

# Tata Consultancy Services

10 July 2020

Reuters: TCS.BO; Bloomberg: TCS IN

## In line performance. Reiterates a V shaped recovery

TCS' 1QFY21 was in line with the trajectory of growth indicated in April 2020. EBIT margin was in line with our estimate though it would have likely disappointed the street. The V shaped recovery hints at a growth pick up from 2Q itself and would lead to 3QFY21 INR revenues to be in line with that of 3QFY20 and 4Q CC revenue to be flat YoY. According to TCS, this trajectory is a steeper recovery than the one seen during the GFC timeframe, driven by the swift and unprecedented scale of both monetary and fiscal stimulus in the developed economies as we alluded to in our preview ([2H visibility key](#)). Margins are likely to recover from here on with 4QFY21 margin to equal 4QFY20 margin. The confidence in this shape of the recovery stems likely from the strong TCV momentum in 4QFY20 (US\$8.9bn) and in 1QFY21 (US\$6.9bn) too when it was up 20% YoY. Despite the pandemic and lack of onsite travel, transitions on large deals have happened fairly smoothly. Accenture, Cognizant and TCS had indicated in recent weeks that deal momentum was still fairly solid despite broad economic and corporate distress in June quarter. We did not hear such commentary from others in our recent interactions. Very likely these organizations are experiencing market share gain rather than a broad-based recovery in demand. 20% of the 6.9% CC QoQ revenue decline in 1Q was due to supply side issues and the rest came from demand. These issues apparently have been sorted out. While there were a number of factors which could have held the margin up (~5% INR depreciation QoQ vis-à-vis USD, low travel costs, variable compensation cuts, lower facility expenses, sub-contractor cost cuts, etc), the sharp revenue decline and absence of material employee retrenchment would have meant a sharp dip in Utilisation, which likely increased direct costs. This is reflected in the 340bps increase in Employee cost as %age of turnover in 1QFY21 (YoY) and by 366bps on a QoQ basis. There were no details on the margin bridge as TCS had stopped reporting a number of operational parameters like utilization and delivery mix many years back. While the revenue decline QoQ was broad based, Life Sciences and Healthcare held up with a double digit QoQ performance. TCS indicated that the BFSI vertical held up better than initial expectations. TCS indicated that it had made both pricing and payment terms related concessions to some of its strategic customers in distressed sectors. The deal pipeline was indicated to be strong and was filled with some very large deals and many small deals (Dumbbell shaped as characterized by the TCS CEO). It expects a more balanced pipeline going forward. TCS alluded to markets share gain due to its strong capabilities in Digital (especially in Digital workspaces, Cloud offerings, cyber security services, etc) and ability to stitch together complex solutions. As indicated in our preview, we have put our ratings on the sector 'Under Review' for the time being and will be shortly coming up with an updated view. Despite our cautious stance on the sector for many years we have always held TCS as the industry benchmark. It has a strong position in the Indian IT services industry through: (1) Breadth and depth in service lines, geographies and verticals, (2) Ability to stitch together integrated offerings, (3) Significant lead in automation skills, (4) Strong and stable base of experienced employees with contextual knowledge and (5) Strong product, platform and agile delivery capabilities.

**Higher tech spend and market share gain:** TCS attributed its strong deal performance to a combination of higher tech spend as %age of revenue by customers. The customers are relying on technology to execute better in a contactless fashion in multiple sectors during the pandemic phase. TCS also indicated a flight to quality vendors among customers and to those who are able to execute better.

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## Under Review

**Sector:** Information Technology

**CMP:** Rs2,204

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### Key Data

Current Shares O/S (mn)	3,752.4
Mkt Cap (Rsbn/US\$bn)	8,271.6/110.3
52 Wk H / L (Rs)	2,303/1,504
Daily Vol. (3M NSE Avg.)	4,008,310

