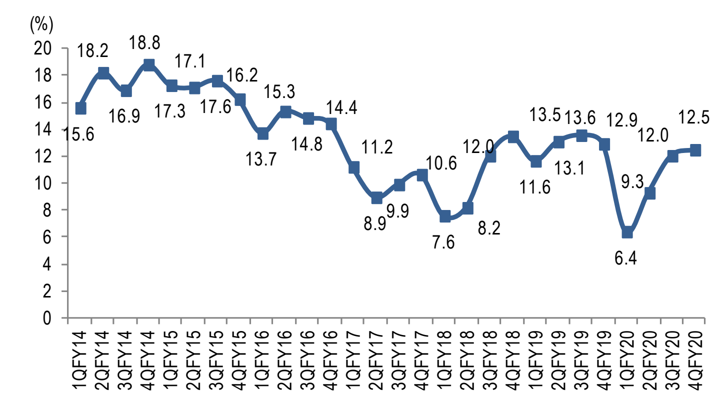
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: SG&A expenses increase by 50bps in 4QFY20 (% of sales)



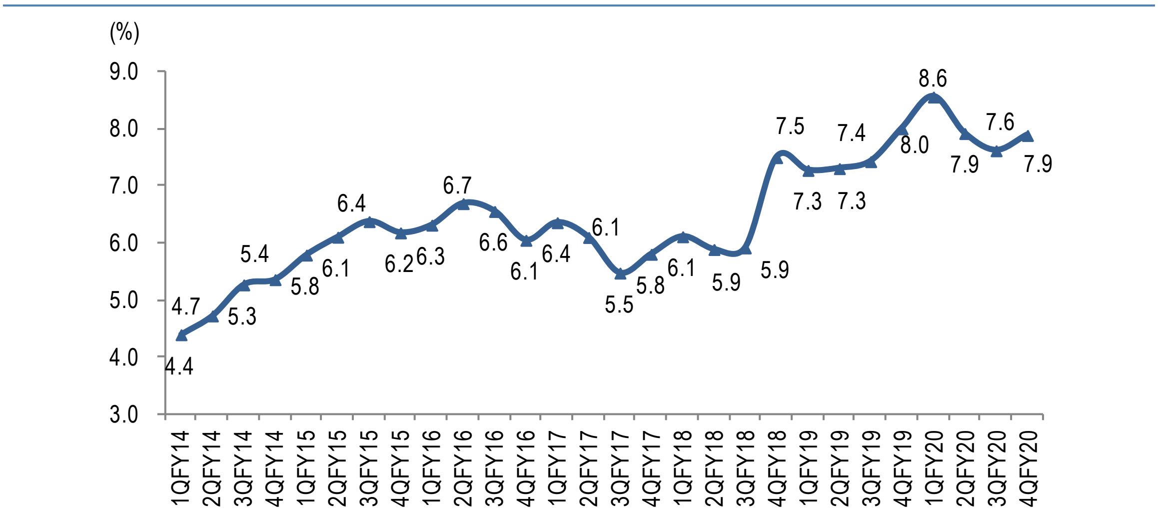
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: EBIT margin improves by 50bps QoQ



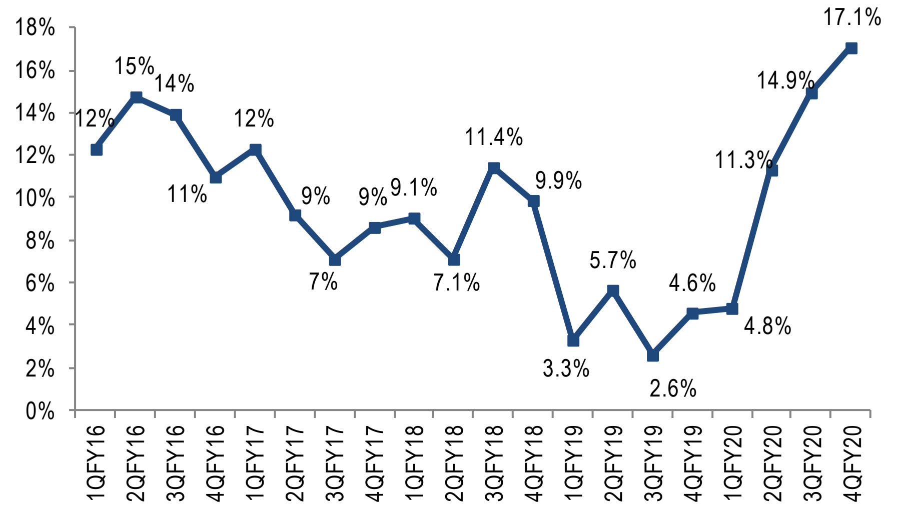
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Sub-contractor expenses (as % a percentage of sales) increase marginally. Scope to bring it down to improve margins.



