Tata Consultancy Services

14 July 2017

1QFY18 Result Update

Reuters: TCS.BO; Bloomberg: TCS IN

Commentary On Growth And Margins Turns Softer

For the first time, TCS sounded a tad cautious with phrases like 'challenging operating environment' being used versus the sunny commentary generally delivered by it in the past - irrespective of how quarterly numbers turn out. The talk of 'incrementally positive' FY18, given at the beginning of 1QFY18, has been dropped and the margin band of 26%-28% indicated to be a medium-term aspirational target and not 'guidance'. May be the change in commentary has partly got to do with the change in the CEO. 1QFY18 performance of TCS was exactly in line with our expectation, but seems a tad short of consensus expectation (especially on margins front). The 2% QoQ CC revenue growth was driven 3.5% by volume and by ~1.5% realisation decline. The 3.1% USD growth was supported by 110bps of cross-currency tailwind, as we had anticipated. EBIT margin declined 230bps QoQ to 23.4% (20bps below our expectation, but possibly 50bps-100bps lower than consensus) on account of wage hikes and INR appreciation – by 150bps and 80bps, respectively. The large realisation drop (which was explained as revenue mix-led) is a bit puzzling considering the fact that the mix has turned richer with higher bill rate digital work growing significantly faster (7.6% CC terms). Margins have also been helped by better utilisation (which TCS has stopped reporting) as there was a net decline in the employee base during the quarter while volume growth was strong at 3.5%. The impact of this was not quantified. Commentary on BFSI has turned cautious with Insurance being indicated to be the only bright spot while North American banks were painted as spoilers. With ~50% of the revenues under pressure (BFSI and Retail), we believe the growth is going to be anaemic in FY18. TCS did hint at a stronger 2H if some of the insurance deals that are in the pipeline are won and they ramp up on time. We have broadly kept our USD revenue and EPS estimates for FY18/FY19 constant. We continue to retain our Sell rating on TCS with a March 2018 target price of Rs1,930 (down 21% from CMP), which is based on 14.4xFY19E EPS. The target P/E multiple is -1 SD below the 10-year mean. We believe the TCS stock should trade at par with Infosys in the coming days as we expect both to have similar USD revenue growth (5%-6%) and EPS growth (flat) over FY17-FY19E. TCS will likely have a tad better RoIC.

BFSI commentary is not company-specific: TCS made the point that the weakness witnessed in the BFSI space is a market-wide phenomenon and that it is not losing market share. There were no specific hints dropped as to when the spending will recover among large banks. It is our view that most of the incremental spending is happening in the digital space where we believe Indian players are losing market share to players like Accenture and Cognizant (CTS) because of behind-the-curve investments in building capabilities in consulting, user experience design, digital marketing, etc. Our interactions with a number of large BFSI players have also indicated that increasingly a large part of their digital work is done internally through the use of global in-house captives based in India and East Europe.

Margins should be below the aspirational band in FY18: We believe TCS will find it difficult to hit even the lower end of its 26%-28% band as we believe that investments will continue to be required in newer services and in the restructured organisation. As indicated by it, the band was enunciated when the growth was in mid-teens and it is struggling to regain the same margins at 1,000bps lower growth. Besides slowing growth, we see: (1) Slower-than-expected growth in digital revenues, (2) Higher onsite salaries, (3) Higher sub-contractor costs – they have already started inching up QoQ, (4) Lower onsite employee utilisation because of higher local hiring, and (5) Pricing pressure in traditional service lines keeping the margins under pressure.

SELL

Sector: Information Technology

CMP: Rs2,446

Target price: Rs1,930

Downside: 21%

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Key Data

Current Shares O/S (mn)	1,970.4
Mkt Cap (Rsbn/US$bn)	4,820.5/74.8
52 Wk H / L (Rs)	2,745/2,052
Daily Vol. (3M NSE Avg.)	1,287,374

Price Performance (%)

	1 M	6 M	1 Yr
TCS	(0.2)	8.8	(1.9)
Nifty Index	3.0	17.8	16.1

Source: Bloomberg

Y/E Mar (Rsmn)	1QFY17	4QFY17	1QFY18	YoY (%)	QoQ (%)	1QFY18E	Deviation (%)
Net Sales (USD mn)	**4,362**	**4,452**	**4,591**	**5.2**	**3.1**	**4,588**	**0.1**
Net Sales	**293,050**	**296,420**	**295,840**	**1.0**	**(0.2)**	**295,477**	**0.1**
Software Expenses	168,020	166,730	172,910	2.9	3.7	171,765	0.7
% of Sales	*57.3*	*56.2*	*58.4*	-	-	58.1	-
Gross Margin	125,030	129,690	122,930	(1.7)	(5.2)	123,712	(0.6)
% of Sales	*42.7*	*43.8*	*41.6*	-	-	41.9	-
Operating Expenses	51,560	53,420	53,790	4.3	0.7	53,944	(0.3)
% of Sales	*17.6*	*18.0*	*18.2*	-	-	18.3	-
EBIT	**73,470**	**76,270**	**69,140**	**(5.9)**	**(9.3)**	**69,769**	**(0.9)**
EBIT Margin (%)	***25.1***	***25.7***	***23.4***	-	-	**23.6**	-
Other Income	9,630	9,890	9,320	(3.2)	(5.8)	10,027	(7.0)
PBT	**83,100**	**86,160**	**78,460**	(5.6)	(8.9)	79,796	(1.7)
Provision for Tax	19,920	19,940	18,960	(4.8)	(4.9)	19,151	(1.0)
Effective Tax Rate	*24.0*	*23.1*	*24.2*	-	-	24.0	-
Minority share in Profit / Loss	10	140	50	400.0	(64.3)	140	(64.3)
PAT (Reported)	**63,170**	**66,080**	**59,450**	**(5.9)**	**(10.0)**	**60,505**	**(1.7)**
NPM (%)	***21.6***	***22.3***	***20.1***	-	-	**20.5**	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