### Price Performance (%)

	1 M	6 M	1 Yr
TCS	6.4	(0.5)	5.4
Nifty Index	7.6	(11.5)	(6.4)

Source: Bloomberg

Y/E Mar (Rsmn)	1QFY20	4QFY20	1QFY21	YoY(%)	QoQ (%)	1QFY21E	Deviation (%)
<b>Net Sales (USD mn)</b>	<b>5,485</b>	<b>5,444</b>	<b>5,059</b>	<b>(7.8)</b>	<b>(7.1)</b>	5,064	(0.1)
<b>Net Sales</b>	<b>381,720</b>	<b>399,460</b>	<b>383,220</b>	<b>0.4</b>	<b>(4.1)</b>	384,339	(0.3)
Software Expenses	227,210	231,690	232,140	2.2	0.2	228,226	1.7
% of Sales	59.5	58.0	60.6	-	-	59.4	-
<b>Gross Margin</b>	<b>154,510</b>	<b>167,770</b>	<b>151,080</b>	<b>(2.2)</b>	<b>(9.9)</b>	156,113	(3.2)
% of Sales	40.5	42.0	39.4	-	-	40.6	-
Operating Expenses	62,310	67,520	60,600	(2.7)	(10.2)	65,508	(7.5)
% of Sales	16.3	16.9	15.8	-	-	17.0	-
<b>EBIT</b>	<b>92,200</b>	<b>100,250</b>	<b>90,480</b>	<b>(1.9)</b>	<b>(9.7)</b>	90,605	(0.1)
<b>EBIT Margin (%)</b>	<b>24.2</b>	<b>25.1</b>	<b>23.6</b>	<b>-</b>	<b>-</b>	23.6	-
Other Income	14,180	4,870	4,560	(67.8)	(6.4)	5,750	(20.7)
<b>PBT</b>	<b>106,380</b>	<b>105,120</b>	<b>95,040</b>	<b>(10.7)</b>	<b>(9.6)</b>	96,355	(1.4)
Provision for Tax	24,850	24,190	24,550	(1.2)	1.5	22,162	10.8
<b>Effective Tax Rate</b>	<b>23.4</b>	<b>23.0</b>	<b>25.8</b>	<b>-</b>	<b>-</b>	23.0	-
Minority share in Profit / Loss	220	440	410	86.4	(6.8)	440	(6.8)
<b>PAT (Reported)</b>	<b>81,310</b>	<b>80,490</b>	<b>70,080</b>	<b>(13.8)</b>	<b>(12.9)</b>	73,753	(5.0)
<b>NPM (%)</b>	<b>21.3</b>	<b>20.1</b>	<b>18.3</b>	<b>-</b>	<b>-</b>	19.2	-

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 1: Vertical-based USD QoQ and YoY revenue growth in 1QFY21**

Vertical	Contribution to Revenue (%)	Growth-QoQ(%)	Growth-YoY(%)
BFSI	31.3	-2.1%	-6.3%
Manufacturing	9.7	-10.8%	-8.7%
Communication and Media	7.1	-8.4%	-5.1%
Life Science and Healthcare	9.6	1.4%	12.1%
Retail and CPG	14.0	-15.5%	-13.9%
Technology and Services	9.1	-2.8%	-4.6%
Regional Market & Others	19.2	-11.2%	-14.9%
<b>Total</b>	<b>100.00</b>	<b>-7.1%</b>	<b>-7.8%</b>

\*Retail and CPG includes Travel and Hospitality because of reclassification and hence does not reflect the actual growth  
 Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 2: Geography- based USD QoQ and YoY revenue growth in 1QFY21**

Geography	Contribution to Revenue	Growth-QoQ(%)	Growth-YoY(%)
North America	51.4	-5.0%	-6.3%
Latin America	1.7	-12.2%	-12.9%
UK	15.3	-11.1%	-10.7%
Europe	15.6	-4.6%	0.6%
India	4.3	-27.3%	-33.9%
APAC	9.8	-2.1%	-3.8%
MEA	1.9	-7.1%	-16.6%
<b>Total</b>	<b>100.0</b>	<b>-7.1%</b>	<b>-7.8%</b>

Source: Company, Nirmal Bang Institutional Equities Research

**1QFY21 analyst call highlights**

- Revenue and margins in line with estimates:** USD revenue de-grew by 7.1% QoQ and 7.8% YoY at US\$5,059mn, in line with our estimates. INR revenue grew by 0.4% YoY but de-grew by 4.1% QoQ. 1QFY21 EBIT margin declined by 60bps YoY and 150bps QoQ at 23.6% (in line with our estimates). The management believes that the business has bottomed out and recovery will be visible going forward. The Covid situation has helped bring TCS closer to its clients by increasing client engagements by 3x. Both the quality and quantity of engagements have improved. We believe that margins will pick up through the rest of FY21. In the earnings call, the management maintained the trajectory of growth indicated in April. According to TCS, this trajectory is a steeper recovery than the one seen in GFC, driven by the swift and unprecedented scale of both monetary and fiscal stimulus. TCS expects revenue to recover to pre-pandemic levels by October-December and see flat revenue growth YoY in 3QFY21 in INR terms.
- Vertical commentary:** TCS highlighted that Life Sciences and Healthcare segment continued to grow strongly at 12.1% YoY in USD terms. Other than that, all other industry verticals showed a broad-based decline of varying degrees: BFSI (down 6.3%), Retail and CPG (down 13.9%), Communications & Media (down 5.1%), Manufacturing (down 8.7%) and Technology & Services (down 4.6%). TCS believes that while the Travel & Hospitality vertical may recover in a year, the Retail segment was the worst hit. However, it stated that few of its retail clients, who were involved in providing essential goods, faced zero impact.
- Growth slowdown in US; Europe outperforms:** Demand contraction was broad-based across geographies. Other than Europe (up 0.6% YoY, USD terms), growth declined YoY in all other markets: North America (down 6.3%), UK (down 10.7%), India (down 33.9%), Latin America (down 12.9%), Asia Pacific (down 3.8%) and MEA (down 16.6%). The management stated that though the US market was impacted it also showed the most resilience.
- Deal wins remained positive:** Deal wins have been broad-based across verticals. Total deal wins stood at US\$6.9bn in 1QFY21 against US\$8.9bn in 4QFY20 and US\$5.7bn in 1QFY20. A 21% higher deal win than the corresponding period of previous year indicates strong momentum in deal signings even in lockdown. TCS stated that the deal momentum was led by a few large deals and many small deals getting closed. BFSI stood at US\$2.1bn and Retail stood at US\$0.9bn. North America deals stood at US\$3.3bn. TCS believes that the deal pipeline is strong and revenue will recover in 4QFY21 and will see a flat CC term performance.

