

Information Technology

Refer to important disclosures at the end of this report

Mindtree deal: Not a win for anyone

- The deal:** Larsen & Toubro (LT, the parent company of LTI) held an investor call to address the concerns relating to: 1) the purchase of a 20.4% stake in Mindtree from Mr. VG Siddhartha and his Coffee Day Enterprises; and 2) an attempt to gain up to 66% controlling stake in the company — 20% from Siddhartha, 15% via market purchases, and 31% from the open market — for a total investment consideration of Rs107bn, or Rs980 per share.
- Key takeaways from LT call:** On Mindtree promoters' dissent regarding this transaction, LT stated that its long-term goal (~10 years) is to enhance shareholder value for the shareholders of both LT and Mindtree. LT stated that it will try to ensure independent management of the company by Mindtree's promoters. LT has, however, also made a contradictory statement that there is significant scope for improvement in Mindtree's current profit profile (~11% NPM for Mindtree vs. ~16% for LTI) as well as the revenue growth trajectory (referring to Mindtree's pre-FY19 growth rate of 9% vs. LTI's ~15%).
- Key takeaways from Mindtree call:** Mindtree in its call questioned the hostile intent of LT management and criticized it for setting a poor precedence. Mindtree also warned LT of a significant deterioration in the intrinsic value of its business as the acquisition could hamper the existing culture which is the biggest binding force behind its success toward creating a skilled talent pool and maintaining a marquee customer base.
- Implications for Mindtree:** In its call, LT's management indicated that Mindtree would continue to operate as an independent listed entity and thus would be able to reach an amicable solution with its founders and management. LT said it believes that the size of all the three entities involved in the transaction are still small — ~USD1.3bn for LTI, USD0.9bn for Mindtree and USD0.7bn for LTTS — and thus all the three can continue to post strong growth independently without any conflict. Also, the tussle between the acquirer and Mindtree management would mean more incremental actions from both the sides, adding to near-term volatility in the stock (Mindtree).
- Implications for LTI:** The clarity on complete investment via LT's books and no near-term plan for a merger with LTI clear the uncertainty overhang. Thus, the event should lead to a reversal in the unwarranted fall in LTI's stock price. We thus reiterate our positive view given its superior performance and compelling valuations at 14x FY21E EPS.
- View:** Overall, we believe that the announcement of independent management of Mindtree will remove the merger overhang on LTI, which in turn should lead to its re-rating (refer to the company section below for details). We continue to maintain LTI as our preferred pick among the mid-cap names due to its hunger for growth, client intimacy, and digital supremacy. For Mindtree, we believe that a hostile takeover would see a gradual exodus of key management personnel, leading to a slowdown in growth and profitability momentum in the near term and a possible de-rating. We currently have a Buy rating on LTI with a target price of Rs2,070 (based on 18x FY21E EPS) and have a Hold rating on Mindtree with a target price of Rs910 (based on 16x FY21E EPS – we have not reviewed the rating in view of the planned buyback).

| | |
|-------------------------|--------------|
| L&T Infotech | BUY |
| CMP | Target Price |
| 1,631 | 2,070 |
| Mindtree | HOLD |
| CMP | Target Price |
| 945 | 910 |

Please see our sector EAP (page 11): [Emkay Alpha Portfolio – Information Technology](#)

Financial Snapshot (Consolidated)

| (Rs mn) | EPS | | EV/EBITDA | | P/E | |
|--------------|-------|-------|-----------|-------|-------|-------|
| | FY19E | FY20E | FY19E | FY20E | FY19E | FY20E |
| L&T Infotech | 87.0 | 100.4 | 12.8 | 11.0 | 18.8 | 16.2 |
| Mindtree | 45.7 | 50.6 | 13.8 | 11.8 | 20.7 | 18.7 |

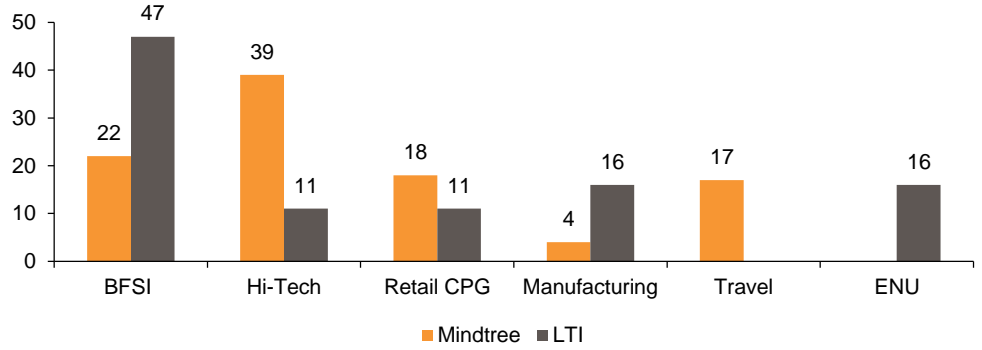
Source: Company, Emkay Research

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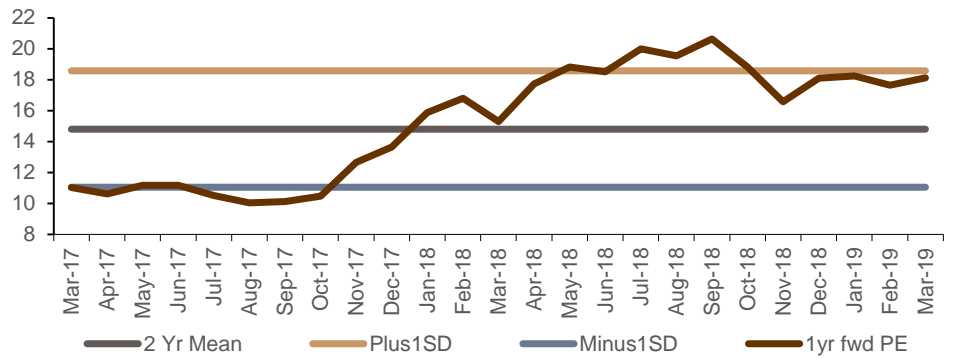
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Exhibit 1: Vertical-wise revenue contribution comparison between LTI and Mindtree