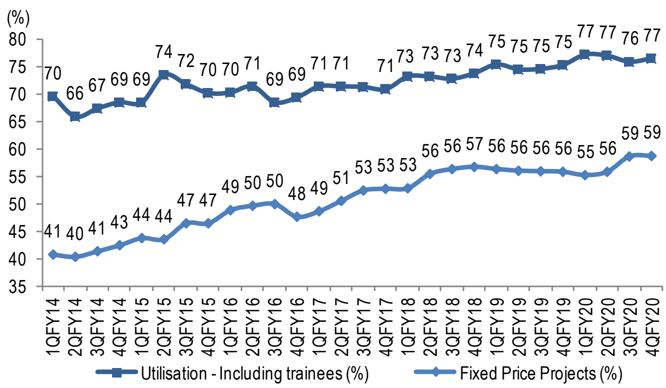
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: BFSI segment EBITDA margin at a record high



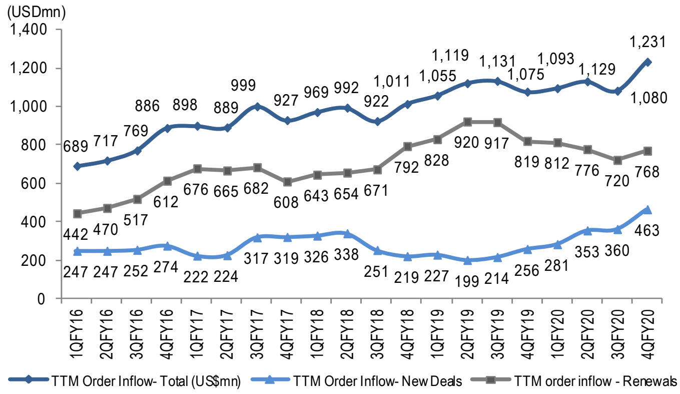
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Employee utilisation rate remains flat



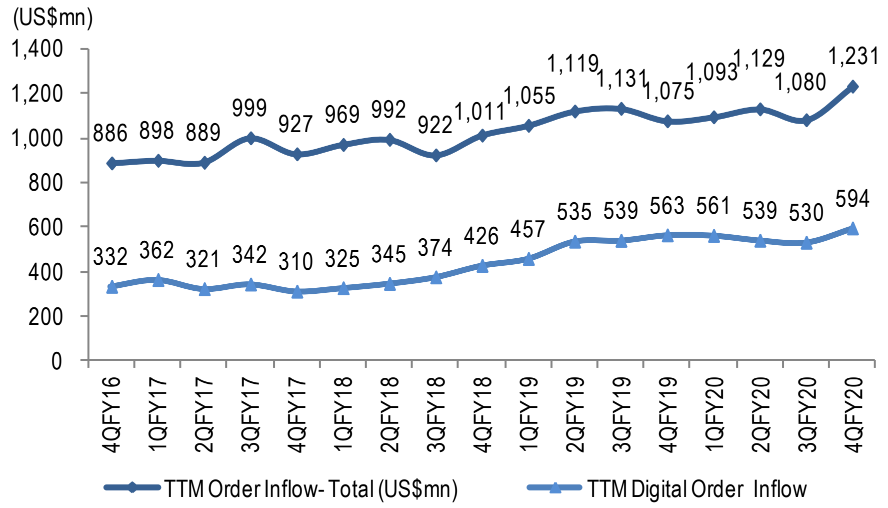
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: TTM total and new deal order inflow at record highbut the TTM renewal order inflow is flagging…