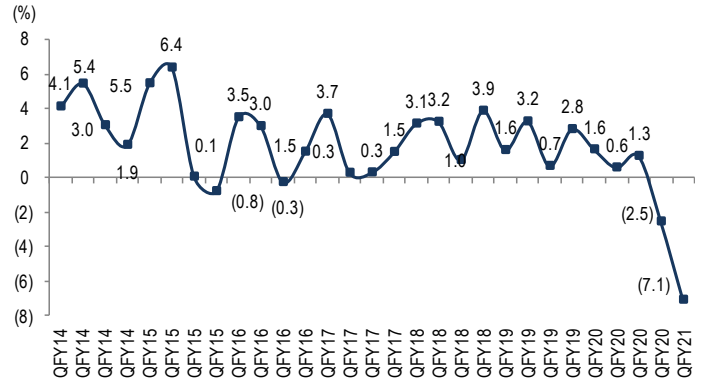
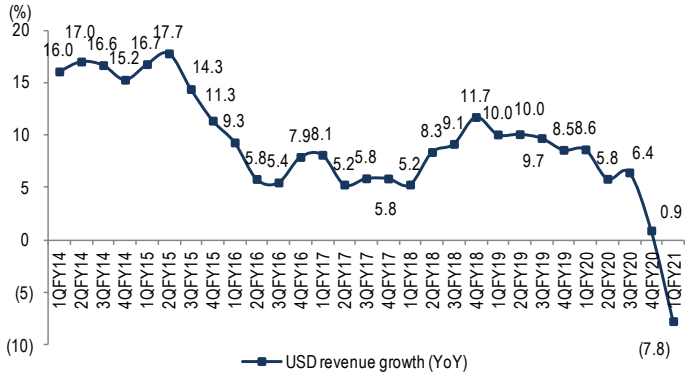
- **Strong collections:** DSO stood at 68 days vs. 67 days in 4QFY20 and 70 days in 1QFY20. The cash flow from operations to net profit ratio stood at almost 133% in this quarter. TCS selectively helped few clients through pricing cuts and payment deferrals. TCS is also positive that clients are neither canceling nor renegotiating contracts.
- **Secure Borderless Workspaces (SBWS Model):** TCS had invested in open agile workspaces in the past, which enabled the company to adapt to changes in the working environment swiftly. Close to 99% of employees are now able to work from home through the SBWS model. The management stated that around 1% of the workforce is currently working from the company's facilities and it will increase this number steadily during the quarter. TCS expects ~5% of the workforce to work from its facilities by the end of FY21. The management believes that the WFH model is seeing increasing levels of productivity and engagement. TCS follows the 25/25 model i.e. (1) it does not need more than 25% of its workforce at a time physically in its facilities to function properly (2) employees do not need to spend more than 25% of their time at office (3) the company will be able to achieve 25% increase in productivity coupled with machine-first thinking (4) not more than 25% of a project team would be at one location. The management stated that around 20% of the business impact in 1QFY21 was due to supply side impact and that is expected to be resolved going forward.
- **Impact on BFSI sector:** TCS scored 7 new wins in the Banking domain and 5 go-lives, of which 3 were in Insurance, 2 in wealth management product, 1 in market infrastructure and 1 in asset servicing. 4 of the 7 wins were for the SaaS version of the product. This is indicative of the increasing level of comfort that the top banks are developing with the SaaS model. This bodes well for the future of growth in the BFSI space. Going forward, the management expects more than 50% of the revenue in the Banking space to come from the SaaS platform. TCS believes that while the BFSI sector was highly impacted, it also showed the most resilience. Insurance sector performed better than Banking and Capital Market sub verticals. TCS expects the mainstay BFSI vertical to resume recovery from 2QFY21 itself, led by higher spending from European banks. North American banks too are expected to join from 3QFY21. UK's banking industry may take time to recover due to the double whammy of Brexit and Covid-19.
- **Ignio sees continued momentum:** As per management, Ignio - TCS' cognitive automation software - is doing very well and is expanding from IT operations to business operations. It is helping in the end-to-end operational transformation of companies. Ignio acquired 8 new logos during the quarter and 13 customers went live on the product. TCS's channel partner program continued to expand and has added six new partners this quarter, including four value added resellers and two technology partners. TCS ramped up the capacity of the Digitate Academy, doubling the number of Ignio trained professionals in the last 12 months. In 1Q, 682 individuals, including customers and partner organisations were trained and certified on Ignio.
- **Issues around the H1-B visa suspension-** The management stated that the recent H1-B visa suspension by the US government is unfortunate and that TCS is well positioned to manage the challenges with its location-independent model. It did indicate that there could be short term challenges for the company from this order and this could likely last at least until 4QFY21.