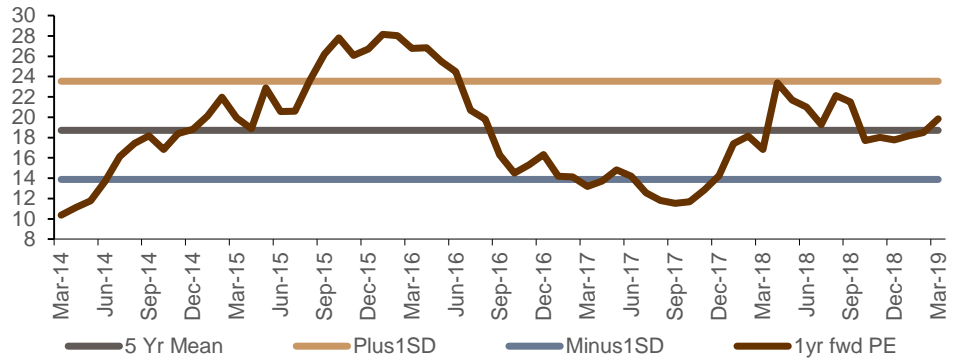
Source: Company, Emkay Research

Exhibit 2: LTI's 2-Yr Historical 1-Yr fwd PE chart



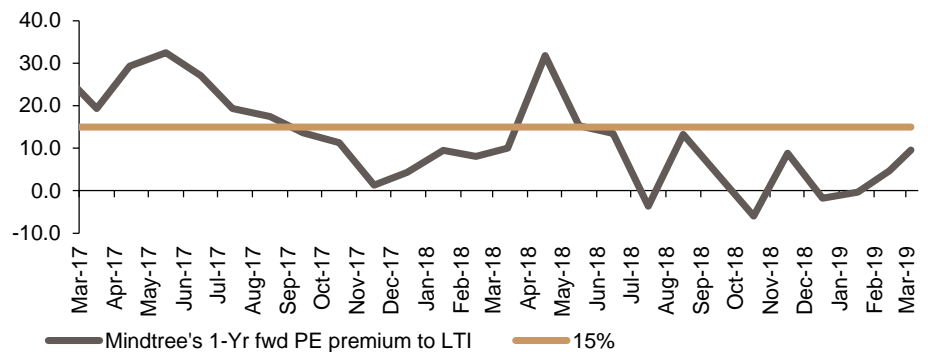
Source: Company, Emkay Research

Exhibit 3: Mindtree's 5-Yr Historical 1-Yr fwd PE chart



Source: Company, Emkay Research

Exhibit 4: Mindtree's 1-Yr fwd PE premium over LTI has risen due to merger overhang over LTI



Source: Company, Emkay Research

L&T Infotech

Refer to important disclosures at the end of this report

'No merger' clears the overhang

- In its con-call, Larsen & Toubro indicated that LTI and Mindtree will continue to operate as independent entities in the near term until they achieve scale. Although no clear timeline was defined for attaining the 'scale', based on the commentary it was evident that L&T is looking for a sizeable IT portfolio at the parent level and not at the single-entity level. L&T believes that the two companies do not have major conflicts and can continue to grow strongly even if they operate independently (see exhibit 1).
- No plan for merger in the near future implies that the correction in LTI was unwarranted (down ~10% in one month) and thus it should see a reversal with uncertainty regarding the merger now cleared. L&T management, in one of its replies, mentioned that potential conflicts may not arise until these companies achieve a size of USD5bn in revenues.
- We see a very low probability of LTI's merger with Mindtree in the near term and believe that it would be a function of L&T's capability to gain a majority stake in Mindtree. We also believe that the merger, if happens, will be favorable for LTI with its superior growth and profitability profile commanding a better stock swap or valuations.
- Differentiated capabilities in Digital (10% CQGR in the past 10 quarters) have resulted in industry-leading revenue growth performance (USD revenue growth of 21% yoy on a TTM basis) and consistent gains in profitability (~400bps in three years). Superior financial performance and attractive valuations of ~14x FY21E EPS reinforce our positive view on the stock and make a strong investment case. We assign LTI a Buy rating with a TP of Rs2,070, valuing it at 18x FY21E EPS (1.2x on a PEG basis).

Business momentum continues to remain robust

LTI delivered 21% yoy growth in USD revenues in 9MFY19, driven by strong large-deal win momentum and superior growth in digital revenues. The company has cautioned on its performance in the top account in near term, but is still confident on delivering industry-leading performance in CY19. On the margin front, LTI plans to keep investing the benefits back into the business, i.e., building capabilities and expanding into new geographies. It also sees the need for a drop in its utilization from current peaked-out levels (82% as of Q3FY19) to continue to win large deals to secure future growth. Thus, with continued superior financial performance and robust commentary, the correction offers a good opportunity, in our view.

Compelling valuation makes strong investment case; maintain Buy

We continue to like LTI's growth-hungry attitude (industry leading growth in FY18/FY19E), client intimacy (63/Top500 Fortune clients), and digital supremacy (10% CQGR in the past 10 quarters). Attractive valuation (~14x FY21E EPS) makes a strong investment case. We assign a Buy rating to LTI with a target price of Rs 2,070, valuing it at 18x FY21E EPS.