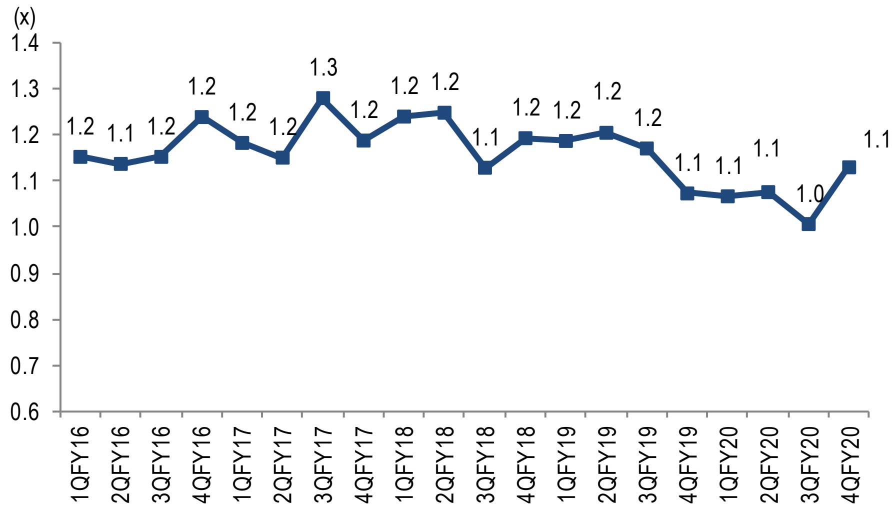
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: TTM Digital order inflow grows QoQ



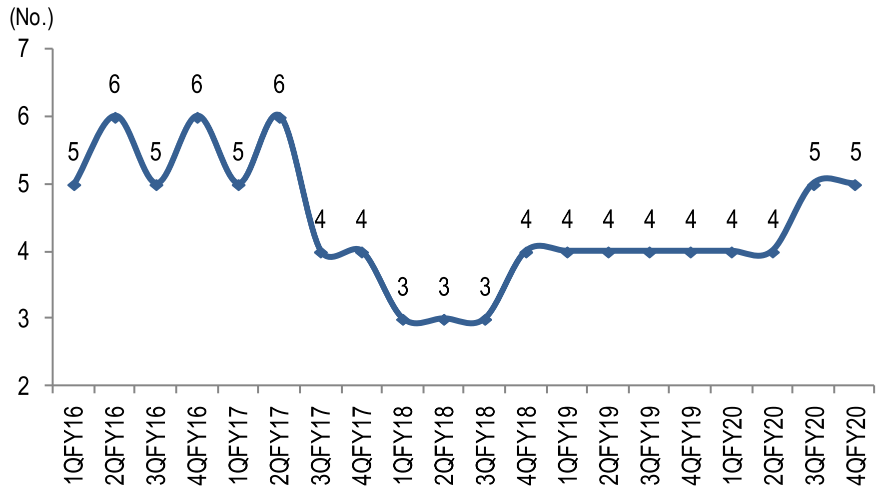
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Book to bill ratio at 1.1x.. lower than peak...



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Clients topping US$25mn in revenues remain flat in 4QFY20