Y/E March (Rsbn)	FY15	FY16	FY17	FY18E	FY19E
Revenue	946	1,086	1,180	1,227	1,328
YoY (%)	*15.7*	*14.8*	*8.6*	*4.0*	*8.2*
EBIT	254	288	303	294	299
% of sales	*26.9*	*26.5*	*25.7*	*23.9*	*22.5*
PAT	217	242	263	251	256
YoY (%)	*13.5*	*11.6*	*8.6*	*-4.6*	*2.2*
FDEPS	110.8	123.2	133.4	130.2	134.0
RoE (%)	*37.9*	*36.7*	*32.4*	*29.7*	*29.6*
RoCE (%)	*39.9*	*39.1*	*33.7*	*31.4*	*31.1*
RoIC (%)	*60.9*	*63.1*	*60.8*	*57.3*	*56.6*
P/E (x)	21.6	19.3	17.8	18.7	18.3
P/BV (x)	8.3	6.6	5.4	6.0	5.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in estimates

	New		Old		*Change (%)*	
	FY18E	FY19E	FY18E	FY19E	*FY18E*	*FY19E*
INR/USD	65.6	67.0	65.6	67.0	*0.0*	-
US$ Revenue	18,707	19,820	18,617	19,698	*0.5*	*0.6*
Revenue (Rsbn)	1,227	1,328	1,221	1,320	*0.5*	*0.6*
EBIT (Rsbn)	294	299	291	297	*1.0*	*0.8*
EBIT Margin (%)	*23.9*	*22.5*	*23.8*	*22.5*	-	-
PAT (Rsbn)	251	256	252	256	*(0.3)*	*0.3*
EPS (Rs)	130.2	134.0	130.5	133.5	*(0.2)*	*0.3*

Source: Company, Nirmal Bang Institutional Equities Research

We have a negative view on Indian IT services sector: We have been cautious on the Indian IT services sector for more than two years and have advocated an underweight stance. We expect the sector to post 3%-6% USD revenue growth in FY18 (likely lowest on the street, organic). In our sector reports Structural And Cyclical Speed-breakers Ahead and Downside Risks Open Up - It Is That Time Of The Cycle!, we had indicated the reasons for being bearish on the sector: These include: (1) The probability of below-trend growth in the US over the next 12-24 months is high as the economic cycle is maturing. This, in our view, will have a deleterious impact on Global 2000 corporations' sales growth - key driver of Indian IT sector's revenue growth. (2) We believe volume growth, pricing and margins are all likely to disappoint current consensus expectations amid intense competition because of convergence of capabilities and strategies among Tier-1 Indian players. (3) We see revenue cannibalisation from automation to accelerate as the entire industry is in a challenger-defender paradigm and some players have already factored in aggressive assumptions on gains from it and therefore have to deliver unless they want to witness material margin downside. (4) We do not believe digital business is material enough to offset the pressure one expects in traditional business. Besides we believe Indian industry is not getting a fair share of this business because of lower capabilities in consulting and design. (5) We see P/E multiple remaining compressed for the sector as revenue and earnings growth will be anaemic. We also expect return ratios to move down materially over FY17-FY19. (6) In the near term, we believe the changes to H1-B visa rules are likely to have a negative impact on the margins of the companies under our coverage over FY17-FY19 (H1-B Related Minimum Wage Increase – Material Damage Likely To Margins). Even if the minimum wage rule does not kick in, higher onsite hiring, higher onsite wage inflation, lower onsite utilisation and higher use of sub-contractors will damage margins. We expect RoIC to also move down in tandem.

Analyst call highlights

1QFY18 revenue growth in line with expectations

- TCS delivered sequential revenue growth of 2% in CC terms and 3.1% in USD terms which was in line with our expectations, both in CC and USD terms. The growth can be broken down into 3.5% increase in volume and 1.5% decline in realisation. TCS stressed upon seeing realisation growth/decline on an annualised basis and indicated that it will be able to maintain its portfolio-wide realisation for FY18 with rising focus on increasing the share of its digital revenues which generally provide better realisation when compared to traditional revenues.
- Among geographies, TCS witnessed growth in all its operational geographies led by Continental Europe which grew 5.9% QoQ in CC terms followed by Latin America (2.8%), North America (1.7%), India (1.5%), Asia Pacific (1.2%), UK (0.7%) and MEA (0.7%).
- For better visibility of trends in its core markets, the company has recast its vertical break-up of revenues by extracting out volatile, project-centric businesses such as India, MEA, APAC ex-Australia and products and platforms into a separate line item viz. 'Regional Market and Others'. All the verticals witnessed growth except for the newly categorised vertical which declined 3.6% QoQ in CC terms. The QoQ growth in CC terms was led by Energy & Utilities (7.6%), Travel and Hospitality (7.0%), LS & HC (4.7%) Manufacturing (3.8%), Communication and Media (3.9%), Hi-Tech (3.7%), BFSI (2.3%) and Retail (2%). Growth returning to retail amid industry-wide weakness was a positive surprise and we believe that growth in BFSI was led by its Insurance vertical.