Financial Snapshot (Consolidated)

| (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------|--------|--------|--------|----------|----------|
| Revenue | 66,654 | 76,421 | 96,459 | 1,12,155 | 1,28,502 |
| EBITDA | 13,940 | 15,232 | 20,813 | 23,612 | 27,053 |
| EBITDA Margin (%) | 20.9 | 19.9 | 21.6 | 21.1 | 21.1 |
| APAT | 9,711 | 11,124 | 15,213 | 17,571 | 20,129 |
| EPS (Rs) | 55.7 | 63.6 | 87.0 | 100.4 | 115.1 |
| EPS (% chg) | 12.8 | 14.2 | 36.8 | 15.5 | 14.6 |
| ROE (%) | 37.6 | 31.8 | 35.6 | 33.9 | 32.1 |
| P/E (x) | 29.3 | 25.7 | 18.8 | 16.2 | 14.2 |
| EV/EBITDA (x) | 19.5 | 17.7 | 12.8 | 11.0 | 9.4 |
| P/BV (x) | 9.0 | 7.4 | 6.1 | 5.0 | 4.2 |

Source: Company, Emkay Research

| | |
|---|----------------------------------|
| CMP | Target Price |
| Rs 1,631 as of (March 19, 2019) | Rs 2,070 (■) 12 months |
| Rating | Upside |
| BUY (▲) | 26.9 % |

Change in Estimates

| | |
|-------------------------|------------|
| EPS Chg FY19E/FY20E (%) | -/- |
| Target Price change (%) | NA |
| Target Period (Months) | 12 |
| Previous Reco | ACCUMULATE |

Emkay vs Consensus

| | EPS Estimates | |
|-------------------------|---------------|-------|
| | FY19E | FY20E |
| Emkay | 87.0 | 100.4 |
| Consensus | 87.6 | 98.3 |
| Mean Consensus TP (12M) | Rs 2,032 | |

Stock Details

| | |
|------------------------------|---------------|
| Bloomberg Code | LTI IN |
| Face Value (Rs) | 1 |
| Shares outstanding (mn) | 173 |
| 52 Week H/L | 1,990 / 1,270 |
| M Cap (Rs bn/USD bn) | 283 / 4.11 |
| Daily Avg Volume (nos.) | 1,52,603 |
| Daily Avg Turnover (US\$ mn) | 3.8 |

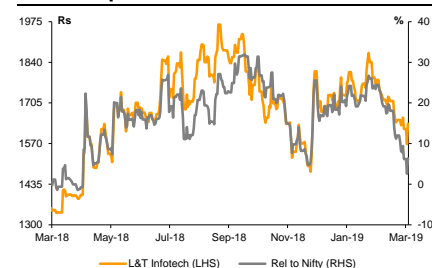
Shareholding Pattern Dec '18

| | |
|-------------------|-------|
| Promoters | 74.8% |
| FIIIs | 7.8% |
| DIIIs | 7.4% |
| Public and Others | 9.9% |

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|---------------------------|-----|------|------|-----|
| Absolute | (6) | (4) | (11) | 26 |
| Rel. to Nifty (14) | (8) | (13) | 11 | |

Relative price chart



Source: Bloomberg

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Key Financials (Consolidated)**Income Statement**

| Y/E Mar (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|----------------------------------|---------------|---------------|---------------|-----------------|-----------------|
| Revenue | 66,654 | 76,421 | 96,459 | 1,12,155 | 1,28,502 |
| Expenditure | 52,714 | 61,189 | 75,645 | 88,544 | 1,01,449 |
| EBITDA | 13,940 | 15,232 | 20,813 | 23,612 | 27,053 |
| Depreciation | 1,780 | 1,563 | 1,465 | 1,615 | 1,850 |
| EBIT | 12,160 | 13,669 | 19,348 | 21,997 | 25,202 |
| Other Income | 200 | 745 | 1,048 | 1,432 | 1,636 |
| Interest expenses | 0 | 0 | 0 | 0 | 0 |
| PBT | 12,359 | 14,414 | 20,396 | 23,428 | 26,838 |
| Tax | 2,648 | 3,290 | 5,183 | 5,857 | 6,710 |
| Extraordinary Items | 0 | 0 | 0 | 0 | 0 |
| Minority Int./Income from Assoc. | 0 | 0 | 0 | 0 | 0 |
| Reported Net Income | 9,711 | 11,124 | 15,213 | 17,571 | 20,129 |
| Adjusted PAT | 9,711 | 11,124 | 15,213 | 17,571 | 20,129 |

Balance Sheet

| Y/E Mar (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|--|---------------|---------------|---------------|---------------|---------------|
| Equity share capital | 171 | 172 | 172 | 172 | 172 |
| Reserves & surplus | 31,272 | 38,426 | 46,615 | 56,803 | 68,316 |
| Net worth | 31,443 | 38,598 | 46,787 | 56,975 | 68,488 |
| Minority Interest | 8 | 13 | 13 | 13 | 13 |
| Loan Funds | 0 | 0 | 0 | 0 | 0 |
| Net deferred tax liability | (1,434) | (1,921) | (1,921) | (1,921) | (1,921) |
| Total Liabilities | 30,017 | 36,690 | 44,879 | 55,067 | 66,580 |
| Net block | 5,419 | 6,807 | 8,842 | 10,727 | 12,376 |
| Investment | 9,406 | 12,643 | 12,643 | 12,643 | 12,643 |
| Current Assets | 28,072 | 32,387 | 41,984 | 53,324 | 66,349 |
| Cash & bank balance | 3,761 | 3,633 | 6,572 | 12,149 | 19,173 |
| Other Current Assets | 7,890 | 6,427 | 11,364 | 13,213 | 15,139 |
| Current liabilities & Provision | 12,893 | 15,215 | 18,658 | 21,695 | 24,857 |
| Net current assets | 15,179 | 17,172 | 23,326 | 31,629 | 41,493 |
| Misc. exp | 0 | 0 | 0 | 0 | 0 |
| Total Assets | 30,017 | 36,690 | 44,879 | 55,067 | 66,580 |