### Miscellaneous

- TCS reported a lower LTM attrition rate (in IT services) of 11.1% vs. 12.1% in 4QFY20 and 11.5% in 1QFY20.
- Net manpower addition came down by 4,788 QoQ during the quarter, taking the total employee count to ~443,676. TCS indicated that the reduction happened due to natural attrition and not through any forced involuntary attrition. There was also a freeze on hiring in 1Q. This indicated TCS' strong cash conservation approach. TCS had earlier mentioned that it will honor all campus offers made during FY20 and it is on track to on-board those employees in July 2020. The management stated that all hiring activity and salary growth would remain at halt until the situation is better. Employee expenses were maintained rather than being cut, resulting in a contraction in margins. TCS did indicate a pick-up in selective lateral hiring should the need arise.
- The number of clients in US\$100M+ bracket was up by 4; US\$50M+ was flat; US\$20M+ up by 11; US\$10M+ down by 2 and US\$5M+ up by 13 YoY.
- TCS has applied for 5,324 patents, including 108 applied during the quarter and has been granted 1,471 patents. We believe this forms a critical component of its products and platforms strategy and is visible from its industry leading EBIT margin picture despite its large size.

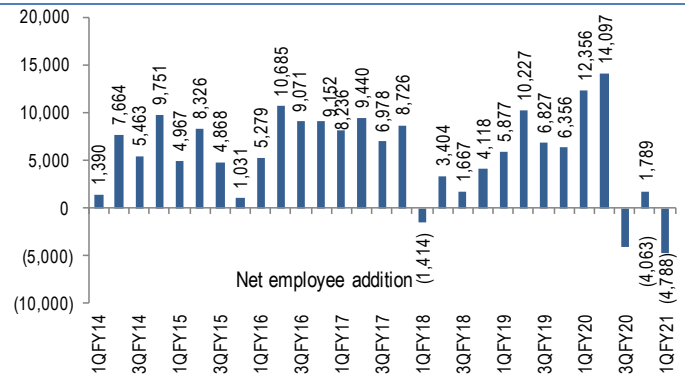
- With cash flow from operations at a healthy 133% of net income and the worst likely behind, TCS indicated that its normal capital return policy would be adhered to. TCS announced a dividend of Rs5 per share this quarter.
- TCS hinted at the beginning of vendor consolidation process by indicating that a particular client found its SBWS model superior to its competition and transferred work to it from another vendor.

**Exhibit 3: USD revenue growth falls QoQ and YoY**

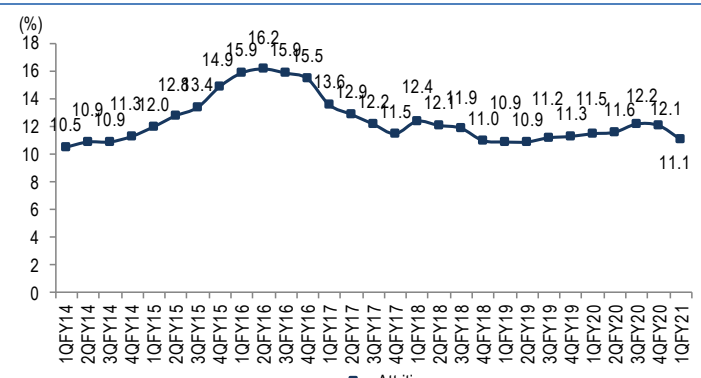


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Employee count reduced QoQ**



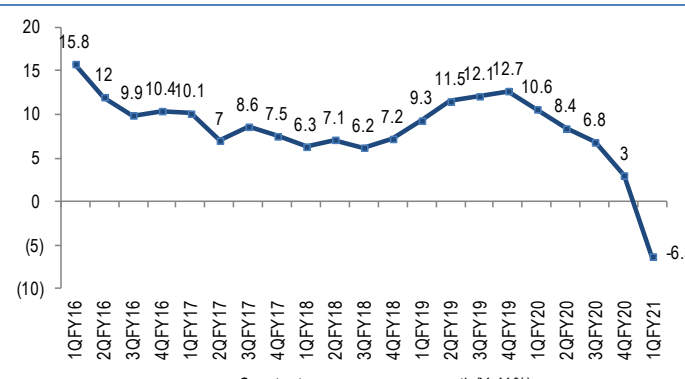
**Exhibit 5: Attrition rate eases QoQ**



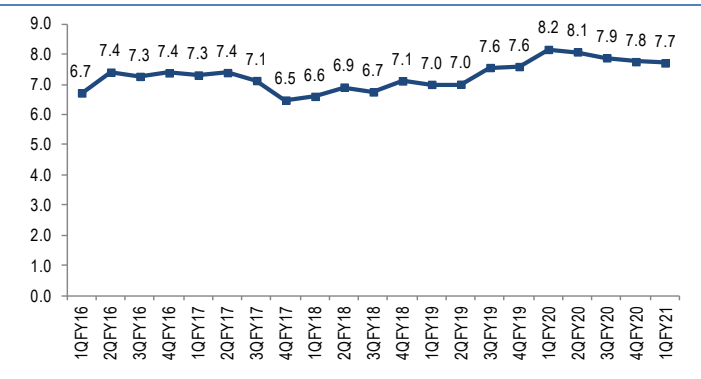
Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: CC YoY revenue degrew considerably**