Digital revenues grow faster at 26% YoY

- TCS delivered strong 7.6% QoQ (26% YoY) revenue growth in digital (CC terms), which contributed 18.9% to its overall revenues in 1QFY18 (versus 17.9% in 4QFY17). The management sounded positive on the prospects for digital and expects it to be the future growth driver and a big margin lever which will help it to return back to its margin band of 26% -28%. The management stated that deal sizes are now larger than what they were in the past, but still not very significant. The management indicated that though the realisation is better in digital, it is a composition of various streams like IOT, Data Analytics, AI and Cloud which have still not attained critical mass individually to help it improve margins at this stage because of continued investments in building these capabilities. We believe that players like Accenture are in a far better position as digital revenues now not only constitute ~50% of its revenues (US$35bn) but are also growing at ~30% YoY.
- TCS stated that it is witnessing good traction in discretionary digital spending among clients. With good scale, speed of execution and skilled talent, TCS stated it is well poised to win a disproportionate share of digital spending. TCS also stated that there has been an increase in the number as well as size of digital deals and it now has many US$10mn+ digital deals whereas the deal sizes were pretty small earlier.

Restructuring done to build scale in Digital and 'new services'

- As regards re-organisation of TCS in May 2017, in an earlier interaction with us, the management stated that this re-organisation was internal and it should not be compared with the re-organisation undergone in 2008 when two dozen verticals were identified and each vertical was assigned with its own P&L responsibilities. Broadly, TCS has now merged all service lines into one mega unit called 'Business and Technology services' which will, in turn, have three main buckets such as: (1) Cognitive Business Operations, (2) Digital Transformation Services, and (3) Consulting and Service Integration. Individual service lines have been clubbed into these three buckets. For instance, 'Enterprise BPS Services' and 'IT infrastructure business' have now been clubbed under 'Cognitive Business Operations'. In its earlier re-organisation in 2008,TCS had created six horizontal service lines and it has now made changes to five of them in this re-organisation. It also indicated that earlier there was not much clarity about the components that used to form its digital revenues. Therefore, it has now created a new service line 'Digital Transformation Services' and has further divided it into nine different buckets such as Analytics & Insights, IOT and Cloud Infrastructure etc. TCS believes many of these new service lines (eight of the nine newly introduced service lines in Digital) have the potential to become US$1bn business opportunity for it in future. It also highlighted that some older services like BPS, which were in itself large and largely concentrated to a particular vertical, have been carved out of the horizontal service lines and put into respective verticals. The thought process behind this re-organisation is to give attention and leadership to individual service lines. It stated that P&L responsibilities are going to remain the same and all the three individual service line heads are going to report to Mr. Krishnan Ramanujam who will report to Mr. Rajesh Gopinathan (CEO). TCS also indicated that the new service lines will have a different go-to-market strategy from the ones that it had earlier.

- The company did not provide service-wise classification of its revenues and stated that the re-organisation of its service lines is nearing completion and is expected to close by 2QFY18. It however, indicated that all its service lines are witnessing good market traction, robust pipeline and secular growth.

FY18 Revenue Outlook – More cautious

- TCS stopped providing guidance since FY16 (both in quantitative and qualitative terms). However, based on the reading of its commentary, we believe that FY18 growth will be driven largely by digital services. TCS highlighted that its strategy will be focused on three themes i.e. (1) Agile (2) Cloud, and (3) Automation.
- Among the three historically non-performing verticals Retail, BFSI and Hi-Tech, TCS reported a surprise 2% CC QoQ growth in Retail in 1QFY18, but indicated volatility in this vertical to continue given the industry-specific structural problems and client-specific financial issues. The growth in this vertical in 1QFY18 was because of one-off digital deals with some of its clients. As regards BFSI, the management sounded bearish (particularly for its large BFS clients in North America) despite 2.3% CC QoQ growth in 1QFY18. The management indicated lack of spending and client-specific problems for the same, but we believe that spending is happening on the digital side and market players like Accenture and CTS are gaining market share because of their ahead-of-time capabilities in these areas. As regards Hi-Tech, TCS reported healthy 3.7% QoQ CC growth and also indicated about two large deal wins in this segment in 1QFY18.

Margins decline 230bps QoQ, but margin band retained at 26%-28%

- TCS reported 23.4% EBIT margin for the quarter, a decline of ~230bps QoQ. TCS attributed the decline in margins to: (1) Wage hikes which impacted the margins negatively by 150bps, and (2)INR appreciation which impacted the margins negatively by 80bps for the quarter. We believe the company was able to offset the negative impact of increase in 'visa costs' with improvement in its operational efficiency. We still believe that TCS will find it difficult to maintain its margins within its 26%-28% margin band guidance, as we expect onsite salary and sub-contractor costs to inch up in FY18 and also lower onsite employee utilisation because of higher local hiring and pricing pressure in some traditional service lines. As regards levers to keep the margins in the stated bracket, TCS stated that there is a rising share of digital revenues, bounce-back in growth of Diligenta and Japan geography, higher use of automation and continuous cost optimisation.

Deal wins continue to be good

- As regards its 11 large deal wins in 1QFY18, TCS highlighted that four have been won in the BFSI space, two each in Energy and Utilities, Manufacturing and Hi-Tech verticals and one in Life Sciences. Of its 11 large deals in 1QFY18, seven of them have been won in North America but all the deals are in non-BFS verticals. The management indicated that it is seeing a good pipeline in this geography, but in non-BFS verticals.
- As regards Dilligenta, TCS indicated that it has a strong pipeline of large deals which may get materialised in the coming quarter and further in FY18. The management highlighted that it has reclassified revenues from Diligenta and geographies like Japan and India into a new vertical viz. 'Regional Market and Others' because of the volatile nature of revenues from these segments. TCS, however, highlighted that it wants to remain invested in these segments and indicated its increased focus to make stable annuity-based revenues from these segments as well.