Cash Flow

| Y/E Mar (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| PBT (Ex-Other income) (NI+Dep) | 12,160 | 13,669 | 19,348 | 21,997 | 25,202 |
| Other Non-Cash items | 0 | 0 | 0 | 0 | 0 |
| Chg in working cap | (1,109) | (2,608) | (3,215) | (2,726) | (2,839) |
| Operating Cashflow | 13,718 | 9,334 | 12,416 | 15,028 | 17,504 |
| Capital expenditure | (754) | (3,010) | (3,500) | (3,500) | (3,500) |
| Free Cash Flow | 12,964 | 6,324 | 8,916 | 11,528 | 14,004 |
| Investments | (8,977) | (3,237) | 0 | 0 | 0 |
| Other Investing Cash Flow | 0 | 0 | 0 | 0 | 0 |
| Investing Cashflow | (9,531) | (5,502) | (2,452) | (2,068) | (1,864) |
| Equity Capital Raised | 114 | 1 | 0 | 0 | 0 |
| Loans Taken / (Repaid) | 0 | 0 | 0 | 0 | 0 |
| Dividend paid (incl tax) | (1,978) | (4,524) | (6,081) | (7,383) | (8,615) |
| Other Financing Cash Flow | (595) | 563 | (944) | 0 | 0 |
| Financing Cashflow | (2,459) | (3,960) | (7,025) | (7,383) | (8,615) |
| Net chg in cash | 1,728 | (128) | 2,939 | 5,577 | 7,024 |
| Opening cash position | 2,034 | 3,761 | 3,633 | 6,572 | 12,149 |
| Closing cash position | 3,761 | 3,633 | 6,572 | 12,149 | 19,173 |

Source: Company, Emkay Research

Key Ratios

| Profitability (%) | FY17 | FY18 | FY19E | FY20E | FY21E |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| EBITDA Margin | 20.9 | 19.9 | 21.6 | 21.1 | 21.1 |
| EBIT Margin | 18.2 | 17.9 | 20.1 | 19.6 | 19.6 |
| Effective Tax Rate | 21.4 | 22.8 | 25.4 | 25.0 | 25.0 |
| Net Margin | 14.6 | 14.6 | 15.8 | 15.7 | 15.7 |
| ROCE | 47.5 | 43.2 | 50.0 | 46.9 | 44.1 |
| ROE | 37.6 | 31.8 | 35.6 | 33.9 | 32.1 |
| RoIC | 67.3 | 73.5 | 84.2 | 78.8 | 77.7 |

| Per Share Data (Rs) | FY17 | FY18 | FY19E | FY20E | FY21E |
|----------------------------|-------------|-------------|--------------|--------------|--------------|
| EPS | 55.7 | 63.6 | 87.0 | 100.4 | 115.1 |
| CEPS | 65.9 | 72.5 | 95.3 | 109.7 | 125.6 |
| BVPS | 180.2 | 220.6 | 267.5 | 325.7 | 391.5 |
| DPS | 11.3 | 21.5 | 28.9 | 35.1 | 40.9 |

| Valuations (x) | FY17 | FY18 | FY19E | FY20E | FY21E |
|-----------------------|-------------|-------------|--------------|--------------|--------------|
| PER | 29.3 | 25.7 | 18.8 | 16.2 | 14.2 |
| P/CEPS | 25.6 | 23.3 | 17.7 | 15.4 | 13.4 |
| P/BV | 9.0 | 7.4 | 6.1 | 5.0 | 4.2 |
| EV / Sales | 4.1 | 3.5 | 2.8 | 2.3 | 2.0 |
| EV / EBITDA | 19.5 | 17.7 | 12.8 | 11.0 | 9.4 |
| Dividend Yield (%) | 0.7 | 1.3 | 1.8 | 2.1 | 2.5 |

| Gearing Ratio (x) | FY17 | FY18 | FY19E | FY20E | FY21E |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| Net Debt/ Equity | (0.4) | (0.4) | (0.4) | (0.4) | (0.5) |
| Net Debt/EBIDTA | (0.9) | (1.1) | (0.9) | (1.0) | (1.2) |
| Working Cap Cycle (days) | 62.5 | 64.7 | 63.4 | 63.4 | 63.4 |

| Growth (%) | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------|-------------|-------------|--------------|--------------|--------------|
| Revenue | 10.8 | 14.7 | 26.2 | 16.3 | 14.6 |
| EBITDA | 16.7 | 9.3 | 36.6 | 13.4 | 14.6 |
| EBIT | 19.1 | 12.4 | 41.5 | 13.7 | 14.6 |
| PAT | 16.1 | 14.5 | 36.8 | 15.5 | 14.6 |

| Quarterly (Rs mn) | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 19,609 | 20,922 | 22,398 | 24,023 | 24,669 |
| EBITDA | 3,987 | 3,829 | 5,031 | 5,501 | 5,030 |
| EBITDA Margin (%) | 20.3 | 18.3 | 22.5 | 22.9 | 20.4 |
| PAT | 2,829 | 2,893 | 3,612 | 4,003 | 3,755 |
| EPS (Rs) | 16.2 | 16.5 | 20.6 | 22.9 | 21.5 |

Source: Company, Emkay Research

| Shareholding Pattern (%) | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Promoters | 83.7 | 83.0 | 81.5 | 75.0 | 74.8 |
| FIs | 6.1 | 6.9 | 8.0 | 9.5 | 7.8 |
| DIs | 2.2 | 2.2 | 2.8 | 5.9 | 7.4 |
| Public and Others | 8.0 | 7.9 | 7.7 | 9.6 | 9.9 |