**Exhibit 7: Subcontractor charges declined marginally**



Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Quarterly snapshot**

Year to 31 March	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
<b>INR/USD</b>	<b>64.4</b>	<b>64.5</b>	<b>64.6</b>	<b>64.5</b>	<b>67.8</b>	<b>70.0</b>	<b>72.2</b>	<b>70.4</b>	<b>69.6</b>	<b>70.6</b>	<b>71.4</b>	<b>72.3</b>	<b>75.8</b>
<b>Revenue (in USDmn)</b>	<b>4591</b>	<b>4739</b>	<b>4787</b>	<b>4972</b>	<b>5051</b>	<b>5215</b>	<b>5250</b>	<b>5397</b>	<b>5485</b>	<b>5517</b>	<b>5586</b>	<b>5444</b>	<b>5059</b>
<b>(Rsmn)</b>													
Revenue	295,840	305,410	309,040	320,750	342,610	368,540	373,380	380,100	381,720	389,770	398,540	399,460	383,220
Gross margin	122,930	129,300	130,420	135,510	141,780	156,540	156,030	158,700	154,510	159,140	164,850	167,770	151,080
EBIT	69,140	76,600	77,810	81,470	85,780	97,710	95,640	95,370	92,200	93,610	99,740	100,250	90,480
Other income	9,320	8,120	8,640	9,820	12,080	5,930	11,470	11,650	14,180	11,680	5,950	4,870	4,560
PBT	78,460	84,720	86,450	91,290	97,860	103,640	107,110	107,020	106,380	105,290	105,690	105,120	95,040
Tax	18,960	20,120	21,000	22,040	24,240	24,370	25,900	25,500	24,850	24,710	24,260	24,190	24,550
PAT	59,450	64,460	65,310	69,040	73,400	79,010	81,050	81,260	81,310	80,420	81,180	80,490	70,080
Number of shares	3,941	3,829	3,829	3,829	3,829	3,829	3,752	3,752	3,752	3,752	3,752	3,752	3,752
EPS	15.1	16.8	17.1	18.0	19.2	20.6	21.6	21.7	21.7	21.4	21.6	21.5	18.7
<b>YoY Growth (%)</b>													
<b>USD Revenue</b>	5.2	8.3	9.1	11.7	10.0	10.0	9.7	8.5	8.6	5.8	6.4	0.9	-7.8
INR Revenues	1.0	4.3	3.9	8.2	15.8	20.7	20.8	18.5	11.4	5.8	6.7	5.1	0.4
Gross profit	-1.7	1.4	1.4	4.5	15.3	21.1	19.6	17.1	9.0	1.7	5.7	5.7	-2.2
EBIT	-5.9	0.6	0.6	6.8	24.1	27.6	22.9	17.1	7.5	-4.2	4.3	5.1	-1.9
Net profit	-5.9	-2.1	-3.6	4.5	23.5	22.6	24.1	17.7	10.8	1.8	0.2	-0.9	-13.8
<b>QoQ Growth (%)</b>													
<b>USD Revenues</b>	3.12	3.22	1.01	3.86	1.59	3.2	0.7	2.8	1.6	0.6	1.3	(2.5)	(7.1)
INR Revenues	(0.2)	3.2	1.2	3.8	6.8	7.6	1.3	1.8	0.4	2.1	2.3	0.2	(4.1)
EBIT	(9.3)	10.8	1.6	4.7	5.3	13.9	(2.1)	(0.3)	(3.3)	1.5	6.5	0.5	(9.7)
Net profit	(10.0)	8.4	1.3	5.7	6.3	7.6	2.6	0.3	0.1	(1.1)	0.9	(0.8)	(12.9)
<b>Margins (%)</b>													
Gross margin	41.6	42.3	42.2	42.2	41.4	42.5	41.8	41.8	40.5	40.8	41.4	42.0	39.4
EBIT	23.4	25.1	25.2	25.4	25.0	26.5	25.6	25.1	24.2	24.0	25.0	25.1	23.6
PAT	20.1	21.1	21.1	21.5	21.4	21.4	21.7	21.4	21.3	20.6	20.4	20.1	18.3
SGA	18.2	17.3	17.0	16.8	16.3	16.0	16.2	16.7	16.3	16.8	16.3	16.9	15.8