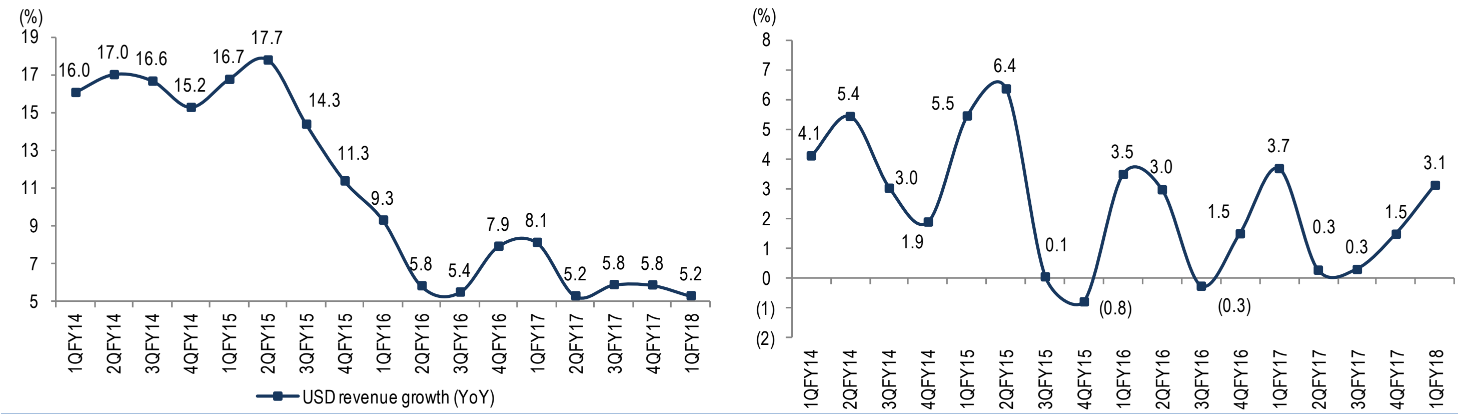
Good traction in digital platforms

- TCS highlighted that it is witnessing good traction in its digital platforms. In 1QFY18, it developed two new offerings in its 'TCS Bancs' product which will help banks to develop customised applications on their own. As regards its automation platform Ignio, TCS highlighted that it has won seven new deals in 1QFY18 which has taken its total client tally to 32. The company highlighted that its other digital platforms viz. Mastercraft, Optumera and Tap in the field of process management, digital merchandising and e-procurement, respectively, also continue to gain traction with clients. However, the scale of these platforms is still very insignificant in comparison to the company's total revenues to create any meaningful impact.

Miscellaneous

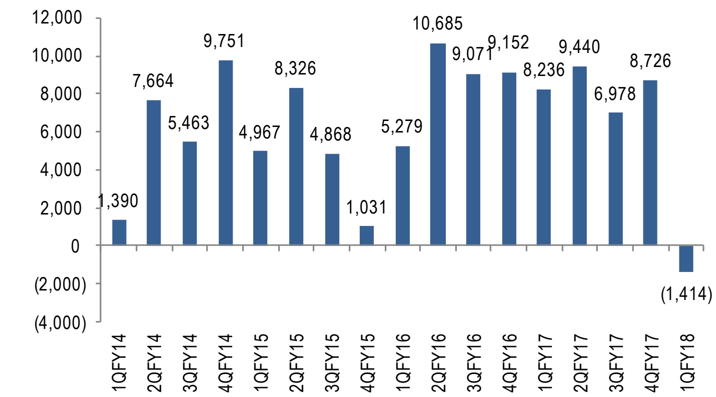
- TCS has initiated a process of consolidating its operations in various states in India. For instance, it is closing its sub scale operations in Lucknow in UP and moving it to NOIDA. Similarly in Mumbai where its operations are apparently spread over about 20 sites it is consolidating it in one large center that it is building in Thane on the outskirts of Mumbai.
- TCS reported LTM attrition rate (including BPS) of 12.4% versus 11.5% in 4QFY17, while IT services' attrition rate was 11.6%.
- TCS added more than 11,202 (gross) employees and -1,414 net employees during the quarter. Total employee count for the company stood at 3,85,809. The management highlighted the decline in total employee count to be seasonal and stated that a large number of trainees are going to join the workforce in the coming quarter.
- TCS stated that it has given about 20,000 offers for freshers in FY18, half the number it gave in FY17.
- One client was added in the US$100mn+ bucket, 12 in the US$10mn+ bucket, and 5 in the US$5mn+ bucket in 1QFY18.
- TCS highlighted that its board has declared an interim dividend of Rs7/share.
- TCS generated CFO of Rs61.7bn in 1QFY18, which is 20.9% and 103.8% of its revenues and PAT, respectively.