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Quarterly snapshot

Y/E March (Rsmn)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
INR/USD	**67.4**	**67.4**	**64.4**	**64.6**	**64.3**	**64.7**	**67.9**	**70.6**	**71.1**	**70.2**	**67.9**	**70.6**	**71.4**	**73.7**
USD Revenue (USD mn)	192.2	195.6	200.1	206.2	214.3	226.2	241.5	246.4	251.5	262.0	264.2	271.0	275.2	278.4
INR Revenue	12,953	13,181	12,895	13,316	13,777	14,640	16,395	17,554	17,872	18,394	18,342	19,143	19,653	20,505
Gross Margin	4,420	4,481	4,502	4,315	4,831	5,339	6,000	6,383	6,730	6,890	5,810	6,496	7,118	7,572
EBITDA	1,740	1,869	1,435	1,541	2,073	2,355	2,310	2,699	2,833	2,803	1,841	2,482	3,063	3,237
Depreciation	459	468	459	454	416	383	400	403	410	428	669	707	699	679
Other Expenses	2,680	2,612	3,067	2,774	2,758	2,984	3,690	3,684	3,897	4,087	3,969	4,014	4,055	4,335
EBIT	1,281	1,401	976	1,087	1,657	1,972	1,910	2,296	2,423	2,375	1,172	1,775	2,364	2,558
Other income (net)	144	(95)	654	598	57	591	279	524	(200)	290	220	197	348	183
Interest expense	46	47	40	25	46	58	28	1	-	-	130	138	133	128
PBT	1,379	1,259	1,590	1,660	1,668	2,505	2,161	2,819	2,223	2,665	1,262	1,834	2,579	2,613
Tax	348	287	373	413	253	683	579	756	311	681	335	484	609	551
PAT	1,031	972	1,217	1,247	1,415	1,822	1,582	2,063	1,912	1,984	927	1,350	1,970	2,062
YoY Growth (%)														
USD Revenue	4.2	0.0	0.6	6.8	11.5	15.6	20.7	19.5	17.4	15.8	9.4	10.0	9.4	6.3
INR Revenue	6.7	-0.5	-2.9	2.8	6.4	11.1	27.1	31.8	29.7	25.6	11.9	9.1	10.0	11.5
Gross Profit	-9.7	-11.2	-9.5	-2.6	9.3	19.1	33.3	47.9	39.3	29.1	-3.2	1.8	5.8	9.9
EBIT	-28.9	-26.7	-34.4	-6.1	29.4	40.8	95.7	111.2	46.2	20.4	-38.6	-22.7	-2.4	7.7
Net Profit	-31.7	-37.7	0.7	31.5	37.2	87.4	30.0	65.4	35.1	8.9	-41.4	-34.6	3.0	3.9
QoQ growth (%)														
USD Revenue	-0.4	1.8	2.3	3.0	3.9	5.6	6.8	2.0	2.1	4.2	0.8	2.6	1.5	1.2
INR Revenue	0.0	1.8	-2.2	3.3	3.5	6.3	12.0	7.1	1.8	2.9	-0.3	4.4	2.7	4.3
EBIT	10.6	9.4	-30.3	11.4	52.4	19.0	-3.1	20.2	5.5	-2.0	-50.7	51.5	33.2	8.2
Net Profit	8.8	-5.7	25.2	2.5	13.5	28.8	-13.2	30.4	-7.3	3.8	-53.3	45.6	45.9	4.7
Margins (%)														
Gross Margin	34.1	34.0	34.9	32.4	35.1	36.5	36.6	36.4	37.7	37.5	31.7	33.9	36.2	36.9
EBITDA Margin	13.4	14.2	11.1	11.6	15.0	16.1	14.1	15.4	15.9	15.2	10.0	13.0	15.6	15.8
EBIT	9.9	10.6	7.6	8.2	12.0	13.5	11.6	13.1	13.6	12.9	6.4	9.3	12.0	12.5
PAT	8.0	7.4	9.4	9.4	10.3	12.4	9.6	11.8	10.7	10.8	5.1	7.1	10.0	10.1
SGA	20.7	19.8	23.8	20.8	20.0	20.4	22.5	21.0	21.8	22.2	21.6	21.0	20.6	21.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Key metrics