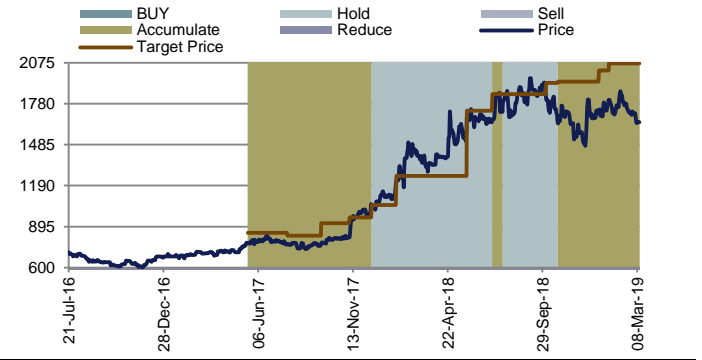
Source: Capitaline

RECOMMENDATION HISTORY TABLE

| Date | Closing Price | TP | Period (months) | Rating | Analyst |
|-----------|---------------|-------|-----------------|------------|--------------|
| 19-Jan-19 | 1,807 | 2,070 | 12m | Accumulate | Rahul Jain |
| 09-Jan-19 | 1,756 | 2,020 | 12m | Accumulate | Rahul Jain |
| 02-Jan-19 | 1,734 | 2,020 | 12m | Accumulate | Rahul Jain |
| 25-Oct-18 | 1,639 | 1,940 | 12m | Accumulate | Rahul Jain |
| 05-Oct-18 | 1,809 | 1,930 | 12m | Hold | Rahul Jain |
| 24-Jul-18 | 1,803 | 1,850 | 12m | Hold | Rahul Jain |
| 10-Jul-18 | 1,720 | 1,850 | 12m | Accumulate | Rahul Jain |
| 06-Jul-18 | 1,668 | 1,850 | 12m | Accumulate | Rahul Jain |
| 24-May-18 | 1,686 | 1,730 | 12m | Hold | Rahul Jain |
| 05-Apr-18 | 1,394 | 1,260 | 12m | Hold | Rahul Jain |
| 25-Jan-18 | 1,228 | 1,260 | 12m | Hold | Rahul Jain |
| 14-Dec-17 | 1,044 | 1,050 | 12m | Hold | Rahul Jain |
| 07-Nov-17 | 820 | 960 | 12m | Accumulate | Rahul Jain |
| 04-Oct-17 | 813 | 920 | 12m | Accumulate | Rahul Jain |
| 20-Sep-17 | 770 | 920 | 12m | Accumulate | Rahul Jain |
| 25-Jul-17 | 770 | 830 | 12m | Accumulate | Rahul Jain |
| 10-Jul-17 | 788 | 850 | 12m | Accumulate | Manik Taneja |
| 19-May-17 | 774 | 850 | 12m | Accumulate | Manik Taneja |

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Mindtree

Refer to important disclosures at the end of this report

Hostile acquisition may lead to increased negativity

- Dismissing any possibility of negotiations in the investor call, Mindtree promoters termed L&T's investment as a hostile takeover attempt and indicated its readiness to fight back by taking the key stakeholders into confidence.
- Although L&T has assured independent management of Mindtree, its dissenting promoters indicated value destruction due to a difference in operational cultures between the two. We believe that L&T's branding can provide Mindtree recognition within large Fortune-500 clients in the medium- to long term but near-term challenges remain due to a possible exodus of management team, given the hostile nature of this acquisition.
- The announcement of a buyback at a significant premium (March 20, 2019) or an upward revision of the offer price (Rs980) could act as a near-term positive trigger for the stock.
- We believe that L&T's offer price of Rs980 already entails stretched valuations (21x on TTM earnings) and could restrict the acquirer's room for an upward revision. Given the uncertainty surrounding the financial impact of the ongoing tussle and stretched valuations (~17x FY21E EPS), we remain cautious on near-term prospects of Mindtree and assign it a Hold rating with a TP of Rs910, valuing it at 16x FY21E EPS.

Ugly fight dampens Mindtree's growth momentum

Terming L&T's hostile takeover attempt as a grave threat to the organization, Mindtree dismissed LTI's claims of strategic advantages in the deal and indicated the loss of shareholder value due to a difference in cultures. Without mincing words, Mindtree voiced its opposition to the takeover attempt and stated that it has taken into confidence all stakeholders (investors, clients, and employees), indicating its preparedness to block a possible takeover attempt by L&T. Considering Mindtree's commentary, there seems to be no amicable path for negotiations currently and things seem to be going in the wrong direction. In our view, with L&T undoubtedly being the largest shareholder now (~20% stake), the situation has already turned negative given the public outcry of 'cultural differences' by Mindtree's promoters. What could turn things even more negative is a large exodus top-level management at Mindtree, eventually leading to a loss of critical clients. The only positive that could suppress the negativity is the announcement of a large buyback at a good premium or a potential uptick in the offer price if L&T is not able to get the desired majority stake at current offer price.

Probable exodus of top management may lead to stock de-rating

In our view, the visible confrontations between Mindtree promoters and the largest shareholder (L&T) as well as the difference in organizational cultures could slow down its growth momentum and result in a stock de-rating. We thus advise to stay away from the name given the expected near-term volatility. We currently have a Hold rating on the stock with a target price of Rs910 (based on 16x FY21E EPS).