Exhibit 3: USD revenue growth (QoQ) picked up during the quarter



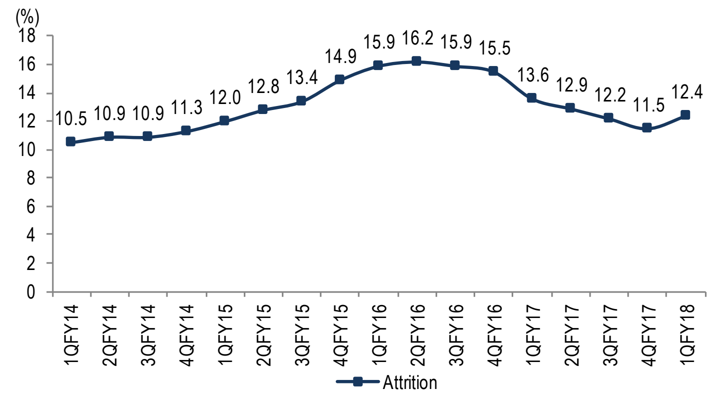
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Net employee Loss – A First



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Attrition is controlled



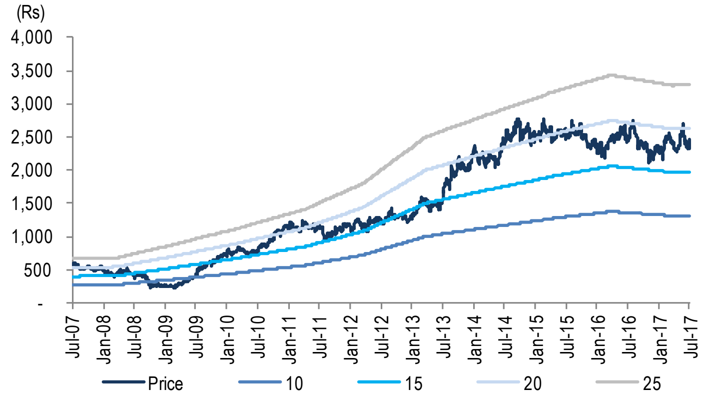
Source: Company, Nirmal Bang Institutional Equities Research

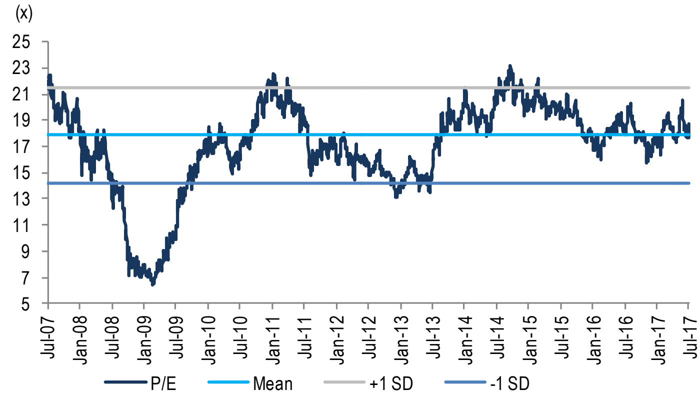
Exhibit 6: QoQ and YoY growth on various parameters for TCS

	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
QoQ Growth (%)																	
Geographical Data																	
Americas	6	4	2	1	5	4	2	0	4	3	1	2	3	1	2	(2)	2
UK	5	7	4	4	5	3	(6)	(2)	5	5	(3)	(5)	3	(7)	(3)	5	5
Europe	10	19	7	6	5	2	2	(6)	3	1	1	4	6	3	(6)	8	9
India	(10)	(4)	(6)	0	7	10	0	1	0	5	(8)	(0)	9	(6)	9	10	6
APAC	(2)	8	7	2	8	41	(4)	0	1	1	(0)	4	4	7	(6)	3	1
Ibero America	4	1	3	(3)	5	(8)	11	(1)	(6)	(2)	16	(3)	4	0	10	(3)	3
MEA	4	0	13	(3)	0	1	5	4	8	12	(9)	11	4	0	4	6	(1)
Verticals																	
BFSI														1	1	(2)	3
Manufacturing														0	2	1	5
Communication and Media														3	(7)	9	5
Life Science & Healthcare	For better visibility of trends in its core markets, the company has recast its vertical break-up of revenues by extracting out volatile, project-centric businesses such as India, MEA, APAC ex-Australia and products and platforms into a separate line item													3	(1)	1	6
Retail and distribution														(3)	0	(4)	2
Hi-Tech														(1)	2	1	4
Travel and hospitality														3	(3)	8	6
Energy and Utilities														3	(2)	4	11
Regional Market & Others														(1)	2	7	(1)
Services																	
Application Development & Maintenance	4	4	2	1	5	6	(2)	1	4	2	(1)	1	1	0	(3)	3	In the process of changing its service lines
Enterprise Solutions	1	8	5	2	7	4	(1)	(1)	1	2	16	(0)	7	1	(1)	0	
Assurance Services	8	11	3	1	8	4	1	(2)	5	5	(1)	4	4	3	0	1	
Engineering and Industrial Services	6	5	1	6	(1)	9	(2)	(1)	3	3	(0)	6	6	0	2	4	
Infrastructure Services	2	5	5	2	11	16	4	1	5	3	3	1	6	2	7	(2)	
Global Consulting	18	(1)	6	2	(1)	6	16	(14)	(6)	(11)	0	0	0	0	0	0	
Asset Leveraged solutions	4	14	(12)	15	1	(2)	4	(5)	12	32	(13)	16	4	(19)	16	(2)	
Business Process Outsourcing	3	5	5	2	4	4	1	(2)	3	2	3	(0)	3	2	(1)	4	
YoY Growth (%)																	
Geographical Data																	
Americas	15	16	17	13	13	13	13	12	11	9	9	11	10	8	9	4	3
UK	16	18	17	22	22	16	5	(1)	(1)	1	4	1	(1)	(11)	(11)	(3)	(1)
Europe	16	35	44	48	41	21	15	2	0	(1)	(2)	9	13	15	8	11	14
India	24	8	(3)	(19)	(3)	11	18	19	11	6	(3)	(4)	5	(6)	11	22	19
APAC	8	9	15	17	29	67	50	47	38	(2)	2	6	8	14	8	7	4
Ibero America	39	22	(19)	6	7	(3)	4	6	(6)	0	5	3	14	17	11	11	11
MEA	16	11	22	15	11	12	4	11	20	34	16	23	18	5	20	15	10
Verticals																	
BFSI																	4
Manufacturing																	8
Communication and Media																	10
Life Science & Healthcare																	10
Retail and distribution	For better visibility of trends in its core markets, the company has recast its vertical break-up of revenues by extracting out volatile, project-centric businesses such as India, MEA, APAC ex-Australia and products and platforms into a separate line item																(5)
Hi-Tech																	7
Travel and hospitality																	15
Energy and Utilities																	17
Regional Market & Others																	6
Services																	
Application Development & Maintenance	13	13	14	11	13	14	9	9	8	4	6	6	3	1	(1)	1	In the process of changing its service lines
Enterprise Solutions	15	21	21	17	23	19	12	9	4	2	19	20	27	25	6	7	
Assurance Services	24	29	29	24	24	16	14	11	8	10	7	13	12	9	11	8	
Engineering and Industrial Services	19	20	14	20	12	15	12	4	9	3	5	13	15	12	15	13	
Infrastructure Services	30	21	20	14	24	38	36	35	27	13	12	13	14	12	17	13	
Global Consulting	45	29	24	26	7	14	24	5	(1)	(17)	0	0	0	0	0	0	
Asset Leveraged solutions	4	17	(4)	20	17	0	19	(2)	9	47	23	50	38	(14)	13	(4)	
Business Process Outsourcing	6	10	14	16	17	15	11	7	6	4	6	8	8	8	4	9	