Key Metrics	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
P and L (Rsmn)													
Revenue	13,181	12,895	13,316	13,777	14,640	16,395	17,554	17,872	18,394	18,342	19,143	19,653	20,505
EBITDA	1,869	1,435	1,541	2,073	2,355	2,310	2,699	2,833	2,803	1,841	2,482	3,063	3,237
PAT	972	1,217	1,247	1,415	1,822	1,582	2,063	1,912	1,984	927	1,350	1,970	2,062
Vertical Mix (%)													
Hi-Tech & Media Services	38	38	38	37	38	39	39	39	40	39	40	42	43
BFSI	25	25	25	25	23	22	22	22	22	22	22	21	20
Retail, CPG & Manufacturing	23	23	23	23	24	23	22	22	22	22	22	21	20
Travel & Hospitality	15	14	15	15	16	16	17	17	16	17	17	17	16
Others	NA	NA	0	0	0	0	-	0	0	0	0	0	0
Geography Mix (%)													
US	70	70	68	70	71	73	74	73	74	74	74	75	77
Europe	21	21	23	21	21	20	19	19	19	18	18	17	15
India	3	3	3	3	3	3	3	4	4	4	4	4	4
RoW	7	6	6	6	5	4	4	4	4	4	5	4	4
Utilization (%) (including Trainees)	**70.9**	**73.2**	**73.2**	**72.8**	**73.8**	**75.4**	**74.5**	**74.6**	**75.3**	**77.2**	**77.0**	**75.9**	**76.5**
Utilization (%) (Excluding Trainees)	**72.7**	**73.8**	**74.6**	**74.3**	**75.2**	**76.3**	**76.5**	**76.4**	**77.1**	**77.9**	**79.0**	**78.0**	**78.8**
Revenue mix-Onsite	61	58	58	58	59	0	0	0	0	0	0	0	0
Revenue mix-Offshore	40	42	42	42	41	0	0	0	0	0	0	0	0
Clients Concentration (%)													
Top client	14	15	16	17	18	19	20	20	20	20	21	23	25
Top 5 clients	31	30	30	32	32	32	34	34	33	34	33	36	38
Top 10 clients	42	42	42	44	44	44	45	44	43	43	43	46	47
Number of Client													
1 mn USD +	111	113	114	114	118	117	111	116	120	122	130	134	134
5 mn USD +	30	33	38	37	38	39	44	44	45	46	47	47	47
10 mn USD +	16	16	16	15	17	19	21	21	23	23	21	22	23
25 mn USD +	4	3	3	3	4	4	4	4	4	4	4	5	5
30 mn USD +													
50 mn USD +	1	1	1	1	1	1	1	1	1	1	1	1	1
100 mn USD +	1	1	1	1	1	1	1	1	1	1	1	1	1
Employees	16470	16561	16910	17200	17723	18990	19402	19908	20204	20935	21267	21561	21991
Attrition (%)	15	14	13	13	13	12.2	13.0	13.4	14.2	15.1	16.5	17.2	17.4
P&L(USD mn)													
Revenue	196	200	206	214	226	242	246	252	262	264	271	275	278
EBIT	21	15	17	26	30	28	33	34	34	17	25	33	35
PAT	14.4	18.9	19.3	22.0	28.1	23.3	29.2	26.9	28.3	13.7	19.1	27.6	28.0
Per Capita (Annualised) - USD													
Revenue	47,505	48,330	48,776	49,837	51,052	50,869	50,799	50,532	51,871	50,480	50,971	51,055	50,639
EBIT	5,050	3,659	3,982	5,993	6,876	5,926	6,709	6,851	6,696	3,298	4,726	6,147	6,317
PAT	3,503	4,562	4,568	5,118	6,353	4,908	6,028	5,406	5,594	2,609	3,594	5,122	5,092
Total Contract Value signed (USD mn)													
Renewals	**135**	**219**	**130**	**187**	**256**	**255**	**222**	**184**	**158**	**248**	**186**	**128**	**206**
New	74	43	77	57	42	51	49	72	84	76	121	79	187
Total	209	262	207	244	298	306	271	256	242	324	307	207	393
Expiring within 1 year	182	198	166	206	237	259	198	212	218	271	239	174	286
Expiring > 1 year	27	64	41	38	61	47	73	44	23	53	68	33	107
Digital	**50**	**108**	**84**	**132**	**102**	**139**	**162**	**136**	**126**	**137**	**140**	**127**	**190**

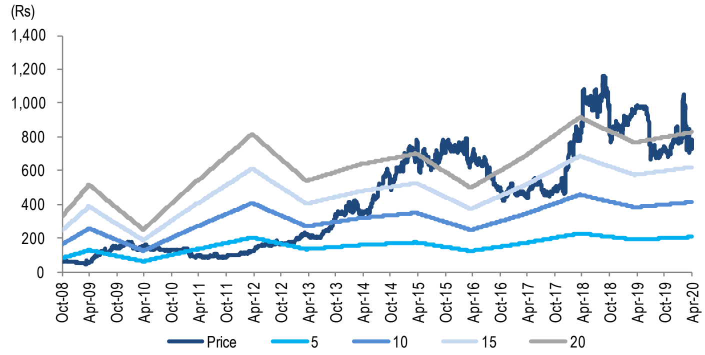
*** Re-classified Revenue Source: Company, Nirmal Bang Institutional Equities Research*