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Key metrics**

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
<b>P and L (Rs mn)</b>													
Revenue	295,840	305,410	309,040	320,750	342,610	368,540	373,380	380,100	381,720	389,770	398,540	399,460	383,220
EBITDA	69,140	76,600	77,810	81,470	85,780	97,710	95,640	95,370	92,200	93,610	99,740	100,250	90,480
PAT	59,450	64,460	65,310	69,040	73,400	79,010	81,050	81,260	81,310	80,420	81,180	80,490	70,080
<b>Vertical Mix (%)</b>													
BFSI	32.9	33.0	32.1	31.5	31.1	31.2	30.8	30.9	30.8	31.0	30.4	29.7	31.3
Manufacturing	7.5	7.5	7.6	7.4	10.2	9.8	9.8	9.6	9.8	9.8	10.0	10.1	9.7
Communication and Media	7.3	7.3	7.4	7.4	7.1	6.8	6.9	6.8	6.9	7.0	7.0	7.2	7.1
Life Sciences	7.1	7.2	7.3	7.2	7.3	7.5	7.6	7.7	7.9	8.1	8.3	8.8	9.6
Retail & Distribution	12.2	11.9	12.5	12.3	15.4	15.4	15.5	15.1	15.0	14.8	15.2	15.4	14.0
Hi-Tech	7.9	8.1	8.0	7.8	9.0	8.9	8.7	8.6	8.8	8.7	8.4	8.7	9.1
Travel and hospitality	3.5	3.8	3.8	4.0	-	-	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy And Utility	4.0	4.2	4.5	4.8	-	-	-	-	-	-	-	-	-
Media & Entertainment	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	17.6	17.0	16.8	17.6	19.9	20.4	20.7	21.3	20.8	20.6	20.7	20.1	19.2
	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
<b>Geographic Mix (%)</b>													
North America	52.5	51.9	52.0	50.2	51.0	51.1	51.2	50.7	50.6	50.6	50.1	50.3	51.4
UK	13.9	14.0	14.1	15.2	15.5	15.6	15.5	15.9	15.8	15.6	15.9	16.0	15.3
Europe	12.5	13.4	13.5	14.2	14.0	14.0	14.1	14.1	14.3	14.6	14.9	15.2	15.6
India	7.0	6.3	6.3	6.2	5.8	5.6	5.7	5.8	6.0	5.7	5.7	5.5	4.3
APAC	9.5	9.8	9.5	9.7	9.6	9.6	9.4	9.5	9.4	9.4	9.3	9.3	9.8
Ibero America	2.1	2.2	2.2	2.0	1.9	2.1	2.0	2.0	1.8	1.9	1.9	1.8	1.7
MEA	2.5	2.4	2.4	2.5	2.2	2.1	2.1	2.0	2.1	2.2	2.2	1.9	1.9
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Number of Client</b>													
\$100mn +	36	37	37	38	40	44	45	44	44	47	47	49	48
\$50mn +	85	91	94	97	97	98	99	99	100	101	102	105	100
Employee Number	385,809	389,213	390,880	394,998	400,875	411,102	417,929	424,285	436,641	450,738	446,675	448,464	443,676
Net Addition	(1,414)	3,404	1,667	4,118	5,877	10,227	6,827	6,356	12,356	14,097	(4,063)	1,789	(4,788)
Attrition (%)	12.4	12.1	11.9	11.0	10.9	10.9	11.2	11.3	11.5	11.6	12.2	12.1	11.1

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: QoQ and YoY growth on various parameters for TCS**