Source: Nirmal Bang Institutional Equities Research

Exhibit 7: P/E multiple charts

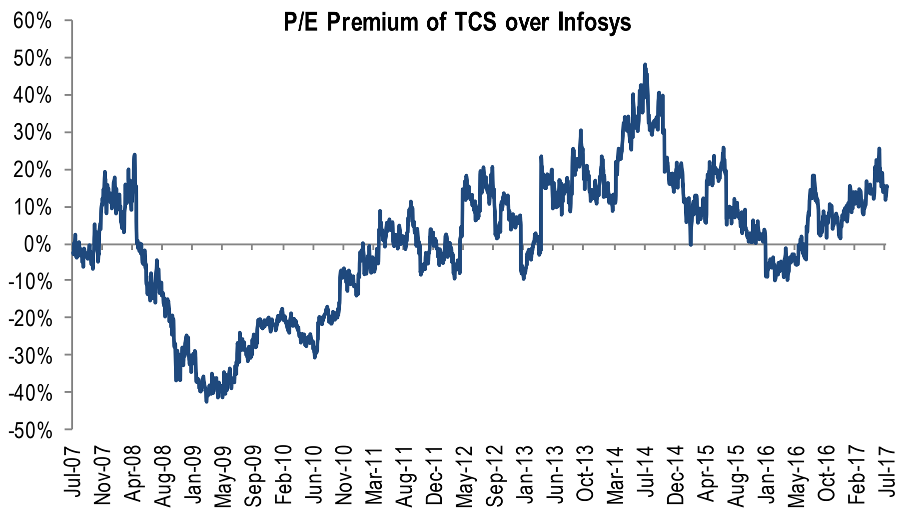




Source: Bloomberg, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: P/E premium (discount) chart Of TCS over Infosys