Financial Snapshot (Consolidated)

| (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------|--------|--------|--------|--------|--------|
| Revenue | 52,364 | 54,628 | 70,124 | 79,028 | 88,306 |
| EBITDA | 7,181 | 7,405 | 10,743 | 12,325 | 13,736 |
| EBITDA Margin (%) | 13.7 | 13.6 | 15.3 | 15.6 | 15.6 |
| APAT | 4,410 | 5,701 | 7,488 | 8,287 | 9,290 |
| EPS (Rs) | 26.3 | 34.8 | 45.7 | 50.6 | 56.7 |
| EPS (% chg) | (27.0) | 32.5 | 31.3 | 10.7 | 12.1 |
| ROE (%) | 17.7 | 21.4 | 24.8 | 23.1 | 22.5 |
| P/E (x) | 36.0 | 27.2 | 20.7 | 18.7 | 16.7 |
| EV/EBITDA (x) | 21.8 | 20.5 | 13.8 | 11.8 | 10.5 |
| P/BV (x) | 6.2 | 5.6 | 4.7 | 4.0 | 3.5 |

Source: Company, Emkay Research

| | |
|--|--|
| CMP Rs 945 as of (March 19, 2019) | Target Price Rs 910 (■) 12 months |
| Rating HOLD (■) | Upside (3.7) % |

Change in Estimates

| | |
|-------------------------|------|
| EPS Chg FY19E/FY20E (%) | -/- |
| Target Price change (%) | NA |
| Target Period (Months) | 12 |
| Previous Reco | HOLD |

Emkay vs Consensus

| EPS Estimates | | |
|-------------------------|--------|-------|
| | FY19E | FY20E |
| Emkay | 45.7 | 50.6 |
| Consensus | 45.9 | 52.5 |
| Mean Consensus TP (12M) | Rs 983 | |

Stock Details

| | |
|------------------------------|-------------|
| Bloomberg Code | MTCL IN |
| Face Value (Rs) | 10 |
| Shares outstanding (mn) | 164 |
| 52 Week H/L | 1,184 / 741 |
| M Cap (Rs bn/USD bn) | 155 / 2.25 |
| Daily Avg Volume (nos.) | 18,70,040 |
| Daily Avg Turnover (US\$ mn) | 24.1 |

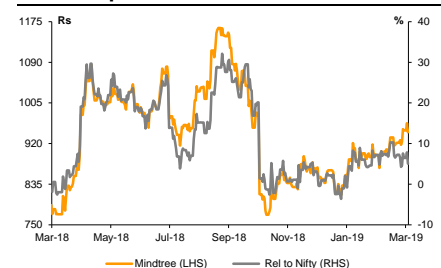
Shareholding Pattern Dec '18

| | |
|-------------------|-------|
| Promoters | 13.3% |
| FIIIs | 40.2% |
| DIIIs | 10.4% |
| Public and Others | 36.1% |

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|----------------------|-----|----|------|-----|
| Absolute | 6 | 11 | (16) | 21 |
| Rel. to Nifty | (2) | 6 | (18) | 6 |

Relative price chart



Source: Bloomberg

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Key Financials (Consolidated)**Income Statement**

| Y/E Mar (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 52,364 | 54,628 | 70,124 | 79,028 | 88,306 |
| Expenditure | 45,183 | 47,223 | 59,381 | 66,703 | 74,570 |
| EBITDA | 7,181 | 7,405 | 10,743 | 12,325 | 13,736 |
| Depreciation | 1,858 | 1,715 | 1,634 | 1,778 | 1,987 |
| EBIT | 5,323 | 5,690 | 9,109 | 10,547 | 11,749 |
| Other Income | 641 | 1,902 | 768 | 805 | 1,020 |
| Interest expenses | 191 | 169 | 29 | 0 | 0 |
| PBT | 5,773 | 7,423 | 9,848 | 11,352 | 12,769 |
| Tax | 1,363 | 1,722 | 2,360 | 3,065 | 3,480 |
| Extraordinary Items | 0 | 0 | 0 | 0 | 0 |
| Minority Int./Income from Assoc. | 0 | 0 | 0 | 0 | 0 |
| Reported Net Income | 4,410 | 5,701 | 7,488 | 8,287 | 9,290 |
| Adjusted PAT | 4,410 | 5,701 | 7,488 | 8,287 | 9,290 |

Balance Sheet

| Y/E Mar (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|--|---------------|---------------|---------------|---------------|---------------|
| Equity share capital | 1,680 | 1,639 | 1,639 | 1,639 | 1,639 |
| Reserves & surplus | 24,091 | 25,775 | 31,296 | 37,223 | 42,005 |
| Net worth | 25,771 | 27,414 | 32,935 | 38,862 | 43,644 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Loan Funds | 314 | 94 | 94 | 94 | 94 |
| Net deferred tax liability | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 26,085 | 27,508 | 33,029 | 38,956 | 43,738 |
| Net block | 10,220 | 9,568 | 11,684 | 14,656 | 17,919 |
| Investment | 2,884 | 2,674 | 2,824 | 3,574 | 4,474 |
| Current Assets | 20,610 | 25,031 | 30,161 | 34,441 | 37,215 |
| Cash & bank balance | 2,508 | 3,289 | 7,069 | 9,599 | 10,473 |
| Other Current Assets | 0 | 0 | 0 | 0 | 0 |
| Current liabilities & Provision | 7,821 | 9,857 | 11,732 | 13,807 | 15,962 |
| Net current assets | 12,789 | 15,174 | 18,429 | 20,634 | 21,253 |
| Misc. exp | 0 | 0 | 0 | 0 | 0 |
| Total Assets | 26,085 | 27,508 | 33,029 | 38,956 | 43,738 |