QoQ Growth (%)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21		
<b>Revenue</b>	4	0	0	1	3	3	1	4	2	3	1	3	2	1	1	-3	-7		
<b>Geographical Data</b>																			
Americas	3	1	2	(2)	2	2	1	0	3	3	1	2	1	1	0	(2)	(5)		
UK	3	(7)	(3)	5	5	4	2	12	4	4	0	5	1	(1)	3	(2)	(11)		
Europe	6	3	(6)	8	9	11	2	9	0	3	1	3	3	3	3	(1)	(5)		
India	9	(6)	9	10	6	(7)	1	2	(5)	(0)	2	5	5	(4)	1	(6)	(27)		
APAC	4	7	(6)	3	1	6	(2)	6	1	3	(1)	4	1	1	0	(3)	(2)		
Ibero America	4	0	10	(3)	3	8	1	(6)	(3)	14	(4)	3	(9)	6	1	(8)	(12)		
MEA	4	0	4	6	(1)	(1)	1	8	(11)	(1)	1	(2)	7	5	1	(16)	(7)		
<b>Verticals</b>																			
BFSI	-	1	1	(2)	3	4	(2)	2	0	4	(1)	3	1	1	(1)	(5)	(2)		
Manufacturing	-	0	2	1	5	3	2	1	40	(1)	1	1	4	1	3	(2)	(11)		
Communication and Media	-	3	(7)	9	5	3	2	4	(3)	(1)	2	1	3	2	1	0	(8)		
Life Science & Healthcare	-	3	(1)	1	6	5	2	2	3	6	2	4	4	3	4	3	1		
Retail and distribution	-	(3)	0	(4)	2	1	6	2	27	3	1	0	1	(1)	4	(1)	(16)		
Hi-Tech (Now Technology Services)	-	(1)	2	1	4	6	(0)	1	17	2	(2)	2	-	-	-	-	-		
Travel and hospitality	-	3	(3)	8	6	12	1	9	0	0	0	0	0	0	0	0	0		
Energy and Utilities	-	3	(2)	4	11	8	8	11	-	-	-	-	-	-	-	-	-		
Regional Market & Others	-	(1)	2	7	(1)	(0)	(0)	9	15	6	2	6	(1)	(0)	2	(5)	(11)		
<b>Services</b>																			
Application Development & Maintenance	1	0	(3)	3	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines		
Enterprise Solutions	7	1	(1)	0	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines		
Assurance Services	4	3	0	1	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines		
Engineering and Industrial Services	6	0	2	4	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines		
Infrastructure Services	6	2	7	(2)	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines		
Global Consulting	0	0	0	0	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines		
Asset Leveraged solutions	4	(19)	16	(2)	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines		
Business Process Outsourcing	3	2	(1)	4	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines	In the process of changing its service lines		
<b>YoY Growth (%)</b>																			
<b>Revenue</b>	8	8	5	6	6	5	8	9	12	10	10	10	9	9	6	6	1		
<b>Geographical Data</b>																			
Americas	10	8	9	4	3	4	3	5	7	8	8	10	8	5	4	0	(6)		
UK	(1)	(11)	(11)	(3)	(1)	10	16	24	23	23	21	14	11	6	9	2	(11)		
Europe	13	15	8	11	14	23	33	34	23	15	15	8	11	10	12	9	1		
India	5	(6)	11	22	19	18	9	2	(9)	(2)	(1)	2	12	8	6	(4)	(34)		
APAC	8	14	8	7	4	4	8	12	11	8	9	6	6	4	5	(1)	(4)		
Ibero America	14	17	11	11	11	19	9	6	(0)	5	(0)	9	3	(4)	1	(9)	(13)		
MEA	18	5	20	15	10	8	5	7	(3)	(4)	(4)	(13)	4	11	11	(4)	(17)		
<b>Verticals</b>																			
BFSI					4	6	3	7	4	4	5	6	8	5	5	(3)	(6)		
Manufacturing					8	11	12	12	50	44	41	41	4	6	9	6	(9)		
Communication and Media					10	10	21	15	7	3	2	(0)	6	9	8	7	(5)		
Life Science & Healthcare					10	11	15	17	13	15	14	16	18	14	16	15	12		
Retail and distribution					(5)	(1)	5	12	39	42	36	33	6	2	4	3	(14)		
Hi-Tech					7	14	12	12	25	21	19	20	6	3	3	2	(5)		
Travel and hospitality					15	25	30	31	0	0	0	0	0	0	0	0	0		
Energy and Utilities					17	23	36	45	-	-	-	-	-	-	-	-	-		
Regional Market & Others					6	7	5	7	24	32	35	31	14	7	6	(5)	(15)		
<b>Services</b>																			
Application Development & Maintenance	3	1	(1)	1	The company has stopped reporting the numbers							-	-	-	-	-	-	-	-
Enterprise Solutions	27	25	6	7	The company has stopped reporting the numbers							-	-	-	-	-	-	-	-
Assurance Services	12	9	11	8	The company has stopped reporting the numbers							-	-	-	-	-	-	-	-
Engineering and Industrial Services	15	12	15	13	The company has stopped reporting the numbers							-	-	-	-	-	-	-	-
Infrastructure Services	14	12	17	13	The company has stopped reporting the numbers							-	-	-	-	-	-	-	-
Global Consulting	0	0	0	0	The company has stopped reporting the numbers							-	-	-	-	-	-	-	-
Asset Leveraged solutions	38	(14)	13	(4)	The company has stopped reporting the numbers							-	-	-	-	-	-	-	-
Business Process Outsourcing	8	8	4	9	The company has stopped reporting the numbers							-	-	-	-	-	-	-	-

Source: Nirmal Bang Institutional Equities Research



**Financials**
**Exhibit 11: Income statement**

Y/E March (Rsbn)	FY16	FY17	FY18	FY19	FY20
Average INR/USD	65.6	67.1	64.5	70.1	71.0
Net Sales (USD mn)	16,544	17,575	19,089	20,913	22,032
-Growth (%)	7.1	6.2	8.6	9.6	5.4
Net Sales	1,086	1,180	1,231	1,465	1,569
-Growth (%)	14.8	8.6	4.4	19.0	7.2
Cost of Sales & Services	609	669	713	852	923
Gross Margin	477	511	518	613	646
% of sales	43.9	43.3	42.1	41.9	41.2
SG&A	190	208	213	239	260
% of sales	17.4	17.6	17.3	16.3	16.6
EBIT	288	303	305	375	386
EBIT Margin (%)	26.5	25.7	24.8	25.6	24.6
Other income (net)	31	42	36	41	37
PBT	318	345	341	416	422
-PBT margin (%)	29.3	29.3	27.7	28.4	26.9
Provision for tax	75	82	82	100	98
Effective tax rate (%)	23.6	23.6	24.1	24.1	23.2
Minority Interest	1	1	1	1	1
Net profit	242	263	258	315	323
-Growth (%)	11.6	8.6	-1.8	21.9	2.8
-Net profit margin (%)	22.3	22.3	21.0	21.5	20.6
Average Shares outstanding-	3,941	3,941	3,829	3,790	3,752

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 13: Balance sheet**

Y/E March (Rsbn)	FY16	FY17	FY18	FY19	FY20
Equity capital	2.0	2.0	1.9	3.8	3.8
Reserves & surplus	733	885	875	916	844
Net worth	735	887	876	920	847
Minority Interest	-	-	-	-	-
Other liabilities	20	21	29	29	22
Total loans	2	3	2	1	-
Lease liabilities	-	-	-	-	82
Total liabilities	758	911	908	950	951
Goodwill	39	38	39	40	20
Net block (incl. CWIP)	118	117	116	117	118
Investments	4	3	3	2	2
Deferred tax asset - net	29	28	34	26	28
Other non-current assets	90	62	76	59	54
Right of use asset	-	-	-	-	80
Other current assets	284	485	427	470	443
Debtors	281	280	320	330	367
Cash & bank balance	67	36	49	72	86
Bank deposits	1	4	21	54	10
Total current assets	632	805	815	926	906
Total current liabilities	154	143	176	221	258
Net current assets	478	662	639	706	648
Total assets	758	911	908	950	951