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 9: Key metrics

	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
P and L (Rsmn)													
Revenue	221,110	238,165	245,011	242,198	256,681	271,655	273,640	284,486	293,050	292,840	297,350	296,420	295,840
EBITDA	58,149	63,942	66,242	65,911	67,484	73,535	72,762	74,119	73,470	76,170	77,330	76,270	69,140
PAT	50,578	52,884	54,441	59,059	57,089	60,552	61,095	63,412	63,170	65,860	67,780	66,080	59,450
Vertical Mix (%)													
BFSI	41.7	40.4	40.5	40.6	40.6	40.5	40.5	40.9	33.3	33.6	33.9	32.9	32.9
Manufacturing	8.6	10.1	10.1	10.2	9.9	9.8	9.9	10.4	7.3	7.3	7.4	7.4	7.5
Communication and Media	12.1	11.6	11.6	10.8	11.1	10.8	10.9	10.8	7.0	7.2	6.7	7.2	7.3
Life Sciences	6.3	6.3	6.4	6.7	6.9	7.0	7.3	7.3	6.8	7.0	6.9	6.9	7.1
Retail & Distribution	13.8	13.5	13.4	13.6	13.8	13.8	13.8	14.1	13.5	13.0	13.0	12.3	12.2
Hi-Tech	5.5	5.7	5.9	6.0	5.8	5.9	6.0	5.6	7.8	7.7	7.8	7.8	7.9
Travel and hospitality	3.6	3.5	3.5	3.4	3.5	3.6	3.6	3.7	3.2	3.3	3.2	3.4	3.5
Energy And Utility	3.9	4.3	4.2	3.9	4.0	4.0	4.1	4.1	3.6	3.7	3.6	3.7	4.0
Others	4.5	4.6	4.4	4.8	4.4	4.6	3.9	3.1	17.5	17.2	17.5	18.4	17.6
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Horizontal Mix (%)													
Application Development & Maintenance	40.8	40.5	39.5	40.1	40.3	40	39.7	39.4	38.5	38.4	37.2	37.7	In the process of changing its service lines
Business Intelligence	0	0	0	0	0	0	0	0	0	0	0	0	
Enterprise Solutions	15.9	15.6	15.4	15.4	15.1	15	17.4	17.1	17.7	17.8	17.5	17.3	
Assurance Services	8.6	8.4	8.5	8.4	8.5	8.7	8.6	8.8	8.8	9	9	9	
Product Engineering Services	4.5	4.6	4.5	4.5	4.5	4.5	4.5	4.7	4.8	4.8	4.9	5	
Infrastructure Management	12.6	13.8	14.3	14.5	14.7	14.7	15.2	15.2	15.5	15.7	16.8	16.2	
Global Consulting	3.2	3.2	3.7	3.2	2.9	2.5	0	0	0	0	0	0	
Asset Leveraged solutions	2.5	2.3	2.4	2.3	2.5	3.2	2.8	3.2	3.2	2.6	3	2.9	
Business Process Outsourcing	11.9	11.6	11.7	11.6	11.5	11.4	11.8	11.6	11.5	11.7	11.6	11.9	-
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-
Geographic Mix (%)													
North America	52.2	51.0	51.9	52.4	52.8	52.7	53.5	54.0	53.5	54.0	55.0	53.3	52.5
UK	17.7	17.1	16.1	15.9	16.1	16.4	15.9	14.9	14.8	13.8	13.3	13.7	13.9
Europe	12.0	11.5	11.7	11.1	11.0	10.8	10.9	11.2	11.5	11.8	11.1	11.8	12.5
India	6.3	6.5	6.5	6.6	6.4	6.5	6.0	5.9	6.2	5.8	6.3	6.8	7.0
APAC	7.6	10.1	9.7	9.8	9.6	9.4	9.4	9.6	9.6	10.2	9.6	9.7	9.5
Ibero America	2.2	1.9	2.1	2.1	1.9	1.8	2.1	2.0	2.0	2.0	2.2	2.1	2.1
MEA	2.0	1.9	2.0	2.1	2.2	2.4	2.2	2.4	2.4	2.4	2.5	2.6	2.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Delivery (%)													
Offshore	47.2	45.7	46	46	0	0	0	0	0	0	0	0	0
Onsite	47.1	48.9	48.2	48.5	0	0	0	0	0	0	0	0	0
Project Type													
T&M	47.5	48.7	48.3	47.4	0	0	0	0	0	0	0	0	0
Fixed Price	52.5	51.3	51.7	52.6	0	0	0	0	0	0	0	0	0
Utilization (%) (including Trainees)	**79.8**	**81.3**	**82.1**	**81.5**	**82.9**	**82.3**	**80.9**	**82**	**82**	**82**	**82**	**82**	**82**
Number of Client													
$100mn +	24	24	25	29	30	33	34	37	37	36	34	35	36
$50mn +	58	62	65	68	69	65	65	73	77	78	80	84	85
Employee Number	305,431	313,757	318,625	319,656	324,935	335,620	344,691	353,843	362,079	371,519	378,497	387,223	385,809
Attrition (%)	*12.0*	*12.8*	*13.4*	*14.9*	*15.9*	*16.2*	*15.9*	*15.5*	*13.6*	*12.9*	*12.2*	*11.5*	*12.4*

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 10: Income statement

Y/E March (Rsbn)	FY15	FY16	FY17	FY18E	FY19E
Average INR/USD	**61.2**	**65.6**	**67.1**	**65.6**	**67.0**
Net Sales (USD mn)	**15,454**	**16,544**	**17,575**	**18,707**	**19,820**
-Growth (%)	***15.0***	***7.1***	***6.2***	***6.4***	***5.9***
Net Sales	**946**	**1,086**	**1,180**	**1,227**	**1,328**
-Growth (%)	*15.7*	*14.8*	*8.6*	*4.0*	*8.2*
Cost of Sales & Services	525	609	669	713	789
Gross Margin	421	477	511	515	539
% of sales	*44.5*	*43.9*	*43.3*	*41.9*	*40.6*
SG& A	167	190	208	221	240
% of sales	*17.6*	*17.4*	*17.6*	*18.0*	*18.1*
EBIT	254	288	303	294	299
EBIT Margin (%)	***26.9***	***26.5***	***25.7***	***23.9***	***22.5***
Other income (net)	31	31	42	37	41
PBT	286	318	345	331	340
-PBT margin (%)	*30.2*	*29.3*	*29.3*	*26.9*	*25.6*
Provision for tax	67	75	82	79	83
Effective tax rate (%)	*23.3*	*23.6*	*23.6*	*24.0*	*24.5*
Minority Interest	2	1	1	0	0
Net profit	**217**	**242**	**263**	**251**	**256**
-Growth (%)	*13.5*	*11.6*	*8.6*	*(4.6)*	*2.2*
-Net profit margin (%)	*22.9*	*22.3*	*22.3*	*20.4*	*19.3*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Cash flow

Y/E March (Rsbn)	FY15	FY16	FY17	FY18E	FY19E
EBIT	**254**	**288**	**303**	**294**	**299**
(Inc.)/dec. in working capital	(3)	(53)	6	2	(15)
Cash flow from operations	**251**	**235**	**309**	**296**	**284**
Other income	31	31	42	37	41
Depreciation & amortisation	19	19	20	20	21
Financial expenses	-	-	-	-	-
Tax paid	(67)	(75)	(82)	(79)	(83)
Dividends paid	(170)	(103)	(112)	(132)	(127)
Net cash from operations	**65**	**106**	**178**	**142**	**135**
Capital expenditure	(31)	(21)	(19)	(26)	(25)
Net cash after capex	34	85	159	116	111
Inc./(dec.) in debt	1	(1)	0	(2)	-
(Inc.)/dec. in investments	17	(211)	(192)	141	-
Equity issue/(buyback)	-	0	-	(160)	-
Cash from financial activities	**18**	**(212)**	**(191)**	**(21)**	**-**
Others	(14)	12	5	(43)	
Opening cash	144	182	67	40	92
Closing cash	182	67	40	93	203
Change in cash	38	(115)	(28)	52	111