Cash Flow

| Y/E Mar (Rs mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| PBT (Ex-Other income) (NI+Dep) | 5,549 | 7,423 | 9,848 | 11,352 | 12,769 |
| Other Non-Cash items | (451) | (1,282) | 0 | 0 | 0 |
| Chg in working cap | 1,217 | (833) | 525 | 325 | 255 |
| Operating Cashflow | 6,535 | 5,644 | 9,676 | 10,390 | 11,532 |
| Capital expenditure | (846) | (1,011) | (3,750) | (4,750) | (5,250) |
| Free Cash Flow | 5,689 | 4,633 | 5,926 | 5,640 | 6,282 |
| Investments | (3,746) | (1,041) | (150) | (750) | (900) |
| Other Investing Cash Flow | 0 | 0 | 0 | 0 | 0 |
| Investing Cashflow | (4,533) | (2,000) | (3,900) | (5,500) | (6,150) |
| Equity Capital Raised | 8 | (2,639) | 0 | 0 | 0 |
| Loans Taken / (Repaid) | 550 | 1,906 | 0 | 0 | 0 |
| Dividend paid (incl tax) | (1,934) | (2,142) | (1,967) | (2,360) | (4,507) |
| Other Financing Cash Flow | 0 | 0 | 0 | 0 | 0 |
| Financing Cashflow | (1,431) | (2,863) | (1,996) | (2,360) | (4,507) |
| Net chg in cash | 571 | 781 | 3,780 | 2,530 | 874 |
| Opening cash position | 1,937 | 2,508 | 3,289 | 7,069 | 9,599 |
| Closing cash position | 2,508 | 3,289 | 7,069 | 9,599 | 10,473 |

Source: Company, Emkay Research

Key Ratios

| Profitability (%) | FY17 | FY18 | FY19E | FY20E | FY21E |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| EBITDA Margin | 13.7 | 13.6 | 15.3 | 15.6 | 15.6 |
| EBIT Margin | 10.2 | 10.4 | 13.0 | 13.3 | 13.3 |
| Effective Tax Rate | 23.6 | 23.2 | 24.0 | 27.0 | 27.3 |
| Net Margin | 8.4 | 10.4 | 10.7 | 10.5 | 10.5 |
| ROCE | 23.3 | 28.3 | 32.6 | 31.5 | 30.9 |
| ROE | 17.7 | 21.4 | 24.8 | 23.1 | 22.5 |
| RoIC | 26.5 | 27.1 | 40.9 | 43.3 | 43.2 |

| Per Share Data (Rs) | FY17 | FY18 | FY19E | FY20E | FY21E |
|----------------------------|-------------|-------------|--------------|--------------|--------------|
| EPS | 26.3 | 34.8 | 45.7 | 50.6 | 56.7 |
| CEPS | 37.3 | 45.2 | 55.7 | 61.4 | 68.8 |
| BVPS | 153.4 | 167.3 | 200.9 | 237.1 | 266.3 |
| DPS | 11.5 | 7.0 | 10.0 | 12.0 | 12.5 |

| Valuations (x) | FY17 | FY18 | FY19E | FY20E | FY21E |
|-----------------------|-------------|-------------|--------------|--------------|--------------|
| PER | 36.0 | 27.2 | 20.7 | 18.7 | 16.7 |
| P/CEPS | 22.0 | 18.1 | 14.8 | 13.4 | 11.9 |
| P/BV | 6.2 | 5.6 | 4.7 | 4.0 | 3.5 |
| EV / Sales | 3.0 | 2.8 | 2.1 | 1.8 | 1.6 |
| EV / EBITDA | 21.8 | 20.5 | 13.8 | 11.8 | 10.5 |
| Dividend Yield (%) | 1.2 | 0.7 | 1.1 | 1.3 | 1.3 |

| Gearing Ratio (x) | FY17 | FY18 | FY19E | FY20E | FY21E |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| Net Debt/ Equity | (0.1) | (0.1) | (0.2) | (0.2) | (0.2) |
| Net Debt/EBIDTA | (0.3) | (0.4) | (0.6) | (0.8) | (0.8) |
| Working Cap Cycle (days) | 71.7 | 79.4 | 59.1 | 51.0 | 44.6 |

| Growth (%) | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------|-------------|-------------|--------------|--------------|--------------|
| Revenue | 11.7 | 4.3 | 28.4 | 12.7 | 11.7 |
| EBITDA | (13.5) | 3.1 | 45.1 | 14.7 | 11.5 |
| EBIT | (23.6) | 6.9 | 60.1 | 15.8 | 11.4 |
| PAT | (26.9) | 29.3 | 31.3 | 10.7 | 12.1 |

| Quarterly (Rs mn) | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 13,777 | 14,640 | 16,395 | 17,554 | 17,872 |
| EBITDA | 2,074 | 2,355 | 2,310 | 2,699 | 2,833 |
| EBITDA Margin (%) | 15.1 | 16.1 | 14.1 | 15.4 | 15.9 |
| PAT | 1,415 | 1,822 | 1,582 | 2,063 | 1,912 |
| EPS (Rs) | 8.6 | 11.1 | 9.7 | 12.6 | 11.7 |

Source: Company, Emkay Research

| Shareholding Pattern (%) | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Promoters | 13.6 | 13.4 | 13.4 | 13.3 | 13.3 |
| FIs | 40.6 | 41.7 | 44.4 | 43.2 | 40.2 |
| DIs | 8.3 | 8.7 | 6.9 | 7.8 | 10.4 |
| Public and Others | 37.5 | 36.2 | 35.4 | 35.7 | 36.1 |