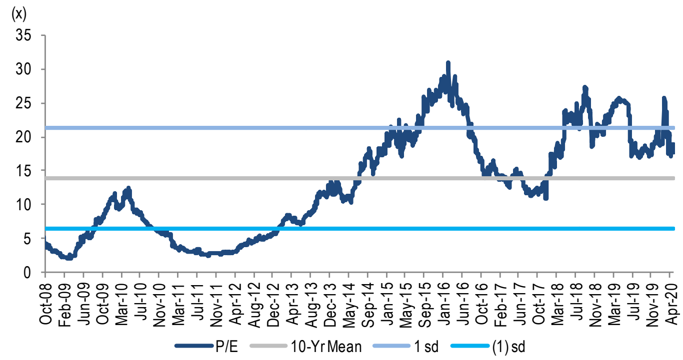
Exhibit 18: QoQ and YoY growth of various parameters

QoQ Growth %	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Client Wise																		
Top Client	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	2.4	5.1	13.9	8.6
Top 5 clients	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	2.1	1.4	10.4	6.2
Top 10 clients	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	1.1	2.8	7.4	5.2
Vertical Wise																		
Hi-Tech & Media Services	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	0.3	3.6	5.9	5.1
BFSI	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	(0.1)	2.6	0.1	(3.1)
Retail, CPG & Manufacturing	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	0.8	0.3	(3.6)	(0.3)
Travel & Hospitality	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	3.3	3.2	(0.3)	(1.3)
Geography wise																		
US	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	1.0	2.6	2.8	4.1
Europe	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	(3.0)	1.4	(1.9)	(9.0)
India	(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	11.7	5.1	(3.3)	(1.4)
RoW	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	5.6	4.9	(0.7)	(8.0)
YoY Growth %																		
Client Wise																		
Top Client	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	13.3	12.0	26.4	33.1
Top 5 clients	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	13.8	7.9	16.9	21.3
Top 10 clients	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	8.1	5.8	13.1	17.4
Vertical Wise																		
Hi-Tech & Media Services	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	10.8	11.5	15.3	15.7
BFSI	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	6.0	6.3	7.4	(0.6)
Retail, CPG & Manufacturing	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	5.1	9.9	1.1	(2.8)
Travel & Hospitality	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	16.3	11.6	8.8	5.0
Geography wise																		
US	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	10.9	10.1	11.2	10.9
Europe	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	(3.1)	3.7	(0.5)	(12.1)
India	(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	44.7	40.8	21.6	12.0
RoW	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	17.4	11.7	14.6	1.2

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

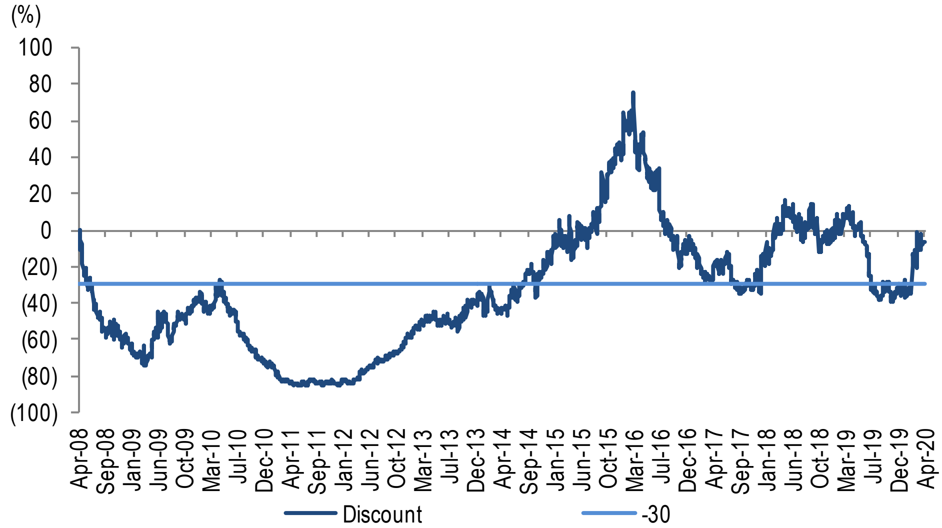
Exhibit 19: P/E multiple charts





Source: Company,Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 20: P/E multiple premium/(discount) to TCS