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

Y/E March (Rsbn)	FY15	FY16	FY17	FY18E	FY19E
Equity capital	21	53	53	2	2
Reserves & surplus	563	683	834	801	931
Net worth	584	735	887	803	933
Minority Interest	-	-	-	-	-
Other liabilities	18	20	21	22	24
Total loans	4	2	3	1	1
Total liabilities	**605**	**758**	**911**	**826**	**957**
Goodwill	39	39	38	38	38
Net block (incl. CWIP)	116	118	117	123	127
Investments	2	4	3	3	3
Deferred tax asset - net	25	29	28	29	30
Other non-current assets	78	90	62	67	69
Other current assets	64	284	485	319	320
Debtors	243	281	280	312	329
Cash & bank balance	19	67	36	40	40
Bank deposits	164	1	4	53	163
Total current assets	489	632	805	723	852
Total current liabilities	144	154	143	156	163
Net current assets	345	478	662	567	689
Total assets	**605**	**758**	**911**	**826**	**957**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Key ratios

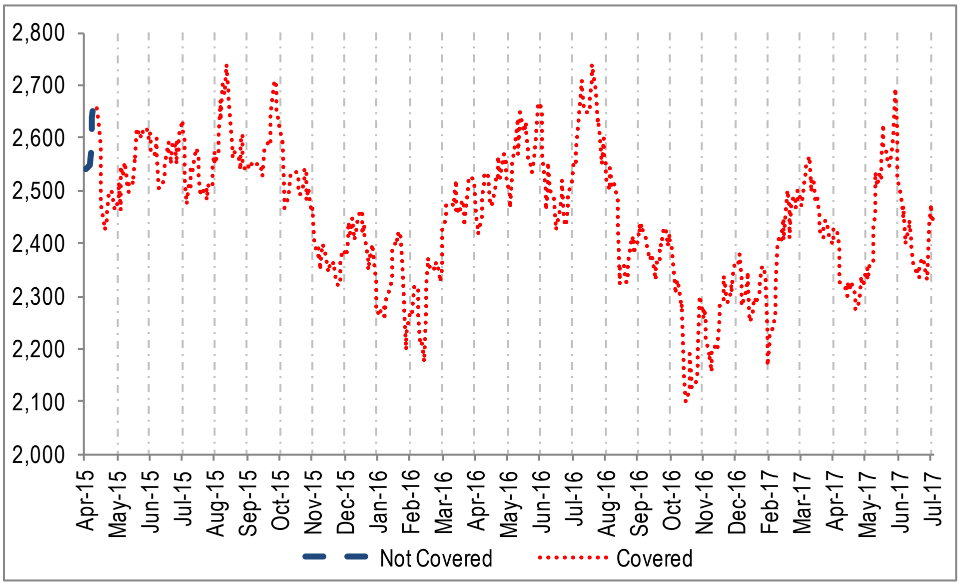
Y/E March	FY15	FY16	FY17	FY18E	FY19E
Per share (Rs)					
EPS	110.8	123.2	133.4	130.2	134.0
FDEPS	110.8	123.2	133.4	130.2	134.0
Dividend Per Share	86.7	43.4	47.0	57.0	55.2
Dividend Yield (%)	3.5	1.8	1.9	2.3	2.3
Book Value	296.4	373.3	450.2	407.8	473.4
Dividend Payout Ratio (excl DT)	78.3	42.6	42.4	43.5	41.2
Return ratios (%)					
RoE	37.9	36.7	32.4	29.7	29.6
RoCE	39.9	39.1	33.7	31.4	31.1
ROIC	60.9	63.1	60.8	57.3	56.6
Tunover Ratios					
Asset Turnover Ratio	1.3	1.2	1.1	1.2	1.2
Debtor Days (incl. unbilled Rev)	94	94	87	93	91
Working Capital Cycle Days	57	62	64	59	58
Valuation ratios (x)					
PER	21.6	19.3	17.8	18.7	18.3
P/BV	8.3	6.6	5.4	6.0	5.2
EV/EBTDA	19.8	17.2	16.4	17.0	16.7
EV/Sales	4.9	4.2	3.9	3.8	3.5
M-cap/Sales	4.9	4.3	4.0	3.8	3.5

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 April 2015	Sell	2,619	2,314
17 April 2015	Sell	2,574	2,325
10 July 2015	Sell	2,529	2,173
9 September 2015	Sell	2,540	2,173
5 October 2015	Sell	2,641	2,217
14 October 2015	Sell	2,599	2,248
8 January 2016	Under Review	2,398	-
13 January 2016	Under Review	2,327	-
14 March 2016	Sell	2,360	2,055
20 April 2016	Sell	2,520	2,089
15 July 2016	Sell	2,521	2,075
14 September 2016	Sell	2,359	2,041
14 October 2016	Sell	2,329	2,073
10 January 2017	Sell	2,304	1,952
13 January 2017	Sell	2,344	1,956
14 February 2017	Sell	2,414	1,983
21 February 2017	Sell	2,502	1,983
2 March 2017	Sell	2,477	1,983
19 April 2017	Sell	2,309	1,996
21 June 2017	Sell	2,443	1,923
14 July 2017	Sell	2,446	1,930

Rating Track Graph



Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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