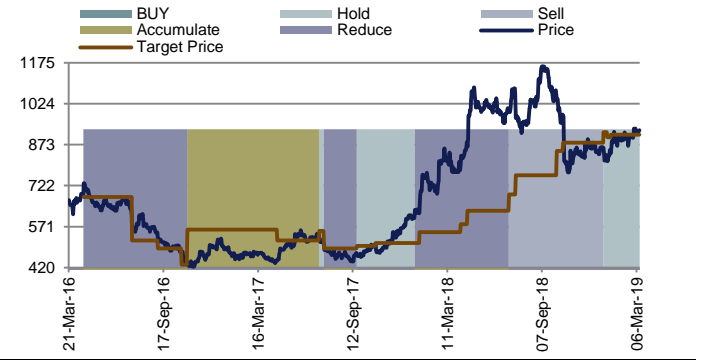
Source: Capitaline

RECOMMENDATION HISTORY TABLE

| Date | Closing Price | TP | Period (months) | Rating | Analyst |
|-----------|---------------|-----|-----------------|------------|--------------|
| 16-Jan-19 | 841 | 910 | 12m | Hold | Rahul Jain |
| 09-Jan-19 | 823 | 900 | 12m | Hold | Rahul Jain |
| 02-Jan-19 | 861 | 920 | 12m | Hold | Rahul Jain |
| 17-Oct-18 | 978 | 880 | 12m | Sell | Rahul Jain |
| 05-Oct-18 | 1,041 | 850 | 12m | Sell | Rahul Jain |
| 04-Sep-18 | 1,118 | 760 | 12m | Sell | Rahul Jain |
| 19-Jul-18 | 971 | 760 | 12m | Sell | Rahul Jain |
| 10-Jul-18 | 1,036 | 690 | 12m | Sell | Rahul Jain |
| 06-Jul-18 | 993 | 690 | 12m | Sell | Rahul Jain |
| 18-Apr-18 | 865 | 630 | 12m | Reduce | Rahul Jain |
| 05-Apr-18 | 806 | 580 | 12m | Reduce | Rahul Jain |
| 17-Jan-18 | 625 | 550 | 12m | Reduce | Rahul Jain |
| 08-Jan-18 | 633 | 510 | 12m | Reduce | Rahul Jain |
| 25-Oct-17 | 507 | 510 | 12m | Hold | Rahul Jain |
| 04-Oct-17 | 480 | 500 | 12m | Hold | Rahul Jain |
| 20-Sep-17 | 464 | 500 | 12m | Hold | Rahul Jain |
| 19-Jul-17 | 507 | 490 | 12m | Reduce | Rahul Jain |
| 10-Jul-17 | 530 | 555 | 12m | Hold | Rahul Jain |
| 21-Apr-17 | 450 | 520 | 12m | Accumulate | Manik Taneja |
| 22-Feb-17 | 468 | 560 | 12m | Accumulate | Manik Taneja |
| 19-Jan-17 | 485 | 560 | 12m | Accumulate | Manik Taneja |
| 01-Nov-16 | 440 | 560 | 12m | Accumulate | Manik Taneja |
| 21-Oct-16 | 479 | 430 | 12m | Reduce | Manik Taneja |
| 19-Sep-16 | 505 | 490 | 12m | Reduce | Manik Taneja |
| 06-Sep-16 | 525 | 490 | 12m | Reduce | Manik Taneja |
| 09-Aug-16 | 597 | 520 | 12m | Reduce | Manik Taneja |
| 19-Jul-16 | 562 | 520 | 12m | Reduce | Manik Taneja |
| 21-Jun-16 | 658 | 680 | 12m | Reduce | Manik Taneja |
| 18-Apr-16 | 731 | 680 | 12m | Reduce | Manik Taneja |

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Information Technology



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Sector

IT Services, ITeS and Software

Analyst bio

Rahul Jain is a CFA (ICFAI) and comes with total 12 years of research experience in the Technology sector. His team currently covers 20 stocks in the Indian Technology space, with 12 belonging to IT Services, 3 to ITeS, and 5 to Software.

EAP – Information Technology

| Company Name | BSE200 Weight | EAP Weight | OW/UW (%) | OW/UW (bps) | EAP Weight (Normalized) |
|-------------------------------|---------------|--------------|-----------|-------------|-------------------------|
| Information Technology | 12.24 | 13.14 | 7% | 89 | 100 |
| eClerx Services | 0.00 | 0.00 | NA | 0 | 0 |
| Firstsource Solutions | 0.00 | 0.00 | NA | 0 | 0 |
| HCL Tech | 1.06 | 2.26 | 114% | 121 | 19 |
| Hexaware Technologies | 0.00 | 0.00 | NA | 0 | 0 |
| Infosys | 5.06 | 2.88 | -43% | -218 | 24 |
| Intellect Design | 0.00 | 0.24 | NA | 24 | 2 |
| L&T Infotech | 0.10 | 0.61 | 543% | 52 | 5 |
| Majesco | 0.00 | 0.00 | NA | 0 | 0 |
| Mindtree | 0.18 | 0.00 | -100% | -18 | 0 |
| Mphasis | 0.17 | 0.65 | 280% | 48 | 5 |
| MPS | 0.00 | 0.00 | NA | 0 | 0 |
| NIIT | 0.00 | 0.00 | NA | 0 | 0 |
| NIIT Tech | 0.00 | 0.24 | NA | 24 | 2 |
| Nucleus Software | 0.00 | 0.24 | NA | 24 | 2 |
| Oracle Financial Services | 0.14 | 0.61 | 343% | 47 | 5 |
| Persistent Systems | 0.00 | 0.49 | NA | 49 | 4 |
| Ramco Systems | 0.00 | 0.24 | NA | 24 | 2 |
| TCS | 3.83 | 4.28 | 12% | 45 | 35 |
| Tech Mahindra | 0.93 | 0.37 | -61% | -57 | 3 |
| Wipro | 0.79 | 0.00 | -100% | -79 | 0 |

Source: Emkay Research

* Not under coverage: Equal Weight

Sector portfolio NAV (for future addition)

Returns by EAP on rolling basis

| Performance | NAV | 3M | 6M | 12M |
|----------------------------|-----|----|----|-----|
| EAP - Technology | 100 | | | |
| BSE 200 weighted portfolio | 100 | | | |

*Formal performance measurement of EAP starts on 1st April 2019

Source: Emkay Research

Emkay Rating Distribution

| | |
|------------|--|
| BUY | Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months. |
| ACCUMULATE | Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months. |
| HOLD | Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months. |
| REDUCE | Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months. |
| SELL | The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months. |

Completed Date: 20 Mar 2019 01:36:40 (SGT)
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