Source: Company,Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 21: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Average INR/USD	**64.5**	**69.9**	**70.9**	**74.0**	**75.2**
Net Sales (USD mn)	**847**	**1,001**	**1,089**	**1,041**	**1,098**
YoY Growth (%)	***8.6***	***18.3***	***8.7***	***-4.4***	***5.5***
Net Sales	54,628	70,215	77,643	77,038	82,526
YoY Growth (%)	*4.3*	*28.5*	*10.6*	*-0.8*	*7.1*
Employee benefits expense	35,641	44,212	50,647	49,642	53,426
% of sales	*65.2*	*63.0*	*65.2*	*64.4*	*64.7*
Gross Margin	18987	26003	26996	27396	29100
% of sales	*34.8*	*37.0*	*34.8*	*35.6*	*35.3*
Other expenses	11,583	15,358	16,373	16,178	16,505
% of sales	*21.2*	*21.9*	*21.1*	*21.0*	*20.0*
EBITDA	7,404	10,645	10,623	11,218	12,595
% of sales	***13.6***	***15.2***	***13.7***	***14.6***	***15.3***
Depreciation & Amortisation	1,712	1,641	2,754	2,764	2,849
EBIT	5,692	9,004	7,869	8,454	9,745
% of sales	***10.4***	***12.8***	***10.1***	***11.0***	***11.8***
Interest expenses	169	29	529	512	512
Other income (net)	1,900	893	948	1,246	1,961
PBT	7,423	9,868	8,288	9,188	11,195
-PBT margin (%)	*13.6*	*14.1*	*10.7*	*11.9*	*13.6*
Provision for tax	1,722	2,327	1,979	2,389	2,911
Effective tax rate (%)	*23.2*	*23.6*	*23.9*	*26.0*	*26.0*
Net profit	5,701	7,541	6,309	6,799	8,284
-Growth (%)	*37.1*	*32.3*	*-16.3*	*7.8*	*21.8*
-Net profit margin (%)	*10.4*	*10.7*	*8.1*	*8.8*	*10.0*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
EBIT	5,692	9,004	7,869	8,454	9,745
(Inc.)/dec. in working capital	(257)	(5,045)	3,225	(3,281)	650
Cash flow from operations	**5,435**	**3,959**	**11,094**	**5,173**	**10,395**
Other income	1,900	893	948	1,246	1,961
Depreciation & amortisation	1,712	1,641	2,754	2,764	2,849
Financial expenses	(169)	(29)	(529)	(512)	(512)
Tax paid	(1,722)	(2,327)	(1,979)	(2,389)	(2,911)
Dividends paid	(2,188)	(5,342)	(2,572)	(2,572)	(2,968)
Net cash from operations	**4,968**	**(1,205)**	**9,716**	**3,710**	**8,815**
Capital expenditure	629	1,587	147	800	800
Net cash after capex	**4,339**	**(2,792)**	**9,569**	**2,910**	**8,015**
Inc./(dec.) in debt	(220)	85	1,619	-	-
(Inc.)/dec. in investments	(1,127)	(1,108)	(745)	(4,000)	(4,000)
Equity issue/(buyback)	(41)	3	4	-	-
Cash from financial activities	**(1,388)**	**(1,020)**	**878**	**(4,000)**	**(4,000)**
Others	(2,170)	3,085	(7,139)	400	400
Opening cash	2,508	3,289	2,562	5,870	5,180
Closing cash	3,289	2,562	5,870	5,180	9,596
Change in cash	781	(727)	3,308	(690)	4,415