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: Cash flow**

Y/E March (Rsbn)	FY16	FY17	FY18	FY19	FY20
EBIT	288	303	305	375	386
(Inc./dec. in working capital)	(53)	6	(20)	(50)	75
Cash flow from operations	235	309	285	325	461
Other income	31	42	36	41	37
Depreciation & amortisation	19	20	20	24	35
Financial expenses	-	-	-	-	-
Tax paid	(75)	(82)	(82)	(100)	(98)
Dividends paid	(206)	(112)	(116)	(136)	(330)
Net cash from operations	3	178	143	154	105
Capital expenditure	(27)	(16)	(18)	(18)	(19)
Net cash after capex	(24)	162	125	136	86
Inc./(dec.) in debt	(1)	0	(0)	(2)	(1)
(Inc./dec. in investments)	(211)	(192)	60	67	30
Equity issue/(Share Buyback)	0	-	(160)	(160)	-
Cash from financial activities	(212)	(191)	(101)	(95)	29
Others	121	2	5	17	(145)
Opening cash	182	67	40	69	127
Closing cash	68	40	69	127	96
Change in cash	(115)	(27)	29	58	(30)

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 14: Key ratios**

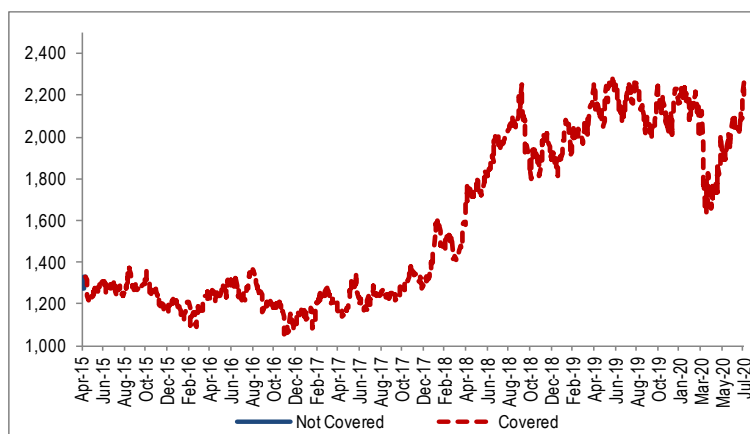
Y/E March	FY16	FY17	FY18	FY19	FY20
<b>Per Share (Rs)</b>					
EPS	61.6	66.7	67.0	83.1	86.2
FDEPS	61.6	66.7	67.0	83.1	86.2
Dividend Per Share	43.5	23.5	25.1	29.9	73.0
Dividend Yield (%)	2.0	1.1	1.1	1.3	3.3
Book Value	192.1	231.6	228.9	240.3	221.4
Dividend Payout Ratio (incl DT)	85.2	42.4	37.2	36.0	84.7
<b>Return ratios (%)</b>					
RoE	36.7	32.4	29.3	35.0	36.6
RoCE	39.1	33.7	30.7	35.7	35.1
Pre Tax ROIC (%)	63.1	60.8	57.3	61.8	55.5
<b>Turnover Ratios</b>					
Asset Turnover Ratio	1.2	1.1	1.1	1.3	1.3
Debtor Days (incl. unbilled Rev)	94	87	95	82	85
Working Capital Cycle Days	62	64	63	72	49
<b>Valuation ratios (x)</b>					
PER	35.9	33.2	33.0	26.6	25.7
P/BV	11.5	9.6	9.7	9.2	10.0
EV/EBTDA	27.4	26.1	25.9	21.1	19.9
EV/Sales	7.7	7.2	6.8	5.7	5.3
M-cap/Sales	7.8	7.2	6.9	5.8	5.4

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
28 September 2017	Sell	2,475	1,908
13 October 2017	Sell	2,548	1,913
26 December 2017	Under Review	2,647	-
12 January 2018	Under Review	2,792	-
17 March 2018	Accumulate	2,829	3,155
20 April 2018	Accumulate	3,191	3,176
26 June 2018*	Accumulate	1,818	1,812
11 July 2018	Accumulate	1,876	1,862
05 October 2018	Accumulate	2,063	2,145
12 October 2018	Accumulate	1,980	2,120
27 December 2018	Sell	1,892	1,712
7 January 2019	Sell	1,877	1,533
11 January 2019	Sell	1,883	1,545
18 March 2019	Sell	2,040	1,607
19 March 2019	Sell	2,023	1,607
15 April 2019	Sell	2,015	1,614
10 July 2019	Sell	2,120	1,601
23 September 2019	Sell	2,020	1,615
10 October 2019	Sell	2,004	1,593
2 January 2020	Under Review	2,170	-
20 January 2020	Under Review	2,220	-
30 March 2020	Sell	1,850	1,393
17 April 2020	Sell	1,716	1,393
10 July 2020	Under Review	2,204	-

\* Post 1:1 Bonus

**Rating track graph**


**DISCLOSURES**

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### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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