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Equity capital	1,639	1,642	1,646	1,646	1,646
Reserves & surplus	25,779	31,423	29,926	34,153	39,469
Net worth	27,418	33,065	31,572	35,799	41,115
Other liabilities	85	174	54	54	54
Total loans	9	5	1,744	1,744	1,744
Lease Liabilties			4,964	4,964	4,964
Total liabilities	**27,512**	**33,244**	**38,334**	**42,561**	**47,877**
Net block	5,121	5,234	4,295	1,931	(519)
Goodwill	4,539	4,732	4,732	4,732	4,732
Investments	7,264	8,036	7,748	11,748	15,748
Deferred tax asset - net	318	388	1,835	1,835	1,835
Other non-current assets	2,298	2,564	2,150	2,150	2,150
Unbilled revenue	2,791	2,991	3,148	2,893	3,310
Other current assets	1,590	1,927	2,198	1,983	2,255
Debtors	10,155	13,356	14,389	16,015	16,172
Cash & bank balance	3,289	2,562	5,870	5,180	9,596
Right-of-use Assets			5,201	5,201	5,201
Total current assets	17,825	20,836	30,806	31,272	36,534
Total current liabilities	9,853	8,546	13,232	11,106	12,603
Net current assets	7,972	12,290	17,574	20,165	23,931
Total assets	**27,512**	**33,244**	**38,334**	**42,561**	**47,877**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Key ratios

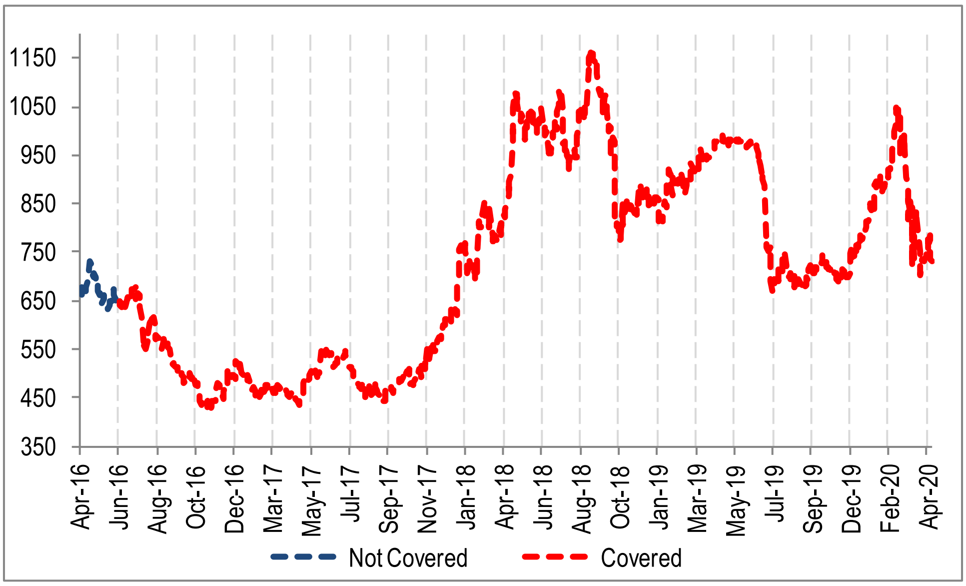
Y/E March	FY18	FY19	FY20	FY21E	FY22E
Per Share (Rs)					
EPS	34.7	45.9	38.4	41.4	50.5
FDEPS	34.6	45.8	38.3	41.3	50.3
Dividend Per Share	11.1	27.0	13.0	13.0	15.0
Book Value	166	201	192	217	250
Dividend Payout Ratio (incl DDT)	38	71	41	38	36
Return ratios (%)					
RoE	21.4	24.9	19.5	20.2	21.5
RoCE	21.7	31.5	23.8	22.2	22.8
RoIC	32.9	45.5	33.2	33.6	40.5
Turnover Ratios					
Asset Turnover	1.5	1.7	1.5	1.4	1.4
Debtor Days (incl. unbilled Rev.)	86	85	82	90	86
Working Capital Cycle Days	30	37	38	39	42
Valuation ratios (x)					
P/E	22.7	17.0	20.4	18.9	15.5
P/BV	4.7	3.9	4.1	3.6	3.1
EV/EBITDA	15.9	11.2	11.1	10.2	8.4
EV/Sales	2.2	1.7	1.5	1.5	1.3
M-cap/Sales	2.4	1.8	1.7	1.7	1.6
Dividend Yield (%)	1.4	3.5	1.7	1.7	1.9

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
7June 2017	Sell	547	424
21June 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
18 July 2019	Sell	751	531
23 September 2019	Sell	711	567
17 October 2019	Sell	744	532
2 January 2020	Under Review	812	-
15 January 2020	Under Review	863	-
31 March 2020	Sell	830	522
27 April 2020	Sell	780	532

Rating track graph



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Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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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
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